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# **Oregon Investment Council**

April 20, 2016  
9:00 AM

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

**Katy Durant**  
Chair

**John Skjervem**  
Chief Investment Officer

**Ted Wheeler**  
State Treasurer





# OREGON INVESTMENT COUNCIL

## Agenda

**April 20, 2016**  
**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	<b>1. Review &amp; Approval of Minutes</b> March 9, 2016 (Regular Meeting) March 29, 2016 (Special Meeting)	<b>Katy Durant</b> <i>OIC Chair</i>	<b>1</b>
	<b>Committee Reports</b>	<b>John Skjervem</b> <i>Chief Investment Officer</i>	
9:05-9:45	<b>2. Centerbridge Special Credit Partners III, L.P. &amp; Centerbridge Special Credit Partners III-Flex, L.P.</b> <i>OPERF Private Equity Portfolio</i>	<b>Michael Langdon</b> <i>Senior Investment Officer, Private Equity</i> <b>Tom Martin</b> <i>TorreyCove Capital Partners</i> <b>Jeffrey H. Aronson</b> <i>Founder &amp; Managing Principal, Centerbridge</i>	<b>2</b>
9:45-10:15	<b>3. Alternatives Portfolio Review</b> <i>Annual Update</i>	<b>Ben Mahon</b> <i>Senior Investment Officer, Alternatives</i> <b>Tom Martin</b>	<b>3</b>
10:15-10:35	<b>4. OPERF Overlay Review</b> <i>Annual Update</i>	<b>Karl Cheng</b> <i>Investment Officer, Portfolio Risk &amp; Research</i> <b>Greg Nordquist</b> <i>Director, Overlay Strategies, Russell Investments</i>	<b>4</b>
10:35-10:45	----- <b>BREAK</b> -----		

- 10:45-11:05 5. Policy Updates** **Michael Viteri** **5**  
*OPERF, OSTF and* *Senior Investment Officer, Public Equity*  
*Common School Fund* **Paola Nealon**  
*Investment Officer, Public Equity*  
**Garrett Cudahey**  
*Investment Officer, Fixed Income*

**B. Information Items**

- 11:05-11:25 6. Common School Fund** **Paola Nealon** **6**  
*Annual Review and Update* **Jim Paul**  
*Director, Department of State Lands*

- 11:25-11:30 7. Asset Allocations & NAV Updates** **John Skjervem** **7**  
a. Oregon Public Employees Retirement Fund  
b. SAIF Corporation  
c. Common School Fund  
d. Southern Oregon University 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**

March 9, 2016 Regular Meeting

March 29, 2016 Special Meeting

OST Committee Reports – Verbal



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

OREGON INVESTMENT COUNCIL  
MARCH 9, 2016  
MEETING MINUTES

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

Staff Present: Darren Bond, Deena Bothello, Tony Breault, Austin Carmichael, Karl Cheng, Debra Day, May Fanning, Sam Green, Karl Hausafus, John Hershey, Julie Jackson, Aliese Jacobsen, Mary Krehbiel, Michael Langdon, Carmen Leiva, Perrin Lim, Tom Lofton, Ben Mahon, Mike Mueller, Paola Nealon, Jen Peet, Jen Plett, Dave Randall, Tom Rinehart, Angela Schaffers, Priyanka Shukla, James Sinks, John Skjervem, Michael Viteri, Byron Williams

Consultants Present: David Fann and Tom Martin (TorreyCove); Allan Emkin, Christy Fields, David Glickman, John Linder and Dylan Lorda (PCA); Janet Becker-Wold and Uvan Tseng (Callan)

Legal Counsel Present: Dee Carlson, Oregon Department of Justice

The March 9, 2016 OIC meeting was called to order at 9:00 am by Katy Durant, Chair.

**I. 9:00 am Review and Approval of Minutes**

**MOTION:** Mr. Russell moved approval of the February 3, 2016 meeting minutes. Ms. Adams seconded the motion, which then passed by a 5/0 vote.

**COMMITTEE REPORTS**

John Skjervem, OST Chief Investment Officer gave an update on the following committee actions taken since the February 3, 2016 OIC meeting:

**Private Equity Committee:**

March 8, 2016 ACON Equity Partners IV, L.P. \$150 million

**Alternatives Committee:**

None

**Opportunity Portfolio Committee:**

None

**Real Estate Committee:**

None

**II. 9:01 am Lone Star Real Estate Fund V - OPERF Real Estate Portfolio**

Staff and Pension Consulting Alliance recommended a \$300 million commitment to Lone Star Real Estate Fund V for the OPERF Real Estate Portfolio, subject to satisfactory negotiation of terms and conditions with Staff working in concert with legal personnel.

Lone Star Real Estate Fund V (“LSREF V”) is a continuation of Lone Star Real Estate Fund IV (LSREF IV) which had its first and final close in April 2015 under a similar macro-economic investment environment. LSREF IV raised \$5.8 billion in capital commitments and must be at least 85% committed prior to the first closing of LSREF V. Given the size of loan pools and capital reserve requirements for European banks, Lone Star has committed LSREF IV capital at a more rapid pace than originally anticipated and has thus returned to the market with this subsequent fund raise with largely the same strategy and market outlook.

LSREF V has a targeted fund size of \$5.0 billion with a hard cap of \$5.5 billion. Similar to the prior Lone Star Real Estate Funds, the investment objective of LSREF V is to capitalize on market dislocations and acquire commercial real estate-related investments at a significant discount to intrinsic value. Lone Star will target a broad range of financial instruments and other investment assets in global commercial real estate markets including, but not limited to, the following: equity real estate investments; investments in or originations of loans; securitized products; other equity investments; and derivative instruments related to any of the foregoing.

LSREF V may invest globally in the three regions (Western Europe, the Americas and Asia) in which Lone Star and Hudson Advisors have an established footprint. Given the current investable opportunity for Lone Star’s opportunistic strategy, LSREF V is anticipated to have an approximate 75% allocation to Europe, 15% to the Americas and 10% in Asia. Two notable changes from LSREF IV include: (i) expanding Lone Star’s geographic opportunities to pan-Asia instead of the prior fund restriction to Japan-only; and (ii) broadening the Americas investment opportunities to include South America, subject to a 10% maximum exposure within LSREF V.

**MOTION:** Mr. Russell moved approval of the staff recommendation. Ms. Adams seconded the motion which passed by a vote of 4/1 with Treasurer Wheeler voting no.

**III. 9:50 am Brookfield Infrastructure Fund III, L.P. - OPERF Alternatives Portfolio**

Staff and TorreyCove recommended a \$400 million commitment to Brookfield Infrastructure Fund III, L.P. (“BIF III”) for the OPERF Alternatives Portfolio, subject to satisfactory negotiation of terms and conditions with Staff working in concert with legal personnel.

Consistent with its history, Brookfield (the “Firm”) will focus BIF III capital on high-quality, core infrastructure investments, primarily in the transportation, renewable power, utilities, and energy sectors. Moreover, BIF III capital will be invested in geographies where Brookfield has an operating presence, namely North America, Europe, South America and Australasia. Brookfield is differentiated by its owner-operator legacy and a key feature of its BIF III strategy is the Firm’s operations-oriented investment approach which incorporates technical insight into valuation and execution decisions. Brookfield will also leverage the scale and expertise of its existing operating platforms in order to add value post-acquisition. To effect this strategy, Brookfield seeks sufficient influence over its investments through control or co-control, targeting investments ranging from \$400 million to \$1 billion in size.

The Alternatives Portfolio target allocation to infrastructure is 20% to 30% (or approximately \$1.7 billion to \$2.5 billion at current OPERF NAV). To date, OIC has approved \$1.95 billion in aggregate commitments to the sector, and Staff considers BIF III an anchor commitment within the OPERF infrastructure portfolio. Brookfield is differentiated by their vertical integration and focus on mature, core infrastructure assets, and a commitment to BIF III would provide an attractive complement to other existing portfolio positions.

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

**IV. 10:40 am OPERF Real Estate Portfolio – Policy and Benchmark Update**

At the December 9, 2015 OIC meeting, staff and PCA presented a revised vision for OPERF’s real estate portfolio. This vision included evaluating future real estate investments relative to a more narrowly-defined role within the broader OPERF portfolio.

Recommendations

1. Revise OPERF's real estate allocation targets as outlined below:

	Current		Recommended	
<u>Real Estate Classification</u>	<u>Target Allocation</u>	<u>LTV Limit</u>	<u>Target Allocation</u>	<u>LTV Limit</u>
Core	25-35%	50%	45-65%	45%
Public REITs	15-25%	N/A	0-10%	N/A
Value Add	15-25%	70%	10-30%	65%
Opportunistic	20-40%	N/A	10-30%	N/A
<b>TOTAL PORTFOLIO</b>	<b>100%</b>	<b>60%</b>	<b>100%</b>	<b>50%</b>

	Current	Recommended
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2. Revise OPERF's real estate performance benchmark to match the revised investment and portfolio construction strategy:

	Current	Recommended
<u>Real Estate Classification</u>	<u>Benchmark</u>	<u>Benchmark</u>
Core	5% real return / NPI	ODCE
Public REITs	5% real/ NAREIT; FTSE/EPRA/NAREIT	NAREIT; FTSE/EPRA/NAREIT
Value Add	6% real / NPI + 100 bps	ODCE + 100 bps
Opportunistic	7% real / NPI + 200 bps	ODCE + 300 bps
<b>OPERF Real Estate</b>	<b>N/A</b>	<b>ODCE + 50 bps</b>

3. Revise OIC Policy INV 501, attached, incorporating the above allocation targets and benchmark recommendations. Further revise OIC Policy INV 501 to adopt previously updated policy and formatting standards now used for other OPERF Alternatives Program portfolios. Finally, approve recommended edits to the following appendices (attached herewith):
  - I. Appendix A, Investments Valuation Policy – conforms real estate portfolio policy to that governing other Alternatives Program investments.
  - II. Appendix C, Appraisals Policy – clarifies existing real estate portfolio policy.
  - III. Appendix G, Non-Mandate Property Exceptions – clarifies existing Non-Mandate Property Exceptions policy.
  - IV. The remaining appendices listed in INV 501 conform to, without changes, existing real estate or Alternatives Program policy documents.

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

- V. **10:45 am Oregon Local Government Intermediate Fund - Policy Update**  
Staff provided background on the Oregon Local Government Intermediate Fund ("OLGIF") and presented OLGIF guidelines for approval.

**MOTION:** Treasurer Wheeler moved approval of staff's OLGIF guidelines recommendation. Mr. Russell seconded the motion which passed by a vote of 5/0.

- VI. **10:50 am OPERF Q4 2015 Performance and Risk Report**  
Janet Becker-Wold from Callan Associates gave a fourth quarter 2015 investment performance update on OPERF.

- VII. **11:20 am State Accident Insurance Fund – Annual Review and Update**  
Kerry Barnett and Gina Manley from SAIF gave an annual review and update.

- VIII. **11:40 am Asset Allocation & NAV Updates**  
Mr. Skjervem reviewed asset allocations and NAVs across OST-managed accounts for the period ended January 31, 2016.

- IX. **11:43 am Calendar – Future Agenda Items**  
Mr. Skjervem presented the updated OIC forward calendar.

- X. **11:45 am Other Items**  
Mr. Skjervem gave an OPERF performance review for the period ended December 31, 2015.

**11:50 am Public Comments**  
None

Ms. Durant adjourned the meeting at 11:52 am.

Respectfully submitted,



Julie Jackson  
Executive Support Specialist





STATE OF OREGON  
OFFICE OF THE STATE TREASURER  
350 WINTER STREET NE, SUITE 100  
SALEM, OREGON 97301-3896

OREGON INVESTMENT COUNCIL  
MARCH 29, 2016  
MEETING MINUTES

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

Staff Present: Darren Bond, Deena Bothello, May Fanning, Sam Green, Karl Hausafus, John Hershey, Julie Jackson, Michael Langdon, Carmen Leiva, Jen Peet, Tom Rinehart, James Sinks and John Skjervem

Consultants Present: David Fann, Jeff Goldberger and Tom Martin (TorreyCove)

Legal Counsel Present: Dee Carlson, Oregon Department of Justice

The March 29, 2016 Special OIC meeting was called to order at 10:00 am by Katy Durant, Chair.

I. **10:00 am Cinven Sixth Fund, L.P. – OPERF Private Equity**

Staff recommended approval of a €250 million commitment to Cinven Fund VI, L.P. subject to satisfactory negotiation of terms and conditions with Staff working in concert with legal counsel. This proposed commitment represents the planned continuation of an existing general partner relationship.

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

Ms. Durant adjourned the meeting at 10:17 am.

Respectfully submitted,

Julie Jackson  
Executive Support Specialist

TAB 2 – CENTERBRIDGE SPECIAL CREDIT PARTNERS III,  
L.P. & CENTERBRIDGE SPECIAL CREDIT PARTNERS III-  
FLEX, L.P.

## **Centerbridge Special Credit Partners III, L.P. & Centerbridge Special Credit Partners III-Flex, L.P.**

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### **Purpose**

Subject to satisfactory negotiation of terms and conditions with Staff working in concert with legal counsel, Staff recommends a commitment of \$500 million to Centerbridge Special Credit Partners III, L.P. (“Fund III”) and Centerbridge Special Credit Partners III-Flex, L.P. (“Fund III-Flex”) for the OPERF Private Equity Portfolio. Centerbridge (“the Firm”) is raising these two funds (the “Funds”) as a stapled offering with limited partner commitments to be allocated 25% to Fund III and 75% to Fund III-Flex. Therefore, the specific recommendation for consideration is \$125 million for Fund III and \$375 million for Fund III-Flex. Centerbridge is an existing relationship for the OPERF Private Equity Program dating back to 2006 including previous commitments of \$435 million across three Centerbridge Capital Partners funds.

### **Background**

Centerbridge was founded in October 2005 by Jeffrey H. Aronson and Mark T. Gallogly, who bring approximately 60 years of combined experience in distressed and private equity investing. Prior to forming Centerbridge, Messrs. Aronson and Gallogly successfully collaborated on a number of distressed investments in their capacities as head of distressed and leveraged loans at Angelo, Gordon & Co. and head of private equity at The Blackstone Group, respectively. The Firm currently employs 250 professionals, including 90 investment professionals operating out of offices in New York and London. The principal thesis behind the Firm’s development has been to build a unified investment team focused on two investment strategies – distressed and private equity investing – thereby positioning Centerbridge to capitalize on the synergies between the two platforms.

Centerbridge currently manages \$25 billion in total assets across two investment complexes. The Capital Partners platform has raised \$14 billion across three previous funds focused on private equity, distressed for control, and structured transactions. The Credit Funds platform focuses on non-control distressed debt investing and includes roughly \$7 billion of aggregate net asset value in the Credit Partners hedge funds and \$4 billion of total capital commitments across two previous Special Credit Partners funds. Centerbridge is now targeting \$5 billion of total capital commitments for Centerbridge Special Credit Partners III & III-Flex as a continuation of the non-control distressed strategy that Mr. Aronson has successfully managed since the 1990s.

### **Strategy**

The investment mandate for Centerbridge Special Credit Partners III & III-Flex is highly opportunistic which is not uncommon in the non-control distressed debt space. While the mandate allows for flexibility, it can be expected that the Funds will mostly acquire senior loans and high yield bonds issued by middle and large market companies in North America and Europe that are experiencing some form of stress (liquidity and/or operating issues, poor market sentiment, technical trading issues, etc.). Some subset of those investments will result in reorganizations which may include formal bankruptcy restructurings. In those instances, Centerbridge will rely on the team’s deep experience navigating the bankruptcy process to create value for investors. While this may result in conversion to post-reorganization equity, the strategy used in Centerbridge Credit Funds does not pursue control. The balance of the investments in the Credit Funds’ portfolios will consist of deep value investments that will perform from a coupon perspective and appreciate in value as markets normalize and/or as the issuer resolves its balance sheet and/or operating issues.

The Firm generally will not know which of those two buckets each situation will evolve into over time, so the investment process for each portfolio investment remains consistent. As noted above, Centerbridge’s unified model allows for the ability to invest up and down the capital structure in private

equity and distressed credit situations. The combination of the Firm's distressed skills, which emphasize credit, legal and event analysis, and its private equity capabilities, which focus on rigorous business analysis and active value creation, enhances the Firm's ability to source and execute attractive investment opportunities across both investment platforms and in all market environments.

## Issues to Consider

### Attributes:

- *Compelling Target Risk/Return Profile* – Non-control distressed debt strategies have the ability to play a unique, niche role in the OPERF Private Equity Program. Across cycles, the target return for non-control distressed funds approaches that of private equity with net, fund level IRRs in the mid-teens. Further, while the return profile in non-control distressed is highly cyclical, these distressed credit cycles run counter to private equity cycles, thereby providing negative correlation with the balance of the OPERF Private Equity portfolio. The efficiency of capital commitments in these funds is also high with heavy recycling during a shorter investment period followed by rapid distributions during reasonably brief liquidation periods. Finally, from a risk perspective, these strategies are highly differentiated from private equity as they emphasize secured debt securities, shorter holding periods with current income, and very high levels of portfolio company diversification.
- *Solid Long-Term Track Record* – Non-control distressed debt is a fairly narrow niche of the alternative investment landscape, and, as a result, there is a small universe of managers who have a proven and successful record of navigating distressed cycles. The skill set required combines deep value, contrarian investing with an intimate understanding of reorganization processes and the nuanced paths to value creation through those negotiations. As noted above, Mr. Aronson has acted in a lead portfolio manager capacity for non-control distressed funds since the 1990s, and he has produced a track record across multiple cycles that very few can credibly claim to compete.
- *Attractive Main/Reserve Fund Structure* – By definition, non-control distressed debt funds depend on credit cycles to generate high levels of excess return. However, these cycles are also, by definition, extremely unpredictable so there can be no guarantee that one will materialize during the investment period of a given fund. Centerbridge is raising capital utilizing a “main fund” and “reserve fund” structure to account for that inherent cyclicity and uncertainty. As noted above, commitments will be allocated across Fund III and Fund III-Flex in a ratio of 1:3. Fund III will commence operations at the initial close, and Fund III-Flex will be activated at the Firm's discretion at any point during the Fund III investment period should a robust credit cycle materialize. No management fees will be charged for Fund III-Flex until it is activated, and if Fund III-Flex does not commence activity during the activation window, limited partners will be released from that portion of their capital commitments. Therefore, limited partners' exposure will be limited to the 25% commitment allocated to the “main fund” in the event that a distress cycle does not materialize over the next several years.

### Concerns:

- *Key Man Risk* – Centerbridge employs an impressive investment team, but to a large extent the recommendation to invest in Centerbridge Special Credit Partners III & III-Flex is an assertion of confidence in Mr. Aronson's capabilities as lead portfolio manager. Therefore, this investment proposition carries with it an above average degree of key man risk. [Mitigant: High levels of key man risk are a feature of virtually all distressed debt fund investments. As noted above, there is a very small universe of top tier, non-control distressed fund managers, and, almost without exception, a visionary portfolio manager leads each of those funds. Importantly, effective key man provisions can properly account for the singular importance of the lead portfolio manager.

In the case of Centerbridge, Staff is sufficiently convinced that Mr. Aronson is fully engaged for the lifecycle of Fund III & Fund III-Flex, and Staff is comfortable with the Firm's proposed key man provisions should anything unexpected arise.]

- *Cyclicality* – As noted above, the Centerbridge non-control distressed strategy will perform best in an environment characterized by difficult credit markets. Achieving excess returns in this strategy becomes more onerous in periods when leveraged finance markets are composed, and highly accommodative credit environments can be even more challenging. Therefore, the Centerbridge Special Credit Partners III & III-Flex opportunity is more tactical and cycle reliant than most other Staff recommendations. [Mitigant: As noted in the attributes section above, the risk/return profile for non-control distressed differs significantly from private equity. In markets that are not conducive to this strategy, returns will tend to be uninspiring, but because the strategy focuses on debt investing, the downside of calling the cycle wrong is mostly opportunity cost versus capital impairment. Further, the “main/reserve” fund structure helps to mitigate the cyclicality risk to a certain degree as discussed in the attributes section above. Finally, distress cycles are a seemingly inevitable episodic feature of credit markets, and, based on history, cycles occur every seven to eight years on average. The last cycle commenced in 2008, and excess liquidity since that downturn has driven activity in credit markets which could form the basis for the next cycle.]
- *Recent Returns* – The results for Centerbridge Special Credit Partners II (“Fund II”) currently stand at levels below the returns generated across the balance of Mr. Aronson's non-control distressed track record. [Mitigant: Fund II commenced operations in mid-2012 with an investment period that ran through mid-2015. From a timing standpoint, this is a very challenging fund as the recovery from the global financial crisis was well underway when it commenced, and the investment period was characterized by abundant credit market liquidity driven by (largely unforeseen) unprecedented central bank intervention and accommodation. Further, immediately after the end of the investment period there was a large drawdown in sub-investment grade markets putting the fund effectively at break-even since inception. Centerbridge is confident that Fund II will still generate a reasonable multiple of invested capital, but, given the trajectory to date, it is highly unlikely that the IRR will match that of the long-term track record. Staff is confident that these recent challenges are mostly attributable to a highly atypical investment environment and are not an indictment of Centerbridge's non-control distressed investing capabilities. Staff further observes that other high profile managers in this space have been facing these same challenges, so this is not a Centerbridge-specific issue. Finally, Staff believes that a challenging investment environment for Fund II may form the basis of an attractive investment environment for Fund III & Fund III-Flex.]

### **Terms**

Staff is currently engaged in fund document negotiations, but at this stage the headline terms appear to be broadly in line with market for non-control distressed funds. Further information on terms is available in the TorreyCove memo. Finally, no placement agent had contact with Staff in connection with this offering.

### **Conclusion**

Centerbridge Special Credit Partners III & III-Flex represent a compelling, tactical opportunity for the OPERF Private Equity Program. As noted in the introduction, Staff is recommending a capital commitment of \$500 million to be allocated across a two fund offering.



## MEMORANDUM

**TO:** Oregon Public Employees Retirement Fund (“OPERF”)  
**FROM:** TorreyCove Capital Partners (“TorreyCove”)  
**DATE:** April 8, 2016  
**RE:** Centerbridge Special Credit Partners III, L.P. &  
Centerbridge Special Credit Partners III-Flex, L.P. (together known as the “Fund”)

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### Strategy:

Centerbridge intends to employ a broad and flexible investment mandate to achieve attractive risk-adjusted returns. The platform will primarily invest in corporate debt, distressed or otherwise unusual assets, asset-backed instruments, and pools of non-performing loans. Such investments might include issuers who are the subject of corporate reorganizations, restructurings, liquidity crises, mergers, spin-offs, leveraged buyouts, credit rating changes or other situations when the market may be mispricing an asset’s intrinsic value. The Fund is expected to be a non-control strategy, and primarily focused on North American and European opportunities. Centerbridge will employ their “One Team” approach, believing the Firm’s experience and expertise in underwriting both equity and distressed debt investments afford the Firm a unique advantage in accessing deal flow. Centerbridge deliberately seeks situations that are complicated and misunderstood. The Firm is also often wanting to take an active approach with their investments, sharing the belief that value is achieved by directing the outcome.

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

### Allocation:

A new commitment to the Fund would be allocated 100% to the Special Situations investment sub-sector and will further be categorized as a Domestic investment. As of the September 30, 2015 report, OPERF’s allocation to Special Situations is listed in the table below. It is important to note that since allocation is based on fair market value, a commitment to the Fund would not have an immediate impact on OPERF’s current portfolio allocation. Commitments to the Fund are complementary to OPERF’s existing fund commitments and provide the overall portfolio with a further degree of diversification.

As of September 30, 2015	Target	FMV	FMV + Unfunded
Special Situations	5-15%	11%	12%

### Conclusion:

The Fund offers OPERF an opportunity to participate in a differentiated portfolio of private equity 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 \$500 million to the Fund. TorreyCove’s recommendation is contingent upon the following:



# TORREYCOVE

CAPITAL PARTNERS

- (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 – ALTERNATIVES PORTFOLIO REVIEW





# OPERF Alternatives Portfolio 2016 Plan and Review

Ben Mahon, Senior Investment Officer

April 20, 2016

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- I. Alternatives Portfolio Background/Objectives
- II. OIC Investment Beliefs
- III. 2015 Year in Review
- IV. Portfolio Initiatives
- V. Commitments and Market Values
- VI. Portfolio Snapshot
- VII. Annual Cash Flow Activity
- VIII. Portfolio Activity
- IX. Portfolio Structure/Relationships **Vision**
- X. Portfolio Pacing
- XI. Appendix: Process and Relative Risk & Return Expectations

# Alternatives Portfolio Background/Objectives

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## ➤ Alternatives Portfolio Background:

- Alternatives Portfolio approved at January 26, 2011 OIC meeting
- Portfolio seeded July 1, 2011 with three investments from the Opportunity Portfolio
- Target allocation for the Portfolio has increased twice since its inception:
  - First, from 5% to 10% at June 26, 2013 OIC meeting
  - Second, from 10% to 12.5% at June 3, 2015 OIC meeting
    - Actual allocation at February 29, 2016 is 3.9%
- Portfolio comprised of three primary sectors:
  - Infrastructure = 20-30%
  - Natural Resources = 30-40%
  - Diversifying Strategies = 35-45%

## ➤ Alternatives Portfolio Objectives:

- Seek “real assets” and “diversifying strategies” exposures
  - Important source of diversification for OPERF
  - Less correlated returns, diversifying risk premias
  - Includes inflation hedging objective
  - Benchmark: CPI + 4%
- } Enumerated in OIC  
Investment Beliefs

# OIC Investment Beliefs

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- Diversification, asset class correlations and private market investment expectations and considerations are all enumerated in the OIC's investment beliefs, which serve to guide portfolio construction, strategy and manager selection decisions in the Alternatives Portfolio.
  - Importance of asset allocation, which is the primary driver of risk and return:
    - Belief 1A: *“To exploit market inefficiencies, the OIC must be contrarian, innovative and opportunistic in its investment approach.”*
    - Belief 2A: *“Asset allocation is the OIC’s primary policy tool for managing the investment program’s long-term risk/return profile.”*
    - Belief 2B: *“Portfolio construction, including diversification and correlation considerations, is essential to maximizing risk-adjusted returns.”*
  - Private market investments can add significant value and represent a core OIC/OST competency:
    - Belief 4A: *“The OIC can capitalize on its status as a true, long-term investor by making meaningful allocations to illiquid, private market investments.”*
    - Belief 4B: *“Dispersion in private market investment returns is wide; accordingly, top-quartile manager selection and vintage year diversification are paramount.”*
    - Belief 6B: *“External incentive structures should be carefully evaluated to ensure proper alignment with investment program objectives.”*

# 2015 Year in Review

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## ➤ Progress-to-date

- Authorized \$2.15 billion in commitments in 2015 (7 investments)
  - \$3.4 billion over the past two years (16 investments)
  - \$5.2 billion cumulatively since inception (32 investments across 21 firms)
- Portfolio exposures are balanced and within target ranges
- “Third inning” of portfolio development. Continue to refine strategy and develop anchor positions complemented by specialists/next generation relationships.
- No shortage of deal flow! Challenge has been discriminating among opportunities.

## ➤ Staffing

- Mike Mueller added to Alternatives Portfolio team

## ➤ “Firsts” for the Portfolio

- First strategic relationship (AQR)
- First joint venture (Twin Creeks)
- First land-based agriculture investment (Brookfield Ag Fund II)
- First private open-ended investment (Teays River)

## 2015 Year in Review, cont.

- During 2015, OIC authorized \$2.15 billion in commitments across 7 investments
- 4 of the commitments were new relationships; 3 were “re-ups” or extensions of existing strategies
- 2015 commitments comprised a diverse set of investment strategies

<b>INVESTMENT NAME</b>	<b>AUTHORIZED DATE</b>	<b>FIRST OPERF DRAWDOWN</b>	<b>COMMITMENT AMOUNT</b>
Brookfield Agriculture Fund II, L.P.	3/20/2015	N/A	\$100,000,000
EnerVest Energy Institutional Fund XIV-C, L.P.	3/20/2015	9/25/2015	\$150,000,000
Teays River Investments, LLC	4/14/2015	6/30/2015	\$150,000,000
Twin Creeks Timber, LLC.	8/26/2015	3/31/2016	\$200,000,000
AQR Multi-Strategy Fund X, L.P.	9/9/2015	12/1/2015	\$750,000,000
Stonepeak Infrastructure Fund II, L.P.	10/28/2015	N/A	\$400,000,000
Global Infrastructure Partners III-A, L.P.	12/9/2015	N/A	\$400,000,000
<b>TOTAL:</b>			<b>\$2,150,000,000</b>

# Portfolio Initiatives

---

## ➤ Co-investment

- Staff and consultant commencing project to determine best approach for consideration of a co-investment program
  - Create a shortlist of potential co-investment partners, developing a framework for implementation
  - Assess additional resource (both internal and external) requirements

## ➤ Separate accounts/strategic relationships

- Staff and consultant evaluating existing anchor relationships for potential separate account/strategic relationship programs

## ➤ Diversifying Strategies

- Kicked off “three-year plan” with Callan onsite February 22, 2016
- Assistance from Karl Cheng

## ➤ Infrastructure debt analysis

- Assessing potential role of infrastructure debt; drafting “white paper”
- Assistance from Tom Lofton

# Portfolio Initiatives, cont.

---

## ➤ Pipeline

- Value add infrastructure (North American/European, private markets)
- Agriculture (North American, private markets)
- Infrastructure debt (Global, private markets)
- Multi-sector natural resources (Global, private markets)
- Renewable power (Global, private markets)
- Transportation debt (Global, private markets)
- Managed futures (Global, public markets)

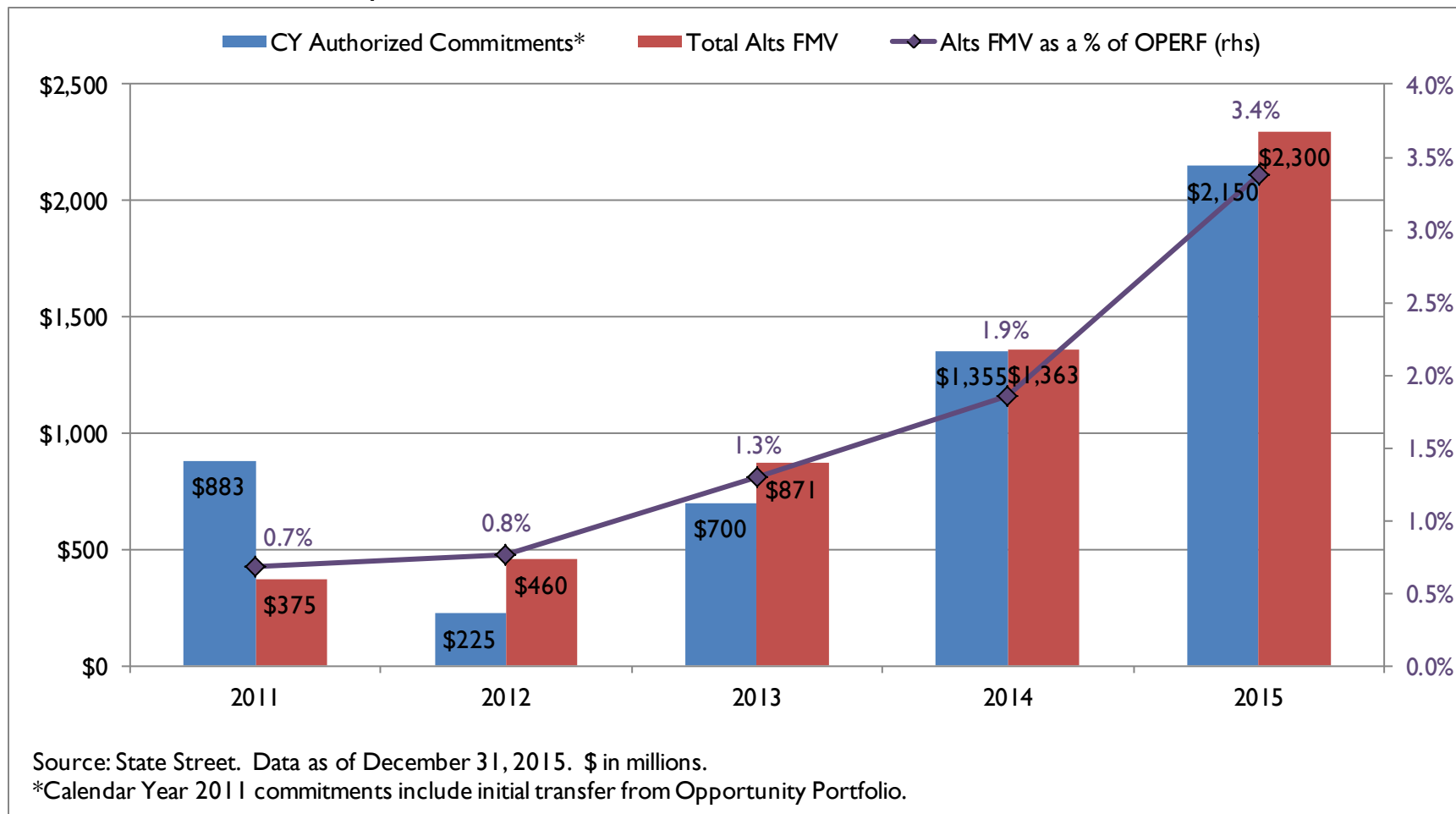
## ➤ Current Market Themes

- North American energy plays
- Commodity price declines
- Reduction in traditional lending
- Renewable power
- Emerging markets



# Commitments and Market Values

- Alternatives Portfolio weight increasing as a percentage of OPERF
- Since Portfolio inception, \$5.2 billion of commitments have been authorized



# Portfolio Snapshot

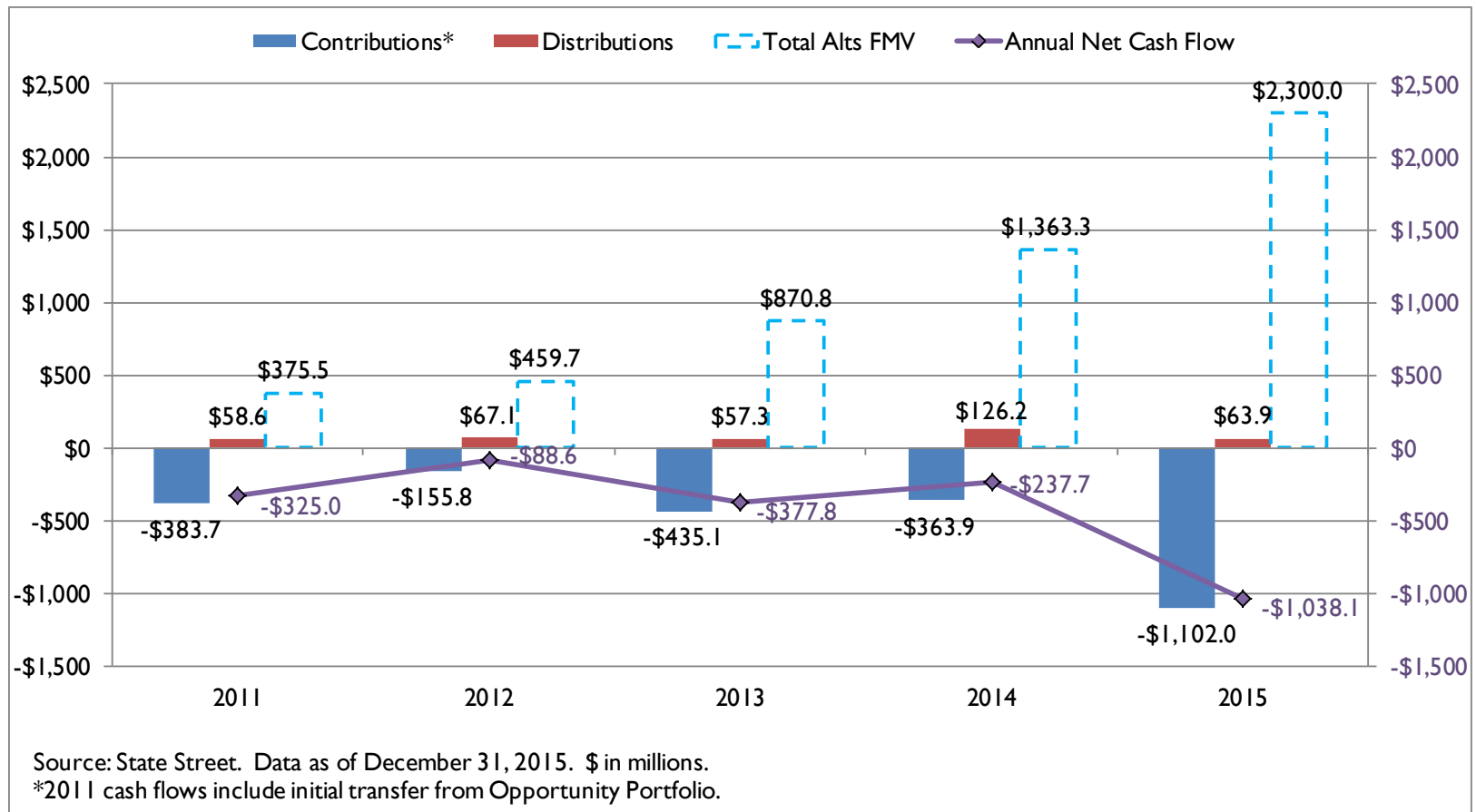
- Sector exposures are within targeted allocation ranges
  - Diversifying strategies and listed commodities funds are liquid and can be deployed more quickly than illiquid investments in infrastructure, timber, agriculture and natural resources...
  - ... while cognizant of allocation ranges, anticipate deviations to occur as the program scales.

SECTOR	TARGET (\$)	TARGET (%)	TARGET RANGE (%)	MARKET VALUE (\$)	MARKET VALUE (%)
Infrastructure	\$2,126.5	25.0%	20-30%	\$591.1	25.7%
Natural Resources	\$2,977.1	35.0%	30-40%	\$790.5	34.4%
Diversifying Strategies	\$3,402.4	40.0%	35-45%	\$918.3	39.9%
<b>TOTAL:</b>	<b>\$8,506.1</b>	<b>100.0%</b>	<b>0-10%</b>	<b>\$2,300.0</b>	<b>100.0%</b>

Source: State State. Data as of December 31, 2015. \$ in millions.

# Annual Cash Flow Activity

- As anticipated, Portfolio cash outflows have outweighed cash inflows by a meaningful amount
- \$500 million of 2015 contributions related to AQR Strategic Partnership



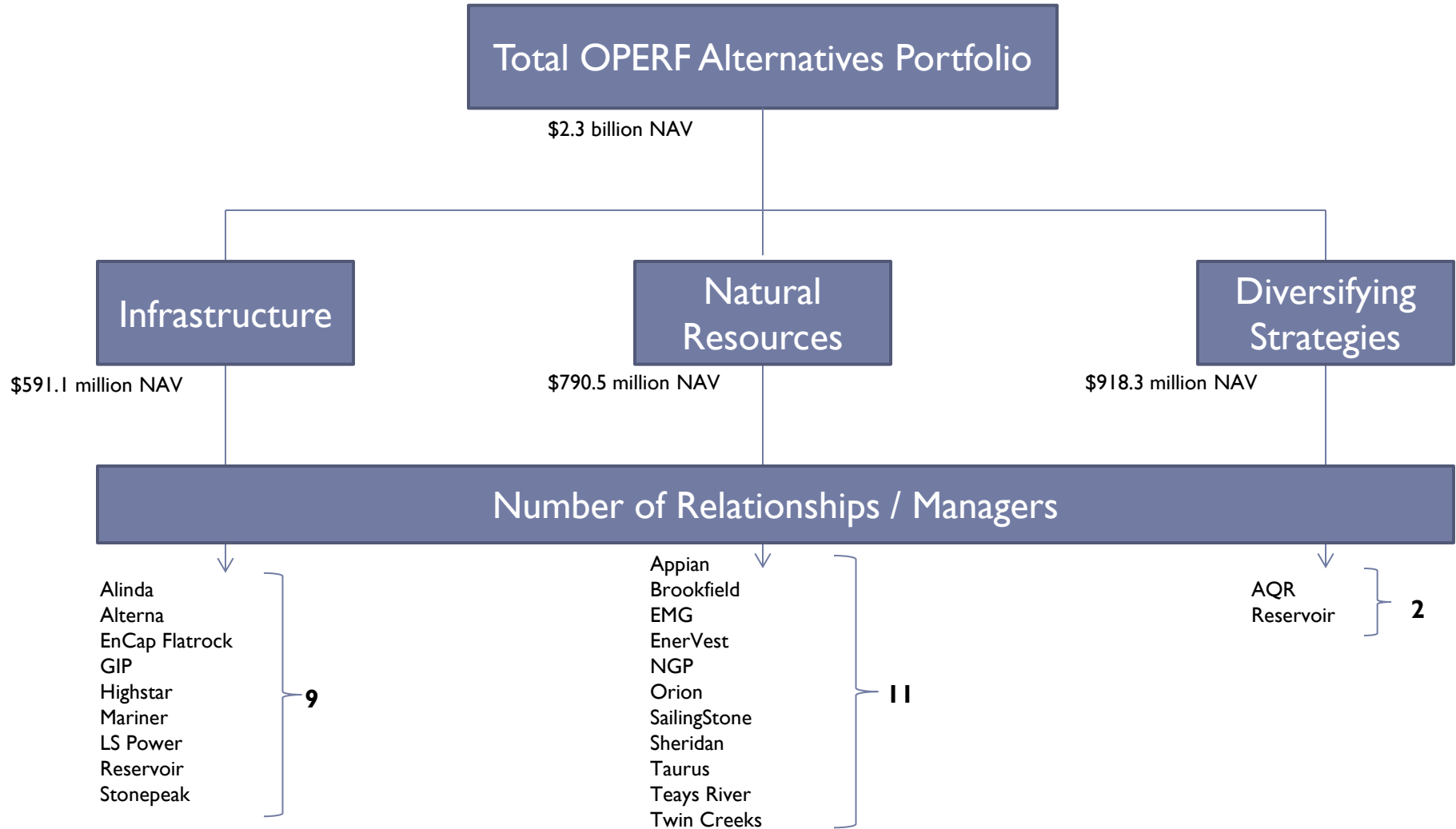
# Portfolio Activity

- As of December 31, 2015, OPERF has contributed \$2.4 billion in capital, funding approximately 47% of aggregate capital commitments made since inception. Approximately \$2.7 billion of capital commitments remain outstanding.
- Since inception, a total of \$373.1 million has been distributed to OPERF
- As new commitments continue to be made, the weighted-average age of the Portfolio has remained consistent throughout its history, averaging approximately 2 years
- Since inception, 27 commitments to closed-end vehicles:
  - 3 have reached end of investment period
  - 0 have reached end of term
  - 0 have been fully realized

	2011	2012	2013	2014	2015
Contributions	-\$383.7	-\$155.8	-\$435.1	-\$363.9	-\$1,102.0
Distributions	\$58.6	\$67.1	\$57.3	\$126.2	\$63.9
Net Cash Flow	-\$325.0	-\$88.6	-\$377.8	-\$237.7	-\$1,038.1
Unfunded Commitments	\$282.5	\$534.4	\$574.3	\$1,643.1	\$2,353.6
Weighted Avg. Age of Commitments (yrs)	2.0	2.1	2.1	1.9	1.6

Source: State Street/Alpha Frontier. Data as of December 31, 2015. \$ in millions.

# Portfolio Structure/Relationships

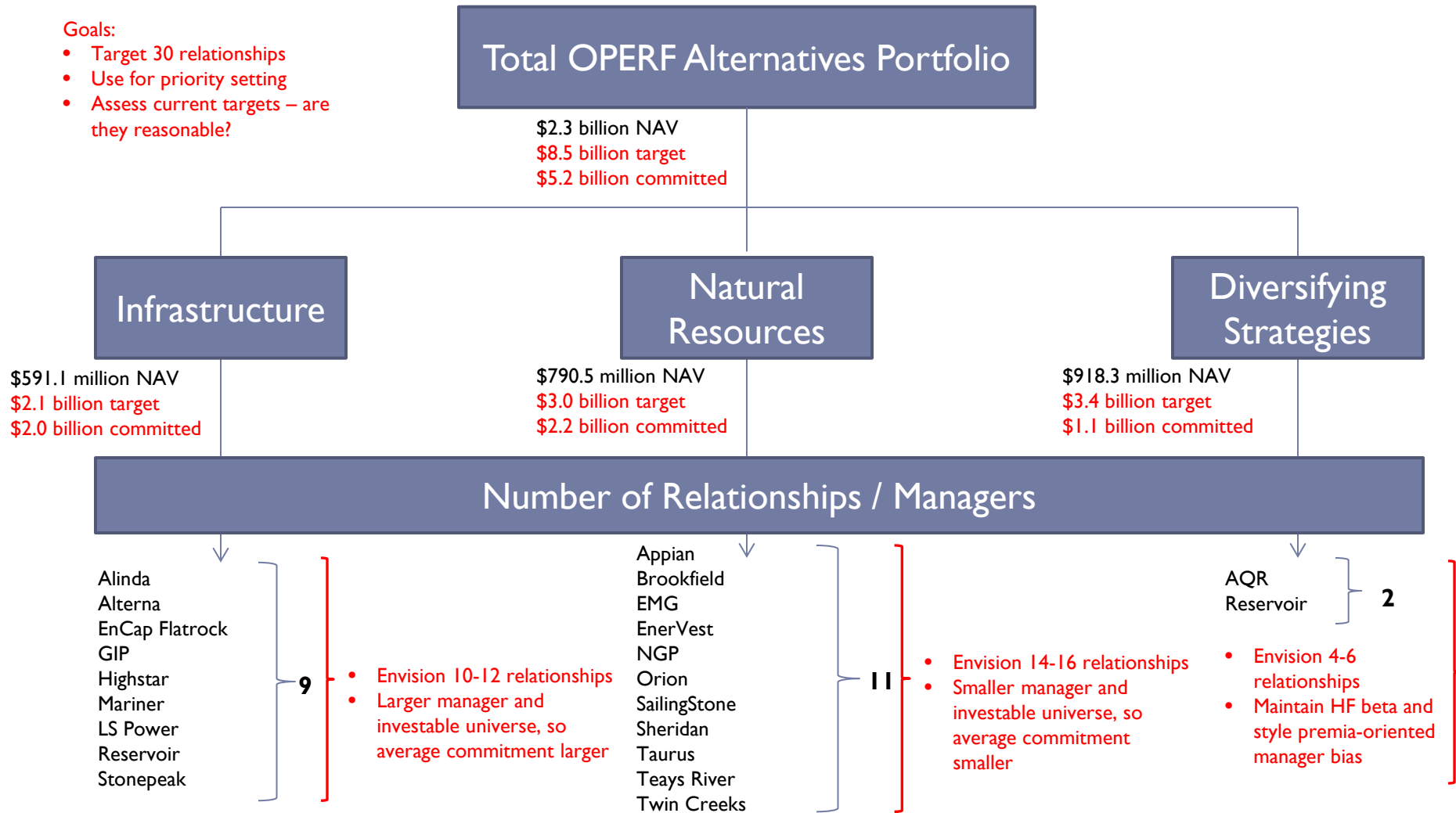


\* Source: State Street. Market values as of December 31, 2015.

# Portfolio Structure/Relationships **Vision**

**Goals:**

- Target 30 relationships
- Use for priority setting
- Assess current targets – are they reasonable?



\* Source: State Street. Market values as of December 31, 2015.

# Portfolio Pacing

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## ➤ 2016 Plan

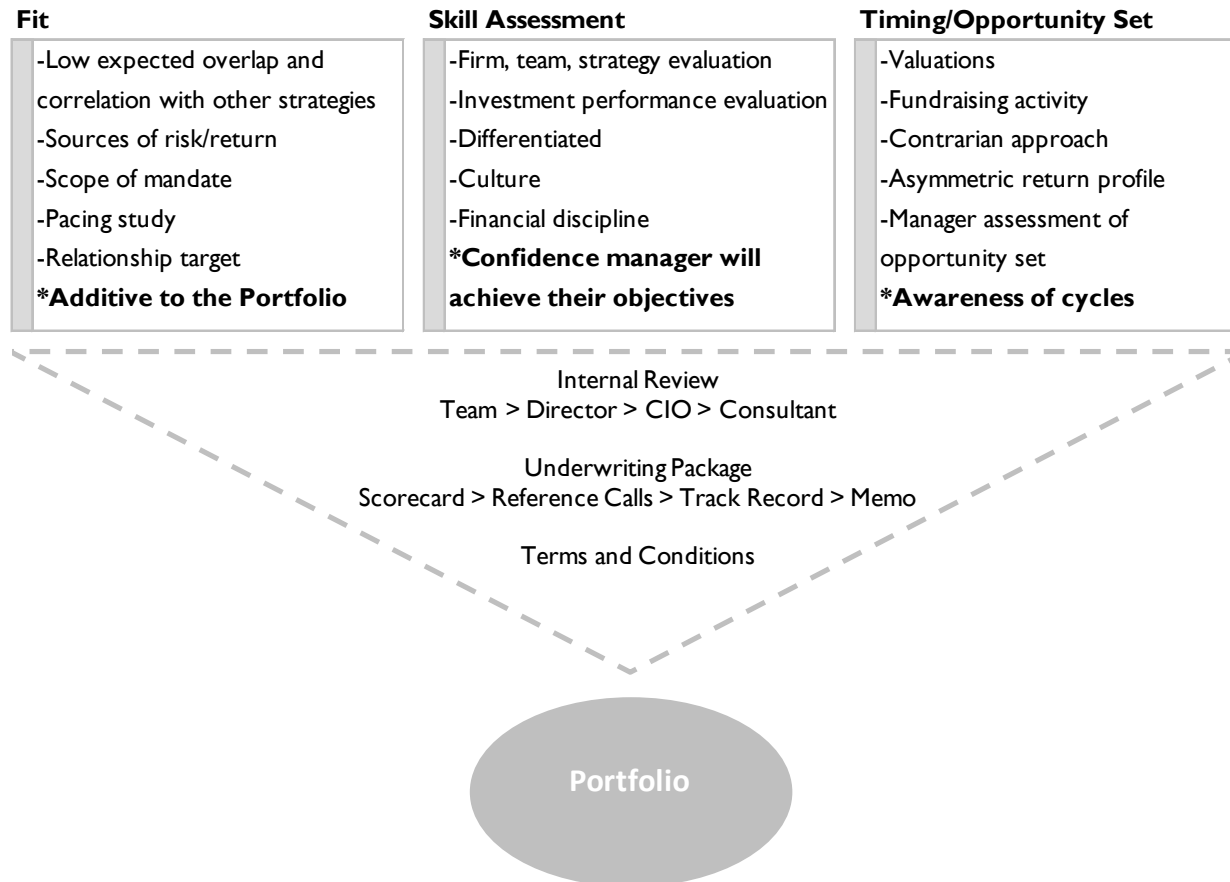
- \$1.5 – \$2.0 billion in commitments
- Based on balanced portfolio allocation, not driven by need to fill an exposure
- Implies total commitments of \$6.7 – \$7.2 billion by year end

## ➤ Longer-term pacing

- Staff has been measured, given entry point risk, research requirements and resource constraints
- At current pace, will not reach target allocation for several years
- Can deploy liquid strategies (e.g., diversifying strategies and listed commodities funds) more quickly than “illiquid strategies” (e.g., infrastructure, timber, agriculture, minerals & mining, etc.)
- Remain cognizant of exposures while aiming for vintage year diversification

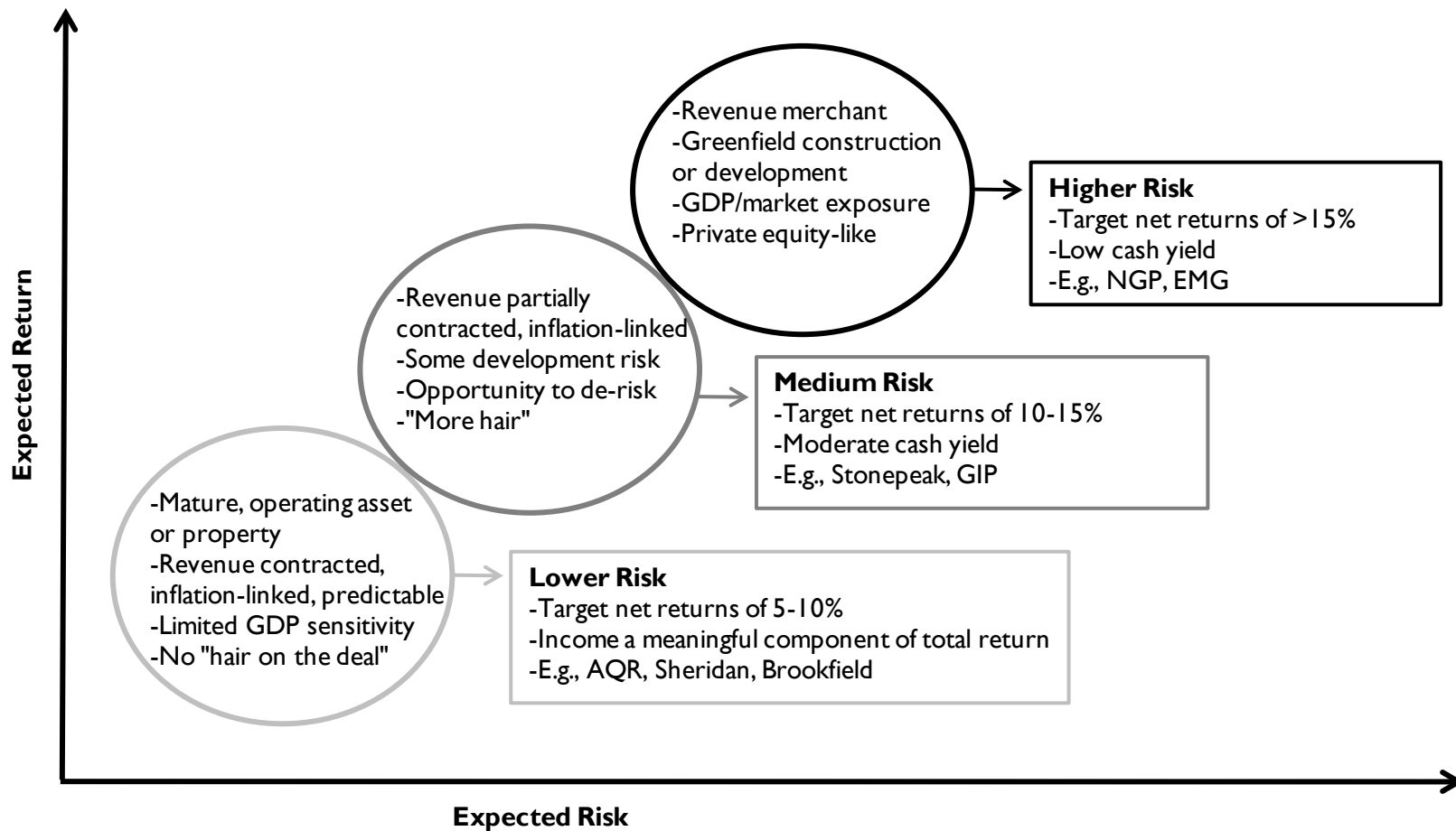
# Appendix: Investment Process

- Very high-level summary of Alternatives Portfolio investment process
- In practice, many more variables, non-linear, and with numerous feedback channels





# Appendix: Relative Risk & Return Expectations



## TAB 4 – OPERF OVERLAY REVIEW

## **OPERF Policy Implementation Overlay Manager Annual Update**

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### **Purpose**

To provide the OIC an update on the OPERF overlay program, currently managed by Russell Investments.

### **Background**

In September 2005, the OIC retained Russell Investments to implement an overlay program to equitize OPERF's cash balances. Specifically, Russell monitors and, if necessary, equitizes both excess cash held by public equity & REIT managers and general OPERF cash held to meet benefit payments and fund capital calls. Russell equitizes this cash through highly-liquid futures contracts with margin requirements much smaller than the contracts' "face" or "notional" values. As part of its overlay program, Russell also monitors OPERF's asset allocation relative to its OIC-established strategic targets (see attached OIC Policy INV 215: OPERF Asset Allocation and Rebalancing Policy) and trades equity and fixed income futures contracts to align the Fund's overall asset allocation with these OIC-established targets. For perspective on Russell's overlay program, OIC members receive a monthly update on the program's overlay exposures in the asset allocation section of the regular OIC meeting materials.

As of March 31, 2016, the OPERF overlay program was long \$353 million in fixed income contracts and long \$1.1 billion in global equity contracts for a total notional exposure of \$1.45 billion.

### **Staff Recommendation**

None, information only.

## TAB 5 – POLICY UPDATES

# OIC Policy Updates

## April 20, 2016

### **Purpose**

To update several OIC policies to conform with Treasury's new PolicyStat application.

### **Background**

This is a continuation of the policy updates brought by staff beginning with the September 2015 OIC meeting.

As noted last September:

In April 2015, Kim Olson informed the OIC of a new online application, PolicyStat, acquired by Treasury (OST) to facilitate the management of policies and procedures for the OIC and the rest of OST. As the current OIC Policies and Procedures have been migrated to this new application, staff is now engaged in a staged project to reformat existing documents to fit the new rubric approved by Treasury management. Of particular significance is the segregation of Policy and Procedure sections, a recommendation made by Cortex Applied Research during a review completed in August 2012. As staff moves to implement these recommendations going forward, revised policies will come before the OIC for approval, while operating procedures will be approved by the Chief Investment Officer.

### **Discussion**

This memo provides a brief summary of revisions to the attached policies. Due to the significance or quantity of revisions in three instances (INV 901, 903, and 904), staff is including both the revised and previous policy versions for side-by-side comparison purposes. The remaining policies are provided only in their revised form as changes relative to previous versions are modest.

## **Oregon Short Term Fund Board (INV 301)**

### **1. INV 301: Staff to the Oregon Short Term Fund Board (OSTFB)**

Moved document into the new policy format and made some linguistic adjustments for clarity.

Change in 2. *Record and Distribute Minutes of OSTFB Meetings*. "...the **Executive Assistant to the Deputy State Treasurer** records and distributes minutes for those meetings." Now "...the **Executive Assistant to the Director of Capital Markets** shall record and distribute minutes for those meetings."

## **Public Equity Series (INV 602, 605-607)**

### **2. INV 602: Equity Investments: Selecting and Terminating Investment Management Firms.**

Moved document into the new policy format and made some linguistic adjustments for clarity.

### **3. INV 605: Exercise of Voting Rights Accompanying Equity Securities.**

Moved document into the new policy format, and made some linguistic adjustments for clarity.

### **4. INV 606: Equity Investments: Commission Recapture**

Moved document into the new policy format, and made some linguistic adjustments for clarity.

Change in second summary sentence: “The **Senior Investment Officer** for Public Equity is responsible for the selection of firms participating in OPERF’s commission recapture program.” This was formerly the **Chief Investment Officer’s** responsibility.

*1. Selection of Commission Recapture Firms*, points (c) and (d). Under 1(c), **added** “quality” as a criterion for evaluating the Commission Recapture agent’s back office functions. **Eliminated 1(d)**: “A single recapture firm may be used if it is determined in the Fund’s best interest to do so. Exclusive arrangements may result in significantly better income splits, and therefore, more earnings to the Fund.”

*2. Manager Recapture Targets*. **Eliminated** the time phrase “annually” from “Staff shall notify managers of their expected commission recapture targets.”

### **5. INV 607: Equity Investments: Manager Monitoring**

Moved document into the new policy format, and made some linguistic adjustments for clarity.

Change in 2. *On-site Visits*. **Eliminated** the sentence “OIC members are encourage to visit managers when convenient.”

## **Common School Fund Series (INV 901, 903-905)**

### **6. INV 901: Common School Fund: Asset Classes, Asset Allocation, and Reporting Requirements**

Moved document into the new policy format, and made some linguistic adjustments for clarity.

This document is now a **combination of three, previously separate CSF policies**: INV 901: Common School Fund: General Policies and Procedures; INV 902: Common School Fund: Asset Classes and Allocation; and INV 906: Common School Fund: Reporting Requirements.

The three, previously separate policies were short, and staff determined that a revised, combined version would simplify the Common School Fund series. **The previously separate versions of these three policies are included for comparative purposes.**

Change: Formerly INV 902: 2. *Reviews:* “Asset allocation reviews will be performed **periodically** to assure the CSF is positioned properly.” Now INV 901: 6. “Formal asset allocation review will be performed **at least every 3 years** to ensure that the CSF is positioned properly.”

Formerly INV 902: 3. *Asset Classes: A. Equities:* “Domestic and international investments which represent a direct ownership of, or partnership in, **a going concern.**” Now INV 901: 7(a): *Public Equity.* “Domestic and international investments that represent a direct ownership of, **or interest in, a corporation, and the shares of which are traded in public securities markets.**”

Formerly INV 902: 4. *Asset Allocation:* “Cash is to be held only for business operating purposes.” Now INV 901: statement **eliminated.**

Formerly INV 902, table under U.S. Fixed Income, **changed** benchmark from “Barclays Capital Universal Bond Index” to “Barclays U.S Aggregate Bond Index.”

Formerly INV 902, note under the asset class table: “Note: The Target Allocation to private equity is a longer term target, established by the Council in August 2007. As such, the Policy Mix benchmark will be adjusted as investment commitments are drawn down.” Now INV 901: note **eliminated.**

Formerly INV 906: “Formal review with the State Land Board shall be held **at least annually, typically in April of each year.**” Now INV 901: 8. *Reporting Requirements:* “Formal review with the State Land Board shall be undertaken **at least annually.**”

## **7. INV 903: Common School Fund: Public Equity Investments**

Moved document into the new policy format. The new policy uses the same ideas as the old policy, but the language and structure has changed significantly. **The previous version of this policy is included for comparison.**

Change: 7. *Performance Expectations/Reviews.* **Eliminated** the following statement: “Enhanced index portfolios are expected to achieve an out-performance of 100 basis points over the index, net of fees, over a full market cycle.”

## **8. INV 904: Common School Fund: Fixed Income Investments**

Moved document into the new policy format and made some linguistic and structural adjustments for clarity. Due to the number of changes, **the previous version of this policy is included for comparative purposes.**

Change: 2. *Strategy*. **Changed** benchmark portfolio from Barclays Capital Universal Index to Barclays Capital U.S. Aggregate Bond Index.

**Changed** “Maintain an average portfolio duration of +/-20% of the Barclays Capital Universal Index” to “Maintain a target duration band of +/-20% relative to the effective duration of the Benchmark.”

**Eliminated** the following sentence: “Maintain an overall portfolio quality of at least “A” or higher.”

**Added** the following sentences:

“Maintain a minimum-weighted, average credit quality of one rating category below that of the Benchmark. For example, if the Benchmark’s average credit quality is AA2, the minimum-weighted, average credit quality should be A2.”

“Actively-managed strategies are expected to outperform stated benchmarks on an after-fee and risk-adjusted basis, over a full market cycle.”

“Quarterly manager reviews will focus on adherence to guidelines and assessments of investment performance relative to objectives.”

3. *Permitted holdings*. **Added** the following sentences:

“Obligations of U.S. and non-U.S. corporations such as debentures issued by industrial, utility, finance, commercial banking or bank holding company organizations, bank loans, common stock received in connection with the restructuring of corporate debt.”

“Credit Criteria: In addition to the eligibility requirements described above, securities considered for purchase must be rated investment grade at the time of purchase. If no ratings are available for a particular security, then an equivalent credit rating, as deemed by the Manager, may be used. The methodology utilized by the Benchmark Index shall be used to determine the rating on any holding.”

“For certain securities or instruments, such as newly-issued bonds, expected ratings may be used until actual ratings are issued and assigned by the rating agencies.”

4. *Diversification*. **Changed** “Not more than 10% of the portfolio may be invested in Emerging Market Debt (dollar and non-dollar denominated) rated below investment grade” to “Not more than 10% of CSF fixed income portfolio may be invested in non-dollar denominated securities.”

5. *Portfolio Restrictions*. **Changed** “**No more than 30%** of the total CSF fixed income portfolio, at market value, may be maintained in securities rated less than Baa3” to “**No more**



**than 10%** of the total CSF fixed income portfolio, at market value, may be maintained in securities rated less than Baa3.”

*7. Performance Expectations/Reviews.* Formerly “...this portfolio is expected to outperform the index by **at least 75 basis points**, net-of-fees.” Now “...the CSF fixed income portfolio is expected to outperform the index by **at least 35 basis points**, net-of-fees.”

## **9. INV 905: Common School Fund: Private Equity Investments**

Moved document into the new policy format, and made some linguistic and structural adjustments for clarity.

Change: *6. Performance Expectations/Reviews.* **Eliminated** the following statement: “The Target Allocation to private equity is a longer term target, established by the Council in August 2007. As such, the Policy Mix benchmark will be adjusted as investment commitments are drawn down.”

**Recommendation: Approve policy revisions and format changes as outlined in attached documents.**



Origination: 04/2010  
Last Approved: 04/2010  
Last Revised: 04/2010  
Next Review: *1 year after approval*  
Owner: *Garrett Cudahey: Portfolio Manager*  
Policy Area: *Investments*  
References: *OST Policy 4.02.01*

## INV 301: Staff to the Oregon Short Term Fund Board (OSTFB)

### OREGON INVESTMENT COUNCIL POLICY

#### INTRODUCTION & OVERVIEW

##### Summary Policy Statement

The Oregon Short Term Fund Board (OSTFB) advises the State Treasurer and the Oregon Investment Council (OIC) on short term investment matters. Oregon State Treasury (OST) Investment Division staff provides research support to the OSTFB and records and distributes OSTFB meeting minutes.

##### Purpose and Goals

The goal of this policy is to define expectations for OST staff support to the OSTFB.

##### Authority

ORS 294.885

1. There is created the Oregon Short Term Fund Board consisting of seven members.
2. One member shall be the State Treasurer or the treasurers designated representative. Three members, who are qualified by training and experience in the field of investment or finance and who do not hold any other public office or employment, shall be appointed by the State Treasurer. Three members, who are treasurers, finance or fiscal officers or business managers of any county, city or school district, shall be appointed by the Governor. In making the appointment, the Governor may consider persons recommended by:
  - a. The Association of Oregon Counties
  - b. The League of Oregon Cities
  - c. The Oregon School Boards Association.
  - d. One or more tribal governments with tribal government officials.

3. The term of office of each appointed member of the board is four years, but each appointed member serves at the pleasure of the appointing authority. A vacancy in the appointed membership occurring other than by expiration of term shall be filled in the same manner as the original appointment, but for the unexpired term only.

ORS 294.895

The Oregon Short Term Fund Board shall:

1. Advise the Oregon Investment Council and the investment officer in the management of the investment pool and in the investment of moneys deposited in the Oregon Short Term Fund.
2. Review the rules promulgated by the investment officer.
3. Consult with the council and the investment officer on any matter relating to the investment and reinvestment of funds in the investment pool and on any matter relating to the investment or reinvestment of moneys deposited in the Oregon Short Term Fund and invested by the State Treasurer.

## **POLICY PROVISIONS**

### **Policy Statements**

1. **Staff and Research Support.** Should the OSTFB wish to investigate or research a matter related to short term investments, staff from the fixed income department of the Oregon State Treasury (OST) Investment Division shall provide such support and assistance.
2. **Record and Distribute Minutes of OSTFB Meetings.** OST fixed income staff shall attend all OSTFB meetings and the Executive Assistant to the Director of Capital Markets shall record and distribute minutes from these meetings. Minutes are routinely distributed to members of the OSTFB; OST fixed income staff; and members of the OIC. The Executive Assistant to the Director of Capital Market will also distribute meeting minutes to members of the general public, upon request.

### **Exceptions**

None.

### **Failure to Comply**

Failure to comply with this policy may be cause for disciplinary action up to and including dismissal.

## **PROCEDURES and FORMS**

N/A.

## ADMINISTRATION

### Feedback

Your comments are extremely important to improving the effectiveness of this policy. If you would like to comment on the provisions of this policy, you may do so by e-mailing the Policy Analyst. To ensure your comments are received without delay, *please list the policy number and name in your e-mail's subject*. Your comments will be reviewed during the policy revisions process and may result in changes to the policy.

### Attachments:

No Attachments

	Committee	Approver	Date
		Garrett Cudahey: Portfolio Manager	pending

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Origination: 03/2014  
Last Approved: 03/2014  
Last Revised: 03/2014  
Next Review: *1 year after approval*  
Owner: Michael Viteri  
Policy Area: Investments  
References: OST Policy 4.05.02

## INV 602: Equity Investments: Selecting and Terminating Investment Management Firms

### OREGON INVESTMENT COUNCIL POLICY

#### INTRODUCTION & OVERVIEW

##### Summary Policy Statement

The Oregon Investment Council (OIC) may enter into contracts with one or more persons whom the OIC determines to be qualified, whereby the persons undertake, in lieu of the investment officer, to perform the functions specified in ORS 293.736 to the extent provided in the contract (ORS 293.741). Staff, with approval from the Chief Investment Officer (CIO) and quarterly notification to the OIC, may terminate "at will" any manager according to the terms of its contract with and on behalf of the OIC.

##### Purposes and Goals

The goal of this policy is to establish criteria for selecting and terminating public equity investment managers.

##### Authority

ORS 293.736; ORS 293.741.

### POLICY PROVISIONS

##### Policy Statements

1. **Factors to be considered when hiring an investment management firm may include, but are not limited to the following:**
  - a. The firm's major business;

- b. Ownership and organization of the firm;
- c. The background and experience of key members of the firm, including the portfolio manager expected to be responsible for the Oregon account;
- d. The size of the firm's asset base, and the proportion of that base that would be comprised by Oregon's portfolio if the firm were hired;
- e. Equity managers will be screened by staff and the OIC's consultant via various quantitative and qualitative means. At least one visit to the firm's offices should be made prior to hiring and funding;
- f. If the firm has a readily determinable investment style, it should complement those of existing managers; and
- g. Firms should not be hired on a short-term or trial basis.

**2. Factors to be considered for the termination of an investment management firm may include, but are not limited to the following:**

- 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, although a firm should be given ample time to demonstrate the purported efficacy of its strategy. Performance deficiencies during short-term time periods (e.g., quarterly or annually) shall not be the basis for termination so long as the firm can demonstrate that it is adhering to its defined investment philosophy. A firm's philosophy must continue to enjoy confidence with Staff and the OIC for inclusion in the Oregon portfolio, and the firm should compare reasonably well with its peers using a similar investment style; and
- f. Non-compliance with contractual responsibilities to the OIC.

**3. Selection of Investment Management Firms.**

- a. OST investment staff shall meet with and obtain information from prospective investment management firms. Members of the OIC may also choose to familiarize themselves with prospective firms.
- b. Consultants may be used to assist in evaluating prospective investment management firms; however, the OIC will not delegate its policy- or decision-making responsibilities to consultants or

others.

- c. The OIC shall select investment managers by majority vote.
- d. The Chief Investment Officer is authorized to engage and fund any systematic or passive equity strategy considered necessary to allocate assets from terminated or defunded managers or to fill gaps identified in, or reduce risk in, the Public Equity portfolio. Any such actions shall be communicated to the OIC on a quarterly basis.

#### **4. Investment Manager Selection Criteria**

- a. Identification of a strategic role within the Public Equity portfolio that a prospective investment manager shall fulfill.
- b. Description of the manager's style, or how the manager will fulfill the proposed, strategic role.
- c. Identification of the universe of securities from which the manager will construct its portfolio.
- d. Identification of the expected risk level, as measured by commonly accepted investment risk measures, relative to the strategic role the prospective investment manager shall fulfill. The risk level can be expressed either relative to a) the universe of securities from which the manager selects; b) other, similar managers; or c) the market as a whole. Alternatively, the risk level can be expressed in absolute terms.
- e. Identification of a specific performance objective. The performance objective should be expressed on a risk-adjusted basis. For example, a manager's performance may be compared to an index, which represents the universe of securities from which the manager may select, plus some degree of excess return over that index which is commensurate with the risk the manager takes to achieve that excess return.
- f. Identification of a time horizon considered acceptable by the manager and the OIC for the delivery of the expected performance results. This time horizon should be determined with consideration for an appropriate market cycle for that manager's specific management style. A manager's specific management style should also inform the selection of an appropriate index. A market cycle is defined as "peak to trough" performance for the corresponding index.

#### **5. Compensation of Investment Management Firms.**

- a. Management or performance-based fees shall be negotiated by staff.
- b. Typically, a manager's fees are set as a percentage of assets managed, and vary on a sliding scale inversely with the total value of assets managed by the firm.

#### **6. Terminating Management Firms.**



- a. Immediately following a termination, the Senior Investment Officer for Public Equity shall notify the terminated firm.
- b. Separate account managers will be instructed to discontinue trading immediately, and the custodian will be instructed to suspend trading in that same account.
- c. Unless directed otherwise by the OIC, OST staff shall proceed with a liquidation plan that may include redistributing securities to the other, existing managers, transitioning securities through an index fund or liquidating assets altogether.
- d. For equity mandates structured through commingled trusts, OST staff shall ensure that a liquidation or in-kind transfer is effected in a timely and efficient manner given all relevant constraints and parameters.
- e. "Watchlist" status is not a prerequisite for termination.

## Exceptions

None.

## Failure to Comply

Failure to comply with this policy may be cause for disciplinary action up to and including dismissal.

# PROCEDURES and FORMS

## ADMINISTRATION

### Feedback

Your comments are extremely important to improving the effectiveness of this policy. If you would like to comment on the provisions of this policy, you may do so by e-mailing the Policy Analyst. To ensure your comments are received without delay, *please list the policy number and name in your e-mail's subject*. Your comments will be reviewed during the policy revisions process and may result in changes to the policy.

### **Attachments:**

No Attachments

Committee	Approver	Date
	Michael Viteri	04/2016
	Kim Olson: Policy Analyst	04/2016
	Perrin Lim	04/2016
OIC	John Skjervem: Chief Investment Officer	pending



**Origination:** 04/2011  
**Last Approved:** 04/2011  
**Last Revised:** 04/2011  
**Next Review:** *1 year after approval*  
**Owner:** Michael Viteri  
**Policy Area:** Investments  
**References:** OST Policy 4.05.06

## INV 605: Exercise of Voting Rights Accompanying Equity Securities

### OREGON INVESTMENT COUNCIL POLICY

#### INTRODUCTION & OVERVIEW

##### Summary Policy Statement

The Oregon Investment Council (OIC) recognizes that the quality of corporate governance can affect long-term investment value. In general, the equity markets are highly efficient; therefore, the OIC's corporate governance philosophy anticipates that the OIC and Oregon State Treasury (OST) staff possess no knowledge not shared by the market. The OIC therefore avoids attempts to micromanage companies, since corporate directors are expressly elected to represent shareholders. The OIC strives instead to ensure that corporations and their directors follow practices that advance economic value and allow the market to appropriately value these corporations' securities.

The OIC recognizes that voting rights have economic value and must be treated as such. The voting rights obtained through the holdings of the domestic and international equity portfolios under the OIC's purview shall be exercised by an independent third party (the "vendor") that specializes in proxy research and voting in accordance with the vendor's independent voting standards which it may revise, at its sole discretion, from time to time. The vendor shall always vote shares as a fiduciary, based solely on the ultimate economic value of the investments overseen by the OIC.

##### Purposes and Goals

The goal of this policy is to codify the process through which the OIC exercises its voting rights.

##### Authority

ORS 293.736

# POLICY PROVISIONS

## Definitions

According to the CFA Institute:

*Proxy Voting Policies.* The duty of loyalty, prudence, and care may apply in a number of situations facing the investment professional other than issues related directly to investing assets. Part of [that] duty of loyalty includes voting proxies in an informed and responsible manner. Proxies have an economic value to a [fund] and [investors] must ensure that they properly safeguard and maximize this value. Voting of proxies is an integral part of the management of investments. A cost-benefit analysis may show that voting all proxies may not benefit the [fund], so voting proxies may not be necessary in all instances. *Standards of Practices Handbook*, 2010.

## Policy Statements

1. Vendor shall keep a record of how proxies are voted and why. Such records may be subject to review by Oregon State Treasury (OST) staff or other designated representatives of the OIC.
2. OST staff shall provide a calendar year-end (or more frequently if requested) proxy voting summary to the OIC.
3. Vendor shall provide any new or revised proxy voting policies or guidelines to OST staff upon their implementation.
4. Commingled and passive account managers employed by the OIC shall vote their proxies independent of the OIC's vendor, but as a fiduciary in the best interest of plan participants.
5. In accordance with the vendor agreement, and the timelines therein, the OIC reserves the right to vote proxies directly.
6. The public equity team will prepare recommendations to override the vendor's guidelines as circumstances arise that require a secondary review, generally at the request of a retained investment manager. The Deputy State Treasurer and the Chief Investment Officer will review and approve, or deny, these recommendations, or recommend the issue be brought before the OIC. All such decisions will be reported to the OIC on a quarterly basis.

## Exceptions

None.

## Failure to Comply

Failure to comply with this policy may be cause for disciplinary action up to and including dismissal.

# PROCEDURES and FORMS

## ADMINISTRATION

### Feedback

Your comments are extremely important to improving the effectiveness of this policy. If you would like to comment on the provisions of this policy, you may do so by e-mailing the Policy Analyst. To ensure your comments are received without delay, *please list the policy number and name in your e-mail's subject*. Your comments will be reviewed during the policy revisions process and may result in changes to the policy.

### Attachments:

No Attachments

Committee	Approver	Date
	Michael Viteri	04/2016
	Kim Olson: Policy Analyst	04/2016
	Perrin Lim	04/2016
OIC	John Skjervem: Chief Investment Officer	pending





Origination: 04/2007  
Last Approved: 04/2007  
Last Revised: 04/2007  
Next Review: *1 year after approval*  
Owner: *Michael Viteri*  
Policy Area: *Investments*  
References: *OST Policy 4.05.07*

## INV 606: Equity Investments: Commission Recapture

### OREGON INVESTMENT COUNCIL POLICY

#### INTRODUCTION & OVERVIEW

##### Summary Policy Statement

The Oregon Public Employees Retirement Fund (OPERF) shall participate in a program to recapture a portion of the brokerage commissions paid by the Fund, and commission recapture receipts shall be credited to OPERF not less than quarterly. The Senior Investment Officer for Public Equity is responsible for the selection of firms participating in OPERF's commission recapture program.

##### Purposes and Goals

The goal of this policy is to establish a framework for administering the Commission Recapture Program.

##### Authority

ORS 293.736; ORS 293.741

### POLICY PROVISIONS

##### Definitions

**Commission Recapture (CR)** is a negotiated rebate of commissions paid to brokers, which allows asset owners (e.g., OPERF) to earn back a percentage of total commissions.

## Policy Statements

1. **Selection of Commission Recapture firms.** Investment Division staff shall review the performance of CR agent(s) used in the program no less than every two years. The decision to add, eliminate, or use a single recapture firm for the CR program will be based on several criteria, including the following:
  - A. income splits proposed by the CR agent(s);
  - B. the strength of the CR agent's or agents' correspondent brokerage network; and
  - C. the quality of the CR agent's or agents' back-office functions including reconciliation processes and customer support.
2. **Manager Recapture Targets.** Investment Division staff shall evaluate each manager's trading practices and determine what percentage of trades should be targeted for commission recapture. The trading practices of some external managers may result in exclusion from participation in the CR program. For example, managers that pay low commissions may not be required to participate in the CR program. Staff shall notify managers of their expected commission recapture targets. Staff shall also review managers' CR activity and discuss any identified shortfalls.
3. **Receipts and Reconciliations.** Investment Division staff shall ensure CR agents have adequate reconciliation processes to ensure the reasonable collection of commissions associated with recapture trades. Staff shall ensure timely remittance of CR receipts.

## Exceptions

None.

## Failure to Comply

Failure to comply with this policy may be cause for disciplinary action up to and including dismissal.

## PROCEDURES and FORMS

## ADMINISTRATION

### Feedback

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---

## **Attachments:**

No Attachments

Committee	Approver	Date
	Michael Viteri	04/2016
	Kim Olson: Policy Analyst	04/2016
	Perrin Lim	04/2016
OIC	John Skjervem: Chief Investment Officer	pending

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**Owner:** Michael Viteri  
**Policy Area:** Investments  
**References:** OST Policy 4.05.10

## **INV 607: Equity Investments: Manager Monitoring**

### **OREGON INVESTMENT COUNCIL POLICY**

#### **INTRODUCTION & OVERVIEW**

##### **Summary Policy Statement**

The Oregon Investment Council (OIC) retains external equity managers to invest the assets of various trust funds. Managers are hired for their specific expertise, expertise that should ultimately manifest in the investment performance results produced. The OIC recognizes that the retention of a manager exposes trust assets to a degree of risk for which adequate compensation in the form of excess returns should be required. This policy explicitly recognizes that manager monitoring is a continuous process that begins immediately upon a manager's initial retention.

##### **Purposes and Goals**

The goal of this policy is to establish a framework for monitoring public equity managers.

##### **Authority**

ORS 293.736; ORS 293.741

#### **POLICY PROVISIONS**

##### **Policy Statements**

1. **General Oversight of Investment Management Firm Performance.** All performance calculations shall be provided by an independent third party (e.g., master custodian or consultant). Managers shall reconcile performance returns as calculated by the master custodian and/or consultant. Managers shall

also reconcile, at least monthly, portfolio positions and valuations with the master custodian.

2. **On-site Visits.** Investment Division staff members should visit each public equity manager on-site, at least every 12 months, unless the Senior Investment Officer, the Director of Capital Markets and/or the Chief Investment Officer concur, and document, that an on-site visit is not necessary, or that the period between visits should be extended. The site visit schedule may be amended based on various factors, including, but not limited to the following:
  - a. personnel changes or changes in the manager's organizational structure;
  - b. significant unexplained changes in performance; or
  - c. negative publicity related to the manager.
3. Staff shall monitor the manager's performance results to ensure the manager is exhibiting risk and other portfolio characteristics consistent with its original or stipulated investment style or objective.
4. The manager shall operate under a set of investment guidelines contained in the Investment Management Agreement (IMA) which outline the latitude or discretion granted to the manager, permitted investments, relative risk levels, performance objective, and the time horizon over which performance shall be measured.
5. The manager is contractually apprised of the strategic role its portfolio is to fulfill, the performance objective it is expected to achieve and how and over what time period the manager will be monitored.

## **Exceptions**

None.

## **Failure to Comply**

Failure to comply with this policy may be cause for disciplinary action up to and including dismissal.

# **PROCEDURES and FORMS**

## **ADMINISTRATION**

### **Feedback**

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**Attachments:**

No Attachments

Committee	Approver	Date
	Michael Viteri	04/2016
	Kim Olson: Policy Analyst	04/2016
	Perrin Lim	04/2016
OIC	John Skjervem: Chief Investment Officer	pending

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Origination: 02/2010  
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Owner: *Michael Viteri*  
Policy Area: *Investments*  
References: *OST Policy 4.05.10*

## INV 607: Equity Investments: Manager Monitoring

### OREGON INVESTMENT COUNCIL POLICY

#### INTRODUCTION & OVERVIEW

##### Summary Policy Statement

The Oregon Investment Council (OIC) retains external equity managers to invest the assets of various trust funds. Managers are hired for their specific expertise, expertise that should ultimately manifest in the investment performance results produced. The OIC recognizes that the retention of a manager exposes trust assets to a degree of risk for which adequate compensation in the form of excess returns should be required. This policy explicitly recognizes that manager monitoring is a continuous process that begins immediately upon a manager's initial retention.

##### Purposes and Goals

The goal of this policy is to establish a framework for monitoring public equity managers.

##### Authority

ORS 293.736; ORS 293.741

### POLICY PROVISIONS

##### Policy Statements

1. **General Oversight of Investment Management Firm Performance.** All performance calculations shall be provided by an independent third party (e.g., master custodian or consultant). Managers shall reconcile performance returns as calculated by the master custodian and/or consultant. Managers shall

also reconcile, at least monthly, portfolio positions and valuations with the master custodian.

2. **On-site Visits.** Investment Division staff members should visit each public equity manager on-site, at least every 12 months, unless the Senior Investment Officer, the Director of Capital Markets and/or the Chief Investment Officer concur, and document, that an on-site visit is not necessary, or that the period between visits should be extended. The site visit schedule may be amended based on various factors, including, but not limited to the following:
  - a. personnel changes or changes in the manager's organizational structure;
  - b. significant unexplained changes in performance; or
  - c. negative publicity related to the manager.
3. Staff shall monitor the manager's performance results to ensure the manager is exhibiting risk and other portfolio characteristics consistent with its original or stipulated investment style or objective.
4. The manager shall operate under a set of investment guidelines contained in the Investment Management Agreement (IMA) which outline the latitude or discretion granted to the manager, permitted investments, relative risk levels, performance objective, and the time horizon over which performance shall be measured.
5. The manager is contractually apprised of the strategic role its portfolio is to fulfill, the performance objective it is expected to achieve and how and over what time period the manager will be monitored.

## **Exceptions**

None.

## **Failure to Comply**

Failure to comply with this policy may be cause for disciplinary action up to and including dismissal.

# **PROCEDURES and FORMS**

## **ADMINISTRATION**

## **Feedback**

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**Attachments:**

No Attachments

	Committee	Approver	Date
		Michael Viteri	04/2016
		Kim Olson: Policy Analyst	04/2016
		Perrin Lim	04/2016
	OIC	John Skjervem: Chief Investment Officer	pending

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Last Approved: 04/2007  
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Owner: Paola Nealon: Investment Officer  
Policy Area: Investments  
References: OST Policy 4.08.01

## INV 901: Common School Fund: Asset Classes, Asset Allocation, and Reporting Requirements

### OREGON INVESTMENT COUNCIL POLICY

#### INTRODUCTION & OVERVIEW

##### Summary Policy Statement

The Oregon Investment Council (OIC) approves asset classes and the asset allocation of the Common School Fund (CSF or the Fund).

##### Purpose and Goals

The goal of this policy is to provide guidance to Oregon State Treasury (OST) staff and advisors regarding the asset allocation, asset classes and reporting requirements for the Fund.

##### Applicability

All investment division staff.

### POLICY PROVISIONS

#### Policy Statements

1. OST shall adopt an asset allocation policy defining appropriate guidelines for the CSF portfolio, the objective of which is to optimize the Fund's long-term investment return and distributions, while enabling the CSF asset base to grow in real terms.
2. The OIC establishes asset allocation ranges and targets for the CSF. OST staff monitors the CSF's actual asset allocations relative to OIC-established targets on a monthly basis.

3. The purpose of OST staff's monitoring efforts is to ensure that CSF allocations do not drift significantly from the strategic targets approved by the OIC. A sustained and material deviation outside of the approved ranges shall trigger a review and rebalancing back towards established targets with due consideration given to any liquidity constraints and/or potential transactions costs. Whenever possible, cash flows into and out of the fund will be used to rebalance between asset classes.
4. The CSF's asset allocation shall be managed to and around a 70% equity/30% fixed income target with +/- 5% tolerances, as detailed below:

Asset Class	Benchmark	Target Allocation	Range
Domestic Equities	Russell 3000 Index	30%	25% - 35%
International Equities	MSCI ACWI ex-U.S.	30%	25% - 35%
Private Equity	Russell 3000 + 300 bps	10%	0-12%
<b>Total Equities</b>		<b>70%</b>	<b>65% - 75%</b>
U.S. Fixed Income	Barclays U.S. Aggregate Bond Index	30%	25% - 35%
Cash		0%	0% - 3%
Policy Mix	Weighted aggregate of indexes listed above at target allocation	100%	

5. OST will work with the State Land Board and Department of State Lands (DSL) staff to ensure the implementation of the asset allocation policy comports with the business needs of the Fund. Moreover, the OIC shall not make asset allocation changes without considering input from the State Land Board.
6. Formal asset allocation reviews will be performed at least every 3 years to ensure that the CSF is positioned properly. These reviews will be performed by OST staff in conjunction with the OIC's general consultant, and any asset classes not specifically addressed in the policy below will be reviewed by OST and State Land Board staff for approval by the OIC.
7. Recognizing the general objectives and operating philosophy of the Fund, the OIC has approved the following asset classes:
  - a. **Public Equity.** Domestic and international investments that represent a direct ownership of, or interest in, a corporation, and the shares of which are traded in public securities markets.
  - b. **Fixed Income.** Investments in loans and other debt obligations that have pre-defined interest and principal repayment schedules. This asset class may include mortgage obligations.
  - c. **Private Equity.** Investments in privately-held companies or corporations including buyouts, venture capital and mezzanine finance techniques. Fund of fund investing and purchases of secondary

interests may also be included in this category.

d. **Cash.** Cash and cash equivalents are defined as cash held in OST's Oregon Short Term Fund.

8. **Reporting Requirements.** Formal review with the State Land Board shall be undertaken at least annually.
9. **Reporting Package to CSF.** The material covered during each meeting should be summarized and available in advance, and unless otherwise indicated, the material distributed should include the following information:
  - a. Economic and market outlook;
  - b. Portfolio structure and asset allocation summary;
  - c. Current investment strategy;
  - d. Recent portfolio performance including an attribution analysis; and
  - e. Other items of importance, such as changes in personnel, legislative impacts or any changes in investment philosophy, approach or recommendations.
10. **OST/OIC Reviews.** Review of the asset allocation policy and investment performance will occur at least annually with the OIC and more frequently by OST staff. These reviews will focus on the continued appropriateness of existing policy, compliance with guidelines and performance relative to Fund objectives. A formal process shall be established allowing DSL staff to meet with OIC's consultants on an annual basis to discuss investment management and asset allocation issues. In addition, DSL staff will have the opportunity to address the OIC annually to discuss the State Land Board's particular views regarding Fund performance and related management issues.

## Exceptions

None.

## Failure to Comply

*In general, this statement will suffice:* "Failure to comply with this policy may be cause for disciplinary action up to and including dismissal."

# PROCEDURES AND FORMS

## ADMINISTRATION

### Feedback

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<b>Attachments:</b>		No Attachments
<b>Committee</b>	<b>Approver</b>	<b>Date</b>
	Paola Nealon: Investment Officer	04/2016
	Kim Olson: Policy Analyst	04/2016
	Michael Viteri	04/2016
	Perrin Lim	04/2016
OIC	John Skjervem: Chief Investment Officer	pending

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Previous Version - For Comparison

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Last Revised:	04/2000
Next Review:	02/2016
Owner:	Paola Nealon: Investment Officer
Policy Area:	Investments
References:	OST Policy 4.08.01

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## INV 901: Common School Fund: General Policies and Procedures

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### POLICY

An asset allocation policy shall be adopted and appropriate guidelines shall be defined for the Common School Fund ("CSF") portfolio.

### PROCEDURES

1. **General Objective:** Optimize the long-term investment return and distributions while enabling the CSF to grow its asset base in real terms.
2. **Philosophy Underlying Asset Allocation Policy:**
  - Select asset allocation and other strategies only after the expected return and volatility of investments have been quantified and considered.
  - Comply with statutory constraints on investment parameters.

### SAMPLE FORMS, DOCUMENTS, OR REPORTS

None

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### Attachments:

No Attachments



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Last Approved: 04/2009  
Last Revised: 04/2009  
Next Review: 02/2016  
Owner: Paola Nealon: Investment Officer  
Policy Area: Investments  
References: OST Policy 4.08.02

## INV 902: Common School Fund: Asset Classes and Allocation

### POLICY

The Oregon Investment Council approves asset classes and allocation guidelines in which State of Oregon moneys are invested.

### PROCEDURES

1. **Authority.** The Oregon Investment Council formulates broad policies for the investment and reinvestment of moneys in the investment Funds and the acquisition, retention, management and disposition of investments of the investment Funds. Ultimate control and authority for selecting and implementing the asset allocation classes and policy for the CSF portfolio lies with the Oregon Investment Council (OIC). The Office of the State Treasurer (OST) will work with the State Land Board and Department of State Lands staff to ensure the implementation of the asset allocation policy meets the business needs of the Fund. The Oregon Investment Council shall not make asset allocation changes without considering input from the State Land Board.
2. **Reviews.** Asset allocation reviews will be performed periodically to assure the CSF is positioned properly. Any asset classes not specifically addressed in the policy below will be reviewed by OST staff and by the State Land Board for approval by the OIC.
3. **Asset Classes.** Recognizing the general objectives and operating philosophy of the Fund, the following asset classes have been approved by the OIC:
  - A. **Equities.** Domestic and international investments which represent a direct ownership of, or partnership in, a going concern.
  - B. **Fixed Income.** Investments which have pre-defined interest and principal payment schedules and amounts (debt). This asset class may include mortgage obligations.
  - C. **Private Equity.** The general term used to describe the universe of all buyout investing, venture investing, and mezzanine investing. Fund of fund investing and secondaries are also included in this broadest term.
  - D. **Cash.** Cash and cash equivalents are defined as cash held in the Office of the State Treasurer's Oregon Short Term Fund.



4. **Asset Allocation.** Shall be managed around a 70% equity/30% fixed income target with a range of +/- 5%, as detailed below. The CSF's actual asset allocation is monitored monthly relative to established asset allocation policy targets and ranges. A deviation outside of any of the ranges triggers a review and rebalancing back towards the target asset allocation with due consideration given to the liquidity of the investments and transaction costs. Whenever possible, cash flows into and out of the fund will be used to rebalance between asset classes. Cash is to be held only for business operating purposes.

Asset Class	Benchmark	Target Allocation	Range
Domestic Equities	Russell 3000 Index	30%	25% - 35%
International Equities	MSCI ACWI ex-US	30%	25% - 35%
Private Equity	Russell 3000 + 300 bps	10%	0-12%
Total Equities		70%	65% - 75%
US Fixed Income	Barclays Capital Universal Bond Index	30%	25% - 35%
Cash		0%	0% - 3%
Policy Mix	Weighted aggregate of indexes listed above at target allocation	100%	

Note: The Target Allocation to private equity is a longer term target, established by the Council in August 2007. As such, the Policy Mix benchmark will be adjusted as investment commitments are drawn down.

## SAMPLE FORMS, DOCUMENTS, OR REPORTS

None

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### Attachments:

No Attachments

Previous Version - For Comparison

Current Status: Active

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Last Approved: 08/2007  
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Owner: Paola Nealon: Investment Officer  
Policy Area: Investments  
References: OST Policy 4.08.07

## INV 906: Common School Fund: Reporting Requirements

### POLICY

Formal review with the State Land Board shall be held at least annually, typically in April of each year.

### PROCEDURES

- 1. Reporting Package to CSF.** The material covered during each meeting should be available in advance in summary written form. Unless otherwise indicated the material distributed should include the following information:
  - Economic and Market outlook and the Portfolio's posture;
  - An outline of the current investment strategy;
  - Recent portfolio performance along with an attribution analysis;
  - Other items of importance, such as changes in personnel, legislative impacts, or any changes in philosophy, approach or recommendations.
- 2. Office of the State Treasurer (OST)/OIC Reviews.** Review of the asset allocation policy and investment management and performance will occur at least annually with the OIC and more frequently by OST staff. These reviews will focus on the continued appropriateness of policy, compliance with guidelines and performance relative to objectives. A formal process shall be established allowing the Department of State Lands (DSL) staff to meet with OIC's consultants on an annual basis to discuss issues of management and asset allocation. In addition, DSL staff will have the opportunity to address the OIC annually to discuss the State Land Board's particular views as to the management of the fund.

### SAMPLE FORMS, DOCUMENTS, OR REPORTS

None

### Attachments:

No Attachments





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Last Revised: 04/2009  
Next Review: *1 year after approval*  
Owner: Paola Nealon; Investment Officer  
Policy Area: Investments  
References: OST Policy 4.08.03

## INV 903: Common School Fund: Public Equity Investments

### OREGON INVESTMENT COUNCIL POLICY

#### INTRODUCTION & OVERVIEW

##### Summary Policy Statement

The strategic role of publicly-traded equity securities is to provide enhanced return and diversification opportunities for the Common School Fund ("CSF" or the "Fund"). The Fund's public equity securities portfolio also provides liquidity relative to its regular cash distribution obligations. Public equity securities are subject to the specific, strategic allocation targets established by OIC Policy INV 901: CSF Asset Class, Allocations and Reporting Requirements. Currently, 60 percent of the Fund is invested in equity securities.

##### Purpose and Goals

The purpose of this policy is to define the objectives of public equity as an asset class within the general investment policies of the Oregon Investment Council ("OIC" or the "Council"), and to outline the strategies used to implement the Council's public equity investment policies.

##### Applicability

All Investment Division staff.

# **POLICY PROVISIONS**

## **Policy Statements**

1. To provide one of the highest expected returns among approved CSF asset classes.

### **Strategies**

2. The CSF public equity portfolio shall be structured on a global basis, seeking to loosely replicate the country and market capitalization characteristics of the investable universe of public equity securities which can be further categorized as U.S., non-U.S. developed countries and emerging market countries.
3. Unless tax, regulatory or liquidity constraints suggest otherwise, diversify public equity allocations across the stock markets of all investable countries to ensure exposure to a wide range of investment opportunities, and participate broadly in those markets in an attempt to capture the full market rate of equity return generated therein. The size of any commitment to an individual investment strategy will be based on that strategy's expected portfolio impact, staff's confidence in the strategy's manager, the manager's investment style, and the capacity available in/with a particular strategy/manager.
4. Enhance returns through selective active management provided such actively-managed strategies demonstrate empirical efficacy relative to factor exposures and net of all fees and transactions costs.
5. Actively-managed strategies are expected to outperform stated benchmarks on an after-fee and risk-adjusted basis, over a full market cycle. Quarterly manager reviews will focus on adherence to guidelines and assessments of investment performance relative to objectives.
6. Benchmarks assigned to all non-U.S. strategies should be unhedged. Managers may be permitted to hedge currency exposures, and in cases where currency represents an explicit element of a manager's stated investment approach, may take active currency positions; however, all managers will be measured against an unhedged benchmark.
7. Proxies associated with separately managed accounts will be voted by the third-party proxy voting agent retained by the OIC.

## **Exceptions**

None.

## **Failure to Comply**

Failure to comply with this policy may be cause for disciplinary action up to and including dismissal.

# PROCEDURES AND FORMS

## ADMINISTRATION

### Feedback

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### Attachments:

No Attachments

Committee	Approver	Date
	Paola Nealon: Investment Officer	04/2016
	Kim Olson: Policy Analyst	04/2016
	Michael Viteri	04/2016
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OIC	John Skjervem: Chief Investment Officer	pending



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Next Review: 03/2016  
Owner: Paola Nealon: Investment Officer  
Policy Area: Investments  
References: OST Policy 4.08.03

## INV 903: Common School Fund: Public Equity Investments

### POLICY

Approximately 60 percent of CSF's equity portfolio will be invested in public equity securities.

### PROCEDURES

- Objective:** The objective of the equity portfolio is to enhance total return by investing in a broadly diversified portfolio of global stocks. The OIC and State Land Board are mindful of the volatility of the equity markets and choose to dampen this volatility through diversification.
- Strategy:** Hold a fully invested, diversified portfolio of securities.
- Permitted Holdings:** Publicly traded common stock, and other financial instruments commonly held in the management of diversified equity funds.
- Diversification:** The OIC recognizes the need for high levels of diversification to minimize the risk of significant losses to the Fund. Diversification by capitalization, style, and sector distribution shall be obtained by participation in a broad market index, or group of funds which would achieve the same.
- Portfolio Restrictions:** There will be no engagement in short sales or purchases on margin unless prior authorization is given by OST staff.
- Proxy Voting:** Separately managed accounts will be voted by the third-party proxy voting agent retained by the OIC. Managers are required to vote the issues in the interest of the CSF, or in proportion to the CSF's interest, in any pooled accounts.
- Performance Expectations/Reviews:**
  - Enhanced index portfolios are expected to achieve an out-performance of 100 basis points over the index, net of fees, over a full market cycle.
  - Active portfolios are expected to achieve out-performance, based on the risk and investment style employed by the specific manager, net of fees, over a full market cycle.
  - Quarterly review of managers will take place focusing on adherence to guidelines and evaluation of investment performance to objectives.







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**Owner:** Paola Nealon: Investment Officer  
**Policy Area:** Investments  
**References:** OST Policy 4.08.04

## INV 904: Common School Fund: Fixed Income Investments

### OREGON INVESTMENT COUNCIL POLICY

#### INTRODUCTION & OVERVIEW

##### Summary Policy Statement

The strategic role of fixed income securities is to diversify the Common School Fund (CSF) asset base in general and its allocation to equity securities in particular. The fixed income securities portfolio within CSF is also designed to provide liquidity in connection with CSF's regular cash distribution obligations. Fixed income securities are subject to the specific, strategic allocation targets established by OIC Policy INV 901: Asset Class, Allocations and Reporting Requirements. Approximately 30 percent of the CSF shall be invested in fixed income securities.

##### Purpose and Goals

The purpose of these Fixed Income Investment Policies is to define the objectives of fixed income as an asset class within the general investment policies of the Oregon Investment Council ("OIC" or the "Council"), and to outline the strategies used to implement the Council's fixed income investment policies.

##### Applicability

All Investment Division staff.

# POLICY PROVISIONS

## Policy Statements

1. To provide diversification to equity securities.

2. **Strategy:**

- Manage a well-diversified bond portfolio to maximize total return while closely tracking the portfolio's benchmark, the Barclays Capital U.S. Aggregate Bond Universal Index (the "Benchmark");
- Invest opportunistically, using innovative investment approaches within a controlled and defined portfolio allocation;
- Maintain a minimum-weighted, average credit quality of one rating category below that of the Benchmark. For example, if the Benchmark's average credit quality is AA2, the minimum-weighted, average credit quality should be A2;
- Maintain a target duration band of +/-20% relative to the effective duration of the Benchmark;
- Actively-managed strategies are expected to outperform stated benchmarks on an after-fee and risk-adjusted basis, over a full market cycle;
- Quarterly manager reviews will focus on adherence to guidelines and assessments of investment performance relative to objectives; and
- The OIC's selection of active managers will be based upon demonstrated expertise as reflected by an ability to add value over passive management alternatives and within reasonable risk parameters.

3. **Permitted Holdings:**

- Obligations issued or guaranteed by the U.S. Federal Government, U.S. Federal agencies or U.S. government-sponsored corporations and agencies;
- Obligations of U.S. and non-U.S. corporations such as debentures issued by industrial, utility, finance, commercial banking or bank holding company organizations, bank loans, common stock received in connection with the restructuring of corporate debt;
- Mortgage-backed, asset-backed and structured securities;
- Securities eligible for the Oregon Short-Term Fund (OSTF);

- Yankee Bonds (dollar denominated sovereign and corporate debt);
- Obligations, including the securities of emerging market issuers, denominated in U.S. dollars or foreign currencies of international agencies, supranational entities and foreign governments (or their subdivisions or agencies);
- Rule 144A securities with the expectation that they will carry registration rights;
- Credit Criteria: In addition to the eligibility requirements described above, securities considered for purchase must be rated investment grade at the time of purchase. If no ratings are available for a particular security, then an equivalent credit rating, as deemed by the Manager, may be used. The methodology utilized by the Benchmark Index shall be used to determine the rating on any holding.
- For certain securities or instruments, such as newly-issued bonds, expected ratings may be used until actual ratings are issued and assigned by the rating agencies.

**4. Diversification:** The portfolio should be adequately diversified to minimize various risks. The following specific limitations reflect, in part, the OIC's current investment philosophy regarding diversification:

- No fixed income investment in any one issue shall be in excess of 5% of the outstanding fixed income obligations of that issuer;
- Not more than 3% of the total market value of the CSF fixed income portfolio shall be invested in fixed income securities of any one issuer, except U.S. Government and Agency obligations (no limit) and private mortgage-backed and asset-backed securities, which shall be limited to 10% per issuer;
- Obligations of other national governments are limited to 10% per issuer;
- Not more than 10% of the CSF fixed income portfolio may be invested in non-dollar denominated securities; and
- Currency hedging is at the Manager's discretion.

**5. Portfolio Restrictions:**

- No more than 10% of the total CSF fixed income portfolio, at market value, may be maintained in securities rated less than Baa3;
- No more than 10% of the total CSF fixed income portfolio, at market value, may be maintained in Rule 144A securities;
- Not more than 25% of the CSF fixed income portfolio shall be invested in a single industry or government agency; and

- Leverage in any fixed income securities holding (excluding use of securities in a securities lending program) is not permitted.

- Liquidity:** CSF may have occasional need to draw on a portion of its invested capital to pay expenses, make distributions or satisfy other operating or funding obligations. Prior to any withdrawal, CSF will communicate its requirement as soon as possible to provide advance notice for portfolio sales and rebalancing purposes.
- Performance Expectations/Reviews:** Over a market cycle of 3-5 years, the CSF fixed income portfolio is expected to outperform the index by at least 35 basis points, net-of-fees. Quarterly investment portfolio reviews will focus on performance relative to objectives and adherence to guidelines.

## Exceptions

None.

## Failure to Comply

Failure to comply with this policy may be cause for disciplinary action up to and including dismissal.

# PROCEDURES AND FORMS

## ADMINISTRATION

## Feedback

Your comments are extremely important to improving the effectiveness of this policy. If you would like to comment on the provisions of this policy, you may do so by e-mailing the Policy Analyst. To ensure your comments are received without delay, *please list the policy number and name in your e-mail's subject*. Your comments will be reviewed during the policy revisions process and may result in changes to the policy.

## Attachments:

No Attachments

Committee	Approver	Date
	Paola Nealon: Investment Officer	04/2016
	Kim Olson: Policy Analyst	04/2016
	Michael Viteri	04/2016
	Perrin Lim	pending



Origination: 04/2009  
Last Approved: 04/2009  
Last Revised: 04/2009  
Next Review: 03/2016  
Owner: Paola Nealon: Investment Officer  
Policy Area: Investments  
References: OST Policy 4.08.04

## INV 904: Common School Fund: Fixed Income Investments

### POLICY

Approximately 30 percent of the CSF's investment portfolio shall be invested in fixed income securities.

### PROCEDURES

1. **Objective:** The purpose of fixed income holdings is to provide diversification to equity securities, through lower expected return and volatility. Maintain a well-diversified bond portfolio, managed to maximize total return.
2. **Strategy:**
  - Maintain a well-diversified bond portfolio, managed to maximize total return, that reflects the overall characteristics of the Barclays Capital Universal Index benchmark;
  - Invest opportunistically, using innovative investment approaches within a controlled and defined portfolio allocation;
  - Maintain an overall portfolio quality of at least "A" or higher;
  - Maintain an average bond duration level of +/-20% of the Barclays Capital Universal Index.
  - The Investment Council's selection of active managers will be based upon demonstrated expertise. Active managers will be selected for their demonstrated ability to add value, over a passive management alternative and within reasonable risk parameters.
3. **Permitted Holdings:**
  - Obligations issued or guaranteed by the U.S. Federal Government, U.S. Federal agencies or U.S. government-sponsored corporations and agencies Obligations of U.S. and non-U.S. corporations Asset Backed Securities;
  - Mortgage pools and mortgage related securities;
  - Securities eligible for the Short-Term Investment Fund (OSTF);
  - Yankee Bonds (dollar denominated sovereign and corporate debt);

- Obligations, including the securities of emerging market issuers, denominated in U.S. dollars or foreign currencies of international agencies, supranational entities and foreign governments (or their subdivisions or agencies);
  - Rule 144A securities with the expectation that they will carry registration rights.
- 4. Diversification:** The portfolio should be adequately diversified to minimize various risks. The following specific limitations reflect, in part, the OIC's current investment philosophy regarding diversification:
- No fixed income investment in any one issue shall be in excess of 5% of the outstanding fixed income obligations of the issuer.
  - Not more than 3% of the total market value of the CSF fixed income portfolio shall be invested in fixed income securities of any one issuer, except U.S. Government and Agency obligations (no limit) and private mortgage-backed and asset-backed securities which shall be limited to 10% per issuer.
  - Obligations of other national governments are limited to 10% per issuer.
  - Not more than 15% of the portfolio may be invested in non-dollar denominated securities.
  - Not more than 10% of the portfolio may be invested in Emerging Market Debt (dollar and non-dollar denominated) rated below investment grade.
  - Currency hedging is at the Manager's discretion.
- 5. Portfolio Restrictions:**
- No more than 30% of the total fixed income portfolio at market value, may be maintained in securities rated less than Baa3.
  - No more than 10% of the total fixed income portfolio, at market, may be maintained in Rule 144A securities.
  - Not more than 25% of the fixed income allocation shall be invested in a single industry, or Government Agency.
  - There shall be no use of leverage in any fixed income securities (excluding use of securities in a securities lending program).
- 6. Liquidity:**  
CSF may have the occasional need to draw on a portion of the funds under management for money to be used in the payment of expenses, distributions, or other funding purposes. Prior to any withdrawal, CSF will communicate its requirement in such a manner as to allow the greatest amount of time possible for planning purposes.
- 7. Performance Expectations/Reviews:** Over a market cycle of 3-5 years, this portfolio is expected to outperform the index by at least 75 basis points, net-of-fees. Quarterly investment portfolio reviews will take place focusing on:
- Performance relative to objectives, and
  - Adherence to guidelines.

## **SAMPLE FORMS, DOCUMENTS, OR REPORTS**

None

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### **Attachments:**

No Attachments



**Origination:** 09/2005  
**Last Approved:** 08/2007  
**Last Revised:** 08/2007  
**Next Review:** *1 year after approval*  
**Owner:** Paola Nealon: Investment Officer  
**Policy Area:** Investments  
**References:** OST Policy 4.08.06

## INV 905: Common School Fund: Private Equity Investments

### OREGON INVESTMENT COUNCIL POLICY

#### INTRODUCTION & OVERVIEW

##### **Summary Policy Statement**

The strategic role of private equity investments is to enhance return and diversification opportunities for the Common School Fund (CSF). While traditionally more volatile than the public equity asset class, private equity provides a diversification benefit and the opportunity to achieve higher returns. Private equity securities are subject to the specific, strategic allocation targets established by OIC Policy INV 901: CSF Asset Class, Allocations and Reporting Requirements. Currently, 10 percent of the CSF is allocated to private equity investments.

##### **Purpose and Goals**

The purpose of these Private Equity Investment Policies is to define the objectives of private equity as an asset class within the general investment policies of the Oregon Investment Council ("OIC" or the "Council"), and to outline strategies used to implement the Council's private equity investment policies.

##### **Applicability**

All Investment Division staff.



# **POLICY PROVISIONS**

## **Policy Statements**

1. To provide one of the highest expected returns among approved CSF asset classes, and increase Fund diversification.
2. **Strategies**
  - The CSF Private Equity portfolio will include investments with a select group of large, established and historically successful private equity partners and will generally be accessed through limited partnership interests.
  - The OIC recognizes the need for high levels of diversification to minimize the risk of significant losses to the Fund. Diversification in private equity may manifest in one or more of the following dimensions: investment style; geographic location; sector allocation; and capitalization.
  - Partnership agreements shall be in conformance with current industry standards and shall be subject to legal sufficiency approval by and through the Oregon Department of Justice.
  - The CSF private equity portfolio is expected to achieve total returns 300 basis points greater than its public market benchmark, net of fees, over a three- to five-year investment cycle.
  - Quarterly manager reviews will be conducted by Staff and Consultant and will focus on adherence to guidelines and assessments of investment performance relative to objectives. However, given the illiquid nature of private equity investments, managers may not generally be terminated other than for breach of contract.

## **Exceptions**

None.

## **Failure to Comply**

Failure to comply with this policy may be cause for disciplinary action up to and including dismissal.

# **PROCEDURES AND FORMS**

## **ADMINISTRATION**

## **Feedback**

Your comments are extremely important to improving the effectiveness of this policy. If you would like to comment on the provisions of this policy, you may do so by e-mailing the Policy Analyst. To ensure your

comments are received without delay, *please list the policy number and name in your e-mail's subject*. Your comments will be reviewed during the policy revisions process and may result in changes to the policy.

**Attachments:**

No Attachments

	Committee	Approver	Date
		Paola Nealon: Investment Officer	04/2016
		Kim Olson: Policy Analyst	04/2016
		Michael Viteri	04/2016
		Perrin Lim	04/2016
OIC		John Skjervem: Chief Investment Officer	pending

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TAB 6 – COMMON SCHOOL FUND

## Common School Fund 2015 Annual Review

### Purpose

Provide the Oregon Investment Council (OIC) with an update on the performance, structure and asset allocation of the Common School Fund (CSF) as of December 31, 2015, in accordance with OIC Policy 4.08.07.

### CSF Performance

For the five-year period ended December 31, 2015, the CSF earned 7.4 percent on an average annual basis, outperforming its policy benchmark by 60 basis points (7.4% vs 6.8%). With a 0.5 percent return for the twelve-month period ended December 31, 2015, nominal CSF performance was certainly muted; however, on a relative basis, last year's return was notably above benchmark (0.5% vs -0.93%).

For the fiscal year ended June 30, 2015, the CSF's 3.5 percent advance also beat the 2.4 percent (net of fees) return from the 2015 NACUBO<sup>1</sup>-Commonfund Study of Endowments (a composite comprised of 812 U.S. Colleges and Universities). Over the five-year trailing period, the CSF returned 11.5 percent, compared to the average NACUBO endowment return of 9.8 percent.

Despite last year's disappointing (and in many cases negative) asset class returns, the CSF delivered positive, absolute results. On a relative basis, the CSF has outperformed its benchmark over the past 1-, 3- and 5-year time periods.

Period ending 12/31/2015	1-Year	3-Year	5-Year
Common School Fund	0.46%	8.11%	7.39%
CSF Policy Benchmark	-0.93%	6.98%	6.84%
<b>Excess Return</b>	<b>1.39%</b>	<b>1.13%</b>	<b>0.55%</b>

### Fixed Income

The two CSF fixed income managers employ an active strategy that seeks to capitalize on the historical premium accruing to spread risk. This strategy generally involves underweighting U.S. Treasury securities, relative to an index, and overweighting corporate debt. Over the past three-, five-, seven- and ten-year periods, aggregate performance for these two managers has exceeded the BC Universal index, CSF's fixed income policy benchmark.

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<sup>1</sup> National Association of College and University Business Officers, a global membership organization representing more than 2,500 colleges, universities, and higher education service providers.

**Exhibit 1 – Fixed Income Managers**

Period ending 12/31/2015	1-Year	3-Year	5-Year
<b>Fixed Income</b>	<b>-0.03%</b>	<b>1.74%</b>	<b>4.14%</b>
BC Universal Index	0.43%	1.51%	3.46%
<b>Excess Return</b>	<b>-0.46%</b>	<b>0.23%</b>	<b>0.68%</b>

**Public Equity**

All CSF active equity managers with track records of at least five years exceeded their benchmarks as of December 31, 2015. ClearBridge Investments, which replaced Columbia Wagner last year in the core mid-cap space, delivered positive returns, beating its underlying benchmark on both an absolute and relative basis. Also of particular note was Arrowstreet's developed international equity performance which exceeded its benchmark by roughly 500 basis points over the same five-year period. On both a short- and long-term basis, favorable benchmark-relative equity results are associated with active management strategies in international markets.

**Exhibit 2 – Equity Managers**

Period ending 12/31/2015	1-Year	3-Year	5-Year
<b>Domestic Equity</b>	<b>1.53%</b>	<b>14.76%</b>	<b>11.99%</b>
Russell 3000 Index	0.48%	14.74%	12.18%
<b>Excess Return</b>	<b>1.05%</b>	<b>0.02%</b>	<b>-0.19%</b>
Period ending 12/31/2015	1-Year	3-Year	5-Year
<b>International Equity</b>	<b>-2.24%</b>	<b>5.26%</b>	<b>4.05%</b>
CSF Custom International Index	-5.66%	1.50%	1.06%
<b>Excess Return</b>	<b>3.42%</b>	<b>3.76%</b>	<b>2.99%</b>

**Private Equity**

The CSF private equity portfolio is now in its eighth year, utilizing predominately OPERF-related general partner relationships. Total commitments to date are \$280 million, with \$214 million contributed through September 30, 2015. The first commitments were drawn in late 2007, and to date the portfolio's total value multiple is 1.4x with an IRR of 13.5 percent. General partners represented in the portfolio include Apollo, Oak Hill, KKR, TPG Partners, Warburg Pincus, JP Morgan and Oaktree.

**Asset Allocation**

CSF asset allocation is managed relative to a 70/30 equity-to-fixed income target. As of year-end 2015, the CSF's actual allocations relative to established targets were within policy tolerances.

<b>CSF</b>	<b>Policy</b>	<b>Target</b>	<b>\$ Thousands</b>	<b>Actual</b>
Domestic Equities	25-35%	30%	\$426,108	29.9%
International Equities	25-35%	30%	388,883	27.3%
Private Equity	0-12%	10%	167,267	11.7%
<b>Total Equity</b>	<b>65-75%</b>	<b>70%</b>	<b>982,258</b>	<b>69.0%</b>
<b>Fixed Income</b>	<b>25-35%</b>	<b>30%</b>	<b>417,968</b>	<b>29.3%</b>
<b>Cash</b>	<b>0-3%</b>	<b>0%</b>	<b>23,968</b>	<b>1.7%</b>
<b>TOTAL CSF</b>			<b>\$1,424,194</b>	<b>100.0%</b>

**Recommended Action**

None, information only.

## Background on the Common School Fund

Source: Department of State Lands

The act of Congress admitting Oregon to the Union in 1859 granted sections 16 and 36 in every township "for the use of schools." The provision of land for educational purposes was a practical solution for the developing nation that was "land rich, but cash poor."

In Oregon, Congress granted roughly six percent of the new state's land - nearly 3.4 million acres - for the support of schools. Due to various circumstances, about 700,000 acres remain in state ownership today.

These lands and their mineral and timber resources, as well as other resources under the State Land Board's jurisdiction (including the submerged and submersible lands underlying the state's tidal and navigable waterways) are managed "with the object of obtaining the greatest benefit for the people of this state, consistent with the conservation of this resource under sound techniques of land management."

- **Rangelands** are leased to ranchers for grazing sheep and cattle.
- **Forestlands** are managed for timber production.
- **Waterways** are leased for uses such as sand and gravel extraction, houseboats, marinas and log rafts. The rents and royalties received from these activities are deposited in the Common School Fund, a trust fund for the benefit of Oregon's K-12 public schools.

Other sources of money contributing to the Common School Fund include:

- **Escheats** -- property reverting to the state on an individual's death because no heir or will exists or can be found;
- **Unclaimed property**, while the agency searches for the rightful owner;
- **Gifts** to the state not designated for some other purpose;
- **Tax revenues** from the production, storage, use, sale or distribution of oil and natural gas; and
- **5% of the proceeds** from the sale of federal lands.

The State Treasurer and the Oregon Investment Council invest the Common School Fund. In recent years, fund values have ranged from \$600 million to \$1.4 billion, depending on market conditions.

In addition, the Land Board must consider the issue of "intergenerational equity" in its distribution policies. Fund distributions cannot benefit current students at the disadvantage of future students, or vice-versa.

In early 2005, the State Land Board announced a record \$45.6 million distribution of earnings from the Common School Fund to all K-12 public schools and voted to modify the future distribution policy for the fund. The turnaround in the stock market during 2004 created a



significant increase in the value of the Common School Fund which reached \$1 billion in February 2006.

Changes to Oregon law and the investment policies of the State Land Board beginning in the late 1980s significantly boosted earnings flowing to schools. Specifically, a 1988 Constitutional Amendment allowed investment of the Common School Fund in the stock market, subject to a legislatively-established investment cap of 50 percent. The 1997 Legislature increased the cap to 65 percent, a timely shift in strategy has nearly quadrupled the fund value due to stock market appreciation and revenues generated from land management.

In 2009, the State Land Board adopted a distribution policy that distributes 4% of the fund's preceding 3-year rolling average balance. If the balance of the fund has increased by 11% or more, the distribution shall be 5% of the preceding 3-year average balance.

Legislation passed in 2005 directed the Oregon Department of Education to send CSF revenues directly to Oregon's 197 K-12 public school districts.

Recent years' distributions include the following:

2006	\$45.4 million
2007	\$48.5 million
2008	\$55.4 million
2009	\$40.4 million
2010	\$50.5 million
2011	\$48.8 million
2012	\$48.0 million
2013	\$53.1 million
2014	\$50.8 million
2015	\$54.2 million



DEPARTMENT OF STATE LANDS FACT SHEET

# Common School Fund Benefits Oregon Schools

*The State Treasurer and Oregon Investment Council invest the Common School Fund, which exceeded its performance benchmark over the three-year period ending in 2015, earning a 8.11 percent average annual return. The value of the fund fluctuates with changing market conditions, and is now valued at \$1.42 billion. Historically, about 4 percent of the fund has been distributed to school districts annually.*



*“Every education advocate should understand the Common School Fund’s role in helping fund K-12 schools.”*

**Jim Paul, Director  
Department of State Lands**

## **\$53 million earmarked for state’s 197 K-12 districts in 2016**

Since Oregon became a state in 1859, a little-known fund – the Common School Fund – has provided hundreds of millions of dollars for Oregon public schools. Common School Fund distributions are considered local revenue in the state funding formula, and the dollars are not insignificant. In a district such as Corvallis, their share in 2016 (\$903,506) supports the equivalent of 11 full-time teaching positions; in Bend, 18; and in Medford, 15.

## **State Land Board oversees Common School Fund**

The act of Congress admitting Oregon to the Union in 1859 granted sections 16 and 36 of every township for the use of schools. Nearly 3.4 million acres – roughly the size of Connecticut – came under state ownership.

Our “land-rich, cash-poor” state quickly sold many school lands, as state officials felt private ownership of these lands would yield more for schools through property taxes and other economic benefits. As a result, less than a fifth of Oregon’s original acreage – about 750,000 acres – remains in state ownership.

## **2016 Common School Fund Distributions**

A sampling of districts and the impact of their distributions

School District	Distribution	Equal to*
Astoria	\$168,255	2 full-time teachers
Bend	\$1,528,435	18 full-time teachers
Coos Bay	\$270,734	3 full-time teachers
Corvallis	\$903,506	11 full-time teachers
Hood River	\$355,006	4 full-time teachers
Medford	\$1,245,032	15 full-time teachers
Pendleton	\$289,469	3 full-time teachers
Portland	\$4,647,808	54.5 full-time teachers
Salem	\$3,837,020	45 full-time teachers

\*Based on the annual statewide average of \$85,253 per teacher for salary and benefits; figures are rounded



***Common School Fund distributions are sent to school districts twice a year. By law, fund distributions cannot benefit current students at the disadvantage of future students, or vice-versa.***



***The Land Board's Real Estate Asset Management Plan calls for a "clear commitment to creating a consistent stream of revenue to increase annual distributions to schools." It also recognizes the need to strategically dispose of selected land assets and acquire assets with high performance potential.***

"Protecting and enhancing the Common School Fund is arguably the most important thing we do as a state agency," says Jim Paul, director of the Department of State Lands, the administrative arm of the Land Board. "Our goal is to have every education advocate understand its role in funding K-12 schools."

Inputs into the fund include revenues from state-owned lands and waterways, and from estates that transfer to the state from people who die without a will and known heirs. All unclaimed property (money) the state receives is held in the Common School Fund until the rightful owner is located.

**Goal is to grow the fund significantly over time**

As the Common School Fund grows, so do distributions to Oregon school districts. Since 2000, distributions have ranged from a low of \$13 million in 2004 to a high of \$55.4 million in 2008. Distributions in the 2015-17 biennium will total about \$110 million.

The Department of State Lands is strategically managing the fund's real estate assets to increase revenues to schools. Divesting of non-producing lands, investing in high-quality lands, and ensuring that state land leases reflect market values are among the agency's strategies, says Paul.

"Every dollar helps Oregon schools," he says. "Through balancing revenue enhancement and resource protection, our goal is to provide sustainable funding for schools forever."



**For more information and copies of this fact sheet, contact:**

Julie Curtis: (503) 986-5298; [julie.curtis@state.or.us](mailto:julie.curtis@state.or.us)

**Oregon Department of State Lands**

775 Summer St. NE, Suite 100 Salem, Oregon 97301-1279  
(503) 986-5200 | [www.oregonstatelands.us](http://www.oregonstatelands.us)

**TAB 7 – ASSET ALLOCATIONS & NAV UPDATES**

**Asset Allocations at February 29, 2016**

Regular Account							Variable Fund	Total Fund
OPERF	Policy	Target <sup>1</sup>	\$ Thousands	Pre-Overlay	Overlay	Net Position	Actual	\$ Thousands
Public Equity	32.5-42.5%	37.5%	23,813,371	36.3%	997,110	24,810,481	37.8%	25,397,381
Private Equity	13.5-21.5%	17.5%	13,783,993	21.0%		13,783,993	21.0%	13,783,993
<b>Total Equity</b>	<b>50.0-60.0%</b>	<b>55.0%</b>	<b>37,597,364</b>	<b>57.3%</b>	<b>997,110</b>	<b>38,594,474</b>	<b>58.8%</b>	<b>39,181,374</b>
Opportunity Portfolio	0-3%	0.0%	1,271,744	1.9%		1,271,744	1.9%	1,271,744
Fixed Income	15-25%	20.0%	14,904,513	22.7%	116,034	15,020,547	22.9%	15,020,547
Real Estate	9.5-15.5%	12.5%	8,141,096	12.4%	(21,700)	8,119,396	12.4%	8,119,396
Alternative Investments	0-12.5%	12.5%	2,580,396	3.9%		2,580,396	3.9%	2,580,396
Cash <sup>2</sup>	0-3%	0.0%	1,095,012	1.7%	(1,091,444)	3,568	0.0%	11,966
<b>TOTAL OPERF</b>		<b>100%</b>	<b>\$ 65,590,125</b>	<b>100.0%</b>	<b>\$ -</b>	<b>\$ 65,590,125</b>	<b>100.0%</b>	<b>\$ 66,185,423</b>

<sup>1</sup>Targets established in June 2015. 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.

<sup>2</sup>Includes cash held in the policy implementation overlay program.

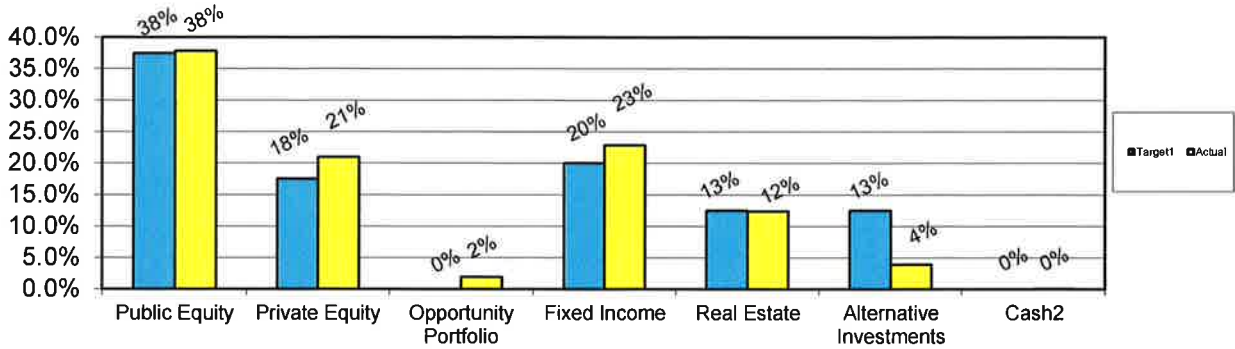
SAIF	Policy	Target	\$ Thousands	Actual
Total Equity	7-13%	10.0%	406,698	9.0%
Fixed Income	80-90%	85.0%	4,054,665	90.1%
Real Estate	0-7%	5.0%	0	0.0%
Cash	0-3%	0%	37,042	0.8%
<b>TOTAL SAIF</b>			<b>\$4,498,405</b>	<b>100.0%</b>

CSF	Policy	Target	\$ Thousands	Actual
Domestic Equities	25-35%	30%	403,336	29.6%
International Equities	25-35%	30%	355,413	26.0%
Private Equity	0-12%	10%	152,343	11.2%
<b>Total Equity</b>	<b>65-75%</b>	<b>70%</b>	<b>911,092</b>	<b>66.8%</b>
Fixed Income	25-35%	30%	421,645	30.9%
Cash	0-3%	0%	32,185	2.4%
<b>TOTAL CSF</b>			<b>\$1,364,922</b>	<b>100.0%</b>

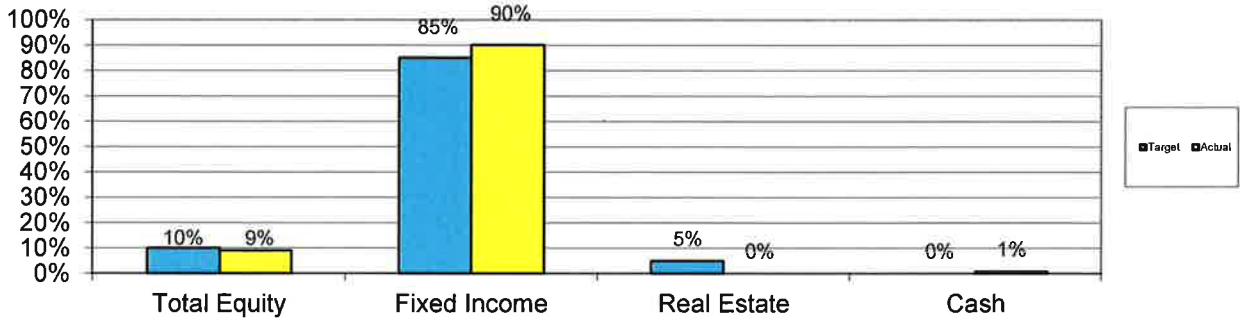
SOUF	Policy	Target <sup>3</sup>	\$ Thousands	Actual
Global Equities	65-75%	70%	1,385	69.8%
<b>Growth Assets</b>	<b>65-75%</b>	<b>70%</b>	<b>1,385</b>	<b>69.8%</b>
Fixed Income	25-35%	30%	597	30.1%
Cash	0-3%	0%	3	0.2%
<b>Diversifying Assets</b>	<b>25-35%</b>	<b>30%</b>	<b>600</b>	<b>30.2%</b>
<b>TOTAL SOUF</b>			<b>\$1,985</b>	<b>100.0%</b>

<sup>3</sup>Revised asset allocation adopted by OIC, March 2015.

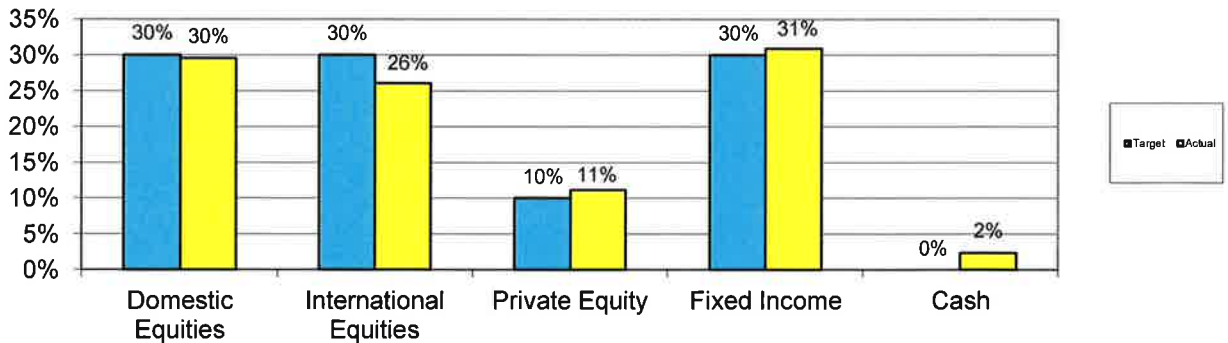
### OPERF Asset Allocation



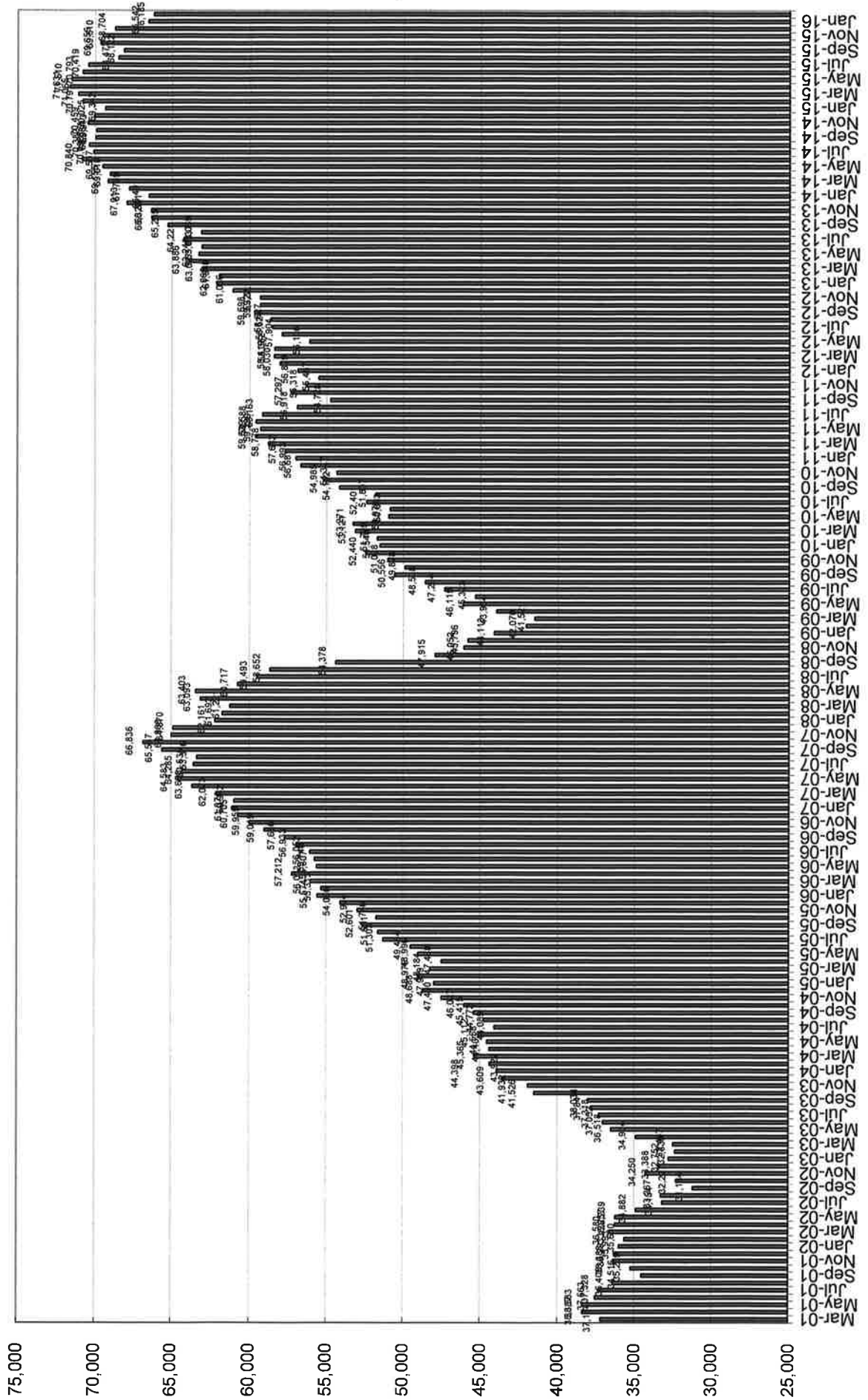
### SAIF Asset Allocation



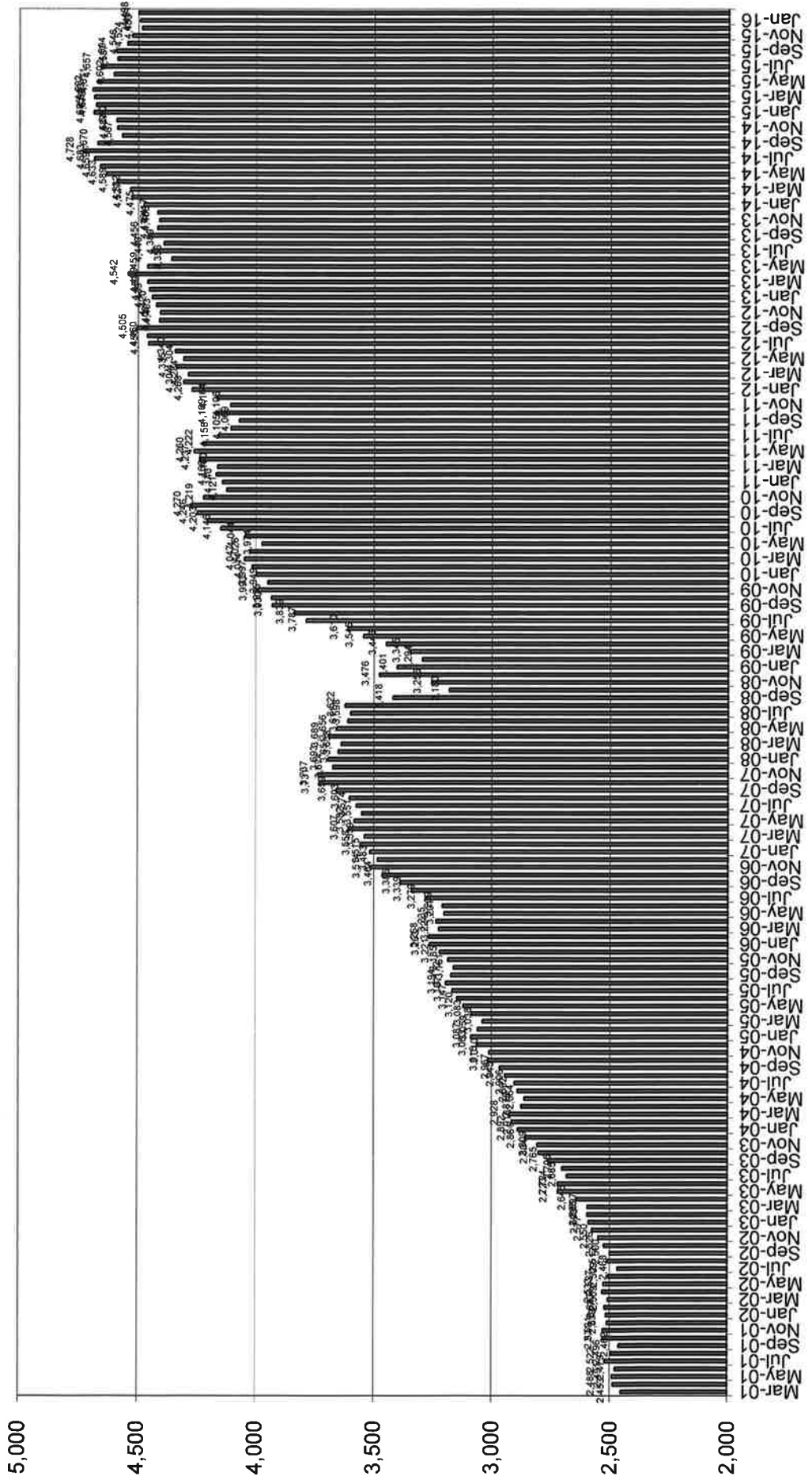
### CSF Asset Allocation



**OPERF NAV**  
**15 years ending February 2016**  
**(\$ in Millions)**

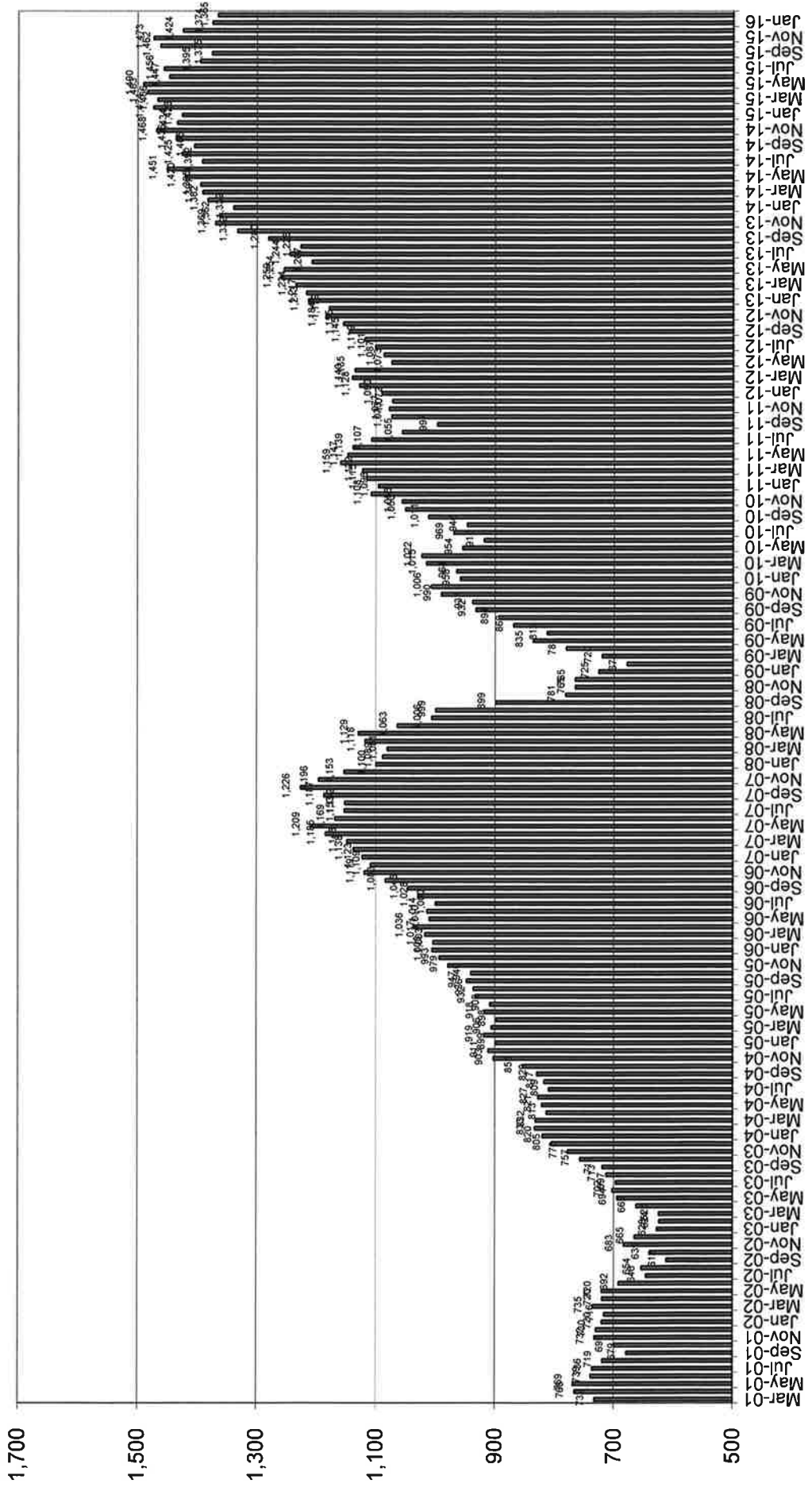


**SAIF NAV**  
**15 years ending February 2016**  
**(\$ in Millions)**





**CSF NAV**  
**15 years ending February 2016**  
**(\$ in Millions)**



**TAB 8 – CALENDAR/FUTURE AGENDA ITEMS**

## **2016 OIC Meeting Calendar and Planned Agenda Topics**

- April 20:** OPERF Private Equity Manager Recommendation  
OPERF Overlay Review  
OPERF Alternatives Portfolio Review  
CSF Annual Review  
OIC Policy Updates
- June 1:** OITP Review  
OST Compliance Program Update  
Securities Lending Update  
OIC Real Estate Consultant Recommendation  
Q1 2016 OPERF Performance & Risk Report
- August 3:** OPERF Real Estate Manager Recommendation  
Corporate Governance Update  
OPERF Litigation Update  
PERS Presentation and Joint Board Discussion  
OIC Policy Updates
- September 14:** Public Equity Program Review  
OIC Private Equity Consultant Recommendation  
OPERF Q2 2016 Performance & Risk Report  
OSGP Update  
OST Operational Review
- October 26:** OSTF Review  
Fixed Income Program Review  
CEM Benchmarking Report  
OIC General Consultant(s) Recommendation
- December 7:** OPERF Q3 2016 Performance & Risk Report  
Real Estate Program Review  
OPERF Opportunity Portfolio Review  
OIC Policy Updates