

Returns for periods ending 2/28/09

Oregon Public Employees Retirement Fund

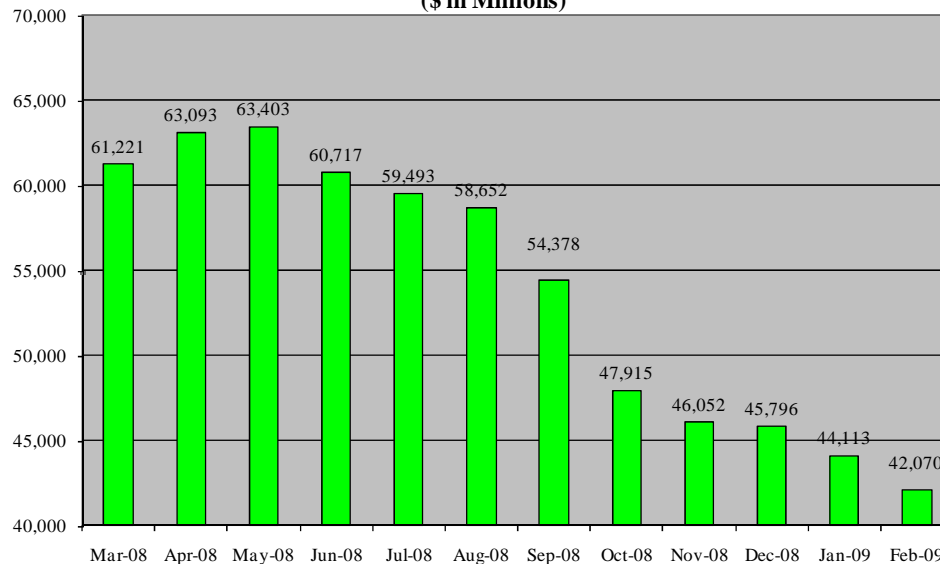
**A.2.b. OIC Report
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OPERF	Regular Account				Historical Performance (Annual Percentage)					
	Policy ¹	Target ¹	\$ Thousands ²	Actual	Year-To-Date ³	1 YEAR	2 YEARS	3 YEARS	4 YEARS	5 YEARS
Public Equity	41-51%	46%	\$ 14,300,095	34.5%	(16.58)	(47.88)	(28.00)	(16.08)	(8.92)	(5.01)
Private Equity	12-20%	16%	9,847,144	23.8%	N/A	(8.75)	7.13	9.92	17.62	19.36
Total Equity	57-67%	62%	24,147,239	58.3%						
Opportunity Portfolio			688,780	1.7%	(2.26)	(26.40)	(13.01)			
Total Fixed	22-32%	27%	11,444,355	27.6%	(0.25)	(10.39)	(3.64)	(0.36)	0.75	1.54
Real Estate	8-14%	11%	5,119,695	12.4%	(3.04)	(15.36)	(4.84)	4.74	12.15	13.09
Cash	0-3%	0%	5,877	0.0%	0.13	0.49	2.93	3.71	3.65	3.23
TOTAL OPERF Regular Account		100%	\$ 41,405,946	100.0%	(7.00)	(29.21)	(14.06)	(5.92)	(0.83)	1.56
OPERF Policy Benchmark					(8.53)	(26.79)	(12.10)	(4.52)	(0.59)	1.55
Value Added					1.53	(2.42)	(1.96)	(1.40)	(0.24)	0.01
TOTAL OPERF Variable Account			\$ 663,652		(17.22)	(47.12)	(30.04)	(18.43)	(11.67)	(7.99)

Asset Class Benchmarks:

Russell 3000 Index	(17.99)	(43.51)	(26.56)	(15.46)	(9.62)	(6.40)
MSCI ACWI Ex US IMI Net	(16.95)	(51.51)	(27.70)	(14.31)	(6.56)	(1.75)
Russell 3000 Index + 300 bps--Quarter Lagged	N/A	(18.09)	(1.00)	3.55	7.07	9.44
BC Universal--Custom FI Benchmark	(1.05)	0.33	3.30	4.14	3.93	3.81
NCREIF Property Index--Quarter Lagged	N/A	5.27	11.12	13.24	14.70	14.24
91 Day T-Bill	0.01	1.41	3.12	3.75	3.66	3.22

TOTAL OPERF NAV
(includes variable fund assets)
One year ending February 2009
(\$ in Millions)



¹OIC Policy 4.01.18, as revised September 2007.

²Includes impact of cash overlay management.

³For mandates beginning after January 1 (or with lagged performance), YTD numbers are "N/A". Performance is reflected in Total OPERF.

STATE OF OREGON TOTAL FUND RETURN TABLE RATES OF RETURN Periods Ending December 31, 2008										
	Market Value \$(M)	Current Quarter	YTD	1 Year	3 Years	5 Years	7 Years	10 Years	Inception to Date	Inception Date
FUNDS										
TOTAL REGULAR ACCOUNT	44,977,381	-14.89	-26.96	-26.96	-2.62	3.65	4.40	4.63	5.69	07/01/1997
<i>OPERF POLICY BENCHMARK</i>		-10.80	-23.04	-23.04	-0.77	3.89	4.55	4.03		
PUBLIC FUNDS > \$1 BILLION RANK*		75	64	64	42	10	11	11		
PUBLIC FUNDS > \$10 BILLION RANK*		75	53	53	32	5	9	5		
TOTAL DOMESTIC EQUITY	6,220,595	-24.50	-39.89	-39.89	-10.31	-2.56	-1.28	0.12	9.14	04/01/1971
<i>RUSSELL 3000</i>		-22.78	-37.31	-37.31	-8.63	-1.95	-1.00	-0.80		
US EQUITY POOLS*		96	96	96	92	71	64	9		
TOTAL INTERNATIONAL EQUITY	6,812,162	-20.32	-43.25	-43.25	-5.81	3.80	5.65	3.77	10.42	04/01/1985
<i>MSCI ACWI EX US</i>		-22.51	-45.73	-45.73	-6.85	2.81	4.78	2.18		
INTERNATIONAL EQUITY POOLS*		13	25	25	12	5	1	1		
TOTAL FIXED INCOME	11,884,022	-5.45	-9.86	-9.86	0.01	1.94	3.97	4.45	7.64	01/01/1988
<i>CUSTOM FIXED INCOME 90/10 BLEND³</i>		3.01	2.94	2.94	4.68	4.41	5.27	5.42		
US FIXED INCOME POOLS*		99	99	99	99	99	100	100		
TOTAL REAL ESTATE ¹	5,275,279	-12.13	-13.59	-13.59	6.62	14.26	13.70	12.97	12.13	12/01/1996
<i>NCREIF PROPERTY ONE QTR LAG</i>		-0.17	5.27	5.27	13.24	14.24	12.05	11.83		
REAL ESTATE POOLS*		58	50	50	50	25	25	25		
TOTAL PRIVATE EQUITY ²	9,844,696	-8.12	-8.75	-8.75	9.92	19.36	12.38	11.18	11.58	07/01/1997
<i>BLENDED PRIVATE EQUITY INDEX QTR LAG</i>		-7.58	-18.09	-18.09	3.55	9.44	8.76	8.67		
US PRIVATE EQUITY*		78	46	46	39	12	33	37		
OST SHORT TERM FUND - PERS	1,268,422	2.03	1.26	1.26	3.89	3.25	2.80	3.60	4.58	12/01/1989
<i>91 DAY T-BILL</i>		0.22	2.06	2.06	3.96	3.25	2.74	3.45		

¹Publicly traded real estate securities are current quarter; all others are 1 quarter lagged²Private Equity returns lagged one quarter³90% BC U.S. Universal/10% SSBI Non-US World Govt. Bond Hedged;
prior to 1/1/1999 Gov't/Credit; 1/99 to 6/00 SSBI Non-US WGB Unhedged

**Oregon Investment Council
MINUTES
January 28, 2009**

The Oregon Investment Council was called to order at 9:02 a.m. by Katy Durant, Chair.

Members Present: Ben Westlund, Paul Cleary, Harry Demorest, Katy Durant, Keith Larson, and Dick Solomon

Staff Present: Andrea Belz, Tony Breault, Brad Child, Stacey Dycus, Jay Fewel, Sam Green, Norma Harvey, Andy Hayes, John Hershey, Brooks Hogle, Julie Jackson, Perrin Lim, Tom Lofton, Ben Mahon, Mike Mueller, Kevin Nordhill, Jen Peet, Kate Cooper Richardson, Ron Schmitz, James Sinks, Michael Viteri

Consultants Present: Allan Emkin from PCA, Nori Lietz from Partners Group, John Meier and Mike Beasley from SIS, and David Fann from PCG

Legal Counsel Present: D. Kevin Carlson, Oregon Department of Justice
Ted Falk, Oregon Department of Justice
Deena Bothello, Oregon Department of Justice
Paul Weddle, Oregon Department of Justice

I. 9:03 a.m.: Review and Approval of Minutes

MOTION: Ms. Durant brought approval of the December 5, 2008 OIC minutes to the table. Mr. Demorest moved to approve the minutes. The motion was seconded by Mr. Larson and passed by a vote of 5/0.

II. 9:04 a.m.: Securities Lending Update

Tom Motley, a Vice President with State Street Global Advisors and Head of their US Cash Management Desk, and Mike Mueller, Deputy CIO, provided the OIC with an update on the securities lending market, with a focus on the two main pools managed by State Street on behalf of OPERF and other state agency funds, including the OSTF.

In accordance with OIC policy 4.01.20, the investment division may lend securities through an agent lender. The Office of the State Treasurer has participated in securities lending arrangements dating back well over a decade. The most recent relationship, with State Street Bank, began in 1997.

2008 was an unprecedented year of volatility in fixed income markets, and securities lending reinvestment pools were not immune from the fallout. Even the more conservatively run programs found they were not spared from the illiquidity in the credit markets. While agent lenders provide indemnification against borrower defaults (a guarantee only needed when the cash collateral provided at 102 or 105 percent is exceeded), the reinvestment risk of the cash collateral is borne entirely by the owner of the assets being lent. As such, the current market has created a renewed interest by some to tighten reinvestment guidelines and for others to consider exiting the lending market altogether. Mr. Mueller and Mr. Motley addressed questions from the Council. Mr. Mueller mentioned that BGI manages the reinvestment of cash collateral for their commingled funds, and he agreed to provide the OIC a summary of their current portfolios and returns.

III. 9:45 a.m.: OSTF Annual Review and Policy Update

Perrin Lim, Senior Fixed Income Investment Officer, presented the annual fiscal-year review of the Oregon Short-Term Fund, including a presentation of the annual audited financial statements. There was one proposed revision to Investment Policy 4.02.03, the Oregon Short Term Fund Portfolio Rules, specifically as it pertains to Section VI (A), Diversification and Limitations of Portfolio, regarding securities guaranteed by the FDIC under the Temporary Liquidity Guarantee Program. The revision to the rules was reviewed and approved by members of the Oregon Short-Term Fund Board at their meeting on January 15, 2009. Harry Demorest asked about the role of the Oregon Short Term Fund Board versus the OIC's duties. The OSTF Board is strictly an advisory board, with the

OIC maintaining sole policy approval authority. Mr. Lim talked about the cyclical highs and lows of the fund and addressed questions from the Council.

MOTION: Dick Solomon moved approval for one revision to Investment Policy 4.02.03, the Oregon Short Term Fund Portfolio Rules, specifically as it pertains to Section VI (A), Diversification and Limitations of Portfolio. Mr. Demorest seconded the motion. The motion passed by a vote of 5/0.

IV. 10:19 a.m.: Modifications to Existing OPERF Real Estate Funds

Brad Child, Senior Real Estate Investment Officer, and Nori Lietz with Partners Group presented to the OIC. Staff made four recommendations during this presentation. Ms. Durant expressed concern about the nature and potential volume of such requests. Mr. Child reassured the OIC that these requests are a direct correlation of the market downturn. Mr. Child expects additional requests, but was uncertain as to their potential timing.

Ms. Lietz brought up the role that staff has on real estate and private equity advisory boards and the potential lack of transparency regarding to board actions. One of the ideas that the OIC would like to see put into action is that we receive all of the minutes from each general partner advisory board meeting and have a provision in each new limited partnership agreement to that point. This item will be discussed further during the April policy review.

MOTION: Staff recommended the termination of Cliffwood Partners LLC as REIT manager for the OPERF real estate portfolio and the transfer of the portfolio to existing OPERF REIT manager LaSalle Investment Management. This is a re-allocation of the existing portfolio and does not require a new capital commitment. Mr. Demorest moved approval of the staff recommendation. Mr. Solomon seconded the motion. The motion passed by a vote of 5/0.

MOTION: Staff recommended up to \$10 million to a facility to recapitalize Fortress Investment Fund III. Mr. Solomon moved approval of the staff recommendation. Mr. Demorest seconded the motion. The motion passed by a vote of 5/0.

MOTION: Staff recommended an increased commitment of \$10 million to Western National Realty Investors II on favorable terms made available by the default of Lehman Brothers as a limited partner in the fund. Mr. Demorest moved approval of the staff recommendation. Treasurer Westlund seconded the motion. The motion passed by a vote of 3/2 with Mr. Solomon and Ms. Durant voting no.

MOTION: Staff recommended up to \$5 million to SH Group, a new entity being formed by Starwood Capital as a "branding" and hotel operating company. Mr. Solomon moved approval of the staff recommendation. Mr. Demorest seconded the motion. The motion passed by a vote of 5/0.

Said commitments are subject to satisfactory review by staff and DOJ of the documents and completion of any final due diligence items by Staff and Consultant.

V. 11:22 a.m.: OPERF Fee Negotiation Parameters

Nori Lietz (Partners Group), Allan Emkin (PCA), David Fann (PCG), and Mike Beasley (SIS) made a presentation on real estate and private equity fees. Each consultant went through the fee schedule for their respective asset class. The general concern expressed by members of the OIC is that OPERF investment managers are considering the economic environment and scarcity of capital which pension funds, like Oregon, are providing. Mike Beasley stated that on average, OPERF public equity and fixed income portfolios have below industry average fees.

The topic of fees versus expenses came up with the goal being to clarify what is a fee and what is an expense, within the private investment world. The biggest fee is organizational expenses which vary from deal to deal. Other expenses include legal fees and operational expenses. Ms. Lietz and Mr. Emkin agreed to work together with staff on a drafting proposed standards, and a policy, for real estate and private equity on transparency, governance, and fees.

VI. 12:10 p.m.: Sudan Divestment Update

Jennifer Peet gave an update to the Board on the Sudan divestment legislation. Staff spent the last year working to improve implementation of the Sudan Divestment statute and has been working with RiskMetrics to improve the reliability of their list of companies doing business in Sudan. There has been improved communications with OIC managers to ensure they are sending letters to identified companies on behalf of Oregon. The work completed in 2008 has made the Sudan divestment program more effective and more efficient.

One issue that arose is the definition of “doing business in Sudan” under Oregon law. The nationwide Sudan divestment movement has matured and the definition has shifted to show lenience to companies that have suspended their activities in Sudan, but retained the right to return upon the end of the humanitarian crisis. Staff and the OIC may wish to consider pursuing a similar change in the definition under Oregon law. Treasurer Westlund suggested that the OIC members contact their state representatives regarding Sudan, and potential Iran, divestment legislation. Treasurer Westlund will give the OIC an update on this topic after the legislative session. Kate Cooper Richardson will also report back to the OIC with more information on the Iran divestment movement.

Mr. Solomon asked that staff get back to the Council with an estimate as to the amount of money that is invested in “black listed” companies and how that amount compares to our total foreign investments.

VII. 12:32 p.m.: Asset Allocation and NAV Updates

Mr. Schmitz reviewed the Asset Allocations and NAVs for the period ending December 31, 2008. The NAV's are all in line with policy. The OPERF overlay program has relaxed a bit from one percent bands to two percent. SAIF is near the bottom of the equity range which may trigger a rebalancing in the near future.

VIII. 12:33 p.m.: Calendar – Future Agenda Items

Mr. Schmitz highlighted future agenda topics.

IX. 12:29 p.m.: Other Business

There was no other business discussed.

12:40 p.m.: Public Comments

There was public comment from Bill Parish, Parish & Company, regarding securities lending and the need to register private equity firms and hedge funds with the SEC. There was also public comment from Jim Gleason, member of the public, regarding the overall portfolio management of OPERF.

The meeting adjourned at 12:50 p.m.

Respectfully submitted,



Julie Jackson
Executive Support Specialist

2009 OIC Forward Agenda Topics **A.2.b. OIC Report**
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- April 29:** Litigation Update
Internal Equity Policies/Procedures
OIC Policy Annual Updates
- May 27:** SAIF Annual Review
OPERF 1st Quarter Performance Review
HIED Annual Review
- July 29:** OPERF Private Equity Annual Plan
OPERF Real Estate Annual Plan
Audits Update
- September 30:** CEM Annual Review
CSF Annual Review
- October 28:** Opportunity Portfolio Annual Review
- December 2:** OPERF 3rd Quarter Performance Review