



**OREGON  
STATE  
TREASURY**

# Oregon Investment Council

**October 24, 2024**

**Cara Samples**  
Chair

**Tobias Read**  
State Treasurer

**Rex Kim**  
Chief Investment Officer



Investment Division  
16290 SW Upper Boones Ferry Road  
Tigard, OR 97224  
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Oregon State Treasury  
Investment Division  
16290 SW Upper Boones Ferry Road  
Tigard, OR 97224

## Agenda

October 23, 2024  
9:00 AM

<b><u>Time</u></b>	<b><u>Tab</u></b>		<b><u>Presenter</u></b>
9:00 – 9:05	1	<b>Review &amp; Approval of Minutes</b> September 4, 2024	Cara Samples <i>OIC Chair</i>
9:05 – 9:10	2	<b>Committee Reports</b>	Rex Kim <i>Chief Investment Officer</i>
9:10 – 10:10	3	<b>State Accident Insurance Fund</b> (Action Item: Strategic Asset Allocation)	Chip Terhune <i>President &amp; CEO, SAIF</i> Todd Graneto <i>Chief Financial Officer, SAIF</i> Greg Kantor <i>Consultant, Principal, RVK</i> Beau Burggraff <i>Senior Consultant, Principal, RVK</i> Jamie McCreary <i>Service Model Program Manager</i>

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Cara Samples  
Chair

Lorraine Arvin  
Vice-Chair

Pia Wilson-Body  
Member

Alline Akintore Kabbatende  
Member

Tobias Read  
State Treasurer

Kevin Olineck  
PERS Director

OIC Meeting Agenda  
October 23, 2024

- 10:20 – 10:40      4      **Audit Review**
- Michael Makale  
*Chief Audit Officer*  
David Randall  
*Chief Investment Operating Officer*  
Debra Day  
*Investment Reporting Manager*
- 10:40 – 11:10      5      **Policy Changes**  
(Action Item: Approval of Policy Changes)
- Jamie McCreary  
*Service Model Manager*  
Paola Nealon  
*Managing Principal, Meketa*  
Ashley Woeste  
*Associate Partner, Aon*
- 11:10 – 11:50      6      **OPERF Pacing**
- Karl Cheng  
*Senior Investment Officer, Portfolio Risk  
& Research*  
Michael Langdon  
*Director of Private Markets*  
Allan Emkin  
*Managing Principal, Meketa*  
Ashley Woeste  
*Associate Partner, Aon*

--- BREAK ---

After conclusion of scheduled agenda items:

- 7      **Open Discussion**      OIC Members, Staff, Consultants
- 8      **Public Comments**



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## TAB 1

# REVIEW & APPROVAL OF MINUTES

# State of Oregon

## Office of the State Treasurer

16290 SW Upper Boones Ferry Road  
Tigard, Oregon 97224

### OREGON INVESTMENT COUNCIL

September 4, 2024

#### Meeting Minutes

Members Present: Treasurer Tobias Read, Cara Samples, Lorraine Arvin, Pia Wilson-Body, Alline Akintore (virtually)

Staff Present: Rex Kim, Dmitri Palmateer, David Randall, Michael Langdon, Karl Cheng, Louise Howard, Gloria Gil, Claire Illo, Ahman Dirks, Jamie McCreary, Ben Mahon, Philip Larrieu, Amy Hsiang-Wei, Tim Kane, Chris Ebersole, Eric Engelson, Tim Sayre, Sebrina Gridley, Bryson Pate, Jennifer Kersgaard

Staff Participating Virtually: Jaime Alvarez, Kenny Bao, Tyler Bernstein, Tan Cao, Austin Carmichael, Andrew Coutu, Kiara Cruz, Bradley Curran, Tara Curran, Debra Day, Alli Gordon, Wil Hiles, Ian Huculak, Roy Jackson, Aliese Jacobsen, Josh Jones, Young Kim, Amanda Kingsbury, Paul Koch, Ericka Langone, Putta Laxmi, Caren Leiva, May Sommer, Tim Miller, Dana Millican, Mike Mueller, Bri Naber, George Naughton, Wendi Nelson, Mohammed Quraishi, Jo Recht, Andrew Robertson, Scott Robertson, Ryan Fitzgerald, Angel Schaffers, Fatih Sedberry, Mark Selfridge, Asia Slaughter, Melissa Sloan, Alli Sorensen, Loren Terry, Anna Totdahl, Andrey Voloshinov, Bryon Williams, Christin Wilson, Josh Woodmansee, Tiffany Zahas

Consultants Present: Mika Malone, Tom Martin, Raneen Jalajel (Virtually), Stephen Kennedy, Anne Heaphy (Virtually)

PERS Present: Kevin Olineck

Legal Counsel Present: Steve Marlowe (Department of Justice)

The September 4th, 2024, OIC meeting was called to order at 9:00am by Cara Samples, Chair

<u>Time</u>	<u>Tab</u>		<u>Presenter</u>
9:00 – 9:01	1	<b>Review &amp; Approval of Minutes</b> May 29, 2024 Chair Samples asked for approval of the May 29, 2024, OIC regular meeting minutes. Treasurer Read moved approval at 9:01 am, member Arvin seconded the motion which then passed by a 5/0 vote.	Cara Samples <i>OIC Chair</i>
9:01 – 9:02	2	<b>Committee Reports</b>	Rex Kim <i>Chief Investment Officer</i>

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Cara Samples  
Chair

Lorraine Arvin  
Vice-Chair

Pia Wilson-Body  
Member

Alline Akintore Kabbatende  
Member

Tobias Read  
State Treasurer

Kevin Olineck  
PERS Director

**OST Investment Committee**

**OPERF:**

June 20th	Lotus Infrastructure Fund IV LP	\$150M USD
June 20th	Hammes Income & Growth Healthcare Fund, L.P.	\$110M USD
July 24th	Harrison Street European Core Fund SCSP SICAV-RAIF	€100M EUR
July 24th	Sculptor Real Estate Fund V, L.P.	\$100M USD

**Staff Discretion**

**OPERF:**

June 26th	USV 2024 Core Fund \$13M USD	
July 16th	Harrison Street Infrastructure Fund Co-Investment Side-Car	\$50M USD

**Common School Fund:**

July 31st	Sculptor Real Estate Fund V, L.P.	\$10M USD
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- 9:02 – 9:37      3      **OPERF Q2 Performance Review**      Mika Malone  
*Managing Principal, Meketa*  
Allan Emkin  
*Managing Principal, Meketa*

Mika Malone, Managing Principal with Meketa, and Allan Emkin, Managing Principal with Meketa, presented the OPERF Q2 Performance Review. The presentation included an economic and market update and discussion of interest rates and inflation.

OPERF's Q2 returns trailed indices -1.5% in the short-term, outperformed the 3-year benchmark by .3%, but trailed the 5-year benchmark by -0.3%.

- 9:37 – 10:00      4      **CSF Performance Review**      Michael Langdon  
*Director of Private Markets*  
Louise Howard  
*Director of Capital Markets*  
Jamie McCreary  
*Service Model Program Manager*

Michael Langdon, Director of Private Markets, with Louise Howard, Director of Capital Markets, and Jamie McCreary, Service Model Program Manager, presented the Common School Fund Review. They began with a review of the progress on the asset allocation strategy adopted in November of 2022, and gave a performance update.

CSF's YTD performance returns trailed the policy benchmark by -2.1% but are exceeding the benchmark for the 3-year period by .2%.

--- BREAK ---

- 10:13 – 10:40      5      **Policy Changes**      Jamie McCreary  
(Action Item: Approval of Policy Changes)      *Service Model Program Manager*

Jamie McCreary, Service Model Program Manager, presented policy updates for INV 303, INV 302, INV 407A, INV 402C, INV 402E, INV 402F, INV 402G, INV 801, INV 802, and INV 218.

The board voted to approve the recommendation to approve policy revisions and format changes as outlined. At 10:37 am Treasurer Read moved for approval; member Wilson-Body seconded the motion, which then passed by a vote of 5/0.

10:40 – 10:48      6      **OSGP Consultant**      Jamie McCreary  
(Action Item: Approval of Consultant      *Service Model Program Manager*  
Recommendation)      Claire Illo  
*Investment Officer, Public Equity*

Jamie McCreary, Service Model Program Manager, and Claire Illo, Investment Officer, presented the recommendation that OIC pursue a non-discretionary consulting contract with SageView Advisory Group beginning 9/4/2024 (subject to satisfactory negotiation of term and conditions). The Committee further recommends pursuing an initial 3-year contract term with 2 pre-negotiated 2-year extensions, available at the Council's discretion.

At 10:48am Member Wilson-Body moved approval; Vice-Chair Lorraine Arvin seconded the motion which then passed by a 5/0 vote.

--- BREAK ---

11:00 – 11:07      7      **Open Discussion**      OIC Members, Staff, Consultants  
Chair Samples welcomed 2 new Senior members of the Investment staff: Tim Kane has joined as the SIO of Diversifying Strategies, and Amy Hsiang-Wei has joined as the SIO of Fixed Income.

Kevin Olineck reported that the 2023 actuarial valuation results were reported at the July 2024 PERS meeting. Due to the returns not meeting the assumed rate over the last 2 years, the average contribution rates will go up 4% for the 2025-27 Biennia.

Chair Samples, on behalf of the Council, requested the following for suggested future agenda items:

- 1) For Rex and Staff: Request to put together a presentation regarding what they are already doing as it pertains to ESG and Climate. A) Due Diligence, evaluation of risks of investments B) staff resources: staff tasked with ESG, what are the things they are doing in this realm C) Measurements: what measurements are we doing today on the Portfolio as it pertains to ESG, what metrics are used, are there standardized metrics decided upon, and on what percentage of the portfolio are we capturing, and what asset classes.
- 2) Consultants: We have asked questions in terms of the Treasurer's Climate Plan. The question we didn't ask: separate from the Treasurer's Plan, what are best practices, what would you all recommend we do.
- 3) Legal, DOJ, Steve Marlowe: Can we do this within legal statutes? Is it legal?

11:07 – 11:12      8      **Public Comments**  
Meeting adjourned at 11:12



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TAB 2  
COMMITTEE REPORTS





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TAB 3  
STATE ACCIDENT  
INSURANCE FUND

October 23, 2024

# SAIF- State Accident Insurance Fund

## Agenda:

- Performance review
- Annual update from SAIF Corporation
- Asset Allocation Study- RVK



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# SAIF Q2 2024 Review

**Louise Howard**

*Director of Capital Markets*

**Andrew Coutu**

*Senior Investment Analyst, Fixed Income*

**Jamie McCreary**

*Service Model Program Manager*



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# Fund Objectives

## Investment Policy (INV 1001-1008)

- The Oregon Investment Council (OIC) formulates policies for the investment of funds under the control and administration of SAIF Corporation, known as the State Accident Insurance Fund (the Fund)
- Investment policy provides guidance to Oregon State Treasury staff and investment consultants regarding approved asset classes, asset allocation, and reporting requirements
  - Work closely with SAIF staff as SAIF has unique accounting, tax, risk, and regulatory requirements (i.e. Risk-Based Capital (RBC)).
- The primary objectives of the Fund are:
  - To preserve capital
  - Generate stable and predictable investment revenue
  - Maintain sufficient liquidity to meet SAIF cash needs

# Total Fund Asset Allocation (as of 6/30/2024)

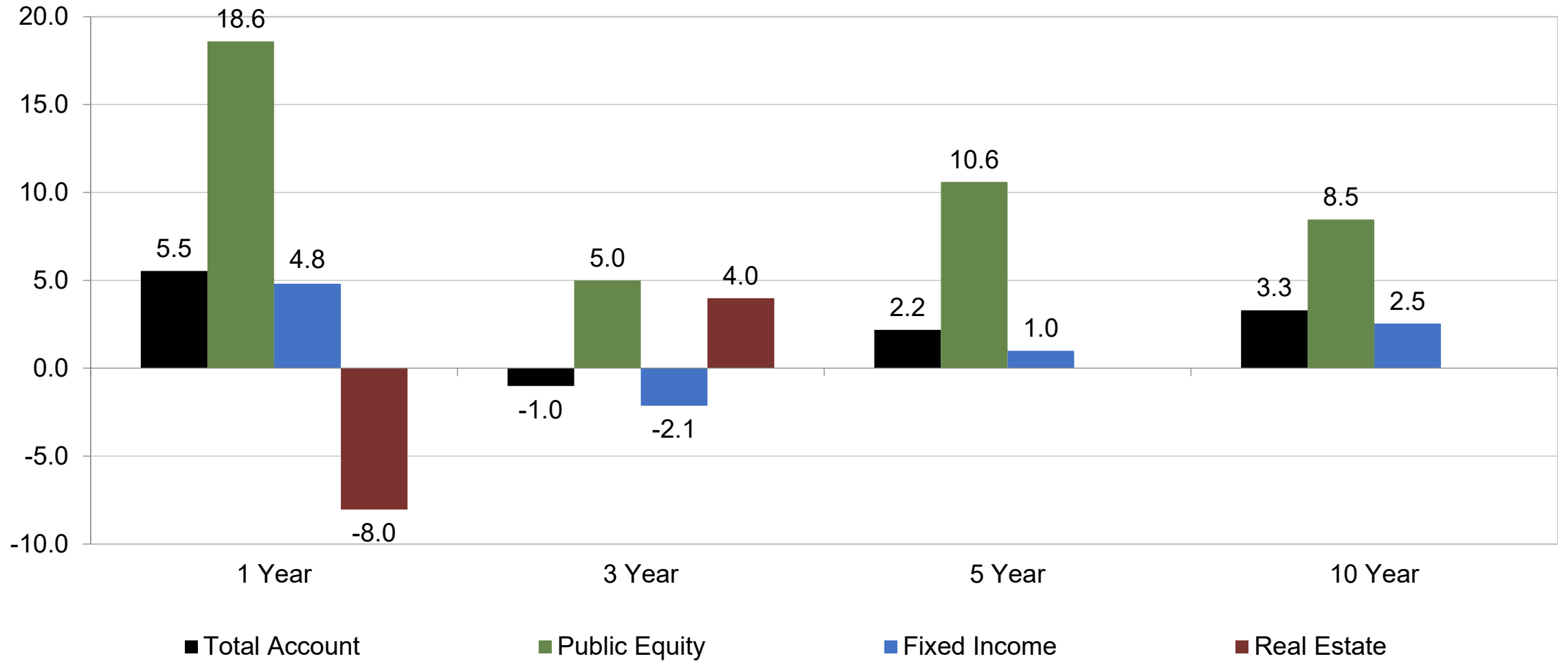
Asset Class	Market Value	Current Allocation	Long-Term Target	Active Weight	Approved Range
Public Equity	\$545.1M	12.5%	10.0%	2.5%	7%- 13%
Fixed Income	\$3.5B	79.6%	77.0%	2.6%	72%- 90%
Bank Loans/ Private Credit	\$0.0	0.0%	8.0%	-8.0%	0%- 10%
Real Estate	\$255M	5.9%	5.0%	0.9%	0%- 7%
Pledged Securities*	\$58M	1.3%	0.0%	1.3%	0.0%
Cash	\$30.9M	0.7%	0.0%	0.7%	0%- 3%
<b>Total Fund</b>	<b>\$4.4B</b>	<b>100%</b>			

# Performance – Total Fund

- For the trailing 1 year ending June 30, 2024, SAIF (Total Fund) returned 5.5%, outperforming its policy benchmark across all time periods.
- Majority of the asset classes (aside from real estate) generated positive returns for the year, and all outperformed their respective benchmarks.

	Market Value	3 Months	1 Year	3 Years	5 Years	10 Years
Total Fund	\$4.4B	0.5%	5.5%	-1.0%	2.2%	3.3%
Policy Benchmark		0.2%	4.6%	-1.7%	1.5%	2.7%
<b>Excess Return</b>		<b>0.3%</b>	<b>0.9%</b>	<b>0.7%</b>	<b>0.7%</b>	<b>0.6%</b>

# Net Annualized Performance (%)

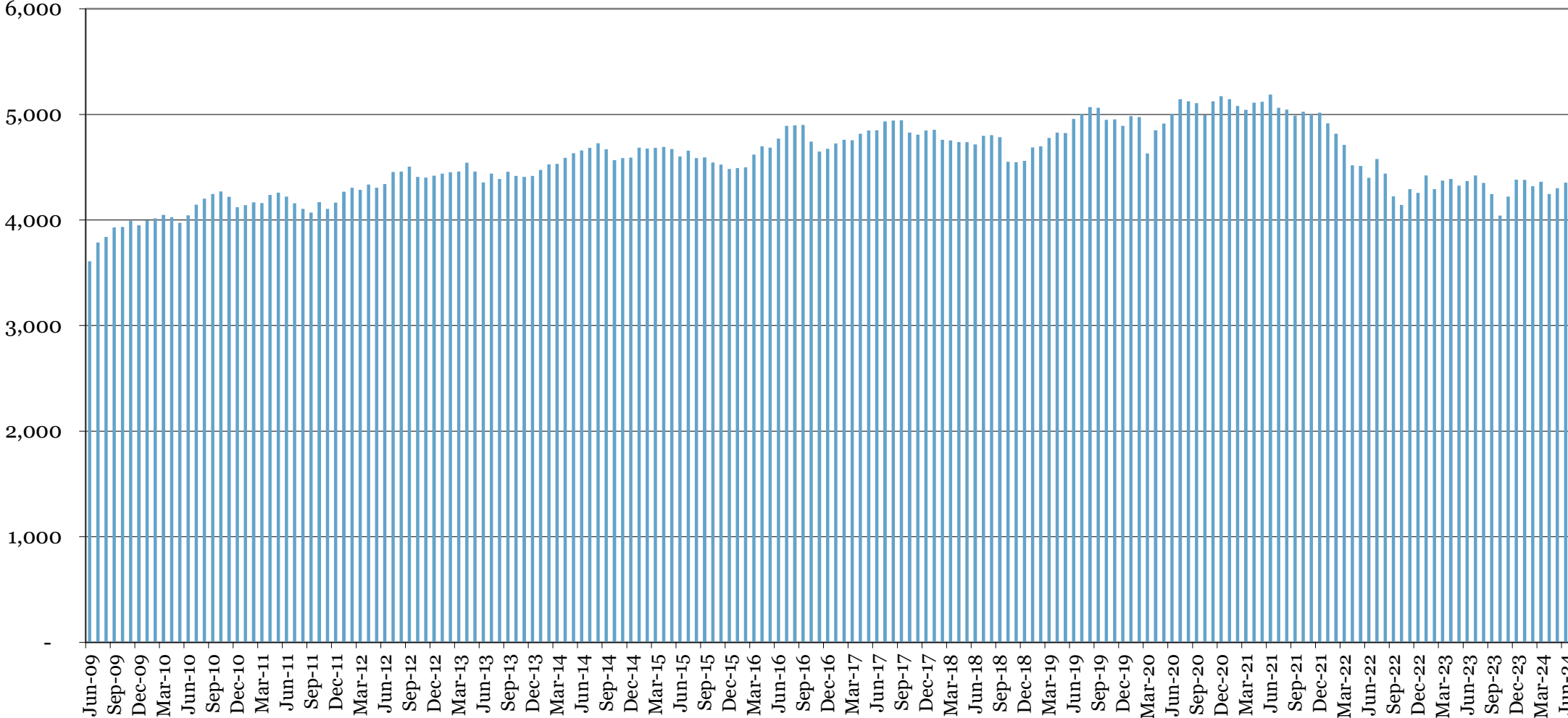


# Accomplishments and Strategic Priorities

- Asset allocation study with RVK
  - Presented to SAIF board in June- approved
  - Presenting to OIC in October for approval
- SAIF Board of Director declared a policyholder dividend totaling \$60M which will be paid in October
- Update Investment Policy Statement with intent to consolidate asset class guidelines



**SAIF NAV**  
**15 years ending June 30, 2024**  
**(\$ in Millions)**



# Appendix: Asset Class Performance



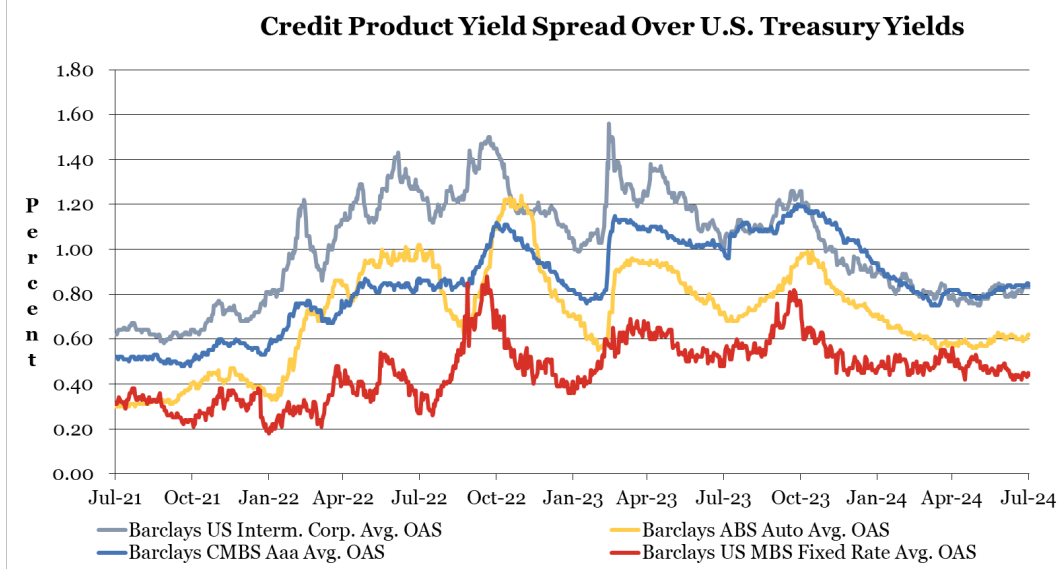
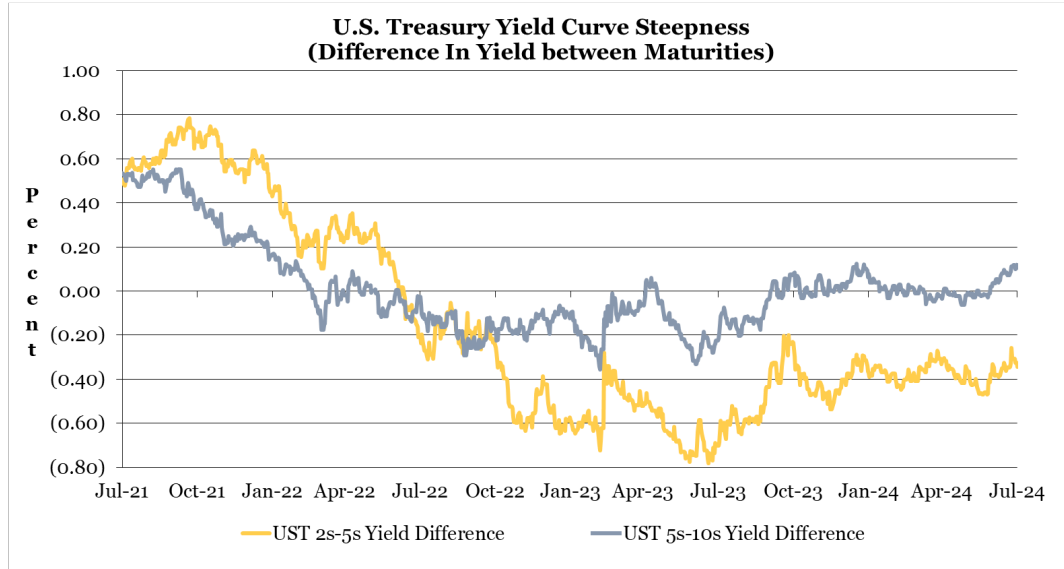
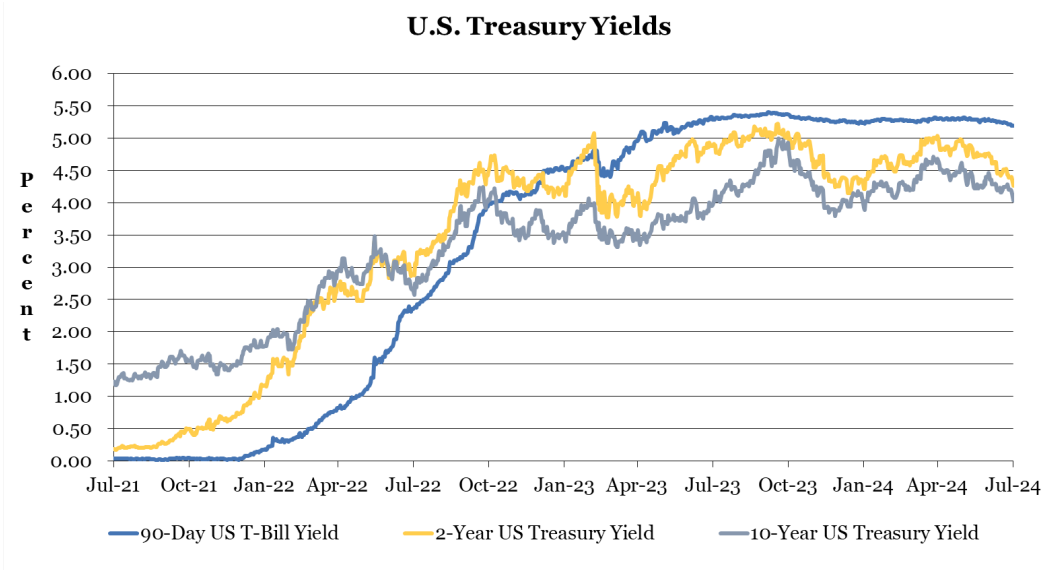
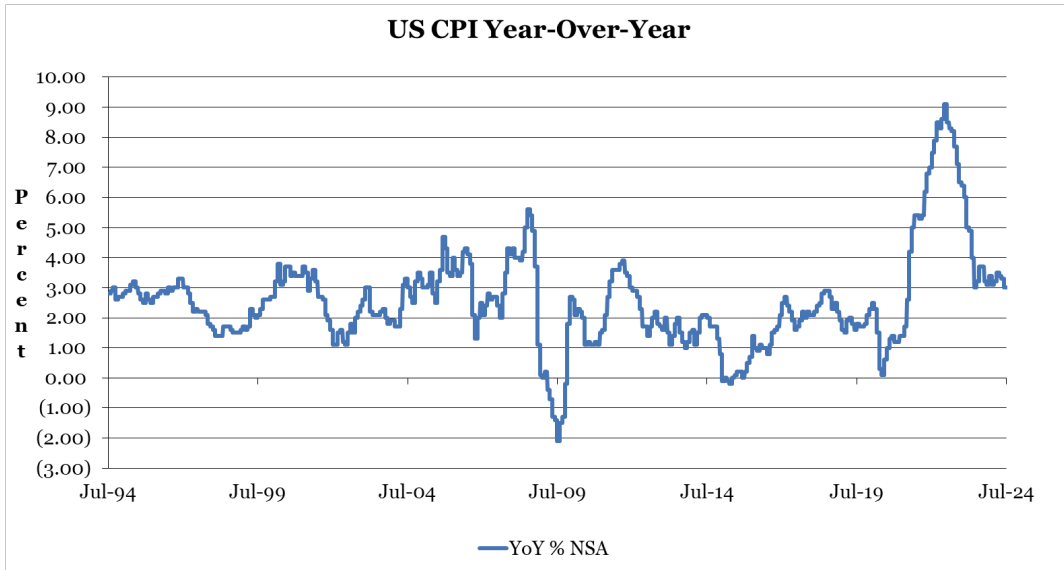
# Performance – Public Equity

- For the quarter, the Public Equity portfolio slightly outperformed its benchmark, while continuing to modestly outperform over longer, trailing time periods
- The Public Equity portfolio is comprised of a single, global equity investment. It is passively managed and expected to generally perform in-line with its benchmark over time
- Global equity markets continued their march higher in Q2, propelled by monetary policy actions (outside the U.S.) and positive economic indicators across major regions
- The U.S. stock market (represented by the S&P 500) gained 4.3%, while developed international countries (MSCI World Ex US Index) fell - 0.6%, and emerging markets (MSCI EM Index) returned 5.0%
- Strength in the U.S. was once again fueled but the Technology sector, specifically the continued rally in AI-related names and their associated supply chains
- Growth outperformed Value across developed markets (U.S. and Non-U.S.), while emerging markets experienced little divergence between the two styles
- Large cap stocks outperformed in developed markets, while small caps found their footing and slightly outperformed in emerging markets

	Market Value	Current Allocation	3 Months	1 Year	3 Years	5 Years	10 Years
Public Equity	\$545.1M	12.5%	2.5%	18.6%	5.0%	10.6%	8.5%
MSCI ACWI IMI (Net)			2.4%	18.4%	4.7%	10.4%	8.2%
<b>Excess Return</b>			<b>0.1%</b>	<b>0.2%</b>	<b>0.3%</b>	<b>0.2%</b>	<b>0.3%</b>



# Fixed Income Market Overview



Source: Bloomberg

# Performance – Fixed Income

- The Fixed Income portfolio outperformed the composite benchmark across all time periods
- The Fixed Income portfolio is comprised of 2 Core bond managers at roughly equal weight
- Stronger than expected economic data during the quarter, including a healthy US labor market and persistent inflation, shifted market expectations of Fed rate cuts in 2024 to 0.25%-0.50%, down from 1.00%-1.25% at the beginning of the year
- 10-year Treasury yields are higher for the quarter, starting at 4.20% and ending at 4.40% (peaking at 4.70% on April 25)
- Credit spreads are below the 10-year average with the Option Adjusted Spread (OAS) on the Bloomberg US Corporate Index at 94 bps, tighter from the 123 bps a year ago and 4 bps wider from the beginning of the quarter
- Portfolio outperformance came primarily from sector and security selection within the Investment Grade Credit and Structured Credit sectors, in particular out-of-benchmark sectors, while duration and yield curve positioning generally detracted from performance

	Market Value	Current Allocation	3 Months	1 Year	3 Years	5 Years	10 Years
Fixed Income	\$3.5B	79.6%	0.3%	4.8%	-2.1%	1.0%	2.5%
FI policy index			0.1%	4.1%	-2.6%	0.5%	2.0%
<b>Excess Return</b>			<b>0.2%</b>	<b>0.7%</b>	<b>0.4%</b>	<b>0.5%</b>	<b>0.6%</b>

# Performance – Real Estate

- For the quarter, the Real Estate portfolio outperformed its benchmark, and is also outperforming over longer, trailing time periods
- The Real Estate portfolio is currently comprised of 2 managers
- Both funds posted positive income returns (~1.0%) that were offset by negative appreciation, as was the case in prior quarters. The funds maintain high allocations to residential and industrial sectors which generated positive overall returns. Cumulative quarterly distributions for both funds totaled \$2.7 million up from previous quarter
- Transaction volume is still down almost 20% year over year, at its lowest level in over a decade. At the same time, valuations have corrected globally by about 20% on average, across all sectors
- 2023- turned off dividend reinvestment as reaching upper threshold of target and as of 12/2023 both real estate investments are fully funded

	Market Value	Current Allocation	3 Months	1 Year	3 Years	5 Years	10 Years
Real Estate	\$255M	5.9%	-0.9%	-8.0%	4.0%	-	-
NCREIF ODCE (Custom)(Adj.)			-2.6%	-12.0%	2.5%	-	-
<b>Excess Return</b>			<b>1.7%</b>	<b>4.0%</b>	<b>1.5%</b>	<b>0.0%</b>	<b>0.0%</b>

# Oregon State Treasury Team



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## Louise Howard

Director of Capital Markets  
Tenure: 2022

As the Director of Capital Markets, Louise oversees multiple asset class teams and their respective OPERF portfolios, including Public Equity, Fixed Income, and Diversifying Strategies. She also Co-leads the Common School Fund, SAIF and Oregon Savings Growth Plan.

- ❖ Chairs Capital Markets Leadership Committee
- ❖ Leads monitoring and evaluation efforts for external investment managers
- ❖ Evaluates portfolio structure and makes recommendations to improve risk-adjusted returns
- ❖ Responsible for managing and coordinating the liquidity needs of OPERF
- ❖ Participates in private market Committee Meetings (Real Estate, Private Equity, Alternative, and Opportunistic)
- ❖ Leads the oversight of Public Equity programs, including internal and external investment strategies

**Education & Certifications:** BA University of New Orleans, MBA University of New Orleans, CFA Charterholder, CAIA Charterholder



## Jamie McCreary

Service Model Program Manager  
Tenure: 2023

As the Service Model Program manager, Jamie is responsible for creating and/or maintaining centralized services model standards and manages all aspects of client account relationships with various state managed programs.

- ❖ Ongoing monitoring and oversight of state managed programs and investment portfolios
- ❖ Supports the application of industry and fiduciary best practice standards across all areas of the Investment Program
- ❖ Investment Policy Statement Review

**Education:** BS Southern Oregon University, CERTIFIED FINANCIAL PLANNER™ professional



## Andrew Coutu

Senior Investment Analyst  
Tenure: 2016

As Senior Investment Analyst, Andy is responsible for the Fixed Income team's day-to-day activities and general oversight of Treasury's externally managed fixed income investments, including those held in OPERF, Common School Fund, and SAIF.

- ❖ Leads monitoring and evaluation efforts for external investment managers
- ❖ Establishes and maintains processes, procedures, workflows and reporting tools for external investment management oversight
- ❖ Ensures managers are acting in accordance with guidelines and the investment management agreement
- ❖ Leads due diligence on new external manager searches, review due diligence questionnaires, prepare manager selection memos /presentations

**Education:** BA Portland State University





# Endnotes

- Source: State Street. Performance is net of investment management fees and annualized for periods longer than one year. Reminder alternative data is typically lagging 1-3 months.
- Oregon SAIF Policy Index:
  - From January 1st, 1982 to December 31st, 2001 benchmark was weighted 11% First Boston Convert, 15% Russell 3000 and 74% Bloomberg Barclays Agg Bond. From January 1st, 2002 to December 31st, 2002 benchmark was weighted 13% First Boston Convert, 17.5% Russell 3000 and 69.5% Bloomberg Barclays Agg Bond. From January 1st, 2003 to December 31st, 2003 benchmark was weighted 11% First Boston Convert, 15% Russell 3000 and 74% Bloomberg Barclays Agg Bond. From January 1st, 2004 to December 31st, 2004 benchmark was weighted 9% First Boston Convert, 12.5% Russell 3000 and 78.5% Bloomberg Barclays Agg Bond. From January 1st, 2005 to March 31st, 2005 benchmark was weighted 10% Russell 3000, 82% Bloomberg Barclays Agg Bond, and 8% ICE BoA Convert Bond. From April 1st, 2005 to March 31st, 2010 benchmark was weighted 85% Oregon SAIF FI Index and 15% Russell 3000. From April 1st, 2010 to April 30th, 2010 benchmark was weighted 90% Oregon SAIF FI Index and 10% MSCI ACWI IMI Net. From May 1st, 2010 to November 30th, 2016 benchmark was weighted 10% MSCI ACWI IMI Net and 90% OR SAIF FI Index. From December 1st, 2016 to March 31st, 2020 the benchmark was weighted 10% MSCI ACWI IMI Net (Daily) and 90% OR SAIF FI Index. From April 1st, 2020 to March 31st, 2022 benchmark was weighted 10% MSCI ACWI IMI Net (Daily), 87% OR SAIF FI Index and 3% NCREIF ODCE (Custom)
  - From April 1st, 2022 to present the benchmark is weighted 10% MSCI ACWI IMI Net (Daily), 85% OR SAIF FI Index and 5% NCREIF ODCE (Custom)
- Oregon SAIF FI Index:
  - Prior to March 31st, 2005 benchmark was 100% BC Aggregate. From April 1st, 2005 to September 30th, 2005, benchmark was weighted 25% Oregon SAIF FI Index and 75% BC Aggregate. From October 1st, 2005 to March 31st, 2006 benchmark was weighted 50% Oregon SAIF FI Index and 50% BC Aggregate. From April 1st, 2006 to September 30th, 2006 benchmark was weighted 75% Oregon SAIF FI Index and 25% BC Aggregate. From October 1st, 2006 to present benchmark is weighted 100% Oregon SAIF Custom FI Index.
  - Currently, the composition of index Oregon SAIF Custom Fixed Income (50% BBG US Cdt Corp Inv Grd, 20% BBG MBS Fxd Rt, 15% BBG US Gov, 10% BBG US Corp Int Inv Grd, 5% BBG US HY BA/B 2% Issr Cap).
- Real Estate policy index- NCREIF ODCE (Custom) (Adj.):
  - From January 1, 1990 to March 31, 2016, the NCREIF ODCE (Custom) was weighted 100% NCREIF Property Index QTR Lag. From April 1, 2016 to present, the benchmark is weighted 100% - NFI-ODCE QTR LAG Net of Fees. Starting July 1, 2017, methodology for monthly return is calculated by geometrically linking prior months returns and then deriving the monthly returns by calculating the geometric average. Returns are not actual monthly, but rather equivalent for all intra-quarter months, in order to match the actual quarterly return.
- Any information provided herein has been prepared from sources believed to be reliable but is not guaranteed and is for informational purposes only. The information provided herein should not be regarded as an offer to sell or as a solicitation of an offer to buy the products mentioned. No representation is made that any returns will be achieved. Past performance is not indicative of future results. Opinions expressed herein are subject to change without notice.



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Tobias Read  
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# SAIF Oregon Investment Council

October 23, 2024

Chip Terhune  
President & CEO

Todd Graneto  
Chief Financial Officer





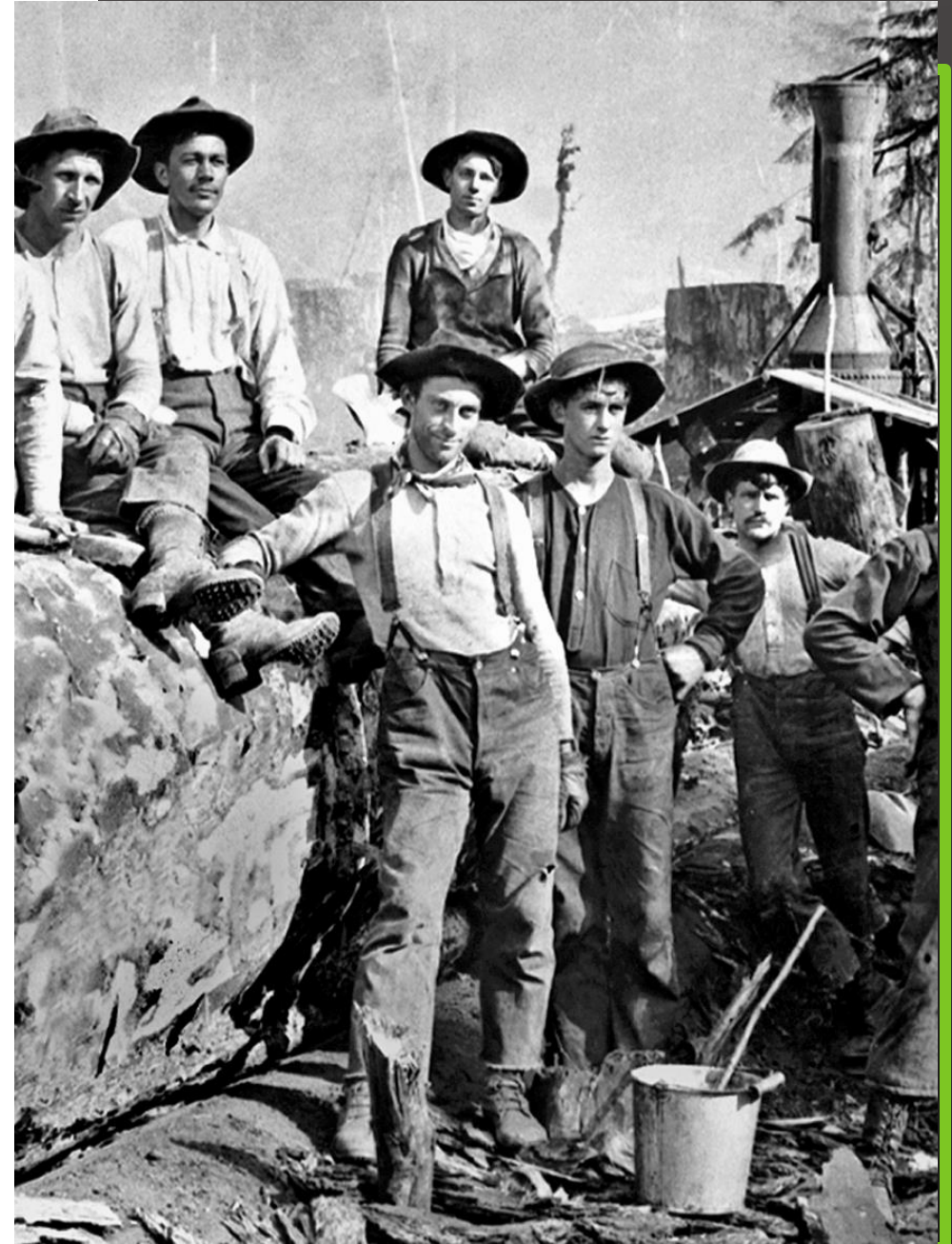


## Mission

SAIF's mission is to serve Oregon's workers and employers by making workers' compensation coverage widely available, affordable, and accessible, and by providing extraordinary service.

# Our why

- SAIF's oldest active claim that we're still paying on is from 1948.





# Our why

- SAIF's oldest active claim that we're still paying on is from 1948.
- SAIF's surplus ensures we can keep our promises to more than 55,000 policyholders.



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- SAIF's surplus ensures we can keep our promises to more than 55,000 policyholders.
- SAIF dividends (when approved by our Board of Directors) support our policyholders and put funds back into Oregon's economy.





# Our why

- SAIF's oldest active claim that we're still paying on is from 1948.
- SAIF's surplus ensures we can keep our promises to more than 55,000 policyholders.
- SAIF dividends (when approved by our Board of Directors) support our policyholders and put funds back into Oregon's economy
- We help get injured workers back to work as soon as they are able.



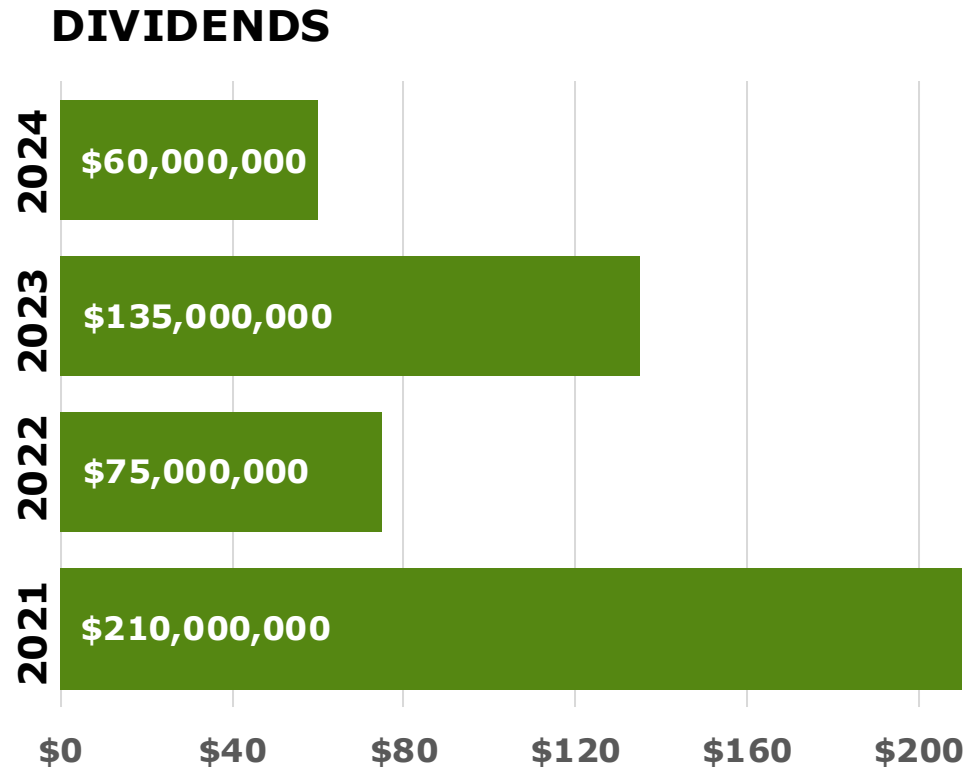




# The state of SAIF is strong

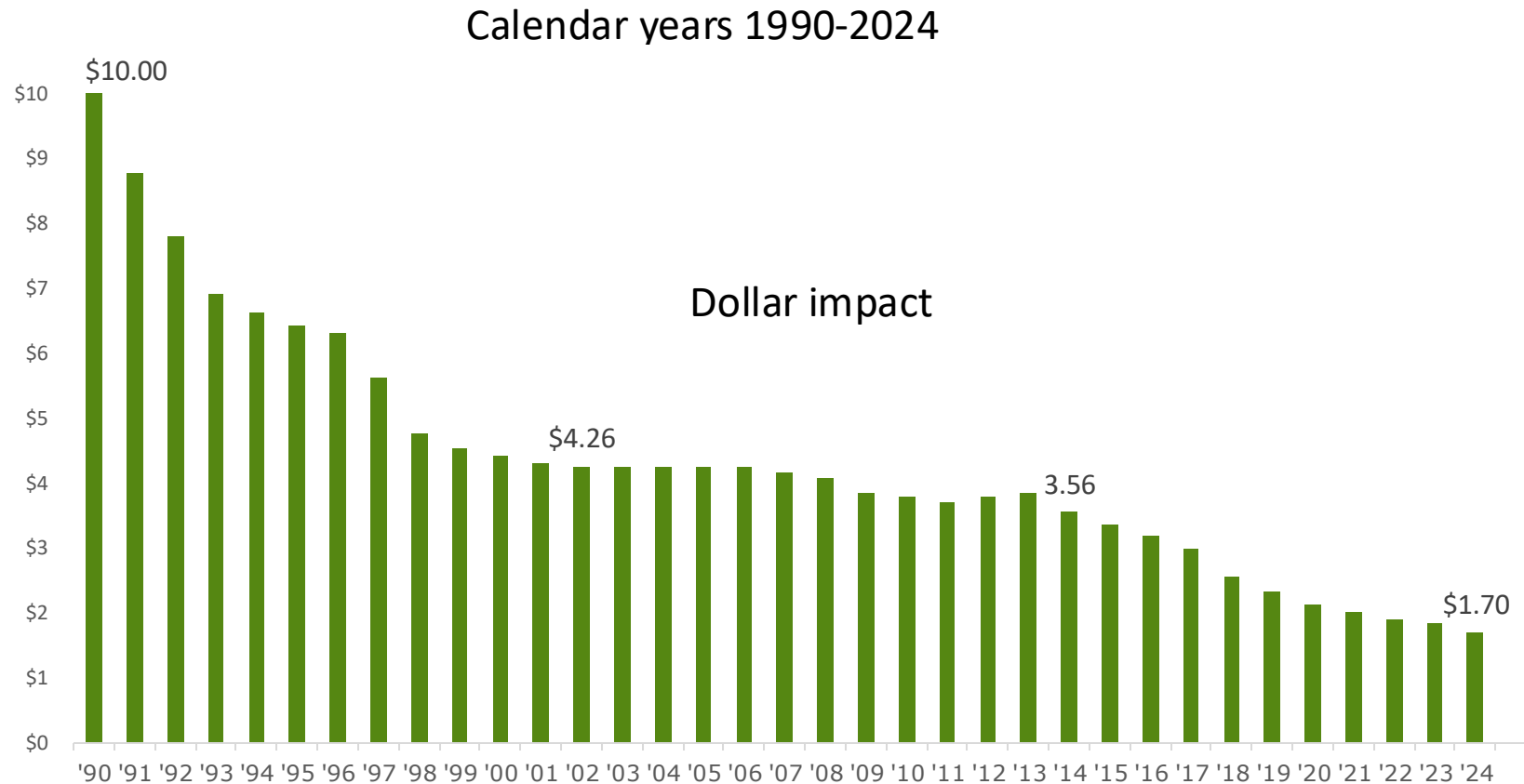
- Market share is 56.1%
- Pricing is competitive
- Very strong safety program
- Market-leading service levels

# The state of SAIF (continued)



- Customer retention rate over 97% for the last ten years (by premium)
- The workers' comp system is stable and balanced
  - 2025 pure premium reduction rate of 3.2%
  - 2024 pure premium reduction rate of 6.7%
  - 2023 pure premium reduction rate of 3.2%

# Impact of Oregon workers' comp premium rate changes



Source: National Council on Compensation Insurance (NCCI)

# SAIF's financial model

- Policies are priced below actual cost
- Investment returns subsidize pricing
- Changes to our \$2.5B claims and related reserves have a big impact
- Goals:
  - Maintain stable, predictable pricing
  - Pay a dividend when appropriate

# Capital levels help determine:

- Pricing
  - Investment income offsets underwriting losses
- Dividends
  - Based on a snapshot in time and future outlook
- SAIF's mission is to serve Oregon's workers and employers by making workers' compensation coverage widely available and affordable, and by providing extraordinary service.
  - Underwriting
  - Service levels

# Capital levels protect against:

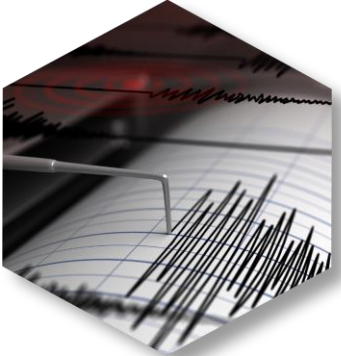
Medical cost escalation



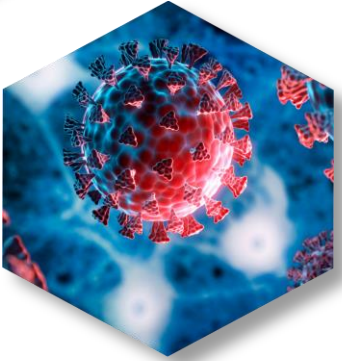
Recession



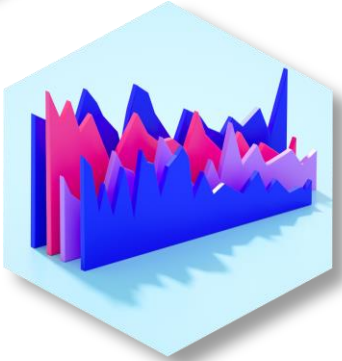
Earthquake



Legislative/regulatory changes



Pandemics

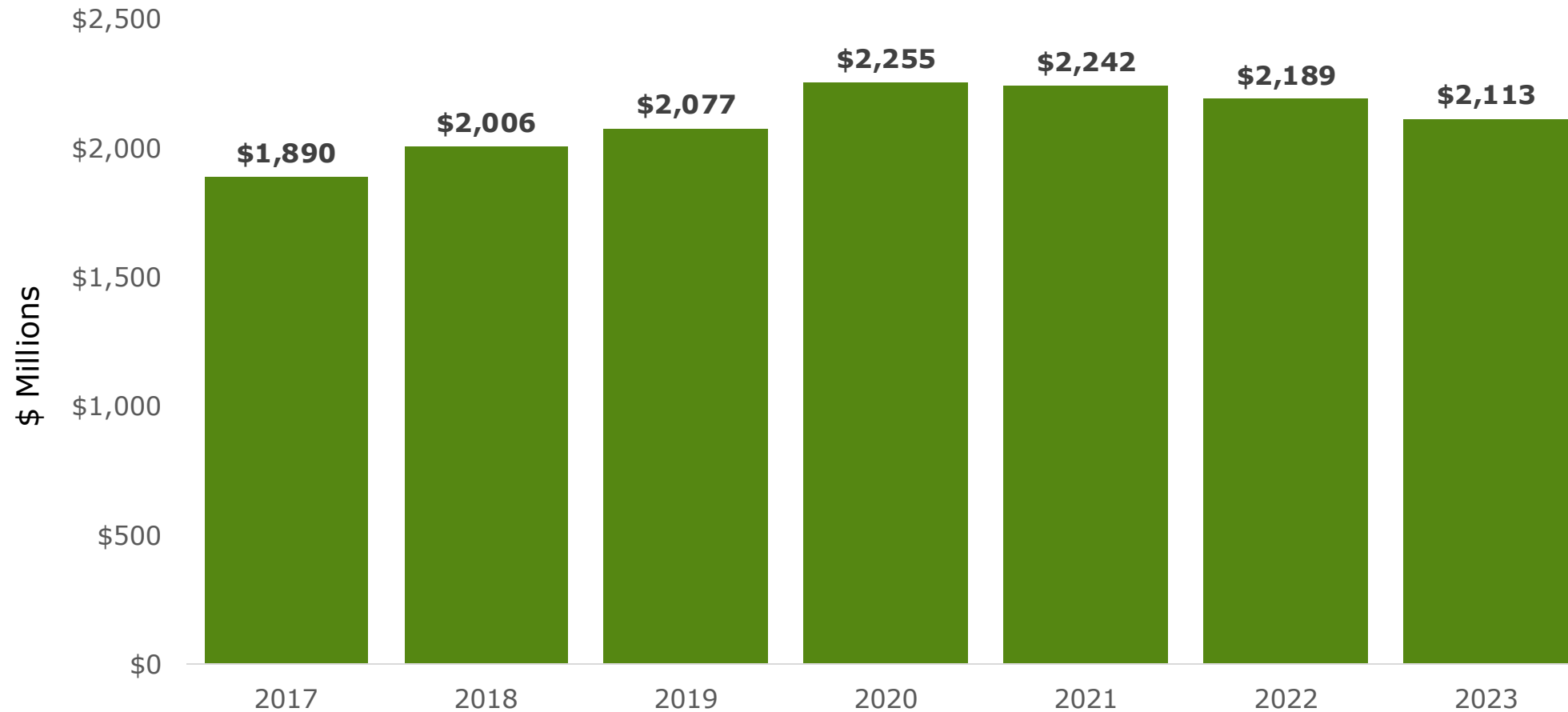


Changes in loss pattern

Our board adopts a risk tolerance statement: Maintain a minimum surplus of 5.0 times CAL-RBC; risk models show the likelihood of capital falling below CAL-RBC over the next three years is less than .5%

# Surplus/capital

as of December 31



Volatility



Changes in medical cost escalation



Fluctuations in policyholder payroll

Access to healthcare



Investment market volatility

Ongoing and future pandemic impacts



# Other issues to watch

- Legislative/regulatory changes that threaten balance in WC system
- Economic and claim impacts from increased wildfire activity, drought, and record high temperatures.
- A “taking” of SAIF capital
- Managed care challenges

# SAIF's financial profile

# Balance sheet

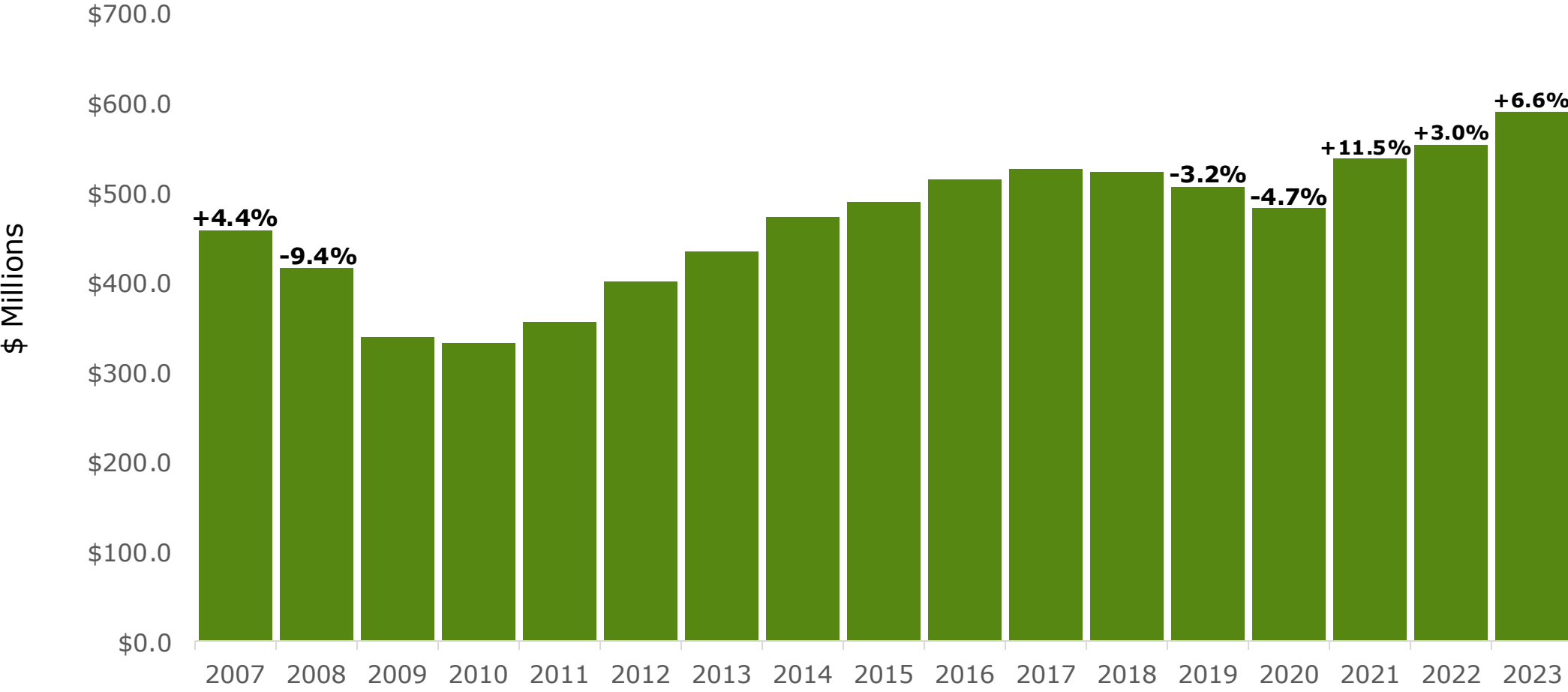
As of December 31

	2023
Invested assets	\$4.7 billion
Other assets	<u>\$0.4 billion</u>
<b>Total assets</b>	<b><u>\$5.1 billion</u></b>
Claims reserves	\$2.5 billion
Insurance payables and other	<u>\$0.5 billion</u>
<b>Total liabilities</b>	<b><u>\$3.0 billion</u></b>
<b>Total surplus/capital</b>	<b><u>\$2.1 billion</u></b>
<b>Total liabilities &amp; surplus/capital</b>	<b><u>\$5.1 billion</u></b>

# Income statement

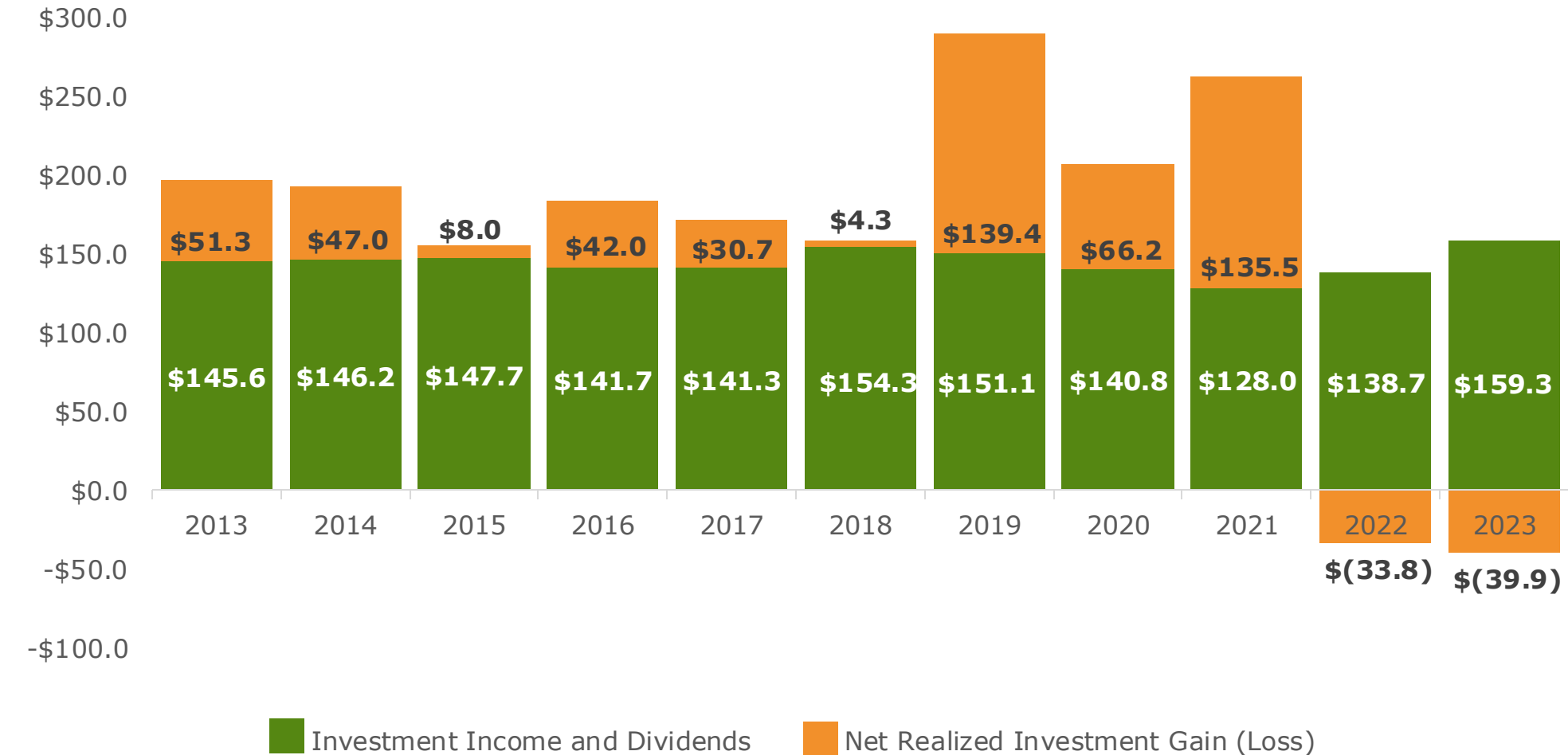
<b>\$ in millions</b>	<b>2023</b>
Premiums	\$ 591.5
Claims	424.0
Loss adjustment, underwriting & other expense	292.8
Underwriting gain (loss)	<b>(125.3)</b>
Investment income & realized gains	119.4
Miscellaneous income (expense)	(0.4)
Net income (loss) before dividends	(6.3)
Policyholder dividends	135.0
Net income after dividends	<b>\$ (141.3)</b>

# Net earned premium



# Total investment income

\$ Millions



# SAIF's investment priorities

- Preservation of capital
- Stable, predictable investment revenue
- Matching liquidity to SAIF cash needs
  - Availability of capital in a crisis
  - Availability of capital for project work



# Investment allocation

Investment allocation approved at the April 2019 OIC meeting:

	Previous Allocation	Aug. 2023 Allocation	Current Target Allocation
Fixed income	90%	83%	77%
Real estate funds	0%	6%	5%
Equities	10%	11%	10%
Bank loans & private credit	-	-	8%

SAIF began asset allocation study in September 2023 in partnership with Treasury. The results will be presented to the SAIF board of directors and the OIC for approval.

# Asset allocation study

- Study conducted at least every 5 years
- Last study completed in 2019 by RVK and they have performed the new study
- Coordination with SAIF staff, Treasury, and SAIF's investment advisors
- Results were reviewed by SAIF's board and are included in the meeting materials for approval.





# SAIF Corporation Portfolio Review Project

October 23, 2024



# RVK by the Numbers

 <p>Year founded <b>1985</b></p>	 <p>Total Employees <b>138</b></p>
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 <p>Advanced degrees &amp; certifications <b>55</b></p>	 <p>Total assets under advisement <b>\$3.4T</b></p>
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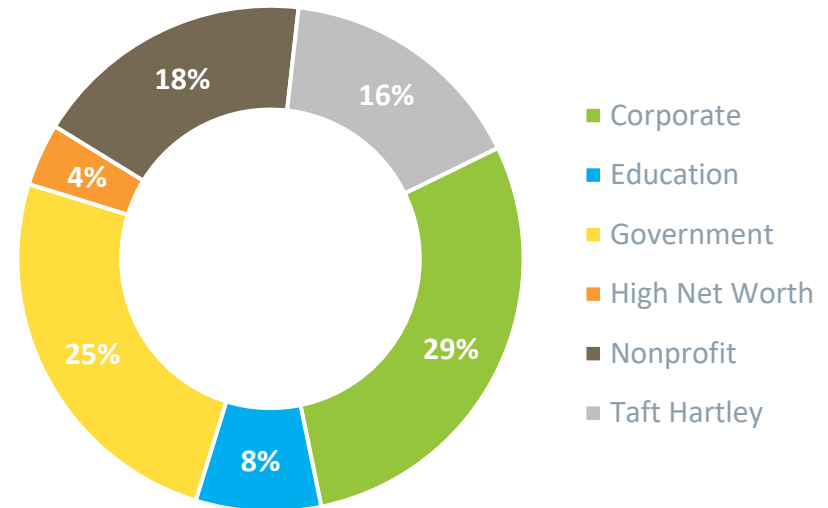
## RVK Offices

- Portland, OR (HQ)
- Chicago, IL
- Boise, ID
- New York, NY

100%

Revenue Derived From Client Fees  
Employee Ownership  
Non-discretionary Consulting

# RVK Client Base



## Representative Clients

<h3>Insurance</h3> <ul style="list-style-type: none"> <li>• Blue Cross of Idaho Health Service, Inc.</li> <li>• Cambia Health Solutions, Inc.</li> <li>• Capital Blue Cross</li> <li>• Moda, Inc.</li> <li>• Ohio Bureau of Workers' Compensation</li> </ul>	<h3>Healthcare Related</h3> <ul style="list-style-type: none"> <li>• Fox Chase Cancer Center Foundation</li> <li>• Leukemia &amp; Lymphoma Society</li> <li>• Medical Teams International</li> <li>• Montage Health &amp; Related Corporations</li> <li>• St. Luke's Health System</li> <li>• Temple University Health System</li> <li>• University of Wisconsin Medical Foundation, Inc.</li> </ul>
<h3>Public</h3> <ul style="list-style-type: none"> <li>• Los Angeles Fire and Police Pension System</li> <li>• New Jersey Division of Investment</li> <li>• New Mexico State Investment Council</li> <li>• Jacksonville Police &amp; Fire</li> <li>• Vermont Pension Investment Commission</li> </ul>	<h3>Corporation</h3> <ul style="list-style-type: none"> <li>• Daimler Truck &amp; Detroit Diesel</li> <li>• Louisiana-Pacific Corporation</li> <li>• Marathon Petroleum Corporation</li> <li>• Mercedes-Benz US International, Inc.</li> </ul>

# Project Scope of Work

**RVK was engaged by SAIF to complete a project consisting of the following:**

## **1. Asset liability and asset allocation review**

- Assessed the current and prospective portfolio allocations in the context of projected liabilities and ability to support SAIF under different underwriting and investment environments.
- Reviewed current and prospective portfolio allocations and their expected effect on SAIF's long-term investment returns, income, and risk efficiency.
- Measured impacts to CAL RBC\* ratio based on portfolio allocation changes and potential worst-case downside capital market events to identify potential dollar-based losses and the resulting impact to surplus levels and net income.

## **2. Investment guidelines and benchmark review**

- Reviewed SAIF policies and including updates according to current and/or prospective recommended asset allocations.
- Analyzed current and prospective total fund and bond benchmark structures.
- Reviewed bond manager guidelines and including updates according to prospective changes in security type, sector ranges and allowances.

## **3. Peer group comparisons**

- Compared SAIF against workers compensation peers across several financial, operational, capitalization, and investment-related measures.
- Evaluated incumbent manager fee structure and prospective fee structure under proposed changes.

\*CAL RBC: Company Action Level Risk Based Capital

# Project Results

## Executive Summary

### General conclusions based on the analysis performed:

- RVK affirms the soundness of SAIF's current broad asset allocation and custom bond benchmark construction, relative to fund liquidity, income and total return objectives.
  - SAIF's investment grade bond allocation is higher than similarly sized peers (Colorado and Texas) and near the average of all state fund peers (80% vs. 81%).
    - SAIF's corporate bond exposure is purposefully higher for achieving higher levels of income to support company operations.
    - SAIF's duration (interest rate sensitivity) is higher but aligned to SAIF's projected future liabilities.
- SAIF's current capital position readily supports its projected liabilities and expenses while the investment portfolio continues to offer strong and stable growth potential for assets and surplus.
- RVK holds a positive view of the investment managers currently utilized by SAIF; and confirms that investment management fees are institutional.
- SAIF continues to be well-positioned relative to its peer insurance funds with respect to insurance specific financial, operating, and capitalization metrics.
- SAIF's total fund benchmark aligns with current strategic allocation targets and underlying manager strategies and is appropriate for the current risk characteristics of the portfolio.



# Project Results

## Executive Summary

### **RVK Recommends the following for SAIF:**

- Asset Allocation Recommendations:
  - Add a strategic target to private credit exposure, specifically Senior Secured Direct Lending (“SSDL”) strategies, funded from the investment grade bond allocation.
    - Investment is made in a pooled vehicle structure that typically consists of 30 or more private loans with multiple institutional investors invested.
  
- Benchmarking and Investment Guidelines Recommendations:
  - Add a specific collateralized loan obligation (“CLO”) benchmark component to benefit portfolio income yield and diversification opportunities.
    - Expand allowance to invest CLO’s down to BBB- credit quality.
  - Eliminate intermediate corporate component from SAIF custom bond benchmark and replace it with a long corporate component.
  - Remove bank loan targets, allowances and guidelines from applicable policies due to implementation and other challenges.
  - Add a strategic benchmark component for Senior Secured Direct Lending (S&P LTSA + 1.5% or Credit Suisse Bank Loan +1.5%) to align with recommended asset allocation changes.
  
- Pursue a fee review process with current core bond managers to determine if investment management fees can be reduced.

# Asset Allocation Review

## Current & Potential Portfolios Modeled

RVK believes that SAIF's current investment strategy is broadly appropriate relative to its risk tolerance, its strong capital position, and in consideration the available investable opportunity set.



Asset Class	Current Portfolio	SAIF Target	Recommended
Global Equity	10.0	10.0	10.0
SAIF Custom Bond	85.0	77.0	80.0
<b>Senior Sec Direct Lending</b>	0.0	4.0	<b>5.0</b>
<b>Bank Loans</b>	0.0	4.0	0.0
<b>Core Real Estate</b>	5.0	5.0	5.0
Cash Equivalents	0.0	0.0	0.0
Total	100	100	100
<b>Expected Return</b>	<b>4.83</b>	<b>5.02</b>	<b>4.96</b>
<b>Risk (Standard Deviation)</b>	<b>5.56</b>	<b>5.44</b>	<b>5.44</b>
<b>Current Yield</b>	<b>4.59</b>	<b>4.95</b>	<b>4.75</b>
<b>Surplus to CAL-RBC Ratio*</b>	<b>4.85</b>	<b>4.77</b>	<b>4.78</b>
<b>Change in Yield (\$)</b>		<b>+\$16.7</b>	<b>+\$7.4</b>
Return (Compound)	4.68	4.88	4.82
Return/Risk Ratio	0.87	0.92	0.91
RVK Exp Eq Beta (LCUS Eq = 1)	0.20	0.21	0.21
RVK Liquidity Metric (T-Bills = 100)	82	77	78

- RVK asset allocation model supports the addition of Senior Secured Direct Lending to the SAIF asset allocation target.
- The new asset class individually carries higher return and risk characteristics but is less correlated to public equities and bonds—leading to slightly lower expected risk at the total portfolio level.
- Strong income characteristics of the asset class expected to increase total portfolio income yield.
- Insurance-friendly implementation of Senior Secured Direct Lending neutralizes surplus to CAL RBC ratio impact.

SAIF Custom Bond is a weighted average comprised of 10% Intermediate Credit, 15% Government, 20% MBS, 50% Credit, and 5% High Yield. Estimated Current Yield and Change in Yield – Annual Million \$ may differ from the A/L Study due to rounding. Yields based on 12/31/2023 data.

\*Surplus to CAL RBC Ratio based on SAIF preferred measure of CAL RBC. Calculation shown is as of 12/31/2023. Figures shown are net of fees.



# Risk Based Capital (“RBC”)

**Definition:** Determines the regulatory minimum amount of capital required to maintain to avoid regulatory action

- RBC limits the amount of risk a company can take, requiring a company with a higher amount of risk to hold a higher amount of capital.
- Focused on the primary risks that are common for the particular insurance type:
  1. *Asset Risk*
  2. *Underwriting Risk*
  3. *Other Risk (dependent on the type of insurance)*
- Four levels of action that can be triggered; each of which requires particular action on the part of the regulator, the company, or both:
  - *Company Action Level (CAL)*
  - *Regulatory Action Level*
  - *Authorized Control Level (ACL)*
  - *Mandatory Control Level*

**Asset Risk** is a risk-weighted assessment of a company’s invested assets:

- R0 Asset risk — Subsidiary Insurance Companies*
- R1 Asset risk — Fixed Income*
- R2 Asset risk — Equity*
- R3 Asset risk — Credit*

- Each of the company’s investments is multiplied by a specific “risk charge” (e.g., *investment grade bonds carry a significantly lower risk charge than common stocks*), and then aggregated to a total “risk charge” at the portfolio level.
- In the analysis of the impact to RBC of potential asset allocation adjustments, only the **Asset Risk** component is considered to change.

**SAIF Corporation is focused on maintaining capital levels at least 5x Company Action Level RBC (or “CAL RBC”)**

# RBC Ratio

**Definition:** The ratio of Capital & Surplus to Risk Based Capital (RBC)

- Used to measure the adequacy of capital levels relative to RBC, with regulatory action levels triggered if the ratio falls below certain thresholds:

- Company Action Level: Ratio up to 200%*
- Regulatory Action Level: Ratio up to 150%*
- Authorized Control Level: Ratio up to 100%*
- Mandatory Control Level: Ratio up to 70%*

- In the analysis of the impact of potential asset allocation adjustments on RBC, only the **Denominator** of the RBC Ratio formula is considered to change:
  - Capital and Surplus levels are not immediately affected by asset allocation changes, however the risk-weighted assessment of the company's invested assets can change.*

## SAIF Corporation's approved minimum risk tolerance level is five times that of the Company Action Level (CAL) RBC Ratio

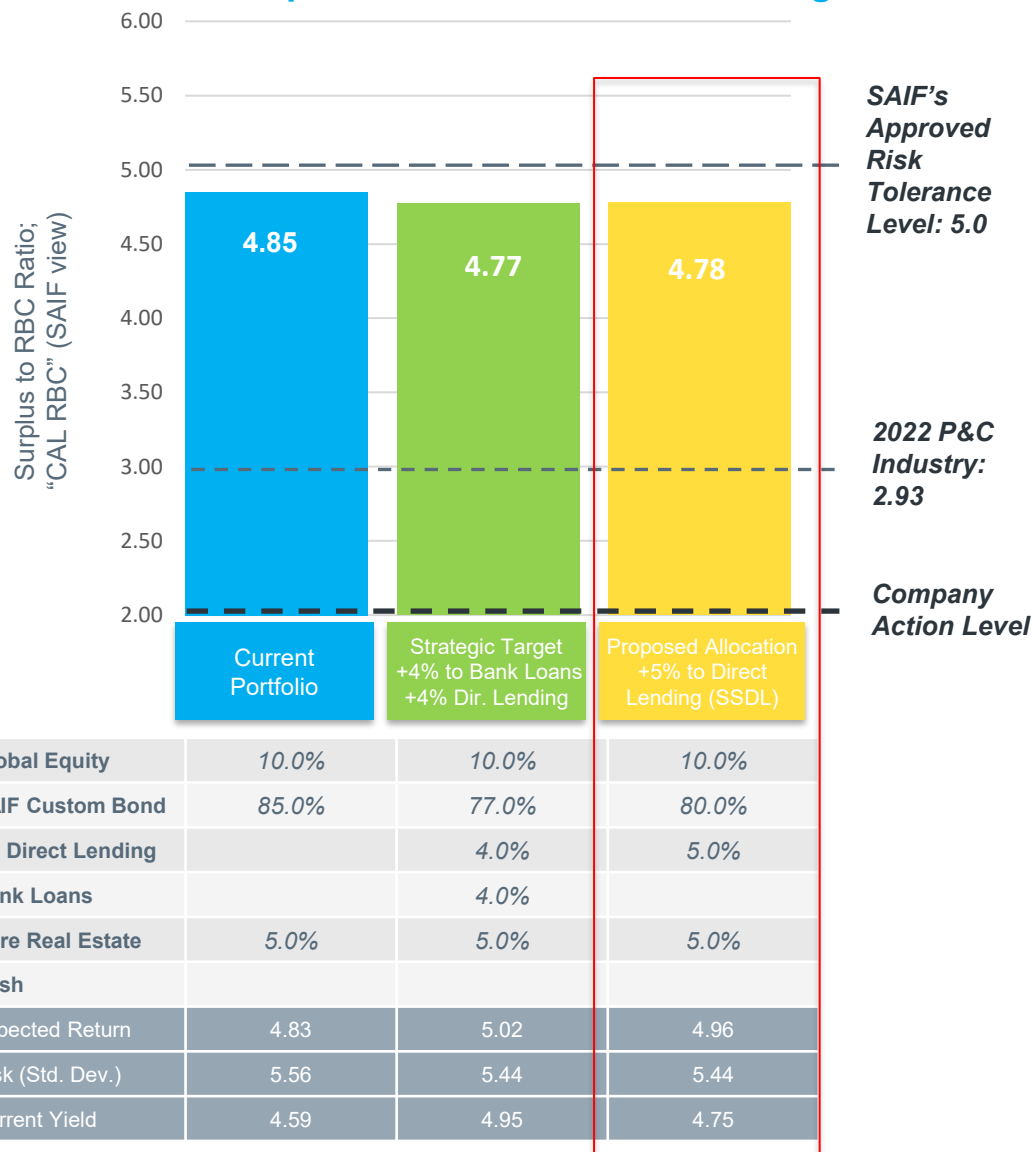
- This is measured internally by what SAIF calls "Surplus to CAL RBC Ratio" using the following formula:

$$\text{"Surplus to CAL RBC Ratio"} = \left( \frac{\text{Capital \& Surplus}}{\text{ACL RBC} * 2} \right)$$

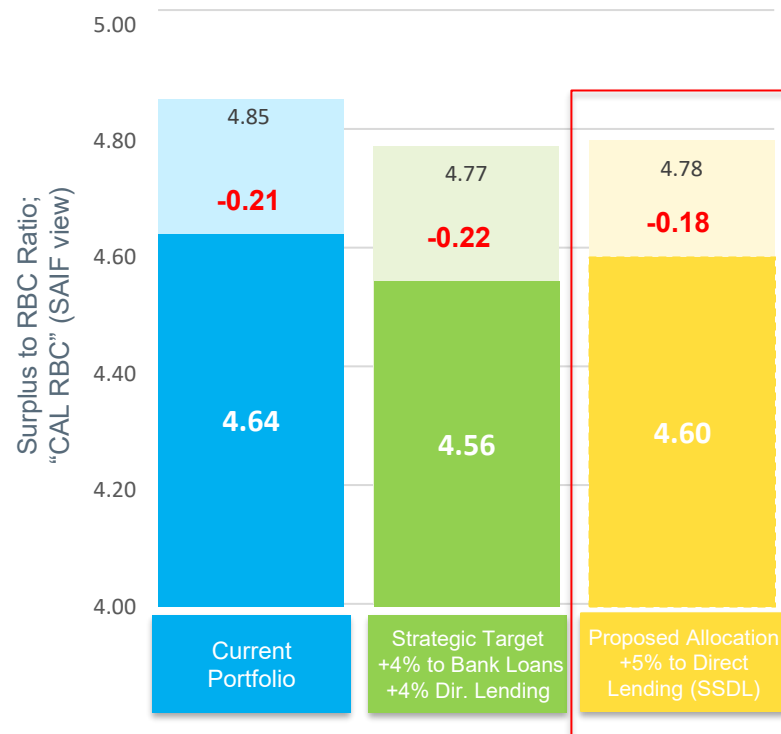
- SAIF's minimum allowable "Surplus to CAL RBC Ratio" is 5.0

# Surplus to CAL RBC Ratio Modeling

## Relative Impact of Asset Allocation Changes



## Relative Downside Impact Monte Carlo Analysis – 5<sup>th</sup> percentile



### Assumptions

- Asset Risk Factors and Adjusted Capital levels have been reduced in accordance with 5th percentile Monte Carlo analysis
- All other risk factors and liability levels are assumed to remain static

Real Estate allocation treated as a Schedule BA asset (20.0% RBC charge). The RBC charge assumed for Bank Loans is based on equal split between BB/B rated loans (3.25%). RBC charges for Private Credit assumed based on an 80 IG/ 20 LP split respective estimated RBC charges. Funded SS Direct Lending out of NAIC 1 rated Bonds. Figures shown are net of fees.

# Downside Loss Scenario Modeling

## Estimated Impact to Surplus – 5<sup>th</sup> percentile 1-year loss

### Asset Allocation and Estimated Loss Attribution (\$000)

	Estimated 1- Year Losses		
	Current Portfolio	SAIF Target	Recommended
Total Unrealized Losses	\$ (192,000)	\$ (175,000)	\$ (175,000)
Mark-to-Market Losses	\$ (76,228)	\$ (76,496)	\$ (69,972)
OTTI – 20% of Unrealized Losses on IG Bonds	\$ (23,154)	\$ (18,470)	\$ (19,447)
OTTI – 20% of Unrealized Losses on Long Duration Bonds	\$ -	\$ -	\$ -
OTTI – 20% of Unrealized Losses on SS Direct Lending	\$ -	\$ (1,231)	\$ (1,559)
Estimated Surplus Impact	\$ (99,382)	\$ (96,197)	\$ (90,977)

Losses attributable to market value changes across all asset classes.

Losses based on statutory accounting rules.

- Mark-to-Market losses attributable to Equities, Real Estate, Bank Loans, and non-IG rated portion of Senior Secured Direct Lending note (20% of capital structure).
- OTTI losses assumed to be 20% of unrealized loss position for IG Bonds, Long Duration Bonds and rated note portion of Senior Secured Direct Lending (80% of capital structure).
- OTTI write-offs do not make any impairment distinction at an individual security level.

Figures shown in thousands (\$) and represent projected 5<sup>th</sup> percentile 1-year losses. Unrealized losses were calculated based on a beginning investment portfolio value of \$4.65B and are measured from 12/31/2023. Figures shown are net of fees.

# Asset Allocation

## Rationale Summary

### Recommended Portfolio

- RVK modeling indicates an approximate 15 basis point increase in expected long-term returns.
- Reduces expected total portfolio volatility due to low correlation of Senior Secured Direct Lending.
- Benefits downside return/loss scenarios over both short- and long-term horizons.
- Expected reduction of Surplus to CAL RBC Ratio from investment changes is minimal: 7 basis points (4.85 to 4.78).
- Moves SAIF in line with similar sized peers in adding an asset class (SSDL) available in a capital efficient rated-note structure.

### Potential Disadvantages and Other Considerations

- Search and approval process of private asset classes is lengthy and more complex and will heighten investment due diligence and monitoring burdens going forward.
- Closed end funds will require periodic pacing analysis, identification of new investments to maintain a Private Credit allocation and greater attention to portfolio liquidity.
- Fees will increase because of investing in private asset classes but still a projected net positive for SAIF's long-term performance.

# Bond Benchmark Review & Recommendation

- RVK reviewed several prospective benchmark changes to examine how changes would impact benchmark risk/return, sector allocations, and duration characteristics.
- **RVK recommends a change to the current benchmark composition, adding collateralized loan obligation (“CLO”) exposure and replacing the intermediate corporate allocation with a long corporate allocation (Prospective Benchmark 4).**
  - Moves bond benchmark closer to how the two bond managers, Western and Wellington, currently manage the portfolio.
  - Adding CLOs is beneficial in terms of increasing yield, quality, diversification, and return characteristics to the benchmark.
  - Replacing the US Corporate Intermediate with an allocation to US Long Credit creates a duration profile nearer to the current portfolio.

- **Additionally, RVK recommends the following changes to the investment policy and investment manager guidelines:**

- Add an allowance within bond manager guidelines to invest in CLOs down to BBB- credit quality and higher – increases managers’ implementation flexibility.
- Remove previously recommended Bank Loans strategic allocation targets and allowance references in bond manager guidelines – Bank Loans are highly problematic in terms of accounting and other implementation challenges.

	Current Benchmark	Prospective Benchmark 4
US Corporate	50%	50%
US Corp Intermediate	10%	0%
US HY Ba/B 2% Capped	5%	5%
US MBS Fixed Rate	20%	20%
US Government	15%	15%
CLOS	0%	5%
US Long Credit	0%	5%



# Appendix – Asset Allocation, Fee, and Benchmarking Analyses



# Asset Allocation Model - Assumptions

Asset Class	Arithmetic Return Assumption	Standard Deviation Assumption	Index	Longest Historical Time Frame	Annualized Arithmetic Return	Annual Standard Deviation
Global Equity	7.55	16.60	MSCI ACW IMI (Gross)	Jun 1994 - Dec 2023	7.80	18.49
SAIF Custom Fixed Income	4.46	5.30	Custom	Dec 2000 - Dec 2023	4.53	5.53
Long Duration Credit Fixed Income	5.50	10.00	Bloomberg US Credit Long	Jan 1973 - Dec 2023	7.69	11.52
Bank Loans	6.50	9.00	CS Leveraged Loan	Feb 1992 - Dec 2023	5.49	10.20
Senior Secured Direct Lending	7.00	9.50				
Core Real Estate	5.75	12.50	NCREIF ODCE (Gross) (AWA)	Mar 1978 - Sep 2023	8.72	9.22

## \*Correlation Table

	Global Equity	SAIF Custom Fixed Income	Long Duration Credit Fixed Income	Bank Loans	Senior Secured Direct Lending	Core Real Estate
Global Equity	1.00	0.39	0.40	0.56	0.38	0.32
SAIF Custom Fixed Income	0.39	1.00	0.97	0.30	0.15	0.16
Long Duration Credit Fixed Income	0.40	0.97	1.00	0.30	0.16	0.06
Bank Loans	0.56	0.30	0.30	1.00	0.46	0.21
Senior Secured Direct Lending	0.38	0.15	0.16	0.46	1.00	0.09
Core Real Estate	0.32	0.16	0.06	0.21	0.09	1.00

\*Lower correlation figure indicates a greater diversification benefit with each respective asset class.



# Modeling Yield Assumptions

Asset Class	Index	Current Yield As of 12/31/2023
Global Equity	MSCI ACW IMI	2.09%
Core Bonds	Blend of Underlying Managers	4.89%
	Wellington	5.13%
	Western	4.64%
Long Duration	Bloomberg US Corporate Long Bond Index	5.22%
Bank Loans	Credit Suisse Leveraged Loan Index	9.79%
Senior Secured Direct Lending	50/50 Bank Loans/High Yield	8.16%
	Credit Suisse Leveraged Loan Index	9.79%
	Bloomberg US Corporate High Yield Index	6.53%
Core Real Estate	NCREIF ODCE	2.79%

Bonds	Index	Current Yield As of 12/31/2023
Benchmark	Bloomberg Barclays US Corporate Investment Grade Index	5.06%
	Bloomberg Barclays US Intermediate Bond Index	4.97%
	Bloomberg Barclays US High Yield Ba/B 2% Issuer Cap Index	7.01%
	Bloomberg Barclays US MBS Agency Fixed Rate Index	4.68%
	Bloomberg Barclays US Government Bond Index	4.09%

# Asset Allocation Review

## Efficient Frontier & Potential Portfolios

	Min	Max	1	2	3	4	5	6	7	8	9	10	Current Portfolio	SAIF Target	Recommended	Extended Duration	Long Duration	Potential 1A
Global Equity	5	15	5	6	7	8	9	11	12	13	14	15	10	10	10	10	10	10
SAIF Custom Bond	70	100	80	79	78	77	76	74	73	72	71	70	85	77	80	70	0	65
Long Duration Credit	0	20	0	0	0	0	0	0	0	0	0	0	0	0	0	15	85	15
Bank Loans	0	5	5	5	5	5	5	5	5	5	5	5	0	4	0	0	0	0
Senior Secured Direct Lending	0	5	5	5	5	5	5	5	5	5	5	5	0	4	5	0	0	5
Core Real Estate	0	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5	5
<b>Total</b>			100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Capital Appreciation			10	11	12	13	14	16	17	18	19	20	10	14	15	10	10	15
Capital Preservation			80	79	78	77	76	74	73	72	71	70	85	77	80	85	85	80
Alpha			0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Inflation			10	10	10	10	10	10	10	10	10	10	5	9	5	5	5	5
<b>Expected Return</b>			4.91	4.94	4.98	5.01	5.05	5.08	5.11	5.15	5.18	5.22	4.83	5.02	4.96	4.99	5.72	5.12
<b>Risk (Standard Deviation)</b>			5.13	5.18	5.25	5.32	5.39	5.47	5.55	5.63	5.72	5.81	5.56	5.44	5.44	6.19	9.38	6.07
<b>Compound Return</b>			4.78	4.81	4.85	4.88	4.91	4.94	4.96	5.00	5.02	5.06	4.68	4.88	4.82	4.81	5.31	4.95
<b>Estimated Current Yield</b>			5.13	5.10	5.07	5.04	5.00	4.97	4.94	4.91	4.88	4.84	4.59	4.95	4.75	4.62	4.79	4.82
<b>Change in Yield - Annual Million \$</b>													--	+\$16.7	+\$7.4	+\$1.4	+\$9.3	+\$10.7
Return/Risk Ratio			0.96	0.95	0.95	0.94	0.94	0.93	0.92	0.91	0.91	0.90	0.87	0.92	0.91	0.81	0.61	0.84
RVK Expected Eq Beta (LCUS Eq = 1)			0.17	0.18	0.19	0.20	0.21	0.22	0.23	0.24	0.25	0.26	0.20	0.21	0.21	0.22	0.32	0.23
RVK Liquidity Metric (T-Bills = 100)			76.00	76.00	76.00	76.00	76.00	76.00	76.00	76.00	76.00	76.00	82.00	77.00	78.00	82.00	83.00	78.00

SAIF Custom Bond is a weighted average comprised of 10% Intermediate Credit, 15% Government, 20% MBS, 50% Credit, and 5% High Yield. Estimated Current Yield and Change in Yield – Annual Million \$ may differ from the A/L Study due to rounding.

# Downside Loss Scenario Modeling

## Mark to Market Pricing on all Asset Classes

### Monte Carlo Returns – 1 Year (\$ M)

1 Year	Current Portfolio	SAIF Target	Recommended
1 <sup>st</sup> Percentile	-\$363	-\$339	-\$337
5 <sup>th</sup> Percentile	-\$192	-\$175	-\$175
25 <sup>th</sup> Percentile	\$42	\$58	\$52
50 <sup>th</sup> Percentile	\$216	\$224	\$221
75 <sup>th</sup> Percentile	\$393	\$396	\$393

- Monte Carlo analysis simulates a distribution of investment return outcomes for the aggregate investment portfolio based on the underlying historical performance of individual asset classes contained within a specific asset allocation target
- Monte Carlo analysis used as the basis for estimating unrealized, investment-related losses and the subsequent effect on SAIF's financial condition specifically pertaining to surplus and income forecast

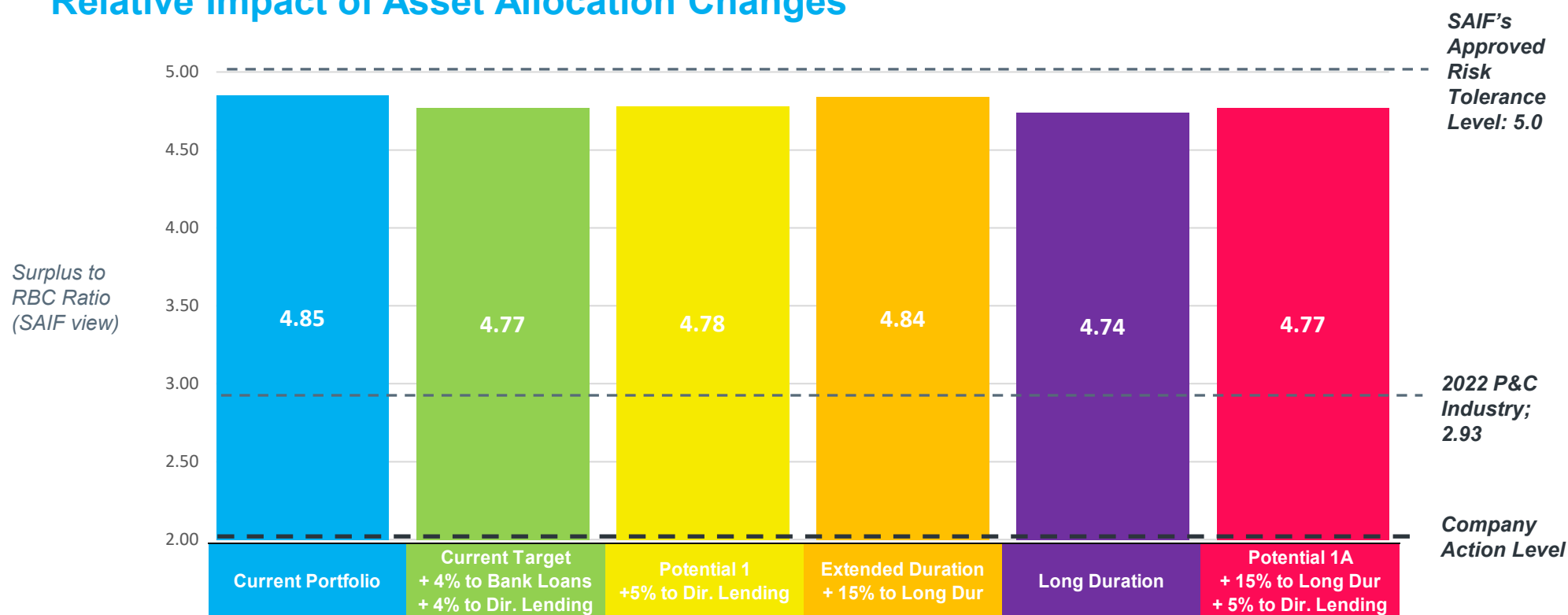
### Asset Allocation and Estimated Loss Attribution (\$ 000)

		Asset Allocation and Estimated Loss Attribution					
		Current Portfolio		SAIF Target		Recommended	
Asset Classes and 5 <sup>th</sup> Percentile Loss		Allocation Target / Loss Attribution (000's)		Allocation Target / Loss Attribution (000's)		Allocation Target / Loss Attribution (000's)	
Global Equities	-21.8%	10%	\$ (57,886)	10%	\$ (50,972)	10%	\$ (51,655)
SAIF Custom Bond	-5.1%	85%	\$ (115,772)	77%	\$ (92,350)	80%	\$ (97,233)
Long Duration Credit FI	-10.2%		\$ -		\$ -	0%	\$ -
Bank Loans	-8.4%		\$ -	4%	\$ (7,833)	0%	\$ -
Senior Secured Direct Lending	-8.2%		\$ -	4%	\$ (7,693)	5%	\$ (9,745)
Core Real Estate	-13.8%	5%	\$ (18,342)	5%	\$ (16,151)	5%	\$ (16,368)
Total Unrealized Losses (000's)			\$ (192,000)		\$ (175,000)		\$ (175,000)

5<sup>th</sup> percentile losses on a 1-year holding period were used as the basis of analysis  
 Unrealized losses were calculated based on a beginning investment portfolio value of \$4.65B and are measured from 12/31/23. Figures shown are net of fees.

# RBC Modeling – SAIF View

## Relative Impact of Asset Allocation Changes



Global Equity	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Core Bonds	85.0%	77.0%	80.0%	70.0%		65.0%
Long Duration Credit				15.0%	85.0%	15.0%
Bank Loans		4.0%				
SS Direct Lending		4.0%	5.0%			5.0%
Core Real Estate	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Expected Return	4.83	5.02	4.96	4.99	5.72	5.12
Risk (Std. Dev.)	5.56	5.44	5.44	6.19	9.38	6.07
Current Yield	4.59	4.91	4.75	4.62	4.79	4.78

### Allocation Assumptions

- Funded Bank Loans and Direct Lending out of Bonds rated A3/A- or higher
- Bank Loans assumed to average BB/B credit quality; Direct Lending assumed to split 80/20 between IG rated (BBB) note and LP structure (Sch. BA)
- Long Duration Bonds assumed to carry an average rating of A2/A3, funded from Bonds with Aa2/Aa3 average rating

# SAIF Bond Benchmark Analysis

## Overview

- Based on the review, RVK recommends **a change** to the current benchmark composition, adding a CLO and replacing the intermediate corporation allocation with a long corporate allocation (Prospective Benchmark 4).
- Four alternative benchmark structures were reviewed:

- Add CLOs / Reduce US Corporate*
- Add CLOs / Reduce US Corporate Intermediate*
- Add CLOs / Eliminate US Corporate Intermediate / Add to US Corporate*
- Add CLOs / Reduce US Corporate intermediate / Add Long Credit*

Index	Current Benchmark	Prospective Benchmark 1	Prospective Benchmark 2	Prospective Benchmark 3	Prospective Benchmark 4
US Corporate	50%	45%	50%	55%	50%
US Corp Intermediate	10%	10%	5%	0%	0%
US HY Ba/B 2% Capped	5%	5%	5%	5%	5%
US MBS Fixed Rate	20%	20%	20%	20%	20%
US Government	15%	15%	15%	15%	15%
CLOs	0%	5%	5%	5%	5%
US Long Credit	0%	0%	0%	0%	5%

- Other benchmark and guideline related recommendations:**
  - Add an allowance within bond manager guidelines to invest in collateralized loan obligations (“CLO”) down to BBB- credit quality and higher.
  - Remove previously recommended Bank Loans strategic allocation targets and allowances in bond manager guidelines.

Benchmark modeling utilized JPM CLOIE index as a proxy CLO benchmark component.

# SAIF Bond Benchmark Analysis

## Current Bond Portfolio vs. Current Benchmark

	Current Benchmark	Current Fixed Income Portfolio
US Corporate	50%	
US Corp Intermediate	10%	
US HY Ba/B 2% Capped	5%	
US MBS Fixed Rate	20%	
US Government	15%	
Wellington		50%
Western Asset		50%

	Current Benchmark	Current Fixed Income Portfolio
Avg. Maturity	8.78	9.59
Avg. Quality	A1	A2
Coupon Rate	3.78	3.70
Current Yield	4.11	4.84
Effective Duration	6.18	6.39
Yield To Maturity	5.20	5.42
Yield To Worst	5.19	5.44

- SAIF's bond managers have performed well since inception, beating the custom benchmark over most trailing periods and calendar years

	1 Year	3 Years	5 Years	7 Years	10 Years	15 Years	Since Incep.	Inception Date
Est. SAIF Fixed Income Portfolio	5.03	-1.92	1.35	2.07	2.59	4.59	4.85	11/01/2000
Current Fixed Income Benchmark	3.50	-1.83	1.13	1.75	2.19	3.79	4.35	
Difference	1.53	-0.09	0.22	0.32	0.40	0.80	0.50	

- SAIF's aggregated current portfolio is similar in duration to the benchmark, with a slightly lower quality and higher current yield

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Est. SAIF Fixed Income Portfolio	6.34	-13.67	-0.33	9.04	12.18	-1.20	6.02	6.17	-0.31	7.10
Current Fixed Income Benchmark	7.23	-13.56	-0.94	8.19	11.29	-1.04	4.77	4.64	0.07	6.30
Difference	-0.89	-0.11	0.61	0.85	0.89	-0.16	1.25	1.53	-0.38	0.80

- SAIF's risk-adjusted returns have exceeded the benchmark over time

Since Inception MPT Stats	Standard Deviation	Equity Beta (vs. S&P 500)	Correlation to S&P 500	Sharpe Ratio	Tracking Error (vs. Current BM)	Info Ratio (vs. Current BM)
Current FI Portfolio	5.44	0.11	0.31	0.59	1.12	0.44
Current Benchmark	5.18	0.08	0.24	0.53	-	-

Bond portfolio performance shown is estimated using client specific performance at a 50% weight for each manager. Benchmark performance shown includes all past iterations of the custom benchmark. Data as of 3/31/2024.

# SAIF Bond Benchmark Analysis

## Current Benchmark vs. Prospective Benchmark #4

	Current Benchmark	Prospective Benchmark 4
US Corporate	50%	50%
US Corp Intermediate	10%	0%
US HY Ba/B 2% Capped	5%	5%
US MBS Fixed Rate	20%	20%
US Government	15%	15%
CLOS	0%	5%
US Long Credit	0%	5%

	Current Benchmark	Prospective Benchmark 4
Avg. Maturity	8.78	9.52
Avg. Quality	A1	A2
Coupon Rate	3.78	3.98
Current Yield	4.11	4.44
Effective Duration	6.18	6.42
Yield To Maturity	5.20	5.26
Yield To Worst	5.19	5.27

### Objective:

- Offset/increase duration reduction from CLOs by adjusting corporate benchmark components

### Result:

- +5% to CLOs
- +5% to US Long Credit
- -10% to US Corporate Int.

	1 Year	3 Years	5 Years	7 Years	10 Years	15 Years	Since Incep.	Inception Date
Prospective Benchmark 4	3.73	-1.75	1.21	1.85	2.29	N/A	2.45	02/01/2012
Current Fixed Income Benchmark	3.50	-1.83	1.13	1.75	2.19	3.95	2.35	
Difference	0.23	0.08	0.08	0.10	0.10	N/A	0.10	

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Prospective Benchmark 4	7.60	-13.92	-0.77	8.28	11.70	-1.30	5.19	5.00	-0.21	6.76
Current Fixed Income Benchmark	7.23	-13.56	-0.94	8.19	11.29	-1.04	4.77	4.64	0.07	6.30
Difference	0.37	-0.36	0.17	0.09	0.41	-0.26	0.42	0.36	-0.28	0.46

- Increasing duration and decreasing quality results in an increase in current yield (0.33%).

Since Inception MPT Stats	Standard Deviation	Equity Beta (vs. S&P 500)	Correlation to S&P 500	Sharpe Ratio	Tracking Error (vs. Current BM)	Info Ratio (vs. Current BM)
Prospective BM 4	5.28	0.18	0.49	0.27	0.28	0.39
Current Benchmark	5.08	0.17	0.48	0.26	-	-

- Return differences are minimal while volatility is higher but still below actual portfolio results)



# SAIF Bond Benchmark Analysis

## Rationale Summary

### Recommended Benchmark and Other Changes

- Adding CLOs to the benchmark is beneficial in terms of increasing yield, quality, diversification, and potential returns but it does reduce total duration below current benchmark levels without additional changes.
- Offsetting lower duration from CLOs by replacing US Corporate Intermediate with an allocation to US Long Credit creates a duration profile similar to the current benchmark and portfolio.
- Broadening CLO credit quality allowance increases managers ability to implement valuation and sector views.
- Bank Loans identified as problematic for SAIF and other insurance investors in separate account structure due to accounting and implementation challenges.
- Additional input received from (Wellington and Western)—each of which indicated the recommended benchmark changes are manageable given their magnitude and the resulting characteristics align closely to the current benchmark and investment portfolio.

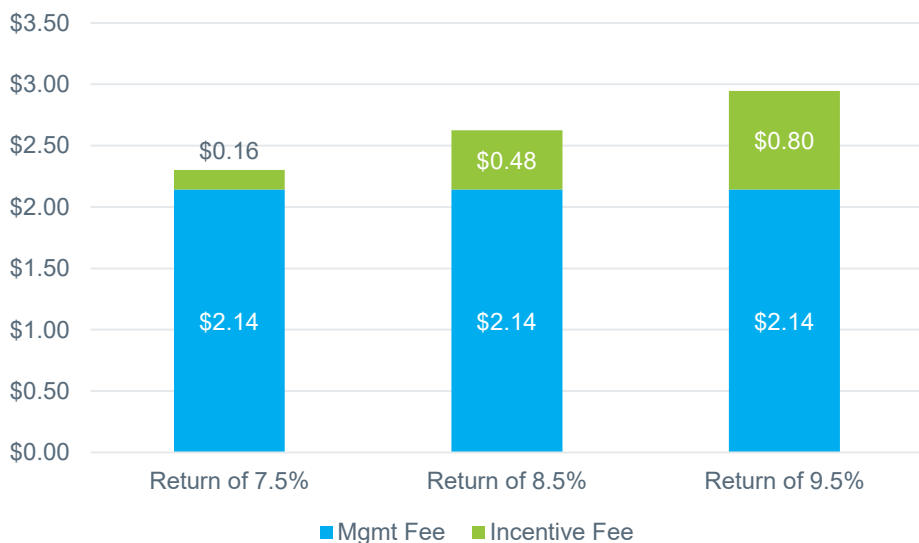
### Potential Disadvantages and Other Considerations

- Increases hurdle for bond managers to continue to achieve long-term excess returns and/or mandates effective use of the allowance.
- Benchmark is of higher average credit quality with changes.
- Volatility of benchmark increases but shown to be less than actual portfolio experience from active management.
- The expansion of the CLO credit quality range will offset concerns over a strategic CLO target previously limited to an AAA quality restriction.

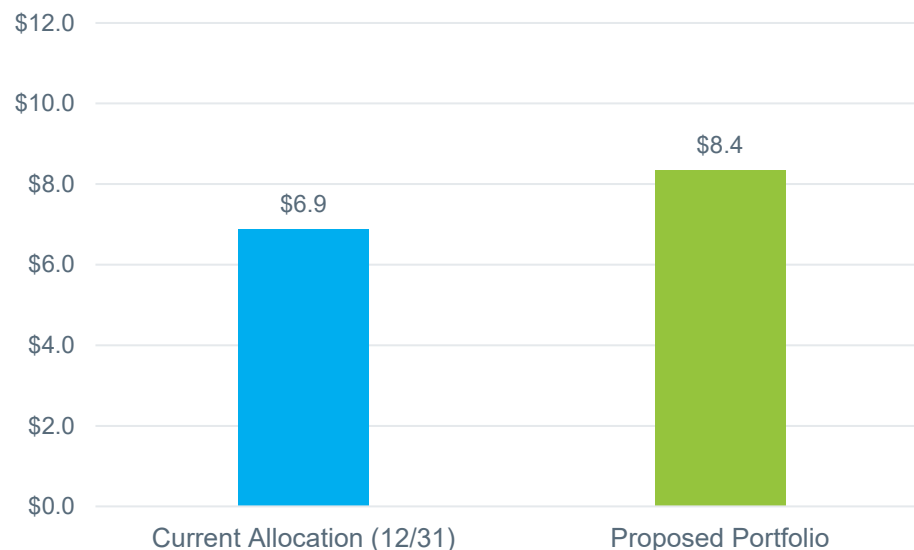
# Investment Manager Fee Review

## Effect on Future Gain/Loss Projections

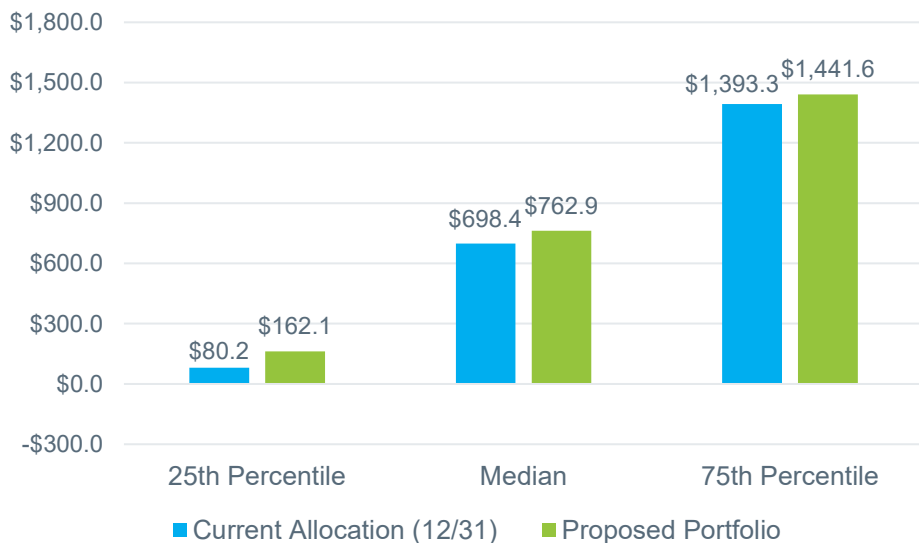
1 Year Hypothetical Private Credit Fees (\$millions)



1 Year Estimated Fees (\$millions)



10 Year MC Gain/Loss (\$millions)



- While estimated annual management fees are higher with the proposed portfolio, this increase is offset by an increase in expected returns and diversification benefits.
- In 25<sup>th</sup> percentile, median, and 75<sup>th</sup> percentile 10 year Monte Carlo outcomes, the net of fees proposed portfolio outperforms the current net of fees portfolio mix.

Gain/Loss figures shown are net of fees. Figures shown in the 10 Year Monte Carlo Gain/Loss chart reflect an annual distribution of \$140 million and all assets are marked to market; figures do not include Private Credit incentive fees. Private Credit fees assume a 5% allocation, a 1% management fee, and a 15% performance fee over a 7% hurdle.

# Appendix – Key Insurance Concepts and Definitions



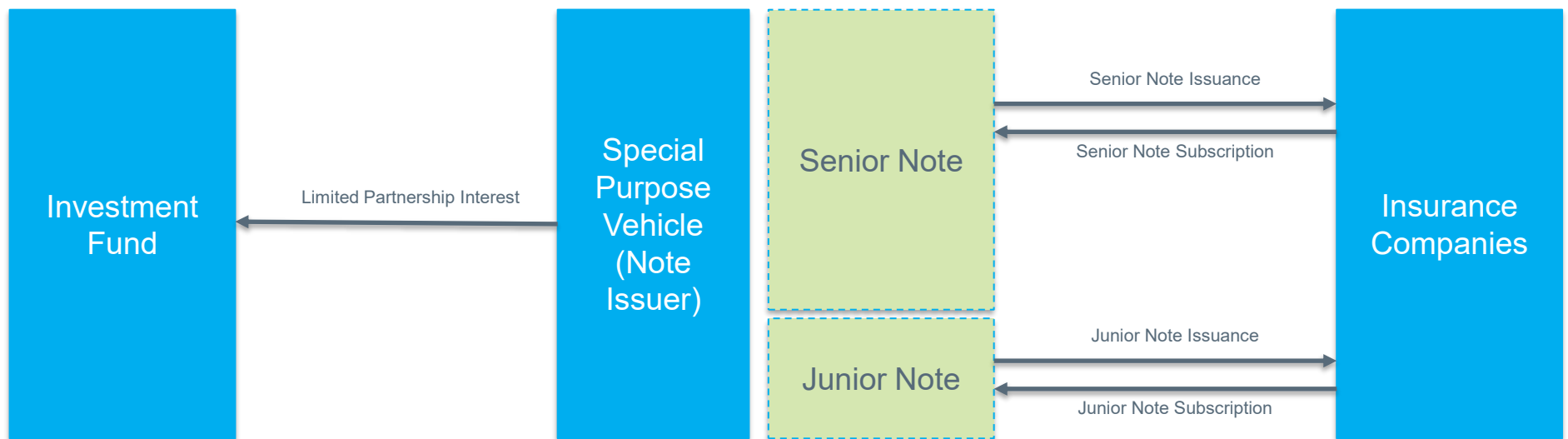
# Selected Insurance Statutory Accounting Terms

- **Authorized Control Level Risk Based Capital** – minimum capital requirement that permits the insurance commissioner to place the organization under regulatory control.
- **“Book Value” vs. “Fair Value” reporting:**
  - For financial reporting purposes, investment grade rated bonds are reported at book value, whereas non-investment grade rated bonds are reported at the lower of book or fair value. Stocks are reported at fair value.
- **Capital and Surplus** - a company's assets minus its liabilities.
- **Other Than Temporary Impairment (“OTTI”):**
  - Insurance companies are required to write-down the value of an investment if it is deemed to be impaired such that the fair value is not expected to recover through the holding period of that security.
- **Risk Based Capital (RBC)** - determines the regulatory minimum amount of capital required of a regulated insurer to maintain to avoid regulatory action.
- **Statutory Accounting** - method of accounting standards and principles used by state regulatory authorities to measure the financial condition of regulated companies and other insurance enterprises. This method tends to be more conservative than the Generally Accepted Accounting Principles used by most businesses. Compliance with solvency and other standards is determined using financial documents prepared in accordance with Statutory Accounting Principles.
- **Surplus to CAL RBC Ratio** - a measure used by SAIF Corporation to measure adequacy of Capital and Surplus levels relative to RBC. Defined as Total Adjusted Capital (TAC) divided by twice the value of Authorized Control Level (ACL) RBC. SAIF’s board-approved minimum risk tolerance value is 5.0.

# Private Credit - Rated Note Structure

## Introduction

- Investment managers have increased the development of capital efficient vehicles specifically for optimizing capital charges of insurance clients.
- Rated note structures are primarily based on investment strategies pursuing direct lending through first-lien loans to middle market companies.
- An example of a rated note structure:



Terms	Overall Fund	Senior Note	Junior Note
Rating	N/A	A	Non-IG Rated or Unrated
Tranche	N/A	80% (0%-80%)	20% (80%-100%)
Coupon Rate	11.35%	6.0%	18.06%
Net IRR	8.80%	6.22%	19.6%
Tenor	5 Years	5 Years	5 Years

# Private Credit - Rated Note Structure

## Introduction

- The note issuer is commonly a limited liability company formed as a single-purpose special purpose vehicle.
- The note issuer will obtain CUSIP numbers for the “A” and “B” notes.
- Each investor receives the same proportion of rated and not-rated note with their investment.
- The investment manager of the fund will manage a portfolio of collateral (i.e. the loans) that supports the rating of the structure.
- Nationally recognized statistical rating organizations (“NRSROs) must rate the structures and ratings must be periodically updated to confirm the investment grade and non-investment grade portions of the structure.
- The non-investment grade portion is typically structured by the note issuer as a non-IG note, equity, or a limited partnership.
- Similar structures exist for other asset backed debt types such as real estate and infrastructure but are less common.
- Most managers require sufficient asset scale in a fund to spread additional legal and structuring costs.

# Statutory Filing and Rating Treatment

Asset Class	Investment Vehicle Structure	Expected Rating	Statutory Filing Schedule	Valuation	Notes
Equities	Commingled or Separate Account	N/A	Schedule D, Part 2 Section 2	Mark-to-market	
Real Estate	Limited Partnership or Private REIT	N/A	Schedule BA	Audited GAAP Equity Value	
Bank Loans	Separate Account	NAIC 3-6	Schedule D, Part 1	Lower of amortized cost or market	Rating determined by individual security
Senior Secured Direct Lending ( <b>IG Rated</b> )	Senior Note Portion of Investment Unit	NAIC 1 or 2	Schedule D, Part 1 -	Amortized Cost	CUSIP originated from NAIC SVO for purposes of carrying on insurance statutory filing
Senior Secured Direct Lending (Non- <b>IG Rated</b> )	Junior Note Portion of Investment Unit	NAIC 3-6	Schedule D, Part 1	Lower of amortized cost or market	Structures vary among managers
Senior Secured Direct Lending ( <b>Equity or Limited Partnership</b> )	Equity / Limited Partnership	N/A	Schedule D, Part 2 Section 2 / Schedule BA	Audited GAAP Equity Value	Note/Unit rated based on underlying characteristics of loan portfolio
Investment Grade Bonds ( <b>High Credit Quality</b> )	Separate Account	NAIC 1-2	Schedule D, Part 1	Amortized Cost	Rating determined by individual security
Investment Grade Bonds ( <b>Low Credit Quality</b> )	Separate Account	NAIC 3-6	Schedule D, Part 1	Lower of amortized cost or market	Rating determined by individual security



# Appendix – Insurance Peer Comparison





# Asset Allocation by Accounting Treatment

SAIF's assets<sup>1</sup> held at amortized cost (primarily investment grade bond securities) are consistent with the total peer group, while the BBB investment grade allocation<sup>2</sup> is the highest within the group. Assets held at fair value, in total, are also consistent with peers.

	Cash	A-AAA	BBB	Total Amortized Cost	High Yield	Common Stock	Sch. BA at Fair Value	Assets Held at Fair Value
<b>SAIF</b>	1%	50%	30%	80%	3%	12%	4%	20%
AASCIF Avg.	3%	63%	15%	81%	2%	11%	6%	19%
AASCIF Avg. (ex SAIF, NY, & CA)	3%	62%	16%	80%	2%	11%	7%	20%
WC Specialists Avg.	10%	57%	10%	76%	2%	14%	7%	24%

## Company

A.I.M. Mutual Insurance Companies  
 Accident Funds Ins. Co of America  
 Alaska National  
 Beacon Mutual  
 BrickStreet Mutual Insurance  
 California Insurance Company  
 Chesapeake Employers'  
 CompSource Mutual - Oklahoma  
 CopperPoint Insurance Companies  
 Employers Insurance Company of Nevada  
 FFVA Mutual Insurance  
 Hawaii Employers' Mutual Ins.  
 Idaho State Insurance  
 Insurance Company of the West  
 Kentucky Employers' Mutual  
 Louisiana Workers Comp Corp  
 Maine Employers' Mutual Insurance Co  
 Minnesota State Fund Mutual Insurance Co  
 Missouri Employers Mutual  
 Montana State Fund  
 New Mexico Mutual Casualty  
 Pinnacol Assurance  
 RetailFirst Insurance Group  
**SAIF Corp**  
 State Compensation Insurance Fund of CA  
 State Insurance Fund Workers Comp.  
 Texas Mutual  
 WCF Mutual (Utah)  
 Zenith Insurance

Asset Allocation by Accounting Treatment									
Company	Cash	A-AAA	BBB	Total Amort. Cost	High Yield	Common Stock	Schedule BA at Fair Value	Assets at Fair Value	Peer Group
A.I.M. Mutual Insurance Companies	1%	70%	13%	84%	0%	13%	3%	16%	WC
Accident Funds Ins. Co of America	20%	40%	10%	70%	5%	5%	20%	30%	WC
Alaska National	8%	67%	8%	83%	0%	12%	4%	17%	WC
Beacon Mutual	6%	67%	12%	85%	1%	14%	0%	15%	AASCIF
BrickStreet Mutual Insurance	2%	69%	12%	83%	0%	13%	4%	17%	WC
California Insurance Company	67%	5%	0%	72%	2%	0%	26%	28%	WC
Chesapeake Employers'	2%	61%	20%	83%	4%	7%	6%	17%	AASCIF
CompSource Mutual - Oklahoma	3%	60%	25%	87%	1%	7%	5%	13%	AASCIF
CopperPoint Insurance Companies	6%	56%	17%	79%	0%	12%	9%	21%	WC
Employers Insurance Company of Nevada	1%	49%	15%	64%	12%	19%	5%	36%	WC
FFVA Mutual Insurance	1%	64%	15%	80%	1%	18%	0%	19%	WC
Hawaii Employers' Mutual Ins.	1%	55%	20%	76%	4%	19%	1%	24%	AASCIF
Idaho State Insurance	9%	61%	11%	81%	0%	11%	7%	19%	AASCIF
Insurance Company of the West	2%	60%	6%	68%	3%	24%	5%	32%	WC
Kentucky Employers' Mutual	2%	63%	25%	90%	3%	6%	1%	10%	AASCIF
Louisiana Workers Comp Corp	4%	71%	10%	85%	2%	10%	4%	15%	AASCIF
Maine Employers' Mutual Insurance Co	2%	68%	11%	81%	0%	15%	4%	19%	AASCIF
Minnesota State Fund Mutual Insurance Co	3%	75%	12%	90%	1%	4%	5%	10%	AASCIF
Missouri Employers Mutual	1%	72%	15%	87%	1%	12%	0%	13%	AASCIF
Montana State Fund	2%	61%	14%	78%	3%	12%	7%	22%	AASCIF
New Mexico Mutual Casualty	4%	62%	3%	69%	0%	11%	20%	31%	AASCIF
Pinnacol Assurance	3%	54%	21%	77%	3%	13%	7%	23%	AASCIF
RetailFirst Insurance Group	1%	74%	9%	84%	0%	15%	0%	16%	WC
<b>SAIF Corp</b>	1%	50%	30%	80%	3%	12%	4%	20%	AASCIF
State Compensation Insurance Fund of CA	1%	84%	11%	96%	0%	4%	0%	4%	AASCIF
State Insurance Fund Workers Comp.	2%	82%	5%	88%	3%	8%	0%	11%	AASCIF
Texas Mutual	1%	45%	16%	62%	2%	13%	22%	38%	AASCIF
WCF Mutual (Utah)	2%	47%	20%	69%	5%	17%	9%	31%	AASCIF
Zenith Insurance	2%	68%	1%	72%	1%	22%	5%	28%	WC

1) Represents non-affiliated invested assets as reported by AM Best

2) As detailed in 2022 NAIC classes

# Bond Maturity Distribution

SAIF holds a longer-maturity bond portfolio than most comparable peers. As noted previously, government bonds represent a material share of the longer-date maturity holdings.

	<1 Year	1-5 Years	5-10 Years	10-20 Years	20+ Years
<b>SAIF</b>	<b>7%</b>	<b>30%</b>	<b>31%</b>	<b>16%</b>	<b>16%</b>
AASCIF Avg.	8%	39%	31%	14%	8%
AASCIF Avg. (ex SAIF, NY, & CA)	8%	41%	31%	14%	7%
WC Specialists Avg.	12%	52%	23%	8%	5%

Company	Bond Maturity Distribution					Peer Group
	<1 Yr	1-5 Yrs	5-10 Yrs	10-20 Yrs	20+ Yrs	
A.I.M. Mutual Insurance Companies	8%	44%	32%	10%	6%	WC
Accident Funds Ins. Co of America	15%	38%	25%	12%	11%	WC
Alaska National	10%	60%	27%	2%	1%	WC
Beacon Mutual	7%	46%	19%	19%	9%	AASCIF
BrickStreet Mutual Insurance	10%	42%	33%	10%	5%	WC
California Insurance Company	33%	67%	0%	0%	0%	WC
Chesapeake Employers'	7%	43%	35%	11%	3%	AASCIF
CompSource Mutual - Oklahoma	7%	39%	30%	18%	7%	AASCIF
CopperPoint Insurance Companies	8%	38%	24%	19%	11%	WC
Employers Insurance Company of Nevada	9%	51%	30%	8%	2%	WC
FFVA Mutual Insurance	8%	36%	34%	17%	5%	WC
Hawaii Employers' Mutual Ins.	8%	46%	29%	14%	3%	AASCIF
Idaho State Insurance	12%	44%	23%	12%	9%	AASCIF
Insurance Company of the West	16%	63%	16%	2%	3%	WC
Kentucky Employers' Mutual	7%	41%	36%	10%	7%	AASCIF
Louisiana Workers Comp Corp	10%	28%	37%	17%	7%	AASCIF
Maine Employers' Mutual Insurance Co	8%	40%	28%	16%	9%	AASCIF
Minnesota State Fund Mutual Insurance Co	8%	47%	25%	16%	5%	AASCIF
Missouri Employers Mutual	7%	42%	28%	14%	10%	AASCIF
Montana State Fund	10%	41%	39%	7%	3%	AASCIF
New Mexico Mutual Casualty	7%	45%	24%	19%	5%	AASCIF
Pinnacol Assurance	5%	34%	35%	13%	14%	AASCIF
RetailFirst Insurance Group	8%	37%	36%	11%	8%	WC
<b>SAIF Corp</b>	<b>7%</b>	<b>30%</b>	<b>31%</b>	<b>16%</b>	<b>16%</b>	<b>AASCIF</b>
State Compensation Insurance Fund of CA	9%	31%	32%	19%	10%	AASCIF
State Insurance Fund Workers Comp.	5%	30%	26%	15%	24%	AASCIF
Texas Mutual	8%	53%	33%	4%	2%	AASCIF
WCF Mutual (Utah)	5%	27%	46%	17%	5%	AASCIF
Zenith Insurance	6%	94%	0%	0%	0%	WC

# NAIC Break-Outs of Total Bond as of 2022

SAIF's allocation across NAIC Class 1 and Class 2 differs meaningfully from peers. SAIF's average credit rating is A+ over the past 3-years.

This greater risk exposure, in the form of relatively higher-yielding bond assets and longer duration, drives the growth in net investment income and, subsequently, the increases to policy holder surplus. Consequently, SAIF's average bond yield over the past 3-years is the highest (3.7%) among AASCIF peers.

NAIC Classification	SAIF	AASCIF Avg.	AASCIF Avg. (ex SAIF, NY, & CA)	WC Specialists Avg.
<b>Class 1 (A-AAA)</b>	<b>60.0%</b>	78.2%	77.9%	81.3%
<b>Class 2 (BBB)</b>	<b>36.0%</b>	19.2%	19.5%	13.1%
<b>Class 3 (BB)</b>	<b>3.7%</b>	1.8%	1.7%	1.7%
<b>Class 4 (B)</b>	<b>0.3%</b>	0.7%	0.8%	1.1%
<b>Class 5 (CCC)</b>	-	0.1%	0.1%	2.8%
<b>Class 6 (D-CC)</b>	-	0.0%	0.0%	0.0%

PORTLAND

BOISE

CHICAGO

NEW YORK

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Life.  
Oregon.

## SAIF Asset Allocation & Proposed Policy Revisions October 23, 2024

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### **Purpose**

In accordance with Oregon Investment Council (OIC) policy *INV 1002: State Accident Insurance Fund: Asset Classes and Allocation*, "Asset/liability reviews will be performed approximately every three to five years to assure the Fund is positioned properly, given the unique industry, regulation, and changing business and financial conditions SAIF Corporation experiences. Any asset classes not specifically addressed in the policy below will be reviewed by Treasury staff and by SAIF for approval by the OIC."

### **Background**

In 2013, SAIF retained Towers Watson, an investment consulting firm, to undertake an asset allocation study. The changes from the 2013 review are summarized as follows:

- Reduce core fixed income by 5% and allocate proceeds into core income-focused real estate; and
- Expand existing fixed income mandates by including allocations to high yield and U.S. dollar-denominated emerging market debt.

In 2018, SAIF retained RVK, Inc. to perform an asset allocation study. Staff from Oregon State Treasury worked closely with RVK, Inc. and SAIF throughout the project. The changes stemming from the current asset allocation study can be summarized as follows:

- Reduce core fixed income mandate by 8% and allocate proceeds into a mix of bank loans and private credit assets.

In 2023, SAIF retained RVK, Inc. to perform an asset allocation study. Staff from Oregon State Treasury worked closely with RVK, Inc. and SAIF throughout the project. Staff also met with both OIC consultants (Meketa and Aon) for their review and input. The changes stemming from the current asset allocation study can be summarized as follows and are reflected within updated INV 1001: SAIF IPS- Appendix A (attached for reference):

- Update strategic target to private credit exposure (5%), specifically Senior Secured Direct Lending ("SSDL") strategies
- Remove bank loan targets, allowances and guidelines from applicable policies due to implementation and other challenges.
- Increase fixed income target to 80%, coming from the bank loans target
- Expand allowance to invest in collateralized loan obligation ("CLO") down to BBB- quality
- Benchmark updates:
  - Add a specific CLO benchmark component to benefit portfolio income yield and diversification opportunities.
  - Eliminate intermediate corporate component from SAIF custom fixed income benchmark and replace it with a long corporate component.
  - Add a strategic benchmark component for Private Credit (Senior Secured Direct Lending) (S&P LSTA + 1.5% ) to align with recommended asset allocation changes.

Representatives from RVK, Inc. and SAIF will provide the OIC with a detailed review of the work performed and the resulting recommendations. The SAIF Board approved moving the proposed changes forward to the OIC at their June 5, 2024 board meeting.

Aon will be providing a detailed review of policy with goal to develop an IPS based on fiduciary best practices; streamline language, consolidate documents and add new sections to align with recently approved OPERF and CSF policies.

## **Recommendation**

Staff recommends approving the proposed asset allocation changes, policy modifications and benchmark changes as described above.

Below is a summary of the key changes that are being proposed to policies per asset allocation recommendations by RVK and IPS update per Aon and OST (INV 1001-1008):

- INV 1001- State Accident Insurance Fund- General Policies and Procedures
  - Build out and update policy to become full SAIF IPS
    - Update target allocation and benchmark
- INV 1002 – State Accident Insurance Fund: Asset Classes and Allocation
  - Retire and consolidate into INV 1001
- INV 1006 – State Accident Insurance Fund: Reporting Requirements
  - Retire and consolidate into INV 1001
- INV 1007 – State Accident Insurance Fund: Bank Loans- retire

Next Steps: Staff will return to future OIC meeting to update and consolidate Asset Class Policies and turn into SAIF Guidelines (mimicking the OPERF guidelines) which will include the recommended changes from asset allocation study.

- INV 1003 – State Accident Insurance Fund: Fixed Income Investments
- INV 1004 – State Accident Insurance Fund: Real Estate Investments
- INV 1005 – State Accident Insurance Fund: Equity Investments
- INV 1008 – State Accident Insurance Fund: Private Credit

**Appendix A**

**Asset Allocation Strategy Targets & Ranges**

<b>Fund Role</b>	<b>Benchmark</b>	<b>Min</b>	<b>Target</b>	<b>Max</b>
Fixed Income	Custom Fixed Income Benchmark*	75%	80.0%	90%
Global Equity	MSCI ACWI IMI Index	7.0%	10.0%	13.0%
Private Credit	S&P LSTA LLI +1.5%	0.0%	5.0%	7.0%
Real Estate	NCREIF Fund Index - Open-End Diversified Core Equity (ODCE)	0.0%	5.0%	7.0%
Cash	Cash	0.0%	0.0%	3.0%
Total Portfolio Index	Weighted aggregate of indexes listed above at target allocation		100.0%	

- The sum of Strategy “Min” and “Max” within each Portfolio Role (Fixed Income, Global Equity, Private Credit, Real Estate, and Cash) will not equal “Min” and “Max” for each Role.

**\* Custom Fixed Income Benchmark Index**

JPM CLOIE Index	5%
Bloomberg U.S. Government Index	15%
Bloomberg Mortgage Backed Fixed Rate Security Index	20%
Bloomberg Corporate Index	50%
Bloomberg Ba to B U.S. High Yield 2% issuer cap	5%
Bloomberg US Credit Long Index	5%



## MEMORANDUM

**TO:** Jamie McCreary, State Accident Insurance Fund  
**FROM:** Mika Malone, Meketa Investment Group  
Paola Nealon, Meketa Investment Group  
**DATE:** October 23, 2024  
**RE:** SAIF IPS Review

### Summary

Meketa has reviewed the SAIF Asset Allocation Review as presented by RVK and the draft Investment Policy Statement reflective of RVK recommended changes. Meketa's Asset Allocation model differed slightly from RVK's model but not in a meaningful way. RVK's observations and conclusions seem reasonable to Meketa and the Investment Policy Statement appears to accurately capture and reflect relevant changes and updates.

### Asset Allocation Review

Meketa analyzed RVK's observations and conclusions by running a similar Asset Allocation through our model. While the results differ somewhat this can largely be attributed to slightly different model inputs, namely in the expected risk/return profile of underlying asset classes. Based on scenario analysis the proposed portfolio appears to achieve a reasonable risk/return profile for the needs of SAIF and achieve the goals set forth in the proposed Investment Policy Statement.

Proposed Target Risk/Return Profile			
	10-Yr Annualized E(R)	10-Yr Annualized Std. Dev.	Return/Risk
<b>RVK<sup>1</sup></b>	4.96%	5.44%	0.91
<b>Meketa<sup>2</sup></b>	5.64%	6.33%	0.89

→ Meketa and RVK have relatively similar Return/Risk measures. Meketa's assumptions for relevant assets results in a higher return figure but also higher risk.

<sup>1</sup> From "SAIF Corporation Portfolio Review Project" June 5, 2024 – RVK.

<sup>2</sup> Based on Meketa's 2024 Annual Asset Study Capital Market Expectations.

### Scenario Analysis<sup>3</sup>

Meketa produced the following scenario analysis for the proposed asset mix to further examine worst case scenarios and return percentiles. The proposed Policy does not meaningfully increase the risk profile compared to the existing Policy.

#### MPT-Based Risk Analysis

Scenario	Current Target (%)	Proposed Target (%)
<b>Worst Case Returns (t)</b>		
OneYear (annualized)	-7.4	-8.1
ThreeYears (annualized)	-2.2	-2.5
FiveYears (annualized)	-0.5	-0.7
<b>Probability of Experiencing Negative Returns</b>		
OneYear	17.3	18.0
ThreeYears	5.1	5.6
FiveYears	1.8	2.0

#### Value at Risk<sup>4</sup>

Scenario	Current Target	Proposed Target
<b>VaR (%):</b>		
1 month	-3.5	-3.8
3 months	-5.5	-6.0
6 months	-6.9	-7.6

#### Stress Testing: Impact of Negative Market Movements (Expected Return under Negative Conditions)

Scenario	Current Target (%)	Proposed Target (%)
10-year Treasury Bond rates rise 100 bps	-2.0	-2.1
10-year Treasury Bond rates rise 200 bps	-6.0	-6.3
10-year Treasury Bond rates rise 300 bps	-8.4	-8.6
Baa Spreads widen by 50 bps, High Yield by 200 bps	2.0	1.9
Baa Spreads widen by 300 bps, High Yield by 1000 bps	-9.2	-9.0
Trade Weighted Dollar gains 10%	-1.1	-1.3
Trade Weighted Dollar gains 20%	3.2	3.3
U.S. Equities decline 10%	-1.1	-1.3
U.S. Equities decline 25%	-6.2	-6.6
U.S. Equities decline 40%	-10.0	-10.1

<sup>3</sup> Based on Meketa's 2024 Annual Asset Study Capital Market Expectations.

<sup>4</sup> Calculated with a 99% confidence level and based upon Meketa Investment Group's Annual Capital Markets Expectations.

### Investment Policy Statement Review

- The Investment Policy Updates align with the proposed asset allocation presentation.
- The "**Private Credit**" language is suitable and describes the role of Private Credit and the relevant risks with respect to SAIF specific Policy language such as liquidity, tax treatment, and RBC considerations.
- Appendix A reflects appropriate benchmarks and weights for each portfolio component.
- Furthermore, Appendix A includes additional information regarding the composition of the "***\*Custom Fixed Income Benchmark Index***" which also reflects the appropriate components, weights, and respective benchmarks.

## Appendix: Meketa Capital Market Expectations<sup>5</sup>

### Model Inputs: Asset Allocation

SAIF Asset Class	Meketa Asset Class Modeled	Current Target	Proposed Target
<b>Global Equity</b>	<b>Global Equity</b>	<b>10.00%</b>	<b>10.00%</b>
<b>SAIF Custom Fixed Income</b>	<b>SAIF Custom Fixed Income</b>	<b>77.00%</b>	<b>80.00%</b>
US Corp Intermediate	Intermediate Investment Grade Bonds	7.70%	0.00%
CLOs	CLOs	0.00%	4.00%
US Government	Intermediate Government Bonds	11.55%	12.00%
US MBS Fixed Rate	Mortgage-Backed Securities	15.40%	16.00%
US Corporate	Investment Grade Corporate Bonds	38.50%	40.00%
US HY Ba/B 2% Capped	High Quality High Yield	3.85%	4.00%
US Long Credit	Long-term Corporate Bonds	0.00%	4.00%
<b>Bank Loans</b>	<b>Bank Loans</b>	<b>4.00%</b>	<b>0.00%</b>
<b>Senior Secured Direct Lending</b>	<b>Direct Lending</b>	<b>4.00%</b>	<b>5.00%</b>
<b>Core Real Estate</b>	<b>Core Real Estate</b>	<b>5.00%</b>	<b>5.00%</b>
<b>Total</b>	<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

### Model Inputs: Asset Class Expected Risk & Return

Meketa Asset Class Modeled	E(R)	Standard Deviation
<b>Global Equity</b>	<b>7.2%</b>	<b>17.0%</b>
<b>SAIF Custom Fixed Income</b>	<b>5.2%</b>	<b>5.6%</b>
Intermediate Investment Grade Bonds	4.5%	5.0%
CLOs	8.1%	13.0%
Intermediate Government Bonds	4.0%	3.0%
Mortgage Backed Securities	4.7%	4.0%
Investment Grade Corporate Bonds	5.2%	7.0%
High Quality High Yield	6.5%	11.0%
Long-term Corporate Bonds	5.2%	11.0%
<b>Bank Loans</b>	<b>6.5%</b>	<b>10.0%</b>
<b>Direct Lending</b>	<b>8.2%</b>	<b>15.0%</b>
<b>Core Real Estate</b>	<b>4.8%</b>	<b>12.0%</b>

<sup>5</sup> Based on Meketa 2024 Annual Asset Study.



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TAB 4  
AUDIT REVIEW

**October 23, 2024**

**Internal Audit Presentation to OIC – Overview of  
Internal Audit Program and Recent Audit Activities**

**Dave Randall, *Chief Investment Operating Officer***

**Debra Day, *Investment Reporting Manager***

**Michael Makale, *Chief Audit Executive***



**OREGON  
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# Contents of the Presentation

- **Introduction of the Investment operational review – *Slide 3***  
**Chief Investment Operations Office and  
Investment Reporting Manager  
Chief Audit Executive**
- **Recap of the Internal audit mandate, purpose, mission and reporting structure – *Slides 4 & 5***
- **Recap of investment audits performed by internal audit, and planned audits – *Slides 6 & 7***
- **Summary of current audit review – Fixed Income Investments – *Slides 8 & 9***

# Investment Division Audit Overview

## External Audit – Secretary of State

- PERS, CSF – Annual Comprehensive Financial Report (ACFR)
- Oregon Short Term Fund (OSTF)
- Oregon Intermediate Term Pool (OITP)
- Oregon Local Government intermediate Fund (OLGIF)

## Internal Audit - OST

- All Oregon State Treasury
- Investment Division Asset Classes, Departments, and Portfolios
- Oregon Statute and Inv 209

Oregon Revised Statute (ORS) 293.776 states "The Oregon Investment Council shall provide for an examination and audit of the investment funds investment program, and for submission to the council of a report based on the examination and audit, at least once every four years and at other times as the council may require. The examination and audit, and the report based thereon, shall include an evaluation of current investment funds investment policies and practices and of specific investments of the investment funds in relation to the objective set forth in ORS 293.721, the standard set forth in ORS 293.726 and other criteria as may be appropriate, and recommendations relating to the investment funds investment policies and practices and to specific investments of the investment funds as are considered necessary or desirable. The council shall make copies of the report or a summary thereof available for distribution to interested persons."



# Internal Audit (IA) – Purpose, Mission, Structure & Audit Work

**Purpose:** To provide an **independent, objective** assurance and consulting services that facilitate improved government operations.

**Mission:**

- (i) To enhance and protect the value of the OST by providing **risk-based and objective assurance**, advice and insight
- (ii) To help OST accomplish the **agency objectives** by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of **risk management, control, and governance processes**.

**Structure and Reporting:** Internal audit is headed by Michael Makale, Chief Audit (CAE) and supported by two internal auditors and external co-sourcing resources. To ensure independence, internal audit reports directly to the Deputy Treasurer and Treasurer, and its work overseen by the Audit Committee.

**Execution of Audit Work:**

Internal Audit carries out its work based on an agency-wide audit risk assessment and risk-based audit plan. Given the size and stature of the Treasury, the support of an external co-source firm and external auditors (e.g. Secretary of State & external CPA firms) helps ensure comprehensive coverage of key auditable entities. Additionally, this helps compliment rather than duplicate audit work.

Finally, internal audit provides recommendations, insights and tracks remediation of audit findings, which helps in informed decision-making.

# Completed Investment Audits To Date

Table A – Completed Audits of Investment Programs

Name of Audit	Division	Issuance Report Date	Conclusion	Significant Findings
Portfolio Risk & Research (PR&R)	Investment	August 9 <sup>th</sup> , 2023	Satisfactory	None
Investment Management Contracts	Investment	August 9 <sup>th</sup> , 2023	Satisfactory	None
Public Equity Audit	Investment	December 6th, 2023	Satisfactory	None
Follow up on prior year’s audit findings	OST / Treasury / Agency-wide	Continuous and Ongoing	Satisfactory remediation processes	None
Capital Markets – Fixed Income Investments	Investment	October 21, 2024	Satisfactory	None

# Scope and Objectives of the Fixed Income Audit

## Scope of the Audit:

The scope of the Fixed Income Investments audit was the review of investment activities during the period Jan 1st, 2023 to December 31<sup>st</sup>, 2023.

## Objectives:

The objectives of the audit were to obtain assurance of the governance processes, risk management, compliance and control processes over the following:

- Compliance to Oregon Investment Council (OIC) and Treasury policies, procedures, regulations (state and federal) and industry standards.
- OIC's oversight, reporting and review of fixed income investment activities.
- Strategy and portfolio structuring of fixed incomes, including strategic objectives related to liquidity, diversification, capital preservation, and returns above risk-free investments.
- Due diligence and monitoring processes over external investment managers.
- Trading, internal portfolio management, asset class studies, rebalancing, and client portfolio management.
- Due diligence and monitoring processes over counterparties and other brokers.
- Risk management and 3<sup>rd</sup> party vendor risk management,
- Roles and responsibilities, including access control to systems, data, and assets.
- Tracking and remediation of prior audit issues and recommendations identified by auditors.

# Audit Results of the Fixed Income Audit

## Overall Audit Conclusion:

In carrying the audit work, Internal audit obtained key fixed income information, held comprehensive meetings with key persons, performed appropriate analytic reviews, and on a sample tested transactions and activities relating to the 2023 scope period and audit objectives listed on the prior page. We noted a significant improvement from the results of the last fixed income audit conducted in 2018.

The overall audit conclusion is **Satisfactory**, which is an indication that key controls are operating effectively, safeguards assets and minimizes exposure to financial losses. This audit rating is the highest internal audit report rating on a scale of 1 to 5 (satisfactory, needs some improvements, needs significant improvements, weak and unsatisfactory).

## Observations and Best Practice Recommendations:

Notwithstanding the above audit conclusion, Internal Audit noted some key recommendations, which have been communicated to management. These include:

- The need for a roadmap and timeline for consolidating and synchronizing updates to investment policies for easier monitoring of control activities.
- Sustained monitoring process of investment compliance requirements
- Enhanced and timely monitoring reviews of third party (vendor) security controls to gain reasonable assurance that Treasury's data is protected.

# Planned Investment Audits

**Table B – Planned Audits of other Investment Programs**

Name of Audit	Division	Planned Audit (Year)	Internal / External
Investment Operations (Accounting, trading, etc.)	Investment	2025	Internal
Private Markets – Private Equity	Investment	2026	Outsource (RFP)
Private Markets – Real Estate	Investment	2026	Outsource (RFP)
Private Markets – Opportunity	Investment	2026	Outsource (RFP)
Private Markets – Real Assets	Investment	2026	Outsource (RFP)



**Comments, Questions, etc.**

**Thank you.**

**Michael Makale, CAE, Internal Audit, Treasury.**



**Kip Memmott**  
*Division Director*

## **Communication with Those Charged with Governance for the Oregon State Treasury**

The Oregon Investment Council and Oregon State Treasury Management

We have audited the financial statements of the Oregon Short Term Fund (OSTF), Oregon Intermediate Term Pool (OITP), and the Oregon Local Government Intermediate Fund (OLGIF) as of and for the year ended June 30, 2024, and have issued our report thereon dated August 26, 2024, for OSTF and OLGIF and September 17, 2024 for OITP. Professional standards require that we provide you with the following matters relating to our audit.

### **Auditor's Responsibility**

As communicated in our engagement letter dated May 20, 2024, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Oregon State Treasury's internal control over financial reporting. Accordingly, we considered internal control solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters arising during the of the financial statements that are relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated via our engagement letter and discussion with management during our audit.

## **Qualitative Aspects of Accounting Practices**

### **Significant Accounting Policies**

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies used by the Oregon State Treasury are described in Note 1 to the financial statements. No new accounting policies were adopted and there were no changes in the application of existing policies during the fiscal year. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

### **Significant Accounting Estimates**

Accounting estimates are an integral part of the financial statements/information prepared by management and are based on management's current judgments. These judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. Although investment valuation can be an estimate in some circumstances, the investments in the OSTF, OLGIF, and OITP are valued by an external party and our audit procedures verified that the valuations were reasonable based upon other external pricing sources.

### **Financial Statement Disclosures**

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to the financial statement users. The disclosures in the financial statements are consistent, clear, and understandable.

## **Significant Audit Matters**

### **Significant Findings or Issues**

No findings or issues came to our attention that are significant and relevant to those charged with governance regarding their responsibility to oversee the financial reporting process.

## **Management Representations**

We have requested and received certain written representations from management that are included in the management representation letter dated August 26, 2024, for OSTF and OLGIF and September 17, 2024 for OITP.

This communication is intended solely for the information and use of the Oregon Investment Council and management of the Oregon State Treasury and is not intended to be and should not be used by anyone other than these specified parties.

*Office of the Secretary of State, Audits Division*



Status **Active** PolicyStat ID **15144570**



**OREGON  
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TREASURY**

Origination 07/2011  
Last Approved 02/2024  
Last Revised 10/2016  
Next Review 01/2026

Owner Rex Kim: Chief Investment Officer  
Policy Area Investments

## INV 209: Rotating Internal Control and Operational Reviews

### OREGON INVESTMENT COUNCIL POLICY

#### INTRODUCTION & OVERVIEW

#### Summary Policy Statement

This policy establishes the type and frequency of audits and reviews the OST Internal Audit Services Division will perform on the investment program.

#### Purpose and Goals

The goal of this policy is to ensure the Oregon Investment Council (OIC) and Investment Division remain in compliance with statutory reporting requirements.

#### Applicability

Classified represented, management service, unclassified executive service

#### Authority

Oregon Revised Statute (ORS) 293.776 states "The Oregon Investment Council shall provide for an examination and audit of the investment funds investment program, and for submission to the council of

a report based on the examination and audit, at least once every four years and at other times as the council may require. The examination and audit, and the report based thereon, shall include an evaluation of current investment funds investment policies and practices and of specific investments of the investment funds in relation to the objective set forth in ORS 293.721, the standard set forth in ORS 293.726 and other criteria as may be appropriate, and recommendations relating to the investment funds investment policies and practices and to specific investments of the investment funds as are considered necessary or desirable. The council shall make copies of the report or a summary thereof available for distribution to interested persons."

## **POLICY PROVISIONS**

### **Policy Statements**

#### **I. On An Annual Basis**

The Internal Audit Services division of the Oregon State Treasury (OST) will perform an audit of the internal control structure over one of the major asset classes (i.e., Public Equity, Fixed Income, Real Estate, Private Equity, Alternatives, Opportunity Portfolio, or Short-term Investments) for each year ending June 30. The audit shall be performed in accordance with professional auditor's standards approved by OST's Audit Committee.

#### **II. At Least Once Every Four Years**

The Internal Audit Services division will perform a comprehensive operational review of OST's investment management practices in a specific portfolio or asset class as compared and contrasted to the investment management practices used by institutional investors of similar size and objective.

This work and all corresponding reports shall comply with applicable professional standards and fulfill the requirements stated in ORS 293.776.

1. Internal Audit Services will co-source or outsource portions, or the entirety, of the work to qualified consultants through a request for proposal (RFP) process or other selection process according to OST purchasing policies. Consultant selection(s) and the scope of work will be approved by the OST Audit Committee.
2. Internal Audit Services shall deliver a written report on the results of the work performed to OST management, as well as any findings and/or recommendations for improvement.
3. On an annual basis, the Chief Audit Executive, or designee, shall inform the OIC of audit and review results, and shall provide a summary of OST management's response to all report findings and recommendations.

## 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 OST 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.

### Approval Signatures

Step Description	Approver	Date
Oregon Investment Council	Rex Kim: Chief Investment Officer	02/2024
	Deena Bothello: General Counsel	02/2024
	Jamie McCreary	02/2024



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TAB 5  
POLICY CHANGES





# Oregon Investment Council Investment Guidelines Project

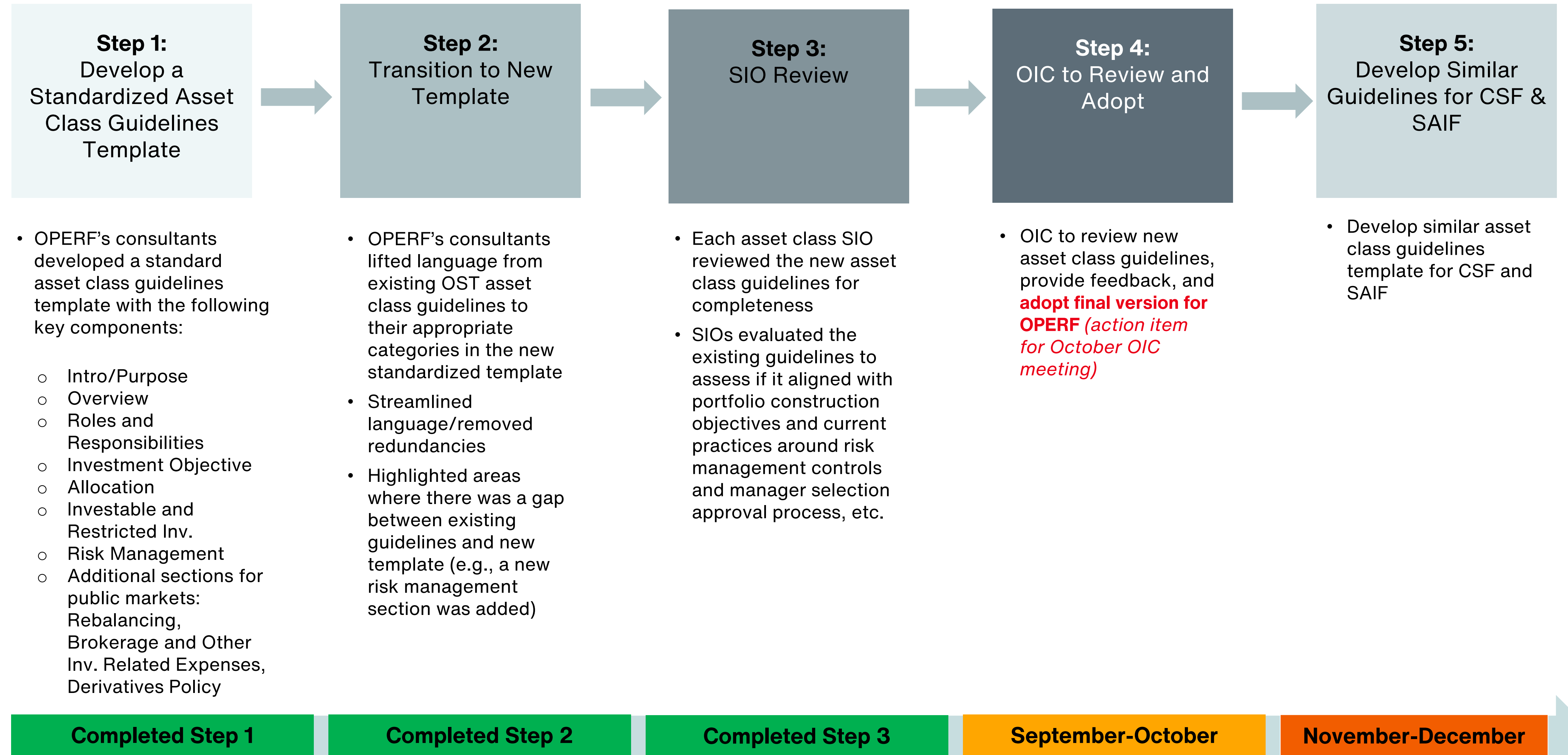
***Today's Action Item: Approve New  
OPERF Investment Guidelines***

October 23, 2024





# Investment Guidelines Project Plan Recap



# Investment Guidelines Project – Team & Policy Overview

	Public Equity	Fixed Income	Private Equity	Real Estate	Real Assets	Diversifying Strategies	Opportunity Portfolio
<b>Primary Consultant Assigned</b>	Aon	Meketa	Aksia	Meketa	Aksia	Albourne	Aksia
<b>SIO Assigned</b>	Louise Howard	Amy Hsiang-Wei	Michael Langdon	Gloria Gil	Ben Mahon	Tim Kane	Michael Mueller
<b>OST Policies Impacted</b>	Strategic Role of Public Equity <b>INV 601</b>  <b>INV 603 &amp; 217</b> are now linked as attachments  INV 1103 is linked as a standalone policy (previously <b>INV 605</b> )	Strategic Role of Fixed Income <b>INV 401</b>  INV 402 is linked as a standalone policy	Private Equity Portfolio Standards and Procedures <b>INV 701</b>  Private Partnership Principles <b>INV 704</b>	Acquiring and Managing Equity Real Estate <b>INV 501</b>  INV 502, 503, 504, & 505 are linked as standalone policies	Real Assets Portfolio Standards and Procedures <b>INV 710</b>	Diversifying Strategies Portfolio Standards and Procedures <b>INV 711</b>	Opportunity Portfolio Standards and Procedures <b>INV 703</b>

*Note: all policies in red font in the above table will be retired*

In addition to the above referenced policies, the following related policies are linked within the guidelines document:

- Under Roles and Responsibilities: OPERF IPS (INV 1203), OST Asset Class Committee (INV 1102), OST Investment Committee (INV 1101)
- Appendix: Securities Lending (INV 216), Consideration of Investments & Divestiture Initiatives (INV 205), Sudan & Iran Divestiture (INV 212), Dodd-Frank Regulatory Compliance (INV 203), Minimizing Losses (INV 211), Rotating Internal Control & Operational Reviews (INV 209), Proposals, Solicitations, Contracts, and Agreements (INV 207), and Consulting Contracts (INV 210)
  - These items do not pertain to one specific asset class



# Legal Disclosures and Disclaimers

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# Oregon Investment Council SAIF Investment Policy Review

October 23, 2024

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# Executive Summary

**Aon and the Oregon State Treasury Investments Division have conducted a comprehensive review of the State Accident Insurance Fund (SAIF) investment policy statement (IPS) with the following objectives in mind:**

- Develop an IPS based on best practices and key components of an effective IPS
- Streamline language/remove redundancies and clarify ambiguous language across documents
- Consolidate statements where possible with key content sourced from existing SAIF policy documents:
  - INV 1001 (General Policies and Procedures), 1002 (Asset Classes and Allocation), and 1006 (Reporting Requirements) will merge into a single document titled INV 1001
- Add new sections and update language to align with recently approved policies for OPERF (2023) and CSF (2022)
- Update the strategic asset class targets and benchmarks resulting from today's asset allocation study conducted by RVK

**The following slides summarize the key components of an effective IPS and the key enhancements/changes made to the SAIF IPS**

***Goal:** OIC reviews updated IPS and approves at today's meeting, pending approval of asset allocation recommendations being made by RVK*

***Next Steps:** Update the Asset Class Guidelines (currently INV 1003, 1004, 1005, & 1008) to mimic format used for OPERF which is slated to be approved today*

**A well-written, comprehensive IPS is the best form of documentation as it clearly articulates who is responsible for which roles, including forms of delegation, defines the purpose and objective of the asset pool, and provides clear guidelines for ongoing monitoring and execution**

**An IPS also ensures continuity by providing a framework for decision-making which is particularly important when personnel changes occur**

# Key Components of an Effective IPS for SAIF

Key Components	Description	Source Document	Comments on SAIF IPS
<b>Introduction and Purpose</b>	Introduces the organization/asset pool, the scope of the IPS, appropriate fiduciary standards/state authority & the purpose and intent of the IPS	Aon IPS Template (also used for CSF & OPERF)	<ul style="list-style-type: none"> <li>Clearly articulates the purpose and intent of the IPS</li> <li>Provides background on SAIF and its beneficiaries</li> </ul>
<b>Roles and Responsibilities</b>	Clearly defines roles and responsibilities of all parties involved with managing the Fund's investments	<p>New section which mimics language used for CSF &amp; OPERF</p> <p>INV 1002</p>	<ul style="list-style-type: none"> <li>Sourced key language from CSF/OPERF IPS               <ul style="list-style-type: none"> <li>Simplified and clarified language as appropriate</li> </ul> </li> <li>Expanded definition of key roles as outlined in INV 1002 and added missing roles               <ul style="list-style-type: none"> <li>OIC, SAIF Corporation, OST Staff, Investment Consultants, Investment Professionals, and Custodian are now clearly defined</li> </ul> </li> </ul>
<b>Investment Objectives</b>	<p>Clearly stated investment objectives will help establish appropriate asset allocation guidelines and other polices</p> <p>Investment objectives are also important when reviewing the investment results</p>	<p>New section which mimics language used for CSF &amp; OPERF</p> <p>INV 1001</p>	<ul style="list-style-type: none"> <li>Took "General Objective" language from INV 1001 and expanded upon it</li> <li>Added a new <i>Risk</i> section to clearly outline key risks</li> </ul>
<b>Asset Allocation Guidelines</b>	<p>Asset allocation may be the most important determinant of long-term success for the organization's investment program and should be described in the IPS</p> <p>Rebalancing guidelines help guide the actions of staff without requiring additional committee approval</p>	<p>INV 1001 (Philosophy) and INV 1002 (Asset Allocation Procedures)</p>	<ul style="list-style-type: none"> <li>Enhanced <i>Rebalancing Guidelines</i> section</li> <li>Simplified <i>Philosophy Underlying Asset Allocation Policy</i> section and added RBC definition</li> </ul>

# Key Components of an Effective IPS for SAIF (cont'd)

Key Components	Description	Source Document	Comments on SAIF IPS
<b>Strategic Role Guidelines</b>	Outlining the strategic investment guidelines for each asset class helps serve as a framework for evaluating the asset allocation choices	INV 1002 Updated to mimic language used for CSF & OPERF	<ul style="list-style-type: none"> <li>Used CSF IPS language as a starting point and tailored further for SAIF</li> <li>Added new <i>Private Credit</i> section as result of asset allocation review which recommends 5% strategic target</li> </ul>
<b>Performance Measurement &amp; Evaluation</b>	<p>A regular review of performance helps the organization monitor the portfolio's progress toward the stated investment objectives</p> <p>Identifying benchmarks to help measure and evaluate the portfolio's performance provides tangible metrics to guide this process</p>	INV 1006	<ul style="list-style-type: none"> <li>Used CSF/OPERF IPS language as a starting point and tailored further for SAIF</li> <li><i>Review and Reporting</i> section from INV 1006</li> </ul>
<b>Appendix: Asset Allocation Strategy Targets &amp; Ranges</b>	Clearly define asset allocation targets and ranges as approved during most recent asset allocation study, along with primary benchmarks for each asset class	INV 1002	<ul style="list-style-type: none"> <li>Updated table to align with asset allocation recommendations               <ul style="list-style-type: none"> <li>Remove Bank Loans</li> <li>Add 5% Private Credit target and update benchmark to S&amp;P LSTA Leveraged Loan Index + 1.5%</li> <li>Increase Fixed Income target to 80% and increase min to 75%</li> <li>Change Custom Fixed Income Benchmark slightly per RVK's recommendation (add CLOs and extend credit duration)</li> </ul> </li> </ul>

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**Investment Guidelines  
for  
Oregon Public Employees Retirement Fund**

**Adopted X, X, 2024**



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# INV 1204: OPERF Asset Class Investment Guidelines

## 1. Introduction

To accomplish the prudent and efficient implementation of investment policies established by the Oregon Investment Council (OIC), Oregon State Treasury (OST) created the OPERF Investment Guidelines (hereinafter referred to as the "Investment Guidelines") to participate in attractive long-term investment opportunities for the programs under the responsibility of OST, including the Oregon Public Employees Retirement Fund (OPERF and also known as "the Fund"). As opportunities become available, OST will invest assets prudently, productively and in a manner consistent with objectives, OIC policies and applicable law.

## Purpose

The Investment Guidelines provide the broad strategic framework for managing the asset class portfolios in conformity with the IPS of the Oregon Public Employees Retirement Fund (INV 1203).

## 2. Overview

Portfolio investments provide an appropriate complement to OPERF's investment portfolio, and are consistent with OPERF's general objectives, including:

- Providing a means to pay benefits to OPERF participants and their beneficiaries;
- Investing to produce a return based on prudent and reasonable levels of liquidity and investment risk;
- Attaining an adequate real return over the expected rate of inflation; and
- Complying with all applicable laws and regulations concerning the investment of pension assets.

Portfolio investments should exhibit differentiated (i.e., less correlated) returns relative to other Fund assets and therefore the Portfolio is expected to provide diversification benefits to the Fund.

## 3. Roles and Responsibilities

The OIC is responsible for formulating and reviewing policies for the (a) investment and reinvestment of Oregon statutory investment funds and (b) the acquisition, retention, management and disposition of investments, including for the assets of the Oregon Public Employees Retirement Fund ("OPERF" or the "Fund"), in order to ensure that investment fund assets are prudently, profitably, and efficiently managed on a day-to-day basis.

Reference the below policies for further information on roles and responsibilities.

- a) [OPERF IPS \(INV 1203\)](#)
- b) [OST Asset Class Committee \(INV 1102\)](#)
- c) [OST Investment Committee \(INV 1101\)](#)
  - i. [Manager selection process – \(INV 1101 Appendix B\)](#)

## 4. Asset Class Investment Guidelines

The asset class investment guidelines for each of OPERF's asset class portfolios are outlined in this section.

## **Fixed Income Investment Guidelines**

### **I. INVESTMENT OBJECTIVE**

The Fixed Income portfolio is expected to achieve a return of at least 15 basis points, net of fees, above the policy benchmark which is: 100% Bloomberg U.S. Aggregate Bond Index, over a market cycle of three to five years. Any changes to the policy benchmark will be approved by the OIC.

Investment objectives of the Fixed Income portfolio are to:

- Offer principal preservation while providing sufficient liquidity to meet the Fund's cash flow requirements.
- Build and maintain a well-diversified portfolio managed to maximize total return subject to the risk limitations described herein.
- Limit portfolio risk, as measured by tracking error, to an annualized target of up to 1.0 percent.
- Maintain portfolio duration within parameters as defined by Staff with CIO approval, for each specific fixed income mandate.
- Invest opportunistically within a controlled and defined portfolio allocation.

### **II. ALLOCATION**

The fixed income allocation shall consist primarily of U.S. investment grade fixed income securities represented within the benchmark index. It may also allow for non-benchmark sectors, including, but not limited to, developed and emerging markets international securities, inflation-linked bonds, as well as below investment grade securities. A portion of the Fixed Income portfolio is internally managed for cost savings and or value-added performance.

### **III. INVESTABLE INSTRUMENTS AND RESTRICTED INVESTMENTS**

#### **A. Types of Allowable Investments – External Management**

The following fixed income securities, individually or in commingled vehicles, may be held outright and under resale agreement:

- 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;
- Obligations of international agencies, supranational entities and foreign governments (or their subdivisions or agencies), as well as foreign currency exchange-related securities, warrants and forward contracts;
- Obligations issued or guaranteed by U.S. local, city and state governments and agencies;
- Securities defined under Rule 144A and Commercial Paper defined under Section 4(2) of the Securities Act of 1933;
- Yankee Bonds (dollar denominated sovereign and corporate debt);
- Derivatives of fixed income and currency market instruments; and
- Securities eligible for the Short-Term Investment Fund (OSTF).

#### **B. Types of Allowable Investments – Internal Management**

- Funds eligible for discreet investment management must meet the following requirements:
  - Funds' enabling statutes must evidence legislative contemplation of discreet investment activity. Language containing the word "invest" in some form will suffice

as evidence; and

- The minimum projected balance for candidate funds must be at least \$50 million for investment in U.S. Treasury and Government-Sponsored Enterprise securities and at least \$100 million for inclusion of corporate bonds.
- A participating agency ("Agency") must meet the following requirements:
  - Agency Head makes a written request for discreet investment management which includes an affirmative statement of the agency's ability to comply with the requirements of the Interagency Agreement for Fixed Income Investments; and
  - Agency will enter into an Interagency Investment Agreement with OST.
    - Final determination on the eligibility of any funds for discreet investing will be made solely by OST.
    - Exceptions to eligibility must be approved by the Deputy State Treasurer.

#### **IV. RISK MANAGEMENT**

The OIC believes that the likelihood of realization of the investment objectives is enhanced through diversification, and per ORS 293.726, the OIC has a duty to diversify the investments of the Fund unless it is not prudent to do so. The Fixed Income portfolio will aim to diversify assets among various sectors, regions, maturities, quality, and sub-asset class types. The Fixed Income portfolio will limit portfolio risk, as measured by tracking error, to an annualized target of up to 1.0 percent. The Fixed Income portfolio will maintain a duration within parameters as defined by staff, with CIO approval.

#### **V. REBALANCING**

With CIO approval, Staff shall have discretion to rebalance between and among managers within the Fixed Income portfolio. The aggregate structural characteristics of the Fixed Income portfolio will be considered during such rebalancing, while re-allocations between asset classes shall remain governed by OIC Policy.

If the Fixed Income portfolio is found to be out of compliance with one or more investment guidelines or is being managed inconsistently with its objectives, Staff shall take appropriate action as soon as is prudently feasible. Actions to bring the Fixed Income portfolio back into compliance shall be communicated to and approved by all relevant parties.

#### **VI. BROKERAGE AND OTHER INVESTMENT RELATED EXPENSES**

All securities transactions shall be executed by reputable (i.e., properly registered with the SEC) broker/dealers or banks (including any bank acting as custodian) and shall be at a best price and best execution basis. Investments shall possess value and quality corroborated by accepted techniques and standards of fundamental economic, financial and security analysis.

#### **VII. DERIVATIVE POLICY**

Fixed income derivative contracts may be used to achieve general portfolio objectives, according to risk management and internal control procedures. In addition, fixed income derivatives may be used to manage the overall interest rate hedging positions at the Fund level.

However, in no case may a derivative instrument be used that would cause the Fixed Income portfolio to:

- be leveraged to have an expected beta above one (i.e. market beta), or

- be exposed to risks that it would not inherently be encountered by investing directly in a portfolio of securities allowed by this policy.

**VIII. PROCEDURES AND FORMS**

[Appendix A: Internal Fixed Income Portfolio Investments INV 402](#)

## Public Equity Investment Guidelines

### I. INVESTMENT OBJECTIVE

The Public Equity portfolio is expected to provide one of the highest expected returns among approved OPERF asset classes. Over the long-term, public equity returns are expected to exceed inflation.

Investment objectives of the Public Equity portfolio are to:

- Achieve a return of 50 basis points or more above the MSCI All Country World Index Investable Market Index (ACWI IMI) (net) over a market cycle on a net-of-fees basis.
- Manage active risk to a targeted annualized tracking error of up to 2.0 percent, relative to the MSCI ACWI IMI (net).
- Unless tax, regulatory or liquidity constraints suggest otherwise, make reasonable effort to diversify public equity allocations across the stock markets of all investable countries as defined by MSCI ACWI IMI inclusion, 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.
- Invest opportunistically, using unique investment approaches, within a controlled and defined portfolio allocation.
- Enhance returns through selective active management provided such actively-managed strategies demonstrate empirical efficacy relative to passive alternatives, embedded factor exposures and net of all fees and transactions costs.
- Actively-managed strategies are expected to outperform stated benchmarks on a net of fee and risk-adjusted basis. Comparisons against a representative peer group universe will also be considered in evaluating the performance and risk characteristics of such strategies.
- Benchmarks assigned to strategies with non-U.S. exposure shall be unhedged. However, 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.

### II. ALLOCATION

The Public Equity portfolio shall be structured on a global basis, seeking to loosely replicate the region and market capitalization characteristics of the investable universe of public equity securities. A combination of active and passive strategies may be used across multiple vehicle types including but not limited to mutual funds, ETFs, commingled funds, and separately managed accounts. A portion of the Public Equity portfolio may be internally managed for cost savings and/or value-added performance.

The size of any allocation to a given investment strategy will be determined by numerous considerations, including but not limited to, that strategy's expected role within and impact on the broader portfolio, Staff's confidence in the strategy's manager, the manager's investment style, the capacity available in/with a particular strategy/manager, and fees.

Allocation	Targets	Ranges
U.S.	MSCI ACWI IMI weight	+/- 10%
Non-U.S.	MSCI ACWI IMI weight	+/- 10%
Emerging Markets	MSCI ACWI IMI weight	+/- 4%

### III. INVESTABLE INSTRUMENTS AND RESTRICTED INVESTMENTS

#### A. Externally Managed Strategies

## **1. Allowable Investments**

Externally managed strategies shall primarily invest in equity securities held in each externally managed strategy's respective benchmark and may also opportunistically invest in securities outside of their respective benchmarks, as contractually permitted by Staff.

## **2. Restricted Investments**

All investable instruments and restricted investments shall be determined by Staff on a strategy-by-strategy basis and explicitly defined in each externally managed strategy's investment management agreement (IMA) and guidelines or offering memorandum.

If an externally managed public equity strategy is found to be out of compliance with one or more investment guidelines or is being managed inconsistently with its objectives, Staff shall engage with the investment manager to determine and take appropriate action, if Staff deem any be necessary. Actions to bring externally managed public equity strategies back into compliance shall be communicated to all relevant parties.

## **B. Internally Managed Strategies**

### **1. Allowable Investments**

Internally managed strategies shall aim to closely match the performance of the stated benchmark by investing in permitted instruments. Permitted holdings include but are not limited to:

- Securities contained within the strategy's respective benchmark;
- Securities reasonably expected to be a part of the strategy's respective benchmark at some future date;
- Securities that have recently (within the last 6 months) been a member of the strategy's respective benchmark;
- Exchange Traded Funds (ETFs) and equity index futures, which closely replicate the strategy's respective benchmark;
- Securities received through corporate actions; and
- Cash and cash equivalents, including but not limited to U.S. Treasury Bills or U.S. Floating Rate Notes.

### **2. Restricted Investments**

The internally managed public equity strategies shall not make the following types of investments without advanced written approval of both the CIO and OIC:

- Explicit short sales of securities;
- Intentional notional equity exposure in excess of a portfolio's net asset value;
- Commodities; and
- Non-U.S. dollar denominated fixed income securities issued by entities incorporated or chartered outside of the United States.

If an internally managed public equity strategy is found to be out of compliance with one or more investment guidelines or is being managed inconsistently with its objectives, Staff shall bring the portfolio into compliance as soon as is prudently feasible. Actions to bring internally managed public equity strategies back into compliance shall be communicated with all relevant parties.

Please See Appendix A: Internal Equity – Portfolio Objectives & Strategies for internally managed strategy performance objectives and risk constraints.

## **IV. RISK MANAGEMENT**

The OIC believes that the likelihood of realization of the investment objectives is enhanced through diversification, and per ORS 293.726, the OIC has a duty to diversify the investments of the Fund unless it is not prudent to do so. The Public Equity portfolio will aim to diversify assets among various investment managers, strategies, market capitalizations, sectors, styles, and regions. The Public Equity portfolio will limit risk, as measured by tracking error, to an annualized target of up to 200 basis points.

During times of extreme market volatility, active risk may temporarily spike and exceed the targeted maximum range of 200 basis points so long as the increase in active risk is unrelated to action taken by Staff. Under such circumstances, Staff shall evaluate the portfolio, alongside market dynamics to determine if (rebalancing or other transactional) action is warranted.

If the Public Equity portfolio is found to exceed its active risk budget of 200 basis points as a direct result of action taken by Staff, Staff shall bring the Public Equity portfolio into compliance as soon as prudently feasible. Actions taken shall be communicated to all relevant parties.

## **V. REBALANCING**

With CIO approval, Staff shall have discretion to rebalance between and among managers within the Portfolio. The aggregate structural characteristics of the Portfolio will be considered during such rebalancing, while re-allocations between asset classes shall remain governed by OIC Policy.

If the Portfolio is found to be out of compliance with one or more investment guidelines or is being managed inconsistently with its objectives, Staff shall take appropriate action as soon as is prudently feasible. Actions to bring the Portfolio back into compliance shall be communicated to and approved by all relevant parties.

## **VI. BROKERAGE AND OTHER INVESTMENT RELATED EXPENSES**

All securities transactions shall be executed by reputable (i.e., properly registered with the SEC) broker/dealers or banks (including any bank acting as custodian) and shall be at a best price and best execution basis. Investments shall possess value and quality corroborated by accepted techniques and standards of fundamental economic, financial and security analysis.

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. Staff shall retain a CR agent for the Portfolio and monitor its performance and efficacy.

“Soft Dollars” refers to an arrangement in which an investment manager obtains products or services, other than the execution of securities transactions, from or through a broker. In exchange, the broker receives a share of that investment manager’s transaction business or “flow”. Managers are expected to comply with all applicable laws and regulations related to the receipt of such products or services. Staff shall review external managers’ soft dollar usage on a quarterly basis.

## **VII. DERIVATIVES POLICY**

The Public Equity investment managers may use derivative instruments. However, in no case may a derivative instrument be used that would cause the portfolios to:

- be leveraged to have an expected beta significantly above one (i.e., market beta), or
- be exposed to risks that it would not inherently be encountered by investing directly in a portfolio of securities allowed by this policy.

## **VIII. PROCEDURES AND FORMS**

Appendix A: Internal Equity – Portfolio Guidelines





Appendix A Internal  
Equity Portfolio Guide

[Appendix B: OST Exercise of Voting Rights Accompanying Equity Securities INV 1103](#)

**Appendix C: OPERF Foreign Currency Guidelines**



Appendix C- Foreign  
Currency Risk Guidelin

## Private Equity Investment Guidelines

### I. INVESTMENT OBJECTIVE

The Private Equity portfolio's investment performance objective is to achieve long-term, net returns to OPERF (e.g., after partnership expenses, management fees and general partners' carried interest) above a public market analog plus an appropriate premium to compensate for illiquidity and principal risk. Specifically, the Private Equity portfolio performance should exceed a net time weighted return equal to the Russell 3000 Index plus 300 basis points per annum. Staff will periodically evaluate the Private Equity portfolio's performance objective, benchmark and assigned premium.

### II. ALLOCATION

Investments within the Private Equity portfolio will be diversified across stage/strategy, sector, geography, vintage year, manager, amongst other factors.

Long-term asset allocation ranges are established below:

Strategy	Allocation Range
Corporate Finance	65% - 90%
Growth Equity and Venture Capital	5% - 20%
Other	0% - 10%

#### A. Corporate Finance

Capital is typically invested in more established companies, meaning those further along the business life cycle, having relatively predictable cash flows and the ability to raise capital throughout the entire capital structure.

#### B. Growth Equity and Venture Capital

Growth Equity capital is typically invested in maturing operating companies with proven business models. These companies are at an inflection point where capital can fuel substantial revenue and profitability growth.

These are typically not controlling interests. The investments have minimal or no funded debt. Exposure can be obtained through stand-alone growth equity funds or buyout funds that incorporate this strategy.

Venture capital equity is targeted at companies in the earliest phases of a business lifecycle. Companies may be classified as seed, early, middle or late stage and are characterized by their inability to access public equity or debt. These companies: have uncertain revenues, need cash to build their businesses, and are subject to high failure rates.

#### C. Other

Many private equity opportunities have unique characteristics that require a separate classification beyond that of buyouts, growth equity or venture capital. These investments may include distressed debt, turnaround, and opportunistic partnerships.

### III. INVESTABLE INSTRUMENTS AND RESTRICTED INVESTMENTS

#### A. Types of Allowable Investments

Any appropriate private equity investment opportunity that has the potential for returns superior to traditional or publicly traded equity investment opportunities and is consistent with Private Equity portfolio standards and applicable law.

## **B. Stock Distributions**

Stock distributions will be liquidated in an orderly manner.

## **IV. RISK MANAGEMENT**

Private Equity does not lend itself to traditional quantitative measures of risk such as standard deviation and benchmark tracking error. Rather, risk is managed through a combination of quantitative and qualitative constraints. For Portfolio investments, the following section along with the Risk Management Guidelines for Alternative Asset Classes section identifies the most significant risks and the method of control.

### **A. Strategy Risk**

Staff will diversify investments throughout the various financing stages from startup through growth stage financing to leveraged buyouts and recapitalizations.

### **B. Company Risk**

Staff cannot opt into or out of exposures to individual companies through partnership investments, but exposure may be managed when participating via a co-investment or direct investment in a company. Company risk is most effectively managed through the manager selection and commitment pacing processes, as those processes feed directly into portfolio construction.

### **C. Industry Risk**

Typically, private equity partnerships are permitted to invest in a wide variety of industries with limited controls. Industry risk is controlled primarily through appropriate diversification across classes and subclasses.

### **D. Liquidity Risk**

Private asset partnership investments are illiquid and typically have expected holding periods of 10-15 years. Partnership investments are typically held until all underlying investments have been sold; selling a partnership investment prior to this point generally may result in a discount to fair market value. Liquidity risk is managed by minimizing the possibility of forced sales that may arise from exceeding maximum exposure limits or lowering asset allocation exposure limits. Asset allocation exposure is monitored by an investment pacing model maintained by Advisor/Staff.

### **E. Leverage Risk**

General partners invest capital from private equity partnerships throughout the capital structure of companies. The capital markets determine the maximum leverage available to the general partners. Staff manages leverage exposure through partnership selection and portfolio construction.

## Real Estate Investment Guidelines

### I. INVESTMENT OBJECTIVE

The Real Estate portfolio's investment performance objective is long-term, net returns to OPERF (i.e., after management fees and general partners' carried interest) above a benchmark comprised of the National Council of Real Estate Fiduciaries (NCREIF) Fund Index ("NFI") Open-end Diversified Core Equity Index ("ODCE"), and referred to as NFI-ODCE, *plus* an appropriate premium to compensate for illiquidity, principal risk and related investment costs and expenses. Specifically, the Real Estate portfolio's performance objective is a return exceeding NFI-ODCE net of fees plus 50 basis points, and may vary by investment type (e.g., core, non-core real estate, and public and private REITs). Staff will periodically evaluate the Real Estate portfolio's performance objective, benchmark and assigned return premium.

Investment Classification	After Fee Benchmark
Core	ODCE
Non-Core	ODCE + 200 bps
Public REITs (Domestic)	NAREIT
Public REITs (International)	FTSE/EPRA/NAREIT
<b>Total Portfolio</b>	<b>ODCE + 50 bps</b>

### II. ALLOCATION

Allowable investments within the Real Estate portfolio include public and private, core and non-core (e.g. value-add and opportunistic), open-end and closed ended real estate investment funds, separately managed accounts, real estate debt and equity investments, and co-investments.

The allocation ranges and targets for each sub-classification are as follows:

Investment Category	Target Allocation
Core Real Estate	50 - 100%
Non-Core Real Estate	0 - 40%
REITs	0 - 10%

OPERF's Real Estate portfolio consists of the following three sub-classifications:

#### A. Core Real Estate

Equity investments in real properties. Typical Core properties will exhibit "institutional" qualities such as good locations within local and regional markets with high quality design and construction. In general, Core properties will be well occupied, though a limited allocation may be invested in properties undergoing redevelopment, new construction or significant re-leasing. Core properties are expected to generate the majority of its returns through income.

#### B. Non-Core Real Estate

Portfolio is comprised of Non-Core investments in real properties, commingled funds, joint ventures and private placements. The Non-Core portfolio may include office, retail, industrial and apartment properties, but may also target structured investments in alternative property types such as hotels, student housing, senior housing, debt, specialized retail uses, operating companies, non performing loans, speculative developments, land, etc. Non-Core real estate may exhibit "institutional" qualities such as good locations within local and regional markets with high

quality design and construction, but may need redevelopment or significant leasing to achieve stabilized investment value. Non-Core investments may include development opportunities with balanced risk/return profiles.

### **C. REITS**

Equity investments in publicly-traded Real Estate Investment Trusts or publicly-traded real estate operating companies.

## **III. INVESTABLE INSTRUMENTS AND RESTRICTED INVESTMENTS**

### **A. Types of Allowable Investments**

Any appropriate investment opportunity that has the potential for returns superior to traditional investment opportunities and is consistent with Real Estate portfolio standards and applicable law.

### **B. Restricted Investments**

Staff and the Advisor shall not knowingly propose the purchase of equity real estate or mortgages on real property owned and marketed for sale by any of the following: (a) an employee of the Oregon State Treasury (OST); (b) a member of the OIC; (c) a relative of (a) or (b); or (d) a private company in which (a), (b), or (c) has an ownership interest.

## **IV. RISK MANAGEMENT**

For Real Estate investments, the following section along with the Risk Management Guidelines for Alternative Asset Classes section identifies the most significant risks and the method of control.

### **A. Strategy Type Risk**

Staff will diversify investments through exposure to a variety of real estate debt and equity investment strategies, property types, (i.e. office, industrial, retail, multifamily, hospitality, etc.) and throughout various stages of a property life-cycle from development to stabilized.

### **B. Property Type Risk**

Staff will diversify Real Estate portfolio investments among various real property types. The real estate portfolios shall be diversified across property types. No single property type shall typically account for greater than 40% of the Real Estate portfolio.

### **C. Geographic Risk**

Geographic risk is controlled through diversification across country and regional geographic exposures as measured by market value at the portfolio company level.

International investments are allowed and subject to a 30% Real Estate portfolio limitation.

### **D. Liquidity Risk**

The majority of Real Estate is illiquid. As such, OPERF understands and recognizes that the Real Estate portfolio will not be structured in a way to provide liquidity. Should market values for the Real Estate portfolio change such that they fall outside of the strategy risk management parameters, Staff and Advisor will work to recommend the most effective solution and timeframe to bring the Real Estate exposure into compliance to the OIC.

### **E. Leverage**

The use of leverage is a prudent tool for enhancing returns and diversifying equity investments, though it does raise the risk profile of the portfolios. Leverage guidelines are as follows:

<b>Investment Classification</b>	<b>Portfolio Leverage Limit</b>
Core	45%
Non-Core Real Estate	65%
REITs	N/A
Total Portfolio	50%

### **1. Core Real Estate**

To enhance investment returns, leverage is permissible in the Core portfolio in an amount up to 45% of the fair market value of the aggregate Core portfolio, and up to 75% of the market value on any given property. Sufficient consideration should be given to the impact of debt financing on the risk and return characteristics of the leveraged investments as well as the Core portfolio in total. Use of leverage shall be subject to financing guidelines incorporated into the operating agreement(s) for each Core investment manager or partnership. From time to time, managers may have the opportunity to acquire properties only if underlying property debt is assumed as part of the transaction. Such acquisitions may be pursued so long as such acquisitions do not cause the manager's portfolio to exceed portfolio leverage limitations for an extended period of time. From time to time, a manager's portfolio may exceed leverage limitations as individual leveraged properties are acquired or capital market returns result in negative capital market valuations. The mechanisms and time frames to bring property leverage in line with portfolio guidelines and investment objectives must be part of each venture's operating agreement. Material deviations from leverage and policy guidelines may be resolved either through action by the OIC, Staff, or the Real Estate Committee.

### **2. Non-Core Real Estate**

To enhance investment returns, leverage is permissible in the Non-Core portfolio as described as follows. In order to enhance investment returns, leverage is permissible in the Non-Core portfolio in an amount up to 65% of the fair market value of the aggregate Non-Core portfolio and up to 80% of cost on any given property prior to stabilization. Sufficient consideration should be given to the impact of debt financing on the risk and return characteristics of the leveraged investments. Use of leverage shall be subject to financing guidelines incorporated into the operating agreement(s) for each Value Add investment manager or partnership.

## **V. PROCEDURES AND FORMS**

[Appendix A: Real Estate Investments – Property Appraisals INV 502](#)

[Appendix B: Real Estate Investments – Property Insurance Policies INV 503](#)

[Appendix C: Real Estate Investments – Responsible Contract Policy INV 504](#)

[Appendix D: Real Estate Investments – Non-Mandate Property Exceptions INV 505](#)



## Real Assets Investment Guidelines

### I. INVESTMENT OBJECTIVE

The Real Assets portfolio's investment performance objective is to generate long-term net returns to OPERF (i.e., after management fees and general partners' carried interest) above a benchmark comprised of the Consumer Price Index ("CPI") plus 400 basis points. The premium portion of the benchmark compensates for illiquidity, principal risk and related investment costs and expenses. Staff will periodically evaluate the Real Assets portfolio's performance objective and the benchmark.

### II. ALLOCATION

Investments within the Real Assets portfolio will be diversified across strategies: infrastructure and natural resources and their underlying sub-sectors. Additionally, diversification across vintage years is important because of the illiquid nature of this asset class.

Long-term asset allocation ranges are established below:

Strategy	Allocation Range
Infrastructure	50% - 100%
Natural Resources	0% - 50%

#### A. Infrastructure

Infrastructure assets provide services and products essential for the functioning of a modern society, and include sub-sectors such as transportation, communication, power, energy, utilities, and social.

#### B. Natural Resources

Natural resource assets involve the production, processing, and distribution of commodities or globally traded goods coming from these resources. Sub-sectors may include investments in energy, agriculture, timberland, metals and mining, and other real assets.

### III. INVESTABLE INSTRUMENTS AND RESTRICTED INVESTMENTS

#### A. Types of Allowable Investments

Any appropriate investment opportunity that has the potential for returns superior to traditional investment opportunities and is consistent with Real Assets portfolio standards and applicable law.

### IV. RISK MANAGEMENT

Real Assets do not lend themselves to traditional quantitative measures of risk such as standard deviation and benchmark tracking error. Rather, risk is managed through a combination of quantitative and qualitative constraints. For Real Assets portfolio investments, the following section along with the Risk Management Guidelines for Alternative Asset Classes section identifies the most significant risks and the method of control.

#### A. Strategy Type Risk

The Real Assets portfolio will include a variety of alternative investment strategies, including real assets (i.e., infrastructure, natural resources, commodities, etc.) and other diversifying assets.

#### B. Industry Risk

Typically, private asset partnerships are permitted to invest in a wide variety of industries with limited controls. Industry risk is controlled primarily through appropriate diversification across classes and subclasses.

**C. Liquidity Risk**

Private asset partnership investments are illiquid and typically have expected holding periods of 10-15 years. Partnership investments are typically held until all underlying investments have been sold; selling a partnership investment prior to this point generally may result in a discount to fair market value. Liquidity risk is managed by minimizing the possibility of forced sales that may arise from exceeding maximum exposure limits or lowering asset allocation exposure limits. Asset allocation exposure is monitored by an investment pacing model maintained by Advisor/Staff.

**D. Leverage Risk**

General partners invest capital from private asset partnerships throughout the capital structure of companies. The capital markets determine the maximum leverage available to the general partners. Staff manages leverage exposure through partnership selection and portfolio construction.

## Diversifying Strategies Investment Guidelines

### I. INVESTMENT OBJECTIVE

The Diversifying Strategies portfolio is expected to generate long-term net returns that have low correlation and sensitivity to traditional asset class returns. Over the long-term, the Diversifying Strategies portfolio is expected to outperform its benchmark, the HFRI Fund of Funds Conservative Index. Staff will periodically evaluate the Diversifying Strategies portfolio's investment objective and the benchmark.

### II. ALLOCATION

In order to achieve the investment objective, the Diversifying Strategies portfolio is expected to be invested in a diversified mix of managers and investment strategies, as outlined below.

<b>Strategy</b>	<b>Allocation Range</b>
Equity Long/Short	5%-25%
Event Driven	5%-25%
Relative Value	25%-45%
Directional (Global Macro, CTA, etc.)	25%-45%

The Diversifying Strategies portfolio will generally be invested in commingled funds, fund of ones, separate accounts, or drawdown funds across strategies and managers.

Investments within the Diversifying Strategies portfolio will be classified based upon the following descriptions:

#### A. Equity Long/Short

Equity L/S strategies maintain positions both long and short in primarily equity and equity derivative securities. A wide variety of investment processes can be employed to arrive at an investment decision, including both quantitative and fundamental techniques; strategies can be broadly diversified or narrowly focused on specific sectors and can range broadly in terms of levels of gross and net exposure, amount of leverage employed, holding period, concentrations of market capitalizations and valuation ranges of typical portfolios.

#### B. Event Driven

Event driven strategies maintain positions in securities affected by extraordinary transactions or events. Events may be of a wide variety including, but not limited to, mergers, restructurings, financial distress/bankruptcy, tender offers, shareholder buybacks, debt exchanges, security issuance or other capital structure adjustments. Security types can range from most senior in the capital structure to most junior or subordinated, and frequently involve additional derivative securities.

Event driven exposure includes a combination of sensitivities to equity markets, credit markets and idiosyncratic, company specific developments. Investment insights are typically based on fundamental characteristics (as opposed to quantitative), with the realization of the thesis predicated on a specific development exogenous to the existing capital structure.

### **C. Relative Value**

Relative Value strategies seek to generate returns by capitalizing on the mispricing of related securities or financial instruments. Generally, these managers avoid taking a directional bias with regard to the price movement of markets.

### **D. Directional**

Directional strategies typically trade a broad range of markets in which the investment positioning is based on recent price movements or views on underlying economic variables and the impact they may have on markets. Managers may employ a variety of techniques, both discretionary and systematic analysis, combinations of top down and bottom up disciplines, quantitative and fundamental approaches, and long or short term holding periods. While individual positions may be directional in nature, over the long-term, this group of strategies is expected to have low correlation to traditional asset class returns.

## **III. INVESTABLE INSTRUMENTS AND RESTRICTED INVESTMENTS**

### **A. Types of Allowable Investments**

Any appropriate investment opportunity that has the potential for diversifying, additive returns to traditional investment opportunities and is consistent with Diversifying Strategies portfolio standards and applicable law.

## **IV. RISK MANAGEMENT**

Risk is managed through a combination of quantitative and qualitative measures. Proper risk management requires an adequate level of transparency from managers into the underlying portfolios. As such, managers should provide risk and performance reporting on a regular basis. Any Advisor appointed by the OIC to advise on Diversifying Strategies portfolio should have the capacity to aggregate and analyze risk exposures on a look-through basis across all managers; however, it is important to acknowledge that due to the dynamic nature of some strategies and the intellectual property protection demands of some managers, risk analysis may not fully reflect the complete risk exposure of the portfolio at a given time. For Diversifying Strategies portfolio investments, the following section along with the Risk Management Guidelines for Alternative Asset Classes section identifies the most significant risks and the method of control.

### **A. Strategy Risk**

The Diversifying Strategies portfolio will be broadly diversified, global, and will include a variety of managers and investment strategies. The Diversifying Strategies portfolio will also have exposure across asset classes and industry groups.

### **B. Industry Risk**

The Diversifying Strategies portfolio will be broadly diversified across industry groups.

### **C. Market Risk**

The Diversifying Strategies portfolio is designed to have a low overall level of sensitivity to broad market risk factors such as equity markets, interest rates, and commodity prices. The portfolio will target an expected medium to long term (3+ years) equity market sensitivity (beta) below 0.25 and a targeted volatility (annualized standard deviation of monthly returns over a market cycle) within a range of 4%-8%. Risk management processes include the monitoring of market risk factor sensitivity at both the individual fund and portfolio level.

### **D. Liquidity Risk**

Liquidity risk includes both the underlying holdings in a hedge fund and the provisions for making redemptions from the hedge fund. Redemption provisions will be evaluated for consistency with underlying security holdings in order to reduce the risk of forced selling of holdings at inopportune times caused by other investors in the strategy. Staff will monitor liquidity provisions of each individual strategy including lock-ups, gates, and withdrawal restrictions and assess characteristics of the overall Diversifying Strategies Portfolio on a regular basis. Allocations will be made to investment vehicles that offer liquidity terms appropriate for the underlying investment strategy with a preference for more liquidity, all else being equal. Generally, no more than 25% of the Diversifying Strategies portfolio should have longer than two years until the next liquidity opportunity, with at least 25% of the Diversifying Strategies portfolio offering quarterly liquidity or better and at least 50% of the Diversifying Strategies portfolio offering annual liquidity or better.

**E. Leverage Risk**

The use of leverage and the ability to short-sell securities are common characteristics of many diversifying investment strategies. The managers may use leverage to implement their strategies and to manage risks within their portfolio. Staff determines an acceptable level for leverage for each investment. strategy type, and the overall Diversifying Strategies portfolio and monitors on an ongoing basis.

## **Opportunity Portfolio Investment Guidelines**

### **I. INVESTMENT OBJECTIVE**

The Opportunity portfolio's ("Portfolio") investment performance objective is to generate long-term net returns to OPERF (i.e., after management fees and general partners' carried interest) above the OPERF Total Fund Policy Benchmark. Staff will periodically evaluate the Opportunity portfolio's performance objective and the OPERF Total Fund Policy Benchmark.

### **II. ALLOCATION**

- The Opportunity portfolio seeks to achieve its investment objective by making investments and partnership commitments that, for any one or more reasons, do not conform to the guidelines and objectives of the OIC's previously identified asset classes.
- The Opportunity portfolio may be non-diversified, meaning that Staff may concentrate its investments.
- Certain investments may be allocated to the Opportunity portfolio for incubation purposes and, if successful, may be recommended for transfer into one of the other, primary OPERF asset classes or into a newly created asset class. This does not preclude the Opportunity portfolio from holding strategies on a longer-term basis.
- Investments selected that are short-term or tactical in nature, and are liquid, will have stated dates for review and re-evaluation, as will be noted in the original written investment recommendation.
- Given the truly opportunistic nature and objective of the Opportunity portfolio, Staff expects its investments and partnership commitments may be highly episodic and inconsistent over time.
- A low correlation between OPERF and Opportunity portfolio returns is expected over time.

### **III. INVESTABLE INSTRUMENTS AND RESTRICTED INVESTMENTS**

#### **A. Types of Allowable Investments**

Any appropriate investment opportunity that has the potential for returns superior to traditional investment opportunities and is consistent with Opportunity portfolio standards and applicable law.

### **IV. RISK MANAGEMENT**

Risk is managed through a combination of quantitative and qualitative measures. For Opportunity portfolio investments, the following section along with the Risk Management Guidelines for Alternative Asset Classes section identifies the most significant risks and the method of control. Compliance with the following risk parameters shall be based on the percentage of the Opportunity portfolio's Net Asset Value at Fair Value at the end of each quarter.

#### **A. Asset Class Risk**

The Opportunity portfolio may be populated with investment approaches across a wide range of investment opportunities with no limitation on asset classes or strategies employed, subject to: (i) a total current fair market value that is no more than five percent of the Fund's total value and (ii) The CIO shall report to the OIC when the Opportunity portfolio is above three percent, at the next, most feasible OIC meeting.

#### **B. Company Risk**

Staff cannot opt into or out of exposures to individual companies through partnership investments, but exposures may be managed when participating via publicly traded investments or a co-investment or direct investment in a company.



### **C. Liquidity Risk**

Private asset partnership investments are illiquid and typically have expected holding periods of 10-15 years. Partnership investments are typically held until all underlying investments have been sold; selling a partnership investment prior to this point generally may result in a discount to fair market value. Liquidity risk is managed by minimizing the possibility of forced sales that may arise from exceeding maximum exposure limits or lowering asset allocation exposure limits. Asset allocation exposure is monitored by an investment pacing model maintained by Advisor/Staff.

## 5. Additional Alternative Investment Guidelines

### A. Risk Management Guidelines for Alternative Asset Classes

Private and alternative assets do not lend themselves to traditional quantitative measures of risk such as standard deviation and benchmark tracking error. Rather, risk is managed through a combination of quantitative and qualitative constraints. The following sections identify the most significant risks with OPERF's private and alternative asset portfolios and the method of control. Staff will document and report any deviations from these guidelines to the OIC.

#### a) Geographic Risk

Geographic risk is controlled through diversification across country and regional geographic exposures as measured by market value at the portfolio company level.

#### b) Vintage Risk

A partnership's vintage refers to the year of first capital draw and vintage risk refers to the variability of private asset commitments over time and the variability of returns generated by private asset commitments over time. Staff manages the short and long-term investment pacing that minimizes vintage risk while achieving targeted exposure.

#### c) Manager Risk

Manager risk is the impact that a general partner has on the selection and management of underlying partnership investments. It is usually manifested in two ways: the size of the exposure to a particular partnership or series of partnerships sponsored by a given manager, and the number of general partner or manager relationships in an asset class portfolio.

Partnership/manager exposure is controlled through careful selection and by limiting the commitment size to a partnership. Investments will be diversified among a range of commitment sizes which may vary due to multiple considerations, generally with a minimum commitment size of \$75 million, although smaller commitments may be considered.

#### d) Firm Risk

Firm risk is the exposure to a private asset general partner and is controlled by limiting the total exposure (defined as unfunded commitments plus market value) to commingled partnership investments operated by a general partner and its affiliates. The maximum total exposure to a general partner of a commingled fund series and its affiliates is limited to 20% of the total exposure of the asset class portfolio, except for the Opportunity portfolio for which the limit shall be 33%. The due diligence process will include a thorough review of organizational and operating risks before investment and on a continuing basis after investment.

#### e) Currency Risk

The Fund accepts the currency risks consistent with the geographic constraints. Private asset partnerships generally do not hedge currency risk and the Fund typically does not implement currency hedges in the private asset class portfolios.

#### f) Valuation Risk

Private assets lack the trading frequency to establish values and relies on an assessment process to periodically value investments. Staff will rely on valuation procedures consistent with industry standards, used by general partners and subject to annual audits, for the private assets held within the Fund.

### B. [Private Markets Valuation 2024 \(INV 1101 Appendix A\)](#)

C. [Contract Execution and Funding \(INV 1101 Appendix C\)](#)

**6. Appendix**

- a) [Securities Lending \(INV 216\)](#)
- b) [Consideration of Investments and Divestiture Initiatives \(INV 205\)](#)
- c) [Sudan and Iran Divestiture \(INV 212\)](#)
- d) [Dodd-Frank Regulatory Compliance \(INV 203\)](#)
- e) [Minimizing Losses \(INV 211\)](#)
- f) [Rotating Internal Control and Operational Reviews \(INV 209\)](#)
- g) [Proposals, Solicitations, Contracts, and Agreements \(INV 207\)](#)
- h) [Consulting Contracts \(INV 210\)](#)

**Investment Policy Statement**  
**for**  
**The State Accident Insurance Fund (SAIF)**

**Adopted by Council – XX XX, 2024**

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**DRAFT**

## **I. INTRODUCTION AND PURPOSE**

### ***Introduction***

The Oregon Investment Council (OIC) formulates policies for the investment and reinvestment of funds under the control and administration of the SAIF Corporation (“SAIF” or the “Corporation”). It is the intention of the OIC that SAIF’s investments be managed in accordance with this Investment Policy Statement (“IPS”).

The Corporation has determined that the State Accident Insurance Fund (“Fund”) should be viewed as a perpetual fund managed to optimize the long-term investment return while enabling the Fund to meet benefit/expense payment obligations, maintain a high probability of adequate capitalization, and minimize rate fluctuations. SAIF’s investment priorities for the Fund are to preserve capital, generate stable and predictable investment revenue, and maintain sufficient liquidity to meet SAIF cash needs.

This IPS applies to all investable assets of the Fund. All assets available for investment will be invested through an investment policy approved by the OIC, including separate accounts, mutual funds and/or commingled investment vehicles that may include, but are not limited to equities, fixed income, real estate, private credit, cash, and cash equivalents.

### ***Authority***

ORS Chapters 293 and 656. Article VIII of the Oregon Constitution.

### ***Purpose***

The purpose of this IPS is to define the investment objectives, policies and procedures established by the OIC to support the Fund’s mission. This IPS will serve as a framework, with sufficient flexibility to be practical, for the management and review of the Fund and is intended to:

- Identify roles and responsibilities;
- Establish investment objectives;
- Establish long-term asset allocation targets; and
- Establish guidelines to monitor the performance in comparison to stated objectives.

Additionally, this IPS serves as a guide and general framework within which the Fund’s assets are managed in achieving the near-term and long-term objectives of those assets. The OIC also recognizes that short-term market fluctuations make it impossible to continuously maintain all aspects of this policy. This IPS is established to accommodate these short-term fluctuations, which should not necessitate IPS adjustments. It is expected that this IPS be reviewed annually to ensure alignment with forward-looking market expectations and industry best thinking and best practices.

## **II. ROLES AND RESPONSIBILITIES**

### ***Oregon Investment Council (OIC)***

Pursuant to the applicable provisions of ORS 293, the OIC has the authority to set investment policies for the Fund. The OIC has the responsibility to ensure that all investments are managed in a manner that is consistent with the policies and objectives of the Fund.

OIC responsibilities may include, but are not limited to:

- Establish the IPS for the management of the Fund;
- Develop investment goals that are consistent with the financial needs of the Corporation and the appropriate asset allocation consistent with meeting those objectives:
  - Total fund investment objectives and asset class benchmarks; and
  - Investment policies, including target asset allocation policies
- Periodically review and evaluate investment results;
- Review of periodic reports from OST staff, consultants, investment managers and other experts;
- Consider general policy and governance on matters resulting from these reviews; and
- OIC shall not make asset allocation changes without requesting input from SAIF Board of Directors.

The OIC may, at its discretion, delegate the execution of the above responsibilities, in full or in part, to external parties with appropriate expertise to assist the OIC in discharging its obligations. Other specialists may be employed by the OIC from time to time, on an as-needed basis, to ensure its responsibilities in providing oversight of Fund assets are prudently executed.

### ***SAIF Corporation***

SAIF oversees operations consistent with all applicable provisions of law.

SAIF responsibilities include, but are not limited to:

- Manage cash needs of the Fund,
- Review of the investment management and performance,
- Provide input on asset allocation decisions made by the OIC,
- Conduct an asset/liability review every three to five years to assure the Fund is positioned appropriately in current financial climate and in consideration of the Corporation's specific industry and regulatory requirements,
- Review and provide input on asset allocation and investment structures as SAIF corporation has unique accounting, tax, risk, and regulatory requirements (i.e. Risk-Based Capital (RBC)).

### ***Oregon State Treasury Staff***

Oregon State Treasury Staff ("OST", "Treasury", or "Staff") will manage the Fund in accordance with the applicable provisions of ORS 293, including maintaining their fiduciary obligations under ORS 293.726.

The following investment management and implementation decisions will be executed with the approval from the Chief Investment Officer ("CIO") and quarterly notification to the OIC.

Treasury's responsibilities include, but are not limited to:

- Manage day-to-day investment activities of the Fund;
- Work with the Council-retained investment consultants to compile information on the investment return and performance for the OIC review;
- Re-balancing the fund to ensure assets are within the asset allocation ranges, properly notifying the OIC when breaches occur and providing recommendations;
- Recommending and/or hiring of investment managers within each asset class. Before recommending and/or making a manager change, Treasury staff will satisfy the OIC that the manager recommendation and/or change is supported by a satisfactory level of analysis and due diligence;
- Terminating investment managers;



- Preparing, negotiating and executing investment manager mandates, guidelines and fee agreements;
- Overseeing individual investment managers to ensure their portfolios comply with their respective portfolio mandates and guidelines;
- Providing oversight of the master custodian to ensure that the Fund's rights to pursue securities class action litigation are appropriately protected; and
- In making the above decisions, Treasury staff shall seek as needed the advice, guidance and recommendations from Council-retained investment consultants, investment managers and other experts and sources as considered prudent by Treasury staff.

The Treasury staff will work with SAIF to ensure the implementation of the asset allocation policy meets the business needs of the Corporation.

#### ***Investment Consultants***

The Investment Consultants, retained by the OIC, support the responsibilities of Treasury staff, as needed and pursuant to the contractual obligations agreed to by the parties.

#### ***Investment Professionals***

Investment decisions may be delegated to qualified investment managers and monitored by Treasury staff in accordance with the applicable provisions of ORS 293.

#### ***Custodian***

Custodian has the duties and obligations pursuant to the contract agreed to with Treasury staff.

### **III. INVESTMENT OBJECTIVES**

The primary objectives of the Fund are to generate a long-term return commensurate with an appropriate level of risk, preserve capital, generate stable and predictable investment revenue, and maintain sufficient liquidity to meet SAIF cash needs.

#### ***Time Horizon***

The OIC acknowledges that fluctuating rates of return characterize the securities markets, particularly during short-term time periods. Accordingly, the OIC views interim fluctuations with an appropriate perspective, given the long-term perpetual objectives. Long-term investment objectives are to be evaluated over a minimum long-term horizon, defined as rolling ten-year periods.

#### ***Diversification***

The OIC believes that the likelihood of realization of the investment objectives is enhanced through diversification. The OIC through setting of the Strategic Asset Allocation will aim to diversify assets among portfolio roles and strategies to maintain acceptable risk levels and enhance long-term investment return opportunities.

#### ***Risk***

Risk refers to the uncertainty and the prospective loss due to an activity or an exposure. With respect to SAIF, that is expressed principally as investment risk, i.e., a permanent impairment to the Fund's value that could reduce its ability to meet the Corporation's liabilities, but it could also be exhibited in

operations and liquidity management. At the same time, given the relationship between risk and return, taking too little risk could lead to the Fund underperforming its return objective. Given the need to take an appropriate amount, risk is considered throughout the investment process, from asset allocation to manager selection to performance evaluation.

#### A. Risk Standards and Metrics

Staff will monitor investment risk of the Fund on ex ante and ex post bases to evaluate whether appropriate amount of risk is being taken efficiently, i.e., to be properly compensated and commensurately to the return objectives of the Fund. Risk evolves over time, dictated by changing macroeconomic environments and shifting mix of investments in the portfolio. Staff will therefore apply various tools and approaches over different time horizons to analyze the Fund's investment risk. Staff will also consider total risk, i.e., the variation of total returns, at various levels of the Fund, and active risk, i.e., the variation of relative returns versus a benchmark, at the manager and asset class levels for the public market investments.

Staff will use realized returns to evaluate ex post tracking error but will typically rely on a risk model to estimate ex ante risk. Most commercial risk models make simplifying assumptions to improve reliability and sensibility, but they are ultimately assumptions that will never fully capture all outcomes, such as extreme losses in a drawdown. Nevertheless, the output of such models can be useful, particularly in the context of other analyses undertaken by staff.

#### B. Liquidity

Liquidity risk is defined as that element of total risk comes from the unpredictability of the cost and time duration necessary to convert existing investment positions to cash.

In combination with the illiquidity of private market investments and rebalancing requirements (see "Rebalancing Guidelines"), Staff will consider the liquidity of the assets and cash flow requirements when recommending an asset allocation to the OIC and managing the Fund investments.

#### C. Foreign-Exchange Risk Management

The Corporation pays out proceeds in U.S. dollars, yet, for diversification purpose, a portion of the Fund's assets is invested outside the U.S. and denominated in foreign currencies. The rate of exchange of foreign-denominated investments back to the U.S. dollar provides incremental volatility of return to SAIF's total, overall risk. Furthermore, there is little economic basis or empirical evidence to support a positive, long-term return expectation in connection with these foreign currency exposures. In other words, unmanaged foreign currency exposure is a source of uncompensated risk.

Staff will manage this risk by taking into consideration the magnitude of exposures, operational requirements, and portfolio construction.

### **IV. ASSET ALLOCATION GUIDELINES**

Given the perpetual nature of the Fund, asset allocation will be the most important determinant of long-term success. The target allocation balances the need to satisfy the long-term return objective commensurate with an appropriate level of investment risk. The target allocation is based on long-term capital market assumptions (expected returns, risk, and correlations) of asset classes and over time should provide an expected return equal to or greater than the primary objective of the Fund, while avoiding undue risk concentrations in any single role or strategy; thus, reducing risk at the total portfolio level. To achieve these goals, the asset allocation will be set with the target percentages and within the ranges provided in Appendix A.

Formal asset allocation reviews will be performed at least every three to five years to ensure that the Fund is positioned properly. These reviews will be performed by OST staff in conjunction with the OIC's general consultant and/or SAIF's consultant.

### ***Philosophy Underlying Asset Allocation Policy***

- Comply with statutory constraints on investment parameters
- Minimize fluctuation in premium rates
- Maximize long-term economic value to support surplus requirements
- Select asset allocation and other strategies only after the volatility of both operational and investment risks have been quantified and considered in an integrated manner with SAIF's Board approved Risk Tolerance and Appetite Statement. The Fund's asset allocation will manage the invested asset risk component of the NAIC Risk Based Capital (RBC)\* calculation as periodically monitored and reported by SAIF staff.

*\*RBC Definition- Regulators are charged with ensuring that insurance companies can fulfill their financial obligations to policyholders. One way they do this is by imposing a risk-based capital (RBC) requirement. The RBC requirement is a statutory minimum level of capital that is based on two factors: 1) an insurance company's size; and 2) the inherent riskiness of its financial assets and operations. That is, the company must hold capital in proportion to its risk. RBC is intended to be a regulatory standard and not necessarily the full amount of capital that an insurer would need to hold to meet its objectives.*

### ***Rebalancing Guidelines***

The OIC recognizes that rapid unanticipated market shifts or changes in economic conditions may lead to wide deviations from the target allocation and approved ranges. Generally, these divergences are of a short-term or tactical nature in response to fluctuating market environments. There may be short-term deviations from the target due to illiquidity of private market investments.

A breach of any of the established asset allocation ranges triggers a review and possible rebalancing back to established targets with due consideration given to the liquidity of the affected investments, all anticipated transaction costs, and the current portfolio structure within each asset class. Given the nature of private assets, the amount and timing of the cash flows cannot be precisely known, and it will take time to build out the portfolio to the long-term policy target levels. Accordingly, at any particular time, the actual allocation to Real Estate or Private Credit may be above or below the long-term target allocation.

Treasury staff will review the asset allocation on a monthly basis and rebalance to within the target asset allocation range at least quarterly if necessary.

## **V. STRATEGIC ROLE GUIDELINES**

This section outlines the strategic investment guidelines for each portfolio role, which shall serve as a framework for evaluating asset allocation choices across asset classes and investment strategies to achieve the Fund's objectives. While certain strategies and investment securities may demonstrate risk and return characteristics at different time periods that could fulfill more than one portfolio role, it is the strategic nature of those investments that shall dictate the primary purpose they serve in the Fund.

### ***Cash***

The strategic role of cash is for liquidity and immediate cash needs. Cash and cash equivalents are defined as cash held in the Oregon Short-Term Fund (OSTF).

### ***Fixed Income Investments***

The strategic role of fixed income securities is to diversify the Fund in general and its allocation to equity securities in particular. Fixed income holdings shall be the largest component of the Fund and shall have multiple purposes:

- To provide a positive cash flow;
- To dampen overall Fund volatility;
- To provide positive real rates of return;
- To control market value risk in event of severe cash flow downturns; and
- To provide an asset class that supports the Fund's liabilities.

The fixed income allocation will be well-diversified, seek to maximize total return, and discourage trades that result in recognized losses. Dynamic, flexible management of the fixed income portfolio is both permitted and encouraged. The Fund will allow holdings across fixed income sectors.

### ***Private Credit***

The strategic role of the private credit investments is to enhance return (focus on higher yield) and diversification opportunities for the Fund. The OIC and SAIF are mindful of both the potential volatility and the lower level of liquidity of the private credit market and choose to dampen these potential risks through the diversification and liquidity inherent in institutional fund vehicles.

- Be mindful that specific private fund structures can have unique impacts to accounting treatment and regulatory requirements (i.e. higher RBC), therefore implement using “insurance friendly” fund vehicles if and when possible.

### ***Global Equity Investments***

The strategic role of the public equity securities is to enhance total return by investing in a broadly diversified portfolio of stocks. The OIC and SAIF are mindful of the potential volatility of the equity markets and choose to dampen this potential risk through diversification.

### ***Real Estate Investments***

The strategic role of real estate investments is to enhance return and diversification opportunities for the Fund while providing some inflation protection. The Fund will maintain a well-diversified portfolio by investing in a broad array of debt and equity interests in commercial real estate. The OIC and SAIF are mindful of both the potential volatility and the lower level of liquidity of the real estate market and choose to dampen these potential risks through the diversification and liquidity inherent in institutional fund vehicles. Diversification in real estate may be accomplished through exposure to open and closed end funds which predominately invest in commercial real estate equity and/or debt. Comparable vehicles such as private Real Estate Investment Trusts or Limited Partnerships are permitted.

- Be mindful that specific private fund structures can have unique impacts to accounting treatment and regulatory requirements (i.e. higher RBC), therefore implement using “insurance friendly” fund vehicles if and when possible.

## VI. PERFORMANCE MEASUREMENT AND EVALUATION

### *Total Portfolio Performance*

The principal goal of the Fund is to maximize the likelihood of achieving and/or exceeding the Investment Objectives stated in this IPS over the long-term. The primary benchmark for evaluating performance of the Fund will be a weighted benchmark consisting of broad market indices for the underlying strategies combined according to the strategy allocation targets as described in Appendix A. Total Portfolio performance will be evaluated on a net-of-fee basis relative to the representative weighted benchmark over various trailing time periods, as applicable.

### *Strategy Performance*

Performance for the underlying asset classes will be compared with the risk and return of an appropriate market index (as described in Appendix A), on a net-of-fee basis over various trailing time periods.

### *Review and Reporting*

**OST/OIC Reviews.** OST staff will continuously review asset allocations and investment performance and present their review and conclusions to the OIC on no less than an annual basis. These reviews will focus on the continued appropriateness of existing policy, compliance with guidelines and performance relative to Fund objectives.

**SAIF Reviews.** OST staff will provide reporting package to SAIF, including the following information no less than an annual basis:

- Economic and market outlook and the portfolio's posture,
- An outline of the current investment strategy, providing the largest holdings and their impact, sectors, and characteristics,
- Recent portfolio performance along with an attribution analysis, and
- Other items of importance, such as changes in personnel, legislative or regulatory impacts, or any changes in philosophy, approach, or recommendations

SAIF staff will have the opportunity to address the OIC annually to discuss their views as to the management of the Fund.

**Communication.** Emphasis on communication between OST and SAIF is paramount, as the unique accounting and tax treatment of SAIF Corporation requires coordination of these efforts.

**Appendix A**

**Asset Allocation Strategy Targets & Ranges**

<b>Fund Role</b>	<b>Benchmark</b>	<b>Min</b>	<b>Target</b>	<b>Max</b>
Fixed Income	Custom Fixed Income Benchmark*	<del>72.75%</del>	<del>80.77.0%</del>	90%
Global Equity	MSCI ACWI IMI Index	7.0%	10.0%	13.0%
<del>Bank Loans</del>	<del>S&amp;P/LSTA LLI</del>	<del>0.0%</del>	<del>8.0%</del>	<del>10.0%</del>
Private Credit	S&P LSTA LLI + <del>1.52-5%</del>	0.0%	<del>58.0%</del>	<del>710.0%</del>
Real Estate	NCREIF Fund Index - Open-End Diversified Core Equity (ODCE)	0.0%	5.0%	7.0%
Cash	Cash	0.0%	0.0%	3.0%
Total Portfolio Index	Weighted aggregate of indexes listed above at target allocation		100.0%	

- The sum of Strategy “Min” and “Max” within each Portfolio Role (Fixed Income, Global Equity, Private Credit, Real Estate, and Cash) will not equal “Min” and “Max” for each Role.

**\* Custom Fixed Income Benchmark Index**

<del>Bloomberg U.S. Corporate Intermediate Index</del>	<del>10%</del>
<del>JPM CLOIE Index</del>	<del>5%</del>
Bloomberg U.S. Government Index	15%
Bloomberg Mortgage Backed Fixed Rate Security Index	20%
Bloomberg Corporate Index	50%
Bloomberg Ba to B U.S. High Yield 2% issuer cap	5%
<del>Bloomberg US Credit Long Index</del>	<del>5%</del>

**Investment Policy Statement**  
**for**  
**The State Accident Insurance Fund (SAIF)**

**Adopted by Council – XX XX, 2024**

DRAFT





## **Table of Contents**

- I. INTRODUCTION AND PURPOSE**
- II. ROLES AND RESPONSIBILITIES**
- III. INVESTMENT OBJECTIVES**
- IV. ASSET ALLOCATION GUIDELINES**
- V. STRATEGIC ROLE GUIDELINES**
- VI. PERFORMANCE MEASUREMENT AND EVALUATION**

### **APPENDIX:**

- A: STRATEGY TARGETS & RANGES**

**DRAFT**

## **I. INTRODUCTION AND PURPOSE**

### ***Introduction***

The Oregon Investment Council (OIC) formulates policies for the investment and reinvestment of funds under the control and administration of the SAIF Corporation (“SAIF” or the “Corporation”). It is the intention of the OIC that SAIF’s investments be managed in accordance with this Investment Policy Statement (“IPS”).

The Corporation has determined that the State Accident Insurance Fund (“Fund”) should be viewed as a perpetual fund managed to optimize the long-term investment return while enabling the Fund to meet benefit/expense payment obligations, maintain a high probability of adequate capitalization, and minimize rate fluctuations. SAIF’s investment priorities for the Fund are to preserve capital, generate stable and predictable investment revenue, and maintain sufficient liquidity to meet SAIF cash needs.

This IPS applies to all investable assets of the Fund. All assets available for investment will be invested through an investment policy approved by the OIC, including separate accounts, mutual funds and/or commingled investment vehicles that may include, but are not limited to equities, fixed income, real estate, private credit, cash, and cash equivalents.

### ***Authority***

ORS Chapters 293 and 656. Article VIII of the Oregon Constitution.

### ***Purpose***

The purpose of this IPS is to define the investment objectives, policies and procedures established by the OIC to support the Fund’s mission. This IPS will serve as a framework, with sufficient flexibility to be practical, for the management and review of the Fund and is intended to:

- Identify roles and responsibilities;
- Establish investment objectives;
- Establish long-term asset allocation targets; and
- Establish guidelines to monitor the performance in comparison to stated objectives.

Additionally, this IPS serves as a guide and general framework within which the Fund’s assets are managed in achieving the near-term and long-term objectives of those assets. The OIC also recognizes that short-term market fluctuations make it impossible to continuously maintain all aspects of this policy. This IPS is established to accommodate these short-term fluctuations, which should not necessitate IPS adjustments. It is expected that this IPS be reviewed annually to ensure alignment with forward-looking market expectations and industry best thinking and best practices.

## **II. ROLES AND RESPONSIBILITIES**

### ***Oregon Investment Council (OIC)***

Pursuant to the applicable provisions of ORS 293, the OIC has the authority to set investment policies for the Fund. The OIC has the responsibility to ensure that all investments are managed in a manner that is consistent with the policies and objectives of the Fund.

OIC responsibilities may include, but are not limited to:

- Establish the IPS for the management of the Fund;
- Develop investment goals that are consistent with the financial needs of the Corporation and the appropriate asset allocation consistent with meeting those objectives:
  - Total fund investment objectives and asset class benchmarks; and
  - Investment policies, including target asset allocation policies
- Periodically review and evaluate investment results;
- Review of periodic reports from OST staff, consultants, investment managers and other experts;
- Consider general policy and governance on matters resulting from these reviews; and
- OIC shall not make asset allocation changes without requesting input from SAIF Board of Directors.

The OIC may, at its discretion, delegate the execution of the above responsibilities, in full or in part, to external parties with appropriate expertise to assist the OIC in discharging its obligations. Other specialists may be employed by the OIC from time to time, on an as-needed basis, to ensure its responsibilities in providing oversight of Fund assets are prudently executed.

### ***SAIF Corporation***

SAIF oversees operations consistent with all applicable provisions of law.

SAIF responsibilities include, but are not limited to:

- Manage cash needs of the Fund,
- Review of the investment management and performance,
- Provide input on asset allocation decisions made by the OIC,
- Conduct an asset/liability review every three to five years to assure the Fund is positioned appropriately in current financial climate and in consideration of the Corporation’s specific industry and regulatory requirements,
- Review and provide input on asset allocation and investment structures as SAIF corporation has unique accounting, tax, risk, and regulatory requirements (i.e. Risk-Based Capital (RBC)).

### ***Oregon State Treasury Staff***

Oregon State Treasury Staff (“OST”, “Treasury”, or “Staff”) will manage the Fund in accordance with the applicable provisions of ORS 293, including maintaining their fiduciary obligations under ORS 293.726.

The following investment management and implementation decisions will be executed with the approval from the Chief Investment Officer (“CIO”) and quarterly notification to the OIC.

Treasury’s responsibilities include, but are not limited to:

- Manage day-to-day investment activities of the Fund;
- Work with the Council-retained investment consultants to compile information on the investment return and performance for the OIC review;
- Re-balancing the fund to ensure assets are within the asset allocation ranges, properly notifying the OIC when breaches occur and providing recommendations;
- Recommending and/or hiring of investment managers within each asset class. Before recommending and/or making a manager change, Treasury staff will satisfy the OIC that the manager recommendation and/or change is supported by a satisfactory level of analysis and due diligence;
- Terminating investment managers;

- Preparing, negotiating and executing investment manager mandates, guidelines and fee agreements;
- Overseeing individual investment managers to ensure their portfolios comply with their respective portfolio mandates and guidelines;
- Providing oversight of the master custodian to ensure that the Fund's rights to pursue securities class action litigation are appropriately protected; and
- In making the above decisions, Treasury staff shall seek as needed the advice, guidance and recommendations from Council-retained investment consultants, investment managers and other experts and sources as considered prudent by Treasury staff.

The Treasury staff will work with SAIF to ensure the implementation of the asset allocation policy meets the business needs of the Corporation.

#### ***Investment Consultants***

The Investment Consultants, retained by the OIC, support the responsibilities of Treasury staff, as needed and pursuant to the contractual obligations agreed to by the parties.

#### ***Investment Professionals***

Investment decisions may be delegated to qualified investment managers and monitored by Treasury staff in accordance with the applicable provisions of ORS 293.

#### ***Custodian***

Custodian has the duties and obligations pursuant to the contract agreed to with Treasury staff.

### **III. INVESTMENT OBJECTIVES**

The primary objectives of the Fund are to generate a long-term return commensurate with an appropriate level of risk, preserve capital, generate stable and predictable investment revenue, and maintain sufficient liquidity to meet SAIF cash needs.

#### ***Time Horizon***

The OIC acknowledges that fluctuating rates of return characterize the securities markets, particularly during short-term time periods. Accordingly, the OIC views interim fluctuations with an appropriate perspective, given the long-term perpetual objectives. Long-term investment objectives are to be evaluated over a minimum long-term horizon, defined as rolling ten-year periods.

#### ***Diversification***

The OIC believes that the likelihood of realization of the investment objectives is enhanced through diversification. The OIC through setting of the Strategic Asset Allocation will aim to diversify assets among portfolio roles and strategies to maintain acceptable risk levels and enhance long-term investment return opportunities.

#### ***Risk***

Risk refers to the uncertainty and the prospective loss due to an activity or an exposure. With respect to SAIF, that is expressed principally as investment risk, i.e., a permanent impairment to the Fund's value that could reduce its ability to meet the Corporation's liabilities, but it could also be exhibited in

operations and liquidity management. At the same time, given the relationship between risk and return, taking too little risk could lead to the Fund underperforming its return objective. Given the need to take an appropriate amount, risk is considered throughout the investment process, from asset allocation to manager selection to performance evaluation.

#### A. Risk Standards and Metrics

Staff will monitor investment risk of the Fund on ex ante and ex post bases to evaluate whether appropriate amount of risk is being taken efficiently, i.e., to be properly compensated and commensurately to the return objectives of the Fund. Risk evolves over time, dictated by changing macroeconomic environments and shifting mix of investments in the portfolio. Staff will therefore apply various tools and approaches over different time horizons to analyze the Fund's investment risk. Staff will also consider total risk, i.e., the variation of total returns, at various levels of the Fund, and active risk, i.e., the variation of relative returns versus a benchmark, at the manager and asset class levels for the public market investments.

Staff will use realized returns to evaluate ex post tracking error but will typically rely on a risk model to estimate ex ante risk. Most commercial risk models make simplifying assumptions to improve reliability and sensibility, but they are ultimately assumptions that will never fully capture all outcomes, such as extreme losses in a drawdown. Nevertheless, the output of such models can be useful, particularly in the context of other analyses undertaken by staff.

#### B. Liquidity

Liquidity risk is defined as that element of total risk comes from the unpredictability of the cost and time duration necessary to convert existing investment positions to cash.

In combination with the illiquidity of private market investments and rebalancing requirements (see "Rebalancing Guidelines"), Staff will consider the liquidity of the assets and cash flow requirements when recommending an asset allocation to the OIC and managing the Fund investments.

#### C. Foreign-Exchange Risk Management

The Corporation pays out proceeds in U.S. dollars, yet, for diversification purpose, a portion of the Fund's assets is invested outside the U.S. and denominated in foreign currencies. The rate of exchange of foreign-denominated investments back to the U.S. dollar provides incremental volatility of return to SAIF's total, overall risk. Furthermore, there is little economic basis or empirical evidence to support a positive, long-term return expectation in connection with these foreign currency exposures. In other words, unmanaged foreign currency exposure is a source of uncompensated risk.

Staff will manage this risk by taking into consideration the magnitude of exposures, operational requirements, and portfolio construction.

### **IV. ASSET ALLOCATION GUIDELINES**

Given the perpetual nature of the Fund, asset allocation will be the most important determinant of long-term success. The target allocation balances the need to satisfy the long-term return objective commensurate with an appropriate level of investment risk. The target allocation is based on long-term capital market assumptions (expected returns, risk, and correlations) of asset classes and over time should provide an expected return equal to or greater than the primary objective of the Fund, while avoiding undue risk concentrations in any single role or strategy; thus, reducing risk at the total portfolio level. To achieve these goals, the asset allocation will be set with the target percentages and within the ranges provided in Appendix A.

Formal asset allocation reviews will be performed at least every three to five years to ensure that the Fund is positioned properly. These reviews will be performed by OST staff in conjunction with the OIC's general consultant and/or SAIF's consultant.

### ***Philosophy Underlying Asset Allocation Policy***

- Comply with statutory constraints on investment parameters
- Minimize fluctuation in premium rates
- Maximize long-term economic value to support surplus requirements
- Select asset allocation and other strategies only after the volatility of both operational and investment risks have been quantified and considered in an integrated manner with SAIF's Board approved Risk Tolerance and Appetite Statement. The Fund's asset allocation will manage the invested asset risk component of the NAIC Risk Based Capital (RBC)\* calculation as periodically monitored and reported by SAIF staff.

*\*RBC Definition- Regulators are charged with ensuring that insurance companies can fulfill their financial obligations to policyholders. One way they do this is by imposing a risk-based capital (RBC) requirement. The RBC requirement is a statutory minimum level of capital that is based on two factors: 1) an insurance company's size; and 2) the inherent riskiness of its financial assets and operations. That is, the company must hold capital in proportion to its risk. RBC is intended to be a regulatory standard and not necessarily the full amount of capital that an insurer would need to hold to meet its objectives.*

### ***Rebalancing Guidelines***

The OIC recognizes that rapid unanticipated market shifts or changes in economic conditions may lead to wide deviations from the target allocation and approved ranges. Generally, these divergences are of a short-term or tactical nature in response to fluctuating market environments. There may be short-term deviations from the target due to illiquidity of private market investments.

A breach of any of the established asset allocation ranges triggers a review and possible rebalancing back to established targets with due consideration given to the liquidity of the affected investments, all anticipated transaction costs, and the current portfolio structure within each asset class. Given the nature of private assets, the amount and timing of the cash flows cannot be precisely known, and it will take time to build out the portfolio to the long-term policy target levels. Accordingly, at any particular time, the actual allocation to Real Estate or Private Credit may be above or below the long-term target allocation.

Treasury staff will review the asset allocation on a monthly basis and rebalance to within the target asset allocation range at least quarterly if necessary.

## **V. STRATEGIC ROLE GUIDELINES**

This section outlines the strategic investment guidelines for each portfolio role, which shall serve as a framework for evaluating asset allocation choices across asset classes and investment strategies to achieve the Fund's objectives. While certain strategies and investment securities may demonstrate risk and return characteristics at different time periods that could fulfill more than one portfolio role, it is the strategic nature of those investments that shall dictate the primary purpose they serve in the Fund.

### ***Cash***

The strategic role of cash is for liquidity and immediate cash needs. Cash and cash equivalents are defined as cash held in the Oregon Short-Term Fund (OSTF).

### ***Fixed Income Investments***

The strategic role of fixed income securities is to diversify the Fund in general and its allocation to equity securities in particular. Fixed income holdings shall be the largest component of the Fund and shall have multiple purposes:

- To provide a positive cash flow;
- To dampen overall Fund volatility;
- To provide positive real rates of return;
- To control market value risk in event of severe cash flow downturns; and
- To provide an asset class that supports the Fund's liabilities.

The fixed income allocation will be well-diversified, seek to maximize total return, and discourage trades that result in recognized losses. Dynamic, flexible management of the fixed income portfolio is both permitted and encouraged. The Fund will allow holdings across fixed income sectors.

### ***Private Credit***

The strategic role of the private credit investments is to enhance return (focus on higher yield) and diversification opportunities for the Fund. The OIC and SAIF are mindful of both the potential volatility and the lower level of liquidity of the private credit market and choose to dampen these potential risks through the diversification and liquidity inherent in institutional fund vehicles.

- Be mindful that specific private fund structures can have unique impacts to accounting treatment and regulatory requirements (i.e. higher RBC), therefore implement using “insurance friendly” fund vehicles if and when possible.

### ***Global Equity Investments***

The strategic role of the public equity securities is to enhance total return by investing in a broadly diversified portfolio of stocks. The OIC and SAIF are mindful of the potential volatility of the equity markets and choose to dampen this potential risk through diversification.

### ***Real Estate Investments***

The strategic role of real estate investments is to enhance return and diversification opportunities for the Fund while providing some inflation protection. The Fund will maintain a well-diversified portfolio by investing in a broad array of debt and equity interests in commercial real estate. The OIC and SAIF are mindful of both the potential volatility and the lower level of liquidity of the real estate market and choose to dampen these potential risks through the diversification and liquidity inherent in institutional fund vehicles. Diversification in real estate may be accomplished through exposure to open and closed end funds which predominately invest in commercial real estate equity and/or debt. Comparable vehicles such as private Real Estate Investment Trusts or Limited Partnerships are permitted.

- Be mindful that specific private fund structures can have unique impacts to accounting treatment and regulatory requirements (i.e. higher RBC), therefore implement using “insurance friendly” fund vehicles if and when possible.



## VI. PERFORMANCE MEASUREMENT AND EVALUATION

### *Total Portfolio Performance*

The principal goal of the Fund is to maximize the likelihood of achieving and/or exceeding the Investment Objectives stated in this IPS over the long-term. The primary benchmark for evaluating performance of the Fund will be a weighted benchmark consisting of broad market indices for the underlying strategies combined according to the strategy allocation targets as described in Appendix A. Total Portfolio performance will be evaluated on a net-of-fee basis relative to the representative weighted benchmark over various trailing time periods, as applicable.

### *Strategy Performance*

Performance for the underlying asset classes will be compared with the risk and return of an appropriate market index (as described in Appendix A), on a net-of-fee basis over various trailing time periods.

### *Review and Reporting*

**OST/OIC Reviews.** OST staff will continuously review asset allocations and investment performance and present their review and conclusions to the OIC on no less than an annual basis. These reviews will focus on the continued appropriateness of existing policy, compliance with guidelines and performance relative to Fund objectives.

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**Communication.** Emphasis on communication between OST and SAIF is paramount, as the unique accounting and tax treatment of SAIF Corporation requires coordination of these efforts.

## *Appendix A*

### **Asset Allocation Strategy Targets & Ranges**

<b>Fund Role</b>	<b>Benchmark</b>	<b>Min</b>	<b>Target</b>	<b>Max</b>
Fixed Income	Custom Fixed Income Benchmark*	75%	80.0%	90%
Global Equity	MSCI ACWI IMI Index	7.0%	10.0%	13.0%
Private Credit	S&P LSTA LLI +1.5%	0.0%	5.0%	7.0%
Real Estate	NCREIF Fund Index - Open-End Diversified Core Equity (ODCE)	0.0%	5.0%	7.0%
Cash	Cash	0.0%	0.0%	3.0%
Total Portfolio Index	Weighted aggregate of indexes listed above at target allocation		100.0%	

- The sum of Strategy “Min” and “Max” within each Portfolio Role (Fixed Income, Global Equity, Private Credit, Real Estate, and Cash) will not equal “Min” and “Max” for each Role.

**\* Custom Fixed Income Benchmark Index**

JPM CLOIE Index	Percentage
Bloomberg U.S. Government Index	5%
Bloomberg Mortgage Backed Fixed Rate Security Index	15%
Bloomberg Corporate Index	20%
Bloomberg Ba to B U.S. High Yield 2% issuer cap	50%
Bloomberg US Credit Long Index	5%
	5%



OREGON  
STATE  
TREASURY

TAB 6  
OPERF PACING

October 23, 2024

# OPERF Pacing

Michael Langdon, Director of Private Markets

Ashley Woeste, Aon

Allan Emkin, Meketa

Karl Cheng, Senior Investment Officer, Portfolio Risk & Research



OREGON  
STATE  
TREASURY

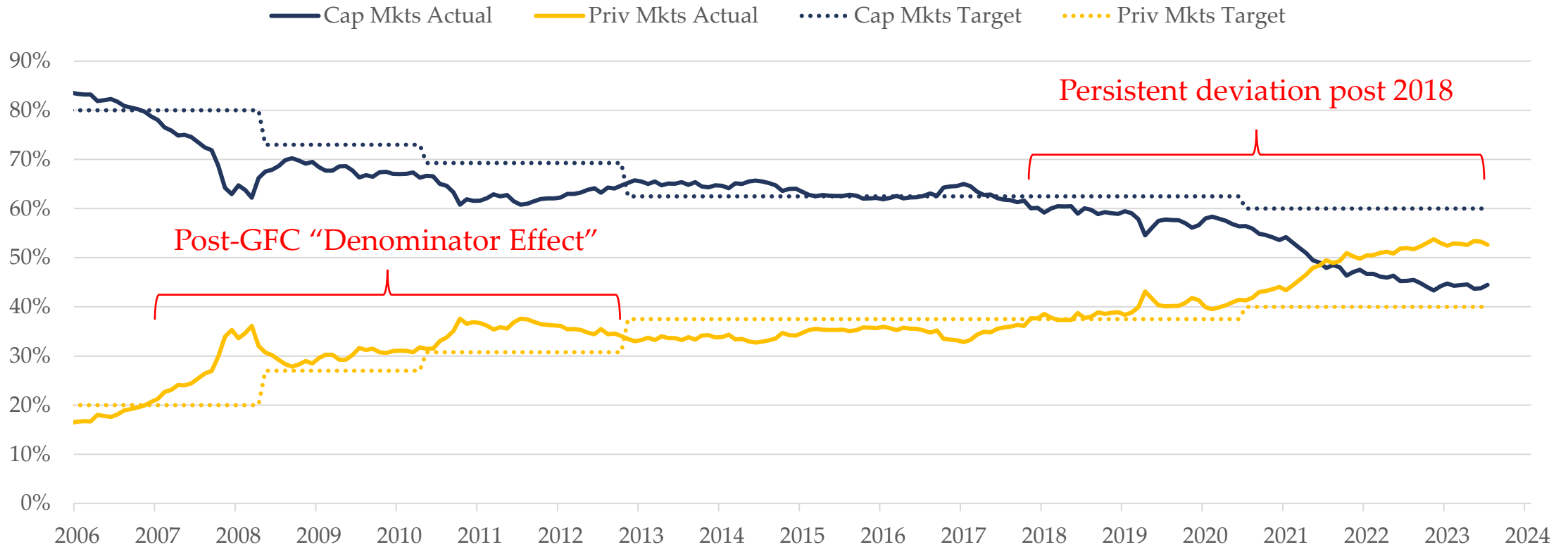
# Agenda

- Retrospective of OPERF's historical allocations, cash flows, and private market activities
- Pacing models for OPERF

# Retrospective of OPERF

# OPERF Target & Actual Allocations

OPERF's historical allocations to **Capital Markets** and **Private Markets** since 2006.



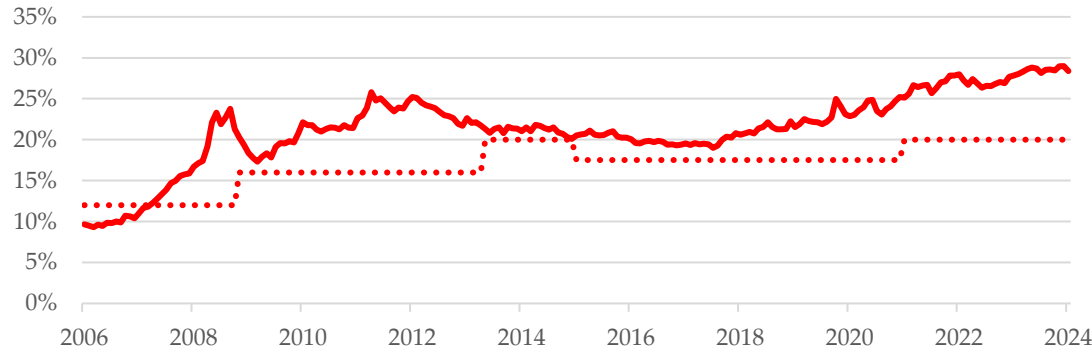
Source: State Street & Russell Investments  
Capital Markets include Public Equity, Fixed Income, and Diversifying Strategies Portfolios.  
Private Markets include Private Equity, Real Assets, and Real Estate Portfolios.



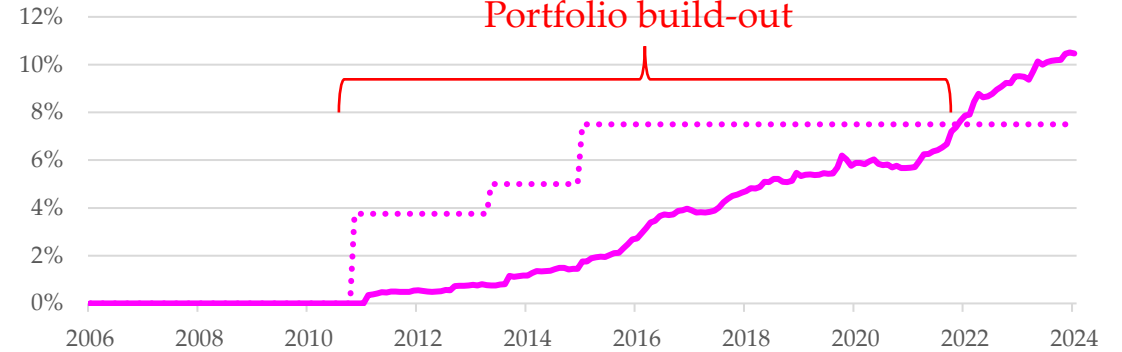
# OPERF Target & Actual Allocations

Historical Private Markets & Opportunity Portfolio allocations since 2006.

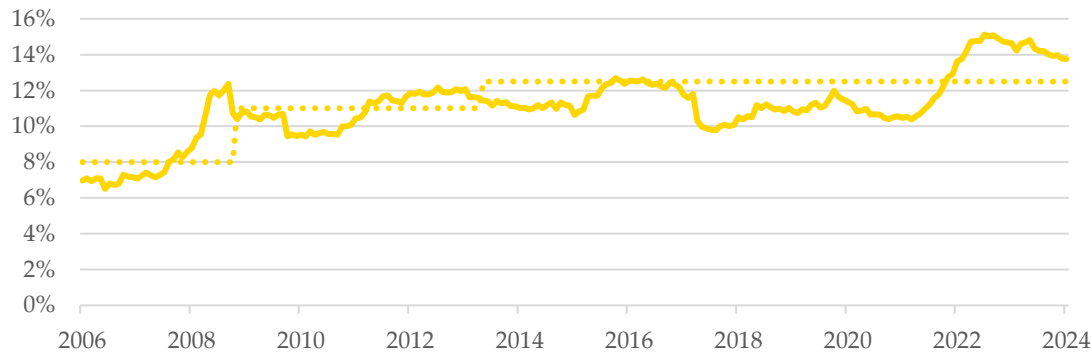
### Private Equity



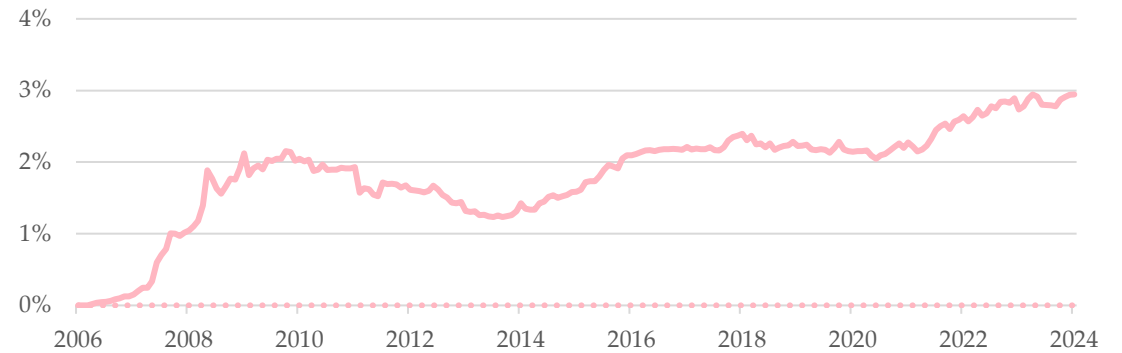
### Real Assets



### Real Estate



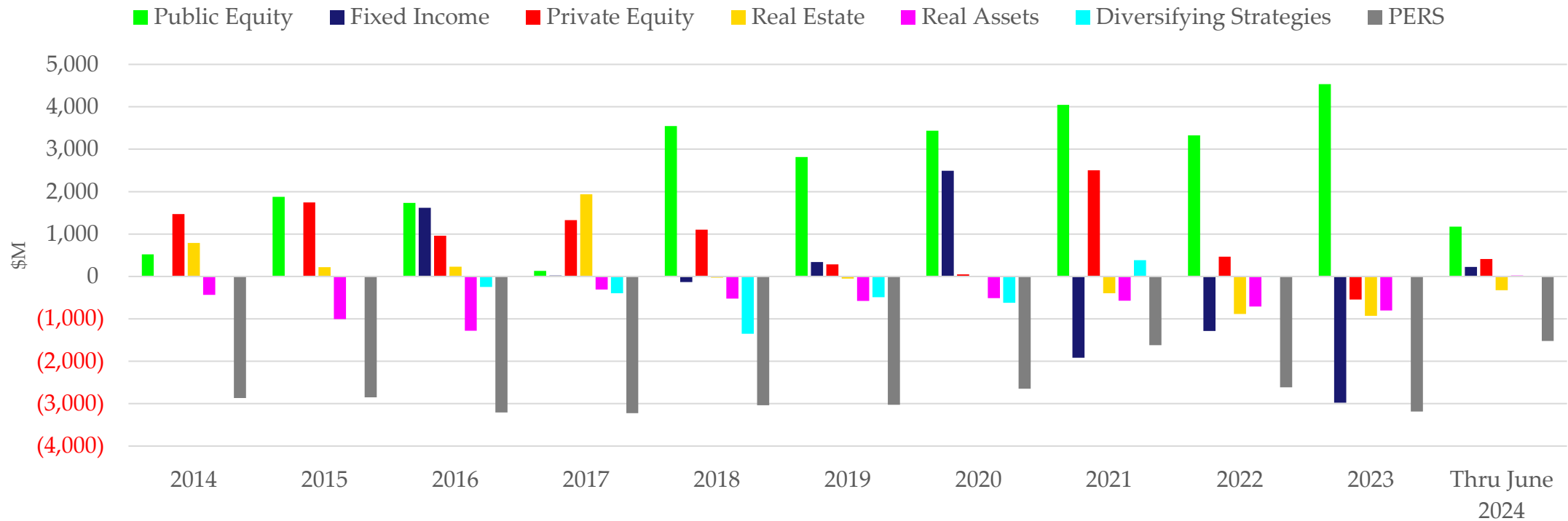
### Opportunity



Source: State Street

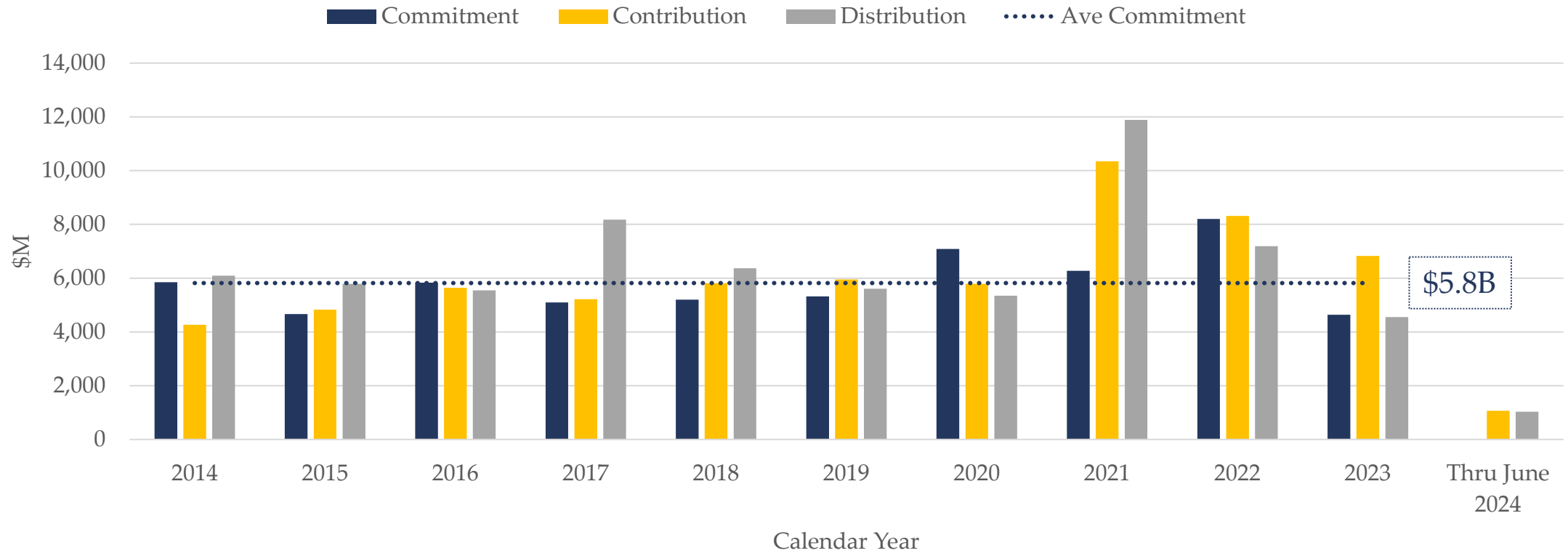
# Net Cash Flows by Asset Class

Public Equity's target allocation declined by 10% over this period. The \$27B raised from the Portfolio over this period is almost equal to the \$30B outflow for net benefit payments ("PERS").



# Contribution, Distribution, and Commitment by Year for Private Markets

Aggregate activities for Private Equity, Real Assets, and Real Estate. No commitment values shown for 2024.



Source: OST

# Pacing Models for OPERF

- Staff
- Aon
- Meketa
- Consolidated Models

# Takahashi-Alexander Pacing Model\*

Staff applied this widely used model to build the subsequent pacing analysis.

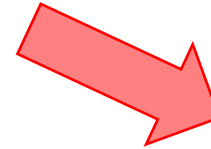
## Assumptions

- Contribution rate, by year
- Growth Rate, i.e., IRR
- Life of fund
- Distribution curve
- ...



## Commitments

Year	Commitment
1	
2	
3	
...	



## Model

$$1. C_t = RC_t(CC - PIC_t)$$

$$2. RD_t = \text{Min} \left[ \left( \frac{t}{L} \right)^B, 1 \right]$$

$$3. D_t = RD_t[NAV_{t-1}(1 + G)]$$

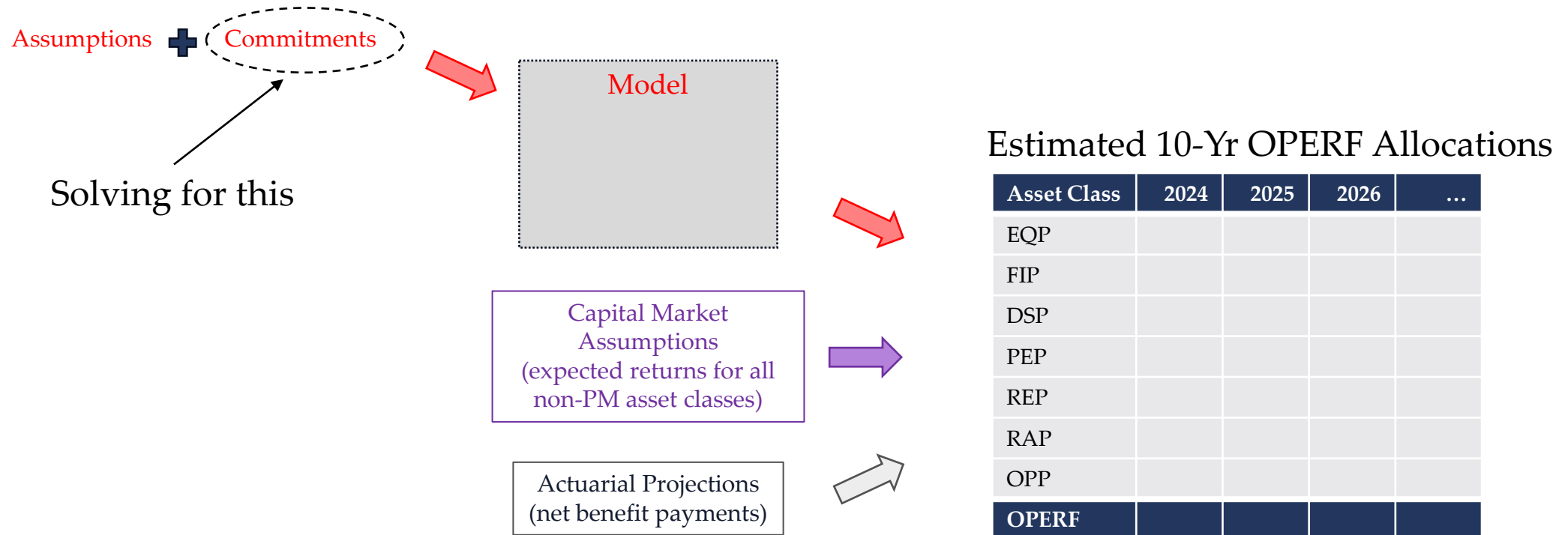
$$4. NAV_t = NAV_{t-1}(1 + G) + C_t - D_t$$



## Outputs

Year	Capital Call	Distribution	NAV
1			
2			
3			
...			

# Building a Pacing Forecast



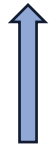
Long story short: a lot of assumptions!

# Hypothetical Private Market Allocations by Average Annual Commitment

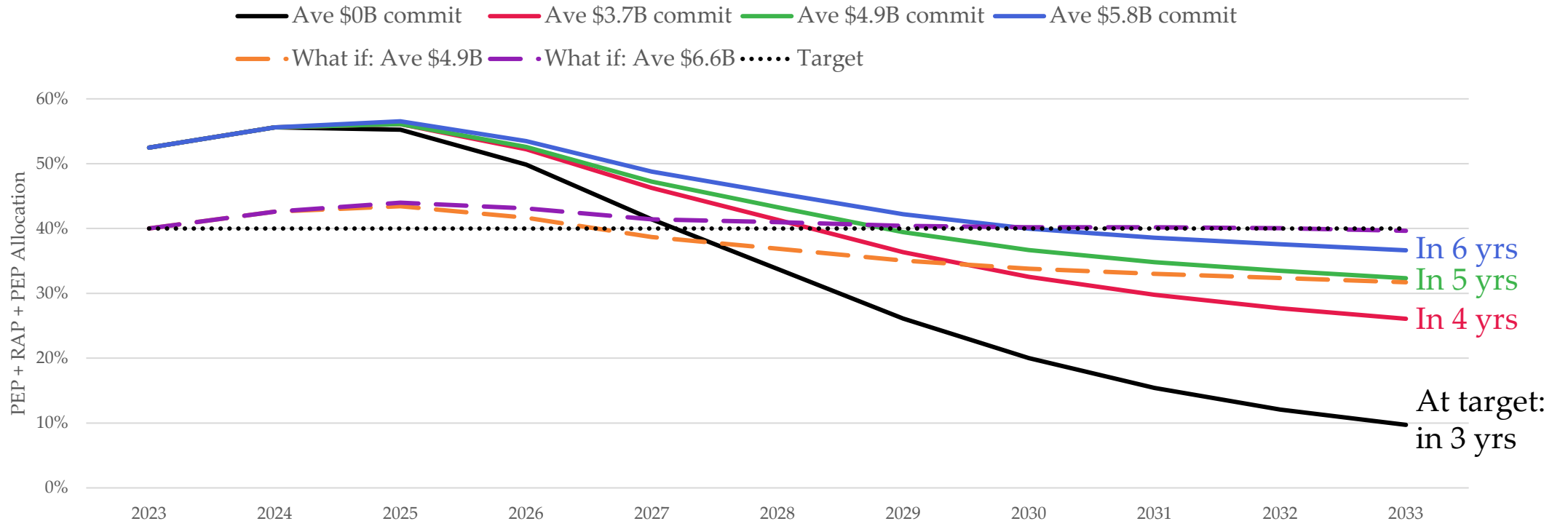
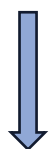
Model forecasts of Private Market allocation at different static annual commitment for the next 10 years. For example, “Ave \$5.8B commit” is an annual commitment of \$5.8B, the average actual commitment of the previous 10 years, for 2024 to 2033.

The two “What If” forecasts estimate the Private Market allocation if OPERF was at target allocations in 2023.

Higher prospective returns for OPERF



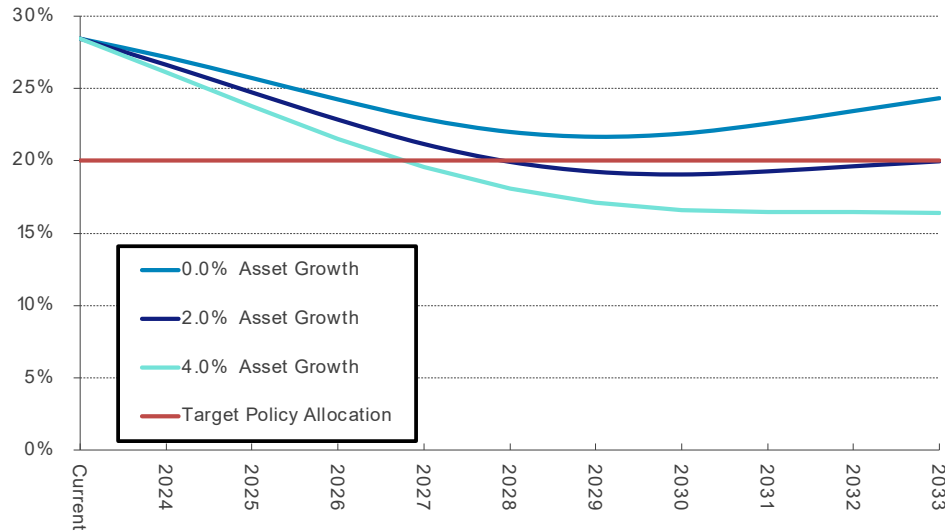
Lower prospective returns for OPERF



# Private Equity Strategic Plan – September 2024

## 2.0% Plan Growth Rate

Projected NAV of Private Equity as a Percent of Total Program



Annual Commitment Pace				
In \$ Millions				
Year	FoF	Primary	Secondary	Total
2024	0.0	3,200.0	0.0	3,200.0
2025	0.0	3,200.0	0.0	3,200.0
2026	0.0	3,200.0	0.0	3,200.0
2027	0.0	3,200.0	0.0	3,200.0
2028	0.0	3,200.0	0.0	3,200.0
2029	0.0	3,700.0	0.0	3,700.0
2030	0.0	3,700.0	0.0	3,700.0
2031	0.0	3,700.0	0.0	3,700.0
2032	0.0	3,700.0	0.0	3,700.0
2033	0.0	3,700.0	0.0	3,700.0

- In order to reach and maintain the 20.0% policy target within 5 years, Aon suggests the Fund commit \$3,200.0 million to primary funds
  - Note for simplicity we considered only primary private equity funds with a 100% strategy focus on Buyouts for future commitments

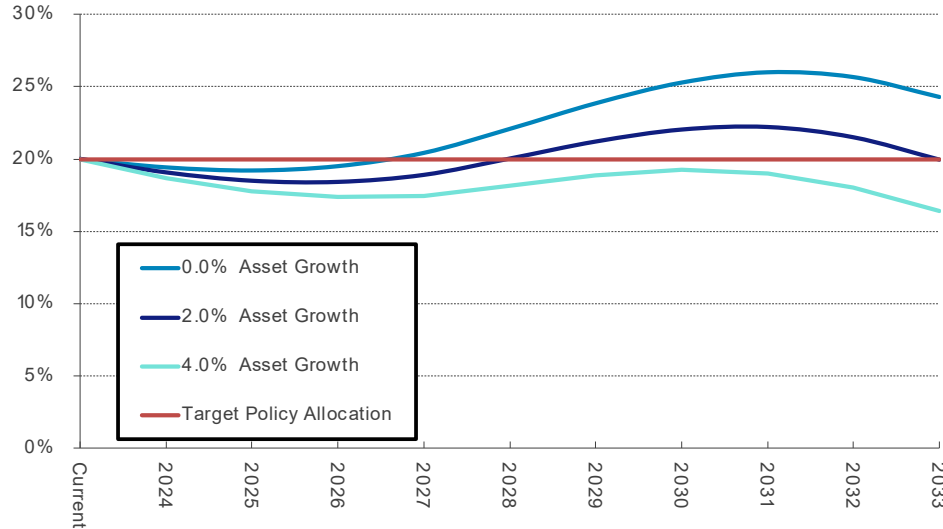
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
<b>Opening NAV</b>	26,667	25,473	24,113	22,724	21,465	20,618	20,302	20,509	21,154	21,973
<b>Capital Called</b>	(2,925)	(2,651)	(2,688)	(2,830)	(2,992)	(3,195)	(3,341)	(3,451)	(3,562)	(3,638)
Capital Called - Existing Commitments	(2,445)	(1,531)	(896)	(446)	(192)	(80)	(46)	(19)	(5)	0
Capital Called - New Commitments	(480)	(1,120)	(1,792)	(2,384)	(2,800)	(3,115)	(3,295)	(3,432)	(3,557)	(3,638)
<b>Distributions</b>	7,828	7,428	7,187	6,843	6,442	6,072	5,811	5,720	5,803	5,995
Distributions - Existing Commitments	7,821	7,377	7,005	6,392	5,540	4,522	3,442	2,419	1,561	921
Distributions - New Commitments	7	51	182	451	902	1,550	2,368	3,301	4,242	5,075
<b>Net Cash Flow</b>	4,903	4,778	4,499	4,013	3,450	2,877	2,470	2,269	2,242	2,358
<b>Appreciation</b>	3,709	3,418	3,110	2,754	2,602	2,562	2,677	2,914	3,061	3,191
Appreciation - Existing Commitments	3,733	3,411	2,929	2,261	1,579	944	450	176	59	13
Appreciation - New Commitments	(24)	6	181	494	1,024	1,618	2,227	2,738	3,002	3,179
<b>Closing NAV</b>	25,473	24,113	22,724	21,465	20,618	20,302	20,509	21,154	21,973	22,807
<b>% of Total Program (EOY)</b>	26.6%	24.7%	22.8%	21.1%	19.9%	19.2%	19.0%	19.2%	19.6%	19.9%
<b>Commitments (\$mm)</b>	3,200.0	3,200.0	3,200.0	3,200.0	3,200.0	3,700.0	3,700.0	3,700.0	3,700.0	3,700.0



# Private Equity Strategic Plan – Hypothetical Adjusted NAV

## 2.0% Plan Growth Rate

Projected NAV of Private Equity as a Percent of Total Program



Annual Commitment Pace				
In \$ Millions				
Year	FoF	Primary	Secondary	Total
2024	0.0	4,500.0	0.0	4,500.0
2025	0.0	4,500.0	0.0	4,500.0
2026	0.0	4,500.0	0.0	4,500.0
2027	0.0	4,800.0	0.0	4,800.0
2028	0.0	4,800.0	0.0	4,800.0
2029	0.0	1,800.0	0.0	1,800.0
2030	0.0	1,800.0	0.0	1,800.0
2031	0.0	1,800.0	0.0	1,800.0
2032	0.0	1,800.0	0.0	1,800.0
2033	0.0	1,800.0	0.0	1,800.0

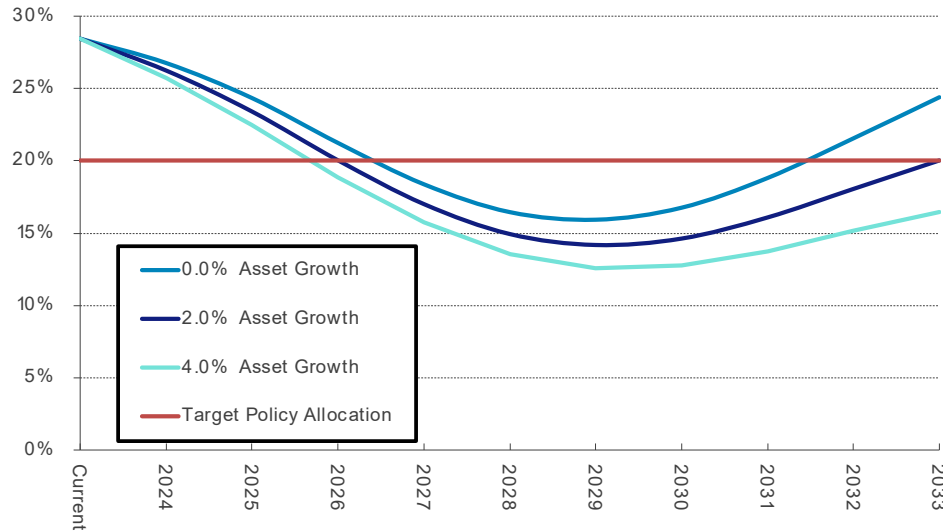
- In order to reach and maintain the 20.0% policy target within 5 years, Aon suggests the Fund commit \$4,500.0 million through 2026 and then \$4,800.0 million through 2028
  - Note for simplicity we considered only primary private equity funds with a 100% strategy focus on Buyouts for future commitments

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
<b>Opening NAV</b>	18,765	18,241	18,039	18,321	19,182	20,738	22,400	23,745	24,414	24,102
<b>Capital Called</b>	(2,395)	(2,652)	(3,150)	(3,711)	(4,177)	(4,049)	(3,593)	(3,029)	(2,531)	(2,168)
Capital Called - Existing Commitments	(1,720)	(1,077)	(630)	(314)	(135)	(56)	(32)	(14)	(4)	0
Capital Called - New Commitments	(675)	(1,575)	(2,520)	(3,398)	(4,043)	(3,993)	(3,561)	(3,015)	(2,528)	(2,168)
<b>Distributions</b>	5,513	5,263	5,185	5,133	5,172	5,371	5,736	6,219	6,687	6,961
Distributions - Existing Commitments	5,503	5,191	4,929	4,498	3,898	3,182	2,422	1,702	1,099	648
Distributions - New Commitments	10	72	255	635	1,273	2,189	3,313	4,517	5,588	6,314
<b>Net Cash Flow</b>	3,118	2,611	2,035	1,422	994	1,322	2,143	3,190	4,156	4,794
<b>Appreciation</b>	2,594	2,409	2,316	2,283	2,551	2,984	3,487	3,860	3,844	3,503
Appreciation - Existing Commitments	2,627	2,400	2,061	1,591	1,111	664	317	124	41	9
Appreciation - New Commitments	(33)	9	255	692	1,440	2,320	3,171	3,736	3,803	3,494
<b>Closing NAV</b>	18,241	18,039	18,321	19,182	20,738	22,400	23,745	24,414	24,102	22,812
<b>% of Total Program (EOY)</b>	19.1%	18.5%	18.4%	18.9%	20.0%	21.2%	22.0%	22.2%	21.5%	19.9%
<b>Commitments (\$mm)</b>	4,500.0	4,500.0	4,500.0	4,800.0	4,800.0	1,800.0	1,800.0	1,800.0	1,800.0	1,800.0

# Private Equity Strategic Plan –Accelerated

## 2.0% Plan Growth Rate

Projected NAV of Private Equity as a Percent of Total Program



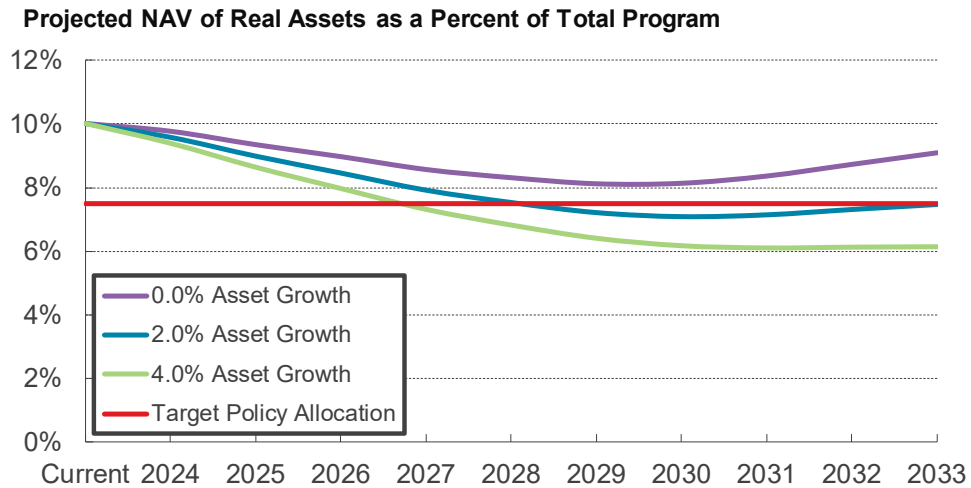
Annual Commitment Pace				
In \$ Millions				
Year	FoF	Primary	Secondary	Total
2024	0.0	500.0	0.0	500.0
2025	0.0	500.0	0.0	500.0
2026	0.0	500.0	0.0	500.0
2027	0.0	5,000.0	0.0	5,000.0
2028	0.0	5,000.0	0.0	5,000.0
2029	0.0	5,000.0	0.0	5,000.0
2030	0.0	3,900.0	0.0	3,900.0
2031	0.0	3,900.0	0.0	3,900.0
2032	0.0	3,900.0	0.0	3,900.0
2033	0.0	3,900.0	0.0	3,900.0

- In order to reach and maintain the 20.0% policy target within 3 years, Aon suggests the Fund commit \$500.0 million through 2026
  - Note for simplicity we considered only primary private equity funds with a 100% strategy focus on Buyouts for future commitments

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Opening NAV	26,667	25,094	22,827	19,926	17,252	15,451	14,959	15,736	17,656	20,222
Capital Called	(2,520)	(1,706)	(1,176)	(1,493)	(2,204)	(3,075)	(3,721)	(4,064)	(4,162)	(4,068)
Capital Called - Existing Commitments	(2,445)	(1,531)	(896)	(446)	(192)	(80)	(46)	(19)	(5)	0
Capital Called - New Commitments	(75)	(175)	(280)	(1,048)	(2,013)	(2,995)	(3,675)	(4,045)	(4,157)	(4,068)
Distributions	7,822	7,385	7,034	6,472	5,753	5,019	4,443	4,181	4,329	4,855
Distributions - Existing Commitments	7,821	7,377	7,005	6,392	5,540	4,522	3,442	2,419	1,561	921
Distributions - New Commitments	1	8	28	80	213	497	1,001	1,762	2,768	3,935
Net Cash Flow	5,302	5,679	5,858	4,979	3,549	1,944	723	117	168	787
Appreciation	3,729	3,412	2,957	2,305	1,748	1,452	1,500	2,037	2,734	3,445
Appreciation - Existing Commitments	3,733	3,411	2,929	2,261	1,579	944	450	176	59	13
Appreciation - New Commitments	(4)	1	28	44	169	508	1,050	1,861	2,675	3,432
Closing NAV	25,094	22,827	19,926	17,252	15,451	14,959	15,736	17,656	20,222	22,879
% of Total Program (EOY)	26.2%	23.4%	20.0%	17.0%	14.9%	14.2%	14.6%	16.1%	18.0%	20.0%
Commitments (\$mm)	500.0	500.0	500.0	5,000.0	5,000.0	5,000.0	3,900.0	3,900.0	3,900.0	3,900.0

# Real Assets Strategic Plan – May 2024

## 2.0% Plan Growth Rate



### Annual Commitment Pace In \$ Millions

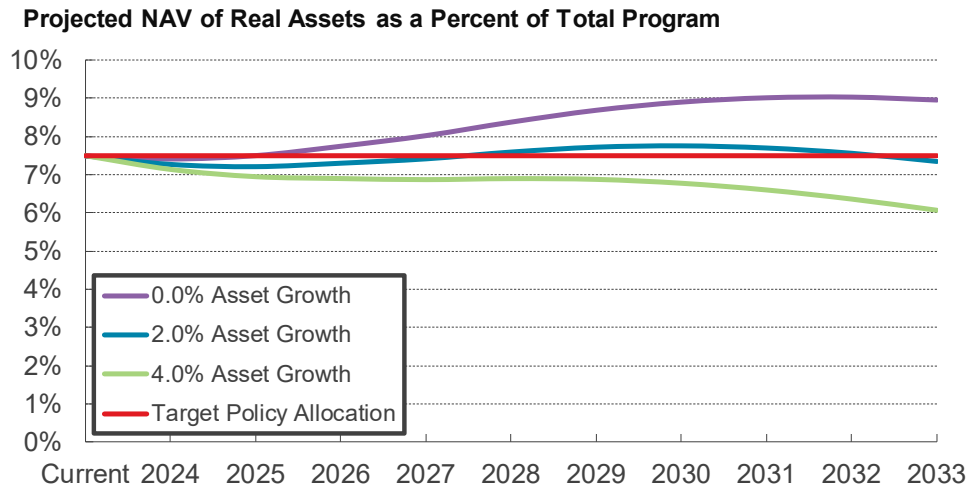
Year	FoF	Primary	Total
2024	0.0	1,000.0	1,000.0
2025	0.0	1,250.0	1,250.0
2026	0.0	1,500.0	1,500.0
2027	0.0	1,500.0	1,500.0
2028	0.0	1,500.0	1,500.0
2029	0.0	1,850.0	1,850.0
2030	0.0	1,850.0	1,850.0
2031	0.0	1,850.0	1,850.0
2032	0.0	1,850.0	1,850.0
2033	0.0	1,850.0	1,850.0

- In order to reach and maintain the 7.5% policy target within 5 years, we suggest the Fund commit to primary funds with commitments increasing over time from \$1,000.0 million in 2024 to \$1,250.0 million in 2025 to \$1,500.0 million in 2026/27/28
  - Note for simplicity we considered only primary infrastructure funds with a strategy mix of 70% Brownfield and 30% Energy Infrastructure for future commitments

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
<b>Opening NAV</b>	<b>9,397.9</b>	<b>9,166.1</b>	<b>8,768.8</b>	<b>8,412.9</b>	<b>8,030.7</b>	<b>7,788.1</b>	<b>7,607.3</b>	<b>7,622.6</b>	<b>7,837.9</b>	<b>8,184.1</b>
<b>Capital Called</b>	<b>(1,472.3)</b>	<b>(1,262.3)</b>	<b>(1,205.4)</b>	<b>(1,251.0)</b>	<b>(1,342.9)</b>	<b>(1,421.0)</b>	<b>(1,552.1)</b>	<b>(1,644.5)</b>	<b>(1,709.7)</b>	<b>(1,736.9)</b>
Capital Called - Existing Commitments	(1,372.3)	(838.3)	(458.6)	(191.8)	(111.4)	(38.2)	(21.7)	(13.8)	(7.8)	(4.9)
Capital Called - New Commitments	(100.0)	(424.0)	(746.8)	(1,059.3)	(1,231.5)	(1,382.8)	(1,530.4)	(1,630.7)	(1,701.9)	(1,732.0)
<b>Distributions</b>	<b>2,736.4</b>	<b>2,747.7</b>	<b>2,708.3</b>	<b>2,766.7</b>	<b>2,612.7</b>	<b>2,507.6</b>	<b>2,341.7</b>	<b>2,217.8</b>	<b>2,180.7</b>	<b>2,268.1</b>
Distributions - Existing Commitments	2,735.8	2,743.4	2,687.9	2,688.1	2,397.9	2,053.9	1,568.2	1,044.5	624.0	370.9
Distributions - New Commitments	0.6	4.3	20.4	78.6	214.8	453.6	773.5	1,173.4	1,556.7	1,897.2
<b>Net Cash Flow</b>	<b>1,264.1</b>	<b>1,485.4</b>	<b>1,503.0</b>	<b>1,515.7</b>	<b>1,269.8</b>	<b>1,086.6</b>	<b>789.7</b>	<b>573.3</b>	<b>471.0</b>	<b>531.2</b>
<b>Appreciation</b>	<b>1,032.2</b>	<b>1,088.1</b>	<b>1,147.1</b>	<b>1,133.5</b>	<b>1,027.2</b>	<b>905.8</b>	<b>805.0</b>	<b>788.5</b>	<b>817.2</b>	<b>876.1</b>
Appreciation - Existing Commitments	1,034.9	1,104.1	1,197.7	1,193.7	1,023.3	746.4	441.1	232.3	107.6	45.9
Appreciation - New Commitments	(2.7)	(16.0)	(50.6)	(60.2)	3.9	159.3	363.9	556.2	709.6	830.2
<b>Closing NAV</b>	<b>9,166.1</b>	<b>8,768.8</b>	<b>8,412.9</b>	<b>8,030.7</b>	<b>7,788.1</b>	<b>7,607.3</b>	<b>7,622.6</b>	<b>7,837.9</b>	<b>8,184.1</b>	<b>8,529.0</b>
<b>% of Total Program</b>	<b>9.6%</b>	<b>9.0%</b>	<b>8.4%</b>	<b>7.9%</b>	<b>7.5%</b>	<b>7.2%</b>	<b>7.1%</b>	<b>7.1%</b>	<b>7.3%</b>	<b>7.5%</b>

# Real Assets Strategic Plan – Hypothetical Adjusted NAV

## 2.0% Plan Growth Rate



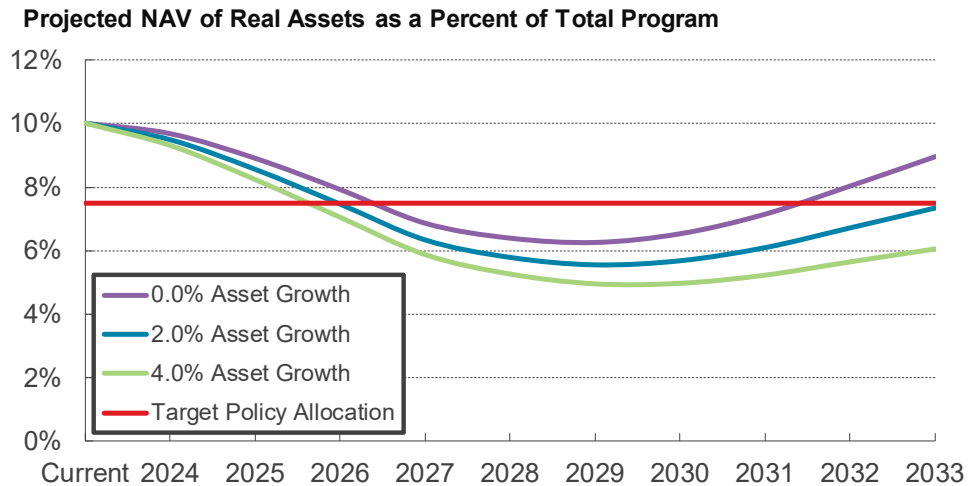
Year	FoF	Primary	Total
2024	0.0	1,800.0	1,800.0
2025	0.0	1,800.0	1,800.0
2026	0.0	1,800.0	1,800.0
2027	0.0	1,800.0	1,800.0
2028	0.0	1,800.0	1,800.0
2029	0.0	1,500.0	1,500.0
2030	0.0	1,500.0	1,500.0
2031	0.0	1,500.0	1,500.0
2032	0.0	1,500.0	1,500.0
2033	0.0	1,500.0	1,500.0

- In order to reach and maintain the 7.5% policy target within 5 years, Aon suggests the Fund commit \$1,800.0 million through 2028
  - Note for simplicity we considered only primary infrastructure funds with a strategy mix of 70% Brownfield and 30% Energy Infrastructure for future commitments

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
<b>Opening NAV</b>	7,036.9	6,965.1	7,048.4	7,278.0	7,538.1	7,870.0	8,160.5	8,360.3	8,466.3	8,482.7
<b>Capital Called</b>	(1,207.5)	(1,345.9)	(1,463.0)	(1,590.8)	(1,658.4)	(1,669.0)	(1,588.5)	(1,526.6)	(1,472.9)	(1,454.7)
Capital Called - Existing Commitments	(1,027.5)	(627.7)	(343.4)	(143.6)	(83.4)	(28.6)	(16.2)	(10.4)	(5.9)	(3.6)
Capital Called - New Commitments	(180.0)	(718.2)	(1,119.6)	(1,447.2)	(1,575.0)	(1,640.4)	(1,572.3)	(1,516.2)	(1,467.0)	(1,451.1)
<b>Distributions</b>	2,049.5	2,061.7	2,047.3	2,143.8	2,140.8	2,234.9	2,302.1	2,419.7	2,508.5	2,587.6
Distributions - Existing Commitments	2,048.5	2,054.2	2,012.7	2,012.8	1,795.5	1,537.9	1,174.2	782.1	467.3	277.7
Distributions - New Commitments	1.0	7.5	34.6	130.9	345.3	697.0	1,127.8	1,637.6	2,041.3	2,309.9
<b>Net Cash Flow</b>	842.0	715.8	584.3	553.0	482.4	565.9	713.6	893.1	1,035.7	1,132.9
<b>Appreciation</b>	770.1	799.1	813.9	813.1	814.2	856.4	913.4	999.1	1,052.1	1,061.6
Appreciation - Existing Commitments	774.9	826.8	896.8	893.8	766.2	558.9	330.3	174.0	80.6	34.4
Appreciation - New Commitments	(4.9)	(27.6)	(82.9)	(80.7)	48.0	297.5	583.1	825.2	971.5	1,027.2
<b>Closing NAV</b>	6,965.1	7,048.4	7,278.0	7,538.1	7,870.0	8,160.5	8,360.3	8,466.3	8,482.7	8,411.4
<b>% of Total Program</b>	7.3%	7.2%	7.3%	7.4%	7.6%	7.7%	7.8%	7.7%	7.6%	7.4%

# Real Assets Strategic Plan – Accelerated

## 2.0% Plan Growth Rate

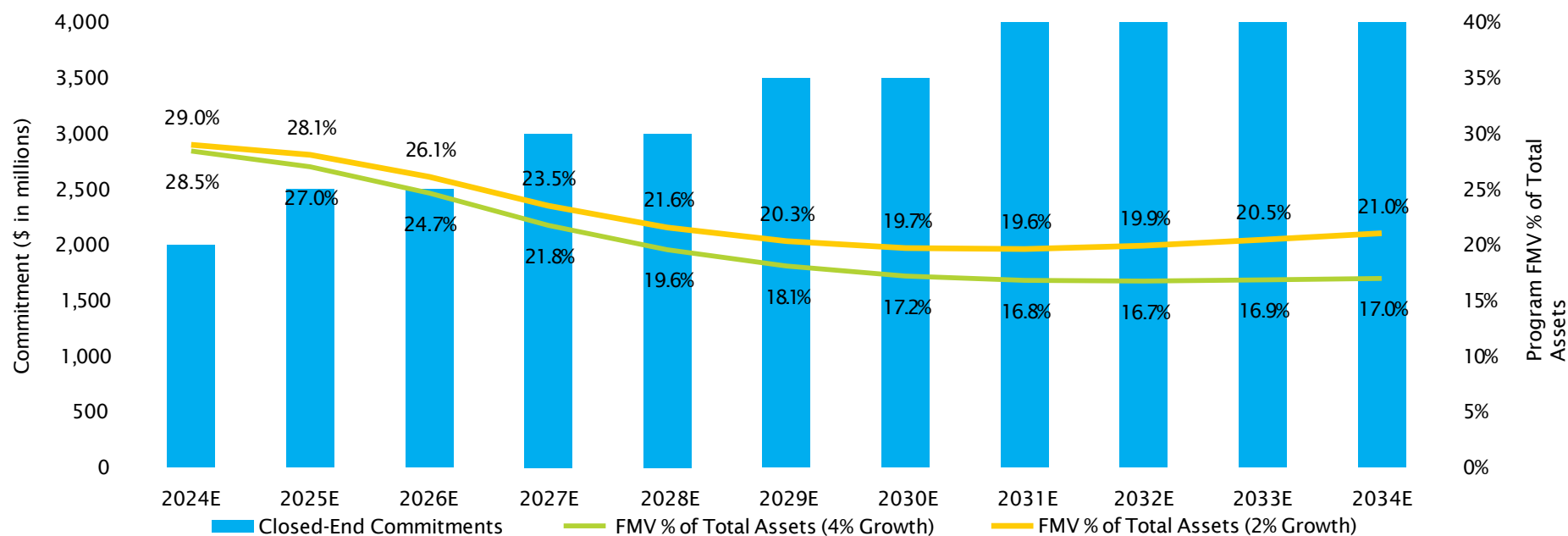


Annual Commitment Pace In \$ Millions			
Year	FoF	Primary	Total
2024	0.0	200.0	200.0
2025	0.0	200.0	200.0
2026	0.0	200.0	200.0
2027	0.0	2,000.0	2,000.0
2028	0.0	2,000.0	2,000.0
2029	0.0	2,000.0	2,000.0
2030	0.0	2,000.0	2,000.0
2031	0.0	2,000.0	2,000.0
2032	0.0	2,000.0	2,000.0
2033	0.0	2,000.0	2,000.0

- In order to reach and maintain the 7.5% policy target within 3 years, Aon suggests the Fund commit \$200.0 million through 2026
  - Note for simplicity we considered only primary infrastructure funds with a strategy mix of 70% Brownfield and 30% Energy Infrastructure for future commitments

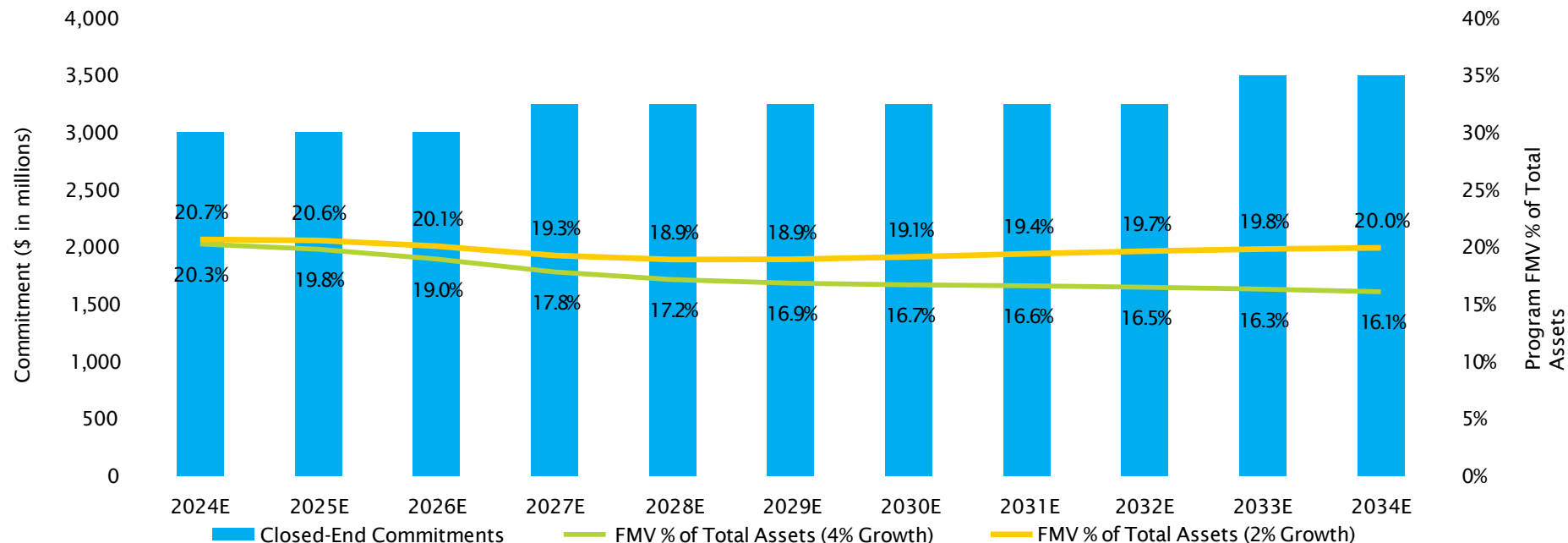
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
<b>Opening NAV</b>	<b>9,397.9</b>	<b>9,088.7</b>	<b>8,363.6</b>	<b>7,443.4</b>	<b>6,452.1</b>	<b>6,013.9</b>	<b>5,887.8</b>	<b>6,144.8</b>	<b>6,720.9</b>	<b>7,549.3</b>
<b>Capital Called</b>	<b>(1,392.3)</b>	<b>(918.1)</b>	<b>(583.0)</b>	<b>(532.6)</b>	<b>(1,004.6)</b>	<b>(1,343.4)</b>	<b>(1,656.9)</b>	<b>(1,778.0)</b>	<b>(1,868.0)</b>	<b>(1,887.3)</b>
Capital Called - Existing Commitments	(1,372.3)	(838.3)	(458.6)	(191.8)	(111.4)	(38.2)	(21.7)	(13.8)	(7.8)	(4.9)
Capital Called - New Commitments	(20.0)	(79.8)	(124.4)	(340.8)	(893.2)	(1,305.2)	(1,635.2)	(1,764.2)	(1,860.2)	(1,882.4)
<b>Distributions</b>	<b>2,735.9</b>	<b>2,744.2</b>	<b>2,691.8</b>	<b>2,703.7</b>	<b>2,443.8</b>	<b>2,166.0</b>	<b>1,824.6</b>	<b>1,572.4</b>	<b>1,550.4</b>	<b>1,763.1</b>
Distributions - Existing Commitments	2,735.8	2,743.4	2,687.9	2,688.1	2,397.9	2,053.9	1,568.2	1,044.5	624.0	370.9
Distributions - New Commitments	0.1	0.8	3.8	15.5	45.9	112.1	256.4	527.9	926.4	1,392.2
<b>Net Cash Flow</b>	<b>1,343.6</b>	<b>1,826.1</b>	<b>2,108.7</b>	<b>2,171.1</b>	<b>1,439.2</b>	<b>822.6</b>	<b>167.7</b>	<b>(205.7)</b>	<b>(317.6)</b>	<b>(124.2)</b>
<b>Appreciation</b>	<b>1,034.4</b>	<b>1,101.1</b>	<b>1,188.5</b>	<b>1,179.9</b>	<b>1,001.0</b>	<b>696.5</b>	<b>424.7</b>	<b>370.5</b>	<b>510.8</b>	<b>739.4</b>
Appreciation - Existing Commitments	1,034.9	1,104.1	1,197.7	1,193.7	1,023.3	746.4	441.1	232.3	107.6	45.9
Appreciation - New Commitments	(0.5)	(3.1)	(9.2)	(13.8)	(22.3)	(50.0)	(16.4)	138.1	403.1	693.5
<b>Closing NAV</b>	<b>9,088.7</b>	<b>8,363.6</b>	<b>7,443.4</b>	<b>6,452.1</b>	<b>6,013.9</b>	<b>5,887.8</b>	<b>6,144.8</b>	<b>6,720.9</b>	<b>7,549.3</b>	<b>8,412.9</b>
<b>% of Total Program</b>	<b>9.5%</b>	<b>8.6%</b>	<b>7.5%</b>	<b>6.4%</b>	<b>5.8%</b>	<b>5.6%</b>	<b>5.7%</b>	<b>6.1%</b>	<b>6.7%</b>	<b>7.4%</b>

# Private Equity Strategic Plan



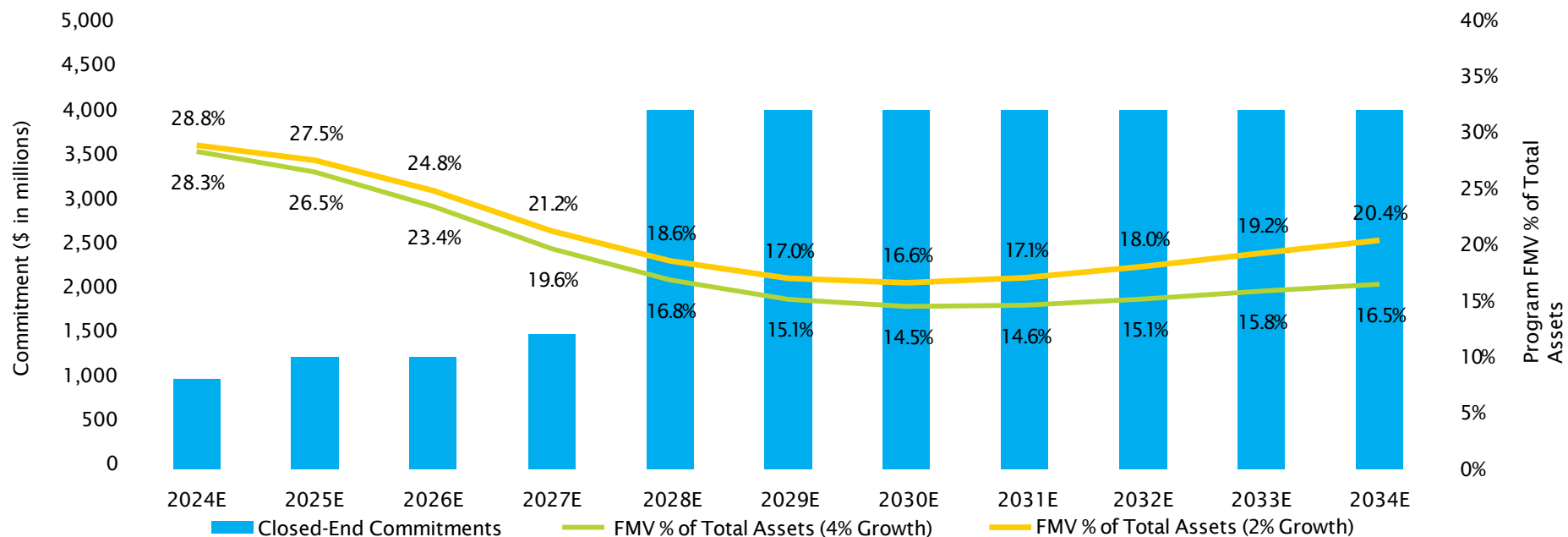
(\$ in millions)	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
<b>Private Market Investments</b>											
Closed-End Commitments	2,000	2,500	2,500	3,000	3,000	3,500	3,500	4,000	4,000	4,000	4,000
Contributions	-2,255	-2,103	-2,205	-2,401	-2,574	-2,821	-3,026	-3,284	-3,496	-3,689	-3,808
Distributions	3,986	5,389	6,525	7,302	6,648	6,057	5,582	5,213	5,046	5,049	5,200
Net Cash Flow	1,731	3,286	4,320	4,901	4,074	3,236	2,556	1,930	1,551	1,361	1,392
Fair Market Value	27,766	27,427	26,019	23,884	22,353	21,502	21,245	21,594	22,365	23,417	24,556
FMV % of Total Assets (4% Growth)	28.5%	27.0%	24.7%	21.8%	19.6%	18.1%	17.2%	16.8%	16.7%	16.9%	17.0%
FMV % of Total Assets (2% Growth)	29.0%	28.1%	26.1%	23.5%	21.6%	20.3%	19.7%	19.6%	19.9%	20.5%	21.0%

# Private Equity Strategic Plan (Adjusted NAV)



(\$ in millions)	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
<b>Private Market Investments</b>											
Closed-End Commitments	3,000	3,000	3,000	3,250	3,250	3,250	3,250	3,250	3,250	3,500	3,500
Contributions	-1,845	-2,006	-2,389	-2,665	-2,861	-3,010	-3,102	-3,159	-3,194	-3,258	-3,324
Distributions	2,805	3,795	4,616	5,239	4,914	4,701	4,625	4,653	4,809	4,997	5,190
Net Cash Flow	959	1,788	2,226	2,575	2,054	1,691	1,523	1,494	1,616	1,739	1,867
Fair Market Value	19,797	20,110	20,019	19,575	19,608	20,014	20,636	21,360	22,046	22,689	23,277
FMV % of Total Assets (4% Growth)	20.3%	19.8%	19.0%	17.8%	17.2%	16.9%	16.7%	16.6%	16.5%	16.3%	16.1%
FMV % of Total Assets (2% Growth)	20.7%	20.6%	20.1%	19.3%	18.9%	18.9%	19.1%	19.4%	19.7%	19.8%	20.0%

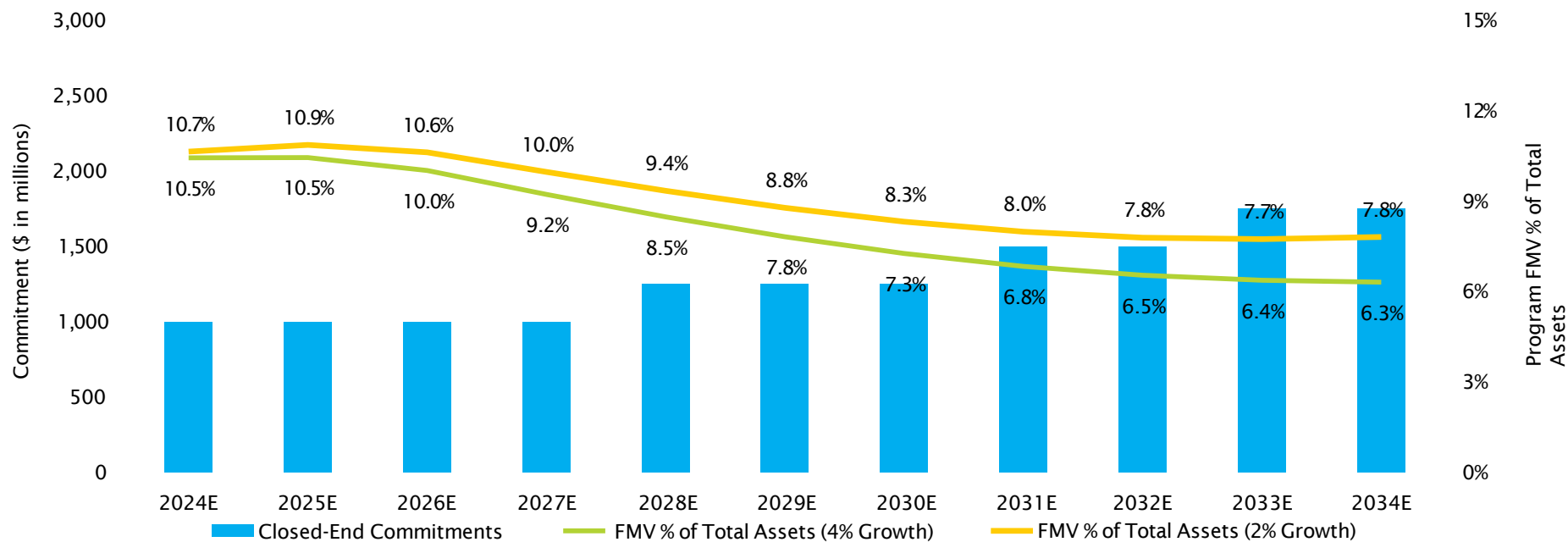
# Private Equity Strategic Plan (Accelerated)



(\$ in millions)	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
<b>Private Market Investments</b>											
Closed-End Commitments	1,000	1,250	1,250	1,500	4,000	4,000	4,000	4,000	4,000	4,000	4,000
Contributions	-2,098	-1,699	-1,506	-1,452	-1,842	-2,376	-2,997	-3,381	-3,618	-3,764	-3,854
Distributions	3,986	5,387	6,507	7,226	6,459	5,691	5,001	4,437	4,150	4,168	4,463
Net Cash Flow	1,888	3,688	5,001	5,774	4,617	3,314	2,003	1,056	532	405	609
Fair Market Value	27,608	26,851	24,700	21,551	19,228	17,965	17,883	18,745	20,230	22,007	23,778
FMV % of Total Assets (4% Growth)	28.3%	26.5%	23.4%	19.6%	16.8%	15.1%	14.5%	14.6%	15.1%	15.8%	16.5%
FMV % of Total Assets (2% Growth)	28.8%	27.5%	24.8%	21.2%	18.6%	17.0%	16.6%	17.1%	18.0%	19.2%	20.4%

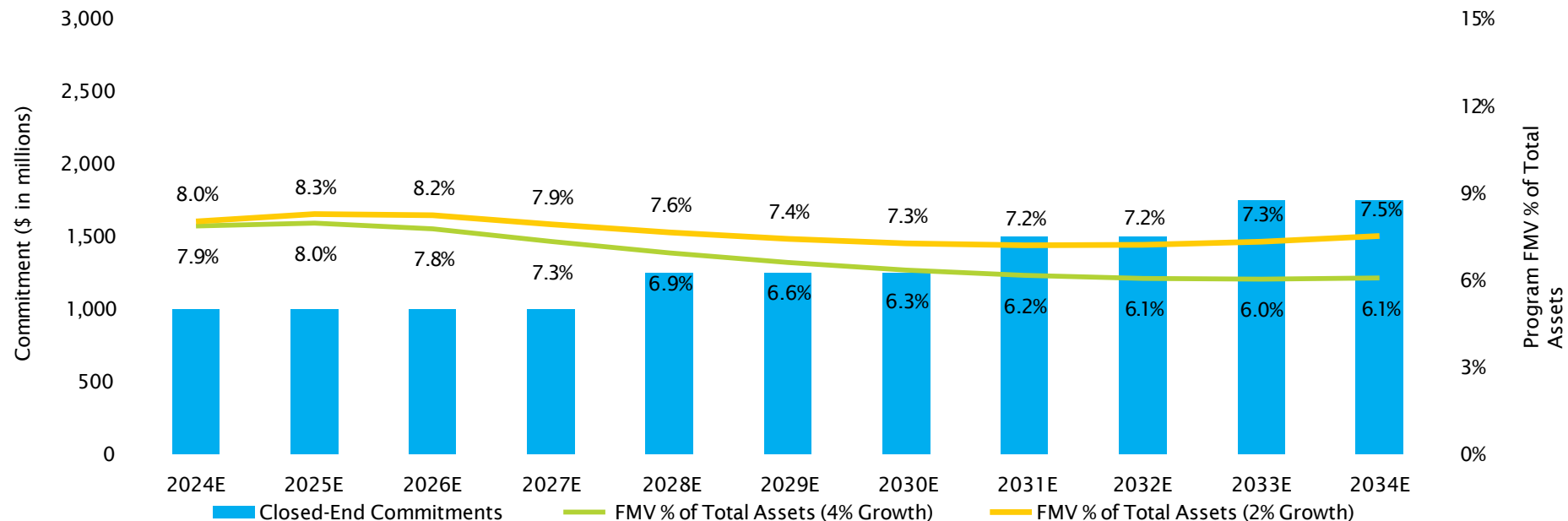


# Real Assets Strategic Plan



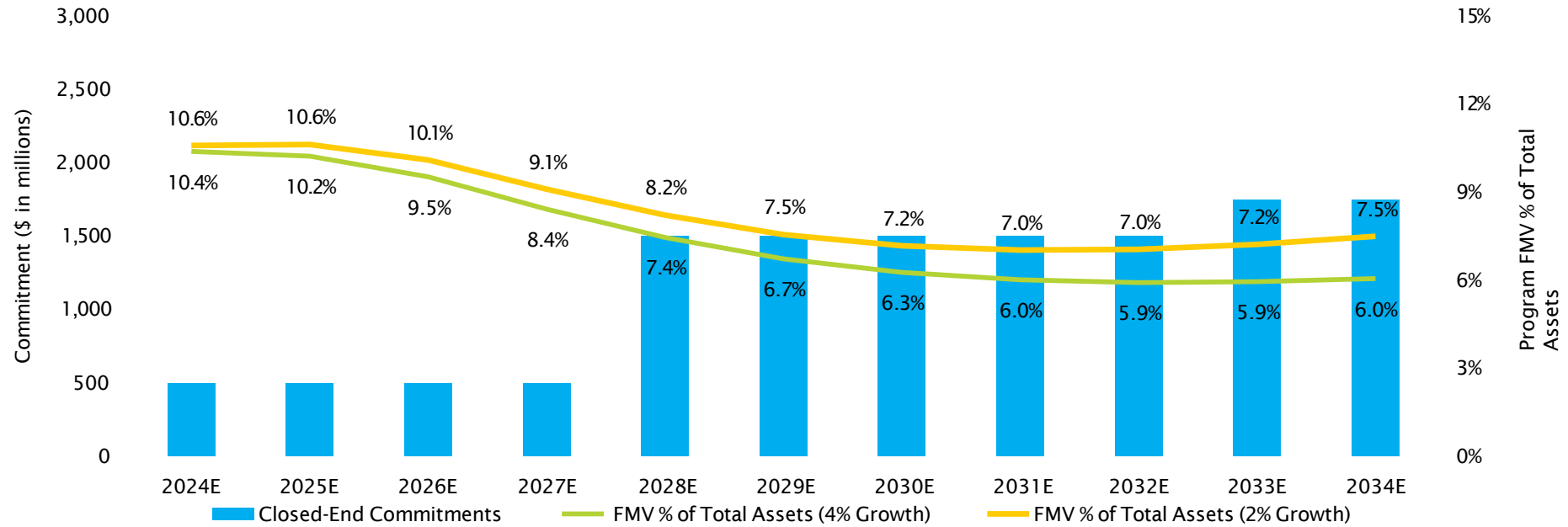
(\$ in millions)	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
<b>Private Market Investments</b>											
Closed-End Commitments	1,000	1,000	1,000	1,000	1,250	1,250	1,250	1,500	1,500	1,750	1,750
Contributions	-1,254	-1,199	-1,127	-1,081	-1,089	-1,122	-1,164	-1,229	-1,299	-1,403	-1,498
Distributions	1,065	1,478	1,921	2,321	2,295	2,248	2,174	2,086	2,007	1,941	1,899
Net Cash Flow	-189	279	795	1,239	1,206	1,126	1,010	857	708	538	401
Fair Market Value	10,198	10,615	10,581	10,135	9,689	9,290	8,976	8,792	8,744	8,862	9,125
FMV % of Total Assets (4% Growth)	10.5%	10.5%	10.0%	9.2%	8.5%	7.8%	7.3%	6.8%	6.5%	6.4%	6.3%
FMV % of Total Assets (2% Growth)	10.7%	10.9%	10.6%	10.0%	9.4%	8.8%	8.3%	8.0%	7.8%	7.7%	7.8%

# Real Assets Strategic Plan (Adjusted NAV)



(\$ in millions)	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
<b>Private Market Investments</b>											
Closed-End Commitments	1,000	1,000	1,000	1,000	1,250	1,250	1,250	1,500	1,500	1,750	1,750
Contributions	-976	-986	-985	-986	-1,025	-1,079	-1,135	-1,209	-1,286	-1,394	-1,491
Distributions	797	1,108	1,444	1,755	1,755	1,749	1,733	1,714	1,706	1,710	1,727
Net Cash Flow	-179	122	459	768	730	670	598	505	420	316	236
Fair Market Value	7,673	8,076	8,196	8,042	7,916	7,839	7,829	7,911	8,084	8,374	8,767
FMV % of Total Assets (4% Growth)	7.9%	8.0%	7.8%	7.3%	6.9%	6.6%	6.3%	6.2%	6.1%	6.0%	6.1%
FMV % of Total Assets (2% Growth)	8.0%	8.3%	8.2%	7.9%	7.6%	7.4%	7.3%	7.2%	7.2%	7.3%	7.5%

# Real Assets Strategic Plan (Accelerated)



(\$ in millions)	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E
<b>Private Market Investments</b>											
Closed-End Commitments	500	500	500	500	1,500	1,500	1,500	1,500	1,500	1,750	1,750
Contributions	-1,180	-1,022	-845	-729	-800	-955	-1,134	-1,254	-1,334	-1,424	-1,511
Distributions	1,065	1,476	1,911	2,287	2,222	2,122	1,986	1,842	1,730	1,660	1,650
Net Cash Flow	-115	454	1,066	1,558	1,423	1,167	852	589	397	236	138
Fair Market Value	10,124	10,362	10,039	9,234	8,504	7,975	7,721	7,712	7,893	8,250	8,730
FMV % of Total Assets (4% Growth)	10.4%	10.2%	9.5%	8.4%	7.4%	6.7%	6.3%	6.0%	5.9%	5.9%	6.0%
FMV % of Total Assets (2% Growth)	10.6%	10.6%	10.1%	9.1%	8.2%	7.5%	7.2%	7.0%	7.0%	7.2%	7.5%

# Consolidated Pacing Models for PEP & RAP

	"Strategic"						"Accelerated"					
	Meketa		Aon		Staff*		Meketa		Aon		Staff*	
Year	Commit (\$M)	OPERF Wgt	Commit (\$M)	OPERF Wgt	Commit (\$M)	OPERF Wgt	Commit (\$M)	OPERF Wgt	Commit (\$M)	OPERF Wgt	Commit (\$M)	OPERF Wgt
2024	3,000	40%	4,200	36%	3,000	43%	1,500	39%	700	36%	3,000	43%
2025	3,500	39%	4,450	34%	4,250	44%	1,750	38%	700	32%	3,000	44%
2026	3,500	37%	4,700	31%	4,250	41%	1,750	35%	700	28%	4,250	41%
2027	4,000	34%	4,700	29%	5,000	37%	2,000	30%	7,000	23%	4,250	36%
2028	4,250	31%	4,700	27%	5,000	33%	5,500	27%	7,000	21%	4,250	32%
2029	4,750	29%	5,550	26%	5,000	30%	5,500	25%	7,000	20%	4,250	28%
2030	4,750	28%	5,550	26%	5,000	28%	5,500	24%	5,900	20%	4,250	25%
2031	5,500	28%	5,550	26%	5,000	26%	5,500	24%	5,900	22%	4,250	24%
2032	5,500	28%	5,550	27%	5,000	25%	5,500	25%	5,900	25%	4,250	22%
2033	5,750	28%	5,550	27%	5,000	25%	5,750	26%	5,900	27%	4,250	22%
<b>Total</b>	<b>44,500</b>		<b>50,500</b>		<b>46,500</b>		<b>40,250</b>		<b>46,700</b>		<b>40,000</b>	

Assume 2% growth rate for OPERF

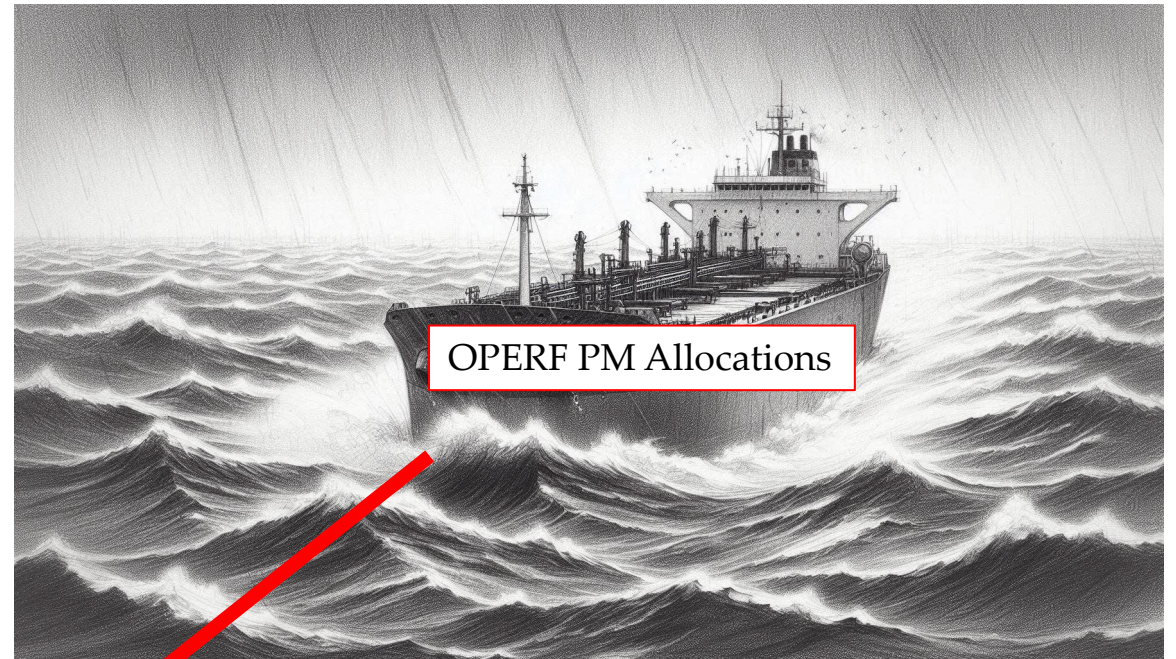
\*Staff "Ave \$5.8B commit" for "Strategic", "Ave 4.9B commit" for "Accelerated"

# OPERF Private Market Allocations Going Forward

OPERF's Private Market Allocations are buffeted by various macroeconomic factors that affect:

- Returns,
  - Distributions, and
  - Longevity of investments.
- } Model parameters

Given the lengthy time scale and transaction costs to change allocations, it may be prudent to make incremental but more frequent changes in response to market dynamics.



Source: DALL-E 3

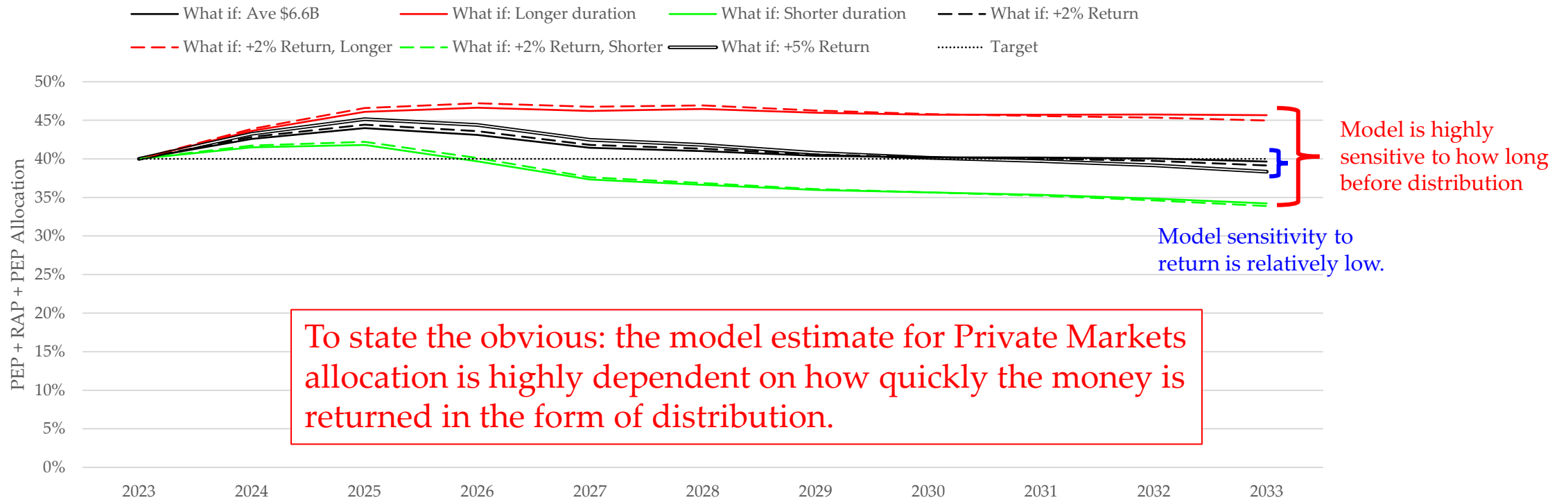
Target Allocations

# Takeaways

- OPERF's overallocation to Private Markets is the outcome of decisions made years ago. It will take years for that overallocation to work itself out.
- Consultant and staff models are in the same neighborhood; approximately \$3.2B and 1.3B of commitment per year respectively for Private Equity & Real Assets to reach and maintain their respective target allocation.
- The actual allocation is highly dependent on secular & cyclical forces. Based on realized experience, commitments should have been lower than what the model suggested to hit target allocation. The same/different(?) set of forces going forward could require less/same/more(???) levels of commitment.

# Appendix: Staff model sensitivity to “Growth” and “distribution pattern”

“Longer distribution” = longer investment period until cash distribution.





# OREGON STATE TREASURY

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OREGON  
STATE  
TREASURY

TAB 7  
CALENDAR – FUTURE  
AGENDA ITEMS

## **2024-25 OIC Forward Calendar and Planned Agenda Topics**

<b>December 4, 2024</b>	Q3 OPERF Performance OSTF, OITP Annual Review
<b>January 22, 2025</b>	Public Equity Portfolio Review Private Equity Portfolio Review 2026 OIC Calendar Approval
<b>March 5, 2025</b>	2024 Performance Review: OPERF, CSF, SAIF Opportunity Portfolio Review
<b>April 16, 2025</b>	Individual Account Program (IAP) Review OSGP Annual Review Real Assets Portfolio Review Real Estate Portfolio Review
<b>May 28, 2025</b>	OIC-PERS Joint Session Q1 Performance Review: OPERF Fixed Income Portfolio Review: OPERF Diversifying Strategies Portfolio Review
<b>July 16, 2025</b>	TBD
<b>September 3, 2025</b>	Q2 Performance Review: OPERF, CSF
<b>October 22, 2025</b>	Operations Annual Review



OREGON  
STATE  
TREASURY

TAB 8  
OPEN DISCUSSION



## TAB 9

### PUBLIC COMMENTS

Public comments can now be found at the OIC website at:

<https://www.oregon.gov/treasury/invested-for-oregon/pages/oregon-investment-council.aspx>