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January 22, 2016

The Honorable Senator Richard Devlin, Co-Chair
The Honorable Representative Peter Buckley, Co-Chair
Interim Joint Committee on Ways and Means
900 Court Street NE
H-178 State Capitol
Salem, OR 97301-4048

Dear Co-Chairpersons:

Nature of the [Emergency/Request]

Oregon State Treasury was instructed, via Budget Note, “to report to the Legislature in 2016 on the hiring of newly authorized positions and the associated improvements to: risk management; compliance; investment support systems; investment analysis; data security; management reporting; internal controls; segregation of duties; internal auditing; and the updating of policy and procedures.” The following report summarizes Treasury’s progress on these objectives.

Agency Action

In 2015, Treasury began a multi-year process of addressing deficiencies in its Investment Division within the current Oregon Investment Council (“OIC”)/Treasury governance model. In the months following the close of the 2015 Legislative Session, Treasury accomplished three major initiatives aimed at achieving improvements in the areas identified by Treasury and expressed in the Budget Note.

Treasury focused its hiring efforts on key leadership positions granted to it by the Legislature in the 2015 session. These key leadership positions will, in turn, hire for their respective teams. The key positions include the Director of Investment Operations, Chief Compliance & Regulatory Officer, Securities Transaction Officer, Investment Contracts Officer, and the Project Management Officer. These positions have been hired, from both within and out of state.

In addition, Treasury worked with the Department of Administrative Services to establish the new Investment Analyst (IA) series and negotiate IA salaries with SEIU. Treasury reassigned existing staff to this series, and has now started recruiting for the new IA positions granted in last year’s budget.

In September, 2015, Treasury, in conjunction with BlackRock and Cutter Associates, successfully implemented the Aladdin trading and risk management platform as well as Blackrock’s accompanying suite of “middle office” services. BlackRock is the global investment firm that owns and operates Aladdin, and Cutter Associates provided project management services to Treasury during implementation. Treasury also worked with Deloitte, which provided quality assurance services during this process. This powerful combination of new capabilities and services was delivered within the budget and timing expectations of the OIC.

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January 22, 2016

Aladdin enables electronically-integrated trade entry, trade monitoring and trade reconciliation processes in support of staff's many internal portfolio management activities. These new capabilities forcefully address the operating and compliance deficiencies previously identified by external consultants and internal auditors. Moreover, by replacing legacy systems that were mostly manual, the work flow improvements Aladdin provides will significantly enhance the investment division's efficiency. These efficiency improvements give Treasury the option of scaling-up the division's internal management activities while effectively managing corresponding risks.

Further, Aladdin introduces robust risk management tools that enable staff to analyze, monitor and ultimately adjust the investment risk profile of OPERF and other OST-managed funds. Heretofore, investment risk management was only available to staff through external vendors or remedial, qualitative approaches.

Finally, Treasury is working to consolidate its investment staff in a single location in the Tigard area. The new North Office, which places the entire investment division under one roof with enhanced physical and data security, is expected to open in March or April of 2016. Moreover, and as proposed during the 2015 legislative session discussions, Treasury has secured first refusal rights to adjacent space in the same building in order to accommodate future Investment Division growth and operating requirements.

Given its successful implementation of the Aladdin platform (and associated scale opportunities for internal management activities) and the OIC's continued emphasis on complex, private market investments, Treasury is in the process of determining an appropriate timeline for the phasing in of additional positions within the Investment Division. This process will include discussions with OIC members and legislators as Treasury gets closer to determining the best course of action.

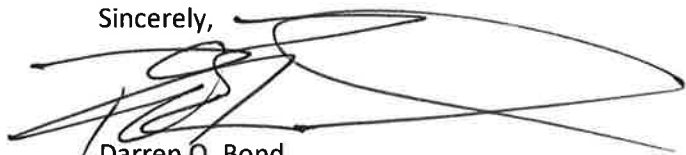
Action Requested

Oregon State Treasury respectfully requests acknowledgement of receipt of the report.

Legislation Affected

None.

Sincerely,

A handwritten signature in black ink, appearing to read 'Darren Q. Bond', written over a horizontal line.

Darren Q. Bond
Deputy State Treasurer