



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

**OREGON INVESTMENT COUNCIL**  
JULY 25, 2012  
MEETING MINUTES

Members Present: Paul Cleary, Harry Demorest, Katy Durant, Keith Larson, Dick Solomon, Ted Wheeler

Staff Present: Darren Bond, Tony Breault, Karl Cheng, Sam Green, John Hershey, Julie Jackson, Perrin Lim, Ben Mahon, Mike Mueller, Michael Viteri, Byron Williams

Consultants Present: Deborah Gallegos and John Meier (SIS), Alan Emkin, John Linder and Mike Moy (PCA), David Fann, Kenn Lee, Tom Martin (TorreyCove), Nori Gerardo Lietz (Arete Capital)

Legal Counsel Present: Dee Carlson, Oregon Department of Justice  
Deena Bothello, Oregon Department of Justice

The OIC meeting was called to order at 9:00 am by Keith Larson, Chair.

**I. 9:00 a.m.: Review and Approval of Minutes**

**MOTION:** Treasurer Wheeler moved approval of the May 30, 2012 minutes. Ms. Durant seconded the motion. The minutes were approved unanimously by a vote of 5/0.

Mike Mueller, Interim CIO gave an update of recent Private Equity Committee actions:

June 27, 2012	Court Square Capital Partners Fund III, LP	(\$75 Million)
June 27, 2012	Crescent Mezzanine Partners Fund VI, LP	(\$75 Million)
June 27, 2012	Mayfield XIV, LP	(\$25 million)

**II. 9:01 a.m.: RK Mine Finance Fund II - OPERF Alternatives Portfolio**

John Hershey, Sr. Alternatives Investment Officer gave a brief introduction then introduced Oskar Lewnowski, CIO and Portfolio Manager and Chris von Strasser, Senior Vice President of Red Kite Group.

Red Kite targets a high percent gross IRR by providing off-take-backed completion financing to junior mining companies (generally small cap publicly traded companies). Off-take agreements are long-term contracts in which a mine is obligated to sell a percent of its future production at an agreed upon margin to the off-take provider. The off-take linked financing is generally in the form of debt with a current pay coupon and a payment in kind (PIK), often secured by the assets of the mining company, or structured equity with significant warrant coverage. In addition to providing debt, equity, and off-take agreements, Red Kite expects to invest in royalty streams based on the revenue and/or profit of a mine. Of the total expected return, approximately 30% each should come from debt and royalties, with the remaining approximately 40% coming from structured equity (converts, warrants) and the off-take agreements.

Red Kite offers one of the few experienced managers with a realized track record of successful investing as a principal in the metals and mining sector. Furthermore, as an asset class, natural resources are a valuable hedge against inflation with long-lived real assets to match with a pension plan's liabilities.

Staff and TorreyCove recommended a commitment of \$75 million to RK Mine Finance Fund II, L.P., subject to the negotiation of requisite legal documents with Staff working in concert with DOJ.

There was a brief question and answer period following the presentation.

**MOTION:** Mr. Demorest moved approval of the staff recommendation. Mr. Solomon seconded the motion. The motion was passed by a vote of 5/0

### **III. 9:35 a.m.: Avista Capital Partners III - OPERF Private Equity**

Sam Green, Private Equity Investment Officer gave a brief overview and then introduced Tom Dean and Steven Webster, Co-Managing Partners from Avista Capital.

At its inception in 2005, Avista was exclusively focused on investing in three sectors – healthcare, energy and media, with approximately equal weighting to each. Due to the rapid recent digitalization of media, it is expected that this sector will play a significantly smaller role in Fund III than in prior funds. It is expected that approximately two-thirds of the Fund will be allocated to energy and healthcare, while the remaining third will be allocated, opportunistically, to investments in the consumer discretionary, industrials and media sectors.

Avista will always seek board rights, regardless of their investment stake. The average investment size will be between \$50 - \$300 million. The Fund will be targeting companies with an enterprise value of \$100 million - \$2 billion, with the flexibility to pursue larger companies. These are all very consistent with Fund II's strategy.

There was a brief question and answer period following the presentation.

Staff and TorreyCove recommended that the OIC authorize a \$100 million commitment to Avista Capital Partners III, L.P. subject to the satisfactory negotiation of terms and conditions, and completion of the requisite legal documents by DOJ legal counsel working in concert with OST staff.

**MOTION:** Mr. Demorest moved approval of the staff recommendation. Ms. Durant seconded the motion. The motion was passed by a vote of 5/0

### **\*\*V. 10:27 a.m.: OPERF Public Equity Annual Review (taken out of order)**

Michael Viteri, Sr. Equity Investment Officer and John Meier with SIS gave an update on the OPERF Public Equity Portfolio.

#### **2011 PUBLIC EQUITY MONITORING & MANAGEMENT HIGHLIGHTS:**

**Open Door Meetings** - Staff continually scans the marketplace for promising investment managers. The most efficient venue is through visits with prospective managers in OST offices. In calendar year 2011, public equity staff conducted over 109 in-person meetings.

**Quarterly Conference Calls** – Staff performs conference calls with all OPERF managers on a quarterly basis as part of its portfolio monitoring process. It is a formal, documented process that allows staff to understand how a manager is expressing their views through the portfolio, and to test conviction in their portfolio holdings.

**On-Site Visits** – Per OIC Policy and Procedure 04.05.01- Strategic Role of Public Equity Securities within OPERF, staff is required to conduct annual site visits with all OPERF equity managers. On-site visits generally take anywhere from 2-4 hours and involve meetings with portfolio managers, analysts, traders, and compliance personnel. In calendar year 2011, public equity staff conducted 34 on-site visits with current and prospective OPERF equity managers.

**Cash Raises** –The process of raising cash can have unintended effects on the public equity portfolio’s exposure to style, capitalization range, and geography. As a result, cash raises end up being complex project management exercises that require sophisticated analytics and the combined efforts of staff, custody bank, asset managers, and transition managers. In calendar year 2011, the Public Equity portfolio raised \$1.4 billion in cash for pension payments and capital calls. Since July of 2007, Public Equity has raised over \$13 billion to satisfy the on-going needs of the plan.

**ACTION:** Keith Larson, Chair, requested that a workshop on risk management be held in the future

**\*\*IV. 11:20 a.m. Real Estate Annual Review (taken out of order):**

Tony Breault, Interim Senior Real Estate Investment Officer provided a review and update of the OPERF real estate portfolio, and Nori Gerardo Lietz of Arete Capital provided her opinion on the global real estate markets.

Real estate investments are being managed with the objective of earning at least 75 basis points in annualized net excess returns above the NCREIF Index over moving five-year periods. Because 80 percent of the real estate investments are traded infrequently, risk budget concepts are not applicable.

Mr. Breault and Ms. Gerardo Lietz presented a twelve month action plan for the Real Estate Portfolio, including:

1. Review the REIT portfolio, both US and non-US.
2. Reduce the allocation to RREEF, and transfer proceeds to another core manager.
3. Refine Core, Value Add and Opportunistic definitions; explore alternative benchmarks for Value Add and Opportunistic portfolios.
4. Explore the disposition of LP stakes in underperforming managers.

Ms. Gerardo Lietz shared a management overview by sub-asset class.

Staff recommended the Oregon Higher Education Fund commit \$2 - \$3 million to the Prime Property Fund, a diversified core, open end real estate fund managed by Morgan Stanley.

**MOTION:** Mr. Solomon moved approval of the staff recommendation. Mr. Demorest seconded the motion. The motion passed by a vote of 4/0 (Ms. Durant abstained due to a potential conflict of interest).

**VI. 12:06 p.m. Asset Allocation and NAV Updates:**

Mr. Mueller reviewed the Asset Allocations and NAV’s for the period ending June 30, 2012.

**VII. 12:07 p.m. Calendar – Future Agenda Items:**

Mr. Mueller highlighted future agenda topics.

**VIII. 12:07 p.m. Other Business:**

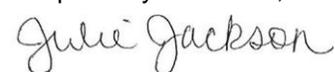
None

**12:07 p.m. Public Comments:**

There were no public comments.

The meeting adjourned at 12:07 p.m.

Respectfully submitted,



Julie Jackson  
Executive Support Specialist