

JOHN D. SKJERVEM
CHIEF INVESTMENT OFFICER
INVESTMENT DIVISION



PHONE 503-378-4111
FAX 503-378-6772

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

OREGON INVESTMENT COUNCIL
MAY 28, 2014
MEETING MINUTES

Members Present: Rukaiyah Adams, Paul Cleary, Katy Durant, Keith Larson, Dick Solomon, Ted Wheeler

Staff Present: Darren Bond, Tony Breault, Karl Cheng, Garrett Cudahey, Sam Green, Andy Hayes, John Hershey, Julie Jackson, Perrin Lim, Tom Lofton, Ben Mahon, Mike Mueller, Paola Nealon, James Sinks, John Skjervem, Michael Viteri

Consultants Present: David Fann and Tom Martin (TorreyCove); Alan Emkin, Christy Fields, Dillon Lareda and John Linder (PCA); Jim Callahan, Uvan Tseng and Janet Becker-Wold (Callan)

Legal Counsel Present: Keith Kutler, Jennifer Peet and Deena Bothello, Oregon Department of Justice

The May 28, 2014 OIC meeting was called to order at 9:00 am by Dick Solomon, Chair.

I. 9:00 am Review and Approval of Minutes

MOTION: Treasurer Wheeler moved approval of the April 30, 2014 meeting minutes. Ms. Durant seconded the motion, which then passed by a 5/0 vote.

Treasurer Wheeler moved approval of the amended March 5, 2014 meeting minutes. Ms. Durant seconded the motion, which then passed by a 5/0 vote.

COMMITTEE REPORTS

John Skjervem, CIO gave an update on the following committee actions taken since the April 30, 2014 OIC Meeting:

Private Equity Committee:

No action since April 30, 2014

Alternatives Portfolio Committee:

May 9, 2014 Taurus Mining Finance Fund \$100 Million

Opportunity Portfolio Committee:

No action since April 30, 2014

Real Estate Committee:

No action since April 30, 2014

II. 9:02 am Och-Ziff Real Estate Fund III, LP - OPERF Real Estate Portfolio

Led by Steve Orbuch, Och-Ziff Real Estate ("OZRE") was established in 2003 as the integrated real estate advisory platform for Och-Ziff Capital Management Group ("Och-Ziff"), a publicly traded global institutional asset management firm founded in 1994 with over \$43 billion in assets under management. This fund (Fund III) will be OZRE's third such offering since 2003 having raised two opportunistic real estate funds (Funds I and II) which totaled over \$1.2 billion in commitments. OZRE is seeking a \$1.0 billion capital raise for Fund III, not to exceed \$1.5 billion, and will target a gross return of 20 to 25%. Fund III will be structured with moderate leverage and current cash flow is expected to generate half of its gross returns. In addition, Och-Ziff and OZRE investments in Fund III will comprise at least 7.5% of the aggregate LP commitments, up to a \$75 million maximum.

OZRE employs an opportunistic real estate strategy which may include individual real estate assets or loans, portfolio acquisitions and loan pools, operating companies, structured debt products and public securities. While the Fund will focus primarily on investments located in the United States, up to 20% of Fund III capital may be invested internationally. OZRE will seek to diversify Fund III investments across asset types, geography and transaction structures. As demonstrated in its two prior funds, OZRE has been successful investing tactically across both traditional and non-traditional real estate opportunities, based on prevailing market conditions, and building highly-diversified and non-correlated portfolios.

Staff and PCA recommended a \$125 million commitment to the Och-Ziff Real Estate Fund III, L.P., subject to satisfactory negotiation of all terms and conditions with staff working in concert with Department of Justice personnel.

MOTION: Ms. Durant moved approval of a \$125 million commitment contingent on legal review and analysis of data regarding any pending SEC issues. Mr. Larson seconded the motion, which passed by a vote of 5/0.

III. 10:10 am Oregon Intermediate Term Pool (OITP) Annual Update

Tom Lofton, Investment Officer gave the annual update on the Oregon Intermediate Term Pool Fund ("OITP"). OITP was launched on June 30, 2010 as an intermediate-term fixed income investment opportunity for qualified state agencies.

Key guidelines governing OITP investment parameters include:

- A maximum investment tenor of 10 years;
- A maximum modified duration of 3.0 years; and
- A minimum investment grade rating on all investments.

Current Developments:

- Legislation (HB2140) passed and was signed into law in 2013 allowing local governments investment access to OITP;
- OST is delaying local government OITP participation pending funding for personnel and systems support; and
- The OUS system (the largest OITP participant) has elected to manage funds outside of OST.

IV. 10:22 am OPERF First Quarter Performance Review

Jim Callan, Callan Associates, Inc. reviewed OPERF investment performance for the first calendar quarter of 2014.

V. **10:35 am Asset Allocations and NAV Updates**

Mr. Skjervem reviewed asset allocations and NAV's across OST-managed accounts for the period ended April 30, 2014.

VI. **10:36 am Calendar – Future Agenda Items**

Mr. Skjervem presented a revised schedule of future OIC meetings and associated agenda topics.

VII. **10:37 am Other Business**

None

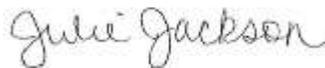
10:41 am Public Comments

Bill Parish, an independent Registered Investment Advisor, addressed the Council and requested that it post private equity partnership audit reports on its website. He added that, in his opinion, this information should not be confidential. He further stated that based on his own analysis, tax exempt limited partners such as OPERF are being over-charged fees by GPs in the form of inappropriate "target allocations" and fee waiver accounting.

He added that his analysis also indicates that some GPs are allocating carried interest related income to portfolio company executives in the form of non-qualified stock options, resulting in illegitimate carried interest deductions at the portfolio company level that are then passed back to taxable general partners. This practice, he asserts, results in a significant loss of revenue at both the state and federal level given that a large percentage of these deductions, via the partnership structure, are owned by tax exempt institutions and therefore by definition should be unusable. He also addressed the Council with various comments about private equity partnership audits, fees and carried interest accounting treatments.

Mr. Solomon adjourned the meeting at 10:43 am.

Respectfully submitted,



Julie Jackson
Executive Support Specialist