



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

OREGON INVESTMENT COUNCIL
MAY 29, 2013
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, Mary Krehbiel, Perrin Lim, Tom Lofton, Ben Mahon, Mike Mueller, Tom Rinehart, James Sinks, John Skjervem, Michael Viteri, Byron Williams

Consultants Present: David Fann, Jeff Goldberger, and Tom Martin (TorreyCove); John Meier and Deb Gallegos (SIS); Christy Fields, John Linder, Dillon Lorda, Mike Moy and Neil Rue (PCA), Nori Gerardo Lietz (Arete)

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

The May 29, 2013 OIC meeting was called to order at 9:02 am by Keith Larson, Chair.

I. 9:02 am Review and Approval of Minutes

MOTION: Ms. Durant moved approval of the May 1, 2013 meeting minutes. Mr. Solomon seconded the motion, which then passed by a 4/0 vote (Treasurer Wheeler was absent for the vote).

John Skjervem, Chief Investment Officer, informed members of the following actions taken by the real estate committee since the last OIC meeting:

- May 23, 2013 KTR Industrial Fund III \$100 million commitment approved

II. 9:04 am KKR North America Fund XI – OPERF Private Equity

Staff recommended that the OIC authorize an additional \$250 million commitment (original commitment in January 2011 was \$500 million) to KKR North America Fund XI, L.P., on behalf of OPERF, subject to satisfactory negotiation of terms and conditions and completion of requisite documentation by DOJ legal counsel working in concert with OST staff.

MOTION: Mr. Solomon moved approval, Ms. Durant seconded the motion. Staff's recommendation passed on a 4/1 vote (Treasurer Wheeler dissented).

III. 9:45 am Solera Capital – OPERF Private Equity

Staff recommended a \$50 million commitment to Solera Partners II, L.P., a \$350 million target (\$500 million hard cap) fund, which will continue Solera's private equity strategy focused on emerging growth companies in industries with attractive, long-term prospects. The Fund will target small buyouts and growth equity investments of \$10-\$50 million in companies with enterprise values of less than \$100 million. Solera expects to invest a significant majority of the Fund in the United States. OPERF and the OIC committed \$50 million to Solera's debut fund.

The board raised several issues and asked staff to perform additional analysis. No vote was taken on this proposal.

10:55 am

Mr. Larson reintroduced newest OIC member Rukaiyah Adams.

He also gave an update on SB 120, announcing that no vote will be taken in the current legislative session, but that the bill will likely be heard and voted on in the 2014 session. Mr. Larson thanked Treasurer Wheeler and Darren Bond, Deputy State Treasurer, for all of their work in support of this bill.

Linda Burgin then came up and read a letter to Ted Wheeler from Arthur Towers (SEIU Political Director) opposing SB 120.

IV. 11:07 am Amstar – OPERF Real Estate

Tony Breault, interim Senior Real Estate officer, introduced Amstar representatives and described staff's commitment recommendation to a value-add separate account joint venture managed by Amstar Advisers, LLC. The Separate Account will consist of a \$200 million capital commitment from OPERF to be invested alongside the European family office that founded Amstar in 1987. Investments in the Separate Account are anticipated to be structured at an equity ratio of approximately 60:40, respectively, between OPERF and the family office with an additional \$2 million co-investment from Amstar principals.

The Separate Account will seek to continue Amstar's successful 26-year track record of acquiring equity real estate investments in both primary and select secondary markets throughout the U.S. with a net return objective of 11-14%. The main investment strategies for the Separate Account will include: (1) "Restore to Core" office properties in supply-constrained markets with long-term growth potential; and (2) "Develop to Core" multifamily properties in markets with strong demographic and job growth profiles. At this juncture in the real estate market cycle, select opportunities for development of core multifamily properties are providing greater yields than equity acquisitions of existing product. It is anticipated that this strategy could shift to value-add acquisitions once supply of existing multifamily stock and new deliveries is in balance with demand fundamentals. A secondary focus of the Separate Account will include opportunistic investments in Class A and B industrial and retail properties and select one-off investments in value-add hotel projects.

The Separate Account will include an investment period of up to 36 months, with an evergreen term and recyclable distributions (i.e., 'return on' and 'return of' OPERF capital to be recallable as future unfunded commitments). This structure is consistent with other OPERF real estate separate accounts and will include standard OPERF termination provisions. Additionally, portfolio-level debt within this Separate Account will not exceed 55% loan-to-value (LTV) and 60% LTV at the property-level.

MOTION: Staff recommended a \$200 million commitment to Amstar, subject to the negotiation of requisite documentation by DOJ legal counsel working in concert with OST staff. Ms. Durant moved approval, and Mr. Solomon seconded the motion which then passed by a 5/0 vote.

11:48 am Public Comments (taken out of order)

Bill Parrish made comments about private equity and related tax issues.

Representatives from Unite Here in Las Vegas testified about working conditions at Caesars Entertainment subsequent to its 2008 buy-out by private equity firms Apollo Management Group and Texas Pacific Group.

The SEIU's Linda Burgin shared concerns her organization has with Oaktree Capital Management's potential sale of various media properties.

V. 12:10 pm OIC Real Estate Consultant Recommendation

The contract of the incumbent, Areté Capital, expires June 30, 2013. Based on interviews and follow up with each of three finalist firms, including additional term and contract negotiations, the selection committee responsible for the real estate consultant search recommended that the OIC engage Pension Consulting Alliance, Inc. ("PCA") for a real estate consulting mandate commencing July 1, 2013.

In accordance with OIC Policy 4.01.13, staff then recommended, subject to review by Department of Justice personnel, the following:

1. An initial contract term of three years, ending June 30, 2016; and
2. A "no cause" termination clause with a maximum 90-day notice period; and
3. Upon approval of the OIC, and prior to the initial contract term expiration, the contract may also be extended "no more than twice and limited to a final expiration date that is no more than four years beyond the original expiration."

MOTION: Mr. Solomon moved approval of the staff recommendation. Treasurer Wheeler seconded the motion which then passed by a 5/0 vote.

VI. 12:13 pm OPERF Alternatives Portfolio Annual Review

John Hershey gave an update and overview of the OPERF Alternatives portfolio. The objectives of the Alternatives Portfolio continue to be:

- Pursue "real assets" and "real return" strategies;
- Provide source of diversification through less correlated return patterns and alternative risk premiums;
- Seek hedge against inflation; and
- Underwrite to a CPI + 4% benchmark.

New commitments in 2012 included Reservoir Strategic Partners, Red Kite Finance Fund II and Stonepeak Infrastructure Fund. Areas of focus in 2013 include potential new investments in Natural Resources (in both public and private market vehicles), Hedge Funds, Energy and Infrastructure.

John then reviewed existing holdings and results and discussed Alternatives portfolio pacing for the near to intermediate term.

VII. 12:32 pm OPERF 1st Quarter Performance Update

John Meier with SIS gave an update on OPERF's 1st Quarter investment performance.

VIII. 12:43 pm Asset Allocations and NAV Updates

John Skjervem, Chief Investment Officer, reviewed asset allocations and NAV's across OST-managed accounts for the period ended April 30, 2013.

IX. 12:45 pm Calendar – Future Agenda Items

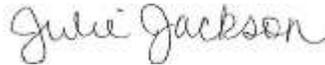
Mr. Skjervem presented a revised schedule of future agenda topics.

X. 12:45 pm Other Business

None

Mr. Larson adjourned the meeting at 12:45 pm.

Respectfully submitted,

A handwritten signature in cursive script that reads "Julie Jackson".

Julie Jackson
Executive Support Specialist