

**Oregon Growth Account Board  
Minutes  
March 2, 2004**

The meeting of the Oregon Growth Account Board was called to order at 10:30 am by Chair, Randall Edwards.

**OGA Board Members Present:** Katy Durant, Randall Edwards, Jim Johnson, Stan Timmermann and Steve Vincent.

**OGA Board Members Absent:** John Castles.

**Staff Members Present:** Norma Harvey, Mike Mueller and Ron Schmitz.

**Legal Counsel:** David Elott, Oregon Department of Justice

**Consultants Present:** Tom Bernhardt, CTC Consulting Inc.

**I. Approval of Minutes – 11/18/2003**

**MOTION:** Jim Johnson moved approval of the 11/18/2003 OGA Board minutes. The motion was seconded by Steve Vincent and passed unanimously by the Board.

Randall Edwards led a discussion regarding the coordination of potential investment opportunities in Oregon between the Oregon Investment Council (OIC) and the OGA. He outlined recent OIC activity including the hiring of the CSFB Customized Fund Investment Group to run a program to put up to \$100 million into the state. Mr. Edwards suggested inviting CSFB to a future meeting to discuss their approach to the marketplace and to consider possible coordination with the OGA.

**II. SmartForest Ventures – Expansion Opportunity**

Hugh Mackworth and Debi Coleman addressed the Board and presented materials regarding an expansion opportunity for SmartForest Ventures (SFV) to combine forces with a Bay-Area venture fund, PacRim Venture Partners. PacRim's fund would invest \$12 million capital into SFV and their principals would join the SFV team. A slide presentation outlined the current status of SFV including the dollars at work and a portfolio summary including current investments. The venture capital environment was discussed and PacRim's key investors and investment strategy was outlined.

Jim Johnson declared a conflict of interest because he is a limited partner in SmartForest Ventures.

Discussion followed regarding the SmartForest/PacRim opportunity to combine forces and the benefits to the OGA fund. Ms. Coleman noted that the

opportunity would include a Silicon Valley presence, broader and more diversified deal flow, new money, a reduced management fee percentage and significant venture capital experience to strengthen the team. She further noted that the opportunity was not a merger, but rather PacRim would be joining SFV and bringing new money to the organization.

Ms. Coleman and Mr. Mackworth answered questions and assured the Board that PacRim's current investments will not impact SFV going forward.

David Elott discussed drafting an amendment to the limited partnership agreement and a revised term sheet.

Mike Mueller commented on the exceptional accounting and reporting practices of SFV. He announced that he had received an endorsement for the SFV opportunity through correspondence from John Castles, not in attendance today.

Mr. Mackworth noted that May 5, 2004 is the deadline for applying for the next tranche of SBA funding.

**MOTION:** Katy Durant moved to authorize an amendment to the SmartForest Ventures limited partnership agreement in accordance with the terms that have been presented, to authorize staff and the Oregon Department of Justice to complete due diligence and ultimately execute the amendment on behalf of the Oregon Growth Account Board, with such additional provisions as deemed necessary, and working within the timeframe outlined by SmartForest Ventures (May 5, 2004 deadline). The motion was seconded by Steve Vincent and passed by the Board. Jim Johnson abstained from voting.

### **III. OGA Quarterly Account Update**

#### **Cash Flow Analysis**

Mike Mueller reviewed the OGA and Sub-Account and presented the OGA cash flow chart indicating distributions, committed capital and available capital as of 02/20/04. He noted that there had been another distribution from Endeavour in the amount of \$1,782,751.00 on 2/27/2004.

Randall Edwards requested an agenda item for the purpose of setting policy for strategic distributions of the fund to the Educational Endowment Fund.

#### **Portfolio Update**

Tom Bernhardt addressed the Board with portfolio company updates.

**Endeavour Capital Fund III, L.P:** Mr. Bernhardt reported that Endeavour Capital Fund III was the best performing fund in the OGA portfolio. As of 10/20/2003, the Fund had called approximately 70% or \$80.8 million of its committed capital of \$116.4 million. Mr. Bernhardt discussed recent

liquidation activities and subsequent distributions from the fund and outlined current investment activities.

**SmartForest Ventures, L.P:** As of February 20, 2004, the Fund had invested \$18.2 million in twelve portfolio companies, which were valued at \$11.7 million. To date, the Fund has made no distributions. SmartForest anticipates completing three new investments during 2004 and five new investments during 2005.

**Tamarack Mezzanine Partners, L.P:** As of December 31, 2003, Tamarack had called \$4.3 million, or 65% of its total private capital commitments of \$6.6 million. It had also drawn \$3.2 million, or 63% of its \$5.1 million SBA commitment.

**Timberline Venture Partners, L.P:** As of December 31, 2003, Timberline Venture Partners, L.P. had called approximately \$58.8 million, or 98% of its capital commitments of \$60 million. Through the fourth quarter end, Timberline had invested approximately \$51 million in 18 portfolio companies. Timberline remains the most concerning partnership in the OGA portfolio.

**Timberline Annex Fund, L.P:** Timberline's Annex Fund closed on \$500,000 with the OGA as its sole sponsor. The annex fund called 100% of its commitments in 2003, bringing the aggregate contributions to \$500,000.

**Northwest Technology Ventures, L.P:** As of January 9, 2004, the capital account balance was below the amount of contributed capital due to the Sub-Account's management fees and partnership expenses. The Sub-Account has committed \$14 million to the fund, of which \$5 million was recycled capital from prior ORTDA/ORTDS investments, \$5 million that was appropriated by the Legislature, and \$4 million that was contributed by the OGA.

It was noted that CSFB, newly hired by the OIC, would meet with Northwest Technology Ventures regarding the coordination of venture capital opportunities in the Northwest.

#### **IV. Prospective Manager Funding Discussion**

Subsequent to presentations at the last OGA Board meeting, CTC was requested to perform further due diligence on the firms and report back to the Board at this meeting. Tom Bernhardt and Michael Mueller addressed the Board with recommendations.

##### **a. Buerk, Dale, Victor, LLC**

Buerk, Dale, Victor is in the market to raise up to \$100 million for the Northwest Opportunity Fund to invest in growth companies in the Northwest region of the U.S. CTC's recommendation was to pass on this opportunity due to concerns regarding first time fund status as well as the uncertainty surrounding the ultimate commitment of two of the fund's three general

partners to a ten-year fund. Mr. Bernhardt reported on some issues with GP attrition as Gary Craig left the organization and Fred Paulsell passed away. CTC recommended revisiting the fund in the future.

Andy Dale, of Buerk, Dale, Victor spoke on behalf of his firm, thanked the Board for the opportunity and answered questions.

It was the consensus of the Board to pass on this opportunity and possibly revisit the firm in a year or two.

**b. Fluke Venture Partners II, L.P.**

Madison West Ventures is in the market to raise up to \$75 million in private capital for Fluke Venture Partners II, L.P. to invest in early-stage, high-growth companies in the Pacific Northwest. The Fund will apply for an SBIC license from the SBA, which could leverage its private capital by 200%. If the Fund is granted an SBIC license, then it will seek to raise \$30 million in private capital. Mr. Bernhardt noted that CTC supports an OGA commitment to Fluke Venture Partners II. He outlined the firm's prior experience and track record, which would help balance some of the first time fund risk already resident in the OGA portfolio, as well as its focus on the consumer and retail spaces (areas that aren't covered by other OGA managers). The biggest concerns are Fluke's lack of technology skills and the fact that it has been silent for some time, which could possibly impact new deal generation.

Some members of the Board expressed reluctance due to the question of the application for SBA licensing.

**MOTION:** Jim Johnson moved approval of a \$2 million commitment to Fluke Ventures II, L.P., subject to SBIC approval, that would translate into \$6 million being invested in Oregon. Additionally staff would work with the general partner on the drafting of a side letter assuring a commitment and presence in Oregon. Approval is subject to legal negotiation and conditions of the term sheet and side letter. The motion was seconded by Stan Timmermann and passed unanimously by the Board.

It was the consensus of the Board that if conditions of approval are not met, the board would revisit the opportunity during the June meeting.

**c. Pacific Horizons**

Pacific Horizon Ventures seeks to raise up to \$75 million in private capital for Pacific Horizon Partners IV, L.P. to invest in validation stage bioscience companies primarily located in the Pacific Northwest. Since inception, the Firm has deployed approximately \$23.6 million comprising 34 investments across three investment pools. Mr. Bernhardt led a discussion regarding research, product development, the underserved area of bio-science, deal flow and Oregon investments.

Discussion followed regarding whether or not Pacific Horizons is in competition with Northwest Technology Ventures and the conclusion was that they are not, but might, in fact, be complementary.

**MOTION:** Jim Johnson moved approval of a \$2 million commitment to Pacific Horizon Ventures IV, L.P., subject to legal negotiation, conditions of the term sheet and side letter encouraging a tighter relationship with Northwest Technology Ventures. The motion was seconded by Katy Durant and passed unanimously by the Board.

Randall Edwards noted that there would be a new board member, Richard Bader, at the next board meeting.

**V. Public Comment**

There were no comments from the public.

The meeting adjourned at 1:25pm

Respectfully submitted,

Norma Harvey  
Investment Coordinator