

**Oregon Growth Account Board  
Minutes  
September 7, 2004**

The meeting of the Oregon Growth Account Board was called to order at 10:34 am by Chair, Randall Edwards.

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

**Staff Members Present:** Norma Harvey, Wei Huang, Mike Mueller, Kate Richardson and Ron Schmitz.

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

**Consultants Present:** Bill Armitage, CTC Consulting Inc.

Stan Timmermann informed the Board that Richard Bader was “CEO of the month” in the current issue of *Oregon Business Magazine*. He further noted another local business magazine carried an interview with Bill Newman.

Randall Edwards introduced Wei Huang, the new private equity investment officer for the Oregon State Treasury.

**I. Approval of Minutes - 06/01/2004**

**MOTION:** John Castles moved approval of the 06/01/2004 OGA Board minutes with one correction. The motion was seconded by Stan Timmermann and passed unanimously by the Board.

**II. Northwest Technology Ventures - Portfolio Update**

Bill Newman and Gordon Hoffman presented a status update regarding Northwest Technology Ventures (NTV), a \$14 million seed and pre-seed venture fund focused on technology commercialization from Oregon’s universities, research institutions and corporate research.

Mr. Hoffman discussed investment activity and deal flow within the last year and offered an overview of their current portfolio companies. He noted NTV’s presence on local advisory boards and discussed job creation and economic impact.

Mr. Newman and Mr. Hoffman answered questions from the Board.

Mr. Newman and Mr. Hoffman requested approval to choose a new audit firm to better suit their needs. They discussed the search for a new firm and noted that the search had been narrowed down to either Perkins & Co. or Geffen Mesher & Co. They asked for the discretion to negotiate for a new audit firm.

David Elott commented and noted that NTV's contract required board consent to change auditors. He further noted that it was within the power of the Board to delegate final authority to staff.

Several members of the Board and Staff vouched for the reputation of both firms.

**MOTION:** Stan Timmermann moved that the Board give Bill Newman and Gordon Hoffman discretionary authority in choosing a new audit firm for Northwest Technology Ventures. The motion was seconded by John Castles and passed unanimously by the Board.

Mr. Newman and Mr. Hoffman discussed the contemplation of a strategy to create Northwest Technology Ventures Fund II with an investment focus on later-round investments currently in the portfolio.

It was further noted that CSFB had been contacted regarding NTV2 as well as other investors. It was noted that talks would continue and the Board would be kept informed of the progress.

Stan Timmermann led a discussion regarding Pacific Northwest National Laboratories, a \$500 million research base for the federal government in Hanford, WA.

Further discussion included an update on the university sector in technology licensing offices as well as software start-ups.

### **III. Innovation Economy Initiative**

Pat Scruggs, Innovation Economy Officer for the Oregon Economic Development Department, addressed the Board regarding the Oregon Council for Knowledge and Economic Development (OCKED) and the Oregon Council for Competitiveness and Innovation (OCCI). The objective of OCKED is to promote knowledge-based economic development, foster collaboration among leadership of public and private institutions of higher education, economic development, and the private sector. The mission of OCCI is to enhance the competitiveness of Oregon traded sector and knowledge industries by increasing the state's capacity for innovation, technology development and product creation.

Ms. Scruggs discussed a 2005 legislative innovation economy initiative to establish a commercialized Research Fund that provides "proof of concept"

funding to fill a critical gap in capital formation where research ends and private funding begins.

Ms. Scruggs answered questions from the Board.

#### **IV. OGA Quarterly Account Update**

##### **Cash Flow Analysis**

Mike Mueller reviewed the OGA and Sub-Account cash flow charts indicating distributions, committed capital and available capital as of 08/26/2004.

##### **Portfolio Update**

**Endeavour Capital Fund III, L.P:** As of June 30, 2004, Endeavour Capital Fund III had called approximately 83% or \$96.7 million of its committed capital and had generated a net IRR of approximately 30.6%, which ranks the fund in the upper quartile (5%) of the Venture Economics universe or buyout funds formed during 1999. As of June 30, 2004 the fund has distributed approximately \$104.9 million to its limited partners or approximately 90% of committed capital.

**Fluke Venture Partners II, L.P (FVP 2):** FVP 2 plans to capitalize on the Pacific Northwest's historically strong deal flow in a number of high growth industries, including the software, healthcare, specialty retail, and business and consumer services sector. As of August 31, 2004, FVP 2 had effectively completed its fundraising. The fund expects to ultimately close on \$22 million in private commitments, which will allow up to a \$66 million total fund commitment, including SBIC leverage.

**SmartForest Ventures, L.P:** As of June 30, 2004, SmartForest had called \$11.9 million, or 47.5% of its private limited partners' committed capital of \$25 million. In addition, the SBA had contributed approximately \$12 million in new capital. As of July 28, 2004, both SmartForest and PacRim had received the approval of at least two-thirds of their respective limited partners, but had not yet received formal approval from the SBA to combine.

**Tamarack Mezzanine Partners, L.P:** As of June 30, 2004, Tamarack had called \$4.45 million, or 67% of its total private capital commitments of \$6.68 million. It had also drawn \$3.5 million, or 69% of its \$5.1 million SBA commitment. Through the end of the second quarter, Tamarack had invested approximately \$6.26 million in eight portfolio companies, which were valued at approximately \$4.9 million. The fund had no investment activity or valuation adjustments during the second quarter of 2004.

**Northwest Technology Ventures:** Bill Armitage discussed the issue of NTV having enough follow-on capital available to support their portfolio companies after the seed-stage. The possibility of NTV 2 was discussed and Mr. Armitage emphasized the importance for NTV to retain follow-on capital in their current fund by investing smaller amounts in companies and planning on more rounds in the event that they are unable to raise NTV 2, thus insuring that the fund will not be diluted.

It was the consensus of the Board to request a strategic review from NTV with a model of different scenarios regarding cash flow with an emphasis on addressing the issue of raising or reserving additional follow-on capital.

**Timberline Venture Partners, L.P (TVP):** As of June 30, 2004, TVP had called approximately \$59 million, or 98% of its capital commitments of \$60 million. Through the second quarter of 2004, TVP had invested \$51 million in 18 portfolio companies. Cumulative distributions totaled \$5 million. The fund's remaining active portfolio of nine companies was carried at an estimated fair value of \$13 million on a cost basis of \$23 million.

**Potential New Investments:** Bill Armitage reviewed due diligence being performed on several new opportunities including Frazier Technology Ventures II, an early state investor focused on technology companies. Len Jordan, from Frazier Technology was present and answered questions from the Board and Staff. Mr. Armitage noted that he would contact staff regarding a possible conference call meeting after due diligence was complete.

Discussion followed regarding Oregon Investment Council staffing, asset allocation and the limited investment universe of the OGA.

## **V. OGA Policy Updates**

Mike Mueller outlined proposed revisions to the OGA policies and procedures in accordance with suggestions from DOJ. Proposed revisions were to the mission statement, diversification language, size of investments, selection criteria and implementation sections of the policy.

**MOTION:** Stan Timmermann moved to adopt proposed revisions to OGA policies and procedures. The motion was seconded by John Castles and passed unanimously by the Board.

## **VI. Private Equity Benchmark Discussion**

Mike Mueller presented information from Goldman Sachs regarding benchmarks and venture economic benchmarks that are the industry

standard for Private Equity. Mr. Mueller reviewed the following Goldman Sachs material:

- ❖ Shortcomings of peer indices as benchmarks – AIMR
  - Not available real time, resulting in a time lag for comparison
  - No established oversight process for determining universe participants and whether the universe accurately represents the entire asset class or style of management
  - Survivor bias will develop over time as some managers are deleted from the universe
  - Not replicable or investable
  - Do not permit the manager to move to a know neutral position
- ❖ Evaluating private equity peer indices as benchmarks
- ❖ Consistency of private equity peer comparisons
- ❖ Impact of valuation problems on peer comparisons

Summary:

- ❖ Peer comparisons for hedge funds and private equity fail to meet any of the standards for good indices
- ❖ Different data vendors for both hedge funds and private equity give strikingly different results
- ❖ Difficulties with interim valuations in private equity make any ranking prior to substantial distributions essentially random.

Mr. Mueller answered questions from the Board.

## **VII. OGA Consultant Recommendation**

Mike Mueller informed the Board that the contract of CTC Consulting would expire on September 30, 2004. He reviewed staff recommendations to retain CTC Consulting for another year and noted their commendable work ethic and solid due diligence process. He outlined the OGA policy regarding consulting contract renewal and the RFI process. He further noted that after next year, a consultant RFI would be recommended.

Discussion followed regarding CTC's fee proposal which amounts to a 60% increase. Bill Armitage answered questions from the Board and addressed the proposed fee increase. He noted consulting services, staff and increased workload.

**MOTION:** Richard Bader moved to retain CTC consulting for one year and allow staff to negotiate fees. The motion died for lack of a second.

**MOTION:** Jim Johnson moved to extend the contract of CTC Consulting for one year at a fee of \$60,000 per year. If CTC does not accept the offer, then an RFI will be issued for a new consultant. The motion was seconded by Katy Durant and passed by the Board.

**VIII. 2005 Draft Meeting Calendar**

Mr. Mueller presented the proposed 2005 meeting schedule and encouraged the Board to check their calendars any report and conflicts. He noted that action would be taken to confirm the schedule at the December OGA Board meeting.

**IX. Public Comment**

There were no comments from the public.

The meeting adjourned at 1:28 pm.

Respectfully submitted,

Norma Harvey  
Investment Coordinator