Oregon Investment Council
Conference Call Meeting
MINUTES
March 23, 2005

The Oregon Investment Council Conference Call Meeting was called to order at 10:05 a.m. by Gerard Drummond, Chair.

OIC Members On-Line: Paul Cleary, Gerard Drummond, Randall Edwards, Mark Gardiner and Richard Solomon.

Staff On-Line: Brad Child, Steve Gruber, Linda Haglund, Mike Mueller and Ron Schmitz.

Consultants On-Line: Nori Lietz, Pension Consulting Alliance

Legal Counsel On-Line: D. Kevin Carlson, Oregon Department of Justice

Interested Parties On-Line: Allison Thrush, Fortress Investment Group
Robert Kauffman, Fortress Investment Group
Donna Allen, PERS
Roger Meier, AMCO

I. Fortress Residential Investment Deutschland, L.P.

Steve Gruber addressed the OIC regarding a proposed investment in Fortress Residential Investment Deutschland, L.P. Fortress Investment Group is a leading private equity real estate investment firm, having raised $4.5 billion in four funds since the firm was founded in 1988. Two of these funds are fully invested and projected to deliver net returns in excess of 20%. The two funds that are actively investing, Fortress II and a small co-investment fund, are not large enough to take advantage of all the residential investment opportunities in Germany and still maintain their diversification targets. Fortress is raising a fifth fund to invest solely in German residential opportunities alongside the two active Fortress funds. The fund will continue the focused control-oriented strategy of Fortress, targeting investments that can be acquired at a significant discount to intrinsic value.

Mr. Gruber introduced Robert Kauffman and Allison Thrush of the Fortress Investment Group.

Mr. Kauffman discussed European investments and noted that Fortress is raising a dedicated German Residential Property Fund with a target fund size of $1.5 to $2 billion.

- The Fund will target the estimated €150 billion of German residential real estate portfolios being liquidated by governments and non-strategic corporate owners.
- The Fund will be managed by Fortress and will generally co-invest alongside Fortress's private equity funds in transactions requiring additional equity capital.
- Fortress is currently pursuing several large transactions that would be candidates for the Fund.
- The principals of Fortress's private equity funds have been among the most successful asset-based investors in the US and Europe since 1995.

Mr. Kauffman outlined Fortress activity in Europe since 1995 in large scale real estate privatizations. He reviewed the investment environment in Germany, the largest European economy and the third largest economy in the world.

Mr. Kauffman discussed the structural changes to the ownership and management of housing in Germany that are creating an unprecedented investment opportunity to purchase large blocks of residential houses from the German government. This is viewed by Fortress as a "once in a decade" opportunity to earn private equity returns by investing on a large scale in core real estate assets. The current pipeline includes over 330,000 residential units for sale in 2005/2006, with many more on the way.

The German residential property market is supported by favorable demographic trends as follows:

- Low but increasing home ownership levels
- Moderate population growth projected until 2015
- Steady growth in number of households

Discussion followed regarding new incentives to first time buyers and German market opportunity.

Questions from the Council were answered regarding other investors in Fund III including CaLPERS, CaLSTRS, GM, Howard Hughes and Yale University.

Ms. Thrush addressed a question from Mark Gardiner regarding the process for mediating potential conflicts of interest.

Steve Gruber outlined the staff recommendation and Nori Lietz discussed potential risks.

Discussion followed regarding how the potential investment fits in the OPERF portfolio and the international exposure of the real estate program.

Ms. Lietz responded to questions from Mark Gardiner regarding documentation of the co-investment vehicle.

Richard Solomon declared a potential conflict of interest. He stated that he owned shares in Newcastle Investment Corp. (NCT), a publicly traded real estate investment and finance company, managed by Fortress Investment Group LLC. He noted concerns that his investment in NCT created a conflict. He has discussed the matter with Alan Chesick, general counsel of the Fortress Investment Group and Mr. Chesick explained that while NCT and the German fund are both managed by Fortress, NCT and the German fund do not currently have any common investments and that it is highly unlikely that they ever would. Based on Mr. Chesick's representations, Mr. Solomon declared his participation in the vote.

MOTION: Randall Edwards moved that the OIC commit $100 million to Fortress Residential Investment Deutschland, L.P., subject to satisfactory partnership documentation working in concert with the Department of Justice. The motion was seconded by Richard Solomon and passed unanimously by the Council.

II. Public Comment

There were no comments from the public.

Ron Schmitz discussed April agenda items.

The meeting adjourned at 10:47 am

Respectfully submitted,

Norma Harvey
Investment Coordinator