Oregon Investment Council
MINUTES
December 7, 2005

The Oregon Investment Council was called to order at 9:05 a.m. by Gerard Drummond.

OIC Members Present: Paul Cleary, Gerard Drummond, Katy Durant, Randall Edwards, Mark Gardiner (arrived @ 9:30 am) and Richard Solomon.

Staff Present: Brad Child, Jay Fewel, Linda Haglund, Curt Hartinger, Norma Harvey, Andy Hayes, Wei Huang, John Kreft, Perrin Lim, Kevin Max, Mike Mueller, Kevin Nordhill, Kate Richardson and Ron Schmitz.

Consultants Present: Mike Beasley, Strategic Investment Solutions (SIS)
John Meier, Strategic Investment Solutions
Tara Blackburn, Pacific Corporate Group (PCG)
Oren Yahav, Pacific Corporate Group
Jose Fernandez, Pacific Corporate Group
Monte Brem, Pacific Corporate Group
Mike Moy, Pension Consulting Alliance (PCA)

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

I. 9:05 am: Review and Approval of Minutes – 09/28/05 & 11/02/05

MOTION: Richard Solomon moved approval of the September 28, 2005 Minutes, with a correction by Katy Durant and the November 2, 2005 OIC Minutes as written. The motion was seconded by Randall Edwards and passed by the Council.

II. 9:07 am: Private Equity Policy Update – Policy 4.06.01

Mike Mueller reviewed the proposed changes to the OIC Investment Manual Policy 4.06.01 regarding the minimum size of venture capital investments and the capital call procedure.

MOTION: Randall Edwards moved to adopt staff recommended changes to Policy 4.06.01 with added language regarding capital calls. The motion was seconded by Richard Solomon and passed by the Council.

III. 9:13 am: Vestar Capital Partners V, L.P.

Jay Fewel introduced Dan O'Connell and Jim Kelly of Vestar Capital Partners. The OIC and OPERF made a $25 million commitment in 1997 and a $100 million commitment in 1999 to Vestar's prior funds, Vestar Capital Partners III and Vestar Capital Partners IV, respectively. Established in 1988, the General Partner has executed investments with an aggregate transaction value of $17 billion across its four prior funds and has committed approximately $2.6 billion in equity capital to 50 portfolio investments, of which 28 investments, or 56%, have been fully realized. The aggregate gross IRR and multiple of investment on Vestar's 28 realized transactions as of March 31, 2005 are approximately 59% and 3.2x, respectively. Including Vestar's unrealized investments, which are largely valued at cost, the overall gross IRR is approximately 48%. Net IRRs on an individual fund basis are 1.9% and 9.6% for Fund III and Fund IV, respectively. This places the two latest funds in the third and second quartile of 1997 and 2000 vintage year U.S. buyout funds, respectively, using Venture Economics comparable fund rankings, while Fund I and II are both top quartile performing funds.

Mr. O'Connell and Mr Kelly presented an overview of Vestar Capital Partners, reviewed portfolio companies and outlined Vestar's investment strategy and model for creating value. Their success and investment track record were reviewed and questions from the Council were answered.

NOTE: Mark Gardiner arrived at 9:30 am.

Jay Fewel and Tara Blackburn reviewed the proposed partnership and answered questions from the Council.

MOTION: Randall Edwards moved that the OIC authorize a $100 million commitment to Vestar Capital Partners V, L.P. Said commitment is subject to the satisfactory negotiation of the requisite legal documents by legal counsel working in concert with OST Staff. The motion was seconded by Richard Solomon and passed unanimously by the Council.

10:08 am: Discussion followed regarding the current volume of private equity investments, the private equity committee and delegation to staff.

IV. 10:11 am: Apollo Investment Fund VI, L.P.

Jay Fewel introduced Leon Black of Apollo Management. Apollo Investment Fund VI, L.P. is being formed by Apollo Advisors, LP to follow the unique diversified (classic buyout, distressed buyout and corporate partner buyout) investment strategy employed throughout the firm's 15-year history and across its five previous leveraged buyout funds. Established in 1990, the General Partner has managed/invested $19.3 billion across Leveraged Buyout, Real Estate, Credit/Special Situations and Mezzanine-focused platforms. Of this $19.3 billion, Apollo's buyout practice has invested $12.1 billion (76 transactions), Apollo's real estate practice has invested $4.5 billion and Apollo's credit opportunity and mezzanine practice has invested $2.3 billion. As of December 31, 2004, Apollo's buyout practice has generated a net IRR of 25.9%

since inception. In addition, the General Partner has realized $15.3 billion on $12.1 billion invested. Further, since 1990, irrespective of market conditions, Apollo has consistently generated top quartile returns. According to PCG's analysis, Apollo Investment Fund V, a $3.7 billion buyout fund that commenced investing in 2001 has called/invested $3.4 billion and distributed $3.1 billion, currently generating a net IRR of 56.3%. This places Apollo well within the top decile of private equity managers of similar size and vintage year.

Mr. Black presented an overview of Apollo's investment strategy and environment. He outlined their flexible investment approach and reviewed Funds IV and V. He answered questions from the Council, including other investors.

Jay Fewel and Tara Blackburn noted that the fund was oversubscribed and answered Council questions.

MOTION: Randall Edwards move approval of up to a $200 million commitment to Apollo Investment Fund VI, L.P. Said commitment is subject to the satisfactory negotiation of the requisite legal documents by legal counsel working in concert with OST Staff. The motion was seconded by Katy Durant and passed unanimously by the Council.

V. 11:30 am: KSL Capital Partners II, L.P.

Jay Fewel introduced Eric Resnick and Mike Shannon of KSL Partners. KSL Capital Partners II, L.P. is being formed by KSL Capital Partners, LLC to pursue equity and equity-related investments in hospitality, recreation, travel services, club and real estate businesses. In 1992, Kohlberg, Kravis and Roberts & Co. ("KKR"), together with Michael Shannon and Larry Lichliter, created KSL Recreation to make investments in travel and leisure businesses. Since then, the KSL team has made 15 investments, 13 of which have been realized. The KSL team sold three of its portfolio investments: KSL Fairways, FBOCO (consisting of four general aviation fixed base operations), and Grand Traverse, in separate sales between 1997 and 2003. In April 2004, KKR sold the stock of KSL Recreation, including six remaining investments (La Quinta/PGA West, Doral, Grand Wailea, Arizona Biltmore, Claremont and Lake Lanier), to CNL Hotels & Resorts, Inc. Overall, the realized investments have generated gross proceeds of $1.9 billion, or 4.9x invested equity capital, and a gross internal rate of return of approximately 20%. PCG estimates that the net IRR and net total value multiple would have been approximately 15.7% and 2.8x, respectively. Mr. Lichliter has recently retired from KSL Recreation and is not involved in the Fund's activities, other than as a member of the Fund's Board of Strategic Advisors. KSL Capital Partners was formed in February 2005 and is the successor of the KSL companies.

Mr. Resnick and Mr. Shannon outlined their successful 12-year history investing in travel and leisure enterprises and reviewed their experienced team. Several investment opportunities were reviewed and the track record and strategy was outlined. Questions from the Council were answered.

Jay Fewel and Tara Blackburn answered questions from the Council regarding fees.

MOTION: Richard Solomon moved that the OIC authorize a $100 million commitment to KSL Capital Partners II, L.P. Said commitment is subject to the satisfactory negotiation of the requisite legal documents by legal counsel working in concert with OST Staff. The motion was seconded by Katy Durant and passed unanimously by the Council.

VI. 12:25 pm: Fisher Lynch Co-Investment Fund I, L.P.

Jay Fewel and Mike Beasley presented information regarding Fisher Lynch Co-Investment Fund I, L.P. Staff and OIC have been actively looking for new approaches to enhance returns for OPERF's alternative equity portfolio for well over the past year. As such, a co-investment program is being recommended to complement the core portfolio by leveraging OPERF's existing relationships with top-tier GPs. This strategy has been actively discussed with the OIC in the past. The intent is to enter into a relationship with an external entity to provide discretionary private equity management in an effort to participate in high quality co-investments offered by existing GPs which would in turn provide higher returns for the OPERF alternative equity portfolio with less cost. The initial separately managed account will invest over six years in 15 to 20 direct investments sourced by our existing GPs, each with a target size of $10 to $50 million. The Washington State Investment Board (WSIB) has cooperated in our efforts in that they plan to contribute an equal amount (up to $250 million) allowing Fisher Lynch to utilize the Washington private equity limited partnerships with which OPERF currently does not have a relationship. The overall program will be geographically diversified by investing in both North America and Western Europe, with the potential for up to 20% in new manager relationships via general partners Fisher Lynch has invested with in the past.

Fisher Lynch Capital ("FLC") has been selected to take on this mandate after a thorough RFP process conducted by Strategic Investment Solutions ("SIS"). FLC has only two businesses: fund-of-funds investing and co-investing. The Firm does not have any investment banking businesses, consulting businesses, or non-discretionary investment businesses. The core co-investment team currently consists of Brett Fisher and Leon Kuan, although they are currently interviewing for a third managing partner. Mr. Fisher managed the Government of Singapore Investment Corporation's ("GIC") North American private equity group from 1999-2003 and Mr. Kuan was the senior transaction leader in the same group from 1998-2004. During their tenure, the group invested $676 million in 22 co-investments. While a portion of the investments have not been fully realized, their overall co-investment portfolio has generated a 20% gross IRR and a 1.6x multiple of invested capital as of March 31, 2005. Significantly, FLC is willing to customize a co-investment fund for the OPERF and the WSIB by taking into account the high-level guidance from each LP and to work closely to share information gathered during the co-investment process.

Mr. Fewel introduced Brett Fisher and Leon Kuan of Fisher Lynch Capital. Mr. Fisher and Mr. Kuan presented information regarding the formation of the independent private equity investment firm and discussed co-investment vehicles. Private equity trends and co-investment benefits were reviewed and Mr. Fisher noted that the firm has 30 years of combined experience on the investment team. Their track record was reviewed and questions from the Council were answered.

Mark Gardiner stated that he did not like the economics of the proposed investment and would vote against it. Staff responded that the terms were below market as defined by both traditional GP terms as well as typical Fund of Funds and co-investment manager economics.

MOTION: Randall Edwards moved that the OIC authorize up to a $250 million commitment to Fisher Lynch's Co-Investment Fund I, L.P. Said commitment is subject to the satisfactory negotiation of the requisite legal documents by legal counsel working in concert with OST Staff. The motion was seconded by Richard Solomon.

Votes:	Gerard Drummond	Yes
	Randall Edwards	Yes
	Katy Durant	Yes
	Richard Solomon	Yes
	Mark Gardiner	No

The motion passed.

NOTE: Item #9 on the agenda was moved ahead.

*IX. 2:02 pm: Sudan Divestment Policy – 4.01.15

Ron Schmitz reviewed staff recommendation to adopt policy 4.01.15. This policy implements SB 1089, which requires the OIC and the State Treasurer to act reasonably and in a manner consistent with the prudent investor standard (ORS 293.721 and 293.726) to try to ensure that specific investment funds defined in the law are not invested in any company the council knows is doing business in Sudan, and to do so without monetary loss to the funds.

Because of the mandate to implement the law without monetary loss to the funds, and the challenge of identifying "companies doing business in the Sudan," Treasury staff has relied on the efforts undertaken by other pensions and endowments; most notably, the California Public Employees Retirement Fund (CalPERS) and Stanford University.

The investment funds subject to SB 1089 are: OPERF, SAIF, the Common School Fund, the Oregon War Veterans' and the Higher Education Endowment Fund.

MOTION: Randall Edwards moved adoption of policy 4.01.15 as presented. The motion was seconded by Richard Solomon and passed unanimously by the Council.

NOTE: Katy Durant left the meeting at 2:30 pm

VII. 2:30 pm: Higher Education Endowment Fund – Asset Liability Review & Policy Update

Mike Mueller and John Meier addressed the Council with details regarding the HIED Endowment Fund asset liability study. Historically, the Higher Education Board was more actively involved in setting the strategic asset allocation and manager selection for the HIED Pooled Endowment Fund.

In an effort to streamline its processes and save money, the HIED Board has agreed to accept the model used for other funds under the purview of the OIC, that is, Treasury staff working directly with the OIC's consultants to develop policy with Treasury implementing the policy. HIED's current involvement is limited to providing investment goals (i.e. spending rates) and to provide input into the asset allocation process.

John Meier reviewed the SIS analysis report and answered questions from the Council.

MOTION: Richard Solomon moved approval of changes to OIC Policy 4.10.01 including a benchmark change. The motion was seconded by Mark Gardiner and passed by the Council.

VIII. 2:46 pm: Oregon Short-term Fund – Investment Guidelines

Perrin Lim reviewed the proposed revisions to Investment Policy 4.02.03, the Oregon Short Term Fund Portfolio Rules, specifically as it pertains to Section VI, Diversification and Limitations of Portfolio and Section VII, Securities Lending for Reinvestment of Cash Collateral, in order to more accurately reflect overall credit risk of the portfolio and to afford more opportunity versus the current guidelines. The last revisions to the rules were approved by the Oregon

Investment Council on July 28, 2004. Mr. Lim noted that under ORS 294.895, the Oregon Short Term Fund Board shall review the rules promulgated by the Senior Fixed Income investment Officer. At the OSTF Board Meeting held on September 28, 2005, staff proposed these revisions to the Portfolio Rules. Mr. Lim answered questions from the Council.

MOTION: Mark Gardiner moved approval of the revised Oregon Short Term Fund Portfolio Rules, Investment Policy 4.02.03, as approved by the OSTF Board on September 28, 2005. The motion was seconded by Randall Edwards and passed by the Council.

X. 2:56 pm: 2006 OIC Meeting Calendar

Ron Schmitz presented the proposed 2006 OIC calendar for discussion and modification.

D. Kevin Carlson commented on the Public Records Act and the recording of meetings.

XI. 3:01 pm: Asset Allocations & NAV Updates

Ron Schmitz reported that asset allocation and NAV updates are all within policy parameters.

XII. 3:03 pm: Calendar – Future Agenda Items

Ron Schmitz reviewed the forward calendar of agenda items.

XIII. 3:05 Public Comment

There were no comments from the public.

The meeting adjourned at 3:05 p.m.

Respectfully submitted,

Norma Harvey
Investment Coordinator