

**Oregon Investment Council/PERS Board Meeting
MINUTES
April 25, 2007**

The Oregon Investment Council was called to order at 9:00 a.m. by Richard Solomon, Chair.

OIC Members Present: Paul Cleary, Harry Demorest, Katy Durant (arrived at 9:07 AM), Randall Edwards, Mark Gardiner and Richard Solomon.

PERS Board Members Present: James Dalton, Thomas Grimsley, Eva Kripalani and Brenda Rocklin. Mike Pittman was excused due to a scheduling conflict.

Staff Present: Tony Breault, Brad Child, Jay Fewel, Sally Furze, Ley Garnett, Linda Haglund, Norma Harvey, Andy Hayes, Wei Huang, Perrin Lim, Mike Mueller, Jennifer Peet and Ron Schmitz.

Consultants Present: Mike Beasley, Strategic Investment Solutions (SIS)
John Meier, SIS
Allan Emkin, Pension Consulting Alliance (PCA)
David Fann, Pacific Corporate Group (PCG)
Jay Rose, PCG
Tom Martin, PCG
Steve Cowen, PCG

Legal Counsel: Paul Weddle, Oregon Department of Justice

Richard Solomon announced that Katy Durant would be late for the meeting due to traffic problems.

I. 9:00 am: Review and Approval of Minutes - 2/28/2007

MOTION: Randall Edwards moved approval of the February 28, 2007 OIC Minutes. The motion was seconded by Harry Demorest and passed by the Council.

The March 23, 2007 Private Equity Committee meeting minutes were presented as an information item.

II. 9:01 am: Portfolio Reallocation Analysis

Ron Schmitz introduced William Kinlaw and Dave Beach of State Street Associates to present an alternative way to look at the OPERF asset mix and a different set of metrics with which to analyze the efficiency of the portfolio.

Mr. Schmitz noted that staff has worked with State Street Associates to provide an analysis of the current asset allocation, utilizing their unique methodology.

Mr. Kinlaw concluded that the present asset allocation chosen by the OIC for OPERF is very close to optimal given the stress testing and return and correlation assumptions (based on historical performance) of the diversified asset classes in the portfolio. The analysis indicated that some consideration could be given to increased exposure to real estate and international equities.

Discussion followed and questions from staff, PERS Board Members and Council were answered by Mr. Kinlaw and Mr. Beach.

III. 9:27 am: OPERF Asset/Liability Study - Phase II

Mike Beasley and John Meier presented the Strategic Investment Solutions Asset-Liability Study with the goal of choosing the optimal combination of asset classes that will provide the highest likelihood that the sponsor can service the pension obligation while doing so at the lowest overall cost to the sponsor.

Mr. Beasley noted that OPERF is a complex retirement system. Discussion followed regarding investment objectives, policies and guidelines. A review of investment goals, time horizons and risk tolerances followed, as well as policy guidelines and implementation.

John Meier outlined capital market expectations and presented economic models for consideration. He noted that OPERF's current portfolio is very efficient. Several asset allocation mixes were reviewed.

Presentation of Plan Sponsor Award

Paul Cleary commented on the new OPERS structure and funded status. He reviewed the change in the liability structure, the pension obligation bond investments, and the investment performance over the last four years. At this point he introduced Allen Alley, Deputy Chief of Staff for Governor Kulongoski.

Mr. Cleary reported that he and Ron Schmitz had recently traveled to Newark, New Jersey to receive the "Plan Sponsor of the Year Award" presented by Plan Sponsor Magazine. OPERF/OPERS was recognized as the public plan of the year. Mr. Cleary presented awards to Ron Schmitz, Randall Edwards and to Allen Alley, on behalf of the Governor. Mr. Alley thanked Mr. Cleary and congratulated him, the OIC and staff, on behalf of the Governor. He noted that Governor Kulongoski has been an advocate for Oregon to step up globally and stand up for preeminence in everything: economic development, education and global competition. He further noted that OPERS has taken an unfunded liability of \$17 billion and turned it into a \$1.7 billion surplus, accomplished by focused dedication and discipline.

Randall Edwards thanked the PERS Board and the OIC for their team effort in pension reform.

Mr. Meier continued the SIS Asset-Liability presentation. Several simulations were presented for consideration as well as a risk/reward analysis. He noted that, overall, OPERF is in very good shape and assets in the system exceed liabilities. He mentioned that OPERF may want to consider less risky portfolios, to achieve the fund's objectives.

Mr. Beasley and Mr. Meier answered questions regarding the investment horizon, meeting actuarial assumptions beyond ten years, liquidity and contribution rates.

Paul Cleary distributed a list of selected employer rates and reviewed modeling work with SIS and Mercer, noting the approximately \$2 billion in OPERF reserves that could be considered for a more conservative investment allocation.

Mark Gardiner noted that funding status can change quickly as a result of changing markets and other factors and expressed opposition to changing the current, successful asset mix on the basis of what may be a temporary situation.

Members of the PERS Board left the meeting at 11:00 am.

IV. 11:15 am: KKR Asia - Presentation & Recommendation

Jay Fewel introduced John Saer and Dominique Hansen of KKR Associates.

KKR Asia Fund, L.P. is being formed by Kohlberg Kravis Roberts & Co., L.P. to pursue management buyouts and growth equity investments in Asia, primarily in Australia, Japan, and China. The OIC and OPERF have had a long and successful relationship with KKR dating back to the early 1980s, having most recently made a \$1.5 billion commitment to KKR 2006 Fund, L.P. An investment in the KKR Asia Fund would complement OPERF's existing investments in partnerships managed by CCMP Asia, Affinity Asia and CVC Asia, because the KKR Asia Fund would focus more on the larger end of that market with investment sizes ranging from \$100 million and \$500 million, per transaction.

Discussion followed regarding the local and the Asian teams as well as the Asian private equity industry. The fund investment strategy and process was reviewed.

Questions from the OIC regarding the fee structure were addressed.

Jay Fewel, David Fann and Steve Cowen answered Council questions regarding the proposed investment, operating as a single fund with a focus on operational improvements in Asia.

MOTION: Harry Demorest moved that the OIC authorize a \$100 million commitment to KKR Asia Fund, L.P. Said commitment is subject to the satisfactory negotiation of the requisite legal documents by legal counsel working in concert with OST Staff and PCG. The motion was seconded by Katy Durant and passed unanimously by the Council.

V. 11:58 am: Sheridan Production Partners I-B – Opportunity Portfolio

Jay Fewel introduced Lisa Stewart, Jim Bass and Chansoo Joung of Sheridan Production Partners and noted that the proposed fund would be well suited for the Opportunity Portfolio.

Sheridan Production Partners I-B, L.P. is being formed for tax exempt investors, alongside Sheridan Production Partners I-A, L.P. for taxable investors, by Sheridan Production Partners Manager LLC to make direct investments in mature, oil and gas producing properties located in the United States with a high proportion of proven reserves. Sheridan was formed in 2006 through a 50/50 joint venture between Warburg Pincus, a well-established global private equity firm which is also an existing GP relationship in the OPERF Private Equity portfolio, and Lisa Stewart, CEO of Sheridan and former CEO of El Paso's Exploration and Production business, and her management team.

Mr. Bass gave an overview of the fund as a unique, low-risk opportunity with attractive returns. The market dynamics were discussed as well as the U.S. acquisition experience.

Jay Fewel, Jay Rose and Tom Martin answered questions regarding the proposed investment and the risk/reward profile.

MOTION: Katy Durant moved that the OIC authorize a \$100 million commitment to Sheridan Production Partners I-B, L.P. Said commitment is subject to the satisfactory negotiation of the requisite legal documents by legal counsel working in concert with OST Staff and PCG. The motion was seconded by Randall Edwards and passed unanimously by the Council.

VI. 12:35 pm: OIC Investment Policies – “Housekeeping Updates”

Mike Mueller reviewed proposed policy changes, primarily nomenclature, and to conform policy with practice (where appropriate).

MOTION: Mark Gardiner moved approval of staff recommended updates to policies 4.00.00 through 4.10.01. The motion was seconded by Harry Demorest and passed unanimously by the Council.

VII. 12:40 pm: OIC Private Equity Consultant Recommendation

Richard Solomon read the following statement, “Although I do not believe I have a statutory potential conflict of interest, after consulting with D. Kevin Carlson, Senior Special Attorney General, and Don Crabtree of the Oregon Government Standards and Practices Commission, in the interest of transparency, I make the following disclosure: Gerard K. Drummond, the recently selected chairman of the board of Pacific Corporate Group, is a tax client of my public accounting practice. Pacific Corporate Group is not a client of mine. The fact that Mr. Drummond is now associated with Pacific Corporate Group has no bearing on the amount I will invoice him for professional services and will not influence how I will vote on this matter.”

Jay Fewel outlined the lengthy review process and reviewed staff recommendation to retain Pacific Corporate Group as the Private Equity Consultant to the Oregon Investment Council.

MOTION: Katy Durant moved approval of staff recommendation to retain Pacific Corporate Group as the Private Equity Consultant to the Oregon Investment Council. The motion was seconded by Harry Demorest and passed unanimously by the Council.

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

IX. 1:06 pm: Asset Allocation & NAV Updates

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

VIII. 1:10 pm: The State of the Private Equity Buyout Market

David Bonderman, Founding partner of Texas Pacific Group and John Danhagl, Managing Partner of Leonard Green Associates addressed the Council regarding the current state of the private equity buyout market.

Mr. Bonderman noted that private equity firms have reached the scale to address the largest global companies and brands, but are still a small industry relative to large companies and tiny compared to overall markets. There has been a dramatic surge in public-to-private volume in the past 18 months. He reviewed private equity geographical diversification and expansion to Europe, India and China. He discussed the expanding role of CEOs and Board members as well as debt markets. Recent performance and relative returns were reviewed and questions from the Council were addressed.

Mr. Danhakl presented a slide presentation including a private equity timeline from pre-1980 to present. He outlined changes in leverage protocols and reviewed recent developments in private equity including larger, higher velocity deals. Lower interest levels and more robust debt structures were discussed as well as general partner changes. Mr. Danhakl reviewed the impact of activist shareholders, buyout fundraising and LBOs. Questions from the Council were answered.

X. 2:30 pm: Calendar - Future Agenda Items

Ron Schmitz presented future agenda items for consideration and discussion.

XI. 2:32 pm: Public Comments

There were no comments from the public.

The meeting adjourned at 2:33 p.m.

Respectfully submitted,

Norma Harvey
Investment Coordinator