

**Oregon Investment Council**  
**MINUTES**  
**May 30, 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, Randall Edwards, Mark Gardiner and Richard Solomon.

**Staff Present:** Tony Breault, Brad Child, Jay Fewel, Ley Garnett, Norma Harvey, Wei Huang, Perrin Lim, Mike Mueller, Kevin Nordhill, Jennifer Peet and Ron Schmitz.

**Consultants Present:** Mike Beasley, Strategic Investment Solutions (SIS)  
John Meier, SIS  
Allan Emkin, Pension Consulting Alliance (PCA)  
Mike Moy, PCA  
Nori Lietz, PCA  
Eliza Bailey, PCA  
David Fann, Pacific Corporate Group (PCG)  
Jay Rose, PCG

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

**I. 9:00 am: Review and Approval of Minutes – 4/25/2007**

**MOTION:** Randall Edwards moved approval of the April 25, 2007 OIC Minutes as amended by Paul Cleary. The motion was seconded by Harry Demorest and passed unanimously by the Council.

**II. 9:03 am: OCM Opportunities Fund VII & VIIb, L.P.**

Richard Solomon made the following announcement, “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, and in the interest of transparency, I make the following disclosure: The parents of Robert O’Leary, a Managing Director, Distressed Debt, of Oaktree Capital Management, are tax clients of my public accounting practice. In addition, Robert is a non-managing member of a family LLC whose tax return I also prepare. The fact that Robert O’Leary is associated with Oaktree has no bearing on the amount I will invoice his parents or the family LLC for professional services and will not influence how I will vote on this matter.”

Jay Fewel reviewed the long-standing, profitable relationship between OPERF and OCM and introduced Howard Marks of Oaktree Capital Management to

present information regarding the proposed fund. OCM Opportunities Fund VII, L.P. and Fund VIIb, L.P. are being formed by Oaktree Capital Management, LLC (OCM) to pursue debt investment opportunities arising from financial distress. The OIC and the OPERF have had a longstanding relationship with OCM and its predecessor firm, Trust Company of the West (TCW) that began in 1991 with a \$50 million commitment to TCW Special Credits Fund III. The Firm's original principals, led by Howard Marks, established Oaktree in April 1995 after collectively leaving TCW. Since the mid-1980s, the original principals have managed funds at TCW in the distressed debt, distressed real estate, high yield bond, convertible securities and principal investment areas. Upon forming Oaktree, the principals were joined by all of the senior investment professionals with whom they managed funds at TCW. More relevant to this particular strategy, Oaktree has invested, since 1995, over \$20.7 billion in capital through seven previous OCM Opportunities funds (including one follow-on fund). With investments dating back to the late 1980s during its TCW days, Oaktree has one of the strongest track records in the industry. Funds IV and IVb, which were organized in September 2001 and May 2002, respectively, have generated exceptionally strong returns. As of September 30, 2006, the net IRR for Fund IV and Fund IVb are 27.8% and 47.0%, respectively. Funds V and VI have generated net IRRs of 18.8% and 23.9%, respectively. All seven Opportunities funds have generated positive performance and have outperformed comparable high yield bond indices.

Mr. Marks discussed the changing landscape for distressed investing and answered questions from the Council.

Jay Fewel, Wei Huang and Jay Rose addressed the Council and answered questions regarding the \$50 and \$100 million proposed allocations and the changing private equity industry.

Ron Schmitz noted that there would be an asset allocation/equity exposure discussion at the August OIC meeting with information from SIS regarding OPERF's asset mix policy.

**MOTION:** Harry Demorest moved that the OIC authorize a \$50 million commitment to OCM Opportunities Fund VII, L.P. and a \$100 million commitment to OCM Opportunities Fund VIIb, L.P. Said commitments are 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 Mark Gardiner and passed unanimously by the Council.

### **III. 9:46 am: Gores Capital Partners II, L.P.**

Jay Fewel introduced Alec Gores and Scott Honour of The Gores Group. Gores Capital Partners II, L.P. is being formed by Gores Capital Advisors II, LLC to make control-oriented buyout investments in underperforming businesses in the United States and Western Europe, primarily in the information

technology, telecommunications, business services, and industrial sectors. An investment in the Fund will complement OPERF's existing partnership managed by Francisco Partners, in the technology buyout space; a growing number of the tech sub-sectors continue to mature, further providing ample opportunities for investors deploying buyout strategies. In addition, compared with Gores, where its deal sizes average between \$50 million and \$100 million, Francisco tends to focus on larger middle market transactions ranging in size from \$100 million to \$200 million. OPERF's investments in mega buyout funds, such as KKR and TPG, which also pursue tech buyouts occasionally, would invest in even larger companies, mostly through billion dollar transactions. Since 1995, the General Partner has invested \$333 million in 34 transactions that generated \$864 million in realized value and \$263 million in unrealized value. As of February 28, 2007, these investments generated a gross IRR and Total Value Multiple of 149.0% and 3.4x, respectively, and an estimated net IRR and net Total Value Multiple of 81.1% and 2.6x, respectively. Of particular note, Gores has generated an overall loss ratio of just 0.7% since 1995 and, more impressively, the 24 Pre-Fund I investments, which straddled the information technology bubble, have produced a loss ratio of only 2.1%.

Mr. Gores presented the history of the company with an emphasis on the operational team and investment formula. Mr. Honour outlined the basic business model and reviewed the firm's investment performance as well as strategy and process.

Jay Fewel, Wei Huang, David Fann and Jay Rose discussed Gore's differentiated strategy and track record. Questions from the Council were taken.

**MOTION:** Randall Edwards moved that the OIC authorize a \$100 million commitment to Gores 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 and PCG. The motion was seconded by Katy Durant and passed unanimously by the Council.

#### **IV. 10:16 am: HRJ Global Real Estate III, L.P.**

Mike Mueller addressed the Council and noted that in December 2005, the OIC approved an updated asset allocation for the HIED Pooled Endowment Fund (Policy 4.10.01). The change in asset allocation, which was approved by the OIC, had two key components:

1. A reallocation of assets among the existing public market managers, to achieve the new targets, or recommending additional or different managers; and
2. How best to achieve the target alternative equity allocation of 10 percent.

Since then, item (1) has been completed, and the first investment for the alternative asset class, item (2), was approved by the OIC in May 2006: a \$5 million commitment to HRJ Growth Capital II, LP. The alternative asset strategy has three key components: private equity buyouts, real estate, and venture capital. The proposed investment in HRJ Global Real Estate III would help fill the real estate component of the asset class.

Mr. Mueller introduced Howard Fields and Lane Auten of HRJ Capital to answer Council questions.

Mr. Mueller and Mike Beasley reviewed the due diligence process and the staff recommendation.

**MOTION:** Harry Demorest moved that the OIC authorize a \$4 million commitment to HRJ Global Real Estate III, 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 SIS. The motion was seconded by Mark Gardiner and passed unanimously by the Council.

#### **V. 10:45 am: Oregon Investment Fund**

**NOTE:** Mark Gardiner announced a potential conflict of interest regarding the CSFB Oregon Investment Fund and noted that he would not participate in discussion or voting on the proposal.

Ron Schmitz reviewed CSFB's request from the January OIC meeting for an additional commitment by OPERF. No action was taken at the January OIC Meeting due to a tie vote. A concern raised at that meeting was that the fund is too new to have a meaningful track record. However, staff and CSFB have had additional conversations and have provided information regarding fund performance to the OIC.

House Bill 3613 was introduced and passed in the 2003 legislative session. The pertinent provisions of that bill: 1) create a duty for the OIC to look first at Oregon opportunities for diversification in venture capital; 2) require at least \$100 million to be invested in Oregon *unless it is not prudent to do so*; and 3) finds that investments in emerging growth businesses and in minority and women-owned businesses can produce positive returns for investors.

The OIC has identified a multi-pronged approach to meet the dictates of this bill.

- The OIC adopted a 5% – 10% target allocation to venture capital within its private equity portfolio. This is a global mandate, but includes Oregon in the opportunity set.

- The OIC renewed a commitment to GroveStreet, a fund-of-funds that targets smaller fund investments and emphasizes venture capital. Grove Street considers a broad range of investments, including Oregon-centric funds.
- The OIC directed staff to make all OPERF General Partners aware of the statute so that Oregon investments would be considered.

The OIC hired Credit Suisse First Boston (CSFB) to run the Oregon Investment Fund (OIF) which is a fund within OPERF that specifically targets opportunities in Oregon and the Midwest. CSFB contributed an additional \$5 million to the fund.

Harry Demorest announced that he had voted against the proposal at the January meeting because of continued concern about the newness of the program and a lack of a track record. However, he had recently attended an investor meeting and is comfortable with the direction the Oregon Investment Fund is taking, and would therefore vote in favor.

Katy Durant announced that she would be voting against the proposal because of her concerns about returns and the long lead time for venture capital. She noted that the “no” vote was not due to a lack of confidence in the fund.

**MOTION:** Randall Edwards moved that the OIC approve an additional commitment of \$50 million commitment to the Oregon Investment Fund to be managed by CSFB. It is expected that this additional funding will be committed to direct investments, and to funds, over the next two years. 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 Harry Demorest and passed by the Council with the following votes:

Harry Demorest	Yes
Katy Durant	No
Randall Edwards	Yes
Richard Solomon	Yes
Mark Gardiner	Abstained

## **VI. 10:50 am: Fortress Fund V, L.P.**

Brad Child introduced Allison Thrush of the Fortress Investment Group to discuss the proposed investment. OPERF has made a total of \$450 million in commitments to four prior Fortress sponsored funds: \$125 million to Fortress Investment Fund IV (“Fund IV”), \$100 million to Fortress Residential Investment Deutschland (“FRID”), \$125 million to Fortress Investment Fund III (“Fund III”) and \$100 million to Fortress Investment Fund II (“Fund II”). Fund V will follow the same successful investment strategy followed by previous Fortress funds in that it will target a broad range of real estate and other asset

backed investments located in the United States and Western Europe (primarily the United Kingdom, Italy and Germany). The Fund will seek to realize a net internal rate of return of at least 20%, using 65% leverage. Net IRR yields on previous Fortress funds, over the past decade, range from the high teens to almost 60%. This track record shows a consistent ability to source opportunities and then execute financial and management strategies to produce profits. In North America, Fortress will seek to take advantage of rising interest rates and energy prices by considering: 1) sub-credit debt portfolios at a discount; 2) transportation industry investments (such as railroad companies with strong cash flows); and 3) real estate holdings that may need corporate restructuring to maximize their value. In Europe, Fortress will look for opportunities created by corporate and government restructuring where real estate holdings are being underutilized. One such target may be health care facilities in Germany, which play off the country's aging demographics and will take advantage of the expertise Fortress has developed with similar investments in the United States.

Ms. Thrush reviewed the Fortress track record and outlined the investment strategy and current investment opportunities. She answered questions from the Council.

Brad Child and Nori Lietz addressed questions from the OIC and reviewed the staff recommendation.

**MOTION:** Randall Edwards moved that the OIC approve a commitment of \$125 million to Fortress Fund 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 and PCA. The motion was seconded by Harry Demorest and passed unanimously by the Council.

Mark Gardiner left the meeting at 11:28 am.

#### **VII. 11:28 am: OPERF Private Equity Pacing Study**

Jay Fewel, Wei Huang, David Fann and Jay Rose presented the Private Equity Pacing study. They discussed the increased pace of investing in 2005, 2006 and 2007. Mr. Fewel noted that this year, for the first time in years, more money flowed out than in. Discussion followed regarding cash flows, simulations and assumptions for 2007. The changing private equity market was reviewed as well as asset allocation.

Mark Gardiner re-joined the meeting at 12:14 pm.

#### **VIII. 12:15 pm: OPERF Real Estate Annual Plan**

Brad Child and Nori Lietz presented the 2006 Real Estate portfolio review and the 2007 Real Estate market overview. Mr. Child noted that the OPERF Real

Estate Portfolio has exceeded its benchmark return over the last five years. Discussion followed regarding portfolio investments: Direct Property, Value Added, Opportunistic and REIT portfolios. Mr. Child also outlined manager performance.

Ms. Lietz presented a market overview and discussed foreign markets in Europe, Asia, India and Latin America. She recommended caution regarding U.S. real estate investments and noted that there are currently better opportunities outside of the U.S.

Randall Edwards commended Mr. Child and Ms. Lietz for the Real Estate Portfolio's stellar returns.

Mr. Child outlined recommended minor amendments to policy 4.04.01.

**MOTION:** Katy Durant moved approval of staff recommended changes to Policy 4.04.01. The motion was seconded by Randall Edwards and passed unanimously by the Council.

#### **IX. 1:10 pm: OPERF Proxy Voting Annual Review**

Jennifer Peet introduced Robert McCormick, vice President of Proxy Research and Operations for Glass Lewis, to provide a summary of the votes Glass, Lewis and Co. cast on the OIC's behalf for 2006, to update the OIC on Glass Lewis voting policy, to take a summary look back at 2006 and to provide a brief overview for 2007. At the September 27, 2006 OIC meeting, the Council voted to retain Glass, Lewis and Co. as its proxy voting agent, and to follow Glass Lewis' standard Proxy Paper Policy Guidelines.

Mr. McCormick answered questions regarding the new SEC disclosure of compensation packages at high levels and exceptions to the rules.

Harry Demorest requested a copy of the proxy voting policy.

Allan Emkin commented on the proxy voting staff at CalPERS and CalSTRS.

Mark Gardiner commented on excessive compensation packages for CEOs that demonstrates a misalignment of interest between companies and shareholders.

#### **X. 2:30 pm: OPERF 1<sup>st</sup> Quarter Review**

Mike Beasley and John Meier presented the OPERF 1<sup>st</sup> quarter performance review. Mr. Beasley presented the capital markets review, OPERF performance and discussed asset allocation versus target policy. He referred to the State Street Bank March 31, 2007 Performance Summary and reviewed asset class fund performance versus benchmarks and peers.

Mr. Beasley noted that there were no recommendations at this time. However, there would be a follow-up asset/liability discussion at the August OIC meeting.

**XI. 2:10 pm: Asset Allocations & NAV Updates**

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

**XII. 2:12 pm: Calendar – Future Agenda Items**

Ron Schmitz presented future agenda items for consideration and discussion.

**XIII. 2:15 pm: Public Comment**

There were no comments from the public.

The meeting adjourned at 2:16 p.m.

Respectfully submitted,

Norma Harvey  
Investment Coordinator