Oregon Investment Council
MINUTES
October 31, 2007

The Oregon Investment Council was called to order at 8:58 a.m. by Richard Solomon, Chair.

OIC Members Present: Paul Cleary, Harry Demorest, Katy Durant, Keith Larson and Richard Solomon.

OIC Member Absent: Randall Edwards

Staff Present: Darren Bond, Tony Breault, Brad Child, Jay Fewel, Ley Garnett, Norma Harvey, Andy Hayes, 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, Partners Group
Eliza Bailey, Partners Group
David Fann, Pacific Corporate Group (PCG)

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

Mr. Solomon noted that Treasurer Edwards was traveling in Asia on business and was not able to attend the meeting.

I. 8:58 am: Review and Approval of Minutes

MOTION: Harry Demorest moved approval of the September 26, 2007 OIC Minutes. The motion was seconded by Katy Durant and passed unanimously by the Council.

MOTION: Harry Demorest moved approval of the October 11, 2007 OIC Minutes. The motion was seconded by Katy Durant and passed unanimously by the Council.

MOTION: Harry Demorest moved approval of the October 17, 2007 OIC Minutes. The motion was seconded by Katy Durant and passed unanimously by the Council.

The September 27, 2007 Private Equity Committee Minutes were presented as an information item.

II. 9:00 am: Oak Hill Capital Partners III, L.P.

Jay Fewel introduced J. Crandall of Oak Hill Capital Partners. Oak Hill Capital Partners III is being formed by Oak Hill Capital Management, LLC to continue the firm's 20 plus year history of private equity investing in middle market companies. The Fund will continue the same investment strategy that it pursued in Oak Hill Capital Partners Funds I and II. Fund I was a $1.6 billion 1999 vintage fund while Fund II was a $2.5 billion 2004 vintage fund. OPERF committed $100 million to Fund II in 2004. The Fund will target companies based in North America that benefit from strong industry fundamentals, favorable competitive positions, attractive growth prospects and solid management teams with aligned economic interests. The Fund will focus on a variety of industries, particularly those where Oak Hill has developed significant knowledge through one of its six industry groups: 1) basic industries; 2) business and financial services; 3) consumer products/retail/distribution; 4) healthcare; 5) media and telecommunications; and 6) technology. Fund III will target investments of $100 million to $400 million, where the General Partner is able to obtain control or exert a meaningful influence over management. The Fund will target an overall gross compound annual internal rate of return of at least 25%. The General Partner is targeting a fund size for Fund III of $4 billion with a hard cap of $5.5 billion. A total of $350 to $500 million will be invested by those associated with Oak Hill, including $250 to $400 million from Robert Bass. Overall, terms and conditions of the Fund are up to industry standards and are deemed as LP "friendly."

Mr. Crandall reviewed Oak Hill's investment strategy, team and deal flow. He answered questions from the Council regarding globalization and logistics. He outlined the alignment of interest in not charging transaction fees and noted that OPERF is Oak Hill's largest investor.

Jay Fewel and David Fann discussed the deal fee share and addressed questions from the OIC.

MOTION: Katy Durant moved approval of staff recommendation to commit $300 million for OPERF and $25 million for the Common School Fund to Oak Hill Capital Partners III, L.P. Said commitments are subject to satisfactory negotiation of the requisite legal documents by DOJ legal counsel working in concert with OST Staff. The motion was seconded by Harry Demorest and passed unanimously by the Council.

III. 9:53 am: Technology Crossover Ventures VII, L.P.

NOTE: Keith Larson declared he may have a "potential" conflict of interest by virtue of Intel having co-investments with Technology Crossover Ventures.

Jay Fewel introduced Jay Hoag of Technology Crossover Ventures. Technology Crossover Ventures VII, L.P. is being formed by Technology Crossover Ventures ("TCV") to make growth equity investments in information technology companies based in the United States and Canada. TCV utilizes a unique "crossover" model that enables the Fund to invest in companies during their private financing rounds, and to continue to invest in those companies at their initial public offerings ("IPO"), and beyond. The Fund will continue TCV's prior investment strategy of focusing solely on technology companies. In particular, TCV will invest in five sub-sectors: 1) Internet; 2) Enterprise Software & Services; 3) Communications/Infrastructure; 4) Financial Technology; and 5) Healthcare Information Technology. TCV actively identifies and partners with technology companies that are led by high-quality management teams and address large market opportunities with differentiated and defensible products or services. The Fund will build a portfolio of approximately 20 to 25 such companies, investing in five to six new companies annually. The Fund expects to commit $25 to $150 million per investment. Since 1995, TCV has invested approximately $3.3 billion in 180 portfolio companies. As of September 18, 2007, TCV has realized over $2.6 billion while continuing to hold a portfolio valued in aggregate at nearly $2.3 billion. The current total return for all six TCV funds is a realized gross IRR of 46.1%, with a multiple of 1.8x and an unrealized gross IRR of 18.5%, with a multiple of 1.7x. The total gross portfolio IRR is 31.6%, or a 1.7x multiple of invested capital. Funds II, III, IV, V and VI have all produced top-quartile returns. Specifically, the returns for TCV III and TCV IV are especially compelling given the poor performance of many 1999 and 2000 vintage year technology-focused venture funds caused by one of the worst technology spending environments in history. OPERF is an investor in Fund VI, having made a $25 million commitment in 2005, to the $1.4 billion Fund (Fund VI has a 2006 vintage year).

Mr. Hoag gave a company overview including reputation, proven investment strategy and experienced team. He reviewed the differentiated investment strategy with a focus on growth equity/information technology as well as the investment criteria, nationwide deal opportunities and proven investment team.

Jay Fewel and David Fann discussed the fact that the fund is oversubscribed and answered questions regarding volatility in the venture capital market.

MOTION: Harry Demorest moved approval of staff recommendation to commit $75 million Technology Crossover Ventures VII, L.P. Said commitments are subject to satisfactory negotiation of the requisite legal documents by DOJ legal counsel working in concert with OST Staff. The motion was seconded by Katy Durant and passed unanimously by the Council.

IV. 10:10 am: Next Century Growth, LLC

Kevin Nordhill and Mike Beasley reviewed the staff proposal. OIC Policy 4.05.11 addresses the strategic role of Domestic Equities within OPERF. The strategic

target for domestic equity is 19 percent +/- 5 percent of OPERF, and represented 29.1 percent as of September 30, 2007. Nicholas Applegate's Microcap Growth product is the only microcap growth manager and has a target allocation of 1.5 percent of the DEF.

Mr. Nordhill introduced Thomas Press and Robert Scott of Next Century. They presented the background and history of the firm as well as their disciplined investment strategy, focused on portfolio management. The Next Century investment philosophy and process was reviewed and the sell discipline was explained. Performance was discussed and questions from the Council were answered.

Mr. Nordhill and Mr. Beasley discussed the restructuring of the portfolio and how Next Century fits into the portfolio.

MOTION: Katy Durant moved approval of staff recommendation to terminate Nicholas Applegate Capital Management, hire Next Century Growth's Small Cap Ultra product and update OIC Policy 4.05.11 accordingly. The motion was seconded by Harry Demorest and passed unanimously by the Council

V. 10:45 am: Aletheia Research and Management Inc.

Kevin Nordhill reviewed the staff recommendation to hire Aletheia Research's Growth product.

Mr. Nordhill introduced Peter Eichler, Jr. and Joe Moskovich of Aletheia Research and Management, Inc. They reviewed the Aletheia research and management team, assets under management, client list and investment process. The buy and sell discipline was outlined performance reviewed.

NOTE: Keith Larson declared he may have a "potential" conflict of interest by virtue of Intel having co-investments with one of Aletheia's portfolio companies.

Kevin Nordhill and Mike Beasley addressed questions from the Council regarding staff recommendation.

MOTION: Harry Demorest moved approval of staff recommendation to terminate Ark Asset Management's Large Cap Growth mandate and hire Aletheia Research's Growth product, update policy 4.05.11 accordingly, setting Ark's Concentrated Growth mandate with a 2.5% target, and Aletheia's Growth mandate with a 3% target allocation of the DEF, respectively. The motion was seconded by Katy Durant and passed unanimously by the Council.

VI. 11:22 am: Guggenheim Structured Real Estate Debt

Brad Child introduced Ed Shugrue of Guggenheim Partners, LLC. The OIC recently increased the target allocation to OPERF's total real estate portfolio

from 8% to 11%. This also increases the allocation for core real estate, at a time when cap rates are relatively low and cap rate expansion is possible. Staff and consultant believe that investing in structured debt, with modest leverage, at this time, is a prudent alternative for achieving core returns.

Guggenheim is a privately-owned company with assets under management of more than $100 billion from institutional and high net worth investors. Guggenheim employs more than 500 people across seven offices. The structured real estate products group was formed in 2003 and is dedicated to acquiring and managing structured debt investments. These investments include portions of first mortgages, B notes, mezzanine loans and other real estate financing vehicles. These investments are expected to be subordinate to at least 33% of equity, or higher, risk debt. These investments will then levered up to 67% with CDO's or bank debt. The terms of this debt will be structured to match the portfolio assets, to avoid interest rate risk.

Mr. Shugrue reviewed the Guggenheim investment rationale and discussed the investment objective to generate high current income in defensive investments in commercial real estate debt secured by institutional quality real estate assets throughout the U.S.

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

MOTION: Katy Durant moved approval of staff recommendation to commit $300 million to the Guggenheim Structured Real Estate III, L.P. Said commitments are subject to satisfactory negotiation of the requisite legal documents by DOJ legal counsel working in concert with OST Staff. The motion was seconded by Katy Durant and passed unanimously by the Council.

VII. 11:47 am: CEM Benchmarking Inc.

Mike Mueller presented the cost analysis performed by CEM for the five-years ended 31 December 2006 on OPERF's overall investment costs. He noted that Bruce Hopkins of CEM would arrive shortly to answer any questions.

VIII. 11:52 am: OIC 2008 Meeting Schedule

The proposed 2008 OIC meeting schedule was discussed and amended.

IX. 11:59 am: Asset Allocations & NAV Updates

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

Mike Mueller explained the overlay program and the interim target of 28% US and 25% non-US. He noted staff would report back in January, 2008.

X. 11:56 am: Calendar – Future Agenda Items

Ron Schmitz presented future agenda items for consideration and discussion.

XI. 12:00 pm: Public Comment

Joe DiNicola and Michael Ring of SEIU presented a follow-up on the letter that was sent to the OIC on 8/17/07 regarding OIC investments with the private equity firm KKR, questioning the business practices of KKR and the possible impact of their investment strategies on the long term security of members' retirement benefits. Their written testimony was accepted and will be an attachment to these meeting minutes. They also distributed a pamphlet from SEIU entitled, "Behind The Buyouts/Inside The World of Private Equity."

The meeting adjourned at 12:10 p.m.

Respectfully submitted,

Norma Harvey
Investment Coordinator