

**Oregon Investment Council
MINUTES
December 5, 2007**

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

OIC Members Present: Harry Demorest, Katy Durant, Randall Edwards, and Richard Solomon.

OIC Members Absent: Paul Cleary and Keith Larson.

Staff Present: Tony Breault, Brad Child, Jay Fewel, Ley Garnett, Linda Haglund, Norma Harvey, Martha Kellams, 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, Partners Group
David Fann, Pacific Corporate Group (PCG)
Steve Cowan, PCG

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

I. 9:00 am: Review and Approval of Minutes

MOTION: Harry Demorest moved approval of the October 5, 2007 OIC Minutes. The motion was seconded by Katy Durant and passed by the Council.

The November 21, 2007 Private Equity Committee Minutes were presented as an information item.

***NOTE: Item #3 was moved ahead on the agenda.**

III. 9:05 am: CVC Capital Partners Asia Pacific III, L.P. & CVC European Equity Partners V, L.P.

Jay Fewel outlined staff recommendation for the following two partnerships:

1. Europe-- The OIC's longstanding relationship with CVC Capital Partners began in 1996 with a \$50 million commitment to CVC European Equity Partners I. Additional \$150 million investments were committed to CVC European Equity Partners II, III and IV, in 1998, 2001, and 2005, respectively. CVC began operations in 1981 as a subsidiary of Citicorp, and became an

independent business in 1993. Since inception, CVC has acquired over 243 companies worth more than €65 billion.

CVC European Fund I executed 34 investments, investing approximately £384 million, and returned a net IRR of 32.3% and a net value multiple of 2.22x. Fund II completed 43 investments totaling approximately £1.5 billion, on a cost basis. Fund II had a net IRR of 18.7% and a net total value multiple of 2.03x. Fund III completed 18 investments, totaling £1.6 billion in invested capital. The fund's net IRR and net total value multiple were 49.8% and 2.67x, respectively. Fund IV has completed 12 investment to date, and has earned a net IRR of 47.8% and a net total value multiple of 1.34x. All four prior European Funds are ranked in the top-quartile relative to peer funds.

2. Asia-- This Asian buyout fund will focus, as its predecessors did, on the most developed countries in the Asia Pacific region including Australia, Hong Kong, Japan, Singapore, South Korea and Greater China. Their strategy is very similar to that proposed for CVC's European Fund V (described above). Investments will be made in the public or private debt or equity securities, in the range of \$160 to \$200 million. In most instances, the GP will seek to control its targets.

The Asian private equity market has grown significantly over the past several years, propelled by one of the highest regional economic growths in the world. However, the area is also comprised of distinctly different political and economic systems, as well as cultural and social environments. The GP has been able to utilize its ties with Citigroup, one of the largest financial services companies in the world that has cultivated relationships with local governments and institutions, to help source deals and avoid auctions. In addition, CVC European Partners is a potential source for transaction flow. The fund has a target of \$4.0 billion in commitments, with an expected hard cap of \$5.0 billion.

Mr. Fewel introduced Michael Smith and Mark St. John of CVC Capital Partners. Mr. Smith and Mr. St. John reviewed the details of the two proposed investments and answered questions from the Council.

David Fann, Steve Cowan and Mr. Fewel discussed the differences between the Asian and European allocations as well as CVC's proven track record. Mr. Fann and Mr. Fewel expressed a high level of confidence in both the proposed investments.

MOTION: Harry Demorest moved approval of staff recommendation to commit \$100 million to CVC Capital Partners Asia III, L.P. and \$300 million to CVC European Equity Partners V, 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 by the Council.

II. 9:42 am: Alpha Asia Macro Trends Fund

Brad Child outlined staff recommendation for Alpha Asia Macro Trends Fund Private Limited, LLC, (“Alpha Asia”) a \$1.5 billion pan-Asia real estate fund. The fund will invest in a diversified portfolio in both “developed Asia” (Japan, Hong Kong and Singapore) and up to 20% in emerging Asia such as China, India and Viet Nam. The portfolio will invest in both core real estate and development projects. The combined portfolio will be “value-add” in nature with a target cash yield of about 6% per year and a targeted IRR return to investors of 14% to 16%, net of fees.

Mr. Child introduced Chin Hua Loh and Christina Tan of Alpha Investment Partners. Alpha Investment Partners is an Asian real estate investment manager headquartered in Singapore with offices in Seoul, Tokyo and Beijing, and a real estate fund organized to take advantage of prominent secular trends in Asia emphasizing the continent’s mature, developed markets. Mr. Loh reviewed the investment team and the offices and staff in Asia. He reviewed the Asian developed markets and outlined current opportunities. He noted that Asia is currently one of the fastest growing economies in the world. The firm’s investment advisory committee was discussed as well as the current debt market. He fielded questions from the Council.

Nori Lietz and Brad Child discussed OPERF’s real estate exposure to Asia and the value-added space.

MOTION: Katy Durant moved approval of staff recommendation to commit \$100 million to Alpha Asia Macro Trends Fund Private Limited, LLC. Said commitment is subject to satisfactory negotiation of the requisite legal documents by DOJ legal counsel working in concert with OST Staff. The motion was seconded by Randall Edwards and passed by the Council.

IV. 10:20 am: KKR Europe Fund III, L.P.

Jay Fewel reviewed the long relationship with KKR dating back to the early 1980’s and with the KKR Europe Team since 1999, at which time a \$400 million investment was made in KKR European Fund I. A subsequent investment in the amount of \$500 million was made to KKR European Fund II, in 2005.

Mr. Fewel introduced Oliver Harmon and Dominique Hanson of KKR. KKR European Fund III is being raised by the General Partner to make investments in operating companies with quality franchises, and high caliber management, through acquisitions and restructurings. The Fund’s primary geographic focus will be Europe, but it will have some ability to invest in other counties outside of Europe. As with its prior European and domestic funds, the General Partner will pursue a generalist strategy seeking to invest in a portfolio diversified by industry and geography. As a firm, KKR has the ability to make equity

investments of over one billion Euros in a particular portfolio company, but the typical equity investment will likely be between 500 and 700 million Euros. KKR is able to make such significant investments because the Firm often funds transactions from other KKR Funds. Pursuant to the partnership agreement, at least 15% of the equity commitment from all transactions in Europe will come from the then active KKR domestic Fund(s). In most instances, KKR will be represented on the boards of portfolio companies and will take an active role in their operations and strategic initiatives.

Mr. Harmon and Ms. Hanson discussed the European investment environment and credit markets as well as how the sub-prime mortgage issue has affected European lenders. Mr. Harmon outlined KKR's European strategy and integral business teams. He reviewed their industry expertise and answered questions from the Council.

Jay Fewel and David Fann addressed questions from the Council regarding preferred returns and how the commitment will impact the portfolio. They also discussed the European market.

MOTION: Randall Edwards moved approval of staff recommendation to commit \$500 million to KKR European Fund III, L.P. Said commitment is 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 by the Council.

NOTE: Mr. Solomon noted, for the record, that the OIC had received a letter from SEIU regarding the proposed investment.

V. 11:05 am: Canyon Johnson Urban Fund III

NOTE: Katy Durant declared an actual conflict of interest with this agenda item and noted that she would not participate in any discussion or vote.

Brad Child introduced Bobby Turner of Urban Investing. Canyon Capital is a privately held company with a demonstrated track record spanning sixteen years investing in urban, mixed-use assets across each of the real estate asset subclasses. Since its inception, Canyon Capital has invested over \$8.0 billion in 214 real estate and mortgage assets. Magic Canyon Holdings, an affiliate of Johnson Development, was founded in 1993 by Ervin "Magic" Johnson. Johnson Development has a presence in 65 cities across the United States and seeks to develop entertainment complexes, restaurants and retail centers in under-served markets by utilizing its joint venture relationships with Loews Cineplex Entertainment, Burger King Corporation, Starbucks, Washington Mutual, and others.

Mr. Turner reviewed the proposed investment based on the growing population of minorities in urban areas and the demand for housing, community services

and urban development. He answered questions regarding the key-man provision.

Nori Lietz and Brad Child addressed the Council regarding the opportunity.

MOTION: Randall Edwards moved approval of staff recommendation to commit \$50 million to Canyon-Johnson Urban Fund III, L.P. Said commitment is 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 by the Council.

VI. 11:29 am: OPERF 3rd Quarter Performance Report

Mike Beasley and John Meier presented the Third Quarter OPERF Performance Review. He noted that the market is in a transition period at present and that November 2007 had the worst monthly stock market performance since 2002. The current investment environment and financial markets were discussed and questions from the Council answered.

VII. 11:44 am: Asset Allocations & NAV Updates

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

VIII. 11:46 am: Calendar – Future Agenda Items

Ron Schmitz presented future agenda items for consideration and discussion.

IX. 11:48 am: Other Items

Ron Schmitz updated the OIC regarding Kevin Nordhill's promotion to Senior Investment Officer and the new Investment Officer positions in the recruitment process.

X. 11:50 am: Public Comment

There were no comments from the public.

The meeting adjourned at 11:50 a.m.

Respectfully submitted,

Norma Harvey
Investment Coordinator