Oregon Investment Council
MINUTES
February 27, 2008

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

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

Staff Present: Darren Bond, Tony Breault, Jay Fewel, Sally Furze, Ley Garnett, Linda Haglund, Andy Hayes, John Hershey, 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
David Fann, Pacific Corporate Group
Janette San Luis, State Street Bank

Legal Counsel: Dee Carlson, Oregon Department of Justice
Ted Falk, Oregon Department of Justice

I. 9:00 a.m.: Review and Approval of Minutes

MOTION: Ms. Durant brought approval of the January 30, 2008 OIC minutes to the table. The motion was passed by the Council.

The October 9, 2007 and January 18, 2008 Real Estate Committee minutes and the January 29, 2008 Private Equity Committee minutes were presented as information items.

II. 9:01 a.m.: TPG Partners VI, L.P.

Mr. Larson reiterated a potential conflict of interest notification since Intel Capital, his employer, has previous and potential future co-investments with TPG.

Mr. Fewel introduced Jim Coulter, founding partner, and Jonathon Coslett, senior partner, of Texas Pacific Group (TPG). He highlighted the OIC's and OPERF's longstanding relationship with the firm, having invested in all of TPG's prior funds, beginning in 1994, producing a net IRR of 27.1% and a net total value multiple of 1.69x, resulting in a consistent top-quartile position.

TPG Partners VI is being formed to pursue a broad range of equity and equity-related investments, primarily in large cap companies in North America, Europe and Asia, through acquisitions and restructurings. The Fund will continue the highly successful "generalist" strategy TPG has used across its prior funds, and will seek to invest in a geographically diversified portfolio of companies across 14 different sectors of the economy. The Fund will generally seek investment opportunities requiring between $250.0 million and $1.0 billion of equity capital in companies with market valuations of $300 million or more. Given the anticipated investment range, TPG is currently targeting aggregate capital commitments of $15 to $20 billion, and expects to deploy approximately $3.5 billion per year over the six year investment period. TPG will make a capital commitment of 2.0% of aggregate commitments or $500 million in cash, whichever is less.

A new $750 million commitment to TPG Partners VI, L.P. for OPERF would be allocated 100% to the Large Corporate Finance investment sub-sector where the target allocation is between 45% and 60%. As of September 30, 2007, OPERF's allocation to Large Corporate Finance, based on Fair Market Value plus unfunded commitments was 52.1%.

The OIC approved a 10% private equity target allocation for the Common School Fund (CSF) in August. A $25 million commitment to TPG VI, L.P. would be the fourth such private equity commitment for the CSF, bringing total commitments to $100 million.

Discussion followed addressing historic and current private equity markets; the relationship between debt and equity; TPG's contrarian strategy, focus split of 55 international/45 U.S., fundamental analytics, and performance; fund timeline; management fees; commitment increase, establishing TPG as a core manager; status and management of Fund V's co-investment; and progress of CSF's mandate to mirror private equity through separate, but joint, core relationships.

MOTION: Mr. Edwards moved to approve the staff recommendation to commit $750 million for OPERF and $25 million for CSF to TPG Partners VI, 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 Mr. Demorest and passed unanimously by the Council.

III. 9:40 a.m.: OPERF Large Cap Growth Manager

Mr. Nordhill introduced Ken Broad, Senior Portfolio Manager, and Trevor Blum, Vice-President of Institutional Sales, with Delaware Investments. He presented a request for OIC approval to replace Ark Asset Management with Delaware Investments as one of three large cap growth managers in the Domestic Equity Fund (DEF), with a target allocation of 2.5 percent of the DEF. Ark was hired in February 2004 for two products: a Large Cap Growth product with 50-75 stocks, and a Concentrated Growth product with 20-35 stocks. In July 2007, staff placed Ark on Watchlist status for concerns with organizational stability. In October 2007, OIC adopted a staff recommendation to replace Ark's more diversified Large Cap Growth product with Aletheia Research. A meeting with Ark in December 2007 resulted in SIS and staff's recommendation to transition remaining assets to a new concentrated manager, since Ark's client base continued to erode.

Staff and SIS believe the most complementary fit for a replacement manager, from a risk-return perspective, will be a concentrated, high alpha, "pure growth" manager, to go with the other two DEF growth managers, Wells Capital and Aletheia Research. Ninety U.S. large cap growth products, where the firm manages in excess of $1 billion and their portfolio holds fewer than 50 stocks, met the screening threshold. Additional qualitative and quantitative research was performed on these products, prividing the basis for the staff and SIS recommending that the OIC replace Ark Asset with the Delaware Investments Large Cap Growth product.

Discussion included details about Delaware's team and client transition from Transamerica; the team's philosophy and processes; the firm's operating structure, product strategy, and performance; the public equity reallocation process; Ark's asset and performance decline; and the selection/search process identifying Delaware as an excellent fit for the large cap growth bucket. Mr. Demorest made a suggestion for the Council to meet with public equity managers on a regular basis.

MOTION: Mr. Solomon moved to approve the staff recommendation to terminate Ark Asset Management in OPERF and hire Delaware Large Cap Growth as the replacement manager. 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 Mr. Larson and passed unanimously by the Council.

IV. 10:30 a.m.: Asset Allocation & Manager Implementation Update

Higher Ed

Mr. Mueller stated that, at the January OIC meeting, staff and SIS were prepared to recommend manager changes for the HIED portfolio. The OIC directed staff to report back after meeting with the HIED Finance Committee at their February 8th meeting, specifically requesting that the HIED Finance Committee consider an entirely passive mandate for the account. The committee was uncomfortable with that suggestion, believing that active management can add value, aside from large cap domestic equity. Based on input from that committee, staff and SIS proposed changes to the HIED portfolio, including indexing the domestic, large cap exposure; manager reallocations; and targeting a 50/50 domestic/non-US allocation. Mr. Meier provided additional details.

MOTION: Mr. Solomon moved to approve staff recommendation as outlined. 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 Mr. Demorest and passed unanimously by the Council.

Common School Fund (CSF)

Mr. Mueller presented the Common School Fund update, explaining the current allocation of 70 percent equities and 30 percent fixed income, using only three managers across four mandates, for a portfolio of approximately $1.1 billion. Additionally, the equity exposure is limited to the domestic and international Alpha Tilts products managed by BGI. In an effort to build a more efficient and diversified portfolio, consistent with the general themes embraced by the OIC for OPERF, staff and SIS recommended that the OIC adopt one of the following two proposals:

> Alternative 1: This proposal combines the passive management of large cap domestic equity used for the HIED account, with active management of the remaining components of a 50/50 US/Non-US equity portfolio. Specifically, Alternative 1 would introduce the use of seven existing OPERF equity managers: Wanger, Boston Company, Pyramis Select, Arrowstreet, Alliance Bernstein Global Blend, Genesis, and Pictet. Additionally, the private equity component of the account would continue to "piggy back" on some of the core private equity relationships in the OPERF account.
>
> Alternative 2: This proposal takes the additional step of actively managing large cap US equities, with the introduction of Wells Capital and MFS and the continued use of BGI Alpha Tilts, reducing that allocation and exchanging R3000 for the S&P 500 Fund. In addition to the benefits cited above for Alternative 1, the addition of large cap active management is expected to improve the alpha, over time, at the cost of slightly increased active risk.

Ensuing discussion covered current mandates and proposed options regarding cost differentials; active vs. passive philosophies, structures, and management; overall risks and benefits; and fees.

MOTION: Mr. Solomon moved to adopt Alternative 1. There was no second to his motion. Mr. Edwards moved to adopt Alternative 2. 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 Mr. Demorest and passed unanimously by the Council.

Oregon Public Employees Retirement Fund (OPERF)

Mr. Nordhill provided background pertaining to OIC's August 2007 adoption of a new asset allocation structure for OPERF, and subsequent OIC clarification regarding its intent to entirely eliminate the home country bias in the public equity portfolio. On January 30, 2008, staff and SIS presented a high level overview proposing how staff would implement the new asset allocation. Council expressed a desire to be provided with more than one proposed structure. Staff and SIS performed extensive research and prepared three detailed fund and manager structure proposals for the Counsel's consideration.

Prior to presenting the proposals, Mr. Nordhill requested affirmation of the Council's consensus at the last meeting to adopt the IMI series of indices. Discussion followed regarding types of indices, benchmarks, and relative risks/rewards; asset allocations; manager structures; historical and current OIC policy, philosophy, and targets; gross/net returns; custom benchmarks vs. industry convention; current manager analyses; and future qualitative manager evaluations. The counsel concurred with the staff and consultant recommendation to adopt the IMI series of indices (net).

Mr. Meier explained recent restructuring of domestic, international, and global buckets, giving past and current statistics. Discussion ensued regarding dollar fluctuations; currency exchange risk; the function of the Russell Overlay program; benchmark evolution and manager structure characteristics; and potential long-term adjustments. Mr. Schmitz stated that currency exposure is being managed and consideration of a currency overlay program would be scheduled as a future topic.

The three proposals were described. A common theme of each alternative is an allocation reduction to quantitative enhanced index managers. Alternative 1 uses the same manager line-up currently used in OPERF to achieve global targets, changing the target allocations and amount of money each manager would control. Alternative 2 uses the same manager line-up, but adds several non-U.S. equity managers. In this option, more money would flow to the International Equity Fund and the adoption of the MSCI ACWI ex-US IMI index would present the need to add dedicated international small cap managers to reduce benchmark risk. Alternative 3 is an extension of Alternative 2, with an increased allocation to a non-U.S. index fund, higher allocations to growth and value managers, reduced allocations to market oriented managers, and additional managers to diversify the Global Equity Fund.

Mr. Nordhill and Mr. Meier provided details of the three alternatives and answered questions regarding implementation timelines and strategies; transaction costs; quantifiable assumptions for manager structure; and style/benchmark risks. Mr. Nordhill will bring revised OIC policies to the April OIC meeting for final review.

MOTION: Mr. Edwards moved to adopt the MSCI IMI series of indices (net) and implement Alternative 2 with subsequent prudent implementation of Alternative 3, as proposed, at some future date. 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 Ms. Durant and passed unanimously by the Council.

V. 11:35 a.m.: OPERF 4th Quarter Performance Review

Mr. Beasley gave a high level report of 2007 4th quarter and total year performances, including 3/5/7/10 year return comparisons and highlights of significant current market trends and events. The NCREIF index was discussed. He commended the Council for their decision to overweight private equity and real estate, recognizing the out-performing rewards that have been achieved.

VI. 11:45 a.m.: Asset Allocations and NAV Updates

Mr. Schmitz's presentation included explanation of declining equity markets' impact on the portfolio in January, emphasizing focus on the 3- and 5-year relative performance; February's asset allocation rebalance; movement toward global public equity with the Russell Overlay program; and equity/real estate ratios and targets. He concluded that portfolios are well within range, in spite of a month of market turmoil. His answer to a question about reported targets was that the overlay program has completed 2 of 3 phases and the targets will be modified to reflect the new ranges.

VII. 11:47 a.m.: Calendar – Future Agenda Items

Mr. Schmitz presented future agenda items for consideration and discussion.

XII. 11:49 a.m.: Other Items

Mr. Schmitz Introduced the newest Private Equity Investment Officer, John Hershey, who will oversee the opportunity portfolio. Mr. Edwards said the Senate Bill 10 Ethics law change is a work in progress, asking that questions be directed to the Treasurer's Office.

X. 11:50 a.m.: Public Comment

There were no comments from the public.

The meeting adjourned at 11:50 a.m.

Respectfully submitted,

Martha Kellams
Investment Coordinator