



STATE OF OREGON  
OFFICE OF THE STATE TREASURER  
350 WINTER STREET NE, SUITE 100  
SALEM, OREGON 97301-3896

OREGON INVESTMENT COUNCIL  
DECEMBER 2, 2009  
MEETING MINUTES

Members Present: Paul Cleary, Harry Demorest, Katy Durant, Dick Solomon, Ben Westlund (joined the meeting at 11:32 am)

Member on Phone: Keith Larson

Staff Present: Andrea Belz, Darren Bond, Tony Breault, Garrett Cudahey, Jay Fewel, Sam Green, Ellen Hanby, Andy Hayes, John Hershey, Brooks Hogle, Julie Jackson, Perrin Lim, Tom Lofton, Ben Mahon, Mike Mueller, Kevin Nordhill, Ron Schmitz, James Sinks, James Spencer, Michael Viteri

Consultants Present: Allan Emkin, John Linder, and Mike Moy (PCA), John Meier (SIS), David Fann and Sundeep Rana (PCG), Nori Gerardo Lietz (Partners Group)

Legal Counsel Present: Dee Carlson, Oregon Department of Justice  
Deena Bothello, Oregon Department of Justice

The OIC meeting was called to order at 9:00 am by Katy Durant, Chair.

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

**MOTION:** Ms. Durant brought approval of the October 27 and November 4, 2009 OIC minutes to the table. Mr. Demorest moved to approve the minutes (as amended to note that Keith Larson was at the October 27 meeting in person rather than via phone). The motion was seconded by Mr. Solomon and passed by a vote of 4/0 with Treasurer Westlund absent for the vote.

**II. 9:02 a.m.: SMID International Mandate-OPERF Private Equity**

Jay Fewel, Senior Investment Officer introduced Juan Delgado-Moreira and Tara Blackburn, Managing Directors of Hamilton Lane. The purpose of the proposed investment would be to create a customized separate account for OPERF, focused on building a high-quality, diversified, portfolio of small to mid-market (SMID), international private equity funds. The fund will target smaller established and emerging private equity funds raising up to \$1.0 billion/€1.0 billion, or equivalent, and will invest at least 80 percent of committed capital in funds focused on international markets with up to 20 percent in U.S. Funds on an opportunistic basis, subject to Staff approval.

The proposed investment would have a three year commitment period, and would be allocated (for yearly allocation purposes) \$100 million per year for each of 2009, 2010, and 2011. The maximum exposure to any single manager will be 10 percent. Hamilton Lane anticipates that the portfolio will be allocated along the following lines:

- Buyouts 30-50%
- Growth Equity 40-60%
- Special Situations 5-15%

Mr. Demorest asked if there were other managers considered for this mandate. Staff believes that Hamilton Lane is the best qualified manager for this mandate, for several reasons. First, the firm has achieved a respectable track record in private equity investing in its other discretionary mandates and investment programs, consistently outperforming benchmarks, and has generated a 43 percent return on international investments since 1997. Second, Hamilton Lane has long been established as one of the few truly global leaders in private equity advisory and investment management services, with offices in Philadelphia, New York, San Francisco, London, San Diego, Fort Lauderdale, Tel Aviv, Tokyo, Hong Kong, and Singapore. The firm has over 115 employees, including 30 investment professionals. Lastly, the firm is well-known, well-regarded, and of a scale such that its market knowledge and deal-flow "funnel" captures virtually the entire universe of institutional-quality private equity funds. As an additional benefit, establishing this relationship with Hamilton Lane would allow staff access to their research platform, and provide another source of market intelligence, beyond that being provided by PCG.

**MOTION:** Mr. Solomon moved to approve the staff recommendation that the OIC authorize a \$300 million commitment to the SMID International Fund, managed by Hamilton Lane L.P., subject to satisfactory negotiation of terms and conditions, completion of the requisite legal documents by DOJ legal counsel working in concert with OST staff, and subject to a favorable review by a third-party consultant. Mr. Demorest seconded the motion. The motion was passed by a vote of 4/0 with Treasurer Westlund absent for the vote.

### **III. 10:10 a.m.: Customized Secondary Program-OPERF Private Equity**

This topic was tabled until a later date after it is reviewed by a third-party consultant.

Keith Larson left the meeting at 10:10 am.

### **IV. 10:22 a.m.: State Accident Insurance Fund (SAIF) Asset Allocation Study**

Mike Mueller, Deputy Chief Investment Officer introduced Brenda Rocklin, President and CEO of SAIF Corporation, and Andrew Canning, Senior Consultant and Partner of Wells Canning and Associates. After SAIF conducted a Request for Proposal, Wells Canning and Associates was hired to perform an asset liability study. After the study was complete, the following key recommendations were made:

1. Reduce the strategic duration for fixed income from 7 years to 5 years.
2. Reduce equity exposure from 15 percent to 10 percent.
3. Diversify the remaining equity allocation by including a "small" allocation to international stocks.
4. Increase higher yielding assets within fixed income by approximately 10 to 15 percent.

**MOTION:** Mr. Demorest moved to approve the staff recommendations. Mr. Solomon seconded the motion. The motion was passed by a vote of 3/0 with Keith Larson and Treasurer Westlund absent for the vote.

**V. 10:36 a.m.: State Street Foreign Exchange Update**

At the OIC's request, Nicholas Bonn, Executive Vice President and Global Head of Sales for State Street Bank's Global Markets and Securities Division, provided an update on the recent lawsuit filed by the California State Attorney General against State Street Bank as well as a general discussion of State Street's foreign currency exchange services.

State Street has reviewed all of their contracts and believes that the issue with California is isolated. The OIC asked Dee Carlson of the Department of Justice to look at the Oregon contract to confirm this and follow up with his analysis.

**VI. 10:48 a.m.: Fortress Portfolio Review**

Brad Child, Senior Investment Officer introduced Wes Edens, Principal and Co-Chairman of Fortress Investment Group. Mr. Edens provided an update on the recent performance of the various OPERF investments with Fortress and talked about their prognosis for the future.

OPERF has invested in numerous funds with Fortress, beginning with Fund II in 2002. After Lonestar, they are one of the largest opportunistic exposures in the Real Estate portfolio, with over \$300 million in FMV and unfunded commitments. The strategy uses significant amounts of leverage and has a meaningful percentage of its assets in companies that are, at least partially, publically traded. Accordingly, Fortress has had a difficult time over the last year or two.

From a return perspective, things have gotten better. The second quarter returns were strongly positive. The improvement has continued during the third quarter, though final numbers are not yet in. One portfolio company has been able to access the public markets recently and some debt has been restructured for other holdings. Mr. Edens addressed questions from the Council during his presentation.

The Council requested that Partners Group evaluate the fee structure for Fortress and get back to them with their findings. Once that information is received Council will schedule a broader fee discussion.

**VII. 11:32 a.m.: HIED Annual Review**

Mike Mueller provided the OIC with an update on the Higher Education Endowment Fund as required by OIC Policy.

Treasurer Westlund joined the meeting at 11:32 am.

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Ms. Durant requested that staff send out a questionnaire to the Private Equity and Real Estate managers regarding their historical use of placement agents.

**VIII. 11:34 a.m.: OPERF Third Quarter Review**

John Meier of Strategic Investment Solutions (SIS) presented the OPERF Performance Summary for the quarter ending September 30, 2009.

**IX. 11:43 a.m.: Asset Allocation and NAV Updates**

Mr. Schmitz reviewed the Asset Allocations and NAV's for the period ended October 31, 2009. All asset classes are within their allocation ranges. The OPERF and SAIF portfolios are extremely tight to target. CSF and HIED are within one to two percent of targets.

**X. 11:44 a.m.: Calendar – Future Agenda Items**

Mr. Schmitz highlighted future agenda topics.

**XI. 11:45 a.m.: Other Business**

There was no other business discussed.

**11:45 a.m.: Public Comments**

There were no public comments.

The meeting adjourned at 11:46 a.m.

Respectfully submitted,

A handwritten signature in cursive script that reads "Julie Jackson".

Julie Jackson  
Executive Support Specialist