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OREGON INVESTMENT COUNCIL  
APRIL 28, 2010  
MEETING MINUTES

Members Present: Paul Cleary, Harry Demorest, Katy Durant, Dick Solomon,  
Treasurer Ted Wheeler

Member on Phone: Keith Larson

Staff Present: Andrea Belz, Darren Bond, Tony Breault, Brad Child, Jay Fewel,  
Wendy Finley, Sam Green, Ellen Hanby, Andy Hayes, John  
Hershey, Brooks Hogle, Julie Jackson, Jeff Keto, Perrin Lim,  
Tom Lofton, Mike Mueller, Kevin Nordhill, Jen Peet, Jo Recht,  
Tom Rinehart, Ron Schmitz, James Sinks

Consultants Present: Allan Emkin and John Linder (PCA), Mike Beasley and 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 Harry Demorest, Chair.

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

**MOTION:** Mr. Demorest brought approval of the February 24 and April 8, 2010 OIC minutes to the table. Mr. Solomon moved to approve the minutes. The motion was seconded by Ms. Durant and passed by a vote of 4/0 (Mr. Larson was not present for the vote).

**II. 9:01 a.m.: OPERF Asset/Liability Study**

Mike Beasley and John Meier of Strategic Investment Solutions (SIS) provided an update on the asset/liability study. This was an informational topic only that was mainly focused on the asset side and the various levels of allocation for each asset class. The specific areas that were modeled

were correlations, risk, and returns. There was a brief question and answer period following the presentation.

9:20 am: Mr. Larson dialed in to the meeting.

**ACTION:** Staff will send around the Scenario Analysis Assumption to the PERS Board for their input.

**ACTION:** SIS will provide the OIC with a full set of assumptions regarding the Capital Markets outlook.

**ACTION:** Create alternative scenarios for the Opportunity Portfolio with different risk/return parameters and to look at leveraged portfolio options.

**9:53 a.m.:** Harry Demorest, OIC Chair read a prepared statement regarding the recent Oregonian coverage of Oregon State Treasury travel (see attached).

### **III. 10:04 a.m.: Oaktree Capital Management-OPERF and CSF Private Equity**

Jay Fewel, Sr. Investment Officer and David Fann with Pacific Corporate Group gave a brief introduction about the Oaktree Capital Management (OCM) Opportunities Fund VIII. Staff recommended a commitment of \$100 million by OPERF and \$25 million by the Common School Fund (CSF) to OCM Opportunities Fund VIII, LP (\$50 million to Fund A and \$50 million to Fund B for OPERF and \$12.5 million to Fund A and \$12.5 million to Fund B for the Common School Fund). This commitment was originally proposed to be made through the Private Equity Committee, at its January 25, 2010 meeting. Due to an objection by a member of the OIC, this recommendation was pulled from that agenda, and was reintroduced to the full OIC following modification of some terms. Said commitment is subject to the satisfactory negotiation of the requisite legal documents by legal counsel working in concert with OST Staff and PCG.

**ACTION:** Mr. Solomon moved to approve the staff recommendation. Treasurer Wheeler seconded the motion. The motion was passed by a vote of 5/0.

### **IV. 10:06 a.m.: Aquiline Capital Partners-OPERF Private Equity**

Mr. Fewel introduced Jeff Greenberg, Chief Executive Officer, and Geoff Kalish, Founder and Principal with Aquiline Capital Partners, LLC. Aquiline Capital Partners LLC is forming Aquiline Financial Services Fund II, L.P. to pursue a range of privately negotiated equity and equity-related investments within the financial services industry, across North America and Europe. They anticipate making 10 to 15 investments (ranging from \$100 million to \$400 million of equity) while focusing on corporate divestitures, public and private company buyouts, corporate restructurings, and, opportunistically, growth or start-up capital investments.

This commitment was originally proposed to be made through the Private Equity Committee, at its January 25, 2010 meeting. Due to an objection by a member of the OIC, this recommendation was pulled from that agenda, and was reintroduced to the full OIC. Said commitment is subject to the satisfactory negotiation of the requisite legal documents by legal counsel working in concert with OST Staff and PCG.

Staff recommended a commitment of \$100 million to Aquiline Financial Services Fund 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.

There was a brief question and answer period following the presentation.

**ACTION:** Mr. Solomon moved to approve the staff recommendation, with the addition of a review by staff of the fund's budget. Mr. Larson seconded the motion. The motion was passed by a vote of 4/1 with Ms. Durant voting no.

**V. 11:17 a.m.: Vornado Capital Partners LP-OPERF Real Estate**

S. Bradford Child, Senior Real Estate Investment Officer and Nori Gerardo Lietz with Partners Group introduced Michael Fascitelli, President/CEO and Michelle Fellman, Executive Vice President of Vornado Capital Partners. The Fund targets \$1 billion in total equity capital for investment in high quality office and urban retail in major metropolitan cities such as New York City and Washington D.C. The proposed fund will be "value-added" in nature with a target gross IRR return of 15 to 20 percent. Vornado is a large, successful public REIT with a market capitalization of almost \$14 billion. Their assets are prime office and retail in major markets such as New York City and Washington DC. The company is vertically integrated with staff experienced in: real estate acquisitions, property management, development and re-development of existing properties. Most of the senior investment team has worked together for over 12 years. Vornado will invest 20 percent of the equity in the Fund up to \$200 million. During its investment period, the Fund will be the primary acquisition vehicle for the REIT, providing a strong alignment of interests. Vornado believes that the next few years will offer an exceptional opportunity to invest in quality real estate investments as current owners and lenders address the property re-pricing of the recent past. Some of these opportunities may be of a size that exceeds Vornado's REIT resources. The Fund will provide Vornado with a platform to pursue large, high quality investments for the benefit of both the REIT and the other Fund investors. Vornado's in-house capabilities to lease, manage and remodel buildings will be beneficial in both the acquisition and turn-around of properties that may have been under-managed by prior distressed owners.

Staff recommended approval of a \$100 million commitment to Vornado Capital Partners, L.P. subject to negotiation of the required legal documents, working in concert with the Department of Justice.

There was a brief question and answer period following the presentation.

**ACTION:** Ms. Durant moved to approve the staff recommendation. Treasurer Wheeler seconded the motion. The motion was passed by a vote of 5/0.

**VI. 12:13 p.m.: Oregon Short Term Fund-Annual Review and Policy Updates**

Perrin Lim, Senior Investment Officer gave an overview of policy 4.02.03 updates for the Oregon Short Term Fund. They include the following:

1. 4.02.03: Section VI-A-1a,b,c adds US\$ denominated foreign government securities and instrumentalities rated a minimum AA-, Aa3, or AA- at the time of purchase and subject to 25% maximum.
2. 4.02.03: Section VI-A-5b,e allows domestic and foreign corporate indebtedness subject to 25% maximum in total foreign (corporate and government).
3. 4.02.03: Section VI-A-5d allows corporate notes with minimum long-term ratings of A-, A3, or A- at the time of purchase
4. 4.02.03: Section VI-A-9 adds municipal debt obligations with minimum long-term ratings of AA-, Aa3, or AA-, or are rated in the highest category for short-term municipal debt at the time of purchase.

Staff recommended the OIC approve the revised Oregon Short-Term Fund Portfolio Rules, Policy 4.02.03, as approved by the Oregon Short-Term Fund Board on January 26, 2010.

**ACTION:** Ms. Durant moved to approve the staff recommendation. Mr. Solomon seconded the motion. The motion was passed by a vote of 5/0.

#### **VII. 12:25 p.m.: OST Intermediate Term Bond Fund**

Perrin Lim and Tom Lofton presented to the Council the OST Intermediate Term Bond Fund. The purpose of the presentation was to obtain approval from the OIC to implement and operate a fixed income investment pool named the "Oregon Intermediate Term Pool" (OITP).

Certain state agencies and state sponsored entities have monies available to invest on a longer term basis than the Oregon Short-Term Fund (OSTF) rules allows. Currently, the investment options available to most state entities are restricted by Oregon Revised Statutes (ORS) and governed by the OIC. Except in specific and limited circumstances provided by ORS, the only investment vehicle available for state agencies and sponsored entities is the Oregon Short Term Fund.

The Oregon Intermediate Term Pool (OITP) will provide certain state-owned and sponsored entities the opportunity to place funds, not needed for short-term cash needs, in a vehicle that is able to accept greater market risk, within certain parameters, in order to achieve improved investment returns.

Staff expects to have the necessary administrative needs completed for OITP to become operational on July 1, 2010. Process mapping, responsibility assignment, and compliance and control procedures have been established. In addition, the OITP Policies and Guidelines, Prospectus, and administrative processes have been reviewed by internal audit staff. Pending OIC approval of OITP's implementation, OST Investment Accounting staff and Fixed Income Investment Staff will begin testing administrative and compliance procedures in May and June. Fixed Income Staff will also reach out to eligible state agencies to inform them of OITP.

Staff recommended that the OIC approve the implementation and operation of the Oregon Intermediate Term Pool and approve the OITP Policies and Procedures.

**ACTION:** Mr. Solomon moved to approve the staff recommendation. Ms. Durant seconded the motion. The motion passed by a vote of 5/0.

#### **VIII. 12:40 p.m. OIC Annual Policy Update:**

Mike Mueller, Deputy CIO presented updates on several OIC Policies based on statutory changes and to conform policy with practice (where appropriate). Staff recommended approval of OIC policies and procedures, as part of an annual "housekeeping" update (some key updates are listed below):

1. 4.01.01: Adds foreign holdings consistent with OSTF investment guidelines revisions from today.
2. 4.01.05: Strikes language for a reporting process that is not yet active.
3. 4.01.14: Strengthens language and reporting of losses, sets up reserve procedures for the OSTF—codifies current practice.
4. 4.01.19: Clarifies the procedures related to due diligence, implementation, funding, and monitoring for the Opportunity Portfolio for consistency with the private equity policy.
5. 4.04.01: Clarifies use of "direct" and "core."

6. 4.07.05: Updates manager name changes and adds LifePath Funds in Appendix.
7. Investment Objectives and Policy Framework for OPERF: Updates to reflect policy changes and definitions-change the review term from periodically to biennially.

**ACTION:** Mr. Solomon moved to approve the staff recommendation. Ms. Durant seconded the motion. The motion passed by a vote of 5/0.

**IX. 12:43 p.m. Litigation Update**

This agenda item was moved to the next meeting on May 26.

**X. 12:43 p.m.: Asset Allocation and NAV Updates**

Mr. Schmitz reviewed the Asset Allocations and NAV's for the period ended March 31, 2010. All asset classes are within their allocation ranges.

**XI. 12:44 p.m.: Calendar – Future Agenda Items**

Mr. Schmitz highlighted future agenda topics.

**XII. 12:45 p.m.: Other Business**

There was no other business discussed.

**12:45 p.m.: Public Comments**

Terry Scannell provided comments regarding the recent Oregonian coverage of the Oregon State Treasury travel policies.

The meeting adjourned at 12:55 p.m.

Respectfully submitted,



Julie Jackson  
Executive Support Specialist