



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

OREGON INVESTMENT COUNCIL
JULY 28, 2010
MEETING MINUTES

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

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

Consultants Present: Allan Emkin, John Linder, and Mike Moy (PCA), Mike Beasley and John Meier (SIS), David Fann, Kara King, and Sundeeep 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 9:02 am by Harry Demorest, Chair.

I. 9:02 a.m.: Review and Approval of Minutes

MOTION: Mr. Demorest brought approval of the May 26, 2010 OIC minutes (as amended) to the table. Mr. Solomon moved to approve the minutes. The motion was seconded by Ms. Durant and passed by a vote of 5/0.

II. 9:04 a.m.: Blackstone Capital Partners IV, L.P. – Private Equity

Staff recommended a commitment of \$200 million to Blackstone Capital Partners VI, L.P which is a \$12.0 billion target fund pursuing a generalist, value-oriented buyout strategy. Fund VI will be a continuation of the successful strategy employed in prior Blackstone Capital Partners funds, focusing on building a portfolio of 25-40 companies diversified across transaction structures, geographic locations, and sector allocations.

Jay Fewel, Senior Investment Officer introduced Tony James, President and COO and Ken Whitney, Senior Managing Director of Blackstone Capital Partners. Depending on market conditions and opportunities, the Fund may invest via a variety of transaction structures, including traditional buyouts, corporate partnerships, platform buildups, strategic minority stakes, growth equity, and distressed investments. Typical investment sizes will be between \$300 million and \$800 million, with the exception of growth equity investments which will usually be smaller. The Fund will continue Blackstone's focus on building post-acquisition value through earnings growth, operational improvements, and cost savings via aggregated procurement strategies.

OPERF has not committed to prior Blackstone funds, and a commitment to Fund VI would commence a new manager relationship. Staff believes that Blackstone has developed into a durable, institutionalized organization that will stand the test of time, and has demonstrated a proven formula for building value, and during multiple market cycles. In addition to Blackstone's appeal on a stand-alone basis, this recommendation is also based on a desire to improve/diversify the structure of the current large Buy-Out portfolio.

There was a brief question and answer period following the presentation-then the meeting moved in to Executive Session.

9:55 a.m.: Executive Session-Blackstone Capital Partners IV, L.P.

The executive session was held pursuant to ORS 192.660(f) (j).

10:05 a.m.: Meeting Moved out of Executive Session

Staff recommended that the OIC authorize a \$200 million commitment to Blackstone Capital Partners VI, L.P., subject to the satisfactory negotiation of terms and conditions, and completion of requisite legal documents by DOJ legal counsel working in concert with OST staff. Mr. Larson moved approval of the staff recommendation. Treasurer Wheeler seconded the motion. The motion was passed unanimously by a vote of 5/0.

III. 10:28 a.m.: Annual OPERF Real Estate Review

Brad Child, Senior Real Estate Investment Officer and Nori Gerardo Lietz of the PCA Real Estate Advisors presented the 2009 Real Estate review and the 2010 Real Estate overview.

Mr. Child went through the 2009 year in review, including the 2009 fund activity and the 2010 fund activity, year-to-date. Many factors affected the real estate portfolio last year:

- The global economic downturn
- Value declines related to the overall market trends
- Leverage

The OPERF Real Estate composite under-performed the NCREIF index over the three year and five year periods but out-performed the NCREIF index over the seven year and ten year periods.

Ms. Lietz presented a brief market overview. She then gave a summary of the portfolio investments: Direct Property, Value Added, Opportunistic and REIT portfolios as well as outlining manager performance. Ms. Lietz also reviewed the current real estate markets in Western Europe, Asia Pacific, and emerging markets and analyzed the impact on the U.S. market.

The general investment themes for the second half of 2010 are:

- **VALUE:**
 - Capitalize on distress across all phases of the crisis through investments in distressed debt, distressed equity, and secondaries.

- **GROWTH:**
 - Capitalize on strong mid and long term fundamentals in the emerging markets, through equity.

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

ACTION: Staff was directed to add this topic to the OIC meeting agenda for the October meeting, so there would be time for additional discussion and questions.

IV. 11:35 a.m.: Angelo Gordon Pan Asia Real Estate Fund II

Brad Child introduced Keith Barket, Senior Managing Director, and Aliana Spungen, Managing Director of Angelo Gordon & Company. Angelo, Gordon & Co. is forming AG Asia Realty Fund II, L.P. to pursue an opportunistic real estate investment strategy primarily in mainland China, South Korea and Japan. They anticipate making 25 to 30 investments (ranging from \$25 million to \$100 million of equity) across different property sectors. including: residential development, retail, office, industrial, multifamily and hotel. The fund intends to focus on acquisitions, particularly in Japan and South Korea, of distressed or sub-performing assets resulting from owner liquidity issues and an inability to obtain debt financing, as well as opportunistic development strategies, particularly in China.

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

MOTION: OST Staff and PCA Real Estate Advisors recommended a \$100 million commitment to AG Asia Realty Fund II, L.P. OST Staff recommended that OPERF's commitment be no more than 20% of total AG Asia Realty Fund II commitments. It appears that the fund will raise more than \$500 million. Staff recommended, however, that if total commitments to the fund are less than \$500 million, that OPERF's commitment be reduced to 20 percent of the total raised. Said commitment is subject to the satisfactory negotiation of the requisite legal documents by legal counsel working in concert with OST Staff and Department of Justice. Ms. Durant moved approval of the staff recommendation. Mr. Solomon seconded the motion. The motion was passed unanimously by a vote of 5/0.

V. 12:06 p.m.: Higher Education Endowment Fund

Mike Mueller, Deputy Chief Investment Officer, presented. As reported to the OIC in December of last year, the HIED Board commenced with an asset/liability study in 2010, which resulted in proposed changes, approved by the HIED Board at their meeting on July 9, 2010.

The HIED board is has focused on defining fund assets in three broad categories:

1. Growth Assets
2. Inflation Hedging Assets
3. Diversifying Assets

Based on this rubric, SIS and staff presented the following recommendation to the HIED Board:

Asset Group	Current Target	New Target	New Range
Growth Assets	67%	60%	50-75%
Inflation Hedging Assets	3%	15%	7-20%
Diversifying Assets	30%	25%	20-30%

Staff and SIS plan to return to the HIED Board and the OIC in September with proposed policy changes and an implementation plan. Part of the analysis to be provided will be an assessment of the cost-effectiveness of implementing the "hard asset" allocation.

MOTION: Staff and SIS recommended a change in the asset allocation for the HIED Pooled Endowment Fund subject to revised policies and an implementation plan being presented to the OIC in September. Mr. Solomon moved approval of the staff recommendation. Ms. Durant seconded the motion. The motion was passed by a vote of 4/0 (Mr. Larson was not present for the vote).

VI. 12:07 p.m.: OIC Policy Updates

Mike Mueller briefly provided an update on an OIC Policy revision that was missed during the April 2010 update.

MOTION: Staff recommended approval of OST Policy 4.03.01 that was not part of the policy updates covered at the April 28, 2010 meeting. Treasurer Wheeler moved approval of the staff recommendation. Ms. Durant seconded the motion. The motion was passed unanimously by a vote of 5/0.

VII. 12:09 p.m.: Annual Proxy Voting Update

Robert McCormick, Vice President of Proxy Research and Operations, Glass, Lewis and Co. provided a summary of the votes that Glass, Lewis & Co. cast on the OIC's behalf for the period January 1 to June 30, 2010, and provided a review of the recent proxy voting season in accordance with OST Policy 4.05.06.

ACTION: Treasurer Wheeler requested to see a performance measurement tool that can be used to track how votes made on behalf of the OIC affect a company's performance.

VIII. 12:25 p.m.: Annual Audit Update

Andrea Belz, Chief Audit Executive presented an update on the investment-related audit engagements completed by OST's Internal Audit Services during the past year, in accordance with OST Policy 4.01.12.

IX. 12:28 p.m.: Asset Allocation and NAV Updates

Mr. Schmitz reviewed the Asset Allocations and NAV's for the period ended June 30, 2010. All asset classes are within their allocation ranges.

X. 12:29 p.m.: Calendar – Future Agenda Items

Mr. Schmitz highlighted future agenda topics.

XI. 12:30 p.m.: Other Business

There was no other business discussed.

12:32 p.m.: Public Comments

There were no public comments.

The meeting adjourned at 12:32 p.m.

Respectfully submitted,

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

Julie Jackson
Executive Support Specialist