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OREGON INVESTMENT COUNCIL
SEPTEMBER 29, 2010
MEETING MINUTES

Members Present:	Paul Cleary, Harry Demorest, Katy Durant, Dick Solomon, Treasurer Ted Wheeler
Member on Phone:	Keith Larson
Staff Present:	Darren Bond, Brad Child, Jay Fewel, Sam Green, Andy Hayes, John Hershey, Brooks Hogle, Julie Jackson, Perrin Lim, Tom Lofton, Ben Mahon, Mike Mueller, Kevin Nordhill, Jen Peet, Tom Rinehart, Ron Schmitz, James Sinks, James Spencer, Michael Viteri
Consultants Present:	Allan Emkin, John Linder, and Mike Moy (PCA), Mike Beasley and John Meier (SIS), David Fann, Tom Martin and Sundeep Rana (PCG), Nori Gerardo Lietz (PCA Real Estate Advisors)
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 July 28, 2010 OIC minutes to the table. Mr. Solomon moved to approve the minutes. The motion was seconded by Mr. Solomon and passed by a vote of 4/0 (Mr. Larson was not present for the vote).

II. 9:03 a.m.: Sheridan Production Partners - II, L.P. – *OPERF Opportunity Portfolio*

Staff recommended a commitment of $100 million to Sheridan Production Partners, L.P. Fund II. In April 2007, the OIC approved a commitment of $100 million to Sheridan Production Partners I-B L.P. ("SP-I"). This proposed commitment would be a "re-up" to an existing relationship.

Sheridan was formed in 2006 through a 50/50 joint venture between Warburg Pincus (an OPERF private equity relationship) and Lisa Stewart, CEO of Sheridan and former CEO of El Paso's Exploration and Production ("E&P") business (El Paso is a publicly traded oil and gas company).

John Hershey, Alternatives Investment Officer introduced Lisa Stewart, CEO of Sheridan Production Partners. Ms. Stewart explained that the strategy of the fund is to acquire mature producing properties with large proven reserves that have not been exceptionally maintained or are on the decline. Levering their management and operational expertise, Sheridan will seek to optimize the operation of these assets by reinvesting in properties to accelerate their production and enhance recovery. At any given time, Sheridan has over 100 reinvestment or refurbishment projects in various stages of implementation. To mitigate volatility in oil and gas prices, Sheridan will hedge a significant proportion of its current and acquired production. The hedged strategy should yield targeted IRR returns in the mid-teens, inclusive of a current yield component. To optimize returns and to take advantage of the high cash flow characteristics of its assets, SP-II, expects to apply leverage at the Fund level.

John Hershey answered questions from the Council, including a more detailed explanation of the hedging strategies for the fund.

MOTION: Ms. Durant moved approval of the staff recommendation subject to the negotiation of the requisite legal documents with staff working in concert with the Department of Justice. Treasurer Wheeler seconded the motion. The motion was passed unanimously by a vote of 5/0.

III. 9:30 a.m.: Apollo Financial Credit Investment I, L.P. – *OPERF Opportunity Portfolio*

Staff recommended a commitment of $100 million to Apollo Financial Credit Investment Fund I, L.P. The life settlements market is an estimated $100 billion plus market comprised of traded life insurance policies. When an individual policy holders' estate planning or personal beneficiary strategy changes or they no longer wish to continue to fund the premiums of a universal life insurance policy, they may either surrender that policy to their life insurance provider or they may sell that policy in the secondary market. As the value received in the secondary market is typically greater than surrender value, the life settlements market has grown steadily over the years as more policy holders opt to sell their policy rather than surrender it. Some of the market growth was driven by the downturn in the economy as more and more policy holders sought liquidity and/or no longer wished to continue to fund annual premiums.

John Hershey introduced Marc Rowan, Senior Managing Director for Apollo and Jamshid Ehsani, a consultant to Apollo. Apollo is forming a small group of institutional investors (a "club deal") to form a single purpose investment fund to acquire a large portfolio from a European commercial bank. Apollo believes it will acquire the portfolio at an attractive distressed value of the face amount of the portfolio. In addition to the purchase price outlay, Apollo's strategy is to continue to fund the insurance premiums (in part through a credit facility). There is expected to be a brief "J-curve" until the portfolio throws off positive cash flow.

There was a brief question and answer period following the presentation. There were some questions raised by Council members regarding fees and rate of return. John Hershey and Sundeep Rana (PCG) explained that there has been some movement on the fees in the negotiations with Apollo. Mr. Solomon expressed his concern regarding the strategy of the fund since it is partly based on insurance beneficiary mortality.

MOTION: Ms. Durant moved approval of the staff recommendation subject to changes in economic terms and subject to the negotiation of the requisite legal documents with staff working in concert with the Department of Justice. Mr. Larson seconded the motion. The motion was passed by a vote of 3/2 with Treasurer Wheeler and Mr. Solomon voting no.

IV. 10:35 a.m.: OPERF Real Estate Strategy & Lone Star Follow-Up

S. Bradford Child, Senior Real Estate Investment Officer and Nori Gerardo Lietz with PCA Real Estate Advisors presented to the Council the following issues for discussion:

Should OPERF reshape its real estate portfolio with more debt products producing income but no capital gain (such as first mortgages) or preferred equity real estate securities to reduce risk even if it is at a cost of reduced total return? Should the real estate core sector be increased and the higher risk value-added and/or opportunistic sectors be reduced? **Staff recommended retaining the current risk/return policy limits.**

Should OPERF continue investing globally or retreat to within U.S. borders? **Staff recommended continuing to include global real estate investments in the OPERF real estate portfolio.**

Should OPERF pursue larger real estate commitments ($500 million and above) to keep the number of managed accounts reasonable? In doing so, should OPERF seek a higher degree of LP control by investing in "Club" deals with few investors working closely with the managing partner? **Staff recommended seeking platforms and deal structures that will accommodate larger commitments. Separate accounts and "Club" deals should be pursued where they offer greater investment control to OPERF.**

LONE STAR:

On September 30, 2009, the OIC approved Staff's recommendation of a $100 million commitment to Lone Star Fund VII, L.P. ("LS Fund VII") and $300 million to Lone Star Real Estate Fund II, L.P. ("LS Real Estate Fund II"). The two global funds targeted a combined equity of $20 billion. Their combined portfolios are "opportunistic" in nature. Lone Star Real Estate Fund II will house all commercial real estate activity and Lone Star Fund VII will focus on residential distressed debt and acquisition of real estate rich entities such as banks. Both target IRR return at the investment level of 25 percent and will be run side-by-side. Staff and consultant recommended two commitments, $300 million to Lone Star's historic strength in commercial real estate in Lone Star Real Estate Fund II and $100 million to the residential and entity investments in Lone Star Fund VII. Since 1995, Lone Star has offered seven funds, investing a total of over $24 billion. OPERF has invested in all of the previous funds. Over all, these funds are projected to produce a total net IRR to OPERF in excess of 25 percent.

The OIC's $400 million approval was made subject to OPERF receiving the right to increase its commitment by up to an additional $400 million, near the end of the capital raising period. Unless an extension is requested by the general partner and approved by the funds' LP advisory committees, the capital raising period is scheduled to end on November 30, 2010.

OIC policy targets 30 percent of the total real estate portfolio to be in the opportunistic sector with a top of range at 40 percent. As of September 1, 2010, opportunistic holdings represented 39 percent. It appears that OPERF will exceed the OIC policy limit for opportunistic real estate investments even without an additional commitment to Lone Star.

Therefore staff recommended staying at the current commitment level with Lone Star ($400 million) and not exercising the option for an additional commitment. Also, staff recommended renegotiating to even the allocations in Lone Star Fund VII, L.P. and Lone Star Real Estate Fund II, L.P. to a 50/50 split.

MOTION: Treasurer Wheeler moved approval of the all of the staff recommendations above. Mr. Solomon seconded the motion. The motion was passed unanimously by a vote of 5/0.

V. 11:30 a.m.: Common School Fund Annual Review and HIED Endowment Fund Update

Mike Mueller, Deputy CIO provided an update on the performance, structure, and asset allocation of the Common School Fund for the one year period ended August 31, 2010 in accordance with OIC Policy 4.08.07. Periodically, the Director of the Division of State Lands provides an update to

the OIC. However, since she provided an update last year, she did not feel the need to present at this meeting. This was an informational item only.

Staff recommended an update to OIC Policy 4.10.01 to reflect investment policy changes for the HIED Endowment approved by the OIC in July 2010.

MOTION: Mr. Solomon moved approval of the staff recommendation. Ms. Durant seconded the motion. The motion was passed by a vote of 5/0

VI. 11:32 a.m.: OIC Consultant Recommendation

- Staff recommended extending the contracts of Strategic Investment Solutions (SIS) and PCA-Emkin for a one year period ending December 31, 2011, under the same fee terms. Additionally, John Meier will replace Mike Beasley as the "key man" for SIS.
- Extending the contract of Pacific Corporate Group (PCG) for a two-year period ending December 31, 2012, under previously contracted fees.

MOTION: Mr. Solomon moved approval of the staff recommendations. Treasurer Wheeler seconded the motion. The motion was passed unanimously by a vote of 5/0.

VII. 11:35 a.m.: Public Equity Recommendation

Kevin Nordhill, Senior Equity Investment Officer presented the following recommendations:

- Terminate the AllianceBernstein Global Research Growth strategy for OPERF and amend OIC Policy 4.05.01 accordingly. Assets will be used as a source of cash to meet future OPERF liquidity requirements.
- Terminate the AllianceBernstein Global Style Blend mandates for the Common School Fund and Oregon University System Endowment Fund. Hire the Blackrock All Country World Index Fund and redeploy the AllianceBernstein assets to the index fund.

MOTION: Ms. Durant moved approval of the staff recommendations. Treasurer Wheeler seconded the motion. The motion was passed by a vote of 5/0.

VII-A. 11:36 a.m.: OSTF & OITP Policy Revisions

Perrin Lim, Senior Investment Officer recommended the following policy updates:

- 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 September 23, 2010.

- The OIC approve the revised Oregon Intermediate Term Pool Portfolio Rules, Policy 4.03.04.

MOTION: Ms. Durant moved approval of the staff recommendation. Mr. Solomon seconded the motion. The motion was passed by a vote of 4/0 (Mr. Larson abstained because he had not seen the materials ahead of time).

VIII. 11:37 a.m.: Asset Allocation and NAV Updates

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

IX. 11:38 a.m.: Calendar – Future Agenda Items

Mr. Schmitz highlighted future agenda topics.

X. 11:39 a.m.: Other Business

- Mr. Schmitz stated that all Real Estate and Private Equity Committee minutes will be shared with the Board at OIC meetings.
- Mr. Demorest commended Katy Durant for her re-appointment to the Council.
- Treasurer Wheeler stated that there will be an upcoming policy change regarding staff contact with placement agents.

11:44 a.m.: Public Comments

There were no public comments.

The meeting adjourned at 11:45 a.m.

Respectfully submitted,

Julie Jackson

Julie Jackson
Executive Support Specialist