



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

OREGON INVESTMENT COUNCIL
OCTOBER 27, 2010
MEETING MINUTES

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

Staff Present: Darren Bond, Tony Breault, Garrett Cudahey, Jay Fewel, Sam Green, Andy Hayes, John Hershey, 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 and Sundeep Rana (PCG)

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. 9:01 a.m.: Review and Approval of Minutes

MOTION: Mr. Demorest brought approval of the September 29, 2010 OIC minutes to the table. Mr. Solomon moved to approve the minutes. The motion was seconded by Mr. Larson and passed by a vote of 5/0. Mr. Demorest mentioned that the Apollo Life Settlements investment opportunity that was approved by the OIC at the September 29 meeting may not close, as it appears Apollo may have been outbid by another buyer.

II. 9:01 a.m.: Centerbridge Capital Partners II, L.P. – OPERF Private Equity Portfolio

Staff recommended a commitment of \$100 million to Centerbridge Capital Partners II, L.P. Jay Fewel, Senior Investment Officer introduced Jeff Aronson and Mark Gallogly, Co-Founders and Managing Principals of Centerbridge Capital Partners. Since its formation, Centerbridge has grown into a robust, multi-strategy firm, with 90 employees, including 34 investment professionals, and over \$11.0 billion in assets under management. The firm also manages a series of non-control, distressed debt funds. While Centerbridge operates funds with differing structures and strategies, the firm operates under a “single team” model, out of one New York office. The firm is exploring the possibility of opening a London office and expanding its activities into Europe, but no decision or action on this option is imminent.

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

MOTION: Mr. Solomon moved approval of the staff recommendation subject to the satisfactory negotiation of terms and conditions, and completion of the requisite legal documents by the Department of Justice working in concert with OST staff. Ms. Durant seconded the motion. The motion was passed unanimously by a vote of 5/0.

III. 9:30 a.m.: WLR Recovery Fund V, L.P. – OPERF Private Equity Portfolio

Staff recommended a commitment of \$100 million to WLR Recovery Fund V, L.P. Sam Green, Investment Officer, introduced Wilbur Ross, Founder, Chairman and CEO of WL Ross. WL Ross employs a control-oriented strategy, usually investing in companies that are in bankruptcy or reorganization proceedings. Investments will typically consist of debt securities, distressed bank loans, trade claims, and equity-linked securities. The average investment size is expected to be \$100-\$200 million, but as in prior WLR Funds, a handful of outsized investments are to be expected. The firm's strategy is opportunistic in nature, and the fund will have no target sector allocations. However, based on history and the team's experience, investments in the healthcare, energy, banking and financial services, airline leasing, metals and mining, and transportation sectors are anticipated. Fund V will primarily invest in North America, but in line with its opportunistic strategy, if attractive foreign investments are found, it will have the ability to invest up to 50 percent of the capital outside of the U.S.

OPERF committed \$200 million to Fund IV, in 2007. Staff notes that the reduced commitment being recommended for Fund V is based solely on the need to manage OPERF's overall private equity allocation.

The new commitment will be allocated 100 percent to the distressed subsector. As of June 30, 2010, OPERF's allocation to Distressed is targeted at 0-10 percent, with a current fair market value plus unfunded commitments exposure totaling 8.0 percent.

MOTION: Ms. Durant moved approval of the staff recommendation subject to the satisfactory negotiation of terms and conditions, and completion of the requisite legal documents by the Department of Justice working in concert with OST staff. Mr. Solomon seconded the motion. The motion was passed unanimously by a vote of 5/0.

IV. 10:25 a.m.: OIC Proposed Policy Revisions

Staff recommended proposed edits to OIC Policies 4.00.03 and 4.01.13 regarding the OIC Standards of Ethics and Consulting Contracts, respectively. Treasurer Wheeler requested that a vote on these policy changes be postponed until the December 1, 2010 OIC meeting, allowing additional time for input by OIC members and other interested parties.

IV-A. 10:28 a.m.: OIC Proposed Policy Revisions

Staff recommended approval of the Oregon University System (OUS) Long-Term Fixed Income portfolio investment policy statement. The Oregon University System (OUS) desires to fund a Long-Term Fixed Income Portfolio managed by OST to invest monies not needed to cover short-term needs. This proposed fund is governed by OST Policy 04.03.02 and the OUS Long-Term Portfolio Investment Policy would be added as attachment F. Karen Levear, Director of Treasury Operations for the OUS Controller's Division, and Perrin Lim, Senior Fixed Income Investment Officer, addressed questions from the Council members.

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

IV-B. 10:39 a.m.: Sheridan Production Partners

Staff recommended an allocation increase of up to an additional \$50 million in Sheridan Production Partners Fund II-B, which was approved at the September OIC meeting.

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

V. 10:43 a.m.: CEM Benchmarking Annual Report

Bruce Hopkins, Director of CEM Benchmarking, Inc. and Mike Mueller, Deputy CIO, presented the cost analysis that CEM Benchmarking, Inc. performed for the five-years ending December 31, 2009 on OPERF's overall investment costs. The Fund was identified as a high-value added/low cost fund, relative to the CEM universe of funds, both public and private. Using their unique database, CEM has provided Defined Benefit (DB) fund sponsors with insights into their cost, return, risk and liability performances since 1990. Their database includes 189 US Funds, valued at approximately \$2.3 trillion.

OPERF's costs are compared to a custom peer group of 19 funds (ranging from \$21.5 billion to \$134.1 billion), based on asset size. The median fund in the peer group was \$45.6 billion (Oregon—average assets for 2009). Among the 19 peer funds, OPERF was the 10th largest fund. Based on CEM's benchmarking, OPERF's total costs were lower than "expected" by approximately \$33 million and in the "Positive Net Value Added/Low Cost" quadrant.

This was an information item only.

VI. 11:10 a.m.: Asset Allocation and NAV Updates

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

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

Mr. Schmitz highlighted future agenda topics.

VIII. 11:12 a.m.: Other Business

There was no other business discussed.

11:13 a.m.: Public Comments

There were no public comments.

The meeting adjourned at 11:13 a.m.

Respectfully submitted,



Julie Jackson
Executive Support Specialist