



STATE OF OREGON
OFFICE OF THE STATE TREASURER
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SALEM, OREGON 97301-3896

OREGON INVESTMENT COUNCIL
JANUARY 26, 2011
MEETING MINUTES

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

Member on the Phone: Keith Larson

Staff Present: Darren Bond, Tony Breault, Brad Child, Jay Fewel, Sam Green, John Hershey, Julie Jackson, Perrin Lim, Tom Lofton, Mike Mueller, Kevin Nordhill, Jo Recht, Tom Rinehart, Ron Schmitz, James Sinks, Michael Viteri, Sally Wood

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

Legal Counsel Present: Keith Kutler, 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 December 1, 2010 and January 7, 2011 minutes to the table. Treasurer Wheeler moved to approve the minutes. The motion was seconded by Ms. Durant and passed by a vote of 5/0.

After approval of the minutes, Mr. Demorest read a letter from Governor Kulongoski thanking the Council for their service to Oregon.

****III. 9:02 a.m.: OPERF Alternative Portfolio Proposal (taken out of order)**

John Hershey, Alternatives Investment Officer presented to the OIC. Staff, Strategic Investment Solutions (SIS), and PCA recommended approval of a new Alternatives Program with a five percent strategic target allocation. The purpose of this new asset class would be to:

- Increase diversification
- Provide downside protection (left tail risk mitigation)
- Inflation hedge
- Expansion potential

Background

In July 2010, the OIC met at a workshop to hear a presentation by PCA on the merits of creating a new asset class comprised of a set of diversifying assets and strategies. These assets and strategies would include infrastructure and natural resource assets (oil and gas, timberland, agriculture land, commodities), and diversifying, low correlated hedge fund strategies. This workshop was the continuation of a longer term discussion the OIC has had on the merits of adding diversifying assets to the portfolio. Staff, SIS, and PCA recommended approval of a new Alternatives Program with a five percent strategic target allocation.

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

MOTION: Treasurer Wheeler moved approval of the staff recommendation of a new Alternatives Program with a five percent strategic target allocation. Mr. Larson seconded the motion. The motion was passed unanimously by a vote of 5/0.

Treasurer Wheeler made a statement regarding the overall strategy, specifically infrastructure transactions and how they affect Oregonians.

****IV. 9:30 a.m.: OPERF Real Estate Annual Review (taken out of order)**

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

In the mid 2000's the OIC approved a decision to restructure the Core Real Estate portfolio. Following are some results and actions taken since that change:

- Portfolio was subdivided into property types mirroring the NCREIF Index.
- Specialist managers were hired to manage individual property types.
 - ING Clarion – Office
 - GID – Apartments
 - Lincoln – Industrial
 - Regency – Retail
- Overall objectives were adopted.
- Outperform NPI net of fees and generate an 8.5% nominal net return.
- Each manager was given custom benchmarks.
- Managers today (other than ING Clarion) assumed management at near the peak of the market.
- Managers have not benefited from full market cycle – going from peak to trough and now back on an upward trajectory.
- ING Clarion has had full market cycle performance as their since-inception date was 2000.

ACTION: The OIC requested that this topic be brought back in April, following receipt of updated performance on the portfolio through calendar year end 2010.

****II. 10:00 a.m.: KKR North America XI Fund, L.P.-OPERF Private Equity (taken out of order)**

Jay Fewel, Senior Investment Officer introduced George Roberts, Founding Member and Mike Michelson, Member of KKR North America. Staff recommended a commitment of \$500 million for OPERF and \$25 million for the Common School Fund to KKR North American XI Fund, L.P., an \$8-10 billion target fund, to pursue equity and equity related investments, primarily in large, North American companies. The Fund will continue the strategy employed in 14 previous global private equity funds invested over the past 30 years, acquiring controlling ownership positions in mature companies, and then creating value through growth, strategic redirection, cost optimization, and deleveraging.

1. Staff recommended that the OIC authorize a \$500 million commitment to the KKR North American XI Fund, L.P., on behalf of OPERF, subject to the satisfactory negotiation of terms and conditions, and completion of the requisite legal documents by DOJ legal counsel working in concert with OST staff.
2. Staff recommended that the OIC authorize a \$25 million commitment to the KKR North American XI Fund, L.P., on behalf of the Common School Fund, subject to the satisfactory negotiation of terms and conditions, and completion of the requisite legal documents by DOJ legal counsel working in concert with OST staff.

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

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

V. 10:32 a.m.: Annual Placement Agent Summary

Mike Mueller, Deputy CIO gave a summary of the annual disclosure of placement agents in accordance to OST Policy 5.03.01 - Conflict of Interest and Code of Conduct: Staff shall present to the OIC an annual summary of any Placement Agent used by an investment firms, recommended to the OIC for approval.

VI. 10:33 a.m.: Asset Allocation and NAV Updates

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

VII. 10:33 a.m.: Calendar – Future Agenda Items

Mr. Schmitz highlighted future agenda topics.

VIII. 10:34 a.m.: Other Business

There was no other business discussed.

10:34 a.m.: Public Comments

There were no public comments.

Deputy State Treasurer Darren Bond gave a brief update on the status of the Oregon Government Ethics Commission investigation of OST travel, as requested from Mr. Solomon.

The meeting adjourned at 10:36 a.m.

Respectfully submitted,



Julie Jackson
Executive Support Specialist