

Ronald D. Schmitz  
Chief Investment Officer  
Investment Division



PHONE 503-378-4111  
FAX 503-378-6772

State of Oregon  
Office of the State Treasurer  
350 Winter Street NE, Suite 100  
Salem, Oregon 97301-3896

OREGON INVESTMENT COUNCIL  
July 27, 2011  
Meeting Minutes

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

Member on Phone: Treasurer Ted Wheeler (left meeting at noon)

Staff Present: Andrea Belz, Darren Bond, Tony Breault, Brad Child, Jay Fewel, Sam Green, Andy Hayes, John Hershey, Julie Jackson, Riley Kinser, Tom Lofton, Ben Mahon, Tom Rinehart, Ron Schmitz, James Sinks, Michael Viteri, Byron Williams, Sally Wood

Consultants Present: Allan Emkin (PCA), Nori Gerardo Lietz (Arete Capital) John Meier and Deborah Gallegos (SIS), David Fann, Ken Lee and Tom Martin (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. 9:00 a.m.: Review and Approval of Minutes**

**MOTION:** Mr. Demorest brought approval of the June 1, 2011 minutes to the table. Ms. Durant moved approval of the minutes. The motion was seconded by Mr. Larson and passed by a vote of 4/0. Treasurer Wheeler was not present for the vote.

Ron Schmitz, Chief Investment Officer gave an update on the most recent funds approved by the Private Equity and Real Estate Committees:

**Private Equity Actions**

6/21/2011 – VantagePoint CleanTech Partners III, L.P. - \$50 million  
6/21/2011 – Vestar Capital Partners VI, L.P. - \$75 million  
6/21/2011 – Rhone Partners IV, L.P. - \$75 million  
7/19/2011 – Parthenon Investors IV- \$75 million  
7/19/2011 – Oaktree European Principal Fund III- \$50 million  
7/19/2011 – Oakhill Advisors European Strategic Credit Fund, L.P. - \$50 million

**Real Estate Actions**

6/6/ 2011 - Alpha Asia Macro Trends Fund II, L.P. - \$200 million

## **II. 9:01 a.m.: Prologis Global Strategic Venture – OPERF Real Estate**

Staff recommended the OIC authorize a \$500 million commitment to the Prologis-OPERF Global Industrial Venture (“The Venture”), including \$75 million to the AMB European Logistics Fund. Brad Child, Senior Real Estate Investment Officer and Tony Breault, Investment Officer introduced Hamid Moghadam, Chairman and Co-CEO and Guy Jaquier, CEO from Prologis. The Venture, via a feeder vehicle formed by Prologis and OPERF, will invest in various Prologis investments globally and serve as a single access point for investing and reinvesting capital in Prologis Funds, potential co-investment opportunities, joint ventures, and publicly traded shares of Prologis. AMB Property Corporation and ProLogis combined in a merger of equals to form Prologis, Inc. on June 3, 2011.

Prologis (new combined company) is a leading owner, operator and developer of industrial real estate, focused on global and regional markets across the Americas, Europe and Asia. As of March 31, 2011, on a pro forma basis giving effect to the merger, Prologis owned or had investments in, on a consolidated basis or through unconsolidated joint ventures, properties and development projects expected to total more than 600 million square feet (55.7 million square meters) in 22 countries. The company leases modern distribution facilities to more than 4,500 tenants, including manufacturers, retailers, transportation companies, third-party logistics providers and other enterprises. As of March 31, 2011, after giving effect to the merger, the assets under management of Prologis’ 22 co-investment vehicles totaled US\$25.7 billion, reflecting gross fair market value of co-investment ventures / funds and estimated investment capacity.

There was a question and answer period following the presentation.

**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 DOJ legal counsel working in concert with OST staff. Treasurer Wheeler seconded the motion. The motion was passed by a vote of 5/0.

## **III. 9:50 a.m.: TPG Growth Fund II, L.P. – OPERF Private Equity**

Staff recommended that the OIC authorize a \$75 million commitment to TPG Growth II, L.P. Jay Fewel, Senior Private Equity Investment Officer introduced Bill McGlashan and Scott Gilbertson (Managing Partner and Managing Director of TPG, respectively). This request was originally slated to go to the Private Equity Committee, but it was requested that it be presented at a regularly scheduled OIC meeting. The Fund is being formed and sponsored by TPG Capital, and will continue the successful thematic, stage-agnostic strategy employed in the prior fund, TPG STAR (Acronym for Smaller Transactions, Allied-Resources. The Firm has since renamed the effort TPG Growth). The Firm launched TPG STAR in 2007 to target the type of smaller, high-growth transactions that TPG had focused on in its earlier, smaller private equity funds, but which over time, had been abandoned as the “main” TPG series of funds had grown substantially in both fund size, and targeted investment size, and evolved to become more buyout focused. The thesis behind STAR was that a fund managed by a dedicated investment team, focusing on smaller transactions, and allied with the deep resources of a large, global asset management firm such as TPG, would have a competitive advantage over smaller, stand-alone firms targeting similar transaction sizes. These “allied resources” include TPG Capital’s operations group, sector teams, investment banking relationships, executive networks, and the experience of TPG’s founders, who serve on the Fund’s Investment Committee.

Fund II is targeting commitments of \$2 billion, TPG expects Fund II will make 25 to 30 investments of less than \$100 million per transaction, approximately equally split between North America and China/Southeast Asia, with a few opportunistic transactions coming from other regions. Small buyouts, minority growth investments, and late-stage venture capital deals, primarily within the retail, financial services, business services, healthcare, consumer, and clean technology sectors will be targeted. Investment themes on which the team will focus may change according to technology and market developments, but are currently: the internet and “cloud” derivatives; multi-channel consumer products; vertical marketing software; renewable energy; and infrastructure in emerging markets. Generation of deal flow will be multi-channel, and include: the TPG Growth Investment Team; current and former portfolio company executives; TPG Capital’s global platform (affiliate referrals); and financial intermediaries. In general, transactions requiring an investment of less than \$100 million in

North America, and less than \$65 million in Asia, will be first offered to the Fund. Larger investments will first be offered to TPG's flagship buyout fund, or TPG Asia focused funds, respectively.

There was a question and answer period following the presentation.

**MOTION:** Mr. Solomon moved approval of the staff recommendation subject to the satisfactory negotiation of the requisite legal documents by legal counsel working in concert with OST Staff. Treasurer Wheeler seconded the motion. The motion was passed by a vote of 5/0.

#### **IV. 10:33 a.m.: Highstar Capital IV – OPERF Alternatives Portfolio**

Staff recommended that the OIC authorize a \$100 million commitment to Highstar Capital IV, L.P. This new fund will be a part of the new OPERF Alternatives Portfolio. John Hershey, Investment Officer introduced Christopher Lee Managing Partner of Highstar Capital. Highstar will focus on higher return value added and opportunistic strategies to build out a portfolio of contracted assets and GDP-related businesses in the energy, environmental services and transportation sectors, principally in North America and Europe. Examples include: airports, natural gas transportation, distribution and storage, the provision of water and wastewater services, and marine terminals (ports). Infrastructure assets tend to exhibit lower volatility relative to other asset classes and returns that are less correlated to capital market assets such as equities and fixed income instruments.

While Highstar focuses on long duration, core infrastructure assets, it will pursue a typical private equity style strategy of buying and holding for three to seven years before exit. As such, it will seek opportunities that allow for value-add operational improvement and growth opportunities to grow EBITDA and position the assets for longer hold acquirers.

Highstar offers one of the few independent and experienced managers with a realized track record of successful investing as a principal in the infrastructure sector.

**MOTION:** Ms. Durant moved approval of the staff recommendation with the condition that 100% of transaction fees be offset against management fees and 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. Mr. Larson seconded the motion. The motion was passed by a vote of 4/1 with Treasurer Wheeler voting no.

#### **V. 11:00 a.m.: NGP Natural Resources X – OPERF Alternatives Portfolio**

Staff recommended that the OIC authorize a \$100 million commitment to NGP Natural Resources X. John Hershey introduced Kenneth Hersh, CEO of NGP. NGP was formed in 1988 and has since raised nine core-funds, as well as several other related products that total \$9.5 billion of assets raised. The Fund has a target capitalization of \$4.0 billion and hard cap of \$4.75 billion. The Fund will target a gross IRR in excess of 25 percent and net IRR greater than 18 percent.

The Fund will continue the same investment approach employed by NGP over the past 22 years, focusing on backing high-quality management teams and acquiring interests in businesses in the oil and natural gas production, energy midstream and oilfield service industries. In addition, the Fund may also invest in the food and agriculture industry and the water resources and services industry; however, non-Energy investment is restricted to 10 percent of the Fund. The Fund will be focused on North America, but will have the ability to invest up to 25 percent outside of North America. The Fund will continue NGP's disciplined approach to risk management through the use of conservative asset-based leverage and commodity price assumptions as well as prudent hedging.

**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 DOJ legal counsel working in concert with OST staff. Mr. Larson seconded the motion. The motion was passed by a vote of 4/1 with Ms. Durant voting no.

## **VI. 11:25 a.m.: OPERF Real Estate Review**

Brad Child and Nori Lietz provided the OIC with a review of the current OPERF Real Estate portfolio, portfolio results for 2010 and a tentative plan for remainder of 2011. Ms. Lietz shared that she has stepped down from Partners Group and started her own firm called Areté Capital.

Mr. Child and Ms. Lietz began the presentation with the market update for the second half of 2011. The key questions included:

- **The pendulum swung out faster and farther than expected.**
- **What caused the swing?**
- **Has the pendulum swung out too far?**
- **What are likely triggers of a core market correction?**

The presentation moved on to the 2011 review. Some of the highlights and conclusions from this portion of the presentation:

- 2010 marked the “turn of the corner” for OPERF’s real estate portfolio – total return for the calendar year 2010 was 18.9 percent.
- Across the board improvements seen, especially in the Core, REITs, and Opportunistic segments.
- Real estate presently near target at 9.7 percent (Target is 11%).
- However, \$2 billion in unfunded commitments.
- General Partners anticipate calling \$1 billion by year end 2011.
- General Partners project distributing \$900 million by year end; however, materially below projections at 6/30/11.
- Even if all \$2 billion in unfunded commitments are called, would still be below the top of the range of 14 percent.
- Opportunity component is above policy target (38 percent versus 30percent) but below the upper end of the range at 40 percent.
- OPERF staff are aware of over allocation.

\*\*Treasurer Wheeler left the meeting at 12:00.

## **VII. 12:33 p.m.: Emerging Markets Mandates**

Michael Viteri, Senior Investment Officer and Ben Mahon, Investment Officer presented to the OIC. Staff and SIS recommend the following:

- Termination of the Pictet mandates utilized for OPERF and CSF.
- Hiring Axiom International Investors Emerging Markets product for OPERF portfolio, and hiring Arrowstreet Capital Emerging Markets product for the CSF portfolio, subject to the successful negotiation of terms.
- Amend OIC Policy 04-05-01 accordingly.

**MOTION:** Ms. Durant moved approval of the staff recommendations. Mr. Larson seconded the motion. The motion was passed by a vote of 4/0.

## **VIII. 12:40 p.m.: Internal Equity RAFI Fundamental Index**

Mr. Viteri and John Meier with SIS made the presentation. Staff and SIS recommended the following:

- Initial funding of \$500 million (2% of the Public Equity portfolio) for an internally managed Russell/RAFI Fundamental Large Cap Index with 50/50 Active/Passive strategy, including approval to increase the mandate to \$1 billion in the future as an upside allocation provision.
- Approve staff recommendations as outlined above and reflected in attached policies.
  - 4.05.01 Strategic Role of Public Equity Securities within OPERF: Codifies OIC authorization to implement a Russell/RAFI Fundamental Large Cap Index strategy.
  - 4.05.03 Internal Equity – Portfolio Objectives & Strategies: Clarifies the objectives and strategies of the Russell/RAFI Fundamental Large Cap Index strategy.

**MOTION:** Mr. Solomon moved approval of the staff recommendations. Ms. Durant seconded the motion. The motion was passed by a vote of 4/0.

**IX. 12:45 p.m.: Annual Internal Audit Update**

Andrea Belz and Byron Williams of the OST Audits Division made a presentation to the OIC. Staff recommended approval of the proposed amendment to policy 04.01.12 to allow internal audit services to take the lead on operational reviews.

**MOTION:** Mr. Larson moved approval of the staff recommendation. Ms. Durant seconded the motion. The motion was passed by a vote of 4/0.

**X. 1:00 p.m.: Asset Allocations and NAV Updates**

Mr. Schmitz reviewed the Asset Allocations and NAV's for the period ending June 30, 2011.

**XI. 1:02 p.m.: Calendar – Future Agenda Items**

Mr. Schmitz highlighted future agenda topics.

**XII. 1:03 p.m.: Other Business**

Darren Bond gave an update on the Ethics Commission investigation.

Paul Cleary shared about an upcoming meeting with the PERS Board Friday and handed out a copy of their presentation.

**Public Comments:**

There were no public comments.

The meeting adjourned at 1:13 p.m.

Respectfully submitted,



Julie Jackson  
Executive Support Specialist