The Oregon Investment Council was called to order at 9:05 a.m. by Gerard Drummond.

**OIC Members Present:** Gerard Drummond, Randall Edwards, Mark Gardiner, Diana Goldschmidt and Laurie Warner.

**OIC Member On-Line:** Jerry Bidwell

**Staff Present:** Jay Fewel, Steve Gruber, Linda Haglund, Norma Harvey, Todd Jones, Perrin Lim, Michael Mueller, Kevin Nordhill, Cesar Porte and Ron Schmitz.

**Consultants Present:** Michael Beasley, Strategic Investment Solutions (SIS)  
John Meier, Strategic Investment Solutions (SIS)  
Tara Blackburn, Pacific Corporate Group (PCG)  
Allan Emkin, Pension Consulting Alliance (PCA)  
Nori Lietz, Pension Consulting Alliance (PCA)

**Legal Counsel:** Dee Carlson, Oregon Department of Justice

Gerard Drummond announced that Randall Edwards would be slightly late due to heavy traffic and that Jerry Bidwell was connected to the meeting via phone.

**I. Review and Approval of Minutes (12/17/2003)**

**MOTION:** Diana Goldschmidt moved approval of the 12/17/2003 minutes. The motion was seconded by Mark Gardiner and passed unanimously by the Council.

Randall Edwards arrived at 9:10am.

**II. 2003 Riverside Capital Appreciation Fund, L.P. – Presentation & Recommendation**

Jay Fewel reminded the Council of the prior commitment to the 2000 Riverside Capital Appreciation Fund and noted the focus on the mid market buyout space. He noted that the Fund does not have a great deal of exposure to the mid market buyout space, with Endeavour as the only other similar investment in the alternative equity portfolio.

Mr. Fewel introduced Bela Szigethy and Stewart Kohl of the Riverside Company. The 2003 Riverside Capital Appreciation Fund is being formed by
The Riverside Company to make control investments in companies at the small end of the middle market, consistent with the strategy of the firm’s prior investments. The General Partner of the fund will be making investments in companies that have enterprise values ranging from approximately $10 million to $100 million and add-on acquisitions to these platform companies that have enterprise values as small as $1 million. The fund primarily makes control investments where it owns a majority of the equity of a company and is able to exercise meaningful influence over the company. Mr. Szigethy and Mr. Kohl outlined the fund’s focus, strategy, performance and investment philosophy. Questions were answered from the Council.

Jay Fewel and Tara Blackburn addressed the Council and outlined staff recommendations.

**MOTION:** Mark Gardiner moved to authorize a $75 million commitment to the 2003 Riverside Capital Appreciation Fund. Said commitment is subject to satisfactory negotiation of the requisite legal documents by legal counsel working in concert with the Oregon State Treasury staff and Pacific Corporate Group. The motion was seconded by Randall Edwards and passed unanimously by the Council.

**III. Large Cap Growth Equities - Presentations & Recommendations**

Jay Fewel addressed the Council and reminded them of the August 2003 authorization of staff to initiate a search for one or two managers to replace Oak Associates and to complement Alliance Capital Management’s Large Cap Growth Equity investment process. The search process was outlined by Mr. Fewel.

**a. Ark Asset Management**

Jay Fewel introduced Joel Kurth and Bill Simmons of Ark Asset Management. Ark is a 100% employee-owned institutional money manager based in New York City. The Large Cap Growth product is relatively new with a 5-1/2 year track record. Mr. Kurth and Mr. Simmons outlined their investment strategies, philosophy and process. The investment management team was introduced and performance numbers were reviewed. Risk control and analysis was discussed as well as client servicing. Mr. Kurth and Mr. Simmons answered questions from the Council.

**b. Trust Company of the West (TCW)**

Jay Fewel introduced Brian Beitner and Steve Burlingame of Trust Company of the West. TCW’s Concentrated Core product is a highly concentrated, low turnover, product that has achieved great success under the leadership of Glen Bickerstaff and a competent investment team. The investment process includes both a top down and bottom up analysis to identify companies with
strong and enduring business models. The TCW investment philosophy and process were outlined and composite performance charts were reviewed. Mr. Beitner and Mr. Burlingame answered questions from the Council.

Jay Fewel, Kevin Nordhill and Michael Beasley addressed the Council and discussed the two potential Large Cap Growth managers as well as staff recommendations. Discussion followed regarding fees and key personnel.

Allan Emkin commented on information presented in the Strategic Investment Solutions report.

**MOTION:** Randall Edwards moved to authorize the hiring of Ark Asset Management Large Cap Growth and TCW Core Concentrated products and fund the Alliance, Ark, and TCW portfolio in approximately equal weightings. Also assign the target weightings for the large cap growth sub-category, per OIC Policy 4.05.11, as follows:

<table>
<thead>
<tr>
<th>Fund</th>
<th>Target</th>
<th>Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alliance Capital</td>
<td>3%</td>
<td>+/-2.0%</td>
</tr>
<tr>
<td>Ark Asset Management</td>
<td>3%</td>
<td>+/-2.0%</td>
</tr>
<tr>
<td>TCW</td>
<td>3%</td>
<td>+/-2.0%</td>
</tr>
</tbody>
</table>

The OIC authorization is subject to successful contract negotiations, working in concert with the Department of Justice. The motion was seconded by Diana Goldschmidt and passed unanimously by the Council.

**IV. CSFB Customized Fund Investment Group - Presentation & Recommendation**

Ron Schmitz presented background information regarding House Bill 3613 and discussed the strategic directions taken by the Council, such as the hiring of Grove Street Advisors and Pathway Capital Management to fund partnerships slightly smaller than those staff and Pacific Corporate Group typically review. Mr. Schmitz also outlined a strategic plan presented by Staff and PCG and subsequently approved by the Council, to formalize a target of 5-10% of the portfolio to dedicated venture capital managers. He noted that these actions by the OIC will likely result in a flow of funds into Oregon business opportunities. He further noted that the CSFB recommendation is another step with respect to this issue and is obviously predominantly focused on in-state investments.

Jay Fewel directed the Council’s attention to the CSFB Customized Fund Investment Group proposal and the November OIC presentation. He noted that Mike Arpey and Kelly Williams of CSFB were present to address any questions.

Questions were answered from the Council and Randall Edwards thanked staff for their efforts to bring CSFB to Oregon.
Mr. Arpey thanked the Council and noted their excitement at the opportunity to serve in Oregon.

**MOTION:** Randall Edwards moved that the OIC authorize a $100 million commitment to CSFB’s Customized Fund Investment Group to be allocated 80% to limited partnership investments and 20% to co-investment opportunities. Said commitment is subject to satisfactory negotiation of the requisite legal documents by legal counsel working in concert with OST staff. The motion was seconded by Jerry Bidwell.

<table>
<thead>
<tr>
<th>Votes:</th>
<th>Gerard Drummond</th>
<th>Aye</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Jerry Bidwell</td>
<td>Aye</td>
</tr>
<tr>
<td></td>
<td>Randall Edwards</td>
<td>Aye</td>
</tr>
<tr>
<td></td>
<td>Diana Goldschmidt</td>
<td>Abstain</td>
</tr>
<tr>
<td></td>
<td>Mark Gardiner</td>
<td>Abstain</td>
</tr>
</tbody>
</table>

The motion passed.

**V. REIT Portfolio Allocation**

Steve Gruber announced that Cesar Porte had taken a position in the Real Estate Program with the State of Arizona and wished him well.

Steve Gruber and Nori Lietz addressed the Council, outlining staff recommendations that the REIT portfolio be reconfigured, taking some of the profits the portfolio generated the last few years and reallocating them to a more conservative investment strategy.

Treasury staff believes this is an appropriate time to transition a portion of OPERF equity REIT exposure to a different portion of the REIT capital structure. REITS have had terrific performance over the last several years. NAREIT Equity REIT Index calendar year performance has been: 26% (2000); 14% (2001); 4% (2002); 37% (2003).

Mr. Gruber noted that, with the exception of retail, property performance continued to deteriorate during 2003. He further noted that office rents have declined, industrial vacancy is at an all time high, and the demand for single-family housing continues to crush demand for rental housing.

Mr. Gruber and Ms. Lietz answered questions from the Council.

**MOTION:** Diana Goldschmidt moved to accept staff recommendation to repatriate capital from the OPERF REIT managers as follows:

- **Cliffwood Partners:** Reduce account to $30 million (~$40 million)
- **LaSalle Securities:** Reduce account to $315 million (~$70 million)
- **Cohen & Steers:** Reduce account to $160 million (~$5 million)
The motion was seconded by Mark Gardiner and passed unanimously by the Council.

VI. Woodbourne Investment Management

Steve Gruber outlined the staff recommendation to form a $50 million separate account within the REIT portfolio to be managed by Woodbourne Advisors, LLC. He introduced TJ Heyman of Woodbourne Real Estate Securities. The proposed investment will acquire preferred stock and possibly unsecured debt of publicly traded REITs. Woodbourne will target 8-9% annual current returns over a 5-year time horizon. Mr. Heyman gave an overview of the Woodbourne investment strategy. Mr. Heyman answered questions from the Council.

Mr. Gruber and Ms. Lietz answered questions from the council and discussed fee structure and fee negotiation as well as risk and resources (small firm).

MOTION: Randall Edwards moved to fund up to a $50 million allocation, as part of the REIT portfolio, to a separate account to be managed by Woodbourne Advisors for the proposed strategy, subject to satisfactory negotiation of the required documentation. The motion was seconded by Diana Goldschmidt and passed unanimously by the Council.

VII. Non-Mandate Investment Program

Steve Gruber and Nori Lietz outlined a program proposal that would allow OPERF to access additional transactions for its real estate portfolio. Mr. Gruber noted that, at this time, staff is seeking feedback from the OIC and asking for input as to the merits of this proposal, as well as the proposed built-in approvals and process under which such acquisitions could take place. The proposal is to invest capital with existing OPERF real estate managers in properties outside the specific OPERF property mandate (for Direct Property managers) or fund (for Opportunistic managers). The concept is to capture transactions sourced by these organizations that would otherwise meet OPERF investment criteria, if the manager had broader property type discretion. Many of OPERF’s managers have proven investment skill investing in properties other than those they acquire on behalf of their joint venture with OPERF. Staff proposes the managers be required to invest alongside OPERF pursuant to the investment agreement template already utilized in the Direct Property program.

Mr. Gruber and Ms. Lietz answered questions from the Council and discussed the risks involved in the proposed program. Mr. Gruber noted that the goal is to capture attractive opportunities in a highly competitive acquisition environment without increasing risk within the portfolio. He outlined examples and discussed the time-frame for working with PCA in development of a policy to allow the latitude to take advantage of opportunities as they arise. The approval process and benchmark were also discussed.
Randall Edwards expressed appreciation for Mr. Gruber bringing forward a new concept.

Mark Gardiner discussed the risk of leaving decision-making to staff and consultants on projects that have short timelines and the risk of losing focus on sub-sector allocations and how they fit in to the overall portfolio. He noted his discomfort with sub-committees and requested staff to examine the governance issues and risk exposure to the fund. He also requested staff to review policies that would provide an extra layer of protection for the fund and staff.

It was the consensus of the Council to agree in concept, and direct staff to develop draft guidelines and policies, including checks and balances, to meet the concerns expressed during the meeting.

VIII. PCA Contract Terms and Extension

Ron Schmitz noted that during the December 2003 OIC meeting, staff was directed to revise and formalize the Statement of Work (SOW) for the contract with Allan Emkin, PCA. The OIC members were furnished, via email, with a revised SOW for Mr. Emkin and comments and expectations were received and incorporated in the revised SOW. Mr. Schmitz directed the Council to the synopsis of six changes in the SOW for Allan Emkin.

Mark Gardiner requested an additional item to be added that includes participation in Council discussions and oral recommendations.

MOTION: Mark Gardiner moved to extend the PCA - Allan Emkin contract for a three year term, ending December 31, 2006, with the changes in the Statement of Work as follows:
1) Assist in the development of Investment Policy;
2) Review and participate in the Asset Allocation process;
3) Review and provide written comment on Fund/Manager/Asset Performance, as requested;
4) Provide staff and the OIC written, quarterly, commentary on current developments in the plan sponsor community;
5) Provide written research, as requested;
6) Perform other projects as specified by the Council; and
7) Participate in Council discussions and make oral recommendations on issues raised by the Council.

The motion was seconded by Diana Goldschmidt and passed unanimously by the Council.

IX. Asset Allocations & NAV Updates

Ron Schmitz reported that asset allocations were within target ranges.
Diana Goldschmidt complimented staff on the 2003 manager performance.

X. Calendar - Future Agenda Items

The calendar of future OIC meetings was discussed and the March meeting date change to March 31st was noted.

XI. Public Comment

A. Dennak Murphy (Service Employees International Union), Joe DiNicola (SEIU Local 503), Tim Nesbitt and Michael Garland (ALF-CIO) addressed the Council regarding their concerns with Safeway and the role of KKR. They encouraged the Council to support Treasurer Edward’s participation in a group effort of State Treasurers to meet with KKR, to examine their role on Safeway’s Board of Directors. Mr. DiNicola requested that the Council provide Pacific Corporate Group with information from the AFL-CIO for examination and report back to the Council with their findings. Tara Blackburn agreed to examine the AFL-CIO’s documents and report back to the OIC.

B. Bill Parish of Parish and Company, presented a proposal for OPERF to purchase Portland General Electric.

The meeting adjourned at 12:12pm.

Respectfully submitted,

Norma Harvey
Investment Coordinator