

OREGON INVESTMENT COUNCIL

2014 Schedule

Meetings Begin at 9:00 am

PERS Headquarters Building
11410 S.W. 68th Parkway
Tigard, OR 97223

Wednesday, January 29, 2014

Wednesday, March 5, 2014

Wednesday, April 30, 2014

Wednesday, May 28, 2014

Wednesday, July 30, 2014

Wednesday, September 24, 2014

Wednesday, November 5, 2014

Wednesday, December 3, 2014



OREGON INVESTMENT COUNCIL

Agenda

January 29, 2014
9:00 AM

PERS Headquarters
11410 S.W. 68th Parkway
Tigard, Oregon

| <u>Time</u> | <u>A. Action Items</u> | <u>Presenter</u> | <u>Tab</u> |
|-------------|--|--|------------|
| 9:00-9:05 | 1. Review & Approval of Minutes December 4, 2013 Regular Meeting | Dick Solomon <i>OIC Chair</i> | 1 |
| | Committee Reports | John Skjervem <i>Chief Investment Officer</i> | |
| 9:05-9:50 | 2. TSSP Adjacent Opportunities Partners, LP <i>OPERF Opportunity Portfolio</i> | John Hershey <i>Senior Investment Officer</i> Alan Waxman <i>CIO & Managing Partner, TSSP</i> Jamie Gates <i>Partner, TPG Holdings & TSSP</i> Tom Martin <i>TorreyCove Capital Partners</i> | 2 |
| 9:50-10:00 | ----- BREAK ----- | | |
| 10:00-11:00 | 3. TPG Capital Partners Strategic Account LP <i>OPERF Private Equity</i> | Sam Green <i>Investment Officer</i> David Bonderman Jim Coulter <i>Co-Founders, TPG</i> David Fann Tom Martin <i>TorreyCove Capital Partners</i> | 3 |

Dick Solomon
Chair

Katy Durant
Vice-Chair

Rukaiyah Adams
Member

Keith Larson
Member

Ted Wheeler
State Treasurer

Paul Cleary
PERS Director

B. Information Items

| | | | |
|--------------------|--|--|----------|
| 11:00-11:05 | 4. Annual Placement Agent Report | John Skjervem | 4 |
| 11:05-11:15 | 5. Asset Allocations & NAV Updates a. Oregon Public Employees Retirement Fund b. SAIF Corporation c. Common School Fund d. HiEd Pooled Endowment Fund | John Skjervem | 5 |
| | 6. Calendar—Future Agenda Items | | 6 |
| | 7. Other Items | Council Staff Consultants | |

C. Public Comment Invited

15 Minutes

TAB 1 – REVIEW & APPROVAL OF MINUTES

December 04, 2013 Regular Meeting

OST Committee Reports – Verbal



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

OREGON INVESTMENT COUNCIL
DECEMBER 4, 2013
MEETING MINUTES

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

Member Absent: Rukaiyah Adams and Ted Wheeler

Staff Present: Darren Bond, Tony Breault, Karl Cheng, Sam Green, John Hershey, Brooks Hogle, Julie Jackson, Perrin Lim, Tom Lofton, Ben Mahon, Mike Mueller, Tom Rinehart, Priyanka Shukla, James Sinks, John Skjervem, Michael Viteri

Consultants Present: David Fann and Tom Martin (TorreyCove); Pete Keliuotis (SIS); Alan Emkin, Christy Fields, David Glickman and John Linder (PCA)

Legal Counsel Present: Dee Carlson and Deena Bothello, Oregon Department of Justice

The December 4, 2013 OIC meeting was called to order at 9:00 am by Keith Larson, Chair.

I. 9:00 am Review and Approval of Minutes

MOTION: Mr. Solomon moved approval of the October 30, 2013 meeting minutes. Ms. Durant seconded the motion, which then passed by a 3/0 vote.

COMMITTEE REPORTS

John Skjervem, CIO gave an update on committee actions taken since the October 30, 2013 OIC Meeting:

Private Equity Committee – 2013:

| | | |
|------------------|---|---------------|
| December 3, 2013 | Palladium Equity Partners IV | \$100 million |
| December 3, 2013 | Union Square Ventures 2014 | \$25 million |
| December 3, 2013 | Union Square Ventures 2014 Opportunity Fund | \$25 million |
| December 3, 2013 | Tailwind Capital Partners II | \$75 million |
| December 3, 2013 | Apollo Investments Fund VIII** | \$100 million |
| December 3, 2013 | CDH Fund V** | \$25 million |
| December 3, 2013 | Morgan Stanley PE Asia IV** | \$25 million |

** Represents top-off to previously-approved commitment.

II. 9:01 am Rockpoint Group – OPERF Real Estate Portfolio

Tony Breault, Senior Investment Officer introduced Bill Walton, Managing Member and Hank Midgley, Principal, both with Rockpoint. The Rockpoint Core Plus Fund, L.P. (“CPF” or the “Fund”) has a target size of \$1.0 billion and will consist of capital commitments from a limited subset of existing Rockpoint institutional investors. With a core-plus mandate, the Fund will invest in stabilized commercial real estate assets with strong existing cash flows and less capital-intensive business plans than typically found within Rockpoint’s opportunistic investment funds. The Fund will primarily focus on equity investments in office and multi-family commercial real estate assets within the United States, although debt origination, preferred equity, debt acquisitions and, to a lesser extent, other stabilized institutional quality assets may be included.

Rockpoint was formed in 2003 after Bill Walton, Keith Gelb and 11 other senior members left Westbrook, which was co-founded by Bill Walton in 1994, to start their own real estate opportunity fund platform. Rockpoint’s Founding Managing Members have been working together for more than 17 years, and the firm’s 18 senior investment professionals have invested together for an average of 11 years. Over the past decade, Rockpoint has raised six institutional investment funds, not including CPF, totaling \$7.7 billion in equity capital as well as four co-investment vehicles for an additional \$1.0 billion. Headquartered in Boston, the firm has approximately 46 investment personnel globally, with additional offices and investment professionals located in Dallas, San Francisco and London.

MOTION: Staff recommended OIC approval for a \$100 million commitment to Rockpoint Core Plus Fund, L.P., on behalf of OPERF, subject to the successful negotiation of terms and conditions and completion of all requisite documentation by DOJ legal counsel working in concert with OST staff. Ms. Durant moved approval of the staff recommendation. Mr. Solomon seconded the motion which then passed by a vote of 3/0.

III. 9:37 am LS Power Equity Partners III, L.P. – OPERF Alternatives Portfolio

LS Power Group (“LS Power”) was founded in 1990 as an independent energy company. At its inception, LS Power focused exclusively on the development of power generation facilities to take advantage of opportunities created by power market deregulation trends. LS Power also formed the affiliate Luminus Management in 2002 to manage a long/short hedge fund that invests in publicly-traded securities of utility and energy-related companies. LS Power’s first private equity effort, a \$1.2 billion fund, was launched in 2005 to acquire power and energy infrastructure assets. Fund II, a \$3.1 billion fund, was raised in 2006 to pursue corporate/strategic minority investments, operating power generation assets and select development opportunities. LS Power is now launching a third, \$1.5 billion fund (LS Power Equity Partners III or “Fund III”) which will focus exclusively on operating assets and generally not pursue the types of development and corporate/strategic opportunities that were central to the first two funds’ investment objectives.

LS Power’s target return for Fund III is a mid- to high-teens net IRR. Fund III includes a management fee on committed capital with a standard carry and preferred return. Its terms also stipulate a five-year investment period and a ten-year fund life with three, one-year optional extensions. All portfolio company fees are offset 100% against Fund III management fees. Finally, LS Power retained Evercore Partners as its placement agent and with whom OST staff has had contact.

MOTION: Staff and TorreyCove recommended a \$100 million commitment to LS Power Equity Partners III, L.P., subject to the successful negotiation of terms and conditions and completion of all requisite documentation by DOJ legal counsel working in concert with OST staff. Mr. Solomon moved approval of the staff recommendation. Ms. Durant seconded the motion with a request that staff clarify terms and request that the manager calculates incentive fees on a portfolio level as opposed to individual investments. The motion passed by a vote of 3/0.

IV. 10:57 am OPERF Opportunity Portfolio Annual Review

John Hershey, Senior Investment Officer gave an annual update on the Opportunity portfolio.

New Commitments in 2012/13 include:

- RS Investments (\$50 million)
- Blackstone Tactical Opportunities (\$250 million)
- Content Partners (\$50 million)

Strategies of interest include:

- Dislocation oriented
 - Regulatory Capital Arbitrage
 - Structured credit
 - Shipping
- Less correlated oriented
 - Drug royalty streams
 - Insurance and reinsurance related
 - Intellectual property
- Innovation oriented
 - Currencies
 - Trade finance
 - Legal settlements
- Strategic partnerships
 - “Club Deals”
 - Tactical/opportunistic partnerships

V. 11:17 am Higher Education Endowment Fund Annual Review

Mike Mueller, Deputy CIO and Penny Burgess with Oregon University System provided an annual review of investment performance for the Higher Education Endowment Fund (the “Fund”). On a quarterly basis, Treasury staff provides the Board of Higher Education with a similar performance review. Oregon University System personnel agreed also to keep the OIC apprised of potential plans for significant distributions from the Fund by individual, participating universities.

The HIED Endowment Fund returned 12.8 percent for the year ended September 30, 2013. This performance was 110 basis points ahead of the Fund’s passive policy benchmark which recorded an 11.7 percent return during the same 12-month period. On a trailing three- and five-year basis, the Fund generated average annual returns of 10.1 percent and 8.7 percent, respectively.

VI. 11:25 am OPERF 3rd Quarter Performance Review

Pete Keliuotis with SIS gave a third quarter 2013 update on both global capital markets and OPERF investment performance.

VII. 11:38 am Election of OIC Officers

Mr. Larson thanked staff and his OIC peers for all of the great work and support during his tenure as Chair.

MOTION: Mr. Larson nominated Mr. Solomon for Chair, a motion that was seconded by Ms. Durant, and Mr. Solomon nominated Ms. Durant for Vice Chair, a motion that was seconded by Mr. Larson. Both motions passed by a vote of 3/0.

VIII. 11:42 am OIC General Consultant Recommendation

Staff recommended retaining Callan Associates and Allan Emkin for separate, initial three-year engagements, subject to the successful negotiation of contract terms with staff working in concert with Department of Justice personnel.

MOTION: Ms. Durant moved approval. Mr. Solomon seconded the motion, which then passed by a vote of 3/0.

IX. 11:45 am Asset Allocations and NAV Updates

Mr. Skjervem reviewed asset allocations and NAV's across OST-managed accounts for the period ended October 31, 2013.

Paul Cleary gave an update on PERS.

X. 11:47 am Calendar – Future Agenda Items

Mr. Skjervem presented a revised schedule of future OIC meetings and associated agenda topics.

XI. 11:48 am Other Business

None

11:49 am Public Comments

None

Mr. Larson adjourned the meeting at 11:50 am.

Respectfully submitted,



Julie Jackson
Executive Support Specialist

TAB 2 – TSSP Adjacent Opportunities Partners, LP

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TSSP Adjacent Opportunities Partners, L.P.

Purpose

Staff recommends approval of a \$250 million commitment to TSSP Adjacent Opportunities Partners, L.P. (“TAO” or the “Fund”) for the OPERF Opportunity Portfolio.

Background

In 2009, TPG recruited Alan Waxman and other senior executives from Goldman Sachs’s special situations team to build out the TPG Special Situations Partners (“TSSP”) platform, focused on global opportunistic credit and special situations investment opportunities. The TSSP platform initially built a portfolio, collectively called “TPG Opportunities Portfolio (“TOP”), of credit investments within TPG’s private equity fund. Subsequently the team raised two additional opportunistic credit funds: TPG Opportunities Portfolio TOP II and TPG Specialty Lending (“TSL”), in which OPERF was the lead domestic investor. TSSP is currently closing on TOP III and is raising up to \$2.0 billion of capital for TAO as a side car for a limited and select group of founding limited partners.

Strategy

The TAO fund will focus on adjacent and overage investment opportunities generated by the broader TSSP platform. Adjacent opportunities are expected to be approximately 50% of the Fund and will be comprised of “mid-return” investment opportunities including those that might be shorter duration, non-control positions, liquidating pools or claims, or for some other reason simply don’t fit within the existing TOP, TSL or main TPG buyout fund mandates. Examples of adjacent opportunities include drug royalties, infrastructure special situations, structured European “Bad Bank” whole loan purchases, residential/commercial real estate re-performing loans and mortgage servicing rights.

Overage investment opportunities are co-investments in larger transactions generated by the firm for its TOP and TSL funds, and are expected to both represent the remaining 50% of Fund capital and be split evenly between TOP- and TSL-generated opportunities. Examples of TOP overage opportunities include non-performing loan portfolios, distressed for control opportunities, rescue financings and structured healthcare transactions. TSL overage opportunities are expected to include larger U.S. middle market direct lending and European direct lending loans. Over the past four years, the team has generated approximately \$4.0 billion of similar co-investment opportunities.

Pros:

- *Strong investment performance.* Since inception, the TOP funds have generated gross IRRs in excess of 30% and net IRRs in excess of 20%. Moreover, previous side car investments have enjoyed similar returns. This Fund targets 10-15% returns, with some current income.
- *Large opportunity set.* As investment banks have dismantled their prop desks, a growing opportunity set has emerged for private equity firms with dedicated “Opportunity” or “Special Situations” teams. Moreover, banks are under continued pressure from regulators to divest non-core assets. TSSP was formed by TPG to recreate the highly successful Goldman Sachs special situations model.
- *Large and experienced team.* The six partners of TSSP all previously worked together at Goldman Sachs where they managed an \$8 billion special situations portfolio prior to joining TPG. The combined headcount of the TSSP platform is greater than 50 investment professionals, not including any personnel from the main TPG private equity team.
- *Sourcing.* TSSP has built a global commercial banking coverage team to generate deal flow from banks that seek to divest assets. To date, over three quarters of these deals have been sourced

away from Wall Street or advisor-led processes. Moreover, TSSP benefits from the extended sourcing capability of the broader TPG organization, which can provide robust deal flow.

- *Strategic platforms.* The Fund will benefit from several strategic relationships and platforms established by the TSSP team. For example, TSSP has developed platforms with Candlewick (European direct lending team), Capital Crossing (small commercial real estate and industrial loans), Roosevelt Management (residential mortgage servicing) and others which leverage the TSSP platform. These platforms add over 1,000 additional employees to TSSP's investment resources, particularly in loan operations.
- *Existing relationship.* OPERF has a longstanding relationship with TPG dating back to their first institutional partnership. Moreover, Staff has had extensive exposure to the TSSP team through its status as a TSL quarterly board meeting observer. As a result of this regular exposure, Staff has developed a high regard for the team's underwriting and investing capabilities.

Cons:

- *Allocation of Investment Opportunities.* On occasion there may arise a situation in which specific investments are allocated among different TPG funds, an allocation process that would be determined by the GP. [Mitigant: The mandate for TAO includes pro rata (i.e., formulaic) investments in the overage opportunities sourced for TPG's credit co-mingled vehicle (TOP). The remaining adjacent opportunities will include investments that don't fit within the guidelines of TPG's other funds.]
- *Broad mandate.* The considerable breadth of the TAO investment mandate requires a team that can source and successfully underwrite across a wide variety of assets and strategies. [Mitigant: The senior TPPS team covered a similarly broad mandate at Goldman Sachs and has worked together effectively for an average of 8 years, inclusive of their time together at Goldman Sachs.
- *Regulatory risk.* The opportunity set is driven in part by changing bank regulations that are designed to limit banks' proprietary trading activities. Should these regulations change or the enforcement thereof wane and banks' proprietary trading capabilities be restored in part or in full, the TAO investment opportunity set will likely become more competitive and prospective investment returns will likely decline. [Mitigant: The TSSP team has extensive relationships with banks by virtue of their Goldman Sachs tenure. As such, they expect to maintain a steady flow of opportunities generated by investment banks seeking investment partners, independent of the regulatory environment.]

Terms

The management fee is better than typical, including a lower than typical fee on committed capital. In addition, the incentive fee is better than typical (see Torrey Cove memo for details), offset in part by a lower than typical preferred return. The Fund is open-ended and OPERF's ongoing participation can be terminated at OPERF's option after a 36-month initial commitment period. There was no associated placement agent with whom Staff had contact.

Conclusion

The Opportunity Portfolio has been harvesting capital from a number of credit-oriented investments made in 2008, thereby freeing up significant capacity, and TAO's "opportunistic" mandate is consistent with that established for OPERF's Opportunity Portfolio.

Recommendation

Staff and Torrey Cove recommend a \$250 million commitment to the TSSP Adjacent Opportunities Partners, L.P., subject to satisfactory negotiation of the requisite legal documents with staff working in concert with Department of Justice personnel.



MEMORANDUM

TO: Oregon Public Employees Retirement Fund ("OPERF")
FROM: TorreyCove Capital Partners ("TorreyCove")
DATE: January 16, 2014
RE: TSSP Adjacent Opportunities Partners

Strategy:

The Fund is being created to provide the TPG Special Situations Group with flexible capital to pursue opportunities that fall outside of the scope of other investment products/funds, defined as "adjacency opportunities". The Special Situations Group manages the TPG Specialty Lending fund as well as two TPG Opportunities Partners funds. These investment vehicles generate deal flow and are expected to have additional capacity for co-investment capital, and there are additional opportunities which are not appropriate fits for either product. The Fund will leverage this deal flow to take advantage of the following opportunities:

- Investments which are not a fit for other Special Situations Group funds: medical royalties, residential and commercial real estate, infrastructure special situations, and structured European whole loans. Investments such as these are expected to make up approximately 50% of the portfolio and to generate returns of between 10% and 13%.
- TOP III overage co-investments: Non-performing loans, structured partnerships to fund development for pharmaceutical and biotech companies, large cap European distressed for control deals, and rescue financing opportunities. These types of deals are expected to be about 25% of the Fund and generate returns of 16% to 25%.
- TSL overage co-investments: U.S. and European mid-market direct lending. This is expected to make up approximately 25% of the portfolio and generate returns of 10% to 15%.
- Other opportunities sourced from the TPG platform which meet the return and risk profile of the Fund

Please see attached investment memorandum for further detail on the investment opportunity.

Conclusion:

The Fund offers OPERF an opportunity to participate in a differentiated portfolio of credit oriented investments with relatively attractive overall terms. TorreyCove's review of the General Partner and the proposed Fund indicates that the potential returns available justify the risks associated with an investment in the Fund. TorreyCove recommends that OPERF consider a commitment of up to \$250 million to the Fund. TorreyCove's recommendation is contingent upon the following:

- (1) Satisfactory negotiation or clarification of certain terms of the investment;
- (2) Satisfactory completion of legal documents;
- (3) Satisfactory continuation and finalization of due diligence;
- (4) No material changes to the investment opportunity as presented; and
- (5) Confidentiality maintained regarding the commitment of OPERF to the Partnership until such time as all the preceding conditions are met.

TAB 3 – TPG Capital Partners Strategic Account LP
(Interim Fund)

OPERF Private Equity

TPG Strategic Partnership Interim Fund, L.P.

Purpose

Staff is recommending a commitment of \$700 million to TPG Strategic Partnership Interim Fund, L.P. (the "Fund"), a \$1.6 billion minimum (\$2.0 billion maximum) fund, which is intended to serve as bridge investment capital between the expiration of the commitment period of TPG Partners Fund VI (TPG's currently investing fund) and the fund raise/activation of TPG Partners Fund VII. The Fund will target TPG's historical "sweet spot", which is buyout transactions requiring \$250 to \$600 million of equity capital, and are often differentiated by complexity, a need to transform the business or are "off the beaten path" relative to traditional buyout targets. TPG expects to invest a majority of the Fund in North America, but will also pursue opportunities globally, and hence expects to also invest some Fund capital in Europe and Asia. OPERF and the OIC have committed to all six prior TPG Partners funds.

Background

TPG (originally known as Texas Pacific Group) was founded in 1992 by David Bonderman, Jim Coulter and Bill Price following their collective departure from the Robert M. Bass Group. These three founders' first investment effort was the successful reorganization of Continental Airlines out of bankruptcy with privately raised capital, in a vehicle known as Air Partners, L.P. Following on this success, TPG raised its first pool of institutional capital, TPG Partners I, L.P., in 1994. OPERF and the OIC were early investors in this debut fund, committing \$50 million to Fund I.

Since this inception, TPG has grown into one of the leading global private equity firms, employing over 150 investment professionals in 17 global offices, and has raised over \$55 billion of investment capital for its flagship fund series and other investment vehicles targeting private equity, real estate, debt and capital markets opportunities.

TPG's first four flagship funds were highly successful, allowing the firm to raise successively larger funds, and build out the Firm's global team and capabilities. The Firm raised its fifth main fund, TPG Partners V, in 2006. Based on the Firm's prior success and the bubble that was forming in private equity and other capital markets (clear now in hindsight), the Fund V fundraise exceeded \$15 billion, or nearly three times the amount TPG had raised for its prior fund. TPG began investing Fund V in 2006 into the peak of the asset bubble which preceded the global financial crisis of 2008-2009. While hindsight is always 20/20, it is worth remembering the market sentiment in 2006 and 2007. Famously termed "the Golden Age of Private Equity" at the time, successful private equity firms had high investor demand, enthusiastic investor sentiment, incredibly accommodative debt markets and a wide-open mergers & acquisitions market that was producing record numbers of record-size transactions. TPG has acknowledged that during this period, the Firm's strategy shifted, resulting in Fund V investing in larger, more competitive transactions, and fewer of the investments where TPG believes it has a competitive advantage or "angle" (e.g., complexity, business transformation, etc.). Some of Fund V's largest investments were significantly impacted by developments that in retrospect, were difficult if not

impossible to foresee ahead of time. Two prime examples of this are: 1) the shale gas revolution and subsequent collapse of U.S. natural gas prices, and its effect on Fund V portfolio company Energy Future Holdings; and 2) a global financial crisis so severe that for the first time ever, the “defensive” gaming industry experienced a multi-year decline that adversely impacted Harrah’s, another Fund V portfolio company. Fund V performance has been challenged, and while it will return capital and earn a modestly positive return, it will most likely not deliver returns consistent with our expectations for private equity investments in general and TPG-led investments in particular.

The Firm acknowledges that its strategy shift during the 2006-2008 timeframe was not successful, and beginning in 2009, undertook a firm-wide, “back to basics” initiative. This directive, which re-focused the firm and its decision-making processes on smaller transactions that fit within its traditional strategy framework, is evident in the construction of the Fund VI portfolio. Fund VI is off to a promising start, but is also at this time too young to draw meaningful conclusions about its ultimate investment performance.

Nonetheless, Fund VI is coming to the end of its investment period, and raising Fund VII would presumably be easier with additional time for Fund VI results to crystallize. Thus, TPG is raising this interim vehicle to serve as a capital bridge enabling the Firm to continue its investment activities during the period between the depletion of Fund VI capital and fund raising activities associated with Fund VII in late 2014 and early 2015.

TPG Strategic Partnership Interim Fund will include only a select handful of limited partners who have been the largest and longest-duration investors with TPG, and who are considered “strategic partners” by the Firm. The Fund will be a customized vehicle, with an attractive set of “L.P. friendly” terms, options and economics. Please see the non-public TorreyCove Investment Memorandum for full details.

Strategy

As noted above, the Fund will employ the general strategy followed by the Firm’s first four funds, and most closely that used in Fund III and Fund IV. The Fund will seek equity investments, generally controlling stakes, of \$250 million to \$600 million, in companies with enterprise values of \$300 million to \$3 billion. TPG considers its strategy to be value-oriented, as it actively seeks less-competitive deals that other private equity firms may seek to avoid and which can be acquired at a discount to intrinsic value. Examples of these types of deals include transactions with financial, regulatory, legal or other complexity, businesses in need of operational or strategic transformation and out-of-favor industries/companies, etc. A majority of the Fund’s investments will be in North America, but the Fund has a dedicated Europe team and will likely invest alongside TPG Asia funds on larger Asian buyout transactions. The Fund will be opportunistic in other geographies, and will likely only invest in rare, truly exceptional opportunities.

TPG organizes itself by the following sector teams: Healthcare; Energy; Industrials; Consumer/Retail; Hardware/Semiconductors/Telecom; Media & Internet; Software & services; and Financial Services/Insurance. Annually, the firm undertakes a top-down, thematic review of each of its core sectors. Using macro-economic forecasts, demographic trends, technology developments, industry

specific supply/demand factors and many other variables, the Firm seeks to identify the most attractive strategies, areas or sub-sectors for investment. These investment “themes” drive the Firm’s proactive deal generation efforts. TPG’s in-house Operations team is actively involved in theme development, and brings a substantial amount of hands-on sector experience and knowledge to the table.

Once an interesting potential transaction has been identified, TPG has a well-defined, multi-step investment decision making process, overseen by the most senior investment professionals. From very early in this process, TPG’s Operations team is integrated into the due diligence process, helping to identify value-adding strategies, and helping build the investment case and post-acquisition investment plans. After an acquisition, both the deal team and the Operations team work together to implement the investment strategy and value creation plans.

Team

Since inception, TPG has grown into a robust investment organization, with a total of over 150 investment professionals, including 33 partner level professionals. The team is broad, deep and very experienced. Founder David Bonderman, age 70, remains actively involved in overall Firm leadership and direction, and serves on the Boards of three portfolio companies. Generational transition and continuity of leadership are not a concern for TPG, given the ages of other members of the Firm’s senior leadership, including Co-Founder Jim Coulter (age 53), CIO Jonathan Coslet (age 48), and Dick Boyce (Head of Operations, age 58).

Track Record

The OIC has committed to all six prior TPG Partners funds. As of September 30, 2013:

| Fund | Vintage | Commitment | Net IRR | Net TVM | IRR Quartile | TVM Quartile |
|--------------|----------------|-------------------|----------------|----------------|---------------------|---------------------|
| I | 1994 | \$ 50 | 37.6% | 3.15x | First | First |
| II | 1997 | 300 | 9.0% | 1.54x | Second | First |
| III | 2000 | 300 | 26.4% | 2.34x | First | First |
| IV | 2003 | 300 | 16.1% | 1.76x | First | Second |
| V | 2006 | 300 | 0.4% | 1.02x | Fourth | Fourth |
| VI | 2008 | 750 | 7.8% | 1.18x | Fourth | Fourth |
| Total | | | 12.9% | 1.38x | | |

Portfolio Fit and Commitment Sizing

TPG represents one of the four “core” large corporate finance (LCF) managers in the OPERF private equity portfolio. The firm is differentiated from other LCF managers, both in deal flow and strategy, with a unique competence in complex and transformational deals that is not duplicated by other LCF OPERF managers.

Staff’s recommendation of a \$700 million commitment was not contemplated in the original 2013 Private Equity Plan discussed with the OIC in early 2013, but was added to the plan during 2013, based

on the attractiveness of the opportunity, and available 2013 commitment budget capacity. Staff originally intended to bring this recommendation forward in the fall of 2013, but postponed doing so until January, 2014 upon request of TPG. Accordingly, for budgeting purposes, Staff will count this commitment against its 2013 budget if approved.

Placement Agents

TPG asserts that it is not using placement agents to assist in raising the Fund. Staff has had no contact with any placement agent regarding this potential commitment, and has dealt directly with TPG staff.

Private Partnership Investment Principles

Staff has reviewed the proposed terms and conditions of the Fund, relative to the OIC Private Partnership Investment Principles, noting the Fund's terms and conditions conform with, or are better than, a majority of the Principles.

Recommendation

Staff recommends that the OIC authorize a \$700 million commitment to TPG Strategic Partners Interim Fund, L.P., on behalf of OPERF, subject to satisfactory negotiation of terms and conditions, and completion of the requisite documentation by DOJ legal counsel working in concert with OST staff.



MEMORANDUM

TO: Oregon Public Employees Retirement Fund ("OPERF")
FROM: TorreyCove Capital Partners ("TorreyCove")
DATE: January 16, 2014
RE: TPG Strategic Partnership/Interim Fund (the "Fund")

Strategy:

The General Partner intends to continue pursuing the Firm's historical investment strategy in the Fund, targeting control-oriented equity and equity-related investments in the large corporate finance space. TPG believes that transactions with situational and structural complexity often require significant human resources, regulatory expertise, and long lead times, and that the firm has a competitive advantage in uncovering values from these deals as it can draw upon the strengths of its Operating Group to take an active role in companies operating below optimal levels. The Fund will focus on investment opportunities in the U.S. and Europe and may invest alongside TPG Asia's Asia-dedicated funds for larger deals. Typical investment size is expected to be approximately \$250 million to \$600 million. The overall objective is to build a balanced portfolio diversified across transaction types, geographies and industry sectors.

Please see attached investment memorandum for further detail on the investment opportunity.

Allocation:

A new commitment to the Fund would be allocated 100% to the Large Corporate Finance investment sub-sector and will further be categorized as a North America investment. As of September 30, 2013, OPERF's allocation to Large Corporate Finance is listed in the table below. It is important to note that since allocation is based on fair market value, a commitment to the Fund would not have an immediate impact on OPERF's current portfolio allocation. Commitments to the Fund are complementary to OPERF's existing fund commitments and provide the overall portfolio with a further degree of diversification.

| As of September 30, 2013 | Target | FMV | FMV + Unfunded |
|--------------------------|---------|-------|----------------|
| Large Corporate Finance | 45-65% | 47.2% | 46.4% |
| North America | 70-100% | 70.6% | 68.2% |

Conclusion:

The Fund offers OPERF an opportunity to participate in a differentiated portfolio of private equity investments with relatively attractive overall terms. TorreyCove's review of the General Partner and the proposed Fund indicates that the potential returns available justify the risks associated with an investment in the Fund. TorreyCove recommends that OPERF consider a commitment of \$700 million to the Fund. TorreyCove's recommendation is contingent upon the following:

- (1) Satisfactory negotiation or clarification of certain terms of the investment;
- (2) Satisfactory completion of legal documents;
- (3) Satisfactory continuation and finalization of due diligence;
- (4) No material changes to the investment opportunity as presented; and
- (5) Confidentiality maintained regarding the commitment of OPERF to the Partnership until such time as all the preceding conditions are met.

TAB 4 – ANNUAL PLACEMENT AGENT REPORT

Annual Disclosure of Placement Agents January 29, 2014

Purpose

In accordance with OST Policy 5.03.01, Conflict of Interest and Code of Conduct, OST shall disclose, in all investment recommendations to the Oregon Investment Council, any Placement Agent used by an investment firm *that has had any contact with Treasury investment staff*. Staff shall present to the OIC an annual summary of the foregoing, which will also be made available to the public on the Treasury website.

Summary for Calendar Year 2013

| <u>Partnership</u> | <u>OPERF Commitment</u> | <u>Placement Agent</u> |
|--|--------------------------------|-------------------------------|
| GI Partners Fund IV, LP | \$100 million | UBS Private Funds Group |
| KSL Capital Partners Credit Opportunities Fund, LP | \$75 million | Probitas Partners |
| Reservoir Resource Partners, LP | \$100 million | Aqueduct Capital Group |
| Appian Natural Resources Fund, LP | \$50 million | Mercury Capital Advisors |
| LS Power Equity Partners III, LP | \$100 million | Evercore Partners |
| Content Partners Fund 3, LP | \$50 million | UBS Private Funds Group |

Note that placement agents are retained by the general partner of the fund, and OPERF does not rely on such firms for access or analysis.

TAB 5 – Asset Allocations & NAV Updates

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Asset Allocations at December 31, 2013

| OPERF | Policy | Target ¹ | Regular Account | | | | Variable Fund | Total Fund |
|--------------------------------|-------------------|---------------------|----------------------|---------------|--------------------|----------------------|-------------------|----------------------|
| | | | \$ Thousands | Pre-Overlay | Overlay | Net Position | Actual | \$ Thousands |
| Public Equity | 32.5-42.5% | 37.5% | 27,817,689 | 41.5% | 207,952 | 28,025,641 | 41.8% | 28,852,033 |
| Private Equity | 16-24% | 20.0% | 14,287,161 | 21.3% | | 14,287,161 | 21.3% | 14,287,161 |
| Total Equity | 52.5-62.5% | 57.5% | 42,104,850 | 62.8% | 207,952 | 42,312,802 | 63.1% | 43,139,194 |
| Opportunity Portfolio | | | 828,354 | 1.2% | | 828,354 | 1.2% | 828,354 |
| Fixed Income | 15-25% | 20.0% | 14,316,743 | 21.3% | 1,021,994 | 15,338,737 | 22.9% | 15,338,737 |
| Real Estate | 9.5-15.5% | 12.5% | 7,482,148 | 11.2% | (8,500) | 7,473,648 | 11.1% | 7,473,648 |
| Alternative Investments | 0-10% | 10.0% | 870,821 | 1.3% | | 870,821 | 1.3% | 870,821 |
| Cash* | 0-3% | 0.0% | 1,471,702 | 2.2% | (1,221,446) | 250,256 | 0.4% | 262,567 |
| TOTAL OPERF | | 100% | \$ 67,074,618 | 100.0% | \$ - | \$ 67,074,618 | 100.0% | \$ 67,913,321 |
| | | | | | | | \$ 838,703 | |

¹Targets established in June 2013. Interim policy benchmark consists of: 41.5% MSCI ACWI Net, 23.5% Custom FI Benchmark, 20% Russell 3000+300bps (1 quarter lagged), 12.5% NCREIF (1 quarter lagged), & 2.5% CPI+400bps.

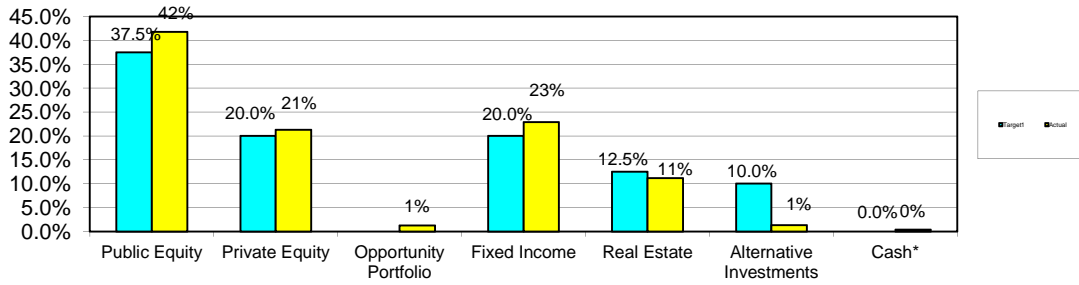
*Includes cash held in the policy implementation overlay program.

| SAIF | Policy | Target | \$ Thousands | Actual |
|---------------------|---------------|--------------|--------------------|---------------|
| Total Equity | 7-13% | 10.0% | 485,710 | 11.0% |
| Fixed Income | 80-90% | 85.0% | 3,896,348 | 88.2% |
| Real Estate | 0-7% | 5.0% | 0 | 0.0% |
| Cash | 0-3% | 0% | 34,650 | 0.8% |
| TOTAL SAIF | | 95% | \$4,416,708 | 100.0% |

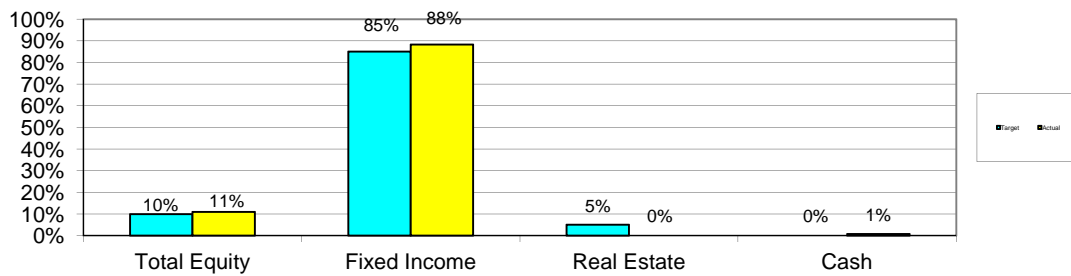
| CSF | Policy | Target | \$ Thousands | Actual |
|------------------------|---------------|------------|--------------------|---------------|
| Domestic Equities | 25-35% | 30% | \$426,035 | 31.3% |
| International Equities | 25-35% | 30% | 397,346 | 29.2% |
| Private Equity | 0-12% | 10% | 128,742 | 9.5% |
| Total Equity | 65-75% | 70% | 952,123 | 69.9% |
| Fixed Income | 25-35% | 30% | 386,397 | 28.4% |
| Cash | 0-3% | 0% | 23,669 | 1.7% |
| TOTAL CSF | | | \$1,362,189 | 100.0% |

| HIED | Policy | Target | \$ Thousands | Actual |
|----------------------------|---------------|------------|-----------------|---------------|
| Domestic Equities | 20-30% | 25% | \$21,319 | 28.1% |
| International Equities | 20-30% | 25% | 21,221 | 28.0% |
| Private Equity | 0-15% | 10% | 6,821 | 9.0% |
| Growth Assets | 50-75% | 60% | 49,361 | 65.1% |
| Real Estate | 0-10% | 7.5% | 5,529 | 7.3% |
| TIPS | 0-10% | 7.5% | 4,367 | 5.8% |
| Inflation Hedging | 7-20% | 15% | 9,896 | 13.1% |
| Fixed Income | 20-30% | 25% | 15,488 | 20.4% |
| Cash | 0-3% | 0% | 1,027 | 1.4% |
| Diversifying Assets | 20-30% | 25% | 16,515 | 21.8% |
| TOTAL HIED | | | \$75,772 | 100.0% |

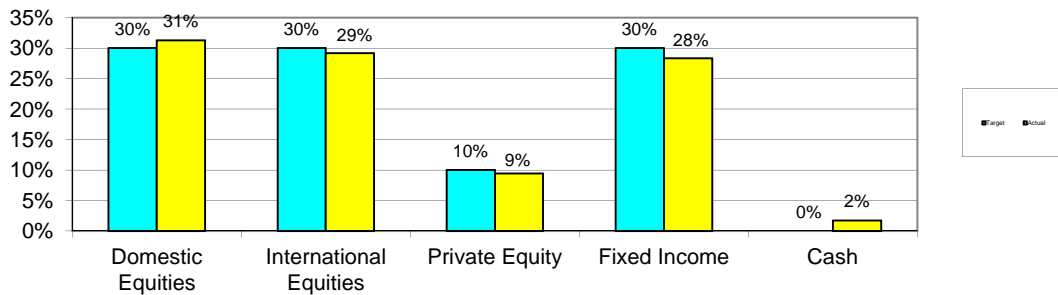
OPERF Asset Allocation



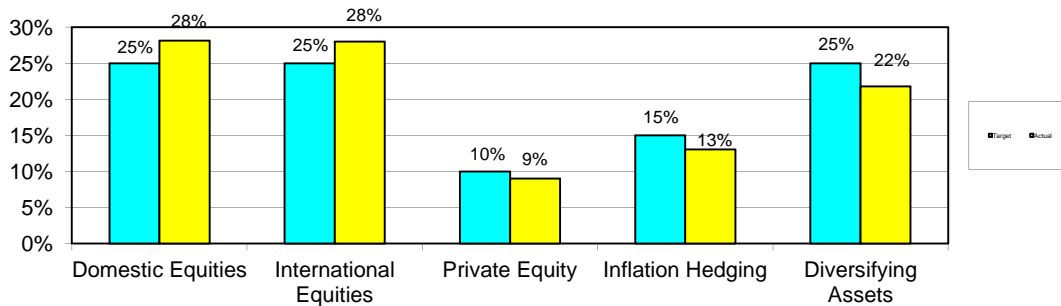
SAIF Asset Allocation



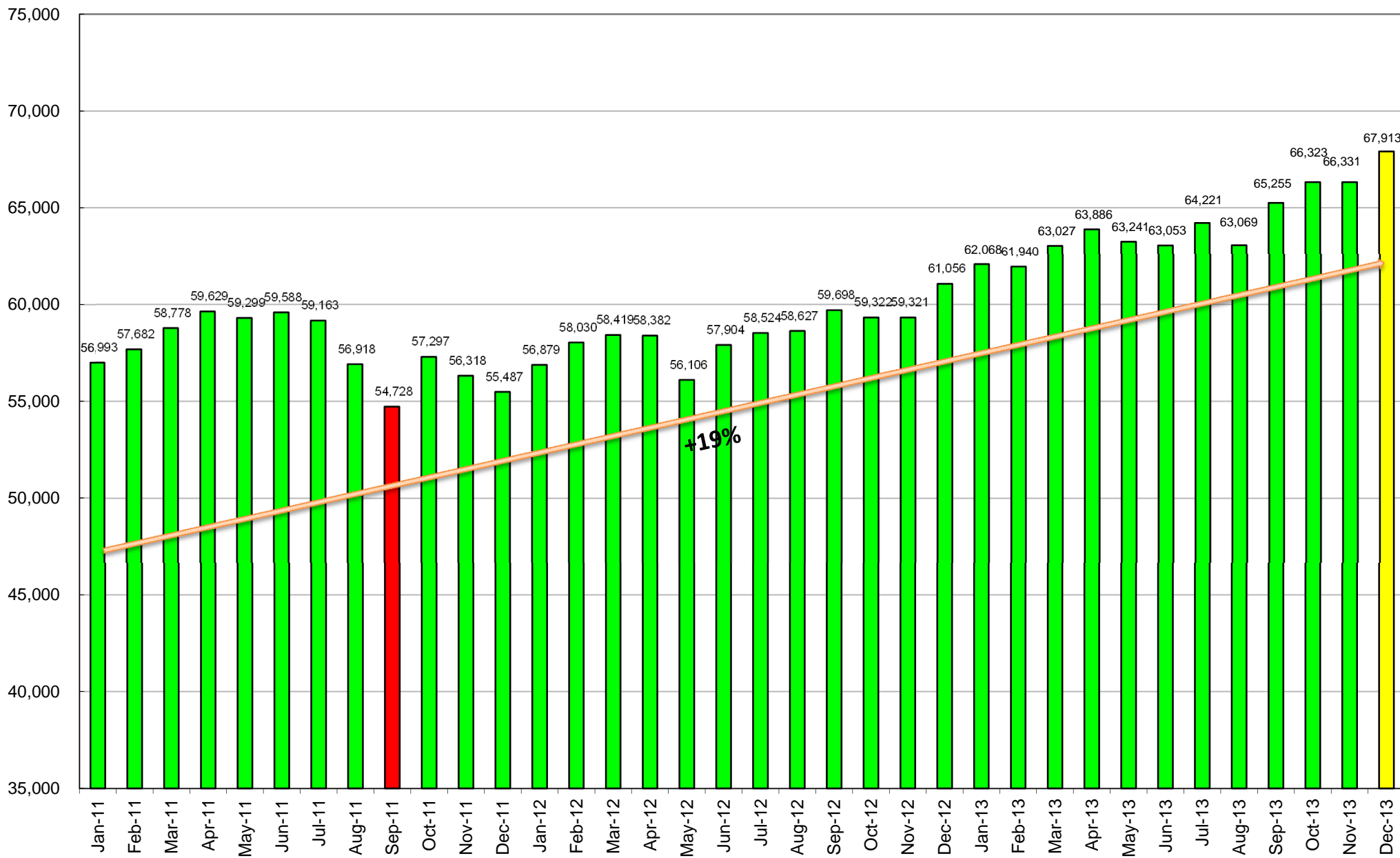
CSF Asset Allocation



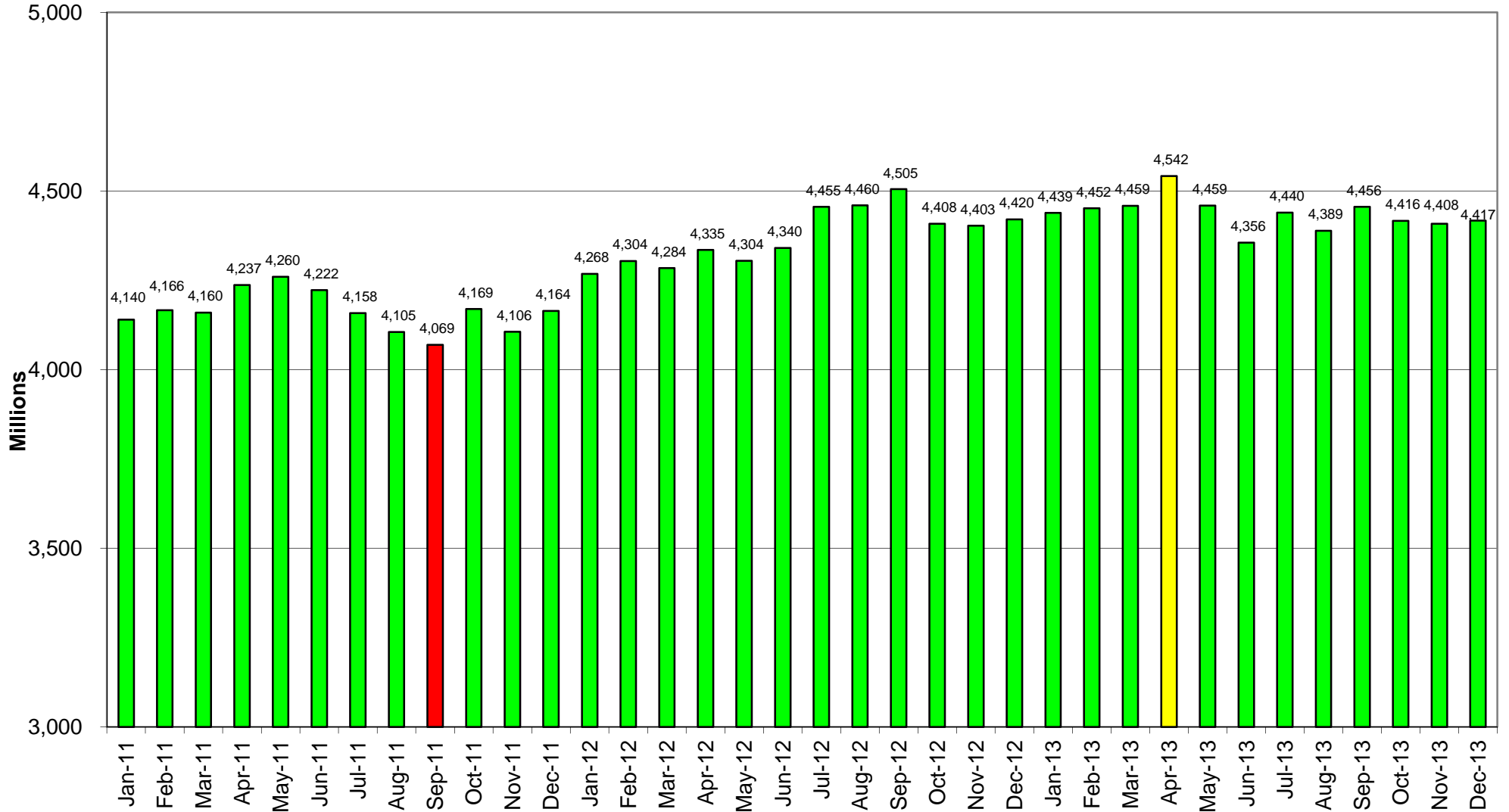
HIED Asset Allocation



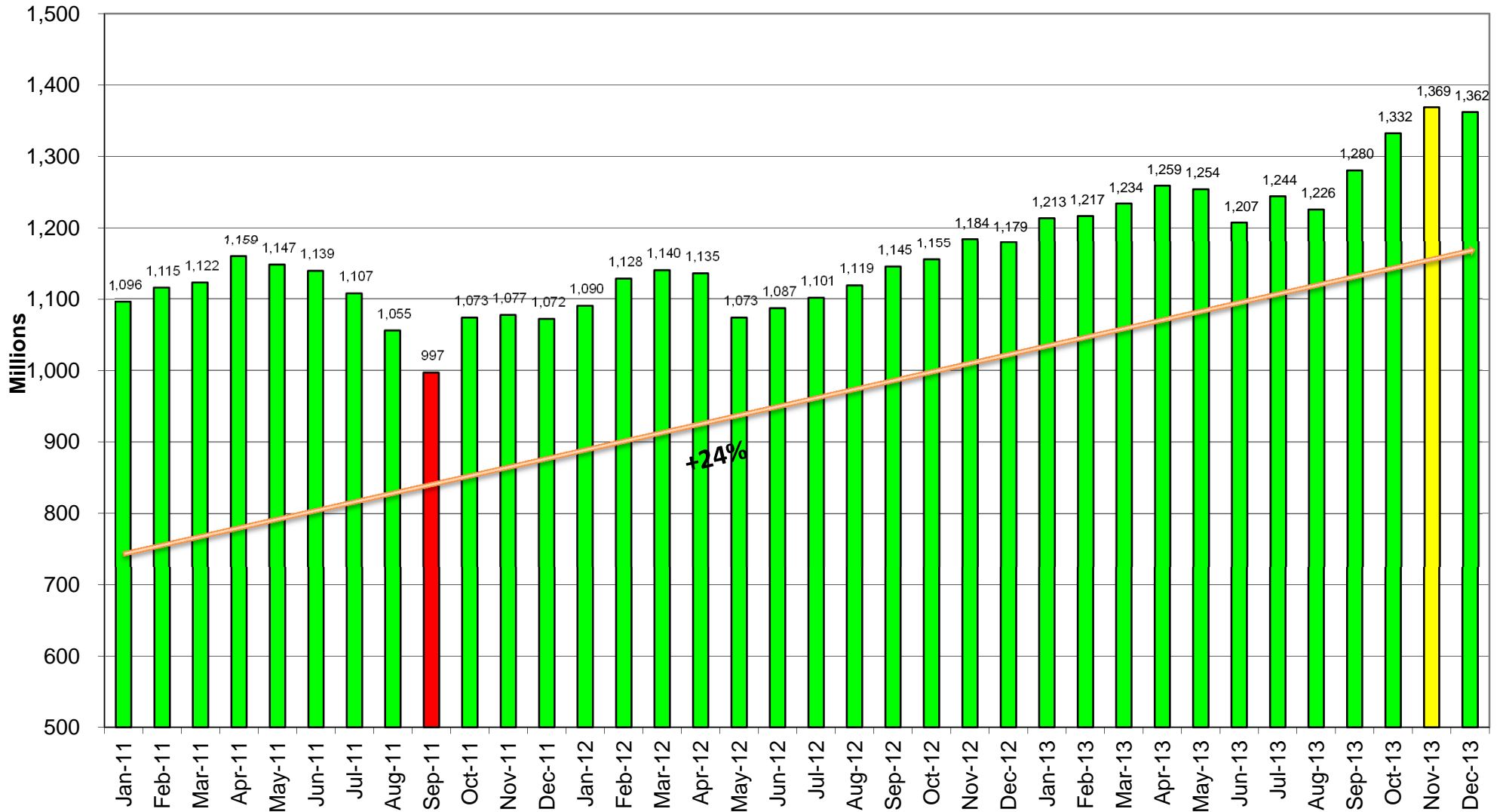
OPERF NAV
Three years ending December 2013
(\$ in Millions)



SAIF NAV
Three years ending December 2013
(\$ in Millions)



CSF NAV
Three years ending December 2013
(\$ in Millions)



TAB 6 – CALENDAR – FUTURE AGENDA ITEMS

2014 OIC Forward Agenda Topics

- March 5:** OPERF Private Equity Review & 2014 Plan
OPERF Public Equity
OPERF 4th Quarter Performance Review
OIC Policy and OST Procedure Updates
- April 30:** Securities Lending Review
OSGP Review
DOJ Litigation Update
Investment Beliefs: Areas of non-consensus
- May 28:** OPERF Alternative Portfolio Review
OPERF Policy Implementation Overlay Review
OPERF 1st Quarter Performance Review
- July 30:** OPERF Public Equity Review
OITP Review
OSTF Annual Review
SAIF Annual Review
- September 24:** OPERF Real Estate Review
OPERF Fixed Income Review
OIC Annual Policy Updates
- November 5:** CSF Annual Review
CEM Benchmarking Report
Internal Audit Report
- December 3:** OPERF Opportunity Portfolio Review
HIED Annual Review
OPERF 3rd Quarter Performance Review