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OREGON INVESTMENT COUNCIL
JULY 30, 2014
MEETING MINUTES

Members Present: Rukaiyah Adams, Paul Cleary, Katy Durant, Keith Larson, Dick Solomon, Ted Wheeler

Staff Present: Darren Bond, Tony Breault, Austin Carmichael, Karl Cheng, Michael Cox, Garrett Cudahey, Sam Green, Scott Harra, Andy Hayes, John Hershey, Brooks Hogle, Julie Jackson, Kristin Johnson, Drew Johnston, Perrin Lim, Tom Lofton, Ben Mahon, Mike Mueller, Tom Rinehart, Priyanka Shukla, John Skjervem, Michael Viteri, Byron Williams

Consultants Present: David Fann, Kyson Hawkins and Tom Martin (TorreyCove); Alan Emkin, David Glickman, Christy Fields and John Linder (PCA); Jim Callahan and Janet Becker-Wold (Callan)

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

The July 30, 2014 OIC meeting was called to order at 9:00 am by Dick Solomon, Chair.

I. 9:00 am Review and Approval of Minutes

MOTION: Ms. Durant moved approval of the May 28, 2014 meeting and workshop minutes. Treasurer Wheeler seconded the motion, which then passed by a 5/0 vote.

COMMITTEE REPORTS

John Skjervem, CIO gave an update on committee actions taken since the May 28, 2014 OIC Meeting.

Private Equity Committee – 2014:

June 19, 2014	Veritas Capital Fund V	\$150 million
June 19, 2014	Sofinnova Venture Partners Fund IX	\$50 million
June 19, 2014	Orchid Asia Fund VI	\$75-100 million

Alternatives Portfolio Committee – 2014:

No action since May 28, 2014

Opportunity Portfolio Committee – 2014:

July 29, 2014	Galton Mortgage Recovery Fund III	\$50 million
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Real Estate Committee – 2014:

No action since May 28, 2014

II. 9:01 am GIP Capital Solutions Fund, LP - OPERF Alternative Portfolio

Ben Mahon, Alternatives Investment Officer introduced Jim Jenkins, Managing Director and Reiner Boehning, CAPS Fund Partner with GIP. Staff and TorreyCove recommended a \$200 million commitment to the GIP Capital Solutions Fund, L.P., subject to satisfactory negotiation of all terms and conditions with staff working in concert with Department of Justice personnel.

GIP's objective with the Fund is to provide non-equity financing for infrastructure companies and assets. Reflecting a flexible investment approach, Fund transactions are expected to span the capital structure, including secured, subordinated, unsecured, convertible debt and preferred equity. In addition, select transactions may also benefit from warrants or other forms of upside participation. With this Fund, GIP will focus primarily on its traditional target industries (e.g., energy, transportation, water and waste), and expects to make 20 to 25 investments ranging in size from \$50 million to \$250 million. The firm's geographic focus will be on OECD countries, although GIP may invest up to 10% of Fund capital in non-OECD countries as well. Individual Fund investments are generally expected to have stated maturities of five to ten years, with most investments repaid prior to maturity, as is typical for infrastructure asset financings.

MOTION: Mr. Larson moved approval the staff recommendation. Ms. Adams seconded the motion, which then passed on a 5/0 vote.

III. 9:53 am Lionstone Oregon Real Estate One – OPERF Real Estate Portfolio

Anthony Breault, Senior Real Estate Investment Officer introduced Dan Dubrowski and Glenn Lowenstein, both Founding Partners and Jane Page, CEO of Lionstone. Staff and PCA recommended a \$200 million commitment to Lionstone Oregon Real Estate One subject to satisfactory negotiation of all terms and conditions with staff working in concert with Department of Justice personnel. This commitment would be a continuation of an existing OPERF relationship with Lionstone Partners.

Lionstone OPERF Real Estate One ("LORE One") represents an attractive opportunity to pursue a value-add investment strategy while preserving sufficient flexibility to hold individual assets when their return profiles more closely reflect the parameters of a core investment strategy. Staff confidence in the investment's unique two-tranche structure is bolstered by the successful nature of its long-term relationship with Lionstone as well as the many control and oversight rights the proposed joint venture affords OPERF.

The proposed LORE One vehicle represents a follow-on commitment and adaptation of the existing "CFO One" joint venture between OPERF and Lionstone. CFO One was originally formed with the purpose of acquiring office assets and achieving a 9.5% annual net cash-on-cash return over a 10-year hold period. As with CFO One, LORE One will continue to focus on office properties in high growth markets but with added flexibility to invest up to 20% in non-office real estate such as multifamily or retail. Also like CFO One, LORE One will be evergreen in nature so that capital and income distributions from the joint venture may be reinvested in the partnership as recallable capital.

After extensive back-testing of current portfolio performance, as well as proprietary research on market attributes and real estate return drivers, the Firm's target returns for new asset acquisitions, portfolio incentive fee structures and geographic focus have been substantially updated for LORE One. Specifically, LORE One's geographic targets have been redefined to include investments in internationally competitive markets while also meeting specific criteria needed to satisfy a permanent location test. The target returns and incentive fee structures have been renegotiated to include a two-part, or tranche, portfolio structure with a lower overall risk strategy than the Firm's predecessor vehicle.

MOTION: Ms. Durant moved approval of the staff recommendation. Treasurer Wheeler seconded the motion, which then passed on a 4/1 vote with Mr. Larson voting no.

- IV. **10:50 am Internal Investment Management Assessment – Public Equity and Fixed Income**
Eileen Neill and Karim Simplis from Wilshire Associates presented an assessment of the Oregon State Treasury's internal investment management capabilities. Wilshire conducted an on-site review of the internal fixed income and equity teams' personnel, investment processes and resources. This review was performed as part of a broader project to assess OST's internal asset management functions and resources and in preparation for an operations and risk management recommendation staff will propose at the August 13, 2014 OIC meeting.

- V. **11:27 am Oregon Savings Growth Plan – Oregon 457 Plan**
Karl Cheng, Investment Officer and Jake O'Shaughnessy, Advisor with Arnerich Messena, made the following recommendations for the Oregon Savings Growth Plan:
1. Extend the current consulting contract with Arnerich Messena;
 2. Relax the limitations on the Self-Directed Brokerage Account option to permit more choices;
 3. Change the fund roster and corresponding benchmarks of various equity options;
 4. Revise the Intermediate Fixed Income option;
 5. Add a Real Return option; and
 6. Update various OSGP-related OST/OIC policies.

MOTION: Ms. Durant made a motion to a) approve staff recommendation items 1 through 5 and b) request additional clarification on item #6 for consideration at the September 24, 2014 OIC meeting. Treasurer Wheeler seconded the motion, which then passed on a 5/0 vote.

- VI. **11:43 am Public University Fund Investment Guidelines – Fixed Income**
Tom Lofton, Fixed Income Investment Officer, presented guidelines for the Public University Fund (the "PUF") for review and adoption by the OIC. PUF represents a new fixed income mandate internally managed by staff.

MOTION: Mr. Larson moved approval of the staff recommendation. Treasurer Wheeler seconded the motion, which then passed on a 5/0 vote.

- VII. **11:47 am Asset Allocations and NAV Updates**
Mr. Skjervem reviewed asset allocations and NAV's across OST-managed accounts for the period ended June 30, 2014.

- VIII. **11:50 am Calendar – Future Agenda Items**
Mr. Skjervem presented a revised schedule of future OIC meetings and associated agenda topics.

- IX. **11:50 am Other Business**
Treasurer Wheeler introduced the following three new OST staff members: Drew Johnston, Legislative Director; Kristin Johnson, Senior Policy Advisor; and Michael Cox, Communications and Outreach Director.

11:53 am Public Comments
Bill Parish, an independent Registered Investment Advisor, addressed the Council with various comments about private equity partnership audits, fees and carried interest accounting treatments.

Specifically, he expressed concerns regarding tax inversions orchestrated by private equity and hedge funds which he asserted allowed such firms to take illegitimate carried interest deductions in

violation of the "fractions rule." He further suggested that these firms generated returns by utilizing a "tax deduction pyramid" scheme comprised of tax inversions, interest deductions and job/benefit reductions. He referred to this strategy as a "roll-up phenomena" and expressed an alternative preference for greater emphasis on publicly-traded investments which he claimed would benefit the overall PERS system in terms of both investment returns and tax revenues.

Mr. Solomon adjourned the meeting at 11:57 am.

Respectfully submitted,

A handwritten signature in cursive script that reads "Julie Jackson".

Julie Jackson
Executive Support Specialist