

**HOUSE COMMITTEE ON**

**• TRADE AND ECONOMIC DEVELOPMENT**

**February 7, 2005 Hearing Room 343**

**8:30 A.M.am Tapes 19 - 20**

**MEMBERS PRESENT: Rep. John Lim, Chair**

**Rep. Scott Bruun, Vice-Chair**

**Rep. Jeff Merkley, Vice-Chair**

**Rep. Peter Buckley**

**Rep. John Dallum**

**Rep. Donna Nelson**

**Rep. Chuck Riley**

**VISITING MEMBER: Rep. Mitch Greenlick**

**MEMBER EXCUSED:**

**STAFF PRESENT: Jim Stembridge, Committee Administrator**

**Erin Seiler, Committee Assistant**

**MEASURES/ISSUES HEARD:**

**Investing Public Funds in Oregon – Informational Meeting**

**These minutes are in compliance with Senate and House Rules. Only text enclosed in quotation marks reports a speaker's exact words. For complete contents, please refer to the tapes.**

<b>TAPE</b>	<b>Speaker</b>	<b>Comments</b>
<b>TAPE Tape19, A</b>		
001	Chair Lim	Opens the meeting at 8:33 a.m. OOpens an informational meeting on investing public funds in Oregon.

### **INVESTING PUBLIC FUND IN OREGON - INFORMATIONAL MEETING**

025	Ron Schmitz	Director of Investments, Oregon State Treasury (OST). Submits and summarizes written statement about HB 3613 (2003) <b>(EXHIBIT A)</b> . Submits Oregon Investment Fund report (OIF) <b>(EXHIBIT B)</b> .
051	Schmitz	Discusses the implementation of HB 3613 (2003), specifically who is on the Oregon Investment Council (OIC) and what is the Oregon Public Employees Retirement Fund (OPERF).
062	Schmitz	Submits and summarizes Oregon Investment Council schematic on the implementation of HB 3613 (2003) <b>(EXHIBIT C)</b> .
134	Schmitz	States that the amount of private equity invested in Oregon is “about four hundred and seventy million.”
143	Schmitz	Describes the functions and purpose of OIF.
167	Schmitz	Explains why OIC chose a “fund of funds” approach towards investment <b>(EXHIBIT A, Page 2)</b> .
200	Schmitz	Explains why Credit Suisse First Boston was chosen as the institution to manage Oregon investments <b>(EXHIBIT A, Pages 2 – 3)</b> .
209	Rep. Greenlick	Asks if the functions of “investment management” and “nurturing budding entrepreneurs” are written into contract with Credit Suisse First Boston.
216	Schmitz	

Responds that those functions were not written specifically into the contract, but the contract is very Oregon focused and draws on these kinds of activities as the focus of the manager's efforts.

- 220 Schmitz Concludes explanation of why Credit Suisse First Boston (CSFB) was chosen as the Fund of Fund managers in Oregon (**EXHIBIT A, Page 3**).
- 241 Schmitz Identifies the primary objectives of the Fund of Fund program and the obligations of CSFB when negotiating with general partners (**EXHIBIT A, Page 3**).
- 297 Schmitz Identifies the obligations of CSFB underlying fund manager when negotiating with general partners (**EXHIBIT A, Page 3 - 4**). Emphasizes the importance of the twenty percent co-investment in Oregon specific opportunities and emerging businesses.
- 317 Schmitz Explains the OIF investment process. Identifies the steps taken by CSFB to solicit, review, and select partnerships (**EXHIBIT A, Page 4**).
- 372 Schmitz Identifies OIF Partnership evaluation criteria (**EXHIBIT A, Page 5**).

#### **TAPE 20, A**

- 002 Rep. Greenlick Asks how to increase the opportunity and ability to foster entrepreneurship in Oregon.
- 012 Schmitz Responds that there is more opportunities to invest in Oregon than people think and explaining the large amount of venture capital money available.
- 041 Rep. Merkley Questions the decision by OIF to investment in Texas Pacific, when it was just said that OIF does not have the power to make the decision to invest in specific opportunities.
- 047 Schmitz Explains that treasury staff is not empowered to make direct investments in companies and are precluded from directly investing in stock or equity investments.
- 053 Rep. Merkley

		Cites news articles on the efforts of the California controller's to set higher standards for investing with relation to corporate governance issues, asks if OIC has or is currently considering similar actions.
057	Schmitz	Confirms that it has been an issue and OIC has had several initiatives relating to this issue including the hiring of an outside evaluation firm to do proxy voting and members of council have written letters on governance issues to individual companies or the Federal Communication Commission.
074	Rep. Nelson	Asks for identity of all investment opportunities that have been considered and those in which actual investments were made in Oregon.
083	Schmitz	States that the Oregon State Treasurers' Annual Report does identify those investments made with Oregon companies, but historically have not asked what opportunities that managers have looked at and passed on in the state, only asked for what investments have been made.
090	Rep. Nelson	Remarks that would it not be more prudent to invest in our own state, as opposed to investing outside of our state.
104	Schmitz	Disagrees with characterization of investments. Explains how much private equity investment occurs within Oregon.
123	Chair Lim	Asks if OST can handle the Public Employee Retirement System (PERS) and how much is currently in the PERS account.
133	Schmitz	Responds that at present time there is approximately \$48 billion in the PERS account, but since 2002 returns have been positive.
138	Chair Lim	Asks how much money was lost during the market decline.
142	Schmitz	Explains that PERS did lose money in 2001-2002, but since 2002 returns have been positive with an increase of twenty percent over the last three years.
188	Mike Mueller	Assistant Director of Investments, Oregon State Treasury (OST). Submits written material about the Oregon Growth Account (OGA) <b>(EXHIBIT D)</b> . Summarizes the creation, purpose, and investment policies of the OGA.

- 245 Mueller Submits and summarizes Oregon Growth Account Board Partnership Investments spreadsheet (**EXHIBIT E**).
- 260 Mueller Gives background about the Oregon Resource Technology and Development Account (ORTDA) and why it was merged into OGA (**EXHIBIT A, Page 9**). Submits and explains Oregon Growth Account Board chart (**EXHIBIT F**).
- 290 Chair Lim Asks what the total amount transferred to the OGA from ORTDA and history of monies until the time of transfer.
- 296 Mueller States that the approximate value of the portfolio was \$14 million dollars including cash and assets.
- 326 Rep. Nelson Asks who managed the \$14 million dollars in ORTDA, if it was not the OST.
- 332 Mueller States that it is the ORTDA Board who is responsible for managing the money because it is a program OST inherited. However, little is known about the selection, retention, or performance of the fund prior to coming under the control of OST.
- 345 Rep. Nelson Asks where the assets of the ORTDA came from.
- 348 Mueller Explains that the source of the assets was lottery money.
- 352 Rep. Greenlick In reference to the OGA spreadsheet, asks for verification that of the “roughly \$20 million that has been called,” the return on the capital has been \$7.6 million dollars, resulting in a current value of the fund being \$16 million.
- 366 Mueller Clarifies that \$20 million dollars has been invested by the general partners, of which \$7.6 million dollars has been returned and the partners continue to hold a portfolio estimated to worth \$8.3 million dollars.
- 381 Chair Lim Asks that of the \$14 million dollars transferred from ORTDA to OGA, if \$11 million dollars is the current value of the portfolio.
- 404 Mueller Explains that the portfolio that was inherited had 2 assets that were liquidated in 2000 with a return of “approximately \$10 million

dollars” to the OGA and set aside for investment in ORTDA sub-account.

**TAPE 19, B**

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| 008 | Rep. Buckley   | Verifies that there has been a loss of \$4 million dollars in the OGA.  |
| 017 | Mueller        | Points out that the loss of value is not that uncommon in this type of investment plan because there is management fees paid pay out in the investment period, which is the first three to five years, and it takes time for these companies to generate returns. |
| 024 | Rep. Buckley   | Asks what the projection for growth in this investment is.  |
| 025 | Mueller        | Explains why these are the riskiest type of investments because investments are made during the seed stage of the companies when they are struggling.   |
| 043 | Chair Lim      | Asks that of the \$48 million dollars held by PERS, what percent the OIC has invested in stocks.  |
| 048 | Schmitz        | Explains that the pensions fund asset allocation target for the PERS account is 35 percent in U.S. equities, 20 percent in international equities, 27 percent in bonds, 8 percent in real estate, and 10 percent in private equity.                               |
| 071 | Chair Lim      | Asks if it is clear in the statutes that not more than 50 percent should be invested in the stock portfolio.  |
| 074 | Schmitz        | Points out that the statute requires a 50 percent limitation on contributed capital, not market value capital.  |
| 077 | Chair Lim      | Asks for the definition of 50 percent.  |
| 082 | Schmitz        | States those records have not been kept with respect to the 50 percent of contributed capital statute, but OIC is confident that the 55 percent of United States and international equity meets the spirit of the statute.  |
| 094 | Rep. Greenlick | Asks if OIC has the cost base on the 55 percent.  |

096	Schmitz	States that OIC does not have records of contributed cost over history and have not rolled forward that particular calculation.
108	Mueller	Explains the statute reads monies contributed shall not exceed 50 percent and since the pension began investing in equities in the late 1960's the appreciation of equities up till 2005 has been quite substantial and are not close to the fifty percent limitation.
120	Rep. Nelson	Asks about involvement of the OST and OIC in the large maintenance hanger at the Portland Airport, what the strategy "to cure the problem," and why is it taking so long.
130	Schmitz	States that no treasury staff was involved in that action, we are involved in managing it and trying to "work our way out of it". Explains efforts to make the facility profitable.
143	Rep. Nelson	Asks if there have been safeguards established to prevent it from happening again.
148	Schmitz	Explains that OIC now demands that partners have money invested along side OPERF, so that they have something to lose and aligns interest.
158	Mueller	Addresses efforts to mitigate the debt of the Port of Portland and importance of judging all investments exclusively on the return merits.
182	Rep. Nelson	Asks if there are any pending court action regarding the Port of Portland hanger and who is being held liable for the financial burden.
187	Kate Richardson	Chief of Staff, Oregon State Treasurer. States that there is a case before the Court of Appeals, with a sixty million dollar judgment. There has only been one bond of paid out for \$5.4 million dollars.
230	Chair Lim	Closes the informational meeting on investing public funds. Adjourns the meeting at 9:43 a.m.

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**EXHIBIT SUMMARY**

- **A. Investing Public Funds, Oregon Public Employee Retirement Fund Investments in Oregon, Report, Ron Schmitz, 5 pp**
- B. Investing Public Funds, Oregon Investment Fund Report, Ron Schmitz, 6 pp**
- C. Investing Public Funds, Oregon Investment Council Schematic Chart, Ron Schmitz, 1 p**
- D. Investing Public Funds, Oregon Growth Account Report, Mike Mueller, 9 pp**
- E. Investing Public Funds, Oregon Growth Account Board Partnership Investments Spreadsheet, Mike Mueller, 1 p**
- F. Investing Public Funds, Oregon Growth Account Board Chart, Mike Mueller, 1 p**