



January 22, 2014

The Honorable Senator Richard Devlin, Co-Chair
The Honorable Representative Peter Buckley, Co-Chair
Joint Committee on Ways and Means
900 Court Street NE, H-178 State Capitol
Salem, OR 97301-4048

Dear Co-Chairpersons:

Nature of the Request

The Oregon Business Development Department respectfully submits the attached document on behalf of the Oregon Growth Board (Board) pursuant to the budget note associated with HB 2323 (2013 Legislative Session).

Agency Action

Per the budget note, the Board was required to provide policy statements regarding the management of the Oregon Growth Account (Account) and Oregon Growth Fund (Fund), as well as how the Board will measure the performance of its investments. The report reflects those policy statements the Board will ratify during its January meeting.

It should be noted that the Board assumed oversight of the Account and Fund on January 1, 2014 and has not made any investments to date. Performance of future investments will be measured looking at one, or more, of the following criteria: return on investment, number of businesses assisted, the types and amounts of resources leveraged, and the impact on jobs and wages in Oregon. The nature and type of investment will dictate the measure and target used to evaluate its performance. As such, without having made any investments, the Board feels it premature to set forth specific performance targets at this juncture. That said, the Board will provide the

Legislative Assembly updated information on performance targets associated with future investments, to include presenting this information as part of its annual reporting requirement.

Action Requested

The Oregon Growth Board requests that Oregon Legislative Assembly acknowledge receipt of the attached report.

Legislation Affected

No specific legislation is affected. The report and policy statements will help guide the investment decisions and outcomes of the Board pursuant to Chapter 732, Oregon Laws 2013.

Sincerely,



Lynn Schoessler,
Deputy Director

OREGON GROWTH BOARD

INVESTMENT POLICIES AND PROCEDURES

Pursuant to its statutory authority in Oregon Laws 2012, chapter 90, Section 5(1) (House Bill 4040), the Oregon Growth Board has adopted the following policies and procedures.

With respect to the ACCOUNT, the Board will resolve to take the following actions:

1. To maintain, invest *and reinvest* moneys in the Oregon Growth Account established under ORS 348.702 consistent with these policies and procedures established by the board, the investment standard stated in ORS 293.726, and for the purpose of earning returns for the Education Stability Fund.

2. To make and enter into contracts, agreements or arrangements for the investment and management of moneys in the Oregon Growth Account as provided in 2(A) through (G) and for other services the board deems reasonable and necessary to fulfill the duties of the board under this section.

(A) The Oregon Growth Board may contract with one or more management companies or state agencies to manage and invest the moneys in the Oregon Growth Account established under ORS 348.702. For purposes of this subsection, a contract with a management company or State agency may consist of:

(i) A partnership agreement under which the Oregon Growth Board is the limited partner and the management company or state agency is the general partner; or

(ii) Another form of payment or profit-sharing arrangement under which the Oregon Growth Board may receive payment or another form of return in exchange for its investment.

(B) A management company or state agency selected to manage the Oregon Growth Fund or the Oregon Growth Account shall manage the moneys in the Account, subject to the policies and procedures and investment directives and strategies of the Oregon Growth Board, with the care, skill and diligence that a prudent investor acting in a similar capacity and familiar with such investments would use in managing and investing a similar fund.

(C) The management company or state agency shall invest in Oregon an amount that is at least equal to the amount of the principal transferred from the Oregon Growth Account to the management company or state agency for investment. The management company or state agency shall report on an annual basis to the Oregon Growth Board, or designee, the amount and location of investments in Oregon. Such report shall be due within 30 days of the end of every calendar year.

(D) The contract between the board and a management company to manage the Oregon Growth Account or the Oregon Growth Fund, and the functions performed under the contract, are not subject to the State Personnel Relations Law or ORS 279.835 to 279.855 or ORS chapter 279A or 279B.

(E) The Oregon Growth Board shall provide to local governments and state agencies any reports on the investment of moneys in the Oregon Growth Account that are necessary to fulfill audit, financial, investment or other reporting requirements to which the Education Stability Fund is subject by law or standard accounting principles.

(F) The Oregon Growth Board encourages the management company or state agency to invest in traded sector businesses and businesses in rural regions of Oregon.

(G) The Oregon Growth Board encourages the management company or state agency to invest in underserved populations, to include minority or women-owned business enterprises

3. To make, purchase, guarantee or hold loans, including but not limited to participation interests in loans, made to or from the Oregon Growth Account for the purpose of earning returns for the Education Stability Fund.

4. To qualify or certify businesses that invest in the Oregon Growth Account for any investment incentive approved by the board.

5. To collaborate, cooperate and enter into agreements with local governments, state agencies, financial institutions and other entities as appropriate to:

(A) Provide financial services and support to businesses for the purpose of furthering economic development;

(B) Coordinate actions, responsibilities and resources that further economic development; and

(C) Delegate between the board and a local government or state agency any duties, functions or powers that the board, local government or state agency is authorized to perform. Delegation of duties, functions or powers under this paragraph must be done pursuant to written agreement.

6. To seek, solicit, obtain and accept local, state, federal and private resources and donations for deposit into the Oregon Growth Account to aid in the administration of the Oregon Growth Account.

7. To adopt rules that:

(A) Specify the board’s permissible investments, and the activities and services that the board may provide or engage in;

(B) Create guidelines regarding the amount and type of leverage to maximize investments and any other resources available to, and subject to the authority of, the board; and

(C) Provide a means to evaluate the performance of investments, including, but not limited to, the number of businesses assisted, the types and amount of resources leveraged and returns on investment, and to evaluate impact on jobs and wages in this state; and

(D) Establish other requirements that the board considers necessary for the exercise of the Board’s duties, functions and powers.

8. To make recommendations to the Legislative Assembly regarding:

(A) Incentives for private sector investment that further investment, capital availability, job creation and economic development;

(B) The use of moneys in the Oregon Growth Account to earn returns for the Education Stability Fund; and

(C) Legislation needed to further economic development.

9. To report annually to standing and interim committees of the Legislative Assembly related to business and economic development regarding implementation and administration of the Oregon Growth Board and investments made by the board.

With respect to the FUND, the Board will resolve to take the following actions:

1. To maintain, invest *and reinvest* moneys in the Oregon Growth Fund consistent with these policies and procedures established by the board and the investment standard stated in ORS 293.726, including but not limited to the creation and maintenance of one or more investment funds within the Oregon Growth Fund. In exercising its authority under this subsection, the board may include economic factors, including but not limited to job retention and creation, as considerations in making investment decisions.

2. To make and enter into contracts, agreements or arrangements for the investment and management of moneys in the Oregon Growth Fund as provided in 2(A) through (F) and for other services the Board deems reasonable and necessary to fulfill the duties of the board under this section.

(A) The Oregon Growth Board may contract with one or more management companies or state agencies to manage and invest the moneys in the Oregon Growth Fund. For purposes of this subsection, a contract with a management company may consist of:

- (i) A partnership agreement under which the Oregon Growth Board is the limited partner and the management company or state agency is the general partner; or
- (ii) Another form of payment or profit-sharing arrangement under which the Oregon Growth Board may receive payment or another form of return in exchange for its investment.

(B) A management company or state agency selected to manage the Oregon Growth Fund shall manage the moneys in the fund, subject to the policies and procedures and investment directives and strategies of the Oregon Growth Board, with the care, skill and diligence that a prudent investor acting in a similar capacity and familiar with such investments would use in managing and investing a similar fund.

(C) The management company or state agency shall invest in Oregon an amount that is at least equal to the amount of the principal transferred from the Oregon Growth Fund to the management company or state agency for investment. The management company or state agency shall report on an annual basis to the Oregon Growth Board, or designee, the amount and location of investments in Oregon. Such report shall be due within 30 days of the end of every calendar year

(D) The contract between the board and a management company to manage the Oregon Growth Fund, and the functions performed under the contract, are not subject to the State Personnel Relations Law or ORS 279.835 to 279.855 or ORS chapter 279A or 279B.

(E) The Oregon Growth Board encourages the management company or state agency to invest in traded sector businesses and businesses in rural regions of Oregon.

(F) The Oregon Growth Board encourages the management company or state agency to invest in underserved populations, to include minority or women-owned business enterprises

3. To make, purchase, guarantee or hold grants and loans, including but not limited to competitive grants and participation interests in loans, made to or from the Oregon Growth Fund for the benefit of qualified businesses for the purpose of furthering economic development.

4. To qualify or certify businesses that invest in the Oregon Growth Fund for any investment incentive approved by the board.

5. To collaborate, cooperate and enter into agreements with local governments, state agencies, financial institutions and other entities as appropriate to:

(A) Provide financial services and support to businesses for the purpose of furthering economic development;

- (B) Coordinate actions, responsibilities and resources that further economic development; and
 - (C) Delegate between the board and a local government or state agency any duties, functions or powers that the board, local government or state agency is authorized to perform. Delegation of duties, functions or powers under this paragraph must be done pursuant to written agreement.
6. To seek, solicit, obtain and accept local, state, federal and private resources and donations for deposit into the Oregon Growth Fund to aid in the administration of the Oregon Growth Fund.
7. To adopt rules that:
- (A) Specify the board's permissible investments, and the activities and services that the board may provide or engage in;
 - (B) Create guidelines regarding the amount and type of leverage to maximize investments and any other resources available to, and subject to the authority of, the board; and
 - (C) Provide a means to evaluate the performance of investments, including, but not limited to, the number of businesses assisted, the types and amount of resources leveraged and returns on investment, and to evaluate impact on jobs and wages in this state; and
 - (D) Establish other requirements that the board considers necessary for the exercise of the board's duties, functions and powers.
8. To make recommendations to the Legislative Assembly regarding:
- (A) Appropriations of General Fund moneys to the Oregon Growth Fund;
 - (B) The terms of income and corporate excise tax subtractions or other tax expenditures, as defined in ORS 291.201 that will promote and create private investment in the Oregon Growth Fund;
 - (C) Incentives for private sector investment that further investment, capital availability, job creation and economic development;
 - (D) The use of moneys in the Oregon Growth Account to earn returns for the Education Stability Fund; and
 - (E) Legislation needed to further economic development.
9. To report annually to standing and interim committees of the Legislative Assembly related to business and economic development regarding implementation and administration of the Oregon Growth Board and investments made by the board.

CONSULTING CONTRACTS:

The Board shall enter into consulting contracts under the following terms and conditions:

1. Consulting contracts shall expire on a date not to exceed four years from the effective date of the contract.
2. Consulting contracts shall include a “no-cause” termination clause with a maximum 90 day notice period.
3. It is the policy of the Oregon Growth Board to periodically review all contractors.
4. Consulting contracts may be renewed or extended beyond the original expiration date, limited to a final expiration date that is no more than four years beyond the original expiration.
5. Upon the final expiration of the original contract, or whenever directed by the Board, staff shall undertake and complete a RFP process which shall include the following:
 - A. Identification of those potential candidates who may reasonably be believed to perform those services under examination;
 - B. Publication of a RFP which shall include, but not be limited to:
 - (i) Description of services requested;
 - (ii) Description of the potential or preliminary standards required by the Oregon Growth Board of the candidates; and
 - (iii) Request for pricing or fee schedule information.

STAFF REQUIREMENTS

Staff will be assigned or retained as the workload necessitates.

LEGAL COUNSEL

Relevant legal advice will be obtained from the Oregon Department of Justice. However, due to the complex nature of the Program's investments, expert outside legal counsel may be used when deemed necessary by staff and the Department of Justice. The Department of Justice retains the sole authority to hire outside counsel, at their discretion.

CONTRACT EXECUTION

1. General Partners/Managers will be informed of the Board's approved commitment, immediately following the Board meeting.

2. Legal counsel will receive written verification of the committed amount in conjunction with the partnership documentation, and shall review and approve all agreements for legal sufficiency prior to execution.
3. The Oregon Business Development Department is authorized to execute contracts on behalf of the Oregon Growth Board, for investments authorized by the Board.

METHOD OF PARTICIPATION

The Board will consider large well-established investment vehicles as well as new and smaller investment vehicles, with a preference to Oregon-based managers. To the extent possible, partnerships shall be structured to create an alignment of interest between the limited and general partners.

INVESTMENT FUNDING

Partners/managers retained by the OGB shall make capital calls during the investment period in accordance with the partnership agreement. Such requests must be in compliance with staff's internal control procedures, which require, but are not limited to: original signatures, original letterhead, pre-established bank accounts, and sufficient notice. E-mail notification is preferred, once the pre-established bank account information has been set up.

INVESTMENT LIQUIDATIONS

Partners/managers shall return capital to the Oregon Growth Account through cash distributions, whenever possible. Partners/managers shall liquidate any marketable securities before making distributions to the OGA. In instances where liquidation is not in the best interest of the OGA, partners/managers may distribute securities with sufficient advance notice to appropriate staff. Staff shall then retain a third party manager to liquidate such securities as deemed appropriate by the third party manager, generally, within a six-month period.

EARNINGS DECLARATIONS

All investment returns on moneys in the Oregon Growth Account, including but not limited to returns from investments in limited partnerships and interest income on moneys placed in the Oregon Short-Term Fund or in another interest bearing account, shall remain in the Oregon Growth Account until such time as the Board, in accordance with this policy, declares them as Oregon Growth Account earnings available for transfer from the Account. In making this determination, the Board will consider:

1. The current and anticipated future expenses of the Oregon Growth Board in carrying out the operations of the Oregon Growth Account and the related duties of the Board;

2. The existence and need for reserves in the Account to cover current investment commitments;
3. The potential need to make additional investments in current investment vehicles to maximize the overall return from those investment vehicles;
4. The existence (or anticipated future development) and relative attractiveness of new investment opportunities and the availability of other moneys in the Account for such investment opportunities; and
5. Such other factors as the Board may consider appropriate under the current circumstances.

INVESTING GUIDELINES

1. Prefer early and growth stage focused funds, with clear intent to fill recognized capital gaps in Oregon, adjusting over time as they shift.
2. Prefer Oregon-based managers or managers who have demonstrated a historical presence in the State.
3. Prefer managers with proven, successful track records (group or individual).
4. Preference shall be given to \$1M-\$5M investments.
5. Prefer any investment not be >25% of any Fund.
6. Prefer not to be “first money in,” but may “soft circle” to gain access while not removing our funds from potential use.
7. Prefer managers targeting key industries as identified by the Oregon Business Development Commission to include, but not limited to: High Tech, Clean Tech, Advanced Mfg., Outdoor/active wear, Forestry Products.
8. Prefer managers who target Oregon Business Council “traded sector” companies – ones that sell beyond the State borders.
9. The Oregon Growth Board shall continue to follow those investment guidelines and policy statements entered into by the Oregon Growth Account Board and that are still in effect.

INVESTING CATEGORIES

1. Oregon Accelerators: groups that provide not only small amounts of capital to very early firms, but on-site coaching, use of facilities and structured access to follow-on capital.

2. Venture and Angel Capital: Traditional seed, early stage and late stage.
3. Growth Capital: Growth equity, small buyouts, leveraged buyouts, venture debt, mezzanine financing, revenue/royalty lending, asset-backed lending.
4. Special situations: Groups that don't fall cleanly into the above (ex: micro-lending); groups where investment return is possible, but not as clear (ex: VC beauty shows with a prize); grants where it fertilizes the soil, but direct returns are not measurable (ex: start-up conferences).
 - A. CTC will be asked to advise only if it is a manager where potential financial returns are a core decision criteria.

PROPOSED ASSET ALLOCATIONS

1. OGA I (Oregon Growth Account): (Education Stability Fund ~ \$110M committed)
 - A. OR Accelerators: 1%
 - B. Venture Capital: 77%
 - C. Growth Capital: 21%
 - D. Special Situations: 1%
2. OGB 2 (Oregon Growth Account): (Education Stability Fund ~ \$25M)
 - A. OR Accelerators: 1%
 - B. Venture Capital: 70%
 - C. Growth Capital: 28%
 - D. Special Situations: 1%
3. OGB 3 (Oregon Growth Fund): (Legislatively Appropriated Funding ~ \$2M)
 - A. Special Situations: 100%

PERFORMANCE MEASURES

1. The Board shall measure the performance of investments and allocations approved from the Oregon Growth Account and Oregon Growth Fund. The Board will assign performance targets for each investment and allocation from the Oregon Growth Account and Oregon Growth Fund. The nature of each investment will dictate the type of measure and target used to evaluate an investment. These performance measures and targets shall include one, or more, of the following criteria:
 - A. The number of businesses assisted,
 - B. The types and amount of resources leveraged,
 - C. Returns on investment, and
 - D. To evaluate impact on jobs and wages in this state.