

Oregon Growth Board Meeting

January 22, 2020

Portland

Attendance

Members Present: Sayer Jones, Co-Chair, Consultant; Gudrun Granholm, Oregon Venture Fund; Stephen Green, Pensole; Elmer Huh, Murdock Charitable Trust; Wendy McGrane, US Bank; Chad Olney, Pacific Crest Federal Credit Union; Amber Schulz-Oliver, The Affiliated Tribes of Northwest Indians; Chris Cummings, Business Oregon; Representative John Lively, Oregon Legislature

Staff Present: Jordana Barclay, Brenda Bateman, Nick Batz, Mark Brady, Ricardo Lopez, Brian Plinski, Kate Sinner, Jenny Wilfong

Guests: Steve Hartt, Meketa Investment Group (MIG); Danny Chan, MIG; Ethan Samson, MIG; Ashley Henry, Business for a Better Portland; Matt Jones, K1 Investment Management; Steven Marlowe, Oregon Department of Justice; Jim McCreight, Oregon Technology Business Center; Amanda Osborne, Oregon Entrepreneurs Network; Nitin Rai, Elevate Capital; Brandon Ross, Elevate Capital

Meeting was called to order at 1:01 pm.

Welcome, Introductions & Minutes

Co-Chair Sayer Jones welcomed everyone to the meeting and asked for introductions around the room and on the phone. Co-Chair Jones asked if anyone wanted to discuss the minutes. Stephen Green moved to pass the minutes and Co-Chair Jones seconded the motion. Minutes passed unanimously.

Introduction of Capital Strategist

Kate Sinner announced to the group that a new Capital Strategist had been hired and introduced Ricardo Lopez. It was Ricardo's second day on the job so he attended as an observer for now but will be the primary staff person for the Board going forward. Kate explained that he had very strong experience in private equity and would be setting up introductory meetings with Board members soon. Ricardo then provided the Board with a description of his background and his excitement about the new role.

Public Comment

Co-Chair Jones asked if there was any public comment. Jim McCreight from the Oregon Technology Business Center (OTBC) addressed the group to talk about OTBC's prior experience with the Board and their work on rural entrepreneurship and access to capital. Jim talked about the time-consuming nature of this work but how they were really beginning to see progress with local partners in three communities. Jim indicated he would likely approach the Board in the future with an opportunity to support the expansion of this work to additional rural communities.

Nitin Rai introduced himself and his firm Elevate Capital. Nitin praised the work that OTBC has been doing as well as the work by groups like Micro Enterprise Services of Oregon (MESO). Nitin suggested the Board give strong consideration to supporting these groups in the future.

K5 OGA Investment Recommendation

Steve Hartt from Meketa Investment Group (MIG) explained the Board's process for performing due diligence and making investment decisions for the Oregon Growth Account (OGA). Steve reminded the group that MIG had sent a comprehensive report on K1 as well as a summary. MIG supports an investment in K1's fifth fund called K5 given their team, approach and historic performance and has recommended the fund to other clients. Steve explained that a partner from K1 would come in shortly to provide a presentation. Co-Chair Jones asked Steve to describe how MIG evaluates a firm's "nexus" with Oregon. Steve explained that there is not a set formula for this, but they look at whether a fund has a precedent of investing in Oregon as well as the fund's present and future plans to have a presence in Oregon to provide the opportunities to evaluate investments in Oregon firms. Elmer Huh asked about the typical amount of time between first identifying an opportunity and bringing the firm in for a presentation and a Board investment decision. Steve explained that MIG spends significant time evaluating firms through a variety of means before bringing them forward to the Board. These evaluation activities include in-person meetings, a due diligence questionnaire, background checks, evaluation by internal MIG groups and reference checks, among other things. He estimated it takes at least three months although it can take more. Steve also noted that it can vary based on prior experience with the fund and/or fund manager. Lastly, he reminded the group about the pipeline update MIG provides at each meeting as a way for the Board to have visibility into potential opportunities before they are brought forward for an investment decision. Chad Olney asked Steven Marlowe to talk about the conflict of interest process the Board follows. Steve explained the various ways that real and potential conflicts are identified, evaluated and handled. He reminded the group that there is an Ethics Commission that can be brought into the process if necessary.

Matt Jones from K1 was brought into the room to provide the firm's presentation on the investment opportunity. Matt explained the firm's approach to investing and advising the companies in which it invests as well as how the firm identifies complementary firms in its portfolio to support the growth of companies. Board members had various questions on the length of time that K1 generally holds investments, the metrics the firm uses to evaluate investments, the number of investments to date and companies in the portfolio, the diversity of its team, its approach to valuing companies as well as other issues. The Board also asked how the firm planned to handle the increased assets under management in the new fund. Matt explained that they are ramping up hiring on their operations and sourcing teams to accommodate additional investments.

Matt Jones then left the room for the Board to discuss the opportunity. Steve Hartt walked the group through MIG's analysis of the opportunity's strengths, weaknesses, opportunities and threats. Ultimately, Steve recommended the fund as a good investment for the Board. The group discussed key-man risk and expected recession resiliency. Steve Hartt reminded the Board of the benefits of continuous diversification within a private equity portfolio. This investment opportunity fits that role. Elmer Huh moved to approve a five million dollar investment in K1's K5 fund. Stephen Green seconded the motion. All members voted yes, except Gudrun Granholm who abstained.

Pipeline Review

Steve Hartt walked the group through the pipeline table that MIG put together for the meeting. He explained what the different phases of review meant, including the potential re-investment opportunities expected in 2020 as well as previously declined opportunities. Steve told the group that another investment opportunity may be brought to the Board for consideration at the February meeting. MIG has had several meetings with the fund and may bring it forward pending additional discussions and evaluation before the next meeting.

Distribution Discussion and Decision

Jenny Wilfong walked the group through the memo she prepared explaining distribution requirements by statute as well as the Board's own Investment Policy Statement. Sayer acknowledged that Jenny had processed the distribution memo properly per the terms of the Board's investment policy. Steve Hartt further explained for the newer Board members how MIG performed a downside analysis and determined they do not have liquidity concerns for the OGA post distribution. Chad moved to reiterate approval of the distribution process and Elmer seconded. The distribution process was unanimously approved.

Fiscal Documentation & Process Review

Jenny then walked the group through the financials for both the OGA and Oregon Growth Fund (OGF). The group discussed the assets in the OGA as well as the investment income and capital gains. Jenny noted the portfolio's Net Asset Value, and MIG said this is the number they look at the most closely. Jenny walked the group through the OGF's financials as well, explaining the difference between how some funds are required to be spent in this biennial cycle and other funds that have more flexibility in when they can be used.

Secretary of State OGA Audit Review

Finally, Jenny talked through the summary results of the Secretary of State's audit of the OGA. The audit highlighted a few things that could be improved, and Jenny explained how Business Oregon was handling each one to make sure they were handled properly. Much of the focus was on administrative or reporting issues. Jenny explained that improving these processes will be one of the primary initial focus areas for Ricardo as he gets going on his work.

OGF RFP Update

Kate Sinner started the discussion of the OGF request for proposals (RFP) by providing some background on the types of investments made with OGF funds. Jordana Barclay and Brian Plinski then told the group the outreach and other work they had done to develop an RFP for the Board. The group discussed whether or not the areas identified as rural were sufficient as well as the appropriateness of the definition of underrepresented populations. Some thought the definitions might be too broad, but the group decided it would be best to start broad and see what responses come in before potentially adjusting them. The group discussed the targets that had been identified for the amount of money for each different populations and whether these were appropriate. Staff considered them appropriate based on the discussions with and information gathered from partners. The Board directed staff to look into developing a formal document to bring forward for the Board's consideration at the February meeting.

Legislative Concept 241 "Access to Capital"

By the time of the Board meeting, this Legislative Concept had become House Bill 4033. The bill was the result of discussion with stakeholders on ways access to capital might be improved in Oregon. The House Economic Development committee is still working with partners on the exact bill, but it currently includes a few one-time investments in programs including potentially the OGF. Ashley Henry informed the Board that her group appreciated the bill and the Board's support for it and said she has been working on the language with the committee. Kate explained that there would likely be work sessions and hearings on the bill so that the exact outcome would not be known for some time.

Preview Potential Feb. Backstage Capital Proposal

Stephen Green told the group about his prior meeting with Backstage Capital and how the group was doing a tour around the country. Backstage Capital is interested in holding an event in Portland if they can get financial support. The group is looking for funds to do an event in May to coincide with a book launch. The funds would support the event as well as an investment in a local company. The group recommended that Kate and Ricardo have discussions with Backstage Capital to get additional details so that the Board could have an informed discussion of the value of the opportunity. Staff agreed to work with Stephen Green to get details and present findings from these discussions at the next meeting.

Adjourn

Co-Chair Jones adjourned the meeting at 4:02 pm.

Approved by:

Signature on file

Sayer Jones, Co-Chair
Oregon Growth Board

Date

Ricardo Lopez, Capital Strategist
Business Oregon

Date