

Oregon Growth Board Meeting

March 18, 2020

Conference Call

Attendance via Conference Line

Members Present: Sayer Jones, Co-Chair, Consultant; Tobias Read, Oregon State Treasurer; Wendy McGrane, US Bank; Chris Cummings, Business Oregon; Gudrun Granholm, Box One; Elmer Huh, Murdock Charitable Trust; Rep. John Lively, State Legislature; Chad Olney, Pacific Crest Federal Credit Union; Stephen Green, Pensole; Amber Schulz-Oliver, The Affiliated Tribes of NW Indians Economic Development Corp.

Staff Present: Kate Sinner, Ricardo Lopez, Ruth Hall.

Guests: Meredith Coba, Oregon Treasury; Steve Hartt, Meketa Investment Group (MIG); Ethan Samson, MIG; Danny Chan, MIG; Steven Marlowe, Oregon Department of Justice; Jim McCreight, Oregon Technology Business Center; Lynn Meyer, Community Lending Works; Nitin Rai, Elevate Capital.

Meeting was called to order at 1:10 pm.

Welcome, Introductions, Minute Approval

Co-Chair Sayer Jones welcomed everyone to the conference call. Treasurer Read motioned to move approval of minutes and Chad Olney seconded. Minutes were approved unanimously.

Public Comment

Nitin Rai thanked the board for supporting CDFIs at this time as they are critical to the ecosystem. He also shared with the Board that some of his venture investments are pivoting during this time to adjust to current needs.

Coronavirus Effect on Private Equity

Steve Hartt from MIG provided a macroeconomic update on the current expected effects of the Coronavirus on the Private Equity landscape. Next quarter's performance reports (Q4 2019) will not reflect the current crisis yet, so the Board will not see the effect on its portfolio for months. Steve Hartt proceeded to highlight that OGA portfolio companies are significantly younger than most diversified institutional portfolios. However, OGA general partners do have a lot of dry powder and once the crisis diminishes there should be attractive opportunities to deploy capital.

Ricardo Lopez asked how MIG expected the crisis to impact the pace of capital calls and distributions. Steve Hartt responded that historically general partners would speed up capital calls to support key companies while substantially slowing down their distribution rate. Depending on the severity of the crisis, he would expect the cash flow rate to balance out over the next year. Sayer Jones asked how MIG is communicating with general partners. Steve Hartt replied that larger fund managers are reaching out to investors and keeping them informed while MIG is proactively reaching out to smaller fund managers. Steve Hartt acknowledged that sector

is crucial so far and funds focused on travel and leisure are likely experiencing a significant negative impact.

Updated OGA Pacing Analysis

Steve Hartt explained that MIG had been working with Business Oregon Staff to update OGA's pacing analysis in light of the most recent events. The multiple scenario analysis is based on five variables: initial cash balance, annual commitment pacing, investment returns, receipt of lottery proceeds, and dividends distributed. MIG ran Monte Carlo simulations to attempt to quantify median, best-, and worst-case scenarios over the next 20 years. Steve Hartt noted that a reduction in both lottery proceeds and cash available would likely make the OGA insolvent in only a few years. The expected portfolio performance given the current crisis would only amplify that problem. However, Steve Hartt pointed to the two significant levers the Board can pull to remain solvent if OGA's liquidity is indeed drastically minimized: reducing its new commitments and dividends paid out every biennium.

Gudrun Granholm asked why the MIG simulation used a 9% IRR. Steve Hartt clarified that 9% is MIG's most recent long-term projection for Private Equity as an asset class. Elmer Huh asked how these scenarios will inform a potentially modified pacing plan. Ricardo Lopez reminded the Board that OGA's biannual dividend was recently distributed, so the Board has the luxury of waiting more than a year to decide how to handle its next dividend payment. Treasurer Read opined that he expects the state to have to tap into its reserve accounts due to the crisis, so the Education Stability Fund is less likely to reach its 5% cap of the General Fund's revenue.

The Board had a discussion surrounding potential OGA cash withdrawals from legislature because of the crisis. Elmer Huh stated it wouldn't be prudent to commit too aggressively and force the OGA corpus simply to avoid cash being swept. The Board agreed and Chad Olney further proposed that the Board should differentiate between short- and long-term decisions during the crisis. Amber Schulz-Oliver shared that she understands the pacing strategy and is comfortable moving forward with the current pacing plan. Gudrun Granholm asked MIG to provide more frequent updates on pacing, if possible. Steve Hartt agreed to keep the Board updated and reiterated the need for consistent, prudent OGA pacing to avoid being too reactionary.

OGA Pipeline Review

Ethan Samson reviewed OGA's investment pipeline.

Strategic Diversification Discussion

Steve Hartt alluded to several reports that were provided to Board members as an attempt to both bring new members up to speed and make sure everyone has time to ask questions. The Board had its strategic retreat in spring 2019 where they discussed the benefits of asset class diversification, a portfolio company overlap analysis, and the annual Economic Development report. Sayer Jones further explained that the Economic Development report is provided to the legislature to describe the impact of the OGA on Oregon.

OGF LOI and Outreach Program

Ricardo Lopez shared the proposed request for letters of interest (LOI) for the OGF. He also informed the Board that while they had originally sought an RFP, after further discussion there was concern around an RFP being too cumbersome and may actually be a barrier to entry for target populations. As such, Business Oregon worked to simplify the process and are presenting a request for LOI with only four key questions for applicants to answer. The streamlined process would provide the Board flexibility to react to any opportunity that may arise while potentially expanding its investable universe. However, Ricardo Lopez acknowledged that this new protocol would be a useful tool under normal circumstances, but the macroeconomic impact of the Coronavirus could impact the Board's short-term priorities.

Amber Schulz-Oliver shared that she is concerned about Community Development Financial Institutions (CDFIs) and asked if restructuring our loans to them would help the situation. Chris Cummings added that this Board discussion would inform Business Oregon's strategic thinking on allocation of resources. Stephen Green said he is on the Board of Built Oregon, and that Built had recently conducted a survey of consumer goods businesses to understand the impact of COVID-19. The over 900 responses helped Built begin to grasp the severity of the situation. Stephen Green hoped that that OGF resources could be leveraged and added that the emotional toll on business owners cannot be understated. Gudrun Granholm shared that one of the biggest challenges for businesses at this stage is cash flow's impact on inventory, and micro-financing may be a good option. Kate Sinner pointed out that some CDFIs offer micro-financing services.

Sayer Jones reminded the Board that Staff was also asking if the Board would like Business Oregon to move forward with the LOI or pivot to a Coronavirus response. Amber Schulz-Oliver added that the bigger picture is that she appreciates the effort to develop the new process but we are in an unprecedented time and we should reassess the short-term approach. Sayer Jones, Wendy McGrane, and Gudrun Granholm all approved of the delay of the request for LOI. Ricardo Lopez reassured the Board that the new streamlined process could be implemented at any time and used on a rolling basis.

Chris Cummings shared that there are roughly 150,000 businesses in Oregon and that approximately 30% of them are traded sector. He added that Business Oregon and the Board should support the infrastructure to ensure that once the dust settles key organizations remain standing. Elmer Huh recommended the Board should find ways to bolster current relationships, but was unconvinced committing new capital would be optimal given the scale and uncertainty of the crisis. Sayer put forth that the most important thing to do at the moment is to buoy the Board's community partners to be there to help companies through this crisis.

Stephen Green suggested setting up office hours to talk with businesses about their situation. Chris Cummings shared that Business Oregon has deployed staff in every county in the state, has utilized social media and is keeping its website up to date on resources. He also noted they are working on a web request form for potential specific solutions. Given the scope of the problem, there would simply be no resources to talk to all businesses affected. Ricardo Lopez shared that Business Oregon has been in touch with OGF-partner CDFIs – Community Lending Works (CLW), Craft3 and MESO – and suggested that he meet with them to see optimize an approach. Sayer Jones asked one of the guests on the call, Lynn Meyer from CLW, to share his perspective as a

CDFI representative. Lynn Meyer explained CLW had been looking at quasi payment holidays, developing a reserve fund loan, and other potential buffers to the crisis. One example might be for lenders like OGF to turn their loans to CDFIs into equity to shore up their balance sheets. He agreed that there is a need to save some liquidity to fund later opportunities, but businesses need cash now to avoid predatory online lenders.

Sayer Jones asked the Board if anyone would rather focus on new venture capital as opposed to debt funding at this stage. Wendy McGrane asked if there might be tactical opportunities for venture partners at this time. Steve Hartt suggested there will come a time when pricing will be advantageous, but it would be difficult for such early-stage companies with products that are probably still in beta. Sayer Jones expanded on the idea of prioritizing help to CDFIs, highlighting the key role they play in the small business ecosystem. Additionally, mission-driven lenders like CDFIs have developed relationships with rural and underrepresented borrowers over the years, critically helping the Board reach its target beneficiaries. Sayer Jones pointed to EQ2 loans as vehicles that help organizations like CDFIs strengthen their balance sheets. Chad Olney asked if OGF was allowed to make those loans wondering if they would be considered public ownership. Steven Marlowe said he would have to take a look at the specific contract but believed it would be acceptable.

Amber Schulz-Oliver asked the group if this hypothetical concept would be meant for current OGF investments or new CDFI opportunities. Sayer Jones expressed his desire for a comprehensive list of CDFIs around the state to query their needs and have OGF respond accordingly. Sayer Jones asked the rest of the Board if they agreed focusing on CDFIs was the right approach. Board members present agreed unanimously. Sayer Jones raised the possibility of deputizing due diligence or starting a subcommittee. Elmer Huh supported the idea of an emergency meeting if necessary. Amber Schulz-Oliver and Gudrun Granholm volunteered to participate in a subcommittee to discuss CDFI options, if one was created down the line.

Elmer Huh requested a concise bullet-point summary of the meeting for Board members to keep track of issues discussed and specific action items.

Adjourn

Stephen Green motioned to adjourn and Amber Schulz-Oliver seconded. Sayer Jones adjourned the meeting at 3:58 pm.

Approved by:

Signature on file

Sayer Jones, Co-Chair
Oregon Growth Board

Date

Ricardo Lopez, Capital Strategist
Business Oregon

Date