TO: Ways & Means, Transportation & Economic Development Subcommittee
Sen. Betsy Johnson, co-chair
Rep. David Gomberg, co-chair
Sen. Bill Hansell
Sen. Rod Monroe
Rep. Mike Nearman
Rep. Tobias Read
Rep. Gail Whitsett
Rep. Brad Witt

FROM: Sean Robbins, Business Oregon director

RE: Oregon Growth Board

DATE: Friday, April 3, 2015

You asked for additional information about the performance of the Oregon Growth Board.

The Oregon Growth Board manages investments in the Oregon Growth Account and the Oregon Growth Fund. The Board contracts with CTC my CFO, LLC to provide investment consulting services for the Oregon Growth Account. We have worked with CTC to provide the performance history of the Oregon Growth Account. Attached please find CTC's report.

The Oregon Growth Fund received its first lottery fund allocation of $1.9 million in the 2013-15 biennium. As of the March 16 Board meeting, the Board has committed $1.8 million. While the purpose of the Oregon Growth Account is to make investments that earn returns for the Education Stability Fund, the Oregon Growth Fund's purpose is to make investments in, and provide loans or grants to, businesses to promote economic development. Oregon Growth Fund commitments include:

Investments	$550,000
Loans	$925,000
Grants	$298,000

A total of $704,000 in Growth Fund commitments has been disbursed, leaving $1 million to be drawn. 100% of investments and loans have been with Oregon companies. The Board will track the rate of return on the Growth Fund; however, investments are too early to have reported any investment returns to date.

Please let me know if you have any additional questions.

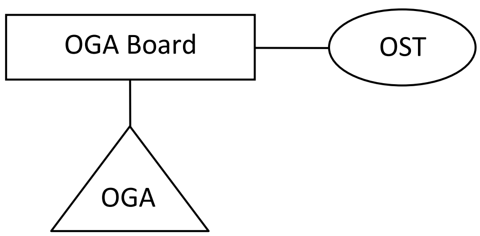
REPORT TO THE OREGON GROWTH BOARD

Re: **Oregon Growth Account**
From: CTC|myCFO
Date: March 31, 2015

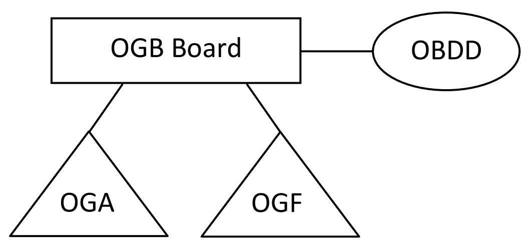
Oregon Growth Board Background

The Oregon Growth Board ("OGB") was established by HB 4040 during the 2012 Regular Session. HB 2323, during the 2013 Regular Session, formally established the Oregon Growth Fund ("OGF") and granted authority to the Oregon Growth Board to manage the Oregon Growth Account ("OGA") and the Oregon Growth Fund. Further, HB 2323 set the date of January 1, 2014 for the transfer of all duties, functions and powers of the legacy Oregon Growth Account board to the Oregon Growth Board, while simultaneously abolishing the Oregon Growth Account board. The Oregon Growth Account board had provided investment oversight for the Oregon Growth Account since 1999. Additionally, the ongoing administration of the Oregon Growth Account, which had been provided by Oregon State Treasury ("OST"), was transferred to Oregon Business Development Department ("OBDD").

Pre-2014



Post-2014



Oregon Growth Account Background

The Oregon Growth Account was created within the Education Stability Fund ("ESF") (formerly known as the Education Endowment Fund) by Oregon Laws 1995, chapter 811 during the 1995 Legislative Session in conjunction with the establishment of the Education Stability Fund. In accordance with the provisions of the Oregon Constitution, the Education Stability Fund receives eighteen percent of Lottery proceeds. Of the Lottery proceeds placed in the Education Stability Fund, ten percent is apportioned to the Oregon Growth Account. The Oregon Growth Account began investing in 1999, as lottery revenues were not immediately available for investment, upon passage of the law in 1995.

Oregon Growth Account Objective

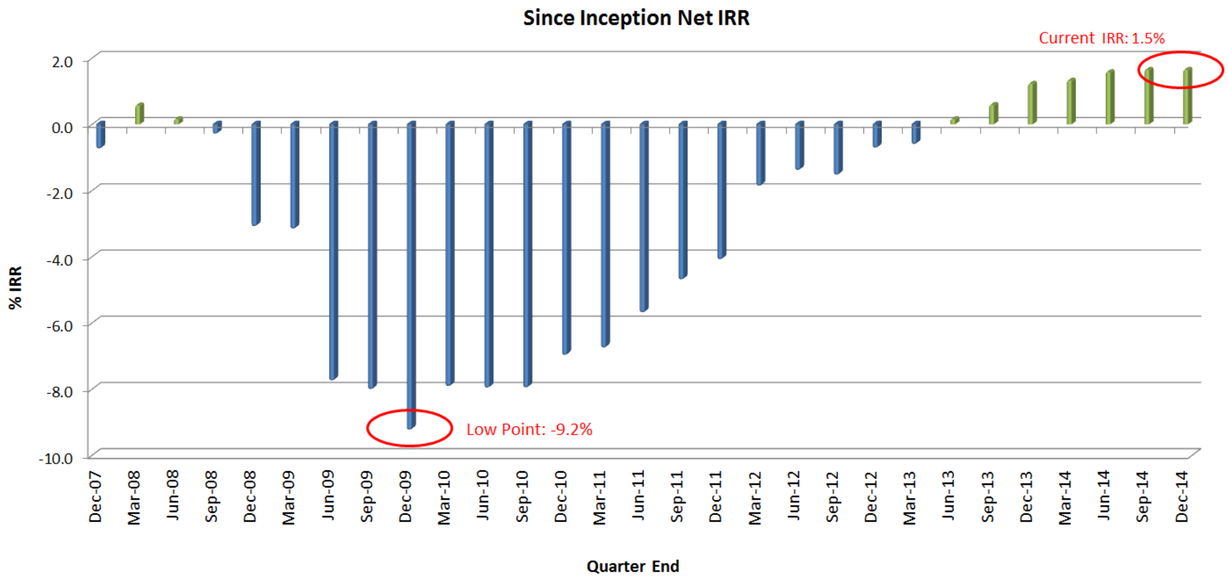
The objective of the Oregon Growth Account is to earn returns for the Education Stability Fund by making investments in professionally managed funds that in turn invest in private, emerging growth businesses, some of which will be domiciled in Oregon. Since inception, returns generated by the Oregon Growth Account have resulted in $23.0 million in distributions to the Education Stability Fund.

Challenging Beginning

The date of initial funding for the Oregon Growth Account proved to be precarious. Initial investments made by the Oregon Growth Account between 1999 and 2002, a period commonly referred to as the

'Dot-Com Bubble,' resulted in a significant loss of capital. From roughly $27.4 million in initial investments, the Oregon Growth Account received approximately $4.7 million of value. Since that time, the Oregon Growth Account has institutionalized its investment process and performance has improved.

By March 2008, the Internal Rate of Return ("IRR")[1] of the Oregon Growth Account turned positive for the first time since inception, having clawed back from the losses at its onset. However, that date also coincided with the start of the 'Great Recession' and by December 2009, the Internal Rate of Return had declined to -9.2%, with multiple private businesses in the portfolio being written down or written off. Since that time, the health of the global economy has generally improved and the Internal Rate of Return has been steadily ascending, ending December 2014 in positive territory at 1.5%.



1. Internal Rate of Return is the industry standard for performance measurement of private equity. In technical terms, Internal Rate of Return represents the discount rate that when applied to all future investment-related cash flows, makes the net present value of the investment equal zero.

Structural Changes

In the wake of the financial crisis in 2008, the Oregon Growth Account board requested that annual economic development data be obtained from Oregon-based businesses in the Oregon Growth Account portfolio. The impetus for this request was to better understand the impact the Oregon Growth Account was having on the health of Oregon's economy, particularly in light of mounting unemployment in the state. The economic development data sought included the number of jobs these Oregon businesses represented, taxes paid by the businesses, aggregate wages paid to Oregon employees, regions within the state that the businesses operate and anecdotal commentary on other benefits derived by the businesses.

Further in 2008, the Oregon Growth Account board began requiring that future investments in funds be contingent upon the receipt of a signed legal side-letter obligating fund managers to invest a portion of their total assets in Oregon-based businesses. Specifically, the fund manager must invest an amount that is equal if not greater than the Oregon Growth Account's investment to the fund, into Oregon-based businesses. This requirement has proven to be a deterrent for many fund managers that do not want to be obligated to invest in Oregon.

The Oregon Growth Board assumed oversight of the Oregon Growth Account at the beginning of 2014. It subsequently emphasized that new investments be targeted toward fund managers that are operating within Oregon's five industry clusters, including: 1) natural resources; 2) advanced manufacturing; 3) high technology; 4) footwear, outdoor gear and apparel; and 5) clean technology. Further, the Oregon Growth Board seeks to identify areas of capital deficiency for private businesses in Oregon, considering industry and lifecycle segments, and focus investments in a manner that addresses critical areas of deficiency. In contrast, the vast majority of the legacy Oregon Growth Account portfolio was invested in relatively young high technology businesses.

Lastly and in recognition of the dearth of resident investment expertise in Oregon, the Oregon Growth Board established a $2.0 million budget within the Oregon Growth Account to invest in funds that are being managed by promising local fund managers. These managers are often in the process of establishing their practice and as a result, frequently lack the qualities that an institutional investor, such as the Oregon Growth Account, should otherwise expect. These investments have been labeled by the Oregon Growth Board as "Pre-Institutional" investments and the expectation is that these fund managers may materially impact Oregon's capital ecosystem as they grow and mature.

Pre-Institutional v Institutional

The definition of "Pre-Institutional" investments is expected to require perpetual refinement as the investment industry is constantly innovating. Currently, a Pre-Institutional investment is generally defined as an investment in a fund that does not have a demonstrably successful history in which to fully underwrite to an expectation of future success. By contrast, an "Institutional" fund manager is capable of presenting verifiable information that would lead an experienced investor to assign a high probability of future success to the investment being considered. The expectation of the Oregon Growth Board is that Pre-Institutional fund managers aspire to become Institutional fund managers.

Oregon Growth Account Results

Since inception, the Oregon Growth Account has committed, or contractually promised to invest, $122.0 million to forty funds that operate as limited partnerships. Through year end 2014, $97.7 million of those commitments have been funded, leaving $23.7 million yet to be drawn for investment. In return, the funds receiving capital from the Oregon Growth Account have deployed $194.3 million in greater than 140 Oregon-based businesses, representing greater than 2,200 jobs statewide. Further, these funds, in aggregate, have raised more than $1.3 billion in total assets to deploy in private businesses. In other words, for every dollar spent by the Oregon Growth Account, roughly two times that amount has been invested in Oregon-based businesses. And for every dollar committed to funds, greater than ten times that amount is available for investment in businesses.

Overall, the Oregon Growth Account has achieved realized returns of $40.4 million, with a remaining value of $63.5 million, representing a multiple of 1.1 times the capital that has been invested. The internal rate of return for the Oregon Growth A, since inception, is 1.5 percent. According to the National Venture Capital Association ("NVCA"), the 15-year pooled Internal Rate of Return, a comparable period of existence to that of the Oregon Growth Account, for the 'US Venture Capital – Multi-Stage Index' was 6.9 percent through September 2014. It is important to note, however, that this index is unconstrained, whereas the Oregon Growth Account is regionally focused.

Summary

While the Oregon Growth Account has struggled to meet its long-term investment goals, from a pure return on investment perspective, the trend in its performance is encouraging and it is once again profitable. Additionally, the Oregon Growth Account has been successful at leveraging private-sector investments into Oregon-based businesses and serving as a catalyst for economic development within the state. At a time when the capital ecosystem remains fragmented, the Oregon Growth Account provides critical and consistent capital to emerging growth businesses in Oregon. Further, with the Oregon Growth Board thinking innovatively about the needs of entrepreneurs throughout the state, the Oregon Growth Account seems particularly well-positioned to grow private business in Oregon, all of which accrues to the benefit of the Education Stability Fund.

Challenges and Remedies

The performance of the OGA has been challenged in three principal manners.
Second, by design, the OGA was largely comprised of venture capital investments in emerging growth businesses. This resulted in a portfolio heavily weighted toward early stage technology businesses and lacking any benefit that might come through diversification. The Oregon Growth Board ("OGB"), upon assuming oversight of the OGA in January 2014, augmented the investment process to focus on emerging growth businesses within the five traded sectors defined by Oregon Business Development Department ("OBDD"). Further, new investments are expected to address capital gaps within the state of Oregon, spanning business lifecycle and capital needs, whether that be debt or equity.