

DATE: February 16, 2010

TO: Oregon Investment Council

FROM: Jay Fewel, Senior Private Equity Investment Officer

SUBJECT: Community Bancorp, LLC

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#### Purpose

Staff recommends a commitment of \$100 million to Community Bancorp, LLC. Community Bancorp is being formed by Sageview Capital to take advantage of the distressed and undercapitalized nature of many banks in various geographic regions in the United States. This proposal is different than typical limited partnership vehicles in that, assuming a deal is consummated, OPERF would own shares directly in Community Bancorp (the holding company) as compared to the usual limited partnership interests.

#### Background

Community Bancorp (CBC) is a newly formed bank holding company based in Houston, Texas. CBC will seek to purchase assets and assume liabilities of failed banks and thrifts from the Federal Deposit Insurance Corporation, primarily in government assisted transactions. CBC will seek to acquire a series of attractive platform institutions across the U.S. with the goal of subsequently growing each platform through organic and acquisition based operating strategies. Rather than raising a traditional private equity fund, Sageview is looking to assemble a group of state pensions and other similar investors to provide direct capital investment into failing banks, providing individual investors with direct ownership stakes. Regulators are seeking the support of state pension funds to solve the crisis surrounding ongoing bank failures. Under the proposed structure, the Advisor (Sageview) expects CBC to acquire three or four failed banks as platform institutions in attractive markets across the U.S., during a three year commitment period. Each platform acquisition is expected to require between \$50 million and \$250 million of equity, depending on the size of the target banking institution's asset base. Sageview is targeting an equity capitalization of approximately \$1 billion for CBC, but a hard cap has not been established. The OPERF commitment, if approved, would be contingent on CBC's raising a minimum of \$500 million. It should be further noted that Sageview anticipates that its existing limited partners will commit an aggregate of more than \$100 million to CBC, of which \$10 million will come from the Sageview team.

CBC has assembled a very highly regarded Board of Directors, one of whom will be in attendance at the February 24 Oregon Investment Council meeting. They have also brought on an experienced management team with an excellent track record. The team will be led by Paul Murphy, co-founder and former CEO of Amegy Bank, a highly successful Houston, Texas bank holding company. Mr. Murphy will also be in attendance on February 24.

A new commitment to CBC would be allocated 100 percent to the Special Situations sub-sector. As of September 30, 2009, OPERF's allocation to this sub-sector is targeted at 5 to 15 percent with a current fair market value plus unfunded commitments exposure of 11.1 percent.

## Recommendation

Staff and PCG recommend that the OIC authorize a commitment of \$100 million on behalf of OPERF to Community Bancorp, LLC, subject to the satisfactory negotiation of terms and conditions, and completion of the requisite legal documents by DOJ legal counsel working in concert with OST Staff. While this makes for an intriguing investment opportunity, given existing allocation constraints, a \$100 million commitment was deemed appropriate. If *this amount* were to be raised, it would mean scaling back other anticipated investments currently on the 2010 forward calendar.

# Community Bancorporation LLC

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## Strategy

Sageview Capital, LLC ("Sageview" or the "Advisor"), a Greenwich, CT and Menlo Park, CA-based hybrid asset manager, is seeking to raise capital for Community Bancorp, LCC ("CBC" or the "Firm"), a newly formed bank holding company based in Houston, TX. With Sageview serving as an advisor to CBC, the Firm will seek to purchase assets and assume liabilities of failed banks and thrifts from the Federal Deposit Insurance Corporation ("FDIC"), primarily in government assisted transactions. In effect, CBC will seek to acquire a series of attractive platform institutions across the U.S. with the goal of subsequently growing each platform through organic and acquisition-based operating strategies.

Rather than raise a traditional private equity fund, Sageview is looking to assemble a group of state pensions and other similar investors to provide direct capital investment into failing banks, thereby providing individual investors with direct ownership stakes. Currently, regulators are seeking the support of state pension funds to solve the crisis surrounding ongoing bank failures. The Advisor believes that the FDIC, in particular, is facing enormous political pressure to constrain the role of private capital in this process and is therefore seeking alternative capital solutions.

Under the proposed structure, the Advisor expects CBC to acquire three or four failed banks as platform institutions in attractive markets across the United States during a three year commitment period. Each platform acquisition is expected to require between \$50.0 million and \$250.0 million of equity, depending upon the size of the target banking institution's asset base.

In aggregate, Sageview is targeting an equity capitalization of approximately \$1.0 billion for CBC, but has yet to establish a limit on the capital raising process. However, given the proposed strategy, the Advisor does not anticipate accepting commitments in excess of \$1.5 billion. Sageview is in the early stages of raising funds for CBC, with no commitments secured to date. A first closing is expected in the first quarter of 2010, at which time the Advisor expects to secure between \$500.0 million and \$1.0 billion for CBC. A final close is expected in the second quarter of 2010.

Upon closing, the Advisor expects CBC's board of directors to commit in excess of \$7.0 million to the Firm, with individual commitments ranging from approximately \$1.0 million to over \$3.0 million. CBC management, in aggregate, will also commit capital in excess of \$2.0 million. Furthermore, Sageview anticipates that its existing Limited Partners will commit an aggregate of more than \$100.0 million to CBC, of which at least 10%, or \$10.0 million, will come from the Sageview team.

## History

CBC is being organized by Sageview, an asset management firm founded in 2005 by Ned Gilhuly and Scott Stuart who were with buyout firm Kohlberg, Kravis, Roberts, LLC ("KKR") from 1986 through 2005. Sageview currently manages approximately \$1.4 billion of capital through a hybrid fund that focuses on making non-controlling investments in public companies and structured minority investments within the small and mid-cap markets. This includes two significant investments in the banking industry, EverBank Financial Corp and State Bank & Trust.

Based in Houston, TX, CBC will be managed by a team of executives formerly with Amegy Bank of Texas. This includes a CEO, CFO, Chief Information Officer and a Chief Credit & Risk Officer. Aside from the CRO, each individual was at one time or another employed at Amegy Bank. Accordingly, the majority of the team brings to CBC significant backgrounds in operating and working with financial depository institutions on a collaborative basis, particularly with respect to pursuing both organic and acquisition-oriented growth strategies.

## Community Bancorporation LLC

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### Summary of Proposed Terms

- Structuring Fee: 1.0% of aggregate commitments per annum; In consideration for serving as Structuring Advisor, CBC has agreed to pay Sageview a cash fee equal to 3.0% of the aggregate commitments raised, payable in three equal annual installments.
- Team Commitment: Approximately 2.0% of aggregate commitments to the Fund from Sageview, CBC management, and CBC's Board of Directors.
- Other Expenses: The Firm is responsible for all organizational and offering expenses in an amount estimated at approximately \$4 million
- Distributions: CBC will make distributions at the sole discretion of the board of directors. In the event that cash is available to CBC in excess of the anticipated needs of the business, including reserve requirements, tax withholdings and other regulatory capital requirements, the board may approve distributions as follows:
- Return of Cost* - First, pro rata to the Members holding Class A Common Units and Members holding Class B Non-Voting Common Units until they receive an aggregate amount of distributions equal to their respective capital contributions in respect of Class A and Class B units; and
- Broad Distributions* - Second, pro rata to unitholders of Class A Common Units, unitholders of Class B Non-Voting Common Units and unitholders of Class C Incentive Units based on the relative number of units held by each member