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# **Oregon Investment Council**

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July 31, 2013 - 9:00 AM

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**PERS Headquarters  
11410 S.W. 68<sup>th</sup> Parkway  
Tigard, OR 97223**



**Keith Larson**  
Chair

**John Skjervem**  
Chief Investment Officer

**Ted Wheeler**  
State Treasurer

# OREGON INVESTMENT COUNCIL

## 2013 Schedule

Meetings Begin at 9:00 am

PERS Headquarters Building  
11410 S.W. 68<sup>th</sup> Parkway  
Tigard, OR 97223

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January 23, 2013

February 20, 2013

May 1, 2013

May 29, 2013

June 26, 2013

July 31, 2013

September 25, 2013

October 30, 2013

December 10, 2013



# OREGON INVESTMENT COUNCIL

## Agenda

**July 31, 2013**  
**9:00 AM**

PERS Headquarters  
11410 S.W. 68<sup>th</sup> Parkway  
Tigard, Oregon

<u>Time</u>	<u>A. Action Items</u>	<u>Presenter</u>	<u>Tab</u>
9:00-9:05	<b>1. Review &amp; Approval of Minutes</b> June 26, 2013 Regular Meeting	<b>Keith Larson</b> <i>OIC Chair</i>	<b>1</b>
	<b>Committee Reports</b>	<b>John Skjervem</b> <i>Chief Investment Officer</i>	
9:05-9:35	<b>2. SAIF Asset/Liability Discussion</b>	<b>Mike Mueller</b> <i>Deputy CIO</i> <b>Theresa McHugh</b> <i>SAIF, Vice President of Financial Services</i> <b>Andrew Canning</b> <i>Towers Watson, Co-head of Insurance Advisory Services</i>	<b>2</b>
9:35-10:15	<b>3. Reservoir Resource Partners, LP</b> <i>OPERF Alternatives Portfolio</i>	<b>John Hershey</b> <i>Senior Investment Officer</i> <b>Craig Huff</b> <i>General Partner</i> <b>Tom Martin</b> <i>Torrey Cove Capital Partners</i>	<b>3</b>
10:15-10:25	<b>4. OIC Policy Change Recommendations</b> <i>Policies 4.06.02, 4.06.03, 4.05.03 &amp; 4.05.02</i>	<b>Mike Mueller</b>	<b>4</b>
10:25-10:40	----- <b>BREAK</b> -----		
10:40-11:00	<b>5. Oregon Short-Term Fund</b> <i>Annual Review</i>	<b>Garrett Cudahey</b> <i>Investment Officer</i>	<b>5</b>

Keith Larson  
Chair

Dick Solomon  
Vice-Chair

Rukaiyah Adams  
Member

Katy Durant  
Member

Ted Wheeler  
State Treasurer

Paul Cleary  
PERS Director

<b>11:00-11:15</b>	<b>6. Oregon Intermediate Term Pool</b> <i>Annual Review</i>	<b>Tom Lofton</b> <i>Investment Officer</i>	<b>6</b>
<b>11:15-11:55</b>	<b>7. OPERF Asset Allocation Implementation Plan</b>	<b>John Skjervem</b> <b>Perrin Lim</b> <i>Senior Investment Officer</i> <b>John Meier</b> <i>Strategic Investment Solutions</i>	<b>7</b>

**B. Information Items**

<b>11:55-12:00</b>	<b>8. Asset Allocations &amp; NAV Updates</b> a. Oregon Public Employees Retirement Fund b. SAIF Corporation c. Common School Fund d. HiEd Pooled Endowment Fund	<b>John Skjervem</b>	<b>8</b>
	<b>9. Calendar — Future Agenda Items</b>		<b>9</b>
	<b>10. Other Items</b>	<b>Council Staff Consultants</b>	

**C. Public Comment Invited**

15 Minutes

**TAB 1 – REVIEW & APPROVAL OF MINUTES**

June 26, 2013 Regular Meeting

OST Committee Reports – Verbal



**STATE OF OREGON**  
**OFFICE OF THE STATE TREASURER**  
350 WINTER STREET NE, SUITE 100  
SALEM, OREGON 97301-3896

OREGON INVESTMENT COUNCIL  
JUNE 26, 2013  
MEETING MINUTES

Members Present: Rukaiyah Adams, Paul Cleary, Katy Durant, Keith Larson, Dick Solomon, Ted Wheeler

Staff Present: Darren Bond, Tony Breault, Karl Cheng, Garrett Cudahey, Scott Harra, Andy Hayes, John Hershey, Julie Jackson, Perrin Lim, Tom Lofton, Ben Mahon, Mike Mueller, Tom Rinehart, Priyanka Shukla, James Sinks, John Skjervem, Michael Viteri

Consultants Present: David Fann and Tom Martin (TorreyCove); John Meier and Deb Gallegos (SIS); Alan Emkin, Christy Fields, John Linder, Mike Moy and Neil Rue (PCA), Nori Gerardo Lietz (Arete)

Legal Counsel Present: Dee Carlson, Oregon Department of Justice

The June 26, 2013 OIC meeting was called to order at 9:04 am by Keith Larson, Chair.

**I. 9:04 am Review and Approval of Minutes**

**MOTION:** Mr. Solomon moved approval of the May 29, 2013 meeting minutes. Ms. Durant seconded the motion, which then passed by a 4/0 vote (Treasurer Wheeler was absent for the vote).

**\*\*9:05 am Public Comments (taken out of order)**

- Rob Sisk, President of SEIU Local 503, made public comments regarding the Koch Brothers' prospective purchase of Tribune Company newspaper assets. Mr. Sisk asked the OIC to share SEIU concerns regarding this prospective purchase with Oaktree Capital, the Tribune Company's largest shareholder and a current OPERF investment manager.
- Andy Magi, with the Oregon League of Conservation Voters, shared concerns about climate change in connection with the same prospective Tribune Company transaction.
- Bill Parrish shared comments related to private equity in general and the prospective Tribune Company transaction in particular.

**II. 9:12 am Portfolio Review – OPERF Fixed Income**

Perrin Lim, Senior Investment Officer and Tom Lofton, Investment Officer provided a Fixed Income portfolio update and review as of April 30, 2013.

From 2000 to mid-2008, the OPERF fixed income portfolio had been managed consistent with a 100 percent Core Plus strategy. In July 2008 and April 2009, and driven primarily by dislocations in the senior secured leveraged bank loan market, Staff modified this approach by introducing a strategic

Credit Opportunities allocation, comprised predominantly of senior secured floating rate bank loans and high yield securities and managed by external sector specialists. To offset some of the additional risk associated with this Credit Opportunities allocation, the existing Core Plus managers' maximum allowance to below investment grade securities was reduced to 15 percent from 30 percent.

For the four year period ended April 2013 since the strategic Credit Opportunities allocation was approved by the OIC, this structure has outperformed its corresponding OPERF fixed income benchmark by 451 basis points (State Street Bank Flash Report: 11.78% vs. 7.27%).

Paul Cleary, PERS Director, commented that this structure has also helped generate a TUCS Universe top fixed income ranking across all time horizons as of December 2012.

**III. 9:50 am OPERF Asset/Liability Modeling Study**

Staff recommended the OIC approve a specific framework and related updates to OPERF's strategic asset allocation targets. This framework explicitly incorporates primary themes that have emerged as part of the Investment Beliefs Project (IBP), and makes incremental changes to the current policy schema that should result in improved portfolio resilience under various (and particularly adverse) future economic and financial market scenarios. The changes contemplated in this framework, while modest in percentage terms, will likely have important impacts on investment division resources and operating dynamics over the contemplated 3- to 5-year implementation period. Moreover, these impacts represent logical milestones in the investment division's evolution and appropriately match the large and increasingly sophisticated OPERF portfolio for which the division is responsible.

Staff and consultants recommended the OIC approve a beliefs-based framework and the updated strategic asset allocation targets listed below, and noted that these changes will be subject to a gradual or phased implementation over the next three to five years:

- Public Equity (current 43 percent, new 37.5 percent);
- Private Equity (current 16 percent, new 20 percent);
- Fixed Income (current 25 percent, new 20 percent);
- Real Estate (current 11 percent, new 12.5 percent);
- Absolute Return/Non-Correlated Strategies (current 1 percent, new 2.5 percent);
- Commodities (current .7 percent, new 2.5 percent);
- Infrastructure (current 1.5 percent, new 2.5 percent); and
- Hard Assets (current 1.8 percent, new 2.5 percent).

**MOTION:** Ms. Durant moved approval of the staff recommendations. Ms. Adams seconded the motion, which passed by a vote of 5/0.

**IV. 10:53 am Closed End Fund Strategies – OPERF Non-US Public Equity**

Michael Viteri, Senior Investment Officer, Ben Mahon, Investment Officer, and SIS recommended the OIC hire Lazard Asset Management (Lazard) and Wells Capital Management (Wells) for ACWI X-US IMI closed-end fund mandates in the OPERF portfolio.

G.D. Rothenberg and Chris Alders from Wells presented first, noting, among other things, that their firm's relationship with the OIC dates back to May 2005 when the OIC retained Wells for a U.S. large cap growth mandate. Today Wells is a multi-boutique asset management firm in which each of its teams (or boutiques) invests client assets independently but shares back office resources collectively. As of March 31, 2013, Wells managed \$1.4 billion in closed-end fund (CEF) strategies including \$589.7 million in its international CEF strategy.

Lazard's Kun Deung (Portfolio Manager) and Edward Keating (Client Portfolio Manager) presented next, noting that, among other things, their firm's relationship with the OIC dates back to July 2000 when Lazard was hired by the OIC for an international equity mandate. Lazard's CEF offering, the International Discounted Assets strategy, is the firm's oldest investment product with an April 1994 inception date. As of March 31, 2013, the Discounted Assets team managed \$4.7 billion in CEF strategies, with the international strategy comprising \$812.8 million of that total and making them one of the largest CEF managers.

**MOTION:**

- 1) Staff and SIS recommend funding Lazard's international CEF strategy with a) an initial commitment of \$300 million and b) the option to increase this commitment to \$600 million subject to CIO approval.
- 2) Staff and SIS recommend funding Wells' international CEF strategy with a) an initial commitment of \$200 million and b) the option to increase this commitment to \$400 million subject to CIO approval.
- 3) Amend OIC policy 04-05-01 accordingly.

Mr. Solomon moved approval of these staff recommendations. Treasurer Wheeler seconded the motion which was then passed by a vote of 5/0.

**V. 11:40 am Russell 2000 Synthetic Portfolio Recommendation – OPERF Public Equity**

Mr. Viteri and Mr. Meier reported that staff has traditionally sought OIC approval for all proposed changes to existing public equity mandates. On occasion, however, staff identifies potential opportunities to enhance returns in internally managed portfolios, but has been reluctant to pursue such opportunities due to concerns of burdening OIC meeting agendas with approval requests for minor modifications to existing mandates that comprise a relatively small proportion of OPERF public equity assets.

Staff and SIS proposed that going forward, a more effective way of implementing such value-added modifications would be to delegate approval authority for proposed change requests to the CIO. In this approach, the Policy and Policy Objectives & Strategies codified in 04.05.03 - Internal Equity Portfolio Objectives & Strategies, would continue to remain under the purview of the OIC; however, the more administrative and procedural component of Policy 04.05.03, as detailed in the Permitted Holdings subsection, would become the CIO's day to day responsibility.

- 1) Staff and SIS recommend that OIC adopt changes for this strategy as specified in the attached red-lined OIC Policy 4.05.03. – Internal Equity Portfolio Objectives & Strategies.
- 2) Staff and SIS recommend that OIC provide staff the option to increase this mandate to \$500 million subject to CIO approval.
- 3) Staff and SIS recommend that OIC delegate approval authority over future modifications to internally managed public equity mandates as detailed in OIC Policy 04.05.03 (specifically, the "PERMITTED HOLDINGS" section) to the CIO. All future modifications to internally managed mandates would be communicated to the OIC on a quarterly basis.

**MOTION:** Mr. Solomon moved approval of the staff recommendations. Ms. Durant seconded the motion, which passed by a vote of 4/0 (Treasurer Wheeler was out of the room for the vote), and asked that the CIO inform Council members of any Permitted Holdings modification decisions prior to implementation.

**VI. 11:50 am Overlay Program Review – OPERF**

Joining the meeting from Russell Investments, Greg Nordquist, Director of Overlay Strategies, and Philip Lee, Portfolio Manager, provided background on and presented recent results for the OPERF overlay program.

In late 1998, the OIC selected State Street Bank Trust, through its State Street Global Advisors (SSgA) subsidiary, to implement an equity manager cash equitization program. Through that program, excess manager cash was invested daily through two different commingled funds. For domestic equities, excess cash was equitized through SSgA's Stock Performance Index Futures Fund (SPIFF), and for international equities, excess cash was equitized through SSgA's International Stock Performance Index Futures Fund (ISPIFF). The respective benchmarks for these two funds were the S&P 500 Index and the MSCI EAFE Index.

In September 2005, the OIC retained Russell Investments to implement an overlay program at the total OPERF level. In this broader approach, Russell monitors and equitizes both excess manager cash as well as total fund cash balances held in anticipation of benefit payments. In addition, and as an integral part of this broader approach, Russell also uses overlay techniques to rebalance the total OPERF portfolio vis a vis its OIC-approved strategic asset allocation targets.

Updates on OPERF's overlay exposures are included in the regular OIC meeting materials. As of May 31, 2013, OPERF was long \$1.4 billion in fixed income contracts and long \$357 million in global equity contracts for a total, net long notional exposure of approximately \$1.8 billion.

**VII. 12:06 pm Review and Transition – OPERF Real Estate**

Nori Gerado Lietz, with Arete Capital, shared milestones from her long tenure as OIC real estate consultant and provided an update on select transition issues.

**VIII. 12:20 pm Asset Allocations and NAV Updates**

Mr. Skjervem reviewed asset allocations and NAV's across OST-managed accounts for the period ended May 31, 2013.

**IX. 12:21 pm Calendar – Future Agenda Items**

Mr. Skjervem presented a revised schedule of future OIC meetings and associated agenda topics.

**X. 12:21 pm Other Business**

None

**12:21 pm Public Comments (continued)**

None

Mr. Larson adjourned the meeting at 12:21 pm.

Respectfully submitted,



Julie Jackson  
Executive Support Specialist

## TAB 2 – SAIF ASSET/LIABILITY DISCUSSION

**Oregon Investment Council  
SAIF Corporation  
Asset Liability Study**

**Purpose**

In accordance with OIC Policy 4.09.06 for SAIF: “Review of the asset allocation policy, investment management and performance will occur at least annually with the OIC and more frequently by Treasury staff. These reviews will focus on the continued appropriateness of policy, compliance with guidelines and performance relative to objectives. A formal process shall be established allowing SAIF staff to meet with OIC’s consultants on an annual basis to discuss issues of management and asset allocation. In addition, SAIF staff will have the opportunity to address the OIC annually to discuss SAIF’s particular views as to the management of the fund.”

**Background**

In December 2009, SAIF retained Wells, Canning & Associates, a specialist consultant in the insurance industry, to undertake a strategic asset allocation study.

The following portfolio positioning changes were recommended at that time:

1. Reduce the strategic duration for fixed income from 7 years to 5 years.
2. Reduce equity exposure from 15 percent to 10 percent.
3. Diversify the remaining equity allocation by including a “small” allocation to international stocks.
4. Increase higher yielding assets within fixed income by approximately 10 to 15 percent.

**Discussion**

Earlier this year, SAIF retained TowersWatson (which acquired Wells, Canning & Associates in October 2011) to: a) provide an updated analysis of SAIF’s financial position/liabilities and b) recommend asset allocation changes, if deemed necessary. Importantly, Andrew Canning and Karen Wells, who have worked on the account previously, are now with TowersWatson.

The following changes were recommended as a result of this most recent review:

1. Funded from core fixed income, consider a new, maximum five percent allocation to core, income-focused real estate in the form of private market equity and/or senior debt investments.
2. Expand the mandates of existing fixed income managers to include high yield bonds, bank loans and dollar denominated emerging markets debt.

Treasury staff and SIS have both reviewed these recommendations and consulted with Western Asset and Wellington, the two firms most impacted by the recommended changes. Based on these discussions, staff and SIS are comfortable supporting the changes as proposed.

Representatives from TowersWatson and SAIF will provide the OIC with a detailed review of the worked performed and resulting recommendations.

**Performance**

The SAIF portfolio has performed well over the past decade, and as of May 31, its assets were valued at \$4.4 billion, near an all-time high. Over the most recent five-year period, the SAIF portfolio generated a 7.1 percent average return, exceeding its 6.6 percent annual return benchmark. Over the trailing 10-year period, the SAIF portfolio has returned 6.0 percent versus the 5.7 percent return of its policy benchmark.

**Recommendation**

Approve proposed asset allocation changes, subject to staff bringing revised SAIF investment policies to an upcoming OIC meeting.



PRESENTATION TO THE

# OREGON INVESTMENT COUNCIL

JULY 31, 2013

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## Facts

	<b>2011</b>	<b>2012</b>
Number of employers insured (including share of assigned risk pool)	47,507	47,777
Total invested assets	\$4.1 billion	\$4.4 billion
Total assets	\$4.5 billion	\$4.7 billion
Loss and loss adjustment expense reserves	\$3.0 billion	\$3.1 billion
Total liabilities	\$3.5 billion	\$3.7 billion
Surplus	\$917.2 million	\$1,002.9 million
Direct earned premium	\$352.0 million	\$388.3 million
Market share	44.9%	47.2%
Investment income	\$189.1 million	\$193.3 million
Policyholder dividend	\$150.0 million	\$150.1 million
Number of full-time equivalent filled positions	799	826

## Direct Earned Premium



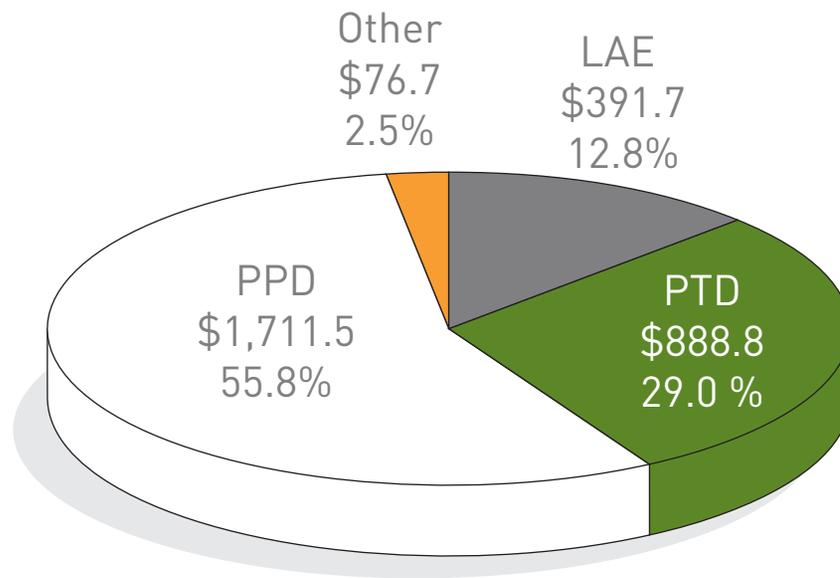
## Interest and Dividend Income



# Total Outstanding Unpaid Losses and LAE

As of December 31, 2012 (\$ in Millions)

**Total \$3,068.7**

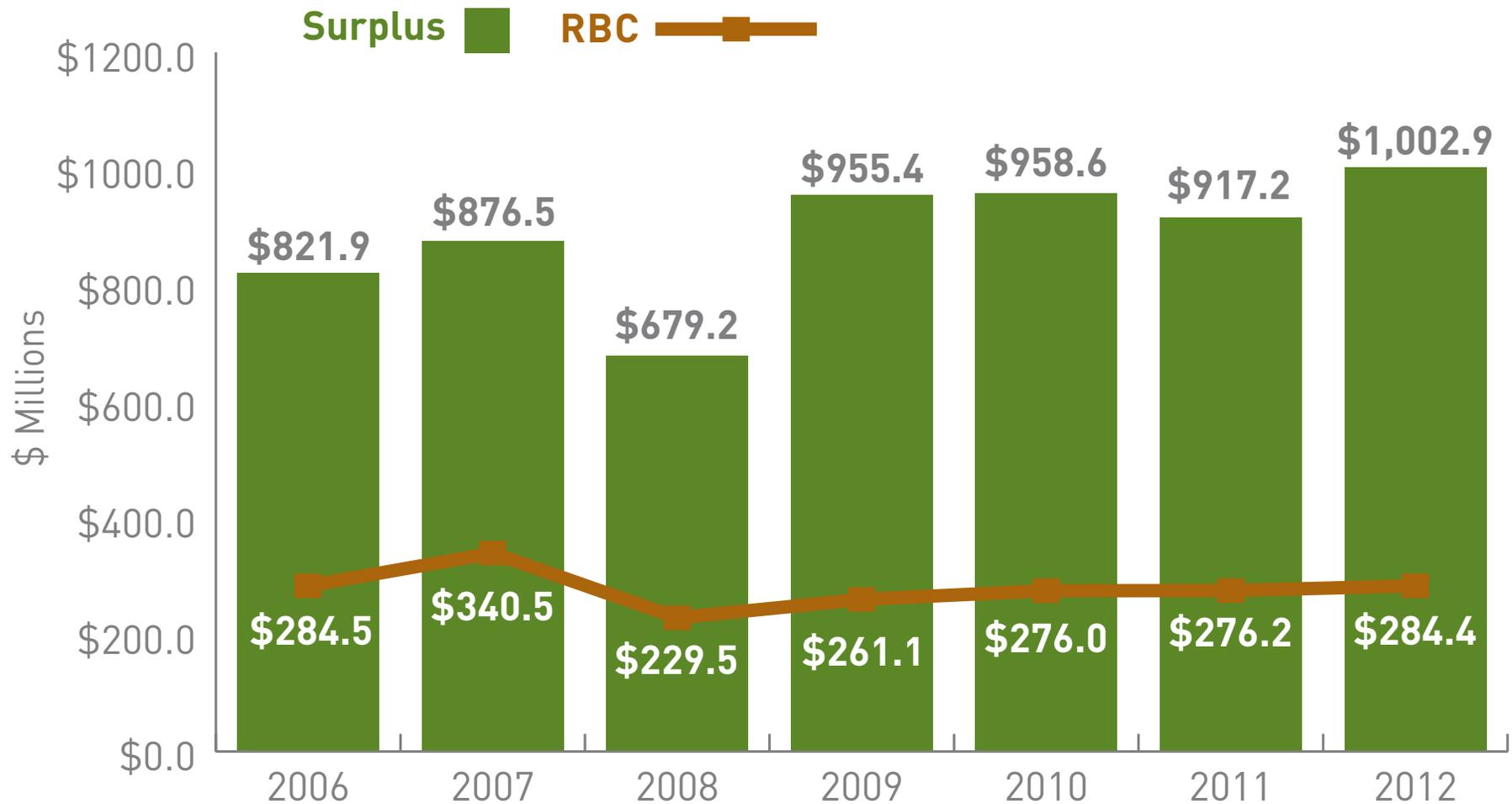


## Definitions:

- LAE** (Loss Adjustment Expenses)  
Reserves for the future cost of adjusting and processing claims.
- PTD** (Permanent Total Disability)  
Reserves for the loss of use or function of any portion of the body which permanently incapacitates the worker from regularly performing work at a gainful and suitable occupation.
- PPD** (Permanent Partial Disability)  
Reserves for permanent, complete, or partial loss of use of bodily extremities, including vision or hearing.
- Other** Reserves for claims involving fatalities, claims which only include medical costs, injured worker attorney fees, vocational rehabilitation costs, and other claims related costs.

# Surplus

as of December 31



## Adequacy of Surplus

- Risk-based capital (RBC) is the minimum amount of capital required by an insurance company to support its overall business operations. The formula for determining RBC is developed and maintained by the National Association of Insurance Commissioners (NAIC) and takes into consideration the size and risk profile of the company.
- A 2013 audit by an independent actuary hired by the Secretary of State Audits Division determined that SAIF's loss reserves, as of December 31, 2012, fell in the upper half of a reasonable range.
- Given SAIF's adequate loss reserves, the independent actuary concluded that SAIF's surplus appears to be sufficient to support SAIF as an ongoing concern over a five-year forecast horizon.

## SAIF's Current Investment Policy

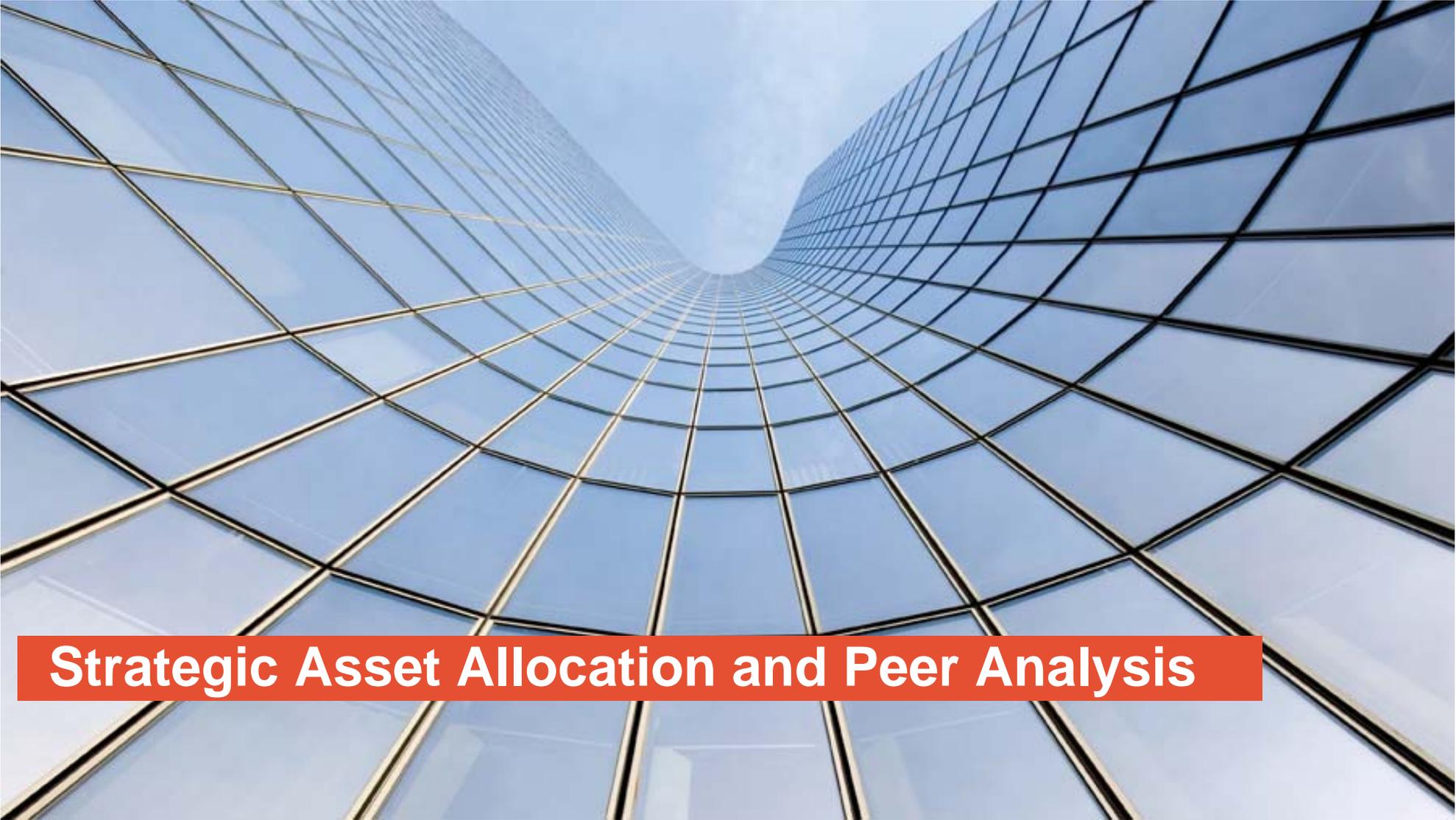
At the January 27, 2010, meeting of the Oregon Investment Council, the council adopted the following policy.

### Asset Allocation

Asset Class	Benchmark	Strategic Target Allocation	Range
Global Equities	MSCI ACWI IMI Index	10%	7%-13%
US Fixed Income*	Custom Fixed Income Benchmark	90%	87%-93%
Cash		0%	0%-3%
Policy Mix	Weighted aggregate of indexes listed above at targeted allocation	100%	

\* Reduce the strategic duration for fixed income from 7 years to 5 years.  
Increase higher yielding assets within fixed income by 10 to 15 percent.





# Strategic Asset Allocation and Peer Analysis

**SAIF: Presentation to OIC**

**July 2013**

# Overview

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## Objective

Explore and quantify the return and risk implications of potential changes to SAIF's investment strategy within the context of an enterprise view.

- Create a customized range of portfolio alternatives across the risk spectrum. The analysis takes into account SAIF-specific business inputs and projections on the underwriting side of the business and Towers Watson Investment Services (TWIS) views of capital markets expectations.
- Analyze the opportunity set from both income and total return perspectives, given the dual investment objectives.
- Combine directional signals from the optimization process with existing holdings and more tactical views of the current market environment to develop recommendations of asset shifts which have potential value for the SAIF investment portfolio.
- Compare SAIF's investment strategy to that of a peer group to better understand how comparisons are made by regulators and rating agencies.

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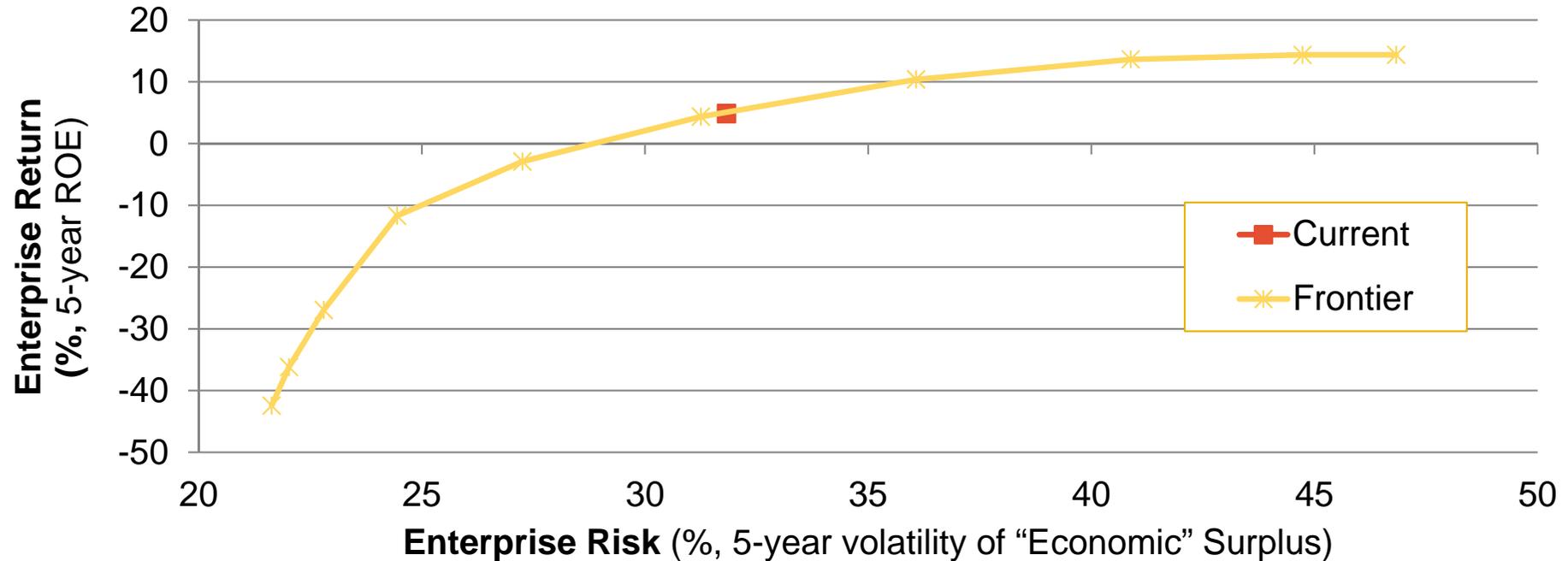
## Analytical Framework

The analysis follows best practice in the insurance industry by the modeling the enterprise using expected risks and returns. Consequently, "return" is an ROE concept, and "risk" quantifies the volatility of SAIF's surplus.

Key questions addressed in the analysis include:

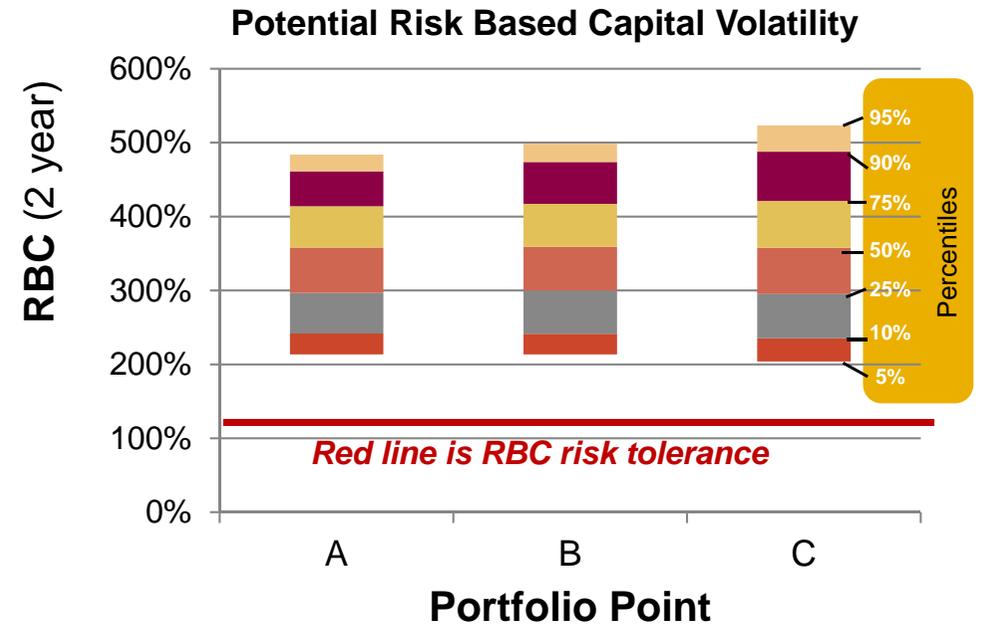
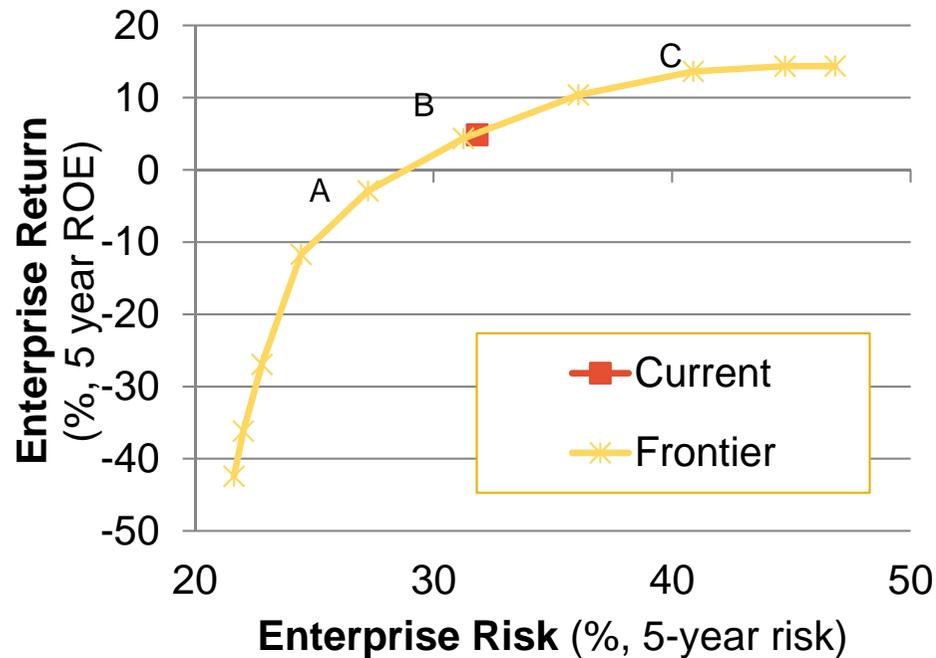
1. Considering only the asset classes and sectors in which SAIF currently invests, how efficient is SAIF's investment strategy relative to the current opportunity set?
2. Is SAIF within the stated risk budget? Could or should SAIF increase or decrease their investment risk?
3. How much additional expected return could be generated by expanding the asset classes within which SAIF builds their investment strategy?

# 1. How efficient is SAIF's current investment strategy?



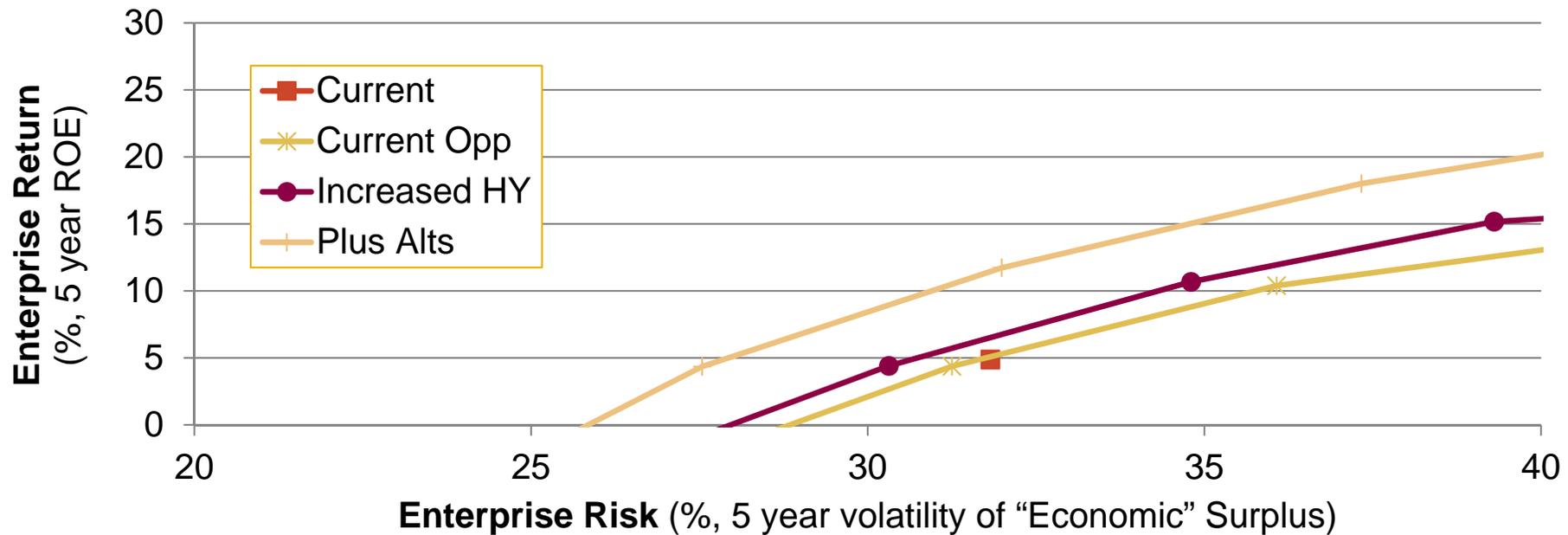
- As the current portfolio effectively lies on the efficient frontier, the portfolio construction is well aligned to deliver the highest expected return, given the current risk level and within the current investment universe.
- A small shift between non-residential securitized sectors (ABS/CMBS) and high yield would technically move the portfolio to the frontier, but the advantage is expected to be minor and this kind of shift lies within the purview of the fixed income asset manager.

## 2. Is there capacity for additional risk within the budget?



- The current portfolio (point B) lies comfortably within the risk target of a 90-95% confidence that the RBC ratio remains above the company action level, therefore, flexibility is available (“sliding out the frontier”) within the company’s risk budget.
- Given the current opportunity set, however, there is little advantage to increasing risk substantially as the frontier begins to flatten between points B and C. As the curve flattens, the increase in expected return for a given increase in risk declines.

### 3. What is the impact of expanding the eligible assets?



- To increase the expected return of the portfolio, either additional exposure to current “risk assets” could be allowed or new asset classes could be added.
  - **“Increased HY”** expands both the allowable allocation to high yield as well as the definition to include syndicated loans and emerging-market debt.
  - **“Plus Alts”** expands HY as above but also allows the establishment of an allocation to real estate and private equity.
- At comparable risk, annualized ROE could be improved by 40 bps by allowing a greater allocation to high yield and approximately 130 bps improvement by also investing in new asset classes (real estate and private equity).

# Executive Summary – Asset Allocation Analysis

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## Findings

- SAIF's portfolio is well structured for the goals of the organization and the opportunities in the market.
  - SAIF is comfortably within the stated risk appetite.
- 

## Recommendations

- We do not recommend increasing risk given the opportunity set in today's marketplace.
- We recommend considering income focused real estate as an additional asset class, implemented through a Core Real Estate Equity Fund in the private markets and a fund that originates senior debt on real estate.

Both channels of real estate investment focus on income and provide some diversification of return relative to the assets currently in SAIF's portfolio. Although the fund structure provides liquidity relative to the underlying real estate assets, SAIF should not look at a real estate investment in the private markets as providing liquidity to raise cash on short notice.

- High yield debt is attractive on a longer term basis to SAIF, as it balances high expected return with lower expected risk relative to equity. Current market valuations, however, do not support a significant increase in high yield at this time. Given this neutral to slightly-rich valuation in the market, we recommend:
  1. Expanding the flexibility of your current managers to purchase high yield debt, allowing them to respond to changes in market valuation.
  2. Allow the managers to invest more broadly in the below investment grade market (US dollar emerging market debt and syndicated "bank" loans).

Care should be taken to ensure the managers are well suited to managing a diversified credit mandate.

- Retain the current equity exposure and source the funds for real estate, if SAIF invests in the new asset class, from investment grade fixed income.
-

# Comparison of the recommended portfolio to the current strategy

- Given that the investment portfolio is well structured and there is no recommendation to change the overall risk posture of the portfolio, the changes result in a modest improvement in SAIF's expected financials.

Description	Current Allocation	Recommended Strategic Allocation	Recommended Minimum	Recommended Maximum
Core Fixed Income	82.2	78.0		
High Yield	7.3	7.0		12.5
<b>Total Fixed Income</b>	<b>89.5</b>	<b>85.0</b>	<b>80.0</b>	<b>90.0</b>
Equity	10.5	10.0	7.0	13.0
Real Estate	0.0	5.0	0.0	7.0 <sup>1</sup>
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>		

Characteristic	Current	Recommended	Change <sup>2</sup>
Duration	5.3	5.3	0.0
Investment Income (ann.)	163,395	169,612	6,217
Portfolio Total Return (ann.)	2.4%	2.9%	0.5%
Expected growth in Surplus (ann.)	0.96%	2.19%	1.2%
Expected volatility of Surplus (ann.)	14.2%	15.0%	0.8%

<sup>1</sup> The upper range on Real Estate is intended to allow market changes without forcing rebalancing. The bottom end of the range is to allow a gradual entry into the asset class as value is attractive investment opportunities are found.

<sup>2</sup> Change does not include the potential for additional excess return generated by the managers given the greater flexibility in high yield.

# Appendix

## Supplemental Asset Allocation Analysis Exhibits

# Summary of the Risk Tolerance Discussion

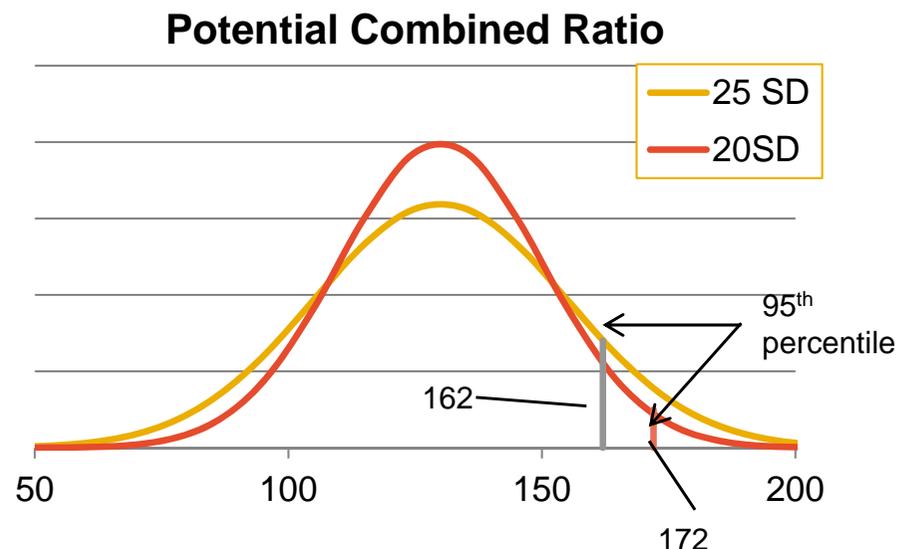
- Definition of return
  - The primary objective of the portfolio is the optimization of long-term investment return along with principal preservation.
  - There was meaningful conversation regarding whether to bring income into the analysis and if so, how to incorporate income. Ultimately, protecting investment income was identified as an additional consideration.
- Definition of risk: Volatility of statutory surplus adjusted for unrealized gains and losses in fixed income.
- Key additional constraint is to ensure a high degree of certainty (95<sup>th</sup> percentile) that SAIF exceeds the NAIC Risk Based Capital (“RBC”) company action level.
- In addition to current asset classes, US dollar emerging market debt (“EMD”), real estate, and private equity and bank loans will be included in the analysis.
- The group confirmed a reasonable expected combined ratio volatility to be 20%, slightly lower than the historical level of 25%.
- Confirmed the list of companies to be included in the peer analysis.

# Assumptions: Business forecasts

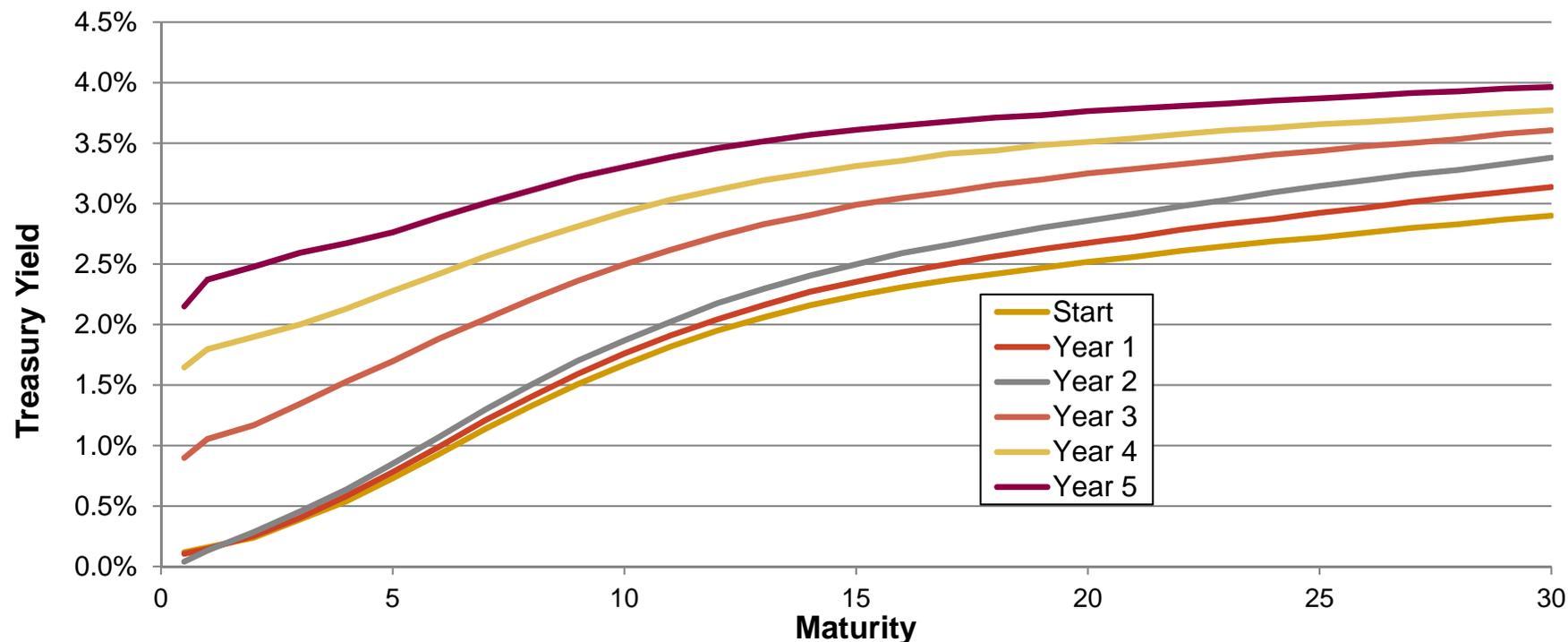
- The analysis focuses on the impact of different allocations over a 2-5 year time horizon.
- Underwriting assumptions are based on the company's combined ratio projections and the extrapolation of historical volatility and expense ratios.
- The historical volatility of the combined ratio is approximately 25%. This combined ratio is, however, influenced by a ratio of 200 in the calendar year of 2000. Recent history has had lower volatility. In the risk discussion, the point was made that the current underwriting profile, while aligned with a lower expectation than 25%, may be subject to more volatility than the recent 15%. Ultimately, a 20% volatility (standard deviation) was determined to be a reasonable expectation.
- As income from the portfolio is biased to decrease (given lower market yields than book yields), the projection of a combined ratio of 130 at the current premiums written may be too high to maintain the targeted breakeven operating ratio.

## Company plan assumptions

	2013	2014	2015
Net premiums earned (\$000)	426.4	452.0	479.1
Expense Ratio	40.0	40.0	40.0
Loss Ratio	90.0	90.0	90.0
Combined Ratio	130.0	130.0	130.0



# Assumptions: Treasury yield curve migration



## Summary

Treasury yields are expected to remain relatively constant over the coming two years in the short to intermediate part of the curve, given the weak economic outlook and the Federal Reserve's indication of short-rate stability.

After two years, the yield curve is expected to flatten, with rates in the 10-year ending up about 1.75% higher than current levels and the 5-year rising by about 2%.

Although this is the expected (median) yield curve, the asset allocation analysis incorporates uncertainty around the expected level.

<sup>1</sup> Assumptions are from TWIS 1<sup>st</sup> quarter 2013 assumption set.

# Assumptions: Capital markets expectations

## Universe

Asset classes / fixed income sectors that are typically of interest to the P&C market are listed below. As yields have compressed, insurance entities have expressed additional interest outside of the more traditional asset classes.

	Asset	Current SAIF Allocation	Annualized				Allocation Constraints		
			Return <sup>3</sup>	Risk <sup>3</sup>	Income	Duration	Min	Max	Group
	Cash	2.1%	1.4%	1.5%	0.3%	0.25	2%		70%
	Governments	5.5%	-0.5%	3.2%	0.6%	3.97	2%		
	Corporates	50.8%	1.9%	6.6%	1.8%	4.55	30%	75%	
	MBS	12.7%	1.4%	2.2%	2.6%	3.50		25%	
	ABS/CMBS/CLO	11.1%	0.9%	2.2%	1.4%	2.90		12%	
	High Yield	7.3% <sup>1</sup>	3.8%	11.0%	5.7%	4.24		10%	20%
	Bank Loans	0.0%	4.4%	5.8%	4.4%	0.25		10%	
	Emerging Mkt Debt	0.0%	3.1%	11.8%	4.2%	6.79		10%	
	Large Cap <sup>2</sup>	3.5%	8.4%	18.3%	2.0%	-			15%
	Small Cap	1.5%	9.1%	23.6%	1.5%	-			
	International	4.1%	8.9%	21.0%	2.3%	-			
	Emerging	1.5%	9.4%	25.8%	2.3%	-			
	Real Estate	0.0%	6.8%	10.6%	6.0%	-		5%	5%
	Private Equity	0.0%	8.7%	24.0%	5.0%	-		5%	

<sup>1</sup> Current HY holdings include all holdings rated below BBB- and include both corporate and securitized credits.

<sup>2</sup> Current equity holdings are pro-rated across the ACWI investment.

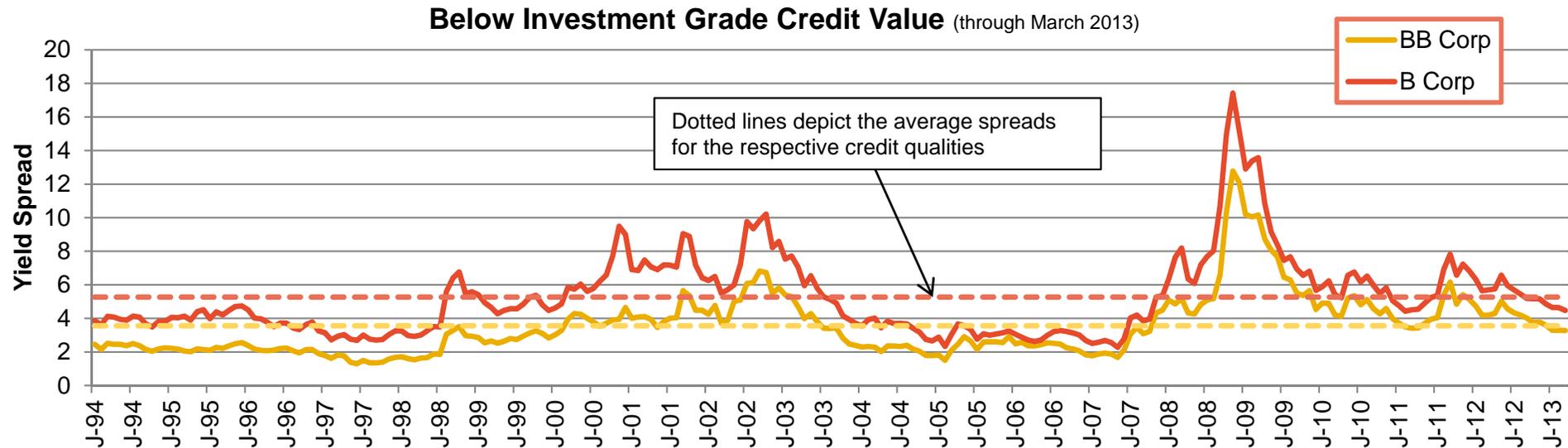
<sup>3</sup> Return is the average of the annual returns over the next 5 years. Risk is the average of the annual standard deviations over the coming 5 years.

# Comparing allocations

- The following table compares the efficient allocations at the same risk as the current portfolio under the various scenarios analyzed along with some key financial metrics.

Description	Current Allocation	Limited to Current Asset Classes	Additional Allocation to High Yield	Additional Allocation to High Yield New Asset Classes	Switching the Objective to Maximizing Income
<b>Core Fixed Income</b>	<b>82.2</b>	<b>81.6</b>	<b>72.8</b>	<b>69.4</b>	<b>67.9</b>
Cash	2.0	2.0	2.0	2.0	2.0
Government	5.5	5.0	5.0	5.0	5.0
Corporate	50.9	50.9	50.9	50.9	50.9
MBS	12.7	12.7	12.7	11.6	10.1
ABS/CMBS/CLO	11.1	11.1	2.2	0.0	0.0
<b>High Yield</b>	<b>7.3</b>	<b>7.8</b>	<b>17.3</b>	<b>17.3</b>	<b>20.0</b>
High Yield	7.3	7.8	7.3	7.3	7.3
Bank Loans	0.0	0.0	10.0	10.0	3.4
EMD	0.0	0.0	0.0	0.0	9.3
<b>Equity</b>	<b>10.5</b>	<b>10.6</b>	<b>10.0</b>	<b>8.3</b>	<b>7.1</b>
Equity	10.5	10.6	10.0	8.3	7.1
<b>Other</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>5.0</b>	<b>5.0</b>
Real Estate	0.0	0.0	0.0	5.0	5.0
Private Equity	0.0	0.0	0.0	0.0	0.0
	100.0	100.0	100.0	100.0	100.0
Duration	5.3	5.4	5.1	5.2	5.6
Investment Income (ann.)	163,395	164,247	173,856	181,510	187,539
Portfolio Total Return (ann.)	2.39%	2.41%	2.66%	2.97%	2.77%
Operating Income (ann.)	21,233	22,233	34,185	49,942	54,963
Expected growth in Surplus (ann.)	0.96%	1.02%	1.33%	2.20%	1.63%

# High yield: Implementation consideration



- Although yields spreads (yield of high yield corporate bonds – yield of comparable Treasuries) are somewhat below historical averages, averages are biased to be high, given the extraordinary widening that occurred in the depths of the financial crisis.
- Excluding some of the impact of the extremes, current valuation in the high yield market is neutral. In addition, the financial well-being of US corporations is fairly strong, albeit in a slow growth economy.
- In this kind of relative value environment, we recommend allowing your managers who have the ability to manage a diversified credit strategy room to purchase different sectors of the below investment grade market, including high yield debt, emerging market debt, and syndicated bank loans within a strategic allocation. The overall allocation to below investment grade bonds controls the top-down risk while the diversified nature of the allocation permits some tactical allowance for your managers.

## Detailed Peer Analysis Exhibits

Data as of December 31, 2012

# Executive Summary – Peer Analysis

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## Portfolio Structure

- Overall, SAIF's portfolio is consistent with the strategies pursued by the organizations in the peer group. Differences include:
  - Slightly lower allocation to equity on a percent of invested assets basis.
  - Higher allocation to corporates rated "A" through "BB".
- Only one peer allocates to "other" assets including real estate, distressed debt, and private equity. None of the State Funds included in the analysis hold meaningful allocations to these extended market asset classes.
- Within fixed income, SAIF holds a lower allocation to Governments and a greater allocation to the corporate sector
- SAIF's interest rate risk (duration) is very close to the peer average. With one exception, all the peers pursue a similar duration strategy ranging between 4 and 5.5.

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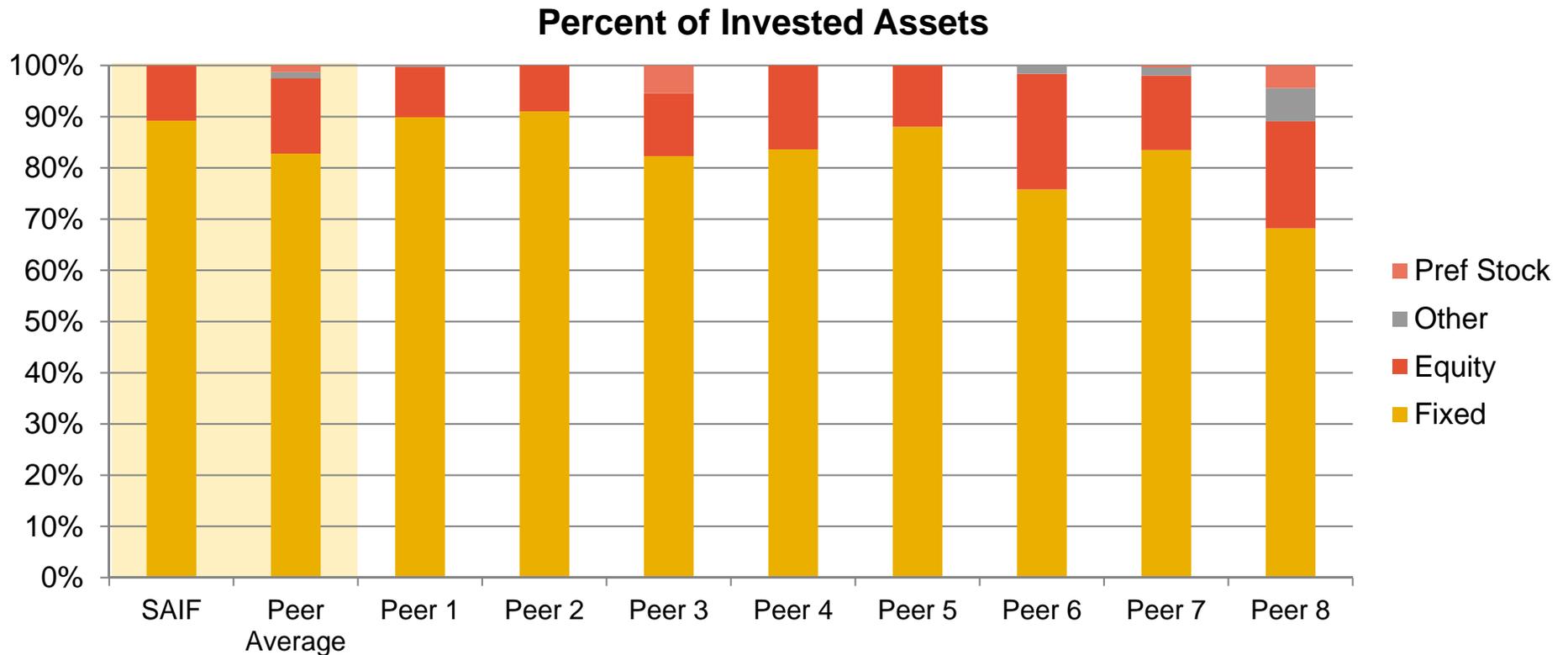
**Peer analysis is useful to develop an understanding of how competitors and other relevant insurers position their portfolios. SAIF's investment strategy, however, should not be driven by the peer analysis as each company's objectives and risk tolerance is unique.**

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# Asset Allocation

## Observations

- Overall, SAIF's equity allocation is moderately lower than the peer average, as the 10-11% allocation is consistent with the more conservative end of the range defined by the peers.
- Only one peer has any real exposure to "other" (Sch BA) assets. The investments are in real estate, private equity, and distressed debt.



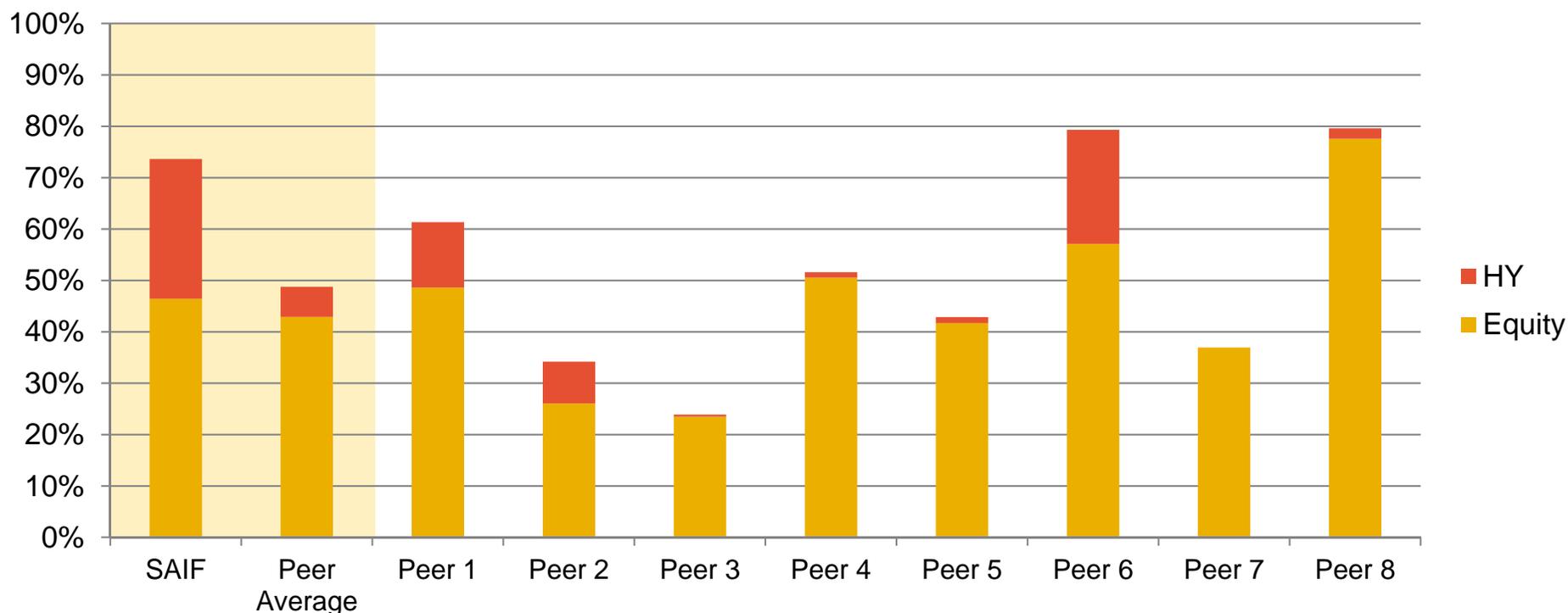
Data Source: SNL, by permission.

# Surplus Risk

## Observations

- From the perspective of risk assets as a percentage of PHS, SAIF holds an average level of risk in equity, although it is on the high end of risk in the high yield market. This position is consistent with an objective of blending income and capital appreciation.
- Since the financial crisis, both asset classes have performed well, as equity markets rallied and high yield spreads tightened relative to Treasuries.

## Percent of Policy Holders Surplus

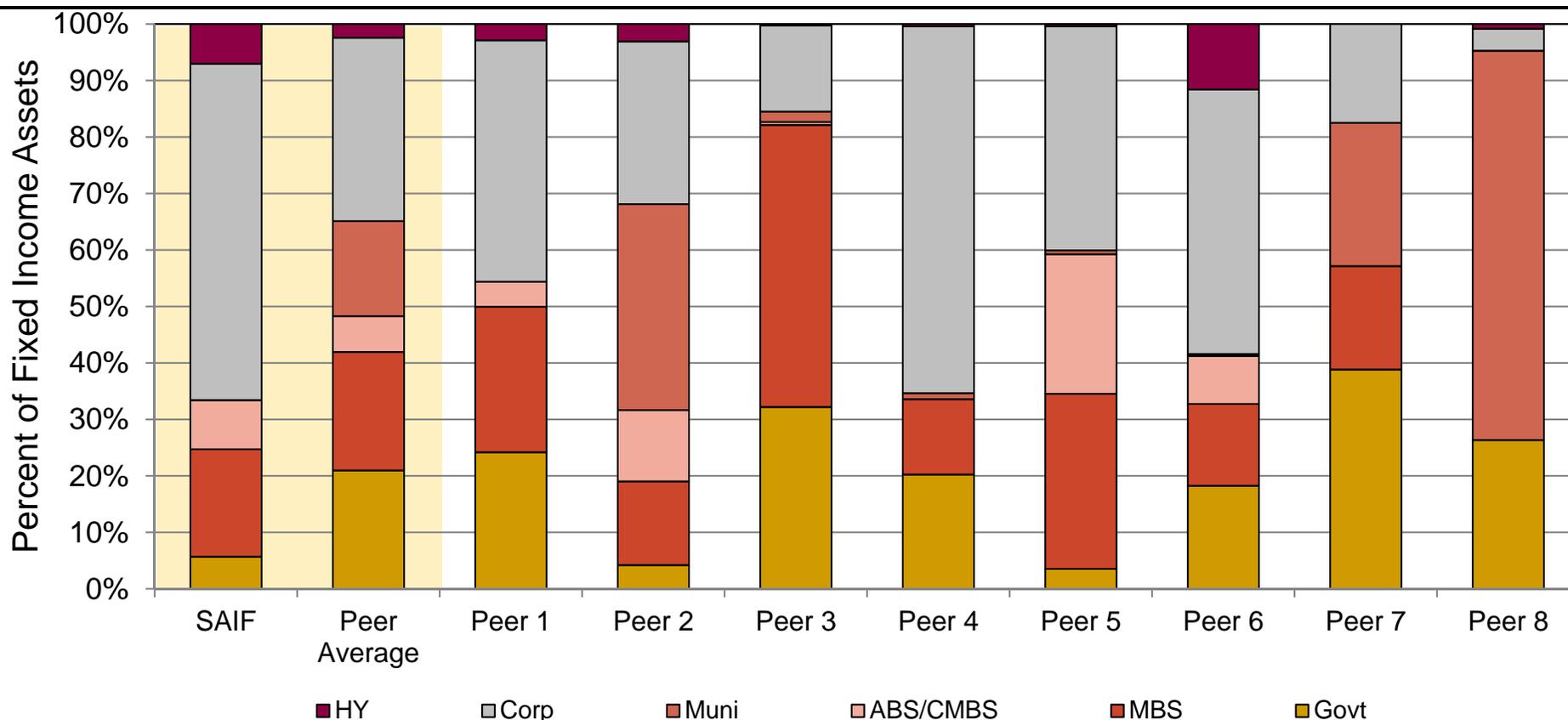


Data Source: SNL, by permission. Schedule D assets only.

# Fixed Income Sector Allocation

## Observations

- When comparing SAIF's fixed income sectors relative to the peers, the largest difference is in the Government holdings and the allocation to corporate and municipal debt. As a non-Federal tax paying entity, SAIF doesn't invest in municipals, so the best comparison is by grouping the corporate and municipal sectors together.
- SAIF has a 15% shift in the allocation from Government to Corporate relative to the peers. In addition, there is a modest overweight to high yield.



Data Source: SNL, by permission. Schedule D assets only.

# Fixed Income Credit Exposure

## Observations

- Relative to the peer average, SAIF holds a larger allocation to securities rated A to BB
- Although somewhat riskier than the average peer from a credit perspective, **SAIF's maintains a more conservative overall portfolio given the lower allocation to equity** as a percentage of invested assets.

## Credit Quality as a Percent of Fixed Income Assets

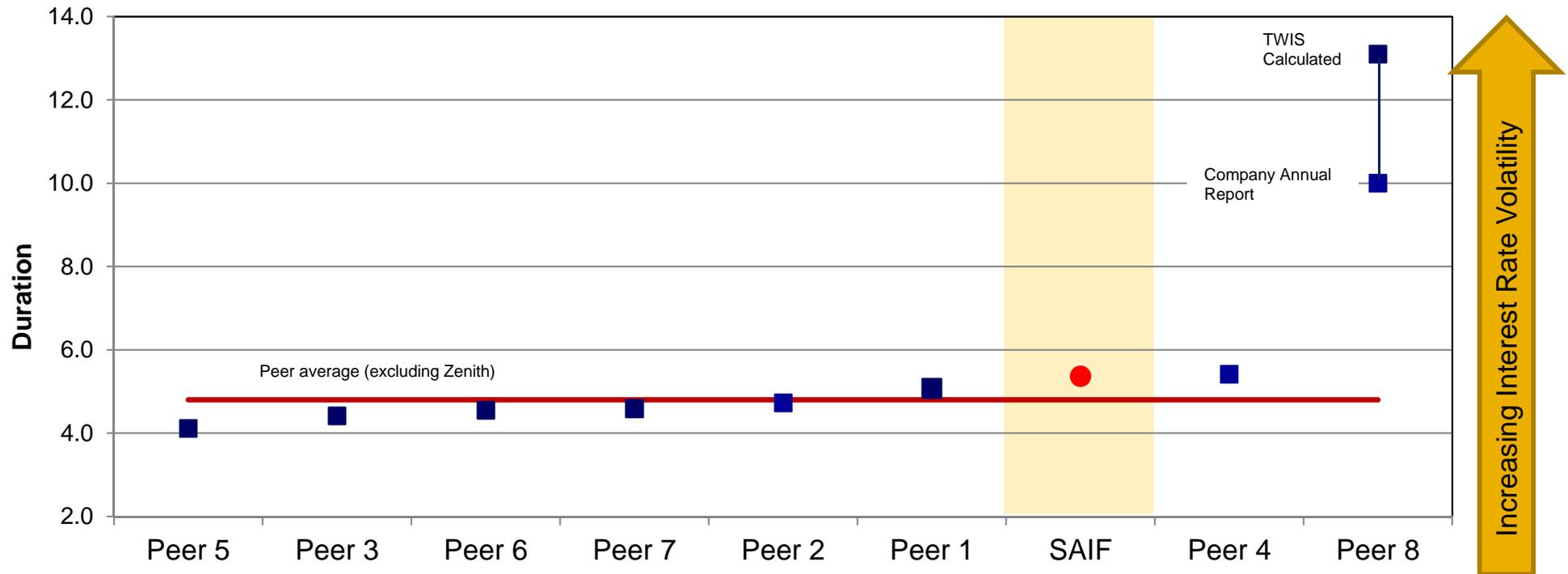
Company	AAA	AA	A	BBB	BB	B	<B	NR
SAIF (A2)	31.70%	6.65%	23.18%	31.20%	4.23%	1.87%	0.92%	0.24%
Peer Average	49.00%	19.59%	16.34%	12.08%	0.73%	1.15%	0.57%	0.56%
Peer 1 (AA3)	54.40%	1.71%	15.72%	25.04%	0.77%	1.30%	0.81%	0.26%
Peer 2 (AA3)	33.97%	32.33%	20.21%	10.07%	0.00%	3.06%	0.00%	0.35%
Peer 3 (AA1)	83.52%	7.55%	4.19%	2.93%	0.00%	0.25%	0.00%	1.56%
Peer 4 (AA3)	35.17%	10.17%	38.38%	15.87%	0.42%	0.00%	0.00%	0.00%
Peer 5 (AA3)	56.19%	7.00%	17.65%	18.49%	0.12%	0.04%	0.22%	0.29%
Peer 6 (A1)	39.28%	6.23%	18.91%	23.43%	4.52%	4.51%	2.70%	0.43%
Peer 7 (AA1)	61.54%	33.54%	4.23%	0.02%	0.00%	0.00%	0.00%	0.66%
Peer 8 (AA1)	27.92%	58.16%	11.42%	0.78%	0.00%	0.00%	0.81%	0.91%

Data Sources: SNL, Bloomberg, NAIC and CMS BondEdge.  
Average fixed income credit quality appears in parentheses after the company name.

# Interest Rate Risk

## Observations

- SAIF's interest rate risk (duration) is very much in line with the peer group, with a 5.4 duration versus a 4.8 peer average.
- This duration is very reasonable relative to the expected discounted duration of the current liabilities (5.4), although it is a little longer than the liabilities that enter the reserves going forward (3.1).



Data Source: SNL, by permission, CMS Bondedge, Bloomberg.

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TAB 3 – RESERVOIR RESOURCE PARTNERS, LP

## Reservoir Resource Partners L.P.

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### **Purpose**

Staff recommends approval of a commitment to the Reservoir Resource Partners L.P. (“Reservoir” or “Fund”) in the amount of \$100 million for the OPERF Alternatives Portfolio.

### **Background**

Reservoir Capital Group manages approximately \$5.6 billion across its opportunistic fund, a power generation co-investment fund, and its dedicated hedge fund seeding strategy. Reservoir is seeking to raise \$1.5 billion to invest in natural resource and additional power generation opportunities. The firm is an existing relationship as OPERF committed \$50 million in February 2012 to its hedge fund seeding strategy, Reservoir Strategic Partners.

### Strategy

Reservoir intends to invest with a concentrated (\$50-200 million) opportunistic approach, including an emphasis on management teams with which Reservoir has prior partnering experience. The firm will pursue investment structures that provide downside protection and a “base” level return, including a current cash yield. Characteristics such as long term contracts, assets with tangible value, and capital structure seniority will be employed.

Reservoir has had extensive experience investing in energy assets, including the power generation sector, which will comprise approximately two thirds of the expected portfolio composition. Reservoir expects to augment its power investments with other midstream and downstream energy infrastructure assets. In addition to energy infrastructure, natural resource assets including oil and gas and agriculture investments will comprise the remainder of the target portfolio.

### Pros:

- *Strong sector track record.* Within its flagship fund, Reservoir has invested over \$2 billion in the natural resource and power generation sectors over a 19 year period, generating a 20% + net IRR. RRP has transactional and market experience across the fund’s target sectors: power generation, oil and gas, and agriculture.
- *Opportunistic strategy.* Reservoir has been investing its opportunity fund, of which resource investing is a subset, for nearly 20 years (though most of the resource investments have been made over the past 10 years). They focus on off-the-run and proprietary transactions outside of core or traditional resource investments as these more opportunistic transactions have the potential for higher, risk-adjusted returns. For example, the combination of current dislocations among European utilities companies and low natural gas prices in U.S. markets is providing attractive deal flow in the power sector, while advances in shale technologies are driving both supply chain dislocations and additional demand for investment capital in the U.S. natural resource sector.
- *Experienced investment team.* The key founders of Reservoir have worked together since 1994 and established Reservoir in 1998. The broader investment team has been cohesive with little turnover. Staff believes the founders’ strong reputation for successfully backing management teams across the investment management and real asset sectors has led to substantial proprietary deal flow.

- *Management team relationships.* RRP has identified several management teams that they have successfully backed in past deals and that they hope to back again in similar strategies. This past experience should reduce some of the inherent portfolio company management team risk borne by private market investors.
- *Structured downside protection.* Reservoir typically structures its investments to protect downside through senior positions in the capital structure, while still allowing for significant upside potential through equity convertibility should portfolio operating performance meet or exceed plan.
- *Preferred management fee terms.* The management fee is paid only on invested capital, rather than the more typical committed capital model. This preferred term can help mitigate the traditional “J-curve” associated with most private market fund structures.

#### Cons:

- *First dedicated Resource fund.* Historically, Reservoir has invested in natural resources through its Opportunity Fund and alongside a broad range of assets and investment strategies. This will be Reservoir’s first dedicated Resource fund so there may be an incentive to fully invest the fund even if conditions don’t warrant such investment. [Mitigant: Reservoir is a highly experienced manager that has invested across multiple cycles and has exercised good investment discipline in the past.]
- *Time and attention across multiple funds.* In addition to this fund, Reservoir raised a hedge fund seeding strategy as institutional LPs have generally preferred to invest in more discrete, dedicated funds versus more open ended, broadly opportunistic funds. As such, Reservoir will now have three funds to manage versus the single evergreen fund that they’ve managed over the past 20 years. [Mitigant: the senior investment team has had very little turnover and has grown sensibly over time such that they have sufficient senior and junior investment professionals to manage both current and projected AUM levels.]

#### Terms

With a zero percent management fee on committed capital, a standard management fee will be applied to invested capital. In addition, a traditional carry and preferred return will be assessed over the three year investment period and eight year fund term. Aqueduct Capital Group was retained as a placement agent, and Staff has met with them.

#### Conclusion

Reservoir has an attractive track record across a range of natural resource strategies and geographies, and this strategy well complements the OPERF Alternatives Portfolio that Staff is steadily building out.

#### **Recommendation**

Staff and Torrey Cove recommend a \$100 million commitment to Reservoir Resource Partners L.P., subject to satisfactory negotiation of the requisite legal documents with staff working in concert with the Department of Justice.



**TORREYCOVE**  
CAPITAL PARTNERS

**MEMORANDUM**

**TO:** Oregon Public Employees Retirement Fund ("OPERF")  
**FROM:** TorreyCove Capital Partners ("TorreyCove")  
**DATE:** July 15, 2013  
**RE:** Reservoir Resource Partners, L.P.

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**Strategy:**

Reservoir will focus on out of favor and/or distressed opportunities as well as highly complex situations or markets that allow for a natural competitive advantage. Reservoir expects opportunities of this nature to arise in Europe given the fact that European utilities are in a distressed position and the fact that European power markets continue to undergo significant change with governments advocating for a greater amount of renewable generation. Reservoir will look to utilize a variety of structures such as direct investments, building platform companies, backing experienced management teams, and co-founding investment firms.

Please see attached investment memorandum for further detail on the investment opportunity.

**Conclusion:**

The Fund offers OPERF an opportunity to participate in a differentiated portfolio of private equity investments with relatively attractive overall terms. TorreyCove's review of the General Partner and the proposed Fund indicates that the potential returns available justify the risks associated with an investment in the Fund. TorreyCove recommends that OPERF consider a commitment of \$100 million to the Fund. TorreyCove's recommendation is contingent upon the following:

- (1) Satisfactory negotiation or clarification of certain terms of the investment;
- (2) Satisfactory completion of legal documents;
- (3) Satisfactory continuation and finalization of due diligence;
- (4) No material changes to the investment opportunity as presented; and
- (5) Confidentiality maintained regarding the commitment of OPERF to the Partnership until such time as all the preceding conditions are met.

TAB 4 – OIC POLICY CHANGE RECOMMENDATIONS

# **OIC Policy Updates**

## **July 2013**

### **Purpose**

Update OIC Policies 4.06.02, 4.06.03 and 4.05.03 following OIC actions at the June 26, 2013 meeting, as well as policy 4.05.02.

### **Discussion**

The following is a brief summary of policy changes staff is proposing in support of recent OIC actions:

1. 4.05.03: Recommended changes to this policy will allow CIO approval of changes to internal equity mandates' "permitted investments," subject to prior OIC notification.
2. 4.06.02: Given the approved increase in the Alternatives Portfolio target allocation, corresponding increases in the Alternative Portfolio Committee's approval limits are now recommended. Specifically, staff recommends increasing commitment limits for first time funds from \$50 million to \$100 million. Staff further recommends that annual calendar year commitment limits be increased as follows: from \$150 million to \$500 million for first time funds and from \$500 million to \$700 million for follow-on investments. These revised Alternative Portfolio Committee approval limits are consistent with those currently governing the Real Estate Committee, and as always, OIC members retain the ability to have any proposed committee commitment brought before the entire OIC.
3. 4.06.03: Relative to the Opportunity Portfolio, staff recommends an increase in committee approval limits from \$50 million to \$100 million for first time funds, and for annual calendar commitments, staff recommends raising the committee's approval limits from \$150 million to \$500 million for first time funds and from \$500 million to \$700 million for follow-on funds. Again, OIC members retain the ability to have any proposed committee commitment brought before the entire OIC.
4. 4.05.02: Staff recommends the attached revisions to this policy, in response to the requirements of the Dodd-Frank Act. The Commodities Futures Trading Commission's (CFTC) new rules and regulations require investment managers and counterparties, in certain derivative transactions, to perform due diligence and make disclosures to each other, in an attempt to prevent abusive trading practices. As a result of Dodd-Frank, governmental entities are required to have written policies and procedures in place that are reasonably designed to ensure that the selection and monitoring of certain investment managers are performed in a manner that is consistent with CFTC regulations.

The proposed policy revisions, as provided to staff by DOJ, address these requirements. Representations obtained from investment managers in legal documentation, combined with staff monitoring, will provide the means of implementing this new policy language. When investment managers enter into derivative transactions on the OIC's behalf, investment managers will be acting as "swap advisors," as referenced in the proposed policy language. As required under the new regulations, staff will be exchanging with managers documentation containing specific representations regarding CFTC compliance. The new policy language reflects these representations. Treasury's standard investment contract has been revised to provide the same representations by contract. The contracting process will, therefore, be the primary procedure for ensuring compliance with this regulation. As a second measure, Treasury's staff will continue its standard process for selecting and monitoring investment managers and will do so in a manner consistent with these policies.

5.

**Recommendation:** Approve staff's proposed changes as described above and as reflected in the attached policy revisions (excerpts provided in some instances).

**Excerpt from Policy 4.06.02:**

**C. ALTERNATIVE PORTFOLIO COMMITTEE**

1. The "Alternative Portfolio Committee," or "Committee" is a committee of the OST and acts on behalf of, and subject to the review of the OST. The Committee is comprised of: the Deputy State Treasurer, the Senior Alternative Investment Officer (ex-officio), the Chief Investment Officer, and an OIC member invited by the OST to participate on the Committee. The OST will consider input from the Council in extending such invitations, from time to time. The OST, through the Committee, may invest OPERF amounts up to and including \$100 million per investment in first time limited partnerships or investment managers, and an amount up to and including 200% of the most recent commitment for existing relationships, consistent with OIC policies and the following additional constraints.
2. The aggregate amount of OPERF moneys committed by the Alternative Portfolio Committee shall not exceed \$500 million to first time qualifying funds and \$700 million to follow-on qualifying funds, in any single calendar year, without the approval of the OIC. The Committee will not make additional investment commitments with a specific Program manager when the fair market value of current investment commitments with that manager equal or exceed \$500 million. However, the OST may obtain specific OIC concurrence for, and thereafter approve, Committee investment commitments in excess of such limit.

**Excerpt from Policy 4.06.03:**

**OPPORTUNITY PORTFOLIO COMMITTEE**

1. The "Opportunity Portfolio Committee," or "Committee" is a committee of the OST and acts on behalf of, and subject to the review of the OST. The Opportunity Portfolio Committee is comprised of: the Deputy State Treasurer, the Senior Alternatives Investment Officer (ex-officio), the Chief Investment Officer, and an OIC member invited by the OST to participate on the Committee. The OST will consider input from the Council in extending such invitations, from time to time. The OST, through the Committee, may invest OPERF amounts up to and including \$100 million per investment in first time limited partnerships or investment managers, and an amount up to and including 200% of the most recent commitment for existing relationships, consistent with OIC policies and the following additional constraints.
2. The aggregate amount of OPERF moneys committed by the Opportunity Portfolio Committee shall not exceed \$500 million to first time qualifying funds and \$700 million to follow-on qualifying funds, in any single calendar year. However, the OST may obtain specific OIC concurrence for, and thereafter approve, Committee investment commitments in excess of such limit.

**FUNCTION:** Equity Investments  
**ACTIVITY:** Selecting and Terminating Investment Management Firms

**POLICY:** The Council may enter into contracts with one or more persons whom the Council determines to be qualified, whereby the persons undertake, in lieu of the investment officer, to perform the functions specified in ORS 293.736 to the extent provided in the contract (ORS 293.741). The Council may terminate “at will” any manager in its employ according to the terms of its contract.

1. **Factors to be considered when hiring an investment management firm may include, but are not limited to:**
  - a) The firm's major business;
  - b) Ownership and organization of the firm;
  - c) The background and experience of key members of the firm, including the portfolio manager expected to be responsible for the Oregon account;
  - d) The size of the firm's asset base, and the portion of that base which would be made up by Oregon's portfolio if the firm were hired;
  - e) Equity managers will be screened by staff and the OIC’s consultant via various quantitative and qualitative means. At least one visit to the firm's offices should be made prior to hiring and funding;
  - f) If the firm has a readily determinable investment style, it should complement those of existing managers; and
  - g) Firms should not be hired on a short-term trial basis.
2. **Factors to be considered for the termination of an investment management firm may include, but are not limited to:**
  - a) Major personnel changes within the firm's decision-making group;
  - b) Changes in the firm's ownership or organizational structure;
  - c) Administrative problems;
  - d) Radical or continual changes in investment style;
  - e) Inferior performance. However, a firm should be given ample time to perform well. A short-fall in performance over short-term periods, quarterly or annually, shall not be the basis for termination so long as the firm can demonstrate that it is adhering to its defined investment philosophy. A firm’s philosophy must continue to be one in which the staff and Council have confidence for inclusion in the Oregon portfolio. Lastly, the firm should compare reasonably well with its peers using a similar investment style; and
  - f) Non-compliance with contractual responsibilities to Oregon.

**PROCEDURES:**

1. **Selection of Investment Management Firms.** OST investment staff meet with and obtain information from prospective investment management firms. Members of the OIC may also choose to familiarize themselves with prospective firms, at an early stage. Consultants may be used to assist in evaluating prospective investment management firms, however, the OIC will not delegate its policy or decision-making responsibilities to consultants or others. The OIC selects an investment management firm by majority vote. The Chief Investment Officer is authorized to engage and fund any passive equity strategy considered necessary to allocate assets from terminated or defunded managers or to fill gaps identified in, or reduce risk in, the Public Equity portfolio. Any such actions shall be communicated to the OIC at the next regularly scheduled meeting.
2. **Investment Manager Selection Criteria**
  - A. Identification of the strategic role, within the investment structure, the investment manager's portfolio is to fulfill.
  - B. Description of the manager's style, or how the manager will fulfill the strategic role.
  - C. Identification of the universe of securities from which the manager will construct its portfolio.
  - D. Identification of the expected risk level, as measured by commonly accepted investment risk measures, relative to the strategic role the manager is to fulfill. The risk level can be expressed either relative to the universe of securities from which the manager selects securities, other managers, or to the market return as a whole, or it can be expressed in absolute terms.
  - E. Identification of a specific performance objective. The performance objective should be expressed on a risk-adjusted basis. For example, the manager's performance may be compared to an index, which represents the universe of securities from which the manager selects, plus some degree of excess return over that index which is commensurate with the risk the manager takes to achieve return.
  - F. Identification of a time horizon considered acceptable by the manager and the OIC for the delivery of the expected performance results. This time horizon should be expressed in terms relative to a market cycle for that manager's specific style of management. The style of management can be embodied in the index selection. A market cycle is defined as performance from peak to trough to peak in the index return.
3. **Compliance with the Wall Street Transparency and Accountability Act of 2010 (“Dodd Frank”). The Council intends to comply with the requirements of the Dodd Frank legislation and related regulations for advisors selected and approved to trade in over-the-counter derivative transactions.**

- A. Each swap advisor engaged or to be engaged by the Council shall function as a designated qualified independent representative of the Council, sometimes referred to as a “Designated QIR.”
- B. Each swap advisor shall represent in writing to the Council that it agrees to meet, and shall meet, the requirements specified in Commodity Futures Trading Commission Regulation §23.450 or any successor regulation.
- C. OST staff shall monitor the performance of each swap advisor consistent with the requirements specified in CFTC Regulation §23.450.
- D. OST staff shall exercise independent judgment in consultation with its swap advisor(s) in evaluating all recommendations, if any, presented by any swap dealer with respect to transactions authorized pursuant to Council policy.
- E. OST staff shall rely on the advice of its swap advisor(s) with respect to transactions authorized pursuant to Council policy and shall not rely on recommendations, if any, presented by any swap dealer with respect to transactions authorized pursuant to Council policy.

4. **Compensation of Investment Management Firms.** Management or performance-based fees shall be negotiated by staff as appropriate to the philosophy of the firm. Typically, the fees are set as a percentage of assets managed, and vary on a sliding scale inversely with the total value of assets managed by the firm.

54. **Terminating Management Firms.** Immediately following a termination action by the Council, the Senior Equity Investment Officer shall notify the terminated firm. Separate account mandates will be instructed to discontinue trading the portfolio immediately and the custodian is instructed to suspend trading in the account. Unless directed otherwise by the Council, OST staff shall proceed with a liquidation plan that may include redistributing securities to the Fund's other investment management firms, transitioning securities through an index fund, or liquidating assets. For equity mandates structured through commingled trusts, OST staff shall ensure liquidation or transition of the investment in a timely and efficient manner given the constraints of trust documents. “Watchlist” status is not a prerequisite for termination.

**SAMPLE FORMS, DOCUMENTS, OR REPORTS (Attached):**

None

**FUNCTION:** Equity Investments  
**ACTIVITY:** Internal Equity – Portfolio Objectives & Strategies

**POLICY:** All internal equity investments shall be authorized by a public equity investment officer, authorization shall be documented, and shall be in accordance with portfolio guidelines established by the ~~Oregon Investment Council~~**OIC. Subject to prior notification of the OIC, the Chief Investment Officer has the authority to approve changes to the “Permitted Holdings” section of this policy.**

**PURPOSE**

The purpose of this policy is to specify the portfolio strategies staff is authorized to manage internally and to define the tolerable risk, performance objectives, and permitted investments.

**POLICY OBJECTIVES & STRATEGIES**

**S&P 500 Index Strategy**

1. The objective of the S&P 500 Index portfolio is to closely match the S&P 500 Total Return Index performance through a full replication strategy.
2. The S&P 500 Index Portfolio is expected to outperform the S&P 500 Total Return Index by approximately 5 basis points annualized over a market cycle with an expected tracking error of 10 basis points.

**S&P 400 Index Strategy**

1. The objective of the S&P 400 Index portfolio is to closely match the S&P 400 Total Return Index performance through a full replication strategy.
2. The S&P 400 Index Portfolio is expected to outperform the S&P 400 Total Return Index by 10 basis points annualized over a market cycle with an expected tracking error below 30 basis points.

**Russell 2000 Synthetic Index Strategy**

1. The objective of the Russell 2000 Index portfolio is to closely match the Russell 2000 Total Return Index performance through a synthetic replication strategy.
2. The Russell 2000 Index Portfolio is expected to outperform the Russell 2000 Index Total Return Index by 30 basis points annualized over a market cycle with an expected tracking error below 50 basis points.

**Tiered Emerging Markets Strategy (TEMS)**

1. The objective of the TEMS is to outperform the MSCI Emerging Markets (net) Index through a tiered allocation strategy based upon country weighting. The underlying premise of the model is a framework which allows one to capture the inherent tendency for emerging markets to mean revert. The high volatility of returns and low correlation

between emerging market countries, provides the key ingredients to this type of structured strategy. The strategy is currently implemented using index commingled trust funds and is rebalanced annually by staff, or as needed given additions or deletions to the MSCI EM Index. Given the underlying implementation vehicles are country index funds, the strategy does not utilize any active security selection.

2. The TEMS Portfolio is expected to outperform the MSCI Emerging Markets (net) Index by 200 basis points annualized over a market cycle with an expected tracking error of 400 basis points.

### **Russell/RAFI Fundamental Large Cap Index Strategy**

The objective of the RAFI/Russell 1000 portfolio is to outperform the Russell 1000 Total Return Index by 200 basis points annualized over a market cycle with an expected tracking error below 450 basis points. This portfolio is managed using fundamental factors and will have security weights that are derived from non-price metrics such as sales, earnings, book value, and dividends. A key tenet behind the fundamental strategy is that underlying accounting valuation metrics are objective and less volatile measures of a company's importance in the economy, as opposed to the company's listed market value..

### **PERMITTED HOLDINGS**

#### **S&P 500 Index Strategy**

1. Securities contained in the S&P 500 Index.
2. Securities reasonably expected to be part of the S&P 500 Index at some future date.
3. Securities that have recently been a member of the S&P 500 Index.
4. Exchange Traded Funds (ETFs) which replicate the S&P 500 Index such as: iShares S&P 500 Index Fund (Ticker: IVV) or SPDR S&P 500 (Ticker: SPY).
5. S&P 500 Index Futures (Large Contracts and Mini's).
6. U.S. Treasury Bills or other acceptable cash equivalents utilized for equity futures collateral.

#### **S&P 400 Index Strategy**

1. Securities contained in the S&P 400 Index.
2. Securities reasonably expected to be part of the S&P 400 Index at some future date.
3. Securities that have recently been a member of the S&P 400 Index.
4. Exchange Traded Funds (ETFs) which replicate the S&P 400 Index such as: iShares S&P 400 Index Fund (Ticker: IJH).
5. S&P 400 Index Futures (Large Contracts and Mini's).
6. U.S. Treasury Bills or other acceptable cash equivalents utilized for equity futures collateral.

#### **Russell 2000 Synthetic Index Strategy**

1. Russell 2000 Index and S&P 600 futures contracts.
- ~~2.~~ iShares Russell 2000 Index (Ticker: IWM)
- ~~3.~~ U.S. Treasury Bills or other acceptable cash equivalents used for equity futures collateral.
4. Oregon Short Term Fund.
5. ~~Pimeo~~ PIMCO Enhanced Short Maturity MINT= ETF (Ticker: MINT)

- ~~6. Dimensional Fund Advisors DFA – Ultra Short Duration Strategy One-Year Fixed Income Portfolio I (Ticker: DFIHX)~~
- ~~3.7. Dimensional Fund Advisors DFA – Global Ultra Short Duration Strategy Two-Year Global Fixed Income Portfolio I (Ticker: DFGFX)~~

**Tiered Emerging Markets Strategy (TEMS)**

MSCI Emerging Market & Frontier Market commingled trust funds, exchange traded funds, or equity futures.

**Russell/RAFI Fundamental Large Cap Index Strategy**

1. Securities contained in the Russell 1000 Index.
2. Securities reasonably expected to be part of the Russell 1000 Index at some future date.
3. Securities that have recently been a member of the Russell 1000 Index.
4. Exchange Traded Funds (ETFs) which replicate the RAFI/Russell 1000.
5. Russell 1000, Russell 2000, S&P 500, S&P 400, S&P 600 S&P 400 Futures contracts.
6. U.S. Treasury Bills or other acceptable cash equivalents utilized for equity futures collateral.

**ABSOLUTE RESTRICTIONS**

The Internal Public Equity Portfolios may not purchase the following investments or types of investments without the specific advanced approval of the Chief Investment Officer and the Oregon Investment Council:

1. Short sales of securities.
2. Margin purchases or other use of lending or borrowing money or leverage to create positions greater than 100% of the market value of assets under management.
3. Commodities.
4. Non-U.S. dollar denominated fixed income securities issued by entities incorporated or chartered outside of the United States.

**PROCEDURES:**

All trades are entered into an Order Management System (OMS) such as Bloomberg POMS and are authorized by the signature (electronic or handwritten) of a Public Equity Investment Officer. The Public Equity Investment Officer shall act in accordance with established procedures and internal controls for the operation of the investment program consistent with this policy. The Senior Public Equity Investment Officer will review trades initiated by members of the Public Equity team. The Chief Investment Officer will review trades initiated by the Senior Public Equity Investment Officer.

**SAMPLE FORMS, DOCUMENTS, OR REPORTS (Attached): NONE**

TAB 5 – OREGON SHORT-TERM FUND

# Oregon Investment Council

## July 31, 2013

### Oregon Short Term Fund Annual Review

#### **Purpose**

Provide an update on and annual review of the Oregon Short Term Fund.

#### **Background**

Pursuant to OIC policy, the report includes:

- OSTF Review (Pages 1-10);
- Compliance Summary, June 30, 2013 (Page 11);
- Portfolio Holdings, June 30, 2013 (Pages 12-20);
- Annual audited financial statements to be distributed when issued; and
- Performance, ending June 30, 2013.

	June 2013	2Q 2013	YTD	1 year	2 years	3 years	4 years	5 years
OSTF	-0.05	0.05	0.24	0.87	0.73	0.81	0.91	0.95
91-Day T-Bills	0.01	0.02	0.04	0.11	0.08	0.11	0.12	0.29

Source: State Street Bank

#### **Recommendations**

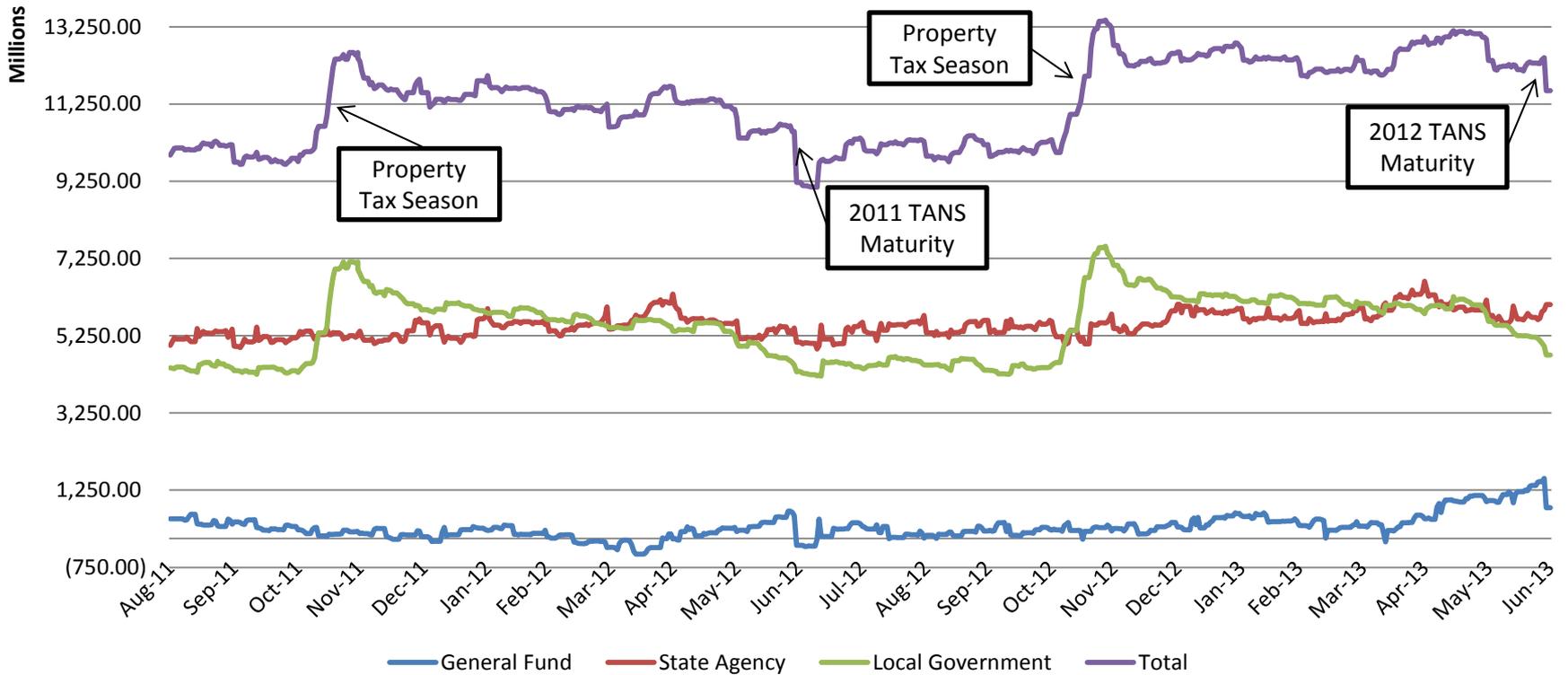
None at this time.

# OSTF Portfolio Update

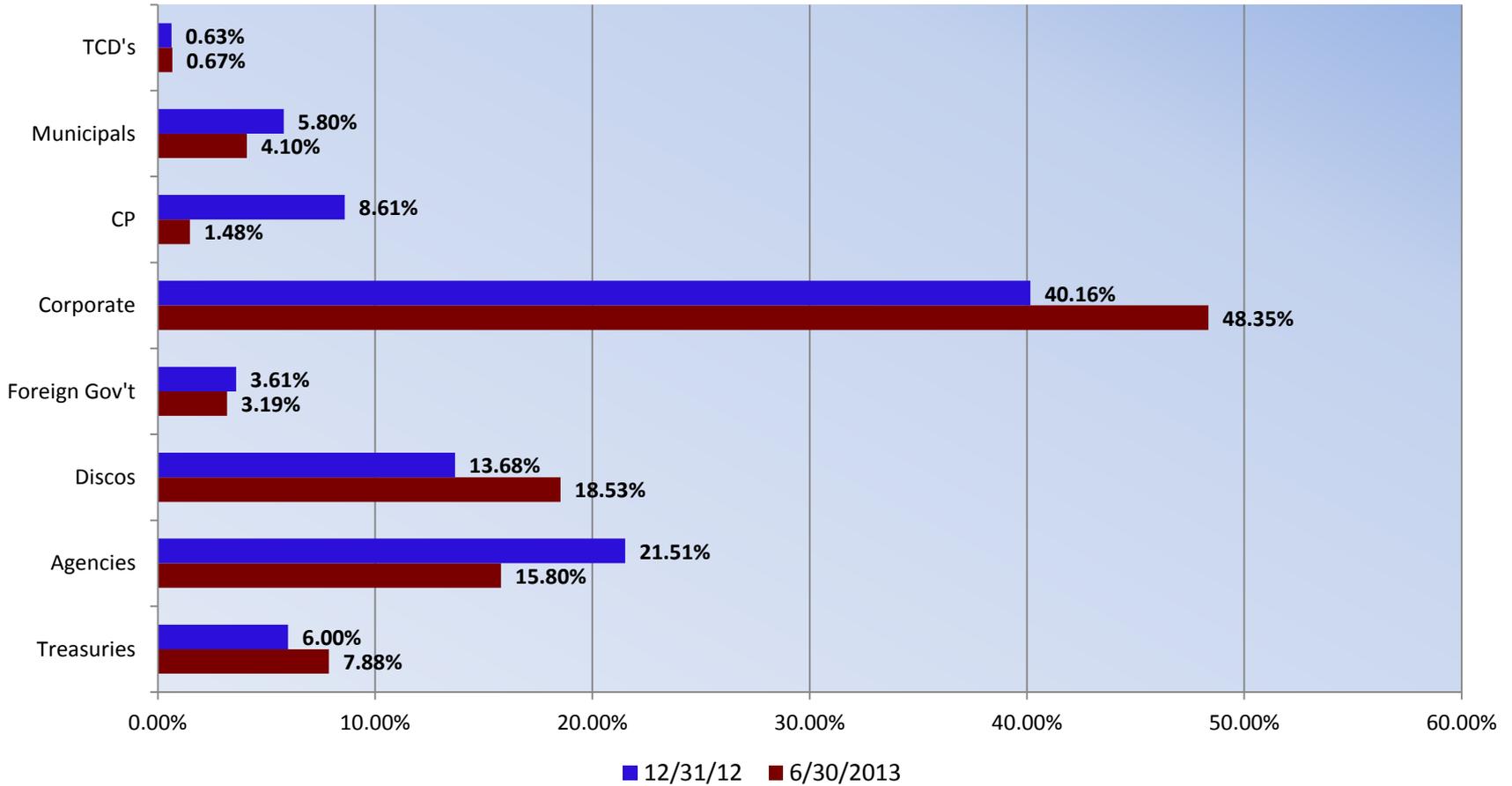
<b>June 30, 2013</b>	
Net Asset Value	\$ 11,515,968,094.50
Unit Value	1.0024
Weighted Average Credit Quality	AA
Yield to Worst	0.655%
Book Yield	0.603%
Rate Paid to Participants	0.540%

Weighted Average Credit Quality calculated  
per OSTF Policy Guidelines Source:  
Bloomberg, OST

# OSTF – Total Fund and Participant Mix



# OSTF Holdings by Security Type



Information based on par value  
Source: Bloomberg, OST

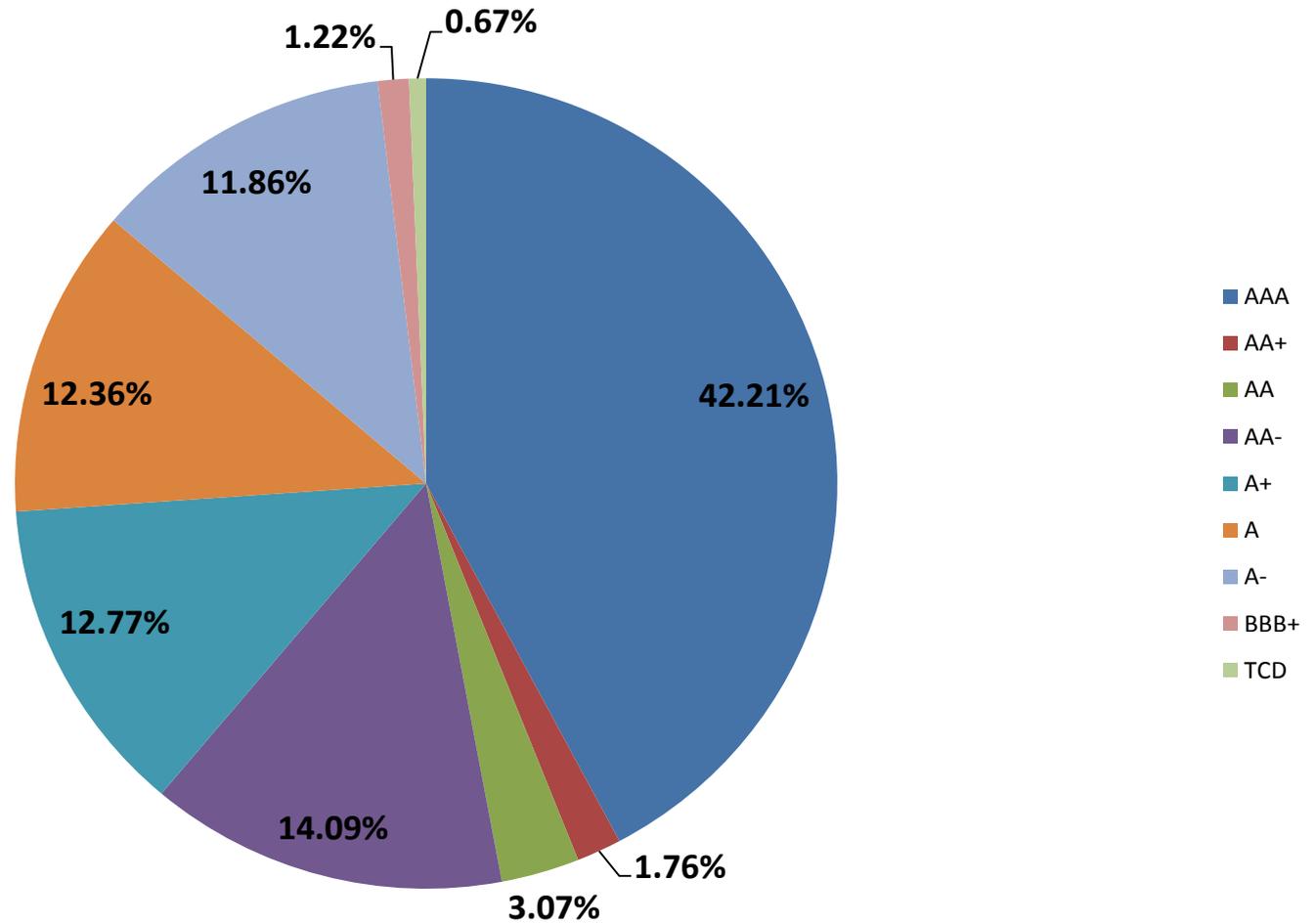
# OSTF Diversification

Issuer Concentration (Par)	
Federal Home Loan Banks	14.99%
United States Treasury	7.88%
Federal National Mortgage Association	6.84%
Federal Farm Credit Banks	6.68%
Federal Home Loan Mortgage Corp	4.94%
JPMorgan Chase & Co	4.17%
Wells Fargo & Co	3.69%
General Electric Co	3.23%
Morgan Stanley	2.88%
Goldman Sachs Group Inc/The	2.85%
Province of Ontario Canada	2.57%
Commonwealth Bank of Australia	2.33%
Bank of Nova Scotia	1.99%
Bank of America Corp	1.89%
BP PLC	1.72%
Australia & New Zealand Bankin	1.47%
Westpac Banking Corp	1.37%
Honda Motor Co Ltd	1.34%
Barclays PLC	1.25%
UBS AG	1.22%

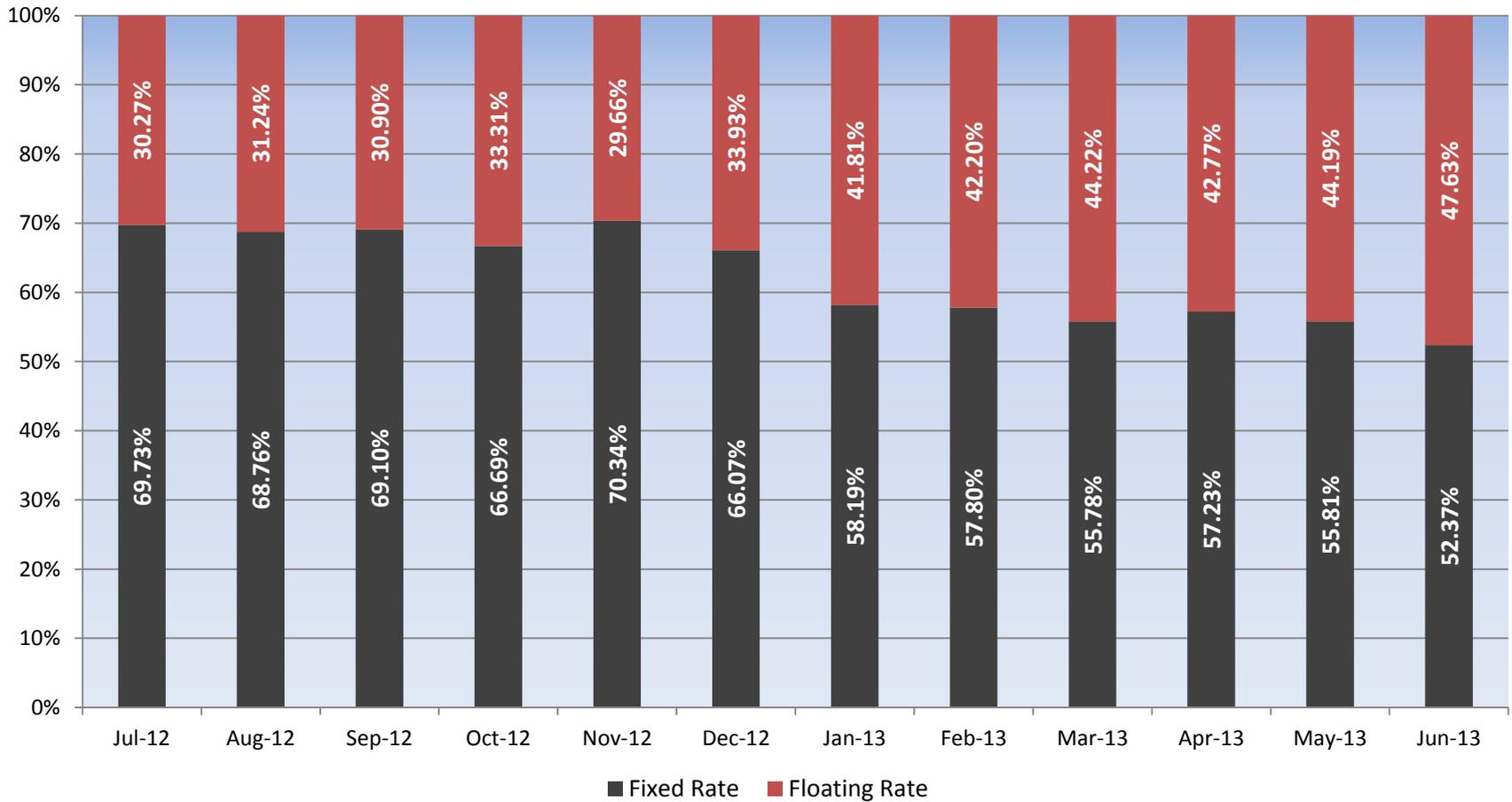
Country of Risk (Par)	
United States	76.21%
Australia	7.04%
Canada	5.63%
Great Britain	4.00%
Japan	2.46%
Switzerland	1.22%
Germany	1.05%
Korea	0.65%
Netherlands	0.43%
Sweden	0.43%
France	0.38%
Belgium	0.27%
Israel	0.14%
China	0.07%

Includes Support Commitments  
Source: Bloomberg, OST

# OSTF Credit Profile

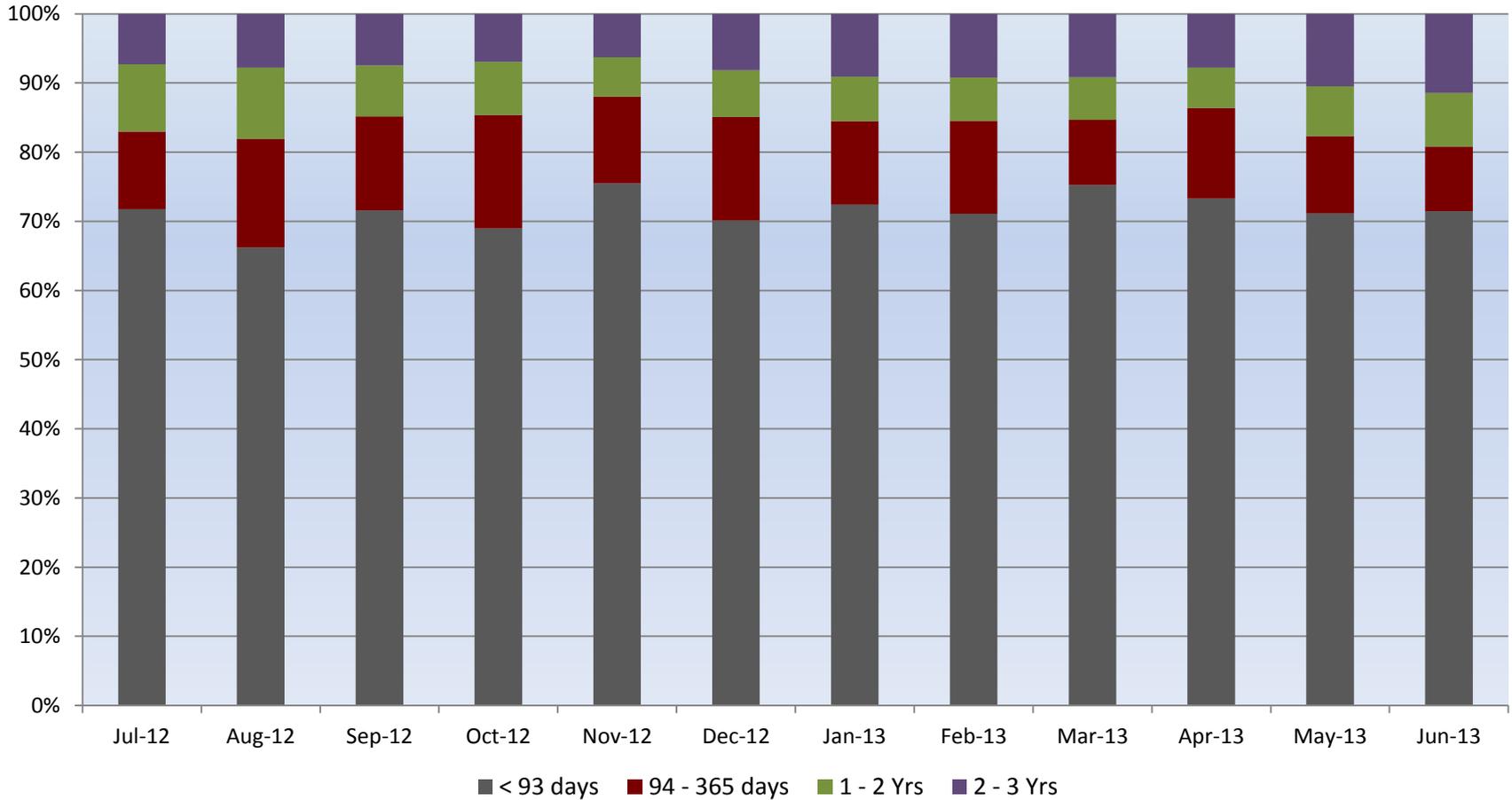


# OSTF Fixed/Floating Rate Allocation



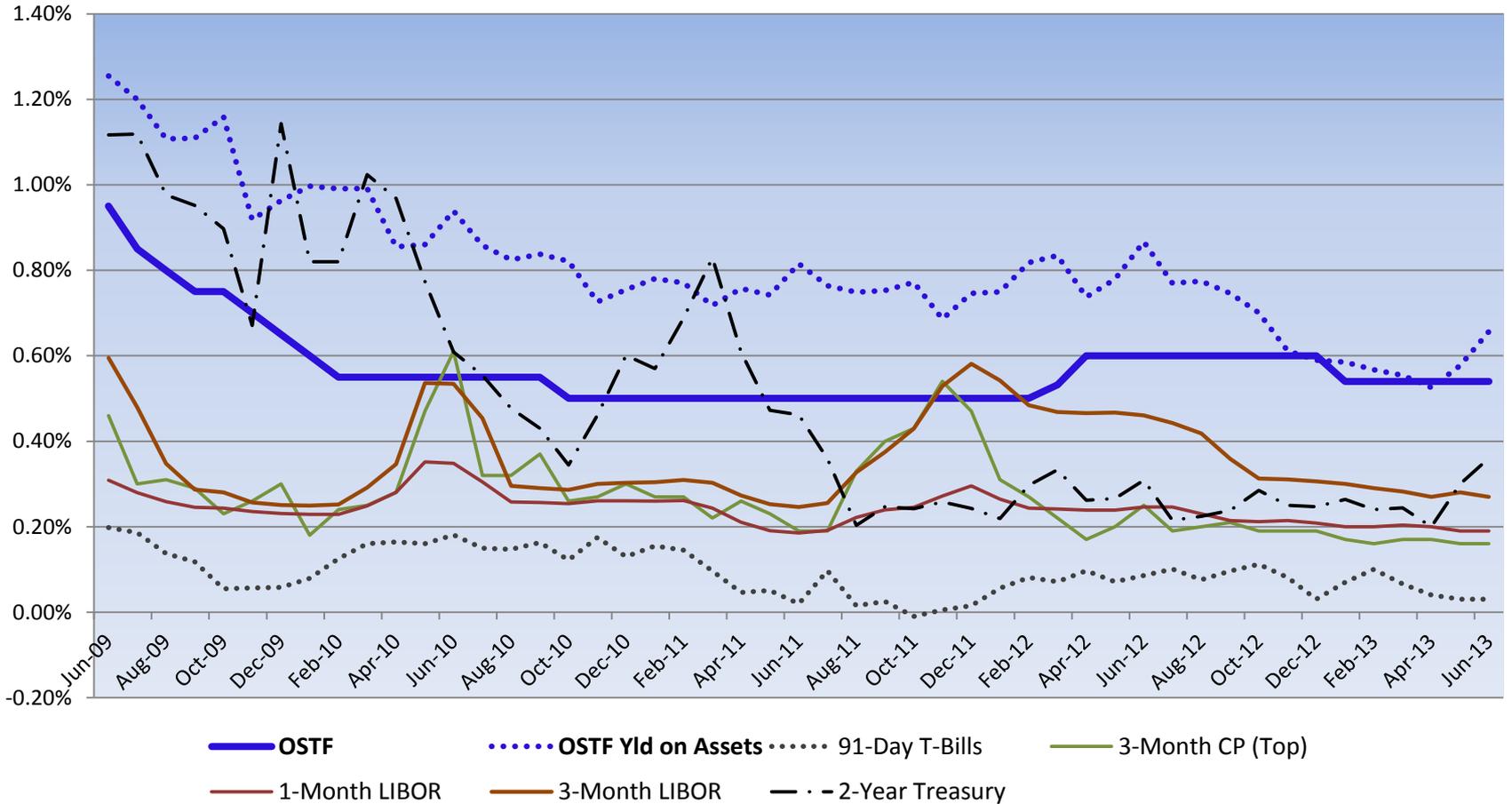
Source: Bloomberg, OST

# OSTF Maturity Profile



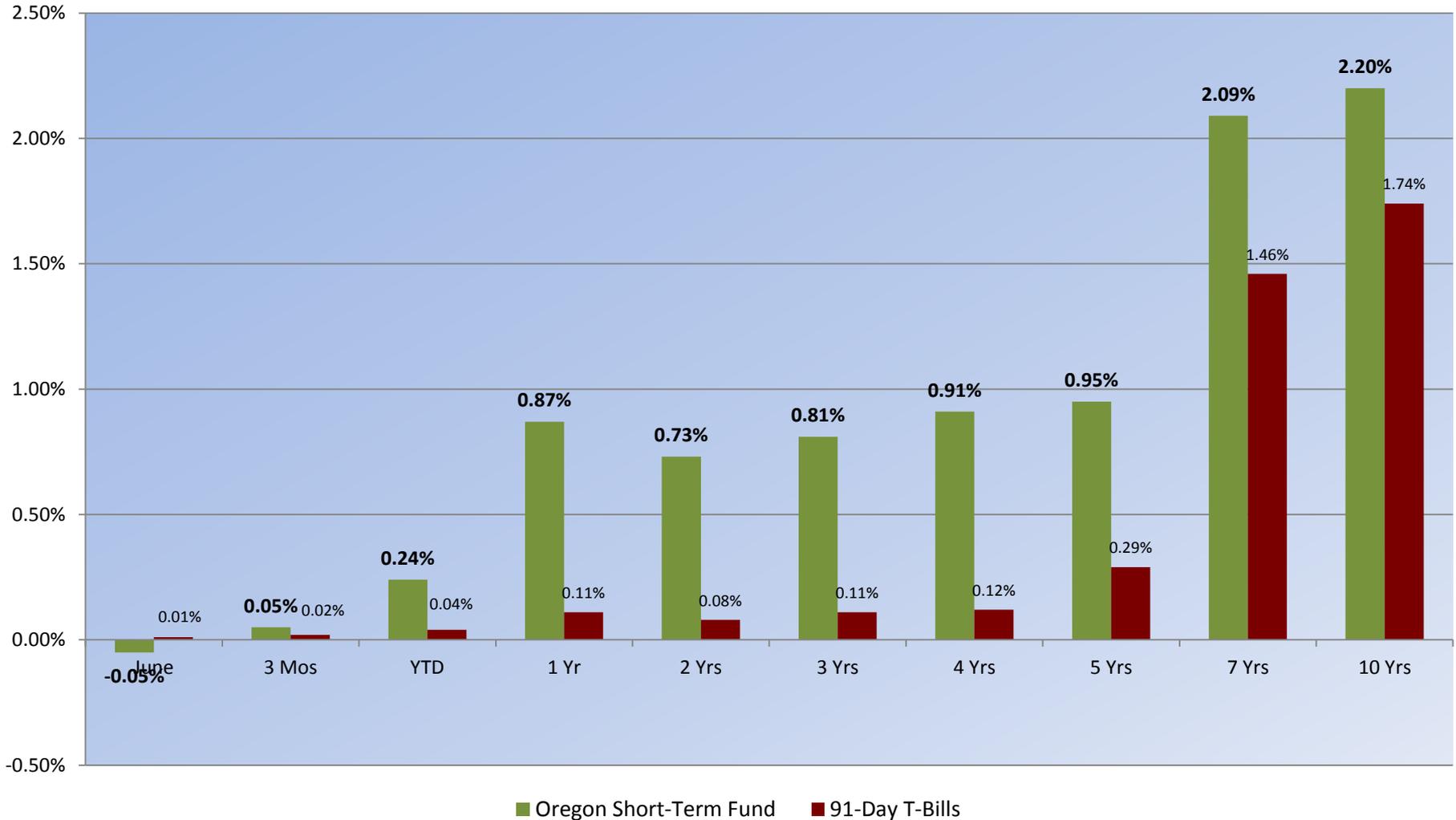
Calculated per OSTF Policy Guidelines  
Source: Bloomberg, OST

# OSTF Rates Comparison



Source: Bloomberg, OST

# OSTF Performance





OSTF Compliance Summary  
As of June 30, 2013

	In Compliance	Objective	Actual
<b>Maturity Distribution of Portfolio</b>			
Percent of Portfolio to Mature Within 93 Days	YES	>50%	71.32%
Percent of Portfolio to Mature Over One Year	YES	<25%	19.20%
Securities Maturing In Over 3 Years From Settlement	YES	None	0.00%

**Notes**

- (1) For securities that have been called by the issuer, the effective call date is used as a proxy for the maturity date.
- (2) For securities with a put option, the date upon which the put option is fully exercisable for a value of at least 100% of the investment's par or face amount is used as a proxy for the maturity date
- (3) For variable rate securities, the period remaining to the next reset date is used as a proxy for the maturity date.

**Diversification & Limitations of Portfolio**

**Asset Class Diversification**

FDIC Guaranteed Corporates	YES	<50%	0.04%
Corporate Indebtedness (Excludes FDIC Guaranteed)	YES	<50%	49.96%
Time Certificates of Deposit	YES	<20%	0.66%
Negotiable Certificates of Deposit	YES	<20%	0.00%
Bankers' Acceptance	YES	<20%	0.00%

**Issuer Diversification**

Agency Securities, Largest Holdings by a single Issuer	YES	< 33%	14.94%
Corporate Indebtedness in CPs and notes, Issuer Exposure (Excludes FDIC guaranteed issues)	YES	< 5%	3.42%
Corporate Indebtedness, Parent Company Exposure (Excludes FDIC Guaranteed issues)	YES	< 10%	3.50%
Foreign Government and Foreign Corporate Debt	YES	< 25%	23.83%
Foreign Government securities maximum per issuer	YES	< 10%	2.59%

**Credit Quality**

Portfolio Weighted Average Credit Quality *	YES	< 3.5	3.40	AA
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\* Weighted average credit quality calculation does not include the following unrated securities: time certificates of deposit or securities purchased with an "expected rating". These securities comprise 1.10% of the portfolio as of the report date and were within portfolio guidelines at the time of purchase.

**Other**

Oregon Short Term Fund Paid Rate			0.54%
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**Trade Commitments**

Open trades, > 14 business days from trade to settle	YES	0	0
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<u>Investment Type</u>	<u>Security Name</u>	<u>Legal Maturity Date</u>	<u>Coupon/Discount Rate</u>	<u>Par Value</u>	<u>Original Cost</u>
Commercial Paper	ARMY & AIR FORCE EXCHA	7/1/2013	0.10	15,000,000	14,999,875
Commercial Paper	BP CAPITAL MARKETS PLC	8/12/2013	0.62	66,000,000	65,586,253
Commercial Paper	ERSTE FINANCE LLC	7/1/2013	0.15	20,000,000	19,999,750
Commercial Paper	FORTIS FUNDING LLC	7/1/2013	0.04	20,000,000	19,999,933
Commercial Paper	SUNCORP GROUP LTD	1/13/2014	0.82	50,000,000	49,587,722
Corporate	ABBVIE INC	11/6/2015	1.20	15,000,000	15,058,330
Corporate	AMERICAN HONDA FINANCE	9/20/2013	1.63	5,000,000	4,998,100
Corporate	AMERICAN HONDA FINANCE	11/3/2014	0.49	80,000,000	80,000,000
Corporate	AMERICAN HONDA FINANCE	5/26/2016	0.65	70,000,000	70,000,000
Corporate	ANHEUSER BUSCH INBEV WOR	1/27/2014	0.83	5,691,000	5,732,487
Corporate	ANHEUSER BUSCH INBEV WOR	7/15/2015	0.80	5,000,000	4,990,850
Corporate	APPLE INC	5/3/2016	0.32	25,000,000	25,000,000
Corporate	AT+T INC	2/12/2016	0.66	20,000,000	20,000,000
Corporate	AUST + NZ BANKING GROUP	5/2/2014	1.41	50,000,000	50,000,000
Corporate	AUST + NZ BANKING GROUP	3/16/2015	1.42	100,000,000	101,813,000
Corporate	AUST + NZ BANKING GRP NY	2/12/2016	0.90	20,000,000	19,978,200
Corporate	BANK OF AMERICA CORP	1/30/2014	1.70	50,000,000	50,000,000
Corporate	BANK OF AMERICA CORP	6/15/2014	5.38	8,000,000	8,461,920
Corporate	BANK OF AMERICA CORP	9/15/2014	0.60	9,477,000	9,419,664
Corporate	BANK OF AMERICA CORP	11/15/2014	5.13	8,000,000	8,547,360
Corporate	BANK OF AMERICA CORP	10/9/2015	1.50	10,000,000	9,995,000
Corporate	BANK OF AMERICA CORP	3/22/2016	1.09	75,000,000	75,000,000
Corporate	BANK OF MONTREAL	9/11/2015	0.75	50,000,000	50,000,000
Corporate	BANK OF NEW YORK MELLON	11/24/2014	1.12	50,000,000	50,000,000
Corporate	BANK OF NOVA SCOTIA	1/12/2015	1.32	50,000,000	50,000,000
Corporate	BANK OF NOVA SCOTIA	10/9/2015	0.75	15,000,000	14,999,550
Corporate	BANK OF NOVA SCOTIA	3/15/2016	0.67	50,000,000	50,000,000
Corporate	BARCLAYS BANK PLC	1/13/2014	1.32	35,000,000	35,000,000
Corporate	BARCLAYS BANK PLC	3/28/2014	1.57	50,000,000	50,000,000
Corporate	BARCLAYS BANK PLC	5/9/2014	1.57	60,000,000	60,000,000
Corporate	BB+T CORPORATION	4/28/2014	0.98	24,633,982	24,633,982
Corporate	BEAR STEARNS COS LLC	10/28/2014	1.00	9,833,000	9,858,762
Corporate	BERKSHIRE HATHAWAY INC	8/15/2014	0.98	25,000,000	25,000,000
Corporate	BERKSHIRE HATHAWAY INC	2/11/2016	0.80	7,000,000	6,999,370
Corporate	BHP BILLITON FIN USA LTD	2/18/2014	0.54	15,000,000	15,000,000
Corporate	BHP BILLITON FIN USA LTD	11/21/2014	1.13	10,000,000	9,964,500
Corporate	BK TOKYO MITSUBISHI UFJ	2/26/2016	0.72	25,000,000	25,000,000
Corporate	BLACKROCK INC	6/1/2015	1.38	10,000,000	9,988,500
Corporate	BP CAPITAL MARKETS PLC	11/7/2013	5.25	13,000,000	14,047,698
Corporate	BP CAPITAL MARKETS PLC	12/6/2013	0.90	60,000,000	60,000,000
Corporate	BP CAPITAL MARKETS PLC	5/8/2014	3.63	20,000,000	20,996,200
Corporate	BP CAPITAL MARKETS PLC	12/5/2014	1.70	15,000,000	14,999,100
Corporate	BP CAPITAL MARKETS PLC	11/6/2015	0.70	14,500,000	14,479,545
Corporate	BP CAPITAL MARKETS PLC	3/11/2016	3.20	9,857,000	10,534,570

<u>Investment Type</u>	<u>Security Name</u>	<u>Legal Maturity Date</u>	<u>Coupon/Discount Rate</u>	<u>Par Value</u>	<u>Original Cost</u>
Corporate	BROADCOM CORP	11/1/2013	1.50	17,830,000	17,824,234
Corporate	CAISSE CENTRALE DESJARDN	9/16/2013	1.70	15,000,000	14,992,500
Corporate	CATERPILLAR FINANCIAL SE	8/27/2014	0.42	50,000,000	50,000,000
Corporate	CATERPILLAR FINANCIAL SE	2/9/2015	0.63	25,000,000	25,000,000
Corporate	CATERPILLAR FINANCIAL SE	5/29/2015	1.10	5,000,000	4,998,400
Corporate	CATERPILLAR FINANCIAL SE	11/6/2015	0.70	10,000,000	9,990,800
Corporate	CATERPILLAR FINANCIAL SE	2/26/2016	0.51	25,000,000	25,000,000
Corporate	CELLCO PART/VERI WIRELSS	2/1/2014	5.55	38,100,000	40,152,447
Corporate	CHEVRON CORP	6/24/2016	0.89	10,000,000	10,000,000
Corporate	CITIGROUP INC	3/7/2014	0.40	29,769,000	29,358,406
Corporate	CITIGROUP INC	4/1/2014	1.21	10,000,000	10,000,000
Corporate	CITIGROUP INC	11/5/2014	0.55	24,000,000	23,747,040
Corporate	CITIGROUP INC	4/1/2016	1.07	40,000,000	40,000,000
Corporate	CNOOC FINANCE 2013 LTD	5/9/2016	1.13	8,000,000	7,971,840
Corporate	COCA COLA CO/THE	11/15/2013	0.75	30,000,000	29,927,400
Corporate	COCA COLA CO/THE	3/5/2015	0.25	20,000,000	20,000,000
Corporate	COMCAST CORP	11/15/2015	5.85	14,794,000	16,754,420
Corporate	COMMONWEALTH BANK AUST	3/17/2014	1.00	35,000,000	35,000,000
Corporate	COMMONWEALTH BANK AUST	1/29/2015	0.56	135,000,000	134,987,928
Corporate	COMMONWEALTH BANK AUST	2/13/2015	1.50	100,000,000	100,000,000
Corporate	DAIMLER FINANCE NA LLC	4/10/2014	1.06	25,000,000	25,000,000
Corporate	DAIMLER FINANCE NA LLC	9/15/2014	1.88	9,675,000	9,776,331
Corporate	DAIMLER FINANCE NA LLC	1/9/2015	0.88	20,000,000	20,000,000
Corporate	DIAGEO CAPITAL PLC	4/29/2016	0.63	35,000,000	34,935,600
Corporate	DUKE ENERGY FLORIDA INC	11/15/2015	0.65	4,000,000	3,996,440
Corporate	FIFTH THIRD BANK	2/26/2016	0.68	70,000,000	70,000,000
Corporate	FIFTH THIRD BANK	2/26/2016	0.90	15,000,000	15,002,100
Corporate	GENERAL ELEC CAP CORP	9/16/2013	1.88	120,000,000	120,318,550
Corporate	GENERAL ELEC CAP CORP	1/7/2014	1.13	25,000,000	25,000,000
Corporate	GENERAL ELEC CAP CORP	4/7/2014	0.91	5,000,000	5,000,000
Corporate	GENERAL ELEC CAP CORP	9/15/2014	0.53	10,000,000	9,959,200
Corporate	GENERAL ELEC CAP CORP	7/2/2015	1.63	25,000,000	24,978,750
Corporate	GENERAL ELEC CAP CORP	7/2/2015	1.31	25,000,000	25,000,000
Corporate	GENERAL ELEC CAP CORP	8/7/2015	1.13	75,000,000	75,000,000
Corporate	GENERAL ELEC CAP CORP	9/30/2015	0.93	11,062,000	11,098,957
Corporate	GENERAL ELEC CAP CORP	12/11/2015	0.88	57,378,000	57,760,377
Corporate	GENERAL ELEC CAP CORP	1/8/2016	5.00	20,000,000	22,160,000
Corporate	GEORGIA POWER COMPANY	8/10/2015	0.75	7,500,000	7,495,125
Corporate	GLAXOSMITHKLINE CAP INC	3/18/2016	0.70	15,000,000	14,980,500
Corporate	GLAXOSMITHKLINE CAPITAL	5/8/2015	0.75	10,000,000	9,974,600
Corporate	GOLDMAN SACHS GROUP INC	8/19/2013	1.32	75,000,000	75,000,000
Corporate	GOLDMAN SACHS GROUP INC	9/23/2013	1.32	20,000,000	20,000,000
Corporate	GOLDMAN SACHS GROUP INC	9/29/2014	0.88	20,000,000	19,801,100
Corporate	GOLDMAN SACHS GROUP INC	11/21/2014	1.27	50,000,000	50,000,000

<u>Investment Type</u>	<u>Security Name</u>	<u>Legal Maturity Date</u>	<u>Coupon/Discount Rate</u>	<u>Par Value</u>	<u>Original Cost</u>
Corporate	GOLDMAN SACHS GROUP INC	1/12/2015	0.78	31,480,000	31,256,707
Corporate	GOLDMAN SACHS GROUP INC	7/22/2015	0.68	54,954,000	54,311,377
Corporate	GOLDMAN SACHS GROUP INC	11/23/2015	1.60	15,000,000	15,083,400
Corporate	GOLDMAN SACHS GROUP INC	3/22/2016	0.72	63,477,000	62,917,437
Corporate	HARLEY DAVIDSON FINL SER	9/15/2015	1.15	24,320,000	24,394,784
Corporate	HEWLETT PACKARD CO	9/13/2013	1.25	59,050,000	59,044,800
Corporate	HEWLETT PACKARD CO	5/30/2014	0.67	28,000,000	28,000,000
Corporate	HP ENTERPRISE SERVICES	8/1/2013	6.00	14,478,000	16,254,453
Corporate	HSBC BANK PLC	8/12/2013	1.63	19,200,000	19,294,445
Corporate	IBM CORP	2/4/2015	0.25	50,000,000	50,000,000
Corporate	IBM CORP	2/6/2015	0.55	15,000,000	14,926,650
Corporate	JOHN DEERE CAPITAL CORP	9/22/2014	0.80	65,000,000	65,335,200
Corporate	JOHN DEERE CAPITAL CORP	10/8/2014	0.38	20,000,000	20,000,000
Corporate	JOHN DEERE CAPITAL CORP	1/22/2016	0.75	10,000,000	9,989,400
Corporate	JPMORGAN CHASE + CO	9/15/2014	5.13	42,564,000	45,558,033
Corporate	JPMORGAN CHASE + CO	3/20/2015	1.32	100,000,000	100,319,250
Corporate	JPMORGAN CHASE + CO	4/23/2015	0.73	25,000,000	25,000,000
Corporate	JPMORGAN CHASE + CO	10/15/2015	0.94	100,000,000	100,000,000
Corporate	JPMORGAN CHASE + CO	2/26/2016	0.89	125,000,000	125,180,000
Corporate	KOREA DEVELOPMENT BANK	11/26/2013	0.72	75,000,000	75,000,000
Corporate	MBNA CORP	6/15/2015	5.00	20,605,000	22,319,130
Corporate	MCKESSON CORP	12/4/2015	0.95	5,000,000	4,994,850
Corporate	MELLON FUNDING CORP	5/15/2014	5.20	8,541,000	9,461,634
Corporate	MERCK + CO INC	5/18/2016	0.70	15,000,000	14,995,950
Corporate	MERCK + CO INC	5/18/2016	0.46	15,000,000	15,000,000
Corporate	MERRILL LYNCH + CO	1/15/2015	5.00	11,144,000	11,954,169
Corporate	MERRILL LYNCH + CO	1/15/2015	0.74	12,226,000	12,101,710
Corporate	MERRILL LYNCH + CO	9/30/2015	5.30	14,314,000	15,658,514
Corporate	MORGAN STANLEY	1/24/2014	1.88	67,000,000	66,935,333
Corporate	MORGAN STANLEY	10/15/2015	0.76	56,511,000	54,593,154
Corporate	MORGAN STANLEY	2/25/2016	1.52	75,000,000	75,000,000
Corporate	MORGAN STANLEY	6/6/2016	1.25	135,000,000	135,000,000
Corporate	NATIONAL AUSTRALIA BANK	7/25/2014	1.23	25,000,000	25,232,500
Corporate	NATIONAL AUSTRALIA BANK	1/22/2015	0.58	50,000,000	50,000,000
Corporate	NATIONAL AUSTRALIA BANK	8/7/2015	1.40	10,000,000	10,000,000
Corporate	NATIONAL AUSTRALIA BANK	10/8/2015	0.78	30,000,000	30,041,700
Corporate	NATIONAL AUSTRALIA BK LT	8/7/2015	1.60	15,000,000	14,990,400
Corporate	NATIONAL BANK OF CANADA	6/26/2015	1.50	12,500,000	12,469,750
Corporate	NATIONAL RURAL UTIL COOP	5/27/2016	0.52	25,000,000	25,000,000
Corporate	PACCAR FINANCIAL CORP	2/8/2016	0.55	15,000,000	15,000,000
Corporate	PACCAR FINANCIAL CORP	5/16/2016	0.75	8,000,000	7,995,040
Corporate	PEPSICO INC	2/26/2016	0.48	30,000,000	30,000,000
Corporate	PHILIP MORRIS INTL INC	2/26/2015	0.32	50,000,000	50,000,000
Corporate	PNC BANK NA	4/29/2016	0.60	25,000,000	25,000,000

<u>Investment Type</u>	<u>Security Name</u>	<u>Legal Maturity Date</u>	<u>Coupon/Discount Rate</u>	<u>Par Value</u>	<u>Original Cost</u>
Corporate	PROCTER + GAMBLE CO/THE	8/15/2014	0.70	7,000,000	6,971,230
Corporate	ROYAL BANK OF CANADA	3/8/2016	0.85	10,000,000	9,993,800
Corporate	SCHLUMBERGER INVESTMENT	9/12/2014	0.82	25,000,000	25,000,000
Corporate	SHELL INTERNATIONAL FIN	12/4/2015	0.63	35,000,000	34,991,600
Corporate	SOCIETE GENERALE	4/11/2014	1.33	19,500,000	19,500,000
Corporate	SSIF NEVADA LP	4/14/2014	0.98	115,000,000	115,233,600
Corporate	STATE STREET BANK + TRST	12/8/2015	0.47	15,000,000	14,888,400
Corporate	TEVA PHARM FIN III	3/21/2014	1.70	16,550,000	16,488,198
Corporate	THOMSON REUTERS CORP	5/23/2016	0.88	5,000,000	4,986,600
Corporate	TORONTO DOMINION BANK	5/1/2015	0.45	10,000,000	10,000,000
Corporate	TOTAL CAPITAL CANADA LTD	1/15/2016	0.66	25,000,000	25,000,000
Corporate	TOYOTA MOTOR CREDIT CORP	11/21/2014	0.44	75,000,000	75,000,000
Corporate	TOYOTA MOTOR CREDIT CORP	5/17/2016	0.56	30,000,000	30,000,000
Corporate	UBS AG STAMFORD CT	10/14/2013	1.03	95,000,000	95,000,000
Corporate	UBS AG STAMFORD CT	1/28/2014	1.28	46,484,000	46,484,000
Corporate	UNILEVER CAPITAL CORP	2/10/2016	2.75	15,000,000	15,818,850
Corporate	US BANCORP	9/13/2013	1.38	50,000,000	49,942,125
Corporate	US BANK NA	2/4/2014	6.30	38,000,000	41,798,880
Corporate	VERIZON COMMUNICATIONS	11/2/2015	0.70	5,000,000	4,999,100
Corporate	VERIZON COMMUNICATIONS	2/15/2016	5.55	11,250,000	12,632,625
Corporate	VODAFONE GROUP PLC	2/19/2016	0.66	40,000,000	40,000,000
Corporate	VOLKSWAGEN INTL FIN NV	4/1/2014	1.88	16,457,000	16,711,444
Corporate	VOLKSWAGEN INTL FIN NV	11/20/2014	0.87	50,000,000	50,000,000
Corporate	WACHOVIA BANK NA	11/3/2014	0.65	37,800,000	36,741,681
Corporate	WACHOVIA CORP	8/1/2014	5.25	40,475,000	43,318,881
Corporate	WACHOVIA CORP	10/28/2015	0.62	63,529,000	62,906,882
Corporate	WALT DISNEY COMPANY/THE	12/1/2014	0.88	10,000,000	9,967,300
Corporate	WALT DISNEY COMPANY/THE	2/11/2015	0.27	35,000,000	35,000,000
Corporate	WEA FINANCE/WT FIN AUST	9/2/2015	5.75	2,985,000	3,315,738
Corporate	WELLS FARGO + COMPANY	2/13/2015	1.25	55,000,000	54,843,800
Corporate	WELLS FARGO + COMPANY	6/26/2015	1.20	150,000,000	150,000,000
Corporate	WELLS FARGO + COMPANY	7/1/2015	1.50	25,000,000	25,341,750
Corporate	WELLS FARGO BANK NA	5/16/2016	0.48	15,870,000	15,703,048
Corporate	WESTPAC BANKING CORP	12/9/2013	1.01	80,000,000	80,000,000
Corporate	WESTPAC BANKING CORP	12/9/2013	1.85	25,000,000	24,987,000
Corporate	WESTPAC BANKING CORP	1/30/2014	1.53	28,000,000	28,000,000
Corporate	WESTPAC BANKING CORP	9/25/2015	1.03	25,000,000	25,000,000
Corporate	WSTFLD CAP/WT FIN/WEA	11/15/2014	5.13	8,613,000	9,181,124
FDIC Guaranteed	FDIC STRUCT SALE GTD NTS	10/25/2013	0.30	4,200,000	4,185,212
Foreign Government	ONTARIO (PROVINCE OF)	1/27/2014	1.38	58,535,000	59,358,745
Foreign Government	ONTARIO (PROVINCE OF)	6/16/2014	4.10	70,000,000	74,781,050
Foreign Government	ONTARIO (PROVINCE OF)	5/26/2015	0.95	50,000,000	50,274,750
Foreign Government	ONTARIO (PROVINCE OF)	8/13/2015	0.33	100,000,000	100,000,000
Foreign Government	PROVINCE OF ONTARIO	7/22/2013	0.10	18,458,000	18,456,667

<u>Investment Type</u>	<u>Security Name</u>	<u>Legal Maturity Date</u>	<u>Coupon/Discount Rate</u>	<u>Par Value</u>	<u>Original Cost</u>
Foreign Government	QUEBEC GOVT	7/5/2013	0.08	7,000,000	6,999,720
Foreign Government	QUEBEC GOVT	7/29/2013	0.10	2,685,000	2,684,754
Foreign Government	QUEBEC GOVT	7/30/2013	0.11	12,424,000	12,421,616
Foreign Government	SWEDISH EXPORT CREDIT	1/5/2015	1.00	50,000,000	50,000,000
Municipal	ALASKA ST HSG FIN CORP	12/1/2036	0.09	19,685,000	19,685,000
Municipal	BOARD OF RGTS UNV TX	7/1/2013	0.28	10,000,000	10,000,000
Municipal	CHARLOTTE NC WTR SWR SYS REV	7/1/2027	0.05	6,175,000	6,175,000
Municipal	CHICAGO IL MIDWAY ARPT REVENUE	1/1/2025	0.10	25,000,000	25,000,000
Municipal	CHICAGO IL SALES TAX REVENUE	1/1/2034	0.07	25,000,000	25,000,000
Municipal	CONNECTICUT ST HSG FIN AUTH HS	5/15/2039	0.07	10,000,000	10,000,000
Municipal	EAST BAY CA MUNI UTILITY DIST	6/1/2038	0.05	10,000,000	10,000,000
Municipal	MASSACHUSETTS ST	2/1/2015	0.25	50,000,000	50,000,000
Municipal	MECKLENBURG CNTY NC COPS	2/1/2028	0.44	50,000,000	50,000,000
Municipal	MISSISSIPPI ST BUSINESS FIN CO	11/1/2035	0.05	14,985,000	14,985,000
Municipal	N TX TOLLWAY AUTH REVENUE	9/1/2013	2.31	2,500,000	2,572,575
Municipal	N TX TOLLWAY AUTH REVENUE	9/1/2013	2.44	4,950,000	5,085,779
Municipal	PHILADELPHIA PA ARPT REVENUE	6/15/2025	0.07	9,510,000	9,510,000
Municipal	RALEIGH NC COMB ENTERPRISE SYS	3/1/2035	0.05	19,485,000	19,485,000
Municipal	RGTS OF UNIV OF CA	7/25/2013	0.17	25,000,000	24,996,694
Municipal	SAN DIEGO CNTY CALIF REGL ARPT	8/1/2013	0.23	10,000,000	10,000,000
Municipal	SAN DIEGO CNTY CALIF REGL ARPT	8/1/2013	0.18	10,000,000	10,000,000
Municipal	STATE OF CA G.O.	8/1/2013	0.22	11,880,000	11,880,000
Municipal	STATE OF CA G.O.	8/15/2013	0.15	15,000,000	15,000,000
Municipal	TEXAS ST	8/30/2013	2.50	10,000,000	10,072,300
Municipal	TEXAS ST PUB FIN AUTH TAXABLE	8/6/2013	0.17	13,400,000	13,400,000
Municipal	UNIV OF CALIFORNIA CA REVENUES	7/1/2041	0.77	50,000,000	50,000,000
Municipal	UNIVERSITY TX PERM UNIV FD	7/10/2013	0.09	12,500,000	12,500,000
Municipal	UNIVERSITY TX PERM UNIV FD	7/15/2013	0.09	10,000,000	10,000,000
Municipal	WALNUT ENERGY CTR AUTH	9/9/2013	0.16	20,000,000	19,992,711
Municipal	WASHINGTON ST	1/1/2014	0.37	18,940,000	18,940,000
Municipal	WASHINGTON ST	1/1/2015	0.50	10,000,000	10,000,000
Time Certificate of Deposit	CAPITAL PACIFIC BANK	9/11/2013	0.18	2,000,000	2,000,000
Time Certificate of Deposit	COLUMBIA COMMUNITY BANK	7/10/2013	0.21	100,000	100,000
Time Certificate of Deposit	COLUMBIA COMMUNITY BANK	8/7/2013	0.20	100,000	100,000
Time Certificate of Deposit	PACIFIC CONTINENTAL BANK TCD	7/10/2013	0.19	7,500,000	7,500,000
Time Certificate of Deposit	PACIFIC CONTINENTAL BANK TCD	7/10/2013	0.21	5,000,000	5,000,000
Time Certificate of Deposit	PACIFIC CONTINENTAL BANK TCD	7/10/2013	0.15	2,500,000	2,500,000
Time Certificate of Deposit	PACIFIC CONTINENTAL BANK TCD	8/7/2013	0.20	2,500,000	2,500,000
Time Certificate of Deposit	PACIFIC CONTINENTAL BANK TCD	8/7/2013	0.17	7,500,000	7,500,000
Time Certificate of Deposit	PACIFIC CONTINENTAL BANK TCD	9/11/2013	0.18	5,000,000	5,000,000
Time Certificate of Deposit	UMPQUA BANK	7/10/2013	0.21	15,000,000	15,000,000
Time Certificate of Deposit	UMPQUA BANK	8/7/2013	0.20	15,000,000	15,000,000
Time Certificate of Deposit	UMPQUA BANK	9/11/2013	0.18	15,000,000	15,000,000
United States Agency	FANNIE DISCOUNT NOTE	7/1/2013	0.04	103,703,000	103,691,223

<u>Investment Type</u>	<u>Security Name</u>	<u>Legal Maturity Date</u>	<u>Coupon/Discount Rate</u>	<u>Par Value</u>	<u>Original Cost</u>
United States Agency	FANNIE DISCOUNT NOTE	7/2/2013	0.06	1,400,000	1,399,939
United States Agency	FANNIE DISCOUNT NOTE	7/3/2013	0.08	13,365,000	13,362,550
United States Agency	FANNIE DISCOUNT NOTE	7/10/2013	0.08	10,000,000	9,998,000
United States Agency	FANNIE DISCOUNT NOTE	7/19/2013	0.05	1,020,000	1,019,959
United States Agency	FANNIE DISCOUNT NOTE	7/24/2013	0.07	23,334,000	23,330,286
United States Agency	FANNIE DISCOUNT NOTE	7/25/2013	0.04	10,000,000	9,999,611
United States Agency	FANNIE DISCOUNT NOTE	7/29/2013	0.06	20,000,000	19,998,808
United States Agency	FANNIE DISCOUNT NOTE	7/31/2013	0.07	10,000,000	9,998,328
United States Agency	FANNIE DISCOUNT NOTE	8/1/2013	0.07	45,531,000	45,525,223
United States Agency	FANNIE DISCOUNT NOTE	8/6/2013	0.06	15,000,000	14,997,875
United States Agency	FANNIE DISCOUNT NOTE	8/7/2013	0.07	25,000,000	24,996,819
United States Agency	FANNIE DISCOUNT NOTE	8/8/2013	0.06	8,500,000	8,499,292
United States Agency	FANNIE DISCOUNT NOTE	8/14/2013	0.06	15,000,000	14,998,800
United States Agency	FANNIE DISCOUNT NOTE	8/21/2013	0.07	2,105,000	2,104,677
United States Agency	FANNIE DISCOUNT NOTE	9/3/2013	0.07	10,000,000	9,998,158
United States Agency	FANNIE DISCOUNT NOTE	9/4/2013	0.08	3,600,000	3,599,329
United States Agency	FANNIE DISCOUNT NOTE	9/11/2013	0.09	25,000,000	24,995,242
United States Agency	FANNIE DISCOUNT NOTE	9/16/2013	0.12	10,000,000	9,992,533
United States Agency	FANNIE DISCOUNT NOTE	9/25/2013	0.10	10,000,000	9,997,472
United States Agency	FANNIE DISCOUNT NOTE	10/1/2013	0.13	20,000,000	19,983,244
United States Agency	FANNIE DISCOUNT NOTE	11/1/2013	0.10	15,000,000	14,992,000
United States Agency	FANNIE MAE	7/12/2013	3.88	1,460,000	1,463,387
United States Agency	FANNIE MAE	8/20/2013	1.25	11,736,000	11,766,773
United States Agency	FANNIE MAE	9/3/2013	1.05	4,480,000	4,490,569
United States Agency	FANNIE MAE	9/17/2013	1.13	20,988,000	21,047,362
United States Agency	FANNIE MAE	9/23/2013	1.00	21,999,000	22,067,776
United States Agency	FANNIE MAE	10/8/2013	1.13	14,000,000	14,061,600
United States Agency	FANNIE MAE	10/15/2013	4.63	6,540,000	6,687,289
United States Agency	FANNIE MAE	1/2/2014	5.13	73,252,000	78,902,636
United States Agency	FANNIE MAE	2/24/2014	1.35	4,000,000	4,038,304
United States Agency	FANNIE MAE	8/7/2015	0.50	65,000,000	64,967,500
United States Agency	FANNIE MAE	11/6/2015	0.50	25,000,000	25,000,000
United States Agency	FANNIE MAE	2/1/2016	0.75	80,000,000	80,090,450
United States Agency	FANNIE MAE	2/26/2016	0.52	65,000,000	64,990,250
United States Agency	FED FARM CRD DISCOUNT NT	7/2/2013	0.04	15,000,000	14,999,781
United States Agency	FED FARM CRD DISCOUNT NT	7/5/2013	0.05	10,000,000	9,999,708
United States Agency	FED FARM CRD DISCOUNT NT	7/9/2013	0.05	25,000,000	24,999,271
United States Agency	FED HOME LN DISCOUNT NT	7/1/2013	0.04	18,574,000	18,571,762
United States Agency	FED HOME LN DISCOUNT NT	7/2/2013	0.02	26,000,000	25,998,482
United States Agency	FED HOME LN DISCOUNT NT	7/3/2013	0.06	41,450,000	41,444,992
United States Agency	FED HOME LN DISCOUNT NT	7/5/2013	0.02	52,300,000	52,292,116
United States Agency	FED HOME LN DISCOUNT NT	7/8/2013	0.05	3,700,000	3,699,908
United States Agency	FED HOME LN DISCOUNT NT	7/9/2013	0.05	1,997,000	1,996,915
United States Agency	FED HOME LN DISCOUNT NT	7/10/2013	0.05	45,333,000	45,328,634

<u>Investment Type</u>	<u>Security Name</u>	<u>Legal Maturity Date</u>	<u>Coupon/Discount Rate</u>	<u>Par Value</u>	<u>Original Cost</u>
United States Agency	FED HOME LN DISCOUNT NT	7/12/2013	0.03	64,944,000	64,932,930
United States Agency	FED HOME LN DISCOUNT NT	7/17/2013	0.08	44,100,000	44,092,434
United States Agency	FED HOME LN DISCOUNT NT	7/18/2013	0.02	25,000,000	24,999,625
United States Agency	FED HOME LN DISCOUNT NT	7/19/2013	0.05	48,200,000	48,192,253
United States Agency	FED HOME LN DISCOUNT NT	7/22/2013	0.05	15,000,000	14,999,363
United States Agency	FED HOME LN DISCOUNT NT	7/23/2013	0.05	30,000,000	29,998,250
United States Agency	FED HOME LN DISCOUNT NT	7/24/2013	0.07	30,000,000	29,994,010
United States Agency	FED HOME LN DISCOUNT NT	7/26/2013	0.05	54,100,000	54,091,759
United States Agency	FED HOME LN DISCOUNT NT	7/30/2013	0.03	22,500,000	22,499,035
United States Agency	FED HOME LN DISCOUNT NT	7/31/2013	0.05	72,500,000	72,487,459
United States Agency	FED HOME LN DISCOUNT NT	8/2/2013	0.05	57,000,000	56,991,809
United States Agency	FED HOME LN DISCOUNT NT	8/6/2013	0.08	10,000,000	9,999,067
United States Agency	FED HOME LN DISCOUNT NT	8/7/2013	0.06	21,199,000	21,196,578
United States Agency	FED HOME LN DISCOUNT NT	8/9/2013	0.07	40,000,000	39,992,981
United States Agency	FED HOME LN DISCOUNT NT	8/14/2013	0.08	33,300,000	33,294,255
United States Agency	FED HOME LN DISCOUNT NT	8/15/2013	0.08	15,000,000	14,998,300
United States Agency	FED HOME LN DISCOUNT NT	8/16/2013	0.08	39,850,000	39,843,342
United States Agency	FED HOME LN DISCOUNT NT	8/21/2013	0.08	68,993,000	68,982,828
United States Agency	FED HOME LN DISCOUNT NT	8/23/2013	0.09	55,000,000	54,991,854
United States Agency	FED HOME LN DISCOUNT NT	8/28/2013	0.08	25,000,000	24,996,206
United States Agency	FED HOME LN DISCOUNT NT	8/30/2013	0.08	50,661,000	50,653,646
United States Agency	FED HOME LN DISCOUNT NT	9/3/2013	0.09	2,000,000	1,999,679
United States Agency	FED HOME LN DISCOUNT NT	9/4/2013	0.09	27,700,000	27,695,359
United States Agency	FED HOME LN DISCOUNT NT	9/6/2013	0.09	1,850,000	1,849,658
United States Agency	FED HOME LN DISCOUNT NT	9/11/2013	0.09	14,512,000	14,509,125
United States Agency	FED HOME LN DISCOUNT NT	9/13/2013	0.09	25,000,000	24,994,760
United States Agency	FED HOME LN DISCOUNT NT	9/17/2013	0.10	5,100,000	5,098,796
United States Agency	FED HOME LN DISCOUNT NT	9/18/2013	0.09	30,000,000	29,993,288
United States Agency	FED HOME LN DISCOUNT NT	9/20/2013	0.09	37,657,000	37,647,900
United States Agency	FED HOME LN DISCOUNT NT	9/25/2013	0.10	10,000,000	9,997,472
United States Agency	FED HOME LN DISCOUNT NT	10/17/2013	0.08	25,000,000	24,990,189
United States Agency	FEDERAL FARM CREDIT BANK	7/3/2013	5.58	2,000,000	2,016,240
United States Agency	FEDERAL FARM CREDIT BANK	7/23/2013	0.25	1,100,000	1,100,284
United States Agency	FEDERAL FARM CREDIT BANK	10/7/2013	3.88	27,040,000	27,401,198
United States Agency	FEDERAL FARM CREDIT BANK	10/15/2013	0.65	1,050,000	1,052,666
United States Agency	FEDERAL FARM CREDIT BANK	2/27/2014	1.13	9,000,000	9,070,965
United States Agency	FEDERAL FARM CREDIT BANK	1/26/2015	0.25	50,000,000	49,986,800
United States Agency	FEDERAL FARM CREDIT BANK	1/28/2015	0.19	100,000,000	99,899,000
United States Agency	FEDERAL FARM CREDIT BANK	3/20/2015	0.19	25,000,000	24,990,256
United States Agency	FEDERAL FARM CREDIT BANK	3/24/2015	0.24	50,000,000	49,962,000
United States Agency	FEDERAL FARM CREDIT BANK	3/26/2015	0.20	25,000,000	24,991,425
United States Agency	FEDERAL FARM CREDIT BANK	3/26/2015	0.21	54,200,000	54,194,363
United States Agency	FEDERAL FARM CREDIT BANK	4/27/2015	0.21	25,000,000	24,995,967
United States Agency	FEDERAL FARM CREDIT BANK	5/1/2015	0.35	48,000,000	48,055,768

<u>Investment Type</u>	<u>Security Name</u>	<u>Legal Maturity Date</u>	<u>Coupon/Discount Rate</u>	<u>Par Value</u>	<u>Original Cost</u>
United States Agency	FEDERAL FARM CREDIT BANK	7/10/2015	0.21	100,000,000	99,962,071
United States Agency	FEDERAL FARM CREDIT BANK	9/18/2015	0.22	75,000,000	74,988,025
United States Agency	FEDERAL FARM CREDIT BANK	9/18/2015	0.22	25,000,000	24,996,992
United States Agency	FEDERAL FARM CREDIT BANK	10/26/2015	0.23	50,000,000	49,971,492
United States Agency	FEDERAL FARM CREDIT BANK	12/10/2015	0.24	15,000,000	15,000,074
United States Agency	FEDERAL FARM CREDIT BANK	5/2/2016	0.22	40,000,000	39,998,000
United States Agency	FEDERAL HOME LOAN BANK	7/1/2013	0.33	1,000,000	1,000,451
United States Agency	FEDERAL HOME LOAN BANK	7/15/2013	1.00	3,000,000	3,004,614
United States Agency	FEDERAL HOME LOAN BANK	8/8/2013	0.22	16,100,000	16,103,481
United States Agency	FEDERAL HOME LOAN BANK	8/13/2013	0.28	10,000,000	10,004,740
United States Agency	FEDERAL HOME LOAN BANK	8/14/2013	5.13	1,675,000	1,687,630
United States Agency	FEDERAL HOME LOAN BANK	8/19/2013	0.12	15,000,000	15,001,155
United States Agency	FEDERAL HOME LOAN BANK	8/22/2013	0.14	25,000,000	25,002,968
United States Agency	FEDERAL HOME LOAN BANK	8/28/2013	0.50	17,985,000	18,000,756
United States Agency	FEDERAL HOME LOAN BANK	9/6/2013	0.25	14,900,000	14,908,068
United States Agency	FEDERAL HOME LOAN BANK	9/6/2013	4.00	8,645,000	8,731,032
United States Agency	FEDERAL HOME LOAN BANK	9/13/2013	1.00	5,905,000	5,918,033
United States Agency	FEDERAL HOME LOAN BANK	9/13/2013	4.38	6,790,000	6,866,954
United States Agency	FEDERAL HOME LOAN BANK	9/13/2013	5.25	4,705,000	4,773,185
United States Agency	FEDERAL HOME LOAN BANK	9/16/2013	4.50	24,365,000	24,660,707
United States Agency	FEDERAL HOME LOAN BANK	10/18/2013	3.63	26,345,000	26,657,064
United States Agency	FEDERAL HOME LOAN BANK	10/25/2013	0.10	10,000,000	9,999,690
United States Agency	FEDERAL HOME LOAN BANK	10/30/2013	0.10	15,000,000	14,999,527
United States Agency	FEDERAL HOME LOAN BANK	11/1/2013	0.10	70,000,000	69,995,800
United States Agency	FEDERAL HOME LOAN BANK	11/27/2013	0.38	50,000,000	49,922,500
United States Agency	FEDERAL HOME LOAN BANK	3/12/2014	1.00	50,000,000	49,999,000
United States Agency	FEDERAL HOME LOAN BANK	4/1/2014	0.17	16,800,000	16,803,024
United States Agency	FEDERAL HOME LOAN BANK	6/17/2016	0.75	100,000,000	100,000,000
United States Agency	FEDERAL HOME LOAN BANK	6/24/2016	0.75	50,000,000	49,995,000
United States Agency	FREDDIE MAC	7/15/2013	4.50	28,341,000	28,462,794
United States Agency	FREDDIE MAC	9/27/2013	4.13	30,200,000	30,722,440
United States Agency	FREDDIE MAC	10/15/2013	0.50	7,060,000	7,071,375
United States Agency	FREDDIE MAC	10/28/2013	0.88	5,116,000	5,131,501
United States Agency	FREDDIE MAC	10/30/2013	0.38	9,523,000	9,534,909
United States Agency	FREDDIE MAC	11/15/2013	4.88	12,923,000	13,221,412
United States Agency	FREDDIE MAC	12/23/2013	0.63	5,080,000	5,094,605
United States Agency	FREDDIE MAC	4/2/2014	4.50	20,000,000	22,062,800
United States Agency	FREDDIE MAC	9/25/2015	0.50	43,775,000	43,824,904
United States Agency	FREDDIE MAC DISCOUNT NT	7/1/2013	0.02	99,891,000	99,880,151
United States Agency	FREDDIE MAC DISCOUNT NT	7/2/2013	0.04	1,500,000	1,499,963
United States Agency	FREDDIE MAC DISCOUNT NT	7/8/2013	0.04	28,500,000	28,495,194
United States Agency	FREDDIE MAC DISCOUNT NT	7/9/2013	0.04	17,500,000	17,497,772
United States Agency	FREDDIE MAC DISCOUNT NT	7/15/2013	0.05	32,028,000	32,024,750
United States Agency	FREDDIE MAC DISCOUNT NT	7/16/2013	0.07	10,000,000	9,998,718

<u>Investment Type</u>	<u>Security Name</u>	<u>Legal Maturity Date</u>	<u>Coupon/Discount Rate</u>	<u>Par Value</u>	<u>Original Cost</u>
United States Agency	FREDDIE MAC DISCOUNT NT	7/22/2013	0.05	28,531,000	28,525,709
United States Agency	FREDDIE MAC DISCOUNT NT	7/23/2013	0.06	7,514,000	7,513,549
United States Agency	FREDDIE MAC DISCOUNT NT	7/29/2013	0.06	40,000,000	39,993,394
United States Agency	FREDDIE MAC DISCOUNT NT	8/5/2013	0.08	49,875,000	49,868,606
United States Agency	FREDDIE MAC DISCOUNT NT	8/12/2013	0.07	10,000,000	9,998,281
United States Agency	FREDDIE MAC DISCOUNT NT	8/19/2013	0.06	13,643,000	13,640,824
United States Agency	FREDDIE MAC DISCOUNT NT	8/20/2013	0.08	5,000,000	4,999,367
United States Agency	FREDDIE MAC DISCOUNT NT	8/26/2013	0.08	41,379,000	41,372,859
United States Agency	FREDDIE MAC DISCOUNT NT	8/29/2013	0.09	1,000,000	999,828
United States Agency	FREDDIE MAC DISCOUNT NT	9/9/2013	0.09	20,000,000	19,996,318
United States Agency	FREDDIE MAC DISCOUNT NT	10/1/2013	0.09	3,500,000	3,498,679
United States Agency	TENN VALLEY AUTHORITY	8/1/2013	4.75	2,081,000	2,111,907
United States Agency	TVA DISCOUNT NOTE	7/11/2013	0.09	49,375,000	49,363,379
United States Agency	TVA DISCOUNT NOTE	7/25/2013	0.08	25,000,000	24,995,625
United States Agency	TVA DISCOUNT NOTE	8/1/2013	0.06	1,000,000	999,927
United States Agency	TVA DISCOUNT NOTE	8/29/2013	0.07	20,000,000	19,997,725
United States Treasury	US TREASURY N/B	3/31/2014	0.25	60,000,000	60,050,000
United States Treasury	US TREASURY N/B	4/30/2014	0.25	75,000,000	75,064,258
United States Treasury	US TREASURY N/B	10/31/2014	0.25	115,000,000	115,008,984
United States Treasury	US TREASURY N/B	4/30/2015	0.13	39,000,000	38,906,758
United States Treasury	US TREASURY N/B	5/31/2015	0.25	255,000,000	254,695,898
United States Treasury	US TREASURY N/B	12/15/2015	0.25	240,000,000	239,187,109
United States Treasury	US TREASURY N/B	5/15/2016	0.25	127,000,000	126,162,383

TAB 6 – OREGON INTERMEDIATE TERM POOL

Oregon Investment Council  
July 31, 2013

**Oregon Intermediate Term Pool  
Annual Review**

Tom Lofton, CFA  
Fixed Income Investment Officer

## Purpose

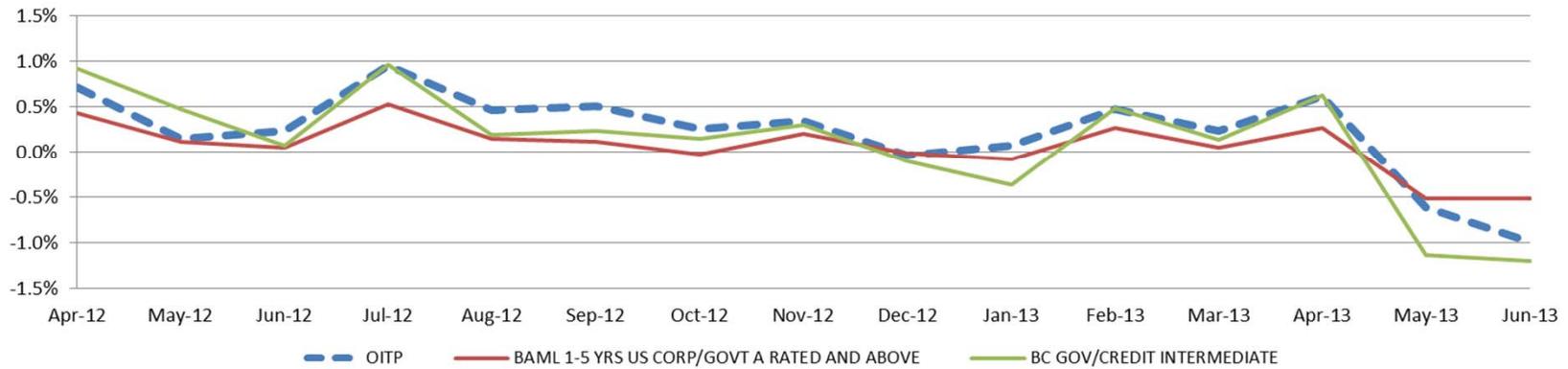
- Provide an update on and annual review of the Oregon Intermediate Term Pool (OITP) portfolio.
- Propose revisions to OITP investment guidelines.

## Notes

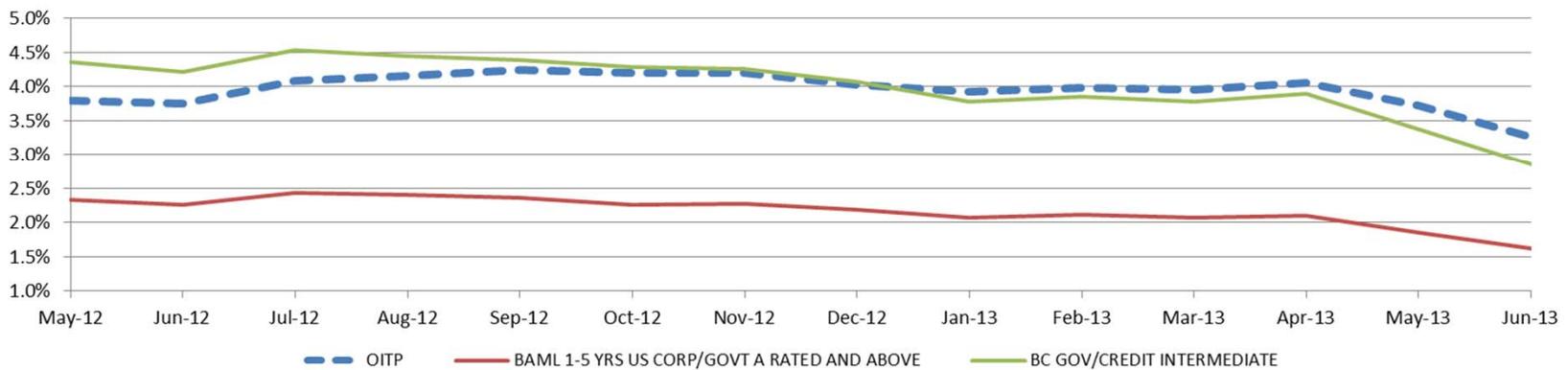
- OITP launched on June 30, 2010.
- Intended as a long-term investment fund for qualified state agencies.
- Total return mandate with fluctuating NAV per share.
- Key investment guidelines:
  - Maximum investment tenor of 10 years;
  - Maximum modified duration of 3.0 years; and
  - Minimum investment grade rating (Baa3/BBB-) on all investments.
- Recent developments:
  - Legislation (HB2140) passed and signed into law allowing local governments investment access to OITP.

# Performance

## Monthly Return



## Cumulative Return



# Characteristics

	Month-End													
	<u>May-12</u>	<u>Jun-12</u>	<u>Jul-12</u>	<u>Aug-12</u>	<u>Sep-12</u>	<u>Oct-12</u>	<u>Nov-12</u>	<u>Dec-12</u>	<u>Jan-13</u>	<u>Feb-13</u>	<u>Mar-13</u>	<u>Apr-13</u>	<u>May-13</u>	<u>Jun-13</u>
<b>Fixed %</b>	75%	75%	79%	74%	75%	80%	69%	69%	68%	71%	80%	72%	78%	77%
<b>Variable %</b>	25%	25%	21%	26%	25%	20%	31%	31%	32%	29%	20%	28%	22%	23%
<b>Duration (Yrs)</b>	2.74	2.77	2.99	2.72	3.00	2.99	2.70	2.82	2.73	2.82	2.89	2.53	2.64	2.63
<b>Yield</b>	1.83%	2.12%	2.22%	2.02%	1.87%	2.01%	1.89%	1.95%	1.89%	1.97%	1.98%	1.88%	2.00%	1.99%
<b>Credit Rating</b>	A1/A+	A1/A+	A2/A	A1/A+	A1/A+	A3/A-	A1/A+	A1/A+	A1/A+	A1/A+	A1/A+	A1/A+	A1/A	A1/A
<b>Corporate %</b>	73%	73%	79%	69%	60%	63%	59%	61%	60%	62%	64%	60%	68%	68%
<b>US Govt %</b>	17%	16%	14%	12%	19%	23%	20%	17%	16%	18%	18%	16%	14%	15%
<b>Municipal %</b>	1%	1%	2%	3%	4%	4%	3%	3%	3%	3%	3%	2%	3%	3%
<b>Sovereign %</b>	4%	6%	6%	5%	4%	5%	1%	3%	2%	2%	2%	2%	2%	2%
<b>M-Mkt/Cash%</b>	5%	4%	0%	11%	12%	5%	17%	16%	19%	14%	13%	19%	13%	12%
<b>NAV/Unit</b>	\$1,062.29	\$1,064.79	\$1,074.94	\$1,080.29	\$1,085.63	\$1,088.38	\$1,092.12	\$1,091.68	\$1,092.55	\$1,097.81	\$1,100.36	\$1,107.12	\$1,100.35	\$1,089.45
<b>Market Value (MM)</b>	\$105.58	\$102.72	\$103.70	\$120.56	\$151.36	\$151.77	\$152.33	\$152.34	\$162.72	\$165.52	\$167.21	\$168.26	\$167.25	\$163.87

## Current Snapshot (as of 7/16/13)

Sector	Market Value	Modified Duration		Yield
	Percent	Years	Contribution	Percent
<b>M-Mkt/Cash</b>	<b>19.0%</b>	<b>0.22</b>	<b>0.04</b>	<b>0.62%</b>
<i>Fixed</i>	10.4%	0.33	0.03	
<i>Variable</i>	8.5%	0.08	0.01	
<b>Govt</b>	<b>13.7%</b>	<b>3.21</b>	<b>0.43</b>	<b>1.34%</b>
<i>Fixed</i>	10.7%	4.13	0.43	
<i>Variable</i>	3.1%	0.06	0.00	
<b>Corporate</b>	<b>65.0%</b>	<b>2.63</b>	<b>1.72</b>	<b>2.32%</b>
<i>Fixed</i>	47.1%	3.60	1.70	
<i>Variable</i>	17.9%	0.12	0.02	
<b>Municipal</b>	<b>2.3%</b>	<b>5.05</b>	<b>0.12</b>	<b>1.16%</b>
<i>Fixed</i>	2.3%	5.05	0.12	
<i>Variable</i>	0.0%	0.00	0.00	
<b>Total</b>	<b>100.0%</b>	<b>2.31</b>	<b>2.31</b>	<b>1.84%</b>
<i>Fixed</i>	70.5%	3.24	2.28	
<i>Variable</i>	29.5%	0.10	0.03	

Industry	Market Value	Modified Duration		Yield
	Percent	Years	Contribution	Percent
Basic Materials	0.3%	7.81	0.02	3.16%
Cash	8.5%	0.08	0.01	0.54%
Communications	2.9%	2.65	0.08	2.15%
Consumer, Cyclical	7.9%	2.91	0.23	2.03%
Consumer, Non-cyclical	4.5%	2.81	0.13	2.16%
Energy	5.0%	0.88	0.04	1.32%
Financial	35.6%	1.82	0.65	2.10%
Government	13.5%	3.21	0.43	1.34%
Industrial	8.1%	3.19	0.26	2.24%
Municipal	2.3%	5.05	0.12	1.16%
Technology	2.5%	0.46	0.01	0.97%
Utilities	9.0%	3.79	0.34	2.64%
<b>Total</b>	<b>100.0%</b>	<b>2.31</b>	<b>2.31</b>	<b>1.84%</b>

Rating	Percent	Mod. Duration	Yield
Average		Years	Percent
AAA	5.4%	4.40	1.48%
AA+	5.5%	2.26	1.42%
AA	12.6%	1.15	0.73%
AA-	6.6%	2.31	1.97%
A+	7.3%	0.95	0.93%
A	8.2%	0.20	0.15%
A-	13.5%	0.91	1.50%
BBB+	15.0%	2.37	2.09%
BBB	15.4%	2.39	2.27%
BBB-	10.6%	4.54	3.03%
<b>Total</b>	<b>100.0%</b>	<b>2.31</b>	<b>1.84%</b>

Top 10 Exposures	Market Value	S&P / Moody's
	Percent	Rating
OSTF	8.5%	AA/Aa2
United States of America	6.7%	AA+/AAA
Federal Home Loan Banks*	5.1%	(AA+/AAA)(AA-/A2)
General Electric Capital	4.1%	AA+/A1
Oncor Electric Delivery	3.0%	A/Baa3
Staples Inc	2.8%	BBB/Baa2
Fifth Third Bancorp	2.7%	BBB+/A3
Zions Bancorporation	2.7%	BBB-/NR
The Southern Co.	2.5%	A-/Baa1
BB&T Corp	2.4%	A-/A2
Newell Rubbermaid Inc	2.4%	BBB-/Baa3

\*OITP has holdings in FHLB Senior (AA+/AAA) and subordinate (AA-/A2) debt.

## Recommendations

- Staff recommends OIC approval of the following revisions to OITP investment guidelines as outlined in policy 4.03.04 (and attached hereto as Appendix A).
  - Allow investments in tax-exempt municipal obligations (taxable muni investments are already permitted).
  - Allow investments in asset-backed (ABS) and mortgage-backed securities (CMBS/MBS).
    - ABS, CMBS and MBS investments are currently permitted and utilized in several state agency separate accounts.
    - Limit MBS investments to U.S. Agency-backed securities.
    - Minimum Triple-A rating for CMBS and ABS.
    - Maximum 5-year weighted average life.
    - Limit portfolio exposure for both ABS and CMBS to 25%.
    - Exclude the following types of MBS and ABS:
      - Alt-A, non-agency, sub-prime, limited documentation or other “sub-prime” residential mortgage pools or related securities;
      - Collateralized debt obligations (CDOs); and
      - Collateralized Loan obligation (CLOs).
  - Change OITP portfolio benchmark to reflect recommended guideline revisions.
    - From: BAML 1-5 Year A-AAA U.S. Corporate & Government Index
    - To: BAML 1-5 Year U.S. Corporate, Government & Mortgage Index

## Appendix A (Part I): Highlighted Revisions to Policy 4.03.04

**OFFICE OF THE STATE TREASURER**  
Policies and Procedures

**Investment Manual**  
Activity Reference: 4.03.04

**FUNCTION:** Intermediate Term Pool Investments  
**ACTIVITY:** Portfolio Rules

**SCOPE:** The Oregon Investment Council (OIC) has, with advice from the Treasurer and Oregon State Treasury (OST) investment staff, adopted a policy and specific rules for investing the Oregon Intermediate Term Pool (“OITP” or “Pool”). The policy and rules are included as sample form A.

**POLICY:** The OITP is expected to provide a total return consistent with an investment grade quality short duration diversified fixed income portfolio. Based upon historical market performance, it is anticipated that returns over extended periods will be greater in the OITP than in shorter maturity alternatives such as the OSTF portfolio.

This OITP is not structured to provide 100% net asset value on each participant’s initial investment at all times. Therefore an investor in OITP may lose money due to changes in market conditions. For consistency with the portfolio’s total return objective, the value of each participant’s investment will be determined on a proportional basis to the net value of the entire portfolio.

**OBJECTIVE:** The investment objective of the OITP is to maximize total return within the desired risk parameters and fixed income investments prescribed in the portfolio guidelines. Investment management emphasis is placed on maximizing investment value and coupon income.

**AUTHORITY:** Subject to the terms and conditions of this policy and under the authority of ORS Chapter 293, the designated Oregon State Treasury (OST) Fixed Income Investment Officer(s) shall have the full discretionary power to direct the investment, exchange, liquidation, and reinvestment of assets in the OITP. The OIC and Oregon State Treasury expects that OST investment staff will recommend changes to these guidelines at any time that they are viewed to be at variance with the investment objectives or market and economic conditions.

### **COMPLIANCE APPLICATION AND PROCEDURES:**

- 1) **Compliance Oversight Committee:** The Compliance oversight Committee is responsible for monitoring the OITP portfolio’s compliance with its Guidelines and working with Fixed Income Investment Staff to ensure that non-compliance is corrected. The oversight committee for the OITP consists of the persons occupying the following positions:
  1. OST Chief Investment Officer;
  2. Deputy State Treasurer; and
  3. OST Assistant Controller.

- 2) **Guideline Compliance Oversight:** The OITP Oversight Committee and designated OST Fixed Income Investment Staff shall receive a Daily Compliance Report produced by the Investment Accounting Division. This report should summarize OITP holdings in sufficient detail to monitor compliance with all guidelines. The Daily Compliance Report should also summarize each Portfolio Guideline as an "Objective," and compare the actual current portfolio to the objectives.
  
- 3) **Correction of Non-Compliance.** If the OITP is found to be out of compliance with one or more adopted portfolio guidelines or is being managed inconsistently with the portfolio's policy, Fixed Income Investment Staff shall bring the portfolio into compliance as soon as is prudently feasible. Actions to bring the portfolio back into compliance; and justification for actions taken to bring the portfolio into compliance shall be documented by Fixed Income Investment Staff.

# **Portfolio Rules**

## **For The**

# **Oregon Intermediate Term Pool**

Amended ~~September 29, 2010~~ July 31, 2013

### **I. Scope**

These rules apply to the investment of cash from all eligible and approved participants of the Oregon Intermediate Term Pool (“OITP”). -These rules are established under the authority of, and shall not supersede, the requirements established under, ORS Chapter 293.

### **II. Investment Objective**

A. The investment objective of the OITP is to maximize total return within risk parameters and fixed income investments prescribed in the portfolio guidelines. Investment management emphasis is placed on maximizing investment value and coupon income.

### **III. Standards of Care**

A. Prudence:- The standard of prudence to be used by investment staff shall be the “prudent investor” standard and shall be applied in the context of managing the OITP as a whole. Pursuant to ORS Chapter 293.726:

- (1) The investment funds shall be invested and the investments of those funds managed as a prudent investor would do, under the circumstances then prevailing and in light of the purposes, terms, distribution requirements and laws governing the Pool.
- (2) The standard stated in subsection (1) of this section requires the exercise of reasonable care, skill and caution, and is to be applied to investments not in isolation but in the context of the investment Pool’s investment portfolio and as a part of an overall investment strategy, which should incorporate risk and return objectives reasonably suitable to the investment Pool.

B. Ethics and Conflicts of Interest: -Staff involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Fixed Income Investment Staff shall, at all times, comply with the State of Oregon Government Standards and Practices code of ethics set forth in ORS 244, as well as all policies of the OST.

- C. Delegation of Authority: -Fixed Income Investment Staff shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with these Portfolio Rules. No person may engage in an investment transaction except as provided under the terms of these Portfolio Rules and the procedures established by OST staff. Senior Fixed Income Investment Officers are jointly responsible for all transactions undertaken, and shall establish a reasonable system of controls to regulate the activities of subordinate employees.

#### **IV. Safekeeping and Custody**

- A. Authorized Financial Dealers and Institutions: -All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply, as appropriate:
- (1) - Audited financial statements;
  - (2) Licensing Representation form provided by OST; and
  - (3) Understanding and acknowledgement of OITP Portfolio Rules located on the Oregon State Treasury's website.
- B. Internal Controls: -Fixed Income Investment Officer(s) and designated Fixed Income Investment staff should jointly collaborate to establish and maintain an adequate internal control structure designed to reasonably protect the assets of the OITP from loss, theft or misuse.
- C. Delivery vs. Payment: - All trades where applicable will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds.
- D. Safekeeping: - Securities will be held by a third-party custodian as evidenced by safekeeping receipts.

## V. Investment Guidelines

1. Eligible Investments: Investments shall be limited to the following:
  - (1) Oregon Short Term Fund;
  - (2) Obligations issued or guaranteed by the United States (~~US~~U.S.) Treasury or by ~~US~~U.S. federal agencies and instrumentalities, including inflation-indexed obligations;
  - (3) Non-~~US~~U.S. Government Securities and their Instrumentalities;
    1. Non-~~US~~U.S. government securities and Instrumentalities must have minimum long-term ratings of AA-, Aa3 or better at the time of purchase and must be rated by at least two Nationally Recognized Statistical Rating Organizations (NRSRO).
  - (4) Certificates of deposit;
  - (5) Bankers acceptances that are eligible for discount at a ~~US~~U.S. Federal Reserve Bank;
  - (6) Corporate debt obligations (e.g., commercial paper, term debt, etc.);
  - (7) Taxable and non-taxable municipal debt securities issued by ~~US~~U.S. states or local governments and their agencies, authorities and ~~other US state government~~-sponsored enterprises;
  - (8) U.S. Agency Mortgage-backed Securities (MBS) which include both pass-through securities and Collateralized Mortgage Obligations (CMO). The weighted average life at purchase shall be 5 years or less.
  - (9) Commercial Mortgage-backed Securities (CMBS) which must be rated triple-A at the time of purchase and have a weighted average life of 5 years or less;
  - (10) Asset-backed securities (ABS) which must be rated triple-A at the time of purchase and have a weighted average life of 5 years or less;
  - ~~(8)~~(11) Repurchase Agreements;
    - i. Maximum maturity will be 180 days.
    - ii. Counterparties must have a minimum Standard & Poor's or Moody's Investor Services credit rating of "AA" or "Aa2" for maturities one year or longer ~~maturities~~-or "A-1" or "P-1" for maturities less than one year ~~maturities~~.
    - iii. Repurchase Agreements must equal no more than 5% of liabilities of the counterparty.
    - iv. No more than 10% of OITP assets shall be placed with the same counterparty for repurchases.
    - v. Counterparty must be either a Primary Dealer as recognized by the Federal Reserve Bank or the Oregon State Treasury's custodial agent as non-primary dealer counterparty.
    - vi. The counterparty must have a signed repurchase agreement.
    - vii. Collateral must be delivered to the Oregon State ~~Treasury's~~Treasury's account at its custodian or to an account established for the Oregon State Treasury pursuant to the terms of the specific Repurchase Agreement in the name of the Oregon State Treasury.

- viii. Collateral for repurchase agreements may be U.S. Treasury or U.S. Agency Senior Unsubordinated securities only.
- ix. The market value of the delivered collateral must be maintained at not less than 102% of the cash invested.

~~(9)~~(12) Reverse Repurchase Agreements:

- i. Maximum maturity will be 180 days.
  - ii. Counterparties must have a minimum Standard & Poor's or Moody's Investor Services credit rating at least equivalent to "AA" or "Aa2" for maturities one year or longer ~~maturities~~ or "A-1" or "P-1" for maturities less than one year ~~maturities~~.
  - iii. Reverse Repurchase Agreements must equal no more than 5% of liabilities of the counterparty.
  - iv. No more than 10% of OITP assets shall be placed with the same counterparty for reverse repurchase agreements.
  - v. Counterparty must be a Primary Dealer as recognized by the Federal Reserve Bank.
  - vi. The counterparty must have a signed reverse repurchase agreement.
  - vii. Acceptable reinvestment vehicles include securities that may otherwise be purchased outright.
  - viii. Securities will be reversed on a fully collateralized basis.
  - ix. Reverse repurchase investments for interest rate arbitrage shall only be done on a matched book basis.
2. Denomination: All securities will be denominated in US\$ only.
3. Form: All securities will be non-convertible to equity.
4. Benchmark: The benchmark for the portfolio is the The BofA Merrill Lynch 1-5 Year ~~AAA-A-US~~U.S. Corporate ~~&~~ Government & Mortgage Index
5. Risk Parameters:
- (1) Credit Risk:
    - i. Investment Rating:  
Unless noted otherwise, securities must be rated investment grade or higher by a ~~nationally recognized statistical rating organization (NRSRO), i.e., Moody's Investor Services; Standard and Poor's Inc. or Fitch,~~ at the time of purchase. If a security is rated by more than one NRSRO, the lowest rating is used to determine eligibility.
    - ii. For newly issued securities, and absent assigned ratings, "expected ratings" may be used as a proxy for actual ratings for not more than 30 business days after the anticipated settlement date.

(2) Diversification:

- i. Assets in the account shall be sufficiently diversified by type and maturity to allow for anticipated withdrawals;
- ii. No more than 3% of the par value of portfolio shall be invested in one security. This restriction does not apply to obligations issued or guaranteed by the ~~United States (US)~~ U.S. Treasury or by ~~US~~ U.S. federal agencies and instrumentalities;
- iii. No more than 5% of the par value of portfolio shall be invested in the securities of one issuer. -This restriction does not apply to obligations issued or guaranteed by the ~~United States (US)~~ U.S. Treasury or by ~~US~~ U.S. federal agencies and instrumentalities;
- iv. No more than 25% of the portfolio shall be invested in the securities of one sector as defined by the Bloomberg Industry Sector Classification. This restriction does not apply to obligations issued or guaranteed by the ~~United States (US)~~ U.S. Treasury or by ~~US~~ U.S. federal agencies and instrumentalities: or to MBS, ABS and CMBS.
- v. No more than 25% of the portfolio may be invested in MBS.
- vi. No more than 25% of the portfolio may be invested in ABS.
- vii. No more than 25% of the portfolio may be invested in CMBS.

(3) Interest-rate Risk:

- i. The ~~portfolio~~ portfolio's modified duration shall not exceed 3.0 years; and
- ii. The maximum maturity on any allowed investment is constrained as follows:
  1. The maximum stated maturity should not be greater than 10.25 years from the date of settlement; ~~unless otherwise noted.~~
  2. For ABS, MBS and CMBS, weighted average life will be used to measure maturity limitations.

(4) Liquidity:

- i. To insure the flexibility necessary to take defensive action when appropriate, positions should be in issues with sufficient float to facilitate, under most market conditions, prompt sale without severe market effect.

(5) Prohibited Investments:

- i. Alt-A, non-agency, sub-prime, limited documentation or other "sub-prime" residential mortgage pools or related securities;
- ii. Collateralized Debt Obligations (CDO); and
- iii. Collateralized Loan Obligations (CLO).

## **VI. Securities Lending for Reinvestment of Cash Collateral**

- A. Acceptable reinvestment vehicles include securities that may otherwise be purchased outright in accordance with the Portfolio Rules for ~~the Oregon Intermediate Term Pool (OITP)~~. Within the securities lending program only, cash collateral may also be reinvested ~~in~~ as follows:
- (1) Maximum of 15% in ~~asset backed securities~~ ABS rated AAA/Aaa, limited to auto loan and credit card issues with an average life of three years or less~~;~~ ;
  - (2) Maximum of 25% in A, or higher, rated corporate floating rate notes with a maximum final maturity of three years, ~~and~~ and fixed rate corporate notes with a maximum final maturity of two years~~;~~ and up to 65% maximum in corporate indebtedness including commercial paper~~;~~ ;
  - (3) Repurchase agreements collateralized by U.S. Treasury or U.S. Government Agency securities with a maximum original maturity of 30 years. ~~—~~ No more than 25% of assets shall be placed with the same counterparty~~;~~ ;
  - (4) All Repurchase Agreements (under the Special Indemnification by State Street clause<sup>1</sup>) must be fully collateralized ~~by collateral,~~ as determined by State Street ~~in its discretion,~~ and limited to the following collateral sources: U.S. Treasuries, U.S. Treasury STRIPS, Federal Agency Obligations, Corporate securities rated A- or higher, ~~Asset Backed Securities~~ ABS rated A- or higher, Agency MBS pass throughs rated AAA, Commercial Paper rated A-1/P-1 or higher~~;~~ ; or any combination thereof.<sup>1</sup> For purposes of calculating average credit quality, current ratings of the indemnifier, State Street Corp, will be used~~;~~ and
  - (5) The target weighted average credit quality shall be < 3.8 by Standard & Poor's or Moody's Investors Services.
- B. Net capital of lending counterparty must be over \$100 million.
- C. Securities will only be loaned on a fully collateralized basis.
- D. Lending counterparty must be a Primary Dealer as recognized by the Federal Reserve Bank, and have a signed master securities lending agreement.

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<sup>1</sup> Special Indemnification of Client By State Street: Notwithstanding any provision herein to the contrary, if the value of the Liquidation Proceeds under Reverse Transactions (entered into between State Street (as agent for the Client) and a counterparty in respect of whom an event of default has occurred under the agreement governing such Reverse Transactions) is less than the cash to be delivered by that counterparty under such Reverse Transactions on the date of close-out of the same, State Street shall indemnify the Client for any such difference. The term "Liquidation Proceeds" means the market value of the securities used to collateralize the Reverse Transaction(s) on the date that State Street takes action with respect to such securities under the applicable agreement. The term "Reverse Transactions" means each transaction entered into between the Client and a counterparty (through the agency of State Street) under the terms of an agreement pursuant to which the counterparty initially transfers securities to the Client and the Client transfers cash to the counterparty. All of such Reverse Transactions will be entered into in connection with the investment of cash Collateral received from Borrowers in connection with Loans hereunder."

- E.- The market value of the delivered collateral must be maintained at not less than 102% of the market value of the securities loaned.
- F. Reverse Repurchase Agreements are prohibited within the securities lending program.
- G. 25% of the reinvestment portfolio must mature within 93 days; but up to 50% of the portfolio may mature in over one year.

## Appendix A (Part II): Revised Policy 4.03.04

**OFFICE OF THE STATE TREASURER**  
Policies and Procedures

**Investment Manual**  
Activity Reference: 4.03.04

**FUNCTION:** Intermediate Term Pool Investments  
**ACTIVITY:** Portfolio Rules

**SCOPE:** The Oregon Investment Council (OIC) has, with advice from the Treasurer and Oregon State Treasury (OST) investment staff, adopted a policy and specific rules for investing the Oregon Intermediate Term Pool (“OITP” or “Pool”). The policy and rules are included as sample form A.

**POLICY:** The OITP is expected to provide a total return consistent with an investment grade quality short duration diversified fixed income portfolio. Based upon historical market performance, it is anticipated that returns over extended periods will be greater in the OITP than in shorter maturity alternatives such as the OSTF portfolio.

This OITP is not structured to provide 100% net asset value on each participant’s initial investment at all times. Therefore an investor in OITP may lose money due to changes in market conditions. For consistency with the portfolio’s total return objective, the value of each participant’s investment will be determined on a proportional basis to the net value of the entire portfolio.

**OBJECTIVE:** The investment objective of the OITP is to maximize total return within the desired risk parameters and fixed income investments prescribed in the portfolio guidelines. Investment management emphasis is placed on maximizing investment value and coupon income.

**AUTHORITY:** Subject to the terms and conditions of this policy and under the authority of ORS Chapter 293, the designated Oregon State Treasury (OST) Fixed Income Investment Officer(s) shall have the full discretionary power to direct the investment, exchange, liquidation, and reinvestment of assets in the OITP. The OIC and Oregon State Treasury expects that OST investment staff will recommend changes to these guidelines at any time that they are viewed to be at variance with the investment objectives or market and economic conditions.

### **COMPLIANCE APPLICATION AND PROCEDURES:**

- 1) **Compliance Oversight Committee:** The Compliance oversight Committee is responsible for monitoring the OITP portfolio’s compliance with its Guidelines and working with Fixed Income Investment Staff to ensure that non-compliance is corrected. The oversight committee for the OITP consists of the persons occupying the following positions:
  1. OST Chief Investment Officer;
  2. Deputy State Treasurer; and
  3. OST Assistant Controller.

- 2) **Guideline Compliance Oversight.** The OITP Oversight Committee and designated OST Fixed Income Investment Staff shall receive a Daily Compliance Report produced by the Investment Accounting Division. This report should summarize OITP holdings in sufficient detail to monitor compliance with all guidelines. The Daily Compliance Report should also summarize each Portfolio Guideline as an "Objective," and compare the actual current portfolio to the objectives.
  
- 3) **Correction of Non-Compliance.** If the OITP is found to be out of compliance with one or more adopted portfolio guidelines or is being managed inconsistently with the portfolio's policy, Fixed Income Investment Staff shall bring the portfolio into compliance as soon as is prudently feasible. Actions to bring the portfolio back into compliance; and justification for actions taken to bring the portfolio into compliance shall be documented by Fixed Income Investment Staff.

# **Portfolio Rules**

## **For The**

# **Oregon Intermediate Term Pool**

**Amended July 31, 2013**

### **I. Scope**

These rules apply to the investment of cash from all eligible and approved participants of the Oregon Intermediate Term Pool (“OITP”). These rules are established under the authority of, and shall not supersede, the requirements established under ORS Chapter 293.

### **II. Investment Objective**

A. The investment objective of the OITP is to maximize total return within risk parameters and fixed income investments prescribed in the portfolio guidelines. Investment management emphasis is placed on maximizing investment value and coupon income.

### **III. Standards of Care**

- A. Prudence: The standard of prudence to be used by investment staff shall be the “prudent investor” standard and shall be applied in the context of managing the OITP as a whole. Pursuant to ORS Chapter 293.726:
- (1) The investment funds shall be invested and the investments of those funds managed as a prudent investor would do, under the circumstances then prevailing and in light of the purposes, terms, distribution requirements and laws governing the Pool.
  - (2) The standard stated in subsection (1) of this section requires the exercise of reasonable care, skill and caution, and is to be applied to investments not in isolation but in the context of the investment Pool’s investment portfolio and as a part of an overall investment strategy, which should incorporate risk and return objectives reasonably suitable to the investment Pool.
- B. Ethics and Conflicts of Interest: Staff involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Fixed Income Investment Staff shall, at all times, comply with the State of Oregon Government Standards and Practices code of ethics set forth in ORS 244, as well as all policies of the OST.

- C. Delegation of Authority: Fixed Income Investment Staff shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with these Portfolio Rules. No person may engage in an investment transaction except as provided under the terms of these Portfolio Rules and the procedures established by OST staff. Senior Fixed Income Investment Officers are jointly responsible for all transactions undertaken, and shall establish a reasonable system of controls to regulate the activities of subordinate employees.

#### **IV. Safekeeping and Custody**

- A. Authorized Financial Dealers and Institutions: All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply, as appropriate:
- (1) Audited financial statements;
  - (2) Licensing Representation form provided by OST; and
  - (3) Understanding and acknowledgement of OITP Portfolio Rules located on the Oregon State Treasury's website.
- B. Internal Controls: Fixed Income Investment Officer(s) and designated Fixed Income Investment staff should jointly collaborate to establish and maintain an adequate internal control structure designed to reasonably protect the assets of the OITP from loss, theft or misuse.
- C. Delivery vs. Payment: All trades where applicable will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds.
- D. Safekeeping: Securities will be held by a third-party custodian as evidenced by safekeeping receipts.

## **V. Investment Guidelines**

1. Eligible Investments: Investments shall be limited to the following:
  - (1) Oregon Short Term Fund;
  - (2) Obligations issued or guaranteed by the United States (U.S.) Treasury or by U.S. federal agencies and instrumentalities, including inflation-indexed obligations;
  - (3) Non-U.S. Government Securities and their Instrumentalities;
    1. Non-U.S. government securities and Instrumentalities must have minimum long-term ratings of AA-, Aa3 or better at the time of purchase and must be rated by at least two Nationally Recognized Statistical Rating Organizations (NRSRO).
  - (4) Certificates of deposit;
  - (5) Bankers acceptances that are eligible for discount at a U.S. Federal Reserve Bank;
  - (6) Corporate debt obligations (e.g., commercial paper, term debt, etc.);
  - (7) Taxable and non-taxable municipal debt securities issued by U.S. states or local governments and their agencies, authorities and sponsored enterprises;
  - (8) U.S. Agency Mortgage-backed Securities (MBS) which include both pass-through securities and Collateralized Mortgage Obligations (CMO). The weighted average life at purchase shall be 5 years or less.
  - (9) Commercial Mortgage-backed Securities (CMBS) which must be rated triple-A at the time of purchase and have a weighted average life of 5 years or less;
  - (10) Asset-backed securities (ABS) which must be rated triple-A at the time of purchase and have a weighted average life of 5 years or less;
  - (11) Repurchase Agreements;
    - i. Maximum maturity will be 180 days.
    - ii. Counterparties must have a minimum Standard & Poor's or Moody's Investor Services credit rating of "AA" or "Aa2" for maturities one year or longer or "A-1" or "P-1" for maturities less than one year.
    - iii. Repurchase Agreements must equal no more than 5% of liabilities of the counterparty.
    - iv. No more than 10% of OITP assets shall be placed with the same counterparty for repurchases.
    - v. Counterparty must be either a Primary Dealer as recognized by the Federal Reserve Bank or the Oregon State Treasury's custodial agent as non-primary dealer counterparty.
    - vi. The counterparty must have a signed repurchase agreement.
    - vii. Collateral must be delivered to the Oregon State Treasury's account at its custodian or to an account established for the Oregon State Treasury pursuant to the terms of the specific Repurchase Agreement in the name of the Oregon State Treasury.
    - viii. Collateral for repurchase agreements may be U.S. Treasury or U.S. Agency Senior Unsubordinated securities only.

- ix. The market value of the delivered collateral must be maintained at not less than 102% of the cash invested.
- (12) Reverse Repurchase Agreements;
  - i. Maximum maturity will be 180 days.
  - ii. Counterparties must have a minimum Standard & Poor's or Moody's Investor Services credit rating at least equivalent to "AA" or "Aa2" for maturities one year or longer or "A-1" or "P-1" for maturities less than one year.
  - iii. Reverse Repurchase Agreements must equal no more than 5% of liabilities of the counterparty.
  - iv. No more than 10% of OITP assets shall be placed with the same counterparty for reverse repurchase agreements.
  - v. Counterparty must be a Primary Dealer as recognized by the Federal Reserve Bank.
  - vi. The counterparty must have a signed reverse repurchase agreement.
  - vii. Acceptable reinvestment vehicles include securities that may otherwise be purchased outright.
  - viii. Securities will be reversed on a fully collateralized basis.
  - ix. Reverse repurchase investments for interest rate arbitrage shall only be done on a matched book basis.
- 2. Denomination: All securities will be denominated in US\$ only.
- 3. Form: All securities will be non-convertible to equity.
- 4. Benchmark: The benchmark for the portfolio is the The BofA Merrill Lynch 1-5 Year U.S. Corporate, Government & Mortgage Index.
- 5. Risk Parameters
  - (1) Credit Risk:
    - i. Investment Rating  
Unless noted otherwise, securities must be rated investment grade or higher by a NRSRO at the time of purchase. If a security is rated by more than one NRSRO, the lowest rating is used to determine eligibility.
    - ii. For newly issued securities, and absent assigned ratings, "expected ratings" may be used as a proxy for actual ratings for not more than 30 business days after the anticipated settlement date.

(2) Diversification:

- i. Assets in the account shall be sufficiently diversified by type and maturity to allow for anticipated withdrawals;
- ii. No more than 3% of the par value of portfolio shall be invested in one security. This restriction does not apply to obligations issued or guaranteed by the U.S. Treasury or by U.S. federal agencies and instrumentalities;
- iii. No more than 5% of the par value of portfolio shall be invested in the securities of one issuer. This restriction does not apply to obligations issued or guaranteed by the U.S. Treasury or by U.S. federal agencies and instrumentalities;
- iv. No more than 25% of the portfolio shall be invested in the securities of one sector as defined by the Bloomberg Industry Sector Classification. This restriction does not apply to obligations issued or guaranteed by the U.S. Treasury or by U.S. federal agencies and instrumentalities or to MBS, ABS and CMBS.
- v. No more than 25% of the portfolio may be invested in MBS.
- vi. No more than 25% of the portfolio may be invested in ABS.
- vii. No more than 25% of the portfolio may be invested in CMBS.

(3) Interest-rate Risk:

- i. The portfolio's modified duration shall not exceed 3.0 years; and
- ii. The maximum maturity on any allowed investment is constrained as follows:
  1. The maximum stated maturity should not be greater than 10.25 years from the date of settlement unless otherwise noted.
  2. For ABS, MBS and CMBS, weighted average life will be used to measure maturity limitations.

(4) Liquidity:

- i. To insure the flexibility necessary to take defensive action when appropriate, positions should be in issues with sufficient float to facilitate, under most market conditions, prompt sale without severe market effect.

(5) Prohibited Investments:

- i. Alt-A, non-agency, sub-prime, limited documentation or other "sub-prime" residential mortgage pools or related securities;
- ii. Collateralized Debt Obligations (CDO); and
- iii. Collateralized Loan Obligations (CLO).

## **VI. Securities Lending for Reinvestment of Cash Collateral**

- A. Acceptable reinvestment vehicles include securities that may otherwise be purchased outright in accordance with the Portfolio Rules for OITP. Within the securities lending program only, cash collateral may also be reinvested as follows:
- (1) Maximum of 15% in ABS rated AAA/Aaa, limited to auto loan and credit card issues with an average life of three years or less;
  - (2) Maximum of 25% in A, or higher, rated corporate floating rate notes with a maximum final maturity of three years, fixed rate corporate notes with a maximum final maturity of two years and up to 65% maximum in corporate indebtedness including commercial paper;
  - (3) Repurchase agreements collateralized by U.S. Treasury or U.S. Government Agency securities with a maximum original maturity of 30 years. No more than 25% of assets shall be placed with the same counterparty;
  - (4) All Repurchase Agreements (under the Special Indemnification by State Street clause<sup>1</sup>) must be fully collateralized as determined by State Street and limited to the following collateral sources: U.S. Treasuries, U.S. Treasury STRIPS, Federal Agency Obligations, Corporate securities rated A- or higher, ABS rated A- or higher, Agency MBS pass throughs rated AAA, Commercial Paper rated A-1/P-1 or higher or any combination thereof.<sup>1</sup> For purposes of calculating average credit quality, current ratings of the indemnifier, State Street Corp, will be used; and
  - (5) The target weighted average credit quality shall be < 3.8 by Standard & Poor's or Moody's Investors Services.
- B. Net capital of lending counterparty must be over \$100 million.
- C. Securities will only be loaned on a fully collateralized basis.
- D. Lending counterparty must be a Primary Dealer as recognized by the Federal Reserve Bank, and have a signed master securities lending agreement.
- E. The market value of the delivered collateral must be maintained at not less than 102% of the market value of the securities loaned.

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<sup>1</sup> Special Indemnification of Client By State Street: Notwithstanding any provision herein to the contrary, if the value of the Liquidation Proceeds under Reverse Transactions (entered into between State Street (as agent for the Client) and a counterparty in respect of whom an event of default has occurred under the agreement governing such Reverse Transactions) is less than the cash to be delivered by that counterparty under such Reverse Transactions on the date of close-out of the same, State Street shall indemnify the Client for any such difference. The term "Liquidation Proceeds" means the market value of the securities used to collateralize the Reverse Transaction(s) on the date that State Street takes action with respect to such securities under the applicable agreement. The term "Reverse Transactions" means each transaction entered into between the Client and a counterparty (through the agency of State Street) under the terms of an agreement pursuant to which the counterparty initially transfers securities to the Client and the Client transfers cash to the counterparty. All of such Reverse Transactions will be entered into in connection with the investment of cash Collateral received from Borrowers in connection with Loans hereunder."

- F. Reverse Repurchase Agreements are prohibited within the securities lending program.
- G. 25% of the reinvestment portfolio must mature within 93 days, but up to 50% of the portfolio may mature in over one year.

TAB 7 – OPERF ASSET ALLOCATION  
IMPLEMENTATION PLAN

**Oregon Investment Council**  
**July 31, 2013**  
**OPERF Fixed Income Portfolio Transition Plan**

**Purpose**

Seek OIC approval for the following: 1) transition plan for the OPERF fixed income portfolio pursuant to updated strategic asset allocation targets as approved at the June 26, 2013 OIC meeting; 2) revisions to policy 4.03.01 to reflect these updated targets; and 3) delegation of transition plan implementation authority to the Chief Investment Officer (and corresponding revisions to policy 4.03.03).

**OPERF Fixed Income Background**

At its June 26, 2013 meeting, the OIC considered and approved an updated strategic asset allocation strategy for OPERF that included the following changes to the OPERF fixed income portfolio:

	Current Target		Recommended Target	
	% OPERF	% Fixed Income	% OPERF	% Fixed Income
U.S. Fixed Income (Core)	15.0%	60.0%	8.0%	40.0%
High Yield	2.5%	10.0%	1.0%	5.0%
Emerging Markets Debt	2.5%	10.0%	0.0%	0.0%
Bank Loans	5.0%	20.0%	3.0%	15.0%
Short Duration / High Quality	0.0%	0.0%	8.0%	40.0%
Total Fixed Income	25.0%	100.0%	20.0%	100.0%

To effect these changes, and as outlined below, staff proposes a one-year transition period with quarterly benchmark revisions:

Transition & Benchmarks	Current		End of 3 months		End of 6 months		End of 9 months		End of Transition		Delta:	
Core Plus	100%: Custom Benchmark <sup>1</sup>		75%: Custom Benchmark		50%: Custom Benchmark		25%: Custom Benchmark		0%: Custom Benchmark			
Core	0%: Barclays US Aggregate		25%: Barclays US Aggregate		50%: Barclays US Aggregate		75%: Barclays US Aggregate		100%: Barclays US Aggregate			
HY/Bank Loans	72% S&P LSTA/28% ML HY II		72% S&P LSTA/28% ML HY II		72% S&P LSTA/28% ML HY II		73% S&P LSTA/27% ML HY II		75% S&P LSTA/25% ML HY II			
Short Dur. High Quality	0%		100% Barclays US 1-3 Yr Government/Credit		% OPERF	% FI						
	% OPERF	% FI	% OPERF	% FI	% OPERF	% FI	% OPERF	% FI	% OPERF	% FI	% OPERF	% FI
Total Fixed Income	22.9%	100.0%	22.9%	100.0%	22.9%	100.0%	22.9%	100.0%	22.9%	100.0%	0.0%	0.0%
Core Plus to Core (ex EMD)	16.8%	73.7%	14.8%	64.9%	13.6%	59.4%	11.6%	50.7%	10.8%	47.2%	-6.0%	-26.4%
Credit Opportunities	6.0%	26.0%	6.0%	26.0%	5.2%	22.8%	5.2%	22.8%	4.0%	17.5%	-2.0%	-8.5%
Short Dur. High Quality	0.0%	0.0%	2.0%	8.7%	4.0%	17.5%	6.0%	26.2%	8.0%	35.0%	8.0%	35.0%

<sup>1</sup> Custom Benchmark = 90% Barclays US Universal/ 10% JP Morgan EMBI Global

Notes:

- Each of the four Core managers will manage a separate account for its share of the Short Duration/High Quality (SD/HQ) allocation.

**Oregon Investment Council**  
**July 31, 2013**  
**OPERF Fixed Income Portfolio Transition Plan**

- The additional 2.8% in the *End of Transition* Core allocation (i.e., relative to the new 8% Core target) is earmarked for cash, asset class rebalancing and/or private market capital calls.
- Staff, with CIO approval, will oversee and execute on all implementation details (e.g., drafting guidelines for the new SD/HQ mandate).

**Recommendations**

- Staff recommends OIC approve the above-described transition plan for the OPERF fixed income portfolio.
- Staff recommends OIC approve corresponding revisions to policy 4.03.01, subject to final revisions presented at a subsequent OIC meeting.
- Staff recommends OIC approve the delegation of implementation authority to the CIO with corresponding revisions to policy 4.03.03.

**FUNCTION: Fixed Income Investments****ACTIVITY: Strategic Role of Fixed Income for OPERF**

**POLICY:** Fixed income investment should comprise 20% to 30% of OPERF's total assets, subject to the specific strategic target allocations established by the OIC.

**A. PROCEDURES:****PURPOSE**

The purpose of these Fixed Income Investment Policies & Strategies is to define the strategic role of fixed income as an asset class within the Investment Council's general investment policies for the Oregon Employees Retirement Fund (OPERF), to set forth specific short-term and long-term policy objectives for this segment of OPERF's investment portfolio, and to outline the strategies for implementing the Investment Council's fixed income investment policies.

**STRATEGIC ROLE**

The purpose of fixed income investments is to provide diversification to equity securities, through lower expected return and volatility and a low correlation to equities. Fixed income investment should comprise ~~20%~~15% to ~~30%~~25% of OPERF's total assets.

**B. POLICY OBJECTIVES**

1. To achieve a portfolio return of **75** basis points or more above the custom policy benchmark, consisting of ~~60~~40% Barclays Capital U.S. ~~Universal Aggregate~~ Bond Index, ~~10% JP Morgan Emerging Markets Bond Index Global, 2015%~~ S&P/LSTA Leveraged Loan Index, ~~and 10%~~5% Bank of America Merrill Lynch High Yield Master II Index, ~~and 40%~~ Barclays Capital U.S. 1-3 Year Government/Credit Bond Index over a market cycle of three to five years on a net-of-fee basis. The portfolio is also expected to achieve top quartile peer group performance. Peer group shall consist of public and corporate funds with total assets greater than \$1 billion. **(HIGHLIGHTS NEED FURTHER DISCUSSION)**
2. To control portfolio risk, as measured by standard deviation of returns, to the level of the custom benchmark or less through diversification of investment approaches.

**C. STRATEGIES**

1. Maintain a well-diversified bond portfolio, managed to maximize total return, that reflects the overall characteristics of the custom benchmark.

2. Maintain an average bond duration level of +/-20% of the benchmark duration.
3. Invest opportunistically, using innovative investment approaches within a controlled and defined portfolio allocation.
4. Active investment managers are expected to outperform stated benchmarks on an after-fee, risk adjusted basis, over a market cycle of three to five years.
5. The Investment Council's selection of active managers will be based upon demonstrated expertise. Active managers will be selected for their demonstrated ability to add value, over a passive management alternative and within reasonable risk parameters.

**D. PERMITTED HOLDINGS**

The following fixed income securities, individually or in commingled vehicles, may be held outright and under resale agreement:

1. Obligations issued or guaranteed by the U.S. Federal Government, U.S. Federal agencies or U.S. government-sponsored corporations and agencies.
2. Obligations of U.S. and non-U.S. corporations such as convertible and non-convertible notes and debentures, preferred stocks, commercial paper, certificates of deposit and bankers acceptances issued by industrial, utility, finance, commercial banking or bank holding company organizations, bank loans, common stock received in connection with the restructuring of corporate debt.
3. Mortgage-backed, asset-backed securities and structured securities.
4. Obligations, including the securities of emerging market issuers, denominated in U.S. dollars or foreign currencies of international agencies, supranational entities and foreign governments (or their subdivisions or agencies), as well as foreign currency exchange-related securities, warrants and forward contracts.
5. Obligations issued or guaranteed by U.S. local, city and state governments and agencies.
6. Securities defined under Rule 144A and Commercial Paper defined under Section 4(2) of the Securities Act of 1933.
7. Yankee Bonds (dollar denominated sovereign and corporate debt).
8. Derivatives including futures, swaps and options contracts.
9. Securities eligible for the Short-Term Investment Fund (OSTF).

**E. DIVERSIFICATION:**

The portfolio should be adequately diversified to minimize various risks. The following specific limitations reflect, in part, the OIC's current investment philosophy regarding diversification:

1. Obligations issued or guaranteed by the US government, US agencies or government sponsored enterprises are eligible, without limit.
2. Obligations of other national governments are limited to 10% per issuer.
3. Private mortgage-backed and asset-backed securities are limited to 10% per issuer, unless the collateral is credit-independent of the issuer and the security's credit enhancement is generated internally, in which case the limit is 25% per issuer.
4. Obligations of other issuers are subject to a 3% per issuer limit excluding investments in commingled vehicles.
5. Not more than 25% of the portfolio may be invested in non-dollar denominated securities.
6. Not more than ~~35~~25% of the portfolio will be below investment grade (below Baa3/BBB-).
7. No more than 5% of the portfolio will be invested in original futures or swaps margin and option premiums, exclusive of any in-the-money portion of the premiums. Short (sold) options positions will generally be hedged with cash, cash equivalents, current portfolio security holdings, or other options or future positions.

**F. ABSOLUTE RESTRICTIONS:**

Investments in the following are prohibited:

1. Short sales of securities.
2. Margin purchases or other use of lending or borrowing money or leverage to create positions greater than 100% of the market value of assets under management.
3. Commodities or common stocks, unless common stock shares are received due to a restructuring, then shares will be liquidated at the manager's discretion.
4. Securities of the existing investment manager, its parents, custodians or subsidiaries.

**SAMPLE FORMS, DOCUMENTS, OR REPORTS:**

None

**FUNCTION:** Fixed Income Investments  
**ACTIVITY:** Investment Manager Selection, Monitoring & Termination

**POLICY:** The performance of the external fixed income investment managers shall be reviewed, at least quarterly, by Office of the State Treasurer (OST) staff. The Oregon Investment Council may terminate “at will” any investment manager in its employ according to the terms of its contract.

**PROCEDURES:**

1. **Selection of Fixed Income Investment Managers**

The selection of a fixed income investment manager is the decision of the Oregon Investment Council, and is made subject to the research and recommendations of OST staff. Consultants may be used to assist in evaluating prospective fixed income investment managers, ~~but however,~~ the OIC ~~will may~~ not delegate its policy or decision-making responsibilities to consultants or others. The OIC may, however, delegate authority for policy implementation to the Chief Investment Officer.

2. **Reports Received From Fixed Income Investment Managers**

The fixed income investment managers shall provide activity and performance reports, at least quarterly, to the consultant and OST staff. Performance reports shall comply with Global Investment Performance Standards (GIPS) established by the CFA Institute.

3. **Performance and Termination of Fixed Income Investment Managers**

The fixed income portfolio benchmark is to provide a return in excess of the agreed-upon index (see manager IMA’s), over a market cycle of three to five years on a net-of-fee basis.

OST staff shall evaluate, at least quarterly, the performance of each fixed income investment manager including contract compliance and consistency of strategy. Termination is the decision of the Oregon Investment Council. The OIC may terminate "at will" any investment manager according to the terms of the contractual relationship and as discussed further below.

4. **General Oversight of Investment Management Firm Performance**

All performance calculations shall be provided by an independent third party (e.g., the custodian). Managers shall reconcile performance returns as calculated by this third party on a monthly basis.

Investment Division staff members shall visit each fixed income investment manager on-site at least every 12 months, unless the Senior Investment Officer and the Chief Investment Officer concur, and document, that an on-site visit is not necessary, or will be extended. The site visit schedule may be amended throughout the year based on various changes, including changes to the investment manager's organization structure or portfolio managers, significant unexplained changes in performance, or negative publicity related to the investment manager. OIC members are encouraged to visit managers when convenient.

5. **Termination of Firms**

- A. Method of Advance Notice. The Oregon Investment Council, after having made a decision to terminate its contract with an investment management firm, terminates the firm effective upon the decision.
  
- B. Redistribution and/or Liquidation of Holdings. Immediately following a termination action by the Council, the Senior Fixed Income Investment Officer shall contact the terminated firm, in writing, and instruct them to suspend trading activity within the portfolio. Unless directed otherwise by the OIC, OST staff shall proceed with implementing a liquidation plan that may include redistributing securities to the Fund's other investment management firms, or hiring a new investment manager to liquidate the holdings.

**SAMPLE FORMS, DOCUMENTS, OR REPORTS (Attached):**

None

**TAB 8 – ASSET ALLOCATIONS & NAV UPDATES**

### Asset Allocations at June 30, 2013

Regular Account								Variable Fund	Total Fund
OPERF	Policy	Target	\$ Thousands	Pre-Overlay	Overlay	Net Position	Actual	\$ Thousands	\$ Thousands
Public Equity	38-48%	43%	23,549,489	37.8%	(40,977)	23,508,512	37.7%	756,528	24,265,040
Private Equity	12-20%	16%	14,096,731	22.6%		14,096,731	22.6%		14,096,731
<b>Total Equity</b>	<b>54-64%</b>	<b>59%</b>	<b>37,646,220</b>	<b>60.4%</b>	<b>(40,977)</b>	<b>37,605,243</b>	<b>60.4%</b>		<b>38,361,771</b>
Opportunity Portfolio			820,042	1.3%		820,042	1.3%		820,042
<b>Fixed Income</b>	<b>20-30%</b>	<b>25%</b>	<b>14,010,281</b>	<b>22.5%</b>	<b>1,696,273</b>	<b>15,706,554</b>	<b>25.2%</b>		<b>15,706,554</b>
<b>Real Estate</b>	<b>8-14%</b>	<b>11%</b>	<b>7,519,869</b>	<b>12.1%</b>	<b>(5,400)</b>	<b>7,514,469</b>	<b>12.1%</b>		<b>7,514,469</b>
<b>Alternative Investments</b>	<b>0-8%</b>	<b>5%</b>	<b>616,553</b>	<b>1.0%</b>		<b>616,553</b>	<b>1.0%</b>		<b>616,553</b>
<b>Cash*</b>	<b>0-3%</b>	<b>0%</b>	<b>1,671,183</b>	<b>2.7%</b>	<b>(1,649,896)</b>	<b>21,287</b>	<b>0.0%</b>	12,292	<b>33,579</b>
<b>TOTAL OPERF</b>		<b>100%</b>	<b>\$ 62,284,148</b>	<b>100.0%</b>	<b>\$ -</b>	<b>\$ 62,284,148</b>	<b>100.0%</b>	<b>\$ 768,820</b>	<b>\$ 63,052,968</b>

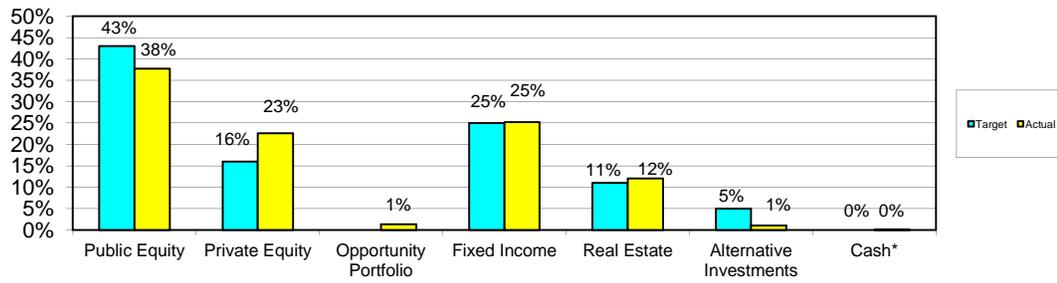
\*Includes cash held in the policy implementation overlay program.

SAIF	Policy	Target	\$ Thousands	Actual
<b>Total Equity</b>	<b>7-13%</b>	<b>10.0%</b>	<b>471,744</b>	<b>10.8%</b>
<b>Fixed Income</b>	<b>87-93%</b>	<b>90.0%</b>	<b>3,857,778</b>	<b>88.6%</b>
<b>Cash</b>	<b>0-3%</b>	<b>0%</b>	<b>26,153</b>	<b>0.6%</b>
<b>TOTAL SAIF</b>		<b>100%</b>	<b>\$4,355,675</b>	<b>100.0%</b>

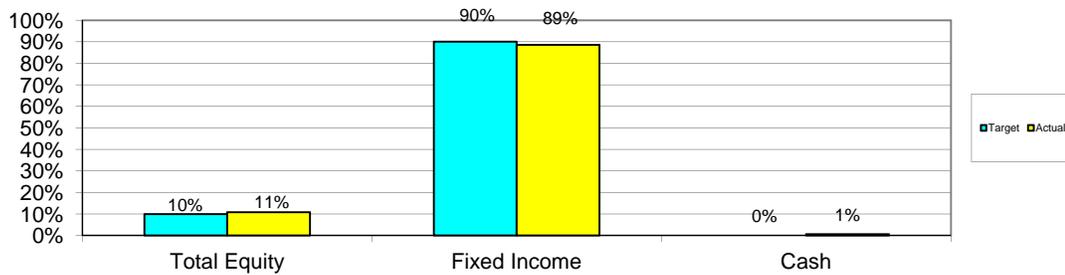
CSF	Policy	Target	\$ Thousands	Actual
Domestic Equities	25-35%	30%	\$388,115	32.1%
International Equities	25-35%	30%	366,710	30.4%
Private Equity	0-12%	10%	122,121	10.1%
<b>Total Equity</b>	<b>65-75%</b>	<b>70%</b>	<b>876,946</b>	<b>72.6%</b>
<b>Fixed Income</b>	<b>25-35%</b>	<b>30%</b>	<b>316,842</b>	<b>26.2%</b>
<b>Cash</b>	<b>0-3%</b>	<b>0%</b>	<b>13,620</b>	<b>1.1%</b>
<b>TOTAL CSF</b>			<b>\$1,207,408</b>	<b>100.0%</b>

HIED	Policy	Target	\$ Thousands	Actual
Domestic Equities	20-30%	25%	\$20,019	28.7%
International Equities	20-30%	25%	17,599	25.2%
Private Equity	0-15%	10%	6,226	8.9%
<b>Growth Assets</b>	<b>50-75%</b>	<b>60%</b>	<b>43,844</b>	<b>62.8%</b>
Real Estate	0-10%	7.5%	4,988	7.1%
TIPS	0-10%	7.5%	4,425	6.3%
<b>Inflation Hedging</b>	<b>7-20%</b>	<b>15%</b>	<b>9,413</b>	<b>13.5%</b>
Fixed Income	20-30%	25%	15,324	22.0%
Cash	0-3%	0%	1,197	1.7%
<b>Diversifying Assets</b>	<b>20-30 %</b>	<b>25%</b>	<b>16,521</b>	<b>23.7%</b>
<b>TOTAL HIED</b>			<b>\$69,778</b>	<b>100.0%</b>

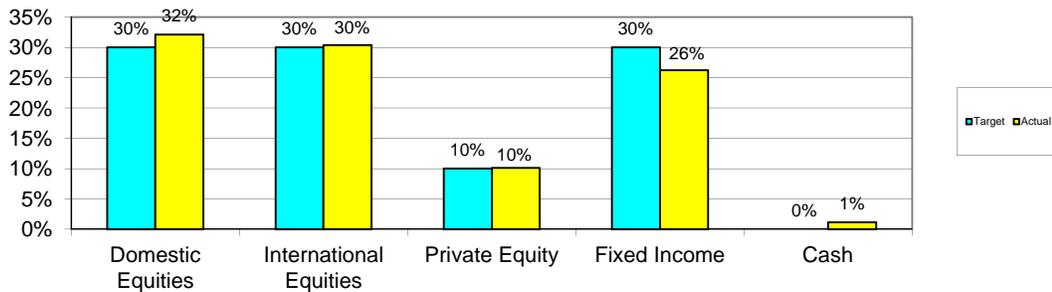
### OPERF Asset Allocation



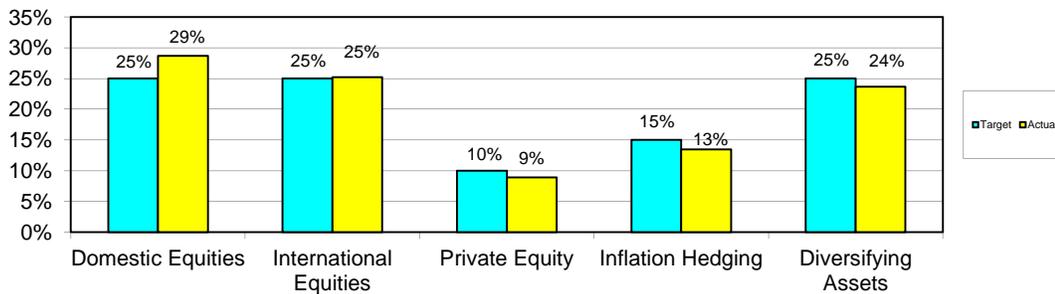
### SAIF Asset Allocation



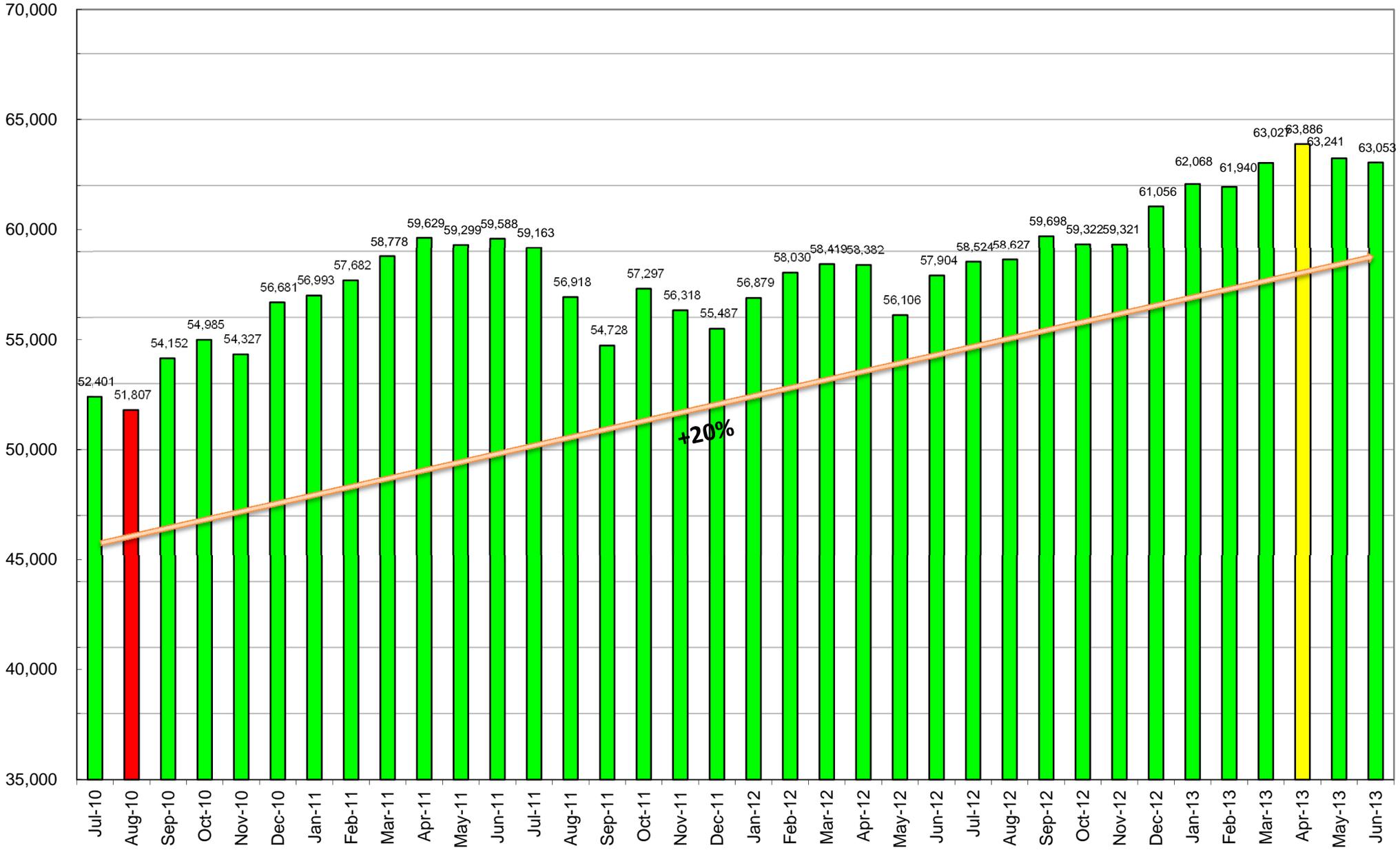
### CSF Asset Allocation



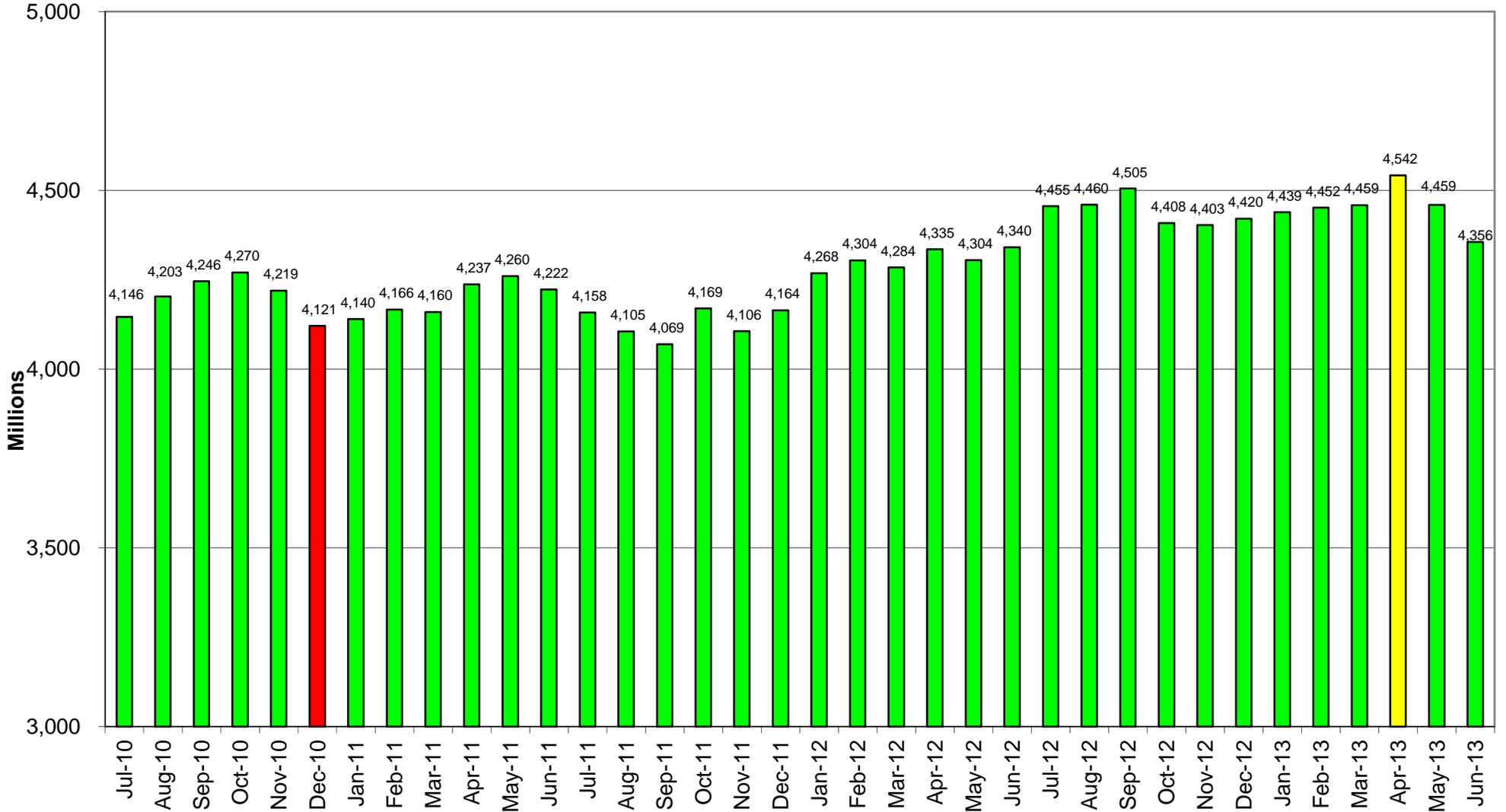
### HIED Asset Allocation



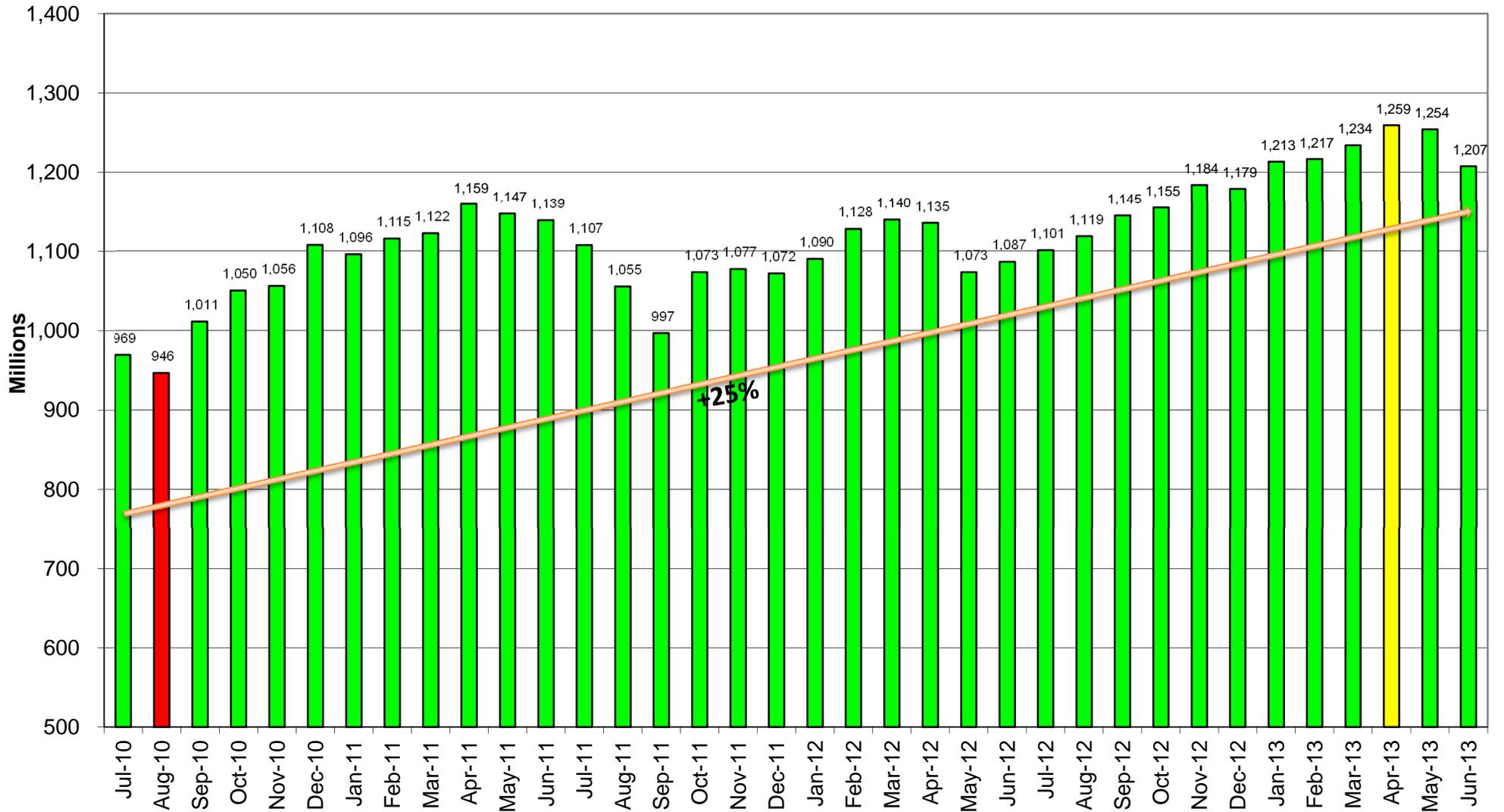
**OPERF NAV**  
**Three years ending June 2013**  
**(\$ in Millions)**



**SAIF NAV**  
**Three years ending June 2013**  
**(\$ in Millions)**



**CSF NAV**  
**Three years ending June 2013**  
**(\$ in Millions)**



TAB 9 – CALENDAR – FUTURE AGENDA ITEMS

## **2013 OIC Forward Agenda Topics**

- September 25:** OPERF Real Estate Review  
OPERF Public Equity Review  
SAIF Policy Updates  
Investment Beliefs Project
- October 30:** Common School Fund Review  
CEM Benchmarking Report  
Annual OIC Policy Review & Update  
Internal Audit Report
- December 10:** OPERF Opportunity Portfolio Review  
OIC General Consultant Recommendation  
HIED Annual Review  
OPERF 3<sup>rd</sup> Quarter Performance Review