Oregon Investment Council

April 28, 2010 - 9:00 AM

PERS Headquarters
11410 S.W. 68th Parkway
Tigard, OR 97223

Oregon Investment Council

Harry Demorest
Chair

Office of The State Treasurer
Ted Wheeler
State Treasurer

Ronald Schmitz
Chief Investment Officer

OREGON INVESTMENT COUNCIL

2010 Meeting Schedule

Meetings Begin at 9:00 am
at
PERS Headquarters Building
11410 SW 68th Parkway
Tigard, OR 97223

January 27, 2010

February 24, 2010

April 28, 2010

May 26, 2010

July 28, 2010

September 29, 2010

October 27, 2010

December 1, 2010

OREGON INVESTMENT COUNCIL

Agenda

April 28, 2010
9:00 AM

PERS Headquarters
11410 S.W. 68th Parkway
Tigard, Oregon

Time	A. Action Items	Presenter	Tab
9:00-9:05	**1. Review & Approval of Minutes** February 24, 2010 Regular Meeting April 8, 2010 Special Meeting	**Ron Schmitz** *Chief Investment Officer*	**1**
9:05-10:05	**2. OPERF Asset Liability Study**	**Mike Beasley** **John Meier** *Strategic Investment Solutions*	**2**
10:05-10:20	**3. Oaktree Capital Management** *OPERF & CSF Private Equity*	**Jay Fewel** *Senior Investment Officer* **David Fann** *Pacific Corporate Group*	**3**
10:20-10:30	**---------------------BREAK----------------------**		
10:30-11:15	**4. Aquiline Capital Partners, LP** *OPERF Private Equity*	**Jay Fewel** **David Fann** **Jeff Greenberg** *Chief Executive Officer* **Geoff Kalish** *Founder & Principal*	**4**
11:15-12:00	**5. Vornado Capital Partners LP** *OPERF Value Add Real Estate*	**Brad Child** *Senior Investment Officer* **Nori Lietz** *Partners Group* **Michael Fascitelli** *President and CEO*	**5**
12:00-12:15	**---------------------LUNCH BREAK----------------------**		

12:15-12:30	**6. Oregon Short-Term Fund** *Annual Review & Policy Updates*	**Perrin Lim** *Senior Investment Officer*	**6**
12:30-1:00	**7. OST Intermediate Term Bond Fund**	**Perrin Lim** **Tom Lofton** *Fixed Income Investment Officer*	**7**
1:00-1:15	**8. OIC Annual Policy Updates**	**Mike Mueller** *Deputy Chief Investment Officer*	**8**
	B. Information Items		
1:15-1:30	**9. Litigation Update – Executive Session** *Executive session is being held pursuant to ORS 192.660(2)(h)*	**Fred Boss** *Chief Counsel, Civil Enforcement*	**9**
1:30-1:45	**10. Asset Allocations & NAV Updates** a. Oregon Public Employees Retirement Fund b. SAIF Corporation c. Common School Fund d. HIED Pooled Endowment Fund	**Ron Schmitz**	**10**
	11. Calendar—Future Agenda Items	**Ron Schmitz**	**11**
	12. Other Items	**Council** **Staff** **Consultants**	
	C. Public Comment Invited 15 Minutes		

TAB 1 – REVIEW & APPROVAL OF MINUTES

February 24, 2010 Regular Meeting

April 8, 2010 Special Meeting

RONALD D. SCHMITZ
CHIEF INVESTMENT OFFICER
INVESTMENT DIVISION

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STATE OF OREGON
OFFICE OF THE STATE TREASURER
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OREGON INVESTMENT COUNCIL
FEBRUARY 24, 2010
MEETING MINUTES

Members Present:	Paul Cleary, Harry Demorest, Katy Durant, Keith Larson, Dick Solomon
Member on Phone:	Ben Westlund
Staff Present:	Andrea Belz, Darren Bond, Jay Fewel, Wendy Finley, Sam Green, Norma Harvey, John Hershey, Brooks Hogle, Julie Jackson, Martha Kellams, Jeff Keto, Perrin Lim, Tom Lofton, Ben Mahon, Mike Mueller, Kevin Nordhill, Jen Peet, Ron Schmitz, James Sinks, James Spencer, Michael Viteri
Consultants Present:	Allan Emkin, John Linder and Mike Moy (PCA), Mike Beasley and John Meier (SIS), David Fann and Sundeep Rana (PCG)
Legal Counsel Present:	Dee Carlson, Oregon Department of Justice Deena Bothello, Oregon Department of Justice

The OIC meeting was called to order at 9:00 am by Harry Demorest, Chair.

<u>I. 9:00 a.m.: Review and Approval of Minutes</u>

MOTION: Mr. Demorest brought approval of the January 27, 2010 OIC minutes to the table. Mr. Solomon moved to approve the minutes. The motion was seconded by Ms. Durant and passed by a vote of 4/0 (Treasurer Westlund was not present for the vote).

<u>VIII. 9:02 a.m.: Asset/Liability Study Return Assumptions *(*taken out of order)*</u>

Mike Beasley and John Meier of Strategic Investment Solutions (SIS) gave a brief overview of the process that will be used for determining the risk and return assumptions to be used in the upcoming asset/liability study. This was an informational topic only. There was a brief question and answer period following the presentation. SIS will come back to the Council and give a full report at the April 28 meeting. Three specific areas that will be modeled are correlations, risk, and returns and moving from standard to custom scenario analysis.

IIA. 9:15 a.m.: Public Equity Review

Kevin Nordhill, Senior Investment Officer, Michael Viteri and Ben Mahon, Investment Officers and John Meier with SIS provided an introduction and overview of the current state of the Public Equity portfolio and made a number of recommendations.
Some of the objectives and strategies included in OIC policy for Public Equity include:

- Generate 75 basis points of excess return above the MSCI ACWI IMI (net) index over a market cycle of three to five years, on a net of fee basis.
- Manage active risk to a targeted tracking error of 1.0 to 2.5 percent, relative to the MSCI ACWI IMI.
- Target for active/passive management: 80 percent/20 percent.
- Maintain a Small Cap overweight target of 100 percent to the Russell 3000 Index, with the belief that the smaller cap end of the marketplace is less efficient and therefore able to add additional excess return with active management. For this purpose, Small Cap is considered the smallest 2000 companies in the Russell 3000 index.
- Maintain a neutral composite of value and growth investment styles.

Staff made the following recommendations to the Council:

Mandate Specific Recommendations
As part of portfolio structural analysis and continuing manager monitoring efforts, staff made several manager-specific recommendations:

- Split the Alliance Bernstein Global Style Blend mandate into two separate accounts: 1) Global Strategic Value; and 2) Global Research Growth (GRG). Reduce asset levels in the GRG allocation in favor of passive assignments and as a source of cash to meet future OPERF liquidity requirements.
- Authorize staff to manage an internal synthetic Russell 2000 Index portfolio within the guidelines specified in OIC Policy 4.05.03.
- Hire Dimensional Fund Advisors (DFA) for a dedicated Emerging Markets Small Cap strategy to be funded at approximately $100 million, subject to the successful negotiation of the investment management agreement.
- Hire Westwood Global Investors for a dedicated Emerging Markets strategy to be funded at approximately $100 million, subject to the successful negotiation of the investment management agreement.
- Convert the Pyramis Select International strategy to the Pyramis Select International Plus strategy and change the assigned benchmark from the MSCI World ex-U.S. index to the MSCI All-Country World ex-U.S. benchmark, subject to the successful negotiation of the investment management agreement.

Amended OIC Policy Recommendations
Staff also recommended approval of changes to the following OIC policies:

- 4.01.18 – Clarifies rebalancing of assets within asset and sub-asset class ranges.
- 4.05.01 – Increases the target range for passive strategies within Public Equity and eliminates the sub-asset class target ranges which are governed by the MSCI ACWI IMI index structure.
- 4.05.02 – Permits the CIO to add index strategies, as considered necessary, to fill gaps in the Public Equity portfolio, and addresses other housekeeping issues.

- 4.05.03 – Adds performance objectives and constraints for the internal synthetic Russell 2000 mandate (if approved).
- 4.05.10 – Eliminates the requirement to obtain written analysis of all private placements annually.

The small cap effect attribution was performed on the domestic equity portfolio alone.

The Board asked for attribution regarding the historical performance of the domestic equity portfolio, related to the small cap overweight.

The Board asked that the topics of active versus passive managers and manager selection versus asset allocation be added to the agenda, at a future OIC meeting. It was agreed that these were very important topics and need to have more time dedicated to each.

II-B. 9:46 a.m.: Westwood Global Investments

Meg Reynolds and Ted Sullivan from Westwood Global Investments gave an overview of their investment strategy. Westwood's investment philosophy is:

- Long-term outperformance is driven by stock selection.
- Superior stock selection is driven by patient implementation of thorough, bottom-up, fundamental research.
- Research is focused on generation and use of free cash flow.
- A focused portfolio is the result of conviction.

MOTION: Ms. Durant moved to approve both the mandate specific and the OIC policy staff recommendations from agenda item 2A (Public Equities mandate and policy changes). Mr. Solomon seconded the motion. The motion was passed by a vote of 4/0 (Treasurer Westlund was not present for the vote).

III. 10:35 a.m.: Community Bancorp/Sageview Capital – OPERF Private Equity

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

There was a brief question and answer session following the presentation.

Staff recommended a commitment of $100 million to Community Bancorp, LLC subject to satisfactory negotiation of terms and conditions, and completion of the requisite legal documents by DOJ legal counsel working in concert with OST staff.

MOTION: Mr. Solomon moved to conceptually approve the staff recommendation contingent on mutually agreed upon terms being reached. Once that happens, there will be a meeting to approve the final terms. Treasurer Westlund seconded the motion. The motion was passed by a vote of 5/0.

IV. 11:20 a.m.: OPERF Private Equity Plan

Jay Fewel, Senior Investment Officer, and David Fann with Pacific Corporate Group gave a 2009 Private Equity Portfolio review and a 2010 overview.

V. 11:35 a.m.: AQR/CNH Partners Convertible Bond Fund – OPERF Opportunity Portfolio

John Hershey, Alternative Investment Officer, and SIS, recommended redemption of the entire fund because the original market dislocation that prompted the investment has since corrected. As the going forward expected return no longer meets the Opportunity Portfolio's threshold, Staff will work with AQR on an expeditious, but orderly liquidation of the portfolio.

MOTION: Mr. Solomon moved to approve the staff recommendation. Ms. Durant seconded the motion. The motion passed by a vote of 5/0.

VI. 11:36 a.m. Market Update

Jay Crandall, Managing Partner with Oak Hill Capital Partners and Glenn August, President and Senior Partner with Oak Hill Advisors gave a market update specific to Private Equity and Credit Markets.

The Private Equity Industry witnessed many unique events in 2009:
- Impact of FAS 157
- Placement Agent considerations
- Potential increase in industry regulation
- GPs focused on portfolio management
- Ex-post fund size reductions and fee/carry concessions
- LP response to industry evolution – ILPA Guidelines
- Carry tax legislation for GPs

In the presentation, it was stressed that it is time for investors to get back to basics:

- Assessment of opportunities
  - Leveraged loans are modestly undervalued, with a nice inflation hedge given floating rate component.
  - High yield is fairly valued, but still has structural risk and is more vulnerable to economic weakness.
  - Like 1993 and 2004, best opportunities:
    - Event driven investments (in anticipation of refinancings, M&A transactions).
    - Distressed investments – even though in second half of cycle, still interesting opportunities; more complicated; must be hands on.
  - Also, European credit offers interesting opportunities:
    - More prolonged distressed period is anticipated; lag to U.S.
    - Attractive competitive environment, given fewer participants.

VII. 1:15 p.m. Securities Lending Update

Tom Motley, Vice President of State Street Global Advisors and Johnson Shum, Vice President at State Street provided the OIC an update and review of the securities lending program in place for OPERF, OSTF and other state agency funds. This presentation was informational only.

There was a brief question and answer period following the presentation. OIC members requested that staff add the topic of cash collateral reinvestment guidelines as a future agenda topic.

IX. 1:45 p.m. OPERF Fourth Quarter Performance Report (*taken out of order)

Mike Beasley with SIS gave an update on the OPERF 4^{th} Quarter performance and the current market environment.

X. 1:58 p.m.: Asset Allocation and NAV Updates

Mr. Schmitz reviewed the Asset Allocations and NAV's for the period ended January 31, 2009. All asset classes are within their allocation ranges.

XI. 1:59 p.m.: Calendar – Future Agenda Items

Mr. Schmitz highlighted future agenda topics.

XII. 2:00 p.m.: Other Business

There was no other business discussed.

2:00 p.m.: Public Comments

There were no public comments.

The meeting adjourned at 2:00 p.m.

Respectfully submitted,

Julie Jackson

Julie Jackson
Executive Support Specialist

RONALD D. SCHMITZ
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OREGON INVESTMENT COUNCIL
APRIL 8, 2010
MEETING SUMMARY
TELECONFERENCE

Members Present:	Paul Cleary, Harry Demorest, Katy Durant, Keith Larson, Dick Solomon, Ted Wheeler
Staff Present:	Jay Fewel, Sam Green, Andy Hayes, John Hershey, Julie Jackson, Mike Mueller, Jen Peet, Ron Schmitz
Consultants Present:	David Fann and Scott Reinig, PCG
Legal Counsel Present:	Dee Carlson, Oregon Department of Justice Deena Bothello, Oregon Department of Justice

The OIC meeting was called to order at 2:35 pm by Harry Demorest, Chair.

Time	Agenda Item	
2:35 pm	**1a.**	**SAGEVIEW CAPITAL – COMMUNITY BANCORP** During the February 24, 2010 OIC meeting, Staff recommended a commitment of $100 million to Community Bancorp, LLC. Community Bancorp is being formed by Sageview Capital to take advantage of the distressed and undercapitalized nature of many banks in various geographic regions in the United States subject to satisfactory negotiation of terms and conditions, and completion of the requisite legal documents by DOJ legal counsel working in concert with OST staff. Mr. Solomon moved to conceptually approve the staff recommendation until mutually agreed upon terms were reached. Treasurer Westlund seconded the motion. The motion was passed by a vote of 5/0. Today's meeting was held to approve the final terms.
2:40 pm	**1b.**	**Executive Session** The executive session was held pursuant to ORS 192.660(2)(f)(h)(j).
2:45pm		Meeting moved out of Executive Session **MOTION:** Richard Solomon moved to approve the original staff recommendation with the mutually agreed upon updated terms subject to DOJ approval. Katy Durant seconded the motion. The motion passed by a vote of 5/0.
2:46pm		**Meeting Adjourned**

TAB 2 – OPERF ASSET LIABILITY STUDY

OREGON PUBLIC EMPLOYEES RETIREMENT FUND

ASSET/LIABILITY DISCUSSION: PHASE TWO-ASSETS ONLY REVIEW

APRIL 28, 2010

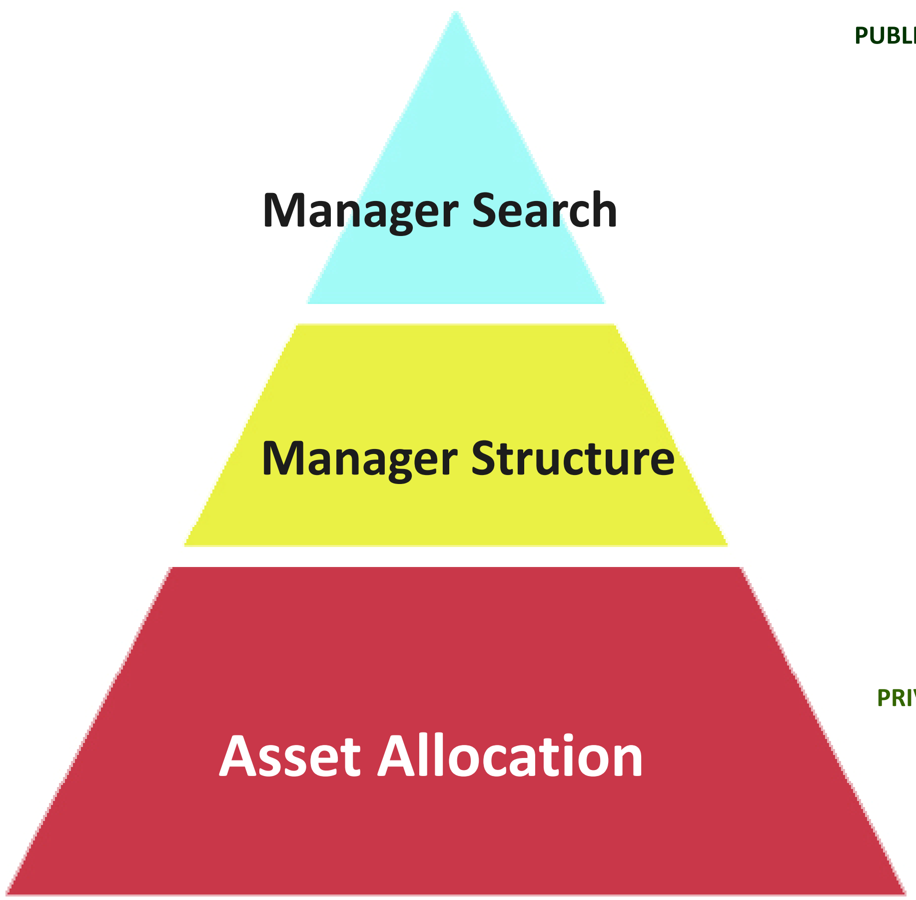
STRATEGIC INVESTMENT SOLUTIONS, INC.

333 Bush Street, Suite 2000
San Francisco, CA 94104
(415) 362-3484

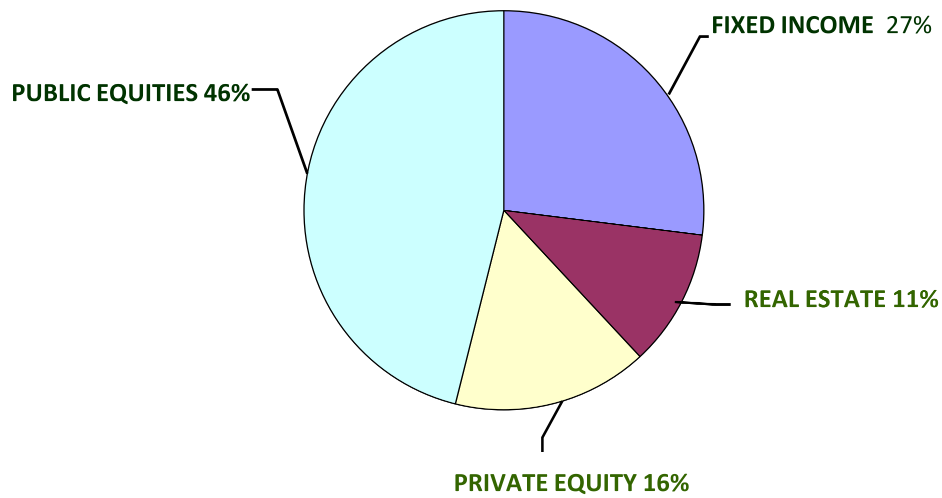
Michael R. Beasley
Managing Director

John P. Meier, CFA
Managing Director

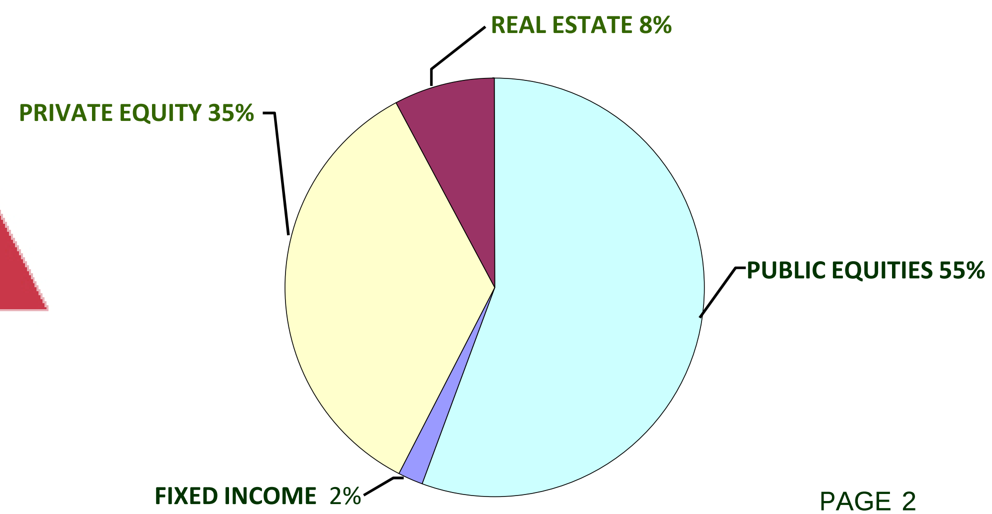
Asset Allocation



Plan's Strategic Policy



Portfolio Risk Allocation – Current Policy



Scenarios

- Current policy benchmark target optimization
- Current policy benchmark target adding TIPs
- Range of policy benchmark targets using custom benchmarks to reflect actual implementation risk adding TIPs and Opportunity Portfolio
- Current policy targets adjusting returns and risks based upon various economic environments

Long Term Benchmark Policy Class Assumptions (March 2010)

	RANGE	EXP. RETURN	EXP. RISK	CURRENT TARGET	1 in 20 Years Poor Return
PUBLIC EQUITY	41-51%	9.0%	17.1%	46%	-15.5%
FIXED INCOME	22-32%	4.3%	4.6%	27%	-2.9%
PRIVATE EQUITY	12-20%	11.0%	35.0%	16%	-31.8%
REAL ESTATE	8-14%	6.5%	15.0%	11%	-16.2%
CASH	0-3%	3.0%	1.3%	0%	-
TOTAL		8.6%	14.2%	100%	-

OPERF Historical Asset Class Performance

	1 Year	3 Year	5 year	7 Year	10 Year
DOMESTIC EQUITIES	32.9	-5.6	0.7	6.5	0.4
RUSSELL 3000	28.3	-5.4	0.8	6.2	-0.2
ALPHA	4.6	-0.2	-0.1	0.3	0.6
INTERNATIONAL EQUITES	41.1	-2.4	0.7	13.3	3.6
MSCI, ACWI,EX-US, IMI	43.6	-3.0	6.3	12.9	3.1
ALPHA	-2.5	0.6	0.7	0.4	0.5
PRIVATE EQUITY	-4.4	3.2	12.9	12.7	8.5
RUSSELL 3000+300 (lag)	-1.0	-1.0	5.4	10.8	5.6
ALPHA	-3.4	4.2	7.5	1.9	2.9
REAL ESTATE	-9.4	-4.8	7.8	10.9	10.9
NCREIF	-22.1	-1.3	6.2	7.3	7.8
ALPHA	12.7	3.5	1.6	3.6	3.1

Current Policy "Benchmark" Expectations

Asset Class	Expected Return	Expected Risk
Public Equity	9.0%	17.1%
Fixed Income	4.2%	4.6%
Private Equity	11.0%	35.0%
Real Estate	6.5%	15.0%

Current Policy Benchmarks-Current Asset Class Optimization

	Current Policy	Mix 1-1	Mix 1-2	Mix 1-3	Mix 1-4	Mix 1-5
Public Equity	46.0%	24.8%	32.8%	41.1%	49.7%	58.8%
Fixed Income	27.0%	50.1%	42.2%	33.9%	25.3%	16.2%
Private Equity	16.0%	15.0%	15.0%	15.0%	15.0%	15.0%
Real Estate	11.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Equity	**73.0%**	**49.9%**	**57.8%**	**66.1%**	**74.7%**	**83.8%**
Expected Return	8.54%	7.50%	7.86%	8.22%	8.59%	8.95%
Std Deviation	14.1%	11.0%	11.9%	13.0%	14.2%	15.5%
Sharpe Ratio	0.39	0.41	0.41	0.40	0.39	0.38
% of Portfolio Risk						
Public Equity	55.6%	38.2%	46.8%	53.9%	59.8%	64.8%
Fixed Income	2.1%	7.6%	5.0%	3.1%	1.9%	0.9%
Private Equity	34.7%	45.0%	39.9%	35.4%	31.5%	28.2%
Real Estate	7.6%	9.3%	8.4%	7.5%	6.8%	6.1%

Current Policy Benchmarks, Add TIPS*

	Current Policy	Mix 2-1	Mix 2-2	Mix 2-3	Mix 2-4	Mix 2-5
Public Equity	46.0%	25.5%	33.5%	41.8%	50.3%	59.3%
Fixed Income	27.0%	22.4%	17.3%	12.1%	7.8%	1.7%
Private Equity	16.0%	15.0%	15.0%	15.0%	15.0%	15.0%
Real Estate	11.0%	10.0%	10.0%	10.0%	10.0%	10.0%
TIPS	0.0%	27.0%	24.3%	21.1%	16.8%	13.9%
Equity	**73.0%**	**50.6%**	**58.5%**	**66.8%**	**75.3%**	**84.3%**
Expected Return	8.54%	7.50%	7.86%	8.23%	8.59%	8.96%
Exp. Std. Dev	14.1%	10.9%	11.9%	13.0%	14.2%	15.5%
Sharpe Ratio	0.39	0.41	0.41	0.40	0.39	0.38
% of Portfolio Risk						
Public Equity	55.6%	39.7%	48.2%	55.0%	60.6%	65.4%
Fixed Income	2.1%	2.8%	1.7%	0.9%	0.5%	0.1%
Private Equity	34.7%	45.4%	40.0%	35.4%	31.5%	28.1%
Real Estate	7.6%	9.7%	8.6%	7.7%	6.9%	6.2%
TIPS	0.0%	2.4%	1.5%	0.9%	0.5%	0.3%

*Expected Return 4% Risk 5%

Current Asset Class "Implementation Assumptions"

Asset Class	Expected Return	Expected Risk
Public Equity	9.0%	17.2%
Fixed Income	4.6%	4.3%
Private Equity	11.0%	35.0%
Real Estate	8.0%	20.0%
TIPS	4.0%	5.0%
Opp Port	8.0%	14.0%

Current Asset Class Implementation, Add TIPS and Opportunity Portfolio

	Current Policy	Mix 3-1	Mix 3-2	Mix 3-3	Mix 3-4	Mix 3-5	Current Mix*
Public Equity	46.0%	13.2%	22.5%	29.3%	38.7%	50.3%	42.9%
Fixed Income	27.0%	41.7%	34.5%	32.6%	25.7%	14.7%	25.7%
Private Equity	16.0%	15.0%	15.0%	15.0%	15.0%	15.0%	19.8%
Real Estate	11.0%	10.0%	10.7%	13.8%	15.0%	15.0%	9.4%
TIPS	0.0%	15.1%	12.4%	4.3%	0.5%	0.0%	0.0%
Opp Port	0.0%	5.0%	5.0%	5.0%	5.0%	5.0%	2.2%
Equity	**73.0%**	**43.2%**	**53.1%**	**63.1%**	**73.7%**	**85.3%**	**74.3%**
Expected Return	8.84%	7.50%	7.93%	8.36%	8.79%	9.23%	9.03%
Std Deviation	14.6%	10.3%	11.4%	12.6%	14.0%	15.5%	15.3%
Sharpe Ratio	0.40	0.44	0.43	0.42	0.41	0.40	0.39
% of Portfolio Risk							
Public Equity	53.7%	21.6%	33.6%	39.3%	46.9%	55.0%	47.3%
Fixed Income	3.3%	10.1%	6.8%	5.4%	3.6%	1.7%	2.9%
Private Equity	32.8%	47.8%	41.3%	35.7%	31.2%	27.3%	40.8%
Real Estate	10.3%	14.9%	13.9%	16.2%	15.6%	13.5%	8.1%
TIPS	0.0%	1.4%	0.8%	0.2%	0.0%	0.0%	0.0%
Opp Port	0.0%	4.1%	3.6%	3.2%	2.8%	2.5%	1.0%

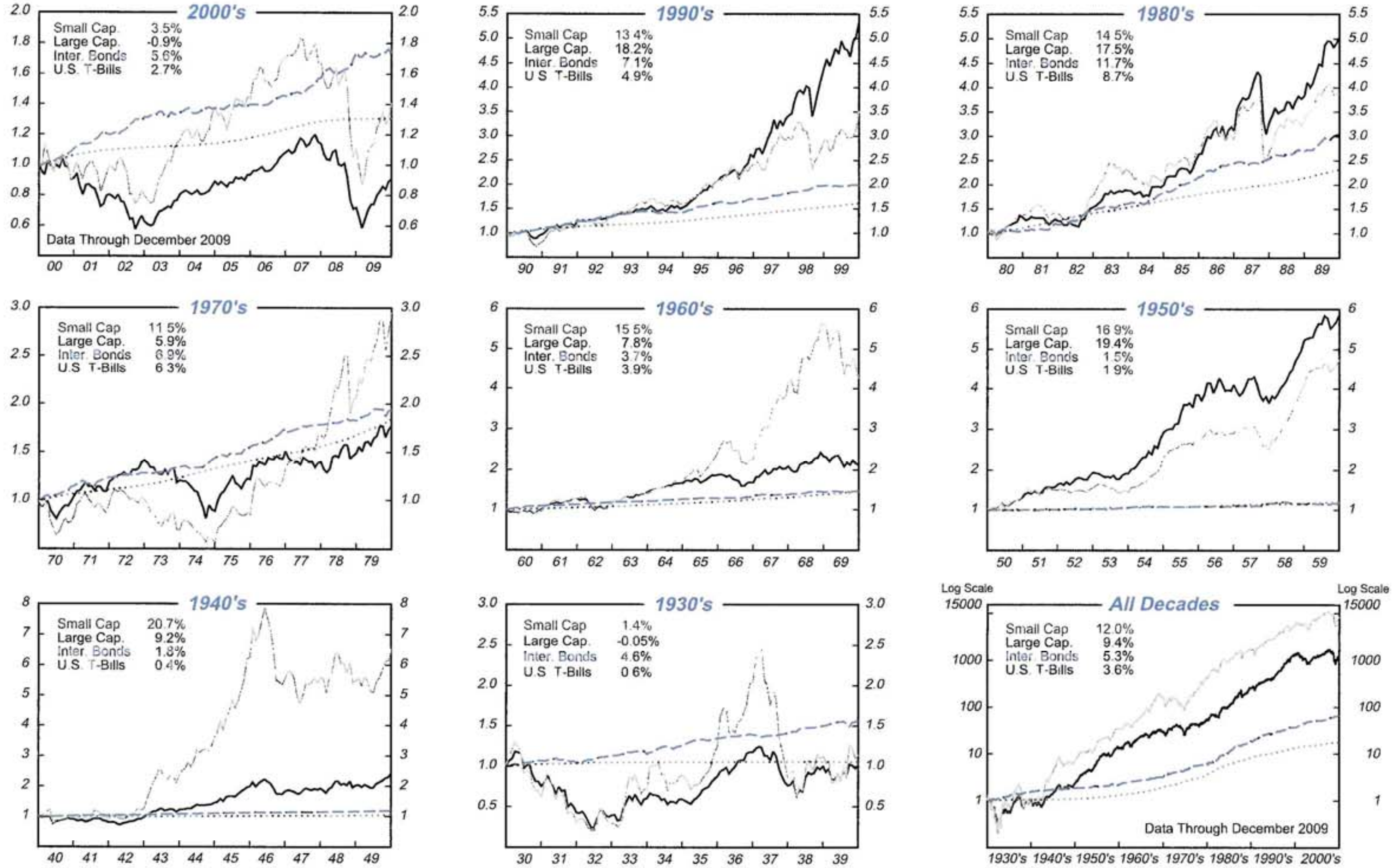
*Actual mix as of 3/31/10

Scenario Analysis Assumptions

- Inflation – Similar to late 1970's and early 1980's market returns
- Deflation- Hypothetical (no "extended" deflation experienced in the US recently)
- Low Return – Market conditions remain similar to now for extended period
- Recession – Similar to 1970's recession market returns

Eight Decades of Wealth Indices

Total Return



Small Capitalization Stocks —— *Large Capitalization Stocks* - - - *Intermediate Government Bonds* ······ *U.S. Treasury Bills*

Data is expressed as a Compound Annual Rate.

The graphs assume $1.00 is invested December 31st of the year prior to the beginning of the decade.

Sources: Standard & Poor's Corporation; Russell Investment Group; Ryan Labs, Inc.; Barclays Capital; Financial Analysts Research Foundation;

The information presented herein was compiled from sources believed to be reliable. It is intended for illustrative purposes only, and is furnished without responsibility for completeness or accuracy. Past performance does not guarantee future results.

Scenario Analysis Returns

ASSET	BASE	INFLATION	DEFLATION	LOW RETURN	RECESSION
US LRG CAP	8.5%	6.5%	4.5%	7.0%	-5.7%
US SML CAP	9.0%	6.5%	4.5%	7.5%	-5.7%
US FIXED	4.0%	5.3%	6.0%	4.0%	6.0%
INTL STOCK	8.5%	9.2%	4.5%	7.0%	-5.7%
EM STOCK	9.2%	9.2%	4.5%	7.5%	-5.7%
INTL FIXED	4.1%	8.0%	6.0%	4.0%	6.0%
REAL EST	6.5%	13.0%	2.0%	6.0%	5.0%
PRIV EQTY	11.0%	8.5%	4.5%	8.0%	-10.0%
HIGH YIELD	6.4%	5.9%	5.2%	5.5%	1.0%
EM DEBT	5.7%	8.0%	6.0%	5.0%	6.0%
TIPS	4.0%	11.0%	1.0%	3.5%	3.5%
BANK LOAN	5.0%	10.0%	2.5%	3.0%	3.0%
OPP PORT	8.0%	8.0%	5.1%	6.5%	-1.7%
CASH	3.0%	9.0%	0.5%	1.0%	1.0%
INFLATION	2.4%	9.0%	0.0%	2.4%	1.9%

Current Asset Class Implementation-Scenario Analysis

	Current Policy	Mix 3-1	Mix 3-2	Mix 3-3	Mix 3-4	Mix 3-5	Current Mix*
Public Equity	46.0%	13.2%	22.5%	29.3%	38.7%	50.3%	42.9%
Fixed Income	27.0%	41.7%	34.5%	32.6%	25.7%	14.7%	25.7%
Private Equity	16.0%	15.0%	15.0%	15.0%	15.0%	15.0%	19.8%
Real Estate	11.0%	10.0%	10.7%	13.8%	15.0%	15.0%	9.4%
TIPS	0.0%	15.1%	12.4%	4.3%	0.5%	0.0%	0.0%
Opp Port	0.0%	5.0%	5.0%	5.0%	5.0%	5.0%	2.2%
Equity	**73.0%**	**43.2%**	**53.1%**	**63.1%**	**73.7%**	**85.3%**	**74.3%**
Scenario Return							
Inflation	9.32	9.46	9.56	9.54	9.60	9.70	9.32
Deflation	5.43	4.98	5.09	5.28	5.34	5.26	5.52
Low Return	7.28	6.22	6.57	6.89	7.22	7.55	7.41
Recession	-0.96	1.92	1.06	0.53	-0.34	-1.47	-1.26

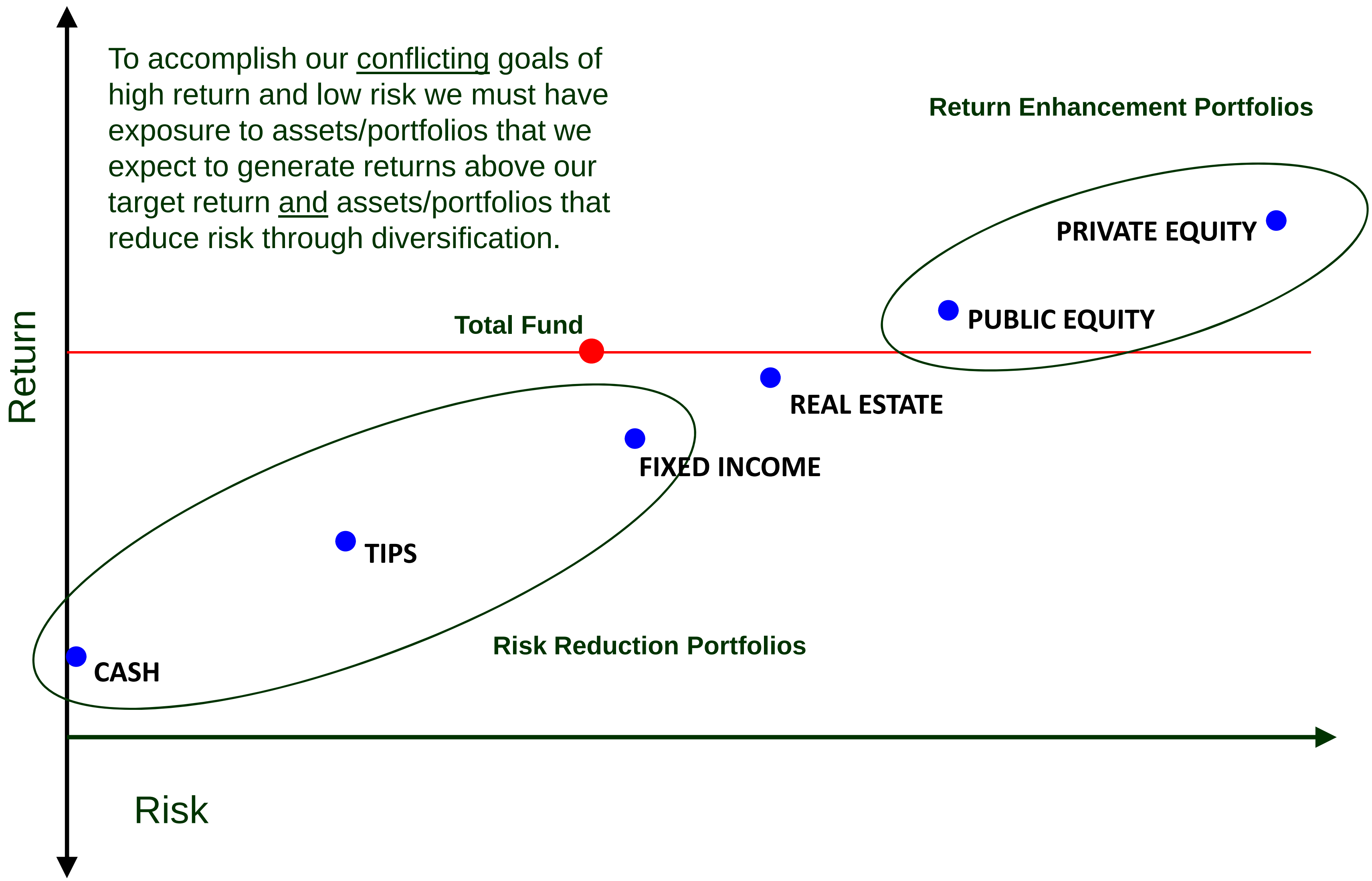
*Actual mix as of 3/31/10

Next Steps – Phase Three

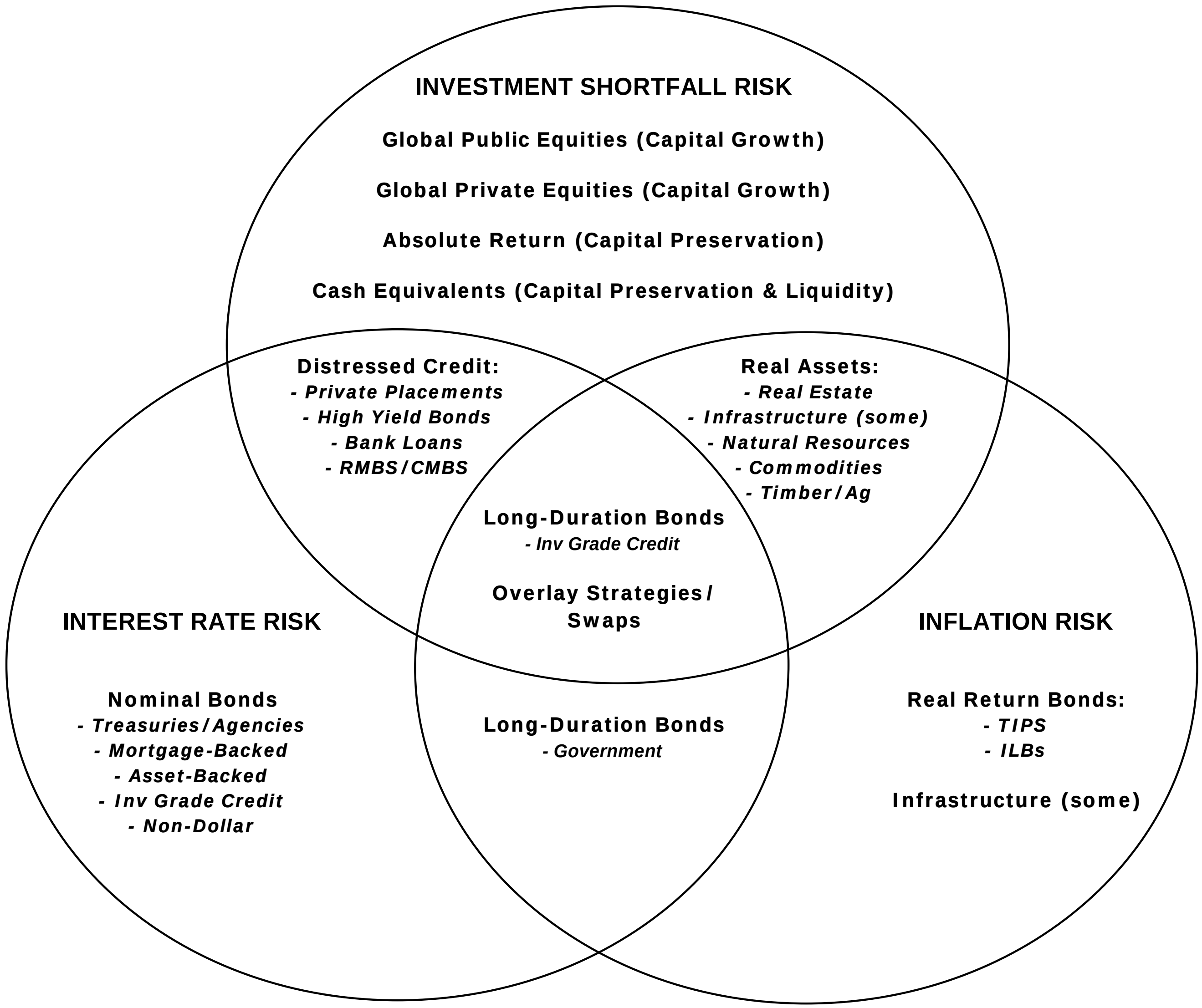
- Believe we have all the liability data
- Integrate assets with liability
- Incorporate OIC preferences from today's meeting
- Present results May 2010 meeting

APPENDIX

Asset Allocation Example



Asset Allocation: Role in Hedging Risks



Defining Risk

- The basic definition of investment risk is variability of return. The alternative policies, or "asset mixes," examined here are built to minimize this variability given an expected level of return over a long period of time. These mixes we call efficient. The method used to build them is an improved version of standard mean-variance optimization. The probabilities of continuously compounded returns to each asset class are assumed to approximate a bell shaped curve, or normal distribution. In other words, returns are random, and returns near the expected average are more likely than extreme returns. The likelihood of extreme returns is expressed as standard deviation. The probability of a particular asset-class return depends on the returns provided by every other asset class; this interdependence is expressed as correlation. Thus asset-class return expectations are commonly presented as three sets of numbers: mean returns, standard deviations, and correlations.

SIS Capital Markets Expectation Methodology

Fixed Income	Yield to Worst on Aggregate Index (compare to historic bond risk premium); adjusted for OPERF's duration target and unique sector allocations
Inflation	Consensus of economists' forecasts, TIPS
US Large Cap	CAPM, 3% to 6% equity premium, macroeconomic DDM
Cash	Inflation + 1% to 2% premium
US Small Cap	CAPM, (beta of ~1.2)
Private Equity	CAPM, (beta of ~1.6); adjusted for OPERF
International Equity	Weighted sum of local market premium + local risk free rate; composition is World ex-US
Emerging Mkt Equity	Weighted sum of local market premium + local risk free rate; composition is Emerging Markets
Real Estate	Historical behavior of equity REITs; current appraisal cap rates; CAPM; adjusted for OPERF's leverage policy
Absolute Return	Expected net premium to LIBOR (2-4%); 0.30 Sharpe Ratio
High Yield FI	Historical ratio: spread of High Yield over US Fixed Income divided by spread of Large Cap over US Fixed Income
TIPs*	Current real yield on Barclay's US TIPs Index plus SIS inflation expectation

* *See Appendix for Glossary of Terms*

SIS Capital Market Assumptions

- Strategic Purpose - Horizon = 2 to 3 Market Cycles
- Based on Capital Asset Pricing Model (CAPM*) — Investor Must Be Compensated for Taking Higher Risk
- Economic Growth Forecasts
- Stay Within Long-Term Real Return Corridors, Combined with Mean Reversion*
- Qualitative Overlay — Expectations Must Produce Reasonable Portfolios and a "Stable Frontier"
- Data Sources/Return
  - Complete Monthly Return History
  - Blue Chip Economic Forecast (Inflation, GDP Growth Estimates)
  - Wall Street Forecasts
  - Global Manager Forecasts
  - CAPM (For "Difficult" Asset Classes)
- Correlations* — Most Stable (90-Month Half-Life, 1985 to Present)
- Risks — Fairly Stable (Two Factor Model*; Historical 1976 to present, Half-Life 1985 to Present)

** See Appendix for Glossary of Terms*

SIS Capital Market Expectations (10/30/2009)

Asset	US Lrg Cap	US Sml Cap	US Fixed	Intl Stock	EM Stock	Intl Bond	Real Est	Priv Eqty	Opp Port	High Yield	EM Debt	Bank Loan	TIPS	Commod	Cash	Inflation
US Lrg Cap	1.00															
US Sml Cap	0.82	1.00														
US Fixed	0.13	0.05	1.00													
Intl Stock	0.78	0.72	0.04	1.00												
EM Stock	0.58	0.66	-0.04	0.70	1.00											
Intl Bond	0.09	0.00	0.44	0.24	0.10	1.00										
Real Est	0.54	0.62	0.12	0.53	0.42	0.01	1.00									
Priv Eqty	0.62	0.63	-0.06	0.51	0.51	-0.03	0.32	1.00								
Opp Port	0.52	0.48	0.41	0.55	0.47	0.49	0.35	0.16	1.00							
High Yield	0.69	0.73	0.33	0.64	0.53	0.35	0.65	0.34	0.57	1.00						
EM Debt	0.44	0.55	0.22	0.35	0.41	0.21	0.48	0.32	0.64	0.53	1.00					
Bank Loan	0.42	0.49	0.40	0.51	0.30	0.28	0.57	0.10	0.66	0.63	0.41	1.00				
TIPS	0.03	0.03	0.46	0.05	0.06	0.35	0.21	-0.13	0.19	0.23	0.25	0.14	1.00			
Commod	0.23	0.26	-0.05	0.23	0.32	0.12	0.29	0.24	0.17	0.18	0.37	0.00	0.50	1.00		
Cash	0.27	0.11	0.42	0.19	0.07	-0.05	0.08	0.16	0.27	0.11	0.10	0.03	0.19	0.11	1.00	
Inflation	0.12	0.09	-0.01	0.11	0.15	0.04	0.16	0.05	0.08	0.04	0.12	-0.06	0.33	0.54	0.38	1.00

Professional Biographies

- **<u>MICHAEL R. BEASLEY</u>**. *Managing Director*. Co-founded Strategic Investment Solutions, Inc. (SIS) with Barry Dennis in 1994. Former EVP and Head of Consulting of Callan Associates, which he joined in 1986 and left in 1993. Founded Callan's Atlanta Office in 1986 and concurrently managed its New York Office in 1988. Served as Chairman of Callan's Manager Search Committee for two years. Brings 30 years of consulting and institutional investment experience to SIS. Prior experience includes 13 years with Merrill Lynch's Capital Markets Group in Jacksonville and Atlanta. Former Editorial Board member of the *Journal of Pension Plan Investing.* Frequent speaker on institutional investment issues. Graduate of the New Mexico Military Institute and an officer of the U.S. Army for five years that included a combat tour of duty in Vietnam.

- **<u>JOHN P. MEIER, CFA</u>**. *Managing Director and Head of Quantitative Services.* Highly experienced specialist in strategic planning, capital markets analysis, and quantitative investment strategies. A leading authority in the fields of perform-ance benchmarking and portfolio perform-ance attribution, whose ideas have been published in Pensions and Investments, Futures, Risk and Quantitative International Investing. Senior Product Manager at BARRA from 1988 to 1994, responsible for equi-ty risk and valuation models and services. B.S. in Chem. Eng. From Michigan State, MBA in Finance from UC Berkeley.

- **<u>MARC GESELL, CFA</u>**. *Vice President.* Quantitative analysis, statistical research, and systems deve-lopment specialist responsible for strategic planning. Seven years experi-ence in software R&D, asset allocation modeling, and investment analysis. Most recently AVP and portfolio manager for First Interstate Bank (now Wells Fargo), responsible for managing $200 million in private client portfolios. Helped establish clients' strategic plans, investment objectives, asset allocation mixes, and portfolio structure. B.S. in Computational Mathematics, Arizona State University, MBA in Finance, San Francisco State University, Chartered Financial Analyst. Former Officer, United State Army.

- **<u>LOUIS KINGSLAND, JR.</u>** *Adviser and Chair, Investment Policy Committee.* Developed first commercially available asset allocation and liability simulation model and asset mix optimizer, both still widely used today. Most recently EVP of Mellon Capital Management. Graduate, Air Force Academy. MA in Engineering, CalTech. Served as Deputy Mission Director of The Viking Space Project, and received a Distinguished Service Medal from NASA.

Definitions

STRATEGIC ASSET ALLOCATION

The discipline used to determine which assets and what proportion among those assets meet an investor's cash flow requirements, planning horizon, and attitude toward risk.

EXPECTED RATE OF RETURN

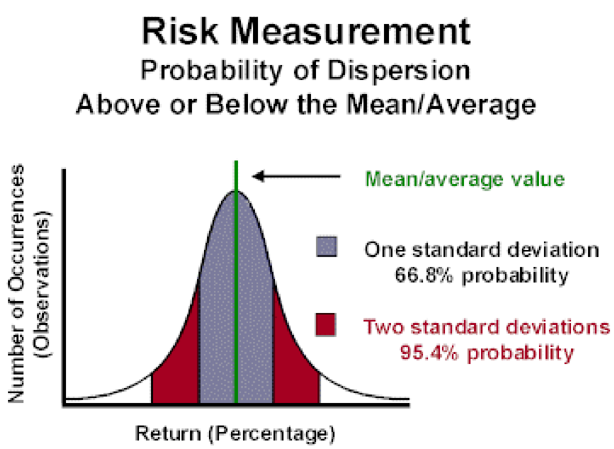
The expected value or mean of a probability distribution of returns. In our case, the expected return is the compounded annual return which is the same as the geometric mean. After tax expected return nets out the expected income and capital gains taxes paid by the trust.

STANDARD DEVIATION

A statistical measure of the degree to which an individual value in a probability distribution tends to vary from the mean of the distribution. The square root of the **variance**. When returns are normally distributed, an individual return will fall within one standard deviation of the mean about two-thirds of the time. For example, if a portfolio had an expected return of 5% and an expected risk (standard deviation) of 13, then:

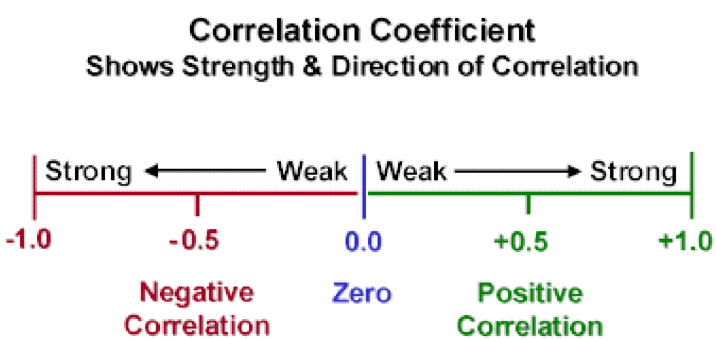
One Standard Deviation	68% of the time, returns can be expected to fall between –8.0% and +18%
Two Standard Deviations	95% of the time, returns can be expected to fall between -21% and +31%

Standard deviation is a useful historical measure of the variability of return earned by an investment portfolio. In performance measurement, it is generally assumed that a larger degree of dispersion implies that greater risk was taken to achieve the return.



Definitions

CORRELATION COEFFICIENT



Correlation coefficient (r) is a measure of the degree of **correlation** between two quantities or variables, such as the rates of return on stocks and on bonds. A negative coefficient of correlation indicates an inverse or negative relationship, whereas a positive value indicates a direct or positive relationship. The range of values is from -1 to +1 inclusive. A zero (0) value indicates that no correlation exists. Correlation coefficients are useful in **asset class** identification and portfolio **diversification**.

Glossary of Terms

- **Asset Allocation** – (1) The way investments are distributed and weighted among different asset classes. (2) The distribution of investments among categories of assets, such as equities, fixed income, cash equivalents, and real estate.
- **CAPM** – Capital Asset Pricing Model. A system of equations that describes the way prices of individual assets are determined in efficient markets, that is, in markets where information is freely available and reflected instantaneously in asset prices. According to this model, prices are determined in such a way that risk premiums are proportional to systematic risk, measured by the beta coefficient, which cannot be eliminated by diversification. CAPM provides an explicit expression of the expected returns for all assets. Basically, the model holds that if investors are risk averse, high-risk stocks must have higher expected returns than low-risk stocks. CAPM maintains that the expected return of a security or a portfolio is equal to the rate on a risk-free investment plus a risk premium.
- **Correlation** – A relationship between two quantities, such that when one changes, the other does. A measure (ranging in value from 1.00 to -1.00) of the association between a dependent variable (fund, portfolio) and one or more independent variables (index). Correlation is a measure, not necessarily of causality, but rather of the strength of a relationship. A correlation coefficient of 1.00 implies that the variables move perfectly in lockstep; a correlation coefficient of -1.00 implies that they move inversely in lockstep; and a coefficient of 0.00 implies that the variables as calibrated are uncorrelated.
- **Efficient Frontier** – A set of optimal portfolios, one for each level of expected return, with minimum risk.
- **Expected Return** -- Estimate of the return of an investment or portfolio from a probability distribution curve of all possible rates of return; statistically, it is the mean (ether geometric mean or arithmetic mean) of the distribution or the "most likely" outcome.
- **Factor Model** – Regression-based mathematical calculation used to determine the extent to which macroeconomic factors or other explanatory variables affect the value or price movement of a specific security or portfolio.

Ibbotson® SBBI®

Stocks, Bonds, Bills, and Inflation 1926–2009

Dimensional

Past performance is no guarantee of future results. Hypothetical value of $1 invested at the beginning of 1926. Assumes reinvestment of income and no transaction costs or taxes. This data is for illustrative purposes only and not indicative of any investment. An investment cannot be made directly in an index.

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TAB 3 – OAKTREE CAPITAL MANAGEMENT

OCM Opportunities Fund VIII, L.P.

Purpose

Staff recommends that a commitment in the amount of $100 million be made to OCM Opportunities Fund VIII, L.P. for OPERF and $25 million for the Common School Fund (CSF). This commitment was originally proposed to be made through the Private Equity Committee, for OPERF, at its January 25, 2010 meeting. Due to an objection by a member of the OIC, this recommendation was pulled from that agenda, and is being reintroduced to the full OIC following modification of some terms.

Background

Oaktree Capital Management, LLC is forming OCM Opportunities Fund VIII, L.P. to pursue non-control, distressed debt investments in fundamentally undervalued debt securities of distressed companies in the U.S., Europe, and to a lesser extent Asia. The Fund is targeting commitments of $5 billion, and has not set a hard-cap. As of the date of this memorandum, Oaktree has secured $2.9 billion of commitments, and was considering utilizing a Fund A and Fund B structure. If this structure is implemented, Fund A would likely be capped at $4.0 billion and invested first, while Fund B would serves as an "overflow" reservoir of capital, would not be capped, and would not incur management fees unless and until capital is drawn. Fund VIII will continue the successful strategy employed in prior OCM Opportunity funds.

In 1995, Howard Marks, Bruce Karsh, Richard Masson, Sheldon Stone, Larry Keele, Russel Bernard, Stephen Kaplan and the senior investment professionals they had been working with, left Trust Company of the West (TCW) to establish Oaktree Capital Management, a diversified, multi-strategy asset management firm. The firm currently manages capital under 17 different product-lines/strategies, including Fund VIII's non-control, distressed debt strategy. Since inception, Oaktree has grown to over 500 professionals (including 22 investment professionals dedicated solely to the Fund VIII strategy), with over $60 billion in assets under management, and maintains 15 offices in ten countries.

Fund VIII will continue the same investment strategy as nine prior OCM Opportunity funds (including two follow-on funds), focusing on investments in the debt or other obligations of companies experiencing financial distress, debt restructurings, or reorganization under federal bankruptcy law. Securities targeted for investment will be fundamentally undervalued relative to their seniority in the capital structure, and the underlying enterprise or asset value of the issuing company. As in prior Opportunity funds, Fund VIII can be expected to make a large number of small "toehold" investments (over 100) to gain additional information about the security and issuer. Based on this additional analysis, a smaller subset of securities will be targeted as core investments and the Fund will seek to increase these positions over time. A large majority of the “toehold” positions do not result in being targeted as core holdings, and will typically be held for only a short time. As such, the Fund has liberal capital recycling provisions during its investment period, and Oaktree typically invests 1.5x to 3.0x committed capital during the investment period through recycling. The current economic downturn, and increased corporate default rates should result in an enlarged set of target opportunities for this strategy.

OPERF has committed to eight OCM Opportunities funds as follows:

$48 million to Fund I in 1996
$75 million to Fund II in 1997
$100 million to Fund III in 2000
$75 million to Fund IVb in 2002
$50 million to Fund V in 2004
$50 million to Fund VI in 2005
$50 million to Fund VII in 2007
$100 million to Fund VIIb in 2007

As of June 30, 2009, the OCM Opportunities funds had performed as follows:

Fund	**Net IRR**	**Net Total Value Multiple**
Fund I	10.3%	1.6x
Fund II	8.4%	1.5x
Fund III	11.9%	1.5x
Fund IV	28.1%	1.6x
Fund IVb	47.3%	1.7x
Fund V	13.9%	1.5x
Fund VI	6.0%	1.2x
Fund VII	-13.3%	0.8x
Fund VIIb	19.8%	1.1x
Total	12.7%	1.3x

Staff notes that the performance of Fund VII and Fund VIIb (2007 and 2008 vintages, respectively), is too early to be meaningful.

In addition to the direct predecessor funds detailed above, OPERF has also invested with this management team via commitments to three TCW Special Credits funds when the team was with that organization, and five OCM Principal funds. (distressed debt for control strategy)

A new commitment will be allocated 100% to the Special Situations investment sub-sector. As of September 30, 2009, OPERF’s allocation to Special Situations is targeted at 5 to 15% with a current fair market plus unfunded commitments exposure totaling 11.1 percent.

For the Common School Fund, this would be the sixth overall commitment to private equity. Commitments began in 2007. Historical commitments include $25 million each to: Warburg Pincus X, Oak Hill III, Apollo VII, and TPG VI plus a $20 million commitment to JP Morgan Venture Capital IV. The target allocation is 10 percent, and as of March 31, 2010, the actual allocation is 2.8 percent.

Recommendation

Staff recommends that the OIC authorize a $100 million commitment to OCM Opportunities Fund VIII, L.P., for OPERF and $25 million for CSF, subject to satisfactory negotiation of terms and conditions, and completion of requisite legal documents by DOJ legal counsel working in concert with OST staff.

TAB 4 – AQUILINE CAPITAL PARTNERS, LP

Aquiline Financial Services Fund II, L.P.

Purpose

Staff recommends a commitment of $100 million to Aquiline Financial Services Fund II, L.P.

Background

Aquiline Capital Partners LLC is forming Aquiline Financial Services Fund II, L.P. to pursue a range of privately negotiated equity and equity-related investments within the financial services industry, across North America and Europe. They anticipate making 10 to 15 investments (ranging from $100 million to $400 million of equity) while focusing on corporate divestitures, public and private company buyouts, corporate restructurings, and, opportunistically, growth or start-up capital investments.

Aquiline is targeting capital commitments of approximately $2.0 billion for the fund, following their $1.1 billion Fund I. OPERF committed $200 million to Fund I, which, as of December 31, 2009, ranked in the first quartile against Venture Economics' Net IRR and Net Multiple databases.

Aquiline Capital Partners LLC was founded in 2005 by a group of financial services industry executives seeking to leverage their extensive operational expertise, and capitalize on the volatile market. The team is lead by Jeffrey Greenberg, former Chairman and CEO of Marsh & McLennan companies, and MMC Capital (Marsh's global insurance-focused private equity business). In addition to Mr. Greenberg's 30 years of industry experience, he has put together an impressive team of 34 professionals, located in their New York office.

As part of the PCG due diligence process, PCG outlined the compliance of Aquiline Financial Services Fund II, L.P., in relation to Oregon's adopted Private Partnership Investment Principles. As the market is slowly changing, GPs are proactively adjusting their terms. An example of this is Aquiline's fee split. Fund I had an 80/20 split, while Fund II will allocate 100 percent of fees to the Fund at their target size of $2.0 billion, scaling proportionately at lower amounts. In addition to the LPA's provision for including write downs of unrealized investments when calculating carry, the GP is also required to deposit 20 percent of its carried interest distributions, after tax, into an escrow account. Staff and PCG will continue to negotiate terms in an attempt to better align the overall LPA with Oregon's adopted Private Partnership Investment Principles.

A new commitment will be allocated 100 percent to the Corporate Finance investment sub-sector. As of September 30, 2009, OPERF's allocation to Corporate Finance is targeted at 65 to 85 percent with a current fair market plus unfunded commitments exposure totaling 73.4 percent. As of March 12, 2010, The Private Equity Committee has approved $340 million, of its potential $1.5 billion allocation, for the year ending December 31, 2010.

Recommendation

OST Staff and PCG recommend a $100 million commitment to Aquiline Financial Services Fund II, L.P., through the Private Equity Committee. Said commitment is subject to the satisfactory negotiation of the requisite legal documents by legal counsel working in concert with OST Staff and PCG.

MEMORANDUM

TO: Oregon Public Employees' Retirement Fund ("OPERF")

FROM: PCG Asset Management LLC ("PCG AM")

DATE: 3/31/2010

RE: Aquiline Financial Services Fund II, L.P. ("the Fund")

Strategy:

Aquiline Capital Partners LLC ("Aquiline", the "Firm" or the "General Partner"), a New York-based private equity firm, is sponsoring Aquiline Financial Services Fund II L.P. ("Fund II," the "Partnership" or the "Fund") to pursue a range of privately negotiated equity and equity-related investments within the financial services industry across North America and Europe. Consistent with the Firm's historical investment strategy, the Fund will thematically target investments within various sub-sectors of the financial services industry including property and casualty insurance, banking and specialty finance, securities, life and health insurance, asset management, and operations and financial technology.

Similar to its prior fund, Aquiline anticipates making 10 to 15 investments while focusing on corporate divestitures, public and private company buyouts, corporate restructurings, and, on an opportunistic basis, growth or start-up capital investments. The General Partner expects the range of investment sizes to fall within $100 million to $400 million of equity, although certain opportunities may require significantly more capital than Fund II alone will provide. Under such circumstances, Aquiline intends to supplement the Fund's capital with co-investments from Limited Partners and commitments from strategic investors.

In aggregate, Aquiline is targeting capital commitments of approximately $2.0 billion for the Fund and has yet to establish a hard cap. The Firm is in the early stages of raising capital, with no capital commitments secured to date. A first dry closing for Fund II is expected in April 2010, at which time the General Partner expects to secure between $500 million and $1 billion. At final close, the Aquiline team expects to make a commitment between 1.0% and 3.0% of aggregate commitments to the Fund, and has yet to determine the relative levels of cash commitments versus fee offsets.

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

Allocation:

A new commitment to the Fund would be allocated 100% to the Corporate Finance investment sub-sector. As of September 30, 2009 OPERF's allocation to Corporate Finance is listed in the table below. It is important to note that since allocation is based on fair market value, a commitment to the Fund would not have an immediate impact on OPERF's current portfolio allocation. A commitment to the Fund is complementary to OPERF's existing fund commitments and provides the overall portfolio with a further degree of diversification.

As of September 30, 2009	Target	FMV	FMV + Unfunded
Corporate Finance	65-85%	76.6%	73.4%

Conclusion:

The Fund offers OPERF an opportunity to participate in a differentiated private equity investment. PCG AM'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. PCG AM recommends that OPERF consider a commitment of $100 million to the Fund. PCG AM '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 5 – VORNADO CAPITAL PARTNERS LP

Vornado Capital Partners, L.P.

Purpose:

Staff recommends approval of a $100 million commitment to Vornado Capital Partners, L. P. ("the Fund"). The Fund targets $1 billion in total equity capital for investment in high quality office and urban retail in major metropolitan cities such as New York City and Washington D.C. The proposed fund will be "value-added" in nature with a target gross IRR return of 15 to 20 percent.

Background:

Vornado is a large, successful public REIT with a market capitalization of almost $14 billion. Their assets are prime office and retail in major markets such as New York City and Washington DC. The company is vertically integrated with staff experienced in: real estate acquisitions, property management, development and re-development of existing properties. Most of the senior investment team has worked together for over 12 years. Vornado will invest 20 percent of the equity in the Fund up to $200 million. During its investment period, the Fund will be the primary acquisition vehicle for the REIT, providing a strong alignment of interests. Vornado believes that the next few years will offer an exceptional opportunity to invest in quality real estate investments as current owners and lenders address the property re-pricing of the recent past. Some of these opportunities may be of a size that exceeds Vornado's REIT resources. The Fund will provide Vornado with a platform to pursue large, high quality investments for the benefit of both the REIT and the other Fund investors. Vornado's in-house capabilities to lease, manage and remodel buildings will be beneficial in both the acquisition and turn-around of properties that may have been under-managed by prior distressed owners.

Issues for Consideration:

- The real estate market re-pricing mentioned above has been slow to form, in part due to lack of pressure from the lenders. We expect the process will accelerate over the next year to 18 months. Vornado should be well positioned to participate given their strong acquisitions team and extensive contact base with both lenders and owners in their primary target markets of New York City and Washington D.C.

- The real estate recovery will take time for an economic recovery to increase employment which will then improve occupancies and rent levels for real estate. During this recovery, a financially strong ownership with hands-on management capabilities will be needed. Vornado provides both plus a 20 percent economic stake as incentive for success.

- The Fund will be Vornado's first closed end vehicle with institutional investment limited partners. Given its history as a public REIT, they have incorporated fiduciary responsibility and transparent reporting into their processes for many years. Their public history plus Vornado's 20 percent stake in the Fund should be two strong factors for the Fund's success.

- Staff and consultant have reviewed Vornado's adherence to the OIC investment principles. While generally in compliance, two issues for consideration are fee structure and preferred fees to larger investors. Vornado is a self-sufficient organization so any fees add to its bottom line. Mitigating this issue, during the acquisition period Vornado's entire acquisition team will be dedicated to finding investments for the Fund. No fees are charged to the fund on committed but un-called capital. Following investment of capital, the 1.5 percent management fees is well within market terms. OPERF gets the benefit of an organization with over 1500 employees that the Fund will share with the REIT. Lack of a "Commitment Fee" makes this structure more beneficial than most funds. Since it is likely that OPERF will be equal or smaller than most investors in the Fund, it is unlikely that OPERF would benefit from a scaled fee structure with a preference for larger investors.

- OPERF's Value-added sector has a target allocation of 20 percent of the real estate portfolio. Value-added holdings at March 31, 2010 were estimated at less than 13 percent of the portfolio, measured at fair value. Investment in the Vornado Fund would aid in achieving the target Value-added allocation.

- Given the current stressed condition of the real estate markets, there may be occasions where large single assets or large property portfolios become available that meet the Fund's criteria but are too large to fit within the Fund's concentration limitations (20 percent of the Fund for a single investment). The excess equity requirements for these opportunities will be offered to the Fund investors in a ratio that is pro-rata with their equity commitment in the Fund.

Recommendation:

Staff recommends approval of a $100 million commitment to Vornado Capital Partners, L.P. subject to negotiation of the required legal documents, working in concert with the Department of Justice.

TAB 6 – OREGON SHORT-TERM FUND

Oregon Short-Term Fund Annual Review
April 28, 2010

Purpose:
To present the annual fiscal-year review of the Oregon Short-Term Fund, including the annual audited financial statements. To review and implement four revisions to Investment Policy 4.02.03, the Oregon Short-Term Fund Portfolio Rules. The last revision to the rules was reviewed and approved by members of the Oregon Short-Term Fund Board on January 15, 2009 and was approved by the Oregon Investment Council on January 28, 2009.

Background:
Pursuant to OIC policy, the report includes:

- **Discussion of Markets, Strategy, and OSTF** (pgs 1-4)
  - As a result of the credit crisis, both the Federal Reserve Bank and the U.S. Government have used unprecedented monetary and fiscal stimulus to restore liquidity and normalcy to the markets.
  - After two years of stimulus, investors are increasingly concerned about the Fed's exit strategy. With the continued improvement seen in many economic statistics and in top-line corporate earnings, many question the Fed's need to maintain their crisis-induced 0-0.25% Fed Funds target.
  - Staff believes the downside risks of rates outweigh the upside risks.
- **Proposed Portfolio Rules Revisions to Policy 4.02.03**
  - Summary of proposed revisions to Policy 4.02.03 (pgs 5-7)
  - Detailed description of revisions to Policy 4.02.03 (pgs 8-20)
  - Red-lined version of portfolio rules (pgs 21-30)
- **March 31, 2010 Portfolio Holdings, March 31, 2010 Daily Compliance Report, Secretary of State Annual Audit Report for Fiscal Year Ended June 30, 2009** (pgs 31-66)

Diversification (March 31, 2010)	Policy	Actual	Par Value
US Treasury, TLGP and Agency Securities	0-100%	50.13%	$5,134,696,000
Corporate Indebtedness	<50%	49.09%	5,027,717,000
Time Certificate of Deposit's	<30%	0.49%	50,075,000
NOW/FDIC Deposits		0.29%	30,000,000
Total		100.00%	$10,242,488,000

- **Performance (ending February 28, 2010)**

	February	3 mos.	YTD	1 yr	2 yrs	3 yrs	4 yrs	5 yrs
OSTF	**0.09**	**0.28**	**0.31**	**2.55**	**1.52**	**2.80**	**3.42**	**3.43**
91 Day T-Bills	0.00	0.02	0.01	0.20	0.81	2.14	2.85	2.96

Recommendations:
Staff recommends the OIC approve the revised Oregon Short-Term Fund Portfolio Rules, Policy 4.02.03, as approved by the Oregon Short-Term Fund Board on January 26, 2010.

Oregon Short-Term Fund Annual Review
April 28, 2010

Market Review

As a result of the credit crisis, both the Federal Reserve Bank and the U.S. Government have used unprecedented monetary and fiscal stimulus to restore liquidity and normalcy to the markets. For the past sixteen months, the closely watched Federal Funds rate has remained at an all-time low target range of 0-0.25%. Thus far, as seen in Exhibit 1, the credit markets have responded favorably: investors have shifted from a position of being risk averse to one of risk-taking.

All fixed income spread sectors outperformed U.S. Treasuries in March 2010 and for the 12-months ending March, led by the below investment grade sectors. Treasury yields rose by about 22 bps for both 2-year maturities and for 10-year maturities with the slope of the yield curve at +280 bps, flattening from an all-time high of +290 bps in February 2010.

Exhibit 1

Total Returns, Major Fixed Income Components, ending 3/31/10

Fixed Income Sector	March	12 Months, ending	
	2010	Mar 2010	Mar 2009
Barclays U.S. Aggregate	-0.12%	7.69%	3.13%
• Aaa	-0.30	3.93	5.71
• Aa	0.38	14.73	-3.58
• A	0.51	21.72	-7.97
• Baa	0.60	30.01	-6.77
U.S. Treasuries	-0.85	-1.18	7.48
• 30-year Treasury Bonds	-2.57	-14.48	17.79
• 10-year Treasury Notes	-1.65	-6.30	10.46
• 5-year Treasury Notes	-0.93	-0.21	8.01
• 3-year Treasury Notes	-0.52	1.75	5.15
• 2-year Treasury Notes	-0.25	1.49	4.31
• 3-month Treasury Bills	0.004	0.17	1.21
3-month LIBOR	0.013	0.68	2.84
Agencies	-0.36	3.31	5.52
MBS	0.03	5.21	8.09
CMBS	2.45	42.81	-19.95
ABS	0.06	18.53	-4.28
• Credit Card	0.06	18.76	0.61
• Auto	0.15	17.56	2.30
U.S. Credit	0.30	20.83	-5.21
• Industrials	-0.08	19.22	-0.71
• Utility	-0.34	20.20	-0.89
• Finance	1.07	32.44	-15.08
High Yield	3.13	56.18	-19.31
• Ba	2.48	39.12	-8.57
• B	2.34	43.40	-20.95
• Caa	4.08	101.28	-38.20
S&P/LSTA US Leveraged Loans	2.91	42.76	-15.80
Emerging Markets Debt	3.10	35.69	-10.94

Source: Barclays Capital, Bank of America Merrill Lynch, S&P

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Oregon Short-Term Fund Outlook and Strategy

After two years of stimulus, investors are increasingly concerned about the Fed's exit strategy. For example, the Fed stopped its purchase program of U.S. Treasuries late last year and, effective March 31, has ceased its $1.25 trillion MBS purchase program. With the continued improvement seen in many economic statistics and in top-line corporate earnings, many question the Fed's need to maintain their crisis-induced 0-0.25% Fed Funds target. Given the uncertainty with respect to employment and housing statistics, expectations for inflation (granted, with little near-term inflation pressures), the timing of the Fed's exit strategy, the still relatively weak US$ and the growing government debt/GDP ratio, the OSTF is generally structured with a defensive bias, both in terms of interest rate risk and credit risk.

Staff believes the downside risks of rates outweigh the upside risks and, to express this view, adjustable rate securities continue to be a core holding for the fund. That said, with the Fed consistently stating their intent to maintain current monetary policy "for an extended period," staff will seek opportunities for positive carry versus the very front-end of the yield curve, where yields range between 0.10%-0.25% (10-25 bps). The weighted-average-maturity, or WAM, of the fund was 200 days as of March 31, 2010, and is 175 days as of April 12, 2010. As previously mentioned, the corporate bond market has staged an extraordinary rally and the OSTF had taken advantage of the wide valuations throughout 2008 and early 2009 with select purchases. At current, staff is mostly neutral on longer maturity corporate bonds with risk premiums, on many OSTF credits, now at historic tight valuations.

Since the OSTF is a short-term fixed income portfolio, its yield will generally track the rise and fall of the federal funds rate and 3-month U.S. Treasury Bills. The allocation to corporate indebtedness (short-term commercial paper and longer-term bonds) continues to hover close to the maximum 50% allowance as the fundamentals for corporate debt (and financials, in particular) continue to show improvement.

The approved commercial paper list is continuously reviewed and revised to include additional eligible and high quality credits and to remove those credits that have been downgraded or that are perceived by staff to bear higher-than-desired risk or potential balance sheet pressure in the future.

General Fund

In the fiscal year ended June 30, 2009, the General Fund had experienced negative cash balances. The current fiscal year may witness pressure on negative cash balances because of the length of time before the State will have sufficient revenue to cover the overdraft. As of April 9, 2010, the General Fund balance was negative $183 million and has been negative since March 11, 2010. The OSTF provides liquidity to those state agencies, including the General Fund, with short-term negative cash balances. Presently for the General Fund, compensation for these overdrafts is calculated for every day of an overdraft occurrence at the rate of the current OSTF rate plus a spread of 120 bps. The spread is based on the three year average of the "Merrill Lynch U.S. Corporate & Government, 1-3 year, AA Rated and Above Bond Index" and will be revised at the end of every fiscal year.

Staff has determined that, at the time of the overdraft, the prudent maximum available per state agency will be 1.5% of monies held in the OSTF, with the exception of the General Fund, which will be limited to 10.0% of monies held in the OSTF.

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Securities Lending

OSTF securities lending income for the year ending December 31, 2009 amounted to about a net $10.2 million versus a net $25.1 million in the prior year, a decrease of over $14.8 million. This decline was primarily a result of the normalization of the credit markets. Note that for the five years prior to 2008, the average annual net OSTF securities lending income was about $2.3 million.

Additional Items

In the future, staff will continue to work with the OSTF Board and the OIC to further revise the portfolio investment rules and guidelines (4.02.03) as needed.

Also included in the attached report is the State Street Bank list of the March 31, 2010 holdings and the Secretary of State annual audit report including the audited financial statements for the year ending June 30, 2009.

Oregon Short-Term Fund Annual Review
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Portfolio Statistics & Compliance, as of March 31, 2010:

Compliance	**Policy**	**Actual**	**Par Value**
Maturity Distribution			
Portfolio maturities less than 93 days	> 50%	67.86%	$6,950,380,000
Portfolio maturities between 94 days & 366 days		12.55%	1,285,657,000
Portfolio maturities greater than 1 year	< 25%	19.59%	2,006,451,000
Maturities greater than 3 years	0%	0.00%	0
Total Maturity Distribution		**100.0%**	**$10,242,488,000**
Diversification			
US Treasury, TLGP and Agency Securities			
US Treasury & Agency Securities	0-100%	41.14%	$4,213,446,000
TLGP/FDIC-Backed Securities	< 50%	8.99%	921,250,000
Total US Treasury & Agency and TLGP Securities	0-100%	50.13%	$5,134,696,000
Corporate Indebtedness			
Commercial Paper (minimum A-1/P-1)	< 50%	19.20%	1,966,595,000
Corporate Bonds	< 50%	29.89%	3,061,122,000
Bank Notes	< 50%	0.00%	0
Total Corporate Indebtedness (aggregate < 50%)	< 50%	49.09%	5,027,717,000
Time Certificate of Deposit's	< 20%	0.49%	50,075,000
NOW/FDIC Deposits		0.29%	30,000,000
Total Diversification		**100.00%**	**$10,242,488,000**
Top Ten Holdings			
1. Fannie Mae	33%	14.63%	$1,498,670,000
2. Federal Home Loan Bank	33%	13.92%	1,425,784,000
3. Freddie Mac	33%	9.93%	1,017,292,000
4. TLGP/FDIC-Backed	50%	8.99%	921,250,000
5. UBS AG Stamford CT	5%	3.14%	321,650,000
6. JP Morgan Chase & Co	5%	3.11%	318,992,000
7. Wells Fargo & Co	5%	2.94%	301,443,000
8. Barclays Bank PLC	5%	2.78%	285,000,000
9. ING (US) Funding	5%	2.59%	265,000,000
10. GE Capital Corp	5%	2.50%	255,834,000
Total Top Ten Holdings		**64.54%**	**$6,610,915,000**
Total Average Credit Quality			
Moody's or Standard & Poor's	Minimum Aa2 or AA	Aa2/AA	
Interest Rate Exposure (weighted average maturity)			
WAM, exposure in days		200 days	
Fixed versus Floating Weights:			
Fixed Rate		74.46%	$7,626,557,000
Variable Rate		25.54%	$2,615,931,000

Performance (Total Return, %), ending February 28, 2010:

	February	**3 mos.**	**YTD**	**1 yr**	**2 yrs**	**3 yrs**	**4 yrs**	**5 yrs**
OSTF	0.09	0.28	0.31	2.55	1.52	2.80	3.42	3.43
91 Day T-Bills	0.00	0.02	0.01	0.20	0.81	2.14	2.85	2.96

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Proposed Revisions to OSTF Portfolio Rules (Policy 4.02.03):
Under ORS Chapter 294.895, the Oregon Short-Term Fund Board shall review the rules promulgated by the Senior Fixed Income Investment Officer.

At the OSTF Board Meeting held on January 26, 2010, staff proposed revisions to the Portfolio Rules. Staff discussed the addition/revision to the Rules with the following members of the board:

- Doug Goe, OSTF Board Chair, Orrick, Herrington & Sutcliffe LLP
- Gary Wallis, City of Wilsonville
- Wayne Lowry, Sherwood School District
- Laurie Steele, Marion County
- Deanne Woodring, Davidson Fixed Income Management, Inc.
- Bob Woodruff, Nike Inc. (NOT PRESENT)

Motions were made and seconded to approve the revisions to the Oregon Short-Term Fund Portfolio Rules for subsequent consideration by the OIC.

Staff emphasizes the proposed revisions are not an attempt to “reach for yield” but, rather, to enhance diversification and reduce the volatility historically associated with double-A rated financials. Staff would continue to maintain the same minimum average credit quality requirement (AA/Aa2) as well as focusing on the primary investment objectives of the fund, namely, preservation of principal and liquidity.

Below are summaries of the four proposed revisions with the full description of the revisions, as presented to the OSTF Board and the February Local Government Newsletter, in a subsequent section.

Revision/Addition #1 – Allow Foreign Government Securities and their Instrumentalities, Section VI (A) (4)

In the current low rate environment, staff believes diversification is a major benefit to the OSTF. The addition of this guideline would allow high quality US$ denominated foreign government securities and their instrumentalities. Staff proposes (a) a maximum 25% to the sector, (b) a maximum 10% per issuer, and (c) minimum long-term ratings of AA-, Aa3, or AA-, or better, by Standard & Poor’s, Moody’s Investors Services, or Fitch Ratings, respectively, at the time of purchase. Examples: Province of Ontario, rated AA- (stable), Aa1 (stable), AA (stable), respectively, at about +25 bps versus FHLB for 3-year maturities, and Export Development Canada, rated AAA (stable), Aaa (stable), AAA (stable), by S&P and Moody’s, respectively, at about +3-5 bps versus Freddie Mac 3-year maturities.

<u>The benefits of diversification into US$ denominated foreign government bonds and their instrumentalities will improve the overall risk profile of the OSTF and will dampen the volatility of a portfolio with historically high exposures to financial and GSE debt.</u>

VI. Diversification and Limitations of Portfolio

A. Eligible Securities:

1. Foreign Government Securities and their Instrumentalities

a. 25% maximum of portfolio in foreign government securities and their instrumentalities.
b. 10% maximum of portfolio per issuer
c. Foreign government securities must have minimum long-term ratings of AA-, Aa3, or AA-, or better, by Standard & Poor's, Moody's Investors Services, or Fitch Ratings, respectively, at the time of purchase.

Revision #2 – Allow domestic and foreign corporate indebtedness subject to a maximum 5% of the portfolio per issuer, Section VI (A) (5) (b)

Currently, the OSTF purchases domestic subsidiaries of foreign institutions, for example, BNP Paribas Finance Inc. U.S. commercial paper whose parent company is BNP Paribas. As in revision #1, this revision would provide further diversification of the OSTF via high quality US$ denominated issuers across industries.

<u>This revision removes the perverse constraint of disallowing the OSTF to take shorter term risk (< 1 year to maturity) in the obligations of non-U.S. corporations that do not issue debt out of a domestic subsidiary. Furthermore, as in revision #1, this revision would provide further diversification of the OSTF via high quality U.S.$ denominated issuers across industries.</u>

VI. Diversification and Limitations of Portfolio

A. Eligible Securities:

5. Corporate Indebtedness
   b. 5% maximum of portfolio per issuer in ~~domestic~~ commercial paper and corporate notes.

Revision #3 – Allow corporate securities with minimum long-term ratings of A-, A3, or A-, or better, by Standard & Poor's, Moody's Investor Services, or Fitch Ratings, respectively, at the time of purchase, Section VI (A) (5) (d)

Staff proposes to reduce the minimum long-term ratings of corporate securities to A-, A3, or A-, or better, by S&P, Moody's, or Fitch, respectively, at the time of purchase. The current required minimum long-term ratings for corporate securities are AA-, Aa3, or AA- by the respective ratings agencies. As in revisions #1 and #2, staff believes diversification is a major benefit to the OSTF. Since the onset of the credit crisis, the universe of 1-3 year AAA and AA rated securities, as measured by market value and number of issuers, has declined.

With the hiring of the Senior Credit Analyst/Investment Officer, who has done a tremendous job of fine-tuning the credit exposure of the OSTF over the past nineteen months, staff is well-positioned to identify relative value across the ratings and industry universe. This revision would allow solid diversification with numerous industrials and utilities, including issuers such as Boeing Company, Campbell Soup Company, Cisco Systems Inc., ConocoPhillips, Deere & Company, Dell Inc., GlaxoSmithKline PLC, Hewlett-Packard Company, IBM Corp, Kellogg Company, Mid-American Energy Company, Nike Inc., Oracle Corp., PacifiCorp, Praxair Inc., Target Corp., Verizon

Wireless/Cellco Partnership, depending on availability of issuers bonds in the secondary market or their funding needs in the debt markets.

<u>The benefits of diversification into single-A rated industrials and utilities, and away from financials, improve the overall risk profile of the OSTF and will dampen the volatility, especially in times of crisis.</u>

VI. Diversification and Limitations of Portfolio

A. Eligible Securities:

5. Corporate Indebtedness
   d. Corporate notes must have minimum long-term ratings of A- ~~AA-~~, A3 ~~Aa3~~, or A- ~~AA-~~, or better, by Standard & Poor's, Moody's Investors Services, or Fitch Ratings, respectively, at the time of purchase.

Revision/Addition #4 – Allow municipal debt obligations with a minimum long-term rating of AA-, Aa3, or AA-, or better, or are rated in the highest category for short-term municipal debt by Standard & Poor's, Moody's Investors Services, or Fitch Ratings, respectively, at the time of purchase, Section VI (A) (9)

In the current low interest rate environment municipal bonds and short-term securities, especially taxable municipal securities, may offer competitive yields compared to the typical taxable fixed income markets. During market dislocations, even tax exempt municipal securities may offer competitive and attractive yields.

<u>The addition of Section VI (A) (9) provides potential diversification depending on market conditions in high quality municipal securities.</u>

VI. Diversification and Limitations of Portfolio

A. Eligible Securities:

9. Municipal debt obligations (agencies, instrumentalities, and political subdivisions) that have long-term ratings of AA-, Aa3 or AA-, or better, or are rated in the highest category for short-term municipal debt by Standard & Poor's, Moody's Investors Services, or Fitch Ratings, respectively, at the time of purchase.

<u>Staff recommends approval of these four revisions</u>

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<u>Presentation at OSTF Board Meeting, 01/26/10, and via February LGP Newsletter</u>

<u>Purpose:</u>
To propose four revisions/additions to Investment Policy 4.02.03, the Oregon Short-Term Fund Portfolio Rules, specifically as it pertains to VI (A), Diversification and Limitations of Portfolio – Eligible Securities. The last revision to the rules occurred on January 15, 2009, and was approved by the Oregon Investment Council on January 28, 2009.

<u>Revision/Addition #1 – Allow Foreign Government Securities and their Instrumentalities</u>

The addition of this guideline allows high quality US$ denominated foreign government securities and their instrumentalities. Staff will be restricted to (a) a maximum 25% to the sector, (b) a maximum 10% per issuer, and (c) minimum long-term ratings of AA-, Aa3, or AA-, or better, by Standard & Poor's, Moody's Investors Services, or Fitch Ratings, respectively, at the time of purchase.

Why allow Foreign Government Securities?

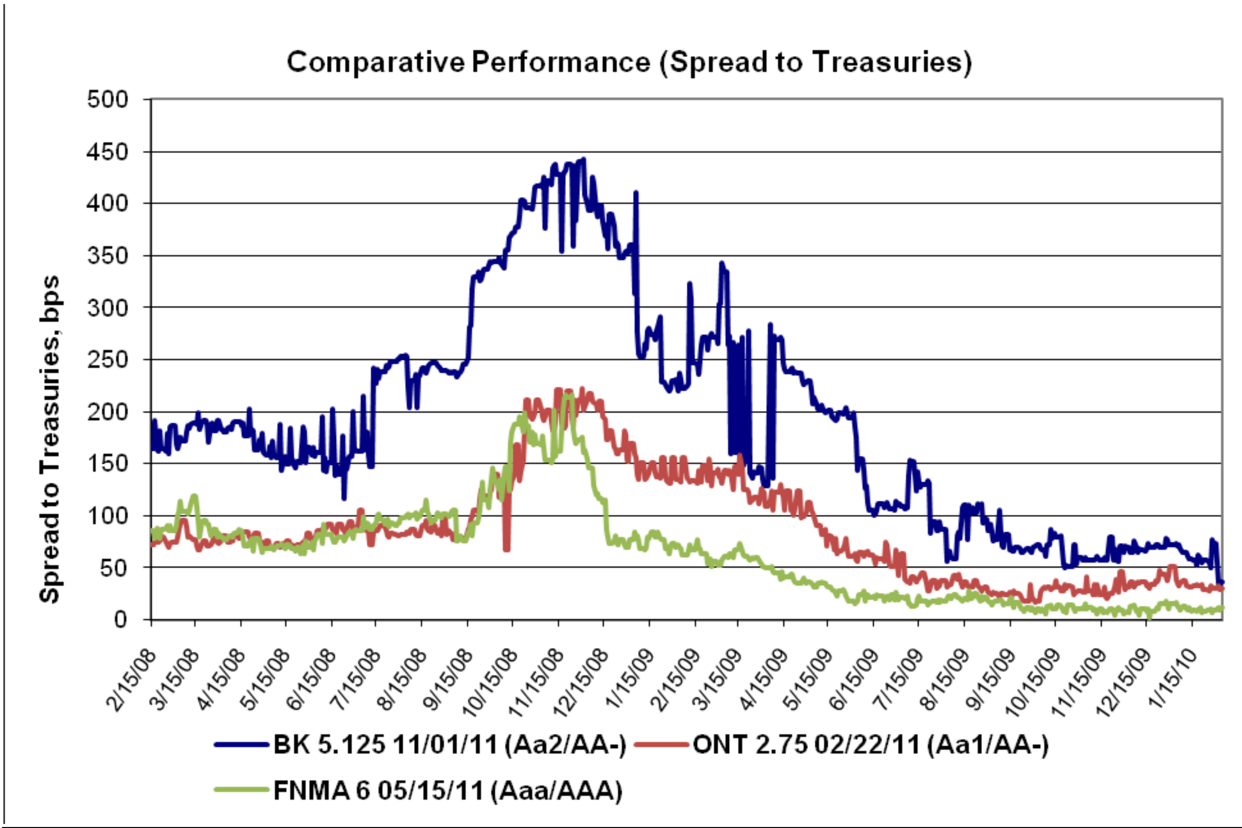
The number of double-AA and higher rated U.S. debt issuers have declined over the previous two years. Furthermore, there is significant concentration of financial institution debt in the short end of the market (3-year maturities and less). Consequently, staff believes guideline revisions to allow further diversification is a major benefit to the OSTF.

Staff's primary impetus for proposing this change is to gain access to high quality Canadian Provincial debt and Government-backed debt. In general, US$ denominated Canadian Provincial debt pricing and corresponding yields are comparable to similarly rated U.S. debt. The primary benefit of US$ Canadian bonds is diversification to help reduce the OSTF's historically high exposure to financial institutions and U.S. GSE's such as Fannie Mae and Freddie Mac. As with corporate debt, staff will be highly discriminatory and will utilize fundamental research in addition to credit ratings to make investment choices. Currently, U.S. banking regulatory authorities assign a 0% risk-weighting to Canadian provincial debt investments and Canada has the lowest debt to GDP of any of the G7 countries at 33% versus 53% for the U.S. in 2008.

Examples:

A. Province of Ontario, rated AA- (stable), Aa1 (stable), AA (stable), 3-year debt is offered at yields almost even with Bank of New York Mellon 3-year debt rated AA-, Aa2: with the debt of both entities offered at yields of approximately 2.1% as of 2/3/10.
B. Export Development Canada, rated AAA (stable), Aaa (stable), AAA (stable), by S&P and Moody's, respectively, at about +3-5 bps versus Freddie Mac 3-year maturities as of 2/3/10.

<u>The benefits of diversification into US$ denominated foreign government bonds and their instrumentalities will improve the overall risk profile of the OSTF and will dampen the volatility of a portfolio with historically high exposures to financial and GSE debt.</u>



Text of New Portfolio Rule:

VI. Diversification and Limitations of Portfolio

A. Eligible Securities:

4. Foreign Government Securities and their Instrumentalities
   a. 25% maximum of portfolio in foreign government securities and their instrumentalities.
   b. 10% maximum of portfolio per issuer
   c. Foreign government securities must have minimum long-term ratings of AA-, Aa3, or AA-, or better, by Standard & Poor's, Moody's Investors Services, or Fitch Ratings, respectively, at the time of purchase.

Revision #2 – Allow domestic and foreign corporate indebtedness subject to a maximum 5% of the portfolio per issuer

Currently, the OSTF is allowed to purchase US$ denominated corporate indebtedness regardless of the issuer's sovereign location. For example, the 1 – 3 year US$ debt of a foreign corporation is an eligible investment, but shorter term commercial paper (typically 30 – 180 days to maturity) issued by the same entity is ineligible. The OSTF regularly purchases the CP issued from the domestic subsidiaries of foreign institutions, for example, BNP Paribas Finance Inc. U.S. commercial paper whose parent company is BNP Paribas.

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This revision removes the perverse constraint of disallowing the OSTF to take shorter term risk (< 1 year to maturity) in the obligations of non-U.S. corporations that do not issue debt out of a domestic subsidiary. Furthermore, as in revision #1, this revision would provide further diversification of the OSTF via high quality U.S.$ denominated issuers across industries.

Text of Revised Portfolio Rule:

VI. Diversification and Limitations of Portfolio

A. Eligible Securities:

5. Corporate Indebtedness

b. 5% maximum of portfolio per issuer in ~~domestic~~ commercial paper and corporate notes.

Revision #3 – Allow corporate securities with minimum long-term ratings of A-, A3, or A-, or better, by S&P, Moody's, or Fitch, respectively, at the time of purchase

As originally discussed at the December 4, 2009 OSTF Board meeting and formally discussed at the January 26, 2009 Board meeting, the minimum long-term ratings for corporate securities has been lowered to A-, A3, or A-, or better, by S&P, Moody's, or Fitch, respectively, at the time of purchase. The previously required minimum long-term ratings for corporate securities were AA-, Aa3, or AA- by the respective ratings agencies. As in revisions #1 and #2, staff believes diversification is a major benefit to the OSTF. Additionally, since the onset of the credit crisis, the universe of 1-3 year AAA and AA rated securities, as measured by market value and number of issuers, has declined (see Exhibits 1-3).

Exhibit 1

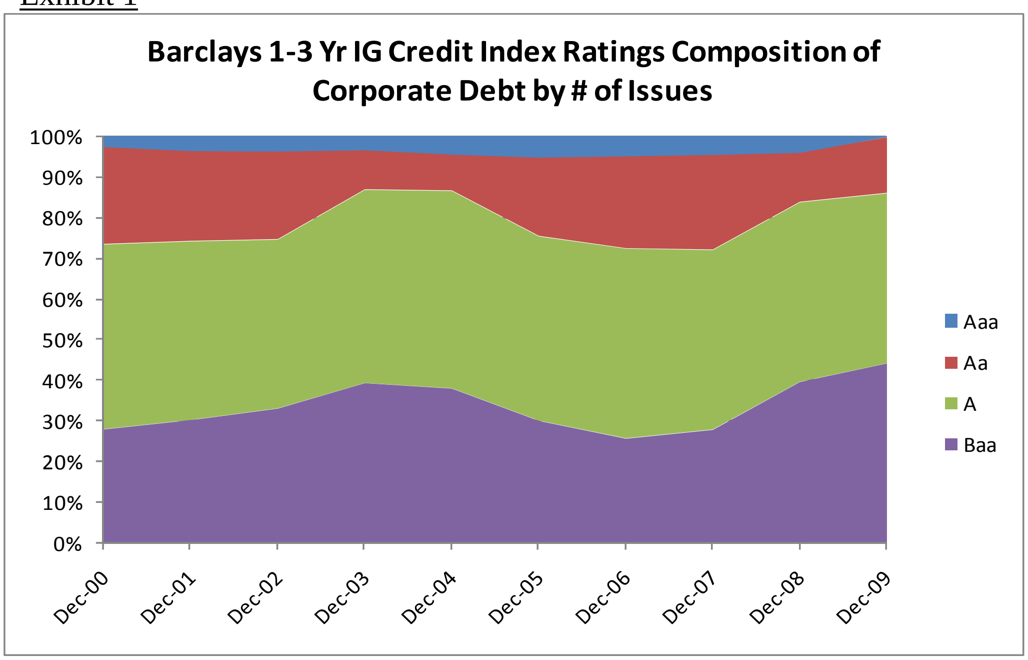


Exhibit 2

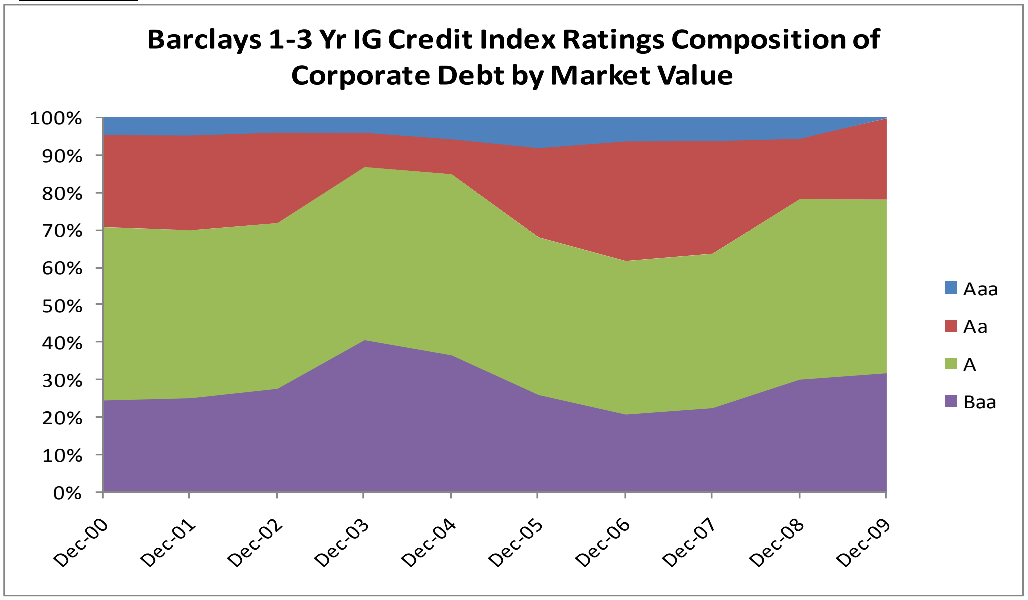


Exhibit 3

	12/31/09	12/31/06	Delta
# of Issues			
Aaa	2	24	-22
Aa	79	112	-33
A	242	230	12
Baa	256	127	129
Market Value			
Aaa	0.29%	4.66%	-4.37%
Aa	15.69%	23.39%	-7.70%
A	33.48%	29.76%	3.72%
Baa	23.04%	15.19%	7.85%

With the hiring of the Senior Credit Analyst/Investment Officer, who has done a tremendous job of fine-tuning the credit exposure of the OSTF over the past seventeen months, staff is well-positioned to identify relative value across the ratings and industry universe.

This revision allows solid diversification benefits with numerous industrials and utilities, including issuers such as Campbell Soup Company, Cisco Systems Inc., ConocoPhillips, Deere & Company, Dell Inc., Hewlett-Packard Company, IBM Corp, Kellogg Company, Mid-American Energy Company, Nike Inc., Oracle Corp., PacifiCorp, Praxair Inc., and United Technologies Corp., to name a few (see Exhibit 12). Implementation will depend on staff's outlook for corporate credit and the availability of issuers bonds in the secondary market or their funding needs in the primary markets.

Why lower the acceptable credit quality of corporate indebtedness?

Staff emphasizes the purpose of this revision is not to "reach for yield" by allowing lower rated credits. In fact, contrary to what some might expect, single-A rated industrials and utilities are generally more expensive (that is, risk premiums or spreads for similar maturities will be lower versus U.S. Treasuries or Libor) than higher rated double-A rated banks and financials. As mentioned above, allowing single-A rated industrials and utilities provides important diversification benefits to reduce overall price volatility (mark-to-market valuations) over market cycles which can be more prevalent with a high concentration in one industry, e.g., banks and financials. Staff believes greater industry diversification improves the overall risk profile of the OSTF. At the end of 2009, there were 20 industrial issuers rated double-A in the Barclays 1-3 year Investment Grade Index, but the number of single-A issuers represented in the index increased 6x to 124, providing staff with a much larger choice set. There is often very little or no benefit for larger fixed asset heavy industrial companies in achieving a higher than single-A rating. Often, industrial companies benefit most from double-A rated and higher ratings if they have significant financing subsidiaries. In order to gain access to a diverse set of industrial issuers, staff believes it is necessary to reduce the minimum credit rating for corporate debt.

As examples, the following table and graphs (Exhibits 5-10) illustrate some of the differences between Wells Fargo & Company, currently rated A1/AA-/AA-, by Moody's, S&P, and Fitch, respectively (and was rated Aa3 between 01/06/09 – 03/25/09, before being downgraded by Moody's, AA by S&P between 01/05/09 – 06/17/09, AA by Fitch from 01/02/09 – 07/22/09), International Business Machines Corp., currently rated A1/A+/A+, by Moody's, S&P, and Fitch, respectively (downgraded from AA- on 05/30/07 by Fitch, no changes by Moody's or S&P since the mid to late 90's), and United Technologies Corp., currently rated A2/A/A+, by Moody's, S&P, and Fitch, respectively (no changes by Moody's, S&P, or Fitch since 10/03, a downgrade by S&P from A+).

For the past two years, note the differences in risk premiums of these three issuers in the first columns (3yr CDS), the yield differences (again, staff is not looking to enhance yield with lower credits), and, most important, the monthly and quarterly price volatility on the right side of the table (Exhibit 13).

Another illustration of the benefits of diversification away from financials can be seen in the graph (Exhibit 11) between the Bank of America Merrill Lynch 1 – 3 Year U.S. Financial Corporates and 1 – 3 Year U.S. Industrial Corporates indices, which include issues rated Baa3 through Aaa. In 12/07, the financials index had an average credit quality of Aa3 and the industrials index was at A3; as of 01/10, the financials average credit quality had declined to A1 and the industrials was unchanged at A3. As was the case with the Wells Fargo/IBM/United Technologies examples, theses indices show the meltdown of the financial sector: One could **sell** single-A rated industrials and **buy** double-A rated financials and pick up +684 basis points (bps) at the height of the crisis (03/11/09).

Flash back to May 2002:

- The Federal Reserve was in the midst of an easing cycle as a result of the Enron and WorldCom debacles and a more typical economic slowdown that culminated in a then-record low of a 1.00% Federal Funds rate from 06/03 – 06/04,
- The unemployment rate was 5.8%,
- CPI was at 1.2% (climbing to 3% by February 2003),
- Annualized GDP registered -1.1% for 3Q01 then increased to 6.9% by 3Q03,
- The 2-year Treasury was ~3.20%,
- The 10-year Treasury was ~5.05%,
- The 2's/10's curve was at ~+190 bps, peaked at +275 bps in August 2003 then inverted to -20 bps in November 2006, steepening since then to the current +282 bps (the 30-year wide spread was +287 bps reached on 01/11/10).

With this backdrop from May 2002, one could **sell** double-A rated financials and **buy** single-A rated industrials and pick up +170 bps. In fact, for nearly the entire ten year period from 1997 through August 2007, single-A rated industrials traded at a discount to double-A rated financials. The summer of 2007 marked the start of the credit crisis and 1 – 3 year single-A rated industrials have traded at a premium to 1 – 3 year double-A rated financials ever since.

The benefits of diversification into single-A rated industrials and utilities, and away from financials, improve the overall risk profile of the OSTF and will dampen the volatility, especially in times of crisis.

It is also important to note that the reasons for an economic downturn will directly impact industry performance:

- In a financial crisis, companies with leveraged balance sheets, i.e., banks and other financial-related companies may suffer from a lack of liquidity, as witnessed in the recent credit crisis; Non-financials tend to have more predictable cash flows and less need to access the debt markets, thus providing investors with additional comfort.

- In a more typical economic downturn, i.e., a growth slowdown without a financial crisis, industrials oftentimes are impacted to a greater degree than banks and financials; the slowdown in the economy may directly impact sales and revenues and investors reaction is typically to "lighten up" on such companies as risk premiums will tend to widen.

Final thoughts on this revision:

- The total weighted minimum average credit quality rule of the OSTF will remain unchanged at AA or Aa2 by S&P or Moody's, respectfully. In other words, staff may buy single-A rated corporate indebtedness, but must also maintain the same overall OSTF credit quality as in the past.

- Ratings don't always tell the entire story as we have seen in the most recent market crisis. This revision allows more flexibility and safety through enhanced diversification of the OSTF.

Text of Revised Portfolio Rule:

VI. Diversification and Limitations of Portfolio

A. Eligible Securities:

5. Corporate Indebtedness

d. Corporate notes must have minimum long-term ratings of A- ~~AA-~~, A3 ~~Aa3~~, or A- ~~AA-~~, or better, by Standard & Poor's, Moody's Investors Services, or Fitch Ratings, respectively, at the time of purchase.

Revision/Addition #4 – Allow municipal debt obligations with a minimum long-term rating of AA-, Aa3, or AA-, or better, or are rated in the highest category for short-term municipal debt by S&P, Moody's, or Fitch, respectively, at the time of purchase

In the current low interest rate environment municipal bonds and short-term securities, especially taxable municipal securities, may offer competitive yields compared to the traditional taxable fixed income markets. During market dislocations, even tax-exempt municipal securities may offer competitive and attractive yields.

Build America Bonds (BABs) are an example of the opportunity set in the municipal debt market. BABs are US Government subsidized taxable municipal bonds created through the American Recovery and Reinvestment Act of 2009 to help state and local governments lower borrowing costs. Yields on BABs are attractive relative to other investment alternatives currently available to the OSTF. With 2009 issuance of $55 billion and expected issuance of $140 billion or more in 2010, staff expects the BABs market to exhibit the depth and liquidity appropriate for the OSTF.

As with the prior three revisions, this one, too, provides potential diversification, depending on relative value analysis, in high quality, double-A rated municipal securities.

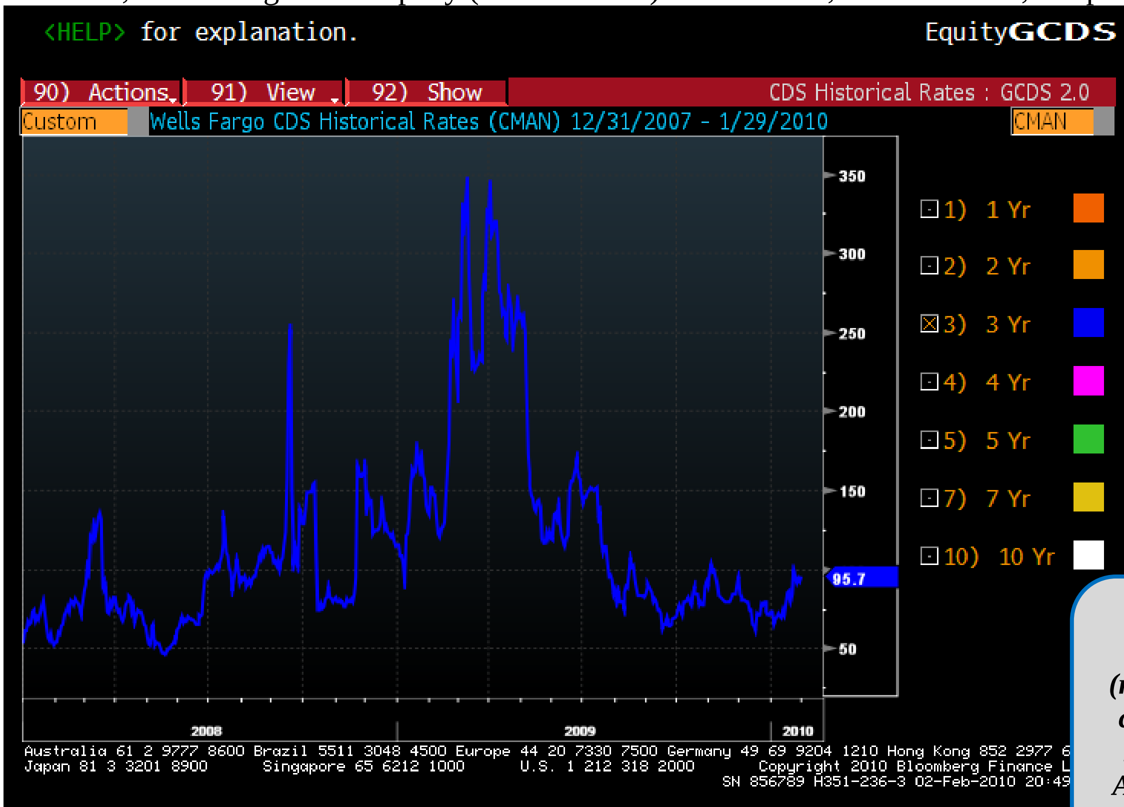
Text of New Portfolio Rule:

VI. Diversification and Limitations of Portfolio

A. Eligible Securities:

9. Municipal debt obligations (agencies, instrumentalities and political subdivisions) that have long-term ratings of AA-, Aa3 or AA-, or better, or are rated in the highest category for short-term municipal debt by Standard & Poor’s, Moody’s Investors Services, or Fitch Ratings, respectively, at the time of purchase.

Exhibit 5, Wells Fargo & Company (A1/AA-/AA-) 3-Year CDS, 12/07 – 01/10, in bps:



Compare the volatility (reflected in the cost of default insurance) in AA-rated WFC and WB to single-A rated industrials in the two graphs on the following page

Exhibit 6, Wachovia Corp. (A1/AA-/AA-) 3-Year CDS, 12/07 – 01/10, in bps:

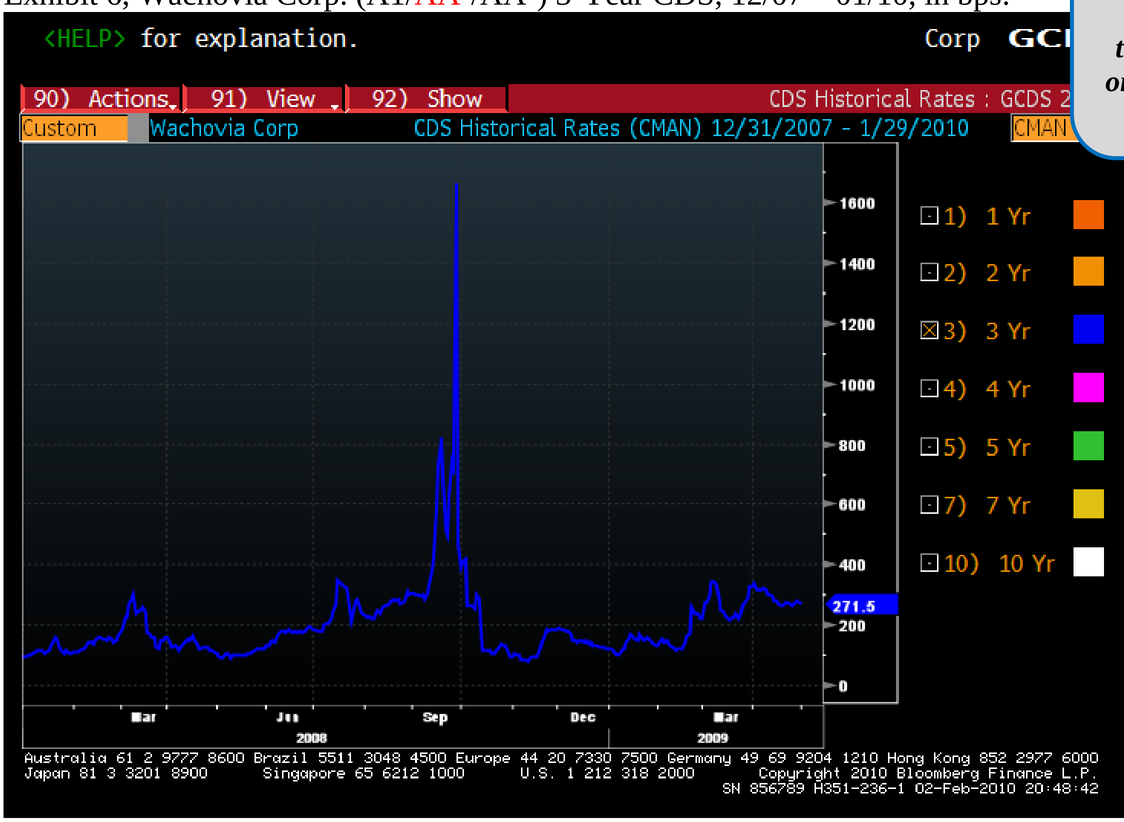
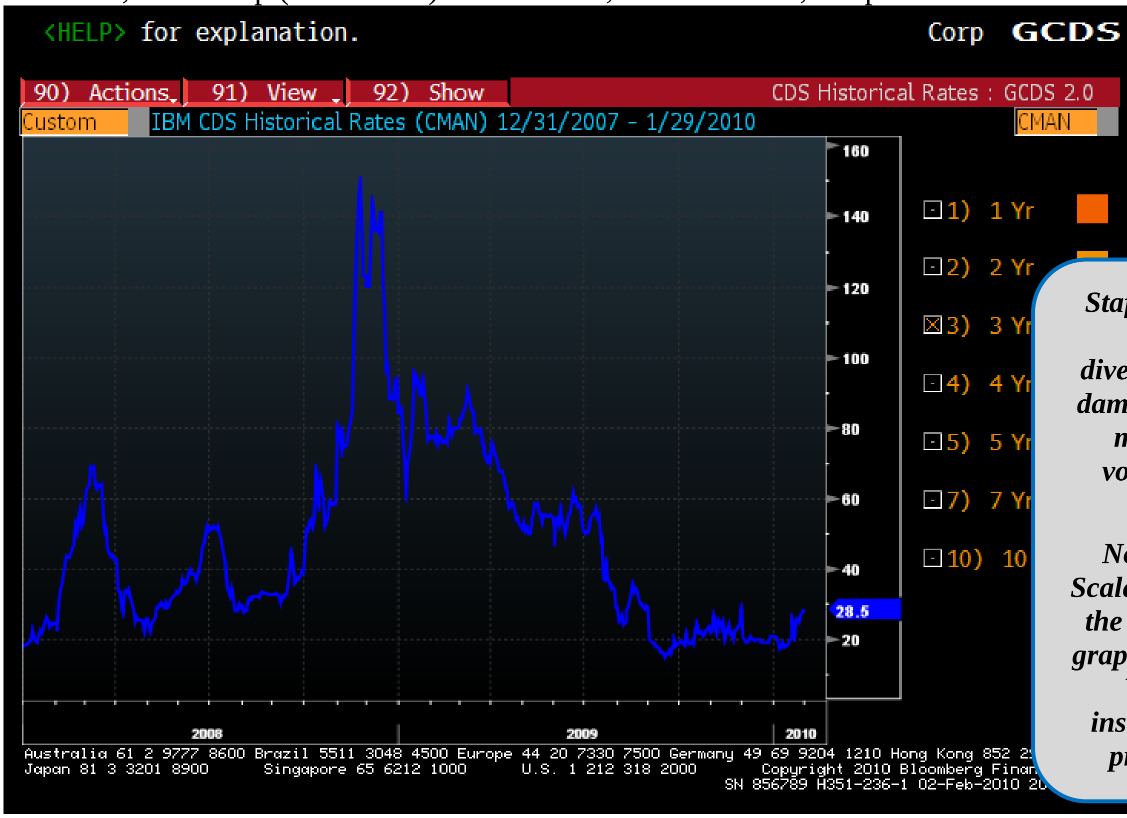


Exhibit 7, IBM Corp (A1/A+/A+) 3-Year CDS, 12/07 – 01/10, in bps:

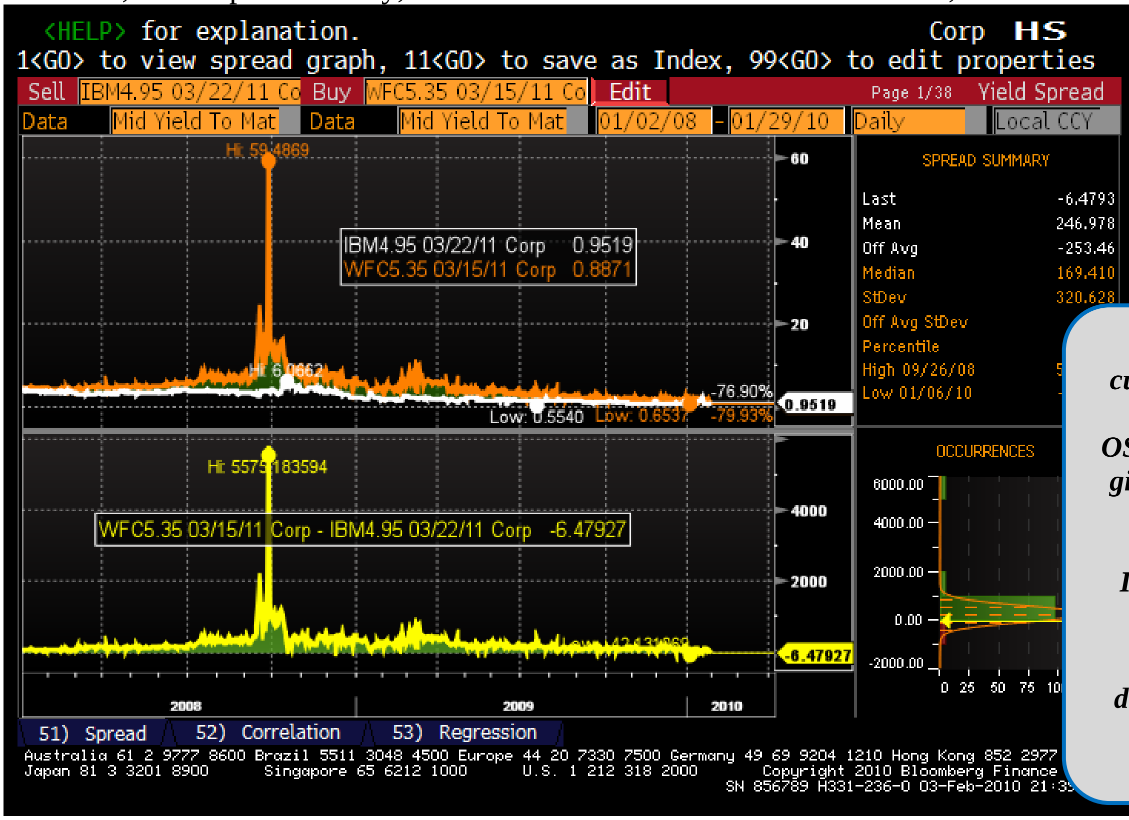


Staff believes that industry diversification will dampen the overall market value volatility of the OSTF

Note the Large Scale Differences in the Y-Axes vs. the graphs of WFC and WB default insurance on the previous page

Exhibit 8, United Technologies Corp. (A2/A/A+) 3-Year CDS, 12/07 – 01/10, in bps:

Exhibit 9, Yield spread history, IBM 4.95% 03/11 and WFC 5.35% 03/11, 12/07 – 01/10, in bps:



Based on current market pricing, the OSTF will likely give up yield to buy A-Rated Industrials…

But staff believes the diversification benefits are worth it

Exhibit 10, Yield spread history UTX 6.35% 03/11 and WFC 5.35% 03/11, 12/07 – 01/10, in bps:

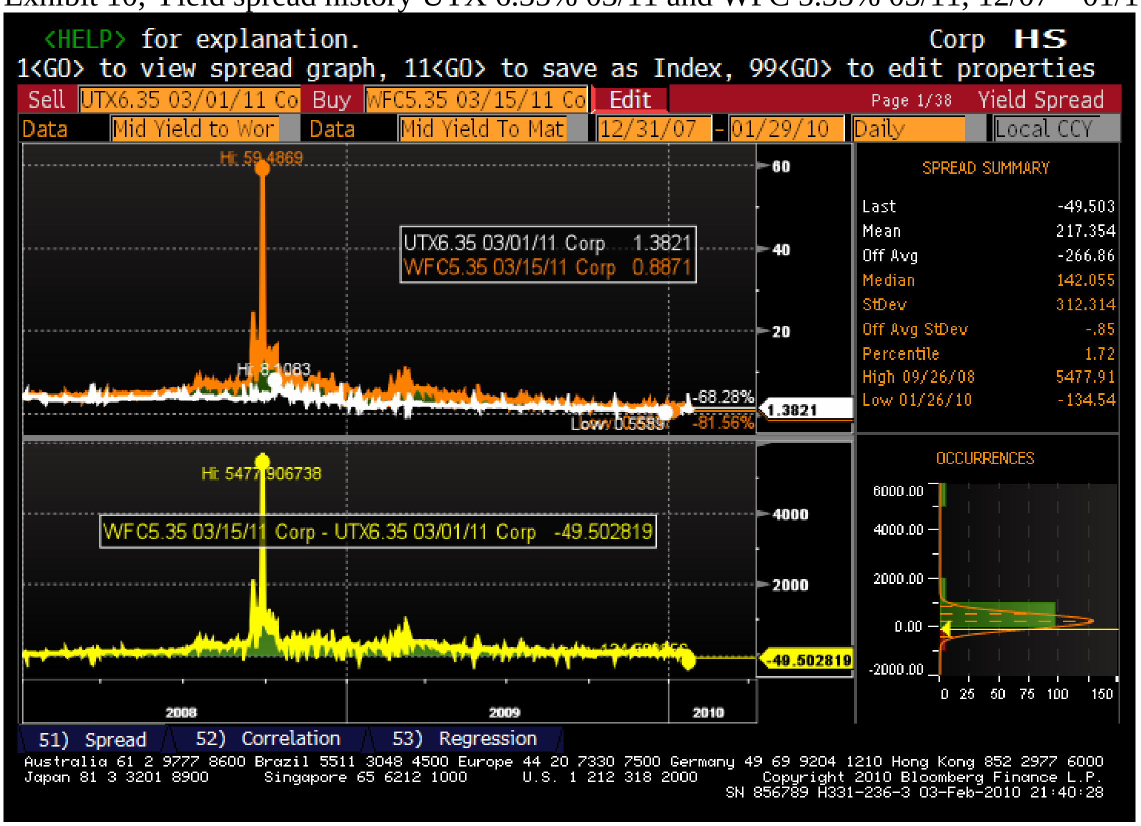
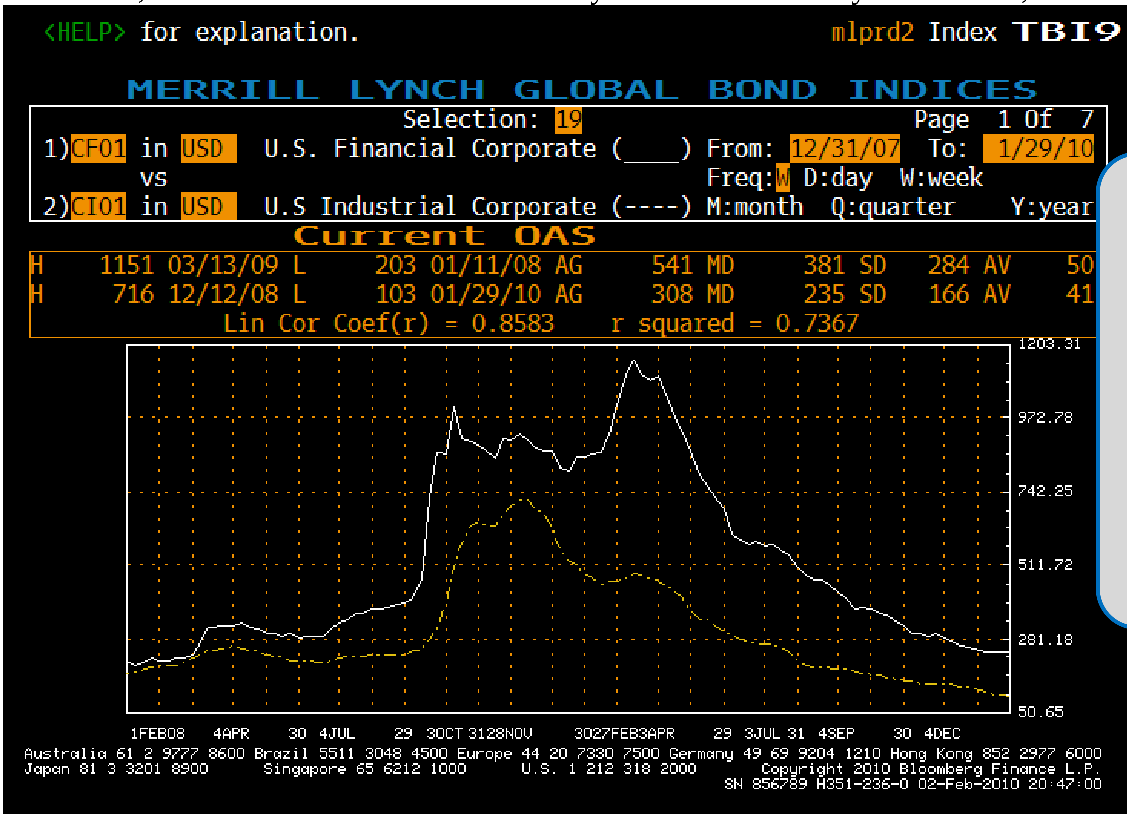


Exhibit 11, Bank of America ML Indices: 1-3yr Financials vs. 1-3yr Industrials, 12/07 – 01/10, in bps:



For the past 2+ yrs, financials have been cheaper than industrials

However, for the 10 yrs prior, the opposite was generally the case

Oregon Short-Term Fund Annual Review
April 28, 2010

Exhibit 12

Sample A-Rated Corporate Issuers						Long-Term			Short-Term		
Company	**Ticker**	**Country**	**Industry**	**Major Group**	**Industry Group**	**Moody's**	**S&P**	**Fitch**	**Moody's**	**S&P**	**Fitch**
Boeing Co	BA	US	Industrials	Capital Goods	Aerospace/ Defense	A2	A	A+	P-1	A-1	F1
Campbell Soup Co	CPB	US	Industrials	Consumer Non-Cyclical	Food-Wholesale	A2	A	A	P-1	A-1	F1
Cisco Systems Inc	CSCO	US	Industrials	Technology	Telecom Equipment	A1	A+				
ConocoPhillips	COP	US	Industrials	Energy	Integrated Energy	A1	A	A	P-1	A-1	F1
Deere & Co	DE	US	Industrials	Capital Goods	Machinery	A2	A		P-1	A-1	
GlaxoSmithKline PLC	GSK	UK	Industrials	Healthcare	Pharmaceuticals	A1	A+	A+	P-1	A-1	F1
Hewlett-Packard Co	HPQ	US	Industrials	Technology	Computer Hardware	A2	A	A+	P-1	A-1	F1
IBM Corp	IBM	US	Industrials	Technology	Software/ Services	A1	A+	A+	P-1	A-1	F1
Mid-American Energy Co	BRK	US	Utilities	Utility	Electric-Integrated	A2	A-	A	P-1	A-2	F1
NIKE Inc	NKE	US	Industrials	Consumer Cyclical	Apparel/ Footwear	A1	A+		P-1	A-1	
Oracle Corp	ORCL	US	Industrials	Technology	Software/ Services	A2	A	A	P-1	A-1	F1
PacifiCorp	BRK	US	Utilities	Utility	Electric-Integrated	A2	A	A-	P-2	A-2	F2
Praxair Inc	PX	US	Industrials	Basic Industry	Chemicals	A2	A		P-1	A-1	
United Technologies	UTX	US	Industrials	Capital Goods	Aerospace/ Defense	A2	A	A+	P-1	A-1	F1
Verizon Wireless/Cellco	VZW	US	Industrials	Telecom	Telecom-Wireless	A2	A	A			

Oregon Short-Term Fund Annual Review
April 28, 2010

Exhibit	*3yr CDS (basis points)*			*Yield (%)*			*Price ($)*			*Price Returns*								
13	**WFC**	**IBM**	**UTX**	WFC	IBM	UTX	WFC	IBM	UTX	WFC	IBM	UTX	WFC	IBM	UTX	WFC	IBM	UTX
	Mdy A1, S&P AA-, Fitch AA-	Mdy A1, S&P A+, Fitch A+	Mdy A2, S&P A, Fitch A+	5.35%	4.95%	6.35%	5.35%	4.95%	6.35%	5.35%	4.95%	6.35%	5.35%	4.95%	6.35%	5.35%	4.95%	6.35%
				03/15/11	03/22/11	03/01/11	03/15/11	03/22/11	03/01/11	**Monthly**			**Quarterly**			**Yearly**		
Jan-10	95.7	28.5	28.0	0.887	0.952	1.382	104.947	104.506	105.295	0.16%	0.29%	-1.36%						
Dec-09	73.5	20.9	22.4	1.295	1.438	0.493	104.778	104.200	106.724	0.41%	-0.18%	0.34%	0.36%	-1.24%	-0.40%	7.76%	-1.74%	-1.33%
Nov-09	96.0	28.8	38.0	1.900	1.532	1.186	104.351	104.390	106.358	-0.84%	-1.11%	-0.60%						
Oct-09	89.3	22.0	33.7	1.465	0.903	1.020	105.225	105.550	106.995	0.78%	0.06%	-0.15%						
Sep-09	70.7	18.6	29.9	2.235	1.158	1.202	104.402	105.488	107.152	0.65%	0.03%	0.08%	0.96%	-0.17%	0.08%			
Aug-09	84.5	29.2	28.7	2.849	1.388	1.547	103.725	105.452	107.068	0.22%	-0.15%	-0.37%						
Jul-09	87.4	29.2	26.6	3.104	1.453	1.525	103.500	105.614	107.466	0.10%	-0.05%	0.37%						
Jun-09	147.1	50.8	58.7	3.265	1.579	1.981	103.400	105.666	107.066	2.30%	-0.23%	-1.05%	4.86%	-0.32%	-0.66%			
May-09	120.2	54.6	56.0	4.739	1.609	1.570	101.026	105.911	108.190	-0.32%	0.46%	0.95%						
Apr-09	271.5	51.5	61.1	4.582	1.995	2.312	101.350	105.425	107.160	2.94%	-0.55%	-0.57%						
Mar-09	327.9	70.2	92.8	6.249	1.832	2.176	98.370	106.004	107.770	-2.37%	1.23%	1.19%	1.75%	-0.01%	-0.35%			
Feb-09	220.4	81.1	80.6	4.979	2.581	2.972	100.706	104.700	106.485	-0.37%	-1.64%	-1.09%						
Jan-09	135.0	77.4	84.3	4.804	1.869	2.543	101.080	106.412	107.645	4.38%	0.37%	-0.46%						
Dec-08	120.8	84.5	116.2	7.020	2.148	2.442	96.650	106.015	108.143	0.14%	2.53%	4.71%	14.12%	4.01%	4.66%	-5.10%	3.12%	2.15%
Nov-08	186.0	123.2	95.9	7.025	3.430	4.896	96.511	103.334	103.046	1.57%	1.11%	-0.17%						
Oct-08	98.3	80.3	63.0	7.702	3.978	4.861	95.000	102.182	103.225	12.63%	0.41%	0.11%						
Sep-08	389.4	39.3	34.4	13.753	4.191	4.964	83.000	101.762	103.107	-14.46%	-1.82%	-2.69%	-20.39%	-0.34%	-2.88%			
Aug-08	305.6	32.7	40.5	7.557	3.458	3.853	95.000	103.611	105.877	-0.12%	0.38%	0.56%						
Jul-08	235.1	29.8	35.5	7.439	3.656	4.159	95.116	103.213	105.288	-5.06%	1.07%	-0.75%						
Jun-08	183.7	50.8	43.2	5.376	4.119	3.921	99.926	102.110	106.075	-1.32%	-0.69%	0.22%	-1.95%	-3.25%	-2.11%			
May-08	132.0	33.1	33.8	4.863	3.879	4.072	101.244	102.810	105.845	-0.64%	-1.06%	-0.31%						
Apr-08	108.8	26.1	27.7	4.634	3.512	4.013	101.892	103.903	106.171	0.02%	-1.47%	-2.02%						
Mar-08	160.6	42.9	45.5	4.661	3.024	3.328	101.875	105.429	108.315	-1.37%	0.63%	0.35%	0.29%	2.58%	2.31%			
Feb-08	182.1	58.0	53.4	4.187	3.295	3.527	103.273	104.760	107.940	0.62%	0.90%	0.38%						
Jan-08	109.5	24.6	34.8	4.434	3.646	3.730	102.629	103.821	107.535	1.03%	1.07%	1.60%						
Dec-07	96.3	18.2	23.4	4.810	4.042	4.357	101.575	102.706	105.814									

Source: Bloomberg CMA NY CDS data; Bloomberg TRAC price and yield data

Avg.	158.7	46.4	49.5	4.839	2.564	2.847	100.406	104.422	106.452	0.04%	0.06%	-0.03%	0.00%	0.16%	0.08%
High	1,665.0	149.0	119.0	13.753	4.191	4.964	105.225	106.412	108.315	12.63%	2.53%	4.71%	14.12%	4.01%	4.66%
Low	47.0	15.0	19.0	0.887	0.903	0.493	83.000	101.762	103.046	-14.46%	-1.82%	-2.69%	-20.39%	-3.25%	-2.88%

WB	Wells Fargo & Company announced acquisition of Wachovia Corp on 09/24/08; Acquisition completed on 01/02/09
WFC	

In the most recent crisis (as the yellow highlighting suggests), even strong financials (in this example, WFC) experienced higher spread and market value volatility than lower rated industrials such as IBM and United Technologies (UTX)

FUNCTION: **Short-~~-~~Term Investments**
ACTIVITY: **Portfolio Rules**

POLICY: **The Oregon Investment Council has, with advice from the Treasurer, from OST investment staff, and from the Oregon Short-Term Fund Board, adopted specific rules for investing the Oregon Short-Term Fund (OSTF). These rules are included as sample form A.**

PROCEDURES:

1. **Verify Compliance With Portfolio Rules.** The Senior Fixed Income Investment Officer and ~~the Short Term~~ Investment Officer(s) receive an Oregon Short-Term Fund Daily Compliance Report. This report summarizes OSTF holdings by type of investment (asset allocation), by investment issuer, by time until investment maturity, and by investment quality (rating). The Daily Compliance Report also summarizes each Portfolio Rule as an "Objective," and compares the actual current portfolio to the objectives. The OSTF staff reviews this report, daily, to ensure compliance with portfolio rules.

2. **Oversight of Compliance.** The Deputy State Treasurer, Chief Investment Officer, Chief Audit Executive, Risk & Compliance Officer, and Investment Accounting staff receive and review this same report daily.~~The Chief Investment Officer and the Internal Audit Manager/IT Security Officer receive and review this same report monthly.~~ For meetings at which the OSTF is discussed, the Oregon Short-Term Fund Board and the Oregon Investment Council receive and review the compliance report.

3. **Correction of Non-Compliance.** If the OSTF is found to be out of compliance with one or more adopted portfolio rules, the Senior Fixed Income Investment Officer or ~~the Short Term~~ Investment Officer(s) shall sell (or purchase) the securities necessary to bring about compliance as soon as is prudently feasible.

SAMPLE FORMS, DOCUMENTS, OR REPORTS (Attached):

A. Oregon Short-Term Fund Portfolio Rules

B. Portfolio Compliance Report

Sample Form A

Oregon Short-Term Fund Portfolio Rules

These are the most current Portfolio Rules for the Oregon Short-Term Fund which have been adopted by the Oregon Investment Council.

Portfolio Rules
For The
Oregon Short-Term Fund

Amended ~~January 28~~April 28, 2010~~2009~~

I. Scope

These rules apply to the investment of cash from all state and eligible local government participants of the Oregon Short-Term Fund ("OSTF"). These rules are established under the authority of, and shall not supersede the requirements established under, ORS Chapter 293.

II. Investment Objectives

The primary objectives of investment activities, in priority order, shall be preservation of principal, liquidity, and yield.

A. Preservation of Principal: Safety is the foremost objective of the OSTF rules. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk (see specific guidelines below).

B. Liquidity: The OSTF shall remain sufficiently liquid to meet all state agency and local government operating requirements that may be reasonably anticipated. This is accomplished by structuring the OSTF so that securities mature concurrent with cash needs to meet anticipated demands. Furthermore, since all possible cash demands cannot be anticipated, the OSTF should consist largely of securities with active secondary or resale markets.

C. Yield: The OSTF shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The majority of the OSTF is limited to highly rated/low risk securities in anticipation of earning a fair return relative to the risk being assumed.

III. Standards of Care

A. Prudence: The standard of prudence to be used by investment officers shall be the "prudent investor" standard and shall be applied in the context of managing the OSTF 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 each investment fund.

(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 each investment fund's investment portfolio and as a part of an overall investment strategy, which should incorporate risk and return objectives reasonably suitable to the particular investment fund.

B. Ethics and Conflicts of Interest: Officers 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. Officers and employees shall, at all times, comply with the State of Oregon Government Standards and Practices code of ethics set forth in ORS Chapter 244, as well as all policies of the OST.

C. Delegation of Authority: The Senior Investment Officer and ~~the~~ Investment Officer(s) (or the Investment Analyst acting under the direction of the Investment Officers) 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. The Senior Investment Officer and ~~the~~ Investment Officer(s) 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

(3) Understanding and acknowledgement of OSTF Portfolio Rules located at http://www.ost.state.or.us/About/Investment/~~http://www.ost.state.or.us/divisions/finance/shorttermfundrules.htm~~

B. Internal Controls: The Senior Investment Officer and Investment Officer(s) jointly collaborate to establish and maintain an adequate internal control structure designed to reasonably protect the assets of the OSTF 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. Maturity Distribution of Portfolio

A. 50% of the portfolio must mature within 93 days.

B. A maximum of 25% of the portfolio may mature over one year.

C. No investment may mature in over 3 years as measured from settlement date. The OSTF Daily Compliance Report adheres to trade date accounting, thus creating potential short term exceptions on the Daily Compliance Report when a "new issue" 3-year security is purchased. Any such securities will be disclosed on the Daily Compliance Report, when purchased.

D. For securities that have been called by the issuer, the effective call date will be used as a proxy for the maturity date.

E. For variable rate securities, the period remaining to the next reset date will be used as a proxy for the maturity date.

VI. Diversification and Limitations of Portfolio

A. Eligible Securities:

(1) U.S. Treasury Securities
   a. 100% of the portfolio may be in U.S. Treasury securities.

(2) Senior unsecured debt obligations guaranteed by the Federal Deposit Insurance Corporation (FDIC) under the Temporary Liquidity Guarantee Program (TLGP); Eligible TLGP debt obligations carry the full faith and credit of the United States.
   a. 50% maximum of portfolio per FDIC-guarantee exposure.

(3) U.S. Government Agency Securities
   a. 100% of the portfolio may be in U.S. Government Agency securities.
   b. 33% maximum of portfolio per agency issuer.

(4) Foreign Government Securities and their Instrumentalities
   a. 25% maximum of portfolio in foreign government securities and their instrumentalities.

b. 10% maximum of portfolio per issuer.
c. Foreign government securities must have minimum long-term ratings of AA-, Aa3, or AA-, or better, by Standard & Poor's, Moody's Investors Services, or Fitch Ratings, respectively, at the time of purchase.

(~~4~~5) Corporate Indebtedness
a. 50% maximum of portfolio in corporate indebtedness.
b. 5% maximum of portfolio per issuer in ~~domestic~~ commercial paper and corporate notes.
c. Commercial Paper (CP) must have top-tier short term ratings by at least two nationally recognized credit rating agencies at the time of purchase (Standard & Poor's = minimum A-1, Moody's Investors Services = minimum P-1, Fitch Ratings = minimum F1).
d. Corporate notes must have minimum long-term ratings of A-~~A-~~, A3~~a3~~, or A-~~A-~~, or better, by Standard & Poor's, Moody's Investors Services, or Fitch Ratings, respectively, at the time of purchase.
~~d.~~e. 25% maximum of portfolio in total foreign exposure (government and corporate indebtedness)

(~~5~~6) Negotiable Certificates of Deposit (NCD's)
a. 20% maximum of portfolio in NCD's.
b. 5% maximum of portfolio per issuer in domestic bank NCD's.
c. NCD's must have minimum ratings of AA-, Aa3, or AA-, or better, by Standard & Poor's, Moody's Investors Services, or Fitch Ratings, respectively, at the time of purchase.

(~~6~~7) Bankers' Acceptances (BA's)
a. 20% maximum of portfolio in BA's.
b. 5% maximum of portfolio per issuer in domestic bank BA's
c. BA's must have minimum ratings of AA-, Aa3, or AA-, or better, by Standard & Poor's, Moody's Investors Services, or Fitch Ratings, respectively, at the time of purchase.

(~~7~~8) Time Certificates of Deposit (TCD's)
a. 20% maximum of portfolio in TCD's.
b. Permitted TCD's will be limited to qualified depositories as defined in ORS Chapter 295.005.
c. Maximum TCD exposure per depository must be no more than 5% of the bank's total deposits, or $100,000, whichever is greater. Maximum credit union exposure per depository shall be $100,000.

(9) Municipal debt obligations (agencies, instrumentalities, and political subdivisions) that have long-term ratings of AA-, Aa3 or AA-, or better, or are rated in the highest category for short-term municipal debt by Standard

& Poor's, Moody's Investors Services, or Fitch Ratings, respectively, at the time of purchase.

(~~8~~10) Repurchase Agreements

a. Maximum maturity will be 90 days.
b. Net capital of counterparty must be greater than $100 million.
c. Repurchase Agreements must equal no more than 2% of liabilities of the counterparty.
d. No more than 5% of OSTF assets shall be placed with the same counterparty for repurchases.
e. Counterparty must be a Primary Dealer as recognized by the Federal Reserve Bank. The only exception is OST's custodial agent as a non-primary dealer counterparty.
f. The counterparty must have a signed repurchase agreement.
g. Collateral must be delivered to the OST's account at its custodian or to an account established for the OST pursuant to the terms of the specific Repurchase Agreement in the name of the Office of the State Treasurer.
h. Collateral for repurchase agreements may be U.S. Treasury or U.S. Agency Discount and Coupon securities only. Collateral must have a final maturity of three years or less. The market value of the delivered collateral must be maintained at not less than 102% of the cash invested.

(~~9~~11) Reverse Repurchase Agreements

a. Maximum maturity will be 90 days.
b. Net capital of counterparty must be greater than $100 million.
c. Reverse Repurchase Agreements must equal no more than 2% of liabilities of the counterparty.
d. No more than 5% of OSTF assets shall be placed with the same counterparty for reverse repurchase agreements.
e. Counterparty must be a Primary Dealer as recognized by the Federal Reserve Bank.
f. The counterparty must have a signed repurchase agreement.
g. Acceptable reinvestment vehicles include securities that may otherwise be purchased outright.
h. Securities will be reversed on a fully collateralized basis.
i. Reverse repurchase investments for interest rate arbitrage shall only be done on a matched book basis.

B. All portfolio investments will be denominated in US$ only.

C. 10% maximum of portfolio per issuer on all securities and support commitments with the exception of U.S. Treasury (100% maximum) and Government Agency securities (33% per issuer).

D. Securities that have been downgraded to below the minimum ratings will be sold or held at the Senior Investment Officer's (SIO) discretion. In the absence of the SIO, or if the SIO is inaccessible, ~~the~~ Investment Officer(s) will have discretion to sell or hold the downgraded securities. Such securities will be disclosed in the OSTF Daily Compliance Report and actively monitored by OST staff. The Senior Investment Officer, or the Investment Officer(s), is responsible for bringing the OSTF back into compliance as soon as is practicable.

E. Total weighted average credit quality of the portfolio shall be a minimum of AA or Aa2, by Standard & Poor's or Moody's Investors Services, respectively, using the following and appropriate long term and short term ratings valuations for the purchased securities at the time of purchase:

Value	**Moody's Ratings**		**S&P Ratings**	
	Long Term	Short Term	Long Term	Short Term
1	US Treasury		US Treasury	
1	Agency		Agency	
1	Aaa		AAA	
2	Aa1		AA+	
3	Aa2		AA	
4	Aa3	P-1[1]	AA-	A-1+
5	A1	P-1	A+	A-1
6	A2		A	
7	A3	P-2	A-	A-2
8	Baa1		BBB+	
9	Baa2		BBB	
10	Baa3		BBB-	

(1) The target weighted average credit quality shall be < 3.50 by Standard & Poor's or Moody's Investors Services (AA or Aa2).

F. No commitments to buy or sell securities may be made more than 14 business days prior to the anticipated settlement date, or receive a fee other than interest for future deliveries.

VII. 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 Short-Term Fund (Sections VI). Within the securities lending program only, cash collateral may also be reinvested in:

(1) Maximum of 15% in asset backed securities 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 fixed rate corporate notes with a maximum final maturity of two years; 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) must be fully collateralized by collateral, determined by State Street in its discretion, limited to the following: U.S. Treasuries, U.S. Treasury STRIPS, Federal Agency Obligations, Corporate securities rated A- or higher, Asset-Backed Securities rated A- or higher, Agency MBS pass throughs rated AAA, Commercial Paper rated A-1/P-1 or higher, or any combination thereof.[2] For purposes of calculating average credit quality, current ratings of the indemnifier, State Street Corp, will be used.

(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.

F. Reverse Repurchase Agreements are prohibited within the securities lending program.

G. 25% of the reinvestment portfolio must mature within 93 days; up to 50% of the portfolio may mature in over one year.

[1] Unlike S&P, Moody's does not differentiate short term ratings with a plus (+), which indicates that the obligor's capacity to meet its financial commitment on these obligations is extremely strong. As such, in terms of average credit quality valuation, Moody's short term ratings/valuations will correspond to the lowest S&P short term ratings/valuations.

[2] 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."

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CUSIP Number	Security Name	Interest Rate	Maturity Date	Shares/Par Value	Base Total Cost	WAM	% Total
'002824AS9	ABBOTT LABS	5.600	05/15/11	14,670,000	15,018,642	410	0.14%
'02666QZQ9	AMERICAN HONDA FIN CORP MTN	0.300	05/11/10	38,000,000	37,834,167	41	0.37%
'03979GAK1	ARDEN RLTY LTD PARTNERSHIP	5.200	09/01/11	9,000,000	9,041,735	519	0.09%
'05722MDC8	BAKER HUGHES INC	0.170	04/12/10	50,000,000	49,997,403	12	0.49%
'060505DG6	BANK OF AMERICA CORP	0.420	08/13/10	25,000,000	25,000,000	135	0.24%
'06052AAF8	BANK OF AMERICA NA	0.287	09/13/10	75,000,000	75,000,000	166	0.73%
'939USP005	BANK OF THE CASCADES NOW	0.500	05/03/10	30,000,000	30,000,000	33	0.29%
'0660P1D57	BANKAMERICA CORP	0.150	04/05/10	50,000,000	49,999,167	5	0.49%
'916TLE007	BANNER BANK	0.190	05/12/10	575,000	575,000	42	0.01%
'06739JD42	BARCLAYS BANK BPLC	1.620	09/18/12	75,000,000	75,000,000	902	0.73%
'06739JSX2	BARCLAYS BANK PLC	1.330	02/14/11	100,000,000	100,000,000	320	0.97%
'06737JD77	BARCLAYS U.S. FDG LLC	0.140	04/07/10	50,000,000	49,998,833	7	0.49%
'06765XAB5	BARLCAYS BK PLC UK GOVT CR	1.052	03/05/12	60,000,000	60,020,500	705	0.58%
'073928S53	BEAR STEARNS CO INC	0.442	11/28/11	98,843,000	98,263,715	607	0.96%
'073902PQ5	BEAR STEARNS COS INC	0.439	02/01/12	55,900,000	55,284,770	672	0.54%
'073902KG2	BEAR STEARNS COS INC	0.479	01/31/11	15,100,000	14,944,829	306	0.15%
'084670AU2	BERKSHIRE HATHAWAY INC	2.125	02/11/13	40,000,000	39,986,626	1,048	0.39%
'084670AY4	BERKSHIRE HATHAWAY INC DEL	0.680	02/11/13	110,000,000	110,000,000	1,048	1.07%
'09290BD51	BLACKROCK INC	0.190	04/05/10	33,595,000	33,594,291	5	0.33%
'0556N1D26	BNP PARIBAS FIN INC	0.190	04/02/10	42,000,000	41,999,778	2	0.41%
'0556N1D91	BNP PARIBAS FIN INC	0.190	04/09/10	50,000,000	49,997,889	9	0.49%
'0556N1D83	BNP PARIBAS FIN INC	0.180	04/08/10	25,000,000	24,999,125	8	0.24%
'0556N1D59	BNP PARIBAS FIN INC	0.180	04/05/10	100,000,000	99,998,000	5	0.97%
'17314JAN3	CITIBANK NA	1.375	08/10/11	50,000,000	49,934,790	497	0.49%
'17314JAF0	CITIBANK NA	0.222	06/04/12	50,000,000	50,000,000	796	0.49%
'17307SD17	CITIGROUP FDG INC	0.180	04/01/10	75,000,000	75,000,000	1	0.73%
'17307SD82	CITIGROUP FDG INC	0.200	04/08/10	50,000,000	49,998,056	8	0.49%
'17313YAH4	CITIGROUP FUNDING INC	0.301	07/12/12	50,000,000	50,000,000	834	0.49%
'17314AAE2	CITIGROUP FUNDING INC	0.589	03/30/12	50,000,000	50,158,407	730	0.49%
'172967EG2	CITIGROUP INC	0.400	08/13/10	58,000,000	57,902,090	135	0.57%
'17290CAA4	CITIGROUP INC	0.279	05/07/12	50,000,000	50,000,000	768	0.49%
'17314JAQ6	CITIGROUPINC	0.271	09/21/12	50,000,000	50,000,000	905	0.49%
'197995004	COLUMBIA COMMUNITY BANK	0.210	04/14/10	100,000	100,000	14	0.00%
'197995004	COLUMBIA COMMUNITY BANK	0.200	06/09/10	100,000	100,000	70	0.00%
'2027A0DS5	COMMONWEALTH BANK AUST	1.250	11/20/12	100,000,000	100,000,000	965	0.97%
'22541LBJ1	CREDIT SUISSE FIRST BOSTON USA	0.450	08/15/10	54,102,000	54,012,487	137	0.53%
'22546QAB3	CREDIT SUISSE NEW YORK	3.450	07/02/12	50,000,000	51,793,243	824	0.49%
'313589YT4	FANNIE DISCOUNT NOTE	0.150	06/30/10	75,000,000	74,975,625	91	0.73%
'313589WS8	FANNIE DISCOUNT NOTE	0.130	05/12/10	50,000,000	49,992,597	42	0.49%
'3136FHT62	FANNIE MAE	2.150	06/29/12	38,500,000	38,755,962	821	0.38%
'31398AXQ0	FANNIE MAE	0.352	05/27/11	75,000,000	74,981,250	422	0.73%
'31398AYK2	FANNIE MAE	0.388	06/29/12	100,000,000	100,000,000	821	0.97%
'3136FH2U8	FANNIE MAE	0.599	07/30/12	100,000,000	100,000,000	852	0.97%
'31398AZF2	FANNIE MAE	2.000	09/28/12	25,000,000	25,000,000	912	0.24%
'31398AZH8	FANNIE MAE	1.250	09/28/11	50,000,000	50,000,000	546	0.49%
'31398AZK1	FANNIE MAE	2.050	10/19/12	50,000,000	50,037,121	933	0.49%
'31398AZU9	FANNIE MAE	1.625	04/30/12	76,000,000	76,271,757	761	0.74%
'3136FJQL8	FANNIE MAE	1.625	05/24/12	50,000,000	50,063,600	785	0.49%
'31398AC26	FANNIE MAE	1.750	12/28/12	60,000,000	59,858,436	1,003	0.58%
'31398AE32	FANNIE MAE	0.750	01/22/13	107,250,000	107,250,000	1,028	1.05%
'313385VX1	FED HOME LN DISCOUNT NT	0.090	04/23/10	81,495,000	81,489,601	23	0.79%
'313385VQ6	FED HOME LN DISCOUNT NT	0.060	04/16/10	6,019,000	6,018,850	16	0.06%
'313385YN0	FED HOME LN DISCOUNT NT	0.170	06/25/10	9,000,000	8,996,388	86	0.09%
'313385VF0	FED HOME LN DISCOUNT NT	0.120	04/07/10	45,000,000	44,999,100	7	0.44%
'313385YT7	FED HOME LN DISCOUNT NT	0.130	06/30/10	10,000,000	9,996,750	91	0.10%

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'313385VV5	FED HOME LN DISCOUNT NT	0.120	04/21/10	20,000,000	19,998,667	21	0.19%
'313385WC6	FED HOME LN DISCOUNT NT	0.120	04/28/10	36,630,000	36,626,398	28	0.36%
'31331Y3U2	FEDERAL FARM CR BKS	3.300	07/21/10	108,700,000	108,750,729	112	1.06%
'31331XE40	FEDERAL FARM CREDIT BANK	5.250	09/13/10	13,000,000	13,287,937	166	0.13%
'31331Y3P3	FEDERAL FARM CREDIT BANK	3.500	10/03/11	50,000,000	49,999,484	551	0.49%
'3133XMES6	FEDERAL HOME LN BK	4.375	10/22/10	50,000,000	50,014,693	205	0.49%
'313385WA0	FEDERAL HOME LN BK	0.120	04/26/10	100,000,000	99,991,667	26	0.97%
'313385UZ7	FEDERAL HOME LN BK CONS DSC NT	0.080	04/01/10	25,000,000	25,000,000	1	0.24%
'313385XG6	FEDERAL HOME LN BK CONS DSC NT	0.150	05/26/10	50,000,000	49,988,542	56	0.49%
'313385VN3	FEDERAL HOME LN BK CONS DSC NT	0.120	04/14/10	75,000,000	74,996,750	14	0.73%
'313385WZ5	FEDERAL HOME LN BK CONS DSC NT	0.130	05/19/10	24,150,000	24,145,814	49	0.24%
'313385XJ0	FEDERAL HOME LN BK CONS DSC NT	0.120	05/28/10	21,825,000	21,820,853	58	0.21%
'313385XY7	FEDERAL HOME LN BK CONS DSC NT	0.110	06/11/10	50,000,000	49,989,153	72	0.49%
'313385VH6	FEDERAL HOME LN BK CONS DSC NT	0.095	04/09/10	15,000,000	14,999,683	9	0.15%
'3133XBTH8	FEDERAL HOME LN BKS	4.250	06/11/10	35,170,000	35,445,067	72	0.34%
'3133XFLE4	FEDERAL HOME LN BKS	5.250	06/11/10	11,000,000	11,107,254	72	0.11%
'3133XRN22	FEDERAL HOME LN BKS	3.500	07/16/10	87,000,000	86,994,827	107	0.85%
'313397YE5	FEDERAL HOME LN MTG	0.155	06/17/10	50,000,000	49,983,424	78	0.49%
'3137EABL2	FEDERAL HOME LN MTG CORP	2.875	06/28/10	13,000,000	13,083,752	89	0.13%
'3137EABH1	FEDERAL HOME LN MTG CORP	2.375	05/28/10	20,000,000	20,070,497	58	0.19%
'313397WS6	FEDERAL HOME LN MTG DISC NTS	0.130	05/12/10	50,000,000	49,992,597	42	0.49%
'313397WX5	FEDERAL HOME LN MTG DISC NTS	0.140	05/17/10	40,000,000	39,992,844	47	0.39%
'313397WJ6	FEDERAL HOME LN MTG DISC NTS	0.140	05/04/10	50,000,000	49,993,583	34	0.49%
'313397XW6	FEDERAL HOME LN MTG DISC NTS	0.140	06/09/10	50,000,000	49,986,583	70	0.49%
'313397XN6	FEDERAL HOME LN MTG DISC NTS	0.140	06/01/10	50,000,000	49,988,139	62	0.49%
'313397YB1	FEDERAL HOME LN MTG DISC NTS	0.190	06/14/10	16,213,000	16,206,668	75	0.16%
'3133XUZY2	FEDERAL HOME LOAN BANK	0.750	10/05/11	100,000,000	100,000,000	553	0.97%
'3133XUXC2	FEDERAL HOME LOAN BANK	0.500	10/18/10	50,000,000	50,032,677	201	0.49%
'3133XVAT8	FEDERAL HOME LOAN BANK	1.000	10/19/11	75,000,000	75,000,000	567	0.73%
'3133XVU25	FEDERAL HOME LOAN BANK	1.125	11/27/12	27,285,000	27,285,000	972	0.27%
'3133XVJ44	FEDERAL HOME LOAN BANK	0.375	10/26/10	36,250,000	36,250,000	209	0.35%
'3133XVGS4	FEDERAL HOME LOAN BANK	0.500	05/10/11	42,000,000	42,000,000	405	0.41%
'3133XVBP5	FEDERAL HOME LOAN BANK	0.750	04/13/12	50,000,000	50,007,436	744	0.49%
'3133XV3L3	FEDERAL HOME LOAN BANK	0.200	09/28/10	26,525,000	26,515,375	181	0.26%
'3133XV3D1	FEDERAL HOME LOAN BANK	1.250	10/15/12	40,000,000	39,998,062	929	0.39%
'3133XVS93	FEDERAL HOME LOAN BANK	0.500	12/02/11	27,425,000	27,425,000	611	0.27%
'31398AVW9	FEDERAL NATL MTG ASSN	2.000	04/01/11	55,600,000	55,627,147	366	0.54%
'31359MGT4	FEDERAL NATL MTG ASSN	6.250	02/01/11	266,812,000	275,829,192	307	2.60%
'31398APV8	FEDERAL NATL MTG ASSN	2.375	05/20/10	39,900,000	40,016,614	50	0.39%
'31359MNU3	FEDERAL NATL MTG ASSN	5.250	08/01/12	143,432,000	152,179,641	854	1.40%
'313589WX7	FEDERAL NATL MTG ASSN DISC NTS	0.130	05/17/10	26,176,000	26,171,652	47	0.26%
'313589XJ7	FEDERAL NATL MTG ASSN DISC NTS	0.140	05/28/10	50,000,000	49,988,917	58	0.49%
'313589XN8	FEDERAL NATL MTG ASSN DISC NTS	0.150	06/01/10	50,000,000	49,987,292	62	0.49%
'313589VN0	FEDERAL NATL MTG ASSN DISC NTS	0.080	04/14/10	10,000,000	9,999,711	14	0.10%
'3133XUE33	FEDRAL HOME LOAN BANK	1.250	08/06/12	199,010,000	198,936,485	859	1.94%
'33738MAE1	FIRST UN NATL BK NC	7.800	08/18/10	5,570,000	5,725,339	140	0.05%
'351807AH5	FRANCHISE FIN CORP AMER	8.750	10/15/10	5,000,000	5,105,631	198	0.05%
'3128X8WC2	FREDDIE MAC	1.750	04/20/11	140,579,000	140,577,562	385	1.37%
'3128X9XU9	FREDDIE MAC	0.374	02/03/12	200,000,000	200,000,000	674	1.95%
'3128X9L99	FREDDIE MAC	1.800	03/18/13	100,000,000	100,000,000	1,083	0.97%
'3128X6CL8	FREDDIE MAC	5.450	09/14/12	17,500,000	17,694,082	898	0.17%
'313397YT2	FREDDIE MAC DISCOUNT NT	0.145	06/30/10	120,000,000	119,957,375	91	1.17%
'313397XP1	FREDDIE MAC DISCOUNT NT	0.120	06/02/10	50,000,000	49,989,667	63	0.49%
'313397YM7	FREDDIE MAC DISCOUNT NT	0.140	06/24/10	50,000,000	49,983,667	85	0.49%
'36962GM76	GENERAL ELEC CAP CORP	0.431	11/21/11	6,570,000	6,308,664	600	0.06%

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'36962GS70	GENERAL ELEC CAP CORP	0.349	10/21/10	7,000,000	6,932,254	204	0.07%
'36962GZ80	GENERAL ELEC CAP CORP	0.332	06/06/11	25,000,000	24,269,497	432	0.24%
'36967HAP2	GENERAL ELEC CAP CORP	0.456	03/12/12	25,000,000	25,000,000	712	0.24%
'36962G3X0	GENERAL ELEC CAP CORP	0.654	06/09/10	23,000,000	22,773,567	70	0.22%
'36962G2S2	GENERAL ELEC CAP CORP	5.000	12/01/10	3,500,000	3,469,579	245	0.03%
'36962G2N3	GENERAL ELEC CAP CORP	0.320	08/15/11	15,714,000	14,924,531	502	0.15%
'36962GW83	GENERAL ELEC CAP CORP	0.310	05/10/10	46,550,000	46,477,746	40	0.45%
'36962GZ49	GENERAL ELEC CAP CORP	0.379	11/01/12	25,000,000	24,343,397	946	0.24%
'36962G2E3	GENERAL ELEC CAP CORP	0.299	01/26/11	39,500,000	37,996,037	301	0.38%
'36967HAG2	GENERAL ELEC CAP CORP FDIC GTD	1.625	01/07/11	40,000,000	39,989,516	282	0.39%
'36967HAA5	GENERAL ELEC CAP CORP FDIC GTD	0.654	06/09/10	15,000,000	15,000,000	70	0.15%
'36959JD26	GENERAL ELEC CAPT CO	0.100	04/02/10	50,000,000	49,999,861	2	0.49%
'38146FAC5	GOLDMAN SACHS GROUP INC FDIC	0.752	12/03/10	50,000,000	50,000,000	247	0.49%
'38146FAG6	GOLDMAN SACHS GROUP INC FDIC G	0.500	11/09/11	75,000,000	75,000,000	588	0.73%
'38141ELE7	GOLDMAN SACHS GROUP INC MTN	0.388	06/28/10	131,475,000	131,333,426	89	1.28%
'40429JAG2	HSBC FIN CORP	0.500	05/10/10	61,935,000	61,886,546	40	0.60%
'40429CCQ3	HSBC FIN CORP	4.750	04/15/10	15,415,000	15,412,620	15	0.15%
'4497W1D11	ING (US) FUNDING LLC	0.180	04/01/10	50,000,000	50,000,000	1	0.49%
'4497W1D60	ING (US) FUNDING LLC	0.180	04/06/10	15,000,000	14,999,625	6	0.15%
'4497W1FW1	ING (US) FUNDING LLC	0.220	06/30/10	50,000,000	49,972,500	91	0.49%
'4497W1DD5	ING (US) FUNDING LLC	0.190	04/13/10	50,000,000	49,996,833	13	0.49%
'4497W1D94	ING (US) FUNDING LLC	0.190	04/09/10	50,000,000	49,997,889	9	0.49%
'4497W1FW1	ING (US) FUNDING LLC	0.230	06/30/10	50,000,000	49,971,250	91	0.49%
'459056HQ3	INTL BK FOR RECON + DEV	1.400	04/14/11	150,000,000	149,961,004	379	1.46%
'45905UGK4	INTL BK RECON + DEVELOP	2.100	06/15/12	50,000,000	49,993,836	807	0.49%
'47816GH93	JOHNSON & JOHNSON	0.240	08/09/10	100,000,000	99,913,333	131	0.97%
'46625HDC1	JP MORGAN CHASE + CO	0.421	01/17/11	53,149,000	52,839,573	292	0.52%
'46623EHH5	JP MORGAN CHASE + CO	0.301	06/22/10	71,000,000	70,998,976	83	0.69%
'46623EJA8	JPMORGAN CHASE + CO	0.902	02/26/13	25,000,000	25,000,000	1,063	0.24%
'481247AH7	JPMORGAN CHASE + CO FDIC	0.332	02/23/11	12,000,000	12,000,000	329	0.12%
'481247AB0	JPMORGAN CHASE+CO FDIC GTD TLG	0.752	12/02/10	100,000,000	100,000,000	246	0.97%
'50000BD98	KOCH RESOURCES LLC	0.170	04/09/10	30,000,000	29,998,867	9	0.29%
'50000BD72	KOCH RESOURCES LLC	0.190	04/07/10	35,000,000	34,998,892	7	0.34%
'50000BD98	KOCH RESOURCES LLC	0.190	04/09/10	50,000,000	49,997,889	9	0.49%
'52517P2K6	LEHMAN BROTHERS HLDGS INC	5.645	05/25/10	171,115,000	167,709,993	55	1.67%
'981MSA904	LEHMAN RECEIVABLE	0.000		20,187,000	19,873,864		0.20%
'58934BDN1	MERCK & CO. INC	0.140	04/22/10	50,000,000	49,995,917	22	0.49%
'59217ECA0	MET LIFE GLOB FUNDING I	0.858	09/17/10	225,000,000	225,000,000	170	2.19%
'59157UFW5	METLIFE SHORT TERM FDG	0.250	06/30/10	25,000,000	24,984,375	91	0.24%
'61747YBM6	MORGAN STANLEY	0.349	05/07/10	43,391,000	43,362,210	37	0.42%
'61746BDD5	MORGAN STANLEY	2.350	05/14/10	10,000,000	9,993,984	44	0.10%
'61757UAL4	MORGAN STANLEY FDIC GTD TLGP	0.530	02/10/12	52,250,000	52,436,176	681	0.51%
'61757UAA8	MORGAN STANLEY FDIC GTD TLGP	2.900	12/01/10	100,000,000	99,979,918	245	0.97%
'61757UAC4	MORGAN STANLEY FDIC GTD TLGP	1.102	12/01/11	27,000,000	27,000,000	610	0.26%
'617446YT0	MORGAN STANLEY GROUP INC	0.501	01/18/11	21,300,000	20,897,043	293	0.21%
'64105HDE9	NESTLE CAP CORP	0.150	04/14/10	50,000,000	49,997,292	14	0.49%
'64105HFW7	NESTLE CAP CORP	0.160	06/30/10	15,000,000	14,994,000	91	0.15%
'64105HDF6	NESTLE CAP CORP	0.150	04/15/10	50,000,000	49,997,083	15	0.49%
'64105HD66	NESTLE CAP CORP	0.110	04/06/10	50,000,000	49,999,236	6	0.49%
'64105SFW3	NESTLE FIN FRANCE S.	0.160	06/30/10	35,000,000	34,986,000	91	0.34%
'64952WAU7	NEW YORK LIFE GLOBAL FDG	0.349	01/13/12	50,000,000	50,000,000	653	0.49%
'717081DC4	PFIZER INC	2.207	03/15/11	50,000,000	50,000,000	349	0.49%
'7426M5FW9	PRIVATE EXP. FUNDING	0.170	06/30/10	25,000,000	24,989,375	91	0.24%
'7426M5D19	PRIVATE EXP. FUNDING	0.150	04/01/10	25,000,000	25,000,000	1	0.24%
'74273MD86	PROCTER + GAMBLE INTL FDG	0.150	04/08/10	50,000,000	49,998,542	8	0.49%

Oregon Short-Term Annual Review
April 28, 2010

As of: **3/31/2010**

CUSIP Number	Security Name	Interest Rate	Maturity Date	Shares/Par Value	Base Total Cost	WAM	% Total
'74433HD19	PRUDENTIAL FNDG LLC	0.150	04/01/10	35,000,000	35,000,000	1	0.34%
'74433HD19	PRUDENTIAL FNDG LLC	0.180	04/01/10	75,000,000	75,000,000	1	0.73%
'74977RCB8	RABOBANK NEDERLAND	0.389	01/22/13	100,000,000	100,000,000	1,028	0.97%
'74977LD53	RABOBANK USA FINL CO	0.160	04/05/10	50,000,000	49,999,111	5	0.49%
'74977LD12	RABOBANK USA FINL CO	0.150	04/01/10	50,000,000	50,000,000	1	0.49%
'77119MD61	ROCHE HOLDING INC	0.160	04/06/10	44,000,000	43,999,022	6	0.43%
'83365SD18	SOCIETE GEN NO AMER	0.175	04/01/10	50,000,000	50,000,000	1	0.49%
'83365SD91	SOCIETE GEN NO AMER	0.175	04/09/10	23,000,000	22,999,106	9	0.22%
'83365SD75	SOCIETE GEN NO AMER	0.175	04/07/10	50,000,000	49,998,542	7	0.49%
'83365SFW8	SOCIETE GEN NO AMER	0.240	06/30/10	50,000,000	49,970,000	91	0.49%
'83365SD83	SOCIETE GEN NO AMER	0.180	04/08/10	50,000,000	49,998,250	8	0.49%
'86099L948	STERLING SAVINGS BANK	0.200	06/09/10	4,300,000	4,300,000	70	0.04%
'86561BED3	SUMITOMO CORP. AMER.	0.330	05/13/10	9,000,000	8,996,535	43	0.09%
'8672EPAC1	SUNCORP METWAY LTD	0.633	12/17/10	50,000,000	50,000,000	261	0.49%
'89233P2J4	TOYOTA MTR CR CORP MTN BK ENT	0.350	08/17/10	45,000,000	44,908,227	139	0.44%
'90333WAA6	U S BK NATL ASSN MINNEAPOLIS	6.375	08/01/11	13,800,000	14,189,844	488	0.13%
'90261XFC1	UBS AG STAMFORD	1.169	05/05/10	21,650,000	21,591,203	35	0.21%
'90261XFT4	UBS AG STAMFORD CT	1.750	09/06/11	200,000,000	200,000,000	524	1.95%
'90261XFR8	UBS AG STAMFORD CT	3.455	07/29/11	100,000,000	100,000,000	485	0.97%
'69199J005	UMPQUA BANK	0.210	04/14/10	15,000,000	15,000,000	14	0.15%
'69199J005	UMPQUA BANK	0.190	05/12/10	15,000,000	15,000,000	42	0.15%
'69199J005	UMPQUA BANK	0.200	06/09/10	15,000,000	15,000,000	70	0.15%
'90477ED68	UNILEVER CAPITAL CRP	0.150	04/06/10	50,000,000	49,998,958	6	0.49%
'912828JC5	UNITED STATES TREAS NTS	2.875	06/30/10	100,000,000	100,180,031	91	0.97%
'92976FBW2	WACHOVIA BANK NA	5.000	09/28/11	35,000,000	36,179,546	546	0.34%
'929903CG5	WACHOVIA CORP NEW	0.381	10/15/11	92,608,000	90,492,825	563	0.90%
'929903DF6	WACHOVIA CORP NEW	0.379	04/23/12	87,265,000	84,976,325	754	0.85%
'929903BH4	WACHOVIA CORP NEW	0.377	03/15/11	10,000,000	9,814,564	349	0.10%
'949746NB3	WELLS FARGO + CO	4.875	01/12/11	2,100,000	2,133,237	287	0.02%
'949744AB2	WELLS FARGO + CO FDIC GTD TLGP	1.104	12/09/11	50,000,000	50,000,000	618	0.49%
'949746NC1	WELLS FARGO + CO NEW	0.351	01/12/11	25,000,000	24,492,118	287	0.24%
'94974BAZ3	WELLS FARGO + CO NEW MED TRM	3.980	10/29/10	16,200,000	16,162,605	212	0.16%
'94974BEJ5	WELLS FARGO CO	0.286	06/18/10	27,700,000	27,537,099	79	0.27%
				10,262,675,000	10,269,849,566	200	100.00%

Office of the State Treasurer
Investment Accounting System

350 Winter Street NE Suite 100
Salem, Oregon 97301-3896
(503) 378-4633

OSTF Daily Compliance

Short-term Portfolio Guidelines

As of March 31, 2010

Maturity Distribution

	In Compliance	Objective	Percent of Par	Par Value
Portfolio to Mature Within 93 Days:				
A. 1 to 30 Days			30.254%	3,098,776,000.00
B. 31 to 60 Days			16.379%	1,677,646,000.00
C. 61 to 93 Days			21.225%	2,173,958,000.00
Subtotal - Portfolio to Mature Within 93 Days:	Yes	> 50%	67.858%	6,950,380,000.00
Portfolio to Mature Between 94 and 366 Days:				
D. 94 to 136 Days			2.887%	295,700,000.00
E. 137 to 182 Days			2.393%	245,095,000.00
F. 183 to 273 days			2.548%	260,950,000.00
G. 274 to 366 Days			4.725%	483,912,000.00
Subtotal - Portfolio to Mature Between 94 and 366 Days:			12.552%	1,285,657,000.00
Portfolio to Mature Beyond One Year:				
H. 367 to 550 Days			5.175%	530,049,000.00
I. 551 to 730 Days			2.464%	252,425,000.00
J. 731 to 912 Days			7.805%	799,442,000.00
K. 913 to 1096 Days			4.145%	424,535,000.00
Subtotal - Portfolio to Mature Beyond One Year:	Yes	< 25%	19.589%	2,006,451,000.00
	Total		100.000%	10,242,488,000.00
Weighted Average Maturity: (Days)				199.74

Called Securities

FNMA 31398AVW9, par value $55,600,000.00 called on 4/1/2010, original maturity on 4/1/2011

IBRD 459056HQ3, par value $150,000,000.00 called on 4/14/2010, original maturity on 4/14/2011

Maturities > 3 years (1097+ days) All securities held mature within 1,096 days

Diversification of Portfolio

	In Compliance	Objective	Percent	Par Value
US Treasury and Agency Securities		Any %	41.137 %	4,213,446,000.00
FDIC Guaranteed Corporates	Yes	<50%	8.994 %	921,250,000.00
Corporate Indebtedness				
Corporate Notes			29.887 %	3,061,122,000.00
Commercial Paper			19.200 %	1,966,595,000.00
Total Corporate Indebtedness	Yes	< 50%	49.087 %	5,027,717,000.00
TCD	Yes	<20%	0.489 %	50,075,000.00
FDIC/NOW Deposits			0.293 %	30,000,000.00
			100.000 %	10,242,488,000.00

	In Compliance	Objective	Value
Agency Securities, Largest Holdings by a single Issuer	Yes	< 33%	14.63 %
Corporate Indebtedness, Largest Holdings by a single Issuer (excludes TLGP corporate issues)	Yes	< 5%	3.14 %
Corporate exposure including Ltr of Credit (excludes TLGP corporate issues)	Yes	< 10%	3.14 %

Office of the State Treasurer
Investment Accounting System

350 Winter Street NE Suite 100
Salem, Oregon 97301-3896
(503) 378-4633

OSTF Daily Compliance
Short-term Portfolio Guidelines
As of March 31, 2010

Credit Quality

Standard & Poor's Weighted Average Credit Quality	Yes	< 3.5	3.05	AA
Moody's Weighted Average Credit Quality	Yes	< 3.5	2.90	Aa2

Today's Trades Meet Compliance Quality Rules : Yes

Commercial Paper Yes At least 2 of 3, minimum A-1 (S & P), P-1 (Moody's), F1 (Fitch)

Corporate Bonds/Notes/Bank Notes downgraded after purchase :

Amount	CUSIP	Issuer Name	Maturity	S&P	Moody's	Fitch
43,391,000.00	61747YBM6	MORGAN STANLEY	5/7/2010	A	A2	A
61,935,000.00	40429JAG2	HSBC FIN CORP	5/10/2010	A	A3	NA
38,000,000.00	02666QZQ9	AMERICAN HONDA FIN CORP MTN	5/11/2010	A+	A1	NA
10,000,000.00	61746BDD5	MORGAN STANLEY	5/14/2010	A	A2	A
171,115,000.00	52517P2K6	LEHMAN BROTHERS HLDGS INC	5/25/2010	NR	WR	NR
131,475,000.00	38141ELE7	GOLDMAN SACHS GROUP INC MTN	6/28/2010	A	A1	A+
58,000,000.00	172967EG2	CITIGROUP INC	8/13/2010	A	A3	A+
25,000,000.00	060505DG6	BANK OF AMERICA CORP	8/13/2010	A	A2	A+
21,300,000.00	617446YT0	MORGAN STANLEY GROUP INC	1/18/2011	A	A2	A

Other

Weighted Average Yield 0.9798 %

Lehman rates set to -0- percent for this calculation.

Trade Commitments:

No open trades greater than 14 business days, trade to settle

Report No. 2009-19

September 2009

Kate Brown, Secretary of State   Gary Blackmer, Director, Audits Division

Secretary of State Audit Report

State of Oregon

Oregon Short-Term Fund

An Investment Pool of the State of Oregon
For the Fiscal Year Ended June 30, 2009

Office of the Secretary of State

Kate Brown
Secretary of State

Barry Pack
Deputy Secretary of State

Audits Division

Gary Blackmer
Director

255 Capitol St. NE, Suite 500
Salem, OR 97310

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The Honorable Theodore R. Kulongoski, Governor, of Oregon
The Honorable Ben Westlund, State Treasurer
The Oregon Investment Council
Oregon Short-Term Fund Board

This report presents the results of our annual audit of the Oregon Short-Term Fund (OSTF), an investment pool of the State of Oregon.

As required by auditing standards, we performed the audit to obtain reasonable assurance about whether the financial statements and accompanying notes have been presented fairly by management. Our Independent Auditor's Report and the financial statements for the year ended June 30, 2009., are included in the Financial Section of this report. We concluded that the financial statements are fairly presented in accordance with accounting principles generally accepted in the United States of America.

Auditing standards also require us to review the Office of the State Treasurer's internal control and compliance with applicable laws, regulations, contracts, and grant agreements relating to the Oregon Short-Term Fund. Our report on the results of those reviews is included in the Other Reports section of this report. Our consideration of internal control was limited to the scope necessary to achieve our audit objectives and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses as defined by generally accepted auditing standards.

We appreciated the cooperation and assistance of the Office of the State Treasurer management and staff during the course of our audit.

OREGON AUDITS DIVISION

Gary Blackmer
Director

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FINANCIAL SECTION

Office of the Secretary of State

Kate Brown
Secretary of State

Barry Pack
Deputy Secretary of State

Audits Division

Gary Blackmer
Director

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(503) 986-2255
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The Honorable Theodore R. Kulongoski, Governor of Oregon
The Honorable Ben Westlund, State Treasurer
The Oregon Investment Council
Oregon Short-Term Fund Board

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the Oregon Short-Term Fund, an investment pool for the State of Oregon, as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the Office of the State Treasurer management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Office of the State Treasurer's internal control over financial reporting relating to the Oregon Short-Term Fund. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Oregon Short-Term Fund, an investment pool of the State of Oregon, Office of the State Treasurer, are intended to present the financial position, and changes in financial position of only the Oregon Short-Term Fund. They do not purport to, and do not, present fairly the financial position of the Office of the State Treasurer or the State of Oregon as of June 30, 2009, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Oregon Short-Term Fund as of June 30, 2009, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2009 on our consideration of the Office of the State Treasurer's internal control over financial reporting relating to the Oregon Short-Term Fund and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit. That report is presented separately in the Other Reports section as listed in the table of contents.

OREGON AUDITS DIVISION

Kate Brown
Secretary of State

August 25, 2009

State of Oregon
OREGON SHORT-TERM FUND
Statement of Net Assets
June 30, 2009
(Dollars in Thousands)

	June 30, 2009
Assets:	
Cash and Cash Equivalents	$ 2,339,560
Investments	7,815,700
Due from Secretary of State (Note 5)	72
Due from Department of Administrative Services (Note 5)	8,333
Due from the Department of Human Services (Note 5)	60,000
Accrued Interest Receivable	26,191
Securities Lending Collateral (Note 3)	3,923,673
Total Assets	14,173,529
Liabilities:	
Due to Employment Department (Note 6)	41
Bank Overdrafts	9,173
Obligations Under Securities Lending (Note 3)	3,923,673
Total Liabilities	3,932,887
Net Assets:	
Held in Trust for Participants	10,240,642
Total Net Assets	$ 10,240,642

The accompanying notes are an integral part of the financial statements.

State of Oregon

OREGON SHORT-TERM FUND

Statement of Changes in Net Assets

For the Year Ended June 30, 2009

(Dollars in Thousands)

	Year Ended June 30, 2009
Additions:	
Participants' Contributions	$ 47,752,155
Investment Income, Net of Expenses (Notes 1, 4)	206,169
Total Additions	47,958,324
Deductions:	
Participants' Withdrawals	47,151,120
Distributions of Interest to Participants	212,586
Securities Lending Agent Fee Expense	3,849
Securities Lending Borrowers' Rebate Expense	37,838
Total Deductions	47,405,393
Change in Net Assets Held in Trust for Participants	552,931
Net Assets - Beginning	9,687,711
Net Assets - Ending (Note 7)	$ 10,240,642

The accompanying notes are an integral part of the financial statements.

OREGON SHORT-TERM FUND
Notes to Financial Statements
June 30, 2009

(1) Summary of Significant Accounting Policies

Reporting Entity The Oregon Short-Term Fund (Fund) is a short-term cash investment vehicle. A number of local governments in Oregon as well as all State agencies participate in the Fund, thus it is an external investment pool as defined in Statement No. 31 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.*

The Fund is not registered with the U.S. Securities and Exchange Commission as an investment company. The State's investment policies are governed by Oregon Revised Statutes and the Oregon Investment Council (Council). The State Treasurer is the investment officer for the Council and is responsible for all funds entrusted to the Office of the State Treasurer (OST). These funds must be invested, and the investments managed, as a prudent investor would, exercising reasonable care, skill and caution. Investments in the Fund are further governed by portfolio guidelines recommended by the Oregon Short-Term Fund Board, with Council approval, establishing diversification percentages and specifying the types and maturities of investments. The portfolio guidelines permit securities lending transactions as well as investments in repurchase agreements and reverse repurchase agreements. The Fund was in compliance with all portfolio guidelines at June 30, 2009. Portfolio guidelines are discussed in greater detail in the Investments section of Note 2.

According to ORS 293.265 and 295.002, state agencies must deposit all funds with depositories qualified by the OST. Undesignated funds not required to meet current demand are deposited in the Fund; therefore, state agencies are considered involuntary participants of the Fund. Because the Fund operates as a demand deposit account for state agency participants, the portion of the Fund belonging to state agency (internal) participants is classified as cash and cash equivalents in the State's Comprehensive Annual Financial Report. The portion of the Fund belonging to local government (external) participants is reported in an investment trust fund in the State's Comprehensive Annual Financial Report.

Basis of Accounting These statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Trade date accounting is observed, which means that purchases and sales of securities are recorded on the day the trade takes place with a corresponding payable to or receivable from the broker. Changes in the fair value of investments are recognized at the end of each year. The fair value of investments is determined annually and is equal to market price.

Cash and Cash Equivalents Investments with original maturities of three months or less are considered cash equivalents and are reported at amortized cost, which approximates fair value. Cash and Cash Equivalents also include cash in banks.

Investments Investments with remaining maturities of less than ninety days are carried at amortized cost, provided that the fair value of these instruments is not significantly affected by the impairment of the credit standing of the issuer or by other factors. Amortized cost approximates fair value. Investments with longer maturities are carried at fair value.

Participants' equity; distributions of interest Participants' account balances in the Fund are determined by the amount of participants' deposits, adjusted for withdrawals and distributed interest. The Fund has not provided or received any legally binding guarantees with regard to balances in the Fund. Interest is calculated and accrued daily on each participant's account based on the ending account balance and a variable interest rate determined periodically by the OST. When a participant's account is overdrawn, negative interest accrues daily at the determined rate plus a premium. The total interest paid to participants each month approximates the actual earnings of the Fund exclusive of unrealized gains and losses. Interest is distributed monthly on the last business day of the month. If the last day of the month is a weekend or holiday, interest is accrued through the last calendar day of the month but posted on the last business day.

(2) Deposits and Investments

Deposits On June 30, 2009 the Fund held $(7.1) million book balance in deposits with a bank balance of $40.1 million. Insurance and collateral requirements for deposits are established by banking regulations and Oregon law. All deposits are with financial institutions participating in the FDIC's Transaction Account Guarantee Program. Under that program, through December 31, 2009, all noninterest-bearing transaction accounts are fully guaranteed by the FDIC for the entire amount in the account. Coverage under the Transaction Account Guarantee Program is in addition to and separate from the coverage available under the FDIC's general deposit insurance rules. Consequently, the balance of $40.1 million is fully insured.

Investments On June 30, 2009, the Fund held $10.2 billion in net assets, $2.3 billion of which are classified as Cash and Cash Equivalents on the Statement of Net Assets. The Fund's portfolio rules establish the Fund's permitted investments and provide guidelines for managing the various types of risk associated with these investments. The different risks will be discussed below.

A. Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Fund staff manages this risk by limiting the maturity of the investments held by the Fund. The portfolio rules require that at least 50 percent of the portfolio mature within 93 days; not more than 25 percent of the portfolio may mature in over a year; and no investments may mature over three years from settlement date. The June 30, 2009 holdings are shown in the schedule below. For variable rate securities, the next interest rate reset date is used instead of the maturity date.

June 30, 2009
(Dollars in Thousands)

Investment Type	Reported Amount ①	Up to 93 Days	94 Days to One Year	One to Three Years
		Investment Maturities		
Cash and Cash Equivalents: ②				
Commercial Paper	$ 1,611,306	$ 1,611,306	$ -	$ -
U.S. Agency Securities	374,928	374,928	-	-
Time Certificates of Deposit	66,550	66,550	-	-
Temporary Liquidity Guarantee	284,958	284,958	-	-
Subtotal Cash Equivalents	2,337,742	2,337,742	-	-
Investments: ②				
U.S. Agency Securities	4,062,127	2,083,986	851,228	1,126,913
Bank Notes	96,139	96,139	-	-
Commercial Paper	76,113	76,113	-	-
Corporate Notes	2,720,665	2,321,779	288,482	110,404
Time Certificates of Deposit	31,200	31,200	-	-
Temporary Liquidity Guarantee	829,456	636,281	50,001	143,174
Subtotal Investments	7,815,700	5,245,498	1,189,711	1,380,491
Total	$ 10,153,442	$ 7,583,240	$ 1,189,711	$ 1,380,491

① Reported Amount is a combination of amortized cost and fair value. See Note 1
② Classification on Statement of Net Assets

B. Credit risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Fund's policies provide minimum weighted average credit quality ratings for the Fund's holdings: AA and Aa2 for Standard and Poor's (S&P) and Moody's, respectively. On June 30, 2009, the fund's weighted average rating was between S&Ps AA+/Aa1 and Moody's AA/Aa2 ratings.

The Fund has policies that require a minimum credit rating at the time of purchase for corporate notes from one of three ratings services. The minimums are a S&P rating of AA-, Moody's of Aa3 and Fitch of AA-. The Fund also requires commercial paper to have a minimum short-term credit rating at the time of purchase from two of three ratings services. Minimums are a S&P ratings of A-1, Moody's of P-1 and Fitch of F-1.

Occasionally, securities are downgraded but Fund policies allow them to be retained at the Senior Investment Officer's discretion. The Fund is holding corporate notes at June 30, 2009 totaling $921.3 million that have been downgraded, but are still of investment grade quality. Holdings of Lehman Brothers securities totaling $191.3 million par value had its ratings from all three agencies withdrawn due to bankruptcy. The schedule below summarizes the fund's holdings by grouped S&P rating:

Schedule of Credit Quality Distribution
June 30, 2009
(Dollars in Thousands)

Investment Type	AAA	AA	A	BBB	Not Rated	Rating Withdrawn	Total Reported Amount
Bank Notes	$ -	$ 96,139	$ -	$ -	$ -	$ -	$ 96,139
Commercial Paper	-	1,687,419	-	-	-	-	1,687,419
Corporate Notes	362,032	585,744	1,669,274	75,399	-	28,217	2,720,666
U.S. Treasury and Agency Securities	4,437,055	-	-	-	-	-	4,437,055
Temporary Liquidity Guarantee	829,455	284,958	-	-	-	-	1,114,413
Time Certificates of Deposit	-	-	-	-	97,750	-	97,750
Total	$ 5,628,542	$ 2,654,260	$ 1,669,274	$ 75,399	$ 97,750	$ 28,217	$ 10,153,442

C. Custodial credit risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the government will not be able to recover the value of an investment or collateral securities in the possession of an outside party. The Fund's portfolio rules provide that broker/dealers meet certain qualifications and that investments are delivered to and held by a third-party custodian, which holds the Fund's securities in the State of Oregon's name. Time certificates of deposit (TCDs) are not exposed to custodial credit risk, as they are covered by FDIC insurance of $1.2 million and the balance of $96.6 million is covered by a multiple financial institution collateral pool (ORS 295.015) administered by the Oregon Office of the Treasurer.

D. Concentration of credit risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Fund rules provide that the maximum that may be invested in any one issuer, as a percentage of the fund's total investments, is 33 percent for U.S. Agency securities and five percent for both commercial paper and corporate notes. On June 30, 2009, the Fund did not hold investments with any one issuer that exceeded these limits. The schedule below lists those issuers where holdings are greater than five percent.

Schedule of Issuers - Holdings Greater Than Five Percent
June 30, 2009
(Dollars in Thousands)

Issuer Name		Reported Amount	Percent of Holding
Agency Bonds:			
Federal Home Loan Bank	$	663,581	6.54%
Federal National Mortgage Association		752,137	7.41%
Agency Discount Notes:			
Federal Home Loan Bank		705,228	6.95%
Federal Home Loan Mortgage Corporation		853,588	8.41%

E. Foreign Currency

The Fund portfolio rules prohibit investments that are not US dollar-denominated; therefore, the Fund is not exposed to this risk.

(3) Securities Lending

The OST has authorized its custodian to act as its agent in the lending of the Fund's securities pursuant to a form of loan agreement, in accordance with Fund investment policies. There have been no significant violations of the provisions of the securities lending agreement. The State's securities lending agent lent short-term and fixed income securities and received as collateral U.S. dollar-denominated cash. Borrowers were required to deliver cash collateral for each loan equal to not less than 102 percent of the market value of the loaned security. The State did not impose any restrictions during the year on the amount of the loans that the securities lending agent made on its behalf. The State is fully indemnified by its securities lending agent against losses due to borrower default. There were no losses during the year from the failure of borrowers to return loaned securities.

In 2008 the lending agent created a new fund to reinvest cash collateral received on behalf of the OSTF and Oregon state agencies other than PERS. As permitted under the fund's Declaration of Trust (Declaration), participant purchases and redemptions are transacted at $1.00 per unit ("constant value") based on the amortized cost of the fund's investments. Accordingly, the securities lending collateral held and the obligation to the lending agent are both stated at constant value on the Statement of Net Assets. The balances of securities on loan, cash collateral received and invested collateral at market value are presented in the schedule below.

Schedule of Securities Lending Balances
June 30, 2009
(Dollars in Thousands)

	Securities on Loan at Fair Value	Collateral Received	Invested Collateral at Fair Value
U.S.Agency Securities	$ 3,240,842	$ 3,308,293	$ 3,280,138
Corporate Notes	602,519	615,380	610,143
Total	$ 3,843,361	$ 3,923,673	$ 3,890,281

The Declaration also provides that if a significant difference exists between the constant value and the market-based net asset value of investments made with the collateral, the agent may determine that a condition exists that would create inequitable results if redemptions were made at the constant value. In that case, the agent may direct that units be redeemed at fair value, engage in in-kind redemptions, or take other actions to avoid inequitable results for the fund participants, until the difference between the constant value and the fair value is deemed immaterial.

(4) Management Fees

In accordance with ORS 293.718, the OST may deduct monthly 0.435 basis points of the most recent market value of assets under management for administration and portfolio management. For the year ended June 30, 2009 the OST charged the Fund a monthly rate of 0.30 basis points based on average daily balances in the Fund. The fee is deducted from investment income before distributions to participants. Fees charged to the Fund totaled $3.75 million for the year ended June 30, 2009.

(5) Receivable from the Department of Administrative Services, Department of Human Services and Oregon Secretary of State

The Oregon Department of Administrative Services (DAS) has an agreement to borrow up to $6.0 million to use for short-term cash flow needs through June 30, 2009. Interest is charged at a variable per annum rate of equal to the Oregon Short Term Fund rate plus 150 basis points. To date, the DAS has drawn $4.5 million. The total amount loaned is due September 30, 2009.

The OST collects debt service payments from general obligation debt-issuing agencies and forwards them to the fiscal agent, which then makes bond interest and principal payments to bondholders. The OST maintains accounts separate from the Fund in which the payments to the state's fiscal agent are recorded. Occasionally the OST forwards a debt service payment to the fiscal agent before the funds are actually received from the agency in order to assure that funds are available on the due date of the payment. The OST forwarded cash of $3.8 million for DAS bond principal and interest payments to the state bond fiscal agent in advance of DAS making payment to OST at June 30, 2009.

The Oregon Department of Human Services has an agreement to borrow up to $60.0 million to use for short-term cash flow needs through June 30, 2009. Interest is charged at a variable per annum rate of equal to the Oregon Short Term Fund rate plus 150 basis points. To date, the Department of Human Services has drawn $60.0 million. The total amount loaned is due December 31, 2009.

The Oregon Secretary of State made an agreement in fiscal year 2008 with the fund to borrow $90.3 thousand to use for costs of purchasing voting machines for Curry County. The balance at 6/30/2009 of the loan is $72.3 thousand. Interest is charged at a fixed per annum rate of 5.66 percent. The total amount loaned is due December 31, 2012, with an option to pay $21.2 thousand per year on December 31, commencing in 2008.

(6) Payable to the Oregon Employment Department

The OST maintains accounts separate from the Fund, which contains employment benefit and trust funds in the name of the Oregon Employment Department, which is also a participant in the Fund. The OST processes transfers of employment taxes and benefit payments between state agencies and the Oregon Employment Department. Occasionally a transfer will be recorded between participants' accounts on one day, but the transfer of cash between the Fund and the employment benefit and trust funds does not take place until the following day, creating either a receivable from or payable to Employment.

(7) Equity of Internal and External Participants

The following table describes the equity of internal and external participants in the Fund's net assets, and shows that net assets are composed of participants' account balances less undistributed and unrealized losses:

		June 30, 2009
Net assets held in trust for participants (in thousands):		
Equity of internal participants	$	6,325,862
Equity of external participants		3,914,780
	$	10,240,642
Net assets consist of (in thousands):		
Participants' Account Balances	$	10,332,864
Undistributed and Unrealized Losses		(92,222)
	$	10,240,642
Participants' Fair Value (Net Assets divided by Participants' Account Balances		99.11%

OREGON SHORT-TERM FUND
Notes to Financial Statements (continued)
June 30, 2009

(8) Schedule of Investments and Cash Equivalents

The following schedule presents by issuer the par value and reported amount of the Investments and Cash Equivalents held as of June 30, 2009 (in thousands).

Schedule of Investments and Cash Equivalents
June 30, 2009
(Dollars in Thousands)

	Par Value	Reported Amount	Percentage
U.S. Government and Agency Securities:			
Agency Bonds:			
Federal Agricultural Mortgage Corporation	$ 100,000	$ 104,438	
Federal Farm Credit Bank	337,040	341,639	
Federal Home Loan Bank	658,500	663,581	
Federal Home Loan Mortgage Corporation	294,079	295,673	
Federal National Mortgage Association	746,845	752,137	
Total Agency Bonds	2,136,464	2,157,468	21.2%
Agency Discount Notes:			
Federal Agricultural Mortgage Corporation	10,000	9,996	
Federal Home Loan Bank	705,620	705,228	
Federal Home Loan Mortgage Corporation	854,200	853,588	
Federal National Mortgage Association	308,871	308,727	
Total Agency Discount Notes	1,878,691	1,877,539	18.5%
Treasury Bills:	397,500	402,048	3.9%
Total U.S. Government and Agency Securities	4,412,655	4,437,055	43.6%
Commercial Paper:			
Broker/Dealer:			
BNP Paribas	150,000	149,992	1.5%
Cosmetics:			
Colgate Palmolive	50,000	49,997	0.5%

OREGON SHORT-TERM FUND
Notes to Financial Statements (continued)
June 30, 2009

	Par Value	Reported Amount	Percentage
Financial:			
American Honda Finance	$ 15,000	$ 14,999	
HSBC Financial	80,000	79,997	
John Deere Capital	50,000	50,000	
Rabobank USA Financial	130,000	129,997	
Toyota Motor Credit	200,000	199,998	
US Bancorp	150,000	150,000	
Total Financial	625,000	624,991	6.2%
Gasses:			
Praxair Incorporated	10,000	9,999	0.1%
Import/Export:			
Sumitomo Corporation of America	69,000	68,979	0.7%
Industrial			
General Electric Capital Corporation	80,214	76,113	
Hewlett Packard Company	50,000	50,000	
Koch Resources, LLC	175,000	174,998	
Total Industrial	305,214	301,111	3.0%
Investment Management:			
Alliance Bernstein	25,000	25,000	0.2%
Pipelines:			
Colonial Pipeline Company	43,275	43,273	0.4%
Special Purpose Entity:			
Cargill GBL Funding	50,000	49,998	
Procter & Gamble International Funding	37,200	37,193	
Unilever Capital Corp	30,000	29,999	
Total Special Purpose Entity	117,200	117,190	1.2%
Telephone - Integrated:			
Verizon Communication	107,000	106,996	1.1%

OREGON SHORT-TERM FUND
Notes to Financial Statements (continued)
June 30, 2009

	Par Value	Reported Amount	Percentage
Utility-Electric:			
FPL Group Capital	$ 75,900	$ 75,894	
Nstar Electric Company	114,000	113,996	
Total Utility-Electric	189,900	189,890	1.9%
Total Commercial Paper	1,691,589	1,687,418	16.8%
Corporate Notes:			
Bank Notes:			
Wachovia Corporation	96,385	96,139	0.9%
Broker/Dealer:			
Bear Stearns	10,000	9,956	
Credit Suisse USA, Inc.	143,850	143,749	
Goldman Sachs	264,431	262,351	
Merrill Lynch and Company	108,626	108,083	
Morgan Stanley	183,841	181,361	
Total Broker/Dealer	710,748	705,500	6.9%
Financial and Insurance:			
American Honda Finance	177,930	174,869	
Bank America	25,000	24,255	
Bank of New York	40,000	39,925	
Bear Stearns	15,100	14,855	
Citigroup Inc.	58,000	55,645	
Credit Suisse First Boston	54,102	54,047	
Countrywide Funding Corporation	10,000	9,908	
General Electric Capital Corporation	174,935	172,838	
Household Finance Corporation	15,685	15,653	
HSBC Finance Corporation	77,350	76,269	
International Lease Finance Corporation	77,055	75,399	
JP Morgan Chase and Company	239,399	237,869	
Lehman Brothers Holdings	191,302	28,217	
Nationwide Life	86,000	85,454	
Suncorp Metway LTD	50,000	49,897	
Toyota Motor Credit	45,000	44,738	
US Bankcorp	83,750	84,286	
UBS AG Stamford	220,000	219,650	
Wachovia Corporation	110,165	106,933	
Wells Fargo and Company	105,460	103,969	
Total Financial and Insurance	1,856,233	1,674,676	16.5%

OREGON SHORT-TERM FUND
Notes to Financial Statements (continued)
June 30, 2009

	Par Value	Reported Amount	Percentage
Foreign Government Backed Securities			
Barclays Realty Limited Partnership	$ 60,000	$ 59,927	0.6%
Industrial:			
Abbott Labs	13,000	13,913	0.1%
REITS:			
Arden Realty Limited Partnership	9,000	9,151	
Frachise Financing Corporation	5,000	5,291	
Total REITS	14,000	14,442	0.1%
Medical - Drugs:			
Pfizer Incorporated	50,000	51,563	0.5%
Supranational Bank:			
International Bank for Reconciliation and Development	200,000	200,646	2.0%
Total Corporate Notes	3,000,366	2,816,806	27.6%
Government Guaranteed Corporate Securities:			
Bank of America	75,000	75,218	
Citigroup	485,000	485,359	
General Electric Capital Corporation	80,000	80,574	
Goldman Sachs Group Incorporated	125,000	126,133	
JP Morgan Chase & Company	112,000	112,752	
Morgan Stanley	179,250	183,225	
Wells Fargo & Company	50,000	51,152	
Total Government Guaranteed Corporate Securitites	1,106,250	1,114,413	11.0%
Time Certificates of Deposit	97,750	97,750	1.0%
Total Investments and Cash Equivalents	$ 10,308,610	$ 10,153,442	100.0%

OTHER REPORTS

Office of the Secretary of State

Kate Brown
Secretary of State

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Deputy Secretary of State

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The Honorable Theodore R. Kulongoski, Governor of Oregon
The Honorable Ben Westlund, State Treasurer
The Oregon Investment Council
Oregon Short-Term Fund Board

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

We have audited the financial statements of the Oregon Short-Term Fund, an investment pool of the State of Oregon, as of and for the year ended June 30, 2009, and have issued our report thereon dated August 25, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Office of the State Treasurer's internal control over financial reporting relating to the Oregon Short-Term Fund as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Office of the State Treasurer's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Office of the State Treasurer's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Oregon Short-Term Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management of the Office of the State Treasurer, the Oregon Investment Council, the Oregon Short-Term Fund Board, the Governor of the State of Oregon, and the Oregon Legislative Assembly and is not intended to be and should not be used by anyone other than these specified parties.

OREGON AUDITS DIVISION

Kate Brown
Secretary of State

August 25, 2009

About the Secretary of State Audits Division

The Oregon Constitution provides that the Secretary of State shall be, by virtue of his office, Auditor of Public Accounts. The Audits Division exists to carry out this duty. The division reports to the elected Secretary of State and is independent of the Executive, Legislative, and Judicial branches of Oregon government. The division audits all state officers, agencies, boards, and commissions and oversees audits and financial reporting for local governments.

Directory of Key Officials

Director	Gary Blackmer
Deputy Director	William K. Garber, MPA, CGFM
Deputy Director	Mary Wenger, CPA

Audit Team

Kelly Olson, CPA, Audit Manager

Sarah Anderson, CPA

Mary Doel

The courtesies and cooperation extended by management and staff of the Office of the State Treasurer during the course of our audit were commendable and sincerely appreciated.

This report, a public record, is intended to promote the best possible management of public resources. Copies may be obtained from:

internet: http://www.sos.state.or.us/audits/index.html
phone: 503-986-2255
mail: Oregon Audits Division
255 Capitol Street NE, Suite 500
Salem, OR 97310

Auditing to Protect the Public Interest and Improve Oregon Government

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TAB 7 – OST INTERMEDIATE TERM BOND FUND

Oregon Intermediate Term Pool

Purpose

To obtain approval from the OIC to implement and operate a fixed income investment pool named the "Oregon Intermediate Term Pool" (OITP) under policies and guidelines provided herein. Further, this presentation seeks to obtain the OIC's adoption of the OITP Policies and Guidelines.

Background and Objective

Certain state agencies and state sponsored entities have monies available to invest on a longer term basis than the Oregon Short-Term Fund (OSTF) allows. Currently, the investment options available to most state entities are restricted by Oregon Revised Statutes (ORS) and governed by the OIC. Except in specific and limited circumstances provided by ORS, the only investment vehicle available for state agencies and sponsored entities is the Oregon Short Term Fund.

The Oregon Intermediate Term Pool (OITP) will provide certain state-owned and sponsored entities the opportunity to place funds, not needed for short-term cash needs, in a vehicle that is able to accept greater market risk, within certain parameters, in order to achieve improved investment returns.

OITP has been an ongoing objective for OST, and has been influenced by the current economic conditions, interest from state agencies, and OST's capability of providing additional opportunities for agencies to invest funds. The OST has been approached a number of times over the years, by state entities with larger "investable" balances in the OSTF or with discretely managed funds, with requests to establish a longer duration co-mingled fund. The issue has become more pressing recently with the changes at the Oregon University System (OUS) and their efforts to consolidate finances. OUS' resulting consolidation of balances creates a significant corpus with which to launch a longer term investment vehicle that fits with their investment needs. In staff's opinion, other potential investors in the pool will be the Oregon Department of Transportation (ODOT) and the Department of Consumer and Business Services (DCBS) as well as several other agency separate accounts managed by investment staff. It is anticipated that combining these accounts will create improved economies of scale from both an administrative and portfolio management perspective.

This presentation includes Policies and Guidelines that will govern the OITP. In addition, the OITP Prospectus, which will be presented to state agency investors, is included to further the OIC's understanding of OITP's purpose and operating constraints as well as provide insight into the manner in which OITP will be presented.

Implementation

Staff expects to have the necessary administrative needs completed for OITP to become operational on July 1, 2010. Process mapping, responsibility assignment, and compliance and control procedures have been established. In addition, the OITP Policies and Guidelines, Prospectus, and administrative processes have been reviewed by internal audit staff. Pending OIC approval of OITP's implementation, OST Investment Accounting staff and Fixed Income Investment Staff will begin testing administrative and compliance procedures in May and June. Fixed Income Staff will also reach out to eligible state agencies to inform them of OITP.

Recommendation

Staff recommends that the OIC approve the implementation and operation of the Oregon Intermediate Term Pool and approve the OITP Policies and Procedures.

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
    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

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

(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) Treasury or by US federal agencies and instrumentalities, including inflation-indexed obligations;
   (3) Non-US Government Securities and their Instrumentalities;
      i. Non-US 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 Federal Reserve Bank;
   (6) Corporate debt obligations (e.g., commercial paper, term debt, etc.);
   (7) Taxable debt securities issued by US states or local governments and their agencies, authorities and other US state government-sponsored enterprises;
   (8) 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 one year or longer maturities or “A-1” or “P-1” for 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 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) 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 one year or longer maturities or "A-1" or "P-1" for 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 Corporate & Government Index

5. Risk Parameters:

(1) Credit Risk:

i. Investment Rating:

1. 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.

(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) Treasury or by US 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) Treasury or by US 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) Treasury or by US federal agencies and instrumentalities.

(3) Interest-rate Risk:
  i. The portfolio modified duration shall not exceed 3.0 years.
  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.

(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.

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:

(1) Maximum of 15% in asset backed securities 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 fixed rate corporate notes with a maximum final maturity of two years; 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[1]) must be fully collateralized by collateral, determined by State Street in its discretion, limited to the following: U.S. Treasuries, U.S. Treasury STRIPS, Federal Agency Obligations, Corporate securities rated A- or higher, Asset-Backed Securities rated A- or higher, Agency MBS pass throughs rated AAA, Commercial Paper rated A-1/P-1 or higher, or any combination thereof.[1] For purposes of calculating average credit quality, current ratings of the indemnifier, State Street Corp, will be used.

(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.

F. Reverse Repurchase Agreements are prohibited within the securities lending program.

G. 25% of the reinvestment portfolio must mature within 93 days; up to 50% of the portfolio may mature in over one year.

[1] 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."

Oregon Intermediate Term Pool Prospectus

Purpose

The Oregon Intermediate Term Pool (OITP) provides Oregon state-owned and sponsored entities with a vehicle to invest dollars not needed to cover short-term needs and able to withstand greater price volatility to achieve returns often associated with longer-term investments.

Description

The Oregon Intermediate Term Pool will be managed to maintain a short duration through a diversified portfolio of high quality fixed income investments. The OITP's management objective is to maximize total return, which includes investment value *and* coupon income within the desired risk parameters and fixed income investments prescribed in the portfolio guidelines. 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 Oregon Short Term Fund.

The investment guidelines require that funds be invested in investment grade quality securities and in a manner that provides a superior level of total return at a reasonable level of risk measured over a long period. The investment staff will achieve the investment objectives through active management of the portfolio with the objective to meet or exceed the BofA Merrill Lynch 1-5 Year AAA-A US Corporate & Government Index.

This pool is not structured to provide 100% net asset value on each participant's initial investment at all times. Due to interest rate changes and market movements, it is possible to lose money by investing in the OITP. 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 market value of the entire portfolio. Shares of the OITP represent a divisible interest in the underlying securities and are not federally insured or guaranteed by the U.S. Government, Federal Deposit Insurance Corporation, any federal agency or the State of Oregon. The OITP has not been approved by the Securities and Exchange Commission.

Principal investment strategies:
Eligible investments are detailed in the OITP guidelines, but in general, the OITP may invest, subject to diversification requirements, in several types of investment grade rated debt market instruments denominated in U.S. dollars. These may include:

- Obligations of U.S. and non-U.S. private issuers;
- Obligations of the U.S. government and its agencies and instrumentalities;
- Obligations issued or guaranteed by non-US governments and instrumentalities;
- Taxable debt securities issued by US states or local governments and their agencies, authorities and other US state government-sponsored enterprises;
- Repurchase agreements and Reverse repurchase agreements.

Credit quality:
The OITP invests in securities that, at the time of purchase, are investment grade rated by nationally recognized rating agencies, such as Moody's or Standard & Poor's.

Interest Rate Sensitivity:
The overall portfolio must maintain an average modified duration* of 3.0 years or less. Limitations on individual investment terms to maturity vary by security type, but in general, securities have a maximum term of 10.25 years.

> ** Modified duration is the time weighted value of future cash flows on a portfolio of investments and reflects the expected percentage change in price of the portfolio for every one hundred basis point (one percentage point) change in interest rates. For example, the price of a portfolio with an average modified duration of 3 years would be expected to increase by 3% for every 1% reduction in interest rates.*

Diversification:
Except for US Treasury and US Agency securities, no more than 5% may be invested in the securities of any one issuer. Further exposure limits by sector, and industry are detailed in the OITP guidelines.

Management Authority

Subject to the terms and conditions of the OITP guidelines, the Fixed Income Investment Staff of the Oregon State Treasury (OST) shall have the full discretionary power to direct the investment, exchange, liquidation, and reinvestment of assets in the OITP.

Participant Investments

The OITP is a voluntary investment vehicle for participants. Participation in the OITP is open to all State Agencies with funds that are allowed to be invested. An agency can request to join the OITP by submitting a completed application which will require evidence of the applicant's statutory authority to invest in the OITP. This application must be approved by the agency's director before submission to OST.

Since the OITP is by nature invested with a relatively longer average maturity than a short-term portfolio and since proportionate ownership in the OITP is based on market value, participants can expect the value of their investment in the OITP to fluctuate over time. Participating agencies should therefore only invest monies that they consider longer-term in nature (such as 3.5 years or longer).

Each application should identify the contact person(s) authorized to request transactions. It is the Participant's responsibility to notify the OST Fixed Income Investment Staff of changes to the list of authorized persons. Changes will only be accepted if the request is signed by agency's director. OST Fixed Income Investment Staff will not knowingly process any request made by a person not listed as an authorized person. It is the Participant's responsibility to safeguard information required to request a transaction. The OST will not be responsible for transactions made using such confidential information.

OITP will use the Oregon Short-term Fund (OSTF) as its "cash account". Investments in OITP will be funded from the participant's OSTF account. It is the OITP participant's responsibility to maintain sufficient funds in OSTF to avoid OSTF overdraft charges that may result from OITP transactions.

OITP will require a 10 business day notification period prior to transferring participant funds from the Oregon Short-term Fund.

Withdrawal of Funds

Because of the longer-term nature and lower liquidity levels of the OITP relative to the Oregon Short Term Fund, a participant's ability to redeem shares in OITP will be subject to restrictions.

- OITP will offer month-end liquidity only, i.e., participants will be able to sell shares on the first business day of each calendar month-end. The sale value per share will be calculated as of the end of the business day at month-end.
- The maximum number of shares allowed to be sold at month-end may be limited based upon the size of OITP and may be subject to change. Updated guidelines will be posted on the Oregon State Treasurer's website.
- Orders to sell OITP shares will be subject to a ten business day notification period whereas it will be the responsibility of the participant to notify OITP administrators of the amount and timing of sale transaction.

Funds from sale transactions will be transferred to the OITP participant's OSTF account 10 business days following the transaction date.

Custodian and Book of Record

State Street Corporation is the custodian for the OITP. OST will use State Street as the book of record.

Income Distribution Policy

OITP does not distribute income or capital gains. The value of participant holdings is reflected in the net asset value (NAV) of shares outstanding. Participants are able to access the value of their investment by redeeming shares at the NAV per share calculated at the time of redemption.

Yields

Yields are quoted as annualized returns. Yields may be impacted by the timing of deposits and withdrawals from accounts.

Management/Administrative Fee

The OITP takes its management charge from the capital and/or income generated by the Pool. The management fee is set by ORS 293.718 and may not exceed 0.435 basis points per month. The basis point charge will be calculated and netted against the monthly ending pool balance and will therefore be reflected in the net asset value of the pool.

Transfers from the Oregon Short-Term Fund (OSTF) - Treatment of Unreserved Investment losses

Some transfers from OSTF may be subject to charges. In order to provide for an equitable outcome for monies remaining in the OSTF, transfers from OSTF to OITP will be subject to "Investment Loss Reserve" charges determined by the amount transferred relative to unreserved OSTF investment losses. This fee will be will be applied to the OSTF's investment loss reserves. Transfer amounts subject to a loss reserve charge will be limited to the participant's OSTF balance on the date of OSTF investment loss occurrence. If or when the OSTF investment losses are recouped, proceeds greater than expected recoveries will be used to reimburse "Investment Loss Reserve" charges on a pro-rata basis.

What are the risks of investing in the OITP?

- Interest rate risk - The OITP holds fixed income investments and may be affected by changes in interest rates. As interest rates rise, the value of fixed income investments tends to fall. In contrast, if interest rates fall the value of these investments may rise.

- Credit risk - Credit risk is the risk that a government or company that issues a fixed income security cannot repay principal or pay interest when due which will result in a loss to the OITP. This risk tends to increase as an issuer's credit rating declines. The OITP invests in securities rated 'investment grade' at the time of purchase. The rating on securities held by the OITP may fall below 'investment grade'. The OITP may continue to hold securities downgraded below 'investment grade' at the discretion of the portfolio manager.

- Income/Yield fluctuation - The amount of income earned by the OITP will go up or down depending on day-to-day variations in market interest rates. Investing in high quality instruments may result in a lower yield (the income on your investment) than investing in lower quality or longer-term instruments. When interest rates are very low, the OITP's expenses could absorb all or a significant portion of the pool's income

- Portfolio selection – OST Fixed Income Staff judgment about the credit quality or value of, or market trends affecting, a particular security or about the market and interest rates generally may prove to be incorrect and cause the value of OITP to decline.

- Prepayment Risk - the potential for an issuer of a security to call or prepay principal prior to the stated maturity date. This generally occurs as interest rates fall and proceeds from the call are potentially reinvested at a lower rate and reduce the return generated by OITP investments.

- Structured securities - Structured securities contain embedded derivative components such as call options. For example, securities with an embedded call option may be subject to early redemption, i.e., "be called", by the issuer. The embedded optionality in structured securities may cause these securities to perform differently than expected. Debt securities issued by US Agencies often have call options.

How will I be kept informed about my investment?

Participant information such as account statements, confirmations are provided by the Investment Accounting Division of Oregon State Treasury. OST's Investment Accounting will also provide all information for fiscal year-end financial reporting.

The following will be posted on the Oregon State Treasury's website and updated each month-end:

- OITP net asset value per share;
- OITP Investment Performance;
- A schedule of OITP investments;
- OITP Guideline Compliance Reports.

Where is the share price published?

The share price (the Net Asset Value per share of OITP) is published on Oregon State Treasury's website and may also be obtained by contacting the Investment Division within the Oregon State Treasury.

OITP Contact Information:

Account Administration:
Oregon Intermediate Term Pool
Office of the State Treasurer
Investment Division
350 Winter Street, NE, Suite 100
Salem, OR 97301-3896

Phone: (503) 378-4155
Fax: (503) 378-6772
Email: OITP@ost.state.or.us

TAB 8 – OIC ANNUAL POLICY UPDATES

OIC Policy Updates
April 2010

Purpose
To update several OIC Policies based on statutory changes and to conform policy with practice (where appropriate).

Discussion
The following is a brief summary of the proposed policy changes that follow this write-up, <u>if other than minor</u>:

1. <u>4.01.01</u>: Adds foreign holdings consistent with OSTF investment guidelines revisions from today.
2. <u>4.01.05</u>: Strikes language for a reporting process that is not yet active.
3. <u>4.01.14</u>: Strengthens language and reporting of losses, sets up reserve procedures for the OSTF—codifies current practice.
4. <u>4.01.19</u>: Clarifies the procedures related to due diligence, implementation, funding, and monitoring for the Opportunity Portfolio for consistency with the private equity policy.
5. <u>4.04.01</u>: Clarifies use of "direct" and "core."
6. <u>4.07.05</u>: Updates manager name changes and adds LifePath Funds in Appendix.
7. <u>Investment Objectives and Policy Framework for OPERF</u>: Updates to reflect policy changes and definitions.

Recommendation
Approve staff proposed changes outlined above, and as reflected in the attached policies.

FUNCTION: **O.I.C. Section**
ACTIVITY: **Standard of Ethics**

POLICY: **OIC members shall conduct themselves in conformity with applicable law and the code of ethics outlined below. OIC members shall, at a minimum, disclose actual and potential conflicts of interest.**

PROCEDURES:

1. **PERFORMANCE**

A. No member of or appointee to the Oregon Investment Council (Council), nor any candidate for State Treasurer, nor any officer or employee in the Office of the State Treasurer (OST), nor any contractor providing investment-related services to the Council or to the State Treasurer in his or her capacity as Investment Officer shall solicit or receive, or induce others to solicit or receive, political campaign contributions to or for any member of or appointee to the Oregon Investment Council, or any candidate for State Treasurer, or any officer or employee of the OST from:

1. A contractor that is then providing services to the Council or to the Investment Officer;

2. A contractor that the Council or the Investment Officer is then considering retaining for provision of services to the Council or to the Investment Officer;

3. A person in or with whom, or a company in or with which, moneys of the state Investment Funds are then invested, excluding investments that were made by investment managers without direction or influence from the Council, Council members, or officers or employees of the Office of the State Treasurer relating to the investment;

4. A person in or with whom, or a company in or with which, the Council or Investment Officer is then considering investing moneys of the Investment Funds.

B. The Council is principally a policy-making body and shall not impinge on operating or administrative functions reserved to the State Treasurer.

C. Members of the Council shall use discretion and restraint in their dealings with investment management companies and shall respect the privacy and integrity of those companies. Conduct by OIC members shall, at a minimum, be in compliance with applicable law.

D. Any information or contact of a material nature relevant to the investment or reinvestment of funds that may come to the attention of a member of the Council from one of the investment management companies or another source shall be promptly reported to the State Treasurer for evaluation by the State Treasurer's office.

E. No member of the Council shall use or attempt to use the member's official position to obtain financial gain or avoidance of financial detriment for the member or for a relative, or member of the household, of the member that would not otherwise be available but for the member's holding of the official position. This prohibition shall extend to any business with which the member or a relative, or member of the household, of the member is associated. Additional actions contained in ORS 244.040 shall also be prohibited regardless of whether actual conflicts of interest or potential conflicts of interest are announced or disclosed pursuant to ORS 244.120, as discussed below.

F. All members of the Oregon Investment Council shall comply with the applicable ethics requirements for public officials or for OIC members particularly, including gift or honoraria limits, and entertainment prohibitions, as described in ORS chapter 244, ORS chapter 293 and the administrative rules of the Oregon Government Ethics Commission.

2. APPOINTMENTS

A. In accordance with ORS 293.706(7), no person may be appointed to serve as a member of the Council for more than two full four-year terms in any 12-year period.

B. In accordance with ORS 293.711(4), no person is eligible to be chairperson of the Council for more than four years in any 12-year period.~~.~~

3. ADDITIONAL ECONOMIC AND OTHER DISCLOSURE REQUIREMENTS

A. In accordance with ORS 244.050(1)(p)(J), each member of the Oregon Investment Council is required to file an annual statement of economic interest with the Oregon Government Ethics Commission.

~~B. In accordance with ORS 244.100(1), each member of the Oregon Investment Council is required to file quarterly public official disclosure forms with the Oregon Government Ethics Commission.~~

~~C.~~B. In accordance with ORS 293.708(2), when a member of the Oregon Investment Council becomes aware that action on a matter pending before the Council might lead to private pecuniary benefit or detriment to the person, to a relative of the person or to a business with which the person or a relative of the person is associated, the member shall notify in writing the State Treasurer or the Deputy State Treasurer that any action, decision or recommendation by the member might constitute an actual or potential conflict of interest. The member shall provide the notice not later than three business days after the member becomes aware of the possibility of an actual or potential conflict. This paragraph does not apply if the pecuniary benefit or detriment arises out of circumstances described in Section 7, subsection K. 1. to 3. below.

~~D~~C. In accordance with ORS 244.120(2), each member of the Oregon Investment Council shall announce publicly the nature of any potential conflict of interest prior to taking any action thereon in the capacity of a public official. With respect to such matters for which a member has publicly announced the nature of any potential conflict of interest, the member shall endeavor to otherwise participate fully in Council action with respect to such matters except as proscribed in subsection E of this section.

~~E~~D. When met with an actual conflict of interest, the member shall announce publicly the nature of the actual conflict and:

1. Except as provided in subparagraph (2) of this paragraph, refrain from participating as a public official in any discussion or debate on the issue out of which the actual conflict arises or from voting on the issue.
2. If any public official's vote is necessary to meet a requirement of a minimum number of votes to take official action, be eligible to vote, but not to participate as a public official in any discussion or debate on the issue out of which the actual conflict arises. (From ORS 244.120(2)(b)(B)).

4. SERVICE BY MEMBERS OF THE COUNCIL ON BOARDS OF DIRECTORS

A. A member of the Council shall receive the approval of a majority of the other members of the Council before accepting appointments to the board of directors of any company in which the State of Oregon has an investment.

B. Council members shall not accept compensation (except per diem and reimbursement for travel expenses consistent with law) for services on the board of directors of any business in which the State has an equity interest, other than publicly traded common stock. (From ORS 293.713).

5. RELATIONSHIP TO STATE AND FEDERAL STATUTES, RULES OR POLICIES

This Standard of Ethics for the OST and the Oregon Investment Council is in addition to, and not in lieu of, any statutes, rules or policies of the State of Oregon or the United States of America. Nothing in this Standard is intended to relieve the State Treasurer or any member of the Council from any duty, obligation or prohibition contained in any state or federal statute, rule or policy.

6. OIC CONTRACTORS

Every contract for investment management services, investment counseling services, or mortgage services whether by the OIC or by the State Treasurer as Investment Officer shall include a provision that reads: "Contractor shall disclose to the council, at the council's next regular meeting, knowledge of any attempt at solicitation of, offer of, or assistance in obtaining, political campaign contributions to or for any member or appointee of the Oregon Investment Council, any candidate for State Treasurer, or any officer or employee of the Office of the State Treasurer. Failure to make such a disclosure may result in termination of the contract, in the sole discretion of the council."

7. DEFINITIONS: As used in sections 1 through 6, unless the context clearly requires otherwise:

A. **"Candidate"** means an individual whose name is printed on a ballot, or whose name is expected to be or has been presented, with the individual's consent, for nomination or election. (Excerpted from~~From~~ ORS 260.005(1), see statute for entire definition).

B. **"Campaign contribution"** includes payment, ~~unrepaid~~ loan, gift, forgiving of indebtedness, or furnishing without equivalent compensation or consideration, of money, services other than personal services for which no compensation is asked or given, supplies, equipment, or any other thing of value, to or on behalf of a candidate or political committee or measure; and any unfulfilled pledge, subscription, agreement or promise, whether or not legally enforceable, to make a contribution. (Excerpted f~~F~~rom ORS 260.005 (3), see statute for entire definition).

C. **"Business"** means any corporation, partnership, proprietorship, firm, enterprise, franchise, association, organization, self-employed individual and any other legal entity operated for economic gain but excluding any income-producing not-for-profit corporation that is tax exempt under Section 501(c) of the Internal Revenue Code with which a public official or a relative of the public official is associated only as a member or board director or in a nonremunerative capacity. (From ORS 244.020(2)).

D. **"Business with which the person is associated"** means:

1. Any private business or closely held corporation of which the person or the person's relative is a director, officer, owner or employee, or agent or any private business or closely held corporation in which the person or the person's relative owns or has owned stock, another form of equity interest, stock options or debt instruments worth $1,000 or more at any point in the preceding calendar year. (From ORS 244.020(3)(a)).

2. Any publicly held corporation in which the person or the person's relative owns or has owned $100,000 or more in stock or another form of equity interest, stock options or debt instruments at any point in the preceding calendar year. (From ORS 244.020(3)(b)).

3. Any publicly held corporation of which the person or the person's relative is a director or officer. (From ORS 244.020(3)(c)).

4. Any business listed as a source of income as required on the statement of economic interest. (From ORS 244.020(3)(d)).

E. **"Council"** means the Oregon Investment Council created under ORS 293.706.

F. **"Member of the household"** means any person who resides with the public official. (From ORS 244.020(~~9~~10)).

G. **"Relative"** means the spouse of the public official;~~ the domestic partner of the public official~~; any children of the public official or of the public official's spouse; siblings, spouses of siblings or parents of the public official or of the public official's spouse; or any individual for whom the public official has a legal support obligation. (From ORS 244.020(~~14~~15)).

H. **"Person"** means an individual,~~ or~~ corporation, limited liability company, labor organization, association, firm, partnership, joint stock company, club, organization or other combination of individuals having collective capacity. (From ORS 260.005(~~10~~16)).

I. **"Political committee"** means a combination of two or more individuals, or a person other than an individual, the primary or incidental purpose of which is to support or oppose any candidate. (Excerpted f~~F~~rom ORS 260.005(~~11~~18), see statute for entire definition).

J. **"Actual conflict of interest"** means any action or any decision or recommendation by a person acting in a capacity as a public official, the effect of which *would be* to the private pecuniary benefit or detriment of the person or the person's relative or any business with which the person or a relative of the person is associated unless the pecuniary benefit or detriment arises out of circumstances described in subsection K. 1. to 3. below. (From ORS 244.020(1)).

K. **"Potential conflict of interest"** means any action or any decision or recommendation by a person acting in a capacity as a public official, the effect of which *could be* to the private pecuniary benefit or detriment of the person or the person's relative, or a business with which the person or the person's relative is associated, unless the pecuniary benefit or detriment arises out of the following: (From ORS 244.020(~~11~~12)).

1. An interest or membership in a particular business, industry, occupation or other class required by law as a prerequisite to the holding by the person of the office or position. (From ORS 244.020(~~11~~12(a)).

2. Any action in the person's official capacity which would affect to the same degree a class consisting of all inhabitants of the state, or a smaller class consisting of an industry, occupation or other group including one of which or in which the person, or the person's relative or business with which the person or the person's relative is associated, is a member or is engaged. (From ORS 244.020(~~11~~12(b)).

3. Membership in or membership on the board of directors of a nonprofit corporation that is tax-exempt under section 501(c) of the Internal Revenue Code. (From ORS 244.020(~~11~~12(c)).

L. **"Public official"** means any person who, when an alleged violation of ORS~~thi~~s chapter 244 occurs, is serving the State of Oregon or any of its political subdivisions or any other public body, as defined in ORS 174.109, as an elected official, appointed official, employee, or agent ~~or otherwise~~, irrespective of whether the person is compensated for the services. (From ORS 244.020(~~13~~14)).

SAMPLE FORMS, DOCUMENTS, OR REPORTS (Attached)

None

FUNCTION: **General Policies and Procedures**
ACTIVITY: **Asset Classes and Allocation**

POLICY: **The Oregon Investment Council approves asset classes in which State of Oregon moneys are invested.**

PROCEDURES:

1. **Current Asset Classes.** The Office of the State Treasurer (OST) has separated potential investments into several groups called Asset Classes. Each asset class is overseen by a Senior Investment Officer. Asset classes can be partially distinguished by the following factors:

   - **Methods and bases for paying investment income** (e.g., Debt, which can be defined by scheduled and pre-defined interest and/or principal payments, as opposed to equity, which can be identified by unscheduled and undefined dividends and return of capital);

   - **The collateral,** if any which secures the investment (e.g., a commercial mortgage or direct real estate investment secured by real property; claims on personal property/corporate assets; claims on future earnings streams); and

   - **Seniority** (in case of potential bankruptcy or liquidation) and ownership rights (e.g., a fixed and senior claim on assets and earnings streams as opposed to the junior claim on earnings streams of common stock).

   Other factors which sometimes distinguish asset classes include:

   - **Variation in the stability and risk of a security's issuer** (e.g., bonds issued by the U.S. Treasury, as opposed to those issued by utilities firms);

   - **Time until maturity of a security with a scheduled repayment of principal** (e.g., short-term, long-term);

   - **Nationality of the security's issuer** (e.g., US securities as opposed to those issued by foreign firms or governments); and

   - **Objectively evaluated quality of a security** (e.g., AAA bonds as opposed to "C" rated bonds).

Current asset classes for which the Oregon Investment Council has approved the purchase of investments include:

a) **Short-Term Investing ("Cash").** Investments which have: pre-defined (fixed or floating rate) interest and principal payment schedules and amounts (debt); an original maturity of three years, or less; the highest levels of seniority amongst securities issued by the issuer; and are issued by stable foreign or domestic issuers such as the U.S. Treasury and U.S.

agencies, major banks, and highly credit-worthy corporations. OST's demand deposits are also classified as Short-Term Investments.

b) **Fixed Income.** Investments which have: pre-defined interest and principal payment schedules and amounts (debt); and a duration of longer than three years.

c) **Real Estate.** Investments which are secured by claims on real property. In some cases, the property may be directly owned by the Fund managed by the OST (e.g., OPERF). In other cases, the investment may be a mortgage (or portion thereof) on real property. These are usually secured by the property owner's promise to pay in addition to a claim on the property. Other real estate investments may include: property purchased through a limited partnership interest, or an investment in a real estate investment trust (REIT).

d) **Equities.** Investments which represent a direct ownership of, or partnership in, a going concern. Equity investments usually include voting rights (through a board of directors) in the operations of the concern. Equities primarily consist of common stocks, both domestic and international, which are generally publicly traded. Several private investment management firms are retained to select and purchase equities on the funds' behalf (See ORS 293.741).

e) **Private Equity Investments.** Investments made through a limited partnership, the goal of which is to commingle funds to invest in companies at various growth stages, and sizes. Since partnership investments are generally equity investments in the companies purchased, OST relies on the partnership's general partner to analyze, select, and execute the purchase and sale of these investments. Private equity investments also include investments in limited partnerships, the goal of which is to provide equity funding to developing firms with growth potential (e.g., venture capital partnerships). In a successful venture, the return on investment usually comes when the young and growing firm is taken public or sold.

If an investment officer wishes to purchase an investment within his or her asset class, but which has different characteristics from other current investments, the OIC's approval must be obtained before the investment may be purchased. For example, if an investment officer's asset class currently consists exclusively of domestically issued investments and he wishes to purchase similar investments issued by a foreign firm or government, the investment officer must first obtain the OIC's approval.

2. **New Asset Classes.** The Oregon Investment Council must approve, in advance, the purchase of interests in a new asset class not described above. See also OPERF Opportunity Portfolio Policy 4.01.19.

3. **Equity Asset Limitations.** Only certain funds may be legally invested in the equity asset class, subject to statutory limits: "not more than 50 percent of the moneys ***contributed*** to the Public Employees Retirement Fund or the Industrial Accident Fund may be invested in common stock, and not more than 65 percent of the moneys ***contributed*** to the other trust and endowment funds may be invested in common stock" (293.726(6)). Deferred Compensation Fund assets are not subject to a common stock limitation (293.726(8)).

State Board of Higher Education Endowment Fund assets may also be invested in common stock (293.790).

4. **Responsibility for Investing Assets Within Each Asset Class.** Investments in the all asset classes are primarily managed by a Senior Investment Officer assigned to the respective asset class (additional Investment Officers, Investment Analysts or Coordinators may assist the Senior Investment Officer.) See also Policy 4.01.02.

SAMPLE FORMS, DOCUMENTS, OR REPORTS (Attached):

NONE

FUNCTION: **General Policies and Procedures**
ACTIVITY: **Investment Trading Authority**

POLICY: **As delegated by the Treasurer, a Senior Investment Officer (including the Chief Investment Officer and the Deputy Chief Investment Officer) has full authority to purchase or sell investments within the asset class for which the investment officer has responsibility, except as otherwise noted in the Policies and Procedures manuals. In exercising this delegated authority, Investment Officers and Investment Division staff are to invest 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 each investment fund. (ORS 293.726)**

PROCEDURES:

1. **Short-Term Investments.** The Short-Term Investment Officer and Fixed Income Investment Officers may negotiate and execute trades under the general guidance of the Senior Fixed Income Investment Officer. The Investment Analyst may trade under the guidance of the Senior Fixed Income Investment Officer, ~~or~~ the Short Term Investment Officer or the Fixed Income Investment Officer. See also Policy 4.03.02.

2. **Fixed Income Investments.** The Short-Term Investment Officer and the Fixed Income Investment Officer may negotiate and execute trades under the general guidance of the Senior Fixed Income Investment Officer. ~~The Short- Term Investment Officer may not trade, without specific permission, in securities issued by an entity other than one which has issued securities already held in Oregon's fixed income portfolio.~~ The Investment Analyst may trade under the specific direction of the Senior Fixed Income Investment Officer or the Short-Term Investment Officer. Such trading will usually be limited to ~~"swapping" one US Treasury security for another which has a different maturity date in order to take advantage of interest rate spreads~~ investing in short-term (180 days or fewer) securities such as money market instruments or certificates of deposit to adjust for portfolio cash needs or to maintain the portfolio in a fully invested state.

3. **Real Estate Investments.** See Policy 4.04.01.

4. **Equity Investments.** The Equity Investment Officers may negotiate and execute trades in public equities and public equity futures contracts under the general guidance of the Chief Investment Officer. The Equity Investment Officers may make recommendations and reports to the Council regarding the retention of investment management firms. The OIC maintains the authority to hire and dismiss investment management firms at will. The Equity Investment Officers ~~and the Investment Analyst both~~ have authority to review investment management firm transactions for contract compliance and consistency with the philosophy and expertise of those firms.

5. **Private Equity Investments.** See Policy 4.06.01.

6. **OPERF Opportunity Portfolio.** See Policy 4.01.19.

SAMPLE FORMS, DOCUMENTS, OR REPORTS (Attached):

None

FUNCTION: **General Policies and Procedures**
ACTIVITY: **Investment Performance Reports**

POLICY: **Performance and activity of the investment funds shall be reported in a manner consistent with the asset class, this may include monthly reporting. The Office of the State Treasurer (OST) shall produce an Annual Report, including a section on the investment funds.**

PROCEDURES:

1. **Short-Term Investments.** Each month, OST prepares a summary of the OSTF holdings and a portfolio compliance report. The information is posted to OST's website monthly. The master custodian provides the monthly performance of the OSTF, OST's Finance Division determines the interest credited to customer accounts. An annual financial report is prepared by OST and is audited by the Secretary of State's Audits Division.

2. **Fixed Income Investments.** Investment Accounting distributes a monthly trade report to the Treasurer, the Deputy Treasurer, and to the Chief Investment Officer. The report includes summaries of internally managed security purchases, sales, and gains/(losses). The Fixed Income section also receives a report from Investment Accounting on broker usage (distribution) which is used by the Fixed Income section to create a broker usage report that is delivered to the Chief Investment Officer, the Deputy Chief Investment Officer, the Treasurer, the Deputy State Treasurer, and other investment division staff.

   The report is accompanied, upon request, by a full portfolio of fixed income securities held by OST on behalf of the investment funds. In addition, the state's custodian provides monthly and quarterly performance information relative to agreed upon benchmarks.

3. **Real Estate Investments.** A performance reporting firm hired by OST prepares quarterly reports on holdings and performance relative to benchmarks. This comprehensive report includes market value and performance information relative to OPERF's entire real estate portfolio and is distributed to OIC members and OST staff, as requested. In addition, the real estate advisors, and the OIC's real estate consultant, provide quarterly reports to members of the OIC and OST staff.

4. **Equity Investments.** The state's custodian prepares monthly and quarterly performance reports which include equity investments. The reports list the market value of the current holdings managed by each investment management firm and performance relative to OIC assigned benchmarks. Reports are distributed to OIC members, the Treasurer, the Deputy Treasurer, the Chief Investment Officer, and Investment Division staff. The OIC's full service consultant provides, generally quarterly, a comprehensive review at an OIC meeting.

   Investment Accounting distributes a monthly trade report to the State Treasurer, the Deputy Treasurer, and to the Chief Investment Officer. The report includes summaries of internally managed security purchases, sales, and gains/(losses). ~~The Public Equity section also receives a report from Investment Accounting on broker usage (distribution) which is used by the Public Equity section to create a broker usage report that is delivered to the Chief Investment Officer, the Deputy Chief Investment Officer, the Treasurer, the Deputy State Treasurer, and other investment division staff.~~

5. **Private Equity Investments.** Private Equity investments are reviewed by the Senior Equity Investment Officer, the Private Equity Investment Officers, and the Chief Investment Officer, on a continuing basis. The Private Equity consultant hired by the OIC reports on the holdings, investments, and performance of the private equity funds on a quarterly basis. At least annually, a complete overview of the portfolio is presented to the OIC by the OIC designated consultant.

6. **Opportunity Portfolio.** Investments shall be monitored on an on-going basis and reviewed no less than annually with the OIC.

SAMPLE FORMS, DOCUMENTS, OR REPORTS (Attached) None

FUNCTION: **General Policies and Procedures**
ACTIVITY: **Rotating Internal Control and Operational Reviews**

POLICY: **Oregon Revised Statute (ORS) 293.776 states "The Oregon Investment Council shall provide for an examination and audit of the investment funds investment program, and for submission to the council of a report based on the examination and audit, at least once every four years and at other times as the council may require. The examination and audit, and the report based thereon, shall include an evaluation of current investment funds investment policies and practices and of specific investments of the investment funds in relation to the objective set forth in ORS 293.721, the standard set forth in ORS 293.726 and other criteria as may be appropriate, and recommendations relating to the investment funds investment policies and practices and to specific investments of the investment funds as are considered necessary or desirable. The council shall make copies of the report or a summary thereof available for distribution to interested persons."**

On an annual basis:
The Office of the State Treasurer's Internal Audit Services will perform an audit of the internal control structure over one of the major asset classes (i.e., Real Estate, Fixed Income, Public Equities, Private Equities, Opportunity Portfolio, or Short-term Investments) for each year ended June 30. The audit shall be performed in accordance with professional auditor's standards approved by OST's Audit Committee.

At least once every four years:
The Office of the State Treasurer (OST) will obtain the services of a qualified consultant to perform a procedural (operational) review of the investment portfolio (or area) and its practices as compared and contrasted to the investment portfolio practices of similarly managed investments in the private and public sectors.

This work and report shall comply with applicable professional standards and fulfill the requirements stated in ORS 293.776.

PROCEDURES:

1. The qualified consultant shall be retained through a request for proposal (RFP) process or other selection process in the best interests of OST.

2. The Deputy State Treasurer, the Chief Investment Officer (or designee), and the ~~Internal Audit Manager~~Chief Audit Executive shall determine the investment portfolio subject to review.

3. Internal Audit Services and the selected consultant shall each deliver to OST management a written report on the results of their work, as well as any findings and/or recommendations for improvement.

4. On an annual basis, the ~~Deputy Treasurer~~Chief Audit Executive, or designee, shall inform the OIC of the results of audits and reviews and shall provide a summary of OST's response/implementation to all issues and recommendations raised in the reports.

SAMPLE FORMS, DOCUMENTS, OR REPORTS (Attached): None

FUNCTION: General Policies and Procedures
ACTIVITY: Minimizing Losses

POLICY: The State Treasurer or a member of his staff may take whatever actions that are reasonably necessary to minimize losses to investments, consistent with the productivity standard of ORS 293.721 and the prudence standard of ORS 293.726. However, after such actions, the investment shall remain within established asset allocation parameters and existing investment guidelines, to the extent practicable. The ~~Office of the~~ State Treasurer shall report to the Council at the next regular meeting any restructuring of an investment that previously was approved by the Council and any other action which takes the investment outside of asset allocation parameters and investment guidelines, unless legal counsel advises the State Treasurer and the chair of the Council, in writing, that reporting the action to the Council at that time could prejudice the legal interests of the state.

ORS 293.751 provides the State Treasurer, as Investment Officer, a variety of methods to address investment losses with approval of the Council, and ORS 293.824 requires the State Treasurer to establish policies and procedures for pool expenses and losses, which would apply to the Oregon Short Term Fund (OSTF). It is the policy of the Oregon State Treasury to inform the Council and its stakeholders of material losses in investment funds that occur outside the normal course of business. The Oregon State Treasury will establish and maintain processes for the realization of losses, maintain allowances for losses where appropriate, and will report on material extraordinary losses, at least annually, to the Council.

PROCEDURES:

~~None~~

1. **Realized Losses.** The State Treasury will write-down investment values and realize losses that occur, for example, due to bankruptcy or uninsured property loss. The timing and realization of such losses will follow applicable accounting standards. When it is determined by one of the Senior Investment Officers that the value of a particular investment cannot, with reasonable effort be recovered, the Senior Investment Officer will notify the Controller to record the loss in whole or in part.

2. **Anticipated losses in pooled funds.** The State Treasury will maintain an allowance for specific investments and historically-based losses within pooled funds such as the OSTF.

   - Specific Investments. An allowance will be accumulated and maintained for specific investments, if the value of those investment(s) appears permanently impaired due to default, counterparty failure, etc. If the actual loss is undeterminable, for example, until legal proceedings conclude, an allowance for the estimated loss will be accumulated. As noted above in 1., when the final loss is determinable, the Senior Investment Officer will notify the Controller to record the loss.

- Historically-Based Losses. An allowance will be maintained within pooled portfolios based on historic default rates of similarly-rated investments.

- Periodic Review of Allowance. The sufficiency of the allowance(s) will be assessed at the end of every month, and considered in setting the rate paid to pool participants, which will be determined collaboratively by the State Treasury's Investment and Finance Divisions.

3. **Reporting to the OIC.** The State Treasury will report to the OIC at the next regular meeting any material extraordinary losses.

SAMPLE FORMS, DOCUMENTS, OR REPORTS (Attached):

None

FUNCTION: **General Policies & Procedures**

ACTIVITY: **OPERF Opportunity Portfolio**

POLICY: The Opportunity Portfolio (or, Portfolio) is established by the Oregon Investment Council (OIC) as an investment strategy within the Oregon Public Employees Retirement Fund (OPERF). The Portfolio may be populated with ~~innovative~~ investment approaches across a wide range of investment opportunities with no limitation as to asset classes or strategies that may be used. The Opportunity Portfolio investment program seeks to achieve its investment objective by investing in strategies that fall outside the OIC's previously identified asset classes (i.e., public equities, fixed income, real estate, private equity, and cash) because of the expected time horizon, tactical nature of the investment, or some other unique aspects which must be clearly defined in the written recommendation provided to the OIC.

A. PROCEDURES

PURPOSE

The purpose of these Opportunity Portfolio Investment Policies & Procedures is to define the strategic role of the Portfolio within the OIC's general investment policies for OPERF, to set forth specific policy objectives for this segment of OPERF's investment portfolio, and to outline the strategies for implementing the Portfolio.

STRATEGIC ROLE

The Portfolio should provide enhanced risk adjusted returns and diversification to OPERF. Investments are expected to be a combination of both shorter-term (1-3 years) and longer-term holdings, which may include inflation-oriented and real return-oriented strategies. The structure of the Fund investment strategy is an allocation of up to 3.0% of total plan assets. This allocation will not result in any of the previously established strategic asset allocation targets falling outside their ranges. No strategic target is established for the Portfolio since~~, by definition, investments will be pursued only on an opportunistic basis~~.

DUE DILIGENCE

1. Oregon State Treasury Investment Division staff (Staff) will screen available investments and identify those which meet the Portfolio's general strategy, selection criteria and performance goals. Staff will coordinate the evaluation of ~~the available~~ investments proposals received by Staff and the OIC~~Council~~. Staff may reject such proposals if they do not meet the Portfolio's investment strategy or criteria.

2. An independent consultant retained by the OIC, working in conjunction with sStaff, will review the documents pertinent to an investment opportunity, including the offering memorandum (if applicable), and identify possible issues. The consultant and Staff may meet with the managers or sponsors to discuss the investment.

3. Staff will select investment opportunities for the consultant to conduct full due diligence on. Upon completion of its due diligence, the consultant will provide a written report containing a summary of the proposed investment including: a description of the

managers's background, historical performance, and organization; the proposed investment strategy; the proposed terms of the investment; the expected rate of return; the merits of the investment; issues and concerns surrounding the investment and how they might be resolved; and issues and provisions that should be subject to negotiation.

4. The consultant and Staff will discuss the investment opportunity and whether an investment is likely, under the circumstances. Presentations and meetings between Staff and the managers or sponsors will be arranged as necessary to address issues or questions. Unfavorable opportunities will not be considered further.

5. Staff will prepare and submit to the OIC~~Council~~ a written recommendation advocating approval of the proposed investment, and any contingencies to final investment. The OIC will also receive a copy of the consultant's final due diligence report for reference.

6. The Oregon Attorney General's office (DOJ) will be furnished investment management documents for those investments selected by Staff and approved by the OIC~~Council~~. Legal counsel will identify any legal issues and discuss these with Staff.

B. INVESTMENT OBJECTIVES

1. The Fund's primary return objective and benchmark is the Oregon PERS actuarial assumed rate of return, currently, 8.00% net of fees. The targeted return objective for the Portfolio, net of fees, is 9.00% for an investment to be considered.

2. The Portfolio's secondary benchmark is defined as the Consumer Price Index (CPI), plus 500 basis points, over a trailing three-year period.

C. STRATEGIES

1. The Portfolio is non-diversified, meaning that it may concentrate its assets. However, the Portfolio's allocation to a particular investment will not exceed 25% of the maximum allowable 3% of total Fund assets (i.e., 0.75% of OPERF), with the exception of cash, at the time of investment. Minimum investment size will be $75 million.

2. Investment ideas for the Portfolio may be offered by the OIC, its consultant(s), or ~~Office of the State Treasurer (OST)~~ Sstaff. ~~A written summary of the idea and its economic rationale will be presented to the OIC prior to conducting full due diligence. If the OIC agrees that the idea warrants additional consideration, Staff and consultant(s) will conduct research, report on, and make a subsequent recommendation to the OIC.~~

3. The Portfolio assets will be allocated according to recommendations made to the OIC by OST staff and the OIC's consultant(s) based upon consideration given to various quantitative and qualitative data relating to U.S. and foreign economies and securities markets.

4. Every investment presented to the OIC must have an economic rationale for inclusion in the Portfolio, and will only be considered within the context of the Prudent Investor Standard, reducing the possibility that investments will be considered for other than return enhancement and overall portfolio diversification. Additionally, investment opportunities where a comparative analysis can be performed will be preferred. ~~Sole source ideas will be discouraged.~~ Unless otherwise directed by the OIC, trading

strategies such as hedge funds or commodity trading will be excluded from consideration.

5. The OIC has the flexibility to reallocate assets among any or all of the permissible investments based upon its ongoing analyses of the equity, fixed income, real estate, private equity and cash markets.

6. Investments ~~selected that are short-term or tactical in nature will have stated dates for review and reevaluation, as appropriately stated in the original written recommendation presented to the OIC~~shall be monitored on an on-going basis and reviewed no less than annually with the OIC.

7. The Portfolio may use passive investment management when deemed prudent and appropriate.

8. Certain investments may be allocated to the Portfolio for incubation purposes and, if successful, may be recommended into one of the primary OPERF asset classes.

~~9.~~ 9. The Portfolio's aggregate risk should be equal to or less than the expected risk of the publicly traded component of the OPERF portfolio. The Portfolio risk should be well diversified, relative to the total Fund, due to the expected low correlation of strategies with existing holdings

D. IMPLEMENTATION

I. CONSULTANT AND OPERF REQUIREMENTS

OST and the OIC have elected to manage the Portfolio under a lean-staff/outsourced model. A qualified, independent consultant may be retained by the OIC to facilitate Portfolio investing, and will be delegated substantial duties for: performing due diligence on investment opportunities, monitoring of Portfolio investments, Portfolio analytics, valuation analyses, and performance reporting. Staff retains the primary responsibility to ensure Portfolio investments receive appropriate due diligence, monitoring, and valuation analyses. While some of these duties will be delegated to the consultant, Staff will conduct and document sufficient reviews and tests of the consultant's work to conclude these delegated duties are being consistently performed.

II. LEGAL COUNSEL

Relevant legal advice will be obtained from the DOJ. However, due to the complex nature of the Portfolio's investments, the necessity for expert outside legal counsel shall be recommended to the DOJ when deemed necessary by Staff and the OIC~~Council~~.

III. CONTRACT EXECUTION

1. Managers will be informed of the OIC's approved commitment, in writing, immediately following the OIC meeting.

2. Any retained_consultant(s) will receive OIC meeting agenda materials which shall include the written minutes of the OIC's most recent meeting.

3. Legal counsel will receive written verification of the committed amount in conjunction with the partnership documentation.

4. The OIC's authorized signatory, the Chief Investment Officer (or designee in accordance with OST policy), will ensure legal sufficiency has been provided by the DOJ, prior to the execution of the agreement.

IV. INVESTMENT FUNDING

1. For all existing and future relationships, each manager shall submit a complete listing of the bank account(s) to which OST may wire funds on behalf of the ~~partnership~~manager; this list may be included as an exhibit to the investment management agreement. OST shall not deviate from these pre-established instructions unless the manager authorizes such a change in writing.

2. All requests for funding (e.g., capital calls) must be made in writing and shall include an authorized signature. Facsimiles or e-mails may be accepted, if they include an authorized signature and account information previously authorized per IV~~D~~. 1. above.

3. ~~OST~~ Sstaff shall regularly monitor that fundings do not exceed the maximum amount authorized by the OIC, except as otherwise allowed by partnership recycling and temporary bridge financing provisions.

~~1~~.4. ~~OST~~ Sstaff shall verify that an authorized signer signs the written request by matching the signature to specimen signatures maintained at OST.

V. MONITORING

1. REPORTS
Reports prepared by an independent advisor will be furnished at least quarterly on Portfolio activity and performance, and annually in an expanded format. Staff will present an annual review to the OIC.

2. ADHERENCE TO STRATEGY
The actual strategy employed by managers will be judged relative to stated objectives and strategies.

3. ONSITE VISITS
~~Investment Division staff~~Staff members should visit each domestic domiciled 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. International domiciled managers should be visited biennially, if feasible. The site visit schedule may be amended based on various factors, including: changes to the investment manager's organizational 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.

4. ADVISORY BOARDS
   To the extent practicable, participate in limited partner committee review or advisory boards and/or approvals of limited partnership valuations if Staff serves on such committee.

VI. REVIEW AND MODIFICATION OF INVESTMENT POLICY STATEMENT

The OIC may review this policy statement and procedures from time to time to determine if modifications are necessary or desirable.

~~V. MONITORING~~

~~I.~~

~~1. REPORTS~~
   ~~Reports prepared by the independent outside will be furnished at least quarterly on Program activity and performance, and annually in an expanded format. Staff will present an annual review to the OIC.~~

~~2. ADHERENCE TO STRATEGY~~
   ~~The actual strategy employed by general partners will be judged relative to stated objectives and strategies. The will interact with general partners periodically as necessary.~~

~~VI. REVIEW AND MODIFICATION OF INVESTMENT POLICY STATEMENT~~

~~The Council may review this policy statement and procedures from time to time to determine if modifications are necessary or desirable.~~

E. PERFORMANCE MEASUREMENT REPORTING

Consistent with the regular quarterly reporting on the Total Fund and the respective asset classes, Sstaff and ~~consultant(s)~~advisors will provide an update on the performance of the Opportunity Portfolio, compared to the Investment Objectives enumerated above.

SAMPLE FORMS, DOCUMENTS, OR REPORTS (Attached): None

FUNCTION: **Short Term Investments**
ACTIVITY: **Staff to the Oregon Short Term Funds Board (OSTFB)**

POLICY: **The Oregon Short-Term Fund Board advises the Treasurer and the Oregon Investment Council on short term investment matters (ORS 294.895). The Board includes the Treasurer, or the Treasurer's designated representative, three public members appointed by the Treasurer who are qualified by training and experience in the field of investment or finance and who do not hold any other public office or employment. Three members who are treasurers, finance or fiscal officers or business managers of any county, city or school district, shall be appointed by the Governor. The term of office of each appointed member of the board is four years, but each appointed member serves at the pleasure of the appointing authority. (ORS 294.885).**

PROCEDURES:

1. **Staff and Research Support.** Should the OSTFB wish to investigate or research a matter related to short term investments, Treasury Short Term Investment Section staff provide support and assistance.

2 **Record and Distribute Minutes of OSTFB Meetings.** The staff of the Short Term Investment Section attends all OSTFB meetings, and the ~~Finance Division Executive Support Specialist~~Executive Assistant to the Deputy State Treasurer records and distributes minutes for these meetings. Minutes are distributed to members of the OSTFB, to Short-Term Investment Section staff, to members of the Oregon Investment Council, and to members of the general public who request the minutes.

SAMPLE FORMS, DOCUMENTS, OR REPORTS (Attached):

None

FUNCTION: **Fixed-Income Investments**
ACTIVITY: **Internal Fixed-Income Portfolio Investments**

POLICY: **Only State Agency funds meeting the minimum requirements will be considered eligible for discreet investment management. All internal fixed income investments shall be authorized by a fixed income investment officer, authorization shall be documented, and shall be in accordance with portfolio guidelines established by the Oregon Investment Council.**

PROCEDURES:

A. PURPOSE

The purpose of this Fixed Income Investment Policy is to (1) determine what funds are eligible for discreet investment management, and (2) to define the role of fixed income within the Investment Council's general investment policies for internally managed state agency funds; to set forth specific short-term and long-term policy objectives for the state agency funds, and to outline the strategies for implementing the Investment Council's fixed income investment policies.

B. ELIGIBILITY

1. Funds eligible for discreet investment management must meet the following requirements:
    a) The fund's enabling statutes must evidence legislative contemplation of discreet investment activity. Language containing the word "invest" in some form will suffice as evidence.
    b) The minimum projected balance for the subject funds must be at least $10 million for investment only in U.S. Treasury and Government-Sponsored Enterprise securities and at least $40 million for inclusion of corporate bonds.

2. Agency must meet the following requirements:

    a) Agency Head makes a written request for discreet investment management which includes an affirmative statement of the agency's ability to comply with the agency requirements contained in the Interagency Agreement for Fixed Income Investments.
    b) Agency will enter into an Interagency Investment Agreement with the Office of the State Treasurer (OST).

3. Final determination on the eligibility of any fund for discreet investing will be made solely by the Office of the State Treasurer.

4. Exceptions to eligibility must be approved by the Deputy State Treasurer.

C. OVERALL POLICY OBJECTIVES & STRATEGIES (except as noted in specific IPS)

1. Achieve a stable and predictable yield on investments and preservation of principal while providing sufficient liquidity to the agencies to allow for cash needs.
2. Maintain a well-diversified bond portfolio, managed to maximize yield, *not total return*, or as stipulated in specific agency Investment Policy Statement (IPS).
3. Maintain periodic meetings with agencies to review portfolio objectives and liquidity needs which shall be documented in IPS for each respective agency (see attached).
4. Invest opportunistically, using innovative investment approaches within a controlled and defined portfolio allocation.
5. Maintain average credit quality of A/A, or as stipulated in specific agency IPS.
6. Maintain communication with agencies during periods of unique market environments (e.g., volatile credit cycles, low interest rate scenarios, etc.) and discuss possible IPS impacts in that environment.

D. PERMITTED HOLDINGS (except as noted in specific IPS)

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, commercial paper, certificates of deposit and bankers acceptances issued by industrial, utility, finance, commercial banking or bank holding company organizations.
3. Mortgage-backed and asset-backed securities.
4. Obligations denominated in U.S. dollars only.
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. The Oregon Short-Term Fund (OSTF) and securities eligible for the OSTF.

E. DIVERSIFICATION (except as noted in specific IPS)

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. 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.
3. Obligations of other issuers are subject to a 3% per issuer limit.

F. ABSOLUTE RESTRICTIONS

The Internal Fixed Income Section 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 or common stocks.
4. Non-U.S. dollar denominated fixed income securities issued by entities incorporated or chartered outside of the United States.
5. Fixed income securities which may optionally be converted into equity securities.
6. Investments categorized to be equity real estate or within the equity asset class (investments categorized to be within the short-term asset class are specifically permitted, however).
7. Other securities which may not be categorized as fixed income securities.
8. Other securities as stipulated in specific agency IPS.

From time to time, the Oregon Investment Council may add items to, or remove investments from this list.

G. ASSURANCE OF COMPLIANCE

The Senior Fixed Income Investment Officer and the Fixed Income Investment Officer(s) regularly reviews portfolio holdings for investments which are prohibited and when one or more types of investments are added to or removed from the list of those prohibited. Complete portfolio listings are provided to the OIC and OST staff annually.

H. INVESTMENT TRANSACTION AUTHORIZATION

All trades are entered on the Bloomberg Trading System, and are authorized by the signature of either the Senior Fixed Income Investment Officer or the Investment Officer(s). The Senior Fixed Income Investment Officer and the Investment Officer(s) shall act in accordance with established procedures and internal controls for the operation of the investment program consistent with this policy. The Senior Fixed Income Investment Officer or the Chief Investment Officer reviews transactions initiated by the Investment Officer. The Chief Investment Officer reviews transactions initiated by the Senior Fixed Income Investment Officer. Trades are transferred to the custodian bank and copies are forwarded to Investment Accounting.

SAMPLE FORMS, DOCUMENTS, OR REPORTS (Attached):

A. DCBS Fund IPS
B. DCBS Worker's Benefit Fund IPS
C. DAS Risk Management Insurance Fund IPS
D. ODOT Fund IPS
E. ODVA VET's Bond Sinking Fund IPS

FUNCTION: Real Estate Investments
ACTIVITY: Acquire and Manage Equity Real Estate

POLICY:

I. POLICY:

OPERF's real estate asset class consists of three sub-classifications:

- CORE: inclusive of ~~direct~~ equity investments in real properties and investments in private and publicly traded real estate investment trusts,
- VALUE ADDED: inclusive of ~~direct~~ equity investments in real properties, investments in commingled fund investment vehicles and private placements.
- OPPORTUNISTIC: inclusive of investments in commingled fund investment vehicles and private placements.

On an ongoing basis, the Council allocates capital to the real estate asset class as part of the periodic asset allocation review.

The OIC shall designate allocation ranges for each sub-classification of the real estate asset class, including an allocation range for REITs within the Core sub-classification and allocation ranges and targets for each property type within the Core component (see Section IV.C). Each OIC approved real estate investment manager is given discretion to invest, operate, finance and sell direct equity real estate investments within applicable investment guidelines. OPERF invests primarily in direct equity properties with a value greater than $10 million.

II. INVESTMENT APPROACH AND PARAMETERS:

A. Prudent Investor Standard
The selection of real estate investments will be guided by the "prudent investor" standard, embracing the prudent decision making process typically employed by experts in the areas of real estate acquisitions, development, operation, financing, disposition and portfolio management.

B. Diversification Principles

Diversification will be accomplished through the investment of capital among a variety of management organizations, strategies, asset types and sub-markets. The Core portfolio shall be diversified within reasonable tolerance bands with respect to investment strategy, property types and locations, and investment structure, among other factors. Value Added and Opportunistic investments may not have diversification targets by investment strategy, property type or geographic location. REIT, Value Added and Opportunistic investments may include global investments outside U.S. borders.

III. CORE, VALUE ADDED AND OPPORTUNISTIC SUB-CLASSIFICATIONS

A. Strategic Objectives

The real estate portfolio will be divided into sub-classifications, the Core portfolio, the Value Added portfolio and the Opportunistic portfolio, based on risk and return characteristics. The strategic objectives of the Core portfolio are to produce stable current income and market level returns commensurate with a low to moderate level of risk. The Opportunistic portfolio is expected to produce higher returns than the Core portfolio and increase the overall performance of the real estate asset class, subject to an incrementally greater amount of risk. The Value Added portfolio is expected to produce returns between Core and Opportunistic portfolios but may experience greater vacancy or interest rate risk than the Core portfolio.

B. Allocation of Capital Between Core, Value Added and Opportunistic

The Core portfolio will comprise between 40% and 60%, with a target of 50%, of the allocation to the real estate asset class. The Value Added portfolio will target 20% with a range from 15% to 25%. The Opportunistic portfolio will be allocated the remaining 20% to 40%, with a target of 30%, of the allocation to the real estate asset class.

Asset Type	Allocation Range	Target
Core Portfolio:	40% to 60%	50%
Core~~Direct~~ Properties	25% to 35%	30%
REITs	15% to 25%	20%
Value Added	15% to 25%	20%
Opportunistic	20% to 40%	30%

C. Leverage : The use of leverage shall be constrained to 60% of the total real estate portfolio (Core~~Direct~~ Properties, Value Added properties, REITs and Opportunistic investments).

IV. CORE PORTFOLIO

A. Target Return and Benchmark

Core~~Direct~~ Properties within the Core portfolio have a long term, net-of-fees, real rate of return target of 5% and are expected to produce returns in excess of the market over time, with a commensurate level of risk. Thus, the Core~~Direct~~ Property performance on a net-of-fee basis is expected to exceed the composite NCREIF Index.

The REIT portfolio has a long term, net-of-fees, real rate of return target of 5% and is expected to produce returns in excess of market level returns over time, with a commensurate level of risk. Thus, the REIT Portfolio performance on a net-of-fee basis is expected to exceed the composite NAREIT Index. REIT investments may include global investments outside the U.S. borders with appropriate global benchmark indices.

B. Core~~Direct~~ Property Diversification and Allowable Investments

The Core~~Direct~~ Property portfolio will be well diversified by property type and geography. Generally, investments will be limited to office, retail, industrial and apartment properties, but may include structured investments in alternative types of property with Core type risk and return attributes. Typical ~~Direct~~ Core Properties will exhibit "institutional" qualities such as being well located within local and regional markets, and be of high quality design and construction. In general, Core ~~portfolio Direct~~ Properties will be well occupied, though a limited portion may be invested in properties undergoing redevelopment, new construction or significant re-leasing at any time. Proposed acquisitions for the Core ~~Direct~~ Property portfolio requiring more than $100 million of capital from OPERF require the OIC's approval prior to the advancement of non-refundable deposits.

Within the Core~~Direct~~ Property p~~P~~ortfolio, OPERF generally will have the right to: (i) replace or terminate a manager with or without cause; (ii) add or subtract committed capital; and (iii) create and modify investment, operating and financing guidelines pursuant to the terms of an operating agreement.

The REIT portfolio will be well diversified by property type and geography. Generally, investments will be limited to publicly traded real estate investment trusts and real estate operating companies owning office, retail, industrial, healthcare, mobile homes, self storage, hotels, R&D and apartment properties. REIT investments outside U.S. borders shall be limited to 50% of the REIT portfolio.

C. Diversification By Property Type

To reduce risk, the Core~~Direct~~ Property portfolio will be well diversified by property type. Allocation ranges for the basic property types, to be included in the Core portfolio, are as follows:

Property Type	Allocation Range	Target
Office	20%-45%	30%
Industrial	15%-25%	20%
Retail	20%-30%	25%
Apartments	20%-30%	25%

From time-to-time, the actual allocation to each property type may not fall within the recommended range due to normal acquisition and disposition activity. In addition, changes to the policy target exposures will necessarily take time to implement, given the illiquid nature of real estate. In these instances, adjustments from actual to the prescribed allocation ranges shall be implemented over a reasonable time frame (within a one to three year period, unless otherwise specified) and with ample consideration given to preserving investment returns to OPERF.

D. Leverage

Limited use of leverage is permissible in the Core~~Direct~~ Property portfolio in an amount up to 50% of the fair market value of the aggregate Core~~Direct~~ Property portfolio, and up to 75% of the market value on any given property, to enhance investment returns. Sufficient consideration should be given to the impact of debt financing on the risk and return characteristics of the leveraged investments as well as the Core~~Direct~~ Property portfolio, in total. Use of leverage shall be subject to financing guidelines incorporated into the operating agreement(s) for each Core~~Direct~~ Property investment manager.

From time to time, Managers may have the opportunity to acquire properties only if underlying property debt is assumed as part of the transaction. Such acquisitions may be pursued occasionally as long as such acquisition does not cause the Manager's portfolio to exceed portfolio leverage limitations, for an extended period of time. From time to time, Manager portfolios may exceed or fall below leverage limitations as individual leveraged and unleveraged properties are acquired. Mechanisms and time frames to bring property leverage in line with portfolio guidelines, and investment objectives, must be part of each ventures' operating agreement. Material deviations from leverage guidelines and policy may be resolved either through action by the OIC or the Real Estate Committee.

From time to time, it may be advantageous for a Core~~Direct~~ Property Manager, Value Added Portfolio Manager or Opportunistic Portfolio Manager (see below) to arrange for the use of a subscription credit facility, collateralized by OPERF's capital commitment. Such capital shall be treated as equity when calculating loan-to-value ratios.

V. VALUE ADDED PORTFOLIO

A. Target Return and Benchmark

The Value Added portfolio will have a long term, net-of-fees, real rate of return target of 6% and is expected to produce returns in excess of the market over time, with a commensurate level of risk. Thus, the Value Added performance on a net-of-fee basis is expected to exceed the composite NCREIF Index by about 100 basis points over a five year period.

B. Value Added Diversification and Allowable Investments

The Value Added portfolio will be well diversified by property type and geography. Investments will include office, retail, industrial and apartment properties, but may target structured investments in alternative types such as hotels, student housing, senior housing, and specialized retail uses. Value Added Properties may exhibit "institutional" qualities such as being well located within local and regional markets, and be of high quality design and construction but may need redevelopment, or significant leasing to achieve stabilized investment value. Value Added investments may include development opportunities with balanced risk/return profiles. Development investment in the Value Added sub-class shall be limited to 35% of capital committed to Value Added at any given time. When a property reaches 85% occupancy, it will cease being included as a development investment in the calculation.

C. Value Added Portfolio Investment Structures

The Value Added Portfolio may contain Direct Investments or Commingled Fund investments with strategies that have higher risk-reward characteristics than permitted within the Core portfolio. The Value Added portfolio may be structured without the control features required in the Core portfolio such as removal of manager without cause or changing investment parameters unilaterally.

D. Leverage

Use of leverage is permissible in the Value Added Portfolio in an amount up to 70% of the fair market value of the aggregate Value Added Portfolio, and up to 80% of cost on any given property prior to stabilization, to enhance investment returns. Sufficient consideration should be given to the impact of debt financing on the risk and return characteristics of the leveraged investments. Use of leverage shall be subject to financing guidelines incorporated into the operating agreement(s) for each Value Added Portfolio investment manager.

From time to time, Managers may have the opportunity to acquire properties only if underlying property debt is assumed as part of the transaction. Such acquisitions may be pursued occasionally as long as such acquisition does not cause the Manager's portfolio to exceed portfolio leverage limitations, for an extended period of time. From time to time, Manager portfolios may exceed or fall below leverage limitations as individual leveraged and unleveraged properties are acquired. Mechanisms and time frames to bring property leverage in line with portfolio guidelines, and investment objectives, must be part of each ventures' operating agreement.

From time to time, it may be advantageous for a Value Added Manager to arrange for the use of a subscription credit facility, collateralized by OPERF's capital commitment. Such capital shall be treated as equity when calculating loan-to-value ratios.

VI. OPPORTUNISTIC PORTFOLIO

A. Target Return and Benchmark

The Opportunistic portfolio has a targeted long term, net-of-fees, real rate of return in excess of 7% and commensurate with the risk profile of the asset or strategy. Within the Opportunistic portfolio, expected returns may vary considerably, based on differences in investment program strategies and structures and the level of risk associated with each program, among other factors. Moderate to high levels of leverage may also be employed by some programs to augment investment performance.

The investments within the Opportunistic portfolio are likely to represent a wide variety of strategies and investment vehicles. Opportunistic investment managers generally utilize greater leverage. Opportunistic portfolio performance, on a net-of-fee basis, is expected to exceed the composite NCREIF Index by about 200 basis points over at least a five year time period.

B. Investment Strategy

Investments with expected returns in excess of the Core portfolio, Core type strategies utilizing greater leverage, and other investments with generally above market risk, will be included in the Opportunistic portfolio. These investments are often found in niche opportunities (e.g., timber, hotels, operating companies, non-performing loan portfolios, and senior or assisted living facilities) or exist because of inefficiencies in the real estate or capital markets. In addition, the Opportunistic portfolio may contain investments in international real estate joint ventures, limited partnerships, public and private REITs, and operating companies. Investment strategies for the Opportunistic portfolio will be characteristically "opportunistic" based on prevailing market conditions at the time of investment.

VII. REAL ESTATE COMMITTEE

A Real Estate Committee, comprised of the Deputy State Treasurer, the Senior Real Estate Investment Officer (ex-officio), the Chief Investment Officer, and a designated OIC member shall have the authority to:

(i) Invest an amount not to exceed $100 million per investment in first time real estate funds, (whether limited partnerships, private REITs, 501(c) corporations, limited liability companies, group trusts, insurance company separate accounts, or other such commingled private vehicles), and an amount up to and including 200% of the most recent commitment for existing relationships in follow-on funds or co-investment opportunities with existing Core, Value Added or Opportunistic managers, subject to the additional constraints below.

(ii) Approve the termination of separate account mandates and recommend action regarding the enforcement of termination and other provisions for commingled investments.

The total amount committed by the Real Estate Committee shall not exceed $500 million to first time funds and $700 million to existing Direct Property investment vehicles or REIT separate accounts, follow-on funds or co-investment opportunities with existing Core, Value Added or Opportunistic managers in any single calendar year, without the approval of the OIC. When aggregate commitments to a real estate manager equal or exceed $500 million, all additional commitments require a presentation to the full OIC.

Decreases in capital allocations to individual Direct Property or REIT managers greater than $100 million, or representing 50% or more of the capital under management by a specific manager, and decreases in capital allocations, in aggregate, greater than $200 million in any single calendar year, are beyond the authority of the Real Estate Committee.

Authority shall only be exercised with a unanimous determination by the Real Estate Committee, acting upon a favorable due diligence determination by the Real Estate Investment Consultant retained by the OIC, or by a third party independent fiduciary. Proposed investments, sales, and other activity may only go before the Real Estate Committee if agreement exists between the Consultant and OST Staff regarding the consistency of such proposed action with the current OPERF real estate portfolio strategy.

The favorable recommendation provided by the Real Estate Investment Consultant, including the underlying rationale, market conditions and portfolio impact, shall be furnished to the OIC as soon as practicable in connection with any investment activity that is likely to be voted on by the Real Estate Committee, in any case, at least two weeks prior to the Real Estate Committee meeting date, except in the case of co-investments, where information will be provided as it becomes available. Prior to commitment to an investment or other activity, if any one, or more, Council members advise a member of the Real Estate Committee that they object to the proposed activity, such activity must come before the Council as an agenda item at a subsequent OIC meeting, or, alternatively, be dropped altogether.

Any activity by the Real Estate Committee shall be reported to the OIC at an upcoming meeting.

VIII. OST STAFF AUTHORITY

The Chief Investment Officer, under recommendation from the Senior Real Estate Investment Officer and with a favorable recommendation from the Real Estate Investment Consultant, shall have the authority for the following real estate investment transactions:

(i) Approval of administrative activities and guideline exceptions if a plan is established to conform the exception [project/investment/fund] to guidelines within a reasonable period of time.

(ii) Approval of purchase or sale of opportunistic or other fund interests, if delegated by the OIC; review and approve other activity as necessary to further the interests of OPERF's real estate portfolio, consistent with the overall risk management and performance objectives.

(iii) Approval to increase or decrease exposure to REITs, through adjustments to the capital commitments of existing REIT Managers; within OIC established ranges.

(iv) Approve up to an additional $10 million to an existing fund for the following purposes: (1) to recapitalize the fund with additional equity, (2) to acquire all or part of another LP's position in an existing fund or (3) to co-invest with the fund in a new investment. Such additional commitment shall be on terms equal to or better than the existing fund terms previously approved by the OIC.

Any of the foregoing activity exercised by Staff shall be reported to the OIC at an upcoming meeting.

PROCEDURES:

1. **Selection of Investment Management Firms.** The Chief Investment Officer, Senior Real Estate Investment Officer, and Real Estate Investment Officer meet with and obtain information from prospective investment management firms. The Consultant may be used to assist in evaluating prospective investment management firms, however, the OIC will not delegate its policy or decision-making responsibilities to the Consultant or others. The OIC selects an investment management firm by majority vote.

2. **Compensation of Investment Management Firms.** Management or performance-based fees shall be negotiated by OST staff in consultation with the Department of Justice and third party legal counsel, as appropriate. Typically, the base fees are set as a percentage of assets managed and performance-based fees are set based upon performance in excess of the NCREIF composite, an alternative appropriate index, or a nominal number. Base fees typically vary on a sliding scale inversely with the total value of OPERF assets under management by each firm.

PROCEDURES FOR INVESTMENT FUNDING:

1. For all existing and future real estate investment relationships, each Manager shall submit a complete listing of the bank account(s) to which OST may wire funds on behalf of the Manager; this list may be included as an exhibit to the partnership or investment management agreement. OST shall not deviate from these pre-established instructions unless the partner or advisor authorizes such a change in writing.

2. All requests for fundings (e.g., capital calls) must be made pursuant to established OST practices and shall include an authorized signature. Facsimiles and e-mails may be accepted to initiate fundings, as long as the bank account information and authorized signature are consistent with the pre-established information in (1), above.

3. OST staff shall verify that the funding does not exceed the maximum amount authorized by the OIC or the Real Estate Committee. Approved funding amounts may be exceeded by up to five percent, per investment, for emergency funding, changes in foreign currency conversions, manager fees or other funding requirements contained within the operating agreement(s) for each manager.

4. OST staff shall verify that the written funding requests are signed by an authorized signer by matching the signature to specimen signatures maintained at OST. Other requests will use a OST prescribed format.

SAMPLE FORMS, DOCUMENTS, OR REPORTS (Attached):

A. Appendix A – Private Partnership Investment Principles

FUNCTION: **Real Estate Investments**
ACTIVITY: **Evaluate Investment Manager Performance and Contract Compliance**

POLICY: **The performance of the real estate investment managers shall be reviewed, at least annually, and the investment managers shall provide activity and AIMR and NCREIF compliant performance reports to the OIC, the real estate consultant, and OST staff, at least quarterly.**

PROCEDURES:

1. **Selection of Real Estate Investment Managers**
The selection of a real estate 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 real estate investment managers, however, the OIC will not delegate its policy or decision-making responsibilities to consultants or others.

2. **Reports Received From Real Estate Investment Managers**
The real estate investment managers provide activity and performance reports at least quarterly to the real estate consultant and OST staff.

3. **Performance and Termination of Real Estate Investment Managers**
The real estate investment manager's performance benchmark is to provide a return in excess of the NCREIF Property Index, or successor indices as approved by the OIC, net of fees.

The REIT investment manager's primary investment objective is to generate a rate of return in excess of the NAREIT Equity Index, or successor or alternative indices as approved by the OIC, net of all fees and costs over the course of a complete market cycle.

OST shall annually evaluate the performance of each real estate investment manager for performance and contract compliance. 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 pursuant to Activity Reference 04.04.04.

4. **General Oversight of Investment Management Firm Performance**
All performance calculations shall be provided by an independent third party (e.g., a consultant). Managers shall reconcile performance returns as calculated by this third party.

Investment Division staff members or consultants shall visit each investment manager on-site, or at direct properties managed by such investment manager, or at advisory board meetings, 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. **Audited Financials**
OST shall request annual audited financial statements from each investment manager operating properties or portfolios~~ within the Core portfolio~~.

6. **Termination of Firms**
See Activity Reference 4.04.04 regarding procedures for the termination of firms.

SAMPLE FORMS, DOCUMENTS, OR REPORTS (Attached):

None

FUNCTION: **Real Estate Investments**
ACTIVITY: **Property Appraisals**

POLICY: **As delegated by the Treasurer, Office of the State Treasurer (OST) staff has the authority to hire firms to conduct appraisals of the Core portfolio properties.**

DEFINITIONS:

Based on the Financial Institutions Reforms, Recovery, and Enforcement Act (FIRREA) requirements of February 9, 1990, the following shall be the operative definition of fair market value: *"The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus."* Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby: (1) buyer and seller are typically motivated; (2) both parties are well informed or well advised, and each acting in what they consider their own best interest; (3) a reasonable time is allowed for exposure in the open market; (4) payment is made in terms of cash in United States dollars or in terms of financial arrangements comparable thereto; and (5) the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

PROCEDURES:

1. The Senior Real Estate Investment Officer, or a qualified designee, will engage an unbiased third party appraiser to estimate the fair market value of the properties in the Core portfolio. The fair market value of a fee simple interest or partial interest in real property shall be determined no later than, December 31, of the second year after date of acquisition (e.g., if a property was acquired 3/11/98, the first appraisal of this property would be as of 12/31/99) or every other year.

2. OST staff shall have the right to select and to enter into contracts with appraiser(s) and to designate the properties to be appraised. The appraiser must be licensed in the state where the property is located, adequately experienced in appraising the property type, and knowledgeable of the local and regional market.

3. The appraisal report must be in compliance with the Uniform Standard of Professional Appraisal Practice (USPAP) as adopted by the Appraisal Standards Board (the "Board") of the Appraisal Foundation and all subsequent changes and modifications approved by the Board. Every property will be appraised no less than every two (2) years from the date of last appraisal until disposition, unless otherwise

directed and documented by the Senior Real Estate Investment Officer because of extenuating circumstances. If marketing plans are in place, or if the sale of a property is expected to close within a reasonable period of time near the scheduled appraisal date, the Senior Real Estate Investment Officer may accelerate or delay such appraisal, as necessary. If subsequently such a property sale fails to close, appraisal of this property will take place in the next year-end appraisal cycle.

4. In order to maintain fresh opinions of real estate values, a particular appraiser may only appraise a property twice (consecutively) before a new appraiser or appraisal firm must be selected.

5. For certain strategies deployed by Core Managers, it may be more economical and consistent with OPERF investment objectives to have properties appraised pursuant to a schedule that differs from policy. Staff is granted the authority to craft an appraisal cycle, of up to three years, if such a cycle time is consistent with the real estate portfolio objectives and the strategy and structure of the venture.

6. The Senior Real Estate Officer, or a qualified designee, will ensure that real estate ~~financial statements received~~fair market values reported ~~from~~ by Core Managers are accurately updated for the results of the property appraisals.

DISPUTE RESOLUTION PROCEDURES:

1. The Senior Real Estate Investment Officer, or a qualified designee, will engage an unbiased third-party appraiser (the "dispute resolution appraiser") to resolve any dispute or disagreement between an investment manager and appraiser as to the fair market value of a property.

2. The appraiser shall provide a copy of its appraisal and/or other information and the investment manager shall provide in writing a statement as to why it disagrees with the value determined by the appraiser. The dispute resolution appraiser shall review both sets of information and make a binding decision as to the fair market value of the property, which may be more or less than the manager or appraiser's estimate of fair market value.

SAMPLE FORMS, DOCUMENTS, OR REPORTS (Attached):

None

FUNCTION: **Deferred Compensation Investment Program**
ACTIVITY: **Investment Management Firm Monitoring and Retention**

POLICY:
The Oregon Investment Council contracts with Investment Management Firms to invest the assets of the State of Oregon Deferred Compensation Investment Program. Firms are hired for their specific expertise and the investments will generally take the form of mutual funds and commingled trusts. Firm expertise is manifested in the investment performance results produced. Retention of a firm exposes the assets under management to a degree of risk for which the Program should receive adequate compensation. Office of the State Treasurer (OST) staff will begin monitoring the Investment Management Firm before the firm is hired.

PROCEDURES:

Based on information provided by investment prospectuses, Morningstar, and other available information, staff shall identify the following for each firm:

1. **Strategic Role.** Identification of the strategic role within the investment structure the firm's portfolio is to fulfill.

2. **Firm's Style.** Description of the firm's style or how the firm will fulfill the strategic role.

3. **Universe of Securities.** Identification of the universe of securities from which the firm will construct its portfolio.

4. **Risk Level.** Identification of the expected risk level, as measured by commonly accepted investment risk measures, relative to the strategic role the firm is to fulfill. The risk level can be expressed relative either to the universe of securities from which the firm selects, other managers, or to the market return as a whole, or it can be expressed in absolute terms.

5. **Performance Objective.** Identification of a specific performance objective should be expressed on a risk-adjusted basis. For example, the firm's performance may be compared to an index that represents the universe of securities from which the firm selects, plus some degree of excess return over that index that is commensurate with the risk the firm takes to achieve return. Benchmarks and performance objectives for individual funds are included in Appendix A.

6. **Time Horizon.** Identification of a time horizon considered acceptable by the firm and the Oregon Investment Council 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.

7. **Monitoring.** The firm is to be monitored with regard to how performance results are generated to ensure the firm is exhibiting risk and other portfolio characteristics consistent with the original objectives for hiring that particular firm. If the firm's risk profile or other portfolio characteristics deviate materially from those outlined in the guidelines, the firm will be subject to probationary action as described in section 8.

8. **Performance.** Prior to the expiration of the time horizon for performance measurement, performance deviating from objectives should be noted, with the firm being placed informally on "Watchlist." Staff shall notify the Council anytime an investment fund is placed on "Watchlist" and shall report the "Watchlist" status at the annual Deferred Compensation review. Nothing stated in this policy will supersede the right of the Oregon Investment Council from exercising its right to terminate "at will" any firm in its employ according to the terms of its contract.

9. **Contracting.** For purposes of this policy, in cases where the firm contracts with others for the management of the assets, the firm will meet the above elements for each separate manager employed by the firm.

SAMPLE FORMS, DOCUMENTS, OR REPORTS (Attached):

None

APPENDIX A

INVESTMENT MANAGER BENCHMARKS

Manager	Benchmark	Peer Group	Return Objective Over Benchmark Net of Fees
SSGA GSTIF	3 month T Bill	Money Market	10bps
BlackRock~~GI~~ US Debt Index	Barclays Aggregate	Int. Fixed Income	N/A
Fidelity Broad Mkt. Dur.	Barclays Aggregate	Int. Fixed Income	50bps
Wellington Bond Core Plus	Barclays Aggregate	Int. Fixed Income	50bps
BlackRock~~GI~~ Russell 1000 Value		R 1000 Value	Large Value
N/A			
Dodge & Cox	R 1000 Value	Large Value	75bps
MFS Value	R 1000 Value	Large Value	75bps
LSV Value	R 1000 Value	Large Value	75bps
BlackRock~~GI~~ Russell 3000	R 3000	Market-Oriented	N/A
BlackRock~~GI~~ Russell 1000 Growth		R 1000 Growth	Large Growth
	N/A		
American Funds Amcap	R 1000 Growth	Large Growth	75bps
Wells Fargo Endeavor Sel.	R 1000 Growth	Large Growth	75bps
Delaware US Growth	R 1000 Growth	Large Growth	75bps
BlackRock~~GI~~ EAFE Index	MSCI EAFE	Market-Oriented	N/A
Artisan International	MSCI EAFE	Market-Oriented	150bps
GMO Foreign III	MSCI EAFE	Market-Oriented	150bps
Marsico International	MSCI EAFE	Market-Oriented	150bps
Oakmark International	MSCI EAFE	Market-Oriented	150bps
BlackRock~~GI~~ Russell 2000	R 2000	Market-Oriented	N/A
American Beacon S.C. Value	R 2000 Value	Small Value	150bps
Columbia Acorn	R 2500	Midcap Market-Oriented	150bps
T Rowe Midcap Growth	R 2500 Growth	Midcap Growth	150bps
BlackRock			
Lifepath Retirement	Various	Target Date Funds	N/A
Lifepath 2015	Various	Target Date Funds	N/A
Lifepath 2020	Various	Target Date Funds	N/A
Lifepath 2025	Various	Target Date Funds	N/A
Lifepath 2030	Various	Target Date Funds	N/A
Lifepath 2035	Various	Target Date Funds	N/A
Lifepath 2040	Various	Target Date Funds	N/A
Lifepath 2045	Various	Target Date Funds	N/A
Lifepath 2050	Various	Target Date Funds	N/A

FUNCTION: State Accident Insurance Fund
ACTIVITY: Equity Investments

POLICY: **A portion of SAIF Corporation's investment portfolio shall be invested in equity securities.**

PROCEDURES:

1. **Objective**: The objective of the equity portfolio is to enhance total return by investing in a broadly diversified portfolio of stocks. The OIC and SAIF are mindful of the potential volatility of the equity markets and choose to dampen this potential through diversification.

2. **Strategy**:
   - Hold a fully invested, diversified portfolio of securities.

3. **Permitted Holdings**:
   - Publicly traded global common stock, and other financial instruments commonly held in the management of passive, or enhanced, index funds.

4. **Diversification**: The OIC recognizes the need for high levels of diversification to minimize the risk of large losses to the Fund. Diversification by capitalization, style, and sector distribution shall be obtained by participation in a broad market strategy.

5. **Portfolio Restrictions**:
   - There will be no engagement in short sales, purchases on margin, or investments in options, futures, or private placements, unless prior authorization is given by Treasury staff.
   - ~~The Treasurer is statutorily prohibited from directly purchasing or holding equity investments (ORS 293.736).~~ Private investment management firms are usually retained on behalf of the OIC to select and purchase equities on the Fund's behalf.

6. **Proxy Voting**: The OIC has delegated the responsibility of voting all proxies to the investment manager according to the manager's internal proxy voting guidelines. Managers are required to vote the issues in the interest of SAIF, or in proportion to SAIF's interest in the pooled account.

7. **Performance Expectations/Reviews**:
   - Passive portfolios are expected to achieve returns similar to the performance of the relevant index less investment management and custody fees. Enhanced portfolios are expected to achieve returns above the benchmark, commensurate with the marginally higher tracking error.
   - Quarterly review will take place focusing on adherence to guidelines and evaluation of investment performance to objectives.

8. **Target Manager Weightings and Ranges:**

	Target	Range
MSCI ACWI IMI Index Fund	10%	7-13%

SAMPLE FORMS, DOCUMENTS, OR REPORTS:

None

Oregon Investment Council

Statement
of
Investment Objectives and Policy Framework
for the
Oregon Public Employees Retirement Fund

Adopted: February 27, 2002
Revised: July 28, 2004, April 27, 2005, May 18, 2005, January 18, 2006, July 6, 2006, January 31, 2007, September 26, 2007, January 30, 2008, April 29, 2009, May 27, 2009, April 28, 2010

Contents

Terms explained in the glossary are *italicized* when they first appear in this document.

1.0 Purpose

1.1 This Statement of Investment Objectives and Policy Framework (the "Statement") summarizes the philosophy, objectives and policies approved by the *Oregon Investment Council* (the "Council") for the investment of the assets of the *Oregon Public Employees Retirement Fund* ("OPERF").

1.2 The Council approved these objectives and framework after careful consideration of OPERF benefit provisions, and the implications of alternative objectives and policies.

1.3 The Statement has been prepared with five audiences in mind: incumbent, new and prospective Council members; Treasury staff; OPERF active and retired members; Oregon State Legislature and Governor; and agents engaged by the Council to manage and administer Fund assets.

1.4 The Statement summarizes more detailed policies and procedures documents prepared and maintained by the staff of the *Office of the State Treasurer*, and numerous other documents that govern the day-to-day management of OPERF assets including agent agreements, individual investment manager mandates, and limited partnership documents.

1.5 The Council regularly assesses the continued suitability of the approved investment objectives and policies, initiates change as necessary, and updates these documents accordingly.

2.0 Investment Objective

2.1 Subject to ORS 293.721 and 293.726, the investment objective for the *Regular Account* is earning, over moving twenty-year periods, an annualized *return* that exceeds the *actuarial discount rate* (ADR), approved by the Public Employees Retirement Board (PERB) to value OPERF liabilities. Eight percent is the current actuarial discount rate.

2.2 The Council believes, based on the assumptions herein, that the investment policies summarized in this document will provide the highest probability of achieving this objective, at a level of *risk* that is acceptable to active and retired OPERF members. The Council evaluates risk in terms of the probability of not achieving the ADR over a twenty-year time horizon.

2.3 Historically, members were allowed to direct up to 75% of their contributions to the *Variable Account*. No new contributions are being made to this fund. The investment objective of the Variable Account is to perform in line with MSCI All Country World Index.

2.4 The Council has established investment objectives for individual asset classes, including that asset class to which members can direct their contributions. Individual asset class objectives are also summarized in this Statement.

3.0 Policy Asset Mix, Risk Diversification and Return Expectations

3.1 After careful consideration of the investment objective, *liability* structure, *funded status* and liquidity needs of OPERF, and the return, risk and *risk-diversifying* characteristics of different asset classes, the Council approved for the OPERF Regular Account the asset mix policy presented in Exhibit 1. The exhibit also summarizes the Council's total fund asset mix policy and active management return expectations.

3.2 Sixty-two percent of OPERF is targeted for investment in *equities*, inclusive of *private equity*. Equity investments have provided the highest returns over long time periods, but can produce low and even negative returns over shorter time periods.

3.3 The risk of low returns over shorter time periods makes 100% equity policies unsuitable for most pension funds, including OPERF. By investing across multiple equity asset classes, and in lower return but less risky *fixed-income* and *real estate*, the Council is managing and diversifying the fund's overall risk exposure.

3.4 Exposures to selected asset classes are maintained within the re-balancing ranges specified in Exhibit 1.

3.5 With an 8.9% expected annual return, there is an estimated 50% probability of the fund earning an annualized return that equals or exceeds the current 8.0% actuarial discount rate over a 20 year horizon or, approximately, the next two to three market cycles.

Exhibit 1: Policy Mix and Return Expectations for OPERF Regular Account

Asset Class	Target Allocation (%)	Re-balancing Range (%)	Expected Annual Policy Return[1] (%)	Expected Annual Active Management Return (net of fees) (%)	Expected Annual Total Return (%)
Public Equities	46	41-51	9.0	0.75	9.7
Private Equity	16	12-20	10.7	1.3	12.0
Total Equity	62	57-67			
Fixed Income	27	22-32	5.7	0.75	6.4
Real Estate	11	8-14	6.3	0.75	7.0
Total Fund	100		8.1	0.8	8.9

1. Based on capital market forecasts developed by the Council's investment consultant, SIS, for the next two to three market cycles.
2. Total Fund expected returns are simply the weighted averages of the asset class returns.

3.6 The 8.1% expected annual asset mix policy return was developed with reference to the observed long-term relationships among major asset classes, adjusted by current market conditions. The Council believes this return expectation is reasonable, but recognizes that over shorter time periods actual mix policy returns can deviate significantly from this expectation – both positively and negatively.

3.7 US equity, non-US equity, and fixed-income asset classes are managed using both passive and active management strategies. Active management of public market securities and real estate assets is expected to earn 0.8% per annum of additional returns over moving five-year periods. The Council recognizes that unsuccessful active management can reduce total fund returns.

3.8 The OIC has provided for up to 3.0% of total plan assets to be invested in an *Opportunity Portfolio* to provide enhanced returns and diversification to OPERF. Investments are expected to be a combination of both shorter-term (1-3 years) and longer-term holdings. This allocation will not result in any of the previously established strategic asset allocation targets falling outside their ranges. No strategic target is established for the Portfolio since, by definition, investments will be pursued only on an opportunistic basis, unless changed by the OIC.

3.9 Cash is invested in the *Oregon Short Term Fund* and is kept at a minimum level, but sufficient to cover the short-term cash flow needs of OPERF.

3.10 In an effort to minimize cash exposure at both the fund and manager level, the OIC has retained a policy implementation overlay manager to more closely align the actual portfolio with the policy portfolio, generally through the buying and selling of futures contracts to increase or decrease asset class exposures, as necessary.

3.11 The Council shall review, ~~at least annually~~periodically, its expectations for asset class and active management performance, and assess how the updated expectations affect the probability that the Regular Account will achieve the investment objective.

4.0 Passive and Active Management

4.1 Passive management uses lower cost *index funds* to access the return streams available from the world's capital markets. Active management tries to earn higher returns than those available from index funds by making value-adding security selection and asset mix timing decisions.

4.2 The Council uses passive management to control costs, evaluate active management strategies, capture exposure to the more *efficient markets*, manage the risk of under-performance and facilitate re-balancing to policy asset mix. Exchange traded *real estate investment trusts (REITS)* may also be used to maintain the Fund's asset class exposures within the specified policy ranges.

4.3 The Council approves the active management of fund assets when available investment strategies offer sufficiently high expected incremental returns, net of fees, to compensate for the risk of under-performance, and when the magnitude of potential under-performance can be estimated, monitored and managed.

4.4 The Council must accept active management of those asset classes for which there is no passive management alternative, in particular, real estate and private equity.

4.5 The Council prefers active management strategies that emphasize security selection decisions rather than asset mix timing decisions. General investor experience and surveys of academic and professional studies indicate that security selection decisions are more likely to earn above index returns than asset mix timing decisions.

4.6 At the aggregate level of the Regular Account, active management strategies authorized by the Council are expected to **add 0.6% of annualized excess return**, net of fees, over moving five-year periods. **Active risk of the Regular Account is managed to a targeted annualized *tracking error* of 2 to 3 percent, relative to the policy benchmark.**

5.0 Public Equity Strategy

5.1 Public equity is managed with the objective of earning at least **75 *basis points*** in annualized net excess return above the *MSCI All Country World Index Investable Market Index* (ACWI IMI – net) (unhedged) over moving five-year periods. **Active risk is managed to a targeted annualized tracking error of 0.75~~1~~ to 2.0~~5~~ percent, relative to the above benchmark.**

5.2 Key elements of the strategy:

(a) 25~~0~~% of assets are targeted for passive management, primarily in the large and mid capitalization *sectors* of the market, which are believed to be more efficiently valued.

(b) ~~A~~ Maintain a double weighting to U.S. small capitalization stocks, in an effort to enhance return. This tilt is based on the Investment Council's belief that inefficiencies in the small and micro cap markets, relative to the large cap market, through active management, will outperform large cap stocks over the long-term. ~~A targeted 100% *overweight* to small capitalization stocks (stocks contained in the Russell 2000 Index) relative to the Russell 3000 Index is maintained. Given the inefficiency of the small cap market relative to the large cap market, through active management, the Council expects small cap stocks to outperform large cap stocks over the long term.~~

(c) Multiple specialist active managers with risk diversifying complementary investment styles are employed. For example, managers that focus on either growth or value stocks and managers that focus on large or small capitalization stocks. This produces more consistent excess returns and reduces the fund's exposure to any single investment organization.

(d) The Fund maximizes exposure to security selection based investment decisions by maintaining aggregate exposures to *value* and *growth* stocks, economic sectors and *market capitalizations* relative to their *benchmark exposures*, adjusted for the strategic small cap overweight.

(e) Active management exposure is higher for non-US equity because the Council believes the non-US markets provide more opportunities for skilled managers to earn incremental returns.

(f) Managers with skills in security selection and country allocation are utilized. These decisions have been shown to be the principal sources of the excess return in non-US equity portfolios. Managers who have demonstrated ability to add value through currency management are permitted to do so.

(g) Aggregate exposures to countries, economic sectors, equity management styles and market capitalization are monitored and managed relative to their benchmark exposures.

6.0 Fixed Income Strategy

6.1 Fixed income is being managed with the objective of earning **75 basis points** in annualized net excess returns above a blended benchmark of 90% *Barclays Capital US Universal Bond Index* and 10% *Citigroup Non-US$ World Government Hedged Bond Index* over moving five-year periods. **Active risk is managed to a targeted annualized tracking error of 1 to 2 percent, relative to the above benchmark.**

6.2 Key elements of the strategy:

(a) At least 95% of fixed income is actively managed because active fixed income management is generally more cost effective than active equity management. Excess returns are more likely because many investors hold fixed income to meet regulatory and liability matching objectives, and are not total return investors. This produces systematic mis-pricings of fixed-income securities that skilled investment managers can exploit. Also, fixed income management fees are much lower than active equity management fees.

(b) Multiple active generalist managers will be used for a majority of the fixed income asset class, rather than multiple sector specialists as in the US equity market. The OIC may supplement this strategy with specialist fixed income managers as warranted. Fixed income manager structures generally have little impact on total Fund risk because of overall lower allocations to the asset class and the low tracking errors. The asset class tracking error is diversified into insignificance at the total Fund level.

(c) Managers are selected for their skills in issue selection, *credit* analysis, sector allocations and *duration* management.

(d) Aggregate exposures to duration, credit and sectors are monitored and managed relative to corresponding exposures in the asset class benchmark.

7.0 Real Estate Strategy

7.1 Real estate investments are being managed with the objective of earning at least **75 basis points** in annualized net excess returns above the *NCREIF Index* over moving five-year periods. Because 80% of the real estate investments are traded infrequently, risk budget concepts are not applicable.

7.2 Key elements of the strategy:

(a) Real Estate is 100% actively managed because index funds replicating the real estate broad market are not available.

(b) ~~*Direct*~~ *Core property investments* represent 30% of the real estate portfolio, with a range of 25% to 35%. Specialist managers are utilized. Risk is diversified by investing across ~~four~~ the major property types: offices, apartments, retail and industrial, but may include structured investments in alternative types of property with Core type risk and return attributes.

(c) Exchange traded real estate investment trusts (REITs) represent 20% of the real estate portfolio, with a range of 15% to 25%. Active management will include style and capitalization specialists, as well as broad market managers. Up to 50% of the REIT exposure may be invested in markets outside the United States.

(d) *Value Added* investments represent 20% of the real estate portfolio, with a range of 15% to 25%. Investments may include direct property types listed above, as well as structured investments in alternative property types. Risk is diversified by property type and geography.

(e) *Opportunistic real estate* investments represent 30% of the real estate portfolio, with a range of 20% to 40%. Investment strategies will be characterized as "opportunistic" based on the market conditions prevailing at the time of investment.

(f) The Fund may also participate in *co-investment* opportunities within the real estate asset class.

8.0 Private Equity Strategy

8.1 Private equity is being managed with the objective of earning at least **300 basis points** net excess return above the Russell 3000 Index over very long time horizons, typically moving 10-year periods. Because private equity investments are traded infrequently, risk budget concepts are not applicable.

8.2 Key elements of the strategy:

(a) Private Equity is 100% actively managed because index funds of private equity are not available.

(b) Asset class risk is diversified by investing across different private equity fund types: *venture capital, leverage buyouts, mezzanine debt, distressed debt, sector funds* and *fund-of-funds*.

(c) Asset class risk is further diversified by investing across *vintage years*, industry sectors, investment size, development stage and geography.

(d) Private equity programs are managed by general partners with good deal flow, specialized areas of expertise, established or promising net of fees track records, and fully disclosed and verifiable management procedures.

(e) The Fund will participate in co-investment opportunities in the private equity asset class.

9.0 Performance Monitoring and Evaluation

9.1 The Council and its agents use a variety of compliance verification and performance measurement tools to monitor, measure and evaluate how well OPERF assets are being managed. Monitoring, reporting and evaluation frequencies range from hourly, to daily, to weekly, to monthly, to quarterly, to annually.

9.2 The Council has developed a performance monitoring and evaluation system that answers two fundamental fiduciary questions:

- Are Fund assets being prudently managed? More specifically, are assets being managed in accordance with established laws, policies and procedures, and are individual investment managers in compliance with their mandates?
- Are Fund assets being profitably managed? More specifically, has performance affected benefit security, has capital market risk been rewarded and has active management risk been rewarded?

9.3 When a breach of policies, procedures or portfolio mandates is reported or detected, the Council requires a supporting report explaining how the breach was discovered, the reasons for the breach, actions taken to rectify the breach, and steps taken to mitigate future occurrences.

9.4 One of the many reports used by the Council to monitor and evaluate performance of the Regular Account indicates if the Regular Account has exceeded the 8.0% (ADR) return over moving five-year periods. Additionally, reports quantify if the fund was rewarded for investing in higher return but more risky equity investments over the same period, and if active management has added or subtracted returns, net of fees.

9.5 The reporting described in ~~Section 11.4~~this section gives the Council a consolidated or "big picture" view of the performance of the Regular Account. This is the first level of a comprehensive four-level performance report used by the Council to monitor and evaluate performance over different time horizons. Level two examines Regular Account performance excluding hard-to-price illiquid assets such as real estate and private equities. Level three examines the performance of the Regular Account's five individual asset class strategies: US equity, non-US equity, fixed income, real estate and private equity. Level four examines the performance of individual managers within each of the asset class strategies. The four-level reporting structure allows the Council to "drill down" to the level of detail that is needed to identify potential performance problems, and take corrective action as may be required.

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Glossary

Actuarial Discount Rate (ADR): The interest rate used to calculate the present value of a defined benefit plan's future obligations and determine the size of the state's annual contribution to the plan.

Alternative Investments: Investments that are considered non-traditional or emerging investment types. Presently, the following investment types are considered alternative investments: hedge funds, infrastructure, timber, and other commodities.

Asset Class: A collection of securities that have conceptually similar claims on income streams and have returns that are highly correlated with each other. Most frequently referenced publicly traded asset classes include US equities, US debt and US cash.

Barclays Capital US Universal Bond Index: The Universal Index (market value of approximately $13 trillion at March 31, 2009), like the Barclays Capital US Aggregate Index, is modular and combines the Aggregate Index with the following capitalization weighted Barclays fixed income indices: the US High-Yield Corporate Index, the Rule 144a Index, the Eurodollar Index, the US Emerging Markets Index, the non-ERISA eligible portion of the Investment-grade CMBS Index, and the Emerged Bonds Index (emerged market bonds upgraded out of the Emerging Markets Index but not eligible for inclusion in any other US Index). The Aggregate represents approximately 87% of the Universal Index. However, the Universal captures an additional, approximately, $1.25 trillion in US dollar denominated fixed income. The Universal Index was officially launched by the former Lehman Brothers on January 1, 1999.

Basis Point: One basis point is 0.01%. One hundred basis points equals one percentage point.

Benchmark: A standard by which investment performance can be measured and evaluated. For example, the performance of US equity managers is often measured and evaluated relative to the benchmark performance of the Russell 3000 Index.

Benchmark Exposures: The proportion to which a given stock or investment characteristic is represented in an investment benchmark, such as the Russell 3000 Index of US companies. Allows investors to measure the extent to which their portfolio is over or under exposed to a given stock, or investment characteristic such as market capitalization.

Citigroup Non-US$ World Government Bond Index, Currency Hedged (Non-US WGBI): The Non-US$ WGBI Index is a capitalization weighted index of government bonds issued by 22 developed government bond markets, excluding the United States with a market value of approximately $10 trillion at March 31, 2009. To join the index, the market must satisfy size (a market's eligible issues must total at least US$20 billion, €15 billion, and ¥2.5 trillion for consideration) credit (minimum BBB-/Baa3 by either S&P or Moody's to insure that the WGBI remains an investment-grade index), and barriers-to-entry requirements (a market should actively encourage foreign investor participation and show a commitment to its own policies).

Co-investment: Although used loosely to describe any two parties that invest alongside each other in the same company, this term has a special meaning in relation to limited partners in a fund. By having co-investment rights, a limited partner in a fund can invest directly in a company also backed by the fund managers itself. In this way, the limited partner ends up with two separate stakes in the company: one, indirectly, through the private equity fund to which the limited partner has contributed; another, through its direct investment, generally under better investment terms.

Core Property Investments: Real estate investment strategies which exhibit "institutional" qualities, such as being well located within local and regional markets, well occupied, and of high quality design and construction.

Credit: The measure of an organization's ability to re-pay borrowed money. Used most often in the managing fixed income portfolios. Organizations with the highest credit rating, those most likely to re-pay money they have borrowed, are assigned a AAA credit rating.

~~*Direct Property Investments:* Real estate investment strategies in which the investor is the direct owner of the real estate by holding the deed to the real estate property, which could be land and/or buildings.~~

Distressed Debt: A private equity investment strategy that involves purchasing discounted bonds of a financially distressed firm. Distressed debt investors frequently convert their holdings into equity and become actively involved with the management of the distressed firm.

Duration: A financial measure used by investors to estimate the price sensitivity of a fixed-income security to a change in interest rates. For example, if interest rates increase by 1 percentage point, a bond with a 5-year duration will decline in price by 5 percent.

Efficient Markets: A market in which security prices rapidly reflect all information about securities and, by implication, active managers find it more difficult to pick stocks that consistently beat the performance of an index fund.

Equities: Investments that represent ownership in a company and therefore a proportional share of company profits. ~~For example, owning common shares of General Motors Corporation the Procter & Gamble Company is an equity investment.~~

Fixed-Income: Debt obligations of corporations and governments that specify how money previously borrowed is to be repaid. Typically, money is repaid by a series of semi-annual interest payments of fixed amounts, and final repayment of principal.

Funded Status: A comparison of plan assets with the plan liability (e.g. the projected benefit obligation (PBO)). When plan assets are greater than the PBO, the plan is overfunded. If plan assets are less than the PBO, the plan is underfunded and the state has a net liability position with respect to its pension plan.

Fund-of-funds: a fund that invests primarily in other private equity funds rather than operating firms, often organized by an investment advisor or investment bank.

Growth Stock: Stocks that exhibited faster-than-average earnings growth over the last few years and is expected to continue to do so into the near future. Growth stocks usually have high price-to-earnings ratios, high price-to-book ratios and low dividend yields.

Hedged: A term applied to a portfolio of non-domestic stocks or bonds that is unaffected by changes in the relative value of the domestic and foreign currencies. Forward currency contracts are typically used to hedge a portfolio against currency risk.

Index Fund: A portfolio management strategy that seeks to match the composition and performance of a selected market index, such as the Russell 3000.

Leverage Buyouts (LBO): The acquisition of a firm or business unit, typically in a mature industry, with a considerable amount of debt. The debt is then repaid according to a strict schedule that absorbs most of the firm's cash flow.

Liability: A claim on assets by individuals or companies. In a pension context, liabilities represent the claim on fund assets by active and retired members of the pension plan.

MSCI All Country World Index (ACWI): A free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets, excluding the United States. As of ~~January~~ March ~~2009~~ 2010 the MSCI ACWI consisted of ~~46~~ 45 country indices comprising 23 developed and ~~23~~ 22 emerging market country indices. The developed market country indices included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. The emerging market country indices included are: ~~Argentina,~~ Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

MSCI ACWI Ex US: The same as the MSCI ACWI, except that stocks in the United States are not included.

MSCI World Ex US Index: A free float-adjusted market capitalization index that is designed to measure global developed market equity performance, excluding the United States. As of ~~January 2009~~March 2010 the MSCI World Ex US Index consisted of the following 22 developed market country indices: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom.

Market Capitalization: The value of a corporation as determined by multiplying the price of its shares by the number of shares outstanding. Investors often use market capitalization as an indicator of portfolio risk or volatility. In general, smaller capitalized companies are more volatile or risky than larger capitalized companies.

Mezzanine: Either a private equity financing undertaken shortly before an initial public offering, or an investment that employs subordinated debt that has fewer privileges than bank debt but more than equity and often has attached warrants.

NCREIF Index: The National Council of Real Estate Investment Fiduciaries (NCREIF) is an association of institutional real estate professionals who share a common interest in their industry. The NCREIF Property Index (NPI) is a quarterly time series composite total rate of return measure of investment performance of a very large pool of individual commercial real estate properties acquired in the private market for investment purposes only. All properties in the NPI have been acquired, at least in part, on behalf of tax-exempt institutional investors - the great majority being pension funds. As such, all properties are held in a fiduciary environment. The qualifications for inclusion in the NPI are:

- Operating properties only
- Property types - apartments, hotels, industrial properties, office buildings, and retail only
- Can be wholly owned or in a joint venture structure.
- Investment returns are reported on a non-leveraged basis. While there are properties in the NPI that have leverage, returns are reported to NCREIF as if there is no leverage
- Must be owned/controlled by a qualified tax-exempt institutional investor or its designated agent
- Existing properties only (no development projects)

Office of the State Treasurer: Headed by the State Treasurer as the chief financial officer for the state, the Office of the State Treasurer is responsible for managing the day to day investment operations of the state pension fund (and other funds), issuing all state debt, and serving as the central bank for state agencies. Within the Office of the State Treasurer, the Investment Division also manages the investment programs for the state's deferred compensation plan and college savings plan, and serves as staff to the Oregon Investment Council.

Opportunistic Real Estate Investments: Higher risk but higher expected return real estate investments that are usually very illiquid, not currently income-producing and are often distressed purchases and/or highly leveraged.

Opportunity Portfolio: Non-traditional and/or concentrated investment strategies that may provide diversification and return potential outside of the OIC formally approved asset classes. The Portfolio may be populated with innovative investment approaches across a wide range of investment opportunities with no limitation as to asset classes or strategies that may be used. The Opportunity Portfolio investment program seeks to achieve its investment objective by investing in strategies that fall outside the OIC's previously identified asset classes because of the expected time horizon, tactical nature of the investment, or some other unique aspects which must be clearly defined in the written recommendation provided to the OIC.

Oregon Investment Council (OIC): Oregon Revised Statute (ORS) 293.706 establishes the OIC, which consists of five voting members, four of whom are appointed by the Governor and subject to Senate confirmation (the Treasurer serves by position, and is not subject to confirmation). In addition, the Director of the Public Employees Retirement System is an ex-officio member of the OIC. ORS 293.721 and 293.726 establish the investment objectives and standard of judgment and care for the OIC: Moneys in the investment funds shall be invested and reinvested to achieve the investment objective of the investment funds, which is to make the moneys as productive as possible, subject to the prudent investor standard.

Oregon Public Employees Retirement Fund (OPERF): Holds the assets of beneficiaries of the Oregon Public Employees Retirement System (PERS). PERS is a statewide defined benefit retirement plan for units of state government, political subdivisions, community colleges, and school districts. PERS is administered under ORS chapter 238 and Internal Revenue Code 401(a) by the Public Employees Retirement Board (PERB). For state agencies, community colleges, and school districts, PERS is a cost-sharing, multiple-employer system. It is an agent multiple-employer system for political subdivisions. Participation by state government units, school districts, and community colleges is mandatory. Participation by most political subdivisions is optional but irrevocable if elected. All system assets accumulated for the payment of benefits may legally be used to pay benefits to any of the plan members or beneficiaries of the system. PERS is responsible for administrating the management of the plan's liability and participant benefits.

Oregon Short Term Fund (OSTF): The state's commingled cash investment pool managed internally by Treasury staff. The OSTF includes all excess state agency cash, as required by law, as well as cash invested by local governments on a discretionary basis. The OSTF is invested in accordance with investment guidelines recommended by the state's Oregon Short Term Fund Board and approved by the OIC.

Overweight: A stock, sector or capitalization exposure that is higher than the corresponding exposure in a given asset class benchmark, such as the Russell 3000 Index.

Private Equity: Venture Economics (VE) uses the term to describe the universe of all venture investing, buyout investing and mezzanine investing. Fund of fund investing and secondaries are also included in this broadest term. VE is not using the term to include angel investors or business angels, real estate investments or other investing scenarios outside of the public market. See also *Alternative Investments*.

Real Estate: Investments in land and/or buildings.

Real Estate Investment Trusts (REIT): A real estate portfolio managed by an investment company for the benefit of the trust unit holders. Most REIT units are exchange traded.

Regular Account: That portion of the Oregon Public Employees Retirement Fund that excludes the Variable Account. A diversified investment portfolio, with an OIC established asset allocation. Tier One member funds in the regular account are guaranteed a minimum rate of return based on the long-term interest rate used by the actuary. The rate is currently 8 percent per year. Tier Two member funds in the regular account have no guaranteed rate of return. Tier Two regular accounts receive whatever is available for distribution.

Return: The gain or loss in value of an investment over a given period to time expressed as a percentage of the original amount invested. For example, an initial investment of $100 that grows to $105 over one year has earned a 5% return.

Risk: A statistical measure of the possibility of losing or not gaining value. May also be expressed as the probability of not achieving an expected outcome.

Risk-diversifying: Reducing risk without reducing expected returns by combining assets with returns that move in opposite directions over a given time period thereby reducing the total portfolio risk. A decline in the price of one asset is offset by the increase in the price of another asset in the portfolio. In laypersons term's, this is often described as putting your eggs into more than one basket.

Russell 3000 Index: Measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 98% of the investable U.S. equity market.

Sector: A particular group of stocks or bonds that usually characterize a given industry or economic activity. For example, "pharmaceuticals" is the name given to stocks of companies researching, manufacturing and selling over-the-counter and prescription medicines. "Corporates" is the name given to fixed-income instruments issued by private and public companies.

Sector Funds: A pooled investment product with investments that focus on a particular industry or economic activity. For example, pooled funds that invest principally in technology stocks would be termed a technology sector fund.

Tracking Error: When using an indexing or any other benchmarking strategy the amount by which the performance of the portfolio differed from that of the benchmark. In reality, no indexing strategy can perfectly match the performance of the index or benchmark, and the tracking error quantifies the degree to which the strategy differed from the index or benchmark. Usually defined as the standard deviation of returns relative to a pre-specified benchmark.

Unhedged: A term applied to a portfolio of non-domestic stocks or bonds that is affected by the changes in the value of domestic and foreign currencies.

Value Added: As used in real estate, may include office, retail, industrial and apartment properties, but may target structured investments in alternative property types such as hotels, student housing, senior housing, and specialized retail uses. The Value Added portfolio is expected to produce returns between Core and Opportunistic portfolios but may experience greater vacancy or interest rate risk than the Core portfolio. Value Added properties may exhibit "institutional" qualities such as being well located within local and regional markets, and be of high quality design and construction but may need redevelopment, or significant leasing to achieve stabilized investment value. Value Added investments may include development opportunities with balanced risk/return profiles.

Value Stock: Stocks that appear to be undervalued for reasons other that low potential earnings growth. Value stocks usually have low price-to-earnings ratios, low price-to-book ratios and a high dividend yield.

Variable Account: The Variable Annuity Program allowed active members to place a portion of their yearly employee contributions exclusively within a domestic equity portfolio. Active members who participated in the Variable Program had part of their member account balance in the regular account and part in the variable account. Unless a member elected to participate in the Variable Program, all of the member's employee contributions went into the regular account. This "primary" election allowed members to place 25 percent, 50 percent, or 75 percent of their employee contributions in the variable account. Variable account balances increase or decrease depending on the performance of the variable fund; accounts are credited for whatever is available for distribution, whether it is a gain or a loss. The OIC only sets asset allocation policy at the Regular Account level, since the OIC cannot control historical employee directed investment options.

Venture Capital: Independently managed, dedicated pools of capital that focus on equity or equity-linked investments in privately held, high growth companies. Outside of the United States, the term venture capital is used as a synonym for all types of alternative or private equity.

Vintage Year: The group of funds whose first closing occurred in the same year. For example, venture capital funds of vintage year 1995 were closed to additional investors in 1995.

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TAB 9 – LITIGATION UPDATE

Executive session is being held pursuant to ORS 192.660(2)(h)

TAB 10 – ASSET ALLOCATIONS & NAV UPDATES

Asset Allocations at March 31, 2010

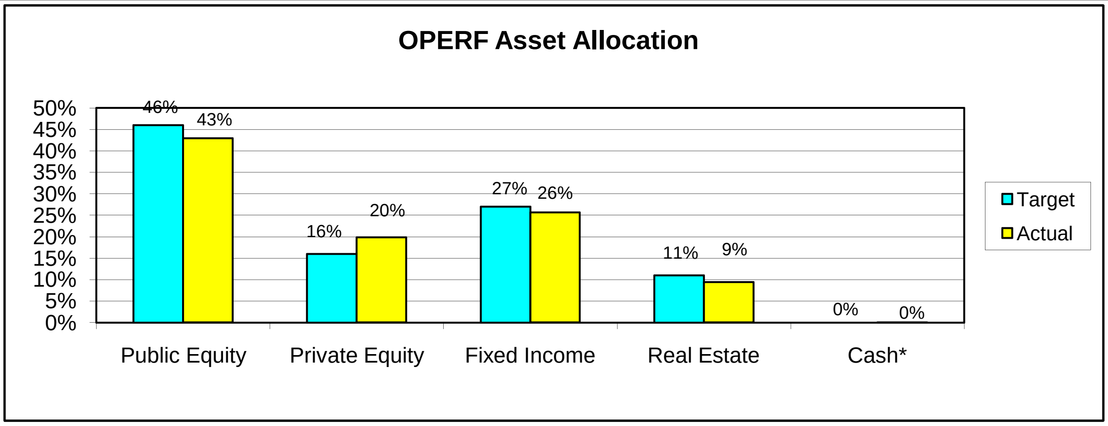
OPERF	Policy	Target	Regular Account $ Thousands	Pre-Overlay	Overlay	Net Position	Actual	Variable Fund $ Thousands	Total Fund $ Thousands
Public Equity	41-51%	46%	21,515,648	41.3%	854,546	22,370,194	42.9%	979,208	23,349,402
Private Equity	12-20%	16%	10,327,972	19.8%		10,327,972	19.8%		10,327,972
Total Equity	**57-67%**	**62%**	**31,843,620**	**61.1%**	**854,546**	**32,698,166**	**62.7%**		**33,677,374**
Opportunity Portfolio			1,121,865	2.2%		1,121,865	2.2%		1,121,865
Fixed Income	**22-32%**	**27%**	**13,351,279**	25.6%	**24,232**	**13,375,511**	25.7%		**13,375,511**
Real Estate	**8-14%**	**11%**	**4,921,362**	9.4%	**-**	**4,921,362**	9.4%		**4,921,362**
Cash*	**0-3%**	**0%**	**893,097**	1.7%	**(878,778)**	**14,319**	0.0%	11,021	**25,340**
TOTAL OPERF		**100%**	**$ 52,131,223**	**100.0%**	**$ -**	**$ 52,131,223**	**100.0%**	**$ 990,229**	**$ 53,121,452**

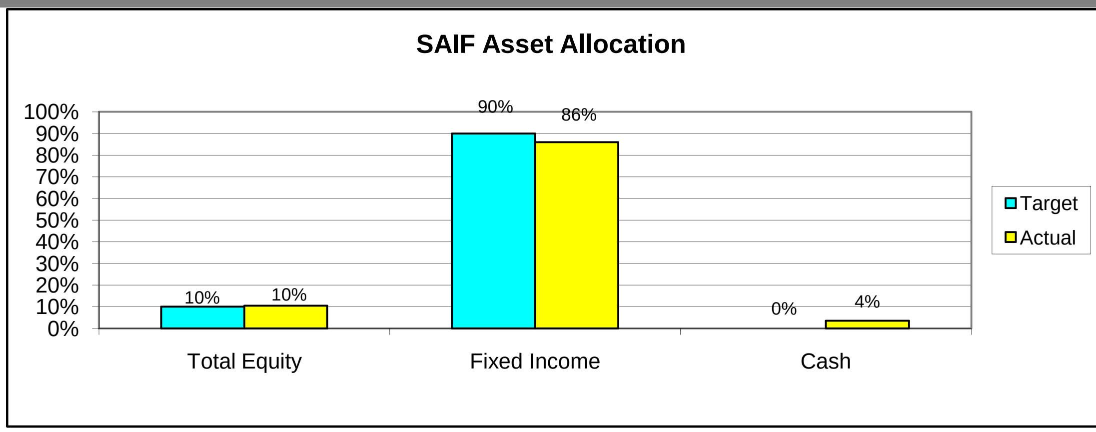
*Includes cash held in the policy implementation overlay program.

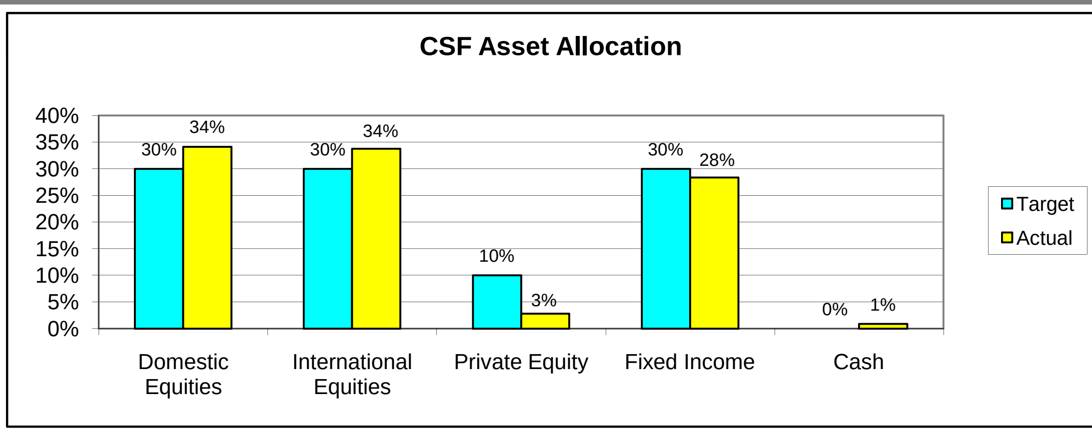
SAIF	Policy	Target	$ Thousands	Actual
Total Equity	**7-13%**	**10.0%**	**423,501**	**10.5%**
Fixed Income	**87-93%**	**90.0%**	**3,481,654**	**86.0%**
Cash	**0-3%**	**0%**	**142,067**	**3.5%**
TOTAL SAIF		**100%**	**$4,047,222**	**100.0%**

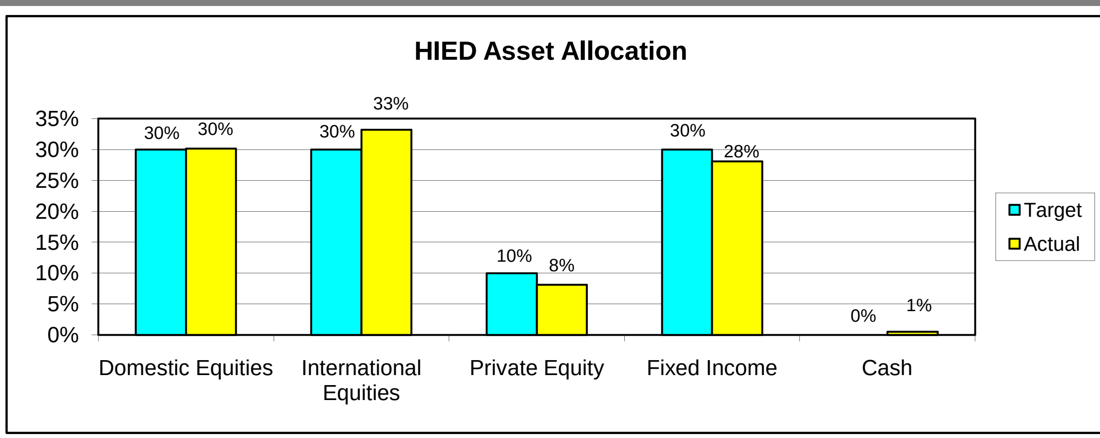
CSF	Policy	Target	$ Thousands	Actual
Domestic Equities	25-35%	30%	$346,416	34.1%
International Equities	25-35%	30%	342,944	33.8%
Private Equity	0-12%	10%	28,670	2.8%
Total Equity	**65-75%**	**70%**	**718,030**	**70.7%**
Fixed Income	**25-35%**	**30%**	**287,996**	**28.4%**
Cash	**0-3%**	**0%**	**8,890**	**0.9%**
TOTAL CSF			**$1,014,916**	**100.0%**

HIED	Policy	Target	$ Thousands	Actual
Domestic Equities	25-35%	30%	$19,089	30.1%
International Equities	25-35%	30%	21,024	33.2%
Private Equity	0-10%	10%	5,147	8.1%
Total Equity	**65-75%**	**70%**	**45,260**	**71.4%**
Fixed Income	**25-35%**	**30%**	**17,793**	**28.1%**
Cash	**0-3%**	**0%**	**330**	**0.5%**
TOTAL HIED			**$63,383**	**100.0%**

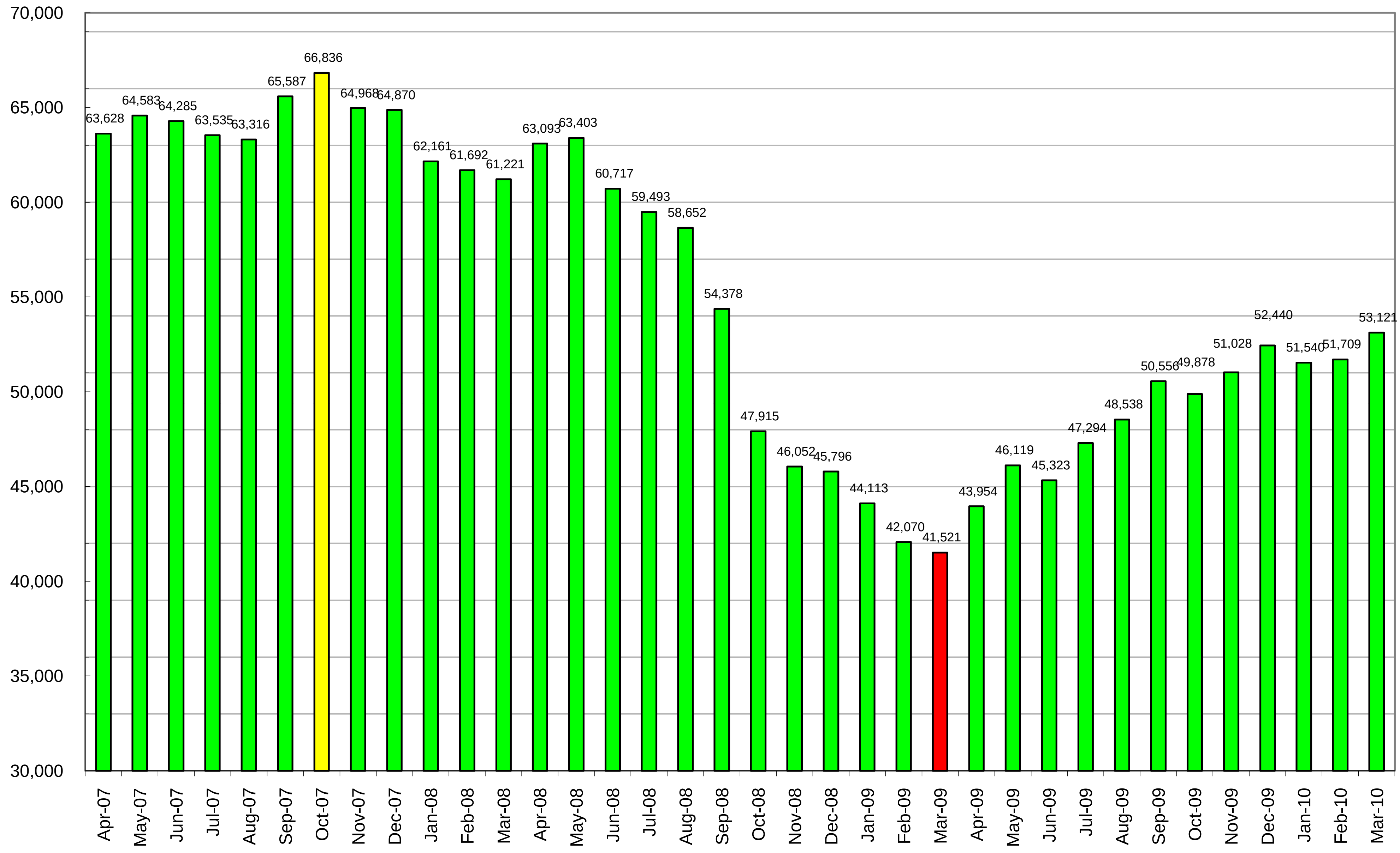

OPERF Asset Allocation
50%
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%
46%
43%
16%
20%
27%
26%
11%
9%
0%
0%
Public Equity
Private Equity
Fixed Income
Real Estate
Cash*
Target
Actual


SAIF Asset Allocation
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
10%
10%
90%
86%
0%
4%
Total Equity
Fixed Income
Cash
Target
Actual

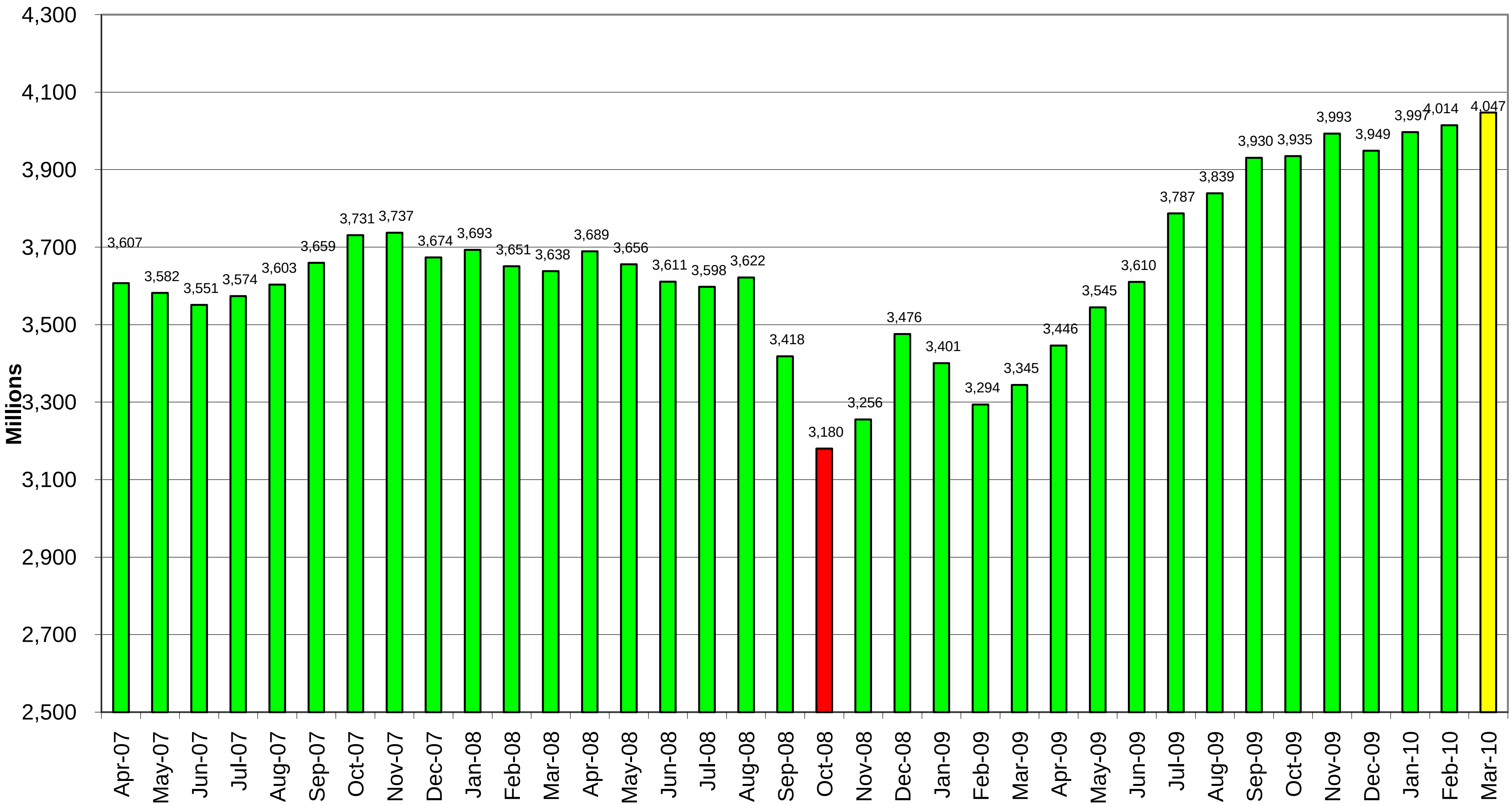

CSF Asset Allocation
40%
35%
30%
25%
20%
15%
10%
5%
0%
30%
34%
30%
34%
10%
3%
30%
28%
0%
1%
Domestic Equities
International Equities
Private Equity
Fixed Income
Cash
Target
Actual

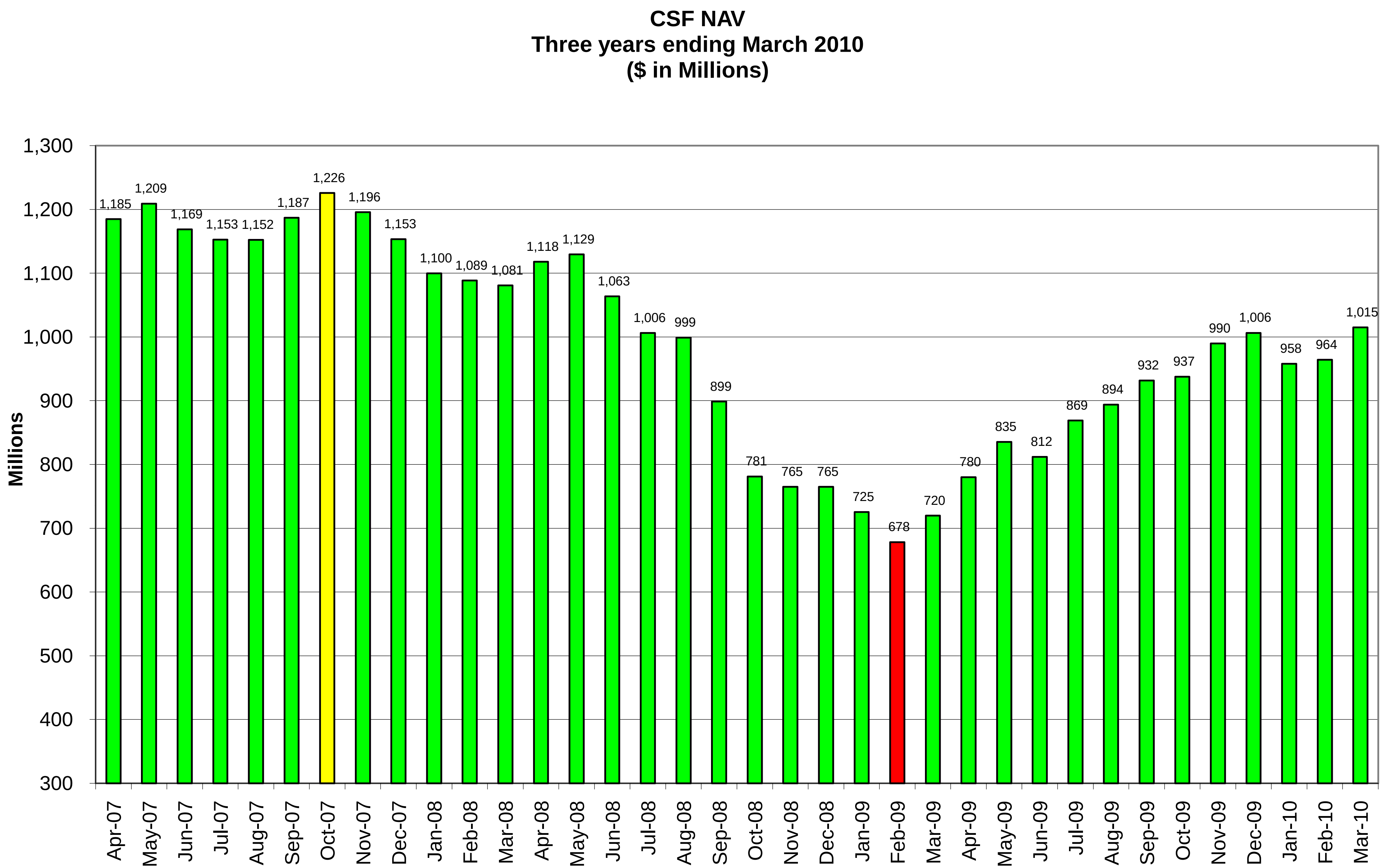

HIED Asset Allocation
35%
30%
25%
20%
15%
10%
5%
0%
30%
30%
30%
33%
10%
8%
30%
28%
0%
1%
Domestic Equities
International Equities
Private Equity
Fixed Income
Cash
Target
Actual

OPERF NAV
Three years ending March 2010
($ in Millions)



SAIF NAV
Three years ending March 2010
($ in Millions)




CSF NAV
Three years ending March 2010
($ in Millions)
Millions
1,300
1,200
1,100
1,000
900
800
700
600
500
400
300
1,185
1,209
1,169
1,153
1,152
1,187
1,226
1,196
1,153
1,100
1,089
1,081
1,118
1,129
1,063
1,006
999
899
781
765
765
725
678
720
780
835
812
869
894
932
937
990
1,006
958
964
1,015
Apr-07
May-07
Jun-07
Jul-07
Aug-07
Sep-07
Oct-07
Nov-07
Dec-07
Jan-08
Feb-08
Mar-08
Apr-08
May-08
Jun-08
Jul-08
Aug-08
Sep-08
Oct-08
Nov-08
Dec-08
Jan-09
Feb-09
Mar-09
Apr-09
May-09
Jun-09
Jul-09
Aug-09
Sep-09
Oct-09
Nov-09
Dec-09
Jan-10
Feb-10
Mar-10

TAB 11 – CALENDAR – FUTURE AGENDA ITEMS

2010 OIC Forward Agenda Topics

May 26:	**OPERF A/L Study** OPERF Overlay Update Securities Lending Reinvestment Discussion OPERF 1st Quarter Performance Review
July 28:	OPERF Real Estate Annual Review Annual Audit Update Passive/Active Analysis & OPERF Equity Attribution
September 29:	CEM Annual Review CSF Annual Review General Consultant Review
October 27:	OPERF Opportunity Portfolio Annual Plan
December 1:	OPERF 3rd Quarter Performance Review HIED Annual Review