Oregon Investment Council

April 27, 2011 - 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

2011 Meeting Schedule

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

January 7, 2011
(Special Meeting)

January 26, 2011

February 23, 2011

April 27, 2011

June 1, 2011

July 27, 2011

September 28, 2011

November 2, 2011

December 7, 2011

OREGON INVESTMENT COUNCIL

Agenda
--------REVISED-------
April 27, 2011
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 23, 2011 Regular Meeting	**Ron Schmitz** *Chief Investment Officer*	**1**
	2. Aurora Equity Partners IV, L.P. *OPERF Private Equity*	**Jay Fewel** *Senior Investment Officer*	**2**
9:05-9:40	**3. TPG Special Lending Inc.** *OPERF Opportunity Portfolio*	**John Hershey** *Investment Officer* **Alan Waxman** **Josh Easterley** *Co-Chief Investment Officers* **Mike Krems** *Pacific Corporate Group*	**3**
9:40-10:15	**4. Brazil Real Estate Opportunities Fund II, L.P.** *OPERF Real Estate*	**Brad Child** *Senior Investment Officer* **Ken Wainer** **Rodrigo Abbud** *Managing Principals, Vision Brazil Investments* **Nori Lietz** *PCA Real Estate Advisors*	**4**
10:15-10:25	**--------------------BREAK---------------------**		
10:25-10:55	**5. Securities Lending Update**	**Mike Mueller** *Deputy CIO* **Steve Meier** *Executive VP & Cash CIO, State Street Global Advisors* **Johnson Shum** *Vice President, State Street Securities Finance*	**5**

10:55-11:20	**6. OSTF Annual Review**	**Perrin Lim** *Senior Investment Officer*	**6**
11:20-11:35	**7. OIC Annual Investment Policy Updates**	**Mike Mueller** *Deputy CIO*	**7**
	B. Information Items		
11:35-11:50	**8. Litigation Update—Executive Session** *Possible executive session is being held Pursuant to ORS 192.660(2)(h)*	**Fred Boss** *Chief Counsel, Civil Enforcement DOJ*	**8**
11:50-12:00	**9. Asset Allocations & NAV Updates** a. Oregon Public Employees Retirement Fund b. SAIF Corporation c. Common School Fund d. HIED Pooled Endowment Fund	**Ron Schmitz**	**9**
	10. Calendar—Future Agenda Items	**Ron Schmitz**	**10**
	11. Other Items	**Council** **Staff** **Consultants**	

C. Public Comment Invited

15 Minutes

TAB 1 – REVIEW & APPROVAL OF MINUTES

February 23, 2011 Regular Meeting

RONALD D. SCHMITZ
CHIEF INVESTMENT OFFICER
INVESTMENT DIVISION

PHONE 503-378-4111
FAX 503-378-6772

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

OREGON INVESTMENT COUNCIL
FEBRUARY 23, 2011
MEETING MINUTES

Members Present:	Paul Cleary, Harry Demorest, Katy Durant, Dick Solomon
Member on the Phone:	Treasurer Ted Wheeler
Member Absent:	Keith Larson
Staff Present:	Darren Bond, Jay Fewel, Sam Green, Andy Hayes, John Hershey, Julie Jackson, Robert Johnson, Perrin Lim, Tom Lofton, Ben Mahon, Mike Mueller, Kevin Nordhill, Jen Peet, Tom Rinehart, Ron Schmitz, James Sinks, James Spencer, Michael Viteri, Sally Wood
Consultants Present:	Mike Moy (PCA), John Meier (SIS), David Fann, Kara King, and Sundeep Rana (PCG)
Legal Counsel Present:	Dee Carlson, Oregon Department of Justice

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

I. 9:00 a.m.: Review and Approval of Minutes

MOTION: Mr. Demorest brought approval of the January 26, 2011 minutes to the table. Mr. Solomon moved approval of the minutes. The motion was seconded by Ms. Durant and passed by a vote of 4/0.

After approval of the minutes, Ron Schmitz gave an update on the most recent funds approved by the Private Equity Committee, which include: Montauk Tri Guard and Baring Asia in November and Coller Capital, KSL Capital Partners and Union Square Ventures in December.

II. 9:01 a.m.: OPERF Private Equity Annual Plan and Pacing Study

Jay Fewel, Senior Investment Officer along with David Fann, Sundeep Rana, and Kara King from Pacific Corporate Group gave a 2010 Private Equity Portfolio review and the expected pacing of investments for 2011. Commitments authorized in 2010 are comprised of a diversified set of managers across multiple investment strategies that have shown a proven track record of superior returns. The private equity performance is strong and the program continues to outperform the

Venture Economics median IRR benchmark in 22 of the last 24 reported vintage years. The portfolio is currently over allocated and has scaled back annual commitments from over $3B a year to $2B a year.

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

III. 9:20 a.m.: OIC Proxy Voting Update

Jennifer Peet, Corporate Governance Officer, and Mike Mueller, Deputy CIO gave an update on the OIC Proxy Voting policy, as requested by the OIC. Staff recommended minor delegation of Proxy Voting authority to OST staff, in policy, if managers oppose a recommended vote by the OIC's proxy voting agent.

MOTION: Treasurer Wheeler moved approval of the staff recommendation. Mr. Solomon seconded the motion. The motion was not passed by a vote of 2/2 and it was recommended that staff bring this topic back to a future meeting.

IV. 9:40 a.m.: Oregon Savings Growth Plan

Michael Viteri, Public Equities Investment Officer and Howard Biggs and Jacob O'Shaughnessy with Arnerich Massena provided an annual update on the Oregon Savings Growth Program (OSGP) structure and performance and recommended the following:

A. Approve the addition of a Self Directed Brokerage window to be managed by Charles Schwab;

B. Approve the addition of the Callan Small Cap Equity Fund into the OSGP Small/Mid Equity Option;

C. Approve the addition of the DFA Emerging Markets Equity Fund into the OSGP International Equity Option;

D. Approve staff proposed changes to the Deferred Compensation Investment Program policies 04-07-01 (Statement of Objectives), and 04-07-05 (Investment Management Firm Monitoring and Retention).

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

MOTION: Treasurer Wheeler moved approval of the staff recommendations. Ms. Durant seconded the motion. The motion was passed by a vote of 4/0.

V. 10:03 a.m.: Oregon Investment Fund Update

David Almodovar and Kelly Williams, both from Credit Suisse gave an update on the Oregon Investment Fund (OIF). The OIF was formed in 2003 as a fund of funds and co-investment program. The program commits capital to private equity and venture capital funds that will, in turn, invest in companies located primarily in the state of Oregon and the Pacific Northwest region. Over $160 million has been invested into 22 different Oregon platform companies by fund managers in the program and as co-investments of the OIF. These investments attracted an additional $242 million to Oregon from other investors.

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

VI. 10:42 a.m.: OPERF 4th Quarter Performance Review

John Meier with Strategic Investment Solutions (SIS) gave an update on 4th quarter performance for OPERF.

VII. 10:52 a.m.: Asset Allocations and NAV Updates

Mr. Schmitz reviewed the Asset Allocations and NAV's for the period ending December 31, 2010. All asset classes are within their allocation ranges.

VIII. 10:53 a.m.: Calendar – Future Agenda Items

Mr. Schmitz highlighted future agenda topics.

IX. 10:54 a.m.: Other Business

There was no other business discussed.

10:54 a.m.: Public Comments

Linda Burgin and Paula Allen with the SEIU read a letter to the OIC thanking them for their continued stewardship of the OPERF funds.

The meeting adjourned at 10:58 a.m.

Respectfully submitted,

Julie Jackson

Julie Jackson
Executive Support Specialist

TAB 2 – AURORA EQUITY PARTNERS IV, L.P.

Removed from final meeting agenda

TAB 3 – TPG SPECIAL LENDING INC.

TPG Specialty Lending, Inc.

Purpose

Staff recommends approval of a commitment to TPG Specialty Lending, Inc. ("TPGSL") in the amount of $100 million for the OPERF Opportunity Portfolio.

Background

OPERF has been an investor is a series of TPG's private equity funds dating back to 1992. TPG is sponsoring the creation of a new investment vehicle to make direct loans to middle market companies. The investment vehicle will be structured as a private Business Development Company ("BDC") which is in a corporate form as compared to the typical GP/LP structure that most funds take. TPGSL is targeting a $800 million - $1 billion capital raise.

Discussion/investment considerations

Opportunity:
The financial crisis of 2008 has created an environment for attractive investment opportunities in the private direct lending market. The credit transmission system that existed prior to the crisis has been significantly impacted by the reduction in the number of providers of credit. Both the traditional banking system and the "shadow" banking system is smaller as new regulations such as Basel III are causing banks to lend less or to move "up market" to safer asset based lending. In addition, shadow banking providers, such as hedge funds and specialty finance companies, have scaled back new commitments in the face of losses from a heavy volume of loans made in 2005-2007. As a result, both loan pricing and terms and conditions have improved for investors providing capital for new loans.

Strategy:
The strategy of the investment vehicle is to originate new senior and junior secured loans to middle market companies in select sectors with EBITDA in the range of $50 million to $250 million and an enterprise value between $100 and $1 billion. The typical loan will be approximately $40-50 million and will have a current cash coupon to provide a current yield to investors. Additional return will be generated through fees, warrants and accumulating non current cash pay interest. Total loan returns are targeted in the lower mid teens, yet will be secured at the top of the company's capital structure. Further return enhancement will come from a modest amount of term based leverage (about 35% of assets) at the fund level.

Investment considerations:

Pros:

- *Experienced operating team.* Messrs Waxman and Easterly created a successful similar strategy within Goldman Sachs before joining TPG. Messrs Easterly and Fishman similarly worked together at Foothill Capital (a subsidiary of Wells Fargo Bank), which is widely recognized as one of the premier middle market lenders. The team expects to benefit from the leverage of the TPG network to source 70-80% of its opportunities directly.
- *Market Opportunity*. The volume of loans and number of suppliers of credit has diminished in the wake of the 2008 credit crisis. As a result, there is a potential supply and demand imbalance

for credit which is causing attractive pricing and terms for those firms that have capital and can provide loans. In addition to better pricing and terms, the underlying borrowers are in a stronger credit position with lower debt levels than prior to 2008.

- *Public market upside*. The private BDC structure is expected to go public once it has built out a performing portfolio. Depending on market conditions, there can be an increase in the company's equity market value should the market comps trade at a premium to Net Asset Value. Staff views this free "option" to go public as potential upside value to OPERF's investment.
- *Inflation hedge and duration optionality.* The floating rate structure provides inflation protection characteristics and coupons would reset with rising interest rates. In addition, TPGSL's strategy includes terms and conditions that generally provide them with the option to shorten the loans duration should the borrower trip specific covenants. This positive convexity allows TPGSL to maintain longer duration of loans in strong economic times and to shorten the duration of loans in more adverse economic environments.
- *Skin in the game.* The primary principals of TPGSL are contributing a meaningful investment to the Company as are other TPG partners. In aggregate and on a percentage basis, this investment is greater than a typical GP contribution.

Cons:

- *Leverage.* Similar to other funds structure as a BDC, TPGSL is allowed to use leverage at the fund level up to a maximum of 50% of assets, though the management believes it will likely use debt of no more than 35% of assets. [Mitigant: The management believes this is a prudent amount of leverage and is less than its peers.]
- *Complicated alignment of interests.* The incentive fees earned by the company will flow both to the TPG Opportunity Portfolio, which in turn will pay the senior TPGSL management team, as well as to the sponsoring firm, TPG. TPGSL will be a portfolio company of TPG Opportunity Portfolio, which in turn is a majority owned portfolio company of TPG, the parent. [Mitigant: TPG has a long standing relationship with OPERF and as such is unlikely to under allocate the needed resources to insure the success of fund.]
- *Volatile business cycle.* The Economy is still fragile and subject to unforeseen volatility which may impact the operating performance of the fund's portfolio companies. Sustained poor operating performance could increase the fund's loss rates and decrease the fund's investment returns. [Mitigant: TPGSL structure its loans with terms that provide it maximum leverage to protect its position.]

<u>Terms:</u>
The fund will have a better than typical management fee (based on a combination of committed and drawn capital) for funds of this structure during both the private and potential public phase. A lower than typical incentive fee (carry) for funds of this structure will also be paid on net investment income, subject to a hurdle rate that will need to be achieved before a "catch-up" of incentive fees. TPGSL hired Credit Suisse as a placement agent which had no contact with Treasury staff. [See PCG memo for terms]

Recommendation
Staff and PCG recommend a commitment of $100 million to TPG Specialty Lending, Inc., subject to the negotiation of the requisite legal documents with staff working in concert with the Department of Justice.

MEMORANDUM

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

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

DATE: April 14, 2011

RE: TPG Specialty Lending, Inc.

Strategy:

TPG Specialty Lending, Inc. (the "Company" or "TSL") is being formed primarily to lend to middle-market companies in the United States. The Company is not a LLC with a LP/GP structure but rather is a Delaware corporation. Investors in the company will hold shares of TSL, which will be governed by a board of directors which will include a majority of disinterested individuals. TSL will file an election to be treated as a BDCM under the 1940 Act. This structure will allow the BDC to list on a public exchange if desired at a later date. This decision will be made by the Company's board of directors. The Fund will be advised by TSL Advisors, LLC, an affiliate of TPG Capital, L.P. ("TPG"), and will be registered as an investment advisor with the SEC. TSL will primarily conduct its operations from TPG's San Francisco and New York offices.

TSL's investment activities will be led by Co-Chief Investment Officers Alan Waxman and Josh Easterly, who have substantial experience in credit origination. Alan Waxman helped originate the Goldman Sachs Specialty Lending Group ("GSSLG"), which pursued a strategy nearly identical to that of the Company. Messrs. Waxman and Easterly worked together as co-heads of GSSLG before joining TPG.

TSL will generally seek investments in middle-market U.S. companies that have annual EBITDA of $10 million to $250 million. Investments may support organic growth, acquisitions, market or product expansion, or recapitalizations and may range in size from $10 million to $200 million. No single investment is expected to be larger than 10% of total capital.

The Company is seeking to sell equity to raise between $800 million and $1 billion of capital. A first closing has not yet been held but is planned for the end of April 2011. Approximately $300 million is expected at that time. Another close is expected in May with additional closes thereafter.

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

Conclusion:

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

(1) Satisfactory negotiation or clarification of certain terms of the investment;

(2) Satisfactory completion of legal documents;

(3) Satisfactory continuation and finalization of due diligence;

(4) No material changes to the investment opportunity as presented; and

(5) Confidentiality maintained regarding the commitment of OPERF to the Partnership until such time as all the preceding conditions are met.

TAB 4 – BRAZIL REAL ESTATE OPPORTUNITIES FUND II, L.P.

OPERF Real Estate

Brazil Real Estate Opportunities Fund II, L.P.

Purpose:
Staff recommends a commitment of $100 million be made to Brazil Real Estate Opportunities Fund II, L.P., a Brazilian real estate investment partnership sponsored by Vision Brazil Investments ("VBI"). The fund will seek investments in office, industrial and retail properties as well as development ventures to create for-sale affordable housing. The $500 million opportunistic fund will seek net IRR returns of 20% using both development and property repositioning strategies.

Background:
Brazil is the eighth largest economy and the fifth largest population at 190 million people. Like China, Brazil has two major cities, Sao Paulo and Rio de Janeiro which at 20 million and 12 million, respectively, house 16% of the country's population. Brazil has 13 other cities of over one million people. A decade of political and economic stabilization has increased employment, the demand for business facilities (office and logistics) and consumer demand from a rising middle class for retail and housing. For over 15 years, the principals of VBI have been providing the investment and development expertise to provide the real estate supply to meet this growing demand.

VBI's first real estate fund raised US$200 million in 2008/9. The fund executed 12 transactions, primarily located in greater Sao Paulo and greater Rio de Janeiro. The investments were a mix of office, retail and for-sale housing. Fund I is expected to provide investors with a 22% net IRR. Pre-fund investments by VBI from 2006 to 2008 performed at this level or better. VBI's Fund II expects to invest in the same products with its development and re-development strategies. They target 35-50% investment in affordable housing, 25-40% in office, 10-35% in retail and 5-20% in logistics. They expect to invest in some of the secondary cities which are also seeing a growth in real estate demand.

VBI is an integrated real estate investment firm with staffing for acquisitions, project management, finance, accounting and legal. The team was formed in 2006 and now has a staff of 22. The three principals each have 15 years or more in their respective fields: finance, real estate and construction engineering/management. They have worked together for the five years since VBI's founding.

Vision Brazil engaged Park Madison Partners as placement agent to assist in raising capital for Fund II. One potential investor considering VBI's Fund II is Partners Group, an affiliate of PCA Real Estate, Inc. Additional potential investors include European and U.S. Pension funds, banks and high net worth individuals.

Issues for Consideration:

An investment in Brazil Real Estate Opportunities Fund II will diversify OPERF's global real estate portfolio and provide exposure to an emerging market in South America. As of December 31, 2010, the real estate portfolio had less that 1% exposure to Latin America. Given the current fundamentals in the domestic and European real estate markets, as well as the projected growth for Brazil's economy, adding this investment provides OPERF additional geographic diversification and opportunistic target returns on a risk adjusted basis. OPERF's real estate Opportunistic portfolio has a target allocation of 30 percent of the real estate portfolio, with an allocation range of 20-40 percent. At year-end 2010, the Opportunistic portfolio was about 38% of total OPERF real estate holdings. Brazil real estate appears well positioned to outperform as its demand grows and the global economy recovers, warranting this addition to OPERF's opportunistic portfolio.

A Brazilian investment has political and currency risk not associated with domestic investing. The fund's strategy also involves development and re-development risk. These are typical risks in emerging markets. This is offset by Brazil's strong, growing economy and the associated demand for both commercial and residential property. The property type diversification targeted by the Brazil Real Estate Opportunities Fund and its ability to invest in Brazil outside the Sao Paulo and Rio de Janeiro markets should soften the impact of these risks and offer opportunities for successful investments.

Recommendation:

OST Staff and PCA Real Estate Advisors recommend a $100 million commitment to Brazil Real Estate Opportunities Fund II, L.P. Said commitment is subject to the satisfactory negotiation of the requisite legal documents by legal counsel working in concert with OST Staff and Department of Justice.

TAB 5 – SECURITIES LENDING UPDATE

Annual Securities Lending Review
April 2011

Purpose
To provide the OIC an update and review of the securities lending program in place for OPERF, OSTF and other state agency funds.

Background
In accordance with OIC policy 4.01.20 (see attached), the investment division may lend securities through an agent lender. The Oregon State Treasury has participated in securities lending arrangements dating back decades. The most recent relationship, with State Street Bank, began in 1997. Over the past 14 years, OIC managed accounts have benefited from over $334 million in net earnings from securities lending.

The OIC was provided an update on securities lending last February, as well as a more detailed discussion of the cash collateral reinvestment management during May 2010. As the OIC requested at that meeting, staff worked with State Street last year to implement a separately managed cash collateral account for OPERF. The funds had previously being managed as part of a larger commingled investment pool managed on behalf of several State Street clients. The new OPERF separately managed account is managed predominately with the same reinvestment guidelines as the OSTF/Other Funds, except for legacy assets of approximately $600 million.

Discussion
Steve Meier and Johnson Shum will provide the OIC an update on the cash management market and the securities lending market, respectively, with a focus on the two main accounts managed by State Street on behalf of OPERF and other state agency funds, including the OSTF.

FUNCTION: **General Policies and Procedures**
ACTIVITY: **Securities Lending**

POLICY: **OPERF, SAIF, the CSF, the Oregon Short-term Fund, and other funds under the purview of the Oregon Investment Council may lend securities through the OST's lending agent.**

PROCEDURES:

1. Recognizing that a lending agent can provide an incremental return to the portfolio by lending securities held:

   a. The agent shall reinvest cash collateral received in instruments with a risk and return consistent with reinvestment guidelines approved by the Chief Investment Officer.

   b. Acceptable collateral investments shall be documented with the agent in advance of any lending.

   c. Collateral reinvestment guidelines for the Oregon Short Term Fund shall be brought to the Oregon Short Term Fund Board, prior to approval by the Chief Investment Officer.

   d. Changes to securities lending reinvestment guidelines shall be reported to the Oregon Investment Council, at its next regular meeting, following the change.

2. OST staff shall ensure that securities loaned do not compromise the managers' ability to liquidate positions when necessary.

3. OST Investment Accounting staff shall ensure that securities lending income is properly credited to portfolio accounts.

SAMPLE FORMS, DOCUMENTS, OR REPORTS (Attached):

None

STATE STREET GLOBAL ADVISORS®

Oregon Investment Council

April 27, 2011

Steven R. Meier, CFA, FRM

Executive Vice President, CIO Global Cash

SSgA®

SF-0026

Table of Contents

State Street Global Advisors

US Cash Management Overview

SSgA

Experienced Global Team

Global Cash CIO

Steven Meier, CFA, FRM — 27 years experience
EVP and Global Cash Chief Investment Officer

London/GBP, EUR

	yrs exp
Mihaly Domjan, CFA Managing Director and Head of European Cash Management	**14**
Michel Bermils	8
Leonie Clark(1)	15
Richard James Darby-Dowman	5
Joseph Gillingwater	12
Gregor Harwell, CFA	7
Jennifer Hole, CFA(2)	8
Nick Pidgeon	22

Paris/EUR

Benjamin Platret	9
Joffrey Ricome	8

Sydney/AUD, NZD

Ross Bolton	28
Simon Mullumby, CFA	15

Boston/USD

	yrs exp
Thomas J. Motley, CFA Managing Director and Head of US Cash Management	**30**
Thomas Connelley, CFA(3)	21
Sean Dillon(3)	16
Charles Byrne, CFA	12
Joanna Mauro	10
Andrew Goodale(2)	16
Robert Jackson	19
Maria Pino, CFA	29
Jeff St. Peters Managing Director and Senior Portfolio Manager	**20**
Todd Bean, CFA	11
Sean Lussier	10

Montreal/CAD

Louis Basque, CFA	17
Claudio Ferri	9
Jean Gauthier, CFA	18
Christian Hoffman	6

Administrative Support
Leigh Dalton, Executive Assistant
Brittany Lockwood, Executive Assistant

Data Management/IT
Robert Wagner

Global Credit Research (Multicurrency)

	yrs exp
Matthew Steinaway, CFA Senior Managing Director and Deputy Head of Global Cash	**16**
Elizabeth Mingle (Boston)	9
Unsecured/Corporate	
Michael Madden, FRM (Boston)	6
Attilio Qualtieri (Boston)	5
Omar Slim, CFA (Montreal)	7
Victor Grigore, CFA (Montreal)	4
Asset Backed	
Pia McCusker (Boston) Managing Director and Head of ABS Credit Research	**10**
Mi Lin Chen (Boston)	5
Peter Hajjar (Boston)	9
Diane Hanley (Boston)	8
Perry Siriyatorn (London)	13

Tokyo/JPY

Peter Morgan	20

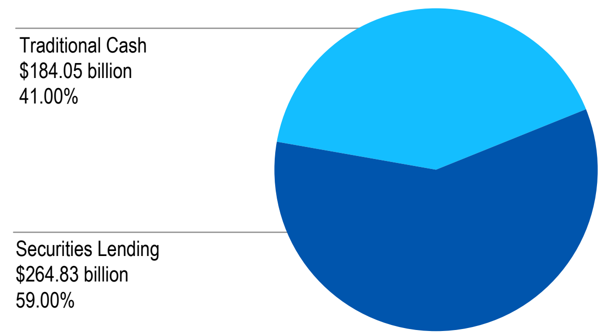
As of February 25, 2011
(1) Matrix reporting to Sean Dillon
(2) Matrix reporting relationship to Global Cash
(3) Matrix reporting to Steven Meier, CFA, FRM

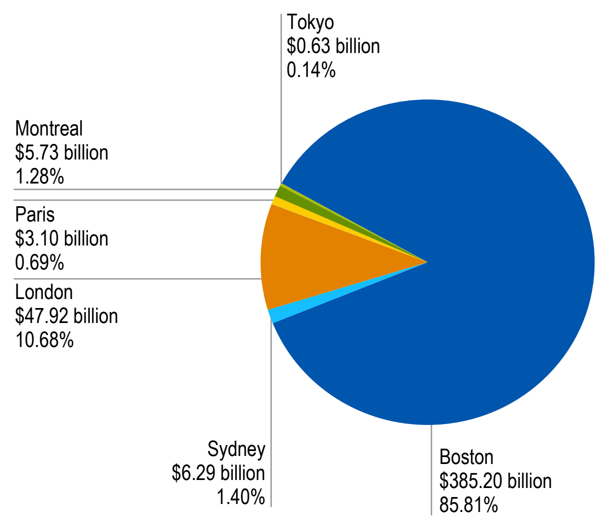
SSgA AUM and Competitive Advantages

As one of the world's largest Cash managers, SSgA is able to provide the following benefits to our clients:

- Priority treatment from dealers
  - Information flow
  - Access to product
- Price breaks for large tickets
  - Complete flow-through to clients
- First look at new structures
- Access to liquidity
- Well known by issuers
  - Reverse inquiry
- Well known by rating agencies
- Access to company management
  - Conformity with Regulation FD

$448.88 Billion* in Global Cash Assets
As of March 31, 2011

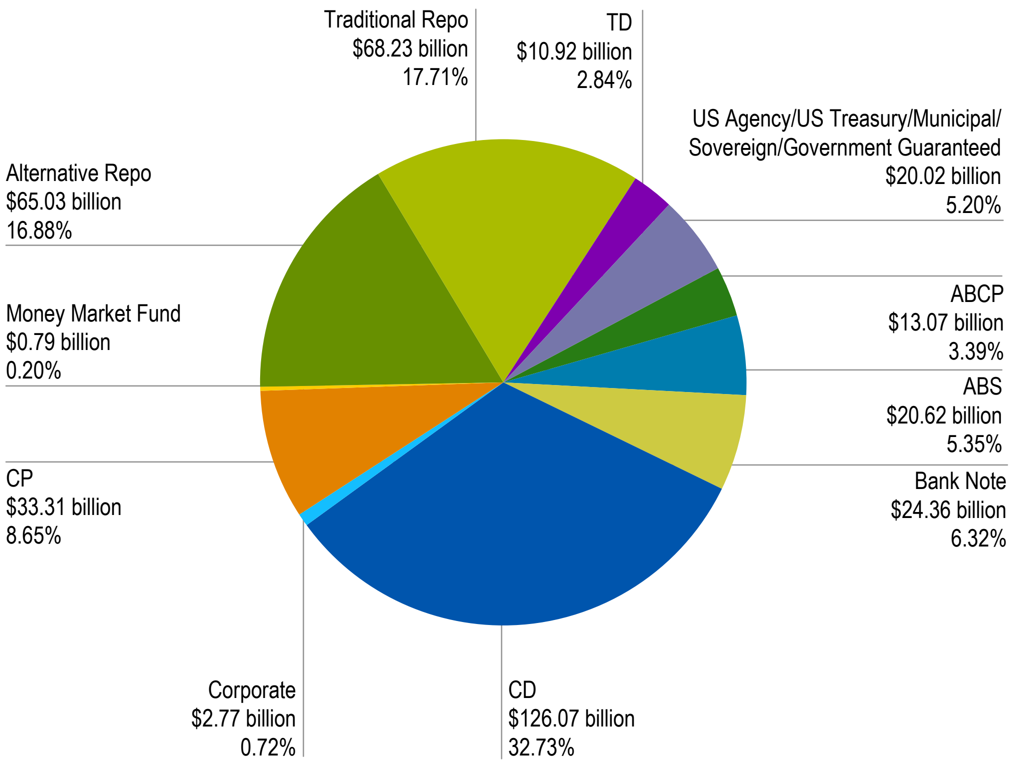




Investing involves risk including the risk of loss of principal.
* Includes Cash and Lending. All umbrella funds and as of funds assets have been removed from the calculations. Global Fixed Income assets under management include those Strategies managed by SSgA's Asset Allocation Team. All calculations are unaudited.
Numbers are based on Par Value of the underlying securities (converted to USD)
Numbers do not include Fund of Fund positions in SSgA managed money market funds
Source: SSgA Assets Under Management reporting system

US Cash Management AUM by Security Type

$385.20 Billion AUM by Security Type
As of March 31, 2011



US Cash Management Aggregate ABS Allocation

	ABS Credit Quality
AAA	96.23%
AA	1.12
A	0.59
BBB	0.78
BB	1.09
B	0.00
CCC	0.19
NA	—
Total	**100.00%**

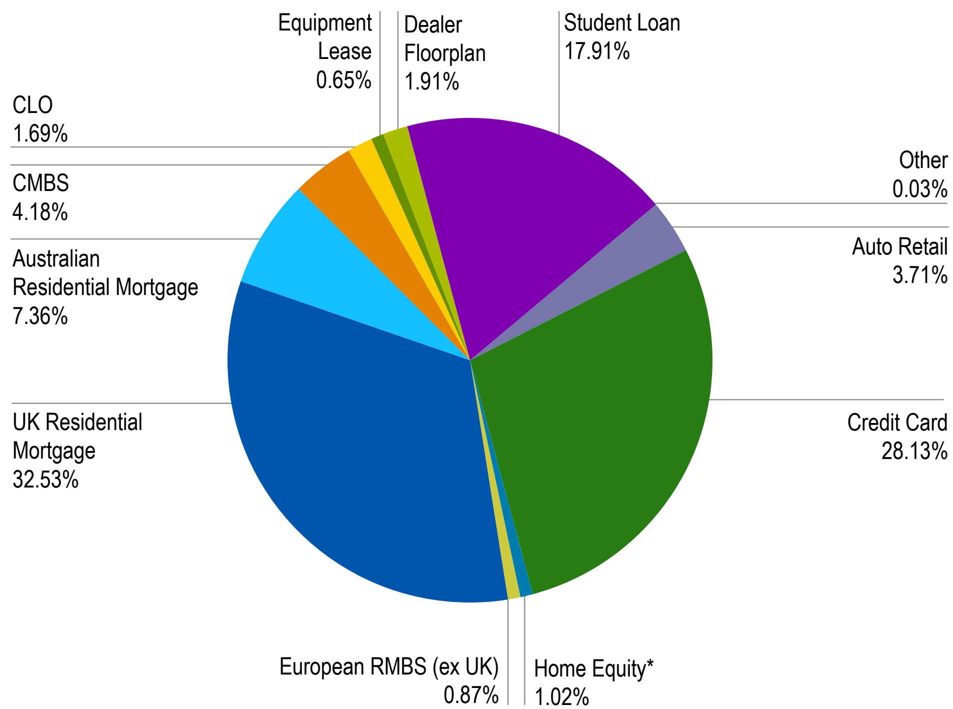
*Home Equity Sub-sector Allocation of Total ABS	$ USD	% of ABS
HELOC	136.50	0.65%
HEQ (Alt A)	41.31	0.20%
HEQ (2nd Lien)	—	0.00%
HEQ (Sub-prime)	37.90	0.18%
Total	**$215.71 Million**	**1.02%**

WAL Per Region	
Boston	**2.03 Yrs**

Monoline Exposure	$ USD	% of ABS
Boston	0.481	2.28%

$21.05 Billion Aggregate ABS Allocation*

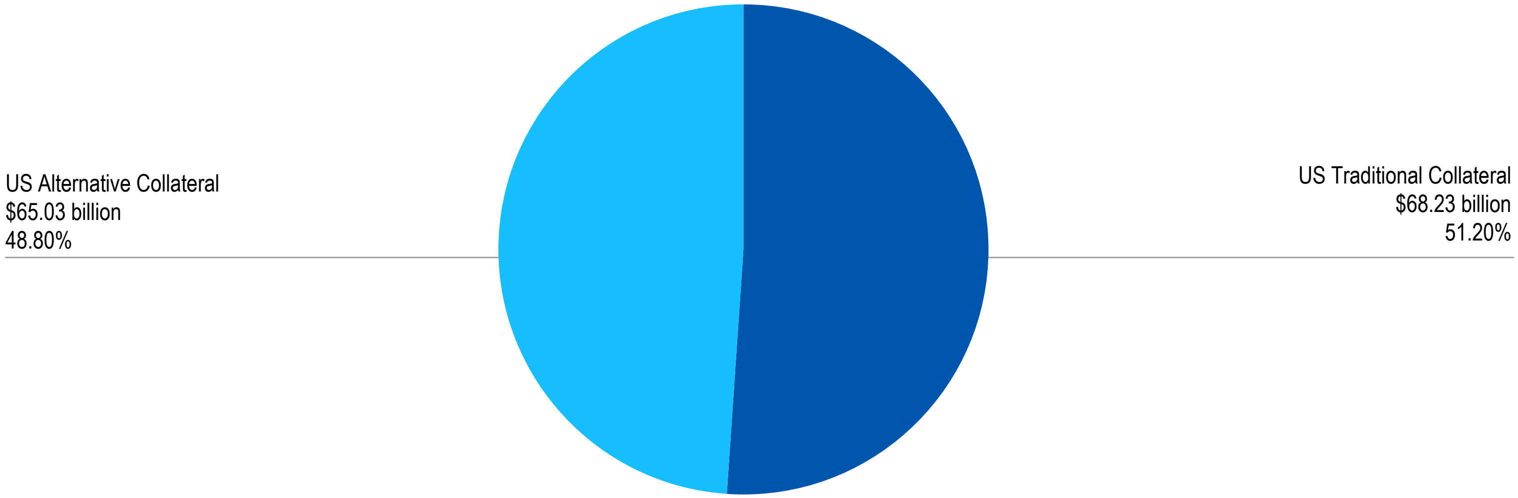
As of March 31, 2011



* Asset-backed security holding totals may vary due to settlement date recognition differences between accounting platforms.
Allocations are as of the date indicated, are subject to change, and should not be relied upon as current thereafter.
Ratings are Standard and Poor's
Investments in asset backed and mortgage backed securities are subject to prepayment risk which can limit the potential for gain during a declining interest rate environment and increases the potential for loss in a rising interest rate environment.

US Cash Management Repurchase Agreements Outstanding

$133.27 Billion US Repurchase Agreements Outstanding
As of March 31, 2011



Source: SSgA

US Cash Market Update

US Economy Continues to Improve

- Slow/uneven pace of economic repair persists
- Employment improving (employment gains, unemployment rate, initial claims data)
- Housing near bottom (median home price, existing home sales, housing starts)
- Oil and Food prices higher but core inflation tame

Money and Capital Markets Functioning Well

- "Animal Spirits" evident (credit spreads, equity and commodity prices, IPO and M&A activity)
- Global hot-spots still a concern (European peripherals, Middle East/North Africa, Japanese crisis)
- Regulatory reform still work-in-process/risk

Yield Compression Persists

- Zero to 25 bpt FFs target range all-time low
- Quantitative Easing II (QE2) initiative reducing UST collateral and increasing short-end liquidity
- Revised FDIC Insurance premium methodology focusing on liabilities, not deposits
  - Bank repo-to-IOER arb no longer attractive for many banks
  - Resulting in significant reduction in UST repo collateral
  - GSEs still need a home for cash
  - Initial impact -2-5 bpts across s-term yields
- US Debt ceiling concerns required temporary suspension of Supplemental Financing Program (SFP)
  - T-bills outstanding reduced to $5B from $200B
- April tax receipts will require temporary suspension of Cash Management Bill (CMB) issuance

QE2 Conclusion in June Followed by Market Anticipation of Accommodation Removal

- Fed/FOMC debate on stimulus/monetary accommodation heating-up
- Fed testing (reverse) repurchase agreement drain mechanics
- 6-12 month yields to back-up in Q3 and beyond
- Consensus for rate hike in H1 2012
- Actual yields and official targets dependent on economic data

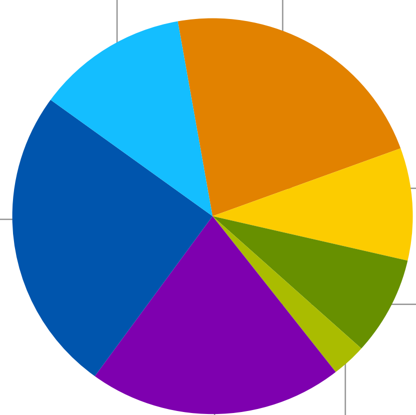
Portfolio Overview

SSgA®

Oregon

FC91 — Oregon
Summary Characteristics

As of March 31, 2011	
1-Day Yield (360 Basis)	0.32%
Shares Outstanding	3,132,563,467.50
Floating Rate %	54.10
% Foreign Issuers	17.18
WAM	20.39
WAM to Call	20.30
Call v. Mat Spread	0.09
% Callables	0.29%
Avg Life -Expected Maturity	100.64
Fund Price	.999965



AU RMBS	—
Auto Retail	1.82
CLO	—
CMBS	—
Credit Card	7.36
Floor Plan	—
Home Equity	—
Other	—
Student Loan	—
UK RMBS	—

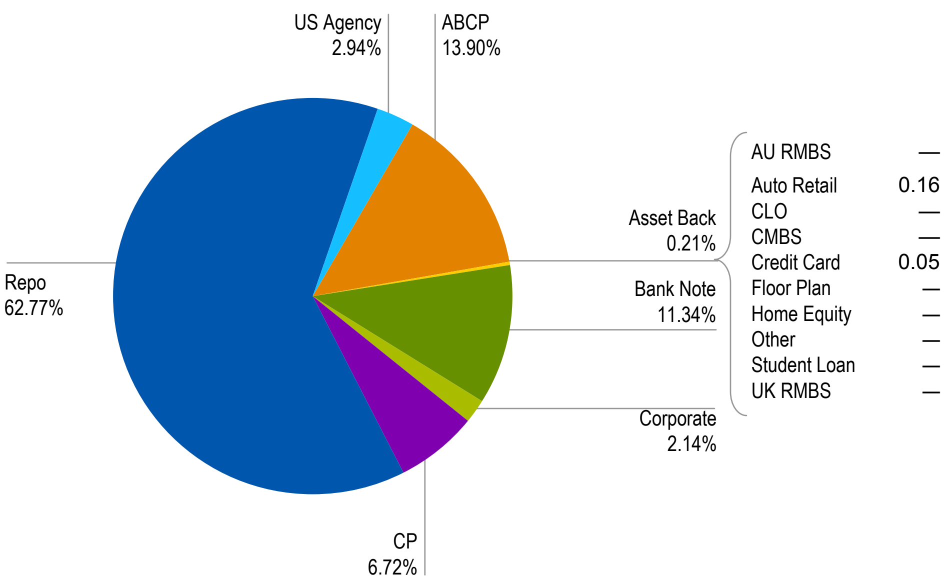
Credit Quality Breakdown	
LONG-TERM RATINGS	**% OF FUND**
AAA	22.53
AA	5.76
A	4.32
BBB+	—
BBB	—
BBB-	—
BB+	—
BB	—
BB-	—
SHORT-TERM RATINGS	**% OF FUND**
A-1+/P-1	24.67
A-1/P-1	35.75
SPLIT	-
OTHER	**6.96**

Floating Index Breakdown	% of Fund
FED FUNDS	14.46
1MO LIBOR	28.52
3 MOS LIBOR	11.11
PRIME	—
Reset Buckets	**% of Fund**
Next Business Day	14.88
2-7 Days	2.08
8-31 Days	31.30
1-2 Months	3.45
2-3 Months	2.40
Maturity Buckets	**% of Fund**
Next Business Day	13.83
1 WEEK LIQUIDITY	**17.02**
2-30 Days Liquidity	14.91
31-60 Days Liquidity	28.98
61-90 Days Liquidity	5.97
90 DAY LIQUIDITY	**63.69**
91-120 Days Liquidity	6.77
121-150 Days Liquidity	9.19
151-180 Days Liquidity	3.35
181-270 Days Liquidity	6.99
271-360 Days Liquidity	5.43
12-15 Month Liquidity	2.57
15-18 Month Liquidity	1.24
18-21 Month Liquidity	0.29
21-24 Month Liquidity	0.48
Greater than 2 Year Liquidity	—
Repo Collateral	**% of Fund**
Treasuries	1.68
Agencies	—
Agency MBS	6.96
Money Markets	10.70
Corporates	—
Asset-Backed	5.68
Equities	—

State Of Oregon PERF

FC5L — State of Oregon PERF
Summary Characteristics

As of March 31, 2011	
1-Day Yield (360 Basis)	0.26%
Shares Outstanding	2,307,330,745.07
Floating Rate %	41.54
% Foreign Issuers	11.47
WAM	11.58
WAM to Call	11.49
Call v. Mat Spread	0.09
% Callables	0.31%
Avg Life -Expected Maturity	58.42
Fund Price	1.000003



Credit Quality Breakdown	
LONG-TERM RATINGS	**% OF FUND**
AAA	2.98
AA	12.48
A	1.15
BBB+	—
BBB	—
BBB-	—
BB+	—
BB	—
BB-	—
SHORT-TERM RATINGS	**% OF FUND**
A-1+/P-1	29.07
A-1/P-1	40.01
SPLIT	—
OTHER	**14.30**

Floating Index Breakdown	% of Fund
FED FUNDS	23.41
1MO LIBOR	5.66
3 MOS LIBOR	12.48
PRIME	—
Reset Buckets	**% of Fund**
Next Business Day	23.84
2-7 Days	0.52
8-31 Days	10.80
1-2 Months	6.39
2-3 Months	—
Maturity Buckets	**% of Fund**
Next Business Day	45.21
1 WEEK LIQUIDITY	**54.96**
2-30 Days Liquidity	18.10
31-60 Days Liquidity	16.12
61-90 Days Liquidity	2.11
90 DAY LIQUIDITY	**81.53**
91-120 Days Liquidity	4.27
121-150 Days Liquidity	3.37
151-180 Days Liquidity	—
181-270 Days Liquidity	0.36
271-360 Days Liquidity	7.24
12-15 Month Liquidity	2.27
15-18 Month Liquidity	—
18-21 Month Liquidity	0.44
21-24 Month Liquidity	0.52
Greater than 2 Year Liquidity	—
Repo Collateral	**% of Fund**
Treasuries	10.75
Agencies	—
Agency MBS	28.61
Money Markets	11.27
Corporates	—
Asset-Backed	1.30
Equities	10.84

The fund does not hold any SIV's, CDO's, or Extendible Liquidity Note securities. Ratings are Standard and Poor's. Characteristics are as of the date indicated, are subject to change, and should not be relied upon as current thereafter. **This material is for SSgA Client use only.** All data sourced by SSgA unless stated otherwise. Past performance is not a guarantee of future results. This material is for your private information. The views expressed are the views of State Street Global Advisors only through the period noted herein and are subject to change based on market and other conditions. Sector information/security type is an internal characterization created and applied by SSgA analysts for internal surveillance based on market convention and security characteristics. Sector information/security type designations may vary according to analyst or security characteristics, and they should not be construed as formal statements or interpretations of asset classes or sectors. All views may be impacted by the present market environment and risks including downgrades, extension risk, volatility, deviations from expected performance or other risks. This information is based on our internal research and third party sources. We make no representations or assurances that the information is complete or accurate, or that the underlying securities will perform as originally anticipated. The information we provide does not constitute investment advice and it should not be relied on as such. It should not be considered a solicitation to buy or an offer to sell a security. It does not take into account any investor's particular investment objectives, strategies, tax status or investment horizon. We encourage you to consult your tax or financial advisor. All material has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy of, nor liability for, decisions based on such information. This document contains certain statements that may be deemed forward-looking statements. These statements are based on certain assumptions and analyses made by SSgA in light of its experience and perception of historical trends, current conditions, expected future developments and other factors it believes appropriate in the circumstances. All information is subject to change without notice.

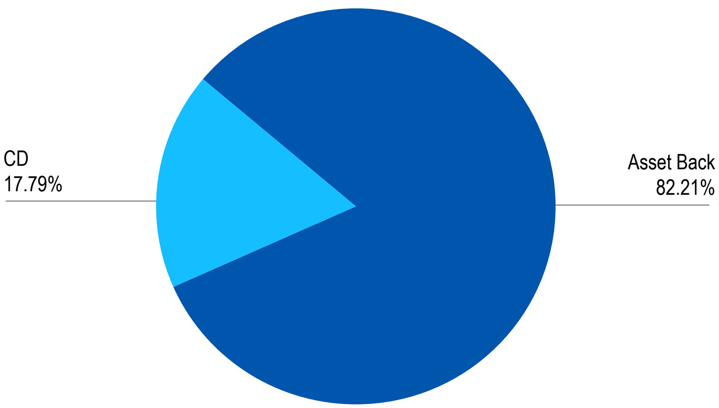
Oregon PERF Legacy Account

FC5N — Oregon PERF Legacy Account
Summary Characteristics

As of March 31, 2011	
1-Day Yield (360 Basis)	0.38%
Shares Outstanding	628,071,355.47
Floating Rate %	100.00
% Foreign Issuers	65.36
WAM	38.54
WAM to Call	38.54
Call v. Mat Spread	—
% Callables	—
Avg Life -Expected Maturity	664.29
Fund Price	.966405

Credit Quality Breakdown	
LONG-TERM RATINGS	**% OF FUND**
AAA	75.51
AA	1.46
A	0.45
BBB+	—
BBB	1.37
BBB-	—
BB+	1.71
BB	—
BB-	—
SHORT-TERM RATINGS	**% OF FUND**
A-1+/P-1	17.79
A-1/P-1	-
SPLIT	-
OTHER	**1.71**

Floating Index Breakdown	% of Fund
FED FUNDS	—
1MO LIBOR	19.90
3 MOS LIBOR	80.11
PRIME	—
Reset Buckets	**% of Fund**
Next Business Day	—
2-7 Days	6.21
8-31 Days	48.58
1-2 Months	25.19
2-3 Months	20.02
Maturity Buckets	**% of Fund**
Next Business Day	—
1 WEEK LIQUIDITY	**—**
2-30 Days Liquidity	7.05
31-60 Days Liquidity	2.09
61-90 Days Liquidity	—
90 DAY LIQUIDITY	**9.14**
91-120 Days Liquidity	17.96
121-150 Days Liquidity	—
151-180 Days Liquidity	7.05
181-270 Days Liquidity	18.61
271-360 Days Liquidity	3.60
12-15 Month Liquidity	3.02
15-18 Month Liquidity	0.82
18-21 Month Liquidity	2.26
21-24 Month Liquidity	0.50
Greater than 2 Year Liquidity	37.04
Repo Collateral	**% of Fund**
Treasuries	—
Agencies	—
Agency MBS	—
Money Markets	—
Corporates	—
Asset-Backed	—
Equities	—



AU RMBS	9.00
Auto Retail	—
CLO	4.35
CMBS	7.30
Credit Card	—
Floor Plan	—
Home Equity	1.84
Other	1.70
Student Loan	6.02
UK RMBS	52.00

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Appendix A: Biography

Biography

Steven R. Meier, CFA, FRM

Steven is an Executive Vice President of State Street Global Advisors and is the Global Cash CIO. Steven, who joined SSgA in 2003, has more than 27 years of experience in the global cash and fixed income markets. Previously, he headed the firm's North American Cash and Securities Lending Cash Collateral portfolio management activities. He is a member of SSgA's Executive Management Group.

Prior to joining SSgA, Steven was a Senior Managing Director in State Street's Global Markets group responsible for developing its global fixed income business. He also served as Chief Operating Officer of State Street's electronic bond trading subsidiary, Advanced Auctions LLC, and was a member of its European subsidiary's Board of Directors. He received extensive capital markets experience and held senior positions in trading and investment banking in New York and London while working for Merrill Lynch and Credit Suisse First Boston for nearly 12 years. He also served on TradeWeb LLC's Executive Board while head of CSFB's global electronic trading unit. In addition, he was a senior global bond Portfolio Manager with Oppenheimer Capital and member of its Fixed Income Strategy Group.

Steven is a member of SSgA's Executive Management Group (EMG), Senior Management Group (SMG) and Investment Committee. He has earned the Chartered Financial Analyst designation, is a certified Financial Risk Manager (FRM), a member of the Boston Security Analysts Society, the Association for Investment Management and Research (AIMR) and the Global Association of Risk Professionals (GARP).

He holds a BBA from Hofstra University, an MBA from Indiana University's Graduate School of Business and an Advanced Certificate of Investment Management from the London Business School.

Securities Finance Performance Review

April 27, 2011

Johnson Shum

Performance Summary – Oregon Total Program

The State of Oregon - All Assets	*2008*	*2009*	*2010*	*Jan-Mar 2010*	*Jan-Mar 2011*	*% Change*
Average Lendables ($)	35,489,748,601	30,195,377,375	32,610,350,751	32,428,729,557	35,756,675,330	10.26%
Average On-Loan Balance($)	10,928,576,214	10,592,111,641	9,944,958,165	10,683,760,593	7,410,903,877	-30.63%
Average Utilization (%)	30.8%	35.1%	30.5%	32.9%	20.7%	-37.09%
Earnings by Program						
US Equity & Corporate Bond ($)	26,441,130	15,498,863	9,399,038	2,579,264	1,710,035	-33.70%
US Government ($)	41,582,090	15,243,538	5,139,862	1,700,248	942,861	-44.55%
Non-US Equity ($)	23,414,006	16,326,931	7,670,096	1,312,507	901,597	-31.31%
Non-US Fixed ($)	467,882	136,073	55,858	15,269	12,180	-20.23%
Total ($)	91,905,107	47,205,405	22,264,854	5,607,289	3,566,674	-36.39%
Components of Spread						
Demand Spread (bps)	15.76	7.20	13.75	7.81	9.57	22.58%
Reinvestment Spread (bps)	91.61	47.96	14.41	16.55	14.29	-13.65%
Total Spread (bps)	107.37	55.17	28.16	24.36	23.86	-2.04%
Return on Lendables (bps)	25.90	15.63	6.83	6.92	3.99	-42.31%

- Oregon PERF 2010 earnings $17,874,257.08 vs. $34,681,107.70 in 2009
- Oregon Non-PERF 2010 earnings $4,390,596.72 vs. $12,524,297.17 in 2009

Source: SL PerformanceReporter ®
Performance data shown represents past performance and is not a guarantee of future results

Currency reflected is U.S. dollars

Performance Summary – Oregon PER Funds

The State of Oregon - PERs	2008	2009	2010	Jan-Mar 2010	Jan-Mar 2011	% Change
Average Lendables ($)	24,119,726,432	18,938,947,525	21,351,754,757	21,170,133,563	23,115,891,034	9.19%
Average On-Loan Balance($)	5,919,127,237	5,919,722,057	5,333,504,817	6,072,307,245	3,763,203,729	-38.03%
Average Utilization (%)	24.5%	31.3%	25.0%	28.7%	16.3%	-43.24%
Earnings by Program						
US Equity & Corporate Bond ($)	25,145,780	14,499,098	8,362,639	2,400,714	1,498,132	-37.60%
US Government ($)	12,305,749	4,071,137	2,040,498	694,693	368,425	-46.97%
Non-US Equity ($)	23,117,486	15,974,800	7,415,262	1,280,764	863,686	-32.56%
Non-US Fixed ($)	467,882	136,073	55,858	15,269	12,180	-20.23%
Total ($)	61,036,896	34,681,108	17,874,257	4,391,440	2,742,424	-37.55%
Components of Spread - QD						
Demand Spread (bps)	26.78	18.10	26.05	14.10	25.26	79.16%
Reinvestment Spread (bps)	110.75	56.42	15.94	19.52	14.85	-23.90%
Total Spread (bps)	137.53	74.52	41.99	33.62	40.12	19.32%
Return on Lendables (bps)	25.31	18.31	8.37	8.30	4.75	-42.81%

Source: SL PerformanceReporter ®
Performance data shown represents past performance and is not a guarantee of future results

Currency reflected is U.S. dollars

Performance Summary – Oregon Non-PER Funds

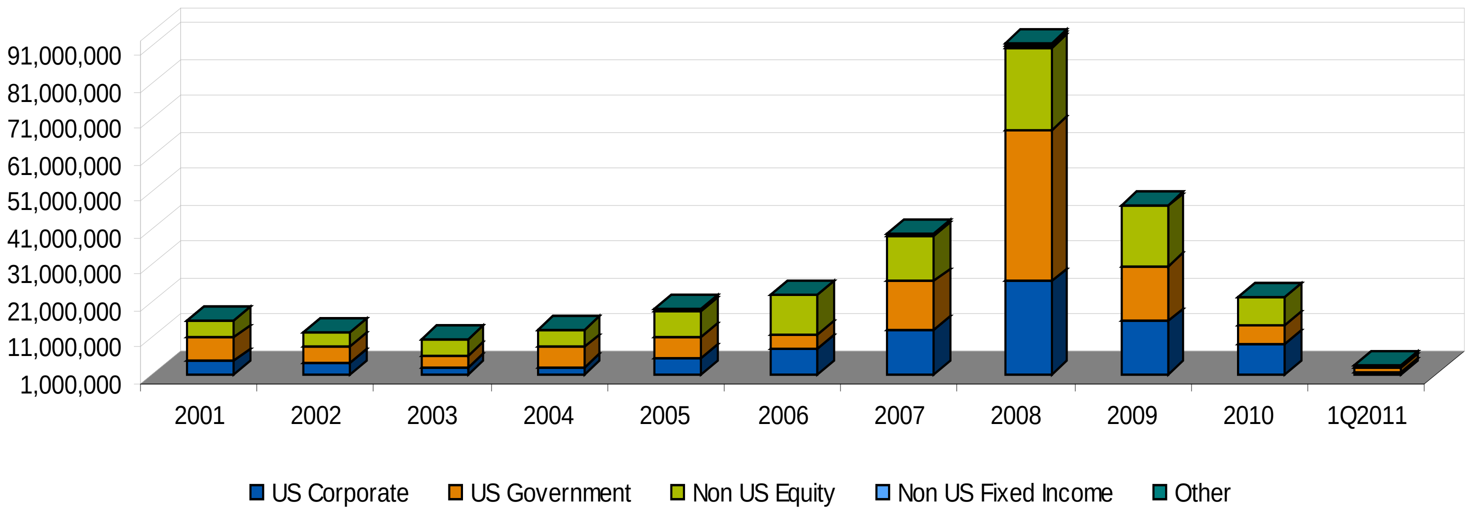
The State of Oregon - Non-PERs	2008	2009	2010	Jan-Mar 2010	Jan-Mar 2011	% Change
Average Lendables ($)	11,370,022,169	11,256,429,850	11,258,595,994	11,258,595,994	12,640,784,296	12.28%
Average On-Loan Balance($)	5,009,448,977	4,672,389,584	4,611,453,348	4,611,453,348	3,647,700,148	-20.90%
Average Utilization (%)	44.1%	41.5%	41.0%	41.0%	28.9%	-29.55%
Earnings by Program						
US Equity & Corporate Bond ($)	1,295,350	999,765	1,036,398	178,550	211,903	18.68%
US Government ($)	29,276,341	11,172,401	3,099,364	1,005,555	574,436	-42.87%
Non-US Equity ($)	296,520	352,131	254,834	31,744	37,911	19.43%
Total ($)	30,868,212	12,524,297	4,390,597	1,215,850	824,250	-32.21%
Components of Spread - STIF						
Demand Spread (bps)	2.73	(6.60)	(0.48)	(0.48)	(1.91)	-297.92%
Reinvestment Spread (bps)	69.00	37.25	12.64	12.64	13.71	8.47%
Total Spread (bps)	71.73	30.65	12.16	12.16	11.80	-2.96%
Return on Lendables (bps)	27.15	11.13	3.90	4.32	2.61	-39.62%

Source: SL PerformanceReporter ®
Performance data shown represents past performance and is not a guarantee of future results

Currency reflected is U.S. dollars

Performance Summary

Oregon Historical Earnings - Calendar Year



Source: SL PerformanceReporter ®
Performance data shown represents past performance and is not a guarantee of future results

Currency reflected is U.S. dollars

Top 10 Borrowers Summary – March 31, 2011

Borrower Org Legal Name	Cash Dly Collateral Amount Base	Non-Cash Dly Collateral Amount Base	Dly Mkt Value on Loan Base	% of Total
THE BARCLAYS GROUP	1,496,674,890.90	11,821,481.65	1,477,832,357.84	22.89%
THE MORGAN STANLEY GROUP	567,117,871.50	76,934,749.25	626,158,954.86	9.70%
THE GOLDMAN SACHS GROUP	641,611,424.90	4,489,181.00	625,400,475.43	9.69%
THE DEUTSCHE BANK GROUP	587,014,127.10	23,106,103.70	595,632,196.24	9.22%
THE BNP PARIBAS GROUP	445,837,890.50		437,112,776.22	6.77%
THE CITIGROUP GROUP	424,059,324.00	24,477,081.25	435,395,000.79	6.74%
THE J.P. MORGAN CHASE GROUP	213,477,621.60	70,161,492.15	274,167,740.63	4.25%
THE UBS GROUP	251,548,955.25	18,620,061.25	262,859,565.50	4.07%
THE NOMURA GROUP	245,791,433.50	20,767,282.95	260,388,855.12	4.03%
THE CREDIT SUISSE GROUP	155,507,909.70	104,703,555.80	251,639,828.19	3.90%
OTHER BORROWERS	1,038,101,109.77	205,993,830.46	1,210,608,900.31	18.75%
SUMMARY	6,066,742,558.72	561,074,819.46	6,457,196,651.13	100.00%

- Oregon PERF $2,934,731,795 cash collateral invested in OPERF separate account vs. $559,368,293 in non-cash collateral
- Oregon Non-PERF $3,132,010,764 cash collateral invested in OSTF separate account vs. $1,706,526 in non-cash collateral

Source: SL PerformanceReporter ®
Performance data shown represents past performance and is not a guarantee of future results

Currency reflected in U.S. dollars

Biography

Johnson Shum

Johnson is a vice president and relationship manager in State Street's Securities Finance division. He is responsible for the overall service delivery and satisfaction for strategic lending customers. He also acts as the point of contact and advocate for Securities Finance-related matters.

Prior to assuming his current role, Mr. Shum worked at Brown Brothers Harriman & Co.'s securities lending group as a product development manager. He was responsible for the development of new products to expand their securities lending capabilities. Previously, he worked as a client services and relationship manager servicing mutual fund clients at The Bank of New York.

Mr. Shum has more than 15 years experience in the financial services industry, specifically in client services and product management. He holds a Bachelor of Arts degree in international business from the State University of New York at Buffalo.

State Street provides experienced securities lending capabilities and supplies liquidity across more than 45 markets, worldwide, via Securities Finance offices and trading desks located throughout the Americas, Europe/Middle-East/Africa and Asia/Pacific regions.

TAB 6 – OSTF ANNUAL REVIEW

Oregon Short-Term Fund Annual Review
April 27, 2011

Purpose:
To present the annual fiscal-year review of the Oregon Short-Term Fund, including the annual audited financial statements. To review and implement 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 September 23, 2010 and was approved by the Oregon Investment Council on September 29, 2010.

Background:
Pursuant to OIC policy, the report includes:

- **Market Comments and OSTF Review** (pgs 1-5)
  - For the last three years, both the Federal Reserve Bank and the U.S. Government have used unprecedented monetary and fiscal stimulus to restore confidence, liquidity and normalcy to the markets.
  - The bond market, especially investment grade and high yield credit, generally continues to respond favorably in the current environment.
  - Staff believes the downside risks of rates outweigh the upside risks.
- **Proposed Portfolio Rules Revisions to Policy 4.02.03**
  - Rationale of proposed revisions to Policy 4.02.03 (pgs 6-9)
  - Red-lined version of Policy 4.02.03
- **March 31, 2011 Portfolio Holdings, March 31, 2011 Daily Compliance Report, Secretary of State Annual Audit Report for Fiscal Year Ended June 30, 2010**

Diversification (March 31, 2011)	Policy	Actual	Par Value
US Treasury, TLGP and Agency Securities	0-100%	52.33%	$5,739,601,000
Corporate Indebtedness	<50%	46.74%	5,126,163,000
Time Certificate of Deposit's	<30%	0.41%	45,200,000
Municipal Securities		0.52%	57,250,000
Total		100.00%	$10,968,214,000

- **Performance (ending February 28, 2011)**

	February	3 mos.	YTD	1 yr	2 yrs	3 yrs	4 yrs	5 yrs
OSTF	**0.14**	**0.31**	**0.26**	**0.84**	**1.69**	**1.29**	**2.31**	**2.89**
91 Day T-Bills	0.02	0.04	0.02	0.14	0.17	0.58	1.63	2.30

Recommendations:
Staff recommends the OIC approve the three revisions to the Oregon Short-Term Fund Portfolio Rules, Policy 4.02.03, as approved by the Oregon Short-Term Fund Board on April 7, 2011.

Oregon Short-Term Fund Annual Review
April 27, 2011

Market Comments

For the last three years, both the Federal Reserve Bank and the U.S. Government have used unprecedented monetary and fiscal stimulus to restore confidence, liquidity and normalcy to the markets. Since December 16, 2008, currently an unprecedented twenty eight consecutive months, the closely watched federal funds rate has remained at an all-time low target range of 0-0.25%. At each of the seventeen FOMC meeting since March 2009, the Fed's post-meeting statement has included the phrase "*likely to warrant exceptionally low levels for the federal funds rate for an extended period*" as seen in this quote from last month's meeting: "The Committee will maintain the target range for the federal funds rate at 0 to ¼ percent and continues to anticipate that economic conditions, including low rates of resource utilization, subdued inflation trends, and stable inflation expectations, are likely to warrant exceptionally low levels for the federal funds rate for an extended period."

The bond market, especially investment grade and high yield credit, generally continues to respond favorably in the current environment of near zero short-term rates, a very steep yield curve, a modestly expanding economy, improving economic statistics, higher trending consumer confidence, continued/improving corporate earnings.

Though most market prognosticators remain optimistic for a continuation of the trend, much uncertainty remains due to the ongoing problems in the housing market and the potential negative impact on economic growth and even a double-dip recession.

Given stronger economic statistics, a much healthier environment compared to late 2008, persistent US dollar weakness and recent inflationary pressure, there is also uncertainty with respect to the Fed's next moves: 1) Will they continue with their $600 billion purchases of Treasuries, i.e., Quantitative Easing 2, through June 30, as planned? 2) Might they begin to reduce their now-massive balance sheet through liquidation? 3) When will they remove the "extended period" language and when will they begin the inevitable increase in the fed funds rate?

The political turmoil in the Middle East and North Africa (MENA) coupled with the Japanese earthquake, tsunami and nuclear tragedy are further uncertainties to impact the markets for the foreseeable future.

Oregon Short-Term Fund Outlook and Strategy

The OSTF is generally structured with a defensive bias. 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 on hold for an "extended period," staff will seek opportunities for positive carry versus the very front-end of the yield curve, where yields range between 0.01%-0.25% (1-25 bps). The weighted-average-maturity, or WAM, of the fund was 167 days as of March 31, 2011.

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, 2010, 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. 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 130 bps. The spread is based on the three year average of the "Bank of America 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.

Oregon Short-Term Fund Annual Review
April 27, 2011

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.

Securities Lending

OSTF securities lending income for the year ending December 31, 2010 amounted to about a net $3.325 million versus a net $10.248 million in the prior year, a decrease of over $6.9 million.

Additional Items

Also included in the attached report is the State Street Bank list of the March 31, 2011 holdings and the Secretary of State annual audit report including the audited financial statements for the year ending June 30, 2010.

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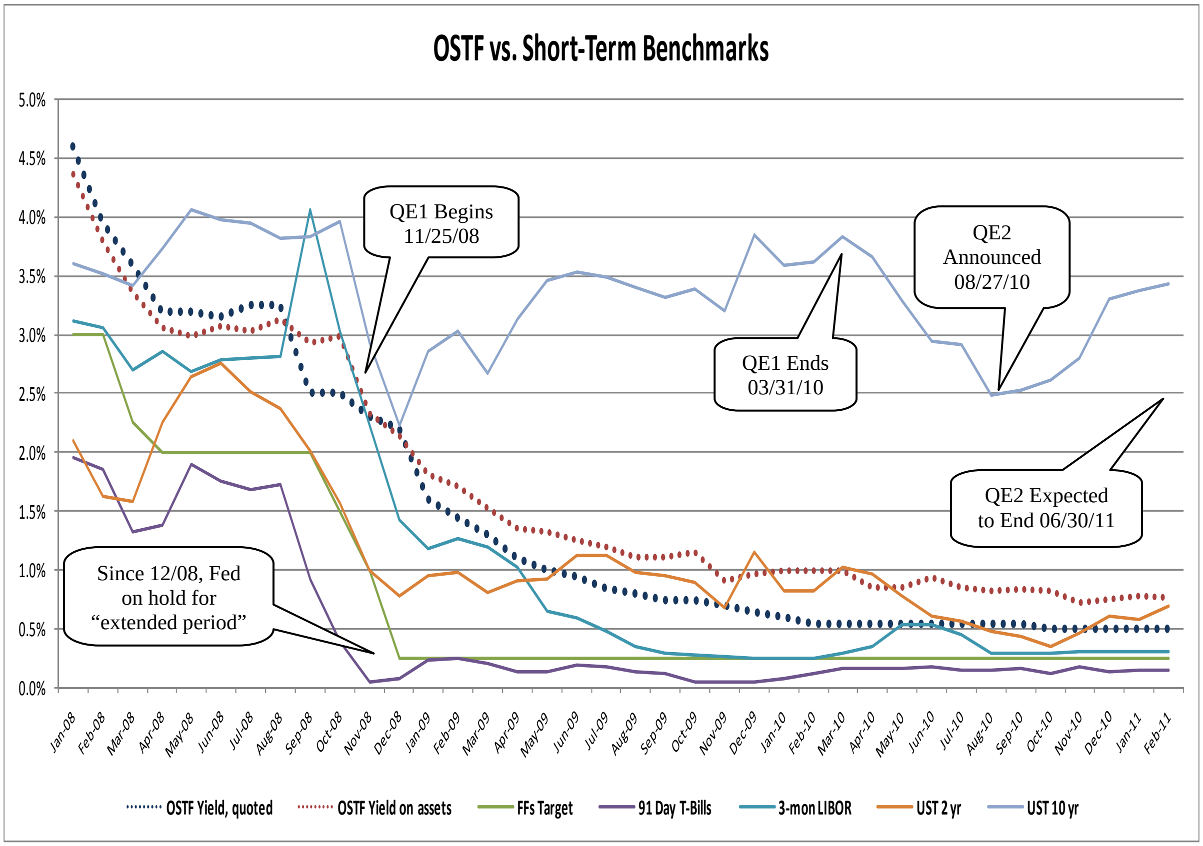

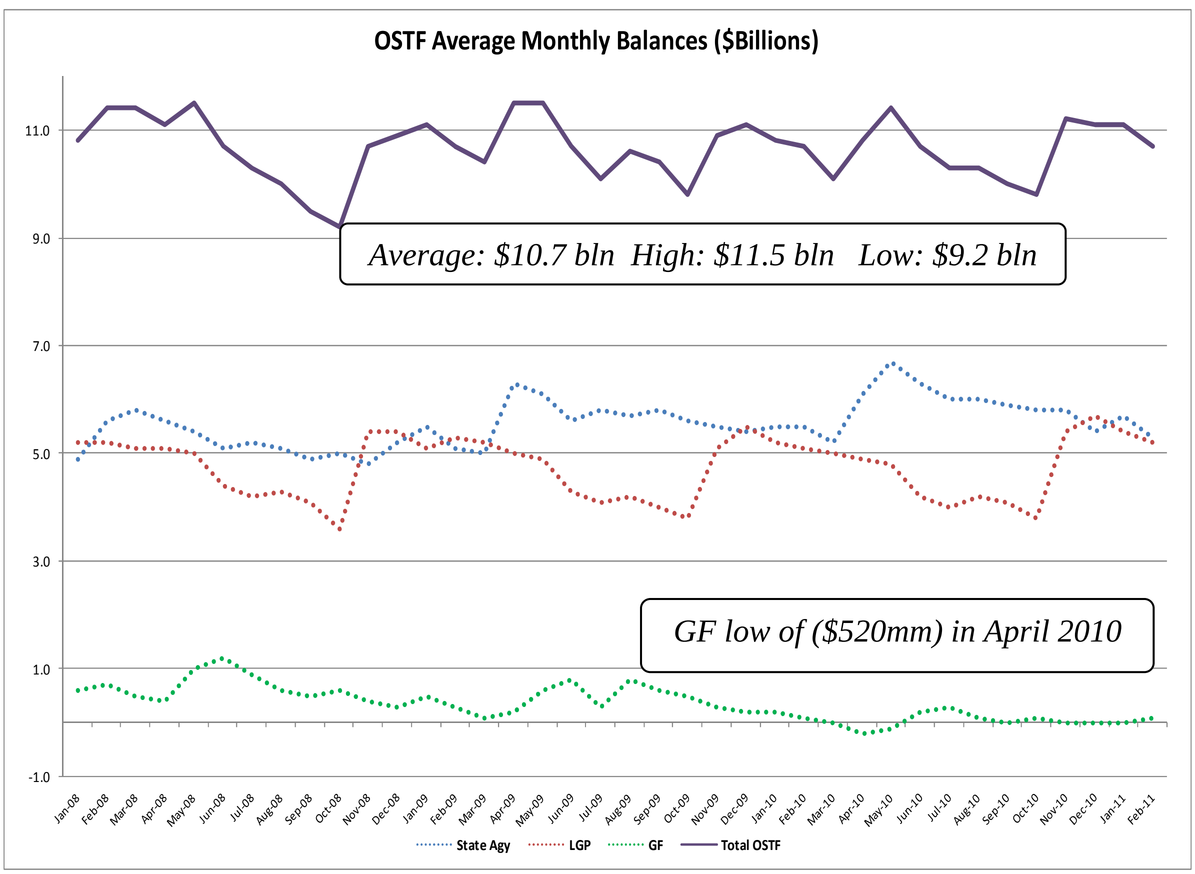

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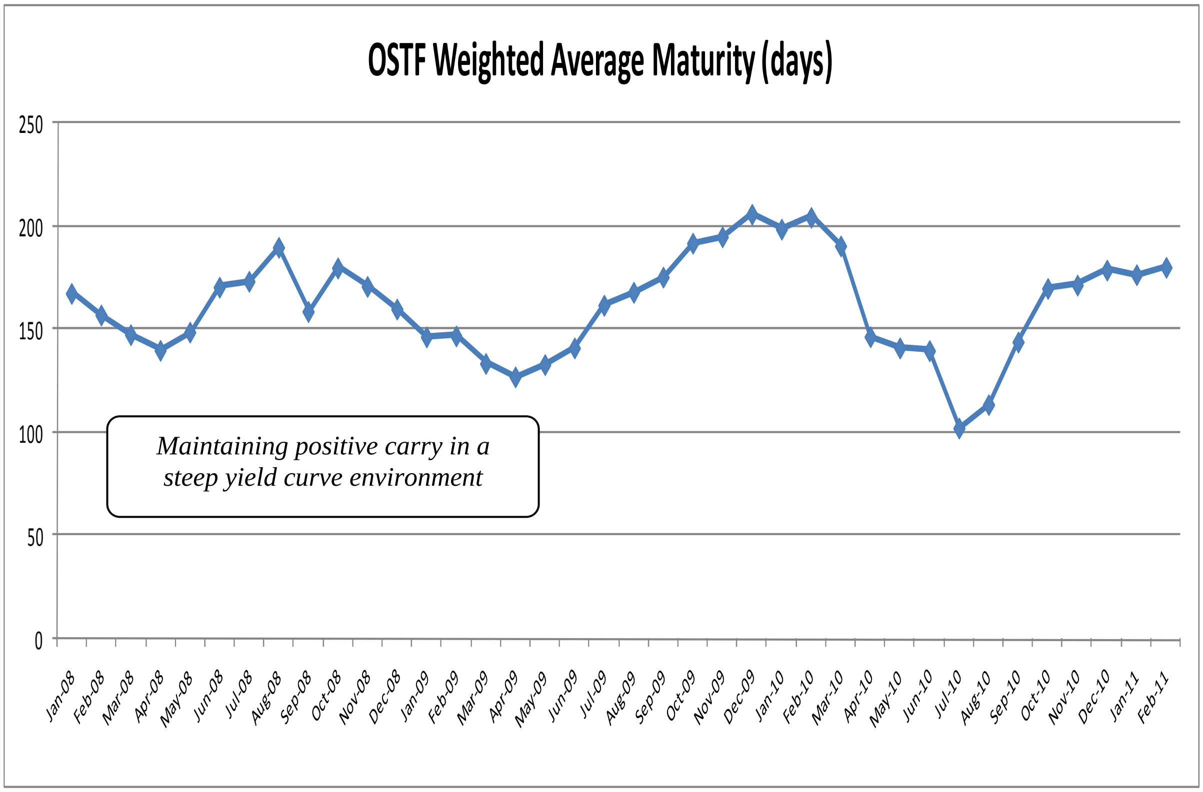

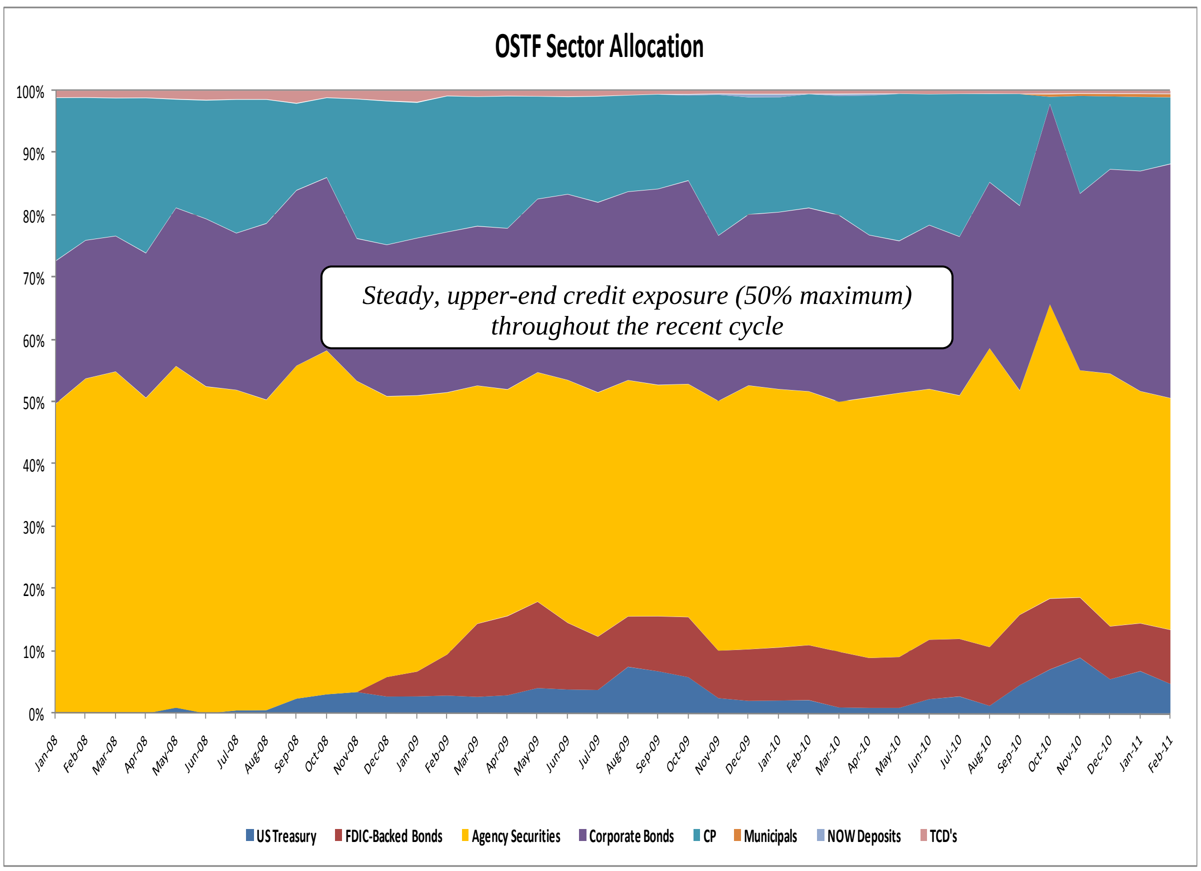

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Portfolio Statistics & Compliance, as of March 31, 2011:

Compliance	**Policy**	**Actual**	**Par Value**
Maturity Distribution			
Portfolio maturities less than 93 days	> 50%	76.34%	$8,373,425,000
Portfolio maturities between 94 days & 366 days		6.26%	686,420,000
Portfolio maturities greater than 1 year	< 25%	17.39%	1,908,369,000
Maturities greater than 3 years	0%	0.00%	0
Total Maturity Distribution		100.00%	$10,968,214,000
Diversification			
US Treasury, TLGP and Agency Securities			
US Treasury & Agency Securities	0-100%	44.72%	$4,904,901,000
TLGP/FDIC-Backed Securities	< 50%	7.61%	834,700,000
Total US Treasury & Agency and TLGP Securities	0-100%	52.33%	$5,739,601,000
Corporate Indebtedness			
Commercial Paper (minimum A-1/P-1)	< 50%	9.77%	1,072,300,000
Corporate Bonds	< 50%	36.96%	4,053,863,000
Total Corporate Indebtedness (aggregate < 50%)	< 50%	46.74%	5,126,163,000
Time Certificate of Deposit's	< 20%	0.41%	45,200,000
Municipal Securities		0.52%	57,250,000
Total Diversification		100.00%	$10,968,214,000
Top Ten Holdings			
1. Federal Home Loan Bank	33%	27.54%	$3,020,915,000
2. TLGP/FDIC-Backed	50%	7.61%	$834,700,000
3. Fannie Mae	33%	6.49%	$711,942,000
4. Freddie Mac	33%	5.97%	$654,874,000
5. US Treasury	100%	3.56%	$390,000,000
6. GE Capital Corp	5%	2.72%	$298,416,000
7. UBS AG Stamford CT	5%	2.60%	$285,000,000
8. Barclays Bank Plc	5%	2.51%	$275,000,000
9. WestPac Banking Corp	5%	2.47%	$271,000,000
10. Goldman Sachs Group, Inc	5%	2.36%	$259,091,000
Total Top Ten Holdings		63.83%	$7,000,938,000
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		167 days	
Fixed versus Floating Weights:			
Fixed Rate		69.64%	$7,638,264,230
Variable Rate		30.36%	$3,329,949,770

Performance (Total Return, %), ending February 28, 2011:

	February	**3 mos.**	**YTD**	**1 yr**	**2 yrs**	**3 yrs**	**4 yrs**	**5 yrs**
OSTF	0.14	0.31	0.26	0.84	1.69	1.29	2.31	2.89
91 Day T-Bills	0.02	0.04	0.02	0.14	0.17	0.58	1.63	2.30
Value-Added	*0.12*	*0.27*	*0.24*	*0.70*	*1.52*	*0.71*	*0.68*	*0.59*

Source: State Street Investment Analytics

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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 April 7, 20111, 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
- Darren Bond, Deputy State Treasurer
- Stewart Taylor, City of Albany
- Wayne Lowry, Sherwood School District
- Deanne Woodring, Davidson Fixed Income Management, Inc.

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

Background – Minimum Portfolio Rating Calculation:
Current OSTF Portfolio Rules, or guidelines, prescribe minimum ratings criteria to determine eligibility by stating the minimum rating needed from each of three nationally recognized statistical rating organizations (NRSROs). For example, Section VI (5) (d) of the OSTF Portfolio Rules states:

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

It is rare that corporate notes are rated by more than two NRSRO's. Ratings by three NRSROs on US Government Agency debt is more prevalent, but not universal. OSTF guidelines do not require a minimum number of ratings per security nor do they require a rating from a specific NRSRO on each security.

OSTF guidelines currently dictate a minimum weighted average portfolio rating for each of two NRSROs (S&P and Moody's). The current methodology for the calculation is in section E of the OSTF guidelines as follows:

> 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	
F.	**Value**	**Moody's Ratings**		**S&P Ratings**	
G.		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	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).

As noted, OSTF guidelines state that a rating score is assigned to each rating and an average rating score must be calculated for each NRSRO separately. The maximum permitted average score is 3.5, which implies an Aa2 rating in the Moody's rating average or an AA rating for the S&P average.

When criteria for individual security eligibility and portfolio average rating are applied, the results are often illogical. Pursuant to the methodology for calculating average portfolio rating, if a security is not rated by either of the two NRSROs referenced, the security is treated as unrated for that NRSROs averaging calculation. An unrated security, by necessity, is the equivalent of defaulted for the respective NRSROs calculated average (although not stated in the above table, the score for a defaulted and/or unrated security is "23" after accounting for below investment grade rating categories).

Viewed separately, the NRSRO rating score calculations can create misleading results. For example, a security may be rated AAA by S&P but unrated by Moody's and is therefore treated as defaulted for the Moody's calculation. Moreover, a corporate security rated A or above only by Fitch is eligible for the OSTF, yet, since Fitch ratings are not stipulated in the OSTF guidelines for the average credit quality calculation, the security will be treated as defaulted in both the S&P and Moody's calculated average.

Revision #1 – Minimum Portfolio Rating Calculation:
To remedy the above inconsistency, staff recommends the following changes:

1. Determine a single "average" rating utilizing industry-standard methodology, such as used by The Barclay's Capital Family of Fixed Income Indices.

    i. When three NRSROs rate an issue, a median rating is used to determine eligibility by dropping the highest and/or lowest rating.

    ii. When a rating from only two NRSROs is available, the lower ("most conservative") of the two is used.

iii. When a rating from only one NRSRO is available, that rating is used.

Staff emphasizes the minimum weighted average credit quality will remain <3.50, but will be calculated using the single rating for each security versus separately determined averages for S&P and Moody's under the current rules. The total weighted average credit quality of the OSTF will be a more accurate reflection of the credit exposure versus the current methodology. In addition, the Secretary of State 2010 audit recommended the adoption of an average credit rating per security.

Recommended revised language:

E. A single rating will be determined for each investment based on the methodology:

To determine rating for each investment:

i. When three NRSROs rate an issue, a median rating is used to determine eligibility by dropping the highest and/or lowest rating.
ii. When a rating from only two NRSROs is available, the lower ("most conservative") of the two is used.
iii. When a rating from only one NRSRO is available, that rating is used.

To determine average rating for each security, a numeric value will be assigned to each nationally recognized statistical rating organization's (NRSRO) rating based on the following scheme: ~~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**		**Fitch Ratings**	
	Long Term	Short Term	Long Term	Short Term	Long Term	Short Term
1	US Treasury		US Treasury		US Treasury	
1	Agency		Agency		Agency	
1	Aaa		AAA		AAA	
2	Aa1		AA+		AA+	
3	Aa2		AA		AA	
4	Aa3	P-1[i]	AA-	A-1+	AA-	F-1+
5	A1	P-1	A+	A-1	A+	F-1
6	A2		A		A	
7	A3	P-2	A-	A-2	A-	F-2
8	Baa1		BBB+		BBB+	
9	Baa2		BBB		BBB	
10	Baa3		BBB-		BBB-	

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

[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.

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Two Additional Housekeeping Policy Revisions:

1. In section VI (5) language has been added to specify the Nationally Recognized Statistical Ratings Organizations (NRSROs) used to determine minimum ratings. There are currently ten NRSROs. In addition, the reference language has been corrected.
2. In section VI (9), the text has been re-arranged to better conform to the style in other paragraphs of the rules.

Recommendation:

Staff recommends that the OIC approve these revisions to the Oregon Short-Term Fund Portfolio Rules in Investment Policy 4.02.03.

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 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. 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 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 ~~September~~ April 27~~29~~, 2011~~0~~

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 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 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/

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.
    - For newly issued Agency securities, and absent assigned ratings, "expected ratings" may be used as a proxy for assigned ratings for not more than 30 business days after the anticipated settlement date.

(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.

(5) Corporate Indebtedness

a. 50% maximum of portfolio in corporate indebtedness.
b. 5% maximum of portfolio per issuer in commercial paper and corporate notes.
c. Commercial Paper (CP) must have top-tier short term ratings by at least two of the following nationally recognized ~~credit~~ statistical rating ~~agencies~~ organizations (NRSRO) 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-, A3, or A-, or better, by Standard & Poor's, Moody's Investors Services, or Fitch Ratings, respectively, at the time of purchase.
    - For newly issued corporate securities, and absent assigned ratings, "expected ratings" may be used as a proxy for actual ratings for not more than 30 business days after the anticipated settlement date.
e. 25% maximum of portfolio in total foreign exposure (government and corporate indebtedness)

(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.

(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.

(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 ~~d~~Debt ~~obligations~~

a. 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.

(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.

(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, 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. A single rating will be determined for each investment based on the methodology:

To determine rating for each investment:

i. When three NRSROs rate an issue, a median rating is used to determine eligibility by dropping the highest and/or lowest rating.
ii. When a rating from only two NRSROs is available, the lower ("most conservative") of the two is used.
iii. When a rating from only one NRSRO is available, that rating is used.

To determine average rating for each security, a numeric value will be assigned to each nationally recognized statistical rating organization's (NRSRO) rating based the following scheme:~~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		Fitch Ratings	
	Long Term	Short Term	Long Term	Short Term	Long Term	Short Term
1	US Treasury		US Treasury		US Treasury	
1	Agency		Agency		Agency	
1	Aaa		AAA		AAA	
2	Aa1		AA+		AA+	
3	Aa2		AA		AA	
4	Aa3	P-1[1]	AA-	A-1+	AA-	F-1+
5	A1	P-1	A+	A-1	A+	F-1
6	A2		A		A	
7	A3	P-2	A-	A-2	A-	F-2
8	Baa1		BBB+		BBB+	
9	Baa2		BBB		BBB	
10	Baa3		BBB-		BBB-	

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

~~F.~~G. 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.

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[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 (days)	% Total
'002824AS9	ABBOTT LABS	5.600	05/15/11	14,670,000	14,707,507	45	0.13%
'02666QG80	AMERICAN HONDA FINANCE	1.625	09/20/13	5,000,000	4,998,100	904	0.04%
'02666QG49	AMERICAN HONDA FINANCE	0.911	08/05/13	50,000,000	50,000,000	858	0.45%
'02666QH55	AMERICAN HONDA FINANCE	0.681	11/07/12	18,650,000	18,667,979	587	0.17%
'00182EAN9	ANZ NATIONAL INTL NZ	1.309	12/20/13	100,000,000	100,000,000	995	0.90%
'039483BA9	ARCHER DANIELS MIDLAND CO	0.472	08/13/12	20,000,000	20,000,000	501	0.18%
'03979GAK1	ARDEN RLTY LTD PARTNERSHIP	5.200	09/01/11	9,000,000	9,012,520	154	0.08%
'00209AAG1	AT+T WIRELESS	8.125	05/01/12	5,000,000	5,388,296	397	0.04%
'06406HBE8	BANK NEW YORK INC MEDIUM	4.950	11/01/12	27,822,000	29,543,432	581	0.25%
'06051GEF2	BANK OF AMERICA CORP	1.723	01/30/14	50,000,000	50,000,000	1,036	0.45%
'06367KR50	BANK OF MONTREAL-	0.160	04/05/11	50,000,000	49,999,111	5	0.45%
'06367KR19	BANK OF MONTREAL-	0.180	04/01/11	50,000,000	50,000,000	1	0.45%
'06416KR51	BANK OF NOVA SCOTIA	0.170	04/05/11	75,000,000	74,998,583	5	0.67%
'0660P1R45	BANKAMERICA CORP	0.170	04/04/11	35,000,000	34,999,504	4	0.31%
'0660P1R11	BANKAMERICA CORP	0.170	04/01/11	50,000,000	50,000,000	1	0.45%
'06739JD42	BARCLAYS BANK BPLC	1.620	09/18/12	75,000,000	75,000,000	537	0.67%
'06738KFC0	BARCLAYS BANK PLC	1.309	03/28/14	50,000,000	50,000,000	1,093	0.45%
'06738KBS9	BARCLAYS BANK PLC	1.600	02/24/14	50,000,000	49,950,000	1,061	0.45%
'06740P3N4	BARCLAYS BANK PLC	1.343	01/13/14	40,000,000	40,000,000	1,019	0.36%
'06765XAB5	BARLCAYS BK PLC UK GOVT CR	1.110	03/05/12	60,000,000	60,006,699	340	0.54%
'084670AU2	BERKSHIRE HATHAWAY INC	2.125	02/11/13	40,000,000	39,991,288	683	0.36%
'084670AY4	BERKSHIRE HATHAWAY INC DEL	0.742	02/11/13	110,000,000	110,000,000	683	0.99%
'0556N1R54	BNP PARIBAS FIN INC	0.200	04/05/11	35,000,000	34,999,222	5	0.31%
'0556N1R47	BNP PARIBAS FIN INC	0.170	04/04/11	40,000,000	39,999,433	4	0.36%
'0556N1R13	BNP PARIBAS FIN INC	0.220	04/01/11	35,000,000	35,000,000	1	0.31%
'05565QBG2	BP CAPITAL MARKETS PLC	3.125	03/10/12	33,710,000	33,757,995	345	0.30%
'05565QBM9	BP CAPITAL MARKETS PLC	1.550	08/11/11	20,000,000	19,835,107	133	0.18%
'05565QAW8	BP CAPITAL MARKETS PLC	0.450	04/11/11	28,700,000	28,701,421	11	0.26%
'111320AA5	BROADCOM CORP	1.500	11/01/13	12,000,000	12,004,648	946	0.11%
'12800UAD2	CAISSE CENTRALE DESJARDN	1.700	09/16/13	15,000,000	14,992,500	900	0.13%
'14912L4N8	CATERPILLAR FINANCIAL SE	0.543	07/24/12	75,000,000	75,000,000	481	0.67%
'92344SAT7	CELLCO PART/ VERI WIRELSS	3.750	05/20/11	62,150,000	62,414,148	50	0.56%
'92344SAS9	CELLO PART/VERI WIRELSS	2.914	05/20/11	76,800,000	77,064,812	50	0.69%
'17275RAL6	CISCO SYSTEMS INC	0.559	03/14/14	20,000,000	20,000,000	1,079	0.18%
'17314JAT0	CITIBANK NA	1.750	12/28/12	25,000,000	25,457,931	638	0.22%
'17314JAF0	CITIBANK NA	0.280	06/04/12	50,000,000	50,000,000	431	0.45%
'17290CAA4	CITIBANK NA	0.341	05/07/12	50,000,000	50,000,000	403	0.45%
'17314JAN3	CITIBANK NA	1.375	08/10/11	50,000,000	49,982,777	132	0.45%
'17313YAD3	CITIGROUP FUNDING	0.260	06/03/11	20,200,000	20,200,978	64	0.18%
'17313YAL5	CITIGROUP FUNDING INC	1.875	10/22/12	100,000,000	101,855,722	571	0.90%
'17313YAH4	CITIGROUP FUNDING INC	0.353	07/12/12	50,000,000	50,000,000	469	0.45%
'17314AAE2	CITIGROUP FUNDING INC	0.607	03/30/12	50,000,000	50,078,925	365	0.45%
'172967FQ9	CITIGROUP INC	1.000	04/01/14	25,000,000	25,000,000	1,097	0.22%
'172967EQ0	CITIGROUP INC	5.500	04/11/13	25,000,000	26,682,863	742	0.22%
'172967EL1	CITIGROUP INC	5.300	10/17/12	28,784,000	30,225,105	566	0.26%
'172967CV1	CITIGROUP INC	0.434	03/16/12	100,000,000	99,039,790	351	0.90%
'17314JAQ6	CITIGROUPINC	0.309	09/21/12	50,000,000	50,000,000	540	0.45%
'191216AN0	COCA COLA CO	0.750	11/15/13	60,000,000	59,918,066	960	0.54%
'191216AQ3	COCA COLA CO	0.363	05/15/12	25,000,000	25,000,000	411	0.22%
'197995004	COLUMBIA COMMUNITY BANK	0.280	05/11/11	100,000	100,000	41	0.00%
'197995004	COLUMBIA COMMUNITY BANK	0.290	04/13/11	100,000	100,000	13	0.00%
'2027A0FP9	COMMONWEALTH BANK AUST	1.039	03/17/14	35,000,000	35,000,000	1,082	0.31%
'2027A0FB0	COMMONWEALTH BANK AUST	1.100	10/28/13	96,600,000	96,600,000	942	0.87%
'2027A0DS5	COMMONWEALTH BANK AUST	1.250	11/20/12	100,000,000	100,000,000	600	0.90%
'22238HGQ7	COUNTRYWIDE FINL CORP	5.800	06/07/12	40,655,000	42,808,614	434	0.36%

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STATE STREET. Serving Institutional Investors Worldwide

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CUSIP Number	Security Name	Interest Rate	Maturity Date	Shares/Par Value	Base Total Cost	WAM (days)	% Total
'22532LAE4	CREDIT AGRICOLE LONDON	1.753	01/21/14	50,000,000	50,000,000	1,027	0.45%
'22546QAB3	CREDIT SUISSE NEW YORK	3.450	07/02/12	50,000,000	51,020,741	459	0.45%
'285661AD6	ELECTRONIC DATA SYS CORP NEW	6.000	08/01/13	9,833,000	10,898,778	854	0.09%
'313588HN8	FANNIE DISCOUNT NOTE	0.190	06/30/11	80,000,000	79,963,250	91	0.72%
'3136FP6Y8	FANNIE MAE	0.750	02/14/14	100,000,000	100,000,000	1,051	0.90%
'31398AC26	FANNIE MAE	1.750	12/28/12	60,000,000	59,973,942	638	0.54%
'31398A7K2	FANNIE MAE	0.278	12/28/12	50,000,000	49,984,900	638	0.45%
'31398A6V9	FANNIE MAE	0.330	12/03/12	178,510,000	178,440,631	613	1.60%
'313312EY2	FED FARM CRD DISCOUNT NT	0.040	04/29/11	25,000,000	24,999,222	29	0.22%
'313384HN2	FED HOME LN DISCOUNT NT	0.080	06/30/11	50,000,000	49,990,000	91	0.45%
'313384FD6	FED HOME LN DISCOUNT NT	0.040	05/04/11	145,400,000	145,392,823	34	1.30%
'313384FC8	FED HOME LN DISCOUNT NT	0.040	05/03/11	100,000,000	99,996,444	33	0.90%
'313384EW5	FED HOME LN DISCOUNT NT	0.060	04/27/11	232,400,000	232,386,997	27	2.08%
'313384EU9	FED HOME LN DISCOUNT NT	0.030	04/25/11	211,566,000	211,559,243	25	1.90%
'313384EN5	FED HOME LN DISCOUNT NT	0.020	04/19/11	115,000,000	114,997,725	19	1.03%
'313384EM7	FED HOME LN DISCOUNT NT	0.090	04/18/11	75,000,000	74,996,813	18	0.67%
'313384EJ4	FED HOME LN DISCOUNT NT	0.050	04/15/11	165,399,000	165,394,233	15	1.48%
'313384EE5	FED HOME LN DISCOUNT NT	0.030	04/11/11	50,000,000	49,999,583	11	0.45%
'313384EB1	FED HOME LN DISCOUNT NT	0.080	04/08/11	200,000,000	199,996,889	8	1.79%
'313384EA3	FED HOME LN DISCOUNT NT	0.050	04/07/11	200,000,000	199,998,021	7	1.79%
'313384DX4	FED HOME LN DISCOUNT NT	0.050	04/04/11	135,000,000	134,999,253	4	1.21%
'31331JV34	FEDERAL FARM CREDIT BANK	0.289	03/19/13	42,670,000	42,651,665	719	0.38%
'31331JNT6	FEDERAL FARM CREDIT BANK	0.317	05/21/12	9,500,000	9,501,165	417	0.09%
'31331Y3P3	FEDERAL FARM CREDIT BANK	3.500	10/03/11	50,000,000	49,999,827	186	0.45%
'313384EY1	FEDERAL HOME LN BK CONS DSC NT	0.020	04/29/11	95,000,000	94,997,511	29	0.85%
'313384EP0	FEDERAL HOME LN BK CONS DSC NT	0.070	04/20/11	200,000,000	199,992,809	20	1.79%
'313384EH8	FEDERAL HOME LN BK CONS DSC NT	0.010	04/14/11	75,000,000	74,999,729	14	0.67%
'313384EG0	FEDERAL HOME LN BK CONS DSC NT	0.082	04/13/11	250,000,000	249,993,300	13	2.24%
'313384EF2	FEDERAL HOME LN BK CONS DSC NT	0.050	04/12/11	150,000,000	149,997,708	12	1.34%
'313384DZ9	FEDERAL HOME LN BK CONS DSC NT	0.070	04/06/11	135,000,000	134,998,479	6	1.21%
'313384DU0	FEDERAL HOME LN BK CONS DSC NT	0.090	04/01/11	155,000,000	155,000,000	1	1.39%
'313384EV7	FEDERAL HOME LN DISCOUNT NT	0.020	04/26/11	75,000,000	74,998,958	26	0.67%
'313396FB4	FEDERAL HOME LN MTG DISC NTS	0.060	05/02/11	90,159,000	90,154,342	32	0.81%
'313396EF6	FEDERAL HOME LN MTG DISC NTS	0.080	04/12/11	17,000,000	16,999,584	12	0.15%
'313396EE9	FEDERAL HOME LN MTG DISC NTS	0.080	04/11/11	21,300,000	21,299,527	11	0.19%
'313371KX3	FEDERAL HOME LOAN BANK	1.000	11/18/13	206,150,000	206,150,000	963	1.85%
'31359MNU3	FEDERAL NATL MTG ASSN	5.250	08/01/12	143,432,000	148,436,512	489	1.29%
'313588FJ9	FEDERAL NATL MTG ASSN DISC NTS	0.100	05/09/11	100,000,000	99,989,444	39	0.90%
'34074GCT9	FLORIDA HURRICANE CATASTROPHE	1.035	10/15/12	57,250,000	56,130,709	564	0.51%
'3134G1NM2	FREDDIE MAC	1.300	07/26/13	100,000,000	100,000,000	848	0.90%
'3134G1HW7	FREDDIE MAC	1.625	06/28/13	66,195,000	66,387,911	820	0.59%
'3128X9WT3	FREDDIE MAC	0.201	05/01/12	100,000,000	99,919,000	397	0.90%
'313396HN6	FREDDIE MAC DISCOUNT NT	0.160	06/30/11	100,000,000	99,960,000	91	0.90%
'313396EU3	FREDDIE MAC DISCOUNT NT	0.040	04/25/11	50,000,000	49,998,667	25	0.45%
'313396EQ2	FREDDIE MAC DISCOUNT NT	0.080	04/21/11	60,220,000	60,217,324	21	0.54%
'313396DZ3	FREDDIE MAC DISCOUNT NT	0.090	04/06/11	50,000,000	49,999,375	6	0.45%
'36962G4U5	GENERAL ELEC CAP CORP	1.500	02/06/14	39,410,000	39,422,931	1,043	0.35%
'36962G4W1	GENERAL ELEC CAP CORP	1.153	01/07/14	35,000,000	35,000,000	1,013	0.31%
'36962G4Q4	GENERAL ELEC CAP CORP	1.875	09/16/13	95,000,000	95,094,320	900	0.85%
'36962G2U7	GENERAL ELEC CAP CORP	0.462	05/08/13	5,000,000	4,928,528	769	0.04%
'36967HAY3	GENERAL ELEC CAP CORP	2.625	12/28/12	100,000,000	103,276,325	638	0.90%
'36962GZ49	GENERAL ELEC CAP CORP	0.434	11/01/12	67,722,000	66,772,261	581	0.61%
'36967HAP2	GENERAL ELEC CAP CORP	0.510	03/12/12	25,000,000	25,000,000	347	0.22%
'36962GM76	GENERAL ELEC CAP CORP	0.493	11/21/11	6,570,000	6,467,909	235	0.06%
'36962G2N3	GENERAL ELEC CAP CORP	0.383	08/15/11	15,714,000	15,493,474	137	0.14%

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'36962GZ80	GENERAL ELEC CAP CORP	0.390	06/06/11	25,000,000	24,888,136	67	0.22%
'36185JAA7	GMAC LLC	1.750	10/30/12	50,000,000	50,805,760	579	0.45%
'38143USB8	GOLDMAN SACHS GROUP INC	1.311	02/07/14	25,000,000	25,000,000	1,044	0.22%
'38143UNA5	GOLDMAN SACHS GROUP INC	1.300	09/23/13	50,000,000	50,000,000	907	0.45%
'38143ULW9	GOLDMAN SACHS GROUP INC	1.300	08/19/13	75,000,000	75,000,000	872	0.67%
'38144LAC4	GOLDMAN SACHS GROUP INC	5.450	11/01/12	40,000,000	42,480,686	581	0.36%
'38141GCG7	GOLDMAN SACHS GROUP INC	5.700	09/01/12	16,591,000	17,502,074	520	0.15%
'38143UMG3	GOLDMAN SACHS GROUP INC	1.061	08/31/12	42,500,000	42,500,000	519	0.38%
'38141GEW0	GOLDMAN SACHS GROUP INC	0.491	02/06/12	10,000,000	9,853,779	312	0.09%
'38146FAG6	GOLDMAN SACHS GROUP INC FDIC G	0.562	11/09/11	75,000,000	75,000,000	223	0.67%
'428236BB8	HEWLETT PACKARD CO	1.250	09/13/13	50,000,000	49,960,500	897	0.45%
'428236BA0	HEWLETT PACKARD CO	0.435	09/13/12	50,000,000	50,000,000	532	0.45%
'4497W1TW6	ING (US) FUNDING LLC	0.270	06/30/11	75,000,000	74,949,375	91	0.67%
'46623EJF7	JP MORGAN CHASE + CO	1.103	01/24/14	100,000,000	100,000,000	1,030	0.90%
'46623EJC4	JPMORGAN CHASE + CO	1.057	09/30/13	116,910,000	117,392,444	914	1.05%
'46623EJA8	JPMORGAN CHASE + CO	0.961	02/26/13	40,000,000	39,981,100	698	0.36%
'50000BRE2	KOCH RESOURCES LLC	0.170	04/14/11	50,000,000	49,996,931	14	0.45%
'50000BRB8	KOCH RESOURCES LLC	0.180	04/11/11	50,000,000	49,997,500	11	0.45%
'50000BR44	KOCH RESOURCES LLC	0.190	04/04/11	10,000,000	9,999,842	4	0.09%
'981MSA904	LEHMAN RECEIVABLE	0.000		20,187,000	19,873,864		0.18%
'525998985	LEHMAN RECEIVABLE	0.000		171,115,000	167,709,993		1.53%
'55263ECE3	MBNA CORP SR MTN	7.500	03/15/12	15,900,000	16,761,815	350	0.14%
'59018YN56	MERRILL LYNCH + CO INC	6.150	04/25/13	5,350,000	5,699,381	756	0.05%
'59018YM40	MERRILL LYNCH + CO INC	5.450	02/05/13	16,661,000	17,489,750	677	0.15%
'59018YXY2	MERRILL LYNCH + CO INC	0.503	07/25/11	10,250,000	10,246,473	116	0.09%
'61747WAE9	MORGAN STANLEY	1.903	01/24/14	75,000,000	75,000,000	1,030	0.67%
'61747WAD1	MORGAN STANLEY	2.875	01/24/14	10,000,000	9,985,500	1,030	0.09%
'617446B99	MORGAN STANLEY	0.603	01/09/14	11,950,000	11,605,590	1,015	0.11%
'61747YCQ6	MORGAN STANLEY	2.812	05/14/13	68,000,000	68,528,556	775	0.61%
'61746BCX2	MORGAN STANLEY	0.553	01/09/12	25,000,000	24,979,250	284	0.22%
'61757UAL4	MORGAN STANLEY FDIC GTD TLGP	0.592	02/10/12	62,500,000	62,618,346	316	0.56%
'61757UAC4	MORGAN STANLEY FDIC GTD TLGP	1.161	12/01/11	27,000,000	27,000,000	245	0.24%
'617446HR3	MORGAN STANLEY GROUP INC	5.300	03/01/13	15,000,000	15,798,035	701	0.13%
'6325C0BT7	NATIONAL AUSTRALIA BANK	1.150	11/12/13	100,000,000	100,000,000	957	0.90%
'64951XS29	NEW YORK LFE CAP COR	0.180	05/02/11	15,000,000	14,997,675	32	0.13%
'64951XRB0	NEW YORK LFE CAP COR	0.190	04/11/11	20,000,000	19,998,944	11	0.18%
'64953BAP3	NEW YORK LIFE GLOBAL FDG	4.650	05/09/13	5,761,000	6,153,568	770	0.05%
'64952WAU7	NEW YORK LIFE GLOBAL FDG	0.403	01/13/12	50,000,000	50,000,000	288	0.45%
'740816AF0	PRESIDENT + FELLOWS HARVARD	5.000	01/15/14	15,000,000	16,403,356	1,021	0.13%
'7426M5TW4	PRIVATE EXP. FUNDING	0.230	06/30/11	50,000,000	49,971,250	91	0.45%
'74433HR14	PRUDENTIAL FNDG LLC	0.210	04/01/11	25,000,000	25,000,000	1	0.22%
'74977RCB8	RABOBANK NEDERLAND	0.443	01/22/13	100,000,000	100,000,000	663	0.90%
'822582AL6	SHELL INTERNATIONAL FIN	1.875	03/25/13	31,935,000	32,423,242	725	0.29%
'83365SRE5	SOCIETE GEN NO AMER	0.190	04/14/11	40,000,000	39,997,256	14	0.36%
'83365SR13	SOCIETE GEN NO AMER	0.240	04/01/11	45,000,000	45,000,000	1	0.40%
'83365SR13	SOCIETE GEN NO AMER	0.210	04/01/11	50,000,000	50,000,000	1	0.45%
'83365SR13	SOCIETE GEN NO AMER	0.180	04/01/11	35,000,000	35,000,000	1	0.31%
'8426E3R66	SOUTHERN CO FDG CORP	0.210	04/06/11	30,000,000	29,999,125	6	0.27%
'88166DAB2	TEVA PHARM FIN III	0.809	03/21/14	20,000,000	20,000,000	1,086	0.18%
'88166DAA4	TEVA PHARM FIN III	1.700	03/21/14	10,000,000	9,994,200	1,086	0.09%
'88166BAB6	TEVA PHARMA FIN III LLC	1.500	06/15/12	12,500,000	12,492,579	442	0.11%
'88166BAA8	TEVA PHARMA FIN III LLC	0.709	12/19/11	20,000,000	20,000,000	263	0.18%
'912795VE8	TREASURY BILL	0.055	05/05/11	40,000,000	39,997,922	35	0.36%
'9127952N0	TREASURY BILL	0.055	04/28/11	75,000,000	74,996,906	28	0.67%
'91159HGY0	U S BANCORP MTN BK ENT	1.375	09/13/13	50,000,000	49,952,986	897	0.45%

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April 27, 2011

As of: **3/31/2011**

CUSIP Number	Security Name	Interest Rate	Maturity Date	Shares/Par Value	Base Total Cost	WAM (days)	% Total
'90333WAA6	U S BK NATL ASSN MINNEAPOLIS	6.375	08/01/11	13,800,000	13,899,087	123	0.12%
'90261XGW6	UBS AG STAMFORD CT	1.304	01/28/14	80,000,000	80,000,000	1,034	0.72%
'90261XGQ9	UBS AG STAMFORD CT	1.700	10/14/13	185,000,000	185,000,000	928	1.66%
'90261XFR8	UBS AG STAMFORD CT	3.455	07/29/11	20,000,000	20,000,000	120	0.18%
'69199J005	UMPQUA BANK	0.280	06/08/11	15,000,000	15,000,000	69	0.13%
'69199J005	UMPQUA BANK	0.280	05/11/11	15,000,000	15,000,000	41	0.13%
'69199J005	UMPQUA BANK	0.290	04/13/11	15,000,000	15,000,000	13	0.13%
'90526NR15	UNION BANK NA	0.190	04/01/11	75,000,000	75,000,000	1	0.67%
'912795X22	UNITED STATES TREAS BILLS	0.100	06/30/11	275,000,000	274,900,000	91	2.46%
'92976FBW2	WACHOVIA BANK NA	5.000	09/28/11	35,000,000	35,389,575	181	0.31%
'92976WBK1	WACHOVIA CORP GLOBAL MEDIUM	2.074	05/01/13	139,154,000	142,224,467	762	1.25%
'929903DF6	WACHOVIA CORP NEW	0.433	04/23/12	67,111,000	66,409,051	389	0.60%
'92924SAA6	WEA FIN LLC/WCI FIN LLC	5.400	10/01/12	4,700,000	4,948,502	550	0.04%
'949744AB2	WELLS FARGO + CO FDIC GTD TLGP	1.160	12/09/11	50,000,000	50,000,000	253	0.45%
'961214BR3	WESTPAC BANKING CORP	1.850	12/09/13	25,000,000	24,987,000	984	0.22%
'961214BQ5	WESTPAC BANKING CORP	1.040	12/09/13	100,000,000	100,000,000	984	0.90%
'9612E0BV8	WESTPAC BANKING CORP	1.150	10/18/13	78,000,000	78,000,000	932	0.70%
'9612E0BC0	WESTPAC BANKING CORP	0.853	04/08/13	68,000,000	68,000,000	739	0.61%
'96327SRE4	WHEELS INC	0.230	04/14/11	42,300,000	42,296,487	14	0.38%
'96327SR12	WHEELS INC	0.240	04/01/11	40,000,000	40,000,000	1	0.36%
				11,159,516,000	11,185,339,717	167	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, 2011

Maturity Distribution

	In Compliance	Objective	Percent of Par	Par Value
Portfolio to Mature Within 93 Days:				
A. 1 to 30 Days			45.058%	4,942,056,000.00
B. 31 to 60 Days			14.880%	1,632,089,000.00
C. 61 to 93 Days			16.404%	1,799,280,000.00
Subtotal - Portfolio to Mature Within 93 Days:	**Yes**	**> 50%**	**76.343%**	**8,373,425,000.00**
Portfolio to Mature Between 94 and 366 Days:				
D. 94 to 136 Days			0.946%	103,800,000.00
E. 137 to 182 Days			1.541%	169,000,000.00
F. 183 to 273 days			3.319%	364,010,000.00
G. 274 to 366 Days			0.452%	49,610,000.00
Subtotal - Portfolio to Mature Between 94 and 366 Days:			**6.258%**	**686,420,000.00**
Portfolio to Mature Beyond One Year:				
H. 367 to 550 Days			2.488%	272,878,000.00
I. 551 to 730 Days			6.566%	720,202,000.00
J. 731 to 912 Days			3.894%	427,139,000.00
K. 913 to 1096 Days			4.451%	488,150,000.00
Subtotal - Portfolio to Mature Beyond One Year:	**Yes**	**< 25%**	**17.399%**	**1,908,369,000.00**
Total (Does not include Lehman holdings)			**100.000%**	**10,968,214,000.00**
Weighted Average Maturity: (Days)				**167.41**

Called Securities

FLSGEN 34074GCT9, par value $57,250,000.00 called on 4/15/2011, original maturity on 10/15/2012

Maturities > 3 years (1097+ days)

C 172967FQ9, par value $25,000,000.00, final maturity on 4/1/2014, settle date 4/1/2011 **In compliance**

Diversification of Portfolio

	In Compliance	Objective	Percent of Par	Par Value
US Treasury and Agency Securities		**Any %**	44.719 %	4,904,901,000.00
FDIC Guaranteed Corporates	**Yes**	**<50%**	7.610 %	834,700,000.00
Corporate Indebtedness				
Corporate Notes			36.960 %	4,053,863,000.00
Commercial Paper			9.321 %	1,022,300,000.00
Bank Notes			0.456 %	50,000,000.00
Total Corporate Indebtedness	**Yes**	**< 50%**	**46.737** %	**5,126,163,000.00**
Municipal Bonds			0.522 %	57,250,000.00
TCD	**Yes**	**<20%**	0.412 %	45,200,000.00
Total (Does not include Lehman holdings)			**100.000** %	**10,968,214,000.00**

	In Compliance	Objective	
Agency Securities, Largest Holdings by a single Issuer	**Yes**	**< 33%**	**27.54 %**
Corporate Indebtedness, Largest Holdings by a single Issuer (excludes TLGP corporate issues)	**Yes**	**< 5%**	**2.72 %**
Corporate exposure including Ltr of Credit (excludes TLGP corporate issues)	**Yes**	**< 10%**	**2.72 %**
Foreign Government and Foreign Corporate Debt	**Yes**	**< 25%**	**15.70 %**

Office of the State Treasurer
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OSTF Daily Compliance
Short-term Portfolio Guidelines
As of March 31, 2011

Credit Quality (Does not include Lehman holdings)

Standard & Poor's Weighted Average Credit Quality	Yes	< 3.5	2.71	AA
Moody's Weighted Average Credit Quality	Yes	< 3.5	2.72	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	Yes	Minimum A- (S & P), A3 (Moody's) or A- (Fitch)		

Other

Weighted Average Yield 0.7082 %

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

Trade Commitments:

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

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

State of Oregon

Oregon Short-Term Fund

An Investment Pool of the State of Oregon For the Fiscal Year Ended June 30, 2010

2010-30
September 2010

http://www.sos.state.or.us/audits/index.html

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

This report presents the results of our audit of the Oregon Short-Term Fund (OSTF), an investment pool of the State of Oregon, for the year ended June 30, 2010.

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 fiscal year ended June 30, 2010, 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 Oregon State Treasury's internal control of the Oregon Short-Term Fund and compliance with applicable laws, regulations, contracts, and grant agreements. Our report on the results of those reviews is included in the Other Reports section of this report. We noted no instances of noncompliance that are required to be reported under *Government Auditing Standards*. 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. However, we identified a significant deficiency in internal control over financial reporting.

We appreciated the cooperation and assistance of the Oregon State Treasury management and staff during the course of our audit.

OREGON AUDITS DIVISION

Gary Blackmer
Director

TABLE OF CONTENTS

FINANCIAL SECTION

Office of the Secretary of State

Kate Brown
Secretary of State

Barry Pack
Deputy Secretary of State

Audits Division

Gary Blackmer
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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, 2010, as listed in the table of contents. These financial statements are the responsibility of the Oregon State Treasury 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 Oregon State Treasury'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, Oregon State Treasury, 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 Oregon State Treasury or the State of Oregon as of June 30, 2010, 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, 2010, 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 30, 2010 on our consideration of the Oregon State Treasury'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 30, 2010

State of Oregon
OREGON SHORT-TERM FUND
Statement of Net Assets
June 30, 2010
(Dollars in Thousands)

	June 30, 2010
Assets:	
Cash and Cash Equivalents	$ 4,132,468
Investments	5,586,710
Due from Secretary of State (Note 5)	39
Due from Department of Transportation (Note 5)	1,250
Accrued Interest Receivable	26,991
Securities Lending Collateral (Note 3)	3,101,366
Total Assets	12,848,824
Liabilities:	
Due to Employment Department (Note 6)	57
Obligations Under Securities Lending (Note 3)	3,101,366
Total Liabilities	3,101,423
Net Assets:	
Held in Trust for Participants	9,747,401
Total Net Assets	$ 9,747,401

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, 2010

(Dollars in Thousands)

	Year Ended June 30, 2010
Additions:	
Participants' Contributions	$ 44,403,495
Investment Income, Net of Expenses (Notes 1, 4)	127,972
Total Additions	44,531,467
Deductions:	
Participants' Withdrawals	44,945,494
Distributions of Interest to Participants	70,499
Securities Lending Agent Fee Expense	860
Securities Lending Borrowers' Rebate Expense	7,855
Total Deductions	45,024,708
Change in Net Assets Held in Trust for Participants	(493,241)
Net Assets - Beginning	10,240,642
Net Assets - Ending (Note 7)	$ 9,747,401

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

OREGON SHORT-TERM FUND
Notes to Financial Statements
June 30, 2010

(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 Oregon State Treasury (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. 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. OST accumulates an amount to offset losses on specific investments and historically-based default rates as part of Total Net Assets. This amount is reviewed at the end of every month, and considered in setting the rate paid to participants, 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, 2010 the Fund held $73.9 million book balance in deposits with a bank balance of $110.4 million. Insurance and collateral requirements for deposits are established by banking regulations and Oregon law. Where balances exceed the Federal Deposit Insurance amount of $250,000, the balances are covered by collateral held in a multiple financial institution collateral pool (ORS 295.015) administered by the Oregon State Treasury in the Public Funds Collateralization Program (PFCP).

As of June 30, 2010, $2.1 million was covered by FDIC insurance and $108.3 million were collateralized under the PFCP.

Investments On June 30, 2010, the Fund held $9.6 billion in investments, $4.1 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 (see the current portfolio rules at http://www.ost.state.or.us/divisions/investment/index.htm). 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, 2010 holdings are shown in the schedule below. For variable rate securities, the next interest rate reset date is used instead of the maturity date. For variable rate securities in a fixed rate period that will switch to variable rate at a later date, the maturity is based on the final maturity of the bond, not the next variable reset date.

Schedule of Investment Maturities
June 30, 2010
(Dollars in Thousands)

		Investment Maturities			
Investment Type	**Reported Amount ①**	**Up to 93 Days**	**94 Days to One Year**	**One to Three Years**	**Defaulted ③**
Cash and Cash Equivalents: ②					
Commercial Paper	$ 1,915,605	$ 1,915,605	$ -	$ -	$ -
Agency Bonds	21,149	21,149	-	-	-
Agency Discount Notes	1,852,370	1,852,370	-	-	-
Treasury Bills	219,969	219,969	-	-	-
Time Certificates of Deposit	49,500	49,500	-	-	-
Subtotal Cash Equivalents	4,058,593	4,058,593	-	-	-
Investments: ②					
Agency Bonds	2,002,628	717,755	422,278	862,595	-
Commercial Paper	99,974	99,974	-	-	-
Corporate Notes	2,562,950	1,800,350	141,908	581,695	38,997
Temporary Liquidity Guarantee	921,158	729,426	141,263	50,469	-
Subtotal Investments	5,586,710	3,347,505	705,449	1,494,759	38,997
Total	$ 9,645,303	$ 7,406,098	$ 705,449	$ 1,494,759	$ 38,997

① Reported Amount is a combination of amortized cost and fair value. See Note 1
② Classification on Statement of Net Assets
③ Lehman Brothers securities, $191.3 million par value

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.

The Oregon Investment Council (OIC) made changes to the allowable minimum ratings in April, 2010. The current minimums for corporate notes are an S&P rating of A-, Moody's rating of A3 and Fitch rating of A-. Commercial paper is required to have a minimum short-term credit rating at the time of purchase from two of three ratings services with current minimum ratings from S&P of A-1, Moody's of P-1 and Fitch of F-1. Foreign government securities or their instrumentalities were added by the OIC as approved investments at the same time, and are required to have minimum credit ratings from S&P of AA-, Moody's of Aa3 and Fitch of AA-.

Occasionally, securities are downgraded but Fund policies allow them to be retained at the Senior Investment Officer's discretion. Holdings of Lehman Brothers securities totaling $191.3 million par value had ratings from all three agencies withdrawn due to bankruptcy. Rating groups were determined using the lowest actual rating from S&P, Moody's or Fitch, and are shown below:

Schedule of Credit Quality Distribution
June 30, 2010
(Dollars in Thousands)

Investment Type	AAA	AA	A	BBB		Not Rated	Rating Withdrawn	Total Reported Amount
Commercial Paper	$ -	$ 407,951	$ 1,607,628	$ -		$ -	$ -	$ 2,015,579
Corporate Notes	110,432	1,035,731	1,332,030	45,760	①	-	38,997	2,562,950
Agency Bonds	1,593,110	-	430,667	-		-	-	2,023,777
Agency Discount Notes	1,852,370	-	-	-		-	-	1,852,370
U.S. Treasury Bills	219,969	-	-	-		-	-	219,969
Temporary Liquidity Guarantee	921,158	-	-	-		-	-	921,158
Time Certificates of Deposit	-	-	-	-		49,500	-	49,500
Total	$ 4,697,039	$ 1,443,682	$ 3,370,325	$ 45,760		$ 49,500	$ 38,997	$ 9,645,303

① Securities rated BBB in this table continue to meet investment quality rules as discussed above, as they have at least one rating S&P A-, Moody's A3 or Fitch A-.

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 $0.7 million and the balance of $48.8 million is covered by a multiple financial institution collateral pool (ORS 295.015) administered by the Oregon State Treasury.

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, ten percent for foreign governments and instrumentalities and five percent for both commercial paper and corporate notes. On June 30, 2010, 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, 2010
(Dollars in Thousands)

Issuer Name	Reported Amount	Percent of Holding
Federal Home Loan Bank	1,578,291	16.36%
Federal National Mortgage Association	1,256,043	13.02%
Federal Home Loan Mortgage Corporation	858,659	8.90%

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 and U.S. Agency debt. Borrowers were required to deliver 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 the Public Employees Retirement System. 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, 2010
(Dollars in Thousands)

	Securities on Loan at Fair Value	Collateral Received	Invested Collateral at Fair Value
U.S.Agency Securities ①	$ 2,042,555	$ 2,084,761	$ 2,084,338
Corporate Notes	995,756	1,016,689	1,016,523
Total	$ 3,038,311	$ 3,101,450	$ 3,100,861

① Cash collateral $2,084,678; $83 U.S. Agency Debt

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.

The State and borrowers maintained the right to terminate all securities lending transactions on demand. As a consequence, the maturities of investments made with cash collateral generally do not match the maturities of the securities loans. As of June 30, 2010, the State had no credit risk exposure to borrowers related to securities on loan.

(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, 2010 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 $3.9 million for the year ended June 30, 2010.

(5) Receivable from the Department of Transportation and Oregon Secretary of State

The Oregon Department of Transportation has an agreement to borrow up to $7.5 million for the purpose of interim financing of the Oregon Wireless Interoperability Network capital expenditures prior to the issuance of COPs. Interest is charged at a variable per annum rate equal to the greater of two (2) percent or the Oregon Short Term Fund rate plus 120 basis points. To date, the Department of Transportation has drawn $1.3 million. The total amount loaned is due June 30, 2011.

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 June 30, 2010 of the loan is $38.9 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, 2010
Net assets held in trust for participants (in thousands):		
Equity of internal participants	$	5,881,013
Equity of external participants		3,866,388
	$	9,747,401
Net assets consist of (in thousands):		
Participants' Account Balances	$	9,790,864
Undistributed and Unrealized Losses		(129,231)
Amounts for Losses and Historically-based Defaults		85,768
	$	9,747,401
Participants' Fair Value (Net Assets divided by Participants' Account Balances)		99.56%

(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, 2010 (in thousands).

Schedule of Investments and Cash Equivalents
June 30, 2010
(Dollars in Thousands)

	Par Value	Reported Amount	Percentage
U.S. Government and Agency Securities:			
Agency Bonds:			
Federal Farm Credit Bank	$ 181,200	$ 183,155	
Federal Home Loan Bank	671,085	672,097	
Federal Home Loan Mortgage Corporation	242,000	242,321	
Federal National Mortgage Association	904,834	926,204	
Total Agency Bonds	1,999,119	2,023,777	21.0%
Agency Discount Notes:			
Federal Home Loan Bank	906,284	906,193	
Federal Home Loan Mortgage Corporation	616,400	616,338	
Federal National Mortgage Association	329,900	329,839	
Total Agency Discount Notes	1,852,584	1,852,370	19.3%
Treasury Bills	220,000	219,969	2.3%
Total U.S. Government and Agency Securities	4,071,703	4,096,116	42.6%
Commercial Paper:			
Broker/Dealer:			
Goldman Sachs Group I	116,000	115,994	
ING (US) Funding LLC	137,000	136,984	
Total Broker/Dealer	253,000	252,978	2.6%
Commercial Banks:			
Union Bank NA	85,000	84,991	0.9%
Computers/Technology:			
Dell Inc.	50,000	49,995	0.5%
Electric - Transmission:			
Arkansas Electric Cooperative	30,000	29,997	0.3%

OREGON SHORT-TERM FUND
Notes to Financial Statements (continued)
June 30, 2010

	Par Value	Reported Amount	Percentage
Financial:			
BankAmerica Corporation	135,000	134,992	
Citigroup Funding, Inc.	200,000	199,985	
General Electric Capital	85,000	84,990	
Prudential Funding LLC	85,000	84,994	
US Bancorp	100,000	99,994	
Total Financial	605,000	604,955	6.3%
Import/Export:			
Sumimoto Corporation of America	60,200	60,191	0.6%
Industrial:			
Hewlett Packard Company	100,000	99,992	
Koch Resources, LLC	200,000	199,981	
Total Industrial	300,000	299,973	3.1%
Investment Management:			
Alliance Bernstein	25,000	24,998	0.3%
Life/Health Insurance:			
New York Life Capital Corporation	40,000	39,999	0.4%
Medical Products:			
Johnson & Johnson	100,000	99,974	1.0%
Multi-line Insurance:			
General RE Corporation	15,000	15,000	0.2%
Oil Companies - Integrated:			
BP Capital Markets PLC	45,000	44,998	0.5%
Oil Field Services:			
Baker Hughes Inc.	114,775	114,762	1.2%
Retail - Restaurants:			
McDonald's Corporation	34,000	33,997	0.4%
Special Purpose Entity:			
Procter & Gamble International Funding	68,000	67,995	0.7%
Transport Services:			
Wheels Inc.	59,800	59,790	0.6%

OREGON SHORT-TERM FUND
Notes to Financial Statements (continued)
June 30, 2010

	Par Value	Reported Amount	Percentage
Utilities - Electric:			
Emerson Electric Co.	22,500	22,497	
Nstar Electric Company	33,500	33,496	
Southern Company Funding	50,000	49,996	
Southern Company	25,000	24,997	
Total Utilities - Electric	131,000	130,986	1.4%
Total Commercial Paper	2,015,775	2,015,579	21.0%
Corporate Notes:			
Broker/Dealer:			
Goldman Sachs	10,000	9,749	
Morgan Stanley	21,300	21,164	
Total Broker/Dealer	31,300	30,913	0.3%
Commercial Bank - Non-US:			
Westpac Banking	68,000	67,448	0.7%
Financial and Insurance:			
BP Capital Markets PLC	48,710	45,759	
Bank America	25,000	25,000	
Barclay's Bank PLC	175,000	174,636	
Bear Stearns	169,843	169,266	
Citigroup Inc.	58,000	57,970	
Credit Suisse First Boston	104,102	105,366	
First Union National Bank	5,570	5,623	
General Electric Capital Corporation	170,006	168,011	
JP Morgan Chase and Company	93,149	93,181	
Lehman Brothers Holdings	191,302	38,997	
Met Life Global Funding	225,000	225,000	
Morgan Stanley	25,000	25,090	
New York Life Global Funding	50,000	49,958	
Rabobank Nederland	100,000	99,911	
Suncorp Metway LTD	50,000	50,027	
Teva Pharma Financial	32,500	32,588	
Toyota Motor Credit	45,000	44,969	
US Bankcorp	13,800	14,595	
UBS AG Stamford	300,000	301,241	
Wachovia Corporation	224,873	224,900	
Wells Fargo and Company	43,300	43,453	
Total Financial and Insurance	2,150,155	1,995,541	20.8%
Foreign Government Backed Securities:			
Barclays Realty Limited Partnership	60,000	60,474	
Commonwealth Bank of Australia	100,000	98,956	
Total Foreign Government Backed Securities	160,000	159,430	1.7%

OREGON SHORT-TERM FUND
Notes to Financial Statements (continued)
June 30, 2010

	Par Value	Reported Amount	Percentage
REITS:			
Arden Realty Limited Partnership	9,000	9,284	
Franchise Financing Corporation	5,000	5,098	
Total REITS	14,000	14,382	0.1%
Medical - Drugs:			
Abbott Labs	14,670	15,278	
Pfizer Incorporated	50,000	50,705	
Total Medical - Drugs	64,670	65,983	0.7%
Reinsurance:			
Berkshire Hathaway	150,000	150,742	1.6%
Telephone:			
Cello Partners/Verizon Wireless	76,800	78,511	0.8%
Total Corporate Notes	2,714,925	2,562,950	26.7%
Government Guaranteed Corporate Securities:			
Bank of America	75,000	75,000	
Citigroup	300,000	300,963	
General Electric Capital Corporation	65,000	65,399	
Goldman Sachs Group Incorporated	125,000	125,501	
JP Morgan Chase & Company	112,000	112,282	
Morgan Stanley	189,500	191,307	
Wells Fargo & Company	50,000	50,706	
Total Government Guaranteed Corporate Securities	916,500	921,158	9.6%
Time Certificates of Deposit	49,500	49,500	0.5%
Total Investments and Cash Equivalents	$ 9,768,403	$ 9,645,303	100.0%

OTHER REPORTS

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The Honorable Theodore R. Kulongoski, Governor of Oregon
The Honorable Ted Wheeler, 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 external investment pool of the State of Oregon, as of and for the year ended June 30, 2010, and have issued our report thereon dated August 30, 2010. 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 Oregon State Treasury'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 Oregon State Treasury's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Oregon State Treasury's internal control over financial reporting.

A *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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. However, we identified a deficiency in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses that we consider to be a significant deficiency in internal control over financial reporting, **2010-1**. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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*.

The Oregon State Treasury's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the Oregon State Treasury's responses and accordingly, we express no opinion on them.

We noted certain matters that we reported to management of the Oregon State Treasury in a separate letter.

This report is intended solely for the information and use of management of the Oregon State Treasury, 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 30, 2010

Schedule of Findings and Responses

2010-1
Investments Without a Readily Determinable Fair Value

Oregon State Treasury (Treasury) management is responsible for establishing and maintaining internal controls that provide reasonable assurance of the reliability of financial reporting for the Oregon Short-Term Fund.

Financial reporting standards require investments to be reported at fair market value. Treasury does not have a process in place to determine and report the fair market value of securities with non-readily determinable values. During fiscal year 2010, Treasury purchased a medium term note. At year-end, the position did not have a readily determinable market value. Treasury did not develop a methodology to estimate the value but instead valued the position at par of $200 million. Without a process in place to value securities with non-readily determinable values, the potential exists for the financial statements to be unfairly stated.

We recommend Treasury management develop and implement a process to value securities with non-readily determinable values.

Agency Response:

We generally agree, and will draft a procedure addressing the valuation of Oregon Short-Term Fund securities for which an independent fair market value has not been provided by our custodian bank.

About the Secretary of State Audits Division

The Oregon Constitution provides that the Secretary of State shall be, by virtue of her 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.

Audit Team

Kelly Olson, CPA, Audit Manager

Sarah Anderson, CPA

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Mary Doel

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

The courtesies and cooperation extended by officials and employees of the Oregon State Treasury during the course of this audit were commendable and sincerely appreciated.

TAB 7 – OIC ANNUAL INVESTMENT POLICY UPDATES

OIC Policy Updates
April 2011

Purpose
To update several OIC Policies to conform policy with OIC actions and practice.

Discussion
The following is a brief summary of the proposed policy changes that follow this write-up:

1. 4.01.01; 4.01.02; 4.01.05: Adds "Alternative Investments" to policy.
2. 4.01.15: Updates Sudan Divestiture policy to: 1) Provide for additional staff oversight of the work being performed by the third party research firm retained; and; 2) Provide for the resolution of situations in which a manager inadvertently purchases a listed security.
3. 4.01.18: Updates OPERF Asset Allocation targets and ranges to include Alternative Investments target of 5 percent. Public equities and fixed income are reduced 3 percent and 2 percent, respectively.
4. 4.03.01: Updates new fixed income policy benchmark for emerging market debt portion.
5. 4.05.06: Updates proxy voting policy to: 1) Define the fiduciary duty of proxy voting in accordance with the CFA Institute; and 2) Provide for a process enabling managers to challenge the vote recommendations of the OIC proxy voting agent.
6. 4.06.01: Updates the Private Equity Policy to: 1) reduce the general minimum investment size from $100 million to $75 million; and 2) Eliminates the need to provide the general partner the Council's approved commitment "in writing" immediately following the meeting (this in response to an audit recommendation).
7. 4.06.02: Updates the Alternative Investments Policy to: 1) Establish the OIC approved target allocation of 5 percent; 2) Create an "Alternative Portfolio Committee" with authority to invest an amount up to and including $50 million in first time investments, not to exceed $150 million per calendar year (other limits apply to follow-on funds); and 3) Same change as point 2) in item 6 above.
8. 4.06.03: Moves the "OPERF Opportunity Policy" from the General Policies and Procedures (Policy 4.01.19) to the "Private Equity and Alternative Investments" section. Establishes the "Opportunity Portfolio Committee" with the same thresholds defined in 4.06.02 for the Alternative Portfolio Committee, above. Reduces the minimum investment size from $75 million to $25 million, to be consistent with the Alternative Investments Policy.
9. OIC Summary of Key Investments Duties and Functions: No proposed changes, but last revision was in January 2006, so included for OIC review only.
10. OIC Statement of Fund Governance for OPERF: No proposed changes, but last revision was in July 2009, so included for OIC review only.
11. Investment Objectives and Policy Framework for OPERF: Updates to reflect the addition of strategic allocation to Alternative Investments as well as to update return expectations as provided by SIS (overall portfolio expected return is 8.3 percent). Also includes new section for the "Alternatives Portfolio Strategy" and updates to definitions in the Glossary.

Recommendation: Approve staff proposed changes outlined above, and as reflected in the attached policies (excerpts provided is some instances).

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.

f) **Alternative Investments.** Investments falling outside traditional private equity, and which do not have passive market alternatives. Investment types may include infrastructure, natural resource investments, and hedge fund investments.

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, 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 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 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 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. **Alternative Investments.** See Policy 4.06.02.

~~6~~7. **OPERF Opportunity Portfolio.** See Policy ~~4.01.19~~4.06.03.

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).

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. **Alternative Investments & 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: Sudan Divestiture

POLICY: **ORS 293.814 states, in part:**

(1): The Oregon Investment Council and the State Treasurer, in the State Treasurer's role as investment officer for the council, shall act reasonably and in a manner consistent with ORS 293.721 and 293.726 to try to ensure that subject investment funds are not invested in any company that the council knows is doing business in Sudan for as long as the Sudanese government's campaign of human rights violations, atrocities or genocide continues in Sudan.

(2): Divestment and reinvestment of subject investment funds . . . shall be accomplished . . . without monetary loss to the funds through reasonable, prudent and productive investments in companies and institutions generating returns that are comparable to the returns generated by the companies subject to the divestment.

ORS 293.815 states, in part:

The Oregon Investment Council and the State Treasurer, in the State Treasurer's role as investment officer for the council, shall make reasonable efforts to investigate all companies in which the council has invested subject investment funds to determine whether any of those companies are doing business in Sudan. If the State Treasurer determines that a company is doing business in Sudan, the State Treasurer shall give notice to the company that the council will withdraw subject investment funds that are invested in the company as provided in ORS 293.813 . . .

DEFINITIONS:

(1) "**Company**" means any sole proprietorship, organization, firm, association, corporation, utility, partnership, venture, public franchise, franchisor, franchisee or its wholly owned subsidiary that exists for profit-making purposes or otherwise to secure economic advantage.

(2) "**Doing business**" means maintaining equipment, facilities, personnel or any other apparatus of business or commerce in Sudan, including the ownership or possession of real or personal property located in Sudan.

(3) "**Investment**" or "**invest**" means the commitment of funds or other assets to a company, including a loan or other extension of credit made to that company, or the ownership or control of a share or interest in that company or of a bond or other debt instrument issued by that company.

(4) "**Subject investment funds**" means:
   (a) The Public Employees Retirement Fund referred to in ORS 238.660;
   (b) The Industrial Accident Fund referred to in ORS 656.632;

(c) The Common School Fund referred to in ORS 327.405;
(d) The Oregon War Veterans' Fund referred to in ORS 407.495; and
(e) Investment funds of the State Board of Higher Education available for investment or reinvestment by the Oregon Investment Council.

(5) **"Sudan"** means the Republic of the Sudan and any territory under the administration, legal or illegal, of Sudan, including but not limited to the Darfur region.

EXEMPTIONS:

The actions outlined in ORS 293.814 and 293.815 do not apply to:

(1) Investments in companies that are engaged solely in the provision of goods and services intended to relieve human suffering or to promote welfare, health, education or religious or spiritual activities;
(2) Investments in United States companies authorized by the federal government to do business in Sudan; or
(3) Investments in companies that are engaged solely in journalistic activities.

PROCEDURES:

(1) The Treasurer's staff may engage the services of a specialized research firm to identify companies doing business in Sudan, in accordance with Oregon law, based on their professional judgment. External managers, for the subject investment funds, shall be directed to notify identified companies that they will withdraw subject investment funds invested on behalf of the OIC and, when in their professional judgment it is prudent to do so, divest from those companies so that there is no monetary loss to the fund and in accordance with the prudent and productive investor standards established by ORS 293.721 and ORS 293.726.

If a research firm is retained:

A) The Treasurer's staff will work with the retained research firm to review the list of companies doing business in Sudan.

B~~A~~) The Treasurer's staff shall provide external managers with the initial Oregon list of companies doing business in Sudan and any updates to the list, as they are identified by the research firm retained.

C~~B~~) External managers may challenge the inclusion of a company on the Oregon list, by providing the Treasurer's staff their research and conclusion about a subject company. Treasurer's staff will forward the information to the research firm for consideration. In any case, external managers are not required to sell any security if, in their professional judgment, it would be imprudent to do so under ORS 293.721 and ORS 293.726.

(2) If an external manager invests in a company that has already been included on Oregon's list of companies doing business in Sudan, the manager will:

a. Notify the Treasurer's staff immediately upon discovering the error; and
b. In consultation with and at the direction of the Treasurer's staff, the manager shall sell the newly purchased securities as soon as is practicable and prudent.

~~(2)~~(3) The State Treasurer's staff will continue a dialogue with the OIC's proxy voting agent to ensure that ballot issues related to the disclosure of Sudan investments are properly addressed.

~~(3)~~(4) Subject investment funds that are managed directly by the State Treasurer's staff will be subject to the same divestment standards, if it is determined that any funds are invested in a nonexempt company doing business in Sudan.

(5) Managers of nondiscretionary portfolios in which subject investment funds are invested will be directed to identify whether such portfolios include companies meeting the divestment standards of ORS 293.811 to 293.817.The State Treasurer's staff will determine whether participation in any portfolio involving companies subject to divestment may be discontinued without monetary loss to the fund in a manner consistent with ORS 293.721 and 293.726, and act accordingly.

~~(4)~~(6) The Treasurer's staff will ensure the list of companies doing business in Sudan does not include companies whose activities are limited to the new nation of South Sudan.

REPORTING:

(1) External managers shall provide the State Treasurer written notice of companies to which they have given notice consistent with ORS 293.811 to 293.817.

(2) As required by ORS 293.817, on or before January 15 of each year, the State Treasurer will report to the Legislative Assembly in the manner provided by ORS 192.245 on actions taken by the State Treasurer and the OIC pursuant to the provisions of ORS 293.811 to 293.817. The State Treasurer will consult with the council in preparing the reports.

SAMPLE FORMS, DOCUMENTS, OR REPORTS (Attached):

A. Presidential Executive Order No. 13067: "Blocking Sudanese Government Property and Prohibiting Transactions with Sudan," Signed by President Clinton, November 3, 1997.
B. Overview of U.S. Sudanese Sanctions Regulations, U.S. Department of the Treasury, Office of Foreign Assets Control.

FUNCTION: **General Policies & Procedures**
ACTIVITY: **Public Employees Retirement Fund Rebalancing Policy**

POLICY: **The Oregon Investment Council (the "Council") establishes asset allocation targets and ranges for the Oregon Public Employees Retirement Fund (OPERF), at the asset class level. On an ongoing basis, Oregon State Treasury (OST) staff must address how the asset allocation will be maintained given cash flows and market movement.**

The purpose of rebalancing back to asset class targets is to ensure that OPERF's actual asset allocation does not drift significantly from the strategic asset allocation policy. The strategic asset allocation has been developed after a rigorous analysis of the Council's objectives and risk tolerance. Rebalancing ensures that the Plan's desired strategy and level of risk are maintained consistently over time. It therefore ensures that major policy decisions of the Council are implemented effectively. Implementing rebalancing actions are the responsibility of the OST Staff with the Council's oversight. Private equity and certain real estate investments are illiquid and not subject to short-term rebalancing.

PROCEDURES:

1. BACKGROUND

In the absence of any other considerations, the optimal strategy would be to rebalance continually back to the strategic asset allocation. However, rebalancing involves costs such as brokerage and other transaction costs. As a result, ranges are established around the target asset allocation that balances the desirability of being at the target with the costs of transactions. The OIC has retained a policy implementation cash overlay manager to minimize the cash exposure at both the Fund and manager level, and 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.

A breach of any of the established ranges triggers a review and possible rebalancing back to the target allocation with due consideration given to the liquidity of the investments, transaction costs and portfolio structure within asset classes.

2. IMPLEMENTATION

A. OST Staff will undertake the implementation of the rebalancing program.

B. The Fund's actual asset allocation shall be reviewed at the end of each month when asset valuations become available. More frequent reviews may be undertaken, if appropriate, and if information on market values is available. Rebalancing will take place if the weight to any asset class exceeds the policy range. Staff shall manage liquidity by rebalancing assets between managers, as necessary, to meet cash needs of the Fund, and within target weightings assigned for individual managers within an asset class. All physical rebalancings are done in concert with the policy implementation cash overlay manager, described above.

C. Rebalancing should be implemented by the most cost-effective means available. Cash flows into and out of the Fund will be used to rebalance back toward asset class targets, whenever possible. Crossing opportunities in index fund investments and futures/options may also be used in rebalancing in order to reduce costs.

D. When rebalancing occurs, OST staff shall make a recommendation to the Chief Investment Officer of the most appropriate allocation, taking into account the portfolio characteristics, manager weights, market conditions and cash flow needs of the Fund.

E. All rebalancing shall take place within the asset class and sub-asset class ranges established in Policy by the Council.

F. For illiquid investments such as private equity, some alternative assets and real estate, the judgment on rebalancing will consider the higher transaction costs and available opportunities, if any.

G. Staff will report monthly to the Council, the actual market valuations versus the target allocations for asset classes. Staff shall report all rebalancing activity to the Council on a quarterly basis.

3. ASSET ALLOCATION POLICY TARGETS AND RANGES

Asset Class	Target Allocation	Range
Public Equities	~~46~~43%	~~41~~38-~~51~~48%
Private Equity	16%	12-20%
Total Equity	**~~62~~59%**	**~~57~~54-~~67~~64%**
Fixed Income	~~27~~25%	~~22~~20-~~32~~30%
Real Estate	11%	8-14%
Alternatives	5%	0-8%
Cash	0%	0-3%
Total Fund	**100%**	

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

FUNCTION: Fixed Income Investments

ACTIVITY: Strategic Role of Fixed Income for OPERF

POLICY: **Fixed income investment should comprise 22% to 32% of OPERF's total assets, subject to the specific strategic target allocations established by the OIC.**

A. PROCEDURES:

PURPOSE

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

STRATEGIC ROLE

The purpose of fixed income investments is to provide diversification to equity securities, through lower expected return and volatility and a low correlation to equities. Fixed income investment should comprise 22% to 32% of OPERF's total assets.

B. POLICY OBJECTIVES

1. To achieve a portfolio return of 75 basis points or more above the custom policy benchmark, consisting of 60% Barclays Capital U.S. Universal Bond Index, 10% JP Morgan Emerging Markets Bond Index Global~~"EMD" (TBD)~~, 20% S&P/LSTA Leveraged Loan Index, and 10% Bank of America Merrill Lynch High Yield Master II Index, over a market cycle of three to five years on a net-of-fee basis. The portfolio is also expected to achieve top quartile peer group performance. Peer group shall consist of public and corporate funds with total assets greater than $1 billion.
2. To control portfolio risk, as measured by standard deviation of returns, to the level of the custom benchmark or less through diversification of investment approaches.

C. STRATEGIES

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

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

D. PERMITTED HOLDINGS

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

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

E. DIVERSIFICATION:

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

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

F. ABSOLUTE RESTRICTIONS:

Investments in the following are prohibited:

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

SAMPLE FORMS, DOCUMENTS, OR REPORTS:

None

FUNCTION: **Equity Investments**
ACTIVITY: **Exercise of Voting Rights Accompanying Equity Securities**

POLICY: **The Council recognizes that the quality of corporate governance can affect the long-term value of investments. In general, the equity markets are highly efficient; therefore, the OIC's corporate governance philosophy anticipates that the OIC and Office of the State Treasurer (OST) staff possess no knowledge not shared by the market. The OIC therefore avoids attempts to micromanage companies in which the Fund has voting power, since boards of directors are elected to represent shareholders at this level. The OIC strives instead to ensure that corporations follow practices that advance economic value and allow the market to place a proper value on Fund assets.**

The OIC recognizes that voting rights have economic value and must be treated as such. The voting rights obtained through the holdings of the OPERF domestic and international equity portfolios shall be exercised by an independent third party specializing in proxy research and voting ("vendor") in accordance with their independent voting standards which they may revise, at their sole discretion, from time to time. Such vendor shall always vote shares as a fiduciary, based solely on the ultimate economic value of OPERF's investment.

BACKGROUND:

According to the CFA Institute ~~(formerly, the Association for Investment Management and Research (AIMR))~~:

> *Proxy Voting Policies*. The duty of loyalty, prudence, and care may apply in a number of situations facing the investment professional other than issues related directly to investing assets. Part of [that] duty of loyalty includes voting proxies in an informed and responsible manner. Proxies have an economic value to a [fund] and [investors] must ensure that they properly safeguard and maximize this value . . . Voting of proxies is an integral part of the management of investments. A cost-benefit analysis may show that voting all proxies may not benefit the [fund], so voting proxies may not be necessary in all instances. ~~Corporate governance can be generally defined as the system by which corporations are directed and controlled. Common stock shareholders have the power through voting rights to influence the management of a corporation. Actively exercising these rights through corporate governance may be an effective way of enhancing portfolio value. Not exercising these rights ignores a valuable ownership right that could be managed for the benefit of the portfolio . . . In many instances, security holders and account owners delegate their right to vote proxies to professionals who manage their investments. Investment managers must, therefore, adopt procedures to ensure that proxy issues are sufficiently noted, analyzed, and considered to meet the managers' fiduciary duty to their clients. Investment managers have an incumbent responsibility to be thoroughly familiar with the issues that arise in proxies . . . proxies have economic value and must be voted in the interest of the ultimate shareholder or plan beneficiary.~~ *Standards of Practices Handbook*, ~~1999~~2010.

PROCEDURES:

1. Vendor shall keep a record of how proxies are voted and why.

Such records may be subject to review by OST staff or other designated representatives of the OIC.

2. OST staff shall provide a calendar year-end (or more frequently if requested by the OIC) proxy voting summary to the OIC.

3. Vendor shall provide any new or revised proxy voting policies or guidelines to OST staff upon their implementation.

4. Commingled and passive account managers employed by the OIC shall vote their proxies independent of the OIC's vendor, but as a fiduciary in the best interest of plan participants.

5. In accordance with the vendor agreement, and the timelines therein, the OIC reserves the right to vote proxies directly.

6. The public equity team will prepare recommendations to override Glass Lewis' guidelines as circumstances arise that require a secondary review, generally at the request of an OPERF public equity manager. The Deputy Treasurer and the Chief Investment Officer will review and approve, or deny, these recommendations, or recommend the issue be brought before the OIC.

SAMPLE FORMS, DOCUMENTS, OR REPORTS (Attached):

None

FUNCTION: **Private Equity & Alternative Investments**
ACTIVITY: **Private Equity Portfolio Standards & Procedures ~~within OPERF~~**

POLICY:

I. BACKGROUND

The Oregon Public Employees' Retirement Fund ("OPERF") has established the Private Equity Investment Program (the "Program") to participate in attractive long-term investment opportunities and to provide diversification to the overall OPERF investment portfolio. To date, investments in this category have included participation in diversified strategies including: leveraged buyout limited partnerships, venture capital limited partnerships and other special situation partnerships. The allocation to the Program will be in the range of 12-20% of OPERF's total asset value. OPERF should be selective and invest such assets, as are allocated to this Program prudently, as opportunities become available.

II. GENERAL POLICY

Private Equity Investments provide an appropriate addition to OPERF's investment portfolio, and are compatible with the general objectives of the Fund, which include:

1. Providing a means to pay benefits to the Fund's participants and their beneficiaries.

2. Investing to produce a return on investment that is based on levels of liquidity and investment risk that are prudent and reasonable.

3. Attaining an adequate real return over the expected rate of inflation.

4. Complying with all applicable laws and regulations concerning the investment of pension assets.

Private Equity Investments possess a higher degree of risk with a higher return potential than traditional investments. Accordingly, total rates of return are expected to be greater than those that might be obtained from conventional public equity or debt investments. They have a low correlation relative to other investment classes and should therefore contribute to reduction of risk and the enhancement of returns on a total portfolio basis, as well as providing portfolio diversification.

III. OBJECTIVES

A. PORTFOLIO INVESTMENT PERFORMANCE OBJECTIVE

The performance objective for Program investments is significant long-term net returns to OPERF (e.g., after management fees and general partner's carried interest) above a benchmark reflecting public market alternatives or counterparts plus an appropriate premium to compensate for illiquidity, risk and expense. The performance objective should exceed a net internal rate of return of the Russell 3000 Index plus 300 basis points, and may vary by the type of investment, for example, leveraged buyout or special situation. The performance objective, benchmark and premium will be periodically evaluated by Staff.

B. DIVERSIFICATION

Diversification reduces risk in the Program's investments and the following types of diversification should be considered, including, but not limited to:

1. Stage - Diversify investments throughout the various financing stages from startup through mezzanine financing to leveraged buyouts and recapitalizations. The targeted exposure ranges for various types of investments are (8/07):

Investment Type	Target Allocation
Corporate Finance	**65-85%**
Large Corporate Finance	45-65%
Mid Corporate Finance	5-25%
Small Corporate Finance	0-10%
Venture Capital	**5-10%**
Special Situations	**5-15%**
Distressed	0-10%
Mezzanine	0-5%
Secondaries	0-5%
Fund-of-Funds	**5-10%**
Co-Investments	**0-7.5%**

2. Industry Sectors - Investments will be diversified among industry groupings.

3. Size of Investments - Investments will be diversified among a range of partnerships of varying sizes, generally with a minimum investment size of $~~100~~ 75 million ($25 million for Venture Capital), and may be as much as 25% of a particular partnership when appropriate. Deviations from these guidelines will be documented and communicated to the Council.

4. Geographical - OPERF should consider geographical diversification in investment selection; and investments, to the extent appropriate, may be considered which benefit the overall economic health of Oregon, so long as and only if such investments would otherwise meet the investment criteria and quality of the Program.

5. Time - OPERF will endeavor to invest in a consistent manner over time, unless market conditions appear unfavorable.

C. TOTAL PORTFOLIO DIVERSIFICATION

Correlation of the Program's investment return to other asset classes is not high, and the inclusion of Private Equity Investments, therefore, provides an added measure of diversification to the Fund.

PROCEDURES:

I. PROCEDURES AND STANDARDS

A. DEFINITION OF INVESTMENT UNIVERSE

Office of the State Treasurer (OST) staff and the Advisor shall furnish the OIC an annual statement of the sector and strategy plan for the private equities asset class, and a list of potential limited partnership investments that includes sector information and strategy. The partnership list is to be updated monthly and shall define the population from which private equity investments may be made.

B. GENERAL PROCEDURES

1. Staff, and the advisor selected specifically for Private Equity Investments, will screen available investments and identify those which meet the Program's general strategy, selection criteria and performance goals. Staff will coordinate the available investments received by Staff, the Council, and the Advisor. Staff may reject such proposals if they do not meet the Program's investment strategy or criteria.

2. The advisor, working in conjunction with staff, will review the documents pertinent to an investment opportunity, including the offering memorandum, and identify possible issues. The advisor and Staff may meet with the general partners or sponsors to discuss the investment.

3. The advisor will identify to Staff those investments determined to best meet the Program's investment strategy and criteria for consideration for further detailed review.

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

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

6. Staff will prepare and submit to the Council a written recommendation advocating approval of the proposed investment, and any contingencies to final investment, unless the investment is made under the "Private Equity Committee" outlined below.

7. Appropriate legal counsel (generally the Oregon Attorney General's office) will be furnished partnership documents for those investments selected by Staff and approved by the Council. Legal counsel will identify any legal issues and discuss these with Staff.

C. PRIVATE EQUITY COMMITTEE

1. A "Private Equity Committee," comprised of: the Deputy State Treasurer, the Senior Private Equity Investment Officer (ex-officio), the Chief Investment Officer, and a designated OIC member shall have authority to invest an amount up to and including $100 million per investment in first time private equity limited partnerships, and an amount up to and including 200% of the most recent commitment for existing relationships, subject to the additional constraints below.

2. The aggregate amount committed by the Private Equity Committee shall not exceed $500 million to first time funds and $1.0 billion to follow-on funds, in any single calendar year, without the approval of the OIC.

3. When the fair market value of investments to a private equity manager equal or exceed $750 million, all additional commitments require a presentation to the full OIC.

4. Authority shall only be exercised with a unanimous determination by the Private Equity Committee, acting upon a favorable due diligence determination by the Private Equity Investment Advisor. Proposed investments may only go before the Private Equity Committee if agreement exists between the Advisor and OST Staff regarding the proposed investment's consistency with the sector plan and strategy.

5. The favorable due diligence determination, including the underlying rationale, market conditions and portfolio impact, shall be furnished to the OIC as soon as practicable in connection with any investment that is likely to be made through the Private Equity Committee, in any case, at least two weeks prior to any commitment. Prior to commitment, if any one, or more, Council

members advise a member of the Private Equity Committee that they object to the proposed investment, such investment must come before the Council as an agenda item at a subsequent OIC meeting, or, alternatively, be dropped altogether.

6. Any investment commitment made by the Private Equity Committee shall be reported to the OIC at an upcoming meeting.

D. OST STAFF AUTHORITY

The Chief Investment Officer, under recommendation from the Senior Private Equity Investment Officer and with a favorable recommendation from the Private Equity Investment Consultant, shall have the authority for the following private equity investment transactions:

1. 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.

2. Approval of purchase or sale of fund interests, if delegated by the OIC; review and approve other activity as necessary to further the interests of OPERF's private equity portfolio, consistent with the overall risk management and performance objectives.

3. Approve up to an additional $15 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.

E. SELECTION CRITERIA

1. The OIC will generally invest with experienced organizations that have managed prior investments or partnerships. Primary emphasis will be on the quality and experience of the investment sponsor or manager.

2. Additional criteria to be considered will include:

   a) A well-developed investment focus that meets the Program's objectives and a favorable assessment of the proposed investment's strategy and market conditions;

   b) Relevant investment experience of partners and key staff, individually and as a team, as well as their stability;

c) Organizational depth and significant time commitment to the partnership's or project's interests;

d) Well-structured decision-making and transaction execution processes, including:

- deal flow and initial analysis of portfolio investments,
- pricing, selection and negotiation of portfolio investments,
- financial structuring of portfolio investments,
- management or oversight of portfolio companies,
- development of exit strategies;

e) Consideration of relevant issues, such as conflicts of interest and alignment of interests, among others;

f) Experience in, and a demonstrated record of, successful prior investments;

g) Appropriate proposed terms and structure for the investment.

F. STANDARDS

1. Types of Allowable Investments

Any appropriate investment opportunity which has the potential for returns superior to traditional investment opportunities and which is not otherwise prohibited by OPERF investment policies or by law.

2. Prudent Investor Standard

The applicable prudence standards and fiduciary duties will guide the selection of Program investments under Oregon law and regulations.

3. Negotiated Terms

Terms, such as preferred returns, lower fee structures, and profit splits, should be negotiated where prudent.

II. IMPLEMENTATION

A. ADVISOR AND OPERF REQUIREMENTS

OST and the OIC have elected to manage the Program under a lean-staff/outsourced model. An appropriate number of Staff will be assigned as the workload necessitates, and will manage portfolio planning and construction, the investment decision-making schedule and process, and the advisory contract. A qualified, independent advisor will be retained by the OIC to facilitate Program investing, and will be delegated substantial duties for: performing due diligence on investment opportunities, monitoring of Program investments, Program analytics, valuation analyses, and performance reporting. Staff retains the primary responsibility to ensure Program investments receive appropriate due diligence, monitoring, and valuation analyses. While some of these duties will be delegated to the advisor, Staff will conduct and document sufficient reviews and tests of the advisor's work to conclude these delegated duties are being consistently performed.

B. LEGAL COUNSEL

Relevant legal advice will be obtained from the Office of the Oregon Attorney General. However, due to the complex nature of the Program's investments, the necessity for expert outside legal counsel shall be recommended to the Attorney General when deemed necessary by Staff and the Council.

C. CONTRACT EXECUTION (6/96)

1. General Partners will be informed of the Council's approved commitment ~~, in writing,~~ immediately following the Council meeting.

2. The Private Equity Investment Advisor will receive OIC meeting agenda materials which shall include the written minutes of the Council's most recent meeting.

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

4. The Council'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.

D. PARTNERSHIP FUNDING (8/97; revised 12/05)

1. For all existing and future partnership relationships, each general partner shall submit a complete listing of the bank account(s) to which OST may wire funds on behalf of the partnership; this list may be included as an exhibit to the partnership agreement. OST shall not deviate from these pre-established instructions unless the general partner 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 D.1. above.

3. OST staff shall regularly monitor, through the OIC's consultant, that fundings do not exceed the maximum amount authorized by the OIC or the Private Equity Committee, except as otherwise allowed by partnership recycling and temporary bridge financing provisions.

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

III. MONITORING

A. REPORTS

Reports prepared by the independent outside advisor will be furnished at least quarterly on Program activity and performance, and annually in an expanded format.

B. ADHERENCE TO STRATEGY

The actual strategy employed by general partners will be judged relative to stated objectives and strategies. The advisor will interact with general partners periodically as necessary.

IV. 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.

SAMPLE FORMS, DOCUMENTS, OR REPORTS

A. Appendix A – Private Partnership Investment Principles
B. Appendix B – Private Equity Investments Valuation Policy

FUNCTION: **Private Equity & Alternative Investments**
ACTIVITY: **Alternative Investments Portfolio Standards & Procedures**

POLICY:

I. BACKGROUND

The Oregon Public Employees' Retirement Fund ("OPERF") has established the Alternative Investments Program (the "Program") to participate in attractive long-term investment opportunities and to provide diversification to the overall OPERF investment portfolio. To date, investments in this category have included participation in diversified strategies including: infrastructure limited partnerships, oil and gas limited partnerships, hedge fund partnerships, and other special situation partnerships. The allocation to the Program will ~~be in the range of 3-~~targeted at 5% of OPERF's total asset value after the initial build out period which, initially, is expected to take three years. OPERF should be selective and invest such assets, as are allocated to this Program prudently, as opportunities become available.

II. GENERAL POLICY

Alternative Investments provide an appropriate addition to OPERF's investment portfolio, and are compatible with the general objectives of the Fund, which include:

1. Providing a means to pay benefits to the Fund's participants and their beneficiaries.

2. Investing to produce a return on investment that is based on levels of liquidity and investment risk that are prudent and reasonable.

3. Attaining an adequate real return over the expected rate of inflation.

4. Complying with all applicable laws and regulations concerning the investment of pension assets.

Alternative Investments possess a low correlation relative to other investment classes and should therefore contribute to reduction of risk and the enhancement of returns, on a total portfolio basis, as well as providing portfolio diversification.

III. OBJECTIVES

A. PORTFOLIO INVESTMENT PERFORMANCE OBJECTIVE

The performance objective for Program investments is significant long-term net returns to OPERF (e.g., after management fees and general partner's carried interest) above a benchmark reflecting the CPI plus an appropriate premium to compensate for illiquidity, risk and expense. The performance objective should exceed the CPI plus 400 basis points, and may vary by the type of investment, for example, infrastructure or timberland. The performance objective, benchmark and premium will be periodically evaluated by Staff.

B. DIVERSIFICATION

Diversification reduces risk in the Program's investments and the following types of diversification should be considered, including, but not limited to:

1. Strategy - Diversify investments through exposure to a variety of alternative investment strategies, including infrastructure, natural resources (including commodities), and absolute return or hedge fund strategies. The targeted exposure ranges for various types of investments are:

Investment Type	**Target Allocation**
Infrastructure	**25-35%**
Natural Resources	**40-50%**
Hedge Funds	**15-25%**
Other	**0-10%**

2. Industry Sectors - Investments will be diversified among industry groupings.

3. Size of Investments - Investments will be diversified among a range of partnerships of varying sizes, generally with a minimum investment size of $25 million, and may be as much as 25% of a particular co-mingled partnership when appropriate. Deviations from these guidelines will be documented and communicated to the Council.

4. Geographical - OPERF should consider geographical diversification in investment selection; and investments, to the extent appropriate, may be considered which benefit the overall economic health of Oregon, so long as and only if such investments would otherwise meet the investment criteria and quality of the Program.

5. Time - OPERF will endeavor to invest in a consistent manner over time, unless market conditions appear unfavorable.

C. TOTAL PORTFOLIO DIVERSIFICATION

The planned ~~C~~correlation of the Program's investment return to other asset classes is not high, and the inclusion of Alternative Investments, therefore, provides an added measure of diversification to the Fund.

PROCEDURES:

I. PROCEDURES AND STANDARDS

A. DEFINITION OF INVESTMENT UNIVERSE

Oregon State Treasury (OST) staff and the advisor shall furnish the OIC an annual statement of the sector and strategy plan for the Program.~~, and a list of~~

~~potential managers that includes sector information and strategy. The list is to be updated periodically and shall define the population from which Alternative investments may be made.~~

B. GENERAL PROCEDURES

1. Staff, and the advisor selected specifically for Alternative Investments, will screen available investments and identify those which meet the Program's general strategy, selection criteria and performance goals. Staff will coordinate the available investments received by Staff, the Council, and the advisor. Staff may reject such proposals if they do not meet the Program's investment strategy or criteria.

2. The advisor, working in conjunction with staff, will review the documents pertinent to an investment opportunity, including the offering memorandum, and identify possible issues. The advisor and Staff may meet with the general partners, sponsors, or investment managers to discuss the investment.

3. The advisor will identify to Staff those investments determined to best meet the Program's investment strategy and criteria for consideration for further detailed review.

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

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

6. Appropriate legal counsel (generally the Oregon Attorney General's office) will be furnished partnership documents for those investments selected by Staff and approved by the Council. Legal counsel will identify any legal issues and discuss these with Staff.

C. ALTERNATIVE PORTFOLIO COMMITTEE

1. An "Alternative Portfolio Committee," comprised of: the Deputy State Treasurer, the Chief Investment Officer, and a designated OIC member shall have authority to invest an amount up to and including \$50 million per investment in first time limited partnerships or investment managers, and an

amount up to and including 200% of the most recent commitment for existing relationships, subject to the additional constraints below.

2. The aggregate amount committed by the Alternative Portfolio Committee shall not exceed $150 million to first time funds and $500 million to follow-on funds, in any single calendar year, without the approval of the OIC. When the fair market value of investments to an Alternative Portfolio manager equal or exceed $500 million, all additional commitments require a presentation to the full OIC.

3. Authority shall only be exercised with a unanimous determination by the Alternative Portfolio Committee, acting upon a favorable due diligence determination by the Alternative Portfolio independent consultant. Proposed investments may only go before the Alternative Portfolio Committee if agreement exists between the consultant and OST Staff regarding the proposed investment's consistency with the sector plan and strategy.

4. The favorable due diligence determination, including the underlying rationale, market conditions and portfolio impact, shall be furnished to the OIC as soon as practicable in connection with any investment that is likely to be made through the Alternative Portfolio Committee, in any case, at least two weeks prior to any commitment. Prior to commitment, if any one, or more, Council members advise a member of the Alternative Portfolio Committee that they object to the proposed investment, such investment must come before the Council as an agenda item at a subsequent OIC meeting, or, alternatively, be dropped altogether.

5. Any investment commitment made by the Alternative Portfolio Committee shall be reported to the OIC at an upcoming meeting.

~~C~~D. OST STAFF AUTHORITY

The Chief Investment Officer, under recommendation from the Alternatives Investment Officer and with a favorable recommendation from the Program advisor, shall have the authority for the following Alternatives investment transactions:

1. 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.

2. Approval of purchase or sale of fund interests, if delegated by the OIC; review and approve other activity as necessary to further the interests of OPERF's Alternative Investments Program, consistent with the overall risk management and performance objectives.

3. Approve up to an additional $15 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.

E. SELECTION CRITERIA

1. The OIC will generally invest with experienced organizations that have managed prior investments or partnerships. Primary emphasis will be on the quality and experience of the investment sponsor or manager.

2. Additional criteria to be considered will include:

   a) A well-developed investment focus that meets the Program's objectives and a favorable assessment of the proposed investment's strategy and market conditions;

   b) Relevant investment experience of partners and key staff, individually and as a team, as well as their stability;

   c) Organizational depth and significant time commitment to the partnership's or project's interests;

   d) Well-structured decision-making and transaction execution processes, including:

      - deal flow and initial analysis of portfolio investments,
      - pricing, selection and negotiation of portfolio investments,
      - financial structuring of portfolio investments,
      - management or oversight of portfolio companies,
      - development of exit strategies;

   e) Consideration of relevant issues, such as conflicts of interest and alignment of interests, among others;

   f) Experience in, and a demonstrated record of, successful prior investments;

   g) Appropriate proposed terms and structure for the investment.

F. STANDARDS

1. Types of Allowable Investments

Any appropriate investment opportunity which has the potential for returns superior to traditional investment opportunities and which is not otherwise prohibited by OPERF investment policies or by law.

2. Prudent Investor Standard

   The applicable prudence standards and fiduciary duties will guide the selection of Program investments under Oregon law and regulations.

3. Negotiated Terms

   Terms, such as preferred returns, lower fee structures, and profit splits, should be negotiated where prudent.

II. IMPLEMENTATION

A. ADVISOR AND OPERF REQUIREMENTS

OST and the OIC have elected to manage the Program under a lean-staff/outsourced model. An appropriate number of Staff will be assigned as the workload necessitates, and will manage portfolio planning and construction, the investment decision-making schedule and process, and the advisory contract. A qualified, independent advisor will be retained by the OIC to facilitate Program investing, and will be delegated substantial duties for: performing due diligence on investment opportunities, monitoring of Program investments, Program analytics, valuation analyses, and performance reporting. Staff retains the primary responsibility to ensure Program investments receive appropriate due diligence, monitoring, and valuation analyses. While some of these duties will be delegated to the advisor, Staff will conduct and document sufficient reviews and tests of the advisor's work to conclude these delegated duties are being consistently performed.

B. LEGAL COUNSEL

Relevant legal advice will be obtained from the Office of the Oregon Attorney General. However, due to the complex nature of the Program's investments, the necessity for expert outside legal counsel shall be recommended to the Attorney General when deemed necessary by Staff and the Council.

C. CONTRACT EXECUTION

1. General Partners or investment managers will be informed of the Council's approved commitment~~, in writing,~~ immediately following the Council meeting.

2. The Program advisor will receive OIC meeting agenda materials which shall include the written minutes of the Council's most recent meeting.

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

4. The Council'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.

D. PARTNERSHIP FUNDING

1. For all existing and future partnership relationships, each general partner shall submit a complete listing of the bank account(s) to which OST may wire funds on behalf of the investment 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 general partner, or investment management firm, 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 D.1. above.

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

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

III. MONITORING

A. REPORTS

Reports prepared by the independent outside advisor will be furnished at least quarterly on Program activity and performance, and annually in an expanded format.

B. ADHERENCE TO STRATEGY

The actual strategy employed by general partners or investment managers will be judged relative to stated objectives and strategies. The advisor will interact with general partners or investment managers periodically as necessary.

IV. 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.

SAMPLE FORMS, DOCUMENTS, OR REPORTS

A. Appendix A – Private Partnership Investment Principles
B. Appendix B – Alternative Investments Valuation Policy

FUNCTION: **~~General Policies & Procedures~~Private Equity & Alternative Investments**

ACTIVITY: **OPERF Opportunity Portfolio Standards & Procedures**

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 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.

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 investment proposals received by Staff and the OIC. 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 Staff, 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 manager'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 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. Legal counsel will identify any legal issues and discuss these with Staff.

OPPORTUNITY PORTFOLIO COMMITTEE

1. An "Opportunity Portfolio Committee," comprised of: the Deputy State Treasurer, the Chief Investment Officer, and a designated OIC member shall have authority to invest an amount up to and including $~~100~~50 million per investment in first time limited partnerships or investment managers, and an amount up to and including 200% of the most recent commitment for existing relationships, subject to the additional constraints below.

2. The aggregate amount committed by the Opportunity Portfolio Committee shall not exceed $~~300~~150 million to first time funds and $500 million to follow-on funds, in any single calendar year, without the approval of the OIC.

3. When the fair market value of investments to an Opportunity Portfolio manager equal or exceed $500 million, all additional commitments require a presentation to the full OIC.

4. Authority shall only be exercised with a unanimous determination by the Opportunity Portfolio Committee, acting upon a favorable due diligence determination by the Opportunity Portfolio independent consultant. Proposed investments may only go before the Opportunity Portfolio Committee if agreement exists between the consultant and OST Staff regarding the proposed investment's consistency with the sector plan and strategy.

5. The favorable due diligence determination, including the underlying rationale, market conditions and portfolio impact, shall be furnished to the OIC as soon as practicable in connection with any investment that is likely to be made through the Opportunity Portfolio Committee, in any case, at least two weeks prior to any commitment. Prior to commitment, if any one, or more, Council members advise a member of the Opportunity Portfolio Committee that they object to the proposed investment, such investment must come before the Council as an agenda item at a subsequent OIC meeting, or, alternatively, be dropped altogether.

6. Any investment commitment made by the Opportunity Portfolio Committee shall be reported to the OIC at an upcoming meeting.

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~~ 25 million.

2. Investment ideas for the Portfolio may be offered by the OIC, its consultant(s), or Staff.

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. 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 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. 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

1. 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 may 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 may 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.

2. 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.

3. CONTRACT EXECUTION

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

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

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

d) 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.

4. INVESTMENT FUNDING

a) 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 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.

b) 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 4.a) above.

c) Staff 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.

d) Staff shall verify that an authorized signer signs the written request by matching the signature to specimen signatures maintained at OST.

5. MONITORING

a) 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.

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

c) ONSITE VISITS
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.

d) 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.

6. 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.

E. PERFORMANCE MEASUREMENT REPORTING

Consistent with the regular quarterly reporting on the Total Fund and the respective asset classes, Staff and 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

OREGON INVESTMENT COUNCIL

Summary of Key Investment Duties and Functions

Oregon Investment Council (OIC) duties include, but are not limited to:

(a) Establishing investment objectives;

(b) Approving key investment policies, including asset allocation, asset class strategies and performance evaluation criteria;

(c) Ensuring that the investment activities under the purview of the OIC are conducted in an efficient, effective, and prudent manner.

(d) Delegating to the State Treasurer, investment managers, consultants and other agents the responsibility for implementing specified policies; and,

(e) Monitoring staff, investment managers, consultants and other agents to determine that investments are made in accordance with approved policies and to evaluate their performance against established criteria.

OIC functions include, but are not limited to:

(a) Coordination with the Oregon Public Employees' Retirement System, State Accident Insurance Fund, Department of State Lands, Board of Higher Education, and other agencies, on matters of joint concern.

(b) Definition of investments consistent with statutory authority contained in ORS 293.

(c) Approval of due diligence processes.

(d) Receipt and review of periodic reports from staff, consultants, investment managers and other experts.

(e) Action on matters resulting from (d).

(f) Action on legislative and or regulatory matters that impact the investment portfolio or decision-making process.

(g) Oversight and management of legal matters that impact the investment portfolio or decision-making process, which are not otherwise reserved by the Department of Justice.

(h) Making recommendations to the Treasurer on staffing plans, incentive compensation, and the budget for all investment activities under the purview of the OIC.

(i) Approving all major personal service and consulting contracts related to investment activities under the purview of the OIC.

(j) Adopting best and responsible practices and innovations for the OIC, from the investment management community, when making and implementing policy.

Adopted: February 27, 2002 Revised: January 18, 2006

Oregon Investment Council

Statement
of
Fund Governance
for the
Oregon Public Employees Retirement Fund

Adopted: February 27, 2002
Revised: April 28, 2004; January 18, 2006; May 31, 2006; July 29, 2009

Contents

Terms highlighted in *italics* are explained in the glossary.

1.0 Purpose

1.1 This statement summarizes the governance structure established by the *Oregon Investment Council* (the "Council") to ensure the prudent, effective and efficient management of the assets of the *Oregon Public Employees Retirement Fund (OPERF).*

1.2 The Council approved this governance structure after careful consideration of alternative approaches to governing a very large and growing pension fund within an increasingly complex financial and investment environment.

1.3 The Statement has been prepared with five audiences in mind: 1) incumbent, new and prospective Council members; 2) Treasury staff; 3) OPERF active and retired members; 4) Oregon State Legislature and Governor; and 5) agents engaged by the Council to manage and administer OPERF assets.

1.4 The Statement summarizes more detailed policies and procedures documents prepared and maintained by Treasury staff, and numerous other documents that govern the day-to-day management of OPERF assets.

1.5 The Council regularly assesses the continued suitability of the OPERF governance structure, initiates change as necessary, and updates this Statement accordingly.

2.0 Guiding Principles

2.1 Three principles guided the Council's development of the OPERF governance structure:

(a) To fulfill its role as *governing fiduciary*, the Council retains responsibility for investment decisions. In accordance with ORS 293.721, the general duty of the Council "is to make the moneys as productive as possible," subject to the standard of judgment and care in ORS 293.726. In addition, the ". . . assets of [OPERF] may not be diverted or otherwise put to any use that is not for the exclusive benefit of members and their beneficiaries" (ORS 238.660(2)).

(b) To ensure OPERF assets are prudently, profitably, and efficiently managed on a day-to-day basis, the Council has chosen to delegate the management and implementation of specified Council investment policies to qualified *managing and operating fiduciaries*. Such delegation is consistent with ORS 293.726(4)(b), which states the Council must "act with prudence in deciding whether and how to delegate authority and in the selection and supervision of agents." Council delegates have the training, expertise, experience, tools and time to cost-effectively implement Council policies.

(c) To ensure effective oversight of delegates, the Council requires timely performance reports that reveal if delegates have complied with their mandates and guidelines, and indicate how assets under their care have performed relative to established *investment objectives*.

3.0 Investment Decisions Retained by the Council

3.1 The Council approves the following investment policies:

(a) Total fund investment objective;

(b) Target asset allocation policy;

(c) Asset mix policy re-balancing ranges;

(d) Asset class structural tilts;

(e) Active management exposure within each asset class;

(f) Manager structure within each asset class; and,

(g) Retaining, terminating and replacing investment managers within each asset class.

3.2 Before approving or amending policy decisions, the Council seeks advice, guidance and recommendations from Treasury staff, Council-retained investment consultants, investment managers and other experts or sources as considered prudent by the Council.

3.3 Private equity investment commitments in first-time funds exceeding $100 million, or exceeding 200% increases in follow-on partnerships, must be brought to the Council for approval.

3.4 Real estate investment commitments in first-time funds exceeding $100 million, or exceeding 200% increases in follow-on partnerships or core managers, must be brought to the Council for approval.

4.0 Investment Decisions Delegated to Treasury Staff

4.1 The Council has delegated to qualified Treasury staff the following investment management and implementation decisions:

(a) Re-balancing of total fund, asset class and manager exposures to ensure OPERF assets are within the total fund, asset class strategy and manager structure guidelines approved by the Council. Re-balancing activity is included as an information item in the Treasury staff's monthly report to the Council.

(b) Recommending retaining, terminating and replacing investment managers within each asset class. Before recommending a manager change, Treasury staff will satisfy the Council that the manager change is supported by a satisfactory level of analysis and due diligence. This will include: documenting the reasons for the manager change, a list of the managers considered, the expected improvement in performance attributable to the change, how the manager complements the existing portfolio, verification that the change complies with the asset class strategy and manager structure approved by the Council, and access to all supporting working papers and reports. One or more Council members may elect to work with Treasury staff when manager issues are being examined.

(c) 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 for specific strategies defined in OIC Policy.

(d) Preparing, negotiating and executing investment manager mandates, guidelines and fee agreements.

(e) Overseeing individual investment managers to ensure their portfolios comply with their respective portfolio mandates and guidelines.

(f) Providing oversight of the master custodian to ensure that the Fund's rights to pursue securities class action litigation are appropriately protected.

4.2 In making these decisions, Treasury staff seeks the advice, guidance and recommendations from Council-retained investment consultants, investment managers and other experts and sources as considered prudent by Treasury Staff.

5.0 Investment Decisions Delegated to Investment Professionals

5.1 The Council has delegated to qualified investment managers the buying and selling of individual securities and/or other investments authorized under the portfolio management guidelines approved by the Council.

5.2 The Council has delegated to a qualified independent third-party the voting of shareholder proxies that accompany the securities and/or investments held by the portfolio with oversight by Treasury staff and in accordance with Council voting guidelines.

6.0 Effective Council Oversight

6.1 The Council approves the criteria for monitoring and evaluating the impact of different investment decisions on total fund, asset class, and manager level performance. Performance is monitored and evaluated with respect to investment risks taken, and investment returns earned.

6.2 Investment *risks* are monitored and evaluated quarterly by comparing total fund, asset class and manager holdings to the risk characteristics of suitable *benchmarks*. Additionally, the tracking error of the public asset classes and the total fund is monitored and reported to the Council, quarterly.

6.3 Investment *returns* are monitored monthly, and evaluated quarterly by comparing total fund, asset class and manager level returns against suitable benchmarks. Quarterly attribution reports identify the impact that Council, Treasury staff, and investment manager decisions have had on total fund, asset class and manager level returns over different time horizons.

6.4 Before approving or amending the criteria for monitoring and evaluating investment decisions, the Council seeks advice, guidance and recommendations from Treasury staff, Council-retained investment consultants, investment managers and other experts and sources as considered prudent by the Council.

Glossary

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.
Governing, managing and operating fiduciaries. Terminology increasingly used in the pension field to distinguish between the governance, management and operations functions in a pension fund. The governance function is mission choice, funding and investment policy decisions, organizational design decisions, the monitoring of organizational effectiveness, and communication of results to stakeholders. This is the domain of governing fiduciaries. Management acts as advisors to the governing fiduciaries, devises strategies for achieving the fund mission and implementing the policies in a cost-effective manner, and organizes and monitors fund operations. This is the domain of managing fiduciaries. Finally, fund operations in the form of portfolio management, risk monitoring, and information system management and reporting are delegated to operating fiduciaries either inside or outside the pension fund organization. See Ambachtsheer, K. P. and D. Don Ezra, Pension Fund Excellence, Wiley, 1998, "Mapping the Road to Excellence", chapter 3.
Investment Objectives: The investment objectives of OPERF are summarized in the Statement of Investment Objectives and Policy Framework for the Oregon Public Employees Retirement Fund.
Oregon Investment Council (OIC): Oregon Revised Statute (ORS) 293.706 establishes the OIC, which consists of five voting members, four of whom are subject to Senate confirmation (the Treasurer serves by position, and is not subject to confirmation). One member of the OIC is a public member who serves on the Public Employees Retirement Board. Three members, who are qualified by training and experience in the field of investment or finance, are appointed by the Governor, one member is the State Treasurer. 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.
Return: The gain or loss in value of an investment over a given period of 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.
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.

- end -

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, December 1, 2010, April 27, 2011

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~~Fifty-nine 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~~8.3% 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~~43	~~41~~38-~~51~~48	8.5~~9.0~~	0.75	~~9.7~~9.3
Private Equity	16	12-20	10.6~~7~~	0.9~~1.3~~	~~12.0~~11.5
Total Equity	~~62~~59	~~57~~54-~~67~~64			
Fixed Income	25	20-30	4.1	0.75	4.8
Real Estate~~Fixed Income~~	11~~27~~	8-14~~22-32~~	7.5~~5.7~~	0.75~~0.75~~	8.3~~6.4~~
~~Real Estate~~Alternatives	~~11~~5	~~8-14~~0-8	~~6.3~~6.2	~~0.75~~1.4	~~7.0~~7.6
Total Fund	100		~~8.~~7.5~~1~~	0.8	~~8.9~~8.3

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~~7.5% 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 biennially, 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~~8% 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 to 2.0 percent, relative to the above benchmark.**

5.2 Key elements of the strategy:

(a) 25% 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) 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.

(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 60% *Barclays Capital US Universal Bond Index,* 10% ~~"EMD" (TBD)~~*JP Morgan Emerging Markets Bond Index Global*, 20% *S&P/LSTA Leveraged Loan Index*, and 10% *Bank of America Merrill Lynch High Yield Master II 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) *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 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 Alternatives Portfolio Strategy

9.1 Alternatives investments are being managed with the objective of earning at least **400 basis points** in annualized net excess returns above the *CPI* over moving ten-year periods. Because 80% of the alternative investments are traded infrequently, risk budget concepts are not applicable.

9.2 Key elements of the target strategy:

(a) Alternatives are 100% actively managed because index funds replicating the broad alternatives market are not available.

(b) *Infrastructure investments* represent 30% of the target alternatives portfolio, with a range of 25% to 35%. Specialist managers are utilized. Risk is diversified by investing across the major infrastructure types, investment size and geographies: energy infrastructure, transportation, ports, and water; mid sized and large capitalization; domestic and international.

(c) *Natural Resources investments* represent 45% of the target alternatives portfolio, with a range of 40% to 50%. Risk is diversified by investing across the major sectors: oil and gas, agriculture land, timberland, mining, and commodities. Specialist managers are across both active and passive strategies and domestic and international markets.

(d) *Hedge Fund investments* represent 20% of the target alternatives portfolio, with a range of 15% to 25%. Investments may include relative value, macro, arbitrage, and long short equity strategies. Risk is diversified by investing across strategies and managers.

(e) *Other* investments may represent 5% of the target alternatives portfolio, with a range of 0% to 10%. Investment strategies will be characterized as "other" based on the strategy and market at the time of investment.

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

10~~9~~.0 Performance Monitoring and Evaluation

~~9~~10.1 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~~10.2 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~~10.3 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~~10.4 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~~10.5 The reporting described in 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.

Bank of America Merrill Lynch High Yield Master II Index: HY Master II Index (market value of $1+ trillion with over 2,000 issues at March 31, 2011) constituents are capitalization-weighted based on their current amount outstanding. The Index tracks the performance of US dollar-denominated below investment grade corporate debt publicly issued in the US domestic market. Qualifying securities must have a below investment grade rating (based on an average of Moody's, S&P and Fitch) and an investment grade rated country of risk (based on an average of Moody's, S&P and Fitch foreign currency long term sovereign debt ratings).

Barclays Capital US Universal Bond Index: The Universal Index (market value of approximately $~~13~~ 17 trillion, with over 12,000 issues, at March 31, ~~2009~~2011), 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.

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.

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.

JP Morgan Emerging Markets Bond Index Global: The EMBI Global Index (market value of approximately $415 billion with 265 issues at March 31, 2011) tracks total returns for US dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, Eurobonds. The methodology is designed to distribute the weights of each country within the Index by limiting the weights of countries with higher debt outstanding and reallocating this excess to countries with lower debt outstanding.

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 Investable Market Index (ACWI-IMI): 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~~, by capturing up to 99% of the developed and emerging investable market universe, covering over 8,500 securities. As of ~~March~~ May 2010 the MSCI ACWI consisted of 45 country indices comprising ~~23~~ 24 developed and ~~22~~ 21 emerging market country indices. The developed market country indices included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, 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: 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 ~~March~~ May 2010 the MSCI World Ex US Index consisted of the following ~~22~~ 23 developed market country indices: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, 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.

S&P/LSTA Leveraged Loan Index: The S&P/LSTA Leveraged Loan Index (market value of approximately $470 billion with over 900 facilities at March 31, 2011) mirrors the market-weighted performance of the largest institutional leveraged loans based upon market weightings, spreads and interest payments.

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.

- end -

TAB 8 – LITIGATION UPDATE

Executive session may be held

pursuant to ORS 192.660(2)(h)

TAB 9 – ASSET ALLOCATION AND NAV UPDATES

Asset Allocations at March 31, 2011

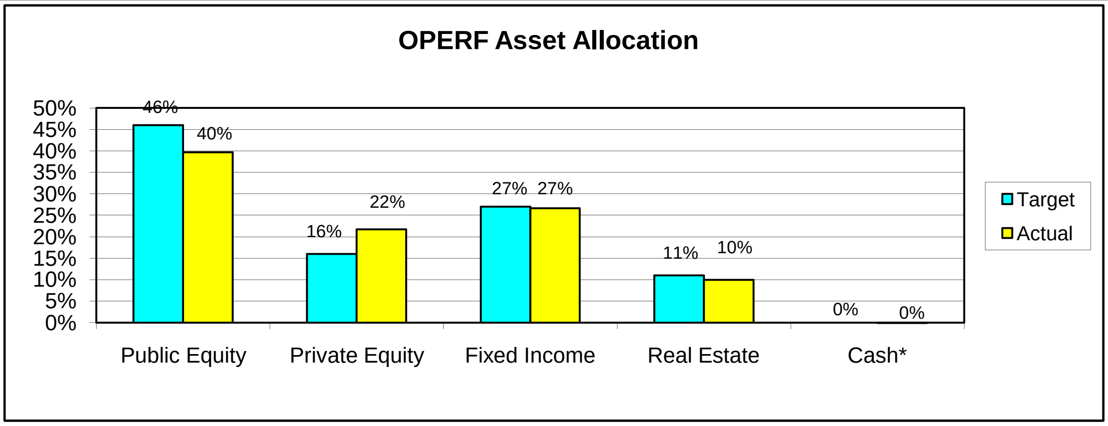
OPERF	Policy	Target	Regular Account $ Thousands	Pre-Overlay	Overlay	Net Position	Actual	Variable Fund $ Thousands	Total Fund $ Thousands
Public Equity	41-51%	46%	23,588,519	40.8%	(689,188)	22,899,331	39.6%	1,002,828	23,902,159
Private Equity	12-20%	16%	12,576,379	21.8%		12,576,379	21.8%		12,576,379
Total Equity	**57-67%**	**62%**	**36,164,898**	**62.6%**	**(689,188)**	**35,475,710**	**61.4%**		**36,478,538**
Opportunity Portfolio			1,110,655	1.9%		1,110,655	1.9%		1,110,655
Fixed Income	**22-32%**	**27%**	**13,643,633**	23.6%	**1,752,700**	**15,396,333**	26.7%		**15,396,333**
Real Estate	**8-14%**	**11%**	**5,773,160**	10.0%	**(1,700)**	**5,771,460**	10.0%		**5,771,460**
Cash*	**0-3%**	**0%**	**1,072,844**	1.9%	**(1,061,812)**	**11,032**	0.0%	10,122	**21,154**
TOTAL OPERF		**100%**	**$ 57,765,190**	**100.0%**	**$ -**	**$ 57,765,190**	**100.0%**	**$ 1,012,950**	**$ 58,778,140**

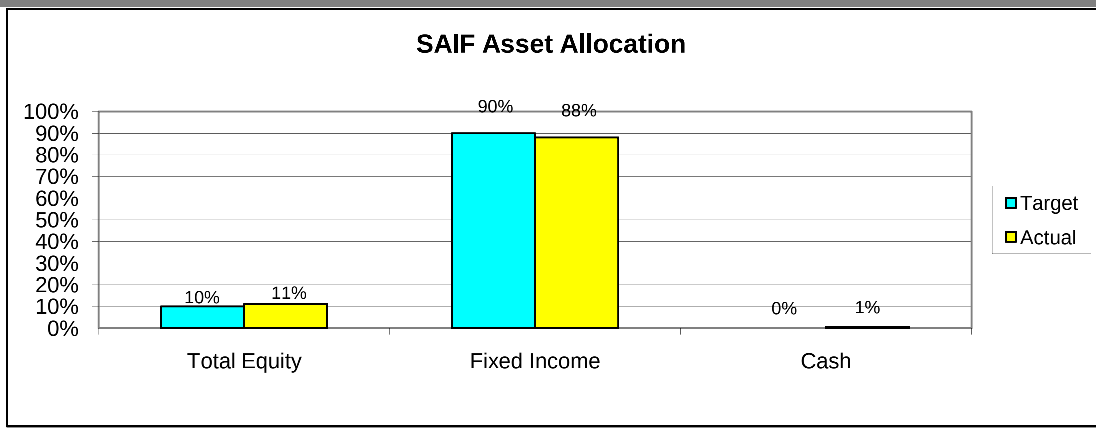
*Includes cash held in the policy implementation overlay program.

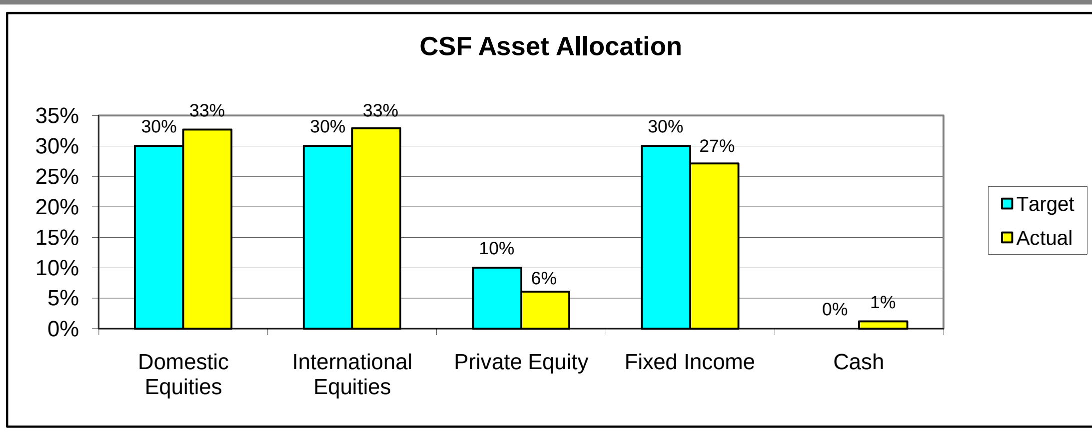
SAIF	Policy	Target	$ Thousands	Actual
Total Equity	**7-13%**	**10.0%**	**469,116**	**11.3%**
Fixed Income	**87-93%**	**90.0%**	**3,663,725**	**88.1%**
Cash	**0-3%**	**0%**	**26,796**	**0.6%**
TOTAL SAIF		**100%**	**$4,159,637**	**100.0%**

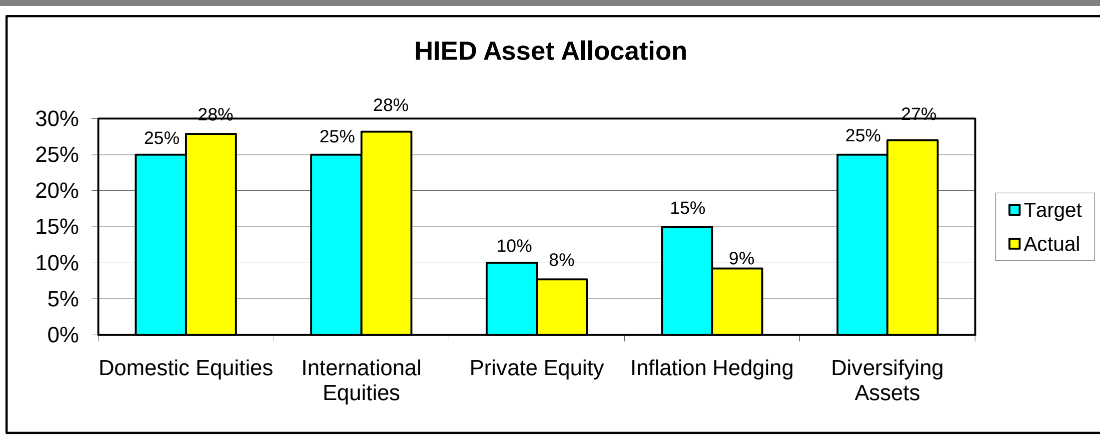
CSF	Policy	Target	$ Thousands	Actual
Domestic Equities	25-35%	30%	$366,812	32.7%
International Equities	25-35%	30%	369,431	32.9%
Private Equity	0-12%	10%	68,211	6.1%
Total Equity	**65-75%**	**70%**	**804,454**	**71.7%**
Fixed Income	**25-35%**	**30%**	**304,561**	**27.1%**
Cash	**0-3%**	**0%**	**13,375**	**1.2%**
TOTAL CSF			**$1,122,390**	**100.0%**

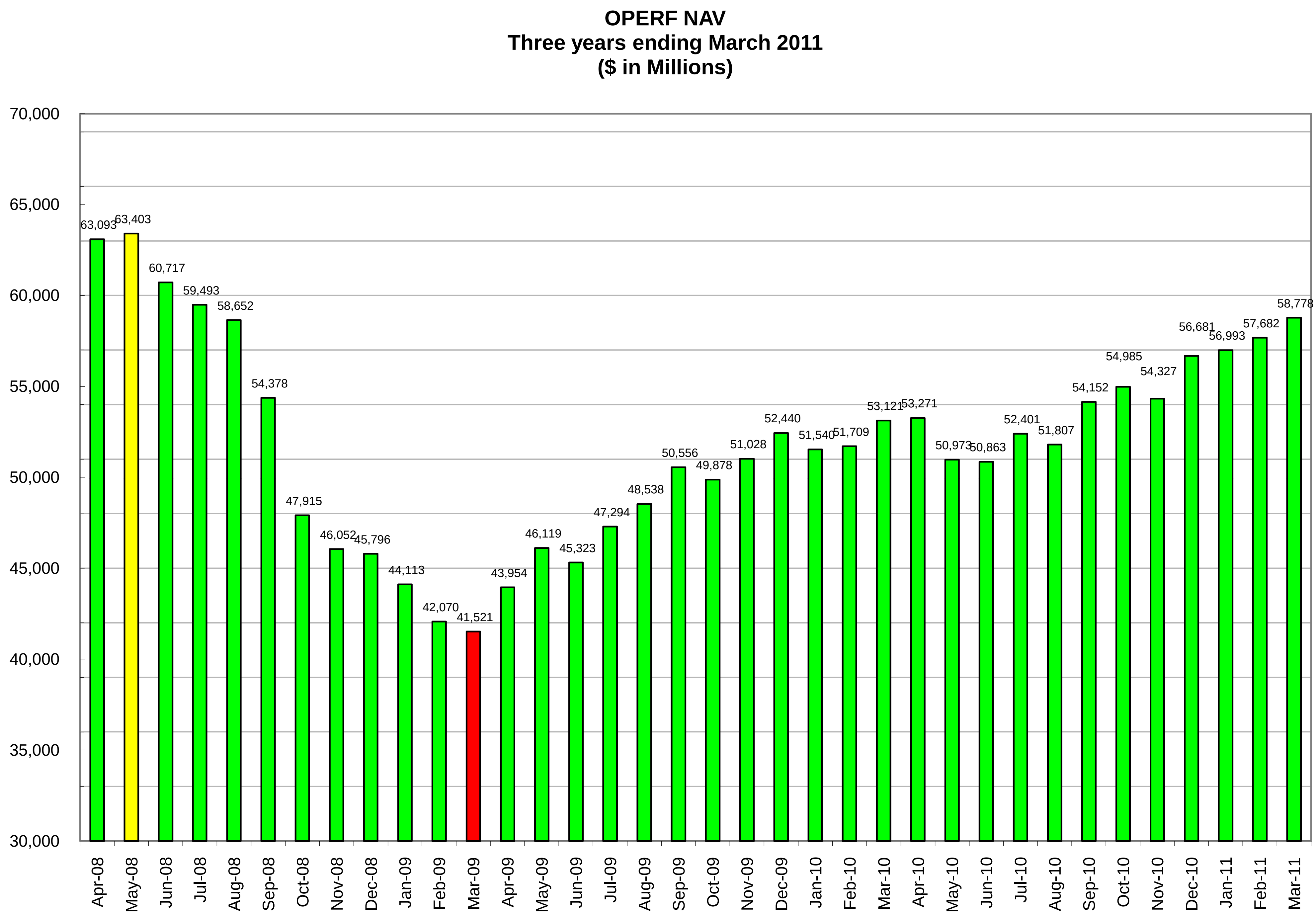
HIED	Policy	Target	$ Thousands	Actual
Domestic Equities	20-30%	25%	$18,121	27.9%
International Equities	20-30%	25%	18,344	28.2%
Private Equity	0-15%	10%	5,023	7.7%
Growth Assets	**50-75%**	**60%**	**41,488**	**63.8%**
Real Estate	0-10%	7.5%	1,544	2.4%
TIPS	0-10%	7.5%	4,451	6.8%
Inflation Hedging	**7-20%**	**15%**	**5,995**	**9.2%**
Fixed Income	20-30%	25%	16,555	25.5%
Cash	0-3%	0%	1,007	1.5%
Diversifying Assets	**20-30`%**	**25%**	**17,562**	**27.0%**
TOTAL HIED			**$65,045**	**100.0%**


OPERF Asset Allocation
50%
45%
40%
35%
30%
25%
20%
15%
10%
5%
0%
46%
40%
16%
22%
27%
27%
11%
10%
0%
0%
Public Equity
Private Equity
Fixed Income
Real Estate
Cash*
Target
Actual

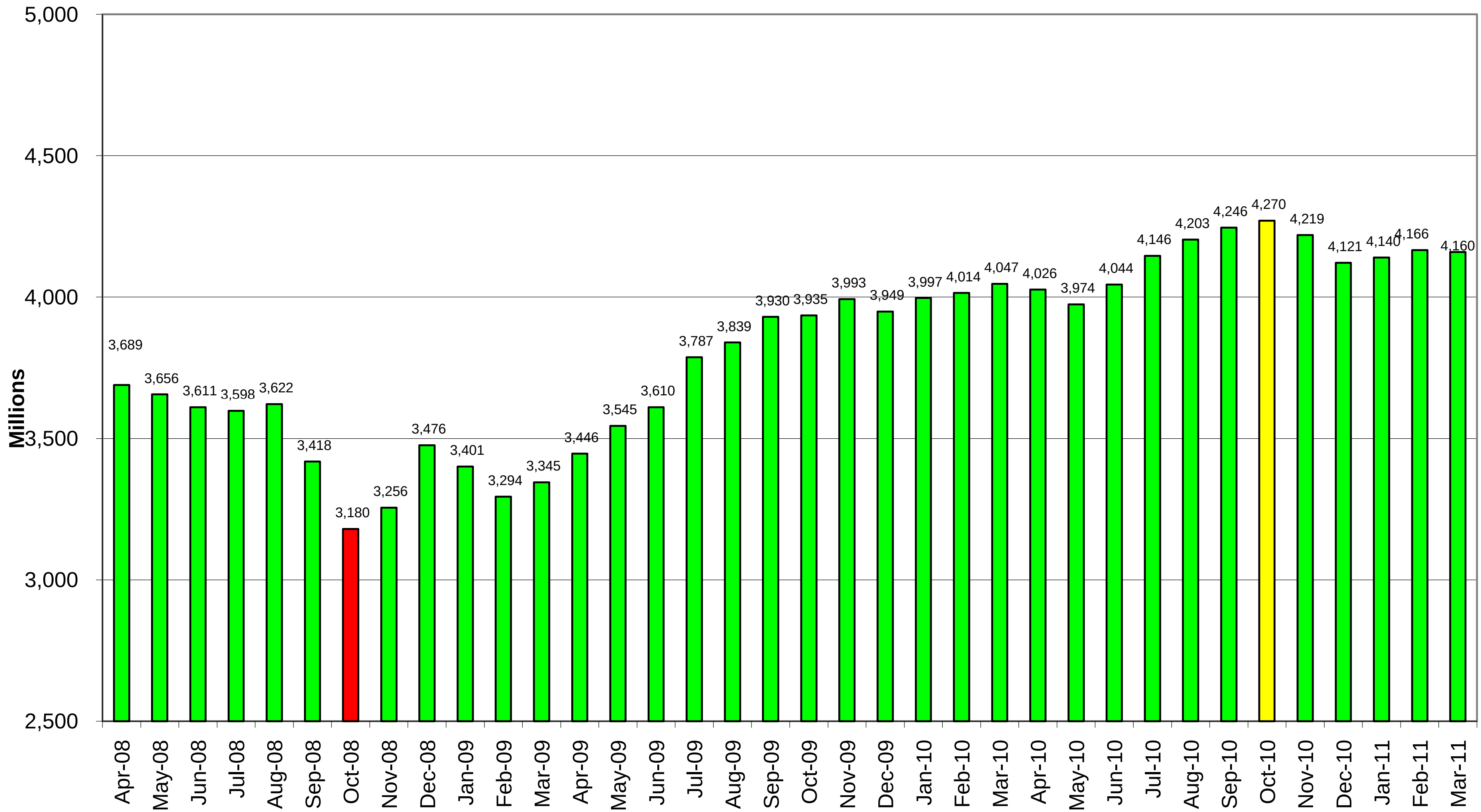

SAIF Asset Allocation
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
10%
11%
90%
88%
0%
1%
Total Equity
Fixed Income
Cash
Target
Actual


CSF Asset Allocation
35%
30%
25%
20%
15%
10%
5%
0%
30%
33%
30%
33%
10%
6%
30%
27%
0%
1%
Domestic Equities
International Equities
Private Equity
Fixed Income
Cash
Target
Actual

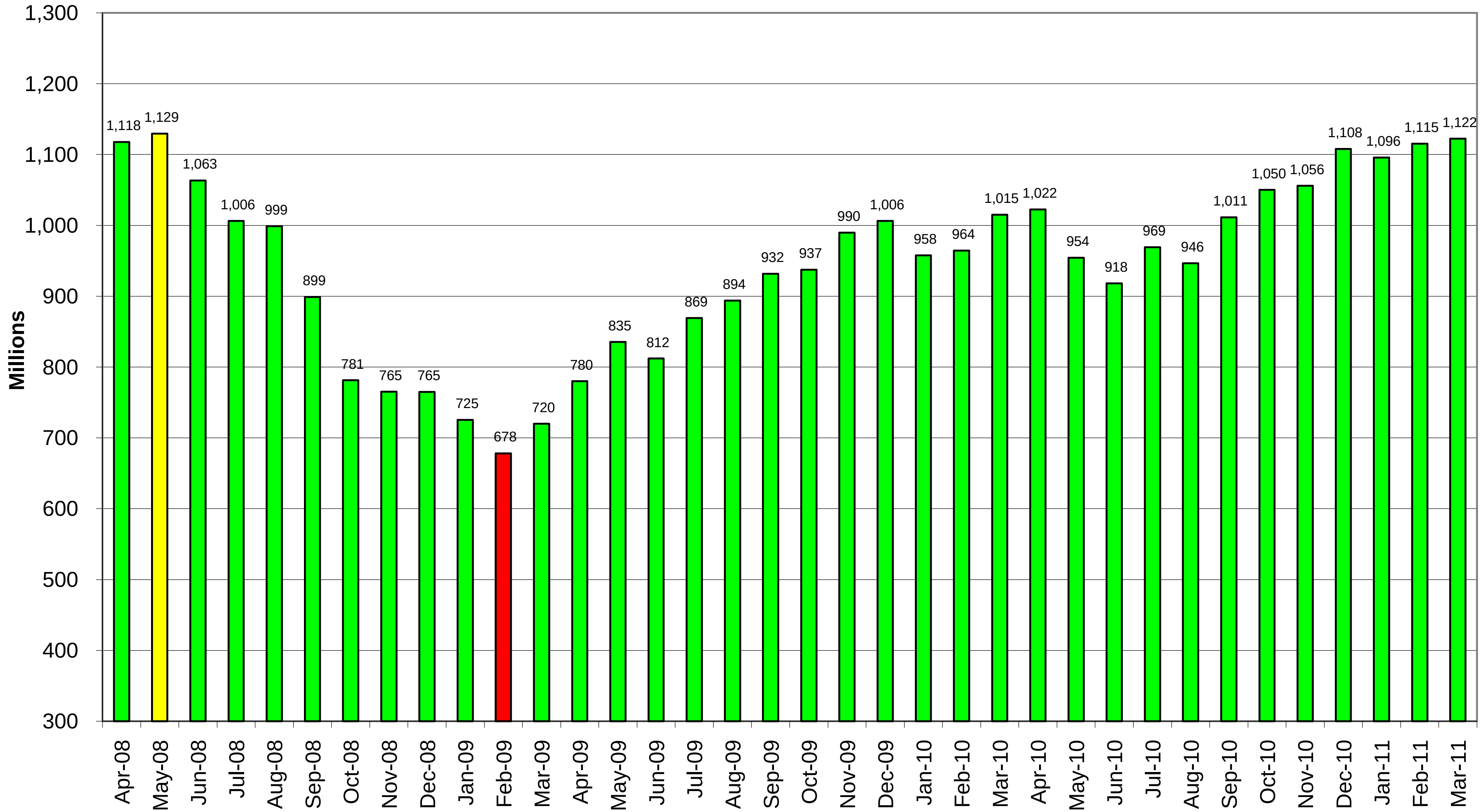

HIED Asset Allocation
30%
25%
20%
15%
10%
5%
0%
25%
28%
25%
28%
10%
8%
15%
9%
25%
27%
Domestic Equities
International Equities
Private Equity
Inflation Hedging
Diversifying Assets
Target
Actual


OPERF NAV
Three years ending March 2011
($ in Millions)
70,000
65,000
60,000
55,000
50,000
45,000
40,000
35,000
30,000
63,093
63,403
60,717
59,493
58,652
54,378
47,915
46,052
45,796
44,113
42,070
41,521
43,954
46,119
45,323
47,294
48,538
50,556
49,878
51,028
52,440
51,540
51,709
53,121
53,271
50,973
50,863
52,401
51,807
54,152
54,985
54,327
56,681
56,993
57,682
58,778
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
Apr-10
May-10
Jun-10
Jul-10
Aug-10
Sep-10
Oct-10
Nov-10
Dec-10
Jan-11
Feb-11
Mar-11

SAIF NAV
Three years ending March 2011
($ in Millions)



CSF NAV
Three years ending March 2011
($ in Millions)



TAB 10 – CALENDAR – FUTURE AGENDA ITEMS

2011 OIC Forward Agenda Topics

June 1:	Core RE Recommendations Public Equity Annual Review SAIF Annual Review OPERF Overlay Review OPERF 1st Quarter Performance Review Private Equity Fund
July 27:	OPERF Real Estate Annual Review Annual Audit Update Real Estate Fund Alternative Funds (2)
September 28:	CSF Annual Review
November 2:	CEM Benchmarking Annual Review
December 7:	OPERF 3rd Quarter Performance Review OPERF Opportunity Portfolio Review HIED Annual Review