OREGON LOCAL GOVERNMENT INTERMEDIATE FUND
INVESTMENT GUIDELINES

The mission of the Investment Division is "To Generate the Highest Returns Prudently Possible for Fund Beneficiaries" where Fund refers to the Oregon Local Government Intermediate Fund (hereafter referred to as the "Fund").

The overall return objective established by the Oregon Investment Council ("OIC" or "Council") is to achieve returns in excess of the Fund's designated benchmark.

1. ASSET CLASSES AND ALLOCATIONS

On an annual basis, the Council assesses asset allocation guidelines for the Fund's approved investment categories.

In accordance with its established asset allocation guidelines, the Council may select one or more external fixed-income investment managers (the "Manager" or "Managers") with demonstrated experience and expertise and whose investment methodologies will collectively result in the implementation of the Council's intended asset allocation.

Managers within the above-described structure shall acquire and manage a fixed income securities portfolio and reinvest the sales and income proceeds of that portfolio on behalf of the Fund. Additionally, these managers shall act as an internal advisor/research resource to the Oregon State Treasury Investment Division (the "Investment Division"). Managers shall further act in the capacity defined in Items 2.A. and B. below. This capacity is intended to complement fixed income asset management functions as performed by the Investment Division.

2. INVESTMENT GUIDELINES

A. Manager Role and Performance Expectations: Managers retained by the Council shall invest with a primary objective of capital preservation and consistent with normal fixed income management risks. The secondary objective for these managers is to generate a rate of return from fixed income securities in excess of the Barclays Capital 1-5 Year Government/Credit Index (the "Benchmark") net of all costs and fees over the course of a complete market cycle. In the event a Manager invests according to more than one mandate, the Manager and Investment Division staff will agree from time to time, in writing, on the allocation of investment funds to each mandate.

B. Manager Style: Managers may utilize an active management style including, but not limited to a combination of quantitative and subjective valuation techniques designed to add value over the specified benchmark.

C. Eligible Securities: Securities eligible for investment include the following:

Investments shall be limited to the following:

(i) The Oregon Short Term Fund (the "OSTF");

(ii) Obligations issued or guaranteed by the United States (U.S.) Treasury or by U.S. federal agencies and instrumentalities, including inflation-indexed obligations;

(iii) Non-U.S. Government Securities and their Instrumentalities;

- Non-U.S. government securities and Instrumentalities must have minimum long-term ratings of AA-, Aa3 or better at the time of purchase.

(iv) Certificates of deposit;

(v) Bankers acceptances that are eligible for discount at a U.S. Federal Reserve Bank;

(vi) Corporate debt obligations (e.g., commercial paper, term debt, etc.);

(vii) Taxable and non-taxable municipal debt securities issued by U.S. states or local governments and their agencies, authorities and sponsored enterprises;

(viii) U.S. Agency Mortgage-backed Securities (MBS) which include both pass-through securities and Collateralized Mortgage Obligations (CMO). The weighted average life at purchase shall be 5 years or less;

(ix) Commercial Mortgage-backed Securities (CMBS) which must be rated triple-A at the time of purchase and have a weighted average life of 5 years or less;

(x) Asset-backed securities (ABS) which must be rated triple-A at the time of purchase and have a weighted average life of 5 years or less;

(xi) Repurchase agreements, collateralized at 102% with U.S. Government securities or U.S. Agency mortgage securities as defined above. The maximum term of these agreements will be 90 days, and the collateral must be marked-to-market daily.

(xii) Cash equivalent investments defined as any security that has an effective duration under one year, a weighted average life of less than one year and spread duration less than one year.

(xiii) State Street Short Term Investment Fund (STIF).

D. Exposure Constraints: Investments shall be constrained as follows:

(i) Managers may invest up to a 3.0% maximum exposure in any one issue, excluding U.S. Treasury and U.S. Government Agency obligations (including Agency MBS).

(ii) Investments rated below investment grade at time of purchase are not allowed.

(iii) No more than 3% of the par value of portfolio shall be invested in the securities of one issuer. This restriction does not apply to obligations issued or guaranteed by the U.S. Treasury or by U.S. federal agencies and instrumentalities.

(iv) No more than 25% of the portfolio shall be invested in the securities of one sector. This restriction does not apply to obligations issued or guaranteed by the U.S. Treasury or by U.S. federal agencies and instrumentalities.

(v) No more than 25% of the portfolio may be invested in MBS.

(vi) No more than 25% of the portfolio may be invested in ABS.

(vii) No more than 25% of the portfolio may be invested in CMBS.

E. Maturity: The maximum maturity on any allowed investment is constrained as follows:

(i) The maximum stated maturity should not be greater than 10.25 years from the date of settlement unless otherwise noted.

(ii) For ABS, MBS and CMBS, weighted average life will be used to measure maturity limitations.

F. Duration: Managers shall invest their respective Fund allocations consistent with a target duration band of ± 20% (percent) relative to the duration of the Benchmark.

G. <u>Credit Criteria</u>: In addition to the eligibility requirements described above, securities considered for purchase must be rated investment grade at the time of purchase. The methodology utilized by the Benchmark Index shall be used to determine the rating on any holding.

For certain securities or instruments, such as newly-issued bonds, expected ratings may be used until actual ratings are issued and assigned by the rating agencies. In such cases, the securities or instruments may be purchased in anticipation of rating assignments that comply with these investment guidelines. Should the actual rating assigned to a security or instrument diverge from the expected rating, it will not be deemed a breach of these investment guidelines, but Investment Division staff and manager will consult and reach a mutually agreed upon resolution.

The minimum-weighted, average credit quality of a Manager's respective Fund allocation will be one rating category below that of the Benchmark. For example, if the Benchmark's average credit quality is Aa2, the minimum-weighted, average credit quality of a Manager's respective Fund allocation should be no lower than A2.

H. <u>Diversification</u>: The Council expects Managers to pursue broad diversification by market sector, industry and issuer. Net exposure to any single issuer, or issuing trust of structured securities such as ABS or MBS, excluding U.S. Treasury obligations and obligations of U.S. Government Agencies (including Agency MBS), shall at the time of purchase not represent more than 3% of a Manager's respective Fund allocation.

I. <u>Absolute Restrictions</u>: The following types of investments are prohibited:

(i) Non-U.S. Dollar investments.
(ii) Short sales of cash securities.
(iii) Derivatives such as swaps, options, forwards and futures.
(iv) Margin purchases, lending or borrowing or other uses of leverage or derivatives to create positions greater than 100% of the market value of assets under management.
(v) Commodities or common stocks.
(vi) Securities issued by the Manager, its parent or other Manager-related subsidiaries.

J. <u>Time Horizon and Monitoring</u>: Expected performance results shall be achieved over a full market cycle as defined by a consecutive three- to five-year period.

K. <u>Tax Status</u>: Fund earnings are exempt from taxation; therefore, tax considerations are not a constraint on investment management decisions.

L. <u>Liquidity Needs</u>: All investment income and sales proceeds shall be reinvested by the Managers.

M. <u>Council Policies and State and Federal Regulations</u>: In performing their duties hereunder, Managers shall at all times comply with existing Council policies as furnished to said managers from time to time as well as all applicable State and Federal laws, rules and regulations.

(i) Dodd-Frank Compliance: The Manager shall:
   a. Be familiar with and understand Regulation §23.450 promulgated by the Commodity Futures Trading Commission ("CFTC");
   b. Have policies and procedures reasonably designed to ensure that Manager satisfies the applicable requirements of CFTC Regulation §23.450(b);
   c. Meet the independence test of CFTC Regulation §23.450(c); and

d. Comply with the applicable requirements of CFTC Regulation §23.450(b) by agreement, condition of employment, law, rule, regulation or other enforceable duty.

N. Cross Trades: Cross trades are permitted at prevailing market levels, in accordance with "PTE 95-66".

3. PERFORMANCE EXPECTATIONS

There are various methods of calculating and reporting investment performance results. For mandates contemplated by these guidelines, investment performance results shall be calculated on a time-weighted, total return basis which includes all realized and accrued interest as well as all realized and unrealized gains and losses as reported by the Fund custodian. Performance results shall further be computed and reported after the deduction of all transaction charges and fees, including investment management fees.

Prior to the expiration of the time horizon for performance measurement set forth in paragraph 2.I. above, performance deviating from expectations shall be noted in writing to Managers at which time these managers shall be placed on "watch list" status by Investment Division personnel. Such managers shall develop a "plan of action" (the "Plan") for how to rectify deficient performance so that subsequent performance results can reasonably be expected to meet Council objectives. This plan shall be reviewed for reasonableness and viability by the Investment Division staff member then functioning as the "Investment Director" or "Senior Investment Officer" who shall also monitor and assess the Plan's implementation and execution. However, notwithstanding the foregoing and whether or not the Managers fulfill their performance expectations, the Council may at any time exercise its right to terminate Managers "at will" according to the terms of Section 25 of the Investment Management Agreement.