

**Oregon Short Term Fund
MINUTES
September 28, 2005**

Location: PERS Headquarters Building,
11410 SW 58th Parkway, Tigard, OR 97223

OSTF Members Present: Linda Haglund, Deputy State Treasurer
Harry Morton, Multnomah County
Katherine Tri, City of Newberg

On Phone: Judy Land, Administrative School District #1
Anthony Fisher, UBS Financial Services Inc.

Treasury Staff Present: Perrin Lim, Senior Investment Manager,
Darren Bond, Director of Finance
Judy Whaley-Fultz, Manager of Banking Services
Heidi Rawe, Executive Support Specialist

Other Attendees: Tom Gilbertson, Dain Rauscher

The Oregon Short Term Fund Meeting was called to order at 2:40 p.m. by Harry Morton.

I. Review and Approval of Minutes – January 19, 2005 and February 24, 2005

MOTION: Harry Morton moved approval of the January 19 and February 24, 2005 OSTF Minutes. The motion was seconded by Linda Haglund and passed unanimously by the Board.

II. OSTF Portfolio Review and Market Perspective

Perrin Lim presented the OSTF Portfolio Review and Market Perspective (please see attached).

III. OACTFO Conference

Harry Morton thanked Perrin for presentation given at OACTFO conference, stating that it was very well received and he was given lots of positive feedback.

IV. City of Albany - Investment Policy Reviews

This policy was reviewed with one strong exception. Deletion of the sentence, “Exceptions to this policy...agreed between the manager and the City” was highly recommended.

MOTION: Kathy Tri moved that the review of the policy be communicated to the City’s governing body along with the concern stated above. The motion was seconded by Judy Land and passed unanimously by the board.

V. Multnomah County - Investment Policy Reviews

The investment policy for Multnomah County was reviewed. A motion to approve the policy as presented was passed and seconded by board members.

VI. Revisions to Oregon Short-Term Fund Portfolio Rules and Policies

Perrin Lim presented suggested revisions to the rules and associated policies. The board approved of these revisions and made the following motions which will be forwarded to the Oregon Investment Council for approval.

MOTIONS:

Revision 1: Linda Haglund moved that Revision #1 – *Inclusion of Fitch Ratings as Approved Provider* be approved, the motion was seconded by Anthony Fisher and passed unanimously by the board.

Revision 2: Linda Haglund moved that Revision #2 - *Average Credit Quality Valuation and Methodology* be approved with changes, the motion was seconded by Harry Morton and passed unanimously by the board.

Revision 3: Anthony Fisher moved that Revision #3 – *Securities Lending Repurchase Agreement Indemnification by State Street and Average Credit Quality* be approved as presented; the motion was seconded by Judy Land and passed unanimously by the board.

VII. Other

The next OSTF Board meeting will be scheduled for January 2006.

The meeting adjourned at 4:30 p.m.

Respectfully submitted,

Heidi Rawe
Executive Support Specialist

Oregon Short-Term Fund Summary September 28, 2005

Market Review and Outlook:

Short term interest rates remain near the high end of their one year range and the yield curve has continued to flatten dramatically:

Yield and Spread History since June 30, 2004

Rates	06/30/04	09/30/04	12/31/04	03/31/05	06/30/05	Current Yield (09/23/05)	Change from 06/30/05	Change from 09/30/04
OSTF	1.290	1.770	2.260	2.717	3.074	3.480	0.406	1.710
Fed Funds	1.250	1.750	2.250	2.750	3.250	3.750	0.500	2.000
3 month ust bills	1.266	1.700	2.217	2.766	3.121	3.465	0.344	1.765
3 month cp	1.470	1.860	2.293	3.013	3.429	3.840	0.411	1.980
3 month libor	1.610	2.020	2.564	3.120	3.516	3.970	0.454	1.950
1 year CMT	2.120	2.120	2.670	3.300	3.360	3.890	0.530	1.770
1 year libor	2.463	2.483	3.100	3.845	3.880	4.279	0.399	1.796
2 year ust	2.677	2.605	3.065	3.775	3.633	4.011	0.378	1.406
3 year ust	3.073	2.852	3.218	3.919	3.639	4.021	0.382	1.169
5 year ust	3.766	3.371	3.607	4.165	3.698	4.067	0.369	0.696
10 year ust	4.581	4.119	4.218	4.481	3.913	4.248	0.335	0.129
30 year ust	5.288	4.892	4.826	4.755	4.191	4.520	0.329	-0.372
Curve Shape and Slope:						Current Spread	Change from 06/30/05	Change from 09/30/04
OSTF/3m bills	-0.024	-0.070	-0.043	0.049	0.047	-0.015	-0.062	0.055
OSTF/3m libor	0.320	0.250	0.304	0.403	0.442	0.490	0.048	0.240
3m libor/3m cp	0.140	0.160	0.271	0.107	0.087	0.130	0.043	-0.030
2's/3's	0.396	0.247	0.153	0.144	0.006	0.010	0.004	-0.237
2's/5's	1.089	0.766	0.542	0.390	0.065	0.056	-0.009	-0.710
2's/10's	1.904	1.514	1.153	0.706	0.280	0.237	-0.043	-1.277
2's/30's	2.611	2.287	1.761	0.980	0.558	0.509	-0.049	-1.778
3's/5's	0.693	0.519	0.389	0.246	0.059	0.046	-0.013	-0.473
3's/10's	1.508	1.267	1.000	0.562	0.274	0.227	-0.047	-1.040
3's/30's	2.215	2.040	1.608	0.836	0.552	0.499	-0.053	-1.541
5's/10's	0.815	0.748	0.611	0.316	0.215	0.181	-0.034	-0.567
5's/30's	1.522	1.521	1.219	0.590	0.493	0.453	-0.040	-1.068
10's/30's	0.707	0.773	0.608	0.274	0.278	0.272	-0.006	-0.501

Fed Raises Interest Rates:

In a surprise to some players, the Fed increased interest rates 25 basis points on September 20th, 2005 for the eleventh consecutive time since June, 2004, raising the overnight lending rate to 3.75% and, equally important, the statement strongly suggested that Fed officials anticipate more tightening ahead, with Hurricane Katrina and higher energy prices viewed as just a temporary setback for growth. Meanwhile, *“higher energy and other costs have the potential to add to inflation pressures.”* In the statement, monetary policy was no longer directly described as *“accommodative.”* Equivalently, however, the statement included, *“policy accommodation... is providing ongoing support to economic activity.”* And, once again, Fed officials indicated that, *“accommodation can be removed at a pace that is likely to be measured.”* On balance, the statement was relatively hawkish, with Fed officials signaling more concern about the effects of higher energy prices on inflation than on growth; consensus expectations were that the Fed would signal more concern about the

Market Review and Outlook (continued):

threat to growth from higher energy prices as well as Katrina. In part, the tone of their statement likely reflected their own collection of anecdotal evidence.

In March 2005, staff believed that the Fed would continue to raise rates at a “measured” pace and, by year-end 2005, a Fed Funds rate of 4-4.25% was very possible. Our outlook has changed slightly: staff continues to believe that the Fed remains accommodative, increasing the odds that inflation will rise, which in turn would mean the likelihood of higher bond yields (with most likely a flattening bias) in the coming year. However, staff remains concerned with the near-term effects of Hurricanes Katrina and Rita on economic growth, in addition to the effects of higher energy process on inflation. Thus, portfolio structure of the OSTF, as has been the case for the past eighteen months, continues to be defensive, employing a barbell structure with the majority of the fund reinvested in 0-60 day maturities and a portion of the fund targeting longer maturity (1-3 year) adjustable rate securities.

Oregon Short Term Fund Information:

Since the OSTF is a short-term fixed income portfolio, its yield will generally track the rise and fall of the Fed Funds rate and 3 month U.S. Treasury Bills.

Sector allocations were, and are, as follows:

Security Type Breakdown	June 30, 2004	Sept 30, 2004	Dec 31, 2004	Sept 23, 2005
U.S. Treasury Notes	0.00%	0.00%	0.00%	0.00%
Agency Securities	64.43%	62.19%	58.22%	51.04%
Commercial Paper	34.42%	30.37%	32.42%	34.96%
Corporate bonds	0.00%	6.29%	8.55%	13.02%
Total Corporate Indebtedness	34.42%	36.65%	40.87%	47.98%
Time Certificates of Deposit	1.15%	1.16%	0.91%	0.98%
Total	100.00%	100.00%	100.00%	100.00%
Security Structure Breakdown				
Non-Call	86.56%	85.70%	88.44%	85.29%
Callable	13.43%	14.30%	11.56%	14.71%
Fixed Rate	88.58%	82.70%	85.27%	82.05%
Adjustable Rate	11.42%	17.30%	14.73%	17.95%

The allocation to commercial paper and corporate securities has increased throughout 2005 as the demand for yield in the corporate market continues to outweigh supply and the fundamentals of the corporate bond market remain favorable, albeit at still very tight valuations.

Oregon Short Term Fund Information (continued):

As credit exposure has expanded, the allocation to U.S. Treasury and Agency securities has generally decreased.

The average credit quality of the OSTF was Aa1/AA as of September 23, 2005.

The approved commercial paper list has gradually been revised to include additional high quality credits and to remove those credits that have been downgraded or that are perceived by staff to be downgraded in the future. Staff continues to diligently review the approved credits as well as potential new programs that may add value and safety to the OSTF.

Strategy:

Given that the Fed continues to be in play and that interest rates are on the rise, staff believes there remains more risk than reward in the current environment and continues to emphasize a defensive, barbelled structure with the majority of the OSTF emphasizing money market securities maturing in less than two months and a minority of the fund allocated to a combination of fixed rate and floating rate notes with maturities less than three years. The fund will look to increase exposure to US Treasury/Agency securities and/or the corporate markets when spreads widen from current levels.

General Fund:

In recent years, the General Fund has experienced negative cash balances. The current biennium may witness continued 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, compensation for these overdrafts is calculated for every day of an overdraft occurrence at the rate of the current OSTF yield plus a spread of 80 basis points. The spread is primarily based on the three year average of the Merrill Lynch "AA" rated 1-3 year Corporate Bond Index and will be revised at the end of every fiscal year.

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

Securities Lending:

Year-to-date OSTF securities lending income for the month ending August 31, 2005 amounted to \$360,257.63 versus \$2,108,842.98 for the same period in the prior year, a decrease of (\$1,748,585.35).

Portfolio Statistics:

Maturity Distribution (September 23, 2005)	Policy	Actual	Par Value
Portfolio maturities less than 93 days	> 50%	62.8%	\$4,521,909,000
Portfolio maturities between 94 days & 1 year		17.5%	1,257,445,000
Portfolio maturities greater than 1 year	< 25%	19.7%	1,417,670,000
Maturities greater than 3 years	0%	0.0%	0
Total		100.0%	\$7,197,024,000
Diversification (September 23, 2005)			
Treasury and/or Agency Securities	0-100%	51.0%	\$3,673,510,000
Commercial Paper (minimum A-1/P-1)	< 50%	35.0%	2,516,162,000
Commercial Paper (< A-1/P-1)	0%	0.0%	0
Corporate Bonds	< 25%	13.0%	936,852,000
Total Corporate Indebtedness	< 50%	48.0%	3,453,014,000
Repurchase Agreements	0-100%	0.0%	0
Reverse Repurchase Agreements	0-100%	0.0%	0
Time Certificate of Deposit's	< 20%	1.0%	70,500,000
Total		100.0%	\$7,197,024,000
Top Five Holdings (September 23, 2005)			
1. Federal Home Loan Bank	33%	25.4%	\$1,831,178,000
2. Freddie Mac	33%	14.3%	1,027,739,000
3. Fannie Mae	33%	9.7%	700,593,000
4. Morgan Stanley CP/Notes	5%	3.3%	239,515,000
5. Citigroup CP/Notes	5%	3.0%	215,000,000
Total Top Five Holdings		55.8%	\$4,014,025,000
Total Average Credit Quality	Minimum Aa2 or AA	Aa1/AA	

Performance (ending August 31, 2005):

	August	3 mos.	YTD	1 yr	2 yrs	3 yrs	4 yrs	5 yrs
OSTF	0.32	0.80	1.90	2.50	1.92	1.76	1.92	2.72
91 Day T-Bills	0.29	0.76	1.83	2.44	1.76	1.63	1.79	2.53