Oregon Short Term Fund
MINUTES
March 7, 2006

Location:	OMFOA/OACTFO Annual Spring Conference, Salishan Resort & Spa, Gleneden Beach, Oregon
Board Members Present:	Harvey Rogers, Preston Gates & Ellis Harry Morton, Multnomah County Anthony Fisher, UBS Securities LLC Linda Haglund, Deputy State Treasurer Gary Wallis, City of Wilsonville Robert Woodruff, Nike Corporation
Board Members Absent:	Judy M. Land, Administrative School District #1
Treasury Staff Present:	Darren Bond, Director of Finance Perrin Lim, Senior Fixed Income Investment Officer Ellen Hanby, Investment Officer Judy Whaley-Fultz, Banking Service Manager Debbe Moore, Local Government Services Coordinator Heidi Rawe, Executive Support Specialist
Other Attendees:	Ritha Metcalf, City of Gresham Nancy Wilson, Clackamas County Shari Anderson, Clackamas County Alcenia Byrd, Gilliam County John Harelson, Josephine County Karen Schell, Washington County Gay Eichhoff, MBIA Asset Management Laurie Steele, Laurie Steele-Marion County Cheryl Nelson, US Bank Michelle Hawkins, Danelle Wetherell, Gilliam County Sheldon Alexander, Bank of America Tiane Soulatha, US Bank Sue Cutsogeorge, City of Eugene André Schellhaas, Beaverton S.D. Mark Walker, Wells Fargo Hilary Chen, US Bank Tom Gilbertson, Dain Rauscher Nancy Misener, Wheeler County Ned Connolly Charella Asset Management Sally Walton, DA Davidson and Co. Deena Goss, Jefferson County Mark Sagin, Wells Fargo Mark Farrell, KeyBank Mike Mischkot, City County Insurance Services (CIS) John DiPasquale, US Bank

I. Opening Remarks

The Oregon Short Term Fund Board meeting was called to order at 10:30am by Harvey Rogers.

Harvey introduced himself as chair of the Oregon Short Term Board and gave background to those in attendance of what the Oregon Short Term Fund is and what they do. This was followed by introductions of the other board members.

II. Introduction of New Board Members

Two new board members were appointed as of March 1, 2006; Harvey introduced them and asked them to share a little background information to the group.

a) Gary Wallis is the Finance Director for the City of Wilsonville where he has worked for the past eleven years. He was appointed by the Governor at the recommendation of the League of Oregon Cities. Gary spoke briefly about what his position is and what he hopes to achieve by serving on the Board.

b) Bob Woodruff is the Treasurer for Nike and was appointed by the Oregon State Treasurer. He welcomes the opportunity to serve on the Short Term Fund Board and is looking forward to bringing a private point of view to the forum.

III. Review and Approval of Minutes

MOTION: Linda Haglund moved approval of the March 22, May 20 and September 28, 2005 OSTF Minutes. The motion was seconded by Anthony Fisher and passed unanimously by the Board.

IV. OSTF Portfolio Review and Market Perspective

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

V. LGP/OSTF Investment Policy Reviews

Ellen Hanby presented the City of Gresham's investment policy for review by the **B**oard. Treasury staff, Perrin and Ellen, believes much progress has been accomplished with the City's investment policy. The risk tolerance contained within the policy is believed to be appropriate given the stated investment objectives.

The City of Gresham had used an outside investment advisory service, and Linda stated her appreciation for the additional language that was included in the policy regarding advisory services.

Ellen commented that this was a very good policy and thanked Ritha Metcalfe for her cooperation over the course of this process.

There were no further comments or questions from the Board.

Harvey thanked Ellen and Perrin for their presentation.

VI. <u>Other Items - Article featured in the Wall Street Journal</u>

On January 28, 2006 the Wall Street Journal published an article written by Stan Rosenberg entitled '*Orange County, California is buying own note to save on pension*'. Harvey and Harry led a discussion based on the contents of this article including appropriateness of a governmental entity buying its own debt and the potential impact of such a holding on an entity's financial statements.

In closing Harvey thanked all who attended.

The meeting was adjourned at 11:25am.

Respectfully submitted,

Heidi C. Rawe
Executive Support Specialist

OSTF Portfolio Review and Market Perspective

Market Review and Outlook:

- The US economy exhibited continued resilience in 2005 despite surging oil prices.
    - Positive fundamentals: tax rates on capital are quite low and will remain so for at least the next two years; corporate profits are strong; federal revenues are strong; productivity growth is healthy; nonfarm payroll gains averaged 166 thousand per month in the past year; unemployment rate is low and declining.
    - Negative fundamentals: housing market appears to be cooling; high oil prices represent a tax on growth; weakness in the auto sector could spread to other areas of the economy; ex-aircraft orders, capital spending has slowed significantly in the past six months.
- The US Federal Reserve raised official rates another 200 basis points during the year, bringing the target rate to 4.25%. The fed funds rate has increased 325 basis points since the Fed started tightening on June 30, 2004.
- As foreign demand for US fixed income assets continued unabated, long-term interest rates ended the year close to 40-year lows.
- The yield curve ended the year essentially flat, with scant differential between the spreads of 2-year and 10-year Treasuries (versus a positive slope of 115 basis points at the beginning of the year), which has triggered some concern that the curve will invert in 2006 and lead to a weaker economy.
- Credit spreads are relatively tight, but credit metrics and fundamentals remain solid. Still, relative value in credit has diminished as idiosyncratic and system risks have grown.
- The Alan Greenspan era ends…enter Chairman Ben Bernanke.

Recent Fed Speak:
Notwithstanding continuing cautionary statements about the risks of inflation, the Federal Open Market Committee was perceived to have become somewhat less hawkish during the 4th quarter of 2005. In the statement accompanying the December 13 rate hike, the Committee removed the characterization of current monetary policy as "accommodative", signifying to many that, after 3.25% of cumulative rate hikes, "normalization" is near. Following the October 24 announcement of Ben Bernanke's nomination to succeed Alan Greenspan as Fed chairman, investors have increasingly focused on the stability of various inflation statistics, given Dr. Bernanke's stated preference for an explicit inflation-targeting approach to monetary policy.

Going forward, staff believes that the Fed is close to neutrality and that the future direction of Fed monetary policy will be data dependent. The risk remains that inflation could exceed the market's current expectation, i.e., that the CPI will average only 2.3% over the next 2-3 years. While a near-term Fed pause is likely, this does not rule out a resumption of rate hikes later in the year on any indication of inflationary pressure as may be witnessed, for example, in any or all of the following barometers:

OSTF Portfolio Review and Market Perspective

Inflation Indicator	Recent Trend							
CPI, YoY	4.0%	Jan 06	3.4%	Dec 05	3.5%	Nov 05	4.3%	Oct 05
CPI, ex food & energy, YoY	2.1%	Jan 06	2.2%	Dec 05	2.1%	Nov 05	2.1%	Oct 05
PPI, YoY	5.7%	Jan 06	5.4%	Dec 05	4.4%	Nov 05	5.9%	Oct 05
PPI, ex food & energy, YoY	1.5%	Jan 06	1.7%	Dec 05	1.7%	Nov 05	1.9%	Oct 05
PCE Deflator, YoY	2.8%	Dec 05	2.8%	Nov 05	3.4%	Oct 05	3.8%	Sept 05
GDP Price Deflator, YoY	3.0%	Dec 05	3.3%	Sept 05	2.6%	June 05	3.1%	Mar 05
Avg Hourly Earnings, YoY	3.3%	Jan 06	3.2%	Dec 05	3.0%	Nov 05	3.1%	Oct 05
Crude Oil, $/barrel	$68.74	Jan 06	$62.35	Dec 05	$59.01	Nov 05	$61.16	Oct 05
CRB Futures Price Index	348.66	Jan 06	331.83	Dec 05	314.27	Nov 05	316.29	Oct 05
ISM Prices Paid Index	65.0	Jan 06	63.0	Dec 05	74.0	Nov 05	84.0	Oct 05

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:	**June 30, 2004**	**Dec. 31, 2004**	**June 30, 2005**	**Dec. 31, 2005**	**Feb. 23, 2006**
U.S. Treasury Notes	0.00%	0.00%	0.00%	0.00%	0.00%
Agency Securities	64.43%	58.12%	55.01%	50.57%	50.08%
Commercial Paper	34.42%	32.42%	31.10%	33.98%	36.73%
Corporate bonds	0.00%	8.55%	12.80%	14.63%	12.09%
Total Corporate Indebtedness	34.42%	40.97%	43.90%	48.61%	48.82%
Time Certificates of Deposit	1.15%	0.91%	1.08%	0.82%	1.10%
Total	100.00%	100.00%	100.00%	100.00%	100.00%
Fixed vs. Floating:					
Fixed Rate	86.74%	85.27%	82.69%	84.82%	85.09%
Variable Rate	13.26%	14.73%	17.31%	15.18%	14.91%
Interest Rate Exposure (adjusted for variable rate securities):					
WAM, exposure in days	74	71	85	96	106

The portfolio rules were revised and adopted at the April 2004 OIC meeting to include high quality corporate bonds with maximum maturities of three years. As such, the OSTF has since purchased corporates ranging from secondary bonds maturing in one month to primary bonds maturing in three years. The allocation to corporate indebtedness has increased to nearly the maximum allowed within the portfolio guidelines as the fundamentals for corporate credit remain solid. Spreads are currently more attractive and have widened from the historically tight levels witnessed over the past two years as follows: the spread between commercial paper and agency discount notes is about 10-12 basis points range from the tight 0-5 b.p. range of late 2004; the spread between 1-3 year AA/AAA corporate bonds and US Treasuries has widened to about 44 b.p. from 37 b.p.; 1-3 year single A corporates offer an average spread of about 53 b.p. from 46 b.p.

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:
Since the Fed began its tightening campaign on June 30, 2004, and through each of the subsequent fourteen 25 basis point rate hikes, the OSTF has been structured with a defensive bias; adjustable rate securities have been a core holding for the fund during this period. After 350 basis points in rate hikes, staff believes that the Fed is close to neutrality and anticipates that the adjustable rate security allocation will modestly decline and be replaced with fixed rate securities. Given the slight inversion of the yield curve, the risk/reward relationship of fixed rate securities with maturities between 1-3 years is more attractive at this stage versus one and two years ago. The OSTF maintains a defensive, bar-belled structure with the majority of the barbell emphasizing money market securities maturing in less than two months and a minority allocated to a combination of fixed/floating rate notes (fixed ~ 11%, floating ~ 10%) with maturities between one to three years.

General Fund:
In the fiscal year ended June 30, 2005, and in the current fiscal year, 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 (a decrease from the spread of 90 b.p. for the fiscal year ended June 30, 2005). 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:
OSTF securities lending income for the year ending December 31, 2005 amounted to $526.6 thousand versus $2.233 million in the prior year, a decrease of $1.707 million. This was attributable to more caution by the securities lending manager as well as the persistent tightening by the Fed leading to a very flat yield curve, which increased the risk of the "carry trade" compared to the positively sloped yield curve environment witnessed in the prior year.

Additional Items:
In the future, staff intends to work with the OSTF Board and the OIC to further revise and enhance the portfolio investment rules and guidelines (4.02.03).

Also included in the attached report is the State Street Bank list of the December 31, 2005 holdings, the Secretary of State annual audit report, and the audited financial statements for the year ending June 30, 2005.

OSTF Portfolio Review and Market Perspective

Portfolio Statistics & Compliance, as of December 31, 2005:

Maturity Distribution	Policy	Actual	Par Value
Portfolio maturities less than 93 days	> 50%	67.7%	$5,600,637,000
Portfolio maturities between 93 days & 1 year		11.9%	980,293,000
Portfolio maturities greater than 1 year	< 25%	20.4%	1,686,035,000
Maturities greater than 3 years	0%	0.0%	0
Total		**100.0%**	**$8,266,965,000**
Diversification			
Treasury and/or Agency Securities	0-100%	50.6%	$4,180,269,000
Commercial Paper (minimum A-1/P-1)	< 50%	34.0%	2,809,249,000
Commercial Paper (< A-1/P-1)	0%	0.0%	0
Corporate Bonds	< 25%	14.6%	1,209,297,000
Total Corporate Indebtedness	< 50%	48.6%	4,018,546,000
Repurchase Agreements	0-100%	0.0%	0
Reverse Repurchase Agreements	0-100%	0.0%	0
Time Certificate of Deposit's	< 20%	0.8%	68,150,000
Total		**100.0%**	**$8,266,965,000**
Top Ten Holdings			
1. Federal Home Loan Bank	33%	20.0%	$1,655,315,000
2. Freddie Mac	33%	18.8%	1,554,978,000
3. Fannie Mae	33%	11.5%	950,326,000
4. Citigroup Inc. CP and bonds	5%	2.8%	235,000,000
5. Bank of America CP	5%	2.7%	225,000,000
6. Credit Suisse New York CP	5%	2.7%	225,000,000
7. Bear Stearns Companies Inc. CP	5%	2.7%	225,000,000
8. National Rural Utilities CP	5%	2.2%	183,974,000
9. Morgan Stanley CP and bonds	5%	2.1%	175,000,000
10. UBS Finance CP	5%	2.1%	170,000,000
Total Top Ten Holdings		**67.7%**	**$5,599,593,000**
Total Average Credit Quality	Minimum Aa2 or AA	Aa2/AA	

Performance, ending December 31, 2005:

	December	3 mos.	YTD	1 yr	2 yrs	3 yrs	4 yrs	5 yrs
OSTF	0.34	0.95	3.15	3.15	2.29	1.97	2.00	2.50
91 Day T-Bills	0.32	0.92	3.07	3.07	2.20	1.84	1.83	2.34