Oregon Short Term Fund Board
MINUTES
September 19, 2006

Location:	91st Annual O.A.C.T.F.O. Conference Linn County Fair and Expo Event Center 3700 Knox Butte Road Albany, OR 97321
OSTFB Members Present:	Harvey Rogers, Preston Gates & Ellis Harry Morton, Multnomah County Linda Haglund, Office of the State Treasurer Gary Wallis, City of Wilsonville Bob Woodruff, Nike, Inc.
OST Staff Present:	Darren Bond, Director of Finance Perrin Lim, Office of the State Treasurer Judy Whaley-Fultz, Banking Services Manager Sharon Prentice, Relationship Manager Heidi Rawe, Executive Support Specialist
Other Attendees:	Hilary Chen, US Bank Sam Huff, Douglas County John DiPasquale, US Bank Gary Cadle, Jackson County Eve Arce, Josephine County John Harelson, Josephine County Danelle Wetherell, Gilliam County Nancy Misener, Wheeler County Alcenia Byrd, Gilliam County Isabella Brock, Curry County Cheryl Circle, Deschutes County Linda Pilson, Lincoln County Linda Pitzer, Lincoln County Shari Anderson, Clackamas County Nancy Wilson, Clackamas County Jennifer Forsyth, Malheur County Karen Schell, Washington County YaLing Huang-Dressel, Washington County Kathy Gray, Crook County Nellie Franklin, Harney County Kathy Smith, Grant County Michael Long, Klamath County Nancy Reed, Yamhill County Deena Goss, Jefferson County Laurie Steele, Marion County Michelle Hawkins, Linn County David Thurman, City of Portland

I. Opening Remarks

By way of introduction, Harvey Rogers gave a brief overview of the responsibilities and duties of the Oregon Short Term Fund Board; and each member introduced themselves.

II. Review of March 7, 2006 Minutes

Motion: Harry Morton moved approval of the March 7, 2006 minutes; the motion was seconded by Bob Woodruff and passed unanimously by the board.

III. CDARS Presentation by Chris Spilsbury

Having spoken briefly in an earlier meeting about the Certificate of Deposit Account Registry Service (CDARS) program, Chris Spilsbury of Promontory Interfinancial Network, LLC, continued to give further information in the Short Term Board meeting.

The CDARS program was created to provide a more efficient manner for individuals, institutions, and government entities to access high levels of FDIC insurance other than dealing with multiple institutions, spreading funds across the board.

In order to achieve this, Community banks were linked together by a matching engine sophisticated enough to efficiently facilitate the transfer or deposits and track that under guidelines set by the OCC and the FDIC. In essence, these individual banks do the legwork for their depositors by taking a principle investment and spreading it across network banks, as much as necessary in increments below $100,000 to ensure that the full principle is insured. Instead of collateralization, customers are now receiving 100% FDIC insurance, and are freed from the work involved in tracking these collateralized values.

Some points discussed included the following:

- Banks are able to spread out the funds while keeping and retaining the deposits on the balance sheet

- Banks that join the network have to be well capitalized. Familiar regulators classify banks as adequately or under capitalized and then lastly they have to be stain free, absolutely clean from any compliance issues whatsoever. If that status changes at any time they are sidelined until such issues are clear.

- The depositor can indicate which banks they do not want funds to go to, however cannot indicate where they would like funds to go.

- No money actually passes through CDARS. It is all handled through Bank of New York (BONY) who is the clearing house for the network.

- The order process differs from a standard bank CD that will be collateralized. From a timing standpoint, an order would be placed by Tuesday, the match time would take place on Wednesday, and the effective date of every order that is placed within CDARS would be Thursday.

- The FDIC insures the deposit

IV. OSTF Portfolio Review and Market Prospective – Perrin Lim

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

V. OSTF Local Government Online Services

Sharon Prentice gave an informative presentation with regard to Online Services that are available to Local Governments through the State Treasurer's Office.

VI. LGP/OSTF Investment Policy Review – Marion County

Perrin Lim presented Marion County's Investment Policy to the board. Harvey Rogers invited Laurie Steele, Marion County Treasurer, to speak about the revisions to Marion County's Policy. A discussion took place about the Short Term Portfolio 5.2.1.; the board felt this could be clearer. In addition, Compliance Monitoring was addressed; and Laurie agreed to include further information within the policy.

VII. LGP/OSTF Investment Policy Review – City of Portland

Harvey Rogers introduced David Thurman from the City of Portland. David shared history relating to the City of Portland's policy. He confirmed that one of their goals within the next 18 month process is to try and achieve a balance of the least amount of risk while still being able to make Revenue. David expressed his interest in hearing the board's thoughts and comments.

The main change to the City of Portland's policy was in respect to the Securities Lending portion, and whether the board was comfortable with the language therein. Perrin gave an overview of Securities Lending and confirmed that he didn't see anything in the policy that should be of concern to the board. He thought it to be pretty conservative.

There was a discussion on the importance of having a good Securities Lending Agent and good Treasury Managers, and Harry made the comment that both of these were present.

It was suggested that the following changes be made under Section VIII. Reporting Requirements:

- (A) It was advised that 'amortized cost' should be added to the sentence 'A list of all securities owned with all maturities over one year priced at both cost and market value.'

- In addition, under (B), a list of all investment transactions showing the net gain or loss on each investment, 'unrealized' should be included in front of net so it would read 'showing the *unrealized* net gain'.

VIII. Deanne Woodring – Appointment to OSTF Board

Linda Haglund announced Deanne Woodring as the newest member of the OSTF Board. Due to a prior commitment, Deanne was unable to attend this meeting.

IX. Closing Remarks

After 8 years of serving on the OSTF Board, Harry Morton's term has come to an end; and this is the last meeting Harry will attend as a Board Member. In closing, he spoke highly of both the members who he has served on the board with and the time that he has spent in this capacity.

Meeting adjourned at 4:55pm.

Respectfully submitted,

Heidi C. Rawe
Executive Support Specialist

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Market Review and Outlook:

- The US economy is exhibiting signs of slowing but inflation pressures remain "elevated." The US Federal Reserve and the bond market assume that a slower economy plus the lagged effects of a 425 basis point rise in short-term interest rates will result in reduced inflation pressures, but the proof will be in the pudding, as they say.

    - Arguing for slower growth is evidence of a significant slowdown in the residential housing market. Over the past year, new applications for mortgages have declined 25%; mortgage refinancing activity has slumped fully 50%; housing starts are down about 10%; and the equities of major home builders have declined some 30%. Moreover, car sales have been flat to down over the past year, and rising gasoline prices have taken a bite out of retail sales. Jobs growth, meanwhile, is proceeding at a fairly modest pace.

    - Arguing against a full-scale slowdown in the economy is the evidence of strong growth in after-tax corporate profits and healthy state and federal tax revenues. Corporate profit margins are still at recird0high levels, and some 50% above long-term average levels. In addition, state and local tax receipts have exceeded expectations by wide margins, suggesting that underlying income gains may be stronger than official statistics suggest. Credit spreads remain relatively low, suggesting an absence of systemic risk.

- The Fed raised official rates another 100 basis points during the first seven months of 2006, bringing the target rate to 5.25%. The fed funds rate has increased 425 basis points since the Fed started tightening on June 30, 2004.

- At the August 8, 2006 Federal Open Market Committee Meeting, the Fed left rates unchanged at 5.25% and provided a tightening bias.

    - In the discussion of the economic outlook, the statement showed continuity with the mid-July Bernanke testimony, in particular on his twin themes that growth is slowing and that slowing growth would hold in check recent inflation increases.

    - On inflation, the FOMC dropped the reference to productivity gains holding down unit labor cost growth, implying less of a cushion on inflation. They explicitly sat that "inflation pressures seem likely to moderate over time, reflecting contained inflation expectations and the cumulative effects of monetary policy actions and other factors restraining aggregate demand." A shorter and less detailed phrase was included in the June statement.

    - Compared to the June statement, this one was more definitive on a slowdown in growth, largely reflecting the 2Q GDP and July employment reports.

Market Review and Outlook: (continued)

- On the risk assessment, the language "the Committee judges that some inflation risks remain. The extent and timing of any additional firming that may be needed to address these risks will depend on the evolution of the outlook for both inflation and economic growth, as implied by incoming information" is virtually identical to last month's statement.

- The yield curve remains slightly inverted, with a -5.4 basis points differential between the spreads of 2-year and 10-year Treasuries (the YTD range has been -17 basis points on February 23 to +20 basis points on May 3), which has triggered continued concern that an inverted curve portends a weaker economy.

- Bottom line: Staff does not currently anticipate a major slowdown, but remains concerned that the economy is more vulnerable to downside, rather than upside risks, stemming primarily from the degree to which housing slows and how this impacts the rest of the economy. For the time being, staff believes the Fed is likely to remain on hold, pending the accumulation of more data. The Fed has plenty of latitude to lower rates should any significant slowdown in growth develop, but they would likely continue raising rates if inflation pressures fail to recede.

ECONOMIC SUMMARY					
	Current Period		Previous Period		Year Ago
ECONOMIC GROWTH					
Real GDP growth (annual rate)	2.5%	2Q06	5.6%	1Q06	3.3%
Retail Sales (change, monthly and annually)	1.4%	July	-0.4%	June	2.0%
Industrial Production Index (change, monthly and annually)	0.4%	July	0.8%	June	4.9%
Leading Indicators Index (change, monthly and annually)	-0.1%	July	0.2%	June	-0.1%
New Housing Starts (thousands of units, annualized)	1,795	July	1,841	June	2,070
ISM Purchasing Management Index	54.7	July	53.8	June	56.4
INFLATION					
CPI (annual rate, YOY)	4.1%	July	4.3%	June	3.2%
Core CPI (annual rate, YOY)	2.7%	July	2.64%	June	2.14%
PPI (annual rate, YOY)	4.2%	July	4.9%	June	4.7%
Core PPI (annual rate, YOY)	1.3%	July	1.9%	June	2.8%
GDP Price Deflator (annual rate, YOY)	3.3%	2Q06	3.3%	1Q06	2.4%
Avg. Hourly Earnings (annual rate, YOY)	3.9%	August	3.9%	July	2.7%
Crude Oil, $/barrel	$63.79	Sep 12	$70.26	Aug 31	$68.52
ISM Prices Paid Index	73.0	August	78.5	July	62.5

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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:	**Dec. 31, 2004**	**June 30, 2005**	**Dec. 31, 2005**	**June 30, 2006**	**Sept. 12, 2006**
U.S. Treasury Notes	0.00%	0.00%	0.00%	0.00%	0.00%
Agency Securities	58.12%	55.01%	50.57%	49.10%	49.65%
Commercial Paper	32.42%	31.10%	33.98%	33.95%	33.09%
Corporate bonds	8.55%	12.80%	14.63%	15.33%	15.74%
Total Corporate Indebtedness	40.97%	43.90%	48.61%	49.28%	48.83%
Time Certificates of Deposit	0.91%	1.08%	0.82%	1.62%	1.52%
Total	100.00%	100.00%	100.00%	100.00%	100.00%
Fixed vs. Floating:					
Fixed Rate	85.27%	82.69%	84.82%	85.73%	84.61%
Variable Rate	14.73%	17.31%	15.18%	14.27%	15.31%
Interest Rate Exposure (adjusted for variable rate securities):					
WAM, exposure in days	71	85	96	108	142

Though corporate bond spreads remain at historically tight levels, the fundamentals for credit remain generally solid, thus the allocation to corporate indebtedness has remained at nearly the maximum allowed within the portfolio guidelines.

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 seventeen 25 basis point rate hikes, the OSTF has typically been structured with a defensive bias; adjustable rate securities have been a core holding for the fund during this period. After 425 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. Investment of new cash and reinvestment of maturities will modestly extend, thus the WAM, adjusted for variable rate securities, is also likely to modestly extend. Given the slight inversion of the yield curve, the risk/reward relationship of fixed rate securities with maturities between 6 months and 2 years continues to be more attractive at this stage versus one and two years ago.

The OSTF maintains a defensive structure with the majority of the fund currently emphasizing money market securities maturing in less than two months and a minority allocated to a combination of fixed/floating rate notes (fixed ~ 16%, floating ~ 6%) with maturities between one and three years.

Oregon Short Term Fund Information: (continued)

General Fund:

In the fiscal year ended June 30, 2006, 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 70 basis points (a decrease from the spread of 80 b.p. for the fiscal year ended June 30, 2006). 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 period ending August 31, 2006 amounted to $642.5 thousand versus $360.2 thousand in the prior year, an increase of $282.3 thousand.

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 August 31, 2006 holdings, the Secretary of State annual audit report, and the audited financial statements for the year ending June 30, 2006.

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Portfolio Statistics & Compliance, as of August 31, 2006:

Maturity Distribution	**Policy**	**Actual**	**Par Value**
Portfolio maturities less than 93 days	> 50%	61.3%	$4,982,820,000
Portfolio maturities between 93 days & 1 year		18.6%	1,512,262,000
Portfolio maturities greater than 1 year	< 25%	20.1%	1,634,622,000
Maturities greater than 3 years	0%	0.0%	0
Total		**100.0%**	**$8,129,704,000**
Diversification			
Treasury and/or Agency Securities	0-100%	49.4%	$4,015,942,000
Commercial Paper (minimum A-1/P-1)	< 50%	33.9%	2,755,696,000
Commercial Paper (< A-1/P-1)	0%	0.0%	0
Corporate Bonds	< 25%	15.2%	1,238,416,000
Total Corporate Indebtedness	< 50%	49.1%	3,994,112,000
Repurchase Agreements	0-100%	0.0%	0
Reverse Repurchase Agreements	0-100%	0.0%	0
Time Certificate of Deposit's	< 20%	1.5%	119,650,000
Total		**100.0%**	**$8,129,704,000**
Top Ten Holdings			
1. Federal Home Loan Bank	33%	19.9%	$1,620,097,000
2. Freddie Mac	33%	18.0%	1,462,185,000
3. Fannie Mae	33%	11.4%	928,160,000
4. Bear Stearns Companies Inc. CP	5%	3.1%	250,000,000
5. Southern Company CP	5%	3.1%	249,335,000
6. General Electric CP and bonds	5%	2.5%	207,225,000
7. National Rural Utilities CP	5%	2.5%	206,250,000
8. Citigroup Inc. CP and bonds	5%	2.5%	205,000,000
9. Prudential Funding Corp. CP	5%	2.5%	200,000,000
10. FCAR Owner Trust CP	5%	1.9%	155,000,000
Total Top Ten Holdings		**67.5%**	**$5,483,252,000**
Total Average Credit Quality	Minimum Aa2 or AA	Aa2/AA	

Total Return Performance, ending July 31, 2006:

	July	**3 mos.**	**YTD**	**1 yr**	**2 yrs**	**3 yrs**	**4 yrs**	**5 yrs**
OSTF	0.50	1.26	2.72	4.32	3.34	2.62	2.35	2.40
91 Day T-Bills	0.42	1.22	2.63	4.18	3.22	2.49	2.23	2.27