

**OREGON SHORT-TERM FUND
BOARD MEETING**

Minutes

July 29, 2010

Via Conference Call

Board Attendees: Douglas E. Goe, Orrick, Herrington & Sutcliffe LLP
Darren Bond, Oregon State Treasury
Laurie Steele, Marion County Treasurer
Deanne Woodring, Davidson Fixed Income Management
Stewart Taylor, City of Albany
Bob Woodruff, Nike Inc.

Attendees (Staff): Perrin Lim, Oregon State Treasury
Tom Lofton, Oregon State Treasury
Ellen Hanby, Oregon State Treasury
Judy Whaley-Fultz, Oregon State Treasury
Nancy Baldwin, Oregon State Treasury
Heidi Rawe, Oregon State Treasury
Michael Cutler, Oregon State Treasury

Attendees (Other): Kelly Olson, Secretary of State Audits Division
Sara Anderson, Secretary of State Audits Division

i. Opening Remarks

Doug Goe welcomed all to the OSTF Board Meeting at 10:00 am.

ii. Review and Approval of Meeting Minutes – April 29, 2010

MOTION: After discussion of one correction, the 4/29/2010 minutes were approved.

iii. Market Review – Perrin Lim and Tom Lofton

Tom Lofton presented a current market review to the Board. U.S. Treasuries outperformed in the second quarter driven by “flight to quality” trades and reduced expectations for inflation. Treasury yields declined across yield curve with the 2-year/10-year yield curve flattening by 41 bps to +328 bps. Despite recent flattening, the yield curve remains steep with the average spread between 2-year and 30-year Treasury Bonds over the past 3 years of 254 bps. The difference between corporate yields and US Treasury yields widened 41 bps as concerns over the economic outlook increased. Despite the wider corporate yield spread, corporate yields declined 25bps in the second quarter to 4.23% as the decline in Treasury yields was greater (-60bps). 3 Month LIBOR rose steadily from late March to 53 basis points in late May mostly due to the effects of new regulations on 2A-7 Money Market funds and then essentially flat-lined

through June. Regulatory changes forced money market funds to shorten investment horizons to 30 days, consequently 3 Month LIBOR based investment products lost a large buyer base and its price declined (yield increased). Mr. Lofton further noted that the OSTF has a healthy exposure to corporate and floating rate notes.

Perrin Lim noted that subsequent to the recent approval of revisions to the portfolio rules allowing single A credits, there has been no compelling reason to buy foreign government securities or municipal securities. The only single A securities added to the portfolio have been Verizon Wireless and TEVA Pharmaceuticals.

Discussion followed regarding the General Fund Balance and how the LGIP is compensated and tracked in the OSTF banking system. The General Fund's volatile balance issues have made the issuance of Tax Anticipation Notes necessary. In the fiscal year ended June 30, 2009, the General Fund had experienced negative cash balances. The current fiscal year may witness pressure on 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 120 bps. The spread is based on the three year average of the "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.

The Oregon Intermediate Term Pool (OITP) was reviewed and Mr. Lim noted that the pool will begin funding on August 2, 2010; starting with \$10 million. OITP will be available to all State agencies that are qualified to participate. Discussion followed regarding penalties, Lehman bonds and Net Asset Values. Darren Bond noted that, due to budget issues, a large participation in the OITP is not anticipated as this time.

Mr. Lim answered questions from the board regarding Fannie Mae subordinated debt, ratings and the capital structure of securities.

Doug Goe thanked Staff and Board members for their comments.

iv. Market Participants Perspective – Deanne Woodring

Deanne Woodring presented a market participant perspective, commenting that local governments are fortunate to have an investment pool that is paying the levels that the OSTF is paying. It is a significant added benefit to local governments that these entities have in a time that they are really struggling. Every local government is facing the budget challenges as is the State of Oregon and really fighting to maintain their interest income wherever they can. So, the ability that the pool is paying what it is, is a real benefit to participants.

Ms. Woodring confirmed that the outlook remains low, and stressed the importance of continuing to communicate the additional risk in the market of rates coming up. The hardest

thing is to keep people from taking on too much risk so that they don't get exposed into products or securities that may lose them money. Continuing to educate participants is very important.

v. Market Participants Perspective – Bob Woodruff

Bob Woodruff suggested that he might provide a global perspective, which may help as staff thinks about potentially investing in sovereign's, giving a market perspective relative to what he is seeing on sovereign level and also a currency perspective.

The board agreed that this would certainly add value to OSTF Board meetings.

Mr. Woodruff confirmed that he would prepare a sovereign/global/currency update, which will supplement the domestic market perspective, at all future meetings.

vi. Discussion of OSTF Audit Presentation by Secretary of State (SOS) Auditors

Mr. Goe, with the approval of the board, asked Secretary of State Auditors to give a presentation of the OSTF audit at the next OSTF Board meeting on October 28, 2010.

Kelly Olson, Audit Manager for the OSTF Financial Statements, confirmed that the audit on the OSTF would be completed by the end of August 2010, and accepted Mr. Goe's invitation to provide a presentation at the next OSTF board meeting.

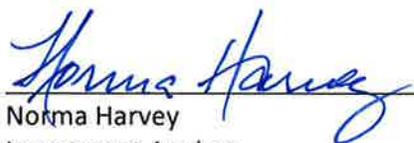
vii. Closing Remarks

Stewart Taylor asked where he could get information on the various topics discussed during the meeting. Mr. Lim mentioned a subscription service that offers a snapshot of month end pool rates. Mr. Lim will find out if this information can be forwarded to the board members. This would provide how rates compare and differ, although it wouldn't discuss how the pools are getting to those rates.

Mr. Goe thanked all for participating in the meeting and meeting was adjourned.

Meeting adjourned at 10:50 am.

Respectfully submitted by,



Norma Harvey
Investment Analyst



Heidi C. Rawe
Executive Assistant to the Deputy Treasurer