

# value

2011-2012  
Oregon State Treasury  
State Treasurer Ted Wheeler  
Annual Report



[www.oregon.gov/treasury](http://www.oregon.gov/treasury)

## **How to reach the Oregon State Treasury**

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cover photo  
Central Oregon lava country  
James Sinks - 2011

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**Ted Wheeler**  
**Oregon State Treasurer**

Dear Oregonians:

I am pleased to offer this annual report to the citizens of Oregon, and to outline the many ways your State Treasury is providing value to our state. We are saving money today, and making wise investments for tomorrow.

In every line of business, from Baker City to Brookings to Beaverton, success is forged when you constantly pursue the highest value. Your State Treasury provides exemplary customer service, highly competent management of public investments and funds, and an everyday commitment to reduce costs whenever and wherever it makes business sense to do so. In addition, your Treasury is focused on building a stronger economy, through the new Oregon Investment Act.

Highlights for 2011-12 include:

- Two fee reductions for families saving for college and job training through the Oregon 529 College Savings Network;
- Maintaining Oregon's healthy credit rating and our commitment to prudent use of debt;
- Negotiating new terms for state-issued ReliaCards that eliminate most fees and allow free and unlimited U.S. Bank ATM use, which will help protect vulnerable citizens;
- More than \$60 million in savings through refinancing existing state debt to lower rates;
- Taking a strong stance as a responsible investor through direct engagement with companies and proxy votes, and by calling for better disclosure of political activity financed by corporations; and
- Strong investment returns including in the State Accident Insurance Fund, allowing for a dividend rebate of \$150 million to be paid to Oregon employers.

Your Treasury is already running a lean operation, according to an independent research firm, which said Oregon compares favorably to a benchmark of our peers. At the same time, we remain committed to earning the best-possible returns on \$72.5 billion in public investments under management, and to do so transparently and as a responsible investor. As a result, Oregon is positioned for strength.

Your Treasury is doing business the right way. We are striving to be more efficient, provide high value to Oregon, and put our state in a better position to thrive. Every dime we generate in extra returns and save through efficiency translates into more money that's available to build a stronger future for Oregon families and to protect our neighbors.

It is a privilege to be your State Treasurer. Thank you for taking the time to learn about the good work occurring on your behalf. If you'd like to see additional details and data, I invite you to visit our website at [www.oregon.gov/treasury](http://www.oregon.gov/treasury).

Sincerely,



Bend Venture Conference  
photo by Marisa Chappell

## State Treasurer Ted Wheeler

### Oregon's 28th State Treasurer

A sixth-generation Oregonian, Ted Wheeler cares deeply about Oregon and the state's financial health. He is committed to protecting the state's current strong credit ratings, to ensuring that public investments remain both prudent and profitable, and to conservatively managing Oregon's debt. He believes all Oregonians will be able to stand taller because their state is on a stable financial footing.

Since being appointed and then elected in 2010, he directed efforts to implement money-saving technologies, to eliminate most fees for families who rely on state-issued bank cards, authorized fraud lawsuits against firms that misled investors, earned an upgrade in Oregon's credit rating, and revamped the Oregon 529 College Savings Network with lower costs and more options for families.

Also as Treasurer, he has maintained his commitment as a public official to protecting the most vulnerable citizens in Oregon's communities. The Treasurer oversees more than \$70 billion in public assets, and administers the state's public debt sales and central banking for government agencies.

Wheeler also has assumed a leadership

role for the state's economic development. He convened business leaders and spearheaded creation of the Oregon Investment Act, which was approved by the Legislature in 2012.

The Treasurer is one of three Oregon Constitutional officers, along with the Governor and Secretary of State.

Serving as Chair of the Multnomah County Commission from 2006 to 2010, Wheeler was a champion of preventative services. The county reduced the cost of government while maintaining safety net programs for the elderly, drug and alcohol treatment programs, and forging partnerships for a mental health crisis center.

He oversaw a workforce of more than 4,400 and was responsible for reducing and balancing the budget and also cutting the county's debt.

Wheeler brings a strong management and financial background to the office of State Treasurer. Before entering elected office, he worked in the financial services industry.

He earned his undergraduate degree in

Economics from Stanford University, an MBA from Columbia University and a Masters in Public Policy from the John F. Kennedy School of Government at Harvard University.

Wheeler believes the State Treasury also should be a robust resource for Oregonians to improve and protect their own financial health. He launched a new consumer financial protection web site, [GuardYourMoney.org](http://GuardYourMoney.org).

Wheeler was born Aug. 31, 1962, in Portland, and graduated from Lincoln High School. His family has deep Oregon roots. The town of Wheeler, located on Nehalem Bay on the Oregon coast, is named after his great-grandfather.

Wheeler is a longtime community volunteer leader, and has devoted energy to diverse organizations including Neighborhood House, Portland Mountain Rescue, and the Oregon Sports Authority. He is an Eagle Scout.

When he is not working, Wheeler enjoys endurance sports, and successfully summited Mt Everest in 2002. He snowshoed to the North Pole with his wife and twice completed the Ironman Triathlon in Kona, Hawaii.

He lives in Southwest Portland with his wife, Katrina, and their daughter.

## Treasury at a glance

# What we do

The Oregon State Treasury is Oregon's financial services center.

The State Treasury is the State of Oregon's financial hub and is a sophisticated business operation. The 84-employee office provides a menu of investment, bonding and banking services to serve citizens, public retirees and local governments including schools, cities and counties. It administers the state's public debt sales and central banking for government agencies, and protects public fund deposits.

Treasury is responsible for the management of public trust funds including the Oregon Public Employees Retirement Fund, which is the largest fund in the state's portfolio, which combined stood at \$72.54 billion as of Dec. 31, 2011.

Treasury does not oversee the benefits and administration of PERS. That responsibility falls to the Public Employees Retirement System, which is a separate agency. Treasury invests the PERS fund for the highest returns, following the guidance of the

Oregon Investment Council.

Treasury also does not collect taxes (that is a function of the Oregon Department of Revenue), and nor does it oversee the drafting state budget, which is guided by the Legislative Fiscal Office

All of the functions of the State Treasury are designed to serve clients and the public, and those systems are constantly re-evaluated to ensure that services are rendered in an efficient and cost-effective way.

Treasury runs like a business because it is a business, and the entire budget for the Oregon State Treasury is derived from payments for the low-cost services it provides, which saves Oregonians money.

Treasury is made up of five divisions, which work in concert to fulfill the mission of providing financial stewardship for Oregon, while also providing high levels of customer service and information transparency. Those are the Executive, Finance, Investment, Debt Management, and Information Systems Divisions. Treasury also includes the Oregon 529 College Savings Network.

# Who we serve

**OREGONIANS:** The Treasurer's office directly serves individual Oregonians by helping families save for higher education and job training, and by promoting financial education, outreach efforts and the Reading is an Investment program. In addition, the State Treasurer's office provides indirect benefits to Oregonians by generating investment income for Oregon, and by protecting bank accounts belonging to schools and other public institutions.

**STATE AGENCIES:** The Treasury is the state's central bank, and all Oregon state government agencies are Treasury customers. They receive cash management and debt management services, including check processing, electronic banking, deposits, bonding assistance and investment of the Oregon Short Term Fund.

**LOCAL GOVERNMENTS:** All Oregon local government agencies can use the Treasury for their banking needs and to invest in

the Oregon Short Term Fund, and there were 1,069 different government entities that did so as of June 30, 2012. So that local governments can deposit funds in local banks, the Treasurer's office protects the assets of public institutions from the risk of bank failures through the collateralization program.

**COMMUNITIES / NONPROFITS:** The Treasury helps secure low-cost financing for important community projects and makes capital available to Oregon banks, which can turn around and lend that money in their communities. The State Treasurer's office also helps communities across Oregon save money by coordinating low-cost bonding.

**SMALL BUSINESSES:** Promote healthy economic growth by overseeing efforts to invest in Oregon, including making money available to lend through the timed CD program and the investment of Lottery proceeds through the Oregon Growth Account.

## funds under management



all funds, as of Dec. 31 (in \$billions)

## serving customers

Treasury sets a high bar for customer satisfaction. In customer survey in 2010-11, percent who rated service "good" or "excellent":

overall	98%
timeliness	98%
accuracy	97%
helpfulness	95%
expertise	97%
data availability	95%

## credit ratings

Treasury is responsible for bond sales and, for interacting with credit rating firms, and for staffing the State Debt Policy Advisory Commission.

S&P **AA+**  
Fitch **AA+**  
Moody's **Aa1**

GF-supported debt **\$3.0b**  
Lottery supported debt **\$1.2b**

## value and savings

Treasury is providing vital financial services at a high value for Oregonians through negotiated fee reductions, rebates, prudent management of investments and debt, and efficient deployment of resources and staff. Some examples from 2011-12:

2012 bond refunding (present value)

**\$60.8m**

2011 peer benchmark of investment costs

**\$39.3m**

School Bond Guaranty, yearly (estimated)

**\$5.4m**

SAIF business dividend (SAIF Board), 2011

**\$150m**

## lower transaction costs

Treasury-negotiated rates for financial and banking services save millions for state and local government customers, versus market rates. For 2011-12, the estimated savings were **\$2.4 million**.

Treasury rate	market rate
<b>\$0.045</b>	<b>\$0.185</b>



Hillsboro public-private wastewater partnership

## Looking forward

The State Treasury's legislative agenda over the last two sessions has been bold, but effective. Measures have ranged from financial housekeeping to broad economic policy.

In 2012, the Treasury was instrumental in helping to pass the Oregon Investment Act (HB 4040) which established the Oregon Growth Board. The goal of the act is to make economic development efforts in Oregon more effective and nimble -- which could bolster both entrepreneurs and also established businesses that are trying to expand and hire.

The Growth Board will present recommendations for the 2013 Legislative Session in order to help coordinate Oregon's economic development resources. If the Legislature approves the strategy, the Oregon Growth Account -- now administered by the State Treasury -- will be transferred to become part of that economic development portfolio.

Also slated for the 2013 session is a pair of proposals that would establish a permanent fund for post-secondary student assistance.

The plan, called the "Opportunity Initiative" is an investment in Oregon's future workforce. It will be a new way of financing student assistance for post-secondary education. Treasurer Wheeler believes that a highly educated workforce is key to attracting and growing the types of companies that

create good jobs.

Other legislative pushes planned for the 2013 session include measures to:

- Allow the Department of Revenue to help facilitate assessment and taxation functions of insolvent counties,
- Bring the Sudan divestment statutes (2005) in line with recent court rulings,
- Allow the State Treasury to engage in enterprise-based software development to save money for state agencies,
- Allow the Financial Estimate Committee, which considers the fiscal impacts of ballot measures, to consider the effects of those measures on tribal communities,
- Prohibit heavy trucks from driving along riverbeds on Common School Fund lands.
- Reorganize the management of the Treasury's investment division based on a third-party consultant recommendation.

The Treasurer also is working with Gov. John Kitzhaber to formulate a joint partnership between West Coast states that could reduce costs of public infrastructure projects and make them appealing to private investors.

In addition, State Treasury staff has been assisting legislators in developing measures covering a range of subject matters, including industrial development, retirement security, cash management, K-12 capital financing, energy infrastructure needs, and farm financing.

## Legislative highlights

- **SB 11 (2011)** provided for statutory transfer of authority in the event of an unplanned vacancy in Office of the State Treasurer.
- **SB 12 (2011)** kept 2010-passed Credit Union Depository program on track.
- **SB 14 (2011)** allows state agencies to engage in various e-commerce transactions.
- **SB 18 (2011)** established a statutory process for the issuance of state bonds for local school district bonds, fulfilling provisions of Measure 68.
- **SB 19 (2011)** established process for the refinancing of the State's "Certificates of Participation" into lower-interest rate general obligation bonds, fulfilling provisions of Measure 72.
- **SB 20 (2011)** was crafted in consultation with bond counsel and Municipal Debt Advisory Commission to assist and clarify local government efforts to issue, manage, and refinance debt.
- **HJM 10 (2011)** was a message from the Oregon Legislative Assembly to request that Congress pursue a system of deposit insurance for public deposits, to free up additional capital for lending.
- **HB 4110 (2012)** establishes a process whereby assets invested in companies who do business in Iran are divested according to federal guidelines.
- **HB 4040 (2012)** was the Oregon Investment Act. The bill established the Oregon Growth Board in an effort to coordinate, leverage, and make more flexible Oregon's economic development resources.



## Selected boards and commissions

**Financial Estimate Committee** -- Determines expenditure amounts, if any, required to meet provision of ballot measures that may be voted on in upcoming elections. Members: Kate Brown, Chair (ex officio); Ted Wheeler (ex officio); Jim Bucholz, Director of DOR (ex officio); Michael Jordan, Director of DAS (ex officio); Debra Guzman. Meets as needed. *ORS 250.125*

**Oregon College Savings Board** -- Sets policy for 529 College Savings Network. Members: Darren Bond (Treasurer's designee (ex officio)); Lyn Hennion, Chair; Carl Vance; Paul Kelly; Jennifer Cooperman. Meets four times annually. *ORS 348.849*

**Oregon Growth Account Board** -- Makes investment in or provides seed capital for emerging growth businesses in Oregon through external general partners. Members: Ted Wheeler, Chair (ex officio); Rich Bader; Kanth Gopalpur; Tim Phillips; Art Hill; Steve Vincent; Les Fahey. Meets four times annually. *ORS 348.707*

**Oregon Investment Council** -- Invests all State of Oregon funds, including the Oregon Public Employees Retirement Fund and the State Accident Insurance Fund. Keith Larson, Chair; Harry Demorest; Katy Durant; Dick Solomon; Ted Wheeler (ex officio); Paul Cleary, PERS Director (non-voting). Meets eight times annually. *ORS 293.706*

**Oregon Municipal Debt Advisory Commission** -- Provides technical assistance to local governments and state agencies to improve the market for bond issues in Oregon. Members: Carol McCoog, Chair; Lance Colley; Laura Lockwood-McCall (Treasurer's Designee); Javier Fernandez; Debra Guzman; John Harelson; Phyllis Shidler. Meets two to four times annually. *ORS 287A.630*

**Oregon Short-Term Fund Board** -- Advises the Oregon Investment Council and the Oregon State Treasury in the management and investment of the Local Government Investment Pool. Members: Doug Goe, Chair; Darren Bond (Treasurer's Designee); Deanne Woodring; Laurie Steele; Stewart Taylor; Wayne Lowry; Pat Clancy. Meets three times annually. *ORS 294.885*

**Private Activity Bond Committee** -- Allocates to state agencies and local governments the authority to issue bonds for "private activity" purposes. Coordinate financial management. Members: Laura Lockwood-McCall (Treasurer's Designee); Jack Kenny (DAS Designee); David Glennie. Meets two to four times annually. *ORS 286A.615*

**State Debt Policy Advisory Commission** -- Advises the governor and legislature on policies and actions that enhance and preserve the State's credit rating and maintain the future availability of low-cost capital financing. Members: Ted Wheeler, Chair (ex officio); Rep. Matt Wand (House of Representatives); Sen. Richard Devlin (Senate Appointee); Tim Duy; Michael Jordan, DAS Director (ex officio). Meets once annually, with additional meetings at the call of the chair. *ORS 286A.250*

**Oregon Facilities Authority** -- Assists charities of all sizes secure low-cost financing to remodel, expand, construct, or purchase new facilities, through the use of tax-exempt conduit revenue bonds. OFA Bonds can also be used to refinance existing debt previously incurred for such purposes. Members: Courtney Wilton, Chair; Beth deHamel; J. Kevin McAuliffe; Sue Cutso-george; Sean Hubert; Karen Weylandt. Meets 10-12 times annually. *ORS 289.100*

**State Board of Education** -- Sets educational policies and standards for Oregon schools and community colleges. Members: Artemio Paz, Chair; Samuel Henry; Duncan Wyse; Serilda Summers-McGee; Angela Bowen; Gerald Hamilton; Kate Brown (ex officio, non-voting); Ted Wheeler (ex-office, non-voting). Meets nine times annually. Staffed by Oregon Department of Education. *ORS 326.021*

**State Land Board** -- Manages certain state-owned lands for the benefit of the Common School Fund. Members: Gov. John Kitzhaber (ex officio); Secretary of State Kate Brown (ex officio); State Treasurer Ted Wheeler (ex officio). Meets six times annually. Staffed by Oregon Department of State Lands. *Article VIII, Oregon Constitution*

**Oregon Growth Board** -- Recommends prioritization and coordination of certain Oregon economic development resources. Members: Treasurer Ted Wheeler; Scott Burgess; Jim Coonan; Gerry Langelier; Ann Marie Mehlum; Patricia Moss; Adam Zimmerman; Sen. Chris Telfer (non-voting); Rep. Tobias Read (non-voting); Tim McCabe, director of Business Oregon (non-voting). Staffed by Business Oregon.

**Infrastructure Finance Authority** -- Oversees public infrastructure assistance, and industrial land certification. Members: Gary D. Neal, Don A. Landy, Erik Andersson, Daniel Bradley, Susan Muir, Carol Samuels, Rep. Terry Beyer, Sen. Frank Morse, Laura Lockwood McCall (debt management director, Treasurer designee). Staffed by Business Oregon.

## you can serve

The State Treasurer, appointed citizens and Treasury officials help set the direction for Oregon bonding, banking and public investments by sharing their expertise on a variety of boards and commissions. Treasury nominates public members to serve, and those names are forwarded to the governor, who makes the formal appointments, subject to legislative ratification. Please express your interest and receive an application by emailing [Oregon.Treasurer@state.or.us](mailto:Oregon.Treasurer@state.or.us) or calling 503-378-4329.

## State Land Board On the road, learning from Oregonians

Starting in 2011, the State Land Board scheduled meetings outside of Salem -- thanks to a successful motion filed by Treasurer Wheeler.

The Land Board is made up of the Governor, Secretary of State and State Treasurer and is responsible for the stewardship of state-owned property and waterways from border-to-border, to benefit current and future generations of Oregonians through the Common School Fund.

“We need to hear from Oregonians how Land Board decisions impact their communities and local economies,” said Treasurer Wheeler. “Oregon has a rich history of citizen involvement, and when it comes to guiding the management of our state lands, I believe more voices are better than less.”

In 2011, the Land Board traveled to Coos Bay to gather input about the now-approved management plan for the Elliott State Forest, located near Reedsport. The Board met in Bend to hear from the public about real estate and land management plans in Central Oregon.



## Charting a prudent course

The State Treasurer is the financial leader of the State and sets goals and strategies to help the State and individual Oregonians better manage and invest money, keep assets safe and build for a more prosperous future.

To attain those goals, the Treasurer sets policy and direction through his executive office, which coordinates strategic planning, the creation and monitoring of legislative priorities, public information and the publication of financial reports.

The effectiveness of Treasury, which is a multifaceted 84-person office, also relies on strong internal communications and executive services including human resources, risk management and internal auditing.

The Executive Office of the State Treasurer interacts directly with the public, the Legislature and policymakers at both the state and federal level. It includes the Treasurer, Chief of Staff, and public policy and communications staff.

The public policy team develops legislation and interacts with other government entities about laws and policies that affect the State Treasury. In addition, it seeks statutory changes when needed to help government agencies save money, through tools such as electronic banking.

Communications staff oversee creation of press releases, internal communications,

development of publications including the annual report, and interaction with the news media and the public -- including via social media. Treasury also coordinates outreach for the Oregon Investment Council, Oregon Growth Account Board and the Oregon 529 College Savings Board.

The Executive Office also oversees efforts to bolster financial education. Tips are offered through social media outreach, and the office also is responsible for managing the annual Reading is an Investment program for elementary-aged students.

The Oregon State Treasury has been recognized as one of the nation's most transparent public fund managers, and Treasurer Wheeler has prioritized efforts to make additional information more readily available and easier to understand, including revamping the web site in 2012 with help from Treasury clients and the public, to make information more accessible.

Treasury also is posting audio files online of Oregon Investment Council and Oregon Growth Account Board meetings. Previously, those files were available only through public records requests on CDs, which were sent via mail.

To streamline, standardize and improve the timeliness of public records requests and processing, Treasury created a new online form that is processed through the executive office.



## Seeking accountability

Oregon acts as a responsible shareholder on behalf of public workers and other beneficiaries of publicly managed assets, including students who rely on the Common School Fund and injured workers and employers for whom the State Accident Insurance Fund was established.

The dollars invested in public trust funds do not belong to Oregon generally or to the Legislature. The funds are held in trust and managed for the beneficiaries.

Potential returns on those investments can be impaired by many factors including inadequate regulations; limitations of investment options based on social causes or geography; and corporate management that fails to prioritize the long-term interests of shareholders and company valuation.

As a shareholder, Oregon can be influential in shaping how corporations and their boards of directors operate – and research shows there is good reason to do so. Public investments have benefited because of improved corporate responsibility, and because of better accountability and transparency of financial markets.

## Track Treasury news on Twitter

The Oregon State Treasury in 2011 launched a new social media presence on Twitter, @OregonTreasury, to help disseminate financial education information and news.

A commitment to transparency and accountability reduces the risks for all investors, because they know what is happening on – and also behind – corporate balance sheets.

Treasurer Wheeler in 2011 submitted testimony to the U.S. Securities and Exchange Commission, and was the first State Treasurer to request stronger regulations and transparency of corporate political activity.

“Shareholders have a right to know about the activities of companies they own, particularly when those actions – or even inaction – can impact the bottom line,” the Treasurer said.

When actions by corporations damage the value of Oregon funds and undermine Oregonians who rely on the funds, the Office of the State Treasurer can initiate legal action to both recoup losses and also influence future executive-level decisionmaking.

In 2011 and 2012, Treasury authorized securities fraud lawsuits by the Oregon Department of Justice to recoup losses from Bank of New York Mellon, British Petroleum, and J.P. Morgan Chase.

The outreach is part of Treasury’s commitment to accessibility. Social media helps connect with those who seldom access traditional media.



## A focus on shareholder rights

Like all shareholders, the state of Oregon has the ability to press for positive changes in how corporations are run. One avenue for that advocacy is through proxy elections at annual meetings of shareholders.

In 2011, Oregon was represented in a total of 10,025 votes at 5,669 meetings.

Oregon has participated with an eye toward improving shareholder participation and assessing executive salary packages.

Federal legislation gives shareholders the opportunity to cast votes in advisory referendums on executive salaries, known as “Say on Pay.”

Oregon’s proxy voting at annual meetings is managed by Glass, Lewis & Co., which was hired by the Oregon Investment Council. The Council sets the state’s investment policies.

In two notable votes in 2012, Oregon joined with majorities of shareholders to (a) oppose the compensation plan at CitiGroup and (b) make it easier for shareholders to nominate candidates for the corporate board at Nabors Industries.

### corporate responsibility

As a responsible shareholder, Oregon public funds engage with companies to press for greater accountability and to enhance share value. One focus is appropriate CEO salaries. “No” proxy votes on “Say-on-Pay” referendums at annual meetings:

2011	324
2012*	194

\* through June 30



## Reading is an Investment

“Reading is an Investment” promotes financial literacy education by donating children’s books with money-management themes to public elementary schools.

The program is a centerpiece of the State Treasury’s efforts to help increase financial awareness. Oregonians today face an increasingly complex financial landscape and need to be prepared for the vagaries of credit, insurance, savings, investments, and how to be savvy about potential scams.

The program is open to students in kindergarten through fifth grade, either through school or on their own, and runs from October through March. To increase participation, students that complete sufficient minutes of reading can enter a random drawing for college money.

Books are selected by teachers and librarians, and each book has been aligned with state standards in math, language arts, social sciences, the arts, and career-related learning.

### money smarts

“Reading is an Investment” donates money-themed books to schools and gives participants a chance to win money for college and job training through the Oregon 529 College Savings Plan. Entries:

2006-07	1,800
2007-08	1,600
2008-09	2,600
2009-10	2,081
2010-11	3,817
2011-12	5,028

The books teach financial lessons appropriate for elementary school-age children. Participating students also can qualify for the drawing from an age-based recommended list. Student who attend private school or are home-schooled also can participate.

To advocate for better financial literacy, the Treasurer also sits as a nonvoting member on the State Board of Education, and Treasury also partners with nonprofits that seek to improve education, such as Oregon Jump\$tart and Financial Beginnings.

### guard your money



Treasurer Wheeler wants Oregonians to be equipped to make better financial decisions, and to be on the lookout for traps that can cost you money such as “refund anticipation loans.” So he created a consumer protection web portal called *GuardYourMoney.org*. The web site offers links to financial resources, federal data, Oregon Treasury news releases, and scam alerts from the state Department of Justice.

May 10, 1012

## Winners drawn in financial outreach effort

OREGON CITY – A record number of students completed the annual statewide “Reading is an Investment” financial literacy program -- and fifty of those participants are now better-off financially.

Speaking to students at Carus Elementary School, located in rolling farmland just south of Oregon City, State Treasurer Ted Wheeler thanked each Oregon student that participated.

Students who completed the program were entered into a random drawing and the 50 winners will receive \$500, which will be deposited on their behalf in the Oregon College Savings Plan, a sponsor of the outreach effort.

“We want every Oregonian to make smart financial choices, which will help them build better lives today and tomorrow,” Treasurer Wheeler said. “Reading is an Investment is helping to put our next generation on a more solid financial path.”

The Treasurer visited Carus Elementary because it had the highest number of winners randomly drawn of any school in the state, with five. Ten winners were chosen from each of Oregon’s five Congressional districts.

## Helping Oregonians

Oregon State Treasury employees are helping to make Oregon a better place. Each year, employees contribute their time and money to aid needy Oregonians. And it adds up.

To generate more interest and spark donations for the annual **Governor's Food Drive**, departments host fundraisers and vie with each other to raise the most money to help blunt hunger in Oregon. Those efforts included a lasagna feed, poker contest, silent auction and a Treasury scavenger hunt in which the two finalists (one of them was Treasurer Wheeler) donned pirate costumes.

In 2011, Treasury employees gave \$5,055 and in 2012, they contributed \$4,877. The food drive fundraising total at Treasury from 1995 through 2012 is \$103,810.

Treasury also contributes significantly to the state's **Holiday Toy Drive**. All donations go directly to the Salvation Army's Toy for Joy Program. The Salvation Army depends heavily on this drive to significant a big portion of the toys distributed during the holiday season. With the economic situation as it is, the need grows larger each year.

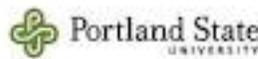
In 2011, Treasury employees provided \$1,460. Thanks to aggressive sale shopping, those donations purchased toys with a retail value of \$3,238. The toys that are delivered to the Capitol in Salem are sent to a sorting facility, and preselected Salvation Army clients are given a specific time and date to come and "shop." The areas outside of Salem have similar programs on a smaller scale. In essence you are giving families toys that they can provide to their children.



*Deputy Chief Investment Officer Michael Mueller, who also served as interim chief investment officer in 2011-12, helps to spearhead Treasury's annual holiday toy donation drive. In 2011, Treasury employees donated \$1,460. Since 1999, Mueller has conducted a bargain-seeking Black Friday shopping expedition, seeking deals, mapping out his shopping stops, and loading his car with presents.*

## Recognizing student potential

The State Treasurer's Urban Pioneer Scholarship supports ethnic and minority undergraduate and graduate students who are successfully working toward a degree at the Portland State University College of urban and Public Affairs.



Applicants are asked to explain how the potential assistance

will assist them in overcoming challenges and to outline their values in regard to public policy in Oregon.

One or more scholarships of between \$2,000 and \$4,000 are awarded each year.

The scholarship was created by former State Treasurer Randall Edwards and is administered through the PSU Foundation.

The money financing the scholarships comes from a private endowment that was built under the leadership of Edwards. None of the funding for the annual scholarships comes from the State Treasury, Oregon general fund or other public funds.

### Oregon 529 College Savings

## Big Brothers, Big Sisters and young readers

SALEM – The Oregon College Savings Plan is helping to connect more students with the dream of college and post-secondary vocational training.

And it is also doing good things for Oregon families, even if they don't participate. Children are benefitting from summer reading programs at public libraries, and students in the

Big Brothers Big Sisters program can better reach their potential. In addition, Oregon's outstanding educators are getting recognized with awards.

The state-sponsored 529 college-saving plan awarded 15 college savings accounts worth \$1,000 each to families in the Big Brothers Big Sisters Columbia Northwest program. Entrants worked with mentors to sub-

mit entries in a number of creative formats, including web links, video raps, essays, poems and books.

The Oregon College Savings Plan sponsors several outreach efforts each year to help encourage Oregon families to plan for college. Families in every Oregon county are saving and investing for college through the state-sponsored plan. Families that save are eligible for an annual Oregon tax deduction. **13**



Finance Division

## Quality service and lower costs

Through relationships with commercial banking institutions, Treasury's Finance Division operates as the central bank for all State of Oregon agencies. Treasury procures and administers the State's banking contracts and manages day to day operational issues.

The Division works to address agencies' needs for more cost-effective and efficient transaction processing.

In recent years, calls to gain efficiencies, streamline processes, increase security measures, and cut costs, both to the state and to customers, have resulted in several agencies making decisions to move towards electronic disbursement methods.

These methods, such as automated clearing house transactions, wires, and merchant bankcard transactions can save agencies significantly compared to traditional paper-based approaches.

Treasury works closely with agencies to recommend the right mix of services and transaction types for the agency's customer base and ongoing business needs. As an example, before the use of electronic payment requirements for several high volume programs, the state processed thousands of checks each month. As a result, costs to taxpayers and check recipients were substantially higher.

Treasury also works closely with banking partners to provide services at a bargain for Treasury customers and, ultimately, for taxpayers.

For instance, the average cost per banking transaction for Treasury clients was 4.5 cents, versus 18.5 cents for the same services, if obtained directly from the private sector.

## A focus on fees and efficiency

A dollar saved, the adage says, is as valuable as a dollar earned. The State Treasury continually strives to reduce the costs of doing business -- and also to enhance the financial value to Treasury clients and beneficiaries -- across the suite of services administered.

As part of that over arching goal, the office worked successfully on several fronts in 2011 to target fees and costs -- which will result in substantial savings for public fund beneficiaries, community nonprofits, banking clients, college savers, and for families receiving jobless benefits and child support payments via bank cards.

The investment division continued to successfully press for millions in fee concessions as part of negotiations for private equity funds, and also cut fees for those voluntarily using the Oregon Savings Growth Plan, a 403(b) plan. Strong investment performance of the State Accident Insurance Fund allowed for a dividend of \$150 million to employers in 2011.

Oregon families are saving more in connection with their investments in the Oregon 529 College Savings Network, thanks to substantial fee reductions. The system already makes available low-cost mutual funds, and now participants are seeing their investments stretch further because Treasury cut in half the state fee

### Oregon Reliacard fees reduced

Key fees for state-issued ReliaCards were reduced and eliminated through Treasury negotiations in 2011. Some examples include:

Point-of-sale transactions	Free, unlimited
Bank teller visits	Free, unlimited *
U.S. Bank ATM usage	Free, unlimited *
Non-U.S. Bank ATM withdrawals	First 2 free, then \$2 *
Customer service inquiries	Free, unlimited *
ATM balance inquiries (any ATM)	Free, unlimited
Standard card replacement	Free

\* Revised as part of 2011 negotiation

to administer the popular program, from .1 to .05 percent of annual assets.

In 2011, the finance division negotiated with U.S. Bank to reduce costs in connection with state-issued stored-value cards, known as ReliaCards. The new fee structure was hailed by consumer protection groups.

"We achieved our priorities of protecting Oregon's most vulnerable, while also protecting taxpayers because electronic banking services are efficient and saving millions of dollars," said Treasurer Wheeler.

Oregon began centrally providing payments through cards in 2007 for unemployment and child support recipients. Electronic banking allows cardholders to avoid abusive check-cashing fees. About half of recipients choose bank cards, and remainder choose free direct deposit to bank accounts.

Debt Management Division

# Refinancing public debt, saving millions

Oregon taxpayers will save millions thanks to a successful initiative to refinance state bonds to lower rates.

A series of refinancing efforts in the first half of 2012 will reduce payments on various state office building, educational, and highway bonds by an estimated \$60.8 million over the life of the debt, compared to what was due previously.

These "refunding" sales will allow the state to take advantage of low interest rates in the municipal bond market.

Taxpayers also benefitted from Oregon's strong credit rating, and because voters endorsed lower-cost financing options through Measure 72 in 2010. That ballot measure was proposed by the Treasury debt management division in the 2009 Legislative session.

"The State Treasury is making the most of this historic opportunity, and we are saving Oregonians millions by qualifying for bargain-basement interest rates," said Treasurer Wheeler. "When we pay less in interest, it means Oregon can devote

more resources to other public priorities like education, public safety and protecting our most vulnerable citizens."

Public bonding is a powerful tool that can improve the state for generations by financing the construction of roads, bridges, university buildings and other vital public facilities. However, it is a tool that must be used judiciously: The state has limited debt capacity. The debt management office continually tracks state debt and seeks additional savings opportunities.

## state debt refunding 2012

Treasury refinanced several state issuances to cut interest rates and save an estimated \$60.8 million.

2/22/12	Board of Higher Education XI-F	\$6.7 m
2/22/12	Board of Higher Education XI-G	\$2.8 m
2/22/12	Board of Higher Education XI-F	\$1.4 m
4/4/12	Certificates of Participation	\$3.3 m
4/4/12	General Purpose GOs	\$1.3 m
4/4/12	General Purpose GOs	\$20.8 m
4/4/12	General Purpose GOs	\$.4 m
4/25/12	Lottery Bond Program(s)	\$3.4 m
6/7/12	ODOT Revenue Bonds	\$20.9 m

## local advance refunding savings

Advance refunding bonds are a money-saving tool used to pay off outstanding bonds that are not yet due to be retired. Treasury advises governments about these opportunities. To be eligible for refunding, bonds must be at least one year from becoming callable. Bond refundings are most attractive in low-interest-rate environments. Total issuances and present value savings:

2005	62 issues	\$13.1 m	\$102.8 m
2006	22 issues	\$6.8 m	
2007	10 issues	\$2.2 m	
2008	3 issues	\$2.1 m	
2009	3 issues	\$.8 m	
2010	3 issues	\$3.2 m	
2011	5 issues		

## sources of Treasury revenue

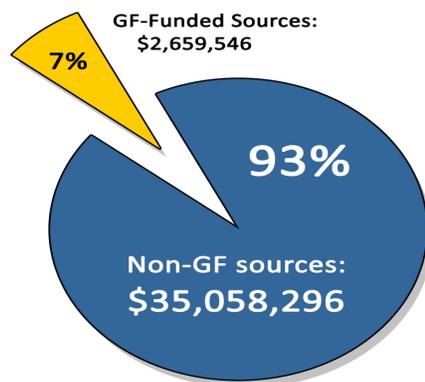
# Sources of Revenue

The State Treasury budget of \$37.7 million for 2009-2011 includes **no General Fund dollars**.

Some fees are paid by agencies that receive General Fund dollars, so the Treasury is indirectly reliant on General Funds for a small amount of its revenue (about 7%).

- Non-General-Fund sources of revenue include things like:
- PERS and other trust fund management (42% of budget)
  - College Savings Program management (9%)
  - Fees from Banks for managing the Public Funds Collateralization Program (2%)

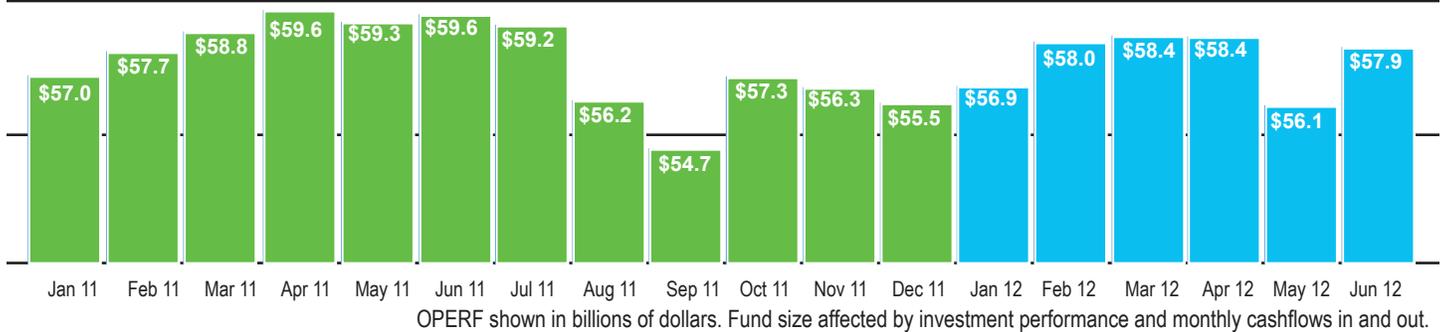
All of these fees provide a service from the Treasury that would otherwise be more expensive.



Currently, if an Agency or local government uses the Treasury for services (such as investing or bonding), they pay a fee based on their actual use.

If Treasury were to cut those services, the agency or local government would have to get those services from a more expensive source, ultimately resulting in higher costs.

## OPERF monthly value (includes variable fund assets)



## Investing for Oregon

# Managing public assets for long-term returns

The Investment Division manages funds on behalf of Oregonians to achieve returns for current and future public sector retirees, for Oregon schoolchildren, for worker's compensation claims and for other purposes.

The Treasury oversees the assets and monitoring of portfolios that totaled \$72.5 billion as of Dec. 31, 2011. The value of the overall pension fund continued to recover some of the losses experienced in 2008, with the three year performance exceeding 11 percent, on average, for the three years ended Dec. 31, 2011.

At roughly \$55 billion, the Oregon Public Employee Retirement Fund is one of the largest pension funds in the nation. The fund is diversified and invested in public equity markets as well as private equities, real estate and fixed income instruments. As of Dec. 31, 2011, PERS was estimated to be 81 percent funded. This makes OPERF one of the better funded public pension systems in the nation.

Strong investment performance reduces the likelihood that taxpayers will need to shoulder a larger burden of the guaranteed benefits for retirees. Oregon relies more heavily than any other Western state on investment performance to pay for the contractually promised retirement benefits of public workers, according to the PERS actuary.

The Treasury and OIC do not oversee retirement benefits connected to PERS or the level of contributions made by

government entities. Rather, the Treasury and OIC are responsible for investing the fund and seeking the highest possible returns, at a prudent level of risk, between when contributions are paid in and when benefits are paid out.

Other state-managed investments include the \$11.4 billion Oregon Short Term Fund, \$4.1 billion State Accident Insurance Fund trust fund, and the \$1.1 billion Common School Fund.

The Oregon Investment Council (OIC) oversees the investment of most funds managed by the Office of the State Treasurer. The OIC ensures that money in the funds is invested and reinvested as productively as possible.

### Open Door and Transparency

Under the OIC's open-door policy, investment officers employed by the State Treasury will consider proposals and solicitations from any firm or partnership that submits a proposal or solicitation in good faith. This policy, however, does not bind the OIC to invest in any proposal. No placement agents are needed to do business with Oregon.

The OIC meets in an open, public forum and all meetings are posted in advance. The Treasury makes available a wealth of information about the Investment Division on its website, including OIC meeting minutes, recordings and handouts, the quarterly balances and performances of Oregon investment funds, quarterly breakdowns of real estate and private

and public equity returns, and reports for fixed income investments.

### A Diversified Portfolio

The Oregon Public Employees' Retirement Fund (OPERF) is diversified among five major categories of investments: global public equities, private equity, real estate, fixed income, and alternative investments.

To achieve sufficient returns over time, the Oregon Public Employees Retirement Fund is an equity-oriented portfolio. As a result, target returns are based on a long-term investment horizon.

However, the markets will fluctuate. In bull market, years like 2003 through 2007, results were strong. During bear markets, OPERF returns will be much less favorable, as was the case from 2000 through 2002 and again in 2008. Diversification is a key safeguard to ensure investments are protected against a downturn in a single segment of the market.

Through 2011, the OIC set diversification targets of 59 percent in domestic and foreign equities (both public and private), 27 percent in fixed income, 11 percent in real estate, and 5 percent to alternatives.

Other portfolios managed by Treasury and the OIC performed quite well over the most recent three years ended Dec. 31, 2011.

The State Accident Insurance Fund returned 10.3 percent, and the Com-

## Investing for Oregon

mon School Fund and Higher Education Pooled Endowment Fund each returned 13.0 percent. Finally, the Short Term Fund exceeded its benchmark by a comfortable margin as well.

All of the above portfolios, except the Short Term Fund, have investment platforms that use managers in common with OPERF.

### 2011 Market Performance

The U.S. stock market (measured by the Russell 3000) finished the year by eking out a one percent return. Against this backdrop, OPERF's U.S. equity managers returned -0.80 percent. Performance was weak across the capitalization and style spectrum, with only large cap value managing a positive return for the year.

With the continuing debt turmoil in Greece and broader Europe, non-US equities were down over 14 percent, as measured by the MSCI ACWI Ex-US IMI Net index. For 2011, OPERF's non-U.S. managers outperformed this benchmark by 0.90 percent.

The Private Equity Program produced strong relative results in 2011, generating a one-year, net return of 11.1 percent, and outperforming its benchmark by nearly 7.5 percent. OPERF received distributions of \$2.0 billion while meeting capital calls of \$2.5 billion. By year end, private equity investments represented approximately 24.5 percent of the total OPERF asset base.

OPERF's total real estate portfolio returned of 14.4 percent for 2011. The bond market posted positive returns for 2011, with OPERF's custom fixed income benchmark ending the year with

a return of 5.3 percent. The OPERF fixed income fund exhibited strong relative returns, benefiting from a range of investments outside of US Treasury debt, including corporate and emerging market debt. For the year, OPERF fixed income beat the index by 0.80 percent.

### Oregon Savings Growth Plan

The State of Oregon Deferred Compensation Plan is a voluntary retirement program, like a private sector 401(k) plan. It provides eligible state employees the opportunity to defer a portion of their current salary and build additional savings, tax-deferred, to supplement Social Security or other retirement benefits.

The program offers eight investment options and a suite of ten target-date retirement funds that vary based on risk. Plan participants individually direct salary deferrals to any of these options. The eight investment options are supported by multiple investments in commingled accounts and mutual funds.

### Targeting investments

A legal opinion from the Oregon Attorney General warns against imposing constraints that could limit the performance of the Oregon Public Employee Retirement Fund. Under state law and federal tax law, the highest purpose of the fund is to maximize returns for beneficiaries, and those returns can be suppressed and the fund can be made more volatile by targeting how investments are made, or limiting investments based on geography or other factors.

**Details about investments by asset class begin on page 26.**

Nov. 4, 2011

## Peer review shows Oregon manages assets for less than benchmarks

TIGARD – The Oregon State Treasury managed investments at a value in 2010.

The findings from CEM Benchmarking Inc., of Toronto, show that the costs associated with managing the Oregon Public Employees Retirement Fund (OPERF) were \$39.3 million less than expected for the year, based on the investment structure of the Oregon fund.

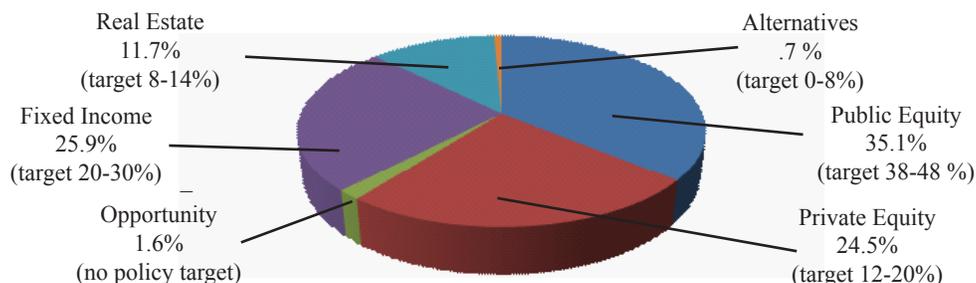
The study also suggested that Oregon could reduce costs by managing more investments internally.

The firm compared the costs of investment funds around the world and gauged Oregon against a peer group of 18 other large pension funds.

“Every dollar that we save in management costs goes directly to helping our beneficiaries and to helping taxpayers,” said State Treasurer Ted Wheeler, a member of the Oregon Investment Council. “We will continue to look for ways to keep costs low while pursuing strong investment returns.”

According to the analysis, Oregon's investment portfolio is more heavily weighted toward private investments than peers, and those types of investments – while typically more profitable – also include higher levels of fees. However, Oregon has been successful at driving those fees down. **17**

### OPERF investment mix and target allocations



\* Oregon Public Employees Retirement Fund, as of Dec. 31, 2011

## Oregon credit ratings

**AA+**  
Standard & Poors

**AA+**  
Fitch

**Aa1**  
Moody's

## Evaluators: State creditworthiness remains strong

Credit rating firms have applauded Oregon's careful attention to debt and budget discipline, and the state's credit ratings remain steady and solid.

According to a June 2012 analysis by Fitch, the key drivers for the rating are:

- Strong financial management that offsets the volatility and heavy reliance by Oregon on income taxes.
- Oregon's economy, historically based on its natural resources, has diversified toward the computer and service sectors.
- Despite having risen in recent years, the state's debt burden is expected to remain moderate.
- Pension funding is sound.

The report says: "On a combined basis, the burden of the state's net tax supported debt and adjusted unfunded pension obligations equals 8% of 2011 preliminary personal income, modestly above the 6.6% median of U.S. states."



Treasurer Wheeler discusses bond-financed construction

### Debt Management Division

## Maintaining a prudent balance

The Debt Management Division is the Treasury's clearinghouse for bond data, bond calendars and information about credit ratings.

It approves the issuance of all bonds and appropriation credits for the State of Oregon. As of June 30, 2011, Oregon's outstanding net tax-supported debt was \$8.0 billion.

The division reviews the structure of each bond sale, coordinates the timing of the various agency bond sales, secures credit ratings, negotiates and accepts bids for bond placement, reviews transcripts and other documents, provides for the delivery of bonds, and assists with settlement of bond issues.

This requires monitoring of local and national bond markets, as well as finance and economic trends that impact bond issuance structures and interest rates. The division also reviews the financial and economic disclosure information provided for the sale of State of Oregon general obligation (GO) bonds, revenue bonds and appropriation credits. Staff advise agencies about market developments and make debt policy and legislation recommendations to the State Treasurer.

Public borrowing is an important tool that can both enhance Oregon's quality of life

and jump-start the economy, by helping to create and sustain jobs today, and by constructing and modernizing roads, schools and other vital public facilities that will make the state a better place in the future.

Treasury manages debt carefully to ensure Oregonians get the most for their dollars now and in the future. Too much borrowing can jeopardize the state's credit rating, and the State Debt Advisory Commission, which is chaired by the State Treasurer, advises the Legislature on prudent debt limits. The commission provides an annual report to the governor and legislators.

The prudent management of Oregon's debt portfolio has allowed the State to receive and maintain an excellent credit rating, which saves taxpayers millions of dollars because borrowing costs are less.

The advisory panel includes the Treasurer, one member each from the Oregon House and Senate, and a member of the public knowledgeable about public finance.

For detailed information about Oregon debt, the SDPAC annual report can be downloaded from the "Facts and Figures" page on the Treasury web site.

The last change to the state's credit rating was the upgrade by Standard & Poors in 2011, to AA+.

# Assisting local governments

The Debt Management Division provides technical support to local governments about dates of bond sales, offers training on selected debt-related topics, and created an online portal to help government officials plan and execute successful bond sales.

That Oregon Bond Education Center replaces the former Oregon Bond Manual.

The education site is one example of how the division strives to improve existing services and to promote new strategies that can streamline bond processing and save Treasury clients money.

The **Municipal Debt Advisory Committee** maintains a debt profile of all local government units in Oregon that issue bonds, and has a mission to improve the market for Oregon bonds, to assist local governments in selling bonds and to serve as an information source.

The committee's efforts and publications keep decision makers apprised about public borrowing activity in Oregon.

In 2010, it provided 173 free overlapping debt reports, which determine a taxing district's overall debt burden, based on its own debt as well as any shared obligations with overlapping governments.

For instance, cities are within counties and have overlapping boundaries. Those reports assist in the preparation of necessary disclosure documents for bond issues and municipal financial reporting.

The **Oregon Bond Calendar** is created and maintained by the Treasury for the Municipal Debt Advisory Commission. The calendar lists all State and local bond sales, and therefore enables State agencies and local governments to minimize scheduling conflicts that could potentially affect the marketability of their issues.

The calendar is updated daily and can be found online at [www.bondtracker.us/bond-calendar](http://www.bondtracker.us/bond-calendar)

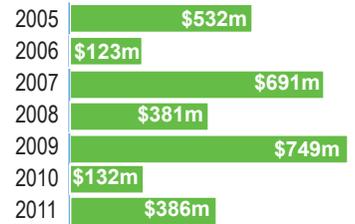
The calendar also is available via email and is sent every two weeks by the Debt Management Division.

The Treasury also markets bonds directly to Oregonians via **BuyOregonBonds.com**.

Some of Oregon's bond sales include a pre-sale period that allows the public to acquire secure Oregon bonds. This effort helps to increase public knowledge about the availability and benefits of Oregon bonds. The state does not sell directly to the public, so purchases would need to be handled through a broker.

## school bond guaranty

Created by the 1997 Legislature, the School Bond Guaranty Act allows the Office of the State Treasurer to lower the cost of debt for school and community college districts. Issuance totals:



## School debt costs reduced

Oregon school districts, community college districts and education service districts are the direct beneficiaries of the **Oregon School Bond Guaranty Act**, and taxpayers ultimately reap the rewards.

The Act, created in 1997, allows qualified districts to have their general obligation bonds rated at the State's current credit rating.

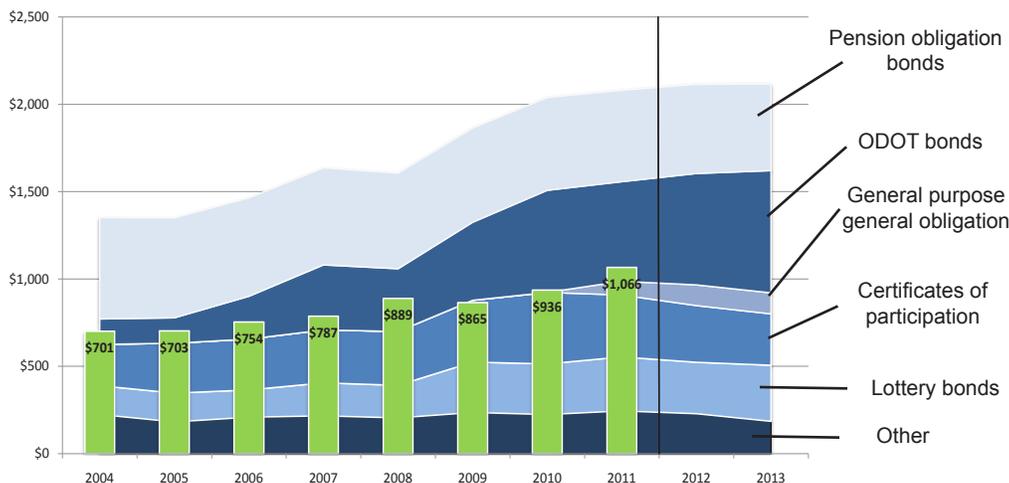
The program shaves interest costs over the life of districts' bonds, making available more education funds for classrooms. The program is projected to save taxpayers, on average, at least \$5.4 million annually.

In calendar year 2011, the State guaranteed 22 school bond series, for a total of 21 school districts and one community college district. The combined issuance of those bonds was \$386 million. In 2010, the total issuance was \$132 million.

While districts are responsible for repaying the bonds, the State Debt Policy Advisory Commission is discussing whether the total bonds should be limited. From an accounting standpoint, the debt is a contingent liability to Oregon and growing, and could affect future credit ratings.

## net tax-supported debt per-capita

Trend in Oregon per-capita tax-supported debt through 2011, compared to the national average calculated by Moody's. The national average is shown in green.



## Information Systems Data system completes recovery testing

SALEM – Just like every other financial institution in the U.S., the Oregon State Treasury must plan for potential business interruptions, which could be caused by a building fire, earthquake, severe weather, or pandemic.

“Disaster recovery” testing helps to identify opportunities for improvement so that the state’s financial information is safe and business will continue even after an event that causes a catastrophic computer failure. The information systems team continually seeks ways to improve how Treasury manages, secures and recovers data.

Preparedness analysis is part of the rigor for the Treasury’s secure and separate computer network, which protects public funds by allowing only limited access, maintaining electronic barriers against unauthorized break-ins, and backing up data at secure locations.

The Treasury system handles millions of banking transactions annually. It also protects investment trade secrets and monitors investments, managed on behalf of public retirees, schoolchildren and other beneficiaries.



Finance Division

## Safeguarding Oregon’s deposits

The Finance Division provides cash management and investment operational support services to all state agencies and hundreds of Oregon local government entities, including cities, counties, schools and special districts.

The division manages more than 16.4 million financial transactions annually - including cash deposits, electronic fund transfers and check issuances. In fiscal year 2012, those transactions totaled more than \$172.9 billion.

Through its **Cash Management Program**, the division develops strategies and takes actions to administer and invest the cash of Oregon state agencies and local governments.

Treasury procures and administers the State’s banking contracts and manages day-to-day operational issues including reconciliation of commercial bank and agency activity, provision of statements to agencies detailing account activity, and calculation and payment of interest to accounts authorized by statute to retain interest earnings.

The program includes four primary areas of cash management activity for state agencies: Short- and intermediate-term investment of cash, central banking operations, cash management improvement activities, and information infrastructure and security activities. Services for local governments include: short-term investment of cash and certain informa-

tion infrastructure and security activities.

Through **Cash Management Improvement Activities**, Treasury works to address agencies’ needs for more cost-effective and efficient transaction processing -- such as automated clearing house transactions, wires, merchant bankcard transactions -- and delivery of services via methods such as electronic commerce readiness, prepaid card programs, lockbox services and remote deposit.

The division also administers the **Public Funds Collateralization Program** under ORS Chapter 295, to protect public funds deposited in private-sector financial institutions. Collateral is needed to cover deposits that exceed the levels insured by the Federal Deposit Insurance Corporation (FDIC). The program creates a “shared liability” structure.

As of Dec. 31, 2011, there were 28 banks holding public funds; and the pledged collateral for those funds was \$1.4 billion.

The Legislature has given credit unions the ability to become qualified public funds depositories, if they meet set requirements. Treasury is working closely with the Northwest Credit Union Association and interested credit unions to make the **Credit Union Public Funds Collateralization Program** a reality. If all requirements are met, this program could begin in the first half of calendar year 2013.

## Due diligence, oversight and security

The State Treasury invests billions of dollars on behalf of taxpayers, schoolchildren and public retirees.

The office moves millions of dollars daily on behalf of state agencies and local governments. Treasury keeps close tabs on all these moneys with a network of oversight activities.

Treasury purchases, develops, maintains, and supports an automated and secure cash management technology infrastructure to serve the needs of state agencies, local governments, and partner banking institutions. This highly secure, yet nimble network of systems and software is integral to the protection of public funds. It includes critical controls with respect to interaction with data.

Treasury also advises and assists agencies with respect to their own cash management system needs, including as they relate to security and risk management, as well as certain related industry compliance issues.

The office regularly plans and tests disaster recovery and business continuity readiness to safeguard the state's ability to continue to make and receive payments in the event of a major disaster or even minor interruption of services. Treasury also communicates regularly with its customers about the importance of their own business continuity planning.

**Investment Accounting** staff are responsible for monitoring and reporting on the purchases, sales, expenses and income for investments. The unit also monitors the yield on the Oregon Short Term Fund.

Investment Accounting also provides agency customers with information regarding their holdings and income on a daily, monthly and annual basis. It also ensures that generally accepted accounting principles are applied to all investments.

Due diligence is a multifaceted effort that requires both staff and independent analyses, expertise of accountants and auditors, information technology experts and Department of Justice attorneys.

In Oregon, no investment decisions are made by a single person. Independent consultants must vet almost every proposed investment or renewal and the Oregon Investment Council must affirm staff and consultant recommendations. Contract negotiations are overseen by the Department of Justice.

Investment oversight travel, which is necessary to inspect assets, review potential opportunities and participate in meetings with auditors and limited partner advisory boards, is financed by Oregon or through Oregon trust funds, not by outside parties.

## Collateralization Program Qualified Oregon public depositories

In 2011, Treasury made more than \$1 billion available to lend to Oregon small businesses and families by making careful and reasoned reductions in state collateral requirements, based on evaluations of bank balance sheets.

Those dollars are kept within public depositories all over Oregon.

The Public Funds Collateralization Program ensures protection for public funds in the event of a bank failure. The collateral is needed to cover any deposits that exceed the levels insured by the Federal Deposit Insurance Corporation (FDIC).

The list of qualified public depositories in 2011 is on page 34.

### Finance Division / Investment Division

## Protecting assets in the short term

The **Oregon Short Term Fund** and **Local Government Investment Pool** provide a secure place for Oregon governments to deposit revenue, and earn interest, until the money is needed to cover expenses.

For most Oregon government entities, the lion's share of revenue arrives once a year. Yet bills come due year-round.

As of June 30, 2012, the fund was being used by 1,069 government entities. Those include state agencies, cities, counties, schools and special districts. The primary investment objectives for the fund are preservation of capital, then liquidity, then achieving yield.

The fund stood at \$10.8 billion on Dec. 31, 2011. Earnings in 2011 were suppressed due to a continued and historic low interest rate environment and narrow risk premiums compared to 2010.

The majority of the fund is limited to highly rated and low-risk securities. A seven-member Short Term Fund Board includes the Treasurer's designee, three Treasurer appointees and three gubernatorial appointees.

The **Oregon Intermediate Term Fund** was created in 2010. It had a balance of \$102 million on Dec. 31. It has a lower priority on liquidity and a higher emphasis on yield.

### Short-term fund clients

Oregon agencies use Treasury for banking services including the Oregon Short Term Fund, which is where the general fund is deposited. Local governments have the option to use the OSTF, so customer satisfaction and competitive rates are important factors.

	AGENCIES	LOCAL GOVTS
2004	88	969
2005	90	963
2006	83	977
2007	83	989
2008	82	1,011
2009	82	1,012
2010	81	1,007
2011	81	991
2012	82	987



### House Bill 4040

## Investment Act to prioritize, coordinate

The Oregon Investment Act, spearheaded by the State Treasury and passed by the 2012 Legislature, proposes creation of a better coordinated economic development strategy to help Oregon companies to thrive and hire.

The law will allow private investors to partner with public economic development efforts, magnifying their positive impact; allow consolidation and simplification of existing economic development efforts under a unified strategic framework; and create a flexible and nimble approach to investments, with the ability to adapt to quickly-changing conditions.

The blueprint was drafted based on input from Oregon businesses, who met with the Treasurer, legislative architects and state economic development officials during a statewide tour. The plan won the support of the state's major business and business labor associations, and also newspaper endorse-

ments from across Oregon, both urban and rural.

The legislation creates a new 10-member Oregon Growth Board that will catalog Oregon's economic development spending and then draft a plan to both consolidate resources and leverage additional investment to maximize long term job creation. Now, several agencies devote resources to economic development purposes. While each agency has goals, the programs and results are not consistently tracked or grounded in a unified strategy.

Before the strategy can go into effect, it must be endorsed by the 2013 Legislature. After that occurs, the existing Oregon Growth Account at the State Treasury would be folded into the new entity.

The bill had 54 sponsors and cosponsors, or more the half of the Legislative assembly.

## Facilitating new Lottery-backed projects

Smart management of public debt is facilitating flexibility and new Oregon opportunities. Treasury helped to pave the way for strategic new investments in economic development in the 2011-13 biennium.

That was accomplished by refinancing certain Lottery bonds for savings while also

restructuring the overall repayment pattern, allowing lawmakers to approve priority education and economic development projects.

The move created an estimated \$282 million of additional capacity within the state's prudent borrowing limits, of which the Legislature initially allocated \$233 million in 2011.

### Timed CD program

## Putting Oregon money in Main Street banks

Oregon Qualified financial institutions can obtain funds at market rates from the Oregon Short-Term Fund, which safely invests state and local government revenues until the depositors need the money to pay bills.

Once banks receive the infusions of capital, the institutions can make more loans to Oregon small businesses and families, which in turn can help finance new opportunities.

The Timed Certificate of Deposit program can supply as much as \$200 million. As of Dec. 31, 2011, lenders were accessing \$55.2 million through the program.

The Oregon State Treasury secures CDs from banks in one-, two- and three-month durations. When the CDs mature, the institutions repay the money, plus interest.

Public funds are protected in the event of a bank failure, because the financial institutions must either insure the money through the FDIC or else post collateral to ensure repayment.

Only qualified banks that do business in Oregon can participate.



## Oregon Facilities Authority Making charity construction projects more feasible

From Beaverton to Bend, Oregon community nonprofits are seeing their dollars stretch further thanks to a financing tool administered by Treasury. The **Oregon Facilities Authority** (OFA) helps nonprofits of all sizes qualify for tax-exempt bonds.

The financing opportunity can help remodel, expand or construct a new facility, and do it more affordably. When nonprofits save on internal costs, it allows them to devote more resources to their missions -- helping the citizens of Oregon.

The Oregon Facilities Authority was created in 1989 and is empowered to issue bonds that assist with the purchase and financing of property and facilities for health, housing, educational and cultural uses. The Authority reviews proposed projects and makes recommendations to the Treasurer.

In 2011, the OFA acted as a conduit for 12 entities, resulting in \$479 million in issuances. The bonds are repaid by the nonprofits themselves, not taxpayers or the state.

## Investing in Oregon innovators

Oregon loves dreamers and is investing millions in non-tax dollars to support their ideas, to help build a stronger economy, and to aid Oregon schools.

The Oregon Growth Account and Oregon Investment Fund provide capital to entrepreneurs in Oregon. In addition, other fund managers who invest Oregon assets seek in-state opportunities. At year end 2011, private equity funds in the OPERF portfolio have invested in more than 80 Oregon-based companies, valued at over \$18 billion in aggregate.

These investments are vetted by professional fund managers who have state contracts, such as the Oregon Angel Fund. Treasury does not invest directly into individual companies. The investments help entrepreneurs -- but the state also has a fiduciary duty to beneficiaries, which means money must be invested wisely and for superior returns.

The **Oregon Investment Fund** was part of the Treasury response to HB 3613 (2003). As of the end of 2011, it had invested \$253 million in 26 different Oregon companies, as part of OPERF. These investments have attracted an additional \$261 million in capital and helped support more than 1,976 jobs.

Because the OIF is a pension fund interment, it must be managed to achieve the

highest possible returns. It is overseen by Credit Suisse.

The **Oregon Growth Account** was created by the Legislature in 1995 and steers a small portion of Lottery proceeds to assist startups. Lottery funds may be used for economic development purposes. The purpose of the OGA is to earn returns for the Education Stability Fund, while also assisting with promising growth companies. It is overseen by the Oregon Growth Account Board, which is chaired by the Treasurer.

From 1999 to 2011, the OGA committed over \$105 million to 25 funds and various state angel conferences, and those investments have resulted in \$411 million invested in Oregon companies. Since inception, the OGA has distributed \$23 million to the Education Stability Fund.

OGA data can be found on pages 32-33.

### looking statewide for promising opportunities

The OGA Board committed up to \$175,000 in matching funds in 2011 to invest in winners of **venture competitions** across the state, partnering with the Oregon Entrepreneurs Network. The companies:

- RES Equine Products** (Redmond) \$50,000. Bend Venture Conference.
- Montrue Technologies** (Ashland). \$25,000. Willamette Angel Conference.
- SwaddleKeeper LLC** (Hood River) \$25,000. Gorge Angel Conference.
- OpenSesame** (Portland). \$39,643. Oregon Angel Conference, Portland.
- SoothieSuckers** (Portland) \$5,357. Oregon Angel Conference, Portland.
- Folium Partners** (Ashland). \$25,000. Southern Oregon Angel Conference.

May 25, 2012

## Oregon 529 plan earns highest rating

SALEM – The Oregon College Savings Plan is getting recognized for improved options and lower costs, and Oregon families are the winners.

Since 2010, Treasury negotiated a series of fee reductions and plan improvements to allow Oregonians to save more securely for college and job training, and with more diverse options.

Now, because of those changes, the Oregon College Savings Plan was awarded with a top rating in an independent state-by-state evaluation of 529 plans.

The rating upgrade to the highest level of “5 caps” from SavingForCollege.com took into account four categories: the plan’s performance, costs, features, and reliability.

“Oregon families are in better shape today because of the Oregon Treasury’s efforts to strengthen the Oregon College Savings Plan, and to cut fees dramatically,” said Treasurer Wheeler. “Oregon’s economy and Oregon families benefit when we help make university and vocational degrees more affordable and more achievable.”



## Investing for a brighter future

The Oregon 529 College Savings Network provides Oregon families with an affordable investment program to help offset the future cost of higher education and vocational job training.

The Network, which is overseen by the Oregon 529 College Savings Board, offers a variety of mutual fund investment choices to help families meet their diverse needs. To help encourage families to save, the State offers a tax deduction, which is as much as \$4,345 for tax year 2012. That amount is adjusted each year for inflation.

Families can invest on their own through the Oregon College Savings Plan, administered by TIAA-CREF Tuition Financing. Or, if they invest with the help of a financial adviser, they can elect to use the State’s plan offered by MFS Investment Management. Both options allow investors to build their own

portfolios, or to choose an age-based plan in which the assets automatically shift to more conservative investments as the beneficiary approaches college age.

Families may use their assets at any eligible institution of higher education in the United States and abroad including technical, vocational, and graduate schools -- and for an array of qualified educational expenses, including tuition, fees, books, and room and board expenses.

The first account was opened in January 2001. At the end of the first year, families had opened 10,000 accounts. By December 2011, accounts climbed to 125,436. Families in every Oregon county have opened accounts. The Network experienced steady account growth in 2011. Investors opened more than 7,600 new accounts and contributed nearly \$200 million.

### Oregon 529 College Savings Board



The Oregon 529 College Savings Board meets four times annually, or at the call of the chair. The members are: Darren Bond, Treasurer’s designee (ex officio); Lyn Hennion, Chair; Carl Vance; Paul Kelly; and Jennifer Cooperman. The director of the Oregon 529 program is Michael Parker.

## More beneficiaries, lower fees

The Oregon 529 College Savings Network helps families set aside money to assist with financing a college education and job training.

While almost \$1.4 billion in assets was invested at the end of 2011, only a small percentage of the Oregon population was participating.

So the Oregon College Savings Plan, which is the Plan offered directly to the public without using a financial advisor, utilizes a number of programs and partnerships to raise awareness and educate Oregon families about the Plan's benefits.

Those programs and partnerships include:

- Sponsorship of financial literacy outreach through the Reading is an Investment program and summer reading programs by libraries across the state.
- Family day outreach events at the Oregon Coast Aquarium, Oregon Zoo and High Desert Museum.
- Social media communication.
- Partnerships with organizations such as Big Brothers Big Sisters.
- Money for college in connection with the Salem-Keizer Education Foundation's Awesome 3000 event.
- "Education Celebration" Awards that

### Principal plus interest fund

## A less volatile option

Oregonians continue to invest in the "Principal Plus Interest Portfolio" that became available when TIAA-CREF began managing the Oregon College Savings Plan in 2010.

Families have an array of choices when it comes to saving through the program, including stock index portfolios and "age-based" options, which automatically become more conservative as a child approaches college age.

The "Principal Plus Interest" option provides a choice for those investors who are looking for an investment less prone to market fluctuations. It's an investment ve-

recognize outstanding educators.

- Traditional mass media advertising through magazines and electronic media.

"Education is the cornerstone of our mission," said Michael Parker, Executive Director of the Network.

From a public policy standpoint, it makes good sense to boost participation because research shows that families that save through a 529 plan are more likely to send a child to higher education. And Oregonians with degrees and certificates earn higher per-capita wages.

An increase in participation also pays off for all investors because, as the total assets grow, it allows for fees to be reduced for everyone. And when fees are lower, it means investors keep more of their tax-advantaged investments.

In 2011, two separate fee reductions were made possible by the climbing aggregate value of the assets. Families now pay 0.2% annually to TIAA-CREF for management and servicing of the Oregon College Savings Plan. The state-related administration fee was halved to 0.05%. Investors now pay just 25 cents annually for every \$100 invested for administration, down from 35 cents in 2010.

hicle that is designed to protect the principal investment while offering a guaranteed rate of return, which is reset each year.

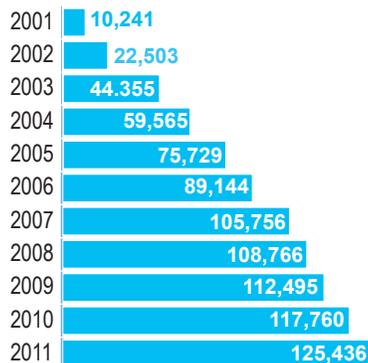
For 2011, the interest rate was 2.35%, and the rate for 2012 is 1.75%.

As of Dec. 31, 2011, the "Principal Plus Interest Portfolio" was held by 2,837 investors and totaled \$27.6 million in assets, which is a 108 percent increase over the previous year. It represented 4 percent of the assets invested in the Oregon College Savings Plan.

The Board has asked Treasury to better promote the availability of this option.

### total beneficiaries

Participation in the Oregon 529 College Savings Network has exploded since the option became available to families, starting in 2001.



### total assets invested



### participation by county

Number of accounts by county, and the percent of population participating.

Baker	129	1.00%
Benton	2,031	2.89%
Clackamas	8,788	3.06%
Clatsop	437	1.48%
Columbia	555	1.47%
Coos	460	0.90%
Crook	135	0.82%
Curry	130	0.69%
Deschutes	3,122	2.57%
Douglas	857	1.00%
Gilliam	25	1.65%
Grant	61	1.01%
Harney	46	0.80%
Hood River	428	2.59%
Jackson	2,894	1.82%
Jefferson	147	0.91%
Josephine	777	1.18%
Klamath	584	1.13%
Lake	52	0.82%
Lane	5,690	2.02%
Lincoln	362	0.95%
Linn	1,685	1.90%
Malheur	154	0.66%
Marion	3,669	1.58%
Morrow	115	1.44%
Multnomah	13,925	2.38%
Polk	1,150	2.02%
Sherman	31	2.19%
Tillamook	277	1.37%
Umatilla	590	1.06%
Union	344	1.72%
Wallowa	79	1.39%
Wasco	247	1.28%
Washington	15,499	3.94%
Wheeler	13	1.10%
Yamhill	1,379	1.85%
State Total	66,867	2.26%

## financial summary data

### PORTFOLIO SIZE (MARKET VALUE IN MILLIONS)

	12/31/11	12/31/10	12/31/09	12/31/08	12/31/07	12/31/06
Public Employees Retirement (OPERF)	\$55,487.2	\$56,681.3	\$52,440.4	\$45,795.8	\$64,870.0	\$60,704.7
Oregon Short Term Fund (OSTF)*	10,785.2	10,618.3	10,197.1	9,382.7	10,344.5	8,767.2
State Accident Insurance Fund (SAIF)	4,164.4	4,121.1	3,948.6	3,475.9	3,673.6	3,483.1
Common School Fund (CSF)	1,071.8	1,107.9	1,006.4	764.9	1,153.4	1,108.7
Oregon War Vet Bond Sinking Fund	85.6	100.7	114.4	141.1	195.1	228.7
DCBS Fund	187.6	204.3	244.9	266.4	298.1	294.0
DAS Funds	158.9	120.9	112.7	135.0	135.1	109.6
Higher Education Endowment Fund	61.0	63.6	61.2	51.6	76.9	75.5
Other Funds	538.5	451.7	298.9	318.6	550.7	475.0
<b>TOTAL</b>	<b>\$72,540.2</b>	<b>\$73,469.8</b>	<b>\$68,424.6</b>	<b>\$60,332.0</b>	<b>\$81,297.4</b>	<b>\$75,246.5</b>

\* Excludes cash balances reported as a component of fund balances for OPERF, SAIF, HIED, and the CSF.

### OPERF INVESTMENT ALLOCATION SUMMARY

	OIC Target Allocations%	Actual	Market Value (Thousands)
Total Cash	0-3 %	- %	\$ 233,384
Total Fixed Income Securities	20-30	26	14,151,034
Total Real Estate	8-14	12	6,387,079
Public Equities	38-48	35	19,214,232
Private Equities	12-20	24	13,399,897
Total Equities	54-64	59	32,614,129
Alternative Investments	0-8	1	375,473
Opportunity Portfolio	0-3	2	938,553
<b>Total OPERF Regular Account</b>	<b>100</b>	<b>100</b>	<b>54,699,652</b>
Total Variable Fund	N/A	N/A	787,516
<b>Total OPERF</b>		<b>100 %</b>	<b>\$ 55,487,168</b>

Note: Includes impact of cash overlay program.

## financial summary data

### OPERF PERFORMANCE SUMMARY

#### TOTAL OPERF PERFORMANCE

	Year ended 12/31/11	3 years ended 12/31/11	5 years ended 12/31/11
OPERF Regular Account	2.22%	11.19%	1.94%
Policy Benchmark	0.80%	9.04%	1.97%

#### FIXED INCOME PORTFOLIO

	Year ended 12/31/11	3 years ended 12/31/11	5 years ended 12/31/11
OPERF Total Fixed Income	6.12%	13.91%	6.91%
Custom Fixed Income Benchmark	5.33%	6.66%	5.84%

#### REAL ESTATE PORTFOLIO

	Year ended 12/31/11	3 years ended 12/31/11	5 years ended 12/31/11
OPERF Real Estate Portfolio	14.44%	0.57%	(0.63)%
NCREIF Index (lagged one quarter)	16.10%	(1.45)%	3.40%

#### EQUITIES

	Year ended 12/31/11	3 years ended 12/31/11	5 years ended 12/31/11
Domestic Equities			
OPERF Domestic Equities	(0.79)%	16.20%	(0.13)%
Russell 3000 Index	1.03%	14.88%	(0.01)%
International Equities			
OPERF Non-US Equities	(13.45)%	11.70%	(1.70)%
MSCI ACWI Ex US IMI Net	(14.31)%	11.53%	(2.49)%

#### PRIVATE EQUITY

	Year ended 12/31/11	3 years ended 12/31/11	5 years ended 12/31/11
OPERF Private Equity Portfolio	11.06%	7.34%	7.25%
Russell 3000+300bps (lagged one quarter)	3.57%	5.45%	2.82%

### 2011 OPERF PRIVATE EQUITY COMMITMENTS

Manager	Amount (in \$millions)
TPG Growth II, L.P.	\$ 75
Vista Equity Partners Fund IV, L.P.	100
Parthenon Investors IV, L.P.	75
Providence Equity Partners VII, L.P.	150
Rhone Partners IV, L.P.	75
KKR North American XI Fund, L.P.	500
Sofinnova Venture Partners VIII, L.P.	50
Vestar Capital Partners VI, L.P.	75
HarbourVest Partners 2012 Direct Fund, L.P.	75
Endeavor Capital Fund VI, L.P.	100
Union Square Ventures 2012 Fund, L.P.	25
Apax Europe VIII, L.P.	150
Oaktree European Principal Fund III, L.P.	50
OHA European Strategic Credit Fund	50
Green Equity Investors VI, L.P.	150
Total	\$1,700

The Private Equity Program continued to produce strong relative results in 2011, generating a ten-year, net return of 11.7 percent, and outperforming its benchmark by 4.6 percent. OPERF received distributions of \$2.5 billion while meeting capital calls of \$2.6 billion. During 2011 the portfolio appreciated by over \$850 million, and by year end, private equity investments represented 24.8 percent of the total asset base.

As of Dec. 31, 2011, the Private Equity Portfolio generated a net 15.8 percent internal rate of return since inception in 1981.

During 2011, private equity liquidity, debt availability and transaction volumes continued to improve, and many private companies in the portfolio had significant gains in revenues and profitability. The year-end estimated fair market value was approximately \$13.9 billion with \$7.2 billion in unfunded commitments, compared with respective figures of \$12.9 billion and \$8.1 billion at year-end 2010. The OIC authorized 15 new commitments to the Private Equity Portfolio in 2011, for a total of \$1.7 billion.

## financial summary data

### OPERF EQUITY MANAGERS

#### DOMESTIC MANAGERS

	"Market Value (\$ thousands)"
Aletheia Research	\$296,656
AQR	\$161,343
Aronson+Johnson+Ortiz	\$709,247
BGI Russell 1000 Growth	\$777,172
BGI Russell 1000 Value	\$593,838
Boston Company	\$173,867
Delaware	\$433,149
Eudaimonia	\$ 86,873
MFS	\$715,134
Next Century Micro	\$112,772
Next Century Small	\$112,676
Northern Trust	\$747,926
PIMCO	\$458,542
Pyramis US Core	\$349,004
R2000 Synthetic OST managed	\$118,792
Russell Fundamental OST managed	\$523,847
S&P 400 Index OST managed	\$158,138
S&P 500 Index OST managed	\$813,545
Wanger	\$719,316
Wellington	\$320,983
Wells Capital Select	\$623,571
Other Domestic Equities	\$ 844
Total Domestic Equities	\$9,006,393

#### INTERNATIONAL MANAGERS

Acadian	\$645,561
AQR	\$775,672
Arrowstreet	\$966,751
Arrowstreet emerging	\$371,043
BGI TEMs	\$191,931
Brandes	\$641,988
DFA	\$161,932
DFA small cap	\$ 97,555
Genesis	\$528,909
Harris	\$181,612
Lazard	\$712,165
Northern Trust	\$199,509
Pyramis Select	\$848,027
Pyramis Select small cap	\$251,576
SSgA MSCI World ex-U.S. Index	\$1,407,964
TT International	\$552,277
UBS	\$438,027
Victory	\$157,908
Walter Scott	\$641,492
Westwood	\$101,977
William Blair	\$164,429
Other International Equities	\$ 303
Total International Equities	\$10,038,607

#### GLOBAL MANAGERS

AllianceBernstein GSV	\$800,093
BGI ACWI Index Fund - Var. Account	\$781,346
Total Global Equities	\$1,581,439

#### Domestic Equities

Following a sharp market decline from May to September, stocks finished the year on a positive note as the American economy proved more resilient than many expected. The U.S. stock market, as represented by the Russell 3000, bounced back from an abysmal (down -15.3 percent) third quarter, to post an impressive 12.1 percent total return in the fourth quarter. This left the Russell 3000 up a modest 1.0 percent for 2011, and marked the third consecutive year of gains, following returns of 28.3 percent in 2009, and 16.9 percent in 2010. On a cumulative basis, the market is up nearly 52 percent over the past three years, and 101 percent since the March 2009 low.

OPERF's U.S. equity managers returned -0.79 percent (net of fees), underperforming the Russell 3000 index by 182 basis points. Twelve of the 19 active equity managers with at least one year of performance history in the Domestic Equity Fund (DEF) stable met or exceeded their respective benchmarks in 2011.

One mandate was funded during the year: an OST-managed Russell Fundamental Large Cap index portfolio (large cap core).

#### Global Equities

Although U.S. stock markets struggled to capture meager gains in 2011, the plight of non-U.S. equities was more painful, as natural disasters, political turmoil and sovereign debt crises took their toll on offshore stocks. Despite the positive fourth quarter, foreign developed markets, as measured by the MSCI World ex-U.S. Index, were down -12.2 percent for the year. In terms of regions, European markets were the best performers while the Pacific markets (Japan, in particular) lagged the broader index. The MSCI Emerging Markets index finished the year returning -18.4 percent.

For 2011, the International Equity Fund (IEF) returned -13.4 percent, outperforming its benchmark (MSCI All Country World Index ex-U.S. IMI) by 86 basis points. Thirteen of the 21 active managers outperformed their respective benchmarks for the year.

One mandate was terminated during the year: Pictet (emerging core). One mandate was funded during the year: William Blair (emerging core).

## financial summary data

### OPERF FIXED INCOME

Comparisons in thousands (as of December 31, 2011)

Investment Manager	Total Market Value	1 yr	3 yrs	5 yrs
Alliance Capital Management	2,419,670	6.68%	12.70%	7.21%
BlackRock	2,420,673	7.03%	10.53%	6.44%
KKR Financial LLC	1,961,821	4.79%	19.87%	--
Oak Hill Advisors, L.P.	1,194,359	2.36%	--	--
Wellington Management Company	2,401,570	7.45%	12.69%	6.99%
Western Asset Management Company	2,427,877	6.25%	15.29%	5.88%
Other	36			
<b>Total</b>	<b>12,826,006</b>	<b>6.12%</b>	<b>13.91%</b>	<b>6.91%</b>

### OTHER EXTERNALLY MANAGED FIXED INCOME FUNDS

Comparisons in thousands (as of December 31, 2011)

Investment Manager	Total Market Value	1 yr	3 yrs	5 yrs
<b>State Accident Insurance Fund</b>				
Wellington Management Company	\$ 1,881,931	7.43%	10.86%	7.01%
Western Asset Management	1,862,821	6.25	8.74	6.79
<b>Total</b>	<b>\$ 3,744,752</b>			
<b>Common School Fund</b>				
Wellington Management Company	\$ 152,669	7.82%	12.05%	6.99%
Western Asset Management	154,280	6.72	12.49	6.04
<b>Total</b>	<b>\$ 306,949</b>			

OPERF fixed income investments saw aggregate returns of 6.12 percent versus the benchmark (90 percent Barclays U.S. Universal Index and 10 percent Citigroup Non-U.S. World Government Bond Index – Hedged from 1/1/2011 to 2/28/2011 and 60% Barclays US Universal Index, 20% S&P/LSTA Leveraged Loan Index, 10% JP Morgan Emerging Market Bond Index, and 10% Bank of America Merrill Lynch High Yield Master II Index from 3/1/2011 until 12/31/2011), which returned 5.33 percent, outperforming by .79 percent.

The Barclay's Aggregate Bond Index posted positive absolute returns for 2011 but underperformed U.S. Treasuries, a sub-group of the aggregate index, indicative of a general flight to safety within the bond markets during the year. The OPERF fixed income fund exhibited positive returns, but also underperformed U.S. Treasury debt.

At the close of 2011, 10-year U.S. Treasuries yielded 1.88 percent and 2-year U.S. Treasuries yielded 0.24 percent, for a positively sloped yield curve of 164 basis points.

**OTHER INTERNALLY MANAGED FIXED INCOME FUNDS**

**VETERANS' BOND PORTFOLIO PROFILE**

This fund is an account consisting of payments on the principal and interest of loans, accrued interest on bonds sold, tax levies, interest on investments, money derived from the sale, rental, or foreclosure of property, and money from the sale of refunded bonds.

PERFORMANCE

Market value as of 12/31/11, excluding cash \$85,555,000

1 year	3 years	5 years
0.63%	1.76%	0.99%

**WORKERS BENEFIT FUND**

The Workers Benefit Fund was split from the Insurance and Finance Fund of the Department of Consumer and Business Services on July 1, 1996.

PERFORMANCE

Market value as of 12/31/11, excluding cash \$112,976,000

1 year	3 years	5 years
2.56%	4.31%	3.54%

**DAS INSURANCE FUND**

The DAS Insurance Fund was established to provide insurance and self-insurance programs for the State of Oregon and participating local public bodies. Interest is credited to the fund.

PERFORMANCE

Market value as of 12/31/11, excluding cash \$158,942,000

1 year	3 years	5 years
1.42%	2.83%	2.51%

**DEPARTMENT OF CONSUMER AND BUSINESS SERVICES FUND**

The Department of Consumer and Business Services is a public workers' compensation and insurance fund.

PERFORMANCE

Market value as of 12/31/11, excluding cash \$74,651,000

1 year	3 years	5 years
1.24%	2.82%	2.40%

**OREGON SHORT TERM FUND**

(as of December 31, 2011)

	1 Year	3 years	5 years
OSTF	0.10%	1.11%	1.99%
91-Day T-Bill	0.10%	0.14%	1.48%

Short term fund Earnings in 2011 decreased due to a continued and historic low interest rate environment and narrow risk premiums compared to 2010. Consequently, the average monthly rate in 2011 declined to 0.50 percent compared to the average monthly rate of 0.55 percent.

Holdings of local bank deposit instruments were \$55.2 million, compared to \$46.07 million at the end of the prior year, and represented 0.48 percent percent of the fund.

Total corporate indebtedness was at \$5.41 billion (47.52 percent) compared to \$5.02 billion (44.6 percent) at the end of the prior year. U.S. Treasury, agency, FDIC, and Government Guaranteed securities held were \$5.86 billion (51.43 percent) , compared to \$6.14 billion (54.6 percent). Holdings of municipal securities totaled \$64.73 million (0.48 percent), compared to \$50.25 million (0.41 percent).

**OPERF REAL ESTATE**

(as of December 31, 2011)

The OIC manages risk in the real estate portfolio by diversifying across four broad asset classifications: core real estate, value added real estate, opportunistic real estate, and publicly traded real estate investment trusts (aka REITs). As of December 31, 2011, the real estate portfolio had an ending value of \$6.39 billion. The portfolio return for the year was 14.44 percent.

OPERF's real estate performance for the year-ending December 31 was indicative of the continued improvement of the underlying real estate fundamentals (rental rates and rental growth projections, tenant occupancy, and net operating income) and recovery from the economic downturn in 2008 and 2009. Investors seeking yield continued to acquire high quality, well occupied commercial real estate with strong cash flows at premium pricing. A lack of new supply (construction and development), abundant capital available for investment, and attractively priced debt, provided positive capital appreciation for Class A product, in growth markets. This "flight to quality" has been challenging for both debt and equity capital in secondary and tertiary market locations and for lower quality (Class B or C) product. In the public real estate markets, domestic REITs saw another year of positive NOI growth and a similar increase in demand from yield-seeking investors. However, the Global REIT markets showed considerable volatility, beginning with the summer 2011 sell-off of listed real estate securities, as the Eurozone crisis continued to unfold and the pace of China's economic growth remained a concern. The real estate holdings are broadly diversified broadly diversified by real estate asset class, property type, leverage, as well as geography. Global investments include dedicated real estate funds with assets in Brazil, Europe, India, Asia and Mexico.

OPERF's total private real estate portfolio investment return of 17.69 percent for 2011, reported with a one quarter lag, exceeded the NCREIF benchmark of 16.10 percent by 1.59 percent. The domestic public REIT portfolio showed a 13.82 percent return for 2011 while the global (ex-US) public REIT portfolio showed a one year negative return of 18.33 percent.

Over the trailing three-year period, OPERF's composite real estate performance (net of fees) was 0.6 percent, beating the NCREIF benchmark by 2.03 percent. Over the trailing ten-year period, the real estate performance showed a 9.6 percent time weighted return, which represented a 1.8 percent outperformance compared to the NCREIF benchmark of 7.8 percent.

**OREGON GROWTH ACCOUNT**

Through December 2011, the Oregon Growth Account Board made the following commitments to private equity funds:

Vintage Year	Fund Name	Fund Headquarters	Commitment Type	Amount
1999	Timberline Venture Partners LP	Washington	Venture, early stage IT	\$ 5,000,000
1999	Endeavour Capital Fund III	Oregon	Buy-outs, middle market	\$ 7,000,000
1999	Smart Forest Ventures	Oregon	Venture, early stage	\$ 6,500,000
1999	Tamarack Mezzanine Partners	Oregon	Mezzanine	\$ 1,369,921
2001	Northwest Technology Ventures	Oregon	Seed, early stage venture	\$ 14,000,000
2002	Timberline Annex Fund	Oregon	Follow on fund	\$ 500,000
2004	Fluke Venture Partners II	Washington	Venture, early stage growth	\$ 2,000,000
2004	Riverlake Partners	Oregon	Buy-outs, lower mid-market	\$ 2,000,000
2005	Madrona Venture III	Washington	Venture, early stage IT	\$ 5,000,000
2005	OVP Venture Partners VII	Oregon	Venture, early stage IT	\$ 7,000,000
2006	Buerk Dale Victor II	Washington	Buy-out, growth equity	\$ 5,000,000
2007	Adventure Fund I	Oregon	Growth equity, sector focus	\$ 3,000,000
2007	Riverlake Partners II	Oregon	Buy-outs, lower mid-market	\$ 5,000,000
2007	DFJ Frontier II	California	Early stage venture	\$ 5,000,000
2007	Epic Venture Partners IV	Utah	Early stage venture	\$ 5,000,000
2008	Oregon Angel Fund 2008	Oregon	Seed, early stage venture	\$ 1,000,000
2008	Pivotal Investments	Oregon	Early stage, sector focus	\$ 5,000,000
2008	TL Ventures VII	Penn/California	Early stage	\$ 5,000,000
2008	Yaletown Ventures II	BC, Canada	Early stage, sector focus	\$ 5,000,000
2009	Oregon Angel Fund 2009	Oregon	Seed, early stage venture	\$ 1,178,875
2010	Phoenix Venture Partners	California	Early stage, sector focus	\$ 5,000,000
2010	Oregon Angel Fund 2010	Oregon	Seed, early stage venture	\$ 1,500,000
2010	Portland Seed Fund	Oregon	Early stage seed	\$ 750,000
2011	Oregon Angel Fund 2011	Oregon	Seed, early stage venture	\$ 1,500,000
2011	State Angel Conferences	Oregon	Seed stage	\$ 175,000
2012	Voyager IV	Washington	Early stage & growth stage	\$ 5,000,000
2012	Oregon Angel Fund 2012	Oregon	Seed, early stage venture	\$ 1,500,000
2012	State Angel Conferences	Oregon	Seed stage	\$ 175,000
2013	Oregon Angel Fund 2013	Oregon	Seed, early stage venture	\$ 1,500,000
2014	Oregon Angel Fund 2014	Oregon	Seed, early stage venture	\$ 1,500,000
Total				\$ 109,148,796

**OREGON GROWTH ACCOUNT**

Oregon Revised Statutes 348.703(6) states: “The State Treasurer shall annually submit a report to the Governor and to the Legislative Assembly on the investment of moneys in the Oregon Growth Account. The report required by this subsection shall include a summary of the amount of money invested by industrial sector or business classification, by region of this state, by size of investment and by type of investment.” In all cases, the type of investment made has been various forms of private equity capital, predominantly venture capital, with growth equity, mezzanine debt and buyout financing, as well. Since the inception of the OGA, approximately 91 Oregon companies have received some form of capital from OGA general partners. The following data include total dollars invested in Oregon companies; this will always exceed the commitment made by the OGA, since general partners invest dollars from all limited partners, in every investment. The following data are on a dollars-invested-basis:

**Business/Industry**

Advanced Materials	\$	610,000
Advertising		2,331,933
Airline/travel		395,000
Apparel		430,000
Auto Components		18,596,000
Beverage		3,082,664
Biopharmaceutical		1,094,096
Biotech		3,187,195
Business/Legal Services		6,000,000
Cleantech		750,000
Communications		5,233,450
Digital Media		25,000
Distribution Services		1,000,000
Energy Efficiency		1,230,350
Enterprise Applications		2,119,233
Healthcare		11,426,506
Hotel Management		11,541,000
Imaging		4,170,869
IT/Internet		8,998,126
Life Science		401,627
Manufacturing		10,163,251
Media/Publishing		400,000
Medical Devices		600,000
Mobile Apps/Networks		4,039,121
Semiconductor		14,041,730
Service		1,213,251
Software		30,022,757
Telecommunications		3,379,336
Transportation/Logistics		12,750,000
	\$	159,232,495

**Region of the State**

Multnomah	\$	83,297,537
Washington		45,613,322
Clackamas		19,933,000
Josephine		7,426,500
Lane		873,770
Benton		788,365
Douglas		700,000
Deschutes		600,001
	\$	159,232,495

**Total Size of Investment**

Up to \$100,000	\$	592,931
\$100,001 to \$500,000		4,014,314
\$500,001 to \$1 million		13,860,150
\$1 million to \$2 million		17,382,591
\$2 million to \$5 million		36,741,398
\$5 million to \$10 million		43,754,111
Over \$10 million		42,887,000
	\$	159,232,495

**QUALIFIED DEPOSITORIES FOR PUBLIC FUNDS**

Oregon public officials are required by ORS Chapter 295 to ensure all banks they do business with are on the State Treasurer's list of qualified depositories. After January 1, 2006, deposit accounts up to deposit insurance limits may be held at any insured financial institution with a head office or branch in Oregon.

Public Funds Collateralization Program  
 Uninsured Public Funds Deposits by Bank

Quarter Ending - December 2011

Albina Community Bank	2,351,000.00
Baker Boyer Bank	1,157,668.00
Bank of America	33,416,998.08
Bank of Eastern Oregon	16,370,835.00
Bank of Oswego	0.00
Bank of the Cascades	69,746,528.00
Bank of the Pacific	0.00
Bank of the West	21,181,875.00
Banner Bank	17,121,581.00
Capital Pacific Bank	0.00
Citizens Bank	0.00
Clackamas County Bank	616,694.00
Clatsop Community Bank	2,522,201.00
Columbia Community Bank	882,847.00
Columbia State Bank	34,978,581.56
Community Bank	4,540,458.00
First Federal Savings and Loan	0.00
Home Federal Bank	21,301,561.10
HomeStreet Bank	0.00
Intermountain Community Bank	4,341,158.23
Keybank National Association	196,821,503.00
MBank	710,341.00
Oregon Coast Bank	17,162,342.00
Oregon Pacific Bank	10,910,454.00
Pacific Continental Bank	14,482,844.41
Peoples Bank of Commerce	0.00
PremierWest Bank	46,132,436.79
Riverview Community Bank	0.00
Siuslaw Bank	11,730,846.00
South Valley Bank & Trust	18,770,535.90
Sterling Savings Bank	51,786,789.00
The Commerce Bank of Oregon	0.00
U. S. Bank National Association	299,132,125.76
Umpqua Bank	683,684,957.00
Union Bank of California, N.A.	19,937,637.00
Wells Fargo Bank	153,452,826.00
West Coast Bank	32,036,157.00

Aggregate Oregon Public Fund Collateral Pledged: \$1,384,120,355.30

Note for required disclosures:

The Custodian, Federal Home Loan Bank of Seattle, is the agent of the depository bank. The securities pledged are designated as subject to the Pledge Agreement between the Depository Bank, Custodian Bank and Office of the State Treasurer (OST) and are held for the benefit of OST on behalf of the public depositors.

**OREGON SAVINGS GROWTH PLAN**

The State of Oregon Deferred Compensation Plan is a voluntary retirement program, like a private sector 401(k) plan. It provides eligible state employees the opportunity to defer a portion of their current salary and build additional savings, tax-deferred, to supplement Social Security or other retirement benefits.

The program offers eight investment options and a suite of ten target-date retirement funds that vary based on risk. Plan participants individually direct salary deferrals to any of these options. The Plan's eight investment options employ a mix of passive and active management using both institutional commingled trust funds and mutual funds, within each option.

At year-end 2011, a total of 23,276 active and retired state and local government employees participated in the Oregon Savings Growth Plan, up 201 participants from the previous year. The combined assets totaled \$1.16 billion, up \$24 million from the previous year.

**Vendors**

Short-Term Fixed Option  
SSgA GSTIF (Govt Short Term Inv Fund)

Stable Value Option  
SSgA GSTIF  
Dwight Asset Management

Intermediate Fixed Income Option  
BlackRock US Debt Index Fund  
Fidelity Broad Market Duration  
Wellington Capital Bond Core Plus

Large Cap Value Equity Option  
BlackRock Russell 1000 Value Index Fund  
Dodge and Cox Fund  
MFS Value Fund  
Advisors Inner Circle Fund (LSV)

Total Market Equity Index  
BlackRock Russell 3000 Index Fund

Large Cap Growth Equity Option  
BlackRock Russell 1000 Growth Index Fund

American Funds Amcap Fund  
Wells Fargo Advantage Endeavor Select Fund  
Delaware U.S. Growth Instl Fund

International Equity Option  
Artisan International Inv Fund  
GMO Foreign III Fund  
Marsico International Opportunities Fund  
Oakmark International I Fund  
BlackRock EAFE Equity Index F Fund  
DFA Emerging Markets Core Fund

Small/Mid Cap Equity Option  
BlackRock Russell 2000 Index Fund  
Columbia Acorn Z Fund  
American Beacon Small Cap Value Fund  
T. Rowe Price Midcap Growth Fund  
Callan Small Cap Equity Fund

BlackRock Target Date Asset Allocation Funds  
LifePath® Retirement  
LifePath® 2015 LifePath® 2035  
LifePath® 2020 LifePath® 2040  
LifePath® 2025 LifePath® 2045  
LifePath® 2030 LifePath® 2050

OPTION	Annualized Returns (net of fees)						
	Amount Invested	% of Fund	1 Year	2 Years	3 Years	5 Years	10 Years
BENCHMARKS (for comparison)(\$ thousands)							
Short-Term Fixed Option	\$54,934,008	4.73%	-0.12%	-0.10%	-0.06%	1.33%	1.75%
<i>91-Day T-Bill</i>			<i>0.10%</i>	<i>0.11%</i>	<i>0.14%</i>	<i>1.48%</i>	<i>1.95%</i>
Stable Value Option	\$194,849,308	16.77%	1.57%	1.70%	1.76%	2.81%	3.47%
<i>91-Day T-Bill</i>			<i>0.10%</i>	<i>0.11%</i>	<i>0.14%</i>	<i>1.48%</i>	<i>1.95%</i>
<i>Rolling Average 5 Year CMT**</i>			<i>2.85%</i>	<i>3.13%</i>	<i>3.33%</i>	<i>3.55%</i>	<i>4.00%</i>
Intermediate-Bond Option	\$102,105,568	8.79%	7.42%	7.70%	9.97%	6.55%	5.89%
<i>BC Aggregate</i>			<i>7.84%</i>	<i>7.19%</i>	<i>6.77%</i>	<i>6.50%</i>	<i>5.78%</i>
Large Company Value Stock Option	\$85,759,806	7.38%	-1.13%	6.04%	11.38%	-2.86%	3.73%
<i>Russell 1000 Value</i>			<i>0.39%</i>	<i>7.68%</i>	<i>11.55%</i>	<i>-2.64%</i>	<i>3.89%</i>
Stock Index Option	\$105,934,644	9.12%	0.86%	8.56%	14.76%	-0.13%	3.32%
<i>Russell 3000</i>			<i>1.03%</i>	<i>8.69%</i>	<i>14.88%</i>	<i>-0.01%</i>	<i>3.51%</i>
Large Company Growth Stock Option	\$88,999,455	7.66%	1.61%	8.53%	17.64%	1.31%	2.35%
<i>Russell 1000 Growth</i>			<i>2.64%</i>	<i>9.45%</i>	<i>18.02%</i>	<i>2.50%</i>	<i>2.60%</i>
International Stock Option	\$81,075,108	6.98%	-13.43%	-2.78%	8.54%	-4.26%	5.33%
<i>MSCI EAFE</i>			<i>-12.14%</i>	<i>-2.70%</i>	<i>7.65%</i>	<i>-4.72%</i>	<i>4.67%</i>
Small/Mid-Size Company Stock Option	\$151,340,380	13.02%	-3.41%	10.62%	18.78%	2.20%	7.20%
<i>Russell 2500</i>			<i>-2.51%</i>	<i>11.14%</i>	<i>18.41%</i>	<i>1.24%</i>	<i>6.57%</i>
LifePath® Retirement	\$87,875,645	7.56%	3.54%	7.08%	10.07%		
LifePath® 2015	\$77,611,066	6.68%	2.39%	6.93%	11.06%		
LifePath® 2020	\$56,546,628	4.87%	0.99%	6.66%	11.61%		
LifePath® 2025	\$28,170,384	2.42%	0.03%	6.46%	12.20%		
LifePath® 2030	\$18,620,018	1.60%	-1.07%	6.29%	12.58%		
LifePath® 2035	\$12,201,147	1.05%	-2.00%	5.92%	12.96%		
LifePath® 2040	\$6,089,027	0.52%	-2.75%	5.82%	13.36%		
LifePath® 2045	\$2,666,977	0.23%	-3.53%	5.59%	13.58%		
LifePath® 2050	\$5,801,128	0.50%	-4.16%	5.44%	14.09%		
Self-Directed Brokerage Account	\$1,588,119	0.14%					
Fund Total	\$1,162,168,419	100.00%					