

value

2012-13

Oregon State Treasury
State Treasurer Ted Wheeler

Annual Report
Financial data for calendar year 2012



www.oregon.gov/treasury

How to reach the Oregon State Treasury

WEB

www.oregon.gov/treasury

EMAIL

oregon.treasurer@state.or.us

PHONE

main - 503-378-4000

capitol / media inquiries - 503-378-4329

FACSIMILE

main - 503-378-2870

capitol - 503-373-7051

ADDRESSES

State Capitol

900 Court Street NE, Room 159
Salem, Oregon 97301

Labor & Industries Building

350 Winter Street NE, Suite 100
Salem, Oregon 97301

OREGON 529 COLLEGE SAVINGS NETWORK

college.savings@ost.state.or.us
503-373-1903



contents

Message from Treasurer Wheeler	4
About the Treasurer	
Treasury at a glance	6
key statistics	
organizational structure	
Building Oregon's Future	8
Office of the State Treasurer	
Looking forward	
Saving taxpayer dollars, increasing efficiency	
Investing in innovators and small business	
Partnering to build critical infrastructure	
Seeking accountability to improve long-term performance	
Putting education and job training in reach for more families	
Promoting financial education and security	
Investing for Oregon and Our Citizens	16
Investment Division	
Oregon Investment Council	
Financing for Today's Jobs and Tomorrow's Opportunities	18
Debt Management Division	
Oregon Facilities Authority	
Keeping Public Funds Secure	20
Finance Division	
Public Funds Collateralization Program	
Information Systems	
Working with Oregonians, for Oregon	22
boards and commissions	
State Treasury charity giving and outreach	
Financial information	24



Ted Wheeler
Oregon State Treasurer

Dear Oregonians:

In every line of business, success is forged when you constantly pursue the highest value – and that’s what we do every day at the Oregon State Treasury.

We strive to provide the best service, management public investments and funds to achieve the best-possible returns, and seek to reduce costs whenever and wherever it makes business sense to do so. In fact, 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 are never complacent. My office constantly explores new ways to save money and serve you better, such as through the Investment Modernization Act, which could reduce fees by millions and reduce the long-term costs of the pension system.

As we look for ways to save money today, we are also making wise investments for tomorrow. We are committed to building a stronger Oregon economy through investments in infrastructure and initiatives such as the Oregon Investment Act that will support new and growing businesses. We also are working on innovative ways to invest in and support our citizens. The Opportunity Initiative seeks to create a permanent, dedicated fund to put higher education and job training in reach for more Oregonians.

Other highlights for 2012-13 include:

- Saving more than \$51 million in taxpayer dollars by refinancing public bonds, and taking advantage of historic low interest rates;
- Maintaining Oregon’s healthy credit rating and our commitment to prudent use of debt;
- Beating our peers in investment performance over the past 1-, 3- and 10-year periods, which will keep Oregon trust funds stable and save taxpayers money;
- Launching the West Coast Infrastructure Exchange to help facilitate region-wide investments in projects we need to stay economically competitive;
- Expanding the banking options for Oregon local and tribal governments, including a new collateral pool to facilitate public accounts with local credit unions;
- 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
- Actively recruiting fund managers to offer profitable alternative energy-related opportunities to the Oregon Investment Council to diversify and grow our portfolio.

It is a privilege to be your State Treasurer, and I am pleased to offer this annual report to outline the many ways your Treasury is providing value to our state.

Thank you for taking the time to learn more.



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 can stand taller because their state is on a stable financial footing.

He was appointed and then elected in 2010, and reelected in 2012. During his tenure as Treasurer, Wheeler directed efforts to reduce costs associated with the management of public funds and also fought to eliminate most fees for families that rely on state-issued bank cards. He earned an upgrade in Oregon's credit rating, revamped the Oregon 529 College Savings Network with lower costs and more options for families, and held financial firms accountable through proxy actions and authorizing lawsuits.

He also has been an innovator, seeking ways to leverage Oregon's financial strength to help small businesses to grow. He convened business leaders and spearheaded creation of the Oregon Investment Act, which was approved by the Legislature in 2012. He also is working to make higher education and job training more affordable and accessible

for Oregon students -- which will help to develop the workforce to keep Oregon competitive in the global economy. The Oregon Opportunity Initiative, which will create a permanent dedicated fund for student assistance, will be considered by voters on the 2014 ballot.

The State Treasurer in Oregon is the state's financial leader. The Treasurer oversees more than \$80 billion in public assets, administers the state's public debt sales, and manages central banking for government agencies.

The Treasurer protects deposits of public funds in commercial institutions, and helps Oregonians to protect their pocketbooks through financial education and outreach. 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 was born Aug. 31, 1962, in Portland, and graduated from Lincoln High School. His family has deep Oregon roots. The coastal town of Wheeler is named after his great-grandfather.

Wheeler is a longtime community volunteer leader, and has devoted energy to organizations including Neighborhood House, Portland Mountain Rescue, and 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.



Providing quality financial services

The State Treasury is Oregon's professional financial services center. The 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 and central banking for government agencies, and protects public fund deposits. Legislation passed in 2013 will allow Oregon tribes to utilize Treasury services via the Oregon Short-Term Fund.

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. The total funds under Treasury management stood at \$79.1 billion as of Dec. 31, 2012.

Treasury does not oversee the benefits and administration of PERS. That responsibility falls to the Public Employees Retirement System, 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), nor does it oversee the drafting state budget, which is guided by the Legislative Fiscal Office and Department of Administrative Services.

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's five divisions work to fulfill the mission of providing financial stewardship for Oregon, while also providing high levels

of customer service and information transparency. The divisions are responsible for investments, debt management, finance, information technology and the Oregon 529 College Savings Network.

Treasury serves **individual Oregonians and families** by helping them 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.

Treasury is the state's central bank for government, and all **state agencies** are Treasury customers. They receive cash management and debt management services, including check redemption, electronic banking, deposits, and bonding assistance.

Oregon **local government agencies** can invest in the Oregon Short Term Fund, via the Local Government Investment Pool, and 949 different entities did so as of June 30, 2012. Local governments also can deposit funds in local banks, because the Treasurer's office protects assets of public institutions from the risk of bank failures through the collateralization program.

Treasury helps secure low-cost financing for community projects built by **nonprofits** and makes capital available to Oregon local banks, which then can lend more money in communities.

Small and large businesses benefit because Treasury oversees targeted 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.

agency snapshot

Employees **92**
 Annual Budget **\$22.6 m**
 Short Term Fund Depositors **1,072**
 Pension fund Beneficiaries **330,000**

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%

general obligation 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 **\$2.9b**
 Lottery supported debt **\$1.1b**

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
\$0.045	\$0.185



Executive Division

Helping families and building Oregon's future

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 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.

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 communications director oversees 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 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.

Website redesign assists Treasury clients, improves transparency



To help advance the Treasurer's priorities of public transparency and business efficiency, Treasury improved its web functionality in 2012 to improve access to data for clients and the public. The public also can now listen to recordings of public meetings including the Oregon Investment Council.

At the time of the Internet site relaunch, Treasury also virtually relocated to an easier-to-find web address: www.oregon.gov/treasury. Behind the scenes, the new interface is more efficient and saves taxpayers money because it allows Treasury staff to directly change content and upload data, which reduces the resource needs for the Information Services unit.



Investment Modernization Act

Plan could save billions, add jobs

Oregon was responsible for investing \$79.1 billion as of Dec 31, 2012. It is all money that is invested on behalf of Oregon beneficiaries, such as the Oregon Public Employees Retirement Fund, the Oregon Common School Fund, and about 1,000 governments across the state that deposit in the Oregon Short Term Fund.

Former Treasurer Bob Straub set up the current investment structure in the 1970s and since then, the state-overseen investments have performed very well. However, in recent years there have been warning signals that the system needs more capacity to identify and mitigate risk, such as the losses experienced in 2008-09.

When it comes to investments, “risk” can be a scary word. The Oregon Investment Council asked for audits of the current system, and also comparisons to Oregon’s peers, who are large institutional investors with billions of dollars invested. This is akin to asking an inspector to take a look at your house.

The inspectors found several problems, some of them acute. The bottom line finding is that Oregon needs more capacity and safeguards when it comes to overseeing investments in today’s more complicated world.

The silver lining: A new format will allow Oregon to save potentially hundreds of millions of dollars over time in investment fees.

If Oregon continues to experience the same level of performance, the fee-related savings would directly reduce the long-term actuarial liabilities of the public pension system. An independent analysis said the savings could add up to more than \$90 million a year.

The Investment Modernization Act is proposed by the Oregon Investment Council, of which the Treasurer is a member. The proposal is part of Treasurer Wheeler’s commitment to Oregonians to make government work smarter and more efficiently.

The Treasury investment division will be reformed into a new organization. This has been done before in Oregon, when lawmakers created the highly successful SAIF Corp. and repaired Oregon’s then-beleaguered workers’ compensation system.

The organization would report to the Investment Council. And instead of spending millions in fees to external investment firms on Wall Street and elsewhere, Oregon would then be able to hire additional staff as appropriate to run a modern investment operation, based in Oregon. The new entity would retain all the transparency, ethics and accountability requirements under today’s framework.

The status quo is expensive: To pay for outsourced management of much of its portfolio, Oregon spent more than \$300 million in fees in 2012.

Legislative highlights

Oregon’s financial future looks brighter today, thanks to passage of key bills by the 2013 Legislature.

Treasurer Wheeler’s signature legislation was the Oregon Opportunity Initiative, which envisions a permanent and dedicated fund that will reduce skyrocketing student debt and improve access to college and vocational training. Voters will decide in November 2014 whether to establish a new permanent fund. (SJR 1)

Treasurer Wheeler pointed to several additional bills:

- Prioritizing innovation and economic development: The Oregon Investment Act, which was introduced by the Treasurer and made permanent by the 2013 assembly, will streamline government, and foster better prioritization and flexibility for economic development investments to bolster small businesses. (HB 2323)

- Protecting Oregon’s credit rating: Lawmakers approved a balanced budget and stayed within the state’s debt limits. (SB 5506, budget bills)

- Helping Oregon tribes: tribes will be able to deposit money alongside other governments in the interest-earning Oregon Short Term Fund, and analyses of initiatives will be able to note the potential fiscal impact to tribes. (SB 18, SB 351)

- Upgrading Oregon infrastructure: The state can become a partner in the West Coast Infrastructure Exchange, which is managed by the Oregon Treasury to reduce costs and improve the quality of vital public works projects. (HB 2345)

- Helping families become more secure: Oregon will take a hard look at how to encourage more Oregonians to save for retirement. (HB 3436) **11**

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 2013 will reduce payments on various state office and higher educational building bonds by an estimated \$51.2 million over the life of the debt, compared to what was due previously.

These “refundings” 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 collaboration with the Department of Administrative Services, Treasury issues Tax Anticipation Notes, or “TANs”, to provide interim cash for General Fund expenditures for which revenues have yet to be received. Since the program’s inception in 2002, TANs have proven to

be a cost-effective means of alleviating the timing mismatch between General Fund revenues and expenditures. Typically, TANs are issued at the beginning of a fiscal year and retired at the end of the same fiscal year. The amount of this borrowing and the timing of sale is based on cash flow projections and biennial budget planning considerations.

In the past biennium, the State enjoyed more than \$19 million in net interest benefits by selling TANs rather than borrowing from the Oregon Short Term Fund.

Oregon 529 College Savings, Investment Division and Finance Division

Helping Oregonians stretch their dollars further

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. Ultimately, taxpayers are better served by Treasury’s relentless commitment to driving down the cost of doing business.

As part of that overarching goal, the office works successfully across several fronts to target fees and costs – which result in substantial savings for public fund beneficiaries, community nonprofits, public school districts, banking clients, college savers, and for families receiving jobless benefits and child support payments via bank cards.

Oregon families are saving more in connection with their investments in the Oregon 529 College Savings Network,

thanks to substantial fee reductions -- and as assets under management grow, more fee reductions will be possible.

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 thousands of Oregonians who invest for retirement 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.

In 2012, the Finance Division renegotiated the Treasury’s general banking contract with U.S. Bank which resulted in providing a wider array of effective tools for Treasury clients while continuing to significantly reduce costs. The contract reduced overall costs by approximately 21 percent.

The impact of these negotiations reduced overall cost by approximately 21 percent. The end result for Treasury clients was a broader selection of progressive services allowing them to realize not only hard dollar cost savings, but savings as a result of process improvements.

Oregonians also continue to benefit from reduced pricing negotiated by the Treasury for users of state-issued stored-value cards. Electronic banking allows cardholders recipients of state funds to avoid abusive check-cashing fees, while also saving taxpayers money.

Costs are substantially lower with direct deposit and electronic transactions, which dramatically lower the cost of supplies and postage. Also, by making more payments electronically, Oregon has helped reduce check fraud.

state debt refunding 2013

Treasury refinanced several state issuances to cut interest rates and save an estimated \$51.7 million.

Board Of Higher Education	2/13/2013	\$ 2,847,175
Board Of Higher Education	2/13/2013	\$ 4,283,264
Board Of Higher Education	2/13/2013	\$ 6,263,566
Board Of Higher Education	2/13/2013	\$13,509,548
Administrative Services	2/21/2013	\$ 8,877,281
Administrative Services	2/21/2013	\$ 9,527,575
Administrative Services	2/27/2013	\$ 322,959
Administrative Services	4/2/2013	\$ 6,038,790
TOTAL SAVINGS		\$51,670,158

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, bonds must be at least one year from becoming callable.

2006	22 issues	\$13.1 m
2007	10 issues	\$6.8 m
2008	3 issues	\$2.2 m
2009	3 issues	\$2.1 m
2010	3 issues	\$.8 m
2011	5 issues	\$3.2 m
2012	18 issues	\$37.3 m

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 2012-13:

Peer benchmark of investment costs	\$39.3m
School Bond Guaranty savings, yearly	\$5.7m



Oregon Investment Act

Growing Oregon's small businesses

The Oregon Investment Act is a reflection of agreement by the Treasurer, business leaders and ultimately the Legislature that Oregon can do better when it comes to connecting small businesses and entrepreneurs with resources, which will help them to expand and hire.

The Investment Act opened the door for Oregon to establish a new framework that will better prioritize and deploy public resources, in concert with leverage from private investors. Oregon is not unique in attempting to connect businesses to private capital: At least 30 other states have created such programs.

While Oregon can point to some notable success stories around economic development, many of the state's efforts have been fragmented or anemic -- or both. A study showed small and large Oregon employers cope with so-called "capital gaps."

The new strategy combines forces of the public and also the private sector. Government money will be augmented by substantial leverage from private investors, who would shoulder the lion's share of the risk.

The strategy also calls for government to re-think how it allots economic development subsidies and investments. In recent years, a hodgepodge of programs at several agencies doled out aid but seldom under a coordinated strategy. The Investment Act

Oregon Growth Account

The Oregon Growth Account (OGA) invests a portion of Oregon Lottery proceeds in ventures with a significant presence in the state. The returns help Oregon schools.

Oversight of the OGA will become part of the mission of the new Oregon Growth Board, created by the Oregon Investment Act.

The OGA was created in 1999 and was administered by a governor-appointed board. Decisions in the early years yielded poor results: The first investments lost money, in part due to the dot-com bust in 2001.

Changes in board membership and more intensive due diligence helped to bring the OGA back toward profitability in recent years. Since inception, the OGA committed \$109 million. The Account has returned a total of \$23 million to Oregon public schools.

For more information on the OGA including performance of private sector managers hired to oversee the investments, see page 36.

seeks to consolidate many of those public dollars under a new collaborative framework. The Oregon Growth Board, created by the Act, will oversee efforts -- in concert with the private sector -- to help ensure Oregon's economic development investments are made more wisely.

Timed CD program Putting Oregon money in Main Street banks

The Oregon State Treasury oversees an effort that helps put Oregon government deposits to work in Oregon communities.

If Oregon qualified financial institutions choose to participate, they 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.

The participating institutions can then make more loans to Oregon small businesses and families, to help finance new opportunities.

The Timed Certificate of Deposit (TCD) program can supply as much as \$200 million. As of Dec. 31, 2012, lenders were accessing \$79.7 million, which is up from \$55.2 million in 2011.

The Oregon State Treasury secures TCDs 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 as required under ORS Chapter 295 to ensure repayment.

Only qualified banks that do business in Oregon can participate.

The program represented 0.63 percent of the Oregon Short Term Fund in 2012, and 0.48 percent of the fund in 2011.



West Coast Infrastructure Exchange

Innovating to maintain Oregon's competitive edge

The Pacific Coast region is brimming with potential in an increasingly competitive global economy – but that opportunity is jeopardized by transportation, energy and public works systems that are aging or nearing capacity.

With leadership from the Oregon State Treasury, officials from the states of California, Oregon and Washington and the Province of British Columbia formed a partnership to help them meet critical infrastructure investment needs that will total an estimated \$1 trillion over the next 30 years.

The shared goal: Make vital public works and energy projects more feasible in order to improve economic competitiveness and to maintain the region's unparalleled quality of life.

The exchange plans to achieve that goal by helping West Coast states and British Columbia explore strategies such as bun-

dling and alternative funding methods, including the potential of private capital, to finance critical infrastructure projects.

“Strong infrastructure is key to our future competitiveness,” said Wheeler, whose office coordinated the development of the Exchange with the help of \$750,000 in grants from The Rockefeller Foundation. “We have economic opportunities on the West Coast, and those will become strategic advantages when we invest in our public facilities, to put people to work in the short- and the long-term.”

The Exchange is laying the groundwork in 2013 to identify a first wave of projects, and hired an executive director.

The participants' goal is to develop an innovative infrastructure financing system that provides cost savings and better collaboration, and makes projects more feasible by helping to broker connections

between public projects and sources of capital, including from institutional investors including pension funds. Some examples of how the Exchange could achieve its objectives include:

- Bundle similar projects, which would allow for streamlining of term sheets and allow smaller projects to qualify for different financing options.
- Manage projects more efficiently with “performance-based” partnerships.
- Collaborate with industry experts and innovators.
- Collect data and make expertise available to governments that may have little experience designing and financing projects.

More information including examples of innovative projects and the CH2M HILL feasibility study, which said a potential multi-jurisdictional effort has merit, is available from the website, at www.westcoastx.com.

potential projects that could be assisted by the WCX



Small-scale energy



Municipal lighting



Water utilities



Public facilities



Water storage

Seeking accountability, responsibly

As a responsible shareholder, Oregon can be influential in shaping how public corporations and their boards operate, with an eye toward improving the long-term profitability of those firms. That, in turn, can strengthen the value of public investments over time.

That activism can occur on several fronts including direct conversations with executives and firms. As a global institutional investor, Oregon can interact with firms collaboratively in ways than non-investors cannot. The Treasurer also can advocate for value-enhancing changes via public relations efforts.

This strategy meshes with the core legal responsibility of Treasury and the Oregon Investment Council as fiduciaries of trust funds. A legal opinion from the Oregon Attorney General warns against imposing political or geographic constraints on investments that could limit the performance of the Oregon Public Employee Retirement Fund or other trust accounts.

Focusing on shareholder rights

A key avenue for the State to press for positive changes in how corporations are run is through proxy elections at annual meetings.

In 2012, the Oregon Investment Council voted 10,518 ballots for 5,690 meetings. There were 62,728 proposals across all ballots.

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

The common denominator is improving shareholder value and giving shareholders a voice in corporate elections. The Treasurer insists that firms manage themselves in a way that respects and benefits shareholders, who are the owners, and ensures that board decisions are closely tied to long-term profitability. This is known as "aligning interests" of shareholders and the corporation.

Executive compensation is one common area of focus for corporate governance advocates like the Oregon Treasurer. The federal Dodd-Frank Act gives shareholders the opportunity to cast votes in advisory referendums on executive salaries, known as "Say on Pay." Say

In addition, the Treasurer supports more accountable and transparent financial markets generally, and seeks better reporting of corporate political giving and how firms are situated for climate-related opportunities and threats. Improving access to data reduces the risks for all investors, because they know what is happening on – and also behind – corporate balance sheets.

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

The Treasurer authorized the Department of Justice to file securities litigation claims in more than 2,000 class action cases during the past five years, and Oregon currently is lead plaintiff in three cases, against J.P. Morgan Chase, Bank of New York Mellon, and UBS.

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:



on Pay votes have evolved into an indicator of a board's sense of accountability to shareholders, and they are an effective means of starting a direct conversation with executives about aligning pay and performance. Oregon trust funds cast a record 548 "no" ballots in Say on Pay referendums in 2012.

The Treasurer's Office has also engaged directly with approximately 80 different companies on their compensation practices.

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

Highlights: Corporate governance and securities litigation

- In cooperation with pension funds in Iowa and Maine, the Treasurer and the Attorney General's office oversaw a settlement of \$500 million against Countrywide to recoup losses sustained by the Oregon Public Employees Retirement Fund from the company's overly risky mortgage-backed securities portfolio. Oregon's share of that sum is still being determined.

- Oregon voted against five members of the Hewlett Packard board of directors, including the chair of the compensation committee, after a three year stretch of pay out of line with poor performance. HP's seven named executives were paid more than \$65 million in 2012.

- At the Apple annual meeting in 2013, Oregon voted consistent with management and in favor of a by-law amendment to institute majority voting for directors. Majority voting requires a candidate to receive a majority of the votes cast, and as a corollary, candidates who do not receive a majority are urged to step down from the board.

Key securities cases

as of June 2013

OPERF v Apollo Group Inc.
(U.S. Court of Appeals)
\$10 million

Bear Stearns Mortgage
(U.S. District Court, New York)
\$21 million

Fortis
(Belgium Court, Brussels)
\$17 million

Oregon v Marsh & McLennan
(Oregon Court of Appeals)
\$10 million

Oregon 529 Network College savers reach milestone with \$1.8 billion invested

SALEM – More families than ever are saving for higher education and job training through Oregon’s tax-saving college investment plans, and the value of those assets is approaching a record \$2 billion.

Surging financial markets helped to boost the value of existing portfolios. At the same time, the pace of both new signups for the plan and new contributions from existing investors increased in 2012.

The numbers suggest strong public confidence in the 13-year-old Oregon 529 College Savings Network, which was reformed by Treasury in 2010 to provide more investment options, a higher level of oversight and lower fees.

The Network gives families several options to invest, while also qualifying for state and federal tax benefits. The accounts can be used to pay for tuition, room and board, and even books at accredited colleges and trade schools.

Families can guide their own investments in the Oregon College Savings Plan. Or they can invest through an advisor in the Oregon Plan offered by MFS Investment Management.

The maximum tax deduction for 2013 is \$4,455 for joint filers and \$2,225 for single filers.

Financials

Oregon 529 Network statistics page 38

Oregon College Savings Plan MFS Oregon 529 Plan page 39



Improving access and affordability

The Oregon Opportunity Initiative is headed to the November 2014 ballot. The percentage of students with higher education diplomas.

The 2013 assembly considered and ultimately approved the proposal to create a dedicated fund to improve access and affordability for higher education and vocational training.

“The Opportunity Initiative is a critical step that will help make Oregon more competitive in the new global economy,” Treasurer Wheeler said.

The Opportunity Initiative is part of the Treasurer’s blueprint to help make Oregon families more financially secure.

It was crafted with input from a coalition that includes lawmakers, university and community college officials, student representatives and business executives. Oregon’s future depends on maintaining a skilled workforce, and state goals call for bolstering the per-

centage of students with higher education diplomas. At the same time, the state’s current level of student assistance is anemic: Oregon ranks as 45th among states for per-capita support of education assistance, according to the National Association of State Student Grant and Aid Programs.

Because of funding limitations, just two of every ten eligible applicants receives an Oregon Opportunity Grant today. Those grants are worth about \$2,000 a year.

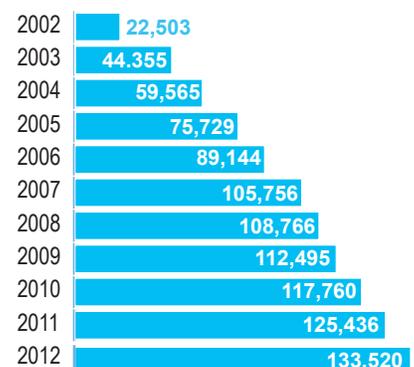
Treasurer Wheeler, business owners and students helped to highlight the need for improved education access on March 7, 2013, at Opportunity Day.

The Legislation did not commit any resources to the envisioned fund but rather simply asks voters to endorse the creation of one.

Oregon 529 College Savings Board, and investment growth

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 executive director of the Oregon 529 program is Michael Parker.

The number of participants has exploded in the past decade to 133,520 accounts as of Dec 31, 2012. The Oregon 529 Network was created in 2001.





Reading, and investing in students

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

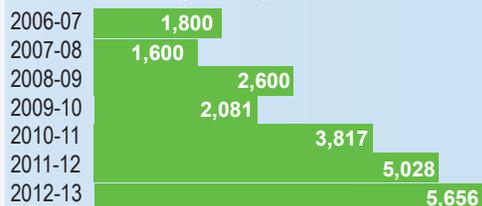
The program is a centerpiece of the State Treasury’s efforts to help increase financial awareness. Oregonians today face an increasingly complex financial landscape and need to be prepared for the vagaries of credit, insurance, savings, investments, and how to be savvy about potential scams.

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:



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.

New task force will consider retirement readiness

Nearly half of working Oregonians are not covered by a retirement savings plan, and that is a recipe for hardship in the not-too-distant future.

Thanks to bipartisan legislation passed by the 2013 assembly and endorsed by Treasurer Wheeler, the state will take a new look at how to encourage more Oregonians to save for retirement -- and also increase access to low-cost, high-quality retirement plans.

A new task force will make recommendations to be considered by the 2015 Legislature.

The Oregon Retirement Savings Task Force will consist of seven members. In addition to the State Treasurer or designee, there will be two representatives of employers, two members with experience in the financial services industry or in pension plans, and two public members.

The task force will consider:

- Current access Oregon residents have to employer-sponsored retirement plans and individual retirement products;
- Types of employer-sponsored retirement plans and individual retirement products offered in Oregon;
- Estimates of average amount of savings and other financial resources Oregonians have upon retirement;
- Estimates of average amount of savings and other financial resources that are recommended for financially secure retirement in Oregon; and
- Level of reliance that retired Oregonians have on public assistance benefits as result of insufficient retirement savings.



John Skjervem
Chief Investment
Officer



Michael Mueller
Deputy Chief
Investment Officer

Seeking top-tier, long-term results

The Investment Division manages a complex financial and real estate portfolio 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.

With long-term investment horizons similar to OPERF, and often using similar manager platforms and investment strategies, these other accounts also recorded favorable average annual results for the 3-, 5- and 10-year periods ending December 31, 2012.

In total, the Investment Division oversees assets in excess of \$80 billion, including the Oregon Public Employee Retirement Fund (OPERF), one of the nation's largest and better funded public pension plans. Specifically, OPERF's market value reached \$61 billion as of December 31, 2012, with an 87 percent asset to liability ratio.

OPERF assets are allocated among five major categories: public equity; private equity; real estate; fixed income; and alternative investments.

The OPERF investment portfolio is broadly and deliberately diversified across multiple asset classes and multiple geographies in both developed and emerging market economies, and has generated returns on invested capital of 9.6, 2.8 and 8.7 percent for the 3-, 5- and 10-year periods ended December 31, 2012

To achieve sufficient returns over time, the OPERF portfolio reflects a heavy tilt in favor of equity-oriented investments. Moreover, its return expectations and target asset allocations are considered and developed using a 20-year investment horizon. This long-term investment horizon both facilitates and accommodates the higher-return trajectory enabled by OPERF's equity-oriented portfolio. At the same time, this equity-biased approach also results in higher levels of short-term asset price volatility.

According to state actuaries, this consistently strong investment performance has reduced taxpayers' share of retirees' benefit payments. Oregon now relies on investment performance to meet benefit obligations to a greater degree than any other Western state.

For example, in bull market conditions (e.g., 2003 through 2007), OPERF's equity-oriented portfolio will likely produce strong results, but during periods of market volatility and/or outright asset price declines, OPERF's investment results will likely lag long-term expectations and may even register negative returns. Accordingly, the Investment Division has carefully built broad and robust levels of diversification into the OPERF portfolio as a means to mitigate short-term asset price volatility and protect against a sharp and/or protracted downturn in any single market, geography or asset class.

Prominent among the Investment Division's responsibilities is its daily management of the \$12.6 billion Oregon Short Term Fund which provides a highly liquid, short-term investment repository to support the cash flow needs of many state and local agencies. Other investment accounts for which the Investment Division and OIC have responsibility include the \$4.4 billion State Accident Insurance Fund, the \$1.2 billion Common School Fund and the \$67 million Higher Education Pooled Endowment Fund.

The U.S. stock market (as measured by the Russell 3000 index) generated favorable returns last year, advancing 16.4 percent for the 12-month period ended December 31, 2012.

Highlights



OREGON PUBLIC EMPLOYEES RETIREMENT FUND (OPERF)
(As of Dec. 31, in billions)

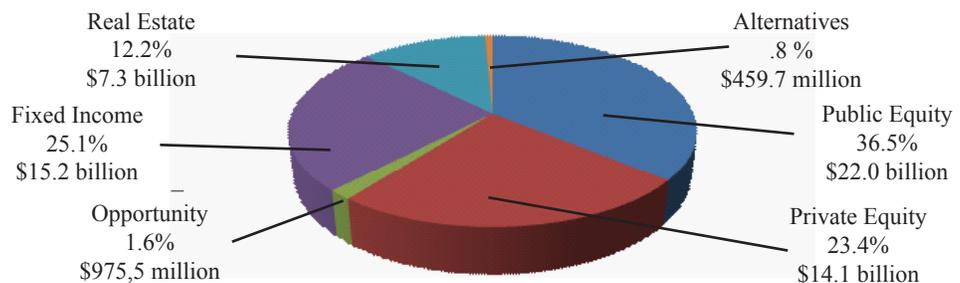
Other key fund balances as of Dec. 2012

- Oregon Short Term Fund **\$12.6 billion**
- State Accident Insurance Fund **\$4.4 billion**
- Common School Fund **\$1.2 billion**
- University Endowment Fund **\$66.8 million**
- Total Invested Portfolio **\$79.1 billion**

Financials

- OPERF asset performance page 27
- Oregon Short Term Fund page 33
- Oregon Growth Account page 36
- Oregon Savings Growth Plan page 35
- Transparency / reports page 34

OPERF investments by asset class



* Oregon Public Employees Retirement Fund, as of Dec. 31, 2012

OPERF's U.S. equity managers matched this result which was remarkably uniform across capitalization tiers and investment styles.

Following signs of improving financial stability in Europe as well as continued, albeit more measured growth in developing economies, OPERF equity managers pursuing non-U.S. investment mandates contributed a 18.9 percent return in 2012, a result nicely in excess of the non-U.S. market benchmark (the MSCI ACWI Ex-US IMI Net index) which advanced 17.0 percent.

Private equity produced similarly impressive results in 2012, generating a one-year, aggregate net return of 14.4 percent. In OPERF, private equity distributions totaled \$3.3 billion against \$2.1 billion in current period program commitments for a net cash distribution of over \$1 billion.

Among its tangible asset investments, the OPERF real estate portfolio delivered a 13.6 percent return in calendar year 2012, while allocations to opportunistic and alternative investments resulted in returns of 18.4 percent and -0.8 percent, respectively over that same one year period.

The bond market posted another year of strong, positive returns in 2012 with OPERF's custom fixed income benchmark ending the year higher by 8.6 percent. Benefiting from a range of exposures beyond

U.S. Treasury securities (e.g., corporate and non-rated bonds, emerging market debt), relative returns for OPERF's fixed income investments were also quite good and added another 1.7 percent to the above-referenced custom benchmark.

The division provides assistance with monitoring of the Section 457 defined contribution plan available for voluntary participation by public workers, known as the Oregon Savings Growth Plan.

In June 2013, the Oregon Investment Council revised the portfolio mix for the Oregon pension fund, following a six-month asset and liability review that considered potential opportunities and risks. The new strategy reduces the percentage of the portfolio that will be steered to public stock and fixed income investments such as bonds, and will increase exposure to alternative assets.

The changes in target investment strategy will be phased in over at least five years.

	PREVIOUS	NEW
Public Equity	43%	37.5%
Private Equity	16%	20%
Fixed Income	25%	20%
Real Estate	11%	12.5%
Alternatives	5%	10%

Analysis shows opportunity for savings

An annual analysis by CEM Benchmarking of Toronto compared the Oregon Public Employees Retirement Fund (OPERF) to a field of 17 other large public pension funds. The report gave Treasury strong marks for running a high-value operation, compared to industry benchmarks.

At the same time, the report showed Oregon spends a higher percentage than peers on overall management costs. Because of Legislative limits on allowable staff, the Oregon Investment Council steers a large share of Oregon's invested assets to outside managers – which translates to a higher level of fees.

Oregon's costs translated to 0.69 percent of assets – or \$6.91 for every \$1,000 invested. That's less than a hypothetical benchmark of 0.798 percent -- but the authors said Oregon's investment mix carries a comparatively expensive cost ratio. If approved by lawmakers, the Investment Modernization Act will allow for more internal management and, as a result, lower fees.

Oregon Investment Council



Keith Larson
Chairman



Richard Solomon
Vice-Chairman



Katy Durant
PERS Director/
nonvoting



Rukaiyah Adams
State Treasurer



Ted Wheeler
PERS Director/
nonvoting



Paul Cleary
PERS Director/
nonvoting

The **Oregon Investment Council (OIC)** is a six-member board responsible for setting the investment policy and direction for Oregon public trust funds and assets. Four members are appointed by the governor. The State Treasurer serves by position. The director of PERS, a separate agency, is a non-voting member.

The OIC ensures that money in the funds is invested and reinvested as productively as possible. The investments are managed as a prudent investor would do, and this standard requires the exercise of reasonable care, skill and caution -- and is applied to investments not in isolation, but as part of an overall investment strategy.

Under the OIC's **open-door policy**, investment officers consider proposals and solicitations from any firm or partnership that submits a proposal 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.

Importantly, neither the OIC nor OST staff have any oversight responsibility for the determination of public employees' retirement benefits or the level of OPERF contributions collected from state and local agencies.



Laura Lockwood-McCall
Division director



Larry Groth
Deputy division director



General obligation credit ratings (OR)

AA+
Standard & Poors

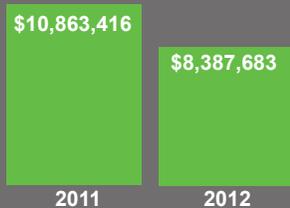
AA+
Fitch

Aa1
Moody's



SCHOOL BOND GUARANTY ISSUES, BY YEAR

(As of Dec. 31, in millions)



TAX - ANTICIPATION NOTE SAVINGS, 2011-13 biennium

Financials

Outstanding Debt page 41

Credit rating highlights page 42

Maintaining a prudent balance

Oregon's credit ratings are a barometer of the state's fiscal health. Managing the state's debt capacity in a prudent way helps to bolster credit scores, while also ensuring Oregon can get the most mileage for today's jobs and tomorrow's opportunities.

Public bonding is an important tool that can enhance Oregon's quality of life and jumpstart the economy by constructing and modernizing roads, schools and vital public facilities that will make the state a better place in the future. Yet debt must be used wisely.

The Debt Management Division is the State's hub for bond finance: It approves the issuance of all bonds and appropriation credits for the State. In addition, it is the clearinghouse for bond data, bond calendars and information about credit ratings.

The division provides technical support to local governments, offers training on selected debt-related topics, and created an online manual to help government officials plan and execute successful bond sales, at www.bondtracker.us/bondcalendar

As of June 30, 2012, Oregon's outstanding net tax-supported debt was \$7.8 billion. Credit rating firms have applauded Oregon's careful attention to debt and budget discipline, and the state's credit ratings remain steady and solid.

The division reviews the structure of each bond sale, coordinates the timing of state

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.

The division 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.

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 **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 and to assist local governments in selling bonds.

In 2012, it provided 454 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.



Analyzing financial underpinnings

House Bill 2800 (2013) established four triggers that must occur by Sept. 30, 2013, to determine whether the state can sell bonds to finance a new Interstate 5 bridge across the Columbia River, connecting Portland and Vancouver, Wash.

If built, the multibillion-dollar project, dubbed the Columbia River Crossing, will be the most significant public works project in Oregon history. However, the project -- which will rely heavily on tolls -- must be deemed financially feasible before it can move forward.

Under the Legislation, the triggers for the project include an investment grade analysis in conjunction with the State Treasury. The review of the project is being led by the Debt Management Division. The in-depth review is considering a suite of data supplied by contractors and planners for

the project, including traffic counts and estimates, tolling sensitivity reviews and financial models. The Treasury analysis is not considering the actual design of the proposed span, which has been the topic of debate.

The triggers set by the Legislature were:

- Approval by the U.S. Coast Guard of the height of the proposed span;
- A review of the financial feasibility by the State Treasury;
- Approval of federal money needed to finance the project; and
- A commitment by Washington State of its \$450 share of “equity,” the same as Oregon’s share.

Washington did not commit any resources to the project, however, so Oregon is exploring whether a revised, single-state financing plan would be feasible.

Making charity and school projects more affordable

From Beaverton to Bend, Oregon school districts and community nonprofits are seeing their dollars stretch further thanks to financing tools administered by the State 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.

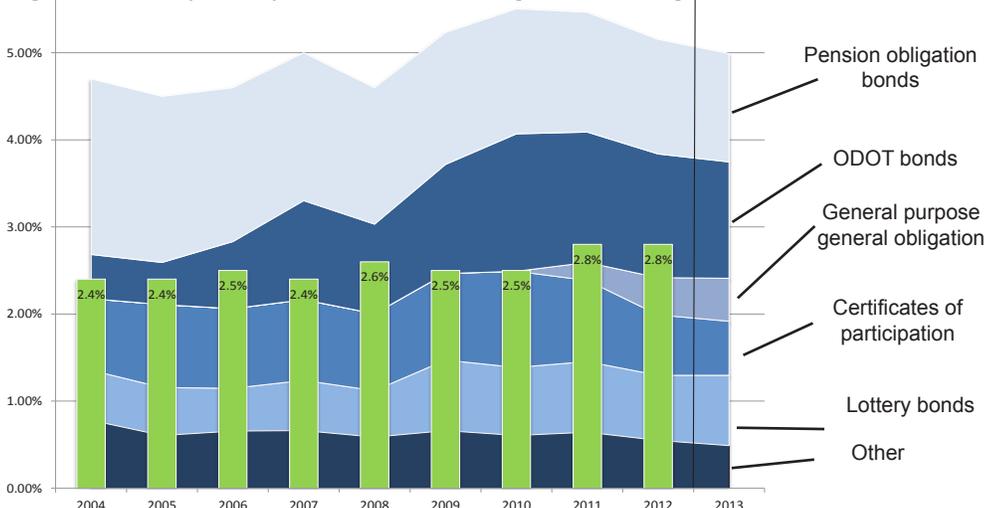
In 2012, the OFA acted as a conduit for 9 entities, resulting in \$65 million in issuances. The bonds are repaid by the nonprofits themselves.

Taxpayers reap the rewards of the **Oregon School Bond Guaranty Act**, created in 1997. It allows qualified districts to have their general obligation bonds rated at the State’s current credit rating. The program is projected to save, on average, at least \$5.7 million annually.

The program shaves interest costs, making available more education funds for classrooms. In calendar year 2012, the State guaranteed 28 school bond series, for a total of 21 school districts and one community college district. The combined issuance of those bonds was \$548 million.

Net tax-supported debt per-capita

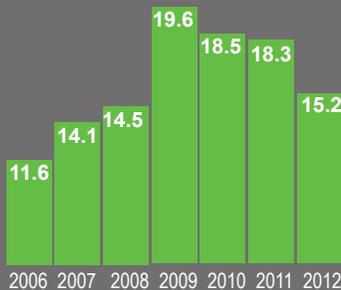
Trend in Oregon per-capita tax-supported debt through 2012, compared to the national average calculated by Moody’s. The national average is shown in green.





Cora Parker
Finance Division director

Highlights



MILLIONS OF TREASURY BANKING TRANSACTIONS
(As of Dec. 31, by calendar year)

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
2013	82	990

Financials

Short /Intermediate Term Fund
page 33

Qualified public depositories
page 40



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 managed more than 15.2 million financial transactions in 2012 - including cash deposits, electronic fund transfers and check issuances. Those transactions totaled roughly \$173 billion for the calendar year.

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.

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, 2012, there were 27 banks holding public funds; and the pledged collateral for those funds was more than \$1.5 billion.

Starting April 1, 2013, credit unions now have the ability to become qualified public funds depositories. The Credit Union Public Funds Collateralization Program allows institutions to accept deposits in excess of insured limits. The credit union pool is separate from the bank pool. The pool was launched with 10 Oregon credit union participants.

The **Oregon Short Term Fund** and **Local Government Investment Pool** provide a secure place for Oregon governments to make short-term investments until 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. The primary investment objectives for the fund are preservation of capital, then liquidity, then achieving yield.



Byron Williams
Chief Audit
Executive



Curt Hartinger
Information
Assurance Officer

Due diligence, oversight and security

The State Treasury invests billions of dollars on behalf of taxpayers, schoolchildren and public retirees. The office also moves millions of dollars daily on behalf of state agencies and local governments.

To help keep funds protected and productive, Treasury keeps close tabs on the money and also internal processes via a network of oversight functions including accounting, auditing, investment due diligence, external legal reviews and secure computing architecture.

Treasury purchases, develops, maintains, and supports an automated and secure cash management technology infrastructure to serve 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.

Treasury also advises and assists state agency clients with respect to their own cash management system needs, including security, risk management and industry compliance issues.

Treasury maintains a strong internal audit department that is responsible for providing regular audit and consulting services to management. The two-person staff works in concert with the internal compliance officer to continually test and evaluate internal processes and policies. 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. Accountants also provide agency customers with information regarding holdings.

Generally accepted accounting principles are applied to all investments, and the value of investments is marked-to-market. Treasury does not employ “smoothing” of returns, which can obscure the true value of the portfolio.

Hundreds of millions of dollars are invested each year and that requires detailed due diligence and monitoring to ensure money is accounted for, contracts are legally enforceable and the best-possible fee terms are negotiated. Due diligence is a multifaceted effort that requires both internal 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 most proposed investments 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.

Audit and compliance highlights

Treasury audit and consulting services are designed to evaluate and improve the effectiveness of risk management processes, identify internal control and compliance concerns, and provide management with information that is useful in the governance of the agency.

In providing these services, auditors follow generally accepted government auditing standards. The internal audit function reports to the Treasury audit committee. Annually, auditors perform a risk assessment and determine which audits to perform based on the risks identified.

In 2012-13, internal audits performed reviews focused on investment governance and practices; information security; and purchasing processes.

The investment operational review is required by statute and considers the governance policies and practices of the Oregon Investment Council. The analysis found that Treasury conforms to standards that protect public funds, but also found opportunities for improvement. Some of the recommendations included: additional training for members of the Oregon Investment Council, more autonomy for the OIC to fulfill its fiduciary obligations, and establishing an internal risk management function at Treasury.

Information Services

Building stronger virtual firewalls



Ron Pope
Information
Services director

The vault at the State Treasury contains no cash: Financial transactions today all occur electronically, and that necessitates a separate, secure, and up-to-date computer network.

The Information Services department is responsible for overseeing the operation, security, and applicability of systems that support financial programs offered by Treasury to state agencies and local governments.

This includes processing transactions to maintain state agency accounts, applying security controls for managing risk to state assets, identifying

and implementing new technologies in support of program goals, providing statements and other financial information internally and externally, and managing the technology governance program of the agency.

In 2013, the department completed a four-year project to modernize infrastructures in order to improve operational efficiency. Also in 2013, a data backup and recovery project was completed that enables Treasury to recover financial services for state agencies and local governments within 24 hours in the event of a shutdown at our Salem location.

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; Glenn Ford; 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. Board will disband in January 2014. 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; Rukaiyah Adams; 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; Doug Middletetter; Laura Lockwood-McCall (Treasurer's Designee); Javier Fernandez; Paul Matthews; Laurie Steele; Nancy Brewer. 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; Michael Schofield; 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. Phil Barnhart (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 Cutsogeorge; Sean Hubert; Karen Weylandt; Martha McLennan. 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; Miranda Summer; Serilda Summers-McGee; Angela Bowen; Anthony Veliz; 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, Erik Andersson, Niki Iverson, Don Skundrick, Daniel Bradley, Carol Samuels, Rep. Terry Beyer, Sen. Richard Devlin, 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 or calling 503-378-4329.



Sam Thompson reads his award-winning essay "Why I love Oregon" during the Salem-Keizer Education Foundation's "back to school" lunch. The Oregon College Savings Plan was a title sponsor of the banquet.

Oregon 529 College Savings

Rewarding student achievement

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 a series of charitable outreach efforts sponsored by the plan, including summer reading programs at public libraries, college planning through the Big Brothers Big Sisters program in Portland, and scholarship incentives through the Salem-Keizer Education Foundation.

In addition, Oregon's outstanding educators are getting recognized with awards.

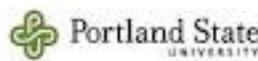
The Oregon College Savings Plan sponsors several outreach efforts and giveaways each year to help encourage Oregon families to plan for college. Families in every Oregon county are saving and investing for college through the state-sponsored plan. Families that save are eligible for an annual Oregon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

For most families, saving enough to pay for the costs of higher education can seem overwhelming. With good planning, funding a college education can be easier to achieve than one might think. Starting with small investments can amount to a big difference when it comes time for children to consider college.

Recognizing collegiate potential

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

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.



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. 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.

Helping Oregonians' families

Oregon State Treasury employees are helping to make Oregon a better place. Each year, employees contribute their time and thousands of dollars 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, dance contest, silent auction and a Treasury scavenger hunt.

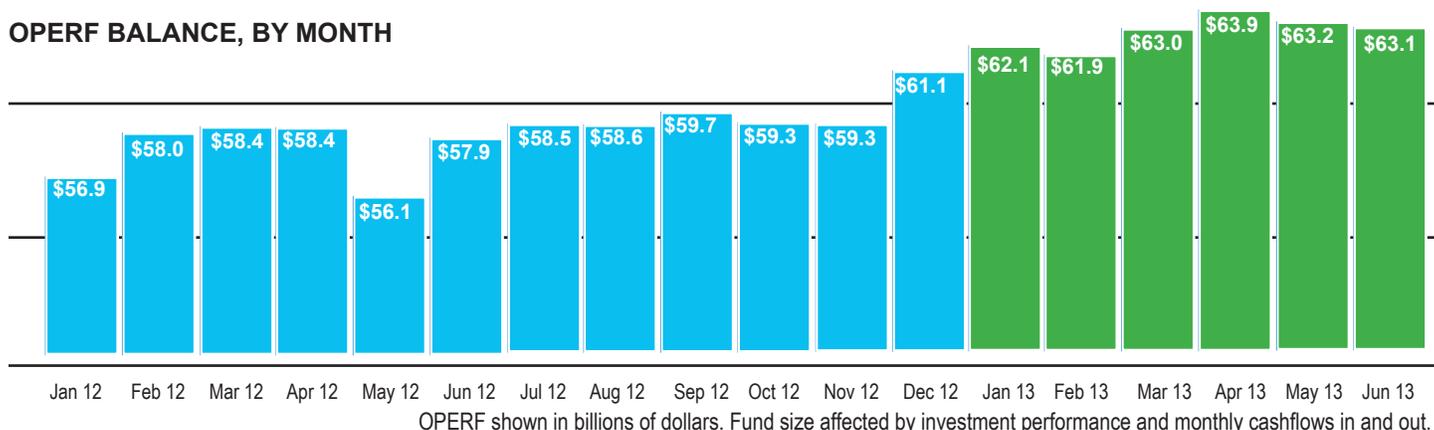
In 2013, employees gave a total of \$6,315, which is the equivalent of 25,261 pounds of food that will be available for needy friends and neighbors in our own communities. In 2011, Treasury employees gave \$5,055 and in 2012, they contributed \$4,877. The food drive fundraising total at Treasury from 1995 through 2013 is \$110,125.

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 by public employees to collect toys distributed in the Salem area.

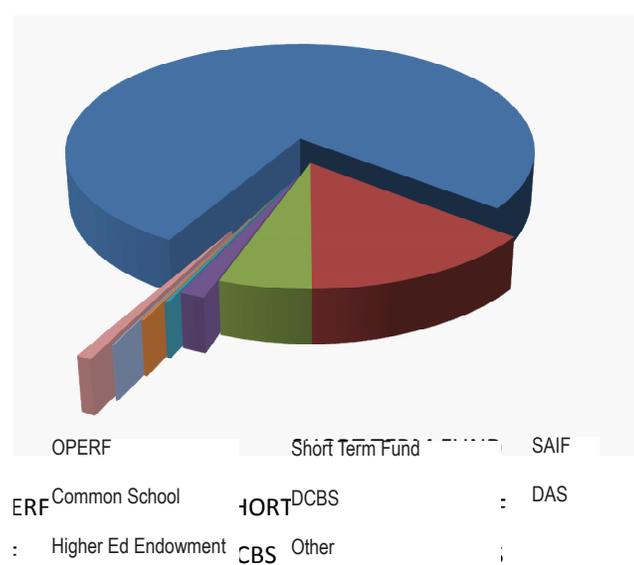
In 2012, the donations by Treasury employees totaled \$1,523. Thanks to aggressive sale shopping by Deputy Chief Investment Officer Mike Mueller, those donations purchased toys with a retail value of \$3,266. The toys are delivered to the Capitol in Salem.

In 2011, employees raised \$1,460, which bought gifts with a retail value of \$3,238.

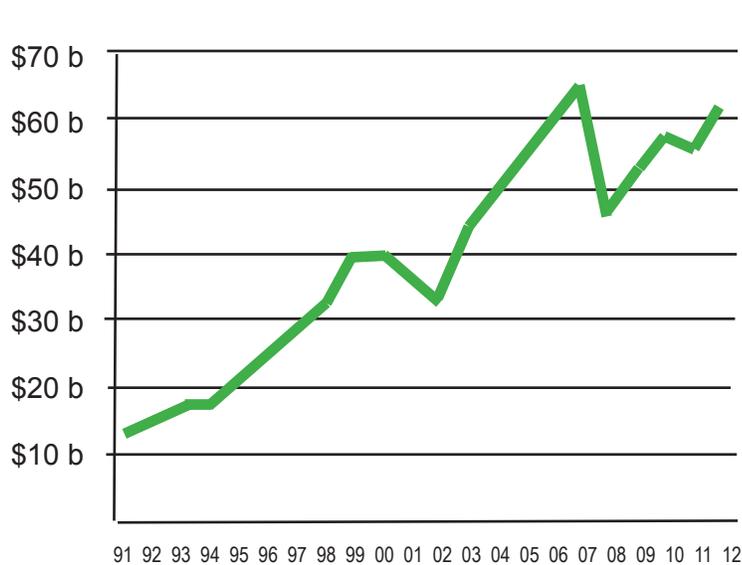
OPERF BALANCE, BY MONTH



TOTAL INVESTED PORTFOLIO, BY FUND



OPERF FUND BALANCE, BY YEAR, 1991-2012



PORTFOLIO SIZE (MARKET VALUE IN MILLIONS)

	12/31/12	12/31/11	12/31/10	12/31/09	12/31/08	12/31/07
Public Employees Retirement Fund	\$61,055.5	\$55,487.2	\$56,681.3	\$52,440.4	\$45,795.8	\$64,870.0
Oregon Short Term Fund (OSTF)*	11,327.7	10,785.2	10,618.3	10,197.1	9,382.7	10,344.5
State Accident Insurance Fund (SAIF)	4,420.3	4,164.4	4,121.1	3,948.6	3,475.9	3,673.6
Common School Fund (CSF)	1,178.8	1,071.8	1,107.9	1,006.4	764.9	1,153.4
Oregon War Vet Bond Sinking Fund	81.2	85.6	100.7	114.4	141.1	195.1
DCBS Fund	180.0	187.6	204.3	244.9	266.4	298.1
DAS Funds	129.3	158.9	120.9	112.7	135.0	135.1
Higher Education Endowment Fund	66.8	61.0	63.6	61.2	51.6	76.9
Other Funds	605.7	538.5	451.7	298.9	318.6	550.7
TOTAL	\$79,045.3	\$72,540.2	\$73,469.8	\$68,424.6	\$60,332.0	\$81,297.4

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

OPERF PERFORMANCE SUMMARY

	Year ended 12/31/12	3 years ended 12/31/12	5 years ended 12/31/12	10 years ended 12/31/12
OPERF Regular Account	14.29%	9.57%	2.79%	8.71%
Policy Benchmark	16.57%	9.36%	3.06%	8.54%
OPERF Total Fixed Income	10.33%	9.06%	8.01%	7.00%
Custom Fixed Income Benchmark	8.60%	6.87%	6.29%	5.59%
OPERF Real Estate Portfolio	13.64%	8.47%	(0.02)%	10.17%
NCREIF Index (lagged one quarter)	11.00%	10.90%	2.26%	8.34%
OPERF Domestic Equities	16.30%	11.15%	1.87%	7.84%
Russell 3000 Index (Benchmark)	16.42%	11.20%	2.04%	7.68%
OPERF Non-US Equities	18.92%	5.51%	(1.22)%	10.93%
MSCI ACWI Ex US IMI Net (Benchmark)	17.04%	4.18%	(2.50)%	10.13%
OPERF Private Equity Portfolio	14.41%	13.95%	5.24%	13.07%
Russell 3000+300bps (lagged one quarter)	34.02%	16.62%	5.18%	12.50%

OPERF ALLOCATION SUMMARY (as of Dec 31, 2012)

	OIC Target Allocations%	Actual	Market Value (Thousands)
Total Cash	0-3 %	- %	\$ 243,848
Total Fixed Income Securities	20-30 %	25 %	15,151,206
Total Real Estate	8-14 %	12 %	7,330,411
Public Equities	38-48 %	37 %	22,001,434
Private Equities	12-20 %	23 %	14,093,044
Total Equities	54-64 %	60 %	36,094,478
Alternative Investments	0-8 %	1 %	459,731
Opportunity Portfolio	0-3 %	2 %	975,565
Total OPERF Regular Account	100 %	100 %	60,255,239
Total Variable Fund	N/A	N/A	800,279
Total OPERF		100 %	\$ 61,055,518

Note: Includes impact of cash overlay program.

OPERF FEES AND COMMISSIONS

For the Fiscal Year Ended June 30, 2012
(source PERS / Consolidated Annual Fund Report)

	Assets Under Management	Fees	Basis Points
Debt Securities Managers	\$ 14,641,988,707	\$ 26,433,559	18
Public Equity Managers	20,918,981,564	65,786,882	31
Real Estate Managers	6,760,574,023	27,507,647	41
Private Equity Managers (Limited Partnerships)	14,544,003,207	120,963,966	83
Alternative Equity Managers	410,250,609	4,828,781	118
Opportunity Portfolio Managers	933,878,315	2,448,181	26
Other service fees:			
Investment Consultants		1,952,850	
Commissions and Other Fees		85,241,862	
Total Investment Service and Managers' Fees		\$ 335,163,728	



Mike Viteri
Senior Investment
Officer



Ben Mahon
Portfolio Manager
and Trader



Karl Cheng
Investment Officer

Portfolio highlights: Public Equity

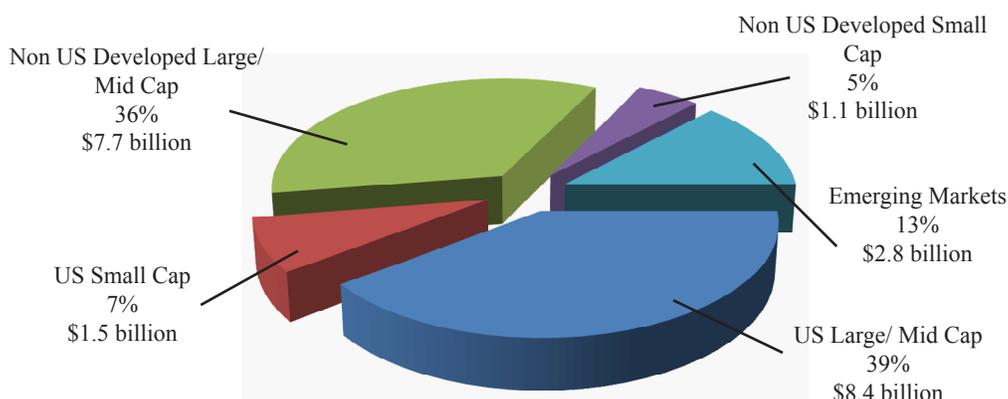
The U.S. stock market (as measured by the Russell 3000) posted a modest 0.2 percent gain in the fourth quarter as investors weighed the results of the election, additional Fed stimulus and the fiscal cliff. The Russell 3000 concluded calendar year 2012 with a gain of 16.4 percent, marking its fourth consecutive year of positive gains and a 76.5 percent cumulative return since the end of 2008. Of note, uncertainty surrounding tax rates for 2013, and beyond, led corporations to announce more special dividend payouts than in any December since 1955, according to data from S&P. All told, 1,056 special dividends were announced in 2012, up from 460 a year earlier and the most since 1973.

OPERF's U.S. equity managers returned 16.3 percent (net of fees), underperforming the Russell 3000 index by 12 basis points. Twelve of the 19 equity managers with at least one year of performance history in the Domestic Equity Fund

CONTINUES ON PAGE 27

PUBLIC EQUITY BREAKDOWN

As of 12/31/2012



FUND CHARACTERISTICS

	US Active		Non-US Active		US Passive		Non-US Passive	
Active vs Passive Combined	33%	78%	45%	21%	14%	25%	7%	7%
Target		75%				25%		

	US Growth		Non-US Growth		US Value		Non-US Value	
Growth vs Value Combined	23%	50%	27%	50%	23%	50%	27%	27%
Target		50%		50%		50%		

TOP 10 HOLDINGS - DOMESTIC

	Market Value (\$)	Percent of Portfolio
APPLE INC COMMON STOCK NPV	119,600,000	1.8
EXXON MOBIL CORP COMMON STOCK NPV	108,460,000	1.7
JPMORGAN CHASE + CO COMMON STOCK USD1.	74,630,000	1.1
PFIZER INC COMMON STOCK USD.05	65,390,000	1.0
GOOGLE INC CL A COMMON STOCK USD.001	57,380,000	0.9
CROWN CASTLE INTL CORP COMMON STOCK USD.	57,200,000	0.9
VISA INC CLASS A SHARES COMMON STOCK USD	55,680,000	0.9
QUALCOMM INC COMMON STOCK USD.0001	53,210,000	0.8
CHEVRON CORP COMMON STOCK USD.75	48,720,000	0.7
WELLS FARGO + CO COMMON STOCK USD1.666	48,200,000	0.7

TOP 10 HOLDINGS - INTERNATIONAL

	Market Value (\$)	Percent of Portfolio
SAMSUNG ELECTRONICS CO LTD CO	94,020,000	0.9
NESTLE SA REG COMMON STOCK CH	77,690,000	0.7
CHINA MOBILE LTD COMMON STOC	72,490,000	0.7
NOVO NORDISK A/S B COMMON STO	67,650,000	0.6
NOVARTIS AG REG COMMON STOCK	65,310,000	0.6
SANOFI COMMON STOCK EUR2.	62,780,000	0.6
SUMITOMO MITSUI FINANCIAL GR C	60,020,000	0.5
GLAXOSMITHKLINE PLC COMMON S	56,460,000	0.5
ENI SPA COMMON STOCK NPV	55,790,000	0.5
TOYOTA MOTOR CORP COMMON ST	54,190,000	0.5

(DEF) met or exceeded their respective benchmarks in 2012.

One manager resigned their account during the year: Aletheia (large cap growth).

Global Equities

Despite the ongoing fiscal drama in continental Europe, 2012 proved to be a good year for the non-U.S. equity markets overall. European equities were the highest-returning region over the year (19.1 percent), with market sentiment being helped by the Spanish government's successful refinancing of some of its debt, and by Greece receiving further conditional assistance. Markets in the Asia-Pacific region enjoyed strong performance, for the fourth quarter and the year, despite the weakening of local currencies. The MSCI Emerging Markets Index gained a solid 5.6 percent for fourth quarter, ending the year with an 18.2 percent advance. Though the Chinese economy grew "only" 7.4 percent in the third quarter (its slowest rate of expansion since 2009 and below the second quarter's 7.6 percent result), it was enough to buoy the stock market, as China finished the year as one of the index's best performing markets, returning 22.8 percent.

For 2012, the International Equity Fund (IEF) returned 18.92 percent, outperforming its benchmark (MSCI All Country World Index ex-U.S. IMI) by 188 basis points. Eighteen of the 22 managers outperformed their respective benchmarks for the year.

There were no changes to the IEF portfolio during the year.

OPERF DOMESTIC EQUITY MANAGERS

As of 12/31/2012

	Market Value (\$ thousands)
AQR	\$ 180,367
Aronson+Johnson+Ortiz	777,011
BGI Russell 1000 Growth	896,748
BGI Russell 1000 Value	589,013
Boston Company	206,844
Delaware	505,425
Eudaimonia	102,121
MFS	778,449
Next Century micro	115,310
Next Century small	102,757
Northern Trust	592,569
PIMCO	549,296
Pyramis US Core	326,932
R2000 Synthetic OST managed	156,724
Russell Fundamental OST managed	611,831
S&P 400 Index OST managed	250,648
S&P 500 Index OST managed	1,186,128
Wanger	655,219
Wellington	309,867
Wells Capital Select	686,923
Other Domestic Equities	29
Total Domestic Equities	\$ 9,580,213

OPERF INTERNATIONAL EQUITY MANAGERS

As of 12/31/2012

Acadian	\$ 744,124
AQR	868,994
Arrowstreet	1,081,111
Arrowstreet emerging	455,575
BGI TEMs	231,363
Brandes	681,931
DFA EM small cap	121,402
DFA small cap	195,106
Genesis	643,200
Harris	214,108
Lazard	805,170
Northern Trust	234,583
Pyramis Select	1,005,753
Pyramis Select small cap	277,901
SSgA	1,592,131
TT International	528,698
UBS	402,018
Victory	179,888
Walter Scott	654,810
Westwood	120,721
William Blair	199,886
Other International Equities	0
Total International Equities	\$11,238,473

OPERF GLOBAL EQUITY MANAGERS

As of 12/31/2012

AllianceBernstein GSV	\$ 672,784
BGI ACWI Index Fund - Var. Account	800,093
Total Global Equities	\$ 1,472,877



Jay Fewel
Senior Investment
Officer



Sam Green
Investment Officer



Andy Hayes
Investment Officer

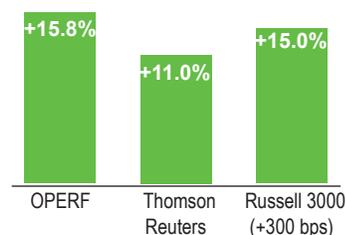
PORTFOLIO BREAKDOWN

As of Dec 31, 2012 - in \$ millions

	OVERALL	ACTIVE	EXITED
Total pension assets	\$61,575		
Allocation to Private Equity	23.7%		
Partnerships		205	49
Capital Committed		\$ 26,682	\$ 4,739
Cash Contributed		\$ 22,546	\$ 5,897
Recallable Return of Capital		\$ 2,655	\$ 1,052
Cash Distributed		\$ 13,489	\$ 10,129
Estimated FMV		\$ 14,612	\$ 0
Total Value		\$ 28,102	\$ 10,129
Total Value Multiple	1.55x	1.41x	2.09x
IRR since inception	15.8%	10.7%	17.9%

LONG-TERM PERFORMANCE

	3-year	10-year	20-year	Since Inception
PROGRAM IRR	13.3%	14.2%	12.7%	15.8%
RUSSELL 3000 (+300 bps)	14.8%	11.7%	12.4%	15.0%
Value Added vs Russell benchmark	-1.4%	2.5%	.2%	.8%



Portfolio highlights: Private Equity

The Private Equity Program formally started in 1981. The target allocation as of Dec. 31, 2012 was 16% of total pension assets, and the actual allocation was 23.7 percent. Since inception, the program posted an average annual return of 15.8 percent.

The program continued to produce strong results in 2012, generating a ten-year, net return of 14.2 percent, and outperforming its benchmark by 2.5 percent. OPERF received distributions of \$3.3 billion while meeting capital calls of \$2.1 billion. During 2012 the portfolio appreciated by \$2.0 billion.

During 2012, private equity liquidity, debt availability and transaction volumes continued to improve, and the portfolio generated strong net cash inflows. The year-end estimated fair market value was \$14.6 billion with \$7.0 billion in unfunded commitments, compared with respective figures of \$13.9 billion and \$7.2 billion at year-end 2011.

HOLDINGS BY TYPE AND GEOGRAPHY

INVESTMENT TYPE	TARGET	FMV	UNFUNDED	TOTAL EXPOSURE
Corporate Finance	65-85%	75%	65%	69%
Growth	5-10%	1%	0%	1%
Venture Capital	0-5%	5%	4%	5%
Special Situations	5-15%	12%	13%	12%
Fund-of-Funds	0-5%	7%	11%	9%
Co-investments	0-7.5%	4%	6%	5%

Total 100%

REGION	TARGET	FMV	UNFUNDED	TOTAL EXPOSURE
North America	70-100%	70%	65%	68%
Global	10-20%	14%	16%	14%
International	5-25%	16%	20%	17%

2012 OPERF PRIVATE EQUITY COMMITMENTS

Manager	Amount ((in \$millions)
GGV Capital IV, L.P.	\$ 50
Cinven Fifth Fund, L.P.	75
Capital International Private Equity Fund VI, L.P.	100
OCM Opportunities Fund IX, L.P.	75
Crescent Mezzanine Partners VI, L.P.	75
Mayfield XIV, L.P.	25
Court Square Capital Partners III, L.P.	75
KKR Asia Fund II, L.P.	200
Avista Capital Partners III, L.P.	100
Public Pension Capital, L.P.	100
Advent International Global Private Equity VII, L.P.	50
Pinebrook Capital Partners II, L.P.	75
Nordic Capital VIII, L.P.	75
A&M Capital Partners, L.P.	100
CDH Fund V, L.P.	75
Total	\$1,250



Perrin Lim
Senior Investment
Officer



Tom Lofton
Investment Officer



Garrett Cudahey
Portfolio Manager

Portfolio highlights: Fixed income

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 subgroup 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.

OPERF FIXED INCOME - EXTERNAL MANAGERS

Comparisons in thousands (as of December 31, 2012)

Investment Manager	Total Market Value	1 yr	3 yrs	5 yrs	10 yrs
Alliance Capital Management	2,603,038	7.58%	8.02%	7.57%	6.69%
BlackRock	2,612,514	7.93%	8.03%	6.90%	5.92%
KKR Financial LLC	2,232,578	13.85%	10.94%	--	--
Oak Hill Advisors, L.P.	1,337,621	11.99%	8.29%	--	--
Wellington Management Company	2,666,810	11.04%	9.13%	8.13%	7.03%
Western Asset Management Company	2,693,976	10.96%	9.77%	7.60%	7.36%
Other	36,947				
Total	14,183,485	10.33%	9.06%	8.01%	7.00%

KEY CHARACTERISTICS

	12/2012		12/2011	
	OPERF Fixed Portfolio	BC Universal (benchmark)	OPERF Fixed Portfolio	BC Universal (benchmark)
Maturity (yrs)	7.3	7.6	7.5	6.9
Duration (yrs)	5.4	5.6	5.3	4.9
Coupon	4.3%	3.9%	4.4%	4.4%
Yield to Maturity	2.9%	2.0%	4.2%	2.8%
Moody's Quality Rating	A-3	AA-3	A-2	AA-3
S&P Quality Rating	A	AA-	A	AA-

OTHER INTERNALLY MANAGED 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 12/31/12, excluding cash
\$81,211,000

1 year	3 years	5 years
1.14%	0.91%	0.44%

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 12/31/12, excluding cash
\$96,819,000

1 year	3 years	5 years
2.65%	2.87%	2.91%

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 12/31/12, excluding cash
\$129,307,000

1 year	3 years	5 years
1.88%	1.74%	1.94%

DCBS FUND

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

PERFORMANCE

Market value as of 12/31/12, excluding cash
\$83,162,000

1 year	3 years	5 years
1.27%	1.03%	1.63%



Anthony Breault
Investment
Officer

Portfolio highlights: Real Estate

The real estate portfolio is diversified across four broad asset classifications: core, value added, opportunistic, and publicly traded real estate investment trusts (REITs).

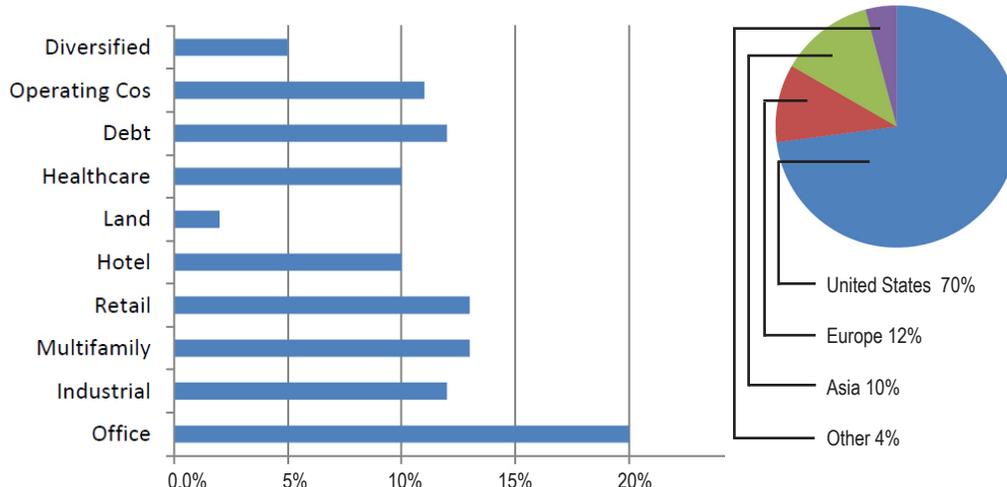
OPERF's 2012 real estate performance was the third year of double digit returns, indicative of the continually improving fundamentals for commercial real estate and increased investment demand for income producing product.

Real estate, globally, has benefited from investor demand for yield, a direct result of the Federal Reserve's Quantitative Easing policy keeping bond yields at historically low levels. Limited development over the past market cycle and modest rental rate growth projections has also provided strong underlying fundamentals for institutional investors.

Real estate values were at or above, peak pre-recession levels for commercial real estate located in 24/7 globally competitive markets while secondary assets saw anemic demand and values at discounts to historic pricing.

Looking at forward, continued capital flows into commercial real estate will most likely result in investors bidding up values for quality assets. However, this modest inflationary pressure could be offset by reduced investor optimism and slower growth assumptions in Asia.

REAL ESTATE DIVERSIFICATION BY CLASS AND GEOGRAPHY



REAL ESTATE PORTFOLIO ACTIVITY

As of December 31, 2012

Portfolio NAV - \$7,388 million

	1 Year	3 Year	5 Year	10 Year
Total PERS Real Estate Portfolio	13.64%	8.47%	-0.02%	10.17%
NCREIF Property Index	11.00%	10.90%	2.26%	8.34%
Value Added vs NCREIF Benchmark	2.64%	-2.43%	-2.28%	1.83%

Sub-Portfolio	Allocation Range	Actual	1 Yr Return	Index
Core Properties	25-25%	25.4%	17.3%	10.5%
Value Added	15-25%	18.8%	12.9%	10.5%
Opportunistic	20-40%	35.5%	13.7%	10.5%
Domestic REITs	15-25%	14.0%	19.9%	19.7%
Global REITs		6.3%	41.4%	38.6%

TOP 10 REAL ESTATE PARTNERSHIPS / MANAGERS

	OPERF NAV (\$ millions)	% of Portfolio	Unfunded Commitments (\$ millions)
Lone Star	802,891	10.7%	277.3
LaSalle	682,507	9.1%	-
Clarion Partners	559,473	7.5%	37.0
Talmage	467,660	6.4%	686.7
Fortress	410,978	5.5%	13.4
Morgan Stanley	393,763	5.3%	-
Regency	333,823	4.5%	-
GID	309,076	4.1%	217.4
GI Partners	295,515	4.0%	18.4
Blackstone	286,747	3.8%	150.7

2012 OPERF COMMITMENTS (REAL ESTATE)

	Amount (in \$ millions)
Blackstone Real Estate Partners VII	\$100
Rockpoint Real Estate Fund IV	100
Talmage Structured Debt Separate Account	125
CBRE Strategic Partners US Value Add Fund 6	100



John Hershey
Senior Investment
Officer

Portfolio highlights: Alternatives and Opportunity

The Alternatives Portfolio was established by the OIC in 2011 with the objective to seek diversification and hedges against inflation by investing in real asset and real return strategies. The Portfolio is targeted to be 5% of the overall pension portfolio with strategies of interest to include infrastructure, natural resources, and hedge funds.

The Portfolio is expected to be invested two thirds in illiquid fund strategies and one third in more liquid trading strategies. In 2012, the OIC approved \$225 million in commitments for the Alternative Portfolio to strategies in the hedge fund, mining and infrastructure sectors through commitments to Reservoir Strategic Partners, Red Kite Mine Finance Fund, and Stonepeak Infrastructure Partners, respectively.

The portfolio is in its infancy, and has not generated measurable returns (-.8 % for 2012)

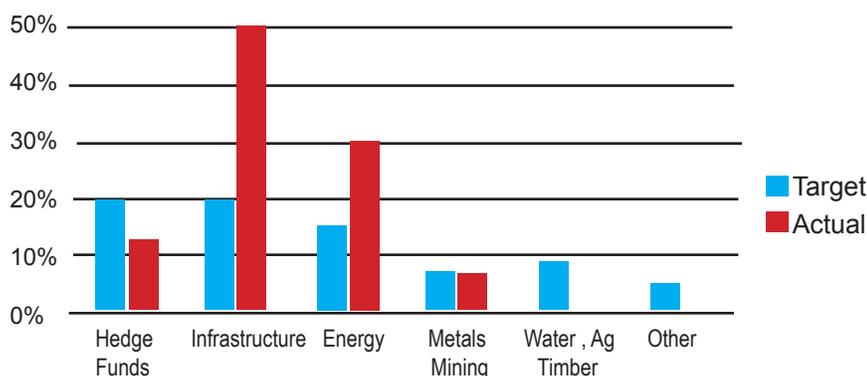
The separate Opportunity Portfolio seeks short-term investments, with a goal of reacting quickly to innovation and market changes. The Opportunity Portfolio posted a return of 18.4 percent in 2012.

The Portfolio's role is to provide enhanced risk adjusted returns and diversification. Investments are expected to be a combination of both shorter-term (1-3 years) and longer-term holdings. The investment allocation is up to 3.0% of OPERF.

ALTERNATIVES PORTFOLIO BREAKDOWN

Partnership	Value (12/31/12) in millions	Strategy	Investment Year
Sheridan Production Partners I	\$ 90.3	Energy	2006
Alinda Fund II	\$125.6	Infrastructure	2008
Sheridan Production Partners II	\$ 43.1	Energy	2010
NGP X	\$ 24.1	Energy	2011
Highstar Capital IV	\$ 34.4	Infrastructure	2011
GIP II	\$ 36.3	Infrastructure	2011
AQR Delta	\$104.7	Hedge Fund	2011
Reservoir Strategic Partners	\$ 16.6	Hedge Fund	2012
RK Finance	\$ 12.8	Mining	2012
Stonepeak Infrastructure	\$ ---	Infrastructure	2012
Total	\$474.8		

ALTERNATIVES PORTFOLIO TARGETS VS ACTUAL

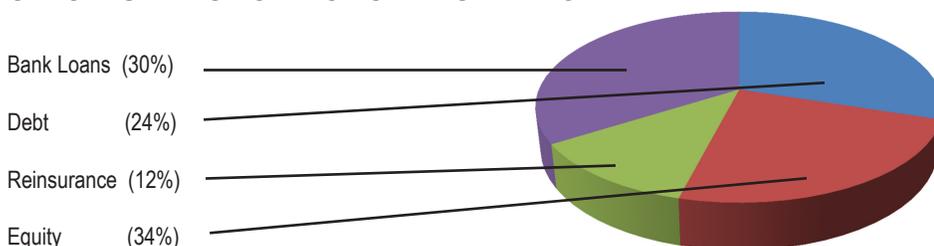


OPPORTUNITIES PORTFOLIO - BY FUND

As of Dec 31, 2012

Fund Name	Strategy	Value	Portion of portfolio
Apollo Credit Opportunity Fund II LP	Credit	\$177,638,891	18.0%
BlackRock Credit Investors	Credit	\$ 71,988,343	7.3%
BlackRock Credit Investors Co-Invest	Credit	\$ 29,869,171	3.0%
BlackRock Credit Investors II	Credit	\$ 17,080,748	1.7%
Endeavor Structured Equity & Mezzanine	Mezzanine	\$ 31,589,711	3.2%
Fidelity RE Opportunistic Income Fund	Credit	\$143,559,531	14.5%
Nephilia Capital – Juniper	Hedge / Reinsure	\$ 58,175,445	5.9%
Nephilia Capital / Palmetto	Hedge / Reinsure	\$ 55,423,696	5.6%
Providence TMT Special Situations	Credit	\$ 81,326,695	8.2%
RA American Natural Gas	Nat Resources	\$ 48,812,458	4.9%
Sanders Capital All AssetValue Fund	Hedge	\$237,101,666	24.0%
TPG Specialty Lending Inc	Credit	\$ 35,214,511	3.6%
Total		\$987,780,867	

OPPORTUNITIES PORTFOLIO - BY STRATEGY



**Portfolio highlights:
SAIF and Common
School Fund**

Strong investment performance of the State Accident Insurance Fund, coupled with workplace safety, allowed for a \$150 million dividend to be returned to an estimated 43,000 employers in 2012. It marked the third consecutive year that SAIF Corp, which administers the workers' compensation program, was able to help Oregon employers keep the lights on during this slowly recovering economy.

The \$4.4 billion fund is invested primarily in fixed income instruments, with \$3.2 billion in bonds.

From the time of statehood, the Common School Fund has provided revenue to support Oregon's public schools. The fund receives income from state-owned assets including forestland and waterways and also benefits from investment returns. Unclaimed property is held in the Common School Fund until claimed by the rightful owners.

Historically, about 4 percent of the fund has been sent to school districts annually, which has been deemed a sustainable rate of disbursements. To help balance the current state budget, the 2013 Legislature requested an extra 1 percent withdrawal from the Fund.

The Land Board oversees the Common School Fund. It is made up of the Governor, Secretary of State and the State Treasurer.

Because of strong investment performance, the Fund has recovered from the 2008-09 worldwide economic crash, which caused the value to plummet to about \$700 million. The fund was valued at \$1.18 billion as of Dec. 31, 2012.

OTHER KEY FUNDS / PERFORMANCE VERSUS BENCHMARKS

	1-year	3-years	5-year	10-year
SAIF	9.61%	8.57%	6.74%	6.55%
Benchmark	8.28%	8.14%	6.37%	6.28%
Common School Fund	15.48%	8.49%	2.40%	7.14%
Benchmark	15.55%	8.19%	2.31%	7.33%
Higher Ed Endowment	12.48%	9.12%	2.28%	7.20%
Benchmark	14.51%	8.90%	2.96%	7.48%

Total Market Value
(in thousands)

State Accident Insurance Fund

Blackrock MSCI ACWI Index Fund	\$	442,540
Wellington Management		1,957,301
Western Asset Management		1,981,956
Other		38,546
Total	\$	4,420,343

Common School Fund

Blackrock MSCI ACWI Index Fund	\$	131,435
Arrowstreet Capital		113,461
Blackrock S&P 500		87,214
Boston Company		14,374
Columbia Wanger		25,060
Genesis Asset Management		34,431
MFS Advisors		80,874
Arrowstreet Emerging Market		33,376
Pyramis Select		110,944
Wells Capital Management		79,549
Wellington Management		161,370
Western Asset Management		162,789
Private Equity		115,564
Department of Revenue Loan		19,126
Cash		9,259
Total	\$	1,178,826

EXTERNAL MANAGER PERFORMANCE

Investment Manager	Total Market Value as of 12/31/12 (in thousands)	Performance		
		1 yr	3 yrs	5 yrs
State Accident Insurance Fund				
Wellington Management Company	\$ 1,957,301	8.63%	8.79%	7.71%
Western Asset Management	1,981,956	9.33	8.38	7.47
Total	\$ 3,939,257			
Common School Fund				
Wellington Management Company	\$ 161,370	8.42%	8.37%	7.58%
Western Asset Management	162,789	9.49	9.14	7.10
Total	\$ 324,159			



Perrin Lim
Senior Investment
Officer



Tom Lofton
Investment Officer

FUND BALANCES AND PERFORMANCE v BENCHMARK

(as of December 31, 2012)

	BALANCE	1-YR	3-YR	5-YR	10-YR
Oregon Short Term Fund	\$12,645,437	1.65	0.88	1.25	2.25
91-day T-Bill		0.11	0.11	0.52	1.80
Intermediate Term Pool	\$ 152,343	5.72			
1-5 YRS US Corporate/Gov A-Rated and Above		1.97			

Portfolio highlights: Short-Term Fund

The OSTF provides a secure place for Oregon governments to deposit their revenue, and earn interest, until the money is needed to cover expenses.

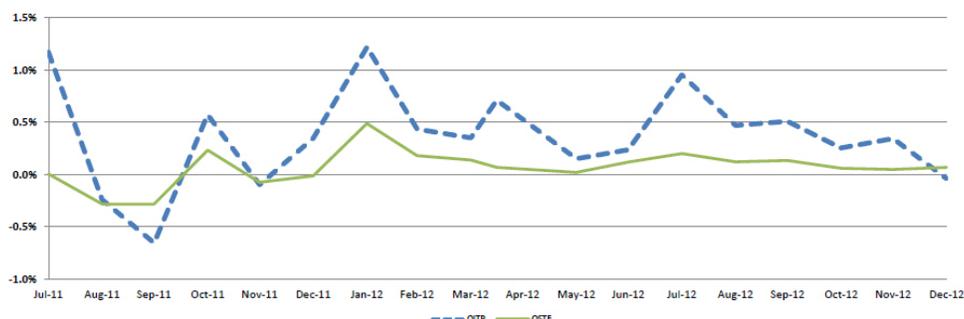
Earnings increased due to an increase in the average OSTF balance in 2012 compared to 2011, a moderating of historically low interest rates combined with an increased risk premium environment throughout much of 2012. Consequently, the average monthly rate in 2012 increased to 0.58 percent compared to the average monthly rate of 0.50 percent in 2011.

Total corporate indebtedness (commercial paper and corporate notes) was at \$6.15 billion (48.79 percent) compared to \$5.41 billion (47.52 percent) at the end of the prior year. U.S. Treasury, Agency, FDIC, and Government Guaranteed securities held were \$5.65 billion (44.78 percent) at December 31, 2012, compared to \$5.86 billion (51.43 percent) in the prior year. Holdings of municipal securities totaled \$731.68 million (5.80 percent), compared to \$64.73 million (0.48 percent) in the prior year.

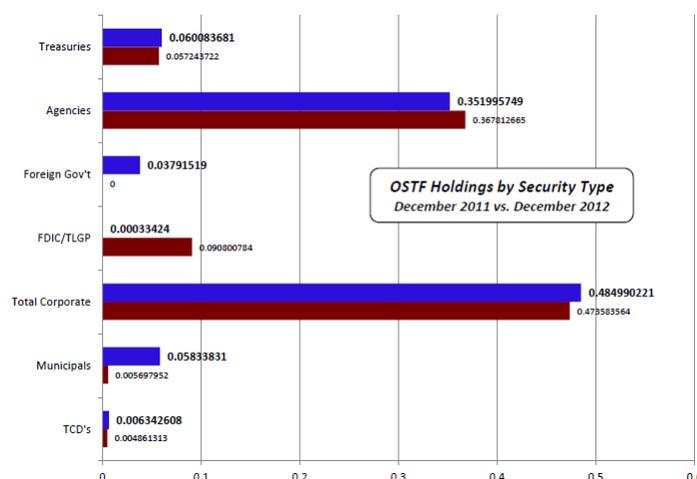
The allocation of the OSTF maturing less than 93 days was 69.84 percent, compared to 64.17 percent on December 31, 2011 (adjusted for floating rate securities coupon reset dates as proxies for maturity dates). The weighted-average-days-to-maturity (WAM) of the portfolio was 172 days.

Distributed earnings for the OSTF for the year ended December 31, 2012 were \$62.6 million, compared to \$52.9 million for the same period in 2011.

OSTF AND OITP MONTHLY RETURNS



OREGON SHORT TERM FUND HOLDINGS



OREGON INTERMEDIATE TERM FUND HOLDINGS

	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12
Fixed %	75%	75%	79%	74%	75%	80%	69%	69%
Variable %	25%	25%	21%	26%	25%	20%	31%	31%
Duration (Yrs)	2.74	2.77	2.99	2.72	3.00	2.99	2.70	2.82
Yield	1.83%	2.12%	2.22%	2.02%	1.87%	2.01%	1.89%	1.95%
Credit Rating	A1/A+	A1/A+	A2/A	A1/A+	A1/A+	A3/A-	A1/A+	A1/A+
Corporate %	73%	73%	79%	69%	60%	63%	59%	61%
US Govt %	17%	16%	14%	12%	19%	23%	20%	17%
Municipal %	1%	1%	2%	3%	4%	4%	3%	3%
Sovereign %	4%	6%	6%	5%	4%	5%	1%	3%
M-Mkt/Cash%	5%	4%	0%	11%	12%	5%	17%	16%
NAV/Unit	\$1,062.29	\$1,064.79	\$1,074.94	\$1,080.29	\$1,085.63	\$1,088.38	\$1,092.12	\$1,091.68
Market Value (MM)	\$105.58	\$102.72	\$103.70	\$120.56	\$151.36	\$151.77	\$152.33	\$152.34

**Transparency:
Ethics reports,
annual disclosures,
and placement agents**

Ensuring robust transparency is a key part of the multilayered effort to keep Oregon assets protected.

Annual statements of economic interest, required under ORS 244.050, are filed with the Oregon Government Ethics Commission by the State Treasurer, Chief of Staff, Deputy Treasurer, Chief Investment Officer and members of the Oregon Investment Council. Filers declare their sources of income, real estate holdings, business partners and debts to individuals. The statements are releasable public records.

PLACEMENT AGENT DISCLOSURES

Oregon has an open door policy and thus firms do not need a gatekeeper to get an audience with investment staff to discuss proposed new opportunities. However, some firms do employ third-party representatives to contact potential investors on their behalf.

In accordance with OST Policy 5.03.01, Conflict of Interest and Code of Conduct, OST shall disclose, in all investment recommendations to the Oregon Investment Council, any Placement Agent used by an investment firm that has had any contact with Treasury investment staff. Staff shall present to the OIC an annual summary of the foregoing, which also is available to the public on the Treasury website.

Summary for Calendar Year 2012

Partnership	OPERF Commitment	Placement Agent
Reservoir Strategic Partners Fund, LP	\$50 million	Credit-Suisse Aqueduct Capital Group
RK Mine Finance Fund II, LP	\$75 million	Eaton Partners
Stonepeak Infrastructure Fund, LP	\$100 million	First Avenue Partners
GGV Capital IV, LP	\$50 million	UBS Private Funds Group
A&M Capital Partners, LP	\$100 million	Barclays

Note that placement agents are retained by the general partner of the fund, and OPERF does not rely on such firms for access or analysis.

PROXY VOTING TRENDS

The Oregon Investment Council was represented at annual meetings by its agent, Glass Lewis & Co. The firm presented these statistics to the OIC, showing the growth in shareholder actions since 2007.

	Meetings	Total Resolutions
2007	2,323	22,186
2008	2,672	27,328
2009	4,306	45,584
2010	4,816	51,340
2011	5,669	63,449
2012	5,690	62,760

financial summary data / deferred compensation



Mike Viteri
Senior Investment
Officer



Ben Mahon
Portfolio Manager
and Trader

Highlights: 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. OSGP recently

added a Roth 457, which allows participants to save on an after-tax basis. 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 options employ

a mix of passive and active management using both institutional commingled trust funds and mutual funds, within each option.

At year-end 2012, a total of 23,435 active and retired state and local government employees participated, up 159 participants from 2011. The combined assets totaled \$1.31 billion.

OREGON SAVINGS GROWTH PLAN - OPTIONS AND BENCHMARKS

	Amount Invested	% of Fund	1 Year	2 Years	3 Years	5 Years	10 Years
Short-Term Fixed Option	\$ 51,499,741.49	3.93%	-0.11%	-0.11%	-0.10%	0.34%	1.60%
91-Day T-Bill			0.11%	0.11%	0.11%	0.52%	1.80%
Stable Value Option	\$194,195,511.21	14.80%	1.44%	1.50%	1.61%	2.21%	3.15%
91-Day T-Bill			0.11%	0.11%	0.11%	0.52%	1.80%
Rolling Average 5 Year CMT**			2.08%	2.46%	2.78%	3.19%	3.67%
Intermediate-Bond Option	\$116,646,301.10	8.89%	6.40%	6.91%	7.27%	6.81%	5.67%
BC Aggregate			4.21%	6.01%	6.19%	5.95%	5.18%
Large Company Value Stock Option	\$102,226,606.01	7.79%	18.70%	8.33%	10.10%	0.36%	7.27%
Russell 1000 Value			17.51%	8.61%	10.86%	0.59%	7.38%
Stock Index Option	\$121,313,973.30	9.25%	16.24%	8.27%	11.06%	1.93%	7.48%
Russell 3000			16.42%	8.45%	11.20%	2.04%	7.68%
Large Company Growth Stock Option	\$104,275,899.25	7.95%	16.31%	8.71%	11.06%	2.49%	7.17%
Russell 1000 Growth			15.26%	8.77%	11.35%	3.12%	7.52%
International Stock Option	\$ 94,736,288.47	7.22%	20.67%	2.21%	4.48%	-2.86%	8.82%
MSCI EAFE			17.32%	1.53%	3.56%	-3.69%	8.21%
Small/Mid-Size Company Stock Option	\$169,066,150.65	12.89%	16.57%	6.11%	12.57%	4.58%	10.70%
Russell 2500			17.88%	7.20%	13.34%	4.34%	10.49%
LifePath® Retirement	\$ 97,367,807.27	7.42%	8.55%	6.02%	7.57%		
LifePath® 2015	\$ 88,523,081.44	6.75%	9.44%	5.86%	7.76%		
LifePath® 2020	\$ 70,788,457.60	5.40%	10.81%	5.78%	8.02%		
LifePath® 2025	\$ 36,091,548.22	2.75%	11.90%	5.80%	8.24%		
LifePath® 2030	\$ 25,348,795.03	1.93%	13.14%	5.80%	8.53%		
LifePath® 2035	\$ 16,799,452.38	1.28%	14.13%	5.75%	8.59%		
LifePath® 2040	\$ 8,865,734.67	0.68%	14.78%	5.65%	8.73%		
LifePath® 2045	\$ 3,946,570.79	0.30%	15.55%	5.58%	8.81%		
LifePath® 2050	\$ 7,021,640.75	0.54%	16.33%	5.59%	8.95%		
LifePath® 2055	\$ 495,337.78	0.04%					
Self-Directed Brokerage Account	\$ 2,842,436.47	0.22%					
TOTAL	\$1,312,051,333.88	100.00%					

VENDORS

Short-Term Fixed Option	Advisors Inner Circle Fund (LSV)	BlackRock EAFE Equity Index F Fund
SSgA GSTIF (Govt Short Term Inv Fund)	Total Market Equity Index	DFA Emerging Markets Core Fund
Stable Value Option	BlackRock Russell 3000 Index Fund	Small/Mid Cap Equity Option
SSgA GSTIF	Large Cap Growth Equity Option	BlackRock Russell 2000 Index Fund
Dwight Asset Management	BlackRock Russell 1000 Growth Index Fund	Columbia Acorn Z Fund
Intermediate Fixed Income Option	American Funds Amcap Fund	American Beacon Small Cap Value Fund
BlackRock US Debt Index Fund	Wells Fargo Advantage Endeavor Select Fund	T. Rowe Price Midcap Growth Fund
Fidelity Broad Market Duration	Delaware U.S. Growth Instl Fund	Callan Small Cap Equity Fund
Wellington Capital Bond Core Plus	International Equity Option	BlackRock Target Date Asset Allocation Funds
Large Cap Value Equity Option	Artisan International Inv Fund	LifePath® Retirement
BlackRock Russell 1000 Value Index Fund	GMO Foreign III Fund	LifePath® 2015 LifePath® 2035
Dodge and Cox Fund	Marsico International Opportunities Fund	LifePath® 2020 LifePath® 2040
MFS Value Fund	Oakmark International I Fund	LifePath® 2025 LifePath® 2045
		LifePath® 2030 LifePath® 2050



Mike Mueller
Deputy Chief
Investment Officer

Highlights: Oregon Growth Account

Unlike trust funds like the pension fund, the Oregon Growth Account is financed with proceeds from the State Lottery, which can be used for economic development purposes and target specific industry clusters in a tightly constrained region. This has the impact of suppressing returns.

However, the OGA also is measured by the total leverage investment in Oregon companies, and also the number of jobs created, with more than 1,000, generating aggregate wages of \$107.6 million and taxes of \$9.5 million.

This report includes a summary of dollars invested by industrial sector or business classification, by region, 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.

Since the inception of the OGA, approximately 121 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, because general partners invest dollars from all limited partners, in every investment.

OREGON GROWTH ACCOUNT

(as of December 31, 2012)

OGA Commitment	Contributed Capital	Remaining Commitment	Distributed Capital	Balance	Return (IRR)
\$109,577,921	\$84,362,002	\$25,055,161	\$31,482,671	\$52,247,987	- 0.4%

OREGON GROWTH ACCOUNT COMMITMENTS, BY INDUSTRY SECTOR

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		3,287,595
Business/Legal Services		6,000,000
Cleantech		12,241,179
Communications		5,270,848
Consumer Products		7,310,640
Distribution Services		1,000,000
Electric Vehicle		850,000
Energy Efficiency		7,780,101
Enterprise Applications		3,331,482
Food Technology		650,004
Healthcare		8,171,713
Hotel Management		11,541,000
Imaging		4,170,869
IT/Internet		8,215,125
Life Science		401,621
Manufacturing		10,213,251
Media/Publishing		425,000
Medical Devices		600,000
Mobile Apps/Networks		4,039,121
Pharmaceutical		625,000
Semiconductor		13,830,626
Service		1,213,251
Software		30,058,033
Telecommunications		3,379,336
Transportation/Logistics		12,750,000
	\$	183,895,488

INVESTMENT BY COUNTY

(OGA funds and leveraged private capital)

Multnomah	\$	81,558,506
Washington		56,242,247
Clackamas		20,659,267
Linn		11,491,179
Josephine		7,310,925
Lane		1,610,000
Benton		1,113,359
Yamhill		1,000,000
Deschutes		850,005
Douglas		700,000
Jackson		660,000
Wasco		650,000
Hood River		50,000

\$ 183,895,488

SIZE OF INVESTMENTS

Up to \$100,000	\$	1,250,897
\$100,001 to \$500,000		6,221,508
\$500,001 to \$1 million		18,115,067
\$1 million to \$2 million		17,877,991
\$2 million to \$5 million		53,848,089
\$5 million to \$10 million		43,694,936
Over \$10 million		42,887,000
	\$	183,895,488

financial summary data / Oregon Growth Account

Through December 2012, the Oregon Growth Account Board made the following commitments to private equity funds:

Vintage Year	Fund Name	Fund based	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	Montlake Capital	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	\$ 147,250
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	State Angel Conferences	Oregon	Seed stage	\$ 275,000
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				\$ 109,936,046

REGIONAL OREGON ANGEL CONFERENCES - GROWTH ACCOUNT PARTICIPATION

Conference Name	Date	OGA Amount	Total Award	Winning Company (based)
Southern Oregon Angel Conference	3/9/2011	\$25,000	\$155,000	Folium Partners (Ashland)
Angel Oregon 2011	3/16/2011	\$39,643	\$185,000	OpenSesame (Portland)
		\$ 5,357	\$ 25,000	Soothie Suckers (Portland)
Willamette Angel Conference	5/12/2011	\$25,000	\$200,000	Montrue Technologies Inc.(Ashland)
Bend Venture Conference	10/1/2011	\$50,000	\$250,000	RES Equine Products (Redmond)
Southern Oregon Angel Conference	4/11/2012	\$25,000	\$160,000	Montrue Technologies (Ashland)
Willamette Angel Conference	5/10/2012	\$25,000	\$200,000	Cascade Prodrug Inc. (Eugene)
Angel Oregon 2012	4/18/2012	\$37,047	\$285,640	Chez Marie (Wilsonville)
		\$12,953	\$100,360	Tellagence (Portland)
Gorge Angel Conference	4/24/2012	\$25,000	\$145,000	EdCaliber (Portland)
Bend Venture Conference	10/19/2012	\$50,000	\$265,000	Sonivate Medical (Beaverton)
Grand Total OGA investment (2011-12)		\$320,000		



Michael Parker
Director



Karl Cheng
Investment Officer

NETWORK STATISTICS

As of Dec. 31, 2012

The Oregon 529 College Savings Network offers families two approaches to save and invest. The Oregon College Savings Plan is a self-directed plan and families can open an account on their own. The MFS Oregon Plan is available through investment brokers. Both options give families tax advantages for saving for college and job training.

	Oregon College Savings Plan	MFS 529 Savings Plan	Network Total
Total Accounts			
- Unique Owner/Beneficiary	67,228	66,292	133,520
- In-State/ Out-of-state	60,192 / 7,036	31,596 / 33,877	90,358 / 40,713
Unique Beneficiaries			
- Total	64,420	65,527	129,947
- In-State/ Out-of-State	53,408 / 11,012	31,696 / 33,831	85,104 / 44,843
Assets Invested			
- In-State	\$736,901,883	\$304,742,228	\$1,041,644,111
- Out-of-state	\$93,364,897	\$529,922,625	\$623,287,522
Total Assets	\$830,266,780	\$834,664,853	\$1,664,931,633

Highlights: Oregon 529 College Savings Network

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

While almost \$1.7 billion in assets was invested at the end of 2012, only a small percentage of the Oregon population was participating.

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.

ACCOUNTS SINCE NETWORK CREATION

	Accounts (unique owner/ beneficiary)	Assets (in billions)	Annual Change	Average Balance
2001	10,241	\$0.03	N/A	\$2,929
2002	22,503	\$0.08	149.25%	\$3,555
2003	44,305	\$0.24	192.22%	\$5,417
2004	59,565	\$0.40	63.52%	\$6,715
2005	75,729	\$0.56	39.85%	\$7,395
2006	89,144	\$0.76	36.38%	\$8,526
2007	105,756	\$0.98	28.52%	\$9,267
2008	108,766	\$0.77	-21.27%	\$7,079
2009	112,495	\$1.01	31.17%	\$8,978
2010	117,760	\$1.28	26.73%	\$10,870
2011	125,436	\$1.38	7.81%	\$11,002
2012	133,520	\$1.66	20.29%	\$12,433

PARTICIPATION BY REGION

Number of accounts by county, and the percent of population under 18 with accounts. The goal is 10 percent per county.

	TFI (OCSP)	MFS	Total	Population under 18	% w/accounts
Baker	86	71	157	3,252	5%
Benton	2,129	926	3,055	15,233	20%
Clackamas	8,626	4,471	13,097	88,403	15%
Clatsop	251	264	515	7,595	7%
Columbia	466	316	782	11,419	7%
Coos	348	255	603	11,991	5%
Crook	71	101	172	4,370	4%
Curry	75	79	154	3,412	5%
Deschutes	2,683	1,683	4,366	36,463	12%
Douglas	326	691	1,017	21,787	5%
Gilliam	34	13	47	351	13%
Grant	76	37	113	1,362	8%
Harney	38	21	59	1,601	4%
Hood River	474	189	663	5,819	11%
Jackson	1,810	1,783	3,593	44,042	8%
Jefferson	93	98	191	5,396	4%
Josephine	423	537	960	16,597	6%
Klamath	364	386	750	14,610	5%
Lake	26	42	68	1,473	5%
Lane	4,912	3,038	7,950	69,063	12%
Lincoln	239	184	423	7,964	5%
Linn	1,307	1,082	2,389	28,210	8%
Malheur	114	124	238	7,927	3%
Marion	3,562	1,991	5,553	83,964	7%
Morrow	49	54	103	3,125	3%
Multnomah	19,349	5,211	24,560	151,069	16%
Polk	1,080	578	1,658	18,637	9%
Sherman	48	12	60	348	17%
Tillamook	192	170	362	5,057	7%
Umatilla	358	413	771	20,397	4%
Union	216	210	426	5,956	7%
Wallowa	54	48	102	1,356	8%
Wasco	173	130	303	5,900	5%
Washington	21,979	6,269	28,248	136,365	21%
Wheeler	6	10	16	260	6%
Yamhill	1,280	669	1,949	24,735	8%

financial summary data / Oregon 529 College Savings Network

MFS OREGON PLAN PERFORMANCE

(as of December 31, 2012)

	Invested thru Oregon 529	1-year	3-year	5-year
MFS Conservative Allocation Fund	\$146,875,146	8.86%	7.78%	4.24%
MFS Moderate Allocation Fund	\$186,261,070	11.22%	8.28%	3.15%
MFS Growth Allocation Fund	\$225,800,259	15.59%	9.58%	2.56%
MFS Aggressive Growth Allocation Fund	\$117,676,594	16.37%	8.63%	0.47%
Massachusetts Investors Trust Fund	\$6,025,877	19.10%	9.14%	2.17%
Massachusetts Investors Growth Stock Fund	\$9,064,446	16.85%	10.51%	3.58%
MFS Total Return Fund	\$22,112,244	11.22%	7.54%	2.56%
MFS Mid Cap Growth Fund	\$2,043,125	16.07%	11.84%	-0.70%
MFS Value Fund	\$12,474,733	16.08%	8.80%	0.78%
MFS New Discovery Fund	\$4,782,015	20.79%	13.62%	7.38%
MFS Mid Cap Value Fund	\$3,012,443	18.50%	13.74%	3.57%
MFS High Income Fund (Bond)	\$4,383,414	14.08%	11.01%	7.44%
MFS Limited Maturity Fund (Bond)	\$52,369,779	3.43%	2.79%	2.89%
MFS Research Bond Fund	\$8,888,341	7.46%	7.35%	6.92%
MFS International New Discovery Fund	\$7,210,033	24.71%	10.91%	2.35%
MFS Research International Fund	\$3,119,482	16.65%	4.82%	-2.90%
MFS International Diversification Fund	\$6,462,288	18.10%	6.54%	-0.67%
MFS Cash Reserve Fund	\$16,168,844	0.00%	0.00%	0.40%
Total	\$834,664,853			

Top Selling 529 Firms as of 12/31/12

1. Edward Jones
2. UBS Financial Services Inc.
3. LPL Financial Corporation
4. Ameriprise Financial Services Inc.
5. Morgan Stanley Smith Barney Llc (ms)

OREGON COLLEGE SAVINGS PLAN (TIAA-CREF) PERFORMANCE

(as of December 31, 2012)

Investment Portfolio Asset Totals	12/31/2011	9/30/2012	12/31/2012	Q/Q Change		Y/Y Change	
AGE BASED PORTFOLIOS	\$ 308,488,296	\$ 363,579,868	\$ 380,034,035	\$ 16,454,167	4.5%	\$ 71,565,739	23.2%
AGGRESSIVE PORTFOLIO	\$ 69,284,910	\$ 77,755,384	\$ 80,408,062	\$ 2,652,678	3.4%	\$ 11,123,152	16.1%
MODERATE PORTFOLIO	\$ 51,105,709	\$ 55,580,850	\$ 57,225,622	\$ 1,644,771	3.0%	\$ 6,119,913	12.0%
CONSERVATIVE PORTFOLIO	\$ 12,721,498	\$ 14,431,516	\$ 15,002,607	\$ 571,091	4.0%	\$ 2,281,109	17.9%
PRINCIPAL PLUS INTEREST PORTFOLIO	\$ 27,658,746	\$ 34,099,883	\$ 35,989,496	\$ 1,889,613	5.5%	\$ 8,330,750	30.1%
MONEY MARKET PORTFOLIO	\$ 9,886,455	\$ 9,098,648	\$ 9,342,908	\$ 244,260	2.7%	\$ (543,547)	-5.5%
DIVERSIFIED U.S. EQUITY PORTFOLIO	\$ 15,110,803	\$ 18,471,824	\$ 19,454,623	\$ 982,799	5.3%	\$ 4,344,020	28.7%
U. S. EQUITY INDEX PORTFOLIO	\$ 81,881,690	\$ 99,744,450	\$ 102,809,758	\$ 3,065,308	3.1%	\$ 20,928,067	25.6%
BALANCED INDEX PORTFOLIO	\$ 34,068,223	\$ 38,700,668	\$ 39,381,193	\$ 680,525	1.8%	\$ 5,312,970	15.6%
FIXED INCOME INDEX PORTFOLIO	\$ 24,134,501	\$ 25,049,181	\$ 24,233,087	\$ (816,094)	-3.3%	\$ 98,586	0.4%
INTERNATIONAL EQUITY INDEX PORTFOLIO	\$ 41,350,408	\$ 45,106,840	\$ 48,710,577	\$ 3,603,737	8.0%	\$ 7,360,169	17.8%
DIVERSIFIED INTERNATIONAL EQUITY PORTFOLIO	\$ 1,884,109	\$ 2,462,583	\$ 2,863,000	\$ 400,416	16.3%	\$ 978,890	52.0%
INFLATION LINKED BOND PORTFOLIO	\$ 4,005,739	\$ 6,397,224	\$ 7,719,815	\$ 1,322,591	20.7%	\$ 3,714,076	92.7%
DIVERSIFIED FIXED INCOME PORTFOLIO	\$ 2,218,840	\$ 3,479,859	\$ 4,399,947	\$ 920,088	26.4%	\$ 2,181,107	98.3%
SOCIAL CHOICE PORTFOLIO	\$ 1,679,727	\$ 2,493,384	\$ 2,692,061	\$ 198,677	8.0%	\$ 1,012,334	60.3%
TOTAL	\$ 685,459,455	\$ 796,452,164	\$ 830,266,790				
% IN AGE BASED PORTFOLIOS	45.0%	45.6%	45.8%				
% IN STATIC PORTFOLIOS	55.0%	54.4%	54.2%				

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 2012

Albina Community Bank	\$ 2,679,000.00
Baker Boyer Bank	\$ 1,405,737.00
Bank of America	\$ 33,392,944.74
Bank of Eastern Oregon	\$ 18,376,934.00
Bank of Oswego	\$ 0.00
Bank of the Cascades	\$ 27,680,437.00
Bank of the Pacific	\$ 0.00
Bank of the West	\$ 19,765,430.00
Banner Bank	\$ 9,182,362.00
Capital Pacific Bank	\$ 0.00
Citizens Bank	\$ 0.00
Clackamas County Bank	\$ 545,358.00
Clatsop Community Bank	\$ 3,994,584.00
Columbia Community Bank	\$ 467,100.00
Columbia State Bank	\$ 30,359,674.00
Community Bank	\$ 3,336,586.00
First Federal Savings and Loan	\$ 0.00
Home Federal Bank	\$ 13,467,169.72
HomeStreet Bank	\$ 0.00
Intermountain Community Bank	\$ 6,245,122.78
Keybank National Association	\$116,246,868.00
MBank	\$ 725,744.00
Oregon Coast Bank	\$ 18,833,750.00
Oregon Pacific Bank	\$ 8,086,548.00
Pacific Continental Bank	\$ 29,750,000.00
Peoples Bank of Commerce	\$ 0.00
PremierWest Bank	\$ 26,150,394.21
Riverview Community Bank	\$ 0.00
Siuslaw Bank	\$ 13,397,263.00
Sterling Savings Bank	\$ 74,034,618.00
The Commerce Bank of Oregon	\$ 0.00
U. S. Bank National Association	\$560,224,517.21
Umpqua Bank	\$447,732,043.00
Union Bank of California, N.A.	\$ 0.00
Washington Federal	\$ 13,493,035.93
Wells Fargo Bank	\$127,226,617.00
West Coast Bank	\$ 27,616,109.00

Aggregate Oregon Public Fund Collateral Pledged: \$1,528,091,026.20

OUTSTANDING PUBLIC DEBT BY CATEGORY

As of June 30, 2012

Type & Purpose	Article	General Fund Supported Debt	Net Tax-Supported Debt	Total Gross Debt Outstanding
General Obligation				
<i>General Fund Supported</i>				
Community College Bonds	ARTICLE XI-G	\$ 119,690,000	\$ 119,690,000	\$ 119,690,000
Higher Education Institutions & Activities	ARTICLE XI-G	387,472,261	387,472,261	387,472,261
Pollution Control Bonds	ARTICLE XI-H	20,338,500	20,338,500	20,338,500
Alternate Energy Bonds	ARTICLE XI-J	45,314,050	45,314,050	45,314,050
DAS Oregon Opportunity Bonds	ARTICLE XI-L	129,180,000	129,180,000	129,180,000
Seismic Rehab - Public Education Bldgs	ARTICLE XI-M	17,490,000	17,490,000	17,490,000
Seismic Rehab - Emergency Service Bldgs	ARTICLE XI-N	10,350,000	10,350,000	10,350,000
State General Purpose	ARTICLE XI-Q	822,220,000	822,220,000	822,220,000
DAS Pension Obligation Bonds (1)	ARTICLE XI-O	621,928,000	621,928,000	621,928,000
Total General Fund Supported		\$ 2,173,982,811	\$ 2,173,982,811	\$ 2,173,982,811
<i>Dedicated Fund Supported</i>				
Veterans' Welfare Bonds	ARTICLE XI-A	-	-	291,770,000
Higher Education Building Projects	ARTICLE XI-F(1)	-	-	1,102,528,654
Pollution Control Bonds	ARTICLE XI-H	-	-	28,086,500
Water Resources Bonds	ARTICLE XI-I(1)	-	-	-
Elderly & Disabled Housing Bonds	ARTICLE XI-I(2)	-	-	126,470,000
Alternate Energy Project Bonds	ARTICLE XI-J	-	-	193,180,950
DAS Pension Obligation Bonds (1)	ARTICLE XI-O	-	1,321,597,000	1,321,597,000
Total Dedicated Fund Supported		\$ -	\$ 1,321,597,000	\$ 3,063,633,104
Total General Obligation		\$ 2,173,982,811	\$ 3,495,579,811	\$ 5,237,615,915
Revenue Bonds				
<i>Direct Revenue Bonds</i>				
Lottery Revenue Bond Program(s)	[ORS 286.563 - 585]	-	1,208,610,000	1,208,610,000
Highway User Tax Revenue Bonds	[ORS 367.620]	-	2,086,285,000	2,086,285,000
Single-Family & Multi-Family Housing	[ORS 456.661]	-	-	1,156,130,000
Economic Development - Bond Bank	[ORS Ch. 285B]	-	-	106,800,000
State Fair & Exposition Center Bonds	[ORS Ch. 565]	-	-	-
Total Direct Revenue Bonds		\$ -	\$ 3,294,895,000	\$ 4,557,825,000
<i>Conduit or Pass Through Revenue Bonds</i>				
Economic & Industrial Development	[ORS Ch. 285]	-	-	436,948,105
Oregon Facilities Authority	[ORS Ch. 289]	-	-	1,593,241,163
Multi-Family Housing Programs	[ORS Ch. 456.692]	-	-	221,528,377
Total Conduit or Pass Through Revenue Bonds		\$ -	\$ -	\$ 2,251,717,645
Total Revenue Bonds		\$ -	\$ 3,294,895,000	\$ 6,809,542,645
Appropriation Credits				
Certificates of Participation (COPs)	[ORS Ch. 283 & 286]	754,205,000	754,205,000	754,205,000
Oregon Appropriation Bonds	SB 856 - 2003 Legislature	28,195,000	28,195,000	28,195,000
Total Appropriation Credits		\$ 782,400,000	\$ 782,400,000	\$ 782,400,000
Total Gross Debt				\$ 12,829,558,560
Total Debt - Less Conduit Revenue Bonds		\$ 2,956,382,811	\$ 7,572,874,811	\$ 10,577,840,915

The State of Oregon Office of the Treasurer, acting on behalf of the Municipal Debt Advisory Commission (MDAC), maintains debt information to assist municipalities in debt related matters. The data is based on information obtained from sources believed to be reliable; however, its accuracy cannot be guaranteed. The Office of the State Treasurer does not independently verify the information received from reporting municipalities. The State of Oregon is not responsible for the accuracy, completeness or timeliness of the information obtained and the data presented and disclaims any liability for or obligation to bond owners or others concerning the accuracy, completeness or timeliness of the data and information.

Evaluators: State creditworthiness remains strong

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

According to an April 30, 2013 analysis by Fitch, drivers for the strong 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 state's debt burden of as a function of personal income is above average but still moderate.
- The state has taken a more fiscally responsible stance and did not engage in deficit borrowing to pay for operations, avoiding a tactic that was used by lawmakers in the recession of 2003.

The report says: "On a combined basis, the burden of the state's net tax supported debt and adjusted unfunded pension obligations equals 7.6% of 2011 personal income, modestly above the median of U.S. states."



Fitch Rates Oregon's \$14MM GOs 'AA+'; Outlook Stable Ratings Endorsement Policy 30 Apr 2013 12:53 PM (EDT)

Fitch Ratings-New York-30 April 2013: Fitch Ratings assigns an 'AA+' rating to \$14.4 million state of Oregon general obligation (GO) bonds consisting of the following:

- \$5.795 million 2013 series I (community college projects) (tax exempt);
- \$2 million 2013 series J (community college projects) (federally taxable);
- \$6.605 million 2013 series K (pollution control projects) (tax-exempt).

The bonds are expected to sell via competitive bid on May 14, 2013.

Additionally, Fitch affirms the following ratings:

- \$5.1 billion in outstanding state GO bonds at 'AA+';
- \$1.15 billion in outstanding state appropriation-backed bonds at 'AA'.

The Rating Outlook is Stable.

SECURITY

The bonds are general obligations of the state of Oregon, with the full faith and credit of the state pledged to bond repayment.

KEY RATING DRIVERS

STRONG FINANCIAL MANAGEMENT OFFSETS REVENUE VOLATILITY: State finances are heavily dependent on the personal income tax, a volatile revenue source which declined sharply during the recession. The state's management reviews revenue and economic forecasts quarterly and takes measures as necessary to maintain balance. State reserve levels have been drawn upon among balancing measures, but the state is committed to rebuilding reserves in future biennia.

DIVERSE ECONOMY WITH SELECT CONCENTRATIONS: Oregon's economy, which was historically based on its natural resources, has diversified. However, the computer and manufacturing sectors play an above-average role, and the state's economy is especially influenced by international trade patterns.

MODERATE LIABILITY BURDEN: Debt levels are above average for a U.S. state but are only a moderate burden on resources. On a combined basis, the burden of the state's net tax-supported debt and unfunded pension obligations is modestly above the median for U.S. states rated by Fitch. OPEB obligations are small.

RATING SENSITIVITIES

The rating is sensitive to shifts in fundamental credit characteristics, including the state's proactive financial management and commitment to reserve funding.

CREDIT PROFILE

Oregon's 'AA+' GO bond rating reflects a diverse economy with some concentration in computer and electronic manufacturing and agricultural products, moderate debt levels, and the state's record of prompt actions to maintain financial flexibility in a challenging revenue environment. Strong financial management is critical to the rating given a revenue structure largely dependent on the cyclical personal income tax, exposure to voter initiatives with negative fiscal impact, and constitutional 'kicker' provisions requiring return of surplus revenues to taxpayers. Notably, in 2012 voters approved the elimination of the corporate income tax kicker, permanently allocating corporate revenue in excess of the revenue forecast to elementary and secondary education.

While reserve levels through fiscal 2012 were well below expectations prior to the recession, improved reserves at the close of fiscal 2013 are now anticipated. The state has also forecast increased long-range reserve levels, through fiscal 2021. The 'AA+' rating and Stable Outlook reflect Fitch's expectation that the state will continue to promptly address budgetary gaps as they arise and maintain such cushion against revenue volatility.

RELIANCE ON PERSONAL INCOME TAX FOR OPERATIONS

The state is dependent on the personal income tax (PIT), which made up 85% of 2012 general fund revenues. PIT collections have been volatile; receipts for the 2007 - 2009 biennium were \$1.2 billion below original estimates and 8.6% below those of the prior biennium; 2009 - 2011 PIT receipts were 3.7% above those of the prior biennium, though approximately \$1.1 billion below budgeted expectations.

Oregon's budget for the current 2011 - 2013 biennium, which ends on June 30, projected PIT receipts with the expectation of recovery, with 16% growth projected over the two-year period. Expectations for the PIT have varied over the forecast period with the most recent February 2013 forecast estimating growth at 15.1% for the biennium, down 1.2% from enacted. The corporate income tax, accounting for 6% of 2012 GF revenues, is currently forecast to end just above the close of session (COS) forecast with 8.5% growth over the biennium. The budget did not contain revenue raising measures although it relied on reserve draws for programmatic funding.

The legislature held back 3.5% of agency spending in the 2011-2013 biennium to protect against revenue underperformance. The June 2012 forecast showed improving trends allowing the state legislature to restore \$165 million of the holdback for certain human services and public safety programs while maintaining a hold on \$153 million in authorized spending. The increase from an earlier forecast incorporated the allocation of an additional \$107 million in one-time monies to the general fund to assist in balancing the biennial budget.

The February 2013 forecast projects general fund revenues at \$14.1 billion for the current biennium in contrast to \$13.7 billion in appropriations. The February forecast projects a \$382 million ending balance for the biennium in the general fund (up from \$35 million at the end of the last biennium); \$61.8 million in the rainy day fund; and \$7.6 million in the education stability fund. The lottery is currently projected to have a \$10.6 million deficit balance at the end of the current biennium due to below budgeted revenue growth from reportedly slow video lottery sales; however, lottery deficits are required to be eliminated through state administrative action prior to the end of the biennium.

The governor has recommended a budget for the 2013-2015 biennium that is supported by a current forecast of \$15.4 billion in general fund revenues, up by 9.4% from the current biennium estimates. The combined general fund and lottery revenue is expected to be \$16.274 billion, up 7.8% from the current biennium. The budget proposal incorporates



James Sinks
Communications
Director

Public outreach targeted through new web portal

The Oregon Treasury places a high priority on keeping the public informed about the state's financial business, and also financial outreach to help Oregonians manage their money better.

Communication and outreach highlights by the State Treasury in 2012 included the redesign and re-launch of the Treasury web site, redesign and production of the annual report, and public outreach in connection with the Oregon Investment Act and being the point for the coordination and launch of the West Coast Infrastructure Exchange, a partnership that brings together three states and the province of British Columbia.

Treasury also produces news releases to help keep the public informed, and posts social media updates through Twitter. Updates can be found at @OregonTreasury.

The communications director is responsible for work on behalf of the State Treasurer, including assisting with written correspondence and speeches. The office also responds to inquiries in connection with the Oregon Investment Council, Oregon 529 College Savings Board, Oregon Growth Account Board and State Debt Policy Advisory Commission.

There were more than 60 public information requests and follow-up requests processed by the Treasury executive office in 2012.

OREGON TREASURY NEWS RELEASES 2012

See Treasury news online at www.oregon.gov/treasury/Newsroom

- 01/06 Treasurer Wheeler to tout economic development, boost education affordability, and keep protecting Oregonians
- 01/11 Public borrowing options to remain highly constrained in the near future, advisory commission says
- 01/18 Advisory: Treasurer Wheeler to join news conference to call for increased transparency of political spending
- 01/20 Advisory: Media availability on Monday Jan. 23 to unveil Oregon Investment Act
- 01/26 Bipartisan Oregon Investment Act will make economic development nimbler, help more companies thrive
- 02/02 Statewide business and business labor organizations endorse Oregon Investment Act, call for passage
- 02/08 Oregon Investment Act clears key legislative hurdle, passes out of House committee unanimously
- 02/10 Oregon Treasury lands Rockefeller Foundation grant to study innovative financing of infrastructure projects
- 02/13 Oregon Treasury will save millions for taxpayers with refinancing of university, Lottery and highway bonds
- 02/14 Oregon seeks to lead securities lawsuit against Bank of New York Mellon and recover \$15.7 million in losses triggered by foreign currency trading scandal
- 02/29 Treasurer applauds spotlight on corporate compensation in shareholder votes
- 03/02 Treasurer applauds passage of Oregon Investment Act, which will better coordinate economic development and help Oregon businesses to thrive and hire
- 03/22 Oregon Treasury takes advantage of low interest rates and strong credit ratings, new bond sale to save \$27.7 million
- 04/04 Treasurer Wheeler highlights availability of lower-cost financing to help community non-profits save money
- 04/06 Governor Kitzhaber and Treasurer Wheeler Celebrate the Signing of the Oregon Investment Act
- 04/12 Treasurer Wheeler applauds business innovators in Southern Oregon
- 04/18 Oregon Public Employees Retirement Fund votes against excessive executive salaries in rebuke of Citigroup
- 04/20 Oregon files securities lawsuit against British Petroleum to recover investment losses triggered by oil rig disaster
- 05/03 Oregon students get a nudge toward college through Big Brothers Big Sisters partnership
- 05/09 Treasurer Wheeler highlights Oregon opportunities at opening of innovative Hillsboro treatment plant
- 05/10 Students from across Oregon win college money through Treasury's annual financial literacy effort
- 05/18 Treasurer discusses Oregon Investment Act and higher education access in Central Oregon
- 05/25 Oregon College Savings Plan earns top marks from independent evaluator
- 05/30 Oregon Investment Council looks to Asia for new opportunities to benefit Oregonians
- 06/01 Treasurer says "Oregon exceptionalism" and innovative partnerships will be catalyst for stronger economic future
- 06/06 Oregon Public Employees Retirement Fund helps increase shareholder rights
- 06/08 Analysis highlights "capital gaps" hamstringing Oregon business potential, suggests steps to address them
- 06/12 Oregon taxpayers will save \$60.8 million thanks to Treasury refinancing of state bonds
- 06/27 Oregon Growth Board to develop new blueprint for investing in economic opportunities
- 07/02 Oregon trust funds voiced objections this year to overly generous CEO compensation
- 09/12 Treasurer calls for more diversity on corporate boards to improve perspectives, increase long-term value
- 09/20 John Skjervem will direct Oregon Treasury investment division
- 10/03 Oregon credit unions submit paperwork to accept and safely hold government funds
- 10/23 Oregon students can learn more about money – and maybe win some – via Treasury literacy program
- 11/14 Pacific states and British Columbia introduce West Coast Infrastructure Exchange, a joint effort to streamline, finance infrastructure projects
- 12/13 Analysis highlights opportunities for investment-related savings at Oregon State Treasury

State Treasurers of Oregon

- 1 **John D Boon (D)**
March 3-1859- Sept. 8, 1962
- 2 **Edwin N. Cooke (R)**
Sept. 8, 1862 – Sept. 12, 1870
- 3 **L. Fleischner (D)**
Sept. 12, 1870- Sept. 14, 1874
- 4 **A. H. Brown (D)**
Sept. 14, 1874- Sept. 9, 1878
- 5 **Edward Hirsch (R)**
Sept. 9, 1878-Jan. 10, 1887
- 6 **G. W. Webb (D)**
Jan. 10, 1887-Jan. 12, 1891
- 7 **Phil Metschan (R)**
Jan. 12, 1891-Jan. 9, 1899
- 8 **Charles S. Moore (R)**
Jan. 9, 1899-Jan. 14, 1907
- 9 **George A. Steel (R)**
Jan. 15, 1907-Jan. 3, 1911
- 10 **Thomas B. Kay (R)**
Jan. 4, 1911-Jan. 6, 1919
- 11 **O. P. Hoff (R)**
Jan. 6, 1919- March 18, 1924
- 12 **Jefferson Myers (D)**
March 18, 1924-Jan. 4, 1925
- 13 **Thomas B. Kay (R)**
Jan. 4, 1925-April 29, 1931
- 14 **Rufus C. Holman (R)**
May 1, 1931-Dec. 27, 1938
- 15 **Walter E. Pearson (D)**
Dec. 27, 1938-Jan. 6, 1941
- 16 **Leslie M. Scott (R)**
Jan. 6, 1941-Jan. 3, 1949
- 17 **Walter J. Pearson (D)**
Jan. 3, 1949-Jan. 5, 1953
- 18 **Sig Unander (R)**
Jan. 5, 1953-Dec. 31, 1959
- 19 **Howard C. Belton (R)**
Jan. 4, 1960-Jan. 4, 1965
- 20 **Robert W. Straub (D)**
Jan. 4, 1965-Jan. 1, 1973
- 21 **James A. Redden (D)**
Jan. 1, 1973-Jan. 3, 1977
- 22 **H. Clay Myers, Jr. (R)**
Jan. 3, 1977-April 1, 1984
- 23 **Bill Rutherford (R)**
April 1, 1984-July 9, 1987
- 24 **Tony Meeker (R)**
July 9, 1987-Jan. 4, 1993
- 25 **Jim Hill (D)**
Jan. 4, 1993-Jan. 1, 2001
- 26 **Randall Edwards (D)**
Jan. 1, 2001-Jan. 4, 2009
- 27 **Ben Westlund (D)**
Jan. 5, 2009-March 7, 2010
- 28 **Ted Wheeler (D)**
March 9, 2010–present

