



Oregon
State
Treasury

Annual Report 2002

Randall
Edwards
State Treasurer



Randall Edwards
State Treasurer
Elected 2000

TO THE PEOPLE OF OREGON —

I am pleased to present the Oregon State Treasury's 2002 Annual Report. It summarizes the services we provide and reports returns on investments we manage.

Year 2002 was tough financially all over the U.S. The stock market fell for a historic third-straight year, and states faced their worst budget woes since World War II. The U.S. was hit by a Perfect Storm – national recession, deteriorating tax bases, exploding healthcare costs, and corporate scandals that rocked investor trust.

This storm hit Oregon particularly hard. We suffered the highest unemployment rate in the nation, and four consecutive quarters of unexpectedly low revenues forced the legislature into five special sessions to cut the State budget.

Despite these challenges, we provided financial leadership to both address budget difficulties and take advantage of economic opportunities. In 2002, we demonstrated our commitment to serving Oregon and its citizens as we:

- Invested \$94 million to stimulate biomedical research and business development.
- Issued \$100 million in bonds to improve roads and provide jobs.
- Helped create the Education Stability Fund, a much-needed rainy day fund to protect K-12 public school funding during economic downturns.
- Saved taxpayers tens of millions of dollars by taking advantage of low interest rates and refinancing state bonds on capital projects.
- Created a new financing tool to help the State manage cash flow during cash shortfalls.
- Instituted investment protection principles to eliminate the potential for conflicts of interest and corporate misconduct within underwriting firms.
- Grew the Oregon College Savings Plan to nearly 20,000 Oregon families invested with nearly \$100 million in assets while expanding investment options and lowering program costs.

In the year ahead, we will continue to provide financial leadership and innovative solutions to Oregon's economic and financial challenges. Please contact my office with questions or comments.

Sincerely,

Randall Edwards
State Treasurer

STATE TREASURER’S 2002 ANNUAL REPORT

- Strategic Planning** 5
- Treasury Overview** 9
 - Treasury Staff 12
- Investment Division** 13
 - Oregon Investment Council 17
 - Investment Summary 21
 - Domestic and International Equities 26
 - Alternative Equity Investments 29
 - Fixed Income 32
 - Equity Real Estate 34
 - Other Investments 37
 - Short Term Fund 38
 - Oregon Savings Growth Plan 42
 - Oregon Growth Account 44
 - Additional Investments 46
 - Oregon Investments 49
- Debt Management Division** 55
- Finance Division** 63
- Oregon 529 College Savings Network** 67
- Present and Past State Treasurers** 70



Strategic Planning

STRATEGIC PLANNING

VISION STATEMENT

Financial leadership today for Oregon's tomorrow.

MISSION STATEMENT

To provide financial stewardship for Oregon.

THE STRATEGIC IMPORTANCE OF PLANNING

The Oregon State Treasury has used strategic planning for many years to drive changes, respond to customer demands, and achieve organizational goals. Continuously searching for better ways to align our services with customers and stakeholders, Treasury is able to achieve superior results. The strategic planning process is a way to evaluate programs in a structured way for managers and staff to reflect upon the bigger picture – whether Treasury is doing the right things to accomplish specific short- and long-term goals.

Since 1994, Treasury's strategy has been to get closer to its customers, providing the highest level of quality services in the most cost-effective manner. Treasury's senior leaders have utilized strategic planning as a method of driving continuous change throughout the organization. Today, our planning effort centers around strategic priorities, those key areas Treasury believes will help it achieve the excellence stated in the vision and mission statements.

TREASURY'S STRATEGIC PRIORITIES

Treasury made significant progress in 2002 by continuing to focus on its strategic priorities. The following strategic priorities were developed in response to the issues identified in the environmental scan.

Treasury's 2003 strategic priorities are:

- Provide financial leadership
- Attract, develop, and retain a diverse, high-quality workforce
- Be customer-focused
- Communicate with and educate our customers, stakeholders, and partners about Treasury
- Seek innovative solutions

2002 ACCOMPLISHMENTS

The Treasury had an outstanding year in 2002. Some of the key accomplishments include:

- Negotiated a grant agreement for Oregon Opportunity biomedical research expansion and issued first installment of \$200 million in general obligation bonds for Oregon Health and Science University.

- Expanded the School Bond Guaranty Program, allowing school districts to save millions of dollars in interest costs on \$1.4 billion in local school bonds.
- Instituted Investment Protection Principles to eliminate the potential for conflicts of interest and corporate misconduct within underwriting firms.
- Achieved ranking for OPERF in the top 20 percent of public funds with assets in excess of \$10 billion, and in the top ten percent of public funds with assets in excess of \$1 billion.
- Saved \$10 million on Westside Light Rail Bonds by refinancing state-issued debt to take advantage of low interest rates.
- Achieved self-supporting status for the Oregon College Savings Plan.
- Managed the Oregon Short Term Fund to an all-time high of nearly \$8 billion using just three investment staff.
- Began redesign of Treasury's website to better serve agency customers.
- Initiated a "Banking for the Internet" project.

HOW TREASURY DEVELOPED ITS PLANS

Treasury begins each year's strategic planning process with an environmental scan to identify key themes that have the most potential to impact our business. The key themes are discussed to determine how Treasury can mitigate risks with 3-year goals and 1-year action plans. Treasury's key themes for 2002 are business continuation, succession planning, communication, performance measures, and continuous improvement.

Each division reviewed its prior strategic plan, celebrating accomplishments from the previous year. Mission statements were reviewed and updated, as needed. All divisions reviewed and revised their 3-year business plan, reflecting whether the goals were completed or adding new goals to help achieve each strategic priority. Divisions created 1-year action plan activities within each strategic priority, used feedback from customer satisfaction surveys and meetings during the year, and included timelines and persons responsible for leading each specific goal or activity.

STRATEGIC PLANNING 2003

Our major goals for 2003 include: (1) continue to provide strong financial leadership for the state; (2) continue to provide effective and efficient customer service; (3) expand the disaster recovery program to include total business continuation for all aspects of Treasury operations; (4) redesign the website to allow additional information and interaction with our customers; and (5) continue an educational outreach communication plan for our customers, the legislature, and the public.

Treasury's strategic planning process will continue to drive major changes for its customers and stakeholders. Entering 2003, the planning processes are as strong as ever and will continue to move Treasury toward achieving financial stewardship and leadership for Oregon.



Treasury Overview

ABOUT THE TREASURY

OVERVIEW

State Treasurer Randall Edwards is a constitutional officer, a statewide elected official, and the director of the Oregon State Treasury. He serves as the chief financial officer for the State and is responsible for the prudent financial management of billions of taxpayer dollars. Edwards, who took office in January 2001, serves a four-year term and is limited to two terms.

The Oregon State Treasury is a highly sophisticated organization with a wide range of financial responsibilities, including managing the investment of state funds, issuing all state bonds, serving as the central bank for state agencies, and administering the 529 College Savings Program for Oregon. Treasury is managed like a business, striving to save taxpayers money and earn the highest possible return on investments.

EXECUTIVE DIVISION

The Executive Division coordinates policy development, strategic planning, legislative initiatives, communications, constituent relations, internal auditing functions, human resource functions, and the publication of Treasury financial reports. The State Treasurer serves by constitutional authority on the State Land Board and by statute on a number of public financial boards and commissions.

INVESTMENT DIVISION

The Investment Division manages on behalf of Oregonians a portfolio with a market value of \$45 billion. The division manages the Oregon Public Employees Retirement Fund (OPERF), the State Accident Insurance Fund, the Oregon Short Term Fund, and numerous smaller funds such as the Common School Fund and the Oregon Growth Account. With assets over \$33 billion, OPERF is the twenty-eighth largest pension fund in the U.S. Recently, OPERF was ranked *the* top-performing fund in a universe of public funds with assets over \$10 billion.

DEBT MANAGEMENT DIVISION

The Debt Management Division provides central coordination for all state-issued debt, including over \$6 billion in general obligation and revenue bonds and certificates of participation. The division monitors local and national bond markets as well as financial and economic trends that impact bond issuance structures and interest rates.

FINANCE DIVISION

The Finance Division is the central bank for all state agencies and is Oregon's largest financial institution. The division manages over 13 million financial transactions annually – including cash deposits, electronic fund transfers and check issuances – with over \$120 billion flowing in and out of the division each year. The division provides an automated banking system to state agencies to help manage these activities. The division also administers the \$8 billion Oregon Short Term Fund, a short-term investment vehicle for state agencies' and local governments' idle cash.

INFORMATION SERVICES DIVISION

The Information Services Division is the information technology (IT) management center for Treasury. The division designs, develops and maintains the technology infrastructure that supports Treasury's business operations. It provides the network, applications, telecommunications, and IT services to conduct business between Treasury, state agencies, local governments, banks, and other financial firms.

OREGON COLLEGE SAVINGS PROGRAM

This network provides a variety of 529 savings plans to help make college education affordable for all families. It provides significant state and federal tax advantages and more flexibility than many other college savings programs. The network is administered by a public board chaired by the State Treasurer.

Executive Division

State Capitol Building
Phone: 503.378.4329

Randall Edwards
State Treasurer

Kate Cooper Richardson
Chief of Staff

Inga Deckert
Director of Legislative &
Public Affairs

Todd Jones
Communications Director

Penney Ryan
Executive Services Director

Mary Bennett
Executive Support Specialist

Kathy Taylor
Executive Support Specialist

529 College Savings Network
503.373.1903

Michael Parker
Executive Director

Stephanie Swetland
Executive Support Specialist

Labor & Industries Building
Phone: 503.378.4000

Linda Haglund
Deputy State Treasurer

John Kreft
Quality Director

Curt Hartinger
Internal Audit Manager & IT
Security Officer

Kristin Stewart
Human Resource Manager

Andrea Belz
Senior Internal Auditor

Lisa Jeffries
Executive Support Specialist

Investment Division

Labor & Industries Building
Phone: 503.378.4111

Ron Schmitz
Director

Michael Mueller
Assistant Director

Lori Trump
Office Specialist

Real Estate
503.373.7089

Steve Gruber
Senior Investment Officer

Cesar Porte
Investment Officer

Sue Lynch
Investment Analyst

Fixed Income
503.378.4113

Perrin Lim
Senior Investment Officer

Ellen Hanby
Investment Officer

Debbie Beyer
Investment Analyst

Equities
503.378.4111

John Fewel, Jr
Senior Investment Officer

Kevin Nordhill
Investment Officer

Cheryl Griffith
Investment Analyst

Norma Harvey
Investment Analyst

Debt Management Division

Labor & Industries Building
Phone: 503.378.4930

Charles Smith
Director

Larry Groth
Assistant Director

Lee Helgerson
Debt Management Analyst

Roseanne Ward
Debt Management Analyst

Teresa Emmons
Debt Management Coordinator

Dawn Feldman
Office Specialist

Finance Division

Labor & Industries Building
Phone: 503.378.4633

Darren Bond
Director

Trinna Ritchey
Executive Support Specialist

Sally Furze
Controller

Sharon Prentice
Relationship Management Team
Leader

Laraine Mayer
Senior Relationship
Management Team Analyst

Rhonda Bachmann
Relationship Management Team
Analyst

Edie Kessel
Cash Management Analyst

Marilyn Crawford
Agency Accountant

Tina Barthlow
Facilities Coordinator

Vandy Napier
Office Specialist

Bond & Coupon
503.378.2881

Doris Fisher
Accountant

Banking
503.378.4633

Judy Rutkowski
Manager of Banking Services

Brady Coy
Senior Bank Accountant

Kim Buckout
Accountant

Debbe Moore
Accountant

Alan Park
Accountant

Lisa Goonan
Accounting Technician

Coren Hale
Office Specialist

Investment Accounting
503.378.4420

Brooks Hogle
Supervisor

Dennis Widby
Fiscal Coordinator

Kathy Widby
Senior Accountant

Nancy Baldwin
Accountant

Information Services Division

Labor & Industries Building
Phone: 503.378.4059

Ron Pope
Director

Nancy Fletcher
Application Development
Manager

Mike Nason
Application Development Team
Leader

Doug Bovee
Data Administrator

Wayne Lam
Application Development Team
Leader

Sarah Berg
Systems Analyst

Dan Roddy
Data Communications Analyst

Tyler Maudlin
Senior Systems Analyst

Linda Bunting
Senior Systems Analyst

Tim Rayburn
Systems Analyst

Alan Kreutzer
Software Analyst

Greg Sevdy
Network Analyst

Traci Bruchok
User Support Analyst

Lisa Finney
User Support Analyst/
Computer Operator Specialist

Debbie Bettiol
Computer Operator Specialist



Investment Division

The total market value of investments managed by Treasury at December 31, 2002, is approximately \$45.0 billion. Accounts managed by Treasury include the Oregon Public Employees Retirement Fund (OPERF), the Oregon Short Term Fund, the State Accident Insurance Fund, the Common School Fund, and other trust and cash accounts.

Despite a fourth quarter rebound, the U.S. equity markets were roiled by concerns about the economy, the continuation of the tech stock collapse, corporate malfeasance, and the threat of war. The U.S. market posted its third consecutive annual loss for the first time since 1939-1941. This bear market has not only been among the most severe since World War II, it has been the longest. While there were some signs of improvement late in the year, economic indicators were mixed. On the positive side are declining unit costs, rising wages, and aggressive monetary policy. Despite wage improvement by some statistical measures, unemployment remains stubbornly elevated, and consumer debt levels appear likely to dampen spending in the near term. Perhaps the most problematic negative is the extremely low rate of capital spending by business. The ratio of non-residential capital spending to depreciation is at 50-year lows.

U.S. equity markets performed well during the fourth quarter of 2002, with the Russell 3000 Index posting a quarterly return of 8 percent, the same index ended the year down 21.5 percent. The annualized three-year performance of the Russell 3000 was a dismal -13.7 percent. For most of this three-year period, value stocks have significantly outperformed growth stocks and small cap has outperformed large companies. The Oregon Investment Council (OIC) appropriately has adopted a style-neutral approach to equity investing since predicting the "flavor-of-the-year" has proven to be a loser's game. The dizzying returns once experienced in the tech-laden NASDAQ Composite Index have been relinquished since the tech bubble burst in early 2000. On a relative basis, OPERF's domestic equity managers performed quite well, posting returns 1.4 percent better than the Russell 3000 Index over the past three years.

Overseas, the news was not much better than in the U.S. with respect to both economic news and market sentiment. In Japan a mild recovery gave way to continued malaise and the Pacific Basin economies have been rocked by fears caused by terrorist activity in Indonesia and the Philippines. In Europe, the Central Bank cut interest rates despite inflation pressures, but growth remains anemic. The international equity market, as measured by the MSCI EAFE Index, lost 15.9 percent for the year. Investors seeking shelter overseas from poor U.S. equity performance did not fare much better than had they stayed at home. Analogous to the small-cap value sector of the US market, the MSCI Emerging Markets Index lost less money than the broader market (-6 percent versus -15.9 percent for developed international markets). OPERF's international equity managers underperformed the benchmark index for the year by 0.9 percent but have bested their benchmark by approximately 1 percent over the most recent five-year period, on an annualized basis.

The merits of diversification were affirmed again in 2002 as the domestic fixed income markets, represented by the Lehman Brothers Aggregate Bond Index, posted strong positive returns for the third consecutive year, gaining 8.9 percent. With inflation running at low levels and the Fed in an accommodative posture, bond returns were impressive indeed. With OPERF's managers favoring spread product in a risk-averse market, the portfolio underperformed slightly for the year, trailing the custom benchmark by 0.6 percent. OPERF, the largest portfolio managed by Treasury, lost 7.9 percent for the year, with the market value falling to approximately \$33.4 billion (including cash), year over year. The

primary goal of the OPERF investment program is realization of long-term earnings in excess of the rate (currently 8.0 percent) assumed by the Public Employees Retirement System actuary. To realize this objective, the OIC has maintained a strong preference for common stocks. Currently, equity securities comprise approximately 61 percent of total OPERF assets, measured at market value. The OIC reviews the asset allocation policy on a regular basis, and a reexamination of key assumptions was conducted in 2002. The decision was made to continue the historically successful tilt toward equities.

The State Accident Insurance Fund (SAIF) is the second-largest account managed by Treasury. Investment assets for SAIF stood at \$2.6 billion at December 31, 2002. Because SAIF is a regulated operating insurance company, the asset allocation must be consistent with the needs and constraints of the company's business. Based upon new information about SAIF's needs, the allocation to equity and convertible securities will be gradually reduced over a three-year period.

The Common School Fund (CSF) is the third-largest account managed by Treasury. In March of 2000, the Frank Russell Company provided the OIC an updated asset allocation study for the CSF. The revised study incorporated the State Land Board's new distribution policy, among other factors. As of December 31, 2002, CSF assets were \$665 million.

Treasury continues its efforts to formalize, refine, and regularly update policies and procedures governing investment activity for all funds under management. The strategic allocation of the portfolio assets of various accounts is reviewed regularly, and both external and internal investment managers are monitored for compliance with policies and realization of value-added performance versus their respective benchmarks.

PORTFOLIO SIZE (MARKET VALUE IN MILLIONS)

	12/31/02	12/31/01	12/31/00	12/31/99	12/31/98
Public Employees Retirement Fund (OPERF)	\$33,388.0	\$36,261.6	\$39,564.8	\$39,642.9	\$32,161.3
Oregon Short Term Fund (OSTF)	7,749.5	7,553.9	6,767.0	6,284.3	6,219.9
State Accident Insurance Fund (SAIF)	2,577.4	2,512.6	2,530.1	2,489.7	2,294.9
Common School Fund (CSF)	665.2	729.6	783.0	816.0	672.2
Oregon War Vet Bond Sinking Fund	256.8	256.9	287.6	236.4	354.8
Dept. of Consumer & Business Services Fund (DCBS)	97.3	126.7	150.8	92.8	111.1
Insurance Fund	56.8	68.3	86.2	99.1	94.4
Higher Education Endowment Fund	47.4	56.8	61.1	64.1	54.7
Other Funds	378.4	370.9	491.9	421.5	447.3
TOTAL	\$45,216.8	\$47,937.3	\$50,722.5	\$50,146.8	\$42,410.6

The logo consists of several overlapping squares in two shades of green: a darker forest green and a lighter sage green. The squares are arranged in a cluster that roughly forms the shape of the state of Oregon. The text "Oregon Investment Council" is centered over this graphic.

Oregon
Investment
Council

Oregon Investment Council

Oregon Revised Statutes 293.706 established the Oregon Investment Council (OIC), which consists of five voting members, four of whom are subject to Senate confirmation. One member of the OIC is a public member who serves on the Public Employees Retirement Board. Three members, who are qualified by training and experience in the field of investment or finance, are appointed by the Governor, and one member is the State Treasurer. In addition, the Director of the Public Employees Retirement System (PERS) is an ex officio, non-voting member of the OIC.

The OIC is charged with formulating policies for the investment and reinvestment of moneys in the investment funds and for the acquisition, retention, management, and disposition of investments in the investment funds. Periodically, the OIC is required to review those policies and make changes that it considers necessary or desirable. The OIC may formulate separate policies for any fund included in the investment funds. The council is required to report to the Governor and the Legislative Assembly on the investment programs at each regular session of the Legislative Assembly and at other times the council considers to be in the public interest.

The OIC ensures that moneys in the investment funds are invested and reinvested to achieve the investment objective of making those moneys as productive as possible. Furthermore, the investments of those funds shall be managed as a prudent investor would, under the prevailing circumstances and in

OREGON INVESTMENT COUNCIL (AS OF 12.31.01)

Gerard Drummond , Chair *	Appointed by Governor
Portland	Term expires 05.31.05
Randall Edwards , State Treasurer	Serves by position
Salem	For term of office
Jerry Bidwell	Appointed by Governor
Portland	Term expires 01.31.06
Mark S. Gardiner	Appointed by Governor
Portland	Term expires 09.30.03
Diana E. Goldschmidt	Appointed by Governor
Portland	Term expires 09.19.06
James Voytko	PERS Director
Portland	Ex officio, non-voting

* Chair elected by council

light of the purposes, terms, distribution requirements, and laws governing each investment fund. This standard requires the exercise of reasonable care, skill, and caution and is applied to investments not in isolation, but in the context of each investment fund's investment portfolio as part of an overall investment strategy. The strategy incorporates risk and return objectives reasonably suitable to the particular investment fund.

When implementing investment decisions, the OIC has a duty to diver-

sify the investments of the investment funds, unless under the circumstances it is not prudent to do so. In addition, the council must act with prudence when selecting agents and delegating authority.

The OIC approves asset classes in which State of Oregon moneys are invested. Current asset classes approved for the purchase of investments include the Oregon Short Term Fund, Fixed Income, Real Estate, Equities, and Alternative Equities. The OIC must approve in advance the purchase of investments in a new asset class not described above.

The OIC maintains an open-door policy wherein investment officers employed by Treasury will hear and consider investment proposals and solicitations from any person, firm, or partnership that submits a proposal or solicitation in good faith. Under no circumstance, however, does this policy require that the OIC purchase the proposed investment.

The OIC meets monthly and, in compliance with ORS 192.630-660, holds its meeting in a public forum. Public notice, including a meeting agenda, is provided to interested persons as well as to news media that have requested notice. Written minutes and recordings are taken of all meetings.

The OIC recently embarked on a detailed documentation of its governance structure and beliefs encompassing delegation and return expectations. As funds under management have grown significantly, these formal guidelines have become invaluable to the professional management of state funds. The council also regularly reviews various aspects of investment policy, performance of investment managers and accounts, asset allocations, and a large number of investment proposals and recommendations.



Investment Summary

INVESTMENT SUMMARY

	OIC Target Allocations	Actual %	Market Value 12/31/02
OPERF			
Total Cash ¹	0-3 %	1 %	\$ 164,238,000
Total Fixed Income Securities	22-32	27	8,301,569,000
Real Estate ²	N/A	6	1,800,366,000
Real Estate Securities ³	N/A	1	477,957,000
Total Real Estate	5-11	7	2,278,323,000
Domestic Equities ⁴	30-40	34	10,434,975,000
International Equities ⁴	15-25	18	5,502,037,000
Alternative Equities	7-13	13	3,894,803,000
Total Equities	60-70	65	19,831,815,000
Total Fund 479-Variable Annuity Fund	N/A	N/A	2,812,016,000
Total OPERF ⁵		100 %	\$ 33,387,961,000

Other Funds

	Fund	
Oregon Short Term Fund ¹	211	\$ 7,749,509,000
State Accident Insurance Fund	402	2,577,404,000
Common School Fund	417	665,178,000
Oregon War Veterans' Bond Sinking Funds	408	256,848,000
Benefit Reserve Board Fund	624	173,716,000
DCBS Funds	450/696	97,270,000
Insurance Fund	504	56,815,000
All Others		252,076,000
Total Investments		\$ 45,216,777,000

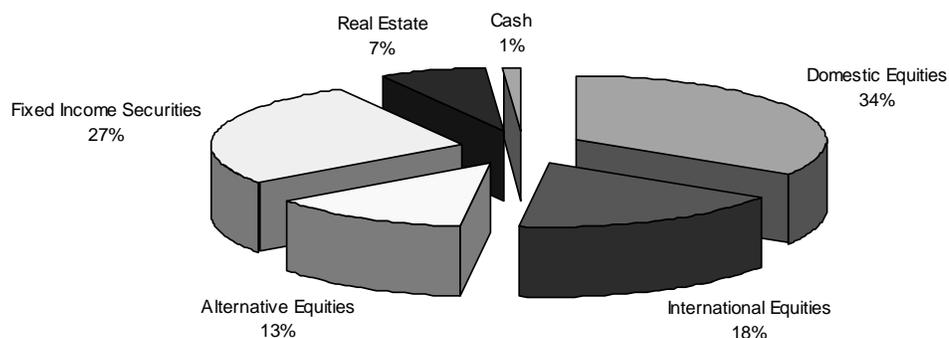
SUMMARY OF LARGEST DOMESTIC EQUITY MANAGERS ⁴

	% of Domestic	% of OPERF	Market Value 12/31/02	Return 12/31/02
BGI Russell 1000 Value	31.4 %	12.5 %	\$ 4,161,115,000	-15.5 %
BGI Russell 1000 Growth	29.8	11.8	3,950,853,000	-27.8
BGI 1000 Alpha Tilts	5.8	2.3	772,941,000	-20.8
Alliance/Bernstein	4.3	1.7	565,056,000	-18.2
Wanger Asset Management	4.2	1.7	561,972,000	-15.8
Thompson Rubinstein	4.2	1.7	556,311,000	-25.1
Northern Trust Company	3.4	1.3	448,045,000	-21.7
Froley Revy Investment Management	3.3	1.3	440,073,000	-7.7
Wellington Capital Management	3.3	1.3	431,705,000	-8.0
Alliance Capital Management	3.0	1.2	399,455,000	-30.2
Total	92.8 %	36.8 %	\$ 12,287,526,000	

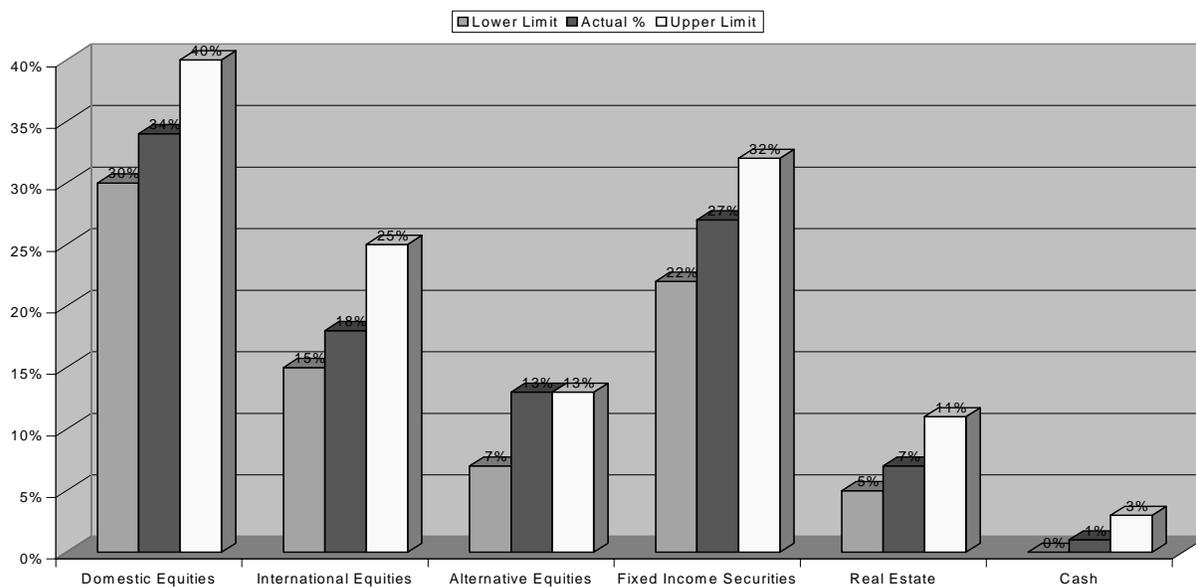
SUMMARY OF LARGEST INTERNATIONAL EQUITY MANAGERS

	% of Int'l	% of OPERF	Market Value 12/31/02	Return 12/31/02
BGI EAFE Index Fund	33.9 %	5.6 %	\$ 1,865,664,000	-15.3 %
Brandes Investment Partners LP	7.6	1.2	415,536,000	-16.0
Alliance/Bernstein	7.4	1.2	406,961,000	-1.6
T Rowe Price Int'l	7.4	1.2	406,498,000	-15.5
Lazard Asset Management	5.9	1.0	327,055,000	-5.0
Acadian Asset Management	5.6	0.9	306,828,000	-2.2
Total	78.5 %	12.9 %	\$ 4,321,353,000	
TT International	5.5	0.9	303,952,000	-16.0
Marvin and Palmer Associates	5.2	0.9	288,840,000	-22.3

OPERF Actual Market Composition



OPERF Asset Allocation



1 OPERF, SAIF, and CSF holdings in the Oregon Short Term Fund have been classified as cash and have been deducted from the Short Term Fund balance reported as "Other Funds."

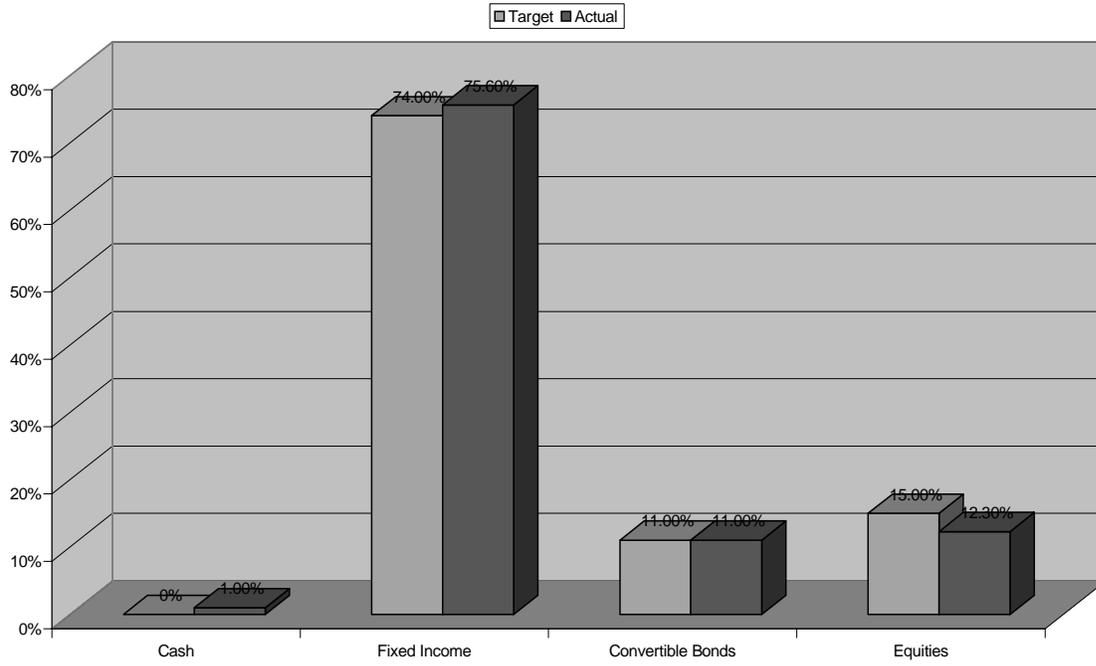
2 Real Estate market values are provided by Pension Consulting Alliance or the advisor.

3 For target allocation purposes, real estate securities are considered a component of the Real Estate allocation.

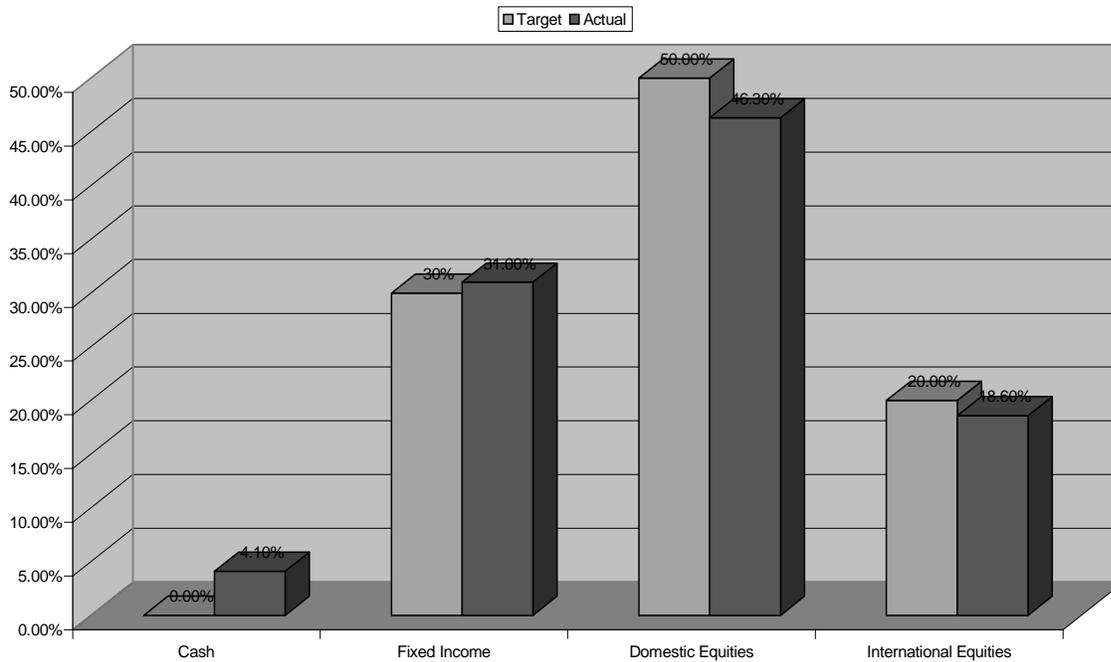
4 Equity securities are valued by State Street Bank and include accrued income and net payables/receivables.

5 OPERF asset allocation does not include the domestic equities in the Variable Fund.

SAIF Asset Allocation



Common School Fund Asset Allocation



OPERF PERFORMANCE SUMMARY

TOTAL OPERF PERFORMANCE

	Year ended 12/31/02	3 years ended 12/31/02	5 years ended 12/31/02
OPERF Regular Account	-7.91%	-4.20%	4.15%
Policy Allocation	-8.75%	-5.28%	3.55%

(benchmarks weighted by policy midpoints)

OREGON SHORT TERM FUND

	Year ended 12/31/02	3 years ended 12/31/02	5 years ended 12/31/02
Oregon Short Term Fund	2.09%	4.40%	4.84%
91 Day T-Bill	1.79%	4.11%	4.45%

FIXED INCOME PORTFOLIO

	Year ended 12/31/02	3 years ended 12/31/02	5 years ended 12/31/02
OPERF Total Fixed Income	8.93%	9.02%	7.00%
Custom Fixed Income 90/10 Benchmark	9.53%	9.17%	7.25%

REAL ESTATE PORTFOLIO

	Year ended 12/31/02	3 years ended 12/31/02	5 years ended 12/31/02
OPERF Real Estate Portfolio	7.84%	11.05%	9.32%
NCREIF Index (gross of fees)	5.69%	9.17%	11.38%

EQUITIES

	Year ended 12/31/02	3 years ended 12/31/02	5 years ended 12/31/02
<i>Domestic Equities</i>			
OPERF Domestic Equities	-21.60%	-12.33%	0.75%
Russell 3000 Index	-21.54%	-13.69%	-0.71%
<i>International Equities</i>			
OPERF International Equities	-13.74%	-16.03%	-0.74%
90% Salomon Bros ex-US + 10% IFC Emerging Markets Comp.	-12.86%	-15.05%	-1.73%

ALTERNATIVE EQUITIES

	IRR since 1981 (Annualized)
Alternative Equity Investment Program	16.4%

DOMESTIC AND INTERNATIONAL EQUITIES

DOMESTIC EQUITIES

Ouch! Three straight years of disappointing domestic equity returns. A weak economic environment, increasing geopolitical concerns, and the continued threat of terrorism all took their toll on the financial markets. There truly was no place to hide in 2002. All segments of the financial markets worldwide experienced difficulty from a return perspective.

The Domestic Equity Fund (DEF) returned a negative 21.60 percent for 2002 versus the Russell 3000 benchmark at a negative 21.54 percent. The DEF lagged the benchmark by 6 basis points, with the absolute decline being the largest in decades. Managers in the DEF stable that exceeded their respective benchmarks on a relative basis were Wanger, Wellington, Winslow and Frole, Revy. For the third year in a row, value investing provided returns in excess of those for growth investors. This is a far cry from four years ago when headlines posed the question “Is value investing dead?” Another wonderful argument for diversification.

That was then, this is now. What can the markets expect in 2003? While the issues mentioned above remain a concern, there is reason for cautious optimism. Absent a catastrophic event, the economy seems positioned for a modest recovery. Bear in mind that it remains fragile, but it appears safe to assume that we are closer to the bottom than to the top. That said, it would be difficult to expect returns similar to those achieved in the 1990's. On a more somber note, while the economy appears poised for a modest recovery, the manufacturing sector will most likely never again achieve previous employment levels. It is a stark reality that these jobs will now be located offshore where the cost of labor is a fraction of that in the United States. How these displaced workers will be integrated into the new society remains to be seen.

The only change in the domestic equity lineup during 2002 was the termination of Peachtree Asset Management. As of year-end, a large-cap value manager search was underway. Additional enhanced management strategies were also being explored.

OPERF DOMESTIC MANAGERS RETAINED BY THE OREGON INVESTMENT COUNCIL (12/31/02)

Investment Manager	Total Market Value with Accrual (in thousands)
Alliance Bernstein	\$ 565,056
Alliance Capital Management	399,455
Becker Capital Management	232,856
BGI Russell 1000 Alpha Tilts Fund	772,941
BGI Russell 1000 Growth Index Fund	3,950,853
BGI Russell 1000 Value Index Fund	4,161,115
Froley Revy Investment Company	440,073
Nicholas Applegate Capital Management	189,887
Northern Trust Company	448,045
Oak Associates	315,270
Thompson Rubinstein	556,311
Veredus	108,250
Wanger Asset Management	561,972
Wellington Management Company	431,705
Winslow	144,854
Other	(31,653)
Total	\$ 13,246,991

INTERNATIONAL EQUITIES

International equity returns were again battered in 2002. While they fared better than their domestic equity counterparts, returns were solidly in the red. Major concerns, similar to those impacting domestic equities, were the global economic climate, geopolitical concerns and the threat of terrorism.

The International Equity Fund (IEF) returned a negative 13.74 percent versus a return of negative 12.86 percent for the 90 percent Salomon Brothers Broad Market ex-U.S. Index and 10 percent IFC Investable Emerging Markets Index benchmark. This marks the third year in a row where the IEF returns have lagged the benchmark. This is very disappointing to say the least. As was the case last year, managers with a value orientation fared better than those focused on growth. Within the next year style benchmarks will be proposed for the international managers, similar to the delineation for domestic equity managers.

In November 2002, Arrowstreet Capital and Putnam Investments were added to the IEF, with each receiving an initial funding of \$200 million.

OPERF INTERNATIONAL & GLOBAL MANAGERS RETAINED BY THE OREGON INVESTMENT COUNCIL (12/31/02)

Investment Manager	Total Market Value with Accrual (in thousands)
Acadian Asset Management	\$ 306,828
Arrowstreet Capital	177,573
Brandes Investment Partners	415,536
BGI EAFE Index	1,865,664
Clay Finlay Inc.	246,973
Driehaus Capital Management	206,300
Genesis Asset Management Ltd.	168,820
Lazard Asset Management	327,055
Marvin & Palmer Associates	288,840
Montgomery Asset Management	111,816
Putnam Investments	178,146
Rowe Price Fleming Int'l	406,498
Alliance Bernstein International	406,961
Schroder Capital Management Int'l	109,784
TT International	303,952
Other	(18,709)
Total	\$ 5,502,037

OTHER EQUITY FUNDS (12/31/02)

Investment Manager	Total Market Value with Accrual (in thousands)
State Accident Insurance Fund	
BGI Russell 3000 Index Fund	\$ 306,837
Froley Revy Investment Company (convertible bonds)	283,515
Wellington Management	967,872
Western Asset Management	981,393
Other	37,787
Total	\$ 2,577,404
Common School Fund	
BGI Russell 3000 Index Fund	\$ 308,071
BGI EAFE Index Fund	123,526
Wellington Management	102,850
Western Asset Management	103,334
Other	27,397
Total	\$ 665,178

ALTERNATIVE EQUITIES

The Alternative Equity Program (AEP) experienced difficult times again in 2002. This was not the least bit surprising given the roiled nature of financial markets worldwide. The AEP actually fared better than most in the private equity world due to its limited exposure to venture capital. While this may on the surface seem fortunate, it was actually by design. In the mid to late 1990s, as the venture capital bubble began to build, a conscious decision was made to avoid this space as valuations, and the size of funds being raised, appeared excessive. Nonetheless, it does not make the disappointing AEP returns any more palatable. Private equity valuations are again becoming attractive, and it is with cautious optimism that we look to the future. Venture capital, for the first time in several years, could afford some interesting return possibilities.

The AEP continues to have a very respectable 16.4 percent internal rate of return since its 1981 inception. The Oregon Investment Council (OIC) on numerous occasions has expressed its pleasure with the returns accruing to this asset class. Having said this, it should be noted that there are increasing concerns regarding the pension asset/liability match in an asset class where a pension fund must have an investment horizon of a decade or more. What impact this has, if any, on the AEP remains to be seen.

At year end, the fair market value of the AEP was approximately \$3.9 billion. The Kohlberg, Kravis and Roberts relative portfolio weighting represented 35 percent of the AEP's fair market value at year end.

The OIC authorized five new commitments to the AEP in 2002, totaling \$400 million: \$75 million to OCM Opportunities Fund 4b; \$100 million to Castle Harlen Partners 4; \$50 million to Collier International Partners 4; \$75 million to Wellspring Capital Partners 3; and, \$100 million to Green Equity Investors 4.

OPERF ALTERNATIVE EQUITY INVESTMENTS

Fund	Total Committed Capital	Investment Cost	Realized Value to Date
2000 Riverside Capital Appreciation Fund	50,000,000	21,179,163	41,588
Asia Pacific Trust	12,750,000	12,996,153	13,305,096
Aurora Equity Partners II	50,000,000	41,764,410	147,522
BCI Growth IV	50,000,000	50,000,052	11,919,917
BCI Growth V	75,000,000	68,916,728	713,021
Canterbury Mezzanine Capital	25,000,000	23,051,038	17,905,508
Canterbury Mezzanine Partners II	50,000,000	33,286,252	6,948,408
Castle Harlan Partners II	50,000,000	52,162,395	78,738,288
Castle Harlan Partners III	100,000,000	99,109,439	44,027,966
Castle Harlan Partners IV	100,000,000	573,844	0
Coller International Partners IV	50,000,000	1,050,000	70,286
CVC European Equity Partners	50,000,000	46,930,496	77,888,255
CVC European Equity Partners II	150,000,000	135,202,569	63,401,098
CVC European Equity Partners III	150,000,000	28,080,165	7,016
Doughty Hanson Fund II	50,000,000	42,988,468	72,109,359
Doughty Hanson Fund III	250,000,000	210,504,679	2,543,484
Endeavor Capital Fund III	25,000,000	14,305,524	0
Exxel Capital Partners V	75,000,000	83,203,756	3,997,587
Exxel Capital Partners VI	50,000,000	21,307,43	675,952
Fenway Partners Capital Fund II	50,000,000	28,465,247	1,826,878
First Reserve Fund IX	75,000,000	33,846,052	0
Fox Paine Capital Fund II	50,000,000	10,125,118	0
Green Equity Investors III	50,000,000	38,750,566	8,551,614
Green Equity Investors IV	100,000,000	0	0
Gryphon Partners II	50,000,000	18,701,670	0
HarbourVest Int'l Private Equity Ptrs	25,000,000	25,000,000	38,670,802
HarbourVest Int'l Private Equity Ptrs II	75,000,000	72,000,000	63,680,993
HarbourVest Int'l Private Equity Ptrs III	80,000,000	46,400,000	6,601,365
HarbourVest Venture Partners IV	50,000,000	48,000,000	133,785,466
HarbourVest Venture Partners V	100,000,000	94,462,881	63,491,487
HarbourVest Partners VI – Partnership Fund	100,000,000	45,097,000	6,881,835
Hicks, Muse, Tate & Furst Equity II	50,000,000	52,866,181	99,135,916
Hicks, Muse, Tate & Furst Equity III	100,000,000	102,324,023	47,114,569
Hicks, Muse, Tate & Furst Equity IV	200,000,000	191,504,134	54,410,791
Hicks, Muse, Tate & Furst Europe Fund	100,000,000	76,338,316	27,561,844
HSBC Private Equity Fund II	50,000,000	33,317,215	6,349,155
Joseph, Littlejohn & Levy Fund (Exited Portfolio)	30,000,000	32,024,056	85,288,943
Joseph, Littlejohn & Levy Fund II	50,000,000	54,752,885	26,108,454
Joseph, Littlejohn & Levy Fund III	100,000,000	93,186,419	22,002
KKR 1980 Related Fund (Exited Portfolio)	194,090,840	194,090,840	666,861,320
KKR 1982 Fund (Exited Portfolio)	25,000,000	25,787,500	85,041,667
KKR 1984 Fund (Exited Portfolio)	99,500,000	118,498,250	510,821,660
KKR 1986 Fund	98,330,000	118,134,415	749,038,892
KKR 1987 Fund 3	726,670,000	759,663,110	1,233,843,400
KKR 1993 Fund	350,000,000	362,181,626	534,853,048

Fund	Total Committed Capital	Investment Cost	Realized Value to Date
KKR 1996 Fund	800,000,000	843,086,372	345,771,681
KKR European Fund	400,000,000	197,943,268	1,228,178
KKR Millennium Fund	1,000,000,000	25,772,000	0
KKR Non-Fund Investments (Exited Portfolio)	65,000,000	65,000,000	219,909,943
Littlejohn Fund II	50,000,000	23,432,123	2,370,291
Maitlin Patterson Global Opportunities (CSFB)	75,000,000	64,026,723	0
Northwest Emerging Ventures	250,000,000	21,699,611	1,740,687
OCM Opportunities Fund	48,000,000	48,000,000	57,123,530
OCM Opportunities Fund II	75,000,000	75,000,000	43,437,542
OCM Opportunities Fund III	100,000,000	100,036,164	20,000,000
OCM Opportunities Fund IV b	75,000,000	67,500,000	583,562
OCM Principal Opportunities Fund	50,000,000	50,000,000	6,924,007
OCM Principal Opportunities Fund II	50,000,000	27,500,000	3,418,067
Olympic Venture Partners III	10,000,000	10,231,639	22,721,425
Olympic Venture Partners IV	14,000,000	14,000,000	50,772,740
Olympic Venture Partners V	25,000,000	24,500,000	750,250
OVP Venture Partners VI	40,000,000	2,600,000	0
Palamon European Equity	50,000,000	22,393,140	0
Parthenon Investors	50,000,000	43,483,695	3,645,992
Parthenon Investors II	75,000,000	13,494,515	11,107
Pathway Private Equity Fund III	250,000,000	8,036,558	0
Penman Private Equity & Mezzanine	20,214,143	20,153,610	15,484,573
Providence Equity Partners	75,000,000	82,409,385	262,559,140
Providence Equity Partners III	100,000,000	97,758,293	47,389,606
Providence Equity Partners IV	150,000,000	35,736,937	33,472
Providence Media Partners	50,000,000	56,510,911	204,725,004
Solera Partners	50,000,000	13,008,387	171,241
Southgate Partners (Exited Portfolio)	10,000,000	10,000,000	4,160,715
Stonington Capital Appreciation 1994	50,000,000	49,791,843	266,168
TCW/Crescent Mezzanine Partners	50,000,000	49,341,050	38,808,655
TCW/Crescent Mezzanine Partners II	100,000,000	96,737,267	79,412,605
TCW/Crescent Mezzanine Partners III	75,000,000	39,077,460	19,580
TCW Special Credits Fund III	50,000,000	50,000,000	103,262,205
TCW Special Credits Trust IV	25,000,000	25,200,987	45,087,688
TCW Special Credits V	50,000,000	50,000,000	73,070,599
Thomas Weisel Capital Partners	100,000,000	70,274,664	709,503
TPG Partners	50,000,000	48,989,153	146,262,089
TPG Partners II	300,000,000	297,025,942	107,865,275
TPG Partners III	300,000,000	174,503,977	26,637,418
TSG Capital Fund II	40,000,000	39,459,905	21,494,300
TSG Capital Fund III	75,000,000	70,714,867	8,202,084
VantagePoint Venture Partners IV	50,000,000	10,000,000	0
Vestar Capital Partners III	25,000,000	22,002,140	9,500,771
Vestar Capital Partners IV	100,000,000	36,129,608	19,081
Wellspring Capital Partners II	50,000,000	43,623,648	46,430,751
Wellspring Capital Partners III	75,000,000	10,491,057	0
Zell-Chilmark Fund (Exited Portfolio)	25,000,000	24,675,948	58,783,038
Total	\$9,988,554,983	\$6,933,482,913	\$6,925,147,015

FIXED INCOME

The Fixed Income Section internally manages approximately \$585 million in fixed income assets for five agencies. The range of investments includes corporate, government, and international instruments with maturities from one to 15 years in most instances, and quality varying from Aaa to high yield. The portfolio reports on the following pages represent the funds that the Fixed Income Section manages. In addition, the Fixed Income Section oversees the management of approximately \$10.4 billion in fixed-income assets by five outside managers for three agencies.

OPERF FIXED INCOME INVESTMENT STRATEGY

In previous years, Treasury managed an active investment and trading program for the Oregon Public Employees Retirement Fund (OPERF). With the retirement of the previous fixed income investment officer in mid-2002, all assets from the internally-managed portfolio have been transferred to the five external managers.

OPERF FIXED INCOME PERFORMANCE COMPARISONS

Investment Manager	Total Market Value with Accrual As of 12/31/02 (in thousands)	Performance			
		3 months	1 year	2 years	3 years
Wellington Management Company	\$ 1,636,444	3.47%	6.80%	7.11%	n.a
Western Asset Management	1,699,680	4.19	9.84	9.50	n.a
Alliance Capital Management	1,632,322	3.05	7.65	n.a	n.a
BlackRock	1,656,333	2.99	9.99	n.a	n.a
Fidelity Investment Management	1,655,344	4.19	9.75	n.a	n.a
BGI U.S. Debt Index Fund	14,576	1.62	10.34	n.a	n.a
Total	\$ 8,294,699				

OTHER EXTERNALLY MANAGED FIXED INCOME FUNDS

Investment Manager	Total Market Value with Accrual As of 12/31/02 (in thousands)	Performance			
		3 months	1 year	2 years	3 years
State Accident Insurance Fund					
Wellington Management Company	\$ 967,872	1.82%	9.51%	9.21%	n.a
Western Asset Management	981,393	2.51	11.17	10.02	n.a
Total	\$ 1,949,265				
Common School Fund					
Wellington Management Company	\$ 102,850	1.82%	9.61%	9.16%	n.a
Western Asset Management	103,334	3.38	10.96	9.85	n.a
Total	\$ 206,184				

OTHER INTERNALLY MANAGED FIXED INCOME FUNDS

VETERANS' BOND PORTFOLIO PROFILE

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

Market value as of 12/31/02, excluding cash	Performance		
	1 year	2 years	3 years
\$256,848,000	6.49%	8.31%	8.58%

BENEFIT RESERVE FUND

The Benefit Reserve Fund is appropriated to the Employment Department and is used to pay unemployment insurance benefits. The fund consists of moneys collected from employers by a tax on wages. This fund will be used to pay benefits only if the Unemployment Compensation Trust Fund, located in the U.S. Treasury, is unable to do so.

Market value as of 12/31/02, excluding cash	Performance		
	1 year	2 years	3 years
\$173,716,000	10.34%	9.63%	9.83%

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.

Market value as of 12/31/02, excluding cash	Performance		
	1 year	2 years	3 years
\$81,330,000	7.24%	8.13%	8.86%

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.

Market value as of 12/31/02, excluding cash	Performance		
	1 year	2 years	3 years
\$56,815,000	0.32%	4.69%	6.59%

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES FUND

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

Market value as of 12/31/02, excluding cash	Performance		
	1 year	2 years	3 years
\$15,940,000	7.53%	8.07%	8.39%

EQUITY REAL ESTATE

The Oregon Investment Council (OIC) manages the growth and risk in real estate by organizing and diversifying the portfolio into three main investment components: (1) direct core real estate; (2) opportunistic real estate; and (3) publicly traded real estate investment trusts, more commonly known as REITs.

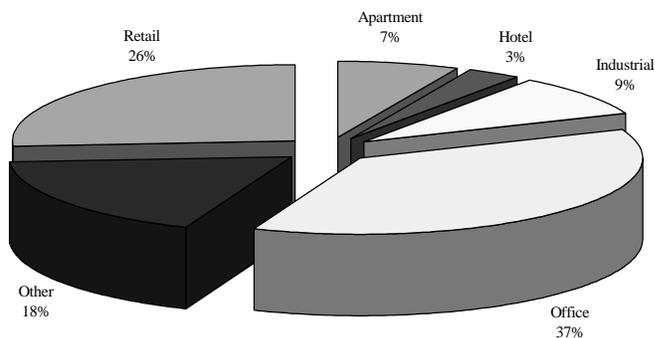
During 2002, real estate continued to feel the effects of the sluggish economy. Rental rates declined across most property types as demand for space fell, and vacancy rates climbed. Property values were approximately flat as decreased interest rates offset the decline in property net operating income. The real estate portfolio for the Oregon Public Employees Retirement Fund (OPERF) paralleled national trends, with one-year performance at 6.4 percent. Over trailing three- and five-year periods, OPERF's composite real estate performance (net of fees) was 9.4 percent and 7.9 percent respectively, exceeding the NCREIF benchmark (gross of fees) only for the trailing three-year period by 0.7 percent. In order to manage risk, the OPERF real estate portfolio consciously has been diversified across property types and regional markets. The pie charts below illustrate the diversification of the OPERF real estate portfolio.

OPERF REAL ESTATE PORTFOLIO (\$2,212,576,000)

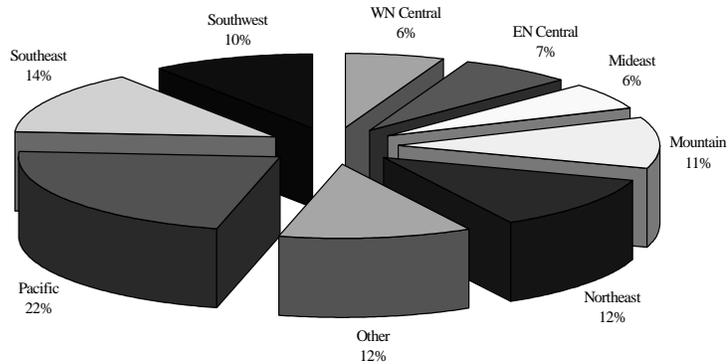
OPERF began investing in equity real estate in 1981, after the OIC approved the program in 1980. Since 1981, the portfolio has grown to \$2.2 billion. At year-end 2002, real estate represented 6.6 percent of OPERF's \$33.4 billion regular account and achieved a net performance return of 6.4 percent, up from 5.6 percent in 2001. Real estate's performance in 2002 was 0.2 percentage points below the benchmark NCREIF Index. The NCREIF Index was 6.6 percent in 2002 and 7.4 percent in 2001. All OPERF returns are annualized and net of fees. The NCREIF Index is reported gross of fees.

	1-Year	3-Year	5-Year
Total OPERF Return (Net)	6.4%	9.4%	7.9%
NCREIF Index (Gross)	6.6%	8.7%	10.7%

SECTOR DISTRIBUTION



GEOGRAPHIC DISTRIBUTION



CORE PORTFOLIO (\$1,133,868,000)

OPERF's core real estate portfolio turned in a performance 2.4 percent below the NCREIF Index for 2002. Clarion Partners, Greystar Advisors, Lincoln Advisory Group, PacTrust, and Regency Centers are OPERF's five core real estate portfolio advisors. Together, they returned 4.2 percent in 2002. In 2000, OPERF hired Greystar Advisors and Lincoln Advisory Group specifically to increase exposure to the multi-family and industrial property sectors. Regency Centers, also retained in 2000, focuses solely on the acquisition and management of neighborhood and community shopping centers anchored by grocery and drug stores. Clarion Partners concentrates on office properties, and PacTrust is a generalist with a majority of its holdings in the Pacific region.

	1-Year	3-Year	5-Year
Total Core Return (Net)	4.2%	5.7%	8.4%
NCREIF Index (Gross)	6.6%	8.7%	10.7%

OPPORTUNISTIC PORTFOLIO (\$600,751,000)

In 2002, the OPERF's opportunistic portfolio met expectations, exceeding the NCREIF benchmark by 1.5 percent for the year and 0.4 percent for the trailing three-year period. The opportunistic investment portfolio initially focused on opportunities created by the Savings and Loan (S&L) crisis and the resulting liquidation of S&L real estate assets by the RTC and FDIC. As opportunities to acquire troubled real estate portfolios have declined in the U.S. over the last few years, OPERF allocated capital to managers capable of executing transactions globally. OPERF's international real estate investments are concentrated in Western Europe, Japan, and South Korea.

	1-Year	3-Year	5-Year
Total Opportunistic Return (Net)	8.1%	9.1%	8.2%
NCREIF Index (Gross)	6.6%	8.7%	10.7%

REAL ESTATE INVESTMENT TRUST (REIT) PORTFOLIO (\$477,957,000)

In 2002, REITs continued to produce solid returns, exceeding the NAREIT benchmark. The combination of improved earnings, declining interest rates and significant relative holdings of REITs focused on owning regional mall properties resulted in the portfolio reporting a return of 9.1 percent for the year, outperforming the NAREIT Index by 5.3 percent. Over trailing three- and five-year periods, the REIT portfolio's performance was 4.0 and 0.9 percentage points above its respective benchmark.

	1-Year	3-Year	5-Year
Total REIT Return (Net)	9.1%	18.3%	4.2%
NAREIT Index (Gross)	3.8%	14.3%	3.3%

Notes:

All returns are annualized. OPERF performance is net of fees and benchmarks are gross of fees.

The NCREIF Property Index contains 2,000 institutionally held, tax-exempt, wholly owned, income-producing properties across the United States and reported gross of fees. The assets in the NCREIF Index consist of existing properties and carry no debt.

The National Association of Real Estate Investment Trusts (NAREIT) publishes the NAREIT Equity Index. This index is a weighted average of all real estate investment trusts (REITs) that trade on public exchanges like the New York Stock Exchange, the American Stock Exchange, and NASDAQ.



Other
Investments

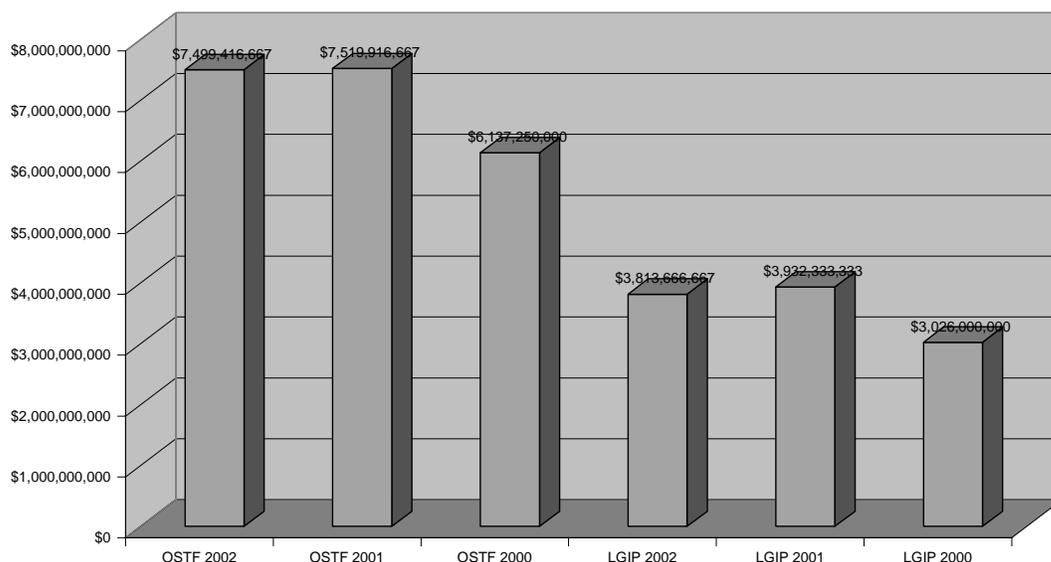
RESULTS OF OPERATIONS

Distributed earnings for the Oregon Short Term Fund (OSTF) for the year ended December 31, 2002, were \$147.51 million compared to \$316.01 million in 2001. This decrease in earnings was due to the decrease in market rates resulting in a lower average monthly yield of 1.99% in 2002 versus 4.22% in 2001.

Unlike prior years, the direction of the economy and the Fed's rate decisions did little to help investors navigate the volatility that paralyzed the fixed income market for most of 2002. Through the first ten months of the year, liquidity was limited as the Moody's downgrade ratio peaked in February and the corporate bond markets sustained unprecedented spread widening, *i.e.*, underperformance. Most of the pain came from the telecom (WorldCom) and utility sectors but even the so-called defensive finance sector contributed its fair share of noise. Bellwethers such as GE and Household tested the confidence of the investor base. Only well into the third quarter, when the downward ratings momentum eased and risk appetites re-emerged, did signs of stability and liquidity return to the marketplace. Indeed, on November 14, HSBC Holdings PLC announced their acquisition of Household International, signalling to the market that perhaps the preceding fear was overdone. HSBC considered the risk/reward tradeoff of the acquisition to be favorable, and the aversion to risk that permeated the market quickly turned into acceptance of risk in the investment grade and high yield corporate bond markets.

Despite the continued strength in the housing market, however, corporate malfeasance, another year of falling stock markets, underfunded pension plans, no improvement in the unemployment rate, falling consumer confidence, state & local government deficits, growing tension in Iraq, and the war on terrorism all contributed to lackluster GDP growth and allowed the Fed, on November 6, to lower the Fed Funds rate 50 basis points from 1.75% to 1.25% due to the disappointing data and the anticipation that inflation would remain quite subdued over the year ahead and, as some members opined, might lead to the remote possibility of deflation. U.S. Treasury notes and bonds were the primary beneficiary of a flight-to-quality for most of the year.

OSTF/LGIP Average Monthly Deposit Base

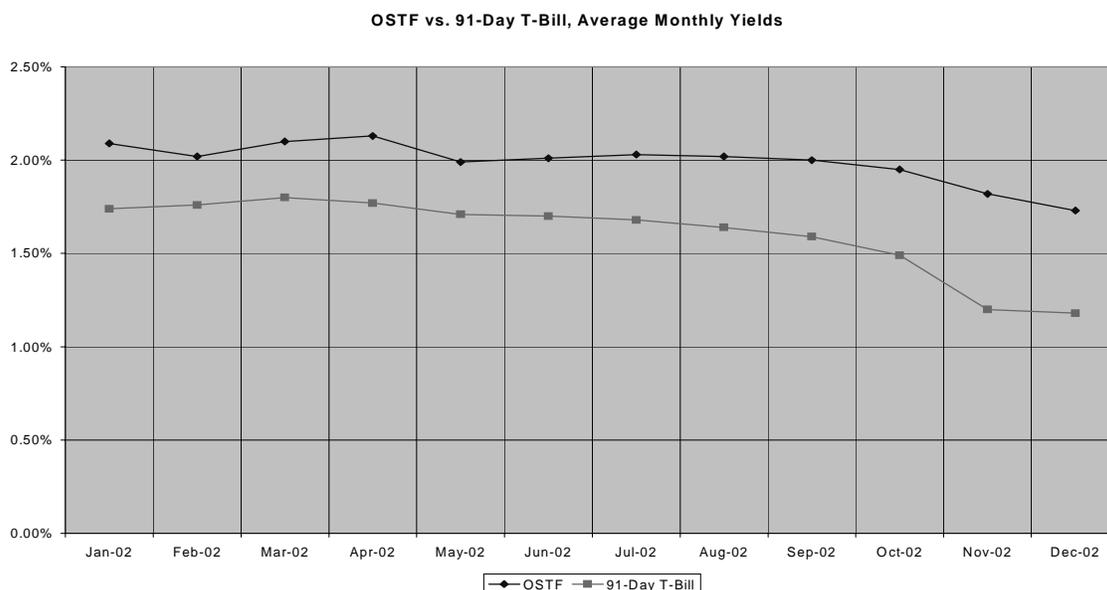


¹The LGIP is a component of the OSTF.

Going forward into 2003, monetary and fiscal stimulus will be accommodative to the economy, companies have strengthened and repaired their balance sheets and if corporate capital spending exhibits a sustainable increase, job creation will be close behind. With interest rates near 50-year lows, funds may finally look to other asset classes for more attractive returns. However, this painting is far from dry and one slip of the brush might lead to some rethinking of major proportions. That is, if deflation becomes a reality, U.S. Treasuries will continue to benefit at the expense of almost all other asset classes.

RELATIVE PERFORMANCE

For the year ended December 31, 2002, the OSTF annual return was 2.09% and outperformed the 91-day US T-Bill by 30 basis points (0.30%), compared to an outperformance of 11 basis points (0.11%) in 2001.



ASSET ALLOCATION

There were no repurchase agreements held at the end of either 2001 or 2002. Holdings of local bank deposit instruments (TCDs) were \$53.3 million at December 31, 2002, with no holdings of Bankers Acceptances, compared to \$46.3 million at the end of the prior year and were 0.67% and 0.59% of the OSTF, respectively.

Commercial paper holdings fell to \$3.15 billion at December 31, 2002, compared to \$3.35 billion held at the end of the prior year and were 39.59% and 42.5% of the OSTF, respectively. U.S. Treasury and Agency securities held were \$4.75 billion at December 31, 2002, compared to \$4.48 billion on December 31, 2001, and were 59.74% and 56.9% of the OSTF, respectively.

PORTFOLIO MATURITY

The percentage of the portfolio maturing less than 93 days was 87.02% on December 31, 2002, compared to 82.35% on December 31, 2001. The average days to maturity for the portfolio was 93.40 days on December 31, 2002, compared to 70.04 days at December 31, 2001.

OREGON SHORT TERM FUND BOARD

The Oregon Short Term Fund Board advises and consults with the Oregon Investment Council and the Oregon State Treasury on matters relating to the investment and reinvestment of funds in the Short Term Fund. The seven-member board consists of the State Treasurer or the Treasurer's designee, three members appointed by the Treasurer who are qualified in the field of investment and finance, and three members appointed by the Governor who are either treasurers, finance officers, or business managers. Each appointed member serves a term of four years at the discretion of the appointing authority.

OREGON SHORT TERM FUND BOARD

(AS OF 12.31.02)

Harvey Rogers, Chair Preston, Gates & Ellis	Public member Term expires 03.11.04
Linda M. Haglund Deputy State Treasurer	Treasurer's designee Serves by position
Anthony Fisher Paine Webber	Public member Term expires 06.30.06
Rebecca Chao Regional Financial Advisors	Public Member Term expires 02.27.02
Judith Doty Linn-Benton-Lincoln ESD	Oregon School Board Association Term expires 05.14.04
Katherine Tri City of Newberg	League of Oregon Cities Term expires 04.09.06
Harry Morton Multnomah County Treasury	Association of Oregon Counties Term expires 11.15.06

OREGON SAVINGS GROWTH PLAN

The State of Oregon Deferred Compensation Plan is a voluntary supplemental retirement program. The program provides eligible state employees the opportunity to defer receipt of a portion of their current salary. These deferrals are invested in various investment vehicles, chosen by the employee, until paid to the employee, usually at retirement. Employees choosing to participate in the program build additional savings, tax-deferred, to supplement Social Security or other retirement benefits they may later receive.

Oversight of the plan's investment program is the responsibility of the Oregon Investment Council (OIC), supported by Treasury staff. The program offers an array of nine investment options ranging from lower to higher levels of investment risk. Plan participants direct their salary deferrals to any of these options. Each investment option is supported by multiple investments in commingled accounts and mutual funds.

At year end 2002, the plan's assets totaled over \$538 million, a decrease of \$37 million from the previous year. The net asset decrease is attributable to the poor performance of the equity markets, whose negative returns more than offset new deposits. Assets as of December 31, 2002, and the plan's performance history, are shown in Table 1.

As of December 31, 2002, 19,126 persons participated in the Oregon Savings Growth Plan. Voluntary local government participation in the plan began in 1999. Local government balances were approximately \$9 million belonging to 866 participants at year end.

Effective November 1, 2001, the OIC finally restructured the investment funds underlying the OSGP options. This was the first date the program was able to exit the variable annuity contract through which investments funds were required to be accessed. This change resulted in a significant net decrease in fees born by participants and a much wider selection of investment funds for the OIC to select from. A list of the investments funds included in each option is included on the following page.

For the plan's assets, 2002 was another dismal year in the equity markets. The domestic Large Cap Growth Stock option performed the poorest, posting a loss of 26.57% for the year, while the International Stock option performed the best, losing only 12.87%. The Intermediate Fixed Income option was the place to be, posting a positive return of 8.70%.

The objective of the OIC and Treasury is to provide an investment program that prudently invests this pool of assets and enhances its productivity. Benefits of the 1996 changes, which included the ability to exit the variable annuity contracts effective November 1, 2001, continue to be realized.

ASSETS AND RETURNS BY INVESTMENT OPTION

(AS OF DECEMBER 31, 2002)

Investment Option	\$ Invested	% of Fund	Annualized Returns		
			1 year	3 years	5 years
Short Term Fixed <i>Benchmark: 3 month Treasury Bill</i>	\$ 55,576,624.49	10.32	1.43 % 1.79	3.59 % 3.72	4.10 % 4.11
Stable Value <i>Benchmark:none</i>	129,916,897.26	24.14	4.60	5.20	5.36
Intermediate Fixed Income <i>Benchmark: Lehman Brothers Aggregate</i>	72,237,402.52	13.42	8.70 10.27	8.83 10.10	6.25 7.54
Balanced <i>Benchmark: Balanced Blended Index</i>	74,793,623.03	13.90	-8.48 -8.84	-4.54 -4.27	3.45 3.00
Large Cap Value Equity <i>Benchmark: Russell 1000 Value</i>	34,261,874.92	6.37	-15.13 -15.52	-7.02 -5.14	0.23 1.16
Total Market Equity Index <i>Benchmark: Russell 3000</i>	60,470,264.10	11.24	-21.70 -21.54	-14.82 -14.19	-0.94 -0.32
Large Cap Growth Equity <i>Benchmark: Russell 1000 Growth</i>	41,491,123.23	7.71	-26.57 -27.88	-21.62 -23.64	-3.29 -3.84
International Equity <i>Benchmark: MSCI EAFE</i>	17,754,029.03	3.30	-12.87 -15.94	-16.02 -17.24	-0.14 -2.89
Small/Mid Cap Equity <i>Benchmark: Russell 2500</i>	51,692,432.01	9.60	-15.44 -17.80	-6.55 -4.62	5.42 1.57
Fund Total Assets	\$ 538,194,270.59	100.00 %			

DEFERRED COMPENSATION VENDORS

(NEW PROGRAM EFFECTIVE 11.01.02)

Short Term Fixed Option

SSgA GSTIF (Govt Short Term Inv Fund)

Stable Value Option

SSga SGTIF

Primco Capital Management

Intermediate Fixed Income Option

BGI US Debt Index Fund

Fidelity Broad MArket Duration

Wellington Capital Bond Core Plus

International Equity Option

BGI EAFE Index Fund

Artisan International

GMO Foreign III

Oakmark International

Large Cap Value Equity Option

BGI Russell 1000 Value Fund

Dodge and Cox

MFS Value

Van Kampen Comstock

Large Cap Growth Equity Option

BGI Russell 1000 Growth Fund

American Funds AMCAP

Fidelity Blue Chip Growth

Smith Barney Aggressive Growth

OREGON GROWTH ACCOUNT

The Oregon Growth Account (OGA) was created within the Education Stability Fund (ESF) (formerly known as the Education Endowment Fund), by Oregon Laws 1995, Chapter 811, during the 1995 Legislative Session in conjunction with the establishment of the ESF. In accordance with the provisions of the Oregon Constitution creating the ESF, the ESF receives 15 percent of State of Oregon lottery proceeds from July 1, 1997, through June 30, 2003, and 18 percent of lottery proceeds thereafter. Of the lottery proceeds placed in the ESF, ten percent flows into the OGA in accordance with ORS 348.702.

The purpose of the OGA is to earn returns for the ESF by making investments in or providing seed capital for emerging growth businesses in key industries, primarily in Oregon. Investment returns on the OGA are dedicated to the Education Stability Fund.

In accordance with ORS 348.707(4), the Treasurer determines the investment policies and procedures for the OGA, within and subject to the general purposes of the OGA set forth in ORS 348.702. Treasury employees act as staff to the OGA Board. The Oregon Growth Account Board governs the investment funds in the OGA. The Governor appoints the Board at the Treasurer's recommendation, and the Treasurer serves as chair by position. The Board approves or directs specific investments and strategies subject to its investment policies. In accordance with those policies, OGA funds are invested only through external general partners. These partners are fully discretionary, that is, after funds are allocated to the general partner, they are entirely responsible for the investment of these funds within the partnership's investment guidelines.

Through legislative action in 2001, Oregon Resource and Technology Development Account (ORTDA) was merged into the Oregon Growth Account, creating within the OGA the Oregon Resource and Technology Development Subaccount (ORTDS). At that time, the OGA Board was expanded to its present seven members.

Through December 2002, the Board has made the following commitments to private equity funds with a primary focus in Oregon and the Northwest:

Endeavor Capital Fund III, LP	\$ 7,000,000
SmartForest Ventures, LP	6,500,000
Tamarack Mezzanine Partners, LP	1,000,000
Timberline Venture Partners, LP	5,000,000
Timberline Annex Fund	500,000
Northwest Technology Ventures	14,000,000
Total	\$ 34,000,000

OREGON GROWTH ACCOUNT BOARD

(AS OF 12.31.02)

Randall Edwards, Chair Salem	State Treasurer Serves by position
Keith Barnes, Vice Chair	Emerging Growth Business Term Expires 06.30.03
John Castles	Emerging Growth Business Term Expires 06.30.04
April Sevcik	Public Member Term Expired 06.30.02
James Johnson	Emerging Growth Business Term Expires 06.30.07
Stan Timmermann	Public Member Term Expires 06.30.04
Russ Dale	Public Member Term Expired 06.30.02

ADDITIONAL INVESTMENTS

STATE AGENCY LOANS

State agency loans are loans made pursuant to ORS 293.205 to 293.225. These loans are made from any fund with a sufficient cash balance to loan money to funds with insufficient cash balances, pursuant to specific written loan agreements. Two loans made from the following funds are outstanding at year-end.

	12/31/2002 Book Value
State Accident Insurance Fund	\$ 581,871
Oregon Short Term Fund	\$10,000,000

STATE TAX DEFERRAL

State Tax Deferral is a program for the deferral of senior citizens' property taxes and special assessment taxes and was enacted in 1963 pursuant to ORS 311.666 to 311.735. A low-income senior may defer taxes and assessment on their owner-occupied principal residence. The state places a lien on the property for the deferred amount plus simple interest at a rate of six percent per annum. The lien has priority over other liens except mortgage liens recorded prior to the deferral liens. Because no provision or decision has been made to repay this advance, the interest liability has not been accrued in the following balance.

	12/31/2002 Book Value
General Fund	\$ 50,980,976

BOND GUARANTY

The Oregon Public Employees Retirement Fund (OPERF) entered into an agreement to guarantee \$50 million in taxable special revenue obligation bonds issued by the Port of Portland. The bonds were issued on behalf of Pacific Aircraft Maintenance Corporation (PAMCORP), a start-up aircraft maintenance corporation. PAMCORP ceased operations on October 28, 1993.

In November 1993, due to the loss of the facility's tenant, which was PAMCORP, OPERF became solely responsible for maintenance of the structure and the payment of principal and interest on the outstanding bonds. A debt service reserve account of approximately \$4.6 million, established as a requirement of the bond sale, reimbursed the fund for bond interest payments made. In November 1994, the reserve account was depleted and OPERF began bearing the cost of the bond interest payments. If a suitable tenant is secured, lease revenue generated by the tenancy will be utilized to offset the bond obligation.

Bond interest payments are approximately \$370,000 per month. Principal is due on May 15 of each redemption year, depending on the tranche of the bond outstanding. Principal payments began in 1997 and will terminate in 2022.

The completed facility consists of two 112,000-square-foot aircraft maintenance hangars and a two-story 65,000-square-foot shop and office area. The Oregon Investment Council has retained a property manager for the facility while working with an aviation consulting firm to secure a new tenant.



Oregon Investments

OREGON INVESTMENTS

The Oregon State Treasury is responsible for the investment of all moneys in the Oregon Public Employees Retirement Fund (OPERF), the State Accident Insurance Fund, the Common School Fund, and other agency funds (collectively, the Funds). In accordance with ORS 293.731-293.741, the Oregon Investment Council (OIC) sets investment policy and may contract with others to perform investment management functions. Each of the various asset classes is managed with the mission of generating the highest returns prudently possible for the funds' beneficiaries. As of December 31, 2002, total investments under Treasury management exceeded \$45 billion, with OPERF comprising 74 percent of the total at \$33.4 billion.

This report provides a snapshot of the Funds' direct investment within the State of Oregon. At December 31, 2002, approximately \$471 million of the Funds' total investments at December 31, 2002, represent "Oregon investments," as defined below. Information summarized in the accompanying schedules was provided by custodians and consultants retained by Treasury and the OIC, based on given definitions of Oregon investments. The definition of an Oregon investment is subjective and, therefore, will be defined more clearly below as it relates to the individual investment classes. The assets are presented at market value, unless otherwise noted.

The information included in this report provides a reasonable, but not necessarily definitive, summary of Oregon investments. This report is provided for informational purposes only and as required by ORS 293.802(1). The OIC does not target nor does it mandate Oregon-specific investments in its portfolio asset allocation. The accompanying information has not been independently audited or reviewed.

INVESTMENT CLASS	VALUE
Equity and Debt Investments	\$128,220,442
Commercial Mortgages	\$ 890,712
Real Estate Investments	\$ 14,564,879
Alternative Equity Investments	\$327,784,422
Total	\$471,460,455

EQUITY & DEBT INVESTMENTS

Based on ORS 293.736, the investment officer may not invest in common stock for those Funds permitted to do so. Due to this restriction, ORS 293.741 permits the OIC to contract with external firms to perform the function of investment manager for equity investments. Treasury staff perform an oversight function for the outside money managers who are contracted for the actual investment of funds in common stock. At December 31, 2002, approximately \$18.7 billion of OPERF assets were invested in equity securities, including variable fund assets of approximately \$2.8 billion. Seventy-one percent and 29 percent were invested with domestic and international equity managers, respectively. OPERF had approximately \$8.3 billion invested in fixed income securities at December 31, 2002. State Street Bank and Trust acts as custodian for the equity and fixed income assets. The information related to Oregon investments is current as of December 31, 2002, with market values provided by the custodian.

Within the equity and fixed income asset classes, the criterion for defining an Oregon investment was a listing of the Top 25 Private Sector Employers in Oregon. The list is compiled periodically by the Oregon Economic Development Department and is based on total average employees in the State of Oregon. The most recent listing is as of April 2002 and was the basis for reporting on the equity asset class. Each company on the listing employed a minimum of 2,500 employees in the state. The listing includes not only companies domiciled and headquartered in Oregon, but companies outside of Oregon with a significant employee presence here.

ISSUER	MARKET VALUE
Albertsons Inc	\$ 22,260,000
Intel Corp	34,129,440
Safeway Inc	5,135,748
US Bancorp	7,496,986
United Parcel Service Inc	16,297,500
Wal-Mart Stores Inc	12,083,057
Wells Fargo	30,817,711
Total	\$ 128,220,442

COMMERCIAL MORTGAGES

In 2002, the OPERF commercial mortgage portfolio consisted of one loan, as the Commercial Mortgage program continued to be liquidated. This investment is valued by the unpaid principal outstanding at December 31.

CITY	PRINCIPAL BALANCE
Hillsboro	\$890,712
Total	\$890,712

REAL ESTATE INVESTMENTS

The core real estate portfolio is actively managed by five outside management firms: Clarion Partners, Greystar Advisors, Lincoln Advisory Group, PacTrust, and Regency Centers. In addition, the Oregon Investment Council retains Pension Consulting Alliance as a real estate consultant. The real estate portfolio is comprised of three main components, with a net asset value of approximately \$2.2 billion: core investments (51%); opportunistic investments (27%); and publicly traded real estate securities (22%). Oregon real estate investments have been defined as those assets owned (wholly or partially) by OPERF and located within the state. Market valuations are compiled by Pension Consulting Alliance.

PROPERTY NAME	NET ASSET VALUE
Banfield Industrial Park	138,235
Canyon Land & Cattle Co.	431,250
Clackamas Station	510,000
Cornell Pacific Business Park	105,000
Crossroads at Orenco Station	545,325
Davis Industrial Park	251,576
Evergreen Business Park	418,934
Five Oaks West	157,500
Freestanding Warehouse	277,500
Gateway Shopping Center	727,822
Guilds Lake Industrial Park	118,467
International Corporate Center	357,126
MarriottCourtyard	36,825
One Town Center	410,192
Oregon Business Parks	1,654,243
Orenco Stations	673,697
Pacific Business Park South	379,804
Pacific Corporate Center	1,146,281
Pacific Corporate Center Office & Retail	923,572
PacTrust Business Center	1,826,967
Sunrise Business Park	197,151
Sunriver	412,500
Swan Island Warehouse	77,962
Tigard Triangle Campus	217,757
Tualatin Business Centers	167,576
Woodburn Shopping Center	397,500
Land Under Development	1,485,000
Other Oregon Real Estate	305,642
Retail Fees & Leaseholds	213,475
Total	\$ 14,564,879

ALTERNATIVE EQUITY INVESTMENTS

Alternative equity investments encompass nontraditional investments falling outside the standard asset classes of stocks, bonds, real estate, and cash. Alternative investments comprised approximately 13 percent of OPERF's total market value at December 31, 2002. The single largest component of OPERF's alternative equities program relates to investments sponsored by Kohlberg, Kravis, Roberts & Company (KKR). KKR's investment funds and related partnership structure is somewhat unique. Investors generally execute commitment letters for a particular KKR investment fund that sets out the amount committed to the fund and the relationship between the investors and KKR (including the management fee structure). Individual investments are then separately structured (typically through a special purpose limited partnership) and funded directly to that special-purpose partnership under the terms of the particular KKR investment fund commitment letter.

The second component of the alternative program are limited partnerships with various mandates and committed capital. The limited partnership portfolio, as well as the KKR investment funds, are reviewed regularly by the consulting firm of Pacific Corporate Group, which provided the information related to these investments, as of December 31, 2002. The market values provided are generally estimates made by the general partners and based on OPERF's investment in each of the funds.

"Oregon" investments for the alternative equity investment class were defined as companies headquartered in Oregon or companies employing 100 or more employees within Oregon.

Partnership	Investment	Fair Market Value	
BCI Growth	Corillian	\$ 145,539	
Castle Harlan	Marie Callender's	7,898,400	
	McCormick & Schmick's	4,014,982	
Endeavor Capital	Market Transport Ltd.	2,550,792	
	Poorman-Douglas Corp.	1,200,388	
	Warn Industries, Inc.	3,720,357	
	Kinetics	4,089,595	
Gryphon Partner HarbourVest Partners	Babcock & Jenkins Direct, Inc.	25,412	
	Corillian Corporation	14,989	
	Decision Point Applications Inc.	11,138	
	Hanna Anderson Corp.	5,821	
	lucy activewear, inc.	3,563	
	McCormick and Schmick Holdings, LLC	34,372	
	Medscape, Inc.	2,017	
	Pixelworks, Inc.	169,073	
	Qsent, Inc.	15,095	
	Salu, Inc.	5,089	
	Wallace Theater Corporation	95,820	
	KKR	Borden, Inc.	180,795,633
		KinderCare Learning Center	32,801,410
		Owens-Illinois	48,201,717
Littlejohn	PSC, Inc.	5,186,772	
Northwest Emerging Markets	Network Elements	36,708	
OCM Opportunities Fund	Hyundai Semiconductor	5,012,800	
Olympic Venture Partners	@Once.com	396,983	
	Max-Viz, Inc.	732,662	
Providence Media Partners	Table Talk Pies	301,073	
TCW	Fitness Holdings Worldwide	2,285,276	
	KinderCare Learning Center	2,247,941	
Texas Pacific Group	Petco	25,783,005	
Total		\$327,784,422	



Debt
Management
Division

OVERVIEW

The Debt Management Division provides central coordination and approval for the issuance of all state agency and authority bonds and Certificates of Participation (COPs) for the State of Oregon. At the end of the year, approximately \$5.5 billion of direct obligations were outstanding. The division reviews the structure of each bond sale, coordinates the timing of the various agency bond sales, administers the issuance of bonds, secures credit ratings, prepares transcripts and other documents, provides for the delivery of bonds, and assists with the settlement of bond issues. This requires monitoring local and national bond markets as well as finance and economic trends that impact bond issuance structures and interest rates. The division also reviews the financial and economic disclosure information provided for the sale of State of Oregon General Obligation (GO) bonds, revenue bonds, and state COPs. Additionally, division staff advises agencies of market developments and makes debt policy and legislation recommendations to the Treasurer.

During 2002, the Debt Management Division assisted state agencies and local governments in issuing \$670,820,000 in advance refunding bonds, resulting in net present value savings or a reorganization of debt. Advance refunding bonds are issued to refund an outstanding bond series one year or more prior to the date on which the outstanding bond series becomes callable. Proceeds from the advance refunding bonds are deposited in escrow with a fiduciary institution, invested in Treasury Bonds or other authorized securities, and used to redeem (pay principal and interest on) the underlying ("refunded") bonds at their call date or prior to maturity. Twenty-six advance refunding issues were sold in 2002.

GENERAL OBLIGATION AND REVENUE BONDS AND CERTIFICATES OF PARTICIPATION

Oregon's state government direct revenue bond programs were the most active issuers in 2002, issuing \$826,740,000. Direct revenue bonds are the single largest category with \$2,358,314,827 outstanding state debt. The largest state agency issuer, at \$403 million and 18 series, was the Oregon Housing and Community Services Department.

GO debt issuance decreased in 2002 to \$263 million from \$325 million in 2001. Including the 2002 GO bonds sold, total outstanding GO debt stands at \$2.29 billion.

Five state agencies issued GO bonds in 2002: the Oregon Office of Energy, State System of Higher Education, Oregon Housing and Community Services Department, Department of Administrative Services, and the Department of Veterans' Affairs.

New constitutional authorizations were approved by Oregon voters at the May 21, 2002, Primary Election and the November 5, 2002, General Election. These new General Fund-supported, general obligation authorizations created the “Oregon Opportunity” program; the “Seismic Reinforcement” program for state universities, elementary, middle and high schools, education service districts, community colleges or other similar public education buildings, and; the “Seismic Reinforcement” program for fire stations, hospitals, police stations, sheriff’s offices, or similar facilities used by state, county, district, or municipal law enforcement agencies. The Oregon Opportunity program was created by Oregon Health and Science University to develop statewide medical research and biotechnology opportunities.

The state issued its first Oregon Opportunity Bonds in December 2002 with a par amount totaling \$93,610,000 for the benefit of Oregon Health and Science University.

Pursuant to Senate Bill 1002 of the 2002 First Special Session of the Oregon Legislative Assembly the State issued Tax Anticipation Notes. The notes, dated May 1, 2002, were issued in the amount of \$778,820,000 to meet cash flow needs of the State and for cash management purposes within the 2001-2003 biennium. These notes have a maturity date of May 1, 2003.

During 2002, State of Oregon conduit issuers – the Oregon Facilities Authority, the Oregon Economic and Community Development Department, and the Oregon Housing and Community Services Department – issued bonds totaling \$87,635,000.

In 2002, the State’s total outstanding debt level increased by 6.7 percent. This change is due to the increase in revenue bond obligations for low- or moderate-income housing, lottery revenue bonds for economic development and infrastructure projects, and the issuance of highway user tax revenue bonds. Since 1992, GO outstanding debt has declined by \$2.7 billion. At year-end, outstanding state bonds and COPs totaled \$5.5 billion, down from \$6 billion in 1992 but up from \$4.1 billion in 1998. Revenue obligations were the largest category of the debt, with \$2.4 billion outstanding. General Obligation debt totaled \$2.3 billion and COPs totaled \$808 million. More than 88 percent of all outstanding State of Oregon GO bonds are self-supporting. During the year, the General Fund supported less than 12 percent of the State’s general obligation debt.

GENERAL OBLIGATION AND REVENUE BOND ISSUANCE FOR 2002

State Tax Anticipation Notes	\$	778,820,000
General Obligation		
Alternate Energy	\$	10,950,000
Housing and Community Services Dept.		62,340,000
Oregon University System (Hi. Ed. XI-F & XI-G)		36,135,000
Department of Veterans’ Affairs		60,000,000
Oregon Opportunity Bonds		<u>93,610,000</u>
Total	\$	263,035,000
Direct Revenue		
Oregon Department of Transportation	\$	221,845,000
Oregon Economic Development Department		36,675,000
Housing and Community Services Dept.		403,245,000
State Lottery		164,975,000
Total	\$	826,740,000
Conduit Revenue		
Oregon Economic Development Department-IDBs	\$	5,300,000
Oregon Facilities Authority		57,635,000
Housing and Community Services Department		24,700,000
Total	\$	87,635,000

OUTSTANDING DEBT AND CERTIFICATES OF PARTICIPATION (12.31.02)

	Total General Obligations	% Chg.	Limited Tax Obligations	% Chg.	Revenue* Obligations	% Chg.	Certificates of Participation	% Chg.	Other Obligations	% Chg.	Total Obligations	% Chg.
State Debt												
1996	3,558,920,633	-8.0	**		827,642,595	9.2	485,515,000	37.3	**		4,872,078,228	-2.2
1997	3,055,599,787	-14.1	**		899,309,828	8.7	652,885,000	34.5	**		4,607,794,615	-5.4
1998	2,507,986,330	-17.9	**		1,020,234,828	13.4	645,170,000	-1.2	**		4,173,391,158	-9.4
1999	2,422,225,872	-3.4	**		1,490,034,827	46.0	622,820,000	-3.5	**		4,535,080,699	8.7
2000	2,314,658,643	-4.4	**		1,778,404,827	19.4	790,245,000	26.9	**		4,883,308,470	7.7
2001	2,357,694,916	1.9	**		1,942,694,827	9.2	808,655,000	2.3	**		5,109,044,743	4.6
2002	2,286,854,029	-3.0	**		2,358,314,827	21.4	808,150,000	-0.1	**		5,453,318,856	6.7
Local Debt												
1996	3,387,304,235	17.1	335,188,437	57.8	3,868,274,868	12.2	287,147,138	3.8	349,727,416	52.5	8,227,642,094	16.6
1997	3,293,335,624	-2.8	237,970,500	-29.0	4,269,287,143	10.4	296,479,522	3.3	278,175,460	-20.5	8,375,248,249	1.8
1998	3,388,464,305	2.9	338,831,484	42.4	4,955,837,723	16.1	345,886,329	16.7	222,326,314	-20.1	9,251,346,155	10.5
1999	3,847,083,750	13.5	366,630,503	8.2	5,940,019,946	19.9	408,099,594	18.0	218,909,964	-1.5	10,780,743,757	16.5
2000	4,062,288,361	5.3	527,340,526	43.8	5,768,561,795	-2.9	343,763,254	-15.8	907,938,701	314.8	11,609,892,637	7.7
2001	4,717,357,548	16.1	497,546,939	-5.6	6,526,318,259	13.1	307,795,979	-10.5	542,141,628	-40.3	12,591,160,353	8.5
2002	5,584,775,641	18.4	715,385,394	43.8	6,191,202,591	-5.1	252,898,949	-17.8	1,389,248,511	156.3	14,133,511,086	12.2

OREGON FACILITIES AUTHORITY

In 2002, the Oregon Facilities Authority (OFA), acted as a conduit for five entities, resulting in a \$57,635,000 issuance for this program. OFA bonds constituted a majority of the \$87,635,000 in conduit revenue bonds issued in 2002. The Authority, created in 1989, is empowered to issue bonds to assist with the assembling and financing of lands for health, housing, educational and cultural uses, and for the construction and financing of facilities for such uses. The Authority reviews proposed projects and makes recommendations to the State Treasurer as to the issuance of bonds. As of December 31, 2002, \$545,803,215 in OFA-issued conduit revenue bonds remained outstanding.

OREGON FACILITIES AUTHORITY (AS OF 12/31/2002)

Glenn Ford , Chair Portland	Term expires 06.30.02
Ken Lindbloom Medford	Term expires 06.30.03
Ellsworth P. Ingraham Portland	Term expires 06.30.05
Carol Samuels Portland	Term expires 06.06.04
David Chen Portland	Term expires 06.30.05

OREGON TRANSPORTATION INVESTMENT ACT (OTIA)

In the first 2002 Special Session of the 71st Legislative Assembly, the Legislature passed House Bill 4010 – the Oregon Transportation Investment Act (OTIA) amendments – which increased the OTIA authorization to an aggregate principal amount sufficient to produce net proceeds of not more than \$500 million. The additional authorization will be used to fund projects previously considered by the Oregon Transportation Commission, but not selected for funding under House Bill 2142 (OTIA).

In 2002, bonds were issued in the amount of \$221,845,000, representing the first issuance of highway user tax revenue bonds under the total \$500 million net proceeds authorized, the OTIA Bonds. These 2002A bonds are to be payable on parity with the 2000 bonds and any additional bonds issued under this authorization. When all OTIA projects are complete, it is expected that approximately one-half of the \$500 million net proceeds authorization will have been used to finance OTIA Preservation Projects and one-half will have been used to finance OTIA Modernization Projects.

OREGON BACCALAUREATE BONDS

One of the most popular bonds sold by the State continues to be Oregon Baccalaureate (ORBAC) Bonds. These tax-exempt bonds are issued on behalf of the Oregon University System to finance the capital needs of Oregon's public universities. Since their first issuance in 1988, ORBAC bonds have been a very popular way for parents, grandparents, and other relatives to save for a child's future college expenses. Historically, the statewide demand for these bonds has been strong, and future issuance of these securities is anticipated.

Most ORBAC bonds have a face value of \$5,000 payable at maturity, but they are purchased at a substantial discount from their face value. The interest rate established and the date of final maturity determine the purchase price. For example, an ORBAC bond yielding five percent and maturing in 20 years would cost approximately \$1,862. In 1995, the State Legislature authorized the sale of "mini-ORBAC" bonds with a maturity value of \$1,000. It is anticipated that mini-ORBAC bonds will continue to be a feature of future ORBAC sales. All ORBAC bonds are exempt from federal and state personal income taxes; therefore, the maturity value is not taxed. As with other GO bonds, they are secured by the full faith and credit and taxing power of the State of Oregon. Although ORBAC bonds were designed as a college savings program, the money paid at maturity may be used for any purpose.

MUNICIPAL DEBT ADVISORY COMMISSION

In addition to his other duties, the State Treasurer is a member of the Municipal Debt Advisory Commission (MDAC), for which the Debt Management Division serves as staff. The MDAC's primary missions are to improve the market for Oregon bonds, to assist local governments in selling bonds, and to serve as an information clearinghouse on bond sales. The MDAC responds to local and national inquiries for information about Oregon's debt management experiences. It monitors local and national bond markets and economic trends, and advises agencies on market developments. The Commission also makes municipal bond policy and legislation recommendations to the Legislative Assembly.

MUNICIPAL DEBT ADVISORY COMMISSION (AS OF 12/31/2002)

Patrick H. Clancy , Chair Western Financial Group. LLC	Public Member Term expires 06.30.03
Bernice Bagnall Tualatin Valley Water District	Special Districts Association Term expires 06.30.05
C. Lance Colley City of Portland	League of Oregon Cities Term expires 06.30.06
Edward D. Einowski Stoel Rives	Public Member Term expires 06.30.03
Linda Haglund Deputy State Treasurer	Treasurer's Designee Serves by Position
Michael Long Klamath County	Assoc. of Oregon Counties Term expires 06.30.05
Angie Peterman South Umpqua School District	Oregon School Board Association Term expires 06.30.06

LOCAL GOVERNMENT ASSISTANCE

The Debt Management Division provides technical support and assistance to local governments in the areas of official bond statement preparation and establishment of the dates of bond sales. The division strives to improve existing services and to promote new programs aimed at lowering borrowing costs and improving debt management practices for local governments, particularly in the area of capital planning and debt administration. MDAC maintains a debt profile of all issuing local government units. In 2002, staff provided 161 overlapping debt reports, assisting in the preparation of disclosure documents for bond issues and municipal financial reporting of local governments.

Twice a month, Treasury publishes the Oregon Bond Calendar for MDAC, listing all public state and local sales and enabling state agencies and local governments to minimize scheduling conflicts that may affect the marketability of their issues. The Oregon Bond Calendar also contains information regarding planned, but tentative, competitive and negotiated sales; bond election results; results of recent bond sales; and the Oregon Bond Index, which charts trends in Oregon municipal bond interest rates. The Internet version of the calendar is updated daily and can be viewed at www.ost.state.or.us/divisions/dmd/bondcalendar_index/dbondcalendar.pdf. The calendar may now be received via email by contacting the Debt Management Division of the Oregon State Treasury.

PRIVATE ACTIVITY BOND COMMITTEE

The Debt Management Division also serves as staff to the Private Activity Bond Committee. The State Treasurer or Deputy State Treasurer, a representative of the Department of Administrative Services, and a public member appointed by the Governor serve on the Committee. The Committee's charge is to allocate a portion of the State Private Activity Bond Limit to local governments pursuant to ORS 286.625 and the Tax Reform Act of 1986, as amended.

STATE DEBT POLICY ADVISORY COMMISSION

Additionally, the division serves as staff to the State Debt Policy Advisory Commission (SDPAC). The Treasurer chairs this five-member commission created by the 1997 Legislative Assembly. Commission members include a public member appointed by the Governor, an appointee from both the Oregon Senate and the Oregon House of Representatives, and the Director of the Department of Administrative Services. The SDPAC is charged with advising the Governor and the Legislative Assembly regarding policies and actions that enhance and preserve the State's credit rating while maintaining the future availability of low-cost capital financing. In carrying out this function, the commission must prepare a report to the Governor and the Legislative Assembly by April 1 of even-numbered years as to the available debt capacity of the State of Oregon.

SDPAC met during 2002, hearing testimony and considering policy options related to state debt issuance and the enhancement and preservation of the State's credit rating. SDPAC's most recent report to the Governor and the Legislative Assembly was published on April 1, 2002. The report outlined debt capacity for net tax-supported debt programs and the lottery bond program as well as capacity considerations for non tax-supported debt programs. In addition to the Governor and Legislative Assembly, the report was distributed to state agencies with bonding programs, finance professionals that work with state programs, rating agencies, and various national finance organizations. The commission renewed and strengthened its pledge to support the creation of a state budget stabilization fund.

The Commission published a Legislative Update to its April 1, 2002 report. The Legislative Update is intended to provide the Governor and the Legislative Assembly with a current picture of the State's bonding capacity as they make budget and policy decisions related to debt capacity and good bonding practices in the State of Oregon.

STATE DEBT POLICY ADVISORY COMMISSION
(AS OF 12/31/2002)

Randall Edwards , Chair Oregon State Treasurer	Ex Officio Member Serves by position
Tom Butler Representative, District 60	House of Representatives Appointee Term expires 10.01.03
Charles Starr Senator, District 5	Senate Appointee Term expires 10.01.03
Kathy Taylor Wilkin & Company PC	Public Member Term expires 10.31.03
Mike Greenfield Director, Dept. of Administrative Services	Ex Officio Member Serves by Position



Finance
Division

The Finance Division supports Treasury's mandate to continuously improve internal procedures and to enhance financial services to the state and local governments. The Finance Division is composed of the Cash Management Section, the Controller's Section, and the Relationship Management Team.

CASH MANAGEMENT SECTION

Virtually all funds flowing to and from Oregon state government travel through the Cash Management Section, which functions as the central bank for all state agencies. During 2002, the Cash Management Section processed more than 13.6 million transactions.

State agency receipts, deposited daily at the branches of 22 Oregon commercial banks, are moved by electronic funds transfer to Treasury concentration accounts. Upon notification from the banks, the Cash Management Section credits the deposits to the appropriate agency accounts. During 2002, the Cash Management Section processed nearly 300,000 deposits to 763 state agency accounts.

Checks and warrants written by state agencies are drawn on the Oregon State Treasury. Information on checks and warrants clearing the commercial banking system is transmitted electronically each day to the Cash Management Section and posted automatically to agency checking accounts. The Cash Management Section processed more than 9.8 million checks and warrants during 2002.

State agency funds not required to cover checks and warrants are invested daily in the Oregon Short Term Fund (OSTF), a highly liquid and safe investment pool similar to a money market fund. More than 1,050 local governments in Oregon also participate in the OSTF. The Cash Management Section operates a voice response system that allows local government participants to access their accounts and to request information or transactions via a touch-tone telephone. All investment income net of administrative fees is paid to participants as interest on their deposits in the fund.

Beyond providing traditional banking and cash management services to state agencies and local governments, the Cash Management Section also enables state agencies to process payments and collections electronically to reduce or eliminate the flow of paper, thereby cutting costs. The State Treasury ACH Network (STAN) is one of the most important services offered by the Cash Management Section, saving state agencies and local governments the cost of issuing and processing checks and warrants. STAN is a suite of products and services that allows state agencies to initiate payment and collection transactions through the national automated clearinghouse system. During 2002, more than 3.5 million electronic funds transfers were processed through STAN, an increase of 20 percent over 2001. Additionally, Treasury contracts with a financial institution to process merchant bank card transactions on behalf of the State of Oregon. As a result, the public has the ability to pay state agencies with debit and credit cards for a variety of goods and services. This service has seen a steady increase in usage, from \$76.7 million collected via bank merchant cards in 1998 to \$181.5 million in 2002.

The Cash Management Section also acts as the liaison among debt-issuing agencies, bondholders, and the state's fiscal and co-pay agents, and it coordinates payments of bond principal and interest to the State's bondholders.

Another important role is to ensure that banks accepting deposits of public funds comply with statutory collateralization requirements to safeguard those public monies.

CONTROLLER'S SECTION

The Controller's Section is responsible for providing investment accounting; internal accounting services including billing, revenue collection, payment of invoices; and periodic financial reporting for Treasury and for the Oregon Facilities Authority (OFA), which issues tax-exempt bonds to finance health, housing, education, and cultural projects. This section also prepares Treasury's biennial budget and produces internal management reports to monitor actual revenues and expenditures against the budget.

Investment Accounting (IA) is responsible for recording the purchases, sales, expenses, and income for investments managed by Treasury's Investment Division and approximately 50 external investment managers. Investments totaled \$45.0 billion at market value on December 31, 2002, and range from ordinary stocks and bonds to more complex investments such as alternative equities and real estate. IA also monitors the yield on the Oregon Short-Term Fund and in turn determines the interest rate to be paid to Treasury's banking customers.

IA provides state agencies information regarding their investment holdings and income on a daily, monthly, and annual basis. In addition, IA is responsible to ensure that generally accepted accounting principles are applied to all investments and that external investment managers are also accounting properly for the investments under their control. IA works closely with the State Controller's Division in setting accounting policies relative to investments and in the preparation of the Oregon Comprehensive Annual Financial Report (CAFR).

RELATIONSHIP MANAGEMENT TEAM

Treasury's Relationship Management Team (RMT) advocates for and supports Treasury customers. The RMT meets customers regularly to assess and resolve problems, to gather information about how well the needs of the customers are being met, and to help us know the direction Treasury customers are headed so that the team can position Treasury to meet their changing needs. The RMT gains an understanding of agency business processes and helps the agencies to more effectively accomplish their respective missions through the effective use of cash management tools and processes. This successful service is very popular with Treasury's customers.



Oregon 529
College
Savings
Program

The 1999 Oregon Legislature created the Oregon Qualified Tuition Savings Program to increase the ability of Oregon families and individuals to save for higher education expenses through 529 programs, named after the section in the Internal Revenue Code. The program is a unique investment vehicle that provides significant state and federal tax advantages and more flexibility than many other college saving tools. Families may use the assets at any eligible institution of higher education in the United States – including technical, vocational, and graduate schools – for a wide range of educational expenses, including tuition, fees, books, and room and board expenses.

The program began operation in January 2001, and in the first year Oregonians opened more than 10,000 accounts and invested nearly \$33.5 million. The program has achieved remarkable statewide distribution, attracting participants from all 36 Oregon counties. The program gained national recognition in 2001 when it earned an industry group’s highest rating. *Savingforcollege.com* gave Oregon a five-star rating for the program’s flexibility, investment approach, and state tax benefits.

In 2002, the program expanded and continued to build on its success. Two new private-sector vendors were added to the Program, giving Oregonians more choices for their higher education investments. Accounts grew to nearly 25,000 with assets reaching \$96 million. With the addition of new vendors and increased investment choices, in 2003 the program will be changing its name to the *Oregon 529 College Savings Network*. The network now offers plans available through Strong Capital Management, U.S. Bank, and MFS Investment Management, giving Oregonians the ability to save for college through a variety of 529 college savings vehicles.

The College Savings Network can play a vital role in helping Oregon families achieve the dream of a college education. It is the network’s goal to ensure that as many Oregonians as possible have the ability and knowledge to take advantage of this outstanding college savings opportunity.

OREGON 529 COLLEGE SAVINGS BOARD
(AS OF 12.31.2002)

Randall Edwards , Chair Oregon State Treasurer	Ex Officio Member Serves by Position
Faith Gabelnick President, Pacific University	Public member Term expires 12.31.03
Leslie Lehmann OR Forest Resources Institute	Serves at pleasure of the State Board of Higher Education
Scott Sandbo Pacific Crest Securities	Public member Term expires 12.31.02
Vacant	Public member Term expires 12.31.04

PLAN ACTIVITY (AS OF DECEMBER 31, 2002)

Oregon College Savings Plan/FACTS 529 Plan	Year End 2002
Strong Capital Management, Program Manager	
Total In-State Accounts	20,583
Total Out-of-State Accounts	873
Total Number of Accounts	21,456
Total Assets	\$ 80,465,068

MFS 529 Savings Plan	Year End 2002
MFS Investment Management, Program Manager	
Total In-State Accounts	874
Total Out-of-State Accounts	2,607
Total Number of Accounts (since inception August 2002)	3,481
Total Assets	\$ 15,848,090

Oregon 529 College Savings Network Totals

Total Accounts	24,937
Total Assets	96,313,158

PRESENT AND PAST STATE TREASURERS

NAME	PARTY	TENURE
Randall Edwards	D	Elected 2000
Jim Hill	D	Elected 1992; re-elected 1996
Anthony Meeker	R	Appointed by Governor Goldschmidt; elected 1988
Bill Rutherford	R	Appointed by Governor Atiyeh; elected 1984; resigned
Clay Myers	R	Elected 1976; re-elected 1980; resigned
James A. Redden	D	Elected 1972
Robert W. Straub	D	Elected 1964; re-elected 1968
Howard C. Belton	R	Appointed by Governor Hatfield; elected 1960
Sig Unander	R	Elected 1952; re-elected 1956; resigned
Walter J. Pearson.	D	Elected 1948
Leslie M. Scott.	R	Elected 1940; re-elected 1944
Walter E. Pearson	D	Appointed by Governor Martin
Rufus C. Holman	R	Appointed by Governor Meier; elected 1932; re-elected 1936; resigned
Thomas B. Kay	R	Elected 1924; re-elected 1928; died during term of office
Jefferson Myers	D	Appointed by Governor Pierce
O.P. Hoff	R	Elected 1918; re-elected 1922; died during term of office
Thomas B. Kay	R	Elected 1910; re-elected 1914
George A. Steel	R	Elected 1906
Charles S. Moore	R	Elected 1898; re-elected 1902
Phil Metschan	R	Elected 1890; re-elected 1894
G.W. Webb	D	Elected 1886
E. Hirsch	R	Elected 1878; re-elected 1882
A.H. Brown	D	Elected 1874
L. Fleischer	D	Elected 1870
E.N. Cooke	R	Elected 1862; re-elected 1866
John D. Boon	D	Elected 1858

In accordance with the
Americans with Disabilities Act,
this material is available in
alternative formats and media upon request.
For more information, call
Oregon Relay Telecommunication Services.
Phone: 800.735.1232
TTY: 800.735.2900

A Desktop Publication of the
Oregon State Treasury

Contains Recycled Materials