Office of the State Treasurer

Annual Report 2007

State of Oregon

State Treasurer Randall Edwards

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Office of the State Treasurer

Overview

State Treasurer Randall Edwards is a constitutional officer, a statewide elected official, and director of the Office of the State Treasurer. Edwards serves as the principal 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, and was re-elected for a second term beginning January 2004, is limited to two four-year terms.


Oregon State Treasurer Randall Edwards

The Office of the State Treasurer is a 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 Oregon 529 College Savings Network. The Office of the State Treasurer strives to save taxpayers money and earn the highest possible return on investments.

EXECUTIVE DIVISION

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

INVESTMENT DIVISION

The Investment Division manages on behalf of Oregonians a portfolio with a market value greater than $81 billion. The division manages the Oregon Public Employees Retirement Fund (OPERF), the State Accident Insurance Fund, the Oregon Short Term Fund, and numerous other funds such as the Common School Fund and the Oregon Growth Account. With assets nearly $65 billion, OPERF is the one of the largest pension fund in the United States.

DEBT MANAGEMENT DIVISION

The Debt Management Division provides central coordination for all state-issued debt, including $11.3 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 provides centralized banking and investment accounting services for all state agencies. The division processed more than 14.1 million financial transactions in 2007, including cash deposits, electronic fund transfers, and check redemptions.

INFORMATION SERVICES DIVISON

The Information Services Division is the information technology management center for the agency. This division designs, develops, and maintains technology infrastructures, security protocols, and numerous applications that support the Office of the State Treasurer's management of Oregon's financial assets. Information Services provides networks, applications, telecommunications, and other computing resources that are vital for successfully conducting business between the Treasurer's Office, state agencies, local governments, banks, and other financial organizations throughout Oregon and the United States.

OREGON 529 COLLEGE SAVINGS NETWORK

This network provides a variety of savings plans based on Section 529 of the IRS Code to help make college education affordable for all families. The plans provide 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.

Strategic Planning

VISION STATEMENT
Financial leadership today for Oregon's tomorrow.

MISSION STATEMENT
To provide prudent financial stewardship for Oregon.

OVERVIEW
For many years the Office of the State Treasurer has developed strategic plans to focus on its customers and provide forward-thinking solutions for increasingly complex financial issues. The mission statement and strategic priorities are reviewed annually and each division develops three-year goals and one-year action plans to achieve these goals. This annual planning process mitigates the risks that affect the business of the Treasurer. Focusing on strategic priorities provides overall guidance and direction in these planning processes.

The strategic priorities are to:

- 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 the Office of the State Treasurer
- seek innovative solutions.

These strategic priorities guide the State Treasurer's Office as it continuously searches for better ways to align services with customers and stakeholders and provide innovative financial solutions. Strategic planning allows a future focus by guiding ongoing decision-making, resource allocation, and overall management.

Investment Division

Ron Schmitz, Chief Investment Officer

Overview

The total market value of investments managed by the Office of the State Treasurer at December 31, 2007, was $81.3 billion. Accounts managed by State Treasurer's Office include the Oregon Public Employees Retirement Fund, the Oregon Short Term Fund, the State Accident Insurance Fund, the Common School Fund, and other trust and cash accounts. The Oregon Investment Council directs the activities of Investment Division staff with respect to most funds managed by the Office of the State Treasurer.

The Oregon Public Employees Retirement Fund (OPERF) is the largest fund managed by the Treasurer's Office with $64.9 billion in investments. The OIC has adopted a primary investment goal to exceed the assumed eight percent earnings rate of the Public Employees Retirement System actuary. To achieve the assumed rate of return over time, OPERF maintains an equity-oriented portfolio. This risk/return profile means that fund governance is based on a long-term return investment horizon. In bull market years like 2003 through 2007, results will be strong. Nonetheless, it should be noted that during bear market environments OPERF returns will be much less favorable, as was the case from 2000 through 2002.

The Oregon Short Term Fund (OSTF) is the second-largest pool of investments managed by the Treasurer's Office, with a value of $10.7 billion at year end 2007. The OSTF Board works with the Oregon Investment Council to set the operating and investment parameters employed by the State Treasurer's Office.

The State Accident Insurance Fund (SAIF) is the third-largest account managed by the Treasurer's Office, with a value of more than $3. 7 billion at year end 2007. Because SAIF is a regulated operating insurance company, the asset allocation must be consistent with the needs and constraints of the company's business. As such, the asset allocation has a considerable bond portfolio with an average maturity consistent with the expected liability stream.

The Common School Fund (CSF) is the fourth-largest account managed by the Treasurer's Office. At year end 2007, CSF assets reached $1.2 billion. The CSF asset mix takes into account the State Land Board's distribution policy as well as the long-term expectations for capital market returns.

The Office of the State Treasurer 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.

TOTAL PORTFOLIO SIZE

(MARKET VALUE IN MILLIONS)

FUND	12/31/07	12/31/06	12/31/05	12/31/04	12/31/03	12/31/02
Public Employees Retirement Fund (OPERF)	$64,870.0	$60,704.7	$54,073.3	$48,687.8	$43,609.3	$33,388.0
Oregon Short Term Fund (OSTF) [1]	$10,344.5	8,767.2	7,698.3	8,073.0	8,330.4	7,749.5
State Accident Insurance Fund (SAIF)	$3,673.6	3,483.1	3,221.3	3,062.8	2,861.0	2,577.4
Common School Fund (CSF)	$1,153.4	1,108.7	992.9	910.9	804.9	665.2
Oregon War Vet Bond Sinking Fund	$195.1	228.7	118.6	184.5	178.7	256.8
DCBS Fund	$298.1	294.0	241.6	123.3	157.6	97.3
DAS Funds	$135.1	109.6	80.3	70.8	73.8	56.8
Higher Education Endowment Fund	$76.9	75.5	63.5	63.2	58.2	47.4
Other Funds	$327.1	475.0	426.0	414.9	527.8	378.4
TOTAL	$81,297.4	$75,236.0	$66,915.8	$61,591.2	$56,601.7	$45,216.8

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

OPERF INVESTMENT ALLOCATION SUMMARY

	OIC Target Allocations	Actual %	Market Value 12/31/07
Total Cash	0-3 %	1 %	$ 603,334,000
Total Fixed Income Securities	22-32	25	15,635,038,000
Total Real Estate	8-14	7	4,702,018,000
Domestic Equities	14-24	25	16,122,357,000
Non-US Equities	14-24	19	12,151,414,000
Global Equities	5-11	8	4,838,529,000
Private Equity	12-20	14	8,770,408,000
Total Equities	60-70	66	41,882,708,000
Opportunity Portfolio	0-3	1	443,107,000
Total OPERF Regular Account	100	100	63,266,205,000
Total Variable Fund	N/A	N/A	1,603,780,000
Total OPERF		100 %	$ 64,869,985,000

Investment Division

Oregon Investment Council

Oregon Revised Statutes (ORS) 293.706 establishes the Oregon Investment Council (OIC), which consists of five voting members, four of whom are appointed by the Governor and subject to Senate confirmation. Four members, who are qualified by training and experience in the fields of investment or finance, are appointed by the Governor, and the State Treasurer is a member by position. In addition, the Director of the Public Employees Retirement System is also an ex officio member of the OIC, although non-voting.

The OIC is charged with formulating policies for the investment and reinvestment of money in the investment funds under its control, 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 money in the investment funds is invested and reinvested as productively as possible. Furthermore, the investments of those funds shall be managed as a prudent investor would, under the prevailing circumstances and in 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 diversify 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.

OREGON INVESTMENT COUNCIL

(AS OF 12.31.07)

Richard Solomon, Chair	Appointed by Governor Term expires 01.31.10
Randall Edwards	Serves by position State Treasurer
Harry Demorest	Appointed by Governor Term expires 01.22.10
Katy Durant	Appointed by Governor Term expires 09.19.10
Keith Larson	Appointed by Governor Term expires 09.30.11
Paul Cleary	Serves by position (non-voting) PERS Director

The OIC approves asset classes in which State of Oregon money is invested. Current asset classes approved for the purchase of investments include the Oregon Short Term Fund, fixed income, real estate, public equities, and private equity. The OIC must approve in advance the purchase of investments in a new asset class not described above. The council regularly reviews various aspects of investment policy, performance of investment managers and accounts, asset allocations, and a large number of investment proposals and recommendations.

Under the OIC's open-door policy, investment officers employed by the Office of the State Treasurer will hear and consider investment proposals and solicitations from any person, firm, or partnership that submits a proposal or solicitation in good faith. This policy, however, does not require that the OIC purchase the proposed investment.

The OIC meets regularly and, in compliance with ORS 192.630-660, holds its meetings in a public forum. Public notice, including a meeting agenda, is provided to interested persons. Written minutes and audio-recordings are taken of all meetings.

Investment Division

Domestic Equities

A downturn in U.S. consumer confidence and waning business sentiment in Europe are signaling a dim outlook for 2008. The odds of a U.S. recession have been picking up. The U.S. Federal Reserve has continued cutting interest rates, moving the fed funds target rate to 4.25 percent. Continued weakness in U.S. housing and mortgages pushed the U.S. dollar to record lows against the euro and a 26-year low against the British pound.

U.S. equity markets finished on a low note as the S&P 500 returned -3.33 percent in the fourth quarter. For calendar year 2007, the Domestic Equity Fund returned 5.34 percent versus 5.14 percent for the Russell 3000 benchmark. While active managers as a whole performed better in 2007 relative to 2006, quantitative managers faced a significant head-wind. In early August, the equity markets saw a dramatic deleveraging of quant trades, coined the "quant liquidity crunch." This deleveraging resulted in negative returns to most standard quant factors and made it clear that many popular signals and risk factors had become over-crowded. All four of the quantitatively-based Domestic Equity Fund managers lagged their benchmarks in the calendar year. Overall, however, seven of the 13 active equity managers in the Domestic Equity Fund stable met or exceeded their respective benchmarks in 2007.

After several years of small cap stocks outperforming large cap stocks, and value stocks outperforming growth stocks, 2007 is poised to define itself as an inflection point in market leadership. The Russell 1000 Growth handily bested the 1000 Value (11.81 percent vs. -0.17 percent) and the Russell 1000 bested the Russell 2000 (5.77 percent vs. -1.56 percent). Additionally, many investors have started to favor "quality" stocks, or those associated with high dividend yields, ROE's and S&P high quality ratings.

Two new managers were added to the Domestic Equity Fund stable in 2007: Aletheia Research and Management in the large cap growth space, and Next Century in the micro cap growth space. One manager was terminated (Nicholas-Applegate in the micro cap growth space) and two were re-assigned global mandates (AllianceBernstein and Goldman Sachs).

DOMESTIC MANAGERS

(AS OF 12/31/07)

Manager		Total Market Value w/ Accrual (in thousands)
AJO		986,641
AQR		251,789
Aletheia		503,221
Ark Asset Management		434,114
BGI Russell 1000 Alpha Tilts Fund		1,200,584
BGI Russell 1000 Growth Index Fund		2,718,952
BGI Russell 1000 Value Index Fund		2,001,247
Boston Company		247,232
Franklin Portfolio Associates		1,218,042
Mazama Capital		303,230
MFS Institutional		1,051,936
Next Century		147,104
Northern Trust Company		1,085,968
PIMCO		1,256,073
Wanger Asset Management		1,245,923
Wellington Management Company		430,143
Wells Capital		1,033,949
Other		6,164
Total Regular Account	$	16,122,314
BGI Alpha Tilts		523,020
Goldman Sachs		497,705
PIMCO		531,250
Other		51,804
Total Variable Account	$	1,603,799
Total Domestic Equities	$	17,726,093

Investment Division

International and Global Equities

Since the bull market resumed in 2003, investors have preferred non-U.S. markets and emerging markets in particular. Corporate and governmental reform, strong economies, and the increase in mergers and acquisitions have bolstered the appeal of international stocks.

The International Equity Fund lost some relative ground in 2007, returning 16.03 percent versus the MSCI All Country World Index ex-U.S. (gross) performance of 17.12 percent. Five of the 12 active managers out-performed their respective benchmarks.

Although not as impressive as 2006, the non-U.S. developed markets did very well, with the MSCI World ex-U.S. index (gross) posting a return of 12.92 percent for the year. Europe lead the developed non-U.S. markets as the MSCI Europe index posted a return of 14.40 percent. The MSCI United Kingdom index posted a return of 8.39 percent. Japan lagged non-U.S. developed markets as the MSCI Japan index posted a return of -4.15 percent. Growth stocks led value stocks as the MSCI ACWI ex-U.S. Growth and Value indices returned 21.03 percent and 12.31 percent, respectively.

For the fifth year in a row, emerging markets bested the developed world, with the MSCI Emerging Market index posting a return of 39.78 percent. The BRIC countries (Brazil, Russia, India, and China) continue to lead the emerging markets (returning 59.06 percent), with the MSCI index return for each country up 79.99, 24.79, 73.11, and 66.24 percent, respectively. Energy reserves in Russia, commodities in Brazil, and cheap labor and net exports in China and India have been largely responsible for the rapid growth.

AQR was hired for an MSCI World ex-U.S. mandate. One manager was terminated (Marvin & Palmer) and one was re-assigned (AllianceBernstein).

The Global Equity Fund was first funded in February with a re-assignment of AllianceBernstein. Goldman Sachs was funded in May. Therefore, no calendar year performance is available for the Global Equity Fund.

INTERNATIONAL MANAGERS

(AS OF 12/31/07)

Manager		Total Market Value (in thousands)
Acadian Asset Management	$	1,253,999
AQR		1,052,487
Arrowstreet Capital		1,195,904
Arrowstreet EMK		226,282
Brandes Investment Partners		1,191,411
BGI International Alpha Tilts		1,236,107
Fidelity Investment Management		1,334,833
Genesis Asset Management Ltd.		584,097
Lazard Asset Management		1,087,195
Pictet		431,722
TT International		1,324,459
Walter Scott Partners		1,232,356
Other		561
Total	**$**	**12,151,413**

GLOBAL MANAGERS

(AS OF 12/31/07)

Manager		Total Market Value (in thousands)
AllianceBernstein		3,046,415
Goldman Sachs		1,792,113
Total	**$**	**4,838,529**

Investment Division

Private Equity

The Private Equity Portfolio continued to produce strong results in 2007, generating a five-year net internal rate of return of 26.0 percent. However, for the private equity industry as a whole, 2007 will be remembered as "It was the best of times. It was the worst of times." The first half of the year continued and extended the robust and record setting market environment experienced during 2006. However, following the onset of the global credit crunch in July, the second half of 2007 saw a broad and rapid decline of liquidity, debt availability, and new transaction volume. As lenders tolerance for risk decreased, finding debt financing for large transactions became virtually impossible. New transactions that were able to obtain debt financing did so only at substantially higher interest rates, and with more debt covenants attached. These market conditions have continued and worsened well into 2008. For the calendar year 2007, OPERF received distributions of more than $2.1 billion while meeting capital calls of $3.3 billion. By year end, private equity investments represented 14.0 percent of the total asset base of OPERF.

Throughout 2007, the OIC and staff have been busy recommitting to new funds being raised by many of the successful existing general partners with whom OPERF has had long-term relationships, as well as selectively partnering up with new venture capital and private equity firms that are complementary to the existing Private Equity Portfolio.

As of December 31, 2007, the Private Equity Portfolio had generated a net 17.7 percent internal rate of return since its 1981 inception. The year-end estimated fair market valuation was approximately $8.8 billion with $7.5 billion in unfunded commitments, compared with respective figures of $6.5 billion and $6.3 billion at year-end 2006.

The OIC authorized the following 29 new commitments to the Private Equity Portfolio in 2007, for a total of nearly $4.8 billion.

PRIVATE EQUITY
2007 COMMITMENTS

Affinity Asia Pacific Fund III	$100 million	HarbourVest Partners 2007 Direct Fund	$100 million
Terra Firma Capital Partners III	150 million	WLR Recovery Fund IV	200 million
OCM Principal Opportunities Fund IV	100 million	Warburg Pincus Private Equity X	400 million
Aquiline Financial Services Fund	200 million	TCW Crescent Mezzanine Partners V	200 million
Credit Suisse OIF Annex	50 million	Pine Brook Capital Partners	100 million
Apax Europe VII	200 million	Oak Hill Capital Partners III	300 million
TPG Star	100 million	Endeavour Capital Fund V	65 million
Lion Capital Fund II	203 million	Apollo Investment Fund VII	400 million
MatlinPatterson Global Opp. Partners III	150 million	Technology Crossover Venture VII	75 million
KKR Asia Fund	100 million	Essex Woodlands Health Ventures Fund VIII	100 million
OCM Opportunities Fund VII	150 million	VantagePoint Venture Partners II	50 million
Gores Capital Partners II	100 million	KKR European Fund III	500 million
New Mountain Partners III	100 million	CVC European Equity Partners V	291 million
Vector Capital IV	50 million	CVC Capital Partners Asia III	100 million
CCMP Asia Opportunity Fund III	150 million		

OPERF Performance Summary

TOTAL OPERF PERFORMANCE

	Year ended 12/31/07	3 years ended 12/31/07	5 years ended 12/31/07
OPERF Regular Account	9.66%	12.69%	14.98%
Policy Benchmark	10.51%	11.71%	14.29%

OREGON SHORT TERM FUND

	Year ended 12/31/07	3 years ended 12/31/07	5 years ended 12/31/07
Oregon Short Term Fund	5.41%	4.53%	3.26%
91-day T-Bill	5.00%	4.30%	3.07%

FIXED INCOME PORTFOLIO

	Year ended 12/31/07	3 years ended 12/31/07	5 years ended 12/31/07
OPERF Total Fixed Income	4.84%	4.78%	5.99%
Custom Fixed Income 90/10 Benchmark	6.34%	4.71%	4.91%

REAL ESTATE PORTFOLIO

	Year ended 12/31/07	3 years ended 12/31/07	5 years ended 12/31/07
OPERF Real Estate Portfolio	10.20%	23.00%	21.39%
NCREIF Index (gross of fees)	17.30%	18.03%	14.79%

EQUITIES

Domestic Equities	Year ended 12/31/07	3 years ended 12/31/07	5 years ended 12/31/07
OPERF Domestic Equities	5.34%	8.98%	14.17%
Russell 3000 Index	5.14%	8.89%	13.63%
International Equities			
OPERF International Equities	16.03%	20.47%	24.58%
MSCI ACWI Ex US Free	17.12%	20.37%	24.52%

PRIVATE EQUITY

	Year ended 12/31/07	3 years ended 12/31/07	5 years ended 12/31/07
OPERF Private Equity Portfolio	25.76%	28.00%	21.48%
Russell 3000+300bps (lagged 1 qtr)	19.64%	17.07%	20.32%

Investment Division
Other Equity Funds

State Accident Insurance Fund

Manager	Total Market Value w/ Accrual as of 12/31/07 (in thousands)
BGI Russell 3000 Index Fund	$ 387,030
BGI Russell 3000 Alpha Tilts Fund	190,186
Wellington Management	1,523,927
Western Asset Management	1,532,987
Other	39,463
Total	$ 3,673,593

Common School Fund

Manager	Total Market Value w/ Accrual as of 12/31/07 (in thousands)
BGI Russell 3000 Alpha Tilts Fund	$ 553,384
BGI International Alpha Tilts Fund	254,711
Wellington Management	155,085
Western Asset Management	156,415
Other	33,776
Total	$ 1,153,371

Investment Division

Fixed Income

The Fixed Income Section internally manages $1.106 billion in fixed-income assets for seven agencies. The range of investments includes corporate, government, and international instruments with maturities from one to 10 years in most instances, and quality varying from "Aaa" to high yield. The portfolio data on the following pages represent the funds that the Fixed Income Section manages. In addition, the Fixed Income Section oversees the management of approximately $15.635 billion in fixed-income assets by six outside managers for three agencies.

OPERF FIXED INCOME INVESTMENT STRATEGY

At the close of 2007, 10-year U.S. Treasuries yielded about 4.03 percent and 2-year U.S. Treasuries yielded about 3.05 percent, for a slightly inverted yield curve. See the Short Term Fund section for additional market commentary.

The bond market posted positive absolute returns for 2007 although all sectors underperformed U.S. Treasuries. The OPERF fixed-income fund returned 4.84 percent for 2007 versus the State of Oregon Custom Fixed Income 90/10 Benchmark (90 percent Lehman Brothers U.S. Universal Index and 10 percent Citigroup Non-U.S. World Government Bond Index - Hedged) return of 6.34 percent, an aggregate underperformance by the managers of 150 basis points.

By sector, investment-grade corporate bonds outperformed Treasuries by 1.18 percent for the year. Mortgage-backed securities outperformed Treasuries by 2.14 percent for the year. High yield corporate bonds outperformed Treasuries by 8.77 percent for the year. Emerging-market bonds outperformed Treasuries by 9.10 percent for the year.

FIXED INCOME DURATION-ADJUSTED EXCESS RETURNS VS. US TREASURIES (%)

Fixed Income Indices	4Q07	1-Year
US Aggregate	-0.78	-2.06
Aaa	-0.32	-1.30
Aa	-1.96	-4.17
A	-2.69	-5.50
Baa	-2.87	-5.17
Agencies	-0.12	-0.56
ABS	-4.08	-6.34
CMBS	-2.17	-4.35
MBS Fixed Rate	-0.21	-1.77
Investment grade Credit	-2.36	-4.64
Corporate	-2.62	-5.23
Industrials	-2.05	-3.83
Utility	-2.27	-4.81
Finance	-3.33	-6.87
Non-Corporate	-0.82	-1.33
High Yield	-5.38	-7.77
Ba	-4.12	-6.56
B	-4.46	-6.02
CCC	-7.49	-9.87
Emerging Markets	-2.70	-4.57

Source:BlackRock

Fixed Income

OPERF FIXED INCOME PERFORMANCE COMPARISONS

Investment Manager		Total Market Value w/ Accrual as of 12/31/07 (in thousands)	Performance 1 yr	3 yrs	5 yrs
Wellington Management Company	$	2,966,329	5.30 %	4.82 %	5.94 %
Western Asset Management		3,007,894	2.38	4.71	7.12
Alliance Capital Management		2,991,689	5.78	4.99	5.82
BlackRock		3,006,793	5.58	4.58	4.94
Fidelity Investment Management		2,961,969	4.74	4.84	6.33
BGI U.S. Debt Index Fund		700,364	7.06	4.63	4.50
Total	$	15,635,038			

OTHER EXTERNALLY MANAGED FIXED INCOME FUNDS

Investment Manager		Total Market Value w/ Accrual as of 12/31/07 (in thousands)	Performance 1 yr	3 yrs	5 yrs
State Accident Insurance Fund					
Wellington Management Company	$	1,523,927	5.14 %	4.30 %	4.50 %
Western Asset Management		1,532,987	5.93	4.89	5.63
Total	$	2,866,743			
Common School Fund					
Wellington Management Company	$	155,085	5.50 %	4.48 %	4.60 %
Western Asset Management		156,415	4.18	4.72	6.06
Total	$	311,500			

Investment Division

Other Internally Managed Fixed Income Funds

VETERANS' BOND PORTFOLIO PROFILE

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

Market Value (in thousands) as of 12/31/07, excluding cash	Performance 1 yr	3 yrs	5 yrs
$195,073	3.91 %	4.13 %	3.23 %

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 money 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 (in thousands) as of 12/31/07, excluding cash	Performance 1 yr	3 yrs	5 yrs
$223,634	5.52 %	4.25 %	4.04 %

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 (in thousands) as of 12/31/07, excluding cash	Performance 1 yr	3 yrs	5 yrs
$181,007	5.82 %	4.37 %	4.41 %

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 (in thousands) as of 12/31/07, excluding cash	Performance 1 yr	3 yrs	5 yrs
$128,536	4.77 %	3.74 %	3.99 %

DEPT. OF CONSUMER AND BUSINESS SERVICES FUND

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

Market Value (in thousands) as of 12/31/07, excluding cash	Performance 1 yr	3 yrs	5 yrs
$117,117	5.19 %	4.12 %	4.08 %

Investment Division

Real Estate

The Oregon Investment Council manages the growth and risk in real estate by organizing and diversifying the portfolio into four main investment classifications: core real estate, value added real estate, opportunistic real estate, and publicly traded real estate investment trusts, more commonly known as REITs.

Although public equities hit their high-water mark in the fourth quarter 2007, the underlying fundamentals within the commercial real estate market, consisting of rental rates, net operating income and vacancy rates, continued to remain strong in all real estate asset classes and property types through most of 2007. In the closing quarter of the year, signs of cooling were clearly evident. A recession in housing, an unprecedented loss of liquidity across most of the credit markets, elevated oil prices and decreased consumer spending pushed the economy into the beginning of an economic recession cycle. After several strong years of performance, the real estate asset class began to show signs of retrenchment. The NCREIF index appreciation slowed markedly in the fourth quarter as credit markets became increasingly constrained and a sharp pullback in transaction activity occurred throughout property markets.

By year-end 2007, real estate market conditions could be best characterized by balanced operations and weakening capital markets. Income returns remained steady, but year-end property valuations were generally flat, resulting in total return levels less than the previous few years. Not surprisingly, capital flows into the real estate asset class eased by year-end 2007 and redemption queues were beginning to build within many of the open-end real estate funds as investors took advantage of both market timing exits and portfolio rebalancing opportunities. Much of the appreciation in real estate values during the previous three-year period was a direct result of: (1) investors accepting lower equity yields upon acquisition; (2) the ready availability of debt financing, and; (3) higher leverage limits. By year-end 2007 the market began to see a flattening of real estate appreciation, debt financing become considerably more difficult and, when available, with stricter loan covenants for borrowers.

OPERF's total private real estate portfolio investment return of 17.4 percent for 2007 nearly matched the fund's NCREIF benchmark of 17.3 percent. Over the trailing three- and five-year periods, OPERF's composite real estate performance (net of fees) was 23.0 and 21.4 percent, respectively. This performance exceeded the NCREIF benchmark (gross of fees) for the three-year and five-year periods by 5.0 and 6.6 percent, respectively. The direct core portfolio net returns, however, exceeded the NCREIF benchmark with a 20.1 percent return. The value-add portfolio returned 15.4 percent in 2007.

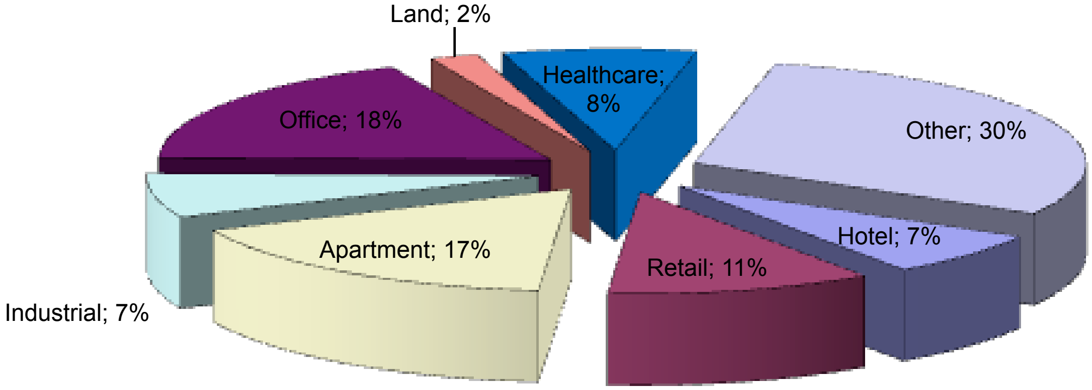
In order to manage risk, the OPERF real estate portfolio is broadly diversified by real estate asset class or property type, use of leverage, and geographic location. Global investments include funds without allocation restraints to international investments as well as funds dedicated to real estate assets specifically targeted at Europe, India, Pan-Asia and Mexico. The pie charts on the next page illustrate the diversification and distribution of OPERF real estate.

Real Estate

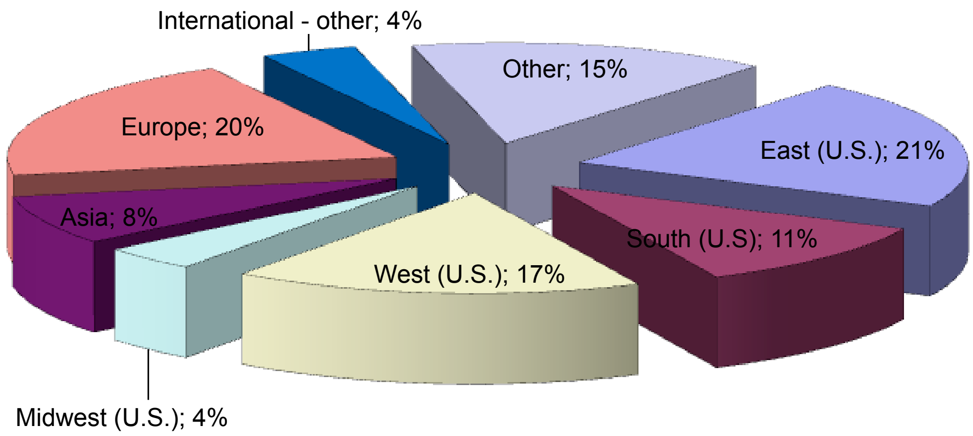
PERFORMANCE

	1 year	3 years	5 years
Total OPERF Private Real Estate Return (Net)	17.4%	27.3%	21.3%
NCREIF Index (Gross)	17.3%	18.0%	14.8%
Total OPERF Domestic Public REITS	(13.7%)	8.9%	20.41%
NAREIT Equity Index	(15.7%)	8.5%	18.2%
Total OPERF Global REITS	(4.8%)	N/A	N/A
EPRA/NAREIT Global (ex-US) Equity Index	(1.0%)	19.8%	28.9%
Total OPERF Real Estate Portfolio	10.2%	23.0%	21.4%

OPERF PROPERTY SECTOR DIVERSIFICATION



OPERF GEOGRAPHIC DISTRIBUTION



Investment Division

Short Term Fund

RESULTS OF OPERATIONS

Distributed earnings for the Oregon Short Term Fund (OSTF) for the year ended December 31, 2007, were $ 521.9 million compared to $411.3 million for the same period in 2006. This rise in earnings was generally due to the increase in OSTF assets and a widening in risk premiums for non-US Treasury securities resulting in a higher average monthly yield of 5.18 percent in 2007 versus 4.78 percent in 2006. The OSTF rate at December 31, 2007, settled at 4.74 percent compared to 5.14 percent from December 31, 2006, a decrease of 40 basis points.

The first half of 2007 was "business as usual" in the fixed income markets. However, the second half of the year witnessed a surge in volatility as shock waves from the US subprime-mortgage crisis impacted global investors, especially in the fourth quarter. US Treasuries were the strongest performers in the fixed income markets, as investors fled to the safety of the highest quality assets and credit spreads widened sharply.

Prior to the subprime crisis, spreads on most fixed income sectors had rested at levels well below normal for two to three years. By year-end, spreads on investment grade corporate bonds, high yield bank loans and commercial mortgage-backed securities (CMBS) had gapped out to more than one standard deviation above their long-term historical norms. In November – the most turbulent month of the year – U.S. investment grade corporates experienced their largest monthly spread widening ever.

Financial institutions worldwide posted nearly $100 billion in mortgage losses in 2007, many related to write-downs on subprime asset-backed securities (ABS) and collateralized debt obligations (CDOs). ABS and CDOs had been the main sources of funding for the subprime market. Subprime-related asset-backed securities bundle together multiple subprime home loans – typically numbering in the thousands – and then redistribute their cash flows and risks into various slices, or tranches, whose ratings range from AAA through BBB. Many CDOs, in turn, bundle together the lowest-rated ABS, redistributing those cash flows into tranches ranging from super senior to equity. The equity classes represent the most highly concentrated form of subprime risk. Financial giants Citigroup, UBS, and Merrill Lynch were particularly hard hit by the subprime crisis. Their write-downs were severe enough to lead to the resignation of all three firms' CEOs. Nevertheless, bond ratings for most banks and brokers remain in the AA and A quality tiers, reflecting still-solid overall credit health.

In a continuing effort to restore confidence in the financial markets, the Federal Reserve lowered key rates beginning with a 50 basis points (bps) cut in the discount rate only, to 5.75%, on August 17, 2007, thus narrowing the spread above the federal funds rate to 50 bps. The federal funds rate was cut three times in 2007, beginning with a 50 bps cut on September 18, 2007, and two 25 bps cuts on October 31 and December 11, for a total of 100 basis points, ending the year at 4.25%, the lowest level since 2005. The discount rate was also reduced by 25 bps with each of the fed funds rate reductions.

Additionally, in December, the Federal Reserve, Bank of Canada, Bank of England, European Central Bank and Swiss National Bank announced joint measures to alleviate pressure in the very short term funding markets. The measures included both temporary auction facilities to provide commercial banks with an avenue for obtaining cheap funding and temporary reciprocal currency agreements. Interbank and short term commercial borrowing costs had climbed since the acceleration of the crisis in August.

Adding it all up, the impact of the subprime crisis and the housing markets to the economy and to financial institutions will continue to pressure the markets. The Federal Reserve will continue to provide liquidity to the markets, as needed, and US Treasury rates are likely to continue to trend down. If economic data exhibit weakness and financials come under pressure, spreads will widen even as US Treasuries decline in yield. Staff anticipates an increase to weighted average maturity via high quality floating (and fixed) rate corporate bonds and fixed rate agency securities.

RELATIVE PERFORMANCE

For the year ended December 31, 2007, the OSTF annual total return was 5.41 percent and outperformed the 91-day U.S. Treasury bill by 41 bps (0.41 percent), compared to an out-performance of 20 bps (0.20 percent) in 2006.

ASSET ALLOCATION

Holdings of local bank deposit instruments were $70.45 million at December 31, 2007, compared to $92.15 million at the end of the prior year, and were 0.659 percent and 0.098 percent of the OSTF, respectively.

Total corporate indebtedness (commercial paper and corporate notes) was at $4.684 billion (46.840 percent) at December 31, 2007 compared to $4.621 billion (49.119 percent) in total corporate indebtedness at the end of the prior year. U.S. Treasury and Agency securities held were $5.614 billion (52.502 percent) at December 31, 2007, compared to $4.694 billion (52.502 percent) on December 31, 2006.

PORTFOLIO MATURITY

The allocation of the portfolio maturing less than 93 days was 78.854 percent on December 31, 2007, compared to 62.4 percent on December 31, 2006. The weighted average days to maturity for the portfolio was 167 days (adjusted for floating rate securities coupon reset dates) on December 31, 2007, compared to 135 days at December 31, 2006. The weighted average days to maturity unadjusted for floating rate securities for the portfolio was 288 days at December 31, 2007, compared to 189 days at December 31, 2006.

SHORT TERM FUND BOARD

The Oregon Short Term Fund Board advises and consults with the Oregon Investment Council and the Office of the State Treasurer 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 12.31.07)

Harvey Rogers, Chair	Public Member Term expires 03.31.08
Linda M. Haglund Deputy State Treasurer	Treasurer Designee Serves by position
Deanne Woodring	Public Member Term expires 06.30.10
Robert W. Lowry	School District Officer Term expires 05.14.08
Michelle Hawkins	County Finance Officer Term expires 11.30.10
Robert W. Woodruff	Public Member Term expires 02.28.10
Gary Wallis	City Finance Officer Term expires 04.09.10

Investment Division

Oregon Savings Growth Plan

The State of Oregon Deferred Compensation Plan, known as the Oregon Savings Growth 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, supported by the State Treasurer's staff. The program offers nine investment options ranging from lower to higher levels of investment risk. Plan participants individually 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 2007, the plan's assets were $1.038 billion, up $79 million from the previous year. Assets as of December 31, 2007, and the plan's performance history, are shown in the first table on the next page.

At year-end 2007, a total of 22,273 active and retired state and local government employees participated in the Oregon Savings Growth Plan. Voluntary local government participation in the plan began in 1999. At year end, local government balances were approximately $61 million.

Effective November 1, 2001, the Oregon Investment Council restructured the investment funds underlying the Oregon Savings Growth Plan 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 borne by participants and a much wider selection of investment funds for the Oregon Investment Council. A list of the investment funds included in each option is listed in the second table on the following page.

For the plan's assets, 2007 was a good year. All options had positive returns. The International Equity option was the best performer again with a one-year return of 12.22 percent. U.S. equities were led by the Large Cap Growth option which returned 9.75 percent for the year.

Oregon Savings Growth Plan

ASSETS AND RETURNS BY INVESTMENT OPTION (AS OF 12.31.07)

Investment Option	$ Invested (M)	% of Fund	Annualized Returns 1 year	3 years	5 years
Short-Term Fixed	$59,278	5.7%	4.94 %	4.27 %	2.88 %
Benchmark: 3-month Treasury Bill			5.00	4.30	3.07
Stable Value	$135,799	13.2%	4.46	4.26	4.09
Benchmark:3-month Treasury Bill			5.00	4.30	3.07
Intermediate Fixed Income	$55,421	5.3%	5.07	3.99	4.53
Benchmark: Lehman Brothers Aggregate			6.97	4.56	4.42
Balanced	$196,238	18.9%	5.76	7.83	10.98
Benchmark: Balanced Blended Index			6.25	8.01	10.99
Large Cap Value Equity	$107,740	10.4%	0.83	9.41	14.66
Benchmark: Russell 1000 Value			-0.17	9.32	14.63
Total Market Equity Index	$116,704	11.2%	4.96	8.67	13.34
Benchmark: Russell 3000			5.14	8.89	13.63
Large Cap Growth Equity	$82,548	7.9%	9.75	8.08	12.06
Benchmark: Russell 1000 Growth			11.81	8.68	12.10
International Equity	$140,444	13.5%	12.22	18.33	21.90
Benchmark: MSCI EAFE			11.17	16.83	21.59
Small/Mid Cap Equity	$144,452	13.9%	3.87	8.82	17.18
Benchmark: Russell 2500			1.38	8.38	16.99
Fund Total Assets	$1,038,624	100%			

DEFERRED COMPENSATION VENDORS

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

Stable Value Option
SSgA GSTIF
Dwight Asset Management

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

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

Total Market Equity Index
BGI Russell 3000 Fund

Large Cap Growth Equity Option
BGI Russell 1000 Growth Fund
American Funds AMCAP Fund
Wells Fargo Advantage Fund
Legg Mason Aggressive Growth Fund

International Equity Option
Artisan International Fund
GMO Foreign III Fund
Marsico International Fund
Oakmark International Fund

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

Investment Division

Oregon Growth Account

The Oregon Growth Account (OGA) was created within the Education Endowment Fund (now the Education Stability Fund) during the 1995 Legislative Session. In accordance with the relevant provisions of the Oregon Constitution, the Education Stability Fund receives 18 percent of Lottery proceeds. Of the Lottery proceeds placed in the Education Stability Fund, 10 percent flow into the OGA in accordance with ORS 348.702.

Although the purpose of the OGA is to earn returns for the Education Stability Fund by making investments in or providing seed capital for emerging growth businesses, as stated in ORS 348.702(5), all declared earnings from the OGA are directed by ORS 348.696(1) to the Commercialized Research Fund created in ORS 284.725.

In accordance with ORS 348.707(4), the State 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. The Office of the State Treasurer acts as staff to the OGA Board. Staff may periodically submit new or updated investment policies and procedures to the OGA Board for review and comment. The investment policies and procedures reflect the following principles:

1. The purpose of the OGA is to earn returns for the ESF by making investments in or providing seed capital for emerging growth businesses. The OGA investment program is expected to have an economic development impact by the nature of the investments being made including, but not limited to, generating significant high skill, high wage employment and facilitating technology transfers related to academic research, discoveries or developments for the purpose of commercialization of a technology, product, process or innovation.

2. OGA funds will be invested only through external managers/partners.

3. Subject to the requirements stated in ORS 348.703(3) that the management company invest in Oregon an amount that is at least equal to the amount of the principal transferred from the Oregon Growth Account to the management company for investment, Managers/partners will be given full discretion in making investments, i.e., after funds are allocated, the manager/partner is totally responsible for the investment of these funds within the partnership's investment guidelines.

OREGON GROWTH ACCOUNT BOARD

(AS OF 12.31.07)

Randall Edwards, Chair	Serves by position State Treasurer
Richard N. Bader	Term expires 02.09.10 VC/Emerging Growth
Timothy C. Phillips	Term expires 07.16.09 VC/Emerging Growth
Stan Timmermann	Term expires 06.30.10 Public Member
Steven L. Vincent	Term expires 07.31.09 Public Member
Malia Wasson	Term expires 06.30.09 Public Member
Vacant	Term expires 06.30.10 VC/Emerging Growth

Through legislative action in 2001, the Oregon Resource and Technology Development Account was merged into the Oregon Growth Account, creating within the OGA the Oregon Resource and Technology Development Subaccount. The Subaccount is managed by Northwest Technology Ventures.

Through December 2007, the Board made the following commitments to private equity funds:

Vintage Year	Fund Name	Headquarters	Fund Type	Commitment
2007	Adventure Fund	Portland	Growth equity, sector focus	$ 3,000,000
2006	Buerk Dale Victor II	Washington	Buy-outs, growth equity	$ 5,000,000
2007	DFJ Frontier II	California	Early VC	$ 5,000,000
1999	Endeavour Capital Fund III	Oregon	Buy-outs, middle market	$ 7,000,000
2007	Epic Venture Partners IV	Utah	Seed, early stge venture	$ 5,000,000
2004	Fluke Venture Partners II	Washington	Venture, early stage growth	$ 2,000,000
2005	Madrona Venture III	Washington	Venture, early stage IT	$ 5,000,000
2001	Northwest Technology Ventures	Oregon	Seed, early stage venture	$ 14,000,000
2007	Oregon Angel Fund	Oregon	Seed stage	$ 3,000,000
2005	OVP Venture Partners VII	Oregon	Venture, early stage IT	$ 7,000,000
2004	Riverlake Partners I	Oregon	Buy-outs, lower mid-market	$ 2,000,000
1999	Smart Forest Ventures	Oregon	Venture, early stage	$ 6,500,000
1999	Tamarack Mezzanine Partners	Oregon	Mezzanine	$ 1,369,921
2002	Timberline Annex Fund	Washington	Follow on fund	$ 500,000
1999	Timberline Venture Partners	Washington	Venture, early stage IT	$ 5,000,000
TOTAL				$ 76,369,921

Oregon Revised Statutes 348.703(6) states: "The State Treasurer shall annually submit a report to the Governor and to the Legislative Assembly on the investment of moneys in the Oregon Growth Account. The report required by this subsection shall include a summary of the amount of money invested by industrial sector or business classification, by region of this state, by size of investment and by type of investment." In all cases, the type of investment made has been various forms of private equity capital, predominantly venture capital, with growth equity, mezzanine debt and buyout financing, as well. Since the inception of the OGA, approximately 64 Oregon companies have received some form of capital from OGA general partners. The following data include total dollars invested in Oregon companies; this will always exceed the commitment made by the OGA, since general partners invest dollars from all limited partners, in every investment. The data on the following page are on a dollars-invested basis.

Oregon Growth Account

Business/Industry

Advertising	$ 2,331,933
Auto Components	18,596,000
Beverage	2,400,000
Biopharmaceutical	1,094,096
Biotech	1,500,340
Business/Legal Services	6,000,000
Communications	3,272,315
Distribution Services	1,000,000
Healthcare	2,000,000
Hotel Management	11,541,000
Imaging	4,170,869
IT/Internet	5,820,691
Life Science	401,627
Manufacturing	4,859,269
Semiconductor	8,100,487
Service	1,213,252
Software	24,096,276
Telecommunications	3,344,312
Transportation/Logistics	12,750,000
All Others	509,796
	$ 105,002,263

Region of the State

Multnomah	$ 64,368,561
Washington	29,379,520
Clackamas	19,830,777
Lane	685,035
Douglas	700,000
Benton	38,370
	$ 105,002,263

Total Size of Investment

Up to $100,000	$ 395,459
$100,001 to $500,000	1,849,503
$500,001 to $1 million	6,572,045
$1 million to $2 million	16,648,619
$2 million to $5 million	29,707,724
$5 million to $10 million	16,941,913
Over $10 million	42,887,000
	$ 105,002,263

Debt Management Division

Laura Lockwood-McCall, Director

Overview

The Debt Management Division provides central coordination and approval for the issuance of all state agency and authority bonds, and appropriation credits for the State of Oregon. At the end of the year, nearly $11.3 billion of all state agency 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 appropriation credits. Additionally, division staff advises agencies of market developments and makes debt policy and legislation recommendations to the Treasurer. The market became unstable during the third quarter of 2007, but the year brought rating upgrades for both the Department of Transportation and Lottery bonds with a downgrade for the Department of Housing and Community Services.

During 2007, the Debt Management Division assisted state agencies and local governments in issuing $648 million in advance refunding bonds, resulting in either 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. The following table displays the number of advanced funding issues for the past few years and the corresponding present value savings.

Calendar Year	Issues Advanced Refunded	Present Value Savings
2003	17	$7,358,216
2004	48	$61,558,983
2005	71	$92,215,061
2006	16	$6,695,308
2007	14	$18,811,601

GENERAL OBLIGATION, REVENUE BONDS & CERTIFICATES OF PARTICIPATION

Oregon's state government direct revenue bond programs remained active in 2007, issuing over $1.18 billion. Direct revenue bonds total approximately $3.7 billion outstanding in state debt. The largest state agency issuer of revenue bonds, at $240 million in eight separate series, was the Oregon Department of Housing and Community Services.

General Obligation debt issuance in 2007 totaled $459 million, bringing total outstanding GO debt to over $4.3 billion. Of this total, $1.3 billion in pension obligation bonds is the single largest component of the State's outstanding general obligation debt.

Five state agencies issued General Obligation bonds in 2007: the Oregon University System, the Community Colleges and Workforce Development Department, the Department of Energy, the Department of Housing and Community Services, and the Department of Veterans' Affairs.

On August 8, 2007, the State issued its fifth series of Tax Anticipation Notes (TANs) in the amount of $795 million to meet cash flow needs of the State and for cash management purposes within the 2007-2009 biennium. This is considerably lower than in previous years due to the improving financial position of the State. These notes have a maturity date of June 30, 2008.

During 2007, State of Oregon conduit issuers – the Oregon Facilities Authority, the Economic and Community Development Department, and the Department of Housing and Community Services – issued bonds totaling $419 million.

In 2007, the State's outstanding direct debt rose to over $9.8 billion. There was a slight increase in general obligation bonds, with a more significant increase in revenue bond obligations. At year end, outstanding State bonds and appropriation credits increased nine percent from nearly $9.0 billion in 2006. General obligations were the largest category of debt, with $4.3 billion outstanding. Revenue obligations were $3.7 billion and appropriation credits were over $1.5 billion outstanding.

OUTSTANDING DEBT AND CERTIFICATES OF PARTICIPATION (AS OF 12.31.07)

Year	General Obligations[1]	% Chg	Revenue Obligations[2]	%	Certificates of Participation	%	Total Obligations	% Chg
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
2003	4,270,420,754	86.7	2,556,704,827	8.4	1,238,555,000	53.3	8,065,680,581	47.9
2004	4,170,590,691	-2.3	3,326,799,226	30.1	1,258,935,000	1.6	8,756,324,917	8.5
2005	4,177,483,717	1.0	2,773,788,110	-1.7	1,425,895,000	1.1	8,377,166,827	-4.3
2006	4,221,300,189	1.0	3,154,145,301	1.1	1,438,190,000	1.0	8,813,635,490	1.1
2007	$ 4,301,482,674	2.0	$ 3,731,550,140	18.3	$ 1,467,380,000	2.0	$ 9,500,412,814	8.0

[1] 2003-2005 increases due to Pension Obligation Bonds

[2] 2002-2005 increases due to Pension Obligation Bonds to finance unfunded PERS obligation.

LOCAL OBLIGATIONS OUTSTANDING

Calendar Year	General Obligations	% Chg.	Full Faith & Credit [1,2]	% Chg.	Revenue Obligations	% Chg.	Certificates of Participation	% Chg.	Other Obligations[2]	% Chg.	Total Obligations	% Chg.
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
2003	4,968,885,613	-11.0	682,847,804	-4.6	7,369,856,161	19.0	187,725,048	-25.8	2,776,823,608	99.9	15,986,138,231	13.1
2004	4,581,818,301	-7.8	549,062,993	-19.6	7,112,787,723	-3.5	172,727,984	-8.0	4,453,180,892	60.4	16,869,577,893	0.5
2005	4,502,794,581	-2.0	920,368,180	1.7	6,975,414,858	-2.0	141,146,497	-.18	5,019,427,116	1.1	17,559,151,232	1.1
2006	4,506,755,409	1.0	5,307,871,122	5.8	5,530,973,481	-21.0	121,481,659	-.14	2,432,484,624	0.5	17,899,566,295	1.0
2007	$5,341,613,945	18.5	$5,500,902,828	3.6	$5,389,795,226		$93,198,264	-2.6	$2,608,203,851	7.2	$18,933,714,114	5.8

1 In 2006, the Limited Tax Obligation category was renamed to Full Faith & Credit to better reflect the underlying security pledge.
2 In 2006, certain Other Obligations were recategorized as Full Faith & Credit to better reflect the underlying security structure.

OREGON FACILITIES AUTHORITY

In 2007, the Oregon Facilities Authority (OFA) acted as a conduit for eight entities, resulting in over $322 million new debt issuance for this program. OFA bonds constituted the largest component of the $419 million in overall state conduit revenue bonds issued in 2007. The five-member 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, 2007, nearly $1.1 billion in OFA-issued conduit revenue bonds remained outstanding.

OREGON FACILITIES AUTHORITY
(AS OF 12.31.07)

Ellsworth P. Ingraham, Chair	Public Member Term expires 06.30.09
Sue Cutsogeorge	Public Member Term expires 9.30.09
Al Gosiak	Public Member Term expires 06.30.08
J. Kevin McAuliffe	Public Member Term expires 06.30.11
Karen Weylandt	Public Member Term expires 06.30.10
Courtney Wilton	Public Member Term expires 06.30.11
Vacant	Public Member Term expires 06.30.10

Gwendolyn Griffith, Executive Director

STATE HIGHWAY & TRANSPORTATION INFRASTRUCTURE

Beginning in 2001, the Oregon Legislature passed a series of transportation funding bills known collectively as the Oregon Transportation Investment Act (OTIA). The 2005 Legislature authorized the issuance of $900 million in highway user tax bonds and $50 million in transportation infrastructure bonds for the 2005-07 biennium.

As of December 31, 2007, ODOT highway user tax bonded indebtedness stood at nearly $1.4 billion. It is presently envisioned that the OTIA program bonds will be issued over the next several biennia as projects come on line. While state highway and transportation infrastructure bonds do not receive General Fund support, they do add to the overall net tax-supported debt burden.

MUNICIPAL DEBT ADVISORY COMMISSION

In addition to his other duties, the State Treasurer or his designee 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. 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 12.31.07)

Carol J. McCoog, Chair	Public Member Term expires 6.30.11
Linda M. Haglund Deputy State Treasurer	Treasurer Designee Serves by Position
Lance Colley	OSBA representative Term expires 6.30.10
Alice J. Garrett	Public Member Term expires 6.30.11
Debra Guzman	Special Districts rep Term expires 6.30.09
Janell Howard	LOC representative Term expires 6.3.10
Michael Long	AOC representative Term expires 6.30.09

LOCAL GOVERNMENT ASSISTANCE

The Debt Management Division provides technical support and assistance to local governments in dates of bond sales, offering training on selected debt management topics, and publishing a bond issuance instruction manual. 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. The MDAC maintains a debt profile of all issuing local government units. In 2007, staff provided 162 overlapping debt reports, assisting in the preparation of disclosure documents for bond issues and municipal financial reporting of local governments.

The Oregon Bond Calendar is created by the State Treasurer's staff for the MDAC. The calendar lists all public state and local sales thus 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 calendar is updated daily and can be viewed at www.ost.state.or.us/divisions/dmd/bond calendar_index/bondcalendar.pdf. The calendar may also be received via email every two weeks by contacting the Debt Management Division of the Office of the State Treasurer.

PRIVATE ACTIVITY BOND COMMITTEE

The Debt Management Division serves as staff to the Private Activity Bond Committee. The State Treasurer or designee, the Director of the Department of Administrative Services or designee, 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.

PRIVATE ACTIVITY BOND COMMITTEE

(AS OF 12.31.07)

Linda M. Haglund, Chair Deputy State Treasurer	Treasurer Designee Serves by position
Jack Kenny	DAS Director Designee Serves by position
David S. Glennie	Public Member Term expires 10.31.09

STATE DEBT POLICY ADVISORY COMMISSION

Additionally, the Debt Management 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.

The SDPAC met during 2007, hearing testimony and considering policy options related to state debt issuance and the enhancement and preservation of the state's credit rating. The SDPAC's next report to the Governor and the Legislative Assembly will be published on January 14, 2008. The report outlines 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 will be distributed to state agencies with bonding programs, finance professionals that work with state programs, rating agencies, and various national finance organizations. The commission will strengthen its pledge to support the creation of a state budget stabilization fund.

STATE DEBT POLICY ADVISORY COMMISSION

(AS OF 12.31.07)

Randall Edwards, Chair State Treasurer	Serves by position
Lindsay Ball Director, Dept. of Admin. Services	Serves by position
Rick Metsger Senator, District 26	Senate Appointee Term expires 1.25.09
Tom Butler Representative, District 60	House Appointee Term expired 9.30.07
Wes Lawrence President, Key Bank	Public Member Term expires 3.14.08

The SDPAC report, dated February 1, 2007, provided the Governor and the Legislative Assembly with a current picture of the state's bonding capacity as they made budget and policy decisions related to debt capacity and good bonding practices in Oregon.

Finance Division

Darren Q. Bond, Director

Overview

The Finance Division supports the Office of the State Treasurer in improving internal procedures and enhancing financial services to the state and local governments. The Finance Division is composed of the Cash Management Section, the Controller's Section, and Relationship Management Services.

CASH MANAGEMENT SECTION

Virtually all funds flowing to and from Oregon state government go through the Cash Management Section, which provides banking services for all state agencies. During 2007, the Cash Management Section processed nearly 14.1 million transactions.

State agency receipts, deposited daily at the branches of Oregon commercial banks, are moved by electronic funds transfer to the Treasurer's Office concentration accounts. Upon notification from the banks, the Cash Management Section credits the deposits to the appropriate agency accounts. During 2007, the Cash Management Section processed more than 365,000 deposits to 803 state agency accounts.

Checks and warrants written by state agencies are drawn on the Office of the State Treasurer. 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 nearly 6.7 million checks and warrants during 2007.

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. As of December 31, 2007, 1,137 local governments in Oregon also participated in the OSTF. 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 Treasurer's ACH (Automatic Clearinghouse) 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. Related web-based banking services also allow state agencies to perform online ACH origination and gain access to daily and monthly banking statements. During 2007, over 6.8 million electronic funds transfers were processed through STAN, an increase of 34.7 percent over 2006.

Additionally, the Office of the State Treasurer 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 merchant bank cards in 1998 to $482.4 million in 2007.

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

Another important role that the Cash Management Section provides is that of monitoring and enforcing bank depository compliance with Oregon Revised Statute (ORS) Chapter 295 which governs the collateralization of Oregon public funds deposits. ORS Chapter 295 was significantly revised during the 2007 Regular Session of the Oregon Legislative Assembly, and the changes will go into effect on July 1, 2008. The new statutory requirements provide protection for public funds in the event of a bank loss through a shared liability structure of the participating bank depositories.

CASH MANAGEMENT ANALYST

The Cash Management Analyst coordinates agency customer visits to provide more in-depth reviews of their current cash management practices and identify potential efficiencies to be gained through using available tools or redesigning processes. The intent of a cash management review is to assist agencies in understanding the cash management tools that are available to them and to assist in implementing options that are found to be beneficial to the agency. As technology progresses, new cash management tools and improved ways of doing business continue to emerge. The Treasurer's Office is committed to keeping agencies apprised of these new developments.

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 the Treasurer's Office and for the Oregon Facilities Authority (OFA), which issues tax-exempt bonds to finance health, housing, education, and cultural projects. This section also prepares Treasurer's Office'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 the Investment Division and external investment managers. Investments totaled $81.3 billion at market value on December 31, 2007, and range from ordinary stocks and bonds to more complex investments such as alternative equities and real estate. The section also monitors the yield on the Oregon Short Term Fund and in turn determines the interest rate paid to Office of the State Treasurer's banking customers.

Investment Accounting provides state agencies information regarding their investment holdings and income on a daily, monthly, and annual basis. In addition, IA ensures that generally accepted accounting principles are applied to all investments. Investment Accounting prepares the annual financial statements for the Oregon Short Term Fund. The section also 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 SERVICES

The Relationship Management Team (RMT) advocates for and supports customers of the Office of the State Treasurer. The RMT meets regularly with agency customers to assess current usage of banking services, to understand agency programs and the customers they serve, and to gather information regarding business needs to ensure that the Office of the State Treasurer is positioned to meet those needs now and in the future. The RMT strives to understand agency business processes in order to help agencies mitigate risks, resolve problems, and improve efficiencies in the daily management of state funds. As cash management practices change in the marketplace, the RMT will continue to educate customers about new banking services and assist them in implementing effective and efficient cash management tools and practices.

Oregon 529 College Savings Network

Michael Parker, Executive Director

The Oregon 529 College Savings Network continues to provide Oregon families a unique and affordable investment program to help offset the future cost of higher education. The Network currently operates three college savings plans, which offer families a wide variety of mutual fund investment choices for their college savings needs.

The Network provides significant state and federal tax advantages and more flexibility than many other college savings vehicles. Families may use their assets at any eligible institution of higher education in the United States and abroad—including technical, vocational, and graduate schools—for a wide range of educational expenses, including tuition, fees, books, and room and board expenses.

The Network has enjoyed remarkable success and significant growth in its first seven years. At the end of 2001, families had opened 10,000 accounts and invested about $33 million. By December 2007, accounts jumped to well over 105,000 and assets grew to more than $970 million, demonstrating the true need for and popularity of this type of investment vehicle.

The College Savings Network plays 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 12.31.07)

Randall Edwards, Chair State Treasurer	Serves by position
Kirby Dyess	State Bd. of Higher Ed Member Serves by position
Lyn Hennion Sr. VP, Strand Atkinson Williamson & York	Public Member Term expires 12.31.10
Scott Sandbo CEO, Pacific Crest Securities	Public Member Term expires 12.31.08
Carl Vance Vice President, Lewis & Clark College	Private Colleges Member Term expires 12.31.09

529 NETWORK ACTIVITY (AS OF 12.31.07)

Oregon College Savings Plan and
OppenheimerFunds 529 Plan
OppenheimerFunds, Inc., Program Manager

Year End 2007	
In-state accounts	51,344
Out-of-state accounts	10,935
Total number of accounts	62,279
Assets	$574,738,444

MFS 529 Savings Plan
MFS Investment Management, Program Manager

Year End 2007	
In-state accounts	13,375
Out-of-state accounts	30,102
Total number of accounts	43,477
Assets	$404,200,240

Oregon 529 College Savings Network Totals
Total Accounts: 105,756
Total Assets: $978,938,684