

---

# **Oregon Investment Council**

---

**November 5, 2014**  
9:00 AM

---

**PERS Headquarters  
11410 S.W. 68<sup>th</sup> Parkway  
Tigard, OR 97223**



**Dick Solomon**  
Chair

**John Skjervem**  
Chief Investment Officer

**Ted Wheeler**  
State Treasurer



# OREGON INVESTMENT COUNCIL

## Agenda

November 5, 2014  
9:00 AM

PERS Headquarters  
11410 S.W. 68<sup>th</sup> Parkway  
Tigard, OR 97223

<u>Time</u>	<u>A. Action Items</u>	<u>Presenter</u>	<u>Tab</u>
9:00-9:05	1. Review & Approval of Minutes September 24, 2014 Regular Meeting	Dick Solomon <i>OIC Chair</i>	1
	Committee Reports	John Skjervem <i>Chief Investment Officer</i>	
9:05-9:35	2. Oregon Short-Term Fund <i>Annual Review</i>	Garrett Cudahey <i>Investment Officer</i>	2
9:35-9:45	3. Oregon Savings Growth Plan <i>457 Plan Investment Options</i>	Karl Cheng <i>Investment Officer</i>	3
9:45-10:10	4. OIC Investment Beliefs	John Skjervem Allan Emkin <i>PCA</i>	4
10:10-10:15	5. 2015 OIC Meeting Calendar	John Skjervem	5
10:15-10:30	----- BREAK -----		
	<u>B. Information Items</u>		
10:30-11:00	6. SAIF Annual Review <i>OIC Policy 4.09.06</i>	Mike Mueller <i>Deputy CIO</i> John Gilkey <i>Interim President &amp; CEO, SAIF</i> Gina Manley <i>Chief Financial Officer, SAIF</i>	6

Dick Solomon  
Chair

Katy Durant  
Vice-Chair

Rukaiyah Adams  
Member

Keith Larson  
Member

Ted Wheeler  
State Treasurer

Paul Cleary  
PERS Director

- 11:00-11:30 7. OPERF Public Equity Review** **Mike Viteri** **7**  
**Jim Callahan**  
*Callan Associates*
- 11:30-11:40 8. Asset Allocation & NAV Updates** **John Skjervem** **8**  
a. Oregon Public Employees Retirement Fund  
b. SAIF Corporation  
c. Common School Fund  
d. HiEd Pooled Endowment Fund
- 9. Calendar — Future Agenda Items** **9**
- 10. Other Items** **Council**  
**Staff**  
**Consultants**

**C. Public Comment Invited**  
15 Minutes

TAB 1 – REVIEW & APPROVAL OF MINUTES

September 24, 2014 Regular Meeting

OST Committee Reports – Verbal



STATE OF OREGON  
OFFICE OF THE STATE TREASURER

350 WINTER STREET NE, SUITE 100  
SALEM, OREGON 97301-3896

OREGON INVESTMENT COUNCIL  
SEPTEMBER 24, 2014  
MEETING MINUTES

Members Present: Rukaiyah Adams, Paul Cleary, Katy Durant, Keith Larson, Dick Solomon, Ted Wheeler

Staff Present: Tony Breault, Austin Carmichael, Karl Cheng, Michael Cox, Sam Green, Scott Harra, Julie Jackson, Perrin Lim, Mike Mueller, Paola Nealon, Tom Rinehart, John Skjervem, Michael Viteri

Consultants Present: Tom Martin (TorreyCove); David Glickman, Christy Fields, John Linder and Dylan Lorda (PCA); Jim Callahan, Uvan Tseng and Janet Becker-Wold (Callan)

Legal Counsel Present: Dee Carlson and Deena Bothello, Oregon Department of Justice

The September 24, 2014 OIC meeting was called to order at 9:00 am by Dick Solomon, Chair.

I. **9:00 am Review and Approval of Minutes**

**MOTION:** Ms. Durant moved approval of the July 30, 2014 meeting minutes. Ms. Adams seconded the motion, which then passed by a 5/0 vote.

**MOTION:** Ms. Adams moved approval of the August 13, 2014 meeting minutes. Mr. Larson seconded the motion, which then passed by a 5/0 vote.

COMMITTEE REPORTS

John Skjervem, CIO gave an update on the following committee actions taken since the July 30, 2014 OIC meeting:

**Private Equity Committee – 2014:**

August 5, 2014	Aquiline Financial Services Fund III, L.P.	\$100 million
August 5, 2014	Blackstone Energy Partners II, L.P.	\$200 million
August 5, 2014	Hellman & Friedman Capital Partners VIII, L.P.	up to \$100 million
September 2, 2014	Baring Asia Private Equity Fund VI, L.P.	\$150 million
September 2, 2014	Centerbridge Capital Partners III, L.P.	up to \$150 million
September 2, 2014	Roark Capital Partners IV, L.P.	\$100 million

**Alternatives Portfolio Committee – 2014:**

August 14, 2014      NGP Natural Resources Fund XI, L.P.      \$200 million

**Opportunity Portfolio Committee – 2014:**

August 27, 2014      Blackstone Tactical Opps Fund      \$250 million

**Real Estate Committee – 2014:**

September 4, 2014      Landmark Real Estate Partners VII, L.P.      \$100 million

**II.      9:02 am      Dimensional Fund Advisors - OPERF Public Equity**

Michael Viteri, Senior Investment Officer and Savina Rizova (Vice President) and Grady Smith (Vice President and Senior Portfolio Manager) with Dimensional Fund Advisors (DFA) presented to the Board.

Consistent excess returns from traditional, discretionary active management in the large cap portion of the OPERF domestic equity portfolio have been difficult to achieve over the long-term. In this highly efficient segment of the market, staff proposes to systematically tilt the portfolio (at very low cost) towards common risk factors such as value, size and profitability. Historically, these particular factor exposures have generated excess returns, and often explain much or all of active managers' outperformance over time. I.e., unique risk factor exposures – rather than stock picking abilities – are often the driver of active management alpha among public equity managers. Staff believes this method of active risk taking (i.e., deliberate risk factor tilts) has, net of fees, a higher probability of long-term success than traditional, discretionary active management.

DFA maintains strong ties to the academic community. For example, University of Chicago Nobel Laureate Eugene Fama, MIT Nobel Laureate, Robert Merton, Dartmouth's Kenneth French and Wharton's Donald Keim all serve as consultants and provide on-going research in support of current and proposed DFA investment initiatives. Investment researcher Roger Ibbotson and Nobel Laureates Robert Merton and Myron Scholes also serve as directors of the firm's mutual funds board.

DFA manages over \$25 billion in dedicated U.S. Large Cap strategies with track records extending back to February 1993. The newest DFA large cap strategy which tilts towards size (more mid cap than small cap), value and profitability is an open-end institutional mutual fund with a track record that started on June 25, 2013 (ticker: DUSQX). Staff reviewed the existing strategy and worked collaboratively with DFA on structural changes so that the proposed separate account large cap core strategy would better complement OPERF's return and risk objectives.

The OIC is familiar with DFA as it has previously approved five DFA mandates which are managed identically to Large Cap Core: World ex-U.S. Small Cap Value (January 2009); Emerging Markets Small Cap (May 2010); Micro Cap Value (January 2013); International Micro Cap Value (March 2014); and, for the Oregon Savings Growth Plan, Emerging Markets Core (February 2011). Given the long relationship Oregon has enjoyed with DFA and the multiple mandates that the OIC has funded with the firm, staff negotiated a management fee that is significantly less than the already low average active management fee that OPERF pays its existing large cap managers.

Staff and Callan recommended funding DFA's Large Cap Core strategy with a) an initial commitment of \$2 billion and b) the option to increase this mandate to \$4 billion subject to CIO approval and satisfactory negotiation of all terms and conditions with staff working in concert with Department of Justice personnel. Staff also recommended amending OIC policy 04-05-01 accordingly.

**MOTION:** Ms. Durant moved approval the staff recommendation. Treasurer Wheeler seconded the motion, which then passed on a 5/0 vote.

**III. 9:43 am OPERF Real Estate Review**

Tony Breault, Senior Investment Officer along with PCA's Christy Fields and Dylan Lorda gave an update on the OPERF Real Estate portfolio, its recent performance and Staff's investment plans for 2015. That plan includes additional focus on pursuing lower-risk, greater-control separate accounts mandates. A spirited discussion ensued during which the primary objective of the real estate portfolio was debated (return seeking vs. diversification vs. capital preservation, etc.) with staff and PCA agreeing to provide further clarification for OIC member review and consideration.

**IV. 10:50 am OIC Private Equity Consultant Contract**

Mike Mueller, Deputy Chief Investment Officer addressed the forthcoming contract expiration for the OIC's private equity consultant. He indicated that Staff proposes the OIC extend its current contract with TorreyCove for an additional one-year period ending December 31, 2015 subject to the continuation of the existing contract's fee schedule, terms and other conditions.

**MOTION:** Ms. Durant moved approval of the staff recommendation. Ms. Adams seconded the motion, which then passed on a 5/0 vote.

**V. 10:51 am OIC Policy Updates**

Staff recommended approval of several proposed OIC Policy changes as outlined below:

1. 4.01.07 & 4.01.08: Provides for explicit statutory language on diversification as well as language clarification proposed by the CIO.
2. 4.01.18: Includes language clarification proposed by the CIO.
3. 4.03.02: Corrects "Policy" and "Procedure" classification and more clearly defines mortgage-backed and asset-backed securities for inclusion in agency separate accounts. Staff believes that existing rules allowing structured securities are overly broad given the expanding types of collateral backing. Staff seeks to limit permitted internal holdings to more defined structured investments. Due to interpretation of SEC Rule 144A (144A) by internal counsel, securities defined under 144A should not be purchased for internally-managed portfolios unless the portfolio is deemed a qualified institutional buyer (QIB) as defined by 144A. Therefore, staff believes 144A securities should not be explicitly allowed as a permitted holding for internally-managed portfolios.
4. 4.04.01: Raises OIC approval threshold for single core property maximum from \$100 million to \$200 million, and adds additional clarifying policy language. Also adds "Procedures" section for consistency with other private market asset classes. Clarifies and simplifies the OIC's or OST Committees' investment consideration decision process. Enables CIO to terminate contractual relationships with individual REIT managers upon recommendation from the Director of Alternative Investments and the OIC's advisor. Establishes updated capital call procedure.
5. 4.06.01: Clarifies and simplifies the OIC's or OST Committees' investment consideration decision process, and establishes updated capital call procedure.
6. 4.06.02: Clarifies and simplifies the OIC's or OST Committees' investment consideration decision process, and establishes updated capital call procedure.

7. 4.06.03: Clarifies and simplifies the OIC's or OST Committees' investment consideration decision process, and establishes updated capital call procedure. Eliminates annual on-site visit requirement given current staffing constraints.

OIC Statement of Fund Governance: Updates Section 3.0, "Decisions Retained by the Council," to reflect above-outlined changes to private markets procedures.

**MOTION:** Treasurer Wheeler moved approval of the policy updates. Ms. Durant seconded the motion, which then passed on a 5/0 vote.

**VI. 11:02 am Asset Allocations and NAV Updates**

Mr. Skjervem reviewed asset allocations and NAV's across OST-managed accounts for the period ended August 31, 2014.

**VII. 11:03 am Calendar – Future Agenda Items**

Mr. Skjervem presented a revised schedule of future OIC meetings and associated agenda topics.

**VIII. 11:03 am Other Business**

None

**11:03 am Public Comments**

None

Mr. Solomon adjourned the meeting at 11:04 am.

Respectfully submitted,



Julie Jackson  
Executive Support Specialist



TAB 2 – OREGON SHORT TERM FUND

# Oregon Short Term Fund Annual Review

## November 5, 2014

**Purpose:**

To present the annual review of the Oregon Short Term Fund, including the annual audited financial statements. To review and seek approval of revisions to Investment Policy 4.02.03, the Oregon Short Term Fund Portfolio Rules.

**Background:**

Pursuant to OIC policy, the report includes:

- **OSTF Market and Portfolio Review** (pgs. 1-12)
  - 2-year & 3-year US Treasury yields abruptly moved lower in October 2015 on global growth and inflation concerns. Prior to October, 2-year and 3-year Treasury yields had been steadily moving higher over the past 12 months
  - Federal Reserve seems set to end quantitative easing and potentially begin raising rates in 2015-2016. Due to recent growth concerns markets appear to be pricing in lower rates for longer
  - Liquidity continues to be a challenge given bank regulation and less participation in the markets by large banks and broker entities.....potentially exacerbating credit spread movements
  - OSTF Rate at 0.54%, rate has been steady since February 2013
- **Proposed Portfolio Rules Revisions to Policy 4.02.03**
  - Description of Proposed Revisions to Policy 4.02.03 (pgs. 13)
  - Red-lined Version of Portfolio Rules (pgs. 14-24)
  - Policy Revision Memorandum & Presentation (25-33)
- **Compliance Summary, August 31, 2014** (pg. 34)
- **Portfolio Holdings, August 31, 2014** (pgs. 35-43)
- **Audited Financial Statements for Fiscal Year Ended June 30, 2014** (pgs. 44–66)
- **Performance (ending August 31, 2014)**

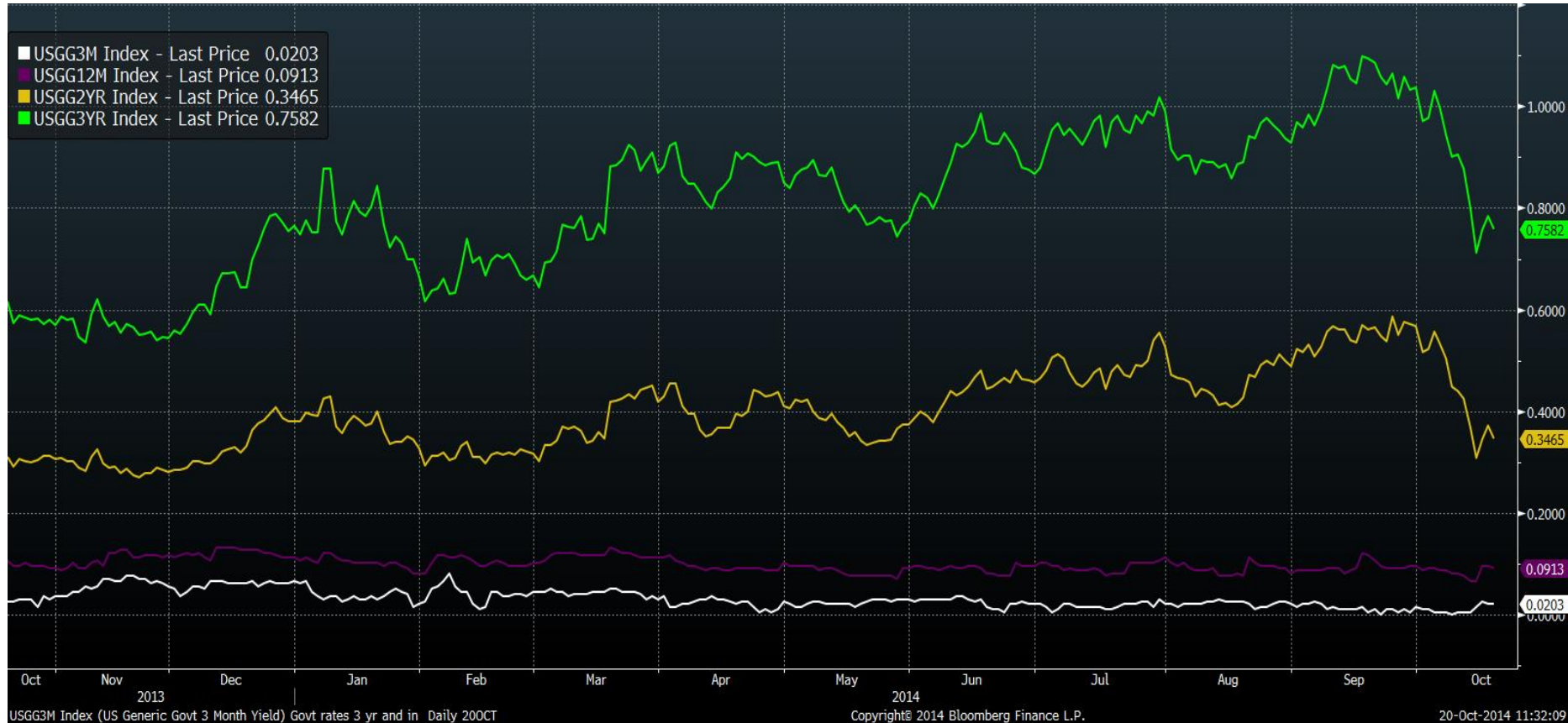
	August	3 mos.	YTD	1 yr	2 yrs	3 yrs	4 yrs	5 yrs
OSTF	<b>0.07</b>	<b>0.10</b>	<b>0.44</b>	<b>0.75</b>	<b>0.71</b>	<b>0.87</b>	<b>0.77</b>	<b>0.81</b>
91 Day T-Bills	0.00	0.01	0.03	0.05	0.08	0.07	0.09	0.10

**Recommendations:**

Staff recommends the OIC approve the revisions to the Oregon Short Term Fund Portfolio Rules, Policy 4.02.03, as approved by the Oregon Short Term Fund Board on October 9, 2014.

# Market and Portfolio Review

# U.S. Government Rates – 1 Year History



# Barclays 1-3 Year Investment Grade Credit Spreads – 1 Year History

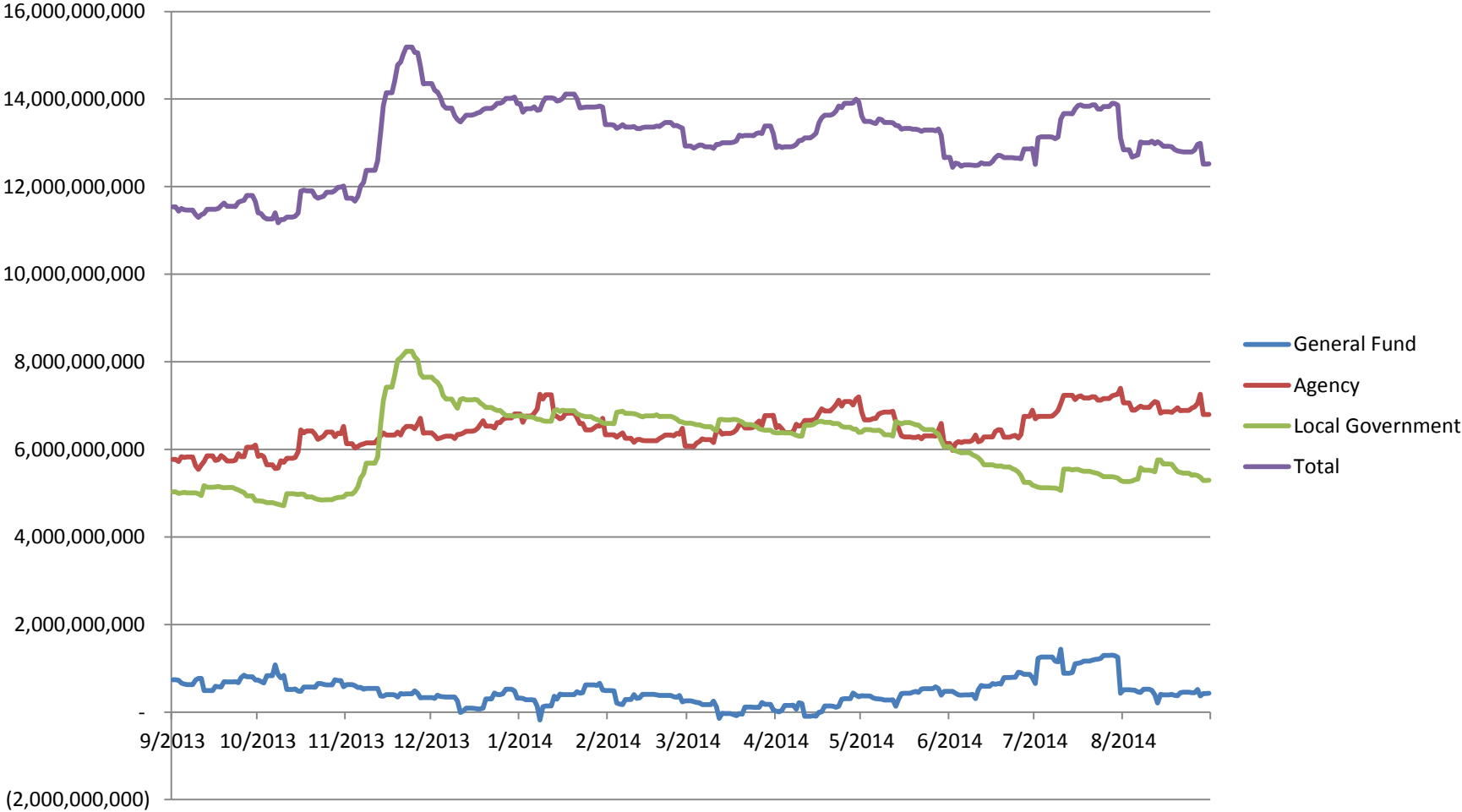


# OSTF Portfolio Update

<b>September 30, 2014</b>	
Net Asset Value	\$12,993,293,792
Unit Value	1.0028
Weighted Average Credit Quality	AA
Weighted Average Days to Maturity	217.71
Book Yield	0.56%
Rate Paid to Participants	0.54%

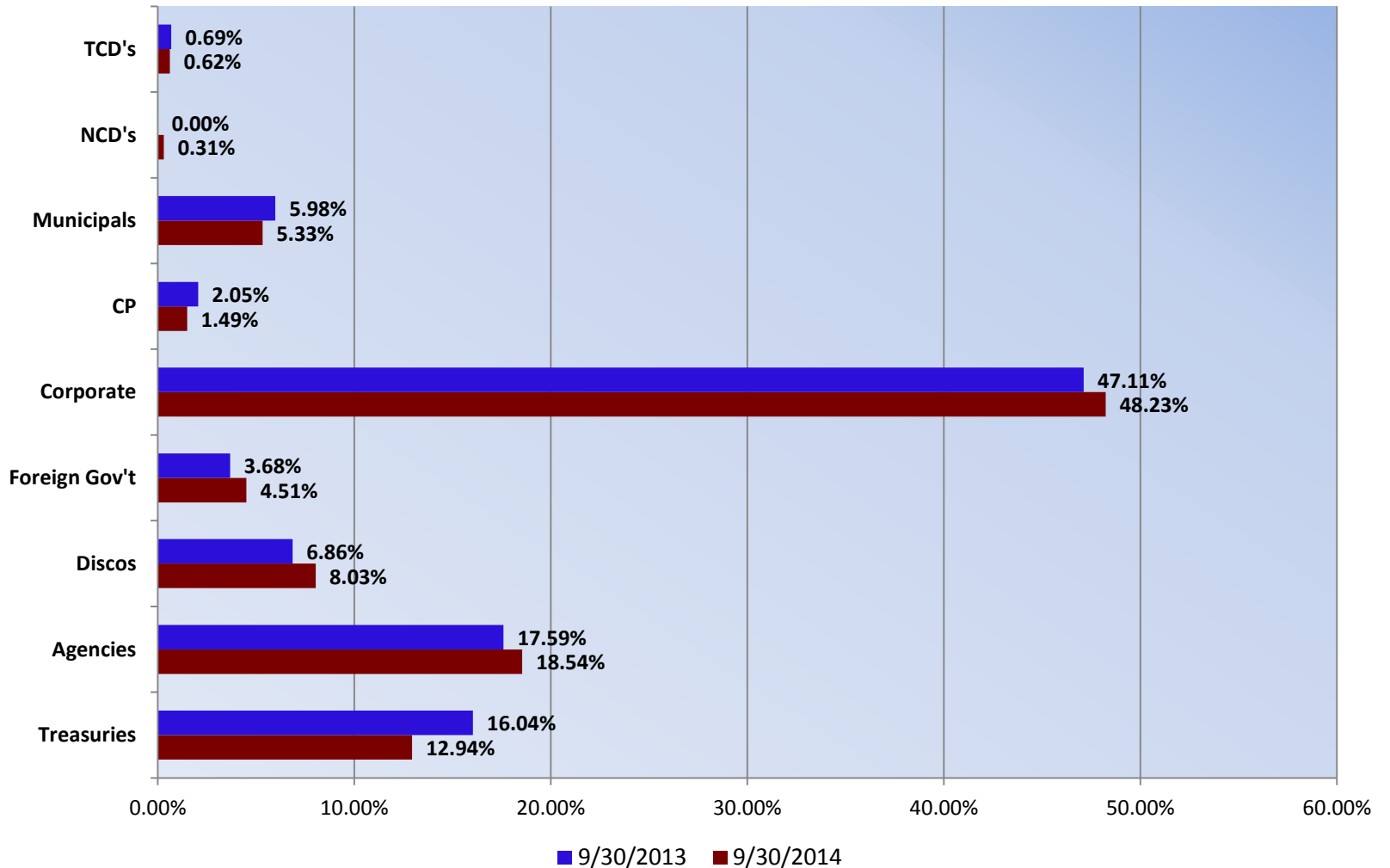
Weighted Average Credit Quality calculated  
per OSTF Policy Guidelines Source:  
Bloomberg, OST

# OSTF – Total Fund and Participant Mix



Source: OST Accounting

# OSTF Holdings by Security Type



Information based on par value  
Source: Bloomberg, OST

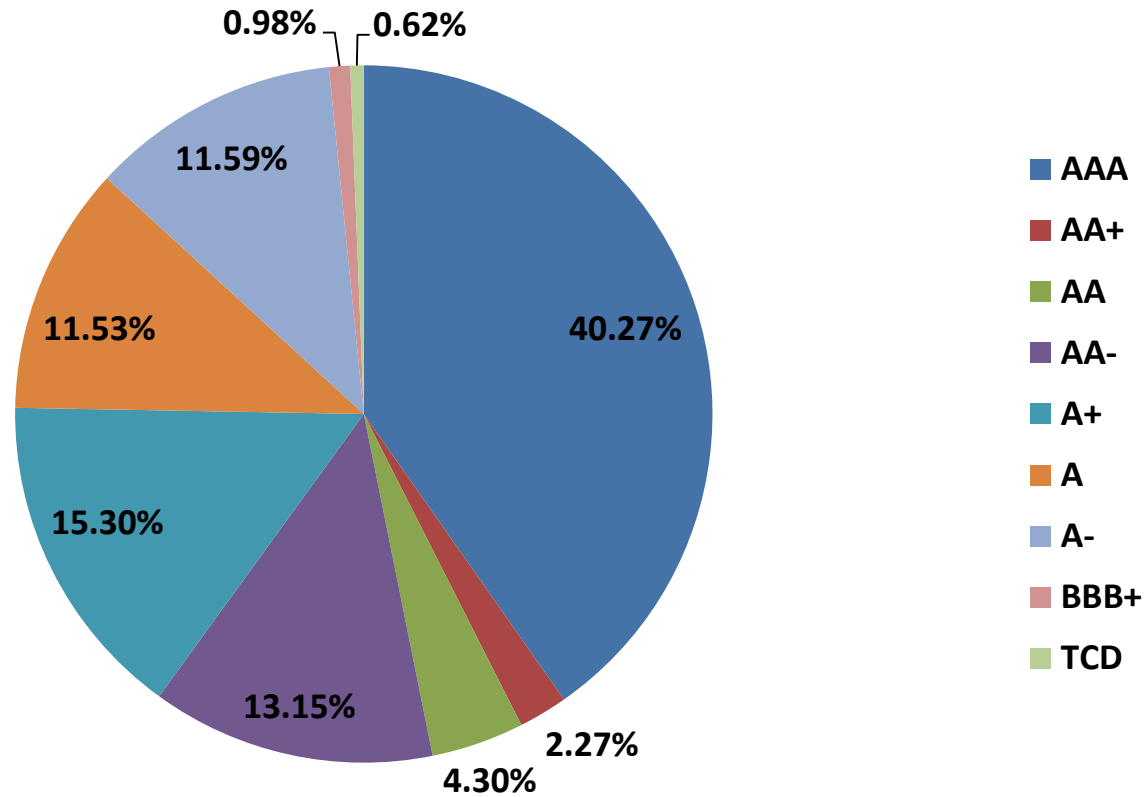


# OSTF Diversification

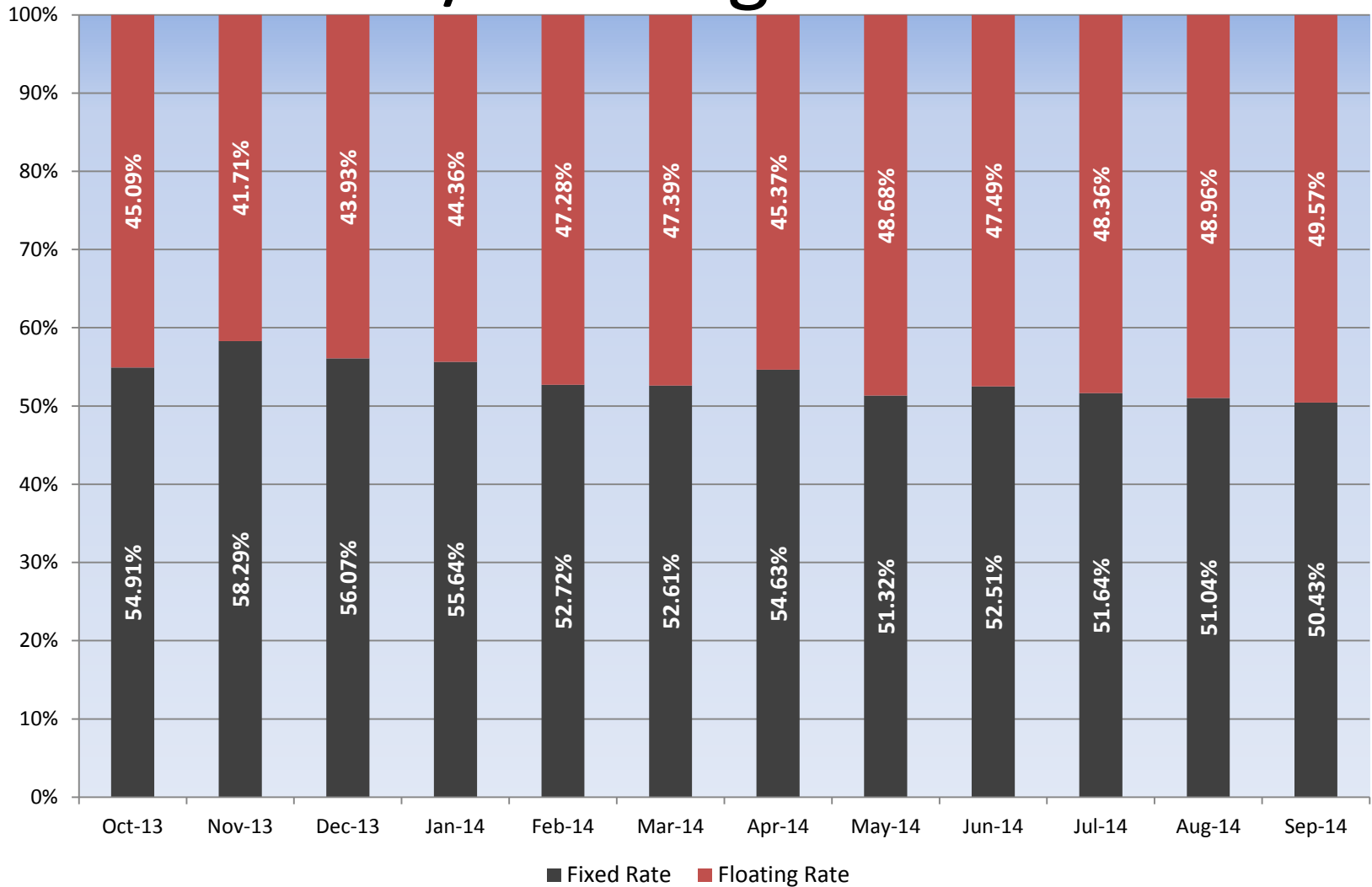
Issuer Concentration (Par)	
Federal Home Loan Banks	14.07%
United States Treasury	12.94%
Federal Farm Credit Banks	7.32%
Wells Fargo & Co	3.74%
Federal National Mortgage Association	3.27%
Morgan Stanley	3.27%
General Electric Co	2.94%
Goldman Sachs Group Inc./The	2.73%
Bank of America Corp	2.72%
JPMorgan Chase & Co	2.68%
Province of Ontario Canada	2.55%
Bank of Nova Scotia/The	2.43%
Citigroup Inc.	2.21%
Federal Home Loan Mortgage Corp	1.88%
Royal Bank of Canada	1.47%
Westpac Banking Corp	1.24%
Honda Motor Co Ltd	1.23%
BNP Paribas SA	1.21%
US Bancorp/MN	1.05%
Barclays PLC	1.03%
National Australia Bank Ltd	1.01%
Commonwealth Bank of Australia	0.97%
Caterpillar Inc.	0.95%
Fifth Third Bancorp	0.93%
Royal Dutch Shell PLC	0.93%

Country of Risk (Par)	
United States	76.72%
Canada	8.23%
Australia	3.52%
Japan	2.87%
Great Britain	2.78%
France	1.40%
Netherlands	1.04%
Sweden	0.91%
Mexico	0.61%
Germany	0.58%
Korea	0.49%
China	0.45%
Belgium	0.23%
Switzerland	0.15%

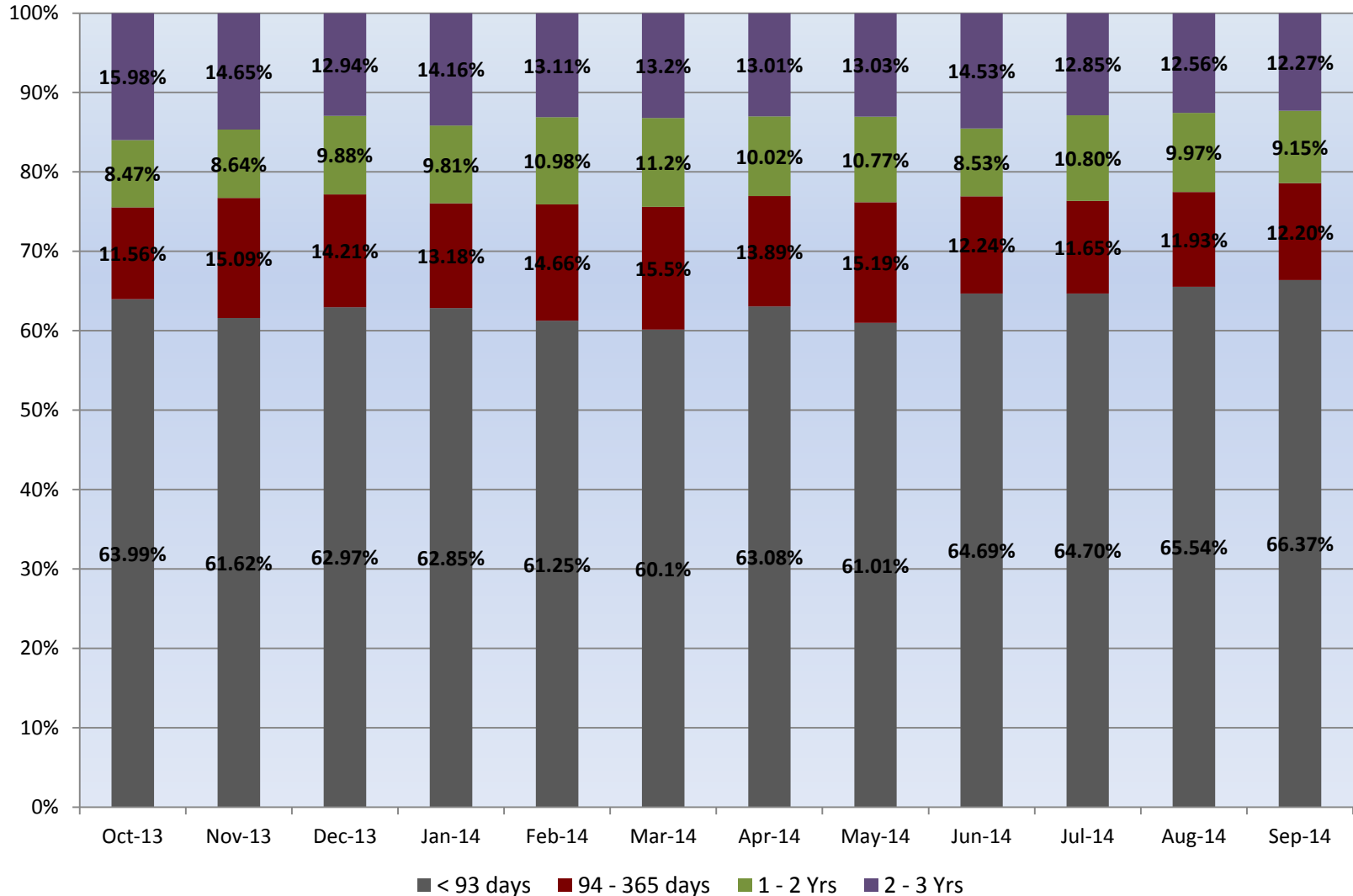
# OSTF Credit Profile



# OSTF Fixed/Floating Rate Allocation

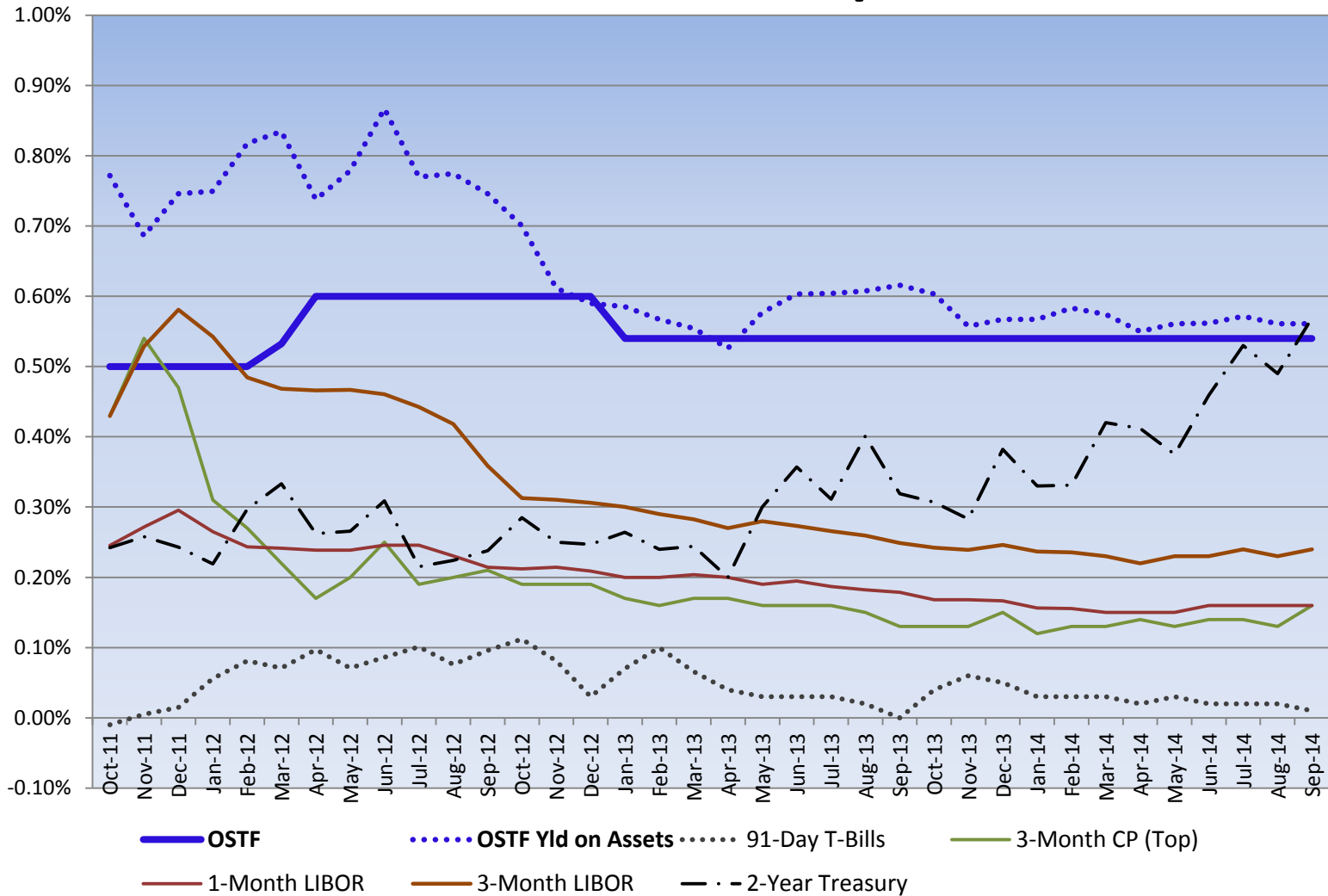


# OSTF Maturity Profile



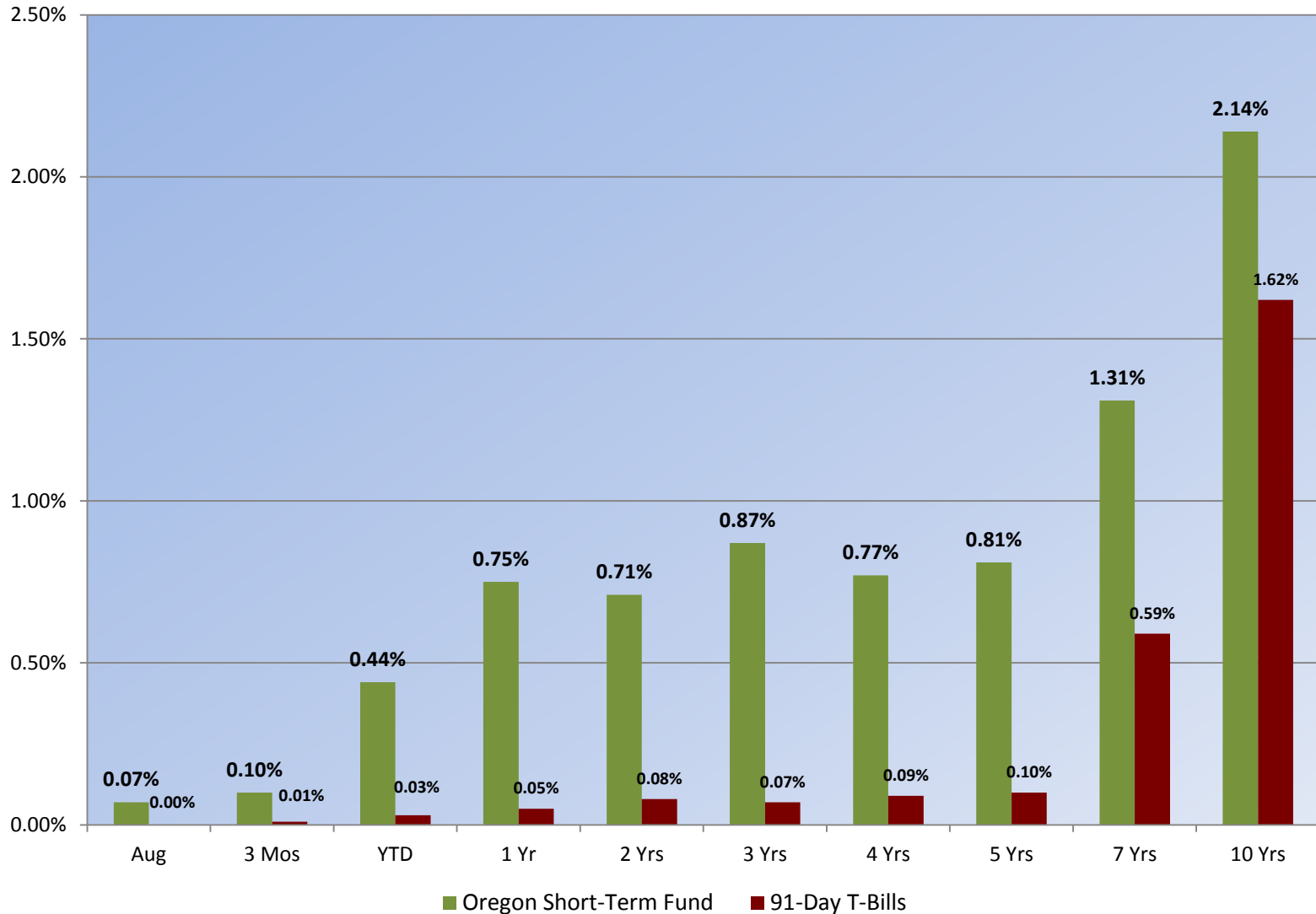
Calculated per OSTF Policy Guidelines  
Source: Bloomberg, OST

# OSTF Rates Comparison



Source: Bloomberg, OST

# OSTF Performance



Source: State Street Bank

OIC Board Meeting  
November 5, 2014  
Description of Proposed Revisions to OSTF Portfolio Rules

**Purpose:**

To propose revisions to Investment Policy 4.02.03, the Oregon Short Term Fund Portfolio Rules, specifically including Asset-Backed Securities (ABS) as an eligible security.

**Background:**

The Oregon Short Term Fund Board, at the October 9, 2014 meeting, approved the proposed policy revisions. The following is a brief explanation and description of the proposed revisions.

OSTF November 2014 Policy Revision Explanation of Changes

1. Page 5 – Maturity Distribution – This revision introduces the use of “weighted average life (WAL)” for the purposes of measuring Asset-Backed Securities introduced under item 2 below.
2. Page 7 - Eligible Securities, Asset-Backed Securities (ABS) – this section seeks to introduce a subsection of the Asset-Backed Security universe as eligible investments for the OSTF.
3. Page 10 – Securities Lending Reinvestment – the section referring to ABS securities was removed as this proposed revision would now include ABS investments. Staff is comfortable with allowing State Street Global Advisors to utilize AAA-rated equipment ABS in addition to credit card and auto loan.

**Recommendations:**

Staff recommends that the Oregon Investment Council approve the revisions to the Oregon Short Term Fund Portfolio Rules, Investment Policy 4.02.03.

**FUNCTION:** Short Term Investments

**ACTIVITY:** Portfolio Rules

**POLICY:** The Oregon Investment Council has, with advice from the Treasurer, from OST investment staff, and from the Oregon Short Term Fund Board, adopted specific rules for investing the Oregon Short Term Fund (OSTF). These rules are included as sample form A.

**PROCEDURES:**

1. **Verify Compliance With Portfolio Rules.** The Senior Fixed Income Investment Officer and Investment Officer(s) receive an Oregon Short Term Fund Daily Compliance Report. This report summarizes OSTF holdings by type of investment (asset allocation), by investment issuer, by time until investment maturity, and by investment quality (rating). The Daily Compliance Report also summarizes each Portfolio Rule as an "Objective," and compares the actual current portfolio to the objectives. The OSTF staff reviews this report, daily, to ensure compliance with portfolio rules.
2. **Oversight of Compliance.** The Deputy State Treasurer, Chief Investment Officer, Chief Audit Executive, Risk & Compliance Officer, and Investment Accounting staff receive and review this same report daily. For meetings at which the OSTF is discussed, the Oregon Short Term Fund Board and the Oregon Investment Council receive and review the compliance report.
3. **Correction of Non-Compliance.** If the OSTF is found to be out of compliance with one or more adopted portfolio rules, the Senior Fixed Income Investment Officer or Investment Officer(s) shall sell (or purchase) the securities necessary to bring about compliance as soon as is prudently feasible.

**SAMPLE FORMS, DOCUMENTS, OR REPORTS (Attached):**

- A. Oregon Short Term Fund Portfolio Rules

Sample Form A



**Oregon Short Term Fund Portfolio Rules**

These are the most current Portfolio Rules for the Oregon Short Term Fund which have been adopted by the Oregon Investment Council.

DRAFT

**Portfolio Rules**  
**For The**  
**Oregon Short Term Fund**  
Revised ~~November 2014~~

Deleted: January 2014

**I. Scope**

These rules apply to the investment of cash from all state and eligible local government participants of the Oregon Short Term Fund (“OSTF”). These rules are established under the authority of, and shall not supersede the requirements established under, ORS Chapter 293.

**II. Investment Objectives**

The primary objectives of investment activities, in priority order, shall be preservation of principal, liquidity, and yield.

A. Preservation of Principal: Safety is the foremost objective of the OSTF rules. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk (see specific guidelines below).

B. Liquidity: The OSTF shall remain sufficiently liquid to meet all state agency and local government operating requirements that may be reasonably anticipated. This is accomplished by structuring the OSTF so that securities mature concurrent with cash needs to meet anticipated demands. Furthermore, since all possible cash demands cannot be anticipated, the OSTF should consist largely of securities with active secondary or resale markets.

C. Yield: The OSTF shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The majority of the OSTF is limited to highly rated/low risk securities in anticipation of earning a fair return relative to the risk being assumed.

**III. Standards of Care<sup>i</sup>**

- A. Prudence: The standard of prudence to be used by investment officers shall be the “prudent investor” standard and shall be applied in the context of managing the OSTF as a whole. Pursuant to ORS Chapter 293.726:
- (1) The investment funds shall be invested and the investments of those funds managed as a prudent investor would do, under the circumstances then prevailing and in light of the purposes, terms, distribution requirements and laws governing each investment fund.
  - (2) The standard stated in subsection (1) of this section requires the exercise of reasonable care, skill and caution, and is to be applied to investments not in isolation but in the context of each investment fund’s investment portfolio and as a part of an overall investment strategy, which should incorporate risk and return objectives reasonably suitable to the particular investment fund.
- B. Ethics and Conflicts of Interest: Officers involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions. Officers and employees shall, at all times, comply with the State of Oregon Government Standards and Practices code of ethics set forth in ORS Chapter 244, as well as all policies of the OST.
- C. Delegation of Authority: The Senior Investment Officer and Investment Officer(s) (or the Investment Analyst acting under the direction of the Investment Officers) shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with these Portfolio Rules. No person may engage in an investment transaction except as provided under the terms of these Portfolio Rules and the procedures established by OST staff. The Senior Investment Officer and Investment Officer(s) are jointly responsible for all transactions undertaken, and shall establish a reasonable system of controls to regulate the activities of subordinate employees.

**IV. Safekeeping and Custody**

- A. Authorized Financial Dealers and Institutions: All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply, as appropriate:
- (1) Audited financial statements
  - (2) Licensing Representation form provided by OST
  - (3) Understanding and acknowledgement of OSTF Portfolio Rules located at

- B. Internal Controls: The Senior Investment Officer and Investment Officer(s) jointly collaborate to establish and maintain an adequate internal control structure designed to reasonably protect the assets of the OSTF from loss, theft or misuse.
- C. Delivery vs. Payment: All trades where applicable will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds.
- D. Safekeeping: Securities will be held by a third-party custodian as evidenced by safekeeping receipts.

**V. Maturity Distribution of Portfolio**

- A. 50% of the portfolio must mature within 93 days.
- B. A maximum of 25% of the portfolio may mature over one year.
- C. No investment may mature in over 3 years as measured from settlement date. The OSTF Daily Compliance Report adheres to trade date accounting, thus creating potential short term exceptions on the Daily Compliance Report when a “new issue” 3-year security is purchased. Any such securities will be disclosed on the Daily Compliance Report, when purchased.
- D. For securities that have been called by the issuer, the effective call date will be used as a proxy for the maturity date.
- E. For securities with a put option, the date upon which the put option is fully exercisable for a value of at least 100% of the investment’s par or face amount will be used as a proxy for the maturity date.
- F. For variable rate securities, the period remaining to the next reset date will be used as a proxy for the maturity date.

G. For Asset-Backed Securities, the weighted average life (WAL) will be used as a proxy for the maturity date.

**VI. Diversification and Limitations of Portfolio**

- A. Eligible Securities:

Formatted: Font: (Default) Times New Roman, 12 pt

Formatted: Left, Indent: Left: 0.5", No bullets or numbering

Deleted:

- (1) U.S. Treasury Securities
  - a. 100% of the portfolio may be in U.S. Treasury securities.
  
- (2) Senior unsecured debt obligations guaranteed by the Federal Deposit Insurance Corporation (FDIC) under the Temporary Liquidity Guarantee Program (TLGP); Eligible TLGP debt obligations carry the full faith and credit of the United States.
  - a. 50% maximum of portfolio per FDIC-guarantee exposure.
  
- (3) U.S. Government Agency Securities
  - a. 100% of the portfolio may be in U.S. Government Agency securities.
  - b. 33% maximum of portfolio per agency issuer.
    - For newly issued Agency securities, and absent assigned ratings, “expected ratings” may be used as a proxy for assigned ratings for not more than 30 business days after the anticipated settlement date.
  
- (4) Foreign Government Securities and their Instrumentalities
  - a. 25% maximum of portfolio in foreign government securities and their instrumentalities.
  - b. 10% maximum of portfolio per issuer.
  - c. Foreign government securities must have minimum long-term ratings of AA-, Aa3, or AA-, or better, by Standard & Poor’s, Moody’s Investors Services, or Fitch Ratings, respectively, at the time of purchase.
  
- (5) Corporate Indebtedness
  - a. 50% maximum of portfolio in corporate indebtedness.
  - b. 5% maximum of portfolio per issuer in commercial paper and corporate notes.
  - c. Commercial Paper (CP) must have top-tier short term ratings by at least two of the following nationally recognized statistical rating organizations (NRSRO) at the time of purchase (Standard & Poor’s = minimum A-1, Moody’s Investors Services = minimum P-1, Fitch Ratings = minimum F1).
  - d. Corporate notes must have minimum long-term ratings of A-, A3, or A-, or better, by Standard & Poor’s, Moody’s Investors Services, or Fitch Ratings, respectively, at the time of purchase.
    - For newly issued corporate securities, and absent assigned ratings, “expected ratings” may be used as a proxy for actual ratings for not more than 30 business days after the anticipated settlement date.

- e. 25% maximum of portfolio in total foreign exposure (government and corporate indebtedness)

(6) Asset-Backed Securities (ABS)

- a. 15% maximum of portfolio in ABS limited to auto loan, equipment loan and credit card backed securities
- b. 5% maximum of portfolio per issuing trust
- c. ABS must have long term ratings of AAA, Aaa or AAA, or short term ratings of A-1+, P-1, or F-1+ by Standard & Poor's, Moody's Investor Services, or Fitch Ratings respectively, at the time of purchase.

(7) Negotiable Certificates of Deposit (NCD's)

- a. 20% maximum of portfolio in NCD's.
- b. 5% maximum of portfolio per issuer in domestic bank NCD's.
- c. NCD's must have minimum ratings of AA-, Aa3, or AA-, or better, by Standard & Poor's, Moody's Investors Services, or Fitch Ratings, respectively, at the time of purchase.

(8) Bankers' Acceptances (BA's)

- a. 20% maximum of portfolio in BA's.
- b. 5% maximum of portfolio per issuer in domestic bank BA's.
- c. BA's must have minimum ratings of AA-, Aa3, or AA-, or better, by Standard & Poor's, Moody's Investors Services, or Fitch Ratings, respectively, at the time of purchase.

(9) Time Certificates of Deposit (TCD's)

- a. 20% maximum of portfolio in TCD's.
- b. Permitted TCD's will be limited to qualified depositories as defined in ORS Chapter 295.005.
- c. Maximum TCD exposure per depository must be no more than 5% of the bank's total deposits, or \$100,000, whichever is greater. Maximum credit union exposure per depository shall be \$100,000.

(10) Municipal Debt

- a. Municipal debt obligations (agencies, instrumentalities, and political subdivisions) that have long-term ratings of AA-, Aa3 or AA-, or better, or are rated in the highest category for short-term municipal debt by Standard & Poor's, Moody's Investors Services, or Fitch Ratings, respectively, at the time of purchase.

Formatted: Indent: Left: 2", No bullets or numbering

Formatted

Deleted: the

Deleted: the

- b. Commercial Paper (CP) must have top-tier short term ratings by at least two of the following nationally recognized statistical rating organizations (NRSRO) at the time of purchase (Standard & Poor's = minimum A-1; Moody's Investors Services = minimum P-1/MIG1/VMIG1, Fitch Ratings = minimum F1).

(11) Repurchase Agreements

- a. Maximum maturity will be 90 days.
- b. Net capital of counterparty must be greater than \$100 million.
- c. Repurchase Agreements must equal no more than 2% of liabilities of the counterparty.
- d. No more than 5% of OSTF assets shall be placed with the same counterparty for repurchases.
- e. Counterparty must be a Primary Dealer as recognized by the Federal Reserve Bank. The only exception is OST's custodial agent as a non-primary dealer counterparty.
- f. The counterparty must have a signed repurchase agreement.
- g. Collateral must be delivered to the OST's account at its custodian or to an account established for the OST pursuant to the terms of the specific Repurchase Agreement in the name of the Office of the State Treasurer.
- h. Collateral for repurchase agreements may be U.S. Treasury or U.S. Agency Discount and Coupon securities only. Collateral must have a final maturity of three years or less. The market value of the delivered collateral must be maintained at not less than 102% of the cash invested.

(12) Reverse Repurchase Agreements

- a. Maximum maturity will be 90 days.
- b. Net capital of counterparty must be greater than \$100 million.
- c. Reverse Repurchase Agreements must equal no more than 2% of liabilities of the counterparty.
- d. No more than 5% of OSTF assets shall be placed with the same counterparty for reverse repurchase agreements.
- e. Counterparty must be a Primary Dealer as recognized by the Federal Reserve Bank.
- f. The counterparty must have a signed repurchase agreement.
- g. Acceptable reinvestment vehicles include securities that may otherwise be purchased outright.
- h. Securities will be reversed on a fully collateralized basis.
- i. Reverse repurchase investments for interest rate arbitrage shall only be done on a matched book basis.

- B. All portfolio investments will be denominated in US\$ only.
- C. 10% maximum of portfolio per issuer on all securities and support commitments with the exception of U.S. Treasury (100% maximum) and Government Agency securities (33% per issuer).
- D. Securities that have been downgraded to below the minimum ratings will be sold or held at the Senior Investment Officer’s (SIO) discretion. In the absence of the SIO, or if the SIO is inaccessible, Investment Officer(s) will have discretion to sell or hold the downgraded securities. Such securities will be disclosed in the OSTF Daily Compliance Report and actively monitored by OST staff. The Senior Investment Officer, or the Investment Officer(s), is responsible for bringing the OSTF back into compliance as soon as is practicable.
- E. A single rating will be determined for each investment based on the methodology:

To determine rating for each investment:

- i. When three NRSROs rate an issue, a median rating is used to determine eligibility by dropping the highest and/or lowest rating.
- ii. When a rating from only two NRSROs is available, the lower (“most conservative”) of the two is used.
- iii. When a rating from only one NRSRO is available, that rating is used.

To determine average rating for each security, a numeric value will be assigned to each nationally recognized statistical rating organization’s (NRSRO) rating based on the following scheme:

Value	Moody’s Ratings		S&P Ratings		Fitch Ratings	
	Long Term	Short Term	Long Term	Short Term	Long Term	Short Term
1	US Treasury		US Treasury		US Treasury	
1	Agency		Agency		Agency	
1	Aaa		AAA		AAA	
2	Aa1		AA+		AA+	
3	Aa2		AA		AA	
4	Aa3	P-1 <sup>h</sup>	AA-	A-1+	AA-	F-1+
5	A1	P-1	A+	A-1	A+	F-1
6	A2		A		A	
7	A3	P-2	A-	A-2	A-	F-2



8	Baa1		BBB+		BBB+	
9	Baa2		BBB		BBB	
10	Baa3		BBB-		BBB-	

F. The target weighted average credit quality of the portfolio shall be <3.50).

G. No commitments to buy or sell securities may be made more than 14 business days prior to the anticipated settlement date, or receive a fee other than interest for future deliveries.

**VII. Securities Lending for Reinvestment of Cash Collateral**

A. Acceptable reinvestment vehicles include securities that may otherwise be purchased outright in accordance with the Portfolio Rules for the Oregon Short Term Fund (Sections VI). Within the securities lending program only, cash collateral may also be reinvested in:

(1) Repurchase agreements collateralized by U.S. Treasury or U.S. Government Agency securities with a maximum original maturity of 30 years. No more than 25% of assets shall be placed with the same counterparty. Repurchase agreements may also be placed with the Federal Reserve Bank’s Repo facility.

B. Net capital of lending counterparty must be over \$100 million.

C. Securities will only be loaned on a fully collateralized basis.

D. Lending counterparty must be a Primary Dealer as recognized by the Federal Reserve Bank, and have a signed master securities lending agreement.

E. The market value of the delivered collateral must be maintained at not less than 102% of the market value of the securities loaned.

F. Notwithstanding Section VI.A.11 hereof, Reverse Repurchase Agreements are prohibited within the securities lending program.

**Deleted:** Maximum of 15% in asset backed securities rated AAA/Aaa, limited to auto loan and credit card issues with an average life of three years or less.

**Formatted:** Font: (Default) Times New Roman, 12 pt

**Formatted:** Normal, No bullets or numbering

---

<sup>i</sup> As part of OST cash management policies, the State Treasurer may establish interfund loans or lines of credit to state agencies experiencing short-term, transitory cash imbalances created in the conduct of legislatively approved agency activities. All requests will be in writing with supporting documentation and will be signed by the agency head in addition to governing board or commission approval, where applicable, and subject to final approval by OST management. OST has determined that, at the time of the advance, a maximum of 1.5% of monies held in the OSTF will be available per state agency, with the exception of the General Fund, which will be limited to 10.0% of monies in the OSTF. All state agencies receiving interfund loans provide compensation to the OSTF at generally the higher of: (1) the spread of the three year average yield of the Merrill Lynch U.S. Corporate & Government, 1-3 Years, AA Rated and Above Index over the U.S. Treasury 2 Year Note plus an illiquidity premium of 50 basis points, or (2) the statutory minimum rate outlined in ORS 293.220.

<sup>ii</sup> Unlike S&P, Moody's does not differentiate short term ratings with a plus (+), which indicates that the obligor's capacity to meet its financial commitment on these obligations is extremely strong. As such, in terms of average credit quality valuation, Moody's short term ratings/valuations will correspond to the lowest S&P short term ratings/valuations.

DRAFT

## Oregon Short Term Fund Recommended Policy Revision

### Purpose

Staff recommends a policy modification to allow investment in Auto, Credit Card and Equipment Asset Backed Securities (ABS) in the Oregon Short Term Fund (OSTF). ABS securities will be limited to a maximum of 15% of the fund, must carry ratings of AAA/Aaa/AAA or A1+/P1/F1+, and have a weighted average life of 3 years or less at the time of purchase.

### Background

The OSTF is designed to be a high quality and liquid fund. Currently the fund primarily invests in U.S. government, foreign government, corporate and municipal obligations. The addition of ABS securities will open up a significant market of high quality, liquid and stable performing assets.

As the fund continues to grow and as markets continue to change access to additional liquid and high quality assets will greatly assist staff and Treasury in serving their State and Local Government clients.

### Discussion/Investment Considerations

- Access to a large pool of highly rated and liquid assets – adding ABS securities to the fund will open up a large pool of AAA-rated US dollar assets. Currently the consumer ABS market is a \$550 billion market, 85% of which is AAA-rated product.
- Active new issue and secondary markets – the ABS market is a short duration market with an active new issue cycle allowing the OSTF to source meaningful allocations in the primary markets. Given the market size and routine new issuance cycle, secondary markets for consumer ABS are considered liquid.
- Stable and consistent performance – the Auto, Credit Card and Equipment ABS markets have a strong and consistent performance history, including strong performance throughout the global financial crisis.
- Increased diversification potential – allowing AAA-rated ABS into the fund gives staff another option when allocating funds amongst sectors of the bond market which leads to increased potential of benefiting from diversification.
- High quality, stable and familiar issuer base – many issuers in the target market are held in the OSTF currently including; Honda, Toyota, John Deere, American Express, Bank of America, Capital One and General Electric.

Please refer to the attached materials for additional information on the ABS market and opportunity for the OSTF.

# OSTF Asset-Backed Securities

# Benefits of Adding ABS

- Large stock and flow of AAA-rated US Dollar product
- Active new issuance and secondary trading markets
- Strong and stable performance and ratings history
- Diversification from corporate credit risk

# Consumer ABS Market

- Large market in terms of outstanding volume and issuance. According to Wells Fargo Securities, over \$550 Billion of outstanding Consumer ABS, 85% of which is AAA rated product
- In 2013 nearly \$163 billion of new issuance
- Well known and high quality issuer/servicer base

2013 Rank	Issuer Name	Issuance (\$ millions)
1	Ford Credit	12,029
2	Citibank	11,450
3	Sallie Mae	9,605
4	Ally Bank	8,352
5	Chase	7,660
6	Santander Drive	6,800
7	Nissan	6,504
8	Hyundai	6,471
9	Americredit	6,095
10	Honda	5,500
11	Discover	4,550
12	Mercedes Benz	4,294
13	Volkswagen	4,000
14	Carmax	3,965
15	CNH	3,922
16	American Express	3,494
17	GE	3,433
18	Nelnet	3,220
19	World Omni	2,781
20	Toyota	2,250
21	Capital One	2,200
22	BMW	1,750
23	Fifth Third Bank	1,750
24	John Deere	1,700
25	Hertz	1,450

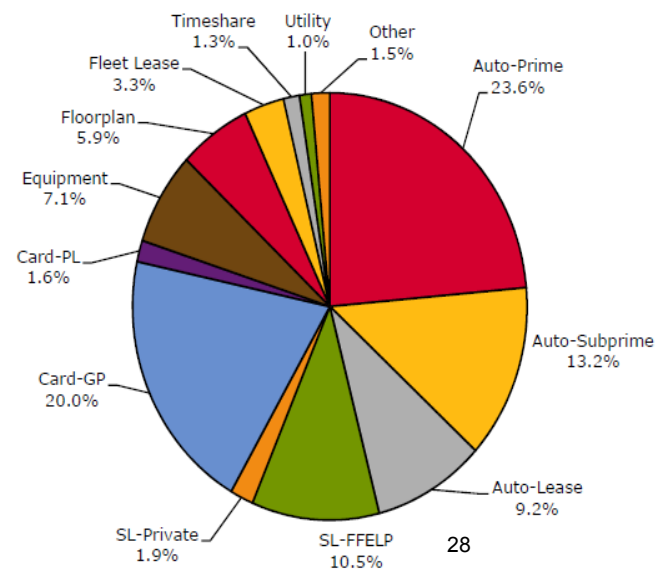
Source: Informa Global Markets, Bloomberg, Wells Fargo Securities, LLC.

2013 ABS Issuance by Average Life

Avg. Life (yrs.)	Issuance (Million \$)	% of Total
0 - 1	23,873	14.6%
>1 - 2	43,251	26.5%
>2 - 3	44,652	27.4%
>3 - 4	14,546	8.9%
>4 - 5	20,394	12.5%
>5 - 7	13,348	8.2%
>7	3,022	1.9%
<b>Total</b>	<b>163,086</b>	

2013 ABS Issuance by Rating Category

Rating	Issuance (Million \$)	% of Total
A1/P1	17,159	10.5%
AAA	122,104	74.9%
AA	11,146	6.8%
A	8,312	5.1%
BBB	3,179	1.9%
BB/B	962	0.6%
NR	225	0.1%
<b>Total</b>	<b>163,086</b>	



Source: Bloomberg, Informa Global Markets, Wells Fargo Securities, LLC.

Market WAL = 2.75 years.

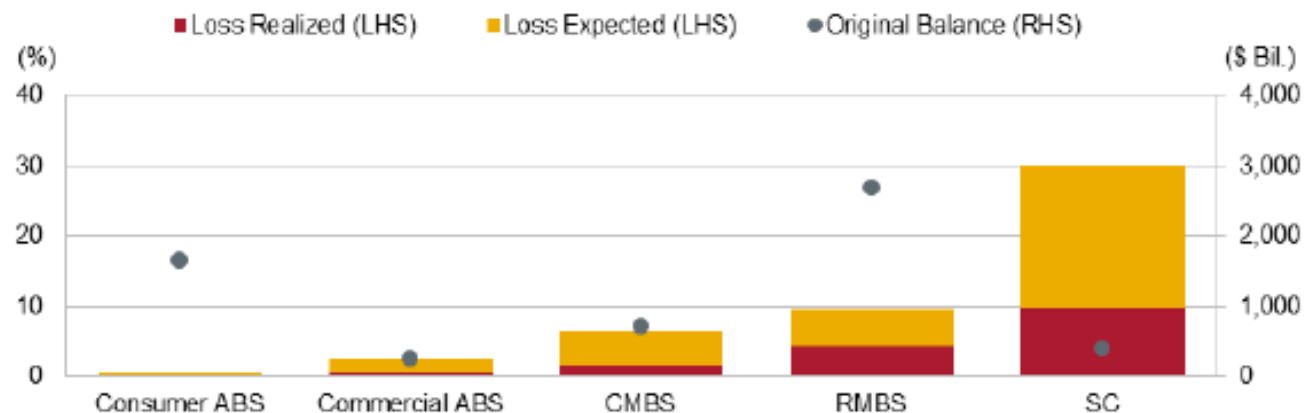
Source: Bloomberg, Informa Global Markets, Wells Fargo Securities, LLC.

# Consumer ABS: A Resilient Asset Class

In a recent study by Fitch Ratings (Global Structured Finance Losses, 2000-2012 Issuance; October 2, 2013) the following conclusion was reached regarding U.S. ABS product:

*“Despite some variation in rating performance across subsectors, which results from the wide range of collateral, overall U.S. ABS losses are low at 0.4%. Consumer assets, which account for 29.1% of the overall U.S. SF balance, particularly proved their resilience through the crisis. No losses are expected on credit card transactions, only one auto ABS tranche is expected to incur a loss and student loan transactions have low total losses of 0.5%. Total losses are higher at 2.6% and 2.2% for commercial and other asset types, respectively.”*

**U.S. SF Losses by Asset Class**



LHS - Left hand side. RHS - Right hand side.

Source: Fitch Ratings

# Stability in Ratings and Spread Volatility

Consumer ABS has historically enjoyed ratings stability and relatively muted spread volatility. Addition of AAA-rated ABS into the OSTF will help by adding a diversifying asset into the fund.

A recent study on ratings stability performed by Fitch Ratings (U.S. Consumer ABS Ratings Stay the Course; October 28, 2013) concludes:

“U.S. consumer ABS ratings have historically proven to be one of the most resilient sectors within structured finance, as this sector was able to withstand the unprecedented negative economic pressures of the 2008–2009 recession. There are several attributes that contribute to the positive rating performance seen across the U.S. consumer ABS sector, including: structural features in most ABS transactions that allow rapid deleveraging; conservative loss expectations and stresses that were derived by taking into account prior recessionary periods; relatively stable underwriting patterns; stable or increasing credit enhancement levels; plain vanilla structures; and retained interest by originators.”

As the chart illustrates below, from July of 2007 through June of 2013, 99.5% of Auto ABS and 99% of Credit Card ABS either paid in full or unchanged in rating.

## Fitch U.S. Consumer ABS Rating Stability Summary

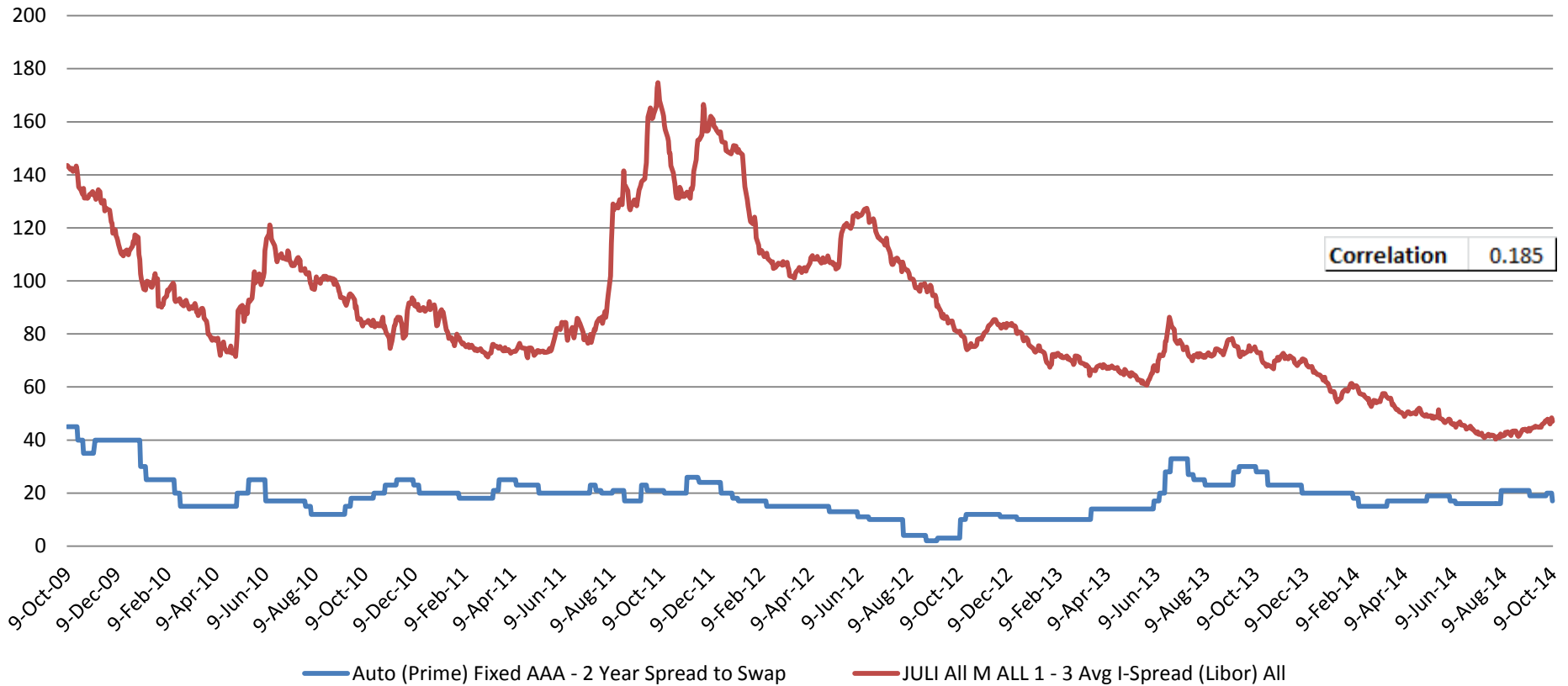
(%, July 1, 2007–June 30, 2013)<sup>a</sup>

	Stable/PIF
U.S. Auto ABS	99.5
U.S. Credit Card ABS	99.0
U.S. Student Loan ABS	75.0

<sup>a</sup>Excludes private, insured and interest-only bonds. Source: Fitch Ratings



## Auto ABS (2 Year AAA) & Corporate Spreads (JPM 1-3 Year Investment Grade)



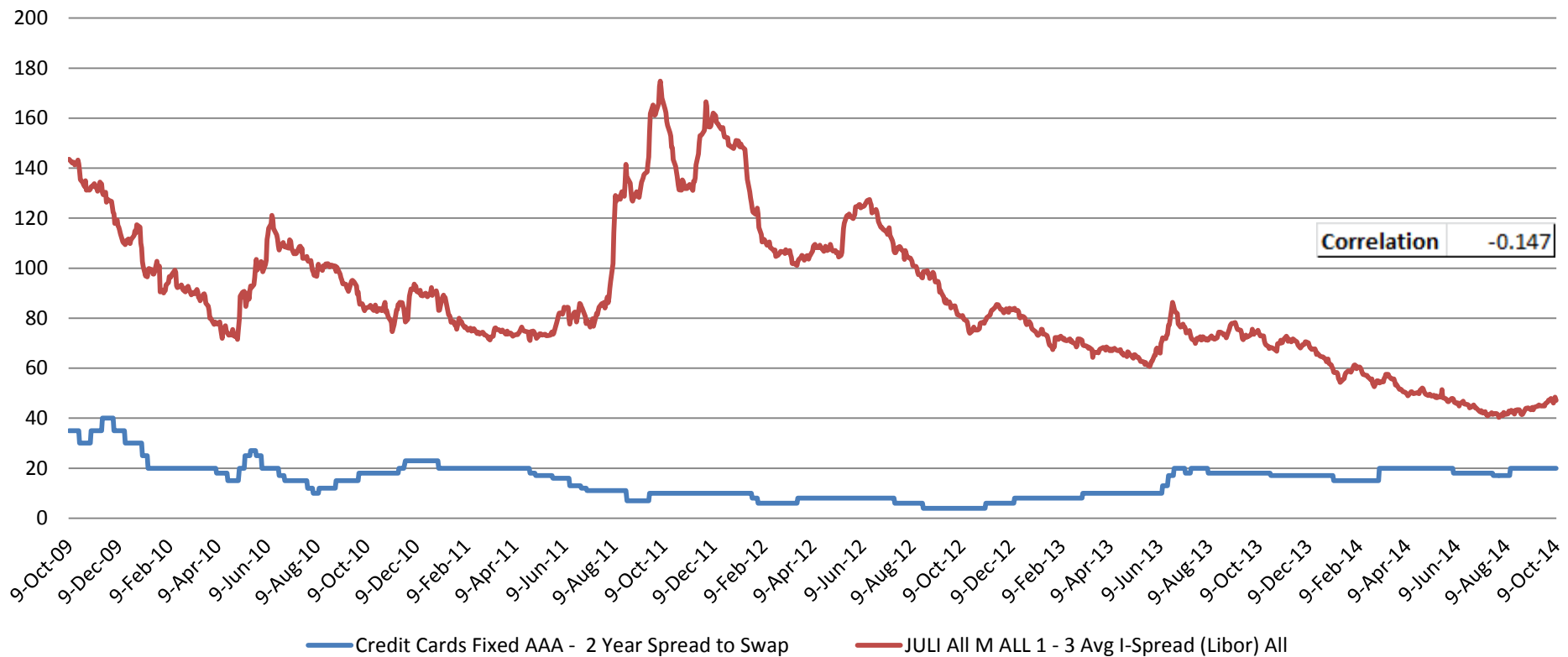
Spread Series	Minimum-value	Maximum-value	Mean	Standard Deviation	Observations
Auto (Prime) Fixed AAA - 2 Year Spread to Swap	2.00	45.00	18.68	7.38	1,250
JULI All M ALL 1 - 3 Avg I-Spread (Libor)	40.36	174.80	87.66	28.40	1,250

AAA-rated Auto ABS has historically experienced muted spread volatility when compared to the JPM JULI 1-3 Year Investment Grade corporate bond index (JP Morgan US Liquid Index)

Source: JP Morgan

The J.P. Morgan US Liquid Index (JULI) measures the performance of the investment grade dollar denominated corporate bond market. The JULI focuses on the most liquid instruments with the objective of making the index a fair and true representation of the investable market

## Credit Card ABS (2 Year AAA) & Corporate Spreads (JPM 1-3 Year Investment Grade)



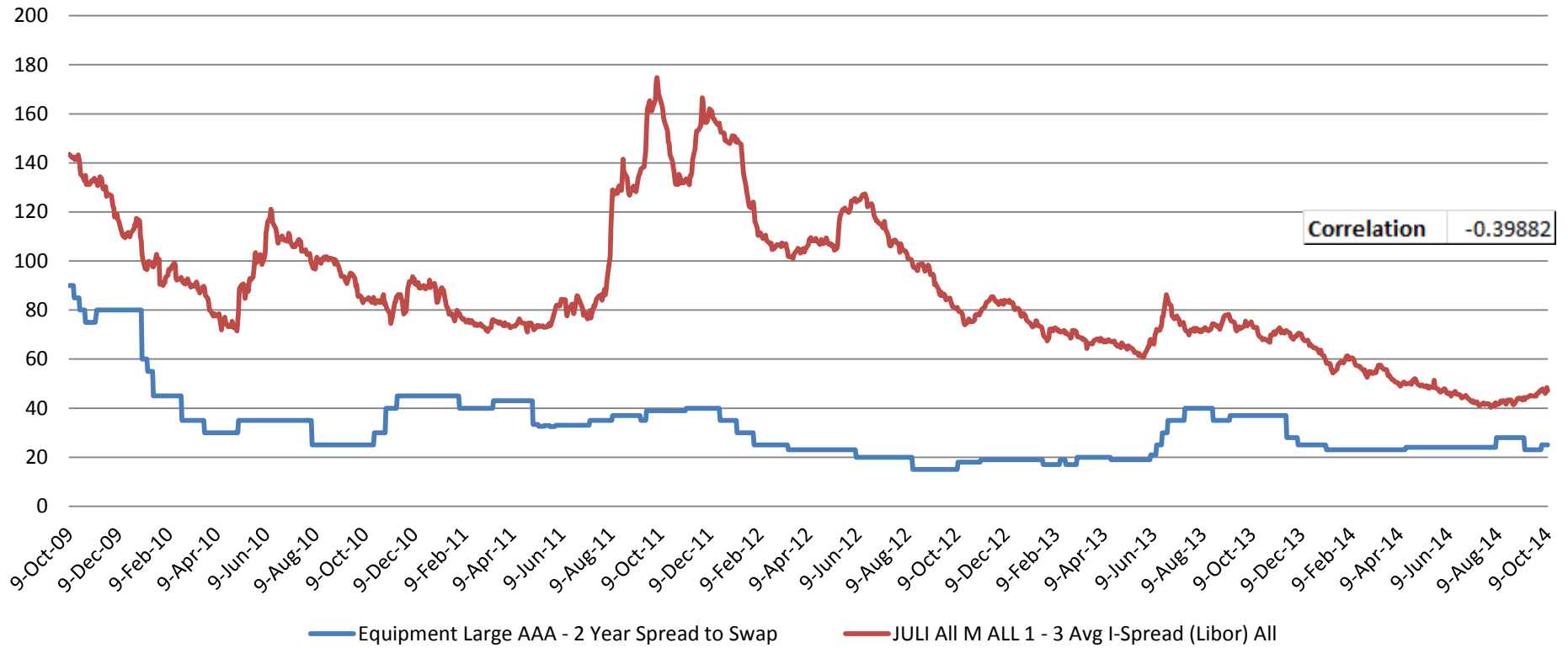
Spread Series	Minimum-value	Maximum-value	Mean	Standard Deviation	Observations
Credit Cards Fixed AAA - 2 Year Spread to Swap	4.00	40.00	15.07	6.94	1,250
JULI All M ALL 1 - 3 Avg I-Spread (Libor) All	40.36	174.80	87.66	28.40	1,250

Similar to Auto ABS, AAA-rated Credit Card ABS has historically experienced muted spread volatility when compared to the JPM JULI 1-3 Year Investment Grade corporate bond index

Source: JP Morgan

The J.P. Morgan US Liquid Index (JULI) measures the performance of the investment grade dollar denominated corporate bond market. The JULI focuses on the most liquid instruments with the objective of making the index a fair and true representation of the investable market

## Equipment ABS (2 Year AAA) & Corporate Spreads (JPM 1-3 Year Investment Grade)



Spread Series	Minimum-value	Maximum-value	Mean	Standard Deviation	Observations
Equipment Large AAA - 2 Year Spread to Swap	15.00	90.00	31.91	13.89	1,250
JULI All M ALL 1 - 3 Avg I-Spread (Libor) All	40.36	174.80	87.66	28.40	1,250

AAA-rated Equipment ABS has experienced muted spread volatility when compared to the JPM JULI 1-3 Year Investment Grade corporate bond index, however the asset class has been modestly more volatile than Auto and Credit Card.

Source: JP Morgan

The J.P. Morgan US Liquid Index (JULI) measures the performance of the investment grade dollar denominated corporate bond market. The JULI focuses on the most liquid instruments with the objective of making the index a fair and true representation of the investable market



OSTF Compliance Summary  
As of August 31, 2014

	<u>In Compliance</u>	<u>Objective</u>	<u>Actual</u>
<b>Maturity Distribution of Portfolio</b>			
Percent of Portfolio to Mature Within 93 Days	YES	>50%	65.14%
Percent of Portfolio to Mature Over One Year	YES	<25%	22.15%
Securities Maturing In Over 3 Years From Settlement	YES	None	0.00%

**Notes**

- (1) For securities that have been called by the issuer, the effective call date is used as a proxy for the maturity date.
- (2) For securities with a put option, the date upon which the put option is fully exercisable for a value of at least 100% of the investment's par or face amount is used as a proxy for the maturity date
- (3) For variable rate securities, the period remaining to the next reset date is used as a proxy for the maturity date.

**Diversification & Limitations of Portfolio**

**Asset Class Diversification**

Corporate Indebtedness	YES	<50%	49.81%
Time Certificates of Deposit	YES	<20%	0.70%
Negotiable Certificates of Deposit	YES	<20%	0.00%
Bankers' Acceptance	YES	<20%	0.00%

**Issuer Diversification**

Agency Securities, Largest Holdings by a single Issuer	YES	< 33%	13.10%
Corporate Indebtedness in CPs and notes, Issuer Exposure (Excludes FDIC guaranteed issues)	YES	< 5%	3.10%
Corporate Indebtedness, Parent Company Exposure (Excludes FDIC Guaranteed issues)	YES	< 10%	3.10%
Foreign Government and Foreign Corporate Debt	YES	< 25%	22.72%
Foreign Government securities maximum per issuer	YES	< 10%	2.74%

**Credit Quality**

Portfolio Weighted Average Credit Quality *	YES	< 3.50	3.49
---	-----	--------	------

\* By policy, credit ratings are assigned a numeric value to determine weighted average credit quality, as follows: AAA = 1, AA+ = 2, AA = 3, AA- = 4, etc. The calculation does not include Time Certificates of Deposit, which are unrated securities.

**Trade Commitments**

Open trades, > 14 business days from trade to settle	YES	0	0
--	-----	---	---

**Other Fund Information**

Weighted Average Maturity			224 days
Oregon Short Term Fund Paid Rate			0.54%

<u>Investment Type</u>	<u>Security Name</u>	<u>Legal Maturity Date</u>	<u>Coupon/Discount Rate</u>	<u>Par Value</u>	<u>Original Cost</u>
Corporate	ABBEY NATL TREASURY SERV	3/13/2017	0.74	25,000,000.00	25,000,000.00
Corporate	AMERICA MOVIL SAB DE CV	9/12/2016	1.23	79,500,000.00	79,532,805.00
Corporate	AMERICAN EXPRESS CREDIT	7/29/2016	0.74	20,000,000.00	20,000,000.00
Corporate	AMERICAN EXPRESS CREDIT	9/19/2016	2.80	6,863,000.00	7,150,422.44
Corporate	AMERICAN EXPRESS CREDIT	6/5/2017	0.50	24,050,000.00	24,054,046.00
Corporate	AMERICAN HONDA FINANCE	5/26/2016	0.61	70,000,000.00	70,000,000.00
Corporate	AMERICAN HONDA FINANCE	10/7/2016	0.73	38,760,000.00	38,825,095.20
Corporate	AMERICAN HONDA FINANCE	7/14/2017	0.40	35,000,000.00	35,000,000.00
Corporate	AMERICAN HONDA FINANCE	7/14/2017	1.20	15,000,000.00	14,978,850.00
Corporate	ANHEUSER BUSCH INBEV FIN	1/27/2017	0.43	20,000,000.00	20,000,000.00
Corporate	ANHEUSER BUSCH INBEV FIN	1/27/2017	1.13	10,000,000.00	9,995,600.00
Corporate	APPLE INC	5/3/2016	0.29	30,000,000.00	29,990,200.00
Corporate	APPLE INC	5/5/2017	0.31	35,000,000.00	35,003,400.00
Corporate	AT+T INC	2/12/2016	0.62	20,000,000.00	20,000,000.00
Corporate	AUST + NZ BANKING GRP NY	2/12/2016	0.90	10,000,000.00	9,989,100.00
Corporate	AUST + NZ BANKING GRP NY	1/10/2017	1.25	10,000,000.00	9,999,400.00
Corporate	AUST + NZ BANKING GRP NY	6/13/2017	1.25	20,000,000.00	19,996,400.00
Corporate	BANK OF AMERICA CORP	1/15/2015	5.00	11,144,000.00	11,954,168.80
Corporate	BANK OF AMERICA CORP	9/30/2015	5.30	14,314,000.00	15,658,514.02
Corporate	BANK OF AMERICA CORP	10/9/2015	1.50	25,000,000.00	25,058,000.00
Corporate	BANK OF AMERICA CORP	3/22/2016	1.05	55,000,000.00	55,000,000.00
Corporate	BANK OF AMERICA CORP	7/12/2016	3.75	21,327,000.00	22,513,801.46
Corporate	BANK OF AMERICA CORP	11/21/2016	1.35	40,000,000.00	39,989,600.00
Corporate	BANK OF AMERICA CORP	8/25/2017	0.84	7,000,000.00	7,000,000.00
Corporate	BANK OF AMERICA CORP	8/25/2017	1.70	4,500,000.00	4,495,275.00
Corporate	BANK OF AMERICA NA	6/15/2016	0.51	38,600,000.00	38,338,898.00
Corporate	BANK OF AMERICA NA	11/14/2016	0.70	50,000,000.00	50,000,000.00
Corporate	BANK OF AMERICA NA	11/14/2016	1.13	25,000,000.00	24,981,500.00
Corporate	BANK OF AMERICA NA	2/14/2017	0.70	30,000,000.00	30,000,000.00
Corporate	BANK OF AMERICA NA	2/14/2017	1.25	10,000,000.00	9,991,200.00
Corporate	BANK OF MONTREAL	9/11/2015	0.70	50,000,000.00	50,000,000.00
Corporate	BANK OF MONTREAL	7/15/2016	0.75	25,000,000.00	25,000,000.00
Corporate	BANK OF MONTREAL	7/14/2017	1.30	10,000,000.00	9,999,700.00
Corporate	BANK OF NOVA SCOTIA	1/12/2015	1.27	50,000,000.00	50,000,000.00
Corporate	BANK OF NOVA SCOTIA	3/15/2016	0.63	50,000,000.00	50,000,000.00
Corporate	BANK OF NOVA SCOTIA	7/15/2016	0.75	25,000,000.00	25,000,000.00
Corporate	BANK OF NOVA SCOTIA	7/15/2016	1.38	10,000,000.00	9,990,900.00
Corporate	BANK OF NOVA SCOTIA	12/13/2016	0.65	65,000,000.00	65,000,000.00
Corporate	BANK OF NOVA SCOTIA	3/17/2017	0.80	29,515,000.00	29,397,425.00
Corporate	BANK OF NOVA SCOTIA	3/27/2017	0.75	50,000,000.00	50,000,000.00
Corporate	BANK OF NOVA SCOTIA	4/11/2017	1.25	10,000,000.00	9,992,100.00
Corporate	BANK OF NOVA SCOTIA	7/21/2017	1.30	25,000,000.00	24,982,500.00
Corporate	BARCLAYS BANK PLC	11/18/2016	1.05	50,000,000.00	50,000,000.00
Corporate	BARCLAYS BANK PLC	11/27/2016	0.82	50,000,000.00	50,000,000.00
Corporate	BARCLAYS BANK PLC	12/9/2016	0.77	8,680,000.00	8,694,235.20
Corporate	BARCLAYS BANK PLC	4/13/2017	0.64	25,000,000.00	25,000,000.00
Corporate	BERKSHIRE HATHAWAY FIN	8/15/2016	0.95	7,000,000.00	6,986,700.00
Corporate	BERKSHIRE HATHAWAY FIN	1/10/2017	0.38	40,000,000.00	40,012,400.00

<u>Investment Type</u>	<u>Security Name</u>	<u>Legal Maturity Date</u>	<u>Coupon/Discount Rate</u>	<u>Par Value</u>	<u>Original Cost</u>
Corporate	BERKSHIRE HATHAWAY INC	2/11/2016	0.80	7,000,000.00	6,999,370.00
Corporate	BERKSHIRE HATHAWAY INC	1/31/2017	1.90	15,000,000.00	15,372,750.00
Corporate	BLACKROCK INC	6/1/2015	1.38	10,000,000.00	9,988,500.00
Corporate	BNP PARIBAS	2/23/2016	3.60	12,301,000.00	12,905,188.15
Corporate	BNP PARIBAS	12/12/2016	0.82	40,681,000.00	40,804,180.80
Corporate	BNP PARIBAS	12/12/2016	1.25	23,965,000.00	24,016,993.00
Corporate	BNP PARIBAS	3/17/2017	0.71	20,000,000.00	20,009,900.00
Corporate	BNP PARIBAS	3/17/2017	1.38	10,000,000.00	9,998,100.00
Corporate	BP CAPITAL MARKETS PLC	12/5/2014	1.70	15,000,000.00	14,999,100.00
Corporate	BP CAPITAL MARKETS PLC	11/6/2015	0.70	17,630,000.00	17,604,568.30
Corporate	BP CAPITAL MARKETS PLC	3/11/2016	3.20	20,707,000.00	21,960,488.18
Corporate	BP CAPITAL MARKETS PLC	11/7/2016	0.66	15,000,000.00	15,000,000.00
Corporate	BPCE SA	6/23/2017	0.84	30,000,000.00	30,000,000.00
Corporate	BRANCH BANKING + TRUST	10/28/2015	0.57	50,000,000.00	50,000,000.00
Corporate	CAPITAL ONE BANK USA NA	11/21/2016	0.78	25,000,000.00	25,000,000.00
Corporate	CATERPILLAR FINANCIAL SE	5/29/2015	1.10	5,000,000.00	4,998,400.00
Corporate	CATERPILLAR FINANCIAL SE	11/6/2015	0.70	10,000,000.00	9,990,800.00
Corporate	CATERPILLAR FINANCIAL SE	2/26/2016	0.47	25,000,000.00	25,000,000.00
Corporate	CATERPILLAR FINANCIAL SE	11/25/2016	1.00	20,000,000.00	19,984,200.00
Corporate	CATERPILLAR FINANCIAL SE	3/3/2017	0.46	45,000,000.00	45,000,000.00
Corporate	CATERPILLAR FINANCIAL SE	8/18/2017	1.25	10,000,000.00	9,995,000.00
Corporate	CATERPILLAR INC	6/26/2017	1.50	7,750,000.00	7,840,055.00
Corporate	CHEVRON CORP	6/24/2016	0.89	10,000,000.00	10,000,000.00
Corporate	CISCO SYSTEMS INC	3/3/2017	0.51	25,000,000.00	25,000,000.00
Corporate	CISCO SYSTEMS INC	3/3/2017	1.10	15,000,000.00	15,065,950.00
Corporate	CITIGROUP INC	12/15/2015	4.59	498,000.00	524,727.66
Corporate	CITIGROUP INC	1/15/2016	1.25	2,226,000.00	2,234,570.10
Corporate	CITIGROUP INC	4/1/2016	1.02	49,313,000.00	49,380,332.99
Corporate	CITIGROUP INC	4/1/2016	1.30	25,000,000.00	25,087,375.00
Corporate	CITIGROUP INC	7/25/2016	1.19	20,000,000.00	20,000,000.00
Corporate	CITIGROUP INC	7/25/2016	1.70	12,000,000.00	12,158,520.00
Corporate	CITIGROUP INC	11/15/2016	0.91	25,600,000.00	25,665,230.00
Corporate	CITIGROUP INC	11/15/2016	1.30	40,000,000.00	40,034,950.00
Corporate	CITIGROUP INC	3/10/2017	0.77	56,680,000.00	56,691,062.88
Corporate	CITIGROUP INC	8/14/2017	1.55	40,000,000.00	39,944,000.00
Corporate	CNOOC FINANCE 2013 LTD	5/9/2016	1.13	21,150,000.00	21,087,732.50
Corporate	CNOOC FINANCE 2014 ULC	4/30/2017	1.63	26,646,000.00	26,597,201.36
Corporate	COCA COLA CO/THE	11/1/2016	0.34	10,000,000.00	10,015,800.00
Corporate	COCA COLA CO/THE	11/1/2016	0.75	15,000,000.00	14,982,750.00
Corporate	COMCAST CORP	6/15/2016	4.95	22,000,000.00	24,315,720.00
Corporate	COMMONWEALTH BANK AUST	2/13/2015	1.50	100,000,000.00	100,000,000.00
Corporate	COMMONWEALTH BK AUSTR NY	3/13/2017	1.13	25,000,000.00	24,956,750.00
Corporate	CREDIT SUISSE NEW YORK	5/26/2017	1.38	10,000,000.00	9,977,900.00
Corporate	DAIMLER FINANCE NA LLC	9/15/2014	1.88	9,675,000.00	9,776,331.00
Corporate	DEUTSCHE BANK AG LONDON	2/13/2017	0.84	75,000,000.00	75,000,000.00
Corporate	DUKE ENERGY FLORIDA INC	11/15/2015	0.65	4,000,000.00	3,996,440.00
Corporate	DUKE ENERGY INDIANA INC	7/11/2016	4.90	7,000,000.00	7,000,000.00
Corporate	DUKE ENERGY PROGRESS INC	3/6/2017	0.43	7,000,000.00	7,000,000.00

<u>Investment Type</u>	<u>Security Name</u>	<u>Legal Maturity Date</u>	<u>Coupon/Discount Rate</u>	<u>Par Value</u>	<u>Original Cost</u>
Corporate	EBAY INC	7/28/2017	0.44	50,000,000.00	50,000,000.00
Corporate	EXXON MOBIL CORPORATION	3/15/2017	0.27	25,000,000.00	25,000,000.00
Corporate	FIFTH THIRD BANK	2/26/2016	0.64	70,000,000.00	69,982,000.00
Corporate	FIFTH THIRD BANK	11/18/2016	0.74	50,000,000.00	50,000,000.00
Corporate	GENERAL ELEC CAP CORP	7/2/2015	1.26	25,000,000.00	25,000,000.00
Corporate	GENERAL ELEC CAP CORP	7/2/2015	1.63	25,000,000.00	24,978,750.00
Corporate	GENERAL ELEC CAP CORP	8/7/2015	0.88	75,000,000.00	75,000,000.00
Corporate	GENERAL ELEC CAP CORP	9/30/2015	0.88	11,062,000.00	11,098,956.84
Corporate	GENERAL ELEC CAP CORP	12/11/2015	0.83	57,378,000.00	57,760,376.94
Corporate	GENERAL ELEC CAP CORP	1/8/2016	5.00	27,200,000.00	30,025,280.00
Corporate	GENERAL ELEC CAP CORP	1/14/2016	0.46	20,000,000.00	20,000,000.00
Corporate	GENERAL ELEC CAP CORP	7/12/2016	0.88	85,000,000.00	85,024,090.00
Corporate	GENERAL ELEC CAP CORP	7/12/2016	1.50	19,579,000.00	19,633,543.84
Corporate	GENERAL ELEC CAP CORP	4/27/2017	2.30	10,000,000.00	10,302,000.00
Corporate	GENERAL ELEC CAP CORP	5/15/2017	0.51	30,000,000.00	30,000,000.00
Corporate	GEORGIA POWER COMPANY	8/10/2015	0.75	7,500,000.00	7,495,125.00
Corporate	GLAXOSMITHKLINE CAP INC	3/18/2016	0.70	32,000,000.00	31,872,040.00
Corporate	GOLDMAN SACHS GROUP INC	5/3/2015	3.30	20,000,000.00	20,695,200.00
Corporate	GOLDMAN SACHS GROUP INC	7/22/2015	0.63	54,954,000.00	54,311,376.66
Corporate	GOLDMAN SACHS GROUP INC	11/23/2015	1.60	15,000,000.00	15,083,400.00
Corporate	GOLDMAN SACHS GROUP INC	3/22/2016	0.68	120,332,000.00	119,557,833.86
Corporate	GOLDMAN SACHS GROUP INC	4/3/2016	0.88	7,785,000.00	7,773,322.50
Corporate	GOLDMAN SACHS GROUP INC	10/1/2016	5.75	56,635,000.00	63,781,162.95
Corporate	GOLDMAN SACHS GROUP INC	6/4/2017	0.85	75,000,000.00	75,000,000.00
Corporate	HARLEY DAVIDSON FINL SER	9/15/2015	1.15	10,000,000.00	10,028,816.80
Corporate	HSBC FINANCE CORP	6/30/2015	5.00	29,727,000.00	31,007,521.11
Corporate	HSBC USA INC	6/23/2017	0.53	15,000,000.00	15,000,000.00
Corporate	HSBC USA INC	6/23/2017	1.30	7,000,000.00	6,989,360.00
Corporate	IBM CORP	2/6/2015	0.55	7,500,000.00	7,463,325.00
Corporate	IBM CORP	2/5/2016	0.31	50,000,000.00	50,000,000.00
Corporate	JOHN DEERE CAPITAL CORP	12/10/2015	1.05	15,000,000.00	15,000,000.00
Corporate	JOHN DEERE CAPITAL CORP	1/22/2016	0.75	10,000,000.00	9,989,400.00
Corporate	JOHN DEERE CAPITAL CORP	2/25/2016	0.33	20,000,000.00	20,000,000.00
Corporate	JOHN DEERE CAPITAL CORP	4/12/2016	0.36	10,000,000.00	10,000,000.00
Corporate	JOHNSON + JOHNSON	11/28/2016	0.31	25,000,000.00	25,000,000.00
Corporate	JPMORGAN CHASE + CO	9/15/2014	5.13	30,000,000.00	32,063,417.56
Corporate	JPMORGAN CHASE + CO	3/20/2015	1.28	60,000,000.00	60,319,250.00
Corporate	JPMORGAN CHASE + CO	10/15/2015	0.89	65,000,000.00	65,000,000.00
Corporate	JPMORGAN CHASE + CO	2/26/2016	0.85	95,000,000.00	95,180,000.00
Corporate	JPMORGAN CHASE + CO	3/31/2016	0.95	41,900,000.00	41,575,626.00
Corporate	JPMORGAN CHASE + CO	2/15/2017	0.75	75,000,000.00	75,000,000.00
Corporate	JPMORGAN CHASE + CO	2/15/2017	1.35	10,000,000.00	9,995,000.00
Corporate	KEY BANK NA	11/25/2016	0.72	25,000,000.00	25,000,000.00
Corporate	KIMBERLY CLARK CORP	5/19/2016	0.28	10,000,000.00	10,000,000.00
Corporate	MBNA CORP	6/15/2015	5.00	20,605,000.00	22,319,129.95
Corporate	MERCK + CO INC	5/18/2016	0.42	15,000,000.00	15,000,000.00
Corporate	METLIFE INC	6/1/2016	6.75	4,000,000.00	4,481,400.00
Corporate	MISSISSIPPI POWER CO	10/15/2016	2.35	9,000,000.00	9,296,730.00

<u>Investment Type</u>	<u>Security Name</u>	<u>Legal Maturity Date</u>	<u>Coupon/Discount Rate</u>	<u>Par Value</u>	<u>Original Cost</u>
Corporate	MONSANTO CO	11/7/2016	0.44	12,000,000.00	12,000,000.00
Corporate	MORGAN STANLEY	4/28/2015	6.00	30,500,000.00	32,803,550.00
Corporate	MORGAN STANLEY	10/15/2015	0.71	101,511,000.00	99,491,463.75
Corporate	MORGAN STANLEY	11/2/2015	3.45	7,892,000.00	8,158,347.17
Corporate	MORGAN STANLEY	2/25/2016	1.48	79,894,000.00	79,932,515.78
Corporate	MORGAN STANLEY	6/6/2016	1.25	143,297,000.00	143,247,218.00
Corporate	MORGAN STANLEY	10/18/2016	0.68	10,000,000.00	9,946,100.00
Corporate	NATIONAL AUSTRALIA BANK	10/8/2015	0.73	30,000,000.00	30,041,700.00
Corporate	NATIONAL AUSTRALIA BK LT	8/7/2015	1.37	10,000,000.00	10,000,000.00
Corporate	NATIONAL AUSTRALIA BK LT	8/7/2015	1.60	15,000,000.00	14,990,400.00
Corporate	NATIONAL AUSTRALIA BK LT	7/25/2016	0.78	75,000,000.00	75,000,000.00
Corporate	NATIONAL BANK OF CANADA	6/26/2015	1.50	12,500,000.00	12,469,750.00
Corporate	NATIONAL RURAL UTIL COOP	5/27/2016	0.48	27,785,000.00	27,780,796.10
Corporate	NATIONAL RURAL UTIL COOP	11/23/2016	0.53	50,000,000.00	50,000,000.00
Corporate	ORACLE CORP	7/7/2017	0.43	50,000,000.00	50,000,000.00
Corporate	PACCAR FINANCIAL CORP	2/8/2016	0.50	15,000,000.00	15,000,000.00
Corporate	PACCAR FINANCIAL CORP	5/16/2016	0.75	13,900,000.00	13,873,800.00
Corporate	PACCAR FINANCIAL CORP	8/16/2016	1.15	20,000,000.00	19,980,600.00
Corporate	PACCAR FINANCIAL CORP	6/6/2017	0.42	9,000,000.00	9,000,000.00
Corporate	PEPSICO INC	2/26/2016	0.44	27,500,000.00	27,500,000.00
Corporate	PFIZER INC	5/15/2017	0.38	50,000,000.00	50,000,000.00
Corporate	PNC BANK NA	4/29/2016	0.55	25,000,000.00	25,000,000.00
Corporate	PROCTER + GAMBLE CO/THE	11/4/2016	0.32	20,000,000.00	20,000,000.00
Corporate	ROCKWELL COLLINS INC	12/15/2016	0.58	8,000,000.00	8,000,000.00
Corporate	ROYAL BANK OF CANADA	11/15/2016	0.75	50,000,000.00	49,925,000.00
Corporate	ROYAL BANK OF CANADA	1/23/2017	0.56	65,000,000.00	65,000,000.00
Corporate	ROYAL BANK OF CANADA	6/16/2017	1.25	25,000,000.00	24,990,500.00
Corporate	SCHLUMBERGER INVESTMENT	9/12/2014	0.78	25,000,000.00	25,000,000.00
Corporate	SHELL INTERNATIONAL FIN	12/4/2015	0.63	35,000,000.00	34,991,600.00
Corporate	SHELL INTERNATIONAL FIN	11/15/2016	0.44	35,000,000.00	35,000,000.00
Corporate	SHELL INTERNATIONAL FIN	11/15/2016	0.90	50,000,000.00	49,938,000.00
Corporate	STARBUCKS CORP	12/5/2016	0.88	26,630,000.00	26,565,267.20
Corporate	STATE STREET BANK + TRST	12/8/2015	0.43	15,000,000.00	14,888,400.00
Corporate	SUMITOMO MITSUI BANKING	1/10/2017	0.66	15,000,000.00	15,000,000.00
Corporate	SUMITOMO MITSUI BANKING	7/11/2017	0.55	9,000,000.00	9,000,000.00
Corporate	SUMITOMO MITSUI BANKING	7/11/2017	1.35	7,000,000.00	6,991,180.00
Corporate	TORONTO DOMINION BANK	9/9/2016	0.69	70,000,000.00	70,094,530.00
Corporate	TORONTO DOMINION BANK	5/2/2017	0.48	25,000,000.00	25,000,000.00
Corporate	TOTAL CAPITAL CANADA LTD	1/15/2016	0.61	25,000,000.00	25,000,000.00
Corporate	TOTAL CAPITAL INTL SA	8/12/2016	1.00	7,000,000.00	6,980,820.00
Corporate	TOTAL CAPITAL SA	3/15/2016	2.30	12,672,000.00	13,116,787.20
Corporate	TOYOTA MOTOR CREDIT CORP	5/17/2016	0.52	30,000,000.00	30,000,000.00
Corporate	TOYOTA MOTOR CREDIT CORP	3/5/2017	0.75	57,625,000.00	57,605,937.50
Corporate	TOYOTA MOTOR CREDIT CORP	5/16/2017	0.43	14,000,000.00	14,014,240.00
Corporate	UNILEVER CAPITAL CORP	2/10/2016	2.75	15,000,000.00	15,818,850.00
Corporate	US BANK NA CINCINNATI	1/30/2017	0.47	30,000,000.00	30,000,000.00
Corporate	US BANK NA CINCINNATI	1/30/2017	1.10	15,000,000.00	14,997,750.00
Corporate	VERIZON COMMUNICATIONS	9/15/2016	1.76	15,000,000.00	15,000,000.00



<u>Investment Type</u>	<u>Security Name</u>	<u>Legal Maturity Date</u>	<u>Coupon/Discount Rate</u>	<u>Par Value</u>	<u>Original Cost</u>
Corporate	VODAFONE GROUP PLC	2/19/2016	0.62	40,000,000.00	40,000,000.00
Corporate	WACHOVIA CORP	10/28/2015	0.58	31,529,000.00	31,282,562.38
Corporate	WACHOVIA CORP	10/15/2016	0.60	7,097,000.00	7,087,011.36
Corporate	WALT DISNEY COMPANY/THE	12/1/2014	0.88	10,000,000.00	9,967,300.00
Corporate	WALT DISNEY COMPANY/THE	9/15/2016	5.63	10,332,000.00	11,433,804.48
Corporate	WELLS FARGO + COMPANY	2/13/2015	1.25	45,000,000.00	44,872,200.00
Corporate	WELLS FARGO + COMPANY	6/26/2015	1.15	90,000,000.00	90,000,000.00
Corporate	WELLS FARGO + COMPANY	7/1/2015	1.50	10,000,000.00	10,136,700.00
Corporate	WELLS FARGO + COMPANY	6/15/2016	3.68	40,000,000.00	42,696,400.00
Corporate	WELLS FARGO + COMPANY	7/20/2016	1.25	25,000,000.00	24,976,000.00
Corporate	WELLS FARGO + COMPANY	6/2/2017	0.53	15,000,000.00	15,000,000.00
Corporate	WELLS FARGO BANK NA	11/3/2014	0.62	16,800,000.00	16,578,343.78
Corporate	WELLS FARGO BANK NA	3/15/2016	0.56	15,434,000.00	15,381,752.98
Corporate	WELLS FARGO BANK NA	3/15/2016	5.60	5,548,000.00	6,127,155.72
Corporate	WELLS FARGO BANK NA	5/16/2016	0.44	64,144,000.00	63,651,008.07
Corporate	WELLS FARGO BANK NA	5/16/2016	5.75	6,500,000.00	7,247,955.00
Corporate	WESTPAC BANKING CORP	9/25/2015	0.99	25,000,000.00	25,000,000.00
Corporate	WESTPAC BANKING CORP	11/25/2016	0.66	75,000,000.00	75,000,000.00
Corporate	WESTPAC BANKING CORP	11/25/2016	1.05	20,000,000.00	19,987,600.00
Corporate	WESTPAC BANKING CORP	5/19/2017	0.56	40,000,000.00	40,000,000.00
Foreign Government	BRITISH COLUMBIA PROV OF	6/15/2015	2.85	13,205,000.00	13,573,683.60
Foreign Government	CANADA GOV T	12/15/2016	8.25	5,000,000.00	6,007,200.00
Foreign Government	EXPORT DEVELOPMNT CANADA	1/13/2015	0.20	30,000,000.00	29,999,997.36
Foreign Government	EXPORT IMPORT BK KOREA	10/20/2016	3.75	20,000,000.00	21,321,600.00
Foreign Government	EXPORT IMPORT BK KOREA	1/14/2017	0.98	12,000,000.00	12,000,000.00
Foreign Government	HYDRO QUEBEC	6/30/2016	2.00	25,000,000.00	25,797,875.00
Foreign Government	ONTARIO (PROVINCE OF)	5/26/2015	0.95	50,000,000.00	50,274,750.00
Foreign Government	ONTARIO (PROVINCE OF)	8/13/2015	0.28	100,000,000.00	100,000,000.00
Foreign Government	ONTARIO (PROVINCE OF)	5/10/2016	2.30	10,000,000.00	10,393,100.00
Foreign Government	ONTARIO (PROVINCE OF)	7/22/2016	1.00	135,000,000.00	135,146,640.00
Foreign Government	PROVINCE OF ONTARIO	9/2/2014	0.07	2,185,000.00	2,184,953.27
Foreign Government	PROVINCE OF ONTARIO	9/11/2014	0.09	10,000,000.00	9,999,300.00
Foreign Government	PROVINCE OF ONTARIO	9/16/2014	0.09	10,000,000.00	9,999,350.00
Foreign Government	PROVINCE OF ONTARIO	9/23/2014	0.10	15,000,000.00	14,998,625.00
Foreign Government	PROVINCE OF ONTARIO	9/30/2014	0.10	10,000,000.00	9,999,083.33
Foreign Government	SWEDISH EXPORT CREDIT	9/16/2014	3.25	10,400,000.00	10,542,791.98
Foreign Government	SWEDISH EXPORT CREDIT	1/5/2015	0.28	50,000,000.00	50,000,000.00
Foreign Government	SWEDISH EXPORT CREDIT	1/23/2017	0.53	51,000,000.00	51,310,210.00
Foreign Government	SWEDISH EXPORT CREDIT	6/12/2017	0.41	17,215,000.00	17,266,817.15
Municipal	ANDREW W MELLON NY FNNDTN	12/1/2032	0.14	15,805,000.00	15,805,000.00
Municipal	BOARD OF RGTS UNV TX	9/8/2014	0.20	9,735,000.00	9,735,000.00
Municipal	CALIFORNIA STATE UNIV	10/2/2014	0.12	15,010,000.00	15,010,000.00
Municipal	COMMONWEALTH OF MASSAC	9/9/2014	0.10	25,000,000.00	25,000,000.00
Municipal	DISTRICT COLUMBIA WTR & SWR AU	9/17/2014	0.18	29,200,000.00	29,200,000.00
Municipal	LONG IS PWR AUTH CP	9/4/2014	0.18	10,000,000.00	10,000,000.00
Municipal	LONG IS PWR AUTH CP	9/4/2014	0.18	10,000,000.00	10,000,000.00
Municipal	MASSACHUSETTS ST	2/1/2015	0.24	50,000,000.00	50,000,000.00
Municipal	MECKLENBURG CNTY NC COPS	2/1/2028	0.41	50,000,000.00	50,000,000.00

<u>Investment Type</u>	<u>Security Name</u>	<u>Legal Maturity Date</u>	<u>Coupon/Discount Rate</u>	<u>Par Value</u>	<u>Original Cost</u>
Municipal	MUNI IMPROVEMENT CORP	10/2/2014	0.15	10,000,000.00	10,000,000.00
Municipal	MUNI IMPT CORP OF LA	9/9/2014	0.12	15,000,000.00	15,000,000.00
Municipal	PASADENA CA UNIF SCH DIST	11/1/2016	0.94	15,060,000.00	15,060,000.00
Municipal	PROVIDENCE HEALTH	9/8/2014	0.14	25,000,000.00	25,000,000.00
Municipal	PROVIDENCE HEALTH	9/17/2014	0.16	8,000,000.00	8,000,000.00
Municipal	RGTS OF UNIV OF CA	10/1/2014	0.16	23,700,000.00	23,693,551.56
Municipal	RGTS OF UNIV OF CA	10/1/2014	0.17	20,000,000.00	19,992,161.11
Municipal	RGTS OF UNIV OF CA	11/17/2014	0.17	9,827,000.00	9,822,777.12
Municipal	RGTS UNIV MICHIGAN	9/17/2014	0.12	6,825,000.00	6,825,000.00
Municipal	SAN DIEGO CNTY CALIF REGL ARPT	9/5/2014	0.15	16,700,000.00	16,700,000.00
Municipal	SAN FRANCISCO CA CITY + CNTY	11/5/2014	0.13	10,675,000.00	10,675,000.00
Municipal	SAN FRANCISCO CALIF CITY	9/9/2014	0.17	35,000,000.00	35,000,000.00
Municipal	SAN FRANCISCO CALIF CITY	10/30/2014	0.19	35,000,000.00	35,000,000.00
Municipal	SOUTH CAROLINA PUB SVC	9/4/2014	0.13	12,001,000.00	12,001,000.00
Municipal	SOUTH CAROLINA PUB SVC	9/12/2014	0.14	15,000,000.00	15,000,000.00
Municipal	SOUTH CAROLINA PUB SVC AUTH	9/5/2014	0.15	9,000,000.00	9,000,000.00
Municipal	SOUTH CAROLINA ST PUB SVC AUTH	9/4/2014	0.15	13,786,000.00	13,786,000.00
Municipal	SOUTH CAROLINA ST PUBLIC SVC A	6/1/2015	1.03	25,000,000.00	25,000,000.00
Municipal	STATE OF CA G.O.	9/2/2014	0.16	29,315,000.00	29,315,000.00
Municipal	STATE OF CA G.O.	9/3/2014	0.12	18,625,000.00	18,625,000.00
Municipal	STATE OF CA G.O.	10/16/2014	0.16	20,000,000.00	20,000,000.00
Municipal	TEXAS ST	6/1/2045	0.07	13,925,000.00	13,925,000.00
Municipal	UNIV OF CALIFORNIA CA REVENUES	5/15/2015	0.53	10,000,000.00	10,000,000.00
Municipal	UNIV OF CALIFORNIA CA REVENUES	5/15/2016	0.91	7,000,000.00	7,000,000.00
Municipal	UNIVERSITY TX PERM UNIV FD	10/6/2014	0.12	15,000,000.00	15,000,000.00
Municipal	UNIVERSITY TX PERM UNIV FD	12/1/2014	0.12	25,000,000.00	24,999,999.95
Municipal	WALNUT ENERGY CTR AUTH	11/18/2014	0.15	20,000,000.00	19,993,083.33
Municipal	WASHINGTON ST	1/1/2015	0.50	10,000,000.00	10,000,000.00
Time Certificate of Deposit	CAPITAL PACIFIC BANK	9/10/2014	0.19	2,000,000.00	2,000,000.00
Time Certificate of Deposit	CAPITAL PACIFIC BANK	11/12/2014	0.18	3,000,000.00	3,000,000.00
Time Certificate of Deposit	COLUMBIA COMMUNITY BANK	10/8/2014	0.21	100,000.00	100,000.00
Time Certificate of Deposit	COLUMBIA COMMUNITY BANK	11/12/2014	0.18	100,000.00	100,000.00
Time Certificate of Deposit	OREGON COAST BANK	9/10/2014	0.19	7,500,000.00	7,500,000.00
Time Certificate of Deposit	PACIFIC CONTINENTAL BANK TCD	9/10/2014	0.19	5,000,000.00	5,000,000.00
Time Certificate of Deposit	PACIFIC CONTINENTAL BANK TCD	9/10/2014	0.20	10,000,000.00	10,000,000.00
Time Certificate of Deposit	PACIFIC CONTINENTAL BANK TCD	10/8/2014	0.16	15,000,000.00	15,000,000.00
Time Certificate of Deposit	UMPQUA BANK	9/10/2014	0.19	15,000,000.00	15,000,000.00
Time Certificate of Deposit	UMPQUA BANK	10/8/2014	0.21	15,000,000.00	15,000,000.00
Time Certificate of Deposit	UMPQUA BANK	11/12/2014	0.18	15,000,000.00	15,000,000.00
United States Agency	FANNIE DISCOUNT NOTE	9/2/2014	0.06	10,000,000.00	9,999,183.33
United States Agency	FANNIE DISCOUNT NOTE	9/3/2014	0.06	1,900,000.00	1,899,772.00
United States Agency	FANNIE DISCOUNT NOTE	9/8/2014	0.06	4,300,000.00	4,299,462.50
United States Agency	FANNIE DISCOUNT NOTE	9/22/2014	0.06	11,500,000.00	11,498,428.33
United States Agency	FANNIE DISCOUNT NOTE	9/24/2014	0.07	5,000,000.00	4,999,193.06
United States Agency	FANNIE DISCOUNT NOTE	10/1/2014	0.07	11,471,000.00	11,469,418.87
United States Agency	FANNIE DISCOUNT NOTE	10/9/2014	0.06	5,000,000.00	4,999,541.67
United States Agency	FANNIE DISCOUNT NOTE	11/3/2014	0.07	6,750,000.00	6,748,211.74
United States Agency	FANNIE MAE	10/30/2014	0.63	13,131,000.00	13,147,663.24

<u>Investment Type</u>	<u>Security Name</u>	<u>Legal Maturity Date</u>	<u>Coupon/Discount Rate</u>	<u>Par Value</u>	<u>Original Cost</u>
United States Agency	FANNIE MAE	5/27/2015	0.50	25,000,000.00	25,103,000.00
United States Agency	FANNIE MAE	7/2/2015	0.50	30,000,000.00	30,090,900.00
United States Agency	FANNIE MAE	9/28/2015	0.50	50,000,000.00	50,047,500.00
United States Agency	FANNIE MAE	11/6/2015	0.50	25,000,000.00	25,000,000.00
United States Agency	FANNIE MAE	2/26/2016	0.52	65,000,000.00	64,990,250.00
United States Agency	FANNIE MAE	7/25/2016	0.17	50,000,000.00	49,977,400.00
United States Agency	FANNIE MAE	11/1/2016	0.80	100,000,000.00	100,000,000.00
United States Agency	FED FARM CRD DISCOUNT NT	9/22/2014	0.05	6,500,000.00	6,499,656.94
United States Agency	FED HOME LN DISCOUNT NT	9/2/2014	0.06	10,000,000.00	9,999,550.00
United States Agency	FED HOME LN DISCOUNT NT	9/3/2014	0.03	26,000,000.00	25,998,903.61
United States Agency	FED HOME LN DISCOUNT NT	9/4/2014	0.08	3,200,000.00	3,199,726.67
United States Agency	FED HOME LN DISCOUNT NT	9/5/2014	0.05	30,000,000.00	29,996,163.33
United States Agency	FED HOME LN DISCOUNT NT	9/8/2014	0.04	30,500,000.00	30,497,298.82
United States Agency	FED HOME LN DISCOUNT NT	9/10/2014	0.07	38,000,000.00	37,993,357.28
United States Agency	FED HOME LN DISCOUNT NT	9/12/2014	0.09	30,000,000.00	29,993,630.00
United States Agency	FED HOME LN DISCOUNT NT	9/15/2014	0.07	3,000,000.00	2,999,561.25
United States Agency	FED HOME LN DISCOUNT NT	9/16/2014	0.06	10,428,000.00	10,426,818.16
United States Agency	FED HOME LN DISCOUNT NT	9/17/2014	0.04	37,500,000.00	37,495,385.91
United States Agency	FED HOME LN DISCOUNT NT	9/19/2014	0.05	15,058,000.00	15,055,973.98
United States Agency	FED HOME LN DISCOUNT NT	9/24/2014	0.05	52,600,000.00	52,594,718.32
United States Agency	FED HOME LN DISCOUNT NT	9/25/2014	0.05	7,890,000.00	7,889,572.79
United States Agency	FED HOME LN DISCOUNT NT	9/26/2014	0.05	40,605,000.00	40,599,393.56
United States Agency	FED HOME LN DISCOUNT NT	9/29/2014	0.07	25,000,000.00	24,995,488.19
United States Agency	FED HOME LN DISCOUNT NT	9/30/2014	0.07	10,423,000.00	10,421,372.80
United States Agency	FED HOME LN DISCOUNT NT	10/1/2014	0.07	51,938,000.00	51,928,279.12
United States Agency	FED HOME LN DISCOUNT NT	10/3/2014	0.08	20,000,000.00	19,996,333.33
United States Agency	FED HOME LN DISCOUNT NT	10/8/2014	0.08	30,000,000.00	29,994,267.92
United States Agency	FED HOME LN DISCOUNT NT	10/10/2014	0.08	24,000,000.00	23,995,223.89
United States Agency	FED HOME LN DISCOUNT NT	10/15/2014	0.08	25,000,000.00	24,994,966.67
United States Agency	FED HOME LN DISCOUNT NT	10/17/2014	0.08	20,000,000.00	19,995,729.58
United States Agency	FED HOME LN DISCOUNT NT	10/20/2014	0.05	10,000,000.00	9,999,175.56
United States Agency	FED HOME LN DISCOUNT NT	10/22/2014	0.05	29,160,000.00	29,153,762.91
United States Agency	FED HOME LN DISCOUNT NT	10/24/2014	0.05	30,000,000.00	29,994,052.22
United States Agency	FED HOME LN DISCOUNT NT	10/28/2014	0.09	10,000,000.00	9,997,700.00
United States Agency	FED HOME LN DISCOUNT NT	10/29/2014	0.07	38,054,000.00	38,048,291.70
United States Agency	FED HOME LN DISCOUNT NT	10/31/2014	0.07	47,900,000.00	47,889,172.96
United States Agency	FED HOME LN DISCOUNT NT	11/5/2014	0.08	43,700,000.00	43,691,566.05
United States Agency	FED HOME LN DISCOUNT NT	11/7/2014	0.08	15,000,000.00	14,996,928.75
United States Agency	FED HOME LN DISCOUNT NT	11/26/2014	0.07	20,000,000.00	19,996,605.56
United States Agency	FEDERAL FARM CREDIT BANK	11/28/2014	0.25	5,000,000.00	5,004,035.00
United States Agency	FEDERAL FARM CREDIT BANK	1/26/2015	0.25	50,000,000.00	49,986,800.00
United States Agency	FEDERAL FARM CREDIT BANK	1/28/2015	0.15	20,000,000.00	19,979,800.00
United States Agency	FEDERAL FARM CREDIT BANK	3/24/2015	0.24	50,000,000.00	49,962,000.00
United States Agency	FEDERAL FARM CREDIT BANK	3/26/2015	0.16	24,200,000.00	24,197,483.20
United States Agency	FEDERAL FARM CREDIT BANK	5/1/2015	0.35	48,000,000.00	48,055,768.00
United States Agency	FEDERAL FARM CREDIT BANK	5/21/2015	4.50	35,000,000.00	36,114,665.00
United States Agency	FEDERAL FARM CREDIT BANK	6/30/2015	0.10	15,000,000.00	14,997,435.26
United States Agency	FEDERAL FARM CREDIT BANK	7/10/2015	0.18	100,000,000.00	99,962,070.60

<u>Investment Type</u>	<u>Security Name</u>	<u>Legal Maturity Date</u>	<u>Coupon/Discount Rate</u>	<u>Par Value</u>	<u>Original Cost</u>
United States Agency	FEDERAL FARM CREDIT BANK	7/30/2015	0.35	10,500,000.00	10,516,275.00
United States Agency	FEDERAL FARM CREDIT BANK	8/7/2015	0.13	15,000,000.00	14,999,790.00
United States Agency	FEDERAL FARM CREDIT BANK	8/10/2015	0.20	10,000,000.00	9,995,830.00
United States Agency	FEDERAL FARM CREDIT BANK	9/18/2015	0.19	75,000,000.00	74,988,024.89
United States Agency	FEDERAL FARM CREDIT BANK	9/18/2015	0.19	25,000,000.00	24,996,991.50
United States Agency	FEDERAL FARM CREDIT BANK	10/26/2015	0.19	50,000,000.00	49,971,491.59
United States Agency	FEDERAL FARM CREDIT BANK	12/10/2015	0.21	15,000,000.00	15,000,073.95
United States Agency	FEDERAL FARM CREDIT BANK	1/19/2016	0.17	15,000,000.00	14,998,080.00
United States Agency	FEDERAL FARM CREDIT BANK	5/2/2016	0.18	40,000,000.00	39,998,000.00
United States Agency	FEDERAL FARM CREDIT BANK	8/26/2016	0.18	25,000,000.00	24,986,532.21
United States Agency	FEDERAL FARM CREDIT BANK	10/3/2016	0.18	20,000,000.00	19,988,820.00
United States Agency	FEDERAL FARM CREDIT BANK	11/15/2016	0.21	30,000,000.00	30,000,300.00
United States Agency	FEDERAL FARM CREDIT BANK	4/17/2017	0.21	50,000,000.00	50,000,000.00
United States Agency	FEDERAL FARM CREDIT BANK	7/14/2017	0.19	100,000,000.00	99,956,300.00
United States Agency	FEDERAL HOME LOAN BANK	9/3/2014	0.13	25,000,000.00	24,995,510.25
United States Agency	FEDERAL HOME LOAN BANK	9/11/2014	0.17	10,000,000.00	10,001,180.00
United States Agency	FEDERAL HOME LOAN BANK	10/1/2014	0.18	14,500,000.00	14,502,355.53
United States Agency	FEDERAL HOME LOAN BANK	10/29/2014	0.22	15,000,000.00	15,004,680.00
United States Agency	FEDERAL HOME LOAN BANK	11/3/2014	0.22	62,000,000.00	62,018,800.00
United States Agency	FEDERAL HOME LOAN BANK	11/4/2014	0.13	49,425,000.00	49,403,073.00
United States Agency	FEDERAL HOME LOAN BANK	3/4/2015	0.09	50,000,000.00	49,991,107.50
United States Agency	FEDERAL HOME LOAN BANK	5/1/2015	0.11	25,000,000.00	24,991,250.00
United States Agency	FEDERAL HOME LOAN BANK	5/1/2015	0.12	100,000,000.00	99,991,170.00
United States Agency	FEDERAL HOME LOAN BANK	5/8/2015	0.13	50,000,000.00	49,999,000.00
United States Agency	FEDERAL HOME LOAN BANK	5/14/2015	0.13	4,500,000.00	4,499,455.50
United States Agency	FEDERAL HOME LOAN BANK	6/12/2015	2.88	15,000,000.00	15,331,200.00
United States Agency	FEDERAL HOME LOAN BANK	6/30/2015	0.17	65,000,000.00	65,003,125.00
United States Agency	FEDERAL HOME LOAN BANK	6/30/2015	0.17	97,985,000.00	97,982,339.65
United States Agency	FEDERAL HOME LOAN BANK	7/1/2015	0.13	75,000,000.00	74,961,075.00
United States Agency	FEDERAL HOME LOAN BANK	7/10/2015	0.13	10,000,000.00	9,994,500.00
United States Agency	FEDERAL HOME LOAN BANK	7/22/2015	0.17	20,000,000.00	19,993,620.00
United States Agency	FEDERAL HOME LOAN BANK	7/29/2015	0.13	15,000,000.00	14,992,680.00
United States Agency	FEDERAL HOME LOAN BANK	8/4/2015	0.13	40,000,000.00	39,974,590.00
United States Agency	FEDERAL HOME LOAN BANK	8/28/2015	0.13	15,000,000.00	14,988,360.00
United States Agency	FEDERAL HOME LOAN BANK	8/28/2015	0.38	25,000,000.00	24,999,000.00
United States Agency	FEDERAL HOME LOAN BANK	4/28/2017	1.63	25,000,000.00	25,286,250.00
United States Agency	FEDERAL HOME LOAN BANK	5/5/2017	1.03	50,000,000.00	50,000,000.00
United States Agency	FREDDIE MAC	9/19/2014	0.50	20,000,000.00	20,061,200.00
United States Agency	FREDDIE MAC	9/22/2014	0.75	20,265,000.00	20,291,668.74
United States Agency	FREDDIE MAC	9/10/2015	1.75	15,000,000.00	15,238,440.00
United States Agency	FREDDIE MAC	9/25/2015	0.50	43,775,000.00	43,824,903.50
United States Agency	FREDDIE MAC	6/30/2017	1.15	50,000,000.00	50,018,250.00
United States Agency	FREDDIE MAC DISCOUNT NT	9/2/2014	0.03	15,965,000.00	15,964,431.87
United States Agency	FREDDIE MAC DISCOUNT NT	9/5/2014	0.05	38,100,000.00	38,098,888.75
United States Agency	FREDDIE MAC DISCOUNT NT	9/11/2014	0.08	15,000,000.00	14,997,312.50
United States Agency	FREDDIE MAC DISCOUNT NT	9/12/2014	0.07	2,400,000.00	2,399,636.00
United States Agency	FREDDIE MAC DISCOUNT NT	9/16/2014	0.07	2,300,000.00	2,299,633.28
United States Agency	FREDDIE MAC DISCOUNT NT	9/18/2014	0.07	1,900,000.00	1,899,837.44

<u>Investment Type</u>	<u>Security Name</u>	<u>Legal Maturity Date</u>	<u>Coupon/Discount Rate</u>	<u>Par Value</u>	<u>Original Cost</u>
United States Agency	FREDDIE MAC DISCOUNT NT	9/22/2014	0.07	6,000,000.00	5,998,973.33
United States Agency	FREDDIE MAC DISCOUNT NT	9/25/2014	0.06	15,340,000.00	15,338,902.97
United States Agency	FREDDIE MAC DISCOUNT NT	9/30/2014	0.08	2,761,000.00	2,760,417.12
United States Agency	FREDDIE MAC DISCOUNT NT	10/6/2014	0.05	1,900,000.00	1,899,894.44
United States Agency	FREDDIE MAC DISCOUNT NT	10/14/2014	0.07	2,900,000.00	2,899,577.08
United States Agency	FREDDIE MAC DISCOUNT NT	11/3/2014	0.07	8,545,000.00	8,543,581.93
United States Agency	FREDDIE MAC DISCOUNT NT	11/10/2014	0.07	8,000,000.00	7,998,704.67
United States Agency	FREDDIE MAC DISCOUNT NT	11/14/2014	0.07	12,205,000.00	12,202,994.65
United States Agency	FREDDIE MAC DISCOUNT NT	4/22/2015	0.12	10,000,000.00	9,988,100.00
United States Agency	TENN VALLEY AUTHORITY	6/15/2015	4.38	5,645,000.00	5,834,389.75
United States Agency	TVA DISCOUNT NOTE	9/4/2014	0.05	10,000,000.00	9,999,708.33
United States Agency	TVA DISCOUNT NOTE	9/18/2014	0.05	33,500,000.00	33,498,795.44
United States Treasury	US TREASURY FRN	1/31/2016	0.08	160,000,000.00	159,937,371.80
United States Treasury	US TREASURY FRN	4/30/2016	0.09	285,000,000.00	285,011,915.61
United States Treasury	US TREASURY FRN	7/31/2016	0.10	30,000,000.00	30,000,380.19
United States Treasury	US TREASURY N/B	10/31/2014	0.25	100,000,000.00	100,039,550.78
United States Treasury	US TREASURY N/B	12/31/2014	0.13	135,000,000.00	134,961,816.41
United States Treasury	US TREASURY N/B	12/31/2014	2.63	37,500,000.00	38,541,503.91
United States Treasury	US TREASURY N/B	1/31/2015	0.25	40,000,000.00	40,045,703.13
United States Treasury	US TREASURY N/B	2/28/2015	0.25	60,000,000.00	60,070,117.20
United States Treasury	US TREASURY N/B	5/31/2015	0.25	45,000,000.00	44,939,257.82
United States Treasury	US TREASURY N/B	6/30/2015	0.38	75,000,000.00	75,116,210.94
United States Treasury	US TREASURY N/B	3/31/2016	0.38	25,000,000.00	24,992,187.50
United States Treasury	US TREASURY N/B	5/15/2016	0.25	75,000,000.00	74,245,976.58
United States Treasury	US TREASURY N/B	7/15/2016	0.63	150,000,000.00	150,186,132.82
United States Treasury	US TREASURY N/B	11/15/2016	0.63	100,000,000.00	99,811,132.81
United States Treasury	US TREASURY N/B	2/28/2017	0.88	95,000,000.00	95,129,882.82
United States Treasury	US TREASURY N/B	5/15/2017	0.88	125,000,000.00	125,028,125.01
United States Treasury	US TREASURY N/B	6/15/2017	0.88	125,000,000.00	124,912,109.39
United States Treasury	US TREASURY N/B	8/15/2017	0.88	25,000,000.00	24,946,093.75
United States Treasury	WI TREASURY N/B	9/15/2014	0.25	15,000,000.00	15,019,921.88



**State of Oregon**

**OREGON SHORT TERM FUND**

An Investment Pool of the State of Oregon

Financial Statements

For the Year Ended June 30, 2014

*This page intentionally left blank*

**OREGON SHORT TERM FUND  
TABLE OF CONTENTS**

	<u>Page</u>
<b>Independent Auditor’s Report</b> .....	2
Financial Statements:	
Statement of Net Position .....	4
Statement of Changes in Net Position .....	5
Notes to Financial Statements.....	6-17
<b>Other Reports</b>	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters .....	18



## FINANCIAL SECTION

**Office of the Secretary of State**

Kate Brown  
Secretary of State

Robert Taylor  
Deputy Secretary of State



**Audits Division**

Gary Blackmer  
Director

255 Capitol St. NE, Suite 500  
Salem, OR 97310

(503) 986-2255

fax (503) 378-6767

**Independent Auditor's Report**

The Honorable John Kitzhaber, Governor of Oregon

The Honorable Ted Wheeler, State Treasurer

Oregon Short Term Fund Board

**Report on the Financial Statements**

We have audited the accompanying financial statements of the Oregon Short Term Fund, an external investment pool of the State of Oregon, as of and for the year ended June 30, 2014, and the related notes to the financial statements, as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Oregon Short Term Fund as of June 30, 2014, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 1, the financial statements of the Oregon Short Term Fund, an investment pool of the State of Oregon, are intended to present the financial position and the changes in financial position of only the Oregon Short Term Fund. They do not purport to, and do not, present fairly the financial position of the Oregon State Treasury or the State of Oregon as of June 30, 2014, or the changes in their financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated August 22, 2014, on our consideration of the Oregon State Treasury's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Oregon State Treasury's internal control over financial reporting and compliance.

*Office of the Secretary of State, Audits Division*

State of Oregon  
August 22, 2014

**State of Oregon**  
**OREGON SHORT TERM FUND**

Statement of Net Position

June 30, 2014

(Dollars in Thousands)

<b>Assets:</b>	
Cash and Cash Equivalents	\$ 1,625,069
Investments	11,483,268
Due from Oregon Department Forestry (Note 5)	20,000
Due from Oregon Employment Department (Note 6)	6,426
Due from Broker on Sale	50,099
Accrued Interest Receivable	21,196
Securities Lending Collateral (Note 3)	<u>611,571</u>
<b>Total Assets</b>	<u>13,817,629</u>
<b>Liabilities:</b>	
Due to Broker on Purchase	233,802
Obligations Under Securities Lending (Note 3)	<u>611,571</u>
<b>Total Liabilities</b>	<u>845,373</u>
<b>Net Position:</b>	
Held in Trust for Participants	<u>12,972,256</u>
<b>Total Net Position</b>	<u>\$ 12,972,256</u>

*The accompanying notes are an integral part of the financial statements.*

**State of Oregon**  
**OREGON SHORT TERM FUND**  
Statement of Changes in Net Position  
For the Year Ended June 30, 2014  
(Dollars in Thousands)

<b>Additions:</b>	
Participants' Contributions	\$ 52,628,076
Investment Income, Net of Expenses (Notes 1, 4)	<u>97,562</u>
<b>Total Additions</b>	<u><u>52,725,638</u></u>
<b>Deductions:</b>	
Participants' Withdrawals	51,368,948
Distributions of Interest to Participants	69,043
Securities Lending Agent Fee Expense	355
Securities Lending Borrowers' Rebate Expense	<u>220</u>
<b>Total Deductions</b>	<u><u>51,438,566</u></u>
Change in Assets Held in Trust for Participants	1,287,072
Net Position - Beginning	11,685,184
<b>Net Position - Ending</b> (Note 7)	<u><u>\$ 12,972,256</u></u>

*The accompanying notes are an integral part of the financial statements.*

## OREGON SHORT TERM FUND

### Notes to Financial Statements

June 30, 2014

#### (1) Summary of Significant Accounting Policies

**Reporting Entity** The Oregon Short Term Fund (the Fund) is a short-term cash investment vehicle. A number of local governments in Oregon as well as all State agencies participate in the Fund, thus it is an external investment pool as defined in Statement No. 31 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

The Fund is not registered with the U.S. Securities and Exchange Commission as an investment company. The State's investment policies are governed by Oregon Revised Statutes and the Oregon Investment Council (the Council). The State Treasurer is the investment officer for the Council and is responsible for all funds entrusted to the Oregon State Treasury (OST). These funds must be invested, and the investments managed, as a prudent investor would, exercising reasonable care, skill and caution. Investments in the Fund are further governed by portfolio guidelines recommended by the Oregon Short Term Fund Board, with Council approval, establishing diversification percentages and specifying the types and maturities of investments. The portfolio guidelines permit securities lending transactions as well as investments in repurchase agreements and reverse repurchase agreements. Portfolio guidelines are discussed in greater detail in the Investments section of Note 2.

According to ORS 293.265 and 295.002, state agencies must deposit all funds with depositories qualified by the OST. Undesignated funds not required to meet current demands are deposited in the Fund; therefore, state agencies are considered involuntary participants of the Fund. Because the Fund operates as a demand deposit account for state agency participants, the portion of the Fund belonging to state agency (internal) participants is classified as cash and cash equivalents in the State's Comprehensive Annual Financial Report. The portion of the Fund belonging to local government (external) participants is reported in an investment trust fund in the State's Comprehensive Annual Financial Report.

**Basis of Accounting** These statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Trade date accounting is observed, which means that purchases and sales of securities are recorded on the day the trade takes place with a corresponding payable to, or receivable from, the broker. Changes in the fair value of investments are recognized at the end of each year. The fair value of investments is determined annually and is equal to market price.

**Cash and Cash Equivalents** Investments with original maturities of three months or less are considered cash equivalents and are reported at amortized cost, which approximates fair value. Cash and Cash Equivalents also include cash in banks.

**Investments** Investments with remaining maturities of fewer than ninety days are carried at amortized cost, provided that the fair value of these instruments is not significantly affected by the impairment of the credit standing of the issuer or by other factors. Amortized cost approximates fair value. Investments with longer maturities are carried at fair value.

**Participants' equity; distributions of interest** Participants' account balances in the Fund are determined by the amount of participants' deposits, adjusted for withdrawals and distributed interest. The Fund has not provided or received any legally binding guarantees regarding balances in the Fund. Interest is calculated and accrued daily on each participant's account based on the ending account balance and a variable interest rate determined periodically by the OST. When a participant's account is overdrawn, negative interest accrues daily at the determined rate plus a premium. OST accumulates an amount to offset potential losses based on historical default rates, as part of Total Net Position (See Note 7). This balance is reviewed at the end of every month, and is considered in setting the rate paid to participants, exclusive of unrealized gains and losses. Interest is distributed monthly on the last business day of the month. If the last day of the month is a weekend or holiday, interest is accrued through the last calendar day of the month and posted on the last business day.

## OREGON SHORT TERM FUND

### Notes to Financial Statements

June 30, 2014

#### (2) Deposits and Investments

**Deposits** On June 30, 2014 the Fund held a \$55.2 million book balance in deposits with a bank balance of \$48.4 million. Insurance and collateral requirements for deposits are established by banking regulations and Oregon law. Where interest-bearing balances exceed the Federal Deposit Insurance amount of \$250,000, the balances are covered by collateral held in a multiple financial institution collateral pool (ORS 295.015) administered by the OST in the Public Funds Collateralization Program (PFCP). As of June 30, 2014, \$2.3 million of demand deposits were covered by FDIC insurance and \$46.1 million of demand deposits were collateralized under the PFCP.

**Investments** On June 30, 2014, the Fund had a net position of \$13 billion, \$1.6 billion of which is classified as Cash and Cash Equivalents on the Statement of Net Position. The Fund's portfolio rules establish the Fund's permitted investments and provide guidelines for managing the various types of risk associated with these investments (see the current portfolio rules at [http://www.oregon.gov/treasury/Divisions/Investment/Pages/Oregon-Short-Term-Fund-\(OSTF\).aspx](http://www.oregon.gov/treasury/Divisions/Investment/Pages/Oregon-Short-Term-Fund-(OSTF).aspx)). The different risks are discussed below.

##### A. Interest rate and credit risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Fund staff manages this risk by limiting the period of the reset date (reset) or maturity of the investments held by the Fund. The portfolio rules require that at least 50 percent of the portfolio mature or reset within 93 days; not more than 25 percent of the portfolio may mature or reset in over a year; and no investments may mature or reset over three years from settlement date. The June 30, 2014 holdings are shown in the schedule below. For variable rate securities, the next interest rate reset date is used instead of the maturity date. For variable rate securities, in a fixed rate period that will switch to variable rate at a later date, the maturity is based on the final maturity of the security, not the next variable reset date. For fixed rate securities with a put option, the date upon which the put option is fully exercisable for at least 100% of the face value is used instead of the maturity date, and for variable rate securities with a put option, the earlier of the next variable reset date or the put date is used instead of the maturity date.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Fund's policies provide for a composite minimum weighted average credit quality rating for the Fund's holdings to be the equivalent of a AA Standard and Poor's (S&P) rating. This composite is calculated based on the median rating if three agencies rate the security, the lower rating if two ratings are available, or the single rating if only one rating is available. On June 30, 2014, the fund's composite weighted average rating was equivalent to S&P's AA based on the method described above. U.S. Treasuries and all unrated federal agency securities were also assumed to be rated AAA for the composite rating, as these securities are backed by the U.S. government.

The minimum ratings for corporate notes at the time of purchase are an S&P rating of A-, a Moody's rating of A3 or a Fitch rating of A-. Commercial paper is required to have a minimum short-term credit rating at the time of purchase from two of three ratings services; minimum ratings are S&P of A-1, Moody's of P-1 and Fitch of F-1. Foreign government securities are required to have a minimum credit rating from S&P of AA-, Moody's of Aa3 or Fitch of AA-.

Fund policies allow securities downgraded below the minimum required ratings at the time of purchase to be retained at the Senior Investment Officer's discretion. Rating groups were determined using the lowest actual rating from S&P, Moody's or Fitch, and are shown below:

**OREGON SHORT TERM FUND**  
**Notes to Financial Statements**  
June 30, 2014

**Interest Rate and Credit Risk**  
(Dollars in Thousands)

Classification	Rating	93 Days or Less	94-366 Days	One to Three Years	Greater Than Three Years <sup>4</sup>	Total
U.S. Treasury Notes	Not Rated	606,297	688,544	940,806	-	2,235,647
Agency Securities	AA	772,545	277,631	624,815	-	1,674,991
	Not Rated(3)	45,755	174,908	-	-	220,663
Agency Discount Notes	Not Rated(3)	1,020,981	38,187	-	-	1,059,168
Municipal Commercial Paper	A-1+	397,621	60,000	-	-	457,621
	A-1	97,348	-	-	-	97,348
Municipal Obligations	AA	100,063	20,026	7,022	-	127,111
	A	-	25,062	15,000	-	40,062
Non U.S. Government Commercial Paper	A-1+	54,996	-	-	-	54,996
	A-1	9,999	-	-	-	9,999
Non U.S. Government Obligations	AAA	-	43,544	5,870	-	49,414
	AA	211,819	50,330	163,646	-	425,795
	A	12,081	-	46,900	-	58,981
Corporate Commercial Paper	A-1	130,000	-	-	-	130,000
Corporate Obligations	AAA	50,024	-	-	-	50,024
	AA	776,779	-	335,638	-	1,112,417
	A	2,903,714	188,563	710,455	49,971	3,852,703
	BBB(1)	692,403	90,337	525,723	-	1,308,463
Time Certificates of Deposit	Not Rated(2)	87,700	-	-	-	87,700
Cash	Not Rated	55,234	-	-	-	55,234
	Total	8,025,359	1,657,132	3,375,875	49,971	13,108,337

<sup>1</sup> Securities rated BBB on this table continue to meet investment quality rules as discussed above, as they have at least one rating of S&P A-, Moody's A3 or Fitch A

<sup>2</sup> TCD's are considered deposits for purposes of credit quality, and are fully covered by FDIC and state PFCP programs

<sup>3</sup> GASB 40 states that US federal debt is considered to be without credit risk. For credit quality rules, federal debt is considered to be highest quality, except when rated differently, as shown above.

<sup>4</sup> Portfolio rules allow for a maturity period of over three years based on trade date, as long as the maturity period is less than three years from settlement date. The security showing greater than three years maturity meets this rule, and is not a violation.

## B. Custodial credit risk

Custodial credit risk for investments is the risk that, in the event of a transactional counterparty failure, the government will not be able to recover the value of an investment or collateral securities in the possession of an outside party. The Fund's portfolio rules provide that broker/dealers meet certain qualifications and that investments are delivered to and held by a third-party custodian, which holds the Fund's securities in the State of Oregon's name. Time certificates of deposit (TCDs) are not exposed to custodial credit risk, as they are covered by FDIC insurance of \$1 million and the balance of \$87.7 million is covered by the PFCP (ORS 295.015) administered by the OST.

## C. Concentration of credit risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Fund rules provide that the maximum that may be invested in any one issuer, as a percentage of the fund's total investments, is 33 percent for U.S. Agency securities, 10 percent for foreign governments and instrumentalities, 5 percent for both commercial paper and corporate notes and 10 percent for all securities and support commitments with the exception of U.S. Treasury (100 percent) and Government Agency securities (33 percent per issuer). On June 30, 2014, the Fund did not hold investments with any one issuer that exceeded these limits. The schedule below lists those issuers where holdings are greater than 5 percent.



**OREGON SHORT TERM FUND**  
**Notes to Financial Statements**  
June 30, 2014

**Schedule of issuers - Holdings Greater Than Five Percent**  
**(Dollars in Thousands)**

<u>Issuer Name</u>	<u>Reported Amount</u>	<u>Percent of Holding</u>
US Treasury Notes	2,235,647	17.06%
Federal Home Loan Bank	1,278,165	9.75%
Federal Farm Credit Bank	742,724	5.67%

**D. Foreign currency risk**

The Fund portfolio rules prohibit investments that are not U.S. dollar-denominated; therefore, the Fund is not exposed to this risk.

**(3) Securities Lending**

The OST has authorized its custodian to act as its agent in lending the Fund’s securities pursuant to a form of loan agreement, in accordance with Fund investment policies. There have been no significant violations of the provisions of the securities lending agreement. The State’s securities lending agent lent short-term and fixed income securities and received as collateral U.S. dollar-denominated cash and U.S. Treasury securities. Borrowers were required to deliver collateral for each loan equal to not less than 102 percent of the market value of the loaned security. The State may pledge or sell the collateral securities received only in the event of a borrower default. The State has the ability to impose restrictions on the amount of the loans that the securities lending agent made on its behalf. Several such restrictions were made during the year ended June 30, 2014. The State is fully indemnified by its securities lending agent against losses due to borrower default. There were no losses during the year from the failure of borrowers to return loaned securities.

The Fund’s lending agent uses a fund to reinvest cash collateral received on behalf of the Fund and other Oregon state agencies managed by the OST, exclusive of the Oregon Public Employees Retirement Fund. Effective January 2014, the guidelines for the reinvestment of cash collateral were revised with further constraints to reduce overall risk. As permitted under the fund’s Declaration of Trust (Declaration), participant purchases and redemptions are transacted at \$1.00 per unit (“constant value”) based on the amortized cost of the fund’s investments. Accordingly, the securities lending collateral held and the obligation to the lending agent are both stated at constant value on the Statement of Net Position. The balances of securities on loan, collateral received and invested collateral at market value are presented in the schedule below.

**OREGON SHORT TERM FUND**

**Notes to Financial Statements**

June 30, 2014

(Dollars in Thousands)

	<b>Securities on Loan at</b>		<b>Invested Cash Collateral</b>	
	<u>Fair Value</u>	<u>Collateral Received</u>	<u>at Fair Value</u>	
U.S. Agency Securities	\$ 55,181	\$ 56,292	\$ 56,302	
U.S. Treasury	892,957	911,268 <sup>1</sup>	498,033	
Corporate Notes	56,169	57,339	57,350	
Total	<u>\$ 1,004,307</u>	<u>\$ 1,024,899</u>	<u>\$ 611,685</u>	

<sup>1</sup> Cash Collateral \$497,941, US Treasury \$413,327

The State and borrowers maintained the right to terminate all securities lending transactions on demand. As a consequence, the maturities of investments made with cash collateral generally do not match the maturities of the securities loans. As of June 30, 2014, the State had no credit risk exposure to borrowers related to securities on loan.

**(4) Management Fees**

In accordance with ORS 293.718, the OST may deduct monthly 0.435 basis points of the most recent market value of assets under management for administration and portfolio management. For the year ended June 30, 2014 the OST charged the Fund a monthly rate of 0.30 basis points based on average daily balances in the Fund. The fee is deducted from investment income before distributions to participants. Fees charged to the Fund totaled \$4.6 million for the year ended June 30, 2014.

**(5) Receivable from the Oregon Department of Forestry**

The Oregon Department of Forestry entered into an agreement in October of 2013 to borrow up to \$35 million for the purpose of paying current and prior fire suppression costs until revenues from federal, insurance and other sources become available. Interest is charged at a fixed rate equal to two (2) percent per annum. The loan will mature on the earlier of June 30, 2015 or on the date OST determines the Fund requires repayment to meet current Fund requirements.

**OREGON SHORT TERM FUND**

**Notes to Financial Statements**

June 30, 2014

**(6) Receivable from the Oregon Employment Department**

The OST maintains accounts separate from the Fund which contains employment benefit and trust funds in the name of the Oregon Employment Department (Employment), which is also a participant in the Fund. The OST processes transfers of employment taxes and benefit payments between state agencies and Employment. Occasionally a transfer will be recorded between participants' accounts on one day, but the transfer of cash between the Fund and the employment benefit and trust funds does not take place until the following day, creating either a receivable from or payable to Employment.

**(7) Equity of Internal and External Participants**

The following table describes the equity of internal and external participants in the Fund's net position, and shows that net position is composed of participants' account balances less undistributed and unrealized losses:

Net position held in trust for participants (in thousands):	
Equity of internal participants	\$ 7,757,294
Equity of external participants	5,214,962
	<u>\$ 12,972,256</u>
Net position consist of (in thousands):	
Participants' Account Balances	\$ 12,868,887
Undistributed and Unrealized Gains	65,382
Allowance for Potential Defaults	37,987
	<u>\$ 12,972,256</u>
Participants' Fair Value (Net Position divided by Participants' Account Balances)	<u>100.80%</u>

**(8) Schedule of Investments and Cash Equivalents**

The following schedule presents by issuer the par value and reported amounts of the Investments and Cash Equivalents held as of June 30, 2014 (in thousands):

## OREGON SHORT TERM FUND

### Notes to Financial Statements

June 30, 2014

#### Schedule of Investments and Cash Equivalents (Dollars in Thousands)

	<u>Par Value</u>	<u>Reported Amount</u>	<u>Percentage</u>
<b>U.S. Government and Agency Securities:</b>			
U.S. Treasury Notes	2,233,500	2,235,647	17.06%
Agency Securities			
Federal National Mortgage Association	355,000	355,235	
Federal Farm Credit Bank	722,200	722,724	
Federal Home Loan Bank	491,280	491,632	
Federal Home Loan Mortgage Corporation	325,658	326,063	
Total Agency Securities	1,894,138	1,895,654	14.46%
Agency Discount Notes:			
Federal National Mortgage Association	52,143	52,140	
Federal Farm Credit Bank	20,000	20,000	
Federal Home Loan Bank	786,594	786,533	
Federal Home Loan Mortgage Corporation	185,511	185,496	
Tennessee Valley Authority	15,000	14,999	
Total Agency Discount Notes	1,059,248	1,059,168	8.08%
<b>Total U.S. Government and Agency Securities</b>	<b>5,186,886</b>	<b>5,190,469</b>	<b>39.60%</b>
<b>Municipal Government Securities:</b>			
Municipal Commercial Paper:			
Los Angeles Municipal Improvement Corp	25,000	25,000	
Long Island Power Authority	20,000	20,000	
South Carolina Public Services	50,913	50,913	
Texas Public Finance Authority	20,000	20,000	
Walnut Energy Center Authority	30,400	30,396	
Austin Independent School District	10,000	10,000	
Providence Health	33,000	33,000	
Trinity Health Corp	20,000	19,999	
San Francisco Public Utilities Commission	75,000	75,000	
Santa Clara Valley Water District	9,615	9,615	
District of Columbia Water & Sewer Authority	29,200	29,200	
San Diego County Regional Airport Authority	16,700	16,700	
State of California	15,600	15,600	
Board of Regents - University of California	90,000	89,992	
Northwestern University	5,000	5,000	
Board of Trustees - Michigan State University	5,855	5,855	
University of Houston	10,674	10,674	
Board of Regents - University of Michigan	6,290	6,290	
Board of Regents - University of Texas	72,000	72,000	
University of North Texas	9,735	9,735	
Total Municipal Commercial Paper	554,982	554,969	4.23%

## OREGON SHORT TERM FUND

### Notes to Financial Statements

June 30, 2014

	<u>Par Value</u>	<u>Reported Amount</u>	<u>Percentage</u>
<b>Municipal Obligations:</b>			
State of Massachusetts	50,000	50,006	
University of California Revenues	17,000	17,036	
Pasadena California Unified School District	15,060	15,000	
State of Washington	10,000	10,012	
South Carolina State Public Service	25,000	25,062	
Mecklenburg County North Carolina	50,000	50,057	
Total Municipal Obligations	167,060	167,173	1.28%
<b>Total Municipal Government Securities</b>	722,042	722,142	5.51%
<b>Non U.S. Government Debt:</b>			
Non U.S. Government Commercial Paper:			
The Korea Development Bank	10,000	9,999	
Queensland Treasury Corp	40,000	39,998	
Province of Ontario Canada	15,000	14,998	
Total Non U.S. Government Commercial Paper	65,000	64,995	0.50%
Non U.S. Government Obligations:			
Bank of Korea Export/Import	32,000	33,274	
Swedish Export Credit	128,615	129,025	
Province of British Columbia Canada	13,205	13,533	
Province of Ontario Canada	295,000	296,770	
Canada Government	5,000	5,870	
Export Development Canada	30,000	30,011	
Hydro Quebec	25,000	25,707	
Total Non U.S. Government Obligations	528,820	534,190	4.08%
<b>Total Non U.S. Government Debt</b>	593,820	599,185	4.57%
<b>Corporate Securities:</b>			
Corporate Commercial Paper:			
ING Funding LLC	5,000	5,000	
Mitsui & Co. USA INC	20,000	20,000	
Florida Power & Light Company	25,000	25,000	
Bank of Tokyo Mitsubishi UFJ Ltd.	30,000	30,000	
BNP Paribas	50,000	50,000	
Total Corporate Commercial Paper	130,000	130,000	0.99%
<b>Total Corporate Securities</b>	130,000	130,000	0.99%
<b>Corporate Obligations:</b>			
Fiduciary Banks & Investment Management			
State Street Bank and Trust	15,000	14,991	
Bank of New York Mellon	50,000	50,175	
Blackrock Inc.	10,000	10,090	
Total Fiduciary Banks & Investment Management	75,000	75,256	0.57%

## OREGON SHORT TERM FUND

### Notes to Financial Statements

June 30, 2014

	<u>Par Value</u>	<u>Reported Amount</u>	<u>Percentage</u>
<b>Utilities</b>			
Georgia Power Company	7,500	7,512	
Duke Energy Florida Inc.	4,000	4,004	
Duke Energy Indiana Inc.	7,000	7,025	
Duke Energy Progress Inc.	7,000	7,004	
Mississippi Power Company	9,000	9,227	
Total Utilities	34,500	34,772	0.27%
<b>Commercial Banks - Non-US</b>			
Bank of Nova Scotia	289,515	290,071	
Abbey National Treasury	25,000	25,040	
Australia and New Zealand Banking Group	40,000	40,170	
Bank of Montreal	75,000	75,385	
Barclay's Bank PLC	133,680	132,846	
Groupe BPCE SA	30,000	29,991	
BNP Paribas	104,646	105,216	
Deutsche Bank	75,000	75,348	
National Bank of Australia	130,000	130,744	
Commonwealth Bank Australia	125,000	125,334	
National Bank of Canada	12,500	12,637	
Royal Bank of Canada	140,000	140,040	
Sumitomo Mitsui Banking	15,000	15,034	
Toronto Dominion Bank	85,000	85,315	
Westpac Banking Corp	160,000	160,468	
Total Commercial Banks - Non-US	1,440,341	1,443,639	11.01%
<b>Communications &amp; Media</b>			
America Movil SAB de CV	79,500	80,452	
Vodafone Group PLC	40,000	40,104	
Comcast Corporation	22,000	23,688	
NBC Universal	19,471	19,999	
The Walt Disney Company	10,000	10,028	
AT&T Inc.	20,000	20,057	
Verizon Communications	15,000	15,413	
Total Communications & Media	205,971	209,741	1.60%
<b>Financial Services</b>			
American Express Credit	44,050	44,175	
Capital One Bank USA	25,000	25,062	
MBNA Corporation/Bank of America Corp	20,605	21,456	
General Electric Capital Corporation	375,219	378,523	
HSBC USA INC	22,000	22,003	
National Rural Utility Coop	82,785	82,967	
Total Financial Services	569,659	574,186	4.38%

## OREGON SHORT TERM FUND

### Notes to Financial Statements

June 30, 2014

	<u>Par Value</u>	<u>Reported Amount</u>	<u>Percentage</u>
<b>Machinery, Aerospace &amp; Transportation</b>			
Caterpillar Financial	130,000	130,239	
John Deere Capital Corporation	55,000	55,024	
Rockwell Collins Inc.	8,000	8,020	
Canadian National Railway	5,000	5,001	
Total Machinery, Aerospace & Transportation	198,000	198,284	1.51%
<b>Pharmaceutical</b>			
Glaxo Smith Kline Capital	32,000	32,033	
Johnson & Johnson	25,000	25,024	
Merck & Company Inc.	15,000	15,041	
Pfizer	50,000	49,999	
Total Pharmaceutical	122,000	122,097	0.93%
<b>Consumer Products</b>			
Kimberly Clark	10,000	10,004	
The Proctor and Gamble Company	27,000	26,999	
Unilever Capital Corporation	15,000	15,526	
Philip Morris International Inc.	25,000	25,003	
Anheuser-Busch InBev	30,000	30,046	
Coca-Cola Company	35,000	34,984	
PepsiCo Inc.	30,000	30,031	
Total Consumer Products	172,000	172,593	1.32%
<b>Insurance</b>			
MetLife Inc.	4,000	4,443	
Berkshire Hathaway Finance	37,000	37,043	
Berkshire Hathaway Incorporated	47,000	47,376	
Total Insurance	88,000	88,862	0.68%
<b>Technology</b>			
Cisco Systems, Inc.	40,000	40,133	
Texas Instruments, Inc.	7,000	6,983	
Oracle Corporation	50,000	49,971	
Apple Inc.	70,000	70,014	
IBM Corp	65,000	65,039	
Total Technology	232,000	232,140	1.77%
<b>Oil Exploration, Production &amp; Services</b>			
CNOOC Finance	47,796	47,833	
BP Capital Markets PLC	68,337	69,444	
Chevron Corporation	10,000	10,049	
Exxon Mobile Corporation	25,000	25,000	
Shell International Financial	120,000	120,125	
Total Capital Canada LTD	44,672	45,186	
Schlumberger Investment	25,000	25,000	
Total Oil Exploration, Production & Services	340,805	342,637	2.61%

## OREGON SHORT TERM FUND

### Notes to Financial Statements

June 30, 2014

	<u>Par Value</u>	<u>Reported Amount</u>	<u>Percentage</u>
<b>Automotive</b>			
American Honda Finance	133,760	134,378	
Daimler Finance NA LLC	19,675	19,706	
Toyota Motor Credit Corp	112,625	112,491	
Volkswagen International Finance NV	50,000	50,105	
Paccar Financial Corporation	57,900	58,111	
Harley Davidson Financial Services	24,320	24,448	
Total Automotive	398,280	399,239	3.05%
<b>Regional Banks</b>			
Fifth Third Bank	120,000	120,358	
Key Bank NA	25,000	25,119	
US Bank NA	45,000	45,046	
PNC Bank NA	25,000	25,010	
BB&T Corporation	50,000	50,046	
Total Regional Banks	265,000	265,579	2.03%
<b>Diversified Banking Institutions</b>			
Bank of America Corp	166,785	169,585	
Bank of America NA	153,600	153,501	
Citigroup Incorporated	237,086	238,064	
Goldman Sachs Group Incorporated	359,706	365,976	
JP Morgan Chase and Co.	396,900	398,874	
Morgan Stanley	371,008	373,386	
Wachovia Corporation/Wells Fargo & Co.	54,004	54,114	
Wells Fargo & Company	236,845	241,015	
Wells Fargo Bank NA	108,426	109,304	
Total Diversified Banking Institutions	2,084,360	2,103,819	16.05%
<b>Chemicals &amp; Materials</b>			
Monsanto Co	12,000	12,003	
BHP Billiton Finance	10,000	10,034	
Total Chemicals & Materials	22,000	22,037	0.17%
<b>Retail</b>			
Wal Mart Stores, Inc.	9,000	9,004	
Starbucks Corporation	26,630	26,494	
Total Retail	35,630	35,498	0.27%
<b>Property Trust</b>			
WEA Finance	2,985	3,228	
Total Property Trust	2,985	3,228	0.02%
<b>Total Corporate Obligations</b>	6,286,531	6,323,607	48.24%



**OREGON SHORT TERM FUND**

**Notes to Financial Statements**

June 30, 2014

	<u>Par Value</u>	<u>Reported Amount</u>	<u>Percentage</u>
<b>Time Certificates of Deposit</b>	<u>87,700</u>	<u>87,700</u>	0.67%
<b>Cash in Various Banks</b>	<u>55,234</u>	<u>55,234</u>	0.42%
<b>Total Investments and Cash Equivalents</b>	<u>13,062,213</u>	<u>13,108,337</u>	100.00%

## **OTHER REPORTS**

**Office of the Secretary of State**

Kate Brown  
Secretary of State

Robert Taylor  
Deputy Secretary of State



**Audits Division**

Gary Blackmer  
Director

255 Capitol St. NE, Suite 500  
Salem, OR 97310

(503) 986-2255  
fax (503) 378-6767

**Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements Performed in  
Accordance With *Government Auditing Standards***

Independent Auditor's Report

The Honorable John Kitzhaber, Governor of Oregon

The Honorable Ted Wheeler, State Treasurer

Oregon Short Term Fund Board

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Oregon Short Term Fund, an external investment pool of the State of Oregon, as of and for the year ended June 30, 2014, and the related notes to the financial statements and have issued our report thereon dated August 22, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Oregon State Treasury's internal control over financial reporting (internal control) to determine audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Oregon State Treasury's internal control. Accordingly, we do not express an opinion on the effectiveness of Oregon State Treasury's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Oregon Short Term Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Office of the Secretary of State, Audits Division*

State of Oregon  
August 22, 2014

TAB 3 – OREGON SAVINGS GROWTH PLAN

## Oregon Savings Growth Plan Environmental Social Governance Option

---

### **Purpose**

Staff recommends creating an Environmental Social Governance option within the Oregon Savings Growth Plan using the TIAA-CREF Social Choice Equity Fund.

### **Background**

The Oregon Savings Growth Plan (the “Plan” or “OSGP”) is the State of Oregon’s 457 Deferred Compensation plan. OSGP is a voluntary supplemental retirement plan that provides eligible state and local government employees the opportunity to defer a portion of their current salary on a pre-tax or after-tax (Roth) basis. These deferrals are invested in various investment options until participants draw funds at retirement. The Plan offers an array of specific equity and fixed income investment options, a suite of target-date retirement funds (which in aggregate are considered one investment option) and a self-directed brokerage option (the “SDBO”). The plan has approximately 25,000 participants and assets totaling over \$1.63 billion as of June 30, 2014.

With support and assistance from the Oregon State Treasury (OST) investment division, the Oregon Investment Council (OIC) is responsible for oversight of the Plan’s *investment program*. Oversight of the Plan’s *administrative operation* is the responsibility of the Oregon Public Employees Retirement System Board (“PERS Board”) with support from the OSGP manager. Additional oversight is provided by a seven member Deferred Compensation Advisory Committee (the “Advisory Committee”) established under ORS 243.505.

### **Environmental Social Governance Investing**

Interest in Environmental Social Governance (ESG) investing has grown over time. While there have been recent headlines related to environmental investing (e.g., announcements from the Harvard and Stanford endowments), there is also a long history of other non-economic investment considerations (e.g., tobacco, firearms and Sudan divestment initiatives). Although evidence on the impact of ESG investing on investment returns remains inconclusive, staff recognizes that there are OSGP participants who prefer and would pursue this form of investing if available in a convenient and cost effective vehicle.

Staff recently issued a Request for Information (RFI) and reviewed the 34 responses subsequently received as well as screened an investment manager universe for prospective ESG-informed mandates. Based on several considerations, including cost, asset class representation, and investment approach, staff narrowed the candidate pool down to TIAA-CREF Social Choice Equity Fund.

### **TIAA-CREF Social Choice Equity Fund**

TIAA-CREF Asset Management (TCAM) is wholly owned by Teachers Insurance and Annuity Association of America. TCAM, with over 90 years of investment experience, is a global asset manager with approximately \$613 billion assets under management as of June 2014. The Social Choice Equity Fund is managed by TIAA-CREF’s equity index team using an “optimized” approach to track the Russell 3000 Index with similar industry and style exposures. The universe of potential securities includes the constituents of the MSCI USA IMI ESG Index, approximately 1,200 companies.

MSCI constructs an ESG index by using its standard cap weighted index, in this case the MSCI USA IMI, and ranks each company against its sector peers via the MSCI ESG Intangible Value Assessment framework which includes 34 key ESG factors. MSCI then builds the MSCI USA IMI ESG Index, with an ESG score threshold, targeting 50% of the market capitalization for each sector of MSCI USA IMI. The index is reviewed annually in May at which time the index is reconstituted to meet the target criteria. On a quarterly basis, constituents with ESG scores that fell below certain cutoffs are removed from the index.

## Issues to Consider

### Attributes:

- *Overlap with existing Oregon relationship.* TIAA-CREF Tuition Financing administers the Oregon College Savings Plan (“OCSP”) and TCAM manages a number of the plan’s investment mandates, including the TIAA-CREF Social Choice Equity Fund. Given that staff also monitors OCSP for the Oregon 529 College Savings Board, the selection of TIAA-CREF would take advantage of current staff efforts.
- *Low cost.* The strategy has one of the lowest fees among those funds considered for this option. The fees for this strategy would likely also be lower than those of any other ESG fund OSGP participants could access through the plan’s Self-Directed Brokerage Option.
- *MSCI ESG database.* Despite a wide range of possible combinations of ESG attributes to consider, staff discovered in its RFI response review that similar to the TIAA-CREF strategy, a number of other managers utilize MSCI’s ESG database in their investment processes. Although there is no “standard” set of ESG criteria, MSCI’s quantitative approach has found traction among investment managers, which likely represents an acceptable combination.

### Concerns:

- *Adding one more option.* Including the Real Return Option approved by the OIC on July 30<sup>th</sup>, the creation of the ESG Option would increase the total number of options to 12. [Mitigant: According to a defined contribution comparison from CEM Benchmarking for 2013 calendar year, 12 options would still be below the median (15) for the universe of 146 defined contribution plans. In addition, per policy 4.07.02 “Selecting, Managing and Terminating Program Firms”, staff will monitor and evaluate for termination investment options with less than 3% of total plan assets after eight consecutive quarters for reasonable retention.]
- *Adding an active US equity option.* At the same meeting, the OIC approved rebalancing the U.S. Large Company Stock Options away from actively managed funds to 100% passive vehicles. If approved, the ESG Option would be the only active large cap option. [Mitigant: While the option is an “active” option in that it does not replicate 100% of the underlying Russell 3000 benchmark, TIAA-CREF’s optimized approach is an industry accepted approach to indexing.]

## Conclusion

In staff’s opinion, the TIAA-CREF Social Choice Equity Fund provides a low cost, index-like approach that still adheres to an industry-accepted set of ESG guidelines. Accordingly, Staff recommends creation of an ESG option for OSGP participants using the TIAA-CREF Social Choice Equity Fund.

# memo

**To:** Oregon Investment Council  
**From:** Arnerich Massena, Inc.  
**Re:** Addition of an ESG Option in Oregon Savings Growth Plan  
**Date:** October 20, 2014

---

## Background

In the course of working with Oregon State Treasury Staff “OST” in evaluating the investment options of the Oregon Savings Growth 457 Plan “OSGP”, Arnerich Massena was requested to opine on the creation of an ESG (Environment, Social, and Governance) oriented mandate for potential inclusion into the Plan, along with the current choices which are available to participants.

OSGP offers a broad array of investment options to participants, which cover the vast majority of the equity and fixed income markets. This palate of choices can be used by participants to construct diversified investment portfolios to meet the wide range of investment objectives that each participant may choose to pursue. However, participants currently do not have an investment option that specifically factors environmental, social, and corporate governance practices into its portfolio construction methodology in the core investment menu. While participants could gain exposure to these types of investments via the brokerage option available to participants of the Plan, OST Staff and Arnerich Massena felt as though it would be prudent to design and oversee an institutional quality investment option for participants that wish to utilize an ESG mandate within the core investment offerings of the OSGP Plan.

## TIAA-CREF Social Choice Equity

After a review of several ESG strategies, Arnerich Massena and OST Staff feel as though the TIAA-CREF Social Choice Equity Fund would be the best implementation for the this OSGP option. Please find a description of the TIAA-CREF Social Choice Equity Fund strategy below:

*The fund seeks a favorable long-term total return that reflects the investment performance of the overall U.S. stock market while giving special consideration to certain social criteria. It normally invests at least 80% of its assets in equity securities. The fund's investments are subject to certain environmental, social and governance criteria. The evaluation process favors companies that are strong stewards of the environment; devoted to serving local communities; committed to*



*higher labor standards; dedicated to producing high-quality and safe products; and those managed in an exemplary or ethical manner.*

In constructing the Social Choice Equity Fund, TIAA-CREF utilizes a comprehensively screened social index generated by MSCI, a leading ESG research firm, as its investable universe. The MSCI Global Socially Responsible Indices generally exclude companies involved in sectors such as alcohol, tobacco, gambling, weapons manufacture, nuclear power, and adult entertainment; amongst others. Such a screening process will allow participants of the OSGP 457 Plan the opportunity to align their social values with their retirement savings. TIAA-CREF rebalances the fund every quarter to the target weightings determined by the portfolio management team and also takes this opportunity to remove any companies which are subsequently removed from the MSCI index.

The TIAA-CREF Social Choice Equity Fund (Institutional Shares) has produced an excellent performance track record. As of 6/30/2014, the TIAA-CREF Social Choice Equity Fund (Institutional Shares) has exceeded the Median US Large Cap Blend Equity fund across ALL trailing time periods (Current quarter, 1-, 3-, 5-, 7-, and 10-year periods). In addition to producing strong returns relative to other actively managed US Large Cap Blend Funds, the fund maintains an extremely low expense ratio of 0.18%.

### **Conclusion**

In summary, we feel as though offering an ESG investment option to OSGP participants in the core investment array would provide an institutional quality investment option to those participants that wish to pursue these types of investment themes while accumulating savings for retirement. As participants seek to build their individual investment portfolios to meet a broad set of investment objectives, ESG investments are garnering increased demand from certain participants. Arnerich Massena suggests using the TIAA-CREF Social Choice Equity Fund as the initial investment for the ESG option within the OSGP 457 Plan. I would look forward to discussing this matter further if you should desire.

Kindest regards,



Jake O'Shaughnessy, CFA  
Advisor



TIAA-CREF Asset Management

# Oregon Investment Council

## TIAA-CREF Social Choice Equity Fund

November 5, 2014



Financial Services

# Table of contents

## Overview: Section 01

## Social Choice Equity Fund: Section 02

Resources  
Investment objective  
Process

## Performance and statistics: Section 03

## Appendix: Section 04

Biographies  
Notes & Performance Disclosure  
Contact information

## 03 Important information

- 08 The information presented herein is confidential and proprietary to TIAA-CREF Asset Management®. This material is approved for a private presentation by authorized individuals only and, accordingly, this material is not to be reproduced in whole or in part or used for any purpose except as authorized by TIAA-CREF Asset Management.
- 16 This material is to be treated as strictly confidential and not disclosed directly or indirectly to any party other than the recipient. This material is not approved for public use or distribution.
- 20

Securities sold by TIAA-CREF Individual & Institutional Services, LLC and Teachers Personal Investors Services, Inc., members FINRA.

**You should consider the investment objectives, risks, charges and expenses carefully before investing. Please call 877 518-9161, or go to [tiaa-cref.org](http://tiaa-cref.org) for a current prospectus that contains this and other information. Please read the prospectus carefully before investing.**

Portfolios within each strategy are subject to certain risks, such as market and investment-style risks. Please consider all risks carefully prior to investing. Because its social screens exclude some investments, the fund may not be able to take advantage of the same opportunities or market trends as funds that do not use such criteria. Investments in small- to medium-sized corporations are more vulnerable to financial risks and other risks than larger corporations and may involve a higher degree of price volatility than investments in the general equity markets.

All information is as of September 30, 2014 unless otherwise disclosed.

For institutional investor use only. Not for use with or distribution to the public.



# TIAA-CREF organization overview

Fortune 100 company providing financial solutions to clients for more than 90 years

- Leading provider of U.S. retirement benefits serving nearly four million participants at more than 15,000 institutions and 27,000 plans
- TIAA is among the highest rated insurance companies in the U.S. by the four leading insurance company rating agencies \*
  - A.M. Best (A++ as of 9/14)
  - Fitch (AAA as of 10/14)
  - Moody’s Investors Services (Aa1 as of 10/14)
  - Standard & Poor’s (AA+ as of 10/14)
- 9,000 employees with offices across the U.S., England and Luxembourg
- A leader in responsible investing

With financial strength and a heritage of integrity, TIAA-CREF offers a wide range of investment capabilities and services.

Signatory of:



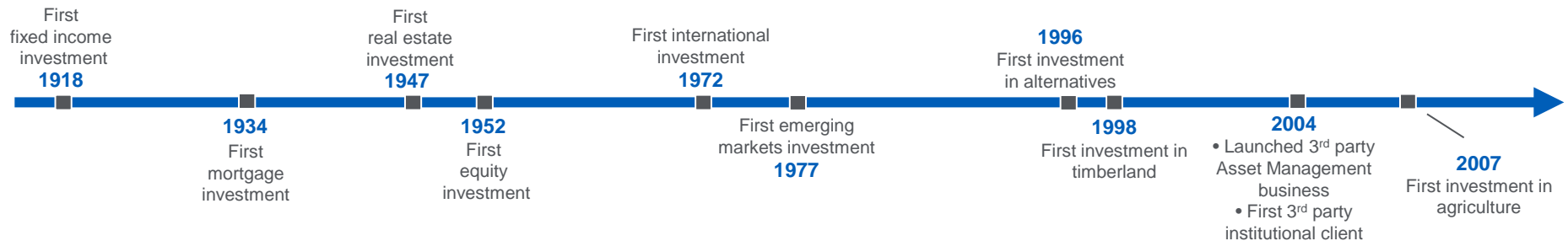
\*For its stability, claims-paying ability and overall financial strength, TIAA is one of only three insurance groups in the United States to currently hold the highest possible rating from three of the four leading insurance company rating agencies: A.M. Best (A++ as of 9/14), Fitch (AAA as of 10/14) and Standard & Poor's (AA+ as of 10/14). It currently holds the second highest possible rating from Moody's Investors Service (Aa1 as of 10/14). Per S&P criteria, the downgrade of U.S. long-term government debt limits the highest rating of U.S. insurers to AA+ (the second-highest rating available). There is no guarantee that current ratings will be maintained. Ratings represent a company's ability to meet policyholders' obligations and do not apply to variable annuities, mutual funds or any other product or service not fully backed by TIAA's claims-paying ability.

# An experienced and established asset manager

## TIAA-CREF Asset Management provides investors with

- Time-tested investment approach that adheres to sound fundamental principles
  - Active, repeatable portfolio construction and management practices throughout our portfolios
  - Focused on providing pure asset class exposure
  - Long-term investment philosophy that seeks to deliver favorable risk-adjusted returns
  - Risk management is embedded in the product design and investment process
- Experienced investment teams with a passion for doing what's in the best interest of our clients
  - Investment professionals with varied backgrounds and experiences, providing perspectives and insights from various angles
  - Centralized research teams comprised of career analysts
- Commitment to controlling costs for clients through competitive fee structure

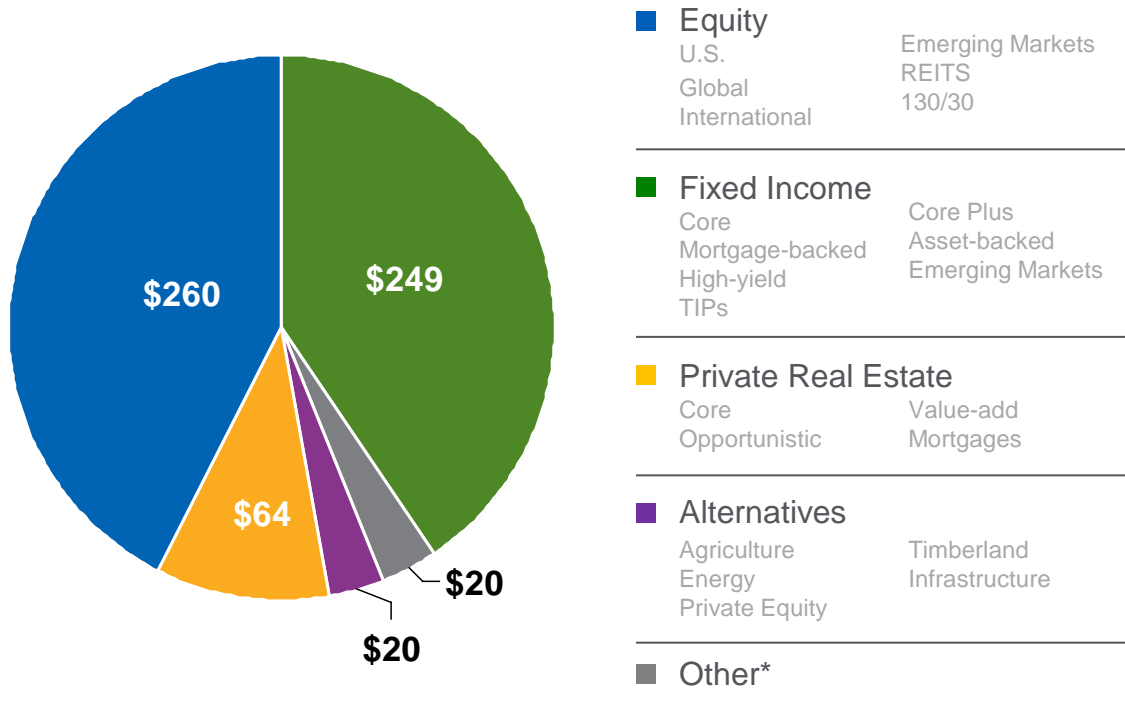
## More than 90 years of investment experience over multiple market cycles



Financial Services

TIAA-CREF Asset Management provides investment advice and portfolio management services for the TIAA-CREF group of companies through our investment advisors including Teachers Advisors, Inc., a registered investment advisor and wholly-owned indirect subsidiary of Teachers Insurance and Annuity Association of America (TIAA), and TIAA-CREF Alternative Advisors, LLC.

# TIAA-CREF AUM: \$613 billion as of June 30, 2014



## Pensions & Investments



- One of the top ten managers of equity assets based on institutional tax-exempt assets under management<sup>1</sup>
- One of the top ten managers of fixed income assets based on institutional tax-exempt assets under management<sup>1</sup>
- One of the top five real estate managers of U.S. tax-exempt assets<sup>2</sup>

\* Other represents consolidated assets not reflected in the asset class breakdowns.

The assets in the TIAA General Account, variable annuities, mutual funds and private funds are managed by TIAA, TIAA-CREF Investment Management, LLC, Teachers Advisors, Inc. and TIAA-CREF Alternative Advisors, LLC.

1. Pensions & Investments, May 26, 2014. Rankings based on institutional tax-exempt assets under management as of December 31, 2013 reported by each responding asset manager.
2. Pensions & Investments, October 28, 2013. Rankings based on institutional tax exempt assets under management as of June 30, 2013 reported by each responding asset manager.



# Asset Management

## Investment teams organization

**Bill Riegel, CFA**  
Chief Investment Officer,  
Asset Management

**Tim Hopper, Ph.D.**  
Chief Economist  
20 years of investment  
experience  
3 years with  
TIAA-CREF

**Bill Martin**  
Interim CIO of  
Global Public Markets  
18 years of investment  
experience  
10 years with  
TIAA-CREF

**Lisa Black, CFA**  
Interim CIO of the  
TIAA General Account  
27 years of investment  
experience  
27 years with  
TIAA-CREF

**Heather Davis**  
CIO of Private Markets  
Investments  
30 years of investment  
experience  
19 years with  
TIAA-CREF

**Tom Franks, CFA**  
CIO of Global Equity  
Investments  
17 years of investment  
experience  
13 years with  
TIAA-CREF

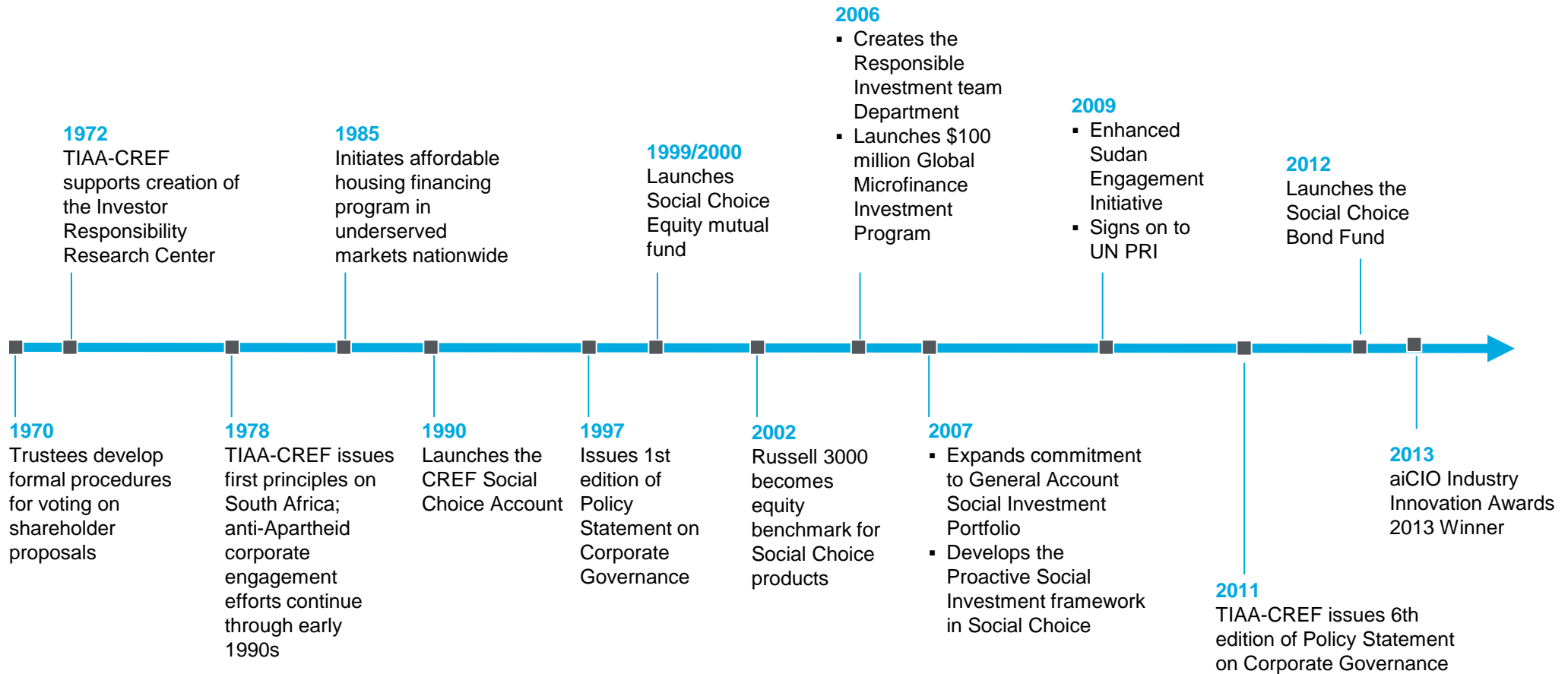
**Sheryl Hempel**  
Head of Client Portfolio  
Management  
32 years of investment  
experience  
8 years with  
TIAA-CREF

**Amy O'Brien**  
Head of Responsible  
Investments  
18 years of investment  
experience  
9 years with  
TIAA-CREF



# Responsible Investing at TIAA-CREF

## \$71 billion in socially responsible assets\*



\*Data as of June 30, 2014



# Social Choice Equity Fund Resources

A proprietary quantitative model enables disciplined portfolio construction and consistent monitoring

## **Portfolio management**

- Jim Campagna, CFA – Portfolio Manager with 23 years of investment experience
- Lei Liao, CFA – Portfolio Manager with 11 years of industry experience

## **Responsible Investment team**

- Amy Muska O'Brien – Managing Director and Head of Responsible Investment team
- Rekha Unnithan – Director, Responsible Investment team
- Manica Piputbundit – Associate, Responsible Investment team

## **Trading support**

- Equity trading desks in New York and San Francisco provide 24-hour trading capability

## **Corporate governance**

- Staff of seven within TIAA-CREF's advocacy and oversight division

# Social Choice Equity Fund

## Investment objective and approach

### Objective

The fund seeks a favorable long-term total return that reflects the investment performance of the overall U.S. stock market while giving special consideration to certain ESG criteria.

### ESG Criteria

We seek to include companies that are leaders in their respective sectors on environmental, social, and governance (ESG) performance. ESG performance should reflect a company's positive and negative impacts on their key stakeholders – employees, communities, customers, suppliers and the planet. Performance evaluations should be based on the ESG factors most relevant to the industry the company operates in, while also reflecting a company's adherence to international norms and conventions.

### Approach

The investment process utilizes portfolio optimization to attempt to replicate the characteristics of the broad equity Russell 3000 Index using only those stocks which fulfill specific ESG criteria.

## TIAA-CREF Responsible Investment team

Formed in 2006 to increase Asset Management's focus on the emerging ESG and Impact Investing landscape

- The Responsible Investment team provides strategic leadership to Asset Management on the implementation of TIAA-CREF's responsible investment (RI) and ESG-related commitments, including collaborating at the enterprise level to leverage TIAA-CREF's ESG and impact investment experience to achieve business area and firm level growth objectives and providing thought leadership and visibility to TIAA-CREF Asset Management's capabilities through active participation in select industry groups and best practice initiatives globally.

### Social Choice Fund Family

- Establishes and manages the environmental, social, and governance (ESG) strategy for TIAA-CREF's Social Choice investment funds and future related products, including the development, continuous enhancement and board-level oversight of the ESG guidelines used to establish the funds' eligible investment universes.

### TIAA General Account Social Impact Investment Program

- Responsible for the TIAA General Account's Social Impact Investment portfolio across sectors, asset classes, and regions, including the establishment of relevant ESG metrics for investment selection and ongoing monitoring.

### ESG Integration

- In partnership with portfolio management teams, oversees the development and execution of relevant ESG integration frameworks, policies and processes across asset classes.

## Implementing our ESG Guidelines

We partner with leading global ESG research providers to determine eligibility for TIAA-CREF's Social Choice Fund family based on our ESG criteria. We actively promote the development of the ESG research and performance ratings field.

### Proprietary framework for selection of ESG research partners

All potential ESG research partners are assessed according to an internally developed framework that prioritizes :

- Established track record and history in ESG research and analysis
- Rigorous analytical capabilities to generate transparent views on company ESG performance
- Diverse and comprehensive sources of data that reflect the input of multiple stakeholders
- Consistent ESG methodologies applied across regions
- Comprehensive factors that encompass a broad range of ESG issues, with a focus on industry-specific risks and opportunities
- Continuous monitoring of company issues, controversies, and emerging ESG trends

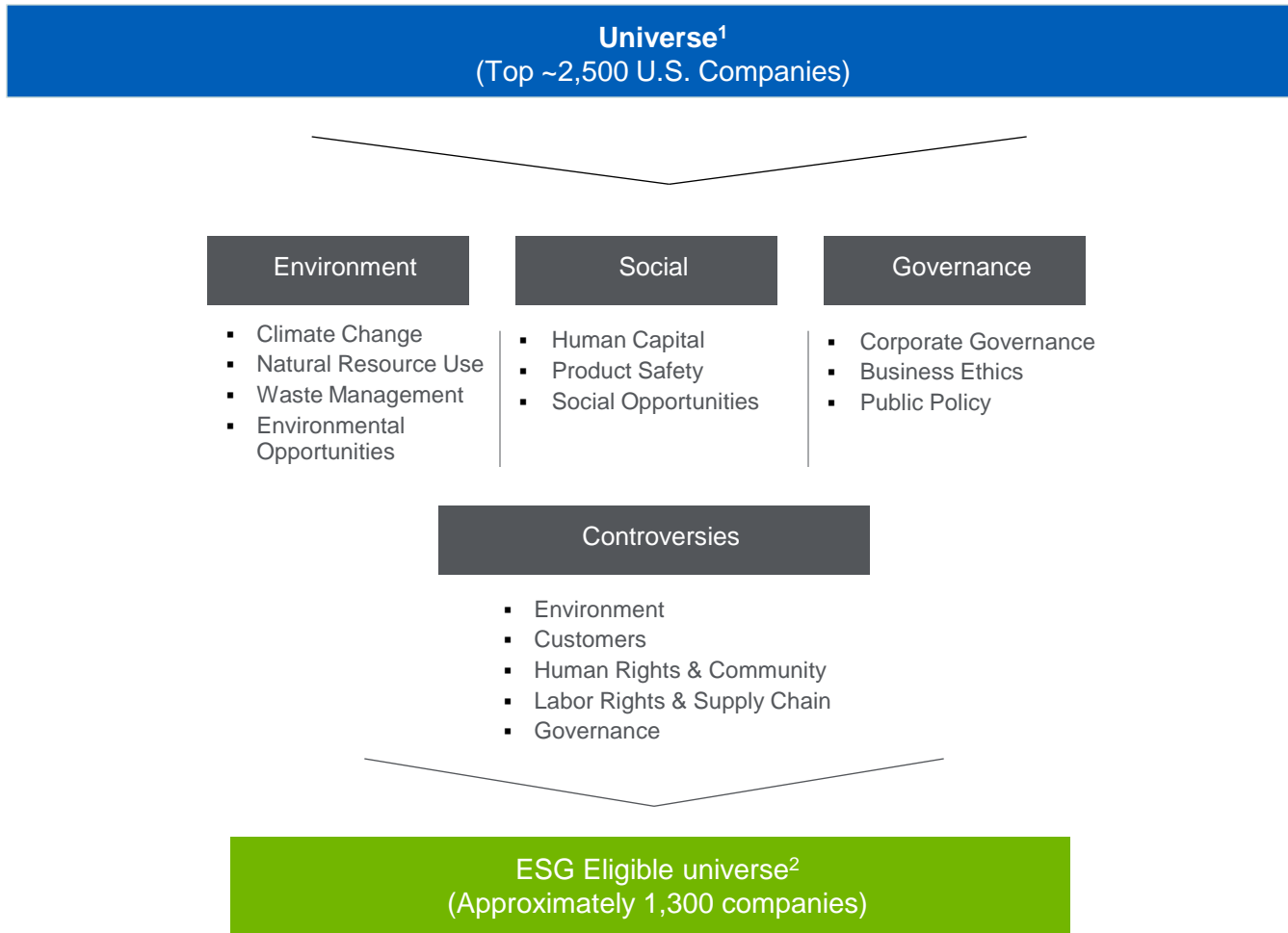
### Supporting Best Practices

We actively support the development of best practices in ESG research and performance evaluation through initiatives such as:

- GISR - Global Initiative for Sustainability Ratings
- PRI – Principles for Responsible Investment

# Social Choice Equity Fund

## Environmental, social and governance evaluation process



- **No categorical industry exclusions**, however, companies' exposure to historical controversial businesses (ie alcohol, firearms, tobacco) is incorporated into their overall ESG performance assessment. While not automatically excluded from the fund, companies with exposure are typically ineligible from inclusion
- **Balances** considerations of company strengths and weaknesses in ESG performance
- **Leverages** a research process that is built upon diverse sources and the input of multiple stakeholders
- **Results** in a Fund with significantly higher ESG performance than the benchmark



1. Top 2,500 companies of the MSCI US Investable Market Index  
 2. MSCI USA IMI ESG Index. Approximately half of the companies (1,200-1,300) evaluated make it to the final list. All companies on this list are considered eligible for inclusion in the fund..

# Social Choice Equity Fund

## Environmental, social and governance evaluation process

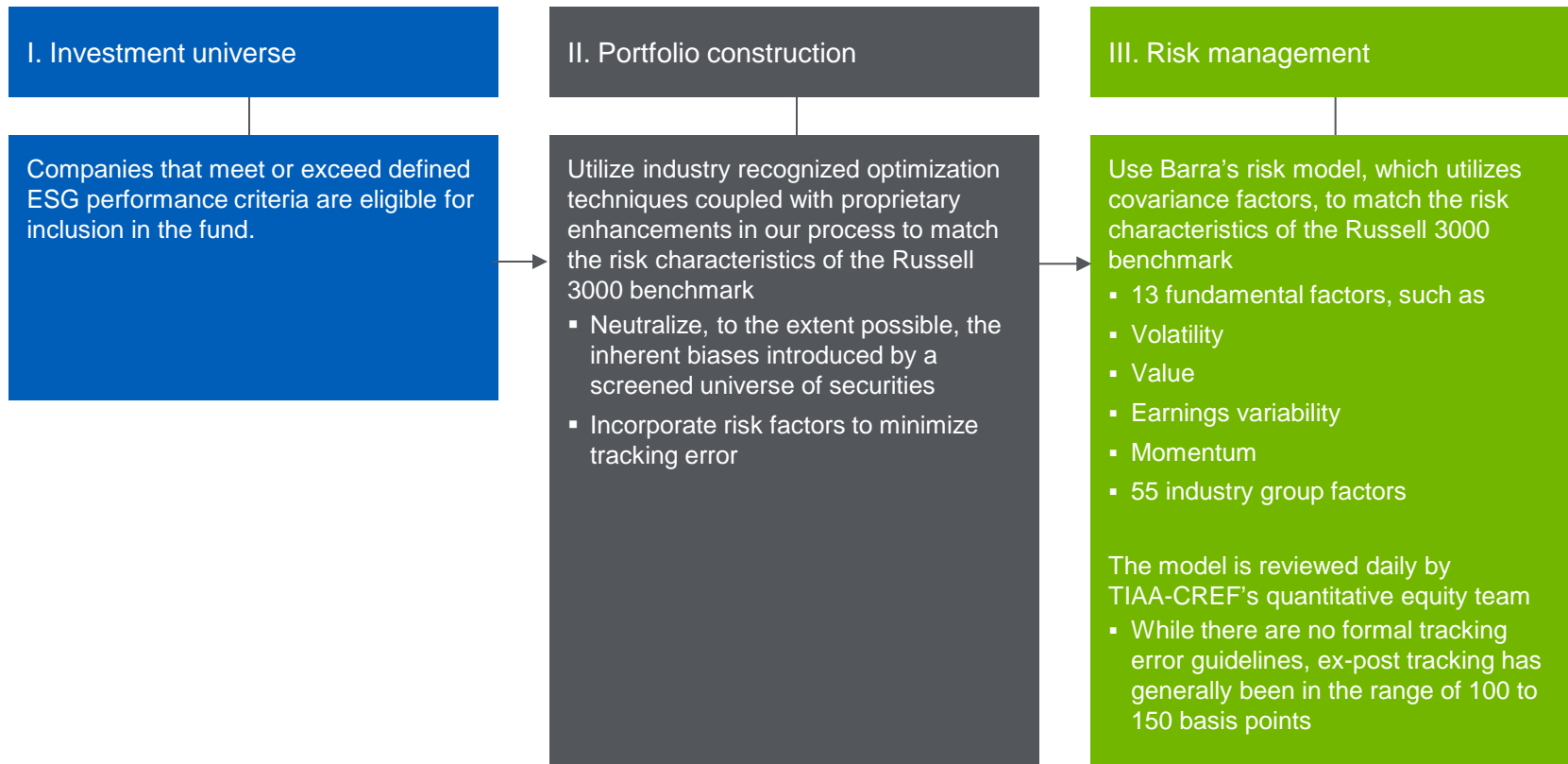
The ESG performance evaluation process uses an industry-specific approach to identify and assess key issues. Companies are assessed on the key issues most relevant to their industry, balancing their strengths and weaknesses in ESG performance.

### Key issues by industry (three examples)

Energy sector (Integrated Oil and Gas Industry)	Consumer staples sector (Food Products Industry)	Financials sector (Investment Banking & Brokerage Industry)
<ul style="list-style-type: none"> <li>▪ Carbon Emissions</li> <li>▪ Biodiversity and Land Use</li> <li>▪ Toxic Emissions and Waste</li> <li>▪ Health and Safety</li> <li>▪ Corruption and Instability</li> <li>▪ Corporate Governance</li> </ul>	<ul style="list-style-type: none"> <li>▪ Product Carbon Footprint</li> <li>▪ Water Stress</li> <li>▪ Raw Material Sourcing</li> <li>▪ Supply Chain Labor Standards</li> <li>▪ Product Safety and Quality</li> <li>▪ Opportunities in Nutrition and Health</li> <li>▪ Corporate Governance</li> </ul>	<ul style="list-style-type: none"> <li>▪ Financing Environmental Impact</li> <li>▪ Human Capital Development</li> <li>▪ Responsible Investment</li> <li>▪ Financial System Instability</li> <li>▪ Corporate Governance</li> </ul>

# Social Choice Equity Fund

## Investment process



# Social Choice Equity Fund

## Buy and sell discipline

### Buy discipline

**The quantitative model determines stock weights based on the benchmark's risk characteristics**

- No capitalization, industry, or sector limits exist in the model
- A portfolio typically holds 700–1,000 securities

### Sell discipline

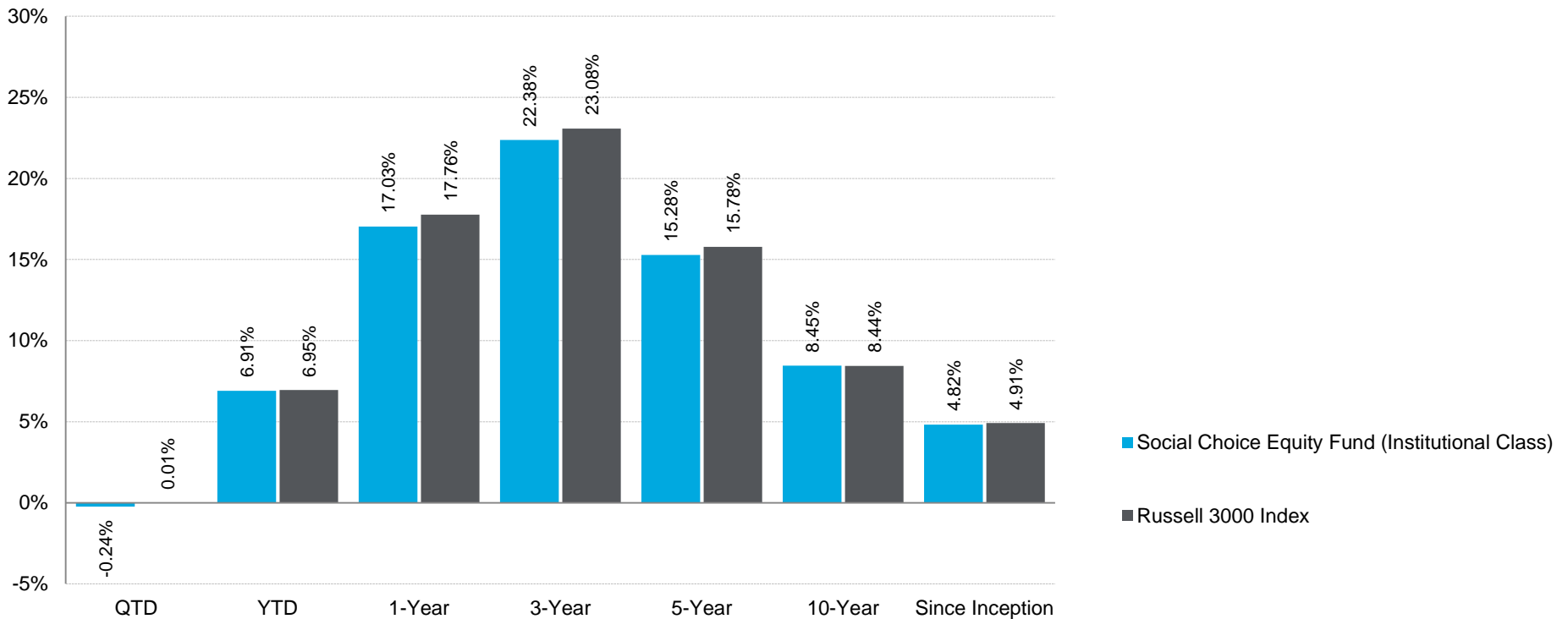
The investment team typically sells or trims a position when the model recommends a reduction in a stock's weighting due to changes in the stock's or benchmark's characteristics

If a stock has been eliminated as a result of ESG criteria, a sale is initiated in an orderly fashion, with minimal market impact



# TIAA-CREF Social Choice Equity Fund – Institutional class Net of fees as of September 30, 2014\*

Average annual returns vs. Russell 3000 Index



\* The Fund's inception date is July 01, 1999. Returns do not reflect the taxes that a shareholder would pay on fund distributions or on redemptions of fund shares. **Investment return and principal value will fluctuate so that, when redeemed, shares may be worth more or less than the original cost. The performance presented represents past performance and is not an indicator or guarantee of future results. Performance data for the Fund is presented net of management fees and expenses and includes the reinvestment of dividends through September 30, 2014. The net expense ratio for this portfolio is 0.18%. Current performance may be lower or higher than the performance presented herein. For performance current to the most recent month-end, please visit [www.tiaa-cref.org/charts/imf-performance.html](http://www.tiaa-cref.org/charts/imf-performance.html). Please see the Appendix for important notes to this presentation.**



# TIAA-CREF Social Choice Equity Fund

## Portfolio Characteristics as of June 30, 2014\*

	Social Choice Equity Fund	Russell 3000 Index
<b>Market Capitalization Breakdown:</b>		
Under \$2 Billion	2.10%	4.96%
\$2 Billion - \$15 Billion	16.99%	22.57%
\$15 Billion - \$50 Billion	44.60%	23.59%
Over \$50 Billion	36.31%	48.88%
<b>Weighted Average Market Cap (\$BN)</b>	65.98	101.71
<b>Weighted Median Market Cap (\$BN)</b>	35.04	45.51
<b>EPS Growth (12 mo. Forecast)</b>	11.50	11.20
<b>Number of Holdings</b>	815	3,000

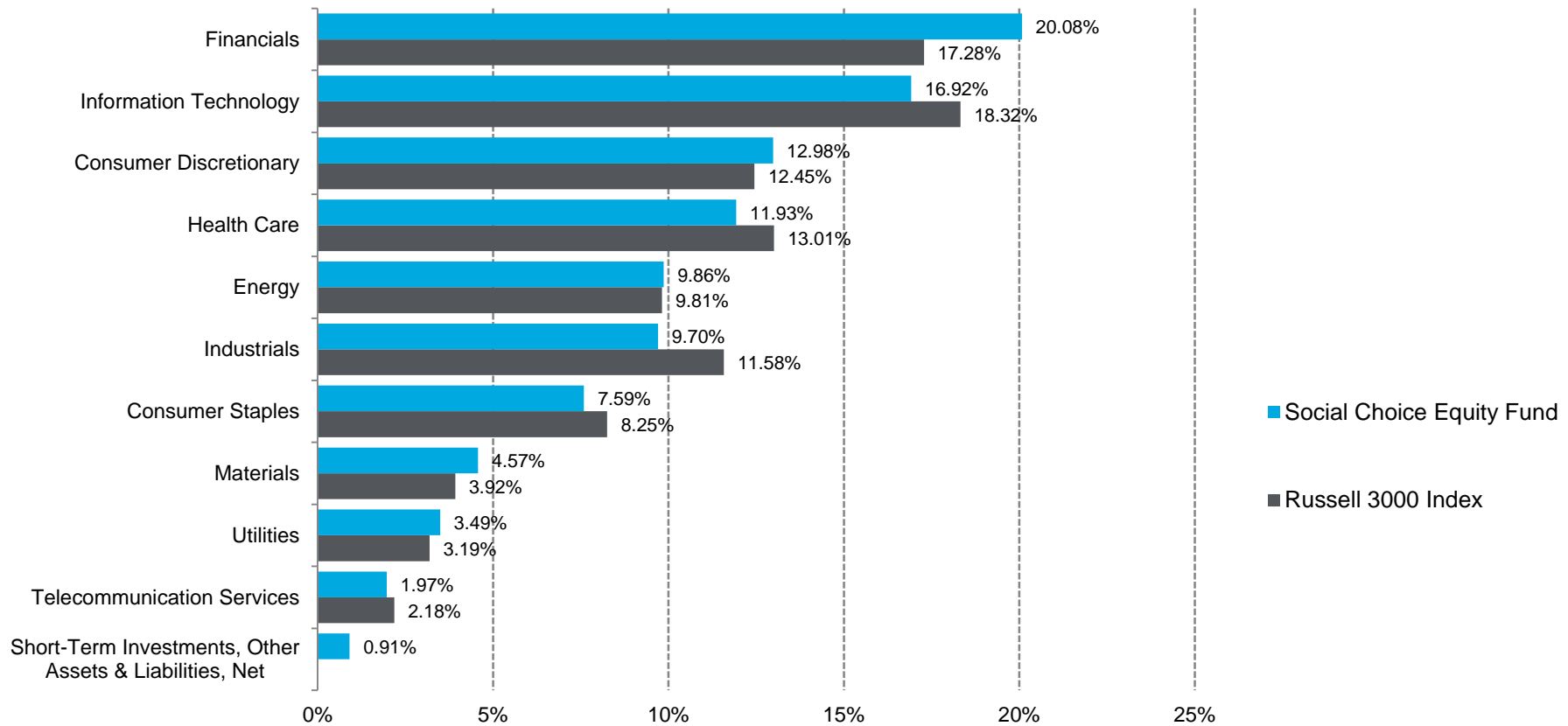


\*The data shown is provided for informational purposes only. Allocations at the time of investment may be different.

For institutional investor use only. Not for use with or distribution to the public.

# TIAA-CREF Social Choice Equity Fund Sector allocations as of June 30, 2014\*

Percent of portfolio vs. Russell 3000 Index



\*The data shown is provided for informational purposes only. Allocations at the time of investment may be different.

## Key benefits of TIAA-CREF Social Choice Equity Fund

TIAA-CREF has a 40-year history of active involvement in the responsible investing field with 20 years of experience managing dedicated ESG portfolios.

- The Social Choice Equity Fund enables an investor to align social values with their US core equity investments
- Our approach seeks to provide the investor with investment exposure similar in characteristics to those of a broad equity benchmark that does not apply explicit ESG criteria, the Russell 3000 Index
  - We apply industry standard optimization techniques coupled with proprietary enhancements to our eligible investment universe seeking to minimize risk of deviating from benchmark returns
  - While there are no formal tracking error guidelines, ex-post tracking has generally been in the range of 100 to 150 basis points of the benchmark
- The Fund benefits from TIAA-CREF's active ownership approaches, which includes corporate engagement and proxy voting, conducted on behalf of our entire public equity holdings
- We implement the ESG process in partnership with an independent ESG research provider to effectively and cost efficiently develop the eligible investment universe for the portfolio
  - Our competitive fees across all TIAA-CREF funds are among the lowest in the industry<sup>1</sup>
  - The relationship provides us with direct access to substantial ESG research expertise



1. Source: Morningstar Direct, June 30, 2014. Based on Morningstar data, the expense ratio on all mutual fund products and variable annuity accounts managed by TIAA-CREF is generally less than half the mutual fund industry average. (71% are less than half their respective Morningstar Universe average and 66% are less than half their respective Morningstar Universe median.)

## Portfolio management

### Jim Campagna, CFA Senior Director

Jim Campagna is a senior director and quantitative portfolio manager for the TIAA-CREF organization and Teachers Advisors, Inc. Mr. Campagna has portfolio management responsibilities for all equity index strategies and socially screened equity portfolios. He joined TIAA-CREF in 2005. Mr. Campagna has 23 years of investment experience including a position at Mellon Capital Management where he was responsible for several mandates and was an index strategy manager for MSCI® EAFE®. Mr. Campagna earned his B.A. in economics with a minor in mathematics from the University of California, Irvine. He also holds the Chartered Financial Analyst (CFA) designation.

### Lei Liao, CFA Director

Lei Liao is a director and quantitative portfolio manager for the TIAA-CREF organization. Mr. Liao joined the TIAA-CREF organization in 2012. Mr. Liao has 11 years of industry experience, including several years at Northern Trust Corp. as a senior equity portfolio manager. Mr. Liao earned an M.B.A. from the Ross Business School at the University of Michigan.

## Responsible Investment team

### Amy Muska O'Brien Managing Director

Amy Muska O'Brien is managing director and head of TIAA-CREF's Responsible Investment team. She provides overall strategic leadership to Asset Management on the implementation of TIAA-CREF's responsible investment commitments and environmental, social and governance (ESG) approaches, including ESG-focused funds, ESG integration frameworks across asset classes, and the firm's community and impact investing portfolios.

Ms. O'Brien joined the firm as a Director in 2005 and has worked on a wide range of ESG and community investing initiatives across TIAA-CREF. Ms. O'Brien has 18 years of professional experience in the field of socially responsible investing. Prior to joining TIAA-CREF in 2005, Ms. O'Brien served as Director of Corporate Social Responsibility at the Pension Boards - United Church of Christ, where she developed and implemented socially responsible investment strategies. Previously, she was Research Manager at the Council on Economic Priorities, the non-profit research firm that pioneered the field of corporate social and environmental responsibility ratings for investors and consumers.

Ms. O'Brien earned a B.S. in Biology from Boston College and an M.S. in Environmental Management and Policy from Rensselaer Polytechnic Institute. From 2006-2011 she served on the Board of Directors of the Social Investment Forum (SIF), a national nonprofit membership association dedicated to advancing investment practices that consider environmental, social and corporate governance criteria. In 2008, Ms. O'Brien joined the board of directors of The Investor Responsibility Research Center Institute for Corporate Responsibility (IRRCi), whose mission is to act as a catalyst for thought leaders, and to sponsor research on corporate governance and corporate responsibility. In 2011 she was appointed to the Steering Committee of the Global Initiative for Sustainability Ratings. In 2014 she was named to the Principles for Responsible Investment (PRI) Initiative's Reporting and Assessment Steering Committee.

## Responsible Investment team

### Rekha Unnithan, CFA, CIMA

#### Director

Rekha Unnithan is a Director and member of TIAA-CREF's Responsible Investment team. Her responsibilities include determining the TIAA General Account's social impact investment strategy across sectors, asset classes, and regions. Ms. Unnithan manages the overall portfolio, providing origination, performing due diligence, and maintaining effective partnerships with Investment Management colleagues to execute TIAA's commitment across thematic areas of Affordable Housing, Inclusive Finance, and Community & Economic Development. In addition, she is responsible for providing comprehensive research, analytical and operational support to the department's core initiatives. As part of her role, she is the Chair of the Steering Committee for the Principles for Investors in Inclusive Finance, housed within the UN backed Principles for Responsible Investment initiative. Ms. Unnithan joined the TIAA-CREF organization in 2012. Prior to joining TIAA-CREF, she worked for Bank of America Merrill Lynch as a Vice President in their Institutional Investment Group. She has also held various positions at Merrill Lynch in Institutional Investments, and Investment Oversight and Risk Management. Ms. Unnithan holds a B.A. in Economics from Yale University and an M.B.A. with a specialization in Financial Instruments & Markets, and Social Innovation & Impact from New York University's Stern School of Business. She is a Chartered Financial Analyst (CFA) charterholder and a Certified Investment Management analyst (CIMA®).

### Manica Piputbundit

#### Associate

Manica Piputbundit is an Associate and member of TIAA-CREF's Responsible Investment team. Her responsibilities include working with the Responsible Investment team to manage the environmental, social, and governance (ESG) strategy for TIAA-CREF's Social Choice investment funds and future related products, including the continuous enhancement and board-level oversight of the ESG guidelines for the funds. She also provides research, analytical, and overall support to the Responsible Investment team mandate, including initiatives related to the development of ESG integration frameworks across asset classes. Ms. Piputbundit joined the TIAA-CREF organization in 2012. Prior to joining TIAA-CREF, she worked for Morgan Stanley as an Associate in the Institutional Equities Division in New York and Hong Kong. Ms. Piputbundit holds a B.A. in Economics and Computer Science from Columbia University and an M.B.A from New York University's Stern School of Business.



## Notes to performance

1. Performance data for the fund is presented net of investment management fees and expenses and includes the reinvestment of dividends through September 30, 2014. Current performance may be lower or higher than the performance presented herein. No representation is made that the fund or any account will or is likely to achieve its objectives or that any investor will or is likely to achieve results comparable to those shown or will make any profit at all or will be able to avoid incurring substantial losses.
2. TIAA-CREF Individual & Institutional Services, LLC and Teachers Personal Investors Services, Inc., members FINRA, distribute securities products. You should consider the investment objectives, risks, charges and expenses carefully before investing. Please call 877 518-9161 for a prospectus that contains this and other information. Please read the prospectus carefully before investing.
3. The TIAA-CREF Funds offer four classes of shares. The performance returns included in this material are those of the Institutional Class of shares.
4. Portfolios within each strategy are subject to certain risks, such as market and investment-style risks. Please consider all risks carefully prior to investing. Because its social screens exclude some investments, the fund may not be able to take advantage of the same opportunities or market trends as funds that do not use such criteria. Investments in small- to medium-sized corporations are more vulnerable to financial risks and other risks than larger corporations and may involve a higher degree of price volatility than investments in the general equity markets.
5. The Fund is benchmarked to an appropriate market index. The benchmark does not reflect any fees, brokerage commissions or other expenses, but does reflect the reinvestment of dividends. The benchmark is unmanaged and does not reflect the payment of advisory fees and other expenses associated with investing in a mutual fund, commingled fund or separate account. The benchmark is defined as follows:

The Russell 3000 Index measures the performance of the stocks of the 3,000 largest publicly traded U.S. companies, based on market capitalization. The Russell 3000 Index measures the performance of about 98% of the total market capitalization of the publicly traded U.S. equity market. You cannot invest directly in this index.



TIAA-CREF Asset Management

TIAA-CREF Asset Management

730 Third Avenue

New York, NY 10017-3206

212 490-9000 Extension 23-7183

[www.tiaa-cref.org/assetmanagement](http://www.tiaa-cref.org/assetmanagement)

TIAA-CREF Asset Management provides investment advice and portfolio management services to the TIAA-CREF group of companies through the following entities: Teachers Advisors, Inc., TIAA-CREF Investment Management, LLC, TIAA-CREF Alternatives Advisors, LLC, and Teachers Insurance and Annuity Association of America. Teachers Advisors, Inc., TIAA-CREF Investment Management, LLC, and TIAA-CREF Alternatives Advisors, LLC are registered investment advisers and wholly owned subsidiary of Teachers Insurance and Annuity Association of America (TIAA).

**TIAA-CREF Individual & Institutional Services, LLC, Teachers Personal Investors Services, Inc., and Nuveen Securities, LLC, Members FINRA and SIPC, distribute securities products.**

©2014 Teachers Insurance and Annuity Association of America-College Retirement Equities Fund, New York, NY 10017

C16343



Financial Services

For institutional investor use only. Not for use with or distribution to the public.

TAB 4 – OIC INVESTMENT BELIEFS

# **Oregon Investment Council**

Statement

of

Investment and Management Beliefs

Adopted: October 30, 2013

Revised: November 5, 2014

## **Contents**

### **Preamble**

1. The OIC Sets Policy and is Ultimately Responsible for the Investment Program
2. Asset Allocation Drives Risk and Return
3. The Equity Risk Premium Will Be Rewarded
4. Private Market Investments Can Add Significant Value and Represent a Core OIC/OST Competency
5. Capital Markets Have Inefficiencies That Can Be Exploited
6. Costs Directly Impact Investment Returns and Should Be Monitored and Managed Carefully
7. Fair and Efficient Capital Markets are Essential for Long-Term Investment Success

### **Preamble**

This Statement of Investment and Management Beliefs enumerates fundamental investment and management principles that guide the Oregon Investment Council (“Council” or “OIC) in performing its fiduciary and statutory obligations which include establishing policies for the investment and management of “investment funds” as defined in 293.701(2). The Oregon State Treasurer, largely through the Investment Division of the Office of the State Treasurer (“Treasurer” or “OST”), provides staff support for the Council and, as the Council’s statutorily designated “investment officer” (together with such other persons determined qualified by the Council to conduct investment and management functions on its behalf), invests and manages in accordance with Council policy those moneys made available by the Council for such purposes. The Treasurer may also adopt additional policies governing its investment and management functions. The OIC and OST recognize that their respective authority to establish and implement such policies is grounded in and bounded by fiduciary and statutory foundations to their authority which charge them with exercising a duty of exclusive loyalty to fund beneficiaries by ensuring that related moneys are invested as efficiently and productively as possible while adhering to applicable standards of prudent judgment and care. Accordingly, the following statements and accompanying OIC policies are intended to be in harmony with and promote the fulfillment of such obligations.

1.) THE OIC SETS POLICY AND IS ULTIMATELY RESPONSIBLE FOR THE INVESTMENT PROGRAM

**A. The OIC is a policy-setting council that largely delegates investment management activities to the OST and qualified external fiduciaries.**

- The OIC sets strategic policy and tasks both OST staff and external managers with policy implementation.

**B. The OIC has authority to set and monitor portfolio risk. Both short-term and long-term risks are critical.**

- The OIC must weigh the short-term risk of principal loss against the long-term risk of failing to meet return expectations.

**C. To exploit market inefficiencies, the OIC must be contrarian, innovative and opportunistic in its investment approach.**

- The OIC must prepare for and accept periods of extreme price/valuation volatility and/or related market dislocations and endeavor to act expeditiously during such periods if and when deemed advantageous.

**D. Internal incentive structures should be carefully evaluated to ensure proper alignment with specific investment objectives.**

- Evaluation criteria should be based (in large part) on decisions over which staff members have clear authority and control.
- Total portfolio results (in addition to individual asset class returns) should be considered, and the evaluation period should be consistent with an appropriate investment horizon or market cycle.

**E. Adequate resources are required to successfully compete in global capital markets.**

- Staffing levels and operating budgets should be determined by capability requirements using benchmark assessments comprised of other well respected organizations of similar size and portfolio complexity.
- The benefits of OIC member and OST staff continuity should also be recognized.

## 2.) ASSET ALLOCATION DRIVES RISK AND RETURN

### **A. Asset allocation is the OIC's primary policy tool for managing the investment program's long-term risk/return profile.**

- Decisions regarding strategic asset allocation will have the largest impact on the investment program's realized return and risk and hence should be made judiciously and receive special emphasis and attention.
- The timing and magnitude of projected employer contributions and future benefit payments have significant cash flow implications and thus should receive explicit consideration during the OIC's asset allocation decision-making process.

### **B. Portfolio construction, including diversification and correlation considerations, is essential to maximizing risk-adjusted returns.**

- Empirical rigor, coupled with sound judgment, is required in the portfolio construction process to effect true diversification, while discipline is required to maintain diversification through and across successive market cycles.
- Risk is multi-faceted and may include, but is not limited to, the following types of specific risks: principal loss; opportunity cost; concentration risk; leverage and illiquidity risk; volatility and valuation risk; interest rate and inflation risk; and environmental, social and governance (ESG) risks.

## 3.) THE EQUITY RISK PREMIUM WILL BE REWARDED

### **A. Over the long-term, equity-oriented investments provide reliable return premiums relative to risk-free investments.**

- Although returns for risk taking are not always monotonic or consistently rewarded over time, bearing equity risk does command a positive expected return premium provided such risk is reasonably priced.

4.) PRIVATE MARKET INVESTMENTS CAN ADD SIGNIFICANT VALUE AND REPRESENT A CORE OIC/OST COMPETENCY

**A. The OIC can capitalize on its status as a true, long-term investor by making meaningful allocations to illiquid, private market investments.**

- Inefficiencies exist in private markets that provide skilled managers with excess return opportunities relative to public market analogues.
- Private markets may also offer an “illiquidity premium” that can be exploited by patient, long-term investors.

**B. Dispersion in private market investment returns is wide; accordingly, top-quartile manager selection and vintage year diversification are paramount.**

- Private market investment success is predicated on identifying skilled managers, and developing long-term investment relationships with those managers that enable their skill to manifest in the form of excess returns.
- Proper investment pacing, including deliberate vintage year diversification is also an integral element of superior private market investment results.

5.) CAPITAL MARKETS HAVE INEFFICIENCIES THAT CAN BE EXPLOITED

**A. Inefficiencies that can be exploited by active management may exist in certain segments of the capital markets.**

- While largely efficient, select segments of the capital markets can sometimes be exploited by skilled active management.
- The nature (i.e., perceived magnitude and likely duration) of such inefficiencies should inform the proposed active management strategy (e.g., discretionary or systematic).

**B. Passive investment management in public markets will outperform the median active manager in those markets over time.**

- Active management should therefore be a deliberate choice and applied only to those public market strategies/managers in which the OIC enjoys a high degree of confidence that such strategies/managers will be sufficiently rewarded on a risk-adjusted basis and net of all fees and related transactions costs.

6.) COSTS DIRECTLY IMPACT INVESTMENT RETURNS AND SHOULD BE MONITORED AND MANAGED CAREFULLY

**A. All fees, expenses, commissions, and transaction costs should be diligently monitored and managed in order to maximize net investment returns.**

- While all costs should be monitored and controlled, these costs should also be evaluated relative to both expected and realized returns.

**B. External incentive structures should be carefully evaluated to ensure proper alignment with investment program objectives.**

- Fee and incentive structures drive both individual and organizational behavior.
- These structures (particularly in private market strategies) should be carefully evaluated and monitored to ensure that the goals and incentives of individual investment professionals and their respective organizations are well aligned with the specific investment objectives established by the OIC and/or OST staff.

7.) FAIR AND EFFICIENT CAPITAL MARKETS ARE ESSENTIAL FOR THE LONG-TERM SUCCESS OF OIC/OST INVESTMENT ACTIVITIES

**A. The OIC recognizes that the quality of regulation and corporate governance can affect the long-term value of its investments.**

- The Council promotes competitive and transparent market structures to ensure accurate and timely price discovery/asset valuation.

**B. The OIC also recognizes that voting rights have economic value and therefore must be treated as a fund or beneficiary asset.**

- The OIC shall vote shares in its capacity as fiduciary and based solely on the economic merits of specific proxy proposals.



TAB 5 – 2015 OIC MEETING CALENDAR

# OREGON INVESTMENT COUNCIL

## 2015 Schedule

Meetings Begin at 9:00 am

PERS Headquarters Building  
11410 S.W. 68<sup>th</sup> Parkway  
Tigard, OR 97223

---

Wednesday, February 4, 2015

Wednesday, March 4, 2015

Wednesday, April 29, 2015

Wednesday, June 3, 2015

Wednesday, July 29, 2015

Wednesday, September 16, 2015

Wednesday, October 28, 2015

Wednesday, December 9, 2015

TAB 6 – SAIF ANNUAL REVIEW

.

## **Oregon Investment Council SAIF Corporation**

### **Purpose**

In accordance with OIC Policy 4.09.06 for SAIF: “Review of the asset allocation policy, investment management and performance will occur at least annually with the OIC and more frequently by OST staff. These reviews will focus on the continued appropriateness of policy, compliance with guidelines and performance relative to objectives. A formal process shall be established allowing SAIF staff to meet with OIC’s consultants on an annual basis to discuss issues of management and asset allocation. In addition, SAIF staff will have the opportunity to address the OIC annually to discuss SAIF’s particular views as to the management of the fund.”

### **Background**

At the July 2013 OIC meeting, based on a recommendation from SAIF’s consultant, TowersWatson, the OIC approved the following asset allocation changes for the portfolio:

1. Consider core, income-focused, private market real estate and senior debt secured by real estate, seeking a five percent total fund allocation over time (and funded by a commensurate decrease in core fixed income); and
2. Expand the flexibility of fixed income managers to purchase high yield debt. Also, allow same managers to invest more broadly in below investment grade markets, specifically allowing investments in bank loans and dollar denominated emerging markets debt.

To date, staff has not acted on the permitted allocation to private market real estate, given current valuation levels.

### **Performance**

The SAIF portfolio has performed well over the past decade. In fact, as of the end of September 2014, SAIF investment assets were near an all-time high of \$4.7 billion. Over the most recent five-year period, the SAIF portfolio has returned an average of 6.7 percent, exceeding the 6.1 percent return of its policy benchmark. Over the trailing 10-year period, and on an average, annual basis, the fund has returned 5.9 percent versus its 5.5 percent policy benchmark return.

### **Recommendation**

None at this time. SAIF management will provide an update on their business, under separate cover.



PRESENTATION TO THE

# Oregon Investment Council

November 5, 2014

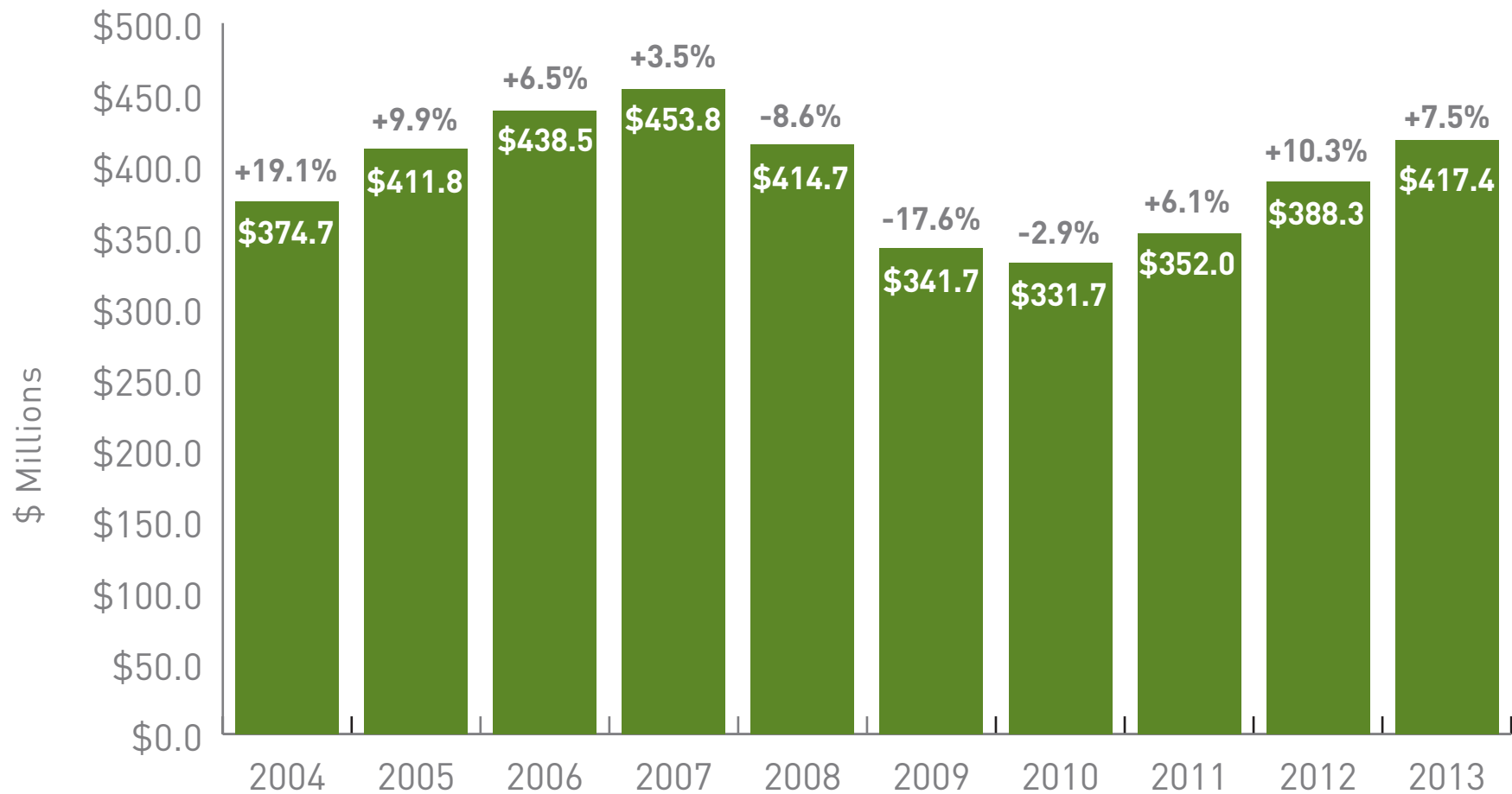
## Table of contents

Facts about SAIF Corporation .....	page 3
Direct earned premium .....	page 4
Interest and dividend income.....	page 5
Total outstanding unpaid losses and LAE .....	page 6
Surplus .....	page 7
Adequacy of surplus.....	page 8
SAIF current investment policy .....	page 9

## Facts

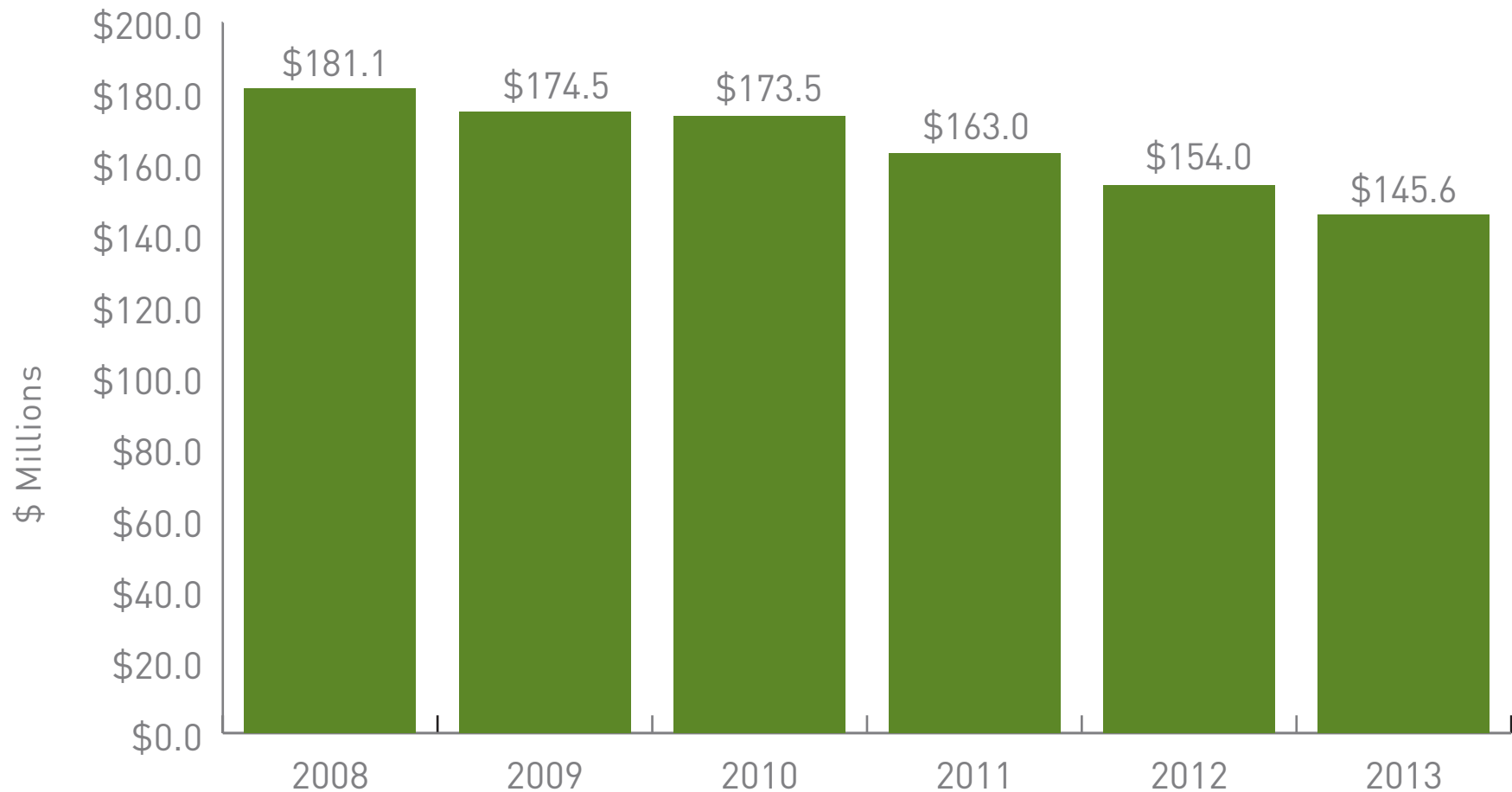
	<b>2012</b>	<b>2013</b>
Number of employers insured (including share of assigned risk pool)	<b>47,777</b>	<b>49,258</b>
Total invested assets	<b>\$4.4 billion</b>	<b>\$4.4 billion</b>
Total assets	<b>\$4.7 billion</b>	<b>\$4.8 billion</b>
Loss and loss adjustment expense reserves	<b>\$3.1 billion</b>	<b>\$3.1 billion</b>
Total liabilities	<b>\$3.7 billion</b>	<b>\$3.6 billion</b>
Surplus	<b>\$1,002.9 million</b>	<b>\$1,182.3 million</b>
Direct earned premium	<b>\$388.3 million</b>	<b>\$417.4 million</b>
Market share	<b>47.2%</b>	<b>49.6%</b>
Investment income	<b>\$193.3 million</b>	<b>\$196.9 million</b>
Policyholder dividend	<b>\$150.1 million</b>	<b>\$129.0 million</b>
Number of full-time equivalent filled positions	<b>826</b>	<b>854</b>

## Direct earned premium





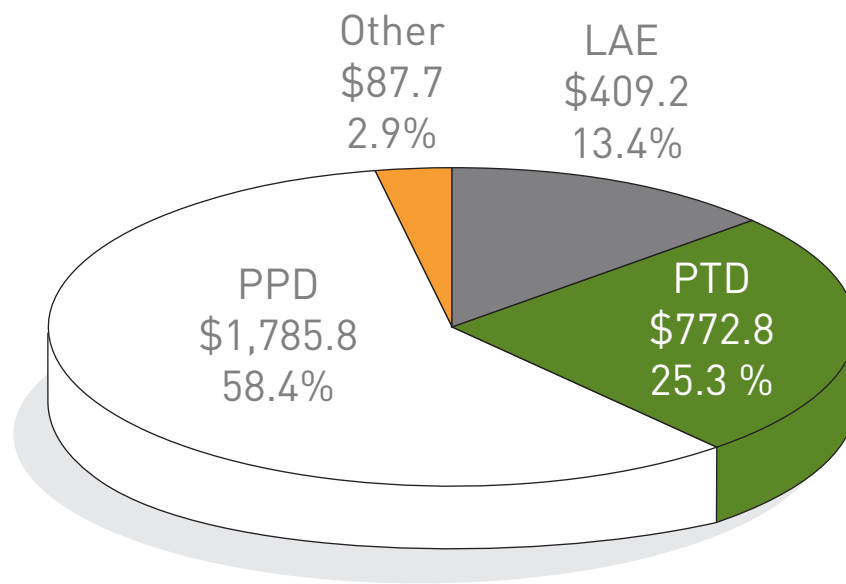
## Interest and dividend income



# Total outstanding unpaid losses and LAE

As of December 31, 2013 (\$ in millions)

**Total \$3,055.5**

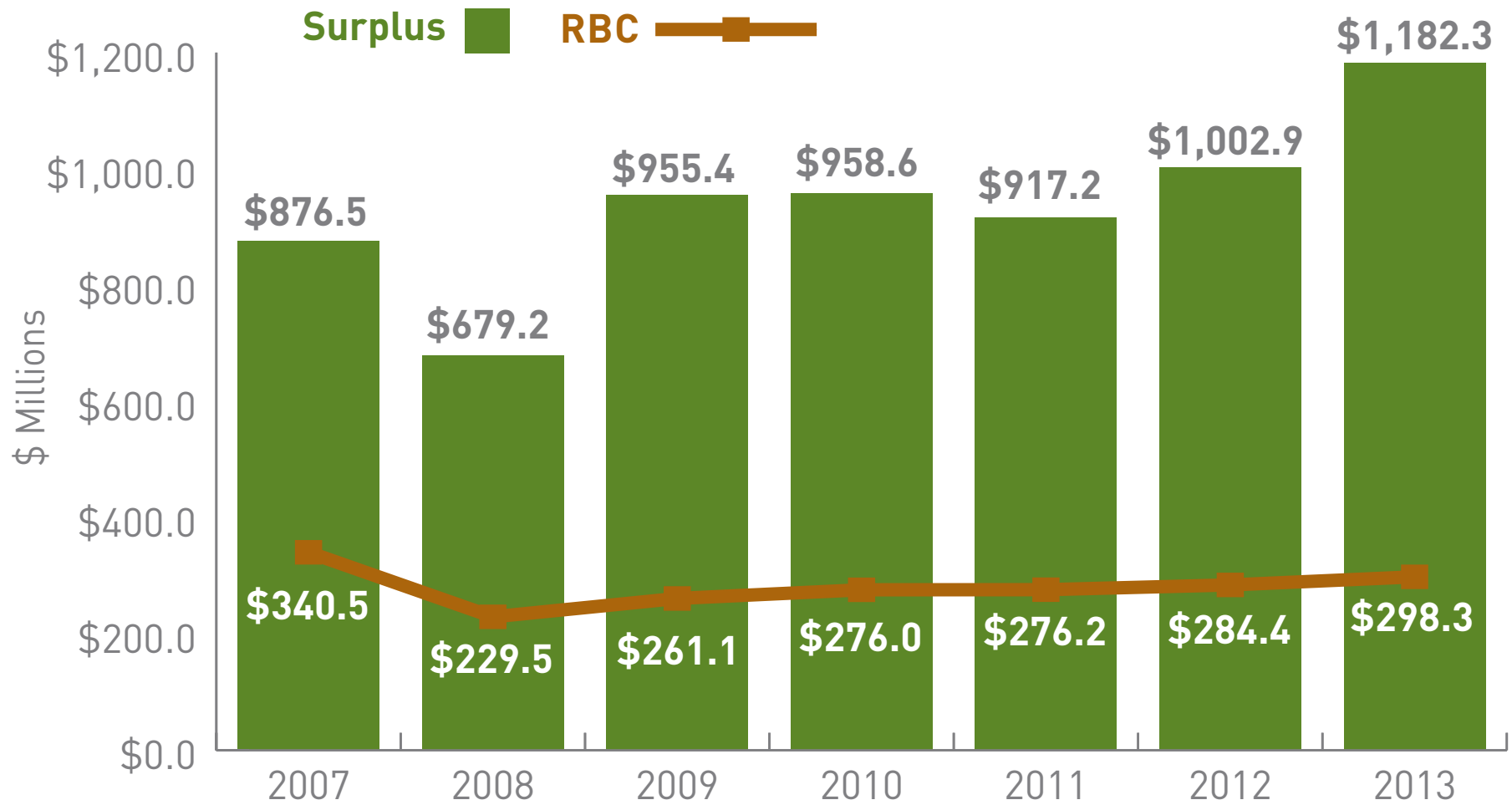


### Definitions:

- LAE** (Loss adjustment expenses)  
Reserves for the future cost of adjusting and processing claims
- PTD** (Permanent total disability)  
Reserves for the loss of use or function of any portion of the body which permanently incapacitates the worker from regularly performing work at a gainful and suitable occupation
- PPD** (Permanent partial disability)  
Reserves for permanent, complete, or partial loss of use of bodily extremities, including vision or hearing
- Other** Reserves for claims involving fatalities, claims which only include medical costs, injured worker attorney fees, vocational rehabilitation costs, and other claims related costs

# Surplus

as of December 31



## Adequacy of surplus

- Risk-based capital (RBC) is the minimum amount of capital required by an insurance company to support its overall business operations. The formula for determining RBC is developed and maintained by the National Association of Insurance Commissioners (NAIC) and takes into consideration the size and risk profile of the company.
- A 2014 audit by an independent actuary hired by the Secretary of State Audits Division determined that SAIF's loss reserves, as of December 31, 2013, fell in the upper half of a reasonable range.
- Given SAIF's adequate loss reserves, the independent actuary concluded that SAIF's surplus appears to be sufficient to support SAIF as an ongoing concern over a five-year forecast horizon.

## SAIF's current investment policy

At the September 25, 2013, meeting of the Oregon Investment Council, the council adopted the following policy.

### Asset allocation

Asset class	Benchmark	Strategic target allocation	Range
Global equities	MSCI ACWI IMI index	10%	7%–13%
US fixed income	Custom fixed income benchmark	85%	80%–90%
Real estate	NCREIF property index	5%	0%–7%
Cash		0%	0%–3%
Policy mix	Weighted aggregate of indexes listed above at target allocation	100%	



## TAB 7 – OPERF PUBLIC EQUITY REVIEW

.

**Oregon Investment Council**  
**OPERF Public Equity Annual Review**  
**November 5, 2014**

**Purpose**

Provide an annual review of the OPERF public equity portfolio, discuss staff's proposed portfolio restructuring and seek OIC approval of corresponding policy changes.

**Background**

As of June 30, 2014, the capitalization-based MSCI ACWI IMI index was comprised of 49.4 percent U.S. equities, 39.8 percent Developed International equities, and 10.8 percent Emerging Market equities. To achieve a similar allocation within the OPERF public equity portfolio and match the broad exposures found within that index, staff uses a mix of 47 differentiated investment strategies organized across style (core/growth/value), capitalization range (large/mid/small/micro) and geography (country/region/global). The 47 investment strategies can be broadly categorized as follows:

- **21 U.S. Equity strategies**, comprised of 5 indexed strategies (three of which are internally managed) and 16 active strategies (two of which are managed internally).
- **26 International Equity strategies**, comprised of 18 international developed strategies (one of which is indexed), 7 dedicated emerging market strategies (one of which is internally-managed) and 1 global equity strategy.

**Public Equity Management Highlights**

Although results of the Public Equity review are detailed in a report from Callan (period ending June 30, 2014), staff wishes to highlight the following key points:

- **Public Equity Policy Objective** – The OIC's public equity policy objective (75 basis points [bps] of excess return) has been achieved while utilizing only half the policy's 200 bps tracking error (active risk) allowance.

Period Ending 6/30/14	Market Value	1 year	3 year	5 year
<b>TOTAL PUBLIC EQUITY</b>	<b>\$ 29,203,480,930.19</b>	<b>24.17%</b>	<b>11.21%</b>	<b>15.68%</b>
MSCI ACWI IMI Net		23.35%	10.37%	14.77%
<b>Excess</b>		<b>0.81%</b>	<b>0.84%</b>	<b>0.90%</b>

<b>Active Risk (Realized)</b>		<b>1.00%</b>	<b>0.94%</b>	<b>0.88%</b>
<b>Information Ratio</b>		<b>0.81</b>	<b>0.89</b>	<b>1.02</b>

- **Internally-Managed Equity Portfolios** – The majority of internally-managed public equity portfolios out-performed their corresponding benchmarks (Appendix A – period ending September 30, 2014). Additionally, the internally-managed S&P 500 and S&P 400 strategies recorded their 5-year anniversaries on September 30, 2014.
- **Portfolio Rebalances** – Last year, revisions to OIC policy 04.05.01 and 04.05.02 gave staff authority to effect termination and rebalancing decisions among existing public equity managers and mandates. For the 12 months ending September 30, 2014, with CIO approval, staff raised cash and reallocated \$2.2 billion worth of public equity assets (Appendix B). These actions included terminating two externally-managed domestic large cap mandates, funding a new internally-managed risk premia mandate, increasing allocations to other internally-managed strategies and funding two externally-managed international micro-cap mandates.



## Executive Summary

Consistent excess returns from traditional, discretionary active management in the OPERF domestic equity portfolio have been difficult to achieve over the long-term. In this highly efficient segment of the market, staff proposes to complement the portfolio's existing and long-standing overweight to small cap stocks with a systematic tilt (at very low cost) toward value stocks. **Historically, size (i.e., small cap) and value<sup>1</sup> factors have generated statistically significant excess returns; moreover, exposure to these two primary risk factors often explains much or all of discretionary active managers' outperformance over time.** In essence, well known common factor exposures – rather than stock picking abilities – are usually the fundamental driver of active management alpha among public equity managers. Staff believes this method of active risk taking (i.e., deliberate factor tilts) has, net of fees, a higher probability of long-term success than traditional, discretionary active management.

## Discussion

Pension funds generally achieve exposure to public equity markets by assigning particular mandates (e.g., large cap, small cap, growth, value, international, etc.) to managers who attempt to outperform their respective benchmarks. For large pension funds like OPERF, this traditional implementation results in a large roster of active managers, often with high associated costs. The excess returns produced by these managers are commonly labelled “alpha”. However, empirical studies on mutual funds and a small but growing literature on institutional asset management have demonstrated that a large portion of what was once considered alpha is now instead recognized as excess returns attributable to risk factor exposures<sup>2</sup> (i.e., returns associated with common risk factors such as size, value, momentum, profitability, etc.). The implication of these findings is that pension funds have been paying substantive active fees for what are ostensibly common risk factor exposures that can otherwise be easily captured through more passive, systematic strategies at much lower costs.

At the October 30, 2013 and recent September 30, 2014 OIC board meetings, staff indicated its dissatisfaction with the performance of the OPERF U.S. equity portfolio. Although the Total Public Equity portfolio has met the OIC policy return objective of 75 basis points of excess return while utilizing only half the policy's 200 bps tracking error allowance, the objective has been achieved mainly through the success of the international equity portfolio.

In order to better evaluate the performance of the OPERF U.S. equity portfolio, staff utilized a regression technique that has been used in academia for several decades. The four-factor regression model (i.e., beta, size, value and momentum) has evolved to become a standard analysis tool used to determine what portion of a manager's purported alpha is in fact attributable to either deliberate or unintended risk factor exposures and what portion of the purported alpha can instead be attributable to manager skill in the form of active decisions on countries, sectors, individual securities or factor timing. **Staff's regression analysis of the OPERF U.S. equity portfolio's 36-year return history using the standard four-factor model reveals that the portfolio's excess returns are largely attributed to its strategic small cap overweight (i.e., the size factor).** These results were corroborated by Callan Associates.

For over two decades, multiple sources of academic research have demonstrated the strong and consistent explanatory power of certain common risk factors. Importantly, these results persist through time (going back as far as 1926), and are pervasive across markets (i.e., U.S., International Developed and Emerging). As seen below, return premiums associated with the three primary risk factors (size, value and momentum) in the U.S. are exceedingly robust:

---

<sup>1</sup> As measured by *share price/book value* ratios.

<sup>2</sup> These exposures or “tilts” can be deliberate in a discretionary active management process, but instead are usually just a residual consequence of traditional security selection algorithms.

**Annualized Returns, 1926 to June 30, 2014**

	SMB (size)	HML (value)	Momentum	S&P 500*
<b>Return</b>	2.28%	3.95%	6.84%	10.09%
<b>SD</b>	11.39%	12.23%	16.44%	19.01%

Source: DFA, Ken French Data Library, S&P Monthly Data from 1927-01 to 2014-06.

\* S&P 90 data prior to 1957.

A more granular analysis over the same 88-year period produces results which indicate a clear, monotonic relationship between these primary risk factors and the excess returns they have historically generated (i.e., increased factor exposures correspond to higher excess returns).

	Size (Big)	Value (Expensive)	Momentum (Low)
Decile 1	9.37%	8.58%	-1.12%
Decile 2	10.70%	10.28%	4.82%
Decile 3	11.15%	10.00%	6.37%
Decile 4	11.65%	9.86%	8.46%
Decile 5	12.28%	10.75%	8.83%
Decile 6	11.92%	10.83%	9.81%
Decile 7	12.06%	10.63%	11.00%
Decile 8	12.45%	12.50%	12.60%
Decile 9	11.64%	13.23%	13.41%
Decile 10	12.82%	12.34%	16.91%
	(Small)	(Cheap)	(High)

Source: DFA; Ken French Data Library.

The robust results associated with the size (i.e., small cap) factor have been validated here in Oregon. As described above, OPERF’s excess returns in public equity are largely attributable to its strategic small cap overweight. **Given that excess returns attributable to value have historically been even larger than those attributable to size, staff recommends introducing a systematic overweight to value stocks as a strategic complement to OPERF’s long-held and successful small cap bias.**

A recent report published by Callan (*Historical Active Management Premiums by Asset Class and Style, Second Quarter 2014*) provides additional and timely insight into the OPERF U.S. equity track record. Specifically, this report itemizes the median manager’s average, annualized excess return in various public equity strategies over a 20-year period and on a gross-of-fee basis. As seen in the below-summarized study results, annualized excess returns for the median U.S. Large Cap and Mid Cap manager are negative.

**Callan Historical Active Management Premiums by Asset Class and Style  
20 Years Ended June 30, 2014**

Category	Median Manager Average Annual Excess Return	Callan 2014 Survey Median Fee (> \$200MM)	Median Excess Return Net of Fees*	Benchmark
Large Cap Broad	-0.32	-0.25	-0.57	Russell 1000
Mid Cap Broad	0.21	-0.55	-0.34	Russell Midcap
Small Cap Broad	1.96	-0.5	1.46	Russell 2000
Global Broad	1.39	-0.42	0.97	MSCI ACWI
International Core Plus Broad	1.92	-0.39	1.53	MSCI ACWI exUSA
International Small Cap	1.49	-0.64	0.85	MSCI EAFE Small Cap
Emerging Markets Broad	1.25	-0.64	0.61	MSCI EM

\* Derived by OST Staff.

Given the efficiency of U.S. public equity markets (i.e., the difficulty in finding managers that consistently outperform net of fees) and Oregon’s own experience, staff proposes to gradually restructure OPERF’s

U.S. equity portfolio towards low-cost, systematic or “engineered” strategies that tilt towards size, value and perhaps other, discreet risk factor exposures (e.g., momentum, profitability, low volatility, etc.). It should be noted that at the OPERF public equity mandate level, select other systematic “risk factor” exposures have already been introduced (e.g., momentum and profitability), while others are under current scrutiny (e.g., low volatility) for future OIC consideration.

**Staff believes this method of active risk taking has a higher probability of long-term success (delivering excess returns net of costs) in the OPERF U.S. equity portfolio than traditional, higher cost discretionary active management.** Staff will, however, remain vigilant for traditional active managers (stock selection strategies) that demonstrate true alpha (i.e., produce excess returns above and beyond previously mentioned discreet factor exposures) and provide differentiated exposures not otherwise contained in OPERF’s U.S. equity portfolio.

Attributes:

- This investment strategy is consistent with OIC’s Statement of Investment and Management Beliefs (*Section 5.A. Inefficiencies that can be exploited by active management may exist in certain segments of the capital markets; Section 6.A. All fees, expenses, commissions and transaction costs should be diligently monitored and managed in order to maximize net investment returns*).
- This approach will provide direct exposure to specific risk factors supported by abundant and robust empirical evidence as persistent and pervasive sources of excess, relative return.
- The number of external managers (15) and mandates (21) in the OPERF U.S. Equity Portfolio will be reduced over time.
- The OPERF U.S. equity fee structure will be lowered with this increasing emphasis on low cost, engineered strategies (whether externally- or internally-managed).

Concerns:

- Return premia associated with common risk factors such as those mentioned above have historically produced excess returns but have also suffered significant, multi-year periods of underperformance. [Mitigant: Strong empirical evidence supports both the efficacy of these return premia (i.e., deliberate exposure to common risk factors produces a higher mean return relative to market averages) as well as reversions to this higher mean following periods of return premia underperformance. Additionally, the tracking error for the proposed OPERF U.S. Equity Portfolio does not change meaningfully from the tracking error of the existing OPERF U.S. Equity portfolio.
- By tilting towards value, the OST Public Equity Portfolio should no longer be considered “style-neutral” relative to Value and Growth dimensions per OIC Policy 04.05.01. [Mitigant: Portfolio exposures in Public Equity will continue to be managed relative to the MSCI ACWI IMI benchmark and through the OIC’s 75 bp return target and 200 bp annual tracking error objective.]

### **Policy Update**

Restructuring the U.S. equity portfolio necessitates updating certain OIC Policy & Procedures, in this case **OIC Policy 04.05.01 – Strategic Role of Public Equity Securities within OPERF**. The notable recommended changes to the policy include removing target allocations for active/passive, reducing the strategic small cap overweight target to 70% from 100%, and introducing a strategic target and range for U.S Value (analogous to the existing, and long established small cap overweight).

The previous target allocations and ranges were created prior to staff's utilization of institutional risk management tools which staff now uses on a day to day basis to a) monitor all internally-managed equity portfolios and b) manage overall OPERF equity portfolio risk. Furthermore, staff believes that OPERF's equity portfolio risk management guidelines are best and most succinctly outlined in OIC Policy 04.05.01, which states that:

*"Active risk will be managed to a targeted annualized tracking error of 0.75 to 2.0 percent, relative to the MSCI ACWI IMI (net)."*

**RECOMMENDATION**

Approve proposed changes to OIC policy 04-05-01.

**Appendix A**  
**Internally Managed Equity Performance (Period Ending 9/30/14)**

Period Ending 9/30/14	Market Value	Month	3 Months	YTD	1 year	2 years	3 years	4 years	5 years	Inception
<b>OST 400 Portfolio</b>	\$ 453,146,791.40	-4.535%	-3.95%	3.41%	12.11%	19.79%	22.71%	16.24%	16.69%	16.69%
S&P 400 Index		-4.548%	-3.98%	3.22%	11.82%	19.45%	22.45%	16.03%	16.38%	16.38%
Excess		0.01%	0.03%	0.19%	0.29%	0.34%	0.26%	0.21%	0.31%	0.31%
Inception Date of Oct. 1, 2009		Tracking Error = 30 bps		Target Excess Return: 10 bps						
Period Ending 9/30/14	Market Value	Month	3 Months	YTD	1 year	2 years	3 years	4 years	5 years	Inception
<b>OST 500 Portfolio</b>	\$ 1,701,556,532.12	-1.409%	1.14%	8.34%	19.76%	19.57%	23.00%	17.16%	15.75%	15.75%
S&P 500 Index		-1.402%	1.13%	8.35%	19.74%	19.54%	22.99%	17.12%	15.70%	15.70%
Excess		-0.01%	0.02%	-0.01%	0.02%	0.03%	0.01%	0.03%	0.05%	0.051%
Inception Date of Oct 1, 2009		Tracking Error = 10 bps		Target Excess Return: 5 bps						
Period Ending 9/30/14	Market Value	Month	3 Months	YTD	1 year	2 years	3 years	4 years	5 years	Inception
<b>Russell 2000 Synthetic</b>	\$ 316,793,689.52	-6.058%	-7.31%	-3.84%	4.62%	17.06%	22.28%	15.42%	N/A	13.78%
Russell 2000 Index		-6.049%	-7.36%	-4.40%	3.93%	16.26%	21.26%	14.52%	N/A	12.87%
Excess		-0.01%	0.05%	0.56%	0.69%	0.80%	1.03%	0.90%	N/A	0.91%
Inception Date of April 1, 2010		Tracking Error = 50 bps		Target Excess Return: 30 bps						
Period Ending 9/30/14	Market Value	Month	3 Months	YTD	1 year	2 years	3 years	4 years	5 years	Inception
<b>TEMS</b>	\$ 232,611,036.75	-6.136%	-3.44%	4.66%	6.15%	2.78%	7.50%	1.14%	5.37%	15.75%
MSCI EM Index		-7.410%	-3.49%	2.43%	4.31%	2.63%	7.18%	0.80%	4.41%	14.76%
Excess		1.27%	0.05%	2.23%	1.84%	0.15%	0.33%	0.34%	0.96%	0.99%
Inception Date of Feb 1, 2009		Tracking Error = 400 bps		Target Excess Return: 200 bps						
Period Ending 9/30/14	Market Value	Month	3 Months	YTD	1 year	2 years	3 years	4 years	5 years	Inception
<b>RUSSELL RAFI LC</b>	\$ 1,220,945,852.66	-1.919%	0.36%	7.68%	19.13%	21.36%	N/A	N/A	N/A	20.53%
RAFI LC Index		-1.890%	0.42%	7.75%	19.23%	21.39%	N/A	N/A	N/A	20.53%
RUSSELL 1000		-1.753%	0.65%	7.97%	19.01%	19.97%	N/A	N/A	N/A	19.54%
Excess		-0.17%	-0.29%	-0.29%	0.11%	1.39%	N/A	N/A	N/A	0.99%
Inception Date of Nov 1, 2011		Tracking Error = 300 bps		Target Excess Return: 150 bps						
Period Ending 9/30/14	Market Value	Month	3 Months	YTD	1 year	2 years	3 years	4 years	5 years	Inception
<b>RISK PREMIA</b>	\$ 641,294,004.37	-1.199%	1.97%	7.86%	N/A	N/A	N/A	N/A	N/A	7.865%
MSCI Risk Premia Index		-1.189%	1.98%	7.76%	N/A	N/A	N/A	N/A	N/A	7.763%
MSCI USA		-1.560%	0.95%	8.17%	N/A	N/A	N/A	N/A	N/A	8.175%
Excess		0.361%	1.014%	-0.310%	N/A	N/A	N/A	N/A	N/A	-0.310%
Inception Date of Jan 1, 2014		Tracking Error = 300 bps		Target Excess Return: 150 bps						
<b>Source: State Street</b>										

**Appendix B**  
**OPRF Public Equity Portfolio Rebalancing**  
**(October 1, 2013 – September 30, 2014)**

Date(s)	Manager	Sub-Asset Class	Market Value	Purpose
December	Next Century	Small & Micro Cap Growth	\$ (50,000,000.00)	Cash Raise/Rebalance
December	Northern Trust	U.S. Domestic (Large/Mid/Small)	\$ (752,683,280.56)	Termination
December	Pyramis	U.S. Large Cap Core	\$ (417,335,918.22)	Termination
December	Risk Premia Portfolio	U.S. Large Cap Core	\$ 583,000,000.00	Rebalance - Initial Funding
December	Fundamental Index	U.S. Large Cap Core	\$ 304,000,000.00	Rebalance - Additional Funding
December	S&P 400	U.S. Mid Cap	\$ 101,000,000.00	Rebalance - Additional Funding
December	Russell 2000 Synthetic	U.S. Small Cap	\$ 111,000,000.00	Rebalance - Additional Funding
January	Westwood Global	Emerging Markets	\$ 10,000,000.00	Rebalance - Additional Funding
January	Russell 2000 Synthetic	U.S. Small Cap	\$ 35,000,000.00	Rebalance - Additional Funding
January/February	Next Century	Small & Micro Cap Growth	\$ (50,000,000.00)	Cash Raise/Rebalance
January/February	Wells Capital CEF	Developed & Emerging Markets	\$ 100,000,000.00	Rebalance - Additional Funding
May	Next Century	Small & Micro Cap Growth	\$ (25,000,000.00)	Cash Raise/Rebalance
May	S&P 500	U.S. Large Cap Core	\$ (500,000.00)	Transfer to Risk Premia Portfolio
May	Risk Premia Portfolio	U.S. Large Cap Core	\$ 500,000.00	Transfer from S&P 500
May	EAM	Int'l Micro Cap Growth	\$ 60,000,000.00	Rebalance - Initial Funding
May	DFA	Int'l Micro Cap Value	\$ 90,000,000.00	Rebalance - Initial Funding
June	PIMCO	U.S. Large Cap Core	\$ (250,000,000.00)	Cash Raise/Rebalance
June	Next Century	Small & Micro Cap Growth	\$ (20,000,000.00)	Cash Raise/Rebalance
June	MFS Advisors	U.S. Large Cap Core	\$ (15,000,000.00)	Cash Raise/Rebalance
June	EAM	U.S. Micro Cap Growth	\$ (25,000,000.00)	Cash Raise/Rebalance
June	DFA	Int'l Micro Cap Value	\$ 35,000,000.00	Rebalance - Additional Funding
June	Wanger Asset Management	U.S. SMID Cap Growth	\$ (150,000,000.00)	Cash Raise/Rebalance
June	Wellington	U.S. Small Cap	\$ (75,000,000.00)	Cash Raise/Rebalance
June	Arrowstreet	Developed & Emerging Markets	\$ (202,000,000.00)	Cash Raise/Rebalance
June	Pyramis	Developed & Emerging Markets	\$ (106,000,000.00)	Cash Raise/Rebalance
June	The Boston Company	U.S. Small Cap Value	\$ (50,000,000.00)	Cash Raise/Rebalance
June	AQR Capital Management	U.S. Small Cap Value	\$ (50,000,000.00)	Cash Raise/Rebalance



# **OPERF Public Equity Portfolio 2014 Annual Review**

**Michael Viteri, Senior Public Equity Investment Officer  
Paola Nealon, Public Equity Investment Officer  
Karl Cheng, Public Equity Investment Officer**

**November 5, 2014**

# AGENDA

Section	Pages
Agenda	2
OPERF Public Equity Policy Objectives & Performance	3
OPERF Public Equity Risk	4
International Equity Relative Performance	5
International Equity Attribution	6
Domestic Equity Relative Performance	7
Domestic Equity Attribution	8
Takeaways	9
Recommendation	10
U.S. Equity Portfolio Scenarios	11 -12
Appendix	13 - 19



# OPERF Public Equity Policy Objectives & Performance

- To achieve a public equities return of 0.75 percent or more above the MSCI ACWI IMI (net) over a market cycle of three to five years on a net-of-fee basis.
- Active risk will be managed to a targeted annualized tracking error of 0.75 to 2.0 percent relative to the MSCI ACWI IMI (net).

Panel 1

Period Ending 6/30/14	Market Value	1 year	3 year	5 year
<b>OPERF Total Public Equity</b>	\$ 29,203,481,000	24.17%	11.21%	15.68%
MSCI ACWI IMI Net		23.35%	10.37%	14.77%
<b>Excess</b>		0.81%	0.84%	0.90%

<b>Active Risk (Realized)</b>		1.00%	0.94%	0.88%
<b>Information Ratio</b>		0.81	0.89	1.02

Panel 2

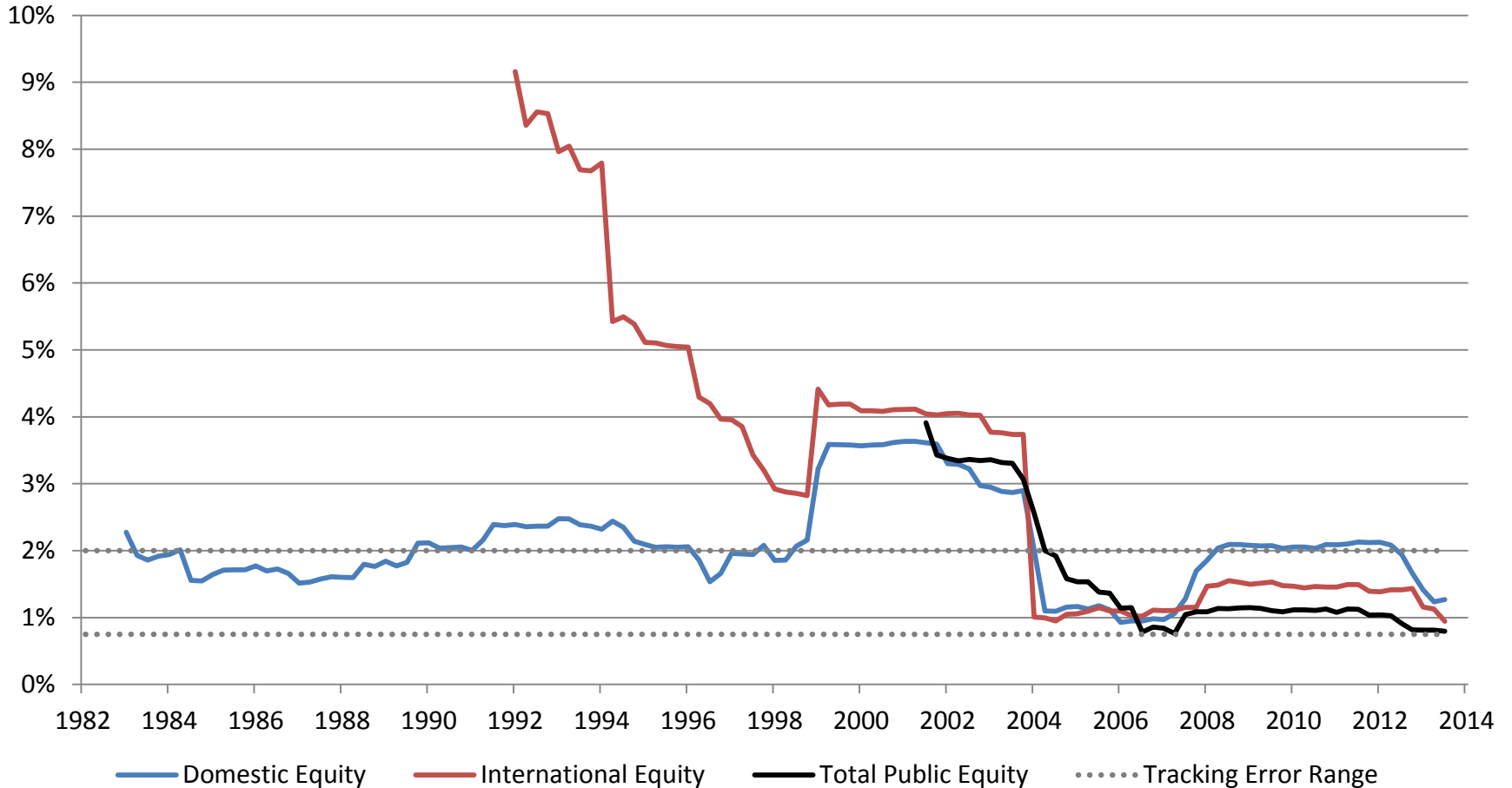
Period Ending 6/30/14	Market Value	1 year	3 year	5 year
<b>OPERF International Equity</b>	\$ 14,782,010,000	23.18%	7.49%	12.83%
MSCI ACWI ex-US IMI Net		22.28%	5.88%	11.50%
<b>Excess</b>		0.90%	1.61%	1.33%

Panel 3

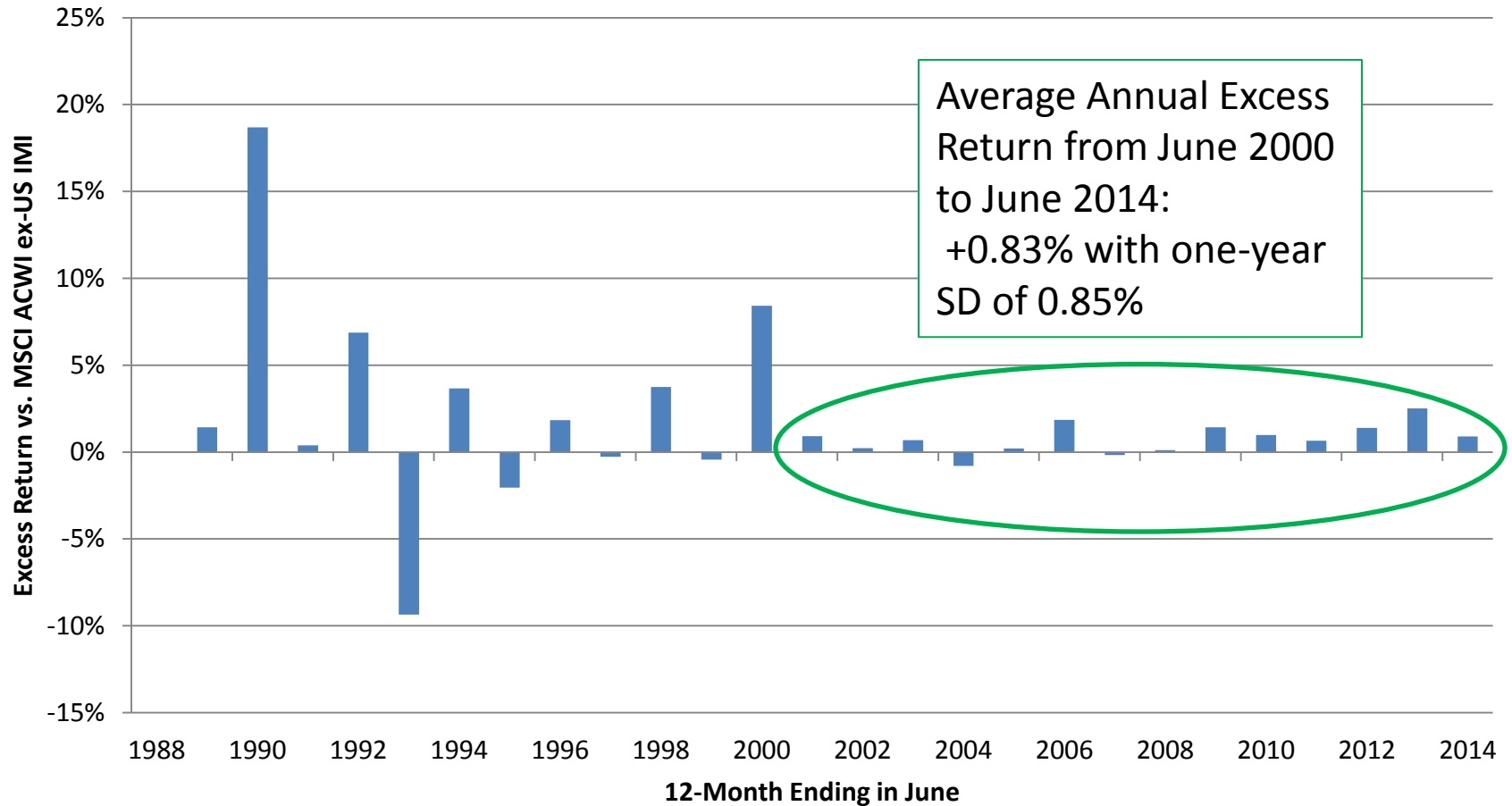
Period Ending 6/30/14	Market Value	1 year	3 year	5 year
<b>OPERF Domestic Equity</b>	\$ 13,437,002,000	24.75%	15.71%	19.38%
Russell 3000		25.22%	16.46%	19.33%
<b>Excess</b>		-0.47%	-0.75%	0.05%

# OPERF Public Equity Active Risk

Rolling Five-Year Tracking Error versus Respective Benchmark (period ending 6/30/14)



# OPERF Int'l Equity Relative Performance by Year

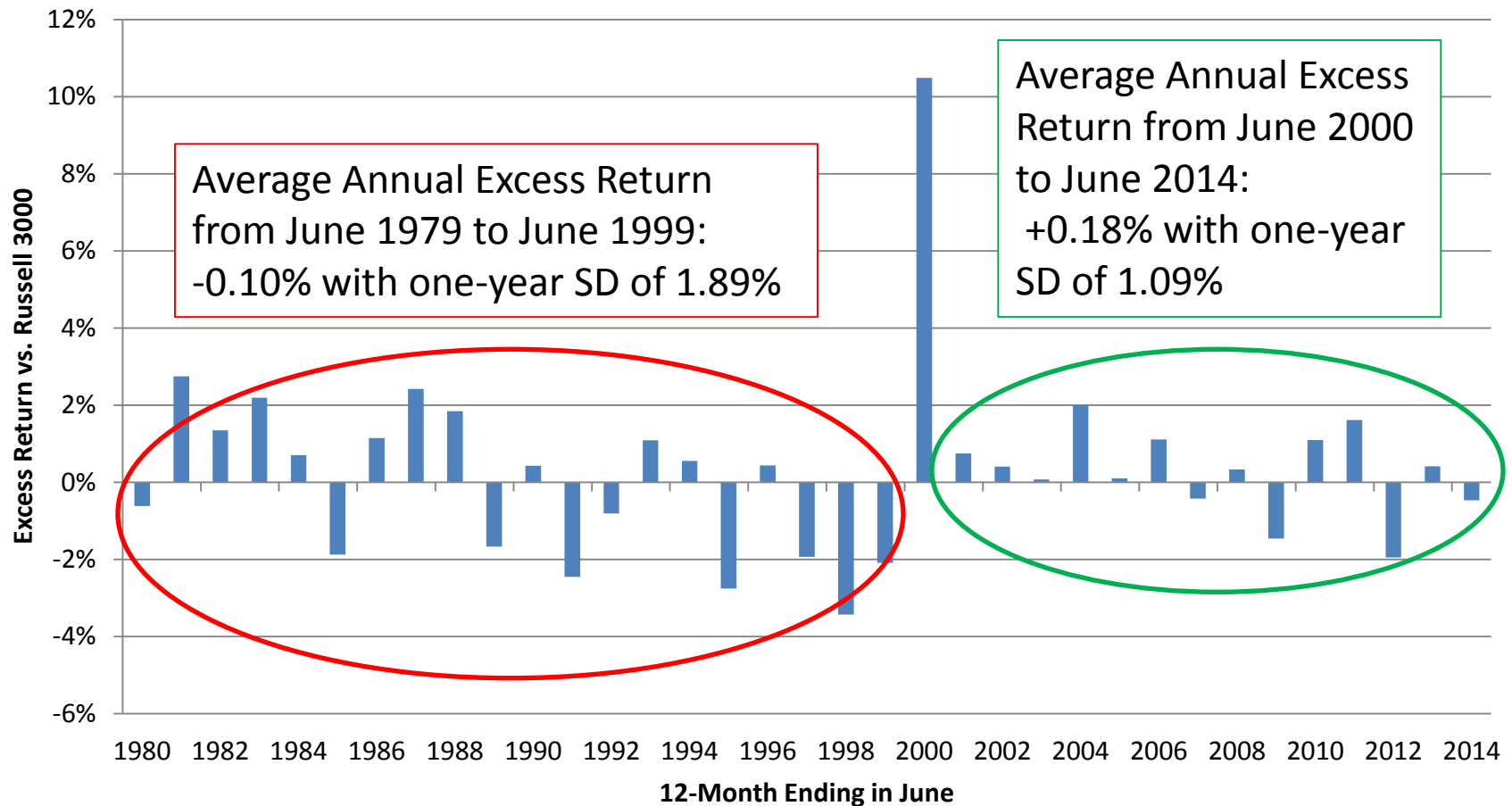


# International Equity Attribution by Source

Column	A	B	C	D	E	F
				A - B	B - C	A - C
	Total International Equity	Allocations with Benchmark Returns	MSCI ACWI ex-US IMI	Mgr Selection Value Added	Portfolio Construction Value Added	Total Value Added
<b>10-Year Performance through June 2014</b>	9.21%	7.56%	8.18%	1.66%	-0.62%	1.04%

- “Portfolio Construction Value Added” has been much more volatile for International Equity. Causes include:
  - Developed Markets (DM) vs. Emerging Markets (EM) allocations;
  - Value vs. Growth allocations; and
  - Benchmark switches.
- “Manager Selection Value Added” for International Equity has been much more consistent than for US Equity.

# OPERF U.S. Equity Relative Performance by Year



# OPERF U.S. Equity Attribution by Source

Column	A	B	C	D	E	F
				A - B	B - C	A - C
	Total U.S. Equity	Allocations with Benchmark Returns	Russell 3000 Index	Mgr Selection Value Added	Portfolio Construction Value Added	Total Value Added
<b>10-Year Performance through June 2014</b>	8.16%	8.31%	8.23%	-0.15%	0.08%	-0.07%

- “Portfolio Construction Value Added” mainly due to U.S. Mid and Small overweight. Index returns over the same 10-Year period:
  - Russell 1000: 8.19%
    - Russell Top 200: 7.31%
    - Russell Midcap: 10.43%
  - Russell 2000: 8.70%
    - Russell Microcap: 6.67%
- Some U.S. active mandates generated excess returns over the period but some have also significantly underperformed their benchmarks.

# Takeaways

## International Equity

- Traditional active management has contributed to relative performance for International Equity.
- Portfolio Construction has historically delivered volatile (and negative) contributions but volatility has dampened more recently.
- Strong evidence to increase exposure to active management at present but prudent to monitor the environment.

## U.S. Equity

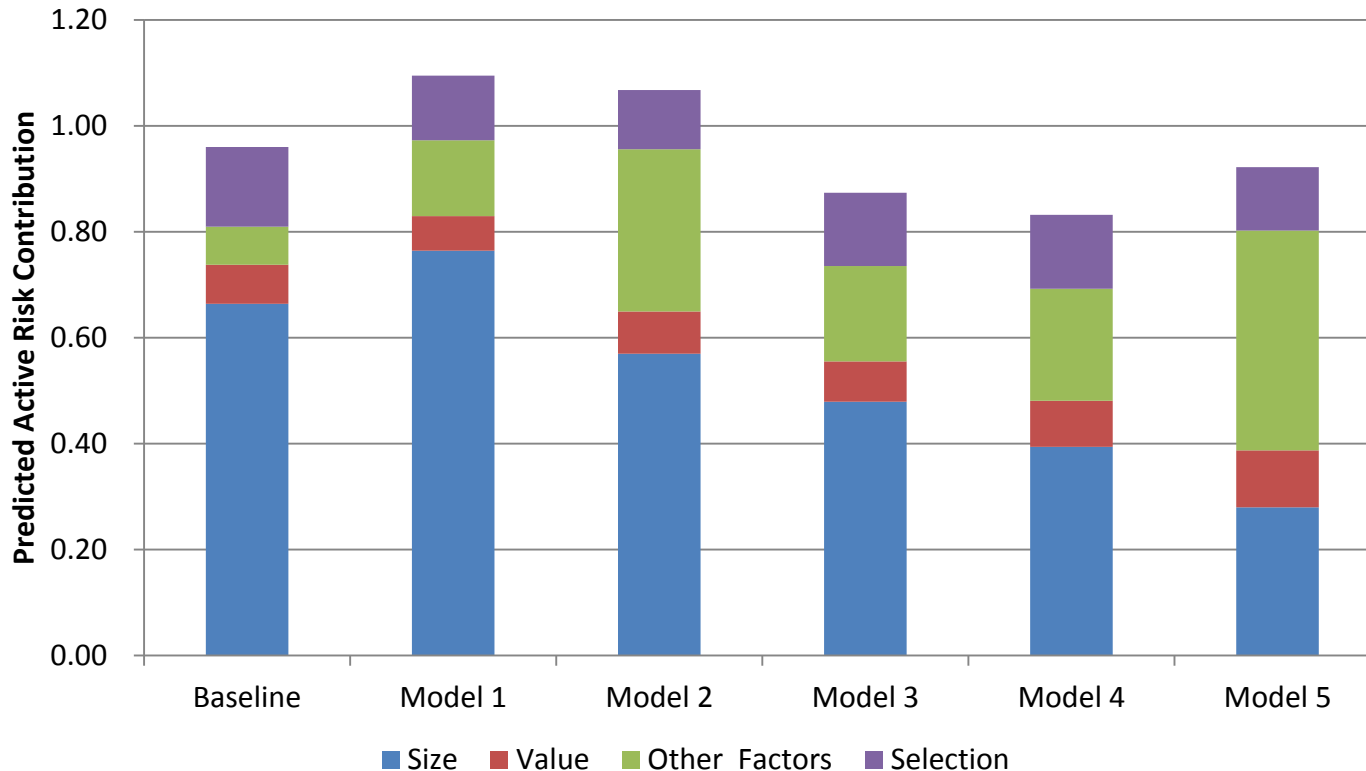
- Strong evidence to move away from traditional active management in U.S. Equity.
- Small Cap strategic over-weight has added value in the U.S. Equity portfolio.
- Staff believes it is prudent to diversify exposures in the U.S. Equity portfolio away from Size (small cap) to other well known return premia which are supported by abundant and robust empirical evidence as persistent sources of excess relative return.

## Recommendation

Staff proposes to restructure OPERF's U.S. equity portfolio by a) introducing a strategic, systematic overweight to value and b) continue its current consideration of other low cost, "engineered" strategies that provide exposure to common risk factors (e.g., momentum, profitability, low volatility, etc.) and their associated expected return premiums.



# U.S. Equity Portfolio Scenarios



Baseline – OPERF U.S. Equity Portfolio as of 6/30/14

Model 1 - Defund 3 large cap active strategies, increase engineered strategies

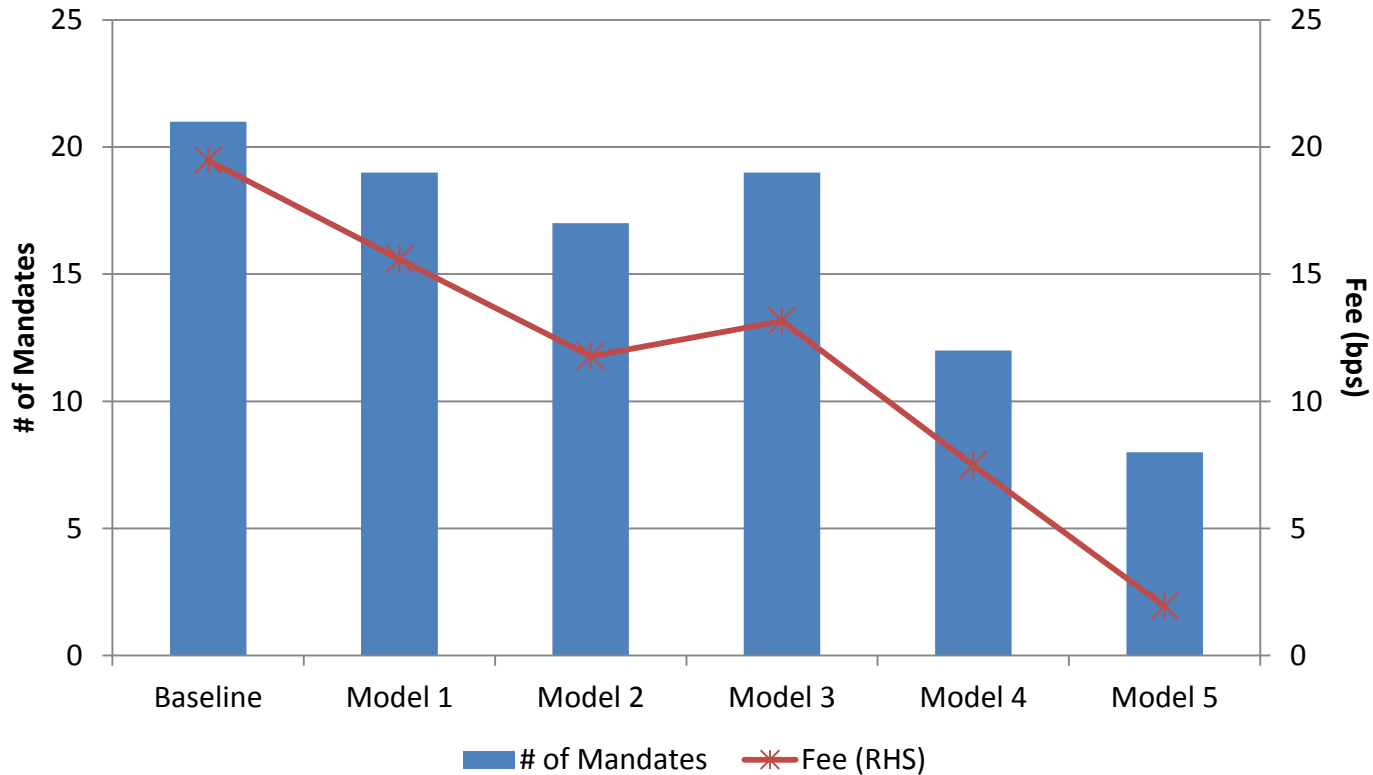
Model 2 - Defund 5 large cap active strategies, increase engineered and index strategies

Model 3 - Model 1 + 25% reduction in active small cap, increase engineered and index strategies

Model 4 - Model 1 + defund most active small cap, increase engineered and index strategies

Model 5 - Model 2 + defund all active, increase engineered and index strategies

# U.S. Equity Portfolio Scenarios



Baseline – OPERF U.S. Equity Portfolio as of 6/30/14

Model 1 - Defund 3 large cap active strategies, increase engineered strategies

Model 2 - Defund 5 large cap active strategies, increase engineered and index strategies

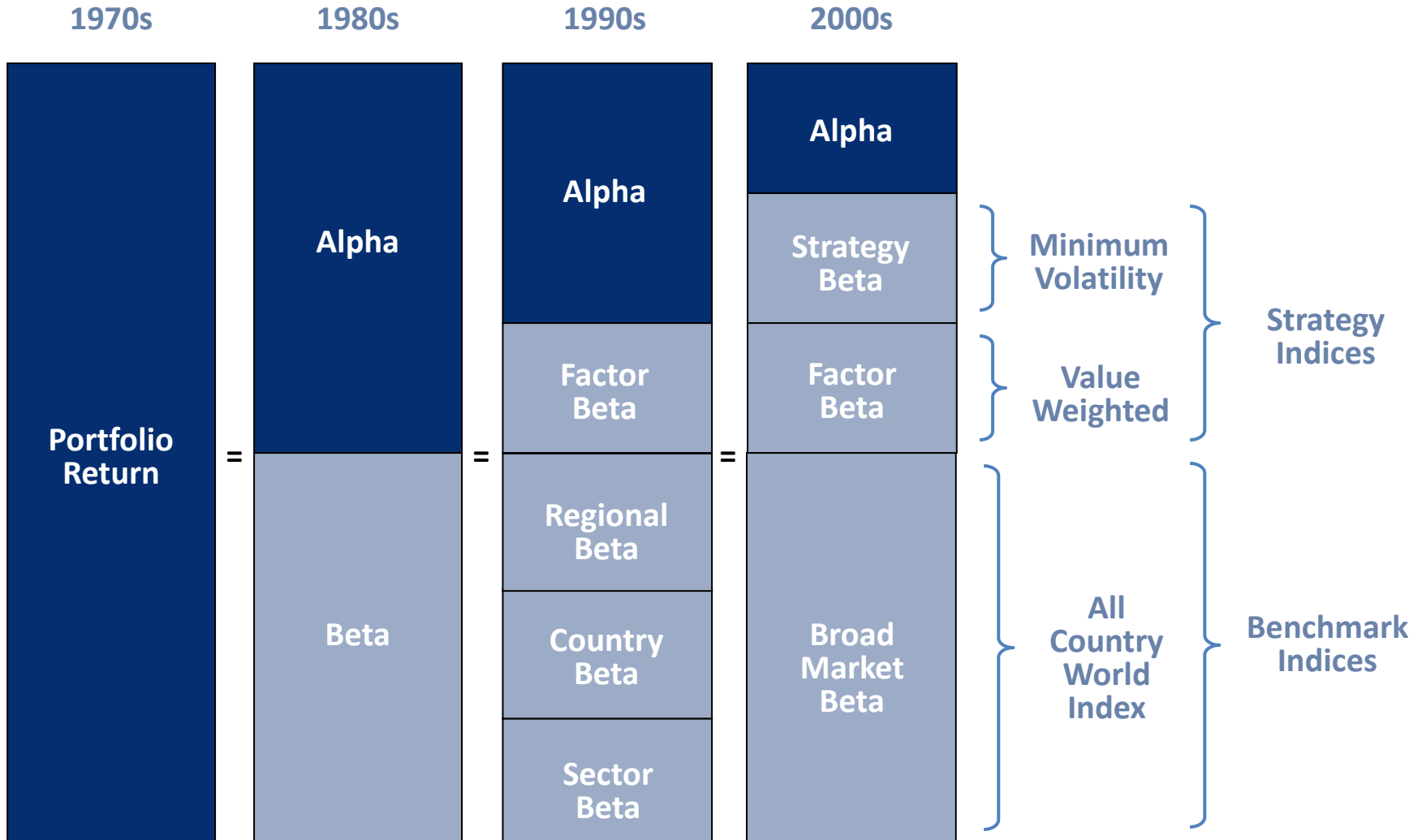
Model 3 - Model 1 + 25% reduction in active small cap, increase engineered and index strategies

Model 4 - Model 1 + defund most active small cap, increase engineered and index strategies

Model 5 - Model 2 + defund all active, increase engineered and index strategies

# Appendix

# Evolution in Implementation



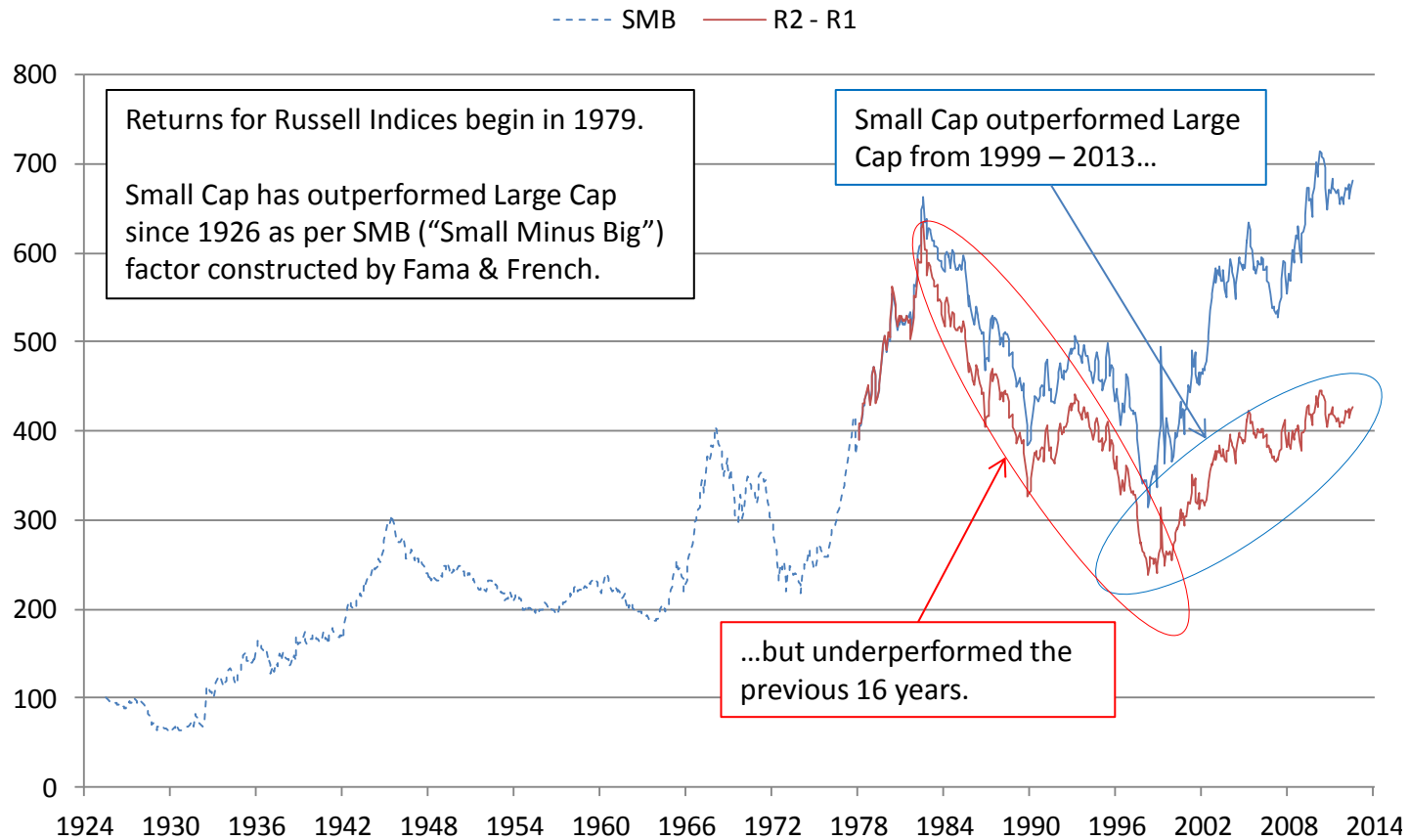
## What are Risk Factor Strategies?

Risk factor strategies aim to achieve superior risk-adjusted performance relative to the market, by either *lowering risk or increasing return*

- **Return premia based strategies**, such as size, value, momentum aim to tilt towards a specific factor
- **Risk-based strategies**, such as the minimum volatility aim to lower risk and/or improve diversification

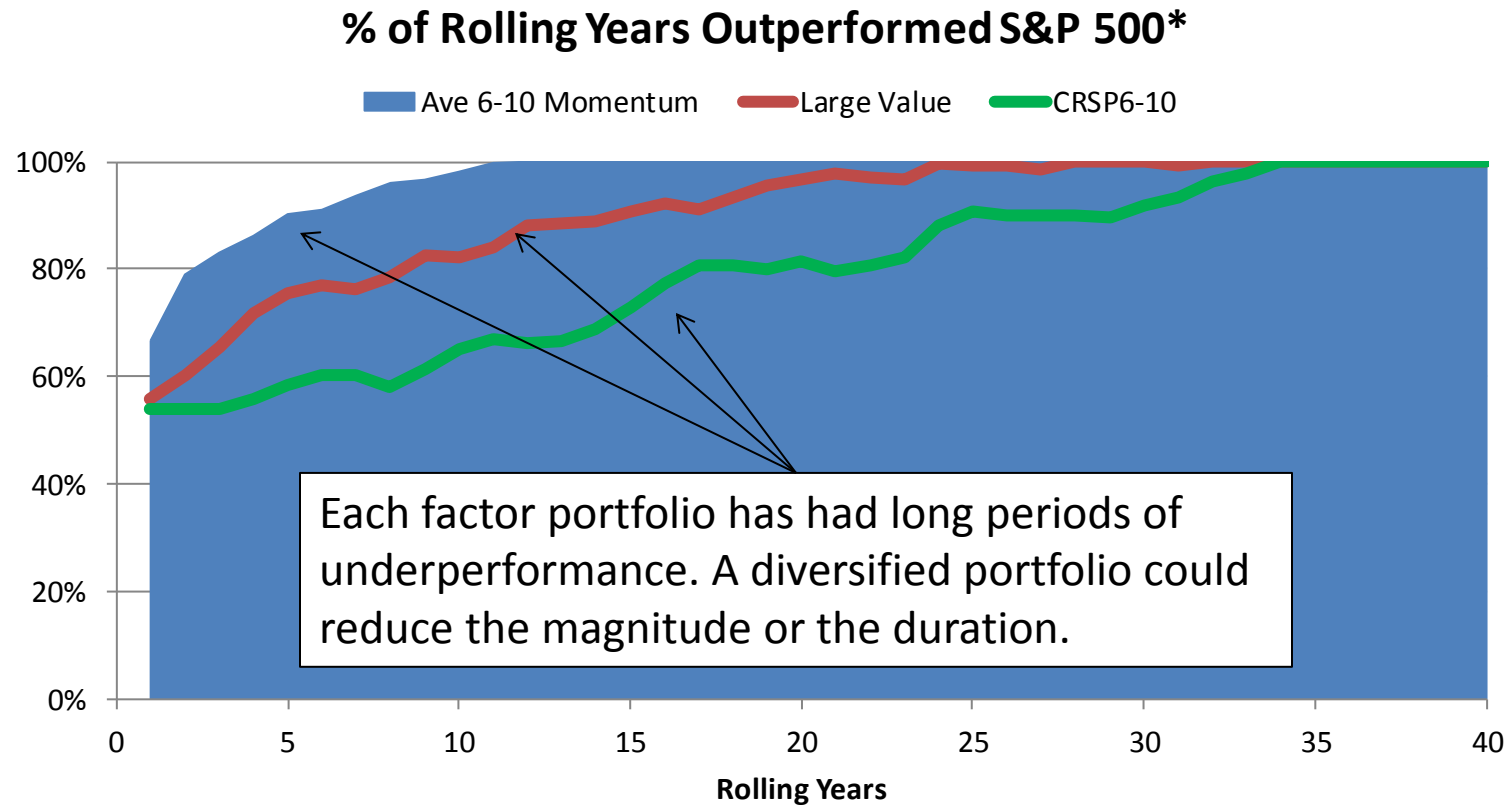
# Size Exposure in Practice

- Tilting to a single return premia is not without its risks.



# Rolling Relative Performances of Factor Portfolios

- Individually return premia factors can underperform.



Source: DFA, Ken French Data Library, S&P  
Monthly Data from 1927-01 to 2012-12  
\*S&P 90 data prior to 1957

# Factor Selection: Size, Value, & Momentum

- Combining low correlation return premia creates a higher expected return, lower risk diversified portfolio.

Correlation					
	Mkt.RF	SMB	HML	Mom	
Mkt.RF	1.00	0.33	0.22	-0.34	
SMB		1.00	0.12	-0.16	
HML			1.00	-0.40	
Mom				1.00	

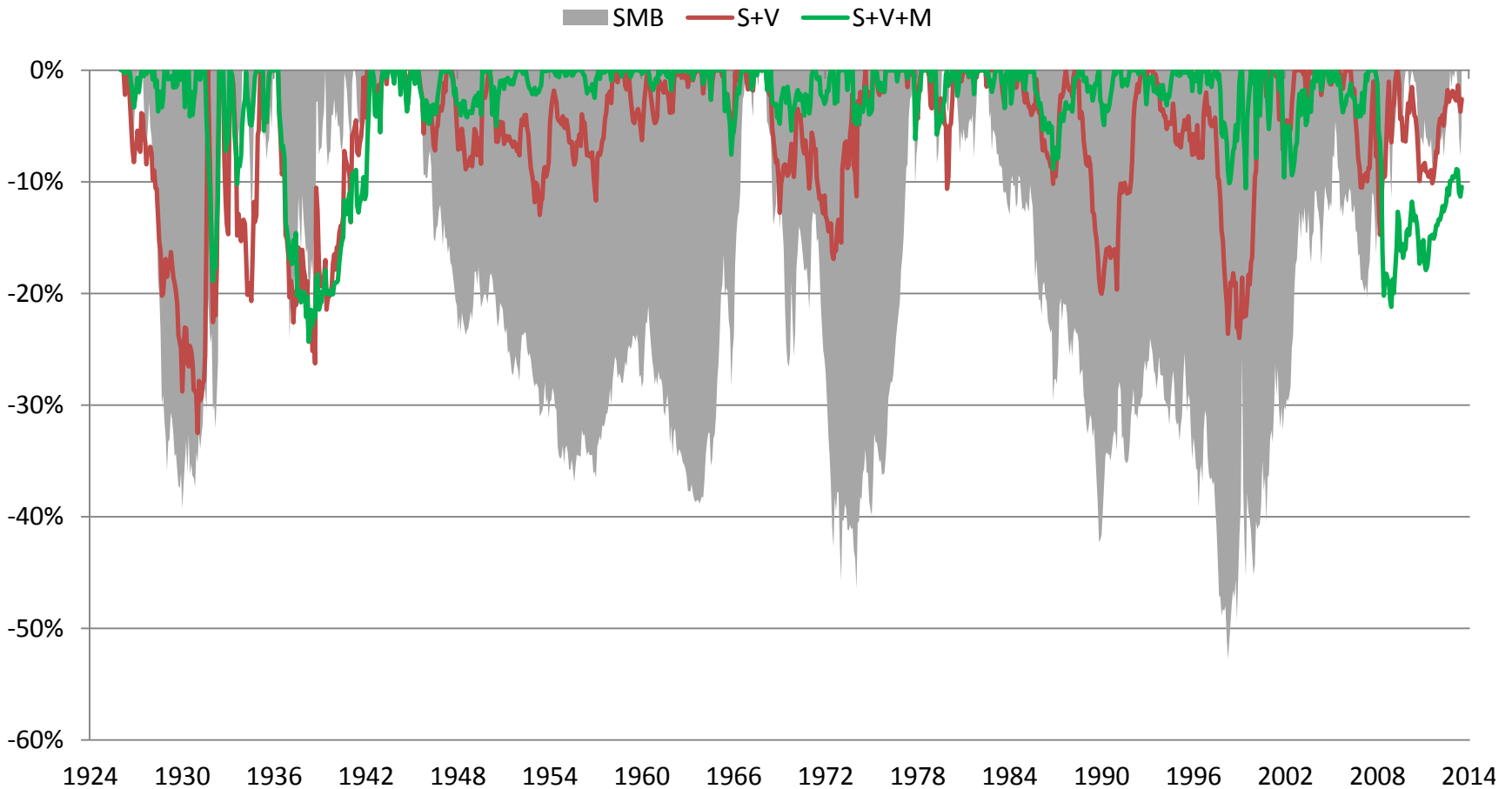
Risk & Return					
	SMB (S)	HML (V)	Mom (M)	S+V	S+V+M
Return	2.2%	4.1%	6.8%	3.5%	5.2%
SD	11.2%	12.2%	16.5%	8.8%	6.3%

Drawdown					
	SMB (S)	HML (V)	Mom (M)	S+V	S+V+M
Average	-19%	-8%	-23%	-6%	-3%
Median	-20%	-6%	-10%	-4%	-1%
Maximum	-53%	-45%	-77%	-32%	-24%



# Factor Diversification: Drawdown

- Combining low correlation return premia can potentially lead to portfolios that have lower drawdown risk.



**FUNCTION:** Public Equity Investments  
**ACTIVITY:** Strategic Role of Public Equity Securities

**POLICY:** The strategic role of publicly-traded equity securities is to provide enhanced return and diversification. The public equity securities portfolio within the Oregon Public Employees Retirement Fund (OPERF) also provides liquidity for OPERF relative to its cash flow requirements. Public equity securities are subject to the specific, strategic allocation targets established by OIC Policy 4.01.18.

**PROCEDURES:****PURPOSE**

The purpose of these Public Equity Investment Policies & Strategies is to define the objectives of public equities as an asset class within the general investment policies of the Oregon Investment Council (“OIC” or the “Council”), and to outline the strategies used to implement the Council’s public equity investment policies.

**POLICY OBJECTIVES**

1. To provide one of the highest expected returns among approved OPERF asset classes. Over the long-term, public equity returns are expected to exceed inflation by approximately 5 percent annually.
2. To achieve a public equities portfolio return of 0.75 percent or more above the MSCI All Country World Index Investable Market Index (ACWI IMI) (net) over a market cycle of three to five years on a net-of-fee basis.
3. Active risk will be managed to a targeted annualized tracking error of 0.75 to 2.0 percent, relative to the MSCI ACWI IMI (net).

**STRATEGIES**

1. The OPERF public equity portfolio shall be structured on a global basis, seeking to loosely replicate the country and market capitalization characteristics of the investable universe of equity securities which can be further categorized as U.S., non-U.S. developed countries and emerging market countries.
2. Unless tax, regulatory or liquidity constraints suggest otherwise, diversify public equity allocations across the stock markets of all investable countries to ensure exposure to a wide range of investment opportunities, and participate broadly in those markets in an attempt to capture the full market rate of equity return. The size of any commitment to an individual investment strategy will be based on that strategy’s expected portfolio impact,

the Staff's confidence in the strategy's manager, the manager's investment style, and the capacity available in/with a particular strategy/manager.

3. Maintain an overall equity portfolio capitalization that broadly reflects the MSCI ACWI IMI but with deliberate and systematic overweights to small capitalization and value stocks. These strategic overweights or "tilts" are based on and supported by robust empirical research that historically links persistent and pervasive evidence of excess returns to systematic small cap and value "factor" exposures. Implementation of other such "common risk factor" tilts may be considered at the manager, strategy or mandate level upon approval of both the Chief Investment Officer (CIO) and OIC.
4. Invest opportunistically, using unique investment approaches, within a controlled and defined portfolio allocation. Specifically, 130/30 strategies may be implemented with any existing OPERF public equity mandate conditional upon consultant and CIO concurrence and provided such implementation does not change the mandate's role within the public equity portfolio. Staff will report any such 130/30 implementations to the Council in the quarter immediately following the implementation.
5. Enhance returns through selective active management provided such actively-managed strategies demonstrate empirical efficacy relative to common risk factor exposures and net of all fees and transactions costs.
6. Actively-managed strategies are expected to outperform stated benchmarks on an after-fee and risk-adjusted basis. Comparisons against a representative peer group universe will also be considered in evaluating the performance and risk characteristics of these strategies.
7. Benchmarks assigned to all non-U.S. strategies should be unhedged. Managers may be permitted to hedge currency exposures, and in cases where currency represents an explicit element of a manager's stated investment approach, may take active currency positions; however, all managers will be measured against an unhedged benchmark.
8. The Council's selection of active managers will be based on those managers' demonstrated ability to add value on a "triple net" basis (i.e., net of all fees, transactions costs and common risk factor exposures) relative to a passive management alternative. Additional considerations include managers' stated style and volatility parameters relative to the strategic allocation targets set forth in Appendix A. Finally, the management guidelines described in Appendix C will be attached to and incorporated into the Council's contract with each investment manager.

**SAMPLE FORMS, DOCUMENTS OR REPORTS (Attached)**

- A. Public Equity Strategic Allocation Targets (Appendix A)
- B. Investment Manager Benchmarks (Appendix B)
- C. Management Guidelines (Appendix C)

**APPENDIX A**

**PUBLIC EQUITY  
STRATEGIC ALLOCATION TARGETS**

Subject to periodic review and revision, the Council adopts the following strategic allocation targets<sup>1</sup>:

- a. Capitalization exposure similar to stated benchmark with the exception of strategic overweights to small cap and value;
- b. The Council's strategic allocation targets represent percentages of the total OPERF public equity portfolio. Each such target has an accompanying percentage range. The strategic allocation targets and ranges are summarized as follows:

	<u>Targets</u>	<u>Ranges</u>
U.S.	ACWI IMI weight	+/- 10%
Non-U.S.	ACWI IMI weight	+/- 10%
Emerging Markets	ACWI IMI weight	+/- 4%
U.S. Small Cap Overweight	70%	0% - 140%
U.S. Value	60%	+/- 10%

Note: The U.S. small cap overweight is based on the Russell 2000 index weight relative to the Russell 3000 index weight, the latter of which approximates 8%. The U.S. value overweight is determined and calculated using a Russell 3000 baseline.

- c. On a quarterly basis, staff will prepare and deliver to the Council a report that includes public equity portfolio performance relative to return and risk objectives as outlined in this policy including the portfolio's style (growth/value) and construction (active/passive) weightings as well as its geographic allocation relative to the MSCI ACWI IMI benchmark. With CIO approval and subsequent quarterly reporting to the OIC, staff will also have discretion to rebalance between and among managers within the public equity portfolio. The aggregate structural characteristics of the public equity portfolio will be considered during such rebalancings, while re-allocations between asset classes shall remain governed by Policy 4.01.18.

---

<sup>1</sup> All targets measured relative to the MSCI ACWI IMI index.

**APPENDIX B**

**INVESTMENT MANAGER BENCHMARKS**

<b><u>Manager</u></b>	<b><u>Benchmark</u></b>	<b><u>Peer Group</u></b>	<b><u>Return Objective Over Benchmark Net-of-Fees</u></b>
<b>U.S. Large Cap:</b>			
DFA	Russell 1000	U.S. Large Core	1.5%
Delaware	Russell 1000 Growth	U.S. Large Growth	1.5%
Aronson + Johnson + Ortiz	Russell 1000 Value	U.S. Large Value	1.0%
PIMCO	Russell 1000	U.S. Large Core	1.0%
Russell/RAFI Fund Index	Russell 1000	U.S. Large Core	1.5%
Risk Premia Strategy	MSCI USA	U.S. Large Core	1.5%
BGI Russell 1000 Value Index	Russell 1000 Value	U.S. Large Value	N/A
BGI Russell 1000 Growth Index	Russell 1000 Growth	U.S. Large Growth	N/A
S&P 500 Index	S&P 500	U.S. Large Passive	N/A
S&P 400 Index	S&P 400	U.S. Mid Passive	N/A
<b>U.S. Small and SMID Cap</b>			
EAM	Russell Microcap Growth	U.S. Micro Growth	2.5%
Next Century	Russell Microcap Growth	U.S. Micro Growth	2.5%
DFA	Russell Microcap Value	U.S. Micro Value	1.5%
Callan	Russell Microcap Value	U.S. Micro Value	1.5%
Next Century	Russell 2000 Growth	U.S. Small Growth	2.0%
AQR	Russell 2000 Value	U.S. Small Value	1.0%
Boston Company	Russell 2000 Value	U.S. Small Value	1.0%
Wellington	Russell 2000	U.S. Small Core	1.0%
Wanger	Russell 2500	U.S. SMID Core	1.0%
Russell 2000 Synthetic Index	Russell 2000	U.S. Small	0.3%
<b>Non-U.S. Large Cap</b>			
TT International	World x U.S. Std Growth	Non-U.S. Growth	2.0%
Wells Capital CEF	ACWI x U.S. IMI	Non-U.S. Core	2.0%
Lazard CEF	ACWI x U.S. IMI	Non-U.S. Core	2.0%
Walter Scott	World x U.S. Std	Non-U.S. Growth	2.0%
Acadian	ACWI x U.S. IMI Value	Non-U.S. Value	1.7%
Brandes	ACWI x U.S. Std Value	Non-U.S. Value	2.0%
AQR	World x U.S. Std	Non-U.S. Core	2.0%
Arrowstreet	ACWI x U.S. IMI	Non-U.S. Core	2.0%
Lazard	ACWI x U.S. Std	Non-U.S. Core	1.5%
Pyramis Select	ACWI x U.S. Std	Non-U.S. Core	1.0%

<u>Manager</u>	<u>Benchmark</u>	<u>Peer Group</u>	<u>Return Objective Over Benchmark Net-of-Fees</u>
<b>Non-U.S. Large Cap (cont.)</b>			
Northern Trust Emerging Mgrs.	World x U.S. IMI	Non-U.S. Core	1.5%
SSgA World ex-US Index	World x U.S. Std	Non-U.S. Passive	N/A
<b>Non-U.S. Small Cap</b>			
DFA	World x U.S. SC Value	Non-U.S. Small Value	1.5%
Harris Associates	ACWI x U.S. SC Value	Non-U.S. Small Value	2.0%
Pyramis Select	World x U.S. SC	Non-U.S. Small Core	2.0%
Victory International	World x U.S. SC	Non-U.S. Small Growth	2.0%
DFA	Global x U.S. Micro Value	Non-U.S. Small Value	2.0%
EAM Investors	Global x U.S. Micro Growth	Non-U.S. Small Growth	2.0%
<b>Emerging Markets</b>			
Arrowstreet	EM IMI	Emerging Markets	2.0%
DFA	EM Small Cap	Emerging Markets	1.5%
William Blair	EM Small Cap	Emerging Markets	2.0%
Genesis	EM IMI	Emerging Markets	2.0%
William Blair	EM Std	Emerging Markets	2.0%
BGI Tiered Emerging Markets	EM Std	Emerging Markets	2.0%
Westwood Global	EM Std	Emerging Markets	2.5%
<b>Global</b>			
AllianceBernstein Value	ACWI Value Std	Global Value	2.0%

ACWI – MSCI All-Country World Index (U.S. + Non-U.S. Developed + Emerging Markets)  
 IMI – MSCI IMI Index (Large Cap + Mid Cap + Small Cap)  
 Std – MSCI Standard Index (Large Cap + Mid Cap)  
 SC – MSCI Index (Small Cap)  
 EM – MSCI Emerging Markets Index

## **APPENDIX C**

### **MANAGEMENT GUIDELINES**

Management guidelines shall be attached to and incorporated into every separate account contract entered into between the Council and an investment manager. These guidelines may be modified from time to time as considered necessary by the CIO; however, the assigned benchmark may not be changed without OIC approval, and each contract must specify the following:

1. The specific category to which a manager's strategy is assigned;
2. A description of the manager's investment style;
3. The manager's specific performance objective relative to an index or passively managed alternative;
4. The strategy's expected risk (tracking error) relative to its assigned benchmark;
5. Portfolio characteristics which the OIC expects the manager's strategy to exhibit on average throughout a market cycle; and
6. A list of permissible equity securities in which the manager may invest.

**FUNCTION: Public Equity Investments****ACTIVITY: Strategic Role of Public Equity Securities ~~within OPERF~~****POLICY:**

The strategic role of publicly-traded equity securities is to provide enhanced returns and diversification ~~to OPERF~~. The public equity securities portfolio within the Oregon Public Employees Retirement Fund (OPERF) also provides liquidity ~~for OPERF~~ relative to to meet its cash flow requirements~~needs~~. Public equity securities are subject to the specific, strategic ~~target~~-allocation targets established by ~~the~~ OIC Policy ~~in~~ 4.01.18.

**PROCEDURES:****PURPOSE**

The purpose of these Public Equity Investment Policies & Strategies is to define the objectives of public equities as an asset class within the general investment policies of the Oregon Investment Council (“OIC” or the “Council”), ~~’s and general investment policies for the Oregon Public Employees Retirement Fund (OPERF)~~, and to outline the strategies used for implementing the ~~Investment~~-Council’s public equity investment policies.

**POLICY OBJECTIVES**

1. To provide one of the highest expected returns among approved of the OPERF ~~’s major~~ asset classes. Over the long-term, ~~the from public equity investments~~ returns ~~should be expected to~~ exceed inflation by approximately 6.05 percent annually.
2. To achieve a public equities portfolio return of 0.75 percent or more above the MSCI All Country World Index Investable Market Index (ACWI IMI) (net) over a market cycle of three to five years on a net-of-fee basis.
3. Active risk will be managed to a targeted annualized tracking error of 0.75 to 2.0 percent, relative to the MSCI ACWI IMI (net).

**STRATEGIES**

1. The OPERF public equity portfolio shall be structured on a global basis, seeking to loosely replicate the country and market capitalization characteristics of the ~~world-wide investable stock universe~~. ~~The~~ investable universe of equity securities which can be further categorized as U.S., non-U.S. developed countries and emerging market countries.
2. ~~Unless tax, regulatory or liquidity constraints suggest otherwise, d~~Diversify public equity the asset class allocations of public equities across the stock markets of all investable countries to ensure exposure to a wide range of investment opportunities, and participate broadly in those markets in an attempt to capture~~receive~~ the full market~~equity~~ highest



~~expected rate of equity return for equities, and to provide risk reduction to the entire equity portfolio. The~~ The size of any commitment to an individual investment manager's strategy will be based on that strategy's commitment's expected portfolio impact on the overall portfolio, the Investment Council Staff's confidence in the abilities of the strategy's manager, the manager's investment style ~~of the manager~~, and the capacity available in/with a particular strategy/~~of the manager to invest and manage such a commitment.~~

3. Maintain an overall equity portfolio market capitalization that broadly reflects the MSCI ACWI IMI but with ~~aa deliberate double~~ and systematic over-weights ~~ing to U.S.~~ small capitalization and value stocks, ~~in an effort to enhance return.~~ These ~~is~~ strategic small cap overweights or "tilts" ~~are~~ based on and supported by robust empirical research the Investment Council's belief that historically links persistent and pervasive evidence of excess returns to systematic small cap and value "factor" exposures over the long term, inefficiencies in the small and micro cap stocks are expected markets can be capitalized on to earn excess returns relative to large cap stocks, relative to the large cap market, Implementation of o~~through active management, will outperform large cap stocks over the long term.~~ Other such "common risk factor return premia" tilts may be considered at the manager, strategy or mandate level ~~implemented upon with CIO~~ the approval of both the Chief Investment Officer (CIO) and OIC ~~notification to the Council in the quarter immediately following implementation.~~
4. Invest opportunistically, using ~~innovative unique~~ investment approaches, within a controlled and defined portfolio allocation. ~~Specifically To that end,~~ 130/30 strategies may be implemented with any existing OPERF ~~public equity manager mandate~~ mandate conditional upon consultant and ~~Chief Investment Officer~~ concurrence and provided, such ~~that the implementation of the strategy~~ does not change the manager's role within the Public Equity portfolio. Staff will report any such 130/30 implementations to the Council in the quarter immediately following the implementation.
5. Enhance returns ~~to OPERF~~ through selective exposure to active management provided such actively-managed where such active strategies demonstrate have strong empirical efficacy relative to common risk factor exposures and net of all fees and transactions costs, replicable support.
6. ~~Actively-managed investment strategies~~ managers are expected to outperform stated benchmarks on an after-fee and risk-adjusted basis ~~over a three to five year market cycle (see Appendix B). Those benchmarks include the passive management alternative.~~ Comparisons against a representative peer group universe will also be considered in evaluating the performance and risk characteristics ~~levels~~ of these strategies ~~managers~~.
7. ~~All non-U.S.~~ B benchmarks assigned to all non-U.S. strategies ~~managers~~ should be unhedged. Managers may be permitted to hedge currency exposures, and ~~in the cases where currency represents an explicit element of a manager's whose~~ stated investment

approach ~~includes active currency management~~, may take active currency positions; ~~however, but~~ all managers will bear measured against an unhedged benchmark.

8. The ~~Investment~~ Council's selection of active managers will be based ~~upon those managers' demonstrated expertise. Active managers will be selected for their demonstrated ability to add value on a "triple net" basis (i.e., net of all fees, transactions costs and common risk factor exposures) relative to over~~ a passive management alternative. Additional considerations include managers' stated style and and within reasonable volatility risk parameters relative by using a style which enables OPERF to meet the strategic ~~target~~ allocation targets set forth in Appendix A. Finally, the management guidelines described in Appendix C will be attached to and incorporated into the ~~Investment~~ Council's contract with each ~~very~~ investment manager.

#### SAMPLE FORMS, DOCUMENTS, OR REPORTS (Attached)

- A. Public Equity Strategic Allocation Targets (Appendix A)
- B. Investment Manager Benchmarks (Appendix B)
- C. Management Guidelines (Appendix C)

APPENDIX A

**PUBLIC EQUITY**  
**STRATEGIC ALLOCATION TARGETS**

Subject to periodic review and revision, the ~~Investment~~ Council adopts the following strategic ~~target~~ allocation targets<sup>1</sup> ~~(all targets are measured relative to the MSCI ACWI IMI):~~

- a. Capitalization exposure similar to stated benchmark with the exception of ~~the~~ strategic overweights to small cap and value;
- b. The ~~Investment~~ Council's strategic ~~target~~ allocation targets represent percentages of ~~OPERF~~'s total OPERF public equity portfolio. Each such target ~~allocation~~ has an accompanying percentage range. The strategic ~~target~~ allocation targets and ranges ~~are can be~~ summarized as follows:

	<u>Targets</u>	<u>Ranges</u>
Active		
	75%	
	65% - 85%	
		Passive
	25%	
	15% - 35%	
		U.S.
	ACWI <u>IMI</u> weight	
+/- 10%		Non-U.S.
	ACWI <u>IMI</u> weight	
+/- 10%		Emerging Markets
	ACWI <u>IMI</u> weight	
	+/- 4%	
		Growth
	50%	
	40% - 60%	
		Value

<sup>1</sup> All targets measured relative to the MSCI ACWI IMI index.

	40% - 60%	50%
U.S. Small Cap Overweight		
740%		0% - 140%
U.S. Value-Overweight	670%	+/- 10% 0% - 140%
Value	70%	50% 90%
Growth	30%	10% 50%
<u>Approved</u>		

Formatted: Indent: Left: 0", Right: -0.63",  
Tab stops: Not at 4" + 6"

Note: The U.S. small cap overweight is based on the Russell 2000 index weight relative to the Russell 3000 index weight, the latter of -which approximates 8%. The U.S. value overweight ~~Other Return Premia (tilts are~~ is determined and calculated using a Russell 3000 baseline.

- c. On a quarterly basis, staff will prepare and deliver to the Council a report that includes public equity portfolio performance relative to return and risk objectives as outlined in OIC Policy & Procedure 04.04.01 ~~The Investment Council will approve target allocations and associated ranges for the various sub-asset classes, at the time of hire. The OPERF public equity portfolio will be monitored quarterly by a report to the Investment Council that includes portfolio performance relative to return and risk objectives listed in OIC Policy & Procedure 04.04.01, this policy including the portfolio's style (growth/value) and construction (-active/passive) weightings as well as its -and-geographic allocation relative to the MSCI ACWI IMI benchmark. With CIO approval and subsequent quarterly reporting to the OIC, s~~ the target allocation for each category of management style (active/passive and growth/value). The actual percentage market value for each category, compared to its target allocation, will also be included in this report. When a segment falls outside of the established ranges or when manager allocations are considered sub-optimal, staff will transfer assets as deemed appropriate within the target allocations. Staff ~~Staff~~ will also have discretion, -with CIO approval and quarterly reporting to the OIC, to rebalance between and among managers within the public equity portfolio. The ~~aggregate~~ total structural characteristics of the public equity portfolio will be considered during such at the time of any ~~rebalancings, while~~ -Re- ~~allocations~~ between asset classes shall remain ~~be~~ governed by Policy 4.01.18.

## APPENDIX B

## INVESTMENT MANAGER BENCHMARKS

<u>Manager</u>	<u>Benchmark</u>	<u>Peer Group</u>	<u>Return Objective Over Benchmark</u>	<u>Net-of-Fees</u>
<b>U.S. Large Cap:</b>				
<del>DFA-</del>	<del>Russell 1000</del>	<del>U.S. Large Core</del>	<del>1.5%</del>	<del>1.5%</del>
<del>Delaware-</del>	<del>Russell 1000 Growth</del>	<del>U.S. Large Growth</del>	<del>1.5%</del>	
<del>Wells Capital</del>	<del>Russell 1000 Growth</del>	<del>U.S. Large Growth</del>	<del>1.5%</del>	
<del>Aronson + Johnson + Ortiz</del>	<del>Russell 1000 Value</del>	<del>U.S. Large Value</del>	<del>1.0%</del>	
<del>MFS</del>	<del>Russell 1000 Value</del>	<del>U.S. Large Value</del>	<del>1.0%</del>	
<del>PIMCO</del>	<del>Russell 1000-</del>	<del>U.S. Large Core</del>		<del>1.0%</del>
<del>Russell/RAFI Fund Index</del>	<del>Russell 1000-</del>	<del>U.S. Large Core</del>		<del>1.5%</del>
<del>Risk Premia Strategy</del>	<del>MSCI USA</del>	<del>U.S. Large Core</del>		<del>1.5%</del>
<del>Pyramis</del>	<del>Russell 1000</del>	<del>U.S. Large Core</del>		<del>2.0%</del>
<del>Northern Trust Emerging Mgrs.</del>	<del>Russell 3000</del>	<del>U.S. All Core</del>		<del>1.5%</del>
<del>BGI Russell 1000 Value Index</del>	<del>Russell 1000 Value</del>	<del>U.S. Large Value</del>	<del>N/A</del>	
<del>BGI Russell 1000 Growth Index-</del>	<del>Russell 1000 Growth</del>	<del>U.S. Large Growth</del>	<del>N/A</del>	
<del>S&amp;P 500 Index-</del>	<del>S&amp;P 500</del>	<del>U.S. Large Passive</del>		<del>N/A</del>
<del>S&amp;P 400 Index-</del>	<del>S&amp;P 400</del>	<del>U.S. Mid Passive</del>		<del>N/A</del>
<b>U.S. Small and SMID Cap</b>				
<del>EAM</del>	<del>Russell Microcap Growth</del>	<del>U.S. Micro Growth</del>	<del>2.5%</del>	
<del>Next Century-</del>	<del>Russell Microcap Growth</del>	<del>U.S. Micro Growth</del>	<del>2.5%</del>	
<del>DFA</del>	<del>Russell Microcap Value</del>	<del>U.S. Micro Value</del>	<del>1.5%</del>	
<del>Callan-</del>	<del>Russell Microcap Value</del>	<del>U.S. Micro Value</del>	<del>1.5%</del>	
<del>Next Century-</del>	<del>Russell 2000 Growth</del>	<del>U.S. Small Growth</del>	<del>2.0%</del>	
<del>AQR</del>	<del>Russell 2000 Value</del>	<del>U.S. Small Value</del>	<del>1.0%</del>	
<del>Boston Company</del>	<del>Russell 2000 Value</del>	<del>U.S. Small Value</del>	<del>1.0%</del>	
<del>Wellington</del>	<del>Russell 2000</del>	<del>U.S. Small Core</del>		<del>1.0%</del>
<del>Wanger</del>	<del>Russell 2500</del>	<del>U.S. SMID Core</del>		<del>1.0%</del>
<del>Russell 2000 Synthetic Index</del>	<del>Russell 2000</del>	<del>U.S. Small</del>		<del>0.3%</del>
<b>Non-U.S. Large Cap</b>				
<del>TT International-</del>	<del>World x U.S. Std Growth</del>	<del>Non-U.S. Growth</del>	<del>2.0%</del>	
<del>Wells Capital CEF</del>	<del>ACWI x U.S. IMI</del>	<del>Non-U.S. Core</del>		<del>2.0%</del>
<del>Lazard CEF</del>	<del>ACWI x U.S. IMI</del>	<del>Non-U.S. Core</del>		<del>2.0%</del>
<del>Walter Scott-</del>	<del>World x U.S. Std</del>	<del>Non-U.S. Growth</del>		<del>2.0%</del>
<del>Acadian-</del>	<del>ACWI x U.S. IMI Value</del>	<del>Non-U.S. Value</del>	<del>1.7%</del>	
<del>Brandes</del>	<del>ACWI x U.S. Std Value</del>	<del>Non-U.S. Value</del>	<del>2.0%</del>	
<del>AQR</del>	<del>World x U.S. Std</del>	<del>Non-U.S. Core</del>		<del>2.0%</del>
<del>Arrowstreet</del>	<del>ACWI x U.S. IMI</del>	<del>Non-U.S. Core</del>		<del>2.0%</del>
<del>Lazard</del>	<del>ACWI x U.S. Std</del>	<del>Non-U.S. Core</del>		<del>1.5%</del>

Pyramis Select	ACWI x U.S. Std	Non-U.S. Core	1.0%
----------------	-----------------	---------------	------

<u>Manager</u>	<u>Benchmark</u>	<u>Peer Group</u>	<u>Return Objective Over Benchmark</u>	<u>Net-of-Fees</u>
<b>Non-U.S. Large Cap (cont.)</b>				
Northern Trust Emerging Mgrs.	World x U.S. IMI	Non-U.S. Core		1.5%
SSgA World ex-US Index	World x U.S. Std	Non-U.S. Passive		N/A
<b>Non-U.S. Small Cap</b>				
DFA	World x U.S. Sm-Cap Value	Non-U.S. Small Value		1.5%
Harris Associates	ACWI x U.S. Sm-Cap Value	Non-U.S. Small Value		2.0%
Pyramis Select	World x U.S. Sm-Cap	Non-U.S. Small Core		2.0%
Victory International†	World x U.S. Sm-Cap Gr	Non-U.S. Small Growth		2.0%
DFA	Global x U.S. Micro Value	Non-U.S. Small Value		2.0%
EAM Investors	Global x U.S. Micro Growth	Non-U.S. Small Growth		2.0%
<b>Emerging Markets</b>				
Arrowstreet	Em-Mkts IMI	Emerging Markets		2.0%
DFA	Em-Mkts Small Cap	Emerging Markets		1.5%
William Blair	Em-Mkts Small Cap	Emerging Markets		2.0%
Genesis	Em-Mkts IMI	Emerging Markets		2.0%
William Blair	Em-Mkts Std	Emerging Markets		2.0%
BGI Tiered Emerging Markets	Em-Mkts Std	Emerging Markets		2.0%
Westwood Global	Em-Mkts Std	Emerging Markets		2.5%
<b>Global</b>				
AllianceBernstein Value	ACWI Value Std	Global Value		2.0%

ACWI – MSCI All-Country World Index (U.S. + Non-U.S. Developed + Emerging Markets)

IMI – MSCI IMI Index (Large Cap + Mid Cap + Small Cap)

Std – MSCI Standard Index (Large Cap + Mid Cap)

Sm-Cap – MSCI Index (Small Cap)

Em-Mkts – MSCI Emerging Markets Index

APPENDIX C  
MANAGEMENT GUIDELINES

The following Management guidelines shall be attached to and incorporated into every separate account contract entered into between the Investment Council and an active investment manager. These guidelines may be modified from time to time as considered necessary by the Chief Investment Officer; however, the assigned benchmark may not be changed without OIC approval, and each contract must specify the following:

1. The specific category of management category to which a manager's strategy is assigned;:-
2. A description of the manager's investment style;:-
3. The manager's specific performance objective, expressed on a relative basis in comparison to an index or a passively managed alternative, as that manager's required excess return; The manager's required excess return will represent the risk premium associated with this manager's investment style in comparison to the index or passively managed alternative to which the manager is assigned.
4. The strategy's expected risk (tracking error) relative to it of the portfolio expressed in relationship to the assigned benchmark;:-
5. Portfolio characteristics which the OIC expects the manager's strategy to exhibit on average throughout a market cycle; and-
6. A list of permissible equity securities in which the manager may invest.

Formatted: Font: 12 pt



## TAB 8 – ASSET ALLOCATIONS & NAV UPDATES

.

**Asset Allocations at September 30, 2014**

Regular Account								Variable Fund	Total Fund
OPERF	Policy	Target <sup>1</sup>	\$ Thousands	Pre-Overlay	Overlay	Net Position	Actual	\$ Thousands	\$ Thousands
Public Equity	32.5-42.5%	37.5%	27,765,615	40.1%	133,526	27,899,141	40.3%	753,861	28,653,002
Private Equity	16-24%	20.0%	15,086,439	21.8%		15,086,439	21.8%		15,086,439
<b>Total Equity</b>	<b>52.5-62.5%</b>	<b>57.5%</b>	<b>42,852,054</b>	<b>61.9%</b>	<b>133,526</b>	<b>42,985,580</b>	<b>62.1%</b>		<b>43,739,441</b>
Opportunity Portfolio			924,384	1.3%		924,384	1.3%		924,384
<b>Fixed Income</b>	<b>15-25%</b>	<b>20.0%</b>	<b>14,745,979</b>	<b>21.3%</b>	<b>1,591,739</b>	<b>16,337,718</b>	<b>23.6%</b>		<b>16,337,718</b>
<b>Real Estate</b>	<b>9.5-15.5%</b>	<b>12.5%</b>	<b>7,620,431</b>	<b>11.0%</b>	<b>(9,800)</b>	<b>7,610,631</b>	<b>11.0%</b>		<b>7,610,631</b>
<b>Alternative Investments</b>	<b>0-10%</b>	<b>10.0%</b>	<b>1,282,130</b>	<b>1.9%</b>		<b>1,282,130</b>	<b>1.9%</b>		<b>1,282,130</b>
<b>Cash*</b>	<b>0-3%</b>	<b>0.0%</b>	<b>1,782,495</b>	<b>2.6%</b>	<b>(1,715,465)</b>	<b>67,030</b>	<b>0.1%</b>	2,342	<b>69,372</b>
<b>TOTAL OPERF</b>		<b>100%</b>	<b>\$ 69,207,473</b>	<b>100.0%</b>	<b>\$ -</b>	<b>\$ 69,207,473</b>	<b>100.0%</b>	<b>\$ 756,203</b>	<b>\$ 69,963,676</b>

<sup>1</sup>Targets established in June 2013. Interim policy benchmark consists of: 41.5% MSCI ACWI Net, 23.5% Custom FI Benchmark, 20% Russell 3000+300bps (1 quarter lagged), 12.5% NCREIF (1 quarter lagged), & 2.5% CPI+400bps.

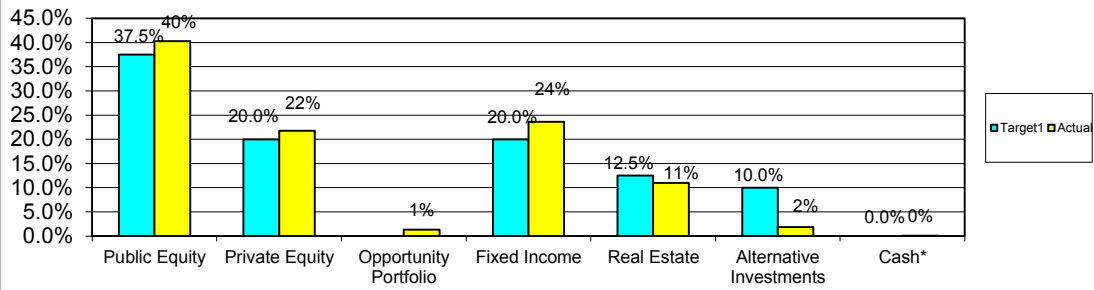
\*Includes cash held in the policy implementation overlay program.

SAIF	Policy	Target	\$ Thousands	Actual
<b>Total Equity</b>	<b>7-13%</b>	<b>10.0%</b>	<b>502,427</b>	<b>10.8%</b>
<b>Fixed Income</b>	<b>80-90%</b>	<b>85.0%</b>	<b>4,105,838</b>	<b>87.9%</b>
<b>Real Estate</b>	<b>0-7%</b>	<b>5.0%</b>	<b>0</b>	<b>0.0%</b>
<b>Cash</b>	<b>0-3%</b>	<b>0%</b>	<b>61,688</b>	<b>1.3%</b>
<b>TOTAL SAIF</b>		<b>95%</b>	<b>\$4,669,953</b>	<b>100.0%</b>

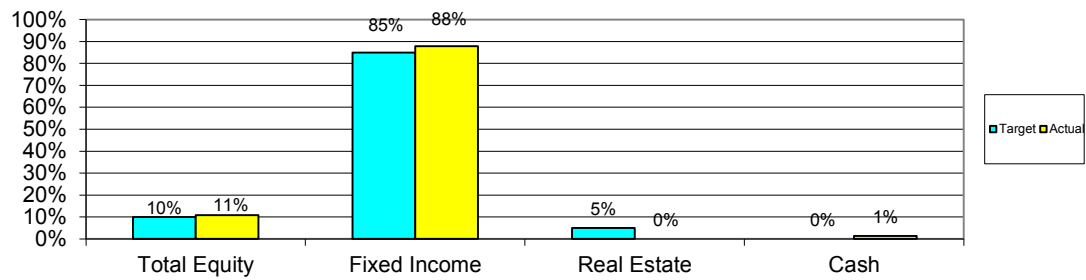
CSF	Policy	Target	\$ Thousands	Actual
Domestic Equities	25-35%	30%	\$431,371	30.7%
International Equities	25-35%	30%	402,617	28.6%
Private Equity	0-12%	10%	162,899	11.6%
<b>Total Equity</b>	<b>65-75%</b>	<b>70%</b>	<b>996,887</b>	<b>70.9%</b>
<b>Fixed Income</b>	<b>25-35%</b>	<b>30%</b>	<b>404,987</b>	<b>28.8%</b>
<b>Cash</b>	<b>0-3%</b>	<b>0%</b>	<b>3,454</b>	<b>0.2%</b>
<b>TOTAL CSF</b>			<b>\$1,405,328</b>	<b>100.0%</b>

HIED	Policy	Target	\$ Thousands	Actual
Domestic Equities	20-30%	25%	\$11,382	15.0%
International Equities	20-30%	25%	11,928	15.7%
Private Equity	0-15%	10%	7,864	10.4%
<b>Growth Assets</b>	<b>50-75%</b>	<b>60%</b>	<b>31,174</b>	<b>41.1%</b>
Real Estate	0-10%	7.5%	2,548	3.4%
TIPS	0-10%	7.5%	4,524	6.0%
<b>Inflation Hedging</b>	<b>7-20%</b>	<b>15%</b>	<b>7,072</b>	<b>9.3%</b>
Fixed Income	20-30%	25%	10,428	13.7%
Cash	0-3%	0%	27,230	35.9%
<b>Diversifying Assets</b>	<b>20-30%</b>	<b>25%</b>	<b>37,658</b>	<b>49.6%</b>
<b>TOTAL HIED</b>			<b>\$75,904</b>	<b>100.0%</b>

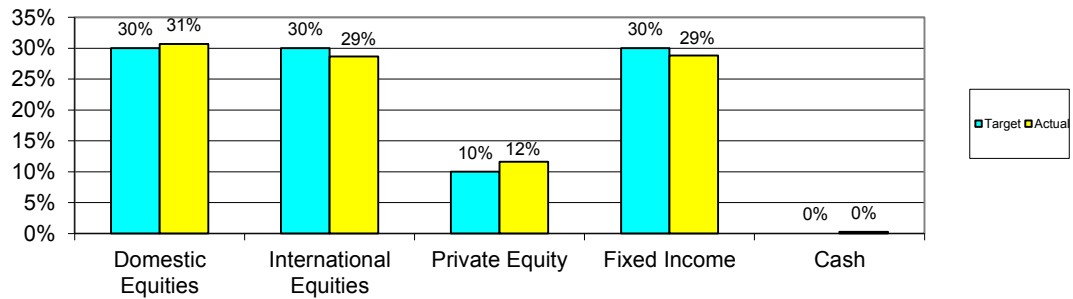
### OPERF Asset Allocation



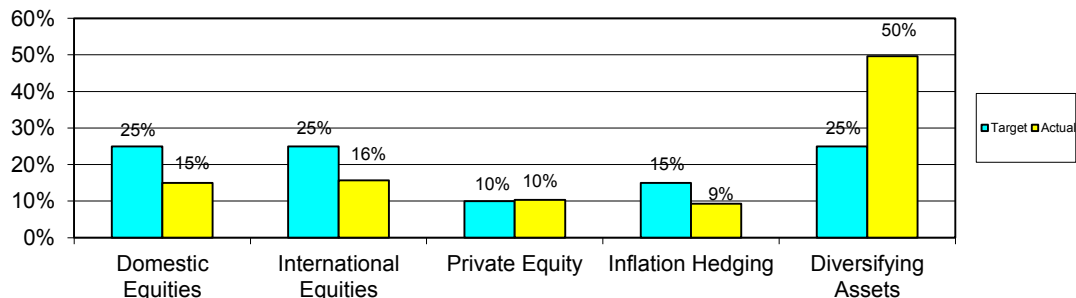
### SAIF Asset Allocation



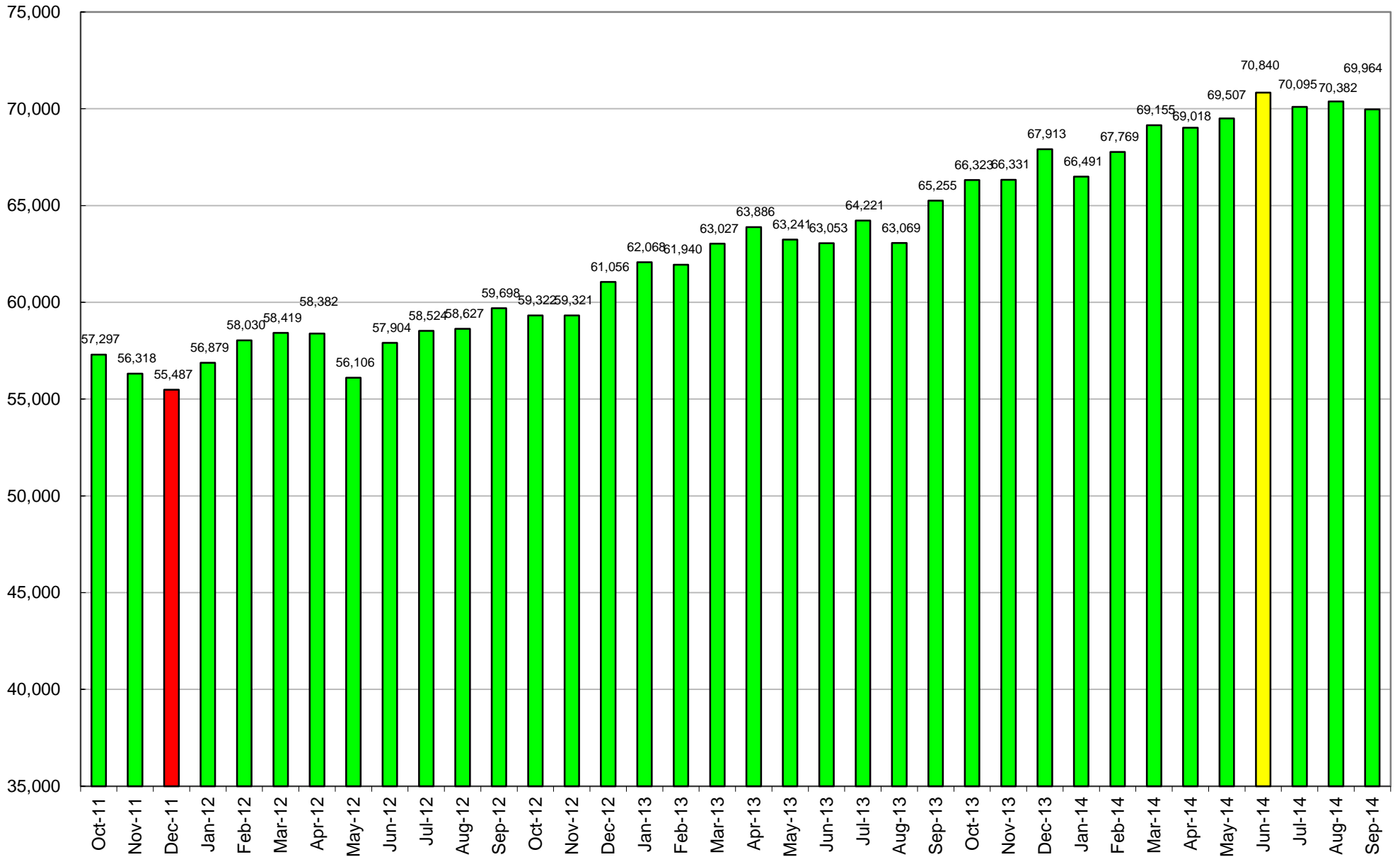
### CSF Asset Allocation



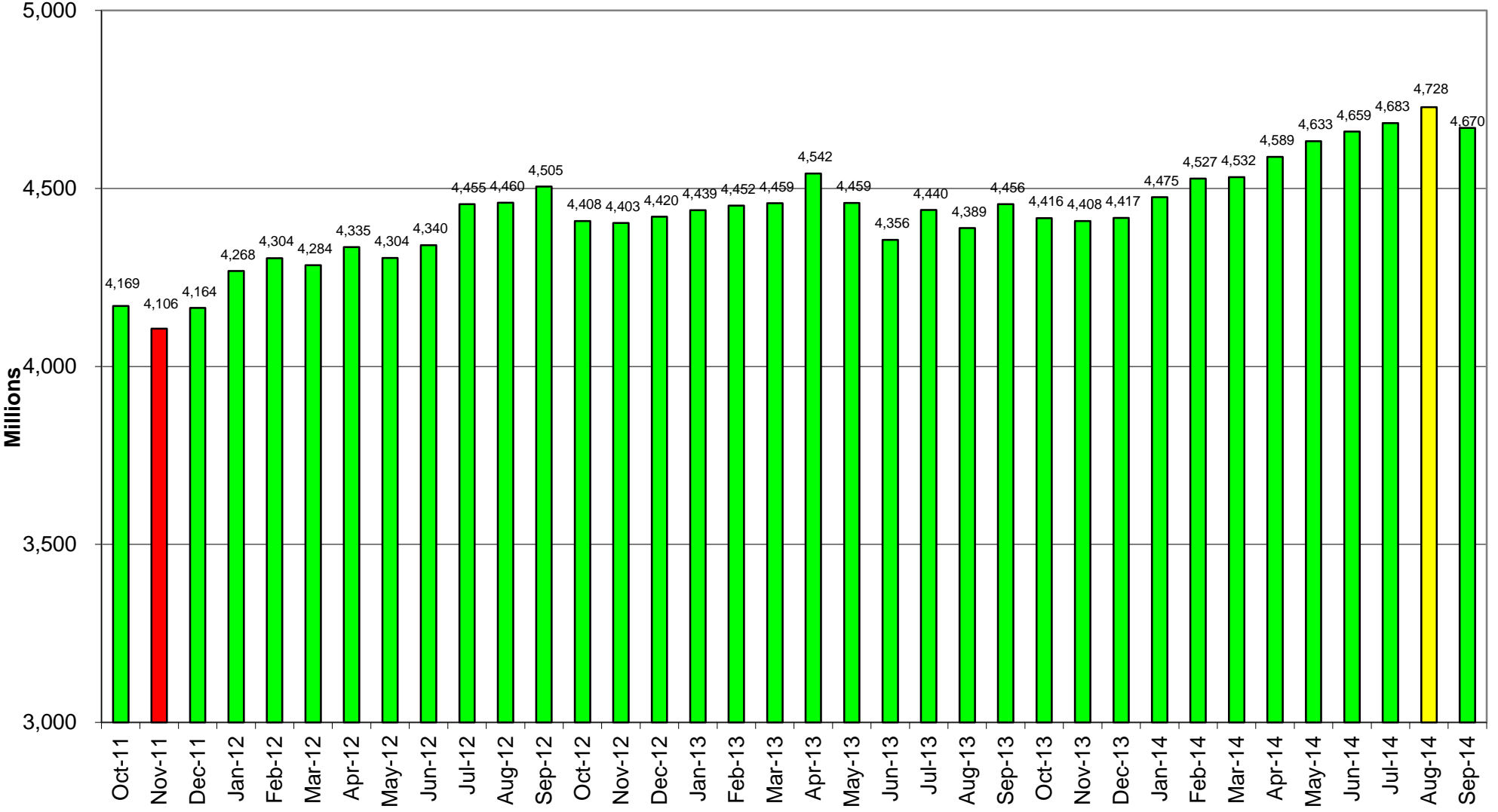
### HIED Asset Allocation



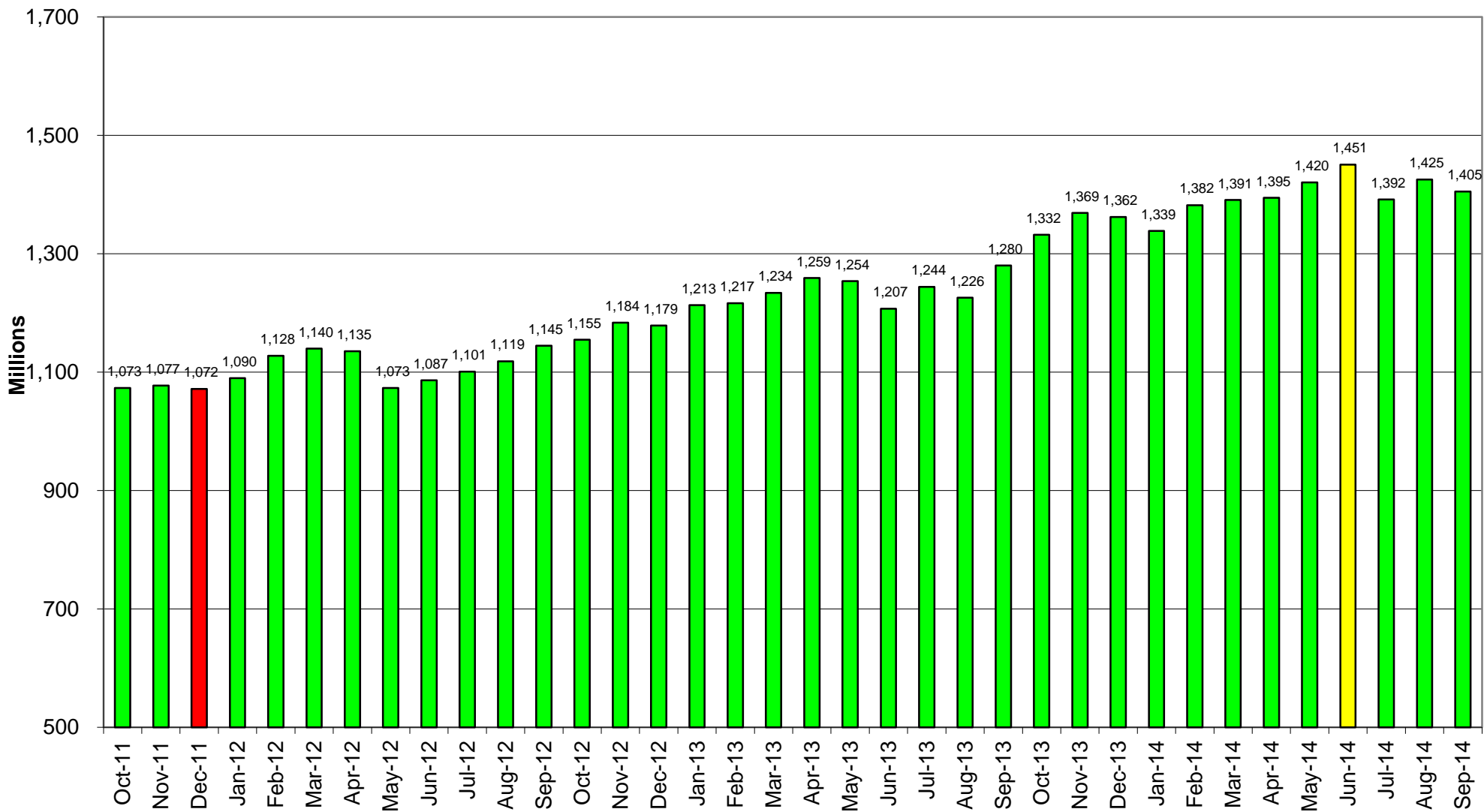
**OPERF NAV**  
**Three years ending September 2014**  
**(\$ in Millions)**



**SAIF NAV**  
**Three years ending September 2014**  
**(\$ in Millions)**



**CSF NAV**  
**Three years ending September 2014**  
**(\$ in Millions)**



## TAB 9 – CALENDAR/FUTURE AGENDA ITEMS

.

## **2014-15 OIC Forward Agenda Topics**

- December 3:** CEM Benchmarking Report  
OPERF Alternative Portfolio Review  
OPERF Opportunity Portfolio Review  
CSF Annual Review  
OPERF Q3 2014 Performance Report
- February 4:** Updated OPERF A/L Study and SAA Recommendations  
OPERF Fixed Income Review  
HIED Annual Review  
Annual Placement Agent Report
- March 4:** OPERF Private Equity Review and Plan  
OPERF Policy Implementation Overlay Review  
OPERF Securities Lending Update  
OPERF Q4 2014 Performance Report
- April 29:** Litigation Update
- June 3:** OITP Review  
OPERF Q1 2015 Performance Report
- July 29:** OSGP Annual Update
- September 16:** OPERF Real Estate Review  
OIC Private Equity Consultant Recommendation  
OPERF Q2 2015 Performance
- October 28:** OSTF Annual Review  
OPERF Public Equity Review  
OPERF Alternative Portfolio Review  
CEM Benchmarking Report  
Approve 2016 OIC Calendar
- December 9:** OPERF Opportunity Portfolio Review  
SAIF Annual Review  
CSF Annual Review  
OPERF Q3 2015 Performance Report