

FY2017 Q2 Investment Reports

BACKGROUND

The Oregon State University (university) investment reports for the second quarter (Q2) of Fiscal Year (FY) 2017 are presented in the following three sections:

- **FY2017 Q2 Market Background** – This section provides a general discussion of the investment markets and related performance information during the second quarter of FY2017 (i.e., October 1 – December 31, 2016).
- **FY2017 Q2 Public University Fund Investment Report** – This section includes a report on the investments of the Public University Fund (PUF) for the second quarter of FY2017. The PUF is an investment pool that is administered by the university on behalf of all Oregon public university participants, pursuant to legislation adopted by the 2014 Legislature. The PUF holds assets of the following participating Oregon public universities: Eastern Oregon University, Oregon Institute of Technology, Oregon State University, Portland State University, Southern Oregon University, and Western Oregon University.
- **FY2017 Q2 Oregon State University Investment Report** – This section includes a report on the investments of the operating and endowment assets of the university. This report reflects the university's operating assets that are invested in the PUF, the university's endowment and quasi-endowment investments managed by the Oregon State University Foundation, the land held as separately invested endowments, the land grant endowment and the Amyotrophic Lateral Sclerosis (ALS) endowment funds, which are invested in the PUF

FY2017 Q2 MARKET BACKGROUND

(Prepared by Callan Associates, consultants to the Oregon Investment Council)

Macroeconomic Environment

Donald Trump is inheriting one of the strongest economies that has been handed to a new President in recent history (based on calendar third quarter Gross Domestic Product [GDP]). Since the 1970s, only George H.W. Bush and Jimmy Carter assumed the office with higher GDP growth rates. Further, investors have been cheered by Trump's anticipated business-friendly ambitions on taxes, trade and regulations that drove U.S. stocks to record highs during 2016. The Standard and Poor's (S&P) 500 Index gained 3.8% for the fourth calendar quarter of 2016 and 12% for the calendar year. Small stocks, as measured by the Russell 2000, roared 8.8% for the quarter and surged 21.3% for the calendar year. The bond market did not fare as well, especially post-election. The prospect of increased fiscal spending sparked concerns over higher inflation and tighter monetary policy, leading to a sharp sell-off in U.S. Treasuries. The 10-year Treasury yield climbed 85 basis points (bps), the largest quarterly increase since 1994. The year was a volatile one for bonds; the 10-year Treasury yield started the year at 2.27%, hit an all-time low of 1.37% in July (post-Brexit) and ended the calendar year sharply higher at 2.45%.

The U.S. economic picture continued to improve during the final quarters of 2016. Third calendar quarter GDP was revised up to 3.5% (1.7% year-over-year), the sharpest quarterly increase in two years. Unemployment reached a nine-year low of 4.6% in November and

jobless claims remained relatively muted. Initial jobless claims fell to less than 300,000 in early 2015 and remained below this key level for more than 90 weeks, the longest streak since 1970. The Atlanta Federal Reserve's wage growth tracker index showed that wages advanced 3.9% in October, the fastest since November of 2008. Home prices hit a record high in October; the S&P CoreLogic Case-Shiller U.S. National Home Price Index rose 5.6% in October for the trailing 12-month period. The average price for an existing single family home was \$282,341 in November, the highest ever. New and existing home sales also posted strong gains, perhaps fueled by buyers rushing to lock in mortgage rates. Consumer confidence, as measured by the Conference Board's Consumer Confidence Index, hit its highest level in 15 years in December. Auto sales are on pace to beat last year's record of 17.5 million light vehicles. Even the manufacturing sector showed signs of improvement with the Institute for Supply Management Composite Index of factory sector activity showing consistent gains through the quarter.

Inflation, while still benign, is rising. For the trailing 12-month period, the Consumer Price Index (CPI) rose 1.7% in November, the most since 2014. Core CPI (excluding food and energy) was slightly higher at 2.1%. The Federal Reserve's (Fed) preferred metric, the Personal Consumption Expenditures Index, rose 1.4% over the same time period but remains short of the 2% target. Oil prices surged to their highest level in 17 months to close the calendar year at \$54 per barrel. The U.S. dollar soared, hitting a multi-year high versus the euro and the yen and appreciating roughly 7% versus a basket of currencies for the quarter.

The Fed, in a widely anticipated move, raised the Federal Funds rate 25 bps to a range of 0.50% to 0.75% in December. This turned out to be the Fed's only move for the year although at the end of 2015 it had projected four hikes in 2016. As communicated in its "dot plot," the Fed expects three additional hikes in 2017, though the markets expect fewer. Interest rates began to creep up early in the fourth calendar quarter as investors gained confidence that the Fed would make a move in response to encouraging U.S. economic data. Trump's win propelled rates sharply higher fueled by expectations for escalating inflation in tandem with more debt. The 10-year U.S. Treasury closed the year at 2.45% but hit an intra-quarter high of 2.60%, the highest since September 2014.

Overseas, the European Central Bank announced that it would extend its asset purchase program beyond March, 2017 when it was set to expire, but purchases will be lower (€60 billion per month down from €80 billion per month). Italians voted "no" to reforms, and a rescue fund was created for troubled banks in response to acute challenges at Monte dei Paschi di Siena. Deutsche Bank settled with the U.S. Department of Justice for its role in selling mortgages during the crisis, agreeing to a \$7.2 billion payment (roughly half of what was originally suggested). The unemployment rate in the euro zone declined to 9.8% in October, the lowest since July 2009; it has been falling since reaching a record high of 12.1% in April 2013. The range in unemployment rates is highly divergent among euro zone countries, with Spain's at 19% and Germany's at a 35-year low of 4%. Consumer prices in the euro zone increased 0.6% year-over-year in November, the highest since April 2014, but well below the 2% target. GDP is expected to have picked up in the final months of the year from the 0.3% (1.6% year-over-year) pace registered in the third calendar quarter to 0.4% to 0.5%.

In Asia, the Japanese economy advanced 0.3% (1.0% year-over-year) in the third calendar quarter, below the preliminary estimate of 0.5%. The economy continues to struggle in spite of aggressive stimulus measures. The Bank of Japan made no changes to its monetary policy but upgraded the outlook for 2017 given the yen's weakness versus the U.S. dollar, which should provide a boost to exports. The dollar reached a 14-year high versus the yen.

Despite worries at the start of 2016, China ended the calendar year with growth expected to be in line with its target of 6.5%. China's stock market stabilized and is up 19% since its low in late January 2016. Its currency has depreciated, but in an orderly fashion. However, challenges remain in the form of a high debt load and an overheated property sector.

Equity Market Results

Equities posted strong returns in the fourth calendar quarter, cheered by relatively good economic data, a rebound in corporate earnings, and speculation that Trump's presidency will bring lower taxes, lighter regulation and increased spending. The S&P 500 climbed to an all-time high of 2,239 on December 30 and closed up 3.8% for the quarter. However, there were stark differences in sector returns. Financials (+21.1%) were beneficiaries of Trump economics (Trumponomics), riding expectations for a more lenient regulatory environment and higher interest rates while Health Care (−4.0%) was one of the worst performing sectors. While smaller cap biotechnology stocks performed well, uncertainty over the future of Obamacare hurt hospitals. The newly established Real Estate Investment Trust sector (−4.4%) was punished by rising interest rates. Small capitalization stocks outperformed large by a wide margin; the Russell 2000 rose 8.8% in the quarter and is up 21.3% for the year while the Russell 1000 gained 3.8% and 12.1% for the same periods. Value sectors gained favor after prolonged underperformance. While this trend was in place before the election, Trump's win boosted Financials and Energy stocks, which make up a significant portion of the value indices. The largest difference between growth and value was in small cap stocks. The Russell 2000 Value outperformed its Growth counterpart by 10.5% (+14.1% versus +3.6%) in the quarter and by double that amount, 20.4%, over the year (+31.7% versus +11.3%).

Foreign developed and emerging market indices trailed the S&P 500. The Morgan Stanley Capital Indices (MSCI) All-Country World Index ex-U.S. fell 1.3%, modestly below the MSCI Europe Australasia Far-East's negative 0.7% result. Dollar strength was broad-based and thus detracted from returns for U.S. investors. In developed markets, Italy (+11%) was the top performer in the fourth calendar quarter, although it remains at the bottom of the pack for the year (−11%). The MSCI Emerging Markets Index dropped 4.2% for the quarter. Among emerging markets, Russia posted the best return (+19%) while Turkey (−14%) sank. Turkey's economy shrank 1.8% in the third calendar quarter, its first year-over-year decline since 2009. Mexico, hurt by Trumponomic concerns, was down 8%.

Fixed Income Market Results

Interest rates in the U.S. rose sharply in the fourth calendar quarter, driven both by encouraging economic data and worries that the pro-growth agenda put forth by President-elect Donald Trump will have an inflationary effect. The 10-year U.S. Treasury yield rose 85 bps and returned minus 6.8% for the quarter in the sharpest quarterly selloff in more than two decades. Treasury Inflation Protected Securities (TIPS) outperformed nominal Treasuries, bolstered by rising expectations for inflation. The Bloomberg Barclays TIPS Index returned minus 2.4% for the quarter but ended the year up 4.7%. The 10-year inflation breakeven rate was 1.95% as of December 30.

The Bloomberg Barclays U.S. Aggregate Index was down 3.0% for the quarter while up 2.6% for the calendar year. The Corporate sector returned negative 2.8% and positive 6.1% for the same periods. Issuance by U.S. corporations hit another record high in 2016 at roughly \$1.3 trillion. Long maturity bonds performed the best, in relative terms, with long corporates outperforming like-duration Treasuries by 436 bps. Mortgages underperformed Treasuries as

durations extended with the increase in interest rates. The Bloomberg Barclays High Yield Index gained 1.8% in the quarter and more than 17% for the year.

The municipal bond sector faced headwinds in the fourth calendar quarter with robust supply, concerns over Trump's desire for lower taxes, and rising interest rates contributing to outflows from the sector. Supply in 2016 was \$445 billion, breaking its record from 2010 (\$443 billion). The Bloomberg Barclays Municipal Bond Index fell 3.6% for the quarter and was essentially flat (+0.2%) for the calendar year.

Overseas, yields were also higher though dollar strength was the primary driver of sharply negative returns for unhedged indices. The Bloomberg Barclays Global Aggregate ex-U.S. Index fell 10.3% for the quarter (–1.9% on a hedged basis). The U.S. dollar benefited from higher interest rates as well as prospects for growth. The yen lost more than 13% versus the dollar over the course of the quarter and the euro depreciated by more than 6%. Emerging markets debt underperformed developed markets. The J.P. Morgan Emerging Market Bond Global Diversified Index dropped 4.0% for the quarter and the local currency Global Bond Index-Emerging Market Global Diversified lost 6.1%.

Other Asset Results

Commodities benefitted when the Organization of the Petroleum Exporting Countries (OPEC) announced cuts as well as the prospect of increased infrastructure spending. In November, OPEC agreed to production cuts to reduce output by 1.2 million barrels per day or roughly 1% of global output. Several non-OPEC nations also agreed to cut output by around half a million barrels per day. Oil closed the year at \$54 per barrel, the highest level since July 2015. The S&P Goldman Sachs Commodity Index rose 5.8% for the quarter and 11.4% for the year. Master Limited Partnerships (MLPs) were up modestly during the quarter (Alerian MLP Index +2.0%) with stronger results for the year (+18.3%).

Closing Thoughts

We enter 2017 with U.S. stock markets at new highs, rising interest rates and historically low volatility. The U.S. economy continues to gain traction, and there are glimmers of hope that a bottom has been reached overseas. However, a whole host of geopolitical challenges continues to cause angst. Further, the election of Donald Trump has resulted in widespread speculation as to the impact his policies will have on markets, but much uncertainty remains with respect to the scope, implementation and timing of these policies. With this in mind, we caution investors to maintain a long-term perspective. As always, prudent asset allocation with appropriate levels of diversification remains Callan's recommended course.

FY2017 Q2 PUBLIC UNIVERSITY FUND INVESTMENT REPORT

(Prepared by the Public University Fund Administrator)

Performance

The Public University Fund (PUF) declined 0.7% for the quarter and declined 0.3% for the fiscal year-to-date through December 31, 2016. During the quarter, the Oregon Short-Term Fund outperformed its benchmark by 20 bps and the Oregon Intermediate-Term Pool and Long-Term Pool outperformed their benchmarks by 90 and 80 bps, respectively. For the three-year period, the Oregon Short-Term Fund and Intermediate-Term Pool outperformed their benchmarks by 50 and 20 bps, respectively, while the Long-Term Pool underperformed its benchmark by 50 bps.

In late December, Oregon State Treasury fixed income portfolio manager, Tom Lofton, conducted a quarterly performance review with university staff and its investment advisor. Lofton indicated that the volatility in bond prices during the quarter was driven by positive economic data reports and investors' rising inflation expectations. While the Intermediate-Term and Long-Term Pools posted negative returns for the quarter, Lofton's strategy of holding securities with shorter average durations (maturities) compared to the benchmark supported positive relative performance during the period. The rise in the Long-Term Pool's cash position to 13% during the quarter is a function of sector allocation changes near quarter-end as Lofton sold mortgage-backed securities in anticipation of increasing allocations to government securities during the third fiscal quarter. A snapshot of each investment pool's portfolio characteristics and market exposures is included with this report.

	Quarter Ended 12-31-16	Prior Fiscal YTD	Current Fiscal YTD	3-Year Avg.	Market Value	Asset Allocation	Policy Allocation
Oregon Short-Term Fund	0.3%	0.3%	0.5%	0.6%	\$119,554,497	27.5%	\$150 million target ¹
<i>Benchmark - 91 day T-Bill</i>	0.1%	0.0%	0.2%	0.1%			
Oregon Intermediate-Term Pool	-0.8%	0.0%	-0.5%	N/A	\$200,376,429	46.0%	\$300 million maximum ¹
<i>Benchmark - Bloomberg Barclay's U.S. Aggregate 3-5 yrs.</i>	-1.7%	0.3%	-1.4%	1.6%			
<i>Combined Historical Returns ²</i>				1.8%			
PUF Long-Term Pool	-1.8%	0.5%	-1.2%	N/A	\$115,408,230	26.5%	\$120 million maximum ¹
<i>Benchmark - Bloomberg Barclay's U.S. Aggregate 5-7 yrs.</i>	-2.6%	1.6%	-2.2%	3.1%			
<i>Combined Historical Returns ²</i>				2.6%			
Public University Fund	-0.7%	0.3%	-0.3%		\$435,339,156	100.0%	

¹ The PUF policy guidelines define investment allocation targets based upon total participant dollars committed. Core balances in excess of liquidity requirements for the participants are available for investment in the Intermediate-Term Pool and the Long-Term Pool. Maximum core investment allocations are determined based upon anticipated average cash balances for all participants during the fiscal year.

² The historical returns presented combine the investment returns from the predecessor fund with the investment returns of the PUF, for investments with an identical mandate. The predecessor fund commingled all public universities operating assets into a cash and investment pool.

Investment Income and Participant Ownership

During the quarter, investment earnings distributed to the participants totaled \$2,216,340, a 20.7% increase from the prior year.

	Earnings Distribution ¹	Market Value as of 12/31/16	% Ownership
Oregon State University	\$ 923,322	\$ 170,490,863 ²	39.2%
Portland State University	740,279	152,433,828	35.0%
Western Oregon University	213,580	43,067,258	9.9%
Oregon Tech	149,224	31,153,205	7.1%
Southern Oregon University	106,237	21,725,989	5.0%
Eastern Oregon University	83,698	16,468,013	3.8%
Grand Total	\$ 2,216,340	\$ 435,339,156	100.0%

¹ The earnings available for distribution to participants were earned during the months of September 2016 through November 2016 and distributed to participants in December 2016. Earnings are distributed to participants based upon average cash and investment balances on deposit during the same period, which differs from the total market value at the end of the quarter.

² Oregon State University's land grant and ALS endowments, valued at \$426,226 in total on December 31, 2016, were invested in the PUF.

Oregon Short-Term Fund Exposures

December 31, 2016

Sector	Market Value	Gain (Loss)	Duration		Yield
	Percent	Percent	Rate	Spread	Percent
Corporates	47.5%	0.2%	0.5	1.2	1.5%
Treasuries	19.1%	0.0%	0.4	0.0	0.8%
Government Related	18.2%	0.0%	0.2	0.5	0.9%
Securitized	11.6%	-0.5%	0.6	0.9	0.6%
Cash	1.8%	0.0%	0.2	0.2	0.8%
Investment Funds	1.1%	0.0%	3.1	1.3	0.9%
Municipals	0.7%	0.0%	0.0	0.0	0.7%
Total	100.0%	-0.3%	0.4	0.8	1.1%

Rating	Market Value	Gain (Loss)	Duration		Yield
	Percent	Percent	Rate	Spread	Percent
AAA	42.4%	-0.5%	0.4	0.4	0.7%
AA+	0.8%	0.0%	0.5	1.6	1.4%
AA	7.0%	0.0%	0.3	0.6	1.1%
AA-	18.0%	0.1%	0.4	1.1	1.5%
A+	7.7%	0.0%	0.5	1.3	1.5%
A	13.9%	0.1%	0.3	0.8	1.3%
A-	7.2%	0.0%	0.5	1.4	1.8%
BBB+	1.6%	0.0%	0.5	0.9	1.7%
No Rating	0.3%	0.0%	0.2	0.2	0.8%
Investment Funds	1.1%	0.0%	3.1	1.3	0.9%
Total	100.0%	-0.3%	0.4	0.8	1.1%

Industry	Market Value	Gain (Loss)	Duration		Yield
	Percent	Percent	Rate	Spread	Percent
Banking	31.3%	0.2%	0.5	1.1	1.6%
Treasuries	19.1%	0.0%	0.4	0.0	0.8%
Government Related	18.2%	0.0%	0.2	0.5	0.9%
A.B.S.	11.6%	-0.5%	0.6	0.9	0.6%
Consumer Cyclical	5.3%	0.0%	0.5	1.4	1.4%
Capital Goods	3.6%	0.0%	0.4	1.1	1.3%
Consumer Non-Cyclical	2.6%	0.0%	0.4	1.1	1.2%
Technology	2.5%	0.0%	0.4	1.4	1.4%
Cash	1.8%	0.0%	0.2	0.2	0.8%
Investment Funds	1.1%	0.0%	3.1	1.3	0.9%
Insurance	0.8%	0.0%	0.7	1.6	1.4%
Municipals	0.7%	0.0%	0.0	0.0	0.7%
Energy	0.5%	0.0%	0.2	0.8	1.3%
Financial Other	0.3%	0.0%	0.0	0.0	0.6%
Utility	0.3%	0.0%	0.5	0.7	1.2%
Communications	0.2%	0.0%	0.0	2.0	1.3%
Brokerage/Asset Manag	0.1%	0.0%	0.7	0.7	1.2%
Total	100.0%	-0.3%	0.4	0.8	1.1%

Top Exposures	Market Value
	Percent
United States Treasury	12.1%
Federal Home Loan Banks	2.3%
Oregon Local Government Intermediate Fund	1.1%
Goldman Sachs Group Incorporated (The)	0.9%
Chase Issuance Trust	0.5%
Toronto-Dominion Bank (The)	0.5%
Federal National Mortgage Association	0.4%
General Electric Company	0.4%
Federal Farm Credit Banks Funding Corporation	0.4%
Bank of America Corporation	0.4%
Paccar Incorporated	0.4%

Source: Oregon State Treasury

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Provided electronically to the F&A Committee on 2/16/17

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Oregon Intermediate - Term Pool Exposures

December 31, 2016

Sector	Market Value	Gain (Loss)	Duration		Yield
	Percent	Percent	Rate	Spread	Percent
Treasuries	35.8%	0.0%	3.5	0.0	1.6%
Securitized	27.1%	-0.3%	3.1	3.9	0.9%
Corporates	26.1%	0.3%	2.0	4.2	2.6%
Cash	6.1%	0.0%	0.4	0.8	0.9%
Government Related	4.9%	0.0%	3.3	4.3	1.8%

Total	100.0%	0.0%	2.8	2.4	1.6%
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Rating	Market Value	Gain (Loss)	Duration		Yield
	Percent	Percent	Rate	Spread	Percent
AAA	67.5%	-0.3%	3.3	1.9	1.3%
AA+	1.0%	0.0%	0.1	3.3	1.3%
AA	6.2%	0.0%	0.4	0.8	0.9%
AA-	1.8%	0.1%	0.1	4.9	1.9%
A+	2.1%	0.0%	1.9	4.6	2.3%
A	3.7%	0.0%	1.0	3.5	2.1%
A-	5.2%	0.1%	0.1	4.4	2.3%
BBB+	7.1%	0.0%	3.6	4.9	2.8%
BBB	2.4%	0.0%	3.2	3.2	3.5%
BBB-	3.0%	0.1%	3.4	3.5	4.2%

Total	100.0%	0.0%	2.8	2.4	1.6%
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Industry	Market Value	Gain (Loss)	Duration		Yield
	Percent	Percent	Rate	Spread	Percent
Treasuries	35.8%	0.0%	3.5	0.0	1.6%
Banking	11.9%	0.2%	0.5	4.4	2.2%
M.B.S. Pass-Through	8.2%	-0.2%	4.2	5.2	2.5%
C.M.B.S.	7.8%	-0.1%	3.1	3.1	2.0%
A.B.S.	6.9%	0.0%	2.4	2.9	2.5%
Cash	6.1%	0.0%	0.4	0.8	0.9%
Agency	4.6%	0.0%	3.3	4.3	1.8%
C.M.O.	4.2%	0.0%	2.2	4.7	1.6%
Consumer Non-Cyclical	3.0%	0.0%	4.4	4.5	2.8%
Capital Goods	2.2%	0.0%	3.7	5.5	2.9%
Consumer Cyclical	2.2%	0.0%	3.4	3.4	3.0%
R.E.I.T.s	1.7%	0.1%	3.7	3.7	4.5%
Finance Companies	1.7%	0.0%	2.6	2.7	4.0%
Energy	1.2%	0.0%	0.2	4.4	1.8%
Technology	1.0%	0.0%	0.1	3.3	1.3%
Transportation	0.7%	0.0%	3.2	3.2	2.6%
Insurance	0.5%	0.0%	5.2	5.2	3.2%
Local Authority	0.3%	0.0%	3.7	3.8	2.3%

Total	100.0%	0.0%	2.8	2.4	1.6%
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Top Exposures	Market Value Percent
United States Treasury	34.7%
Oregon State Treasury - O.S.T.F.	6.2%
Citibank Credit Card Issuance Trust	3.6%
Federal Home Loan Mortgage Corporation	2.1%
Federal National Mortgage Association	2.0%
Morgan Stanley Capital Trust	1.8%
BB&T Corporation	1.7%
Hospitality Properties Trust	1.7%
Morgan Stanley	1.7%
Capital One Credit Card Trust	1.3%
JPMorgan Chase & Company	1.3%
Freddie Mac F.H.L.M.C. 2995	1.2%
Ares Capital Corporation	1.0%
Bank of America Corporation	1.0%
Bank of New York Mellon Corporation (The)	1.0%
Federal Home Loan Banks	1.0%
Ford Motor Company	1.0%
Synchrony Financial	1.0%
Wells Fargo & Company	1.0%
Wells Fargo Commercial Mortgage Trust	1.0%

Source: Oregon State Treasury

March 16-17, 2017 Board of Trustees Meetings

Provided electronically to the F&A Committee on 2/16/17

December 31, 2016

P.U.F. Long - Term Pool Exposures

Sector	Market Value	Gain (Loss)	Duration		Yield
	Percent	Percent	Rate	Spread	Percent
Securitized	33.9%	0.0%	3.8	4.1	2.3%
Corporates	32.5%	0.0%	4.4	5.2	2.9%
Cash	13.9%	0.0%	0.4	0.8	0.8%
Government Related	12.9%	0.0%	4.7	4.1	2.5%
Treasuries	6.8%	0.0%	5.5	0.0	2.1%
Total	100.0%	0.0%	3.8	3.7	2.4%

Rating	Market Value	Gain (Loss)	Duration		Yield
	Percent	Percent	Rate	Spread	Percent
AAA	50.7%	0.0%	4.0	3.3	2.0%
AA+	0.0%	0.0%	0.0	0.0	0.0%
AA	16.1%	0.0%	1.3	1.6	3.0%
AA-	3.7%	0.0%	4.8	6.2	2.3%
A+	0.0%	0.0%	0.0	0.0	0.0%
A	5.8%	0.0%	4.1	4.3	2.3%
A-	8.1%	0.0%	4.1	5.7	2.9%
BBB+	3.5%	0.0%	5.6	5.6	3.1%
BBB	8.8%	0.0%	4.4	5.2	3.1%
BBB-	3.3%	0.0%	6.1	6.1	4.2%
Total	100.0%	0.0%	3.8	3.7	2.4%

Industry	Market Value	Gain (Loss)	Duration		Yield
	Percent	Percent	Rate	Spread	Percent
Cash	13.9%	0.0%	0.4	0.8	0.8%
M.B.S. Pass-Through	13.6%	0.0%	4.6	5.2	2.5%
Consumer Non-Cyclical	9.5%	0.0%	5.7	5.8	2.9%
A.B.S.	8.9%	0.0%	2.6	2.6	2.1%
C.M.B.S.	7.6%	0.0%	3.6	3.6	2.2%
Banking	7.3%	0.0%	2.4	5.2	2.5%
Agency	7.1%	0.0%	2.8	2.9	1.9%
R.E.I.T.s	7.0%	0.0%	5.4	5.4	3.7%
Treasuries	6.8%	0.0%	5.5	0.0	2.1%
Local Authority	5.9%	0.0%	6.9	5.6	3.3%
Insurance	4.1%	0.0%	4.5	4.6	2.7%
C.M.O.	3.8%	0.0%	4.2	4.8	2.0%
Consumer Cyclical	2.6%	0.0%	3.6	3.7	3.0%
Capital Goods	1.9%	0.0%	2.6	5.6	2.5%
Total	100.0%	0.0%	3.8	3.7	2.4%

Top Exposures	Market Value
	Percent
Oregon State Treasury - O.S.T.F.	13.9%
Federal National Mortgage Association	11.0%
National Credit Union Administration	4.8%
Federal Home Loan Mortgage Corporation	4.4%
Wells Fargo Commercial Mortgage Trust 16	2.7%
AstraZeneca P.L.C.	2.6%
Capital One Credit Card Trust	2.6%
Citibank Credit Card Issuance Trust	2.6%
Wells Fargo & Company	2.6%
Teva Pharmaceutical Industries Limited	2.5%
Goldman Sachs Group Incorporated (The)	2.2%
Freddie Mac F.H.L.M.C. 4337	2.0%
Freddie Mac F.H.L.M.C. 4268	1.9%
Citigroup Commercial Mortgage Trust	1.8%
Ford Motor Company	1.8%
Johnson & Johnson	1.8%
Liberty Property Trust	1.8%
Port Authority of New York & New Jersey	1.8%
United States Treasury	1.8%
Wells Fargo Commercial Mortgage Trust 15	1.8%

Source: Oregon State Treasury

March 16-17, 2017 Board of Trustees Meetings

Provided electronically to the F&A Committee on 2/16/17

FY2017 Q2 OREGON STATE UNIVERSITY INVESTMENT REPORT

The schedule of Oregon State University's investments is shown in the investment summary below.

Public University Fund Performance

Oregon State University's operating assets, the land grant endowment and the ALS endowment are invested in the Public University Fund (PUF). The report on the investment performance of the PUF, provided in the separate section above, shows the PUF returned negative 0.7% for the second quarter.

OSU Endowment Asset Performance

The OSU Endowment Assets earned a total return of 0.8% during the quarter. The total market value of the OSU endowment assets as of December 31, 2016 was \$48,264,102.

The majority of the university's endowment assets are being managed by the OSU Foundation pursuant to an investment management contract. The OSU Foundation's Endowment Pool earned a total return of 0.9% during the quarter and 4.2% fiscal year-to-date, outperforming its benchmark by 140 bps for the quarter and 190 bps fiscal year-to-date.

RECOMMENDATION

Staff propose the Finance & Administration Committee accept the FY2017 Second Quarter Public University Fund Investment Report and the FY2017 Second Quarter Oregon State University Investment Report at its March 16 meeting.

Oregon State University

Investment Summary

as of December 31, 2016

(Net of Fees)

	Quarter Ended 12/31/2016	Prior Fiscal YTD	Current Fiscal YTD	3 Yr Avg	5 Yr Avg	10 Yr Avg	Market Value	Actual Asset Allocation	Policy Allocation Range
OSU Operating Assets Invested in Public University Fund									
Oregon Short - Term Fund	0.3%	0.3%	0.5%	0.6%	0.6%	1.4%	\$ 46,703,798	27.5%	1
Benchmark - 91 day T-Bill	0.1%	0.0%	0.2%	0.1%	0.1%	0.8%			
Oregon Intermediate - Term Pool	-0.8%	0.0%	-0.5%	N/A	N/A	N/A	78,276,774	46.0%	1
² Benchmark - Bloomberg Barclay's U.S. Aggregate 3-5 Yrs.	-1.7%	0.3%	-1.4%	1.6%	1.4%				
⁴ Combined Historical Returns				1.8%	2.4%				
P.U.F. Long - Term Pool	-1.8%	0.5%	-1.2%	N/A	N/A	N/A	45,084,065	26.5%	1
³ Benchmark - Bloomberg Barclay's U.S. Aggregate 5-7 Yrs.	-2.6%	1.6%	-2.2%	3.1%	1.9%				
⁴ Combined Historical Returns				2.6%	2.6%				
Total Operating Assets Invested in Public University Fund	-0.7%	0.3%	-0.3%				<u>\$ 170,064,637</u>	<u>100.0%</u>	
OSU Endowment Assets									
OSU Endowment Assets Invested in the OSUF Endowment Pool									
Total Global Equity	1.0%	N/A	6.5%				\$ 23,622,327	54.8%	50.0%
Benchmark - M.S.C.I All Country World Index	1.2%		6.6%						
Total Global Fixed Income	-2.7%	N/A	-1.7%				3,939,212	9.1%	5.0%
Benchmark - Bloomberg Barclays Global Agg. Bond Index	-7.1%		-6.3%						
Total Absolute Return	1.3%	N/A	3.7%				5,449,315	12.6%	10.0%
Benchmark - H.F.R.I. Fund of Funds Index	1.1%		3.4%						
Total Real Assets	2.7%	N/A	6.4%				4,055,705	9.4%	10.0%
⁵ Benchmark - Real Assets Custom	-1.7%		-2.2%						
Total Private Capital	2.7%	N/A	1.1%				4,366,355	10.1%	25.0%
Benchmark - No benchmark provided									
Total Cash	0.0%	N/A	0.0%				1,712,888	4.0%	0.0%
⁶ Total OSU Endowment Assets Invested in OSUF Endow. Pool	0.9%	N/A	4.2%				<u>\$ 43,145,802</u>	<u>100.0%</u>	<u>100.0%</u>
Benchmark-80% M.S.C.I. A.C.W.I./20% BBG Barclays Global Agg.	-0.5%	N/A	2.3%						
Other OSU Endowment Assets									
Land Held as Separately Invested Endowment Funds	0.0%	0.0%	0.0%				\$ 4,692,074 ⁷		
^{8,9} Other Endowment Assets Invested in the P.U.F.	-0.7%	0.3%	-0.3%				426,226		
Total Other OSU Endowment Assets							<u>5,118,300</u>		
Total OSU Endowment Assets	0.8%	-4.1%	3.8%				<u>\$ 48,264,102</u>		

(continued on next page)

Oregon State University

Investment Summary

as of December 31, 2016

(Net of Fees)

- ¹ The Public University Fund (P.U.F.) policy guidelines define investment allocation targets based upon total participant dollars committed. Core balances in excess of liquidity requirements for the participants are available for investment in the Intermediate-Term Pool and the Long-Term Pool. Maximum core investment allocations are determined based upon anticipated average cash balances for all participants during the fiscal year.
- ² The Oregon Intermediate-Term Pool's benchmark was changed from the Bank of America/Merrill Lynch U.S. Aggregate 3-5 Years on June 30, 2015.
- ³ The Long-Term Pool's benchmark was changed from the Bank of America/Merrill Lynch U.S. Aggregate 5-7 Years on October 15, 2015.
- ⁴ The historical returns presented combine the investment returns from the predecessor fund with the investment returns of the P.U.F., for investments with an identical mandate. The predecessor fund commingled all public universities operating assets into a cash and investment pool.
- ⁵ Real Assets Custom Benchmark: 1/3 Financial Times Stock Exchange European Public Real Estate Association/National Association Real Estate Investment Trust Developed Index, 1/3 Bloomberg Commodity Index, 1/3 Bloomberg Barclays U.S. Treasury Inflation Protected Securities.
- ⁶ Investment returns are reported net of investment manager fees; gross of the Foundation's administrative fees.
- ⁷ Physical appraisals completed every five years. Valuations in interim years provided by faculty. Investment returns updated annually during the fiscal fourth quarter. Land held as separately invested endowments may not be sold. The Matteson agreement, however, allows an option to sell land beginning 2/25/2035. Land use is restricted to teaching and research. Partial harvests, consistent with good forestry management practices are allowed, with specified uses for ongoing funding for scholarships and an endowed chair.
- ⁸ The Land Grant assets were previously held by the Oregon State Lands and transferred to OSU on July 1, 2014. During fiscal year 2015, the assets were presented on the investment summary as operating assets invested in the P.U.F. Beginning July 1, 2015, the assets are presented as endowment assets invested in the P.U.F.
- ⁹ The University received State funding (\$100,000) in May 2016 to establish a scholarship endowment fund supporting students engaged in research associated with Amyotrophic Lateral Sclerosis (A.L.S.).

Note: Outlined returns underperformed their benchmark.