

## FY2023 Q1 Investment Reports

### BACKGROUND

The Oregon State University (university) investment reports for the first quarter (Q1, July 1 – September 30, 2022) of fiscal year (FY) 2023 are presented in the following four sections:

- **FY2023 Q1 Public University Fund Investment Report** – This section includes a report on the investments of the Public University Fund (PUF) for the first quarter of FY2023. 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.
- **FY2023 Q1 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 and general revenue bond proceeds invested with multiple managers, board-designated assets, the university’s endowment and quasi-endowment investments managed by the Oregon State University Foundation, the land held as separately invested endowments, and the land grant endowment that is invested in the PUF.
- **FY2023 Q1 Oregon State University Report on Investments of General Revenue Bond Proceeds** – This section provides a summary of unspent revenue bond proceeds by issuance included in the investment portfolio as of September 30, 2022.
- **FY2023 Q1 Market Background** – This section provides a general discussion of the investment markets and related performance information during the first quarter of FY2023.

### FY2023 Q1 PUBLIC UNIVERSITY FUND INVESTMENT REPORT

#### Performance

The PUF decreased 1.5% for the quarter. The PUF’s three-year and five-year average returns were a positive 0.2% and 1.3%, respectively.

The Oregon Short-Term Fund returned 0.4% for the quarter, underperforming its benchmark by 10 basis points. The Core Bond Fund declined 2.7% for the quarter, outperforming its benchmark by 40 basis points. The Oregon State Treasury investment officers continue to manage the Core Bond Fund’s portfolio risk by allocating to high-quality securities (AA credit rating) and maintaining an average portfolio duration (3.73) that is shorter than the benchmark (3.89). The investment team increased the portfolio’s allocation to the corporate bond sector during the period, taking advantage of price weakness due to rising interest rates and concerns about slowing economic growth.

The PUF investment yield was 0.6% for the quarter or 2.40% on an annualized basis.

The PUF administrator transferred \$30 million of participant assets into the Core Bond Fund during the quarter.

**Public University Fund Performance**

	Quarter Ended 9-30-22	Current Fiscal YTD	Prior Fiscal YTD	3-Year Avg.	5-Year Avg.	Market Value	Asset Allocation	Policy
<b>Oregon Short-Term Fund</b>	0.4%	0.4%	0.1%	1.1%	1.6%	\$242,965,518	41.5%	\$130 million minimum <sup>1</sup>
<i>Benchmark - 91-day T-Bill</i>	0.5%	0.5%	0.0%	0.6%	1.1%			
<b>PUF Core Bond Fund</b>	-2.7%	-2.7%	0.5%	-0.6%	0.9%	\$342,721,357	58.5%	
<i>Benchmark <sup>2</sup></i>	-3.1%	-3.1%	0.0%	-1.6%	0.3%			
<b>PUF Total Return</b>	-1.5%	-1.5%	0.4%	0.2%	1.3%	\$585,686,875	100.0%	
<i>PUF Investment Yield</i>	0.6%	06%	0.4%	2.0 %	2.2%			

<sup>1</sup> 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 Core Bond Fund. Maximum core investment allocations are determined based upon anticipated average cash balances for all participants during the fiscal year.

<sup>2</sup> Benchmark is 100% Bloomberg Barclay’s Intermediate U.S. Gov’t/Credit Index as of February 1, 2021. From July 1, 2017 to July 31, 2021, the benchmark was 75% Bloomberg Barclay’s Aggregate 3-5 Years Index, 25% Bloomberg Barclay’s Aggregate 5-7 Years Index.

A description of each investment pool’s portfolio characteristics and market exposures is included in Attachment 1 of this report.

**Investment Income and Participant Ownership**

During the quarter, investment earnings distributed to the participants totaled \$3,503,781

	Earnings Distribution <sup>1</sup>	Market Value as of 9/30/2022	% Ownership
Portland State University	\$1,393,310	\$ 253,599,790	43.3%
Oregon State University <sup>2</sup>	1,443,219	222,827,343	38.0%
Western Oregon University	205,850	35,892,142	6.1%
Eastern Oregon University	170,727	27,820,504	4.8%
Southern Oregon University	121,209	23,409,105	4.0%
Oregon Institute of Technology	169,466	22,137,991	3.8%
<b>Grand Total</b>	<b>\$3,503,781</b>	<b>\$ 585,686,875</b>	<b>100.0%</b>

<sup>1</sup>The earnings available for distribution to participants were earned during the months of June 2022 through August 2022 and distributed to participants in September 2022. 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.

<sup>2</sup>As of September 30, 2022, Oregon State University’s total PUF market value consisted of operating assets, valued at \$222,515,409, and the land grant endowment, valued at \$311,934

**FY2023 Q1 OREGON STATE UNIVERSITY INVESTMENT REPORT**

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

**Public University Fund Performance**

The majority of Oregon State University's operating assets and the land grant endowment are invested in the Public University Fund. The report on the investment performance of the PUF, provided in the separate section above, shows the PUF declined by 1.5% for the first fiscal quarter ended September 30, 2022.

**OSU Bond Proceeds Performance**

The report on the investment performance of the unspent bond proceeds, provided in the Investment Summary table below, shows the funds invested in the Oregon Short-Term Fund gained 0.4%. The liquidity and short-duration portfolios, managed by RBC Global Asset Management, recorded 0.0% and -0.8% returns, respectively. The total market value of the unspent bond proceeds as of September 30, 2022 was \$288,803,303 including \$11,612,538 on deposit in university operating bank accounts.

**OSU Board Designated Assets Performance**

The Board Designated assets are invested in equities, with a long-term capital appreciation objective. The Bond Repayment Investment portfolio declined 6.6% for the quarter. The Long-Term Equity portfolio declined 3.3% for the quarter. As of September 30, 2022, the total market value of the Bond Repayment Investment and Long-Term Equity portfolios were \$34,121,687 and \$10,858,835, respectively. The university transferred \$10.5 million of operating funds to the Bond Repayment Investment and Long-Term Equity portfolios during the quarter, \$3.3 and \$7.2 million, respectively. A portion of the funds (\$6.5 million) funded a separately managed small-cap portfolio allocation with Neuberger Berman and the remainder was invested in the Calvert index funds.

The combined market value of the Board Designated assets, as of September 30, 2022, was \$44,980,522, decreasing 5.8% for the quarter.

**OSU Endowment Assets Performance**

The OSU Endowment Assets, including those managed by the OSU Foundation, declined 3.8% for the quarter. The three-year and five-year average return was 7.9% and 7.6%, respectively. The total market value of the OSU endowment assets as of September 30, 2022, was \$61,964,287.

The OSU Foundation, pursuant to an investment management contract, is managing the majority of the university's endowment assets. The OSU Foundation's Endowment Pool decreased 4.5% for the quarter. The investment pool outperformed its benchmark by 230 basis points during the period. The three-year and five-year average returns were 6.8% and 6.3%, respectively.

<b>Oregon State University Investment Summary as of September 30, 2022 (Net of Fees)</b>									
	<b>Quarter Ended 9/30/2022</b>	<b>Current Fiscal YTD</b>	<b>Prior Fiscal YTD</b>	<b>3 Yr Avg</b>	<b>5 Yr Avg</b>	<b>10 Yr Avg</b>	<b>Market Value</b>	<b>Actual Asset Allocation</b>	<b>Policy Allocation Range</b>
<b>OSU Operating Assets</b>									
<b>Assets Invested in the Public University Fund</b>									
Oregon Short - Term Fund	0.4%	0.4%	0.1%	1.1%	1.6%	1.1%	\$ 92,307,979	41.5%	1
Benchmark - 91 day T-Bill	0.5%	0.5%	0.0%	0.6%	1.1%	0.7%			
PUF Core Bond Fund	-2.7%	-2.7%	0.5%	-0.6%	0.9%	N/A	130,207,430	58.5%	1
Benchmark - Bloomberg Barclays Intermediate U.S. Gov't./Credit Index <sup>2</sup>	-3.1%	-3.1%	0.0%	-1.6%	0.3%	1.0%			
<b>Total Public University Fund</b>	-1.5%	-1.5%	0.4%	0.2%	1.3%	N/A	222,515,409	100.0%	
Public University Fund Investment Yield <sup>3</sup>	0.6%	0.6%	0.4%	2.0%	2.2%	N/A			
<b>OSU Unspent Bond Proceeds</b>									
Oregon Short - Term Fund	0.4%	0.4%	0.1%	N/A	N/A	N/A	50,707,853	18.3%	
Benchmark - 91 day T-Bill	0.5%	0.5%	0.0%	0.6%	1.1%	0.7%			
RBC Liquidity Portfolio <sup>4</sup>	0.0%	0.0%	0.1%	N/A	N/A	N/A	44,385,277	16.0%	
Benchmark - 91 day T-Bill	0.5%	0.5%	0.0%	0.6%	1.1%	0.7%			
RBC Short-Duration Fixed Income Portfolio <sup>5</sup>	-0.8%	-0.8%	0.1%	N/A	N/A	N/A	182,097,635	65.7%	
Benchmark - ICE BofA 1-3 Year US Corporate & Government Index	-1.5%	-1.5%	0.1%	-0.4%	0.7%	0.6%			
<b>Total Unspent Bond Proceeds</b>							277,190,765	100.0%	
<b>OSU Other Cash <sup>6</sup></b>							41,663,988		
<b>Total OSU Operating Assets</b>							<b>\$ 541,370,162</b>		

(continued on next page)

**Oregon State University  
Investment Summary  
as of September 30, 2022  
(Net of Fees)**

	<b>Quarter Ended 9/30/2022</b>	<b>Current Fiscal YTD</b>	<b>Prior Fiscal YTD</b>	<b>3 Yr Avg</b>	<b>5 Yr Avg</b>	<b>10 Yr Avg</b>	<b>Market Value</b>	<b>Actual Asset Allocation</b>	<b>Policy Allocation Range</b>
<b>OSU Board Designated Assets</b>									
<b>Bond Repayment Investment</b>									
Calvert US Large Cap Core Responsible Index Fund <sup>7</sup>	-4.4%	-4.4%	0.1%	N/A	N/A	N/A	\$ 19,103,819	56.0%	52% - 100%
Benchmark - Russell 1000 Index	-4.6%	-4.6%	0.2%	8.0%	9.0%	11.6%			
Calvert International Responsible Index Fund <sup>8</sup>	-10.9%	-10.9%	-3.6%	N/A	N/A	N/A	10,061,868	29.5%	0% - 35%
Benchmark - MSCI World ex USA Index	-9.2%	-9.2%	-0.7%	-1.2%	-0.4%	3.6%			
Neuberger Berman Genesis <sup>9</sup>	0.0%	0.0%	N/A	N/A	N/A	N/A	4,956,000	14.5%	0% - 13%
Benchmark - Russell 2000 Index	-2.2%	-2.2%	-23.5%	4.3%	3.6%	8.6%			
<b>Total Bond Repayment Investment</b>	<b>-6.6%</b>	<b>-6.6%</b>	<b>-0.3%</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>34,121,687</b>	<b>100.0%</b>	
<b>Long-Term Equity</b>									
Calvert US Large Cap Core Responsible Index Fund <sup>7</sup>	-4.4%	-4.4%	0.6%	N/A	N/A	N/A	6,040,676	55.6%	11
Benchmark - Russell 1000 Index	-4.6%	-4.6%	0.2%	8.0%	9.0%	11.6%			
Calvert International Responsible Index Fund <sup>8</sup>	-9.7%	-9.7%	-1.5%	N/A	N/A	N/A	3,274,159	30.2%	11
Benchmark - MSCI World ex USA Index	-9.2%	-9.2%	-0.7%	-1.2%	-0.4%	3.6%			
Neuberger Berman Genesis <sup>10</sup>	0.0%	0.0%	N/A	N/A	N/A	N/A	1,544,000	14.2%	11
Benchmark - Russell 2000 Index	-2.2%	-2.2%	-23.5%	4.3%	3.6%	7.5%			
<b>Total Long-Term Equity</b>	<b>-3.3%</b>	<b>-3.3%</b>	<b>0.4%</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>10,858,835</b>	<b>100.0%</b>	
<b>Total OSU Board Designated Assets</b>	<b>-5.8%</b>	<b>-5.8%</b>	<b>-0.2%</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>\$ 44,980,522</b>		

(continued on next page)

Oregon State University  
Investment Summary  
as of September 30, 2022  
(Net of Fees)

	Quarter Ended 9/30/2022	Current Fiscal YTD	Prior Fiscal YTD	3 Yr Avg	5 Yr Avg	10 Yr Avg <sup>12</sup>	Market Value	Actual Asset Allocation	Policy Allocation Target
<b>OSU Endowment Assets</b>									
<b>OSU Foundation Endowment Pool</b>									
Total Global Equity	-6.6%	-6.6%	-2.0%	3.4%	4.4%	N/A	\$ 24,358,289	47.2%	50.0%
Benchmark - MSCI All Country World Index	-6.8%	-6.8%	-1.1%	3.7%	4.4%	N/A			
Total Global Fixed Income	-5.9%	-5.9%	0.0%	-4.4%	-1.3%	N/A	2,078,863	4.0%	5.0%
Benchmark - Bloomberg Barclays Global Agg. Bond Index	-6.9%	-6.9%	-0.9%	-5.7%	-2.3%	N/A			
Total Absolute Return	0.3%	0.3%	1.0%	8.9%	5.5%	N/A	5,798,119	11.3%	10.0%
Benchmark - HFRI Fund of Funds Index	-0.7%	-0.7%	0.8%	4.0%	3.0%	N/A			
Total Real Assets	-1.5%	-1.5%	4.0%	4.9%	3.5%	N/A	5,643,365	10.9%	10.0%
Benchmark - Real Assets Custom <sup>14</sup>	-6.9%	-6.9%	2.5%	3.5%	3.6%	N/A			
Total Private Capital <sup>14</sup>	-3.2%	-3.2%	12.7%	22.7%	21.7%	N/A	12,395,800	24.0%	25.0%
Benchmark - No benchmark provided									
Total Cash	0.0%	0.0%	0.0%	0.0%	0.0%	N/A	1,310,251	2.6%	0.0%
Total OSU Endowment Assets Invested in OSUF Endow. Pool <sup>15</sup>	-4.5%	-4.5%	1.4%	6.8%	6.3%	N/A	51,584,687	100.0%	100.0%
Benchmark-80% MSCI ACWI/20% BBG Barclays Global Agg. <sup>16</sup>	-6.8%	-6.8%	-1.0%	2.0%	3.2%	5.4%			
<b>Other OSU Endowment Assets</b>									
Land Held as Separately Invested Endowment Funds <sup>17</sup>	0.0%	0.0%	0.0%	16.1%	17.4%	N/A	10,067,666	97.0%	
Other Endowment Assets Invested in the PUF <sup>18</sup>	-1.5%	-1.5%	0.4%	0.2%	1.1%	N/A	311,934	3.0%	
Total Other OSU Endowment Assets							10,379,600	100.0%	
<b>Total OSU Endowment Assets</b>	<b>-3.8%</b>	<b>-3.8%</b>	<b>1.2%</b>	<b>7.9%</b>	<b>7.6%</b>	<b>N/A</b>	<b>\$ 61,964,287</b>		

Note: Outlined returns underperformed their benchmark.

(continued on next page)

**Oregon State University  
Investment Summary  
as of September 30, 2022  
(Net of Fees)**

- 1** The Public University Fund (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 Core Bond Fund. Maximum core investment allocations are determined based upon anticipated average cash balances for all participants during the fiscal year.
- 2** 100% Bloomberg Barclays Intermediate U.S. Gov't./Credit Index as of February 1, 2021. From April 1, 2017 to January 31, 2021, the benchmark was comprised of 75% Bloomberg Barclay's Aggregate 3-5 Years Index, 25% Bloomberg Barclay's Aggregate 5-7 Years Index.
- 3** The reported investment yield for the quarter and fiscal year-to-date represent earned yields for the period and are not annualized rates.
- 4** The Liquidity Portfolio is separately managed by RBC Global Asset Management (U.S.) Inc. per an Investment Management Agreement. Assets invested in the Liquidity Portfolio are anticipated to be expended on capital projects in two years or less.
- 5** The Short-Duration Fixed Income Portfolio is separately managed by RBC Global Asset Management (U.S.) Inc. per an Investment Management Agreement. Assets invested in the Short-Duration Fixed Income Portfolio are projected for expenditure on capital projects two plus years into the future.
- 6** OSU Other Cash includes account balances held at JP Morgan Chase and U.S. Bank for operations.
- 7** Calvert U.S. Large Cap Core Responsible Index Fund is invested in U.S. equity securities and follows responsible investing principles.
- 8** Calvert International Responsible Index Fund is invested in non-U.S. equity securities and follows responsible investing principles.
- 9** Neuberger Berman Genesis Fund invests in U.S. and non-U.S. small cap equity securities. The initial investment of \$4.9 million was funded on 9/28/22. Performance reporting will begin on 10/1/2022.
- 10** Neuberger Berman Genesis Fund invests in U.S. and non-U.S. small cap equity securities. The initial investment of \$1.5 million was funded on 9/28/22. Performance reporting will begin on 10/1/2022.
- 11** The asset allocation ranges for the Long-Term Equity assets are defined per policy as a percentage of the total University operating assets. As of September 30, 2022, the asset allocation for the Long-Term Equity portfolio complies with approved policy ranges.
- 12** The OSU Foundation investment advisor, Agility, does not provide a 10-year benchmark for the individual asset classes. The 10-year benchmark is provided at the total pool level only.
- 13** Real Assets Custom Benchmark: 1/3 FTSE EPRA/NAREIT Developed Index, 1/3 Bloomberg Commodity Index, 1/3 Bloomberg U.S. TIPS
- 14** To meet financial period and reporting deadlines, private capital market value and performance figures presented may differ from actual results.
- 15** Investment returns are reported net of investment manager fees; gross of the Foundation's administrative fees.
- 16** The Endowed Pool benchmark consists of 80% of the MSCI ACWI and 20% of the Barclays Global Aggregate. During the portfolio transition period (July 2016), as agreed with OSUF, the benchmark return was equal to the actual return of the portfolio. Prior to 7/1/16, the benchmark consisted of 15% S&P 500 / 4% Russell 1000 Growth / 17% MSCI EAFE / 6% MSCI Emerging Markets / 6.5% Barclays Aggregate / 6.5% Citi WGBI / 3% Principal Diversified Real Assets Custom Blend / 18% HFRI Fund of Funds Composite Index / 3% S&P North American Natural Resources Sector Index / 3% Alerian MLP Index / 5% NCREIF Townsend Blended Index / 10% Burgiss Global Private Equity Index / 2% 91 Day T-Bills / 1% Mercer Illiquid Natural Resources Index.
- 17** 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, with the exception of the Matteson property, beginning 2/25/2035, and the Roth property. 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.
- 18** Funds provided by the State which are restricted to certain bond investments.

---

*January 19-20 2023 Board of Trustees Meetings*

**FY2023 Q1 OREGON STATE UNIVERSITY REPORT ON UNSPENT GENERAL REVENUE BOND PROCEEDS**

The schedule of Oregon State University’s unspent revenue bond proceeds as of September 30, 2022, is shown in the summary below.

**Unspent Revenue Bond Proceeds<sup>1</sup>**

Issuance Year	2016	2017 <sup>2</sup>	2019	2020	Total <sup>3</sup>
<b>Unspent Revenue Bond Proceeds</b>	\$ 787,412	\$ 52,555,014	\$ 40,778,337	\$ 199,615,130	\$ 293,735,893
<i>Allocated <sup>4</sup></i>	\$ -	\$ 52,555,014	\$ 34,131,046	\$ 94,315,130	\$ 181,001,190
Unallocated <sup>5</sup>	\$ 787,412 <sup>6</sup>	\$ -	\$ 6,647,291 <sup>6</sup>	\$ 105,300,000	\$ 112,734,703

<sup>1</sup> Reported based on book value and does not include \$6,023,086 unrealized losses or \$1,090,496 investment earnings not yet distributed.

<sup>2</sup> Proceeds use was approved September 2017.

<sup>3</sup> Balance includes \$11,612,538 of allocated proceeds held in the operations bank account.

<sup>4</sup> Allocated proceeds are proceeds committed to specific projects that have Stage Gate 2 approval by the Board.

<sup>5</sup> Unallocated proceeds are funds available to commit to projects and/or initiatives approved by the Board.

<sup>6</sup> Unallocated amount reflects actual proceeds use below Board approval for closed projects.

**FY2023 Q1 MARKET COMMENTARY**

*(Prepared by Meketa Investment Group, consultants to the Oregon Investment Council)*

**Report on Investments – as of September 30, 2022**

**Economic and Market Update**

After a strong July, global markets sold off in August and September, leading to quarterly declines as slower growth and higher inflation weighed on sentiment.

- The Federal Reserve maintained its aggressive tightening campaign with future interest rate hikes expected as U.S. inflation continues to surprise to the upside and labor markets remain tight.
- In Europe, inflation hit a multi-decade high primarily driven by energy prices. In the U.K., Liz Truss became the new prime minister with her government quickly announcing a fiscal package in September. The proposal was poorly received by markets, as it undermined efforts by the central bank to lower inflation.
- Equity markets significantly declined for the month of September leading to quarterly losses with international markets declining the most. The war in Ukraine has elevated energy prices in Europe, while tight COVID-19 policies, slowing growth, and property market issues have weighed on China. Continued U.S. dollar strength has been a further headwind.
- For the quarter, in a reversal of the prior trend, growth outpaced value across the capitalization spectrum but continued to trail calendar year-to-date.
- Interest rates rose significantly across the U.S. yield curve for the quarter with the curve remaining inverted (ten-year yield minus the two-year yield) by 44 basis points. This is by far the worst start to a calendar year for bond investors.

Persistently high inflation and the likely increased pace of the policy response, the war in the Ukraine, lingering COVID-19 issues, and lockdowns in China will all have considerable consequences for the global economy.

### Market Returns<sup>1</sup> September 30, 2022

	Month	Quarter	YTD	1-Year	3-Year	5-Year	7-Year	10-Year
S&P 500	-9.2%	-4.9%	-23.9%	-15.5%	8.2%	9.2%	11.4%	11.7%
MSCI EAFE-ND	-9.4%	-9.4%	-27.1%	-25.1%	-1.8%	-0.8%	2.8%	3.7%
MSCI EM-ND	-11.7%	-11.6%	-27.2%	-28.1%	-2.1%	-1.8%	3.9%	1.0%
MSCI China-ND	-14.6%	-22.5%	-31.2%	-35.4%	-7.2%	-5.6%	1.7%	2.4%
Bloomberg US Aggregate	-4.3%	-4.8%	-14.6%	-14.6%	-3.3%	-0.3%	0.5%	0.9%
Bloomberg US TIPS	-6.6%	-5.1%	-13.6%	-11.6%	0.8%	2.0%	2.2%	1.0%
Bloomberg US Corporate High Yield	-4.0%	-0.6%	-14.7%	-14.1%	-0.5%	1.6%	4.1%	3.9%
ICE BofAML US 3-Month Treasury Bill	0.2%	0.5%	0.6%	0.6%	0.6%	1.1%	1.0%	0.7%
ICE BofAML 1-3 Year US Treasury	-1.2%	-1.6%	-4.4%	-4.9%	-0.5%	0.6%	0.6%	0.6%
ICE BofAML 10+ Year US Treasury	-8.0%	-9.9%	-27.9%	-25.7%	-8.1%	-1.5%	-0.3%	0.6%

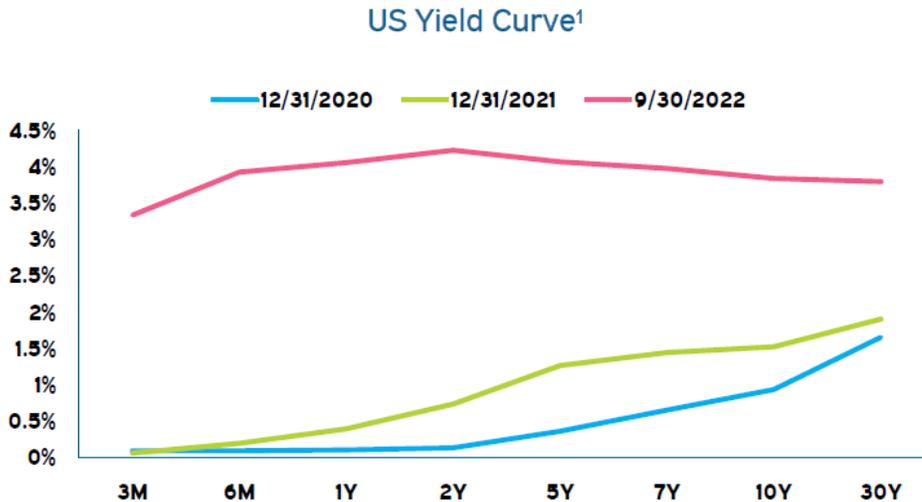
<sup>1</sup>Source: Oregon State Treasury

**U.S. Equities:** The S&P 500 Index declined 4.9% for the quarter. U.S. stocks fell sharply during September and finished down for the third calendar quarter. Each of the 11 sectors declined in September with six sectors (Real Estate, Communication Services, Technology, Utilities, Materials, and Industrials) falling by 10% or more. Health Care Stocks fared best and declined 3.1%. For the quarter, all sectors were down except for consumer discretionary and energy. For the second straight month, value stocks outperformed growth stocks in the large cap segment of the market, while the reverse was true in the small cap segment. The underperformance of technology stocks, which account for 43% of the large cap growth market, drove this dynamic.

**International Equities:** International equities (Morgan Stanley Capital International (MSCI) Europe, Australasia and Far East (EAFE) fell 9.4%, while emerging markets (MSCI Emerging Markets) returned -11.6% for the quarter. Non-U.S. developed market stocks again broadly trailed the U.S. for the quarter, leading to the steepest declines calendar year-to-date. High inflation in Europe, particularly related to gas and electricity, the ongoing war in Ukraine, and relatively slower growth globally continue to weigh on sentiment. Emerging market equities were deep in the red for the month, driven by China's (-14.6%) on-going property market issues and strict COVID-19 policies. The upcoming National Communist Party Congress in China is highly anticipated. The strength of the U.S. dollar continued as a headwind to international equities for the month and calendar year-to-date, both in developed and emerging markets.

**Fixed Income:** The Bloomberg U.S. Aggregate Index declined 4.8% for the quarter. A sharp rise in bond yields driven by central banks confirming commitments to fight inflation weighed on fixed income in September leading to declines for the quarter as well. Calendar year-to-date the U.S. bond market is off by far to its worst calendar year start on record. Treasury Inflation-Protected Securities (TIPS) declined the most for the quarter as investors' confidence grew that

tighter monetary policy would ultimately get inflation under control. Riskier U.S. bonds declined the least with the high yield index falling slightly less than the broad U.S. bond market -0.6%).



<sup>1</sup> Source: Bloomberg. Data is as of September 30, 2022.

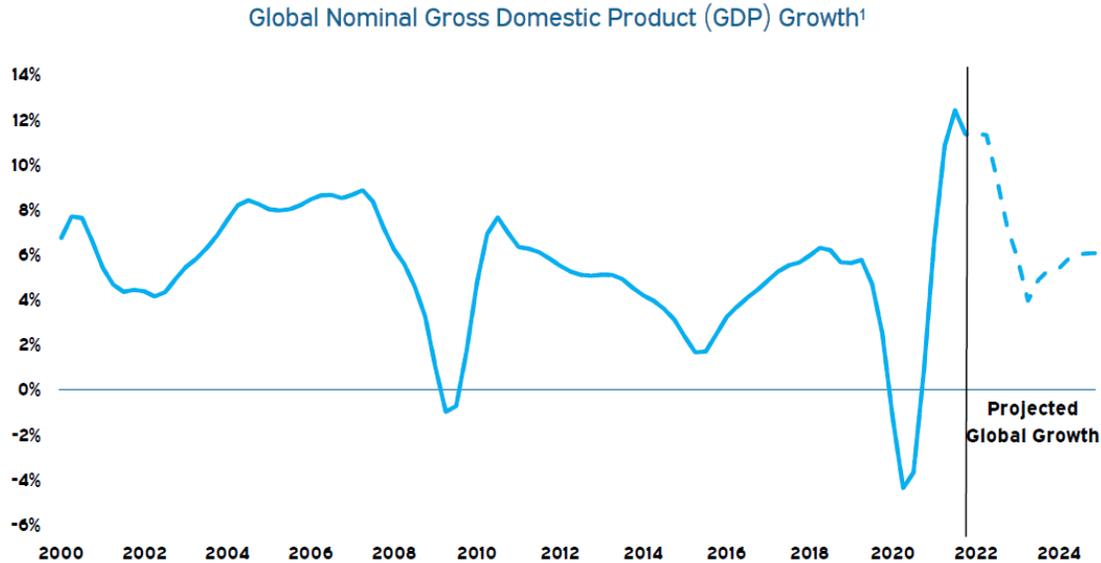
Rates across the yield curve remain far higher than at the start of the calendar year. In September, rates rose across the yield curve, finishing the quarter significantly higher. Yields on two-year Treasuries increased 0.79% during the month of September bringing the quarterly increase to 1.32%, while ten-year Treasuries rose 0.64% for the month and 0.82% for the quarter. The Fed remains strongly committed to fighting inflation, as it increased rates to a range of 3.0% - 3.25% during the quarter.

### Global Economic Outlook

In their October update, the International Monetary Fund (IMF) maintained lowered global growth forecasts, driven by the economic impacts of persistent inflation and corresponding tighter policy, as well as issues related to the war in Ukraine and the lingering pandemic. The IMF forecasts global gross domestic product (GDP) growth to come in at 3.2% in calendar year 2022 and 2.7% in calendar year 2023 (0.2% below the prior estimate).

In advanced economies, GDP is projected to grow 2.4% in calendar year 2022 and 1.1% in calendar year 2023. The U.S. received another downgrade in the calendar year 2022 (1.6% versus 2.3%) forecast largely due to accelerated policy tightening, given persistently high inflation. The euro area saw an upgrade in expected growth (3.1% versus 2.6%) on substantial fiscal stimulus in calendar year 2022 but a downgrade in calendar year 2023 (0.5% versus 1.2%) as rising energy prices weigh on the region that is a net importer of energy. The Japanese economy is expected to grow 1.7% this calendar year and 1.6% in calendar year 2023.

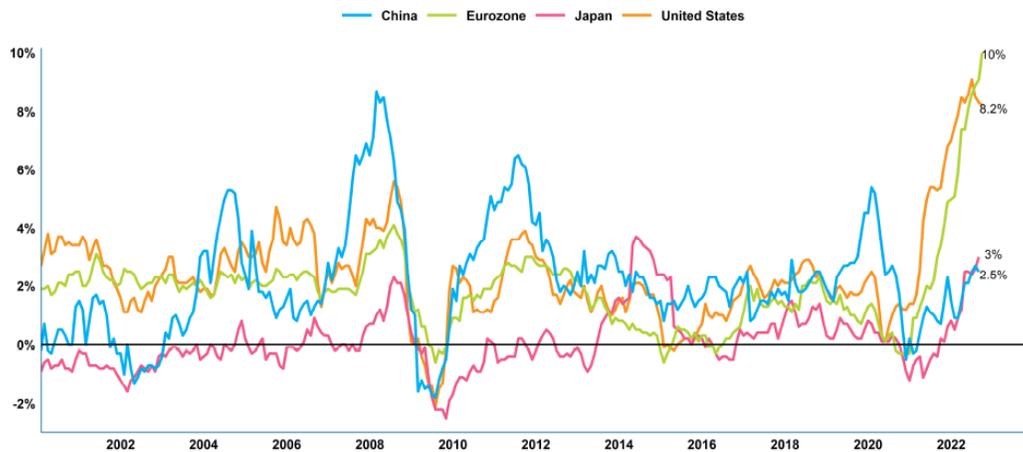
Growth projections for emerging markets are higher than developed markets, at 3.7% in calendar year 2022 and 2023. China's growth was downgraded for calendar year 2022 (3.2% versus 3.3%) and calendar year 2023 (4.4% versus 4.6%) given tight COVID-19 restrictions and continued property sector problems. The global inflation forecast was significantly increased for calendar year 2022 (8.8% versus 7.4%).



<sup>1</sup> Source: Oxford Economics (World GDP, US\$ prices & PPP exchange rate, nominal, % change YoY. Updated September 2022. Nominal expectations for GDP remain much higher than the real GDP expectations given the elevated inflation levels.

After global central banks took extraordinary action to support economies during the pandemic, including policy rate cuts and emergency stimulus through quantitative easing (QE), many are now aggressively reducing support in the face of high inflation. The pace of withdrawing support varies across central banks with the U. S. taking a more aggressive approach. The U.K. is also aggressively increasing rates, but recent talks of easing fiscal policy (this ultimately did not happen) created significant volatility that spilled over into other markets. The one notable central bank outlier is China, where the central bank has lowered rates and reserve requirements in response to slowing growth. The risk remains for a policy error, particularly overtightening, as record inflation, the war in Ukraine, and a tough COVID-19 policy in China could suppress global growth.

Inflation increased dramatically from the lows of the pandemic, particularly in the U.S. and Eurozone where it has reached levels not seen in decades. Supply issues related to the pandemic, record monetary and fiscal stimulus, strict COVID-19 restrictions in China, and higher prices in many commodities driven by the war in Ukraine have been key drivers of inflation globally.

Inflation (CPI Trailing Twelve Months)<sup>1</sup>

<sup>1</sup> Source: Bloomberg. Data is as of September 2022. The most recent data for Japan and China is as of August 31, 2022.

As economies have largely reopened, helped by vaccines for the virus, improvements have been seen in the labor market. Despite slowing growth and high inflation the U.S. labor market remains a bright spot. Unemployment in the U.S., which experienced the steepest rise from the pandemic, declined to pre-pandemic (3.5%) levels. The broader measure (U-6) that includes discouraged and underemployed workers declined but is much higher at 6.7%. The strong labor market and higher wages, although beneficial for workers, motivates the Fed's efforts to fight inflation, likely leading to eventually higher unemployment.

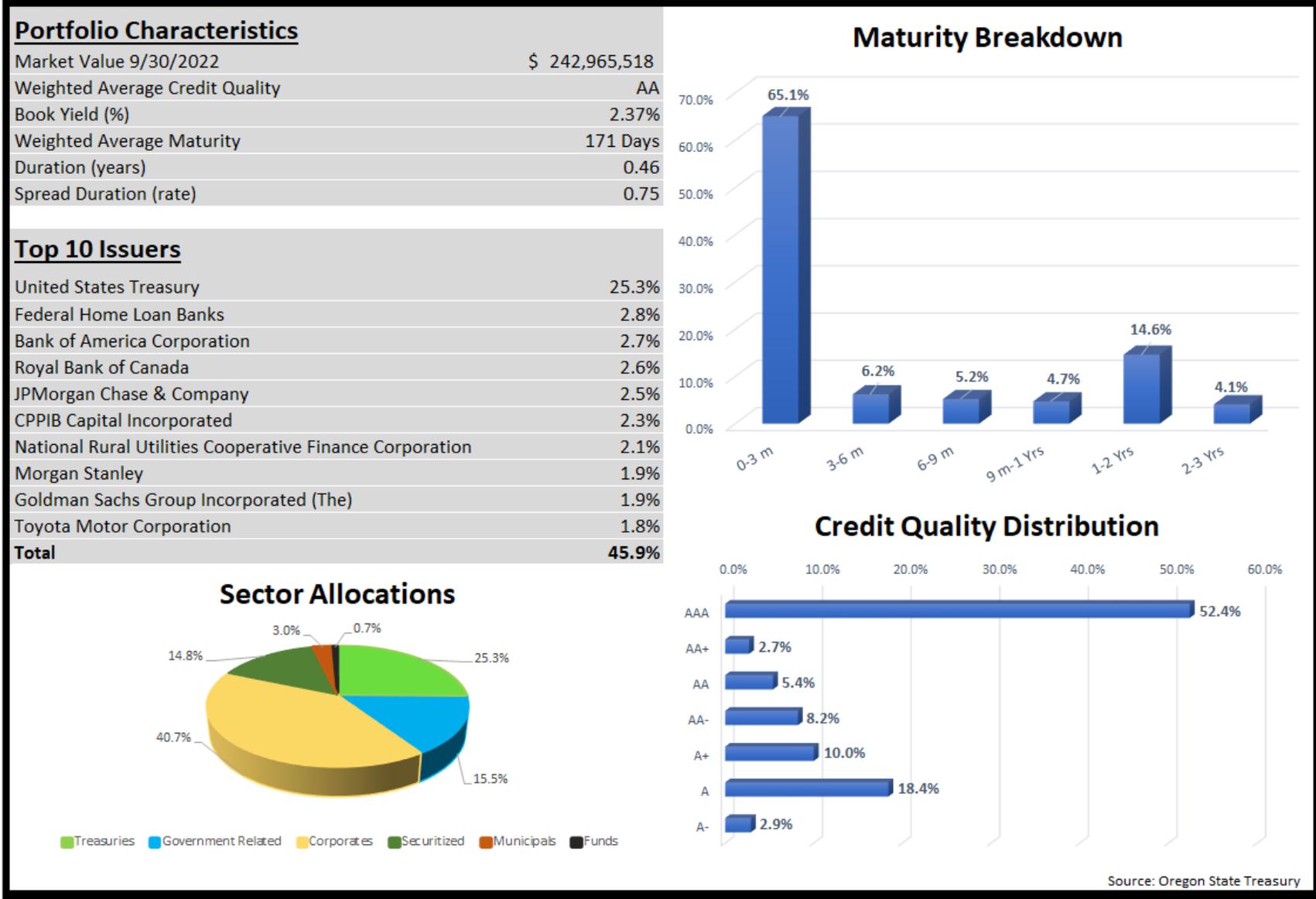
The U.S. dollar continued to strengthen, increasing 7.1% overall for the quarter and reaching levels not seen in two decades. The increased pace of policy tightening, stronger relative growth, and safe-haven flows all contributed to the dollar's strength this year. The euro, yen, pound, and yuan have all experienced significant declines versus the dollar this year, adding to inflation.

### Summary—Key Trends in Calendar Year 2022

- The impacts of record high inflation will remain key going forward, with volatility likely to remain high.
- The pace of monetary tightening globally will be faster than previously expected, with the risk of overtightening.
- Expect growth to slow globally in calendar year 2022 and into calendar year 2023 to the long-term trend or below. Inflation, monetary policy, and the war will all be key.
- In the U.S., the end of many fiscal programs is expected to put the burden of continued growth on consumers. Higher energy and food prices will depress consumers' spending in other areas.
- Valuations have significantly declined in the U.S. to below long-term averages.
- Outside the U.S., equity valuations remain lower in both emerging and developed markets, but major risks remain, including continued strength in the U.S. dollar, higher inflation particularly weighing on Europe, and China maintaining its restrictive COVID-19 policies.

# Oregon Short Term Fund

September 30, 2022



# Core Bond Fund

September 30, 2022

