

FY2023 Q4 Investment Reports

BACKGROUND

The Oregon State University (university) investment reports for the fourth quarter (Q4, April 1 – June 30, 2023) of fiscal year (FY) 2023 are presented in the following four sections:

- **FY2023 Q4 Public University Fund Investment Report** – This section includes a report on the investments of the Public University Fund (PUF) for the fourth 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 participants: Eastern Oregon University, Oregon Institute of Technology, Oregon State University, Portland State University, Southern Oregon University, Western Oregon University, and the Public Universities Risk Management & Insurance Trust (PURMIT).
- **FY2023 Q4 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 Q4 Oregon State University Report on Investments of General Revenue Bond Proceeds** – This section provides a summary of revenue bond proceeds as of June 30, 2023.
- **FY2023 Q4 Market Background** – This section provides a general discussion of the investment markets and related performance information during the fourth quarter of FY2023.

FY2023 Q4 PUBLIC UNIVERSITY FUND INVESTMENT REPORT

Performance

The PUF decreased 0.1% for the quarter and increased 1.3% fiscal year-to-date. The PUF’s three-year and five-year average returns were 0.1% and 1.9%, respectively.

The Oregon Short-Term Fund returned 1.0% for the quarter, underperforming its benchmark by 20 basis points. The Core Bond Fund decreased 0.8% for the quarter, equal to its benchmark. The PUF investment yield was 1.0% for the quarter and 3.4% for the fiscal year.

Based upon internal projections for a recession in coming months, the Oregon State Treasury investment officers maintain a conservative positioning in the Core Bond Fund, favoring U.S. Treasuries over corporate bonds. The portfolio’s allocation to corporate credit remains underweight compared to its benchmark (25.5% versus 30.8%).

Public University Fund Performance

	Quarter Ended 06-30-23	Current Fiscal YTD	Prior Fiscal YTD	3-Year Avg.	5-Year Avg.	Market Value	Asset Allocation	Policy
Oregon Short-Term Fund	1.0%	2.9%	0.6%	1.4%	1.8%	\$175,739,972	31.6%	\$130 million minimum ¹
<i>Benchmark - 91-day T-Bill</i>	1.2%	3.6%	0.2%	1.3%	1.6%			
PUF Core Bond Fund	-0.8%	0.4%	-6.7%	-1.3%	1.7%	\$380,527,141	68.4%	
<i>Benchmark ²</i>	-0.8%	-0.1%	-7.3%	-2.5%	1.2%			
PUF Total Return	-0.1%	1.3%	-2.6%	0.1%	1.9%	\$556,267,113	100.0%	
<i>PUF Investment Yield</i>	1.0%	3.4%	1.3%	2.2%	2.5%			

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

² Benchmark is 100% Bloomberg Barclay's Intermediate U.S. Gov't/Credit Index as of February 1, 2021. From April 1, 2017 to January 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 \$6,496,362.

	Earnings Distribution ¹	Market Value as of 06/30/2023	% Ownership
Portland State University	\$2,825,885	\$ 265,419,116	47.7%
Oregon State University ²	2,086,471	173,228,935	31.1%
Western Oregon University	458,502	37,011,917	6.8%
Oregon Institute of Technology	445,560	33,468,905	6.0%
Eastern Oregon University ³	348,367	31,428,605	5.6%
Southern Oregon University	201,718	15,487,074	2.8%
PURMIT	129,859	222,561	0.0%
Grand Total	\$6,496,362	\$ 556,267,113	100.0%

¹The earnings available for distribution to participants were earned during the months of March 2023 through May 2023 and distributed to participants in June 2023. 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.

²As of June 30, 2023, Oregon State University's total PUF market value consisted of operating assets, valued at \$172,917,026, and the land grant endowment, valued at \$311,909.

³As of June 30, 2023, Eastern Oregon University's total PUF market value consisted of operating assets, valued at \$30,428,492, and a quasi-endowment, valued at \$1,000,113.

FY2023 Q4 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 decreased by 0.1% for the fourth fiscal quarter ended June 30, 2023.

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 1.0% during the quarter and 2.9% for the fiscal year. The liquidity and short-duration portfolios, managed by RBC Global Asset Management, recorded returns of 1.1% and 0.4%, respectively, during the quarter, and 3.5% and 2.1%, respectively, for the fiscal year. The total market value of the unspent bond proceeds as of June 30, 2023, was \$250,322,458 including \$7,067,919 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 increased 6.5% for the quarter and 18.2% for the fiscal year. The Long-Term Equity portfolio increased 6.5% for the quarter and 22.6% for the fiscal year. As of June 30, 2023, the total market value of the Bond Repayment Investment and Long-Term Equity portfolios were \$43,141,771 and \$13,736,424, respectively.

The combined market value of the Board Designated assets, as of June 30, 2023, was \$56,878,195, increasing 6.5% for the quarter and 19.3% for the fiscal year.

OSU Endowment Assets Performance

The OSU Endowment Assets, including those managed by the OSU Foundation, increased 1.5% for the quarter and 6.3% for the fiscal year. The three-year and five-year average returns were 11.0% and 7.9%, respectively. The total market value of the OSU endowment assets as of June 30, 2023, was \$65,846,207.

The OSU Foundation, pursuant to an investment management contract, manages the majority of the university's endowment assets. The OSU Foundation's Endowment Pool increased 3.4% for the quarter and 9.4% for the fiscal year. The endowment investment pool underperformed its benchmark by 110 basis points during the quarter and 330 basis points for the fiscal year. The endowment assets recorded a 11.1% average return for the three-year time period and 8.1% for the five-year time period, outperforming the benchmarks in both time periods.

**Oregon State University
Investment Summary
as of June 30, 2023
(Net of Fees)**

	Quarter Ended 6/30/2023	Current Fiscal YTD	Prior Fiscal YTD	3 Yr Avg	5 Yr Avg	10 Yr Avg	Market Value	Actual Asset Allocation	Policy Allocation Range
OSU Operating Assets									
Assets Invested in the Public University Fund									
Oregon Short - Term Fund (<i>Liquidity</i>)	1.0%	2.9%	0.6%	1.4%	1.8%	1.4%	\$ 54,629,211	31.6%	1
Benchmark - 91 day T-Bill	1.2%	3.6%	0.2%	1.3%	1.6%	1.0%			
PUF Core Bond Fund (<i>Intermediate-Term Fixed Income</i>)	-0.8%	0.4%	-6.7%	-1.3%	1.7%	N/A	118,287,815	68.4%	1
Benchmark - Bloomberg Barclays Intermediate U.S. Gov't./Credit Index ²	-0.8%	-0.1%	-7.3%	-2.5%	1.2%	1.6%			
Total Public University Fund	-0.1%	1.3%	-2.6%	0.1%	1.9%	N/A	172,917,026	100.0%	
Public University Fund Investment Yield ³	1.0%	3.4%	1.3%	2.2%	2.5%	N/A			
OSU Unspent Bond Proceeds									
Oregon Short - Term Fund (<i>Liquidity</i>)	1.0%	2.9%	0.6%	1.4%	N/A	N/A	10,164,590	4.2%	
Benchmark - 91 day T-Bill	1.2%	3.6%	0.2%	1.3%	1.6%	1.0%			
RBC Liquidity Portfolio ⁴ (<i>Liquidity</i>)	1.1%	3.5%	-0.8%	N/A	N/A	N/A	45,911,804	18.9%	
Benchmark - 91 day T-Bill	1.2%	3.6%	0.2%	1.3%	1.6%	1.0%			
RBC Short-Duration Fixed Income Portfolio ⁵ (<i>Short-Term Fixed Income</i>)	0.4%	2.1%	-3.4%	N/A	N/A	N/A	187,178,145	76.9%	
Benchmark - ICE BofA 1-3 Year US Corporate & Government Index	-0.3%	0.5%	-3.6%	-0.9%	1.1%	0.9%			
Total Unspent Bond Proceeds							243,254,539	100.0%	
OSU Other Cash ⁶							52,497,652		
OSU PERS SLGRP ⁷	0.0%	7.5%	0.0%	N/A	N/A	N/A	13,362,542		
OSU Commercially Developed Assets ⁸	-8.8%	-31.5%	N/A	N/A	N/A	N/A	4,939,951		
Total OSU Operating Assets							\$ 486,971,710		

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Oregon State University
Investment Summary
as of June 30, 2023
(Net of Fees)

	Quarter Ended 6/30/2023	Current Fiscal YTD	Prior Fiscal YTD	3 Yr Avg	5 Yr Avg	10 Yr Avg	Market Value	Actual Asset Allocation	Policy Allocation Range
OSU Board Designated Assets									
Bond Repayment Investment									
Calvert US Large Cap Core Responsible Index Fund <i>(Domestic Equity)</i>	8.7%	19.9%	-15.3%	N/A	N/A	N/A	\$ 23,965,324	55.5%	0% - 100%
Benchmark - Russell 1000 Index	8.6%	19.4%	-13.0%	14.1%	11.9%	12.6%			
Calvert International Responsible Index Fund <i>(Intl Equity)</i>	3.8%	17.7%	-19.5%	N/A	N/A	N/A	13,285,276	30.8%	0% - 35%
Benchmark - MSCI World ex USA Index	3.0%	17.4%	-16.8%	9.3%	4.6%	5.4%			
Neuberger Berman Genesis ⁹ <i>(Small Cap Equity)</i>	5.0%	18.9%	N/A	N/A	N/A	N/A	5,891,171	13.7%	0% - 20%
Benchmark - Russell 2000 Index	5.2%	12.3%	-2.3%	10.8%	4.2%	8.3%			
Total Bond Repayment Investment	6.5%	18.2%	-15.4%	N/A	N/A	N/A	43,141,771	100.0%	
Long-Term Equity									
Calvert US Large Cap Core Responsible Index Fund <i>(Domestic Equity)</i>	8.7%	19.9%	-15.3%	N/A	N/A	N/A	7,577,844	55.2%	0% - 100%
Benchmark - Russell 1000 Index	8.6%	19.4%	-13.0%	14.1%	11.9%	12.6%			
Calvert International Responsible Index Fund <i>(Intl Equity)</i>	3.8%	17.7%	-19.7%	N/A	N/A	N/A	4,323,065	31.4%	0% - 35%
Benchmark - MSCI World ex USA Index	3.0%	17.4%	-16.8%	9.3%	4.6%	5.4%			
Neuberger Berman Genesis ⁹ <i>(Small Cap Equity)</i>	5.0%	18.9%	N/A	N/A	N/A	N/A	1,835,515	13.4%	0% - 20%
Benchmark - Russell 2000 Index	5.2%	12.3%	-2.3%	10.8%	4.2%	8.3%			
Total Long-Term Equity	6.5%	22.6%	-15.7%	N/A	N/A	N/A	13,736,424	100.0%	
Total OSU Board Designated Assets	6.5%	19.3%	-15.4%	N/A	N/A	N/A	\$ 56,878,195		

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Oregon State University
Investment Summary
as of June 30, 2023
(Net of Fees)

	Quarter Ended 6/30/2023	Current Fiscal YTD	Prior Fiscal YTD	3 Yr Avg	5 Yr Avg	10 Yr Avg ¹⁰	Market Value	Actual Asset Allocation	Policy Allocation Target
OSU Endowment Assets									
OSU Foundation Endowment Pool									
Total Global Equity	6.1%	18.2%	-20.1%	10.0%	8.0%	N/A	\$ 26,581,508	47.2%	50.0%
Benchmark - MSCI All Country World Index	6.2%	16.5%	-15.8%	11.0%	8.1%	N/A			
Total Global Fixed Income	-0.2%	0.6%	-12.4%	-2.0%	0.0%	N/A	4,457,488	7.9%	5.0%
Benchmark - Bloomberg Barclays Global Agg. Bond Index	-1.5%	-1.3%	-15.2%	-5.0%	-1.1%	N/A			
Total Absolute Return	0.9%	4.8%	-1.9%	8.0%	5.2%	N/A	4,632,181	8.2%	10.0%
Benchmark - HFRI Fund of Funds Index	1.4%	3.6%	-5.7%	5.0%	3.3%	N/A			
Total Real Assets	-0.8%	2.5%	12.5%	12.2%	3.9%	N/A	5,697,245	10.1%	10.0%
Benchmark - Real Assets Custom ¹¹	-1.1%	-4.8%	2.1%	7.6%	3.3%	N/A			
Total Private Capital ¹²	2.3%	1.1%	21.3%	23.2%	19.6%	N/A	13,085,067	23.2%	25.0%
Benchmark - No benchmark provided									
Total Cash	0.0%	0.0%	0.0%	0.0%	0.0%	N/A	1,899,082	3.4%	0.0%
Total OSU Endowment Assets Invested in OSUF Endow. Pool ¹³	3.4%	9.4%	-7.9%	11.1%	8.1%	N/A	56,352,571	100.0%	100.0%
Benchmark-80% MSCI ACWI/20% BBG Barclays Global Agg. ¹⁴	4.5%	12.7%	-15.6%	7.7%	6.4%	N/A			
Other OSU Endowment Assets									
Land Held as Separately Invested Endowment Funds ¹⁵	-8.8%	-8.8%	28.3%	10.3%	7.0%	N/A	9,181,727	96.7%	
Other Endowment Assets Invested in the PUF ¹⁶	-0.1%	1.3%	-2.6%	0.1%	1.9%	N/A	311,909	3.3%	
Total Other OSU Endowment Assets							9,493,636	100.0%	
Total OSU Endowment Assets	1.5%	6.3%	-4.9%	11.0%	7.9%	N/A	\$ 65,846,207		

Note: Outlined returns underperformed their benchmark.

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Oregon State University
Investment Summary
as of June 30, 2023
 (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 participant liquidity requirements are available for investment in the Core Bond Fund. Maximum core investment allocations are determined based upon anticipated average participant cash balances 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** Assets invested in the RBC Liquidity Portfolio are anticipated to be expended on capital projects in two years or less.
- 5** Assets invested in the RBC 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** During fiscal year 2021, the university funded a PERS Side Account totaling \$10,000,000 which represented approximately 2.2% of the university's unfunded actuarial liability as of June 30, 2021. PERS contributed \$2,225,203 matching contributions to the Side Account. The Side Account represents a pre-payment of OSU's future contributions.
- 8** Shares held in publicly listed companies received through the commercialization of products and intellectual property that are managed in alignment with the OSU Intellectual Property Policy.
- 9** Neuberger Berman Genesis Fund initial investments in the Bond Repayment and Long-Term Equity Funds were \$4.9 and \$1.5 million, respectively, funded on 9/28/22. Performance reporting began on 10/1/2022.
- 10** 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.
- 11** Real Assets Custom Benchmark: 1/3 FTSE EPRA/NAREIT Developed Index, 1/3 Bloomberg Commodity Index, 1/3 Bloomberg U.S. TIPS
- 12** To meet financial period and reporting deadlines, private capital market value and performance figures presented may differ from actual results.
- 13** Investment returns are reported net of investment manager fees; gross of the Foundation's administrative fees.
- 14** 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.
- 15** 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.
- 16** Funds provided by the State which are restricted to certain bond investments.

FY2023 Q4 OREGON STATE UNIVERSITY REPORT ON UNSPENT GENERAL REVENUE BOND PROCEEDS

The schedule of Oregon State University’s unspent revenue bond proceeds as of June 30, 2023, is shown in the summary below.

Unspent Revenue Bond Proceeds¹

Issuance Year	2016	2017	2019	2020	Total ¹
Unspent Revenue Bond Proceeds	\$ 39,354	\$ 52,338,836	\$ 33,500,942	\$ 163,694,785	\$ 249,573,917
<i>Allocated</i> ²	\$ -	\$ 52,338,836	\$ 29,687,062	\$ 149,394,785	\$ 231,420,683
Unallocated ³	\$ 39,354 ⁴	\$ -	\$ 3,813,880 ⁴	\$ 14,300,000	\$ 18,153,234

¹ Reported value is based on book value and includes 7,067,919 of allocated proceeds held in the operations bank account.

The market value of the unspent bond proceeds investment is comprised of the following data elements:
Book Value (\$249,573,917) – Cash in bank (\$7,067,919) + Unrealized Gains (\$583,951) + Earnings Receivable (\$164,590) = \$243,254,539.

² Allocated proceeds are proceeds committed to specific projects that have Stage Gate 2 approval by the Board.

³ Unallocated proceeds are funds available to commit to projects and/or initiatives approved by the Board.

⁴ Unallocated amount reflects actual proceeds use below Board approval for closed projects.

FY2023 Q4 MARKET COMMENTARY

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

**Report on Investments – as of June 30, 2023
 Economic and Market Update**

Asset returns were positive for the quarter with U.S. and Non-U.S. equities posting gains, while most fixed income sectors declined on expectations of further interest rate hikes later this year. Except for commodities, most public market asset classes remain in positive territory for the calendar year.

- Although the Federal Reserve skipped a rate-hike in June, Fed comments signaled further rate hikes in the second half of calendar year 2023; the U.S. economy appears to be resilient with continuing domestic demand and low unemployment.
- U.S. equity markets (S&P 500) rose in the second calendar quarter (+8.7%) adding to calendar year-to-date gains (+16.9%). Some of the largest technology names drove positive results. Growth stocks continued to outpace value stocks, particularly in the large cap space.
- Non-U.S. developed equity markets rose in the second calendar quarter ((Morgan Stanley Capital International (MSCI) Europe, Australia, and Far East (EAFE) 3.0%) falling behind U.S. equities in 2023 (+16.2% versus +11.7%). A strengthening U.S. dollar weighed on returns.

- Emerging market equities rose in the second calendar quarter (+3.8%) supported by positive returns in China (+4.0%). Emerging markets trail developed market equities calendar year-to-date returning +4.9%, due partly to rising U.S.-China tensions.
- Interest rates generally rose during the period leading to bond markets declining, with the U.S. bond market (Bloomberg Aggregate) falling 0.8% for the quarter. The index remains positive (+2.1%) calendar year-to-date, though, on declining inflation and expectations for the Fed to end their rate hikes soon.

This year, the paths of inflation and monetary policy, slowing global growth and the war in Ukraine will all be key. After a particularly difficult 2022, most public market assets are up thus far in 2023, building on gains from the fourth calendar quarter of last year. Risk sentiment has been supported by expectations that policy tightening could be ending soon, as inflation continues to fall, and growth has slowed.

**Market Returns¹
June 30, 2023**

	Month	Quarter	YTD	1-Year	3-Year	5-Year	7-Year	10-Year
S&P 500	6.60%	8.70%	16.90%	19.60%	14.60%	12.30%	13.40%	12.90%
MSCI EAFE-ND	4.60%	3.00%	11.70%	18.80%	8.90%	4.40%	6.90%	5.40%
MSCI EM-ND	3.80%	0.90%	4.90%	1.70%	2.30%	0.90%	4.90%	3.00%
MSCI China-ND	4.00%	-9.70%	-5.50%	-16.80%	-10.30%	-5.30%	2.90%	3.00%
Bloomberg US Aggregate	-0.40%	-0.80%	2.10%	-0.90%	-4.00%	0.80%	0.40%	1.50%
Bloomberg US TIPS	-0.30%	-1.40%	1.90%	-1.40%	-0.10%	2.50%	2.00%	2.10%
Bloomberg US Corporate High Yield	1.70%	1.70%	5.40%	9.10%	3.10%	3.40%	4.50%	4.40%
ICE BofAML US 3-Month Treasury Bill	0.50%	1.20%	2.30%	3.60%	1.30%	1.60%	1.40%	1.00%
ICE BofAML 1-3 Year US Treasury	-0.50%	-0.60%	1.00%	0.10%	-1.00%	0.90%	0.70%	0.80%
ICE BofAML 10+ Year US Treasury	-0.10%	-2.30%	3.60%	-7.00%	-11.60%	-0.70%	-1.60%	1.80%

¹Source: Oregon State Treasury

U.S. Equities: The S&P 500 Index rose 8.7% in the second calendar quarter and 16.9% year-to-date. U.S. stocks rose sharply in the second calendar quarter of 2023. Most of the gains came in the month of June when the Fed kept its target rate unchanged for the first time since early 2022. Investors are expressing optimism that the Fed can tame inflation without widespread disruptions to the equity markets. Except for energy and utilities, each sector of the S&P 500 index appreciated during the second calendar quarter. Technology led all sectors and was driven by enthusiasm for growth stocks, particularly those with exposure to artificial intelligence (e.g., NVIDIA). Large cap stocks continue to outperform small cap stocks, driven by technology and the underperformance of small cap biotechnology stocks. Growth stocks continue to broadly outperform value stocks.

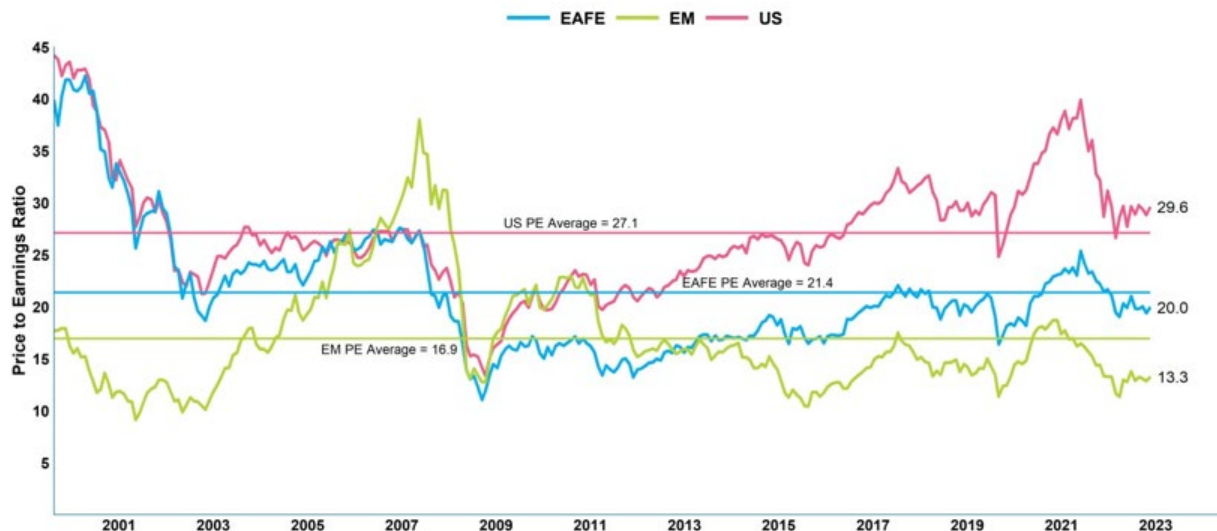
International Equities: Developed international equities (MSCI EAFE) rose 3.0% in the second calendar quarter bringing the calendar year-to-date results to +11.7%. Emerging market equities (MSCI Emerging Markets (EM) rose 0.9% in the quarter, rising 4.9% calendar year-to-date. The European and Japanese equity markets continued their strength in June, wrapping up a strong second calendar quarter. In Europe, financials and information technology led returns whereas energy and communication services lagged. Headline inflation was down in June, although core

inflation was up slightly month over month. Energy and materials were the main drivers for falling UK equities, along with Bank of England rate hikes. Optimism continues to build for Japanese investors, while the Yen remains weak, and Bank of Japan remains dovish. Emerging markets were laggards as China equities struggled from weak export demands and rising negative sentiments.

Fixed Income: The Bloomberg U.S. Aggregate Index declined 0.4% in the second calendar quarter as debt yields generally rose. Bonds retained a positive start to the calendar year (+2.1% calendar year-to-date) though inflation continues to decline. U.S. Treasury yields generally rose over the month, with the 1-year to 10-year maturity sector rising the most due to higher policy expectations. The Treasury Inflation-Protected Securities (TIPS) index and the short-term TIPS index posted negative returns for the month as inflation concerns continued to ease. Continued risk appetite drove high yield bond performance (1.7%) and outperformance versus the broad U.S. bond market (Bloomberg Aggregate). Emerging market bonds (3.3%) also performed well on investor risk sentiment.

After its dramatic decline last year, the U.S. equity price-to-earnings ratio remains above its long-run (21st century) average. International developed market valuations are below their own long-term average, with those for emerging markets the lowest and well under the long-term average.

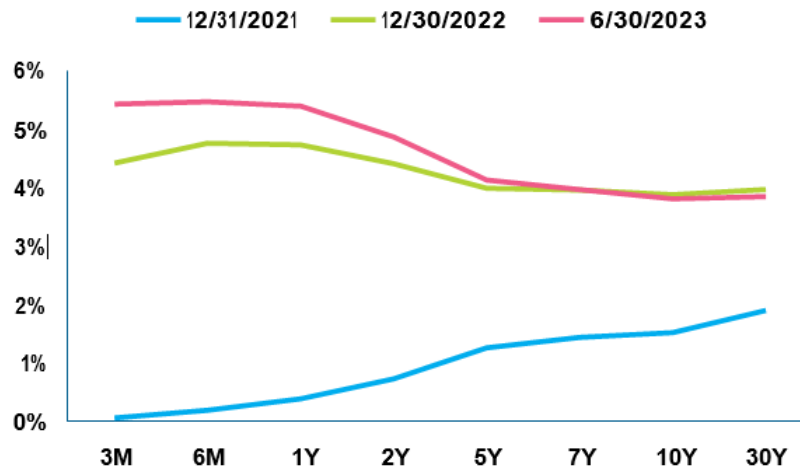
Equity Cyclically Adjusted P/E Ratios¹



¹ US Equity Cyclically Adjusted P/E on S&P 500 Index. Source: Robert Shiller, Yale University, and Meketa Investment Group. Developed and Emerging Market Equity (MSCI EAFE and EM Index) Cyclically Adjusted P/E – Source: MSCI and Bloomberg. Earnings figures represent the average of monthly “as reported” earnings over the previous ten years. Data is as of June 2023. The average line is the long-term average of the US, EM, and EAFE PE values from December 1999 to the recent month-end respectively.

Interest rates have started rising again across the curve given policy maker guidance that policy rates are likely to rise further and potentially stay longer at the terminal rate than market participants expect. The yield curve remains inverted with the spread between two-year and ten-year Treasuries finishing the month at -1.06%.

US Yield Curve¹



¹Source: Bloomberg. Data is as of June 30, 2023

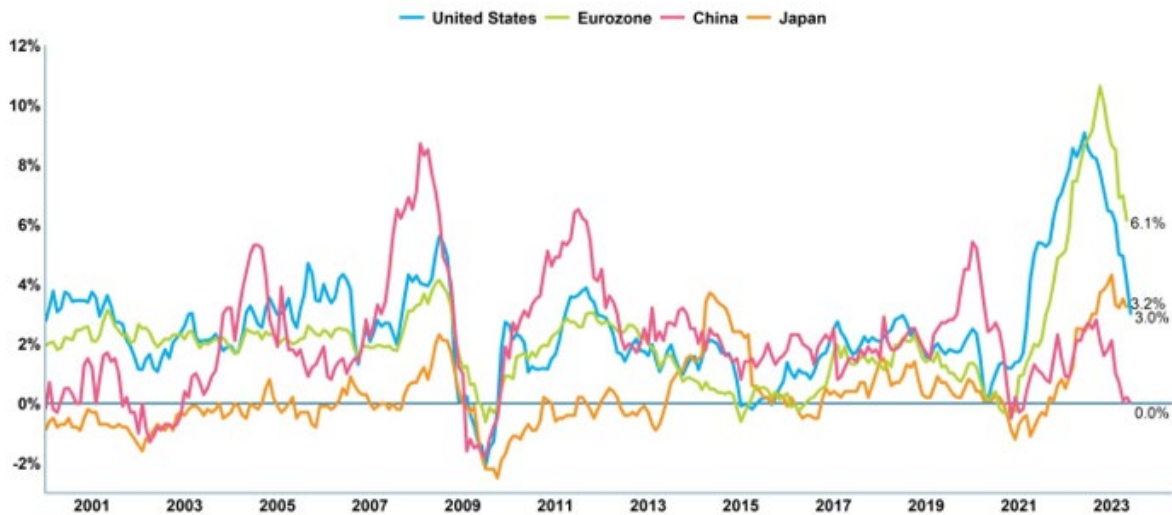
Headline inflation continued to decline in June, with the calendar year-over-year reading falling from 4.0% to 3.0% and coming in slightly below estimates. The month-over-month rate of price increases rose slightly (0.2% versus 0.1%), with food prices ticking up slightly (0.1%) and energy prices rose (0.6%). Core inflation – excluding food and energy - fell (5.3% to 4.9%), coming in slightly above forecasts. It remains stubbornly high driven by shelter costs. Inflation expectations (breakevens) remain well below current inflation as investors continue to expect inflation to track back toward the Fed’s 2% average target.

Global Economic Outlook

Global economies are expected to slow this year compared to 2022, with risks of recession as the impacts of policymakers’ aggressive tightening to fight inflation flow through economies. The delicate balancing act of central banks trying to reduce inflation without dramatically depressing growth will remain key.

In 2022, many central banks aggressively reduced pandemic-era policy support in the face of high inflation, with the U.S. taking the most aggressive approach. Slowing inflation and growth have led to expectations for reductions in policy tightening going forward. In May the Fed raised rates another 25 basis points to a range of 5.0% to 5.25%. After the month-end, the FOMC paused its tightening campaign but hinted that one or two additional rate hikes could come later this calendar year. In China, the central bank has continued to cut interest rates and inject liquidity into the banking system, as weaker than expected economic data appears to indicate a widespread slowdown. Looking ahead, risks remain for a policy error as central banks attempt to balance multiple goals, bringing down inflation, maintaining financial stability, and supporting growth.

Inflation (CPI Trailing Twelve Months)¹



¹ Source: Bloomberg. Data is as of June 30, 2023. The most recent data for Japan and China is as of May 2023.

Inflation pressures continued to decline globally due to the easing of supply chain issues from the pandemic, declining energy prices, and tighter monetary policy. In the U.S., inflation fell to 3.0% at month-end, while eurozone inflation also fell (6.1% from 7.0%) to a level well off its peak. Despite 2023's significant declines in the U.S. and Europe, inflation levels remain elevated compared to central bank targets. Inflation remains lower in China and Japan. In China, inflation levels were only slightly above 0% at month-end as the reopening of their economy has led to an uneven economic recovery.

Despite slowing growth and high inflation, the U.S. labor market still shows signs of resiliency. Unemployment in the U.S., which experienced the steepest rise, recently returned to pre-pandemic levels. Broader measures of unemployment (U-6) remain higher at 6.9% but also declined dramatically from their peak. The strong labor market and higher wages, although beneficial for workers, motivates the Fed's efforts to fight inflation, leading to higher unemployment. Unemployment in Europe has also declined but remains higher than the U.S., while levels in Japan have been flat through the pandemic given less layoffs.

The dollar finished 2022 much higher than it started, due to the increased pace of policy tightening, stronger relative growth, and safe-haven flows. Late last calendar year and into this year, the dollar declined, as weaker economic data and lower inflation led to investors anticipating the end of Fed tightening. In June, we did see a slight decline in the dollar though. This year, the track of inflation across economies and the corresponding monetary policies will be key drivers of currency moves.

Summary - Key Trends

- The impacts of still relatively high inflation will remain key, with bond market volatility likely to stay high.
- Recent issues related to the banking sector seem to have subsided for now but are a reminder that there is a delicate balance for central banks to continue to fight inflation but also to try to maintain financial stability.

- Global monetary policies could diverge in 2023. The risk of policy errors remains elevated as central banks try to reduce persistent inflation while not tipping their economies into recession.
- Growth is expected to slow globally this calendar year, with many economies forecast to tip into recession. Inflation, monetary policy, and the war in Ukraine will all be key.
- In the U.S., consumers could feel pressure as certain components of inflation remain high (e.g., shelter), borrowing costs are elevated, and the job market may weaken.
- The key for U.S. equities going forward will be whether earnings can remain resilient if growth continues to slow.
- Equity valuations remain lower in both emerging and developed markets, but risks remain, including potential continued strength in the U.S. dollar, higher inflation weighing particularly on Europe, and China's sluggish economic reopening and on-going weakness in the real estate sector.

RECOMMENDATION

Staff recommend that the Finance & Administration Committee accept the FY2023 Q4 Investment Reports.

Oregon Short Term Fund

June 30, 2023

Portfolio Characteristics	
Market Value 06/30/2023	\$ 175,739,973
Weighted Average Credit Quality	AA
Book Yield (%)	4.43%
Weighted Average Maturity (years)	152 Days
Duration (years)	0.42
Spread Duration (rate)	0.65

Top 10 Issuers	
United States Treasury	31.7%
Federal Home Loan Banks	2.8%
CPPIB Capital Incorporated	2.7%
JPMorgan Chase & Company	2.5%
Royal Bank of Canada	2.3%
Bank of America Corporation	1.9%
Toyota Motor Credit Corporation	1.6%
Bank of Montreal	1.4%
Federal Farm Credit Banks Funding Corporation	1.4%
Morgan Stanley	1.4%
Total	49.6%

Sector Allocations

Sector	Allocation (%)
Treasuries	31.7%
Government Related	14.1%
Corporates	35.5%
Securitized	15.9%
Municipals	2.2%
Funds	0.6%

Maturity Breakdown

Maturity	Percentage (%)
0-3 M	65.5%
3-6M	8.6%
6-9M	6.2%
9M-1 Yr	4.7%
1-2 Yrs	11.4%
2-3 Yrs	3.4%
3+ Yrs	0.3%

Credit Quality Distribution

Credit Quality	Percentage (%)
AAA	60.1%
AA+	1.9%
AA	4.7%
AA-	7.4%
A+	12.0%
A	10.7%
A-	3.2%

Source: Oregon State Treasury

Core Bond Fund

June 30, 2023

