FY2015 Q3 Investment Reports

Oregon State University's FY2015 Third Quarter (Q3) Investment Reports are presented in the following three sections:

- **FY2015 Q3 Market Background** – This section provides a general discussion of the investment markets and related performance information during the third quarter of FY2015 (i.e., first calendar quarter of 2015).

- **FY2015 Q3 Public University Fund Investment Report** – This section includes a report on the investments of the Public University Fund (P.U.F.) for the third quarter of FY2015. The P.U.F. 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 P.U.F. holds assets of all participating Oregon public universities, including Eastern Oregon University, Oregon Institute of Technology, Oregon State University, Portland State University, Southern Oregon University, and Western Oregon University, as well as the Oregon University System’s Chancellor’s Office. The University of Oregon does not participate in the P.U.F.

- **FY2015 Q3 Oregon State University Investment Report** – This section includes a report on the investments of the operating and endowment assets of the University. The report includes both the University’s operating asset investments that are held in their entirety in the Public University Fund and the University’s endowment and quasi-endowment investments, including land held as separately invested endowment funds and cash invested in a pooled endowment fund at the State Treasury.

**FY2015 Q3 MARKET BACKGROUND**
*(Prepared by Callan Associates, consultants to Oregon Investment Council)*

**Economic and Market Environment**

Global financial markets were volatile in the first quarter of 2015 with negative returns in domestic equities during January, strong results in February and mixed returns in March contrasted with opposite results for domestic fixed income. For the full quarter, broad equity indices generated positive returns in most regions and styles with U.S. large cap value being the only area to suffer a loss. Fixed income indices also rose with the lone exceptions being unhedged non-U.S. bonds and local currency emerging markets debt. Commodities suffered acutely as many contracts fell nearly 10% while Real Estate Investment Trusts (R.E.I.T.s) continued to post strong results.

**Macroeconomic Environment**

Global macroeconomic factors, namely worries over inflation and slowing economic growth, continued to be in the forefront and led to several milestones during the quarter. On January 15, 2015, the Swiss Central Bank stunned global currency markets by removing its peg that had anchored the currency at 1.2 Swiss francs (sf) per €. The euro fell dramatically to 0.85sf immediately following the announcement before settling at around 1.05sf. Just a week later, in a less surprising move, the European Central Bank (E.C.B.) announced its long-awaited quantitative easing program. The E.C.B. will purchase €60 billion worth of bonds per month through at least September 2016. The bond buying commenced in March 2015. Not
surprisingly, this announcement put a strong bid under the European equity markets and drove many developed markets bond yields to fresh lows. Rates were cut by more than 20 central banks in Q1. Sweden also launched a quantitative easing (Q.E.) program at the beginning of 2015 and concurrently pushed its central bank policy rate into negative territory, joining Switzerland, Denmark and the E.C.B. (deposit facility) in imposing negative policy rates. Short term sovereign debt yields have dropped below 0% in many European countries with more than €1.5 trillion worth of bonds trading with yields below zero. Moving out in maturity does tip yields back into the black; however, the German yield curve is currently negative out to 7 years and Switzerland beyond 10 years. Negative rates are also no longer unique to sovereign issues; short-term mortgage rates in Denmark have dipped below zero and yields on bonds issued by Swiss chocolatier Nestle have also been negative. The U.S. dollar continued its rally relative to several other major currencies. The “U.S. Dollar Index,” which measures a basket of 6 foreign currencies, rose 9% in the quarter. The weakness in the euro had a major impact on the Dollar Index performance as it carries a 57% weight in the Index and fell more than 11% against the U.S. dollar. Finally, oil prices continued to exhibit substantial volatility in the quarter and twice slipped below $45/barrel for West Texas Intermediate Crude. Oil inventories in the U.S. began the 2nd quarter at 80-year highs of nearly 500 million barrels.

In the U.S., the economic picture was mixed in Q1 and suggested that the recovery could be losing momentum given headwinds from a snowy winter, strong U.S. dollar and weak global demand. Uncertainty over the timing of the Fed’s widely expected eventual rate hike also contributed to market volatility during the quarter. Economic growth since the end of the recession in 2009 has been modest and averaged 2.3%, well below the 50-year average of 3.0%. In its March meeting, the Fed trimmed its outlook for U.S. gross domestic product (G.D.P.) growth for 2015 and 2016 to the 2.3-2.7% range, down from the 2.5-3.0% range, as released in the December meeting minutes. While these growth rates are somewhat disappointing in historical terms, the U.S. still enjoys better economic growth than much of the rest of the developed world. In Europe, for example, growth is expected to trail the U.S. by as much as 1% in 2015.

Inflation remains contained in the U.S. and most of the developed world. In fact, deflation is seemingly of greater concern in many parts of the developed world. In the U.S., core consumer price index (C.P.I.) registered at 1.7% for the year ended February 2015; however, headline C.P.I. (including food & energy) actually declined by 0.1%, its first negative reading since 2009. The mild deflation showing in headline C.P.I. was almost entirely due to plummeting energy prices, which will remain in the data through most of 2015. The Energy component fell nearly 19% in the twelve months ended February, 2015. The only other C.P.I. component to show a negative reading was Apparel at -0.8% while Food and Housing topped the list at 3.0% each. Elsewhere in the developed world deflationary impacts were also being felt. Much of Europe is experiencing inflation of less than 1% and several countries are seeing deflation. Japan is also again flirting with deflation as the impact of its recent sales tax hikes have rolled out of the 12-month measurement window. The unemployment rate in the U.S. has continued to fall and declined to 5.5% as of the March 2015 reading. However, the labor force participation rate has also continued to fall and has accounted for some of the declining unemployment rate alongside actual hiring. Also of some concern is that wage growth in the U.S. has been far below the long-term average since the great recession. Europe appears to be in a worse state on the employment front. The unemployment rate in Europe is over 11% with Greece and Spain both well over 20%. Youth unemployment (under 25 years old) is of particular concern with a rate well over 20% in Europe broadly and countries such as Greece and Spain in excess of 50%. Valuations in global equity markets remained at moderately elevated levels at the end of calendar Q1. U.S. equities approached 17x forward earnings, a level in excess of the 15.2x at
the market peak in October 2007 and above the 25-year average of 15.7x, but well short of the dizzying heights of over 25x reached at the peak of the Internet bubble in 2000. Foreign developed equities sit at 16x forward earnings, also above their 2007 peak yet well below levels from 2000. Emerging market equities sit just below 12x forward earnings, slightly above their 10-year average.

The earnings picture in the U.S. has soured notably in the past six months as the impacts of margin compression and plummeting oil prices have taken their toll. Standard & Poor’s (S&P) earnings for 1Q15 are projected to decline by 4.6% versus the year ago quarter and to decline in 2Q15 a further 1.9% year-over-year. The Energy sector alone accounts for nearly half of the decline as Q1 earnings estimates for the sector have been cut by more than 50%. Health Care and Financials are expected to have the strongest earnings growth at 10.6% and 8.3%, respectively. Profit margins are expected to make a recovery after a brief dip below 10% in calendar 1Q15.

1Q Calendar 2015 Market Performance

Developed foreign equities, when measured in local currency terms, dominated performance tables in calendar 1Q15 as Europe rallied more than 15% in the wake of the E.C.B. QE announcement. However, currency weakness tempered much of those gains when measured in U.S. dollar terms. U.S. mid and small capitalization issues trailed slightly but finished ahead of both emerging markets equities and U.S. large caps, which returned slightly less than 1%.

In the U.S., small caps performed best followed closely by microcaps and midcaps (Russell 2000: +4.3%, Russell midcap: +4.0%, Russell microcap: +3.1%) while large caps struggled to stay in positive territory (Russell Top 200: +0.5%, Russell Top 50: -0.5%). Style generated its biggest differential in 6 years as growth sharply outperformed value across capitalization (Russell 1000 Growth (R1G): +3.8%, Russell 1000 Value (R1V): -0.7%, Russell Midcap Growth (RMG): +5.4%, Russell Midcap Value (RMV): +2.4%, Russell 2000 Growth (R2G): +6.6%, Russell 2000 Value (R2V): +2.0%). Conversely, high quality and low quality experienced their smallest divergence since 1Q2010 (S&P High Quality: +1.2%, Low Quality: +1.7%). Within the S&P 500, the Utilities sector (-5.2%) reversed course from a double digit gain in calendar 4Q14 to be the worst performing sector in calendar 1Q15 while Energy continued its calendar 4Q14 slide and fell a further 2.9% in calendar 1Q15. Health Care and Consumer Staples led S&P sector performance and rose 6.5% and 4.8%, respectively.

Developed foreign equities soared in local currency terms; however, continued dollar strength versus most currencies pushed returns sharply lower in U.S. dollar terms for the 1st quarter (Morgan Stanley Capital Index - Europe, Australasia, Far East (M.S.C.I. E.A.F.E.) Local: +10.9%, E.A.F.E. US$: +4.9%). Similar to U.S. results, growth outperformed value overseas, albeit to a smaller degree (E.A.F.E. Growth: +5.8%, Value: +3.9%). Small caps (S.C.) outperformed larger issues (E.A.F.E. SC: +5.6%). Emerging market (E.M.) equities trailed developed in local and U.S. dollar terms (M.S.C.I. E.M. Local: +4.9%, E.M. US$: +2.3%). On a country specific basis, Danish equities generated the strongest returns among developed nations (M.S.C.I. Denmark US$: +16.7%) while Canadian equities fell (M.S.C.I. Canada US$: -5.9%) due entirely to the currency headwind. Greece (M.S.C.I. Greece U.S$: -29.3%) was the worst performing emerging country as further political turmoil and renewed fear of a Greek exit “Grexit” sent equities tumbling. Russia (M.S.C.I. Russia U.S$: +18.6%) recovered somewhat from its calendar 4Q14 rout to be the best performing emerging country in the 1st calendar quarter.
Interest rate volatility increased in the first calendar quarter of 2015 as investors speculated over the timing of the Federal Reserve’s widely expected interest rate hike while the European Central Bank announced a massive asset purchase program to stimulate growth and combat deflation. The 10-year U.S. Treasury note began the year at 2.17%, hit an intra-quarter low of 1.68% on January 30th and a peak of 2.24% on March 6th before closing the quarter at 1.94%, 23 basis points (bps) lower than at year-end. The 30-year Treasury bond hit an all-time low in January of 2.35% and closed the quarter at 2.54%.

The Barclays U.S. Aggregate Index returned 1.61% for the quarter. Within the Aggregate Index, corporates outperformed like-duration U.S. Treasuries by a modest 27 bps as investors easily absorbed record new issuance. At nearly $440 billion, U.S. corporate bond issuance this year has exceeded the record level hit in 2013. Notably, the proportion of issuance related to merger and acquisition activity is also at an all-time high. Mortgages trailed Treasuries by 50 bps and were the worst performing sector in the Barclays Aggregate. Treasury Inflation Protected Securities (T.I.P.S.) had a strong January and February relative to nominal U.S. Treasuries, in spite of soft inflation data, but gave back some of the outperformance in March. The 5-year breakeven spread, which represents the amount of inflation investors are expecting over the next five years, hit a low of 1.05% in early January, but ended the quarter at 1.51%. High yield rebounded from a poor 4th quarter with many of the higher quality energy names bouncing back. The Barclays High Yield Index was up 2.5% for the quarter.

Overseas, rates fell in twelve of the thirteen countries in the J.P. Morgan (J.P.M.) Global Bond Index (G.B.I.), with Japan being the one exception. For the quarter, the Barclays Global Aggregate ex-U.S. Index (hedged) returned 2.0%. The U.S. dollar continued to strengthen against most currencies and the unhedged version of the Index fell 4.6%. Emerging markets debt was a tale of two worlds, with U.S. dollar-denominated sovereign debt posting solid returns as rates dropped, but most emerging markets currencies depreciating against the U.S. dollar. The dollar-denominated J.P.M. Emerging Market Bond Global Diversified Index (J.P.M G.B.I – E.M.) returned 2.0% in the 1st quarter with Argentina (+11%) and Russia (+11%) being standout performers. Conversely, Ukraine’s debt plunged 30% as talks with creditors loomed amid a $15 billion shortfall in funding. Emerging markets currencies, however, were broadly weaker versus the U.S. dollar. Currencies in 13 out of the 16 countries represented in the J.P.M. G.B.I.-E.M. lost value versus the greenback and as a result, this Index was down 4.0% for the quarter. Russian local debt was a lone outperformer; up 15.5% for the quarter but still down more than 40% year-over-year.

Closing Thoughts

As 2015 unfolds, global economic trends remain divergent with U.S. growth moderating but still well ahead of most of the rest of the developed world. Much anticipation rests on the timing and path of U.S. Fed interest rate policy; however, until the status quo changes equities seem content to push further into record territory.

With expectations of muted returns and higher volatility, prudent asset allocation and risk assessment based on future capital needs for both plan sponsors and individual investors remains Callan’s recommended course.
FY2015 Q3 PUBLIC UNIVERSITY FUND INVESTMENT REPORT
(Prepared by the Public University Fund Administrator)

Performance

The Public University Fund’s (P.U.F.) total return for the quarter was 0.7%. During the quarter, both the Oregon Short-Term Fund and Oregon Intermediate-Term Pool performed in-line with or slightly better than their respective benchmarks. The Long Term Pool underperformed its benchmark by 70 basis points.

In late April 2015, a fiscal third quarter P.U.F. investment performance review was conducted by Oregon State Treasury Fixed Income Portfolio Managers, Tom Lofton and Garrett Cudahey, with University staff and its investment advisor. Mr. Lofton commented on the Long Term Pool’s relative underperformance by stating it was due, in large part, to lower average portfolio duration (average maturity profile 3.29 years) versus the benchmark (average maturity profile 5.05 years). Mr. Lofton remains committed to a conservative positioning versus the benchmark, given risk of rising interest rates in future months. A snapshot of the Oregon Intermediate Term Fund and the Long Term Pool’s portfolio characteristics and market exposures is included in this report. Mr. Lofton reported that no holdings compliance violations occurred during the quarter.

<table>
<thead>
<tr>
<th>Fund</th>
<th>Quarter Ended 3-31-15</th>
<th>Prior Fiscal YTD</th>
<th>Current Fiscal YTD</th>
<th>3-Year Avg</th>
<th>Market Value</th>
<th>Asset Allocation</th>
<th>Policy Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oregon Short-Term Fund</td>
<td>0.1%</td>
<td>0.4%</td>
<td>0.4%</td>
<td>0.6%</td>
<td>$172,218,694</td>
<td>39.9%</td>
<td>$150 million target ¹</td>
</tr>
<tr>
<td>Benchmark 91-day T-Bill</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.1%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oregon Intermediate-Term Pool</td>
<td>1.0%</td>
<td>2.0%</td>
<td>1.5%</td>
<td></td>
<td>$142,284,625</td>
<td>32.9%</td>
<td>$300 million maximum ¹</td>
</tr>
<tr>
<td>Benchmark BAML 1-5 yrs US Corp &amp; Govt A &amp; Above</td>
<td>1.0%</td>
<td>1.4%</td>
<td>1.5%</td>
<td>1.6%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Combined Historical Returns ²</td>
<td></td>
<td></td>
<td></td>
<td>2.5%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PUF Long-Term Pool</td>
<td>1.4%</td>
<td>N/A</td>
<td>2.8%</td>
<td></td>
<td>$117,710,730</td>
<td>27.2%</td>
<td>$120 million maximum ¹</td>
</tr>
<tr>
<td>Benchmark BAML 5-7 yrs US Corp &amp; Govt AA &amp; Above</td>
<td>2.1%</td>
<td>0.8%</td>
<td>3.8%</td>
<td>2.4%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Combined Historical Returns ²</td>
<td></td>
<td></td>
<td></td>
<td>3.0%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public University Fund</td>
<td>0.7%</td>
<td>N/A</td>
<td>1.4%</td>
<td></td>
<td>$432,214,049</td>
<td>100%</td>
<td></td>
</tr>
</tbody>
</table>

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 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.
# Investment Income and Participant Ownership

During the quarter, investment earnings distributed to the participants totaled $1,025,509.

<table>
<thead>
<tr>
<th>University</th>
<th>Income Distribution</th>
<th>Market Value</th>
<th>% Ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oregon State University</td>
<td>$423,215</td>
<td>$165,311,530</td>
<td>38.2%</td>
</tr>
<tr>
<td>Portland State University</td>
<td>306,210</td>
<td>145,495,840</td>
<td>33.7%</td>
</tr>
<tr>
<td>Western Oregon University</td>
<td>104,409</td>
<td>47,016,600</td>
<td>10.9%</td>
</tr>
<tr>
<td>Oregon Institute of Technology</td>
<td>59,588</td>
<td>25,331,671</td>
<td>5.9%</td>
</tr>
<tr>
<td>Southern Oregon University</td>
<td>62,240</td>
<td>23,571,230</td>
<td>5.4%</td>
</tr>
<tr>
<td>Eastern Oregon University</td>
<td>33,240</td>
<td>10,301,544</td>
<td>2.4%</td>
</tr>
<tr>
<td>Chancellor’s Office</td>
<td>36,607</td>
<td>15,185,634</td>
<td>3.5%</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>$1,025,509</strong></td>
<td><strong>$432,214,049</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>
### Oregon Intermediate Term Pool Exposures

#### March 31, 2015

<table>
<thead>
<tr>
<th>Sector</th>
<th>Market Value</th>
<th>Gain (Loss)</th>
<th>Duration</th>
<th>Yield</th>
<th>Percent</th>
<th>Gain (Loss)</th>
<th>Duration</th>
<th>Yield</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate</td>
<td>50.4%</td>
<td>1.7%</td>
<td>2.1</td>
<td>1.0</td>
<td>2.1%</td>
<td>1.7%</td>
<td>2.1</td>
<td>1.0</td>
<td>2.1%</td>
</tr>
<tr>
<td>Asset-Backed</td>
<td>18.2%</td>
<td>0.2%</td>
<td>1.8</td>
<td>0.3</td>
<td>1.2%</td>
<td>1.8%</td>
<td>1.8</td>
<td>0.3</td>
<td>1.2%</td>
</tr>
<tr>
<td>Govt</td>
<td>11.0%</td>
<td>0.7%</td>
<td>2.5</td>
<td>0.3</td>
<td>1.0%</td>
<td>2.5%</td>
<td>2.5</td>
<td>0.3</td>
<td>1.0%</td>
</tr>
<tr>
<td>CMBS</td>
<td>7.9%</td>
<td>0.2%</td>
<td>2.4</td>
<td>0.2</td>
<td>1.4%</td>
<td>2.4%</td>
<td>2.4</td>
<td>0.2</td>
<td>1.4%</td>
</tr>
<tr>
<td>M-Mkt/Cash</td>
<td>6.8%</td>
<td>0.0%</td>
<td>0.2</td>
<td>0.0</td>
<td>0.8%</td>
<td>0.2%</td>
<td>0.2</td>
<td>0.0</td>
<td>0.8%</td>
</tr>
<tr>
<td>Municipal</td>
<td>3.8%</td>
<td>1.0%</td>
<td>2.6</td>
<td>0.1</td>
<td>1.4%</td>
<td>2.6%</td>
<td>2.6</td>
<td>0.1</td>
<td>1.4%</td>
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<tr>
<td>MBS</td>
<td>1.9%</td>
<td>0.7%</td>
<td>2.3</td>
<td>0.0</td>
<td>1.3%</td>
<td>2.3%</td>
<td>2.3</td>
<td>0.0</td>
<td>1.3%</td>
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<tr>
<td>Total</td>
<td>100.0%</td>
<td>1.0%</td>
<td>2.0</td>
<td>2.0</td>
<td>1.6%</td>
<td>1.0%</td>
<td>2.0</td>
<td>2.0</td>
<td>1.6%</td>
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</table>

<table>
<thead>
<tr>
<th>Industry</th>
<th>Market Value</th>
<th>Gain (Loss)</th>
<th>Duration</th>
<th>Yield</th>
<th>Percent</th>
<th>Gain (Loss)</th>
<th>Duration</th>
<th>Yield</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
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<td>1.6%</td>
<td>2.0</td>
<td>0.6</td>
<td>2.2%</td>
<td>1.6%</td>
<td>2.0</td>
<td>0.6</td>
<td>2.2%</td>
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<tr>
<td>Asset Backed Securities</td>
<td>18.2%</td>
<td>0.2%</td>
<td>1.8</td>
<td>0.3</td>
<td>1.2%</td>
<td>0.2%</td>
<td>1.8</td>
<td>0.3</td>
<td>1.2%</td>
</tr>
<tr>
<td>Government</td>
<td>11.0%</td>
<td>0.7%</td>
<td>2.5</td>
<td>0.3</td>
<td>1.0%</td>
<td>0.7%</td>
<td>2.5</td>
<td>0.3</td>
<td>1.0%</td>
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<td>Mortgage Securities</td>
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<td>1.4%</td>
<td>0.3%</td>
<td>2.3</td>
<td>0.2</td>
<td>1.4%</td>
</tr>
<tr>
<td>Industrial</td>
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<td>2.0%</td>
<td>1.3</td>
<td>0.1</td>
<td>1.5%</td>
<td>2.0%</td>
<td>1.3</td>
<td>0.1</td>
<td>1.5%</td>
</tr>
<tr>
<td>Consumer, Cyclical</td>
<td>5.2%</td>
<td>1.3%</td>
<td>3.1</td>
<td>0.2</td>
<td>2.1%</td>
<td>1.3%</td>
<td>3.1</td>
<td>0.2</td>
<td>2.1%</td>
</tr>
<tr>
<td>Municipal</td>
<td>3.8%</td>
<td>1.0%</td>
<td>2.6</td>
<td>0.1</td>
<td>1.4%</td>
<td>1.0%</td>
<td>2.6</td>
<td>0.1</td>
<td>1.4%</td>
</tr>
<tr>
<td>Communications</td>
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<td>0.0</td>
<td>1.6%</td>
<td>1.6%</td>
<td>0.6</td>
<td>0.0</td>
<td>1.6%</td>
</tr>
<tr>
<td>Utilities</td>
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<td>1.9</td>
<td>0.1</td>
<td>2.2%</td>
<td>2.1%</td>
<td>1.9</td>
<td>0.1</td>
<td>2.2%</td>
</tr>
<tr>
<td>Technology</td>
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<td>0.2%</td>
<td>1.0</td>
<td>0.0</td>
<td>0.9%</td>
<td>0.2%</td>
<td>1.0</td>
<td>0.0</td>
<td>0.9%</td>
</tr>
<tr>
<td>Consumer, Non-cyclical</td>
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<td>2.0%</td>
<td>2.4</td>
<td>0.1</td>
<td>1.9%</td>
<td>2.0%</td>
<td>2.4</td>
<td>0.1</td>
<td>1.9%</td>
</tr>
<tr>
<td>Energy</td>
<td>1.4%</td>
<td>0.1%</td>
<td>0.6</td>
<td>0.0</td>
<td>1.0%</td>
<td>0.1%</td>
<td>0.6</td>
<td>0.0</td>
<td>1.0%</td>
</tr>
<tr>
<td>Cash</td>
<td>0.4%</td>
<td>0.0%</td>
<td>0.1</td>
<td>0.0</td>
<td>0.5%</td>
<td>0.0%</td>
<td>0.1</td>
<td>0.0</td>
<td>0.5%</td>
</tr>
<tr>
<td>Basic Materials</td>
<td>0.1%</td>
<td>-0.8%</td>
<td>1.9</td>
<td>0.0</td>
<td>2.2%</td>
<td>-0.8%</td>
<td>1.9</td>
<td>0.0</td>
<td>2.2%</td>
</tr>
<tr>
<td>Total</td>
<td>100.0%</td>
<td>1.0%</td>
<td>2.0</td>
<td>2.0</td>
<td>1.6%</td>
<td>1.0%</td>
<td>2.0</td>
<td>2.0</td>
<td>1.6%</td>
</tr>
</tbody>
</table>

- **Rating**
  - **AAA / US Govt**: 34.7% 0.4% 2.1 0.7 1.2%
  - **BBB+**: 15.3% 1.5% 1.5 0.2 1.9%
  - **A-**: 13.6% 1.4% 0.9 0.1 1.5%
  - **BBB**: 8.7% 2.1% 3.5 0.3 2.7%
  - **BBB-**: 8.3% 2.0% 3.0 0.3 2.9%
  - **AA-**: 6.0% 0.7% 1.3 0.1 1.3%
  - **AA+**: 5.6% 1.0% 2.7 0.2 1.2%
  - **A**: 3.7% 0.5% 0.7 0.0 1.1%
  - **A+**: 2.9% 0.8% 2.0 0.1 1.3%
  - **AA**: 1.2% 1.0% 1.6 0.0 1.0%
  - **Total**: 100.0% 1.0% 2.0 2.0 1.6%

- **Top Exposures**
  - **United States of America**: 10.4%
  - **John Deere Owner Trust**: 3.4%
  - **General Electric Co**: 2.8%
  - **CNH Industrial NV**: 2.6%
  - **Wells Fargo Commercial Mort.**: 2.2%
  - **Cabela’s Inc**: 2.1%
  - **Fifth Third Bancorp**: 1.9%
  - **Prologis Inc**: 1.8%
  - **Verizon Communications Inc**: 1.7%
  - **Hewlett-Packard Co**: 1.7%
  - **JPMorgan Commercial Mortgage**: 1.6%
  - **TransAlta Corp**: 1.4%
  - **Hyundai Auto Receivables Trust**: 1.3%
  - **Texas Instruments Inc**: 1.3%
  - **Pasadena Unified School District**: 1.3%
## PUF Long Term Fund Exposures  
March 31, 2015

### Market Value

<table>
<thead>
<tr>
<th>Sector</th>
<th>Market Value</th>
<th>Gain (Loss)</th>
<th>Duration</th>
<th>Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Percent</td>
<td>Percent</td>
<td>Years</td>
<td>Percent</td>
</tr>
<tr>
<td>Corporate</td>
<td>45.6%</td>
<td>0.8%</td>
<td>3.2</td>
<td>1.5</td>
</tr>
<tr>
<td>Govt</td>
<td>20.3%</td>
<td>2.1%</td>
<td>3.8</td>
<td>0.8</td>
</tr>
<tr>
<td>Asset-Backed</td>
<td>12.3%</td>
<td>0.5%</td>
<td>2.3</td>
<td>0.3</td>
</tr>
<tr>
<td>Municipal</td>
<td>6.9%</td>
<td>0.5%</td>
<td>7.1</td>
<td>0.5</td>
</tr>
<tr>
<td>MBS</td>
<td>6.5%</td>
<td>0.4%</td>
<td>2.0</td>
<td>0.1</td>
</tr>
<tr>
<td>CMBS</td>
<td>5.2%</td>
<td>0.2%</td>
<td>2.8</td>
<td>0.2</td>
</tr>
<tr>
<td>M-Mkt/Cash</td>
<td>3.2%</td>
<td>0.0%</td>
<td>0.3</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>0.9%</strong></td>
<td><strong>3.3</strong></td>
<td><strong>3.3</strong></td>
</tr>
</tbody>
</table>

### Rating

<table>
<thead>
<tr>
<th>Rating</th>
<th>Market Value</th>
<th>Gain (Loss)</th>
<th>Duration</th>
<th>Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Percent</td>
<td>Percent</td>
<td>Years</td>
<td>Percent</td>
</tr>
<tr>
<td>AAA</td>
<td>46.6%</td>
<td>1.1%</td>
<td>3.0</td>
<td>1.4</td>
</tr>
<tr>
<td>A</td>
<td>10.2%</td>
<td>0.2%</td>
<td>1.0</td>
<td>0.1</td>
</tr>
<tr>
<td>BBB+</td>
<td>8.9%</td>
<td>0.7%</td>
<td>4.2</td>
<td>0.4</td>
</tr>
<tr>
<td>A</td>
<td>8.9%</td>
<td>0.4%</td>
<td>2.0</td>
<td>0.2</td>
</tr>
<tr>
<td>BBB</td>
<td>7.2%</td>
<td>0.5%</td>
<td>5.4</td>
<td>0.4</td>
</tr>
<tr>
<td>AA</td>
<td>7.0%</td>
<td>2.4%</td>
<td>3.8</td>
<td>0.3</td>
</tr>
<tr>
<td>A+</td>
<td>4.6%</td>
<td>1.2%</td>
<td>4.0</td>
<td>0.2</td>
</tr>
<tr>
<td>AA+</td>
<td>3.9%</td>
<td>0.5%</td>
<td>4.7</td>
<td>0.2</td>
</tr>
<tr>
<td>AA-</td>
<td>2.7%</td>
<td>0.2%</td>
<td>7.7</td>
<td>0.2</td>
</tr>
<tr>
<td>BBB-</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>0.9%</strong></td>
<td><strong>3.3</strong></td>
<td><strong>3.3</strong></td>
</tr>
</tbody>
</table>

### Industry

<table>
<thead>
<tr>
<th>Industry</th>
<th>Market Value</th>
<th>Gain (Loss)</th>
<th>Duration</th>
<th>Yield</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Percent</td>
<td>Percent</td>
<td>Years</td>
<td>Percent</td>
</tr>
<tr>
<td>Financial</td>
<td>36.3%</td>
<td>0.7%</td>
<td>3.3</td>
<td>1.2</td>
</tr>
<tr>
<td>Government</td>
<td>20.3%</td>
<td>2.1%</td>
<td>3.8</td>
<td>0.8</td>
</tr>
<tr>
<td>Asset Backed Securitie</td>
<td>12.4%</td>
<td>0.5%</td>
<td>2.3</td>
<td>0.3</td>
</tr>
<tr>
<td>Mortgage Securities</td>
<td>11.6%</td>
<td>0.3%</td>
<td>2.4</td>
<td>0.3</td>
</tr>
<tr>
<td>Municipal</td>
<td>6.9%</td>
<td>0.5%</td>
<td>7.1</td>
<td>0.5</td>
</tr>
<tr>
<td>Consumer, Non-cyclical</td>
<td>2.9%</td>
<td>2.8%</td>
<td>4.2</td>
<td>0.1</td>
</tr>
<tr>
<td>Industrial</td>
<td>2.4%</td>
<td>0.3%</td>
<td>1.4</td>
<td>0.0</td>
</tr>
<tr>
<td>Consumer, Cyclical</td>
<td>2.3%</td>
<td>0.5%</td>
<td>2.6</td>
<td>0.1</td>
</tr>
<tr>
<td>Technology</td>
<td>2.3%</td>
<td>0.3%</td>
<td>1.1</td>
<td>0.0</td>
</tr>
<tr>
<td>Energy</td>
<td>2.1%</td>
<td>-0.3%</td>
<td>1.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Cash</td>
<td>0.5%</td>
<td>0.0%</td>
<td>0.1</td>
<td>0.0</td>
</tr>
<tr>
<td>Basic Materials</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Communications</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Utilities</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0%</strong></td>
<td><strong>0.9%</strong></td>
<td><strong>3.3</strong></td>
<td><strong>3.3</strong></td>
</tr>
</tbody>
</table>

### Top Exposures

- United States of America: 25.6%
- Bank of America Corp: 4.5%
- Select Income REIT: 3.6%
- Liberty Property Trust: 2.7%
- Hewlett-Packard Co: 2.3%
- Wells Fargo Commercial Mort: 1.8%
- Federal Farm Credit Banks: 1.7%
- Wells Fargo & Co: 1.6%
- Louisiana Local Government Env: 1.3%
- Metlife Inc: 1.2%
- Hospitality Properties Trust: 1.2%
- Sanofi: 1.1%
- Occidental Petroleum Corp: 1.1%
- Great America Leasing Receivable: 1.0%
- Enbridge Inc: 1.0%
The schedule of Oregon State University’s investments is shown in the investment summary in Attachment 1.

Public University Fund Performance

Oregon State University has invested its operating assets in the Public University Fund (P.U.F.). The report on the investment performance of the P.U.F., provided in the separate section above, shows the P.U.F. returned 0.7% for the quarter.

Pooled Endowment Fund Performance

Oregon State University’s endowment and quasi-endowment assets were invested in the Higher Education Endowment Fund (Fund) managed by the Oregon State Treasury, through March 31, 2015. The Fund returned 2.4% for the quarter and 4.0% for the fiscal year through March 31, 2015. The year to date performance was 80 basis points above the policy benchmark return of 3.2%.

For the five-years ended March 31, the Fund returned an average of 10.1% annually, 80 basis points above the policy benchmark return of 9.3%.

The University’s allocable share of the Fund’s assets was liquidated during the month of March, in preparation for transfer to the Oregon State University Foundation. The unusually high allocation to cash (86.6%) is due to the anticipated asset transfer.

RECOMMENDATION

Staff propose that the Finance & Administration Committee accept the FY2015 Third Quarter Public University Fund Investment Report and the FY2015 Third Quarter Oregon State University Investment Report.
### Oregon State University Investment Summary

#### as of March 31, 2015

(Net of Fees)

<table>
<thead>
<tr>
<th>Quarter Ended 3/31/2015</th>
<th>Prior Fiscal YTD</th>
<th>Current Fiscal YTD</th>
<th>3 Yr Avg</th>
<th>5 Yr Avg</th>
<th>10 Yr Avg</th>
<th>Market Value</th>
<th>Actual Asset Allocation</th>
<th>Policy Allocation Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>OSU Operating Assets Invested in Public University Fund</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oregon Short Term Fund</td>
<td>0.1%</td>
<td>0.4%</td>
<td>0.4%</td>
<td>0.6%</td>
<td>0.5%</td>
<td>2.0%</td>
<td>$65,869,529</td>
<td>39.9%</td>
</tr>
<tr>
<td>Benchmark - 91 day T-Bill</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>0.1%</td>
<td>0.1%</td>
<td>1.5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oregon Intermediate Term Pool</td>
<td>1.0%</td>
<td>2.0%</td>
<td>1.5%</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>$54,420,464</td>
<td>32.9%</td>
</tr>
<tr>
<td>Benchmark: BAML 1-5Yrs US Corp &amp; Govt A &amp; Above</td>
<td>1.0%</td>
<td>1.4%</td>
<td>1.5%</td>
<td>1.6%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Combined Historical Returns</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>P.U.F. Long Term Pool</td>
<td>1.4%</td>
<td>N/A</td>
<td>2.8%</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>$45,021,537</td>
<td>27.2%</td>
</tr>
<tr>
<td>Benchmark: BAML 5-7Yrs US Corp &amp; Govt AA &amp; Above</td>
<td>2.1%</td>
<td>0.8%</td>
<td>3.8%</td>
<td>2.4%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Combined Historical Returns</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Public University Fund Investment</td>
<td>0.7%</td>
<td>N/A</td>
<td>1.4%</td>
<td></td>
<td></td>
<td></td>
<td>$165,311,530</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

### OSU Endowment Assets Invested in Pooled Endowment Fund

| Total Pooled Endowment | 2.4% | 14.3% | 4.0% | 11.1% | 10.1% | 6.4% | | |
| Target Alloc Policy Benchmark | 2.7% | 12.3% | 3.2% | 9.8% | 9.3% | 6.7% | | |

#### Growth

6 HRJ Growth Capital II | 19% | 8.6% | 41% | | | | $1,675,196 | 4.4% | |
| Benchmark - Russell 3000+300 bps Qtr Lag | 6.0% | 22.9% | 12.8% | | | | | |

6 JPM Morgan Venture Capital IV | 4.4% | 26.6% | 12.3% | | | | $2,497,613 | 6.5% | |
| Benchmark - Russell 3000+300 bps Qtr Lag | 6.0% | 22.9% | 12.8% | | | | | |
| Total Growth | | | | | | | $4,172,809 | 10.9% | 50%-75% | |

#### Diversifiers

- Cash | 0.1% | 0.4% | 0.4% | 0.6% | 0.5% | 2.0% | 33,134,970 | 86.6% | 20%-30% |
| Benchmark - 91 day T-Bill | 0.0% | 0.0% | 0.0% | 0.1% | 0.1% | 1.5% | | |

#### Inflation Hedge

6 Capital Dynamics GRE III | 0.6% | 6.3% | 48% | | | | $943,687 | 2.5% | 7%-20% |
### Oregon State University

#### Investment Summary
as of March 31, 2015

**(Net of Fees)**

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Prior Fiscal YTD</th>
<th>Current Fiscal YTD</th>
<th>3 Yr Avg</th>
<th>5 Yr Avg</th>
<th>10 Yr Avg</th>
<th>Market Value</th>
<th>Actual Asset Allocation</th>
<th>Policy Allocation Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ended</td>
<td>YTD</td>
<td>3/31/2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**OSU Endowment Assets Invested in Pooled Endowment Fund**

- **Endowment Fund Payable**: $(5,034)
- **Total Pooled Endowment Fund**: $38,246,432
- **Land Held as Separately Invested Endowment Funds**: $2,693,002
- **Total Endowment Funds**: $40,939,434

---

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 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.

3. Notes on Policy Benchmark:
   - From November 2012 to current the policy benchmark is 25% Russell 3000, 25% MSCI ACWI Ex US, 25% BC AGG, 10% Russell 3000 +300bps, 7.5% BC Treasury Inflation Protection Index, and 7.5% NCREIF Index.

4. Estimated total return as calculated by University Shared Services Enterprise staff as ((ending balance + sales - costs - contributions)/beginning balance)-1).


6. On March 31, 2015, OSU purchased the alternative assets from the remaining participants at current market values in exchange for cash, per agreement by Vf's during the IBOC meeting held May 20, 2014.

7. Outstanding payables deducted from market value to derive net Pooled Endowment balance prior to final disbursement of Endowments to institutions. Balance shown represents OSU's proportion of net payable due on March 31, 2015.

8. Physical appraisals completed every five years, with last physical appraisals completed in FY 2012 and 2014 for the two separate forest lands. Valuations in interim years provided by faculty. Land held as separately invested endowments may not be sold. 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.

Note: Outlined returns underperformed their benchmark.