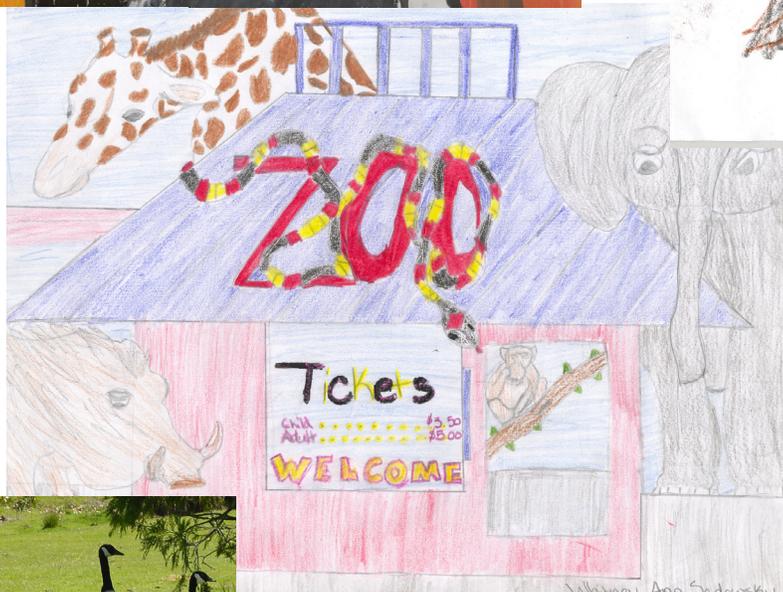


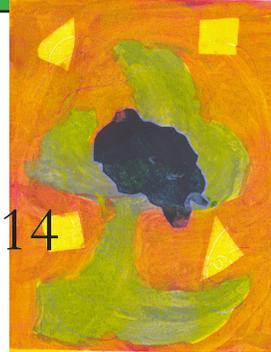
# Office of the State Treasurer

Annual Report 2005  
The Children's Art Edition



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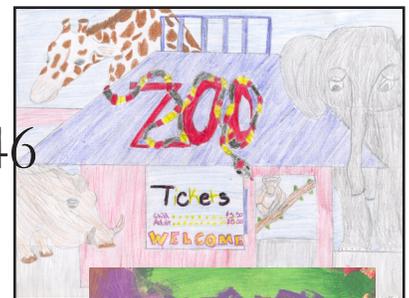
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## Executive Division

### State Capitol Building

503.378.4329

#### Randall Edwards

State Treasurer

#### Kate Cooper Richardson

Chief of Staff

#### Inga Deckert

Legislative Affairs Director

#### Kevin Max

Communications Director

#### Penney Ryan

Executive Services Director

#### Mary Bennett

Executive Support Specialist

#### Kathy Taylor

Executive Support Specialist

### 529 College Savings Network

503.373.1903

#### Michael Parker

Executive Director

#### Stephanie Swetland

Executive Assistant

### Labor & Industries Building

503.378.4000

#### Linda M. Haglund

Deputy State Treasurer

#### John Kreft

Director of Strategic Business Programs

#### Curt Hartinger

Internal Audit Manager/  
Information Security Officer

#### Kristin Stewart

Human Resource Manager

#### Andrea Belz

Senior Internal Auditor

#### Lisa Jeffries

Executive Support Specialist

## Investment Division

503.378.4111

#### Ron Schmitz

Director of Investments

#### Michael Mueller

Assistant Director

#### Jennifer Peet

Contracts & Governance Officer

#### Michelle Winegar

Executive Support Specialist

### Real Estate

503.373.7089

#### Brad Child

Senior Investment Officer

#### Anthony Breault

Investment Officer

#### McKenzie Tennent

Investment Coordinator

### Fixed Income

503.378.4113

#### Perrin Lim

Senior Investment Officer

#### Ellen Hanby

Investment Officer

#### Debbie Beyer

Investment Analyst

### Equities

503.378.4111

#### John Fewel, Jr

Senior Investment Officer

#### Wei Huang

Private Equity Investment Officer

#### Kevin Nordhill

Public Equity Investment Officer

#### Andy Hayes

Investment Analyst

#### Norma Harvey

Investment Coordinator

## Debt Management Division

503.378.4930

#### Laura Lockwood-McCall

Debt Management Director

#### Larry Groth

Assistant Director

#### Lee Anaya

Debt Management Analyst

#### Alice Bibler

Debt Management Analyst

#### Martha Kellams

Debt Management Coordinator

#### Julie Anderson

Office Specialist

## Finance Division

503.378.4633

#### Darren Bond

Director of Finance

#### Heidi Rawe

Executive Support Specialist

#### Sally Furze

Controller

#### Sharon Prentice

Relationship Manager

#### Rhonda Bachmann

Relationship Management Analyst

#### Joey Phillippi

Relationship Mgmt Consultant

#### Eddie Kessel

Cash Management Analyst

#### Marilyn Crawford

Agency Accountant

#### Tina Barthlow

Facilities Coordinator

#### Heidi Rawe

Office Specialist

#### Kori Sing

Internal Services Coordinator

### Bond & Coupon

503.378.2881

#### Doris Fisher

Administrative Accountant

### Banking

503.378.4633

#### Judy Whaley-Fultz

Manager of Banking Services

#### Brady Coy

Senior Bank Analyst

#### Kim Buckout

Bank Analyst

#### Debbe Moore

Local Government Services  
Coordinator

#### Nicole Main

Cash Flow Coordinator

#### Lisa Goonan

Accounting Technician

#### Coren Hale

Office Specialist

### Investment Accounting

503.378.4420

#### Brooks Hogle

Assistant Controller

#### Nancy Baldwin

Accountant

#### Jo Recht

Accountant

## Information Services Division

503.378.4059

#### Ron Pope

Director of Information Services

#### Nancy O'Halloran

Deputy Director

#### Mike Nason

Banking Services Administrator

#### Doug Bovee

Database Administrator

#### Wayne Lam

Banking Applications  
Administrator

#### Sarah Berg

Systems Analyst

#### Michael Leach

Systems Analyst

#### Dan Roddy

Security Administrator

#### Tyler Maudlin

Senior Systems Analyst

#### Linda Bunting

Senior Systems Analyst

#### Tim Rayburn

Systems Analyst

#### Alan Kreutzer

Software Analyst

#### Traci Bruchok

User Support Analyst

#### Lisa Mallett

User Support Analyst

#### Debbie Bettiol

User Support Analyst

#### Greg Sevdy

Network Administrator

# From the State Treasurer

I am proud to present the 2005 Oregon State Treasurer's Annual Report, the Children's Art Edition. This report features the inspired drawings, paintings and photographs of the children and grandchildren of staff members.

The 2005 Annual Report describes the results of the Office of the State Treasurer's services and operations in retirement investing, college savings, and financial management of nearly \$70 billion in assets.



*Oregon State Treasurer Randall Edwards, 2005*

While 2004 was a relatively strong year for the state, 2005 continued robust growth of state tax revenues, employment and public equity markets held up nicely.

The Oregon Public Employee Retirement Fund, managed by the Oregon Investment Council and the Investment Division, earned a very strong 13.2 percent return on the year, retaining its top percentile ranking among pension funds.

The Common School Fund that we invest for the state again reached record highs. The Common School Fund is an asset for all schools across the state.

Oregon's credit ratings were upgraded by one bond rating agency, which is a sign of overall economic strength and, in turn, leads to debt repayment savings for all Oregonians.

Parents continued to invest for their children's educational future through our Oregon 529 College Savings Network. By the end of 2005, nearly \$560 million through 75,000 accounts was invested in this plan, which provides tax-free growth investments for college savings.



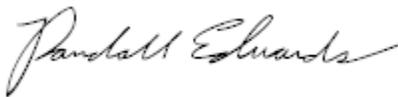
I continue to see better corporate governance as a tool for improving the public equity markets we invest in. The most notable event to that end was standing with together with state treasurers in calling for more corporate disclosure of the risk of climate change. Global warming represents true costs to many corporations, yet these costs are not disclosed on their balance sheets.

Oregon's public retirement fund was also one of the first state pension funds to begin divestment from companies doing business in Sudan, where genocide is being carried out.

Other highlights of 2005 include:

- Top quartile performance among pension funds greater than \$10 billion
- Extraordinary returns of 17.3 percent in private equity, 32.7 percent in real estate
- Management of the sale of bonds to support bridge repairs and support of low-income housing, such as the Iris Court renovation project in northeast Portland
- The new Oregon Quarter, first struck at the United States Mint at Denver
- College savings plan assets and accounts growing rapidly

It is an honor serving as your State Treasurer. I will continue to build on our successes and will work to improve the financial health of the state and its citizens.



Randall Edwards  
State Treasurer



Cody Bibler, age 9





Katie Coy, age 6





Katherine Edwards, age 9



Anna Coy, age 4



Macy Deckert, age 2



# Office of the State Treasurer

## OVERVIEW

State Treasurer Randall Edwards is a constitutional officer, a statewide elected official, and director of the Office of the State Treasurer. Edwards serves as the principal financial officer for the State and is responsible for the prudent financial management of billions of taxpayer dollars. Edwards, who took office in January 2001, and was re-elected for a second term beginning January 2004, is limited to two four-year terms.

The Office of the State Treasurer is a sophisticated organization with a wide range of financial responsibilities, including managing the investment of state funds, issuing all state bonds, serving as the central bank for state agencies, and administering the Oregon 529 College Savings Network. The Office of the State Treasurer strives to save taxpayers money and earn the highest possible return on investments.

## EXECUTIVE DIVISION

The Executive Division coordinates policy development, strategic planning, legislative initiatives, public relations and communications, internal auditing functions, human resource functions, and the publication of the Treasurer's Office's financial reports. The State Treasurer serves by constitutional authority on the State Land Board and by statute on a number of public finance boards and commissions.

## INVESTMENT DIVISION

The Investment Division manages on behalf of Oregonians a portfolio with a market value greater than \$61 billion. The division manages the Oregon Public Employees Retirement Fund (OPERF), the State Accident Insurance Fund, the Oregon Short Term Fund, and numerous other funds such as the Common School Fund and the Oregon Growth Account. With assets greater than \$48 billion, OPERF is the 24<sup>th</sup> largest pension fund in the U.S. In a universe of public funds with assets greater than \$10 billion, OPERF ranked in the top quartile for the periods of one, three, five, and seven years covered by the data. For most of these long-term periods, OPERF was actually in the top decile compared to its peers.

## DEBT MANAGEMENT DIVISION

The Debt Management Division provides central coordination for all state-issued debt, including \$9.0 billion in general obligation and revenue bonds and certificates of participation. The division monitors local and national bond markets as well as financial and economic trends that impact bond issuance structures and interest rates.

# Office of the State Treasurer

## FINANCE DIVISION

The Finance Division provides centralized banking and investment accounting services for all state agencies. The division processed more than 12.6 million financial transactions in 2004 totaling more than \$135 billion, including cash deposits, electronic fund transfers, and check redemptions.

## INFORMATION SERVICES DIVISION

The Information Services Division is the information technology management center for the agency. This division designs, develops, and maintains technology infrastructures, security protocols, and numerous applications that support the Office of the State Treasurer's management of Oregon's financial assets. Information Services provides networks, applications, telecommunications, and other computing resources that are vital for successfully conducting business between the Treasurer's Office, state agencies, local governments, banks, and other financial organizations throughout Oregon and the United States.

## OREGON 529 COLLEGE SAVINGS NETWORK

This network provides a variety of savings plans based on Section 529 of the IRS Code to help make college education affordable for all families. The plans provide significant state and federal tax advantages and more flexibility than many other college savings programs. The network is administered by a public board chaired by the State Treasurer.



Thomas Edwards, age 9

# Strategic Planning

## VISION STATEMENT

Financial leadership today for Oregon's tomorrow.

## MISSION STATEMENT

To provide prudent financial stewardship for Oregon.

## OVERVIEW

The Office of the State Treasurer (OST) reviews its mission statement and strategic priorities on an annual basis, requiring each division to develop three-year goals and one-year tasks to help achieve these goals. We believe this annual planning process mitigates the risks related to our business. Focusing on strategic priorities provides overall guidance and direction in these planning processes. The OST changed its strategic planning process in 2004 to create goal-oriented business plans under a different framework.

This framework continues the overarching vision, mission, values, and strategic priorities The Office of the State Treasurer has used in the past. The components added in 2004 were critical processes, key activities, and process measures. Linking these components improves processes as the basis to achieve superior results.

What are the components of this new framework? Critical processes are the major business processes in each division. Key activities are the major steps used to complete each process. Process measures provide information to managers about the effectiveness and efficiency of their business. Taken together, this new framework helps us measure our progress against tangible goals.

Focusing on strategic priorities was important in the past and still provides overall guidance and direction to our planning processes. For 2005, OST's strategic priorities have not changed.

- To provide financial leadership
- To attract, develop, and retain a diverse, high-quality workforce
- To be customer-focused
- To communicate with and educate our customers, stakeholders, and partners about OST
- To seek innovative solutions

Each year, the OST identifies areas of emphasis for all divisions of the Treasurer's Office. Business continuity and succession planning were the two topics deemed most important. Major activities in 2005 will continue to mitigate risk in business processes through preparation of business continuity plans along with vigilant plan exercises.

In addition, demographics continue to be an issue in the workforce. The Treasurer's Office is no exception. Succession planning is one method to mitigate knowledge loss when key positions are vacated.

OST's responsibilities continue to grow. At year-end, total investments under management were in excess of \$61 billion; more than \$134 billion runs through the banking system on an annual basis; debt management processes hundreds of millions of dollars in financing instruments from new issues or advance refunding. Recently the Oregon 529 College Savings Network topped \$400 million in assets, helping Oregon's families save for their children's education.

# Investment Division

Ron Schmitz, Director

## OVERVIEW

The total market value of investments managed by the Office of the State Treasurer (OST) at December 31, 2005, was \$66.9 billion. Accounts managed by OST include the Oregon Public Employees Retirement Fund, the Oregon Short-Term Fund, the State Accident Insurance Fund, the Common School Fund, and other trust and cash accounts. The Oregon Investment Council (OIC) directs the activities of Investment Division staff with respect to most funds managed by OST.

The Oregon Public Employees Retirement Fund (OPERF) is the largest fund managed by the Treasurer's Office with \$54.1 billion in investments. The OIC has adopted a primary investment goal to exceed the assumed 8 percent earnings rate of the Public Employees Retirement System actuary. To achieve the assumed rate of return over time, OPERF maintains an equity-oriented portfolio. This risk/return profile means that fund governance is based on a long-term return investment horizon. In bull market years like 2003 through 2005, results will be strong. Nonetheless, it should be noted that during bear market environments, OPERF returns will be much less favorable. A broad market and performance commentary regarding OPERF appears below, with a detailed commentary by asset class later in this report.

The Oregon Short Term Fund (OSTF) is the second-largest pool of investments managed by the Treasurer's Office, with a value of \$8.3 billion at year end 2005. The OSTF Board works with the OIC to set the operating and investment parameters employed by the Treasurer's Office. A commentary on the OSTF follows the detailed OPERF asset class discussions.

The State Accident Insurance Fund (SAIF) is the third-largest account managed by the Treasurer's Office, with a value of more than \$3.2 billion at year end 2005. Because SAIF is a regulated operating insurance company, the asset allocation must be consistent with the needs and constraints of the company's business. Based on new information about SAIF's needs, the allocation to convertible securities was eliminated and the bond portfolio will continue to expand its average maturity to be consistent with the expected liability stream.

The Common School Fund (CSF) is the fourth-largest account managed by the Treasurer's Office. At year end 2005, CSF assets reached an all-time high of \$992 million. The CSF asset mix takes into account the State Land Board's distribution policy as well as the long-term expectations for capital market returns.

OST continues its efforts to formalize, refine, and regularly update policies and procedures governing investment activity for all funds under management. The strategic allocation of the portfolio assets of various accounts is reviewed regularly, and both external and internal investment managers are monitored for compliance with policies and realization of value-added performance versus their respective benchmarks.

# Investment Division

## PORTFOLIO SIZE ( MARKET VALUE IN MILLIONS )

|  | 12/31/05          | 12/31/04          | 12/31/03          | 12/31/02          | 12/31/01          | 12/31/00          |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Public Employees Retirement Fund (OPERF)   | \$54,073.3        | \$48,687.8        | \$43,609.3        | \$33,388.0        | \$36,261.6        | \$39,564.8        |
| Oregon Short-Term Fund (OSTF) <sup>1</sup> | 7,698.3           | 8,073.0           | 8,330.4           | 7,749.5           | 7,553.9           | 6,767.0           |
| State Accident Insurance Fund (SAIF)       | 3,221.3           | 3,062.8           | 2,861.0           | 2,577.4           | 2,512.6           | 2,530.1           |
| Common School Fund (CSF)                   | 992.9             | 910.9             | 804.9             | 665.2             | 729.6             | 783.0             |
| Oregon War Vet Bond Sinking Fund           | 118.6             | 184.5             | 178.7             | 256.8             | 256.9             | 287.6             |
| DCBS Fund                                  | 241.6             | 123.3             | 157.6             | 97.3              | 126.7             | 150.8             |
| Insurance Fund                             | 80.3              | 70.8              | 73.8              | 56.8              | 68.3              | 86.2              |
| Higher Education Endowment Fund            | 63.5              | 63.2              | 58.2              | 47.4              | 56.8              | 61.1              |
| Other Funds                                | 426.0             | 414.9             | 527.8             | 378.4             | 370.9             | 491.9             |
| <b>TOTAL</b>                               | <b>\$66,915.8</b> | <b>\$61,591.2</b> | <b>\$56,601.7</b> | <b>\$45,216.8</b> | <b>\$47,937.3</b> | <b>\$50,722.5</b> |

<sup>1</sup>Excludes cash balances reported as a component of fund balances for OPERF, SAIF, and the CSF.

# Investment Division

## OREGON INVESTMENT COUNCIL

Oregon Revised Statutes (ORS) 293.706 establishes the Oregon Investment Council (OIC), which consists of five voting members, four of whom are appointed by the Governor and subject to Senate confirmation. Four members, who are qualified by training and experience in the fields of investment or finance, are appointed by the Governor, and the State Treasurer is a member by position. In addition, the Director of the Public Employees Retirement System is an ex officio, nonvoting member of the OIC.

The OIC is charged with formulating policies for the investment and reinvestment of money in the investment funds under its control, and for the acquisition, retention, management, and disposition of investments in the investment funds. Periodically, the OIC is required to review those policies and make changes that it considers necessary or desirable. The OIC may formulate separate policies for any fund included in the investment funds. The council is required to report to the Governor and the Legislative Assembly on the investment programs at each regular session of the Legislative Assembly and at other times the council considers to be in the public interest.

The OIC ensures that money in the investment funds is invested and reinvested as productively as possible. Furthermore, the investments of those funds shall be managed as a prudent investor would, under the prevailing circumstances and in light of the purposes,

terms, distribution requirements, and laws governing each investment fund. This standard requires the exercise of reasonable care, skill, and caution and is applied to investments not in isolation, but in the context of each investment fund's investment portfolio as part of an overall investment strategy. The strategy incorporates risk and return objectives reasonably suitable to the particular investment fund.

When implementing investment decisions, the OIC has a duty to diversify the investments of the investment funds, unless under the circumstances it is not prudent to do so. In addition, the council must act with prudence when selecting agents and delegating authority.

The OIC approves asset classes in which State of Oregon money is invested. Current asset classes approved for the purchase of investments include the Oregon Short-Term Fund, Fixed Income, Real Estate, Equities, and Alternative Equities. The OIC must approve in advance the purchase of investments in a new asset class not described above.

Under the OIC's open-door policy, investment officers employed by The Office of the State Treasurer will hear and consider investment proposals and solicitations from any person, firm, or partnership that submits a proposal or solicitation in good faith. This policy, however, does not require that the OIC purchase the proposed investment.

### OREGON INVESTMENT COUNCIL (AS OF 12.31.05)

**Gerard Drummond**, Chair  
Portland

Appointed by Governor  
Term expired 05.31.05

**Randall Edwards**, State Treasurer  
Salem

Serves by position

**Katy Durant**  
Portland

Appointed by Governor  
Term expires 09.19.06

**Mark Gardiner**  
Portland

Appointed by Governor  
Term expires 09.30.07

**Richard Solomon**  
Portland

Appointed by Governor  
Term expires 01.31.10

**Paul Cleary**, PERS Director  
Portland

Serves by position  
(non-voting)

# Investment Division

The OIC meets regularly and, in compliance with ORS 192.630-660, holds its meeting in a public forum. Public notice, including a meeting agenda, is provided to interested persons. Written minutes and audio-recordings are taken of all meetings.

The OIC recently embarked on a detailed documentation of its governance structure and beliefs encompassing delegation and return expectations. As funds under management have grown significantly, these formal

guidelines have become invaluable to the professional management of state funds. The council also regularly reviews various aspects of investment policy, performance of investment managers and accounts, asset allocations, and a large number of investment proposals and recommendations.

## INVESTMENT SUMMARY

|                                      | OIC Target Allocations | Actual %     | Market Value 12/31/05    |
|--------------------------------------|------------------------|--------------|--------------------------|
| <b>Total Cash</b> <sup>1</sup>       | <b>0-3 %</b>           | <b>1 %</b>   | <b>\$ 577,965,000</b>    |
| <b>Total Fixed Income Securities</b> | <b>22-32</b>           | <b>26</b>    | <b>13,358,114,000</b>    |
| Real Estate                          | N/A                    | 4            | 2,308,105,000            |
| Real Estate Securities <sup>2</sup>  | N/A                    | 2            | 903,123,000              |
| <b>Total Real Estate</b>             | <b>5-11</b>            | <b>6</b>     | <b>3,211,228,000</b>     |
| Domestic Equities <sup>3</sup>       | 30-40                  | 35           | 18,549,781,000           |
| International Equities <sup>3</sup>  | 15-25                  | 22           | 11,717,825,000           |
| Alternative Equities                 | 7-13                   | 10           | 4,996,662,000            |
| <b>Total Equities</b>                | <b>60-70</b>           | <b>67</b>    | <b>35,264,268,000</b>    |
| <b>Total OPERF Regular Account</b>   | <b>100</b>             | <b>100</b>   | <b>52,411,575,000</b>    |
| <b>Total Variable Fund</b>           | <b>N/A</b>             | <b>N/A</b>   | <b>1,661,734,000</b>     |
| <b>Total OPERF</b> <sup>4</sup>      |                        | <b>100 %</b> | <b>\$ 54,073,309,000</b> |

## OTHER FUNDS

|   |                          |
|---|--------------------------|
| Oregon Short Term Fund <sup>1</sup>     | \$ 7,698,265,000         |
| State Accident Insurance Fund           | 3,221,283,000            |
| Common School Fund                      | 992,932,000              |
| Oregon War Veterans' Bond Sinking Funds | 118,614,000              |
| Benefit Reserve Board Fund              | 224,080,000              |
| DCBS Funds                              | 241,604,000              |
| DAS Funds                               | 80,266,000               |
| Higher Education Pooled Endowment Fund  | 63,469,000               |
| All Others                              | 201,940,000              |
| <b>Total Investments</b>                | <b>\$ 66,915,762,000</b> |

# Investment Division

## OREGON INVESTMENT COUNCIL

### SUMMARY OF LARGEST DOMESTIC EQUITY MANAGERS<sup>3</sup>

|                                | <b>% of<br/>Domestic</b> | <b>% of<br/>OPERF</b> | <b>Market Value<br/>12/31/05</b> | <b>Return<br/>12/31/05</b> |
|--------------------------------|--------------------------|-----------------------|----------------------------------|----------------------------|
| BGI Russell 1000 Value         | 12.2%                    | 4.3%                  | 2,263,337,000                    | 7.1%                       |
| BGI Russell 1000 Growth        | 11.9                     | 4.2                   | 2,202,789,000                    | 5.3                        |
| BGI 1000 Alpha Tilts           | 7.0                      | 2.5                   | 1,296,318,000                    | 9.6                        |
| Goldman Sachs Asset Management | 5.8                      | 2.1                   | 1,074,644,000                    | 9.0                        |
| Wanger Asset Management        | 5.7                      | 2.0                   | 1,049,378,000                    | 12.2                       |
| Franklin Portfolio Advisors    | 5.6                      | 2.0                   | 1,029,932,000                    | N/A                        |
| PIMCO                          | 5.5                      | 1.9                   | 1,015,092,000                    | 6.0                        |
| Aronson, Johnson, & Ortiz      | 5.4                      | 1.9                   | 997,879,000                      | 10.1                       |
| Alliance/Bernstein             | 5.4                      | 1.9                   | 995,220,000                      | 10.1                       |
| Alliance Capital Management    | 4.8                      | 1.7                   | 898,349,000                      | 16.5                       |
| <b>Total</b>                   | <b>69.1 %</b>            | <b>24.5 %</b>         | <b>\$ 12,822,938,000</b>         |                            |

### SUMMARY OF LARGEST INTERNATIONAL EQUITY MANAGERS<sup>3</sup>

|                                | <b>% of<br/>Int'l</b> | <b>% of<br/>OPERF</b> | <b>Market Value<br/>12/31/05</b> | <b>Return<br/>12/31/05</b> |
|--------------------------------|-----------------------|-----------------------|----------------------------------|----------------------------|
| BGI International Alpha Tilts  | 10.6%                 | 2.4%                  | \$ 1,238,755,000                 | 14.7%                      |
| BGI MSCI World-Ex US Fund      | 10.4                  | 2.3                   | 1,216,727,000                    | 14.8                       |
| Fidelity Investment Management | 9.7                   | 2.2                   | 1,138,923,000                    | 15.8                       |
| Walter Scott Management        | 8.4                   | 1.9                   | 982,916,000                      | 17.3                       |
| Arrowstreet Capital            | 8.1                   | 1.8                   | 944,462,000                      | 17.3                       |
| TT International               | 8.0                   | 1.8                   | 940,912,000                      | 22.3                       |
| Alliance/Bernstein             | 8.0                   | 1.8                   | 938,411,000                      | 18.1                       |
| Acadian Asset Management       | 8.0                   | 1.8                   | 933,755,000                      | 26.8                       |
| Marvin & Palmer Associates     | 7.8                   | 1.7                   | 915,284,000                      | 20.9                       |
| Lazard Asset Management        | 7.8                   | 1.7                   | 910,581,000                      | 17.6                       |
| <b>Total</b>                   | <b>86.7%</b>          | <b>19.4%</b>          | <b>\$11,717,825,000</b>          |                            |

<sup>1</sup> OPERF, SAIF, and Common School Fund holdings in the Oregon Short-Term Fund have been classified as cash and have been deducted from the Short-Term Fund balance reported as "Other Funds."

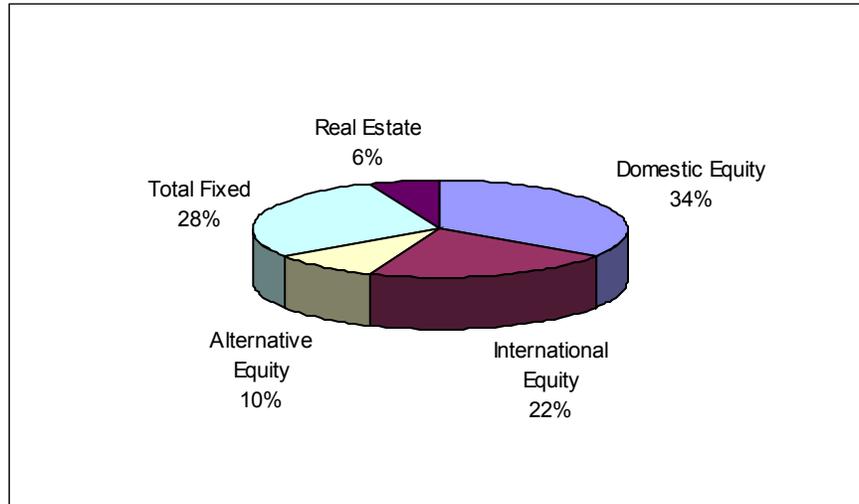
<sup>2</sup> For target allocation purposes, real estate securities are considered a component of the Real Estate allocation.

<sup>3</sup> Equity securities are valued by State Street Bank and include accrued income and net payables/receivables.

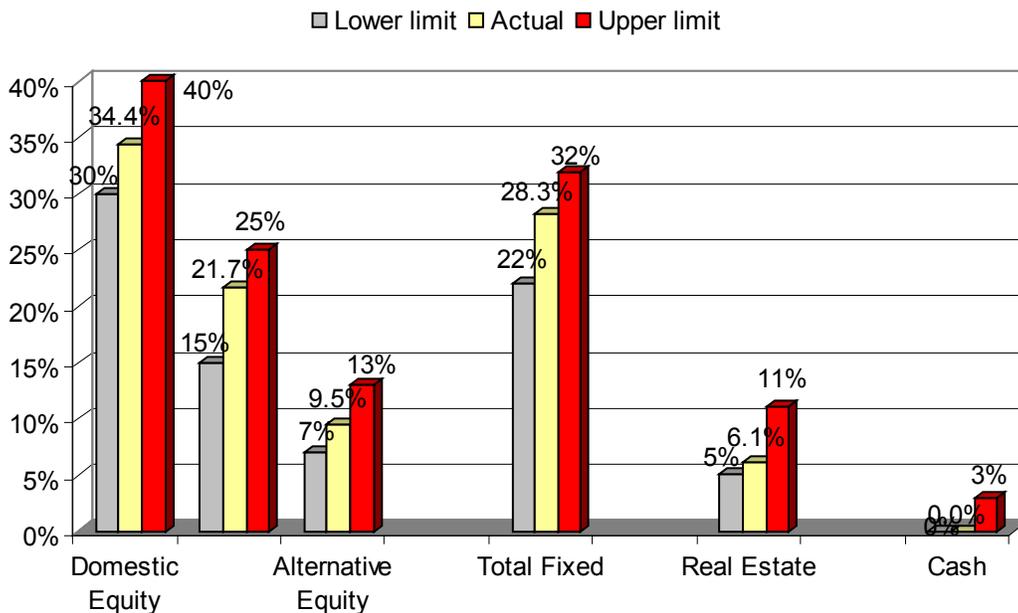
<sup>4</sup> OPERF asset allocation does not include the domestic equities in the Variable Fund.

# Investment Division

## OPERF ACTUAL MARKET COMPOSITION

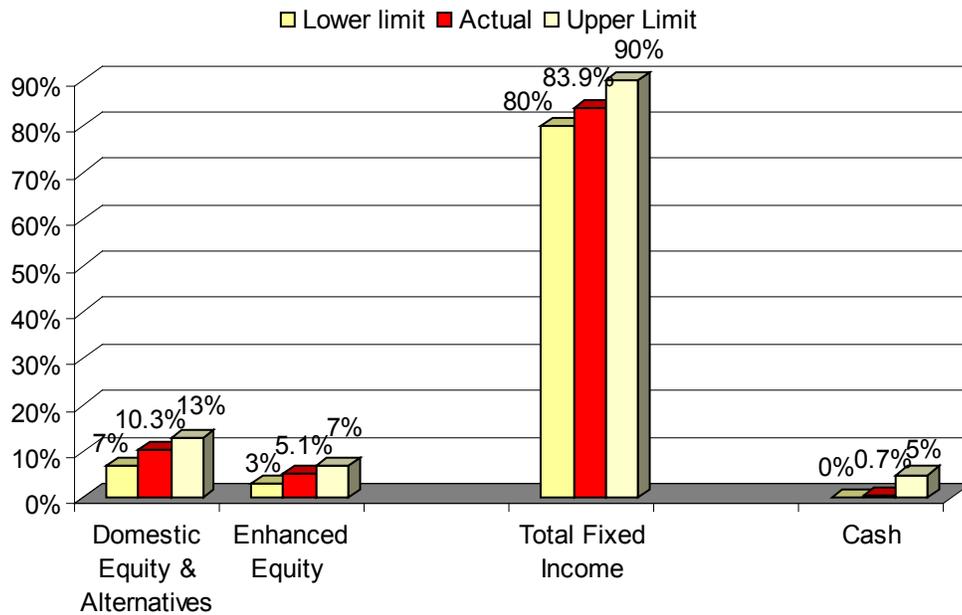


## OPERF ASSET ALLOCATION 2005

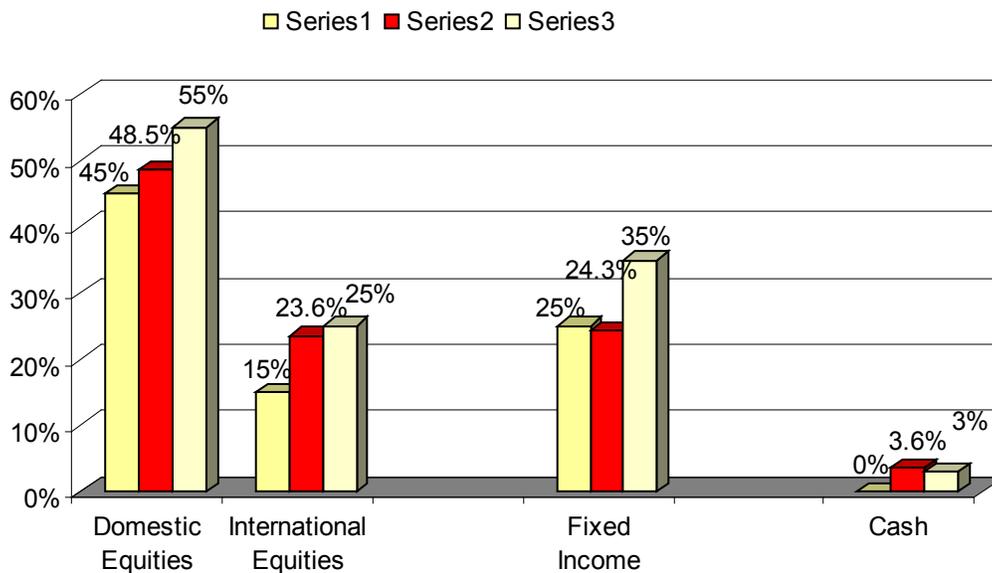


# Investment Division

## SAIF ASSET ALLOCATION 2005



## COMMON SCHOOL FUND ALLOCATION 2005



# Investment Division

## OPERF PERFORMANCE SUMMARY

### TOTAL OPERF PERFORMANCE

|                       | <b>Year ended<br/>12/31/05</b> | <b>3 years ended<br/>12/31/05</b> | <b>5 years ended<br/>12/31/05</b> |
|-----------------------|--------------------------------|-----------------------------------|-----------------------------------|
| OPERF Regular Account | 13.19%                         | 16.70%                            | 6.48%                             |
| Policy Allocation     | 9.79%                          | 15.37%                            | 5.32%                             |

### OREGON SHORT TERM FUND

|                        | <b>Year ended<br/>12/31/05</b> | <b>3 years ended<br/>12/31/05</b> | <b>5 years ended<br/>12/31/05</b> |
|------------------------|--------------------------------|-----------------------------------|-----------------------------------|
| Oregon Short Term Fund | 3.15%                          | 1.97%                             | 2.50%                             |
| 91- Day T-Bill         | 3.07%                          | 1.84%                             | 2.34%                             |

### FIXED INCOME PORTFOLIO

|                                     | <b>Year ended<br/>12/31/05</b> | <b>3 years ended<br/>12/31/05</b> | <b>5 years ended<br/>12/31/05</b> |
|-------------------------------------|--------------------------------|-----------------------------------|-----------------------------------|
| OPERF Total Fixed Income            | 3.67%                          | 6.43%                             | 7.26%                             |
| Custom Fixed Income 90/10 Benchmark | 3.02%                          | 4.47%                             | 6.15%                             |

### REAL ESTATE PORTFOLIO

|                              | <b>Year ended<br/>12/31/05</b> | <b>3 years ended<br/>12/31/05</b> | <b>5 years ended<br/>12/31/05</b> |
|------------------------------|--------------------------------|-----------------------------------|-----------------------------------|
| OPERF Real Estate Portfolio  | 32.65%                         | 23.39%                            | 16.96%                            |
| NCREIF Index (gross of fees) | 19.19%                         | 13.04%                            | 10.95%                            |

### EQUITIES

|                               | <b>Year ended<br/>12/31/05</b> | <b>3 years ended<br/>12/31/05</b> | <b>5 years ended<br/>12/31/05</b> |
|-------------------------------|--------------------------------|-----------------------------------|-----------------------------------|
| <b>Domestic Equities</b>      |                                |                                   |                                   |
| OPERF Domestic Equities       | 7.83%                          | 17.34%                            | 2.42%                             |
| Russell 3000 Index            | 6.12%                          | 15.90%                            | 1.58%                             |
| <b>International Equities</b> |                                |                                   |                                   |
| OPERF International Equities  | 18.75%                         | 26.79%                            | 7.23%                             |
| MSCI ACWI Ex US Free          | 17.11%                         | 26.20%                            | 6.66%                             |

### ALTERNATIVE EQUITIES

|                                       | <b>IRR Since 1981<br/>(Annualized)</b> |
|---------------------------------------|--|
| Alternative Equity Investment Program | 17.3%                                  |

# Investment Division

## DOMESTIC EQUITIES

The U.S. economy ended 2005 on a strong note. U.S. Gross Domestic Product remained robust. After taking a sharp fall in the wake of hurricanes Katrina and Rita, consumer confidence snapped back in November with declining oil prices and improvements in the job market. U.S. corporate earnings remained in double digits in the third quarter but are expected to slow in 2006. The Federal Reserve continued to fight inflation by increasing the federal funds rate to 4.25 percent at year-end. The housing market shows signs of weakening as of year-end, after a prolonged bull run. Unemployment dropped to 5.0 percent from 5.4 percent in 2004. The stock market posted gains for the third year in a row.

The Domestic Equity Fund (DEF) returned 7.83 percent for 2005 versus the Russell 3000 benchmark of 6.12 percent. It was a respectable year on absolute basis and a very good year on a relative basis, exceeding the benchmark by 171 basis points. Twelve of the 17 active strategy equity managers in the DEF stable met or exceeded their respective benchmarks in 2005.

Mid-cap stocks led the way with the Russell Mid-cap index posting a return of 12.65 percent for 2005. After six consecutive years of small-cap stocks out-performing

large-cap stocks, large cap stocks finally edged small-cap stocks in 2005, with the Russell 1000 index up 6.27 percent versus the Russell 2000 index, which returned 4.55 percent. For the sixth consecutive year, value stocks out-performed growth stocks. However, the gap was very narrow with the Russell 3000 Value index

returning 6.85 percent and the Russell 3000 Growth index returning 5.17 percent.

Two new managers were added to the DEF stable in 2005. Wells Capital Management was funded on March 1 in the large-cap growth space. Franklin Portfolio Associates was funded February 1 in the enhanced index space. Two managers were terminated during 2005: Trust Company of the West in the large-cap growth space and Thompson Rubinstein in the core equity space.

Can we expect a strong year for U.S. equities in 2006? Experts disagree. The U.S. economy continues to improve, as evidenced by falling unemployment and increasing GDP. The Federal Reserve should

soon be done raising rates and inflation appears to be contained. One thing many experts do agree on is that growth stocks are now historically cheap compared to value stocks, and that large-cap stocks are historically cheap relative to small-cap stocks.

### DOMESTIC MANAGERS

(AS OF 12/31/05)

| Manager   | Total Market Value with Accrual (in thousands) |
|---|--|
| AllianceBernstein                                 | \$ 995,220                                     |
| Alliance Capital Management                       | 898,349  |
| AJO   | 997,879  |
| Ark Asset Management                              | 852,108  |
| Becker Capital Management                         | 334,733  |
| BGI Russell 1000 Alpha Tilts Fund                 | 1,296,318                                      |
| BGI Russell 1000 Growth Index Fund                | 2,202,789                                      |
| BGI Russell 1000 Value Index Fund                 | 2,263,337                                      |
| Franklin Portfolio Associates                     | 1,029,933                                      |
| Froley Revy Investment Company                    | 543,665  |
| Goldman Sachs Asset Management                    | 1,074,644                                      |
| Mazama Capital                                    | 306,282  |
| MFS Institutional                                 | 550,945  |
| Nicholas Applegate Capital Management             | 224,396  |
| Northern Trust Company                            | 884,188  |
| PIMCO   | 1,015,092                                      |
| Summit Creek                                      | 226,802  |
| Transition Account (formerly Thompson Rubinstein) | 426,986  |
| Wanger Asset Management                           | 1,049,378                                      |
| Wellington Management Company                     | 530,457  |
| Wells Capital                                     | 833,529  |
| Other   | 12,751   |
| <b>Total Regular Account</b>                      | <b>\$ 18,549,781</b>                           |
| BGI Alpha Tilts                                   | 557,204  |
| Goldman Sachs                                     | 548,838  |
| PIMCO   | 532,094  |
| Other   | 23,598   |
| <b>Total Variable Account</b>                     | <b>\$ 1,661,734</b>                            |
| <b>Total Domestic Equities</b>                    | <b>\$ 20,211,515</b>                           |

# Investment Division

## INTERNATIONAL EQUITIES

Since the bull market resumed in 2003, investors have preferred non-U.S. markets, and emerging markets in particular. Corporate profits have improved and demand has increased, especially in the U.S. and China. Corporate and governmental reform, strong economies, attractive valuations, and the increase in mergers and acquisitions have bolstered the appeal of international stocks.

The International Equity Fund had a strong year in both absolute and relative performance for 2005, returning 18.75 percent versus the MSCI All Country World Index ex-U.S. benchmark performance of 17.11 percent. Ten of the 12 active managers out-performed their respective benchmarks.

Non-U.S. developed markets did well, with the MSCI World ex-U.S. index posting a U.S. dollar return 14.5 percent for the year. After a prolonged period of disappointing returns, Japanese stocks rallied as the MSCI Japan index posted a local currency return of 44.7 percent for the year. The MSCI United Kingdom and MSCI Europe ex-U.K. indices posted local currency returns of 20.1 percent and 28.6 percent, respectively. The strengthening dollar muted the returns in U.S. dollar terms of the MSCI Japan, MSCI U.K. and MSCI Europe ex-U.K. indices, to 25.6 percent, 7.4 percent, and 11.3 percent, respectively. Value and growth stock

indices had nearly identical returns in 2005, with the MSCI ACWI ex-U.S. Value index returning 17.15 percent and the MSCI ACWI ex-U.S. Growth index returning 17.08 percent.

### INT'L & GLOBAL MANAGERS

(AS OF 12/31/05)

| Manager                         | Total Market Value with Accrual (in thousands) |
|---------------------------------|--|
| Acadian Asset Management        | \$ 933,755                                     |
| AllianceBernstein International | 938,411  |
| Arrowstreet Capital             | 944,462  |
| Brandes Investment Partners     | 873,046  |
| BGI International Alpha Tilts   | 1,238,755                                      |
| BGI MSCI World-Ex US Index      | 1,216,727                                      |
| Fidelity Investment Management  | 1,138,923                                      |
| Genesis Asset Management Ltd.   | 448,861  |
| Lazard Asset Management         | 910,581  |
| Marvin & Palmer Associates      | 915,284  |
| TT International                | 940,912  |
| Walter Scott Partners           | 982,916  |
| Wells Capital                   | 234,467  |
| Other                           | 725  |
| <b>Total</b>                    | <b>\$ 11,717,825</b>                           |

For the third year in a row, emerging markets were the place to be, with the MSCI Emerging Market index posting a U.S. dollar return of 34.5 percent. The Republic of Korea, the largest country in the MSCI Emerging Market Index, returned 58.0 percent for 2005, in U.S. dollar terms. Colombia and Egypt both posted triple-digit returns.

Just a few years ago, U.S. investors were asking themselves

“Why invest in non-U.S. stocks?” since returns trailed U.S. equity returns and the correlation of returns between the U.S. and non-U.S. equity markets was at an all-time high. Those investors who stayed with non-U.S. equity allocations were rewarded.

No International Equity Fund managers were added during 2005, while T. Rowe Price was the only manager terminated.

# Investment Division

## OTHER EQUITY FUNDS

(12/31/05)

| <b>Manager</b>                     | <b>Total Market Value with Accrual<br/>(in thousands)</b> |
|------------------------------------|---|
| State Accident Insurance Fund      |   |
| BGI Russell 3000 Index Fund        | \$ 330,034  |
| BGI Russell 3000 Alpha Tilts Fund  | 165,644   |
| Wellington Management              | 1,350,997   |
| Western Asset Management           | 1,349,866   |
| Other                              | 24,742  |
| <b>Total</b>                       | <b>\$ 3,221,283</b>                                       |
| Common School Fund                 |   |
| BGI Russell 3000 Index Fund        | \$ 95   |
| BGI Russell 3000 Alpha Tilts Fund  | 480,656   |
| BGI EAFE Index Fund                | 21  |
| BGI International Alpha Tilts Fund | 234,533   |
| Wellington Management              | 119,987   |
| Western Asset Management           | 121,538   |
| Other                              | 36,102  |
| <b>Total</b>                       | <b>\$ 992,932</b>   |

# Investment Division

## ALTERNATIVE EQUITIES

The Alternative Equity Program continued to produce strong results in 2005. Similar to 2004, when the Oregon Investment Council and the Treasurer's staff made only a few private equity commitments due to its relative over-weight from the prior year and the continued strong returns of the private equity asset class in 2005, the Alternative Equity Portfolio allocation fell below 10 percent at the end of 2005. In addition, the relative weight of private equity in the fund receded because of a continuing rebound in the public market sector. The rebound of public markets in turn helped private equity general partners exit a significant amount of their portfolio companies either through strategic sale, initial public offering, or recapitalization by raising more money in the robust debt markets. For the calendar year 2005, OPERF received distributions of more than \$2.0 billion while meeting capital calls of \$1.6 billion. By year end, alternative investments represented 9.8 percent of the total asset base of OPERF.

Throughout 2005, the OIC and staff have been busy recommitting to new funds raised by many of the successful existing general partners with whom OPERF has had long-term relationships, as well as selectively partnering up with new venture capital and private equity firms which are complimentary to the existing Alternative Equity Portfolio.

As of December 31, 2005, the Alternative Equity Portfolio had generated a net 17.4 percent internal rate of

return since its 1981 inception. The year-end estimated fair market valuation was approximately \$5.1 billion with \$4.1 billion in unfunded commitments, compared with respective figures of \$4.3 billion and \$3.0 billion at year-end 2004.

The OIC authorized the following 22 new commitments to the Alternative Equity Portfolio in 2005, for a total of \$2.4 billion.

### ALTERNATIVE EQUITIES 2005 COMMITMENTS

|                                   |                 |
|-----------------------------------|-----------------|
| Lion Capital Fund I               | \$ 99.8 million |
| Oak Hill Capital Partners II      | 100 million     |
| Palamon European Equity II        | 100 million     |
| Northwest Emerging Ventures II    | 300 million     |
| Littlejohn Fund III               | 50 million      |
| Markstone Capital Partners        | 50 million      |
| CVC European Equity Partners IV   | 146 million     |
| Parthenon Investors III           | 100 million     |
| Montauk TriGuard Fund III         | 50 million      |
| Elevation Partners                | 100 million     |
| Warburg, Pincus Private Equity IX | 200 million     |
| Granite Ventures II               | 25 million      |
| Asia Opportunity Fund II          | 100 million     |
| OCM Opportunities Fund VI         | 50 million      |
| Diamond Castle Partners IV        | 100 million     |
| Fenway Partners Capital Fund III  | 50 million      |
| Wellspring Capital Partners IV    | 80 million      |
| Technology Crossover Ventures VI  | 25 million      |
| Vestar Capital Partners V         | 100 million     |
| KSL Capital Partners II           | 100 million     |
| Apollo Investment Fund VI         | 200 million     |
| Fisher Lynch Co-Investment Fund I | 250 million     |

# Investment Division

## OPERF ALTERNATIVE EQUITY INVESTMENTS

| Fund                                     | Year | Total Capital Committed | Investment Cost | Realized Value to Date |
|--|------|-------------------------|-----------------|------------------------|
| 2000 Riverside Capital Appreciation Fund | 2001 | \$50,000,000            | \$39,386,126    | \$25,912,205           |
| 2003 Riverside Capital Appreciation Fund | 2003 | 75,000,000              | 31,612,818      | 1,418,825              |
| Asia Opportunity Fund II                 | 2005 | 100,000,000             | 31,150,750      | 15,408,805             |
| Asia Pacific Trust                       | 1990 | 12,750,000              | 13,487,499      | 13,893,264             |
| Aurora Equity Partners II                | 1998 | 50,000,000              | 55,919,041      | 18,909,434             |
| Aurora Equity Partners III               | 2004 | 50,000,000              | 19,120,842      | 10,836,429             |
| BCI Growth IV                            | 1996 | 50,000,000              | 53,825,745      | 22,203,076             |
| BCI Growth V                             | 1999 | 75,000,000              | 72,863,044      | 19,235,775             |
| BDCM Opportunity Fund                    | 2002 | 50,000,000              | 88,490,511      | 61,220,149             |
| Canterbury Mezzanine Capital             | 1996 | 25,000,000              | 24,969,138      | 25,871,441             |
| Canterbury Mezzanine Capital II          | 1999 | 50,000,000              | 45,689,540      | 52,718,015             |
| Castle Harlan Partners II                | 1992 | 50,000,000              | 64,076,668      | 101,879,143            |
| Castle Harlan Partners III               | 1997 | 100,000,000             | 119,812,804     | 96,513,034             |
| Castle Harlan Partners IV                | 2002 | 100,000,000             | 65,826,264      | 33,393,674             |
| Coller International Partners IV         | 2002 | 50,000,000              | 30,550,005      | 15,321,543             |
| CVC Capital Partners Asia Pacific II     | 2005 | 100,000,000             | 9,012,085       | 3,108,841              |
| CVC European Equity Partners             | 1996 | 50,000,000              | 58,387,977      | 138,693,327            |
| CVC European Equity Partners II          | 1998 | 150,000,000             | 172,088,847     | 261,498,187            |
| CVC European Equity Partners III         | 2001 | 150,000,000             | 167,593,103     | 126,113,651            |
| CVC European Equity Partners IV          | 2005 | 145,548,000             | 15,434,213      | 0                      |
| Diamond Castle Partners IV               | 2005 | 100,000,000             | 36,889,018      | 0                      |
| Doughty Hanson Fund II                   | 1995 | 50,000,000              | 46,195,556      | 75,713,012             |
| Doughty Hanson Fund III                  | 1997 | 250,000,000             | 246,058,488     | 366,058,154            |
| Elevation Partners                       | 2004 | 100,000,000             | 15,744,812      | 0                      |
| Endeavour Capital Fund III               | 2000 | 25,000,000              | 23,374,147      | 25,435,984             |
| Endeavour Capital Fund IV                | 2004 | 50,000,000              | 15,247,846      | 0                      |
| Essex Woodlands Health Ventures Fund VI  | 2004 | 25,000,000              | 8,912,500       | 0                      |
| Exxel Capital Partners V                 | 1997 | 75,000,000              | 86,977,463      | 7,696,144              |
| Exxel Capital Partners VI                | 2000 | 50,000,000              | 60,738,594      | 18,924,027             |
| Fenway Partners Capital Fund II          | 1998 | 50,000,000              | 56,657,825      | 33,638,945             |
| First Reserve Fund IX                    | 2001 | 75,000,000              | 81,150,651      | 117,670,151            |
| First Reserve Fund X                     | 2004 | 100,000,000             | 42,122,271      | 14,371,394             |
| Fox Paine Capital Fund II                | 2000 | 50,000,000              | 40,020,438      | 44,040,788             |
| Granite Ventures II                      | 2005 | 25,000,000              | 1,250,000       | 0                      |
| Green Equity Investors III               | 1998 | 50,000,000              | 49,002,697      | 76,666,112             |
| Green Equity Investors IV                | 2003 | 100,000,000             | 40,057,790      | 10,391,342             |

# Investment Division

## OPERF ALTERNATIVE EQUITY INVESTMENTS

| Fund   | Year | Total Capital Committed | Investment Cost | Realized Value to Date |
|--|------|-------------------------|-----------------|------------------------|
| Gryphon Partners II                          | 1999 | \$ 50,000,000           | \$53,939,301    | \$34,720,734           |
| HarbourVest Int'l PEP                        | 1990 | 25,000,000              | 25,000,000      | 42,253,627             |
| HarbourVest Int'l PEP II                     | 1995 | 75,000,000              | 73,800,000      | 92,541,426             |
| HarbourVest Int'l PEP III - Partnership      | 1998 | 80,000,000              | 69,600,000      | 32,377,365             |
| HarbourVest Partners 2004 - Direct           | 2004 | 75,000,000              | 30,412,500      | 0                      |
| HarbourVest Partners IV - Investment Program | 1993 | 50,000,000              | 48,000,000      | 146,457,020            |
| HarbourVest Partners V - Investment Program  | 1997 | 100,000,000             | 96,562,881      | 100,385,487            |
| HarbourVest Partners VI - Partnership Fund   | 1999 | 100,000,000             | 75,097,000      | 16,871,024             |
| Hicks, Muse, Tate & Furst Equity Fund II     | 1993 | 50,000,000              | 62,332,602      | 114,148,053            |
| Hicks, Muse, Tate & Furst Equity Fund III    | 1996 | 100,000,000             | 168,210,990     | 140,864,430            |
| Hicks, Muse, Tate & Furst Equity Fund IV     | 1998 | 200,000,000             | 247,994,511     | 155,520,492            |
| Hicks, Muse, Tate & Furst Europe Fund        | 1999 | 99,320,840              | 116,757,791     | 138,227,382            |
| HSBC Private Equity Fund II, Ltd.            | 1997 | 50,000,000              | 57,726,498      | 68,948,053             |
| Joseph, Littlejohn & Levy Fund               | 1991 | 30,000,000              | 33,204,623      | 86,469,509             |
| Joseph, Littlejohn & Levy Fund II            | 1994 | 50,000,000              | 56,039,297      | 55,452,967             |
| Joseph, Littlejohn & Levy Fund III           | 1998 | 100,000,000             | 115,383,171     | 149,188,614            |
| KKR 1980 Related Fund                        | 1981 | 194,090,840             | 194,090,840     | 666,861,320            |
| KKR 1982 Fund                                | 1983 | 25,000,000              | 25,787,500      | 85,041,667             |
| KKR 1984 Fund                                | 1984 | 99,500,000              | 118,498,250     | 510,821,660            |
| KKR 1986 Fund                                | 1986 | 98,330,000              | 201,760,315     | 918,874,465            |
| KKR 1987 Fund                                | 1987 | 726,670,000             | 1,245,452,952   | 2,017,897,954          |
| KKR 1993 Fund                                | 1993 | 350,000,000             | 433,733,595     | 712,150,977            |
| KKR 1996 Fund                                | 1997 | 800,000,000             | 1,047,722,390   | 1,370,788,726          |
| KKR European Fund                            | 1999 | 400,000,000             | 529,014,559     | 328,756,666            |
| KKR European Fund II                         | 2005 | 500,000,000             | 41,514,555      | 5,650,000              |
| KKR Millennium Fund                          | 2002 | 1,000,000,000           | 866,202,166     | 290,949,563            |
| KKR Non-Fund                                 | 1985 | 65,000,000              | 65,000,000      | 221,288,533            |
| KSL Capital Partners II                      | 2006 | 100,000,000             | 0               | 0                      |
| Lion Capital Fund I                          | 2004 | 99,830,016              | 36,326,210      | 11,798,207             |
| Littlejohn Fund II                           | 1999 | 50,000,000              | 51,099,702      | 23,855,481             |
| Littlejohn Fund III                          | 2005 | 50,000,000              | 7,635,978       | 1,160                  |
| Markstone Capital Partners                   | 2004 | 50,000,000              | 12,157,725      | 590,393                |
| Matlin Patterson Global Opps Fund            | 2001 | 75,000,000              | 76,305,969      | 71,623,548             |
| Montauk TriGuard III                         | 2005 | 50,000,000              | 5,000,000       | 205,718                |
| New Mountain Partners II                     | 2005 | 50,000,000              | 14,184,704      | 95,570                 |
| Northwest Emerging Ventures                  | 2001 | 250,000,000             | 131,901,028     | 28,611,245             |

# Investment Division

## OPERF ALTERNATIVE EQUITY INVESTMENTS

| Fund  | Year | Total Capital Committed | Investment Cost | Realized Value to Date |
|---|------|-------------------------|-----------------|------------------------|
| Northwest Emerging Ventures II              | 2005 | \$300,000,000           | \$4,671,735     | \$98,306               |
| Oak Hill Capital Partners II                | 2004 | 100,000,000             | 21,481,035      | 3,913,510              |
| OCM Opportunities Fund                      | 1995 | 48,000,000              | 48,000,000      | 69,161,604             |
| OCM Opportunities Fund II                   | 1997 | 75,000,000              | 75,000,000      | 93,778,597             |
| OCM Opportunities Fund III                  | 1999 | 100,000,000             | 100,036,164     | 129,230,994            |
| OCM Opportunities Fund IVb                  | 2002 | 75,000,000              | 90,000,000      | 133,924,640            |
| OCM Opportunities Fund V                    | 2004 | 50,000,000              | 50,000,000      | 0                      |
| OCM Opportunities Fund VI                   | 2005 | 50,000,000              | 22,523,014      | 0                      |
| OCM Principal Opportunities Fund            | 1996 | 50,000,000              | 50,000,000      | 43,272,133             |
| OCM Principal Opportunities Fund II         | 2001 | 50,000,000              | 61,250,000      | 60,917,392             |
| OCM Principal Opportunities Fund III        | 2004 | 75,000,000              | 49,591,233      | 0                      |
| Olympic Venture Partners III                | 1994 | 10,000,000              | 10,231,639      | 22,721,425             |
| Olympic Venture Partners IV                 | 1997 | 14,000,000              | 14,000,000      | 36,697,362             |
| Olympic Venture Partners V                  | 1999 | 25,000,000              | 25,000,000      | 3,231,392              |
| Oregon Investment Fund                      | 2004 | 100,000,000             | 5,915,903       | 0                      |
| OVP Venture Partners VI                     | 2001 | 40,000,000              | 20,000,000      | 0                      |
| Palamon European Equity                     | 1999 | 50,000,000              | 53,763,278      | 35,063,337             |
| Palamon European Equity II                  | 2005 | 100,000,000             | 13,440,219      | 0                      |
| Parthenon Investors                         | 1999 | 50,000,000              | 57,770,236      | 34,900,015             |
| Parthenon Investors II                      | 2001 | 75,000,000              | 60,490,587      | 45,118,178             |
| Parthenon Investors III                     | 2005 | 100,000,000             | 15,000,000      | 0                      |
| Pathway Private Equity III                  | 2001 | 250,000,000             | 59,086,558      | 3,467,272              |
| Penman Private Equity and Mezzanine Fund    | 1994 | 20,214,143              | 20,153,610      | 15,484,573             |
| Providence Equity Partners                  | 1996 | 75,000,000              | 108,266,344     | 287,930,917            |
| Providence Equity Partners III              | 1998 | 100,000,000             | 105,023,923     | 151,760,954            |
| Providence Equity Partners IV               | 2000 | 150,000,000             | 178,590,102     | 120,992,568            |
| Providence Equity Partners V                | 2005 | 150,000,000             | 54,155,939      | 6,898,738              |
| Providence Media Partners                   | 1991 | 50,000,000              | 62,152,601      | 212,250,713            |
| Solera Partners                             | 2000 | 50,000,000              | 32,739,925      | 1,158,947              |
| Stonington Capital Appreciation 1994 Fund   | 1994 | 50,000,000              | 54,789,126      | 19,015,741             |
| TCW Crescent Mezzanine Partners             | 1996 | 50,000,000              | 58,981,414      | 69,224,145             |
| TCW Crescent Mezzanine Partners II          | 1998 | 100,000,000             | 110,257,580     | 137,943,023            |
| TCW Crescent Mezzanine Partners III         | 2001 | 75,000,000              | 72,004,517      | 84,359,097             |
| TCW Special Credits Fund III                | 1991 | 50,000,000              | 50,000,000      | 103,262,205            |
| TCW Special Credits Fund IV                 | 1993 | 25,000,000              | 25,762,655      | 47,990,914             |
| TCW Special Credits Fund V - Principal Fund | 1994 | 50,000,000              | 50,000,000      | 86,579,413             |
| Technology Crossover Ventures VI            | 2006 | 25,000,000              | 0               | 0                      |

# Investment Division

## OPERF ALTERNATIVE EQUITY INVESTMENTS

| Fund                             | Year | Total Capital Committed | Investment Cost         | Realized Value to Date  |
|----------------------------------|------|-------------------------|-------------------------|-------------------------|
| Thomas Weisel Capital Partners   | 1999 | \$100,000,000           | \$108,739,273           | \$21,074,496            |
| TPG Partners                     | 1994 | 50,000,000              | 51,283,360              | 177,479,038             |
| TPG Partners II                  | 1997 | 300,000,000             | 326,569,847             | 254,736,629             |
| TPG Partners III                 | 2000 | 300,000,000             | 281,496,868             | 282,181,943             |
| TPG Partners IV                  | 2003 | 300,000,000             | 196,004,779             | 42,303,843              |
| TSG Capital Fund II              | 1995 | 40,000,000              | 39,543,085              | 24,778,614              |
| TSG Capital Fund III             | 1998 | 75,000,000              | 79,819,267              | 42,174,626              |
| Union Square Ventures 2004       | 2004 | 25,000,000              | 3,125,000               | 501,677                 |
| VantagePoint Venture Partners IV | 2000 | 50,000,000              | 35,000,000              | 9,715,909               |
| Warburg Pincus Private Equity IX | 2005 | 200,000,000             | 37,068,569              | 0                       |
| Wellspring Capital Partners II   | 1998 | 50,000,000              | 54,129,959              | 76,885,211              |
| Wellspring Capital Partners III  | 2002 | 75,000,000              | 64,173,074              | 40,577,761              |
| Wellspring Capital Partners IV   | 2006 | 80,000,000              | 0                       | 0                       |
| Zell-Chilmark Fund               | 1990 | 25,000,000              | 29,131,624              | 63,676,580              |
| <b>Grand Total</b>               |      | <b>\$13,628,253,839</b> | <b>\$11,770,304,804</b> | <b>\$13,631,693,976</b> |

# Investment Division

## FIXED INCOME

The Fixed Income Section internally manages \$650 million in fixed-income assets for five agencies. The range of investments includes corporate, government, and international instruments with maturities from one to 10 years in most instances, and quality varying from “Aaa” to high yield. The portfolio reports on the following pages represent the funds that the Fixed Income Section manages. In addition, the Fixed Income Section oversees the management of approximately \$16.3 billion in fixed-income assets by six outside managers for three agencies.

### OPERF FIXED INCOME INVESTMENT STRATEGY

Overall, the bond market posted positive absolute returns for 2005. In the fourth quarter, however, most sectors underperformed U.S. Treasuries on perceptions that the Federal Reserve was nearing the end of its tightening cycle and that inflation pressures were becoming more benign. The OPERF fixed-income fund returned 3.67 percent for 2005 versus the State of Oregon Custom Fixed Income 90/10 Benchmark (90 percent Lehman Brothers U.S. Universal Index and 10 percent Citigroup Non-U.S. World Government Bond Index - Hedged) return of 3.02 percent, an aggregate outperformance by the managers of 65 basis points.

At the close of 2005, 10-year U.S. Treasuries yielded about 4.39 percent and two-year U.S. Treasuries yielded about 4.40 percent. This is the flattest the yield curve has been since 2000, which has triggered some concern that the curve will invert in 2006 and lead to a weaker economy. While economic momentum is expected to moderate, the U.S. economy continues to exhibit solid growth and subdued inflation.

Foreign demand for U.S. fixed income assets continued unabated, one of the primary reasons that long rates have remained so low. Central banks increased their Treasury holdings and private investors bought

corporate and agency debt, including mortgage-backed securities. Investors in Asian countries with large trade surpluses with the U.S., such as Japan and China, continued to recycle their dollars by purchasing U.S. bonds.

While several of the following themes were familiar from previous years, others were new. For instance, a number of unrelated events contributed to increased risk and market volatility.

Hurricane Katrina was the most severe and costly natural disaster in U.S. history, devastating the Gulf Coast and exacerbating already-high oil prices. Although crude oil ended the year 58 percent higher than where it started in January, it was still down 10 percent from the year’s peak of \$70.09 per barrel on September 1, 2005.

General Motors and Ford Motor Company, among the world’s biggest issuers of corporate bonds, were downgraded to non-investment grade in the second quarter. Then, in the fourth quarter, Standard & Poor’s lowered GM’s rating to B, warning that the risk of bankruptcy had increased due to its deteriorated financial condition as well as fierce foreign competition, the slowdown in large SUV sales and its massive pension and health-care cost burdens. Near year-end, Fitch Ratings cut Ford Motor Credit’s ratings to non-investment grade for similar reasons, effectively knocking its debt out of the Lehman Brothers Aggregate Index.

Mergers-and-acquisitions activity surged, with the dollar value of M&A deals globally jumping 38 percent to \$2.9 trillion in 2005 from 2004. In the U.S, M&A increased 30 percent to \$1.1 trillion, the highest level since 2000. While the largest single deal involved Procter & Gamble’s \$60 billion acquisition of Gillette, leveraged buyouts by private firms were also up dramatically. U.S. private equity firms, which have been building cash stockpiles, increased their M&A activity.

# Investment Division

## FIXED INCOME

Finally, it emerged that the Federal Reserve chairmanship would pass to a known inflation-targeting advocate in 2006, Ben Bernanke. This, along with perceptions that monetary policy could be nearing an inflection point, caused some concern that volatility may increase in 2006.

By sector, investment-grade corporate bonds were the biggest laggards, posting negative 0.85 percent for the year. While all quality tiers within the investment-grade corporate universe underperformed, lower quality BBB credits were the hardest hit, underperforming by 1.77 percentage points for the year. At the other end of the spectrum, AAA corporate bonds underperformed by 0.13 percentage points. During a period of shifting

inflation expectations, U.S. Treasury inflation-protected securities (TIPS) outperformed Treasuries by 0.05 percentage points. Mortgage-backed securities underperformed Treasuries by 0.37 percentage points for the year, reflecting concerns about extension risk (the risk that mortgage durations will shorten or lengthen rapidly as interest rates fall or rise), and a flood of new supply. Non-U.S. government bonds hedged into U.S. dollars outperformed Treasuries by 2.66 percentage points for the year, as global rates rose less than those of the U.S., and even declined in some places. High yield corporate bonds outperformed Treasuries by a marginal 0.47 percentage points for the year. Emerging-market bonds were easily the best performer for the year, posting stellar excess returns of 9.59 percentage points.

### OPERF FIXED INCOME PERFORMANCE COMPARISONS

| Investment Manager             | Total Market Value with Accrual<br>as of 12/31/ 05 (in thousands) | 3 mos | Performance |       |       |
|--------------------------------|---|-------|-------------|-------|-------|
|                                |   |       | 1 yr        | 2 yrs | 3 yrs |
| Wellington Management Company  | \$ 2,496,515  | .81%  | 3.75%       | 4.67% | 6.32% |
| Western Asset Management       | 2,588,098   | .65   | 4.56        | 6.52  | 8.71  |
| Alliance Capital Management    | 2,493,132   | .77   | 3.23        | 4.44  | 5.77  |
| BlackRock                      | 2,632,385   | .76   | 3.28        | 4.33  | 4.75  |
| Fidelity Investment Management | 2,519,150   | .94   | 3.80        | 5.10  | 6.98  |
| BGI U.S. Debt Index Fund       | 626,564   | 0.61  | 2.47        | 3.42  | 3.68  |
| <b>Total</b>                   | <b>\$ 13,355,844</b>  |       |             |       |       |

### OTHER EXTERNALLY MANAGED FIXED INCOME FUNDS

| Investment Manager            | Total Market Value with Accrual<br>as of 12/31/ 05 (in thousands) | 3 mos | Performance |       |       |
|-------------------------------|---|-------|-------------|-------|-------|
|                               |   |       | 1 yr        | 2 yrs | 3 yrs |
| State Accident Insurance Fund |   |       |             |       |       |
| Wellington Management Company | \$ 1,350,997  | .84%  | 3.13%       | 3.87% | 4.24% |
| Western Asset Management      | 1,349,866   | .75   | 3.72        | 4.75  | 5.73  |
| <b>Total</b>                  | <b>\$ 2,700,863</b>   |       |             |       |       |
| Common School Fund            |   |       |             |       |       |
| Wellington Management Company | \$ 119,987  | .48%  | 2.93%       | 3.79% | 4.15% |
| Western Asset Management      | 121,538   | .61   | 3.85        | 5.32  | 6.66  |
| <b>Total</b>                  | <b>\$ 241,525</b>   |       |             |       |       |

# Investment Division

## FIXED INCOME

### OTHER INTERNALLY MANAGED FIXED INCOME FUNDS

#### VETERANS' BOND PORTFOLIO PROFILE

This fund is an account consisting of payments on the principal and interest of loans, accrued interest on bonds sold, tax levies, interest on investments, money derived from the sale, rental, or foreclosure of property, and money from the sale of refunded bonds.

#### PERFORMANCE

Market value (in thousands) as of 12/31/05, excluding cash  
**\$118,614**

|              |              |              |
|--------------|--------------|--------------|
| 1 year       | 2 years      | 3 years      |
| <b>2.43%</b> | <b>2.02%</b> | <b>2.07%</b> |

#### BENEFIT RESERVE FUND

The Benefit Reserve Fund is appropriated to the Employment Department and is used to pay unemployment insurance benefits. The fund consists of money collected from employers by a tax on wages. This fund will be used to pay benefits only if the Unemployment Compensation Trust Fund, located in the U.S. Treasury, is unable to do so.

#### PERFORMANCE

Market value (in thousands) as of 12/31/05, excluding cash  
**\$224,080**

|              |              |              |
|--------------|--------------|--------------|
| 1 year       | 2 years      | 3 years      |
| <b>1.80%</b> | <b>2.36%</b> | <b>3.08%</b> |

#### WORKERS BENEFIT FUND

The Workers Benefit Fund was split from the Insurance and Finance Fund of the Department of Consumer and Business Services on July 1, 1996.

#### PERFORMANCE

Market value (in thousands) as of 12/31/05, excluding cash  
**\$66,262**

|              |              |              |
|--------------|--------------|--------------|
| 1 year       | 2 years      | 3 years      |
| <b>1.91%</b> | <b>2.50%</b> | <b>3.54%</b> |

#### DAS INSURANCE FUND

The DAS Insurance Fund was established to provide insurance and self-insurance programs for the State of Oregon and participating local public bodies. Interest is credited to the fund.

#### PERFORMANCE

Market value (in thousands) as of 12/31/05, excluding cash  
**\$75,295**

|              |              |              |
|--------------|--------------|--------------|
| 1 year       | 2 years      | 3 years      |
| <b>2.13%</b> | <b>2.71%</b> | <b>3.40%</b> |

#### DEPARTMENT OF CONSUMER AND BUSINESS SERVICES FUND

The Department of Consumer and Business Services is a public workers' compensation and insurance fund.

#### PERFORMANCE

Market value (in thousands) as of 12/31/05, excluding cash  
**\$166,309**

|              |              |              |
|--------------|--------------|--------------|
| 1 year       | 2 years      | 3 years      |
| <b>2.08%</b> | <b>2.64%</b> | <b>3.67%</b> |

# Investment Division

## REAL ESTATE

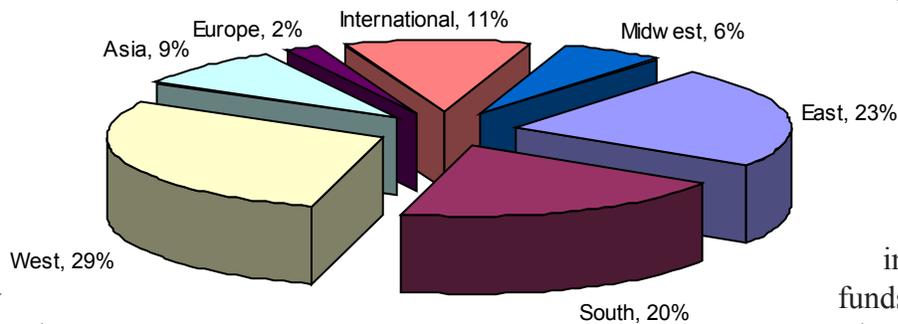
The Oregon Investment Council (OIC) manages the growth and risk in real estate by organizing and diversifying the portfolio into three main investment components: direct core real estate, opportunistic real estate, and publicly traded real estate investment trusts, more commonly known as REITs.

Rental rates and occupancy across most property types showed improvement in 2005 as demand for space strengthened gradually with the U.S. economy. Property values were up significantly as investors sought the relatively high current yield provided by real estate. The real estate portfolio for the Oregon Public Employees Retirement Fund (OPERF) greatly

exceeded national trends, with one-year performance of 34.7 percent. Over trailing three- and five-year periods, OPERFs composite real estate performance (net of fees) was 26.7 percent and 18.1 percent respectively. This performance exceeded the NCREIF benchmark (gross of fees) for the one-year, three-year and five-year periods by 14.7, 12.3 and 6.7 percentage points. In order

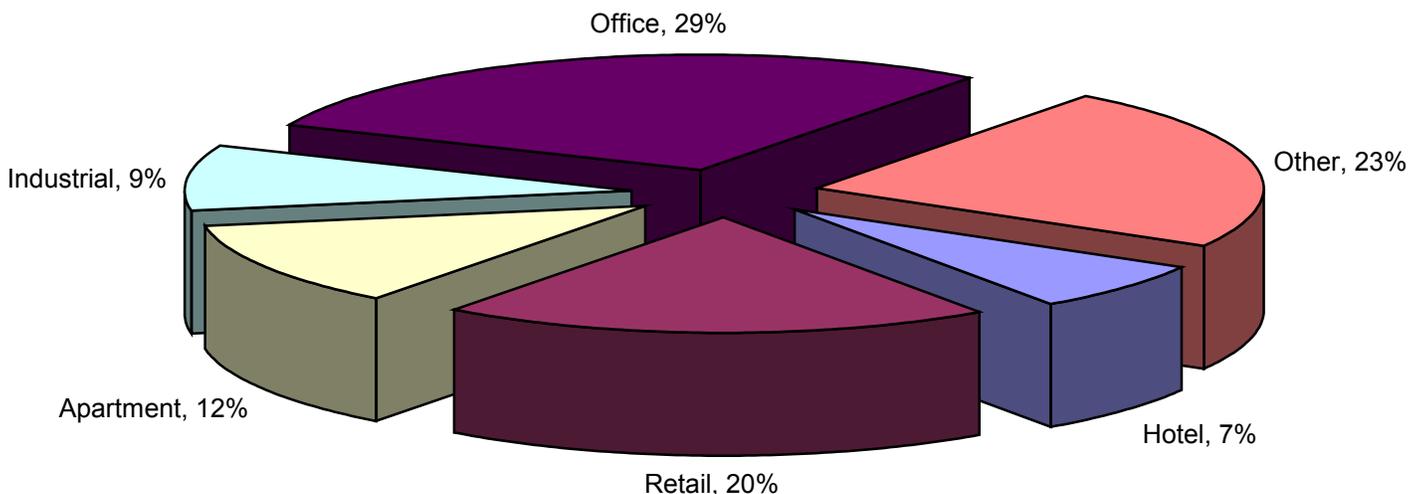
to manage risk, the OPERF real estate portfolio consciously has been diversified by property types and by location. Global investment included funds dedicated to real estate located in both Germany and Japan. The pie chart below illustrates the diversification of OPERF real estate.

**OPERF Geographic Diversification**



### PERFORMANCE

|                                 | 1 year       | 3 years      | 5 years      |
|---------------------------------|--------------|--------------|--------------|
| <b>Total OPERF Return (Net)</b> | <b>34.7%</b> | <b>26.7%</b> | <b>18.1%</b> |
| NCREIF Index (Gross)            | 20.0%        | 14.4%        | 11.4%        |



# Investment Division

## REAL ESTATE

### CORE PORTFOLIO

(\$1,375,000,000)

OPERF's core real estate portfolio turned in a performance 7.2 percentage points (or 36%) above the NCREIF Index for 2005. Clarion Partners, GID Investment Advisors, Lincoln Advisory Group, PacTrust, Lionstone and Regency Centers are OPERF's six core real estate portfolio advisors. OPERF hired GID Investment Advisors and Lincoln Advisory Group specifically to increase exposure to the multi-family and industrial property sectors. Regency Centers focuses solely on the acquisition and management of neighborhood and community shopping centers anchored by grocery and drug stores. Clarion Partners and Lionstone concentrate on office properties, and PacTrust is a generalist with a majority of its holdings in the Pacific region. During 2005, portfolio advisors sold real estate worth over \$700 million to harvest profits for OPERF.

|                                | 1-Year       | 3-Year       | 5-Year        |
|--------------------------------|--------------|--------------|---------------|
| <b>Total Core Return (Net)</b> | <b>27.3%</b> | <b>19.3%</b> | <b>13.43%</b> |
| NCREIF Index (Gross)           | 20.1%        | 14.4%        | 11.4%         |

### OPPORTUNISTIC PORTFOLIO

(\$1,157,900,000)

In 2005, the OPERF's opportunistic portfolio met expectations, exceeding the NCREIF benchmark by 44.9 percentage points for the year, and 20.5 percentage points for the trailing three-year period. Opportunistic returns will deviate significantly from benchmark performance from time to time, and can be misleading if measured only using a short-term time horizon. Most opportunistic investments are through partnerships with seven- to ten-year holding periods, and performance should be viewed from that perspective. As opportunities to acquire troubled real

estate portfolios have declined in the U.S. over the last few years, OPERF allocated capital to managers capable of executing transactions globally. OPERF's international real estate investments are concentrated in Western Europe, Japan, and South Korea.

|   | 1-Year       | 3-Year       | 5-Year       |
|---|--------------|--------------|--------------|
| <b>Total Opportunistic Return (Net)</b> | <b>65.0%</b> | <b>34.9%</b> | <b>21.9%</b> |
| NCREIF Index (Gross)                    | 20.1%        | 14.4%        | 11.4%        |

### REAL ESTATE INVESTMENT TRUST (REIT) (\$899,600,000)

In 2005, REITs continued to produce solid returns for OPERF. OPERF's portfolio performance exceeded the NAREIT benchmark for the seventh straight calendar year. The combination of improved earnings, low interest rates, and OPERF's significant relative holdings of REITs focused on owning regional mall properties resulted in the portfolio reporting a return of 14.5 percent for the year, outperforming the NAREIT Index by 2.3 percentage points (or 18.8%). Over trailing three- and five-year periods, the REIT portfolio's performance was 4.4 and 3.2 percentage points above its respective benchmarks.

|                                | 1-Year       | 3-Year       | 5-Year       |
|--------------------------------|--------------|--------------|--------------|
| <b>Total REIT Return (Net)</b> | <b>14.5%</b> | <b>30.9%</b> | <b>22.3%</b> |
| NAREIT Index (Gross)           | 12.2%        | 26.5%        | 19.1%        |

#### Notes:

All returns are annualized. OPERF performance is net of fees and benchmarks are gross of fees.

The NCREIF Property Index contains 2,000 institutionally held, tax-exempt, wholly owned, income-producing properties across the United States and reported gross of fees. The assets in the NCREIF Index consist of existing properties and carry no debt.

The National Association of Real Estate Investment Trusts (NAREIT) publishes the NAREIT Equity Index. This index is a weighted average of all real estate investment trusts (REITs) that trade on public exchanges like the New York Stock Exchange, the American Stock Exchange, and NASDAQ.

# Investment Division

## SHORT TERM FUND

### RESULTS OF OPERATIONS

Distributed earnings for the Oregon Short Term Fund (OSTF) for the year ended December 31, 2005, were \$243.56 million compared to \$126.25 million for the same period in 2004. This rise in earnings was due to the increase in market rates resulting in a higher average monthly yield of 3.09 percent in 2005 versus 1.51 percent in 2004. The OSTF rate at December 31, 2005 settled at 4.05 percent compared to 2.26 percent from December 31, 2004, an increase of 179 basis points. Put another way, for every \$10 million in the OSTF, participants earned an additional \$179,000 of interest income.

The U.S. economy continued to show strong momentum during the fourth quarter and for the year. The record wealth created by the strong housing market and strong corporate profits fueled GDP growth at a 3.8 percent rate in the first three quarters. Productivity growth remains healthy and the unemployment rate is low and declining. U.S. employers added workers in each month during 2005, with the total number of jobs created in excess of two million for the year. The Federal Reserve

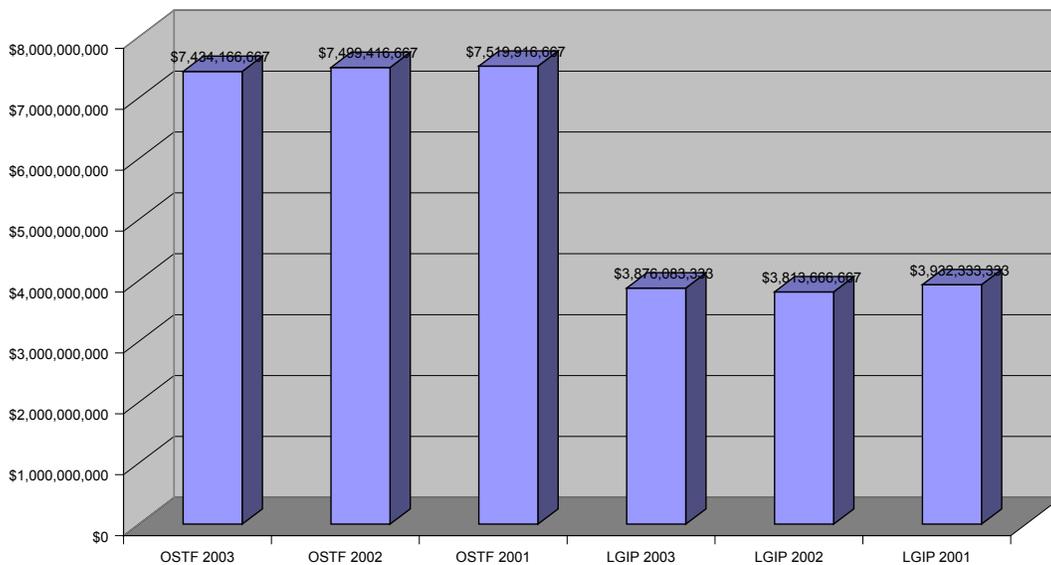
raised official rates another 200 basis points during the year, with the Fed Funds rate closing at 4.25 percent, 325 basis points higher than when the Fed started tightening in June 2004.

Even so, there are signs that momentum is waning. Consumer spending, a crucial force in this cycle, appears to be slowing, for several reasons. Higher fuel costs and higher interest rates on household debt are taking up a larger share of disposable income and borrowing against

home equity has begun to slow from its torrid pace. While over the past several years, homeowners are estimated to have tapped \$300 billion in equity loans from their homes.

This financing boom has cooled over the past year. Consumers may be more reluctant to tap the housing till in the months ahead because house prices are leveling in some markets and interest rates on home equity loans have soared 325 basis points higher since June 2004.

OSTF/LGIP Average Monthly Deposit Base



# Investment Division

## SHORT TERM FUND

Business investment is expected to become a significant new source of growth in the months ahead, with capital spending likely to increase by at least 10 percent, fueled by record backlogs, strong profits, low debt and high cash levels. Also, export growth could surge to a 10-year high, thanks to the relatively robust global economy. Finally, the federal sector will help, at the margin, as the government allocates money for rebuilding the Gulf Coast in the wake of Hurricane Katrina.

In mid-October, President Bush introduced Ben Bernanke, formerly Chairman of the White House Council of Economic Advisers, as his choice to replace exiting Chairman Greenspan. Bernanke has focused on his plans to increase Fed transparency and to move to a more explicit method of targeting inflation. Given the language in the December Fed minutes (number of further hikes will “not be large”), the Fed does not seem to be done tightening just yet; the move to 4.50 percent Fed Funds should occur, and given the strength of recent numbers, it seems that 4.75 percent is likely. The Fed also made clear in the minutes and language released during the fourth quarter that the data will be the primary determinant of further moves. With inflation already a stated concern, increased scrutiny of inflation-related indicators are expected. If the market’s current optimism for inflation expectations proves unfounded (*i.e.*, that the CPI will average only 2.3 percent over the next 2-3 years), this could lead to

interest rates in coming years that are somewhat higher than is currently expected. In other words, while a near-term pause is possible, this does not rule out a resumption of rate hikes later in the year.

## RELATIVE PERFORMANCE

For the year ended December 31, 2005, the OSTF annual total return was 3.15 percent and outperformed the 91-day U.S. Treasury bill by 8 basis points (0.08 percent), compared to an out-performance of 11 basis points (0.11 percent) in 2004.

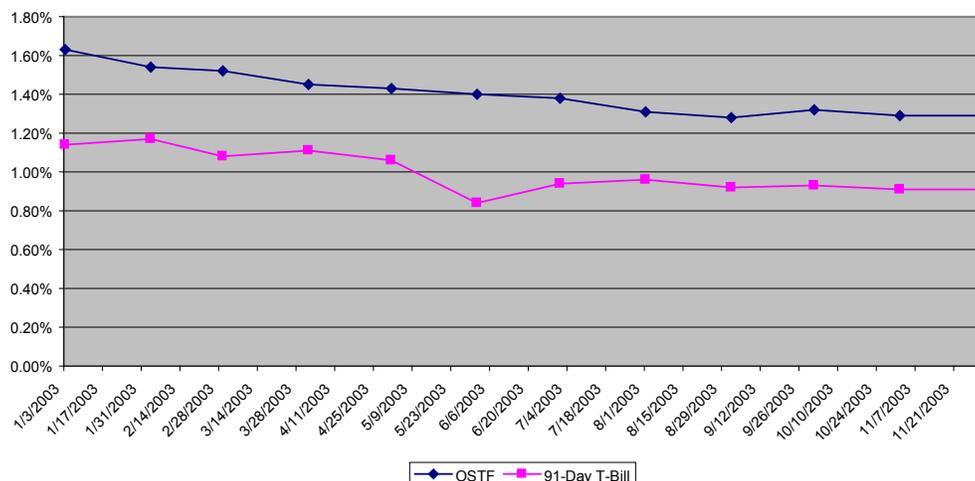
## ASSET ALLOCATION

Holdings of local bank deposit instruments were \$68.2 million at December 31, 2005, compared to \$80.3 million at the end of the prior year, and were 0.82 percent and 0.91 percent of the OSTF, respectively.

Total corporate indebtedness (commercial paper and corporatenotes) was at \$4.019 billion (48.6 percent) at December 31, 2005 compared to \$3.6 billion

(41.0 percent) in total corporate indebtedness at the end of the prior year. U.S. Treasury and Agency securities held were \$4.2 billion (50.6 percent) at December 31, 2005, compared to \$5.14 billion (58.1percent) on December 31, 2004.

OSTF v 91-Day T-Bill, Average Monthly Yields



# Investment Division

## SHORT TERM FUND

### PORTFOLIO MATURITY

The allocation of the portfolio maturing less than 93 days was 67.7 percent on December 31, 2005, compared to 71.9 percent on December 31, 2004. The weighted average days to maturity for the portfolio was 165.4 days on December 31, 2005, compared to 159.6 days at December 31, 2004. The weighted average days to maturity adjusted for floating rate securities for the portfolio was 96 days at December 31, 2005, compared to 71 days at December 31, 2004.

### SHORT TERM FUND BOARD

The Oregon Short Term Fund Board advises and consults with the Oregon Investment Council and the Office of the State Treasurer on matters relating to the investment and reinvestment of funds in the Short-Term Fund. The seven-member board consists of the State Treasurer or the Treasurer's designee, three members appointed by the Treasurer who are qualified in the field of investment and finance, and three members appointed by the Governor, who are either treasurers, finance officers, or business managers. Each appointed member serves a term of four years at the discretion of the appointing authority.

#### OREGON SHORT TERM FUND BOARD (AS OF 12.31.05)

|   |  |
|---|--|
| <b>Harvey Rogers, Chair</b><br>Preston, Gates & Ellis | Public Member<br>Term expires 03.31.08           |
| <b>Anthony Fisher</b><br>UBS                          | Public Member<br>Term expires 06.30.06           |
| <b>Linda M. Haglund</b><br>Deputy State Treasurer     | Treasurer's Designee<br>Serves by position       |
| <b>Judy M. Land</b><br>Admin. School District #1      | School District Officer<br>Term expires 05.14.08 |
| <b>Harry Morton</b><br>Multnomah County Treasury      | County Finance Officer<br>Term expires 11.15.06  |
| <b>Marcia Stilwell</b><br>Nike Corporation            | Public Member<br>Term expires 02.28.06           |
| <b>Katherine Tri</b><br>City of Newberg               | City Finance Officer<br>Term expires 04.09.06    |

# Investment Division

## OREGON SAVINGS GROWTH PLAN

The State of Oregon Deferred Compensation Plan is a voluntary supplemental retirement program. The program provides eligible state employees the opportunity to defer receipt of a portion of their current salary. These deferrals are invested in various investment vehicles, chosen by the employee, until paid to the employee, usually at retirement. Employees choosing to participate in the program build additional savings, tax-deferred, to supplement Social Security or other retirement benefits they may later receive.

Oversight of the plan's investment program is the responsibility of the Oregon Investment Council (OIC), supported by the Treasurer's staff. The program offers nine investment options ranging from lower to higher levels of investment risk. Plan participants individually direct their salary deferrals to any of these options. Each investment option is supported by multiple investments in commingled accounts and mutual funds.

At year-end 2005, the plan's assets were \$828 million, up \$78 million from the previous year. The net asset increase is attributable primarily to positive returns for the year. Assets as of December 31, 2005, and the plan's performance history are shown in the first table on the next page.

At year-end 2005, 20,533 state employees participated in the Oregon Savings Growth Plan. Voluntary local government participation in the plan began in 1999. At year end, local government balances were approximately \$34 million.

Effective November 1, 2001, the OIC restructured the investment funds underlying the OSGP options. This was the first date the program was able to exit the variable annuity contract through which investments funds were required to be accessed. This change resulted in a significant net decrease in fees borne by participants and a much wider selection of investment funds for the OIC. A list of the investment funds included in each option is listed in the second table on the following page.

For the plan's assets, 2005 was a good year. All options had positive returns and all options with active management exceeded their benchmark. The International Equity option was the best performing again with a one-year return of 16.40 percent. Domestic equities were led by the Small/Mid-Size Company option which returned 9.47 percent for the year.

The objective of the OIC and the Office of the State Treasurer is to provide an investment program that prudently invests this pool of assets and enhances its productivity.

# Investment Division

## OREGON SAVINGS GROWTH PLAN

### ASSETS AND RETURNS BY INVESTMENT OPTION (AS OF 12.31.05)

| Investment Option  | \$ Invested          | % of Fund   | Annualized Returns |                |                |
|--|----------------------|-------------|--------------------|----------------|----------------|
|  |                      |             | 1 year             | 3 years        | 5 years        |
| Short-Term Fixed<br><i>Benchmark: 3-month Treasury Bill</i>              | \$ 42,950,539        | 5.19%       | 3.07 %<br>3.07     | 1.57 %<br>1.84 | 2.01 %<br>2.34 |
| Stable Value<br><i>Benchmark:3-month Treasury Bill</i>                   | 134,332,924          | 16.22       | 4.00<br>3.07       | 3.89<br>1.84   | 4.35<br>2.34   |
| Intermediate Fixed Income<br><i>Benchmark: Lehman Brothers Aggregate</i> | 54,711,253           | 6.61        | 2.47<br>2.43       | 4.39<br>3.62   | 5.97<br>5.87   |
| Balanced<br><i>Benchmark: Balanced Blended Index</i>                     | 150,233,378          | 18.14       | 6.17<br>5.73       | 12.56<br>12.22 | 4.46<br>4.40   |
| Large Cap Value Equity<br><i>Benchmark: Russell 1000 Value</i>           | 79,371,813           | 9.59        | 7.36<br>7.05       | 17.55<br>17.49 | 4.03<br>5.28   |
| Total Market Equity Index<br><i>Benchmark: Russell 3000</i>              | 99,129,370           | 11.97       | 5.91<br>6.12       | 15.56<br>15.90 | 1.15<br>1.58   |
| Large Cap Growth Equity<br><i>Benchmark: Russell 1000 Growth</i>         | 67,059,683           | 8.10        | 6.73<br>5.26       | 14.31<br>13.23 | -3.44<br>-3.58 |
| International Equity<br><i>Benchmark: MSCI EAFE</i>                      | 64,284,896           | 7.76        | 16.40<br>13.54     | 23.66<br>23.68 | 5.76<br>4.55   |
| Small/Mid Cap Equity<br><i>Benchmark: Russell 2500</i>                   | 135,971,743          | 16.42       | 9.47<br>8.11       | 23.35<br>23.00 | 7.85<br>9.14   |
| <b>Fund Total Assets</b>   | <b>\$828,045,099</b> | <b>100%</b> |                    |                |                |

## DEFERRED COMPENSATION VENDORS

### Short-Term Fixed Option

SSgA GSTIF (Govt Short Term Inv Fund)

### Stable Value Option

SSgA GSTIF

Primco Capital Management

### Intermediate Fixed Income Option

BGI US Debt Index Fund

Fidelity Broad Market Duration

Wellington Capital Bond Core Plus

### Large Cap Value Equity Option

BGI Russell 1000 Value Fund

Dodge and Cox Fund

MFS Value Fund

Fund

LSV Value Equity Fund

### Large Cap Growth Equity Option

BGI Russell 1000 Growth Fund

American Funds AMCAP Fund

Fidelity Blue Chip Growth Fund

Smith Barney Aggressive Growth Fund

### International Equity Option

Artisan International Fund

GMO Foreign III Fund

Marsico International Fund

Oakmark International Fund

### Small/Mid Cap Equity Option

BGI Russell 2000 Fund

Columbia Acorn Fund

American Beacon Small Cap Value

T. Rowe Price Midcap Growth Fund

### Total Market Equity Index

BGI Russell 3000 Fund

# Investment Division

## OREGON GROWTH ACCOUNT

The Oregon Growth Account (OGA) was created within the Education Stability Fund (formerly known as the Education Endowment Fund) during the 1995 Legislative Session in conjunction with the establishment of the Education Endowment Fund. In accordance with the provisions of the Oregon Constitution governing the Education Stability Fund, it receives 18 percent of Lottery proceeds. Of the Lottery proceeds placed in the ESF, 10 percent flow into the OGA in accordance with ORS 348.702.

funds in the OGA. The Governor appoints the Board at the Treasurer's recommendation, and the Treasurer serves as chair by position. The Board approves or directs specific investments and strategies subject to its investment policies. In accordance with those policies, OGA funds are invested only through external general partners. These partners are fully discretionary, that is, after funds are allocated to the general partner, the partner is entirely responsible for the investment of these funds within the partnership's investment guidelines.

### OREGON GROWTH ACCOUNT BOARD

(AS OF 12.31.05)

|  |                       |
|--|-----------------------|
| <b>Randall Edwards, Chair</b><br>State Treasurer | Serves by position    |
| <b>Richard N. Bader</b><br>VC/Emerging Growth    | Term expires 02.09.07 |
| <b>John Castles</b><br>VC/Emerging Growth        | Term expires 06.30.07 |
| <b>Katherine J. Durant</b><br>Public Member      | Term expires 06.30.06 |
| <b>James Johnson</b><br>VC/Emerging Growth       | Term expires 06.30.07 |
| <b>Stan Timmermann</b><br>Public Member          | Term expires 06.30.06 |
| <b>Steven L. Vincent</b><br>Public Member        | Term expires 07.31.06 |

Through legislative action in 2001, the Oregon Resource and Technology Development Account was merged into the Oregon Growth Account, creating within the OGA the Oregon Resource and Technology Development Sub-account. The Sub-account is managed by Northwest Technology Ventures.

Through December 2005, the Board made the following commitments to private equity funds with a primary focus in Oregon and the Pacific Northwest:

### OGA 2005 COMMITMENTS

|                                 |                      |
|---------------------------------|----------------------|
| Endeavor Capital Fund III, LP   | \$ 7,000,000         |
| Fluke Venture Partners II, LP   | 2,000,000            |
| Madrona Venture Fund III, LP    | 5,000,000            |
| Riverlake Equity Partners, LP   | 2,000,000            |
| SmartForest Ventures, LP        | 6,625,000            |
| Tamarack Mezzanine Partners, LP | 1,369,921            |
| Timberline Venture Partners, LP | 5,000,000            |
| Timberline Annex Fund           | 500,000              |
| Northwest Technology Ventures   | 14,000,000           |
| <b>Total</b>                    | <b>\$ 43,494,921</b> |

The purpose of the OGA is to earn returns for the Education stability Fund by making investments in, or providing seed capital for, emerging growth businesses in key industries, primarily in Oregon. Investment returns on the OGA are dedicated to the Education Stability Fund.

In accordance with ORS 348.707(4), the Treasurer determines the investment policies and procedures for the OGA, within and subject to the general purposes of the OGA set forth in ORS 348.702. The Treasurer's employees act as staff to the OGA Board. The Oregon Growth Account Board governs the investment

# Investment Division

## OREGON INVESTMENTS

The Office of the State Treasurer is responsible for the investment of all funds in the Oregon Public Employees Retirement Fund (OPERF), the State Accident Insurance Fund, the Common School Fund, and other agency funds (collectively, the Funds). In accordance with ORS 293.731-293.741, the Oregon Investment Council (OIC) sets investment policy and may contract with others to perform investment management functions. Each of the various asset classes is managed with the mission of generating the highest returns prudently possible for the Fund beneficiaries. As of December 31, 2005, total investments under management exceeded \$66.9 billion, with OPERF comprising 81 percent of the total at \$54.1 billion.

This report provides a snapshot of the fund's direct investment within the State of Oregon. As of December 31, 2005, approximately \$300 million of the funds' total investments represent "Oregon investments." The definition of an Oregon investment is subjective and, therefore, will be defined more clearly below as it relates to the individual investment classes.

Within the equity and fixed income asset classes, the criterion for defining an Oregon investment was a listing of *The Oregonian's* Top 50 public companies. The list is compiled annually by *The Oregonian* and is based on total market value. The most recent listing is as of August 2005 and was the basis for reporting on the equity and fixed income asset classes.

The assets are presented at market value, unless otherwise noted. Information summarized in the accompanying schedules was provided by custodians and consultants retained by the Treasurer's Office and the OIC, based on given definitions of Oregon investments. The information included in this report provides a reasonable, but not necessarily definitive, summary of Oregon investments. The OIC does not mandate Oregon-specific investments in its portfolio asset allocation. The accompanying information has not been independently audited or reviewed.

| Investment Class               | Value                |
|--------------------------------|----------------------|
| Equity and Debt Investments    | \$102,697,200        |
| Real Estate Investments        | \$38,281,266         |
| Alternative Equity Investments | \$154,369,974        |
| <b>Total</b>                   | <b>\$295,348,440</b> |

## EQUITY & DEBT INVESTMENTS

At year-end 2005, approximately \$31.9 billion of OPERF assets were invested in equities, including variable fund assets of approximately \$1.7 billion. Of the total, 63 percent and 37 percent were invested with domestic and international equity managers, respectively. OPERF had approximately \$13.4 billion invested in fixed-income securities at December 31, 2005. State Street Bank and Trust acts as custodian for the equity and fixed income assets. The information related to Oregon investments is as of December 31, 2005, with market values provided by the custodian.

| Issuer                         | Market Value         |
|--------------------------------|----------------------|
| Blount International, Inc.     | \$258,475            |
| Cascade Bancorp                | 1,988,065            |
| Columbia Sportswear Co.        | 491,619              |
| FEI Co.                        | 2,865,915            |
| Flir Systems, Inc.             | 1,087,471            |
| Greenbrier Cos., Inc.          | 341,700              |
| Lattice Semiconductor Corp.    | 11,286,432           |
| Longview Fibre Co.             | 4,320,410            |
| McCormick & Schmick's, Inc.    | 2,028,117            |
| Mentor Graphics Corp.          | 8,082,778            |
| NIKE, Inc.                     | 8,982,765            |
| Northwest Pipe Co.             | 8,194,463            |
| Pacific Continental Corp.      | 13,000,000           |
| Pixelworks, Inc.               | 3,266,440            |
| PW Eagle, Inc.                 | 1,900,350            |
| StanCorp Financial Group, Inc. | 3,091,905            |
| Umpqua Holdings Corp.          | 30,000,000           |
| West Coast Bancorp             | 1,510,295            |
| <b>Total</b>                   | <b>\$102,697,200</b> |

# Investment Division

## OREGON REAL ESTATE

The core real estate portfolio is actively managed by six outside management firms: Clarion Partners, GID, Lincoln Advisory Group, Lionstone, PacTrust and Regency Centers. In addition, the Oregon Investment Council retains Pension Consulting Alliance as a real estate consultant. The real estate portfolio is comprised of three main components, with a net asset value of approximately \$3.2 billion: core investments (39 percent); opportunistic investments (33 percent); and publicly traded real estate securities (28 percent). "Oregon" real estate investments have been defined as those assets owned (wholly or partially) by OPERF and located within the state. Market valuations are compiled by Pension Consulting Alliance.

| Property Name            | Net Asset Value     |
|--------------------------|---------------------|
| Land Under Development   | 5,113,465           |
| Other Oregon Real Estate | 32,650              |
| Retail Fees & Leaseholds | 6,734,361           |
| <b>Total</b>             | <b>\$38,281,266</b> |

## ALTERNATIVE EQUITY INVESTMENTS

Alternative equity investments encompass nontraditional investments falling outside the standard asset classes of stocks, bonds, real estate, and cash. Alternative investments comprised approximately nine percent of OPERF's total market value at December 31, 2005. The single largest component of OPERF's alternative equities program relates to investments sponsored by Kohlberg Kravis Roberts & Company (KKR). KKR's investment funds and related partnership structure are unique. Investors generally execute commitment letters for a particular KKR investment fund that sets out the amount committed to the fund and the relationship between the investors and KKR (including the management fee structure). Individual investments are then separately structured (typically through a special purpose limited partnership) and funded directly to that special purpose partnership under the terms of the particular KKR investment fund commitment letter.

The second component of the alternative program are limited partnerships with various mandates and committed capital. The limited partnership portfolio, as well as the KKR investment funds, are reviewed regularly by the consulting firm of Pacific Corporate Group, which provided the information related to these investments, as of December 31, 2005. The market values provided are generally estimates made by the general partners and based on OPERF's investment in each of the funds. "Oregon" investments for the alternative equity investment class were defined as companies headquartered in Oregon or companies employing 100 or more employees within Oregon.

| Property Name                   | Net Asset Value |
|---------------------------------|-----------------|
| Banfield Industrial Park        | \$568,110       |
| Canyons Ranch                   | 326,500         |
| Carmen Center                   | 182,840         |
| Clackamas Station               | 470,160         |
| Cornell Pacific Business Park   | 104,480         |
| Crossroads at Orenco Station    | 1,821,870       |
| Davis Industrial Park           | 417,920         |
| Evergreen Business Park         | 881,550         |
| Five Oaks West Business Park    | 91,420          |
| Freestanding Warehouses         | 261,200         |
| Gateway Shopping Center         | 1,789,220       |
| Guilds Lake Industrial Park     | 378,740         |
| Hawthorn Business Center I      | 26,120          |
| International Corporate Centers | 979,500         |
| Marriott Courtyard              | 391,800         |
| One Town Center                 | 626,880         |
| Oregon Business Parks           | 4,473,050       |
| Orenco Stations                 | 953,380         |
| Pacific Business Park South     | 1,149,280       |
| Pacific Corporate Centers       | 4,185,730       |
| PacTrust Business Center        | 2,931,970       |
| Sunrise Business Park           | 659,530         |
| Sunriver                        | 391,800         |
| Tigard Triangle Campus          | 1,142,750       |
| Tualatin Business Centers       | 842,370         |
| Woodburn Shopping Center        | 352,620         |

# Investment Division

| Partnership            | Investment                        | Fair Market Value    |
|------------------------|-----------------------------------|----------------------|
| Canterbury Mezzanine   | Real Max Restaurants              | 3,994,560            |
| Castle Harlan          | Marie Callender's                 | 5,875,958            |
|                        | McCormick & Schmick's             | 2,840,373            |
| Endeavor Capital       | GH Investment Corp.               | 2,405,760            |
|                        | Market Transport                  | 16,235,699           |
|                        | Winco Foods                       | 13,458,755           |
| Fenway Partners        | Greatwide Logistics               | 10,991,652           |
| Green Equity Partners  | Rite Aid Corporation              | 9,475,071            |
| Gryphon Partner        | Celerity                          | 1,438,453            |
|                        | Kinetics                          | 2,363,245            |
| HarbourVest Partners*  | Ambric, Inc.                      |                      |
|                        | Avnera Corporation                |                      |
|                        | Babcock & Jenkins Direct, Inc.    |                      |
|                        | Kettle Foods                      |                      |
|                        | KinderCare Learning Centers, Inc. |                      |
|                        | Lucy Activewear, Inc.             |                      |
|                        | McCormick and Schmick's           |                      |
|                        | PolyServe, Inc.                   |                      |
|                        | Qsent, Inc.                       |                      |
|                        | UXComm, Inc.                      |                      |
|                        | Veriwave, Inc.                    |                      |
|                        | Vesta Corporation                 |                      |
|                        | Wallace Theater Corporation       |                      |
|                        | Wine.com                          |                      |
| HarbourVest Total*     |                                   | 328,990              |
| KKR                    | Toys "R" Us                       | 66,968,302           |
| Littlejohn             | PSC, Inc.                         | 8,163,507            |
| Matlin Patterson       | Comsys IT Partners                | 456,044              |
| OCM Opportunities Fund | Regal Entertainment Group         | 6,866,216            |
| OVP                    | Ambric, Inc.                      | 948,062              |
|                        | Max-Viz, Inc.                     | 1,078,941            |
|                        | UXComm, Inc.                      | 1,077,344            |
|                        | Octavian Scientific               | 689,500              |
| TCW                    | KinderCare Learning Center        | 294,490              |
| Wellspring             | Vistar VSA                        | 6,582,558            |
| <b>Total</b>           |                                   | <b>\$154,369,974</b> |

\* HarbourVest Partners is a fund of funds manager and does not disclose individual company fair market values, in accordance with agreements with their underlying managers.

Whitney Ann Sadowsky, age 11

Whitney drew this picture after her grandma, Martha Kellams of the Debt Management Division, helped sell the bonds (1996 and 2005) that led to improvements at the zoo.



# Debt Management Division

Laura Lockwood McCall, Director

## OVERVIEW

The Debt Management Division provides central coordination and approval for the issuance of all state agency and authority bonds, and appropriation credits for the State of Oregon. At the end of the year, approximately \$8.6 billion of direct obligations were outstanding. The division reviews the structure of each bond sale, coordinates the timing of the various agency bond sales, administers the issuance of bonds, secures credit ratings, prepares transcripts and other documents, provides for the delivery of bonds, and assists with the settlement of bond issues. This requires monitoring local and national bond markets, as well as finance and economic trends that impact bond issuance structures and interest rates.

The division also reviews the financial and economic disclosure information provided for the sale of State of Oregon general obligation (GO) bonds, revenue bonds and state appropriation credits. Additionally, division staff advises agencies of market developments and makes debt policy and legislation recommendations to the Treasurer.

During 2005, the Debt Management Division assisted state agencies and local governments in issuing \$1.9 billion in advance refunding bonds, resulting in either net present value savings or a reorganization of debt. Advance refunding bonds are issued to refund an outstanding bond series one year or more prior to the date on which the outstanding bond series becomes callable. Proceeds from the advance refunding bonds are deposited in escrow with a fiduciary institution, invested in Treasury bonds or other authorized securities, and used to redeem (pay principal and interest on) the underlying (“refunded”) bonds at their call date or prior to maturity. The following table displays the number of advanced funding issues for the past few years and the corresponding present value savings.

| Calendar Year | Issues Advanced Refunded | Present Value Savings |
|---------------|--------------------------|-----------------------|
| 2001          | 17                       | 13,079,400            |
| 2002          | 26                       | 25,837,495            |
| 2003          | 17                       | 7,358,216             |
| 2004          | 48                       | 61,558,983            |
| 2005          | 71                       | 92,215,061            |

## GENERAL OBLIGATION, REVENUE BONDS & CERTIFICATES OF PARTICIPATION

Oregon’s state government direct revenue bond programs remained active in 2005, issuing \$282 million. Direct revenue bonds total \$2.8 billion outstanding in state debt. The largest state agency issuer of revenue bonds, at approximately \$185 million in 10 separate series, was the Oregon Housing and Community Services Department.

General Obligation debt issuance in 2005 totaled \$252 million, bringing total outstanding GO debt to \$4.2 billion. Of this total, \$1.3 billion in pension obligation bonds is the single largest component of the State’s outstanding general obligation debt.

Four state agencies issued General Obligation bonds in 2005: the State System of Higher Education, the Department of Energy, the Department of Environmental Quality, and the Veterans’ Department.

On October 26, 2005, the state issued its fourth series of Tax Anticipation Notes (TANs) in the amount of \$148 million to meet cash flow needs of the state and for cash management purposes within the 2005-

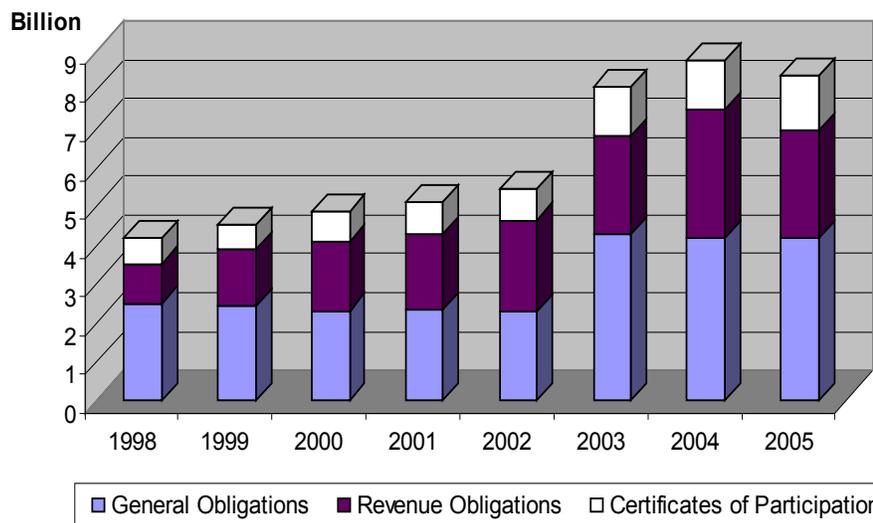
# Debt Management Division

2007 biennium. This is considerably lower than in the previous three years due to the improving financial position of the State. These notes have a maturity date of November 27, 2006.

During 2005, State of Oregon conduit issuers – the Oregon Facilities Authority, the Oregon Economic and Community Development Department, and the Oregon Housing and Community Services Department – issued bonds totaling \$175 million.

In 2005, the state's outstanding direct debt dropped to \$8.6 billion, as new issuance was offset by the amortization of prior outstanding bonds. There was a slight increase in general obligation bonds and appropriation credits, with a decrease in revenue bond obligations. At year-end, outstanding state bonds and appropriation credits dropped 1 percent from \$8.7 billion in 2004. General obligations were the largest category of debt, with \$4.2 billion outstanding. Revenue obligations were \$2.8 billion and appropriation credits were \$1.4 billion outstanding.

## State Obligations



## OUTSTANDING DEBT AND CERTIFICATES OF PARTICIPATION (AS OF 12.31.05)

| Year | General Obligations <sup>1</sup> | % Chg. | Revenue Obligations <sup>2</sup> | %    | Certificates of Participation | %    | Total Obligations | % Chg. |
|------|----------------------------------|--------|----------------------------------|------|-------------------------------|------|-------------------|--------|
| 1998 | 2,507,986,330                    | -17.9  | 1,020,234,828                    | 13.4 | 645,170,000                   | -1.2 | 4,173,391,158     | -9.4   |
| 1999 | 2,422,225,872                    | -3.4   | 1,490,034,827                    | 46.0 | 622,820,000                   | -3.5 | 4,535,080,699     | 8.7    |
| 2000 | 2,314,658,643                    | -4.4   | 1,778,404,827                    | 19.4 | 790,245,000                   | 26.9 | 4,883,308,470     | 7.7    |
| 2001 | 2,357,694,916                    | 1.9    | 1,942,694,827                    | 9.2  | 808,655,000                   | 2.3  | 5,109,044,743     | 4.6    |
| 2002 | 2,286,854,029                    | -3.0   | 2,358,314,827                    | 21.4 | 808,150,000                   | -0.1 | 5,453,318,856     | 6.7    |
| 2003 | 4,270,420,754                    | 86.7   | 2,556,704,827                    | 8.4  | 1,238,555,000                 | 53.3 | 8,065,680,581     | 47.9   |
| 2004 | 4,170,590,691                    | -2.3   | 3,326,799,226                    | 30.1 | 1,258,935,000                 | 1.6  | 8,756,324,917     | 8.5    |
| 2005 | 4,177,483,717                    | 1.0    | 2,773,788,110                    | -1.7 | 1,425,895,000                 | 1.1  | 8,377,166,827     | -4.3   |

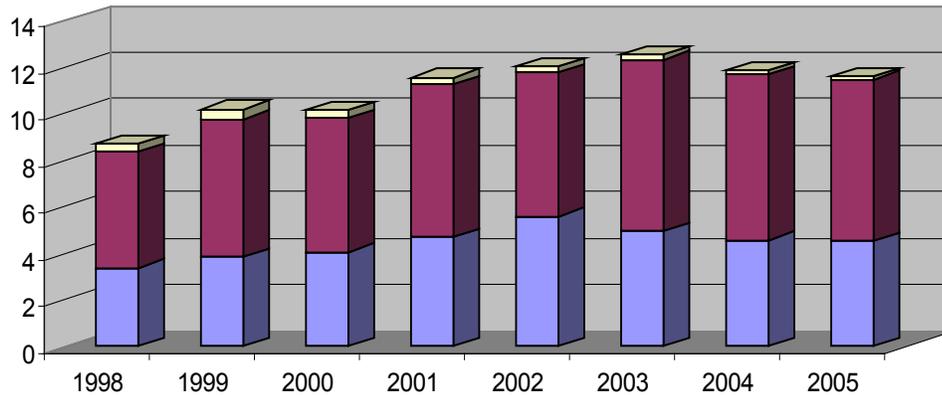
<sup>1</sup> 2003-2005 increases due to Pension Obligation Bonds

<sup>2</sup> 2002-2005 increases due to Pension Obligation Bonds to finance unfunded PERS obligation.

# Debt Management Division

## Local Obligations

Billion



■ Total General Obligations 
 ■ Revenue Obligations 
 ■ Certificates of Participation

| Calendar Year | General Obligations | % Chg. | Limited Tax Obligations | % Chg. | Revenue* Obligations | % Chg. | Certificates of Participation | % Chg. | Other Obligations <sup>2</sup> | % Chg. | Total Obligations | % Chg. |
|---------------|---------------------|--------|-------------------------|--------|----------------------|--------|-------------------------------|--------|--------------------------------|--------|-------------------|--------|
| 1998          | 3,388,464,305       | 2.9    | 338,831,484             | 42.4   | 4,955,837,723        | 16.1   | 345,886,329                   | 16.7   | 222,326,314                    | -20.1  | 9,251,346,155     | 10.5   |
| 1999          | 3,847,083,750       | 13.5   | 366,630,503             | 8.2    | 5,940,019,946        | 19.9   | 408,099,594                   | 18.0   | 218,909,964                    | -1.5   | 10,780,743,757    | 16.5   |
| 2000          | 4,062,288,361       | 5.3    | 527,340,526             | 43.8   | 5,768,561,795        | -2.9   | 343,763,254                   | -15.8  | 907,938,701                    | 314.8  | 11,609,892,637    | 7.7    |
| 2001          | 4,717,357,548       | 16.1   | 497,546,939             | -5.6   | 6,526,318,259        | 13.1   | 307,795,979                   | -10.5  | 542,141,628                    | -40.3  | 12,591,160,353    | 8.5    |
| 2002          | 5,584,775,641       | 18.4   | 715,385,394             | 43.8   | 6,191,202,591        | -5.1   | 252,898,949                   | -17.8  | 1,389,248,511                  | 156.3  | 14,133,511,086    | 12.2   |
| 2003          | 4,968,885,613       | -11.0  | 682,847,804             | -4.6   | 7,369,856,161        | 19.0   | 187,725,048                   | -25.8  | 2,776,823,608                  | 99.9   | 15,986,138,231    | 13.1   |
| 2004          | 4,581,818,301       | -7.8   | 549,062,993             | -19.6  | 7,112,787,723        | -3.5   | 172,727,984                   | -8.0   | 4,453,180,892                  | 60.4   | 16,869,577,893    | 0.5    |
| 2005          | 4,502,794,581       | -2.0   | 920,368,180             | 1.7    | 6,975,414,858        | -2.0   | 141,146,497                   | -18    | 5,019,427,116                  | 1.1    | 17,559,151,232    | 1.1    |

# Debt Management Division

## OREGON FACILITIES AUTHORITY

In 2005, the Oregon Facilities Authority (OFA), acted as a conduit for eight entities, resulting in a \$153 million new debt issuance for this program. OFA bonds constituted a majority of the \$175 million in overall state conduit revenue bonds issued in 2005. The five-member Authority, created in 1989, is empowered to

### OREGON FACILITY AUTHORITY (AS OF 12.31.05)

|   |                       |
|---|-----------------------|
| <b>Glenn Ford, Chair</b><br>Public member, construction | Term expires 06.30.07 |
| <b>Ellsworth Ingraham, Vice Chair</b><br>Public member  | Term expires 06.30.09 |
| <b>Baruti Artharee</b><br>Public member, public finance | Term expires 06.30.07 |
| <b>Al Gosiak</b><br>Public member                       | Term expires 06.30.08 |
| <b>Sue Cutsogeorge</b><br>Public member                 | Term expires 06.30.09 |

issue bonds to assist with the assembling and financing of lands for health, housing, educational and cultural uses, and for the construction and financing of facilities for such uses. The Authority reviews proposed projects and makes recommendations to the State Treasurer as to the issuance of bonds. As of December 31, 2005, \$800 million in OFA-issued conduit revenue bonds remained outstanding.

## STATE HIGHWAY & TRANSPORTATION INFRASTRUCTURE

Beginning in 2001, the Oregon Legislature passed a series of transportation funding bills known collectively as the "Oregon Transportation Investment Act." The 2005 Legislature authorized the issuance of \$900 million in highway user tax bonds and \$50 million in transportation infrastructure bonds for the 2005-07 biennium.

As of December 31, 2005, ODOT HUTB indebtedness stood at \$530 million. It is presently envisioned that the OTIA program bonds will be issued over the next several biennia as projects come on line. While state highway and transportation infrastructure bonds do not receive General Fund support, they do add to the overall net tax-supported debt burden.

## MUNICIPAL DEBT ADVISORY COMMISSION

In addition to his other duties, the Treasurer, or his designee, is a member of the Municipal Debt Advisory Commission (MDAC), for which the Debt Management Division serves as staff. The MDAC's primary missions are to improve the market for Oregon bonds, to assist local governments in selling bonds, and to serve as an information clearinghouse on bond sales. The MDAC responds to local and national inquiries for information about Oregon's debt management. It monitors local and national bond markets and economic trends, and advises agencies on market developments. The Commission also makes municipal bond policy and legislation recommendations to the Legislative Assembly.

### MUNICIPAL DEBT ADVISORY COMMISSION

(AS OF 12.31.05)

|   |   |
|---|---|
| <b>Patrick H. Clancy, Chair</b><br>Western Financial Group, LLC | Public Member<br>Term expires 06.30.07            |
| <b>Debra Guzman</b><br>Special Districts Assoc. of Oregon       | Special Districts Member<br>Term expires 06.30.09 |
| <b>Edward D. Einowski</b><br>Stoel Rives                        | Public Member<br>Term expires 06.30.07            |
| <b>Linda Haglund</b><br>Deputy State Treasurer                  | Treasurer's Designee<br>Serves by Position        |
| <b>Janell Howard</b><br>City of Portland                        | Local Government Member<br>Term expires 06.30.06  |
| <b>Michael Long</b><br>Klamath County                           | Local Government Member<br>Term expires 06.30.05  |
| <b>Angie Peterman</b><br>South Umpqua School District           | Local Government Member<br>Term expires 06.30.06  |

# Debt Management Division

## LOCAL GOVERNMENT ASSISTANCE

The Debt Management Division provides technical support and assistance to local governments in dates of bond sales, offering training on selected debt management topics, and publishing a bond issuance instruction manual. The division strives to improve existing services and to promote new programs aimed at lowering borrowing costs and improving debt management practices for local governments, particularly in the area of capital planning and debt administration. The MDAC maintains a debt profile of all issuing local government units. In 2005, staff provided 163 overlapping debt reports, assisting in the preparation of disclosure documents for bond issues and municipal financial reporting of local governments.

Twice a month, the Office of the State Treasurer publishes the Oregon Bond Calendar for the MDAC, listing all public state and local sales and enabling state agencies and local governments to minimize scheduling conflicts that may affect the marketability of their issues. The Oregon Bond Calendar also contains information regarding planned, but tentative, competitive and negotiated sales; bond election results; results of recent bond sales; and the Oregon Bond Index, which charts trends in Oregon municipal bond interest rates.

The online version of the calendar is updated daily and can be viewed at [www.ost.state.or.us/divisions/dmd/bondcalendar\\_index/bondcalendar.pdf](http://www.ost.state.or.us/divisions/dmd/bondcalendar_index/bondcalendar.pdf). The published calendar may also be received via email by contacting the Debt Management Division of the Office of the State Treasurer.

## PRIVATE ACTIVITY BOND COMMITTEE

The Debt Management Division serves as staff to the Private Activity Bond Committee. The State Treasurer, a representative of the Department of Administrative Services, and a public member appointed by the Governor serve on the Committee. The Committee's charge is to allocate a portion of the state Private Activity Bond (PAB) limit to local governments pursuant to ORS 286.625 and the Tax Reform Act of 1986, as amended.

### PRIVATE ACTIVITY BOND COMMITTEE MEMBERS (AS OF 12.31.05)

|  |  |
|--|--|
| <b>Jack Kenny, Chair</b><br>Dept. of Administrative Services | Serves by Position                     |
| <b>Randall Edwards</b><br>State Treasurer                    | Serves by Position                     |
| <b>David Glennie</b><br>Salem                                | Public Member<br>Term expires 10.31.09 |

# Debt Management Division

## STATE DEBT POLICY ADVISORY COMMISSION

Additionally, the Debt Management Division serves as staff to the State Debt Policy Advisory Commission (SDPAC). The Treasurer chairs this five-member commission created by the 1997 Legislative Assembly. Commission members include a public member appointed by the Governor, an appointee from both the Oregon Senate and the Oregon House of Representatives, and the Director of the Department of Administrative Services. The SDPAC is charged with advising the Governor and the Legislative Assembly regarding policies and actions that enhance and preserve the state's credit rating while maintaining the future availability of low-cost capital financing. In carrying out this function, the commission must prepare a report to the Governor and the Legislative Assembly by April 1 of even-numbered years as to the available debt capacity of the State of Oregon.

The SDPAC met during 2005, hearing testimony and considering policy options related to state debt issuance and the enhancement and preservation of the state's credit rating. The SDPAC's most recent report to the Governor and the Legislative Assembly was published on January 10, 2005. The report outlined debt capacity for net tax-supported debt programs and the lottery bond program, as well as capacity considerations for non tax-supported debt programs. In addition to the Governor and Legislative Assembly, the report was distributed to state agencies with bonding programs, finance professionals that work with state programs,

rating agencies, and various national finance organizations. The commission strengthened its pledge to support the creation of a state budget stabilization fund.

The Legislative Update, dated January 10, 2005, provides the Governor and the Legislative Assembly with a current picture of the state's bonding capacity as they make budget and policy decisions related to debt capacity and good bonding practices in Oregon.

### STATE DEBT POLICY ADVISORY COMMISSION

(AS OF 12.31.05)

|   |   |
|---|---|
| <b>Randall Edwards, Chair</b><br>State Treasurer                  | Serves by Position                      |
| <b>Tom Butler</b><br>Representative, District 60                  | House Appointee<br>Term expires 9.30.07 |
| <b>Wes Lawrence</b><br>President, Key Bank                        | Public Member<br>Term expires 3.14.06   |
| <b>Lindsay Ball</b><br>Director, Dept. of Administrative Services | Serves by Position                      |
| <b>Rick Metsger</b><br>Senator, District 26                       | Senate Appointee<br>Term expires 1.1.07 |



Anna Coy, age 4

# Finance Division

Darren Q. Bond, Director

## OVERVIEW

The Finance Division supports the Office of the State Treasurer in improving internal procedures and to enhancing financial services to the state and local governments. The Finance Division is composed of the Cash Management Section, the Controller's Section, and Relationship Management Services.

## CASH MANAGEMENT SECTION

Virtually all funds flowing to and from Oregon state government go through the Cash Management Section, which provides banking services for all state agencies. During 2005, the Cash Management Section processed more than 12.1 million transactions.

State agency receipts, deposited daily at the branches of 20 Oregon commercial banks, are moved by electronic funds transfer to the Treasurer's Office concentration accounts. Upon notification from the banks, the Cash Management Section credits the deposits to the appropriate agency accounts. During 2005, the Cash Management Section processed nearly 340,000 deposits to 779 state agency accounts.

Checks and warrants written by state agencies are drawn on Office of the State Treasurer. Information on checks and warrants clearing the commercial banking system is transmitted electronically each day to the Cash Management Section and posted automatically to agency checking accounts. The Cash Management Section processed more than 6.7 million checks and warrants during 2005.

State agency funds not required to cover checks and warrants are invested daily in the Oregon Short Term Fund (OSTF), a highly liquid and safe investment pool similar to a money market fund. As of December 31, 2005, 1,085 local governments in Oregon also participated in the OSTF. All investment income net of

administrative fees is paid to participants as interest on their deposits in the fund.

Beyond providing traditional banking and cash management services to state agencies and local governments, the Cash Management Section also enables state agencies to process payments and collections electronically to reduce or eliminate the flow of paper, thereby cutting costs. The Treasurer's ACH (Automatic Clearinghouse) Network (STAN) is one of the most important services offered by the Cash Management Section, saving state agencies and local governments the cost of issuing and processing checks and warrants. STAN is a suite of products and services that allows state agencies to initiate payment and collection transactions through the national automated clearinghouse system. Related web-based banking services also allow state agencies to perform online ACH origination and gain access to daily and monthly banking statements. During 2005, more than 4.8 million electronic funds transfers were processed through STAN, an increase of nearly 7 percent over 2004.

Additionally, the Office of the State Treasurer contracts with a financial institution to process merchant bank card transactions on behalf of the State of Oregon. As a result, the public has the ability to pay state agencies with debit and credit cards for a variety of goods and services. This service has seen a steady increase in usage to \$334.8 million in 2005 from \$76.7 million collected via merchant bank cards in 1998.

The Cash Management Section also acts as liaison between debt-issuing agencies, bondholders, and the state's fiscal agent; and it coordinates payments of bond principal and interest to the state's bondholders.

Another important role is to ensure that banks accepting deposits of public funds comply with statutory collateralization requirements to safeguard that public money.

# Finance Division

## CASH MANAGEMENT ANALYST

The Cash Management Analyst coordinates agency customer visits to provide more in-depth reviews of their current cash management practices and identify potential efficiencies to be gained through using available tools or redesigning processes. The intent of a cash management review is to assist agencies in understanding the cash management tools that are available to them and assist in implementing options that are found to be beneficial to the agency. As technology progresses, new cash management tools and improved ways of doing business continue to emerge. The Treasurer's Office is committed to keeping agencies apprised of these new developments.

## CONTROLLER'S SECTION

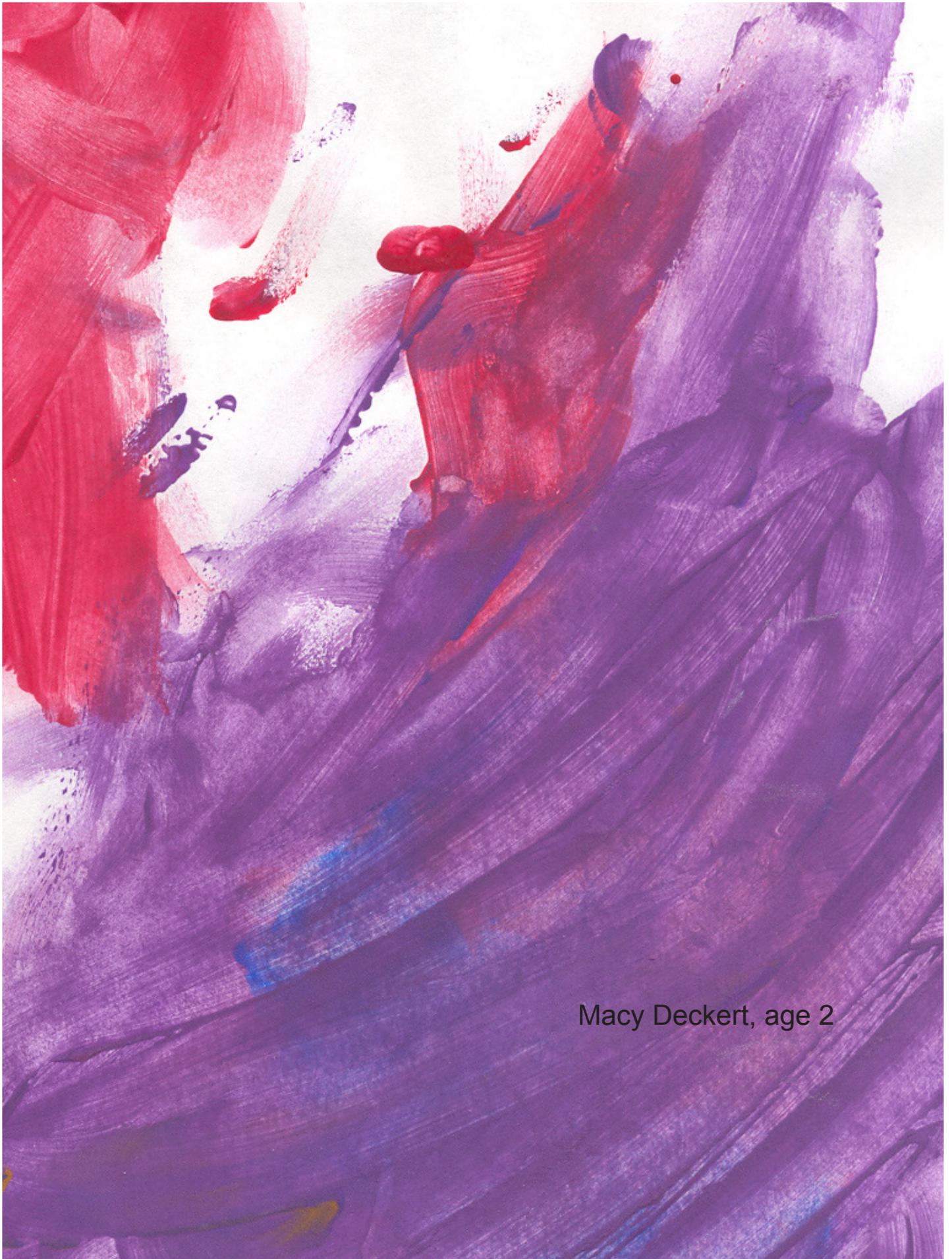
The Controller's Section is responsible for providing investment accounting; internal accounting services including billing, revenue collection, payment of invoices; and periodic financial reporting for the Treasurer's Office and for the Oregon Facilities Authority (OFA), which issues tax-exempt bonds to finance health, housing, education, and cultural projects. This section also prepares Treasurer's Office's biennial budget and produces internal management reports to monitor actual revenues and expenditures against the budget.

Investment Accounting (IA) is responsible for recording the purchases, sales, expenses, and income for investments managed by the Investment Division and external investment managers. Investments totaled \$66.9 billion at market value on December 31, 2005, and range from ordinary stocks and bonds to more complex investments such as alternative equities and real estate. IA also monitors the yield on the Oregon Short Term Fund and in turn determines the interest rate to be paid to Office of the State Treasurer's banking customers.

Investment Accounting provides state agencies information regarding their investment holdings and income on a daily, monthly, and annual basis. In addition, IA ensures that generally accepted accounting principles are applied to all investments and that external investment managers are also accounting properly for the investments under their control. IA prepares the annual financial statements for the Oregon Short Term Fund, and works closely with the State Controller's Division in setting accounting policies relative to investments and in the preparation of the Oregon Comprehensive Annual Financial Report (CAFR).

## RELATIONSHIP MANAGEMENT SERVICES

The Relationship Management Team (RMT) advocates for and supports customers of the Office of the State Treasurer. The RMT meets regularly with agency customers to assess current usage of banking services, understand agency programs and the customers they serve, and to gather information regarding business needs to ensure that the Office of the State Treasurer is positioned to meet those needs now and in the future. The RMT strives to understand agency business processes in order to help them mitigate risks, resolve problems and improve efficiencies in the daily management of state funds. As cash management practices change in the marketplace, the RMT will continue to educate customers about new banking services and assist them in implementing effective and efficient cash management tools and practices.



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# Oregon 529 College Savings Network

Michael Parker, Executive Director

The Oregon 529 College Savings Network continues to provide Oregon families a unique and affordable investment program to help offset the future cost of higher education. The Network currently operates three college savings plans, which offer families more than 30 mutual fund investment choices for their college savings needs.

The Network provides significant state and federal tax advantages and more flexibility than many other college savings vehicles. Families may use their assets at any eligible institution of higher education in the United States and abroad—including technical, vocational, and graduate schools—for a wide range of educational expenses, including tuition, fees, books, and room and board expenses.

The Network has enjoyed remarkable success and significant growth in its first five years. At the end of 2001, families had opened 10,000 accounts and invested about \$33 million. By December 2005, the Network had more than 75,000 accounts and nearly \$560 million

in assets, demonstrating the true need for and popularity of this type of investment vehicle.

The 529 College Savings Board made substantial improvements to the Network in 2004 and 2005.

Most notably, the Board hired OppenheimerFunds and Vanguard to replace Strong Capital Management, the original mutual fund provider and program manager for the Oregon College Savings Plan, the state's flagship 529 plan. Both OppenheimerFunds and Vanguard have been outstanding additions to the Network, allowing the Board to significantly lower

the fees charged to participants and enhance the quality of the investments.

The College Savings Network can play a vital role in helping Oregon families achieve the dream of a college education. It is the Network's goal to ensure that as many Oregonians as possible have the ability and knowledge to take advantage of this outstanding college savings opportunity.

## OREGON 529 COLLEGE SAVINGS BOARD (AS OF 12.31.05)

|   |  |
|---|--|
| <b>Randall Edwards, Chair</b><br>Oregon State Treasurer         | Serves by Position                                   |
| <b>M. Lee Pelton</b><br>President, Willamette University        | Private Colleges Member<br>Term expires 12.31.06     |
| <b>Scott Sandbo</b><br>CEO, Pacific Crest Securities            | Public Member<br>Term expires 12.31.05               |
| <b>Lyn Hennion</b><br>Sr. VP, Strand Atkinson Williamson & York | Public Member<br>Term expires 12.31.07               |
| <b>Tim Nesbitt</b><br>President, Oregon AFL-CIO                 | State Bd. of Higher Ed. Member<br>Serves by Position |

## 529 NETWORK ACTIVITY (AS OF 12.31.05)

### Oregon College Savings Plan and OppenheimerFunds 529 Plan *OppenheimerFunds, Inc., Program Manager*

|                          |               |
|--------------------------|---------------|
| <b>Year End 2005</b>     |               |
| In-state accounts        | 33,447        |
| Out-of-state accounts    | <u>5,691</u>  |
| Total number of accounts | 39,138        |
| Assets                   | \$295,114,342 |

### MFS 529 Savings Plan *MFS Investment Management, Program Manager*

|                          |               |
|--------------------------|---------------|
| <b>Year End 2005</b>     |               |
| In-state accounts        | 10,717        |
| Out-of-state accounts    | <u>25,874</u> |
| Total number of accounts | 36,591        |
| Assets                   | \$263,127,093 |

### Oregon 529 College Savings Network Totals

Total Accounts: 75,729  
Total Assets: \$558,241,435