OFFICE OF THE BOARD OF TRUSTEES

Public Meeting Notice

June 13, 2019

TO: Southern Oregon University Board of Trustees, Finance and Administration Committee

FROM: Sabrina Prud'homme, University Board Secretary

RE: Notice of Regular Meeting of the Finance and Administration Committee

The Finance and Administration Committee of the Southern Oregon University Board of Trustees will hold a regular meeting on the date and at the location set forth below.

Topics of the meeting will include a vice president's report with a review of the financial dashboard, a HECC update, and other general updates. There will be discussion and action on a Fiscal Year 2019-20 budget. There also will be updates on investments and state funding.

The meeting will occur as follows:

Thursday, June 20, 2019
4:00 p.m. to 6:00 p.m. (or until business concludes)
Hannon Library, DeBoer Room, 3rd Floor, Room #303
Visit governance.sou.edu for meeting materials.

The Hannon Library is located at 1290 Ashland Street, on the Ashland campus of Southern Oregon University. **If special accommodations are required or to sign-up in advance for public comment, please contact Kathy Park at (541) 552-8055 at least 72 hours in advance.**

Southern OREGON UNIVERSITY

Board of Trustees
Finance and Administration Committee Meeting
June 20, 2019

Call to Order / Roll / Declaration of a Quorum

Southern OREGON UNIVERSITY

Board of Trustees
Finance and Administration Committee Meeting

Thursday, June 20, 2019
4:00 p.m. – 6:00 p.m. (or until business concludes)
DeBoer Room, Hannon Library

AGENDA

Persons wishing to participate during the public comment period shall sign up at the meeting.
Please note: times are approximate and items may be taken out of order.

	1	**Call to Order/Roll/Declaration of a Quorum**	Chair Sheila Clough
	1.1	Welcome and Opening Remarks	
	1.2	Roll and Declaration of a Quorum	Sabrina Prud'homme, SOU, Board Secretary
	1.3	Agenda Review	Chair Clough
	2	**Public Comment**	
5 min.	**3**	**Consent Agenda**	
	3.1	May 16, 2019 Meeting Minutes	Chair Clough
10 min.	**4**	**Vice President's Report**	Greg Perkinson, SOU, Vice President for Finance and Administration
	4.1	Committee Dashboard	
	4.2	HECC Update	
	4.3	Other General Updates	
	5	**Action, Information and Discussion Items**	
10 min.	5.1	State Funding Update	Greg Perkinson; Jeanne Stallman, SOU, Associate Vice President for Government Relations and Outreach
60 min.	5.2	Fiscal Year 2019-20 Budget (Action)	Greg Perkinson
15 min.	5.3	Investment Update	Penny Burgess, USSE, Director of Treasury Management Services

Board of Trustees
Finance and Administration Committee Meeting

Thursday, June 20, 2019
4:00 p.m. – 6:00 p.m. (or until business concludes)
DeBoer Room, Hannon Library

AGENDA (Continued)

5.4	Future Meetings	Chair Clough
6	**Adjournment**	Chair Clough

Public Comment

Consent Agenda

Board of Trustees
Finance and Administration Committee Meeting
Thursday, May 16, 2019

MINUTES

Call to Order/Roll/Declaration of a Quorum
Committee Members:

Sheila Clough	Present	Shanztyn Nihipali	Present
Les AuCoin	Present	Bill Thorndike	Present
Shaun Franks	Present	Steve Vincent	Absent
Megan Davis Lightman	Present		

Chair Sheila Clough called the meeting to order at 2:30 p.m. in the DeBoer Room of the Hannon Library. Chair Clough welcomed Alexis Phillips, ASSOU President, and members of the Tuition Advisory Council (TAC). She also welcomed visitors from the HECC: Commissioners Lee Ayers Preboski, Vanessa Becker, Terry Cross and Duncan Wyse and Director of the Office of Postsecondary Finance and Capital, Jim Pinkard. Chair Clough mentioned that the meeting would be live streamed. The Board Secretary recorded the roll and a quorum was verified.

Other trustees in attendance: Lyn Hennion, Jonathon Bullock, Deborah Rosenberg, Daniel Santos and janelle wilson.

Other attendees included: Lee Ayers Preboski, Vanessa Becker, Terry Cross, Duncan Wyse and Jim Pinkard, all from the HECC; Dr. Linda Schott, President; Greg Perkinson, Vice President for Finance and Administration: Dr. Susan Walsh, Provost; Janet Fratella, Vice President for Development; Dr. Neil Woolf, Vice President for Enrollment Management and Student Affairs; Jason Catz, General Counsel; Andrew MacPherson, Campus Public Safety; Josh Lovern, Budget Office; Nicolle Aleman, Marketing and Communications; Andrew Gast, Office of Development; Deborah Lovern, Provost's Office; Colleen Low, Service Center; Sherritta Guzman, Service Center; Anne Wadley, Service Center; Scott Rex, Humanities and Culture; Brian Kinsey, Service Center; Rachel Jones, Outreach and Engagement; Max Jensen, OSA; Melissa Anderson, Hannon Library; Sarah Guenther, student; Sarah Cochran, student; Kayla Hunter, student; Tom Battaglia, Information Technology; Susan Dyssegard, Office of Finance and Administration; Alexis Phillips, ASSOU; Joe Mosley, Marketing and Communications; Hugues Lecomte, Campus Recreation; Melissa Bates, Campus Recreation; Staci Buchwald, University Housing; Ryan Schnobrich, Internal Audit; Gordon Carrier, Information Technology; Sabrina Prud'homme, Office of the Board Secretary; and Kathy Park, Office of the Board Secretary.

Public Comment
Melissa Anderson, faculty member and Secretary of Faculty Senate, discussed how they have been engaged in tuition and budget issues and said information about the Tuition Advisory Council (TAC) and SOU's budget issues has been shared in a number of ways. Faculty Senate has been engaged in the process and well informed.

Rachel Jones, Director of Outreach and Engagement Programs, spoke of the importance of pipeline programs and consideration of the underserved, first generation, migrant and economically disadvantaged populations. Students in their programs have a higher rate of high school graduation and college matriculation than state averages.

Consent Agenda
Trustee Thorndike moved to approve the consent agenda, as presented. Trustee Lightman seconded the motion and it passed unanimously.

Vice President's Report
Committee Dashboard
Greg Perkinson reviewed the financial dashboard included in the meeting materials. The increased burn rate for Supplies & Services is attributable to the 10-year relinquishment program for tenure and incoming bills on various strategic investments.

Action, Information and Discussion Items
Tuition and Mandatory Fees for Academic Year 2019-20 (Action)
Chair Clough said the committee has been working toward this decision for a number of months and that the committee took action on mandatory fees at its last meeting. President Linda Schott said the situation is fluid at the legislature and the allocation to the Public University Support Fund (PUSF) is difficult to predict. She praised the passage of the student success bill and mentioned the anticipated $700-800 million increase in the state's revenue. President Schott apologized for the delay in presenting her recommendation but said she was working to accommodate the fluidity. She added that SOU is working hard to comply with the requirements of HB 4141.

Provost Susan Walsh provided an update on the TAC, including the composition of the council, creation of the checklist to track compliance with HB 4141, the Internal Auditor's validation of the process, the TAC website and the communication plan. Sabrina Prud'homme read an email message from Dennis Slattery, a member of the TAC, written to the other TAC members praising the work of the council and contributions of the TAC members and various staff.

Dr. Walsh then reviewed the TAC's recommendation on tuition and fees, as included in the meeting materials. The recommendation includes varying tuition increases dependent upon increases to the PUSF. The focus of the discussion was on three different funding scenarios: plus $40.5 million with a tuition increase of 13.5%; plus $60 million with a tuition increase of 12%; and plus $80 million with a tuition increase of 11%. Responding to Trustee AuCoin's later inquiry, President Schott said those three scenarios achieve an ending fund balance of at least 8%.

Dr. Walsh said the TAC modeled many different scenarios thoughtfully and carefully. The recommendation also includes the mandatory fees that the committee previously approved. Responding to Trustee Nihipali's inquiry, Dr. Walsh said the Masters in Education has a differential tuition rate, separate from other graduate programs.

Josh Lovern demonstrated various scenarios on a tool the TAC used in its meetings. After consulting with Trustee Vincent, Mr. Lovern developed the enhanced interactive pro forma to manipulate the levers used in the forecast for the next biennium.

President Schott highlighted information that has been presented to the committee over the past few months, including the decreasing state investment in higher education, the Student Success and Completion Model, governor's recommended and investment budgets, enrollment projections, cost drivers and pro forma. Discussing affordability, President Schott compared tuition rates and mandatory fees for Oregon and some California state universities. SOU also considers federal, state and institutional financial aid. SOU's institutional financial aid, now called Raider Aid, is a critical piece of helping students afford college. SOU currently provides about $3.6 million through a variety of mechanisms to support students, in addition to other aid they may receive. She reviewed the regional picture of student debt, which had been previously presented to the committee. SOU has managed to keep tuition below the average of other Oregon public institutions.

President Schott discussed various engagement efforts with students, including financial aid wellness checks, open forums about budget and tuition issues, and social media campaigns to get students involved in tuition conversations. Nicolle Aleman said Trustee Nihipali, as a student employee in the Marketing and Communications Department, has increased SOU's social media presence around tuition.

President Schott then turned to SOU's efforts to control its costs. She mentioned a study by the Chronicle of Higher Education regarding managers/administrators per 1,000 full time equivalent (FTE) students. Out of 691 colleges and universities, SOU ranks 681st with only 1.1 managers per 1,000 FTE students. This study demonstrates that SOU is perhaps too thinly staffed. President Schott described some of the personnel reductions that have occurred since 2014 as well as the negative impacts those reductions had on the institution and its employees. SOU's cost control measures have a big cumulative impact and SOU will continue to try to find other ways to cut costs.

Further demonstrating SOU's lean constitution, President Schott reviewed the Education & General spending per FTE student. In 2013, SOU was the third leanest of the seven Oregon public universities. By 2015, SOU was the leanest and that has continued to the present time. SOU wants affordability but also wants quality education, facilities and student services for its students.

President Schott then detailed ways SOU is reducing costs for students. Room and board are key components in the cost of attendance and are expensive in Ashland. The SOU housing team has committed to increasing housing costs only the minimum amount necessary to cover increased expenses, limiting the increase to 2.75%. Food costs are also under control; this year the rates have rolled back to 2016 levels. SOU also has a food pantry for students in need and has the Raiders Helping Raiders program where students can donate meals from their food plan to other students. Another way of controlling costs for students is through the use of open educational resources and low or no cost textbooks; the provost has estimated a savings of over $600,000 for students over the past two years and a savings of $400,000 in the coming year. SOU also has the Accelerated Baccalaureate program, which allows students to graduate in three years instead of four; the Jackson-Josephine County Pledge program permits qualified students to pay community college tuition rates; and the SOU Foundation is hard at work raising additional funds for students.

Although there are some other costs that can be cut, President Schott said many of those are not in the best interest of the institution. Further, the strategic plan is the long term solution to education for students and sustainability of the institution.

President Schott then reviewed the details of her recommendation, as included in the meeting materials. She asked the committee to recommend approval of a graduated schedule of tuition increases that correlate directly to the PUSF allocation. The recommendation was developed modeling a .5% decrease in enrollment and an 8% ending fund balance. With a $40.5 million increase to the PUSF from the current biennium, the recommended resident undergraduate tuition rate would increase $23 per credit, a 13.5% increase. Even with a $120 million increase to the PUSF, SOU would not be able to keep the tuition increase below 5%; with funding at that level, SOU's tuition would increase 8.5%.

President Schott stressed that she does not like having to make this recommendation, that no one wants to ask students to pay more. However, this decision is the most responsible one, keeping students, the university and the region in mind.

Responding to Trustee AuCoin's inquiry, Mr. Perkinson said he and his staff modeled ending fund balances with the TAC and discussed tuition increases and cost cuts that would be needed to reach them. The TAC recommended keeping the cost reductions at a moderate $1.4 to $1.6 million range. Trustee AuCoin expressed concern with the possibility of a low ending fund balance and spoke of the Board's fiduciary duty to the institution. President Schott mentioned some of the strategic investments SOU has made to help secure its future but noted it may take years for some of them to pay off.

Trustee Lightman commended President Schott and her staff on doing an incredible job under strenuous, uncertain conditions and felt strongly that the committee and the board were going to make a difficult but successful decision. Trustee Thorndike added that it is important to think about the relative value of obtaining an education at SOU compared to other institutions in the state and across the country.

Trustee Nihipali moved to accept President Schott's recommendation. Trustee Lightman seconded the motion and it passed unanimously.

<u>Fiscal Year 2019-2020 Budget Information</u>
Due to time constraints, this agenda item was not covered.

<u>Future Meetings</u>
The next regularly scheduled committee meeting will be on June 20.

Adjournment
Chair Clough adjourned the meeting at 4:04 p.m.

Vice President's Report

Culture of Service Excellence

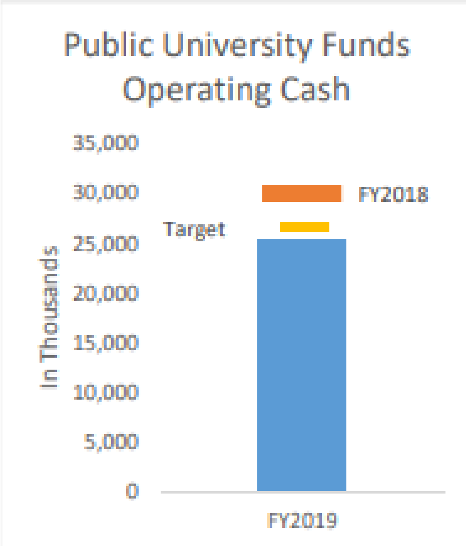
- Dashboard

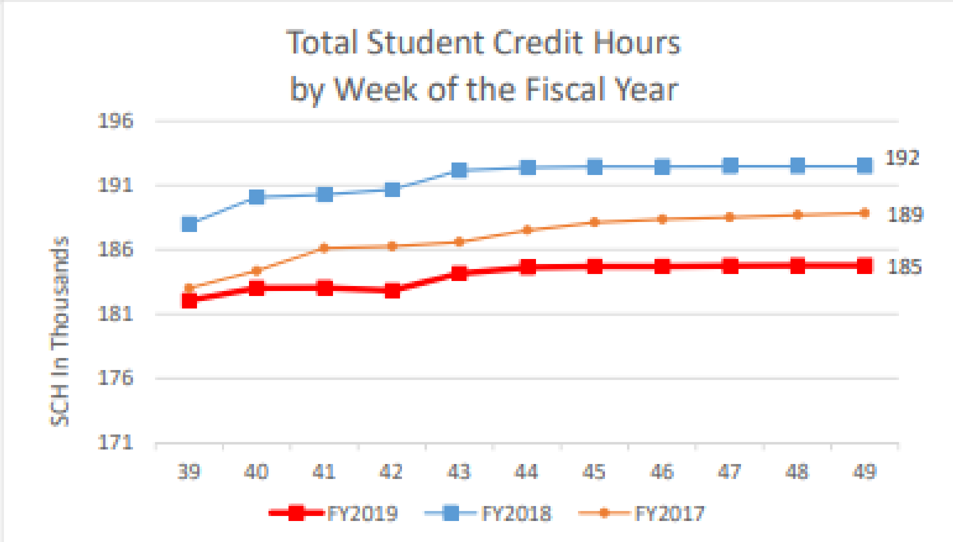
- At the awards breakfast:
  - People First: what did we do to take care of our folks?
  - Mission support: what did we do to support the mission?
  - And, driving a Culture of Excellence

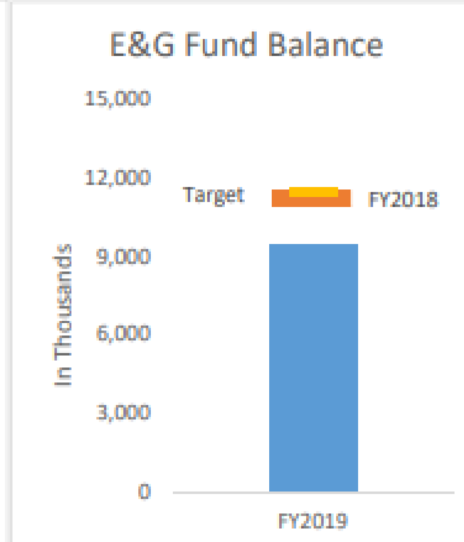
Financial Dashboard

For FY19

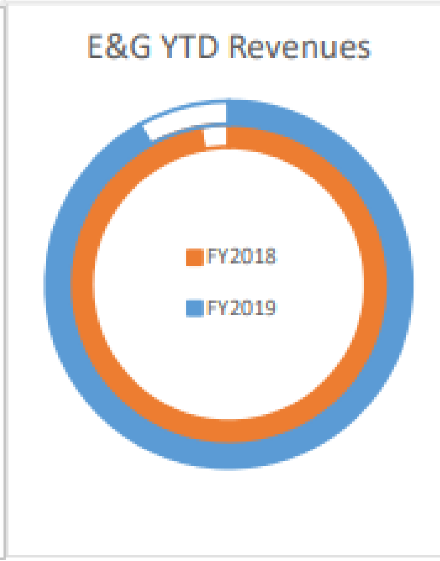
As of May 31, 2019

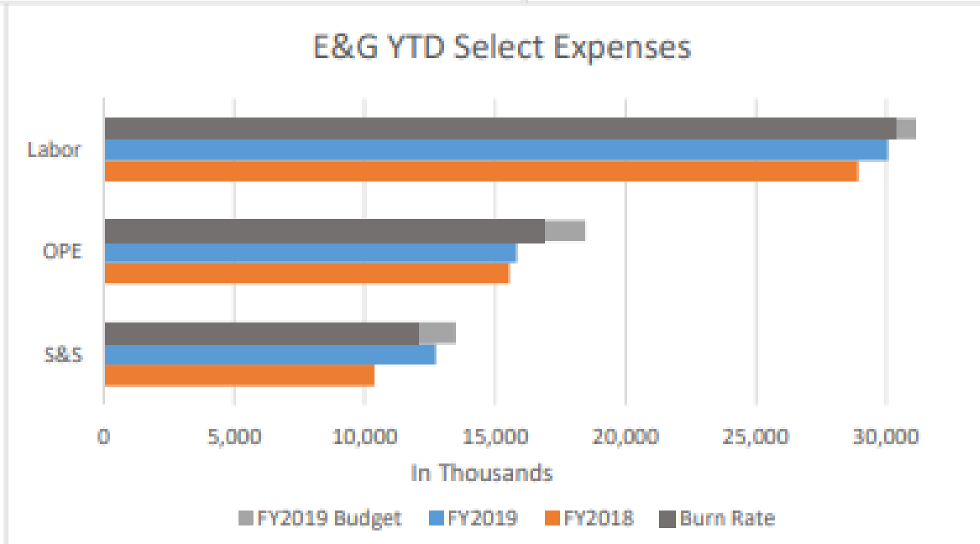






Finished 4th Athletics Department deep dive





Status Updates

- HECC Tuition review and approval on June 13th
- HECC Funding and Administration Subcommittee meeting on June 12th

Chief Financial Office's Gold Star Certificate

Awarded to

Southern Oregon University

For Achieving Statewide Accounting Goals
and Excellence in Financial Reporting
Fiscal Year Ended June 30, 2017

George Naughton, Chief Financial Officer

February 13, 2018
Date

Robt W Hamilton
Robert W. Hamilton, SARS Manager

State of Oregon
Department of Administrative Services
Chief Financial Office

State Funding Update

Fiscal Year 2019-20 Budget

FY2020 BUDGET & EXPENDITURE AUTHORIZATION

Summary of Proposed Action

The Southern Oregon University Board of Trustees has the responsibility of approving a budget and related expenditure authorizations for each fiscal year (FY). As you know, the FY for the University begins on July 1, 2019 and ends June 30, 2020.

In this legislative session, we have seen a lot of uncertainty. These unknown factors include: the late final determination of state appropriations; HECC approval of tuition rate increases; PEBB/PERS rates; and certain collective bargaining outcomes. As a result, the Vice President for Finance and Administration proposes the Board approve revising the timing related to adopting the FY20 budget.

Specifically, the University seeks temporary approval from the Board for initial expenditure authorizations for FY20 at levels equal to FY19. This would be granted with an understanding that final FY20 Education and General Fund (also known as “budgeted operations”), auxiliary, and designated operations budgets will be presented to the Board at its October meeting after more complete information is available.

In context, this has been the standard practice at Oregon State University and the University of Oregon for biennium even-numbered years. Our Budget Program Manager discussed the practice, and mechanics with OSU and UO budget experts. The Vice President for Finance and Administration recommends SOU adopt this practice each year, starting in FY20.

Southern Oregon University
Board of Trustees
Finance and Administration Committee

Resolution
Temporary FY2020 Budget and Expenditure Authorizations

Whereas, ORS 352.102(1) provides that, except as set forth within ORS 352.102, the Board of Trustees may authorize, establish, collect, manage, use in any manner and expend all revenue derived from tuition and mandatory enrollment fees;

Whereas, ORS 352.107(1)(a) provides that the Board of Trustees may acquire, receive, hold, keep, pledge control, convey, manage, use, lend, expend and invest all moneys, appropriations, gifts, bequests, stock and revenue from any source;

Whereas, ORS 352.087(1)(i) provides that the Board of Trustees may, subject to limitations set forth in that section, spend all available moneys without appropriation or expenditure limitation approval from the Legislative Assembly;

Whereas, ORS 352.087(2) requires, and the Board of Trustees finds, that the budget of Southern Oregon University be prepared in accordance with generally accepted accounting principles;

Whereas, 352.087(3) provides that the Board of Trustees may perform any other acts that in the judgment of the Board of Trustees are required, necessary or appropriate to accomplish the rights and responsibilities granted to the Board and the University by law;

Whereas, the Board of Trustees wishes to approve a budget and related expenditure authorizations for fiscal year 2020 (FY2020) prior to July 1, 2019;

Whereas, the Board of Trustees chooses to delay approval of the final FY2020 budget and expenditure authorization until more information is available regarding FY2020 revenue and expenses (most notably, state appropriations, ongoing labor negotiations, and enrollment); and,

Whereas, the Finance and Administration Committee of the Board of Trustees has referred this matter to the Board of Trustees, recommending approval; Now therefore,

Be it resolved, the Board of Trustees of Southern Oregon University approves and adopts the following actions.

1. An Education and General operating budget equivalent to FY2019 (in the sum of $65,710,486) is temporarily adopted for FY2020. During FY2020, the Vice

President for Finance and Administration (VPFA) of the University may expend or authorize the expenditure of this sum and up to three percent more, subject to applicable law. In the event that such expenditure authority is insufficient, the VPFA may seek additional expenditure authority from the Finance and Administration Committee of the Board of Trustees.

2. An auxiliaries budget equivalent to FY2019 (in the sum of $16,427,493) is temporarily adopted for FY2020. During FY2020, the VPFA may expend or authorize the expenditure of this sum and up to three percent more, subject to applicable law. In the event that such expenditure authority is insufficient, the VPFA may seek additional expenditure authority from the Finance and Administration Committee of the Board of Trustees.

3. A designated operations budget equivalent to FY2019 (in the sum of $4,428,142) is temporarily adopted for FY2020. During FY2020, the VPFA may expend or authorize the expenditure of this sum and up to three percent more, subject to applicable law. In the event that such expenditure authority is insufficient, the VPFA may seek additional expenditure authority from the Finance and Administration Committee of the Board of Trustees.

4. At its next regularly scheduled meeting (October 2019), the Board of Trustees will review and adopt permanent operating, auxiliary, and designated budgets for FY2020.

5. With this adoption, the Board also approves further delegation of the authority by the VPFA set forth in paragraphs 1 and 2.

VOTE:

DATE: June 20, 2019

Recorded by the University Board Secretary:

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Southern OREGON UNIVERSITY

Investment Update

FY2019 Q3 Investment Reports

BACKGROUND

The Southern Oregon University (university) investment reports for the third quarter (Q3) of FY2019 are presented in the following sections:

- **FY2019 Q3 Southern Oregon University Investment Report** – This section includes a report on the investments of the operating and endowment assets of the university. This report reflects the university's operating assets that are invested in the Public University Fund and the university's endowment investments managed by the Oregon State Treasury.

- **FY2019 Q3 Market Commentary** – This section provides a general discussion of the investment markets and related performance data for the third quarter of FY2019 (i.e., January 1 – March 31, 2019).

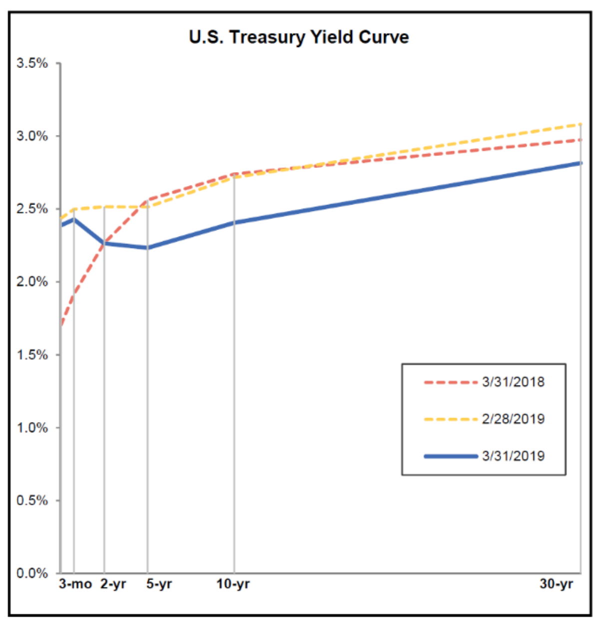
FY2019 Q3 SOUTHERN OREGON UNIVERSITY INVESTMENT REPORT

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

Public University Fund

Southern Oregon University's operating assets are invested in the Public University Fund (PUF). The PUF gained 1.7% for the quarter and 3.4% fiscal year-to-date through March 31, 2019. The PUF's three-year average return was 2.1%.

The Oregon Short-Term Fund (OSTF) returned 0.7% for the quarter, outperforming its benchmark by 10 basis points. The Core Bond Fund returned 2.2% for the quarter, underperforming its benchmark by 10 basis points. The investment yield on the PUF portfolio was 0.7% for the quarter.



In April, Oregon State Treasury fixed income portfolio manager, Tom Lofton, conducted a quarterly performance review with university staff. The fixed income markets posted strong returns during the quarter as short-term interest rates declined following the Federal Reserve's dovish comments. Segments of the yield curve remain inverted for a second consecutive quarter, particularly the six month to 5 year maturities. As depicted by the blue line in the graph right, the yield on the 3-month Treasury bill (2.39%) was higher than the 5 year Treasury note (2.23%).

The Core Bond Fund ended the quarter with a large underweight to agency mortgage-backed securities, compared to its benchmark, as Mr.

Lofton concluded the risk/reward relationship was no longer compelling given the strong sector rally during the quarter. Mr. Lofton will seek opportunities to reposition assets into the agency mortgage-backed sector when valuations improve.

Southern Oregon University Endowment Fund

The SOU Endowment Fund gained 10.1% for the quarter and 2.4% fiscal year-to-date through March 31, 2019, outperforming its policy benchmark for the quarter by 60 basis points, and performing in-line with its benchmark fiscal year-to-date. The three-year average return was 9.0% compared to 8.1% for the benchmark. The Fund ended the quarter with a balance of $2.4 million.

The majority of the Fund's assets (74%) are allocated to a global equity index strategy while 26% of the portfolio is allocated to an "actively" managed fixed income fund. For the three months ended March 31, 2019, the Western Asset Core Plus Bond Fund returned 4.1%, outperforming the Bloomberg Barclays U.S. Aggregate Bond Index by 120 basis points. The Blackrock All-Country World Index outperformed its benchmark by 10 basis points for the quarter, gaining 12.4%.

Southern Oregon University

Investment Summary

as of March 31, 2019

(Net of Fees)

	Quarter Ended 3/31/2019	Current Fiscal YTD	Prior Fiscal YTD	3 Yr Avg	5 Yr Avg	10 Yr Avg	Market Value	Actual Asset Allocation	Policy Allocation Range
SOU Operating Assets Invested in Public University Fund									
Oregon Short - Term Fund	0.7%	1.9%	1.2%	1.6%	1.2%	0.9%	$ 10,554,592	36.7%	1
Benchmark - 91 day T-Bill	0.6%	1.7%	0.9%	1.2%	0.7%	0.4%			
PUF Core Bond Fund	$\boxed{2.2\%}$	$\boxed{4.1\%}$	-0.5%	N/A	N/A	N/A	18,192,349	63.3%	1
Blended Benchmark [2]	2.3%	4.3%	-0.6%	1.6%	2.7%	N/A			
Public University Fund Total Return	1.7%	3.4%	0.5%	2.1%			$ 28,746,941	100.0%	
Public University Fund Investment Yield	0.7%	2.0%	1.5%	2.1%					
SOU Endowment Assets									
BlackRock ACWI IMI B	12.4%	1.3%	10.4%	10.9%	6.6%	N/A	$ 1,802,913	73.8%	75.0%
Benchmark - MSCI ACWI IMI Net	12.3%	1.2%	10.3%	10.6%	6.3%	12.3%			
Western Asset Core Plus Bond Fund	4.1%	5.3%	0.9%	3.9%	4.1%	7.4%	636,993	26.1%	25.0%
Benchmark - Bloomberg Barclays Aggregate Index	2.9%	4.6%	-0.2%	2.0%	2.7%	3.8%			
Cash	0.7%	1.9%	1.2%	1.6%	1.2%	0.9%	1,002	0.1%	0.0%
Benchmark - 91 day T-Bill	0.6%	1.7%	0.9%	1.2%	0.7%	0.4%			
							2,440,908	100.0%	
Arrowstreet Tax Reclaim Receivable							272	0.0%	
Total Endowment Assets	10.1%	2.4%	8.0%	9.0%	6.3%	11.3%	$ 2,441,180	100.0%	
Policy Benchmark [3]	9.5%	2.4%	7.1%	8.1%	N/A	N/A			

1 The Public University Fund (PUF) policy guidelines define investment allocation targets based upon total participant dollars committed.
Core balances in excess of liquidity requirements for the participants are available for investment in the Core Bond Fund.
Maximum core investment allocations are determined based upon anticipated average cash balances for all participants during the fiscal year.

2 Blended Benchmark Composition: 75% Bloomberg Barclay's Aggregate 3-5 Years Index, 25% Bloomberg Barclay's Aggregate 5-7 Years Index.

3 Policy Benchmark Composition: 75% Morgan Stanley Capital Indices All-Country World Investable Market Index Net , 25% Bloomberg Barclays Aggregate Bond Index.

Note: Outlined returns underperfomed their benchmark.

Oregon Short Term Fund

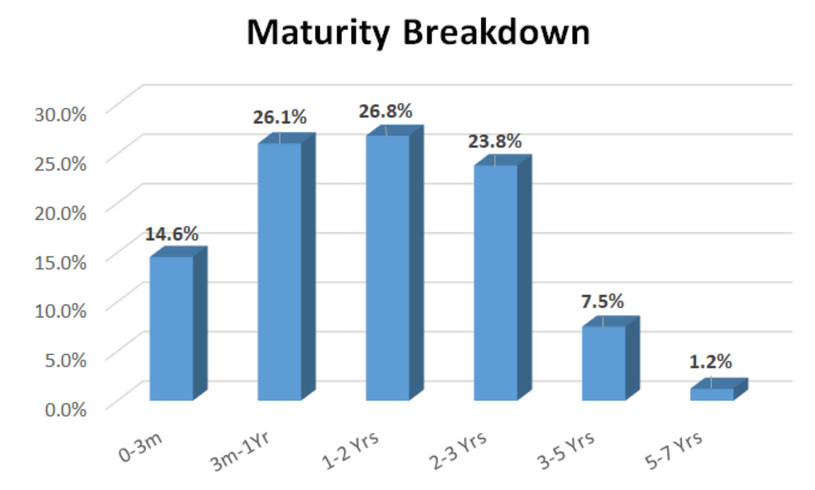
March 31, 2019

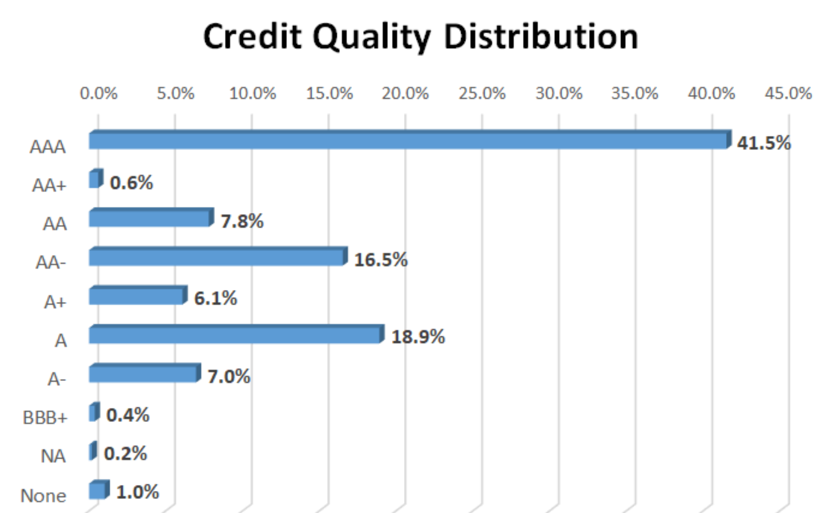
Portfolio Characteristics

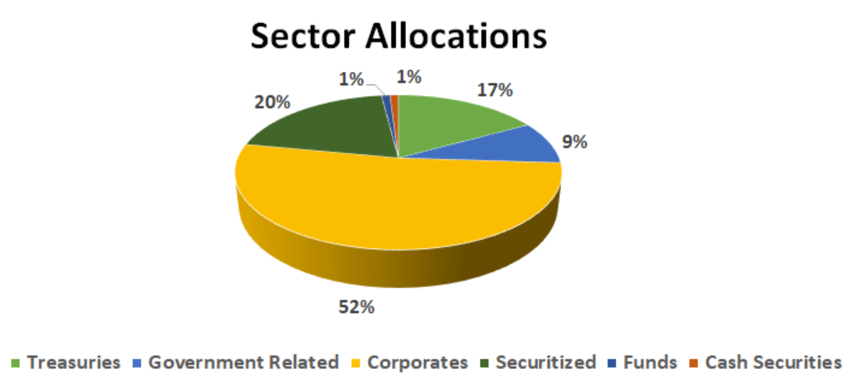
Market Value 3/31/19	$ 222,226,990
Weighted Average Credit Quality	AA
Book Yield (%)	2.79
Weighted Average Maturity (years)	1.15
Duration (years)	0.58
Spread Duration (rate)	0.92

Top 10 Issuers

United States Treasury	17.3%
JP Morgan Chase & Co	3.3%
Wells Fargo & Company	3.0%
Citigroup Incorporated	2.7%
Caterpillar Incorporated	2.3%
Barclays Plc	2.2%
Goldman Sachs Group Incorporated (The)	2.2%
American Express Credit Account Master Trust	2.1%
Chase Issuance Trust	2.0%
Bank Of Montreal	1.8%
Total	**38.9%**







Source: Oregon State Treasury

Core Bond Fund

March 31, 2019

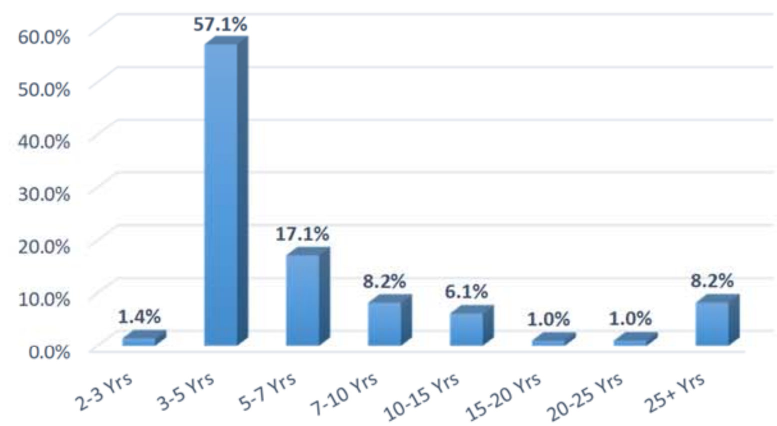
Portfolio Characteristics

Market Value 3/31/19	$ 383,039,971
Weighted Average Credit Quality	AA+
Book Yield (%)	2.71
Weighted Average Maturity (years)	4.54
Duration (years)	3.69
Spread Duration (rate)	2.31

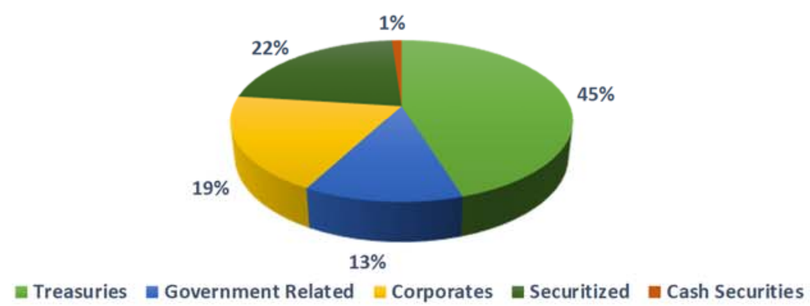
Top 10 Issuers

United States Treasury	55.0%
Federal National Mortgage Association	5.7%
Federal Home Loan Mortgage Corporation	4.2%
Federal Farm Credit Banks Funding Corporation	2.2%
European Investment Bank	2.0%
FHLMC Multifamily Structured Pass Through K040	1.3%
FHLMC Multifamily Structured Pass Through K058	1.3%
Capital One Multi-Asset Execution Trust	1.2%
Oregon State Treasury (Oregon Short-Term Fund)	1.1%
Sherwin-Williams Company (The)	1.0%
Total	**75.0%**

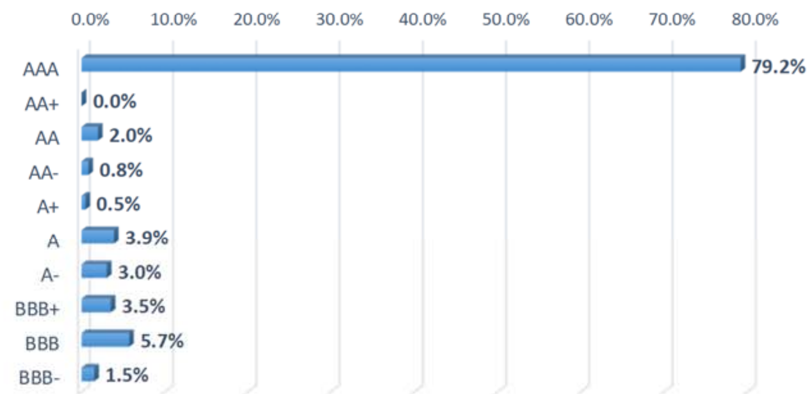
Maturity Breakdown



Sector Allocations



Credit Quality Distribution



Source: Oregon State Treasury

FY2019 Q3 MARKET COMMENTARY

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

Macroeconomic Environment

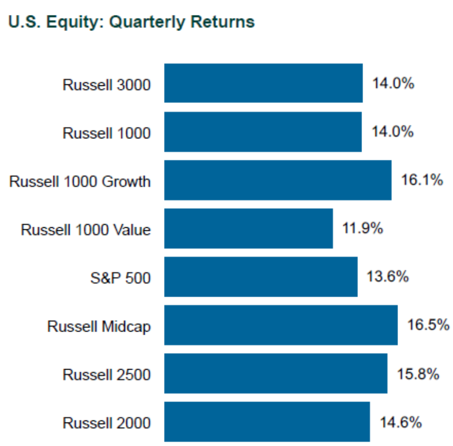
With the equity market falling by nearly 20% at one point during the month of December, the worst for the S&P 500 since 1931, suffice it to say that calendar year 2018 ended with a thud rather than a bang. However, just as we saw a snap-back from the drawdown in early calendar year 2018 (for different reasons), the market once again exhibited a far more “risk-on” mood in January 2019, paving the way for double-digit equity gains as well as robust returns across high yield, bank loans, and a variety of other “plus” sectors within fixed income.

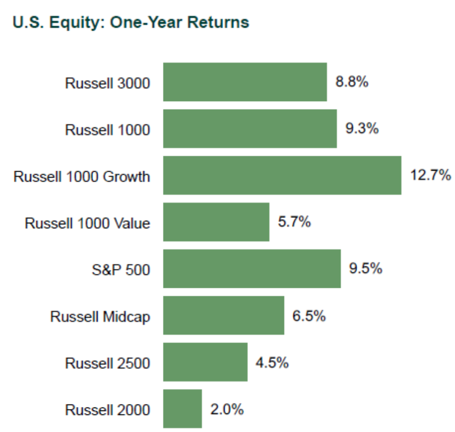
So what changed? Not a whole lot. In hindsight, poor liquidity late in the fourth calendar quarter exacerbated the sentiment-driven sell-off in risk markets (high yield and leveraged loans in particular) while unexpectedly dovish comments from the Federal Reserve (Fed) in the early part of the calendar year acted as a catalyst for a swift reversal. While there is some evidence of softening conditions in the U.S., data do not suggest that a recession is imminent. Corporate fundamentals remain solid, and while after-tax profits moderated in the fourth calendar quarter, earnings per share was up 14% on a year-over-year (y-o-y) basis. Likewise, unemployment remains low at 3.8%, and wages are rising as average hourly earnings surprised on the upside with a 3.4% increase over the past 12 months (February), the fastest in a decade. Fourth calendar quarter gross domestic product (GDP) was revised down to 2.2%, but while “sluggish” may be an apt term, this pace is not of recessionary ilk (full calendar year GDP was 2.9%). Manufacturing showed signs of slowing, with the most recent Purchasing Managers’ Index (as of March) indicating that the US remains in expansionary territory (above 50) with the latest reading at 54.2. Consumer spending softened during the fourth calendar quarter and the first two months of the calendar year, but the consumer remains in good shape with household debt service as a percentage of disposable income at the lowest level in decades. And inflation remains benign, with the Consumer Price Index (CPI) up 1.5% in February (y-o-y), notably lower than the 2.5% read from just a few months ago as falling energy prices (Energy CPI: -5.1% y-o-y) weighed heavily on the headline number. The Core CPI measure (excluding food and energy) was up 2.1% while the Fed’s preferred inflation gauge, the Personal Consumption Expenditures Deflator, rose 1.8% over the trailing year.

In March, the Fed’s pause was expected, but its dovish language was not, leading to a dizzying plummet in U.S. Treasury yields. The Fed voted unanimously to leave rates unchanged at 2.25%-2.50% and further indicated that no hikes were likely for the remainder of the calendar year, while lowering expectations for calendar year 2019 GDP from 2.3% to 2.1%. Finally, balance sheet “normalization” (maintaining the size of the balance sheet by reinvesting proceeds from maturities) was escalated to September 2019, sooner than expected. The yield curve is flirting with inverted status, but as of calendar quarter-end the widely watched spread between the 2-year and 10-year Treasury was +14 basis points. An inversion has been an accurate harbinger of recession, albeit up to 20 months out. In a stark reversal from the fourth calendar quarter, Fed fund futures revealed a 65% probability of a Fed cut in 2019.

The picture is more worrisome overseas. With ambiguities regarding British Exit (Brexit), recession in Italy, and surprisingly weak manufacturing numbers out of Germany (Purchasing Manager’s Index 44.7), the European Central Bank (ECB) lowered its projections for euro zone GDP growth from 1.7% to 1.1%. It also indicated it would leave rates on hold at least through the end of the calendar year. Further, in early March the ECB announced a new bank lending program to support growth. Euro zone GDP grew 1.1% in the fourth calendar quarter (+1.6% y-o-y), and the Organization for Economic Co-operation and Development estimates growth of just 1% for calendar year 2019, down from 1.8%. In Germany, the yield on the 10-year government bond turned negative for the first time since late calendar year 2016 and closed the quarter at -0.07%. China was also a worry—it lowered its growth target to 6.0%-6.5%, and the profits of industrial companies fell 14% in the first two months of calendar year 2019 versus one year ago, the worst since the Global Financial Crisis. (Spoiler: On April 1, 2019 China released its version of the Purchasing Manager's Index, beating expectations and hitting the highest level in eight months, thus tempering worries over a dramatic slowdown.)

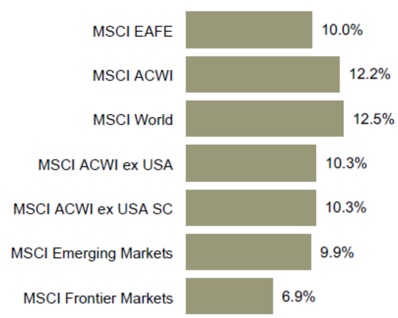
Equity Markets Results
U.S. equity markets had no problem erasing the pain of the fourth calendar quarter as the S&P 500 rose 13.6% with double-digit gains across cap and style spectrums. On a relative basis, Growth outperformed Value (Russell 1000 Growth: +16.1% vs. Russell 1000 Value: +11.9%), Small Cap outperformed Large Cap (Russell 2000: +14.6% vs. Russell 1000: +14.0%), and virtually all sectors delivered double-digit results with the exceptions being Financials (+8.6%) and Health Care (+6.6%). Volatility returned to more normalized levels, with just a few trading days seeing market movement of more than 2% in either direction (versus nearly 20% in the fourth calendar quarter.)



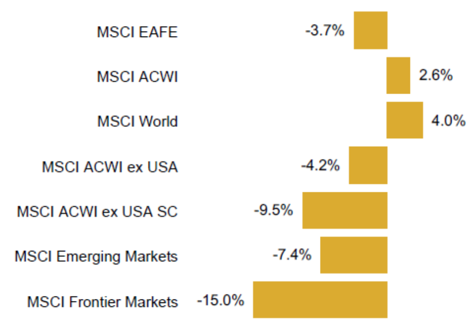


Non-U.S. developed (Morgan Stanley Capital Indices (MSCI) – Europe Australasia and Far East: 10.0%) and emerging market equities (MSCI Emerging Markets: +9.9%) also rebounded strongly in the first calendar quarter, but trailed their U.S. counterparts (and failed to make up for the pain felt in the fourth calendar quarter). The U.K. (+11.9%), Canada (+15.4%), and Italy (+14.6%) were among the standout performers, while Japan (+6.7%) was a laggard but positive nonetheless. Similarly, emerging market performance was robust across the board as China (+17.7%), India (+7.2%), Russia (+12.2%), and Brazil (+8.1%) recorded strong returns. Turkey's GDP dropped 3% y-o-y in the fourth calendar quarter amid economic and political woes and was the worst-performing country (-3.2%).

Global Equity: Quarterly Returns



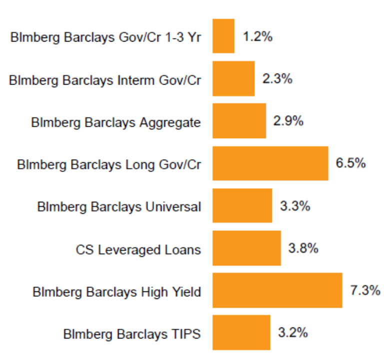
Global Equity: One-Year Returns



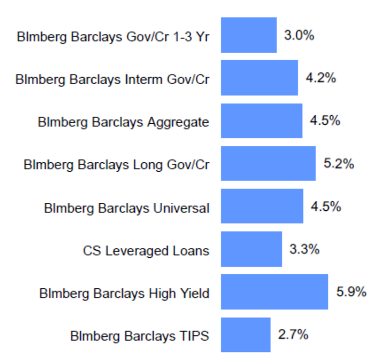
Fixed Income Markets Results

In the U.S., the Bloomberg Barclays U.S. Aggregate Bond Index rose 2.9% for the quarter, with investment grade corporates (Bloomberg Barclays Corporate: +5.1%) up the most. Yields fell sharply in March as the market digested unexpectedly dovish comments from the Fed. The 10-year U.S. Treasury returned 2.8% and its yield closed the quarter at 2.41%, down nearly 30 basis points (bps) from calendar year-end and significantly from the multi-year high of 3.24% hit in early November. Portions of the yield curve inverted, but the widely watched spread between the 2- and 10-year Treasury note remained positive at 14 bps. The high yield corporate bond market (Bloomberg Barclays High Yield: +7.3%) soared and the sector's yield-to-worst ended the quarter at 6.4% after surging to nearly 8% in the fourth calendar quarter. Similarly, leveraged loans were up 4.0% after falling 3.5% (S&P Loan Syndications & Trading Association) in the fourth calendar quarter. While the fundamental picture for corporations remains intact, these returns were driven primarily by a strong technical tailwind on the back of a very weak December. Municipal bonds (Bloomberg Barclays Municipal Bond: +2.9%) outperformed U.S. Treasuries and were also helped by a favorable supply/demand backdrop. Municipal mutual funds absorbed roughly $24 billion in inflows—the best first calendar quarter since data collection began in 1992.

U.S. Fixed Income: Quarterly Returns



U.S. Fixed Income: One-Year Returns



Overseas, yields across developed markets fell. The Global Aggregate Index rose 2.2% for the quarter on an unhedged basis. On a hedged basis, the Index gained 3.0%. The dollar appreciated modestly vs. the euro and yen, but lost ground vs. the U.K. pound and Canadian dollar. In Germany, the yield on the 10-year bond turned negative for the first time since late 2016 and closed the quarter at -0.07%. Emerging market debt also benefited from the reversal in risk appetite. The U.S. dollar-denominated JP Morgan Emerging Markets Bond Global Diversified Index gained 7.0% with none of the index's 60+ countries delivering a negative result. Local currency emerging market debt, as measured by the JP Morgan Global Bond Emerging Markets Diversified Index, was up a more modest 2.9%, with notable underperformers being Turkey (-10.2%) and Argentina (-10.5%).

Other Assets Results

Real assets of all varieties enjoyed a strong first calendar quarter, perhaps none more than crude oil as the price of West Texas Intermediate extended over +30% through the end of March. Energy as a whole (measured by the Bloomberg Commodity Energy sub-index) was up nearly 16%, while commodities broadly produced a more modest positive return in calendar Q1 (Bloomberg Commodity Total Return Index: +6.3%) as gains in energy and metals were offset by negative returns for natural gas and the agriculture complex as a whole (Bloomberg Commodity Agriculture sub-index down -3.2%). Other yield-oriented real asset categories also saw healthy gains. Somewhat influenced by the buoyant price of oil (and equity markets as well), Master Limited Partnerships (Alerian MLP Index: +16.8%) also enjoyed a strong start to the calendar year with the yield spread between the Alerian Index and the 10-year Treasury remaining fairly wide at +500 basis points. Both U.S. and Non-U.S. listed real estate saw double digit gains in calendar Q1 (Financial Times Stock Exchange (FTSE) National Association of Real Estate Investment Trusts (NAREIT) Equity: +16.3%; FTSE European Public Real Estate Association/NAREIT Global: +15.0%) as did listed infrastructure assets (DJ Brookfield Global Infrastructure: +15.7%).

Closing Thoughts

With such a torrid start to the calendar year for broad asset classes following an almost equally disappointing end to calendar 2018, it will be very interesting to observe how investors react to the next series of potential market events. More periodic bouts of volatility seem almost inevitable, global growth concerns (particularly in Europe) are not going away, and of course there's the plodding and still undetermined outcome on a final Brexit deal. Thus, just as we have stated in the past, adherence to an appropriate and well-defined asset allocation remains the best course of action to manage the path to successful attainment of long term investment goals.

Future Meetings

Adjournment