

Oregon Intermediate Term Pool Prospectus

Purpose

The Oregon Intermediate Term Pool (OITP) provides Oregon state-owned and sponsored entities with a vehicle to invest dollars not needed to cover short-term needs and able to withstand greater price volatility to achieve returns often associated with longer-term investments.

Description

The Oregon Intermediate Term Pool will be managed to maintain a short duration through a diversified portfolio of high quality fixed income investments. The OITP's management objective is to maximize total return, which includes investment value *and* coupon income within the desired risk parameters and fixed income investments prescribed in the portfolio guidelines. Based upon historical market performance, it is anticipated that returns over extended periods will be greater in the OITP than in shorter maturity alternatives such as the Oregon Short Term Fund.

The investment guidelines require that funds be invested in investment grade quality securities and in a manner that provides a superior level of total return at a reasonable level of risk measured over a long period. The investment staff will achieve the investment objectives through active management of the portfolio with the objective to meet or exceed the BofA Merrill Lynch 1-5 Year AAA-A US Corporate & Government Index.

This pool is not structured to provide 100% net asset value on each participant's initial investment at all times. Due to interest rate changes and market movements, it is possible to lose money by investing in the OITP. For consistency with the portfolio's total return objective, the value of each participant's investment will be determined on a proportional basis to the net market value of the entire portfolio. Shares of the OITP represent a divisible interest in the underlying securities and are not federally insured or guaranteed by the U.S. Government, Federal Deposit Insurance Corporation, any federal agency or the State of Oregon. The OITP has not been approved by the Securities and Exchange Commission.

Principal investment strategies:

Eligible investments are detailed in the OITP guidelines, but in general, the OITP may invest, subject to diversification requirements, in several types of investment grade rated debt market instruments denominated in U.S. dollars. These may include:

- Obligations of U.S. and non-U.S. private issuers;
- Obligations of the U.S. government and its agencies and instrumentalities;
- Obligations issued or guaranteed by non-US governments and instrumentalities;
- Taxable debt securities issued by US states or local governments and their agencies, authorities and other US state government-sponsored enterprises;
- Repurchase agreements and Reverse repurchase agreements.

Credit quality:

The OITP invests in securities that, at the time of purchase, are investment grade rated by nationally recognized rating agencies, such as Moody's or Standard & Poor's.

Interest Rate Sensitivity:

The overall portfolio must maintain an average modified duration* of 3.0 years or less. Limitations on individual investment terms to maturity vary by security type, but in general, securities have a maximum term of 10.25 years.

** Modified duration is the time weighted value of future cash flows on a portfolio of investments and reflects the expected percentage change in price of the portfolio for every one hundred basis point (one percentage point) change in interest rates. For example, the price of a portfolio with an average modified duration of 3 years would be expected to increase by 3% for every 1% reduction in interest rates.*

Diversification:

Except for US Treasury and US Agency securities, no more than 5% may be invested in the securities of any one issuer. Further exposure limits by sector, and industry are detailed in the OITP guidelines.

Management Authority

Subject to the terms and conditions of the OITP guidelines, the Fixed Income Investment Staff of the Oregon State Treasury (OST) shall have the full discretionary power to direct the investment, exchange, liquidation, and reinvestment of assets in the OITP.

Participant Investments

The OITP is a voluntary investment vehicle for participants. Participation in the OITP is open to all State Agencies with funds that are allowed to be invested. An agency can request to join the OITP by submitting a completed application which will require evidence of the applicant's statutory authority to invest in the OITP. This application must be approved by the agency's director before submission to OST.

Since the OITP is by nature invested with a relatively longer average maturity than a short-term portfolio and since proportionate ownership in the OITP is based on market value, participants can expect the value of their investment in the OITP to fluctuate over time. Participating agencies should therefore only invest monies that they consider longer-term in nature (such as 3.5 years or longer).

Each application should identify the contact person(s) authorized to request transactions. It is the Participant's responsibility to notify the OST Fixed Income Investment Staff of changes to the list of authorized persons. Changes will only be accepted if the request is signed by agency's director. OST Fixed Income Investment Staff will not knowingly process any request made by a person not listed as an authorized person. It is the Participant's responsibility to safeguard information required to request a transaction. The OST will not be responsible for transactions made using such confidential information.

OITP will use the Oregon Short-term Fund (OSTF) as its "cash account". Investments in OITP will be funded from the participant's OSTF account. It is the OITP participant's responsibility to maintain sufficient funds in OSTF to avoid OSTF overdraft charges that may result from OITP transactions.

OITP will require a 10 business day notification period prior to transferring participant funds from the Oregon Short-term Fund.

Withdrawal of Funds

Because of the longer-term nature and lower liquidity levels of the OITP relative to the Oregon Short Term Fund, a participant's ability to redeem shares in OITP will be subject to restrictions.

- Orders to sell OITP shares will be subject to a ten business day notification period whereas it will be the responsibility of the participant to notify OITP administrators of the amount and timing of sale transaction.
- OITP will offer month-end liquidity only, i.e., sell orders will be transacted on the first business day of each calendar month. The sale value per share will be calculated as of the previous month-end. For example: The value of a sell order received 10 business days prior to July month-end would be processed on August 1st, using the July month-end NAV.
- The maximum number of shares allowed to be sold at month-end may be limited based upon the size of OITP and may be subject to change. Updated guidelines will be posted on the Oregon State Treasurer's website.

Funds from sale transactions will be transferred to the OITP participant's OSTF account on the transaction date.

Custodian and Book of Record

State Street Corporation is the custodian for the OITP. OST will use State Street as the book of record.

Income Distribution Policy

OITP does not distribute income or capital gains. The value of participant holdings is reflected in the net asset value (NAV) of shares outstanding. Participants are able to access the value of their investment by redeeming shares at the NAV per share calculated at the time of redemption.

Yields

Yields are quoted as annualized returns. Yields may be impacted by the timing of deposits and withdrawals from accounts.

Management/Administrative Fee

The OITP takes its management charge from the capital and/or income generated by the Pool. The management fee is set by ORS 293.718 and may not exceed 0.435 basis points per month. The basis point charge will be calculated and netted against the monthly ending pool balance and will therefore be reflected in the net asset value of the pool.

What are the risks of investing in the OITP?

- **Interest rate risk** - The OITP holds fixed income investments and may be affected by changes in interest rates. As interest rates rise, the value of fixed income investments tends to fall. In contrast, if interest rates fall the value of these investments may rise.
- **Credit risk** - Credit risk is the risk that a government or company that issues a fixed income security cannot repay principal or pay interest when due which will result in a loss to the OITP. This risk tends to increase as an issuer's credit rating declines. The OITP invests in securities rated 'investment grade' at the time of purchase. The rating on securities held by the OITP may fall below 'investment grade'. The OITP may continue to hold securities downgraded below 'investment grade' at the discretion of the portfolio manager.
- **Income/Yield fluctuation** - The amount of income earned by the OITP will go up or down depending on day-to-day variations in market interest rates. Investing in high quality instruments may result in a lower yield (the income on your investment) than investing in lower quality or longer-term instruments. When interest rates are very low, the OITP's expenses could absorb all or a significant portion of the pool's income
- **Portfolio selection** – OST Fixed Income Staff judgment about the credit quality or value of, or market trends affecting, a particular security or about the market and interest rates generally may prove to be incorrect and cause the value of OITP to decline.
- **Prepayment Risk** - the potential for an issuer of a security to call or prepay principal prior to the stated maturity date. This generally occurs as interest rates fall and proceeds from the call are potentially reinvested at a lower rate and reduce the return generated by OITP investments.
- **Structured securities** - Structured securities contain embedded derivative components such as call options. For example, securities with an embedded call option may be subject to early redemption, i.e., "be called", by the issuer. The embedded optionality in structured securities may cause these securities to perform differently than expected. Debt securities issued by US Agencies often have call options.

How will I be kept informed about my investment?

Participant information such as account statements, confirmations are provided by the Investment Accounting Division of Oregon State Treasury. OST's Investment Accounting will also provide all information for fiscal year-end financial reporting.

The following will be posted on the Oregon State Treasury's website and updated each month-end:

- OITP net asset value per share;
- OITP Investment Performance;
- A schedule of OITP investments;
- OITP Guideline Compliance Reports.

Where is the share price published?

The share price (the Net Asset Value per share of OITP) is published on Oregon State Treasury's website and may also be obtained by contacting the Investment Division within the Oregon State Treasury.

OITP Contact Information:

Account Administration:

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Investment Division
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