

FY2019 Q3 Investment Reports

BACKGROUND

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

- **FY2019 Q3 Western 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 quasi-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 WESTERN OREGON UNIVERSITY INVESTMENT REPORT

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

Public University Fund

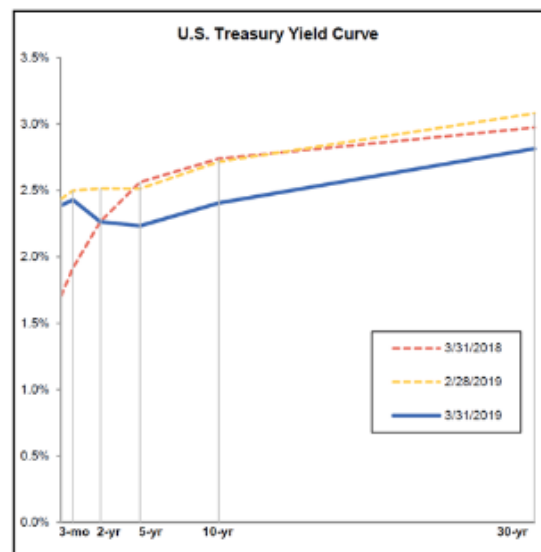
(Prepared by the Public University Fund Administrator)

Western 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.

A factsheet detailing each investment pool's portfolio characteristics and market exposures is included with this report.

Western Oregon University Quasi-Endowment Fund

Western Oregon University established its Quasi-Endowment during the third fiscal quarter. Initial funding of \$1 million from operating cash occurred on March 16, 2019, and investment purchases of BlackRock All-Country World Index (\$185,000) and Western Asset Core Plus Bond Fund (\$135,000) were transacted on March 29, 2019. The March 29, 2019 investment transactions represent the first of three planned installment purchases. The remainder of the endowment funding is currently invested in the Oregon Short Term Fund (OSTF).

Western 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
WOU Operating Assets Invested in Public University Fund									
Oregon Short - Term Fund	0.7%	1.9%	1.2%	1.6%	1.2%	0.9%	\$ 18,986,201	36.7%	1
Benchmark - 91 day T-Bill	0.6%	1.7%	0.9%	1.2%	0.7%	0.4%			
PUF Core Bond Fund	2.2%	4.1%	-0.5%	N/A	N/A	N/A	32,725,431	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%			<u>\$ 51,711,632</u>	<u>100.0%</u>	
Public University Fund Investment Yield	0.7%	2.0%	1.5%	2.1%					
WOU Endowment Assets									
BlackRock ACWIIMI B ³	0.0%	0.0%	N/A	N/A	N/A	N/A	\$ 185,000	18.4%	55.0%
Benchmark - MSCI ACWIIMI Net	0.0%	0.0%	10.3%	10.6%	6.3%	12.3%			
Western Asset Core Plus Bond Fund ³	0.0%	0.0%	N/A	N/A	N/A	N/A	135,000	13.5%	40.0%
Benchmark - Bloomberg Barclays Aggregate Index	0.0%	0.0%	-0.2%	2.0%	2.7%	3.8%			
Cash ⁴	0.1%	0.1%	N/A	N/A	N/A	N/A	681,198	68.1%	5.0%
Benchmark - 91 day T-Bill	0.1%	0.1%	0.9%	1.2%	0.7%	0.4%			
Total Endowment Assets	0.1%	0.1%	N/A	N/A	N/A	N/A	<u>\$ 1,001,198</u>	<u>100.0%</u>	
Policy Benchmark ⁵	N/A	N/A	N/A	N/A	N/A	N/A			

(continued on next page)

Western Oregon University

Investment Summary

as of March 31, 2019

- 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 WOU Quasi Endowment investment purchases of BlackRock ACWIIMI B and Western Asset Core Plus Bond Fund were transacted on March 29, 2019. The March 29, 2019 transactions represent the first of three planned installment purchases.
- ⁴ WOU Quasi Endowment initially funded from operating cash on March 16, 2019. Stated performance on Cash and the 91 day T-Bill (benchmark) reflect performance over the 16 day holding period.
- ⁵ Policy Benchmark Composition: 55% Morgan Stanley Capital Indices All-Country World Investable Market Index Net , 40% Bloomberg Barclays Aggregate Bond Index, 5% 91 day T-Bill.
Note: Outlined returns underperformed their benchmark.

Oregon Short Term Fund

March 31, 2019

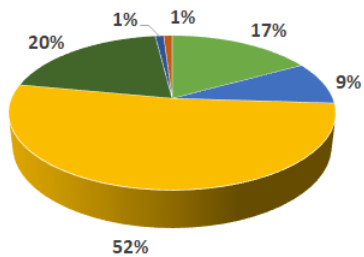
Portfolio Characteristics

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

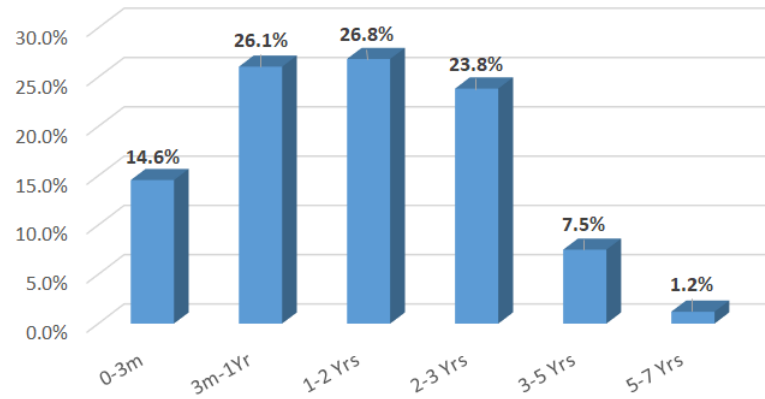
United States Treasury	17.3%
JP Morgan Chase & Co	3.3%
Wells Fargo & Company	3.0%
Citigroup Incorporated	2.7%
Caterpillar Incorporated	2.3%
Barclays Plc	2.2%
Goldman Sachs Group Incorporated (The)	2.2%
American Express Credit Account Master Trust	2.1%
Chase Issuance Trust	2.0%
Bank Of Montreal	1.8%
Total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

Sector Allocations

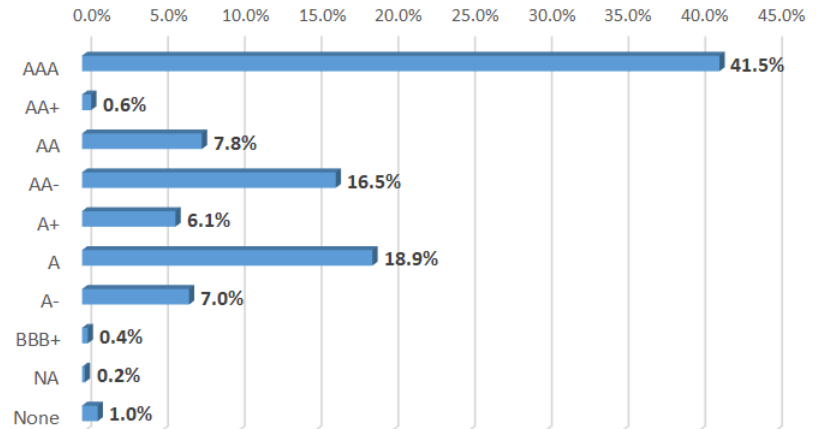


■ Treasuries ■ Government Related ■ Corporates ■ Securitized ■ Funds ■ Cash Securities

Maturity Breakdown



Credit Quality Distribution



Source: Oregon State Treasury

Core Bond Fund

March 31, 2019

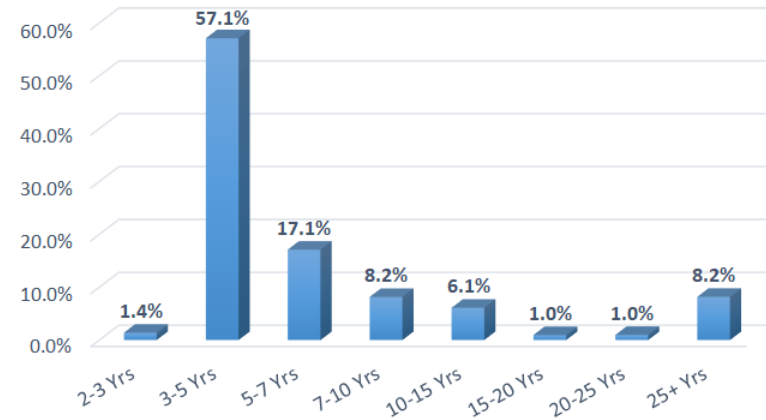
Portfolio Characteristics

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

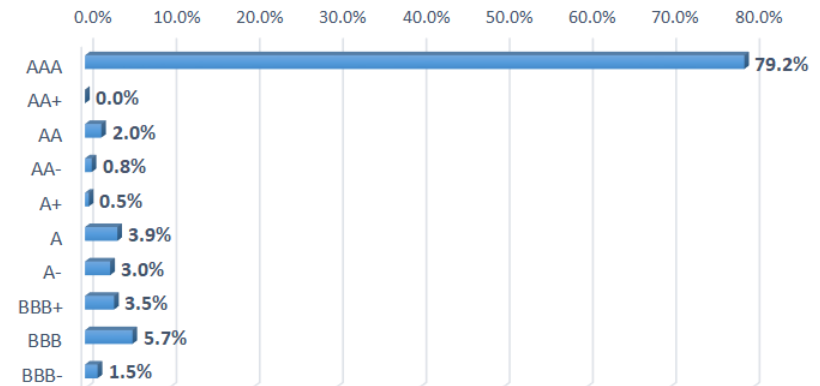
Top 10 Issuers

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%

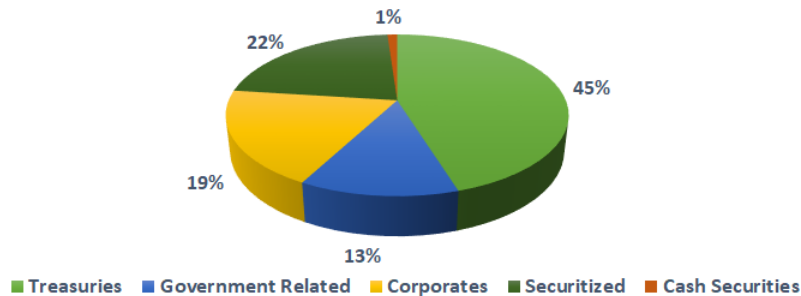
Maturity Breakdown



Credit Quality Distribution



Sector Allocations



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.

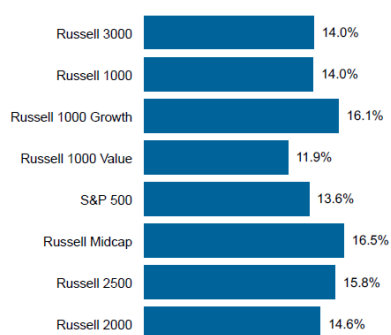
The picture is more worrisome overseas. With ambiguities regarding British Exit (Brexit), recession in Italy, and surprisingly weak manufacturing numbers out of Germany (Purchasing Manager’s Index 44.7), the European Central Bank (ECB) lowered its projections for euro zone GDP growth from 1.7% to 1.1%. 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.)

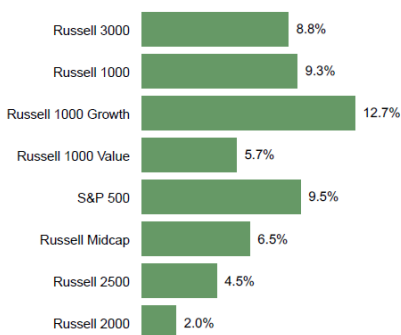
Equity Markets Results

U.S. equity markets had no problem erasing the pain of the fourth calendar quarter as the S&P 500 rose 13.7% 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.)

U.S. Equity: Quarterly Returns

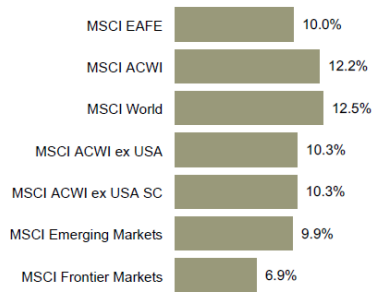


U.S. Equity: One-Year Returns

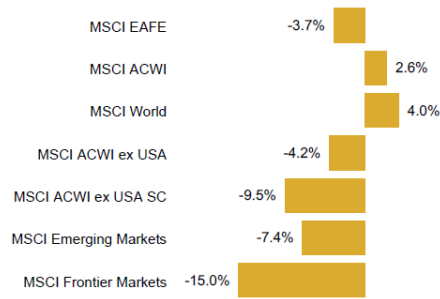


Non-U.S. developed (Morgan Stanley Capital Indices (MSCI) – Europe Australasia and Far East: 10.0%) and emerging market equities (MSCI Emerging Markets: +9.9%) also rebounded strongly in the first calendar quarter, but trailed their U.S. counterparts (and failed to make up for the pain felt in the fourth 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



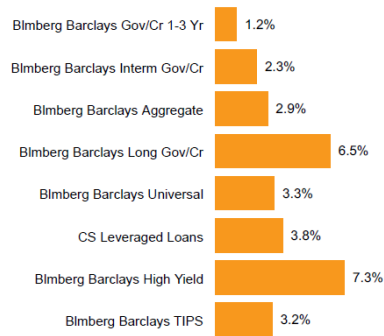
Global Equity: One-Year Returns



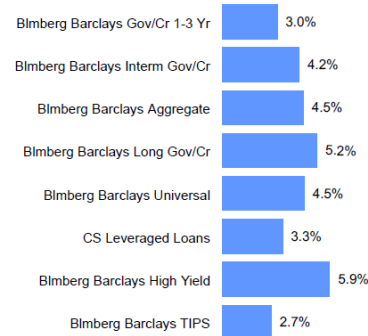
Fixed Income Markets Results

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.