- Oregon Tech in coordination with University Shared Services Enterprise (USSE) is pleased to present the second quarter investment report which includes the performance of the university's operating assets invested in the Public University Fund or the (P.U.F.) and the university's endowment assets also invested in the P.U.F.

- Beginning on page 1 of your materials is the FY16 Q2 market commentary which provides a general discussion on the economy and market performance during the quarter.

- Market highlights underpinning investment performance during the quarter included:
  - The Federal Reserve increasing the federal funds target rate to a band of 0.25% to 0.50% from its previous level of 0% to .25%.
  - The U.S. dollar climbing 2.3% versus other major currencies during the quarter; rising 8.2% for the calendar year.
  - The Barclays U.S. Aggregate Bond Index declining 0.6% during the quarter as U.S. Treasury prices weakened ahead of the eventual interest rate hike by the Federal Reserve. Also, negative sentiment continued to take a toll on high yield corporate bonds, particularly in the energy sector.

- Turning now to the investment returns located on page 4 of your materials.

- The P.U.F. investments consist of an allocation to each of the following investment pools:
  - The Oregon Short-Term Fund
  - The Oregon Intermediate-Term Pool
  - The P.U.F. Long-Term Pool

- The P.U.F. investment return for the quarter was -0.2% and a positive 0.3% year-to-date. The total market value of Oregon Tech's operating cash and investment deposits on December 31 was $32.9mm, equivalent to 6.6% of the total P.U.F. balance of $502.4mm.

- The Short-Term fund outperformed its benchmark for the quarter and year-to-date by 10 and 30 bps respectively, and outperformed the 3 year benchmark return by 40bps.

- The Intermediate-Term Pool outperformed its benchmark for the quarter by 10 basis points and underperformed its benchmark by 30 basis points year-to-date.

- The Long-Term Pool outperformed its benchmark for the quarter by 10 basis points but lagged the benchmark by 110 basis points year-to-date.

[Introduction]

- The year-to-date underperformance of the Intermediate-Term Pool and Long-Term Pool was attributable to the average portfolio duration variance with each pool's respective benchmark in addition to price volatility in the corporate bond segment of the portfolios.
- As of December 31, 2015, the Intermediate-Term Pool and Long-Term Pool average portfolio duration was 2.5 years and 4.0 years, respectively, compared with each pool's policy benchmark's average portfolio duration of 3.7 years and 4.5 years, respectively.
- The P.U.F.'s investment manager is addressing the average portfolio duration variance by purchasing securities with longer maturities in an effort to reduce the benchmark variances. Given the Federal Reserve's concerns over continued slowing economic growth abroad and its potential impact on the U.S. economy, the risk of rising U.S. interest rates has declined. This shift in sentiment has resulted in the portfolio manager gradually increasing the average portfolio duration for both the Intermediate-Term Pool and the Long-Term Pool.
- During the quarter, the P.U.F. administrator distributed over $117,000 of earnings to Oregon Tech.
- Moving now to the University specific endowment assets which were invested in the P.U.F. as of December 31, 2015. The total return for the quarter was a -.02% and 0.3% year-to-date.
- The total market value of SOU's endowment investments on December 31 was $295 thousand dollars.

Report on Investments – as of December 31, 2015

Market Background

(Provided by Callan Associates, Oregon Investment Council consultant)

Macroeconomic Environment

The 2015 calendar year will be remembered for the long-awaited first Federal Reserve hike in nine years as well as a year of disappointing returns across asset classes, with plunging commodity and oil prices and uncertainty over the pace of China's slowdown being key forces. Painfully, no year since 1990 has seen more negative returns across equity and fixed income indices, oil and gold prices. While losses in 2008 were sharper, losses in 2015 were more broad-based. Despite the poor investment results, the U.S. economy remained a relatively bright spot in the global economy.

Real Gross Domestic Product (G.D.P.) growth in the U.S. for the third calendar quarter 2015 was a reasonable, while not spectacular, 2.0 percent (annualized). After a slow start to the year (1Q15 real G.D.P.: 0.6 percent), the second quarter print was more robust (2Q15: 3.9 percent) as weather-related headwinds abated. However, G.D.P. forecasts from the Federal Reserve have been declining given global headwinds and the persistent strength of the U.S. dollar. Federal Reserve expectations for growth in 2016 were 2.5 percent to 3.0 percent as of December, 2014 and have since been revised downward to 2.3 percent to 2.5 percent. Growth outside the U.S. remained stagnant in spite of continued accommodative policies from central banks (Japan 3Q15 G.D.P. 1.6 percent; Europe 3Q15 G.D.P. 1.6 percent). While China's growth rate remains high (3Q15: 6.9 percent), its slowdown has been apparent and weighed on economies elsewhere. China's growth rate was the slowest since the first calendar quarter of 2009 and to further highlight the magnitude of the deceleration, its growth averaged 10.9 percent from 1989 until 2015.

Central banks remained accommodative across the developed world. The "Big 4" central banks (U.S., U.K., Europe and Japan) expanded their collective balance sheet to $11 trillion. Among developed countries, the U.S. stands alone (with the U.K. close behind) on a path of what are likely to be gradual rate hikes from the current 0.25 percent to 0.50 percent federal funds target. In December, the U.S. Federal Reserve imposed its first policy rate increase since 2006. Employment, residential investment and auto sales were bright spots in the U.S. while manufacturing continued to contract. Manufacturers, which account for roughly 12 percent of the U.S. economy, have suffered from weak global demand, a strong dollar and reduced capital spending from the energy sector. Conversely, low gas prices and a strengthening labor market propelled car sales to 17.5 million in 2015, surpassing the peak hit fifteen years ago. Unemployment continued to trend lower through 2015 from a 5.7 percent reading in January to 5.0 percent in November. Real wages firmed from very weak levels in recent years with year-over-year real wage growth up to nearly 2 percent as of November, 2015.

Inflation continued to fall short of the Federal Reserve's 2 percent target for the Personal Consumption Expenditures Index (1.3 percent 3Q) but trended higher over the course of the year. The trailing twelve-month Core Consumer Price Index (C.P.I.) was 1.6 percent in January of 2015 and by November, it had accelerated to 2.0 percent. Of course, the energy influence was enormous in 2015, as evidenced by the far more muted 0.4 percent reading for the Headline C.P.I., which includes food and energy. However, if/when energy prices stabilize, they will cease to have a disinflationary impact and begin to add volatility to Headline C.P.I. Across the pond, Europe saw more muted inflation with some countries experiencing deflation.

Oil prices continued to play a key role in market sentiment as well as performance. While much of the decline from the $105/barrel level to today's (January 12, 2016) close at $30.5/barrel West Texas Intermediate (W.T.I.) crude occurred in the second half of 2014, prices continued to fall in 2015. To start the year, spot prices were around $52/barrel and have fallen about 40 percent to current levels. At this point, oil price forecasts are no more than guesses but the pain felt by the industry is certain and regardless of the path from here, the effects of the decline are readily apparent and will likely be felt for some time.

Equity Market Results

Corporate profits before taxes fell 1.6 percent in the third quarter and 5.1 percent year-over-year. Against this backdrop, U.S. equities suffered their worst performance post 2008. News out of China played a pivotal role in stock market performance in 2015. The five worst performing days for the Standard & Poor's (S.&P.) 500 in 2015 came alongside negative news from China. Returns were highly concentrated both among names and by date in 2015. Without the now-famed "F.A.N.G.N.O.S.H." (Facebook, Amazon, Netflix, Google, Nike, O'Reilly Auto Parts, Starbucks and Home Depot), the S.&P. 500 would have been down for the year. Amazon and Netflix were the star performers, up more than 120 percent for the year. This performance belies much weaker results from the broader constituency. The S.&P. 500 Index declined 0.8 percent on a price-only basis, up 1.3 percent with dividends.

Large caps performed best as the Russell 1000 index returned 0.9 percent. Results worsened as one went down the capitalization path, Russell Midcap (-2.4 percent), Russell 2000 (-4.4 percent), Russell Microcap (-5.2 percent). Growth outperformed value across capitalization, and in large caps, growth outperformed value by the widest margin since the financial crisis, Russell 1000 Growth: 5.7 percent, Russell 1000 Value: (-3.8 percent). High quality outperformed low quality by more than 6 percent in 2015 (the most since 2011) with the vast majority of the margin coming in the turbulent third quarter. From a sector perspective, Consumer Discretionary and Health Care performed best (10.1 percent and 6.0 percent respectively) while Energy (-21.1 percent) and Materials (-8.4 percent) suffered the most.

Real Estate Investment Trusts (R.E.I.T.s) held up relatively well for the year and were among the better performing areas of the equity markets as the National Association of Real Estate Investment Trusts (N.A.R.E.I.T.) returned 3.2 percent. At the other end of the spectrum, Master Limited Partnerships (M.L.P.s) were an unmitigated disaster; hit by both lower energy prices and sharply higher cost of capital. Fears of distribution cuts and credit rating downgrades pushed the group to its worst performance since 2008 as represented by the Alerian M.L.P index declining (-32.6 percent).

Outside of the U.S., developed markets outperformed domestic by a wide margin when measured in local terms by the Morgan Stanley Capital Index – Europe, Australasia and Far East (M.S.C.I. E.A.F.E.) Local Index up 5.3 percent; however, the strength of the U.S. dollar pushed returns for unhedged U.S. investors into negative territory M.S.C.I. E.A.F.E. U.S. $: (-0.8 percent). As in the U.S., growth sharply outperformed value in the developed world, M.S.C.I. E.A.F.E. Growth: 4.1 percent, Value: (-5.7 percent). Developed markets small cap was the top performer as the M.S.C.I. E.A.F.E. Smallcap Index returned a positive 9.6 percent. Conversely, emerging markets were a disaster and represented the worst performing area of global equities as the Morgan Stanley Capital Index – Emerging Markets (M.S.C.I. E.M.) Local slid (-5.6 percent). E.M. was also hurt by the U.S. dollar strength, M.S.C.I. E.M. U.S. $ (-14.6 percent).

Fixed Income Market Results

Yields rose throughout the fourth quarter as investors grew increasingly certain that the Federal Reserve would hike rates before year-end. Sentiment proved correct as the Federal Reserve raised the federal funds target from its seven-year "near zero" target to 0.25 percent to 0.50 percent at its December meeting. The yield on the ten-year Treasury rose twenty-one basis points over the quarter and closed the year at 2.27 percent, up eleven basis points from December 31, 2014. The Barclays Aggregate Index was down modestly for the quarter (-0.6 percent) but up slightly for the year 0.6 percent, thanks to coupon payments. Investment grade credit and mortgages outperformed like-duration U.S. Treasuries for the quarter but underperformed for the full year. Declining commodity prices and negative sentiment continued to take a toll on high yield corporates. The Barclays High Yield Index was down (-2.1 percent) for the quarter bringing its 2015 loss to 4.5 percent. The Energy component, which comprises 11 percent of the Index, bore the brunt of the pain with returns of (-12.9 percent) for the quarter and (-23.6 percent) for the full year. Municipal bonds outperformed taxable bonds for the quarter and the year. A favorable technical picture contributed to the results as supply was down 10 percent from the third quarter while flows into mutual funds attracted inflows for thirteen consecutive weeks. The Barclays Municipal Bond Index returned 1.5 percent for the quarter bringing the full year return to 3.3 percent. The shorter duration Barclays One-Ten Year Blend posted a 0.8 percent fourth quarter return and was up 2.5 percent for 2015.

Outside of the U.S., the strength of the U.S. dollar was reflected in the outperformance of hedged indices versus their unhedged counterparts. The U.S. dollar climbed nearly 3 percent versus the euro and pound with more modest appreciation of 0.4 percent relative to the yen. Versus a trade-weighted basket of major currencies, the dollar was up 2.3 percent for the calendar quarter and 8.2 percent for the year. Yields dropped in Italy, Spain and Japan but were otherwise flat to modestly higher in other developed markets. The Barclays Global Aggregate Index (unhedged) returned (-0.9 percent) in the fourth calendar quarter. Hedged in U.S. dollars, the Index was up 0.1 percent. Results for the year were 1.0 percent and (-3.2 percent) hedged and unhedged, respectively. Emerging markets debt staged a comeback in the fourth quarter with the dollar-denominated J.P. Morgan – Emerging Market Bond Index (J.P.M. E.M.B.I.) up 1.3 percent. The local currency-denominated J.P. Morgan Government Bond Index - Emerging Markets (J.P.M. G.B.I.-E.M.) Index was flat for the calendar quarter but remained down nearly 15 percent for the year, far worse than the 1.2 percent return for the dollar-denominated Index.

Other Asset Results

Commodity returns were no less than terrible in 2015, led lower by the energy complex. Indeed, all major groups suffered substantial declines. The energy-heavy S.&P. G.S.C.I. (formerly the Goldman Sachs Commodity Index) fell nearly 33 percent while the more balanced Bloomberg Commodity Index (B.C.I.) slipped 25 percent. Brent Crude and West Texas Intermediate (W.T.I.) Crude fell 45.6 percent and 44.4 percent, respectively. Cotton was the only contract within the B.C.I. to post a gain in 2015, a muted 3 percent. Gold fell 11 percent to close the year at around $1,060/ounce, near a six-year low.

Hedge funds failed to provide a bright spot for investors. The Hedge Fund Research Index - Fund Weighted Composite (H.F.R.I. F.W.C.) underperformed both stocks and bonds in 2015 H.F.R.I. F.W.C.: (-0.85 percent). Hedge Fund of Funds performed slightly better; however, still ended the year with a loss as posted by the Hedge Fund Research Index – Fund of Funds H.F.R.I. F.o.F. down (-0.36 percent). Volatility was the year's big winner from a strategy perspective Hedge Fund Research Index – Relative Value H.F.R.I. R.V. Volatility: 7.0 percent while Yield Alternatives were the worst performers H.F.R.I. R.V. Yield Alternatives: (-16.5 percent) due in large part to heavy exposure to M.L.P.s.

Closing Thoughts

While there is no longer uncertainty as to the timing of a rate hike in the U.S., the pace and magnitude of future rate hikes remains unknown. Concerns over China's slowing growth are likely to weigh on the markets and the price of oil has not yet convincingly found a bottom. With expectations for continued volatility, prudent asset allocation and risk assessment based on future capital needs for both plan sponsors and individual investors remain Callan's recommended course.

Public University Fund

(Prepared by the Public University Fund Administrator)

The Public University Fund (P.U.F.) earned a total return of (-0.2) percent for the fiscal quarter ended December 31, 2015. During the quarter, the Oregon Short-Term Fund (O.S.T.F.), the Oregon Intermediate-Term Pool (O.I.T.P.) and the Long-Term Pool (L.T.P.) each outperformed their respective benchmarks by 10 basis points.

In late January, a fiscal second quarter P.U.F. investment performance review was conducted by Oregon State Treasury Fixed Income Portfolio Manager, Tom Lofton, with University staff and its investment advisor. The fixed income markets experienced performance volatility during the quarter as Treasury yields rose ahead of the Federal Reserve's interest rate hike in December and investor sentiment towards higher yielding corporate bonds grew increasingly negative. Mr. Lofton used the price volatility during the quarter to purchase fixed income securities with longer average maturities, increasing the O.I.T.P and L.T.P. portfolio duration to 2.5 and 4.0 respectively, compared to 2.1 and 3.2 respectively, at the end of the prior quarter.

Oregon Tech Endowment Fund

(Prepared by University Shared Services)

The Oregon Tech Endowment Fund decreased -0.2 percent during the second quarter of fiscal year 2016, ending the second quarter with a market value of $295,283. The endowment assets are currently invested in the Public University Fund.

Oregon Tech

Investment Summary

as of December 31, 2015

(Net of Fees)

	Quarter Ended 12/31/2015	Prior Fiscal YTD	Current Fiscal YTD	3 Yr Avg	5 Yr Avg	10 Yr Avg	Market Value	Actual Asset Allocation	Policy Allocation Range
OIT Operating Assets Invested in Public University Fund									
Oregon Short - Term Fund	0.1%	0.3%	0.3%	0.5%	0.6%	1.8%	$ 12,867,458	39.2%	1
Benchmark - 91 day T-Bill	0.0%	0.0%	0.0%	0.1%	0.1%	1.3%			
Oregon Intermediate - Term Pool	-0.6%	0.5%	0.0%	N/A	N/A	N/A	$ 12,432,033	37.8%	1
Benchmark - Barclay's U.S. Aggregate 3-5 Yrs.	-0.7%	0.5%	0.3%	1.1%	1.6%				
2 Combined Historical Returns				1.3%	2.6%				
P.U.F. Long - Term Pool	-0.4%	1.4%	0.5%	N/A	N/A	N/A	$ 7,559,810	23.0%	1
Benchmark - Barclay's U.S. Aggregate 5-7 Yrs.	-0.5%	1.7%	1.6%	1.3%	3.5%				
2 Combined Historical Returns				1.5%	3.8%				
Total Public University Fund Investment	-0.2%	0.7%	0.3%				$ 32,859,301	100.0%	
OIT Endowment Assets									
Public University Fund	-0.2%	N/A	0.3%	N/A	N/A	N/A	$ 295,283	100.0%	
Total Endowment Funds	-0.2%	0.7%	0.3%				$ 295,283	100.0%	

1 The Public University Fund (P.U.F.) policy guidelines define investment allocation targets based upon total participant dollars committed.
Core balances in excess of liquidity requirements for the participants are available for investment in the Intermediate-Term Pool and the Long-Term Pool.
Maximum core investment allocations are determined based upon anticipated average cash balances for all participants during the fiscal year.

2 The historical returns presented combine the investment returns from the predecessor fund with the investment returns of the P.U.F., for investments with an identical mandate. The predecessor fund commingled all public universities operating assets into a cash and investment pool.

Note: Outlined returns underperfomed their benchmark.

Public University Fund - Pooled Investment Account
Market Value Allocation
6/30/2015

Reported Values FY15	OIT	Operating	Endowment
Cash and Investments			
Oregon Short-Term Fund	$ 8,545,337	8,431,123	114,214
Oregon Intermediate-Term Pool	8,893,703	8,774,833	118,870
Long-Term Pool	5,398,460	5,326,307	72,154
Total Cash and Investments	**$ 22,837,500**	22,532,263	305,237
Total Units (adjusted for rounding)	225,188.362	222,178.581	3,009.781
Unit Value as of June 30, 2015	101.4151	101.4151	101.4151
Total Market Value in the PUF - PIA	**$ 22,837,500**	22,532,263	305,237
Calculated Bank Balance (Book Value)	$ 22,541,344		
2015 Unrealized Gain	$ 296,156	$ 296,467	$ (311)
OITP Unrealized Gain	112,070		
LTP Unrealized Gain	184,087		

Corrected Values FY15

Cash and Investments			
Oregon Short-Term Fund	$ 8,515,520	$ 8,401,637.29	$ 113,882.39
Oregon Intermediate-Term Pool	8,862,670	$ 8,744,144.92	$ 118,525.00
Long-Term Pool	5,379,624	$ 5,307,679.11	$ 71,944.45
Total Cash and Investments	**$ 22,757,813**	$ 22,453,461	$ 304,352
Total Units (adjusted for rounding)	227,335.004	224,294.738	3,040.267
Unit Value as of June 30, 2015	100.1069	100.1069	100.1069
Total Market Value in the PUF - PIA	$ 22,757,813	$ 22,453,461	$ 304,352
		98.66%	1.34%
Calculated Bank Balance (Book Value)	$ 22,542,130	$ 22,236,581	305,548
2015 Unrealized Gain	$ 215,683	$ 216,880	$ (1,197)
OSTF undistributed income	4,806		
OITP Unrealized Gain	69,076		
LTP Unrealized Gain	141,801		

Variance in Market Value (Corrected/Reported)	**$ (79,687)**	$ (78,802)	$ (885)
Variance in Unrealized Gain (Corrected/Reported)	**$ (80,473)**	$ (79,588)	$ (885)

Original model

PUF	**% Ownership**	**Jun '15 Market Value**	**Sch of Calc Bal 6/30/2015**
OIT	5%	22,837,500	22,541,344

Corrected model as of 2/8/16

PUF	**% Ownership**	**Jun '15 Market Value**	**Sch of Cal Bals 6/30/2015**
OIT	5%	22,757,813	22,542,130

PUF Pool Market Values	6/30/2015
OSTF	183,827,893.27
OITP	191,321,962.89
LTP	116,132,062.78
	491,281,918.94

PUF Fund per reconciliation	486,155,105.61
OITP par	189,381,903.83
LTP par	112,945,308.51
ST Fund	183,827,893.27

Diff between MV and Par Value				
OITP	1,940,059.06	38%		
less payable to OSTF a/o 6/30/15	(662,000.34)			
OITP net unrealized gain	1,278,058.72		32%	33%
LTP	3,186,754.27	62%		
less payable to OSTF a/o 6/30/15	(563,106.32)			
LTP net unrealized gain	2,623,647.95		66%	67%
OSTF undistributed income	88,925.45		2%	
		100%	100%	100%