2Q 2017

Investment Report

Oregon Local Government Intermediate Fund

Performance Review

For the second quarter of 2017, the portfolio outperformed the Bloomberg Barclays 1-5 year Government/Credit index by 12 bps. Year-to-date the portfolio is up by 8 bps.

Oregon Local Government Intermediate Fund	Portfolio	Index**
2Q17 Performance*	0.68%	0.56%
Year-to-Date	1.22%	1.14%

*As of 30 Jun17. *Performance is Gross of Fees. **Barclays Capital US Government/Credit Bond Index (1-5) year.*

Duration and yield curve were additive to performance. The portfolio started the quarter with a duration position longer than that of the benchmark. As rates fell, the overall Treasury position was reduced by approximately 5%. The yield curve positioning favored the 5-year and 10-year parts of the curve over the 2-year area which was additive to performance as the yield curve flattened.

The Treasury reduction noted above was reinvested in spread sectors, particularly investment-grade credit and securitized sectors.

The overweight to investment-grade credit was increased by 1.7%. The first quarter themes on the industrial and finance sectors remain. We continue to focus on industries that are not in any position to re-leverage their balance sheets. We added to names in the energy and metals and mining sectors, which in our view, continue to need ongoing balance-sheet repair due to the commodity recession. We continue to maintain our overweight to financials as the current regulatory landscape should continue to keep banks from re-levering.

Allocations to commercial mortgage-backed securities (CMBS) and asset backed securities (ABS) continue to add to performance as spreads continue to tighten. We remain constructive on the fundamentals of the sector and have increased our exposure by 1% of these sectors.

Investment Outlook

The consensus view coming into this year was characterized by optimism about US growth, particularly with the prospect of fiscal policy thrust, which appeared to be relatively more attractive than the gradual healing process still evident beyond our shores. And while we felt the interest-rate pessimism in the US went "too far, too fast" and was subject to political disappointment, we also believed the US growth prospects were still relatively more favorable than those of most other developed markets. As the year has progressed the US has mildly underperformed expectations, while global growth has done better than originally forecast. The backdrop of moderate US growth amidst an improving global economy and subdued inflation which can complicate the central bank path to rate normalization has supported our view that spread sectors would continue to outperform Treasuries and sovereign bonds.

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