



Letter from the President



The Oregon State Investment Group has provided endless opportunities to students eager to learn about investments outside the classroom for the last several years. It began with just a small fund raised through alumni donations to the foundation generously entrusting OSIG to oversee \$1 million in assets. I was fortunate to be influenced by my brother to get involved early, and the investment group has allowed me to develop skills that translate into my first position out of my undergraduate education, as well as relationships that will hopefully last my entire life.

Challenges we have faced and the mistakes we have made are exactly what prepare us more for future endeavors, within OSIG and throughout our careers. I continue to believe OSIG provides a differentiated opportunity for students to gain real-world experience, face challenges with an increasingly complex global economic system, and better apply what they learn in the classroom, especially those students who don't have the funds to invest individually.

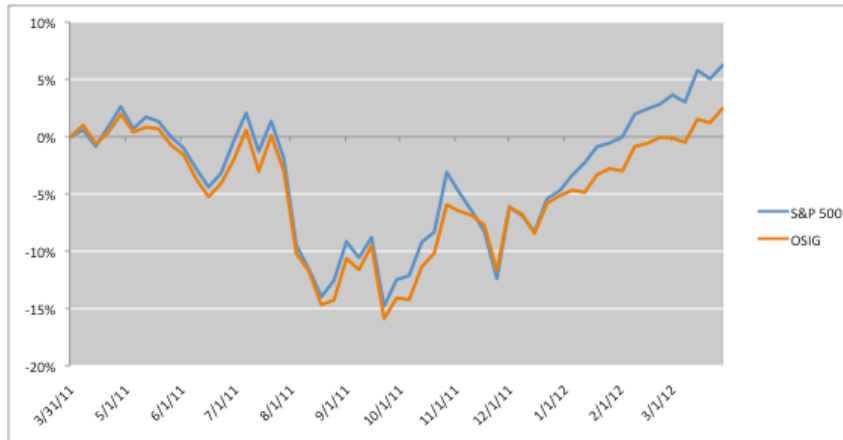
Although the U.S. economic outlook has improved, albeit sluggishly, we can rest assured the world we live in will provide many headwinds. We have seen it over the last four years with curve balls being thrown at our group endlessly. Many experts speak of the difficulty of allocating funds in a portfolio given mixed messages globally. In some countries, we have relatively strong economic performance, while others have been thrust into a crisis that seems to have no end. Here at home, we have expected a strong recovery to take hold, while global conditions leave us with a tepid recovery. As we do our best to sift through the noise and provide positive performance in excess of our benchmark, we have to remember to step back and observe these conditions carefully, because they will surely serve us well when history is repeated.

Reflecting on what we have accomplished to this date, I know it would not have been possible without the support from the Dean of the College of Business, as well as the faculty we have the pleasure of interacting with each day. My only hope is the group continues to grow in their analytical abilities and make sure they take advantage of this extraordinary opportunity many don't get to participate in as undergraduates.

Brandon Beall
Finance & Accounting 12'
President

Domestic Fund Performance – Keith Petersen, MBA

Over the course of the 2011 fiscal year, the Large Cap Domestic Fund returned 2%, which corresponded to an absolute underperformance of 3.76%. On a risk-adjusted basis, the Large Cap Domestic Fund underperformed its benchmark, the S&P 500, by 2.83%. Underperformance was largely attributed to the slow re-allocation of funds from an aggressive financial allocation to a more defensive position during the summer months.



At the beginning of the 2011 fiscal year, the Large Cap Domestic Fund was significantly weighted towards the Financial and Technology sectors, with approximately 39% of the portfolio's funds allocated between

the two sectors. This strategy was consistent with the beliefs of our analysts that those two sectors would see important growth as the economic recovery progressed. However, the market experienced headwinds from the European debt crisis, a slowdown in global GDP growth, and increasing commodity prices. As a result, the Large Cap Fund captured significantly more downside risk than its benchmark, and for the period measuring from June 16th until September 29th, the Large Cap Fund lost 10.04% of its value.

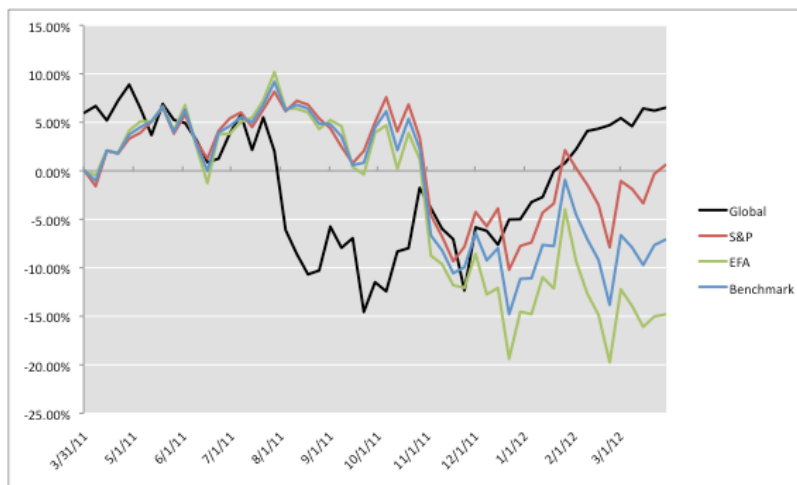
In order to address the summer's underperformance, as well as to incorporate our growing concerns regarding market volatility, the Large Cap Fund re-allocated funds away from the Technology and Financial Sectors and into more defensive allocations such as cash, consumer staples, and healthcare. Additionally, the management team and portfolio managers engaged in weekly performance and strategy meetings with a focus on correcting fund underperformance. Fund performance responded positively, and the Large Cap Fund outperformed its benchmark by 116 basis points on a risk-adjusted basis in Q4 2011 and Q1 2012.

In the latter half of the 2011 fiscal year, the portfolio had an overall defensive position. This was reflected in the portfolio's beta of 0.82. Nonetheless, as strong economic indicators continued to emerge in Q1 of 2012, the Large Cap Domestic Fund re-balanced its weightings to more closely match its benchmark. An emphasis was placed on ensuring the strength of our security selections, and as of March 31st, 2011, fund allocations were directed to become more aggressive. In conjunction

with this goal, larger allocations were directed for the Financial and Consumer Discretionary sectors.

As mentioned above, we plan to increase the Large Cap Domestic Fund's exposure to financials and consumer markets, with a focus towards acquiring positions in strongly positioned firms with established reputations. In addition, we plan to maintain a five to eight percent cash-weighting going into the summer months. While we expect continued economic improvement, we are wary of capital preservation constraints in the event of short-term market pullbacks.

Global Fund Performance – Riley Kinser, Junior



Similar to last year, global events, particularly in Europe and the Middle East dominated the news and markets. We saw the sovereign debt crisis continue to unfold in Europe as austerity measures were enacted and rescue deals were developed. We saw the Arab Spring topple

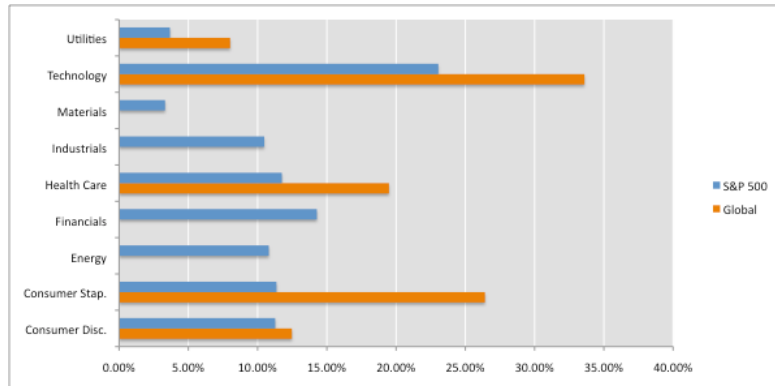
governments and inspire individuals all over the world from the anti-austerity riots in Greece to the Occupy Wall Street protests in the United States and around the world. Despite fears of double-dip recessions and armed conflicts in the Middle East, markets have rallied strongly since we put out our last report with the S&P 500 climbing over 11% and the MSCI EAFE Index rising over 9%.

During 2011 the Global Fund declined -4.99% while our benchmark declined -7.10%. We also adjusted our benchmark for the Global Fund, opting instead for a mixed 50-50 benchmark combining the S&P 500 and the MSCI EAFE Index to better measure our strong, but imperfect, international exposure. With a weighted-average beta of .89 the Global Fund generated 130 basis points of alpha during 2011.

Beginning with the 2011-2012 school year we began a portfolio transition from the Global Fund to a Russell 2000 Synthetic Portfolio. Our new portfolio, which will be replacing the Global Fund, is nearing the final stages of the transition as we wait for our additional trading account to be activated. Our new portfolio will be structured along the lines similar to the Oregon State Treasury's internally managed synthetic

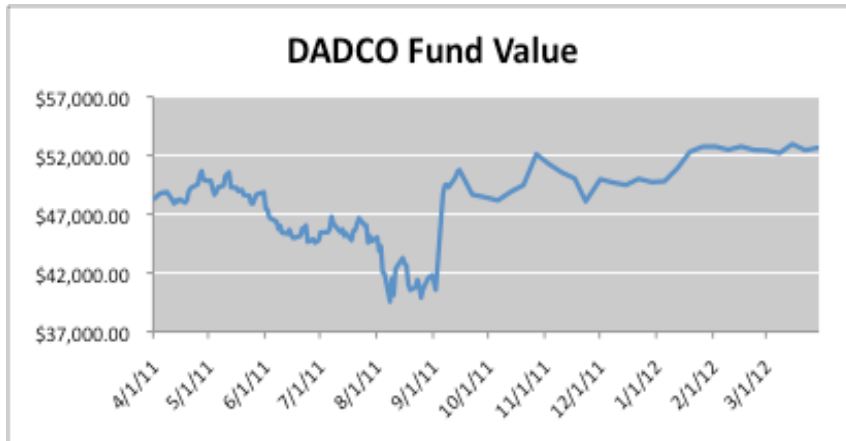
Russell 2000 index portfolio, by using Russell 2000 futures contracts and fixed income investments we plan to track and outperform the Russell 2000 index.

Our synthetic portfolio will be structured using a single mini Russell 2000 contact which will require an initial margin of \$6,000-\$7,000 (margin requirements change frequently) and will provide us with a near exact replication of the underlying assets of the Russell 2000 increased by a factor of 100. Because of frictional costs the future will slightly underperform the index close to LIBOR, but by investing the remainder of our cash in an asset, which will generate returns at least in excess of LIBOR we should be able to consistently generate positive alpha. This portfolio is ideal for the Oregon State Investment Group as it will require significantly less attention compared to our Domestic Fund and D.A. Davidson portfolios and will also provide learning opportunities with derivatives, fixed income, and alternative portfolio construction techniques. We're currently planning on using bond funds until we're able to develop methods for analyzing individual bonds and are open to suggestions on how to achieve this.



The Global Fund is over 50% cash now and is valued at \$65,501.14. Year to date our portfolio is up 10.91%, outperforming our benchmarks on an absolute and risk adjusted basis generating 453 basis points of alpha with a beta of .64. The S&P 500 is up 10.63% and the MSCI EAFE Index is up 9.19%.

DADCO Fund Performance – Brad Alvarez, Junior



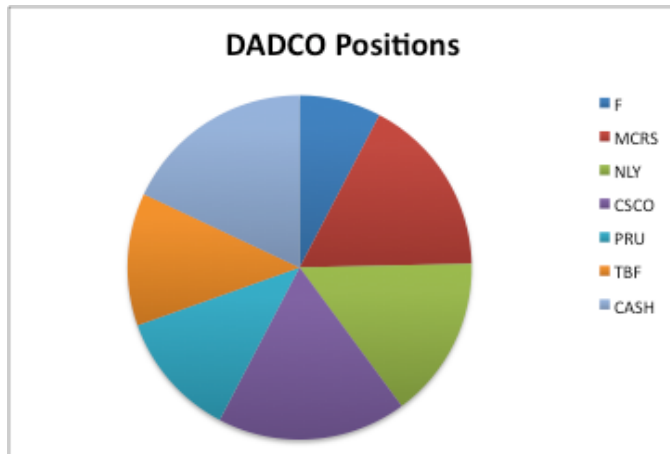
The 24th annual D.A. Davidson Student Investment Competition started on September 1, 2011 with 20 schools, each receiving \$50,000. Most of the schools have been in the

program for a number of years and OSIG is entering it's second year. At the end of the competition, every portfolio is reset back to \$50,000, with any loss of funds covered by D.A. Davidson and any return above 5% split evenly between the company and the school. The D.A. Davidson Student Investment Competition allows OSIG to measure its own ability against 19 other schools from Salt Lake City, Utah to Seattle, Washington.

OSIG's strategy is to invest in companies that OSIG expects to grow their earnings and that are out of favor with the market at the time of investment. OSIG's management team and sector leaders will periodically make macroeconomic calls using any ETFs that are traded in the United States. For example, if management expects the market to fall, we could buy an ETF that takes a short position. We could also use these tools to buy a long or short position in US Treasuries, any type of commodity, or even a currency. While the structure of the portfolio encourages more risk, OSIG will not take a position without adequate vetting. Very safe investments are left to the Large Cap and Global Fund portfolios where return is risk-adjusted.

This was the first full year that OSIG has had the DADCO portfolio and our ranking against peers ranged widely. Performance was negatively impacted over the summer with the debt ceiling debacle here in the U.S. and then the subsequent sovereign debt crisis abroad. Luckily our portfolio rebalanced in early September and we were then made even with all the rest of the schools, instead of being in the bottom quartile like we were all summer. Our worst performing positions that we held over the summer (Q3) were Ford and Micron, falling 30% and 33%, respectively. Cisco performed the best, falling a miniscule 0.7% during the third quarter.

During the fourth quarter we finalized our benchmark, which is performance relative to our peers. This makes sense considering we are more concerned about absolute return instead of risk-adjusted return. We ruled out our benchmark as the Russell 2000, since our target number of positions at any given time is seven. Our performance during the fourth-quarter was much



better, as we exited some equity positions early, which resulted in a large cash position. Additionally, we had some holdings that outperformed, and took some short positions through ETFs. We peaked at 3rd place in early December. Unfortunately, we didn't leave the ETF positions quick enough and didn't invest our cash quick enough to fully take part in the huge first quarter rally that the market

had. We had our place drop to around 11th and 12th, and it has fluctuated around that ranking throughout February and April.

Currently, I think we are well positioned to take advantage of a strong market, and continue to succeed in educating future fund managers in a great one-year crash course in portfolio management.

OSIG Sector Analysis

Financial Sector – Eric Saylor, Senior

Calendar year 2011 marked a difficult year for the financial sector. The financial sector experienced a host of challenges- including natural disasters in Asia, political upheavals, carryover from the euro zone debt crisis, and U.S. debt downgrade. Financials entered 2011 with hopes of a continued and sustained recovery, but grew more uneven as the disparate trends of 2010 dragged on. Developed economies focused on working through longer-term debt reductions while riding the positive momentum from considerable government support to supplement economic growth. U.S. policymakers focused on prioritizing economic growth with unconventional central bank policies and stimulus programs while European leaders seemed initially focused on inflation. The first half of 2011 ended down with heightened volatility in the markets, as well as a decline in equity markets following the tsunami and nuclear crisis in Japan.

The second half of 2011 started brutally poor with Standard and Poor's downgrading the U.S. debt after a last-minute budget deficit aversion. The latter half of the year seemed driven by economic news coming out of Europe. During 2011, Greece, Portugal, and Ireland accepted bailouts, several countries credit ratings were downgraded, and many austerity measures were implemented to reduce deficits. Closing out the year, the U.S. Federal Reserve launched "Operation Twist" to drive down long-term interest rates on bonds. With a flat yield curve and the European Financial Stability Facility augmented to one trillion Euros to provide additional financing and support for regional lenders, markets saw appreciation in last few months of the year.

During 2011, we took positions in Annaly Capital Management (NLY) and Visa (V) while selling out of our positions in Brookfield Properties (BPO), Wells Fargo (WFC), and Morgan Stanley (MS). We bought 2,222 shares of NLY the week of May 19 at approximately \$17.90 per share to go into summer with a diversified REIT yielding a strong dividend. Visa was purchased during the week of April 7 by acquiring 535 shares for an approximate price of \$76.5 per share. Sells were initiated on BPO, WFC, and MS based on a continuing negative sentiment from the group toward financials. The latter half of 2011 was marked by constant negative news for the banking

sector, as well as poor performing economic indicators for housing. The negative sentiments lead to an underweight portfolio target on financials against the S&P 500.

Our holdings in the Large-cap Domestic Fund at the end of FY2011 included: ACE Limited (ACE), Blackrock (BLK), Annaly Capital Management (NLY), and Visa (V). Although Visa is commonly considered to be in the services industry, we classify it under financials, as that is what the S&P 500 does, as well. We finished 2011 at .92% overweight including a 4.62% position in Visa. The year ended with limited exposure to the banking sector with continued exposure to asset management, insurance, housing, and consumer credit. Going forward, financial institutions with strong balance sheets and heavy emphasis on revenues through fees have been targeted as potential pick-ups.

Consumer Cyclical and Staples – Adam Rosa, Junior

The first half of 2012 has been very prolific for equities. The S&P500 started the year with its best performance since 1998. The recent resurgence in equity prices may be attributable to a rebounding affect following the market dip during the summer of 2011. However, improved economic conditions and increasing consumer spending has played a significant part in the recent bull market.

In the consumer goods sector, we analyze several economic indicators. Consumer confidence, (reported by the University of Michigan's Consumer Sentiment Index) measures consumers financial conditions and attitudes towards the economy. Mid-2011 saw consumer confidence drop to levels seen during the financial crisis; caused by increasing concern over domestic and international sovereign debt, compounded by a spike in jobless claims. Since the lows of August and September, consumer confidence has increased to acceptable levels. Another indicator we monitor is new jobless claims, (reported by Haver Analytics), which measures the amount of individuals who filed for unemployment insurance for the first time. As noted earlier, the events during last summer caused a spike in unemployment claims, indicating a slowing in the economic recovery. In the past six months, new jobless claims have consistently declined each week, approaching pre-recession levels.

Entering last summer, the Large-Cap Domestic Fund (LCDF) was positioned significantly under weight in consumer defensive holdings; negatively impacting our returns during the bear market, last summer. As the group reconvened in the fall, portfolio managers made the appropriate changes to increase our non-cyclical holdings by purchasing Bunge Limited. Bunge has since returned 12%. Throughout the year we have actively adjusted the consumer goods weighting to maximize our returns with the volatile market. The LCDF currently sits at .5% over weight in both consumer discretionary and staples. I believe the current weightings is a good strategy during the summer (passively managed) to capitalize on a bull market or reduce our down-side exposure, with the consumer defensive holdings (non-cyclical

equities out perform other sectors during bear markets). I see a great deal of upside potential during the summer, however increasing energy prices and continuing debt worries in Europe are risks worth mentioning.

Our current holdings and their performance since inception, include: Amazon.com Inc. (AMZN), up 10%; The Walt Disney Company (DIS), up 23%; The Coca-Cola Company (KO), up 41%; Bunge Limited (BG), up 12%; Colgate-Palmolive Company (CL), up 24%; Consumer Discretionary SPDR (XLY), up 1%.

Technology – Stephen Halligan, Junior

In the past year we have seen a down technology sector, dampened by broad issues ranging from political protests to flooding and tsunamis in some key markets of the technology industry. The large amount of turmoil throughout the year caused the technology sector to struggle to post the gains that it has historically seen, with the overall sector finishing up only 2.67%, driven by strong fourth quarter growth of 8.46%. However, 2012 has been off to a very profitable first quarter, with the technology sector closing up 19.6% YTD, and outperforming the benchmark (S&P 500) by nearly 12%. Apple Inc. has been the largest driving force behind the sector's growth, appreciating 48% in the first quarter behind strong earnings results.

Our current technology holdings have been doing well this past year with some of our major holdings, IBM and Qualcomm, both appreciating 26.32% and 10.14% respectively. Other notable holdings include Google and Micro Systems Inc., appreciating 10%. As a group, we realized a loss on Micron Technology and closed our position while the stock was still trading near a 52-week high. This closeout has reduced our large exposure to the volatility of the semiconductor market, and allowed us the option of finding a more suitable investment for our portfolio.

Healthcare – Dan Edwards, Senior

The healthcare industry this year has been contending with three major forces: (1) the Affordable Care Act legislates fundamental changes in the financing and delivery of care, (2) U.S. economic recovery and deficit reduction means cuts in health care spending and (3) demand for health services soars as a result of consumer expectations and the aging population.

The Supreme Court reviewed the Affordable Care Act this year and a ruling was made. This July the Supreme Court ruling on the Affordable Care Act will be made available to the public. Most healthcare analyst believe that the Supreme Court ruled at least parts of the bill are unconstitutional. This news is public knowledge in the industry and has been priced into most healthcare stocks.

The U.S. economic recovery has been slower than desirable. As a result, health industry stakeholders should grow revenue in new, and sometimes risky or unconventional

markets. Manufacturers will likely pursue direct contracting via gain sharing models with providers, increase global market growth and offshore core operating functions to cheaper labor markets. The cost of the U.S. health care system is projected to increase by 6%, while the economy overall will see a 2.5% improvement in GDP. At the end of 2012, health care will likely make up 24% of the total federal budget, 21% of the average state's budget, and 20% of the average household's discretionary spending.

We believe that the biggest growth in the healthcare sector will come from new developments in medical devices and mobile healthcare. This year, the healthcare analyst looked at several companies that are believed to be great medical device companies going forward, such as Stryker (SYK), Medtronic (MDT), and Edwards Life Science (EW). These companies have the potential to generate great alpha for the portfolio going forward as we transition from only holding big pharmaceutical companies like BDX, AGN, and ABT in the portfolio, which are believed to move towards a slow growth phase.

The demand for health services will soar as a result of consumer expectations and the aging population. About 10,000 Americans turn 65 years old every day, and this will continue for the next 19 years. Besides these more than 82 million American adults are estimated to have one or more types of cardiovascular diseases, that is one in three people. This is why shifting our portfolio to one that is more focused on the emerging market of healthcare devices is a wiser choice. To maintain diversity in the portfolio the group will still hold on to generic pharmaceutical companies like TEVA, which offer a wide arrange of products worldwide and generic drugs that are more attractive to a fiscally conscious baby boomer generation.

Our healthcare allocation going forward is based on the major revolutions in medicine. There are currently three major healthcare revolutions that have changed medicine forever. The first is hand washing, which reduced the spread of germs significantly and helps reduce the amount of patient deaths from infection. Antibiotics were the second, along with hand washing; antibiotics were able to drastically reduce the amount of infections and save many patient lives. A more modern breakthrough in medicine is the advent of minimally invasive surgery. This has allowed patients to recover more quickly, as an example a patient that would normally take 18 days to recover after an invasive cardiac procedure now only takes 3 days to recover. Along with reducing the time for recovery, it is also cheaper and less destructive to the patients overall health. The newest breakthrough in medicine is mobile health. About 95% of the time the patient is either at home or work. This means that the patient is not monitoring health or has access to healthcare most of the time. Most patients have at least a 30-minute commute to a healthcare facility; if they can even find a way to commute. A majority of the world's best healthcare facilities and doctors are located in big cities, which isolates rural patients. This is why I believe that mobile healthcare will be the next great revolution and investment opportunity in healthcare. This term CardioNet (BEAT) was pitched to the group as an example of a mobile healthcare company that I believe will be a leader in the future of new developing industry. Mobile healthcare is the future of medicine and they healthcare sector will begin to incorporate this into our portfolio going forward.

Industrials, Materials, Energy, and Utilities – Pryce Waites, Junior

During 2011, the IMEU sectors were outperformed on a risk-adjusted basis except for financials. The goal for the sector this year was to be position us to avoid negative impacts of continued market uncertainty and a sluggish economic recovery. We chose to implement this strategy by establishing an overweight position in utilities throughout the summer. We also wanted to decrease our position on industrials due to an uncertain housing market and volatile construction indices in early spring. Due to our overweight position in utilities in the spring, we only had an update on two of our holdings. The update was on CPFL Energia S.A. (CPL) and we voted unanimously to continue holding the position. To decrease industrials exposure, we pitched a “sell” for Illinois Tool Works (ITW). We voted to sell the position, which proved to be a good decision as the equity lost nearly 30% of its market value in the next three months. Lastly, Potash Corp of Saskatchewan (POT) was pitched to balance our under allocation to the materials sector. Its value was based on inevitable population growth and the needed yield per acre of global crops. We chose not to purchase Potash.

Over the summer, commodities fell to levels lower than the beginning of the year, which hurt our materials sector holdings greatly, because both holdings had high exposure to the price of iron ore. This motivated us to pitch a “sell” early in the fall for Nucor Corporation (NUE). We sold Nucor in October. Over the fall, we wanted to be overweight in industrials due to a recovery in the global economy. Furthermore, the U.S. Department of Defense stated in early fall that upcoming budget cuts would decrease DOD spending by 8%. We wanted to sell Raytheon (RTN) and buy an industrial goods holding to maintain exposure to rebounding markets, but avoid further budget cuts. Raytheon was pitched and sold in October. To increase our exposure to emerging global markets, we pitched a “buy” for Cummins (CMI) and it was not purchased. Lastly, Consolidated Edison (ED) was pitched to replace our holding CPL. Consolidated Edison was also not purchased. Throughout 2011, IMEU became more diversified and ended the year being underweight in industrials, because of no replacement for Raytheon. For next year, our target portfolio weightings will be to remain overweight in industrials.

The Year In Review

This year has provided the members of the Oregon State Investment Group many valuable experiences outside of the usual weekly equity pitches and portfolio allocation decisions. Throughout the year, members have had the opportunity to meet with speakers, travel to investment conferences, and meet with other investment groups to pitch and share best practices.

The fall began with a trip to the FAME conference in San Francisco, CA, which was the first of such trips. Historically, members attended the RISE conference in Dayton, Ohio, but in an effort to meet new people and find a closer location to hear prominent names in the field of finance speak, several members traveled to California. Bob Doll, Chief Investment Strategist at BlackRock was the keynote speaker and many professionals spoke on topics, such as ethics, the U.S. and global economy, the housing market, and much more. For many members, it was their first trip to an investment conference. The experience was great for learning more about how some of the brightest minds in finance think, bonding with other OSIG members, and exploring an area of the country we seldom get to investigate.



Toward the end of fall term, OSIG received a request to hear from Garrett Bauer, a Wall Street trader that was convicted of insider trading in April 2011 and awaits sentencing. Bauer spent the hour-long talk discussing his career, his role in the crime, life in prison, how the ordeal impacted his relationship with friends and family, and how we can avoid such situations throughout our career. He provided interesting insight and described how he had done what happens everyday on organized trading desks, but was sighted because of specific circumstances. Finally, he described how he would spend the rest of his life paying millions in fines to the government, even after serving a prison sentence. It gave a lot for our members to think about and provided an outlet for Bauer to engage with the future investment community again.



Our annual winter meeting with the University of Oregon Investment Group was once again valuable. Riley Kinser and Brad Alvarez researched and valued Netflix, which had recently experienced negative backlash from their customer base regarding subscription fee hikes. UOIG members researched and valued Corning, a company we were familiar with from prior pitches. The groups listened to the

presentations, questioned the analysts, and continued to learn from each other. The University Oregon continually proves their dedication to thoughtful and detailed research.

This September, eight OSIG members will once again travel to New York to meet with alumni and others in the financial industry. There are few cities that provide exposure to so many financial firms, and are an outlet for students in OSIG that aspire to careers in a U.S. financial hub. The number of participants has been reduced due to the number of students that have successfully obtained internships, a problem we welcome.

Management Team and Analyst Recognition

Outstanding Analysts: Conrad Bockhop and Stephen Halligan

We are confident the 2012-2013 management team will create an environment that will further enhance the minds of the analysts, especially the handful of sophomores recruited throughout the year. The management team includes:

President: Adam Rosa – 2012 Senior

Domestic Fund: Brad Alvarez – 2012 Senior

Synthetic Fund: Riley Kinser – 2012 Senior

DADCO Fund: Pryce Waites – 2012 Senior

Internal and External Relations: Jessica Kim – 2012 Junior

Exiting Members

Keith Petersen (3 years experience – San Diego State University Law), Dan Edwards (2 years experience – Wells Fargo WBR Analyst, St. Louis), Brandon Beall (4 years experience – PIMCO Account Analyst, New York), Eric Saylor (2 years experience – Graduate School), Meru Belbeyav (2 years experience – CFA Candidate), Kevin Rose (1 year experience)

2012 Summer Internship and Full-Time Locations

Wells Fargo (St. Louis, MS), Bank of America (Portland, OR), Portfolio LLC (Albuquerque, NM), Citigroup (New York, NY), PIMCO (New York, NY), Boeing Corporation (Seattle, WA), Nike (Portland, OR)