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State of Oregon

Office of the State Treasurer

Telephone Only

OREGON SHORT TERM FUND

July 8, 2021

Meeting Minutes

Members Present: Douglas Goe, Michael Kaplan, Deanne Woodring, Sharon Wojda, Michelle Morrison, Brian Nava

Staff Present: Perrin Lim, Jeremy Knowles, Geoff Nolan, Cora Parker, Rex Kim, Andy Coutu, John Lutkehaus, Lisa Pettinati, Edie Kessel, Scott Robertson, Bryan Gonzalez, Deena Bothello, David Randall, Alli Gordon

Other Attendees Present: PFM: Chris Trump, Lauren Brant

The July 8, 2021 OSTF meeting was called to order at 10:00am by Douglas Goe, OSTF Chair.

I. Opening Remarks

Douglas Goe welcomed all to the Oregon Short Term Fund Board (the "Board") meeting and roll was taken. Mr. Goe welcomed Brian Nava who is taking Laurie Steele's position as the new representative. Mr. Goe thanked and expressed his excitement to have Brian Nava join the Board.

II. Review and Approval of Minutes

MOTION: Mr. Goe asked for a motion to approve the April 22, 2021 OSTF meeting minutes. The Board approved the minutes unanimously.

III. LGIP/OSTF Investment Policy Review

Mapleton School District #32

PRESENTED BY Jeremy Knowles, Investment Analyst Fixed Income Team. Jeremy Knowles reviewed the investment policy for Mapleton School District #32. The Business Manager, Jeron Ricks was working on building a new investment policy for the school district and they have not had an active policy for some time, thus Mr. Ricks is starting with a simpler version of the sample policy. Mapleton School District #32 will be focusing on investing in the Oregon Short Term Fund and possibly the Oregon Intermediate Fund. Initial recommendation included more language typically seen in the sample policy such as having an investment committee, brokers, dealer relationships or advisors, however Mapleton School District #32 was not interested in these recommendations at this time. The main recommendations that still stand are as follows: include a definition for liquidity risk, and have some combination of liquidity operating expenditures and maturity buckets and to have a maximum investment maturity limit and an average portfolio maturity. Mr. Knowles indicated it was advisable to have a structure in place to monitor and ensure their portfolio is moving along at the appropriate maturity levels to handle any of their liquidity needs. Chairman Goe thanked Mr. Knowles for his staff report and analysis.



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COMMENTS FROM THE BOARD

- Michelle Morrison stated she has no questions or comments.
- Michael Kaplan stated he has no questions or comments.
- Sharon Wojda noted under Section V in the Mapleton School District #32 Investment Policy Comparison: Standards of Care, under the Delegation of Authority and Responsibilities, they did not want to take Oregon State Treasury's recommendations to add an investment committee and advised to either take this section out or explain why they are not going to have an investment committee. Also, the last section with List of Documents Used in Conjunction with this Policy, they only referenced items in their July board meetings and Ms. Wojda recommends making that more transparent and including that information as an appendix or include in the policy if that information has been adopted.
- Brian Nava asked if it is typical for a school district of this size to not recommend that they put in additional options so that they have flexibility if in the future to start broker/dealer relationships. Mr. Nava also asked if school districts of this size omit this because there is not an intention to do this in the future. Per Mr. Goe this is an unusual approach, however since this investment policy is limited to the OSTF and Intermediate Fund this works from his perspective. Mr. Goe suggested to the District that they recognize in the future if they choose to expand beyond the OSTF and Intermediate Fund, that they bring the policy back to the Board with revisions that reflect the sample policy for districts for other local government investors who are investing beyond the OSTF or Intermediate Fund and recommends putting this in the policy (if they choose to expand beyond the available fund at the state level). Mr. Knowles shared that he spoke with Jeron Ricks and the District will come back to the Board with any changes or additions to the policy and will advise that this is expressly written into the policy.
- Deena Bothello advised that they address the bond proceeds as they need to be more aligned with open market securities, otherwise adopt the Board's sample policy verbiage. Also, Ms. Bothello suggested to pass back to Mapleton School District #32, in the General Section under Liquidity, the minimum month end balance is set at \$150,000 and Ms. Bothello stated that this amount seems low. In section VIII under Investment Parameters they state putting a maximum of 90% of funds in the Intermediate Fund which is a longer risk profile, her concern is that if it is that low they will need to raise funds out of the Intermediate Fund and rates are up they will be taking losses. Ms. Bothello recommends cautioning them on that high level at 90% in the Intermediate Fund and the low level on the liquidity could potentially expose them if they did need to tap into cash. Lastly, some performance measures listed under Performance Standards/Evaluation most likely won't be necessary if mostly investing in OSTF or Intermediate Fund.
- Jeremy Knowles asked the Board about a possible recommendation to keep the District's policy in its simplified state while maintaining liquidity, that would they recommend reducing the District's maximum investment in the Intermediate Fund. The Board recommended adjusting the maximum investment from 90% to 50% to address the possible liquidity risk. Mr. Goe thanked everyone for the good discussion.

IV. LGIP Participants and Operations Overview

PRESENTED BY Cora Parker: Cora Parker thanked the Board for the opportunity to present with their regard to support of local government participants in the OSTF. Our partners Lauren Brant and Chris



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Trump with PFM will also be presenting. Ms. Parker acknowledged that they previewed briefly at the last meeting, they were able to work with PFM to show an alternative breakout of our local government participants. There are now five primary categories: Cities, Schools, Counties, Special Districts and Others. The total dollars invested in the OSTF over time and the break out between the state funds and local government funds. Today's balance is slightly over \$26 billion with the local government component representing approximately \$9 billion. Those amounts do not yet include the American Rescue Plan Act Fund which will soon flow into the state. Our partners at DAS have indicated that they intend to certify to those funds and expect them to come in approximate 10 days from today. The state is due approximately \$2.6 billion from that authority and will also receive and distribute approximately another \$250 million for the non-entitlement local government that are also due funds through that Act.

TOPICS

- Q2 Activity in the Fund
- Participant Breakdown
- Historical Breakdown

Chris Trump discussed last quarter's activity in the fund. Mr. Trump discussed the breakdown in assets among entity types. School districts, cities and special districts make up roughly 78% to 80% of the funds which is consistent with previous quarters and does not anticipate this changing in the future. Quarter over quarter, school district's assets have increased \$230 million, cities \$325 million and special districts \$195 million. Counties are up \$236 million and the only entity that was down was community colleges. Assets are up over the last three years, compared to the same time last year. The fund continues to steadily grow. Net cash flows have remained consistent over the past 3 years. In the "Others" Category, the Housing Authorities are included and represent approximately \$63 million in assets.

Lauren Brant discussed participant breakdown and the historical breakdown of the LGIP transactional activity. The activity is similar year to date and quarter over quarter. A small uptick in wire redemptions occurred and remain a small percentage in relation to overall transactions. Service metrics are reported to the Oregon State Treasury on a monthly basis and the performance in each category exceeded these service standards for the period.

COMMENTS FROM THE BOARD

- There were no comments or questions from the Board.
- Mr. Goe thanked Cora Parker, Chris Trump, and Lauren Brant for their presentation.

v. OSTF Market Overview and Portfolio Update

PRESENTED BY Perrin Lim: Perrin Lim presented the OSTF Portfolio update.

- In reference to the snapshot of the Short-Term Fixed Income Markets since December 2016, the biggest concern has been within the last year since the onset of the pandemic.
- Perrin Lim referenced Chairman Powell from the Federal Reserve and his comments regarding the markets and if they are behind the inflation target and should they be tapering their daily purchases of \$120 billion of treasuries and mortgage back securities given the present state of the markets.



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- The second half of last year and YTD, reflation trade was surprisingly taking hold evidenced by the stock market and corporate spreads.
- The Delta variant poses uncertainty in the market.
- The feds just released the minutes for their June 16th meeting and adjusted their reverse repurchase facility in addition to the interest on excess reserves by 5 basis points each (reverse purchase agreement went up 5 basis points and the interest on the excess reserves went up to 15 basis points). The reverse purchase agreement has been met with extraordinary demand. Fed tapering appears to be on the horizon. This appears not be focused on increasing fed funds but instead seems to be focused on the tapering of their quantitative easing. It is still undetermined what will transpire in the future and transitional inflation is a major focus. Some key takeaway questions from the minutes: Is tapering of their buying justified and how long do they keep tapering at the current pace?
- The markets have been performing well for assets: equities and risk products.
- OSTF Portfolio Overview: OSTF NAV near \$28 billion. As of yesterday, the Book Yield of the fund is at .62% and we're paying out 60 basis points. Mr. Lim suggests that in the near future we might need to adjust the paid rate downward.
- Mr. Lim noted we have a strong bias of floating rate product and discussed maturities of the floating rate securities in the fund. Some securities have a maturity between 10 and 15 years, 50 basis points worth, predominantly municipal variable rate demand notes, viewed as 7 day or 1-day interest rate exposure with a hard put as the owner of those VRDNs.
- Mr. Goe suggested the OST team provide a historical snapshot of side by side credit ratings over time series to view the shift and would like to see this at the next board meeting.
- Mr. Lim likes the idea of owning floating rate product and indicated he would like to add quarterly floaters.
- Mr. Lim reviewed the General Fund Cash Flow 7/1/2019 – 6/30/2021. Also, the American Rescue Funds will be coming into the fund, date TBD.
- Per Mr. Lim, there are at least 3 pension obligation bonds that will be issued: Taxable Municipal Bonds for approximately \$600 million, another for \$400 million and one more for an undetermined amount that will all flow into the OSTF for a brief period of time and eventually going into the asset allocation of PERS.
- Reviewed Oregon Short Term Fund Analysis
- Deanne Woodring followed up on Mr. Lim's comment, everyone is flooded with cash across the country with the CARES Act and ARP money, and factoring in risk and the quality of the portfolio, she emphasized the importance to the Board of keeping the funds safe.
- Mr. Goe suggested having a rate chart that goes back to 2008 and having the statistics in terms of credit quality for an overall view of the broader market and OSTF.
- OSTF Portfolio Overview: OSTF NAV near \$28 billion
- Market Update: Still solid value at .60% compared to alternatives
- Sector allocation and duration positioning continue to drive total return performance
- On a YTD basis, the OSTF has increased allocations to ABS and Corporates from Treasuries.
- Coupon Type Exposures: Note, at current, staff has increased the allocation to floating rate securities by ~5.5% YTD and ~1.7% since 3/31/21.



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VI. Closing Remarks/Other Items of Business

- Mr. Goe addressed Jeremy Knowles' question regarding in-person versus virtual meetings in the future. Mr. Goe said he is open to in-person meetings and other Board members echoed this and are open to either. Michael Kaplan noted the Oregon State Treasury is looking at a phased-in approach with regards to heading back to the office. The State is still in collective bargaining and thus unable to currently commit and need to defer for now. The Board meetings will remain virtual for now. Mr. Goe welcomed Brian Nava and thanked him being part of the Board and thanked the treasury staff for their good work.

Mr. Goe adjourned the meeting at 11:10 AM.

Respectfully submitted,

Jeremy Knowles

Jeremy Knowles
Investment Analyst