



**OREGON
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State of Oregon

Office of the State Treasurer

Telephone Only

OREGON SHORT TERM FUND

January 19, 2022

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, Lisa Pettinati, Sommer May, Scott Robertson, Bryan Gonzalez, Andrew Robertson, Andrey Voloshinov, Kristi Jenkins, Andy Coutu, Alli Gordon
Other Attendees Present:	PFM Asset Management: Chris Trump, Lauren Brant City of Redmond: Brooke Slyter, Jason Neff

The January 19, 2022 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.

II. Review and Approval of Minutes

MOTION: Mr. Goe asked for a motion to approve the October 21, 2021 OSTF meeting minutes. Brian Nava requested a change to the minutes. Mr. Nava said in regard to ESG and SASB, if there were policy changes he would need to go back to the group to discuss and requested "the group" be changed to "Oregon Association of County Treasurers and Finance Officers (OACTFO)". The minutes have since been updated. The Board approved the minutes unanimously.

III. LGIP/OSTF Investment Policy Review

City of Redmond

PRESENTED BY Jeremy Knowles, Investment Analyst Fixed Income Team. Jeremy Knowles reviewed the investment policy for the City of Redmond ("the City"). The City is updating their investment policy which was last brought to the OSTF Board in 2011 and is now updated as of September 2021. The City wishes to adopt a similar policy to the OSTF Board sample policy. The proposed policy includes further defining of investment parameters. The City anticipates managing an amount of funds falling within the scope of this policy over the next year and it is expected to range between \$70 million and \$90 million dollars. Treasury Staff compared the City's draft policy to the most current OSTF Board sample policy. There were few substantial changes recommended by Treasury Staff to the City so it was deemed fine to proceed without revisions. Mr. Knowles reviewed two categories laid out to the City, clarification recommendations that further elaborate on roles and responsibilities and the items related to exposure of repurchase agreements and establishing guidelines for maturity buckets to ensure liquidity goals. The City



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has received this feedback and OST has begun working through possible changes to the City's policy. The City has approved changes for the following:

- The recommendation for governing body section will be included in their policy.
- The recommendation for internal controls and compliance section will be included in their policy.
- The recommendation for broker dealer minimum criteria will be included in their policy and changes will be made to the wording.
- The recommendation for the broker dealer maintenance will be included in their policy and slight changes will be made to improve the wording for their policy.
- The recommendation for investment/advisor criteria will be taken into consideration.
- The recommendation for reducing the corporate debt maximum exposure (currently at limit) will remain at the statute maximum.
- The recommendation for reducing maximum repurchase agreements from 50% to 5% of the portfolio has been accepted and that change has been made.
- The recommendation for reducing municipal debt maximum from 25% to 10% of their total portfolio was reviewed and they are remaining at 25% in their policy.
- The recommendation for security definitions from a single rating (highest security level) is being taken into consideration.
- The recommendation for including verbiage on larger issuance sizes has been reviewed and the City has decided to keep it as is in their policy.
- The City would like to incorporate the recommendation for including exceptions, any items held prior to the adoption of this policy will be kept until maturity or liquidation.
- The recommendation regarding keeping liquidity in their portfolio has been reviewed and they will keep a 60-day operating liquidity operation bucket. Note that nothing in their policy currently indicates additional assets will be kept under a year or within a 3–5-year period.
- Jason Neff expressed his appreciation to the Board for reviewing the City's policy. The City has tripled their cash investments over the last decade from \$30 million to \$90 million dollars. The City has several projects that can look over a 5 year horizon to plan their investments. In their annual budget process, they have 60-day contingencies as well as an operating cash flow requirement for their general fund and recommended matching that in their investment policy from a liquidity standpoint.

Full Treasury Staff Recommendations:

- Recommend reducing corporate debt maximum exposure but limits set are statute maximums so appear reasonable.
- Recommend reducing maximum Repurchase Agreements from 50% to 5% of the portfolio.
- Recommend reducing Municipal Debt maximum from 25% to 10% of portfolio.
- Recommend including Security Rating definition:
 - A single rating will be determined for each investment by utilizing the highest security level rating available for the security from Standard and Poor's, Moody's Investor Services or Fitch Ratings respectively.
- Recommend having some % set as liquid operating expenditures:
 - The value of at least 25% of funds available for investing or [three/six/twelve] months of budgeted operating expenditures will be invested in the Oregon Short Term Fund or investments maturing in less than [30/60/90] days to provide sufficient liquidity for expected disbursements.
- Recommend including more maturity buckets:
 - Under [30/60/90] days > 25% or [three/six/twelve] months Estimated Operating Expenditures
 - Under 1 year > 50% Under [3/5] years > 100%.
- Recommend including reason for pursuing investments with larger issuance sizes:



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- Larger issuance sizes enhance liquidity as there are likely to be a greater number of investors. Issuance sizes above a minimum amount qualify a corporate or municipal debt bond issuance for index eligibility. Index eligible bonds have a significantly larger investor base which improves liquidity. Limiting investment in a specific debt issuance improves secondary market liquidity by assuring there are other owners of the issuance.
- Recommend including section for exemptions:
 - Any investment held prior to the adoption of this policy shall be exempted from the requirements of this policy. At maturity or liquidation, such monies shall be reinvested as provided by this policy.

COMMENTS FROM THE BOARD

- Chairman Goe opened the meeting to Board comments and congratulated the City on their growth over the last decade.
- Brian Nava asked about procedures and if today they can be approved or wait until they come back with the changes. Mr. Goe said the Board will comment on what they think the position is that they should incorporate and the recommendations that they incorporate can be part of the record.
- Deanne Woodring requested clarification on the page the policy starts and noted changes that were not indicated. Jeremy Knowles advised that this is the draft prior to changes being approved and Mr. Knowles will update the Board with the final version reflecting all changes made.
- Deanne Woodring stated the agency issuer is lower than what the OSTF Board is recommending. The City has at 25% and the OSTFB recommended 33%, Ms. Woodring approves increasing if so desired.
- Deanne Woodring asked about the 5-year maximum maturity and is where the 2.5 year average maturity would be extended. The City eliminated their old 30 day, 1 year, 3 year, and 5 year maximums. Ms. Woodring suggested adding liquidity requirements and that they are addressed in the policy to follow best practices, either liquidity buckets such as Treasury Staff recommended or matching to their project allocations.
- Sharon Wojda thanked Jason Neff, the team and Lauren Brant for the work that went into the updates.

IV. LGIP Participants and Operations Overview

PRESENTED BY Cora Parker: Cora Parker thanked the Board for the opportunity to present today. Ms. Parker announced a staffing change, Deputy Director Michael Auman is retiring at the end of the month and Bryan Gonzalez has accepted the Deputy Director position. Our partners Lauren Brant and Chris Trump with PFM Asset Management will be discussing the OSTF Portfolio Overview, outlining the total dollars invested in Oregon Short Term Fund over time as well as the breakout between the local government and state. Today's balances for the Oregon Short Term Fund are just under \$34 billion dollars and the local government component is approximately \$12 billion dollars of that amount.

TOPICS

- Oregon Short Term Fund Analysis
- Participant Breakdown
- Q4 Activity in the Fund
- Transaction Activity
- New & Closed Participants



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Chris Trump reviewed the Participant Breakdown slide for Q4 2021. School Districts, Special Districts and Cities continue to make up about 80% of LGIP's overall assets in the pool. Assets by entity type ended the quarter at approximately \$11.8 billion dollars which is an all-time high. Quarter over quarter, the largest growth was from City Entities and School Districts. Assets continue to hit high water marks and cash flows in the November tax season increased over the past 3 years from just over \$4 billion dollars to approximately \$4.6 billion dollars. Mr. Trump reviewed the Participant Distribution by entity types. Schools continue to make up approximately \$4.2 billion dollars and Cities are about \$3.5 billion dollars. The other entity types contribute about \$494 million dollars.

Lauren Brant reviewed Transaction Activity. Property Tax receipts resulted in a significant increase in Participant-to-Participant transactions particularly relating to the County participants and represented 43% of the overall activity for the pool for the quarter. The number of transactions is in line with historical figures. The total dollar amount of transactions was close to \$24 billion dollars. PFM Asset Management reviewed reporting on service level agreement metrics which are reported to the Oregon State Treasury and they have exceeded all service level metrics for the quarter as well for the year of 2021. Ms. Brant reviewed new and closed accounts. There are 7 new accounts in the most recent quarter, predominantly Special Districts with the majority being operating funds. The Oregon Short Term Fund is still very attractive to new investors as interest continues to increase looking back over the last 2 years.

COMMENTS FROM THE BOARD

- Chairman Goe expressed his appreciation for the presentation.
- Cora Parker clarified on the last slide, the New Participants: Q42021 and Closed Participants: Q42021, these are new members in the pool itself.

V. OSTF Market Overview and Portfolio Update

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

- Snapshot of the Short-Term Fixed Income Markets + OSTF: Still solid value at .45% compared to alternative investments with similar risk for participants.
- 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.
- Top Holdings by Issuer: Focus on credit quality at the issuer level.
- Allocation to floating rate securities has declined by ~2.8% since our last meeting but, in dollar terms, has still increased by ~\$50MM.

Perrin Lim stated the market has shifted from last quarter from a rates perspective. The Treasury rates, especially the front-end lead by 2 year and 3 year treasury bonds have been on the rise in yield, all in anticipation of Chairman Jerome Powell's pivot in October to acknowledge that inflation isn't necessarily transitory but will be addressed head on as this is a concern for many people. They are expediting the Fed tapering process and the latest Fed fund futures call for a hike in the Fed funds rate in March 2022 and anticipate 4 hikes (or more) by the Fed this year by December 2022. Mr. Lim is staying away from new issue fixed rate corporate bonds for now. The Oregon Short Term Fund does have a lot of exposure to Treasury floaters and for the 3-month bill option the basis points rose in one week from 5 basis points to 17 basis points over the winter holiday. The mood in rates has triggered more bias towards adding quality such as Treasuries and Agencies. The goal is to continue to look at AAA Secured Asset Back Securities as a core holding for the fund. The credit market is still in good shape, particularly at the front end. The book yield is currently at 4 basis points and OSTF is paying a return of 45 basis points. The OSTF rate is being adjusted less frequently due to the influx of cash we received in the fall. Ms. Woodring commented about the shift at \$36 billion in state money, there is now 70% state money versus 30% local funds invested. Mr.



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Lim discussed credit quality, the backup and yields scaling into Treasuries is a good option. The goal is to slowly add 2 and 3 year Treasury bonds for duration to the extent possible.

VI. Closing Remarks/Other Items of Business

- Brian Nava commented that Mr. Lim had suggested at the previous meeting that the Fed's would change the word transitory to permanent inflation and stated Mr. Lim was accurate in that hypothesis. Mr. Nava asked about the Cares Act funds and is seeing pressure at the county level to get those funds out now and asked what OSTF foresees as the spending plan. Michael Kaplan responded that in February 2022 we will have more clarity.
- Deanne Woodring commented that with this market change this will be great for entities being able to capture higher yields and every entity has a lot more money than they had 5 years ago. Many entities in Oregon are trying to assess how funds should be invested.
- Perrin Lim commented about the municipal market remaining an issuers market and with new issues and refinancing being on the rise, he has been getting a lot of ideas for the taxable side and it seems like a vibrant and active market whether it be taxable or tax exempt and asked if Mr. Goe agrees with this trend.
- Mr. Goe concurs with Mr. Lim's comments and that the overall taxable issuance was down overall in 2021 compared to 2020. There has been some pull back in some sectors of high yield nationally, however not affecting the Oregon market as much. There has been a strong start to the year in terms of first quarter, there has been a strong slate of refundings, combined new money refundings as well as new issues.
- Mr. Goe thanked everyone for an excellent meeting, good participation and looks forward to seeing everyone at the next board meeting.

Mr. Goe adjourned the meeting at 11:03 AM.

Respectfully submitted,

Jeremy Knowles

Jeremy Knowles
Investment Analyst