State of Oregon
Office of the State Treasurer

Telephone Only

OREGON SHORT TERM FUND

April 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, Bryan Gonzalez, Kristi Jenkins, Andy Coutu, Alli Gordon, Dave Randall, Ken Tennies
Other Attendees Present:	PFM Asset Management: Chris Trump, Lauren Brant, Allison Kaune GPA: Whitney Maher City of Woodburn: Taylor Shephard, Tony Turley, Scott Derickson City of Salem: Jennifer Mattecheck Clean Water Services: Jack Liang

The April 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 January 19, 2022 OSTF meeting minutes. The Board approved the minutes unanimously.

III. LGIP/OSTF Investment Policy Review

Clean Water Services

PRESENTED BY Jeremy Knowles, Investment Analyst Fixed Income Team. Jeremy Knowles reviewed the investment policy for Clean Water Services (CWS). This was a quick policy review as CWS is hoping to separate from Washington County's investments and have their own Go Live by May 9, 2022.

- Recommended changing from 5.25 years to 5 years which will be a common theme across many of their investment maturities.
- CWS is interested in investing in new issues which often have a maturity of slightly beyond 5 years. The expectation is that their policy will be like the sample policy outside of maximum maturities.
- Recommended US Agency obligations change down to 33% from 35%.
    - CWS is comfortable with a slightly higher recommendation and will stay with 35%.
- Recommended reducing their maximums with municipal debts from 25% to 10%.
    - CWS prefers to stay at 25%.

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- Recommended they include an average portfolio credit rating.
  - CWS' current average portfolio rating is AAA and they have individual recommendations in their policy that keep them from going too low and thus do not feel they need an item stating what their average portfolio will be.
- Recommended they address in formal wording how to determine an individual rating.
  - CWS believes they do this well enough in S&P, Moody's and Fitch ratings and feel this is procedural and additional wording is not needed.
- Recommended including verbiage on the importance of issuance size.
  - CWS feels this is procedural and do not need to include it because it is not a requirement.
- Recommended specifying interest rate risk and how this will be mitigated.
  - CWS believes this to be a procedural change and CWS feels is not needed. They address interest rate as a definition and interest rate risk, however, do not address how they will mitigate this in the policy as precisely as OSTF recommends.
- Recommended no commitments to buy or sell securities that may be made more than 14 days prior to anticipated settlement date or receive a fee other than interest for future deliveries.
  - CWS will add this to their policy.
- Recommended specifically addressing callable securities in their policy
  - CWS has in their table a 25% maximum and they are comfortable having it in their table versus written out in the policy.
- Recommended exceptions in the policy, meaning if not currently in the policy it is exempt from the policy.
  - CWS noted that since everything is currently in compliance, they do not feel this is necessary and will bring back to the OSTF board if they deem necessary in the future.

Summary of Key Changes:
Treasury Staff compared CWS' proposed policy to the most current OSTF Board sample policy. There were few substantial changes recommended by Treasury Staff to CWS so it was deemed fine to proceed without revisions. CWS desires maximum maturities slightly beyond 5 years to take advantage of new issues that often have maturities of 5 years and 1 day.

Full Treasury Staff Recommendations:
- Recommend reducing maximum % per issuer for US Agency Obligations to 33% from 35%.
- Recommend reducing maximum % holdings for Municipal Debt from 25% to 10%.
- Recommend including a minimum average portfolio credit rating: The minimum weighted average credit rating of the portfolio's rated investments shall be Aa3/AA-/AA- by Moody's Investors Service; Standard & Poor's; and Fitch Ratings Service respectively.
- Recommend specifying how to determine a security's rating: A single rating will be determined for each investment by utilizing the lowest security level rating available for the security from Standard and Poor's, Moody's Investor Services and Fitch Ratings respectively.
- Recommend elaborating on the importance of issuance size: 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 specifying interest rate risk and how you will mitigate it: Longer-term investments have the potential to achieve higher returns but are also likely to exhibit higher market value volatility due to the changes in the general level of interest rates over the life of the investment(s). Interest rate risk will be mitigated by providing adequate liquidity for short-term cash needs, and by making longer-term investments only with funds that are not needed for current cash flow purposes. Certain types of securities, including variable rate securities, securities with principal paydowns prior to maturity, and securities with embedded options, will affect the interest rate risk profile of the portfolio differently in different interest rate environments. The following strategies will be employed to control and mitigate adverse changes in the market value of the portfolio due to changes in interest rates:

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i. Where feasible and prudent, investment maturities should be matched with expected cash outflows to mitigate market risk.
ii. To the extent feasible, investment maturities not matched with cash outflows, including liquidity investments under one year, should be staggered to mitigate re-investment risk.
iii. No commitments to buy or sell securities may be made more than 14 days prior to the anticipated settlement date or receive a fee other than interest for future deliveries.
iv. The maximum percent of callable securities in the portfolio shall be xx%.

- Recommend specifying maximum callable exposure: The maximum percent of callable securities in the portfolio shall be xx%.
- 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

- Brian Nava stated he does not see the harm in including the ratings in the policy so that it is memorialized and if there are any staff changes the policy would still be in place.
    - Jack Liang requested CSW be able to collaborate with their investment advisor to consider adding this to their next iteration of the policy. Brian is satisfied with Mr. Liang's proposal.
- Brian mentioned the holding for municipal debt from 25% to 10% is a significant change and asked is there a reason or perhaps the Treasury should update our sample policy to reflect the holding.
    - Mr. Liang replied they were looking for more flexibility in the market when looking at municipal debt compared to other investment vehicles.
    - Deanne Woodring stated we are recommending having an increased exposure for CWS and that it be readdressed in the sample policy in the future. The municipal market has transitioned and a lot more taxable bonds are available, giving clients more opportunities to participate in the taxable municipal market and subsequently more options considering the tight agency spreads. It can be used as a diversification tool and allowing up to 25% is the new target we are trying to run for most of the new portfolios to provide additional investment flexibility.
    - Mr. Goe commented he sees more taxable issuance and taxable debt and an option would be to have a bifurcated sample policy for larger investment portfolios versus smaller investment portfolios and the Board should continue to discuss this topic.
- Sharon Wojda echoed Brian's comments, as an issuer it is favorable to have some of the language clarified in the policy. Given the tight timeline this is understandable, however we can make revisions in the future.
- Michelle Morrison asked about the callable securities and mentioned the percent of the portfolio is not specified and asked if we have a recommendation.
    - Jeremy Knowles noted in CWS' table they call for 25% which is higher than we typically like to recommend. While agencies and organizations have gone with higher amounts in the past, we have not explicitly called out what the recommendation should be in the sample policy to invite discussions about the reasonable level for each policy.
- Ms. Woodring said we have in the policy a limit for callable securities, however the portfolio currently does not have any. Few policies they manage utilize a lot of callables, however it is a best practice to include a limit for them. 25% has often been a reasonable level set for policies, however portfolios are rarely managed to that level.

- Mr. Goe recommends including rating requirements in the portfolio when not under tight time constraints as these are intended to be policies that survive individuals and any advisory firm.
- Mr. Knowles highlighted the CWS policy's ESG guidelines included in their investing practices. While there are no set guidelines for the amount to invest, there are some recommendations for what they should not invest in and how they want to proceed in matching their values and mission statement with how they invest.
  - Mr. Goe mentioned this is an exciting development and something the Board will want to discuss and provide guidance in the sample policy going forward.

City of Woodburn

PRESENTED BY Jeremy Knowles, Investment Analyst Fixed Income Team. Jeremy Knowles reviewed the investment policy for The City of Woodburn ("the City"). This is the first time the City of Woodburn has brought their policy before the OSTF Board. The City and had very few investments available to them under their old policy and are ready to expand their investment policy to provide themselves more flexibility on what their investments will be: extending their maturities and matching our sample policy more. The major items they are seeking to add include permitting investments with maturities beyond 18 months, increasing their authorized investment options, adding minimum criteria for investment brokers and firms to outsource some of their investing, and specifying investment parameters, risk mitigation standards, and updating their annual reporting conditions.

- Recommended they include what their expected assets under management will be in their policy; the City's expected range is $72 million to $82 million dollars for the next year.
- Recommended they include verbiage for an investment committee if desired.
  - The City does not feel they need one at this time.
- Recommended specifying criteria for competitive transactions.
- Recommended delivery versus payment protocol, all trades of markable securities will be executed, cleared, and settled by delivery versus payment to ensure that securities are deposited in the City's safekeeping institution prior to the release of funds.
- Recommended specification on cash vehicles and this is demand deposits versus time deposits and more verbiage to sure up their investment policy with regards to where their money is held in what institutions.
- Recommended including verbiage stating the importance of issuance size.
  - The City believes it is not necessary at this time.
- Recommended stating the average portfolio maturity, preferably 2.5 years since their maximum maturity is 5 years for an individual investment.
- Recommended including a section for portfolio exemptions despite there not being any exemptions within the portfolio as of now
  - The City replied they will implement the recommendations where it makes sense and will do some on a procedural basis during the interim. The City reviews this policy annually and will incorporate and memorialize recommendations during the next policy update.

Summary of Key Changes:
As part of the City of Woodburn's Budget Policies & Fiscal Strategy, the Woodburn City Council has adopted an Investment Policy, which gets readopted each year as part of the overall City budget adoption process.

Utilizing the OSTF Board's sample policy for local governments, the City is proposing to adopt an entirely new investment policy to replace and supersede its current policy. The material guideline changes that the City is looking to accomplish through this new policy adoption include the following: (i) permitting investments with a maturity schedule longer than 18 months; (ii) increasing the number of authorized investment options (still as permitted under ORS Chapter 294); (iii) adding guidelines for engaging an outside investment advisor; (iv) adding minimum criteria for investment brokers and firms; (v) specifying

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investment parameters and risk mitigation standards; and (vi) updating quarterly and annual reporting conditions.
The scope of the policy will apply to activities of the City with regard to investing the financial assets of operating funds, capital funds, bond proceeds, and bond reserve funds. The guidelines are intended to be broad enough to allow designated City staff to function properly within the parameters of responsibility and authority, yet specific enough to adequately safeguard the investment assets.

Following this submission for review and comment, it is the City's intention to formally adopt the proposed new Investment Policy through the City Council's budget adoption process in June 2022.

COMMENTS FROM THE BOARD

- Brian Nava likes the recommendation about demand deposits versus time deposits and he suggested delineating between ORS Chapter 295 requirements and ORS Chapter 294 requirements and adding this to the policy to clarify investments versus qualified depositories. Mr. Nava also recommends adding issuance size significance to the policy.
- Chairman Goe recommends on the first page under Governing Authority in the third line where it begins Chapter 294 of the Oregon Revised Statute, changing Statute to Statutes. In the following line, Mr. Goe recommends inserting the word Chapter between ORS and 294.
- Deanne Woodring has a comment for the Board, for the future sample policy reviews, it should be determined what part of actions are procedural versus statute requirement in policy.
    - Mr. Goes likes procedures embedded in policy and looks forward to the future discussion and receiving the Board's input on the matter.

The City of Salem

PRESENTED BY Jeremy Knowles, Investment Analyst Fixed Income Team. Jeremy Knowles reviewed the investment policy. The City of Salem ("the City"). The last time the City was before the board was in 2016 and would like to make a few updates to their policy including a clause involving sustainability and considering ESG factors.

- Recommended oversight body positions or investment committees if they desire to have brokers/dealers or advisors and verbiage regarding what they are looking for pertaining to annual or quarterly reviews or grounds for parting ways with an advisor or broker/dealer.
- Recommendation to include expected scope of funds under management in policy.
- Recommended including the verbiage for the investment committee if they desire to have one in the future and broker/dealer maintenance factors to consider.
- Recommended reducing their maximum repurchase agreements. Currently they are higher than our recommendation of 5% of the total portfolio.
- Recommended including a section for how to determine a securities rating.
- Recommended having a maturity buckets table in the policy. The City has discussed how they want to have liquidity and meet their operating expenditure goals. We recommend have some sort of liquidity buckets so they have specific targets such as under 30 days, 60 days, 90 days, under 1 year, under 3 years, and under 5 years.
- Recommended including verbiage on the importance of issuance size.
- Recommendation section for reserve or capital improvement projects.
- Recommendation for using either par or market value for their guideline measurements.
- Recommendation for having a section to call out exemptions in case there is something under management now they wish to exempt from their policy updates.
- Jennifer Mattecheck with the City stated she would like to review these recommendations and would strongly consider implementing during their annual policy review as this has been approved by their city

council, pending any feedback from the board.

Full Treasury Staff Recommendations:
The City of Salem ("the City") is updating their investment policy which was last brought to the OSTF Board in 2016. The City wishes to adopt a policy like the OSTF Board sample policy. The proposed policy includes further defining of investment parameters and including a clause to invest sustainably and consider environmental, social, and governance ("ESG") factors. The approximate amount of funds falling within the scope of the Policy over the next year is expected to range between $80 million and $115 million. The approximate amount of funds falling within the scope of the Policy over the next three years is expected to range between $182 million and $300 million.

Summary of Key Changes:
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.

Treasury Staff Recommendations:

- Recommend reducing maximum repurchase agreements to 5% of total portfolio.
- Recommend including section for determining a security's rating:
    - 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 specifying more maturity buckets such as the below:
    - 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 section on the importance of issuance size:
    - 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 reserve or capital improvement projects:
    - Pursuant to ORS 294.135(1)(b), reserve or capital Improvement project monies may be invested in securities exceeding three years when the funds in question are being accumulated for an anticipated use that will occur more than 18 months after the funds are invested, then, upon the approval of the governing body of the county, municipality, school district or other political subdivision, the maturity of the investment or investments made with the funds may occur when the funds are expected to be used.
- Recommend specifying guideline measurement:
    - Guideline Measurement will use par value of investments.
- 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

- Brian Nava commented about the broker/dealer review that his legal council discussed having something of this nature in their policy. Although they have a lot of latitude with the broker/dealer section and how they are selected, Mr. Nava strongly supports this recommendation. In terms of the recommendation regarding liquidity buckets, the top priorities for investments are typically safety of principal, liquidity for operating expenses, and yield to grow the portfolio and having some established buckets for where the money is placed can help safeguard necessary liquidity.

- Perrin Lim commented on Authorized Investments, Section 6, page 49, under Repurchase Agreements, that Eligible Collateral is limited to 3 years for treasuries and government agencies. Mr. Lim suggested this could be edited since there is no maturity constraint and adjusting to 3 years, 3 months or 30 years is going to perform or be the recipient of a sudden bid in terms of collateral for repurchase agreements. Mr. Lim commented that 3 years may be somewhat constraining in terms of treasuries and government agencies in terms of collateral for repurchase agreements, however any changes are up to the Board and the City.

IV. LGIP Participants and Operations Overview

PRESENTED BY Cora Parker: Cora Parker thanked the Board for the opportunity to present today. Ms. Parker presented a brief portfolio overview. Our partners Lauren Brant and Chris Trump with PFM Asset Management discussed 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 approximately $31.6 billion dollars and the local government component representing approximately $11.5 billion dollars of that amount. Chris Trump reviewed the Participant Distribution and Participant Breakdown for School Districts, Special Districts and Cities which continue to make up about 80%-85% of LGIP's overall portfolio assets. Mr. Trump shared they are launching a new online platform formally known as EON and will now be called Connect, coming to participants in mid-May. Lauren Brant reviewed Transaction Activity, Service Level Report Metrics and New & Closed Participants.

TOPICS

- Oregon Short Term Fund Analysis
- Participant Breakdown
- Participant Distribution
- Transaction Activity
- SLA Report Metrics
- New & Closed Participants
- Connect is built from the ground up for their clients, formerly EON (Easy Online Network)
- Re-Imagining LGIP's Online Client Experience

COMMENTS FROM THE BOARD

- Chairman Goe expressed his appreciation for the presentation and opened the meeting to Board comments and questions.
- Brian Nava commented that his staff was not aware of the change from EON to Connect but does not anticipate it will not be a significant change. Mr. Nava would like to get a message out to all the county treasurers and finance officers via the various groups he is affiliated with so they are aware of this change.
- Bryan Gonzalez replied that finance and PFM Asset Management have been discussing this rollout and are planning a communication to all participants, there will be a message in their newsletter

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later this week and then targeted emails going out to participants as they approach the go-live date. The new platform Connect will be a minimal change from EON however it should provide more flexibility. PFM Asset Management Client Services staff will be available to answer any questions from participants.

V. OSTF Market Overview and Portfolio Update

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

- Market Update
    - Domestic:
        - Upcoming Inflation Prints
        - Yield Curve Inversion Fears
        - Fed Tightening & Balance Sheet Runoff
        - Rising Mortgage Rates
        - Earnings Guidance
        - Midterm Elections
    - Global:
        - Ukraine/Russia conflict
        - Rising Prices: gas/diesel, metals, fertilizer, food, etc. (and growing inflation protests)
        - Global Bond Rout
        - China COVID Lockdowns including Ports
        - Continued Chinese Property Crisis
        - Weakening Global Consumer Confidence
- Inflation: Consumer Price Index – March 2022 Core CPI surging at fastest pace since 1982.
- Inflation: UN Food and Agriculture World Food Price Index: +12.7% in March.
- Inflation: Housing Prices & Mortgage Rates.
- Widely followed yield curve slope inverted in late March/early April but now positive.
- Fed Funds Futures: 4/8/22 compared to 12/31/21.
- Snapshot of the Short-Term Fixed Income Markets + OSTF: At 0.65% and gradually catching up to massive re-pricing in market.
- OSTF Portfolio Overview: Liquidity Schedule, Floating Rate Breakdown & OSTF Effective Ratings
- Sector allocation and duration positioning continue to drive total return performance.
- On a YTD basis, the OSTF has increased allocations to Treasuries and ABS from Corporates.
- Continued focus on credit quality at the issuer level.
- Floating rate securities have been a core position for 15+ years and will continue to be a focus, especially in the current environment.

VI. Closing Remarks/Other Items of Business

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- Deanne Woodring noted for the Board, on page 172, regarding the Fund NAV/OSTF Balances on February 28, 2022, it was holding up quite well at 0.9956 because of the floaters. Ms. Woodring stated we are seeing other funds throughout the country that do not have the floating rate exposure or are primarily in treasuries and agencies and breaking 98 ½ to 98 since they are longer duration portfolios.
- Brian Nava echoed what Perrin Lim had stated about calling out the amount of cash that's in the fund and his iteration is what Mr. Lim pointed out that the county, specifically Clackamas County, had more cash than they have ever had at this time of the year and the guidance is lagging so they are needing to hold their funds because they do not want to spend their general funds. Perrin pointed out that we'll see those funds drop significantly in the near future because we have upcoming guidance on how to spend them. Brian proposed a question to Mr. Lim as to what he sees in terms of the bust or boom, assuming we stick with the baseline or a recession and things of that nature.
- Perrin Lim commented in regard to getting inflation under control, that if the Fed maintains their current resolve, that would potentially mean that a soft landing for the economy will be a lower priority than bringing down high inflation. Mr. Lim believes we will see a trickle down but is not sure of the timeline, the situation in Ukraine can impact this timeline and the shape of the treasury yield curve can also be a potential indicator of potential turbulence ahead.
- Brian Nava referenced PFM Asset Management's rollout for Connect and stated that they have converted many of their local governments to get an LGIP account or using an electronic deposit and recommends folks access funds electronically versus having a check sent.
- Perrin Lim also noted that regarding callable agencies and determining the correct number for a policy, this would also include corporates that are issued and available in the secondary market that are also called. If there would be a limit on any callable agencies, it should not exclude any potential callable corporates as well.
- Deanne Woodring responded to Mr. Lim's comment that the structure of the callables in agencies is more rate exposed as opposed to the corporate callables which tend to be more about financing and thus not as predictable and it is a good idea for people to review as more corporates are added that have callable exposure.
- Mr. Goe thanked everyone for an excellent meeting and looks forward to seeing everyone at the next Board meeting.

Mr. Goe adjourned the meeting at 11:53 AM.

Respectfully submitted,

Jeremy Knowles

Jeremy Knowles
Investment Analyst