



**OREGON
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State of Oregon

Office of the State Treasurer

Telephone Only

OREGON SHORT TERM FUND

October 24, 2023

Meeting Minutes

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

Staff Present: Rex Kim, Jeremy Knowles, Tan Cao, Alli Gordon, Rupa Raman, Will Hampson, Bryan Cruz González, Andy Coutu, Scott Robertson, Kristi Jenkins, Debra Day, Michael Makale, Dave Randall, Ericka Langone, Ken Tennes, John Lutkehaus, Karl Cheng, Jo Recht, Roy Jackson, Jamie McCreary, Bryson Pate

Other Attendees Present: PFM Asset Management: Lauren Brant
Central Oregon Community College: Michael LaLonde
Oregon Secretary of State: Sarah Anderson, Hannah Creighton
Aon: Raneen Jalajel

The October 24, 2023 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 July 25, 2023 OSTF meeting minutes. The Board approved the minutes unanimously.

The Board voted next year's Oregon Short Term Fund meeting dates and the dates were approved unanimously. The 2024 dates are as follows:

- Tuesday, January 30th; Tuesday, April 23rd; Tuesday, July 30th; Tuesday, October 29th

III. LGIP/OSTF Investment Policy Review

Central Oregon Community College

PRESENTED BY Tan Cao, Investment Analyst Fixed Income Team. Tan Cao reviewed the investment policy for Central Oregon Community College ("COCC"). COCC wishes to adopt a policy similar to the OSTF Board sample investment policy in all aspects, with the addition of explicitly including Oregon Local Government Intermediate Fund (OLGIF) as an authorized investment. The amount of funds falling within the scope of this policy over the next three years is expected to range between \$30 and \$50 million.

Summary of Key Changes:

Treasury Staff compared COCC's proposed policy to the most current OSTF Board sample policy. There



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were no changes recommended by Treasury Staff to COCC, as the proposed policy closely mirrors the current OSTF Board sample policy and the inclusion of OLGIF as an authorized investment was approved by Staff. As such, it was deemed fine to proceed without revisions for the board to review.

COMMENTS FROM THE BOARD

- Michael LaLonde, Vice President of Finance and Operations, Central Oregon Community College, indicated that no investment policy appeared to have been previously submitted to the Board for review. Mr. LaLonde reviewed and discussed with Treasury staff as to what would be permissible. Mr. LaLonde noted that the intention for the review request was to make COCC's investment policy more robust, as their current policy references an individual to maintain the investments daily, which does not exist at the community college. In addition, Mr. LaLonde wanted to make sure the investment policy was reviewed by the Board.
- Deanne Woodring stated that the policy looks good, and suggested a minor revision in the policy under the Investment Municipal Adviser section which references using broker/dealers and advisors. Ms. Woodring's suggestion was to change Investment Municipal Adviser to Investment Adviser for clarity and consistency with other sections. Also, the sample policy had some approved updates from the previous board meeting and does not appear to be updated yet. Treasury staff noted they are in the process of updating the sample policy and will work with COCC if any changes need to be made regarding updates/substitutions to the descriptors.
- Chairman Goe thanked Mr. LaLonde for submitting the policy.
- Mr. LaLonde inquired if COCC should resubmit the policy with Ms. Woodring's suggested revision and Chairman Goe replied that either way would be acceptable.

IV. OLGIF & OSTF Audit Results

PRESENTED BY Sarah Anderson, Manager and Hannah Creighton, Senior Auditor with the Oregon Secretary of State. Sarah Anderson and Hannah Creighton conducted a high-level review of the OLGIF & OSTF Audit Results. Hannah Creighton is the Senior Auditor in charge of the Oregon Short Term Fund (OSTF), the Oregon Local Government Intermediate Fund (OLGIF) and the Oregon Intermediate Term Pool (OITP) for the fiscal year 2023 statewide audit that the Secretary of State office conducts every year and Sarah Anderson oversees the audit for the Treasury. Ms. Creighton stated that the reporting results were the same for the Oregon Short Term Fund and the Oregon Local Government Intermediate Fund which were issued a clean opinion for fiscal year 2023. The following presentation topics were reviewed:

- Financial Statements for the year ending June 30, 2023
- Independent Auditor's Report including Financial Statements
- Statement of Net Position
- Statement of Changes in Net Position
- Notes to Financial Statements
- Report on Internal Control over Financial Reporting and on Compliance and Other Matters

COMMENTS FROM THE BOARD

- Chairman Goe referenced the section titled Management Representations and the language that states "This communication is intended solely for the information and use of the Oregon Investment Council and management of the Oregon State Treasury and is not intended to be and should not be used by anyone other than these specified parties." Mr. Goe asked if that paragraph could be expanded as it has historically to include the Oregon Short Term Fund Board as an addressee was able to rely on that audit report.
 - Sarah Anderson replied that she will go back to review the documentation and this could be a typo. Ms. Anderson stated that this is intended for the Oregon Short Term Fund Board as well.



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- Ms. Creighton and Ms. Anderson thanked Debra Day's team, the Banking Division and all of the Treasury staff who assisted with questions and documentation for their requests.
- Brian Nava asked that since the Oregon Short Term Board was replaced with the Oregon Investment Council, if this will be both entities or one in terms of governance.
 - Ms. Anderson replied that it should be both the Oregon Short Term Board and the Oregon Investment Council. The language will be corrected on next year's audit report.
- Chairman Goe thanked the audit team for their review and good work and looks forward to next year's audit review.

V. LGIP Participants and Operations Overview

PRESENTED BY Bryan Cruz González: Bryan Cruz González thanked the Board for the opportunity to present today. Mr. Cruz González presented a brief portfolio overview. The State portion of the Oregon Short Term Fund has continued to grow while the Local Government portion has continued to diminish which was expected as we are at the end of the spend-down cycle from last November's property tax collection. Our partner Lauren Brant with PFM Asset Management discussed the OSTF Portfolio Overview. Ms. Brant reviewed the Participant Distribution and Participant Breakdown for School Districts, Special Districts, Counties, Cities and Other. School Districts, Special Districts and Cities make up 78% of LGIP's overall portfolio assets. Ms. Brant reiterated that the Local Government Portion is down and year-over-year assets are down about \$350 million due to a significant increase in one-time funds related to the pandemic and they are starting to see entities spend that down. Net Cash Flows are pacing about the same as the prior calendar year. Special Districts are part of the largest component of the Local Government Investment Pool and several have been added to the program this quarter, totaling 499 participants. The total number of participants is 1,066 with 1,870 accounts as part of the pool. Regarding Transaction Activity, about 95% of all transactions by participants are done online which is the highest of all the local government pools that PFM Asset Management works with around the country. Regarding Historical Number of Transactions, the trend for Participant to Participant activity is expected to increase in the 4th quarter with property tax receipts coming in. The Number of Transactions quarter-over-quarter was slightly lower at 11,333 but the allocation of transaction types were similar to last quarter. Total dollar amount of transactions for the quarter was \$7,926,656,476. PFM Asset Management has a Service Level Agreement with the Oregon State Treasury and each month they report to Treasury about their service level agreement standards and other metrics. Year to date, all the performance metrics are above target, less the one disruption in August which was brief and communicated to Treasury. There were no closed participants for the period and 11 new participants added, with Special Districts amounting to 10 out of the 11. The customer service team for PFM Asset Management had a couple of promotions within that department and the LGIP pool participants will continue to receive stellar customer service. PFM Asset Management will soon have a new email address with further communication to come.

TOPICS

- Oregon Short Term Fund Analysis
- Participant Breakdown
- Participant Distribution
- Transaction Activity
- SLA Report Metrics
- New & Closed Participants

COMMENTS FROM THE BOARD

- Bryan Wolf asked about the onboarding process for new participants. Specifically, what level of diligence is done? Also, what is the catalyst for gaining several new Special Districts during the quarter?



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- Bryan Cruz González responded that eligibility for the pool is set in statute. Treasury works with the Department of Justice to interpret the provisions that are captured in Chapter 294 and if an entity is interested in participating, they would submit an application with supporting materials which comes through PFMAM. The application and supporting materials are then turned over to Treasury staff who reviews the applications. With new types of entities established regularly, PFMAM works with the Department of Justice to determine eligibility. Once deemed eligible, PFMAM opens the account and moves forward with the process.
- Mr. Cruz González stated that there are several reasons for the increase in new Special Districts. Many entities participate specifically because of property tax distributions they made through the pool for the tax turnover purpose. New Special Districts are continually being created.
- Chairman Goe inquired about the Treasury/DOJ's review pertaining to the level of diligence performed for new participants and whether, for example, creation or election documents are reviewed.
 - Mr. Cruz González replied that it is dependent on the type of entity. With a straightforward entity an in-depth review is not needed, however with a more novel entity, they take a deeper dive into the creation and foundational documents, this happens most often with intergovernmental entities.
- Brian Nava thanked Bryan Cruz González and Lauren Brant for attending the Oregon Association of County Treasurers and Finance Officers (OACTFO) conference. Mr. Nava commended Mr. Cruz González on his excellent presentation on ORS 295 Collateralization Rules. Mr. Nava asked if there was a list that exists with all the districts in the state who are eligible to be included in the LGIP so that the Board could provide awareness and present this to them as an option?
 - Mr. Cruz González replied there is no state level entity that is responsible for tracking all governmental bodies within the State of Oregon. Several associations such as OACTFO have a register that could be leveraged, however it is more challenging with Special Districts. Another resource would be through the Secretary of State who collects municipal audits and they have a tool on their website where a search can be applied to find the entities who are submitting the audits.
- Mr. Nava also noted a good resource when updating financial statement notes is from Treasury's information statement that is put out annually and he found the most recent financial statement dated July 26, 2023 particularly helpful.
- Chairman Goe thanked PFM Asset Management and staff for the excellent overview.

VI. OSTF Market Overview and Portfolio Update

PRESENTED BY Rupa Raman, Senior Investment Officer, Fixed Income and Will Hampson, Investment Officer, Fixed Income:

Rupa Raman and Will Hampson presented the market overview and OSTF Portfolio update:

- Macro data has been stronger than expected.
- Treasury Supply putting upward pressure on rates.
- TBill supply has kept upward pressure on short rates.
- Inflation – core still high, trending down.
- Snapshot of the Short-Term Fixed Income Markets + OSTF.
 - At 5%, the Gap to Fed Funds has closed significantly as the pace of Fed hikes has slowed from the initial historic pace.
- OSTF Objectives: Capital Preservation and Income Generation.
 - Ms. Raman noted the highlighted descriptors for the portfolio, both the rating and duration, are elements of keeping a high quality, safe portfolio. Over 70% of the investments are less than 90 days and close to 60% are floating rate. OSTF has a AA rating that you can see dropped in the most recent month because of the US rating downgrade.



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- Participant Rate – 5% as of October 16th
 - Ms. Raman presented an overview on the calculation of projected book yield and participant rate. Book yield is the projected yield for the month or put another way, the income expected from all the securities bought. Book yield has variability. Part of the reasons why are because a lot of securities (in the portfolio) are floating rate debt that reset and a lot of securities are asset-backed securities with prepayment profiles that are predicted but could be different in actuality. As such, the actual income that comes in could be different from the book yield. When we set participant rate, it is based on that projection we expect but the actual income that comes in could be different. The differential is used to pay fees and build the allowance account, which is set at 41 basis points of NAV (net asset value).
- Floating rate securities have been a core position for 15+ years and will continue to be a focus especially in the current environment.
- On a YTD basis, the OSTF has increased allocations to Treasuries and ABS from Corporates.
- Continued focus on credit quality at the issuer level.
- Sector allocation and duration positioning drive total return performance (over & under).

COMMENTS FROM THE BOARD

- Deanne Woodring noted the 5% OSTF participant rate is great and referenced bills paying 5.40% in the 1-month sector and asked whether the 41 basis point clip is keeping the OSTF rate at 5%?
 - Rupa Raman replied it is part of the differential between projected and realized income. Whatever the differential is goes to build up the 41 basis points for the allowance account. For clarity, Ms. Raman noted that the allowance account was set at \$137 million as of June 30th and we're currently at \$116 million. Over the course of this year OSTF has been building that allowance.
 - Will Hampson added that unrealized losses in a fixed income portfolio is another factor to consider. With OSTF at 0.37 years of duration (4 ½ months), one could expect the paid rate on OSTF to be lagging market rates like the bills that was noted to yield 5.40%. One could expect a somewhat similar 4 ½ month lag from what we're able to pay versus what is available on the market for new money because we need time to pass for the unrealized losses that were built up through this rapid rise in rates to payoff so it could be reinvested at higher yields. Mr. Hampson offered a contrasting example and noted that OSTF paid above-market rates from 2019 through 2021, as the fund had large unrealized gains that allowed them to continue to pay elevated yields even though market rates were substantially lower. This is just the other side of that coin of rates going up so rapidly.
- Ms. Woodring asked if that allowance (or reserve balance) moves based on the size of the pool and if that is why it is getting bigger?
 - Ms. Raman said the reserve balance is set every June 30th based on the size of the pool. Ms. Raman clarified Treasury has \$15 million remaining to be at 41 basis points and that it does not necessarily come in on any given month. The differential between participant rate, projected yield and actual income coming in is used when building the allowance. When the actual income is higher it can be allocated towards the allowance.
- Ms. Woodring also asked if the asset-backed securities are dragging yield performance?
 - Mr. Hampson replied that he does not believe so and stated a large percentage of OSTF's ABS exposure is in A1 tranches in prime auto deals which is about 0.20 WAL (weighted average life) or half of the overall fund duration, so very short duration in nature. Possible drags would be longer duration items that were bought between 2020 and 2021 when rates were pinned at 0%. For example, a 3-year Honda corporate that yielded 0.50% was better than 0% during that period, but compared to today it looks a lot less attractive when the same security and term is yielding 6.50%.



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- Ms. Woodring mentioned to the Board and referenced her comments from the last board meeting that in comparison to OSTF, other state pools like Washington and New Mexico that are managed to a much shorter mandate with less exposure in the asset classes, are running at 5.35% to 5.40%, which is close to the Fed Funds Rate. Comparably, this is not bad and Treasury has always done well in the lower rate environment and you capture that spread. Ms. Woodring pointed out to the Board that this is the catch-up time that happens when we get these aggressive Fed moves. Ms. Woodring noted that Staff is doing great getting it up there and that it would be expected to be slower on the upside and then you get locked-in again.

VII. Closing Remarks/Other Items of Business

- Mr. Goe thanked everyone for an excellent meeting.

Mr. Goe adjourned the meeting at 11:18 AM.

Respectfully submitted,

Alli Gordon
Executive Support Specialist