State of Oregon
Office of the State Treasurer

Telephone Only

OREGON SHORT TERM FUND

January 30, 2024

Meeting Minutes

Members Present:	Douglas Goe, Michael Kaplan, Deanne Woodring, Sharon Wojda, Brian Nava, Bryan Wolf
Staff Present:	Rex Kim, Louise Howard, Tan Cao, Will Hampson, Perrin Lim, Alli Gordon, Cora Parker, Bryan Cruz González, Andy Coutu, Scott Robertson, Kristi Jenkins, Michael Makale, Dave Randall, Ken Tennies, John Lutkehaus, Karl Cheng, Jeremy Knowles, Bryson Pate, Jennifer Kersgaard, George Naughton, Wil Hiles
Other Attendees Present:	PFM Asset Management: Lauren Brant City of Heppner: John Doherty City of Oregon City: Matt Zook, Jennifer Waverly Portland Community College: Beth (Mela) Lewis, Michelle Brown, Dina Farrell, Eric Blumental GPA: Whitney Maher, Rashad Masri, Mitch Henke

The January 30, 2024 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 24, 2023 OSTF meeting minutes. The Board approved the minutes unanimously.

III. LGIP/OSTF Investment Policy Review

City of Heppner
PRESENTED BY Tan Cao, Investment Analyst Fixed Income Team. Tan Cao reviewed the investment policy for the City of Heppner. The City wishes to adopt a policy similar to the OSTF Board sample policy. This is the first policy for the City and their first submission to the OSTF Board for review. The amount of funds falling within the scope of their policy over the next three years is expected to range between $500,000 and $2 million.

Summary of Staff Review:

Treasury Staff compared the City's proposed policy to the most current OSTF Board sample policy. There was one change recommended by Treasury Staff to the City of Heppner and it was deemed fine to proceed without revisions for the OSTF Board to review.

Treasury Staff Recommendation:

- Recommend reducing the maximum percent of callable securities to 25% from 75%.

COMMENTS FROM THE BOARD

- John Doherty commented on the recommendation to reduce the maximum percent of callable securities to 25% from 75%. Mr. Doherty expressed interest in flexibility on bonds and other investments. When searching for bonds, the City looks for securities with a call date that is closer to the actual maturity or several months before, particularly with longer dated bonds. Mr. Doherty mentioned concerns that shorter term securities could result in lower rates of return on some of their investments.
- Bryan Wolf asked why the callable limit was put at 25% in the sample policy.
    - Will Hampson replied that the limit was related to the traditional extension risk of a callable security. For example, a 3-year call date on a 10-year maturity bond might not be called when interest rates go up, so the bond one thinks is a 3-year bond could turn into a 10-year bond and price goes down (due to higher yields). That optionality could cut both ways in exchange for yield. Many local governments have an interest in securities that have a high likelihood of being called and conflict can arise with the level of optionality. Historically, there has been discussion on the appropriate size of the callable securities, however 25% is the level that the board has been recommending.
    - Deanne Woodring also commented on the callable securities limit. The Government Finance Officers Association recommends that callable securities stay around the 25% target, and the Government Investment Officers Association is another national organization that is also constraining that callable percentage. The reason is related to the duration movement of callable securities within the portfolio, like Mr. Hampson explained. They are negatively convexed, so when interest rate go up they get extended and when interest rates go down they get called. By having the portfolio heavily weighted in callable securities, the duration gets shifted in the opposite direction of the intended outcome. For example, if the goal is to lock in yields today using a 5- or 3-year callable instrument, and then rates go down 100 basis points, that 4% yield will go away. The 25% callable security limit is a national level to control that risk. Often, our broker/dealer communities will primarily show callable bonds because they have a higher commission on them so you tend to only see them. Thus, it is important to be able to differentiate the value in the portfolio which is where that restriction came from.
    - Chairman Goe echoed his colleagues' comments as to why the callable amount is set at 25% in the sample policy and mentioned the City may have their own reasons for deviating from that policy.
- John Doherty mentioned that regarding callable securities, the City had not been looking at longer dated investments. The City has been primarily looking at bonds that are maturing within an 18-month period and are looking at shorter term investments in terms of how it relates to the need to access the funds for the City's short term infrastructure projects.

City of Oregon City

PRESENTED BY Tan Cao, Investment Analyst Fixed Income Team. Tan Cao reviewed the investment policy for the City of Oregon City. The City wishes to adopt a policy similar to the OSTF Board sample policy. This is the first policy for the City and their first time submitting to the OSTF Board for review. The amount of funds falling within the scope of this policy, on an annual basis, range between $10 million and $40 million.

Summary of Staff Review:
Treasury Staff compared the City's proposed policy to the most current OSTF Board sample policy. There were few substantial changes recommended by Treasury Staff to the City of Oregon City so it was deemed fine to proceed without revisions for the OSTF Board to review.

Main Items:

- Recommend including Repurchase Agreements in the authorized list of investments or remove references to Repurchase Agreements in the Maximum % Holdings.
- Recommend adopting the sample policy language on performance evaluation:
    - At least annually, the Investment Officer shall report comparisons of investment returns to relevant alternative investments and comparative Bond Indexes. The performance of the portfolio should be compared to the performance of alternative investments such as available certificates of deposit; the Oregon Short Term Fund; US Treasury rates; or against one or bond indices with a similar risk profile (e.g., Bond indexes comprised high grade investments and maximum maturities of three or five years).

      When comparing performance, all fees and expenses involved with managing the portfolio shall be included in the computation of the portfolio's rate of return.
- Recommend adopting a more frequent performance pricing policy:
    - The market value of the portfolio shall be calculated at least quarterly and a statement of the market value of the portfolio shall be issued at least quarterly.

Minor Items:

- Recommend including "and qualified" in the sentence regarding delegation of authority:
    - The Investment Officer, with the consent of the City Manager, may further delegate the authority to invest City funds to additional and qualified City Finance personnel.
- Recommend replacing "consideration" with "diligence" in section VI. Transaction, counterparties, investment Advisors, and Depositories:
    - Any firm is eligible to make an application to the Investment Officer and upon due diligence and approval, will be added to the list.

COMMENTS FROM THE BOARD

- Matt Zook expressed he appreciates the comments and recommendations made by Treasury staff. The City has already agreed to most of the recommendations and made redline changes to their policy. The only item the City did not adopt was the quarterly mark-to-market timing recommendation and kept the annual timeframe, as initially submitted. Additionally, the City made a word change from periodically to annually within reporting section of the policy. Mr. Zook noted the City does not desire to do a lot of exotic investing, and the primary reason for bringing their policy to the Board for review is because they are maxed out at the Local Government pool and desire to go beyond that. In the City's current environment, they do not issue much debt and have a charter limitation that prevents the City from issuing debt without a vote of the people, therefore do not have any debt that they are looking to invest. The City currently has a WIFIA loan on a reimbursement basis and do not anticipate having a lot of funds on hand to invest all at once.
- Deanne Woodring expressed that the policy looks great. Ms. Woodring recommended removing "Municipal" in the title of sub-section iv under the Delegation of Authority and Responsibilities section, as municipal is overseeing bond proceeds and investment of bond proceeds. Ms. Woodring approves of the language for Marking to Market and noted that it meets the requirement of GASB to report the mark-to-market annually.
- Mr. Goe thanked Mr. Zook and his team for submitting their policy and commended staff for their work on the policy as well.

OREGON STATE TREASURY

Portland Community College

PRESENTED BY Tan Cao, Investment Analyst Fixed Income Team. Tan Cao reviewed the investment policy for Portland Community College ("PCC"). PCC wishes to update their policy and decided to start from the ground up utilizing the most current OSTF Board sample policy. PCC's investment policy was last reviewed by the OSTF Board in 2014. The amount of funds falling within the scope of this policy over the next three years is expected to range between $500 million and $830 million.

Summary of Staff Review:
Treasury Staff compared PCC's submitted policy to the most current OSTF Board sample policy. There were few substantial changes recommended by Treasury Staff to PCC so it was deemed fine to proceed without revisions for the OSTF Board to review.

Main Items:

- Recommend reducing Maximum Maturity to 5 years and including note to specify from settlement date:
    - The maximum stated final maturity of individual securities in the portfolio shall be five years from its settlement date, except as otherwise stated in this policy.
- Recommend utilizing the lowest security level rating available and how to determine one:
    - 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 adopting a more frequent performance pricing policy:
    - The market value of the portfolio shall be calculated at least quarterly and a statement of the market value of the portfolio shall be issued at least quarterly.

Minor Items:

- Recommend including Certification requirement for all approved Investment Advisers:
    - Certification, by all of the adviser representatives conducting investment transactions on behalf of this entity, of having read, understood and agreed to comply with this investment policy.
- Recommend adding Liquidity Risk definition in the glossary of terms:
    - Liquidity risk is the risk that an investment may not be easily marketable or redeemable.
- 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.
- Recommend defining interest rate risk:
    - 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.
- Recommend adopting the sample policy language on Policy Adoption and Amendments:
    - This investment policy and any modifications to this policy must be formally approved in writing by the [Designated Oversight Body or Position] of [Local Government].

COMMENTS FROM THE BOARD

- Bryan Wolf asked if the recommendations were adopted by PCC?
  - Tan Cao replied that staff has been working with PCC and their investment policy is a work in progress.
- Whitney Maher with GPA expressed that they are PCC's investment advisor and available for questions.
- Dina Farrell commented on:
  - "Recommend reducing Maximum Maturity to 5 years and including note to specify from settlement date: The maximum stated final maturity of individual securities in the portfolio shall be five years from its settlement date, except as otherwise stated in this policy." Ms. Farrell expresses that PPC typically does not invest as far out as 5 years and anticipates adhering to the maximum maturity of that duration. Extending to 5.25 years will provide additional flexibility to participate in new issue securities that may have maturity of 5 years and 3 weeks for example versus being constrained to offers that may not provide the benefits of an execution over that long duration. PCC will update to specify from the date of settlement rather than from the date of purchase.
  - "Recommend utilizing lowest security level rating available and how to determine one: 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." Ms. Farrell stated that PCC uses the highest rating available which was recommended by their investment advisor.
  - "Recommend adopting a more frequent performance pricing policy: The market value of the portfolio shall be calculated at least quarterly and a statement of the market value of the portfolio shall be issued at least quarterly." Ms. Farrell commented that market value is included as a part of PCC's portfolio reporting to take place at least quarterly. The mark-to-market is completed annually by PCC's accounting team and recorded in their financial reporting.
- Brian Nava echoed the recommendation to adjust from the highest to lowest security rating.
- Chairman Goe mentioned a minor inconsistency with the word Section appearing after ORS and recommends either keeping Section everywhere it appears throughout the policy or deleting the word Section all together. Mr. Goe thanked PCC for bringing their excellent policy to the board.
  - Ms. Farrell stated PCC will amend the policy to make references to ORS Section consistent.

IV. Review Sample Investment Policy/Discussion of ESG Language

PRESENTED BY Perrin Lim, Investment Officer, Fixed Income. Perrin Lim discussed the Oregon Short Term Fund Board's Sample Investment Policy for Local Governments, specifically determining the ESG language for the Environmental, Social, and Governance Factors portion of the policy. Once the language is approved, staff will upload the updated policy to the OSTF Board website. The two proposed options are below. ESG language has been embedded into the risk section of the Sample Policy document providing two separate options for language, the first draws on language from the Oregon Investment Council Statement of Investment Beliefs and the second allows for more of an impact orientation if that is what the local government or agency selects based on their level of statutory flexibility.

Environmental, Social, and Governance Factors
(Choose yes or no to include. If yes, consider only i. or both i. and ii.)
i. The integration of Environmental, Social and Governance ("ESG") factors, similar to other investment factors, may have a beneficial impact on the economic outcome of an investment and aid in the assessment of risks associated with that investment. The consideration of financially material ESG factors within the investment decision-making framework may be important in understanding the near-term and long-term impacts of investment decisions, and may be an important step towards building a more sustainable portfolio.

OREGON STATE TREASURY

ii. (Consider adding the following language in addition to the above.) To the extent consistent with our fiduciary responsibility, we also seek to understand what effects our investments may have and identify ways we can enhance the positive impact of our investments and help mitigate the negative impact.

COMMENTS FROM THE BOARD

- Deanne Woodring likes having the two options.
- Brian Nava stated the language looks good and suggested being more specific where the language states "Choose yes or no to include", adding that this language is optional to include.
- Bryan Wolf echoed Mr. Nava's comments. Mr. Wolf added possibly omitting the first sentence, "The integration of Environmental, Social and Governance ("ESG") factors, similar to other investment factors, may have a beneficial impact on the economic outcome…" because the word "may" implies this being more of an option statement versus being empirically decided.
  - Michael Kaplan commented that it would be beneficial to provide optionality. Mr. Kaplan expressed that either striking the first sentence or providing more explicit optionality would be reasonable.
  - Mr. Lim liked Mr. Nava's suggestion and stated he believes it makes more sense to keep the first sentence and language in the policy.
  - Ms. Woodring stated that this is a highly controversial topic, the benefits of ESG versus the benefits of the investment. Ms. Woodring also suggested adjusting the language to "may or may not."
  - Sharon Wojda echoed Mr. Woodring's comment and supports amending the language to "may or may not" for more clarity.
  - Chairman Goe supported the suggestion to keep the first sentence and add "may or may not" and to recirculate to the board if other changes are made.

V. OSTF Board Notification Update: INV 303: Short Term Investments: Portfolio Rules

PRESENTED BY Will Hampson, Investment Officer, Fixed Income. Will Hampson reviewed and proposed changes to the Oregon Short Term Fund Board Notification Update for INV 303: Short Term Investments: Portfolio Rules. Oregon State Treasury's Fixed Income Staff is seeking to make changes to INV 303: Short Term Investments: Portfolio Rules (INV 303). The primary change is intended to remove terminology ambiguity associated with buying Repurchase Agreements as cash investments in the Oregon Short Term Fund (OSTF). The additional change Staff is recommending is to make more explicit the calculation of US Treasury Security credit score for the purposes of the effective portfolio rating as equal to '29' which is the 'best' score. Staff will seek approval of these changes at the March 2024 OIC meeting. Repurchase Agreements are low risk money market investments which make them very attractive to manage the risk and liquidity of the OSTF. The changes to the US Treasury Security credit score is necessary for clarification purposes following changes in the US Sovereign rating by a nationally recognized statistical rating organization.

Specifically, the following changes were proposed:

- **Remove:**
  - IV. Diversification and Portfolio Limitations (A. Eligible Securities)
    - Striking the "Reverse Repurchase Agreements" row from the table.
  - IV. Diversification and Portfolio Limitations (A. Eligible Securities)
    - Striking all of paragraph (5.) beginning with: "Reverse Repurchase Agreements must meet the following criteria:"
  - V. Reinvestment of Securities Lending Cash Collateral (F.)
    - Striking all of section F.

- **Insert:**
  - IV. Diversification and Portfolio Limitations (A(4)(6). Eligible Securities)
    - "6. Represent an investment in the form of lending cash against securities collateral equivalently represented in this case by a purchase of securities (collateral) coupled with an agreement to sell the securities (collateral) at a specified price on a later date."
  - Diversification and Portfolio Limitations (F(iii)(table footnote 1)
    - "1. US Treasury & Agency securities shall have a numeric value of 29 in all circumstances."

COMMENTS FROM THE BOARD

- There were no comments or questions from the Board.
- Mr. Goe thanked Mr. Hampson and Treasury staff for bringing forward the proposed changes to the Oregon Short Term Fund Board for INV 303.

VI. LGIP Participants and Operations Overview

PRESENTED BY Cora Parker, Director of Finance. Cora Parker thanked the Board for the opportunity to present today. 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 81% of LGIP's overall portfolio assets. Ms. Brant noted that year-over-year assets are down, most likely attributed to the continued spend down of one-time funds. Net Cash Flows are also pacing about the same as the asset comparison and is seasonal. There were 1,071 total number of participants at year-end with 1,874 accounts, totaling $11,741,638,164 in assets. Regarding Transaction Activity, Q4 had the highest activity levels for the year with 16,923 transactions, totaling $26,376,503,845. 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. Earlier this month, due to a processing error, a file of transactions from state agencies to pool participants was processed a few days late. PFMAM worked closely with Treasury and DAS to post and backdate these transactions, and all the impacted participants were notified immediately. Additionally, Ms. Brant apologized for this error and her team has strengthened the processes to avoid potential future issues.

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. The performance level was at 100% for each month in Q4. Regarding the New & Closed Participants, Goshen RFP District and Pleasant Hill RFP District are in the Closed Participants category, however both participants were consolidated and now named Pleasant Hill Goshen Rural Fire Protection District under the New Participants category, all of the funds have been transferred into this one account. PFM Asset Management has a new email address for their client services team which was part of an internal team realignment. The new email address will be noted in Treasury newsletters and the existing address will remain valid for the foreseeable future.

Ms. Parker referenced the OSTF Portfolio Overview slide covering the Oregon Short Term Fund Analysis chart that outlines the total balance of the Oregon Short Term Fund overtime, including the breakout between state agency and local government participation. We saw record high levels in the Oregon Short Term Fund over the last quarter due to both tax money coming in and the good revenue position the state has been in over the last several years. Due to the positive revenue position, the state will soon be paying out substantial refunds attributed to the record kicker that was declared after the books were closed for the 2021-2023 biennium, totaling more than $5.6 billion dollars. For personal income taxpayers, that will result in a refundable credit of roughly 44% of their 2022 tax liability when filing 2023 tax returns. Ms. Parker noted that Treasury is always prepared for the impact of tax refund cycles versus tax payment cycles in the OSTF cash flow planning, however the impact of individual taxpayer behavior of filing sooner due to the substantial kicker will affect the fund, thus Mr. Parker and her team are working with the Department of

OREGON
STATE
TREASURY

Revenue to manage liquidity needs in addition to the Fixed Income Team's considerations.

TOPICS

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

COMMENTS FROM THE BOARD

- Bryan Wolf inquired about the participation metrics and if PFMAM has ever looked at the data in terms of the amount that is invested by a participant which would help determine if we have a scalable policy to meet everyone's needs?
    - Ms. Brant replied that regarding the participation distribution, PFMAM looks at as many individual bands as possible to capture the data in greater detail to determine the types of organizations that participants are applying to and how they are utilizing the program.
    - Ms. Parker noted that the information is tracked, however they do not market the availability of the fund or recruit participants into the portfolio. Also, regarding dollars invested by each participant, there is a limit to which participants are allowed to invest in the pool.
- Chairman Goe thanked PFM Asset Management and staff for the excellent overview.

VII. OSTF Market Overview and Portfolio Update

PRESENTED BY Perrin Lim, Investment Officer, Fixed Income: Perrin Lim presented the market overview and OSTF Portfolio update:

- Macro data has been resilient.
- Inflation measures continue to trend lower.
- Issues in the Middle East (US strikes on Houthis) may lead to upside risk to inflation.
- Fed Funds Expectations still pricing cuts beginning in March/May despite mostly resilient economic data.
- OSTF Portfolio Overview: Liquidity Schedule, Floating Rate Breakdown & OSTF Effective Ratings.
- Sector Allocation: OSTF continues to allocate to ABS and modestly to Corporates from Treasuries/Gov't Related.
- Top Holdings by Issuer: Continued focus on credit quality at the issuer level.
- Coupon Type Exposures: Floating rate securities have been a core position for 15+ years and will continue to be a focus especially in the current environment.
- Mr. Lim remarked Staff have been reviewing the rate-setting process internally, as well as bringing in a consultant to look at the process. The analysis by the consultant is still ongoing, but regardless of the outcome, the OSTF paid rate will be increased modestly in the following days.

COMMENTS FROM THE BOARD

- Deanne Woodring asked Mr. Lim about the comment on the external consultant and Rate Paid to Participants. Since Treasury staff set the participant rate, is the consultant evaluating on what the fund is actually earning versus what the fund is paying or if it will go to a daily rate? Also, is the purpose of the allowance fund to maintain a reserve for defaults?

OREGON
STATE
TREASURY

- Mr. Lim replied the evaluation is related to the fact that we have an allowance fund, the income being received from all assets, and the stated rate being paid out (currently 5%), and not necessarily that the paid rate will go to a daily rate or a yield on assets paid on a lagging basis.
- Mr. Lim confirmed the purpose of the allowance fund is to maintain a reserve for defaults.
- Mr. Lim explained the excess yield above the Rate Paid to Participants should theoretically go to the allowance fund until it is fully funded. However, the allowance fund is still not fully funded and since the allowance target resets every June 30th, the allowance target for the most part has been increasing due to increased assets in the fund over the last 10 years. Once we get fully funded, the paid rate will more closely resemble the overall yield on assets.
- Mr. Lim also remarked the consultant is looking to determine if the current process is valid and if the assumptions of the allowance fund is valid.
- Mr. Lim added, Treasury staff is using a consultant because the data from Aladdin does not always provide an accurate aggregate book yield versus staff expectations, thus there are some fluctuations on what Treasury staff is viewing from a book yield standpoint.

VIII. Closing Remarks/Other Items of Business

- Mr. Goe thanked everyone for an excellent meeting.

Mr. Goe adjourned the meeting at 11:21 AM.

Respectfully submitted,

Alli Gordon
Executive Support Specialist