



**OREGON
STATE
TREASURY**

State of Oregon

Office of the State Treasurer

Telephone Only

OREGON SHORT TERM FUND

October 21, 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, Lisa Pettinati, Sommer May, Edie Kessel, Scott Robertson, Bryan Gonzalez, Deena Bothello, Andrew Robertson, Andrey Voloshinov, Shannon Higgin, Kristi Jenkins, Alli Gordon

Other Attendees Present: PFM: Chris Trump, Lauren Brant
City of Happy Valley: Terryl Aguon

The October 21, 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.

II. Review and Approval of Minutes

MOTION: Mr. Goe asked for a motion to approve the July 8, 2021 OSTF meeting minutes. The Board approved the minutes unanimously.

III. LGIP/OSTF Investment Policy Review

City of Happy Valley

PRESENTED BY Jeremy Knowles, Investment Analyst Fixed Income Team. Jeremy Knowles reviewed the investment policy for the City of Happy Valley ("the City"). The City is updating their investment policy which was previously reviewed by the Board in April 2021. Since the April meeting, the City has hired Government Portfolio Advisors ("GPA") as the City's Investment Advisor. The City still wishes to adopt a policy similar to the OSTF sample policy which includes further defining of investment parameters. The City anticipates managing an amount of funds falling within the scope of this policy over the next three years and is expected to range between \$10 million and \$60 million.

Treasury Staff compared the City's draft policy to the most current OSTF Board sample policy. There were few changes recommended by Treasury Staff to the City so they wanted to move forward with the review without revisions.

Treasury Staff Recommendations:

- Recommend lowering U.S. Agency Obligations maximum per agency to 33% or lower.



**OREGON
STATE
TREASURY**

- Recommend reducing Municipal Debt maximum holdings closer to 10% from their proposed 25%.

COMMENTS FROM THE BOARD

- Chairman Goe opened the meeting to questions regarding the material changes. Brian Nava posed a question regarding approved versus preapproved for the City's Investment Policy draft and requested clarification. Per Deanne Woodring the contract with the City is a nondiscretionary contract in Oregon. In the municipal market and corporate market, GPA provides a list of approved either corporate or municipal type securities that are bought. The preapprovals were removed as they have approval of the list and concept. The "pre" is removed as they are tapping into the new issue market. The trades get approved when they submit the confirmation and a prelist is submitted. Per Chairman Goe this approach has been taken occasionally and the Board is comfortable with that approach.
- Brian Nava followed up with a question, if an investment was purchased that was not preapproved and it went to Travis Warneke or another representative at the City for approval and it was not in compliance with ORS 294 investment policy and hypothetically did not want it, is there an easy way to undo the transaction? Ms. Woodring stated if this were the case then they could get out of the trade. Additionally, Ms. Woodring indicated that this seldom occurs on an issue or list. Also, the City's contract is nondiscretionary which requires they get approval before making trades. This is another reason why they are looking to move from 10% maximum municipal debt to 25% as the municipal market has changed with taxable issuance and this provides additional flexibility within the portfolio.
- Mr. Goe noted on the policy, on page 4, section V. #3. Delegation of Authority and Responsibilities ii. Delegation of Authority, there is a period missing between ORS 294035. Also, on page 8 under Commercial Paper in the third line "section 3(a)2 or 3(a)3 of the Securities Act of 1933" the 2 and 3 should be in parenthesis and adjusted for the final. Mr. Goe expressed he appreciates the City coming back to the Board and thanked Terryl Aguon for submitting the policy.
- Deanne Woodring requested clarification on the desired change for municipal debt maximum from 10% to 25% and asked if the Board is alright with that since the Treasury staff has recommended they change their maximum. Mr. Goe said he is fine with the recommendation to reduce the maximum municipal debt.

IV. LGIP Participants and Operations Overview

PRESENTED BY Cora Parker: Cora Parker thanked the Board for the opportunity to present with regard to the local government investment pool participants and PFM's partnership with us to serve them. Our partners Lauren Brant and Chris Trump with PFM will be discussing the details of activity in the last quarter. Ms. Parker acknowledged the pending transaction between U.S. Bancorp Asset Management and PFM's asset management business since that announcement was made last quarter. Chris Trump, Lauren Brant and others have been working with Oregon State Treasury to prepare for the limited impacts that the transaction will have to Oregon's LGIP users. All PFM personnel who work with the Treasury have signed their offer letters and will be moving to U.S. Bancorp Asset Management once the transaction is complete. Ms. Parker provided an OSTF Portfolio Overview. Today's balances are just over \$30 billion dollars in the Oregon Short Term Fund with the local government component just under \$9.5 billion dollars.

TOPICS

- Q3 Activity in the Fund
- Oregon Short Term Fund Analysis
- Participant Breakdown



OREGON STATE TREASURY

- Participant Distribution
- Transaction Activity
- Service Uptime Metrics

Lauren Brant expressed that she and Chris Trump are excited about the transition to U.S. Bancorp Asset Management and is confident there are a lot of synergies between the two organizations. All of the key personnel who work with Treasury will be transitioning to U.S. Bancorp Asset Management and will continue to provide a high level of customer service in addition to providing modern and secure technology to LGIP participant to manage their accounts. Additionally, all their systems will be transitioning over including Easy Online Network “EON” (LGIP’s online platform). From a risk perspective, since October 2017 PFM has released numerous system enhancements related to cybersecurity initiatives designed to reduce risk for participants and PFM is focused on investing in technology and cybersecurity. PFM will keep the Treasury staff apprised of the progress of the transaction as they near a closing date of early December.

Chris Trump reviewed the Participant Breakdown slide for Q3 2021. Cities, School Districts and Special Districts account for approximately 80% of LGIP’s overall assets and with Counties approximately 95% total assets within the LGIP, consistent with previous quarters. Mr. Trump reviewed the Historical Participant Breakdown, for overall assets year over year the pool assets are \$9.2 billion this year compared to \$8.2 billion last year and has grown 12% year over year. All of the entity types increased assets year over year except the School Districts which were down slightly, \$28 million dollars. A lot of the growth came from City assets which were up \$657 million dollars. In reviewing Asset Comparison Year over Year, last year assets decreased 14% and this year decreased 17%. Assets increased in October, November and December 2020 and expects that trend to continue. In reviewing Net Cash Flow, they are seeing steady cash flows year over year, slightly lower compared to last year. Mr. Trump touched on Participant Distribution as of September 30, 2021, breaking down Cities, Schools, Special Districts, Counties and Others including subcategories and entity types that they track as well.

Lauren Brant reviewed Transaction Activity broken down by Transaction Type. Quarter over quarter the dollar amount of the transactions declined, however the transaction volume is similar to the prior quarter, gearing up for a significant activity in Q4 due to property tax receipts. PFM has a formal Service Level Agreement with the Treasury (Service Uptime Metrics), the standards established are related to uptime for participants pertaining to online access, phone systems and backup systems which was reviewed and well above their metrics and reported to Treasury on a monthly basis.

COMMENTS FROM THE BOARD

- Michelle Morrison complimented PFM and the outstanding customer service experience she had earlier this year.
- Brian Nava echoed Ms. Morrison’s sentiment as he has experience excellent customer service as well and appreciates the reports and transparency.
- Deanne Woodring said she also appreciates the transparency in the reports.
- Mr. Goe said he too appreciates the reports from the Board’s perspective and thanked Cora Parker, Chris Trump, and Lauren Brant for their presentation.



OREGON STATE TREASURY

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: We had to lower the rate slightly from .55% in July to .45% in October.
- OSTF Portfolio Overview: OSTF NAV \$29,971,123,184 as of August 31, 2021.
- Sector Allocation: 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 10 Holdings by Issuer: Focus on credit quality at the issuer level.
- Coupon Type: Allocation to floating rate securities has declined by ~2.8% since our last meeting but in dollar terms, has increased by ~\$50MM.
- OSTF Dollars Invested by State Government and Local Government.

Perrin Lim stated 2-year treasuries are up 42 basis points, 3-year treasuries have doubled since July 2021 and are at 76 basis points, 5-year treasuries have also increased significantly. The Oregon Short Term Fund is at the lowest weight average maturity since the pandemic began last year. Per the Fed, the taper of the monthly buy back of treasuries and mortgage back securities will likely decrease at a monthly pace beginning around November or December of this year and is anticipated to end around April or May of next year. Mr. Lim discussed the current debt ceiling situation and stated treasury bills are getting cheaper and they are trending in that direction. We're in third quarter earnings season for the Oregon Short Term Fund with a significant holding exposure in banks. Inflation is currently high but hopefully transitory however it is impacting folks. There has been a healthy supply of new issued corporate bonds and asset-backed securities. Our floating rate note exposure has changed and the allocation has gone down approximately 1.5% - 2%, however the dollar value has gone up due to a healthy exposure to the Treasury Floating Rate Program. Mr. Lim expressed that the backup in treasuries is a good opportunity to add some treasury yield/interest. Intermediate term securities: OITP and OLGIF have performed nicely over the current period.

Deanne Woodring commended Mr. Lim and our pool, noting our pool is paying a better rate compared to other state programs. Our pool is so unique as it is tied with the state funds which allows for more expansive diversification and investment opportunities.

VI. Closing Remarks/Other Items of Business

- Deanne Woodring commented on the sample policy review and noted that there are many associations and organizations that do certifications of policies. Ms. Woodring has created a grid including a sample of everyone she oversees to help determine recommendations that are coming in, i.e., business continuity. This may be a good time to review the OSTF sample policy and look at the comparisons of different recommendations of other state funds. Also, Ms. Woodring has been getting asked more about ESG and responsible investing and bringing that into policy. From a fiduciary perspective we need to look at safety, liquidity, and return and then try to factor in ESG. Entities are asking how to incorporate ESG and we need to be able to address these concerns and be aware of this going forward. Another point of inquiry is Supranational investments. Many states change statute to provide for Supranational bonds and as spreads remain tight, having the ability to diversify portfolios can be beneficial. Supranational bonds are AAA rated and owned by multinational organizations and predominantly in Europe there are 3 main Supranational bonds that the US is the largest owner of.



**OREGON
STATE
TREASURY**

- Perrin Lim commented for the Oregon Short Term Fund stating that we use a handful of SSA's ("Supranationals") which is helpful for other funds to be able to use that as well in the government agency bucket.
- Chairman Goe asked Ms. Woodring and Mr. Lim to send information regarding Supranationals to the board members. Mr. Goe posited if other states have benefited from statutory change, especially if we can make improvements to our statute and give the state agencies and local governments additional investment flexibility. We could recommend changes to the legislature if there are needed changes to the statute.
- Brian Nava said in regard to ESG and SASB, if there were policy changes he would need to go back to the Oregon Association of County Treasurers and Finance Officers (OACTFO) to discuss. Also, Mr. Nava mentioned that transitory inflation gives him pause for cash flow, depending on the timeline as it pertains to the Oregon Short Term Fund and asked if there is significant inflation how will this affect the Oregon Short Term Fund in the future?
- Perrin Lim responded that for the Oregon Short Term Fund it is undetermined how things will shift regarding inflation. Mr. Lim suggested that considering ESG investing could be in line with Treasury's future investment goals.
- Ms. Woodring is taking the CFA certification for ESG right now and will share insights with the board. Mr. Goe echoed the importance and topic of ESG.
- Additionally, Sharon Wojda noted it would be good to have some sample policy language on ESG that way if there are municipalities that have differing views/priorities, they can choose whether to incorporate that into their individual policy and we'll have language we are comfortable recommending.
- Michael Kaplan mentioned ESG is a focus and has been brought to the OIC level and OPERF and the Treasurer is substantially engaged in this as we're evaluating the statutory direction and fiduciary obligations we have. We will look to the legislature to articulate the policy guidance as it relates to what we invest in. Currently, we have explicit direction on how we think about our responsibilities and how we invest funds on for OPERF. We will be asking explicit questions for people who share the responsibility for this administration in the future.
- The Board voted next year's Oregon Short Term Fund meeting dates and the dates were approved unanimously. The 2022 dates are as follows:
 - Wednesday, January 19th; Tuesday, April 19th; Tuesday, July 19th; Wednesday, October 19th
- Mr. Goe thanked everyone for an excellent meeting, good discussions, great presentations and looks forward to seeing everyone in January.

Mr. Goe adjourned the meeting at 11:24 AM.

Respectfully submitted,

Jeremy Knowles

Jeremy Knowles
Investment Analyst