



**OREGON  
STATE  
TREASURY**

# State of Oregon

## Office of the State Treasurer

Telephone Only

### OREGON SHORT TERM FUND

October 19, 2022

#### Meeting Minutes

<b>Members Present:</b>	Douglas Goe, Deanne Woodring, Sharon Wojda, Michelle Morrison, Brian Nava, Danton Wagner
<b>Staff Present:</b>	Perrin Lim, Rex Kim, Lisa Pettinati, Bryan Cruz González, Kristi Jenkins, Andy Coutu, Alli Gordon, Dave Randall, Ken Tennies, Scott Robertson, Karl Cheng, Will Hampson, Kenny Bao, Michael Makale, Anna Totdahl, John Lutkehaus, Geoff Nolan, Jen Plett, Debra Day, Justin Southard
<b>Other Attendees Present:</b>	PFM Asset Management: Lauren Brant Meketa Investment Group: Sarah Bernstein Oregon Secretary of State: Sarah Anderson, Hannah Creighton

The October 19, 2022 OSTF meeting was called to order at 10:00am by Brian Nava, OSTF Member.

#### **I. Opening Remarks**

Brian Nava welcomed all to the Oregon Short Term Fund Board (the “Board”) meeting and roll was taken. Douglas Goe announced he is traveling and joining remote and that Brian Nava will chair this meeting.

#### **II. Review and Approval of Minutes**

**MOTION:** Mr. Nava asked for a motion to approve the July 19, 2022 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 2023 dates are as follows:

- Tuesday, January 31<sup>st</sup>; Tuesday, April 25<sup>th</sup>; Tuesday, July 25<sup>th</sup>; Tuesday, October 24<sup>th</sup>

#### **III. 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 stated she is the Senior Auditor in charge of the Oregon Short Term Fund, the Oregon Local Government Intermediate Fund and the Oregon Intermediate Term Pool for the fiscal year 2022 statewide audit that the Secretary of State office conducts every year and Sarah Anderson oversees the audit for the Treasury. Ms. Creighton reported that the audit for the Oregon Short Term Fund, Local Government Intermediate Fund and the Oregon Intermediate Term Pool were issued a clean opinion for fiscal year 2022. The following presentation topics were reviewed:

- Financial Statements for the year ending June 30, 2022



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- 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

- Brian Nava inquired about the review and noted that PERS would use MGO to look at the investment portion of it and asked if this type of review occurs over the Intermediate and Oregon Short Term Fund in terms of the type of level for this review?
  - Hannah Creighton replied that from her perspective they are specifically looking at the investment evaluations that come out of the systems in regard to what State Street Bank says it's valued at versus what BlackRock says the valuation investments are valued at.
  - Sarah Anderson noted that in terms of the investment portfolio, they rely on the SOC reports that come from those third parties because they do not do that valuation testing themselves. Thus doing a comparison to assure that the book of record agrees with the trading platforms. The complex PERS portfolio contract evaluation work is not necessary for the Intermediate and Oregon Short Term Fund.
- Mr. Nava asked if there were any issues in terms of timing or governance?
  - Ms. Creighton said from her perspective all parties were responsive, timing was great and the process went smoothly.
  - Ms. Anderson echoed Ms. Creighton's standpoint and said everything went remarkably smoothly.

## IV. ESG Investment Policy & History

**PRESENTED BY Rex Kim, Chief Investment Officer, Investment Division; Anna Totdahl, Investment Officer, ESG & Sustainability; Sarah Bernstein, Head of Sustainability, Meketa Investment Group.** Rex Kim, Anna Totdahl and Sarah Bernstein reviewed ESG's Investment Policy & History.

Rex Kim provided background on Meketa. Sarah Bernstein is the head of sustainability at Meketa and they are the primary consultant to the Oregon Investment Council. Mr. Kim also provided background on Anna Totdahl, who is an Investment Officer at the Treasury focusing on ESG and is a member of the Portfolio Risk and Research Team and is well versed in the Fixed Income markets as well. Over the past 4 years Ms. Totdahl has done a lot to help the Treasury integrate ESG integrations into the manager due diligence process and look at how we think about the various climate risks that may impact the portfolio. Mr. Kim noted that in future meetings we can look at incorporating ESG language into the sample policy.

Sarah Bernstein discussed ESG, how to integrate it and think about it in an intuitional investment portfolio.

- Danton Wagner asked about ratings and scores of outside data managers.
- Sarah Bernstein replied she tries to avoid looking at using scoring provided by the data providers and prefers to focus on the metrics of the different issues within ESG that they are helping their clients to understand.

ESG investing refers to the use of Environmental, Social, and Governance factors in investment decision making and management. Also called sustainable, responsible, and impact investing ("SRI"), assets expanded to \$17.1 trillion at the start of 2020 in the United States, up from \$8.7 trillion in 2016 (US SIF 2020 report).



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### ESG Topics Covered:

- ESG Integration
- ESG Implementation
- Investment Beliefs
- The Six Principles of Responsible Investing

ESG reporting is the result of growing interest in having a regular big picture of ESG portfolio exposures. Annual ESG/Sustainable Development Goals (“SDG”) reporting is just emerging in the US.

### Summary:

- ESG institutional investor investment standards continue to evolve.
- Approaches to ESG vary widely among US institutional investors.
- There are some low-cost ESG-related approaches.
- Monitor TRP managers on ESG issues, including how managers vote the asset owner’s proxies, whether they participate in the institutional investor collaborative organizations in addition to the PRI, such as Climate Action 100+, and others.
- Consider Potential Regulatory and/or Manager ESG engagements.
- Consider passive equity manager proxy voting and engagement record.

### Meketa Topics of discussion: Introduction: Environmental, Social and Governance (ESG)

- ESG Investing (refers to the use of Environments, Social, and Governance factors in investment decision making and management.
- The dramatic growth in ESG investment funds encompass a wide range of approaches and mandates. This wide field encompasses three general investment approaches.
  - Financial (Integrate)
  - Financial & Socially Responsible (Impact)
  - Socially Responsible (SRI)
- ESG Integration
  - Meketa has been hired by large pension systems to address climate change risk and return.
  - Meketa’s Climate Scenario Analysis is now being used by some clients in strategic asset allocation decisions.
  - Meketa’s Research Team conducts an annual manager survey on diversity, equity, and inclusion.
  - Emerging and Diverse Manager Forum is held twice yearly to increase manager introductions to Meketa.
- ESG Implementation
  - ESG approaches vary widely.
  - There is no one ‘right’ approach to ESG.
  - ESG implementation can be costly, time consuming, and require additional staff and external resources.
  - ESG approaches may encompass any or all, of the following aspects of a portfolio’s investment strategy.
    1. ESG Investment Policy/Procedure
    2. Investment beliefs
    3. Investment policy
    4. Asset Allocation



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5. Investment strategy/manager selection
  6. Broad or Strategic exclusions
  7. Monitor investment managers and portfolio
  8. Proxy voting policy
  9. Engagement
- Investment Beliefs: Among US Institutional Investors, Investment Beliefs and policy reflect:
    - Increasing recognition of ESG risks as material to long-term investors
    - Stakeholders' concerns and values
    - Some Investment Beliefs and policies focus explicitly on one element or another, such as climate.
  - Statement of Investment Policy: Organizations vary in how they integrate ESG.
  - Approach to ESG Issues: Meketa has joined with a network of international investors working together to put the six Principles of Responsible Investment into practice.
    - The Six Principles of Responsible Investing:
      1. We will incorporate ESG issues into investment analysis and decision-making processes.
      2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
      3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
      4. We will promote acceptance and implementation of the Principles within the investment industry.
      5. We will work together to enhance our effectiveness in implementing the Principles.
      6. We will each report on our activities and progress towards implementing the Principles.
  - Investment Manager Selection: Many Institutional Investors are applying ESG in passive and active manager selection
  - ESG Questions Designed to Integrate into Manager Selection, For All Managers:
    - ESG inquiries have evolved from early questions of whether the manager is a signatory to PRI, to surveys designed to gather information that is more granular on a manager's approach to, and results of ESG integration.
    - Meketa's manager selection process incorporates ESG questions.
    - General areas of focus can include questions on ESG and/or specific topics within the broad category, for example, issues on inclusion/diversity, or climate risk and opportunities.
  - ESG in Investment Manager Selection: or clients seeking dedicated ESG Investment strategies, Meketa conducts searches customized for each client's:
    - Approach to ESG
    - Key concerns
    - Fit with broad portfolio investment strategy
  - Investment Manager and Portfolio Monitoring: ESG reporting is the result of growing interest in having a regular big picture of ESG portfolio exposures
  - Proxy Voting



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- Investment Manager Engagement: Because investment managers, particularly very large investment managers, may control the shareholder votes on a material amount of assets, they can yield influence on investee companies through their proxy voting and through engagement.
- Company Engagement
- Regulatory Engagement
- Summary: ESG institutional investor investment standards continue to evolve. Approaches to ESG vary widely among US institutional investors.

Anna Totdahl reviewed the evolution timeline of ESG throughout the years, how it's reflected in the Oregon Investment Council Statement of Investment Beliefs and language which reflects the interpretation of fiduciary duty with respect to ESG, particularly from the Oregon Department of Justice's perspective and state statutes. Ms. Totdahl also covered how we think about ESG in terms of investment beliefs and fiduciary duty in addition to legislative/regulatory guidance.

### COMMENTS FROM THE BOARD

- Deanne Woodring inquired from the Board's perspective if we would like an ESG statement in the Oregon Short Term Fund policy.
- Brian Nava likes the idea of having optional language to consider in the sample policy.
- Ms. Woodring stated having different sample language would be helpful.
- Mr. Nava inquired about SASB and if other companies, firms, etc. are implementing SASB standards to be included in financial reports?
  - Ms. Totdahl replied that the pickup is growing. They are becoming more globalized, thus getting some consensus around international standards and what international reporting should look like from an ESG perspective. This is a positive and forward momentum in the space, the focus for the SASB model is on materiality, many companies are already tracking some of these metrics because they have a material impact on their business.
  - Ms. Bernstein added with the growth in the numbers of companies reporting under that framework and SASB being integrated into ISSB, IFRS and SCC if they get standards on it, that integrating SASB into the overall task financial reporting will be beneficial on a broader level if regulated.
- Chairman Goe thanked Rex Kim and staff for arranging this in-depth and helpful presentation and a topic that will continue to discuss with the board.

## V. LGIP Participants and Operations Overview

**PRESENTED BY Bryan Cruz González:** Bryan Cruz González announced that he will be filling in for Cora Parker today as Ms. Parker and Chris Trump with PFM Asset Management will not be in attendance. Mr. González presented a brief portfolio overview. Our partner Lauren Brant 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. Ms. Brant announced Chris Trump is no longer at PFM and David Reeser will be stepping into this interim role. Ms. Brant also announced a milestone as all of their systems will migrate to the US Bank platform, including Connect, the online platform utilized by the Oregon Short Term Fund board participants. Ms. Brant reviewed the Participant Distribution and Participant Breakdown for School Districts, Special Districts, Counties, Cities and Other. The "Other" category is comprised of Council of Governments, Urban Renewal Agency, Housing Authority, Commodity Commission, Semi-Independent State Agency and Tribe. There are three new participants in the program all within the Special District Participant Type. The Cow Creek Band of



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Umpqua Tribe of Indians, the first tribal participant in the Oregon Short Term Fund, made their first deposit last quarter in the amount of approximately \$600.00 at a balance of \$56.2million and increased their balance in the third quarter.

### TOPICS

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

### COMMENTS FROM THE BOARD

- Brian Nava thanked the Treasury team for the great service and the updated annual manual.

## VI. OSTF Market Overview and Portfolio Update

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

- Market Update
  - Domestic:
    1. Upcoming Inflation Prints
    2. Yield Curve Inversion Fears
    3. Fed Tightening & Balance Sheet Runoff
    4. Rising Mortgage Rates
    5. Earnings Guidance
    6. Midterm Elections
  - Global:
    1. Ukraine/Russia conflict
    2. Rising Prices: gas/diesel, metals, fertilizer, food, etc. (and growing inflation protests)
    3. Global Bond Rout
    4. China COVID Lockdowns including Ports
    5. Continued Chinese Property Crisis
    6. Weakening Global Consumer Confidence
- Inflation: Consumer Price Index – August 2022 CPI/July 2022 Core PCE falls from prior month.
- Inflation: Zillow All Homes Rent Index (~40% of CPI).
- Inflation: Housing Prices & Mortgage Rates
- University of Michigan Surveys of Consumers Indices
- Real Federal Funds Rate: 2005 – Present
- Widely followed yield curve slope inverted by -36bps, most since September 2000.
- Fed Funds Futures: 10/12/22 compared to 7/11/22.



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- Government MMFs: Big players in Fed's RRP. Usage of the Fed's Reverse Repo facility remains near highs.
- Snapshot of the Short-Term Fixed Income Markets + OSTF: At 2.20% and still catching up to massive, unprecedented re-pricing in market.
- OSTF Portfolio Overview: Liquidity Schedule, Floating Rate Breakdown & OSTF Effective Ratings.
- Sector allocation and duration positioning drive total return performance (over & under).
- 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.

### COMMENTS FROM THE BOARD

- Deanne Woodring mentioned the Fund NAV/OSTF Balances (8/31/2022) 0.9912 which broke 99 on the disclosure statement and held up well with the 300 basis point rise, the biggest move in Fixed Income in the mark to market. Another year end observation is what is comprised of the pool and the importance for locals to be diversifying from the pool. In looking at pool participants versus the state which was a 50/50 ratio and now more of the fund is state, subsequently the price impact for locals is much lower.

### VII. Closing Remarks/Other Items of Business

- Douglas Goes thanked Brian Nava for chairing today's meeting.
- Deanne Woodring referenced the previous quarter's minutes pertaining to the sample policy and would like to revisit those sample policy items.
  - Perrin Lim will work on getting a draft sent out and welcomes comments.
  - Ms. Woodring recommended we slate having the sample policy items completed by next fiscal year.
  - Mr. Nava suggested having this as an agenda item for next quarter.

Mr. Nava adjourned the meeting at 12:00 PM.

Respectfully submitted,

**Jeremy Knowles**

Jeremy Knowles  
Investment Analyst