



**OREGON  
STATE  
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# State of Oregon

## Office of the State Treasurer

Telephone Only

### OREGON SHORT TERM FUND

July 19, 2022

#### Meeting Minutes

|                                 |  |
|---------------------------------|--|
| <b>Members Present:</b>         | Douglas Goe, Michael Kaplan, Deanne Woodring, Sharon Wojda, Michelle Morrison, Brian Nava, Danton Wagner   |
| <b>Staff Present:</b>           | Perrin Lim, Jeremy Knowles, 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, Aadrial Phillips   |
| <b>Other Attendees Present:</b> | <p>PFM Asset Management: Lauren Brant<br/>GPA: Whitney Maher, Garrett Cudahey</p> <p>Port of Portland: Antoinette Chandler, Travis George, Lisa Fedeli<br/>Marion County: Jeff White, Kathryn (Katie) Henry, Sam Brentano,<br/>Lake Oswego School District: Stuart Ketzler<br/>Emerald People's Utility District: Sara Cline<br/>City of Forest Grove: Paul Downey, Melissa Henderson<br/>Crook County: Dodge Kerr, Galan Carter, Rashad Masri</p> |

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

#### **III. LGIP/OSTF Investment Policy Review**

Deanne Woodring noted she will be recusing herself from making official Board comments for the following local government policies: Marion County, Lake Oswego School District, the City of Forest Grove, and Crook County as she is an advisor to all these local government entities.

#### **Port of Portland**

**PRESENTED BY Jeremy Knowles, Investment Analyst Fixed Income Team.** Jeremy Knowles reviewed the investment policy for Port of Portland (the "Port"). The Port wishes to adopt a policy like the OSTF Board sample policy. The Port of Portland's (the "Port") Investment Policy (the "Policy") was last brought before the OSTF Board in 2013.



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The proposed policy includes changes on Sustained Investing, Standards of Care, Transaction Counterparties, Investment Advisors and Depositories, Suitable and Authorized Investments, and Investment Parameters. The approximate amount of funds falling within the scope of the Policy over the next year is expected to range between \$500 million and \$1.0 billion. The approximate amount of funds falling within the scope of the Policy over the next three years is expected to range between \$500 million and \$1.2 billion.

### Summary of Key Changes:

Treasury Staff compared the draft policy to the most current OSTF Board sample policy. There were few substantial changes recommended by Treasury Staff so it was deemed fine to proceed without revisions.

### Treasury Staff's Observed Differences from Sample Policy:

#### Most important items:

- Consider including indemnification for investment decisions: Investment officers acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported and appropriate action is taken to control adverse developments within a timely fashion as defined in this policy.
- Consider that the documented internal controls address the following:
  - i. Compliance with Investment Policy.
  - ii. Control of collusion.
  - iii. Separation of transaction authority from accounting and record keeping.
  - iv. Custodial safekeeping.
  - v. Avoidance of physical delivery of securities whenever possible and address control requirements for physical delivery where necessary.
  - vi. Clear delegation of authority to subordinate staff members.
  - vii. Confirmation of transactions for investments and wire transfers in written or digitally verifiable electronic form.
  - viii. Dual authorizations of wire and automated clearing house (ACH) transfers.
  - ix. Staff training.
  - x. Review, maintenance, and monitoring of security procedures both manual and automated.
- Consider including section for periodic audits:

An external auditor shall provide an annual independent review to assure compliance with Oregon State Treasury state law and the Port's policies and procedures. Management shall establish an annual process of independent review by the external auditor to assure compliance with internal controls. Such audit will include tests deemed appropriate by the auditor.
- Consider reducing maximum repurchase agreement exposure from 50% to 5%.
- Consider reducing maximum municipal debt from 15% to 10%.
- Consider reducing bankers' acceptances maximum from 30% to 25% as per maximum set by ORS 294.035.

#### Other discussion items:

- Consider including estimated range of funds under the authority of the policy in the scope section. The approximate amount of funds falling within the scope of the Policy over the next year is expected to range between \$500 million and \$1.0 billion. The approximate amount of funds falling within the scope of the Policy over the next three years is expected to range between \$500 million and \$1.2 billion.
- Consider adding verbiage regarding Broker/Dealer Criteria to address the following:

A list will be maintained of approved broker/dealer firms and affiliated registered representatives.

  - i) Broker/Dealer firms must meet the following minimum criteria:



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- A) Must be registered with the Securities and Exchange Commission (SEC).
  - B) Must be registered with the Financial Industry Regulatory Authority (FINRA).
  - C) Must provide most recent audited financials.
  - D) Must provide FINRA Focus Report filings.
- ii) Approved broker/dealer employees who execute transactions with the Port must meet the following minimum criteria:
- A) Must be a registered representative with the Financial Industry Regulatory Authority (FINRA).
  - B) Must be licensed by the state of Oregon.
  - C) Certification (in writing) of having read; understood; and agreed to comply with the most current version of this investment policy.

The Investment Officer may want to establish policy for engaging broker/dealer firms and registered representatives that are more restrictive than stated in this policy. Additional requisites or due diligence items may include:

- A. Positive references from at least three other local government clients.
  - B. As part of the periodic due diligence review, inquiries with other local government clients with regard to their recent experiences with broker/dealer firms or registered representatives and any change in relationship status.
  - C. Requirement that approved registered representatives provide notification within 30 days of any formal investigations or disciplinary actions initiated by federal or state regulators.
  - D. Requirement that prospective registered representatives have an established history of advising local governments with similar amounts of assets under management.
- o Consider including additional broker/dealer maintenance items:
    - Pending investigations by securities regulators.
    - Significant changes in net capital.
    - Pending customer arbitration cases.
    - Regulatory enforcement actions.
  - o Consider including additional investment adviser/consultant criteria:
    - A list will be maintained of approved advisers selected by conducting a process of due diligence.
    - (i) The following items are required for all approved Investment Advisers:
      - A. The investment adviser firm must be registered with the Securities and Exchange Commission (SEC) or licensed by the state of Oregon; (Note: Investment adviser firms with assets under management > \$100 million must be registered with the SEC, otherwise the firm must be licensed by the state of Oregon).
      - B. All investment adviser firm representatives conducting investment transactions on behalf of the Port must be registered representatives with FINRA.
      - C. All investment adviser firm representatives conducting investment transactions on behalf of the Port must be licensed by the state of Oregon.
      - D. 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. The Investment Officer may want to establish guidelines or policy for engaging investment advisers' services that are more restrictive than stated in this policy.

Additional requisites or due diligence items may include:

- A. Positive references from at least three other local government clients of a prospective investment adviser firm.



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- B. As part of the periodic due diligence review, inquiries with other local government clients of approved investment advisers with regard to their recent experiences with the adviser and any change in the relationship status.
- C. Requirement that approved investment advisers provide notification within 30 days of a relationship termination by an Oregon based local government.
- D. Requirement that approved investment adviser provide notification within 30 days of any formal investigations or disciplinary actions initiated by federal or state regulators.
- E. Requirement that prospective investment advisers have an established history of advising local governments with similar amounts of assets under management.
- Consider including investment adviser/consultant maintenance criteria:
  - A periodic (at least annual) review of all authorized investment advisers will be conducted by the Investment Officer to determine their continued eligibility within the portfolio guidelines. Factors to consider would be:
    - A. Pending investigations by securities regulators.
    - B. Significant changes in net capital.
    - C. Pending customer arbitration cases.
    - D. Regulatory enforcement actions.
- Recommend modifying the limitation for OSTF investment to be subject to ORS 294.810 limit and not as limited by the Oregon State Treasurer.
- Consider reducing maximum corporate debt limit from 35% to closer to 15% and lowering the maximum holdings per issuer from 5% to 2.5%.
- Consider including specification on cash vehicles: bank fixed from bank demand deposits vs. time deposits:
  - i. All bank demand deposits and time deposits (Examples of time deposits are: certificates of deposit and savings accounts) shall be held in qualified Oregon depositories in accordance with ORS Chapter 295.
  - ii. Bank demand deposits in qualified depository institutions are considered cash vehicles and not investments and are therefore outside the scope and restrictions of this policy. Pursuant to ORS 294.035(3)(d), time deposits, certificates of deposit and savings accounts are considered investments and within the scope of this policy.
- Consider including section for additional investments:
  - If additional types of securities are considered for investment, per Oregon state statute they will not be eligible for investment until this Policy has been amended and the amended version adopted by the Port.
- Consider including definition of Credit Risk:
  - Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt.
- Consider including a section for the portfolio's 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.
- Consider including a section for determining 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.
- Consider including maturity buckets to provide flexibility while still maintaining liquidity constraints:
  - Maturity Constraints Minimum % of Total Portfolio
  - Under 90 days Six (6) Months Estimated Operating Expenditures
  - Under 1 year 50%
  - Under 3 years 100%
- Consider 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



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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.

- Consider including section describing interest rate risk and mitigating factors:  
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:

- 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.
- Consider including specificity on 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.
- Consider including section for portfolio evaluation by the Investment Officer:  
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.
- Consider including additional verbiage for annual review of the investment policy:  
The investment policy shall be reviewed at least annually to ensure its consistency with the overall objectives of preservation of principal, liquidity and return, and its relevance to current law and financial and economic trends. The annual report should also serve as a venue to suggest policies and improvements to the investment program, and shall include an investment plan for the coming year.
- Consider 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.
- Antoinette Chandler thanked the Board for the opportunity to bring forth the investment policy and for the thoughtful comments provided. Ms. Chandler stated that the Port will take the feedback under further consideration and add to the portfolio statement. Travis George echoed his appreciation to the Board and mentioned their policy has expanded into a more robust policy as these recommendations will be considered and some adopted.



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**COMMENTS FROM THE BOARD**

- Chairman Goe noted we are honored to serve as advisors for the Port of Portland, however he has not advised the Port regarding changes to their policy.
- Brian Nava inquired as to where the Port files its annual audit.
  - Antoinette Chandler stated that the Port's annual audit is posted annually on their website. The Port's fiscal year close for their audit is June 30<sup>th</sup> and they go to their Board every November for review.
  - Lisa Fedeli noted their audit is also posted on EMMA as part of their continual disclosure obligations.
  - Mr. George noted the filing of their annual report and is also posted on the Secretary of State's website.
- Mr. Nava likes the internal control language in the policy as this gets approved by the commission and also prefers having this memorialized in the policy so that the Board can see the internal controls. Mr. Nava appreciates that Indemnification was added to the policy. Sustainable language would be something to notate and consider later. Mr. Nava asked about the Third Party source evaluating the sustainable language and who that Third Party source would be?
  - Travis George replied that they are in the beginning stages of building out that piece and wanted to make clear that they are headed in that direction. Ms. Chandler added that the investments the Port makes and the length to which they are making some of these investment decisions from a sustainability standpoint is very important to their commission. Thus the commission is aligned and in agreement with the Port that it makes sense and is reflected in all of the Port's policies, particularly their investment policy. Ms. Chandler added as the Port is in the infancy stages and wanted to make sure there was a placeholder in the policy as they continue to build this policy out and will advise the Board once they determine who the Third Party will be. Ms. Chandler had a question about internal controls, if the Port has policies that could be cross referenced as part of this investment policy, would this be acceptable to the Board or would the preference be to have it more outlined as in the Board's comments.
- Mr. Nava replied to Ms. Chandler's question that he likes the internal controls outlined as this policy needs to go to the commission for approval.
- Michelle Morrison commented that she likes seeing the sustainability placeholder and looks forward to feedback on how this is being monitored and implemented.
- Sharon Wojda echoed Mr. Nava's comments that her recommendation would be to incorporate the internal control policies into this policy.
- Deanne Woodring commented there were some discrepancies between the table and the wording pertaining to the percentages (check the municipal debt percentages). Ms. Woodring also referenced the footnote below the table on page 27 "Investments in bankers' acceptances, TCDs and other corporate indebtedness of any single company or qualified financial institution shall not, in the aggregate, exceed 5 percent of the portfolio", the statute just pertains to 5 percent on the corporate exposure and it is advised to make sure we look at commercial paper and corporate and not include the banker's acceptance. Also, having a performance and compliance measurement which is part of the sample policy is very important in the investment arena and would highlight adding the benchmark being a performance measurement in the policy.
- Chairman Goe suggested for the Port's consideration, changing the wording under sustainable investing (the last sentence) to "the Port shall not actively invest its portfolio in companies" and instead



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of “in” change to “involved in” fossil fuel extraction. Mr. Goe suggested the language read “the Port shall not actively invest”, and if phrased that way it would not conflict with an investment in the Oregon Short Term Fund. This would align with the fact that the Port authorized the investment in the Oregon Short Term Fund and the OSTF is not subject to the same portfolio requirements that the Port must abide by. Mr. Goe also echoes comments from staff and his colleagues and expressed this was an excellent policy submission by the Port and that we appreciate the opportunity to review and comment.

- Ms. Chandler expressed her appreciation from the Board for providing an additional road map to further enhance the policy. The Port is excited about having the opportunity to go back and incorporate some of these comments and suggestions and put forth before their Board this fall.

### Marion County

**PRESENTED BY Jeremy Knowles, Investment Analyst Fixed Income Team.** Jeremy Knowles reviewed the investment policy for Marion County (“County”). Marion County last submitted their Investment Policy to the OSTF Board in 2014. In April 2022, they revised their policy to allow for the use of an advisor. The County wishes to adopt a policy like the OSTF Board sample policy. The proposed policy includes changes on Investment Advisors, Suitable and Authorized Investments, and Investment Parameters.

#### Summary of Key Changes:

Treasury Staff compared the draft policy to the most current OSTF Board sample policy. There were few substantial changes recommended by Treasury Staff so it was deemed fine to proceed without revisions.

#### Treasury Staff’s Observed Differences from Sample Policy:

##### Most important items:

- Consider that the documented internal controls include additional verbiage to address the following:
  - i. Compliance with Investment Policy.
  - ii. Control of collusion.
  - iii. Separation of transaction authority from accounting and record keeping.
  - iv. Custodial safekeeping.
  - v. Avoidance of physical delivery of securities whenever possible and address control requirements for physical delivery where necessary.
  - vi. Clear delegation of authority to subordinate staff members.
  - vii. Confirmation of transactions for investments and wire transfers in written or digitally verifiable electronic form.
  - viii. Dual authorizations of wire and automated clearing house (ACH) transfers.
  - ix. Staff training.
  - x. Review, maintenance and monitoring of security procedures both manual and automated.
- Consider reducing maximum repurchase agreement limit from 25% to 5% of portfolio. **The county will reduce this limit from 25% to 10%.**
- Other discussion items:
- Consider including estimated range of funds under the authority of the policy in the scope section. **The expected range is \$200 million to \$300 million over the next 3 years.**
- Consider reducing US Agency Obligations maximum % per issuer from 35% to 33%. **The county is comfortable leaving at 35%.**
- Consider reducing maximum municipal debt from 25% to 10%. **The county is comfortable with 25% based on their advisor’s recommendations.**
- Consider including specification on cash vehicles: bank demand deposits vs. time deposits:
  - i. All bank demand deposits and time deposits (Examples of time deposits are: certificates of deposit and savings accounts) shall be held in qualified Oregon depositories in accordance with ORS Chapter 295.





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ii. Bank demand deposits in qualified depository institutions are considered cash vehicles and not investments and are therefore outside the scope and restrictions of this policy. Pursuant to ORS 294.035(3)(d), time deposits, certificates of deposit and savings accounts are considered investments and within the scope of this policy.

**The county believes this has already been addressed in their policy in addition to noting the required compliance with ORS 295.**

- Consider including a section for the portfolio's 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.  
**The county will add an additional statement in investment parameters as item B.**
- Consider including a section for determining 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.
- Consider 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.

**Per advisors' recommendation, the county does not intend to include this statement, Marion County intends to manage liquidity at the total portfolio level.**

- Jeff White thanked the Board for their comments and some they would like to incorporate immediately and share that language and notes there will be some improvements. Regarding internal controls, Mr. White will look at documenting in the policy. Laurie Steele recently retired, and they have a lot of new folks who have joined the team. Marion County has taken the Treasurers' office with the investment responsibility and merged it with finance department. They have a new Controller, Katie Henry, a new Chief Accountant, and a new Treasurer, Sam Brentano and new investment advisors which they have not had in the past. The County is trying to look at this methodically, starting with the investment policy. The first step was getting the policy updated and will be looking at their internal control documents to make sure that all areas are covered.

### COMMENTS FROM THE BOARD

- Sharon Wojda appreciates Marion County coming forward and addressing some of the comments that they are already planning to incorporate and addressing the questions she had.
- Brian Nava also appreciates Marion County addressing the comments. Our investment policy has the 5 year mark and the ones being managed by GPA has 5.25 mark and asked why we are at 5.25 and what the necessity is for adding a quarter of a year.
  - Deanne Woodring replied to the Board that we are incorporating that into the policies because of the way issues are being issued. When issues come into the market, agencies, treasuries and corporates may have i.e., a 2- or 3-day lag and tag that as compliance or not be able to buy them? We are putting them into our policies to provide credibility to work with that sector of the market and do not have a decision on that and still need to circle back on the sample policy.
  - Jeremy Knowles commented that 5.25 was in order to get to 5.01 and to make sure the County is never out of compliance.
  - Mr. Nava asked who is tracking changes when we decide to update the policy?
    - Jeremy Knowles replied that would be Perrin Lim, Will Hampson, Jeremy Knowles or a combination of the three Treasury staff members.





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- Mr. Nava also mentioned possibly adding wire transfers to the sample investment policy and to confirm the wire instructions before sending over to prevent fraud.
- Danton Wagner asked about sustainable investments for the Marion County Board.
  - Sam Brentano replied no, they will not have any of those specifications on there.

### Lake Oswego School District

**PRESENTED BY Jeremy Knowles, Investment Analyst Fixed Income Team.** Jeremy Knowles reviewed the investment policy for The Lake Oswego School District (“District”) last submitted their Investment Policy to the OSTF Board in 2017. The District wishes to adopt a policy like the OSTF Board sample policy. The proposed policy includes changes on Investment Advisors, Suitable and Authorized Investments, and Investment Parameters. The balances of the District's various operating funds range from \$10,000,000 to \$60,000,000 and ongoing project funds can range from \$10,000,000 to \$200,000,000.

#### Summary of Key Changes:

Treasury Staff compared the draft policy to the most current OSTF Board sample policy. There were few substantial changes recommended by Treasury Staff so it was deemed fine to proceed without revisions.

#### Treasury Staff's Observed Differences from Sample Policy:

##### Most important items:

- Consider reducing US Agency Obligations maximum % per issuer from 35% to 33%. **The District is comfortable with the 35% allocation per their advisors' recommendation.**
- Consider removing the word “the” under recognized credit rating section under investment parameters from “issuers must be rated by both having the at least AA-/Aa3 or above” to read “issuers must be rated by both having at least AA-/Aa3 or above”. **The District will utilize the updated language in their policy.**
- Consider including a section for the portfolio's 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. **The District said the minimum average credit rating for the total portfolio will be in the AA category and will now include that statement.**
- Consider including a section for determining 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. **The District will revise their verbiage in the policy and it will now say “the District will utilize the S&P, Moody's and Fitch as recognized ratings; agencies and issuers must be rated by at least one with the following minimum of AA- or the equivalent.**
- Consider including verbiage 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. **The advisors managing this component for us are recommending that we don't include it in the policy.**
  - Stuart Ketzler expressed his appreciation for the collective wisdom and experience of the council and the OSTF Board's expertise. Mr. Ketzler referenced a typo in the policy they sent to the OSTF Board for review regarding the update needed which clarified the addition of Fitch and the overall average rating of AA in their policy. Mr. Ketzler appreciates the OSTF Board incorporating that into the District's policy.

#### COMMENTS FROM THE BOARD



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- Brian Nava stated his only comment was the 5.25 years comment. Jeremy Knowles commented that 5.25 was in order to get to 5.01 to make sure they are never out of compliance.
- Michelle Morrison asked about the ongoing project funds which is a good range and asked Mr. Ketzler if this is in anticipation of capital projects for the District.
  - Stuart Ketzler responded the District is a middle of a three phased comprehensive facility improvement plan which the school board approved in 2016. The amount of improvements were such a size and scope that it would not be feasible to do with one bond issue, thus the school board approved a three phased plan and just had voter approval for the second phase this past November, the third phase and major phases will follow and determine the broad and variable range of funds the District will have under investment for approximately the next 5 to 10 years.

### **Emerald People's Utility District**

**PRESENTED BY Jeremy Knowles, Investment Analyst Fixed Income Team.** Jeremy Knowles reviewed the investment policy for Emerald People's Utility District. Emerald People's Utility District ("District") last submitted their Investment Policy to the OSTF Board in 2012. The District's expected range of funds is between \$14 million and \$55 million dollars. There are no major variations as Mr. Knowles was able to work with Sara Cline and add in all the changes recommended by staff. The District either has the sample policy or more conservative values or credit ratings than what the sample policy allots for.

- Sara Cline thanked Mr. Knowles for making this a seamless process and expressed her appreciation to the Board for reviewing the District's sample policy.

#### Summary of Key Changes:

Treasury Staff compared the draft policy to the most current OSTF Board sample policy. Considerations were acknowledged and the revised policy was submitted with no other major differences from the OSTF Board sample policy.

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- Chairman Goe expressed his appreciation to Ms. Cline for the good work on Emerald's policy and working with staff.
  - Ms. Cline stated she looks forward to receiving the letter and closing the loop with the District's board of directors.

### **The City of Forest Grove**

**PRESENTED BY Jeremy Knowles, Investment Analyst Fixed Income Team.** Jeremy Knowles reviewed the investment policy for the City of Forest Grove. The City of Forest Grove ("City") last submitted their Investment Policy to the OSTF Board in 2009. The City wishes to adopt a policy like the OSTF Board sample policy. The proposed policy includes changes on Investment Advisors, Suitable and Authorized Investments, Extended Maturities, and Investment Parameters. The amount of funds falling within the scope of this policy over the next three years is expected to range between \$30 million and \$80 million. The City will primarily be changing the investment parameters by extending maturities beyond 5 years for a few items and changing the investment advisor policy portion.

#### Summary of Key Changes:

Treasury Staff compared the draft policy to the most current OSTF Board sample policy. There were few substantial changes recommended by Treasury Staff so it was deemed fine to proceed without revisions.

#### Treasury Staff's Observed Differences from Sample Policy and City's Responses:



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- Consider under Prudence section removing the word “and” between “as soon as practical and action” to read “as soon as practical action”. **Agreed and Done.**
- Consider reducing US Agency Obligations maximum % per issuer from 35% to 33%. **Comfortable at 35%.**
- Recommend reducing Municipal Debt maximum from 25% to 10%. **Comfortable at 25% per advisor recommendation.**
- Consider adding section for Cash Vehicles: Bank Demand Deposits vs. Time Deposits  
Bank demand deposits in qualified depository institutions are considered cash vehicles and not investments and are therefore outside the scope and restrictions of this policy. Pursuant to ORS 294.035(3)(d), time deposits, certificates of deposit and savings accounts are considered investments and within the scope of this policy. **The City is incorporating cash bank deposit balances under this policy that are available for investments.**
- Consider adding definition of Credit Risk: Credit risk is the risk that a security or a portfolio will lose some or all of its value due to a real or perceived change in the ability of the issuer to repay its debt. **Comfortable with credit risk language.**
- Consider including a section for determining a security’s rating: **Included in credit risk section iii.**  
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.
- Consider adding definition for Liquidity Risk: Liquidity risk is the risk that an investment may not be easily marketable or redeemable. **Comfortable with liquidity risk addressed through liquidity components in maturity sector.**
- Consider including verbiage on the importance of issuance size: **Comfortable with not including per advisor recommendation.**  
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. **Comfortable with not including per advisor recommendation.**
  - Paul Downey thanked the Board for taking the time to look at the policy. The City has already incorporated some of the changes. This is a big change compared to the 2009 policy as the 2009 policy was very restrictive. The City has been utilizing the investment advisor for a year now to improve their cash investing. The City is comfortable at leaving municipal debt at 25%, however they tend to be more conservative and most likely will not reach 25%.

### COMMENTS FROM THE BOARD

- Chairman Goe thanked the City of Forest Grove team for their good work and also commended the staff for their work on the policies. There were no further comments from the Board.

### Crook County

**PRESENTED BY Jeremy Knowles, Investment Analyst Fixed Income Team.** Jeremy Knowles reviewed the investment policy for Crook County. Crook County (“County”) last adopted their Investment Policy in 2013 and last submitted to the OSTF Board in 2001. The County wishes to adopt a policy like the OSTF Board sample policy. The proposed policy includes changes on Investment Advisors, Suitable and Authorized Investments, Extended Maturities beyond 5 years, and Investment Parameters. The amount of funds falling within the scope of this policy over the next three years is expected to range between \$50 million and \$100 million.

Summary of Key Changes:



## OREGON STATE TREASURY

Treasury Staff compared the draft policy to the most current OSTF Board sample policy. There were few substantial changes recommended by Treasury Staff so it was deemed fine to proceed without revisions.

### Treasury Staff's Observed Differences from Sample Policy and County's Responses:

- Consider reducing US Agency Obligations maximum % per issuer from 35% to 33%. **Reviewed and comfortable with 35%.**
- Consider reducing Municipal Debt maximum from 25% to 10%. **Reviewed with advisor and comfortable with 25%.**
- Consider adding section for Cash Vehicles: Bank Demand Deposits vs. Time Deposits. **Addressed in table and only using bank deposits that are part of investment program.**

Bank demand deposits in qualified depository institutions are considered cash vehicles and not investments and are therefore outside the scope and restrictions of this policy. Pursuant to ORS294.035(3)(d), time deposits, certificates of deposit and savings accounts are considered investments and within the scope of this policy.

- Consider adding definition for Liquidity Risk: Liquidity risk is the risk that an investment may not be easily marketable or redeemable. **Provide for liquidity through fund balances not investment holdings reviewed and comfortable with how it's working.**
- Consider in Liquidity Component definition changing "City" to "County". **Thank you – Fixed.**
- Consider including verbiage on the importance of issuance size: **Reviewed with Advisor and comfortable with excluding.**

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.

- Dodge Kerr expressed his appreciation for reviewing their policy, the great feedback and Mr. Knowles' hard work on the policy. Galan Carter echoed Mr. Kerr's sentiments.

### COMMENTS FROM THE BOARD

- Chairman Goe thanked the staff and the County for the good work put forth on the policy.
  - Deanne Woodring mentioned that Garrett Cudahey is present and asked if he could address the issuance question for the Board to know why we are excluding that issuance. This would be to get more color for reviewing comments on the policy sample.
    - Garrett Cudahey commented that we would not be able to buy a taxable municipal bond, if that were the case. The 1-to-5-year taxable municipal bond index that requires index eligible size has 21 bonds in the entire county just to give some context, so we would just be able to buy 1 or 2 California bonds and the rest would be completely off limits as well as a lot of the agency bullet market and most likely 2/3 to 3/4 of the agency callable securities market, thus would think of managing liquidity first at the program level and not the security selection level and second look at the portfolio. Mr. Cudahey noted in terms of liquidity, he suggests excluding that to have the flexibility to execute their strategy while thinking about liquidity across the other 3 dynamics?
  - Ms. Woodring stated this could be considered when looking at the sample policy and could be an optional or future discussion point for the Board to know what this means as this can be restrictive to certain investments.



## OREGON STATE TREASURY

- Mr. Goe asked Garrett Cudahey if he would submit to the Board and staff any specific language changes made to the policy and this could be reviewed at the next OSTF board meeting?
  - Mr. Cudahey said that he would oblige.
- Brian Nava asked a question that since Mr. Cudahey would be acting on the capacity of a firm, would that come through a municipality in terms of how the board accepts and considers comments?
  - Mr. Goe's viewpoint is that we always welcome suggestions from the public, particularly those who have expertise. Additionally, he welcomes comments from members of the board or other local government who would like to weigh in on the issue as well.
  - Jeremy Knowles commented that if we keep everything out in the open and above board, we would be comfortable accepting information and policy suggestions from anyone in the public as long as they add to the fruitful discussion for improving investment policy for everyone going forward.
  - Perrin Lim echoed Mr. Knowles comments.
- Mr. Goe suggested that we discuss the sample policy during our next OSTF board meeting with board members and staff (similar to the Port of Portland) and put together a model paragraph on sustainable investing, making sure we provide local government guidance and also making sure the sustainability language does not restrict or conflict with the Oregon Short Term Fund's ability to manage its funds as it sees fit. Also, to make sure this is in the best interest of all participants in the short term fund and is open to suggestions and discussion pertaining sustainable investing.
  - Mr. Knowles confirmed this will be addressed.

#### IV. 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. Cruz González acknowledged an important milestone in the history of LGIP with their first tribe joining the investment pool, the statute was changed in 2013 to allow tribes back into the pool. Mr. Cruz González expressed his excitement that we have the Cow Creek Band of Umpqua Tribe of Indians be the first tribal participant. 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. Today's balances for the Oregon Short Term Fund are slightly over \$31 billion dollars and the OSTF paid rate is increasing tomorrow from 1.15% to 1.40%. Ms. Brant mentioned we had a successful rollout of the new online portal, Connect. Ms. Brant reviewed the Participant Distribution and Participant Breakdown for School Districts, Special Districts, Counties, Cities and Other, in which 78% of overall participants are represented by Counties, Cities and School Districts. The "Other" category is comprised of Council of Governments, Urban Renewal Agency, Housing Authority, Commodity Commission, Semi-Independent State Agency and Tribe.

#### TOPICS

- Oregon Short Term Fund Analysis
- Participant Breakdown
- Participant Distribution
- Transaction Activity



## OREGON STATE TREASURY

- 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 commended Bryan Cruz González and Lauren Brant for their excellent work and is pleased that Cow Creek Band of Umpqua Tribe of Indians is a new participant in the fund.
- Brian Nava asked when a participant joins are they are required to submit their investment policy or any similar documentation?
  - Mr. Cruz González replied, there is a participant application form in addition to a board resolution that needs to be submitted. The investment policy is not required.
- Deanne Woodring complimented PFM for the fabulous service they are providing.
- Michelle Morrison commended PFM for their new platform, the excellent customer service and appreciates the support.

## v. OSTF Market Overview and Portfolio Update

**PRESENTED BY Perrin Lim:** Perrin Lim presented the OSTF Portfolio update. Mr. Lim stated that staff, in coordination with Garrett Cudahey and/or other board members will create a sample investment policy draft for the October meeting and plans to have implemented shortly thereafter. Mr. Lim announced that staff member Will Hampson will be involved in the management of the Oregon Short Term Fund.

- 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 – April 2022 CPI/PCE falls from prior month, but still at levels last seen in 1982.
- Inflation: UN Food and Agriculture World Food Price Index.
- Inflation: Wholesale Gas vs. Retail Gas Prices.
- Inflation: Housing Prices & Mortgage Rates



**OREGON  
STATE  
TREASURY**

- Widely followed yield curve slope inverted in late March/early April but now positive.
- Fed Funds Futures: 7/11/22 compared to 12/31/21.
- Snapshot of the Short-Term Fixed Income Markets + OSTF: At 1.15% 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 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.
  - Deanne Woodring mentioned to Mr. Lim that locals do their fair value market pricing at year-end and traditionally it does not get material enough and advised Mr. Lim that the staff may receive questions around this topic.
  - Brian Nava asked in terms of recession, if Mr. Lim is familiar with the Oregon Office Economic Analysis and their take on the recession?
    - Mr. Lim has not familiarized himself with the current readings but will look into this.
  - Jeremy Knowles asked Mr. Lim what he is hearing about the possibility of a soft landing versus large unemployment which is more typical.
    - Mr. Lim replied that per some of the economists and analysts he follows, they do not foresee the likelihood of a soft landing. The fact that inflation is very high will make it difficult for the Fed to orchestrate a soft landing.

**VI. Closing Remarks/Other Items of Business**

- 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 12:00 PM.

Respectfully submitted,

**Jeremy Knowles**

Jeremy Knowles  
Investment Analyst