



**OREGON
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State of Oregon

Office of the State Treasurer

Telephone Only

OREGON SHORT TERM FUND

July 7, 2020

Meeting Minutes

Members Present: Douglas Goe, Laurie Steele, Michael Kaplan, Deanne Woodring, Michelle Morrison, Sharon Wojda

Staff Present: Perrin Lim, Angela Schaffers, Will Hampson, Jeremy Knowles, Geoff Nolan, Cora Parker, Bryan Gonzalez

Other Attendees Present: Young Sheibani (Tri Met), Cara Fitzpatrick (Tri Met)

The July 7, 2020 OSTF meeting was called to order at 10:00 am 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 9, 2020 OSTF meeting minutes. Ms. Steele moved the motion which received a second from Ms. Woodring. The Board approved the minutes unanimously.

III. LGP/OSTF Investment Policy Review

Tri-Met

Tri-County Metropolitan Transportation District of Oregon (TriMet) is revising their current investment policy which was previously reviewed by the board in 2016. TriMet wishes to adopt a policy similar to the OSTF Board sample policy. The proposed policy includes further defining of scope and investment parameters. Under this policy, TriMet anticipates managing between \$600-\$700 million over the next 3 years.

Treasury Staff compared TriMet's draft policy to the most current OSTF Board sample policy. TriMet took Treasury's comments into consideration, but due to timing decided to move forward with the review without further revisions.

Comments from the Board:



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- If using an outside investment consultant then it could be beneficial to amend the policy if TriMet plans to hire one in the future
 - TriMet traditionally has not had an outside investment advisor and they modified their investment manager section to be general and allow for the possibility of an investment advisor
 - Since no investment advisor is used they do not believe they need additional language supporting advisor maintenance and review
- State other investments not listed in policy would not be eligible
 - Added piece that any new investments that do not fall under current investments will not be permitted until policy is amended
- Liquidity and operating expenditure requirements should be stated, knowing that 10% of the portfolio will remain liquid within 30 days
 - Will add section in 4.2 on page 25 to declare criteria about duration, but will not be able to set specifics for all requirements beyond what is already listed
- Including interest rate definition in policy
 - Adding in section 8.2 on page 32 to address this and adding definition to policy glossary
- Define the maximum callable exposure
 - Added maximum of 15% callable exposure
- If there are any held investments that would be exemptions under the revised policy then exemption rules should be listed
 - Added in section 10.1 that if any investments prior to the policy changes did not fall under the revised policy then they would be exemptions and reinvested upon maturity or liquidation according to policy

Mr. Goe thanked Ms. Fitzpatrick and Ms. Schaffers for presenting the investment policy to the Board.

Wallowa County

Wallowa County (The County) is submitting a new investment policy which has not been previously reviewed by the board. The County wishes to adopt a policy similar to the OSTF Board sample policy. Under this policy, The County anticipates managing between \$15-\$25 million over the next 3 years.

Treasury Staff compared The County's draft policy to the most current OSTF Board sample policy. The County took Treasury's comments into consideration and the submitted policy incorporates the recommended changes.

Comments from the Board:

- While 35% maximum callable exposure is allowed, it might still be too high to manage well. Would recommend lowering that exposure.
- Review that everything policy says will be reported on is something within capabilities to report.

Mr. Goe thanked Ms. Schaffers for presenting the investment policy to the Board.



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OSTF Board Sample Investment Policy for Local Governments

The current OSTF sample investment policy was submitted for review by Angela Schaffers. The last revision to the sample policy was made in 2015.

Comments from the Board:

- P127 Scope Section Note: When a local government fund has funds outside of policy, staff should request a copy of those and check to see if it would be more appropriate to operate under their policy
- P129 Should governing body section stay in current place?
 - Board members agree they like it in current location.
- P135 Investment Advisers Maintenance Section should be placed before the previous item (this section ii before the above section iii)
- P137 Authorization & Exposure Constraints) US Agency Obligations. Increasing Government sponsored enterprises (GSE) from 33% maximum to 40%.
 - Should also add a fifth footnote to this table with: "For example, Debentures and discount notes"
- P139 Should clarify risk rating changes for all agencies if they are changed from existing levels.
- P139 Increasing the corporate and commercial paper exposure maximum to 35% from 25%
 - Might be fine for large investors, but could be too risky for many local governments
- P139 Changing rating from AA to AA-.
 - Keeping more conservative guidelines is usually best but should note where statute limits investments.
 - This will help local governments with resources and compliance capabilities to invest in potentially riskier investments if they so choose.
- P140 Repurchase agreement language is confusing since it is listed as prohibitive
 - Regarding the current term "Repurchase Agreements" we'd agree that, technically, as it would be applied by LGs (or the OSTF), Reverse Repurchase Agreements is applicable for the Sample/Model and should be revised.
 - The intent of section VIII-3-iii Securities Lending was to prohibit the use of third party/external securities lending managers which would introduce additional reinvestment risk and management fees.
 - We would suggest moving what is currently 3. Prohibited Investments to the end of section VIII. Suitable and Authorized Investments, thus what is currently 4. Demand Deposits and Time Deposits and 5. Repurchase Agreements would move up the list. Arguably, Prohibited Investments could be moved to a separate section just below section VIII Since the three in prohibited are not suitable and authorized.
- P142 Authorization & Exposure Constraints, Municipal Debt. Possibly increase maximum allocation to more than 10% and reducing risk rating from AA to AA-
 - This allocation has usually been sufficient and as such it is recommended to remain at the current 10% maximum
- P142 Authorization & Exposure Constraints, Time Deposits; Savings Accounts; CD's. There should be an added note that specifies that they must be included on an Oregon list
- P143 US Agency Mortgage-backed Securities revision



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- “US agency Mortgage-Backed Securities (MBS) securitized by residential mortgage pools such as those issued by FNMA and FHLMC are not allowed.”
- P144 Securities Lending and Reverse Repurchase. Should these be separate items?
 - The intent of section VIII-3-iii Securities Lending was to prohibit the use of third party/external securities lending managers which would introduce additional reinvestment risk and management fees.
 - Recommend revising language:
 - The [Local Government] shall not directly participate in a securities lending program nor employ the use of a third party/external securities lending manager.
- P144 Investment Credit Ratings Sources. Gives option on one or two ratings.
 - Recommend using two ratings
- P145 Portfolio Credit Rating. Possibly lower rating minimum from AA to AA-
 - Recommend that AA minimum is prudent
- P145 Maturity Buckets. Recommend changing the [3/5] year allocation to just 3 years so that portfolios will stay more conservative.
- P146 Interest Rate Risk and Callables
 - Staff is fine with leaving callable exposure up to the LG because of one key metric in section IX-3-vi Interest Rate Risk: The maximum portfolio average maturity (measure with stated final maturity) shall be 1.5 years.
 - This assumes the LG has the ability to accurately monitor the various required in the section XIII (1) Reporting requirements.
 - If Board agrees, the item iv. can be deleted (specifically listing callable maximum %), a small number can be listed, or a placeholder can be used instead of a specific number
- P147 Average Portfolio Maturity
 - Staff recommends 1.5 years as the maximum portfolio weighted average maturity, period, regardless of a 3 year or >3 year final maturity of any individual security
- P147 Proceeds from Debt Issuance. These pertain directly to debt issuance reserves – not construction bond proceeds – so it is confusing language.
- P147 Reserve or Capital Improvement Projects. Review this statute – the title isn’t right as it pertains to all investments and is better placed in the maturity section.
 - Revised Language: Maturity Dates Considerations
 - Pursuant to ORS 294.135 (1) (a) Investments can be made longer than 18 months as long as the written investment policy, prior to adoption, was submitted to the Oregon Short Term Fund Board for review and comment to the government body, that includes guidelines concerning maximum investment maturity dates and that provides for re-adoption not less than annually; or (b) when funds in question are being accumulated for anticipated use that will be longer than 18 months after the funds are invested, then upon approval of the governing body the funds may be invested to the maturity target of the expected use.
- 144A statutory changes might be coming and should be reviewed if they might change investment options

Ms. Schaffers recommended drafting policy changes and sending them to the Board for comments ahead of the next meeting. Mr. Goe agreed that the Board should have the draft policy changes to review in order to approve or refine by the next meeting. He then thanked Ms. Woodring for her policy comments.



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IV. Oregon School District Investment Policy Update

Ms. Schaffers provided backstory for why this policy needed to be discussed and updated. Oregon School Districts felt they were receiving mixed messages about policy objectives, so the new goal is to promote the sample policy first.

Board member Michelle Morrison presented an Oregon School Board Association investment policy update and draft of the administrative rule for review. Of the 197 public districts, few exceed the maximum allowed per statute invested in the OSTF. The administrative rule proposed will help school districts more closely align with the OSTF sample investment policy.

Mr. Goe recommended Ms. Schaffers and Ms. Morrison take this back to School District representatives and see if it works as desired for the next 6 months.

V. OSTF Market Overview and Portfolio Update

Perrin Lim presented the OSTF Portfolio update. John Lutkehaus has been hired as a new investment officer to manage longer term investments. COVID-19 impact on the Short-Term Fixed Income Markets was discussed and the current difficult investment environment was reviewed.

- Short Term Yields
- U.S. Government Rates
- Volatility in yields

May 31, 2020	
Fund NAV	\$23,775,909,281
Fund NAV/OSTF Balances (Jan 2020)	1.012
Weighted Average Credit Quality	AA/Aa2/AA-
Book Yield	1.17%
Weighted Average Maturity (Days)	184
Duration (Years)	0.53
Spread Duration (Years)	0.87
Rate Paid to Participants	1.30%

- OSTF Portfolio Update
- OSTF Sector Breakdown
- OSTF Corporate Industry Breakdown
- OSTF ABS Breakdown
- OSTF Issuer Exposure Breakdown
- OSTF Country of Risk Breakdown
- OSTF Credit Profile Breakdown
- OSTF Coupon Type Breakdown
- OSTF Rates Comparison
- OSTF Performance

VI. Closing Remarks/Other Items of Business



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Date of next Board meeting – Thursday, October 8, 2020, on conference line only.

Mr. Goe adjourned the meeting at 12 pm.

Respectfully submitted,

Jeremy Knowles

Jeremy Knowles
Investment Analyst