



**OREGON
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State of Oregon

Office of the State Treasurer

Telephone Only

OREGON SHORT TERM FUND

January 21, 2021

Meeting Minutes

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

Staff Present: Perrin Lim, Jeremy Knowles, Geoff Nolan, Cora Parker, Rex Kim, Andy Coutu, John Lutkehaus, Lisa Pettinati, Edie Kessel, Scott Robertson, Bryan Gonzalez

Other Attendees Present: PFM: Chris Trump, Lauren Brant
Gilliam County: Nathan Hammer
City of Klamath Falls: Lisa Johnson and Jessica Lindsay

The January 21, 2021 OSTF meeting was called to order at 10:01 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 October 8, 2020 OSTF meeting minutes. Minor revisions were suggested and then Ms. Woodring moved the motion which received a second from Ms. Wojda. The Board approved the corrected minutes unanimously.

III. LGIP/OSTF Investment Policy Review

PRESENTED BY Geoff Nolan: Geoff Nolan introduced the policies and staff comments by Jeremy Knowles and Angela Schaffers. Mr. Nolan then introduced Nathan Hammer (Gilliam County Treasurer) to answer questions from the Board about the proposed policy.

Gilliam County

Gilliam County (County) is completely rebuilding their current investment policy which was previously reviewed by the board in 2012. The County 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, the County anticipates managing a range of funds falling within the scope of the new policy in the next three years:

- a. FY 2021-2022 \$75 Million
- b. FY 2022-2023 \$81 Million
- c. FY 2023-2024 \$85 Million

Treasury Staff compared County's draft policy to the most current OSTF Board sample policy. The County took Treasury's comments into consideration, but due to timing decided to move forward with the review



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without further revisions.

OST Staff Recommendations:

- Recommend including expected amount to be managed in policy. Listed in outside document: a. FY 2021-2022 \$75 Million b. FY 2022-2023 \$81 Million c. FY 2023-2024 \$85 Million
- Recommend including governing authority section that identifies statutory authority of the policy: Gilliam County's investment program shall be operated in conformance with Oregon Revised Statutes and applicable federal law. Specifically, this investment policy is written in conformance with ORS 294.035; 294.040; 294.052; 294.135; 294.145; and 294.810. All funds within the scope of this policy are subject to laws established by the state of Oregon. Any revisions or extensions of these sections of the ORS shall be assumed to be part of this Investment Policy immediately upon being enacted.
- Recommend section for 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.
- Recommend section for governing body: The [Designated Oversight Body or Position] will retain ultimate fiduciary responsibility for invested funds. The governing body will receive reports, pursuant to, and with sufficient detail to comply with ORS 294.085 and 294.155.
- Recommend section for delegation of authority: The [Designated Oversight Body or Position] will retain ultimate fiduciary responsibility for invested funds. The governing body will receive reports, pursuant to, and with sufficient detail to comply with ORS 294.085 and 294.155. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Investment Officer. The Investment Officer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials. All participants in the investment process shall seek to act responsibly as custodians of the public trust. No officer or designee may engage in an investment transaction except as provided under the terms of this policy and supporting procedures.
- Recommend including section for an investment committee desired in the future: The [Designated Oversight Body or Position] may seek to establish an investment committee to provide guidance to the Investment Officer(s) and monitor investment policy compliance.
- Recommend additional explicit controls to avoid potential issues: The investment officer and [Oversight Body or Person] is/are responsible for establishing and maintaining an adequate internal control structure designed to reasonably assure that invested funds are invested within the parameters of this Investment policy and, protected from loss, theft or misuse. Specifics for the internal controls shall be documented in writing. The established control structure shall be reviewed and updated periodically by the Investment Officer. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and the valuation of costs and benefits requires estimates and judgments by management. The internal controls shall address the following points at a minimum: 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



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- automated clearing house (ACH) transfers ix. Staff training x. Review, maintenance and monitoring of security procedures both manual and automated.
- Recommend stating how often controls are reviewed and tested: An external auditor shall provide an annual independent review to assure compliance with Oregon state law and the County 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.
 - Recommend additional Broker/Dealer criteria: i) Broker/Dealer firms must meet the following minimum criteria:
 - A) Must be registered with the Securities and Exchange Commission (SEC);
 - B) Must provide most recent audited financials.
 - C) Must provide FINRA Focus Report filings.ii) Approved broker/dealer employees who execute transactions with [Local Government] 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;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.
 - Recommend including Broker/Dealer Maintenance section: Periodic (at least annual) review of all authorized broker/dealers and their respective authorized registered representatives will be conducted by the Investment Officer. 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 including section for Investment Adviser if desired in the future:
The [Designated Oversight Body or Position or Investment Officer] may engage the services of one or more external investment managers to assist in the management of the entity's investment portfolio in a manner consistent with this investment policy. Investment advisers may be hired on a non-discretionary basis. All investment transactions by approved investment advisers must be pre-approved in writing by the Investment Officer and compliant with this Investment Policy. If the County hires an investment adviser to provide investment management services, the adviser is authorized to transact with its direct dealer relationships on behalf of the County.
 - Recommend including section for Investment Adviser criteria if desired in the future: 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:



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- 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 County must be registered representatives with FINRA;
- C. All investment adviser firm representatives conducting investment transactions on behalf of the County 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.
 - 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.
- Recommend including section for Investment Adviser criteria if desired in the future: 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 stating minimum ratings and reducing specific allocation maximums:
 - Corporate Debt:
 - Maximum % Holdings (Total CP & Bonds); 15%*
 - Corporate Commercial Paper:
 - Maximum % Holdings: 15%* Maximum % Holdings Per Issuer: 2.5%**
 - Minimum Ratings: A1/P1/F1
 - Corporate Bonds:
 - Maximum % Holdings: 10%* Maximum % Holdings Per Issuer: 2.5%**
 - Minimum Ratings: Aa/AA/AA
 - *35% Maximum per ORS 294.035(D)
 - **5% Maximum per ORS 294.035(D)
- Recommend reducing allocation maximum to 5% and adding clarification to repurchase agreements:



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- i. ORS 294.035 (3)(j) requires repurchase agreement collateral to be limited in maturity to three years and priced according to percentages prescribed by written policy of the Oregon Investment Council or the Oregon Short-Term Fund Board.
 - ii. ORS 294.135 (2) limits the maximum term of any repurchase agreement to 90 days.
 - iii. On March 12, 1996, the OSTF Board adopted the following margins:
 - A. US Treasury Securities: 102%
 - B. US Agency Discount and Coupon Securities: 102%
 - C. Mortgage Backed and Other*: 103%

*Limited to those securities described in ORS 294.035(1)
- Recommend stating Municipal Debt minimum ratings:
 - Municipal Commercial Paper:
 - Maximum % Holdings: 10%
 - Minimum Ratings: A1/P1/F1
 - Municipal Bonds:
 - Maximum % Holdings: 10%
 - Minimum Ratings: Aa/AA/AA
 - Recommend stating Bankers Acceptances minimum ratings:
 - Minimum Ratings: A1+/P1/F1+
 - Recommend including section for possible additional investments not stated in policy:

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 County.
 - Recommend stating investment credit ratings sources requirement:

Investments must have a rating from at least [one/two] of the following nationally recognized statistical ratings organizations (NRSRO): Moody's Investors Service; Standard & Poor's; and Fitch Ratings Service as detailed in the table below. Ratings used to apply the guidelines below should be investment level ratings and not issuer level ratings.
 - Recommend stating portfolio credit rating requirement:

The minimum weighted average credit rating of the portfolio's rated investments shall be Aa/AA/AA by Moody's Investors Service; Standard & Poor's; and Fitch Ratings Service respectively.
 - Recommend including section for Restriction on Issuers with Prior Default History:

Per ORS 294.040, the bonds of issuers listed in ORS 294.035 (3)(a) to (c) may be purchased only if there has been no default in payment of either the principal of or the interest on the obligations of the issuing county, port, school district or city, for a period of five years next preceding the date of the investment.
 - Recommend including 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.
 - Recommend including portfolio maturity buckets such as
 - Under [30/60/90] days > 25% or [three/six/twelve] months Estimated Operating Expenditures Under 1 year > 50% Under [3/5] years > 100%
 - Recommend including section regarding 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



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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.

Issue Type / Maximum % of Issuance* (Par)

US Agency Securities / 50%

Corporate Debt (Total)

Corporate Commercial Paper / 100%

Corporate Bonds / 25%

Municipal Bonds / 25%

*The par amount issued under a single CUSIP.

- Recommend stating maximum callable exposure allowed in portfolio
- Recommend including section for Average Portfolio Maturity
The maximum portfolio average maturity (measured with stated final maturity) shall be [1.5 years if maximum stated final maturity is 3 years / 2.5 years if maximum stated final maturity is five years].
- Recommend including section for Proceeds from Debt Issuance:
 1. Investments of bond proceeds are restricted under bond covenants that may be more restrictive than the investment parameters included in this policy. Bond proceeds shall be invested in accordance with the parameters of this policy and the applicable bond covenants and tax laws.
 2. Funds from bond proceeds and amounts held in a bond payment reserve or proceeds fund may be invested pursuant to ORS 294.052. Investments of bond proceeds are typically not invested for resale and are maturity matched with outflows. Consequently, surplus funds within the scope of ORS 294.052 are not subject to this policy's liquidity risk constraints within section IX (2).
- Recommend including section for 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.
- Recommend including section for Guideline Measurement:
Guideline measurements will use [par/market] value of investments.
- Recommend including additional Guide Violation Resolution:
 - i. If the portfolio falls outside of compliance with adopted investment policy guidelines or is being managed inconsistently with this policy, the Investment Officer shall bring the portfolio back into compliance in a prudent manner and as soon as prudently feasible.
 - ii. Violations of portfolio guidelines as a result of transactions; actions to bring the portfolio back into compliance and; reasoning for actions taken to bring the portfolio back into compliance shall be documented and reported to the [Designated Oversight Body].
- Recommend including reporting requirements:
The Investment Officer shall prepare a report at least [monthly/quarterly] that allows the [Designated Oversight Body] to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the investment oversight body. The report will include, at a minimum, the following:
 - i. A listing of all investments held during the reporting period showing: par/face value; accounting book value; market value; type of investment; issuer; credit ratings; and yield to maturity (yield to worst if callable).
 - ii. Average



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maturity of the portfolio at period-end. iii. Maturity distribution of the portfolio at period-end. iv. Average portfolio credit quality of the portfolio at period-end. v. Average weighted yield to maturity (yield to worst if callable investments are allowed) of the portfolio. vi. Distribution by type of investment. vii. Transactions since last report. viii. Distribution of transactions among financial counterparties such as broker/dealers. ix. Violations of portfolio guidelines or non-compliance issues that occurred during the prior period or that are outstanding. This report should also note actions (taken or planned) to bring the portfolio back into compliance.

- Recommend including section for portfolio performance evaluation:
At least annually, the Investment Officer shall report comparisons of investment returns to relevant alternative investments and comparative Bond Indexes. The performance of the portfolio should be compared to the performance of alternative investments such as available certificates of deposit; the Oregon Short Term Fund; US Treasury rates; or against one or bond indices with a similar risk profile (e.g., Bond indexes comprised high grade investments and maximum maturities of three or five years). When comparing performance, all fees and expenses involved with managing the portfolio shall be included in the computation of the portfolio's rate of return.
- Recommend including pricing section:
The market value of the portfolio shall be calculated at least [monthly/quarterly] and a statement of the market value of the portfolio shall be issued at least [monthly/quarterly].
- Recommend 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.

COMMENTS FROM THE BOARD:

- Under section 10 competitive quotes not necessary to buy investments, Mr. Wagner questioned how often investments this occurs. By indemnification purposes the County is covered but since Mr. Hammer said it doesn't occur often it should be fine.
- Ms. Wojda recommended incorporating more OST staff recommendations and then see if additional changes are necessary to provide protection and controls for the County's policy.
 - Mr. Hammer said it is supposed to be a living document that will be reviewed and updated more often. Most investments are externally managed right now anyway, but they want to update and be able to invest in the OSTF.
- Ms. Steele emphasized a few key parts that can be found in the OSTF sample policy. Further expand on governing authority, commissioners have fiduciary responsibility so it should be addressed in policy. Add more information about broker/dealers and review information at least annually to catch potential issues. Expand the on the broker section, taking relevant parts from sample policy to be more clear what broker responsibilities would be. Add a section for investment advisors since the County uses them. Target maturity should have maturity buckets to prevent too much becoming long term. Add a section for average weighted maturity, maximum callable exposures, and minimum ratings for the County's portfolio.
- Ms. Woodring want to highlight that there was no maximum maturity limit in section 8. A 3 or 5 year limit can help external manager (Fidelity) with their guidelines. Since a software provider is stated it will have to be updated and reviewed if a new software is utilized in the future, which is potentially more arduous then desired but fine if the County wants this to be a living document that is reviewed and updated frequently.
- Mr. Kaplan recommended mirroring sample policy for missing elements in the County's policy.



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- Mr. Goe appreciates the living document concept but recommends incorporating many of the recommended changes to save the County a lot of time and effort in the future.

Mr. Hammer thanked everyone for their input and said he will work on updating the policy and hopefully be back before the Board in the near future for further improvements.

City of Klamath Falls

Mr. Nolan introduced the policy and the representatives on the phone from the City of Klamath Falls ("City"), Lisa Johnson and Jessica Lindsay.

The City is rebuilding their current investment policy which was previously reviewed by the OSTF Board in 2012. The City wishes to adopt a policy similar to the OSTF Board sample policy.

Under this policy, The City anticipates managing between \$10-\$35 million over the next 3 years.

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

COMMENTS FROM THE BOARD:

- Ms. Woodring wanted to confirm that the performance section isn't too detailed or difficult to monitor with everything listed. It looks good, but some parts might not be fully necessary to safely protect your portfolio.
- Ms. Steele appreciated the City's conservative approach to investment allocations.
- Ms. Wojda clarified that the corporate bonds rating was changed to AA.

Mr. Goe thanked everyone for presenting to the Board.

IV. LGIP Participants and Operations

PRESENTED BY Cora Parker: Cora Parker, Laura Brant, and Chris Trump provided an update from PFM.

TOPICS

- Participant Breakdown
- Entity Types
- Assets Over Time and Growth
- Transaction Activity
- Service Uptime Metrics
- Security Enhancements
 - Multi-Factor Authentication
 - EON Notification
 - Password Complexity Standards

COMMENTS FROM THE BOARD:

- Mr. Goe asked why Housing Authority breakouts not listed here.



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- Ms. Brant and Bryan Gonzalez confirmed that there are different governance structures for Housing Authority and special district types will be changed in the future.
- Ms. Morrison thanked everyone for the data and graphics of the breakouts along with the enhanced security changes.

Mr. Goe thanked Ms. Parker and the PFM team for the input and updates.

V. Policy Update Inv 303

PRESENTED BY Geoff Nolan: Mr. Nolan presented a proposed update for repurchase agreements (repos). The policy update process will now have multiple parties viewing changes before going before the Board: general consultant (Meketa), Legal, and Compliance. Repos have not been used as written in existing policy due to complexity and collateral requirements. The proposed changes will allow investment officers to maintain secured collateral requirements while gaining yield and reducing complexity to make the trades advantageous. The changes will make the policy more conservative by utilizing a tri-party custodian, broaden the collateral requirements to make deals secure and more desirable, and clarify guidelines by removing unnecessary verbiage.

COMMENTS FROM THE BOARD:

- Ms. Woodring confirmed that the custodian could restrict collateral and that OST can tell them collateral requirements.
- Mr. Goe suggested inserting the word “chapter” between ORS and 293, page 3 under permitted time deleting the word “chapter” from Chapter 295.005, procedures and standards of care delete “chapter” from that section.

With the changes noted, there was a motion to approve the policy by Ms. Steele and seconded by Mr. Kaplan. The policy update was unanimously approved.

VI. OSTF Market Overview and Portfolio Update

PRESENTED BY Perrin Lim: Perrin Lim presented the OSTF Portfolio update. 2020 impact on the Short-Term Fixed Income Markets was discussed and the current difficult investment environment was reviewed.

- Short Term Yields
- MMF Assets Trend
- Inflation Rates
- Treasury Rates Expectations
- Velocity of Money
- US Fixed Income Markets vs Global Developed Markets
- OSTF Lending Fund
- General Fund Cash Flow

November 30, 2020	
Fund NAV	\$29,243,902,380.51
Fund NAV/OSTF Balances (Jan 2020)	1.067
Weighted Average Credit Quality	AA/Aa2/AA-



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Book Yield	0.73%
Weighted Average Maturity (Days)	203
Duration (Years)	0.56
Spread Duration (Years)	0.74
Rate Paid to Participants	0.75%

- 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

Comments from the Board:

- Mr. Goe asked about what county loans were still on the books.

Mr. Goe thanked Perrin Lim for presenting the changes to the Board.

VII. Closing Remarks/Other Items of Business

- Mr. Goe thanked the Board for their insights and support for the local government policies.

Mr. Goe adjourned the meeting at 11:55 AM.

Respectfully submitted,

Jeremy Knowles

Jeremy Knowles
Investment Analyst