



**OREGON  
STATE  
TREASURY**

# State of Oregon

## Office of the State Treasurer

Telephone Only

### OREGON SHORT TERM FUND

January 31, 2023

#### Meeting Minutes

<b>Members Present:</b>	Douglas Goe, Michael Kaplan, Deanne Woodring, Sharon Wojda, Michelle Morrison, Brian Nava
<b>Staff Present:</b>	Perrin Lim, Rex Kim, Will Hampson, John Hershey, Sara Bayes, Jeremy Knowles, Alli Gordon, Anna Totdahl, Cora Parker, Bryan Cruz González, Lisa Pettinati, Annie Gregori, Ericka Langone, John Lutkehaus, Andy Coutu, Tan Cao, Dave Randall, Ken Tennies, Scott Robertson, Karl Cheng, Michael Makale, Kristi Jenkins, Tim Powers
<b>Other Attendees Present:</b>	PFM Asset Management: Lauren Brant

The January 31, 2023 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. 2023 Legislative Session Discussion**

**PRESENTED BY Michael Kaplan, Deputy State Treasurer.** Michael Kaplan conducted a review of the 2023 Legislative Session and discussed Treasurer Read's two main areas of focus. The first and most consequential is the proposal to the legislature to raise fee caps on our investment portfolios for the Oregon Short Term Fund and expressed we do not need to raise the fee caps for this biennium and possibly next biennium. Mr. Kaplan noted that we strive to manage our revenue to regulate the ups and downs in the market. The second main area of focus organization wide is resiliency, local and state governments will still be able to access the necessary resources in the event of a disaster or technology failure and we are asking the legislature for their consideration to raise fee caps in advance given the associated costs and increase in the sophistication and complication of the portfolio. The comingled funds are at a quarter of a basis point per month and we are proposing it go up 10 basis points which would amount to a fee of 0.35% per month for the Oregon Short Term Fund and for OPERF and several others it would go up from 0.435% to 0.5% . Fee increases are not anticipated for the next two years and potentially during the next four years.

#### **COMMENTS FROM THE BOARD**

- Deanne Woodring inquired if there is a document indicating what the fees are to present to the legislature.
  - Mr. Kaplan noted that raising the cap does not raise our revenue and the amount of revenue that we are able to expend is raised through the budget process. We are currently at the fee cap which generates enough revenue to fund our basic service in



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addition to any policy option package and further requests are all funded within that current revenue for the next two years. The revenue number depends on the size of the portfolio. However, the amount we can expend is set by the legislature. The amount we are allowed to go up to and the amount we are able to expend are two separate processes and handled by separate committees.

- Brian Nava requested coming up with a strategy to review how these basis points are charged and potentially having this presented yearly during the Oregon Short Term Fund Board Meeting or at the OACTFO session.
  - Mr. Kaplan expressed that the dollar amount and where revenue is spent is reflected through the budget process and not in the fee cap conversation. In the budget process, the legislature limits how much revenue Treasury can raise and what it can be spent on. Also, all of the budget documents and revenue projection are public.
- Mr. Nava requested that Mr. Kaplan send the budget documents to the board for review.
- Sharon Wojda inquired about obtaining a bill number in which Mr. Kaplan replied he will provide the bill number to the Board.
- Deanne Woodring appreciates the points made by Mr. Nava and the transparency pertaining to OACTFO. Ms. Woodring noted that the fixed costs to operate are embedded and if balances increase so too could the fixed costs. Ms. Woodring commented that it is helpful to be able to provide transparency to the OSTF Board and local governments.

### III. Review and Approval of Minutes

**MOTION:** Mr. Goe asked for a motion to approve the October 19, 2022 OSTF meeting minutes. The Board approved the minutes unanimously.

### IV. Review/Discussion of ESG Language

**PRESENTED BY Anna Totdahl, Investment Officer, ESG and Sustainability.** Perrin Lim introduced the presenters. Anna Totdahl, Investment Officer, ESG & Sustainability, Investment Division and Rex Kim, Chief Investment Officer, Investment Division provided a presentation about the Oregon Short Term Fund Board Sample Policy For Local Governments, including a review of ESG language under the various proposed options below. ESG language has been embedded into the risk section of the Sample Policy document providing two separate options for language, the first draws on language from the Oregon Investment Council Statement of Investment Beliefs and the second allows for more of an impact orientation if that is what the local government or agency selects based on their level of statutory flexibility.

**Environmental, Social, and Governance Factors (Choose yes or no to include. If yes, consider only i. or both i. and ii.)**

i. The integration of Environmental, Social and Governance (“ESG”) factors, similar to other investment factors, may have a beneficial impact on the economic outcome of an investment and aid in the assessment of risks associated with that investment. The consideration of financially material ESG factors within the investment decision-making framework may be important in understanding the near-term and long-term impacts of investment decisions. Understanding how social and environmental factors affect investments may be an important step towards building a more sustainable portfolio.

ii. (Consider adding the following language in addition to the above.) To the extent consistent with our fiduciary responsibility, we also seek to understand what the social and environmental effects may be and identify ways we can enhance the positive impact of our investments and help mitigate the negative impact. As investors, we believe that climate change and socioeconomic factors are systemic risks to our portfolio. Investing in companies and assets that provide solutions to these problems may help to mitigate these risks and strengthen the portfolio.



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### COMMENTS FROM THE BOARD

- Deanne Woodring has concerns about incorporating ESG language at this point and looking to incorporate minimal language at this juncture.
- Brian Nava noted that the representative of the OACTFO group is opposed to ESG language, however open to optional language for local government to consider if it is consistent on how it is incorporated into the policy.
- Michelle Morrison appreciates the information provided.
- Rex Kim clarified that the language is available and optional.
- Anna Totdahl appreciates the comments and recognizes this is an evolving topic.
- Chairman Goe mentioned the Oregon Short Term Fund provides leadership to the community and having this as an optional item in the sample policy would give local governments and agencies the option to decide whether to include or modify to meet the needs of the community and noted this has been a major topic of discussion in the investment world.
- Jeremy Knowles commented that there are about 6 local governments and other entities within the past year that have been interested in including ESG divestment or impact investing language into their policies and wanted to wait to make revisions to their policies until they heard that our sample policy was updated with guiding language they can utilize. The intent is that this language was to be broad enough to incorporate the language into their policies whether it be for divestment, impact investing, or risk management and mitigating factors.
- Michael Kaplan noted that from a statewide perspective, how we invest, how we think about risk and how we incorporate into the portfolio from a functional standpoint is a message that does not appear to be getting up to our legislature. Local governments may have a more effective pathway to communicate some of the complexities and some of our best messengers are within the Oregon Short Term Fund and Oregon Local Government Investment Pool and urges the conversation.
- Mr. Kim stated from the Treasury's perspective in terms of the Oregon Short Term Fund and the integration of EGS, we view ESG as an additional risk factor.
- Ms. Woodring suggested having the language be more general and not getting into the specifics, likes the optionality and perhaps we should review and update the entire sample policy while we are making this change.
- Mr. Goe suggested that this be part of the overall review and the board provide their specific comments to Treasury staff and they can work on this portion of the policy and the entire policy as a whole. Mr. Goe suggested considering changing the last sentence "As investors, we believe that climate change and socioeconomic factors **are** systemic risks to our portfolio" to "As investors, we believe that climate change and socioeconomic factors **may be** systemic risks to our portfolio".
- Sharon Wojda likes having standardized language and the "may" disclaimers.

### V. LGIP Participants and Operations Overview

- **PRESENTED BY Cora Parker:** Cora Parker thanked the Board for the opportunity to present today. Ms. Parker 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 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. Today's balances for the Oregon Short Term Fund



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are approximately \$35 billion dollars and the local government component representing approximately \$11.5 billion dollars of that amount. Ms. Brant thanked everyone for their continued partnership and acknowledged this is the 7<sup>th</sup> year with PFM Asset Management's partnership and the 6<sup>th</sup> year of the Go Live online portal. Ms. Brant reviewed the Participant Distribution and Participant Breakdown for School Districts, Special Districts and Cities which make up 82% of LGIP's overall portfolio assets. Ms. Brant reviewed the Asset Comparison Year over Year and assets continue to hit their high watermark levels, the average assets for the LGIP are up close to \$250 million year over year. Ms. Brant noted that the Participant Distribution for December 31, 2022 states 35 Counties, however the correct number is 36 Counties and will be corrected for the next quarterly report. Regarding the Service Level Agreement Metrics, there was an unplanned outage that occurred during October 2022 at PFM which resulted in the online access going down for approximately 14 hours, however there was no disruption in the ability for participants to transact. The outage was reported to Cora Parker and staff. As outlined in the SLA there is a formula used to calculate a penalty which was used for the first time. PFM worked closely with Ms. Parker and staff to deploy the formula and to ensure that the correct credits in the amount of penalty for the period were made to the November invoice. Year to date all of the metrics for online, phone service and any backup systems are above or at the required metrics agreed to with Treasury. For New & Closed Participants there are two new participants, a City and a Special District and no closed participants for the period.

### TOPICS

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

### COMMENTS FROM THE BOARD

- Chairman Goe inquired as to what may have cause the outage and steps taken to prevent this from occurring in the future.
  - Ms. Brant stated this happened in Harrisburg, Pennsylvania and was due to a disruption in the cable/network provider for that system. PFM has had extensive conversations with their internal IT teams to ensure that they are notified more quickly and make sure this does not happen again particularly in terms of the notification piece.
- Deanne Woodring asked regarding connectivity and with the US Bank mergers if it is still out of Harrisburg, Pennsylvania.
  - Ms. Brant replied that their technology conversion took place at the end of October and all of their systems are now mapped to US Bank with full integration and this happened before the October outage transpired. Ms. Brant also noted that they have greater security and certainty which will help mitigate these type of outages going forward.
- Deanne Woodring commented that the ability for the local governments to have multiple accounts for tracking and accounting purposes is important.
- Brian Nava thanked the Treasury team for the great service and responsiveness.



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**VI. OSTF Market Overview and Portfolio Update**

**PRESENTED BY Perrin Lim:** Perrin Lim, Fixed Income Investment Officer, Investment Division and Will Hampson, Fixed Income Investment Officer, Investment Division presented the OSTF Portfolio update.

- Inflation: Consumer Price Index.
- 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 2-Yr/10-Yr Treasury curve strongly suggests recession on horizon.
- Fed Funds Futures: 1/26/23 compared to 7/28/22.
- 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 3.75% and still catching up to unprecedented Fed tightening 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**

- Chairman Goe asked due to ESG factors, if there is a premium that gas and oil companies pay for the Oregon Short Term Fund securities and if there is a trading differential.
  - Mr. Lim replied that regarding the Oregon Short Term Fund that is a rarely the case.
- Will Hampson commented on the size of the Oregon Short Term Fund. Over the past 6 plus months staff has been adjusting how repurchase agreements ("repos") are set within the guidelines.
- Deanne Woodring asked if a draft of the Sample Policy will be ready by the next meeting on April 25<sup>th</sup> and Mr. Lim confirmed it will be ready by the next OSTF Board Meeting.

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

- Mr. Goe thanked everyone for an excellent meeting and good participation.

Mr. Goe adjourned the meeting at 11:17 AM.

Respectfully submitted,

Alli Gordon  
Executive Support Specialist