



**OREGON SHORT TERM FUND BOARD MEETING
MEETING MINUTES
Thursday, October 11, 2018**

OSTF Location: Oregon State Treasury
Investment Division
16290 SW Upper Boones Ferry Rd Suite E
Tigard, OR 97224

Board Attendees: Douglas Goe
Darren Bond
Deanne Woodring
Laurie Steele
Danton Wagner

Attendees (Staff): Perrin Lim
Emily Nash
Garrett Cudahey
Angela Schaffers
Aliese Jacobsen
Geoff Nolan
Anna Totdahl
Dave Randall
John Skjervem

Other Attendees: Matt Warner- City of Tualatin
Don Hudson- City of Tualatin

i. Opening Remarks

Doug Goe welcomed all to the Oregon Short Term Fund Board (the "Board") meeting and roll was taken. Mr. Goe introduced new Board Member Danton Wagner to the Board. Mr. Wagner gave a brief introduction to the Board.

ii. Review and Approval of Meeting Minutes

a. **July 10, 2018**

MOTION: Doug Goe asked if anyone had any corrections or objections before the approval of the July 10, 2018 Board Meeting Minutes. There were none, the Board approved the Minutes unanimously.

iii. **Introductions of new Oregon State Treasury Staff**

Doug Goe welcomed new Oregon State Treasury ESG and Sustainability Investment Officer Anna Totdahl and Senior Investment Officer for Fixed Income Geoff Nolan on behalf of the Oregon Short Term Fund Board.

iv. **LGP/OSTF Investment Policy Review**

a) **Greater Albany School District**

The Greater Albany School District policy was submitted by Russ Allen, the Director of Business and Operations at Greater Albany School District and introduced to the Board by Angela Schaffers. The Board last reviewed Greater Albany School Districts investment policy in 2007 and they plan on managing approximately \$135 million under this policy, with plans to spend that down through 2021. Board Member Deanne Woodring formally recused herself from Board comment as she serves as investment advisor to The Greater Albany School District.

Comments from the Board were:

- Page 1 – The Board questioned why they deviated from the Scope in the sample policy. Ms. Woodring commented on the challenge of working with the school districts and their boards, making it difficult to adopt the sample policy entirely. She stated the scope was their standard scope and that she would go back and highlight the issue with the school district.
- Page 3, Section 3- The Board questioned why the School District omitted requirements to disclose conflicts of interest. The Board recommended the School District add the clause back in.
- Page 4, Section 2- The Board recommended language used in this section be reworked and that they add in the word “Chapter” between ORS and 295.
- Page 7, Section 2 – The Board advised that the School District make sure they are comfortable with the AA-rating listed under corporate and municipal securities and issued warning regarding lesser rated securities potential to become a liability. Currently the policy notes that the School District may invest in corporate and municipal securities rated as low as AA-. The Board also pointed out that the policy does not talk about split ratings or any provisions for how they would handle split ratings.
- Page 9, Section 3- The Board recommended that they use a different benchmark, since this portfolio goes out 5 years and allows them to buy corporate and municipal debt. Ms. Woodring stated that they have focused on adopting a short form policy to guide them on their \$200 million bond proceeds. Her recommendation to follow the Treasury 0-3 Year Index is to ensure their safety on the maturity sector during times of overflow in their operating budget, attempting to stay more conservative on the nature of the highest risk in that portfolio which would be duration risk. The policy constrains them within their credit risk by the stated elements, to maintain and control their duration risk.

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

b) City of Tualatin Investment Policy

The City of Tualatin investment policy was submitted by Don Hudson, the Finance Director for City of Tualatin who worked with Angela Schaffers along with Board Member Deane Woodring from GPA. Ms. Schaffers introduced Mr. Hudson to the board as well as Matt Warner, the Assistant Finance Director for the City of Tualatin. Ms. Schaffers stated that this is a new policy for the City who wishes to adopt a policy similar to the Short Term Fund Board sample policy, with plans to manage between \$40-50 million. Board Member Deanne Woodring formally recused herself from Board comment as she represents the City.

Comments from the Board were:

- Page 3, Section 3-The Board recommended that the City review this section and alter the language to reflect that “all funds should be subject to the investment policy rule”.
- Page 4, Section 5.1-The Board recommended that the City add or change the language to “ultimate fiduciary responsibility”.
- Page 4, Section 5.2- The Board pointed out that they cited the “Prudent Person Rule” and not the “Prudent Investor Rule”, (but referred to it in the policy as the “Prudent Investor Rule”). The Board recommended the City review and correct the citation.
- Page 9, Section 9.1-The Board noted that there was no reference on split ratings. The Board recommended that the City add how split rated securities are to be managed in their policy so that it is managed consistently. Ms. Woodring responded that the split ratings issue was addressed in Section 8.2.
- Page 9, Section 9.1- The Board noted that there was no reference to the maximum 14 business day settlement date restriction.
- Page 13, Section 14- The Board recommended that instead of listing that the policy would be “adopted annually and reviewed by the Short Term Fund Board”, that it should state that it would be reviewed annually and adopted by the City Council.
- Board Members discussed the AA- interpretation and the need for clarification on whether AA- would be included in the AA category and acceptable for local governments to have in their portfolio. Board Members agreed and concluded that they would take steps to improve and update the sample policy over the course of the next year or as staff availability/time allow. They continued by stating that AA- could be considered a legal category. However, the Board also advised until ORS Chapter 294 is revised by legislative; local government should rely on their legal counsel to advise them on legality.

Mr. Goe thanked everyone for their input on these issues.

c) Grant County Investment Policy

The Grant County investment policy was submitted by Grant County Treasurer Julie Ellison and introduced to the Board by Angela Schaffers. This policy was last reviewed in 1992. Ms. Schaffers stated that this is an overhaul from the original policy since Ms. Ellison wanted to mirror the sample policy. The County plans to manage \$50-70 million.

Comments from the Board were:

- Page 1, Section 3-The Board recommended the County reconsider the phrasing under Scope and the language of how the policy applies to activities with regards to the investing of “all funds” and then the exclusion of some funds.
- Page 8, Section 2. IV-The Board questioned if there was a typo under issuer constraints, where the policy states the County has a maximum 100% corporate commercial paper limitation. Ms. Schaffers believed that was a typo and stated she would follow up with Ms. Ellison.
- Page 9, Section 3. VI-The Board recommended the County take another look at this section. The policy states that maximum portfolio average maturity is two and a half years, which seems off since, depending on intent and *interpretation* of Section 2, ii, regarding maturity constraints, 25% of the portfolio is constrained to less than 60 days and 50% of the portfolio is constrained to less than two years.
- Page 10, Section 1-The Board recommended the County review whether they had the software to supply the extensive list of Compliance Reports that they listed under “Compliance Reporting”.

Doug Goe thanked everyone for their work on this policy.

v. Proposed Policy Changes

Garrett Cudahey gave a brief presentation to the Board on the OST Staff recommendation to increase the exposure rate in the ABS sector from 15% to 25% and, by doing this, increasing exposure in “Prime Auto Space”, “Money Market Tranches” and introducing “Prime Auto Lease Issuers”. He stated that they would continue to invest only in, AAA and the highest rated Money Market Tranches, keeping in line with OSTF objectives. He asked for the Boards counsel and support before taking this proposal before the Oregon Investment Council.

- Board Members expressed concern in regards to the future and protective measures within our agency to continue to maintain our high level of diligence and compliance when investing. Board Members asked how we plan on ensuring that less favorable assets do not become attractive to staff who may be “less conservative”. Mr. Cudahey issued reassurance and discussed the many checks and balances that are in place at OST. He stated everyone in the organization sees what happens in real time. There is a Risk Team led by Karl Cheng, Senior Investment Officer, Risk & Research, that looks at OST portfolios on a monthly basis, including the OSTF, and that Karl and his staff have discussions when needed, however, he continued that he could not give complete assurance in regards to the future beyond our current staff. Board member Darren Bond echoed what Mr. Cudahey stated, and emphasized that this is a very different organization than it was 5 years prior. OST did not have a Risk team, looking at the entire portfolio and calculating the risk for participants associated with investment decisions, nor did they have an Operations team with the data analytics capability looking across the whole portfolio. OST didn’t have Aladdin or the outsourced resources we receive from BlackRock. Investment

Division Director and Chief Investment Officer John Skjervem corroborated Mr. Bond’s point, that in today’s OST environment, there are many additional sets of eyes looking at everything we do, with real-time information. He stated he couldn’t impress upon the Board enough how dramatically different the agency is today from when he took his current position six years ago. He credits the progress made by the Investment Division to a combination of the new systems acquired and the talent of employees within the organization, but, more than anything, the rigor of full complement and the risk management process in regards to our Compliance Team.

- Board Members asked about the credit card ABS asset class, in regards to charge offs during The Great Financial Crisis (GFC) and how that would affect the eight current issuers in the OSTF. Mr. Cudahey responded and noted that credit card asset-backed securities faced spread-widening pressures but ultimately held up from a both a rating and credit standpoint. Mr. Cudahey also noted that several issuing trusts were reformed post-GFC to have more subordination for the AAA tranches reflecting changes in the collateral in the trust.
- Board Members questioned if OST would reduce corporates. Mr. Cudahey responded that it would come from a mix of municipals, corporates, and some agencies. He stated that the additional 10% latitude in ABS would create a “better package” and is not expected to increase the overall risk of the portfolio.

Doug Goe thanked Mr. Cudahey and the Board for their comments and communication. He gave his support for the new proposed changes and offered his help going forward to communicate these changes to the local constituencies and why the Board is comfortable moving forward with them.

vi. OSTF Market Overview and Portfolio Update

Garrett Cudahey presented the OSTF Portfolio update. Interest rates and credit spreads were discussed as well as the challenging current investment environment.

OSTF summary:

August 31, 2018	
Fund NAV	\$17,761,802,000
Fund NAV/OSTF Balances (as of 7/31/18)	\$1.0030
Weighted Average Credit Quality	AA-/Aa2/AA
Book Yield (effective 8/31/18)	2.38%
Weighted Average Maturity (days)	199
Duration (Years)	0.55
Spread Duration (Years)	0.83
Rate Paid to Participants (effective 10/1/18)	2.50%

vii. Closing Remarks/Other Items of Business

- Dates were approved for the 2019 Board Meetings.
- Date of next Board meeting – Thursday, January 10th, 2019 at OST Tigard office.
- Meeting adjourned at 11:58 a.m.

Respectfully submitted,

Aliese Jacobsen
Investment Analyst, Oregon State Treasury