



**OREGON  
STATE  
TREASURY**

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**Last Approved:** 02/2021  
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**Next Review:** 02/2023  
**Owner:** *Geoff Nolan: Senior Investment Officer*  
**Policy Area:** *Investments*  
**References:**

## INV 303: Short Term Investments: Portfolio Rules

### INTRODUCTION & OVERVIEW

#### Summary Policy Statement

The Oregon Investment Council has, with advice from the State Treasurer, from OST investment staff, and from the Oregon Short Term Fund Board, adopted specific rules for investing the Oregon Short Term Fund.

#### Applicability

Classified represented, management service, unclassified executive service

#### Authority

ORS Chapter 293

### POLICY PROVISIONS - Portfolio Rules for the Oregon Short Term Fund

#### I. Scope

These rules apply to the investment of cash from all state and eligible local government participants in the Oregon Short Term Fund (OSTF). These rules are established under the authority of, and shall not supersede the requirements established under, ORS Chapter 293.

#### II. Investment Objectives

The primary objectives of investment activities, in priority order, shall be preservation of principal, liquidity, and yield.

- A. **Preservation of Principal:** Capital preservation is the OSTF's foremost objective, and all OSTF investments shall be made in a manner consistent therewith. Credit and interest rate risks will be carefully managed and mitigated (see specific guidelines below).
- B. **Liquidity:** The OSTF shall remain sufficiently liquid to meet all state, agency and local government operating requirements as may be reasonably anticipated. The OSTF should consist largely of securities with active secondary or resale markets.
- C. **Yield:** The OSTF shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the aforementioned investment risk constraints

and liquidity needs.

### III. Maturity Distribution of Portfolio

- A. 50% of the OSTF must mature within 93 days.
- B. A maximum of 25% of the OSTF may mature over one year.
- C. No investment may mature later than 3 years from its settlement date.
- D. For purposes of this policy, maturity date will be calculated by using the following proxies, and if a security contains more than one of the following attributes, the shortest attribute will be used as the maturity date proxy:
  1. For securities that have been called by the issuer, the effective call date will be used as the maturity date proxy;
  2. For securities with a put option, the date upon which the put option is fully exercisable for a value of at least 100% of the investment's par or face amount will be used as the maturity date proxy;
  3. For variable rate securities, the period remaining to the next reset date will be used as the maturity date proxy; and
  4. For asset-backed securities, the weighted average life (WAL) will be used as the maturity date proxy.

### IV. Diversification and Portfolio Limitations

#### A. Eligible Securities:

Issue Type	Maximum Holdings % or \$	Minimum Ratings S&P/Moody's/ Fitch
U.S. Treasury Obligations (1.)	100%	None
U.S. Agency Securities (1.)	100%	None
Per Issuer	33%	None
Foreign Government & Instrumentalities (1.)	25%	AA-/Aa3/AA-
Per Issuer	10%	
Corporate Securities (Total)	50%	A-/A3/A-
Corporate Bonds	50%	A-1/P-1/F-1
Commercial Paper (2.)	50%	
Per Issuer	5%	
Asset-Backed Securities	25%	AAA/Aaa/AAA
Per Issuing Trust	5%	A-1+/P-1/F-1+
Negotiable Certificates of Deposit	20%	A-1/P-1/F-1
Per Issuer	5%	
Bankers' Acceptances	20%	A-1/P-1/F-1
Per Issuer	5%	
Time Certificates of Deposit (3.)	20%	None
Per Issuer	5%	
Municipal Debt (Total)	25%	AA-/Aa3/AA-

Municipal Commercial Paper	25%	A-1/P-1/F-1
Short Term Municipal Obligations	25%	SP-1/(V)MIG1/F-1
Per Issuer	10%	
Repurchase Agreements (4.)	100%	None
Per Counterparty	5%	
Reverse Repurchase Agreements (5.)	100%	None
Per Counterparty	5%	
Oregon Local Government Intermediate Fund ("OLGIF")	\$250 Million	A-/A3/A-

1. Securities guaranteed by the U.S. Treasury, a U.S. Agency or a Foreign Government or its Instrumentality will be considered a U.S. Treasury, a U.S. Agency or a Foreign Government or its Instrumentality for the purposes of this policy.
  2. Commercial Paper (CP) must have top-tier short term ratings by at least two of the nationally recognized statistical rating organizations (NRSROs) at the time of purchase.
  3. Permitted Time Certificates of Deposit (TCDs) will be limited to qualified depositories as defined in ORS Chapter 295. Maximum TCD exposure per depository must be no more than 5% of the issuing bank's total deposits, or \$250,000, whichever is greater. Maximum credit union exposure per depository shall be \$250,000.
  4. Repurchase Agreements must meet the following criteria:
    1. Maximum maturity will be 93 days;
    2. Counterparties must be a Primary Dealer as recognized by the Federal Reserve Bank of New York;
    3. Counterparties must have a fully executed Master Repurchase Agreement with the Office of the State Treasurer ("Master Repurchase Agreement");
    4. Collateral must be delivered on a tri-party basis to a mutually agreed upon third party custodian; and
    5. Collateral securing Repurchase Agreements must be maintained at not less than 102% of the amount of the Repurchase Agreement.
  5. Reverse Repurchase Agreements must meet the following criteria:
    1. Maximum maturity will be 93 days;
    2. Counterparties must be a Primary Dealer as recognized by the Federal Reserve Bank of New York;
    3. Counterparties must have a signed Master Repurchase Agreement;
    4. Acceptable reinvestment vehicles include securities that may otherwise be purchased outright;
    5. Securities will be reversed on a fully collateralized basis; and
    6. Reverse repurchase investments for interest rate arbitrage shall only be done on a matched book basis.
- B. All OSTF investments must be denominated in U.S. dollar.
- C. Total foreign exposure (government and corporate indebtedness) limited to 25% of OSTF.
- D. Any one individual issuer of securities or support commitments limited to 10% of OSTF with the exception of the U.S. Treasury (100% maximum) and U.S. government agency securities (33% per issuer).

E. Securities that have been downgraded below the minimum ratings will be sold or held at the Fixed Income Senior Investment Officer's (SIO) or SIO designee's discretion.

F. A single rating will be determined for each investment based on the following methodology:

- i. When three nationally recognized statistical rating organizations (NRSROs) rate an issue, a median rating is used to determine eligibility by dropping the highest and/or lowest rating;
- ii. When a rating from only two NRSROs is available, the lower ("most conservative") of the two ratings will be used; and
- iii. When a rating from only one NRSRO is available, that rating will be used. To determine average rating for each security, a numeric value will be assigned to each NRSRO rating based on the following scheme:

Value	S&P Rating	Moody's Rating	Fitch Rating
29	U.S. Treasury & Agency AAA/A-1+(1)	U.S. Treasury & Agency Aaa/P-1(1)	U.S. Treasury & Agency AAA/F-1+(1)
28	AA+	Aa1	AA+
27	AA/A-1+/SP-1+	Aa2	AA/F-1+
26	AA-	Aa3/P-1/ MIG1/VMIG1	AA-
25	A+	A1	A+
24	A/A-1/SP-1	A2	A/F-1
23	A-	A3	A-
22	BBB+/A-2/SP-2	Baa1/P-2/ MIG2/VMIG2	BBB+/F-2
21	BBB	Baa2	BBB
20	BBB-/A-3/SP-3	Baa3/P-3/ MIG3/VMIG3	BBB-/F-3

1. Limited to Asset-Backed Securities rated A-1+, P-1 and F-1+ by Standard & Poor's, Moody's and Fitch respectively.

G. The target weighted average credit quality of the OSTF shall be AA (or > 26.50), excluding repurchase agreements.

H. For newly issued securities, and absent assigned ratings, "expected ratings" may be used as a proxy for actual ratings for not more than 30 business days after the anticipated settlement date.

I. No commitments to buy or sell securities may be made more than 14 business days prior to the anticipated settlement date, or receive a fee other than interest for future deliveries.

J. For purposes of compliance, eligible funds will be treated as a single investment and exempt from maturity or exposure restrictions except for maximum exposure and minimum ratings.

**V. Reinvestment of Securities Lending Cash Collateral**

A. Acceptable reinvestment vehicles include securities that may otherwise be purchased outright in accordance with the diversification and portfolio limitations described above in Section IV. Within the securities lending program only, cash collateral may also be reinvested in:

1. Repurchase agreements collateralized by U.S. Treasury or U.S. Government Agency securities with a maximum original maturity of 30 years. No more than 25% of assets shall be placed with the same counterparty. Repurchase agreements may also be placed with the Federal Reserve Bank's Repo

facility.

- B. Net capital of lending counterparties must be over \$100 million.
- C. Securities will only be loaned on a fully collateralized basis.
- D. Lending counterparties must be a Primary Dealer as recognized by the Federal Reserve Bank, and have a signed master securities lending agreement.
- E. The market value of the delivered collateral must be maintained at not less than 102% of the market value of the securities loaned.
- F. Notwithstanding Section IV.A.5 hereof, Reverse Repurchase Agreements are prohibited within the securities lending program.

## **PROCEDURES**

### **I. Standards of Care**

- A. **Prudence:** Investment officers shall use the "prudent investor" standard to guide their OSTF management efforts. Pursuant to ORS 293.726:
  - 1. The investment funds shall be invested and the investments of those funds managed as a prudent investor would do, under the circumstances then prevailing and in light of the purposes, terms, distribution requirements and laws governing each investment fund; and
  - 2. The standard in subsection (1) of this section requires the exercise of reasonable care, skill and caution, and is to be applied to investments not in isolation but in the context of the investment portfolio and as a part of an overall investment strategy, which should incorporate risk and return objectives reasonably suitable to the particular investment fund.
- B. **Ethics and Conflicts of Interest:** Officer involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program or that could impair their ability to make impartial decisions. Officers and employees shall, at all times, comply with the State of Oregon Government Standards and Practices code of ethics set forth in ORS Chapter 244, as well as all policies of the OST.
- C. **Delegation of Authority:** The Senior Investment Officer and Investment Officer(s) (or the Investment Analyst acting under the direction of the Investment Officers) of the Fixed Income team shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with these Portfolio Rules. No person may engage in an investment transaction except as provided under the terms of these Portfolio Rules and the procedures established by OST staff. The Senior Investment Officer and Investment Officer(s) are jointly responsible for all transactions undertaken, and shall establish a reasonable system of controls to regulate the activities of subordinate employees.

### **II. Compliance**

- A. **Compliance Monitoring:** OST shall provide an investment compliance program to accomplish the following objectives: a) monitor and evaluate portfolios, asset classes, and other investment funds to determine compliance with OST policies and contractual obligations; b) identify instances of non-compliance and develop appropriate resolution strategies; c) provide relevant compliance information and reports to OST management and the Oregon Investment Council, as appropriate; and d) verify resolution by the appropriate individual or manager within the appropriate time frame.

- B. **Correction of Non-compliance:** If the OSTF is found to be out of compliance with one or more adopted investment guidelines or is being managed inconsistently with its policy and objectives, investment staff shall bring the OSTF portfolio into compliance as soon as is prudently feasible. Actions to bring the portfolio back into compliance and justification for such actions, including documentation of proposed and actual resolution strategies shall be coordinated with the OST investment compliance program.

### III. Safekeeping and Custody

- A. **Authorized Financial Dealers and Institutions:** All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply, as appropriate:
1. Audited financial statements,
  2. Licensing Representation form provided to OST, and
  3. Understanding and acknowledgment of OSTF Portfolio Rules.
- B. **Internal Controls:** The Senior Investment Officer and Investment Officer(s) jointly collaborate to establish and maintain an adequate internal control structure designed to reasonably protect the assets of the OSTF from loss, theft or misuse.
- C. **Delivery vs. Payment:** All trades where applicable will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds.
- D. **Safekeeping:** Securities will be held by a third-party custodian as evidenced by safekeeping receipts.

## Exceptions

None.

## Failure to Comply

Failure to comply with this policy may be cause for disciplinary action up to and including dismissal.

## PROCEDURES AND FORMS

1. Upon approval of changes to this policy, the policy owner shall contact the Banking Operations Manager to update the Oregon Short Term Fund Finance and Investment pages on the external OST website.

## ADMINISTRATION

## Feedback

Your comments are extremely important to improving the effectiveness of this policy. If you would like to comment on the provisions of this policy, you may do so by e-mailing the Policy Owner. To ensure your comments are received without delay, *please list the policy number and name in your e-mail's subject*. Your comments will be reviewed during the policy revisions process and may result in changes to the policy.

## Attachments

No Attachments

## Approval Signatures

Step Description	Approver	Date
OIC	Rex Kim: Chief Investment Officer	02/2021
OSTF Board	Rex Kim: Chief Investment Officer	02/2021
	Deena Bothello: General Counsel	02/2021
PolicyStat Admin	Carmen Leiva: Operations Analyst	01/2021
	Geoff Nolan: Senior Investment Officer	01/2021

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