



**OREGON SHORT-TERM FUND
BOARD MEETING
Thursday, April 12, 2012
Meeting Minutes**

- OSTF Location:** Oregon State Treasury
Columbia Conference Room
350 Winter Street NE, Suite 100
Salem, OR 97301
- Board Attendees:** Douglas E. Goe, Orrick, Herrington & Sutcliffe LLP (via phone)
Deanne Woodring, Davidson Fixed Income Management (via phone)
Wayne Lowry, Sherwood School District
Stewart Taylor, City of Albany
Laurie Steele, Marion County Treasurer
Pat Clancy, Western Financial Group
Darren Bond, Oregon State Treasury
- Attendees (Staff):** Tom Lofton, Oregon State Treasury
Heidi Rawe, Oregon State Treasury
Perrin Lim Oregon State Treasury
Norma Harvey (via phone)
- Attendees (Other):** Tessa DeLine, City of Medford
Cindy Oden, South Suburban Sanitary District

i. Opening Remarks

Douglas Goe welcomed all to the OSTF Board meeting. He noted that he may have to leave the meeting early, and asked Darren Bond to act in his behalf for the remainder of the meeting if this is the case.

ii. Review and Approval of Meeting Minutes

a. January 12, 2012

One amendment was noted for the January 12, 2012 minutes; Pat Clancy's company should be amended to read Western Financial Group and not Western Asset Management.

MOTION: Deanne Woodring moved approval of the January 12, 2012 minutes. The motion was seconded by Stewart Taylor and passed unanimously by the board.

iii. **Review of Oregon Local Government Sample Investment Policy**

Tom Lofton provided information relating to updates to the Oregon Local Government Sample Investment Policy. He confirmed that he will revise and update the document on an ongoing basis as needed, rather than waiting for several years to pass.

Comments from the Board included:

- **Section IV (2), Liquidity**
 - The Board decided that Oregon Short Term Fund would not be hyphenated to be consistent with Oregon Revised Statutes (ORS).

- **Section V (3)(iv), Investment Adviser**
 - Perrin Lim noted that responsibility for all transactions remain with the Investment Officer.

 - The Board discussed non-discretionary versus discretionary advisory relationships and determined that while discretionary advisory services were permissible by ORS, the OSTF Board wanted to deter most local governments from using discretionary advisory services. Therefore the Sample Policy should avoid reference to discretionary advisory relationships.

 - Mr. Bond suggested that the Board add a clarifying comment regarding the permissibility of Discretionary Advisers.

- **Section VII (4)**
 - The last sentence in this section should be noted as number 4.

- **Section VIII (1), Suitable Investments**
 - It was determined that in order to avoid confusion regarding allowed investments versus prohibited investments, the title of this section should be changed to “Permitted Investments” to better communicate that these investments are specifically permitted while investments in section VIII(2) are prohibited.

 - In the first sentence Laurie Steele suggested removing “by this policy” to allow for greater flexibility in the Exposure Constraints within section X.

 - Second bullet, add “Senior” to make language consistent with section on Exposure Constraints. In addition “Debenture” should be added for clarification versus mortgage-backed securities.

- **Section VIII (2), Bank Deposits and Savings Accounts**
 - Consider adding language that excluded demand deposits in qualified depositories from the restrictions imposed by this policy.

- **Section IX, Prohibited Investments**
 - The Board discussed the appropriate presentation of prohibited investments within the Sample Policy. This language should be moved from section IX to a sub-section within Section VIII.

- **Section X, Investment Parameters**
 - This will become Section IX.

- **Section X (1), Exposure Constraints**
 - Ms. Woodring suggested that the Exposure Constraints Table be re-titled to tie it in with diversification and credit restraints.

 - Under Issue Type, remove Bank Deposits as a category.

 - Certificates of Deposit category should include Bank Time Deposits, Savings Accounts. In addition, a new per institute exposure limit should be added.

 - Mr. Goe requested that the ORS citation identifying authorized types of bank accounts be included.

- **Section X (2)(i), Liquidity Risk**
 - Ms. Steele requested that qualified depositories be mentioned in the narrative regarding liquidity.

- **Section X (3)(v), Interest Rate Risk**
 - A lengthy discussion ensued relating to the inclusion of “5 years” as an option for maximum maturity. It was determined that although going beyond three years is acceptable, given the sophistication within local governments, the Sample Policy should only show three years.

- **Section X (3)(vi), Interest Rate Risk**
 - Ms. Woodring opined that the Board should not negatively comment in its reviews on all deviations from the Sample Policy but should weigh the deviations (such as extending final maturities beyond three years) in light of the reasoning provided by the local government. Mr. Goe believed that the Board always retains the prerogative to decide when it should comment on policies.

- **Section XII (1), Investment of Reserve or Capital Improvement Funds**
 - Remove “five” years.

- **Section XV (1), Policy Maintenance and Considerations**
 - Mr. Lowry suggested the removal of reference to fiscal year.

Mr. Lofton confirmed that a final copy of the updated Sample Investment Policy would be sent via email to Board members for their review, prior to it being posted on the Oregon State Treasury’s (OST) website.

Mr. Goe thanked Mr. Lofton for his excellent work on this comprehensive review.

MOTION: Mr. Bond moved to approve the Sample Policy including the corrections as noted. The motion was seconded by Ms. Steele and passed unanimously by the Board.

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

a. **Medford Water Commission**

The Medford Water Commission's Investment Policy was presented to the Board by Mr. Lofton. He confirmed that it was a complete rewrite of their policy. Ms. Woodring removed herself as an acting Board member since she is working on behalf of Medford Water Commission.

Comments from the Board included:

- **Section VII (1), Investment Types and Credit Guidelines**
 - Consider clarifying permitted agency investments to distinguish from agency mortgage-backed securities and subordinated obligations.

- **Section IX (1), Exposure Constraints Table**
 - Consider removing Bank Deposits as a category. Demand Deposits in qualified depositories are collateralized and not subject to withdrawal restrictions. Some local governments include all cash within the definition of investments. However, demand deposits are often considered cash vehicles and therefore outside the scope of an investment policy.

 - Consider revising the constraint on bank deposits to time deposit accounts such as savings accounts or certificates of deposit. Withdrawals from time deposits are subject to restrictions and may also be delayed by the depository institution.

 - Consider adding a "per institution" constraint of 25% of portfolio holdings on time deposit accounts such as savings accounts or certificates of deposit. Withdrawals from time deposits are subject to restrictions and may also be delayed by the depository institution

Mr. Goe thanked Medford Water Commission for their policy.

b. **South Suburban Sanitary District**

Mr. Lofton presented the policy to the Board, this is their first policy and the Sample Policy was used.

Comments from the Board included:

- **Section V (3), Investment Adviser**
 - Consider removing language allowing investment advisers on a fully discretionary basis.

 - Consider requiring pre-approval for investment advisor transactions.

- **Section VII (3), Internal Controls**

Minor sentence correction. Remove "are" from first sentence of paragraph.

Mr. Goe thanked Cindy Oden, of South Suburban Sanitary District, for her work on the policy.

c. Yamhill County S&W Conservation District

Mr. Lofton presented Yamhill County Soil and Water Conservation District's Investment Policy to the Board, which had been submitted by Mike Green, Treasurer. He confirmed the District's willingness to make the changes as proposed by the OSTF Board when it was last reviewed on January 12, 2012. Their revised policy was written using the Sample Policy as a guide.

Comments from the Board included:

- **Section V (3), Investment Adviser**
 - Consider removing language allowing investment advisers on a fully discretionary basis.
 - Consider requiring pre-approval for investment adviser transactions.
- **Section VIII (1), Investment Types**
 - Consider adding language that excludes demand deposits in qualified depositories from the restrictions imposed by this policy. Demand deposits in qualified depositories are collateralized and not subject to withdrawal restrictions. Some local governments include all cash within the definition of investments. However, demand deposits are often considered cash vehicles and therefore outside the scope of an investment policy.
 - Consider adding a category for time deposits to include savings accounts and certificates of deposit. These are different from demand deposits and may be subject to withdrawal restrictions and may also be delayed by the depository institution.
 - Consider removing Repurchase Agreements to conform with Table of Exposure Constraints in Section X which restricts exposure to 0%.
- **Section X (1), Exposure Constraints Table**
 - Consider removing bank demand deposits as a category.
 - Consider adding a "per institution" constraint of 25% of portfolio holdings on time deposit accounts such as savings accounts or certificates of deposit. Withdrawals from time deposits are subject to withdrawal restrictions and may also be delayed by the depository institution.
 - Since corporate debt is not a permitted investment, consider removing it from the table.
- **Section X (2)(i), Liquidity Risk**
 - Consider allowing deposits with qualified depositories as investments for very short-term cash needs.
- **Section X (2)(ii), Total Portfolio Maturity Constraints**
 - Consider limiting maximum investment maturity to 3 years.

- **Section X (3)(v), Interest Rate Risk**
 - Consider limited maximum investment maturity to 3 years.

v. Proposed Revisions to OSTF Portfolio Rules

Perrin Lim provided details of the proposed revisions to the OSTF Portfolio Rules to the Board. Following a discussion and questions from the Board Mr. Lofton confirmed that he would add language to satisfy the comments made. Mr. Lim will present the changes to the Oregon Investment Council (OIC) at their next meeting in April 2012.

MOTION: Ms. Steele moved the recommendation to OIC that they consider the proposed changes to the OSTF Portfolio Rules, incorporating those changes as discussed by the Board. The motion was seconded by Mr. Clancy and approved by Mr. Bond and Mr. Lowry. Ms. Woodring requested additional time to study the topic in greater detail (and abstained from voting). She will send any further comments to Mr. Lofton.

vi. OSTF/Market Review – Perrin Lim

Mr. Lim presented a Market Review to the Board.

Ms. Woodring complimented Mr. Lim and Mr. Lofton on their presentation at the recent Oregon Municipal Finance Officers Association (OMFOA) Conference. It was agreed that further information relating to their presentation would be included in future OST newsletters.

vii. Market Participants Perspective – Deanne Woodring

Deanne did not provide a Market Participants Perspective at this time.

viii. Discussion on Electronic OSTF Booklets

The Board discussed the option to receive OSTF Board meeting booklets electronically as opposed to paper copies. After a brief discussion, Board members agreed that they would like to continue to receive them in both an electronic and paper format.

ix. Other Items of Business

- Mr. Lowry announced that since his term on the OSTF Board expires in May 2012 this will be his last Board meeting. He expressed his appreciation to the Board and staff. Mr. Bond thanked Mr. Lowry for his participation on the Board during the past four years; he requested that he continue to represent the school districts until a replacement is found, Mr. Lowry agreed to do so.
- Next meeting: July 12, 2012

x. Closing Remarks

Darren thanked all for their participation.

The meeting was adjourned at approximately 12:40 pm

Respectfully submitted by,

Heidi C. Rawe
Executive Assistant to the Deputy State Treasury