OREGON SHORT-TERM FUND
BOARD MEETING
Minutes
January 26, 2010 at 10:00 am

Location:	Orrick, Herrington & Sutcliffe LLP 1120 NW Couch Street, Suite 200 Portland, OR 97209
OSTF Board Attendees:	Douglas Goe, Orrick Herrington & Sutcliffe LLP Darren Bond, Oregon State Treasury Laurie Steele, Marion County Treasurer Deanne Woodring, Davidson Fixed Income Management Wayne Lowry, Sherwood School District Gary Wallis, City of Wilsonville
Attendees (Staff):	Perrin Lim, Oregon State Treasury Tom Lofton, Oregon State Treasury Ellen Hanby, Oregon State Treasury Heidi Rawe, Oregon State Treasury Norma Harvey, Oregon State Treasury (via phone) Judy Whaley-Fultz, Oregon State Treasury (via phone)
Attendees (Other):	Jay Meredith, City of Grants Pass (via phone) David Reeves, City of Grants Pass (via phone) Tom Gilbertson, RBC (via phone) Mike Montgomery, City of Portland (via phone)

i. Opening Remarks
The Oregon Short-Term Fund (OSTF) Board Meeting was called to order by Douglas Goe at 9:00 am. Those present introduced themselves.

ii. Welcome New Board Member, Laurie Steele
Mr. Goe introduced and welcomed the newest member of the Oregon Short-Term Fund (OSTF) Board, Laurie Steele, Marion County Treasurer.

iii. Review and Approval of Minutes – December 4, 2009
MOTION: Gary Wallis moved approval of the December 4, 2009 Minutes. The motion was seconded by Wayne Lowry and passed unanimously by the Board.

iv. LGP/OSTF Investment Policy Review
a. City of Grants Pass
The City of Grants Pass's Investment policy was presented by Ellen Hanby to the Board.

Comments by the Board members were:

- **Page 7, Section V - Suitable Authorized Investments**. Darren Bond addressed that the City lists Josephine County Investment Pool, (100% of tax receipts collected by County until tax is turned over to City, and 10% other Pooled Investments with County). The City was encouraged to contact

the County in order to make sure that they have firm legal standing for placement of those investments and understood their legal basis for holding municipality's funds.

- **Page 7, section VI**, Deanne Woodring commented that 100% in money market and bank deposits may be a little high.

- **Page 5, Section VI, part 5, Diversification by Financial Institution**. Ms. Woodring suggested that in the Diversification by Financial institution that the City may want to remove the stipulation of having a Head Office in Oregon since there are not many banks that fit this criteria now. In addition, that the depository be on the Qualified Financial Institutions for Public Funds on the Treasury website

- **Page 8, section VI, part 5, Diversification by Financial Institution.** "Investment Officer is also required to report to the State Treasurer at least annually, or within 10 days of a change, the banks the City does business with…" Wayne Lowry asked if this was standard language. Mr. Bond confirmed that this related to Collateralization and explained the statutory requirements regarding this information.

- Mr. Goe commented that when referencing the Oregon Revised Statues (ORS), the word Chapter should be inserted. These changes will be provided to Ms. Hanby.

In response to the Board's comments David Reeves confirmed that the City will make changes according to Board's comments. He complimented Jay Meredith for the work he did on the policy. Jay Meredith thanked Ellen Hanby for her assistance.

Mr. Goe thanked the City of Grant's Pass and invited them to follow up with staff with any further questions or comments they may have.

v. Market Overview and Proposed Guidelines Revisions

Market Review

Perrin Lim presented a snap-shot of the major Fixed Income sectors and the total return performance for 2009. He noted that all fixed income spread sectors outperformed U.S. Treasuries in December and for 2009, led by the riskiest sectors. Treasury yields were stable at the front end and higher for 10-year maturities with the yield curve steepening by 64 bps to +378 bps, eclipsing the prior high of +376 bps in June; the 2-year/10-year yield curve steepened by 17 bps to +270 bps, after reaching a 1-year high of +284 bps on December 22. The yield curve remains extremely steep.

Mr. Lim noted that 2010 will be a more challenging year and more due diligence and assessment of overall funds will be necessary. Currently, corporate bond spreads are tight.

FOMC Statement from December 16, 2009

Highlights from the FOMC meeting on 12/16/09 were discussed. The FOMC statement contained an upgraded assessment of the US economy, an affirmation of the wind down liquidity support facilities and few other changes. In particular, the reference to "exceptionally low levels of the federal funds rate for an extended period" was retained.
The FOMC edited the depiction of the economic environment relative to the November 2009 version as follows:

"Information received since the Federal Open Market Committee met in November suggests that economic activity has continued to pick up and that the deterioration in the labor market is abating. The housing sector has shown some signs of improvement over recent months. Household spending appears to be

expanding at a moderate rate, though it remains constrained by a weak labor market, modest income growth, lower housing wealth, and tight credit. Businesses are still cutting back on fixed investments though at a slower pace, and remain reluctant to add to payrolls; they continue to make progress in bringing inventory stocks into better alignment with sales. Financial market conditions have become more supportive of economic growth."

Outlook and Strategy
Mr. Lim outlined the Oregon Short Term Fund outlook and strategy for 2010 and noted that after two years of monetary and quantitative easing, investors are increasingly concerned about the Fed's exit strategy. Given the uncertainty with respect to employment and housing statistics, expectations for inflation, the timing of the Fed's exit strategy, the weak US$ and the growing government deficit, the OSTF is generally structured with a defensive bias, both in terms of interest rate risk and, equally important, credit risk. Going forward, the OSTF will be very defensive.

Securities Lending
OSTF securities lending income year-to-date through November 30, 2009 amounted to $10.2 million versus $25.1 million in the prior year, a decrease of $14.8 million. The monthly average income was $854,000.

Portfolio Statistics/ Compliance and Total Return Performance, as of December 31, 2009

Mr. Lim presented information regarding the following:

- Maturity Distribution
- Diversification
- Top Ten Holdings
- Total Average Credit Quality
- Interest Rate Exposure
- Fixed versus Variable Weights

Total Return Performance, as of December 31, 2009:

	December 09	3 mos.	YTD	1 yr	2 yrs	3 yrs	4 yrs	5 yrs
OSTF	-0.03	0.21	2.37	2.37	1.81	3.00	3.51	3.43
91 Day T-Bills	0.01	0.04	0.21	0.21	1.13	2.40	3.01	3.02
Value-Added	***-0.04***	***.017***	***2.16***	***2.16***	***0.68***	***0.60***	***0.50***	***0.41***

Mr. Lim noted that 2009 was a good year for the OSTF and that the fund is back in the black.

Proposed Revisions to OSTF Portfolio Rules
The purpose is to revise Investment Policy 4.02.03, the Oregon Short-Term fund Portfolio Rules, specifically as it pertains to VI (A), Diversification and Limitations of Portfolio – Eligible Securities, and VI (E), diversification and Limitations of Portfolio – total Weighted Average Credit Quality.

A hand-out containing questions and answers regarding the proposed revisions were distributed among those present and the floor was opened for discussion.

The five proposed revisions are as follows:

Proposed Revision/Addition #1 – Allow Foreign Government Securities and their instrumentalities, Section VI (A) (4): The addition of this guideline allows high quality US$ denominated foreign government securities and their instrumentalities. Staff will be restricted to (a) a maximum 25% to the sector, (b) a maximum 10% per issuer, and (c) minimum long-term ratings of AA-, Aa3, or AA-, or better, by Standard & Poor's, Moody's Investors Services, or Fitch Ratings, respectively, at the time of purchase.

Proposed Revision #2 – Allow domestic and foreign corporate indebtedness subject to a maximum 5% of the portfolio per issuer, Section VI (A) (5) (b): Currently, the OSTF is allowed to purchase US$ denominated corporate indebtedness regardless of the issuer's sovereign location. For example, the 1 – 2 year US$ debt of a foreign corporation is an eligible investment, but shorter term commercial paper (typically 30 – 180 days to maturity) issued by the same entity is ineligible. The OSTF regularly purchases the CP issued from the domestic subsidiaries of foreign institutions, for example, BNP Paribas Finance Inc. U.S. commercial paper whose parent company is BNP Paribas.

Proposed Revision #3 – Allow corporate securities with minimum long-term ratings of A-, A3, or A-, or better, by Standard & Poor's, Moody's Investors Services, or Fitch Ratings, respectively, at the time of purchase, Section VI (A) (5) (d): Staff would like to reduce the minimum long-term ratings of corporate securities to A-, A3, or A-, or better, by S&P, Moody's, or Fitch, respectively, at the time of purchase.

Proposed Revision #4 – Allow State of Oregon municipal debt obligations with a minimum long-term rating of AA-, Aa3, or AA- or better, or are rated in the highest category for short-term municipal debt by Standard and Poor's, Moody's Investors Services, or Fitch Ratings, respectively, at the time of purchase, Section VI (A) (9): In the current low interest rate environment municipal bonds and short-term securities, especially taxable municipal securities, such as Build America Bonds, may offer competitive yields compared to the typical taxable fixed income markets. During market dislocations, even tax exempt municipal securities may offer competitive and attractive yields.

Proposed Revision #5 - Total weighted average credit quality of the portfolio shall be a minimum of AA- or Aa2, by Standard & Poor's or Moody's Investors Services, respectively, Section VI (E) (1).

NOTE: It was the consensus of the Board to remove Revision #5 from consideration.

Questions regarding ORS Chapters 294 and 293 were clarified and Mr. Bond noted that none of the restrictions of ORS Chapter 294 apply to local government investments in the OSTF, instead ORS Chapter 293 applies. Mr. Goe noted that this distinction should be made explicit.

Ms. Woodring expressed concerns over the perception of the Local Government Investment Pool (LGIP) participants regarding the proposed revisions. She noted that the revisions could easily be misunderstood as allowing greater credit risk and providing less liquidity.

Mr. Lim referred to the Oregon State Treasury Website wherein statutes, revisions and holdings, are listed as well as the Local Government monthly Newsletter, in which investments are made abundantly clear. It was also noted that presentations are made on a regular basis to local governments to allow questions and answers regarding how the fund works.

Mr. Goe suggested that staff take the opportunity at OMFOA meeting in March, to address recent issues so that any confusion is cleared up. Mr. Lim and Mr. Lofton agreed to deliver a presentation outlining the proposed revisions and explain as clearly as possible what these revisions entail and why they were proposed.

It was agreed by staff and the Board that the LGIP participants need information prior to going to the Oregon Investment Council (OIC) for approval. Mr. Bond suggested notifying the LGIP participants and giving them an opportunity to ask questions and clarify the information. He noted that staff needs to communicate these revisions to the LGIP participants, informing them of how the structure of the pool is significantly different and less risky than LGIPs across the country.

Mr. Lim noted that as of December 2009 the Local Government portion of the pool is as large as it has ever been. He outlined the past two years of financial exposure and noted that further diversification is reducing risk.

Mr. Lim also expressed that the fairly new Credit Analyst position on staff, Tom Lofton, has brought a valuable, new resource to the fund.

The addition of municipal bonds was discussed as well as "Build America Bonds."

Mr. Lofton addressed the Board and discussed his concern not to reduce the funds rating, but to have exposure to sectors that don't have the structural risk that the finance sector has. The AA community is heavily financial-oriented and in the short term end of the market where the OSTF must invest. Exposure to industries that do not depend on the whims of the market for their next funding dollar, but can generate cash intrinsically would help remedy future economic problems or market volatility. Some of these structures are single A rated and can generate positive cash flow.

Discussion followed regarding risk and risk profile changes as well as the perceived reduction of credit quality and how to communicate this information to LGIP participants.

Ms. Woodring pointed out the defaulted Lehman bonds in the portfolio and further expressed her desire to have this vetted by the LGIP participants prior to approval by the OIC by fully identifying issues that will raise red flags, followed by an extensive written explanation.

The Lehman bonds were discussed and Mr. Lim noted that they were being moved to a newly-created "Impaired Fund" for reporting purposes and that staff would continue to have an allowance for impaired securities.

Minor changes in the proposed revisions were suggested by the Board and Mr. Lim noted that the revisions will not go to the OIC for approval until the April meeting.

Mr. Goe solicited individual approval/ideas from each Board Member for careful consideration. After individual input from each Board member, Mr. Goe suggested the following:

- Staff will make suggested Board changes to the proposed revisions and send back to the Board for questions and feedback.
- Send out draft revision information to LGIP participants and possibly schedule a Special Meeting for the purpose of explaining, as clearly as possible, what these revisions entail for the portfolio and why they were proposed. Input and questions will be encouraged during the meeting. At this meeting the revisions will be formally approved by the OSTF Board.
- Staff will make an educational presentation at the OMFOA meeting in March.
- The final revisions will be submitted to the Oregon Investment Council in April for final approval.

MOTION: Mr. Bond moved tentative approval of the proposed revisions with the above direction from Chair, Mr. Goe. The motion was seconded by Mr. Wallis and approved by the following Board Members: Mr. Goe, Mr. Bond, Mr. Lowry, Mr. Wallis and Ms. Steel. Ms. Woodring voted against the motion.

Mr. Goe thanked Mr. Lim for a thoughtful presentation.

vi. Proposed Bank of Oregon

Mr. Goe sought comments from the Board relating to a proposed Bank of Oregon. A discussion took place relating to the origin of this idea. Mr. Bond confirmed that Oregon State Treasury acts as the bank for the State, and gave information on the benefits it provides.

It was decided that no action was needed relating to this topic at this present time. However, it may be prudent at a later date to provide testimony relating to specific proposals that may arise.

vii. OSTF Presentation at OMFOA/OACTFO Annual Conference

An informative and educational presentation will be provided to attendees of the OMFOA/OACTFO Spring Conference on March 9, 2010 at 1:30-3:00 pm. The following outline was proposed by Ms. Woodring:

- Treasury Update Strategy and Proposed Guidelines Revisions, by Mr. Lim and Mr. Lofton
- Update on Board Roles, by Mr. Goe
- Update on Local Government Investment Pool's nationwide, by Ms. Woodring
- Questions and Answers

Mr. Lowry inquired about a list of all Local Governments whose polices had been reviewed, stating dates of the last review by the OSTF Board. A discussion followed as to how the Board would benefit from such a list. Ms. Hanby and Mr. Lim confirmed that this would be done going forward.

ix. Closing Remarks

Mr. Goe thanked all for their attendance and discussion.

The meeting of the OSTF Board was adjourned by Mr. Goe at 12:25 pm.

Respectfully submitted,

Norma Harvey	Heidi C. Rawe
Investment Analyst	Executive Assistant to the Deputy Treasurer