

**OREGON SHORT-TERM FUND  
BOARD MEETING**

**Minutes**

April 29, 2010

- OSTF Location:** Orrick, Herrington & Sutcliffe LLP  
1120 NW Couch Street, Suite 200  
Portland, OR 97209
- Board Attendees:** Douglas E. 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  
Stewart Taylor, City of Albany  
Bob Woodruff, Nike Inc.
- Attendees (Staff):** Perrin Lim, Oregon State Treasury  
Tom Lofton, Oregon State Treasury  
Ellen Hanby, Oregon State Treasury  
Judy Whaley-Fultz, Oregon State Treasury  
Norma Harvey, Oregon State Treasury (via phone)  
Heidi Rawe, Oregon State Treasury
- Attendees (Other):** Tom Gilbertson, RBC Wealth Management (via phone)  
Sandy Barney, Benton County  
Dee Wilson, Portland Community College  
Cathy Brucker, Tualatin Hills Park and Recreation District (via phone)  
Mary Donovan, Cutwater Asset Management (via phone)  
Alan Willis, Member of Public  
Gregory Morgan, Lane Community College (via phone)

**i. Opening Remarks**

Doug Goe welcomed all to the OSTF Board Meeting at 10:00 am.

**ii. Welcome New Board Member, Stewart Taylor**

Mr. Goe welcomed new OSTF Board Member, Stewart Taylor, Finance Director from the City of Albany, and noted that he is a great addition to the Board.

**iii. Review and Approval of Meeting Minutes – January 26, 2010**

MOTION: Darren Bond moved approval of the 1/26/2010 minutes. The motion was seconded by Bob Woodruff and passed unanimously by the Board.

**iv. LGP/OSTF Investment Policy Review – Benton County**

The Benton County Investment policy was presented to the Board by Ellen Hanby. Ms. Hanby worked with Mary Otley and Sandy Barney of Benton County and noted that they had hired financial advisor, Mary Donovan of Cutwater Asset Management to assist in updating their policy. Performance benchmarks and reporting requirements were reviewed as well as maturities and diversification. It was noted that all staff recommendations were incorporated into the policy revisions.

Mr. Goe had some minor revisions that he said he would communicate to Ms. Hanby for incorporation into the final policy and thanked the representatives from Benton County. The following points were suggested by Mr. Goe:

- Many Investment policies refer to an older IRS code, but should now refer to the most recent Internal Revenue Code of 1986.
- In terms of investment proceeds, the IRS rules only applied to tax exempt bonds. However, we now have “Build America Bonds” that are taxable. In order to qualify as a Build America Bond, all requirements for tax exempt bonds must be met, including arbitrage compliance.
- Regarding bond proceeds, ORS 294.052, which governs the investment of bond proceeds, is additional authority to the general provisions of ORS 294.035. Mr. Goe recommended that investment officers make reference to either broadly complying with the authorization in chapter ORS Chapter 294 or adding ORS 294.052 with respect to investment bond proceeds.

Deanne Woodring made an observation that policies broadly refer to the (NASD) National Association of Securities Dealers, which has been changed to an oversight body for broker/dealers called Financial Industry Regulatory Authority (FINRA), effective in 2007. She further noted that some Oregon rules still refer to NASD. Going forward, FINRA should be referenced as the regulatory authority.

Mr. Goe thanked Benton County and invited them to follow up with staff with any further questions or concerns.

Mary Donovan of Cutwater Asset Management thanked the Board and staff.

**v. LGP/OSTF Investment Policy Review – Lane Community College**

The Lane Community College Investment policy was presented to the Board by Ellen Hanby. Ms. Hanby worked with Gregory Morgan, of Lane Community College during the policy review. The policy review included scope, standards of care, monitoring and reporting as well as authorized investments and compliance. It was noted that Lane Community College does not

have a laddered investment structure, but addresses liquidity throughout the policy. Staff recommendations have been incorporated into the policy.

Deanne Woodring questioned Mr. Morgan regarding the policy intent to exclude certain asset classes. She pointed out some language in the policy that should be removed and clarified benchmark information, suggesting that the language be clarified. Policy objectives and short term cash management was reviewed and Mr. Morgan indicated that Lane Community College may “re-think” short and long term investments.

Mr. Goe thanked Mr. Morgan for submitting the policy for review and noted that he would submit some minor corrections to staff for incorporation into the revised policy.

**vi. LGP/OSTF Investment Policy Review – Marion County**

The Marion County Investment policy was presented to the Board by Ellen Hanby. She noted that she worked with Laurie Steele during the review. All policy parameters were reviewed and expansion was suggested to the “Competitive Transactions Process.” Marion County incorporated all staff recommendations into their policy.

Laurie Steele addressed the Board regarding the Competitive Transactions Process. She noted that the administrative policy guidelines of the Marion County Board of Commissioners and the OSTF Board were conflicting in their required format. Marion County prefers short policy statements, with all substantive information in the procedure documents, which are also adopted by their Board. Ms. Steele noted that it had been a challenge to format the policy to comply with both Boards.

Mr. Goe commented that the policy was very readable and easy to follow.

Deanne Woodring made a few suggestions regarding Safekeeping, FINRA and reporting of the sale of securities.

Discussion followed regarding Local Government Investment Pool (LGIP) and Oregon Short Term Fund (OSTF) and whether or not the names were interchangeable within policies. Darren Bond noted that, LGIP and OSTF are technically the same, according to statute and either may be used as long as the references are consistent.

Mr. Goe suggested that bond proceeds might be considered separate investments as referenced in terms of authorized investments under ORS 294.052.

Mr. Goe thanked Laurie Steele and Marion County for submitting their policy for review.

**vii. LGP/OSTF Investment Policy Review – Portland Community College**

The Portland Community College Investment policy was presented to the Board by Ellen Hanby. She noted that she worked with Dee Wilson and Revathi Aditham on the policy review. The following points were suggested:

- In the Safekeeping and Collateralization section, ORS 294.035 (D) should be ORS 294.035(3)(j) to comply with the 2009 Oregon Revised Statutes.
- In the Diversification section PCC should add per issuer limit on Bankers Acceptances Municipal Securities and Repurchase Agreements.

Portland Community College has incorporated all staff recommendations into their policy.

Ms. Woodring commented on the use of “investment standards and procedures” rather than “policy” and Dee Wilson explained that Board Policy requires the establishment of “standards and procedures for investments,” therefore prohibiting calling it policy.

The term Broker/Dealer vs Primary Investment Agent was discussed and Ms. Woodring suggested broadening the language regarding benchmarking to make it more generic, because of frequent name changes in indices.

Mr. Goe made a suggestion regarding the first paragraph under Scope: In terms of investment proceeds, the IRS rules only applied to tax exempt bonds. Taxable “Build America Bonds” are now available and in order to qualify as a Build America Bond, all requirements for tax exempt bonds must be met including compliance with arbitrage rules.

Mr. Goe thanked Dee Wilson for submitting the policy for review.

**viii. LGP/OSTF Investment Policy Review – Tualatin Hills Park & Recreation District**

The Tualatin Hills Park & Recreation District Investment policy was presented to the Board by Ellen Hanby. She noted that she worked with Cathy Brucker during the policy review. The following points were noted:

- The Policy does not have laddered investment maturities and they want to keep a weighted average maturity of 1.5 yrs.
- Page 6 of the policy indicating maximum percentages for investment should state a per issuer limitation on US Government Agencies.
- In Section VII, Reporting Performance Standards frequency language should be added.

Ms. Woodring noted that it was an excellent policy and commented on the FINRA reference in section #1 and the need for consistency in the name of the pool, LGIP.

Laurie Steele questioned the Board and Staff regarding the portfolio size range. She noted that she chose not to address the average size due to market fluctuation and asked if a significant change in portfolio size would warrant re-evaluation by the OSTF Board of the policy.

Mr. Goe and Ms. Hanby noted that it is helpful to the OSTF Board as well as Tualatin Hills’ governing body to have an idea of the portfolio size. Mr. Bond suggested that a change in size was not a substantive change and would not warrant re-evaluation by the Board.

For clarification purposes, Mr. Goe suggested inserting ORS 294.052 under Bond Funds on page 7, line 3.

Cathy Brucker thanked Ms. Hanby and the Board for help and consideration.

#### **ix. Treasury Update – Darren Bond**

Darren Bond updated the Board regarding the new State Treasurer, Ted Wheeler, appointed by the Governor after the passing of State Treasurer Ben Westlund on March 7<sup>th</sup>. Mr. Bond noted that it has been a smooth transition with thoughtful staffing choices by Mr. Wheeler.

Mr. Bond discussed the recent Treasury staff exposure in the Oregonian Newspaper. Treasurer Wheeler has taken action to address travel policy issues by appointing an advisory Panel of Esteemed Citizens of Oregon to advise on policy revisions. Also, the Secretary of State's Division of Audit's will be evaluating the Treasury's compliance with those policies. Mr. Bond noted that despite the reports in the Oregonian newspaper, staff have abided and complied with policy. Implications that Treasury Staff did not comply with policy are erroneous and unfortunate.

The process and timeline was outlined for the Board:

- Staff will revise policies and present them to the State Treasurer.
- Independent panel of Oregon Citizens will review the policy changes.
- Once defined, the revised policies will be presented to the State Ethics Commission for review and approval.
- Completion of the process is expected by mid June, 2010.

Mr. Goe thanked Mr. Bond and all of Treasury Staff and expressed appreciation for the hard work and integrity brought to the process during this challenging time.

#### **x. Market Overview – Perrin Lim**

Perrin Lim addressed the Board and thanked Ms. Woodring for her input regarding policy revisions presented during the January meeting. He noted that her suggestions were incorporated into the final policy. He further noted that the policy revisions were presented to the Oregon Investment Council on April 28, 2010 and accepted.

Mr. Lim presented a current Market Review. As a result of the credit crisis, both the Federal Reserve Bank and the U.S. Government have used unprecedented monetary and fiscal stimulus to restore liquidity and normalcy to the markets. For the past sixteen months, the closely watched Federal Funds rate has remained at an all-time low target range of 0-0.25%. Thus far, the credit markets have responded favorably; investors have shifted from a position of being risk averse to one of risk-taking. Fixed Income markets continue to perform very well.

Sovereign issues and their impact on the US were discussed. Mr. Lim expressed his opinion that, for OST going forward, it will be a case of little upside and more downside in the market requiring a defensive position from a rates perspective in the current structure of OSTF.

Corporates, after a dismal 2008 and first quarter of 2009, have come back pretty nicely. The economy continues to show statistical signs of improvement, which bodes well for the corporate asset class. Possible Wall Street reform is another future variable to consider in the markets.

Mr. Lim and Mr. Bond discussed the \$750 million Treasury Anticipation Notes (TANS) that are due on June 30, 2010 and will be reflected on the June 30 fiscal year statement. It was further noted that new TANS will be issued in early July and the proceeds will be received into OSTF.

The General Fund deficit of \$260 million was discussed and Mr. Bond noted that the OSTF and LGIP participants actually are advantaged when the General Fund is in a deficit position because of the interest and liquidity premium charged. Mr. Bond answered questions regarding the structure of the General Fund.

Mr. Goe thanked Mr. Lim for his review and Mr. Bond for his input.

**xi. Market Participants Perspective – Deanne Woodring/Bob Woodruff**

Deanne Woodring summarized the pressure that public entities are under in the reporting process and the importance of the valuable information provided by staff to participants. With current budget deficits, the revelation of investment strategies and processes is necessary. She expressed appreciation for the beneficial flow of information via the recent OMFOA conference and staff's timely reviews of the current investment environment.

The recent changes in regulation of (2a7) funds was outlined including the influences on the management of other pools, requiring increased liquidity needs. Also, the ability to "freeze" pools will significantly change pool management. Ms. Woodring encouraged staff to continue to be aware of changes in other pools and the impact on the funds.

Discussion followed regarding current Financial Reform Legislation and the impact it may have on the LGIP.

Bob Woodruff discussed derivatives and noted that they are not all bad as has been proposed in the media. The process for standardization of derivatives was outlined as well as the possible impact on the cost of basic financial transactions, Financial Accounting Standards Board (FASB) and Mark to Market.

In terms of broader market issues, Mr. Woodruff had the following concerns:

- US Dollar strength against the Euro; the dollar stands a chance for a prolonged and pronounced dollar weakness.
- Significant US Dollar deficit issues.
- Ethical implications of what is happening with Goldman Sachs; whether or not some of the reform becomes more punitive to try to clip their wings relative to profitability.
- Rating agencies; whether or not they were culpable, or participated knowingly.

- Another possible wave of counter-party volatility; what will be the backlash in Corporates, relative to Banks, that politicians go after and file suit against?
- Counter-party risk; in the current environment, going forward, we need to give serious consideration to the counter-parties that are chosen.

Mr. Lim and Mr. Woodruff spoke regarding inflation. Mr. Lim noted his opinion that inflation is still trending down in major statistics and that there are Main Street signs of inflation but not on a major barometer that the Federal Reserve members consider. The Federal Reserve Committee may change rates as early as September and remove their "emergency status." Mr. Woodruff discussed core inflation; teetering in deflation and not consistently growing.

Mr. Woodruff further noted that China may revalue their currency and move from an export to a consumption nation, thus impacting the US bond market.

Mr. Goe thanked Deanne, Perrin and Bob for their review and expressed gratitude for their expertise.

Again, Mr. Goe welcomed Stewart Taylor and wished Mr. Bond continued success as Deputy State Treasurer.

**xii. Other Items of Business – Next meeting: July 29 at 9:00 am**

No items of business.

**xiii. Closing Remarks**

**Meeting adjourned at 11:23 am.**

Respectfully submitted by,



Norma Harvey  
Investment Analyst



Heidi C. Rawe  
Executive Assistant to the Deputy Treasurer