

**OREGON SHORT-TERM FUND
BOARD MEETING
Minutes
January 13, 2011**

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
Deanne Woodring, Davidson Fixed Income Management
Wayne Lowry, Sherwood School District
Stewart Taylor, City of Albany (via phone)
Robert Woodruff, Nike
Laurie Steele, Marion County Treasurer

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)
Mike Mueller, Oregon State Treasury

Attendees (Other): Ritha Metcalfe, City of Gresham
Mary Donovan, Cutwater Asset Management (via phone)
Beth deHamel, Tri-Met (via phone)
Laurie Tasker, Tri-Met (via phone)
Rhyan Van Horn, Tri-Met (via phone)

i. Opening Remarks

Doug Goe welcomed all to the OSTF Board Meeting.

ii. Review and Approval of Meeting Minutes

a. October 28, 2010

MOTION: Stewart Taylor moved approval of the October 28, 2010 minutes. The motion was seconded by Wayne Lowry and passed unanimously by the board.

iii. LGP/OSTF Investment Policy Review – Tri-County Metropolitan District of Oregon (TriMet)

Ellen Hanby presented Tri-County Metropolitan District of Oregon's (TriMet) Investment Policy to the Board. An explanation was given with regards to the changes of format to information presented to the Board. Mr. Goe remarked that the format changes were helpful, easy to read and understand.

Comments by the Board members were:

- **Section 7.1, Reporting Requirements:** Darren Bond questioned whether reporting referred to a dollar Weighted Average Maturity (WAM). TriMet confirmed that it was.
- **Section 5.2, Suitable Investments and Cash Management Tools, Corporate Indebtedness,** Bob Woodward made a comment with respect to the ratings in the Corporate Indebtedness category, stating that the Short-Term ratings were requiring a higher level of credit, while the Longer-Term ratings were lower. A conversation followed where the Board and staff indicated continued comfort with the different treatment of short and long-term issues. TriMet indicated that it was a conscious choice; they wanted AA across the board for Longer-Term debt and were entirely comfortable with it.
- **Section 5.2 and 5.2.1,** Stewart Taylor stated that the distinction in the summary that was made between cash management tools and investment products seemed to be a valid distinction and well described. He asked whether this distinction was included in the Sample Policy for future reference. Ms. Hanby confirmed that it was. Mr. Bond added that this language is no longer required since statutes had been revised and now explicitly address these kinds of tools and allow for their collateralization under Chapter ORS 295; therefore, this language should have been taken out.
- **Section 6.2.3, Investment Maturity,** Deanne Woodring questioned what effect the Weighted Average Maturity (WAM) of two years would have on the portfolio. TriMet indicated that they were comfortable with the limitation and confirmed that they did not intend to extend their WAM.
- Mr. Goe asked about the status of the temporary liquidity program. Staff confirmed that the program is due to end in December 2012. Secondary markets now exist for these securities.
- Mr. Goe thanked TriMet and complimented them on their Policy.

Comments from Tri-County Metropolitan District of Oregon were:

- Beth deHamel thanked the Board for their assistance and agreed that the new format was helpful.

iv. LGP/OSTF Investment Policy Review – City of Gresham

Ms. Hanby presented the City of Gresham’s Investment Policy to the Board.

Comments by the Board members were:

- **Page 7, Suitable and Authorized Securities and Transactions, # 2 - Federal Instrumentality Securities:** Mr. Goe asked for clarification regarding the language within this section. Mary Donovan, Cutwater Asset Management, explained that the intent was to formally recognize that the City does not wish to purchase the subordinated debt which does not carry AAA rating.
- With regard to Corporates, Deanne Woodring posed the question whether the City would be able to purchase it under the corporate criteria. The City confirmed that their policy does not

allow for the split ratings, so they would only be able to buy the securities that have AA rating across the board.

- **Page 7, Suitable and Authorized Securities and Transactions:** Stewart Taylor recommended that the City might consider adding ORS 294.052 (legislation that provided conditions for investment of proceeds of bonds) to their list of Authorized Suitable Transactions. Ms. Donovan thanked Mr. Taylor for his suggestion.
- **Page 9, Suitable and Authorized Securities and Transactions:** Under number 9, within the paragraph that precedes the table, it was advised that the word “*target*” be removed from the last sentence “The **target** weighted average credit...”
- **Page 10, Maturity Limits and Liquidity Requirements:** Relating to the maturity table within this section, Ms. Woodring noted that expanding the maturities out to 5 years might be a little broad and may potentially allow the City to go out of compliance of their average maturity of two years. The City was encouraged to review and perhaps reduce the 2-5 year percentage. The City responded that they were hesitant to make this change, since it would mean losing some of their flexibility. However, it was agreed that the portfolio must be managed and monitored on an ongoing basis to ensure that they do not go out of compliance.
- Mr. Goe thanked the City of Gresham.

Comments from the City were:

- The City of Gresham thanked the OSTF Board for the review of their policy.

v. Sample Investment Policy Review

Ms. Hanby presented Phase 1 of the updated Sample Investment Policy for Local Governments for the OSTF Board’s review. Board member comments included the following:

- As an Advisor on the Government Finance Officers Association (GFOA) Committee on Treasury and Investment Management (TIM), Ms. Woodring confirmed that one of their priorities is to review their policy from which she believed the OSTF sample policy was originally created. She confirmed that a GFOA meeting would be held at the end of January, and any updates recommended at that time will be forwarded to OST staff to be incorporated into the OSTF sample policy.
- Mr. Lowry commented that more and more local governments are turning to Investment Advisors for help with their policies, and suggested having standard language available in the sample investment policy that could be used in these circumstances.
- Mr. Woodruff noted that in *Section II, General Objectives, number 3, Yield, the first bullet point that read* “A security with declining credit...” didn’t seem to be a very well-defined term and suggested that more parameters be added. In addition, he asked if the paragraph under Section VI, Investment parameters, beginning “If this investment policy has been submitted for review...” was still pertinent. Ms. Hanby confirmed that it is not in statute and asked the

board whether this should remain in the sample. Ms. Woodring responded that it could be removed.

- Mr. Taylor commented that the sample investment policy is a very useful tool, not only for Local Governments looking at creating an initial policy but also for updates to current policies. He noted his appreciation for the work that has gone into it.
- Mr. Goe referenced the introduction that was included in the City of Gresham and TriMet's investment policy, which informs the reader of how much is being invested in different types of investments, giving the governing body a sense of what they are talking about. He mentioned that having this information upfront is a useful thing and should be incorporated into the sample policy as good practice.
- With regards to *Section V. 1. Suitable and Authorized Investments, number 1, Investment Types*, Mr. Goe inquired, in an attempt to provide guidance, whether a listing could be included of all currently lawful obligations, along with an explanation of some of the risk and issues associated with them, could be included. Staff confirmed that the hyperlinks contained within the electronic document do give further information on the various types of investments.
- Laurie Steele thought that the update was timely. With regards to *Section VII. Reporting, Performance Standards*, she shared concerns relating to having a benchmark in a portfolio and questioned the validity of having it in this type of portfolio, as opposed to an investment policy in the private industry. Mr. Woodruff agreed that this can also be a challenge for Corporate Treasurers.

Following the discussion, Mr. Goe thanked Ms. Hanby for the work she had done on the policy. Any additional comments and recommendations should be sent to Ms. Hanby.

vi. Market Overview – Perrin Lim

Mr. Lim presented the OSTF Portfolio Review and Market Perspective (Please see attached).

vii. Market Participants Perspective – Deanne Wooding

Ms. Woodring gave a market perspective, showing an analysis of the forecast of the federal funds rate.

viii. Global Market Perspective – Bob Woodruff

Mr. Woodruff shared a global perspective of what is currently happening in the markets.

ix. Other Items of Business

- A letter of appreciation from former Governor Kulongoski was shared with each board member, in acknowledgement of their service on the OSTF Board throughout his term.
- 2011 OMFOA Spring Conference: An educational presentation will be given by Perrin Lim and Tom Lofton at the conference, to be held at Salishan Lodge, Gleneden Beach, on Tuesday, March 8, at 1:30 pm.

- Next meeting: April 7, 2011

x. Closing Remarks

The meeting was adjourned at approximately 11:45 am.

Respectfully submitted by,

Heidi C. Rawe
Executive Assistant to the Deputy State Treasurer

Oregon Short-Term Fund Board Meeting January 13, 2011

Total Returns, Major Fixed Income Components, ending 12/31/10:

Fixed Income Sector	December	YTD
Barclays U.S. Aggregate	-1.08%	6.54%
AAA	-1.13	5.66
AA	-0.80	8.39
A	-0.79	9.47
BBB	-1.12	10.90
Treasuries	-1.80	5.87
30-year Treasury Bonds	-3.68	8.65
10-year Treasury Notes	-4.05	7.90
5-year Treasury Notes	-2.30	6.76
3-year Treasury Notes	-0.67	4.14
2-year Treasury Notes	-0.18	2.28
3-month Treasury Bills	0.02	0.13
3-month LIBOR	0.03	0.34
BAML 1-3 year Treasury/Agency	-0.17	2.34
Agencies	-0.86	4.56
MBS	-0.55	5.37
CMBS	0.13	20.40
ABS	-0.99	5.85
• Credit Card	-1.36	6.55
• Auto	0.01	3.25
Corporate	-0.92	9.00
• Industrials	-1.30	8.65
• Utility	-1.37	9.20
• Financial Institutions	-0.20	9.44
High Yield	1.76	15.19
• BB	1.02	14.93
• B	1.79	13.99
• CCC	3.65	18.42
Emerging Market Sovereigns	-0.02	15.30

Source: Barclays Capital, Bank of America Merrill Lynch

Oregon Short-Term Fund Information

Outlook and Strategy

Given the uncertainty with respect to QE2, employment and housing statistics, expectations for inflation, the US\$ and the growing government deficit, the OSTF is generally structured with a defensive bias, both in terms of interest rate risk and credit risk.

Staff believes the downside interest rate risks outweigh the upside risks and, to express this view, adjustable rate securities are a core holding for the fund. That said, with the Fed maintaining current monetary policy “for an extended period,” staff continues to seek opportunities for positive carry versus the very front-end of the yield curve, where yields range between 0.01%-0.25% (1-25 bps).

The weighted-average-maturity, or WAM, of the fund was 178 days as of December 31, 2010, and is currently ~183 days.

At month-end, corporate exposure stood at 43.7% and is currently at ~44%. Corporate fundamentals remain healthy yet valuations are narrow.

The approved commercial paper list has been continuously revised over the past year to include additional high quality credits and to remove those credits that have been downgraded or that are perceived by staff to bear higher-than-desired risk or potential balance sheet pressure in the future. Staff continues to diligently review the approved credits as well as potential new programs that may add value and safety to the OSTF.

General Fund

In the fiscal year ended June 30, 2010, the General Fund had experienced negative cash balances. The current fiscal year may witness pressure on negative cash balances because of the length of time before the State will have sufficient revenue to cover the overdraft. The OSTF provides liquidity to those state agencies, including the General Fund, with short-term negative cash balances. Presently for the General Fund, compensation for these overdrafts is calculated for every day of an overdraft occurrence at the rate of the current OSTF rate plus a spread of 130 bps. The spread is based on the three year average of the “BAML U.S. Corporate & Government, 1-3 year, AA Rated and Above Bond Index” and will be revised at the end of every fiscal year.

Staff has determined that, at the time of the overdraft, the prudent maximum available per state agency will be 1.5% of monies held in the OSTF, with the exception of the General Fund, which will be limited to 10.0% of monies held in the OSTF.

Securities Lending

Net OSTF securities lending income year-to-date through November 30, 2010 amounted to \$3.067 million versus \$9.831 million in the prior year YTD period, a decrease of \$6.763 million.

Additional Items

In the future, staff will work with the OSTF Board and the OIC to further revise and enhance the portfolio investment rules and guidelines (4.02.03).

Select Portfolio Statistics & Compliance, as of December 31, 2010:

Compliance	Policy	Actual	Par Value
Maturity Distribution			
Portfolio maturities less than 93 days	> 50%	74.86%	\$8,423,691,000
Portfolio maturities between 94 days & 1 year		6.68%	751,570,000
Portfolio maturities greater than 1 year	< 25%	18.46%	2,077,249,000
Maturities greater than 3 years	0%	0.00%	0
Total Maturity Distribution		100.00%	\$11,252,510,000
Diversification			
Treasury and/or Agency Securities	0-100%	45.16%	\$5,082,091,000
TLGP/FDIC Securities	< 50%	8.51%	956,987,000
Commercial Paper (minimum A-1/P-1)		10.82%	1,217,569,000
Corporate Bonds		32.89%	3,700,890,000
Total Corporate Indebtedness	< 50%	43.71%	4,918,459,000
Municipal Bonds		0.45%	50,250,000
Time Certificate of Deposit's	< 20%	0.41%	46,073,000
Total Diversification		100.00%	\$11,252,510,000
Top Ten Holdings			
1. Federal Home Loan Bank	33%	21.02%	\$2,365,702,000
2. Fannie Mae	33%	9.42%	1,060,214,000
3. TLGP/FDIC	50%	8.51%	956,987,000
4. Freddie Mac	33%	6.83%	769,005,000
5. US Treasury	100%	5.51%	620,000,000
6. Federal Farm Credit Bank	33%	3.26%	367,170,000
7. UBS AG Stamford CT	5%	2.53%	285,000,000
8. Wells Fargo & Co.	5%	2.47%	278,365,000
9. JP Morgan Chase & Co.	5%	2.44%	274,902,000
10. National Rural Utilities Corp.	5%	2.44%	274,719,000
Total Top Ten Holdings		64.45%	\$7,252,064,000
Total Average Credit Quality			
Moody's or Standard & Poor's	Minimum Aa2 or AA	Aa2/AA	
Interest Rate Exposure (adjusted for variable rate securities)			
WAM, exposure in days		178 days	
Fixed versus Variable Weights:			
Fixed Rate		74.63%	\$8,397,748,000
Variable Rate		25.37%	\$2,854,762,000

Total Return Performance, as of November 30, 2010:

	November	3 mos.	YTD	1 yr	2 yrs	3 yrs	4 yrs	5 yrs
OSTF	0.00	0.20	0.84	0.81	1.93	1.61	2.56	3.04
91 Day T-Bills	0.01	0.03	0.11	0.11	0.16	0.88	1.94	2.49
Value-Added	<i>-0.01</i>	<i>0.17</i>	<i>0.73</i>	<i>0.70</i>	<i>1.77</i>	<i>0.73</i>	<i>0.62</i>	<i>0.55</i>

Source: State Street Investment Analytics