OREGON SHORT-TERM FUND
BOARD MEETING
Minutes
Thursday, April 7, 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
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)
Attendees (Other):	Michael Montgomery, City of Portland (via phone) Deanna Allred, Bank of the Cascades Anthony Petchel, Bank of the Cascades Ann Karmine, Lake County Treasury (via phone)

i. **Opening Remarks**
Doug Goe welcomed all to the Oregon Short-Term Fund (OSTF) Board meeting.

ii. **Review and Approval of Meeting Minutes**
a. **January 13, 2011**
MOTION: Darren Bond moved approval of the January 13, 2011 minutes. The motion was seconded by Deanne Woodring and passed unanimously by the Board.

iii. **General Discussion on Investment Policies**
Ellen Hanby noted major inconsistencies that had been found on a couple of recently submitted investment policies. Working together, she and Ms. Woodring made suggestions to the entities who had submitted the policies.

Ms. Woodring confirmed that she and Ellen had discussed the Oregon Sample Policy, which would be updated using the GFOA Sample Policy. Ms. Woodring made recommendations to the board regarding what they should look at in the sample policy, which included Prohibited Investments, and Investment Advisors. The GFOA sample states what is highly recommended to have in your policy, what is advisable and what is optional. She also suggested adding a compliance report requirement within the policy. A discussion took place relating to what the OSTF Board's obligations are and what action should be taken to make sure portfolios are in compliance. It was decided that it should be on a case by case basis. In an extremely rare situation where staff is not confident that an error will be corrected, the Governing body should be notified.

Ms. Woodring confirmed that the GFOA Board would not have a final vote on the Sample Policy until January 2012. In order for work to begin on the OSTF Sample Policy, she will ask the GFOA Committee for their permission to use their draft policy as a model once it has been completed, estimated to be in May 2011.

iv. Sample Investment Policy Review

Ms. Woodring confirmed that the GFOA is working to have tighter guidelines with regards to what is allowable for the different entities to buy. Mr. Bond confirmed that the OSTF's Sample Policy should be kept as close to the GFOA model as possible.

Mr. Goe thanked Ms. Woodring and Ms. Hanby for their presentation and asked that they provide a redlined mock up of the policy showing the amendments at the next OSTF board meeting.

v. Proposed Revisions to OSTF Portfolio Rules

Following the Secretary of State's past audit, Mr. Lim gave background information relating to the changes that had been made to the OSTF Portfolio Rules relative to firming up language in the guidelines to address average ratings as opposed to specific ratings. Tom Lofton presented the updates to the Board and shared information on how OST has been working for some time to create a much more robust internal compliance process. A discussion followed.

Ms. Woodring liked the changes and commented that the interpretation will now be the same no matter who is looking at it.

MOTION: Ms. Woodring moved that the recommended changes to the Portfolio Rules be put before OIC at the upcoming April 27th meeting. Stewart Taylor seconded the motion, and it was passed unanimously by the Board.

vi. Market Review – Perrin Lim

Mr. Lim presented a review of the market (please see attached) and noted that, since his last presentation at the OMFOA/OACTFO Spring Conference on March 8th, not a lot had changed with regard to the actual structure of the Short-Term Fund.

In summary, Mr. Lim confirmed that the curve is still very steep, and noted that it is a difficult environment for all. He confirmed that the Fund has plenty of liquidity, and he will continue to favor the current structure going forward.

vii. Market Participants Perspective – Deanne Woodring

Ms. Woodring gave a market perspective, agreeing with Mr. Lim's presentation. She noted that they are seeing lots of challenges and continue to work through the various fixes that the Government has initiated.

viii. Global Perspective – Bob Woodruff

Bob Woodruff was not present and, therefore, will give his presentation at the next OSTF Board Mtg.

ix. Other Items of Business

- Next meeting: July 14, 2011

- Ms. Woodring thanked and showed appreciation to Mr. Lim and Mr. Lofton for their presentation at the March OMFOA/OACTFO Conference. She noted that it was well-received by all who attended.

x. Closing Remarks

Mr. Goe thanked all for their participation.

The meeting was adjourned at approximately 11:08 am.

Respectfully submitted by,

HCRawe

Heidi C. Rawe
Executive Assistant to the Deputy State Treasurer

Description of Proposed Revisions to OSTF Portfolio Rules

Purpose:

To propose revisions/additions to Investment Policy 4.02.03, the Oregon Short-Term Fund Portfolio Rules, specifically as it pertains to Section VI, Diversification and Limitations of Portfolio. The last revision to the rules was reviewed by the OSTF Board on September 23, 2010, and approved by the Oregon Investment Council on September 29, 2010.

Background – Minimum Portfolio Rating Calculation:

Under ORS Chapter 294.895, the Oregon Short-Term Fund Board shall review the rules promulgated by the investment officer.

Current OSTF Guidelines prescribe minimum ratings criteria to determine eligibility by stating the minimum rating needed from each of three Nationally Recognized Statistical Rating Organizations (NRSRO). For example, Section VI (5) (d) of the OSTF Portfolio Rules (guidelines) states:

> Corporate notes must have 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.

It is rare that corporate notes are rated by more than two NRSRO's. Ratings by three NRSRO's on US Government Agency debt is more prevalent, but not universal. OSTF guidelines do not require a minimum number of ratings per security nor do they require a rating from a specific NRSRO on each security.

OSTF guidelines currently prescribe a minimum weighted average portfolio rating for each of two NRSRO's (S&P and Moody's). A methodology for the calculation is in Section E of the OSTF guidelines as follows:

1. 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, using the following and appropriate long term and short term ratings valuations for the purchased securities at the time of purchase:

Value	**Moody's Ratings**		**S&P Ratings**	
	Long Term	Short Term	Long Term	Short Term
1	US Treasury		US Treasury	
1	Agency		Agency	
1	Aaa		AAA	
2	Aa1		AA+	
3	Aa2		AA	
4	Aa3	P-1	AA-	A-1+
5	A1	P-1	A+	A-1
6	A2		A	
7	A3	P-2	A-	A-2
8	Baa1		BBB+	
9	Baa2		BBB	
10	Baa3		BBB-	

(1) The target weighted average credit quality shall be < 3.50 by Standard & Poor's or Moody's Investors Services (AA or Aa2).

As noted, OSTF guidelines state that a rating score is assigned to each rating and an average rating score must be calculated for each NRSRO separately. The maximum permitted average score is 3.5, which implies an Aa2 rating in the Moody's rating average or an AA rating for the S&P average.

When criteria for individual security eligibility and portfolio average rating are applied, the results are often illogical. Pursuant to the methodology for calculating average portfolio rating, if a security is not rated by either of the two NRSRO's referenced, the security is treated as unrated for that NRSRO's averaging calculation. An unrated security, by necessity, is the equivalent of defaulted for the respective NRSRO's calculated average (although not stated in the above table, the score for a defaulted and/or unrated security is "23" after accounting for below investment grade rating categories).

Viewed separately, the NRSRO rating score calculations can create illogical results. For example, a security may be rated triple-A by S&P, but be unrated by Moody's and is, therefore, treated as defaulted for the Moody's calculation. Moreover, a corporate security rated A or above only by Fitch is eligible for the OSTF; yet, since Fitch ratings are not stipulated in the OSTF guidelines for the average credit quality calculation, the security will be treated as defaulted in both the S&P and Moody's calculated average.

Proposed Revision – Minimum Portfolio Rating Calculation:
To remedy the above inconsistency, staff recommends the following changes:

1. Determine a single "average" rating utilizing industry-standard methodology, such as using The Barclay's Capital Family of Fixed Income Indices (Formerly known as the Lehman Brothers' Family of Fixed Income Indices).

    i. When three 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 is used.

    iii. When a rating from only one NRSRO is available, that rating is used.

The minimum weighted average credit quality will remain <3.50, but will be calculated using the single rating for each security versus separately determined averages for S&P and Moody's under the current rules.

Other Proposed Revisions:
1. In section VI (5), language has been added to specify the Nationally Recognized Statistical Ratings Organizations (NRSRO) used to determine minimum ratings. There are currently ten NRSROs. In addition, the reference language has been corrected.
2. In section VI (9), the text has been re-arranged to better conform to the style in other paragraphs of the rules.

Recommendations:
Staff recommends that the OSTF Board approve the revised Oregon Short-Term Fund Portfolio Rules, Investment Policy 4.02.03.

Oregon Short-Term Fund Market Review

Market Comments

- Employment data has very gradually improved and is expected to maintain this trend, albeit in fits and starts in the near-term. Nonetheless, the housing market is not likely to see a meaningful recovery anytime soon.

- Despite a relatively significant decline in treasury rates during the last two weeks of February due to turmoil in the Middle East and North Africa (MENA), UST rates were higher for the quarter at every significant maturity on the UST curve. Positive domestic economic data outweighed severe regional disruptions across the world, e.g. Japanese earthquake and nuclear tragedy, MENA political turmoil. Moreover, the outlook for corporate earnings continues to be solid, although input cost pressures and price increase pass-through are emerging as common themes.

- Underlying inflationary pressures from an improving world economy coupled with a persistent rise in US Treasury rates has fomented several other market concerns. (e.g., Would the Federal Reserve continue with its massive amount of UST buying (Who/What would fill the void)? When would core inflation appear?) Stronger economic signals sparked discussion about continuance of the Federal Reserve's Quantitative easing policy and the timing of a potential increase in its Funds Rate. The Federal Reserve's Open Market Committee seems to be preparing the ground as several members (voting and non-voting) have recently opined publicly about the future of quantitative easing and the level of Federal Funds rates.

Total Returns, Major Fixed Income Components, ending 03/31/11:

Fixed Income Sector	March	YTD
U.S. Aggregate (BARC)	0.06%	0.42%
Aaa (BARC)	0.10	0.23
Aa (BARC)	-0.16	0.57
A (BARC)	-0.18	1.02
Baa (BARC)	0.04	1.43
Treasuries (BAML)	-0.06	-0.14
30-year Treasury Bonds (BAML)	0.05	-0.18
10-year Treasury Notes (BAML)	-0.00	-0.34
5-year Treasury Notes (BAML)	-0.08	-0.01
3-year Treasury Notes (BAML)	-0.07	-0.15
2-year Treasury Notes (BAML)	-0.07	-0.02
3-month Treasury Bills (BAML)	0.03	0.05
3-month LIBOR (BAML)	0.03	0.08
1-3 year Treasury/Agency (BAML)	-0.03	0.06
Agencies (BARC)	0.13	0.29
MBS (BARC)	0.28	0.59
CMBS (BARC)	-0.53	1.66
ABS (BARC)	-0.29	2.20
• Credit Card (BARC)	0.01	0.74
• Auto (BARC)	-0.04	0.37
Corporate, IG (BARC)	-0.13	0.86
• Industrials (BARC)	-0.09	0.54
• Utility (BARC)	-0.12	0.58
• Financial Institutions (BARC)	-0.20	1.41
High Yield (BARC)	0.32	3.88
• Ba (BARC)	0.50	3.42
• B (BARC)	0.19	3.70
• Caa (BARC)	0.40	4.90
Emerging Market Sovereigns (BARC)	1.35	0.87

Source: Barclays Capital, Bank of America Merrill Lynch

Oregon Short-Term Fund Information

Outlook and Strategy

Given the uncertainty with respect to strength in current economic trends, QE2, expectations for inflation, 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 credit risk.

Staff believes the longer-term risk of rising-rates outweighs risk of a renewed economic downturn and, to express this view, adjustable rate securities have been a core holding for the Fund. That said, with the Fed maintaining current monetary policy "for an extended period," staff continues to selectively take advantage of opportunities for positive yield pick-up of longer-term investments versus the very front-end of the yield curve.

The weighted-average-maturity, or WAM, of the Fund was 167 days as of March 31, 2011.

At quarter-end, the 46.7% allocation to corporate indebtedness hovers close to the maximum 50% allowance as corporate fundamentals remain healthy.

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 February 28, 2011, amounted to $0.199 million versus $0.292 million in the prior year YTD period, a decrease of $0.093 million.

Additional Items

None.

Select Portfolio Statistics & Compliance, as of March 31, 2011:

Compliance	Policy	Actual	Par Value
Maturity Distribution			
Portfolio maturities less than 93 days	> 50%	76.34%	$8,373,425,000
Portfolio maturities between 94 days & 1 year		6.26%	686,420,000
Portfolio maturities greater than 1 year	< 25%	17.39%	1,908,369,000
Maturities greater than 3 years	0%	0.00%	0
Total Maturity Distribution		100.00%	$10,968,214,000
Diversification			
Treasury and/or Agency Securities	0-100%	44.72%	$4,904,901,000
TLGP/FDIC Securities	< 50%	7.61%	834,700,000
Commercial Paper (min A-1/P-1)/Bank Notes		9.77%	1,072,300,000
Corporate Bonds		36.96%	4,053,863,000
Total Corporate Indebtedness	< 50%	46.74%	5,126,163,000
Time Certificate of Deposit's	< 20%	0.41%	45,200,000
FDIC/NOW Deposits		0.00%	0
Total Diversification		100.00%	$10,968,214,000
Top Ten Holdings			
1. Federal Home Loan Bank	33%	27.54%	$3,020,915,000
2. TLGP/FDIC	33%	7.61%	$834,700,000
3. FNMA	50%	6.49%	$711,942,000
4. FHLMC	33%	5.97%	$654,874,000
5. US Treasury	100%	3.56%	$390,000,000
6. General Electric Capital Corp.	5%	2.72%	$298,416,000
7. UBS AG Stamford CT	5%	2.60%	$285,000,000
8. Barclays Bank Plc.	5%	2.51%	$275,000,000
9. WestPac Banking Corp.	5%	2.47%	$271,000,000
10. Goldman Sachs Group, Inc.	5%	2.36%	$259,091,000
Total Top Ten Holdings		63.83%	$7,000,938,000
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		167 days	
Fixed versus Variable Weights:			
Fixed Rate		63.03%	$6,913,543,000
Variable Rate		36.97%	$4,054,671,000

Total Return Performance, as of February 28, 2011:

	February	3 mos.	YTD	1 yr	2 yrs	3 yrs	4 yrs	5 yrs
OSTF	0.14	0.31	0.26	0.84	1.69	1.29	2.31	2.89
91 Day T-Bills	0.02	0.04	0.02	0.14	0.17	0.58	1.63	2.30
Value-Added	*0.12*	*0.27*	*0.24*	*0.70*	*1.52*	*0.71*	*0.68*	*0.59*

Source: State Street Investment Analytics