



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

- OSTF Board Meeting Location:** Orrick, Herrington & Sutcliffe LLP
1120 NW Couch Street, Suite 200
Portland, OR 97209
- Board Attendees:** Douglas E. Goe, Orrick, Herrington & Sutcliffe LLP
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
- Attendees (Staff):** Tom Lofton, Oregon State Treasury
Heidi Rawe, Oregon State Treasury
Perrin Lim Oregon State Treasury
Norma Harvey (via phone)
- Attendees (Other):** Mary Otley, Benton County

- i. Opening Remarks**
Doug Goe welcomed all to the Oregon Short-Term Fund (OSTF) Board meeting.
- ii. Special Recognition and Thank you to Bob Woodruff**
Mr. Goe recognized and thanked former Board member, Bob Woodruff, for his service to both the OSTF Board and the State of Oregon. The Board was asked to adopt a resolution recognizing Mr. Woodruff's service. MOTION: Laurie Steele moved recognition of Mr. Woodruff's contribution as stated by Mr. Goe. The motion was seconded by Mr. Lowry and passed unanimously by the board.
- iii. Welcome New Board Member Pat Clancy**
Pat Clancy was introduced and welcomed by Mr. Goe as the newest OSTF Board member.
- iv. Review and Approval of Meeting Minutes**
 - a. October 13, 2011**
One amendment, the mis-spelling of Laurie Steele's last name in Section ii, was noted. MOTION: Stewart Taylor moved approval of the October 13, 2011 minutes. The motion was seconded by Darren Bond and passed unanimously by the board.

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

a. **Benton County**

Benton County’s Investment Policy was submitted by Mary Otley and presented to the Board by Tom Lofton.

Comments by the Board members and Staff were:

- Throughout the policy, remove the word “Chapter” when referencing a specific section within an ORS Chapter. For example, section .035 of ORS Chapter 294 is correctly referenced as ORS 294.035 and incorrectly referenced as ORS Chapter 294.035.
- Section: Objectives
 - Remove the fifth objective, which is stated as: Conformance with federal and state laws, IRS Regulations, GAAP and GASB guidelines, Oregon State Treasury guidelines and GFOA best practices. Conformance with federal and state laws, IRS Regulations, GAAP and GASB guidelines is inherent in the operations of government. Oregon State Treasury does not have guidelines which govern local government investment policy.
- Section: **Delegation of Authority**
 - In the first paragraph, revise “ORS Chapter 294.00” to “ORS 294.004(2)”.
 - In the third paragraph revise “States” to Statutes”.
- Section: **Maturity Limits and Liquidity Requirements**

Portfolio maturity buckets were revised as follows:

Prior version:

<u>Length of Maturity</u>	<u>Investment Amounts</u>
Under 30 days	10% minimum
Under 1 year	50% minimum
Up to 3 years	100% maximum

Revised version:

<u>Length of Maturity</u>	<u>Investment Amounts</u>
Under 30 days	10% minimum
Under 1 year	25% minimum
Over 3 years	25% maximum

The Board suggested considering a less aggressive revision to the maturity buckets by lowering the maximum allowed over three years.

Mr. Bond asked Mr. Lofton to include the expected average portfolio size at the top of the cover page on all Investment Policies to be reviewed in the future. It was suggested that this also should be referenced in the Sample Policy.

Mr. Goe thanked Ms. Otley for her work on the policy.

b. Yamhill County Soil and Water Conservation District

Mr. Lofton presented the Yamhill County Soil and Water Conservation District's Investment Policy to the Board. The Policy was submitted by Mike Green, Treasurer of the Yamhill County Soil and Water Conservation District. After review and discussion on the policy, the Board asked that the District resubmit its policy, suggesting that it stay closer to the Sample Policy. They also encouraged the District to participate in the meeting, allowing questions and responses from both sides. Ms. Steele offered to be of service to the District, and stated that she would be willing to assist them as needed with their policy.

Mr. Lofton thanked the Board for their comments and feedback.

vi. Review of Oregon Local Government Sample Investment Policy

Tom presented the newly revised Sample Investment Policy to the Board. He confirmed that he had worked to enhance the State Sample Policy aligning it with the new GFOA Sample Policy.

Comments and suggestions from the Board included the following:

- a. Section I. Introduction:** In the last sentence, revise "ORS Chapter 294.135" to "ORS 294.135".
- b. Section II. Governing Authority:** The Sample Investment Policy needs to address investment of Bond proceeds. ORS 294.052 addresses investment of bond proceeds by municipalities.
- c. Section III. Scope:** Several Board members discussed the need for the Sample Investment Policy to contain range of assets under management expected to fall within the scope of the policy.
- d. Section V.3. Investment Advisor:** Delete "Such managers must be registered under the Investment Act of 1940." Registration under the Investment Act of 1940 is inherent in FINRA registration required below. Redundant.
- e. Section VI. 1:** All dealers are required to comply with 15c3-1 as it lays out the minimum net capital requirements in order to conduct specific lines of business. If the broker/dealer is registered with FINRA & SEC, then it must comply with 15c3-1.
- f. Section VI. 3:** The Board requested that sub-section 3 be added to enhance guidelines for Investment Advisors.
- g. Section VIII:** Although Mortgage-backed Securities (MBS) are technically allowed by ORS, some investment managers liberally interpret the stated final maturity limitation by substituting average life. Add a section to deal with US Agency Mortgage-backed Securities.
- h. Section VIII.3:** Under "Private Placement or "144A" Securities", replace "SEC" with "Securities".

- i. **Section IX.1. Exposure Constraints:** Updates to the Table showing Sample Restraints, the following updates or additions were noted by the Board:
- The reference to subordinated agency obligations should be removed and “Senior Obligations Only” be added.
 - Maximum percentage of holdings should be reduced to 33%.
 - Oregon Short-Term Fund: Include citing ORS as guidance for Local Governments.
 - In addition to Certificates of Deposit, Bank Deposits should be included. ORS Chapter 295 is cited in Section VIII.
 - Repurchase Agreements: The Board suggested adding an actual number rather than XX%. .
 - Corporate Debt: Reduce recommended percentage on all corporates from maximum to conservative amount.
 - Municipal Debt (Total): Reduce from 25% to 10% to be more conservative.
 - Include ORS maximum percentages as notation only.
- j. **Section IX.2.iv:** This section should be revised, by removing minimum issuance sizes. Language needs to bring attention to the fact that index eligible securities have greater liquidity. This tact is similar to other sections in the policy which provides guidance without providing specific limitations that could be cumbersome or confusing.
- k. **Section IX.2.v:**
- In regard to municipal bond issuance, new language would clarify the meaning of “Issuance Size” in the investment policy.
 - Some less sophisticated investors may have difficulty with attempts to comply with minimum issuance amounts. It was suggested that specific par requirements be deleted, maintaining language referring to index eligibility to provide educational guidance.
- l. **Section IX.3.iii:** The maximum percentage of callable securities in the portfolio should be left blank so that the Board could review the chosen amount.
- m. **Section IX.3.v:** Modified duration is likely too difficult for most local governments to measure. Modified duration should be replaced with average maturity.
- n. The Board noted a need for the Sample Investment Policy to address the investment of Bond proceeds pursuant to ORS 294.052. In many cases illiquid investments whose maturities match projected outflows are often more risk/return efficient. (Now in Section XI).
- o. Language should be added addressing Capital improvement funds. (Now in Section XII)
- p. **Was Section XI.1, now Section XIV.1.ix:** A requirement should be added stating that guideline violation be included in periodic reports.
- q. **Was Section XII.2, now Section XV.2:** The Latin term “ex-ante” should be replaced with “prior”.

vii. Market Review – Perrin Lim

Perrin Lim provided a Market Review to the Board.

Mr. Lim and Mr. Lofton will present at the OMFOA Spring Conference in Sunriver on Tuesday, March 6, 2012 at 1:30 – 3:00 pm. The Board was asked to provide suggestions, via email, to Mr. Lim, relating to topics that should be included during this presentation.

A suggestion was made that the next Oregon State Treasury (OST) Newsletter include language, in simple terms, explaining how and why the Local Government Investment Pool's (LGIP) rate is as high as it is. There was discussion by the Board, who agreed that addressing this topic would be beneficial.

viii. Market Participants Perspective – Deanne Woodring

Deanne Woodring provided a market participant perspective to the Board. Information was given relating to the recent GFOA conference.

ix. Other Items of Business

- Next meeting: April 12, 2012

x. Closing Remarks

Doug thanked all for their participation.

The meeting was adjourned at approximately 12.10 pm

Respectfully submitted by,

Heidi C. Rawe
Executive Assistant to the Deputy State Treasury