



**OREGON SHORT TERM FUND
BOARD MEETING
Thursday, April 11, 2013
Meeting Minutes**

- OSTF Location:** Orrick, Herrington & Sutcliffe, LLP
1120 NW Couch Street, Suite 200
Portland, Oregon
- Board Attendees:** Douglas Goe
Darren Bond
Laurie Steele
Stewart Taylor (via phone)
Pat Clancy
Deanne Woodring
Michael Schofield
- Attendees (Staff):** Perrin Lim
Tom Lofton
Garrett Cudahey
Norma Harvey (via phone)
Brooks Hogle
Priyanka Shukla
Heidi Rawe
- Attendees (Other):** Mike Green, Yamhill County
Patrick O’Claire, City of Beaverton
Dave Waffle, City of Beaverton
Amber Hubbard, City of Beaverton
Sandra Montoya, City of Salem (via phone)
Marne Anderson , City of Salem (via phone)
Lauren Brant, City of Salem (via phone)
Allison Kaune, City of Salem (via phone)

i. Opening Remarks – Douglas Goe

Douglas Goe welcomed all to the Oregon Short Term Fund (OSTF) Board meeting and roll was taken. Mr. Goe gave a special welcome to new Board member Michael Schofield.

ii. Review and Approval of Meeting Minutes

a. January 10, 2013

MOTION: Pat Clancy moved approval of the January 10, 2013 OSTF Board Meeting Minutes, the motion was seconded by Darren Bond, and passed unanimously by the board.

iii. LGP/OSTF Investment Policy Reviews

a. City of Beaverton

Tom Lofton presented the City of Beaverton's Investment Policy to the Board. Mr. Lofton explained that there were substantial revisions, therefore no red-lined version was provided. The average monthly balance of cash invested in the City of Beaverton's general portfolio, excluding proceeds from bond issues is approximately \$60 million. The highest balances in the portfolio occur in November and December after property taxes are collected. The portfolio ranges between \$47 and \$80 million on an annual basis. Mr. Lofton noted that The City of Beaverton's policy allows discretionary external management.

Patrick O'Claire of the City of Beaverton expressed appreciation to Tom Lofton for help in working with their investment advisor, PFM, and the City of Beaverton staff. Mr. O'Claire noted that the policy was last revised in 1988. He further noted that the City of Beaverton is seeking additional authority and flexibility within their policy, which will result in a more diversified portfolio.

Mr. O'Claire outlined a new program called "Local Deposit Investment Program" under which \$10 million in CDs are purchased from twelve different local banks and credit unions. He noted that it is very important to the Mayor of Beaverton to invest in the local community.

Comments from the Board were:

- Regarding the separation of Oregon, California and Idaho municipal bonds: The policy has an "Issuer Limit" for agency securities, but not for Oregon municipal bonds. City of Beaverton may want to consider an issuer limit for Oregon municipal bonds.
- Page 42 of 51, section 6.2: The section on "Diversification and Summary" needs clarification under Issue Type/Maximum % of issuance. The section (*The par amount issued under a single CUSIP) should be changed to "a single issuer." It was noted that this section is challenging to monitor and a monitoring process should be put in place.
- The compliance sections of the City of Beaverton's policy are scattered throughout the policy and should be consolidated into one "Compliance" section of the policy.
- Out-of-Compliance reporting requirements need to be added to the policy compliance section and add, "out of compliance will be reported immediately."
- Page 37 of 51, section 5.1 Qualified Institutions: The last paragraph, second and third sentences should read, "Approved broker/dealers will be licensed in the State of Oregon, both for the firm and for the designated representative. They will also submit proof of registration under the Financial Industry Regulatory Authority (FINRA)."
- Page 11 of 51, section 5.3: The word "place" should be "places."

- Weighted Average Maturity (WAM): The Board emphasized the importance when reporting to government bodies that the increase in maximum maturity allows a dramatic increase in the risk profile to the portfolio. Also as the maximum WAM is increased; is reliance on the LGIP benchmark for the portfolio adequate?
- Page 35 of 51, section 3.3: Last sentence refers to ORS 244; should be ORS “Chapter” 244.
- Page 36 of 51, section 4.2: First sentence refers to ORS 295; should be ORS “Chapter” 295.
- Page 42 of 51, section 6.2: Second-to-last sentence refers to ORS 295; should be ORS “Chapter” 295.
- Page 36 of 51, section 4.3, number 8: “Authorizations of wire and ACH transfers” should include a dual authorization control process for cash transfers.
- Page 41 of 51, section 9: In the right-hand column is entitled “Credit Requirements” remove the periods between the “O.R.S.” to be consistent with the ORS references throughout the policy.

Mr. O’Claire explained the procedure for the investment of bond proceeds in a separate LGIP account.

Stewart Taylor thanked the City of Beaverton for the good example of a “Community Deposit Initiative” and how that can be incorporated in a policy document.

Mr. Goe thanked the City of Beaverton for submitting its revised policy.

b. City of Salem

The City of Salem’s Investment Policy was presented to the Board by Tom Lofton. Mr. Lofton noted that he worked with Marne Anderson in completing the policy revisions. The balance of the City of Salem’s general purpose portfolio ranges between \$110 million and \$145 million during the fiscal year.

Mr. Lofton noted significant differences between the OSTF Sample Policy and the policy submitted the City of Salem as follows:

- City of Salem’s policy allows investment advisors on a non-discretionary basis.
- The policy allows investments issued by government agencies. Agency MBS are not specifically prohibited in the policy. The policy does not define allowable MBS characteristics (WAM, Average Life, Final Maturity).
- The policy does not limit exposure to callable securities.
- The maximum weighted average maturity for the portfolio is 2.5 years.
- The maximum maturity is 5 years.

Mr. Lofton directed the Board’s attention to the informative February 26, 2013 letter from the City of Salem to the Oregon Short Term Fund Board, outlining the changes to the policy.

Sandra Montoya thanked Tom Lofton for creating a matrix for them to use during the policy revision process. She noted that City staff tried to clarify and shorten the policy and make it more “reader friendly.”

Comments from the Board were:

- Page 75 of 83, Section 2: In the last sentence please add “Chapter” between ORS and 244.
- Weighted Average Maturity (WAM): The Board emphasized the importance when reporting to government bodies that the increases in maximum maturity may allow for a dramatic increase in the risk profile to the portfolio.
- Page 73 of 83, Section II - Delegation of Authority: “The ultimate responsibility and authority for the investment of City funds resides with the City Council.” The City of Salem staff was encouraged to explicitly clarify the fiduciary responsibility of the City Council.
- Page 74 of 83, Section IV - Standards of Care: Implementation of a dual authorization control process for cash transfers was suggested.
- Page 76 of 83, Section 1: Change “NASD” to *FINRA* and “proof of state registration” to *proof of state licensing*. “Approved broker/dealers will be licensed in the State of Oregon, both for the firm and for the designated representative. They will also submit proof of registration under the Financial Industry Regulatory Authority (FINRA).” Also, under broker/dealer annual review: “If the City utilizes an external investment adviser the adviser is authorized to transact with its own approved broker/dealer list on behalf of the City. The adviser will perform all due diligence for the broker/dealers on its approved list.” It was suggested that the City may want to retain the ability to choose whether or not the broker dealer relationship is appropriate for the City and add language to that affect.
- The Investment Adviser criteria could be better and the policy strengthened if the sample policy was followed more closely.
- Page 74 of 83, Section 1.d. – Custodial Credit Risk: “securities will be held by a third party custodian as evidenced by safekeeping receipts in the City’s name.” It was suggested to double-check the wording and make sure physical receipts are still received; if not, strike it from the policy language.
- Page 75 of 83, Section V.1: The “safekeeping services” language may be old language and, if so, needs to be removed from the policy.
- Page 76 of 83, Section 2: Consider adding language to include “adviser will provide broker/dealer list for review and approval annually.”
- Page 79 of 83: The box that reads “State and Local Government Securities” should be changed to *Municipal Debt*.
- Page 80 of 83, Section 6: Consider adding the complete Compliance section from the sample policy. Also, there is no requirement that out-of-compliance conditions be reported to the Governing Body.
- Page 79 of 83: in the matrix delete the periods between “O.R.S.”
- Page 80 of 83, Section VIII: Work with Tom Lofton to change 144A language and use SEC rule.

Mr. Goe thanked the City of Salem for their excellent efforts to revise its investment policy.

c. Yamhill County

Yamhill County's Investment Policy was presented to the Board by Tom Lofton. Yamhill County has substantially re-written its investment policy. Yamhill County is modeling a new Investment Policy after the OSTF Sample Policy. The amount of funds falling within the scope of Yamhill County's policy over the next three years is expected to range between \$12 million and \$35 million.

Mr. Lofton noted that there were significant differences between the OSTF Sample Policy and the submitted Yamhill County Policy listed below:

- The maximum exposure to callable securities is 15%.
- The maximum exposure to municipal debt is 35% versus 10% in the Sample Policy;
- The maximum exposure to State of Oregon municipal debt is 25%.
- Maturity guidelines are as follows:
 - The maximum allowed maturity is 5 years;
 - The maximum portfolio average maturity (measured with stated final maturity) is 2 years;

Michael Green was invited to share any additional comments relating to the County's Investment Policy. He noted that the policy revisions would serve as a platform from which to move steadily forward.

Comments from the Board were:

- Page 29 of 39, section 6.b Investment Advisers: Consider changing language to say "a list *may* be maintained of approved advisers selected through a process of due diligence."
- Page 37 of 39, section 13.a Compliance: Consider adding language indicating the consequences if an investment falls below the rating and comes into violation of the guidelines.
- Page 35 of 39 Total Portfolio Maturity Constraints: Take a closer look at "minimum of 35% of portfolio must be kept under 18 months." For cash flow considerations, this number may be too low.
- Weighted Average Maturity (WAM): The Board emphasized the importance when reporting to government bodies that increases in maximum maturity may allow a dramatic increase in the risk profile to the portfolio.
- Page 32 of 39, Suitable and Authorized Investments: Change 7th bullet point to *Oregon Short Term Fund (not Funds)*.
- Page 38 of 39, section 14.b Policy Maintenance and Considerations: The first sentence should begin as "The investments" (not the exemptions).
- Please work with Tom Lofton to change 144A language and use SEC rule.

Mr. Goe thanked Mr. Green for submitting Yamhill County's policy for review.

iv. OSTF/Market Review - Garrett Cudahey

Garrett Cudahey and Perrin Lim provided an in-depth market review and outlook to the Board. The following topics were discussed:

- The Cyprus Bail-in – why it happened and the broader implications and market impact.
- Fed QE – debate on the costs of QE and update on the dual mandate.
- Global Central Banks – full speed ahead as Japan and England join the party.
- Employment and the Consumer – challenges to the global economy.

Mr. Cudahey presented charts and slides to support the discussion and answered questions from the Board.

Mr. Lim presented the OSTF Portfolio update as of March 31, 2013 and reviewed Federal Fund rates, the Bond Market and fielded questions from the Board.

OSTF Portfolio Update	March 31, 2013
Net Asset Value	\$12,317,927,091.61
Weighted Average Credit Quality	AA
Yield to Worst	0.555%
Book Yield	0.606%
Rate Paid to Participants	0.540%

Deanne Woodring congratulated Mr. Lim and Mr. Cudahey for their excellent presentation at the recent OMFOA Conference on in March 2013. She noted that the information and slides presented were extremely informative and beneficial to the attendees.

Discussion followed regarding compliance rules and the OSTF credit profile. Mr. Lim advised the Board of a change in reporting regarding OSTF diversification; going forward, Freddie Mac and Fannie Mae allocations will be reported individually and not combined as has been the procedure. The board agreed on the allocation reporting change.

The annual Consumer Price Index (CPI) limitations and increases were reviewed and Ms. Woodring noted that she was in communication with Brady Coy, Oregon State Treasury Banking Operations Manager, regarding the effective date that the limitation is increased. She further noted that the effective limitation increase dates would be published in the Local Government News Letters.

It was suggested by the Board to consider hosting a Compliance Seminar for the purpose of educating Municipal Audit Committees.

v. Expected Ratings Presentation – Perrin Lim/Tom Lofton

Mr. Lim led a discussion regarding “expected ratings” and reviewed the changes taking place with Nationally Recognized Statistical Ratings Organizations (NRSROs), which may, in the near future, no longer authorize the use of expected ratings. He explained the process of new issuer’s expected ratings and the Bloomberg system delay between the new securities issued and the ratings availability. He emphasized the necessity for the OSTF Board and Treasury Staff to have the same, clear definition of the process.

He outlined the due diligence and process that staff performs prior to purchasing newly issued securities: Investment bank marketing syndicates issue offering memorandums for new issue debt deals that the syndicate plans to bring to market. The offering memorandums will often have an expected rating for the new issuance based on the current ratings and rank in the capital structure of the issuer.

Staff, as in all cases with the use of expected ratings, conducts an analysis of information available (e.g. issuer credit analysis, fundamentals of the issuer, current credit ratings on outstanding issuer debt, proposed rank of the new issue in the issuer's capital structure, communication from the issuer or investment bank, etc.) to determine an expected rating on the new issue security. Within section III, sub-section C of the OSTF Portfolio Rules state, "The Senior Investment Officer and Investment Officer(s) are jointly responsible for all transactions undertaken, ..."

OST Internal Compliance primarily uses Bloomberg to determine OSTF compliance with OSTF Portfolio Rules. Bloomberg is a record keeper and data vendor and does not determine ratings. Although Bloomberg is widely relied upon by the investing public and a premier data vendor, there occur a wide variety of inconsistencies and lapses in its records and, given the millions of data points Bloomberg maintains on a 24-hour basis, this is understandable. Bloomberg is dependent upon the quality and timeliness of data submitted by issuers, investment banks and rating agencies. Consequently, Bloomberg sometimes fails to post an expected rating or actual credit rating in a timely manner (e.g., same day as issuance or by settlement date). This will trigger a compliance problem for purchasing a "new issue" *unrated* security. In these cases and with the possibility that the use of expected ratings by Bloomberg is no longer utilized, OST Internal Compliance must rely on the expected ratings as described in the offering memorandum or Staff's expected rating until an actual rating is applied to the security by an NRSRO. Per OSTF Portfolio Rules, if no actual rating has been applied to an investment 30 business days after the settlement date, the investment would be deemed non-compliant.

Staff believes that the use of expected ratings for newly issued securities is an integral part of the new issue debt market, standard practice within the fixed income markets and that disallowing the use of expected ratings would severely restrict the OSTF.

The OSTF Board reviewed the due diligence process for purchasing new securities with "expected ratings" and agreed that the process in place is adequate. Treasury Compliance Staff will implement the clarified expected ratings rules as directed by the board.

vi. Closing Remarks/Other Items of Business

- a. The date of the next OSTF Board meeting is July 9, 2013 at 10:00 am, the location will be Oregon State Treasury, 350 Winter Street NE, Suite 100, Salem, OR 97301-3896.

The Meeting was adjourned at approximately 11:47 am.

Respectfully Submitted by,



Norma Harvey
Investment Analyst



Heidi C. Rawe
Executive Assistant to the Deputy State Treasurer