



**OREGON SHORT TERM FUND
BOARD MEETING
Thursday, July 9, 2013
DRAFT Meeting Minutes**

OSTF Location: Oregon State Treasury
350 Winter Street NE, Suite 100
Salem, Oregon 97301

Board Attendees: Douglas Goe
Darren Bond
Laurie Steele
Stewart Taylor
Pat Clancy (via phone)
Deanne Woodring (via phone)

Attendees (Staff): Perrin Lim
Tom Lofton
Garrett Cudahey
Heidi Rawe
John Skjervem
Brooks Hogle

Attendees (Other): Michael Montgomery – City of Portland
Jennifer Cooperman - City of Portland
Terryl Aguon – City of Gresham
Bernard Seeger – City of Gresham

i. Opening Remarks – Douglas Goe

Douglas Goe welcomed all to the Oregon Short Term Fund (OSTF) Board meeting and roll was taken.

ii. Review and Approval of Meeting Minutes

a. April 11, 2013

Darren Bond requested an amendment to the last paragraph in Section V. to reflect that Treasury Compliance Staff will implement the clarified expected ratings rules as directed by the Board.

MOTION: Laurie Steele moved approval of the April 11, 2013 OSTF Board Meeting Minutes with the amendment as noted, the motion was seconded by Stewart Taylor, and passed unanimously by the Board.

iii. LGP/OSTF Investment Policy Reviews

a. City of Hermiston

Tom Lofton presented the City of Hermiston's Investment Policy to the Board, submitted by Amy Palmer, the City's Finance Director. The City of Hermiston's submitted policy is the City's first policy and is based on the OSTF Board Sample Policy. Therefore, no redline comparison nor a comparison with the OSTF Board Sample was included. The City of Hermiston expects \$10 - \$15 million to fall within the scope of its investment policy over the next three years. The policy maximum maturity is 5 years.

Comments from the Board were:

- Weighted Average Maturity (WAM): The Board emphasized the importance when reporting to government bodies that the increase in maximum maturity may allow for a dramatic increase in the risk profile to the portfolio. Given the potential WAM of three years and a maximum maturity of 5 years, using the Oregon Short Term Fund as a benchmark may not be appropriate.
- Page 7 of 12, Section VII, Number 2: Third Party Safekeeping - Last sentence regarding TCDs; please check that the language in this section is intentional, e.g., Time Certificates of Deposit will be held by an investment firm.
- Page 9 of 12, Section IX, Number 1.d: Restriction on Issuers with Prior Default History - Since this policy does not allow the purchase of municipal debt this section is not necessary in the policy in accordance with ORS Chapter 294.035(3)(a)-(c).
- Page 10 of 12: The third line in the chart should be changed to a minimum of 50% of total portfolio maturity under 1 year.
- Page 10 of 12, Number 3.d: Please note that 100% callables would expose the City to a large amount of volatility.
- Page 10 of 12: Referring to the chart – Please note that it is virtually impossible to get to a 3-year average maturity with the 50% constraint under one year.
- Page 8 of 12, Section VIII, Number 3.a: Private Placement or "144A" Securities – The updated Sample Policy has slightly different language. Consider updating to the following: "Private placement or "144A" securities are not allowed. For purposes of the policy, SEC Rule 144A securities are defined to include commercial paper privately placed under Section 4(a)(2) of the Securities Act of 1933."
- Mr. Goe commented on the elimination of municipal debt and noted that, with respect to bond issues municipal debt can be helpful, however, in the current interest rate environment, eliminating municipal debt is an unnecessary constraint. The City might want to consider language indicating that the City will not invest in municipal debt except as necessary to comply with federal tax arbitrage or rebate constraints.
- Page 10 of 12, Section X, number 1: Consider changing the second sentence to read, "Bond proceeds shall be invested in accordance with the parameters of this policy, any applicable bond covenants ORS Chapter 294 and tax laws."

The City of Portland Investment Policy Review was moved up on the agenda.

b. City of Portland

Mr. Lofton presented the City of Portland's Investment Policy, submitted by Michael Montgomery. Mr. Goe invited Michael Montgomery and Jennifer Cooperman to comment on their policy revisions. Mr. Montgomery extended his thanks to Tom Lofton for his assistance in updating the policy.

Mr. Lofton noted that, as part of the initial review process by staff, there are typically additional revisions made to submitted policies. In this case, changes have not been made to the submitted documents. However, the City of Portland responses to Staff's comments were included to help OSTF Board with its review.

The City of Portland's policy was last reviewed by the OSTF Board in February 2012. Updates at that time were found to be not material, and did not warrant an official meeting agenda item. Prior to that, the OSTF Board reviewed the City's policy in October, 2010.

The investment amounts expected to fall within the scope of the City of Portland's policy ranges from \$600 million to \$1.2 billion.

Deanne Woodring removed herself from commenting since she serves on the City of Portland Investment Advisory Committee.

Comments from the Board were:

- Page 1 of Revised Policy, Section II: Responsibilities, Standards of Care, Conflicts of Interest and Ethics: It is recommended that the City apply the "Prudent Person" standard in the context of the whole portfolio.
- Pages 6 and 7 of Revised Policy, Section VI. Qualified Financial Institutions and Brokerage Allocation and Section IX. Internal Controls: It is recommended that the City incorporate language from the Sample Policy to strengthen those sections and add more specificity.
- Page 1 of Revised Policy, Section I. Scope and Objectives: The second paragraph states, "Funds held by a Trustee or Fiscal Agents are excluded, if the City does not have explicit investment authority." It was suggested that the word "control" be used in place of "explicit investment authority."

Discussion followed regarding page 3 of the staff review: Supranational Bonds; Staff and the Board discussed the technical issue of the qualification of the bonds as corporates versus agencies. It was recommended that, at a future date, staff and the Board modify the language in ORS 294.046 to cover the qualifications of corporate or agency bonds.

Mr. Goe thanked the City of Portland for their work and noted they had set a very high standard.

c. City of Gresham

Tom Lofton presented the City of Gresham's Investment Policy submitted by Terry Aguon, Cash Management Analyst. The City of Gresham expects its investment portfolio to increase from approximately \$50 million to \$144 million. City of Gresham's investment policy was last reviewed by the OSTF Board in July 2012.

Mr. Lofton outlined key revisions to the policy and opened the floor for comments from the Board.

Terryl Aguon thanked Tom Lofton for being a great resource to the City of Gresham. Bernard Seeger also thanked Mr. Lofton and noted that the changes were summarized accurately.

Comments from the Board were:

- Weighted Average Maturity (“WAM”): The Board emphasized the importance when reporting to government bodies that the increase in maximum maturity may allow a dramatic increase in the risk profile to the portfolio. Given the potential WAM of three years and a maximum maturity of 5 years, using the Oregon Short Term Fund as a benchmark may not be appropriate.
- The paragraph under the credit quality table reads, “Securities that have been downgraded to below the minimum ratings will be sold or held at the custodial officer’s discretion.” It was suggested, when the City is holding a security that has been downgraded, that the City’s governing body be notified as well.
- POLICY REVISIONS: A language revision in the last sentence was suggested. It reads as if the OSTF Board will automatically review the investment policy annually. In fact, the policy only needs to be reviewed if significant changes are made. Also, in the same section add “Board” after OSTF.
- SUITABLE AND AUTHORIZED SECURITIES AND TRANSACTIONS, Section 2 – Federal Agency Obligations: “The maximum ownership of Federal Agency Obligations is 100% with no more than 33% of the portfolio held in any one agency issuer.” Review is recommended as these percentages may be too high and too concentrated.
- SUITABLE AND AUTHORIZED SECURITIES AND TRANSACTIONS, Section 5, Paragraph Two: Clarification is suggested indicating that split ratings are acceptable to no less than A, with the lowest acceptable rating of A.
- SUITABLE AND AUTHORIZED SECURITIES AND TRANSACTIONS, Sections 2 & 3: Clarification of securities is recommended in Section 2 and 3. The current language may be misleading because “debentures” is included in both sections.
- SUITABLE AND AUTHORIZED SECURITIES AND TRANSACTIONS, Section 8: Recommendation to update that section after more information regarding Oregon Intermediate Term Pool (“OITP”) is available.
- MATURITY LIMITS AND LIQUIDITY REQUIREMENTS: It was suggested that the language be clarified regarding the 5 year & 10 year maturity limitations.

Mr. Goe thanked Ms. Aguon and Mr. Seeger for their work in updating their Policy.

d. Metro

Tom Lofton presented Metro’s revised Investment Policy submitted by Calvin Smith. Metro’s Council had already voted and approved the policy. Mr. Smith noted that they were only looking for material differences to Oregon law as opposed to minor wording changes. The last prior review was in August 2012. The average asset size for the pooled assets of Metro is \$140 million and there are two series of bonds outstanding that bring the portfolio to \$180 million.

Mr. Lofton outlined and commented on significant revisions to the policy as noted in his report to the Board.

Comments from the Board were:

- Section 7.03.030(a) - Standards of Care: The language refers to the “Prudent Investor Rule” but actually is the “Prudent Person Rule.”
- Section 7.03.040(b) – Internal Controls: This section is weak and should be strengthened. Consider using language from the OSTF Board Sample Policy.
- Maximum Percentage Chart: The commercial paper maximum exposure of 35% and the corporate notes exposure of 25% equals 60% exposure to corporate debt. The Board believes this exposure is potentially excessive.
- Section 7.03.040(a) – Safekeeping and Custody: (“NASD”) should be (“FINRA”). The NASD no longer exists.
- Maximum Percentage Chart: The maximum percentage allowed in the LGIP is 100%. Statutory limitations in ORS 294.810 prevent entities from actually investing 100%. It was recommended to refer to the language in ORS 294.810.
- Section 7.03.070(b) – Given potential Weighted Average Maturity (25% of funds may be invested beyond 18 months to 5 years), using the 90-day Treasury Bill or the Local Government Investment Pool as targets is not an adequate comparator.
- Section 7.03.050(a.6): In the case of split ratings, allowing the most recently rated securities to be used defeats the purpose of split ratings and potentially creates a conflict with State law. Also note that NRSRO’s update their ratings regularly; therefore the date of the initial rating is irrelevant.
- Section 7.03.060(a.1.A&B): Per the Board’s interpretation of the policy language, there is a maximum maturity of 5 years in the short term fund, but there is not a restriction on maturity in the long term fund. Also, there is no Weighted Average Maturity for the total portfolio.
- Section 7.03.060(f) – Competitive Selection of Investment Instruments: Please review the last two sentences as buying the highest yielding instruments does not necessarily meet the needs of the portfolio nor does the requirement comply with the Prudent Person Rule.
- Section 7.03.080(a) – Policy Adoption and Re-adoption: Regarding the fact that the policy has already been adopted by the Metro Council; this section indicates that the policy must be reviewed by the IAB and the OSTF Board *prior* to adoption by the Metro Council. Adoption of the policy before the OSTF Board Meeting is a violation of Metro’s policy.
- Security Limitation Chart – Certificates of Deposit-Commercial Banks: Consider reviewing the language in this section, “no more than the lesser of 25% of the total available funds or 15% of the equity of the financial institution.” The terminology is not standard and 25% is too high.
- It was recommended that Metro review the sample policy prior to their next annual review.
- Consider adding a “compliance” section in the policy, including compliance reporting requirements.
- Section 7.03.010 – Scope: Whether securities are held directly or indirectly, they are subject to State law. Consider adding reference to ORS 294.052 to this section of the policy.
- Section 7.03.030(f) – Indemnity Clause: There should be an exclusion for not indemnifying local misconduct or gross negligence.
- Section 7.03.050(b) – Collateralization: In the last sentence add “Chapter” before the statute number, i.e., ORS Chapter 295.
- Section 7.03.090, Bullet point #7: Add “Chapter” before the statute number, i.e., ORS Chapter 295.

e. Port of Portland

Tom Lofton presented the Port of Portland’s updated investment policy, submitted by Tracy Westerfield, Cash and Investment Program Manager. Port of Portland expects to manage \$275 – 300 million annually within the scope of its investment policy over the next five years. Mr. Lofton presented a review of the proposed changes to the policy. He noted that he had sent the sample policy comparison back to the Port of Portland with the suggestion to consider adding substance, but received no response.

Comments from the Board were:

- Given the size to which Port of Portland's portfolio has grown, improving the robustness of the policy is strongly recommended. Consider drawing from the OSTF Board's Sample Policy.
- The Port of Portland is using the "Prudent Investor Rule" which holds Port of Portland's portfolio manager(s) to a much higher level of professionalism and expertise than is common. Most local governments use the "Prudent Person Rule." If the Prudent Investor Rule standard is maintained, the OSTF Board reiterates its recommendation to improve the robustness of the policy.
- Consider adding a detailed reporting and disclosure section to the policy.
- Mr. Goe noted that the Port of Portland is a fine organization and perhaps the policy needs a broader review within the organization.

f. Salem/Keizer School District

Tom Lofton presented the Salem/Keizer School District's ("District") Investment Policy to the OSTF Board, submitted by Daniel Hobson, Budget Analyst. The District expects to manage \$80-\$150 million annual within the scope of its investment policy.

The newly submitted investment policy is a significant re-write from its prior policy, so no red-lined version was included with the review. A comparison with the OSTF Board Sample Policy was included. The District's maximum maturity is 3 years for capital project funds and 18 months for all other funds. The newly submitted investment policy is split between a policy statement (FIS-A002) and a procedures statement (FIS-P009).

It was noted that this split policy statement/procedure documentation has been recommended by the Oregon School Boards Association and other School Districts are adopting the process.

Comments from the Board were:

- The District may be better served by adopting more of the language in the OSTF Board's Sample Policy in its procedure document.
- If the policy statement and procedure document scheme is used, the Board recommends that particular attention should be paid to maintaining consistent language across both documents.
- Section 3.5.3: The OSTF Board agreed that the meaning of the first sentence is unclear; "Investment maturities for capital project funds (long-term) shall be as for the short-term portfolio."
- Section 3.5: The Board believes that the way this section is written will create difficulty in compliance and management of the portfolio given the significant number of maturity buckets and the split between a long-term and short-term portfolio. Consider reducing the number of maturity buckets.
- Section 3.12 – Internal Controls and Accounting Method: Consider strengthening the language in this section. The OSTF Board's Sample Policy offers sample language.
- Section 3.3(B) – Prudence: Check the meaning of "Prudent Investor Rule" and clearly state the standard by which the District will adhere. Most public entities use the "Prudent Person Rule".
- Section 1.1 – Scope: This procedure applies to the temporary investment of the District's surplus cash from all district funds. Because this refers to an ongoing program, the Board recommends deleting the term "temporary" throughout the section.

- Section 3: The Board recommends striking the word “service” from the first sentence so that it would read “U.S. Internal Revenue Code.”
- Section 3.3(D) – Tracking and Monitoring: Consider adding more robust language to this section that speaks to how the District is going to track and monitor the portfolio.
- Section 3.3.2(F) – References from other local government clients: A review of the qualified listing of financial institutions and broker/dealers will be conducted by the Investment Officer at least every five years. An annual review was highly recommended by the Board.
- Section 3.4.2: Reference the following in this section: “Pursuant to ORS 294.052”.
- Section 3.5 – Liquidity of Funds: The District should remove the phrase in the last sentence “except for special situations.”

iv. Market & Economic Update - Garrett Cudahey/Perrin Lim

Garrett Cudahey and Perrin Lim provided a market review and economic update to the Board.

- Continued fund flows out of fixed income could lead to an increased/increasing yield environment even if the economic data remains soft.
- Given the sell-off and mild inflation, the market is experiencing positive real yields across much of the Treasury curve.
- Short rates will still likely remain anchored given the Fed Funds rate.
- Taper discussion likely achieved an intermediate goal for the Fed by shaking out some excessive risk and leverage in the financial markets.
- Likely entering a period of higher risk asset and interest rate volatility as markets try to gauge the changing environment with a different level of Fed involvement.
- Short corporate (especially floating rate note) and Treasury securities will likely face increased demand as market participants wish to shelter themselves from duration and equity risk.

v. OSTF Portfolio Update – Garrett Cudahey/Perrin Lim

Mr. Cudahey and Mr. Lim presented the OSTF Portfolio update as of May 31, 2013 and discussed the current market environment.

May 31, 2013	
Net Asset Value	\$12,326,458,887.08
Unit Value	1.0035
Weighted Average Credit Quality	AA
Yield to Worst	0.577%
Book Yield	0.574%
Rate Paid to Participants	0.540%

Discussion followed regarding managing added risk. John Skjervem voiced concerned that some of the local governments may be extending risk at the wrong time in the current market environment.

Closing Remarks/Other Items of Business

- a. Laurie Steele reminded the Board and Staff of the OMFOA Meeting this October, in Portland. She noted that some members of Staff may be asked to speak at the conference.
- b. Tom Lofton suggested distributing a blanket statement regarding the updated Sample Policy to the Local Governments, including an addendum with Board opinions. Mr. Goe

suggested communicating the message through the Local Government Newsletter and during the OMFOA meeting this October.

- c. Mr. Goe thanked Tom Lofton for his efforts in preparing the six policies for presentation during the meeting.
- d. The date of the next OSTF Board meeting is October 10, 2013 at 10:00 am at the offices of Orrick, Herrington and Sutcliffe LLP, NW Couch Street, Suite 200, Portland, OR.

Doug thanked tom for all his work

The Meeting was adjourned at 11:56 am.

Respectfully Submitted by,



Heidi C. Rawe

Executive Assistant to the Deputy State Treasurer



Norma Harvey

Investment Analyst