



**OREGON SHORT TERM FUND
BOARD MEETING
Tuesday, October 9, 2014
MINUTES**

OSTF Location: PERS Headquarters
11410 SW 68th Parkway
Portland, Oregon 97223

Board Attendees: Douglas Goe
Darren Bond
Pat Clancy
Michael Schofield
Deanne Woodring

Attendees (Staff): Tom Lofton
Garrett Cudahey
Norma Harvey (via phone)
Heidi Rawe

Other Attendees: Michael Montgomery, City of Portland
Jennifer Cooperman, City of Portland (via phone)
Monica Steele, Clatsop County (via phone)
Sharon Wojda, City of Bend (via phone)
Eric Arellano, Multnomah County (via phone)
Alison Chan, City of Medford (via phone)
Dave Waffle, City of Beaverton (via phone)
Lauren Brandt, PFM Asset Management (via phone)

❖ Note: Items with this bullet point are for consideration of sample investment policy changes.

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. July 8, 2014

MOTION: Pat Clancy moved approval of the July 8, 2014 OSTF Board Meeting Minutes, the motion was seconded by Deanne Woodring, and passed by the Board.

iii. LGP/OSTF Investment Policy Reviews

a. City of Beaverton

Deanne Woodring abstained from comments and voting due to her consulting relationship with the City of Beaverton.

- Tom Lofton presented the City of Beaverton’s Investment Policy to the Board and noted that he had worked with Dave Waffle on the policy update. The City of Beaverton submitted a substantially re-written investment policy to the Board in April 2013. Per communication from City of Beaverton, the City never formally adopted the Policy. Instead, the City is making further changes to the policy per the comments from the Board last year and is re-submitting.

Comments from the Board were:

- Page 12 of 54, Section 5.2 - Prudence and Indemnification: “Prudent person rule” was changed to “prudent investor rule,” however it was noted that the standard language is, in fact, “Prudent person rule.” Therefore, use of the original language was recommended with no changes.
- Page 33 of 54 – Prudent Person Standard: The definition conflicts with the original statement on page 12 of 54 and should be adjusted.
- Page 23 of 54, Corporate Indebtedness: It was suggested that the last column which reads “35% maximum in combination with Corporate Indebtedness” should be amended to read, “35% maximum in combination with *commercial paper*.”
- Page 10 of 54, Section 3 – Scope: Additional language was recommended at the end of the first sentence to then read, “The provisions of this Investment Policy will apply to all investable funds of the City of Beaverton and any component units (when applicable), except for deferred compensation fund assets, pension fund assets, and funds held by trustees or fiscal agents *to the extent such funds are not under the investment control of the City of Beaverton.*”
- In a number of places in the policy “Adviser” and “Investment Adviser” are used interchangeably. Consistently using one or the other was recommended.
- Page 19 of 54, Authorized and Suitable Investments: The recommendation was made to list “ORS 294.052 (Investment of Bond Proceeds)” as one of the applicable investment statutes.

Mr. Goe thanked Mr. Waffle for his efforts in bringing the policy update to the Board.

b. City of Medford

Tom Lofton presented City of Medford’s Investment Policy to the Board and noted that he had worked with Alison Chan on the policy update. The City of Medford has made two changes to investment parameters.

- I. Section 12.1.7 – The maturities on certificates of deposit have been increased from one year to five years.
- II. Section 15 - The maximum weighted average maturity of the portfolio has increased from 2 years to 3 years.

The average monthly balance of funds invested in the City's general portfolio, excluding proceeds from bond issues, is approximately \$80 million. The highest balances in the portfolio occur in December after the majority of property taxes are collected.

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 10 of 23, Section 15: It was noted that the percentage of the Length-of-Maturity investment restraints will make it impossible to achieve the three-year WAM as it is written. A recommendation was made to clarify the investment instruments.
- Page 7 of 23, Section 12.1.4: The language refers to "Moody's A Rating." It was noted that Moody's does not have an "A" rating.
- Page 8 of 23, Section 12.1.6: A suggestion was made to double-check the date "as of 8/31/13" and make sure it was not meant to be 8/31/14.
- Page 11 of 23, Section 19: A suggestion was made to add language to include a compliance report to the governing body on a periodic basis.
- Page 13 of 23, Section 2 – Scope: A recommendation was made to add language after the end of the first sentence so that the entire sentence reads, "The provisions of this Policy shall apply to all investable funds of the City of Medford and its component units, except for deferred compensation fund assets, pension fund assets, and assets of restricted trust and escrow funds *to the extent not under the investment control of the City.*"
- Page 14 of 23, Section 4.3: In the last sentence, change the word "states" to "statutes."
- Page 14 of 23, Section 12.1: The recommendation was made to list "ORS 294.052 (Investment of Bond Proceeds)" as one of the applicable investment statutes.
- Page 18 of 23, Section 12.1.3: It was noted that Standard & Poor's Corporation is now Standard & Poor's Rating Group and should be referenced to as Standard & Poor's Rating Group or just Standard and Poor's.
- Page 22 of 23, Section 18: A suggestion was made to change the first sentence to read, "The City recognizes that bond proceeds may be subject to the provisions of the "Internal Revenue Code of 1986" and the applicable Federal Arbitrage Regulations." It was further suggested, in the third line, that the word "immunization" be changed to "restriction."

Mr. Goe thanked Alison Chan for her work on policy revisions.

- ❖ Discussion followed regarding potential changes to the sample investment policy. Also, it was noted that Investment Advisers for municipal government agencies should be called "Municipal Advisers."

c. City of Portland

Garrett Cudahey presented City of Portland's Investment Policy to the Board and noted that he had worked with Michael Montgomery on the policy update. He thanked Mr. Montgomery for the summary of revisions presented along with the revised policy. The City of Portland expects to invest between \$800 million and \$1.5 billion under this policy. The City's investment policy was last reviewed by the OSTF Board in 2013.

Comments from the Board were:

- It was noted that the footer on the revised version of the investment policy was still dated October 2013 and a change to October 2014 was recommended.

- Page 7 of 27, Section F.2 - Corporate Bonds Ratings: A suggestion was made to clarify that the “AA” rating means “AA-.” Also in this section it was recommended that the following clarifying language be added, “Anytime there is a split rating, the lowest rating will be used to evaluate investment compliance.”
- Page 4 of 27, Section I, Paragraph 2: It was proposed that the third sentence be amended to read “Funds held by a Trustee or Fiscal Agents are excluded, if the city does not have *investment control*.”
- Page 8 of 27, Section H – Municipal Bonds: It was suggested that consideration be given to adding Conduit Revenue Bonds to this section.

Mr. Goe expressed thanks to Mr. Montgomery for his work on policy updates.

- ❖ Garrett Cudahey requested OSTF Board approval to apply the discussed rating change to the sample policy during the revision. The Board agreed to Mr. Cudahey’s request. Staff was directed to create a process to update the sample policy on a quarterly basis as issues arise during OSTF Board meetings. Also, Staff was directed to compile a “reference list” for quarterly changes.

d. Clatsop County

Garrett Cudahey presented the Clatsop County’s Investment Policy to the Board and noted that he had worked with Monica Steele on the policy update. Clatsop County has surplus funds of approximately \$1 million that they can invest. The County expects this balance to grow modestly over the coming several years and range between \$500,000 and \$5,000,000. Their investment policy was last reviewed in 2003.

The County significantly revised their policy which is now modeled after the OSTF Board sample policy.

Comments from the Board were:

- Clatsop County was commended for adopting the sample policy as written.
- Ms. Steele was advised to make sure that the County is comfortable with the policy risk factors and corporate exposure.

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

e. City of Bend

Tom Lofton presented the City of Bend’s Investment Policy to the Board and noted that he had worked with Sharon Wojda on the policy update. The City of Bend’s average monthly balance of funds invested in the City’s general portfolio excluding proceeds from bond issues, is approximately \$60 – 95 million. Mr. Lofton outlined policy revisions and asked for Board comments.

Comments from the Board were:

- Page 42 of 43 in the Glossary of Terms – Municipals: It was recommended that the first line of the definition be changed to read, “Securities, usually bonds, issued by a state, its agencies or *its political subdivisions*.” The last sentence should read, “Municipal securities may or may not be backed by the issuing agency’s *taxing powers, if any*.”
- Page 16 of 43, Section 2 – Scope: A suggestion was made to alter the second sentence to read, “In addition, funds held by trustees or fiscal agents *not subject to the City’s investment control* are excluded from these rules; however, all funds are subject to regulations established by the State of Oregon.”

- Page 17 of 43, Section 4.1: The addition of “ORS 294.052” with cited Oregon Revised Statutes was advised, in the second paragraph.
- Page 21 of 43, Section 7.1: Same as above; add reference to “ORS 294.052” to list of cited statutes.
- Page 34 of 43, Section 5.4 - Competitive Transaction: The addition of language providing documentation if investment advisers are transacting on behalf of the City was recommended. Also additional language was suggested regarding whether the City is using a discretionary or non-discretionary manager. The OSTB Board’s preference is towards non-discretionary managers.
- Page 37 of 43, Section 7.2 & 7.3: The table should come after Section 7.2 instead of after Section 7.3.
- Page 37 of 43, Section 8.1: Regarding the last sentence that references “duration” of the portfolio; it was proposed that it be changed to “maturity” of the portfolio.
- Page 25 of 43: The first cell in the last row on the table should read, “Obligations of OR, CA, ID, WA, including political subdivisions.”

Mr. Goe thanked Ms. Wojda for her excellent work on the policy.

f. Multnomah County

Tom Lofton presented the Multnomah County’s Investment Policy to the Board and noted that he had worked with Eric Arellano on the policy update. Multnomah County intends to revise the Schedule of Maturities in its investment portfolio and is asking that the Board focus on this revised element of its submitted policy. The requested focus on one element of its policy (revised maturity guidelines) is due to time constraints related to investment of upcoming tax receipts. Multnomah County intends to re-submit its policy for a more robust full review at the next Board meeting.

Comments from the Board were:

- Page 5 of 38, Section I – Scope: The suggestion was made to update the fiscal years and amounts in paragraph one. In paragraph two, it was recommended that the word “Chapters” be inserted after Oregon Revised Statutes and 294 and 295.
- Page 6 of 38, Section III, Number 2: It was recommended that the word “Chapter” be inserted between ORS and 244.
- Page 8 of 38, Section V – Authorized Investments: In the last paragraph, the suggestion was made to add ORS 294.052 with cited Oregon Revised Statutes and to insert the word “Chapter” between ORS and 295.
- Page 10 of 38, Section VI, Number 4 – Investment of Bond Proceeds: It was recommended that the words “and ORS Chapter 294” be inserted at the end of the first paragraph.
- Page 14 of 38, Addendum B – Brokerage Firms: Please note that Seattle-Northwest Securities has merged with Piper Jaffray & Co; therefore, number 7 in this section may be eliminated.

Mr. Goe thanked Mr. Arellano for his participation.

iv. OSTFB Policy Revision Recommendation

Garrett Cudahey addressed the Board regarding OSTFB Policy revisions. He noted that Staff recommended a policy modification to allow investment in Auto, Credit Card and Equipment Asset Backed Securities (ABS) in the Oregon Short Term Fund. ABS securities would be limited to a maximum of 15% of the fund, must carry ratings of AAA/Aaa/AAA or A1+/P1/F1+, and have a weighted average life of 3 years or less at the time of purchase.

Mr. Cudahey introduced an informational slide presentation outlining proposed policy revisions. Discussion followed and questions from the Board were answered in detail regarding each proposed policy revision.

After discussion of investment considerations and diversification potential, it was agreed that Staff would update the policy and present the final draft at the January 8, 2015 OSTF Board Meeting and after Oregon Investment Council (OIC) approval.

MOTION: Pat Clancy moved approval of the proposed policy revisions. The motion was seconded by Darren Bond and passed unanimously by the Board.

v. Market Overview and Portfolio Update - Garrett Cudahey

Garrett Cudahey presented the OSTF Portfolio update. US Government Rates and credit spreads were discussed and the current difficult investment environment was reviewed.

- US Government Rates
- Barclays 1-3 Year Credit Spreads
- OSTF Portfolio Update

July 31, 2014	
Net Asset Value	\$12,986,718,303
Unit Value	1.008
Weighted Average Credit Quality	AA
Book Yield	0.57%
Weighted Average Days to Maturity	233.55
Rate Paid to Participants	0.54%

Ms. Woodring requested that, going forward and as a volatility measure, “Weighted Average Life” be added to the chart. Mr. Cudahey agreed to add the new information to the OSTF Portfolio Update chart.

- OSTF Net Asset Value History
- Deposit Mix Update
- OSTF Allowance Update
- Holdings by Security Type
- OSTF Diversification - OSTF Diversification: Mr. Goe suggested that Staff also present a side-by-side, year-on-year report to the Board in order to get a sense of how issuer exposure has changed throughout the years.
- OSTF Credit Profile
- OSTF Fixed/Floating Rate Allocation
- OSTF Maturity Profile
- OSTF Rates Comparison
- OSTF Performance Update

Mr. Cudahey answered questions from the Board and explained a new trading platform utilized by OSTF called “MarketAxess.” He noted that MarketAxess is an excellent addition to the OSTF trading process.

vi. OSTF Audited Financial Statements for June 30, 2014

Discussion of the Financial Statements was deferred to the next meeting.

vii. Closing Remarks/Other Items of Business

- a. The next OSTF Board Meeting is scheduled for January 8, 2015 in Portland, Oregon.
- b. The meeting adjourned at 12:02pm.

Respectfully Submitted by,

Norma Harvey
Investment Analyst