



**OREGON SHORT TERM FUND
BOARD MEETING
Thursday, October 8, 2015
DRAFT Minutes**

OSTF Location: Orrick, Herrington & Sutcliffe LLP
1120 NW Couch Street, Suite 200
Portland, Oregon

Board Attendees: Douglas Goe
Darren Bond
Laurie Steele (via phone)
Deanne Woodring
Mike Schofield
Sue Cutsogeorge (via phone)

Attendees (Staff): Perrin Lim
Tom Lofton
Garrett Cudahey
Angela Schaffers-Valdez
Norma Harvey (via phone)

Other Attendees: Mike Green, Yamhill County (via phone)
Haley Fish, City of Canby (via phone)
Brandie McNamee, City of Madras (via phone)

- i. **Opening Remarks – Douglas Goe**
The meeting began at 10:00 am. 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 7, 2015**
MOTION: Deanne Woodring moved approval of the July 7, 2015 OSTF Board Meeting Minutes. The motion was seconded by Laurie Steele, and passed unanimously by the Board.

NOTE: Sue Cutsogeorge joined the meeting at 10:05 am, after the minutes were approved.

- iii. **LGP/OSTF Investment Policy Reviews**
 - a. **City of Canby**

The City of Canby's Investment Policy was introduced to the Board by Garrett Cudahey . Mr. Cudahey noted that he had worked with Haley Fish during the review.

The City of Canby is refreshing their investment policy to be more modern and to match that of the Oregon Short Term Fund Board's sample policy. The City's policy was last revised in 2002. The City anticipates managing between \$5 million and \$25 million under this policy.

Comments from the Board were:

- Page 6 of 18, Article V. Section 3) c. - Investment Adviser: The last two sentences containing the words "discretion" and "non-discretionary" are conflicting. It was suggested that the language in the last two sentences be amended to read, "Such external managers may be granted authority to purchase and sell investment securities in accordance with this investment policy. Investment advisers may be hired on a discretionary or non-discretionary basis."
- Page 11 of 18, Article IX. Section 2) e. – Liquidity Risk: A recommendation was made to clarify the maximum Percent of Issuance (Par) by adding a footnote which references "par by CUSIP." Also in this section: A typo appears on the heading Maximum %; the word maximum is misspelled.
- Page 9 of 18, Article VIII. Section 1) d. – Municipal Debt: Additional language was advised following Municipal Debt that reads, "Municipal Debt is allowed in accordance with the Oregon Revised Statutes as set forth in ORS 294.035."
- Page 9 of 18, Article VIII. Section 1) e. - Bank Time Deposits/Savings Accounts/Certificates of Deposit: A suggestion was made to add language indicating "as defined in the following subsection 4 and in accordance with ORS Chapter 295."
- Page 9 of 18, Article VIII. Section 3) d. – Repurchase Agreements: New language for that section was suggested that reads, "Although allowable under the Oregon Revised State Statute, the City of Canby shall not invest in Repurchase Agreements, except as provided in Article X. section 2) in accordance with ORS 294.052."
- Weighted Average Maturity "WAM:" The Board noted that increases in allowable investment maturities increase the interest rate risk to the portfolio.
- Page 10 of 18, Article IX. Section c). The Board agreed that 100% maximum per Agency is concentrating risk.
- Page 11 of 18, Article IX. Section 3) d: The Board agreed that increasing the maximum callable securities to 75% creates high risk and they recommended a lower number. The Board was comfortable with 35%.

Mr. Goe thanked Ms. Fish, Oregon State Treasury Staff and the Board for their comments and efforts.

NOTE: Yamhill County Investment Policy Review was moved ahead on the agenda.

b. Yamhill County

Tom Lofton presented Yamhill County's Investment policy to the Board and noted that he had worked with Mike Green, Yamhill County Treasurer, on the policy update. Yamhill County's policy was last reviewed by the OSTF board in August 2013. Mr. Lofton noted three areas of significant change:

- 1) Increase in the maximum exposures and exposure constraints
- 2) Change in allowable callable securities
- 3) Change in maximum average maturity allowed in the portfolio

Mr. Green spoke to the Board regarding policy and there was a lengthy discussion regarding risk.

Comments from the Board were:

- Weighted Average Maturity “WAM:” The Board noted that increases in allowable investment maturities increase the interest rate risk to the portfolio.
- It was noted by the Board that the County’s aggressive goal for income is clearly not described accurately in the proposed investment policy.
- Staff and the Board agreed that the callable security percentage in the policy is excessive.
- It was pointed out that even though the fund is making a profit during this protracted low rate environment, those factors can change at any time and that increasing tenor (lengthening maturities) and optionality (with callable securities) significantly increases downside mark-to-market risk in a rising rate environment.

At this point Mr. Green explained to the Board that some of the funds in Yamhill County’s portfolio are invested beyond five years and earmarked for a retired landfill and it is named “solid waste fund.” These funds are untouchable due to perceived pollution related liabilities. Other funds are set aside for underground storage tank replacement.

- A recommendation was made by Board members to specifically incorporate the 10-year exposure for the “solid waste fund” and the “underground storage tank” fund into the policy and to add explicit explanations for clarity to the governing body.
- Total Portfolio Maturity Constraints: The Board agreed that the maturity bucket constraints as currently written are very tight and could be easily violated. A suggestion was made to broaden the constraints to provide greater flexibility and avoid accidental policy violations.
- It was agreed that mark to market risk presents a serious liability in the investment policy. It was recommended that the policy clearly articulate the risks in the portfolio and that it pay attention to mark to market risk if rates start to rise.

Mr. Green thanked the Board and Staff and noted that Staff had been very helpful in answering his questions throughout this process.

c. City of Madras

The City of Madras Investment Policy was introduced to the Board by Garrett Cudahey. Mr. Cudahey noted that he had worked with Brandie McNamee during the review. The City of Madras is refreshing their investment policy to be more modern and to match that of the Oregon Short Term Fund Board’s sample policy. The City’s policy was last revised in 2002. The City anticipates managing between \$2 million and \$7.5 million under this policy.

NOTE: Brandie McNamee, Finance Director of the City of Madras joined the meeting via phone at 11:07am.

Comments from the Board were:

- Weighted Average Maturity “WAM:” The Board noted that increases in allowable investment maturities increase the interest rate risk to the portfolio.
- Page 64 of 67, Section 2. b. – Total Portfolio Maturity Constraints: It was agreed that the maximum maturity constraint of 5 years is excessive considering the size of the City of Madras’ portfolio. A recommendation of 3 years was made. Also, a recommendation was made to set “under 3 years” in that section to 50%.

- Page 65 of 67, Article IX. Section 3. d. - Maximum Callable Securities: The Board agreed that a 75% maximum for callable securities in the portfolio was excessive and suggested a 35% maximum.
- Page 62 of 67, Article VIII. Suitable and Authorized Investments – 1. d. and f. through j: A suggestion was made to populate each of these sections with intended language from the sample policy or to use ORS 294.035.

Doug Goe thanked Brandie McNamee for her participation in the meeting and for her work on the policy.

iv. Oregon Short Term Fund Policy Revisions – Garrett Cudahey

Garrett Cudahey presented draft Oregon Short Term Fund Policy Revisions for consideration by the Board. He noted that Treasury staff is recommending revisions to the Oregon Short Term Fund Policy in order to update outdated language, separate policy from procedure (as part of an OST-wide effort), align our policy with Blackrock’s Aladdin methodology and clean up the document for enhanced readability. Proposed changes were reviewed.

The separation of the policy document and the procedure document and how local governments will react to the two documents was discussed and debated at length. A suggestion was made to keep the two documents together for reference purposes so local governments can easily find information in a format they are used to working with. Policy issues versus procedural issues are a concern of the Board and how participants can navigate through both documents.

A suggestion was made that participants present both documents for Board review during policy reviews.

Staff was directed to continue working on the policy revision and return to the Board with updated material.

The subject of fee transparency was discussed briefly. It was noted by Staff that fees support the Cash Management Program as well as Treasury overhead. The Oregon Short Term Fund fees are part of a set of revenues that support cash management functions of Treasury operations and administrative fees. Reserves and management fees for administration and portfolio management were also reviewed.

v. Market Overview and Portfolio Update - Garrett Cudahey

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

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

August 31, 2015	
Fund Market Value	\$12,977,486,733
Weighted Average Credit Quality	AA
Book Yield	0.636%
Weighted Average Maturity	174.64
Rate Paid to Participants	0.54%

- OSTF Market Value History
- Holdings by Security Type
- OSTF Diversification
- OSTF Credit Profile
- OSTF Fixed/Floating Rate Allocation
- OSTF Maturity Profile
- OSTF Rates Comparison
- OSTF Performance

Mr. Cudahey answered questions from the Board.

vi. Oregon Short Term Fund Audited Financial Statements (Informational only, no discussion)

vii. Closing Remarks/Other Items of Business

- a. Deanne Woodring announced that former OSTF Board member, Wayne Lowry spoke at the County Treasurer's meeting regarding diversification within the Local Government Investment Pool. She also reported on the recent Oregon GFOA Conference.
- b. The next OSTF Board Meeting is scheduled for January 7, 2016 in Portland, Oregon.
- c. The meeting adjourned at 11:50 am.

Respectfully Submitted by,

Norma Harvey
Investment Analyst