



**OREGON SHORT TERM FUND
BOARD MEETING
Thursday, April 14, 2016
Meeting Notes**

OSTF Location: Oregon State Treasury
16290 SW Upper Boones Ferry Road
Tigard, OR 97224

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

Board Absent: Sue Cutsogeorge
Michael Schofield

Attendees (Staff): Perrin Lim
Tom Lofton
Garrett Cudahey
Angela Schaffers
Aliese Jacobsen
Heidi Rawe

Other Attendees: Cecilia Ward (City of Dallas – via phone)

i. Opening Remarks – Douglas Goe

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

ii. LGP/OSTF Investment Policy Review

a. City of Dallas

The Investment Policy for the City of Dallas was introduced by Garrett Cudahey.

This is a new policy for the city; they have not had one reviewed by the Board before. On average throughout the year they anticipate managing \$10 million in assets in this policy, with the usual fluctuation around property tax season which will cause a peak greater than that.

Cecilia Ward agreed that this is the first time the City of Dallas has implemented an investment policy, and noted that it is time to have one in place. In the past, the City felt it did not have enough funds to invest, and now having a policy in place will create some additional options for them.

Comments from the Board were:

- Mr. Goe agreed with the Oregon State Treasury (OST) staff comments on the policy and did not have anything in addition. He opened comments up to the rest of the Board.
- Pat Clancy: Section 12, Part 2 – Referring to the Investment of Reserves or Capital Improvement Funds, the last sentence states “*funds may be invested to when they are expected to be used.*” Mr. Clancy finds the concept of reserves and expected use somewhat conflicting because he thinks of reserves as something that is invested for unexpected uses rather than a capital improvement fund. His concern is that these conflicting terms may become problematic if they are called upon in the future.
- Deanne Woodring noted that a section on ratings and maturity was left out of the policy in error. Ms. Woodring confirmed that this is a section that needs to be in the policy as it presents an area of risk. These additions will offer a layer of protection for both the City and the counsel. Ms. Woodring’s comments are to make sure that the ratings/maturities are constrained based on the recommendations. Final maturity of securities is typically limited to 3-5 years maximum, and the maximum average weighted maturity for the overall portfolio should also be stipulated. Ms. Ward acknowledged that this was an oversight and will add them before she goes to her Board.
- Lori Steele agreed that it was a well written policy but concurs with Ms. Woodring’s comment above.
- Darren Bond agrees with other comments in that there were a number of omissions in the policy which would be in the best interest of the City if they are rectified. Maturities and ratings, as Ms. Woodring mentioned, are an excellent start. Additional items missing from the policy include:
 - Per-Issuer limits
 - Governing Bodies - there should be a statement similar to the policy that the governing body recognize its fiduciary role
 - Delegation section was somewhat limited, which could be a risk to staff by not having an adequate delegation clause
- Mr. Bond encourages the City to understand that a policy like this should be long-lived, and should provide a clear understanding for those who come in years from now. It was recommended that the City go back and carefully review the recommendations, as well as the OSTF Board Sample Investment Policy, to help improve the City’s policy.
- Ms. Ward asked Mr. Bond if there is standard language for the delegation of authority? Mr. Bond stated that there is language included in the Sample Investment Policy that speaks specifically to the delegation of authority.
- Mr. Goe noted that because Ms. Ward has the benefit of receiving staff comments prior to submitting the City’s policy, that she should incorporate all recommended changes into her policy before presenting it to the City of Dallas governing body. When she does receive the letter of recommendations from the Board, she can inform her governing body that she has addressed all of the concerns in the policy that she is asking them to approve. Mr. Goe confirmed that the letter should go out in approximately 2-3 weeks.

Mr. Goe thanked Ms. Ward, OST Staff and the Board for their comments and efforts.

b. Klamath County

Ms. Woodring raised concern that the Board may need to take additional action with respect to Klamath County's policy.

Mr. Cudahey noted that Klamath County presented its policy during the last OSTF Board meeting (on January 14, 2016). The County was past OST's policy review deadline which occurred in December 2015. Staff overlooked communication back from Klamath County that it would like a full review at the April OSTF Board meeting. OST would like to rectify the oversight. It is now the Board's option whether we have a discussion on what was brought forth in January. If not, Mr. Cudahey will expedite within the next week to get their policy reviewed and have a meeting to go over their policy more thoroughly.

Comments from the Board were:

- Ms. Woodring stated there were no changes other than the fair market disclosure discussion that took place at the January meeting. Jason needs to get a letter sooner than later from the Board.
- Mr. Goe asked Mr. Cudahey if he was prepared to make any recommendations to the Board today, or if he would prefer to provide written recommendations via email to the Board. Mr. Cudahey stated that he is not prepared today, but by the end of next week he will get back to the Board with any comments comparing the sample policy. If there are no major changes, he will process a letter for the County.
- Ms. Woodring agreed that the policy really did not get reviewed by the Board. There were no other major changes other than the fair market disclosure. The Board does need to submit a letter sooner than later. Mr. Goe did read the policy, and Ms. Steele did as well.

There were no further comments from the Board.

iii. OSTF Market Overview and Portfolio Update – Garrett Cudahey

Mr. Cudahey presented the market overview and portfolio update to the Board.

It was a very interesting first quarter. Credit spreads were very loose, and per page 3 we continued to be more conservative in allocating risk by owning more Treasuries and changing the complexion of the corporate credit book to being less susceptible to spread widening events. Rates declined in the first quarter which resulted in solid performance with 38 basis points of total return.

Pages 1 and 2 of the update show the move in rates and credit spreads during the first quarter. Per Mr. Cudahey, we have almost come full circle other than in the rates market. The Fed more or less matched market expectations for rate hikes, they had been talking about 3 or 4 moves in the latter half of 2015, but made it pretty explicit after their meeting in March that it looks like 2 moves. Now it is looking like the market is pricing in a ½ to 1% rate hike this year.

Looking at the portfolio (spread duration) - at year end we were at 0.85 years of spread duration, and by the end of February we have moved to 0.96 years. We have added high quality credits such as Cisco Systems, IBM, Apple and Toyota. The OSTF book yield was at 91 basis points at the end of March, and we are paying participants 75 basis points. For duration we remained pretty cautious; we are still under half a year which owes to the fact that

the Fed is still looking to do something and we want to ensure that we are ever cognizant of the goals of the OSTF.

Page 5 – The sector breakdown shows that the corporate exposure is at 49.5%. Garrett noted to the Board members that this is a risk view and not a policy view. If you looked at a policy view it would be closer to 45-46%, the reason behind this is that certificates of deposit and certain municipals are categorized as corporates in the Aladdin system, which is the reason for the difference between this updated report, i.e., a risk view, and past reports, i.e., a policy view.

Coupon breakdown - still maintain a high allocation to floating rate notes. Not giving up in current yield to take on the floating rate note, which is why you are seeing that number creep up.

Last two pages of the report show where we are in the competitive rate market, and does not update for the end of the first quarter (only shows through February). Year to date through March we are at 38 basis points of total return; we are happy about this considering the volatility of the market witnessed in the first quarter.

Comments from the Board were:

- Ms. Steele was impressed with the weighted average maturity of half a year and book yield while still maintaining a AA-rated credit quality.
- Page 4 – Portfolio Update. Ms. Woodring asked if the NAV being posted somewhere monthly. Important that we bring NAV forward and be transparent. Mr. Cudahey stated we can start reporting that data.
- Ms. Woodring also mentioned that, in addition to the disclosure in the OSTF Annual Financial Statement, more transparency regarding OSTF management fees would be beneficial and that the general topic has been a recurring theme with other in-state and out-of-state investment pools.

iv. Local Government Intermediate Fund Update – Tom Lofton

Tom Lofton provided an update relating to the Local Government Intermediate Fund.

The Local Government Intermediate Fund Sub-Committee met on Friday, April 8th. Attendees were Mr. Lofton, Ms. Woodring, Ms. Steel, Ann Crumine, Aliese Jacobsen and Cassie Lallak. A number of subjects were covered and some great feedback and thoughts were received from the committee. Some of the topics discussed were best practice recommendations, the expected structure of the fund and Treasury's Prospectus. In addition, participant liquidity constraints were discussed, and how best to describe those to the participants. Mr. Lofton came away from the meeting with a number of deliverables and will soon be sending out invitations for the next meeting.

The project is on target for July 1, 2016. Mr. Lofton and the committee are following a project plan which includes four pages of deliverables and respective target due dates. Ms. Jacobsen and Ms. Lallak are involved from a project management standpoint and are helping to keep OST deliverables on track.

Comments from the Board were:

- Ms. Steele asked if the Board was going to craft suggested policy language for local governments that may have an interest in participating in the Intermediate Term Pool and comment to them that this may not be a change that is significant enough that they may not need to bring their policy back to us. Mr.

Bond confirmed that there will be defined language that needs to go into their policies and limitations on the amount in which they can participate, and as long as they are in-line, the Board will review and provide feedback.

- Ms. Steele stated that it is a two month minimum to get her policy in front of her Board, so it would be roughly September by the time that she could actually participate in the fund. Mr. Lofton agreed and stated that the fund is on track for local governments to participate as of July 1st but does not anticipate that interested parties will be able to participate for a few months thereafter.
- Mr. Bond stated we have not managed a fund like this in the past, so this is a very different role for us. There is much more exposure for OST due to the nature of this fund, i.e., this is not a “dollar-in, dollar-out” pool. Local governments will lose money at some point and time, so we need to be able to manage the exposure.

Mr. Lofton will schedule a follow-up conversation for the Board.

v. Closing Remarks/Other Items of Business

- a. Date of next Board meeting – Tuesday, July 12, 2016 at 10 a.m.
- b. Meeting adjourned at 10:49am.

Respectfully submitted,

**Aliese Jacobsen
Executive Assistant**