



**OREGON  
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TREASURY**

# State of Oregon

## Office of the State Treasurer

Telephone Only

### OREGON SHORT TERM FUND

July 30, 2024

#### Meeting Minutes

<b>Members Present:</b>	Douglas Goe, Michael Kaplan, Deanne Woodring, Sharon Wojda, Brian Nava, Bryan Wolf, Michelle Morrison
<b>Staff Present:</b>	Rex Kim, Louise Howard, Tan Cao, Will Hampson, Perrin Lim, Alli Gordon, Bryan Cruz González, Cora Parker, Andy Coutu, Scott Robertson, Karl Cheng, Jeremy Knowles, Jamie McCreary, Ericka Langone, Calvin Kincaid, Eric Engelson, John Lutkehaus, George Naughton, Amy Hsiang-Wei, Sarah Kim, Galina Simpson, Dan McNally, Philip Larrieu, Wil Hiles
<b>Other Attendees Present:</b>	PFM Asset Management: Jeremy King Eugene School District 4J: Matt Brown, Bob Blyth City of Eugene: Twylla Miller, Kacia Edison, Neil Obringer Oregon Department of Justice: Steve Marlowe, Devon Thorson GPA: Whitney Maher

The July 30, 2024 OSTF meeting was called to order at 10:00am by Douglas Goe, OSTF Chair.

#### **Executive Session\***

An executive session was held pursuant to ORS 192.660(2)(f), to consider information and records that are exempt by law from public inspection. In compliance with ORS 192.660(6), no decisions were made during this meeting.

#### **I. Opening Remarks**

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

#### **II. Open Discussion**

Chairman Goe noted the Board just returned from Executive Session which was pertaining to public comment.

**MOTION:** Deanne Woodring made a motion to welcome written and oral public comment with a time limit of 3 minutes to be held at the end of the OSTF Board meetings. Bryan Wolf seconded the motion which then passed by a 7/0 vote.

#### **III. Review and Approval of Minutes**

**MOTION:** Mr. Goe asked for a motion to approve the April 23, 2024 OSTF meeting minutes. The Board approved the minutes unanimously.



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**IV. Introduction of Amy Hsiang-Wei, Senior Investment Officer Fixed Income**

Louise Howard introduced Amy Hsiang-Wei, Senior Investment Officer Fixed Income and provided a biography. Ms. Hsiang serves as a Senior Investment Officer for the Oregon State Treasury (OST) and is responsible for all fixed income investments within OST, including the Public Employees' Retirement Fund, the Oregon Short-Term Fund, and multiple other funds. Additionally, Ms. Howard introduced Jamie McCreary, Service Model Program Manager. Ms. McCreary is a Certified Financial Planner and has been practicing financial planning and institutional investment management for high-net-worth families and foundations and endowments for the last 15+ years of her career. Ms. McCreary has been with Treasury for about a year and her role includes focusing on the non-OPERF portfolios that Treasury manages, providing client service, fiduciary best practice standards and policy review. This includes the Oregon Short Term Fund.

**V. LGIP/OSTF Investment Policy Review**

**Eugene School District 4J**

**PRESENTED BY Tan Cao, Investment Analyst Fixed Income Team.** Tan Cao reviewed the investment policy for the Eugene School District 4J. Eugene School District 4J (District) wishes to adopt an investment policy similar to the OSTF Board sample investment policy. Previously, the District had adopted the Short Form sample policy, however, their total investment fund balances have notably expanded over the past two years. As such, they are seeking to adopt the more comprehensive policy with this update. The amount of funds falling within the scope of this policy over the next three years is expected to range between \$100 and \$350 million.

Summary of Staff Review:

Treasury Staff compared the District's proposed policy to the most current OSTF Board sample policy. While there were a couple of changes recommended by Treasury Staff to the District, as well as a few minor recommendations outlined below, it was deemed fine to proceed without revisions for the OSTF Board to review.

Main items:

- Recommend adopting the sample policy language regarding the use of non-discretionary investment advisers:  
The [Designated Oversight Body or Position or Investment Officer] may engage the services of one or more external investment managers to assist in the management of the entity's investment portfolio in a manner consistent with this investment policy. Investment advisers may be hired on a non-discretionary basis. All investment transactions by approved investment advisers must be pre-approved in writing by the Investment Officer and compliant with this Investment Policy. If [Local Government] hires an investment adviser to provide investment management services, the adviser is authorized to transact with its direct dealer relationships on behalf of [Local Government].
- Recommend adopting the updated sample policy language regarding how to determine a security's rating and utilizing the lowest security level rating available:  
A single rating will be determined for each investment by utilizing the lowest security level rating available for the security from Standard and Poor's, Moody's Investor Services and Fitch Ratings, respectively. Corporate indebtedness must be rated on the settlement date by at least one of the three nationally statistical rating organizations (NRSROs), i.e., Moody's, S&P or Fitch, respectively, as follows: If short-term commercial paper, P-1, A-1 or F1; if corporate bonds, Aa3, AA- or AA-

Minor items:

- Recommend removing reference to ORS 294.085 on the Governing Body section, as it was repealed.
- Recommend elaborating on the importance of issuance size:  
Larger issuance sizes enhance liquidity as there are likely to be a greater number of investors.



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Issuance sizes above a minimum amount qualify a corporate or municipal debt bond issuance for index eligibility. Index eligible bonds have a significantly larger investor base which improves liquidity.

Limiting investment in a specific debt issuance improves secondary market liquidity by assuring there are other owners of the issuance.

### COMMENTS FROM THE BOARD

- Bob Blyth, Associate Director of Financial Services expressed that in reviewing the items presented to Eugene School District 4J for adjustment, the District is comfortable leaving the discretionary and non-discretionary language in the policy for flexibility purposes. However, the Districts' current practice is to use non-discretionary advisers. The District is also comfortable leaving the highest security level rating available in their policy per their advisor's recommendation. The District removed the reference to the ORS that is no longer valid and is comfortable excluding the elaborated language recommendation on issuance size which is at the discretion of their investment officer and the facilities team and is based on the District's ability to utilize funds within the necessary time frame.
- Brian Nava asked if it was Treasury's recommendation to omit the word "Discretionary"?
  - Tan Cao confirmed the sample policy language only explicitly states non-discretionary investment advisers as the recommendation.
- Mr. Nava is comfortable with the District's preference to include discretionary in their policy and suggested possibly revisiting the discussion regarding discretionary versus non-discretionary language in the future.
- Chairman Goe asked Mr. Blyth how the decision to use the highest versus lowest rating was decided?
  - Mr. Blyth responded that it was based on the recommendation provided by the District's advisors to keep it at the highest ratings.
  - Deanne Woodring noted that the recommendation from Government Portfolio Advisors is to stay within at least AA-. Ms. Woodring noted the universe of corporates gets very small when you need AA ratings by all and amounts to approximately 10 securities. With an adviser, GPA is fulfilling the due diligence on the management. This was the reasoning for recommending the highest level rating as they prefer not to limit it so small and thus negatively impact diversification.
  - Perrin Lim stated that he views more downside than upside with current credit spreads. Not addressing the universe of the AA credit sector, however at this point, spread products are priced for perfection and if spreads start widening, there could be some ramifications and fallout that could affect credit quality.
  - Mr. Goe approves of the language stated in the sample policy and is not concerned with the District for deviating from the sample language but emphasized that the sample policy language is a good standard. Mr. Goe thanked Mr. Blyth for submitting the policy of Eugene School District 4J to the Board and appreciates the comments.
  - Mr. Nava echoed Mr. Goe's sentiments.

### City of Eugene

**PRESENTED BY Tan Cao, Investment Analyst Fixed Income Team.** Tan Cao reviewed the investment policy for the City of Eugene (City). The City seeks to update their investment policy. Specifically, they are revising their policy to incorporate ESG language and making other changes aligned with the OSTF Board sample policy. The amount of funds falling within the scope of this policy over the next three years is expected to range between \$350 and \$600 million.

Summary of Staff Review:

Treasury Staff compared the City's proposed policy to the most current OSTF Board sample policy. There were several changes recommended by Treasury Staff to the City, in addition to a couple of minor recommendations, as outlined below:



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Main items:

- Recommend reducing the State and Local Government Securities Maximum % of Total Portfolio weight to the sample policy limit of 25%.
- Recommend including the sample policy language prohibiting US agency mortgage-backed securities as an authorized investment:  
US agency mortgage-backed securities such as those securities by FNMA and FHLMC are not allowed.
- Recommend adding and adopting the sample policy language regarding Portfolio Credit Rating to explicitly state the minimum weighted average credit rating of the portfolio:  
The minimum weighted average credit rating of the portfolio's rated investments shall be Aa3/AA-/AA- by Moody's Investors Service; Standard & Poor's; and Fitch Ratings Service respectively.
- Recommend adding and adopting the sample policy language regarding how to determine a security's rating:  
A single rating will be determined for each investment by utilizing the lowest security level rating available for the security from Standard and Poor's, Moody's Investor Services and Fitch Ratings, respectively. Corporate indebtedness must be rated on the settlement date by at least one of the three nationally statistical rating organizations (NRSROs), i.e., Moody's, S&P or Fitch, respectively, as follows: If short-term commercial paper, P-1, A-1 or F1; if corporate bonds, Aa3, AA- or AA-.
- Recommend adding and adopting a maximum percent of callable securities limit between 10-25%.
- Recommend considering the sample policy language for ESG Options:
  - \*\*\*\*\* Choose 1, 2 or 3 \*\*\*\*\*
  - 1. No ESG Policy
  - 2. The integration of ESG factors into the investment decision-making framework assists in the assessment of near-term and long-term risks associated with our investments, thus providing beneficial impact to performance.
  - 3. The integration of ESG factors into the investment decision-making framework assists in the assessment of near-term and long-term risks associated with our investments, thus providing beneficial impact to performance. To the extent consistent with our fiduciary responsibility, we also seek to understand what effects our investments may have and identify ways we can enhance the positive impact of our investments and help mitigate the negative impact.
- Recommend adopting the sample policy language regarding Proceeds from Debt Issuance:  
Investments of bond proceeds are restricted under bond covenants that may be more restrictive than the investment parameters included in this policy. Bond proceeds shall be invested in accordance with the parameters of this policy and the applicable bond covenants and tax laws. Funds from bond proceeds and amounts held in a bond payment reserve or proceeds fund may be invested pursuant to ORS 294.052. Investments of bond proceeds are typically not invested for resale and are maturity matched with outflows. Consequently, surplus funds within the scope of ORS 294.052 are not subject to this policy's liquidity risk constraints within section IX (2).
- Recommend adopting the sample policy language regarding Reserve or Capital Improvement Project funds:  
Pursuant to ORS 294.135(1)(b), reserve or capital improvement project monies may be invested in securities exceeding three years when the funds in question are being accumulated for an anticipated use that will occur more than 18 months after the funds are invested, then, upon the approval of the governing body of the county, municipality, school district or other political subdivision, the maturity of the investment or investments made with the funds may occur when the funds are expected to be used.
- Recommend adding the sample policy language regarding Guideline Measurements to explicitly state the use of market value of investments:  
Guideline measurements will use market value of investments.

Minor items:

- Recommend adding Liquidity Risk definition:



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Liquidity risk is the risk that an investment may not be easily marketable or redeemable, as well as a shortfall of operating cash resulting in the need to sell securities and, thus, principal risk.

- Recommend elaborating on the importance of issuance size:  
Larger issuance sizes enhance liquidity as there are likely to be a greater number of investors. Issuance sizes above a minimum amount qualify a corporate or municipal debt bond issuance for index eligibility. Index eligible bonds have a significantly larger investor base which improves liquidity. Limiting investment in a specific debt issuance improves secondary market liquidity by assuring there are other owners of the issuance.

### COMMENTS FROM THE BOARD

- Twylla Miller, Chief Financial Officer, noted the City of Eugene selected Option 2 for ESG Options from the sample policy language. Ms. Miller indicated the City has an Investment Advisory Board and will take back comments from the OSTF Board and Treasury staff to their next meeting this fall.
- Bryan Wolf asked a clarifying question on whether the City is still considering the proposals made by Treasury.
  - Ms. Miller verified that the City will take Treasury and the Board's suggestions to the next Investment Advisory Board Meeting for future consideration.
- Michelle Morisson thanked staff for the thorough review and the City's impressive committee work.
- Brian Nava asked Treasury about the option of not using ESG optional language and if this needs to be outlined?
  - Jeremy Knowles noted that in previous local government's policies with investments that were not authorized or explicitly stated no need for an ESG policy, Treasury staff would state "unnecessary to include". Either option of not including ESG policy or indicating "No ESG Policy" would be acceptable.
- Chairman Goe asked about the City's intention with respect to ESG?
  - Ms. Miller responded the City currently has ESG Option 2 from the sample policy in their policy with some additional language for City staff regarding the use of Sustainalytics as a tool to evaluate ESG.
- Deanne Woodring commended the City on their ESG section and including a specific term of measurement by referencing Sustainalytics.
- Mr. Goe expressed his appreciation of staff's comments and recommendations and applauded the City addressing ESG issues and having a way to measure and quantify it.

## VI. LGIP Participants and Operations Overview

**PRESENTED BY Cora Parker, Director of Finance.** Cora Parker thanked the Board for the opportunity to present today. Ms. Parker introduced Jeremy King, Key Account Manager at PFM Asset Management who stood in for Lauren Brant. Ms. Parker discussed the OSTF Portfolio Overview. Ms. Parker noted as of July 29, 2024 the balance in the Oregon Short Term Fund was \$32.6 billion and \$9.7 billion of that attributed to local government participants. PFM Asset Management was acquired by US Bancorp Asset Management in December 2021 and PFM Asset Management which is a wholly owned subsidiary is now going to combine registered investment advisors with US Bancorp Asset Management and the remaining entity is going to be US Bancorp Asset Management. There will not be any impact on the investment side of the equation, however the consolidation from a legal perspective of the entities will impact Treasury, PFM Asset Management will retain its brand however it will be a division of US Bancorp Asset Management and no longer a separate legal entity which will result in some contract and administrative changes to the relationship and will be working through those in the upcoming months. The consolidation is expected in the 4<sup>th</sup> quarter of 2024 and will keep staff and the Board apprised of any relevant informational components. Additionally, personnel who have been working with Treasury staff and Oregon's LGIP participants will continue the relationship throughout the organizational changes.

Our partner Jeremy King with PFM Asset Management reviewed the Participant Distribution and Participant Breakdown for School Districts, Special Districts, and Cities which make up 79% of LGIP's overall portfolio



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assets. Mr. King noted the greatest amount of assets in June over the last 3 years, in Q2 of 2023 overall assets were at \$9.11 billion dollars compared to Q2 of 2024 as assets were at \$9.37 billion dollars. Net Cash Flows have less outflow this year compared to last year. In June 2023 Out Flows were at \$1.56 billion dollars compared to June 2024 at \$1.35 billion dollars. Overall transactions have increased quarter over quarter. PFM Asset Management has a Service Level Agreement with the Oregon State Treasury and each month they report to Treasury about their service level agreement standards and other metrics. The performance level was all above the service standard. The online portal Connect is continually being enhanced, the Connect Version 1.5 implementation resulted in a minor downtime in April. There was an increase in the number of participants with 11 new participants and 1 closed participant, however Columbia Corridor Drainage District was absorbed by another existing participant, the Urban Flood Safety & Water Quality Districts.

### TOPICS

- Oregon Short Term Fund Analysis
- Participant Breakdown
- Participant Distribution
- Transaction Activity
- SLA Report Metrics
- New & Closed Participants

### COMMENTS FROM THE BOARD

- Chairman Goe thanked PFM Asset Management for the informative data.

## VII. OSTF Market Overview and Portfolio Update

**PRESENTED BY Will Hampson, Investment Officer, Fixed Income and Louise Howard, Director of Capital Markets:** Will Hampson and Louise Howard presented the market overview and OSTF Portfolio update:

- Executive Summary
  - Growth forecasts remain within 'normal' levels while leading indicators show improvement.
  - Progress on inflation has resumed after 3 consecutive months of higher-than-expected inflation data to start the year.
  - Unemployment is low but continuing to creep higher and becoming a counterbalance to inflation concerns.
  - In response, markets have priced 3 rate cuts through January 25, versus 0 at our last OSTF Board meeting.
  - Credit spreads are near historically tight levels as a soft landing for earnings is fully priced in.
- OSTF Portfolio Overview: Liquidity Schedule, Floating Rate Breakdown & OSTF Effective Ratings.
- Sector allocation and duration positioning drive total return performance (over & under).
- Sector Allocation: OSTF continues to allocate to AAA ABS from Treasuries/Gov't Related.
- Top Holdings by Issuer: Continued focus on credit quality at the issuer level.
- Coupon Type Exposures: Floating rate securities have been a core position for 15+ years and will continue to be a focus especially in the current environment.

### COMMENTS FROM THE BOARD



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- Deanne Woodring asked if the outlook from Staff is that rates are coming down?
  - Will Hampson replied that it is the base case, however there is not a lot of incentive to go out longer. Between the yield give up and the forward curve essentially pricing in even more than the Federal Reserve's current calendar, there is some give up to terming out the exposure.
- Ms. Woodring followed up asking if Staff is adding corporate credit exposure after noting Staff's previous remark of spreads being near historical lows.
  - Mr. Hampson clarified that Staff is adding securitized credit as a relative value versus corporate credit. Mr. Hampson added that with corporate credit you can't get AAA credit and reiterated Ms. Woodring's previous comment about the small universe of AA credit, so adding more corporate credit would mean adding within the single A sector, which is a worse exposure on a credit basis for the portfolio than the AAA securitized would be.
- Ms. Woodring highlighted the portfolio is up in corporates over the last year and given tighter spreads, asked if Staff is looking to add within the corporate space.
  - Mr. Hampson clarified that the corporates breakdown also includes Commercial Paper exposure which is overwhelmingly corporates. Mr. Hampson noted that it has been discussed with the committee in the past, but once Repo is operationally implemented it should provide some relief as an alternative source of cash management. Also, the data reflects the peak of the Oregon "kicker" tax credit season when Staff was adding liquidity and relying more on the short-term CP market to manage funds.
- Ms. Woodring asked if Staff considered reducing the floating rate exposure if rates come down.
  - Mr. Hampson expressed this is a continuous discussion topic within the team as well as consideration of the forward curve. Mr. Hampson re-emphasized that OSTF is not a total return fund and pays the paid rate while seeking to maximize the book yield. If the decision was to term out and go longer by reducing the floating rate exposure, that would ultimately be at the expense of yield in return for maintaining that yield for a longer period of time. However, the give up in yield is so severe and the level of certainty priced-in by markets is so high, you would need the Fed to be even more aggressive and economy to deteriorate even more than essentially already priced-in, which is a tough call to make. Given the volatility of data and the market being caught wrong-footed so many times post-pandemic, conservatism in the exposure and maintaining the short yield while accepting the market rate has been the preferred course.
- Ms. Woodring expressed appreciation to staff for all their diligence in this extremely challenging market.
- Chairman Goe asked where staff anticipates the paid rate will be at end of calendar year for local governments?
  - Mr. Hampson replied that within 7 days after the Fed rate-cut we can expect approximately half of the fund to reset and immediately be reflected in the paid rate. Given the market is expecting over 2 rate-cuts by the Fed and assuming OSTF is earning approximately 25 bps more than the risk-free rate, the paid rate would be reduced by about 40-50 bps, so maybe a paid rate of around 4.8% or 4.9%, based on what the market is expecting.
  - Perrin Lim remarked on the expectations of the market and noted a couple of years ago futures market priced in massive increases in the Federal Funds Rate that did not transpire and agreed with Mr. Hampson on the tracking nature of the OSTF paid rate with short term rates. Additionally, Mr. Lim opined he does not believe the economy will return to a zero-interest rate environment that some people predict will transpire.
- Brian Nava asked about the thought process that would suggest a zero-rate policy from market participants.
  - Mr. Hampson replied it is related to the idea of the neutral rate of interest that the economy can sustain which is the great unknown. Going into the pandemic, the expectation was that the neutral real rate was 0% but post-pandemic there has been reassessment of that rate. The changing factors are related to the higher estimates of the neutral real rate of interest from the Fed and economists. Depending on the perspective, estimates have gone from 0% to between 50 and 150 basis points.





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**VIII. Closing Remarks/Other Items of Business**

- Mr. Goe thanked everyone for an excellent meeting.

Mr. Goe adjourned the meeting at 11:44 AM.

\*Executive Session: No admittance unless stated below. Thank you.

The executive session is being held to consider records from the Department of Justice that are exempt from disclosure. The executive session is being held pursuant to ORS 192.660(2)(f), which allows a governing body to hold an executive session to consider information or records that are exempt by law from public inspection. In compliance with ORS 192.660(6), no decisions will be made during this meeting. Representatives of the news media, Treasury staff and Treasury consultants are allowed to attend this executive session. Representatives of the news media are specifically directed not to report on any of the deliberations during executive session, except to state the general subject of the session as previously announced.

Respectfully submitted,

Alli Gordon  
Executive Support Specialist