March 2020

OREGON STATE TREASURY

Inside the Vault

Local Government Edition

Update from Treasurer Read on the Oregon Short Term Fund

The effects of COVID-19 are being felt across our communities, causing both economic uncertainty and financial market volatility. With daily and sometimes dramatic market fluctuations, our Fixed Income team is even more focused on the Oregon Short Term Fund's three primary objectives, listed below in priority order:

1. Preservation of Principal;
2. Liquidity; and
3. Yield.

These objectives represent the core elements of the fund's investment guidelines, which also dictate how and in what the OSTF is invested. Despite current market dislocations, the OSTF remains invested in a well-diversified portfolio of high-quality, investment-grade securities.

What does it mean that we are "even more focused" on the objectives? It means our Fixed Income team has

- *increased liquidity* by emphasizing shorter maturities at the very front end of the yield curve; and,
- *fine-tuned credit exposures* by avoiding issuers deemed even remotely vulnerable to COVID-related credit rating or funding pressures.

One outcome of this approach is that, due to the reduction in yields in the zero to 90-day part of the curve, we expect the OSTF paid rate to be reduced in the near future. At the same time, our Fixed Income team has been alert to investment opportunities and has—to a small degree—prudently added to select current holdings at attractive, risk-adjusted yields.

The broader financial market landscape remains challenging and volatile, but the OSTF remains well positioned and managed as a liquid, broadly diversified investment fund

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Interest Rates

Average Annualized Yield	
February	2.25%

Interest Rates	
February 1–29	2.25%

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composed of high-quality, investment-grade assets. The fund has suffered no impairments, and participants remain able to perform all transactions as normal. Moreover, we have no plans to change existing transaction limits or to impose new limits. Our goal, as always, is to be good stewards of your funds, in an open and transparent manner.

Should you have questions, I encourage you to contact the Fixed Income Team, which includes Perrin Lim, Angela Schaffers, and Will Hampson, at 503.431.7900. And please note that this team and all Treasury staff are taking extensive preventative measures to help stop the spread of COVID-19 while still serving Oregonians.

Tobias Read
State Treasurer

Market Update

The COVID-19 pandemic continues to take a toll on global markets. On February 19, the S&P 500 stock index reached an all-time high. In the 23 business days since, markets have been under extreme pressure. Recognition of the economic impacts of intensive containment measures, both in the U.S. and abroad, prompted vast liquidation flows last week. The desire for cash affected all assets classes, including U.S. Treasurys. Liquidity in Treasurys became challenged amid a combination of heightened volatility and thin liquidity. Intraday yield ranges have become very wide as frequent market-moving headlines hit a still challenged liquidity backdrop (keep reading to learn about the Federal Reserve's swift action in response).

Impact on markets since February 19, 2020

	2/19/20	3/19/20	Delta	
S&P 500	3,393	2,430	-28.4%	The S&P 500 bottomed at 2,367 on 3/17
30-Year Treasury	2.016%	1.773%	-24.3 bps	***30-Year Bonds bottomed at 0.702% on 3/9***
10-Year Treasury	1.570%	1.163%	-40.6 bps	***10-Year Notes bottomed at 0.320% on 3/9***
2-Year Treasury	1.426%	0.465%	-96.1 bps	2-Year Notes bottomed at 0.251% on 3/9
3-Month Bills	1.582%	0.051%	-153.1 bps	3-Month Bills bottomed at 0.015% on 3/18

**Treasury yields represent bid side levels*

Federal Reserve's Response

The Fed has responded swiftly and in earnest with a variety of actions to soften the economic impacts of the pandemic and to improve market conditions.

March 3

- Emergency cut in the federal funds rate by 50 bps to a range of 1–1.25%

March 12

- Expanded repo operations by providing as much as $1.5 trillion to the banking sector

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March 15

- Additional cut in the federal funds rate by 100 bps to a range of 0–0.25%
- Returned to quantitative easing with the announcement to purchase a minimum of $700 billion in bonds, including at least $500 billion in Treasurys and at least $200 million in mortgage-backed securities
- In coordination with other major central banks, announced steps to enhance global U.S. dollar liquidity
- To support bank lending, cut the rate at which banks can borrow at the Fed's discount window, eliminating reserve requirements and pledging to support banks "that choose to use their capital and liquidity buffers to lend and undertake other supportive actions in a safe and sound manner"

The Fed then took a page out of its 2008 playbook by setting up special liquidity facilities.

March 17

- Commercial Paper Funding Facility, which purchases A1/P1 asset-backed and unsecured 3-month CP from U.S. issuers
- Primary Dealer Credit Facility, which provides collateralized overnight and term funding (up to 90 days) to primary dealers (primary dealers are financial institutions that interact directly with the Fed)

March 18

- Money Market Liquidity Facility, which allows banks to purchase A1/P1-rated commercial paper plus Treasurys, Agencies, and certain repo assets from prime money market funds and pledge it at the Fed in exchange for funds (importantly, banks will be fully exempt from risk-based capital and leverage requirements)

Markets are likely to remain volatile due to ongoing uncertainty about the pandemic and the outlook for global economic growth. The Fed's actions are important and supportive but need time to work through the financial system. Additionally, fiscal policy developments will be important since monetary policy—whether by the Fed or other central banks—cannot address many of the economic challenges posed by the pandemic.

LGIP Participant Survey Postponed

At the OGFOA Spring Conference earlier this month, Treasury announced that we would soon launch an LGIP participant survey. The survey will gather feedback on the services provided by PFM's Client Services Group and enable us to evaluate our current level of service and consider future service enhancements that best meet our participants' evolving needs. While both Treasury and PFM are committed to hearing from our participants, we recognize that many of you are focused on responding to the current COVID-19 situation. We will reschedule the survey to a future date; in the meantime, you can contact Treasury at 800.452.0345 or lgip@ost.state.or.us if you have any questions related to customer service or pool operations. For questions related to the management of the Oregon Short Term Fund, contact Treasury's Fixed Income team at 503.431.7900.

Public Funds Reminder

All public funds in Oregon must be deposited in compliance with the requirements of [ORS chapter 295](). Public officials may deposit public funds up to the amount insured by the Federal Deposit Insurance Corporation (FDIC) or National Credit Union Administration (NCUA) —currently $250,000—in any insured financial institution with a head office or branch located in Oregon. Public funds balances that exceed those insurance limits, however, must be held at a depository qualified under Treasury's Public Funds Collateralization Program (PFCP).

Through the PFCP, depositories pledge collateral to secure any public funds deposits in excess of deposit insurance amounts, providing additional protection for public funds in the event of a depository loss or failure. ORS chapter 295 specifies the value of the collateral—as well as the types of collateral that are acceptable—and creates a shared liability structure for participating depositories, minimizing (though not eliminating) the risk of loss of such funds.

OAR 170-040-0050 requires public entities to annually verify their contact information as well as the list of all banks and credit unions where the entities' funds are deposited. Because of the current COVID-19 situation, Treasury is postponing the annual verification process for the time being. *Please remember that if you change banks or credit unions, you must report the change to Treasury within three days of when the change takes effect.*

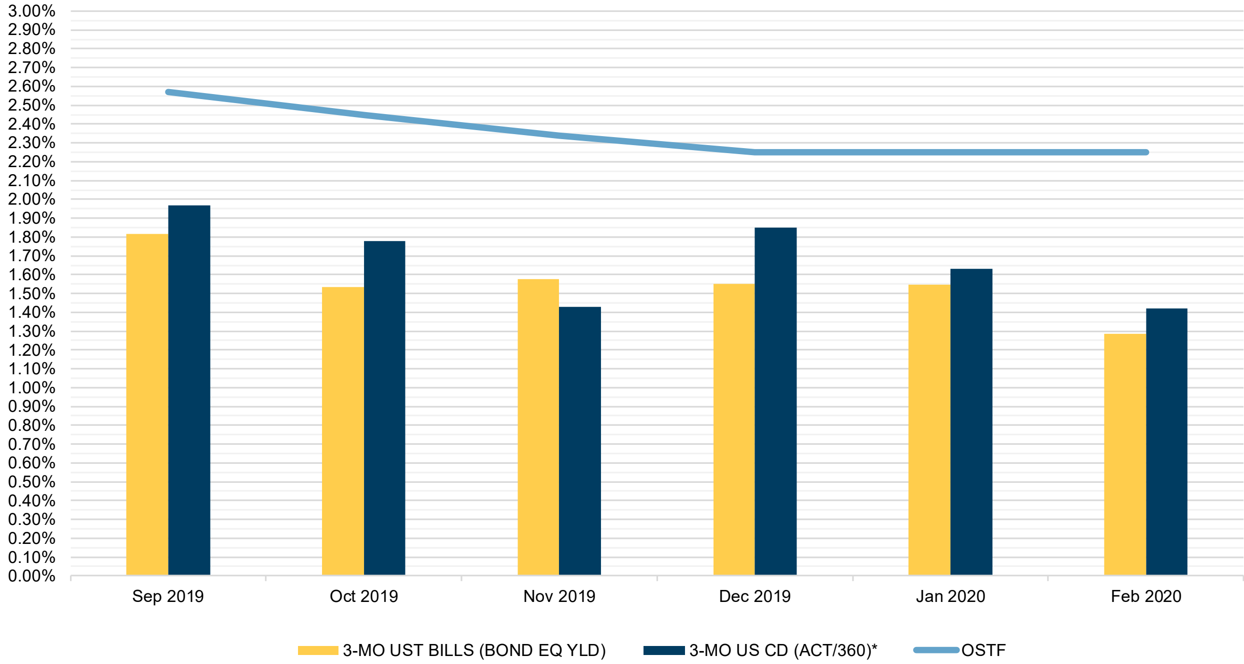
Additional information regarding PFCP can be found at www.oregon.gov/treasury/public-financial-services/public-depository-information/Pages/default.aspx.

For further information, contact PFCP staff at 503.378.3400 or public.funds@ost.state.or.us.

Qualified Public Funds Depositories

- Advantis Credit Union
- Baker Boyer Bank
- Bank of America
- Bank of Eastern Oregon
- Bank of The Pacific
- Bank of The West
- Banner Bank
- Beneficial State Bank
- Central Willamette Credit Union
- Citizens Bank
- Clackamas County Bank
- Columbia State Bank
- Community Bank
- First Federal S&L of McMinnville
- First Interstate Bank
- Heritage Bank
- Inland Northwest Bank
- InRoads Federal Credit Union
- JPMorgan Chase Bank, N.A.
- Key Bank
- Lewis & Clark Bank
- MAPS Credit Union
- Northwest Bank
- Northwest Community Credit Union
- Old West Federal Credit Union
- OnPoint Community Credit Union
- Oregon Coast Bank
- Oregon Community Credit Union
- Oregon Pacific Banking Co.
- Oregon State Credit Union
- Pacific Crest Federal Credit Union
- Peoples Bank of Commerce
- Riverview Community Bank
- Rogue Credit Union
- Summit Bank
- Umpqua Bank
- MUFG Union Bank, N.A.
- Unitus Community Credit Union
- U.S. Bank
- Washington Federal
- Washington Trust Bank
- Wauna Federal Credit Union
- Wells Fargo Bank
- Willamette Community Bank
- ZB, N.A.

Oregon Short Term Fund Analysis



	Sep 2019	Oct 2019	Nov 2019	Dec 2019	Jan 2020	Feb 2020
TOTAL OSTF AVG DOLLARS INVESTED (MM)	20,660	20,706	23,771	23,870	23,769	23,799
STATE GOV PORTION (MM)	12,960	13,189	13,339	13,105	13,968	14,121
LOCAL GOV PORTION (MM)	7,700	7,517	10,432	10,765	9,801	9,678
OSTF ANNUAL YIELD (ACT/ACT)	2.57	2.45	2.34	2.25	2.25	2.25
3-MO UST BILLS (BOND EQ YLD)	1.82	1.54	1.58	1.55	1.55	1.28
3-MO US CD (ACT/360)*	1.97	1.78	1.43	1.85	1.63	1.42

NOTE: The OST ANNUAL YIELD represents the average annualized yield paid to account holders during the month. Since interest accrues to accounts on a daily basis and the rate paid changes during the month, this average rate is not the exact rate earned by each account.

3-MO UST BILLS yield is the yield for the Treasury Bill Issue maturing closest to 3 months from month end. 3-MO US CD rates are obtained from Bloomberg and represent a composite of broker dealer quotes on highly rated (A1+/P1/F1+ from Standard & Poor's Ratings Services, Moody's Investors Service and Fitch Ratings respectivley) bank certificates of deposit and are quoted on a CD equivalent yield basis.

This material is available in alternative format and media upon request.

Market Data Table

	2/29/2020	1 Month	3 Months	12 Months		2/29/2020	1 Month	3 Months	12 Months
7-Day Agency Discount Note**	1.50	1.41	1.49	2.34	Bloomberg Barclays 1-3 Year Corporate YTW*	1.46	1.79	2.05	3.02
30-Day Agy Nt Disc**	1.43	1.49	1.55	2.36	Bloomberg Barclays 1-3 Year Corporate OAS*	0.62	0.44	0.47	0.57
90-Day Agy Nt Disc**	1.29	1.55	1.58	2.39	Bloomberg Barclays 1-3 Year Corporate Modified Duration*	1.86	1.85	1.86	1.88
180-Day Agy Nt Disc**	1.16	1.50	1.55	2.42					
360-Day Agy Nt Disc**	0.90	1.55	1.59	2.41	7-Day Muni VRDN Yield**	1.15	0.94	1.10	1.74
					O/N GGC Repo Yield**	1.65	1.63	1.66	2.68
30-Day Treasury Bill**	1.41	1.46	1.57	2.33					
60-Day Treasury Bill**	1.32	1.51	1.54	2.38	Secured Overnight Funding Rate (SOFR)**	1.60	1.58	1.65	2.58
90-Day Treasury Bill**	1.25	1.51	1.54	2.39					
6-Month Treasury Yield**	1.16	1.56	1.61	2.50	US 10 Year Inflation Break-Even**	1.43	1.66	1.63	1.94
1-Year Treasury Yield**	1.02	1.48	1.59	2.54					
2-Year Treasury Yield**	0.92	1.42	1.61	2.52	1-Day CP (A1/P1)**	1.57	1.55	1.50	2.36
3-Year Treasury Yield**	0.90	1.39	1.61	2.50	7-Day CP (A1/P1)**	1.58	1.57	1.53	2.42
					30-Day CP (A1/P1)**	1.89	1.60	1.68	2.44
1-Month LIBOR**	1.52	1.66	1.70	2.49					
3-Month LIBOR**	1.46	1.76	1.91	2.62	30-Day CD (A1/P1)**	1.55	1.62	1.60	2.47
6-Month LIBOR**	1.40	1.76	1.90	2.69	90-Day CD (A1/P1)**	1.48	1.70	1.88	2.58
12-Month LIBOR**	1.38	1.82	1.95	2.86	6-Month CD (A1/P1)**	1.36	1.72	1.92	2.66
Sources: *Bloomberg Index Services, **Bloomberg					1-Year CD (A1/P1)**	1.42	1.78	2.12	2.77

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