



Investment Advisory Committee Meeting

Minutes of Meeting

Tuesday, April 2, 2024

A hybrid meeting of the Investment Advisory Committee was held in the Allen Conference Room of the Deschutes Services Building and via Zoom virtual meeting platform at 12:00 p.m. on Tuesday, April 2, 2024.

Committee Members Present:

- Richard Ambrose, Principal, Axia Wealth Management
- Brian Durbin, Fiscal Director, Rooted Homes
- Craig Renkert, Retired CFO, Federal Metals Credit Union
- James Wood, Accounting Manager, City of Redmond
- Tony DeBone, County Commissioner

Members Absent:

- None

Other Attendees:

- Robert Tintle, County Chief Financial Officer
- William Kuhn, County Treasurer (*via Zoom*)
- Nick Lelack, County Administrator and Budget Officer
- Elizabeth Pape, County Internal Auditor
- Angie Powers, BOCC Administrative Assistant

1. Call to Order: Bill Kuhn, County Treasurer, called the meeting to order at 12:04 p.m. Brian Durbin moved approval of the meeting agenda. Commissioner DeBone seconded. All votes: yes. Motion passed.

2. Introductions/Notices:

Kuhn recognized Durbin and Wood as the two newest members, and Ambrose and Renkert for renewing their terms for another four years. He thanked them for their commitment.

Kuhn welcomed Elizabeth Pape as the County's Internal Auditor, replacing David Givans who retired.

3. Review/Approve minutes from October 12, 2023 meeting: Commissioner DeBone moved approval of the October 12, 2023 Investment Advisory Committee minutes *with one edit*. The revision is on page 4, item 6, second bullet point, amended to replace the word "salaries" with "interest rates". Renkert seconded. All votes: yes. Motion passed.

4. Treasurer's Report: Kuhn presented a brief review of the February 2024 Treasury Report. A copy was provided in the meeting's agenda packet.

Highlights include:

- The portfolio balance at the end of January 2024 was \$343.1 million. This represents an increase of \$14.1 million from the month prior, and an increase of \$23.7 million over this time last year. This increase is partially attributed to the issuance of a \$20 million bond to help fund the courthouse expansion project and another \$15 million in funding from the Oregon Department of Justice for the project. These funds were invested to ensure that the maturities match the expected disbursement on the construction contract with Pence Construction. Responding to Wood, Kuhn stated that the total debt service for the project will be \$60 million over 20 years.
- Net investment earnings were \$885K, slightly lower than the previous month but higher than this time last year. This is reflective of a higher rate environment and overall portfolio growth.
- All portfolio category balances are within policy limit guidelines.
- The LGIP rate has increased steadily over the past few months, and currently sits at 5.2%.
- The average portfolio yield is 3.47%, a slight increase over the prior month's average yield of 3.32%.
- The portfolio weighted average time to maturity is 0.96 years, down from 1.37 years at year-end. This is a function of greater balances kept in short-term funds. Last fall, Kuhn shared that First Interstate Bank offered an attractive rate on balances in excess of \$3 million which match the LGIP rate. This allowed the County to be more efficient in the management of their funds.

Review of 24-Month Historic Investment Returns: The County utilizes a hold to maturity strategy where investments aren't actively traded prior to maturity, so that the County doesn't have to recognize book losses to this portfolio. Older investments made prior to the rapid increase in

interest rates present a challenge, and the County is currently running off these older investments to take advantage of higher rates in the short-term investment pool.

Kuhn noted that in June 2023, a selective liquidation of six investments prior to maturity was made, and the County booked a loss of \$334K. \$10.5 million in gross proceeds were reinvested in the LGIP. These had been earning a sub-1% yield and were reinvested at a much higher rate.

Last fall, Kuhn initiated a \$3 million rolling investment to take advantage of 30-day investment yields and reinvesting every 30 days but proved less useful with the recent increase in the LGIP rate.

In the current seasonal investment cycle, we were able to obtain fixed rates at 4.5-5.5% and able to extend maturities out to a full three years. Overall maturity yields are improving with the current rate environment.

Responding to Durbin, Kuhn stated that our strategy for investments is to target maturities of up to three years. Wood also asked about duration strategies. Kuhn said that although the target is three years, he would consider pushing it out further as opportunities are identified. Kuhn noted that the County must ensure short-term liquidity, and appropriate redemptions to meet the County's funding needs is important. It's a balancing act in maintaining appropriate redemptions to match expected funding needs for the County.

Ambrose asked about the County's portfolios being HTM (Held To Maturity) instead of AFS (Available For Sale), and asked if that is mandated by statute or can be a policy decision. Kuhn responded that the County's Investment Advisory Policy dictates that we are not traders, and if we do sell and there is a loss, the loss negatively impacts the departments' budgets. HTM allows the County to avoid swings in market valuations.

Durbin suggested some formatting changes to the monthly treasury report, including consolidating and combining some of the smaller charts and tables on page one to allow for a better side-by-side comparison. For example, it would be helpful if the category maximums could be integrated into the portfolio breakdown.

Renkert suggested providing a comparison of the prior year as well as the prior month. Commissioner DeBone noted that the bullet statements at the top of page one highlight various prior year comparisons. Kuhn

stated the goal of page one of the treasurer's report is to present a concise summary, but he's open to ways in which it can be improved.

5. Investment Policy Discussion:

Kuhn stated that during the March 2023 IAC meeting, the committee completed a comprehensive review of the County's Investment Policy. They suggested some minor revisions, which were approved by the Board of Commissioners.

An annual review of the Investment Policy is a requirement. Kuhn provided the committee with an opportunity to provide feedback on the policy. The stated purpose of this annual review is to allow for necessary guidance around preservation of capital, maintaining adequate liquidity and maximizing yield.

Responding to Durbin, Kuhn stated he reaches out to all broker-dealers on an annual basis. Regulatory filing information is updated and confirmation of compliance with the County's standards is obtained from each broker. It's a standardized annual process. Kuhn will be beginning this process soon, and it will be completed in June. Robert added that all broker-dealers must sign a form that they adhere to the County's policies.

Responding to Durbin, Tintle and Kuhn stated there is a separate policy covering internal controls.

6. Other Considerations:

Kuhn shared that as part of the Treasurer transition, our Internal Audit department completed a report, and he was pleased to report that all recommendations have been completed. One of the important outcomes of the Audit report was the creation of a simple trading document which helps document the goals of investments made at the time. This captures adherence to the policy on investment purchases, including type, maturity, security rating, yield to maturity and efforts to ensure a competitive price and offer, and why the investment was selected. This tool has been utilized since last fall. It's a simple Excel spreadsheet with a built-in pivot table.

Kuhn acknowledged that after a year in this role, he has a better feel for performance, competitive pricing, and responsiveness of the broker-dealers. The county currently has seven approved brokers, and he plans to scale it back to five for manageability. Durbin suggested a target of four. Renkert stated the policy mandates a minimum of three, when possible. It's important to consider responsiveness, and Bill is more comfortable with five.

Commissioner DeBone wished for clarification on committee members and those who are voting/non-voting. It was established that moving forward, the meeting agendas and minutes will more clearly list the four voting public members and one voting County Commissioner.

7. Market Discussion:

Ambrose believes that we'll see higher rates for a longer period. Barring a jump in inflation to the 4% range, he doesn't anticipate another rate hike. Additionally, due to it being an election year, a rate hike is unlikely to avoid favoring one candidate over the other.

Kuhn shared that there's been some discussion that perhaps they Fed should have raised rates higher sooner rather than maintaining high rates for a longer term.

Durbin said that although inflation has dropped some, it's still higher than the target established by Federal policy makers. Mortgage rates have not dipped as expected. The U.S. economy is strong, but there could be some simmering *geopolitical impacts*. He echoed Ambrose's prediction that rates will remain higher for longer. He anticipates the first rate cut in mid-summer.

Renkert recognized the inverted yield curve. He doesn't believe rates will go much higher, and we're near a plateau. He believes that it's an appropriate time to consider extending the yield to maturity term to beyond three years. He acknowledged that "inflation is sticky".

Kuhn recognized that inflationary pressures are still out there. Wage inflation and the cost of doing business will continue to be a challenge.

Wood stated that he believes the yield curve will remain stable until a triggering event disrupts the status quo. He suggested dialing in the duration of the yield to maturity. Responding to Wood, Kuhn stated that a conservative 3.25% investment yield was built into next year's budget. Responding to Renkert, Kuhn expects the investment portfolio balance to ebb and flow due to its seasonal nature.

Kuhn noted that \$35 million in investible balances which are targeted towards the courthouse expansion project will be spent as they come due. Responding to Renkert, Kuhn said that investable balances skew the duration because they are matching the construction term, with this project scheduled for completion in late 2025.

Tintle stated that policy dictates investments must match outlays. The investment duration needs to match funding needs and timing.

Durbin suggested another change to the monthly treasury report, a chart on expected outlays vs. income in the monthly treasurer's report, on a quarterly basis. Tintle stated that on the Distribution Schedule bar graph, this could be illustrated in terms of how much of each bar is allocated to the courthouse expansion project, etc., and how much is the natural maturity.

8. Next steps/updates:

Recommendation on Investment Policy Statement: It was noted that the policy (page 9) states that the Treasurer supplies the IAC with copies of the monthly treasurer's reports. After some discussion, it was suggested to amend the policy to read that the monthly treasurer's reports are accessible from the County's public website and the IAC can reference them there. Ambrose suggested changing the Investment policy (page 9) to read that the monthly treasury reports will be available online on the public website and the IAC can access them from here, in lieu of the treasurer manually sending these out to the IAC each month. The IAC agreed to recommend this as a minor policy revision.

Annual review of investment broker-dealer authorization process: Kuhn will begin this annual review and it will be completed by late June. During this process, he may be reducing the list of broker-dealers from seven to five. Responding to Renkert, Kuhn said that he reaches out to all seven brokers when requesting bids, in the form of blind cc's via email. The process is as fair as possible, with no broker-dealers having access to the other bids provided.

9. Other Discussion items: None

10. Adjourn: Ambrose moved adjournment. Durbin seconded. All votes: yes. The meeting was adjourned at 1:12 p.m.

Respectfully submitted,


Angie Powers, BOCC Administrative Assistant