

TREASURY BOARD
COMMONWEALTH OF VIRGINIA

June 18, 2014

9:00 a.m.

Treasury Board Conference Room

James Monroe Building
101 N. 14th Street, 3rd Floor
Richmond, Virginia

Members Present: Manju S. Ganeriwala, Chairwoman
Neil Amin
Craig Burns
David Von Moll

Members Absent: K. David Boyer
William W. Harrison, Jr.

Others Present:

Nelson Bush	PFM Asset Management
Kathleen Lauerman	PFM Asset Management
Kevin Rotty	PFM, Inc.
James Johnson	Optimal Service Group
Karen Hawkrigde	Optimal Service Group
T. C. Wilson	Optimal Service Group
Paul Clifford	Income Research + Management
Jim Gubitosi	Income Research + Management
Brian Houle	Income Research + Management
Bill O'Malley	Income Research + Management
Don Ferguson	Office of the Attorney General
Kristy Scott	Auditor of Public Accounts
Belinda Blanchard	Department of the Treasury
Tracey Edwards	Department of the Treasury
Debora Greene	Department of the Treasury
Kathy Green	Department of the Treasury
Gloria Hatchel	Department of the Treasury
Deidre Jett	Department of the Treasury
Brad Jones	Department of the Treasury
Brandy Mikell	Department of the Treasury
Harold Moore	Department of the Treasury
Kristin Reiter	Department of the Treasury
Evie Whitley	Department of the Treasury
Tim Wilhide	Department of the Treasury
Robert Young	Department of the Treasury

Call to Order and Approval of Minutes

Chairwoman Ganeriwala welcomed Board members and called the meeting to order at 9:05 a.m.

Chairwoman Ganeriwala asked if there were any changes or revisions to the Minutes of the May 21, 2014 meeting; there being none, Chairwoman Ganeriwala asked for a vote of approval. Mr. Burns moved for approval of the Minutes, Mr. Von Moll seconded, and the motion carried unanimously.

Public Comment

None

Action Items

Motion that the Treasury Board Approve and Execute the Proxy Solicitation on behalf of the PFM Funds Board of Trustees for the Special Meeting of the Stockholders scheduled for June 23, 2014.

Nelson Bush of PFM handed out an updated presentation that explains the reason for the requested Proxy vote. At this time Martin Margolis, President and PFM Managing Director, joined the meeting via conference call. Mr. Bush and Mr. Margolis went over the Proxy material for the Board and stated that the reason for the proxy vote is (1) to approve new investment advisory agreements between PFM Asset Management LLC (“PFMAM”) and the PFM Funds Board of Trustees and (2) re-elect all current trustees so that all trustees have been elected by shareholders. Mr. Von Moll asked who owned the firm prior to IVC purchasing it. Mr. Bush answered that it was 100% owned by the PFM Managing Directors. Mr. Amin asked if the Board of Trustees was in support of the proposals. Mr. Bush answered affirmatively. Mr. Amin asked about the other 46% of the shares (54% is represented by SNAP). Mr. Bush answered that as of the previous night, 52% of the 46% have voted in favor of the proposal. Mr. Amin asked if the re-capitalization is contingent on the new fee schedules in the proposal. Mr. Bush answered that it is contingent on the investment advisory agreements being approved, and the agreement has new fee schedules. Chairwoman Ganeriwala explained that because the proposed proxy includes higher fee schedules, she was concerned that after two years the fees on the SNAP contract would increase for the remaining “optional” years. As a result of her discussions with Mr. Bush, PFM revised the language in the agreement to make it clear that the SNAP Contract fees would remain the same as current fees for the entire duration of the contract including the three “optional years”. Mr. Bush further explained that the Treasury Board fees are governed by its current contact with PFM. Chairwoman Ganeriwala reiterated that the SNAP contract would remain in force through the entire term of the contract. Mr. Von Moll asked how long had the SNAP contract been in place and who had the contract prior to that time. Mr. Bush answered that it had been in place since 2009 and that PFM had the contract prior to that also. Chairwoman Ganeriwala questioned why the transfer agent fee for SNAP as shown on the Pro Forma Statement was higher. Mr. Bush answered that the fee was higher because of numerous rebate calculations that are done for SNAP customers.

Chairwoman Ganeriwala asked if there were any questions. There being none, the Chairwoman asked for a motion to approve. Mr. Von Moll moved that that the “Treasury Board Approve and Execute the Proxy Solicitation on behalf of the PFM Funds Board of Trustees for the Special

Meeting of the Stockholders scheduled for June 23, 2014". Mr. Burns seconded, and the motion carried unanimously.

Board Briefing

Income Research + Management – Performance Reports for the Extended Duration and Credit Portfolio and TICR Investment Portfolio

Brian Houle, CFA and Principal with Income Research + Management (IRM) introduced the three other members of the firm in attendance, Bill O'Malley, CFA - Managing Partner, Jim Gubitosi, CFA – Principal and Senior Portfolio Manager, and Paul Clifford, CFA - Principal and Senior Portfolio Manager. Materials were handed out to the Board by IRM prior to the beginning of their presentation. Mr. O'Malley and Mr. Gubitosi went over the Extended Durations and Credit Portfolio (EDCP) and the TICR Non Taxable Portfolio. The EDCP returned 2.87% on a gross basis for the year to date, beating its benchmark by 33 basis points. Chairwoman Ganeriwala asked why the government sector of the portfolio was lower. Mr. Gubitosi answered that this was to ensure overall portfolio diversification. The TICR Taxable Portfolio returned .73% gross for the year to date, beating its benchmark by 9 basis points. The TICR Tax Exempt Portfolio returned 4.25% gross for the year to date, which was three basis points below the benchmark. Mr. Burns asked how the risk was related to the benchmark. Mr. O'Malley answered that their goal is to keep risk down. Mr. Wilhide noted the Code of Virginia sets the risk limits for the portfolios and investment staff chooses guidelines and benchmarks for external managers based on this standard. There are numerous publicly available benchmarks that are a reasonable match for the guidelines and investment staff, working with Treasury's consultant, choose the closest match. Mr. Wilhide asked Mr. O'Malley how IR&M's Internal Rating Systems compared to those of the Rating Agencies. Mr. O'Malley answered that they use the Rating Agencies, but they discount them significantly.

Staff Reports

Debt Management

Evie Whitley reviewed the Debt Calendar as of June 2, 2014. She noted the VPBA sale had been postponed probably to August. VPSA and Virginia Resource Authority issues are scheduled for July. She noted that the fall schedule had been added with issues scheduled for October and November. Ms. Whitley also reviewed the leasing reports as of May 31, 2014.

Security for Public Deposits

Kristin Reiter reviewed the Security for Public Deposits (SPDA) Report for the month ended April 30, 2014. Ms. Reiter reported that there were no banks under collateralized for the period. There were no new qualified public depositories and no mergers for the period.

State Non-Arbitrage Program

Tim Wilhide reviewed the SNAP report dated May 31, 2014. The monthly distribution yield was unchanged from April at 0.14%, outperforming the benchmark of 0.02%. Balances were also

approximately the same as the previous month. New bond issues added to the SNAP Fund totaled \$205,000,000.

Investments

Mr. Wilhide reviewed the Investment reports for the month ended May 31, 2014. The General Account portfolio was \$5.477 billion, up \$389 million from the month prior. The average yield on the Primary Liquidity portion of the General Account was 0.22%, down 0.29% from the previous month when proceeds were received from the sale of a security in the Securities Lending Portfolio that had previously been written down. The Extended Duration portion of the portfolio had an annualized yield of 9.74% for the month, and the composite yield was 2.29% for the month. The year to date composite yield is 1.01%.

Mr. Wilhide then reviewed the LGIP portfolio. The LGIP portfolio was in compliance for all measures for the month of May, 2014. He then presented the LGIP portfolio report to the Board for the month of May. The LGIP portfolio was up \$227 million from the month prior and is valued at \$2.608 billion. The average yield on the portfolio was 14 basis points, same as the month prior. The average maturity was 52 days, nine days more than the previous month.

Other Business

None.

Chairwoman Ganeriwala stated the next meeting of the Board would be on July 16, 2014, and the meeting adjourned at 10:34 a.m.

Respectfully submitted,

Manju S. Ganeriwala, Chairwoman
Commonwealth of Virginia Treasury Board