

TREASURY BOARD  
COMMONWEALTH OF VIRGINIA

January 21, 2015

9:00 a.m.

Treasury Board Conference Room

James Monroe Building  
101 N. 14<sup>th</sup> Street, 3<sup>rd</sup> Floor  
Richmond, Virginia

Members Present: Manju S. Ganeriwala, Chairwoman  
Neil Amin  
Douglas Densmore  
Lou Mejia  
David Von Moll

Members Absent: Craig Burns  
William W. Harrison, Jr.

Others Present:	Marisa Richheimer	Goldman Sachs
	Paul Seary	Goldman Sachs
	Craig Robinson	PFM Asset Management
	Karen Hawkridge	Optimal Service Group
	Brian Moore	Optimal Service Group
	James Johnson	Optimal Service Group
	Jeffrey Finke	Auditor of Public Accounts
	Don Ferguson	Office of the Attorney General
	Tracey Edwards	Department of the Treasury
	Leslie English	Department of the Treasury
	Deborah 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
	John Ockerman	Department of the Treasury
	Kristin Reiter	Department of the Treasury
	Michael Walsh	Department of the Treasury
	Bill Watt	Department of the Treasury
	Tim Wilhide	Department of the Treasury

## **Call to Order and Approval of Minutes**

Chairwoman Ganeriwala welcomed Board members and called the meeting to order at 9:03 a.m.

Chairwoman Ganeriwala asked if there were any changes or revisions to the Minutes of the December 19, 2014 meeting; there being none, Chairwoman Ganeriwala asked for a vote of approval. Mr. Von Moll moved for approval of the Minutes, Mr. Amin seconded, and the motion carried unanimously.

## **Public Comment**

None

## **Action Items**

None

## **Board Briefing**

### **Presentation by Goldman Sachs Asset Management on recent portfolio performance and strategy**

An updated hand out of the presentation was given to the Board by Goldman Sachs personnel. Marisa Richheimer, Vice President, and Paul Seary, Vice President, briefed the Board. In 2014 the net excess return relative to the benchmark, less the 25 bps hurdle, is negative 45 bps. Mr. Seary noted that the portfolio's tactical duration and yield curve strategy detracted from performance during the year because the portfolio was positioned for a rise in U.S. Treasury yields even though yields fell sharply over the year. Chairwoman Ganeriwala asked for strategies the portfolio team plans to use to improve performance. Mr. Seary responded that the firm's view is for stronger U.S. economic growth in 2015 accompanied by stronger corporate profitability and higher interest rates. This forecast leads the portfolio team to continue to position though less aggressively for a rise in interest rates and improved performance in corporate bonds. The portfolio will also underweight residential mortgage backed securities. Treasurer Ganeriwala asked why the firm has a negative outlook on the performance of mortgage securities. Mr. Seary responded that the outlook was negative on residential, not commercial mortgage securities, because the recent sharp decline in mortgage rates is leading to homeowner refinancing which reduces the return of residential mortgage securities.

Mr. Mejia asked what part of the performance Goldman Sachs was not happy with and what they would have done differently if they could. Mr. Seary responded that portfolio positioning for higher yields on U.S. Treasuries was the mistake that caused almost all of the portfolio under performance against the benchmark. The mistaken strategy occurred because the firm had not expected the strong demand for Treasuries from foreign investors that occurred as the year progressed. Had they expected this foreign demand the portfolio team would have changed its position on interest rates. Mr. Mejia followed up with a question about the firm's strategic decision making, in particular if the portfolio team uses any statistical modeling of expected returns in the asset allocation process. Mr. Seary responded that the team does use modeling techniques but considers these to be secondary to what he termed the firm's "fundamental" process of setting portfolio strategy.

He noted that “fundamentals” refers to the portfolio team’s reliance on the firm’s economic forecast and the implications of that forecast for interest rates and returns for key sectors of the bond market. Mr. Densmore asked what might be the next big surprise for the markets, noting that the recent drop in oil prices was the most recent example of such a surprise to investors. Mr. Seary responded that the biggest surprise might be even lower interest rates. If so, the team will have to adjust the portfolio’s duration risk accordingly.

Mr. Amin asked what they should be doing right now to outperform the benchmark. Mr. Seary responded that the portfolio is constructed to benefit from the firm’s expectation of much stronger U.S. economic growth and higher interest rates than the market currently expects. If this view is correct the portfolio will perform very well.

## **Staff Reports**

### **Debt Management**

Leslie English reviewed the Debt Calendar as of January 5, 2015 noting that several issues would be coming before the Board in the upcoming months. Ms. English reviewed the leasing reports as of December 31, 2014.

### **Security for Public Deposits**

Kristin Reiter reviewed the Security for Public Deposits (SPDA) Report for the month ended November 30, 2014. Ms. Reiter reported that one bank, Farmers Bank – Windsor, was under collateralized for the month. There were no new qualified public depositories. There were no bank mergers during this reporting period. Ms. Reiter noted that the IDC ratings were updated and one new bank, Bank of Fincastle, was added to the list of institutions ranked below average.

### **State Non-Arbitrage Program**

Tim Wilhide reviewed the SNAP report dated December, 2014. The monthly distribution yield was unchanged from November at 0.13%, outperforming the benchmark of 0.02%. Balances were up \$400 million from the previous month at \$3.8 billion. New bond issues added to the SNAP Fund totaled \$550,000,000.

### **Investments**

Mr. Wilhide reviewed the Investment reports for the month ended December 31, 2014. The General Account portfolio was \$5 billion, down \$163 million from the month prior. The average yield on the Primary Liquidity portion of the General Account was 0.25%, up .01% from the previous month. The Extended Duration portion of the portfolio had an annualized yield of negative .41 for the month. The combined or composite yield of the Primary Liquidity and Extended Duration portfolios was .09% for December.

Mr. Wilhide then reviewed the LGIP portfolio. The LGIP portfolio was in compliance for all risk measures for the month of December 2014. He then presented the LGIP portfolio report to the

Board for the month of December. The LGIP portfolio was up \$311 million from the month prior and is valued at \$2.95 billion. The average yield on the portfolio was 14 basis points, same as the month prior. The average maturity was 86 days, one day shorter than the previous month.

Mr. Wilhide noted that Deutch Bank has been replaced by Income Research and Management for the TICR portfolio. Mr. Amin asked were we thinking of replacing Goldman Sachs because of their underperformance. Mr. Wilhide responded that he was meeting with them today to question what they planned on doing about their performance.

**Other Business**

None.

Chairwoman Ganeriwala stated the next meeting of the Board would be on February 18, 2015. She informed the Board that there were some conflicts with the scheduled dates for 2015 Board meetings. She instructed staff to send the dates for this year's meetings to the Board members. Chairwoman Ganeriwala adjourned the meeting at 9:52 a.m.

Respectfully submitted,

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Manju S. Ganeriwala, Chairwoman  
Commonwealth of Virginia Treasury Board