

TREASURY BOARD
COMMONWEALTH OF VIRGINIA

December 20, 2017

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
James Carney
Douglas Densmore
David Von Moll

Members Absent: Lou Mejia

Others Present:	Don Ferguson	Office of the Attorney General
	Brian Deveney	Auditor of Public Accounts
	Kevin Larkin	Bank of America Merrell Lynch
	Scott Detar	Bank of America Merrell Lynch
	Monica Michaud	George Mason University
	Susan Van Leunen	George Mason Univ. Foundation
	Tracy White	George Mason Univ. Foundation
	Bill Zuk	J.P. Morgan
	Mike Graff	McGuireWoods
	Emily Abrantes	Prager
	Karen Logan	Optimal Service Group
	Brian Moore	Optimal Service Group
	Nelson Bush	PFM
	Eric Ballou	Christian & Barton
	Peyton Stroud	Christian & Barton
	Patrick Dixon	Wells Fargo
	Janet Aylor	Department of the Treasury
	Neil Boege	Department of the Treasury
	Leslie English	Department of the Treasury
	Kathy Green	Department of the Treasury
	Brad Jones	Department of the Treasury
	James Mahone	Department of the Treasury
	Harold Moore	Department of the Treasury
	Kristin Reiter	Department of the Treasury
	Sandra Stanley	Department of the Treasury
	David Swynford	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 November 15, 2017 meeting. Mr. Carney noted that his name was misspelled on the top of page 2, and Mr. Ferguson noted that Merrill Lynch was misspelled on page 1. Chairwoman Ganeriwala asked for a vote of approval of the minutes. Mr. Densmore moved for approval of the amended minutes, Mr. Carney seconded, and the amended motion carried unanimously.

Public Comment

None

Action Items

Resolution Approving the Terms and Structure of a Financing Arrangement benefiting George Mason University (Student Housing Project Refunding Series 2017A&B)

Janet Aylor presented the Preliminary Financing Summary for the issuance of \$16.7 million of Fairfax County Economic Development Authority Refunding Revenue Notes Series 2017A (Tax-Exempt) and \$1.4 million Fairfax County Economic Development Authority Refunding Revenue Notes Series 2017B (Taxable). The 2017 Bonds issue will be directly placed with TD Bank and the net proceeds will be used to refinance outstanding George Mason University Foundation Potomac Heights bonds, and terminate the existing interest rate swap related to the bonds. The bonds are scheduled for closing on December 21, 2017. The true interest is 2.41% for Series 2017A and 2.05% for Series 2017B.

Monica Michaud, Susan Van Leunen, and Tracy White of George Mason University were on hand to review the transaction and answer questions. They informed the Board that it would cost \$1.3 million to break the swap that has been in place since the initial transaction. Several board members questioned the use of the swap on the earlier transaction and as to why it was now being terminated at a cost. The financial advisor for the GMU Foundation explained that the Foundation and the University is trying to de-risk their debt portfolio by terminating this swap. Unless terminated, the original swap will continue to be in place until 2036, even after the new issuance is completed. The financial advisor undertook an analysis that compared the cost of leaving the swap in place, terminating the swap with University cash or terminating the swap with the proposed financing. The termination of the swap with the direct placement with TD Bank was the preferred option by the Foundation and the University. Board members were concerned that students will bear the cost of the termination of the swap in their housing payments which will be used to support the debt service on the Bonds.

Discussion ensued.

Mike Graff, representing McGuireWoods as bond counsel, reviewed the Resolution.

Chairwoman Ganeriwala noted that the University and Foundation need to be very cautious in their use of a swap financing structure going forward.

Chairwoman Ganeriwala asked for a motion to approve the Resolution. Mr. Carney recommended changing “authorize” to “required” on the second line of the final whereas clause of the resolution. Mr. Von Moll moved that the amended Resolution be adopted. Mr. Burns seconded, and the motion carried unanimously.

Presentation by Optimal Services Group on Manager Selection and Extended Duration and Credit Portfolio (EDCP) Standards

Karen Logan and Brian Moore provided an overview of their analysis and recommendation from their search on finding a new active manager for the EDCP portfolio. The new manager would replace Goldman Sachs, who has consistently fallen short of benchmark performance. It is Optimal’s recommendation that Treasury replace Goldman Sachs with J.P. Morgan. Optimal presented the long-term performance history of J.P. Morgan, a manager of high-quality portfolios that are similar to the EDCP approved guidelines. This history showed a consistent, risk adjusted long-term outperformance, which was better than other managers Optimal screened in their analysis.

Mr. Wilhide informed the Board that J.P. Morgan would be invited to make a presentation on its investment philosophy and process and how they expect to perform if given the assignment to replace Goldman Sachs.

Motion to Amend the General Account Extended Duration and Credit Portfolio (EDCP) Manager Performance Standards

Tim Wilhide reviewed the motion to amend the General Account Extended Duration and Credit Portfolio Manager Performance Standards. He explained to the Board that Treasury would like to remove the 25 basis point hurdle for fund managers. He indicated that the managers are not currently meeting this hurdle and it is very difficult for them to do so as it requires more risk to be taken which would leave the portfolio vulnerable. The effective date on the change would be January 2018.

Discussion ensued. Chairwoman Ganeriwala asked for a motion to approve the Resolution. Mr. Amin moved that the Resolution be adopted. Mr. Carney seconded, and the motion carried unanimously.

Staff Reports

Debt Management

Janet Aylor reviewed the Debt Calendar as of December 1, 2017. Ms. Aylor noted that there was not much on the debt calendar, but it would begin filling up in the spring.

Ms. Aylor also reviewed the leasing reports as of November 30, 2017. She informed the Board that a few new purchases have been made under the new Master Lease contract. There was no activity with the Energy Lease Program.

Ms. Aylor then reviewed four final financing summaries for recently sold bonds. She informed the board that because of the recent proposed changes to the federal tax law (which, if enacted, would eliminate the State's ability to do advance refundings on a tax-exempt basis, effective January 1, 2018) four refinancings were undertaken to capture savings from advance refundings prior to January 1, 2018. As a result, a total of **\$1.7 billion** in bonds was issued over four weeks producing present value savings of **\$120 million**. During a very busy time, staff worked hard to capture savings to benefit Virginia taxpayers.

Security for Public Deposits

Kristin Reiter reviewed the Security for Public Deposits (SPDA) Report for the month ended October 31, 2017. Ms. Reiter reported that no banks were under collateralized for the month. Ms. Reiter noted that the IDC ratings had not changed from those reported last month. She informed the Board that during November, banks are able to make a change in their collateral method for the upcoming calendar year between the opted-out and pooled collateral methods. At this time, one bank (Sonabank) has indicated its desire to change to a pooled bank.

State Non-Arbitrage Program

Tim Wilhide reviewed the SNAP report as of November 30, 2017. The fund's assets were valued at \$3.5 billion. The monthly yield was 1.29%, one basis point more than the month prior. The weighted average maturity of the fund was 41 days. There were \$202 million in new issuances for the month.

Investments

Mr. Wilhide reviewed the Investment reports for the month ended November 30, 2017. The General Account portfolio was \$6.1 billion, up \$218 million from the month prior. The average yield on the Primary Liquidity portion of the General Account was 1.27%, up four basis points from the month prior. The Extended Duration portion of the portfolio had a yield to maturity of 2.47%. This resulted in the composite yield being 1.52% for the month.

Mr. Wilhide then reviewed the LGIP portfolio. The LGIP portfolio was in compliance for all measures for the month of November. The LGIP portfolio was up \$107 million from the month prior and is valued at \$3.9 billion. The average yield on the portfolio was 1.27%, up one basis point from the month prior. The average maturity was 49 days, up 10 days from the previous month.

Finally, Mr. Wilhide reviewed the LGIP Extended Maturity portfolio. The LGIP Extended Maturity portfolio was in compliance for all measures for the month of October. The net asset value yield to maturity was 1.44%, up five basis point from the month prior. The average duration was 0.84 years.

Other Business

Chairwoman Ganeriwala stated that the next meeting of Treasury Board would be held on January 17, 2018. The meeting adjourned at 10:32 a.m.

Respectfully submitted,

A handwritten signature in cursive script, reading "Michael Tutor", is written over a horizontal line.

Michael R. Tutor, Secretary
Commonwealth of Virginia Treasury Board

