

TREASURY BOARD
COMMONWEALTH OF VIRGINIA

November 19, 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
Douglas Densmore
Lou Mejia
David Von Moll

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

Others Present:	Craig Robinson	PFM Asset Management
	Karen Hawkridge	Optimal Service Group
	James Johnson	Optimal Service Group
	Brian Moore	Optimal Service Group
	Patrick Dixon	Wells Fargo Bank
	Steve Schmmel	Bank of America
	Lauren Wilcox	Auditor of Public Accounts
	Don Ferguson	Office of the Attorney General
	Belinda Blanchard	Department of the Treasury
	Debora Greene	Department of the Treasury
	Kathy Green	Department of the Treasury
	Gloria Hatchel	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
	Evie Whitley	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 9:04 a.m.

Chairwoman Ganeriwala asked if there were any changes or revisions to the Minutes of the October 15, 2014 meeting; there being none, Chairwoman Ganeriwala asked for a vote of approval. Mr. Von Moll moved for approval of the Minutes, Mr. Densmore seconded, and the motion carried unanimously.

Public Comment

None

Action Items

None

Board Briefing

Presentation by The Optimal Service Group - Extended Duration and Credit Portfolio Evaluation for Periods Ending September 30, 2014 and Tobacco Indemnification and Community Revitalization Endowment (Taxable & Tax-Exempt) Portfolio Evaluation for the Periods Ending September 30, 2014

Brian Moore and Karen Hawkrigde of Optimal Service Group made the presentations. Ms. Hawkrigde first presented results of the Extended Durations and Credit Portfolio (EDCP). The EDCP returned .1% net of fees for the quarter ending September 30, 2014, meeting its benchmark of .1%. Mr. Moore next presented results of the Tobacco Indemnification and Community Revitalization Endowment (TICR) Taxable Portfolio. This portfolio also returned .1% net of fees for the quarter, meeting its benchmark of .1%. Results of the TICR Tax Exempt Portfolio were presented next. The portfolio returned .9% net of fees, beating its benchmark of .8%.

Mr. Amin asked about the process used to select external portfolio managers. Ms. Hawkrigde answered that they look to build a team of managers with complementary investment styles. Tim Wilhide added that in the types of high quality portfolios used by Treasury, skills in bond sector allocation and security selection are the most common and that the managers are limited in their ability to take interest rate risk.

Mr. Moore informed the Board that a search was underway to replace Deutsche Bank as a manager for the TICR tax exempt portfolio. Chairwoman Ganeriwala asked what was done once Optimal presented a list of potential replacement managers. Mr. Wilhide responded that staff and the Optimal team would meet with the prospective managers and evaluate their understanding of the portfolio's guidelines as well as their track record in managing similar mandates to make a selection. Mr. Densmore asked how often the managers were evaluated. Mr. Wilhide responded that a formal evaluation was done annually for each manager, but they were evaluated continuously based on their performance. Chairwoman Ganeriwala asked where we were with our credit risk in terms of taking on more risk for higher yields. Mr. Wilhide responded that credit, that is, corporate bonds as an asset class, had outperformed most other fixed income sectors through the first half of

2014. Since then, however, credit has lagged other sectors as corporate bond yields over Treasuries have increased more than yields of other fixed income securities. He noted that the EDCP managers had done a good job of reducing credit exposure in mid year and that they may well view the recent increase in yields relative to Treasuries as a good buying opportunity.

Staff Reports

Debt Management

Evie Whitley reviewed the Debt Calendar as of November 3, 2014 and the leasing reports as of October 31. Ms. Whitley also presented the Final Financing Summary for the Virginia College Building Authority Bonds that were issued last month.

Security for Public Deposits

Kristin Reiter reviewed the Security for Public Deposits (SPDA) Report for the month ended September 30, 2014. Ms. Reiter reported that no banks were undercollateralized for the month. There were no new qualified public depositories. There were no bank mergers during this reporting period. Ms. Reiter also presented Quarterly Statistical deposit data for the banks. She noted that with the updated IDC ratings, three banks had been removed from the list of banks rated below average, and three had been added to the list. Chairwomen Ganeriwala asked Ms. Reiter to explain the difference between the Pooled and Opt Out group of banks in the program. After Ms. Reiter's explanation, Chairwoman Ganeriwala informed the Board that some thought had been given to changing the collateral requirements on banks in the Pooled Program that were below average and remain rated that way for extended periods of time. Any subsequent suggestions for changes will be brought to the Board.

State Non-Arbitrage Program

Tim Wilhide reviewed the SNAP report dated October, 2014. The monthly distribution yield was unchanged from September at 0.13%, outperforming the benchmark of 0.02%. Balances fell \$100 million from September to \$3.3 billion. New bond issues added to the SNAP Fund totaled \$107 million.

Investments

Mr. Wilhide reviewed the Investment reports for the month ended October 31, 2014. The General Account portfolio was \$5.4 billion, up \$227 million from the month prior. The average yield on the Primary Liquidity portion of the General Account was 0.24%, up .01% from the previous month. The Extended Duration portion of the portfolio had an annualized yield of 8.02% for the month as a result of unrealized gains due to the decline in interest rates in October. The combined or composite yield of the Primary Liquidity and Extended Duration portfolios was 1.96% for October.

Mr. Wilhide then reviewed the LGIP portfolio. The LGIP portfolio was in compliance for all measures for the month of October 2014. He then presented the LGIP portfolio report to the Board for the month of October. The LGIP portfolio was down \$232 million from the month prior and is valued at \$2.53 billion. The average yield on the portfolio was 14 basis points, same as the month prior. The average maturity was 95 days, twenty-one days higher than the previous month.

Other Business

None.

Chairwoman Ganeriwala stated the next meeting of the Board would be on December 19, 2014. She asked for a motion to adjourn. Mr. Amin moved for adjournment, Mr. Von Moll seconded, and the motion carried unanimously. The meeting adjourned at 9:51 a.m.

Respectfully submitted,

Manju S. Ganeriwala, Chairwoman
Commonwealth of Virginia Treasury Board