

TREASURY BOARD
COMMONWEALTH OF VIRGINIA
May 18, 2016
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: Douglas Densmore
William Harrison, Jr.
Lou Mejia

Others Present:	Kevin Larkin	Bank of America
	Don Ferguson	Office of the Attorney General
	Karen Hawkrigde	Optimal Service Group
	James Johnson	Optimal Service Group
	Robin Wilcox	Optimal Service Group
	Kathleen Bowe	PFM Group
	Nelson Bush	PFM Group
	Craig Robinson	PFM Group
	Aimee Krueger	Department of Transportation
	Misty Upson	Department of Transportation
	Janet Aylor	Department of the Treasury
	Leslie English	Department of the Treasury
	Debora Greene	Department of the Treasury
	James Mahone	Department of the Treasury
	Brandy Mikell	Department of the Treasury
	Harold Moore	Department of the Treasury
	Kristin Reiter	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 9:01 a.m.

Chairwoman Ganeriwala asked if there were any changes or revisions to the Minutes of the April 20, 2016 meeting; there being none, Chairwoman Ganeriwala asked for a vote of approval. Mr. Von Moll moved for approval of the Minutes, Mr. Burns seconded, and the motion carried unanimously.

Public Comment

None

Action Items

Motion to Convert the State Non Arbitrage Program Portfolio to a Local Government Investment Pool Structure

Treasurer Ganeriwala restated for Treasury Board members the reasons to consider converting the SNAP portfolio from a series in PFMAM's SEC registered 2a-7 mutual fund to a Local Government Investment Pool (LGIP) portfolio structure.

Tim Wilhide introduced Nelson Bush, Managing Director, PFM Asset Management, LLC (PFMAM) for further comment. PFMAM is the Treasury Board appointed manager of the SNAP Program. Mr. Bush provided a multi-page handout comparing and contrasting the proposed and existing portfolio structures. The document and Mr. Bush's comments explained that the SNAP portfolio management policy and the coincident arbitrage reporting by PFMAM to SNAP Participants will not change under an LGIP structure. He did note that some SEC related legal fees and auditing fees will likely change but that fees will probably not increase in total under the new structure.

One point Mr. Bush brought to the attention of the Board relates to the inability of Participants to deduct program expenses from arbitrage liability should positive arbitrage occur in the future. This could happen if and when LGIP investment yields rise above the yield of bond issuance for some participants. Mr. Bush explained that this deduction is worth only a few basis points and is therefore unlikely to change participant investing behavior in a SNAP LGIP.

Chairwoman Ganeriwala then asked what PFM's investment fees were. Mr. Bush replied that it was nine basis points on the first billion, seven basis points on the next 2 billion, and then five basis points on anything after.

Chairwoman Ganeriwala asked Mr. Bush if there is anything currently presented to the PFMAM Board of Trustees that Treasury Board does not see but will need to see once the change is made. Mr. Bush said the nature of the financial statements will change, but there will be no major changes other than Treasury Board will have more oversight.

Mr. Von Moll asked Mr. Wilhide if the conversion will result in any major investment, management or reporting risks either to the SNAP Participants or to Treasury Board in its governance of the SNAP program in adopting the new structure. Mr. Wilhide responded that risk management will not change. He noted that the Board will likely receive an increased amount of reporting on the SNAP Program and that its direct role in setting risk management policy may be enhanced after the conversion. Mr. Amin moved that the Resolution be adopted. Mr. Von Moll seconded, and the motion carried unanimously.

Chairwoman Ganeriwala asked if there were any further questions. There being none, she asked for a motion to approve the motion. Mr. Amin moved that the Resolution be adopted. Mr. Von Moll seconded, and the motion carried unanimously.

Motion Related to the Approval of Amended Local Government Investment Pool Policy

Belinda Blanchard reviewed the proposed changes to the Local Government Investment Pool Policy and presented the motion of approval.

The changes principally relate to the LGIP revising its management policy from that of a “2a-7 like” portfolio to the standards newly adopted by GASB Statement 79. In practice this has no effect on the LGIP portfolio as virtually all of the credit, maturity and liquidity standards will remain the same. One difference will be the formal adoption of stress testing as part of the policy but in practice the LGIP is already doing this weekly to maintain its S&P AAAM rating. She noted some other minor changes in policy language that if the Resolution is adopted will bring policy language more closely in accord with the Code of Virginia language and standards used by the General Account.

Chairwoman Ganeriwala asked if there were any further questions. There being none, she asked for a motion to approve the motion. Mr. Von Moll moved that the Resolution be adopted. Mr. Amin seconded, and the motion carried unanimously.

Board Briefing

Optimal Services Group of Wells Fargo Advisors – 1st Quarter Performance Reports for the Extended Duration Credit Portfolio and TICR Endowment Portfolios

Robin Wilcox, James Johnson, and Karen Hawkridge briefed the Board on the General Account External Managers’ investment performance for the 1st quarter of 2016 and the Quarterly Investment Manager Performance of TICR Endowment for taxable and tax-exempt portfolios for the 1st quarter of 2016.

Mr. Johnson briefed the Board on the General Account External Manager’s portfolio. The portfolio was valued at 1.24 billion and had a \$36 million gain year-to-date. The portfolio return in the 1st quarter was 2.2% net of fees, slightly trailing the benchmark.

Ms. Hawkridge briefed the Board on the TICR tax exempt and TICR taxable portfolios. The TICR taxable portfolio was valued at \$272 million and had nearly a \$7 million gain year-to-date. The portfolio return in the 1st quarter was 1.9% net of fees, slightly trailing the benchmark. The TICR tax exempt portfolio was valued at \$195.8 million and had \$6.9 million of unrealized gains. The 1st quarter return net of fees was 1.3%, slightly above the benchmark.

Staff Reports

Debt Management

Janet Aylor reviewed the Debt Calendar as of May 11, 2016. She indicated that there would be VCBA refunding sale sometime in June and a Virginia Resources Authority sale on July 27.

Ms. Aylor also reviewed the leasing reports as of April 30, 2016. DGS procured a fleet of vehicles in the amount of \$176,000 in the 84 and 120 month Master Lease Program during the month. There was no activity with the Energy Lease Program.

Ms. Aylor then reviewed the final financing summary for the Virginia Public School Authority School Technology and Security Notes, Series IV Bonds that were sold on May 3. The True Interest Cost (TIC) on the five year notes was 0.89%.

Ms. Aylor also reviewed the final financing summary for the Commonwealth Transportation Board Capital Projects Revenue Bonds that were sold on May 4. The True Interest Cost (TIC) on the 25 year notes was 2.76%.

Security for Public Deposits

Kristin Reiter reviewed the Security for Public Deposits (SPDA) Report for the month ended March 31, 2016. Ms. Reiter reported that no banks were under collateralized for the month.

She informed the Board that First National Bank – Ronceverte merged into Premier Bank. Both of these banks are headquartered in West Virginia with branches in Virginia.

Ms. Reiter noted that the IDC ratings have been updated from what was reported last month as they are now using IDC's 4th quarter final 2015 ratings. New Peoples Bank, Inc. is no longer being ranked below average and was removed from the list. Highlands Union Bank has been added to the list as below average.

Ms. Reiter then summarized quarterly statistical data for the Board. As of March 31, 2016, 109 public depositories held public deposits net of FDIC of \$7.6 billion. \$5.1 billion (67%) of the deposits were held by 34 opt-out banks; \$2.5 billion (33%) were held by 75 pooled depositories. The state's four largest public depositories held 55% of public deposits net of FDIC.

Investments

Mr. Wilhide reviewed the SNAP report as of April 30, 2016. The fund's assets were valued at \$2.9 billion, \$35 million more than the month prior. The monthly yield was 55 basis points, down one basis point from the month prior. The weighted average maturity of the fund was 57 days, up two days from the month prior. There were \$227 million in new bond issuances for the month.

Mr. Wilhide also reviewed the Investment reports for the month ended March 31, 2016. The General Account portfolio was \$4.9 billion, down \$241 million from the month prior. The average yield on the Primary Liquidity portion of the General Account was 0.64%, up three basis points from the month prior. Mr. Wilhide explained that the Extended Duration portion of the

portfolio had an annualized total return of 4.10 % as a result of the decline in rates and tighter credit spreads. This resulted in the composite yield being 1.51% for the month.

Mr. Wilhide then reviewed the LGIP portfolio. The LGIP portfolio was in compliance for all measures for the month of April. The LGIP portfolio was down over \$200 million from the month prior and is valued at \$2.7 billion. The average yield on the portfolio was 52 basis points, up three basis points from the month prior. The average maturity was 34 days, up five days from the previous month.

Other Business

Chairwoman Ganeriwala stated the next meeting of the Board would be on June 10, 2016. Next she asked if there were any public comments; there being none, she then adjourned the meeting at 10:19 a.m.

Respectfully submitted,

Michael R. Tutor, Secretary
Commonwealth of Virginia Treasury Board