

TREASURY BOARD
COMMONWEALTH OF VIRGINIA

October 21, 2009

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
Janie E. Bowen
K. David Boyer, Jr.
Dr. Kenneth N. Daniels
Robert C. Goodman, Jr.
David A. Von Moll

Members Absent: Douglas W. Densmore

Others Present: Janet Aylor Department of the Treasury
Jeanine Black Department of the Treasury
Leslie English Department of the Treasury
Debora Greene Department of the Treasury
Thelma Ingle Department of the Treasury
Margaret Layne Department of the Treasury
Judy Milliron Department of the Treasury
Kristin Reiter Department of the Treasury
Kathi B. Scearce Department of the Treasury
Evie Whitley Department of the Treasury
Tim Wilhide Department of the Treasury
Robert S. Young Department of the Treasury
Paula C. Lambert JLARC
Vasyl Zuk J.P. Morgan Chase
Craig Robinson Bank of NY Mellon Trust Co., N.A.
Rick Babb Bank of NY Mellon Trust Co., N.A.
Terry Burke Pinnacle
Chuck Shimer Troutman, Sanders
Rob Gordon Troutman, Sanders
Brian Moore Wells Fargo Advisors
Jessica White Wells Fargo Advisors
T.C. Wilson Wells Fargo Advisors
Treasury staff and others attended

Call to Order and Approval of Minutes

Chairwoman Ganeriwala welcomed Board members and called the meeting to order at 9:00 a.m. She asked if there were any additions or revisions to the minutes of the September 16, 2009 meeting. There being none, Dr. Daniels moved the approval of the minutes as submitted. Mr. Boyer seconded, and the motion carried unanimously.

Public Comment

None

Agenda Items**Resolution to Approve Terms and Structure of Virginia College Building Authority Educational Facilities Revenue and Refunding Bonds, Series 2009BC (Public Higher Education Financing Program)**

Janet Aylor reviewed the action item with the Board stating that the resolution authorizes the issuance of Virginia College Building Authority Educational Facilities Revenue Bonds to finance requests from nine institutions of higher education for 28 projects specified in the financing summary. Ms. Aylor stated that the resolution also provided for the issuance of refunding bonds, however the refunding may or may not be advantageous depending on market rates at the time of sale.

The bonds are secured by a general revenue pledge from each of the institutions. The method of sale will be determined closer to the pricing date.

Ms. Aylor indicated that Chuck Shimer and Rob Gordon of Troutman Sanders, Bond Counsel were present to review the resolution and for questions. She stated that the Virginia College Building Authority Board had approved the bonds on October 7, 2010. Treasurer Ganeriwala asked if it was common to have bonds maturing over 25 years. Ms. Aylor indicated that it is not uncommon for this program, so long as the term does not exceed the useful life of the asset being financed.

Mr. Shimer reviewed the resolution with the Board.

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

Motion To Approve The Assignment And Assumption Agreement, Effective As Of November 1, 2009, Among The Commonwealth Of Virginia Treasury Board, Pinnacle Arbitrage Compliance LLC, And The Bank Of New York Mellon Trust Company

Robert S. Young reviewed the action item with the Board. He introduced Mr. Terry Burke of Pinnacle Arbitrage Compliance (Pinnacle) and Craig Robertson and Rick Babb from New York Mellon Trust Company (NY Mellon). Mr. Young stated that Pinnacle was recently purchased by NY Mellon, and as a result, Pinnacle was requesting transfer of the State Non-Arbitrage Program (SNAP) arbitrage assignment for SNAP.

Mr. Goodman expressed concern that the transfer would affect the product originally contracted. Mr. Young stated that the current contract allows the State to terminate the contract at any time. Mr. Goodman reiterated his wish for clarification on the issue of Pinnacle's independence and indicated that the Board should be notified if there are any changes to the structure.

Treasurer Ganeriwala asked if NY Mellon had any SNAP contracts. Mr. Burke indicated they did not.

Mr. Von Moll asked if competitively bidding the contract had been considered. Mr. Young indicated that the contract could have been rebid, but Treasury had opted not to rebid as Pinnacle's services are quite specific. He stated that Pinnacle is expanding services with their current services as CPAs preparing tax returns as their current focus.

Mr. Goodman moved approval of the resolution as amended with the statement that any changes or other items that affect the independence of the product be submitted to the Board within 30 days of any change.

Chairwoman Ganeriwala asked if there were any further questions. There being none, the Chairwoman asked for a second to Mr. Goodman's motion on the floor to approve the Motion with the amended changes. Mr. Boyer seconded the motion, and the motion carried unanimously.

Motion To Approve The General Account Investment Guidelines Statement Of Investment Policies And Goals

Tim Wilhide explained that the current guidelines have been in place since 2005 and that numerous changes to the market prompted the need for changes to the guidelines. Don Ferguson from the Attorney General's office provided the Board with a comfort letter related to the investment guidelines (Attachment A). Mr. Wilhide stated that credit quality has been challenged by current markets and crisis. He indicated that a letter had been sent to the Board that outlined the specific recommended changes to the guidelines. The changes will emphasize reducing negative performance to the benchmark, which allows for manager discretion in asset selection and close monitoring of the risk.

Mr. Goodman asked what tools staff uses to know what risk a financial manager took. Mr. Wilhide stated that Treasury staff closely monitor the compliance status of each portfolio to ensure only eligible securities are held and are within defined risk limits. Additionally, staff closely monitors the market value of the portfolios and individual holdings while closely monitoring return performance over time. Staff pays particular attention to those managers with deteriorating asset positions and communicates with them to voice Treasury's concerns and to ask for their action plans on dealing with performance problems. When necessary Treasury

requires managers to sell out of compliance assets and managers know prolonged underperformance can lead to a discontinuation of manager contracts.

Dr. Daniels asked what the vendors' response to the proposed changes had been. Mr. Wilhide stated that the feedback had been positive with some technical questions. He asked T.C. Wilson, of Wells Fargo Advisors, to comment. Mr. Wilson stated the current guidelines were what strengthen the Commonwealth's financial position in the past year. He indicated that the changes to the guidelines will further strengthen Treasury's investments.

Discussion ensued. Mr. Goodman requested that data be appended to the guidelines to reflect why guidelines are so conservative. He indicated that an appendix to the guidelines will provide rationale for the Board's action for future Boards.

Chairwoman Ganeriwala asked if there were any further questions. There being none, the Chairwoman asked for a motion to approve the Resolution. Mr. Goodman moved that the Resolution be adopted. Mr. Boyer seconded, and the motion carried unanimously with the guidelines becoming effective November 1, 2009.

Staff Reports:

Debt Management

Evie Whitley reviewed the Debt Calendar as of October 13, 2009, and the MELP and VELP reports as of September 30, 2009. She noted the Virginia Public School Authority scheduled for October 28 was being delayed by several weeks. Ms. Whitley also reviewed the final financing summaries for the VCBA issue, the general obligation bonds, and the refunding issue for the Virginia Biotechnology Research Partnership Authority.

Security for Public Deposits

Ms. Reiter reviewed the Security for Public Deposits report for the month ending August 31, 2009. She advised the Board that one bank was undercollateralized for the second time in twelve months. She stated that there was one new qualified public depository and one merger. There were no changes in the IDC rankings.

Ms. Reiter indicated that the Opt-Out Guidelines had been distributed to financial institutions and that Treasury had received few comments. Open enrollment is set for November 1, 2009.

State Non-Arbitrage Program (SNAP)

Mr. Wilhide reviewed the SNAP report for the month ending September 30, 2010. He introduced Nelson Bush who stated that PFM held a SNAP users group meeting, which was one of the best attended meetings of the past five years. The users group meeting provides education about the

SNAP program to program participants. Mr. Bush stated that attendees now receive CE credits for their participation.

Investments

Mr. Wilhide reviewed the Investment Report for September 30, 2010. He indicated that economists are predicting that the recession is statistically over as of this past summer. Mr. Wilhide expects rates to remain low and for markets to produce low yield. He also indicated that the LGIP had declined slightly.

Mr. Wilson, of Wells Fargo Advisors, gave a brief overview of the September 30th total return pool. Mr. Wilson indicated that each manager out performed their benchmark. He also stated that the pool is up approximately \$100 million from 12 months ago.

Mr. Wilson also provided an overview of the Tobacco Indemnification and Community Revitalization fund. He stated that the report reflects the removal of Western and the addition of Denver.

Chairwoman Ganeriwala asked if there was any further business to come before the Board. There being none, the Chairwoman asked for a motion to adjourn. Mr. Boyer moved adjournment of the meeting. Ms. Bowen seconded, and the motion carried unanimously.

Other Business:

None

Respectfully submitted,

Manju Ganeriwala, Chairwoman
Commonwealth of Virginia Treasury Board

Attachment "A"

Documents are available for review at

The Department of the Treasury

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