

TREASURY BOARD
COMMONWEALTH OF VIRGINIA

September 16, 2015

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

Members Absent: William Harrison, Jr.
Craig Burns
David Von Moll

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| Others Present: | Kristin Reiter | Department of the Treasury |
| | Janet Aylor | Department of the Treasury |
| | Tim Wilhide | Department of the Treasury |
| | Brandy Mikell | Department of the Treasury |
| | Debora Greene | Department of the Treasury |
| | John Ockerman | Department of the Treasury |
| | Brad Jones | Department of the Treasury |
| | Judy Milliron | Department of the Treasury |
| | Tracey Edwards | Department of the Treasury |
| | Kathy Green | Department of the Treasury |
| | David Jonas | Department of the Treasury |
| | Belinda Blanchard | Department of the Treasury |
| | Neil Boege | Department of the Treasury |
| | Michael Walsh | Department of the Treasury |
| | Kevin Larkin | Bank of America |
| | T.C. Wilson | Optimal Service Group |
| | Karen Hawkrigde | Optimal Service Group |
| | Nelson Bush | PFM Group |
| | Patrick Dixon | Wells Fargo |
| | Jim Deitrick | Wilmington Trust |
| | Brian Deveney | Auditor of Public Accounts |
| | Meredith Fraley | Bingham Arbitrage Rebate Services |
| | Kim Hoyt | Bingham Arbitrage Rebate Services |
| | Melvin Wardrop | The PFM Group |
| | Don Ferguson | Office of the Attorney General |
| | Andrew Smock | Merganser Capital Management |
| | Jennifer Wynn | Merganser Capital Management |

Jeffrey Elefante

Merganser Capital Management

Call to Order and Approval of Minutes

Chairwoman Ganeriwala welcomed Board members and called the meeting to order at 9:02 a.m.

Chairwoman Ganeriwala indicated that there was one change to the minutes of the August 19, 2015 meeting. Don Ferguson was not in attendance. Meredith Whitley attended from the Attorney General's office. Chairwoman Ganeriwala asked if there were any additional changes or revisions to the Minutes of the August 19, 2015 meeting; there being none, Chairwoman Ganeriwala asked for a vote of approval. Mr. Densmore moved for approval of the Minutes, Mr. Amin seconded, and the motion carried unanimously.

Public Comment

None

Action Items

None

Board Briefing**Merganser Capital Management Briefing on Performance in the Extended Duration Credit Portfolio**

Andrew Smock, Jennifer Wynn, and Jeffrey Elefante reviewed Merganser Capital Management's recent performance in the Extended Duration Credit Portfolio.

They reminded the Board that Merganser is a high quality fixed income manager who has seen growth in the portfolio. Since mid 2014, there has been a period of widening spreads. Their portfolio is currently overweight in spread products.

Mr. Densmore asked what the percentage of the firm's total assets the Commonwealth's account is comprised of. Ms. Wynn indicated that the Commonwealth's account totals \$250 million of a \$9.2 billion managed portfolio.

Mr. Densmore then asked what the biggest risk to the portfolio is. Ms. Wynn indicated that the potential for spread widening and shocks from outside of the United States economy are probably the biggest two. Mr. Smock then informed the Board that the Commonwealth's portfolio had a higher credit rating than the benchmark itself.

Mr. Amin asked the group if anything would make them change from a very bullish short duration strategy. Ms. Wynn indicated that Merganser was comfortable with the direction of the U.S. economy. She said the short duration causes funds to become available quickly. Mr. Smock told the Board that if corporate earnings diminish or investor demand reduced they would be forced to change their strategy.

Mr. Densmore then asked if there is any exposure to foreign banks. Ms. Wynn replied that there isn't.

Staff Reports

Debt Management

Janet Aylor reviewed the Debt Calendar as of September 8, 2015. She indicated that the VPSA School Tax Credit Bonds may move to November or December. Ms. Aylor also reviewed the leasing reports as of August 31, 2015. New vehicles for the Virginia Department of Emergency Management, Department of Corrections and the Department of General Services were leased through the Master Lease Program this month. There were no transactions in the Energy Lease Program.

Ms. Aylor also reviewed the final financing summary for the Virginia College Building Authority's Educational Revenue Bonds, Series 2015D that was sold in July. The all in TIC (True Interest Cost) was 2.94%.

Security for Public Deposits

Kristin Reiter reviewed the Security for Public Deposits (SPDA) Report for the month ended July 31, 2015. Ms. Reiter reported that no banks were undercollateralized for the month. Valley Bank was acquired by the Bank of North Carolina who has over \$5 billion in assets. Valley Bank had nine branches with \$857 million in assets. Ms. Reiter noted that the IDC ratings have not been updated from what was reported last month. They are still using IDC's 1st quarter final 2015 ratings. EVB Bank has been added to the list of pooled banks ranked below average by IDC. They now have a 100% collateral requirement.

Ms. Reiter informed the Board that letters were sent to two public depositories and three escrow agents informing them of their late reporting. Letters were sent to banks and escrows who had reported late five or more times during fiscal year 2015.

Investments

Tim Wilhide reviewed the SNAP report as of August 31, 2015. The fund's assets were valued at \$3.6 billion, up \$100 million from the month prior. The monthly yield was 18 basis points, the same as the month prior. There were \$191 million in new bond issuances for the month.

Mr. Wilhide also reviewed the Investment reports for the month ended August 31, 2015. The General Account portfolio was \$5.1 billion, \$540 million less than the month prior. The average yield on the Primary Liquidity portion of the General Account was 0.33%, up four basis points from the month prior. Mr. Wilhide explained that the Extended Duration portion of the portfolio had a yield of -0.73% as a result of an increase in interest rates and credit spreads over the last month. This resulted in the composite yield being 0.08% for the month.

Mr. Meija asked where the money went that left the portfolio this month. Mr. Wilhide explained that the car tax rebate to the localities came out during the month. Mr. Meija then asked how often

the money flows out of the account. Mr. Wilhide explained that it was a cyclical nature. Payroll disbursements cause the account to drop 10 to 15% twice a month and the car rebate payments are made in November.

Mr. Wilhide then reviewed the LGIP portfolio. The LGIP portfolio was in compliance for all measures for the month of July. He then presented the LGIP portfolio report to the Board for the month of July. The LGIP portfolio was down \$145 million from the month prior and is valued at \$3.0 billion. The average yield on the portfolio was 20 basis points, up one basis point from the month prior. The average maturity was 37 days, down 12 days from the previous month.

Other Business

None.

Chairwoman Ganeriwala stated the next meeting of the Board would be on October 28, 2015. She then asked for a motion to adjourn at 9:40 a.m. Mr. Densmore moved for adjournment, Mr. Mejia seconded, and the motion carried unanimously.

Respectfully submitted,

Michael R. Tutor, Secretary
Commonwealth of Virginia Treasury Board