

TREASURY BOARD
COMMONWEALTH OF VIRGINIA
November 18, 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
Craig Burns
Douglas Densmore
Lou Mejia
David Von Moll

Members Absent: William Harrison, Jr.

Others Present:	Kristin Reiter	Department of the Treasury
	Janet Aylor	Department of the Treasury
	Tim Wilhide	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
	James Mahone	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
	Sandra Stanley	Department of the Treasury
	Jay Mahone	Department of the Treasury
	Michael Walsh	Department of the Treasury
	Neil Boege	Department of the Treasury
	Nelson Bush	PFM Group
	Bill Zuk	J.P. Morgan
	Brian Deveney	Auditor of Public Accounts
	Brian Moore	Optimal Service Group
	T.C. Wilson	Optimal Service Group
	Karen Hawkrigde	Optimal Service Group
	James Johnson	Optimal Service Group
	Patrick Dixon	Wells Fargo
	Christine McIntyre	Wells Fargo
	Mark Burns	Wells Fargo
	Kevin Larkin	Bank of America
	Ty Wellford	Davenport

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 asked if there were any changes or revisions to the Minutes of the October 28, 2015 meeting; there being none, Chairwoman Ganeriwala asked for a vote of approval. Mr. Amin moved for approval of the Minutes, Mr. Burns seconded, and the motion carried unanimously.

Public Comment

None

Action Items

Motion to Procure a Line of Credit for the Master Equipment Leasing Program

Janet Aylor reviewed the Motion to procure a line of credit for the Master Equipment Leasing Program. She reminded the Board of the approval they gave in December 2014 to extend the contract for one year. There are no extensions left, so the Treasurer needs to issue an RFP and award a new contract.

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

Board Briefing

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

T.C. Wilson, Brian Moore, and Karen Hawkrigde briefed the Board on the General Account External Managers' investment performance for the 3rd quarter of 2015 and the Quarterly Investment Manager Performance of TICR Endowment for taxable and tax-exempt portfolios for the 3rd quarter of 2015.

Mr. Moore then briefed the Board on the General Account extended duration portfolios. The portfolio was valued at \$1.2 billion and had earned income of \$7.8 million. The portfolio was up 1.00% in the 3rd quarter matching the benchmark net of fees.

Mr. Amin asked why the intermediate duration trailed the benchmark for all time periods. Mr. Moore indicated that it was because the portfolio was underweight treasuries. The managers are expecting interest rates to rise and are being penalized for that. The managers are also underweight Triple B securities.

Mr. Densmore asked why Wellington seemed to be a drag on the portfolio. Mr. Wilhide explained that they have been put on notice by Treasury. They had indicated when internal metrics fell, they

would change their strategy. He also informed the Board that Wellington's performance was fine until last year.

Ms. Hawkrige then briefed the Board on the TICR tax exempt and TICR taxable portfolios. The TICR taxable portfolio was valued at \$268 million and had a \$2.6 million unrealized gain. The portfolio return in the 3rd quarter was ninety basis points net of fees, slightly trailing the benchmark. The TICR tax exempt portfolio was valued at \$191.9 million and had \$2.7 million of unrealized gains. The 3rd quarter return net of fees was 1.4%, equaling the benchmark.

Staff Reports

Debt Management

Janet Aylor reviewed the Debt Calendar as of November 9, 2015. She informed the Board of the VCBA sale last week issuing \$53.2 million of new money bonds and \$154 million in refunding bonds. The closing will be on December 3. Ms. Aylor also reviewed the leasing reports as of October 31, 2015. New vehicles for the Department of General Services and the Virginia State Police were leased through the Master Lease Program this month. There were no transactions in the Energy Lease Program.

Security for Public Deposits

Kristin Reiter reviewed the Security for Public Deposits (SPDA) Report for the month ended September 30, 2015. Ms. Reiter reported that no banks were undercollateralized for the month. Ms. Reiter noted that the IDC ratings have been updated from what was reported last month using IDC's 2nd quarter final 2015 ratings. She informed the Board of the three opt-out banks no longer ranking below average that have been removed from the list; Oak View National bank, TriSummit bank, and Virginia Community bank. In addition, Virginia Partners bank has been added to the list of pooled banks ranked below average by IDC.

Ms. Reiter then summarized quarterly statistical data for the Board. As of September 30, 2015, 111 public depositories held public deposits net of FDIC of \$7.8 billion. \$7.1 billion (74%) of the deposits were held by 37 opt-out banks; \$1.8 billion (26%) were held by 74 pooled depositories. The state's four largest public depositories held 62% of public deposits net of FDIC.

Ms. Reiter informed the Board that there were no significant changes in balances, or in securities pledged as collateral during the last quarter. In November, banks are able to make a change in collateral from opt-out to pooled. At this time, the Bank of Hampton, Cardinal bank and Old Point National Bank have indicated their desire to change.

Chairwoman Ganeriwala asked if there were any restrictions on the changes. Ms. Reiter indicated that banks had to be rated above average in the IDC ratings for two consecutive quarters.

Investments

Tim Wilhide informed the Board that Treasury is thinking about converting the SNAP program into an LGIP (Local Government Investment Pool) style fund next year in response to the SEC's regulations regarding Money Market Funds. Since the SNAP portfolio is now an SEC regulated Money Market Fund it will be required to adopt these changes. The changes include daily mark to market and possible imposition of gates and fees under some circumstances that would impact the program.

PFM and members of the SNAP program are concerned and have approached Treasury with recommendations to change the program. They want to be able to withdraw what they have invested when they want and, most importantly, cannot risk withdrawing less than the amount invested, a situation which could occur if daily valuation caused the portfolio to fall below its expected \$1 per share value. The best alternative is to convert the SNAP portfolio to a Local Government Investment Pool style vehicle. SNAP was originally created as an LGIP portfolio. LGIPs will be regulated by GASB in the future and GASB has publicly indicated that its regulations will be exactly the same as the SEC's with respect to risk management with the exception of daily valuation and gates and fees. GASB has stated it will make a final decision at its Board meeting in December.

Changes adopted by the SEC will not be implemented until October 2016, so it allows time to make a change to LGIP form if the Board approves moving ahead with the project. The change in portfolio status will be transparent to SNAP participants.

Mr. Densmore asked if SNAP would be less likely to have a run with an LGIP. Mr. Wilhide replied that GASB said they didn't think that either of these two regulations would help if there was a run.

Mr. Von Moll asked if there was a downside to making the change. Mr. Wilhide said there was none that he is aware of.

Mr. Densmore then asked what the rationale was behind the new gates feature. Mr. Wilhide said that the government did not want to have to get involved again. The thought was that it would allow the markets to settle down over time with a cooling period in place.

Mr. Amin asked if there would be an additional liability or responsibility to the Board. Don Ferguson said there would be no practical difference as the Board has oversight over the fund now.

The Board agreed to allow Treasury to inform both PFM and SNAP participants that Treasury is contemplating this change.

Mr. Wilhide then reviewed the SNAP report as of October 31, 2015. The fund's assets were valued at \$3.2 billion, \$270 million less than the month prior. The monthly yield was 22 basis points, up two basis points from the month prior. There were \$123 million in new bond issuances for the month.

Mr. Wilhide also reviewed the Investment reports for the month ended October 31, 2015. The General Account portfolio was \$5.5 billion, up \$192 million from the month prior. The average yield on the Primary Liquidity portion of the General Account was .36%, up two basis points from the month prior. Mr. Wilhide explained that the Extended Duration portion of the portfolio had a

negative yield of .73% as a result of rising rates in the market. This resulted in the composite yield being .12% for the month.

Mr. Wilhide then reviewed the LGIP portfolio. The LGIP portfolio was in compliance for all measures for the month of October. The LGIP portfolio was down \$166 million from the month prior and is valued at \$2.8 billion. The average yield on the portfolio was 22 basis points, up one basis point from the month prior. The average maturity was 37 days, up five days from the previous month.

Other Business

Financial Disclosure Statements

Bill Watt informed the Board that their Financial Disclosure Statements were due to the Ethics Council on December 16. This is a change from prior years, as they used to be due to the Secretary of the Commonwealth in January.

Chairwoman Ganeriwala stated the next meeting of the Board would be on December 18, 2015. She then asked for a motion to adjourn at 10:05 a.m. Mr. Von Moll moved for adjournment, Mr. Mejia seconded, and the motion carried unanimously.

Respectfully submitted,



Michael R. Tutor, Secretary
Commonwealth of Virginia Treasury Board

