

TREASURY BOARD
COMMONWEALTH OF VIRGINIA

January 18, 2023

9:00 a.m.

Treasury Board Room
James Monroe Building
101 N. 14th Street, 3rd Floor
Richmond, Virginia

Members Present: David L. Richardson, Chairman
Randy McCabe
Craig Burns
James Carney
Neil Amin
Charles King
Dr. Joshua Weed

Meeting Guests:	Don Ferguson	Office of the Attorney General
	John Markowitz	Office of the Governor
	Scott Fleming	PFM Asset Management LLC
	Leslie English	Department of the Treasury
	Brad Jones	Department of the Treasury
	Stuart Williams	Department of the Treasury
	Jay Mahone	Department of the Treasury
	David Swynford	Department of the Treasury
	Brian Parker	Department of the Treasury
	Neil Boege	Department of the Treasury
	Kristin Reiter	Department of the Treasury
	Mark Burns	Wells Fargo
	Bryce Lee	Optimal Service Group
	Karen Logan	Optimal Service Group
	Jeff Rakes	Optimal Service Group
	Kevin Larkin	Bank of America
	Ty Wellford	Davenport
	Janice Wolk Grenadier	Public
	Judith Fain	Public
	Jason Law	Wellington Management Company LLC
	Joseph Marvan	Wellington Management Company LLC
	Anand Dharan	Wellington Management Company LLC

Call to Order and Approval of Minutes

Chairman Richardson welcomed the Board members and called the meeting to order at 9:00 a.m.

Chairman Richardson asked if there were any changes or revisions to the minutes of the November 16, 2022 meeting. The Board Secretary noted three attendees at the November meeting were excluded in the meeting minutes. The additional meeting guests are as follows: Neil Boege and Kristin Reiter of the Department of Treasury and Stephanie Notowich of Dodge & Cox. Chairman Richardson asked for a vote of approval of the amended minutes. Charles King moved for approval, Dr. Joshua Weed seconded, and the motion carried unanimously.

Public Comment

Chairman Richardson called for any public comments. The following citizen addressed the Board:

Janice Grenadier commented on the Virginia Judiciary System.

Chairman Richardson mentioned this Board meeting is a little different than normal. This meeting will focus on cash management arrangements with outside investment managers, strategies concerning investments and the amount of funds being invested.

Board Briefings

Presentation by EDCP (intermediate duration portfolio) money manager, Wellington, as of December 31, 2022

Stuart Williams introduced the Wellington Management Company LLP (“Wellington”) team. Joe Marvin, Lead Portfolio Manager and Chair, U.S. Broad Market FI Team, Anand Dharan, Investment Director and Jason Law, Relationship Manager.

Wellington presented the Board with an overview of Wellington’s portfolios and platform of investments, the 2022 performance and their outlook on inflation, rates, the economy and the impact to the portfolio.

James Carney inquired regarding fixed income and structured products such as convertible debt. Discussion ensued.

Dr. Joshua Weed inquired regarding gross returns and how much the returns were off from the benchmark. Mr. Dharan responded with 6 to 7 basis points.

Mr. Marvan continued the presentation discussing the outlook of the first quarter of 2023 in the US market. He discussed yield curve rates, corporate spreads and the bond market. A debt limit discussion and topic of potential default ensued. Mr. Marvin continued conversation about credit quality of BBB rated companies.

James Carney inquired regarding the differentiation between the issuer of credit rating BBB vs a security rating of BBB in a structured financing deal. Discussion ensued.

John Markowitz questioned what happens to a BBB corporate if the economy goes into a hard landing. Discussion ensued.

Optimal Services Group of Wells Fargo Advisors briefing to expand the allowable limit of BBB-rated securities for EDCP managers to eliminate the handicap imposed by the benchmark

Bryce Lee and Karen Logan briefed the Board on the Extended Duration and Credit Portfolio policy language and expansion of the BBB language in the General Account Investment Policy Statement. Mr. Lee gave some background on potential changes to the General Account Investment Guidelines. He mentioned Optimal is constantly looking for opportunities, trends within the marketplace, surveying the managers that would make the portfolio more suited in today's environment. Karen Logan discussed the three (3) blended benchmarks and the exposure to BBB by market capitalization. Mr. Lee presented an overview of the global corporate default rates for every category of fixed income, rating category and BBB-rated category. While default rates for BBB-rated securities were higher than A-rated securities, they remain low when looking at historical data.

Neil Amin inquired regarding the default rates on securities rated BBB. Discussion ensued.

Mr. Lee addressed the gradual increase in BBB-rated securities within the broad Bloomberg US Aggregate, one of the largest fixed income generic benchmarks. David Swynford inquired regarding the gradual increase in BBB ratings from 6% to 15%.

Deputy Secretary John Markowitz commented and gave his support with the Secretary of Finance of the change for the longer-term investment policy which is more consistent with the index. He also stated that the Deputy Secretary and Secretary of Finance would like to work with Optimal and the Treasury staff to understand the capital needs and timing to fund BBB investments given the broader economic outlook.

Action Items

Motion to Approve changes to the General Account Investment Guidelines

Stuart Williams presented revisions to the General Account Investment Guidelines including the markups and other administrative edits to the policies and goals. The primary change to the guidelines would permit external investment managers to invest up to 15% of their portfolios in BBB-rated corporate bonds.

James Carney inquired regarding whether the policy should state that the outlook for any of these rating categories must be positive or stable. Discussion ensued.

Chairman Richardson asked for a motion to approve the amended General Account Investment Guidelines Statement of Investment policies and goals to update language regarding "BBB" investments within the Extended Duration and Credit Portfolio and other administrative edits.

James Carney moved the Motion be approved. Randy McCabe seconded; the Motion carried unanimously.

Motion to Approve Electronic Meeting Policy

Sr. Assistant Attorney General Don Ferguson presented the Treasury Board Policy Governing Electronic Participation in meetings. Attorney Ferguson discussed the policy purpose, circumstances when electronic meetings are permitted during a state of emergency and virtual meetings without a state of emergency. He further discussed the circumstances when remote participation is permitted and procedural requirements. Discussion ensued.

Chairman Richardson encouraged in person meetings and ask for a motion to approve the electronic meeting policy. Craig Burns moved to approve the motion. Randy McCabe seconded; the Motion carried unanimously.

Staff Reports

Debt

Bradley Jones reviewed the Debt Calendar as of January 1, 2023 and the leasing reports as of December 31, 2022. Mr. Jones noted that the Virginia College Building Authority's (VCBA) Pooled Bond Program had a competitive sale scheduled for that morning. Mr. Jones noted that although the Debt Calendar shows a Virginia Port Authority (VPA) sale in early March, this sale might be delayed and instead of it coming before the Treasury Board in February that it might be considered at the March meeting. He also noted that the Virginia Public School Authority's (VPSA) annual note sale is tentatively scheduled for May 9th and he anticipates it will come before the Treasury Board in April. The VCBA is currently also planning for a sale in May of its 21st Century Bonds that will likely come before the Treasury Board for consideration at the April meeting. It was noted that the Master Equipment Lease Program had \$8.3 million of new requests during the prior month and \$3.3 million was disbursed that month. This left the outstanding requests at \$13.1 million and with \$4.7 million total having been disbursed on the line of credit the available balance ended the month at \$35.3 million. He noted there was no activity to report for the Virginia Energy Lease Program.

Investments

Neil Boege provided a summary of the investment portfolios and commented on the market. The Primary Liquidity portfolio operating cash account assets declined, generally in line with seasonal trends, while the LGIP portfolio assets increased, primarily due to property tax receipts, also in line with seasonal trends. In the internally managed portfolios, investing levels are over 4.5% yield out to 6 months-to-maturity and over 5.0% for longer duration opportunities in the 6-months to 1-year space. Recent domestic economic data releases have been marginally positive, with signs that the Fed is making progress bringing inflation under control and increasing views suggesting the US economy may avoid a hard landing.

The Primary Liquidity yield was up 29 basis points from the prior month, underperforming the benchmark slightly but still exceeding the benchmark year-to-date. Although not currently meeting the 10 basis points benchmark outperformance standard of performance, fund performance should catch up in the coming months as the Fed reduces its pace of rate hikes. The yield of the externally managed, longer duration portfolio ('EDCP') continued to increase and is approaching 5%. The composite yield to maturity is 3.66% for the month, 25 basis points higher than in November.

Mr. Boege then reviewed the LGIP portfolios. Both the LGIP and LGIP Extended Maturity (EM) portfolios were in compliance with standards and guidelines for the month of December. Yields on both funds increased during the month.

Security for Public Deposits

Kristin Reiter reviewed the Security for Public Deposits Act Report (SPDA) for the month ending November 30, 2022. No depositories were under-collateralized for the month of November. Old Dominion National Bank headquartered in Tysons Corner became a new qualified public depository in November. There were no changes in IDC ratings from what was reported last month; IDC 3rd quarter ratings are still being used. No banks are currently ranked below average. One pooled bank is still required to pledge 100% collateral due to a prior below average rating. The final phase of amending the SPDA regulations is underway. Obtaining approvals from the Attorney General's Office, Office of the Secretary of Finance and the Governor's Office is first required during this final phase. We have received the approval of the Attorney General's Office. The amended Regulations are now with the Department of Planning and Budget for review. Ms. Reiter also noted that November is the open election period where banks can change their collateral method for the next calendar year. Chesapeake Bank and Trustar Bank requested a change in their collateral methods. Effective January 2023, Chesapeake Bank will become a pooled bank and Trustar Bank will become an opt-out bank.

Other Business

Chairman Richardson informed the Board that the Department of Treasury has two proposed bills before the General Assembly, namely Senate Bill 1094 (Senator Tommy Norman) and HB 1912 (Delegate Amanda Batten) with regard to non-Tier-3 universities.

The meeting adjourned at 10:40 a.m.

Respectfully submitted,

Yvonne Scruggs, Secretary
Commonwealth of Virginia Treasury Board