

TREASURY BOARD
COMMONWEALTH OF VIRGINIA

July 15, 2009

9:00 a.m.

TREASURY BOARD CONFERENCE ROOM

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

Members Present: Manju Ganeriwala, Chairwoman
K. David Boyer, Jr.
Douglas W. Densmore
Robert C. Goodman, Jr.
David A. Von Moll
Janie E. Bowen
Dr. Kenneth N. Daniels

Members Absent: None

Others Present: Janet Aylor Department of the Treasury
Judy Milliron Department of the Treasury
Harold Moore Department of the Treasury
Tracey Edwards Department of the Treasury
Karen Roth Department of the Treasury
Thelma Ingle Department of the Treasury
Webb McArthur Department of the Treasury
Sharon Price Department of the Treasury
Sherwanda Cawthorn Department of the Treasury
Leslie English Department of the Treasury
Belinda Blanchard Department of the Treasury
Howard Kaplan Department of the Treasury
Debora Greene Department of the Treasury
Margaret Layne Department of the Treasury
Kristin Reiter Department of the Treasury
Connie Vaughan Department of the Treasury
Evie Whitley Department of the Treasury
Robert Young Department of the Treasury
Timothy Wilhide Department of the Treasury
Brandy Mikell Auditor of Public Accounts
Latoya Scott Auditor of Public Accounts
Nelson Bush PFM Asset Management, LLC
Bruce Whitehurst Virginia Bankers Association
Jay Spruill Virginia Bankers Association
Pat Satterfield Virginia Association of Community Banks
Richard Grattan Wachovia Securities

Bryce Lee	Wells Fargo Advisors
Joe Montgomery	Wells Fargo Advisors
Brian Moore	Wells Fargo Advisors
T. C. Wilson	Wells Fargo Advisors

Call to Order and Approval of Minutes

Chairwoman Ganeriwala welcomed Board members and called the meeting to order at 9:02 a.m. She asked if there were any additions or revisions to the minutes of the June 17, 2009 meeting. Mr. Densmore stated that, in the listing of attendees for the meeting, the affiliation for Pat Satterfield should be Virginia Association of Community Banks and not Virginia Association of Counties. Mr. Boyer moved the approval of the minutes as amended, Mr. Von Moll seconded, and the motion carried unanimously.

Public Comment

None

Agenda Items

None

Presentation — T. C. Wilson, Optimal Services Group of Wells Fargo Advisors, Account Portfolio for Fiscal Year Ending June 30, 2009

Mr. Wilson distributed a presentation evaluating the total return for the investment pool for the period ending June 30, 2009 (Attachment A). He reviewed the report stating a strong recovery of investment earnings had occurred compared to fiscal year 2008 due to programs implemented by the Federal Administration. Mr. Wilson stated, at fiscal year end, the pool had exceeded its benchmarks by 2.3%.

Mr. Wilson reviewed the performance of each manager and noted Income Research & Management had performed exceptionally well for the year. Mr. Densmore asked if there were any concerns regarding any firm on the management team. Mr. Wilson stated that Dwight Asset Management was one they were monitoring closely for performance. Chairwoman Ganeriwala asked what the specific concerns were and Mr. Wilson stated Dwight Asset Management had selected some securities that did not perform well. Dr. Daniels asked if Mr. Wilson could prepare an analysis by manager and Mr. Wilson responded that they were working on one and would present it to the Board.

Mr. Wilson distributed a handout reflecting the outlook for performance of the pool (Attachment B) and stated the current fiscal year should have a much stronger performance.

Dr. Daniels asked if it was possible to change investments quickly should the market decline more sharply. Mr. Young stated the pool consisted of a diverse mixture of investments and noted only 25% of the pool is managed outside of Treasury. Dr. Daniels asked if it would be

more prudent to manage all investments in-house. Mr. Young stated, if that were to occur, Treasury would lose the advantage of using outside managers for longer duration investments over the five-year market cycle. Mr. Goodman asked what the net five-year performance of the external managers was and Mr. Wilson stated 4.2%. Ms. Layne noted that the net year performance of in-house investments was 2.8%.

Mr. Von Moll asked what the outlook for downgrades was. Mr. Wilson stated it was much improved.

Update on Development of SPDA Opt-Out Guidelines

Chairwoman Ganeriwala stated that, in the process of drafting the SPDA Opt-Out guidelines, staff had participated in several meetings and conference calls with the local banking community as well as with local government officials to receive their input. She stated it was necessary that the guidelines reflect a balance between protecting the public depositors while providing affordability and simplicity of compliance for the banks involved.

Ms. Reiter distributed and reviewed a revised draft of staff's recommendation in forming guidelines to permit banks to withdraw from the pooling procedures for payment of losses (Attachment C).

Dr. Daniels suggested that the penalty for undercollateralization survive a merger or acquisition, even if it was the non-surviving entity.

Mr. Densmore stated he was uncertain that the current IDC ranking was the best benchmark to use to monitor bank performance. He also stated that staff should explore criteria for determining when or if a bank can reenter the pool. Chairwoman Ganeriwala stated that possibly the bank's performance be analyzed before they would be allowed to reenter the program. Mr. Goodman suggested allowing banks to reenter, but keep collateral requirements the same for three reporting months.

Mr. Goodman stated he felt the percentage of coverage for municipal investments should be based upon a worst case market scenario. He distributed and explained his "Black Swan" theory as it related to coverage (Attachment D). He stated he thought haircuts should be deeper to protect the public depositors during bad market conditions. Chairwoman Ganeriwala stated that, if requirements were too strict, banks would no longer be able to accept public deposits and Mr. Von Moll concurred. Mr. Wilhide stated that he thought requiring a more frequent mark-to-market would address this issue.

It was suggested that the Treasury Board not change requirements for banks remaining in the pool if those banks accept the risk in the pool. Mr. Boyer asked if staff could take the issues raised by the Board back to the banking community to get feedback prior to a formal decision being made on the guidelines. Chairwoman Ganeriwala stated they could. It was the general consensus of the Board to gather more input and bring the consideration of the guidelines back when completed.

Mr. Densmore asked that staff explore rating agencies other than IDC. Dr. Daniels asked that a change be made to the draft guidelines by changing 115% coverage for banks ranked 75-124 to 120% and the 125% coverage for banks rated 74 or below to 130%. Mr. Goodman asked that section D. Penalty for Undercollateralization be renamed to read Consequences of Undercollateralization. Mr. Goodman did not like allowing banks to appeal collateral requirement decisions or penalty decisions by staff. He suggested the penalty for undercollateralization be the same percentage that the bank is undercollateralized and possibly extend for a year.

Mr. Boyer departed the meeting at 10:54 a.m.

Staff Reports:

Debt Management

Ms. Whitley reviewed the Debt Calendar as of July 6, 2009, and the MELP and VELP reports as of June 30, 2009. She stated that an IFB had been issued in March for VELP and there were no appropriate candidates so an RFP was ultimately issued and two firms were chosen for the program. Mr. Von Moll asked if any projects were being considered under the program and Ms. Whitley stated that George Mason University had submitted an application and she knew of other agencies that were in the process of requesting financing.

She reviewed the final financing summary for the Virginia Public School Authority Educational Technology Notes Series IX and stated the true interest cost was 1.599627% versus the estimated 2.01%.

Security for Public Deposits

Ms. Reiter reviewed the Security for Public Deposits report for the month ending May 31, 2009. She indicated that First Community Bank of Bluefield was undercollateralized and had pledged additional collateral. She stated this was the second time in the last twelve months that the bank was undercollateralized.

Ms. Reiter stated RBC Bank (USA) had been added to the listing of banking institutions ranked below average by IDC.

State Non-Arbitrage Program (SNAP)

Mr. Wilhide reviewed the SNAP report for the month ending June 30, 2009. Nelson Bush from PFM reviewed the overview of Build America Bonds which was a program resulting from the American Recovery and Reinvestment Act of 2009. Chairwoman Ganeriwala asked which institution was the first to finance under this program and Mr. Bush answered University of Virginia.

Investments

Mr. Wilhide reviewed the Investment Report for July 2009. He noted that payroll data had declined significantly due to unprecedented job losses.

Other Business:

Chairwoman Ganeriwala stated that the scheduled Board meeting for August 19, 2009 conflicted with the Governor's address to the joint money committees at which all ex-officio members of the Board had to attend. She asked if the Board meeting could be re-scheduled for Tuesday August 18th. The majority of the members agreed with the date change. She asked if there was any further business to come before the Board. There being none, the Chairwoman asked for a motion to adjourn. Mr. Goodman moved for adjournment at 11:12 a.m.; Dr. Daniels seconded, and the motion carried unanimously.

Respectfully submitted,

Manju Ganeriwala, Chairwoman
Commonwealth of Virginia Treasury Board