TREASURY BOARD
COMMONWEALTH OF VIRGINIA
February 20, 2013
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	
	David Von Moll	
	Thomas N. Chewning	
	William W. Harrison, Jr.	
Members Absent:	Craig Burns	
	Shaza Andersen	
	K. David Boyer	
Others Present:	Kristin Reiter	Department of the Treasury
	Robert Young	Department of the Treasury
	Evie Whitley	Department of the Treasury
	Tim Wilhide	Department of the Treasury
	Michael Tutor	Department of the Treasury
	Janet Aylor	Department of the Treasury
	Sherwanda Cawthorn	Department of the Treasury
	Debora Greene	Department of the Treasury
	Kathy Green	Department of the Treasury
	Tracey Edwards	Department of the Treasury
	Glenn Dellinger	Department of the Treasury
	Judy Milliron	Department of the Treasury
	Belinda Blanchard	Department of the Treasury
	Patrick Dixon	Wells Fargo
	Lesley Murphy	PFM Asset Management
	Nelson Bush	PFM Asset Management
	Kevin Larketn	Bank of America
	Vasyl Zuk	J.P. Morgan Chase
	Ralph Addai	Auditor of Public Accounts
	Karen Hawkridge	The Optimal Service Group
	T.C. Wilson	The Optimal Service Group
	Brian Moore	The Optimal Service Group
	Corey Williams	Capital One

Call to Order and Approval of Minutes

Chairwoman Ganeriwala welcomed Board members and called the meeting to order at 9:04 a.m.

Chairwoman Ganeriwala asked if there were any changes or revisions to the Minutes of the January 16, 2013 meeting; there being none, Chairwoman Ganeriwala asked for a vote of approval. Mr. Von Moll moved the approval of the Minutes, Mr. Chewning seconded, and the motion carried unanimously.

Public Comment

None

Action Items

None

Board Briefing

Optimal Service Group of Wells Fargo Advisors review of the General Account External Managers' Investment Performance for the 4th Quarter of 2012 and the Quarterly Investment Manager Performance of TICR Endowment for Taxable and Tax-exempt Portfolios.

T.C. Wilson, Brian Moore, and Karen Hawkridge briefed the Board on the General Account External Manager's Investment performance for the 4th Quarter of 2012 and the Quarterly Investment Manager Performance of TICR Endowment for taxable and tax-exempt portfolios.

Mr. Wilson informed the Board that the Fixed Income market was still struggling and yields are still very low. Mr. Moore indicated that the growth in the fourth quarter was -.1%. The good news regarding the economy was that 3rd quarter GDP was revised to show there was 3.1% growth. One reason for the slight turndown in the economy was a decline in inventory investment and government spending. The unemployment rate rose slightly, to 7.9% in January with 157,000 jobs added during the month. The manufacturing ISM index has recently shown readings above 50%, which shows expansion. There are no new Quantitative Easing Strategies from the Federal Reserve and Operation Twist has ended.

Ms. Hawkridge reviewed the non-taxable portion of the TICR portfolio. The total fund earned .3%, just below the benchmark year to date. Blackrock slightly underperformed the benchmark for the quarter and Income Research and Management also slightly underperformed. Income Research Management is increasing its A-rated securities to bring portfolio closer to their benchmark.

Ms. Hawkridge also reviewed the taxable portion of the TICR portfolio. The total fund earned. .3%, beating its benchmark. The calendar 2012 return was is 4.1% net of fees outperforming its benchmark by 1.40% Dodge and Cox added significant value year-to-date.

The General Account External Manager's investment performance was reviewed by Ms. Hawkridge. The total portfolio was 1% over the benchmark net of fees for calendar 2012. Goldman Sachs was below their benchmark for the quarter, but has gained 4.4% for the year, which is ahead of its benchmark. Dodge and Cox has done well with the financials in the corporate sector to earn 7.6%.

Mr. Chewning asked the Board what had happened with Dodge and Cox as there was discussion a few months back of their poor performance. Tim Wilhide responded saying their aggressive approach to portfolio strategy led to large swings in return volatility. The Optimal Services Group discussed this with them in the context of Treasury's return expectations as contained in the investment guidelines and Dodge and Cox indicated that they would be sensitive to this.. Tim had informed them of Treasury's desire for them to consistently beat their benchmark without the wild swings in volatility that they had shown in prior months. Mr. Wilson also noted that switching Dodge and Cox to the intermediate duration bucket had also been discussed.

Mr. Moore informed the Board that the duration of the portfolio is 3.75, which means a one percent increase in interest rates would equate to a 3.75% loss for the portfolio. It was also mentioned that negotiations with Goldman Sachs were successful in lowering their yearly fee, saving about $10,000 per year.

Ms. Hawkridge informed the Board that the TICR Tax exempt portfolio came in flat, earning just more than its benchmark. The TICR taxable portfolio showed negative returns due to the equity market rally. Mr. Moore indicated that the concern right now is inflation in the long term. Projected inflation should be fine for the next 15-18 months. The velocity of money right now is the lowest it has been in 50 years, which is consistent with very modest inflation.

Chairwoman Ganeriwala asked what could be done if interest rates do rise. Mr. Wilhide responded that recently, $100 million was brought back in to bring the split more in line with the 75/25% which shortened the duration of the portfolio. He also suggested discussing whether or not to shorten the duration of the larger external managers. If Dodge and Cox were brought in, the duration of the portfolio will drop from 3.75 to just under 3.5. He indicated that Treasury could be more aggressive with a sharp rise in interest rates, and is monitoring the average yield to average duration ratio.

Staff Reports

Debt Management

Evie Whitley reviewed the Debt Calendar as of February 4, 2013. She indicated that there were a couple of debt issuances from the VHDA and VPSA coming before the Board this spring. She also reviewed the final financing summary for the recent sale of General Obligation Bonds, Series 2013. The bonds were priced on February 13 and will close on March 6. The True Interest Cost of the bonds was 2.096% and was awarded to Bank of America/Merrill Lynch. The present value savings on the refunding was $15.9 million. $8.9 million benefits the Commonwealth's General Fund and $7 million will reduce the costs to the Higher Education Institutions. Ms. Whitley indicated that the savings were a little less than anticipated due to the fact that one series of bonds was dropped from the refunding pool because it looked less advantageous at the time of the sale.

Ms. Whitley reviewed the final financing summary for the recent sale of Virginia Public Building Authority, Series 2013A and 2013B bonds. The bonds were priced on February 7 and will close on February 21. The True Interest Cost of the bonds was 2.43% and was awarded to Citigroup Global Markets. The present value savings on the refunding was $6.578 million. All of the savings will benefit the Commonwealth's General Fund. Due to the upfront structure of the bonds, there will be a huge savings in the 2014 debt service by about 13 million.

Ms. Whitley also reviewed the leasing reports as of January 31, 2013 and updated the board on the energy refinancing that has been ongoing. There will be a huge present value savings. All of the refinancing were done with level savings, so these savings will be seen every year. There are 5 leases left to refinance.

Security for Public Deposits

Ms. Reiter reviewed the Security for Public Deposits (SPDA) Report for the month ended December 31, 2012. She informed the Board that two banks were undercollateralized for the month: First Century Bank of Bluefield, West Virginia and Miners Exchange Bank of Coeburn, Virginia. Both banks have pledged additional collateral.

Ms. Reiter reviewed the current listing of banks ranked below average by IDC and indicated that the listing had been updated using IDC Final 3rd quarter 2012 ratings. Using the updated ratings, Miners Exchange

Bank, a pooled bank, is now listed as below average. Three pooled banks were dropped from the below average listing: Oak View National Bank of Warrenton, River Community Bank of Martinsville, and Virginia Community Bank of Louisa. There was no change in ratings for the opt-out banks ranked below average.

Ms. Reiter informed the Board that Alliance Bank was acquired by WashingtonFirst Bank in December.

Ms. Reiter summarized quarterly statistical data for the Board. At December 31, 2012, 115 public depositories held public deposits net of FDIC of $5.2 billion. $3.4 billion (66%) of the deposits were held by 39 opt-out banks; $1.8 billion (34%) were held by 76 pooled depositories. The state's four largest public depositories held 51% of public deposits net of FDIC.

Ms. Reiter informed the Board that the Transaction Account Guarantee Program (TAG) expired at the end of 2012. The market values of pledged collateral jumped significantly in December with the additional collateral pledged by depositories to collateralize public deposits previously secured under the TAG Program. The market value of collateral pledged by opt-out banks increased from $3.4 billion in September to $6.5 billion in December. She informed the Board that the only significant change in the types of collateral pledged between September 2012 and December 2012 was caused by one of the largest depositories switching from the pledging of a FHLB letter of credit to mortgage-back securities. There has been no significant change in the percentage of public deposits held by in-state and out-of-state depositories in the last quarter.

Chairwoman Ganeriwala asked why Premium bank was listed as reporting late 7 times. Ms. Reiter and Treasury employee Kathy Green responded that this should drop off of the list soon as these occurrences happened a while ago.

SNAP Program

Nelson Bush informed the board that yields are not getting higher.. The tax cash flows were up a bit, helping the portfolio. He informed the board that the weighted average of maturity is close to the limit due to current interest rates. More credit securities have been added to the portfolio bringing the percentage of credit to 70%. There were no SNAP deposits in January, which is usually a slow month.

Nelson Bush reviewed the annual SNAP program client survey. They received 70 responses out of 700. Participants of the survey indicated that they like the arbitrage rebate compliance services.

Investments

Mr. Wilhide reviewed the Investment reports for the month ended January 31, 2013. The General Account portfolio was $5.08 billion, up $677 million from the month prior. The average yield on the General Account was 28 basis points, down 3 basis points from the prior month as higher yielding, longer maturities fell off. The annualized total return from the External Management Extended Duration portfolio was – 4.01%. He also presented the LGIP portfolio report to the Board for the month of January. The LGIP portfolio was up to $3.1 billion. The average yield on the portfolio was 19 basis points, down 3 basis points from the prior month. The average maturity decreased to 47 days.

Other Business

None.

Chairwoman Ganeriwala stated the next meeting of the Board would be on March 27, 2013. She asked if there was any further business to come before the Board. There being none, Mr. Chewning moved the meeting be adjourned at 10:06 a.m.; Mr. Harrison seconded, and the motion carried unanimously.

Respectfully submitted,

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Manju S. Ganeriwala, Chairwoman
Commonwealth of Virginia Treasury Board