

TREASURY BOARD
COMMONWEALTH OF VIRGINIA

July 16, 2014
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
David Von Moll
K. David Boyer

Members Absent: William W. Harrison, Jr.

Others Present:

Craig Robinson	PFM Asset Management
Karen Hawkrigde	Optimal Service Group
T. C. Wilson	Optimal Service Group
Ron Tillet	Raymond James
Bill Zuk	J P Morgan
Patrick Dixon	Wells Fargo
Reid Andrews	Wells Fargo
Don Ferguson	Office of the Attorney General
Kristy Scott	Auditor of Public Accounts
Belinda Blanchard	Department of the Treasury
Sherwanda Cawthorn	Department of the Treasury
Tracey Edwards	Department of the Treasury
Debora Greene	Department of the Treasury
Kathy Green	Department of the Treasury
Deidre Jett	Department of the Treasury
Ben Jarvela	Department of the Treasury
Brandy Mikell	Department of the Treasury
Harold Moore	Department of the Treasury
John Ockerman	Department of the Treasury
Kristin Reiter	Department of the Treasury
Michael Walsh	Department of the Treasury
Bill Watt	Department of the Treasury
Evie Whitley	Department of the Treasury
Tim Wilhide	Department of the Treasury
Robert Young	Department of the Treasury

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 June 18, 2014 meeting; there being none, Chairwoman Ganeriwala asked for a vote of approval. Mr. Boyer moved for approval of the Minutes, Mr. Amin seconded, and the motion carried unanimously.

Public Comment

None

Action Items

Resolution in Recognition and Appreciation of Thirty–Three Years of Service by Robert S. Young

Chairwoman Ganeriwala reviewed the Resolution of Recognition and Appreciation for Robert Young for his thirty-three years of service to the Commonwealth.

Chairwoman Ganeriwala asked if there were any further comments. There being none, the Chairwoman asked for vote of approval. The Resolution was approved unanimously.

Staff Reports

Debt Management

Evie Whitley reviewed the Debt Calendar as of July 7, 2014. She noted sales for Virginia Housing Development Authority and Virginia Resources Authority are scheduled for July. She also noted that Virginia Public Building Authority planned to sell bonds in August, and the Virginia Public School Authority (VPSA) sale for Prince William County that had been scheduled for July was now scheduled for September. Ms Whitley noted that VPSA is gauging interest on issuing a series of Qualified Zone Academy Bonds. She reviewed the leasing reports as of June 30, 2014. She also introduced a new employee in Debt Management, Michael Walsh, to the Treasury Board.

Security for Public Deposits

Kristin Reiter reviewed the Security for Public Deposits (SPDA) Report for the month ended May 31, 2014. Ms. Reiter reported that there were no banks under collateralized for the period. There were no new qualified public depositories. One bank merger was reported. StellerOne Bank was acquired by Union First Market Bank effective May 9, 2014.

State Non-Arbitrage Program

Tim Wilhide reviewed the SNAP report dated June, 2014. The monthly distribution yield was up one basis point from May at 0.15%, outperforming the benchmark of 0.02%. Balances were up approximately \$170,000,000 from the previous month to \$3.6 billion. New bond issues added to the SNAP Fund totaled \$477,000,000.

Investments

Mr. Wilhide announced that his staff met with Standard and Poor's regarding the LGIP and its triple A rating. The S & P representatives informed Mr. Wilhide and staff that based on the review, they expect the LGIP will retain its triple A rating, but noted that the LGIP rating does have to be affirmed by S&P's credit committee to be official.

Mr. Wilhide reviewed the Investment reports for the month ended June 30, 2014. The General Account portfolio was \$5.4 billion, down \$34 million from the month prior. The average yield on the Primary Liquidity portion of the General Account was 0.26%, up 0.04% from the previous month. The Extended Duration portion of the portfolio had an annualized yield of 0.63% for the month, and the composite yield was 0.34% for the month. The year to date composite yield is 0.96%.

Mr. Wilhide then reviewed the LGIP portfolio. The LGIP portfolio was in compliance for all measures for the month of June 2014. He then presented the LGIP portfolio report to the Board for the month of June. The LGIP portfolio was up \$680 million from the month prior and is valued at \$3.3 billion. The average yield on the portfolio was 13 basis points, down one basis point from the month prior. The average maturity was 79 days, same as the previous month.

Update by Tim Wilhide on SEC's anticipated announcement on its final MMF rules and what it may mean for the LGIP

Chairwoman Ganeriwala asked Mr. Wilhide to update the Board on the news that the SEC may announce its final MMF rules on July 23, what form the rules may take and what it may mean for the LGIP. Mr. Wilhide noted that NAST staff has advised based on information received from its Washington, D.C. staff, that July 23 is the expected date and that the consensus seems to be that both a Floating Rate NAV and "gates and fees" would be adopted.

Chairwoman Ganeriwala asked what Treasury's likely response would be to this, if true. Mr. Wilhide said that it is the view of investment staff that a floating NAV would be an undue accounting burden on both the LGIP and especially on the participants. He noted that staff may bring before the Board a proposal to withdraw the LGIP's statement that it is being managed in a "2a-7" like manner. GASB requires that any LGIP managed in a "2a-7" like manner must comply with SEC rules; if the LGIP prospectus does not say it is so managed then it will not be required to follow the SEC rules. He noted that in previous discussion with S&P credit analysts responsible for determining the AAAM rating for the Virginia LGIP, the analyst made it clear that the S&P rating is not dependent on the LGIP being managed in a "2a-7" like manner. Mr. Wilhide said he will advise the Board at the next meeting on the SEC final MMF ruling and offer further information to the Board for members to review the possibility and consequences of dropping the "2a-7" like status. Mr. Boyer asked what other states are doing regarding this issue. Mr. Wilhide answered that from

private discussions that he had heard, they would drop the "2a7" like distinction. Mr. Von Moll asked why the SEC has gone against the wishes of the state LGIPs. Mr. Wilhide responded that it's a mystery.

Review by Tim Wilhide of the possible effects a change in Federal Reserve policy and consequent higher interest rates would have on the market value of the externally managed General Account portfolios

Chairwoman Ganeriwala asked Mr. Wilhide to review for the Board the possible effects a change in Federal Reserve policy and consequent higher interest rates would have on the market value of the externally managed General Account portfolios. Mr. Wilhide handed out the results of two studies staff had undertaken in the last 18 months to make just such an assessment. One study in 2013 was performed by Optimal Service Group, Treasury's consultant, and reviewed the change in total return for the long and intermediate duration portfolios for various rate changes over a one year time horizon. The other study was a 2014 staff request of Dodge & Cox, one of the long duration managers. This review used a similar analysis for both duration portfolios but over a two year time horizon.

The results of the one-year horizon indicate that an immediate and sustained increase in rates of greater than 50 bps would result in unrealized losses on a total return basis for both the intermediate and long duration portfolios. The Dodge & Cox study indicates that after two years the higher yields resulting from the rate increases under a number of scenarios would produce positive cumulative total returns as the higher earnings yield offset the unrealized losses from the initial decline in prices. Mr. Wilhide stated that taking any action to adjust portfolio holdings in anticipation of a higher rate scenario is unlikely as current economic and market conditions still suggest rates will likely stay at the lower rate levels of 2014. He noted that in 2013 he authorized transferring \$200 million from the intermediate and long duration portfolios into the Primary Liquidity portfolio and that while this transfer improved the overall returns in 2013 after rates increased sharply in late spring, the sharp subsequent decline in rates so far in 2014 has cumulatively more than offset the benefit of the transfer in 2013. He indicated staff would pursue caution in adopting further strategic reallocations until conditions more clearly suggested higher rates were likely and that he would discuss any contemplated action with the Board.

Other Business

None.

Chairwoman Ganeriwala stated the next meeting of the Board would be on August 20, 2014, and the meeting adjourned at 10:34 a.m.

Respectfully submitted,



Manju S. Ganeriwala, Chairwoman
Commonwealth of Virginia Treasury Board