

TREASURY BOARD
COMMONWEALTH OF VIRGINIA

September 17, 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
Douglas Densmore
Lou Mejia
David Von Moll

Members Absent: Craig Burns
William W. Harrison, Jr.

Others Present:	Nelson Bush	PFM Asset Management
	Craig Robinson	PFM Asset Management
	Karen Hawkrige	Optimal Service Group
	James Johnson	Optimal Service Group
	Brian Moore	Optimal Service Group
	Mark Burns	Wells Fargo Securities
	Christine McIntyre	Wells Fargo Securities
	Vasyl Zuk	J P Morgan
	Tom Coleman	Wellington Management Company
	Kristina O’Gannon	Wellington Management Company
	Kevin Larkin	Bank of America
	Steve Schmmel	Bank of America
	Don Ferguson	Office of the Attorney General
	Jason Powell	Senate Finance Committee
	Kristy Scott	Auditor of Public Accounts
	Belinda Blanchard	Department of the Treasury
	Tracey Edwards	Department of the Treasury
	Leslie English	Department of the Treasury
	Debora Greene	Department of the Treasury
	Gloria Hatchel	Department of the Treasury
	Brandy Mikell	Department of the Treasury
	Judy Milliron	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

Call to Order and Approval of Minutes

Chairwoman Ganeriwala welcomed Board members and called the meeting to order at 9:03 a.m.

Chairwoman Ganeriwala asked if there were any changes or revisions to the Minutes of the August 20, 2014 meeting; there being none, Chairwoman Ganeriwala asked for a vote of approval. Mr. Von Moll moved for approval of the Minutes, Mr. Densmore seconded, and the motion carried unanimously.

Public Comment

None

Action Items

Motion to amend the Treasury Board's financial advisor contract for First Southwest to advise on matters related to the Virginia Tobacco Settlement Financing Corporation.

Evie Whitley explained the Security and Exchange Commission's Municipal Advisor Rule that went into effect on July 1, 2014, and the request for the Board to approve an amendment to their financial advisory contract with First Southwest Corporation to enable them to also advise on matters relating to bonds of the Virginia Tobacco Settlement Financial Corporation. Mr. Mejia asked if there was more than one financial advisor for an entity. Ms. Whitley responded that the Treasury Board has both a primary and secondary financial advisor under contract. Mr. Mejia also asked how often contracts are negotiated. Ms. Whitley responded that contracts are generally for three years with the option to extend for up to two additional years, but contracts can be terminated at any time. The current contracts were awarded based on a request for proposal (RFP) process undertaken during 2013.

Chairwoman Ganeriwala asked if there were any further questions. There being none, the Chairwoman asked for a Motion to approve. Mr. Densmore moved that the Motion be adopted. Mr. Amin seconded, and the Motion carried unanimously.

Resolution of Recognition and Appreciation for David Boyer's Service on Treasury Board.

Chairwoman Ganeriwala reviewed the Resolution of Recognition and Appreciation for David Boyer's service on Treasury Board.

Chairwoman Ganeriwala asked if there were any further comments. There being none, the Chairwoman asked for a Motion to approve. Mr. Von Moll moved that the Resolution be adopted. Mr. Densmore seconded, and the Resolution was approved unanimously.

Board Briefing

Presentation by Wellington Management Company, LLP – Intermediate Bond Portfolio Review

Kristina O’Gannon, Vice President, and Tom Coleman, Vice President of Wellington Management Company did the presentation. Ms. O’Gannon first gave an overview of Wellington. Wellington has \$904 billion of client assets under management. They have over 2100 clients and 568 investment professionals. There are 149 partners in the firm and three Managing Partners. Mr. Coleman presented the portfolio. Wellington invests in intermediate maturity fixed income securities for Treasury. Year- to-date yield of 2.89% (net of fees) is ten basis points below the benchmark of 2.99%.

Mr. Mejia asked when Wellington expects interest rates to increase and how the increase will affect the portfolio. Mr. Coleman answered that historically there is a 12- month time period after the Fed starts tightening before credit spreads widen sharply over Treasuries. Given this history he thinks it will be a year or two before a correction, and our portfolio has been positioned accordingly for the best results. In reviewing the portfolio holdings, Mr. Coleman stated that Wellington has a substantial position in Commercial Mortgage Backed Securities (CMBS). CMBS are pools of mortgages on portfolios of retail and other commercial properties and that are typically widely dispersed by geography across the U.S. Mr. Densmore asked who at Wellington does the due diligence on this asset class. Mr. Coleman answered that the firm has staff that performs this function. Mr. Amin asked if they had looked at floating rate bonds. Mr. Coleman answered that these securities are not typical holdings for this type of portfolio. Mr. Amin asked that since they were overweight in government securities, were they looking for an economic recovery soon. Mr. Coleman answered that the overweight in governments is a result of their investment in TIPS (Treasury Inflation Protected Securities). Wellington believes TIPS offer greater relative value at current pricing than standard Treasury securities.

Staff Reports

Debt Management

Evie Whitley reviewed the Debt Calendar as of September 1, 2014. She noted Virginia College Building Authority would be seeking approval of terms and structure at the October meeting. Ms. Whitley reviewed the leasing reports as of August 31, 2014.

Ms. Whitley also reviewed the final financing summary for the Virginia Public Building Authority issue that was approved in May and sold in late August. The delay in the sale benefited the refunding component of the issue, which resulted in a larger refunding with more savings. The all-in TIC (True Interest Cost) was 2.54%. Net present value refunding savings is \$27 million. The net present value ratio is 8.47%.

Security for Public Deposits

Kristin Reiter reviewed the Security for Public Deposits (SPDA) Report for the month ended July 31, 2014. Ms. Reiter reported that no banks were undercollateralized for the month. There were no new qualified public depositories. There were no bank mergers during this reporting period.

State Non-Arbitrage Program

Tim Wilhide reviewed the SNAP report dated August, 2014. The monthly distribution yield was up one basis point from July at 0.13%, outperforming the benchmark of 0.02%. Balances were down approximately \$77million from the previous month to \$3.4 billion. New bond issues added to the SNAP Fund totaled \$109 million.

Nelson Bush of PFM reported that a SNAP Investor Users Meeting was held on September 3. Over 60 users attended, including some from Treasury's Debt Management Division. Investors found the meeting very useful.

Investments

Mr. Wilhide reviewed the Investment reports for the month ended August 31, 2014. The General Account portfolio was \$4.9 billion, down \$548 million from the month prior. The average yield on the Primary Liquidity portion of the General Account was 0.23%, up 0.01% from the previous month. The Extended Duration portion of the portfolio had an annualized yield of 8.43% for the month, bringing the composite yield to 2.22% for the month. The year to date composite yield is 0.95%.

Mr. Wilhide then reviewed the LGIP portfolio. The LGIP portfolio was in compliance for all Measures for the month of August 2014. He then presented the LGIP portfolio report to the Board for the month of August. The LGIP portfolio was down \$278 million from the month prior and is valued at \$2.96 billion. The average yield on the portfolio was 14 basis points, same as the month prior. The average maturity was 83 days, six days more than the previous month. Mr. Mejia asked how the LGIP stress test is done and if it is documented. Mr. Wilhide answered that we use a template from S & P to perform the test and it is documented every week. Mr. Wilhide will send Mr. Mejia more information on how the test is done.

Other Business

None.

Chairwoman Ganeriwala stated the next meeting of the Board would be on October 15, 2014. Chairwomen Ganeriwala asked for a motion to adjourn. Mr. Von Moll moved for adjournment, Mr. Amin seconded, and the motion carried unanimously. The meeting adjourned at 10:09 a.m.

Respectfully submitted,



Manju S. Ganeriwala, Chairwoman
Commonwealth of Virginia Treasury Board