

TREASURY BOARD
COMMONWEALTH OF VIRGINIA

February 17, 2016

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
Lou Mejia
David Von Moll
Douglas Densmore

Members Absent: Craig Burns
William Harrison, Jr.

Others Present:	Brian Deveney	Auditor of Public Accounts
	Brian Moore	Optimal Service Group
	T.C. Wilson	Optimal Service Group
	Karen Hawkrige	Optimal Service Group
	James Johnson	Optimal Service Group
	Nelson Bush	PFM Group
	Kathleen Bowe	PFM Group
	Patrick Dixon	Wells Fargo Bank
	Kristin Reiter	Department of the Treasury
	Janet Aylor	Department of the Treasury
	Tim Wilhide	Department of the Treasury
	Brandy Mikell	Department of the Treasury
	Neil Boege	Department of the Treasury
	John Ockerman	Department of the Treasury
	Tracey Edwards	Department of the Treasury
	Leslie English	Department of the Treasury
	James Mahone	Department of the Treasury
	Harold Moore	Department of the Treasury
	David Jonas	Department of the Treasury
	Kathy Green	Department of the Treasury
	Lauren Sumner	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 January 20, 2016 meeting; there being none, Chairwoman Ganeriwala asked for a vote of approval. Mr. Von Moll moved for approval of the Minutes, Mr. Amin seconded, and the motion carried unanimously.

Public Comment

None

Action Items

None

Board Briefing

Optimal Services Group of Wells Fargo Advisors – 4th Quarter Performance Reports for the Extended Duration Credit Portfolio and TICR Endowment Portfolios

T.C. Wilson, Brian Moore, and Karen Hawkrigde briefed the Board on the General Account External Managers' investment performance for the 4th quarter of 2015 and the Quarterly Investment Manager Performance of TICR Endowment for taxable and tax-exempt portfolios for the 4th quarter of 2015.

Ms. Hawkrigde briefed the Board on the TICR tax exempt and TICR taxable portfolios. The TICR taxable portfolio was valued at \$267 million and had a slight unrealized loss. The portfolio return in the 4th quarter was 40 basis points net of fees, slightly trailing the benchmark. The TICR tax exempt portfolio was valued at \$193.5 million including \$0.6 million of unrealized gains. The 4th quarter return net of fees was 0.80%, slightly trailing the benchmark.

Mr. Moore then briefed the Board on the General Account extended duration portfolios. The portfolio was valued at \$1.2 billion including \$2.7 million in unrealized gains. The portfolio returned (.40) % net of fees in the 4th quarter trailing the benchmark by 10 basis points.

Mr. Densmore asked if there was any concern with the Energy Sector security selections made by Dodge & Cox. Brian replied that their holdings were with the major players and they had no concerns with the securities being held. Mr. Wilhide also responded that Dodge & Cox is holding higher quality securities.

Mr. Amin asked if the different portfolio managers charged different fees. Mr. Wilhide said the weighted average of all of the portfolios was 16 basis points. Goldman Sachs and Earnest were the two on the higher end of the fee spectrum. He also informed the board that the fees were not high for actively managed portfolios.

Mr. Densmore asked if Treasury was evaluating the fees with respect to the portfolio manager's performance. Mr. Wilhide replied that it was something Treasury has reviewed and that it may be a good idea to think more about in the future.

Staff Reports

Debt Management

Janet Aylor reviewed the Debt Calendar as of February 1, 2016. She informed the Board that there were two VPSA issuances forthcoming as well as a VCBA issuance. Ms. Aylor also reviewed the leasing reports as of January 31, 2016. A Tree Seedling Lift Machine for the Department of Forestry and eight vehicles for DGS were leased through the Master Lease Program this month. The Department of State Police procured energy efficient equipment as part of the Energy Lease Program.

Security for Public Deposits

Kristin Reiter reviewed the Security for Public Deposits (SPDA) Report for the month ended December 31, 2015. Ms. Reiter reported that three banks (Benchmark Community Bank, Citizens and Farmers Bank, and Lee Bank and Trust) were undercollateralized for the month. They all pledged additional collateral. Ms. Reiter noted that the IDC ratings have been updated from what was reported last month using IDC's 3rd quarter final 2015 ratings. She informed the Board of the two pooled banks (New Horizon Bank, and Southern Bank and Trust) and one opt-out bank (Highlands Union Bank) that are no longer ranked below average and have been removed from the list. In addition, Essex Bank and the Bank of Fincastle have been added to the list of banks ranked below average by IDC.

Ms. Reiter then summarized quarterly statistical data for the Board. As of December 31, 2015, 110 public depositories held public deposits net of FDIC of \$8.5 billion. Of which, \$6.1 billion (72%) were held by 37 opt-out banks and \$2.4 billion (28%) were held by 73 pooled depositories. The state's four largest public depositories held 59% of public deposits net of FDIC.

Mr. Densmore noted that two pooled banks (Essex Bank and EVB Bank) headquartered in a small Virginia town, Tappahannock, held quite large public funds balances at the end of December 2015. Ms. Reiter stated that these two banks have branches in other locations outside of Tappahannock, including Richmond. Ms. Reiter said that she would review the public deposit accounts held by the two banks and provide the Board an update.

Mr. Amin asked for the percentage of public deposits held by Virginia Banks. Ms. Reiter replied that 33% of public deposits are held by Virginia Banks. Chairwoman Ganeriwala asked if this percentage has held steady over the years. Ms. Reiter said that it has.

Ms. Reiter informed the Board of the bill introduced in the Virginia General Assembly to allow all credit unions to hold public deposits. Currently, credit unions cannot hold public deposits. This bill was tabled.

Chairwoman Ganeriwala asked if staff knew if any local governments were placing deposits in credit unions. Kathy Green said staffs were unaware as local governments do not have to report this information to Treasury. Staff would have no way of knowing if local governments were making deposits to credit unions.

Mr. Amin asked if Treasury recommends that public deposits be held by Virginia banks. Ms. Reiter and Mr. Wilhide explained that most state banking services are competitively bid. Mr. Wilhide noted that Treasury does have a Certificate of Deposit program for community banks that currently has \$70 million set aside for investment.

Investments

Mr. Wilhide provided a draft of a letter to PFM Fund Distributors regarding the SNAP program and the coming changes required when the 2a-7 amendments become effective in October 2016. Treasury is considering establishing a local government investment pool (LGIP) to be used by current SNAP participants in response.

Nelson Bush informed the Board that PFM Fund Distributors is a broker dealer for LGIP's. Under new SEC rules, PFM Asset Management cannot assist state governments in creating new security investment funds, but PFM Fund Distributors can.

Mr. Wilhide informed the Board of the need to alert all of the SNAP participants. A letter was sent on February 16 and no questions have been asked as a result. He mentioned that between 400 and 600 participants are participating in the LGIP during a given time. A detailed letter with an action plan will be sent in the months ahead.

Mr. Wilhide then reviewed the SNAP report as of January 31, 2016. The fund's assets were valued at \$3.1 billion, down \$100 million from the month prior. The monthly yield was 43 basis points, up 15 basis points from the month prior. There were no new bond issuances for the month.

Mr. Wilhide also reviewed the Investment reports for the month ended January 31, 2016. The General Account portfolio was \$5.5 billion, up \$400 million from the month prior. The average yield on the Primary Liquidity portion of the General Account was 0.50%, up six basis points from the month prior. Mr. Wilhide explained that the Extended Duration portion of the portfolio had an annualized total return of 13.22 % as a result of falling rates in the market. This resulted in the composite yield being 3.30% for the month.

Mr. Wilhide then reviewed the LGIP portfolio. The LGIP portfolio was in compliance for all measures for the month of December. The LGIP portfolio was down \$177 million from the month prior due to seasonal increases and is valued at \$3.2 billion. The average yield on the

portfolio was 44 basis points, up 12 basis points from the month prior. The average maturity was 41 days, unchanged from the previous month.

Other Business

Chairwoman Ganeriwala stated the next meeting of the Board would be on March 16, 2016. She then adjourned the meeting at 9:50 a.m.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Michael Tutor", written over a horizontal line.

Michael R. Tutor, Secretary
Commonwealth of Virginia Treasury Board

