

TREASURY BOARD
COMMONWEALTH OF VIRGINIA

October 23, 2023

10:30 a.m.

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

Members Present: David L. Richardson, Chairman
Neil Amin
Craig Burns
James Carney
Charles King
Sharon Lawrence
Joshua Weed

Meeting Guests:	John Markowitz	Office of the Governor
	Don Ferguson	Office of the Attorney General
	Scott Laws	Office of the Attorney General
	Scott Fleming	PFM Asset Management LLC
	Daniel Hess	PFM Asset Management LLC
	David Swynford	Department of the Treasury
	Brad Jones	Department of the Treasury
	Stuart Williams	Department of the Treasury
	Neil Boege	Department of the Treasury
	Kristin Reiter	Department of the Treasury
	Nick Davies	Mercer LLC
	Elena Gallo	Wells Fargo
	Kathleen Bowe	Wells Fargo
	Mark Burns	Wells Fargo
	Chris Banta	Brown Edwards
	Markita Heard	J.P. Morgan Chase

Call to Order and Approval of Minutes

Chairman Richardson welcomed the Board members and called the meeting to order at 10:30 a.m. Chairman Richardson welcomed new Board member, Sharon Lawrence, Acting State Comptroller. Senior Assistant Attorney General, Don Ferguson introduced Scott Laws, Assistant Attorney General, to the Board.

Chairman Richardson asked if there were any changes or revisions to the minutes of the May 17, 2023 meeting. Chairman Richardson asked for a vote of approval of the minutes. Charles King moved for approval, J.P. Carney seconded, and the motion carried unanimously.

Public Comment

Chairman Richardson called for any public comments. The following citizen addressed the Board: Janice Grenadier commented on Wells Fargo Bank and the Virginia judiciary.

Action Items - None

Board Briefing

Presentation of the SNAP Audit Engagement Report

Scott Fleming with PFM Management LLC introduced Chris Banta and Dan Hess. Chris Banta, Partner and Manager of Brown Edwards reviewed the SNAP Program Audit Report for June 30, 2023, the related statement of changes in net position for the year then ended, and the related notes to the financial statement including the responsibilities regarding the financial statement audit as well as observations arising from the audit that are significant and relevant to the Treasury Board's responsibility to oversee the financial reporting process. Mr. Banta reviewed the summary of significant accounting estimates and reported a clean opinion on the financial statements which is the highest level of assurance. Mr. Banta reported no material weaknesses in the scope of the audit. A draft copy of the opinion, governance letter and management's representation letter are in the presentation materials.

J.P. Carney inquired about the scope of the engagement and whether there was a process or an affirmative statement to conclude any ongoing concerns in the aggregate. Discussion ensued.

Presentation of the SNAP Fund Annual Report

Dan Hess, Managing Director of PFM Asset Management LLC provided an overview of the Virginia State Non-Arbitrage Program's (SNAP) Fund Draft Annual Report for the month ended June 30, 2023. Mr. Hess provided market commentary. The report included the audit for the purpose of forming an opinion on the financial statements as a whole. The financial statements discussed in the Annual Report present, in all material aspects, the financial position of the Virginia State Non-Arbitrage Program (SNAP) and the changes in its net position for the year then ended which are in conformity with GASB. The Fund's return for the year ended was 4.08% as compared to a return of 0.29% for the prior fiscal year. The ratio of net investment income to average net assets were 3.96%.

Discussion ensued about the market share percentage. It was determined about 90% to 95% bond issues are going into SNAP.

Presentation by Mercer LLC on the Peer State Investment Policy and Performance Comparison

Nick Davies, Partner and Senior Investment Consultant of Mercer LLC ("Mercer") provided background information on Mercer which is one of the largest investment consultant firms globally overseeing approximately \$18 trillion in assets. Mr. Davies presented a review of the

twelve triple-AAA rated States and how they invested and managed the cash from their operating revenues. Mercer met and had discussions with each representative from each of these states and reviewed their performance reports. Mercer determined the peer states followed a fairly constrained and conservative set of investment guidelines, much like Virginia. There is a lot of uniformity across state investment restrictions; however, the peer study did not suggest any initial major changes. Mercer presented their observations including resources, recent performances, investments, LGIP funds, etc. Mr. Davies discussed the next steps in specific detail in his presentation about General Account recommendations, as well as security lending given how the asset base has significantly grown over the past several years. Mercer plans to dive deeper in the general accounts' assets and the split between PLP and EDCP at the next Treasury Board meeting.

Discussion ensued about the recent performance, higher expected long-term returns and measures of risk.

Dr. Weed inquired about active versus static management and whether Mercer looked at other states to determine whether they were actively managing their asset allocation mix and whether it had a material effect on their performance through cycles. Discussion ensued.

Neil Amin asked about benchmarks compared to other states and the evaluation of managers. Discussion ensued.

Investments

Neil Boege reviewed the Investment reports for the month ended September 30, 2023. The General Account portfolio was valued at \$23.2 billion. The average yield on the Primary Liquidity portion of the General Account was 4.62%, up from August's average yield of 4.51%. The Extended Duration portion of the portfolio had a yield to maturity of 5.64%, up from August's yield to maturity of 5.28%.

Mr. Boege then reported on the LGIP portfolio, which was in compliance for all measures for the month of September and was valued at \$10.7 billion. The average yield on the portfolio was 5.53%, up from August's average yield of 5.48%. The average maturity was 46 days, up from four days from the previous month. Mr. Boege then reviewed the LGIP Extended Maturity portfolio, which was in compliance for all measures for the month of September. The net asset value yield to maturity was 4.30%, up from August's net asset value yield to maturity of 4.19%. The average duration was 0.81 years. Mr. Boege mentioned the tax rebates coming up in the month of November.

Debt

Mr. Jones reviewed the Virginia Debt Calendar as of October 1, 2023 and the leasing reports as of September 30, 2023. Mr. Jones commented on the Virginia College Building Authority (VCBA) and the Commonwealth Transportation Board (CTB) bond sales that occurred around the timing of the Treasury Board's last meeting. He noted the higher interest rate environment

that borrowers are now facing and reviewed several factors that have resulted in increased interest rates since the last meeting. He noted the results of a Virginia Public School Authority (VPSA) bond sale that occurred a week prior to the meeting, an upcoming VPSA sale later in the week, and he noted that he anticipates a General Obligation transaction to benefit higher education institutions will likely be brought before the Treasury Board for consideration at the November meeting. Mr. Jones then reviewed the activity for the Master Lease Program, noting that approximately \$2 million was provided during the month of September leaving the program with a line of credit balance of approximately \$30.4 million. He noted there was no activity to report on the Energy Lease Program and the line of credit balance for that program is approximately \$37.4 million.

Security for Public Deposits

Kristin Reiter reviewed the Security for Public Deposits Act Report (SPDA) for the month ending August 31, 2023. No depositories were under-collateralized for the month of August. IDC's 1st quarter bank ratings were used in August. There was one pooled bank, Movement Bank headquartered in Danville and one opt-out bank, Shore United Bank headquartered in Maryland ranked below average by IDC. IDC's 2nd quarter bank ratings were received in September and collateral requirements were updated accordingly. We anticipate receiving the 3rd quarter bank ratings in November. Ms. Reiter noted the month of November is considered an open election period and during this month, depositories can change their collateral method between the pooled and opt-out collateral methods for the next calendar year. In December, the Treasury Board will be notified of banks that are changing their collateral method for the upcoming year.

Other Business

The meeting adjourned at 11:40 a.m.

The next Treasury Board meeting is scheduled for November 15, 2023

Respectfully submitted,

Yvonne Scruggs, Secretary
Commonwealth of Virginia Treasury Board