

TREASURY BOARD
COMMONWEALTH OF VIRGINIA
February 15, 2012
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
William W. Harrison, Jr.
Shaza Andersen
Craig Burns

Members Absent: David K. Boyer
Thomas N. Chewning

Others Present:	Kristin Reiter	Department of the Treasury
	Tim Wilhide	Department of the Treasury
	Robert Young	Department of the Treasury
	Evie Whitley	Department of the Treasury
	Michael Tutor	Department of the Treasury
	Kathy Green	Department of the Treasury
	Tracey Edwards	Department of the Treasury
	Sherwanda Cawthorne	Department of the Treasury
	Donald Ferguson	Attorney General's Office
	Brian Moore	Optimal Service Group of Wells Fargo
	Joe Montgomery	Optimal Service Group of Wells Fargo
	Robin Wilcox	Optimal Service Group of Wells Fargo
	Hope Broughman	Auditor of Public Accounts
	Nelson Bush	PFM Asset Management
	Corey Williams	Capital One
	Vasyl Zuk	J.P. Morgan

Call to Order and Approval of Minutes

Chairwoman Ganeriwala welcomed Board members and called the meeting to order at 9:07 a.m.

Chairwoman Ganeriwala asked if there were any changes or revisions to the Minutes of the January 18, 2011 meeting; there being none, Chairwoman Ganeriwala asked for a vote for approval, Mr. Von Moll moved the approval of the Minutes, Mr. Burns seconded, and the motion carried unanimously.

Public Comment

None

Agenda Items

None

Board Briefing

Review of the General Account External Managers' Investment Performance for the 4th Quarter of 2011.

Mr. Moore of The Optimal Service Group reviewed the performance of the General Account Extended Duration and Credit portfolio for the 2011 calendar year. Overall, the portfolio earned a total return of 5.8%, trailing its benchmark by .3%.

The principal reason it underperformed the benchmark was the underperformance by one of the managers, Dodge & Cox, whose return lagged the benchmark by 260 basis points for the year. Mr. Moore noted that Dodge & Cox's three year performance had been above the benchmark net of fees but struggled in 2011 due to its credit allocation. He noted Dodge and Cox would be visiting Treasury and Optimal staff in early March to review their performance and strategy. To a lesser extent, credit allocation also pulled down the 2011 performance of Wellington Management, although Wellington's three year performance was above benchmark.

Ms. Andersen asked if there would be a report and recommendation at the next Board meeting from the discussion of the March 5th meeting with Dodge & Cox. Mr. Moore replied that there would be.

Chairwoman Ganeriwala asked about the status of Wellington Management. Mr. Moore responded that they were underweighted with Treasuries and that they were not making big sector bets.

Mr. Moore indicated that Dwight Asset Management was being taken over by Goldman Sachs in the near future. Mr. Von Moll asked if Goldman was bound by the existing fee structure. Mr. Wilhide stated that he would need to check, but the more pressing concern was how they differ in management style. Chairwoman Ganeriwala then asked when the sale was effective. Mr. Wilhide responded that it would be effective in the second quarter.

Mr. Moore also distributed and reviewed a handout entitled "Extended Duration and Credit Portfolio" (Attachment A).

Staff Reports:

Debt Management

Evie Whitley reviewed the Debt Calendar as of February 6, 2012, the Master Lease Program report as of January 31, 2011, and the Energy Lease Program as of January 31, 2011.

Ms. Whitley informed the Board that there was a present value savings of \$25 million with the February issuance of Transportation Revenue Refunding Bonds. The ratio of present value savings to refunded par was 18.92% and the true interest cost was 1.37%.

Ms. Whitley said there were two recent equipment leases contracted out for George Mason University and the Department of Forestry. She reported that J.P. Morgan was recently chosen to provide financing for the 7-10 year equipment purchases, and T.D. Equipment Finance would provide financing for the 3-5 year purchases going forward under a recently signed Equipment Leasing Program contract.

There was a question last month regarding the cost of the call feature of the proposed General Obligation refunding bonds maturing in 2023 - 2025. Ms. Whitley reported that the financial advisor did an analysis of the call option, and determined by making the bonds non-callable, present value savings could be increased by approximately \$750,000. With that level of potential additional savings, it was determined for the refunding bonds to be non-callable. The Commonwealth does forego some flexibility in its ability to call the bonds, but the additional savings outweigh this concern.

Ms. Whitley reviewed the final financing summary for the Public Facilities Revenue Refunding Bonds and distributed a handout entitled "Final Financing Summary" (Attachment B).

Security for Public Deposits

Ms. Reiter reviewed the Security for Public Deposits report for the month ended December 31, 2011 and stated that no banks were undercollateralized in December. She also indicated that IDC Rankings Report had been updated. She reviewed the monthly and quarterly compliance statistics reports for the month and quarter ended December 31, 2011.

Ms. Reiter indicated that one of the larger banks switched their pledged collateral from mortgage-backed securities to municipal securities. In some cases, the whole municipal bond issue was pledged as collateral. The concern is that if Treasury had to acquire and sell the bonds, pricing availability would be a concern. She has asked the bank for more information on the newly pledged collateral. Mr. Wilhide indicated that the lack of available pricing information was indeed a concern. He also indicated that there is a concern regarding the liquidity of the securities. Chairwoman Ganeriwala asked if the bank priced these bonds at par value. Mr. Wilhide said that they had.

Ms. Andersen indicated that she would like to see the local governments and state government to utilize local and Virginia based banks more for their deposits. Chairwoman Ganeriwala indicated that most localities use community banks for their banking needs and CD programs. The procurement of banking services at the State level is done through a competitive process and it cannot be limited to just Virginia-based or community banks. The Commonwealth does have a six month CD program with community banks where \$85 million is offered. The existing program has not been fully utilized by the community banks over the last two years.

Investments

Mr. Wilhide reviewed the Investment Report for January 2011. He also reviewed the Local Government Investment Pool reports as of January 31, 2011.

Mr. Wilhide also distributed and reviewed a handout entitled Report of General Account Investment Income (Attachment C).

Other Business:

None.

Chairwoman Ganeriwala stated the next meeting of the Board would be on March 28, 2011. She asked if there was any further business to come before the Board. There being none, Ms. Anderson moved the meeting be adjourned at 10:02 a.m.; Mr. Harrison seconded, and the motion carried unanimously.

Respectfully submitted,

Manju S. Ganeriwala, Chairwoman
Commonwealth of Virginia Treasury Board

Attachments "A through C"

Documents are available for review at

The Department of the Treasury