

TREASURY BOARD  
COMMONWEALTH OF VIRGINIA

June 19, 2013

9:00 a.m.

Treasury Board Conference Room

James Monroe Building

101 N. 14<sup>th</sup> Street, 3<sup>rd</sup> Floor

Richmond, Virginia

Members Present: Manju S. Ganeriwala, Chairwoman  
David Von Moll  
Shaza Andersen  
Thomas N. Chewning

Members Absent: Craig Burns  
K. David Boyer  
William W. Harrison, Jr.

Others Present:	Kristin Reiter	Department of the Treasury
	Robert Young	Department of the Treasury
	Evie Whitley	Department of the Treasury
	Tim Wilhide	Department of the Treasury
	Michael Tutor	Department of the Treasury
	Janet Aylor	Department of the Treasury
	Bradley Jones	Department of the Treasury
	Debora Greene	Department of the Treasury
	Nelson Bush	PFM Asset Management
	Kathleen Lauerman	PFM Asset Management
	Tracey Edwards	Department of the Treasury
	Kathy Green	Department of the Treasury
	Kristy Scott	Auditor of Public Accounts
	T.C. Wilson	Wells Fargo Advisors

**Call to Order and Approval of Minutes**

Chairwoman Ganeriwala welcomed Board members and called the meeting to order at 9:05 a.m.

Chairwoman Ganeriwala asked if there were any changes or revisions to the Minutes of the May 22, 2013 meeting; there being none, Chairwoman Ganeriwala asked for a vote of approval. Mr. Von Moll moved the approval of the Minutes, Ms. Andersen seconded, and the motion carried unanimously.

**Public Comment**

None

**Action Items**

None

**Board Briefing**

None

## **Staff Reports**

### **Debt Management**

Evie Whitley reviewed the Debt Calendar as of June 10, 2013. She noted that upcoming debt issuances include VHDA and a VPSA issue for Prince William County. She informed the Board that there is also a VCBA equipment program issue that has not been included on the calendar as of yet, but will probably be in August or September. Ms. Whitley also reviewed the leasing reports as of May 31, 2013 which included \$845,000 in five year leases for a furnace and a server for Norfolk State University, printers for Virginia Commonwealth University and a new telephone system for Virginia State University. There was also \$7 million for a fleet of vehicles for the Department of General Services and the Department of Forestry. There were no new energy projects for the month.

### **Security for Public Deposits**

Ms. Reiter reviewed the Security for Public Deposits (SPDA) Report for the month ended April 30, 2013. She informed the Board that no banks were undercollateralized for the month.

Ms. Reiter informed the Board of two bank mergers. Union First Market Bancshares Corp will be merging with Charlottesville-based StellarOne Bank to become the largest community bank in Virginia. It is estimated that the merger will be finalized in January of 2014. At the end of March, StellarOne Bank was the largest pooled public depository and Union First Market was the 5th largest pooled public depository. The second merger has C & F Financial Corp, the holding company of Citizens and Farmers Bank, acquiring Central Virginia Bancshares, headquartered in Powhatan, Virginia. This merger will close in the fourth quarter of 2013. Both Citizens and Farmers Bank and Central Virginia Bank are opt-out banks. Central Virginia Bank has been ranked below average by IDC for at least the last year. Ms. Reiter also informed the Board that First Tennessee Bank, one of SPDA's larger escrow agents, is expanding its presence in Richmond, Virginia. Their main focus in Virginia is providing banking services to commercial clients.

Ms. Reiter reviewed the current IDC rankings using IDC's 4<sup>th</sup> quarter 2012 final report. She informed the Board that there had been no changes from last month. She noted that IDC's 1<sup>st</sup> quarter 2013 ratings had been received and updated ratings would be provided next month.

### **Investments**

Shaza Andersen joined the meeting at 9:20 a.m.

Tim Wilhide distributed and reviewed the SNAP report dated June 11, 2013. The yield fell four basis points and the average maturity was 57 days, up from 55 the month prior. The portfolio's total assets increased \$300 million to \$4.1 billion. Currently, high grade credit securities make up 80% of the fund.

Mr. Wilhide reviewed the Investment reports for the month ended May 31, 2013. The General Account portfolio was \$5.28 billion, up nearly \$500 million from the month prior due to personal income tax collection. The average yield on the General Account was 25 basis points, three basis points lower than last month. The annualized total return from the External Management Extended Duration portfolio was negative 14.09%, and the composite was negative 3.228% for May, bringing the year-to-date total down to .76%. The main reason for this was due to the big sell-off in the bond market since the middle of May, triggered by Federal Reserve Chairman Ben Bernanke's comments regarding the possible reduction of the quantitative easing policy. He also informed the Board that percentage of government securities decreased

7.5% in the Primary Liquidity Pool portion of the portfolio and credit securities increased by the same amount.

Mr. Wilhide then reviewed the LGIP Portfolio. The LGIP portfolio was in compliance for all measures for the month of May. He then presented the LGIP portfolio report to the Board for the month of May. The LGIP portfolio was down \$13 million from \$2.58 billion the month prior. The average yield on the portfolio was 17 basis points, down two basis points from the month prior. The average maturity increased to 51 days.

Next, Mr. Wilhide briefed the Board on the ongoing SEC issue relating to the June 5, 2013 proposed reforms of Money Market Funds. The two options proposed by the SEC are 1) floating rate Net Asset Value for funds or 2) a liquidity test which, if the funds fail to maintain 15% of the fund's market value in weekly liquid assets, would trigger a fund's Board to limit withdrawals for up to 30 days and require a fee of up to 2% on withdrawals until the required liquidity threshold is reestablished. The proposal could also be a combination of floating rate NAV and a liquidity test.

A follow-up discussion focused on whether money market funds are still vulnerable because of asset backed commercial paper holdings. One of the reasons for the 2007-08 financial crisis was the poor quality of such paper collateralized by subprime mortgages. These assets are no longer among the holdings of money market funds. Virtually all funds hold on very high credit quality and liquid assets now in their portfolios so the types of asset quality problems that led to the concerns the SEC is addressing with the recent proposal are not particularly relevant at this point under the rules adopted in 2010, in the view of Mr. Wilhide..

The discussion also touched on other highlights of the SEC proposals, including the new definitions adopted by the SEC for types of money funds. There are three classifications: "Government Funds:", which hold at least 80% of fund assets in U.S. government and agency securities and "Prime Funds" which hold less than 80%". The third classification definition is for "retail" funds. A "retail" fund is one which limits shareholder daily withdrawals to \$1 million or less; all other funds are considered "institutional". Under the SEC's proposal, only "Prime Institutional" funds would be required to adopt a floating NAV. Treasurer Ganeriwala informed the Board that many states invest heavily in government securities with their LGIP programs, while Virginia maintains about a 50% credit and 50% government security portfolio. This would mean Virginia's LGIP would, under this definition, be a "Prime" Fund as well as an "institutional" fund and, if the SEC decides to adopt proposal 1 or proposal 2 or include floating NAV with liquidity tests, the LGIP would be required to change to a floating NAV with daily mark to market.

Mr. Chewning said that the more people that move toward the government securities, the lower the amount of yield there will be available to money market fund investors.

### **Other Business**

None.

Chairwoman Ganeriwala stated the next meeting of the Board would be on June 17, 2013. She asked if there was any further business to come before the Board. There being none, the meeting be adjourned at 9:33 a.m.

Respectfully submitted,

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Manju S. Ganeriwala, Chairwoman  
Commonwealth of Virginia Treasury Board