

TREASURY BOARD
COMMONWEALTH OF VIRGINIA
November 14, 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
Craig Burns
Thomas N. Chewning
Shaza Anderson

Members Absent: K. David Boyer
William Harrison

Others Present:	Kristin Reiter	Department of the Treasury
	Evie Whitley	Department of the Treasury
	Robert Young	Department of the Treasury
	Sherwanda Cawthorn	Department of the Treasury
	Kathy Greene	Department of the Treasury
	Janet Aylor	Department of the Treasury
	Belinda Blanchard	Department of the Treasury
	Tim Wilhide	Department of the Treasury
	Glenn Dellinger	Department of the Treasury
	Elizabeth Peay	Attorney General's Office
	Kristy Scott	Auditor of Public Accounts
	Ralph Addei	Auditor of Public Accounts
	Karen Hawkrigde	Optimal Service Group of Wells Fargo
	Joe Montgomery	Optimal Service Group of Wells Fargo
	Brian Moore	Optimal Service Group of Wells Fargo
	Nelson Bush	PFM

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 October 17, 2012 meeting; there being none, Chairwoman Ganeriwala asked for a vote of approval Mr. Chewning moved the approval of the Minutes, Mr. Von Moll seconded, and the motion carried unanimously.

Public Comment

None

Action Items

None

Board Briefing**The Optimal Service Group of Wells Fargo Advisors' Quarterly Review of the General Account External Managers' Investment Performance for the 3rd Quarter of 2012.**

Karen Hawkrige, Brian Moore, and Joe Montgomery from the Optimal Service Group of Wells Fargo reviewed the External Managers' Investment performance for the 3rd Quarter of 2012.

Brian Moore indicated that the market has responded to the conclusion of the Presidential election. Now investors are worried about coming "fiscal cliff". European leaders have agreed to extend their current program with Greece which helped soothe a few worries. The housing sector is moving in the right direction and retail sales have been looking up. The Manufacturing sector is not improving. Corporate earnings have been beating expectations, though they are not going to grow at the same rate as has been seen in the past.

Mr. Moore reported that the externally managed General Account portfolio performance was very good. The total portfolio earned 1.7% for the 3rd quarter, outperforming its benchmark by 40 basis points and 90 basis points year to date. The realized gains for FY to date are just under \$5,000,000, just a bit higher than Fiscal Year 2012. The duration is slightly below the benchmark, the same as the past few quarters. Lower quality investments are outperforming because of the investors' appetite to increase yield on their portfolios.

The Optimal Service Group of Wells Fargo Advisors' Quarterly Investment Manager Performance of TICR Endowment for Taxable and Tax-exempt Portfolios.

Ms. Hawkrige presented the TICR Endowment for Taxable and Tax-exempt portfolios. She informed the Board that the total value of the tax-exempt portfolio was \$270 million. The return was 1.4% for the quarter and stood at 2.9% year to date. All of the managers are near their benchmarks for the quarter.

Ms. Hawkrige informed the Board that the total value of the Taxable portfolio was \$426 million. The yield was 1.5% for the quarter and 3.8% year to date.

Mr. Chewning asked if equities would increase if there is a deal made by Congress and the President regarding the "fiscal cliff". Mr. Moore replied that there may be a little bump in equities at first, but the market would be looking to corporate earnings. He did not think that a deal would

affect the market's volatility much. The major source for volatility would remain the crisis in Europe.

Staff Reports

Debt Management

Evie Whitley reviewed the Debt Calendar as of November 2, 2012. She noted that the VCBA Educational Facilities Revenue Bonds listed on the calendar for November 8 was scheduled to sell on October 30, but was postponed due to hurricane Sandy. The Virginia Public School Authority Special Obligation School Financing Bonds for Fluvanna County was recently added to the calendar for sale in December.

Ms. Whitley also reviewed the leasing reports as of October 31, 2012. A fleet of Vehicles was leased for the Department of General Services for just over \$400,000, and an energy efficiency project was undertaken by the Department of General Services which cost \$4,000,000.

Security for Public Deposits

Ms. Reiter reviewed the Security for Public Deposits Report for the month ended September 30, 2012. She informed the Board that no banks were under collateralized for the month.

Ms. Reiter reviewed the current IDC rankings and indicated the ratings have not been updated. They are still using IDC's preliminary 2nd quarter ratings. No additional depositories were added to the listing of banks ranked below average using IDC's latest ratings. These rankings will be updated in time for next month's Board meeting. Ms. Reiter informed the Board that the Banks and Escrows have been reporting timely.

Ms. Reiter brought up the fact that the unlimited deposit coverage provided by the FDIC through the Dodd-Frank amendment will expire at the end of the calendar year if not extended. As a result, banks will have to pledge additional collateral.

Investments

Nelson Bush distributed a handout entitled "Virginia State Non-Arbitrage Program report for the month ended October 31, 2012." (Attachment A). Tim Wilhide reviewed the SNAP report for the month ended October 31, 2012. He informed the Board that the current balance was \$4.14 billion, roughly the same as the prior month. The yield on a net basis was 30 basis points, roughly the same as the prior month, the weighted average life of the portfolio increased slightly to 52 days and the portfolio's exposure to credit was 60%.

Mr. Wilhide also reviewed the Investment reports for the month ended October 31, 2012. The General Account portfolio was up \$300 million to \$5.186 billion. The average yield on the General Account was 30 basis points, the same as the prior month. The annualized total return from the External Management Extended Duration portfolio was 3.48%, up .02% from last month. There was nearly a 6 percent decrease in the credit allocation for the month, mainly in C.D's and

Commercial Paper. He also presented the LGIP portfolio report to the Board for the month of October. The LGIP portfolio was at \$2.36 billion. The average yield on the portfolio was 24 basis points, up 1 basis point from the prior month. The average maturity fell to 46 days.

Chairwoman Ganeriwala asked if the LGIP portfolio was cyclical. Mr. Wilhide indicated that the portfolio seemed to be tracking similarly to last year.

Chairwoman Ganeriwala asked for an update about the issue being discussed by the SEC regarding Money Market Funds. Mr. Wilhide informed the Board that the Securities and Exchange Commission proposed expanding the changes that were made to the Money Market Funds in 2010 that tightened liquidity requirements, weighted average life limits, and diversification of the funds. The SEC believes that additional changes are needed to prevent a repeat of the problems caused in 2008. The SEC Chair withdrew the idea of further changes in September 2012 when three of the five commissioners were not persuaded to vote for the change. The Financial Stability Oversight Council created by Dodd Frank to oversee the financial industry, including the SEC, indicated that the Money Market Fund industry is extremely important and has publicly supported the SEC's proposed changes or other substantial changes in addition to those enacted in 2010. The SEC changes include either requiring a floating NAV, a Capital buffer of up to 1% and delays to shareholder redemptions, or withdrawal restrictions of perhaps 3%, combined with other measures designed to prevent a "run". Mr. Wilhide indicated that the biggest impact to the LGIP and its participants as a result of these regulations would be adopting floating NAV accounting change that would require recognition of gains and losses every day. Currently, neither the LGIP nor its participants have such a system in place.

Other Business

Chairwoman Ganeriwala stated the next meeting of the Board would be on December 19, 2012. She asked if there was any further business to come before the Board, There being none, Mr. Von Moll moved the meeting be adjourned at 9:48 a.m.; Ms. Andersen seconded, and the motion carried unanimously.

Respectfully submitted,

Manju S. Ganeriwala, Chairwoman
Commonwealth of Virginia Treasury Board