

TREASURY BOARD
COMMONWEALTH OF VIRGINIA
September 18, 2019
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
Craig Burns
Douglas Densmore
Lou Mejia
David Von Moll

Members Absent: Neil Amin
James Carney

Others Present:	Don Ferguson	Office of the Attorney General
	Grayson Smith	Auditor of Public Accounts
	Scott Detar	Bank of America Merrill Lynch
	Kevin Larkin	Bank of America Merrill Lynch
	Kathleen Bowe	JP Morgan
	Fred Vosburgh	JP Morgan
	Markita Heard	JP Morgan
	Bryce Lee	The Optimal Service Group
	Karen Logan	The Optimal Service Group
	Nelson Bush	PFM Asset Management LLC
	Daniel Hess	PFM Asset Management LLC
	Leslie Weaber	PFM Asset Management LLC
	Meredith Colonna	Department of Planning and Budget
	Jason Saunders	Department of Planning and Budget
	Patrick Mulloy	RSM
	Matt Spiegle	RSM
	Adam Rosatelli	Senate Finance Committee
	Patrick Dixon	Wells Fargo
	Janet Aylor	Department of the Treasury
	Neil Boege	Department of the Treasury
	Tracey Edwards	Department of the Treasury
	Leslie English	Department of the Treasury
	Kathy Green	Department of the Treasury
	Debora Greene	Department of the Treasury
	Laura Lingo	Department of the Treasury
	Jay Mahone	Department of the Treasury
	Sandra Stanley	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 July 10 meeting minutes. Mr. Densmore moved for approval of the minutes. Mr. Von Moll seconded and the motion carried.

Public Comment

None

Board Briefings

The Optimal Service Group of Wells Fargo Advisors Briefing on the Quarterly Performance Reports for the Extended Duration Credit Portfolio and TICR Investment Portfolio

Bryce Lee and Karen Logan of The Optimal Service Group briefed the Board on the General Account External Managers' investment performance and the Quarterly Investment Manager Performance of TICR Endowment for taxable and tax-exempt portfolios respectively. Mr. Lee communicated that there will likely be another rate cut today.

Mr. Lee briefed the Board on the General Account extended duration portfolio. The portfolio was valued at \$1.3 billion and had an unrealized loss of \$8.3 million. The portfolio return in the second quarter was 2.5% net of fees, matching the target benchmark net of fees. The average duration was 3.95%, with a target benchmark of 4.13%.

Ms. Logan briefed the Board on the TICR tax-exempt and TICR taxable portfolios. The TICR taxable portfolio was valued at \$223 million and had earned income of \$7.2 million FY to date and an unrealized investment loss of \$885,460. The portfolio return in the second quarter was 2.0% net of fees, less than the 2.2% benchmark. The TICR tax-exempt portfolio was valued at \$192 million, earned income of \$4.6 million FY to date and an unrealized gain of \$48,956. The 2nd quarter return net of fees was 1.6%, matching the benchmark net of fees.

PFM Asset Management LLC's Presentation of the SNAP Fund Annual Report

Dan Hess, Managing Director of PFM Asset Management LLC, provided an overview of the PFM Asset Management SNAP Fund Annual Report. It was a good year for the program. The financial statements discussed in the Annual Report present, in all material aspects, the financial position of the Virginia State Non-Arbitrage Program – SNAP Fund Portfolio at June 30, 2019, and the changes in its net position for the year then ended, in conformity with accounting principles generally accepted in the United States of America. The audit was conducted for the purpose of forming an opinion on the financial statements as a whole. Total assets at June 30, 2019 were \$4.3 billion, up an average of 8% from 2018. The ratio of net investment income to average net assets rose to 2.45% from 1.56% in 2018, due to an increase in investment income.

Discussion ensued.

RSM's Audit Engagement Report

Patrick Mulloy, RSM Partner, and Matthew Spiegle, RSM Manager, discussed RSM's Audit Engagement Report. Mr. Mulloy provided an overview of the plan and its scope. He discussed RSM's responsibilities with regard to 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. Spiegle reviewed RSM's testing of investments. There were no significant issues of investments found.

Discussion ensued.

Mr. Mulloy reported that nothing of significance in material was identified and no issues with PFM were identified. Additionally, no substantive changes were made to the report after items were identified.

General Obligation Bonds Post-Sale Analysis

Janet Aylor reviewed the Final Financing Summary for \$158.6 million Commonwealth of Virginia General Obligation Bonds and General Obligation Refunding Bonds consisting of (i) \$54 million General Obligation Bonds, Series 2019A (Negotiated), (ii) \$93.8 million General Obligation Refunding Bonds, Series 2019B (Negotiated) and (iii) \$10.5 million General Obligation Refunding Bonds, Series 2019C (Competitive) (Federally Taxable). There were a total of 16 bidders for the 2019C Bonds.

Ms. Aylor then introduced Scott Detar of Bank of America Merrill Lynch, Senior Bookrunning Manager for the General Obligation bond issue. Mr. Detar presented the General Obligation Bonds post-sale analysis. On July 30, 2019, Bank of America Merrill Lynch successfully priced \$148 million of the Commonwealth's General Obligation Bonds (\$54,325,000 General Obligation Bonds, Series 2019A and \$93,760,000 General Obligation Refunding Bonds, Series 2019B) via a negotiated, retail-focused sale. The Bonds were issued to refund outstanding bonds for economic savings and to finance certain revenue producing capital projects at various higher educational institutions of the Commonwealth. Mr. Detar went over the market conditions on the day of pricing as well as the pricing progression of the issue during the day of pricing. He provided more detailed information on the orders and allotments for bonds by the participating firms in the underwriting syndicate. He also shared an analysis, by location, of the retail purchases of the bonds.

Ms. Aylor distributed comparables to our General Obligation Tax-Exempt and State Tax-Exempt Issues as provided by our Financial Advisor Public Resources Advisory Group (PRAG). She also distributed a Secondary Trade Summary for Series 2019A and Series 2019B bonds as provided by PRAG. The average spread for secondary trades were not significantly different from the actual pricing spread.

Discussion ensued.

Ms. Aylor distributed Bond Buyer's Southeast Midyear Review. It included information on ranking underwriters, bond counsel and financial advisors as well as largest bond issues for the first half of calendar year 2019. She also distributed a midyear review for the entire municipal market which again ranked underwriters, bond counsel and financial advisors on a national basis.

Proposed Changes to SPDA Opt-Out Guidelines

Laura Lingo discussed proposed changes to the SPDA Opt-out Guidelines. The guidelines, which the Treasury Board originally approved at its September 16, 2009 meeting, are not in full compliance with the *Code of Virginia*. Treasury staff have reviewed the SPDA programs of seven states and believe that the proposed changes are reasonable. Policy changes to the guidelines were first reviewed at the August 21, 2018 Treasury Board meeting. The Virginia Bankers' Association and the Virginia Association of Community Banks were advised of the changes at a meeting on September 7, 2018. Treasury received positive feedback from the Treasury Board and made several changes recommended by the banking associations. Due to a variety of factors, implementation of the changes was delayed. In early September 2019, Treasury notified the State banking community, stakeholders and qualified depositories of Treasury's intent to proceed with the proposed changes to the guidelines and asked for their feedback to the proposed changes by September 20, 2019. Treasury intends to return to the Treasury Board in October 2019 to seek final approval of the proposed changes to be effective for the November 2019 annual opt-out election period.

Discussion ensued.

Security for Public Deposits

Ms. Lingo reviewed the Security for Public Deposits Report for the month ended July 31, 2019. One bank, Virginia Community Bank in Louisa, VA, was undercollateralized for the month. This was due to a miscalculation in the value of collateral pledged. Additional collateral was pledged on August 15 to cover the shortage. One pooled bank, New Horizon Bank, N.A., ranked below average by IDC. Union Bank and Trust changed their name to Atlantic Union Bank.

Staff Reports

Debt Management

Ms. Aylor reviewed the Debt Calendar as of September 1, 2019 and the leasing reports as of August 31, 2019. Several VPSA bond sales and one VRA sale are scheduled in October. Two VCBA bond sales are scheduled in November. Ms. Aylor informed the Board that new leases for \$1.94 million were provided in August for vehicles and equipment. She also informed the Board that \$2.3 million was used to date under the Master Lease Program leaving a line of credit balance of \$32.7 million. In addition, \$19.3 million was previously provided under the Energy Lease Program and the line of credit balance is \$20.8 million. There was no new activity in the Energy Lease Program.

State Non-Arbitrage Program

Nelson Bush reviewed the SNAP report as of August 31, 2019. The fund's assets were valued at \$4.4 billion. The monthly yield was 2.32%, decreasing from July's yield of 2.45%. The weighted average maturity of the fund was 41 days.

The SNAP Users meeting was held on September 17 in Charlottesville. Several educational sessions were held. Mr. Bush and Neil Boege presented to local Treasurers.

Minutes corrected on November 20, 2019

Investments

Neil Boege followed up on the SNAP Users meeting. Some local Treasurers want the *Code of Virginia* to be loosened as it pertains to (i) ratings agencies, (ii) security ratings and (iii) security type. It is believed that local Treasurers may introduce legislation about at least one of these items at the upcoming session.

Mr. Boege reviewed the Investment reports for the month ended August 31, 2019. US Treasury yields continued to decline during August. The General Account portfolio was valued at \$8.9 billion. The average yield on the Primary Liquidity portion of the General Account was 2.37%, down from July's average yield of 2.55%. The Extended Duration portion of the portfolio had a yield to maturity of 2.05%, down from July's yield to maturity of 2.43%. This resulted in the composite yield being 2.32% for the month, down from July's yield to maturity of 2.53%.

Mr. Boege then reported on the LGIP portfolio, which was in compliance for all measures for the month of August and was valued at \$6.5 billion. The average yield on the portfolio was 2.31%, down from July's average yield of 2.44%. The average maturity was 35 days, down three days from the previous month. Mr. Boege then reviewed the LGIP Extended Maturity portfolio. There was a slight timing-related breach on exposure to corporate notes in the LGIP EM fund, but it resolved itself the next business day. The net asset value yield to maturity was 2.33%, down from July's net asset value yield to maturity of 2.39%. The average duration was 0.99 years.

Other Business

Chairwoman Ganeriwala stated that the next Treasury Board meeting is scheduled for October 16, 2019. The meeting adjourned at 10:40 a.m.

Respectfully submitted,

Vernita Boone, Secretary
Commonwealth of Virginia Treasury Board