

TREASURY BOARD  
COMMONWEALTH OF VIRGINIA

March 15, 2023

9:00 a.m.

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

Members Present: David Swynford, Chairman  
Randy McCabe  
James Carney  
Neil Amin  
Charles King

Meeting Guests:	Steve Cummings	Office of the Governor
	Don Ferguson	Office of the Attorney General
	Scott Fleming	PFM Asset Management LLC
	Leslie English	Department of the Treasury
	Brad Jones	Department of the Treasury
	Stuart Williams	Department of the Treasury
	Jay Mahone	Department of the Treasury
	Brian Parker	Department of the Treasury
	Kristin Reiter	Department of the Treasury
	Judy Milliron	Department of the Treasury
	David Back	Department of the Treasury
	Neha Kumari	Department of the Treasury
	Dinetta Hill	Department of the Treasury
	Laura Lingo	Department of the Treasury
	Sandra Stanley	Department of the Treasury
	John Ockerman	Department of the Treasury
	Patrick Dixon	Wells Fargo
	Brian Rehling	Wells Fargo
	Bryce Lee	Optimal Service Group
	Karen Logan	Optimal Service Group
	Jeff Rakes	Optimal Service Group
	Chris Fitze	EARNEST Partners, LLC
	Jeffrey Jackson	EARNEST Partners, LLC
	Janice Wolk Grenadier	Public
	Ronald Williams	City of Suffolk/Treasurer
	Andrew Owen	City of Suffolk/Chief Deputy Treasurer

**Call to Order and Approval of Minutes**

Chairman Swynford welcomed the Board members and called the meeting to order at 9:00 a.m.

Chairman Swynford recognized and welcomed Ronald Williams, Treasurer for the City of Suffolk and Chief Deputy Treasurer Andrew Owen.

Chairman Swynford informed the guests and Board members that he would be presiding over the Board meeting in the absence of the Treasurer.

Chairman Swynford asked if there were any changes or revisions to the minutes of the January 18, 2023 meeting. Chairman Swynford asked for a vote of approval of the amended minutes. Charles King moved for approval, Randy McCabe seconded, and the motion carried unanimously.

### **Public Comment**

Chairman Swynford called for any public comments. The following citizen addressed the Board:

Janice Grenadier commented on the banking systems as it relates to mortgages.

### **Action Items - None**

### **Board Briefings**

#### **Optimal Service Group of Wells Fargo Advisors Briefing on Performance Reports for the Extended Duration and Credit Portfolio and TICR Portfolios Ending January 31, 2023**

Bryce Lee, Brian Rehling and Karen Logan briefed the Board on the Extended Duration and Credit Portfolio for the period ending January 31, 2023. Mr. Rehling provided economic commentary and a pertinent review of capital markets, hiking cycles and the path forward. Inflation continued to soften. The 4<sup>th</sup> quarter advance reading of the U.S. Gross Domestic Product showed the economy remains strong, though there are signs of a mild slowdown. Mr. Lee advised the Board of the appropriate benchmarks outlined in the policy. The portfolio is up by 0.6% with the benchmark up by 0.2%. The combined portfolio outperformed by 40 basis points on a net fee basis. Five out of the six managers outperformed on the fiscal year to date. The total portfolio outperformed every time period. Prior to 2018, the benchmark had an extra hurdle that was placed on the portfolio, and was up to 50 basis points on top of the benchmark. Since inception, the portfolio returned 4.4% net of fees for over 30 years. The benchmark is at 4.6% if you back out almost 50 basis points, the portfolio has outperformed the benchmark by 30 basis points per year for 30 years on a \$5.5B portfolio. The average duration for the portfolio is about 4.2 years and the benchmark is approximately 4.35. The managers and allocations are slightly underweight duration. The PLP has a duration of .77%. The General Account has a 1.5-year duration. The benchmark and policies are about 1.65 in range with a slightly short duration. Everything is in line with the policy. TCR is outperforming by 50 basis points and TCR tax exempt is outperforming only by 10 basis points and is up 2.9% fiscal year to date due to municipal bonds.

Discussion ensued regarding allocations, flexibility given to managers, yield curves and financial reconciliation.

**Presentation by EDCP (long duration portfolio) money manager, EARNEST Partners, LLC. as of December 31, 2022.**

**Presentation by EDCP (long duration portfolio) money manager, EARNEST Partners, LLC. as of December 31, 2022.**

Chris Fitze, CFA, Partner, and Jeffrey Jackson, Director of EARNEST Partners, LLC., ("EARNEST") presented the Board with an overview of EARNEST's portfolio as of December 31, 2022. Mr. Jackson provided a summary of the investment management firm's historical background. EARNEST manages an excess of \$25B in domestic and international equity, and fixed income businesses. Mr. Fitze provided the highlights of the portfolio, the firm's philosophical approach, characteristics, and specialized sectors. EARNEST's fixed income strategy is one of a high-quality spread buyer that focuses on areas of the market that has more yield than U.S. Treasuries. While performance since inception has exceeded the benchmark, the current rising interest rate environment since March 2021 has caused performance to be inconsistent. EARNEST focuses on the high end of the spectrum in terms of quality versus going down the quality spectrum to drive returns as well as programs that are backed by the full faith credit of the United States government. EARNEST specializes and interacts with a variety of government agency programs and a variety of government mortgage programs. EARNEST also specializes in allocations to single and multiple-family mortgages. They structure the portfolio through a stable cash flow and was able to re-invest to take advantage of the higher yields as rates rose. EARNEST looks to match the interest rate risk to the portfolio to the benchmark. Chris Fitze discussed their investment dedication, high regulatory cycles and a diversified portfolio.

Discussion ensued regarding historical performance, default rates and custom benchmarks.

**Staff Reports**

**Investments**

John Ockerman provided a summary of the investment portfolios and commented on the market. The Primary Liquidity portfolio operating cash account assets declined, generally in line with seasonal trends. The LGIP portfolio assets declined also in line with seasonal trends. In the internally managed portfolios, investing levels are over 4.5% yield out to 6 months-to-maturity and over 5.0% for longer duration opportunities in the 6-months to 1-year space. Recent domestic economic data releases have been generally positive, with signs that the Fed is making progress bringing inflation under control and increasing views suggesting the US economy may avoid a hard landing. The Primary Liquidity yield was up 20 basis points from the prior month to 3.85%, underperforming the benchmark slightly. Although not currently meeting the 10-basis points benchmark outperformance standard of performance, fund performance should catch up in the coming months as the Fed reduces its pace of rate hikes. The yield of the externally managed, longer duration portfolio ('EDCP') continued to increase and is approaching 5%. The composite

yield to maturity is 4.08% for the month, 27 basis points higher than in January.

Mr. Ockerman then reviewed the LGIP portfolios. Both the LGIP and LGIP Extended Maturity (EM) portfolios were in compliance with standards and guidelines for the month of February. Yields on both funds increased during the month.

## **Debt**

Mr. Jones reviewed the Virginia Debt Calendar spanning from March 2023 to August 2023. He mentioned that of particular note, it is planned that the Virginia Port Authority, Virginia Public School Authority and Virginia College Building Authority will all have sales to be considered by the Treasury Board at the April meeting. He noted that there was no leasing activity to report and that as of February 28, the Master Equipment Lease Program balance available was approximately \$35 million and the Virginia Energy Lease Program balance available was approximately \$37 million.

## **Security for Public Deposits**

Kristin Reiter reviewed the Security for Public Deposits Act Report (SPDA) for the month ending January 31, 2023. No depositories were under-collateralized for the month of January. Farmers Bank – Windsor merged into Towne Bank. Town Bank is a larger pooled bank. They had public deposits of \$497M ending February, 2023. Atlantic Union Bank, the largest pooled bank, has over \$900M in public deposits. There were no changes in IDC ratings from what was reported last month; IDC 3rd quarter ratings were still being used in January. IDC's 4<sup>th</sup> quarter ratings have been received; no banks are currently ranked below average using the 4th quarter ratings. The amended SPDA Regulations were approved by the Secretary of Finance Office and are now with the Governor's Office for approval. Treasury has to complete an economic analysis for the Governor's Office which is currently in progress. The Governor has no deadline for approval. After the Governor's approval, there is a 30 day public comment period. After which, the amended Regulations will become effective.

Ms. Reiter discussed the process should a bank holding public funds fail.

Discussion ensued.

## **Other Business**

The meeting adjourned at 10:29 a.m.

Respectfully submitted,

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Yvonne Scruggs, Secretary  
Commonwealth of Virginia Treasury Board

