

MINUTES
QUARTERLY TREASURY INVESTMENT COMMITTEE MEETING
February 29, 2012 1:30 P.M.
Hermitage Building, Conference Room 440C

Attendees:

Members Present: Bruce Gillander, Retired (*Chair*)
Kimberly McMurray, Department of Children and Families (*Vice Chair*)
Katy Wojciecnowski, State Board of Administration (*left at 3:30*)
Susan Schueren, NICA Investment Consultant
Bob Doyle, President & Chief Investment Officer, Doyle Wealth Management Inc.

Treasury Staff: Bert Wilkerson, Director of the Treasury
Melisa Hevey, Bureau Chief of Funds Management
Cherie Jeffries, Administrator of Internal Investment Program
Ken Gerzina, Administrator of External Investment Program (*left at 3:45*)
Richard Donelan, Executive Sr. Attorney, Division of Legal Services (*General Counsel*)

OPENING REMARKS

Bruce Gillander called the meeting to order at 1:35 P.M. Bert Wilkerson announced that Richard Donelan will be stepping down from the committee and will now act as General Counsel. Bert also introduced a new committee member, Bob Doyle, with Doyle Wealth Management, Inc.

ELECT COMMITTEE CHAIR AND VICE CHAIR

The first order of business was to elect a Chair and Vice Chair.

Bruce Gillander was nominated to be the Chair and the motion was unanimously passed.

Kimberly McMurray was nominated to be the Vice Chair and the motion was unanimously passed.

APPROVAL OF MINUTES

The November 16, 2011 meeting minutes were presented for approval.

Motion was made to approve the meeting minutes and passed unanimously.

FINANCIAL OUTLOOK STATEMENT

Bert presented a brief overview of the State's General Revenue.

Since the October 2011 General Revenue Estimating Conference (GREC), total general revenue has been running slightly over estimate.

2011-2012 expected revenues have been marginally increased by \$46 million above the earlier forecast.

2012-2013 their expected revenues were decreased by \$19.9 million below the earlier forecast.

The overall adjustments to the forecast indicate an economy that is still in an abnormally slow recovery.

The general revenue outlook for this current fiscal year is that the GREC are anticipating an \$814.6 million budget surplus based on the appropriated expenditures and revised revenue forecast.

CURRENT STATE OF THE TREASURY *(see attached presentation)*

Bert presented a PowerPoint presentation providing an overview of the current state of the Treasury. The overview provided information relating to the Treasury Investment Pool balances; breakdown between the various portfolios; gross earnings rate; income distributed broken up by entities and monthly income distributed; administrative fees; and Pool rating.

Melisa Hevey continued the presentation with information relating to security lending balances and income; Special Purpose Investment Account (SPIA) balances and activity, including a breakdown of SPIA participants by type; SPIA as a percent of the Pool; Certificates of Deposit balances and activity; and basket clause investments. There were no issues noted.

Cherie Jeffries presented the current portfolio allocation versus the target and the portfolio active target risk ranges versus the current portfolio risk level. The Liquidity portfolio balance was slightly below the target range. The Bridge, Intermediate, the External portfolios and the CD program are all within their target ranges.

OVERVIEW OF INTERNAL INVESTMENTS *(see attached presentation)*

Cherie Jeffries presented a PowerPoint presentation on the Internal Investment Program's Performance, which shows the performance for the three portfolios that are managed in-house. For the rolling three years, the Liquidity and Bridge portfolio outperformed their benchmarks while the Intermediate portfolio underperformed. The underperformance was due to the Treasury not actively managing these portfolios during this period to assist with liquidity needs. The Treasury began actively managing these portfolios again in the 3rd quarter of 2010 for the Bridge portfolio and the 4th quarter of 2010 for the Intermediate portfolio. All portfolios outperformed for the 5 year period.

The portfolios are currently being invested neutral to the benchmark in regards to duration and maturities; however, the portfolios are overweight in spread product and underweight in Treasuries. The financial markets continue to be volatile as the European markets continue to struggle. This strategy is limiting the volatility in the portfolios and lead to incremental positive returns for the 3rd quarter.

OVERVIEW OF EXTERNAL INVESTMENTS PROGRAM *(see attached presentation)*

Ken Gerzina presented a PowerPoint presentation for the External Investment program which included an update on the External Investment Program performance. There has been underperformance for the one year period, but three and five-year net returns are above benchmark.

The top 8 managers received \$400 million in total allocations during the last quarter of 2011. The market value of the External Investment Program was \$6.2 billion at September 30th and \$6.7 billion at December 31. The portfolio's characteristics did not change much from the September report. Duration was reduced slightly to 4.45 years at September 30th, down a tenth of a year. The Barclays Aggregate Index was at 4.58 so it came down only one one-hundredth of a year.

External Managers added to their treasury positions about 3% from September and their corporate credit allocation increased by 1.4%. That came from selling their exposure to agencies by 2.2%.

Effective Duration by asset sector has not changed much from where we were previously. Managers added duration to credit at about one tenth of the year from where they were. In credit they were 1.55 years to 1.64 years now. The Duration Distribution is fairly in line with the benchmark.

Ken recommended that there be no change to the roster of managers and that we will continue to monitor their performance and scrutinize some of the risk metrics. The intent is to better identify those managers that are providing the best risk-adjusted returns, rather than just viewing performance without regard to risk in the portfolios.

OVERVIEW OF CURRENT TREASURY INITIATIVES *(see attached presentation)*

Bert Wilkerson discussed some of the major initiatives that are being undertaken within the Treasury.

Updates to Comprehensive Investment Policy (CIP) Document – the following items are being changed:

1. Clarify language in the following sections:
 - Treasury Investment Committee language
 - External Investment Manager Program Review
 - Securities Lending and STIF counterparty concentration limits
 - Portfolio Allocation for the External Investment Program
2. Prohibit the External Managers from transacting in Repos and commercial paper issued by foreign domiciled corporations.
3. Change the SPIA limit from 40% of the total Treasury Investment Pool to 30% of the total Treasury Investment Pool for non-agency SPIA entities.

Motion was made to approve the CIP updates and passed unanimously.

Portfolio Allocation – Since the Investment Committee approved portfolio allocation methodology at the June 24, 2011 meeting, Cherie presented an analysis used to determine portfolio allocation within the Treasury Investment Pool. Based on the analysis, the recommendation by the Work Group was to move \$400 million from the Liquidity portfolio into the External program.

Committee agrees with the final recommendation.

Tentative Allocation Schedule – The Investment Work Group has not determined the allocation of the \$400 million. Over the next session, we hope to make a determination and will inform the committee at the next investment committee meeting.

SUMMARY/ QUESTIONS / NEXT MEETING

The Work Group will get back with the committee members with some recommended dates for the next quarterly meeting.

Meeting was adjourned at 4:08 PM.