

MINUTES OF MEETING
STATE BOARD OF FINANCE

MARCH 22, 2016

A meeting of the State Board of Finance of the State of Arkansas was held in the Conference Room, Office of the Treasurer of State, Suite 275, Victory Building, Little Rock, Arkansas, at 10:00 a.m., Tuesday, March 22, 2016, pursuant to notice duly given to each member of the Board by the Chairman.

The following members were present:

Larry Walther, Director, Department of Finance and Administration
Dennis Milligan, Treasurer of State
Edmond Waters, Arkansas Securities Commissioner
Candace Franks, Arkansas Bank Commissioner
John Ahlen, Representing Andrea Lea, Auditor of State
Cale Turner, Appointed Member
Gabe Holmstrom, Appointed Member
Al Harkins, Appointed Member
Keith Konecny, Appointed Member

Others present were Jason Brady, Grant Wallace, Autumn Sanson, Ed Garner, Larry Tate, and Celeste Gladden of the Treasurer's staff; Ricky Quattlebaum of the Department of Finance and Administration; attorneys representing Rose Law Firm, Kutak Rock Law Firm, Dover Dixon Horne Law Firm, and Williams & Anderson Law firm; and Mike Wickline of the Arkansas Democrat Gazette.

Larry Walther served as acting Chairman in the absence of Governor Hutchinson and called the meeting to order with recognition of a quorum.

Minutes of the meeting held on December 1, 2015 were approved as distributed.

Chairman Walther recognized State Treasurer Dennis Milligan to present the Treasury Investment Performance Report. This report, "Investments Operations and Projections – First Quarter 2016", is included in the Minutes as Attachment 1. First, Treasurer Milligan thanked the Board for

granting the flexibility that was needed to improve the return on the state's investments. He then commended the investment team for their hard work and what has been accomplished. Treasurer Milligan also thanked the Rose Law Firm, Kutak Rock, Dover Dixon Horne, and Williams & Anderson for attending the meeting. He explained that the Treasurer's Office will be interviewing firms early next week for representation and legal advice for the investment team.

Next, Treasurer Milligan moved on to the Investment Performance Report. The first graph is Short-Term Portfolio Earnings for 2015. The Treasurer stated that the team moved from passive management to a very active management effort without a significant increase in risk, and earned \$6.9 million dollars in the short-term portfolio for 2015. The next graph represents the Long-Term and Mortgaged-Backed Earnings for 2015. The Treasurer reminded the Board that when he came into office, the long term bonds were under-performing. He stated that, as can be seen by the graph, there were dramatic results once the mortgage-backed securities were put in place. Treasurer Milligan told the Board that the total earnings for the long term portfolio are \$19.6 million for 2015.

Treasurer Milligan then pointed the Board to the next graph, Total Treasury Portfolio Comparison, which shows the amount of funds "receipted" to DF&A from all the investments from the Treasurer's office in each of the past four years. In 2012, 2013, and 2014 the investments were bringing in about \$20 million a year. He stated that when comparing 2015 to the other years, the receipted amounts went up 40%, or \$8 million dollars. Treasurer Milligan said that he expects the team to do even better in 2016. He then turned the presentation over to Autumn Sanson to give her overview of the investment performance.

Ms. Sanson told the Board that she would be going over the short-term portfolio performance and the long-term portfolio performance. She stated that performance in the short-term portfolio has dramatically improved over the past year, due in part to cash-flow analysis which has helped pinpoint short falls in upcoming months. Those shortfalls are managed by investing commercial paper to

target those dates. She told the Board that earnings in January 2016 compared to 2015 have increased by \$756,250, and the increase in February 2016 over February 2015 is \$733,190. Ms. Sanson moved on to the long-term performance, and told the Board that earnings have doubled compared to the prior year. In January 2016, earnings were 2.3 million over January of 2015. In February 2016, earnings were 4.8 million over February 2015. She noted that that February earnings are atypical. The portfolio was analyzed in February and a few securities were found that would not perform going forward. By selling those securities, the team was able to invest in securities that better fit the portfolio objectives. Ms. Sanson referred the Board to page 8, Total Treasury Portfolio Comparison, and stated that in the last two months, the Treasury has already earned 42% of last year's total earnings. She said that the Treasury's portfolio meets monthly cash-flow needs, reflects liquidity as a priority, and maximizes earnings. She told the Board that the team estimates that earnings in January will be mirrored in the next few months. Ms. Sanson asked if there were any questions from the Board.

Mr. Harkins asked for the average maturity of the portfolio. Ed Garner responded that the average life of the mortgage-back securities is approximately 3 ¼ years. There being no further questions from the Board, Treasurer Milligan made a motion that the Investment Performance Report be approved and accepted into the record. The motion was seconded by Candace Franks. All members were in favor.

Next, Chairman Walther made a motion to establish that no funds are available for deposit into the State Board of Finance certificate of deposit investment program. The motion was seconded by Candace Franks. All members were in favor.

The Chairman then made a motion that the Board direct the Treasurer of State to purchase warrants for the succeeding quarter, April 1, 2016 – June 30, 2016, pursuant to Act 1088 of 2013, and to keep reasonable amounts in demand deposit accounts and money markets during the next quarter

for the transactions of the day to day activities of the State. The motion was seconded by Al Harkins. All members were in favor.

Chairman Walther addressed the Board and said that the next order of business pertains to Arkansas Code 19-3-705, which requires employees of the State Board of Finance and Treasurer of State who handle State Treasury funds or who participate in making decisions or recommendations concerning the deposit or investment of State Treasury funds, to file a written Statement of Financial Interest by January 31st of each year. The Chairman referred the Board to the organizational chart for the Treasurer's office. This Chart is included in the Minutes as Attachment 2. He read the following list of employees that that would be subject to this requirement: Treasurer of State Dennis Milligan, Chief of Staff Jim Harris, Chief Investment Officer Autumn Sanson, Deputy Chief of Staff Jason Brady, Chief Information Officer Gary Underwood, Chief Financial Officer Melissa Corrigan, Assistant Chief of Staff Grant Wallace, Investment Manager Ed Garner, Collateral Manager Celeste Gladden, Collateral/Investment Assistant Larry Tate, 529 Manager Beth Ann Rankin, Cash Administration Manager Jennifer Jones, and Cash Administration Manager Assistant Karen Grice. Chairman Walther stated that these employees would be those recommended to be required to file the Statement of Financial Interest. He told the Board that the issue has gone back and forth, and at one time all employees had to do it, but it should not be required of everyone.

Mr. Turner asked if the Attorney General's office was consulted and what their recommendation was. Grant Wallace answered affirmatively and stated that the AG's office agreed with the list with the exception of three employees: the Deputy Chief of Staff, the Assistant Chief of Staff and the 529 Manager. Chairman Walther stated that these three employees would remain included in order to err on the side of caution. He asked for a motion from the Board to approve the list. The motion was made by Al Harkins and seconded by Candace Franks. All members were in favor.

To conclude, the Chairman asked if there was any other or new business to be brought before the Board. There being no further business, the Chairman reminded the Board of the next meeting date, June 21st, and declared the meeting adjourned.

ATTEST:

Secretary of the State Board
of Finance of the State of Arkansas

Acting Chairman of the State Board
of Finance of the State of Arkansas

Secretary's Note: All documents pertaining to the issues considered are filed in the permanent records of the State Board of Finance.