

COMMONWEALTH OF PENNSYLVANIA
HOUSE OF REPRESENTATIVES
FINANCE COMMITTEE HEARING

STATE CAPITOL
MAJORITY CAUCUS ROOM
ROOM 140
HARRISBURG, PENNSYLVANIA

TUESDAY, MAY 20, 2008, 1:05 P.M.

PRESENTATION ON HOUSE BILL 2259
PRUDENT PERSON SUNSET

BEFORE:

HONORABLE DAVID K. LEVDANSKY, MAJORITY CHAIRMAN
HONORABLE STEVEN R. NICKOL, MINORITY CHAIRMAN
HONORABLE SCOTT W. BOYD
HONORABLE STEVEN W. CAPPELLI
HONORABLE GORDON DENLINGER
HONORABLE BRIAN L. ELLIS
HONORABLE C. ADAM HARRIS
HONORABLE DAVID R. KESSLER
HONORABLE MICHAEL PEIFER
HONORABLE THOMAS J. QUIGLEY
HONORABLE CHRIS SAINATO
HONORABLE TIM SEIP
HONORABLE RANDY VULAKOVICH

IN ATTENDANCE:

HONORABLE JOHN MAHER

JEAN M. DAVIS, REPORTER
NOTARY PUBLIC

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1 CHAIRMAN LEVDANSKY: Good afternoon.

2 It is a little bit after 1 o'clock, and I see
3 members coming in. My understanding is that this
4 Finance Committee hearing is being shown live on PCN.
5 While there are no cameras present, I understand the
6 room is fixed so that they can take a live feed. So
7 just keep that in mind, for the benefit of the
8 members.

9 Today's hearing of the Finance Committee is
10 on House Bill 2259, legislation that would extend
11 the prudent-person doctrine sunset by an additional
12 2 years.

13 "Prudent person" commonly refers to, and I
14 quote, "...to the exercise of that degree of judgment
15 and care under the circumstances then prevailing
16 which persons of prudence, discretion and
17 intelligence who are familiar with such matters
18 exercise in the management of their own affairs not
19 in regard to speculation but in regard to the
20 permanent disposition of the funds, considering the
21 probable income to be derived therefrom as well as
22 the probable safety of their capital." That's the
23 definition of "prudent person."

24 This concept has existed in the Fiscal Code
25 as far back as 1982, but at that time it simply

1 applied to the then existing investment alternatives,
2 which were fixed income in nature.

3 The prudent person sunset that this bill has
4 addressed in previous sessions of the Legislature
5 deals with the authority of the Treasurer to invest
6 in equity securities as well as mutual funds.

7 The investment in these securities over the
8 recent years since they have been authorized has
9 permitted the Treasury to significantly increase the
10 return which has benefited the Commonwealth's
11 taxpayers.

12 Today's agenda consists of Robin Wiessmann.
13 Robin is the Treasurer of the Commonwealth of
14 Pennsylvania. Robin, welcome, and I know you brought
15 your capable staff with you.

16 The second person that will be testifying is
17 Representative John Maher.

18 With that, I would like to recognize my
19 fellow Chairman, Representative Steven Nickol.

20 REPRESENTATIVE NICKOL: Thank you, Chairman
21 Levdansky.

22 The prudent person investment doctrine, as
23 the Chairman indicated, was extended to equity
24 investments, and it seems like we are back here every
25 2 years to look at whether or not we should

1 reauthorize that. So I think it will be interesting
2 to just get a better understanding as to what
3 Treasury has done with prudent person and the
4 extension of this authority.

5 I have worked with Treasurer Wiessmann on the
6 PSERS Board, and I have great respect for her, and I
7 think maybe she is someone in a unique position in
8 that she's an interim Treasurer, not seeking
9 reelection, and it will be interesting to hear her
10 comments with regard to prudent person.

11 But one thing that has struck me is in trying
12 to look at this issue and trying to get some
13 understanding of just what Treasury has done with the
14 authority, I made a request of documents, which the
15 Treasurer has been most gracious in terms of
16 fulfilling, and I understand it took a lot of effort
17 for them to collect this document, to gather all the
18 information and put it into one document.

19 I found that interesting, because one of the
20 reasons I had asked for the information is I couldn't
21 find that information anywhere. I could find it with
22 TSIB, the Tobacco Settlement Investment Board, and
23 how their investments are structured and where they
24 are making it and the fees by manager and find it
25 with the pension funds, but I couldn't find anything

1 similar in one place for Treasury.

2 You know, if I made a call to any of the
3 other entities, I would have just gotten a simple
4 report that was already prepared. And Treasury got
5 this together, and I really appreciate your time and
6 effort, and I am hopeful that the Treasurer will be
7 looking at perhaps making this a permanent feature of
8 Treasury, to be able to develop a reporting system
9 whereby the General Assembly can be advised of these
10 things in one unified format similar to these other
11 entities.

12 With that, I look forward to the Treasurer's
13 testimony, and I turn it back over to the chair.

14 CHAIRMAN LEVDANSKY: Thank you, Chairman
15 Nickol.

16 I would just like to first ask members to
17 identify themselves, starting to my far left.

18 REPRESENTATIVE KESSLER: Dave Kessler, Berks
19 County.

20 REPRESENTATIVE MAHER: John Maher, Allegheny
21 and Washington Counties.

22 REPRESENTATIVE HARRIS: Adam Harris, Juniata,
23 Mifflin, and Snyder.

24 REPRESENTATIVE ELLIS: Brian Ellis, Butler
25 County.

1 REPRESENTATIVE CAPPELLI: Steve Cappelli,
2 Lycoming County.

3 REPRESENTATIVE QUIGLEY: Tom Quigley,
4 Montgomery County.

5 REPRESENTATIVE SAINATO: Chris Sainato from
6 Lawrence and a small section of Beaver County.

7 REPRESENTATIVE SEIP: Tim Seip, the 125th,
8 Berks and Schuylkill Counties.

9 REPRESENTATIVE PEIFER: Mike Peifer, the
10 139th District, which is Pike, Wayne, and Monroe
11 Counties.

12 REPRESENTATIVE VULAKOVICH: Randy Vulakovich,
13 the 30th District, Allegheny County.

14 REPRESENTATIVE BOYD: Scott Boyd, the 43rd,
15 Lancaster County.

16 REPRESENTATIVE DENLINGER: Gordon Denlinger,
17 the 99th District, eastern Lancaster County.

18 CHAIRMAN LEVDANSKY: I appreciate the
19 members' attendance.

20 I will turn it over to you, Treasurer
21 Wiessmann. Welcome.

22 TREASURER WIESSMANN: Thank you very much,
23 and I also thank you all very much for attending and
24 your interest in the Commonwealth's funds.

25 I would like to give you some testimony, read

1 some into the record that I think is worth listening
2 to, because it does lay out a framework and approach
3 to prudent person and the entire approach to the
4 current operation of Treasury.

5 For the record: Chairman Levdansky, Chairman
6 Nickol, and members of the House Finance Committee, I
7 want to thank you for giving me this opportunity to
8 discuss House Bill 2259.

9 I am here today requesting your support for
10 House Bill 2259, which extends part of the investment
11 authority for Treasury's funds.

12 The extension will allow Treasury to continue
13 to broadly invest in securities, including equities
14 and mutual funds, until December 31, 2010, and
15 provides the appropriate authority to obtain
16 reasonable returns with reasonable risk assessment.

17 The investment authority being extended has
18 benefited the entire Commonwealth by generating
19 nearly \$790 million since 2001. This figure is
20 derived by taking the difference between the return
21 with equities versus the return that would have been
22 obtained without the addition of equities to
23 Treasury's fixed-income investments.

24 I would also like to take this opportunity to
25 present a general overview of Treasury's investment

1 activities and answer any questions you may have
2 about Treasury's programs and services.

3 Before I begin, I would like to compliment
4 the entire Treasury staff for their dedication and
5 hard work. I have worked diligently to foster a
6 constructive, energetic, collaborative, and
7 professional environment within the department for
8 our experienced, talented, and devoted people. I
9 would especially like to commend them for navigating
10 the difficult financial markets we have been
11 experiencing this past year.

12 My term as Treasurer has been a gratifying
13 and invigorating professional experience thus far. I
14 have very much enjoyed working closely with the
15 Legislature to expand and promote Treasury's many
16 programs and services. Much of our success is due to
17 the strong support of the General Assembly. I am
18 confident that your support of House Bill 2259 will
19 allow Treasury to continue its good work.

20 As many of you know, I launched the
21 *e-Treasury Pennsylvania* initiative in September.
22 the goal of this program is to create a framework
23 for enhanced efficiency, high professional
24 standards, transparency, and, above all else, good
25 governance.

1 As the expression "*e-Treasury*" implies, the
2 emerging department will be progressive in both
3 outlook and performance.

4 *e-Treasury* envisions a Treasury that
5 safeguards the financial assets of all
6 Pennsylvanians; employs modern business practices;
7 constantly updates information technology; optimizes
8 savings and revenues; and exercises highest business
9 standards.

10 We are currently in the last round of reviews
11 on the *e-Treasury Pennsylvania* report. The document,
12 which will be constantly updated, will detail the
13 issues that Treasury should address and offer
14 recommendations on how to implement them.

15 I look forward to sharing the final report
16 with the members of the General Assembly and the
17 residents of Pennsylvania, along with my plan for
18 implementing the recommended changes.

19 One of the areas on which *e-Treasury*
20 *Pennsylvania* focused is financial asset management.
21 This focus is driven by my commitment to utilize my
22 many years of experience in public and private
23 finance to serve as a prudent and vanguard investor
24 for the Commonwealth's funds and to provide effective
25 stewardship of those funds and investments.

1 All public investments, whether undertaken by
2 a Treasurer or a pension fund, are made pursuant to
3 the prudent-person rule or a derivation thereof. For
4 example, the Pennsylvania pension funds operate under
5 the prudent-investor rule.

6 The concept was formally established by a
7 Massachusetts jurist providing guidance to trustees
8 in the early part of the 19th century. He directed
9 investments in a manner by which "men of prudence,
10 discretion, and intelligence manage their own
11 affairs, not in regard to speculation but in regard
12 to the permanent disposition of their funds,
13 considering the probable income, as well as the
14 probable safety to the capital to be invested."

15 The rule has gained widespread application
16 and evolved to reflect changing investment
17 philosophies. Today, the rule is reflected in the
18 current Fiscal Code, which is particularly relevant
19 to Treasury's investment portfolio where investments
20 are considered both individually and within the
21 context of the overall portfolio.

22 The Treasurer serves as custodian of nearly
23 \$122 billion and actively invests approximately \$19.1
24 billion. Treasury oversees investment pools on
25 behalf of various investors. These pools include

1 those dealing with funds from the Commonwealth,
2 individuals, local governments, and nonprofit
3 organizations.

4 Under Treasury's Investment Policy, "the
5 investment strategy for each investment pool reflects
6 a unique application of the prudent person test,
7 drafted specifically to balance the investment
8 criteria in an appropriate manner for these
9 particular investors." That's stated on the first
10 page of the policy.

11 Further, that policy provides that Treasury
12 seek "quality investments that will maximize the
13 likelihood that each pool will consistently satisfy
14 its respective program requirements. Quality
15 investments are those that are suitably conservative
16 while still projected to outperform the relevant
17 market benchmarks, net of all fees and expenses, over
18 the appropriate time horizon."

19 Finally, Treasury will actively "pursue
20 investments offering a reasonable risk-adjusted rate
21 of return, appropriate to each pool and equal or
22 superior to comparable alternative investments
23 available to the pool, that also provides a positive
24 stimulus to strategic segments of Pennsylvania's
25 economic base, communities and citizens." That's

1 found on pages 6 to 7.

2 As of March 31, 2008, Treasury had
3 approximately \$17.4 billion in investments under
4 management contained in 140 funds. Treasury's two
5 largest pools, labeled Pool 98 and Pool 99, invest
6 the Commonwealth's operating moneys.

7 Pool 98, the Common Investment Pool, which
8 contained \$7.8 billion as of March 31, 2008, is a
9 variable share price investment vehicle that seeks to
10 generate additional investment return over time by
11 investing in fixed income and equity securities.

12 Pool 99, the Liquid Asset Pool, which
13 contained \$2.5 billion as of March 31, 2008, is a
14 stable share price investment vehicle that invests
15 exclusively in fixed-income securities, primarily of
16 short duration.

17 Pool 98 is the repository of the bulk of the
18 assets and transactions. As the checking account for
19 the Commonwealth, it must contain the liquid assets
20 required to meet the daily payment demands. In 2007,
21 Treasury was responsible for 23 million payments
22 totaling over \$64 billion.

23 Pool 98 also contains the security
24 investments authorized by Section 301.1(i) of the
25 Fiscal Code, which is currently scheduled to expire

1 at the end of the year.

2 As I stated earlier, this additional
3 investment authority has generated returns of nearly
4 \$790 million more since 2001 than if we had invested
5 solely in an assortment of fixed investments without
6 equities added to our allocation mix.

7 These investments, like all Treasury's
8 investments, are governed by the prudent-person rule.
9 For the most part, these investments are made through
10 investment managers, with the assistance of an
11 investment advisor.

12 The remainder of Pool 98's investments
13 contain assets that represent most of Treasury's
14 Strategic Investment Opportunity category. These
15 investments returned a yield of approximately
16 5.45 percent for the calendar year 2007.

17 The authority for such investments predates
18 the section under discussion and includes many
19 investments that have been held for a significant
20 number of years, including Israeli bonds and notes
21 from PHEAA.

22 Two of the more recent investments include
23 the Keystone Home Energy Loan Program -- KeystoneHELP
24 -- and the Credit Union Better Choice program.

25 I would like to thank the House for its

1 unanimous support for the continuation and expansion
2 of KeystoneHELP in Special Session House Bill 1. The
3 amendment, which provides \$5 million to Treasury,
4 will leverage more funds to be used for moderate
5 interest loans for energy-efficient improvements and
6 other energy-related loans.

7 This initiative was recently expanded with
8 the initiation of a Pennsylvania Housing Finance
9 Agency program that now allows larger loans for
10 KeystoneHELP's energy-efficient projects. We look
11 forward to working with you to make this proposal
12 law.

13 Finally, I would like to talk about the
14 Credit Union Better Choice program, which Treasury
15 developed in conjunction with the Pennsylvania Credit
16 Union Association.

17 Credit Union Better Choice is believed to be
18 the only program in the nation to provide a statewide
19 alternative to payday lending, protecting consumers
20 from the exorbitant fees that oftentimes trap them in
21 a debt cycle.

22 Credit Union Better Choice provides consumers
23 with low-cost, short-term loans and an investment in
24 their futures through the program's financial
25 literacy and savings components.

1 As you all know, it has been my goal as
2 Treasurer to provide effective stewardship of the
3 Commonwealth's funds and investments through calm
4 economic times as well as the rough seas we are
5 currently experiencing.

6 As such, I am committed to keeping an eye out
7 not only for future risks but also for emerging
8 opportunities for positive returns for the
9 Commonwealth.

10 Positive returns can be enhanced, however. I
11 strongly believe that we can do well for our funds
12 and, at the same time, do good for Pennsylvania
13 stakeholders. The KeystoneHELP and Credit Union
14 Better Choice programs are perfect examples of this
15 philosophy.

16 Thank you again for the opportunity to
17 discuss Treasury's operations and programs. My staff
18 and I are here to answer any questions that you may
19 have.

20 And I would like to just address informally
21 for Chairman Levdansky your comment on the prudent
22 person and ask you to indulge me, having repeated the
23 entire rule, but we are exactly on the same page. We
24 said the same thing.

25 And for Chairman Nickol, I would like to

1 respond to your comments about the reporting of
2 Treasury.

3 The reporting of Treasury and the
4 transparency of Treasury is a very important goal of
5 mine, and that is a key element of the *e-Treasury*
6 report that you will be receiving.

7 I am very confident that the Legislature and
8 the rest of the public will be receiving better and
9 more consistent information going forward from
10 Treasury once I am able to implement some of the
11 goals that will be stated in the Treasury.

12 With that, I'm happy to take questions.

13 CHAIRMAN LEVDANSKY: Thank you, Treasurer
14 Wiessmann.

15 Any questions from members?

16 Representative Denlinger.

17 REPRESENTATIVE DENLINGER: Thank you, Madam
18 Secretary, for your testimony. That's appreciated.

19 So just thinking about the practical
20 implications of the failure to extend prudent-person
21 policy, it would push us toward the more conservative
22 posture, as an example. Is that fair to say?

23 TREASURER WIESSMANN: It would push us into
24 fixed-income investments, which traditionally have
25 been considered more conservative.

1 As we experienced over this past year, fixed
2 income has actually been quite volatile, so it has
3 traditionally been perceived as a more conservative
4 investment.

5 I think the arguments and the philosophy that
6 prevails in the marketplace now is that diversifying
7 into a number of categories is actually the more
8 prudent mechanism for investments.

9 But yes, in terms of the perception of it
10 being less risky.

11 REPRESENTATIVE DENLINGER: And with
12 fixed-income rates being so low, and I'm seeing some
13 amazingly low numbers these days, it would
14 significantly impair your ability to provide
15 returns for the Commonwealth. Is that fair to
16 say?

17 TREASURER WIESSMANN: That is correct.

18 REPRESENTATIVE DENLINGER: Okay.

19 I'm wondering, we have resolutions and
20 discussions about, for instance, the Darfur region
21 and other trouble spots around the world, perhaps
22 terrorist-sponsoring States. Do the things that we
23 do along those lines handcuff the Treasury as far as
24 your investment strategy? What is the practical
25 impact there?

1 TREASURER WIESSMANN: Treasury is responsible
2 for implementing whatever legislative determinations,
3 whatever laws, are put into place. As such, we have
4 to find whatever mechanism is available and do our
5 best to fulfill whatever that mandate is.

6 I think that there are, of course, there are
7 always implications for legislation. Whether it
8 handicaps Treasury in terms of its performance,
9 broadly defined, several have described Treasury as
10 the more burden it is going to have in carrying out
11 some of those mandates. But we also are given many
12 different methods that I would respond to. That's
13 what we do as a service organization.

14 So yes, it does have an effect. Is it too
15 challenging? I would not say so.

16 REPRESENTATIVE DENLINGER: Specifically right
17 now, we are having a discussion about the Darfur
18 region. Does Treasury hold significant investments
19 in that region, or would a prohibition on investments
20 in the neck of the Darfur be a serious impact to the
21 Treasury?

22 TREASURER WIESSMANN: Treasury does not hold
23 a significant, you know, of direct investments in the
24 Darfur region, so it would not have a significant
25 impact on it.

1 I should remind you that we have established
2 Pennsylvania Investment Principles in Treasury, which
3 require us to look broadly at all of the financial
4 factors of both traditional and extra financial
5 factor in terms of our investment portfolio, to take
6 a very comprehensive review of our investments. And
7 as a result, there is the possibility that we would
8 make a decision to invest or divest from any sector
9 at any point in time, you know, at a particular point
10 in time.

11 As a result of that, we did divest from one
12 company already in the Sudan, in the Darfur region,
13 because of our concerns on the financial basis for
14 their inclusion on our portfolio and their lack of
15 transparency to us as a security. Whether that was a
16 security in Darfur or whether that was a security in
17 India or in Des Moines, Iowa, probably the financial
18 concerns as well as the lack of transparency would be
19 an issue.

20 Having said that, of course, it is also
21 an example of, where we are doing well and
22 protecting our investment portfolio, you can also
23 do good.

24 REPRESENTATIVE DENLINGER: And then one last
25 question, if I may.

1 You had gone to briefly a discussion about
2 the Credit Union Better Choice program, and this
3 committee has had, you know, different bills that
4 relate to payday lending.

5 And as I recall some of the debates that we
6 had on this committee, there was a discussion about
7 whether in fact payday lending should be legal at all
8 within this State. And I admit that just on, you
9 know, personal feelings about that, they were
10 conflicting, and you have kind of opened the door
11 through your testimony on whether it has a
12 professional in the finance field who is also
13 knowledgeable in this area.

14 Is it your feeling that payday lending should
15 be legal in the State of Pennsylvania, or should we
16 take steps to limit it strictly?

17 TREASURER WIESSMANN: I think the Better
18 Choice program is a market that is driven by the goal
19 of provider market alternative, to a market that will
20 exist whether we have payday lending in Pennsylvania
21 or not.

22 There is a significant constituency in
23 Pennsylvania that is unbanked and that lives from
24 paycheck to paycheck and will have extraordinary
25 differences and difficulty in time.

1 Treasury, of course, tries -- and I presume
2 will continue to try -- to provide and foster better
3 banking services to them, that cash flow is a fact of
4 life.

5 So I prefer to look at it in terms of
6 providing better alternatives, and that's why it's
7 called "Better Choice." If we can provide a better
8 choice that also helps people to obtain financial
9 footing, I think it's appropriate to do that.

10 The judgment about whether or not it should
11 be outlawed or not I think is really a regulatory
12 issue as much as it is a financial issue. So that is
13 why I think Better Choice is an excellent option
14 given the circumstances in the marketplace.

15 REPRESENTATIVE DENLINGER: Well, I applaud
16 your direction with providing alternative. I think
17 that is badly needed in the State, so I applaud that
18 effort.

19 Thank you for your testimony.

20 CHAIRMAN LEVDANSKY: Before I recognize
21 Representative Boyd, just a correction to the record.

22 The payday-lending legislation did not come
23 before the House Finance Committee. It's an issue
24 that was dealt with in the Community and Economic
25 Development Committee.

1 REPRESENTATIVE DENLINGER: I got the two
2 committees confused. You are correct, Mr. Chairman.
3 I apologize.

4 CHAIRMAN LEVDANSKY: Representative Boyd.

5 REPRESENTATIVE BOYD: Thank you,
6 Mr. Chairman.

7 Madam Treasurer, it's good to see you.

8 In your testimony you talked about Pool 98,
9 and you referenced the fact that the investments are
10 governed by the prudent-person rule, which is what we
11 are talking about. And you also referred and talked
12 about investment managers and the assistance of an
13 investment advisor.

14 What is the process for selecting an
15 investment advisor? Are there RFPs that go out? If
16 I can ask you, who is the investment advisor
17 currently? And is that something that changes from
18 Treasurer to Treasurer, or what is that process as it
19 goes forward?

20 And then a second question, unrelated. You
21 mentioned in you performance, you measured it to
22 benchmarks. I'm kind of curious, what benchmarks do
23 you work your analysis off of? And I was looking
24 through the information that you supplied to
25 Representative Nickol.

1 TREASURER WIESSMANN: One comment I just want
2 to make to Chairman Nickol on the package, that we
3 did try to entail it specifically to your work, which
4 is why it was very specific to your inquiry.

5 The investment portfolio and the investment
6 advisor were in place prior to my coming into office.

7 I have been in the process of evaluating that
8 for some period of time, and in evaluating, I have
9 some understanding of how they were selected, but I
10 was not there, so I do not know the exact process.

11 The investment advisor is a company called
12 VTL. It is an individual named Vincent Lowry. He
13 has been the advisor for some period of time, for a
14 number of years. And I also have been evaluating
15 that relationship and working with them.

16 I think the selection process is something
17 that I will be addressing very specifically with the
18 new Treasurer, and I would ask and I would hope that
19 you will provide a lot of opportunity for people who
20 are interested in providing investment services to
21 the Commonwealth.

22 And, of course, we are always interested in
23 firms that do business in Pennsylvania as well, so
24 long as they provide the performance that we
25 require.

1 As it relates to the benchmark, the benchmark
2 that we use is a composite in the aggregate, and---
3 I will leave it at that.

4 REPRESENTATIVE BOYD: Thank you,
5 Mr. Chairman.

6 And as a follow-up---

7 TREASURER WIESSMANN: Specifically, it is a
8 60 percent limited aggregate and 30 percent S&P and
9 10 percent -- I'm not sure actually what it is, but I
10 think it is minimal.

11 REPRESENTATIVE BOYD: Okay. Thank you.

12 And just as a brief follow-up, as one of the
13 legislative Representatives on the task force for
14 some time and who has sat in on a number of those
15 meetings and discussed investment returns and how it
16 relates to the Tuition Account Program, I like going
17 to those meetings, and recently they have been
18 scheduled on session days. And I also like pushing
19 my button on the floor, so if there's any way we can
20 work TAP meetings around session days, I would
21 personally appreciate that.

22 TREASURER WIESSMANN: I would be happy to do
23 that, Representative.

24 REPRESENTATIVE BOYD: Okay. Thank you.

25 CHAIRMAN LEVDANSKY: Representative Cappelli.

1 REPRESENTATIVE CAPPELLI: Thank you, Mr.
2 Chairman.

3 Good afternoon, Madam Treasurer.

4 Just for the edification of the members, you
5 mentioned in your opening statement with the
6 materials that you provided us that the Treasurer is
7 in fact or the Treasury Department is in fact a
8 custodian for a number of funds, including SERS and
9 PSERS. But you are not the actual investor or
10 investment manager for those funds, are you?

11 TREASURER WIESSMANN: That's correct. I'm
12 one board member of both of those boards.

13 REPRESENTATIVE CAPPELLI: Okay. Does the
14 prudent-person standard apply to both SERS and PSERS
15 in essence?

16 TREASURER WIESSMANN: Each of those boards --
17 yes, although it's an evolved definition in terms of
18 a prudent investor custodian, and each of those
19 boards have their own interpretations as to what that
20 means. It's a principles-based standard.

21 REPRESENTATIVE CAPPELLI: Okay.

22 Under your strategic investment opportunities
23 -- I believe that's under Fund 98; is that
24 correct?

25 TREASURER WIESSMANN: Yes.

1 REPRESENTATIVE CAPPELLI: I noticed that you
2 are heavily weighted; over 77 percent of those
3 investments are with PHEAA. Is that abnormal? Is
4 that department really typically on an annual basis
5 having that percentage, that bulk, being with PHEAA?

6 TREASURER WIESSMANN: Investment in PHEAA has
7 a long history that developed a number of years ago
8 and started in much lower amounts, but it increased
9 dramatically over the course of a number of years.

10 I'm of the opinion that it's too large for
11 our Fund 98, too much of a percentage of our
12 cash-flow portfolio.

13 I have been and have achieved a reduction for
14 what was a \$700 million to a \$500 million exposure to
15 PHEAA, and I have indicated to them that I think
16 their historical access to the capital markets, that
17 that is where they should be obtaining their cash.

18 They are very aware of that, and I'm very
19 pleased we have been able to do some of the exposure,
20 and I'm expecting that we will be able to reduce it
21 further than that.

22 REPRESENTATIVE CAPPELLI: And again,
23 Madam Treasurer, just for the edification of the
24 members, could you explain what a PHEAA municipal
25 note is?

1 TREASURER WIESSMANN: A PHEAA municipal note,
2 as it relates to all portfolios, it is really a
3 cash-flow financing that enables them to go out to
4 the market to buy student loans.

5 We are a very small piece -- relative to
6 that, it is a very significant piece for Fund 98, but
7 relative for them, they have billions of dollars in
8 their portfolio in terms of loan purchases. So they
9 have access to a lot of other capital.

10 REPRESENTATIVE CAPPELLI: Well, in light of
11 the credit markets and the student loan industry in
12 general, and the lack of Congress thus far to
13 legislate some student-loan-reform legislation, do
14 you see these investments as any type of immediate
15 risk?

16 TREASURER WIESSMANN: Not that they are an
17 immediate risk, but I have stepped up our due
18 diligence and I have engaged in a dialogue and just
19 recently paid down an additional \$40 million. It is
20 something that I would monitor very closely. We have
21 asked them, done a lot more due diligence in terms of
22 our investment with them.

23 REPRESENTATIVE CAPPELLI: Thank you, Madam
24 Treasurer.

25 Thank you, Mr. Chairman.

1 CHAIRMAN LEVDANSKY: Representative Maher.

2 REPRESENTATIVE MAHER: Thank you,
3 Mr. Chairman, and I want to personally express my
4 appreciation to you for inviting me to join the
5 committee today.

6 It has been some years since I have been on
7 the Finance Committee, and I appreciate it, because I
8 think that it would be valuable for the Treasurer and
9 I to actually talk with one another.

10 You had mentioned that the Treasury's pursuit
11 of the Better Choice program was driven by a goal of
12 providing market alternatives. Were you saying that
13 this is something that the market wasn't already
14 providing?

15 TREASURER WIESSMANN: No, the market is
16 providing it. I really was referring to a market
17 rate in the marketplace, meaning something that was a
18 lower rate than what it was.

19 REPRESENTATIVE MAHER: So I'm missing
20 something. So this is something the market is doing
21 or the market is not doing?

22 TREASURER WIESSMANN: Yes, there are many.

23 REPRESENTATIVE MAHER: So there are many
24 players in this marketplace. And what distinguishes
25 this program?

1 TREASURER WIESSMANN: Lower rates, financial
2 literacy training, no rollovers, and a clear
3 repayment schedule.

4 REPRESENTATIVE MAHER: So without any
5 specific direction by statute, you have chosen to
6 pursue lower rates than the market will---

7 TREASURER WIESSMANN: Not lower rates for our
8 investments, certainly. The comparable rates are
9 investments. They are lower than what the
10 competition is---

11 REPRESENTATIVE MAHER: Well, I understand if
12 the folks who are paying are getting some sort of a
13 discounted rate here in the marketplace---

14 TREASURER WIESSMANN: Compared to the---

15 REPRESENTATIVE MAHER: ---how is it that the
16 Treasury is bringing the same return as the
17 marketplace offers for that risk?

18 TREASURER WIESSMANN: The companies that are
19 in the marketplace have very high interest rates on
20 their loans. This is a comparable alternative
21 investment for us in the sense that we give rates
22 that are comparable with those that we would have in
23 our portfolio, which is, by law, fixed income.

24 REPRESENTATIVE MAHER: So payday lending is
25 pretty risky business. I'm still trying to

1 understand how the Treasury can offer rates that are
2 lower to individuals to borrow but yet earn the same
3 return for that risk that others in the industry
4 earn by charging a higher expense. I'm missing
5 something.

6 TREASURER WIESSMANN: Well, the Treasury
7 operates under the prudent-person-rule standard,
8 which requires us to have a shorter term -- in terms
9 of asset allocation, we have a much shorter-term
10 investment horizon because we have to liquidate our
11 securities. So the general turnout with that is not
12 what you might expect for long-term investments,
13 because the market---

14 REPRESENTATIVE MAHER: Well, payday is
15 certainly not long term.

16 TREASURER WIESSMANN: No, payday lending is
17 not, but taking advantage of the rates are tolerated
18 because there's a need that is being filled at a
19 certain interest rate level in the private sector.

20 The private sector will offer what the market
21 will bear, and when people do not have alternative
22 choices, they can pretty much fall to whatever
23 interest rate they want on those loans.

24 REPRESENTATIVE MAHER: Okay. Well, the focus
25 today, of course, is the prudent-investor standard.

1 Do we agree that Treasury bills and Treasury notes
2 are viewed as essentially, in terms of performance of
3 the counter party, riskless investments, and
4 certainly the market interest-rate issues in terms of
5 the counter party, being the Treasury, the risk
6 assumption is zero. Is that fair?

7 TREASURER WIESSMANN: That certainly has been
8 the traditional view. I'm not sure what the view is
9 in the credit markets and the concern that they have
10 to step in. I'm not sure that everybody would say
11 any investment is entirely risk-free today, but they
12 certainly are the highest rated securities.

13 REPRESENTATIVE MAHER: The safest possible
14 investment on a short-term basis in terms of---

15 TREASURER WIESSMANN: Well, there are a
16 variety of different types of Treasury securities.
17 But yes, governmental obligations are generally
18 received as less risky.

19 REPRESENTATIVE MAHER: Now, if you could get
20 a government obligation that is paying X percent,
21 that has a duration that matched your needs for your
22 liquidity and cash flow, can you imagine a
23 circumstance where it would be prudent to accept a
24 lower rate with -- not just a lower rate with risk of
25 return but a rate guaranteed to be lower than a

1 Treasury and also encumbering the Commonwealth with
2 risk of performance of the other party?

3 TREASURER WIESSMANN: Well, I think we are
4 mixing credit and return here a little bit. There is
5 not -- it is a comparable investment -- there is not
6 a give-up. It's not that the Treasuries would
7 necessarily be a higher blended yield for the
8 Treasury Departments.

9 As it relates to credit risk, it is
10 instruction through a credit union with SERS---

11 REPRESENTATIVE MAHER: I'm sorry; I have
12 confused you. I have moved on from the payday issue
13 and I'm just asking conceptually, because ultimately
14 when you look at this legislation, we need to
15 consider this legislation and the broad notion, and
16 then broadly speaking, would it be prudent to accept
17 a rate of return that is guaranteed to be less than
18 the Treasury from some private party that entails
19 risk? It would be a lower rate, higher risk versus
20 the Treasury. Would that be prudent?

21 TREASURER WIESSMANN: No, not if it was an
22 absolutely lower rate, and if the risk reward was
23 that disproportionate, no. But I'm not talking about
24 any give-up in terms of---

25 REPRESENTATIVE MAHER: And if---

1 TREASURER WIESSMANN: I don't think that
2 would be prudent.

3 REPRESENTATIVE MAHER: And I'm not speaking
4 on any particular transaction here.

5 TREASURER WIESSMANN: Right.

6 REPRESENTATIVE MAHER: I'm just talking
7 globally, because we need to frame the language of
8 this legislation globally.

9 TREASURER WIESSMANN: Right. I think the
10 operable word is "comparable" investments at any
11 point in time.

12 REPRESENTATIVE MAHER: But at some point you
13 will probably agree, it sounds like one would not be
14 prudent to accept higher risk and the guaranteed
15 lower rate than a Treasurer, that that might be some
16 sort of a boundary line, for instance?

17 TREASURER WIESSMANN: That's a fair
18 statement, if it's a guaranteed loan risk.

19 REPRESENTATIVE MAHER: Yes; it's guaranteed.
20 Supposedly you have certain alternative investments
21 when you take higher risk and you expect higher
22 returns---

23 TREASURER WIESSMANN: Right; right.

24 REPRESENTATIVE MAHER: And you will never
25 know until the end whether it was a good investment

1 or not.

2 TREASURER WIESSMANN: Right.

3 REPRESENTATIVE MAHER: But you wouldn't enter
4 into something where your best-case scenario---

5 TREASURER WIESSMANN: Right; yes.

6 REPRESENTATIVE MAHER: When you speak about
7 investing in securities, it sounds to me that what
8 your notion to consider is investing in public trade,
9 in stocks, bonds, those sorts of securities. Is that
10 generally, and there may be some exceptions, but
11 generally speaking, you got publicly traded
12 securities?

13 TREASURER WIESSMANN: Yes.

14 REPRESENTATIVE MAHER: And the way the bill
15 is drafted, and, of course, the way it's been through
16 several Treasurers and various parties, it talks
17 about the ability to invest and dispose of any
18 securities.

19 Now, I am not an attorney, but I appreciate
20 that "securities" is a pretty expansive word in State
21 law. If I were to distribute you an IOU that said I
22 will pay you a billion dollars in 100 years at
23 15-percent interest, that's a security.

24 Now, it sounds to me that a prudent person
25 like yourself would say, you know, that may be a

1 security and it may say it is paying 18 percent for
2 100 years, and it may say it is a billion dollars,
3 but I'm not giving you the billion dollars---

4 TREASURER WIESSMANN: I think that you can
5 utilize the definitions for "security." I think what
6 you described is a negotiable instrument.

7 REPRESENTATIVE MAHER: But under
8 Pennsylvania's definition of "securities," it is an
9 expansive definition that includes things like notes
10 receivable, notes payable.

11 For instance, Joe at the corner gas station.
12 If I walk into a bank that says FDIC insurance,
13 \$100,000 guaranteed, I have no risk, and I deposit
14 \$100,000, and the bank is saying they will pay me 2
15 percent, but the fellow at the gas station next door
16 says, I will allow you to invest in my gas station
17 and I will give you preferred stock, which is
18 3 percent, well, you certainly would be taking on
19 more risk, and I don't think you would invest in that
20 gas station.

21 TREASURER WIESSMANN: Well, I think -- and I
22 understand what you are saying, that this is too
23 broad a concept. I would have to refer to the
24 committee's counsel or my counsel to really
25 scrutinize what the definition of "security" is under

1 Pennsylvania law. But I will say to you that our
2 understanding of the prudent-person legislation is
3 much more circumscribed in terms of securities.

4 REPRESENTATIVE MAHER: And I really do
5 applaud that, and what I am -- at this point in time,
6 and it is a good time for us to be revisiting this
7 statute, because there was no statutory rule that --
8 it is not personal; it is not about any individual.
9 This is a subject I have been concerned about,
10 whether it has been a Republican or a Democrat
11 Treasurer, when they have been elected or appointed,
12 and it just strikes me, I think when we discussed
13 this, we have a shared understanding of the
14 opportunities, the horizon of opportunities that are
15 desirable for the Treasury to enhance and then
16 accomplish something in return, but that horizon is
17 actually a subset of what is actually permitted under
18 the way the words have been drafted historically.

19 TREASURER WIESSMANN. Right.

20 REPRESENTATIVE MAHER: And would it be fair
21 to say that if we were able to refine that language
22 to get to that sweet spot, the zone of desirable
23 investments, it could be a nice legacy for you as
24 appointed Treasurer for us to be able to come
25 together and actually frame this language in a way

1 that could embrace desirable avenues of investment
2 and clearly prescribe less desirable things.

3 TREASURER WIESSMANN: Well, I actually think
4 that that could be a challenge in terms of having any
5 effect, and it certainly, I think, any minimal
6 investment policy, I think that it is a concern to
7 stipulate too much, looking back to more frequently
8 than every 2 years, if you spend a lot of time trying
9 to figure out how to define "security."

10 Let me suggest that you think about the fact
11 that security in this context is within the context
12 of a prudent-person standard, and the scenarios that
13 you are describing I do not think would be deemed
14 prudent.

15 REPRESENTATIVE MAHER: So I guess---

16 TREASURER WIESSMANN: So, you know, it would
17 be a much -- and I would be concerned about
18 stipulating on why the different specific
19 requirements as opposed to keeping it principles
20 based.

21 REPRESENTATIVE MAHER: And I'm a firm
22 believer in terms of principle versus loopholes. I
23 mean, the IRS Code is a great example, and the more
24 rules you write, the more they have to sort of run
25 around, and therefore you, as Treasurer, would choose

1 not to do these things.

2 But what is prudent to you, to me, we all
3 have a different measure of that question, but there
4 are certain things that we can agree on that just
5 will never be appropriate, and it sounds like those
6 would not limit your ability to invest the way you
7 would invest and to put up some parameters on some
8 principles.

9 I believe that we can accomplish the goal of
10 permitting a broad range of investments that are
11 desirable while fencing out those that are clearly
12 nondesirable, and I appreciate you coming today and I
13 will be with you today in the pursuit of that.

14 I'm glad we could have this conversation.

15 TREASURER WIESSMANN: And if I could just
16 suggest, I think that the law the way it is written
17 and the parameters of prudent person and certainly
18 the concept of "security" are laid out well.

19 We do have investment policy, which we will
20 make public, which delineates those things that we
21 will or will not invest in. And I would suggest that
22 the oversight or renewing or looking at our
23 investment policy is a better vehicle than trying to
24 legislate.

25 So that's something I will share with you. I

1 think you will find we have a number of big
2 investments, for example.

3 REPRESENTATIVE MAHER: Thank you.

4 CHAIRMAN LEVDANSKY: Chairman Nickol.

5 REPRESENTATIVE NICKOL: Thank you.

6 Just as a follow-up, because I found the
7 interchange interesting, I looked at a book prepared
8 by the National Association of Treasurers. I don't
9 know if that is the formal name, but, you know, it is
10 all the Treasurers getting together periodically, and
11 it had some interesting information. I found that, I
12 think, it was a little more than half the States have
13 prudent-person-investment authority.

14 But most of the States that do, Pennsylvania
15 was different in that those States had investment
16 boards, where a Treasurer alone could make the
17 decision, but the Treasurer meeting with an
18 investment board with other State officials could
19 make a decision as to what instruments were open to
20 investment.

21 And I'm just kind of curious, do you have any
22 kind of investment board? I mean, I don't know if
23 one was formally created in statute; maybe I'm just
24 not aware of it. But do you have to run, as
25 Treasurer, do you have to meet with any group of

1 people, like the Budget Secretary and others, to
2 discuss areas of investment and things like that,
3 like other States do?

4 TREASURER WIESSMANN: We currently do not
5 have anything by statute that I am aware of. We do
6 have an investment committee internally that the
7 Treasurer meets with, and staff is very, very active
8 in it.

9 I do think oversight is driven in large part
10 due to the budget process and the budgetary process.
11 And I will also tell you that I am recommending that
12 we have an advisory counsel established. I will be
13 recommending that.

14 REPRESENTATIVE NICKOL: Thank you.

15 TREASURER WIESSMANN: I would say, though,
16 that it should be given to those circumstances that
17 it should be composed of the people who have
18 expertise in the financial markets.

19 REPRESENTATIVE NICKOL: I know in some of the
20 other States, they have included on their investment
21 boards people such as the chief investment officer,
22 or people like that who would routinely be engaged in
23 investments at that level, along with State
24 officials.

25 TREASURER WIESSMANN: Well, I think -- yeah,

1 I think that's a great point. That's another aspect.
2 I think that there should be greater
3 cross-communication among all of the investment
4 entities in the Commonwealth, and I will actually
5 recommend that as well.

6 REPRESENTATIVE NICKOL: With regard to
7 prudent person in terms of equity securities, I
8 looked at the document that I got before the meeting
9 here today on Pool 98, and I see a pie chart, and
10 there is a listing of domestic equities and others,
11 but no international equities.

12 I'm curious, has prudent person led to
13 pressure to invest in that at all like our two
14 pension funds have.

15 TREASURER WIESSMANN: We are planning on
16 increasing our exposure to that. We have been
17 reviewing and analyzing our asset allocation, and we
18 recognize that that is an area that we need to add
19 to.

20 REPRESENTATIVE NICKOL: Another area that the
21 two State pension funds have, really their earnings
22 boost, has been alternative investments, including
23 investment in private equity and venture capital
24 funds. Is Treasury presently invested in any
25 alternative investments of that nature?

1 TREASURER WIESSMANN: We have within or we
2 have some very, very small amounts that were directed
3 in terms of -- we do not have any hedge funds, but we
4 had one, actually two, but we do have one hedge fund,
5 very small, and then we also have one private equity
6 fund, very small.

7 I think because Fund 98, the Commonwealth's
8 Treasury has the checking account and the banking
9 account for the Commonwealth. The percentages that
10 we have been able to allocate to more aggressive
11 investments in pursuit of outgoing would be very,
12 very small on a relative basis. And I would probably
13 argue at some point and to some degree that they
14 would be prudent, and that's the balancing act that
15 we need to do in terms of our asset allocation.

16 REPRESENTATIVE NICKOL: All right.

17 I assume I'm correct in that you didn't make
18 those investment decisions; those were made by your
19 predecessors?

20 TREASURER WIESSMANN: That's correct.

21 REPRESENTATIVE NICKOL: Yeah; I didn't see
22 it.

23 TREASURER WIESSMANN: There are only two.
24 That's why it doesn't even show up on the pie chart,
25 it's so small.

1 REPRESENTATIVE NICKOL: I was looking over
2 the list of 19 investment managers, and
3 Representative Boyd had discussed benchmarking.

4 I know with the Tobacco Settlement Investment
5 Board and PSERS and SERS, we allocate those assets
6 with managers with the different styles and we
7 benchmark each one differently. And I know in our
8 reporting of investments, that information is made
9 public. Is that something that Treasury has and
10 Vince Lowry or someone like you is providing these
11 e-tracks for the Treasury's investments?

12 TREASURER WIESSMANN: The benchmarking?

13 REPRESENTATIVE NICKOL: The benchmarking for
14 individual managers---

15 TREASURER WIESSMANN: Yes.

16 REPRESENTATIVE NICKOL: ---whether individual
17 mandates are, whether it might be, you know, small
18 caps or whatever and how they are performing versus
19 their only individual benchmark.

20 TREASURER WIESSMANN: Right. Well, dare I
21 say we run three for three. That is something that
22 needs to be improved on. We do have benchmarks, but
23 I think they can be tailored more correctly to the
24 asset classes that they represent.

25 REPRESENTATIVE NICKOL: Yeah, and I do---

1 TREASURER WIESSMANN: We have a broad
2 benchmark.

3 REPRESENTATIVE NICKOL: Yeah; a broad
4 benchmark can cover a lot of sins, too. I mean, it
5 would be very interesting for me to look at how each
6 of these different managers are performing versus
7 their -- I assume they are all benchmarked, because
8 I'm not aware of the other boards I served on putting
9 a mandate with anyone without benchmarking them.

10 But, you know, that kind of information I
11 applaud. I think you are in a perfect position to
12 deal with transparency---

13 TREASURER WIESSMANN: I agree with you
14 completely.

15 REPRESENTATIVE NICKOL: ---and that
16 information of that nature, you know, would be great
17 to have available.

18 The Senate has considered similar legislation
19 for prudent person, and I note that they included
20 language giving the Auditor General greater authority
21 in terms of the review, or an audit of Treasury
22 itself. Is that language that Treasury supports?

23 TREASURER WIESSMANN: You are talking about
24 the auditing of the securities that are held?

25 REPRESENTATIVE NICKOL: Yes.

1 TREASURER WIESSMANN: My understanding is
2 that is a modernization to reflect the reality of
3 today's book entry on the securities. I don't
4 believe it goes to the heart of the auditing process.
5 That is, in order for the auditor to audit the
6 securities on book entries as opposed to physically
7 looking, yes, I think it's probably long overdue.

8 REPRESENTATIVE NICKOL: Would this give the
9 Auditor General power beyond just saying that your
10 books are great, you know, or correct, but to look
11 into the individual securities or equities themselves
12 or beyond just the book entry itself?

13 TREASURER WIESSMANN: Look into the
14 securities as -- the short answer is, I don't believe
15 so, but I'm not sure what you mean by looking into
16 them. I don't think the Auditor's role is evaluating
17 overall performance. It is usually about adequacy of
18 the disclosure and the consistency of reporting
19 results and that type of thing.

20 REPRESENTATIVE NICKOL: Okay.

21 TREASURER WIESSMANN: But I can get back to
22 you on that. I will refer to -- I will speak with my
23 counsel about that.

24 REPRESENTATIVE NICKOL: Yeah; I was curious,
25 because the Auditor General is much more active in

1 terms of performance audits as well, and I didn't
2 know if this was limiting or would allow the Auditor
3 General to do a performance audit of Treasury as well
4 as, as Auditor General, overseeing with regard to
5 PSERS and SERS.

6 TREASURER WIESSMANN: Yes. I would refer to
7 my counsel on that.

8 MR. PANDELADIS: One of the things that---

9 CHAIRMAN LEVDANSKY: Could you identify
10 yourself for the stenographer?

11 MR. PANDELADIS: Leo Pandeladis, Chief
12 Counsel for Treasury.

13 The language that was inserted into the
14 Senate Bill was the equivalent of the House Bill we
15 are discussing.

16 It is actually, if you take a look at that
17 bill, there's a repealer section to that, and if you
18 examine the repealer section, it shows where in the
19 current -- it is not an actual Fiscal Code provision,
20 but it is in part of the same title in the back.

21 It is taking a provision from a stand-alone
22 and putting it into the Fiscal Code, modernizing the
23 language. It's intended as a modernization. It
24 dates from the time where an auditor would go in and
25 see if there was a physical certificate and check to

1 see that the number of certificates that we are
2 indicating is in the Treasury's position or actually
3 in the vault.

4 So it is just an acknowledgment that times
5 have changed. The way that we track this information
6 is no longer the way it was in the twenties, and it
7 has just updated that and it is being incorporated in
8 the Fiscal Code and the bill as a stand-alone.

9 REPRESENTATIVE NICKOL: Okay. So I take it
10 that Treasury is in support of that additional
11 language.

12 MR. PANDELADIS: It allows the Auditor
13 General to issue, hopefully, a complete report as
14 opposed to now where they all issue a report and
15 indicate that they have not been able to fully verify
16 the information, because there are no physical
17 certificates to examine.

18 REPRESENTATIVE NICKOL: Thank you.

19 The IFS audit of the two pension funds cited
20 in this year's services had focused on one other
21 item, which I'm curious to get your reaction to, and
22 you are probably the appropriate -- in a better
23 position to answer this than people running or had
24 run for the office, and they mentioned that both
25 pension boards should start looking at ethics.

1 And, for example, myself serving on the PSERS
2 Board, I raised money for my own reelection, you
3 know, should I be taking money from people I'm doing
4 business with? And they have advised both pension
5 boards, and I know PSERS is in the process of
6 considering updating its ethics standards. I know
7 Arthur Levitt has talked about this, the former head
8 of the SEC.

9 Should we be looking at putting limits with
10 regard to Treasurers, future Treasurers, doing
11 business with people that they have raised funds from
12 or have raised funds on their behalf?

13 TREASURER WIESSMANN: The point---

14 REPRESENTATIVE NICKOL: I mean, we are
15 getting just a grand authority or rate authority with
16 prudent person.

17 TREASURER WIESSMANN: Right. Well, I would
18 hope that they wouldn't being correlated, if you
19 will.

20 But the most substantial portion of my
21 Treasury report relates to governance. I have
22 actually had conversations with Arthur Levitt about
23 governance and transparency previously and
24 historically, and I think it is an area that deserves
25 significant improvement and bolstering, and I plan to

1 do that for my own report as well.

2 REPRESENTATIVE NICKOL: Thank you.

3 Thank you, Mr. Chairman. That is all the
4 questions I have.

5 CHAIRMAN LEVDANSKY: Thank you, Chairman
6 Nickol.

7 Treasurer Wiessmann, yesterday in the
8 business section -- Sunday's; I'm sorry -- business
9 section of the Pittsburgh Post-Gazette is an article
10 entitled, "Governments debate investment choices,"
11 and essentially the gist of the article is that, you
12 know, State governments are looking at the whole
13 issue of social investments. It could be Darfur,
14 but what seems to be a hot topic right now is
15 divesting in companies that do business in terrorist
16 nations.

17 They went on to discuss how difficult it was
18 to in fact divest in companies that do business in
19 terror nations, given the range of investment options
20 that State Treasurers have.

21 From your perspective, if, for example, we
22 passed a piece of legislation requiring the State to
23 divest itself of holdings and equities in companies
24 that do business in terror nations like Iran and
25 North Korea and others, would Treasury be able to

1 follow such a requirement? Or given that the world
2 of finance and with the growth of mutual funds, is it
3 something that would be problematic or is it
4 something doable, from your perspective?

5 TREASURER WIESSMANN: In order to
6 specifically target or disengage in divestment,
7 particularly securities, and whoever is doing
8 investing needs to utilize the screen to look for
9 options or use negative screens to see what, if we
10 kick something out of your portfolio.

11 Screens have been in use for a long time.
12 There have been a lot of negative screens, and the
13 Commonwealth has some of them in terms of alcohol or
14 tobacco, and it has been done. Every time you
15 invest, you are making a conscious decision to be in
16 a sector or not be in a sector. So what you are
17 doing continually, in a sense, is screening for these
18 things.

19 Having said that, today's marketplace and the
20 proliferation of so many different investment
21 vehicles does make it much more difficult to track
22 actual holdings.

23 I think -- and Representative Nickol would be
24 very interested in this -- I think that raises some
25 questions about knowing what your investments are

1 from a credit standpoint. I think we should probably
2 be able to see all the way through to what our actual
3 holdings are.

4 I know that's a concern of many public
5 entities as it relates to the mutual funds they own
6 or their hedge funds or what the underlying
7 securities are.

8 Having said all that, you can do it. It is
9 complex, but the financial investment world is a
10 complex environment, and it's not as difficult -- I
11 think it depends on your perspective.

12 The arguments are made that it is difficult
13 and that it will cost a lot of money, and I think you
14 have to make sure that you are looking at what your
15 alternative investments are, and I think you have to
16 look at what is practical for you to divest from.

17 Most of the legislation that has been
18 suggested exempts the mutual funds because they
19 realize there is recognition, so it goes primarily to
20 individual holdings.

21 But the market, and I was actually asked this
22 someplace else, but the market responds and the
23 private sector responds to what the market demands,
24 and if there's an interest in screening for whatever
25 reason, the market will respond to that.

1 CHAIRMAN LEVDANSKY: Thank you.

2 Representative Sainato.

3 REPRESENTATIVE SAINATO: Thank you,

4 Mr. Chairman.

5 I just want to follow up on what Chairman
6 Levdansky was asking.

7 What types of things is the State not
8 investing in? You alluded to a few things.

9 TREASURER WIESSMANN: Yes, I do have a whole
10 list actually. Let's see if I can find them. That's
11 the investment funds.

12 The lighting in here is horrible. I thought
13 when I came over that I might not need my glasses,
14 but now with the lighting, I can see that I do.
15 Excuse me.

16 The prohibited investment activity includes
17 options and futures contracts; commodities; private
18 placements; real estate properties; interest-only,
19 principal-only, and residual tranche collateralized
20 mortgage obligations; letter stocks; short sales;
21 margin trading; and securities issued by
22 China Petroleum and Chemical Corporation or its
23 subsidiaries.

24 And I should say also there are cash
25 management operations. This past summer when the

1 markets really were very challenging, we took some
2 very proactive steps to make sure of our money market
3 funds before they were hit.

4 So the staff has been very, very vigilant in
5 terms of reducing exposure even to those conventional
6 securities, that, you know, that run in duress or
7 would, you know, return a much bigger credit or
8 investment return.

9 REPRESENTATIVE SAINATO: Okay. I understand
10 the difficulties in making those decisions, Treasurer
11 Wiessmann. As you had mentioned, alcohol, tobacco,
12 things like that, we are not investing in any of the
13 major conglomerates.

14 TREASURER WIESSMANN: I'm sorry; the major---

15 REPRESENTATIVE SAINATO: The major
16 corporations, like RJR, like Anheuser-Busch. We
17 aren't doing any of that?

18 TREASURER WIESSMANN: Oh; actually, one of
19 the things that has evolved historically in terms of,
20 for example, in alcohol and tobacco, is that many of
21 the corporations diversify their business, so they
22 wouldn't be deemed as a significant operation, and
23 that is one way they have coped with markets.

24 But the paragraph that we have says, "No
25 investments may knowingly be made in the securities

1 of a company where a significant portion of its
2 business operations is related to the manufacture of
3 tobacco products or alcoholic beverages. The
4 determination of whether a company is subject to this
5 prohibition will be made by consideration of publicly
6 available information, including Standard Industrial
7 Classification...codes."

8 REPRESENTATIVE SAINATO: Who made that
9 decision?

10 TREASURER WIESSMANN: It predates the
11 previous Treasurer. I think they were both done at
12 different times. One was during the time period when
13 there was all this tobacco litigation, and obviously
14 they worked through the investments at that point,
15 because the companies, there was all this off-balance
16 sheet potential liability.

17 REPRESENTATIVE SAINATO: I guess my concern
18 is that you are reading all these lists that you
19 can't invest in, and I think the most important thing
20 to do is to make sure that the State is making money
21 in its investments---

22 TREASURER WIESSMANN: Of course.

23 REPRESENTATIVE SAINATO: ---because in the
24 end, the taxpayers get stuck with the bill. I mean,
25 some of the biggest gainers in the last few years

1 have been diversified companies in tobacco and
2 alcohol and those types of things. If we miss out on
3 that opportunity as diversified companies, or even as
4 Chairman Levdansky asked about the companies that may
5 invest in foreign nations that are not as friendly, I
6 mean, most multinationals are in every country.

7 I mean, would you say -- I don't want to
8 mention names per se, but you have soft-drink makers,
9 you have food producers, and things like that, that
10 if they do business with one of those companies, does
11 that mean that you can't invest in those either.

12 TREASURER WIESSMANN: Well, typically, just
13 bear in mind what I said, that this is a very complex
14 topic, but it is what investment managers do day in
15 and day out.

16 I think you have to bear in mind that you are
17 making sector bets with whatever you invest in and
18 whatever you don't invest in. And the fact of the
19 matter is, you have to look at what your alternative
20 investments are, and many of the circumstances where
21 people or where entities have made decisions about
22 divestments or alternative choices, they have carved
23 out exceptions.

24 For example, it is divestment in things that
25 have nothing to do with arms. You know, humanitarian

1 products are exempted from that.

2 And there are screens available. People do
3 know, they are SEC-regulated companies. They have to
4 disclose what their businesses are and they have to
5 be responsive.

6 So you can ascertain that, and I think you
7 then can make a reasonable judgment. It's a matter
8 of -- I think taking away judgment is not an
9 appropriate thing to do, but I think applying
10 judgment in each particular circumstance is a very
11 appropriate thing to do, if that's the desire either
12 of the Legislature or the entity who is making that
13 decision from an investment standpoint.

14 REPRESENTATIVE SAINATO: I agree with you,
15 Treasurer Wiessmann. I'm just saying, though, I
16 mean, we have these debates in the Legislature, and
17 we have some members of the Legislature who don't
18 want us to invest in anything because it has an
19 effect on the environment, if has an effect on this,
20 an effect on that.

21 And they have tried to do that on the State
22 retirement systems, and every time that we try to do
23 that, we hear from these organizations who say, leave
24 us alone; let us make money so the taxpayers don't
25 have to foot the bill. And it seems like you seem to

1 be experiencing some of those same problems, you
2 know, that the other two entities are.

3 TREASURER WIESSMANN: Well, I think it is our
4 responsibility to really look at our investments on a
5 comprehensive basis, and if there is -- bear in mind,
6 these are public funds. If there is a desire on the
7 part of the legislative body or from a policy
8 standpoint to avoid certain sectors in the
9 marketplace, then that's appropriate. That's a
10 policy decision.

11 My approach from a financial position, which
12 obviously has some policy decisions, is to evaluate a
13 number of factors. But I think to say that there's a
14 very, very broad universe of industries and stocks
15 that provide opportunity in the marketplace, I don't
16 think -- and by the way, under the environmental,
17 there are opportunities, not just negatives. There
18 are opportunities to invest, not just things to
19 avoid.

20 But as it relates to how a company governs
21 itself and how a company does with the environmental
22 issues and how it does with, you know, geopolitical
23 risk, that affects sustainability. You care about
24 what happens in the long term. So I think you would
25 be breaching your fiduciary responsibility to not

1 look at each investment that you have.

2 But I don't think that there is not anything
3 left. I mean, I think that there are a lot of
4 investment alternatives. I think the most
5 challenging one I know is the energy sector, and yet
6 there are many oil-producing companies in the United
7 States or processing companies. There are a lot.

8 And you are right, the global companies are
9 very often mixed. But it isn't a one-size-fits-all,
10 and I congratulate those decisions.

11 REPRESENTATIVE SAINATO: I agree with you.
12 I'm just saying that and where we were going with
13 this was, you know, I don't think we should be tying
14 your hands or any of the three entities. You have to
15 be responsible; you have to look at the companies,
16 but the more you put it off limits, the more
17 difficult this is going to be.

18 Where do we rank in Pennsylvania in the
19 50 States as far as investment return?

20 TREASURER WIESSMANN: Our pension funds are
21 very high and they have a very good investment
22 return.

23 REPRESENTATIVE SAINATO: No; I'm asking about
24 you as a Treasury.

25 TREASURER WIESSMANN: You know, Treasuries

1 aren't very comparable because of scale and size. I
2 don't know. I don't know; my guess is that we are
3 probably about the same or a little better because of
4 the prudent person. That provides an opportunity to
5 do a little better on investment return.

6 REPRESENTATIVE SAINATO: All right. Thank
7 you for your testimony.

8 CHAIRMAN LEVDANSKY: Representative
9 Vulakovich.

10 REPRESENTATIVE VULAKOVICH: Thank you, Madam
11 Treasurer.

12 Just a couple of questions.

13 You know, at the local level, at the township
14 level where I was, we had three pension funds --
15 union, nonunion, and then the police department --
16 and they hired a money manager who was paid a fee,
17 and then depending on how well his investments went,
18 there was a bonus there, if you want to say. Prior
19 to that, we had someone who took care of our pension
20 and they worked strictly on commission.

21 Relative to out of State -- and let's pick
22 PSERS and SERS; those are the two pension plans --
23 how is that right now? This company you mentioned,
24 VTL?

25 TREASURER WIESSMANN: Yes.

1 REPRESENTATIVE VULAKOVICH: They are -- what
2 would they be relative to PSERS or SERS?

3 TREASURER WIESSMANN: They would be
4 technically a consultant, an investment advisor.
5 They are not the entity doing the investments of the
6 funds. They advise as to which funds are appropriate
7 for the portfolio.

8 REPRESENTATIVE VULAKOVICH: Well, in a
9 simplistic way, who would make that phone call or
10 whatever to tell someone to sell that or to buy more
11 or to cut back? Who does that? Is there a manager
12 who---

13 TREASURER WIESSMANN: Well, within a
14 particular fund or a particular manager?

15 REPRESENTATIVE VULAKOVICH: Yes, for PSERS
16 and SERS.

17 TREASURER WIESSMANN: Well, for a particular
18 fund, the board makes the decision about whether to
19 engage or to disengage with the particular fund.

20 As it relates to the securities inside those
21 funds?

22 REPRESENTATIVE VULAKOVICH: Yes.

23 TREASURER WIESSMANN: That is what you are
24 delegating responsibility to the manager for, the
25 manager of that fund.

1 So the fund is the entity accountable and all
2 the staff, whoever is working on it. They are the
3 ones accountable for investing, you know, or buying
4 or selling particular holdings in that fund.

5 REPRESENTATIVE VULAKOVICH: So, I mean, there
6 is not one -- like, for example, if you are with a
7 certain company, they are your manager of your fund,
8 and then they have people underneath who do different
9 things.

10 TREASURER WIESSMANN: Right. Presumably they
11 are doing the fundamental analysis or the
12 quantitative analysis or whatever it is that is
13 telling them they should have these stocks in the
14 portfolio or not in the portfolio.

15 REPRESENTATIVE VULAKOVICH: The main person
16 who conducts all that and regulates all those
17 movements that go on and all those people that make
18 those movements, what is that person called?

19 TREASURER WIESSMANN: A fund manager.

20 REPRESENTATIVE VULAKOVICH: A fund manager.

21 TREASURER WIESSMANN: Is it usually the
22 portfolio manager.

23 REPRESENTATIVE VULAKOVICH: And how do we get
24 a fund manager? What is the process for that? Is he
25 appointed? Hired? Part of the State?

1 TREASURER WIESSMANN: In Treasury or the
2 pension funds?

3 REPRESENTATIVE VULAKOVICH: In the pension
4 funds.

5 TREASURER WIESSMANN: In the pension funds, I
6 would say the process is probably fairly similar. I
7 don't want to use the word "comparable" too many
8 times, but as it is to Treasury, there are a number,
9 in the market, there are a number of entities that
10 will know that the Commonwealth and the pension funds
11 have a lot of money to invest and they will be very
12 interested in selling or being retained by them.

13 So they will call on their own to visit with
14 the staff and either of the pension funds, or they
15 will try and visit with board members and then
16 suggest that they get a hearing and be reviewed in
17 terms of their product.

18 And then the boards themselves or Treasury
19 will look at options out there and decide, because
20 not everybody who you want to retain necessarily
21 comes to you, we would review and preview funds and
22 see who we wanted to reach out to in terms of who we
23 might be interested in in terms of a particular
24 product or how they fit within the overall
25 portfolio.

1 REPRESENTATIVE VULAKOVICH: Now, how far down
2 the ladder does the prudent-person protection go to?
3 How far down, and who does it protect?

4 TREASURER WIESSMANN: Well, it applies to all
5 -- the funds' managers have parameters that we
6 establish in accordance with the overview of the
7 prudent person. So they are responsible to operate
8 their fund within the parameters that are set by the
9 entity, whether it is a pension fund or us.

10 REPRESENTATIVE VULAKOVICH: Okay.

11 When you mentioned, I think it was a 60 and
12 30 and 10 breakdown, you said something about you
13 thought it was high yield?

14 TREASURER WIESSMANN: Yeah; actually, I knew
15 that would come back to me.

16 It's the Lehman Brothers aggregate, and it is
17 30 percent of S&P and 10 percent high yield index.
18 That's only a tiny part of it.

19 REPRESENTATIVE VULAKOVICH: So are you
20 referring to like high-risk investments there, or is
21 that something different?

22 TREASURER WIESSMANN: Well, high yield---

23 REPRESENTATIVE VULAKOVICH: I'm sorry; my
24 question would be, how much of this fund is
25 considered a high-risk investment?

1 TREASURER WIESSMANN: No, it's not.

2 REPRESENTATIVE VULAKOVICH: It's not high
3 risk?

4 TREASURER WIESSMANN: No, it's not.

5 REPRESENTATIVE VULAKOVICH: And the money
6 manager that you have and those people working
7 underneath him, they are State employees?

8 TREASURER WIESSMANN: No, no, no. The
9 investor advisor is an outside. The nomenclature
10 often is a consultant.

11 REPRESENTATIVE VULAKOVICH: Okay. Now, this
12 VTL, is that what VTL is?

13 TREASURER WIESSMANN: Yes.

14 REPRESENTATIVE VULAKOVICH: Okay. Now, are
15 they for all these -- this one chart that I have
16 here, PSERS, SERS, and global and down the line, is
17 that the same company for all of those?

18 TREASURER WIESSMANN: No, no. Actually, just
19 to be clear, the chart you are looking at, those are
20 all of the assets that we hold in custody. That is
21 where we do our banking operations with the Bank of
22 New York Mellon.

23 The VTL is for the Treasury assets as it
24 relates to TAP and Fund 98. So it's not that whole
25 pie chart.

1 REPRESENTATIVE VULAKOVICH: So PSERS and SERS
2 would have their own?

3 TREASURER WIESSMANN: Yes. In fact, they do,
4 and they have very specialized consultants. There
5 are a number of them that are general consultants,
6 and they are real estate consultants, and they are
7 private equity consultants.

8 REPRESENTATIVE VULAKOVICH: Okay. But it is
9 not necessarily the same company or the same---

10 TREASURER WIESSMANN: As ours?

11 REPRESENTATIVE VULAKOVICH: Yes.

12 TREASURER WIESSMANN: No; they are not.
13 There is actually not overlap with the pension funds
14 currently.

15 And in fact one of the things that I found
16 interesting is that the consulting world is very
17 interested in pension funds, but Treasuries are a
18 different animal.

19 REPRESENTATIVE VULAKOVICH: Now, do they have
20 different ways that they are paid? Are some paid a
21 fee or are some paid a commission?

22 TREASURER WIESSMANN: Generally--- Oh, for
23 advisors?

24 REPRESENTATIVE VULAKOVICH: Yes.

25 TREASURER WIESSMANN: It's mostly objective,

1 but generally a consulting fee.

2 REPRESENTATIVE VULAKOVICH: Thank you.

3 CHAIRMAN LEVDANSKY: Treasurer Wiessmann,
4 just getting back to your testimony, you mentioned
5 that since the State Treasury has been following and
6 implementing the prudent-person doctrine, I think
7 that an additional \$790 million has been realized.
8 That's income that has been realized for the
9 Commonwealth I think since 2001. That is an average
10 of over \$110 million a year in yield to the
11 Commonwealth.

12 TREASURER WIESSMANN: Yes.

13 CHAIRMAN LEVDANSKY: Given that performance
14 and that benefit that is accrued to the Commonwealth
15 and our taxpayers, do you envision legislation to
16 continue the prudent-person doctrine well beyond the
17 2 years that is called for in both the House and the
18 Senate versions?

19 TREASURER WIESSMANN: My understanding is
20 that -- or it is my interpretation of the reason for
21 the 2-year time frame is one of oversight by the
22 Legislature.

23 And I do think there are a lot of different
24 ways to have oversight and accountability in terms of
25 supporting the requirements. So to my mind, it's a

1 vehicle.

2 I do think it would be beneficial from a
3 planning standpoint to have a longer time frame. And
4 the one thing that staff has suggested and reminded
5 me of today is that with the sunset provision in
6 place, you always run the risk that for some reason
7 the legislation won't get approved and we have to
8 start on January 1, I don't want to use the word
9 "divest," but eliminating all of the equity
10 investments in our portfolio. And we would have to
11 do it expeditiously because we would be in legal
12 violation of the law, and that would mean that we
13 would have to take whatever the market would bear at
14 that point in time.

15 So it could be a very disorderly
16 disengagement from the equity markets. And that's
17 the only real rub, I think, in terms of potential
18 risk.

19 I as a proponent of transparency and
20 accountability, it doesn't bother me from a
21 professional standpoint. I do know it takes our
22 staff and your staff a lot of time to do this when
23 there might be other reporting requirements that
24 would increase the flow of information to you that
25 would provide you the accountability that you need.

1 So I think there might be alternatives to
2 every 2 years.

3 CHAIRMAN LEVDANSKY: You are correct insofar
4 as the 2-year time frame keeps you responsive and
5 accountable to the Legislature. But, you know, we
6 put sunset provisions in a lot of different statutes,
7 but it seems to me that a 2-year statute doesn't give
8 you very much time at all.

9 And we have been reauthorizing these over
10 several times. So I would think that the General
11 Assembly ought to have some -- I think would make a
12 decision as to whether or not it feels comfortable
13 with the prudent-person doctrine that has been
14 implemented in Treasury over a number of years with a
15 number of Treasurers, and if we are, then my hope is
16 that we could at some point decide to reauthorize it
17 beyond, you know, for significantly more than a
18 2-year period.

19 I mean, I would support a sunset provision,
20 but I think it ought to be longer and further than
21 2 years, especially if -- and I'm looking forward to
22 your *e-Treasury Pennsylvania* report to see what
23 recommendations you are going to have relative to
24 transparency or accountability.

25 Perhaps there are things that you and we can

1 do to achieve that transparency and verifiability and
2 accountability that would enable us to extend the
3 prudent-person doctrine beyond the 2 years, given
4 that it has worked, I think, very well.

5 So I think 2 years is a bit of a short leash,
6 and maybe we can entertain a discussion at some point
7 about what we need to do in terms of making the
8 Treasury accountable in exchange for significantly
9 longer than a 2-year sunset provision.

10 I appreciate your testimony, your insights,
11 and your bearing with us with so many questions.
12 Thank you very much for your testimony, and I look
13 forward to continue to work with you.

14 TREASURER WIESSMANN: Thank you.

15 It is good to come in as well and very
16 helpful going forward with formulating our strategy.
17 I appreciate it very much.

18 CHAIRMAN LEVDANSKY: Thank you.

19 TREASURER WIESSMANN: Thank you.

20 CHAIRMAN LEVDANSKY: And I would just ask,
21 I'm going to ask Representative Maher -- he has, I
22 think, just a few brief remarks that he wants to
23 make.

24 From here or over there, John? You can just
25 sit here---

1 TREASURER WIESSMANN: He is going to offer
2 testimony, right? That is what we are talking about?

3 CHAIRMAN LEVDANSKY: Yes; John is going to
4 testify.

5 TREASURER WIESSMANN: You can have my seat.

6 CHAIRMAN LEVDANSKY: Representative Maher is
7 going to offer testimony, and I would just ask you
8 and your staff to stick around for a moment.

9 REPRESENTATIVE MAHER: Thank you, Mr.
10 Chairman.

11 I think in the 10 years 6 months 3 weeks and
12 2 days I have served in this Legislature, this may be
13 the first time I have ever been invited to offer any
14 sort of testimony. So I'm a bit unaccustomed to this
15 role, but I do appreciate the invitation.

16 I will observe, if you don't object, on a
17 personal level that Chairman Levdansky and I, our
18 districts adjoin one another, and while we will have
19 occasions of disagreement on public policy questions,
20 I will observe that we both have found the
21 opportunity to merge our efforts to yield what is
22 important for Pennsylvania.

23 And most of the time, you are right, and I
24 think we have an opportunity right now where we can
25 all be right, because this question isn't a partisan

1 question and most especially should not be a partisan
2 question.

3 It shouldn't be a question of who the
4 Treasurer is or who the Treasurer might be. It's a
5 matter that we all want Pennsylvania to invest in a
6 way which has, as Representative Sainato observed,
7 that yields the greatest result and reduces the
8 burden on the taxpayers, and I share that goal.

9 The reasons, as I recall, that we have looked
10 at the recurring 2-year sunset provisions has been an
11 understanding that the language that exists is
12 imperfect and understanding that its imperfections
13 could yield undesirable outcomes.

14 But in the rush of the legislative process,
15 both the House and Senate have repeatedly come to the
16 conclusion that this subject is somehow too
17 complicated to sort out. There is maybe a general
18 appreciation that it makes sense in dollars to enable
19 and permit a broad horizon of investments for the
20 Treasury. But I think we discovered today that
21 reasonable people can agree there are certain
22 scenarios that should just simply be out of bounds.

23 Now, the challenge with the prudent-person
24 standard and what is prudent is a matter of
25 perspective, and prudence in terms of defending the

1 term "prudence" is often a question of
2 rationalization.

3 I salute the Treasurer for establishing a
4 list of prohibited investments as a matter of policy.
5 I think this is a very good thing. And as I listened
6 to that list, I was struck that some of those are
7 rather specific, but some of them are generic. They
8 have nothing to do with today's newspaper. They have
9 nothing to do with what happened last week, last
10 month, last year. They just would not make sense,
11 and you have established by policy those parameters.
12 I think that's very good.

13 But a quarter of a century as a CPA and as an
14 auditor has taught me that when we simply rely on the
15 good will of strangers as our fundamental internal
16 control, inevitably that will present temptations
17 that just become too much for most people to bear,
18 and in this case, we truly are talking about a
19 stranger -- we'll have a new Treasurer next year.

20 This is a very good time for us to be looking
21 at the parameters, because it has nothing, should
22 have nothing to do with the person at all. There are
23 certain things that should always be permitted; there
24 are certain things that should never be permitted,
25 and we can never get the entire universe resolved.

1 But I think we'll find that there are rather
2 broad out of bounds that we can all immediately agree
3 on, and I would suggest that those out-of-bound
4 lines that we can all agree on ought to be in the
5 statute.

6 Certainly the statute says any security. I
7 think we all agree, well, we don't actually mean
8 every security. We are thinking stocks, bonds,
9 publicly-traded securities. We are not talking
10 about a note payable from your neighbor. We are
11 not talking about someone who has got a small
12 business and says, sure, I'll buy some shares from
13 you.

14 I know that this Treasurer would not do those
15 things, but if you wanted to, under the language as
16 it exists, you can argue, you can argue that it would
17 be prudent to do those sorts of things, but I don't
18 think they would be desirable. I know you don't
19 think they would be desirable.

20 I think we have the opportunity to provide an
21 enduring benefit in Pennsylvania by providing, if you
22 will, the control procedure that would enable the
23 pursuit of strong returns but prohibit the sorts of
24 activity that we, I think, would simply all agree is
25 not desirable.

1 Now, it's difficult, I think, as an appointed
2 row officer of the State of Pennsylvania, because
3 time is short, and you certainly came in and
4 established yourself very well and very quickly.

5 But I would offer an invitation that this
6 time, thanks to Chairman Levdansky, we are not
7 picking up this subject with 2 or 3 days remaining
8 on the session calendar before your expiration,
9 and then, you know, we start all over with a new
10 session.

11 And this isn't Republican or Democrat. It
12 doesn't matter who has been in charge, this subject
13 always comes up, it seems, in the closing days of
14 session.

15 This year, you had the foresight to raise the
16 subject early, and I think this conversation today in
17 Pennsylvania is helpful, and I am hopeful that if we
18 embrace some of the conversation we have had today,
19 that we can craft a bill that can go beyond the
20 2-year proviso, because it will be a bill that we
21 would be comfortable with knowing that we got it
22 right.

23 And the challenge that we have here is -- and
24 it seems to have been taken somewhat personally by
25 some people in the past -- I think really is not

1 about any individual. It is about us making the
2 prudent-person permission slip saying what we all
3 agree means to say and not say, as it does now,
4 things we don't intend to grant permission.

5 It is a permission slip. Let us get the
6 right permission on it. Let's continue investing
7 Pennsylvanian's dollars in a way that yields the best
8 return, and let's carve out and protect
9 Pennsylvanians from things that you would never do
10 and I would never do but are arguably permitted with
11 the language that has existed.

12 Thank you, Mr. Chairman, and if anybody wants
13 to ask questions, I'm available.

14 Actually, I would extend the invitation, if
15 you would permit, that if there's anyone from
16 Treasury who would want to question me -- turnabout
17 is fair play -- feel free.

18 CHAIRMAN LEVDANSKY: Chairman Nickol.

19 REPRESENTATIVE NICKOL: I want to give
20 Treasurer Wiessmann an opportunity.

21 I have two questions, not for John but the
22 Treasurer, if she will indulge me.

23 Number one, I was curious when Representative
24 Sainato had asked you the question about prohibited
25 investments. Are those prohibited by statute or your

1 interpretation of statute and policy?

2 TREASURER WIESSMANN: They are currently
3 listed in the investment policy.

4 REPRESENTATIVE NICKOL: Okay.

5 TREASURER WIESSMANN: And they did, it
6 evolved over a period of time.

7 As you had commented, investment instruments
8 change, credits change, markets change, and that is
9 something that should be reviewed on an annual
10 basis.

11 REPRESENTATIVE NICKOL: And the second
12 question would be, Representative Maher was talking,
13 you know, about publicly traded securities. What
14 impact would it have on Treasury?

15 I'm curious, if we limited your investment to
16 publicly traded securities and equity investments, I
17 notice or I note that you have an investment, I
18 believe, in some private equity fund, and you
19 yourself had a question of that investment which
20 predated you. And, you know, we might have to
21 absolve any existing investments, because you
22 probably couldn't exit that at this point in time
23 very easily.

24 But I'm curious what impact that would have
25 on Treasury. Has Treasury made significant security

1 or equity investments and items that are not publicly
2 traded?

3 TREASURER WIESSMANN: In the context of their
4 overall portfolios, no.

5 One of the things that I have been struck
6 with is just how, this past year with the financial
7 markets the way they are, how much that has put on
8 our different types of investments and the
9 light bulb, I think everything -- people are looking
10 at everything now.

11 I would take that as an invitation to look at
12 our portfolio. I have not looked at the definition,
13 because I built that as a principles based. I have
14 not evaluated or, you know, my counsel has not delved
15 into how we interpret security, or for that matter,
16 you know, the publicly traded alone. I would like to
17 look at that and get back to you on it.

18 REPRESENTATIVE NICKOL: Thank you.

19 CHAIRMAN LEVDANSKY: Treasurer Wiessmann,
20 just one final quick question from myself for
21 clarification.

22 In this discussion with Representative
23 Sainato, you talked about these prohibited
24 investments, prohibited investments as a policy. Is
25 this a policy that you developed and implemented, or

1 is this something that has been developed and
2 implemented over time by prior Treasurers and you
3 have just continued that prohibitive list?

4 TREASURER WIESSMANN: Well, I would suggest
5 that -- and I can research it a little bit more --
6 but I would suggest that some of it has been over
7 time by different Treasurers. I think some of it has
8 probably been credit driven, depending on the
9 markets. I would hope that it ought to be a dynamic
10 list, frankly.

11 So I think it has been piecemeal over a
12 period of time, but I will confirm that with
13 staff.

14 CHAIRMAN LEVDANSKY: Okay. Thank you. I
15 appreciate it.

16 I mean, your testimony today has been very
17 helpful and informative and instructive for me, and I
18 think probably for the members of the committee as
19 well.

20 And Representative Maher, we appreciate you
21 joining us today as well.

22 So thank you all very much, and I look
23 forward, Treasurer Wiessmann, to working with you and
24 with my colleagues in the General Assembly to move
25 House Bill 2259 at some appropriate point.

1 TREASURER WIESSMANN: Thank you very much. I
2 appreciate it.

3 CHAIRMAN LEVDANSKY: Thank you.

4 This concludes today's public hearing of the
5 Finance Committee.

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7 (The hearing concluded at 2:50 p.m.)

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I hereby certify that the proceedings and evidence are contained fully and accurately in the notes taken by me on the within proceedings and that this is a correct transcript of the same.

Jean M. Davis, Reporter
Notary Public