

**TEXPOOL INVESTMENT ADVISORY BOARD MEETING**  
**Wednesday, February 25, 2010**  
**Minutes**

The TexPool Investment Advisory Board (the “Board”) met at 10:00 a.m. on Thursday, February 25, 2010, at the LBJ State Office Building, 111 E. 17<sup>th</sup> Street, Room 114, Austin, Texas.

**Board Members Present**

R. C. Allen, Pati Buchenau, Jose Elizondo, Jr., John McGrane, Ron Leverett, Clay McPhail, and Vivian Wood.

**Board Members Absent**

LaVonne Mason.

**Comptroller of Public Accounts Staff Present**

Comptroller Susan Combs.

**Texas Treasury Safekeeping Trust Company (“TTSTC”) Staff Present**

Paul Ballard, Chief Executive Officer and Chief Investment Officer (“CEO”); Danny Sachnowitz, Deputy Director and Deputy Chief Investment Officer; Frank Zahn, Chief Financial Officer; Marianne S. Dwight, General Counsel; Nora Arredondo, Special Projects Coordinator; Dan McNeil, Compliance Officer; and Genoveva Minjares, Director of General Ledger Accounting.

**Additional Participants**

Amy Michaliszyn, Federated Securities Corp. (“Federated”); Paige Wilhelm, Federated; Ed Sanchez, Federated; and Mike O’Brien, Padgett, Stratemann & Co., LLP (“Padgett Stratemann”).

**Call to Order**

Comptroller Susan Combs declared that a quorum was present and called the meeting to order at 10:02 a.m.

**Approval of Minutes (Tab 1)**

*Motion was made by Mr. R.C. Allen to accept and approve the minutes from the November 13, 2009 Board meeting. Motion was seconded by Ms. Pati Buchenau and unanimously approved by the Board.*

**Discussion and Presentation of Annual Audit (handout)**

Mr. Mike O’Brien summarized the audit reports in the handout and reported that Padgett Stratemann issued unqualified financial audit opinions with respect to TexPool and TexPool Prime for the year ending August 31, 2009. No audit adjustments were recorded during the audit engagement that would indicate deficiencies in the accounting process. No management letter was required.

## **Economic Update and Discussion of Portfolio Positioning (Tab 2)**

Ms. Paige Wilhelm reported that TexPool and TexPool Prime portfolios were in compliance with the Texas Public Funds Investment Act (“TPFIA”) and the TexPool and TexPool Prime investment policies throughout the quarter. She stated that TexPool’s portfolio balance was approximately \$16.75 billion and TexPool Prime’s portfolio balance was approximately \$1.77 billion at the end of the fourth quarter of 2009. Current portfolio balances for TexPool and TexPool Prime are \$20.6 billion and \$2.2 billion respectively. She reported that assets have increased and peaked in both pools due to the seasonal nature of the pools. TexPool’s net yield was approximately 0.21% and TexPool Prime’s net yield was approximately 0.26% for the quarter ending 2009.

Ms. Wilhelm reviewed the market conditions for the fourth quarter of 2009. She reported that Libor yields had declined and that the Federal Reserve (the “Fed”) gave no indication that benchmark rates would rise anytime soon. Federated believes the Fed will gradually exit their quantitative easing monetary policy. From a credit standpoint, Federated believes the economy is at the bottom of the credit cycle and short term rates should gradually start to rise. Federated will continue to monitor and search for securities that will perform best, given this expectation.

Ms. Wilhelm reviewed the graphs behind Tab 2 illustrating the asset allocation evolution of TexPool and TexPool Prime from December 2006 to December 2009. She stated that as of December 31, 2009, approximately 51% of TexPool assets were invested in agency securities and Treasuries, and 48% of assets were in repurchase agreements, down from 55% in September. TexPool Prime’s assets were approximately 47% invested in commercial paper, up from 32% in September, 34% in repurchase agreements, down from 46%, 12% in variable rate securities, and 7% in government securities. Ms. Wilhelm compared the yields of both Pools among their peers. She stated that the Pools remained competitive with their peers, noting that TexPool was ranked number one and TexPool Prime was ranked number eleven, among the other groups in the iMoneyNet universe. She stressed that most funds in the iMoneyNet universe are managed under investment policies that are less restrictive than the policies for TexPool and TexPool Prime. The Securities and Exchange Commission’s final ruling regarding revisions to regulations pertaining to money market funds will be discussed at the next meeting.

## **TexPool and TexPool Prime Portfolio and Performance Review for the 4<sup>th</sup> Quarter of 2009 and Related Matters (Tab 3)**

Mr. Danny Sachnowitz presented an overview of the performance for TexPool and TexPool Prime. He reviewed historical yields for both compared to the Federal Funds rate and other target benchmarks. Mr. Sachnowitz stated that yields have gradually increased in 2009 as illustrated by the graphs behind Tab 3. Average maturities were slightly lower than the previous quarter and the portfolios were positioned accordingly. TexPool and TexPool Prime quarterly and annual rates of returns remained competitive with other Texas local government investment pools. For the quarter, TexPool and TexPool Prime remained competitive with their benchmarks and have historically outperformed their benchmarks.

## **Report on Services Provided to TexPool and TexPool Prime Participants and Related Matters (Tab 4)**

Ms. Amy Michaliszyn reviewed the information behind Tab 4 illustrating TexPool and TexPool Prime aggregate assets noting that as of the year end assets flowing in have been sluggish. Three factors that contributed to lower assets were: lower bond issuance, lower interest rates, and certain bank products with higher yields. In general, government pools across the country have shrunk, but contraction in Texas has been less.

Ms Michaliszyn also reviewed participant information. She reported that sixty-nine new participants were added to TexPool and TexPool Prime in total for 2009. TexConnect continues to be the most popular system used for participants. Federated has added two new programs to the TexPool Academy: 1) the Anatomy of a Recession and 2) Corporate Bonds. Ms. Michaliszyn stated that during the fourth quarter participants can now choose paperless confirmations and receive the confirmation information online. There are currently 206 participants using TexPool Academy.

### **Discussion of Next Meeting and Agenda Items**

Rule 2a-7 update. The Board will try to meet in May and will be sent an email with possible dates.

### **Public Comments**

Ms. Vivian Wood commended Mr. Paul Ballard on communication and information he and his staff provide. No other comments.

### **Adjourn**

Meeting was adjourned at 11:10 a.m.