

TEXPOOL INVESTMENT ADVISORY BOARD MEETING
Monday, November 22, 2010
Minutes

The TexPool Investment Advisory Board (the “Board”) met at 10:00 a.m. on Monday, November 22, 2010, at the LBJ State Office Building, 111 E. 17th Street, Room 114, Austin, Texas.

Board Members Present

R. C. Allen, Pati Buchenau, John McGrane, Clay McPhail, Ron Leverett, LaVonne Mason, and Vivian Wood.

Board Members Absent

Jose Elizondo, Jr.

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; Marianne S. Dwight, General Counsel; Frank Zahn, Chief Financial Officer ; Nora Arredondo, Special Projects Coordinator; Victor Scott, Director of Financial Reporting ;and Michael Anderson, Compliance Officer.

Additional Participants

John Fisher, Federated Advisory Companies (“Federated”); Amy Michaliszyn, Federated Securities Corporation (“Federated”); Ed Sanchez and Jerry Landrum, Federated.

Call to Order

Comptroller Susan Combs declared that a quorum was present and called the meeting to order at 10:04 a.m.

Approval of Minutes (Tab 1)

Motion was made by Ms. LaVonne Mason to accept and approve the minutes from the August 25, 2010 board meeting. The motion was seconded by Ms. Pati Buchenau and unanimously approved by the Board.

Economic Update and Discussion of Portfolio Positioning (Tab 2)

Mr. John Fisher, President and CEO of Federated Advisory Companies presented an economic update for the third quarter of 2010. He reported that short-term interest rates fell sharply during the quarter amid a slowing economic recovery environment. He explained that Federated believed interest rates would remain low, but expects rates to rise in the near future. Federated has chosen to keep maturities relatively short. The average weighted maturity for TexPool fell from 36 days to 34 days, and average weighted maturity for TexPool Prime fell from 52 days to 30 days. This positioning would allow Federated to take optimal advantage of relative values as they improve.

Mr. Fisher reported that TexPool and TexPool Prime portfolios were in compliance with the Texas Public funds Investment Act (“TPFIA”) and with their investment policies during the quarter. The balance in TexPool was approximately \$14.85 billion as of September 30, 2010. TexPool’s average net yield

increased to 0.22% during the quarter. The balance in TexPool Prime was approximately \$1.3 billion for the same quarter. TexPool Prime's average net yield was approximately 0.27%. He stated that the decline in assets under management in TexPool and TexPool Prime is consistent with seasonal trends, as local governments typically draw down cash balances in the fall to meet expenses. Mr. Fisher reviewed portfolio allocations and maturity schedules for both pools. Both pools remained competitive with their peers as TexPool was ranked number one and TexPool Prime was ranked number seven among their competitors. Stress test scenarios and results were incorporated into Federated's presentation and reviewed by Mr. Fisher. Overall, Federated expects a low growth economic environment.

TexPool and TexPool Prime Portfolio and Performance Review for the 3rd Quarter of 2010 and Related Matters (Tab 3)

Mr. Danny Sachnowitz reviewed the performance of TexPool and TexPool Prime during the third quarter of 2010. He reviewed historical yields for both compared to the Federal Funds rate and other target benchmarks. Mr. Sachnowitz stated that yields have risen slightly for the third quarter as illustrated by the graphs behind Tab 3. Mr. Sachnowitz states that the stability of the portfolios demonstrates low volatility. Average maturities were slightly lower than the previous quarter as illustrated by the positioning of the portfolios. He confirmed the average monthly yields for TexPool and TexPool Prime were 0.22% and 0.27% respectively, as of September 30, 2010. TexPool and TexPool Prime quarterly and annual average yields remained competitive with other Texas local government investment pools. For the quarter, TexPool and TexPool Prime yields were trailing the longer-term inflation benchmark due to the extended period of the extraordinarily low short-term yields.

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

Ms. Amy Michaliszyn presented an overview of the information behind Tab 4 illustrating TexPool and TexPool Prime aggregate assets. She reviewed the graph that illustrates the seasonal cash flow from the pools. She explained that while there were 156 active participants with declining balances, there were also 738 active participants that had increased balances despite declining rates, fewer bond issues, and declining revenues. There were also 170 new TexPool and 36 new TexPool Prime participants for the period 2008-2010.

Ms. Michaliszyn reported that TexConnect continues to be the most popular system used to communicate instructions from participants. The TexPool Academy reflects that 462 courses have been completed and 226 certificates have been issued since inception. The online training has proven to be a cost saving tool for the participants.

Discussion of Next Meeting and Agenda Items

The Board will schedule its next meeting in February or March of 2011.

Public Comments

No public comment.

Adjourn

Meeting was adjourned at 11:12 a.m.