

TEXPOOL INVESTMENT ADVISORY BOARD MEETING
Wednesday, February 23, 2011
Minutes

The TexPool Investment Advisory Board (the “Board”) met at 10:00 a.m. on Wednesday, February 23, 2011, at the LBJ State Office Building, 111 E. 17th Street, Room 114, Austin, Texas.

Board Members Present

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

Board Members Absent

None.

Comptroller of Public Accounts Staff Present

Comptroller Susan Combs and Martin Hubert, Deputy Comptroller.

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; Nora Arredondo, Special Projects Coordinator; John Wright, Assistant General Counsel; Michael Anderson, Compliance Officer; Genoveva Minjares, Director of General Ledger Accounting; and Victor Scott, Director of Financial Reporting.

Additional Participants

Amy Michaliszyn, Federated Securities Corp. (“Federated”); Paige Wilhelm, 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 10:05 a.m.

Comptroller Combs read a statement regarding the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”) that requires municipal advisors to register with the SEC. Comptroller Combs does not believe the requirement applies to this board and is working with the Attorney General’s office to clarify its application. Comptroller Combs asked the Trust Company’s General Counsel, Marianne Dwight, to monitor the board’s discussions and to advise them to stop if they began to engage in anything that would be considered municipal advisory activities.

Approval of Minutes (Tab 1)

Motion was made by Ms. Pati Buchenau to accept and approve the minutes from the November 22, 2010 board meeting. Motion was seconded by Ms. LaVonne Mason 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, 2010. No audit adjustments were required nor was a management letter issued.

Economic Update and Discussion of Portfolio Positioning (Tab 2)

Ms. Paige Wilhelm reported that the TexPool and TexPool Prime portfolios were in compliance with the Texas Public Funds Investment Act ("TPFIA") and with the TexPool and TexPool Prime investment policies throughout the quarter. She stated that TexPool's portfolio balance was approximately \$17 billion as of December 31, 2010, an increase of approximately \$2.1 billion from three months earlier. TexPool Prime's portfolio balance rose from \$1.3 billion to \$1.5 billion during the fourth quarter of 2010. She reported that TexPool's net yield was approximately 0.20% and TexPool Prime's net yield was approximately 0.23% at the quarter ending 2010.

Ms. Wilhelm reviewed the market conditions for the fourth quarter of 2010. She reported that short-term interest rates remained within the current range of zero to 0.25%. She also reported that although retail sales and domestic manufacturing were good, the depressed housing market and high unemployment levels remained a concern. During the fourth quarter, the Federal Reserve (the "Fed") announced a second round of quantitative easing dubbed QE2. She explained that QE2 would have little impact on the short-term market but would impact the intermediate and long-term markets. The Fed is expected to continue purchasing long-term Treasuries in 2011. Federated will continue to monitor and search for securities that will perform best, given this expectation.

Ms. Wilhelm reviewed portfolio allocations and maturity schedules for both pools as illustrated in the graphs behind Tab 2. Both pools remained competitive with their peers as TexPool was ranked number one and TexPool Prime was ranked number eighteen among their peer groups. She explained that TexPool Prime was at somewhat of a disadvantage relative to its peer group due to the more restrictive investment options allowed by the TPFIA. Ms. Wilhelm also explained the stress test scenarios and results for both pools. Overall, Federated expects a low growth economic environment.

TexPool and TexPool Prime Portfolio and Performance Review for the 4th Quarter of 2010 and Related Matters (Tab 3)

Mr. Danny Sachnowitz reviewed the performance of TexPool and TexPool Prime during the fourth quarter of 2010. He presented an overview of the historical yields for both pools compared to the Federal Funds rate and other target benchmarks. Mr. Sachnowitz stated that yields have remained about the same during the fourth quarter as illustrated by the graphs behind Tab 3. He explained that the stability of the portfolios demonstrates low volatility. He reported 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 rates.

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. She noted that aggregate assets had steadily increased during the fourth quarter and continued to increase up to this meeting date. She reported that current assets for both pools combined were approximately \$22.3 billion.

Ms Michaliszyn explained a new security enhancement relative to TexConnect that is scheduled for implementation the end of March. TexConnect continues to be the most utilized system for participant communication. Ms. Michaliszyn reported the addition of four new participants to TexPool and one new participant for TexPool Prime during the quarter. The online training continues to be a cost saving tool for participants and Ms. Michaliszyn suggested using this board as a focus group in the near future.

Discussion of Next Meeting and Agenda Items

Mr. Martin Hubert stated the next meeting date would be in May or June. No future agenda items suggested.

Public Comments

No public comment.

Adjourn

Meeting was adjourned at 11:10 a.m.