

TEXPOOL INVESTMENT ADVISORY BOARD MEETING
Wednesday, February, 22, 2012
Minutes

The TexPool Investment Advisory Board (the “Board”) met at 10:00 a.m. on Wednesday, February 22, 2012, at the LBJ State Office Building, 111 E. 17th Street, Room 114, Austin, Texas.

Board Members Present

R. C. Allen; Jose Elizondo, Jr.; John McGrane; Ron Leverett; and Vivian Wood.

Board Members Absent

Pati Buchenau; Clay McPhail; and LaVonne Mason.

Comptroller of Public Accounts Staff Present

Martin Hubert.

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

Paul Ballard, Chief Executive Officer and Chief Investment Officer; Danny Sachnowitz, Deputy Director and Deputy Chief Investment Officer; Frank Zahn, Chief Financial Officer; Marianne S. Dwight, General Counsel; John Wright, Assistant General Counsel; Nora Arredondo, Special Projects Coordinator; Michael Anderson, Compliance Officer; and Adam Levine, Portfolio Manager.

Additional Participants

Ed Sanchez and Jerry Landrum, Federated Securities Corp. (“Federated”); and Sue Hill, Federated Advisory Companies (“Federated”).

Call to Order

Deputy Comptroller Martin Hubert declared that a quorum was present and called the meeting to order at 10:10 a.m.

Mr. Hubert 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. The temporary ruling resulted in a disagreement over what constitutes a municipal advisor. The Comptroller’s office does not believe the usual activities of this board constitute municipal advisory activities and they are working with the Attorney General’s office to clarify its application. Mr. Hubert 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)

A motion was made by Mr. R. C. Allen to accept and approve the minutes from the November 11, 2011 board meeting. The motion was seconded by Ms. Vivian Wood and unanimously approved by the Board.

Economic Update and Discussion of Portfolio Positioning (Tab 2)

Ms. Sue Hill from Federated 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 grew to approximately \$16.3 billion as of December 31, 2011, an increase of approximately \$2 billion from the previous quarter. TexPool Prime’s portfolio balance also grew for the quarter to approximately \$1.17 billion, an increase of approximately \$63 million. She reported that TexPool’s net yield was approximately 0.05% and TexPool Prime’s net yield was approximately 0.09% for the fourth quarter ending 2011. The slightly lower yields reflected the drop in repurchase agreement (“repos”) rates that typically occur at year end when financial institutions are seeking liquidity.

Ms. Hill reviewed the market conditions during the fourth quarter of 2011. She reported that the European and Greek economic crisis, in combination with the signs of economic growth in the United States, helped drive the London interbank offered rates (“Libor”) higher, to .58%. The European Central Bank extended three-year loans that helped bridge funding shortfalls that could have occurred in 2012. The Federal Reserve (the “Fed”) lowered the interest rates they charge financial institutions to swap euros for dollars, which also helped contain cash yields. It is Federated’s view that yields in the cash market would begin to climb before the Fed raised benchmark rates. Federated continued to keep maturities in both pools relatively short in order to have ample cash available as higher-yielding securities appeared and to lessen interest-rate risk if they started to rise as they did during the quarter. Federated believes there are numerous indications that the United States will avoid a double-dip recession. They also forecast that the Fed will continue to keep interest rates low, between zero and .25%, into late 2014.

The pools’ portfolio allocations and maturity schedules were reviewed as illustrated in the graphs behind Tab 2. Over the quarter the pools’ net yields decreased slightly. Despite low yields, both pools remained competitive with their peers as TexPool was ranked number one and TexPool Prime was ranked number forty three among their competitors. Ms. Hill 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. She also explained the stress test scenario results for both pools and reported there were no significant overall stress test results. Federated does not expect a third round of quantitative easing by the Fed. Overall, Federated expects a slow and steady economic growth environment for the remainder 2012 and into 2013.

TexPool and TexPool Prime Portfolio and Performance Review for the 4th Quarter of 2011 and Related Matters (Tab 3)

Mr. Danny Sachnowitz reviewed the performance of TexPool and TexPool Prime during the fourth quarter of 2011. He reviewed the graph depicting the market value history for the pools from 2005 through December 2011 and noted that the market value of the pools had steadily increased since September. Mr. Sachnowitz presented an overview of the historical yields for both pools compared to the Federal funds rate and other target benchmarks. He stated that yields have remained about the same during the fourth quarter as illustrated by the graphs behind Tab 3, and he didn’t expect much change until the Fed starts to raise interest rates. As he reviewed the portfolios, Mr. Sachnowitz explained that the repurchase agreement allocations had been increased in both portfolios. He explained that the stability of the portfolios demonstrates low volatility. He reported that TexPool and TexPool Prime quarterly and annual average yields remained competitive with other Texas local government investment pools.

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

Mr. Ed Sanchez gave an overview of the participant services that Federated provides. In his report he explained the seasonal flow of assets characteristic of the pools. He noted that in August and September, school districts had to dip a little more into their fund balances since most school districts experienced budget cuts. Mr. Sanchez reported that TexConnect continued to be the most utilized system for participant communication and facilitating transactions. He stated that TexConnect will launch a new online enhancement in March. This new enhancement will allow participants to view, download and print a customized summary statement for their TexPool or TexPool Prime accounts for up to two years.

Mr. Sanchez reported that no complaints were filed during the quarter.

Discussion of Next Meeting and Agenda Items

No future agenda items. Next meeting will be scheduled for May or June 2012.

Public Comments

No public comment.

Adjourn

Meeting was adjourned at 11:42 a.m.