

TEXPOOL INVESTMENT ADVISORY BOARD MEETING
Friday, August 10, 2012
Minutes

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

Board Members Present

Jose Elizondo, Jr., John McGrane, Ron Leverett, Clay McPhail, LaVonne Mason and Vivian Wood.

Board Members Absent

Pati Buchenau and R.C. Allen.

Comptroller of Public Accounts Staff Present

Martin Hubert, Deputy Comptroller.

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

Additional Participants

Amy Michaliszyn, Federated Securities Corp. (“Federated”); Paige Wilhelm, Federated Advisory Companies (“Federated”); Ed Sanchez and Jerry Landrum, Federated.

Call to Order

Deputy Comptroller Martin Hubert declared that a quorum was present and called the meeting to order at 10:07 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 Assistant General Counsel, John Wright, 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. John McGrane to accept and approve the minutes from the May 24, 2012 board meeting. The motion was seconded by Ms. LaVonne Mason and unanimously approved by the Board.

Annual Review and Recommended Revisions to TexPool and TexPool Prime Investment Policies (handout)

Mr. Paul Ballard stated that the Trust Company had no recommended changes to the TexPool and TexPool Prime investment policies at this time.

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 with the TexPool and TexPool Prime investment policies throughout the quarter. She stated that TexPool’s portfolio balance was approximately \$15.2 billion as of June 30, 2012, a decrease of approximately \$2 billion from the previous quarter. TexPool Prime’s portfolio balance was approximately \$1.06 billion, down also from the previous quarter of \$1.3 billion. She explained that these declines were due to the normal cash flow requirements of pool participants at this time of year. She reported that TexPool’s net yield was approximately 0.14% and TexPool Prime’s net yield was approximately 0.17% for the second quarter ending 2012, both representing slight increases from the previous quarter.

Ms. Wilhelm reviewed the market conditions during the second quarter of 2012. She reported that given the largely unchanged nature of rates, there has been little rationale for major changes to investment strategy. Globally, Ms. Wilhelm reported that European banks continued to maintain adequate levels of liquidity through support from the European Central Bank (“ECB”). The European debt situation along with the slow economic recovery in the U.S. continues to provide challenges in the market place. Moody’s Investors Service completed its review of major global banks in the U.S., U.K., Germany, France and Switzerland, downgrading all of them on a long-term basis. Ms. Wilhelm stated that the impact of the downgrade was minimal because Moody’s had warned of the action months earlier thus allowing markets ample time to adjust. Domestically, the second quarter of 2012 showed a slowdown in economic recovery. The housing market began to rebound; however, unemployment continued to show dismal signs of improvement. Federated believes interest rates will still remain low and doesn’t expect rates to increase until 2014.

Ms. Wilhelm reviewed portfolio allocations and maturity schedules for both pools as illustrated in the graphs behind Tab 2. As of June 30, 2012 the TexPool allocation was approximately 55% in repurchase agreements, 42% in agency securities and 2% in Treasuries. In TexPool Prime for the same quarter, the allocation was approximately 48% in commercial paper, 35% in repurchase agreements, 12% in government securities and 3% in variable rate paper. Despite low yields, both pools remained competitive with their peers as TexPool was ranked number one and TexPool Prime was ranked number fifty among their competitors. 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. Also, TexPool Prime cannot invest in European banks, which were offering higher interest rates. Ms. Wilhelm also explained the stress test scenarios results for both pools. Federated does not expect a third round of quantitative easing by the Fed; however, Operation Twist II, which is the purchase of long-term bonds financed by the sale of short-term paper, will go through December of 2012. Overall, Federated expects a slow and steady economic growth environment for the remainder of 2012 and into 2013.

TexPool and TexPool Prime Portfolio and Performance Review for the 2nd Quarter of 2012 and Related Matters (Tab 3)

Mr. Danny Sachnowitz reviewed the performance of TexPool and TexPool Prime during the second quarter of 2012 relative to their benchmarks. He reviewed the graph depicting the market value

history for the pools from 2008 through June 2012. Mr. Sachnowitz 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 second quarter as illustrated by the graphs behind Tab 3, and he doesn't expect much change until the Fed starts to raise interest rates. Mr. Sachnowitz reviewed the portfolios and noted the repurchase agreement allocations had decreased. 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.

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

Mr. Ed Sanchez reviewed the information behind Tab 4 illustrating TexPool and TexPool Prime aggregate assets noting that current assets collectively for both pools were slightly under \$17 billion for the quarter ending June 30, 2012. He reported that TexConnect continues to be the most utilized system for participant communication. He explained the various other systems available to participants. Ms. Vivian Wood suggested that Federated keep participant history even when the participant moves from TexPool. 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 November 2012.

Public Comments

No public comment.

Adjourn

Meeting was adjourned at 11:37 a.m.