

TEXPOOL INVESTMENT ADVISORY BOARD MEETING
Wednesday, February 20, 2013
Minutes

The TexPool Investment Advisory Board (the “Board”) met at 10:00 a.m. on Wednesday, February 20, 2013, at the LBJ State Office Building, 111 E. 17th Street, Room 114, Austin, Texas.

Board Members Present

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

Board Members Absent

R.C. Allen.

Comptroller of Public Accounts Staff Present

Comptroller Susan Combs and 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; Marianne Dwight, General Counsel; John Wright, Assistant General Counsel; Nora Arredondo, Special Projects Coordinator; Jorge de LaFuente, Investment Analyst; and Michael Anderson, Compliance Officer.

Additional Participants

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

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. The SEC’s 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. 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)

A motion was made by Ms. Pati Buchenau to accept and approve the minutes from the November 8, 2012 board meeting. The motion was seconded by Mr. John McGrane and unanimously approved by the Board.

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 \$15.6 billion as of December 31, 2012, an increase of approximately \$1.7 billion from the previous quarter. She reported that the current portfolio balance was now approximately \$19.2 billion. TexPool Prime’s portfolio balance was approximately \$1.2 billion at December 31, an increase also from the previous quarter of approximately \$271 million. The current portfolio balance was now approximately \$ 1.3 billion. She explained that these portfolio balance increases were normal but were flowing in a bit earlier this year. She reported that TexPool’s net yield was approximately 0.15% and TexPool Prime’s net yield was approximately 0.17% for the fourth quarter ending 2012, an unchanged yield for TexPool and a slight decrease for TexPool Prime from the previous quarter.

Ms. Wilhelm reviewed the market conditions during the fourth quarter of 2012. She reported that money markets delivered steady returns in the presence of two major economic influences: the continued commitment of the U.S. Federal Reserve (the “Fed”) to quantitative easing and the uncertainties of the fiscal cliff, (the combination of tax hikes and spending cuts expected at the end of 2012). Fed policymakers in December announced they would replace the expiring Operation Twist program with Quantitative Easing Four (“QE4”) which would be aimed at keeping long-term rates at historically low levels. Federated expects the Fed will likely keep interest rates between zero and 0.25% through at least mid-2015 or as long as the jobless rate remains above 6.5% and projected core inflation is within a half point above the Fed’s 2% long-term goal. Given the largely unchanged nature of rates, there has been little rationale for major changes to investment strategy. Globally, Ms. Wilhelm reported that the three month Libor rate dropped five basis points to .31% in the fourth quarter.

Ms. Wilhelm reviewed portfolio allocations and maturity schedules for both pools as illustrated in the graphs behind Tab 2. As of December 31, 2012 TexPool was allocated approximately 60% to repurchase agreements, 39% to agency securities and 1% to Treasuries. In TexPool Prime for the same quarter, the allocation was approximately 42% to commercial paper, 46% to repurchase agreements, 6% to government securities and 6% to 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 seventeen, among their competitors. She stressed that most funds in the iMoneyNet peer 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 scenario results for both pools. Overall, Federated expects a slow and steady economic growth environment for 2013.

TexPool and TexPool Prime Portfolio and Performance Review for the 4th Quarter of 2012 and Related Matters (Tab 3)

Mr. Danny Sachnowitz reviewed the performance of TexPool and TexPool Prime during the fourth quarter of 2012 relative to their benchmarks. He reviewed the graph depicting the market value history for the pools from 2007 through December 2012. He presented an overview of the historical yields for both pools compared to the Federal funds rate and other target benchmarks. He did not expect much change in yields until the Fed starts to raise interest rates. Mr. Sachnowitz reviewed the asset allocation and maturity charts for both portfolios. He stated that the average monthly yield for TexPool was approximately .15% and .17% for TexPool Prime. 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. Jerry Landrum reviewed the information behind Tab 4 regarding TexPool and TexPool Prime participants. He reported that both pools continue to add new participants each quarter. TexPool participants totaled 2,277 and TexPool Prime participants totaled 153. Mr. Landrum reported that TexConnect continues to be the most utilized system for participant communication and the TexPool Academy is the most popular service utilized by the participants. A list of conferences sponsored by Federated for 2013 was included in the presentation.

Legislative Update

Mr. Paul Ballard will be monitoring any legislation that may impact TexPool or TexPool Prime or the Texas Public Funds Investment Act. There were no updates to report at the time of the meeting.

Discussion of Next Meeting and Agenda Items

No future agenda items. Next meeting will be scheduled for May 2013.

Public Comments

No public comment.

Adjourn

Meeting was adjourned at 11:20 a.m.