

**TEXPOOL INVESTMENT ADVISORY BOARD MEETING**  
**Wednesday, November 13, 2013**  
**Minutes**

The TexPool Investment Advisory Board (the “Board”) met at 10:00 a.m. on Wednesday, November 13, 2013, at the LBJ State Office Building, 111 E. 17<sup>th</sup> Street, Room 114, Austin, Texas.

**Board Members Present**

Pati Buchenau; John McGrane; LaVonne Mason and Vivian Wood.

**Board Members Absent**

Jose Elizondo, Jr.; Ron Leverett; Clay McPhail 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; Marianne Dwight, General Counsel; John Wright, Deputy General Counsel; Michael Anderson, Compliance Officer; Genoveva Minjares, Director of General Ledger Accounting; Elizabeth Moreno, Accounting Supervisor; and Nora Arredondo, Special Projects Coordinator.

**Additional Participants**

Mike O’Brien, Padgett, Stratemann & Co., LLP; Amy Michaliszyn, Federated Securities Corp. (“Federated”); Paige Wilhelm, Federated Advisory Companies (“Federated”); and Jerry Landrum, Federated.

**Call to Order**

Deputy Comptroller Martin Hubert declared that a quorum was not 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)**

*The minutes from the August 6, 2013 TexPool Investment Advisory Board meeting could not be approved since a quorum was not present*

## **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 opinions with respect to TexPool and TexPool Prime for the fiscal year ending August 31, 2013. Mr. O'Brien reported that both Pools were in compliance with their investment policies. 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 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 \$14.2 billion as of September 30, 2013, a decrease of approximately \$1 billion from the previous quarter. She explained that the decline was expected and was due to the normal cash flow requirements of the pool participants at this time of year. TexPool Prime's portfolio balance was approximately \$1.09 billion, up slightly from the previous quarter, despite seasonal cash outflows. She reported that TexPool's net yield was approximately 0.04% and TexPool Prime's net yield was approximately 0.07% for the third quarter ending 2013, both representing slight decreases from the previous quarter. Despite low yields, both pools remained competitive with their peers as TexPool was ranked number one and TexPool Prime was ranked number twenty-six, among their competitors.

Ms. Wilhelm reviewed the market conditions during the third quarter of 2013. She reported that extremely low money market rates decreased further over the July-September period despite promising housing, manufacturing and auto sales and despite indications that Federal Reserve (the "Fed") policymakers may be tapering monetary easing. Federated expects the tapering to begin the first or second quarter of 2014; however, short-term rates will likely remain lower for a little longer before eventually increasing. Given the largely unchanged nature of rates, there has been little change to the investment strategy for the pools.

Ms. Wilhelm reviewed the portfolio allocations and maturity schedules for both pools. As of September 30, 2013 the TexPool allocation was approximately 63% in agency securities, 26% in repurchase agreements and 11% in treasuries. The weighted average maturity went from 52 days at the end of June 2013, to 60 days at the end of September 2013. In TexPool Prime for the same quarter, the allocation was approximately 50% in commercial paper, 40% in repurchase agreements, 6% in variable-rate notes and 4% in government securities. TexPool Prime's weighted average maturity as of September 30, 2013 was 38 days, down from 43 days at the end of the second quarter of 2013. Ms. Wilhelm noted that Federated was still maintaining caution regarding the uncertainty in the European banking system and was not purchasing European bank paper at this time. Ms. Wilhelm explained the stress test scenario results for both pools and stated there were no significant shifts throughout the quarter for the pools.

## **TexPool and TexPool Prime Portfolio and Performance Review for the 3rd Quarter of 2013 and Related Matters (Tab 3)**

Mr. Danny Sachnowitz presented a portfolio review for TexPool and TexPool Prime for the third quarter of 2013. He reviewed the participant summary graph which illustrated diversification of the Pools' participants and approximate amounts each participant class has invested in the Pools. Mr. Sachnowitz explained the asset growth and seasonal patterns of the pools from 2009 through September 2013 as depicted in the market value history graph, explaining that the balance of the combined pools was slightly ahead from previous years during the same time frame. 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 in this extremely low interest rate environment

until the Fed starts to raise interest rates. Mr. Sachnowitz reviewed the asset allocation and maturity charts for both portfolios. He reported that the allocation in repurchase agreements in TexPool had decreased and the allocation to agencies had increased, allowing for a bit more yield. Mr. Sachnowitz confirmed that the average monthly yield for the third quarter of 2013 for TexPool was .04% and .07% 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 relating to TexPool and TexPool Prime participants. He reported that both pools continued to add participants during the quarter. As of September 30, 2013 TexPool had 2,297 participants and TexPool Prime had 165 participants. Mr. Landrum reviewed the asset trend history graphs which illustrate the seasonal outflow of assets from the pools. He noted that in the competitive landscape of government pools, TexPool remains a leading competitor.

#### **Discussion of Next Meeting and Agenda Items**

No future agenda items. Next meeting will be scheduled for February.

#### **Public Comments**

No public comment.

#### **Adjourn**

Meeting was adjourned at 11:00 a.m.