

TEXPOOL INVESTMENT ADVISORY BOARD MEETING
Wednesday, September 10, 2014
Minutes

The TexPool Investment Advisory Board (the “Board”) met at 10:00 a.m. on Wednesday, September 10, 2014, 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., Ron Leverett, LaVonne Mason and Vivian Wood.

Board Members Absent

John McGrane, and Clay McPhail.

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; Gena Minjares, Director of General Ledger Accounting; Victor Scott, Director of Financial Reporting;_Nora Arredondo, Special Projects Coordinator; and Michael Anderson, Compliance Officer.

Additional Participants

Amy Michaliszyn, 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.

Approval of Minutes (Tab 1)

A motion was made by Mr. Jose Elizondo, Jr., to accept and approve the minutes from the May 14, 2014 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 (Tab 2)

Mr. Paul Ballard explained that the Trust Company and Federated have conducted the required annual review of the TexPool and TexPool Prime investment policies. A few revisions are being recommended at this time which are mostly for clarification purposes and are detailed in the policy drafts behind Tab 2. One notable recommended change for both policies will allow the investment manager to utilize affiliated money market funds provided the investment manager waives its fee equal to the relevant affiliated fund’s net management fee. Federated explained that this gives the investment manager another tool to use to maximize the flexibility of the pools. A recommended revision that is specific to TexPool Prime relates to certificates of deposit (CDs) statutory

requirements. The recommended revision would allow TexPool Prime to hold CDs from financial entities that have a main office or a branch office in Texas. They would no longer be restricted to being domiciled in Texas.

A motion was made by Ms. Vivian Wood to recommend to the Comptroller the modifications outlined in the TexPool and TexPool Prime policy drafts as presented by the Trust Company. The motion was seconded by Ms. LaVonne Mason and unanimously approved by the Board.

Economic Update and Discussion of Portfolio Positioning (Tab 3)

Ms. Sue Hill 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 typical seasonal outflows drew down TexPool’s portfolio balance during the second quarter to approximately \$14.4 billion as of June 30, 2014. The portfolio produced a net yield of approximately .03%. Proceeds from any short-term treasuries that matured during the quarter were put into agency securities, which were the best value available at the time. Agency securities increased from 63.7% in the first quarter to 85.5%. Treasuries decreased to 5.2% for the quarter and repurchase agreements (“repos”) decreased slightly from 13% to 9.3%. TexPool Prime’s portfolio balance also decreased as the result of expected seasonal outflows. TexPool Prime’s portfolio balance was approximately \$982 million during the same period with an average net yield of approximately .06%. There were notable shifts in the Pool’s asset allocation allotment: government holdings were down from 21.4% to 7.8%, repos increased from 14.6% to 26.9%, commercial papers increased to 59.2% and variable-rate notes remained the same. Despite low yields, both pools remained competitive with their peers as TexPool was ranked number six and TexPool Prime was ranked number twenty-two, among their competitors. Ms. Hill also explained the stress test scenario results for both pools and stated that Federated does not anticipate that any of the scenarios are likely to occur during the next year.

Ms. Hill reviewed market conditions during the second quarter of 2014 and stated that most economic reports brought positive news. Highlights included improvement in manufacturing and business spending, higher consumer confidence and a drop in unemployment from 6.7% to 6.1%. The Federal Reserve (the “Fed”), continued tapering the level of quantitative stimulus and is expected to finish by year end. The Fed believes economic data is still not strong enough to support raising rates this year. There is still concern in regards to the labor market and the nature of jobs. The Fed’s reverse repo program was helpful to money market fund investors during the quarter. The program helped provide a floor to the market at approximately five basis points, which allowed some positive return during this exceptionally low interest rate environment. The Fed continues to develop tools to prepare for rising rates when the time comes. Federated believes the Fed may begin raising interest rates by mid-2015. Overall, Federated expects a slow and steady economic growth environment for the remainder of 2014.

TexPool and TexPool Prime Portfolio and Performance Review for the 2nd Quarter of 2014 and Related Matters (Tab 4)

Mr. Danny Sachnowitz presented a portfolio review of TexPool and TexPool Prime for the second quarter of 2014. He reviewed the participant summary graph which illustrated diversification of the Pools’ participants. He presented an overview of the historical yields for both Pools compared to the Federal funds rate and other target benchmarks. He explained that 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 confirming the increase in agencies and the reduction in repos and US Treasury exposure. He explained that the stability of the NAV’s 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 5)

Ms. Amy Michaliszyn reviewed the information behind Tab 5 relating to TexPool and TexPool Prime participants. She reported that both pools continued to add new participants each quarter. As of June 30, 2014 TexPool had 2,315 participants and TexPool Prime had 177 participants. Ms. Michaliszyn reviewed the summary data relating to TexConnect and the TexPool Academy. She explained 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. Ms. Michaliszyn discussed ongoing and new projects that will be rolled out this year for participants to utilize. She reviewed the participant balance analysis report which lists the participants by sector and their balances for the second quarter of 2014. Ms. Michaliszyn reported that no participant complaints were filed during the quarter.

Discussion of Next Meeting and Agenda Items

No future agenda items. The next meeting will be scheduled for November 2014.

Public Comments

No public comment.

Adjourn

Meeting was adjourned at 11:10 a.m.