

TEXPOOL INVESTMENT ADVISORY BOARD MEETING
Tuesday, May 25, 2016
Minutes

The TexPool Investment Advisory Board (the “Board”) met at 10:00 a.m. on Wednesday, May 25, 2016, at the LBJ State Office Building, 111 E. 17th Street, Room 114, Austin, Texas.

Board Members Present

Jose Elizondo, Jr., Patrick Krishock, David Landeros, Georgia Sanchez, Michele Tuttle, and Vivian Wood.

Board Members Absent

Jerry Dale and Sharon Mathews.

Comptroller of Public Accounts Staff Present

Comptroller Glenn Hegar; Phillip Ashley, Associate Deputy Comptroller; and Cheryl Scott, Internal Auditor.

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

Paul Ballard, Chief Executive Officer and Deputy Director and Chief Investment Officer; Danny Sachnowitz; Chief Investment Officer; Marianne Dwight, General Counsel; John Wright, Deputy General Counsel; Michael Anderson, Compliance Auditor; Susan Colletti, Director of Investment Accounting; Michelle Lee, General Ledger Accountant; and Nora Arredondo, Special Projects Coordinator.

Additional Participants

Sue Hill, Federated Advisory Companies; Amy Michaliszyn, Ed Sanchez and Jerry Landrum, Federated Securities Corporation.

Call to Order

Comptroller Glenn Hegar declared that a quorum was present and called the meeting to order at 10:06 a.m.

Approval of Minutes (Tab 1)

A motion was made by Ms. Vivian Wood, to accept and approve the minutes from the February 16, 2016 board meeting. The motion was seconded by Mr. David Landeros and unanimously approved by the Board.

Economic Update and Discussion of Portfolio Positioning (Tab 2)

Ms. Sue Hill reported that for the first quarter of 2016 TexPool and TexPool Prime portfolios were in compliance with the Texas Public Funds Investment Act (“TPFIA”) and maintained AAAM ratings by Standard and Poor’s. Both portfolios met specific portfolio composition and maturity limitation guidelines set out in their respective investment policies. Both portfolios maintained a weighted average maturity of less than sixty days and the maximum maturity for any individual security in the portfolios did not exceed twenty-four months. The TexPool portfolio produced a net yield of approximately 0.33%, rising from .19% in the previous quarter. TexPool’s portfolio balance as of

March 31, 2016 was approximately \$16.15 billion, an increase of approximately \$2 billion from the previous quarter. The TexPool Prime portfolio produced a net yield of approximately 0.51%, up from 0.28% from the previous quarter. The increase in yield partly reflects a change in strategy in the TexPool Prime portfolio that now allows European commercial paper. TexPool Prime's portfolio balance during the same quarter was approximately \$2.2 billion, up from \$1.80 billion in the previous quarter. Both pools gained significant assets due to seasonal tax-collecting inflows. Both pools remained competitive: TexPool was ranked number one and TexPool Prime was ranked number two among their peer groups in yield comparisons. Ms. Hill also explained the stress test scenario results for both pools which demonstrated the Pools' ability to maintain a constant dollar value under unlikely extreme or extraordinary events.

Ms. Hill reviewed market conditions during the first quarter of 2016. She reported that market volatility seemed to have impacted the Federal Reserve's (the "Fed") decision to not raise interest rates in March and projected it may only do so twice in 2016. Federated believes the Fed may announce another rate hike in the summer. Overall, Federated expects a slow and steady economic growth environment for the remainder of 2016.

TexPool and TexPool Prime Portfolio and Performance Review for the 1st Quarter of 2016 and Related Matters (Tab 3)

Mr. Danny Sachnowitz presented a portfolio review of TexPool and TexPool Prime for the first quarter of 2016. He reviewed the participant summary graph which illustrated diversification of the Pools' investor base and also showed that school districts represent the largest group of investors. He presented an overview of the historical yields for both Pools compared to the Federal Funds rate and other target benchmarks. He explained that the graph on page five depicting historical pool yields, demonstrated the positive effect of the interest rate hike and depicts TexPool Prime's yield surpassing the Fed funds rate. Mr. Sachnowitz reviewed the asset allocation and maturity charts for both portfolios. Allocation to treasuries in the TexPool portfolio increased from 13.8% to 20.2%. TexPool Prime's largest allocation, commercial paper, also increased as did allocations to variable rate notes. He explained that the stability of the Net Asset Values (NAV's) of the portfolios demonstrates low price 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)

Ms. Amy Michaliszyn reviewed the information behind Tab 4 relating to TexPool and TexPool Prime participants. She reported that yields continued to increase in both pools amidst market turbulence and Fed rate hike uncertainty. Notably, TexPool Prime net assets increased by approximately \$292 million and 83 of the 199 TexPool Prime participants increased their positions. Overall, TexPool added six new participants and TexPool Prime added three new participants. Ms. Michaliszyn reviewed the participant balance analysis report which lists the participants by sector and their balances for the quarter. She explained the summary data relating to TexConnect and the TexPool Academy and stated 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 reported that the Securities and Exchange Commission's (SEC) regulatory reforms brought about modifications to the Government Accounting Standards Board (GASB) accounting guidelines for Local Government Investment Pools (LGIPs). TexPool participants will be required to follow GASB guidelines and will also need to meet the financial reporting requirements according to GASB No.79. Ms. Michaliszyn explained that GASB No.79 allows LGIPs to continue to use the amortized cost accounting method to maintain a stable \$1.00 per share in financial reporting,

providing that they follow certain risk-mitigating provisions. This should provide a benefit over institutional prime money market funds that will be required to operate with a fluctuating share price. More information will be discussed at the next meeting and may result in revisions to the TexPool and TexPool Prime investment policies.

Public Comments

No public comment.

Discussion of Next Meeting and Agenda Items

No future agenda items. The next meeting will be in August 2016.

Adjourn

Meeting was adjourned at 10:52 a.m.