

TEXPOOL INVESTMENT ADVISORY BOARD MEETING
Tuesday, August 29, 2017
Minutes

The TexPool Investment Advisory Board (the “Board”) met at 10:00 a.m. on Tuesday, August 29, 2017, at the LBJ State Office Building, 111 E. 17th Street, Room 114, Austin, Texas.

Board Members Present

Jose Elizondo, Jr., Belinda Erwin Weaver, Patrick Krishock, David Landeros, Michele Tuttle, and Vivian Wood.

Board Members Absent

Jerry Dale and Sharon Mathews.

Comptroller of Public Accounts Staff Present

Mike Reissig, Deputy Comptroller; and Phillip Ashley, Associate Deputy Comptroller.

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

Paul Ballard, CEO/CIO; Danny Sachnowitz, Deputy CIO; Marianne Dwight, General Counsel; Michael Anderson, Compliance Officer; Genoveva Minjares, Deputy Chief Financial Officer; and Nora Arredondo, Special Projects Coordinator.

Additional Participants

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

Call to Order

Mike Reissig declared that a quorum was present and called the meeting to order at 10:09 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 23, 2017 board meeting. The motion was seconded by Mr. David Landeros, and unanimously approved by the Board.

Annual Review of TexPool and TexPool Prime Investment Policies (Tab 2)

Mr. Paul Ballard informed the Board that there were no recommended revisions to the TexPool and TexPool Prime policies at this time.

Economic Update and Discussion of Portfolio Positioning (Tab 3)

Ms. Sue Hill reported that for the quarter ending June 30, 2017, the TexPool and TexPool Prime portfolios were in compliance with the Texas Public Funds Investment Act, Governmental Accounting Standards Board Statement No. 79, and their investment policies. Both pools maintained AAAm ratings by Standard and Poor’s. Both pools also 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.

Ms. Hill reported that the TexPool portfolio's assets experienced a seasonal decline but continued to be well above the levels during the same period in 2016. As of June 30, 2017, TexPool's portfolio balance was approximately \$17.63 billion, a decrease of approximately \$1.8 billion from the previous quarter. The TexPool portfolio produced a net yield of approximately 0.88%, up from 0.62% in the previous quarter. Ms. Hill explained there was a modest shift in asset allocations from treasury and agency securities to repurchase agreements. Similar to TexPool, Ms. Hill reported that TexPool Prime's assets experienced a slight decline with assets under management for the quarter totaling approximately \$4.1 billion. The TexPool Prime portfolio produced a net yield of approximately 1.14%, up from 0.97% in the previous quarter. The portfolio's allocation to variable rate notes and money market funds were increased, offset by reductions in commercial paper and repurchase agreements. Both pools remained competitive among their peer groups. TexPool was ranked number two and TexPool Prime was ranked number three among their peer groups in yield comparisons. Ms. Hill explained the various stress test scenarios and results for both pools which demonstrated the Pools' ability to maintain a constant dollar value under unlikely extreme or extraordinary scenarios.

Ms. Hill reviewed U.S. economic market conditions during the second quarter of 2017. She explained that there was modest economic growth during the quarter and that the economy was in its eighth year of expansion, although most inflation measures fell short of the Fed's 2% target. Ms. Hill reported that the Federal Reserve (the "Fed") raised its target rate of interest another twenty five basis points in mid-June to 1.25% – the third increase in six months. Federated does not expect the Fed to increase interest rates in September, but possibly in December and that they will make modest additional increases throughout 2018. Overall, Federated continues to expect slow and steady economic growth for the remainder of the year.

TexPool and TexPool Prime Portfolio and Performance Review for the 2nd Quarter of 2017 and Related Matters (Tab 4)

Mr. Danny Sachnowitz presented a portfolio review of TexPool and TexPool Prime for the second quarter of 2017. He reviewed the participant summary pie chart which illustrated diversification of the Pools' investor bases and also demonstrated that school districts represent the largest group of investors. He explained the various yield charts and graphs behind Tab 4 that depicted the current interest rate environment relative to those of past years. 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 Fed interest rate hike on the yield of TexPool Prime. Mr. Sachnowitz reviewed the asset allocation and maturity charts for both portfolios. 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 5)

Mr. Ed Sanchez reviewed the information behind Tab 5. He reported that both pools' daily net yield more than doubled year over year (2016-2017), and although this was a seasonal outflow of assets period, assets were sustained at levels greater than previous years. Mr. Sanchez explained a TexConnect server upgrade that was installed in early August which would increase security and assist in a disaster recovery event. He went on to summarize new participant data and the participant balance analysis for the quarter. Mr. Sanchez reported that TexPool added twenty four new participants and TexPool Prime added twenty seven. He reported that no participant complaints were filed during the quarter.

Legislative Update

Mr. Reissig stated that the Texas Legislature did not cover all items it intended to cover during the special session, and it was doubtful that another special session would be called. The state budget was passed during regular session.

Public Comments

No public comment.

Discussion of Next Meeting and Agenda Items

No future agenda items. The next meeting will be in November and the Board will be contacted regarding a date.

Adjourn

Meeting was adjourned at 11:02 a.m.