

TEXPOOL INVESTMENT ADVISORY BOARD MEETING
Wednesday, May 16, 2018
Minutes

The TexPool Investment Advisory Board (the “Board”) met at 10:00 a.m. on Wednesday, May 16, 2018, at the LBJ State Office Building, 111 E. 17th Street, Room 114, Austin, Texas.

Board Members Present

Jerry Dale, Patrick Krishock, David Landeros, Sharon Mathews, Belinda Weaver, Michele Tuttle, and Vivian Wood.

Board Members Absent

Jose Elizondo, Jr.

Comptroller of Public Accounts Staff Present

Comptroller Glenn Hegar, Mike Reissig, Deputy Comptroller, and Phillip Ashley, Associate Deputy Comptroller.

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

Paul Ballard, Chief Executive Officer and Chief Investment Officer; Danny Sachnowitz, Deputy CIO; Marianne Dwight, General Counsel; Frank Zahn, Chief Financial Officer; Spencer Brown, Compliance Officer; Hugh Ohn, Director of Accounting, Strategy and Planning; Nora Arredondo, Program Specialist; and Susie Knight, Program Specialist.

Additional Participants

Paige Wilhelm and Mark Weiss, Federated Advisory Company; and Amy Michaliszyn and Ed Sanchez, Federated Securities Corporation.

Call to Order

Comptroller Glenn Hegar declared that a quorum was present and called the meeting to order at 10:01 a.m.

Approval of Minutes from February 27, 2018 Meeting (Tab 1)

Correction to the minutes: Mr. Ed Sanchez from Federated was not present at the February 27, 2018 meeting. Ms. Vivian Wood made a motion to accept the change and approve the minutes from the February 27, 2018 board meeting. Ms. Sharon Mathews seconded the motion and the Board unanimously approved.

Economic Update and Discussion of Portfolio Positioning (Tab 2)

Mr. Mark Weiss, co-portfolio manager for liquidity pools with Federated, reviewed Federated’s quarterly investment report for TexPool and TexPool Prime for the quarter ending March 31, 2018. He reported that the TexPool and TexPool Prime portfolios were in compliance with the Texas Public Funds Investment Act (“TPFIA”), GASB Statement No. 79, and with their respective investment policies. Both pools maintained AAAM ratings by Standard and Poor’s and net asset values were never less than \$0.995 or greater than \$1.005. Both pools also met specific portfolio composition and maturity limitation guidelines set out in their respective investment policies.

Mr. Weiss reported that the TexPool portfolio experienced an approximate \$1.7 billion increase in assets, bringing the portfolio balance to approximately \$19.2 billion. The TexPool Prime portfolio had an increase in assets of approximately \$500 million, bringing Prime's assets balance to approximately \$5.7 billion.

Mr. Weiss reviewed economic market conditions during the first quarter of 2018. He reported that Mr. Jerome Powell was confirmed as the new Federal Reserve Chairman and successor to Janet Yellen. In his first Federal Open Market Committee meeting in March, Chairman Powell announced a rate hike of 25 basis points, raising the federal funds rate from 1.25-.50% to 1.50-.75%. The Fed reported strong labor market conditions, moderate consumer spending, and inflation remaining below its target. Mr. Weiss explained that due to tax reform, increased government spending and a widening federal deficit, Treasury issuance spiked, which significantly affected money markets. Overall, the reissuance of Treasury bills added to the supply at the front end of the yield curve, thus pushing Treasury bill yields to strong levels. Federated anticipates the Fed will continue to modestly increase interest rates in 2018 and 2019.

Ms. Paige Wilhelm reviewed the portfolio composition of each pool. As of March 31, 2018, agency holdings comprised 63.1% of the TexPool portfolio, Treasuries 17.4%, repurchase agreements 15.5%, and money market funds 4.0%. The maturity dates were primarily in the 8 to 30 days range. The portfolio produced a net yield of 1.52%, up from 1.18% the previous quarter. Currently, the TexPool portfolio yield is 1.78%. The TexPool Prime portfolio produced a net yield for the quarter of 1.71%, up from 1.39% the previous quarter. The current portfolio yield is 2.03%. The portfolio composition increased its position in Treasury securities to 15.5%, variable rate notes were 31.5%, money market funds were 8.7%, and there was a slight decrease in commercial paper and repurchase agreements to 39.1% and 5.3% respectively. Ms. Wilhelm explained that because of higher interest rates, participants are tending to use the money they have with banks first and leaving their money in the Pools a bit longer. Ms. Wilhelm explained that both Pools benefited from the nominal interest rate increases.

Ms. Wilhelm reported that both pools remained competitive among their peer groups. TexPool was ranked number one and TexPool Prime was ranked number three among their peer groups in yield comparisons. She 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. Federated is comfortable with the stress testing and the way that the portfolio is positioned. 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 1st Quarter of 2018 and Related Matters (Tab 3)

Mr. Danny Sachnowitz presented a portfolio review of TexPool and TexPool Prime for the first quarter of 2018. He reviewed the new graphs that depicted each Pool's investor base diversification. 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 noted that TexPool Prime has continued to surpass the Fed Funds rate since March 2016. Both Pools were keeping up with the rising interest rate environment and performing as expected. Mr. Sachnowitz reviewed the asset allocation and maturity charts for both portfolios and confirmed the statistics Ms. Wilhelm reported previously. 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 since the Fed began raising interest rates, participant inflows began sooner and were disproportionately higher. Ms. Michaliszyn stated that Federated informs participants almost immediately after an interest rate announcement from the Fed. She reported that several courses have been refurbished or replaced in the TexPool Academy in order to better meet new requirements.

Overall, TexPool added eleven new participants and TexPool Prime added eight new participants during the first quarter. By the end of the first quarter of 2018, TexPool had 2,456 participants and TexPool Prime had 305 participants. Participant enrollment has grown each quarter. Ms. Michaliszyn reviewed the participant balance analysis report that lists the participants by sector and their balances for the quarter. Federated encourages transparency and also encourages participants to make comparisons. Ms. Michaliszyn reported that no complaints were reported or filed for the quarter.

Discussion of Next Meeting and Agenda Items

No future agenda items were discussed. The next meeting date will be scheduled for some time in July or August.

Public Comments

Comptroller Hegar asked if there were any public comments. Ms. Vivian Wood complimented Federated and their work with TexPool and TexPool Prime. There were no other public comments.

Adjourn

Meeting was adjourned at 10:53 a.m.