

TEXPOOL INVESTMENT ADVISORY BOARD MEETING
Wednesday, October 31, 2018
Minutes

The TexPool Investment Advisory Board (the “Board”) met at 10:00 a.m. on Wednesday, October 31, 2018, at the LBJ State Office Building, 111 E. 17th Street, Room 114, Austin, Texas.

Board Members Present

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

Board Members Absent

Jerry Dale.

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

Additional Participants

Sue Hill, Federated Advisory Company; and 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 10:01 a.m.

Approval of Minutes from August 20, 2018 Meeting (Tab 1)

A motion was made by Mr. Patrick Krishock to accept and approve the minutes from the August 20, 2018 board meeting. The motion was seconded by Mr. David Landeros and unanimously approved by the Board.

Comptroller Hegar recognized Michele Tuttle for her service on the TexPool Investment Advisory Board. Ms. Tuttle will be resigning from the Board and retiring effective December 31, 2018.

Economic Update and Discussion of Portfolio Positioning (Tab 2)

Ms. Sue Hill from Federated reviewed Federated’s investment report for TexPool and TexPool Prime for the quarter ending September 30, 2018. She reported that 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 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.

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 2017. As of September 30, 2018, TexPool's portfolio balance was approximately \$16.5 billion, a decrease of approximately \$1.7 billion from the previous quarter. Maturity dates of the assets were primarily in the one to seven day range and highly liquid, in anticipation of seasonal participant outflows. Agency holdings comprised approximately 50% of the portfolio. The TexPool portfolio produced an average monthly yield of approximately 2.00%, up 19 basis points from the previous quarter. Ms. Hill reported that similar to TexPool, TexPool Prime's assets also experienced typical seasonal outflows. Assets under management for the quarter totaled approximately \$4.68 billion, a decrease of approximately \$205 million from the previous quarter. The portfolio's composition changed slightly with commercial paper holdings decreasing from 43.9% to 36.5% and repurchase agreements holdings increasing from 12.3% to 21.3% in anticipation of seasonal outflows and rising interest rates. The TexPool Prime portfolio's average monthly yield rose from 2.10% to 2.21% in the quarter.

Ms. Hill reviewed the portfolio yield comparisons and reported that both pools remained competitive among their peer groups. Both pools were ranked number three amongst their peers 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 positioning of the portfolio.

Ms. Hill reviewed U.S. economic market conditions during the third quarter of 2018. She reported that the Federal Reserve (the "Fed") increased interest rates by .25% in September and indicated possibly one more move in 2018. She explained that the rising interest rate environment benefited both pools. Ms. Hill reported that economic growth for the quarter was approximately 3.5%. The housing market was wavering as supply decreased and mortgage rates were on the rise. Most other economic indicators were solid: job growth, consumer confidence, retail sales, manufacturing and service, were all near cyclical or multi-decade highs. Inflation approached the 2% Fed target range. Federated expects another interest rate increase in December and expects more increases by the Fed in 2019. 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 3rd Quarter of 2018 and Related Matters (Tab 3)

Mr. Danny Sachnowitz presented a portfolio review of TexPool and TexPool Prime for the third quarter of 2018. He reviewed the graphs that depicted each Pool's investor base diversification. He presented an overview of the historical yields for both Pools compared to the Fed rate and other target benchmarks. Mr. Sachnowitz reviewed the average Libor and U.S. Treasury Bill yield curves, both higher than the previous quarter and benefiting both Pools. He explained that the graph on page five, depicting historical pool yields, demonstrated the positive effect of the Federal Reserve's interest rate hike and noted that TexPool Prime has continued to surpass the Fed Funds rate since 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. The charts depicted the shortening of maturities and increased liquidity of the pools as they prepared for seasonal outflows. 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)

Mr. Jerry Landrum reviewed the information behind Tab 4 relating to TexPool and TexPool Prime participants. He reported that assets in both pools continued to climb and over the past three years, on average, assets have increased 19% a month compared to the previous year. He explained that online TexPool Academy courses were upgraded in response to changes made to BR Chapter 523 by the Texas State Board of Public Accountancy. TexConnect online implemented enhanced security features. Mr. Landrum reported that from July through September, nineteen new participants were added to TexPool, and twenty new participants were added to TexPool Prime, bringing their totals to 2,505 and 341 respectively. He reported that no complaints were reported or filed during the quarter.

Discussion of Next Meeting and Agenda Items

No future agenda items were discussed. Nora Arredondo will contact the Board regarding the next meeting date.

Public Comments

Comptroller Hegar asked if there were any public comments. There were none.

Mr. Jose Elizondo, Jr. announced that this would be his last meeting as he will be retiring in December 2018.

Adjourn

Meeting was adjourned at 10:37 a.m.