

TEXPOOL INVESTMENT ADVISORY BOARD MEETING
Monday, August 28, 2019
Minutes

The TexPool Investment Advisory Board (the “Board”) met at 10:00 a.m. on Wednesday, August 28, 2019, 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, Deborah Laudermilk, Belinda Weaver and David Garcia.

Board Member(s) Absent

Vivian Wood.

Comptroller of Public Accounts Staff Present

Comptroller Glenn Hegar; Phillip Ashley, Associate Deputy Comptroller; Mike Reissig, Senior Advisor; and Cheryl Scott, Internal Auditor.

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

Paul Ballard, Chief Executive Officer and Chief Investment Officer; Genoveva Minjares, Chief Financial Officer; Lalo Torres, Portfolio Manager; Whitney Blanton, General Counsel; Ruchit Shah, Head of External Investments; Spencer Brown, Associate General Counsel; Nora Arredondo, Program Specialist; and Susie Knight, Program Specialist.

Additional Participants

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

Call to Order

Comptroller Hegar declared that a quorum was present and called the meeting to order at 10:04 a.m.

Approval of Minutes (Tab 1)

A motion was made by Mr. David Garcia to accept and approve the minutes from the May 22, 2019 board meeting. The motion was seconded by Ms. Sharon Mathews and unanimously approved by the Board.

Discussion and Presentation of Annual Audit (handout)

Mr. Mike O’Brien summarized the audit reports issued by RSM US for TexPool and TexPool Prime. He reported unqualified opinions with respect to both funds for the fiscal year ending August 31, 2018. Mr. O’Brien reported that both Pools were in compliance with their investment policies. He explained that in September 2015 both pools implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. He reported that no audit adjustments were required during the audit engagement, nor was a management letter issued.

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

Mr. Paul Ballard explained that the Trust Company conducts an annual review of the TexPool and TexPool Prime Investment Policies. He reported that there were no recommended revisions to the TexPool Investment Policy at this time. However, the Trust Company is recommending a minor revision to the TexPool Prime Investment Policy. He explained that the current policy limits investment in Commercial Paper (CP) to 75% of portfolio assets. The Public Funds Investment Act does not require that restriction. And the funds with which Prime competes do not impose that limit. This puts Prime at a competitive disadvantage when a higher allocation to CP is appropriate; therefore, the Trust Company is recommending the elimination of that restriction.

A motion was made Mr. Jerry Dale to recommend to the Comptroller the proposed revision of eliminating the 75% investment restriction in Commercial Paper in the TexPool Prime Policy as presented by the Trust Company. The motion was seconded by Mr. David Landeros and unanimously approved by the Board.

Economic Update and Discussion of Portfolio Positioning (Tab 3)

Ms. Sue Hill from Federated reviewed Federated's investment report for TexPool and TexPool Prime for the quarter ending June 30, 2019. 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 2018. As of June 30, 2019, TexPool's portfolio balance was approximately \$21.3 billion, a decrease of approximately \$1.7 billion from the previous quarter. The TexPool portfolio produced an average monthly yield of 2.38%, a decrease of 0.04% from the previous quarter. Similar to TexPool, Ms. Hill reported that TexPool Prime's assets experienced a slight decline with assets under management for the quarter totaling approximately \$6.5 billion, a decrease of approximately \$683 million from the previous quarter. The TexPool Prime portfolio produced an average monthly yield of approximately 2.52%, a slight decrease of 0.07% from the previous quarter. Commercial paper accounted for approximately 40% of TexPool Prime's portfolio composition. The majority of assets had maturity dates in the one to seven-day range, with 50.4% of the assets maturing in a week or less. TexPool's portfolio composition was comprised of approximately 44.9% in repurchase agreements, 42.3% agency holdings, 11.6% in treasuries and 1.2% in money market funds. Maturity dates in the TexPool portfolio were similar to the previous quarter: 60.1% were in the one to seven-day range. The weighted average maturity increased from 27 days to 35 days.

Ms. Hill reviewed U.S. economic market conditions during the second quarter of 2019. She explained that the Federal Reserve (the "Fed") held the target range for the fed funds rate at 2.25-2.50% but did forecast future rate cuts. The Fed indicated it would be patient and would now be more sensitive to date that would corroborate the theory of an economic downshift in the future. She reported that U.S. economic growth eased over the quarter as job growth slowed, consumer spending moderated, manufacturing decelerated and inflation remained low. At the end of July, the Fed eased monetary policy and Federated believes the Fed will ease again in September.

Ms. Hill reported that globally, the U.S.-China trade negotiations broke down in May and the President increased tariffs from 10% to 25% on \$200 billion of Chinese goods. Overall, Federated continues to expect slow and steady economic growth for the remainder of the year.

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. 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

TexPool and TexPool Prime Portfolio and Performance Review for the 2nd Quarter of 2019 and Related Matters (Tab 4)

Mr. Lalo Torres presented a portfolio review of TexPool and TexPool Prime for the second quarter of 2019. He reviewed the participant summary graphs that depicted each Pool's investor base diversification. He reported that TexPool Prime had 22 new participants mostly in the utility sector. Mr. Torres explained the graph on page 3 that demonstrated the seasonal trends such as the increase in value as tax collections occur in November. Each year shows an increase in market value versus the previous year. He presented an overview of the historical yields for both Pools compared to the Federal Funds rate and other target benchmarks. TexPool Prime has continued to surpass the Fed Funds rate since June 2016. Both Pools were keeping up with the rising interest rate environment and performing as expected. Mr. Torres 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 5)

Ms. Amy Michaliszyn reviewed the information behind Tab 5. She reported that year over year, TexPool and TexPool Prime assets continue to grow. Federated believes that TexPool Prime is a great solution for those entities that are allowed to invest in commercial paper. TexPool Prime has added 37 new participants year to date and has 398 participants in total. For the second quarter of 2019, TexPool has added 24 new participants and now has 2,571 participants. Ms. Michaliszyn reviewed the participant balance analysis for the quarter and noted that school districts account for the highest balances in both TexPool and TexPool Prime. The information relating to the competitors demonstrates the enormity of the pools and also that TexPool is by far larger than its competitors. Ms. Michaliszyn reported that no complaints were reported or filed for the quarter.

Public Comments

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

Discussion of Next Meeting and Agenda Items

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

Mr. Paul Ballard announced his retirement at the end of September 2019.

Adjourn

Meeting was adjourned at 10:55 a.m.