

TEXPOOL INVESTMENT ADVISORY BOARD MEETING
Wednesday, November 13, 2019
Minutes

The TexPool Investment Advisory Board (the “Board”) met at 10:00 a.m. on Wednesday, November 13, 2019, at the LBJ State Office Building, 111 E. 17th Street, Room 114, Austin, Texas.

Board Members Present

David Garcia, Patrick Krishock, David Landeros, Sharon Mathews, Deborah Laudermilk, Belinda Weaver and Vivian Wood.

Board Member(s) 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

Mike Reissig, Acting Chief Executive Officer; Ruchit Shah, Acting Chief Investment Officer; Genoveva Minjares, Chief Financial Officer; Lalo Torres, Portfolio Manager; Whitney Blanton, General Counsel; Hugh Ohn, Director of Accounting Strategy and Planning; and Nora Arredondo, Program Specialist.

Additional Participants

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

Call to Order

Comptroller Hegar declared that a quorum was present and called the meeting to order at 10:06 a.m. He introduced the new Acting Chief Executive Officer, Mike Reissig; and the new Acting Chief Investment Officer, Ruchit Shah.

Approval of Minutes (Tab 1)

A motion was made by Ms. Deborah Laudermilk to accept and approve the minutes from the August 28, 2019 board meeting. The motion was seconded by Ms. Sharon Mathews and unanimously approved by the Board.

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, 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 of approximately 3% in assets from the previous quarter, but continued to be well above the levels during the same period in 2018. As of September 30, 2019, TexPool's portfolio balance was approximately \$20.6 billion. The Federal Reserve (the "Fed") rate cut led the average monthly yield to decrease from 2.38% to 2.16% over the quarter. As of September 30, 2019, repurchase agreements comprised 41% of the TexPool portfolio, agency holdings decreased from 42.3% to 36.0%, treasuries comprised 18.1% and money market funds make up 4.6%. The weighted average maturity decreased slightly from 35 to 34 days. Ms. Hill reported that similar to TexPool, TexPool Prime's assets experienced a decline with assets under management for the quarter totaling approximately \$5.8 billion, a decrease from \$6.4 billion the previous quarter. The Fed rate cuts led the average monthly yield of TexPool Prime to decrease over the quarter from 2.52% to 2.27%. There were no real significant asset changes. TexPool Prime's portfolio composition ended the quarters with almost 39% commercial paper, 32% variable rate notes, 20% repurchase agreements and about 9% in money market funds. The majority of the assets (60.2%) had maturity dates in the one to seven-day range.

Ms. Hill reviewed U.S. economic market conditions during the third quarter of 2019. She explained that the Fed reduced its benchmark rate twice during the quarter amid concerns of global uncertainty and unresolved U.S. – China trade negotiations. Fed Chairman Powell referred to the rate reductions as a "mid-cycle adjustment to policy" rather than the start of a new stimulus cycle. Ms. Hill explained that between the two rate cuts there was unusual volatility in the overnight repurchase agreement market. Much of that volatility resulted from corporate tax payments and a large settlement of net new treasury supply, not a credit event. Federated expects the Fed will hold off on any movement in monetary policy until the middle of 2020. Overall, Federated continues to expect slow and steady economic growth for the remainder of the year

Both pools remained competitive among their peer groups. Both TexPool and TexPool Prime were ranked number one 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 3rd Quarter of 2019 and Related Matters (Tab 3)

Mr. Lalo Torres presented a portfolio review of TexPool and TexPool Prime for the third quarter of 2019. He reviewed the participant summary graphs that depicted each Pool's investor base diversification. Mr. Torres explained the graph on page 3 that demonstrated the seasonal trends such as the decrease in value as participants begin to redeem for debit payments. The graph also depicted the large gap and higher balances of the pools between 2016 and 2019. Each year showed 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 September 2017. Both Pools were keeping up with the current 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 4)

Mr. Ed Sanchez reviewed the information behind Tab 4 relating to TexPool and TexPool Prime participants. He explained that year after year, TexPool and TexPool Prime assets continue to grow

and continue to accelerate at a higher percentage rate. As of the end of July combined assets were up 19% which equates to approximately \$5 billion. Mr. Sanchez reported that a new course was added to the TexPool Academy: LIBOR Reform. The course was designed to address various topics regarding LIBOR. There have also been new TexPool website enhancements such as ADA enhancements, to comply with state agency website requirements.

Mr. Sanchez reported that TexPool has added twelve new participants and TexPool Prime has added three new participants for the quarter. That brings the total of participants to 2,583 and 401 respectively. Mr. Sanchez reviewed the participant balance analysis for the quarter and noted that school districts continue to account for the highest balances in both pools. TexPool continues to hold more assets than its competitors.

Public Comments

Phillip Ashley 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 February and the Board will be contacted by Nora Arredondo regarding a date.

Adjourn

Meeting was adjourned at 10:57 a.m.