

TEXPOOL INVESTMENT ADVISORY BOARD MEETING
Thursday, February 20, 2020
Minutes

The TexPool Investment Advisory Board (the “Board”) met at 10:00 a.m. on Thursday, February 20, 2020, at the LBJ State Office Building, 111 E. 17th Street, Room 114, Austin, Texas.

Board Members Present

Jerry Dale, Patrick Krishock, David Landeros, Deborah Lauder milk, and Vivian Wood.

Board Members Absent

David Garcia, Sharon Mathews, and Belinda Weaver.

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

Ruchit Shah, Acting CIO; Genoveva Minjares, Chief Financial Officer; Whitney Blanton, General Counsel; Lalo Torres, Portfolio Manager; Ramsey Abarca, Compliance Manager; Hugh Ohn, Director of Accounting, Strategy and Planning; Serena Kuvet, Assistant General Counsel; and Nora Arredondo, Program Specialist.

Additional Participants

Angela Dawson and Joel Perez, RSM US. LLP; Deborah Cunningham, Federated Advisory Company; and Amy Michaliszyn, Federated Securities Corporation.

Call to Order

Comptroller Glenn Hegar declared that a quorum was present and called the meeting to order at 10:03 a.m.

Approval of Minutes from November 13, 2019 Meeting (Tab 1)

A motion was made by Mr. Patrick Krishock to accept and approve the minutes from the November 13, 2019 board meeting. The motion was seconded by Mr. David Landeros and unanimously approved by the Board.

Presentation of Annual Audit (under separate cover)

Ms. Angela Dawson summarized the audit reports issued by RSM US for TexPool and TexPool Prime. She reported unqualified opinions with respect to both funds for the fiscal year ending August 31, 2019. Ms. Dawson reported that both Pools were in compliance with their investment policies. She reported that no audit adjustments were required during the audit engagement, nor was a management letter issued.

Economic Update and Discussion of Portfolio Positioning (Tab 2)

Ms. Deborah Cunningham reviewed Federated’s investment report for TexPool and TexPool Prime for the quarter ending December 31, 2019. She reported that the TexPool and TexPool Prime

portfolios were in compliance with the Texas Public Funds Investment Act, the Governmental Accounting Standards Board Statement No. 79 (“GASB”), 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. Both portfolios ended the quarter with a weighted average maturity of 35 days.

Ms. Cunningham reported that as of December 31, 2019, TexPool’s portfolio balance was approximately \$23.5 billion, which represents asset growth of approximately \$2.9 billion or 14% during the last quarter. TexPool Prime’s portfolio balance during the same quarter was approximately \$6.6 billion, an estimated \$800 million from the previous quarter. Both portfolios benefited from the above zero interest rate environment. Ms. Cunningham reported that as of December 31, 2019, the portfolio composition of TexPool was comprised of 27.6% repurchase agreements, 38.3% agency holdings, 21.6% treasuries, and 12.5% money market funds. TexPool Prime’s portfolio composition consisted of 36.6% commercial paper, 31.6% variable rate notes, 23.3% repurchase agreements, and 8.5% money market funds.

Ms. Cunningham reviewed U.S. economic market conditions during the fourth quarter of 2019. She reported that the Federal Reserve (the “Fed”) put monetary policy on hold which may suggest that a recession is not imminent. In October, the Fed eased rates for the third time in 2019, lowering the Fed funds target rate by 25 basis points to a range of 1.50% - 1.75%. In December, the Fed did not change the target range. The rate cut led to the average monthly yield decreasing from 2.16% to 1.62% in TexPool and in TexPool Prime from 2.27% to 1.83%. Ms. Cunningham reported that the gross domestic product (“GDP”) growth in the third quarter, the most recent data, was at a healthy 2.1%. The labor market was strong and unemployment dipped to levels not seen since 1969. Retail and housing sales were also at peaks. She reported on a new issue, the Corona Virus, and that it could certainly impact GDP. There was no economic impact to the fourth quarter of 2019, but the first quarter will be impacted until a vaccine is found and tested.

Ms. Cunningham reported that both pools remained competitive among their peer groups. TexPool was ranked number one and TexPool Prime was ranked number two among their peer groups in yield comparisons. She continued and 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. Federated continues to expect slow and steady economic growth.

TexPool and TexPool Prime Portfolio and Performance Review for the 4th Quarter of 2019 and Related Matters (Tab 3)

Mr. Lalo Torres presented a portfolio review of TexPool and TexPool Prime for the fourth quarter of 2019. He reviewed the participant summary graphs that depicted each Pool’s investor base diversification. He reported that the total assets under management for both Pools was approximately \$30 billion and he explained that new participants, a healthy tax base and better yields have contributed to significant growth year after year. Mr. Torres reviewed the graph that demonstrated the seasonal trends of inflows and outflows by participants. In the last five years, the value of the Pools has steadily increased. An overview of the historical yields for both Pools was presented in comparison to the Fed Funds rate and other target benchmarks. TexPool Prime has continued to surpass the Fed Funds rate since December 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, with no usual instances reported. 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 announced that the name of Federated Investors has changed to Federated Hermes, Inc., which reflects the combination of Federated Investors and Hermes Investment Management. Federated Hermes represents a new brand in the global asset management market place. Assets under management for Federated Hermes is approximately \$500 billion.

Ms. Michaliszyn reported that currently, TexPool's assets are approximately \$28.5 billion and TexPool Prime's assets are approximately \$8 billion, which demonstrates the seasonality of the Pools. She reported that the TexPool Academy continues to grow as new courses are added. This online training offers a way for participants to fulfill credit requirements under the Texas Public Funds Investment Act. Ms. Michaliszyn reported that TexPool added 12 new participants and TexPool Prime added 6 new participants during the quarter. That brings the total of participants to 2,595 and 407 respectively. She reviewed the participants' 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.

Discussion of Next Meeting and Agenda Items

No future agenda items were discussed. The next meeting date will be scheduled for some time in May. Ms. Arredondo will contact and poll the board members.

Public Comments

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

Adjourn

Meeting was adjourned at 11:17 a.m.