

**TEXPOOL INVESTMENT ADVISORY BOARD MEETING**  
**Wednesday, November 18, 2020**  
**Virtual Meeting Minutes**

The TexPool Investment Advisory Board (the “Board”) met at 10:00 a.m. on Wednesday, November 18, 2020 via a virtual WebEx meeting.

**Board Members Present**

Jerry Dale, Patrick Krishock, David Landeros, Sharon Mathews, Deborah Laudermilk, and David Garcia.

**Board Member(s) Absent**

Belinda Weaver and Vivian Wood.

**Comptroller of Public Accounts Staff Present**

Comptroller Glenn Hegar presiding.

**Texas Treasury Safekeeping Trust Company (“Trust Company”) Participants and Facilitators**

Mike Reissig, Chief Executive Officer; Ruchit Shah, Chief Investment Officer; Anca Ion, Chief Investment Officer of Internal Investments; Leticia Davila, Portfolio Manager; Nora Arredondo, Program Specialist; and Shantel Geeslin, Program Specialist.

**Additional Participants**

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

**Call to Order**

Comptroller Hegar declared that a quorum was present and called the meeting to order at 10:00 a.m.

**Approval of Minutes (Tab 1)**

*A motion was made by Ms. Sharon Mathews to accept and approve the minutes from the August 26, 2020 board meeting. The motion was seconded by Ms. Deborah Laudermilk 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, 2020. She reported that 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 as of September 30, 2020, the value of the TexPool portfolio was approximately \$23 billion a 10% increase over the previous year balance but an approximate \$3 billion decline from

the previous quarter. The TexPool portfolio is invested in government securities. She explained that the third quarter usually experiences seasonal declines but the decline was more pronounced coming off elevated levels from earlier in the year. With the dramatic low interest rate levels, investors may have sought higher yields such as in TexPool Prime. The TexPool Prime portfolio is also invested in government securities but mainly in credit instruments. The TexPool Prime portfolio value for the quarter was approximately \$8 billion, and steadily increased throughout the year. The TexPool Prime portfolio experienced an increase of approximately \$655 million from the previous quarter.

Ms. Hill recapped U. S. economic market conditions during the third quarter of 2020. She reported that the Corona virus continues to take center stage. Vaccine production and distribution is promising but challenging. Also, Congress could not agree on the size of another stimulus package this quarter. The Federal Reserve (the “Fed”), kept rates unchanged and expressed concern that more fiscal and monetary policy support might be needed at this time. In September the Fed took steps towards inflation targeting. The Fed indicated it would like to keep interest rates low until inflation averaged 2% or higher for a period of time and when unemployment is near pre-pandemic levels. Treasury yields ended the month between .08% - .13%. Federated does not expect the Fed to push interest to go into negative yield territory.

Ms. Hill reviewed the portfolio composition for each pool. She reported that there were no significant changes to the TexPool portfolio composition. Repurchase agreements comprised 30.2%, agency holdings comprised 26.9%, treasuries made up 33.9% and money market funds were 9.0% of the portfolio composition. The TexPool average monthly yield was 0.15%. The TexPool Prime portfolio composition ended the quarter at 54.5% in commercial paper, 18.3% in repurchase agreements, 16.0% in government, 6.9% in money market funds and 4.3% in variable rate notes. TexPool Prime’s average monthly yield was 0.26%. Ms Hill explained that the London Inter-bank Offer Rate (“LIBOR”) is expected to be phased out by the end of 2021. Federated has been actively seeking alternative types of indices.

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. 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. Federated is comfortable with the stress testing and the way that the portfolio is positioned.

### **TexPool and TexPool Prime Portfolio and Performance Review for the 3rd Quarter of 2020 and Related Matters (Tab 3)**

Ms. Leticia Davila, Portfolio Manager with the Trust Company, presented a portfolio review of TexPool and TexPool Prime for the third quarter of 2020. She reviewed the participant summary graphs that depicted each pool’s investor base diversification. Although utility districts had the largest number of participants in the TexPool portfolio base, the sector with the highest balances was the school district sector which had approximately \$6.4 billion. School Districts were also TexPool Prime’s largest participant and had the largest balances. She reported that the combined balance for the quarter ending September 30, 2020 was approximately \$31 billion. She reported that year over year the pools continue to experience asset growth and at the end of the third quarter total assets were over 17% higher than the same time last year. Ms. Davila reviewed the chart depicting the yields of the pools versus the Fed funds rate. TexPool Prime yields outpaced the Fed funds rate throughout the year. Ms. Davila noted that although the three-month treasury bill is an appropriate benchmark for portfolios, she and her team are working on adding a more suitable benchmark for TexPool Prime. She stated that TexPool and TexPool Prime quarterly and annual average yields remained competitive with other Texas local government investment pools. TexPool’s average monthly yield for October was 0.13% and TexPool Prime’s average monthly yield for October was 0.23%.

## **Report on Services Provided to TexPool and TexPool Prime Participants and Related Matters (Tab 4)**

Mr. Jerry Landrum reviewed the combined assets of the TexPool and TexPool Prime portfolios over the previous three years. Normally from March through September seasonal declines or outflows are experienced; however, this year assets in TexPool Prime increased during this time period. Mr. Landrum reported that eleven new participants were added to TexPool and two new participants were added to TexPool Prime, bringing the totals to 2,627 and 428 respectively. He explained that during this pandemic he and his co-worker were meeting with clients virtually. Mr. Landrum reviewed the participants' balance analysis for the quarter and noted that school districts continue to account for the highest balances in both pools.

Ms. Michaliszyn commented on the seasonal declines and noted that many TexPool participants use TexPool for paying their bills. She reviewed the competitive landscape and reported that most all Texas local government pools experience the same seasonal declines. Most conferences are being held virtually. Ms. Michaliszyn stated 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 will be in February and Nora Arredondo will contact the Board regarding a date.

### **Public Comments**

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

Mr. Mike Reissig introduced Ms. Leticia Davila as a new member to the Trust Company trading desk and manages the mortgage portion of the Treasury Pool. She has over 25 years of experience and was previously employed at the Texas Employee Retirement System.

### **Adjourn**

Comptroller Hegar adjourned the meeting at 10:42 a.m.