

TEXPOOL INVESTMENT ADVISORY BOARD MEETING
Monday, February 22, 2021
Minutes

The TexPool Investment Advisory Board (the “Board”) met at 10:00 a.m. on Monday, February 22, 2021, via a virtual Microsoft Teams meeting.

Board Members Present

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

Board Members Absent

Jerry Dale, Belinda Weaver and Vivian Wood.

Comptroller of Public Accounts Staff Presiding

Comptroller Glenn Hegar and Phillip Ashley, Associate Deputy Comptroller.

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; Genoveva Minjares, Chief Financial Officer; Leticia Davila, Portfolio Manager; Nora Arredondo, Program Specialist; and Shantel Geeslin, Program Specialist.

Additional Participants

Joel Perez, RSM US. LLP; Paige Wilhelm, Federated Advisory Company; and Amy Michaliszyn, Federated Securities Corporation.

Call to Order

Associate Deputy Comptroller Phillip Ashley declared that a quorum was present and called the meeting to order at 10:00 a.m.

Approval of Minutes from November 18, 2020 Meeting (Tab 1)

A motion was made by Mr. David Garcia to accept and approve the minutes from the November 18, 2020 board meeting. The motion was seconded by Ms. Sharon Mathews and unanimously approved by the Board.

Presentation of Annual Audit (under separate cover)

Mr. Joel Perez 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, 2020. Mr. Perez reported that both Pools were in compliance with their investment policies. He 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. Paige Wilhelm from Federated reviewed Federated’s investment report for TexPool and TexPool Prime for the quarter ending December 31, 2020. 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 (“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.

Ms. Wilhelm reported that as of December 31, 2020, TexPool’s portfolio balance was approximately \$25.4 billion, which represents asset growth of approximately \$2.5 billion from the previous quarter. TexPool Prime’s portfolio balance during the same quarter grew by approximately \$500 million and its portfolio balance was approximately \$8.6 billion. Both portfolios experienced significant growth during the normal tax flow season but also benefited from the fiscal stimulus money that states, counties, cities and school districts received. Both portfolios recorded record high asset balances at the onset of the new year.

Ms. Wilhelm reviewed U.S. economic market conditions during the fourth quarter of 2020. She reported that during this volatile quarter, unemployment was 6.7% and continued to spike, businesses were closing, COVID cases were increasing and a second fiscal stimulus package wasn’t disbursed until the end of the year. The Federal Reserve (the “Fed”) kept interest rates at 0.00% to 0.25% and continued their quantitative easing policy, which consisted of purchasing \$120 billion worth of treasury and agency securities each month. Ms. Wilhelm explained that economic recovery would be largely based on the COVID vaccine rollout. Current inflation stood at approximately 1.3% or 1.4%. The Fed would like to see employment levels back to a pre-COVID rate of approximately 3.5% and inflation above 2%. Ms. Wilhelm explained that pockets of inflation were seen in the energy and housing sectors; however, service, hospitality and travel industries continued to lag. Federated’s outlook for 2021 is that interest rates will continue to remain in the 0.00% - 0.25% interest rate environment, but there is the potential that the Fed could begin to unwind quantitative easing. Federated does not expect to see interest rates rise until sometime into 2022.

Ms. Wilhelm reviewed the portfolio composition for TexPool and TexPool Prime. Liquidity instruments such as repurchase agreements and overnight securities were increased during the quarter. The TexPool portfolio was comprised of 28.2% repurchase agreements, 23.5% agency holdings, 36.7% treasuries and 11.6% money market funds. Maturity dates of the assets increased slightly from the previous quarter with the weighted average maturity at 37 days. The TexPool Prime portfolio was comprised of 60.2% commercial paper, 17.6% repurchase agreements, 11.1% government securities, 6.5% money market funds and 4.5% variable rate notes. The weighted average maturity was 41 days. Ms. Wilhelm explained that a replacement for the LIBOR index is being sought and there is still time to find a proper replacement.

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. Wilhelm 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 the portfolio is positioned.

TexPool and TexPool Prime Portfolio and Performance Review for the 4th Quarter of 2020 and Related Matters (Tab 3)

At this time Comptroller Hegar joined the meeting.

Ms. Leticia Davila, Portfolio Manager with the Trust Company, presented a portfolio review of TexPool and TexPool Prime for the fourth quarter of 2020. She reported that the total balance for TexPool and TexPool Prime participants as of December 31, 2020 was approximately \$34 billion. Total assets were 13% higher at the end of 2020 compared to the same time last year. The TexPool portfolio produced an average monthly yield of 0.09% and the TexPool Prime portfolio produced an average monthly yield of 0.14%. Ms. Davila reviewed the participant summary graphs that depicted

each Pool's investor base diversification. The school district sector for both Pools had the highest balances, followed closely by counties. She reviewed the graph that demonstrated the seasonal trends of inflows and outflows by participants. Over the previous quarter the Pools experienced a 10% net inflow and year over year the Pools continue to experience asset growth. 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. During the quarter both Pools remained within the current Fed funds rate of zero to twenty-five basis points.

Ms. Davila reviewed the portfolio composition for both Pools as compared to the previous quarter. The TexPool portfolio experienced 11% increase in assets from the previous quarter and increased allocation to treasuries and money market funds that was offset by declines in repurchase agreements and agency securities. The TexPool Prime portfolio experienced 7% increase in assets and increased its allocation to commercial paper and variable rate notes while reducing exposure to government securities, repurchase agreements and money market funds. Ms. Davila noted that a new benchmark was added for the TexPool Prime portfolio, the iMoneyNet first tier average institutional average. This is the average yield on S&P AAAM rated institutional prime money market funds. 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 January was 0.08% and TexPool Prime's average monthly yield for January was 0.12%.

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

Ms. Michaliszyn reviewed the continued growth charts for TexPool and TexPool Prime from 2018 - 2020. The charts illustrated the continued growth of assets year over year ending in 2020 at \$34 billion. She reported that with the continuation of seasonal inflows, as of February 4, the combined assets for both Pools passed \$40 billion, an all-time high. Currently the combined assets are approximately \$39 billion, which is normal since the assets began to taper off in mid-February. Ms. Michaliszyn explained that clients who are not restricted to government securities and do not necessarily require immediate payout, are putting more discretionary dollars in TexPool Prime.

Ms. Michaliszyn reported that the TexPool Academy, which began in 2009, has continued to be a popular service provided by Federated for TexPool and TexPool Prime participants. Participants may earn CE credits remotely and have 19.5 credit hours available to them. In the course of 2020, more than 1,000 users have completed 313 courses. Those users represent 374 local government entities. Ms. Michaliszyn also reported that over the fourth quarter two new participant categories were created: 1) Emergency Services Districts and 2) Economic Development Corporations. Overall, twelve new participants were added to TexPool and ten new participants were added to TexPool Prime, bringing the totals to 2,639 and 438 respectively. Ms. Michaliszyn is optimistic for 2021 and is hopeful for in person conferences as the year progresses. She stated no complaints were reported or filed for the quarter. Ms. Michaliszyn announced that Mr. Jerry Landrum will retire in April.

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 11:55 a.m.