

TEXPOOL INVESTMENT ADVISORY BOARD MEETING
Wednesday, May 26, 2021
Minutes

The TexPool Investment Advisory Board (the “Board”) met at 10:00 a.m. on Wednesday, May 26, 2021, via a virtual Microsoft Teams meeting due to COVID-19 restrictions.

Board Members Present

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

Board Members Absent

Vivian Wood (deceased).

Comptroller of Public Accounts Staff Presiding

Comptroller Glenn Hegar.

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

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

Additional Participants

Sue Hill and Mark Weiss, Federated Advisory Companies; and Amy Michaliszyn and Ed Sanchez, Federated Securities Corporation.

Call to Order

Comptroller Glenn Hegar declared that a quorum was present and called the meeting to order at 10:01 a.m.

Approval of Minutes from February 22, 2021 (Tab 1)

A motion was made by Ms. Sharon Mathews to accept and approve the minutes from February 22, 2021 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 and Mr. Mark Weiss reviewed Federated’s investment report for TexPool and TexPool Prime for the quarter ending March 31, 2021. Ms. Hill 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 during the quarter. Both Pools also met specific portfolio composition and maturity limitation guidelines set out in their respective investment policies.

Ms. Hill reported that as of March 31, 2021, the TexPool portfolio balance was approximately \$26.4 billion, which represents asset growth of approximately \$989 million or 3.9%, from the previous quarter. She noted that the portfolio increased allocations to repurchase agreements, mutual fund investments and treasury bills, with corresponding decline in positions of treasury notes and government securities. Ms. Hill reported the weighted average maturity drifted from 37 days to 29 days. The average monthly yield as of March was 0.02%, a 0.07% decline from the previous quarter, which is reflective of the challenging market conditions at the front-end.

Mr. Mark Weiss reviewed the TexPool Prime portfolio for the same quarter. He reported that as of March 31, 2021, the TexPool Prime portfolio balance was approximately \$9.6 billion, which represents asset growth of approximately \$1 billion from the previous quarter. The TexPool Prime's portfolio weighted average maturity increased from 41 days to 51 days. The commercial paper allocation was increased to 73.5% to take advantage of better yields since the repo and money markets were so low. The TexPool Prime portfolio average monthly yield was 0.09% for the quarter.

Ms. Hill presented a macroeconomic update. She reported that the Federal Reserve (the "Fed") kept the interest rate target range at 0.0% - 0.25%. The economy began recovery at a robust pace and the first quarter GDP was approximately 6.4%. She reported that this uptick in economic recovery was spurred by a faster vaccination rate and massive fiscal stimulus. Despite the faster recovery pace, the Fed remained adamant that much progress is yet to be made towards their dual mandate of full employment and inflation running at 2% or higher. Federated's view is the economy will continue to strengthen and although much of the price pressure is transient in nature, there will be some that is longer lasting. Federated believes the Fed will alter some of the stimulus by changing its asset purchase plans later in the year or early next year. A possibility of a rate increase at the short end of the yield curve may then present itself beginning early 2023 or throughout that year. Ms. Hill reported that yields on short-term treasury securities moved lower by 5-7 basis points, despite the positive economic outlook, and spreads on agency securities and commercial paper have contracted as well. This presents a challenging environment for investments on the front-end. Federated is hopeful that the Fed will make a tactical adjustment to rates at the June Federal Open Market Committee meeting.

Ms. Hill informed the Board that Federated is engaged in a broad effort to transition the floating rate exposure and portfolio assets away from the London Interbank Offered Rate ("LIBOR") to mitigate the risk of a potential messy transition. According to the Fed, LIBOR should be phased out by June 30, 2023.

Ms. Hill and Mr. Weiss reported that both Pools remained competitive among their peer groups, including those that are not AAA rated. TexPool was ranked number two and TexPool Prime was ranked number four among their peer groups in yield comparisons. They 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 portfolios are positioned.

TexPool and TexPool Prime Portfolio and Performance Review for the 1st Quarter of 2021 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 first quarter of 2021. She reported the total balance for TexPool and TexPool Prime participants as of March 31, 2021 was approximately \$36 billion, which represents an increase of \$2 billion from the previous quarter. She reviewed the market value history chart which represents the seasonality of participant cash flows. Ms. Davila reviewed the LIBOR and treasury bill yield curve graph for the first quarter of 2021 compared to the same period in 2019 and 2020. She reiterated how challenging the front-end market has been. The March 2020 LIBOR yields were elevated relative to treasuries. The onset of the pandemic and a period of high stress in the

markets contributed to widen spreads in treasuries. 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. She reviewed the historical net asset value for both Pools through the end of March and reported that both Pools remained in compliance and maintained a net asset value well within the allowable.

Ms. Davila stated the TexPool and TexPool Prime quarterly and annual average yields remained competitive with other Texas local government investment pools. TexPool's average monthly yield for April was 0.01% and TexPool Prime's average monthly yield for April was 0.08%.

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

Mr. Ed Sanchez compared the growth in assets of both pools from 2018 to present date 2021 and noted that despite the extremely low interest rate environment, both Pools continued to experience asset growth. The peak in assets in February demonstrate the seasonality of the Pools. The combined assets reached a high of \$40.5 billion on February 9, 2021. Just from the participants that joined TexPool Prime from March 2020 to March 2021, \$900 million was added to the Pool. The number of participants with over \$100 million went from 19 to 28 in the last year. The liquidity of both Pools continues to be a benefit for the participants.

Mr. Sanchez reported that some conferences were in-person in February and April and were well received and attended. The TexPool Academy added two courses last quarter that were hosted and presented by economic experts that explained the impact of the COVID-19 virus on the markets and economy and an array of economic recovery topics. Participants continue to register for classes in the TexPool Academy for virtual learning. TexConnect Mobile continues to be popular and participants receive daily yield updates.

Mr. Sanchez reported that TexPool added five new participants and TexPool Prime added three new participants for the quarter. That brings the total of participants to 2,644 and 441 respectively. He reviewed the participants' balance analysis for the quarter and stated 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 August. 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 10:49 a.m.