

TEXPOOL INVESTMENT ADVISORY BOARD MEETING
Wednesday, August 25, 2021
Virtual Meeting Minutes

The TexPool Investment Advisory Board (the “Board”) met at 10:00 a.m. on Wednesday, August 25, 2021 via a virtual Teams meeting.

Board Members Present

Patrick Krishock, David Landeros, Sharon Mathews Searcy, Deborah Laudermilk and Belinda Weaver.

Board Member(s) Absent

Jerry Dale and David Garcia.

Comptroller of Public Accounts Staff Presiding

Comptroller Glenn Hegar.

Texas Treasury Safekeeping Trust Company (“Trust Company”) Executive Staff, Presenters and Facilitators

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

Additional Participants

Paige Wilhelm, Federated Advisory Companies; and Amy Michaliszyn and Ed Sanchez, Federated Securities Corporation.

Call to Order

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

Approval of Minutes (Tab 1)

A motion was made by Ms. Sharon Mathews Searcy to accept and approve the minutes from the May 26, 2021 board meeting. There were no objections to the motion. The motion was unanimously approved by the Board.

Annual Review of TexPool and TexPool Prime Investment Policies (Tab 2)

Mr. Whitney Blanton explained that this is the meeting when we conduct our annual review of the TexPool and TexPool Prime Investment policies. The recommended revision to both investment policies is the addition of language in the Derivatives section of Prohibited Investments to clarify

that the Authorized Investments section is controlling and the list of “securities that are not considered derivatives” is merely a summary, not controlling. Ms. Amy Michaliszyn stated the revision is for clarification purposes.

A motion was made by Ms. Deborah Lauder milk to recommend to the Comptroller for approval, the proposed revision to the TexPool and TexPool Prime Investment policies as presented by the Trust Company. The motion was unanimously approved by the Board.

Economic Update and Discussion of Portfolio Positioning (Tab 3)

Ms. Paige Wilhelm from Federated reviewed Federated’s investment report for TexPool and TexPool Prime for the quarter ending June 30, 2021. 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. Wilhelm reported that the TexPool portfolio’s assets experienced seasonal outflows and was down approximately \$2.5 billion and ended the quarter at approximately \$23.8 billion. The TexPool portfolio produced an average monthly yield of 0.01%. Conversely, the TexPool Prime portfolio had an increase of approximately \$550 million in portfolio assets and ended the quarter at approximately \$10.2 billion with an average monthly yield of 0.07%. Overall, TexPool Prime was up \$2.7 billion from June 2020 to June 2021. She explained that because the yield spread between the government portfolio and the Prime portfolio was so low, there was additional money flow into the Prime portfolio to garner that additional yield for the participants.

Ms. Wilhelm recapped the market conditions for the second quarter of 2021. She reported that the second quarter of 2021 may be remembered as the inflection point in the long struggle against COVID-19. Vaccination rates for adults were increasing and approval for teenagers was granted. She reported that most of the mandated restrictions that state and local governments implemented were lifted; however, the Delta variant is of concern. The labor market saw substantial improvement during the reopening. Concerns that the robust recovery would lead to high inflation, the Federal Reserve (the “Fed”) is calling the rise in prices transitory. They kept the fed funds target range at 0-025% throughout the quarter but indicated they might raise rates earlier than previously thought. The Fed is closely monitoring all indices. Ms. Wilhelm reported that throughout the second quarter interest rates hit all-time lows. At the June Federal Open Market Committee meeting, the Fed increased the rate on the Reverse Repo Facility and Interest on Excess Reserves by five basis points each, to five and 15 basis points, respectively. These two movements helped the short end of the market and is reflected in the positioning of the portfolios and the yields.

Ms. Wilhelm reported on the competitive rankings in yield comparisons among their peer groups. TexPool fell in rankings to number 17 mainly due to the more conservative nature of its investment policy and the fact that interest rates were at rock-bottom rates. TexPool Prime remained in the top five and was ranked number four among its peer group. She noted that among S&P AAAM rates funds only, TexPool Prime was ranked number two among its competitors. 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 that the portfolio is positioned.

TexPool and TexPool Prime Portfolio and Performance Review for the 2nd Quarter of 2021 and Related Matters (Tab 4)

Ms. Leticia Davila, Portfolio Manager with the Trust Company, presented a portfolio review of TexPool and TexPool Prime for the second quarter of 2021. She reported the total balance for TexPool and TexPool Prime participants as of June 30, 2021 was approximately \$34 billion. She reviewed the market value graph that demonstrates the seasonal highs and lows. Year-over-year the combined Pool balance was about flat which can be attributed to larger than usual outflows from TexPool in the second quarter combined with lighter even outflows in the second quarter of 2020. Ms. Davila reviewed the LIBOR and U.S. Treasury Bill yield curve graph. On a year-over-year basis, TexPool and TexPool Prime yields were down five to nine basis points across the curve, and the LIBOR curve was down six to 21 basis points year-over-year. Ms. Davila reviewed the allocation composition of both Pools. TexPool had a larger allocation to repurchase agreements and treasuries while exposure to agencies and money market funds declined over the quarter. The weighted average maturity of 30 days was in line with the last quarter and compared to last year was slightly shorter. She reported that TexPool Prime had an increase to repurchase agreements and money market funds, offset by declines in commercial paper and government securities. Compared to the previous quarter, the weighted average maturity declined from 51 to 45 days, with a similar change on a year-over-year basis. Ms. Davila reviewed the graph depicting the current and historical yields for the Pools versus the benchmarks and stated that the Pools performed well versus the benchmarks over the quarter, and one and three-year periods.

Report on Services Provided to TexPool and TexPool Prime Participants and Related Matters (Tab 5)

Ms. Amy Michaliszyn reviewed the information behind Tab 5. She reported that year-over-year, TexPool and TexPool Prime assets continue to grow despite seasonal outflows. The assets are unprecedented despite pervasively low rates, and that in part is due to stimulus dollars coming into the local governments. TexPool Prime continued to grow at record levels and experience a 38% increase when compared to assets one year ago. She explained that participants are using TexPool to pay their bills and using TexPool Prime for incremental yield advantage on monies they don't immediately need.

Mr. Ed Sanchez reported that Federal stimulus money provided the funds needed to replace COVID expenditures for entities across Texas. He explained that balances in the Pools increased year-over-year in 2020 and 2021 for entity types that received more targeted stimulus funds and chose TexPool as their investment vehicle.

Ms. Michaliszyn reported that participants continue to register for classes in the TexPool Academy for virtual learning and they continue to utilize TexConnect and TexConnect Mobile for transactions and account information. She reported that Texas gained 14 new participants for the quarter and TexPool Prime gained four new participants, bringing the totals to 2,658 and 445 respectively. She reviewed the participants balance analysis for the quarter and stated that school districts continue to account for the highest balances in both Pools. In the competitive landscape

of Pools, TexPool continues to hold more assets than its competitors. She stated that Federated has conducted virtual conferences and started in-person conferences in April.

Public Comments

Comptroller Hegar 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 November and the Board will be contacted regarding a date.

Adjourn

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