

**TEXPOOL INVESTMENT ADVISORY BOARD MEETING**  
**Friday April 4, 2008**  
**Minutes**

The TexPool Investment Advisory Board (the “Board”) met at 10:00 a.m. on Friday, April 4, 2008, at the LBJ State Office Building, 111 E. 17<sup>th</sup> Street, Room 114, Austin, Texas.

**Board Members Present**

R. C. Allen, Pati Buchenau, Jose Elizondo, Jr., Ron Leverett, Clay McPhail, and Vivian Wood.

**Board Members Absent**

John McGrane and LaVonne Mason.

**Comptroller of Public Accounts Staff Present**

Comptroller Susan Combs and Martin Hubert, Deputy Comptroller.

**Texas Treasury Safekeeping Trust Company (“TTSTC”) Staff Present**

Paul Ballard, Chief Executive Officer and Chief Investment Officer (“CEO”); Danny Sachnowitz, Deputy Director and Deputy Chief Investment Officer; Frank Zahn, Chief Financial Officer; Marianne S. Dwight, General Counsel; Kathy Bueltel, Program Specialist; Nora Arredondo, Special Projects Coordinator; Dan McNeil, Compliance Officer; and Genoveva Minjares, Audit Liaison.

**Additional Participants**

Mike O’Brien, Padgett, Stratemann & Co., LLP (formerly Sprouse & Anderson, LLP); Amy Michaliszyn, Federated Investors (“Federated”); Sue Hill, Federated; Jerry Landrum, Lehman Brothers (“Lehman”); and Ed Sanchez, Lehman.

**Call to Order**

Comptroller Combs declared that a quorum was present and called the meeting to order at 10:17 a.m.

**Discussion and Presentation of Annual Audit (Tab 2)**

Mr. Mike O’Brien explained that Sprouse & Anderson merged with Padgett, Stratemann & Co., LLP, on October 31, 2007. Mr. O’Brien summarized the audit reports behind Tab 2 and reported that Sprouse & Anderson issued clean financial audit opinions with respect to TexPool, TexPool Prime, and TTSTC for the year ending August 31, 2007. No audit adjustments were recorded during the audit engagement that would indicate deficiencies in the accounting process. No management letter was required.

Mr. O’Brien noted that TexPool’s net assets at the end of fiscal year 2007 were approximately \$16.1 billion and had increased by approximately \$3.6 billion from the previous year and TexPool Prime’s net assets were approximately \$1.2 billion and had increased by approximately \$400 million from the previous year.

## **Approval of Minutes (Tab 1)**

*Motion was made by Mr. Ron Leverett to accept and approve the minutes from the August 15, 2007 Board meeting. Motion was seconded by Ms. Vivian Wood and unanimously approved by the Board.*

## **Report and Discussion on Participant Services, Economic Outlook, Portfolio Review, TexPool & TexPool Prime Performance for 4th Quarter 2007 and Related Matters (Tab 3 and handout)**

Ms. Sue Hill of Federated reported that TexPool and TexPool Prime portfolios were in compliance with the Texas Public Funds Investment Act (“TPFIA”) and the TexPool and TexPool Prime Investment Policies throughout the quarter. She stated that neither pool had exposure to sub-prime mortgages, Bear Sterns, or collateralized debt obligations. She stated that TexPool’s portfolio balance at the end of the first quarter 2008 was approximately \$21.1 billion and TexPool Prime’s portfolio balance was approximately \$1.8 billion. Ms. Hill discussed the economic overview (handout) and reported that Federated expects the Federal Reserve (the “Fed”) to remain active and may ease monetary policy further but not as drastically as in previous quarters. Federated will continue to monitor and search for securities that will perform best, given this expectation. Federated believes that a recession is not an imminent threat; however, economic growth will be slow.

Next, Ms. Hill reviewed the portfolio characteristics and yields of TexPool and TexPool Prime as illustrated in the handout behind tab D. She stated that TexPool had a very competitive market yield of 4.75% for the quarter. The yield on TexPool Prime for the same period was 4.84%.

Mr. Jerry Landrum of Lehman Brothers reviewed TexPool and TexPool Prime participant services. He noted that the number of new participants continued to grow throughout the quarter. Mr. Landrum reported that there were no complaints received during the quarter. Mr. Landrum stated that there had not been any PC modem participant usage in the last 18 months and recommended removing it from the system.

Mr. Danny Sachnowitz reviewed historical yields for TexPool and TexPool Prime as compared to the Federal Funds rate and other target benchmarks. TexPool and TexPool Prime have outperformed their benchmarks for the quarter and one year periods. Their quarterly and annual rates of return remain competitive with other Texas local government investment pools.

Ms. Amy Michaliszyn of Federated discussed the significance of Rule 2a7 and the investment advantages that would be gained.

## **Potential Agenda Items, Meeting Dates, and Other Items**

No future meeting date was set. The Board will be sent an email with possible dates.

## **Public Comments**

None

## **Adjourn**

Meeting was adjourned at 11:45 a.m.