

TEXPOOL INVESTMENT ADVISORY BOARD MEETING
Wednesday, May 25, 2011
Minutes

The TexPool Investment Advisory Board (the “Board”) met at 10:00 a.m. on Wednesday, May 25, 2011, at the LBJ State Office Building, 111 E. 17th Street, Room 114, Austin, Texas.

Board Members Present

Pati Buchenau, Jose Elizondo, Jr., John McGrane, Ron Leverett, Clay McPhail, LaVonne Mason and Vivian Wood.

Board Members Absent

R.C. Allen.

Comptroller of Public Accounts Staff Present

Comptroller Susan Combs.

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; Marianne S. Dwight, General Counsel; Nora Arredondo, Special Projects Coordinator; and John Wright, Assistant General Counsel.

Additional Participants

Amy Michaliszyn, Federated Securities Corp. (“Federated”); Deborah Cunningham, Federated Advisory Companies; and Eileen Kinney-Mallin, Federated Investors Management Company.

Call to Order

Comptroller Susan Combs declared that a quorum was present and called the meeting to order at 10:05 a.m.

Comptroller Combs notified the board that a final ruling is pending regarding the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”) that requires municipal advisors to register with the Securities and Exchange Commission (“SEC”). She has asked Marianne Dwight to monitor the board’s discussion and stop the discussion if the board participates in anything that would be considered a municipal advisory activity.

Approval of Minutes (Tab 1)

Motion was made by Mr. John McGrane to accept and approve the minutes from the February 25, 2011 board meeting. Motion was seconded by Ms. LaVonne Mason and unanimously approved by the Board.

Economic Update and Discussion of Portfolio Positioning (Tab 2)

Ms. Deborah Cunningham 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 TexPool’s portfolio balance was approximately \$18 billion as of March 31, 2010, an increase of approximately \$1.2 billion from the

previous quarter. TexPool Prime's portfolio balance rose from \$1.5 billion to \$1.8 billion during the first quarter of 2011. She reported that TexPool's net yield was approximately 0.19% and TexPool Prime's net yield was also approximately 0.19% for the first quarter ending 2011.

Ms. Cunningham reviewed the market conditions for the first quarter of 2011. She reported that interest rates remained within the current range of zero to 0.25%. She also reported that although retail sales and domestic manufacturing were more active and strong, the depressed housing market and high unemployment levels remained a concern. During the fourth quarter of 2010, the Federal Reserve (the "Fed") announced a second round of quantitative easing dubbed QE2. Federated believes QE2 will be finalized in 2011 and they do not expect a QE3. She explained that Federated expects the Fed to increase benchmark interest rates somewhat earlier than most expect. Federated will focus most new purchases in TexPool and TexPool Prime in paper that would benefit from rising interest rates, mostly floating rate securities, while minimizing exposure to longer-dated, fixed-rate debt.

Ms. Cunningham reviewed portfolio allocations and maturity schedules for both pools as illustrated in the graphs behind Tab 2. Both pools remained competitive with their peers as TexPool was ranked number one and TexPool Prime was ranked number twenty-seven among their competitors. She stressed that most funds in the iMoneyNet universe are managed under investment policies that are less restrictive than the policies for TexPool and TexPool Prime. Ms. Cunningham also explained the stress test scenarios and results for both pools. Overall, Federated expects a slow and steady economic growth environment for 2011.

TexPool and TexPool Prime Portfolio and Performance Review for the 1st Quarter of 2011 and Related Matters (Tab 3)

Mr. Danny Sachnowitz reviewed the performance of TexPool and TexPool Prime during the first quarter of 2011. He presented an overview of the historical yields for both pools compared to the Federal funds rate and other target benchmarks. Mr. Sachnowitz stated that yields have remained about the same during the first quarter as illustrated by the graphs behind Tab 3, and he doesn't expect much change until the Fed starts to raise interest rates. Mr. Sachnowitz reviewed the portfolios and noted the repurchase agreement allocations had been decreased. He explained that the stability of the portfolios demonstrates low volatility. He reported TexPool and TexPool Prime quarterly and annual average yields remained competitive with other Texas local government investment pools.

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

Ms. Amy Michaliszyn reviewed the information behind Tab 4 illustrating TexPool and TexPool Prime aggregate assets noting that current assets collectively for both pools were approximately \$18.25 billion.

Ms. Michaliszyn reported that the new security enhancement relative to TexConnect was launched without incident during the quarter. This new feature implements the use of a password by the participants to which Federated will not have access. TexConnect continues to be the most utilized system for participant communication. Ms. Michaliszyn reported the addition of five new participants to TexPool and two new participants to TexPool Prime for the quarter. Two issues were reported during the quarter, one involving Liberty ISD and the other involving a software issue. Details regarding both are detailed on pages 6-7 behind Tab 4. Both instances were resolved in a timely manner and no complaints were made by the participants.

Mr. Jose Elizondo, Jr. requested clarification on whether a new Governmental Account Standard Board (“GASB”) ruling regarding language describing investment pool as “2a7-like” would apply to TexPool and TexPool Prime.

Next, Ms. Eileen Kinney-Mallin, who heads a marketing team with Federated, reviewed marketing materials that were handed out to the board. The materials explained new features to the TexPool Academy and also contained a tutorial CD.

Legislative Update

No updates to report.

Discussion of Next Meeting and Agenda Items

No future agenda items. Next meeting will be scheduled for August 2011.

Public Comments

No public comment.

Adjourn

Meeting was adjourned at 11:26 a.m.