

TEXPOOL INVESTMENT ADVISORY BOARD MEETING
Thursday, November 10, 2011
Minutes

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

Board Members Present

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

Board Members Absent

R.C. Allen and Jose Elizondo, Jr.

Comptroller of Public Accounts Staff Present

Martin Hubert, Deputy Comptroller.

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

Paul Ballard, Chief Executive Officer and Chief Investment Officer; Frank Zahn, Chief Financial Officer; Marianne S. Dwight, General Counsel; Gena Minjares, Director of General Ledger Accounting; Victor Scott, Director of Financial Reporting; Nora Arredondo, Special Projects Coordinator; John Wright, Assistant General Counsel; and Michael Anderson, Compliance Officer.

Additional Participants

Mike O’Brien, Padgett, Stratemann & Co.; Amy Michaliszyn, Federated Securities Corp. (“Federated”); Deborah Cunningham, Federated Advisory Companies (“Federated”); and Jerry Landrum, Federated.

Call to Order

Deputy Comptroller Martin Hubert declared that a quorum was present and called the meeting to order at 10:10 a.m.

Mr. Hubert read a statement regarding the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”) that requires municipal advisors to register with the SEC. The temporary ruling resulted in a disagreement over what constitutes a municipal advisor. The Comptroller’s office does not believe the usual activities of this board constitute municipal advisory activities and they are working with the Attorney General’s office to clarify its application. Mr. Hubert asked the Trust Company’s General Counsel, Marianne Dwight, to monitor the board’s discussions and to advise them to stop if they began to engage in anything that would be considered municipal advisory activities.

Approval of Minutes (Tab 1)

A motion was made by Mr. Clay McPhail to accept and approve the minutes from the August 24, 2011 board meeting. The motion was seconded by Ms. LaVonne Mason and unanimously approved by the Board.

Discussion and Presentation of Annual Audit (handout)

Mr. Mike O'Brien summarized the audit reports in the handout and reported that Padgett Stratemann issued unqualified opinions with respect to TexPool and TexPool Prime for the year ending August 31, 2011. No audit adjustments were required nor was a management letter issued.

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 with the TexPool and TexPool Prime investment policies throughout the quarter. She stated that TexPool's portfolio balance was approximately \$14.2 billion as of September 30, 2011, a decrease of approximately \$1.8 billion from the previous quarter. TexPool Prime's portfolio balance declined from approximately \$1.6 billion to \$1.1 billion during the third quarter of 2011. She explained that these declines were due to the normal cash flow requirements of pool participants at this time of year. She reported that TexPool's net yield was approximately 0.084% and TexPool Prime's net yield was approximately 0.097% for the third quarter ending 2011.

Ms. Cunningham reviewed the market conditions during the third quarter of 2011. She reported that the Federal Reserve in August launched "Operation Twist," a strategy developed to extend the average maturity of Treasuries held by the Federal Reserve by selling short-dated paper and reinvesting the proceeds in longer-term debt. On the global front, LIBOR rates were pushed higher in part due to European debt problems. Although there was a rise in some market rates, cash yields still were not favorable. U.S. Treasury bills yielded a minus .01% for the quarter. Ms. Cunningham stated that Federated is committed to credit quality and focused new purchases in callable, floating rate and short-term securities in this challenging market environment. The Federal Funds rate remained within the current range established by the Federal Reserve of zero to 0.25% and is expected to remain within this range until at least the middle of 2013. During the quarter, consumer and business confidence were undermined by the debt negotiations in Congress which resulted in Standard & Poor's downgrade of the nation's debt. This along with global economic concerns, one being the slow economic growth in China, added to the concerns that the global economy was on the cusp of another recession. She stated that Federated believed the U.S. economy would skirt another recession, though the recovery would be slow.

Ms. Cunningham reviewed portfolio allocations and maturity schedules for both pools as illustrated in the graphs behind Tab 2. Over the quarter TexPool's net yield increased by approximately two basis points. Despite low yields, both pools remained competitive with their peers as TexPool was ranked number one and TexPool Prime was ranked number thirty 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 scenario results for both pools. Federated does not expect a third round of quantitative easing by the Fed. Overall, Federated expects a slow and steady economic growth environment for the remainder 2012 and into 2013.

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

Mr. Paul Ballard reviewed the performance of TexPool and TexPool Prime during the third quarter of 2011. He reviewed the graph depicting the market value history for the pools from 2005 through June 2011. Mr. Ballard presented an overview of the historical yields for both pools compared to the Federal funds rate and other target benchmarks. He stated that yields have remained about the same

during the third 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. Ballard reviewed the portfolios and noted the repurchase agreement allocations had been increased in both portfolios. 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 totaled approximately \$14 billion.

Ms. Michaliszyn reported that TexConnect continues to be the most utilized system for participant communication. She announced that TexPool has gone mobile and participants can now access their TexPool accounts on smart phones with the same level of security as on-line. She explained that next year Federated plans to launch an application that participants can download. Ms. Michaliszyn reported that no complaints were filed during the quarter.

Discussion of Next Meeting and Agenda Items

No future agenda items. Next meeting will be scheduled for February 2012.

Public Comments

No public comment.

Adjourn

Meeting was adjourned at 11:21 a.m.