

TEXPOOL INVESTMENT ADVISORY BOARD MEETING
Thursday, May 24, 2012
Minutes

The TexPool Investment Advisory Board (the “Board”) met at 10:00 a.m. on Thursday, May 24, 2012, at the LBJ State Office Building, 111 E. 17th Street, Room 114, Austin, Texas.

Board Members Present

Pati Buchenau; Jose Elizondo, Jr.; Ron Leverett; John McGrane; and LaVonne Mason.

Board Members Absent

R. C. Allen; Clay McPhail; and Vivian Wood.

Comptroller of Public Accounts Staff Present

Comptroller Susan Combs and Martin Hubert.

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

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

Additional Participants

Ed Sanchez and Amy Michaliszyn, Federated Securities Corp. (“Federated”); and John Fisher, Federated Advisory Companies (“Federated”).

Call to Order

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

Comptroller Combs 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. Comptroller Combs 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. Ron Leverett to accept and approve the minutes from the February 22, 2012 board meeting. The motion was seconded by Mr. Jose Elizondo, Jr. and unanimously approved by the Board.

Economic Update and Discussion of Portfolio Positioning (Tab 2)

Mr. John Fisher from Federated reported that the 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. He stated that TexPool’s portfolio balance grew to approximately \$17 billion as of March 31, 2012, an increase of approximately \$772 million from the previous quarter. TexPool Prime’s portfolio balance also grew for the quarter to approximately \$1.31 billion, an increase of approximately \$146 million. He reported that TexPool’s net yield grew to approximately 0.08% and TexPool Prime’s net yield also grew to approximately 0.16% for the first quarter ending 2012. The slightly higher yields reflected rising repurchase agreement (“repo”) rates resulting from increased Treasury supply from early in the year that extended throughout the quarter.

Mr. Fisher reviewed the market conditions during the first quarter of 2012. He reported that domestically, first quarter economic growth estimates were slightly below expectations and Federated’s expectation is that the economy is on a sustainable, albeit very modest, growth path. The downward trend in the London interbank offered rates (“Libor”) was caused in part by a significant increase in liquidity from the European Central Bank to help the European banks. Mr. Fisher explained that despite a slight improvement in the economic landscape, Federal Reserve (“Fed”) Chairman Ben Bernanke is expected to keep interest rates low, between zero and .25%, through the end of 2014. With this expectation from the Fed, investment options will continue to be limited. Federated will continue to keep maturities in both pools relatively short in order to have ample cash available as higher-yielding securities appear.

TexPool and TexPool Prime Portfolio and Performance Review for the 1st Quarter of 2012 and Related Matters (Tab 3)

Mr. Danny Sachnowitz reviewed the performance of TexPool and TexPool Prime during the first quarter of 2012. He reviewed the market value history for the pools from 2005 through March 2012. He also reviewed historical yields for both pools compared to the Fed funds rate and other target benchmarks. He stated that the average monthly yield for TexPool was approximately .12% and the average monthly yield for TexPool Prime was approximately .16%. Mr. Sachnowitz explained that not much change in yields is expected until the Fed starts to raise interest rates. He explained that the stability of the portfolios demonstrates low volatility. He reported that 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 gave an overview of the participant services that Federated provides. In her report she explained the seasonal flow of assets characteristic of the pools as depicted by the graph behind Tab 4. She stated that most school districts had to dip a bit more into their fund balances since experiencing budget cuts. Ms. Michaliszyn reported that TexConnect continued to be the most utilized system for participant communication and facilitating transactions. The number of participants had increased by 33% since inception. She noted that the website usage was down a bit, partly because Federated sends emails often with updates. Federated has also introduced a new operational conference call feature for its participants. A list of the 2012 conferences was included behind Tab 4. 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 August or September 2012.

Public Comments

No public comment.

Adjourn

Meeting was adjourned at 10:58 a.m.