

TEXPOOL INVESTMENT ADVISORY BOARD MEETING
Thursday, November 8, 2012
Minutes

The TexPool Investment Advisory Board (the “Board”) met at 10:00 a.m. on Thursday, November 8, 2012, 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

Jose Elizondo, Jr. and R.C. Allen.

Comptroller of Public Accounts Staff Present

Comptroller Susan Combs and Martin Hubert, Deputy Comptroller.

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 Dwight, General Counsel; John Wright, Assistant General Counsel; Gena Minjares, Director of General Ledger Accounting; Victor Scott, Director of Financial Reporting; Nora Arredondo, Special Projects Coordinator; Jorge de LaFuente, Investment Analyst; Elizabeth Moreno, Accounting Supervisor; and Michael Anderson, Compliance Officer.

Additional Participants

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

Call to Order

Comptroller Susan Combs declared that a quorum was present and called the meeting to order at 10:22 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 SEC’s 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 Ms. LaVonne Mason to accept and approve the minutes from the August 10, 2012 board meeting. The motion was seconded by Ms. Vivian Wood 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, 2012. No audit adjustments were required nor was a management letter issued.

Economic Update and Discussion of Portfolio Positioning (Tab 2)

Ms. Sue Hill 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 \$13.9 billion as of September 30, 2012, a decrease of approximately \$1.3 billion from the previous quarter. TexPool Prime's portfolio balance was approximately \$936 million, down also from the previous quarter by approximately \$130 million. 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 0.15% and TexPool Prime's net yield was approximately 0.19% for the third quarter ending 2012, both representing slight increases from the previous quarter.

Ms. Hill reviewed the market conditions during the third quarter of 2012. She reported that although the economy was still struggling, the housing market had shown signs of improvement. The U.S. Federal Reserve ("the Fed") continued Operation Twist. Operation Twist is a program conducted by the Fed to help stimulate the economy. It's the Fed's initiative of buying longer-term securities and simultaneously selling some of the shorter-dated issues it already held in order to bring down long-term interest rates. Federated believes that given the continued weakness in the economic recovery, the Fed will likely keep rates between zero and 0.25% through at least mid-2015. Given the largely unchanged nature of rates, there has been little rationale for major changes to investment strategy. Globally, Ms. Hill reported that the Libor dropped across the board in the third quarter. The three month Libor rate dropped ten basis points to .36%.

Ms. Hill reviewed portfolio allocations and maturity schedules for both pools as illustrated in the graphs behind Tab 2. As of September 30, 2012 the TexPool allocation was approximately 59% in repurchase agreements, 38% in agency securities and 3% in Treasuries. In TexPool Prime for the same quarter, the allocation was approximately 17% in commercial paper, 67% in repurchase agreements, 8% in government securities and 7% in variable rate paper. To prepare for the seasonal cash outflows, the amount of liquidity in the pools was increased by adding to the repurchase agreement positions. Despite low yields, 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. Also, TexPool Prime cannot invest in European banks, which were offering higher interest rates. Ms. Hill also explained the stress test scenario results for both pools and stated there were no significant shifts throughout the quarter for the pools. Overall, Federated expects a slow and steady economic growth environment for the remainder of 2012 and into 2013.

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

Mr. Danny Sachnowitz reviewed the performance of TexPool and TexPool Prime during the third quarter of 2012 relative to their benchmarks. He reviewed the graph depicting the market value history for the pools from 2007 through June 2012. Mr. Sachnowitz noted that new chart lines were

added to page four behind Tab 3 for the years 2010, 2011 and 2012. 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 the average monthly yield for TexPool was .16% and the average monthly yield for TexPool Prime was .18%, representing slight increases from the previous quarter. He did not expect much change in yields until the Fed starts to raise interest rates. Mr. Sachnowitz reviewed the portfolios and confirmed that the repurchase agreement allocations had increased slightly. 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 and handed out a corrected page one. She reported that Federated's customer service standards outperformed competitor and industry service levels. She announced that the TexPool website is now hosted and managed in-house and Standard and Poor's ratings are now on the website and updated every six months. Ms. Michaliszyn reported that TexConnect continues to be the most utilized system for participant communication and the TexPool Academy is the most popular service utilized by the participants.

Discussion of Next Meeting and Agenda Items

No future agenda items. Next meeting will be scheduled for February 2013.

Public Comments

No public comment.

Adjourn

Meeting was adjourned at 11:30a.m.