

TEXPOOL INVESTMENT ADVISORY BOARD MEETING
Wednesday, May 14, 2014
Minutes

The TexPool Investment Advisory Board (the “Board”) met at 10:00 a.m. on Wednesday, May 14, 2014, at the LBJ State Office Building, 111 E. 17th Street, Room 114, Austin, Texas.

Board Members Present

Jose Elizondo, Jr., John McGrane, Ron Leverett, LaVonne Mason and Vivian Wood.

Board Members Absent

R.C. Allen, Pati Buchenau and Clay McPhail.

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; Danny Sachnowitz, Deputy Director and Deputy Chief Investment Officer; Frank Zahn, Chief Financial Officer; Marianne Dwight, General Counsel; Nora Arredondo, Special Projects Coordinator; and Michael Anderson, Compliance Officer.

Additional Participants

Jerry Landrum, Federated Securities Corp. (“Federated”); and Paige Wilhelm, Federated Advisory Companies (“Federated”).

Call to Order

Deputy Comptroller Martin Hubert declared that a quorum was present and called the meeting to order at 10:19 a.m.

Approval of Minutes (Tab 1)

A motion was made by Mr. John McGrane to accept and approve the minutes from the February 27, 2014 board meeting. The motion was seconded by Ms. LaVonne Mason and unanimously approved by the Board.

Possible Recommended Revision to TexPool and TexPool Prime Investment Policies (Tab 2 and handout)

Mr. Paul Ballard explained that a revision to the TexPool and TexPool Prime investment policies is being recommended that would allow for a cure period in the event the weighted average maturity maximum number of days was exceeded.

A motion was made by Ms. Vivian Wood to recommend to the Comptroller the modifications outlined in the TexPool and TexPool Prime policy drafts that would allow for a 10 business day cure period in the event the weighted average maturity is exceeded. The motion was seconded by Mr. Ron Leverett and unanimously approved by the Board.

Economic Update and Discussion of Portfolio Positioning (Tab 3)

Ms. Paige Wilhelm reviewed market conditions during the first quarter of 2014. She reported that the Federal Reserve (the “Fed”), led by its new chair Janet Yellen, continued tapering the level of quantitative stimulus and is expected to finish by year end. The Fed signaled that it no longer believed the economy would necessarily be healthy enough for interest rate increases simply because the target unemployment rate of 6.5% had been reached. They are also focused on the quality of jobs and structural unemployment issues. Ms. Wilhelm explained that the reverse repurchase agreement (“repo”) program that the Fed was testing at the beginning of the quarter to help stimulate the market and provide liquidity, is now a legitimate operation. She also stated that the Fed announced it would be testing a Term Deposit Facility program this month through which the Federal Reserve banks offer interest-bearing term deposits to eligible institutions. This tool may be used to manage the aggregate quantity of reserve balances held by depository institutions. She reported that London interbank offered rates (“Libor”) overall were down for the first quarter 2014.

Ms. Wilhelm 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 rose during the first quarter to approximately \$17.2 billion as of March 31, 2014, an increase of approximately \$1.3 billion from the previous quarter which represents typical seasonal inflows. The portfolio produced a net yield of approximately .03%. Asset allocation allotments changed moderately from the fourth quarter of 2013: repos remained at 13%, agency assets decreased to 63.7% and treasuries increased to 23.3%. TexPool Prime’s portfolio balance rose to approximately \$1.2 billion during the same period with an average net yield of approximately .07%. There were notable shifts in the Pool’s asset allocation allotment: government holdings were up by 8.6% to 21.4%, commercial paper increased to 56.5%, repos decreased to 14.6% and variable-rate notes remained the same. Despite low yields, both pools remained competitive with their peers as TexPool was ranked number seven and TexPool Prime was ranked number twenty-three, among their competitors. Ms. Wilhelm also explained the stress test scenario results for both pools and stated that Federated does not anticipate that any of the scenarios are likely to occur during the next year. Overall, Federated expects a slow and steady economic growth environment for 2014. They believe interest rates may start rising by mid-2015.

TexPool and TexPool Prime Portfolio and Performance Review for the 1st Quarter of 2014 and Related Matters (Tab 4)

Mr. Danny Sachnowitz presented a portfolio review of TexPool and TexPool Prime for the first quarter of 2014. He reviewed the participant summary graph which illustrated diversification of the Pools’ participants. He presented an overview of the historical yields for both Pools compared to the Federal funds rate and other target benchmarks. He explained that he did not expect much change in yields in this extremely low interest rate environment until the Fed start to raise interest rates. Mr. Sachnowitz reviewed the asset allocation and maturity charts for both portfolios confirming the reduction in repos and the increase in Treasury exposure for TexPool Prime and slight reduction in agencies and increase in Treasury exposure in TexPool. 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)

Mr. Jerry Landrum reviewed the information behind Tab 4 relating to TexPool and TexPool Prime participants. He reported that both pools continue to add new participants each quarter. As of March 31, 2014 TexPool had 2,305 participants and TexPool Prime had 168 participants. Mr. Landrum

explained the asset trend history graphs which illustrated February as the peak of seasonal inflows. He reviewed the participant balance analysis report which lists the participants by sector and their balances as of the third quarter of 2013 and the first quarter of 2014. He 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. A new option for TASBO members is now available for continuing education.

Discussion of Next Meeting and Agenda Items

No future agenda items. Next meeting will be scheduled for August or September 2014.

Public Comments

No public comment.

Adjourn

Meeting was adjourned at 11:00 a.m.