

**TEXPOOL INVESTMENT ADVISORY BOARD MEETING**  
**Tuesday, December 8, 2015**  
**Minutes**

The TexPool Investment Advisory Board (the “Board”) met at 10:00 a.m. on Tuesday, December 8, 2015, at the LBJ State Office Building, 111 E. 17<sup>th</sup> Street, Room 114, Austin, Texas.

**Board Members Present**

Jerry Dale, Jose Elizondo, Jr., Patrick Krishock, David Landeros, Michele Tuttle, and Vivian Wood.

**Board Members Absent**

Sharon Mathews and Georgia Sanchez.

**Comptroller of Public Accounts Staff Present**

Comptroller Glenn Hegar.

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

Paul Ballard, Chief Executive Officer and Deputy Director and Chief Investment Officer; Danny Sachnowitz; Chief Investment Officer; Frank Zahn, Chief Financial Officer; John Wright, Deputy General Counsel; and Nora Arredondo, Special Projects Coordinator.

**Additional Participants**

Mike O’Brien, Padgett, Stratemann & Co., LLP; Paige Wilhelm, Federated Advisory Companies (“Federated”); Ed Sanchez and Jerry Landrum, Federated Securities Corporation.

**Call to Order**

Comptroller Glenn Hegar declared that a quorum was present and called the meeting to order at 10:04 a.m.

**Approval of Minutes (Tab 1)**

*A motion was made by Mr. Jose Elizondo, Jr., to accept and approve the minutes from the November 19, 2014 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 fiscal year ending August 31, 2015. Mr. O’Brien reported that both Pools were in compliance with their investment policies. He also reported that no audit adjustments were required during the audit engagement, nor was a management letter issued.

## **Annual Review and Recommended Revisions (if any) to TexPool and TexPool Prime Investment Policies (Tab 2)**

Mr. Paul Ballard explained that the Trust Company and Federated have conducted the required annual review of the TexPool and TexPool Prime investment policies. There are no recommended revisions at this time.

## **Economic Update and Discussion of Portfolio Positioning (Tab 3)**

Ms. Paige Wilhelm reported that TexPool and TexPool Prime portfolios were in compliance with the Texas Public Funds Investment Act (“TPFIA”) and maintained AAAM ratings by Standard and Poor’s. Both portfolios complied with their respective investment policies. Both portfolios maintained a weighted average maturity of less than sixty days and the maximum maturity for any individual security in the portfolios did not exceed twenty-four months. The TexPool portfolio produced a net yield of approximately 0.09%, up approximately three basis points from the previous quarter. She reported that TexPool’s current yield is approximately 0.14%. TexPool’s portfolio balance as of September 30, 2015 was approximately \$11.99 billion, a decrease from \$13.99 billion in June. The TexPool Prime portfolio produced a net yield of approximately 0.16%, up from 0.11% from the previous quarter. She reported that TexPool Prime’s current yield is approximately 0.23%. TexPool Prime’s portfolio balance during the same quarter was approximately \$1.05 billion, down from \$1.9 billion from the previous quarter. Both pools experienced seasonal outflows. Despite low yields, both pools remained competitive. TexPool was ranked number one and TexPool Prime was ranked number fourteen among their peer groups. Ms. Wilhelm explained that the maturity dates of the majority of the assets in both pools were in the 1-30 day range. They are finding variable rate instruments attractive because of their expectations of a Federal Reserve (“Fed”) interest rate hike in the near future. Ms. Wilhelm also explained the stress test scenario results for both pools which demonstrated the Pools’ ability to maintain a constant dollar value in any of these unlikely scenarios.

Ms. Wilhelm reviewed market conditions during the third quarter of 2015. She reported that the market waited to see if the Fed would raise interest rates for the first time since 2008 in one of the two meetings they held during the quarter. Although the unemployment rate fell to 5.1%, the lowest in seven years, and housing and retail sales were robust and positive; inflation was low. The Fed was looking for an inflation rate of approximately 2%. Late in the quarter, equity markets became volatile with the fears of China’s economy slowing down and domestic manufacturing slowed down significantly. The Fed ultimately decided not to raise the federal funds rate in its mid-September meeting. Ms. Wilhelm stated that although the Fed remained elusive about raising interest rates, Federated believes the Fed will likely announce a rate hike in their December 2015 meeting. Overall, Federated expects a slow and steady economic growth environment for the remainder of 2015.

## **TexPool and TexPool Prime Portfolio and Performance Review for the 3rd Quarter of 2015 and Related Matters (Tab 4)**

Mr. Danny Sachnowitz presented a portfolio review of TexPool and TexPool Prime for the third quarter of 2015. He reviewed the participant summary graph which illustrated diversification of the Pools’ investor base. Mr. Landeros asked what participants were under the “other” portion of the participant chart. Mr. Sachnowitz explained that it included entities such as municipal utility districts, water districts, 4B corporations, etc. 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 short-term instruments until the Federal Reserve raises interest rates. Mr. Sachnowitz reviewed the asset allocation and maturity charts for both portfolios confirming the increase in US agency securities and the reduction in repurchase agreements. He explained that the

stability of the Net Asset Values (NAV's) of the portfolios demonstrates low price volatility. He reported that TexPool and TexPool Prime quarterly and annual average yields remained competitive with other Texas local government investment pools.

Mr. Sachnowitz explained that the first and second quarterly performance reports for 2015 were also included behind Tab 4 for the board members.

**Report on Services Provided to TexPool and TexPool Prime Participants and Related Matters (Tab 5)**

Mr. Ed Sanchez reviewed the information behind Tab 4 relating to TexPool and TexPool Prime participants. He explained that Federated has updated their website enhancing the TexPool brand, rebuilding the website, redesigning the newsletter and enhancing the continuing education option. He reported that both pools continued to add new participants each quarter. As of September 30, 2015 TexPool had 2,339 participants and TexPool Prime had 192 participants. Mr. Sanchez reviewed the summary data relating to TexConnect and the TexPool Academy. He explained 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. Mr. Sanchez reviewed the participant balance analysis report which lists the participants by sector and their balances for the third quarter of 2015. He reported that no participant complaints were filed during the quarter.

**Discussion of Next Meeting and Agenda Items**

No future agenda items. The next meeting will be in February 2016.

**Public Comments**

No public comment.

**Adjourn**

Meeting was adjourned at 11:19 a.m.