

TEXPOOL INVESTMENT ADVISORY BOARD MEETING
Wednesday, August 24, 2016
Minutes

The TexPool Investment Advisory Board (the “Board”) met at 10:00 a.m. on Wednesday, August 24, 2016, at the LBJ State Office Building, 111 E. 17th Street, Room 114, Austin, Texas.

Board Members Present

Jerry Dale, Patrick Krishock, David Landeros, Sharon Mathews, Georgia Sanchez, Michele Tuttle, and Vivian Wood.

Board Members Absent

Jose Elizondo, Jr.

Comptroller of Public Accounts Staff Present

Comptroller Glenn Hegar; Phillip Ashley, Associate Deputy Comptroller; and Cheryl Scott, Internal Auditor.

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; Marianne Dwight, General Counsel; Frank Zahn, Chief Financial Officer; Gena Minjares, Deputy Chief Financial Officer; Michael Anderson, Compliance Officer; and Nora Arredondo, Special Projects Coordinator.

Additional Participants

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

Call to Order

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

Approval of Minutes from the May 25, 2016 Meeting (Tab 1)

A motion was made by Mr. David Landeros to accept and approve the minutes from the May 25, 2016 board meeting. The motion was seconded by Ms. Sharon Mathews and unanimously approved by the Board.

Annual Review and Recommended Revisions to the TexPool and TexPool Prime Investment Policies (Tab 2)

Mr. Paul Ballard reviewed the recommended revisions to the TexPool and TexPool Prime investment policies as presented in the draft behind Tab 2. He explained that the revisions will bring the policies into conformance with the new Local Government Investment Pool (LGIP) accounting requirements of the Governmental Accounting Standards Board (GASB) Statement No. 79. Also, a few revisions were needed to accommodate new SEC regulations for institutional 2a-7 Prime Money Market funds that go into effect in October. Beginning October 14, 2016, institutional Prime Funds (TexPool Prime

excluded) will be required to mark the NAV of their shares to market daily. No longer will they be allowed to use accounting methodology which allows them to maintain a constant \$1.00 share value. Some modifications to the Public Funds Investment Act may be required and the Trust Company will work with the Texas Legislature as needed. Mr. Ballard explained and the board discussed additional recommended edits to the proposed policy revisions set out in the board book.

Comptroller Hegar called for a motion regarding the recommended revisions to the TexPool Investment Policy.

A motion was made by Ms. Vivian Wood to recommend to Comptroller Glenn Hegar the proposed revisions to the TexPool Investment Policy. The motion was seconded by Ms. Michele Tuttle and unanimously approved by the Board.

Comptroller Hegar called for a motion regarding the recommended revisions to the TexPool Prime Investment Policy.

A motion was made by Ms. Sharon Mathews to recommend to Comptroller Glenn Hegar the proposed revisions to the TexPool Prime Investment Policy. The motion was seconded by Mr. David Landeros and unanimously approved by the Board.

Economic Update and Discussion of Portfolio Positioning (Tab 3)

Ms. Paige Wilhelm reported that for the quarter ending June 30, 2016, TexPool and TexPool Prime portfolios were in compliance with the Texas Public Funds Investment Act (“TPFIA”) and their investment Policies. Both portfolios maintained AAAM ratings by Standard and Poor’s. Also, both portfolios met specific portfolio composition and maturity limitation guidelines set out in their respective investment policies and both portfolios maintained a weighted average maturity of less than sixty days. She further explained that 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 0.36%, rising from .33% in the previous quarter. TexPool’s portfolio balance as of June 30, 2016 was approximately \$14.65 billion, a decrease of approximately \$1.5 billion from the previous quarter, due primarily to seasonal outflows. The TexPool Prime portfolio produced a net yield of approximately 0.56%, up from 0.51% from the previous quarter. Typically seasonal outflows would have caused the portfolio balance to decrease, but in this quarter, positive yields plus new clients kept the portfolio’s balance relatively stable at \$2.24 billion. Both pools remained competitive and each was ranked number one among their peer groups in yield comparisons. Ms. Wilhelm also explained the stress test scenario results for both pools which demonstrated the Pools’ ability to maintain a constant dollar value under unlikely extreme or extraordinary events.

Ms. Wilhelm reviewed market conditions during the second quarter of 2016. She reported that although there was modest economic improvement during the quarter, most inflation measures fell short of the Fed’s targets. The housing market, retail sales and consumer confidence were positive throughout the quarter but manufacturing was not. There was a rebound in oil prices and a weakening in the U.S. dollar. In June, British citizens voted to exit the European Union (“Brexit”). This sent financial markets into a bit of turmoil but had minimal impact on money markets and rates remained calm. The Fed remains cautious and expectations of future rate hikes have been pushed further out. Overall, Federated expects a slow and steady economic growth environment for the remainder of the year.

TexPool and TexPool Prime Portfolio and Performance Review for the 2nd Quarter of 2016 and Related Matters (Tab 4)

Mr. Danny Sachnowitz presented a portfolio performance review of TexPool and TexPool Prime for the second quarter of 2016. He reviewed the participant summary graph which illustrated diversification of the Pools' investor base and also showed that school districts represent the largest group of investors. He presented an overview of the historical yields for both Pools compared to the Federal Funds rate and other target benchmarks. He explained the graph of historical pool yields on page five which demonstrated the continued positive impact of the Federal Reserve's December interest rate hike. Mr. Sachnowitz reviewed the asset allocation and maturity charts for both portfolios. The allocation to treasuries in the TexPool portfolio decreased from 20.2% to 16.6% and the allocation to repurchase agreements increased from 8.2% to 10.1% in anticipation of seasonal redemptions. TexPool Prime's repurchase agreement allocation also increased as did the allocation to variable rate notes. Mr. Sachnowitz explained that the stability of the Net Asset Values (NAVs) 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.

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

Ms. Amy Michaliszyn reviewed the information behind Tab 5 relating to TexPool and TexPool Prime participants. She reported that although this was a seasonal outflow of assets period, assets were sustained at levels greater than previous years. Ms. Michaliszyn explained that local government investment pools (LGIPs) are not subject to the October regulatory reforms affecting registered prime money market funds. Funds subject to the reforms are making conservative choices and not purchasing longer-term securities dated beyond October 14, 2016. Pools that have a steady asset base can purchase those securities for higher than usual yields.

Ms. Michaliszyn reported that both pools continued to add new participants each quarter. TexPool added 9 new participants and TexPool Prime added 8 for the quarter. As of June 30, 2016, TexPool had 2,361 participants and TexPool Prime had 207 participants. Ms. Michaliszyn reviewed the participant balance analysis report which lists the participants by sector and their balances for the quarter. She explained the summary data relating to TexConnect and the TexPool Academy and stated that TexConnect continues to be the most utilized system for participant communication and that TexPool Academy is the most popular service utilized by participants. She reported that TexPool Prime was the only pool among its competitors to increase its asset balance during the quarter. Ms. Michaliszyn noted 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 November and the board will be contacted regarding a date.

Public Comments

No public comment.

Adjourn

Meeting was adjourned at 11:17 a.m.