

**TEXPOOL INVESTMENT ADVISORY BOARD MEETING**  
**Tuesday, February 28, 2017**  
**Minutes**

The TexPool Investment Advisory Board (the “Board”) met at 10:00 a.m. on Tuesday, February 28, 2017, 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, Sharon Mathews, Georgia Sanchez, Michele Tuttle, and Vivian Wood.

**Board Members Absent**

None.

**Comptroller of Public Accounts Staff Present**

Comptroller Glenn Hegar, Mike Reissig, Deputy Comptroller and Phillip Ashley, Associate Deputy Comptroller.

**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; Marianne Dwight, General Counsel; Elizabeth Moreno, Financial Accounting and Reporting Manager; Michael Anderson, Compliance Officer; and Nora Arredondo, Special Projects Coordinator.

**Additional Participants**

Deborah Cunningham, Federated Advisory Company; 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 10:06 a.m.

**Approval of Minutes (Tab 1)**

*A motion was made by Ms. Georgia Sanchez to accept and approve the minutes from the November 16, 2016 board meeting. The motion was seconded by Mr. David Landeros and unanimously approved by the Board.*

**Economic Update and Discussion of Portfolio Positioning (Tab 2)**

Ms. Deborah Cunningham reported that the 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 0.46%, rising from 0.38% in the previous quarter. TexPool’s portfolio balance as of December 31, 2016 was approximately \$16.0 billion, an increase from \$13.3 billion in September as tax-collecting season began in late fall. The TexPool Prime portfolio produced

a net yield of approximately 0.81%, up from 0.71% the previous quarter. Consistent with the tax flow revenue season, TexPool Prime's portfolio balance grew during the same quarter to approximately \$3.0 billion, up from \$2.4 billion in the previous quarter. Positions in floating rate instruments were increased in anticipation of the continued slow rise in interest rates. TexPool Prime's portfolio saw an increase in the holdings of commercial paper and benefited by their higher yields.

Both pools remained competitive. TexPool was ranked number one and TexPool Prime was ranked number two among their peer groups in yield comparisons. Ms. Cunningham also explained the stress test scenario results for both pools which demonstrated the Pools' ability to maintain a constant dollar value in any of the unlikely scenarios in the presentation.

Ms. Cunningham reviewed market conditions during the fourth quarter of 2016. She reported that the Federal Reserve (the "Fed") demonstrated increased confidence that the domestic economy is moving in the right direction by raising interest rates by 25 basis points to a range of 0.50%-0.75%. Both pools benefited from this nominal rate hike. Ms. Cunningham reported that the labor market was continuing to improve and consumer confidence also rose; however, gross domestic product growth was not as robust as the 3.5% growth rate posted for the third quarter. Ms. Cunningham stated that Federated believes the Fed will not likely raise interest rates twice more this year. Overall, Federated expects a slow and steady economic growth environment for the remainder of 2017.

### **TexPool and TexPool Prime Portfolio and Performance Review for the 4th Quarter of 2016 and Related Matters (Tab 3)**

Mr. Danny Sachnowitz presented a portfolio review of TexPool and TexPool Prime for the fourth quarter of 2016. He reviewed the participant summary graph which illustrated good diversification of the Pools' investor base. He presented an overview of the historical yields for both Pools compared to the Federal Funds rate and other target benchmarks. He explained that the graph on page five, depicting historical pool yields, demonstrated the positive effect of the interest rate hike and noted that TexPool Prime had surpassed the Fed Funds rate since March 2016. Mr. Sachnowitz reviewed the asset allocation and maturity charts for both portfolios. For the TexPool portfolio, he confirmed the increased allocations in treasuries and money market funds, the decrease in repurchase agreements, and the virtually unchanged allocation in agency securities. TexPool Prime's portfolio increased allocations in commercial paper and variable rate instruments. The portfolio decreased allocations in money market funds and government securities and left repurchase agreements virtually unchanged. He 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 4)**

Mr. Jerry Landrum reviewed the information behind Tab 4 relating to TexPool and TexPool Prime participants. He explained that the combined market value of both pools increased by \$2.0 billion from December 31, 2016 to the present. Although this inflow was prior to debt service payments, he believes the trend will continue. He explained that within one day of the Fed's December 14<sup>th</sup> interest rate hike, TexPool's daily net yield rose by two basis points and TexPool Prime's net yield rose by three basis points. By December 29, 2016, two weeks later, TexPool's yield had increased by seven basis points to 0.50%, and TexPool Prime's yield had increased by nine basis points to 0.89%. Mr. Landrum reported that Federated was able to notify participants, reaching over 3,400 people, within twenty four hours of the rate hike to inform them of potential yield opportunities.

Mr. Landrum reviewed the summary data relating to TexConnect and the TexPool Academy. He stated that new courses will be rolled out in March. 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. As of December 31, 2016, TexPool had 2,382 participants and TexPool Prime had 227 participants, an increase by 40% and 61% respectively since 2015. Mr. Landrum continued and reviewed the competitive landscape for the pools and the conference schedule for 2017. He reported that no complaints were reported or filed for the quarter.

#### **Discussion of Next Meeting and Agenda Items**

Comptroller Hegar informed the Board that Ms. Georgia Sanchez will be retiring from the City of Austin and will no longer serve on the TexPool Board. There were no future agenda items. The next meeting will be in May 2017.

#### **Public Comments**

No public comment.

#### **Adjourn**

Meeting was adjourned at 11:00 a.m.