

**TEXPOOL INVESTMENT ADVISORY BOARD MEETING**  
**Thursday, February 27, 2014**  
**Minutes**

The TexPool Investment Advisory Board (the “Board”) met at 10:00 a.m. on Thursday, February 27, 2014, at the LBJ State Office Building, 111 E. 17<sup>th</sup> Street, Room 114, Austin, Texas.

**Board Members Present**

R. C. Allen, Pati Buchenau, Jose Elizondo, Jr., John McGrane, Ron Leverett, LaVonne Mason and Vivian Wood.

**Board Members Absent**

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; John Wright, Deputy General Counsel; Nora Arredondo, Special Projects Coordinator; and Michael Anderson, Compliance Officer.

**Additional Participants**

Sue Hill, Federated Advisory Companies (“Federated”); and Jerry Landrum, Federated.

**Call to Order**

Deputy Comptroller Martin Hubert declared that a quorum was present and called the meeting to order at 10:11 a.m.

**Approval of Minutes November 13, 2013 and August 6, 2013 Meetings (Tab 1)**

*A motion was made by Ms. Pati Buchenau to accept and approve the minutes from the November 13, 2013 and August 6, 2013 board meetings. The motion was seconded by Ms. Vivian Wood and unanimously approved by the Board.*

**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”) throughout the quarter. Both portfolios maintained a AAA rating by Standard and Poor’s rating agency. Ms. Hill explained that in December there was an unexpected large outflow of assets by participants in TexPool Prime causing the weighted average maturity (“WAM”) of the TexPool Prime portfolio to exceed 60 days for a brief time. The TexPool Prime Investment policy limits the WAM to 60 days. Mr. Paul Ballard suggested that the investment policies be revisited at the next meeting to address this issue.

Ms. Hill reviewed market conditions during the fourth quarter of 2013. She reported that money market rates fell even lower. This downward trend pushed overnight repo rates to the low single

digits. As the fourth quarter progressed, economic growth improved slightly not only in the United States but also in Japan and the Euro zone. Ms. Hill also reported that the Federal Reserve (the “Fed”) announced it would continue testing an overnight reverse-repo mechanism as an alternative method to control short-term interest rates in the future. Under this program, the Fed uses its large portfolio of securities as collateral for short-term loans from money market mutual funds, securities firms and others. The rate the Fed pays on these loans in theory could set a floor on other short-term rates. Overall, Federated believes Fed policy makers will remain cautious and that interest rates would likely remain low for some time to come and that GDP growth will remain slow and steady for the remainder of the year.

She reported that TexPool’s portfolio balance rose during the fourth quarter from \$14.2 billion at the end of September to approximately \$15.9 billion as of December 31, 2013. The portfolio produced a net yield of approximately .04%. Asset allocation allotments changed from the third quarter: repurchase agreements (“repos”) fell to 13% from 25.9% and Treasury holdings rose to 19.8% from 10.9%. The shift was primarily because collateral for repurchase agreements (“repo”) was in short supply, especially at the end of the year. This resulted in reduced exposure to repo in favor of short-term Treasury and agency securities. TexPool Prime’s portfolio balance rose to approximately \$1.13 billion from \$1.09 billion during the same period with an average net yield of approximately .07%. Both portfolios produced slightly lower yields than the previous quarter. Because of the reduced availability repo, Treasury holdings in TexPool Prime increased from 4.6% to 12.8%. Repo allocation declined from 39.7% to 27.2%. She explained that the increased balances in both funds were consistent with seasonal cash flows. Despite low yields, both pools remained competitive with their peers as TexPool was ranked number one and TexPool Prime was ranked number eighteen, among their competitors. Ms. Hill also walked through the stress test scenario results for both pools.

### **TexPool and TexPool Prime Portfolio and Performance Review for the 4th Quarter of 2013 and Related Matters (Tab 3)**

Mr. Danny Sachnowitz presented a portfolio review for TexPool and TexPool prime for the fourth quarter of 2013. 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 does not expect much change in yields in this extremely low interest rate environment until the Fed starts to raise interest rates. Mr. Sachnowitz reviewed the asset allocation and maturity charts for both portfolios confirming the reduction in repo and the increase in Treasury exposure. 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. Ed Sanchez 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 December 31, 2013 TexPool had 2,301 participants and TexPool Prime had 167 participants. Mr. Sanchez explained the participant balance analysis report which lists the participants by sector and their year end balances for 2012 and 2013. 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.

**Discussion of Next Meeting and Agenda Items**

No future agenda items. Next meeting will be scheduled for May 2014.

**Public Comments**

No public comment.

**Adjourn**

Meeting was adjourned at 11:05 a.m.