

TEXPOOL INVESTMENT ADVISORY BOARD MEETING
Wednesday, November 19, 2014
Minutes

The TexPool Investment Advisory Board (the “Board”) met at 10:00 a.m. on Wednesday, November 19, 2014, at the LBJ State Office Building, 111 E. 17th Street, Room 114, Austin, Texas.

Board Members Present

Pati Buchenau, Jose Elizondo, Jr., John McGrane, LaVonne Mason and Vivian Wood.

Board Members Absent

R. C. Allen, Ron Leverett, and Clay McPhail.

Comptroller of Public Accounts Staff Present

Comptroller Susan Combs and 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; Marianne Dwight, General Counsel; John Wright, Deputy General Counsel; Victor Scott, Director of Financial Reporting; Nora Arredondo, Special Projects Coordinator; and Michael Anderson, Compliance Officer.

Additional Participants

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

Call to Order

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

Approval of Minutes (Tab 1)

A motion was made by Ms. Pati Buchenau, to accept and approve the minutes from the September 10, 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, 2014. Mr. O’Brien reported that both Pools were in compliance with their investment policies. He also reported that no audit adjustments were recorded during the audit engagement that indicated deficiencies in the accounting process, nor was a management letter issued.

Economic Update and Discussion of Portfolio Positioning (Tab 2)

Ms. Debbie Cunningham 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. She noted one exception. On September 19, 2015 TexPool Prime was more than 75% invested in commercial paper for one day. She stated that typical seasonal outflows drew down TexPool’s portfolio balance during the third quarter to approximately \$12.3 billion as of September 30, 2014. The portfolio produced a net yield of approximately 0.03%, a product of the prevailing low interest rate environment. The weighted average maturity (“WAM”) remained little changed at the end of September, holding steady at 51 days. TexPool Prime’s portfolio balance during the same quarter was approximately \$1.0 billion up from \$981,000 from the previous quarter, producing a net yield of approximately 0.06%. The WAM remained at 46 days. Despite low yields, both pools remained competitive. TexPool was ranked number four and TexPool Prime was ranked number twenty-six among their peer groups. Ms. Cunningham also explained the stress test scenario results for both pools.

Ms. Cunningham reviewed market conditions during the third quarter of 2014 and stated that overall the U.S. economy improved over the quarter. The labor market continued to rebound, with jobless benefits claims falling and the unemployment rate falling to 5.9% in September. Domestic manufacturing and retail demonstrated strong third quarter activity coupled with a rise in consumer confidence. However, housing activity and prices were not as robust and proved disappointing, further justifying low rates. She reported that by the end of the third quarter, the Federal Open Market Committee (“FOMC”) reduced securities purchases related to quantitative easing (“QE”) to \$15 billion-a-month and was on schedule to end QE in October. Ms. Cunningham stated that although the Fed remained elusive about raising interest rates, Federated believes the Fed will likely begin to raise rates mid to late 2015. Overall, Federated expects a slow and steady economic growth environment for the remainder of 2014.

TexPool and TexPool Prime Portfolio and Performance Review for the 3rd Quarter of 2014 and Related Matters (Tab 3)

Mr. Danny Sachnowitz presented a portfolio review of TexPool and TexPool Prime for the third quarter of 2014. He reviewed the participant summary graph which illustrated 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 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 agencies 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.

Report on Services Provided to TexPool and TexPool Prime Participants and Related Matters (Tab 4)

Ms. Amy Michaliszyn reviewed the information behind Tab 4 relating to TexPool and TexPool Prime participants. She reported that both pools continued to add new participants each quarter. As of September 30, 2014 TexPool had 2,318 participants and TexPool Prime had 180 participants. Ms. Michaliszyn reviewed the summary data relating to TexConnect and the TexPool Academy. She 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. She reported that

the curriculum will be converted for iPad compatibility. Ms. Michaliszyn discussed ongoing and new projects that will be rolled out this year for participants to utilize. Current courses available through TexPool Academy help members fulfill their continuing education requirements. New courses are expected to be available in early 2015. She reviewed the participant balance analysis report which lists the participants by sector and their balances for the third quarter of 2014. Ms. Michaliszyn 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 chaired by the new Comptroller, Glenn Hegar.

Public Comments

No public comment.

Adjourn

Meeting was adjourned at 10:48 a.m.