

TEXPOOL INVESTMENT ADVISORY BOARD MEETING
Tuesday, May 23, 2017
Minutes

The TexPool Investment Advisory Board (the “Board”) met at 10:00 a.m. on Tuesday, May 23, 2017, at the LBJ State Office Building, 111 E. 17th Street, Room 114, Austin, Texas.

Board Members Present

Jose Elizondo, Jr., Patrick Krishock, David Landeros, Sharon Mathews, Michele Tuttle, and Vivian Wood.

Board Members Absent

Jerry Dale and Belinda Erwin.

Comptroller of Public Accounts Staff Present

Comptroller Glenn Hegar; Mike Reissig, Deputy Comptroller; and Cheryl Scott, Internal Auditor.

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

Paul Ballard, CEO/CIO; Danny Sachnowitz, Deputy CIO; Marianne Dwight, General Counsel; Frank Zahn, CFO; Michael Anderson, Compliance Officer; and Nora Arredondo, Special Projects Coordinator.

Additional Participants

Paige Wilhelm, Federated Advisory Companies; Amy Michaliszyn, 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 Ms. Sharon Mathews, to accept and approve the minutes from the February 28, 2017 board meeting. The motion was seconded by Mr. Jose Elizondo, Jr., and unanimously approved by the Board.

Economic Update and Discussion of Portfolio Positioning (Tab 2)

Ms. Paige Wilhelm reported that during the first quarter of 2017, the TexPool and TexPool Prime portfolios were in compliance with the Texas Public Funds Investment Act (“TPFIA”), GASB Statement No. 79, and maintained AAAM ratings by Standard and Poor’s. Both portfolios met specific portfolio composition and maturity limitation guidelines set out in 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 0.62%, rising from .46% in the previous quarter. TexPool’s portfolio balance as of March 31, 2017 was approximately \$18.95 billion, an increase of approximately \$2.9 billion from the previous quarter. The TexPool Prime portfolio produced a net yield of approximately 0.97%, up from 0.81% from the previous quarter. TexPool

Prime's portfolio balance during the same quarter was approximately \$4.2 billion, up from \$3 billion in the previous quarter. Both pools gained significant assets due to seasonal tax-collecting inflows. TexPool Prime's portfolio composition saw an increase in holdings of commercial paper and benefited by their higher yields.

Ms. Wilhelm reviewed the portfolio composition of each pool. As of March 31, 2017, agency holding comprised 70.4% of the TexPool portfolio, repurchase agreements 11.6%, money market funds 1.1%, and Treasuries 16.9%. In the TexPool Prime portfolio, increased holdings were in commercial paper, repurchase agreements, and government bonds. Variable rate notes fell to 15% and money market funds fell to 6.0%.

Ms. Wilhelm reviewed market conditions during the first quarter of 2017. Overall, market conditions reflected optimism, especially in the bond and equity markets. She reported that the Federal Reserve (the "Fed") raised its target rate another 25 basis points in mid-March, from 0.75% to 1.00%. Federated believes another interest rate increase of approximately .25% will likely occur in September. Overall, Federated expects a slow and steady economic growth environment for the remainder of 2017.

Ms. Wilhelm reported that both pools remained competitive. TexPool was ranked number one and TexPool Prime was ranked number two 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 in any of the unlikely scenarios in the presentation.

TexPool and TexPool Prime Portfolio and Performance Review for the 1st Quarter of 2017 and Related Matters (Tab 3)

Mr. Danny Sachnowitz presented a portfolio review of TexPool and TexPool Prime for the first quarter of 2017. He reviewed the participant summary pie chart which illustrated diversification of the Pools' investor bases and also showed that school districts represent the largest group of investors. He explained the various yield charts and graphs behind Tab 3 that depicted the new interest rate environment. 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 depicted TexPool Prime's yield surpassing the Fed funds rate. Mr. Sachnowitz reviewed the asset allocation and maturity charts for both portfolios. The most notable repositioning of assets in the TexPool portfolio was the increase of agency securities from 57% to 70%. TexPool Prime's allocation was virtually unchanged. 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 the combined assets of both pools as of March 31, 2017, increased by almost \$5 billion from March 31, 2016. Also noted was that by March 31, 2017, TexPool's daily net yield doubled year over year and rose to .68% and TexPool Prime's yield rose 88% in the same timeframe, crossing over the 1.00% yield barrier. TexPool Prime's ability to invest in commercial paper and certificates of deposit boosts its yield potential.

Ms. Michaliszyn reported that overall, TexPool added sixteen new participants and TexPool Prime added fourteen new participants. By the end of the first quarter of 2017, TexPool had 2,398 participants and TexPool Prime had 242 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 the TexPool Academy is the most popular service utilized by the participants. Ms. Michaliszyn reported that no complaints were reported or filed for the quarter.

Legislative Update

Comptroller Hegar had no news to report from the legislative session that would directly affect the pools. He stated that the proposed budget was fiscally tighter and revenues in the Treasury were in line with the forecast and that he would not be adjusting the revenue estimate at this time.

Public Comments

No public comment.

Discussion of Next Meeting and Agenda Items

No future agenda items. The next meeting will be in August 2017.

Adjourn

Meeting was adjourned at 10:45 a.m.