

TEXPOOL INVESTMENT ADVISORY BOARD MEETING
Wednesday, May 22, 2019
Minutes

The TexPool Investment Advisory Board (the “Board”) met at 10:00 a.m. on Wednesday, May 22, 2019, at the LBJ State Office Building, 111 E. 17th Street, Room 114, Austin, Texas.

Board Members Present

Jerry Dale, David Garcia, Patrick Krishock, Deborah Laudermilk, Sharon Mathews, and Vivian Wood.

Board Members Absent

David Landeros and Belinda Weaver.

Comptroller of Public Accounts Staff Present

Comptroller Glenn Hegar; Lisa Craven, Deputy Comptroller; Phillip Ashley, Associate Deputy Comptroller.

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

Paul Ballard, Chief Executive Officer and Chief Investment Officer; Genoveva Minjares, Chief Financial Officer; Lalo Torres, Portfolio Manager; Whitney Blanton, General Counsel; and Nora Arredondo, Program Specialist.

Additional Participants

Paige Wilhelm, Federated Advisory Companies; 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 10:03 a.m.

Comptroller Hegar welcomed two new TexPool Board members: Deborah Laudermilk, CIO, Travis County and David Garcia, Deputy Superintendent of Business Operations, Hurst-Euleless-Bedford ISD.

Approval of Minutes from October 31, 2018 Meeting (Tab 1)

A motion was made by Ms. Sharon Mathews to accept and approve the minutes from the October 31, 2018 board meeting. The motion was seconded by Mr. Jerry Dale and unanimously approved by the Board.

Economic Update and Discussion of Portfolio Positioning (Tab 2)

Ms. Paige Wilhelm from Federated reviewed Federated’s investment report for TexPool and TexPool Prime for the quarter ending March 31, 2019. She reported that the TexPool and TexPool Prime portfolios were in compliance with the Texas Public Funds Investment Act, Governmental Accounting Standards Board Statement No. 79, and their respective investment policies. Both pools maintained AAAM ratings by Standard and Poor’s and net asset values were never less than \$0.995 or

greater than \$1.005. Both pools also met specific portfolio composition and maturity limitation guidelines set out in their respective investment policies with the exception on February 8th of an over-purchase in treasury obligations which was corrected the next day.

Ms. Wilhelm reviewed U.S. economic market conditions. She reported that the Federal Reserve (the “Fed”) increased interest rates again by .25% in December and inflation was 1.8% year over year, not at the Fed threshold of 2.0%. The Fed indicated it was going to be patient, leading to speculation that more increases were not occurring in the near future. The Fed did not announce any rate increases in their March meeting. The Fed said it expected the economy to continue to grow but not at the pace as in 2018. The housing market looked to be rebounding at the end of the quarter but consumer confidence tumbled as reports of poor holiday retail sales amassed. The manufacturing and service markets were volatile and the labor market remained robust. Overall, Federated continues to expect slow and steady economic growth for the remainder of the year.

Ms. Wilhelm reported that in February, TexPool and TexPool Prime portfolios experienced a peak in assets for an all-time high. At the end of the first quarter TexPool Prime assets under management grew to over \$22.9 billion, an increase of approximately \$3.6 billion from the previous quarter. The average monthly yield grew quarter to quarter by 13 basis points, to 2.42%. Maturity dates of assets were primarily in the 1-7 days range, 59.7% of TexPool assets. The weighted average maturity was 27 days. Repurchase agreements accounted for 40.9% of the portfolio, followed by 38.5% agencies, 16.4% treasuries and 4.2% money market funds. Federated extended the average maturity in the portfolio in March to 30-45 days range.

TexPool Prime assets under management for the same quarter had a value of approximately \$7.1 billion, an increase of approximately \$1.6 billion from the previous quarter. Its average monthly yield increased by 10 basis points to 2.59% quarter to quarter. Maturity dates for the assets in the TexPool Prime portfolio were primarily in the 1-30 days range, with 43.4% of the assets maturing in a week or less. The weighted average maturity was 39 days. In the TexPool Prime portfolio, commercial paper holdings grew from 36.1% to 44.9%, followed by 24.1% variable rate notes, 22.6% repurchase agreements, 8.0% money market funds and 0.4% government. Federated extended the average maturity range in March to 40-50 days.

Ms. Wilhelm reported that both pools remained competitive among their peer groups. TexPool was ranked number two and TexPool Prime was ranked number three amongst their peers groups in yield comparisons. She explained that higher ranking portfolios were not rated by S&P and TexPool and TexPool Prime portfolios have more stringent requirements. Ms. Wilhelm explained the various stress test scenarios and results for both pools which demonstrated the pools’ ability to maintain a constant dollar value under unlikely extreme or extraordinary scenarios. Federated stress tests the portfolios weekly and they are comfortable with the positioning of the portfolio.

TexPool and TexPool Prime Portfolio and Performance Review for the 1st Quarter of 2019 and Related Matters (Tab 3)

Mr. Lalo Torres presented a portfolio review of TexPool and TexPool Prime for the first quarter of 2019. He reviewed the participant summary graphs that depicted each Pool’s investor base diversification. He presented an overview of the historical yields for both Pools compared to the Fed Funds rate and other target benchmarks. Mr. Torres reviewed the average Libor and U.S. Treasury Bill yield curves, both higher than the previous quarter and benefiting both pools. He explained that the graph on page five, depicting historical pool yields, demonstrated the positive effect of the Federal Reserve’s interest rate hike and noted that TexPool Prime has continued to surpass the Fed Funds rate since 2017. Both pools were keeping up with the rising interest rate environment and performing as expected. He reviewed the asset allocation and maturity charts for both portfolio. 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. Ed Sanchez reviewed the information behind Tab 4 relating to TexPool and TexPool Prime participants. He reported that in January combined assets in both pools crossed the \$30 billion mark. Since 2016, year over year, assets have increased every month at an average of 17%. He explained that bank products were less competitive, making TexPool and TexPool Prime more attractive. Mr. Sanchez explained that participants were requesting new shorter courses in the TexPool Academy platform and Federated complied. He also reviewed enhancements to existing courses. Mr. Sanchez reported that Federated acquired cyber liability insurance as another measure to security protection. He reported that no complaints were reported or filed during the quarter.

Discussion of Next Meeting and Agenda Items

No future agenda items were discussed. Comptroller Hegar asked Nora Arredondo to reach out to the Board for a future meeting date in August 2019.

Public Comments

Comptroller Hegar asked if there were any public comments. There were none.

Adjourn

Meeting was adjourned at 10:55 a.m.