

TEXPOOL INVESTMENT ADVISORY BOARD MEETING
VIRTUAL WEBEX MEETING
Wednesday May 20, 2020
Minutes

The TexPool Investment Advisory Board (the “Board”) met at 10:00 a.m. on Wednesday, May 20, 2020, via a WebEx virtual meeting due to COVID-19 restrictions.

Board Members Present

Jerry Dale, David Garcia, Patrick Krishock, David Landeros, Deborah Lauder milk, Sharon Mathews, Belinda Weaver and Vivian Wood.

Board Members Absent

None,

Comptroller of Public Accounts Staff Present

Comptroller Glenn Hegar; Phillip Ashley, Associate Deputy Comptroller; Lisa Craven, Deputy Comptroller and Chief of Staff, and Cheryl Scott, Internal Auditor.

Texas Treasury Safekeeping Trust Company Staff Present

Mike Reissig, Acting CEO; Ruchit Shah, Acting CIO; Genoveva Minjares, Chief Financial Officer; Anca Ion Head of Internal Investments; Whitney Blanton, General Counsel; Lalo Torres, Portfolio Manager; Spencer Brown, Assistant General Counsel/Compliance; Ramsey Abarca, Compliance Manager; Hugh Ohn, Director of Accounting, Strategy and Planning; Serena Kuvet, Assistant General Counsel; Mike Owen, Internal Auditor; Monique Kollar, Director of Trust, Settlement and Custody Services; Nora Arredondo, Program Specialist; and Shantel Geeslin, Program Specialist.

Additional Participants

Deborah Cunningham and Heather Froehlich, Federated Advisory Company; and Amy Michaliszyn, and Ed Sanchez, Federated Securities Corporation.

Call to Order

Comptroller Glenn Hegar declared that a quorum was present and called the meeting to order at 10:00 a.m.

Approval of Minutes from February 20, 2020 (Tab 1)

A motion was made by Mr. David Garcia to accept and approve the minutes from the February 20, 2020, board meeting. The motion was seconded by Mr. David Landeros and approved by the Board with one abstention from Ms. Belinda Weaver who was not in attendance at the February 20, 2020 meeting.

Economic Update and Discussion of Portfolio Positioning (Tab 2)

Ms. Deborah Cunningham reviewed Federated’s investment report for TexPool and TexPool Prime for the quarter ending March 31, 2020. She reported that the TexPool and TexPool Prime portfolios were in compliance with the Texas Public Funds Investment Act, the Governmental Accounting Standards Board Statement No. 79 (“GASB”), and with 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. Both portfolios ended the quarter with a weighted average maturity of 35 days.

Ms. Cunningham reported that as of March 31, 2020, TexPool's portfolio balance was approximately \$27.9 billion, which represents asset growth of approximately \$4.4 billion or 24% during the last quarter. She explained that the repurchase agreements allocation within the portfolio increased by approximately 33% which accounts for approximately 30% of the total portfolio. Federated believed the repo market remained relatively attractive at the end of the quarter and they wanted to maintain their liquidity position as they transitioned from normal times to times of uncertainty in the second quarter. She reported that as of the end of the quarter the portfolio composition of TexPool was comprised of 29.7% repurchase agreements (an increase of 28%), 40.3% agency holdings, 22.7% treasuries and 7.3% money market funds. She explained that the Federal Reserve (the "Fed") made two rate cuts over the quarter bringing the target rate range to 0.0% – 0.25%. These cuts led to the average monthly yield decreasing over the quarter from 1.62% to 1.00%.

Ms. Cunningham reported that as of March 31, 2020, TexPool Prime's portfolio balance was approximately \$6.9 billion, an estimated \$365 million or 6% increase in assets from the previous quarter. Federated believes the increase was not as positive as TexPool's due to basically a flight-to-quality perspective of most investors and participants at this time due to the Corona virus. TexPool Prime's portfolio composition consisted of 47.7% commercial paper (an increase of 38%), 27.1% variable rate notes, 17.2% repurchase agreements and 8.1% money market funds. TexPool Prime's average monthly yield over the quarter decreased from 1.83% to 1.34%.

Ms. Cunningham reviewed U.S. economic market conditions during the first quarter of 2020. She explained that the Coronavirus outbreak was having a devastating health and economic impact at this time. In December 2019 and January 2020 there were positive reports on manufacturing, housing, employment and retail sales. As the COVID-19 pandemic spread it became clear that the global economy would be tragically affected. Effectively in March began a precipitous drop in employment, in overall Gross Domestic Product ("GDP") and in manufacturing. By March 15th, the Fed had cut rates again for the second time during the quarter. The Fed also vastly increased the amount of overnight term lending in the repo market. In addition to lowering rates and to buying and providing stimulus in the overnight, treasury and agency sectors, the Fed began adding facilities that essentially improved the secondary and primary market liquidity in the commercial paper market. Federated believes that the Fed was quick to react and has helped money markets meet the challenge of tremendous volatility.

Ms. Cunningham reported that both pools remained competitive among their peer groups, including those that are not AAA rated. TexPool was ranked number one and TexPool Prime was ranked number five among their peer groups in yield comparisons. She continued and 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 is comfortable with the stress testing and the way that the portfolio is positioned.

TexPool and TexPool Prime Portfolio and Performance Review for the 1st Quarter of 2020 and Related Matters (Tab 3)

Mr. Lalo Torres presented a portfolio review of TexPool and TexPool Prime for the first quarter of 2020. He reviewed the participant summary graphs that depicted each Pool's investor base diversification. He reported that the total assets under management for both Pools was approximately \$35 billion and he explained that new participants, a healthy tax base and better yields have contributed to significant growth year after year. Mr. Torres reviewed the graph that demonstrated

the seasonal trends of inflows and outflows by participants. In the last five years, the value of the Pools has steadily increased. An overview of the historical yields for both Pools was presented in comparison to the Fed Funds rate and other target benchmarks. The graph demonstrates that TexPool Prime has continued to surpass the Fed Funds rate with the exception of a dip in early 2020. Both Pools were keeping up with the current interest rate environment and performing as expected. Mr. Torres reviewed the asset allocation and maturity charts for both portfolios, with no unusual instances reported. TexPool's weighted average maturity was 32 days and TexPool Prime's weighted average maturity was 45 days. 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 compared the growth in assets of both pools from 2018 to present date 2020. The peak in assets in February demonstrate the seasonality of the Pools. Mr. Sanchez explained that during this time it is important to keep participants informed and Federated is committed to posting important updates and articles to their website. In March, they hosted a call with participants regarding current market conditions and provided a short-term market update. He explained that attending conferences and person-to-person meetings are more of a challenge now, so conference calls and virtual meetings are the new normal. Mr. Sanchez announced that a new TexPool website was live. Features include enhanced ADA guidelines, new design and improved functionality, intuitive layout and easy access to performance on the homepage. Participants have expressed positive feedback. Mr Sanchez reported that TexPool added 12 new participants and TexPool Prime added 11 new participants during the quarter. That brings the total of participants to 2,607 and 418 respectively. He reviewed the participants' balance analysis for the quarter and noted that school districts continue to account for the highest balances in both pools. TexPool continues to hold more assets than its competitors.

Discussion of Next Meeting and Agenda Items

No future agenda items were discussed. The next meeting date will be scheduled for some time in August. Ms. Arredondo will contact and poll the board members.

Public Comments

Comptroller Hegar asked if there were any public comments. Ms. Vivian Wood expressed her gratitude for having the meeting conducted virtually. There were no other comments.

Adjourn

Meeting was adjourned at 11:17 a.m.