

TEXPOOL INVESTMENT ADVISORY BOARD MEETING
Tuesday, August 6, 2013
Minutes

The TexPool Investment Advisory Board (the “Board”) met at 10:00 a.m. on Tuesday, August 6, 2013, at the LBJ State Office Building, 111 E. 17th Street, Room 114, Austin, Texas.

Board Members Present

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

Board Members Absent

Clay McPhail and R.C. Allen.

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

Additional Participants

Amy Michaliszyn, Federated Securities Corp. (“Federated”); John Fisher, Federated Advisory Companies (“Federated”); Ed Sanchez, Federated.

Call to Order

Comptroller Susan Combs declared that a quorum was present and called the meeting to order at 10:14 a.m.

Comptroller Combs read a statement regarding the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”) that requires municipal advisors to register with the SEC. The temporary ruling resulted in a disagreement over what constitutes a municipal advisor. The Comptroller’s office does not believe the usual activities of this board constitute municipal advisory activities and they are working with the Attorney General’s office to clarify its application. Comptroller Combs asked the Trust Company’s Deputy General Counsel, John Wright, to monitor the board’s discussions and to advise them to stop if they began to engage in anything that would be considered municipal advisory activities.

Approval of Minutes (Tab 1)

A motion was made by Vivian Wood to accept and approve the minutes from the May 22, 2013 board meeting. The motion was seconded by Ms. Pati Buchenau and unanimously approved by the Board.

Annual Review and Recommended Revisions to TexPool and TexPool Prime Investment Policies (Tab 2)

Mr. Paul Ballard explained that the Trust Company conducted the annual review of the TexPool and TexPool Prime investment policies. The Trust Company is recommending a modification that clarifies the treatment of term repurchase agreements with put features. A term repurchase agreement refers to any repurchase agreement with more than seven calendar days remaining to maturity or more than seven calendar days to the next put options that allows TexPool and TexPool Prime to liquidate the position at par (principal plus accrued interest.) A slight modification to the maturity limits was also recommended. For purposes of calculating the weighted average maturity of the portfolios, the maturity date of a term repurchase agreement will be equal to the put option notice period.

A motion was made by Vivian Wood to submit the recommended modifications to the Comptroller for approval. The motion was seconded by Ms. Pati Buchenau and unanimously approved by the Board.

Economic Update and Discussion of Portfolio Positioning (Tab 3)

Mr. John Fisher reported that TexPool and TexPool Prime portfolios were in compliance with the Texas Public Funds Investment Act (“TPFIA”) and with the TexPool and TexPool Prime investment policies throughout the quarter. He stated that TexPool’s portfolio balance was approximately \$15.4 billion as of June 30, 2013, a decrease of approximately \$2 billion from the previous quarter. TexPool Prime’s portfolio balance was approximately \$1.0 billion, down slightly from the previous quarter. He explained that these declines were due to the normal cash flow requirements of pool participants at this time of year. He reported that TexPool’s net yield was approximately 0.06% and TexPool Prime’s net yield was approximately 0.09% for the second quarter ending 2013, both representing slight decreases from the previous quarter. Despite low yields, both pools remained competitive with their peers as TexPool was ranked number one and TexPool Prime was ranked number ten, among their competitors.

Mr. Fisher reviewed the market conditions during the second quarter of 2013. He reported that Federal Reserve Chairman Ben Bernanke was predicting that the Fed may start tapering off quantitative easing purchases in the second half of 2013. He explained that since tapering was unlike monetary tightening, the markets would likely remain in a low interest rate environment for the remainder of 2013. Also, Federated expects the Fed will likely keep interest rates between zero and 0.25% as long as the jobless rate remains above 6.5%. Federated believes that the Fed will not start monetary tightening until 2015. Given the largely unchanged nature of rates, there has been little change to the investment strategy for the pools.

Mr. Fisher reported on two alternatives that the Securities and Exchange Commission is proposing for amending rules that govern money market funds under the Investment Company Act of 1940. The first alternative would require money market funds to sell and redeem shares based on net asset value. The second alternative would require money market funds to impose a liquidity fee if the fund’s liquidity levels fall below a certain threshold and would also allow the funds to suspend redemptions temporarily. Federated supports the second alternative proposal.

Discussion of Temporary Investment Limitations Relating to TexPool Prime

Mr. Paul Ballard discussed current TexPool Prime investment restrictions on investments in European bank commercial paper. He explained that European banks have been slowly deleveraging and rebuilding capital levels, however the Trust Company does not believe that the potential incremental

returns available from European bank commercial paper are justified by the continued level of uncertainty present in the European banking system. He stated that the Trust Company would continue to monitor developments in Europe.

TexPool and TexPool Prime Portfolio and Performance Review for the 2nd Quarter of 2013 and Related Matters (Tab 4)

Mr. Danny Sachnowitz presented a portfolio review for TexPool and TexPool Prime for the second quarter of 2013. He reviewed the participant summary graph which illustrated diversification of the Pools' participants and approximate amounts each participant class has invested in the Pools. Mr. Sachnowitz explained the asset growth and seasonal patterns of the pools from 2009 through June 2013 as depicted in the market value history graph. He presented an overview of the historical yields for both pools compared to the Federal funds rate and other target benchmarks. He did not expect much change in yields until the Fed starts to raise interest rates. Mr. Sachnowitz reviewed the asset allocation and maturity charts for both portfolios. As of June 30, 2013, TexPool asset allocation was approximately 44.7% in agency securities, 9.3% in treasuries and 46% in repurchase agreements. TexPool Prime allocation was approximately 49.7% in commercial paper, 7.8% in variable rate securities, 5.0% in government securities and 37.5% in repurchase agreements for the same period. 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 5 & handout)

Ms. Amy Michaliszyn reviewed the information behind Tab 5 relating to TexPool and TexPool Prime participants. She reported that on May 31, 2013, Debbie Cunningham, Chief Investment Officer – Global Money Markets, conducted a conference call with over 100 TexPool and TexPool Prime participants relating to the cash markets, the status of TexPool and TexPool Prime and the conservative management of the pools' assets. She reported that both pools continue to add new participants each quarter. Ms. Michaliszyn reviewed the asset trend history graph which demonstrates the seasonality of distributions from the pools. She noted that in the competitive landscape of government pools, TexPool remains a leading competitor. One complaint was received during the quarter involving incoming communication from a participant. The matter was resolved in a timely manner.

Discussion of Next Meeting and Agenda Items

No future agenda items. Next meeting will be scheduled for November 13, 2013.

Public Comments

No public comment.

Adjourn

Meeting was adjourned at 11:21 a.m.