

TEXPOOL INVESTMENT ADVISORY BOARD MEETING
Wednesday, November 16, 2016
Minutes

The TexPool Investment Advisory Board (the “Board”) met at 10:00 a.m. on Wednesday, November 16, 2016, at the LBJ State Office Building, 111 E. 17th Street, Room 114, Austin, Texas.

Board Members Present

Jerry Dale, Patrick Krishock, David Landeros, Georgia Sanchez, and Vivian Wood.

Board Members Absent

Sharon Mathews, Michele Tuttle and Jose Elizondo, Jr.

Comptroller of Public Accounts Staff Present

Comptroller Glenn Hegar, Mike Reissig and Phillip Ashley.

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

Paul Ballard, Chief Executive Officer and Chief Investment Officer; Danny Sachnowitz, Deputy Chief Investment Officer; Frank Zahn, Chief Financial Officer; Marianne Dwight, General Counsel; Gena Minjares, Deputy Chief Financial Officer; Michael Anderson, Compliance Officer; Elizabeth Moreno, General Ledger Accounting Manager; and Nora Arredondo, Special Projects Coordinator.

Additional Participants

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

Call to Order

Comptroller Glenn Hegar called the meeting to order at 10:08 a.m. Approval of the minutes was completed at the end of the meeting.

Discussion and Presentation of Annual Audit (handout)

Mr. Mike O’Brien summarized the audit reports issued by Padgett Stratemann for TexPool and TexPool Prime. He reported unqualified opinions with respect to both funds for the fiscal year ending August 31, 2016. Mr. O’Brien reported that both Pools were in compliance with their investment policies. He explained that effective September 1, 2015, both pools had implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, and GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. He reported that no audit adjustments were required during the audit engagement, nor was a management letter issued.

Economic Update and Discussion of Portfolio Positioning (Tab 2)

Ms. Sue Hill reported that the TexPool and TexPool Prime portfolios were in compliance with the Texas Public Funds Investment Act (“TPFIA”), GASB Statement No. 79 and with their respective investment policies. Both pools maintained AAAM ratings by Standard and Poor’s. Also, 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 0.38%, up from approximately 0.09% in the previous quarter. TexPool’s portfolio balance as of September 30, 2016 was approximately \$13.3 billion, a decrease of approximately \$1 billion from June due primarily to seasonal participant outflows. The TexPool Prime portfolio produced a net yield of approximately 0.71%, up from 0.55% in the previous quarter. Recent regulations imposed on commercial Prime money market funds have caused their assets to shrink and reduced the number of buyers of commercial paper. With fewer buyers, the yields on commercial paper have been driven up. TexPool Prime is not subject to the same restrictions, so has benefitted from its ability to capture these higher yields. Despite the typical seasonal outflow of assets, the assets of TexPool Prime grew from \$2.24 billion on June 30 to \$2.37 billion at the end of the third quarter. Both pools remained competitive. TexPool was ranked number three and TexPool Prime was ranked number one among their peer groups. Ms. Hill explained that the majority of the assets in TexPool had maturity dates in the 31 - 90 day range, whereas the majority of the assets in TexPool Prime had shorter maturities in the range of 1 - 30 days. Federated currently favors variable rate instruments because of their expectations that the Federal Reserve (“Fed”) will continue to raise interest rates. Ms. Hill also explained the stress test scenario results for both pools, which demonstrated the Pools’ ability to maintain a constant dollar value in the event any of these unlikely scenarios were to occur.

Ms. Hill reviewed market conditions during the third quarter of 2016. She reported that the surprising “Brexit” vote at the beginning of the third quarter, that would allow the United Kingdom’s separation from the European Union, could take years to unfold and would have little impact on the U.S. economy anytime soon. She reported that unemployment, the housing market and consumer confidence all improved during the quarter. Third quarter gross domestic product (“GDP”) is expected to post annual growth in the vicinity of 2.4%. Ms. Hill stated that although the Fed held rates steady at their September meeting, Federated believes the Fed will likely announce a rate hike in their December 2016 meeting. Overall, Federated expects a slow and steady economic growth environment for the remainder of 2016.

TexPool and TexPool Prime Portfolio and Performance Review for the 3rd Quarter of 2016 and Related Matters (Tab 3)

Mr. Danny Sachnowitz presented a portfolio review of TexPool and TexPool Prime for the third quarter of 2016. He reviewed the participant summary graph which illustrated good diversification of the investor base of both Pools. He presented an overview of the historical yields for both Pools compared to the Federal Funds rate and noted that TexPool Prime had surpassed the Fed Funds rate since March 2016. Mr. Sachnowitz reviewed the asset allocation and maturity charts for both portfolios confirming the reduction in agency securities and the increase in repurchase agreements, treasuries and money market funds for TexPool in anticipation of seasonal redemptions. TexPool Prime slightly reduced its allocation in commercial paper and increased its allocation to repurchase agreements, variable rate securities and money market funds. Mr. Sachnowitz 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 although the third quarter is typically marked by seasonal outflows, assets were sustained at levels greater than previous years for TexPool Prime. Ms. Michaliszyn reviewed the market value history chart that depicts the projected value of the portfolios in the event of a rate hike. She explained that the money market reform that occurred in October benefited local government Prime investment pools and therefore provided the probability of higher net yields.

Ms. Michaliszyn reported that both pools continued to add new participants each quarter. TexPool added 11 new participants and TexPool Prime added 9 for the quarter. As of September 30, 2016, TexPool had 2,372 participants and TexPool Prime had 216 participants. Ms. Michaliszyn reviewed the participant balance analysis report which lists the participants by sector and their respective balances at the end of the third 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 that TexPool Academy is the most popular service utilized by participants. Ms. Michaliszyn reported that TexConnect experienced an internet outage on September 21st from approximately 10:00 p.m. EST until approximately 5:30 p.m. EST September 22nd. During the outage, transactions and inquiry functions were completed utilizing the voice response unit, TexPool online account inquiry, or by contacting the TexPool service team by phone. The problem has been rectified and there is now a tool in place that will cross connect the system to a secondary data center. At no time were participants prevented from placing transactions or obtaining account information.

Approval of Minutes from the August 24, 2016 Meeting (Tab 1)

Ms. Vivian Wood arrived at the meeting at 11:00 a.m.

A motion was made by Ms. Vivian Wood to accept and approve the minutes from the August 24, 2016 meeting. The motion was seconded by Mr. Jerry Dale and unanimously approved by the Board.

Discussion of Next Meeting and Agenda Items

No future agenda items. The next meeting will be in February 2017 and the board will be contacted to determine a date.

Public Comments

No public comment.

Adjourn

Meeting was adjourned at 11:02 a.m.