

**TEXPOOL INVESTMENT ADVISORY BOARD MEETING**  
**Wednesday, August 26, 2009**  
**Minutes**

The TexPool Investment Advisory Board (the "Board") met at 10:00 a.m. on Wednesday, August 26, 2009, at the LBJ State Office Building, 111 E. 17<sup>th</sup> Street, Room 114, Austin, Texas.

**Board Members Present**

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

**Board Members Absent**

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 ("CEO"); Danny Sachnowitz, Deputy Director and Deputy Chief Investment Officer; Frank Zahn, Chief Financial Officer; Marianne S. Dwight, General Counsel; Nora Arredondo, Special Projects Coordinator; and Genoveva Minjares, Audit Liaison.

**Additional Participants**

Amy Michaliszyn, Federated Securities Corp. ("Federated"); Jerry Landrum, Federated; Ed Sanchez, Federated; and Deborah Cunningham, Federated.

**Call to Order**

Comptroller Combs declared that a quorum was present and called the meeting to order at 10:05 a.m.

**Approval of Minutes (Tab 1)**

*Motion was made by Ms. Pati Buchenau to accept and approve the minutes from the May 28, 2009 Board meeting with the correction to section two, paragraph two, changing "Mr." to "Ms." Wilhelm. Motion was seconded by Mr. John McGrane and unanimously approved by the Board.*

**Annual Review & Recommendation of TexPool and TexPool Prime Investment Policies (Tab 2)**

Mr. Paul Ballard stated that the Trust Company had no recommended changes at this time.

*Motion was made by Mr. John McGrane to recommend to the Comptroller the current TexPool and TexPool Prime Investment Policies with no changes at this time. Motion was seconded by Ms. LaVonne Mason and unanimously approved by the Board.*

### **Economic Update and Discussion of Portfolio Positioning (Tab 3)**

Ms. Deborah Cunningham reported that the TexPool and TexPool Prime portfolios were in compliance with the Texas Public Funds Investment Act (“TPFIA”) and the TexPool and TexPool Prime Investment Policies throughout the quarter. She stated that TexPool’s portfolio balance at the end of the second quarter of 2009 was approximately \$18 billion and TexPool Prime’s portfolio balance was approximately \$1.7 billion. Both portfolios maintained a weighted average maturity of less than sixty days.

Ms. Cunningham reviewed the market conditions for the second quarter of 2009 noting that TexPool and TexPool Prime were not immune to the downward pressure on rates, with their net yields at approximately 0.32% and 0.40% respectively. Federated expects unemployment to peak over the next six to twelve months thus reducing the expectation of a monetary tightening cycle by the Federal Reserve (the “Fed”). Federated expects interest rates to remain low and will continue to monitor and search for securities that will perform best, given this expectation.

Ms. Cunningham reviewed the graphs behind Tab 3 illustrating the asset allocation evolution of TexPool and TexPool Prime from June 2006 – June 2009. She compared the yields of both Pools and stated that the Pools remained competitive with their peers, noting that the investment policies for the Pools were more restrictive than most funds in the iMoneyNet universes.

Next, Ms. Cunningham discussed the handout which included information regarding Federated’s total assets under management, government facilities supporting money markets, and Fed liquidity as of August 13, 2009. Ms. Cunningham also reviewed the summary of the Securities Exchange Commission’s (“SEC”) proposed major rule changes to Rule 2a7 versus the restrictions on TexPool and TexPool Prime.

In conclusion Ms. Cunningham reported that Federated believes that yields would not increase until the economy improves. She noted that the recession was ending and recovery would be a slow process.

### **Performance Report for 2nd Quarter of 2009 and Related Matters (Tab 4)**

Mr. Danny Sachnowitz presented an overview of the performance for TexPool and TexPool Prime. He reviewed historical yields for both compared to the Federal Funds rate and other target benchmarks. TexPool and TexPool Prime quarterly and annual rates of return remain competitive with other Texas local government investment pools. Yields on TexPool and TexPool Prime have exceeded their benchmarks.

### **Report on Services Provided to TexPool and TexPool Prime Participants and Related Matters (Tab 5)**

Ms. Amy Michaliszyn reviewed the information behind Tab 5 illustrating TexPool and TexPool Prime aggregate assets noting the low rate environment similar to 2003-2004. She reported that fourteen new participants were added to TexPool and four new participants were added to TexPool Prime during the second quarter of 2009. Average balances were lower for the quarter than for the same quarter of 2008. No complaints were received during the quarter.

Ms. Michaliszyn reviewed several educational tools provided to TexPool participants via the TexPool Academy available on-line, the newest module introduced this quarter dealt with calculating risk. More training modules will be added by year end.

Ms. Michaliszyn reported the current yields for TexPool and TexPool Prime were 0.34% and 0.467% respectively. She discussed with the board Federated's fees for both Pools but in particular the fees relating to TexPool Prime and TexPool Prime's restrictive investment structure. Mr. McGrane suggested that more information regarding the fees be available on the website.

**Discussion of Next Meeting and Agenda Items**

The Board will try to meet in November or December of 2009 and will be contacted with possible dates.

**Public Comments**

None

**Adjourn**

Meeting was adjourned at 11:36 a.m.

DRAFT