

TEXPOOL INVESTMENT ADVISORY BOARD MEETING
Thursday, May 27, 2010
Minutes

The TexPool Investment Advisory Board (the “Board”) met at 10:00 a.m. on Thursday, May 27, 2010, at the LBJ State Office Building, 111 E. 17th Street, Room 114, Austin, Texas.

Board Members Present

R. C. Allen, Pati Buchenau, Ron Leverett, Clay McPhail, and LaVonne Mason.

Board Members Absent

Jose Elizondo, Jr., John McGrane, and Vivian Wood.

Comptroller of Public Accounts Staff Present

Comptroller Susan Combs and Martin Hubert.

Texas Treasury Safekeeping Trust Company (“TTSTC”) 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 Dan McNeil, Compliance Officer.

Additional Participants

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

Call to Order

Comptroller Susan Combs declared that a quorum was present and called the meeting to order at 10:09 a.m.

Approval of Minutes (Tab 1)

Two non-substantive changes to the February 25, 2010 minutes were made: 1) add the word “easing” to Tab 2, paragraph two, third sentence after the word quantitative and 2) Tab 4, change Mr. to Ms. Michaliszyn. Motion was made by Ms. Pati Buchenau to accept and approve the minutes from the February 25, 2010 Board meeting with the non-substantive changes. Motion was seconded by Mr. Ron Leverett and unanimously approved by the Board.

Economic Update and Discussion of Portfolio Positioning (Tab 2)

Ms. Deborah Cunningham reported that TexPool and TexPool Prime portfolios were in compliance with the Texas Public Funds Investment Act (“TPFIA”) and with their investment policies during the quarter. She stated that the balance in TexPool was approximately \$18.48 billion and TexPool Prime was approximately \$1.78 billion at March 31, 2010. TexPool and TexPool Prime’s average net yields in the first quarter of 2010 were approximately 0.16% and 0.19% respectively. Both pools remained competitive with their peers.

Ms. Cunningham reviewed market conditions during the quarter. She reported that Libor yields were virtually unchanged and that the Federal Reserve (the “Fed”) was taking the first steps towards tightening monetary policy. As such, in March Federated moved to shorten the target maturity ranges for TexPool and TexPool Prime to between 35 and 45 days, allowing them to better participate in the rate increases they anticipate. Federated believes the first increase in benchmark interest rates will occur at the August or September Federal Open Market Committee (“FOMC”) meeting. From a credit standpoint, Federated believes the economy is at the bottom of the credit cycle and short term rates should gradually start to rise. Federated will continue to monitor and search for securities that will perform best, given this expectation.

Ms. Cunningham reviewed the graphs behind Tab 2 illustrating the asset allocation evolution of TexPool and TexPool Prime from March 2007 to March 2010. She compared the yields of both Pools to those of their peers. She stated that the Pools remained competitive with their peers, noting that TexPool was ranked number one and TexPool Prime was ranked number nine, in their respective peer groups in the iMoneyNet universe. She stressed that most funds in the iMoneyNet universe are managed under investment policies that are less restrictive than the policies for TexPool and TexPool Prime. Ms. Cunningham summarized the Securities and Exchange Commission (“SEC”) major changes to Rule 2a-7 as described behind Tab 2. An example of a new change is stress testing. Stress test results would be incorporated into periodic reporting to the SEC. Overall, she explained that TexPool and TexPool Prime would not be affected.

TexPool and TexPool Prime Portfolio and Performance Review for the 1st Quarter of 2010 and Related Matters (Tab 3)

Mr. Danny Sachnowitz reviewed the performance for TexPool and TexPool Prime during the first quarter of 2010. He reviewed historical yields for both compared to the Federal Funds rate and other target benchmarks. Mr. Sachnowitz stated that yields have remained level for the first quarter as illustrated by the graphs behind Tab 3. Average maturities were slightly lower than the previous quarter as illustrated by the positioning of the portfolios. TexPool and TexPool Prime quarterly and annual average yields remained competitive with other Texas local government investment pools. For the quarter, yields on TexPool and TexPool Prime were consistent with their benchmarks. He reported that they have historically outperformed their benchmarks.

Report on Services Provided to TexPool and TexPool Prime Participants and Related Matters (Tab 4)

Ms. Amy Michaliszyn reviewed the information behind Tab 4 illustrating TexPool and TexPool Prime aggregate assets.

Ms Michaliszyn also reviewed participant information. She reported that ten new participants were added to TexPool and TexPool Prime for the quarter. TexConnect continues to be the most popular system used to communicate instructions from participants. Federated has added a new vendor pay service to their participant services. Ms. Michaliszyn reported an issue that involved Judson ISD and the TexConnect Vendor payment facility resulting in a payment problem. The issue was resolved in a timely manner and to ensure it doesn’t occur in the future, the TexConnect system has been modified to allow the input of at least 22 characters for ACH and 35 characters for wire payments instructions.

Discussion of Next Meeting and Agenda Items

The Board will schedule its next meeting in August or September.

Public Comments

No public comment.

Adjourn

Meeting was adjourned at 11:41 a.m.