

TEXPOOL INVESTMENT ADVISORY BOARD MEETING
Wednesday, May 22, 2013
Minutes

The TexPool Investment Advisory Board (the “Board”) met at 10:00 a.m. on Wednesday, May 22, 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

R.C. Allen and Clay McPhail.

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; Marianne Dwight, General Counsel; Nora Arredondo, Special Projects Coordinator; and Michael Anderson, Compliance Officer.

Additional Participants

Amy Michaliszyn, Federated Securities Corp. (“Federated”); and Deborah Cunningham, Federated Advisory Companies (“Federated”).

Call to Order

Comptroller Susan Combs declared that a quorum was present and called the meeting to order at 10:05 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 SEC’s 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 General Counsel, Marianne Dwight, 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 Mr. John McGrane to accept and approve the minutes from the February 20, 2013 board meeting. The motion was seconded by Ms. Vivian Wood 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 the TexPool and TexPool Prime investment policies throughout the quarter. She stated that TexPool’s portfolio balance was approximately \$17.8 billion as of March 31, 2013, an increase of approximately \$2.2 billion from the previous quarter. The Pool gained assets beyond the normal seasonal peak. TexPool Prime’s portfolio balance was approximately \$1.14 billion as of March 31, 2013, a slight decrease from the previous quarter of approximately \$69 million. The decrease in assets represents a seasonal trend. She reported that TexPool’s average monthly yield decreased from .15% to .10%. Rates on overnight and short-term securities were lower in the first quarter, as expected, but not by as much as had been feared. TexPool Prime’s average monthly yield decreased from .17% to .14%.

Ms. Cunningham reviewed the market conditions during the first quarter of 2013. Improving economic conditions marked the first quarter. There were particular strengths in the housing markets such as better pricing, lower inventory and an increase in sales of existing homes. Although unemployment was improving, the current unemployment rate is at 7.5%. Federated also reported that the Federal Open Market Committee (FOMC) is continuing its commitment to keep to a zero – 0.25% federal funds target rate as long as the jobless rate remained above 6.5% and projected inflation ran no more than a half point above its 2% target. Federated expects the Fed will likely keep interest rates between zero and 0.25% through at least mid-2015 or as long as the jobless rate remains above 6.5%. Given the largely unchanged nature of rates, there has been little rationale for major changes to investment strategy. Globally, Ms. Cunningham reported that the three month Libor rate dropped three basis points to .28% in this first quarter.

Ms. Cunningham reviewed portfolio allocations and maturity schedules for both pools as illustrated in the graphs behind Tab 2. As of March 31, 2013 TexPool’s allocation was approximately 45.9% in repurchase agreements, down from 60.3% three months earlier; 47.4% in agency securities, up from 38.7%; and 6.7% in Treasuries, up from 1.0% last quarter. At the end of 2012, the TexPool’s allocation to repurchase agreements was higher in response to the temporary seasonal increase in Pool assets. In TexPool Prime for the same quarter, the allocation was approximately 56.2% in commercial paper, up from 42.4% the previous quarter; 30.6% in repurchase agreements, down from 45.5% the previous quarter, and 6.3 % in government securities and 6.9% in variable rate paper. Despite low yields, both pools remained competitive with their peers as TexPool was ranked number one and TexPool Prime was ranked number twenty-five, among their competitors. She stressed that most funds in the iMoneyNet peer universe are managed under investment policies that are less restrictive than the policies for TexPool and TexPool Prime. Also, TexPool Prime cannot invest in European banks, which were offering higher interest rates. Ms. Cunningham also explained the stress test scenario results for both pools. Overall, Federated expects a slow and steady economic growth environment for 2013.

TexPool and TexPool Prime Portfolio and Performance Review for the 1st Quarter of 2013 and Related Matters (Tab 3)

Mr. Danny Sachnowitz presented a portfolio review for TexPool and TexPool Prime for the first 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 March 2013 as depicted in the market value history graph on page 3. 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. He reaffirmed that the average

monthly yield for TexPool was approximately .10% and .14% for TexPool Prime. 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 4)

Ms. Amy Michalyszyn reviewed the information behind Tab 4 regarding TexPool and TexPool Prime participants. She reported that both pools continue to add new participants each quarter. TexPool participants totaled 2,281 and TexPool Prime participants totaled 156. Ms. Michalyszyn explained that TexConnect continues to be the most utilized system for participant communication and the TexPool Academy is the most popular service utilized by the participants. A list of conferences sponsored by Federated for 2013 was included in the presentation. Ms. Michalyszyn announced that Federated received an award in the Cash Management & Short-Term Fixed Income category from Institutional Investor magazine on May 16, 2013.

Legislative Update

Mr. Paul Ballard will be monitoring any legislation that may impact TexPool or TexPool Prime or the Texas Public Funds Investment Act. There were no updates to report at the time of the meeting.

Discussion of Next Meeting and Agenda Items

Mr. McGrane asked that the board discuss investment limitations regarding TexPool Prime at the next meeting. Next meeting will be scheduled for August 6, 2013.

Public Comments

No public comment.

Adjourn

Meeting was adjourned at 11:20 a.m.