

TEXPOOL INVESTMENT ADVISORY BOARD MEETING
Wednesday, November 15, 2017
Minutes

The TexPool Investment Advisory Board (the “Board”) met at 10:00 a.m. on Wednesday, November 15, 2017, at the LBJ State Office Building, 111 E. 17th Street, Room 114, Austin, Texas.

Board Members Present

Jerry Dale, Jose Elizondo, Jr., Patrick Krishock, Sharon Mathews, Michele Tuttle, Belinda Weaver and Vivian Wood.

Board Members Absent

David Landeros.

Comptroller of Public Accounts Staff Present

Comptroller Glenn Hegar 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; John Wright, Deputy General Counsel; Susan Colletti, Director of Investment Accounting; Nora Arredondo, Special Projects Coordinator.

Additional Participants

Mike O’Brien, RSM US, LLP; Paige Wilhelm, Federated Advisory Companies (“Federated”); and Amy Michaliszyn, Federated Securities Corporation.

Call to Order

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

Approval of Minutes from the August 29, 2017 Meeting (Tab 1)

A motion was made by Ms. Vivian Wood to accept and approve the minutes from the August 29, 2017 meeting. The motion was seconded by Mr. Jerry Dale and unanimously approved by the Board.

Discussion and Presentation of Annual Audit (handout)

Mr. Mike O’Brien summarized the audit reports issued by RSM US for TexPool and TexPool Prime. He reported unqualified opinions with respect to both funds for the fiscal year ending August 31, 2017. Mr. O’Brien reported that both Pools were in compliance with their investment policies. He explained that in September 2015 both pools 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. Paige Wilhelm reported that for the quarter ending September 30, 2017, 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 and net asset values were never less than \$0.995 or greater than \$1.005. Both pools also met specific portfolio composition and maturity limitation guidelines set out in their respective investment policies. 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.

Ms. Wilhelm reported that the TexPool portfolio’s assets experienced a seasonal decline but continue to be well above the levels during the same period in 2016. As of September 30, 2017, TexPool’s portfolio balance was approximately \$15.6 billion, down approximately \$2 billion from the previous quarter, due primarily to seasonal outflows. The portfolio produced a net yield of approximately 1.02%, up from approximately 0.88% in the previous quarter. Unlike TexPool, assets in TexPool Prime grew slightly from \$4.1 billion on June 30, 2017, to \$4.2 billion as of September 30, 2017. The TexPool Prime portfolio produced a net yield of approximately 1.26%, up from the previous quarter yield of 1.14%. The portfolio composition saw a slight rise in the holding of variable rate notes, while commercial paper and repurchase agreements allocations fell slightly. The weighted average maturity in the Prime portfolio increased from 37 days on June 30, 2017 to 51 days on September 30, 2017. Both pools remained competitive among their peer groups. TexPool was ranked number two and TexPool Prime was ranked number five. A main factor in TexPool Prime’s ranking slightly lower than some competitors is the fact that TexPool Prime cannot purchase from banks that are not domiciled in Texas as other funds can. Ms. Wilhelm explained the various stress test scenarios and results for both pools which demonstrated the Pools’ ability to maintain a constant dollar value under unlikely extreme or extraordinary scenarios. Federated is comfortable with the stress testing and the way that the portfolio is positioned. Overall, Federated continues to expect slow and steady economic growth for the remainder of the year.

TexPool and TexPool Prime Portfolio and Performance Review for the 3rd Quarter of 2017 and Related Matters (Tab 3)

Mr. Danny Sachnowitz presented a portfolio review of TexPool and TexPool Prime for the third quarter of 2017. He reviewed the participant summary pie chart which illustrated good diversification of the investor base of both Pools. Mr. Jose Elizondo, Jr. asked for separate participants summary pie charts for TexPool and TexPool Prime. Mr. Sachnowitz reviewed the market value history chart which depicted the large gap and higher balances of the pools between 2016 and 2017. Some of this increase was a result of more participants moving into government pools such as TexPool, since interest rates have risen and banks are not aggressively competing for deposits. Mr. Sachnowitz presented an overview of the historical yields for both Pools compared to the Federal Funds rate and other target benchmarks. He noted that TexPool Prime benefited from the Fed’s interest rate hikes and had surpassed the Fed Funds rate for most of 2016. Mr. Sachnowitz reviewed the asset allocation and maturity charts for both portfolios. 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 explained that although the third quarter is typically marked by seasonal outflows, assets were sustained at levels greater than previous years. She reported that participation in both pools continued to climb and 11.7% of participants now utilize both pools. She stated that

participants are increasing their use of vendor payment capability, especially since the bond payment feature was added in 2016. Ms. Michaliszyn reviewed the market value history chart that depicts the projected value of the portfolios in the event of future rate hikes. She reported that the TexPool business continuity plan was implemented in anticipation of Hurricane Harvey in August. All calls and work were routed to the Federated Boston and Pittsburgh offices and business continued uninterrupted.

Ms. Michaliszyn reported that both pools continued to add new participants each quarter. TexPool added 9 new participants and TexPool Prime added 15 for the quarter. As of September 30, 2017, TexPool had 2,431 participants and TexPool Prime had 284 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. She reported that no participant complaints were filed during the quarter.

Discussion of Next Meeting and Agenda Items

No future agenda items. The next meeting will be in February 2018 and the board will be contacted to determine a date.

Public Comments

No public comment.

Adjourn

Meeting was adjourned at 11:11 a.m.