



Understanding Investment Pools

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November 7, 2019



What are Local Government Investment Pools? (LGIP)

- A Local Government Investment Pool is an investment product that combines the cash of participating jurisdictions to purchase securities allowed under the state's laws. Jurisdictions share equity in the portfolio of securities and share proportional income and fees.
- May be government sponsored or privately sponsored.
- Are Not Guaranteed!
- Texas Government Code, Chapter 2256.016

Pools In Texas:



Types of Pools – Investment Content:

- **Government Pool** – Limited to securities/funds that are U.S. Governments, U.S. Agencies and related obligations
- **Prime Pool** – May contain any instruments allowed by Texas Public Funds Investment Act, including Commercial Paper

Types of Pools – Maturity Content:

- **Overnight Liquidity Pool** (“Constant Dollar” or “Stable”)
 - shorter-term Weighted Average Maturity (WAM) limit to help maintain constant dollar goal

- **Longer-Term Pool** – longer-term WAM that may have a fluctuating net asset value

Investment Content – Government Pools

- US Government
 - Treasury Bills/Notes/Bonds
- US Agencies
 - FHLB, FNMA, FHLMC, FFCB, etc.
- Repurchase Agreements
 - Collateralized with US Governments/Agencies
- Government Money Market Mutual Funds
 - no load
 - SEC Regulated
 - containing only US Government /Agency positions
- FDIC Insured Certificates of Deposit

Investment Content – Prime Pools

- All PFIA-Allowed Investment Types
 - Specifically Allow Commercial Paper

Pools Available by Type:

Government:

TexPool

TexasCLASS Government

TexasDAILY

TexasTERM

TexSTAR

Lone Star Government

Prime:

TexPool Prime

TexasCLASS

TexasTERM CP Series

LOGIC

Lone Star Corporate Overnight Fund

Lone Star Corporate Overnight Plus Fund

Maturity Parameters – Constant Dollar Pools

- “Seek to maintain \$1.00 Net Asset Value (NAV)”
- Rating Agency Limits for Constant Dollar Pools:
 - 60-Day WAM to reset
 - 120-Day WAM to final
 - 13-month maximum limit for fixed rate security
 - 24-month maximum limit for variable rate security
- PFIA Rule – must take action if NAV falls outside the band of \$0.995 and \$1.005
- Rating of AAAM (Policies fall within SEC 2a7 Rule)

Maturity Parameters – Floating NAV Pools

- Rating Agency Limits For AAA Floating NAV Pools:
 - 90-Day WAM to Reset
 - 120-Day WAM to final
 - 13-month Final Maturity for Fixed
 - 24-month Final for Variable
- Does Not Require the “Seeks To Maintain a \$1.00 NAV” statement
- Rating of AAAf (Policies fall beyond SEC 2a7 Rule)
- Volatility Rating Should be S1 (Addresses sensitivity to market changes)

Pools Available by NAV Type:

Stable:

TexPool

TexPool Prime

TexasCLASS

TexasCLASS Government

LOGIC

TexasDAILY

TexSTAR

Lone Star Government

Lone Star Corporate Overnight

Floating:

TexasTERM

TexasTERM CP Series

Lone Star Corporate Overnight Plus Fund

Documents to Examine:

- Information Statement
- Participation Documents
- Newsletters
- Rating Agency Pool Profile
- Website

Information Statement

- Contains all of the PFIA-required information and should be reviewed
- Investment Policy/Strategy of the Pool(s)
- Management Team – Board, Advisor, Administrator, Custodian, Legal, Auditor, Sponsor
- Rating Agency and Rating Assigned
- Disclosure of Risks
- Disclosure of Fees & Expenses
- Processes and Procedures
- Enrollment Forms, Agreements and Instructions

Participation Documents

- Pool Resolution
- Participation Agreement
- Application
- Bank Information Forms
- Vendor Forms

Newsletters

- Important To Read/Review Each Month
- Contains PFIA-Required Information
- The mechanism that Pools will use for disclosure of any changes

Rating Agency Pool Profile Report

- Go to Rating Agency Website to Research
- Example: Standard & Poors Ratings
 - <https://spglobal.com>
 - Search “Local Government Investment Pool”
 - Click “Profiles”
 - Click on Pool Name
- See Pool Profile Sample

Principal Stability Fund Ratings Definitions

AAAm A fund rated 'AAAm' demonstrates extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit risk. 'AAAm' is the highest principal stability fund rating assigned by S&P Global Ratings.

AAm A fund rated 'AAm' demonstrates very strong capacity to maintain principal stability and to limit exposure to principal losses due to credit risk. It differs from the highest-rated funds only to a small degree.

Am A fund rated 'Am' demonstrates strong capacity to maintain principal stability and to limit exposure to principal losses due to credit risk, but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than funds in higher-rated categories.

BBBm A fund rated 'BBBm' demonstrates adequate capacity to maintain principal stability and to limit exposure to principal losses due to credit risk. However, adverse economic conditions or changing circumstances are more likely to lead to a reduced capacity to maintain principal stability.

BBm A fund rated 'BBm' demonstrates speculative characteristics and uncertain capacity to maintain principal stability. It is vulnerable to principal losses due to credit risk. While such funds will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions.

Dm A fund rated 'Dm' has failed to maintain principal stability resulting in a realized or unrealized loss of principal.

Plus (+) or Minus (-)
The ratings may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the rating categories.

TEXPOOL

About the Pool

Pool Rating	AAAm
Pool Type	Stable NAV Government Investment Pool
Investment Adviser	Federated Investment Management Co.
Portfolio Manager	Susan R. Hill, CFA (Since 2002)
Pool Rated Since	March 1995
Custodian	State Street Bank
Distributor	Federated Securities Corp.

Rationale

S&P Global rates TEXPOOL 'AAAm'. This is S&P Global's highest principal stability fund rating and is based on an analysis of the pool's investment portfolio and guidelines, market price exposure, and management. The rating signifies our forward-looking opinion about a fixed-income fund's ability to maintain principal value (i.e., stable net asset value, or NAV). TEXPOOL has a very conservative investment policy, which is in line with Rule 2a-7 money-market practices. To ensure an accurate and current rating, S&P Global monitors pertinent pool information, including its portfolio holdings, on a weekly basis.

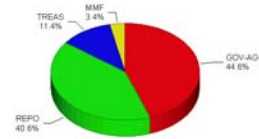
Overview

TEXPOOL is a local government investment pool. It offers a safe, efficient and liquid investment alternative to local governments in the state of Texas. The primary objectives of the pool are to preserve capital and protect principal, maintain sufficient liquidity, provide safety of funds and investments, diversify to avoid unreasonable or avoidable risks, and maximize the return on the pool. Cities, counties, school districts, institutions of higher education, special districts, and other public entities of Texas make up the investor base.

Management

TEXPOOL was originally rated in March 1995, but effective April 2002, the Texas comptroller contracted with Federated Investors, Inc. for the day-to-day operations of TEXPOOL. Federated Investors, Inc. performs the pool's investment management and custodial functions. It also provides the marketing function, working closely with participants. Federated Securities Corp. acts as the distributor for the portfolio. Oversight of TEXPOOL continues to be provided by the Texas comptroller of public accounts, as well as the TEXPOOL advisory board. In January 1995, the advisory board adopted and implemented long-term

Portfolio Composition as of March 28, 2019



GOV-AGCY - Agency and Government, REPO - Repurchase Agreement, TREAS - Treasury, MMF - Money Market Fund

policy changes to provide for a stable net asset value (NAV) pool, which, in effect, operates like an SEC regulated Rule 2a-7 money-market fund. These changes were made to ensure a more conservative investment strategy and to provide a much higher level of investment safety for local government funds.

Portfolio Assets

The pool invests a majority of its assets in repurchase agreements contracted with highly-rated counterparties, with the remainder of the portfolio invested in fixed rate or floating rate U.S. agency securities. In order to meet the liquidity needs of the pool's shareholder base and to limit its exposure to significant market price fluctuations occurring during periods of volatile interest rate movements, the weighted average maturity to reset (WAM(R)) of the pool's assets is limited to 60 days or less.

S&P Global Ratings Analyst: Peter Rizzo - (1) 212-438-5059

www.spratings.com

Participants should consider the investment objectives, risks and charges and expenses of the pool before investing. The investment guidelines which can be obtained from your broker-dealer, contain this and other information about the pool and should be read carefully before investing.

Website

- Will Contain All Documents
- Will Contain Contact Information
- Will Contain Current and Historical Rate Information
- Participant Board Members
- News Updates

Constant Dollar/Overnight Pools - AAAM

- Full Liquidity – Can deposit and withdraw daily (within established cut-off time constraints)
- Pool reports to Rating Agency daily to compare market value to equity shares (to ensure integrity of stable dollar)
- Interest rate is calculated daily (use market value, deposits and fees in calculation)
- Pool interest distribution methodology varies:
 - May use average account balance
 - May average monthly yield
 - May compound daily

AAAf Products – Variable NAV

- TexasTERM
- TexasTERM CP Series
- Lone Star Corporate Overnight Plus Fund

Lone Star – Corporate Overnight Plus Fund

- Full Liquidity – Can deposit and withdraw daily (within established cut-off time constraints)
- Pool reports to Rating Agency daily to compare market value to equity shares Interest rate is calculated daily (use market value, deposits and fees in calculation)
- Pool interest distribution:
 - Uses average account balance
 - Uses average monthly yield

TexasTERM

- Fixed Maturity Date of Customer's Choice
- Maximum Maturity of 1-year
- Term Rates are Published Daily, but subject to change
- Confirm for Maturity Date and Rate
- On Maturity Date, Customer receives principal and interest
- Pool Procedures:
 - Pool Investment Manager purchases a security to mature on or before TexasTERM maturity date
 - Security is earmarked within the TexasTERM system to link it to Customer, but is held in the name of TexasTERM

TexasTERM – CP Series

- Same as TexasTERM, but security purchased is Commercial Paper

Other Products Offered By Pools:

- TexasTERM CD Program
 - ❖ Although offered through the TexasTERM family of funds, this is not truly a “pooled” product. It works similarly to brokered CDs or CDARS products. A Customer’s funds are separate, but held in the name of TexasTERM. Customer must sign an Investment Advisory agreement with PFM who purchases the CDs in <\$250K increments on behalf of the Customer. Settlement Funds are pulled from Customer’s TexasDAILY account. Fees are deducted directly from the TexasDAILY account.

Do Your Homework

- What are your specific needs?
- Create a Comparative Spreadsheet
- Talk to your peers
- Talk to the Pool Representatives to make sure that all of your questions are addressed.

Source: Standard & Poors: Pool Profile

Pool	Product	Make up	Assets	As of
TexPool	TexPool	Govt/Agcy/Repo	\$22.8 Billion	3/28/19
	TexPool Prime	All PFIA	\$7 Billion	3/28/19
TexasCLASS	TexasCLASS	All PFIA	\$10.8 Billion	3/26/19
	TexasCLASS Government	Trsy/Agcy/MMMF/Repo	\$582 Million	3/26/19
TexasTERM	TexasDAILY	Govt/Agcy/CD/MMMF	\$2.7 Billion	3/26/19
	TexasTERM	Govt/Agcy/CD/MMMF	\$1.7 Billion	8/31/19
	TexasTERM CP Series	Govt/Agcy/CD/MMMF/CP		
TexSTAR	TexSTAR	Govt/Agcy/MMMF/Repo	\$8.6 Billion	3/26/19
LOGIC	LOGIC	Govt/Agcy/MMMF/Repo/CP	\$7.5 Billion	3/26/19
Lone Star	Lone Star Government Overnight Fund	Govt/Agcy/GovtMMMF/Repo	\$5 Billion	3/26/19
	Lone Star Corporate Overnight Fund	Govt/Agcy/MMMF/Repo/CP	\$3 Billion	3/26/19
	Lone Star Corporate Overnight Plus Fund	Govt/Agcy/MMMF/Repo/CP	\$5.4 Billion	3/26/19

Source: Standard & Poors: Pool Profile

Pool	Product	WAM (R)	WAM (F)	NAV	As of
TexPool	TexPool	27 days	88 days	\$ 0.99996	3/28/19
	TexPool Prime	38 days	65 days	\$ 1.00006	3/28/19
TexasCLASS	TexasCLASS	46 days		\$ 0.99995	3/26/19
	TexasCLASS Government	47 days		\$ 0.99998	3/26/19
TexasTERM	TexasDAILY	38 days	103 days	\$1.00	3/26/19
	TexasTERM	> 1 Year	> 1 Year	\$1.00	8/31/19
	TexasTERM CP Series				
TexSTAR	TexSTAR	36 days	101 days	\$ 0.99994	3/26/19
LOGIC	LOGIC	42 days	72 days	\$ 1.00009	3/26/19
Lone Star	Lone Star Government Overnight Fund	41 days	96 days	\$ 0.99998	3/26/19
	Lone Star Corporate Overnight Fund	45 days	53 days	\$ 1.00002	3/26/19
	Lone Star Corporate Overnight Plus Fund	> 1 Year	> 1 Year	\$ 1.00	3/26/19

Source: Standard & Poors: Pool Profile

Pool	Product	Manager	Rating Agency
TexPool	TexPool TexPool Prime	Federated Investment Management Co. Federated Investment Management Co.	Standard & Poors Standard & Poors
TexasCLASS	TexasCLASS TexasCLASS Government	Public Trust Advisors, LLC Public Trust Advisors, LLC	Standard & Poors Standard & Poors
TexasTERM	TexasDAILY TexasTERM TexasTERM CP Series	PFM Asset Management LLC PFM Asset Management LLC PFM Asset Management LLC	Standard & Poors Fitch Ratings Fitch Ratings
TexSTAR	TexSTAR	JPMorgan Investment Management, Inc.	Standard & Poors
LOGIC	LOGIC	JPMorgan Investment Management, Inc.	Standard & Poors
Lone Star	Lone Star Government Overnight Fund Lone Star Corporate Overnight Fund Lone Star Corporate Overnight Plus Fund	American Beacon Advisors, Inc./ Mellon Investments Corp. American Beacon Advisors, Inc./ Mellon Investments Corp. American Beacon Advisors, Inc./ Mellon Investments Corp.	Standard & Poors Standard & Poors Standard & Poors

Summary:

- Texas has many Local Government Investment Pool options
- Depositors must understand the differences
- Depositors must understand the rules
- Depositors should continue to monitor Pool management activity
- Depositors must understand that deposits are not guaranteed

Questions?

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