Understanding Investment Pools

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Valley View Consulting, LLC

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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:

- LOGIC
- Texas TERM
- TexSTAR
- Texas CLASS
- TexPool
- Lone Star Investment Pool
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:

<table>
<thead>
<tr>
<th>Government</th>
<th>Prime</th>
</tr>
</thead>
<tbody>
<tr>
<td>TexPool</td>
<td>TexPool Prime</td>
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<td>Lone Star Government</td>
<td>Lone Star Corporate Overnight Plus Fund</td>
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</tbody>
</table>
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
TEXPOOL

About the Pool

Pool Rating: AAAm

Pool Type: State NAV Government

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 fund’s requirements. 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 risk, and maximize the return on the pool’s investments. It invests in high-quality and protected securities. These may be obtained by large commercial or major national banks and their branches.

structure

A first-tier bank has the primary management role in the fund, and the broadband or ancillary bank is the investment manager.

risk

The primary risks associated with the pool are that it is subject to market conditions and interest rate fluctuations.

S&P Global Ratings Analyst: Peter Russo - (212) 438-5559

www.spglobal.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 the fund’s investment adviser or another source, may contain tax 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

<table>
<thead>
<tr>
<th>Pool</th>
<th>Product</th>
<th>Make up</th>
<th>Assets</th>
<th>As of</th>
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<tbody>
<tr>
<td>TexPool</td>
<td>TexPool</td>
<td>Govt/Agcy/Repo</td>
<td>$22.8 Billion</td>
<td>3/28/19</td>
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<td>TexPool Prime</td>
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<td>27 days</td>
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Source: Standard & Poors: Pool Profile
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<td>Lone Star Government Overnight Fund</td>
<td>American Beacon Advisors, Inc./ Mellon Investments Corp.</td>
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</table>
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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