



TexPool *Prime* Information Statement

Texas Local Government Investment Pool

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No person or entity has been authorized to give any information, or to make any representations other than those contained in this Information Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the Texas Treasury Safekeeping Trust Company, the Texas Comptroller of Public Accounts, or Federated Hermes, Inc. The attachments included herein are part of this Information Statement. The information contained in this document is subject to change without notice.

If you have any questions regarding this material, please contact:

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I. Organization and Structure

The Texas Local Government Investment Pools (the “TexPool Portfolios”) have been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. These two acts provide for the creation of public funds investment pools and permit eligible governmental entities to jointly invest their funds in authorized investments.

The Comptroller of Public Accounts (the “Comptroller”) is the sole officer, director and shareholder of the Texas Treasury Safekeeping Trust Company (the “Trust Company”), which is authorized to operate the TexPool Portfolios. Pursuant to the TexPool Participation Agreement, administrative and investment services to the TexPool Portfolios are provided by Federated Hermes, Inc. (“Federated”), under an agreement with the Comptroller, acting on behalf of the Trust Company. The TexPool Portfolios are comprised of two investment alternatives: TexPool *Prime* and TexPool. This Information Statement relates only to TexPool *Prime*. TexPool *Prime* may invest in commercial paper and certificates of deposit, as well as obligations of the United States Government or its agencies and instrumentalities, and repurchase agreements.

The Comptroller maintains oversight of the services provided to the TexPool Portfolios by Federated. In addition, the TexPool Advisory Board advises on the Investment Policies for the TexPool Portfolios and approves any fee increases. As required by the Public Funds Investment Act, the Advisory Board is composed equally of participants in the TexPool Portfolios and other persons who do not have a business relationship with the TexPool Portfolios who are qualified to advise the TexPool Portfolios.

II. Public Funds Investment Act Disclosure Items

The Public Funds Investment Act requires investment pools to provide an information statement to the investment officer or other authorized representative of an investing entity. This section provides the specific information items required by Section 2256.016 of the Public Funds Investment Act as it relates to an investment in TexPool *Prime*.

1. Types of Investments Authorized for TexPool *Prime*. The investment policies and composition guidelines for TexPool *Prime* are summarized below. Although the Public Funds Investment Act permits investment in a variety of investment types, the TexPool *Prime* Investment Policy restricts investment to the following investments:

Authorized Investments:

- A. Obligations of the United States Government or its agencies and instrumentalities with a maximum final maturity of 397 days for fixed rate securities other than for floating or variable rate government obligations of the United States, its agencies, or instrumentalities.
- B. Fully collateralized repurchase agreements or reverse repurchase agreements (i) with defined termination dates, (ii) secured by obligations of the United States, its agencies or its instrumentalities, including mortgage-backed securities, (iii) that require purchased securities to be pledged to the investing entity or a third party, and (iv) that are placed through primary government securities dealers or a financial institution doing business

in the State of Texas. The term of a reverse repurchase agreement may not exceed 90 days after the date of delivery. Money received under a reverse repurchase agreement may be used to acquire additional authorized investments provided such investments mature not later than the expiration date stated in the reverse repurchase agreement.

- C. No-load money market mutual funds that (i) are registered with and regulated by the Securities and Exchange Commission, (ii) provide a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940, and (iii) comply with federal Securities and Exchange Commission rule 2a-7, as promulgated under the Investment Company Act of 1940. The money market mutual fund must be rated AAA or its equivalent by at least one NRSRO.
- D. Certificates of deposit issued by a state or national bank, savings bank, or a state or federal credit union that has its main office or a branch office in Texas that are (a) guaranteed or insured by the FDIC or the National Credit Union Share Insurance Fund;
 - (b) secured by obligations of the United States, its agencies, or its instrumentalities, including certain mortgage backed securities that have a market value at least equal to the principal amount of the certificates; or (c) secured in accordance with Chapter 2257 of the Texas Government Code or in any manner and amount provided by other law for deposits of the investing entity
- E. Commercial paper that matures in 270 days or less from the date of its issuance. The commercial paper must be rated at least A-1 or P-1 (or the equivalent thereof) by
 - (i) two NRSROs or (ii) one NRSRO and fully secured by an irrevocable letter of credit by a national or state bank.
- F. Securities lending programs that comply with various limitations.

Prohibited Investments:

- A. TexPool *Prime* will not invest in derivatives. The definition of derivatives includes instruments which have embedded features that alter their character or income stream or allow holders to hedge or speculate on a market or spreads between markets that are external to the issuer or are not correlated on a one-on-one basis to the associated index or market.

Diversification Guidelines:

Specific portfolio diversification limitations govern the TexPool *Prime* portfolio:

- A. 100% of the portfolio may be invested in obligations of the United States.
 - B. 100% of the portfolio may be invested in direct repurchase agreements.
 - C. Reverse repurchase agreements may be used within a limitation of up to one-third (1/3) of total portfolio assets.
 - D. No more than 10% of the portfolio may be invested in approved money market mutual funds.
 - E. 75% of the portfolio may be invested in certificates of deposits.
 - F. 100% of the portfolio may be invested in commercial paper.
2. Maximum Average Dollar-Weighted Maturity. The portfolio should maintain a weighted average maturity of 60 days or less.

3. **Maximum Stated Maturity Date.** The maximum maturity for any individual security in the portfolio is limited to 397 days other than for floating or variable rate government obligations of the United States, its agencies, or instrumentalities
4. **Objectives of TexPool *Prime*.** The primary objectives of TexPool *Prime* are preservation and safety of principal; liquidity; and yield. There is no sales charge and no investment minimum. TexPool *Prime* will invest only in investments that are authorized under both the Public Funds Investment Act and the TexPool *Prime* Investment Policy. See Item 1 of this section for a description of authorized TexPool *Prime* investments.
5. **Size of the Pool.** The current size of TexPool *Prime* is provided in TexPool *Prime*'s monthly newsletter to Participants or by calling TexPool Participant Services at 1-866-839-7665. A copy of the most recent newsletter, which contains the historical average monthly balance, should be obtained in connection with this Information Statement.
6. **TexPool Advisory Board.** Section 2256.016(g)(1) of the Public Funds Investment Act requires TexPool *Prime* to establish and maintain an advisory board composed equally of participants in the TexPool Portfolios and other persons who do not have a business relationship with the TexPool Portfolios. The TexPool Advisory Board advises on TexPool *Prime*'s Investment Policy and approves any fee increases. The TexPool Advisory Board members serve at the will of the Comptroller. A current list of the TexPool Advisory Board members is included in the TexPool *Prime* newsletter, which is mailed monthly to each participant and is also posted on the TexPool website, www.texpool.com, under the Newsletter link.
7. **Custodian for TexPool *Prime*.** State Street Bank serves as custodian to TexPool *Prime*.
8. **Net Asset Value.** TexPool *Prime* seeks to maintain a net asset value of \$1.00 and is designed to be used for investment of funds which may be needed at any time.
9. **Source of Payment.** The only source of payment to Participants are the assets of TexPool *Prime*. There is no secondary source of payment for TexPool *Prime*, such as insurance or guarantees.
10. **Independent Auditor.** TexPool *Prime* is subject to annual review by an independent auditor consistent with the Public Funds Investment Act. RSM US LLP, 811 Barton Springs Road Suite 500, Austin, Texas 78704, performed TexPool *Prime* audits for each year beginning with the accounting periods September 1, 2015 through August 31, 2023. Beginning in the audit period September 1, 2012 through each twelve-month period ending August 31, 2015, Padgett Stratemann & Co., LLP, 811 Barton Springs Road, Suite 550, Austin, Texas 78704 performed auditing services. In addition, TexPool *Prime* is subject to review by the State Auditor's Office and by the internal auditors of the Trust Company and Comptroller's Office.
11. **Operating Procedures.** Deposits and withdrawals may be made by wire transfer or Automated Clearing House (ACH) transfer according to established operating procedures. The requirements for TexPool *Prime* deposits and withdrawals, deadlines, and other operating procedures are summarized under the section entitled "Summary of Operating Procedures" later in this Information Statement.
12. **Performance History.** The performance history, including yield, weighted average maturity, expense ratios and average balance is provided on a monthly basis on the TexPool website, www.texpool.com, under the Performance link and in the monthly TexPool *Prime* newsletter which is mailed to each participant and posted on the website under the Newsletters link.

III. Understanding the Risks Associated with Investing in TexPool *Prime*

Before making an investment decision, each participant should consider two types of risks in determining whether any investment, including TexPool *Prime*, is appropriate: credit risk and market risk.

Credit Risk. Credit risk is the possibility that an issuer will default on a security by failing to pay interest or principal when due. If an issuer defaults, TexPool *Prime* will lose money. TexPool *Prime* tries to minimize this risk by purchasing high quality securities.

Many fixed income securities receive credit ratings from NRSROs such as Standard & Poor's and Moody's Investors Service. These NRSROs assign ratings to securities by assessing the likelihood of issuer default. Lower credit ratings correspond to higher perceived credit risk and higher credit ratings correspond to lower perceived credit risk.

Credit risk includes the possibility that a party to a transaction involving TexPool *Prime* will fail to meet its obligations. This could cause TexPool *Prime* to lose the benefit of the transaction or prevent the Fund from selling or buying other securities to implement its investment strategy.

Market Risk. Prices of fixed income securities rise and fall in response to changes in the interest rate paid by similar securities. Generally, when interest rates rise, prices of fixed income securities fall. However, market factors, such as demand for particular fixed income securities, may cause the price of certain fixed income securities to fall while the prices of other securities rise or remain unchanged.

Interest rate changes have a greater effect on the price of fixed income securities with longer maturities. TexPool *Prime* tries to minimize this risk by purchasing short-term securities and maintaining a weighted average portfolio maturity of sixty (60) days or less.

IV. Administration of TexPool *Prime*

By executing the Participation Agreement, the Participant has delegated the authority to the Comptroller, or the comptroller's designee, to hold legal title as custodian and to make investments purchased with the Participant's funds deposited in TexPool *Prime*. The Participation Agreement permits the Trust Company to enter into an agreement with a third party investment manager to perform its obligations and services under the Participation Agreement with provision that TexPool *Prime* be managed according to the requirements of the Public Funds Investment Act, the TexPool *Prime* Investment Policy, and in a manner consistent with that directed by the Trust Company.

The Trust Company has signed an agreement with Federated to provide required services to the TexPool Portfolios. The agreement terminates December 31, 2024. The Trust Company has the right, in its sole discretion, to renew the agreement for one additional two-year period to December 31, 2026, and to extend the renewal period for six (6) months to June 30, 2027. The Comptroller maintains control of TexPool *Prime* through a series of daily, weekly, and monthly reporting requirements. Federated serves as investment manager and provides portfolio accounting, custodial, transfer agency, marketing and participant services to TexPool *Prime*.

- **Investment Management.** The Comptroller will provide Federated, TexPool *Prime*'s Investment Manager, with a list of primary dealers and brokers authorized to provide

investment services. All dealers and brokers who desire to become qualified bidders for investment transactions must supply to the Trust Company a completed broker/dealer questionnaire, proof of registration with the Texas State Securities Board, proof of National Association of Securities Dealers (NASD) certification, audited financial statements, and written acknowledgment that the entity has read the TexPool *Prime* Investment Policy and has reasonable procedures and controls to preclude imprudent investment activities arising out of investment transactions conducted between the entity and TexPool *Prime*. Federated will review the financial condition of brokers and dealers with whom it executes investment transactions.

- **Ratings.** To comply with Section 2256.016(h) of the Public Funds Investment Act, TexPool *Prime* will maintain a AAA or equivalent rating from at least one NRSRO. TexPool *Prime* is currently rated AAAM by Standard and Poor's. An explanation of the significance of such rating may be obtained from Standard & Poor's at 1221 Avenue of the Americas, New York, New York 10020.
- **Calculation of Yields and Net Asset Value.** Each day, TexPool *Prime* determines the net interest income for that day. The net interest income is determined by adjusting TexPool *Prime*'s accrued interest for that day by the amortization of any premiums and/or the accretion of any discounts, daily service fee, and any gains or losses from the sale of securities. TexPool *Prime*'s daily interest rate will be determined by dividing the net interest income for that day by the total investable balance of TexPool *Prime* for that day. The resulting rate will then be used to determine the amount of interest income to distribute to each Participant's account. Interest income accrued during the month is credited to each Participant's account at the end of the month and is reinvested unless the Participant provides for its withdrawal or transfer.
- **Valuation of TexPool *Prime* Assets.** All investments are stated at amortized cost, which in most cases approximates the market value of the securities. The objective of TexPool *Prime* is to maintain a stable \$1.00 net asset value; however, the \$1.00 net asset value is not guaranteed or insured by the State of Texas. All TexPool *Prime* securities will be marked to market daily. If the ratio of the market value of TexPool *Prime*'s portfolio securities divided by the book value of such securities is less than 0.995 or greater than 1.005, TexPool *Prime* will sell portfolio securities, as required, to maintain the ratio between 0.995 and 1.005. All gains or losses from the sale of securities will be distributed among TexPool *Prime* Participants over a period of up to thirty (30) days from the date of which the gain or loss is realized.
- **Ethics and Conflicts of Interest.** The Comptroller requires Federated and its staff that are involved with making investment decisions for or executing trades on behalf of TexPool *Prime* to disclose any personal or business relationship with a broker/dealer seeking to sell investments to TexPool *Prime*. These employees are also required to refrain from personal business activity that could conflict with the proper execution and management of the investment program or that could impair their ability to make impartial decisions. Federated's Compliance Officer is required to file a quarterly statement with the Trust Company evidencing compliance with foregoing matters by Federated and its employees.
- **Fees and Expenses.** The TexPool *Prime* service fee is 5.5 basis points annually, calculated daily on the TexPool *Prime* balance. The TexPool *Prime* fee is deducted from the gross interest earned. There is no direct reduction to the Participant's account; thus only the net income is credited to the Participant's account. All TexPool *Prime* rates are quoted net of fees. There are no hidden costs or additional reductions to Participants' accounts. Under the current contract with Federated, the fee may not be raised for the duration of the contract. The contract's initial term ends December 31, 2024, and it is

renewable for an additional two years to December 31, 2026 which may be extended to June 30, 2027 in the sole discretion of the Trust Company.

- **Liability.** Any liability of the Comptroller, the Comptroller's Office, the Trust Company, representatives or agents or the Trust Company, any Comptroller or Trust Company employee, or any member of the Board for any loss, damage or claim, including losses from investments and transfers, to the Participant shall be limited to the full extent allowed by applicable laws. The Trust Company's responsibilities under the Participation Agreement are limited to the management and investment of TexPool *Prime* and the providing of reports and information required.

V. Participating in TexPool *Prime*

Participation in TexPool *Prime* is limited to those eligible governmental entities that have executed a Participation Agreement with the Comptroller. Participants' assets in TexPool *Prime* are represented by units. Assets in TexPool *Prime* will be invested in accordance with such investment objectives, limitations, and other policies established by the Comptroller. The TexPool *Prime* Investment Policy is summarized in the Information Statement. A complete copy of the Investment Policy may be obtained from TexPool Participant Services.

- **Eligibility to Invest.** Each governing body of a local government or a state agency subject to the Public Funds Investment Act may approve by resolution execution of a Participation Agreement, consistent with the provisions of the entity's approved investment policy.
- **Establishment of Accounts.** To open an initial TexPool *Prime* account, the Participant must execute the Participation Agreement and provide a Resolution authorizing participation in TexPool *Prime* and follow the procedures for designating "Authorized Participant Representatives" on TexPool Portfolios. Designated Authorized Participant Representatives are authorized to transfer funds for investment in the TexPool Portfolios and are further authorized to withdraw funds from time to time, to issue letters of instructions, and take all other actions deemed necessary or appropriate for the investment of local funds. A Participant must also provide a separate Bank Information Sheet for each account signed by two Authorized Participant Representatives. The Operating Procedures describe in detail the procedures required for the establishment of accounts, deposits to and withdrawals from TexPool *Prime*, and related information. A copy of the Operating Procedures may be obtained from TexPool Participant Services or through the TexPool website @ www.texpool.com
- **Amendments.** The Trust Company shall advise the Participant in writing of any amendments to the Participation Agreement no less than 45 days prior to the effective date of such amendment. The Participant may ratify the proposed amendment of the Agreement by letter to the Trust Company. In the event the Participant elects not to ratify the amendment, the Participant may terminate the Agreement in accordance with the applicable Agreement provision. In the event the Participant fails to respond in writing to a notice of amendment prior to the effective date of such amendment, the Agreement shall be deemed amended.

The Operating Procedures may be periodically revised from time to time as necessary for the efficient operation of TexPool *Prime*. Transactions subsequent to the effective date of a revision in Operating Procedures should be conducted according to the revised procedure.

VI. Summary of Operating Procedures

Deposits and withdrawals to TexPool *Prime* may be made by wire transfer or Automated Clearing House (ACH) transfer according to established operating procedures. Excerpts from the current operating procedures are provided below.

- Wire Transfers. Wire transfer transactions will be executed on the same day as initiated. TexPool *Prime* Participant Services must be notified by 2:00 p.m. (Central Time) for all wire transfer activity. Outgoing wire transfers from TexPool *Prime* will be sent through the FED by the close of business (5:00 p.m. CST). Wire transfer deposits will not be accepted into TexPool *Prime* after the trade cutoff.
- Automated Clearing House (“ACH”) Transfers. ACH transactions will be executed on the business day following the date the transaction was initiated. TexPool *Prime* must be notified by 2:00 p.m. (Central Time) for all ACH transfer activity one day prior to the actual settlement of the funds. ACH transfer withdrawals are sent in accordance with the prearranged information as provided on the Bank Information Sheet corresponding to that specific TexPool *Prime* account. In the event of an ACH rejection, TexPool *Prime* will contact the Participant to confirm the rejection. TexPool *Prime* will credit/debit the Participant’s account accordingly including any interest earned from the date of the ACH rejection.
- Methods of Notification to TexPool *Prime* of wire transfer or ACH activity:
 - a. TexConnect Online;
 - b. Verbal notification (on a recorded phone line) to a TexPool Participant Services representative. Participant’s TexConnect Location and PIN number must be provided at the point of call. A confirmation for each transaction is generated daily and mailed to the Participant the following business day, provided it is not a bank holiday, unless the Participant has requested the confirmation be suppressed

Reports. Participants will be mailed a monthly statement within the first five (5) business days of the succeeding month. The monthly statement will include a detailed listing of the balance in the Participant’s accounts as of the date of the statement; all account activity, including deposits and withdrawals; and any special fees and expenses charged. Additionally, copies of the Participant’s reports in physical or electronic form will be maintained for a minimum of three prior fiscal years. A complete copy of the TexPool Operating Procedures may be obtained by contacting TexPool Participant Services or through the TexPool website @ www.texpool.com