

**COMPTROLLER'S
INVESTMENT ADVISORY BOARD MEETING
Thursday, September 18, 2008
Minutes**

The Comptroller's Investment Advisory Board (the "Board") met at 10 a.m. on Thursday, September 18, 2008 at the LBJ State Office Building, 111 E. 17th Street, Room 114, Austin, Texas.

Board Members Present

Comptroller Susan Combs, Tucker Bridwell, Laurie Dotter, Jim Hille, Steve Strake, and Adolpho Telles.

Board Member Present via Teleconference

Scott Wise.

Comptroller of Public Accounts Staff Present

Martin Hubert, Deputy Comptroller; and Kevin Deiters, Director of Educational Opportunities and Investment.

Texas Treasury Safekeeping Trust Company ("TTSTC") Staff Present

Paul Ballard, Chief Executive Officer and Chief Investment Officer ("CEO"); Danny Sachnowitz, Deputy Director and Deputy Chief Investment Officer; Frank Zahn, Chief Financial Officer; Mike Samples, Director of Internal Investments; Marianne S. Dwight, General Counsel; Dan McNeil, Compliance Officer; Byron Beasley, Private Markets Manager; J. Germentis, Public Markets Manager; Lalo Torres, Investment Analyst; Perry Wang, Risk Analyst; Kathy Bueltel, Program Specialist; Nora Arredondo, Special Projects Coordinator; Gena Minjares, Audit Liaison; Oscar Ramirez, Trust Operations Manager; Victor Scott, Financial Reporting Manager; and Laura Montoya, Communications Manager.

Others

Tom Margulis, Asset Consulting Group ("ACG"); Steven Pines and Amanda Golightly, Northern Trust.

Call to Order

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

Approval of Minutes of June 16, 2008 Meeting (Tab 1)

Mr. Jim Hille made a motion to accept and approve the minutes from the June 16, 2008. Motion was seconded by Mr. Steve Strake and unanimously approved by the Board.

Review of Treasury Pool (Tab 2)

Mr. Mike Samples reported on current market conditions and stated that the Treasury Pool had no exposure to Lehman Brothers Holdings Inc. Mr. Samples reviewed the portfolio asset summary as of August 31, 2008 and stated that the value of the Treasury Pool was approximately \$34 billion and had an approximate 3.00% yield. He reviewed Treasury Pool yields relative to Federal Funds rates. Mr. Samples discussed the portfolio composition and maturity structure of the pool as illustrated in the report.

Next, Mr. Samples reviewed comparative benchmark yields and stated that Treasury Pool outperformed the other benchmarks and remains competitive.

Annual Review and Recommendation of Comptroller's Investment Policy (Tab 3)

The Trust Company recommended three changes to the Comptroller's Investment Policy. Mr. Ballard stated that the Comptroller's Investment Policy applies primarily to the management of the Treasury Pool. Mr. Samples and Mr. Ballard reviewed the three recommended changes. The first change applies to section III (F) and corporate debt securities. The recommendation is to change the maturities from two years to 25 months. The second change applies to section V (K) and recommends a customized benchmark that coincides with the compensation plan. The third change pertains to section V (M), investment policy review. It states that the Trust Company Investment Committee will review the Comptroller's Investment Policy annually and any recommended changes will be presented to the Comptroller.

Mr. Tucker Bridwell made a motion to recommend that the Comptroller accept the revisions to the Comptroller's Investment Policy as presented. Motion was seconded by Mr. Jim Hille and unanimously approved by the Board.

Economic Update (Tab 4)

Mr. Tom Margulis of ACG presented an economic update and reviewed a difficult third quarter. He stressed the importance of risk management and diversification. He discussed current market conditions and stated that ACG believes in the next nine to twelve months the U.S. markets will continue to outperform international markets. ACG continues to believe the most significant opportunities are in the private equity markets where managers specializing in distressed investments will benefit. ACG continues to favor absolute return strategies. Mr. Margulis explained that credit markets need to thaw and equity capital has to be made available to get through the economic crisis. Overall Mr. Margulis believes the economy is in a recession.

Endowment Portfolio Update (Tab 5)

Mr. Paul Ballard presented the Board an overview of the endowment portfolio and reported that the portfolio was in compliance with the investment policy. He reviewed the asset allocations as of June 30, 2008 and reported that the portfolio was in alignment with investment targets and had zero exposure to commodities and reduced equity exposure. Mr. Ballard stated that the portfolio had added emerging market exposure.

Mr. Danny Sachnowitz discussed the absolute return portfolio performance. He estimated that performance for July and August would be down yet still better than the stock market. Mr. Sachnowitz discussed the private equity and hedge fund portfolios. He stated that performance was as expected. Mr. Sachnowitz concluded with a review of the private equity and real estate portions of the portfolio as illustrated in the report.

Endowment Funds Investment Performance for the Quarter Ending June 30, 2008 and Related Matters (Tab 6)

Mr. Steve Pines of Northern Trust reviewed the investment performance of the endowment funds for the period ending June 30, 2008. Mr. Pines reviewed TTSTC returns versus other public funds and endowments with values greater than \$1 billion that are tracked in the Northern Trust database. He also reviewed Trust Company returns versus Wilshire's Trust Universe Comparison Service ("TUCS"). The TTSTC Total Plan performed better than the policy benchmark for the quarter. Mr. Pines reported the

TTSTC plan was up approximately .13% for the quarter and down approximately -7.56% as of 8/31/08 compared to the S&P which was down approximately -16%.

Update on Broker/Dealer List

Mr. Ballard stated there were no additions or deletions to the broker/dealer list at this time.

Discussion of Next Meeting and Agenda Items

The board will be contacted with suggested meeting dates.

Public Comment

None

Adjourn

The meeting adjourned at 1:25 p.m.