

**COMPTROLLER'S  
INVESTMENT ADVISORY BOARD MEETING  
Tuesday, June 5, 2012  
*Minutes***

The Comptroller's Investment Advisory Board (the "Board") met at 10 a.m. on Tuesday, June 5, 2012 at the LBJ State Office Building, 111 E. 17<sup>th</sup> Street, Room 114, Austin, Texas.

**Board Members Present**

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

**Board Members Absent**

Scott Wise.

**Comptroller of Public Accounts Staff Present**

Martin Hubert, Deputy Comptroller.

**Texas Treasury Safekeeping Trust Company ("Trust Company") 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; John Wright, Assistant General Counsel; Michael Anderson, Compliance Officer; Byron Beasley, Private Markets Manager; J. Germenis, Public Markets Manager; Michael Leifeste, Real Estate Portfolio Manager; Erin Corley, Private Markets Analyst; Lalo Torres, Investment Analyst; Perry Wang, Risk Analyst; Wai Yee Cheng, Portfolio Manager; Adam Levine, Portfolio Manager; Nora Arredondo, Special Projects Coordinator; Gena Minjares, Director of General Ledger Accounting; Laura Montoya, Director of Administration; Jorge de Lafuente, Investment Analyst; and Brandy Bianco, Graphic Designer.

**Additional Participants**

Lori Mills, Asset Consulting Group ("ACG"); and Rick Pokorny, Northern Trust.

**Call to Order**

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

Comptroller Combs read a statement regarding the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") that requires municipal advisors to register with the SEC. The temporary ruling resulted in a disagreement over what constitutes a municipal advisor. The Comptroller's office does not believe the usual activities of this board constitute municipal advisory activities and they are working with the Attorney General's office to clarify its application. Comptroller Combs asked the Trust Company's General Counsel, Marianne Dwight, to monitor the board's discussions and to advise them to stop if they began to engage in anything that would be considered municipal advisory activities.

### **Approval of Minutes of March 7, 2012 Meeting (Tab 1)**

*Mr. Tucker Bridwell made a motion to accept and approve the minutes of the March 7, 2012 Comptroller's Investment Advisory Board meeting. The motion was seconded by Mr. Adolpho Telles and unanimously approved by the Board.*

### **Capital Markets Outlook and Discussion (Tab 2)**

Ms. Lori Mills presented an update on the capital market environment. She explained that the U.S. economy grew more slowly in the first quarter than previously estimated, at a rate of 1.9%, reflecting smaller gains. Consumer confidence rose in May to its highest level since 2007. The U.S. labor markets stalled in May, losing momentum from the first quarter, as the unemployment rate rose to 8.2%. Domestically, the U.S. economy is continuing its slow but steady rebound from the 2008 downturn. Globally, the European debt crisis continued to hinder the global economy and the continued struggles drove the S&P 500 Index to its biggest monthly loss since September 2011. Ms. Mills explained that ACG does not expect the Fed to increase interest rates for the next 2-3 years. ACG also expects continued slow domestic economic growth.

Ms. Mills reviewed the Trust Company's intermediate investment themes which they consider most relevant in the next three to five years. She explained that the strategies being implemented by the Trust Company are consistent with those themes and include focusing on portfolio diversification, maintaining and/or enhancing exposure to fast growing regions such as emerging markets, maintaining diversified global fixed income exposure with focus on real yields and considering increasing exposure to equity markets. Ms. Mills reported that there were no changes in the tactical outlook for the quarter.

### **Economic Outlook, Investment and Review of Treasury Pool (Tab 3)**

Mr. Mike Samples reviewed the Treasury Pool portfolio asset summary as of April 30, 2012 and stated that the value of the Pool was approximately \$37 billion. The net yield as of April 30, 2012 was approximately 0.48%. Mr. Samples reviewed the charts behind Tab 3 and noted that U.S. Treasury securities accounted for the largest portion of the portfolio. He stated that his team was seeking options to add a few more basis points to the yield as they replace maturing assets. They have begun building a covered bond portfolio by purchasing Canadian covered bonds which have an approximate .25% yield and are secured by home mortgages and guarantees of Canadian banks. He reviewed comparative benchmark yields and stated that the yield on the Treasury Pool exceeded most of its benchmarks but was slightly lagging its custom benchmark for the quarter and the twelve month period.

Mr. Samples presented his perspective on economic growth. He reported that the U.S. economy had grown at a slower than expected rate since the previous quarter. The housing market showed signs of stabilization but the unemployment rate made no significant gains. As previously reported, the U.S. economy is slowly healing and continues to improve at a slow pace. The ongoing economic uncertainty in the European markets continues to be a concern. Mr. Samples explained that he and his team remain focused on seeking higher yields; however, he does not expect the Fed to raise interest rates for 2-3 years.

### **Annual Review of Endowment Investment Policy (Tab 4)**

Mr. Paul Ballard explained that the Endowment Investment Policy is required to be reviewed annually and noted that significant changes had been made within the past year but that no additional changes were being recommended at this time.

## **Lunch Presentation: Bridgewater (Tab 5, handout)**

### **Endowment Portfolio Update and Related Matters (Tab 6)**

Mr. Ballard presented the Board an overview of the endowment portfolio and reported that it was in compliance with the asset allocation and investment policies. As of March 31, 2011 the portfolio value was approximately \$3.22 billion. Mr. Ballard and Mr. Sachnowitz discussed the portfolio's liquidity profile and pointed out that the portfolio remained very liquid. Mr. Danny Sachnowitz compared the actual vs. target asset allocations as of the first quarter of 2012, which conformed to the new asset allocation policy that became effective October 1, 2011. Mr. Sachnowitz continued the review of the various asset strategies and the portfolio's diversification. He and Mr. Ballard reviewed each asset class and informed the Board of new and terminated managers. He noted that the portfolio was winding down its investments from fund of funds managers.

Mr. Sachnowitz explained how the portfolio performed relative to its benchmark. He also reported that the portfolio had outperformed its benchmark and that performance was in line with expectations, given the current economic conditions. Mr. Ballard explained the stress test scenarios as they relate to performance in a crisis relative to policy portfolio and absolute numbers. Mr. Sachnowitz reported that the portfolio's VaR ("Value at Risk") was well below that of more traditional balanced institutional portfolios and that this low risk profile had proven to be beneficial.

### **Endowment Funds Investment Performance Review for the Quarter Ending March 31, 2012 and Related Matters (Tab 7)**

Mr. Rick Pokorny of Northern Trust reviewed the investment performance of the endowment funds for the period ending March 31, 2012. The portfolio return was approximately 4.3% for the quarter and outperformed its policy benchmark. The trailing one year performance was approximately -.25% which was 3% in excess of the benchmark. Mr. Pokorny reported that the portfolio grew by approximately \$116 million in the quarter and the portfolio value was approximately \$3.2 billion. All four sectors of the portfolio had positive returns. Overall the portfolio outperformed the policy benchmark for the quarter by approximately 0.12%. Mr. Pokorny noted that risk was especially rewarded in the equity and fixed income portions of the portfolio. Each sector's performance was reviewed in further detail.

Mr. Pokorny reviewed the endowment portfolio's returns versus a universe of other public funds and endowments and foundations with asset values greater than \$1 billion tracked in the Northern Trust database. The portfolio experienced an overall positive result while assuming less risk than its peers. The portfolio produced a Sharpe ratio greater than its benchmark for the one and three-year periods.

### **Discussion of Next Meeting and Agenda Items**

The next meeting will be scheduled for August or September of 2012.

### **Public Comment**

None.

### **Adjourn**

The meeting adjourned at 1:45 p.m.