

**COMPTROLLER'S
INVESTMENT ADVISORY BOARD MEETING
Tuesday, March 29, 2016
Minutes**

The Comptroller's Investment Advisory Board (the "Board") met at 10 a.m. on Tuesday, March 29, 2016 at the LBJ State Office Building, 111 E. 17th Street, Room 114, Austin, Texas.

Board Members ("The Board") Present

Comptroller Glenn Hegar, Tucker Bridwell, Laurie Dotter, Jim Hille, Steve Strake, Adolpho Telles and Scott Wise.

Board Members Absent

None.

Comptroller of Public Accounts Staff Present

Mike Reissig, 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; Gena Minjares, Deputy Chief Financial Officer; Mike Samples, Director of Internal Investments; Marianne S. Dwight, General Counsel; Laura Montoya, Chief Operating Officer; John Wright, Deputy General Counsel; Whitney Blanton, Deputy Assistant General Counsel; Byron Beasley, Portfolio Manager; Michael Leifeste, Portfolio Manager; Lalo Torres, Portfolio Manager; Jyoti Gupta, Portfolio Manager; Jorge de Lafuente, Director of Operational Due Diligence; Adam Levine, Risk Strategist; Anca Ion, Deputy Director of Internal Investments; Nora Arredondo, Special Projects Coordinator; Brandy Bianco, Project Manager; Susan Colletti, Director of Internal Investments; Chad Turner, Risk Manager; Yunke Yu, Quantitative Data Analyst; Yunjing An, Quantitative Data Analyst; and Corrine Hall, Program Administrator.

Additional Participants

Lori Mills, Asset Consulting Group ("ACG").

Call to Order

Comptroller Glenn Hegar declared that a quorum was present and called the meeting to order at 10:02 a.m.

Approval of Minutes of December 16, 2015 Meeting (Tab 1)

Mr. Jim Hille made a motion to accept and approve the minutes of the December 16, 2015 Comptroller's Investment Advisory Board meeting. The motion was seconded by Ms. Laurie Dotter and unanimously approved by the Board.

Economic Outlook, Investment and Review of Treasury Pool (Tab 2)

Mr. Mike Samples reported on current economic conditions. He reported that the Federal Reserve (the “Fed”) raised its benchmark rate in December for the first time since the financial crisis, but he is not very optimistic that it will raise rates again when they meet in April. He believes it is more probable that they will slightly raise rates again in June. He explained that the Fed remains cautious and future rate increases would probably be gradual. Mr. Samples reported that the unemployment rate was 4.9%, manufacturing was stabilizing and there was an uptick in wages; however, economic growth was not gathering momentum. He expects economic growth to continue at a pace of 1%-2% annually.

Mr. Samples presented a summary of the Treasury Pool as of February 29, 2016. He reported that the pool was producing a net yield of approximately 0.75%, had a market value of approximately \$26.4 billion, and continued to maintain a AAA rating by Standard & Poor’s. Since the expectation is that future interest rate increases will be nominal and gradual, the portfolio will try to maintain an average maturity neutral to our benchmark of approximately 310 days. Mr. Samples reviewed comparative benchmark yields and noted that the Pool outperformed its benchmark for the quarter and previous twelve months.

Capital Markets Outlook and Investment Performance for the Quarter Ending December 31, 2015 (Tab 3)

Ms. Lori Mills of Asset Consulting Group first provided a review of the market environment for the period ending February 29, 2016. Concerns of slowing global economic growth and persistent low oil prices contributed to negative results in global equities. Global fixed income produced slightly positive returns led by U.S. Treasuries. Driven by a rise in gold prices, commodities outperformed equities for this period. For the quarter ending December 31, 2015, Ms. Mills reviewed the total portfolio return over the trailing one, three and five year periods. She reported that the endowment portfolio produced a return of approximately 0.34% for the quarter, trailing the policy benchmark by fourteen basis points. With the exception of real assets, each asset class underperformed its benchmark for the quarter. However, she reported that the portfolio had outperformed the trailing two, three and five year policy benchmarks. Ms. Mills discussed the performance of each asset class in detail.

Ms. Mills reported on the performance of the State Water Implementation Fund for Texas (“SWIFT”). Although the SWIFT portfolio had a -0.53% return for the quarter ending December 31, 2016, trailing one and two year returns had exceeded the policy and dynamic benchmarks. She explained that the dynamic benchmark uses actual weights and the policy benchmark uses targets. Since the portfolio is being implemented over time, the dynamic benchmark is better to use. Once the portfolio is completely funded, then policy benchmark will be better suited.

Ms. Mills reviewed Asset Consulting Group’s asset class relative rankings for the first quarter of 2016. She reported that there was only one change to the tactical outlook for the quarter. The U.S. high yield fixed income asset class was changed from neutral to overweight. Yields have increased due to weak commodity prices and investor uncertainty regarding the Fed’s path to normalization. ACG and the Trust Company continue to focus on portfolio diversification, maintaining and/or enhancing exposure to fast growing regions such as emerging markets and maintaining diversified global fixed income exposure with a focus on real yields.

Endowment and SWIFT Portfolio Updates and Related Matters (Tab 5)

Mr. Ballard presented the Board an overview of the endowment portfolio and reported that it was in compliance with its investment policy. He reported that as of December 31, 2015, the portfolio value was approximately \$3.46 billion. He reviewed each asset class and the various investment strategies utilized

to diversify and enhance the risk-adjusted returns of the portfolio. Mr. Ballard explained which asset classes were overweight and which were underweight and how that related to the target allocations. Mr. Ballard and Mr. Sachnowitz discussed new fund commitments added to various asset classes as well as funds that are being redeemed. Mr. Ballard reviewed the Value at Risk (VaR) Analysis and reported that there was a change in the data providers. He explained that the portfolio was positioned at the low end of the risk scale. He also explained the stress test scenarios performed on the portfolio. He compared the expected performance of the total portfolio in various crises relative to a portfolio allocated 65% to global equities and 35% to global fixed income. The analysis continues to demonstrate that the policy portfolio is expected to protect value better than a traditional 65/35 stock/bond portfolio in times of market drawdowns.

Mr. Ballard presented an overview of the SWIFT investment fund which is divided into the following investment strategies: Treasury Pool/cash/fixed income, equity and real assets. He reported that the portfolio value as of December 31, 2015 was approximately \$1.85 billion. Fixed income comprised approximately 70% of the portfolio. The first distribution was made to the Texas Water Development Board of approximately \$108 million. He explained that during a very turbulent fourth quarter which impacted credit and risk assets, the portfolio was down approximately -0.5%, slightly underperforming the benchmark. The portfolio continues to be funded in a systematic manner until it reaches its target asset allocation. He reported that the SWIFT was meeting its performance objectives.

Mr. Ballard reviewed the Texas Economic Stabilization Investment Fund which primary performance objectives are to maintain purchasing power and deliver returns in excess of short-term cash equivalents. Reports as of December 31, 2015 and February 29, 2016 (handout) illustrate the asset allocation and liquidity status of the fund. The fixed income asset class was slightly increased from 35% to 48%. The portfolio remains highly liquid.

Lunch Speaker – Peter Boockvar bio (Tab 4)

Mr. Boockvar is a Managing Director and Chief Market Analyst with The Lindsey Group, a macro-economic research firm. He shared his less than enthusiastic views on how the Fed and central banks have impacted the economy. Mr. Boockvar also gave his perspective on global markets and his bullish perspective on emerging markets.

Handouts

Two procedural handouts were distributed for the calculation methodology for the private equity and private debt benchmarks. Mr. Danny Sachnowitz explained that these better isolate manager selection.

Discussion of Next Meeting and Agenda Items

Comptroller Hegar announced that the next meeting would be scheduled for June 29th or 30th. No future agenda items were suggested.

Public Comment

None.

Adjourn

The meeting adjourned at 12:47 p.m.