

**COMPTROLLER'S
INVESTMENT ADVISORY BOARD MEETING
Tuesday, March 5, 2013
*Minutes***

The Comptroller's Investment Advisory Board (the "Board") met at 10 a.m. on Tuesday, March 5, 2013 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, Adolpho Telles and Scott Wise.

Board Members Absent

None.

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; Michael Anderson, Compliance Officer; Byron Beasley, Private Markets Manager; Wai Yee Cheng, Portfolio Manager; J. Germenis, Public Markets Manager; Michael Leifeste, Real Estate Portfolio Manager; Erin Corley, Private Markets Analyst; Perry Wang, Risk Analyst Lalo Torres, Investment Analyst; Anca Ion, Portfolio Manager; Adam Levine, Risk Manager; Nora Arredondo, Special Projects Coordinator; Victor Scott, Director of Financial Reporting; 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 10:06 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 December 17, 2012 Meeting (Tab 1)

Mr. Steve Strake made a motion to accept and approve the minutes of the December 17, 2012 Comptroller's Investment Advisory Board meeting. The motion was seconded by Mr. Tucker Bridwell and unanimously approved by the Board.

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

Mr. Mike Samples presented his perspective on economic growth. He reported that the U.S. economy continues to grow at a slow rate. The GDP last year grew at an average rate of 1.5%. He stated that the economy was in a 1.5-2% growth environment. The housing market was still improving and looking favorable and auto industry sales were up dramatically. Mr. Samples reported that the Dow Jones Industrial Average (the "DOW") reached an all-time high which helps boost consumer confidence. Mr. Samples explained that he and his team remain focused on seeking higher yields and selective in where risk is taken. He does not expect the Federal Reserve to raise interest rates in the near future.

Mr. Samples reviewed the Treasury Pool portfolio summary as of January 31, 2013 and stated that the value of the Pool was approximately \$28.3 billion. The net yield was approximately 0.40%, down slightly from the previous quarter. Mr. Samples reviewed the asset allocation and maturity structure of the portfolio. He explained that his team is trying to reduce treasury exposure and are purchasing more agency securities. They have also added AAA rated covered bonds. Mr. Samples explained the comparative benchmark yields chart and stated that the portfolio's return was competitive to the custom benchmark and exceeded most of its benchmarks. The custom benchmark does not face the same challenges as the Treasury Pool, such as managing around outsized cash flows for annual tax revenue anticipation notes or conforming to the requirements of maintaining a AAA-rating by Standard and Poor's.

Capital Markets Outlook and Discussion (Tab 3)

Ms. Lori Mills summarized economic events for the quarter. She reported that in the Fed's December statement, the Fed said it would keep interest rates near zero as long as the jobless rate was above 6.5%. Unemployment has been above 7.8% since 2009 and economists do not expect a significant decrease before the end of 2013. Ms. Mills presented an update on the capital markets. She reviewed how the portfolio was positioned in relation to the current market environment. She reported that equities looked attractive relative to bonds and relative to history. Emerging market bonds remained attractive relative to U.S. Treasuries as well. Ms. Mills explained that ACG does not expect the Federal Reserve to increase interest rates for the next 2-3 years. ACG also expects continued slow domestic economic growth.

Ms. Mills reviewed the asset class relative rankings as of the first quarter 2013. She stressed that the absolute return / opportunistic credit asset class was overweight because the portfolio wants to participate in the market but have appropriate risk management. She reported one change to the tactical outlook for the quarter. The U.S. core fixed income asset class was changed from neutral to underweight.

Endowment Portfolio Update and Related Matters (Tab 4)

Mr. Paul 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 December 31, 2012 the portfolio value was approximately \$3.2 billion. Mr. Ballard and Mr. Sachnowitz discussed the portfolio's improved liquidity profile. Mr. Ballard compared the actual vs. target asset allocations as of the fourth quarter of 2012. He reported that the portfolio was relatively unchanged from the previous quarter at approximately 33% allocated to fixed income, 45% equity, 17% real assets, and 5% strategic all asset and overlays. Mr. Ballard reviewed each asset class and the various asset strategies which demonstrated the portfolio's diversification. He reported on new fund managers and discussed those from whom investments were being redeemed.

Following the asset class review, Mr. Ballard explained the stress test scenarios as they relate to performance in a crisis relative to policy portfolio and absolute numbers.

Endowment Funds Investment Performance Review for the Quarter Ending December 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 December 31, 2012. The portfolio return was approximately 1.96% for the quarter and outperformed its policy benchmark by .35% while assuming less risk. The trailing one year performance was approximately 9.34% which fared better than its policy benchmark of 8.18%. Mr. Pokorny reported that the portfolio value remained approximately \$3.2 billion. Like the previous quarter, risk was rewarded. Equities were the best performers during the quarter. Each sector's performance was reviewed in further detail. 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 on June 18, 2013.

Public Comment

None.

Adjourn

The meeting adjourned at 1:35 p.m.