

**COMPTROLLER'S
INVESTMENT ADVISORY BOARD MEETING
Wednesday, December 16, 2009
*Minutes***

The Comptroller's Investment Advisory Board (the "Board") met at 10 a.m. on Wednesday, December 16, 2009 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; Dan McNeil, Compliance Officer; Byron Beasley, Private Markets Manager; Michael Leifeste, Real Estate Portfolio Manager; J. Germenis, Public Markets Manager; Lalo Torres, Investment Analyst; Kathy Bueltel, Program Specialist; Nora Arredondo, Special Projects Coordinator; Victor Scott, Financial Reporting Manager; Gena Minjares, Audit Liaison; and Laura Montoya, Communications Manager.

Others

Tom Margulis, Asset Consulting Group ("ACG"); Rick Pokorny, Northern Trust; Afsaneh Beschloss, Sudhir Krishnamurthi, Ronnie Van der Wouden, and Alberto Fassinotti, Rock Creek Group; and Lester Sprouse and Mike O'Brien, Padgett Stratemann & Co, LLP ("Padgett Stratemann").

Call to Order

Comptroller Combs declared that a quorum was present and called the meeting to order at 10:03 a.m.

Approval of Minutes of July 8, 2009 Meeting (Tab 1)

Mr. Scott Wise made a motion to accept and approve the minutes of the September 10, 2009 Comptroller's Investment Advisory Board meeting. Motion was seconded by Mr. Steve Strake and unanimously approved by the Board.

Capital Markets Outlook and Discussion (Tab 2)

Mr. Tom Margulis of ACG presented an economic update and reviewed the fourth quarter to date. He reported that the financial markets had improved substantially over the past 12 months. However, unemployment numbers remain high and are not expected to decline in the near term. ACG expects a low growth economic environment in the United States and Western Europe in 2010 and 2011.

Mr. Margulis reviewed the asset class relative rankings as of the fourth quarter of 2009 behind Tab 2. ACG believes that emerging markets will continue to grow robustly. ACG continues to view absolute return strategies favorably. They also believe that continued weakening of the U.S. dollar and the projected continued recovery of the global economy makes exposure to commodities desirable. Mr. Margulis explained that the portfolio positions reflected these expectations. He stated that ACG believes that this challenging environment requires investors to be opportunistic and to seek managers with the ability to take advantage of changing market conditions. Overall, ACG believes that 2010 will present significant challenges for investors. They are, however, modestly bullish for the upcoming new year.

Endowment Portfolio Update and Related Matters (Tab 3)

Mr. Paul Ballard presented the Board an overview of the endowment portfolio and reported that the portfolio was in compliance with the asset allocation and investment policies. The portfolio value as of September 30, 2009 was approximately \$2.91 billion, up approximately \$68 million from the previous quarter. He reviewed the asset allocations as of September 30, 2009, as illustrated in the report behind Tab 3 and reported that the portfolio was in alignment with asset allocation targets.

Mr. Danny Sachnowitz continued the review of the endowment portfolio. He reviewed the asset and risk allocation pie charts behind Tab 3 and noted no major changes since the June report. Mr. Sachnowitz discussed the portfolio's actual asset allocation relative to allocation targets. He continued with a review of the various investment strategies within the portfolio. He stated that the Trust Company had begun the process of repositioning the portfolio from funds of funds to primarily direct investments in hedge funds. Mr. Sachnowitz reviewed the private equity and real estate portfolios. He stated that performance was in line with expectations, given the current economic conditions.

Mr. Ballard introduced Ms. Afsaneh Beschloss, President and CEO of the Rock Creek Group. The Rock Creek Group is the Trust Company's core hedge fund manager. Rock Creek has been working with the Trust Company using its proprietary portfolio construction model to design a targeted tactical trading fund of funds that would complement the Trust Company's planned direct invested hedge fund portfolio. Rock Creek made a presentation using the system to demonstrate how the addition of the tactical trading component improved the risk and return characteristics of the overall portfolio.

Endowment Funds Investment Performance for the Quarter Ending September 30, 2009 and Related Matters (Tab 4)

Mr. Rick Pokorny of Northern Trust reviewed the investment performance of the endowment funds for the period ending September 30, 2009. He stated that there were no significant changes in the market environment from the previous quarter. The third quarter endowment fund return was approximately 7.94%, which lagged the policy benchmark. 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 that are tracked in the Northern Trust database. The Trust Company endowment performance lagged the policy benchmark but took on less risk for the quarter. He pointed out that the portfolio's risk, measured by the standard deviation of returns, was among the lowest relative to its peers.

Review of Treasury Pool (Tab 5)

Mr. Mike Samples reviewed current economic conditions impacting the fixed income market. He said there was some improvement in the economy for the quarter and that the pace of job losses was slowing. Improved financial market conditions have added approximately \$5 trillion to the net worth of U.S. households over the last two quarters. He also stated his expectation that the Federal Reserve would keep interest rates low for some time to come.

Mr. Samples reviewed the Treasury Pool asset summary as of November 30, 2009 and stated that the value of the Pool was approximately \$22 billion and had an approximate 1.29% yield. He further noted that there were large school district payouts that would be made this quarter. He stated the Treasury Pool currently is carrying \$186 million in unrealized gains. He reviewed Treasury Pool yields relative to short-term Treasury and money market rates. Mr. Samples discussed the portfolio composition and maturity structure as illustrated in the report. Next, Mr. Samples reviewed comparative benchmark yields and stated that the Treasury Pool yield had outperformed its benchmarks.

Presentation of Independent Auditor's Reports for the Trust Company (handout)

Mr. Lester Sprouse summarized the audit reports and reported that Padgett, Stratemann & Co., issued an unqualified financial audit opinion with respect to Trust Company for the year ending August 31, 2009. No audit adjustments were recorded during the audit engagement that would indicate deficiencies in the accounting process. No management letter was required. Mr. Sprouse reported that the Trust Company revenue grew from approximately \$21 million in 2008 to approximately \$26 million for the year.

Discussion of Next Meeting and Agenda Items

The board will be contacted with suggested meeting dates.

Public Comment

None

Adjourn

The meeting adjourned at 1:38 p.m.