

**COMPTROLLER'S
INVESTMENT ADVISORY BOARD MEETING
Wednesday, July 8, 2009
Minutes**

The Comptroller's Investment Advisory Board (the "Board") met at 10 a.m. on Wednesday, July 8, 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, and Adolpho Telles.

Board Member Absent

Scott Wise.

Comptroller of Public Accounts Staff Present

Martin Hubert, Deputy Comptroller.

Texas Treasury Safekeeping Trust Company ("Trust Company" or "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; Mike Leifeste, Real Estate Portfolio Manager; J. Germenis, Public Markets Manager; Lalo Torres, Investment Analyst; Perry Wang, Risk Analyst; Kathy Bueltel, Program Specialist; Nora Arredondo, Special Projects Coordinator; Gena Minjares, Audit Liaison; and Oscar Ramirez, Trust Operations Manager.

Others

Tom Margulis, Asset Consulting Group ("ACG"); Steven Pines, Northern Trust; Simon Fludgate, Aksia, LLC; and Sarah Cole, Aksia, LLC.

Call to Order

Comptroller Combs declared that a quorum was present and called the meeting to order at 10:05a.m.

Approval of Minutes of March 6, 2009 Meeting (Tab 1)

Mr. Tucker Bridwell made a motion to accept and approve the minutes from the March 6, 2009 meeting. The motion was seconded by Mr. Steve Strake and unanimously approved by the Board.

Economic Update (Tab 2)

Mr. Tom Margulis of ACG presented a macroeconomic update on the capital markets. There was a significant rally in the equity and high yield markets during the second quarter. Mr. Margulis explained that the environment continues to be difficult and ACG expects slower economic growth in 2009. When asked by Comptroller Combs what effect if any the stimulus money has had on the economy, Mr. Margulis believed the impact would probably be felt in 2010-2011, possibly late 2009. Mr. Margulis

believed there are still too many unknown factors in the economic environment which are likely to contribute to asset price volatility in 2009.

Mr. Margulis reviewed the asset class relative rankings as of the second quarter 2009 as illustrated in the report behind Tab 2. Although volatility exists in every investment sector, ACG continues to believe there are unprecedented opportunities for long-term investors to find value in the fixed income, equity, and emerging markets.

Endowment Portfolio Update and Related Matters (Tab 3)

Mr. Paul Ballard presented an overview of the endowment fund and reported that the portfolio was in compliance with the investment and asset allocation policies. He reviewed the asset allocations as of March 31, 2009 and stated that the portfolio was within its asset allocation target ranges.

Mr. Danny Sachnowitz reported that the portfolio value as of March 31, 2009 was approximately \$2.6 billion and that the current portfolio value is approximately \$2.7 billion. Mr. Sachnowitz discussed asset allocations further and reported that current allocations reflected the positioning of the portfolio to take advantage of current market conditions. Mr. Sachnowitz noted that a liquidity chart was added to the Stable Return Summary portion of the report behind Tab 3, which illustrates the relatively high liquidity level of the portfolio.

Mr. Sachnowitz reported on the status with Austin Capital. The Trust Company is expecting 50-70% of the Austin Capital managed portfolio to be returned within the next six months.

Review and Recommendation of Hedge Fund Strategic Plan (Tab 4 and handout)

Before reviewing the strategic hedge fund plan, Ms. Sarah Cole and Mr. Simon Fludgate of Aksia gave an overview of Aksia's history and business model. Mr. Fludgate reviewed Aksia's research and advisory processes as illustrated in the handout. He stated Aksia is 100% dedicated to hedge funds and funds of funds with their largest clients being institutional investors. Mr. Fludgate discussed their operational systems and procedures and explained how they conduct due diligence.

Next, Mr. Ballard discussed the strategic hedge fund plan. The comprehensive plan was explained in detail in the material behind Tab 4. The plan will be used as a guide for the beginning process of winding down investments in funds of hedge funds and replacing them with direct hedge fund investing.

Comptroller Combs called for a motion to recommend the adoption of the Trust Company's Strategic Hedge Fund Plan as described behind Tab 4.

Mr. Steve Strake made a motion to recommend the adoption of the Trust Company's Strategic Hedge Fund Plan. The motion was seconded by Mr. Adolpho Telles and unanimously approved by the Board.

Review and Recommendation of Manager Selection Process (Tab 5)

Mr. Ballard explained why the current manager selection process which utilizes a request for proposals ("RFP") procedure is no longer an effective search and selection methodology. Mr. Ballard explained that requiring its continued use will prevent the Trust Company from reacting to changing market conditions in a timely manner thus impairing its ability to meet its fiduciary obligation.

Mr. Ballard reviewed the recommended manager selection process as outlined in the presentation behind Tab 5. The Board suggested amending the process to include documenting the use of placement agents, if any, and documenting that reference checks were conducted.

Comptroller Combs called for a motion to recommend the adoption of the new manager selection process as outlined in the material behind Tab 5 with the amendments discussed.

Mr. Jim Hille made a motion to recommend the proposed manager selection process with the noted amendments. The motion was seconded by Ms. Laurie Dotter and unanimously approved by the Board.

Review of Treasury Pool (Tab 6)

Mr. Mike Samples began his presentation with a brief overview of the current economic environment. He stated that U.S. households acquired too much debt from 2000-2007 which is expected to result in a very shallow and very long economic recovery as that excess debt is worked off. He reviewed the Treasury portfolio assets summary as of May 31, 2009 and stated that the value of the Treasury Pool was approximately \$32 billion with an approximate 1.41% yield. Mr. Samples explained the challenges and uncertainty of these economic times and ample liquidity within the Pool remains a primary focus. Mr. Samples discussed the portfolio composition and maturity structure as illustrated in the graphs behind Tab 6. He concluded his presentation with a review of the comparative benchmark yields and stated that the use of the custom benchmark has proven beneficial to the Treasury portfolio. The Treasury Pool remains competitive and outperformed the benchmark yield for the quarter.

Endowment Funds Investment Performance for the Quarter Ending March 31, 2009 and Related Matters (Tab 7)

Mr. Steve Pines of Northern Trust reviewed the investment performance of the endowment funds for the period ending March 31, 2009. Mr. Pines reviewed Trust Company returns versus other public funds and endowments with values greater than \$1 billion that are tracked in the Northern Trust database. The TTSTC Total Plan performed better than the policy benchmark for the quarter. Mr. Pines reported that the market value for the Trust Company Total Plan was approximately \$2.6 billion, with an approximate -3.7% return for the quarter ending March 31, 2009. Current unaudited numbers through June 30, 2009 reflect an approximate 2.8% return. The Board requested two additions to the Northern Trust report for future reference: portfolio standard deviation relative to peers and a performance comparison relative to endowments and foundations.

Review and Recommendation of Revisions to Endowment Performance Benchmark (Tab 8)

Mr. Ballard explained the proposed revision to the TTSTC Policy Benchmark as described in the report behind Tab 8. The revision would eliminate the nominal additional hurdles associated with each of the three different asset classes and, instead, add 1.00% to the total benchmark return annualized. A detailed analysis of the purpose of this recommendation was prepared by Northern Trust.

Mr. Adolpho Telles made a motion to recommend the adoption of the proposed Endowment Policy Performance Benchmark as stated in the report. The motion was seconded by Mr. Steve Strake and unanimously approved by the Board.

Organizational Updates

None to report at this time.

Discussion of Next Meeting and Agenda Items

The Board will be contacted with proposed dates for the next board meeting.

Public Comment

None

Adjourn

The meeting adjourned at 1:57 p.m.