

**COMPTROLLER'S
INVESTMENT ADVISORY BOARD MEETING
Monday, June 16, 2008
*Minutes***

The Comptroller's Investment Advisory Board (the "Board") met at 10 a.m. on Monday, June 16, 2008 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; Adolpho Telles; and Scott Wise.

Board Member Present via Teleconference

Steve Strake.

Comptroller of Public Accounts Staff Present

Martin Hubert, Deputy Comptroller; and Mike Reissig, Associate Deputy Comptroller.

Texas Treasury Safekeeping Trust Company ("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; J. Germentis, Public Markets Manager; Lalo Torres, Investment Analyst; Perry Wang, Risk Analyst; Kathy Buelteel, Program Specialist; Nora Arredondo, Special Projects Coordinator; and Laura Montoya, Communications Manager.

Others

Tom Margulis, Asset Consulting Group ("ACG"); Steven Pines and Amanda Golightly, Northern Trust.

Call to Order

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

Approval of Minutes of April 10, 2008 Meeting (Tab 1)

Mr. Tucker Bridwell requested that the minutes be amended to reflect his absence at the April 10, 2008.

Mr. Jim Hille made a motion to accept and approve the minutes from the April 10, 2008 Board meeting as amended. Motion was seconded by Mr. Adolpho Telles and unanimously approved by the Board.

Discussion and Recommendation of Incentive Compensation Plan (Tab 2)

Mr. Paul Ballard discussed the proposal of an incentive compensation program for the Trust Company. He discussed with the Board the incentive plan variables as outlined in the grid behind tab 2. The Board supported the concept and recommended to the Comptroller the implementation of an incentive compensation plan as presented with a specific 70/30 quantitative/qualitative mix ratio. The policy will

be reviewed annually. The Board cautioned that comparing performance to peers with more mature portfolios may not be an appropriate benchmark.

The Board recommended to the Comptroller the implementation of the proposed Incentive Compensation Plan representing a 70/30 quantitative/qualitative mix. The Comptroller supported and approved the recommendation.

Discussion and Recommendation of Endowment Investment Policy Revisions (Tab 3)

Mr. Danny Sachnowitz reviewed the recommended changes to the Endowment Investment Policy as described in the draft behind tab 3. He explained that the policy has been restructured to more clearly conform to the asset allocation policy that was adopted in December 2007. The proposed new revisions emphasize risk control and monitoring processes related to the endowment portfolios while also improving diversification in an increasingly competitive market. The recommended revisions remove restrictions and constraints from the prior policy that were appropriate for long only strategies. He stated that the asset class chapters have been grouped according to their appropriate strategy. Mr. Ballard explained the Value at Risk (“VaR”) metric and recommended that the investment policy incorporate a maximum VaR of 5% for the total portfolio.

Mr. Jim Hille made a motion to recommend that the Comptroller accept the revisions to the Endowment Investment Policy as presented. Motion was seconded by Ms. Laurie Dotter and unanimously approved by the Board.

Economic Update (Tab 4)

Mr. Tom Margulis of ACG presented an economic update and reviewed the material behind tab 4. He stated that ACG believes the economic growth will continue at a slow pace and the stock market has now priced in expectations of a recession. ACG believes the most significant opportunities are in the private equity markets where managers specializing in distressed investments have benefited. Overall Mr. Margulis believes the economic outlook is uncertain at this time.

Review of Treasury Pool (Tab 5)

Mr. Mike Samples reviewed the portfolio asset summary as of April 30, 2008 and stated that the value of the Treasury Pool was approximately \$26 billion. He reviewed Treasury Pool yields relative to Federal Funds rates through March 2008 and also explained the maturity structure of the Pool. Mr. Samples stated that while there was weak economic growth of .9% in first quarter, 100% of that growth was due to a decline in trade deficit; in other words, attributable to growth in exports over imports. There was no domestic economic growth. Mr. Samples believes the dollar is stabilizing and that the Federal Reserve will have difficulty raising interest rates. He believes a recession is upon us but will be relatively mild and has positioned the portfolio with that expectation.

Next, Mr. Samples reviewed comparative benchmark yields and stated that Treasury Pool outperformed the other benchmarks and remains competitive.

Endowment Portfolio Update (Tab 6)

Mr. Paul Ballard presented the Board an overview of the endowment portfolio and reported that the portfolio was in compliance with the current investment policy. He reviewed the asset allocations as of March 31, 2008 and reported that the portfolio was in alignment with investment targets.

Mr. Danny Sachnowitz discussed the private equity and hedge fund portfolios. He discussed the portfolio's tactical plan and reviewed the Private Markets handout which illustrated private equity, enhanced real estate and stable return real estate allocation targets and commitments.

Mr. Ballard discussed changes in portfolio manager selection. He asked the Board individually if they used a Request For Proposal ("RFP") process in selecting portfolio managers for their businesses. The consensus of the Board was they did not use the RFP process.

Update on Risk Management System

Previously discussed in investment policy revisions (Tab 3).

Endowment Funds Investment Performance for the Quarter Ending March 31, 2008 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, 2008. Mr. Pines reviewed TTSTC returns versus other public funds and endowments with values greater than \$1 billion that are tracked in the Northern Trust database. He also reviewed Trust Company returns versus Wilshire's Trust Universe Comparison Service ("TUCS"). The TTSTC Total Plan performed better than the policy benchmark for the quarter. Mr. Pines reported the TTSTC plan was down approximately 5.75% for the first quarter of 2008 vs. the policy benchmark of 6.00%.

Update on Broker/Dealer List

Mr. Ballard stated there were no additions or deletions to the broker/dealer list at this time.

Discussion of Next Meeting and Agenda Items

The next meeting is tentatively scheduled for September 18, 2008.

Public Comment

None

Adjourn

Mr. Jim Hille made a motion to adjourn the meeting. Motion was seconded by Mr. Adolpho Telles and the meeting was adjourned at 2:01 pm.