

**COMPTROLLER'S
INVESTMENT ADVISORY BOARD MEETING
Friday, March 6, 2009
Minutes**

The Comptroller's Investment Advisory Board (the "Board") met at 10 a.m. on Friday, March 6, 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, Adolpho Telles, and Scott Wise.

Board Member Absent

Steve Strake (teleconference).

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; 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; Victor Scott, Financial Reporting Manager; Ruth Hook, IT Director; and Laura Montoya, Communications Manager.

Others

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

Call to Order

Comptroller Combs declared that a quorum was present and called the meeting to order at 10:07a.m.

Approval of Minutes of December 15, 2008 Meeting (Tab 1)

Mr. Adolpho Telles made a motion to accept and approve the minutes from the December 15, 2008 meeting. The motion was seconded by Mr. Jim Hille and unanimously approved by the Board.

Economic Update (Tab 2)

Mr. Tom Margulis of ACG presented an update on capital markets and reviewed a timeline of economic events from December 2008 to the present, which marked the worst economic decline since the Great Depression. The environment continues to be difficult and ACG believes fear continues to prevail in the market place; however, there are signs of credit markets thawing. Regarding the portfolio, ACG believes that diversification and retaining a long term strategic asset allocation plan are key in this current market

environment. 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 and equity markets.

The Board discussed the use of leverage by investment managers. Mr. Margulis stated that the Trust Company is generally adverse to managers that use much leverage. Systematically tracking leverage is part of the established risk management process.

Endowment Portfolio Update (Tab 3)

Mr. Paul Ballard presented the Board 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 allocation as of December 31, 2008. As of December 31, 2008, the Value at Risk (“VaR”) was approximately 7.5% and currently the VaR of the portfolio is approximately 6.4%.

Mr. Danny Sachnowitz discussed spreads in the credit markets and stated that they were at historically wide levels and that the staff was positioning the portfolio to take advantage of these spreads. Mr. Sachnowitz also explained hedge fund strategies and stated that performance thus far in 2009 has been an improvement over 2008.

Mr. Ballard and Mr. Sachnowitz explained the relationship with Austin Capital and its exposure to Bernard Madoff through the Rye Select Broad Market Prime/Tremont feeder fund. An exit strategy was negotiated with Austin Capital and the Board will be kept updated.

Next, Mr. Ballard briefly reviewed the 2009 Private Equity, Enhanced Real Estate, and Stable Real Estate Annual Tactical Plan handouts.

Trust Company Organizational Update (Tab 4)

Mr. Ballard presented an enterprise risk management overview of the Trust Company. He reviewed the information systems utilized by the Trust Company, compliance monitoring processes, succession plan, audits, business continuity, and operating reserves. The Board also discussed the current structure of the endowment investment management team.

Lunch Speaker: George W. Siguler (Tab 5)

Mr. George Siguler, managing director and founding partner of Siguler Guff & Company, shared his views on current economic events, the general market and the distressed investment market. Mr. Siguler was one of the founding partners of the Harvard Management Company in the early 1970’s. Siguler Guff is a private equity firm that manages approximately \$8 billion. The Trust Company is invested in two Siguler Guff private equity funds of funds. Mr. Siguler believes the first quarter of 2009 is an improvement over the previous quarter, but does not believe that an economic recovery will occur in the near future.

Discussion and Recommendation of Hedge Fund Consultant (Tab 6)

Mr. Ballard explained the Trust Company’s wish to engage a hedge fund specialist consultant and increase due diligence on investments in funds of hedge funds. He explained that the consultant would assist in transitioning a portion of the hedge fund portfolio from funds of funds to direct investments in hedge funds. The two candidates considered were Albourne and Aksia. The Trust Company believes Aksia’s business model is a better fit with the Trust Company and is a more proactive firm and would operate as a true extension of the staff. Mr. Ballard stated that the Trust Company felt the higher fee was

justified; therefore, the Trust Company staff is recommending Aksia as the hedge fund consultant. The board was in agreement with the Trust Company's recommendation of Aksia.

Review of Treasury Pool (Tab 7)

Mr. Mike Samples reviewed the Treasury portfolio asset summary as of January 31, 2009 and stated that the value of the Treasury Pool was approximately \$27 billion with an approximate 2.03% yield. Mr. Samples explained the challenges and uncertainty of these economic times and ample liquidity within the Pool remains a primary focus. He expressed his belief that the Texas economy would fare better than most states.

Endowment Funds Investment Performance for the Quarter Ending December 31, 2008 (Tab 8)

Mr. Steve Pines of Northern Trust reviewed the investment performance of the endowment funds for the period ending December 31, 2008. 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 \$2.7 billion, with a -11.68% return for the quarter ending December 31, 2008.

Valuation Committee Report (handout)

Mr. Frank Zahn reported the estimated market value decrease of approximately \$45 million in the private equity and private real estate portfolios based on the early estimates received from the limited partnership managers. An illustration of the breakdown is provided in the handout.

Update on Broker/Dealer List (Tab 9)

Mr. Ballard reviewed the approved broker/dealer list as illustrated behind Tab 8 and noted the addition of Finacorp Securities. There were no deletions.

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 2:00 p.m.