

**COMPTROLLER'S
INVESTMENT ADVISORY BOARD MEETING
Wednesday, December 16, 2015
*Minutes***

The Comptroller's Investment Advisory Board (the "Board") met at 10 a.m. on Wednesday, December 16, 2015 at the LBJ State Office Building, 111 E. 17th Street, Room 114, Austin, Texas.

Board Members ("The Board") Present

Comptroller Glenn Hegar, Laurie Dotter, Jim Hille, Steve Strake and Adolpho Telles.

Board Members Absent

Tucker Bridwell and Scott Wise.

Comptroller of Public Accounts Staff Present

Mike Reissig, 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; Laura Montoya, Chief Operating Officer; Michael Anderson, Compliance Officer; Byron Beasley, Portfolio Manager; Michael Leifeste, Portfolio Manager; Lalo Torres, Portfolio Manager; J. Germenis, Portfolio Manager; Jyoti Gupta, Portfolio Manager; Ruchit Shah, Portfolio Manager; Jorge de Lafuente, Director of Operational Due Diligence; Adam Levine, Risk Strategist; Anca Ion, Deputy Director of Internal Investments; Nora Arredondo, Special Projects Coordinator; Brandy Bianco, Graphic/Web Designer; and Corrine Hall, Program Administrator.

Additional Participants

Mike O'Brien, Padgett Stratemann and Lori Mills, Asset Consulting Group ("ACG").

Call to Order

Comptroller Glenn Hegar declared that a quorum was present and called the meeting to order at 10:06 a.m.

Approval of Minutes of September 30, 2015 Meeting (Tab 1)

Mr. Adolpho Telles made a motion to accept and approve the minutes of the September 30, 2015 Comptroller's Investment Advisory Board meeting. The motion was seconded by Mr. Steve Strake and unanimously approved by the Board.

Presentation of Independent Auditor’s Report for the Trust Company (handout)

Mr. Mike O’Brien summarized the audit reports in the handout and reported that Padgett, Stratemann & Co., issued an unqualified financial audit opinion with respect to the Trust Company and the SWIFT for the fiscal year ending August 31, 2015. Mr. O’Brien reported that no audit adjustments were recorded during the audit engagement that indicate deficiencies in the accounting process, nor was a management letter issued.

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

Mr. Mike Samples reported on current economic conditions. He reported that the Federal Reserve (the “Fed”) was meeting this afternoon and he expects they will raise the interest rate by approximately 25 basis points. The Fed is not expected to raise rates rapidly and future increases would be gradual. He believes the Fed is overly optimistic in economic growth and employment expectations.

Mr. Samples presented a summary of the Treasury Pool as of November 30, 2015. He reported that the pool was producing a net yield of approximately 0.63%, had a market value of approximately \$25.2 billion, and continued to maintain a AAA rating by Standard & Poor’s. The market value had decrease by approximately \$10 billion mainly due to large seasonal distributions to schools. He stated that the portfolio had produced approximately \$1.4 billion more than money market funds since changing to a more aggressive benchmark. Mr. Samples reviewed comparative benchmark yields and noted that the Pool outperformed its benchmark for the quarter and previous twelve months.

Capital Markets Outlook and Investment Performance for the Quarter Ending September 30, 2015 (Tab 3)

Ms. Lori Mills of Asset Consulting Group provided a review of the market environment as of September 30, 2015 and November 30, 2015. Ms. Mills also reviewed the State Street performance report for the period ending September 30, 2015 and reported that the endowment portfolio produced a return of approximately -3.69% for the quarter, trailing the policy benchmark of -3.21%. Each asset class performed in negative territory with only the equity class outperforming its benchmark for the quarter. However, she reported that the portfolio has outperformed the trailing one, two, three and five year policy benchmarks. Ms. Mills discussed the performance of each asset class in detail.

Ms. Mills reported on the performance of the State Water Implementation Fund for Texas (“SWIFT”). Although the SWIFT portfolio had a -2.15% return for the one year ending September 30, 2015, portfolio returns have exceeded the policy and dynamic benchmarks over the past year and since inception.

Ms. Mills reviewed Asset Consulting Group’s asset class relative rankings for the fourth quarter of 2015. She reported that there were no changes to the tactical outlook for the quarter. ACG and the Trust Company continue to focus on portfolio diversification, maintaining and/or enhancing exposure to fast growing regions such as emerging markets and maintaining diversified global fixed income exposure with a focus on real yields.

Lunch Speaker – Gordon Dee Smith bio (Tab 4)

Mr. Gordon “Dee:” Smith, Principal and CEO of Strategic Insight Group spoke on the subject of hyper-connectivity, its driving change in global commerce and geopolitics and how it pertains to the future.

Endowment and SWIFT Portfolio Updates and Related Matters (Tab 5)

Mr. Ballard presented the Board an overview of the endowment portfolio and reported that it was in compliance with its investment policy. He reported that as of September 30, 2015, the portfolio value was approximately \$3.53 billion. He reviewed each asset class and the various investment strategies utilized to diversify and enhance the risk-adjusted returns of the portfolio. Mr. Ballard explained which asset classes were overweight and which were underweight and how that related to the target allocations. Mr. Ballard and Mr. Sachnowitz discussed new fund commitments added to various asset classes as well as funds that are being redeemed. Mr. Ballard explained the stress test scenarios performed on the portfolio. He compared the expected performance of the total portfolio in various crises relative to a portfolio allocated 65% to global equities and 35% to global fixed income. The analysis continues to demonstrate that the policy portfolio is expected to protect value better than a traditional 65/35 stock/bond portfolio in times of market drawdowns.

Mr. Ballard presented an overview of the SWIFT investment fund which is divided into the following investment strategies: Treasury Pool/cash/fixed income, equity and real assets. He reported that the portfolio value as of September 30, 2015 was approximately \$1.97 billion. He reviewed the various asset classes and managers for the quarter and informed the Board of new strategies and commitments that were being funded. He reported that the SWIFT was meeting its performance objectives.

Review and Recommended Revisions to TE-StIF Investment Policy (Tab 6 and handout)

Mr. Ballard explained that the Trust Company is recommending a revision to the TE-StIF investment policy. He explained that the benchmark for the Absolute Return asset class would change from LIBOR + 2% to the 90-day T-bill + 2%. Both the T-bill and LIBOR are measure of short-term interest rates; however, the LIBOR is used more for global short-term rates and the T-bill is a proxy for domestic short-term rates. TE-StIF is a domestic fund. LIBOR reflects the theoretical rate at which global banks would lend to each other. Also, unlike T-bills, periods of market stress can cause LIBOR rates to spike reflecting the unwillingness of banks to lend. The 90-day bill rate is a readily verifiable actual level of interest being paid on a security; LIBOR is a survey based rate theoretical rate.

Mr. Steve Strake made a motion to recommend to the Comptroller revising the TE-StIF investment policy to change the Absolute Return asset class benchmark from LIBOR + 2% to the 90-day T-Bill + 2%. The motion was seconded by Mr. Jim Hille and unanimously approved by the board.

Discussion of Next Meeting and Agenda Items

Mr. Ballard announced that Mr. J Germenis was retiring in January 2016 and Ms. Jyoti Gupta was going to manage the public markets sector.

Comptroller Hegar announced that the next meeting would be scheduled for March 2016. No future agenda items were suggested.

Public Comment

None.

Adjourn

The meeting adjourned at 1:08 p.m.