

**COMPTROLLER'S
INVESTMENT ADVISORY BOARD MEETING
Thursday, April 26, 2018
*Minutes***

The Comptroller's Investment Advisory Board (the "Board") met at 10 a.m. on Thursday, April 26, 2018, at the LBJ State Office Building, 111 E. 17th Street, Room 114, Austin, Texas.

Board Members ("The Board") Present

Comptroller Glenn Hegar, Tucker Bridwell, Laurie Dotter, Jim Hille, Steve Strake, Adolpho Telles and Scott Wise.

Board Members Absent

None.

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; Gena Minjares, Deputy Chief Financial Officer; Mike Samples, Director of Internal Investments; Marianne S. Dwight, General Counsel; Laura Montoya, Chief Operating Officer; Michael Leifeste, Portfolio Manager; Lalo Torres, Portfolio Manager; Ruchit Shah, Portfolio Manager; Jyoti Gupta, Portfolio Manager; Adam Levine, Chief Strategist; Anca Ion, Deputy Director of Internal Investments; Nora Arredondo, Program Specialist; Brandy Bianco, Project Manager; Chad Turner, Risk Manager; Yunke Yu, Quantitative Data Analyst; Corrine Hall, Program Administrator; Hugh Ohn, Director of Strategy and Planning; and Spencer Brown, Compliance Officer.

Additional Participants

Lori Mills, Asset Consulting Group ("ACG").

Call to Order

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

Approval of Minutes of January 24, 2018 Meeting (Tab 1)

Mr. Scott Wise made a motion to accept and approve the minutes of the January 24, 2018 Comptroller's Investment Advisory Board meeting. The motion was seconded by Ms. Laurie Dotter and unanimously approved by the Board.

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

Mr. Mike Samples reported on current economic conditions. He reported that in the last nine years the economic growth rate has been a modest 2.0 – 2.5% annually and the financial markets have been strong. During the first quarter, economic growth slowed more than estimated amid the weakest performance in consumer spending in nearly five years. Mr. Samples explained that the U.S. economy needs a 2.9% real growth rate in order to be on a sustainable fiscal path. He expressed his continued concern regarding the looming U.S. trillion dollar deficit, which now may be accelerated by the new tax cuts initiated in January. He expects a continued rise in interest rates by the Federal Reserve (the “Fed”). With this expectation, Mr. Samples and his team have positioned the portfolio accordingly by increasing allocations in treasuries and commercial paper.

Mr. Samples summarized the data behind Tab 2 regarding the Treasury Pool. As of March 31, 2018 the portfolio produced a net yield of approximately 1.82%, an increase of approximately 0.29% since the previous quarter. The market value of the pool was approximately \$29 billion, a \$5 billion increase from the previous quarter, and continued to maintain a AAA rating by Standard & Poor’s. The Treasury Pool yield continued to outperform the Fed Funds yield.

Capital Markets Outlook and Investment Performance for the Quarter Ending December 31, 2018 By Asset Consulting Group (Tab 3)

Ms. Lori Mills of Asset Consulting Group (“ACG”) presented ACG’s view of the economic market environment. She reported that unemployment was at 4.1%, a seventeen-year low, and that the Fed and most economists expect a sub 4% unemployment rate in the near future. Corporate earnings are expected to be strong throughout 2018. ACG expects two more interest rate increases by the Fed for the year as inflation continues its moderate pace. Globally, the suggestion of import tariffs by the U.S. has spurred widespread concern about a trade war. Also ongoing is the restructuring of the North American Free Trade Agreement (“NAFTA”). Overall, ACG’s outlook on the global economy remains positive as emerging markets are the biggest benefactors of growth in developed countries. ACG recommends diligence with portfolio rebalancing given valuations and economic sensitivity. They will continue to recommend hedged strategies for downside protection. At this time, ACG explained their preference of equities over bonds and non-U.S. instruments over U.S. instruments.

Next, Ms. Mills reviewed the performance of the Endowment, the State Water Implementation Fund for Texas (“SWIFT”) and the Texas Economic Stabilization Fund (“TESTIF”) for the period ending December 31, 2017. She reported that the Endowment produced a 2.68% return for the quarter, slightly underperforming its policy benchmark by .21%. However, the total portfolio generated an annualized rate of return of approximately 6.51% over the previous five years, compared to 5.90% for the policy benchmark. The portfolio continued to produce a better risk-adjusted return than the benchmark. She explained that the real assets portion of the portfolio produced strong relative results over the past year. The fixed income asset class outpaced its benchmark for the quarter, three and five-year periods, but lagged modestly for the one-year span. The equity strategies performance lagged slightly behind its benchmark but outperformed over the one, three, and five-year periods.

Ms. Mills reported that the SWIFT portfolio produced a 1.65% return for the quarter, underperforming its policy benchmark by -0.69% and underperforming its dynamic benchmark by -0.28%. The SWIFT portfolio has produced a 3.04% return since inception, outperforming its policy benchmark by 2.27% and outperforming its dynamic benchmark by 2.38%. Performance for the broad asset classes lagged their benchmarks for the quarter but continue to produce strong returns since inception. Overall, the total portfolio generated higher returns with lower risk than the policy and dynamic benchmarks since inception.

The TESTIF portfolio produced a 0.37% return for the quarter, underperforming the policy and dynamic benchmarks by -0.23 and -0.20 respectively. It has outperformed the policy and dynamic benchmarks since inception, and delivered a higher risk-adjusted return relative to both benchmarks.

Endowment, SWIFT and TESTIF Portfolio Updates and Related Matters (Tab 4)

Mr. Ballard presented an overview of the Endowment portfolio for the fourth quarter of 2017 and reported that the portfolio was in compliance with its investment policy. He reported that as of December 31, 2017, the Endowment portfolio value was approximately \$4.08 billion. He explained that the portfolio performed as expected and as he reviewed the asset allocation summary, he explained that each asset class was within their target ranges.

Mr. Ballard recapped the executive summary pages and noted that the top three performing strategies in each asset class were global public equity (4.2%), natural resources (4.1%) and private equity (3.4%). He reported on new commitments made in the following asset classes: private debt, KKR Revolving Credit II; hedged equity, Lazard Frontier Opportunities Fund; private equity, GoldPoint Co Investment VI and Brightstar Capital Strategic I; natural resources, Bloomberg Commodities Index Replication; and real estate, Torchlight VI. Mr. Ballard updated the Board on the current performance for the Endowment portfolio. The return for January was approximately 1.9%, for February approximately -0.9% and March -0.1%.

Mr. Ballard reported that the SWIFT portfolio was also in compliance with its investment policy for the quarter. The portfolio value as of December 31, 2017 was approximately \$1.9 billion, it produced a 1.6% rate of return for the quarter and remains very liquid. He reviewed the executive summaries for the SWIFT portfolio and reported that the best returning strategies were global equity (5.1%), commodities (2.9%) and hedged equity (2.6%). The most current returns are 1.2% for January, -0.3% for February and 0.0% for March. He reported that the portfolio was meeting its investment objectives.

Mr. Ballard reviewed the TESTIF portfolio and reported that it was performing as designed by outperforming the Treasury Pool and preserving its purchasing power. The portfolio value as of February 28, 2018 was approximately \$3.2 billion. The portfolio has produced an annualized return from inception through February of approximately 2.08%.

Lunch Speakers – Venu Shampant and Krishna Srinivasan, co-founders of LiveOak Venture Partners (handout)

Mr. Shampant explained that LiveOak Venture Partners primarily focuses on information technology and tech-enabled services, predominantly in Texas. Mr. Srinivasan reported that Austin ranked first in the U.S. in its rate of new entrepreneurs and second best city for entrepreneurs and startups. Four Texas cities were in the top ten most entrepreneurial cities in America. They explained their active management style geared to produce strong returns even in the absence of an outsized exit environment. They continued their presentation and a review of their handout.

Comptroller Hegar announced that the next meeting may be scheduled for some time in July. He then excused himself from the meeting at 12:45 p.m. at which point Deputy Comptroller Mike Reissig continued the meeting.

Legislative Update

Deputy Comptroller Mike Reissig updated the Board on some highlights anticipated in the coming legislative session. He reported that the Texas economy was relatively strong, revenue was up but still some portions of the budget required attention. He mentioned a Texas Legacy Fund proposal which would originate from a portion of the Economic Stabilization Fund. This fund would act as a long-term endowment that would invest more aggressively and strive for higher returns over time. This fund would be managed by the Trust Company.

Discussion of Next Meeting and Agenda Items

Mr. Reissig again announced that the next meeting should be scheduled for some time in July. No future agenda items were suggested.

Public Comment

None.

Adjourn

The meeting adjourned at 12:56 p.m.