

**COMPTROLLER'S  
INVESTMENT ADVISORY BOARD MEETING  
Tuesday, January 29, 2019  
Minutes**

The Comptroller's Investment Advisory Board (the "Board") met at 10 a.m. on Tuesday, January 29, 2019, at the LBJ State Office Building, 111 E. 17<sup>th</sup> Street, Room 114, Austin, Texas.

**Board Members ("The Board") Present**

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

**Board Members Absent**

None, Scott Wise retired.

**Comptroller of Public Accounts Staff Present**

Lisa Craven, Deputy Comptroller; Phillip Ashley, Associate Deputy Comptroller; and Cheryl Scott, Internal Auditor.

**Texas Treasury Safekeeping Trust Company ("Trust Co.") Staff Present**

Paul Ballard, Chief Executive Officer and Chief Investment Officer ("CEO"); Danny Sachnowitz, Deputy Director and Deputy Chief Investment Officer; Genoveva Minjares, Chief Financial Officer; Mike Samples, Director of Internal Investments; Marianne S. Dwight, General Counsel; Laura Montoya, Chief Operating Officer; Anca Ion, Deputy Director of Internal Investments; Michael Leifeste, Portfolio Manager; Lalo Torres, Portfolio Manager; Jyoti Gupta, Portfolio Manager; Ruchit Shah, Portfolio Manager; Mohamed Elkordy, Portfolio Manager; Adam Levine, Risk Strategist; Chad Turner, Risk Manager; Yunke Yu, Quantitative Data Analyst; Jorge de LaFuente, Director of Operational Due Diligence; Patrick Jue, Operational Investment Analyst; Mathew Williams, Investment Analyst; Jacob Price, Investment Analyst; Hugh Ohn, Director of Accounting Planning and Strategy; Nora Arredondo, Program Specialist; and Corrine Hall, Program Administrator.

**Additional Participants**

Mike O'Brien, RSM & Co., LLP; and Brad Davis, Asset Consulting Group ("ACG").

**Call to Order**

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

**Approval of Minutes of November 6, 2018 Meeting (Tab 1)**

*Mr. Tucker Bridwell made a motion to accept and approve the minutes of the November 6, 2018 Comptroller's Investment Advisory Board meeting. The motion was seconded by Mr. Jim Hille and unanimously approved by the Board.*

### **Presentation of Independent Auditor's Report for the Trust Company (under separate cover)**

Mr. Mike O'Brien summarized the audit reports in the handout and reported that RSM & Company issued an unqualified financial audit opinion with respect to the Trust Company and the SWIFT for the fiscal year ending August 31, 2018. 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 global economic growth was experiencing a severe slowdown. On the domestic front, he believes that the Federal Reserve (the "Fed") may raise rates one more time during the year. Given this expectation, he and his team are maintaining an average maturity closer to its benchmark and have positioned the portfolio accordingly. Mr. Samples explained that the economy was in the fourth tightening environment in the last twenty-five years. He reported the U.S. will probably run a \$1.2 trillion deficit this year.

Mr. Samples reviewed the Treasury Pool as of December 31, 2018. He reported that the portfolio yield for the fourth quarter was approximately 2.51%, up approximately twenty-four basis points from the previous quarter. The portfolio had a market value of approximately \$34 billion and continued to maintain a AAA rating by Standard & Poor's. He reported that commercial paper and U.S. Treasuries account for approximately 49% of the portfolio's composition.

### **Capital Markets Outlook and Investment Performance for the Quarter Ending March (Tab 3)**

Mr. Brad Davis of ACG presented ACG's economic market overview. He explained that consumer balance sheets were improved, there were solid labor dynamics, there was wage growth, and inflation was more muted. Globally, China has grown to be the second largest economy in the world but has experienced their slowest economic growth since the early 1990's. Domestically, ACG also believes that the Fed is in a pause mode and he does not expect a barrage of interest rate hikes in 2019. ACG believes 2019 will present challenging markets. He reviewed the investment themes and implementation strategies outlined behind Tab 3. He explained that the portfolios have strategic long-term objectives and constraints, maintain diversification, contain opportunistic managers and maintain hedged strategies for downside protection. He explained that ACG will continue to closely monitor overall portfolio allocations relative to strategic objectives.

Mr. Davis reviewed the total portfolio summary for the period ending September 30, 2018. He reported that total portfolio returns modestly outperformed the Endowment policy benchmark with similar risk over the past quarter, and the one, three, and five year periods. Relative to broad market benchmarks, the total portfolio generated 102% of the return with 49% of the risk of a 65%/35% passive global stock/bond mix. The fixed income portion of the portfolio had significantly outperformed the fixed blend over the third quarter, and also the one, three, and five year periods. Real assets also outperformed its benchmark for the quarter and also the one, three, and five year periods. The equity strategies trailed the equity blend over the past quarter and one year period, but generated excess returns for the three and five year time frames.

Mr. Davis reported that the State Water Implementation Fund for Texas ("SWIFT") portfolio produced a 1.67% return for the quarter ending September 30, 2018 and an annualized return since inception of 5.85%, outperforming its benchmark for both periods. Each asset class has outperformed their benchmarks from inception to date. The portfolio generated excess returns versus its dynamic and policy benchmarks since inception. Overall, the total portfolio generated higher returns and lower risk than the policy and dynamic benchmarks since inception.

The Texas Economic Stabilization Investment Fund (“TESTIF”) produced a -0.08% return for the quarter ending September 30, 2018. The rising interest environment was a challenge during the quarter and one year periods; however, the portfolio slightly outperformed the policy and dynamic benchmarks since inception (September 2015). Overall, the total portfolio generated similar returns and lower risk than the policy benchmark since inception. The alternative fixed income investments have been a good complement to the portfolio mix.

#### **Endowment, SWIFT and TESTIF Portfolio Updates and Related Matters (Tab 5)**

Mr. Ballard presented an overview of the Endowment portfolio for the third quarter of 2018 and reported that it was in compliance with its investment policy. He reported that as of September 30, 2018, the Endowment portfolio value was approximately \$4.13 billion and returned approximately 1.7%. He reported that the portfolio had performed as expected. Mr. Ballard recapped the executive summary pages and noted that the top three performing strategies were private equity (+6.9%), all assets strategies (+3.2%), and real assets (+2.7%). He reviewed the asset allocation summary and reported that each asset class was within its target range. Mr. Ballard explained the performance summary charts and noted that the portfolio continued to produce more of the up than the down capture. He reviewed each asset class and reported that activist managers had been reclassified from long-only to hedged equity, since they are included in the hedged equity benchmark. So the portfolio appears to be temporarily overweight hedged equity. With one exception, activist managers are being redeemed, so this is a temporary condition. He also noted that, since they had been dropped from the asset allocation policy, the commodities portion of real assets class would be eliminated from the portfolio effective October 1. Mr. Ballard reported that the portfolio was well within the target liquidity ranges. He informed the Board that there will be a distribution of approximately \$72 million from the Tobacco Endowment to the political subdivisions named in statute on April 1, 2019.

Each portfolio manager from the Trust Company briefly recapped the portion of the portfolio they managed and summarized the information included in the presentation behind Tab 5.

Mr. Ballard explained there was relatively little volatility in most asset classes for the quarter. The current value at risk (“VaR”) was in line with the policy VaR.

Mr. Ballard presented an overview of the SWIFT portfolio. The portfolio value as of September 30, 2018 was approximately \$1.89 billion and it produced a return in the quarter of approximate return of 1.7%. The portfolio remains very liquid. Inception to date, the portfolio has distributed approximately \$618 million. The top performing classes within the portfolio were global equity (+4.4%), all asset strategies (+3.5%), and alternative fixed income (+2.7%). The portfolio produced a 5.8% return for the trailing one year period. Mr. Ballard reported that the SWIFT was meeting its investment objectives.

Mr. Ballard reviewed the TESTIF portfolio and reported that it was performing as it was designed to by preserving its purchasing power so it will earn more than inflation. The portfolio remains highly liquid and continues to stay ahead of inflation. The portfolio value as of October 31, 2018 was approximately \$3.25 billion.

#### **Lunch Speaker Dee Smith of Strategic Insight Group (Tab 4)**

Mr. Dee Smith, Principal and CEO of Strategic Insight Group, has over thirty years of experience in intelligence, in international business, in building and managing entrepreneurial ventures and in multiple research and analytical disciplines. He focused his comments to the Board on geopolitical and socioeconomic issues in Mexico and other Latin American Countries.

#### **Discussion of Next Meeting and Agenda Items**

The next meeting will be scheduled sometime in April 2019. No future agenda items were suggested.

**Public Comment**

None.

**Adjourn**

The meeting adjourned at 12:50 p.m.