



INVESTMENT POLICY STATEMENT

TEXAS ENDOWMENT FUNDS

Effective January 1, 2024

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CHAPTER I. GENERAL INFORMATION

SECTION 1.

COMPTROLLER OF PUBLIC ACCOUNTS & TEXAS TREASURY SAFEKEEPING TRUST COMPANY

The Texas Comptroller of Public Accounts (the “Comptroller”) invests the hereinafter-described funds with the advice of and in consultation with the Comptroller’s Investment Advisory Board (the “IAB”) and the Tobacco Settlement Permanent Trust Account Investment Advisory Committee (the “Tobacco Committee”) with respect to the Tobacco Settlement Permanent Trust Account. The Comptroller administers the funds through the Texas Treasury Safekeeping Trust Company (the “Trust Company”). The Trust Company is a corporation created by the Comptroller pursuant to state law to enable the Comptroller to manage funds more efficiently and economically. The Comptroller is the sole officer, director, and shareholder of the Trust Company and charged with managing the company. The Comptroller has delegated management and investment related duties to the Chief Executive Officer and the Chief Investment Officer of the Trust Company.

SECTION 2.

FUNDS SUBJECT TO THIS POLICY

Funds under the custody and control of the Trust Company that are managed pursuant to this policy are listed in Appendix B. The listed funds are hereinafter referred to as the “Funds” or the “Fund” as the context requires. The enabling legislation and distribution policy for each fund is listed in Appendix C. Both appendices may change periodically based on changes in legislation, applicable law or related policy.

SECTION 3.

COMMITTEES

A. INVESTMENT COMMITTEE

The Trust Company Investment Committee (“Investment Committee”) is responsible for oversight of Trust Company investment portfolios including: reviewing and recommending investment policies; approving certain investments; establishing strategic and tactical investment plans; evaluating and recommending the selection or dismissal of investment managers; reviewing quarterly portfolio performance; reviewing and approving portfolio rebalancing and tactical asset allocation.

Investment committee members include: Chief Investment Officer (Chair), Chief Financial Officer, General Counsel, Director of Risk & Quantitative Analytics, General Investment Consultant, Chief Executive Officer (non-voting), and Compliance Officer (non-voting, Secretary).

The Investment Committee shall review this Investment Policy Statement (“Policy”) at least annually and recommend necessary changes, if any, to the IAB, the Tobacco Committee, and the Comptroller.

B. ASSET VALUATION COMMITTEE

The Trust Company Asset Valuation Committee is responsible for establishing and monitoring the accounting and financial process for determining the fair value measurements and disclosures included in the Trust Company’s financial statements.

The Committee is also responsible for reviewing the valuation methods including significant valuation assumptions, the computed asset valuation, and the presentation and disclosure of the fair value measurements and disclosures used in the financial statements. The Chief Financial Officer will serve as chair for the Committee.

CHAPTER II. FUND OBJECTIVES & EXPECTATIONS

SECTION 1.

INVESTMENT OBJECTIVE

The Funds' investment objective is to earn an annual total return that:

- Provides a predictable, stable stream of distributions;
- Ensures that the inflation-adjusted value of distributions is maintained over the long-term;
- Ensures that the inflation-adjusted value of the corpus, after distributions and fund expenses, is maintained over the long-term; and
- Achieves the desired portfolio volatility and minimizes downside risk through diversification and risk management.

The target annualized rate of return objective is derived as follows:

Management Expenses	0.30%
Inflation Rate	2.00%
Distribution Rate*	3.00-3.50%
Investment Return Objective	6.00%

* Distribution rates for each Fund are outlined in Appendix C. At the inception of a new fund, distributions may be made based on an average per fiscal year based on actual quarters.

SECTION 2.

PERFORMANCE EXPECTATIONS

The investment performance of the Funds will be measured and compared to the stated benchmarks by an independent third party and reported quarterly to the Comptroller, Investment Committee and IAB. The performance benchmark for the Funds is a customized composite of the sub-strategy performance benchmarks weighted by target allocation percentages. Although specific benchmarks were used to determine the risk budget and asset allocation targets, the Trust Company may utilize strategies that invest in assets not included in the benchmarks. Qualitative and quantitative analyses will be used to determine the appropriateness of each investment.

SECTION 3.

SECURITIES LENDING

GENERAL OBJECTIVES:

The purpose of securities lending is to enhance current income to the extent consistent with the preservation of capital and maintenance of liquidity.

SECURITIES LENDING COLLATERALIZATION LEVELS:

Initial collateral levels will not be less than 102% of the market value of the loaned securities, or not less than 105% if the loaned securities and the collateral are denominated in different currencies. Marking to market is performed every business day, subject to *de minimis* rules of change in value. The securities borrower is required to deliver additional collateral when necessary so that the total collateral held by the agent will at least equal the market value of all the borrowed securities.

INVESTMENT GUIDELINES:

Due to the relative size of the pool of securities eligible for lending, the cash collateral resulting from securities lending activities shall be invested in a co-mingled fund managed by the securities lending agent in accordance with Chapter V, Section 2. A. of this policy, Short-Term Investment Funds.

PERFORMANCE AND RISK EXPECTATIONS:

Securities lending activities will be conducted through an agent selected by the Trust Company. The agent is required to provide indemnification for all losses to the Endowment Fund in the event of a borrower default. The agent shall retain the right to terminate a loan at any time.

SECTION 4.

PORTFOLIO REBALANCING

Allocations to the asset classes will be rebalanced to within the target allocation ranges, as necessary, based on the fair market value of the “portfolios,” (i.e., the investment strategy or sub-strategy as the context requires.) Cash inflows and outflows will be used to help maintain allocations within the target allocation ranges and reduce turnover expenses. Following or preceding an anticipated cash flow, the asset allocation may temporarily fall outside the target allocation ranges.

Due to the relative illiquidity of the private market strategies, and the lag between capital commitments and contributions, rebalancing within these strategies can generally be achieved only through increasing or decreasing any new commitments. However, to the extent available, the Trust Company may use secondary markets for the purpose of asset allocation or rebalancing.

The Investment Committee approves significant portfolio rebalancing, when transitioning 5% or more of the Fund. When rebalancing less than 5% of the Fund, (to accommodate cash flows or inter-fund rebalancing) only two members of the Investment Committee are required to approve.

SECTION 5.

PORTFOLIO HEDGING AND OVERLAYS

The Trust Company may use a variety of available instruments to reduce or increase risk exposures to certain asset classes or risk factors. Portfolio hedging and overlays will be governed by the Portfolio Hedging and Overlays Policy.

CHAPTER III. RISK MANAGEMENT & GUIDELINES

SECTION 1.

RISK TOLERANCE

A certain amount of risk must be assumed in order to achieve the Funds' investment objective. Risk factors include, but are not limited to, market, volatility, credit, currency, liquidity, interest rate, tracking error and regulatory. The long-term nature of the Funds means that interim fluctuations in portfolio market values and rates of return can be tolerated in seeking to achieve the investment objective. Diversification is the primary tool for managing overall portfolio risk. Asset allocation guidelines and the investment manager structure will ensure adequate diversification to reduce the volatility of investment returns over the long-term. Annual distributions are expected to be predictable. As such, and in consideration of the long-term or "perpetual" investment horizon of the Funds, opportunities to commit to longer-term, less liquid investments should be taken in order to capture illiquidity return premiums.

SECTION 2.

PERFORMANCE & RISK MONITORING

The Fund and each portfolio strategy and sub-strategy are expected to meet or exceed the total return performance objectives and risk-adjusted performance of the established benchmarks over a market cycle. Passive portfolios or index funds are expected to match the total return and risk profile of the relevant benchmarks. Active investment managers are expected to either exceed relevant benchmarks and/or reduce volatility. Although performance expectations are established for a market cycle, performance and risk analysis will be conducted on an ongoing basis.

Risk limits will be established for the total Fund. Fund and Strategy portfolio exposures and risk metrics will be regularly monitored. Although risk metrics will be measured and reviewed quarterly, evaluation will focus on a full market cycle.

The Fund will be reviewed quarterly, focusing on:

- Comparison of performance results to benchmarks;
- Comparison of risk metrics to expectations and benchmarks;
- Exposure to multiple risk factors;
- Economic scenario and stress analysis;
- Analysis of liquidity for the Fund and each Strategy;
- Size of positions among individual investments, strategies, or sub-strategies; and
- Opportunities available in the relevant markets.

Value at Risk (VaR) Guidelines. Monthly portfolio VaR will be maintained between minimum and maximum VaR levels calculated on the basis of the maximum over and under-weights allowable for the three major Policy Portfolio asset strategy categories in accordance with the Value at Risk Tolerance Procedure.

SECTION 3.

DIVERSIFICATION

Excluding passive strategies, exposure to any investment firm will generally be limited to no more than 10% of Fund assets.

Fund investments will generally not exceed more than 25% of any firm's assets under management (AUM).

SECTION 4.

LIQUIDITY

The following guidelines are applied to the total portfolio. The Fund shall contain sufficient liquidity in order to timely modify risk exposures, meet all liquidity needs, and conduct efficient rebalancing. Liquidity will be monitored at the sub-asset class level.

At least 15% of fund assets shall be invested in strategies that offer liquidity within 3 months (primarily cash or short-term investments and strategies utilizing public securities).

No more than 50% of fund assets shall be invested in strategies that restrict liquidity beyond 2 years.

SECTION 5.

DUE DILIGENCE

Prior to investing Fund assets, proper due diligence will be conducted by Trust Company staff and/or its Consultants. Trust Company staff and/or its Consultants will meet with a representative of each external Investment Manager in person and on-site, as appropriate. Attending an investor conference where fund performance and portfolio positions are presented may serve as an on-site visit.

CHAPTER IV. INVESTMENT MANAGERS

SECTION 1.

EXPECTATIONS

The term “Investment Managers” includes any firm selected by the Trust Company that is responsible for investing Fund assets. Fund assets will be managed primarily by external investment firms and advisors but may be managed directly by Trust Company investment staff. Both separate accounts and commingled vehicles (e.g., mutual funds, limited partnerships, common trust funds, exchange traded funds) may be used.

Investment Managers are expected to act in an ethical manner and with integrity in all phases of the investment process.

Each Investment Manager has discretion to determine the appropriate mix of assets consistent with the strategy approved by the Trust Company. To generate competitive risk-adjusted returns, investment managers may be authorized to use varied approaches – investing not only in both long and short positions, but also owning multiple asset classes (e.g., stocks, bonds, and currencies) and derivative instruments (e.g., futures, options, swaps).

Investment strategies will be combined to achieve the desired risk and return objectives of the Fund and each major Strategy category. The Fund will be implemented using a mix of strategies that are:

- *Highly correlated* with the strategy benchmark and are invested primarily in assets consistent with the assets included in the strategy benchmark.
- *Less correlated* with the strategy benchmark and may be invested in assets that are not included in the strategy benchmark.

SECTION 2.

INTERNALLY MANAGED TRANSACTIONS

Certain investment positions may be managed by Trust Company staff. All transactions are fully documented by the individual executing the trade, and confirmed by an independent member of the Investment Committee.

SECTION 3.

GENERAL INVESTMENT GUIDELINES

TOBACCO RESTRICTION: No funds shall be invested directly in the securities of any tobacco companies. This restriction shall apply only to separate accounts or when the Trust Company can dictate the terms.

TAXATION: Any income earned by the Trust Company is not considered gross income pursuant to 26 USC §115 United States Internal Revenue Code, therefore the Trust Company does not file federal income tax returns.

CHAPTER V. FIXED INCOME STRATEGIES

SECTION 1.

STRATEGY DESCRIPTION

GENERAL OBJECTIVES: Fixed Income strategies include public and private securities that are expected to generate relatively consistent positive returns with lower correlation to the global equity markets. Strategies selected are intended to provide positive returns during most economic and capital market environments.

Allocations will be made to strategies that are predominately fixed income securities, or derivatives of such, both long and short. Investment positions may be rate or credit spread sensitive and may be directional or hedged.

Investment strategies utilized will include exposures to investment grade that are more rate sensitive along with credit strategies that are more spread sensitive. Strategies will include, but not be limited to, exposures to both US and non-US sovereigns, corporate, structured notes, and asset-backed instruments.

PERFORMANCE & RISK EXPECTATIONS: The Trust Company intends to utilize a variety of investment strategies within the composite Fixed Income portfolio. The performance benchmark for the Fixed Income portfolio is a customized composite of the sub-strategy performance benchmarks weighted by target allocation percentages. The following section provides descriptions and metrics, measured over a full market cycle, that will be used when evaluating each sub-strategy.

SECTION 2.

SUB-STRATEGY DESCRIPTIONS

A. SHORT-TERM INVESTMENT FUNDS

GENERAL OBJECTIVES: The purpose of this mandate is to preserve principal and provide liquidity to meet the cash flow requirements of the Fund. The Trust Company may invest in commingled short-term investment funds or directly in liquid short-term securities.

PERFORMANCE & RISK EXPECTATIONS: This is a low risk strategy where liquidity is valued more than investment performance. Performance is expected to be comparable to a peer group of institutional money market funds and exceed the return of the 3-Month T-Bill.

- Funds will provide daily liquidity that does not exceed settlement beyond T+3.
- Funds will be managed to maintain a stable Net Asset Value (NAV).
- Funds will be managed to have a stated average maturity of less than one year.

B. GLOBAL FIXED INCOME

GENERAL OBJECTIVES: The Global Fixed Income composite portfolio is intended to provide a consistently positive rate of return and to dampen the overall volatility of the Fund.

PERFORMANCE & RISK EXPECTATIONS: The composite portfolio's performance is expected to meet or exceed the established benchmark.

- Beta & Correlation of at least 0.5 compared to the Bloomberg Barclays US Universal Bond Index.
- Meet or exceed the performance of the Bloomberg Barclays US Universal Bond Index.
- Comparable to the volatility of the Bloomberg Barclays US Universal Bond Index.

- The portfolio will be comprised of funds combined to provide diversification across issuer, geography, currency, sector, size of issuer, and credit quality.
- Individual strategies within this section will likely have significant tracking error relative to the benchmark based on active positioning decisions.

C. ALTERNATIVE FIXED INCOME

GENERAL OBJECTIVES: Alternative Fixed Income strategies are intended to achieve consistently positive returns with prudent levels of risk. The primary objective is to be a fixed income replacement and achieve a long-term total return competitive with the public fixed income markets with low sensitivity to the equity markets.

PERFORMANCE & RISK EXPECTATIONS: While the particular vehicle’s governing legal documentation will contain the specific guidelines for each offering, the following measures of performance, risk management and diversification will apply to the composite portfolio over a full market cycle:

- Total return is expected to meet or exceed the HFRI FOF: Conservative Index;
- Portfolio expected to exhibit beta less than 0.3 to the MSCI ACWI IMI Net Index;
- The portfolio will be formally reviewed at least semi-annually by the Trust Company staff and its consultants;
- The portfolio will be diversified by manager, strategy, geography, & sector focus; and
- Certain holdings will be identified as a “position capped strategy” based on the criteria outlined below and will be subject to a maximum position size of no more than 2.5% of the Fund’s market value at any given time. These positions will be communicated to and recorded by the Chief Compliance Officer. In the event such a strategy exceeds 2.5% for two consecutive quarters, the position will be rebalanced back below the threshold at the next available redemption period.
 - Actual or anticipated rolling beta to the MSCI ACWI IMI Net Index that exceeds 0.5.
 - High leverage or maximum potential loss as defined by the Director of Risk & Quantitative Analytics.
 - Other unique factors as deemed appropriate solely by the Chief Investment Officer.

D. PRIVATE DEBT

GENERAL OBJECTIVES: Private Debt strategies are intended to take advantage of illiquidity premiums available in the debt markets. Portfolios may contain illiquid debt or securities whose value may take an extended period to be realized.

PERFORMANCE & RISK EXPECTATIONS: The primary risks associated with this sub-strategy are credit and illiquidity. Other risks may include currency, interest rate or regulatory.

- Performance is expected to exceed that available in liquid debt markets.
- Meet or exceed the performance of the Cambridge Associates – Custom Private Debt Index.

The portfolio will be diversified by strategy, industry, market capitalization, geography and vintage year.

CHAPTER VI. EQUITY STRATEGIES

SECTION 1.

STRATEGY DESCRIPTION

GENERAL OBJECTIVES: Equity strategies include public and private equities and asset classes that are correlated to global equity markets. Historically, global equity investments have provided returns in excess of the total Fund return objective. The Equity portfolio will consist of traditional long-only, hedged and private strategies whose portfolios are predominately invested in the equity of corporations.

PERFORMANCE & RISK EXPECTATIONS: The Trust Company intends to utilize a variety of investment strategies within the composite Equity portfolio. The performance benchmark for the Equity portfolio is a customized composite of the sub-strategy performance benchmarks weighted by target allocation percentages. The following section provides descriptions and metrics, measured over a full market cycle, that will be used when evaluating each sub-strategy.

SECTION 2.

SUB-STRATEGY DESCRIPTION

A. GLOBAL EQUITY

GENERAL OBJECTIVES: The Global Equity composite portfolio is intended to achieve a total return in excess of the Fund's total return objective. The Trust Company will utilize a variety of investment managers, both long-only and long/short strategies, intended to fully represent the global investment opportunity set.

PERFORMANCE & RISK EXPECTATIONS: The following metrics of performance, risk management and diversification apply to the composite Global Equity portfolio:

- Performance is expected to exceed established benchmarks;
- The composite portfolio's minimum beta shall be 0.75 to MSCI ACWI IMI Net Index; and
- The global equity portfolio will be diversified by geography, industry, market capitalization and issuer.

B. HEDGED EQUITY

GENERAL OBJECTIVES: Hedged Equity strategies are intended to provide exposure to public equity markets with reduced overall beta/volatility. In aggregate, the strategies are expected to provide risk-adjusted returns similar to or better than public equity markets. The Trust Company will utilize a diversified group of investment managers employing complementary approaches and strategies.

PERFORMANCE & RISK EXPECTATIONS: While the particular vehicle's governing legal documentation will contain the specific guidelines for each offering, the following measures of performance, risk management and diversification will apply to the composite portfolio over a full market cycle:

- Total return in excess of HFRI FOF: Strategic Index;
- Annualized volatility of returns should be less than the MSCI ACWI IMI Net Index;
- Correlation and beta should be greater than 0.5 to the MSCI ACWI IMI Net Index;
- The portfolio will be diversified by manager, strategy, geography, & market capitalization.

C. PRIVATE EQUITY

GENERAL OBJECTIVES: The Private Equity composite portfolio is intended to enhance overall portfolio returns relative to other major asset classes. It is a specialized investment offering the opportunity to earn competitive and higher risk-adjusted returns than those available in the traditional public equity markets. The portfolio consists of combined strategies that produce a portfolio of complementary focus areas, industries, financing stages, vintage years, and geographic representation designed to diversify the overall private equity portfolio.

PERFORMANCE & RISK EXPECTATIONS: The composite portfolio is expected to meet the following objectives over a market cycle:

- Provide net of fee returns exceeding those available in the public equity markets;
- Meet or exceed the performance of the Cambridge Associates – Custom Private Equity Index; and
- The portfolio will be diversified by strategy, industry, market capitalization, geography and vintage year.

CHAPTER VII. REAL ASSET STRATEGIES

SECTION 1.

STRATEGY DESCRIPTION

GENERAL OBJECTIVES: Real Asset strategies are intended to serve primarily as inflation hedges and provide diversification benefits of low correlation with other investment strategies. The portfolio may be exposed to real estate, real estate debt, timber, infrastructure assets and commodities.

The portfolio generally includes strategies that invest globally in well-located assets, employ relatively low leverage, in traditional and non-traditional strategies. Traditional strategies include office buildings, residential, industrial, lodging, and retail. Non-traditional strategies include agriculture, timber, infrastructure assets, campus housing, medical office, senior living, storage, single family residential, finance/debt and any other physical asset type with similar risk and return characteristics.

PERFORMANCE & RISK EXPECTATIONS:

The composite portfolio is expected to meet the following objectives over a market cycle:

- Provide returns that are less correlated to the public equity markets;
- Reduce portfolio volatility and provide downside protection;
- Provide a hedge against inflation; and
- Generate returns through both capital appreciation and cash flow.

SECTION 2.

SUB-STRATEGY DESCRIPTION

A. STABLE VALUE REAL ESTATE

GENERAL OBJECTIVES: The composite portfolio is intended to provide the Fund with long-term, net returns between those of public equity and fixed income investments with moderate volatility. Additionally, Real Estate assets are expected to diversify the Fund portfolio with low correlation to other Fund investments and provide inflation protection. It is expected that income will be a significant component of the portfolio's total return.

PERFORMANCE & RISK EXPECTATIONS: With the exception of open-ended strategies, liquidity is limited during the term of the investment (5-12 years). However, through income and distributions, the Trust Company expects significant annual cash flow from the fully mature portfolio. Investments have relatively low historical standard deviation of returns relative to other asset classes. The composite portfolio is expected to meet the following objectives over a market cycle:

- Performance should meet or exceed the total return, of established benchmarks;
- Maximum aggregate portfolio leverage (combined portfolio and property) shall be similar to the average leverage of an index of comparable institutional investment strategies; and
- The portfolio will be diversified by vintage year, geography, and property type.

B. ENHANCED RETURN REAL ESTATE

GENERAL OBJECTIVES: The composite portfolio is intended to enhance overall portfolio returns relative to other major asset classes and provide a diversification benefit.

Typically, capital appreciation represents a majority of the total return, while income represents a smaller portion. Higher leverage is generally employed. Strategies will represent a wide range of investments with different types of risks derived from the underlying real estate assets. Risk attributes may include higher property risks such as lease-up, renovation, and development risks.

PERFORMANCE & RISK EXPECTATIONS: The composite portfolio is expected to meet the following objectives over market cycle:

- Performance should meet or exceed the total return of established benchmarks;
- Maximum aggregate portfolio leverage (combined portfolio and property) shall not exceed 90%;
and
- The portfolio will be diversified by vintage year, geography, and property type.

CHAPTER VIII. ALL ASSET STRATEGIES

SECTION 1.

STRATEGY DESCRIPTION

GENERAL OBJECTIVES: All Asset strategies include exposures across equity, fixed income and real asset classes. The All Asset portfolio may consist of long-only, hedged and private strategies whose portfolios are diversified across a broad range of asset types.

PERFORMANCE & RISK EXPECTATIONS: It is expected that these strategies will provide long term results that are consistent with the return and risk objectives of the total Fund. The following metrics, measured over a full market cycle, will be used when evaluating the portfolio.

- Beta & Correlation of more than 0.5 to the Fund; and
- Comparable performance expectations and volatility to the total Fund.

SECTION 2.

SUB-STRATEGY DESCRIPTIONS

A. ALL ASSET

GENERAL OBJECTIVES: All Asset Strategies may include risk parity, tactical asset allocation and multi-strategy funds to provide risk exposures complementary to the asset allocation of the Fund.

B. OVERLAY STRATEGIES

GENERAL OBJECTIVES: Overlay Strategies will be structured to provide a diversified and low volatility source of incremental returns to the Fund with a low correlation to equity markets.

APPENDIX A – ASSET ALLOCATION TARGETS AND BENCHMARKS

<i>Asset Class</i>	Benchmark(s)	Allocation	Allocation
<i>Sub-Strategy</i>		Range	Target
<i>Fixed Income</i>		20%-50%	35%
<i>Global Fixed Income</i>	9% Bloomberg Barclays U.S. Universal Bond Index 1% 3-Month T-Bill	5%-20%	10%
<i>Alternative Fixed Income</i>	HRFI FOF: Conservative Index	10%-20%	15%
<i>Private Debt</i>	Cambridge Associates – Custom Private Debt Index	5%-15%	10%
<i>Equity</i>		35%-65%	50%
<i>Global Public Equity</i>	MSCI ACWI IMI Net Index	15%-30%	20%
<i>Hedged Equity</i>	HRFI FOF: Strategic Index	10%-20%	15%
<i>Private Equity</i>	Cambridge Associates – Custom Private Equity Index	10%-25%	15%
<i>Real Assets</i>		5%-25%	15%
<i>Stable Value Real Estate</i>	NCREIF NFI - ODCE	2.5%-12.5%	7.5%
<i>Enhanced Real Estate</i>	Cambridge Associates – Real Estate Fund Index	2.5%-12.5%	7.5%
<i>Strategic All Asset & Overlay</i>		0%-15%	0%
<i>All Asset Strategies</i>	Total Endowment Benchmark	0%-10%	0%
<i>Overlay Strategies</i>	3-Month T-Bill	0%-10%	0%

3-MONTH T-BILL: The 90 Day U.S. Treasury Bill is auctioned weekly by the U.S. Treasury and is considered a risk-free investment. The performance is represented by the Federal Reserve H.15 report on Constant Maturity Treasury - 3 Month.

BLOOMBERG BARCLAYS UNIVERSAL BOND INDEX: The U.S. Universal Index represents the union of the U.S. Aggregate Index, U.S. Corporate High Yield Index, Investment Grade 144A Index, Eurodollar Index, U.S. Emerging Markets Index, and the non-ERISA eligible portion of the CMBS Index. The index covers USD-denominated, taxable bonds that are rated either investment grade or high-yield.

HFRI FOF: CONSERVATIVE INDEX: Hedge Fund Research, Inc., Fund of Funds classified as "Conservative" seek consistent returns by primarily investing in funds that generally engage in strategies such as Equity Market Neutral, Fixed Income Arbitrage and Convertible Arbitrage with relatively low volatility. Index return is net of manager fees.

HFRI FOF: STRATEGIC INDEX: Hedge Fund Research, Inc., Fund of Funds classified as "Strategic" seek superior returns by primarily investing in funds that generally engage in opportunistic strategies such as Emerging Markets, Sector Specific and Equity Hedge with higher relative volatility. Index return is net of manager fees.

MSCI ACWI IMI NET INDEX: The Morgan Stanley Capital International - All Country World Investable Market Net Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets. Index return includes dividends net of withholding tax rates.

NCREIF NFI – ODCE: National Council of Real Estate Investment Fiduciaries Fund Index – Open End Diversified Core Equity is a specialized sub-index that includes funds that typically utilize low leverage and invest domestically in stabilized assets. Index return is net of manager fees.

CAMBRIDGE ASSOCIATES REAL ESTATE FUND INDEX: The Cambridge Associates Index is a pooled end-to-end net return calculation, based on data compiled from over 900 institutional quality real estate funds (including opportunistic and valued-added funds) formed since 1986.

CAMBRIDGE ASSOCIATES – CUSTOM PRIVATE DEBT INDEX: An asset-weighted custom composite of Cambridge Associates' database of mezzanine, distressed, and other debt related funds. Index return is net of fees and expenses.

CAMBRIDGE ASSOCIATES – CUSTOM PRIVATE EQUITY INDEX: An asset-weighted custom composite of Cambridge Associates' database of buyout and venture, private equity energy and secondary funds. Index return is net of fees and expenses.

APPENDIX B – FUNDS SUBJECT TO THIS POLICY

TOBACCO SETTLEMENT PROCEED FUNDS

These trusts are established for education and health services and facility purposes and funded with appropriations from the original \$15 billion settlement of the state’s suit against the tobacco companies and the additional amount received under the “most favored nation” provision of the settlement agreement. They are: (A) The Tobacco Settlement Permanent Trust Account, which the Comptroller must invest in accordance with the prudent person standard. (B) The Permanent Fund for Tobacco Education and Enforcement; Permanent Fund for Children and Public Health; Permanent Fund for Emergency Medical Services and Trauma Care; Permanent Fund for Rural Health Facility Capital Improvement; and the Permanent Hospital Fund for Capital Improvement and the Texas Center for Infectious Disease. The Comptroller must invest these funds in accordance with the prudent investor standard. (C) The Permanent Fund for Higher Education Nursing, Allied Health, and Other Health-Related Programs; and Permanent Fund for Minority Health Research and Education, which the Comptroller must invest in a manner that preserves the funds’ purchasing power and distributions.

PERMANENT ENDOWMENT FUND FOR RURAL COMMUNITIES HEALTH CARE INVESTMENT PROGRAM

This trust fund is established to provide assistance to health care professionals who locate in rural areas of the state. The Comptroller must invest the fund in accordance with the prudent investor standard.

TEXAS UNIVERSITY FUND (formerly NATIONAL RESEARCH UNIVERSITY FUND)

This constitutionally authorized trust fund is established to provide a dedicated, independent and equitable source of funding for qualifying general academic teaching institutions to achieve national prominence as major research universities. The Trust Company must invest this fund in accordance with the prudent investor standard. The National Research University Fund (“NRUF”) has been redesignated as a part of the Texas University Fund (“TUF”) and the Investment Policy Statement of the TUF applies to the former NRUF.

TEXAS PRESERVATION TRUST FUND

This trust account is to provide financial assistance to public or private entities for the acquisition, survey, restoration, or preservation of historic property located in Texas. The Comptroller must invest this fund in accordance with the prudent investor standard

PERMANENT FUND SUPPORTING MILITARY AND VETERANS EXEMPTIONS

This trust fund was established by the 83rd Legislature, Senate Bill 1158, in order to better serve veterans throughout the state in regard to meeting their educational needs. Money in the fund can only be used to offset the cost to higher education institutions of the veterans tuition exemption program overseen by the Texas Veterans Commission. The Trust Company is required to administer the fund, and manage it in accordance with the prudent investor standard.

TEXAS FINANCIAL EDUCATION ENDOWMENT

This trust fund is administered by the Finance Commission and comprised of annual assessments collected by the Office of Consumer Credit Commissioner to improve consumer credit, financial education, and asset-building opportunities in this state. The assessments are required to be deposited with the Trust Company. The fund may be invested and reinvested under the prudent investor standard described by Section 11b, Article VII, Texas Constitution.

TEXAS PERMANENT FUND SUPPORTING GRADUATE MEDICAL EDUCATION

This fund was established by the 84th Legislature, Senate Bill 18, to enhance graduate medical education in Texas. Grants are awarded by the Texas Higher Education Coordinating Board to hospitals, medical schools, and community-based, ambulatory patient care centers that seek to develop new graduate medical education programs.

HISTORIC INFRASTRUCTURE SUSTAINABILITY TRUST FUND

This fund was created by the 88th Texas Legislature for the purpose of maintaining, preserving, rehabilitating, and restoring historic sites throughout the state. Administered by the Comptroller of Public Accounts as trustee on behalf of the people of this state, the Trust Company must manage the assets of the fund with the prudent investor standard.

TEXAS STATE BUILDINGS PRESERVATION ENDOWMENT FUND

This fund was created by the 88th Texas Legislature. The purpose of the fund is to maintain, preserve, rehabilitate, and restore the state buildings and grounds over which the State Preservation Board has jurisdiction. The fund will include money transferred from the former capital renewal trust fund and the Governor’s Mansion renewal trust fund and State Cemetery preservation trust fund. The Trust Company must manage the assets of the fund with the prudent investor standard.

APPENDIX C – FUND ENABLING LEGISLATION & DISTRIBUTION POLICIES

TEXAS UNIVERSITY FUND (formerly NATIONAL RESEARCH UNIVERSITY FUND)	
Enabling Legislation	Article VII, section 20 of the Texas Constitution; Section 62.141-.152 of the Texas Education Code
Distribution Policy	The National Research University Fund (“NRUF”) has been redesignated by the Texas Legislature, with voter approval, as a part of the Texas University Fund (“TUF”) and, thus, the Investment Policy Statement of the TUF applies to the former NRUF.
TOBACCO SETTLEMENT PERMANENT TRUST ACCOUNT	
Enabling Legislation	Sections 403.1041 (Fund), 403.1042 (Tobacco Committee) of the Texas Government Code
Distribution Policy	Annual distributions are calculated in accordance with a formula established by rule: 3% of the 20-quarter moving average value of the Fund. <i>See</i> 34 TEX. ADMIN. CODE § 18.2 (2006) (rule setting out calculation formula and further restrictions).
Permanent Fund for Tobacco Education and Enforcement; Permanent Fund for Emergency Medical Services and Trauma Care; Permanent Fund for Children and Public Health; Permanent Fund for Rural Health Facility Capital Improvement; and Permanent Hospital Fund for Capital Improvements and the Texas Center for Infectious Disease	
Enabling Legislation	Sections 403.105, 403.1055, 403.106, 403.1065, 403.1066, and 403.1068 of the Texas Government Code
Distribution Policy	Annual distributions, payable quarterly, are calculated as 3.5% times the twenty-quarter, moving-average value of the Fund as of June 30 for distributions to be made the following fiscal year. The annual distribution may not exceed 7% of the average net fair market value of the investment assets. <i>See</i> TEX. GOV’T CODE § 403.1068 (d), (e) (Vernon Supp. 2005) (distribution restrictions)
Permanent Health Fund for Higher Education Nursing, Allied Health & Other Health-Related Programs; Permanent Fund for Minority Health Research & Education; and Permanent Endowment Fund for the Rural Communities Health Care Investment Program	
Enabling Legislation	Sections 63.101, 63.102; 63.201, 63.202; 63.301, 63.302 of the Texas Education Code; and Sections 487.558, 487.559 of the Texas Government Code
Distribution Policy	Annual distributions, payable quarterly, are calculated as 3.5% times the twenty-quarter, moving-average value of the Fund as of June 30 for distributions to be made the following fiscal year.
TEXAS PRESERVATION TRUST FUND	
Enabling Legislation	Section 442.015 of the Texas Government Code
Distribution Policy	Distributions, payable quarterly, are calculated as 3.5% times the twenty-quarter, moving-average value of the Fund, except to the extent less is requested by the Historical Commission.
PERMANENT FUND SUPPORTING MILITARY AND VETERANS EXEMPTIONS	
Enabling Legislation	Section 54.3411 of the Texas Education Code
Distribution Policy	Distributions, payable annually, are calculated as 3.5% times the twenty-quarter, moving-average value of the Fund.
TEXAS FINANCIAL EDUCATION ENDOWMENT	
Enabling Legislation	Section 14.113 of the Texas Finance Code
Distribution Policy	Not Applicable

TEXAS PERMANENT FUND SUPPORTING GRADUATE MEDICAL EDUCATION	
Enabling Legislation	Section 58A of the Texas Education Code
Distribution Policy	Distributions, payable annually, are calculated as 3.5% times the twenty-quarter, moving-average value of the Fund.
HISTORIC INFRASTRUCTURE SUSTAINABILITY FUND	
Enabling Legislation	Section 442.0151 of the Texas Government Code
Distribution Policy	<p>Annually, upon request of the Texas Historical Commission, distribution calculated as up to 3.5% times the twenty-quarter, moving-average value of the Fund</p> <p>The commission may request an additional distribution from the fund once a calendar year upon the satisfaction of statutory conditions, including a commission certification to the Legislative Budget Board.</p>
TEXAS STATE BUILDINGS PRESERVATION ENDOWMENT FUND	
Enabling Legislation	Section 443.0103 of the Texas Government Code
Distribution Policy	<p>Annually, upon request of the Texas State Preservation Board, distribution calculated as up to 3.5% times the twenty-quarter, moving-average value of the Fund</p> <p>The board may request an additional distribution from the fund once a calendar year upon the satisfaction of statutory conditions, including a board certification to the Legislative Budget Board.</p>