

TESTIF

Texas Economic Stabilization Investment Fund

Q⁴
2023

COMPTROLLER'S INVESTMENT ADVISORY BOARD
PORTFOLIO REVIEW

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Executive Summary

As of December 31, 2023

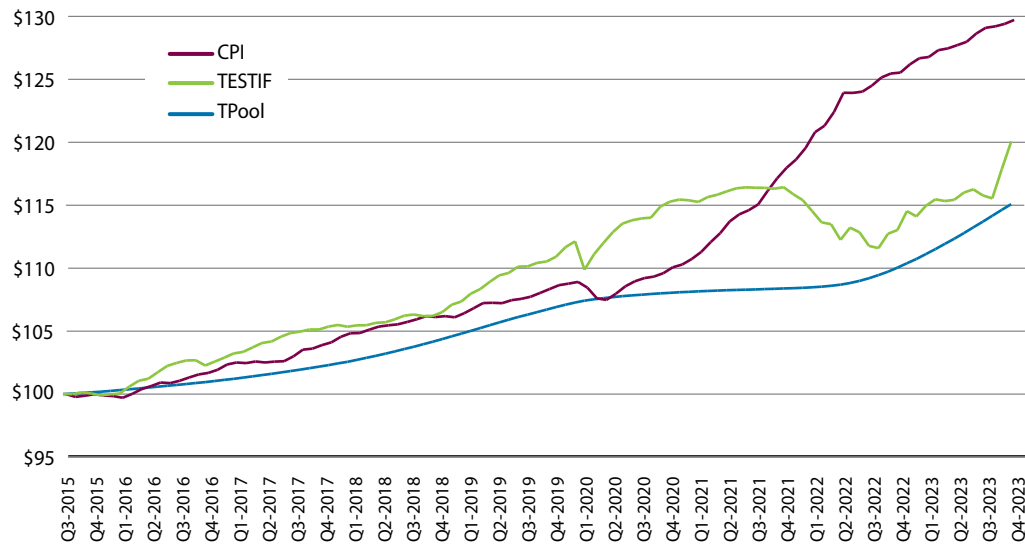
The Texas Economic Stabilization Investment Fund (the "Fund") was created under HB 903 of the 84th Legislative Session and later expanded under SB 69 of the 86th Legislative Session to invest the Economic Stabilization Fund with the goal of achieving a slightly higher return than the state's primary operating fund (the "Treasury Pool"). The Fund has two primary performance objectives: 1) maintain purchasing power (achieving net returns that exceed inflation over time); and 2) deliver returns in excess of short-term cash equivalents as measured by the Treasury Pool.

- Since the Fund's inception, the portfolio has returned +2.2% (annualized), resulting in excess value relative to the state's Treasury Pool given its return of +1.7% (annualized);
- During the same period, the portfolio has trailed inflation as measured by headline CPI-U, which resides just below +3.2% (annualized) and continues to reflect consumer pricing pressures that remain well ahead of the Federal Reserve's stated target;
- Looking at TESTIF's effectiveness over a composite of rolling 12-month periods, the portfolio has exceeded the Treasury Pool 64% of the time while beating inflation 54% of the time;
- The Fund's +6.2% return in 2023 added more than +160 bps over the Treasury Pool and came in about +290 bps ahead of inflation. Notably, this occurred despite sustained interest rate volatility as higher imbedded yields helped to cushion price volatility;
- TESTIF (excluding ERCOT balances) began the year with a \$12.6BN balance and ended with just over \$16.9BN – a product of both the FY Severance Tax Inflow and the strong performance noted above. Amid this growth, TTSTC staff deployed over \$5.4BN into new investments during 2023;
- Despite persistent and planned investment beyond the Treasury Pool, the portfolio is expected to remain highly liquid with approximately 65% able to be delivered as cash within one month even when considering medium-stress scenarios that may stretch manager-provided liquidity timelines;
- The portfolio invests in 46 different strategies including the Treasury Pool, custodial Money Market Funds, and directly purchased T-Bills (6-months or less) or T-Notes (out to 5-Year maturity), and is utilizing the expertise of 31 external organizations;
- Since given expanded authorization under SB 69, just over \$9.7BN in capital has been invested across a number of mostly liquid fixed income asset classes, including: "Core" long only fixed income, Absolute Return (opportunistic/unconstrained and short duration fixed income), and some relatively low-volatility hedge funds (Alternative Fixed Income) designed to reduce interest rate sensitivity;
- Following approved adjustments to the Fund's allocation targets in mid-2023, which incorporate the mandatory minimum cash buffer being reduced to 10% from 25% of the investible balance, several diversifying and/or less-liquid asset classes have started to enter the portfolio in modest size, including: Global Public Equity (long only), Private Debt (non-distressed), Private Equity (buyout and secondaries), and Real Assets (real estate and infrastructure).

Portfolio Growth

As of December 31, 2023

Portfolio Growth



| ESF Net Inflows/Transfers | |
|---------------------------|------------------|
| 2015 | \$2,600,000,000 |
| 2016 | \$475,000,000 |
| 2017 | N/A |
| 2018 | \$1,500,000,000 |
| 2019 | \$1,154,000,000 |
| 2020 | \$2,624,610,891 |
| 2021 | -\$1,300,000,000 |
| 2022 | \$5,074,220,091 |
| 2023 | \$3,432,787,418 |

Asset Allocation Summary

As of December 31, 2023

| Asset Class | Strategy | Number of Funds ^{1,2} | Number of Managers ^{1,2} | Current Market Value | Weight | Target Weight |
|---------------------------------|--------------------------------|--------------------------------|-----------------------------------|-------------------------|---------------|---------------|
| Global Fixed Income | | 28 | 18 | \$14,808,110,041 | 87.6% | 75.0% |
| | Cash ³ | 3 | 2 | 4,167,357,586 | 24.6% | 10.0% |
| | Absolute Return | 16 | 13 | 6,950,812,074 | 41.1% | 40.0% |
| | Unconstrained Rates and Credit | 9 | 7 | 3,689,940,381 | 21.8% | 25.0% |
| Alternative Fixed Income | | 16 | 15 | \$1,555,102,999 | 9.2% | 10.0% |
| Private Debt | | – | – | – | – | 4.0% |
| Global Public Equity | | 2 | 2 | \$544,088,038 | 3.2% | 5.0% |
| Private Equity | | – | – | – | – | 3.0% |
| Real Assets | | – | – | – | – | 3.0% |
| Total Portfolio | | 46 | 32 | \$16,907,301,078 | 100.0% | 100.0% |

¹ Does not include funds in wind down or redemption.

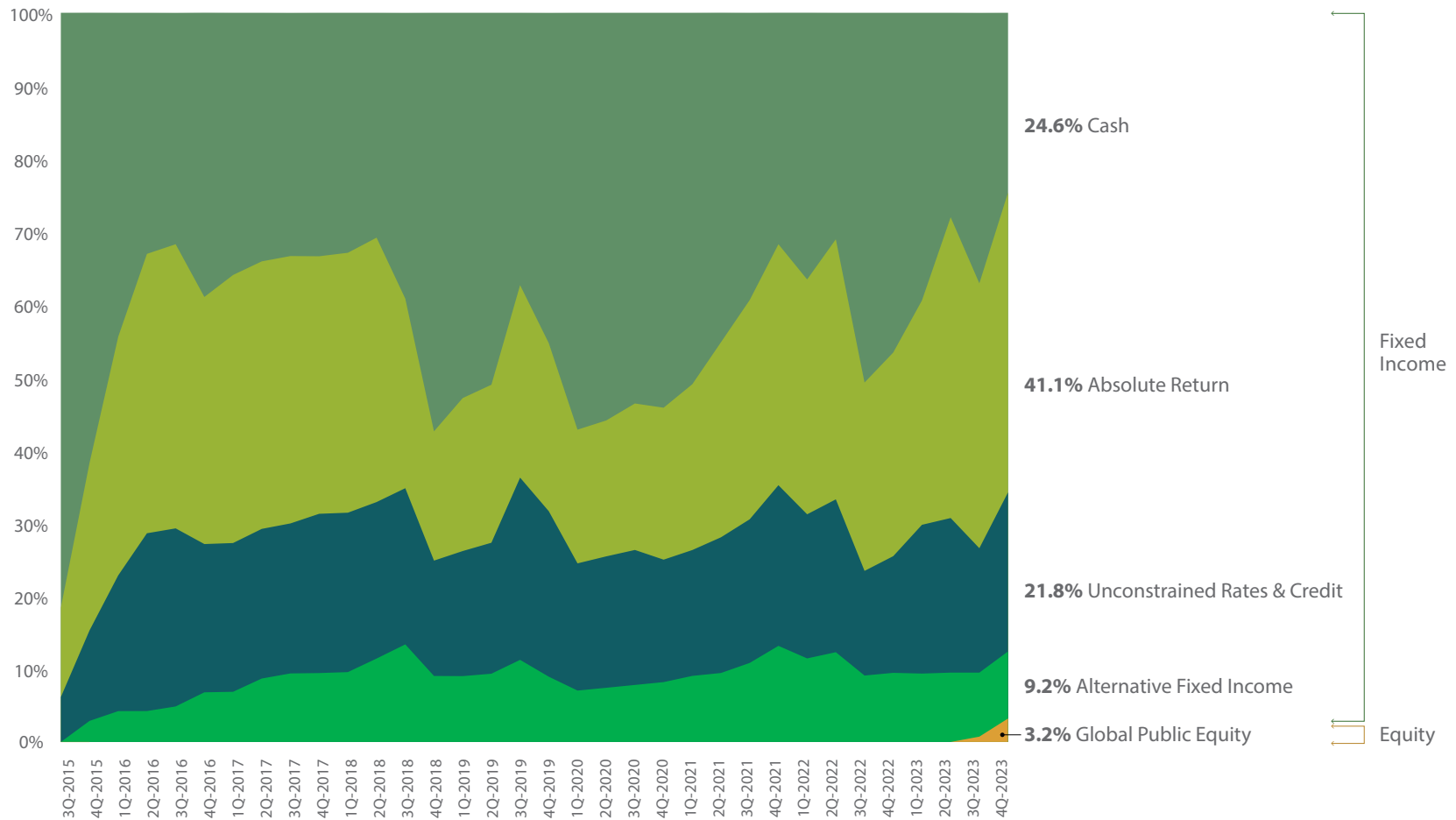
² Manager count for aggregates are less than sum of components due to managers with multiple strategy allocations.

³ Cash includes State Street Money Market Fund, Treasury Pool, and T-bills.

Asset Allocation Evolution

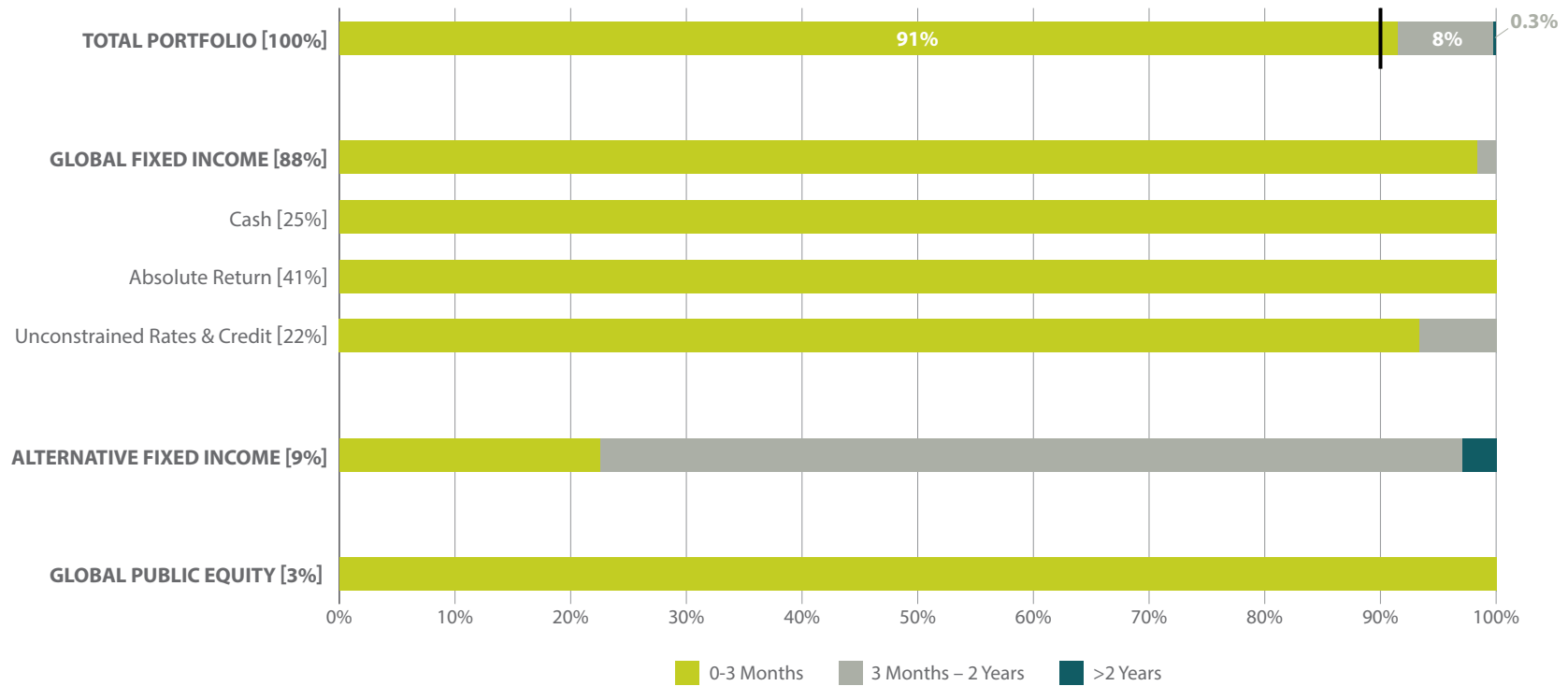
As of December 31, 2023

Total AUM: \$16,907,301,078



Portfolio Liquidity^{1,2}

As of December 31, 2023

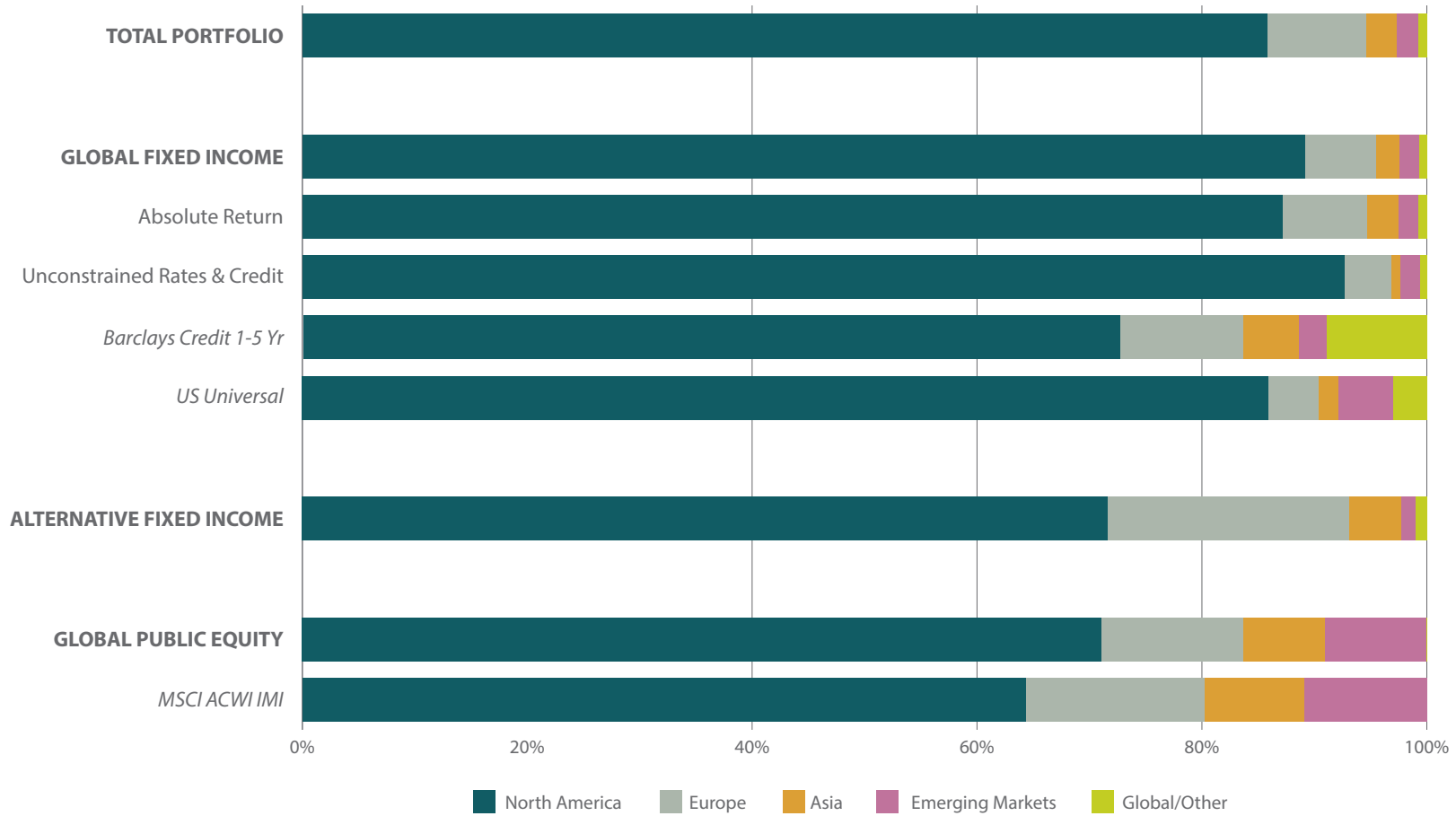


¹ Projected liquidity takes hard lock, notice and payout periods into consideration.

² Liquidity data as provided by managers.

Portfolio Geographic Allocation^{1,2,3}

As of December 31, 2023



¹ Calculated using gross exposures.

² Excludes State Street Money Market Fund, Treasury Pool, T-bills, and cash held by managers.

³ Geographic allocation reflects the domicile of the issuer and does not indicate the currency of the instrument.

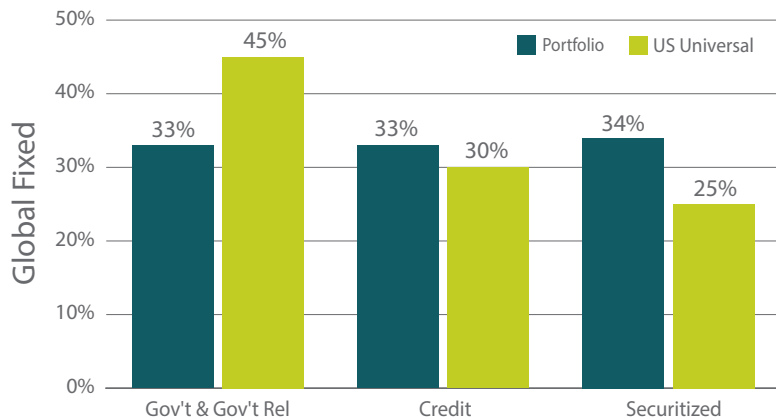
Fixed Income Summary

As of December 31, 2023

| Strategy | Market Value | Portfolio Weight | Standard Deviation | Sharpe Ratio | % Positive Months ¹ | Barclays Credit 1-5 Yr | | US Universal | | HFRI Conservative | |
|-------------------------------|-------------------------|------------------|--------------------|--------------|--------------------------------|------------------------|-------------|--------------|-------------|-------------------|-------------|
| | | | | | | Beta | Correlation | Beta | Correlation | Beta | Correlation |
| Cash | \$4,167,357,586 | 24.6% | - | - | - | - | - | - | - | - | - |
| Global Fixed Income (ex-Cash) | \$10,640,752,455 | 62.9% | 4.0% | -0.6 | 47.2% | 1.1 | 1.0 | 0.6 | 1.0 | 0.6 | 0.4 |
| Absolute Return | 6,950,812,074 | 41.1% | 2.5% | -0.4 | 52.8% | 0.7 | 1.0 | 0.3 | 0.9 | 0.5 | 0.4 |
| <i>Barclays Credit 1-5 Yr</i> | | | 3.5% | -0.7 | 41.7% | - | - | 0.5 | 1.0 | 0.5 | 0.3 |
| Unconstrained Rates & Credit | 3,689,940,381 | 21.8% | 6.8% | -0.7 | 36.1% | 1.8 | 0.9 | 0.9 | 1.0 | 1.0 | 0.3 |
| <i>US Universal</i> | | | 7.2% | -0.7 | 38.9% | 1.9 | 1.0 | - | - | 0.9 | 0.3 |
| Alternative Fixed Income | \$1,555,102,999 | 9.2% | 3.2% | 0.6 | 72.2% | 0.0 | 0.0 | 0.0 | 0.0 | 0.9 | 0.7 |
| <i>HFRI FoF: Conservative</i> | | | 2.3% | 0.9 | 72.2% | 0.2 | 0.3 | 0.1 | 0.3 | - | - |
| Total Fixed Income | \$16,363,213,041 | 96.8% | 2.3% | -0.41 | 50.0% | 0.6 | 0.9 | 0.3 | 0.9 | 0.5 | 0.5 |

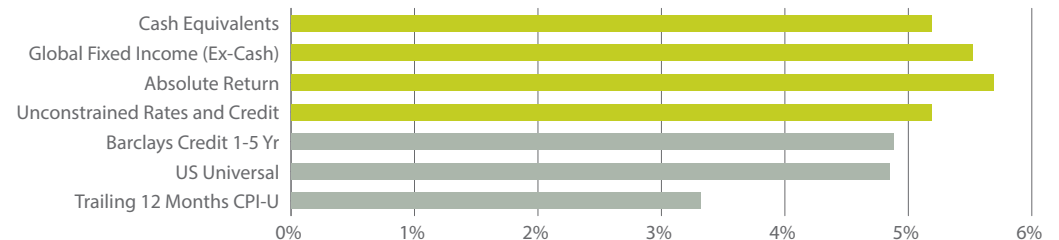
¹Trailing 36 months.

Sector Allocation¹ Ex-Cash

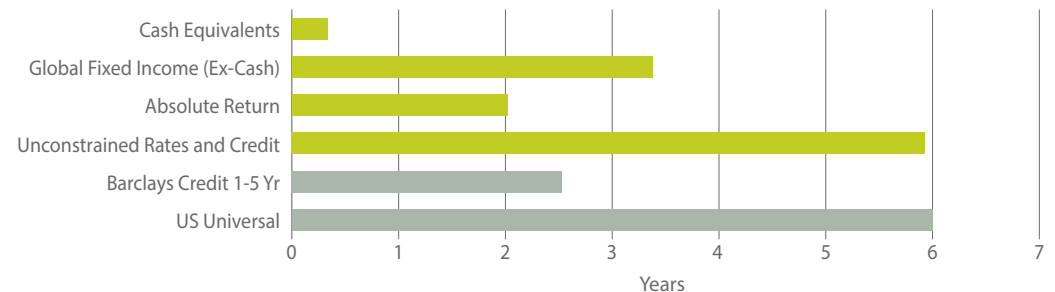


¹Calculated using gross exposures.

Yield



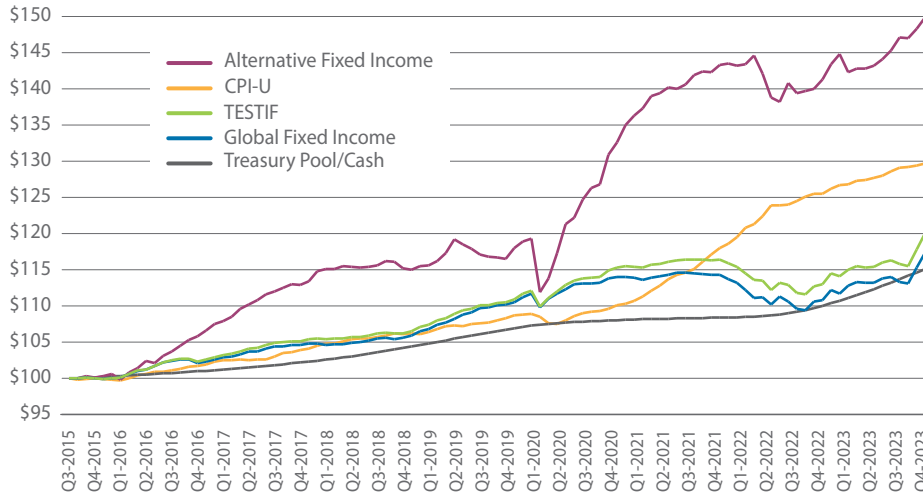
Duration



Fixed Income Detail

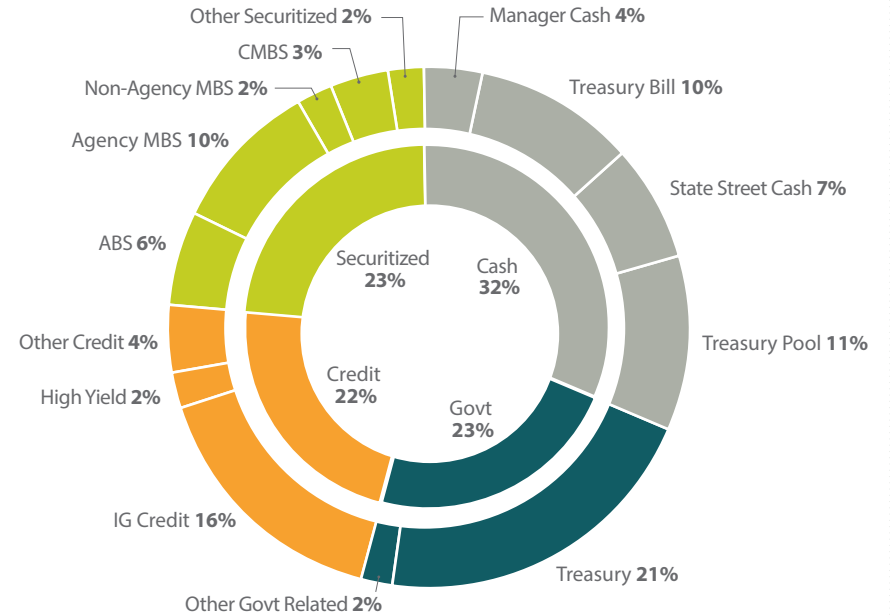
As of December 31, 2023

Growth of \$100¹

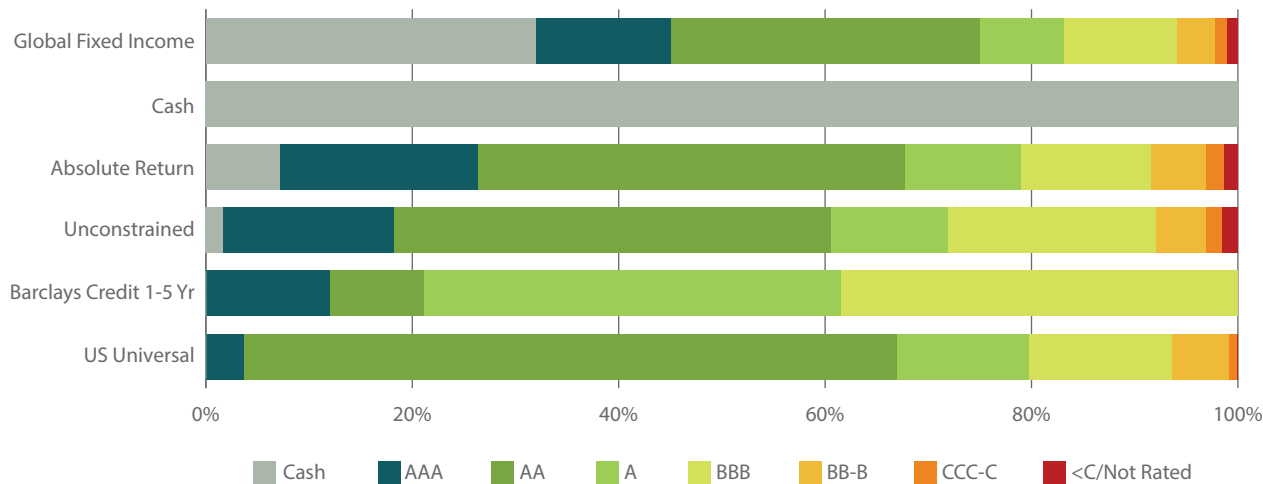


¹Since inception.

Global Fixed Income Exposure by Sector



Global Fixed Income Exposure by Quality



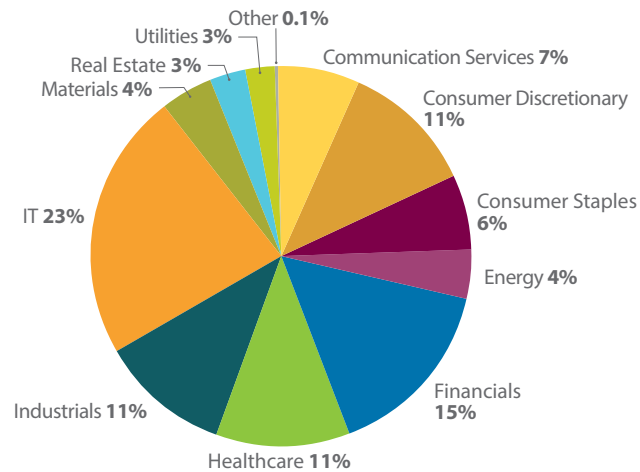
Equity Summary

As of December 31, 2023

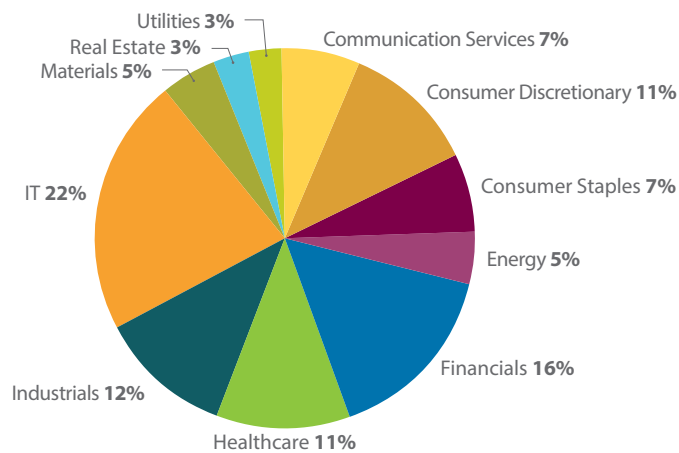
| Strategy | Market Value | Portfolio Weight | Standard Deviation | Sharpe Ratio | % Positive Months | MSCI ACWI IMI | | HFRI FoF Strategic | |
|---------------------|----------------------|------------------|--------------------|--------------|-------------------|---------------|-------------|--------------------|-------------|
| | | | | | | Beta | Correlation | Beta | Correlation |
| Global Equity | \$544,088,038 | 3.2% | - | - | - | - | - | - | - |
| MSCI ACWI IMI | | | 16.6% | 0.2 | 58.3% | - | - | 1.9 | 0.8 |
| Total Equity | \$544,088,038 | 3.2% | - | - | - | - | - | - | - |

¹Trailing 36 months.

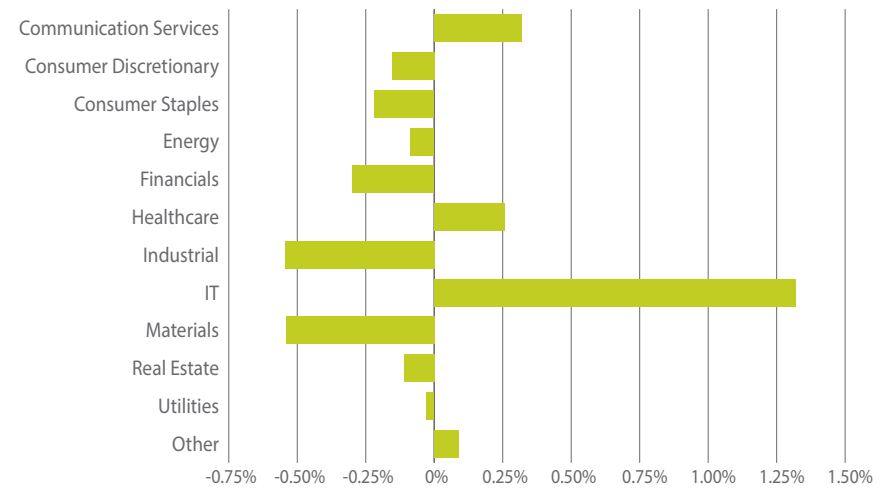
Global Equity



MSCI ACWI IMI



Sector Under/Over Allocation¹



¹Relative to MSCI ACWI IMI

TESTIF Performance Table

As of December 31, 2023

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | YTD | Ann. ITD |
|-------------|-------|-------|-------|-------|-------|-------|------|-------|-------|-------|-------|-------|--------------|----------|
| 2015 | | | | | | | | | 0.0% | 0.1% | -0.1% | -0.1% | -0.1% | - |
| 2016 | 0.1% | 0.1% | 0.5% | 0.5% | 0.2% | 0.5% | 0.5% | 0.2% | 0.2% | 0.0% | -0.4% | 0.3% | 2.7% | - |
| 2017 | 0.3% | 0.3% | 0.1% | 0.3% | 0.3% | 0.1% | 0.4% | 0.3% | 0.1% | 0.2% | 0.0% | 0.2% | 2.7% | - |
| 2018 | 0.1% | -0.1% | 0.1% | 0.0% | 0.2% | 0.0% | 0.2% | 0.3% | 0.1% | -0.1% | 0.0% | 0.3% | 1.1% | - |
| 2019 | 0.5% | 0.2% | 0.6% | 0.3% | 0.5% | 0.5% | 0.2% | 0.5% | 0.0% | 0.2% | 0.1% | 0.3% | 4.1% | - |
| 2020 | 0.7% | 0.4% | -2.0% | 1.1% | 0.8% | 0.8% | 0.6% | 0.2% | 0.1% | 0.0% | 0.8% | 0.3% | 3.9% | - |
| 2021 | 0.2% | -0.1% | -0.1% | 0.3% | 0.2% | 0.2% | 0.2% | 0.1% | 0.0% | 0.0% | -0.1% | 0.1% | 1.0% | - |
| 2022 | -0.5% | -0.4% | -0.8% | -0.8% | -0.1% | -1.1% | 0.9% | -0.3% | -1.0% | -0.2% | 1.0% | 0.3% | -2.9% | - |
| 2023 | 1.3% | -0.4% | 0.7% | 0.5% | -0.1% | 0.1% | 0.5% | 0.2% | -0.4% | -0.2% | 2.0% | 1.9% | 6.2% | 2.2% |

Asset Class Definitions

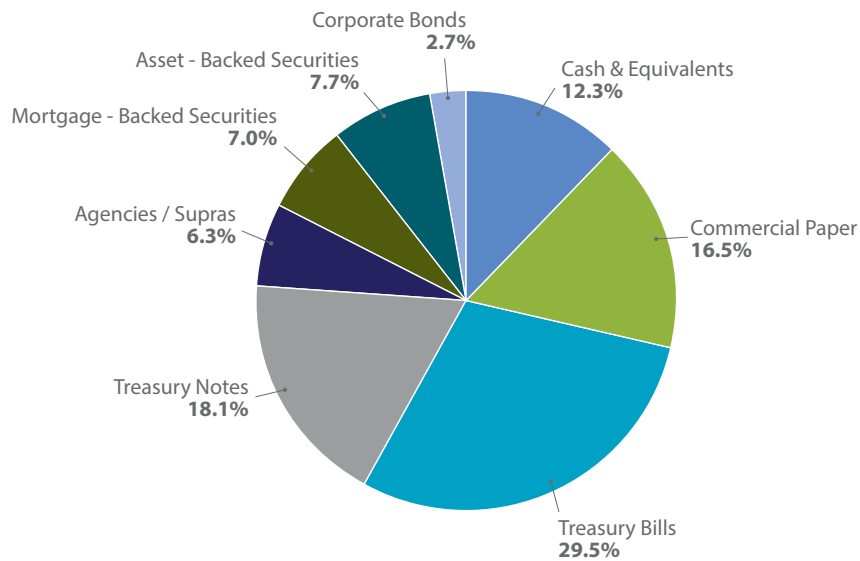
As of December 31, 2023

| Asset Classes/Strategies | Description | Liquidity |
|--|---|---------------|
| Cash (including Treasury Pool) | Diversified portfolio of extremely short duration, high quality bonds. The cash portfolio is designed to be highly liquid with capital preservation as its primary focus. | Highly Liquid |
| Fixed Income-Absolute Return | Diversified portfolio of fixed income and other investments designed to deliver relatively stable returns with reduced correlation to traditional fixed income markets. Generally, these strategies have a mandate to provide investors absolute returns (Cash +2% to 4%) without regard to specific market benchmarks. The ability to hedge away duration exposure and the use of derivatives are characteristics of these flexible/opportunistic mandates. The portfolio also includes a diversified portfolio of short duration strategies, featuring mostly high quality (i.e. investment grade) bonds issued by the US Government and its agencies, corporate bonds, and a collection of securitized products. | Highly Liquid |
| Fixed Income-Unconstrained Rates and Credit | Diversified portfolio of mostly high quality (i.e. investment grade) bonds across the major bond market segments and complementary sectors intended to enhance return potential. The core component generally includes US Treasury securities, mortgage-backed securities, corporate bonds, and a collection of securitized products. The complementary strategies typically include exposures to diversifying strategies such as high yield corporate bonds or bank loans (below investment grade), foreign bonds (developed and emerging markets), and other sectors. | Highly Liquid |
| Alternative Fixed Income | Diversified portfolio of fixed income and other investments designed to deliver relatively stable returns with reduced correlation to broad market events. Generally, these strategies have a mandate to provide investors absolute returns (Cash +2% to 6%) without regard to specific market benchmarks. The ability to hedge away duration exposure and the use of synthetics are noteworthy characteristics of these flexible mandates. Also included in this asset class are Relative Value/Multi-Strategies where an investment thesis is predicated on realization of a spread between related yield instruments in which one or multiple components of the spread contains a fixed income, derivative, equity, real estate or a combination of these or other instruments. Strategies are typically quantitatively driven to identify attractive positions in which the risk adjusted spread between instruments represents an attractive opportunity for the investment manager. | Semi-Liquid |
| Global Public Equity | Diversified portfolio of growth-oriented strategies that are correlated to the opportunity set in global equity markets. Exposures may include issuers domiciled in the US, international developed countries, and emerging markets. These will typically be long-only strategies, both active and passive, implemented with regional, industry, and market capitalization weightings in a proportional relationship to a global equity index. The objective is to deliver the highest level of return possible with volatility comparable to established benchmarks. | Semi-Liquid |

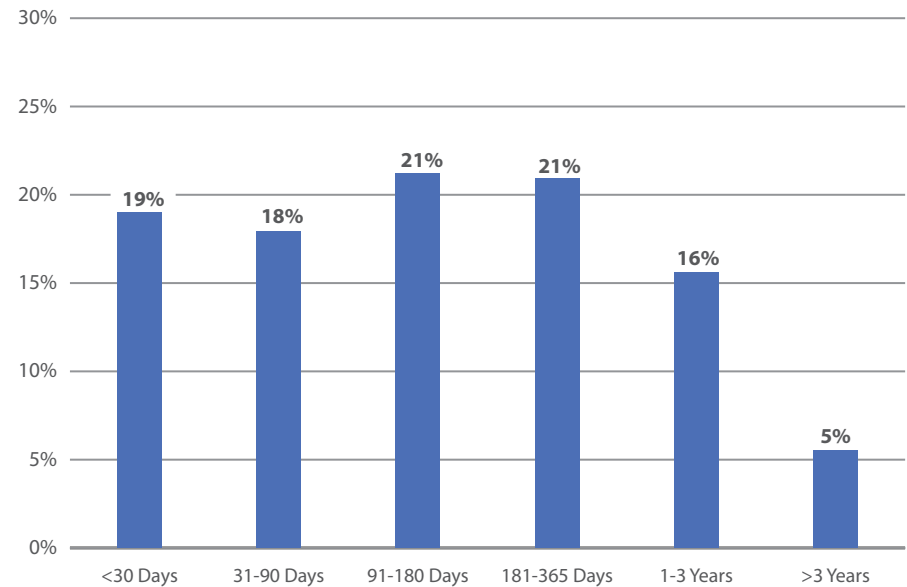
Treasury Pool – Portfolio Characteristics

As of February 29, 2024
(Unaudited)

Portfolio Composition



Maturity Structure





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