INVESTMENT POLICY STATEMENT

STATE WATER IMPLEMENTATION FUND FOR TEXAS

Effective November 1, 2026

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CHAPTER I. GENERAL INFORMATION

SECTION 1.
FUND BACKGROUND & PURPOSE

The State Water Implementation Fund for Texas ("SWIFT") was created by the 83rd Texas Legislature, Regular Session, and became effective once the voters approved the constitutional amendment to fund the SWIFT with $2 billion from the Economic Stabilization Fund. The creation of the SWIFT and its requirements are set forth in Chapter 15 of the Texas Water Code. The SWIFT is intended to serve as a water infrastructure bank whose objective is to enhance the financing capabilities of the Texas Water Development Board ("TWDB") and to provide a cash flow mechanism where money used for TWDB's programs will flow back to the Fund. The purpose of the Fund is to provide financing assistance and revolving low-cost flexible financing options for water projects. The Fund will be used to help provide financing for projects in the State Water Plan overseen by the Texas Water Development Board.

SECTION 2.
FUND ADMINISTRATION:

Comptroller of Public Accounts and Texas Treasury Safekeeping Trust Company

The Texas Treasury Safekeeping Trust Company ("Trust Company") shall hold and invest the SWIFT for TWDB. The Trust Company shall adopt an investment policy appropriate for the SWIFT and present it to the Comptroller's Investment Advisory Board ("CIAB"). In accordance with Section 15.433(f) of the Water Code and CIAB procedures, the Trust Company shall submit the investment policy to the CIAB and the Comptroller. 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 Investment Officer of the Trust Company.

Texas Treasury Safekeeping Trust Company 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; and reviewing and approving portfolio rebalancing and tactical asset allocation.

The Investment Committee is established and operates pursuant to the Trust Company Investment Committee Charter, as amended. The charter outlines the composition of the committee and its duties.

The Investment Committee shall review this Investment Policy Statement ("Policy") as needed and recommend necessary changes, if any, to the CIAB and the Comptroller.

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 serves as chair for the Committee.

CHAPTER II. FUND INVESTMENT OBJECTIVES & EXPECTATIONS

SECTION 1.
FUND INVESTMENT OBJECTIVES

Section 15.433(b) of the Water Code establishes the overall objective for investing the SWIFT "to maintain sufficient liquidity to meet the needs of the fund while striving to preserve the purchasing power of the fund." The Trust Company shall invest the Fund in accordance with the prudent investor standard. It will consider only those investments appropriate for the SWIFT given its purpose and distribution requirements.

SECTION 2.
PERFORMANCE EXPECTATIONS

Maintaining the Fund's purchasing power means achieving net returns over a market cycle that exceed inflation by at least the total expenses of managing and investing the fund. Inflation will be measured using the annualized growth rate of the national Consumer Price Index – Urban (CPI-U) published by the Federal Bureau of Labor Statistics.

The investment performance of the Fund and each investment strategy will be measured and compared to the stated benchmarks by an independent third party and reported quarterly to the Comptroller, Investment Committee and CIAB. The performance of the Fund will be compared to a customized composite of the sub- strategy performance benchmarks weighted by target allocation percentages as set out in Appendix A and as the portfolio is actually allocated.

CHAPTER III. RISK MANAGEMENT & EXPECTATIONS

SECTION 1.
RISK TOLERANCE

A certain amount of risk must be assumed in order to achieve the Fund's investment objective. Risk factors include, but are not limited to, market, volatility, credit, liquidity, interest rate, tracking error and regulatory. The long-term nature of the Fund means that interim fluctuations in portfolio market values and rates of return can be tolerated in seeking to achieve the long-term investment objective. Diversification is the primary tool for managing overall portfolio risk. Asset allocation guidelines and the investment strategy structure will ensure adequate diversification to control the volatility of investment returns over the long-term.

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. Although performance expectations are established for a market cycle, performance

and risk analysis will be conducted on an ongoing basis.

SECTION 2.
RISK MONITORING

Risk expectations will be established for the total Fund and each major Strategy. 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 at least quarterly, focusing on:

- Comparison of performance results to benchmarks;
- Comparison of risk metrics to expectations;
- Characteristics and multi-factor exposure analysis;
- 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 relevant markets.

The overall risk of the fund will primarily be managed through investing in a diversified mix of fixed income strategies with varying styles, liquidity terms, volatility objectives, credit quality, and return expectations. Other complementary strategies may be utilized to further diversify the Fund's risk factors and enhance its overall return potential.

Value at Risk (VaR) Guidelines. Monthly portfolio VaR will be maintained between minimum and maximum VaR levels calculated in accordance with the Value at Risk Tolerance Procedure.

SECTION 3.
LIQUIDITY EXPECTATIONS

The Fund liquidity will be based upon the annual cash flow forecasts developed by the TWDB. Annual cash flow needs of the TWDB could potentially exceed SWIFT earnings. The TWDB is required by statute to update its cash flow forecast annually. Adjustments to the positioning of assets in the SWIFT will be made as needed to provide liquidity required by the TWDB. Such adjustments will likely impact fund returns.

SECTION 4.
DIVERSIFICATION EXPECTATIONS

- 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 total assets under management (AUM).

SECTION 5.
DUE DILIGENCE

Prior to investing Fund assets, proper due diligence will be conducted by Trust Company staff and/or its Consultants. Due diligence results will be presented to the Trust Company Investment Committee as part of thereview and approval process for any investment manager. Trust Company staff or its Consultants will meet with a representative of each external Investment Manager in person and on-site, as appropriate.

CHAPTER IV. INVESTMENT STRATEGIES & MANAGERS

SECTION 1.
INVESTMENT STRATEGY

The investment strategy will strike a balance between the competing needs of ensuring sufficient liquidity and generating required investment returns.

The Fund will be invested in a diversified mix of investment strategies that, when combined as a portfolio are expected to produce the required returns of the program, while striving for low to moderate price volatility. Asset types to be included in the Fund will be determined primarily by the Fund's volatility and liquidity expectations.

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.
INVESTMENT MANAGERS

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. Separate accounts and commingled vehicles (e.g., mutual funds, limited partnerships, common trust funds, exchange traded funds) may be employed. Investment Managers are expected to act in an ethical manner and with integrity in all aspects of the investment process.

Each Investment Manager has discretion to determine the mix of assets appropriate for 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 long and short positions, but also owning multiple asset classes (e.g., stocks, bonds, and currencies) and derivative instruments (e.g., futures, options, swaps).

Internal Investment Management

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

SECTION 3.

FIXED INCOME STRATEGIES

Fixed Income strategies are expected to generate relatively consistent positive returns with lower correlation to the public 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 predominantly 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 may include exposures to US and non-US sovereigns, corporates, structured notes, and asset-backed instruments.

Alternative Fixed Income strategies are intended to achieve consistent positive returns with prudent levels of risk. The primary objective is to be a fixed income replacement by achieving 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 ex-China ex-Hong Kong 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 ex-China ex-Hong Kong 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.

SECTION 4.
PRIVATE INVESTMENT STRATEGIES

Because the Fund has an extended time horizon (multi-decade), a portion of Fund assets will be invested in vehicles that have limited liquidity options. The forecasts of the Fund's outflows and the liquidity premium expected from these investments make many of these strategies prudent for the fund's objectives. Private investments will primarily be focused on debt and credit oriented strategies ranging from senior secured credit to distressed credit, but may at times include exposures across the entire corporate capital structure. 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.

SECTION 5.
REAL ASSET STRATEGIES

Real Asset strategies are intended to serve primarily as inflation hedges and provide diversification benefits through low correlation with other investment strategies. Real Asset Strategies include investments in institutional quality real estate, timber, infrastructure assets, industrial and precious metals, energy, livestock and grains.

SECTION 6.
EQUITY STRATEGIES

The Equity portfolio is intended to provide for portfolio growth and inflation protection and help the fund achieve its performance expectations over time. The Trust Company may utilize a variety of Investment Managers, both directional and hedged strategies, intended to fully represent the global investment opportunity set. Due to the inherent volatility of the asset class, hedged strategies may be emphasized over directional strategies.

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.

APPENDIX A. ASSET ALLOCATION TARGETS & BENCHMARKS

Asset Class Sub-Strategy	*Strategy Description*	*Typical Liquidity*	*Benchmark(s)*	*Allocation Range*	*Allocation Target*
Fixed Income				**40%-70%**	**55%**
Cash	Stable Value	Daily	3-Month T-Bill	5%-20%	10%
Global Fixed Income	Unconstrained, Rates & Credit	Daily/ Monthly	Bloomberg US Universal Bond Index	5%-20%	10%
Alternative Fixed Income	Long/Short Relative Value & Multi-Strategy	Monthly/ Quarterly	HFRI FoF Conservative	5%-25%	15%
Private Debt	Private Credit	Illiquid	50% S&P UBS Leveraged Loan Index & 50% Bloomberg US Corporate High Yield Bond Index, plus a premium of 1% per annum	10%-30%	20%
Equity				**15%-45%**	**30%**
Global Equity	Directional	Daily/ Monthly	MSCI ACWI IMI ex-China ex-Hong Kong Net Index	5%-20%	10%
Hedged Equity	Hedged Equity	Monthly/ Quarterly	HFRI FoF Strategic Index	10%-30%	20%
Real Assets				**5%-25%**	**15%**
Real Estate	Core Real Estate	Illiquid	NCREIF NFI – ODCE	5%-25%	15%
Strategic All Asset & Overlays				**0%-10%**	**0%**
All Asset Strategies	Risk Parity, Tactical Asset Allocation, Multi-strategy	Monthly/ Quarterly	Total SWIFT Benchmark	0%-10%	0%

Benchmark Descriptions

3-Month T-Bill: The 90 Day US Treasury Bill is auctioned weekly by the US Treasury Department and is considered a risk-free investment. The performance is represented by the ICE BofA US 3-Month Treasury Bill Index.

Bloomberg US Universal Bond Index: The US Universal Index represents the union of the US Aggregate Index, US Corporate High Yield Index, Investment Grade 144A Index, Eurodollar Index, US 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 ex-China ex-Hong Kong Net Index: The Morgan Stanley Capital International - All Country World Investable Market Net Index is a custom free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets, excluding China and Hong Kong. Index return includes dividends net of withholding tax rates.

Private Credit Benchmark: An equal weighted mix (50/50) of the performance of the S&P UBS Leveraged Loan Index and the Bloomberg US Corporate High Yield Bond Index plus a premium of 100 bps per annum. The S&P UBS Leveraged Loan Index represents tradable, senior- secured, US-dollar-denominated non-investment-grade loans. The Bloomberg US Corporate High Yield Index measures the USD-denominated, high yield, fixed rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's Fitch and S&P is Ba1/BB+/BB+ or below.

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.