# Investment Policy Statement
## Texas Economic Stabilization Investment Fund
## (TE-StIF)

Effective November 1, 2026

## TABLE OF CONTENTS

**CHAPTER** **PAGE**


CHAPTER I. GENERAL INFORMATION ..... 3

SECTION 1. FUND BACKGROUND & PURPOSE ..... 3

SECTION 2. FUND ADMINISTRATION ..... 3

CHAPTER II. FUND INVESTMENT OBJECTIVES & EXPECTATIONS ..... 4

SECTION 1. FUND INVESTMENT OBJECTIVES ..... 4

SECTION 2. PERFORMANCE EXPECTATIONS ..... 4

CHAPTER III. RISK MANAGEMENT & EXPECTATIONS ..... 4

SECTION 1. RISK TOLERANCE ..... 4

SECTION 2. RISK MONITORING ..... 5

SECTION 3. LIQUIDITY EXPECTATIONS ..... 5

SECTION 4. DIVERSIFICATION EXPECTATIONS ..... 5

SECTION 5. DUE DILIGENCE ..... 5

CHAPTER IV. INVESTMENT STRATEGIES & MANAGERS ..... 6

SECTION 1. INVESTMENT STRATEGY ..... 6

SECTION 2. INVESTMENT MANAGERS ..... 6

SECTION 3. FIXED INCOME STRATEGIES ..... 7

SECTION 4. REAL ASSET STRATEGIES ..... 8

SECTION 5. EQUITY STRATEGIES ..... 8

APPENDIX A. ASSET ALLOCATION TARGETS & BENCHMARKS ..... 9

## CHAPTER I. GENERAL INFORMATION

### SECTION 1.

*FUND BACKGROUND & PURPOSE*

The Texas Economic Stabilization Investment Fund ("TESTIF") was created pursuant to Section 404.0241 of the Government Code in order to invest the assets of the Economic Stabilization Fund ("ESF").

### 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 TESTIF for theTexas Comptroller of Public Accounts ("CPA"). The Trust Company shall adopt an investment policy appropriatefor the TESTIF and present it to the Comptroller's Investment Advisory Board ("CIAB"). In accordance with Section 404.0241 of the Government 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, andshareholder 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*

The Trust Company shall invest the Fund in accordance with Section 404.0241(a) of the Government Code, the prudent investor standard. It will evaluate investments based upon the TESTIF's purpose and potential liquidity needs.

### SECTION 2.

*PERFORMANCE EXPECTATIONS*

The Fund will have two primary performance objectives: 1) maintaining purchasing power; and 2) delivering returns in excess of short-term cash equivalents. Maintaining the Fund's purchasing power means achieving net returns over a full 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 PriceIndex - 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. In addition, 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.

Allocation targets, investment strategies and associated benchmarks may change as more information regarding the impact to Texas' credit rating and liquidity requirements are determined.

## 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, currency, liquidity, interest rate, tracking error and regulatory. The nature of the Fund means that moderate 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 strategy structure will ensure adequate diversification to control the volatility of the overall portfolio. As appropriate, opportunities to commit to longer-term, less liquid investments could be taken in order to capture illiquidity return premiums.

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

## SECTION 3.

*LIQUIDITY EXPECTATIONS*

The Fund is anticipated, in part, to be a longer-term reserve than cash or cash plus pools. Because the Fund is anticipated to have an extended time horizon, a modest portion of Fund assets may be invested in vehicles that have more limited liquidity options. As TESTIF's balances have grown meaningfully since inception and given the "sufficient balance" threshold that serves to help regulate cash flows, the prospect of targeting illiquidity premiums across markets is increasingly relevant and appropriate. That said, it will remain predominantly liquid allowing for a nearly complete monetization and delivery of the Fund's assets during any biennium. At the time of investment, no more than 10% of Fund assets shall be invested in strategies that restrict liquidity beyond 2 years. The inclusion of illiquid assets means there may be no ability to redeem or otherwise prudently sell a small allocation of the portfolio (governed by the strategic asset allocation in Appendix A) for a period of time that extends beyond any biennium.

## SECTION 4.

*DIVERSIFICATION EXPECTATIONS*

- Excluding the Treasury Pool and/or 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 the review 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 enhanced investment returns to meet performance objectives.

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 reduced volatility. Asset types to be included in the Fund will be determined primarily by the Fund's volatility and liquidity limitations.

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. Both 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*

**Cash** strategies are designed to be highly liquid with capital preservation as the primary focus. The category includes commingled investment vehicles with high quality and short duration (Rule 2a-7 money market funds) and/or direct investments in securities with very similar characteristics (including the Treasury Pool and individual US Treasury Bills and government-equivalent securities with maturities of less than 365 days).

**Global Fixed Income** strategies are expected to generate relatively consistent 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 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 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% 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% 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.

**Private Debt** strategies are intended to take advantage of illiquidity premiums available in the debt

markets. The portfolio will primarily be focused on credit-oriented strategies ranging from performing and senior secured corporate loans to exposures across other forms of structured lending. Although distressed credit is not intended to be a focus area, portfolios may contain illiquid debt or securities whose value may take an extended period to be realized.

## SECTION 4.

*REAL ASSET STRATEGIES*

**Real Asset** strategies are intended to serve primarily as offsetting the effects of inflation and provide diversification benefits through low correlation with other investment strategies. Real Asset Strategies include investments in institutional quality Real Estate, Infrastructure, and Natural Resources assets. Real Estate investments may include strategies with varied degrees of project completion, income stability, and leverage utilization, with these key differentiators determining both classification (to include core/stable value, core-plus, value-added, opportunistic and special situations) and benchmark appropriateness. Infrastructure investments are made directly, through private partnerships and result in ownership of companies or assets that provide a service to a community or society at large with real assets in the water, transportation, energy, communication or social sectors. Natural Resources strategies involve ownership of naturally occurring materials or entities that manage these resources. Natural Resources strategies involve tangible and intangible items that may include, but are not limited to, energy, metals, timberland, agriculture, water and aquaculture resources. Some Real Asset investments may have transfer restrictions and may not be as liquid as public traded securities.

## SECTION 5.

*EQUITY STRATEGIES*

The **Global Equity** portfolio is intended to provide for portfolio growth and inflation protection and help the Fund achieve its performance expectations over time. While the Trust Company has the authority to utilize a variety of Investment Managers to fully represent the investment opportunity set, index-oriented strategies that offer low fees and robust liquidity may be emphasized for accessing global public equity markets. Due to the inherent volatility of the asset class, overall category sizing within the portfolio will be closely monitored.

The **Private Equity** 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. While favoring traditional buyout strategies and excluding venture capital, the portfolio will combine diversified elements with complementary focus areas, industries, vintage years, and geographic representation. Private Equity investments often have transfer restrictions and are not as liquid as public traded securities.

## APPENDIX A. ASSET ALLOCATION TARGETS AND BENCHMARKS

| *Asset Class* | *Strategy Description* | *Typical Liquidity* | *Benchmark(s)* | *Allocation Range* | *Allocation Target* |
|---|---|---|---|---|---|
| *Cash* | Stable Value | Daily | 3-Month T-Bill | 10-90% | 10% |
| *Global Fixed Income* | Absolute Return | Daily / Monthly | Bloomberg 1-5 Year US Credit Index | 20-60% | 40% |
| | Unconstrained rates & credit | Daily / Monthly | Bloomberg US Universal Bond Index | 0-50% | 25% |
| *Alternative Fixed Income* | Long/Short Relative Value & Multi- Strategy | Monthly / Quarterly | HFRI FoF Conservative Index | 0-20% | 10% |
| *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 | 0-7% | 4% |
| *Global Equity* | Directional | Daily/ Monthly | MSCI ACWI IMI ex-China ex-Hong Kong Net Index | 0-10% | 5% |
| *Private Equity* | Buyout & Secondaries | Illiquid | Custom Private Equity Index - Cambridge Associates | 0-5% | 3% |
| *Real Assets* | Diversified Real Estate, Infrastructure & Natural Resources | Illiquid | Custom Real Assets Index - NCREIF NFI – ODCE, Cambridge Associates Real Estate, CPI-U plus a premium of 4% per annum | 0-5% | 3% |

**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 1-5 Year US Credit Index:** This benchmark is a subset of the full US Credit Index, and measures the performance of investment grade, US dollar denominated, fixed-rate, taxable corporate andgovernment-related bonds with maturity of 1-5 years. The index includes both US and non-US corporates, alongside certain non-corporate issuers including non-US agencies, sovereigns, supranationals and local authorities. Exclusions include private placements (144A), Eurobonds, floating rate securities, or bonds with less than $250 million in outstanding par value. The Index has an inception date of January 1, 1976.

**Bloomberg US Universal Bond Index:** The US Universal Bond 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 ofmanager fees.

**Private Debt 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 US dollar 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.

**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.

**Custom Private Equity Index:** An asset-weighted custom composite of Cambridge Associates' database of buyout, private equity energy and secondary funds. Index return is net of fees and expenses.

**Custom Real Return Index:** An asset-weighted custom composite of NCREIF NFI – ODCE for core/stable value real estate, Cambridge Associates' Real Estate Index for value-add/opportunistic real estate, and CPI-U plus a premium of 4% per annum for all non-real estate assets, namely infrastructure and natural resource investments. Index return is net of fees and expenses.