

TESTIF

Texas Economic Stabilization Investment Fund

Q³
2024

COMPTROLLER'S INVESTMENT ADVISORY BOARD
PORTFOLIO REVIEW

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Executive Summary

As of September 30, 2024

The Texas Economic Stabilization Investment Fund (the “TESTIF”, or 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.

- Appreciating +3.4% in the third quarter of 2024, the TESTIF portfolio has recovered +13.8% from the lows of October 2022 and resides comfortably ahead of its prior peak in cumulative performance. Notably, as the portfolio has overcome the headwinds of interest rates resetting aggressively higher, it also benefits from more substantial imbedded yields that help cushion future price volatility;
- Since the Fund’s inception, the portfolio has returned +2.7% (annualized), resulting in excess value relative to the state’s Treasury Pool given its return of +2.0% (annualized);
- During the same period, the portfolio has trailed inflation as measured by headline CPI-U, which has been just over +3.1% (annualized) and continues to reflect consumer pricing pressures that remain somewhat 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 67% of the time while beating inflation 59% of the time;
- TESTIF (excluding ERCOT balances) began the year with a balance just over \$16.9BN – with somewhat elevated cash balances. Although TTSTC staff deployed over \$900MM into new investments during the third quarter of 2024, the cash allocation grew to 21.5% of the portfolio’s balance given the annual FY Severance Tax Inflow of \$2.7BN, the vast majority of which became investible in mid-September;
- 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 48 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 35 external organizations;
- Since given expanded authorization under SB 69, just over \$14.2BN 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, we have deployed or committed just over \$1.5BN across several diversifying and/or less-liquid asset classes, including: Global Public Equity (long only), Private Debt (non-distressed), Private Equity (buyout and secondaries), and Real Assets (real estate and infrastructure).

Asset Allocation Summary

As of September 30, 2024

Asset Class	Strategy	Number of Funds ^{1,2}	Number of Managers ^{1,2}	Current Market Value	Weight	Target Weight
Global Fixed Income		26	18	\$19,988,270,733	87.2%	75.0%
	Cash	2	2	4,928,807,229	21.5%	10.0%
	Absolute Return	16	13	9,729,571,955	42.5%	40.0%
	Unconstrained Rates and Credit	8	8	5,329,891,549	23.3%	25.0%
Alternative Fixed Income		16	15	\$1,744,717,107	7.6%	10.0%
Private Debt		3	3	\$97,111,480	0.4%	4.0%
Global Public Equity		2	2	\$1,061,803,984	4.6%	5.0%
Private Equity		1	1	\$8,637,709	0.0%	3.0%
Real Assets		2	2	\$17,706,954	0.1%	3.0%
Total Portfolio		50	37	\$22,918,247,965	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.

Fixed Income Summary

As of September 30, 2024

Strategy	Market Value	Portfolio Weight	Standard Deviation ¹	Sharpe Ratio ¹	% Positive Months ¹	Barclays Credit 1-5 Yr		US Universal		HFRI Conservative	
						Beta ¹	Correlation ¹	Beta ¹	Correlation ¹	Beta ¹	Correlation ¹
Cash	\$4,928,807,229	21.5%	-	-	-	-	-	-	-	-	-
Global Fixed Income (ex-Cash)	\$15,059,463,504	65.7%	4.4%	-0.5	52.8%	1.1	1.0	0.6	1.0	1.1	0.5
Absolute Return	9,729,571,955	42.5%	2.8%	-0.3	52.8%	0.7	1.0	0.4	0.9	0.8	0.5
<i>Barclays Credit 1-5 Yr</i>			3.8%	-0.6	52.8%	-	-	0.5	1.0	0.8	0.4
Unconstrained Rates & Credit	5,329,891,549	23.3%	7.3%	-0.6	44.4%	1.8	1.0	1.0	1.0	1.7	0.5
<i>US Universal</i>			7.5%	-0.6	44.4%	1.9	1.0	-	-	1.7	0.4
Alternative Fixed Income	\$1,744,717,107	7.6%	3.0%	0.0	75.0%	0.0	0.1	0.0	0.1	1.1	0.7
<i>HFRI FoF: Conservative</i>			1.9%	0.1	75.0%	0.2	0.4	0.1	0.4	-	-
Private Debt	\$97,111,480	0.4%	-	-	-	-	-	-	-	-	-
Total Fixed Income	\$21,830,099,319	95.3%	2.6%	-0.35	52.8%	0.6	0.9	0.3	0.9	0.8	0.6

¹Trailing 36 months.

Equity Summary

As of September 30, 2024

Strategy	Market Value	Portfolio Weight	Standard Deviation ¹	Sharpe Ratio ¹	% Positive Months ¹	MSCI ACWI IMI		HFRI FoF Strategic	
						Beta ¹	Correlation ¹	Beta ¹	Correlation ¹
Global Equity	\$1,061,803,984	4.6%	-	-	-	-	-	-	-
MSCI ACWI IMI			16.7%	0.2	61.1%	-	-	2.0	0.9
Private Equity	\$8,637,709	0.0%							
Total Equity	\$1,070,441,692	4.7%	-	-	-	-	-	-	-

¹Trailing 36 months.

Private Asset Summary

As of September 30, 2024

Strategy	Weight	Commitments	Unfunded Commitments	Remaining Value ¹
Private Debt	0.4%	\$300,000,000	\$203,743,412	\$97,111,480
IG (Open End)	0.4%	\$300,000,000	203,743,412	\$97,111,480
Below-IG (Closed-End)	0.0%	-	-	-
Private Equity	0.0%	\$185,000,000	\$176,350,632	\$8,637,709
Real Assets	0.1%	\$155,000,000	\$137,595,831	\$17,706,954
Core RE	0.0%	-	-	-
Opportunistic RE	0.1%	30,000,000	12,595,831	\$17,706,954
Infrastructure & Natural Resources	0.0%	125,000,000	125,000,000	-
Total	0.5%	\$640,000,000	\$517,689,875	\$123,456,142

¹ Remaining Value is equal to the last actual reported capital account value plus subsequent capital calls less subsequent distributions through the indicated date, with no valuation changes.

TESTIF Performance Table

As of September 30, 2024

	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%	-
2024	0.4%	-0.1%	0.8%	-0.8%	1.2%	0.7%	1.4%	1.0%	1.0%				5.8%	2.7%



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