TEXAS TRUST

TEXAS TREASURY SAFEKEEPING TRUST COMPANY

COMPTROLLER GLENN HEGAR, CHAIRMAN

COMPTROLLER'S INVESTMENT ADVISORY BOARD

# Texas University Fund (TUF) Portfolio Review

Q3 2024

Meeting Date: January 29, 2025

*Presented by Anca Ion, CIO*

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# Executive Summary

*As of September 30, 2024*

In the third quarter of 2024, the Texas University Fund (TUF) returned +4.8%, which led the fully invested policy benchmark (+3.6%) and the asset-weighted dynamic benchmark (+4.6%). For the quarter, the Natural Resources, Equity (within the Private Markets Transition Portfolio ("PMTP")), and Global Public Equity sub-portfolios were the leading performance contributors from an absolute return perspective. Laggards included the Private Equity, Opportunistic Real Estate, and Core Real Estate sub-portfolios. As a reminder, the results being referenced include legacy National Research University Fund (NRUF) assets which were transferred over from the Trust Company's commingled Endowment alongside a newly appropriated $3 billion cash infusion at the beginning of 2024. Given the youth of the TUF portfolio broadly, and the allocation deviation compared to strategic policy weights, we remain focused keenly on deployment and implementation, with benchmark-relative contributions being assessed dynamically and at the sub-portfolio level.

The Growth portfolio returned +5.1% for the quarter, underperforming relative to the dynamic benchmark return of +5.8%. Within the Growth portfolio, Global Public Equity (+6.4%), Private Debt (+3.6%), and Directional Hedged Equity (+2.9%) all generated positive performance contribution, whereas Private Equity (-1.5%) dragged on overall performance. From a benchmark-relative perspective, the Private Debt sub-portfolio led its respective benchmarks for the period, while the Private Equity, Global Public Equity, and Directional Hedged Equity sub-portfolios all lagged modestly.

The Consistency portfolio returned +2.7% for the quarter, leading the dynamic benchmark performance of +2.6%. This portfolio benefitted from stronger performance across all sub-categories for the period, with Rates-Driven Fixed Income (+5.7%), Absolute Return Hedge Fund (+2.7%), and Credit-Driven Fixed Income (+2.0%) each generating positive absolute performance. From a benchmark-relative perspective, the Absolute Return Hedge Funds portfolio led its benchmark, while the Credit-Driven Fixed Income Portfolio lagged. The Cash and Rates-Driven Fixed Income portfolios performed in line with their respective benchmarks.

The Real Return portfolio returned +1.2% for the quarter, which outperformed relative to the dynamic benchmark (-0.2%). This portfolio benefitted from stronger performance in the Natural Resources (+15.5%), Infrastructure (+0.7%), and Core Real Estate (+0.5%) sub-portfolios, while Opportunistic Real Estate (-1.2%) dragged on overall performance for the period. Benchmark-relative, Core Real Estate and Natural Resources outperformed, while Infrastructure and Opportunistic Real Estate both lagged.

For the quarter, the top performing portfolios were Natural Resources (+15.5%), PMTP Equity (+9.5%), and Global Public Equity (+6.4%).

- Total Portfolio Performance: Q3 = 4.8%
- Portfolio Benchmark[1]: Q3 = 4.6%
- Policy Benchmark[2]: Q3 = 3.6%

Since the inception of the Texas University Fund in January 2024, our implementation process continues as planned. It's worth highlighting that we are still in the early days of building the portfolio, though Trust Company staff have made significant progress as it relates to deploying capital against the long-term strategic asset allocation and achieving diversification across quality investment managers. Notably, the portfolio's Private Markets Transition Portfolio, which allows us to efficiently approximate desired levels of risk and return by utilizing public market exposures across the Consistency and Growth portfolios in proxy of longer-term private asset targets, generated +8.1% for the quarter. This portfolio's Equity (+9.5%) and Fixed Income (+5.0%) sub-categories both generated strong results for the period. While remaining liquid enough to fund eventual capital calls for private fund commitments, the goal of the PMTP portfolio is to minimize cash drag associated with our long-term private market plans for the TUF portfolio. In other words, the size of this portfolio is expected to decline over time concurrent with the growth of private market allocations.

Within the Consistency portfolio, most line items as of 3Q24 are still related to the NRUF transfer from the commingled Endowment portfolio, particularly for Credit-Driven Fixed Income ("CDFI") and Absolute Return Hedge Funds. There was minimal activity in this portfolio for the quarter, given we established our targeted allocations earlier in the year. As mentioned last quarter, we recently approved another $30 million of direct lending related exposure, which formally closed in mid-August. Most of the portfolio's new direct lending commitments are on track for full deployment by early 2025. Notably, we expect those exposures to remain largely static for the foreseeable future, given they're all in evergreen or redeemable fund structures.

In the Growth portfolio, most of the Global Public Equity exposure is passively managed, making deployment much more efficient. As mentioned before, much of our passive equity exposure was consolidated into new commingled vehicles housed by State Street. In the Directional Hedged Equity portfolio, most line items are NRUF assets that transferred over from the Endowment, with the exception of a handful of managers where exposures were upsized in the prior quarter. Across Private Equity and Private Debt, staff committed roughly $100 million across four new allocations in 3Q24, and we continue to see progress on deployment to date.

In the Real Return portfolio, deployment has been slower relative to the other portfolios given the nature of the underlying assets and a decision to de-emphasize purchases of open-ended Core Real Estate. Notably, we had just over $170 million of legacy NRUF exposures from the Endowment portfolio transfer to the TUF. Given those are primarily private funds, we don't have an option to adjust sizing for those relationships. That said, we expect further deployment progress in the coming quarters with new allocations.

[1] Note the Portfolio Benchmark is the asset-weighted dynamic benchmark.
[2] Note the Policy Benchmark is based on the portfolio's long-term strategic asset allocation.

# Asset Allocation Summary

*As of September 30, 2024*

| Portfolio | Strategy | Current Market Value | Weight | Long-Term Target | Policy Range |
|---|---|---|---|---|---|
| **Consistency** | | **$1,125,829,564** | **26.3%** | **20.0%** | **10-30%** |
| | Cash Equivalents | 477,689,828 | 11.2% | 2.0% | |
| | Rates-Driven Fixed Income | 338,563,518 | 7.9% | 8.0% | |
| | Credit-Driven Fixed Income | 123,218,786 | 2.9% | 4.0% | |
| | Absolute Return Hedge Funds | 186,357,433 | 4.4% | 6.0% | |
| **Growth** | | **$1,990,406,533** | **46.5%** | **65.0%** | **50-75%** |
| | Global Public Equity | 1,537,353,269 | 35.9% | 35.0% | |
| | Directional Hedged Equity | 208,032,186 | 4.9% | 5.0% | |
| | Private Equity | 190,427,871 | 4.5% | 20.0% | |
| | Private Debt | 54,593,207 | 1.3% | 5.0% | |
| **Real Return** | | **$206,033,990** | **4.8%** | **15.0%** | **5-25%** |
| | Core Real Estate | 79,608,756 | 1.9% | 6.0% | |
| | Opportunistic Real Estate | 90,550,257 | 2.1% | 3.0% | |
| | Infrastructure | 16,481,490 | 0.4% | 6.0% | |
| | Natural Resources | 19,393,486 | 0.5% | | |
| **Private Markets Transition Portfolio** | | **$955,476,670** | **22.3%** | **0.0%** | 0% |
| | PMTP Equity | 703,585,439 | 16.4% | 0.0% | |
| | PMTP Fixed Income | 251,891,231 | 5.9% | 0.0% | |
| **Total Portfolio** | | **$4,277,746,757** | **100.0%** | **100.0%** | |

# Private Assets Detail

*As of September 30, 2024*

| Portfolio | Strategy | Weight | Commitments | Unfunded Commitments | Remaining Value[1] |
|---|---|---|---|---|---|
| **Consistency** | | **1.8%** | **$196,210,429** | **$74,508,671** | **$78,844,535** |
| | Credit-Driven Fixed Income | 1.8% | 196,210,429 | 74,508,671 | 78,844,535 |
| **Growth** | | **5.7%** | **$664,306,092** | **$278,703,968** | **$245,021,078** |
| | Private Equity | 4.5% | 439,903,522 | 184,757,422 | 190,427,871 |
| | Private Debt | 1.3% | 224,402,570 | 93,946,546 | 54,593,207 |
| **Real Return** | | **4.8%** | **$440,622,216** | **$129,852,288** | **$206,033,990** |
| | Core Real Estate | 1.9% | 125,753,292 | 18,729,059 | 79,608,756 |
| | Opportunistic Real Estate | 2.1% | 190,475,424 | 41,540,152 | 90,550,257 |
| | Infrastructure | 0.4% | 73,745,143 | 52,256,709 | 16,481,490 |
| | Natural Resources | 0.5% | 50,648,357 | 17,326,368 | 19,393,486 |
| **Total Private Assets** | | **12.4%** | **$1,301,138,737** | **$483,064,928** | **$529,899,603** |

[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.

# TUF Performance Table[1]

*As of September 30, 2024*

| Year | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | YTD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2002** | -1.3% | -0.3% | 2.8% | -2.1% | -0.8% | -4.9% | -3.4% | 0.6% | -5.9% | 3.8% | 4.4% | -2.9% | **-10.1%** |
| **2003** | -1.7% | -1.1% | 0.3% | 6.2% | 4.5% | 1.5% | 1.7% | 2.2% | 0.2% | 4.7% | 1.7% | 3.8% | **26.4%** |
| **2004** | 2.0% | 1.5% | 0.2% | -3.9% | 2.4% | 2.2% | -3.0% | 0.5% | 2.4% | 1.7% | 4.5% | 3.0% | **14.0%** |
| **2005** | -1.8% | 2.2% | -1.7% | -2.0% | 2.8% | 1.3% | 3.1% | 0.2% | 1.2% | -1.8% | 2.8% | 1.4% | **7.7%** |
| **2006** | 3.8% | 0.0% | 1.8% | 1.5% | -2.9% | -0.2% | 0.2% | 1.9% | 1.2% | 2.8% | 2.2% | 1.4% | **14.2%** |
| **2007** | 1.2% | -0.1% | 1.2% | 3.0% | 2.7% | -0.7% | -1.8% | 0.3% | 3.0% | 2.0% | -3.2% | -0.2% | **7.4%** |
| **2008** | -4.3% | -0.5% | -1.1% | 2.2% | 1.3% | -3.4% | -1.3% | -0.8% | -6.6% | -9.5% | -2.9% | 0.6% | **-24.0%** |
| **2009** | -2.0% | -3.5% | 1.9% | 3.4% | 3.1% | 0.6% | 4.0% | 1.3% | 2.5% | 0.1% | 2.2% | 1.1% | **15.4%** |
| **2010** | -1.0% | 1.0% | 2.6% | 1.0% | -3.9% | -1.0% | 3.3% | -0.7% | 4.1% | 2.1% | -0.5% | 3.0% | **10.2%** |
| **2011** | 0.7% | 1.6% | 0.6% | 2.2% | -0.6% | -1.2% | 0.1% | -2.3% | -4.5% | 3.1% | -0.8% | -0.6% | **-1.9%** |
| **2012** | 2.4% | 2.0% | 0.0% | 0.1% | -2.9% | 1.1% | 1.4% | 1.6% | 1.5% | 0.1% | 0.9% | 0.9% | **9.2%** |
| **2013** | 2.1% | 0.2% | 1.2% | 1.0% | 0.1% | -2.2% | 1.9% | 0.0% | 1.9% | 1.9% | 0.7% | 0.5% | **9.6%** |
| **2014** | -0.1% | 2.5% | 0.2% | 0.6% | 1.3% | 1.1% | -0.3% | 0.9% | -1.5% | -0.1% | 1.0% | -0.8% | **4.8%** |
| **2015** | 0.2% | 2.1% | -0.2% | 1.4% | 0.4% | -1.1% | 0.1% | -2.1% | -1.7% | 1.7% | -0.3% | -1.0% | **-0.6%** |
| **2016** | -1.6% | -0.4% | 1.8% | 1.2% | 0.6% | 0.1% | 1.8% | 0.6% | 0.7% | 0.7% | 0.7% | 1.1% | **7.6%** |
| **2017** | 1.5% | 1.1% | 0.8% | 1.1% | 1.0% | 0.1% | 1.3% | 0.7% | 0.8% | 1.3% | 0.6% | 0.7% | **11.5%** |
| **2018** | 1.9% | -0.8% | -0.1% | 0.8% | 0.2% | 0.2% | 1.3% | 0.3% | 0.2% | -1.7% | 0.1% | -1.6% | **0.9%** |
| **2019** | 2.4% | 1.1% | 1.2% | 1.5% | -1.0% | 1.8% | 0.8% | -0.8% | 0.4% | 2.1% | 0.8% | 1.2% | **12.0%** |
| **2020** | 0.0% | -2.7% | -7.4% | 0.8% | 2.0% | 1.3% | 2.9% | 1.9% | -0.1% | 0.8% | 5.0% | 3.2% | **7.3%** |
| **2021** | 0.9% | 2.6% | 1.2% | 3.6% | 2.0% | 0.8% | 1.3% | 1.7% | 1.0% | 2.7% | 0.1% | 1.1% | **20.6%** |
| **2022** | -0.7% | 0.2% | 1.5% | -0.5% | -0.3% | -1.9% | 1.4% | -1.0% | -2.2% | 0.0% | 2.2% | -0.3% | **-1.6%** |
| **2023** | 1.7% | -0.7% | -0.5% | 0.0% | 0.0% | 1.3% | 0.9% | -0.3% | -0.9% | -0.7% | 2.6% | 1.9% | **5.2%** |
| **2024** | 0.6% | 1.0% | 1.1% | -1.0% | 1.9% | 1.2% | 1.5% | 1.8% | 1.4% | | | | **9.7%** |

[1] Performance prior to January 1, 2024, pre-dates the formation of the TUF and reflects that of the NRUF sub-endowment that has been managed by TTSTC since 2002.

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