

# **State Water Implementation Fund for Texas**

(A custodial fund of the Texas Treasury Safekeeping  
Trust Company)

Financial Report

For the Fiscal Years Ended August 31, 2025 and  
2024

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**Independent Auditor's Report**

Honorable Kelly Hancock  
Acting Comptroller of Public Accounts of the State of Texas  
State Water Implementation Fund for Texas

**Report on the Audit of the Financial Statements*****Opinion***

We have audited the financial statements of the State Water Implementation Fund for Texas (the Fund), a custodial fund of the Texas Treasury Safekeeping Trust Company (Texas Trust), as of and for the years ended August 31, 2025 and 2024, and the related notes to the financial statements, as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Fund, a custodial fund of the Texas Trust, as of August 31, 2025 and 2024, and the changes in its fiduciary net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Basis for Opinion***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Fund and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Emphasis of Matter***

As discussed in Note 1, the financial statements present only the Fund, a custodial fund of the Texas Trust, and do not purport to, and do not, present fairly the financial position of Texas Trust as of August 31, 2025 and 2024, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

#### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the financial statements. Such information is the responsibility of management and, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2025, on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

*RSM VS LLP*

Austin, Texas  
December 12, 2025

## **State Water Implementation Fund for Texas**

### **Management's Discussion and Analysis (Unaudited)**

**August 31, 2025 and 2024**

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The State Water Implementation Fund for Texas' (SWIFT or the Fund) management's discussion and analysis is designed to assist the reader in focusing on significant financial issues and provide a performance overview of the Fund's operations for the years ended August 31, 2025 and 2024. Please read this analysis in conjunction with the financial statements which follow this section. The Texas Treasury Safekeeping Trust Company (Texas Trust) administers and manages the assets of the Fund.

### **Financial Highlights**

- The total net position of the Fund is \$1.98 billion at August 31, 2025, and \$1.84 billion at August 31, 2024.
- The Fund earned \$139.8 million from investing activities during fiscal year 2025 and earned \$152.1 million from investing activities during fiscal year 2024.

### **Overview of the Financial Statements and Condensed Financial Information**

The management's discussion and analysis is an introduction to the Fund's basic financial statements.

The Fund was created by the 83rd Texas Legislature, Regular Session, and became effective once the voters approved the constitutional amendment to fund the SWIFT with \$2.0 billion from the Economic Stabilization Fund on November 22, 2013.

The Statements of Fiduciary Net Position provide information about the nature and amounts of the Fund's cash, investments and receivables (assets), and its management fees (liabilities). The Statements of Changes in Fiduciary Net Position report the additions to, deductions from, and net increases or decreases in net position.

This annual financial report consists of two parts:

- Management's discussion and analysis (unaudited)
- Basic financial statements
  - Statements of Fiduciary Net Position
  - Statements of Changes in Fiduciary Net Position
  - Notes to the Financial Statements

## State Water Implementation Fund for Texas

### Management's Discussion and Analysis (Unaudited) August 31, 2025 and 2024

The Statements of Net Position present the financial position of the Fund at the end of each fiscal year and include all assets and liabilities of the Fund. The difference between total assets and total liabilities equals the Fund's net position. At August 31, net position was calculated as follows:

	2025	2024	2023
Investment in State Treasury Pool	\$ 43,708,604	\$ 41,695,766	\$ 87,853,935
Other assets	624,921	846,307	1,152,578
Investments	1,933,611,623	1,795,596,225	1,695,731,302
Total assets	1,977,945,148	1,838,138,298	1,784,737,815
Total liabilities	654,542	605,470	576,730
Net position	\$ 1,977,290,606	\$ 1,837,532,828	\$ 1,784,161,085

From August 31, 2024 to August 31, 2025, assets increased by \$139.8 million due to net investment income. Total liabilities increased by \$0.049 million.

From August 31, 2023 to August 31, 2024, assets increased by \$53.4 million due to higher net investment income, as compared to the prior year. Total liabilities increased by \$0.029 million.

The Statements of Changes in Fiduciary Net Position present the activity within the net position balance for the period ended. Significant activity accounts include net investment income and allowable distributions. The Fund received and distributed \$149.3 during the fiscal year ended August 31, 2025. The change in net position for the years ended August 31 was as follows:

	2025	2024	2023
Contributions	\$ 149,303,604	\$ -	\$ -
Net investment income	139,757,778	152,133,591	66,897,554
Distributions	(149,303,604)	(98,761,848)	(97,701,695)
Net increase (decrease) in net position	139,757,778	53,371,743	(30,804,141)
Net position at beginning of year	1,837,532,828	1,784,161,085	1,814,965,226
Net position at end of year	\$ 1,977,290,606	\$ 1,837,532,828	\$ 1,784,161,085

Net investment income was \$139.8 million for the fiscal year ended August 31, 2025. The total rate of return for the fiscal year ended August 31, 2025, was 7.81%. The total Fund outperformed its policy benchmark of 7.25% by 0.56% for the year ended August 31, 2025.

Net investment income was \$152.1 million for the fiscal year ended August 31, 2024. The total rate of return for the fiscal year ended August 31, 2024, was 9.28%. The total Fund outperformed its policy benchmark of 7.37% by 1.91% for the year ended August 31, 2024.

The Texas Trust disburses money from the Fund as directed by the Texas Water Development Board (TWDB). The TWDB directs disbursements from the Fund based on its needs for projects on a semiannual schedule specified by the TWDB and not more frequently than twice in any state fiscal year. Disbursement amounts vary based on project needs.

## State Water Implementation Fund for Texas

### Management's Discussion and Analysis (Unaudited) August 31, 2025 and 2024

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#### Asset Allocation

The current SWIFT net asset allocation as of August 31, 2025, is shown in the chart below:

Asset Class	Current Market Value	Weight	Policy Range
Cash and cash equivalents	\$ 178,487,046	9.03%	5-20%
Fixed income	194,637,328	9.84%	5-20%
Alternative fixed income	284,197,483	14.37%	5-25%
Private debt	382,704,613	19.36%	10-30%
Directional equity	219,734,933	11.11%	5-20%
Hedged equity	387,590,508	19.60%	10-30%
Real assets	258,188,635	13.06%	5-25%
All asset strategies	71,750,060	3.63%	0-10%
Total portfolio	<u>\$ 1,977,290,606</u>	<u>100.00%</u>	

The SWIFT net asset allocation as of August 31, 2024, is shown in the chart below:

Asset Class	Current Market Value	Weight	Policy Range
Cash and cash equivalents	\$ 193,422,332	10.52%	5-20%
Fixed income	209,584,212	11.41%	5-20%
Alternative fixed income	245,058,653	13.34%	5-25%
Private debt	316,323,193	17.21%	10-30%
Directional equity	187,318,791	10.19%	5-20%
Hedged equity	377,251,970	20.53%	10-30%
Real assets	214,165,731	11.66%	5-25%
All asset strategies	94,407,946	5.14%	0-10%
Total portfolio	<u>\$ 1,837,532,828</u>	<u>100.00%</u>	

The current asset allocation represents the ongoing effort by the Texas Trust to achieve its investment objective to preserve the Fund's purchasing power and achieve the return and liquidity requirements of the SWIFT as determined by the TWDB. The TWDB sets forth the liquidity requirements of the SWIFT, and works with the Texas Trust to establish the asset allocation to meet the liquidity and rate of return requirements of the SWIFT.

Fixed income strategies are expected to generate relatively consistent positive returns with lower correlation to the public markets. Strategies selected are intended to provide positive returns during most economic and capital market environments.

Alternative fixed income strategies are intended to preserve investment capital by achieving consistent positive real returns and maximizing long-term total returns, within prudent levels of risk, through the use of diversified portfolios of complementary strategies.

## **State Water Implementation Fund for Texas**

### **Management's Discussion and Analysis (Unaudited)**

**August 31, 2025 and 2024**

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Private debt strategies will be primarily focused on debt and credit oriented strategies ranging from senior secured credit to distressed credit, but at times may 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 take an extended period to be realized.

Equity strategies include public and private equities and asset classes that are correlated to global equity markets. Historically, global equity investments have provided returns in excess of the total fund return objective. The equity portfolio consists of traditional long-only, hedged and private strategies whose portfolios are predominantly invested in the equity of corporations.

Real asset strategies are intended to serve primarily as inflation hedges and provide diversification benefits of low correlation with other investment strategies. A significant majority of the portfolio is exposed to real assets such as high quality real estate, timber, infrastructure assets, industrial and precious metals, energy, livestock and grains.

All asset strategies include exposures across equity, fixed income and real asset classes. The all asset portfolio may consist of long-only, hedged and private strategies whose portfolios are diversified across a broad range of asset types.

The general economic conditions as well as the overall financial market performance have a significant impact on the SWIFT portfolio. After interest rates have stayed up high in the past two years as a result of central bank efforts to bring inflation down from the elevated levels of the past couple of years, they were lowered by 50 basis points by the Board of Governors of the Federal Reserve System in September 2024 for the first time in four years in an effort to support economic growth and stabilize a slowing labor market. Against the backdrop of this economic environment, the diversified SWIFT portfolio is well positioned to meet or exceed its benchmark performance.

### **Contacting Texas Trust's Financial Management**

This financial report is designed to provide the Fund's beneficiaries, business partners and creditors with a general overview of its finances. Questions about this report can be directed to Texas Trust's Chief Financial Officer at (512) 463-4300.



## **Basic Financial Statements**

**State Water Implementation Fund for Texas**

**Statements of Fiduciary Net Position  
August 31, 2025 and 2024**

	2025	2024
Assets:		
Cash in State Treasury	\$ 43,708,604	\$ 41,695,766
Interest and other receivables	624,921	846,307
Investments	1,933,611,623	1,795,596,225
<b>Total assets</b>	<b>1,977,945,148</b>	<b>1,838,138,298</b>
Liabilities:		
Accounts payable	654,542	605,470
<b>Total liabilities</b>	<b>654,542</b>	<b>605,470</b>
<b>Net position held in trust</b>	<b>\$ 1,977,290,606</b>	<b>\$ 1,837,532,828</b>

See notes to financial statements.

**State Water Implementation Fund for Texas**

**Statements of Changes in Fiduciary Net Position  
Years Ended August 31, 2025 and 2024**

	2025	2024
Additions:		
Contributions	\$ 149,303,604	\$ -
Investment income:		
Net increase in fair value of investments	104,532,516	116,304,717
Interest and investment income	38,951,255	39,275,887
Expenses:		
Investment management fees and services	(3,725,993)	(3,447,013)
<b>Net investment income</b>	<b>139,757,778</b>	<b>152,133,591</b>
<b>Total additions</b>	<b>289,061,382</b>	<b>152,133,591</b>
Deductions:		
Distributions	149,303,604	98,761,848
<b>Total deductions</b>	<b>149,303,604</b>	<b>98,761,848</b>
<b>Change in net position</b>	<b>139,757,778</b>	<b>53,371,743</b>
Net position held in trust at beginning of year	1,837,532,828	1,784,161,085
Net position held in trust at end of year	<b>\$ 1,977,290,606</b>	<b>\$ 1,837,532,828</b>

See notes to financial statements.

## State Water Implementation Fund for Texas

### Notes to Financial Statements

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#### Note 1. Reporting Entity

The State Water Implementation Fund for Texas (SWIFT or the Fund) 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 on November 22, 2013. The creation of SWIFT and its requirements are set forth in Chapter 15 of the Texas Water Code, pursuant to House Bill 4. The SWIFT is a special fund in the state treasury outside the general revenue fund to be used by the Texas Water Development Board (TWDB), without further legislative appropriation, for the purpose of implementing the state water plan as provided by subchapter G of the Texas Water Code, Chapter 15.

The Texas Treasury Safekeeping Trust Company (Texas Trust) holds and invests the SWIFT for TWDB. The Texas Trust adopts an investment policy appropriate for SWIFT and presents it to the state of Texas Comptroller's Investment Advisory Board (CIAB). In accordance with Section 15.433(f) of the Water Code and CIAB procedures, the Texas Trust submits the investment policy to the CIAB and the Comptroller.

The Comptroller is the sole officer, director and shareholder of the Texas Trust and charged with managing the entity. The Comptroller has delegated management and investment related duties to the chief executive officer of the Texas Trust.

The Texas Trust Investment Committee (Investment Committee) is responsible for oversight of Texas Trust 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.

These financial statements include only the operations of the Fund and do not purport to, and do not, present the financial position of Texas Trust as of August 31, 2025 and 2024, and the changes in its financial position for the years then ended.

#### Note 2. Summary of Significant Accounting Policies

**Measurement focus, basis of accounting and financial statement presentation:** Texas Trust reports the Fund as a custodial fund in its financial statements. Custodial funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the liability is incurred regardless of the timing of the related cash flows.

**Management and investment of the Fund:** Section 15.433 of the Water Code (the Act) 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 Texas Trust 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.

## State Water Implementation Fund for Texas

### Notes to Financial Statements

#### Note 2. Summary of Significant Accounting Policies (Continued)

The Texas Trust has any power necessary to accomplish the purposes of managing and investing the assets of the Fund. The Texas Trust will manage and invest the assets of the Fund, through procedures, and subject to restrictions the Texas Trust considers appropriate. The Texas Trust may acquire, exchange, sell, supervise, manage or retain any kind of investment that a prudent investor, exercising reasonable care, skill and caution, would acquire or retain in light of the purposes, terms, distribution requirements and other circumstances of the fund then prevailing, taking into consideration the investment of all assets of the Fund rather than a single investment.

**Investments:** Investments are reported at fair value. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Investments are reported at fair value based upon quoted market prices, or when quoted market prices are not readily determinable, other observable significant inputs including, but not limited to, quoted prices for similar securities, interest rates, net asset values of underlying securities, and fixed income pricing models.

According to the Act, the Texas Trust is to administer and manage the assets of the Fund using the specified fiduciary standard of care and with the advice of, and in consultation with, the Investment Committee. The Fund is authorized to invest its funds according to the approved Investment Policy.

The following table reflects the Fund's asset class target allocation and the tolerance range per the Fund's Investment Policy as of August 31, 2025:

Asset Class	Strategy Description	Typical Liquidity	Benchmark(s) Strategy Range	Allocation Range
Cash	Stable Value, AAA rated	Daily	90 Day T-Bill	5-20%
Global Fixed Income	Unconstrained, Rates & Credit Long/Short	Daily/Monthly	Bloomberg Barclays US Universal Bond Index	5-20%
Alternative Fixed Income	Relative Value & Multi-Strategy	Monthly/Quarterly	HFRI FoF Conservative	5-25%
Private Debt	Private Credit	Illiquid	50% U.S. Credit Suisse Leveraged Loan Index & 50% Bloomberg Barclays U.S. Corporate High Yield Bond Index, plus a premium of 1% per annum	10-30%
Equity	Directional	Daily/Monthly	MSCI ACWI IMI ex-China ex-Hong Kong Net Index	5-20%
	Hedged Equity	Monthly/Quarterly	HFRI FoF Strategic Index	10-30%
Real Assets	Core Real Estate	Illiquid	NCREIF NFI - ODCE	5-25%
All Asset Strategies	Risk Parity, Tactical Asset Allocation, Multi-Strategy	Monthly/Quarterly	Total SWIFT Benchmark	0-10%

## State Water Implementation Fund for Texas

### Notes to Financial Statements

#### Note 2. Summary of Significant Accounting Policies (Continued)

The following table reflects the Fund's asset class target allocation and the tolerance range per the Fund's Investment Policy as of August 31, 2024

Asset Class	Strategy Description	Typical Liquidity	Benchmark(s) Strategy Range	Allocation Range
Cash	Stable Value, AAA rated	Daily	90 Day T-Bill	5-20%
Global Fixed Income	Unconstrained, Rates & Credit	Daily/Monthly	Bloomberg Barclays US Universal Bond Index	5-20%
Alternative Fixed Income	Long/Short Relative Value & Multi-Strategy	Monthly/Quarterly	HFRI FoF Conservative	5-25%
Private Debt	Private Credit	Illiquid	50% U.S. Credit Suisse Leveraged Loan Index & 50% Bloomberg Barclays U.S. Corporate High Yield Bond Index, plus a premium of 1% per annum	10-30%
Equity	Directional	Daily/Monthly	MSCI ACWI IMI Net Index	5-20%
	Hedged Equity	Monthly/Quarterly	HFRI FoF Strategic Index	10-30%
Real Assets	Core Real Estate	Illiquid	NCREIF NFI - ODCE	5-25%
All Asset Strategies	Risk Parity, Tactical Asset Allocation, Multi-Strategy	Monthly/Quarterly	Total SWIFT Benchmark	0-10%

**Custodian:** The Fund contracts services to a custodian to discharge certain of its responsibilities. The custodian performs the duties involving the acquisition, sale and holding of fixed income and equity investments in the Fund's name.

**Income tax:** The Fund is exempt from federal income tax on its operations in accordance with Internal Revenue Code Section 115.

**Distributions:** The Texas Trust disburses money from the Fund as directed by the TWDB. The TWDB directs disbursements from the Fund on a semi-annual schedule specified by the TWDB and not more frequently than twice in any state fiscal year.

**Securities transactions:** Purchases and sales are accounted for on the trade-date basis. Interest income is recorded as earned. Net increase (decrease) in fair value of investments is recognized by calculating the difference between the current fair value of an investment and its previous fair value, reflecting the increase or decrease in the investment's value during the period.

Interest and investment income is accrued daily and is credited as of the last calendar day of each month and is reinvested in the fund when received in the case of alternative and private assets.

## State Water Implementation Fund for Texas

### Notes to Financial Statements

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#### Note 2. Summary of Significant Accounting Policies (Continued)

**Investment management fees and services:** The investment management fees and services are derived from the contract and agreement between the Comptroller and the Texas Trust which allows the Texas Trust to charge a fee of up to 30 basis points to recover all costs associated with the management of the Fund. The Texas Trust currently charges 20 basis points for the investment management services for the SWIFT.

**Use of estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ significantly from these estimates.

**Net position held in trust:** The net position held in trust represents the total remaining value of the initial \$2 billion deposited from the Economic Stabilization Fund as of August 31, 2025.

**Subsequent events:** The Fund evaluated subsequent events for potential recognition and/or disclosure through December 15, 2025, the date that the financial statements were available to be issued. The Fund has determined there are no such events to report.

#### Note 3. Investments

Investments of the Fund are authorized by Section 15.433(b) of the Water Code that establishes the overall objective for investing the Fund to maintain sufficient liquidity to meet the needs of the Fund while striving to preserve the purchasing power of the Fund. The Texas Trust invests the Fund in accordance with the prudent investor standard. It will consider only those investments appropriate for the Fund given its purpose and distribution requirements.

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.

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.

The portfolio may include the following:

1. Fixed income strategies are expected to generate relatively consistent positive returns with lower correlation to the public equity markets.

## State Water Implementation Fund for Texas

### Notes to Financial Statements

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#### **Note 3. Investments (Continued)**

2. Alternative fixed income strategies are intended to achieve consistent positive returns with prudent levels of risk.
3. Private investment strategies have an extended time horizon (multi-decade), a portion of Fund assets will be invested in vehicles that have limited liquidity options:
4. The equity portfolio is intended to provide for portfolio growth and inflation protection and help the fund achieve its performance expectations over time.
5. Hedged equity strategies are intended to provide exposure to public equity markets with reduced overall beta/volatility.
6. Excluding passive strategies, exposure to any investment firm will generally be limited to no more than 25% of Fund assets.
7. Fund investments will generally not exceed more than 25% of any firm's total assets under management (AUM).

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

The Fund reports investments at fair value in the Statements of Fiduciary Net Position, and all investment income, including changes in the fair value of investments, is reported in the Statements of Changes in Fiduciary Net Position.

The Texas Trust administers and manages the assets of the Fund using the specified fiduciary standard of care and with the advice of, and in consultation with, the Investment Committee. The Fund is authorized to invest its funds according to the approved Investment Policy.

The Fund categorizes its fair value measurement disclosures within the fair value hierarchy established by generally accepted accounting principles. The hierarchy prioritizes valuation inputs used to measure the fair value of the asset or liability in three broad categories. Levels 1, 2 and 3 (lowest priority level) of the fair value hierarchy are defined as follows:

**Level 1:** Inputs using unadjusted quoted prices in active markets or exchanges for identical assets or liabilities.

**Level 2:** Significant other observable inputs, which may include, quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in non-active markets; and inputs other than quoted prices that are observable for the assets or liabilities, either directly or indirectly.

**Level 3:** Valuations for which one or more significant inputs are unobservable and may include situations where there is minimal, if any market activity for the asset or liability.



## State Water Implementation Fund for Texas

### Notes to Financial Statements

#### Note 3. Investments (Continued)

If the fair value is measured using inputs from different levels in the fair value hierarchy, the measurement is categorized based on the lowest priority level input that is significant to the valuation. The Fund's assessment of significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

The Fund's investments are reported at fair value using quoted prices or other observable inputs. Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application* (GASB 72), defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Investments measured at fair value using net asset value (NAV) per share (or equivalent) as a practical expedient to fair value are not classified in the fair value hierarchy.

The Fund's investments as of August 31, 2025, are as follows:

Investments at Fair Value Level	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	\$ 134,808,063	\$ 134,808,063	\$ -	\$ -
Mutual funds—global fixed income	194,637,328	194,637,328	-	-
Mutual funds—global equities	218,547,632	218,547,632	-	-
Total investments at fair value level	<u>\$ 547,993,023</u>	<u>\$ 547,993,023</u>	<u>\$ -</u>	<u>\$ -</u>

Investments Measured at NAV	Investment Strategy	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge funds—direct funds—fixed income	Alternative fixed income	\$ 284,197,483	N/A	Daily, Monthly, Quarterly	2 - 65 days
Hedge funds—direct funds—equities	Equity	387,590,508	N/A	Monthly, Quarterly, Semi-Annually, Anniversary	30 - 120 days
Hedge funds—direct funds—all asset	All asset	71,750,060	N/A	Annually	45 days
Domestic alternative—private debt	Private debt	377,129,655	\$ 206,716,251	N/A	N/A
International alternative—private debt	Private debt	5,574,958	13,960,940	N/A	N/A
Domestic alternative—directional equity	Equity	1,187,301	-	N/A	N/A
Domestic alternative—real assets	Real asset	258,188,635	12,361,101	N/A	N/A
Total investments at NAV		<u>\$ 1,385,618,600</u>	<u>\$ 233,038,292</u>		
Total investments		<u>\$ 1,933,611,623</u>			

## State Water Implementation Fund for Texas

### Notes to Financial Statements

#### Note 3. Investments (Continued)

The Fund's investments as of August 31, 2024, are as follows:

Investments at Fair Value Level	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	\$ 151,485,728	\$ 151,485,728	\$ -	\$ -
Mutual funds—global fixed income	167,804,221	167,804,221	-	-
Mutual funds—global equities	185,195,662	185,195,662	-	-
Total investments at fair value level	<u>\$ 504,485,611</u>	<u>\$ 504,485,611</u>	<u>\$ -</u>	<u>\$ -</u>

  

Investments Measured at NAV	Investment Strategy	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge funds—fund of funds	Equity	\$ -	N/A	Monthly, Quarterly	26 - 95 days
Hedge funds—direct funds— fixed income	Alternative fixed income	245,058,653	N/A	Daily, Monthly, Quarterly	2 - 65 days
Hedge funds—direct funds—equities	Equity	377,251,970	N/A	Monthly, Quarterly, Semi- Annually, Anniversary	30 - 120 days
Hedge funds—direct funds—all asset	All asset	94,407,947	N/A	Annually	45 days
Domestic alternative—private debt	Private debt	311,603,468	\$ 248,764,108	N/A	N/A
International alternative—private debt	Private debt	4,719,725	12,642,666	N/A	N/A
Domestic alternative—private equity	Equity	2,123,129	-	N/A	N/A
Domestic alternative—real assets	Real asset	214,165,731	37,755,912	N/A	N/A
Total return fixed income	Fixed income	41,779,991	-	N/A	N/A
Total investments at NAV		<u>\$ 1,291,110,614</u>	<u>\$ 299,162,686</u>		
Total investments		<u>\$ 1,795,596,225</u>			

Mutual funds are valued daily or monthly, as appropriate, at fair value as noted in the table above. Hedge funds are valued monthly at NAV using the current monthly account statements from the funds. If a current monthly account statement is unavailable, the value is calculated by the custodian using the estimated monthly return from the fund. Once a statement is received, the value is adjusted to reflect the NAV from the statement adjusted for cash flows that occur after the statement date. Domestic alternative investments are valued monthly at NAV using the latest account statements from the funds. NAV is adjusted for cash flows that occur after the date of the statements through the month-end date.

Equity strategies include public and private equities and asset classes that are correlated to global equity markets. Historically, global equity investments have provided returns in excess of the total fund return objective. The equity portfolio consists of traditional long-only, hedged and private strategies whose portfolios are predominantly invested in the equity of corporations.

Alternative fixed income strategies are intended to preserve investment capital by achieving consistent positive real returns and maximizing long-term total returns, within prudent levels of risk, through the use of diversified portfolios of complementary strategies.

## State Water Implementation Fund for Texas

### Notes to Financial Statements

#### Note 3. Investments (Continued)

All asset strategies include exposures across equity, fixed income and real asset classes. The all asset portfolio may consist of long-only, hedged and private strategies whose portfolios are diversified across a broad range of asset types.

Private debt strategies will be primarily focused on debt and credit oriented strategies ranging from senior secured credit to distressed credit, but at times may 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 take an extended period to be realized.

Real asset strategies are intended to serve primarily as inflation hedges and provide diversification benefits of low correlation with other investment strategies. A significant majority of the portfolio is exposed to real assets such as high quality real estate and infrastructure assets.

**Credit risk:** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Fund's investment policy does not limit credit risk. The following schedule lists Standard & Poor's credit rating by investment type for those investments subject to credit risk.

Standard & Poor's Credit Rating	August 31			
	2025		2024	
	Mutual Funds— Global Fixed Income	Money Market Funds	Mutual Funds— Global Fixed Income	Money Market Funds
AAA	\$ -	\$ 134,808,063	\$ -	\$ 151,485,728
Not Rated	194,637,328	-	167,804,221	-
Total	<u>\$ 194,637,328</u>	<u>\$ 134,808,063</u>	<u>\$ 167,804,221</u>	<u>\$ 151,485,728</u>

**Custodial credit risk:** For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Fund would not be able to recover the loss of its investments or collateral securities that are in possession of an outside entity. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not held in the name of the Texas Trust and are held by the counterparty, its trust or agent, but not in the name of the Texas Trust. The Fund's investments are not exposed to custodial credit risk since they are insured or registered or the securities are held by the Texas Trust or its agent in the Texas Trust's name.

**Concentration risk:** Concentration of credit risk is the risk of loss attributable to the magnitude of the investment in a single issuer. Excluding passive strategies, exposure to any investment firm will generally be limited to no more than 25% of Fund assets. Fund investments will generally not exceed more than 25% of any firm's total assets under management. As of August 31, 2025, 6.8% of the portfolio was invested in one hedged equity manager. As of August 31, 2024, no more than 5.0% of the portfolio was invested in securities of one issuer.

## State Water Implementation Fund for Texas

### Notes to Financial Statements

#### Note 3. Investments (Continued)

**Interest rate risk:** Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Fund's investment policy does not limit investment maturities. The following schedule reflects the average effective duration of the funds by investment type. The investments in the short-term investment fund use a weighted-average maturity to reflect the interest rate risk.

Investment Type	Effective Duration August 31	
	2025	2024
Mutual funds—global fixed income	5.73	5.75 years
	Weighted-Average Maturity August 31	
	2025	2024
Money market mutual funds	52	46 days

**Foreign currency risk:** The Fund does not have a formal investment policy that limits foreign currencies. The Fund's exposure to foreign currency risk derives from its position in foreign currency-denominated investment in alternative investments.

Currency	August 31					
	2025			2024		
	Cash	Alternative Investment	Total	Cash	Alternative Investment	Total
Euros	\$ -	\$ 5,574,958	\$ 5,574,958	\$ -	\$ 4,719,725	\$ 4,719,725

**Treasury Pool:** The Fund participates in the Treasury Pool, which is an internal investment pool of the state of Texas. The state of Texas Comptroller maintains oversight responsibility for the Treasury Pool. This responsibility includes the ability to influence operations, designation of management, and accountability for fiscal matters. The Treasury Pool operates in accordance with the Comptroller's Investment Policy. The Fund may make withdrawals at any time and has no commitment to add additional funds to the Treasury Pool. The Fund receives allocated earnings based on its percentage share of the Treasury Pool, but its overall value remains the same as the initial deposit, at cost, into the Treasury Pool plus accrued income. The Fund's balance in the Treasury Pool as of August 31, 2025, was \$43,708,603, plus accrued interest for August of \$158,241. The Fund's balance in the Treasury Pool as of August 31, 2024, was \$41,695,766 plus accrued interest for August of \$173,622.

#### Note 4. Related Parties

The contract and agreement between the Comptroller and the Texas Trust allows the Texas Trust to charge a fee of up to 30 basis points to recover all costs associated with the management of the Fund. The fee for the fiscal years ended August 31, 2025 and 2024, was 20 basis points. The Fund was charged \$3,725,993 for the year ended August 31, 2025, and \$3,447,013 for the year ended August 31, 2024.

## **State Water Implementation Fund for Texas**

### **Notes to Financial Statements**

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#### **Note 4. Related Parties (Continued)**

During the fiscal year ended August 31, 2025 the Fund entered into related-party transactions with the Texas University Fund and the Endowment Fund, which are other portfolios managed by the Texas Trust, whereby some interests in limited partnership investments were transferred in exchange for cash. These transactions enabled these portfolios to generate sufficient liquidity to meet its annual cash distribution or meet strategic and tactical asset allocation targets. The transactions involved transferring the limited partnership shares or cash from the Fund to the Texas University Fund and the Endowment Fund at the net asset value at the time of the transfer and therefore, no gain or loss on the exchange was recognized by the Fund as a result of the transactions. The cash amount of these two instances of partnership interests exchanged with the Texas University Fund and the Endowment Fund was \$10 million and \$15 million, respectively.

**Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of  
Financial Statements Performed in Accordance With  
*Government Auditing Standards***

**Independent Auditor's Report**

Honorable Kelly Hancock  
Acting Comptroller of Public Accounts of the State of Texas  
State Water Implementation Fund for Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the State Water Implementation Fund for Texas (the Fund), a custodial fund of the Texas Treasury Safekeeping Trust Company (Texas Trust), as of and for the year ended August 31, 2025, and the related notes to the financial statements, and have issued our report thereon dated December 12, 2025. Our report contained an emphasis of matter paragraph that the Fund's financial statements do not purport to, and do not, present fairly the financial position of Texas Trust, the changes in its financial position, or, where applicable, its cash flows.

**Report on Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Fund's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*RSM VS LLP*

Austin, Texas  
December 12, 2025