

Minutes of the January 29, 2025 Comptroller’s Investment Advisory Board Meeting

The Comptroller’s Investment Advisory Board met on Wednesday, January 29, 2025 at the LBJ State Office Building, 111 E. 17th Street, Room 113, Austin, Texas, 78701.

Board Members present:

Laurie Dotter, Adolpho Telles, Sam Vinson and Ben Wall

Board Members absent: Jim Hille and Katie Hubbard

Comptroller of Public Accounts Staff Presiding and Present:

Comptroller Glenn Hegar, Deputy Comptroller Lisa Craven and Associate Deputy Comptroller Tom Currah

Texas Treasury Safekeeping Trust Company (“Trust Company”) Executive Staff, Presenters & Facilitators:

Mike Reissig, CEO; Anca Ion, CIO; Gena Minjares, CFO; Whitney Blanton, General Counsel; Laura Montoya, COO; Spencer Brown, Deputy General Counsel; Jyoti Gupta, Sr. Portfolio Manager; Nicole Wang, Sr. Portfolio Manager; Emil Boehm, Sr. Portfolio Manager; Lalo Torres, Sr. Portfolio Manager; Jake Price, Jr. Portfolio Manager; Steve Rohrich, Jr. Portfolio Manager; Matt Connolly, Sr. Portfolio Manager; Antonios Tavlarakis, Sr. Quantitative Analyst; and Nora Arredondo, Program Specialist.

Additional Participants:

Roger Willis and Joe Nugent, Asset Consulting Group (“ACG”) and Tino Robledo, RSM US LLP

Call to Order

Deputy Comptroller Lisa Craven declared that a quorum was present and called the meeting to order at 10:05 a.m.

Agenda Items:

- 1. Approval of Minutes from October 16, 2024 Meeting. On a motion by Ms. Laurie Dotter and seconded by Mr. Adolpho Telles, the Board voted unanimously to approve the October 16, 2024 proposed meeting minutes as presented behind Tab 1.**
- 2. Chief Executive Officer Update (handout)**

Mr. Mike Reissig reviewed a budget summary handout for the period ending November 30, 2024. He provided an administrative and budget update for the Trust Company.
- 3. Presentation of Independent Auditor’s Report for the Trust Company**

Mr. Tino Robledo summarized the audit reports and reported that RSM issued an unmodified financial audit opinion with respect to the Trust Company for the fiscal year ending August 31, 2024. They reported that no audit adjustments were recorded during the audit engagement that would indicate deficiencies in the accounting process, nor were any management letter comments issued.

4. Investment Policies Update

Behind Tab 2, Ms. Anca Ion explained the change that was made to the investment portfolios managed by the Trust Company which would align the portfolios with the mandate to invest and focus investments outside of China. The benchmark for global public equities changed from the Morgan Stanley Capital International – All Country World Investable Market Net index (MSCI ACWI IMI) to MSCI ACWI IMI ex-China ex-Hong Kong.

5. CIO Update: Market Outlook and Portfolio Reviews

Ms. Anca Ion provided a macroeconomic update and reviewed the information behind Tab 3. She reported that in 2024, the Trust Company deployed the highest amount of capital across public markets. Top performers in 2024 with over 20% returns were equities and gold. Lagging performers were treasuries and real estate, mostly driven by the high-interest rate environment. Fund managers in general, expect the economy to slow down to curb inflation without triggering a recession. The current Federal Reserve (“Fed”) interest rate is 4.25%. Data suggests that the market is pricing fewer interest rate cuts. Economic forecasts present a positive outlook for 2025. Inflation is close to the Fed’s target rate of 2%. The unemployed rate is 4.3% and GDP growth is approximately 2.1%. Ms. Ion reported that the total assets the Trust Company manages is approximately \$110 billion. The Treasury Pool assets under management are approximately \$72 billion.

Mr. Matt Connolly discussed the liquidity and funding outflows within the Treasury Pool and stated that staff have reasonable expectations as to when outflows occur and manage liquidity accordingly. Funding liquidity needs was the primary focus during the quarter and funding was derived primarily from Treasuries. There has been a noticeable tightening in corporate bonds during the quarter as other assets have offered more relative value.

Ms. Ion reviewed the Endowment, TUF, SWIFT and TESTIF performance and portfolio positioning for the quarter ending September 30, 2024. Assets under management for the total portfolios was approximately \$34 billion. One-year returns were: Endowment 12.2%; TUF 13.9%; SWIFT 10.8% and TESTIF 9.7%. TUF had a higher allocation to public markets and equities and this was reflected in the higher performance. For the quarter, the Endowment and TUF outperformed their benchmarks by 0.1% and 1.2% respectively. The SWIFT and TESTIF underperformed their benchmarks by 0.6% and 0.3% respectively. Ms. Ion reviewed performance in greater detail for each portfolio.

6. Capital Markets Overview and Investment Performance Review for Quarter Ending September 30, 2024 and Related Matters

Mr. Roger Willis reviewed ACG’s presentation behind Tab 4 and presented their macroeconomic and market outlook and capital markets update. He reported that in 2024 most asset classes delivered returns above 10-year averages, with U.S. large-cap equities leading the way. The U.S. economic outlook is favorable and another 2% growth going forward is expected. ACG’s return assumptions over the next decade for the overall portfolios have come down by 50-70 basis points. Mr. Willis noted that through September 30, 2024, the TUF portfolio exceeded cash return for the year by 565 basis points. He reminded the Board that ACG remains mindful of building a

portfolio with an appropriate level of diversification. Overall, economic growth remains slow and resilient.

7. Endowment, TUF, SWIFT and TESTIF Portfolio Asset Class Updates and Related Matters

Each portfolio manager was asked to review in more detail the information behind Tab 5 and the strategies they manage.

Mr. Lalo Torres presented a brief overview of the fixed income markets, emphasizing historically high volatility experienced over the last three years. Portfolio positions were relatively static over the period with a bias towards credit and securitized asset classes. The portfolios were exceeding their benchmarks over longer periods. Yields were generally higher than earlier in the year, though credit spreads were tighter, making fixed income more sensitive to interest rate movements.

Ms. Ion reported that alternative fixed income had a good year, capturing positive returns from almost all of the existing strategies. The goal is to move towards more of an absolute return profile, strategies less correlated with public equity markets, that will provide protection on the downside.

Mr. Price reviewed the private credit portfolio and noted positive performance particularly on the performing side, while distressed performance was more muted in the Endowment and SWIFT and in positive territory for the TUF. There were strong quarters in direct lending strategies, both broadly diversified and among sector specialists, as well as distressed US/European strategies, and then US-focused asset backed lending strategies. Detractors included legacy distressed line items, in addition to two Asia-specific strategies. Nearly \$1 billion in this asset class was deployed last year, and there is a focus now on adding new, complimentary exposures to those initial allocations.

Ms. Jyoti Gupta presented an overview of equity markets. In the Endowment, the global public equity portfolio modestly outperformed the benchmark, primarily driven by Small Cap, Healthcare, and Emerging/Frontier market exposures. In TUF, SWIFT and TESTIF for the quarter, performances were slightly behind the benchmark, primarily due to overweight exposure to U.S. Large Cap. For the year, performance was strong and ahead of the benchmark. Ms. Gupta reviewed the hedge equity portfolio and reported that in the Endowment, performance was 2.8% for the quarter and 26.3% over the one-year period versus the benchmark at 15% with exceptional performance coming from TMT, Biotech, Industrials/Cyclicals, and Pan-Asia focused strategies. Ms. Gupta noted that exposure to China in the global public equity portfolios will soon be removed.

Ms. Nicole Wang reported on venture capital. This sector generated a -1.2% return for the quarter and 1.3% for the year, underperforming the benchmarks for both periods. The broad market exit environment remains challenging. Many limited partners are facing liquidity constraints and pausing reinvesting in venture. She explained that this is a good time for the team to build new relationships in venture capital with top managers. Artificial intelligence (AI) and defense are sectors of interest for the portfolio.

Mr. Emil Boehm reviewed the buyout portfolio. The buyout portfolio slightly outperformed the benchmark for the quarter but underperformed the benchmark for the one-year period, primarily due to vintage diversification and manager selection across the Endowment. Valuations remain a primary focus for both new investments as well as exits. Commitments have grown from \$20-\$25

million to now \$140-\$160 million range which allows the Trust Company to be a Limited Partner of choice for high quality, hard to access General Partners.

Mr. Steve Rohrich reported on the real assets portfolio and indicated that the Endowment and TUF Core Real estate portfolios were up slightly outperforming their benchmarks. SWIFT Real Assets was down 0.9% underperforming the benchmark. TESTIF did not have Core Real Estate exposure. Opportunistic Real Estate in the Endowment was in line with the benchmark down slightly. TUF and TESTIF underperformed. TUF Infrastructure was up slightly at 0.7%. TUF Natural Resources was up significantly driven by oil and gas investments.

Mr. Antonios Tavlarakis reported that for the period ending September 30, 2024, the Value at Risk (VaR) for the Endowment fell to its lowest level in 21 months at 3.63%, and modestly over the policy VaR of 3.53%. The portfolio is comfortably below the policy maximum of 4.41%. The portfolio risk measured on a long-term basis is slightly riskier than the policy portfolio, but much less than the traditional 65/35 portfolio.

Ms. Ion and Mr. Willis led a cryptocurrency discussion with the Board. Ms. Ion explained that the Trust Company has been researching investments in cryptocurrency and does have some indirect investments mostly in venture capital and some hedge funds. Mr. Willis reviewed the cryptocurrency handout and discussed economic market interests, potential opportunities, and the role it could have in the portfolios. He explained that cryptocurrency is an alternative currency that could globally be transacted, especially in unstable economies. Mr. Willis discussed exchange-traded funds (ETFs) and Bitcoin.

8. Next Meeting and Agenda Items

Next meeting is scheduled for April 15, 2025. No new agenda items discussed.

9. Public Comment

No public comments.

Comptroller Hegar adjourned the meeting at 12:04 p.m.