

Minutes of the April 15, 2025 Comptroller’s Investment Advisory Board Meeting

The Comptroller’s Investment Advisory Board met on Tuesday, April 15, 2025 at the LBJ State Office Building, 111 E. 17th Street, Room 113, Austin, Texas, 78701.

Board Members present:

Laurie Dotter, Jim Hille, Katie Hubbard, Adolpho Telles, Sam Vinson and Ben Wall

Board Members absent: None

Comptroller of Public Accounts Staff Presiding and Present:

Comptroller Glenn Hegar 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; Brad Davis, Sr. Portfolio Manager; Jyoti Gupta, Sr. Portfolio Manager; Nicole Wang, Sr. Portfolio Manager; Jake Price, Jr. Portfolio Manager; Steve Rohrich, Jr. Portfolio Manager; Mat Williams, 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)

Call to Order

Comptroller Hegar declared that a quorum was present and called the meeting to order at 10:06 a.m.

Agenda Items:

- 1. Approval of minutes from January 29, 2025, meeting. On a motion by Mr. Sam Vinson and seconded by Mr. Jim Hille, the Board voted unanimously to approve the January 29, 2025, 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 February 28, 2025. He provided a workforce and budget update for the Trust Company. He reported that the mid-year budget was tracking closely with projections and personnel and operating expenses were slightly lower than anticipated. There is a significant capital expense of \$1.5 million allocated for the move to the Bush Building scheduled for the end of the year or early next year. In summary, the Trust Company budget was in line with expectations.
- 3. CIO Update: Market Outlook and Portfolio Reviews**

Ms. Anca Ion provided a macroeconomic update and reviewed the information behind Tab 2. She explained that current economic data indicates slower economic growth and higher risk to the downside. She reviewed a market overview handout which contained more recent data through April 11th. Unlike 2024, U.S. equities have lagged thus far this year. The top performing asset

classes have been gold and commodities. If tariffs are implemented, the expectation is for lower earnings per share. The fixed income market experienced notable volatility with a sharp sell-off in long-term treasuries causing the 10-year yield to rise by about 65 basis points, nearing 4.5%. She reported that the steepening of the yield curve, along with a weakening dollar and widening credit spreads, has impacted U.S. and foreign investors. Ms. Ion reported that inflation remains above the Fed's long-term target. She noted that the job market is slowing, and consumer sentiment is declining, partly due to inflation and tariff concerns. Delinquencies are on the rise and nearing recessionary levels. She expects more volatility in 2025 and will continue to position the portfolio close to allocation targets.

Ms. Ion summarized the portfolio review behind Tab 2 and reported that the assets under management for the Endowment, Texas University Fund (TUF), State Water Implementation Fund of Texas (SWIFT) and Texas Economic Stabilization Investment Fund (TESTIF), was close to \$35 billion. In 2024, the portfolios performed well and were in line with their risk profile and return objective. There was strong absolute and relative returns across the portfolios. The TUF returned approximately 9.0%, Endowment 8.3%, SWIFT 8.3% and TESTIF 5.4%. Over the one, three and five-year periods, all portfolios outperformed their respective benchmarks.

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 short-term Treasury maturities. The current yield was approximately 4.3%, down 20 basis points from the beginning of the year. Treasury market stress has improved and has provided an uptick in high quality commercial paper issuers.

4. Capital Markets Overview and Investment Performance Review for Quarter Ending December 31, 2024 and Related Matters

Mr. Roger Willis summarized the charts and information behind Tab 3. He discussed investing according to strategic guidelines and staying on course with investment programs over the long-term. With tariffs looming there is an expected pause from consumers and businesses. Although near term inflation is coming down, there will likely be a spike within a year after tariffs take effect. ACG expects slow economic growth and will reposition where appropriate.

Mr. Joe Nugent provided a performance update for the portfolios, noting that private market activity has slowed, due to uncertainty around interest rates and the broader economic outlook. Recent underperformance as compared with a 65/35 benchmark was attributed to lagging private equity exposure. Despite this, 2024 closed with strong results including a 8.25% return for both the Endowment and SWIFT portfolios, driven largely by public markets. Portfolio performance in 2024 showed strong returns in hedge equity which delivered a 15% return, reflecting successful adjustments in recent years demonstrating strategic asset allocation performing as designed across portfolios. Overall, long-term performance remains solid, with five-year returns aligning with or outperforming benchmarks.

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

Each portfolio manager was asked to review the information behind Tab 4 and the strategies they manage.

Mr. Brad Davis provided an overview of recent fixed income market performance, highlighting that the fourth quarter was challenging due to a sharp rise in interest rates, which led to portfolio losses despite aligned performance. The portfolios benefitted from shorter durations and effective active management, particularly in spread products. Credit exposure remains balanced, with underweight positions in mid-grade ratings to potentially mitigate risks from downgrades. Alternative fixed income strategies performed well, with a 9.1% median return for all of 2024 and positive performance in 25 of 29 strategies. The team has adjusted the portfolio by both redeeming and adding strategies, including niche and downside-protective ones, reflecting a more intentional effort to favor non-correlated and absolute return assets.

Mr. Jake Price reviewed the private credit portfolios and reported generally positive performance with credit-driven strategies delivering approximately 2.5% quarterly returns. However, the growth/distressed portfolios showed more muted performance - Endowment and SWIFT portfolios were up approximately 1%, while the TUF was down approximately 1%. Importantly, the TUF and TESTIF portfolios are still in early days of portfolio development and building exposure. Certain legacy European distressed investments from 2015–2016 continue to be underperformers in the Endowment and SWIFT portfolios, and recent efforts are focused on ramping up newer portfolios in the growth/distressed portfolios, especially now that initial direct and opportunistic lending exposures have been deployed. Despite market volatility and the potential for increased defaults, he remains optimistic about new opportunities emerging, particularly in the US/European structured credit space.

Ms. Jyoti Gupta presented an overview of equity markets, primarily over the fourth quarter. She reported that global equity declined 1.2% but closed the year up 16.4%, with U.S. markets leading, particularly driven by large-cap tech stocks like NVIDIA and Tesla. Sector highlights included strong gains in consumer discretionary, communication services, and technology, while real estate, utilities, and consumer staples lagged. The TUF, TESTIF, and SWIFT portfolios performed well for the year beating the benchmark, with returns of 19.2%, 18.2%, and 17.2% respectively, mainly due to U.S. large-cap and emerging market exposure. Hedged equity portfolios also saw strong results, with the Endowment up nearly 20%, TUF up 12.7%, and SWIFT up 15.7%, driven by tech, Pan Asia, and small-cap U.S. investments. The team is managing volatility by rebalancing exposures, especially reducing overweight positions in U.S. large caps to align with a new benchmark.

Ms. Nicole Wang reviewed venture capital (VC) for the fourth quarter and reported that this sector was mostly flat to slightly positive in the fourth quarter. A Texas based VC strategy contributed the most on the upside, with one successful follow-on financing leading to the fund's first distribution—achieving a 13x multiple and over 100% internal rate of return. While some managers adjusted valuations due to broader market pressures, top early-stage investments remain better positioned due to lower entry valuations. The venture market continues to face challenges in IPO and M&A activity, leading to tight liquidity and difficult fundraising conditions. Although

investment activity picked up early in the year, investors must now be more selective with new investments and be cautious with reserves, given prolonged holding periods and limited exit options.

Mr. Mat Williams reported that the buyout private equity portfolio performance was largely flat for the quarter and up about 2% for the trailing one-year, driven in part by a strong defense sector related strategy. Our recent secondaries commitment and multi-sector specialist commitments in the TUF and TESTIF portfolios have improved diversification and begun establishing a solid private equity foundation for these portfolios. Current challenges include high 2021 entry multiples and earnings adjustments due to macro volatility. Also, concerns over tariff related uncertainty have led many managers to pause mergers and acquisitions activity involving foreign exposure, which may slow momentum in the private equity market in the near term.

Mr. Steve Rohrich reported on the real assets portfolio and stated that real estate performance in the fourth quarter was slightly positive for both the Endowment and TUF portfolios, with TUF benefitting from a secondary investment not held in the Endowment. The Swift portfolio outperformed, driven by real estate debt and active management, while opportunistic real estate underperformed due to euro exposure and broader market pressures. Infrastructure and natural resources were slightly down, mainly due to J-Curve effects and oil and gas market softness, though improvements are expected in upcoming quarters. Data centers saw strong year-over-year growth, despite power availability challenges. A new minerals and royalties' strategy has been approved, and additional investments in secondaries and Texas-based energy infrastructure are in the pipeline.

Mr. Antonios Tavlarakis reported that as of December 2024, the Endowment Portfolio's Value at Risk (VaR) increased by 16 basis points to 3.79%, remaining within policy guidelines. The increase was driven equally by allocation changes and manager behavior. The SWIFT Portfolio's VaR remained within policy but nudged higher due to reallocations into private debt, hedge equity, and stable value. The TESTIF Portfolio's VaR was below policy minimums, reflecting a large cash position and private assets under target.

6. Next Meeting and Agenda Items

Comptroller Hegar announced that he will officially resign from the position sometime in June. Next meeting is scheduled for July 24, 2025, but the Board will be contacted to confirm since there will be a new Comptroller.

No new agenda items discussed.

7. Public Comment

No public comments.

Comptroller Hegar adjourned the meeting at 11:28 a.m.