

TESTIF

Texas Economic Stabilization Investment Fund

Q⁴
2022

COMPTROLLER'S INVESTMENT ADVISORY BOARD
PORTFOLIO REVIEW

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Executive Summary

As of January 31, 2023

Total Portfolio

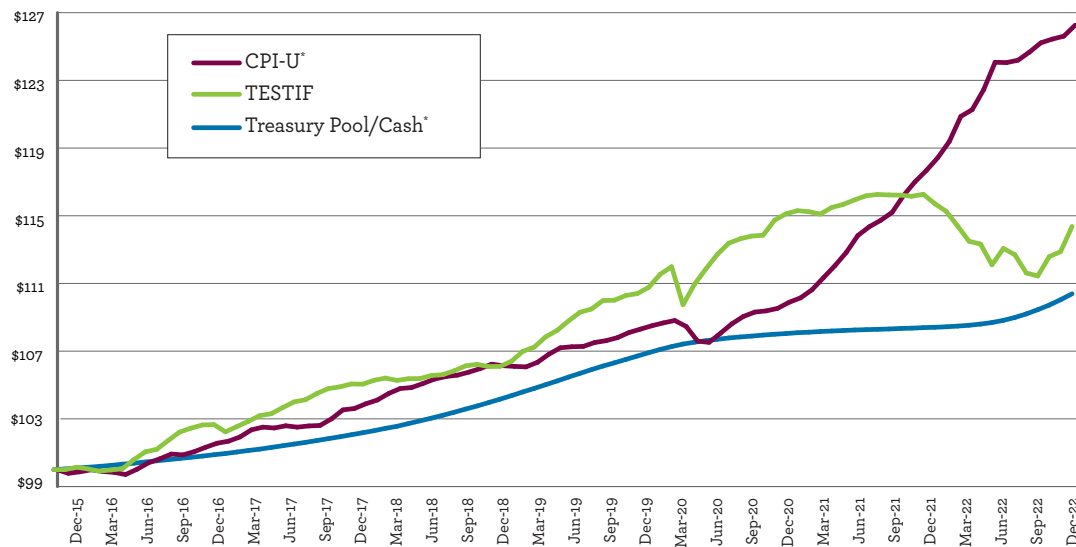
The Texas Economic Stabilization Investment Fund (the “Fund”) was created under HB 903 of the 84th Legislative Session and later expanded under SB 69 of the 86th Legislative Session to invest the Economic Stabilization Fund with the goal of achieving a slightly higher return than the state’s primary 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.

- Since the Fund’s inception, the portfolio has returned just over +1.8% (annualized), resulting in excess value relative to the state’s Treasury Pool given its return of just over +1.3% (annualized);
- During the same period, the portfolio has trailed inflation as measured by headline CPI-U, which has escalated to +3.2% (annualized) as we’ve recently seen 40-year highs in consumer pricing pressures after years of persistently falling short of the Federal Reserve’s target;
- Looking at TESTIF’s effectiveness over a composite of rolling 12-month periods, the portfolio has exceeded the Treasury Pool 70% of the time while beating inflation 56% of the time;
- The Fund’s +1.0% return in 2021 was solid amid the headwinds of interest rate volatility, but as challenges to fixed income intensified and broadened the portfolio was down -2.9% in 2022;
- Even with persistent ongoing investment beyond the Treasury Pool, the portfolio remains highly liquid with approximately 75% able to be delivered as cash within one month;
- The portfolio invests in 38 different strategies including the Treasury Pool, directly purchased T-Bills and the custodial Money Market Funds, and is utilizing the expertise of 27 external organizations;
- Since given expanded authorization under SB 69, just over \$4.5BN 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 Alternative Fixed Income.

Portfolio Growth

As of January 31, 2023

Hypothetical Growth of \$100 Since Inception



*Hypothetical Portfolio

ESF Net Inflows/Transfers

2015	\$2,600,000,000
2016	\$475,000,000
2017	N/A
2018	\$1,500,000,000
2019	\$1,154,000,000
2020	\$2,624,610,891
2021	\$(1,300,000,000)
2022	\$5,074,220,091
2023 YTD	N/A

Asset Allocation Summary

As of December 31, 2022

Asset Class	Strategy	Number of Funds ^{1, 2}	Number of Managers ^{1, 2}	Current Market Value	Weight	Target Weight
Global Fixed Income		24	15	\$11,379,782,186	90.5%	90.0%
	Absolute Return	13	11	3,510,955,710	27.9%	40.0%
	Unconstrained Rates & Credit	8	6	2,011,561,937	16.0%	25.0%
	Cash ³	3	2	5,857,264,539	46.6%	25.0%
Alternative Fixed Income		14	13	\$1,191,302,569	9.5%	10.0%
Total Portfolio		38	28	\$12,571,084,755	100.0%	100.0%

¹ Does not include funds in wind down or redemption.

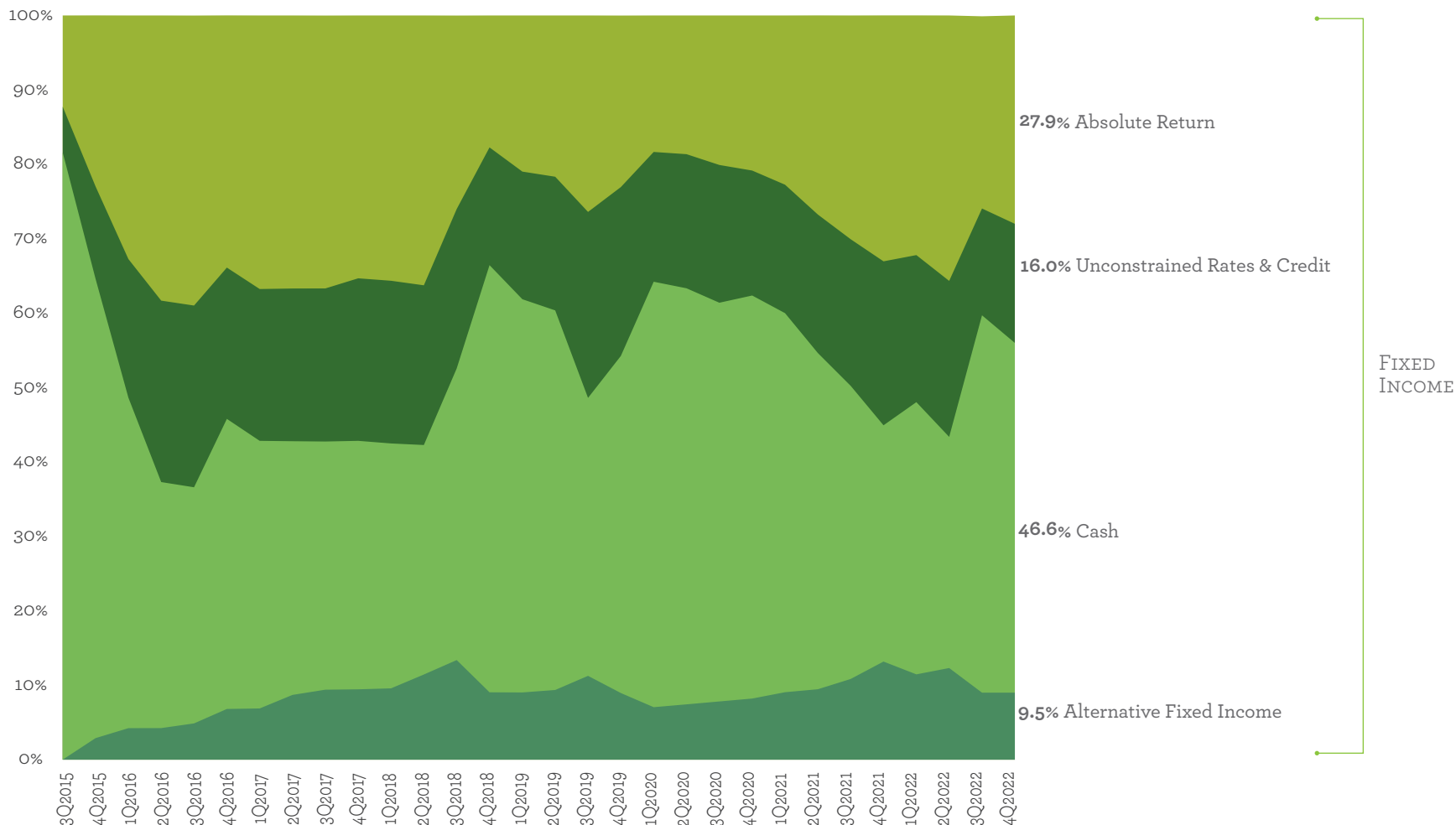
² Manager count for aggregates are less than sum of components due to managers with multiple strategy allocations.

³ Cash includes State Street Money Market Fund, Treasury Pool, and T-bills.

Asset Allocation Evolution

As of December 31, 2022

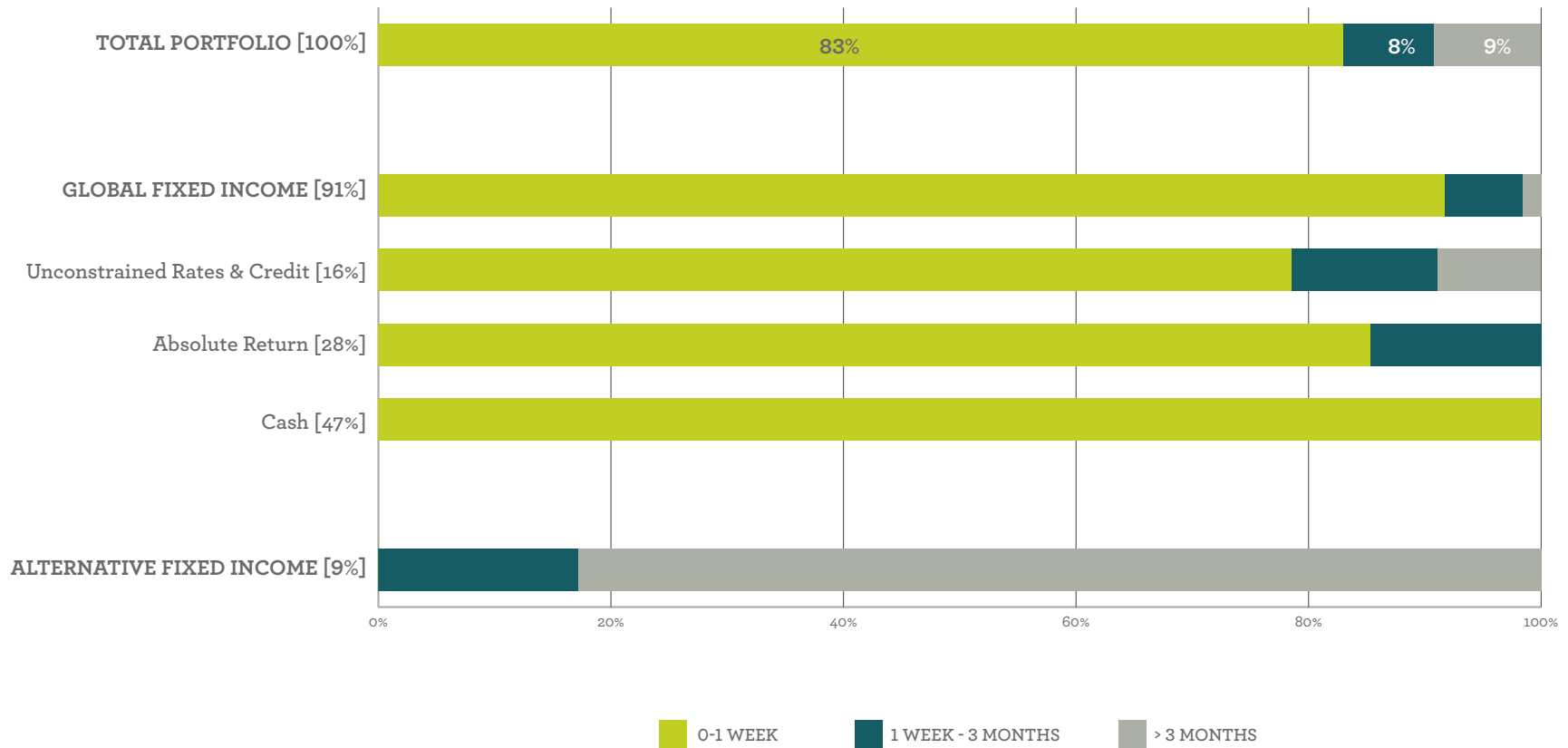
Total AUM: \$12,571,084,755





Portfolio Liquidity^{1,2}

As of December 31, 2022

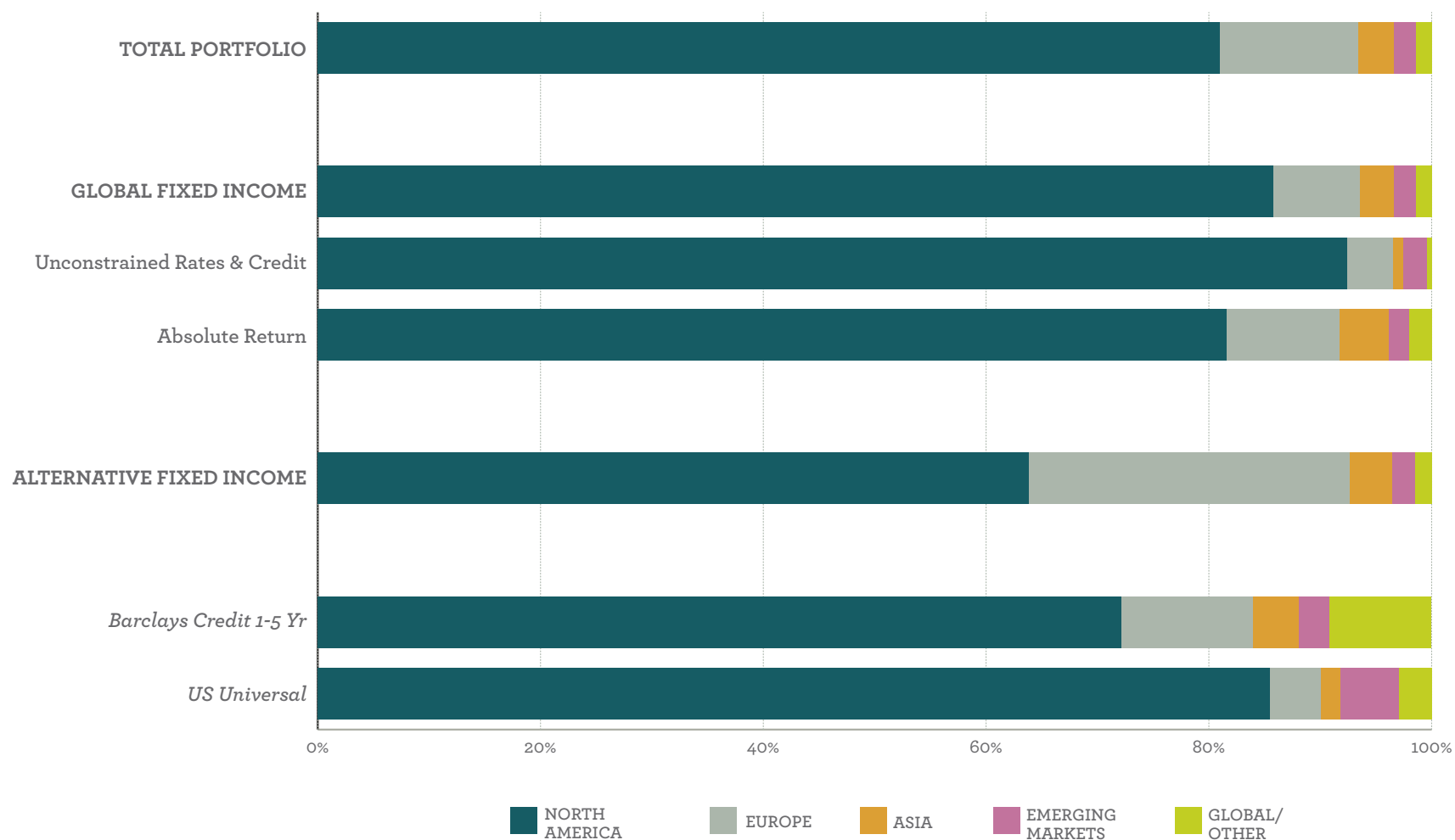


¹Projected liquidity takes hard lock, notice and payout periods into consideration.

²Liquidity data as provided by managers.

TESTIF (ex-cash) Geographic Allocation^{1,2,3}

As of December 31, 2022



¹ Calculated using gross exposures.

² Excludes State Street Money Market Fund, Treasury Pool, T-bills, and cash held by managers.

³ Geographic allocation reflects the domicile of the issuer and does not indicate the currency of the instrument.

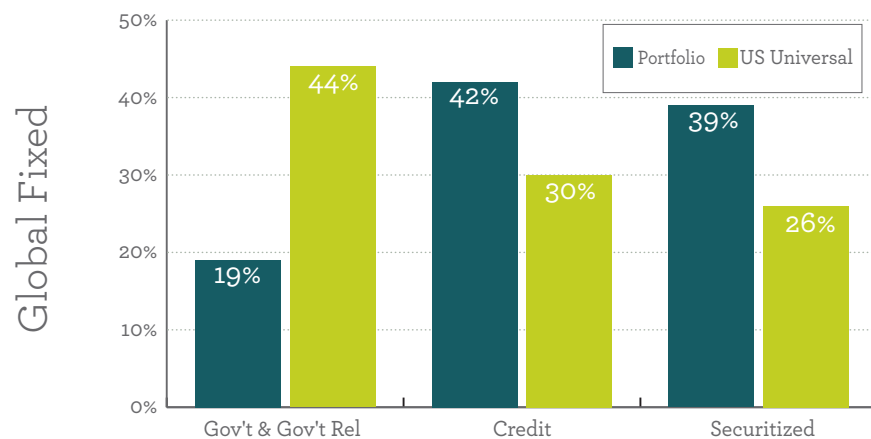
Fixed Income Summary

As of December 31, 2022

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
Global Fixed Income (ex-Cash)	\$5,522,517,647	43.9%	4.4%	-0.2	55.6%	1.1	1.0	0.6	0.9	0.6	0.7
Absolute Return	3,510,955,710	27.9%	3.7%	-0.1	63.9%	0.9	0.9	0.4	0.7	0.6	0.8
Barclays Credit 1-5 Yr			3.7%	-0.3	50.0%	-	-	0.6	0.9	0.4	0.6
Unconstrained Rates & Credit	2,011,561,937	16.0%	6.1%	-0.4	41.7%	1.6	0.9	1.0	1.0	0.5	0.5
US Universal			6.0%	-0.5	44.4%	1.4	0.9	-	-	0.3	0.3
Cash	\$5,857,264,539	46.6%	-	-	-	-	-	-	-	-	-
Alternative Fixed Income	\$1,191,302,569	9.5%	5.7%	0.9	77.8%	0.8	0.5	0.3	0.3	0.9	0.9
HFRI FoF: Conservative			5.4%	0.7	72.2%	0.8	0.6	0.3	0.3	-	-
Total Fixed Income	\$12,571,084,755	100.0%	2.2%	0.0	58.3%	0.6	0.9	0.3	0.8	0.3	0.7

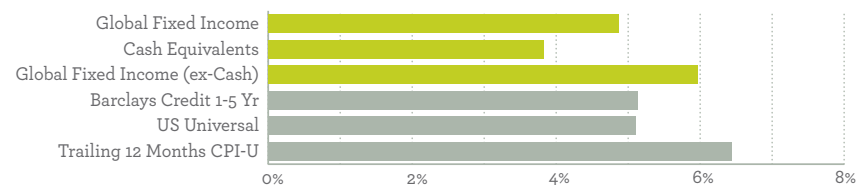
¹ Trailing 36 months.

Sector Allocation¹
ex-cash

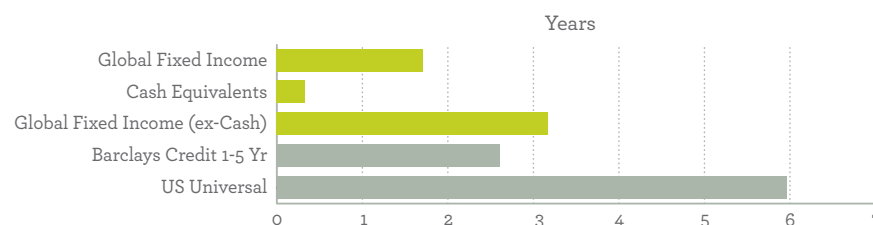


¹ Calculated using gross exposures

Yield



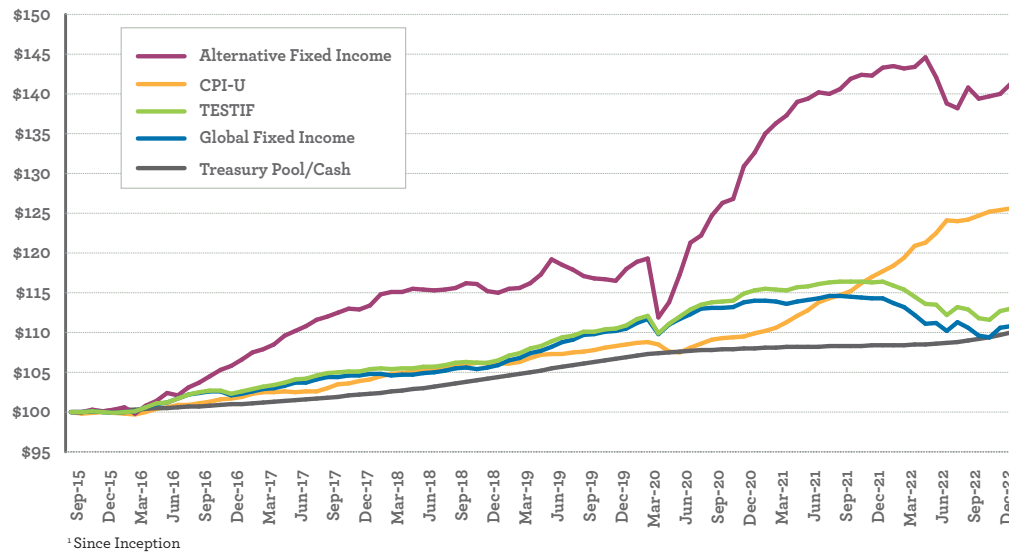
Duration



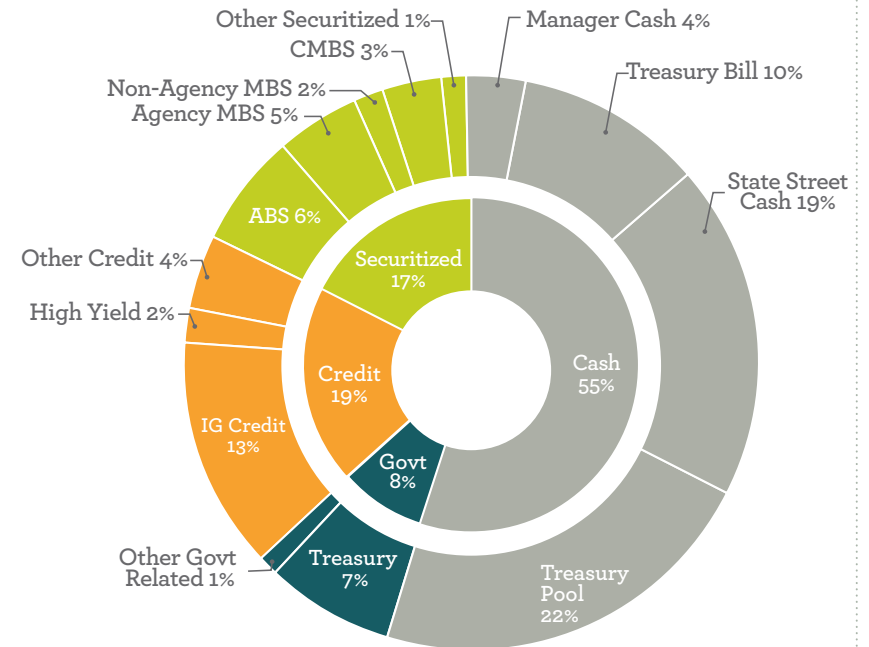
Fixed Income Detail

As of December 31, 2022

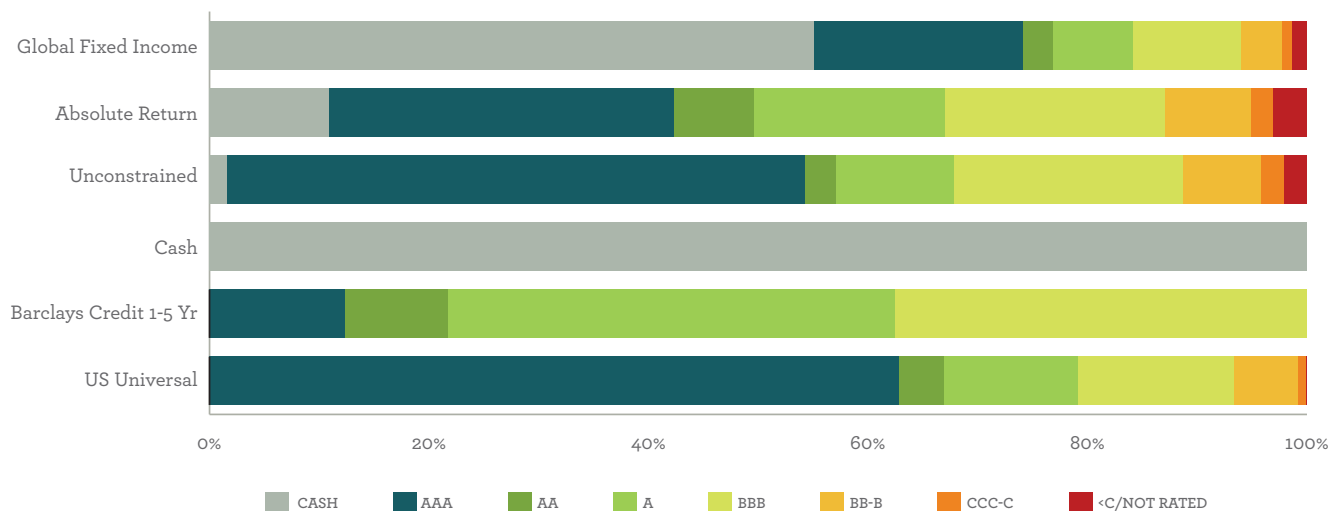
Growth of \$100¹



Global Fixed Income Exposure by Sector



Global Fixed Income Exposure by Quality



TESTIF Performance Table

As of January 31, 2023

	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%	0.1%	0.5%	0.5%	0.2%	0.2%	0.0%	-0.4%	0.3%	2.6%	-
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%												1.3%	1.8%

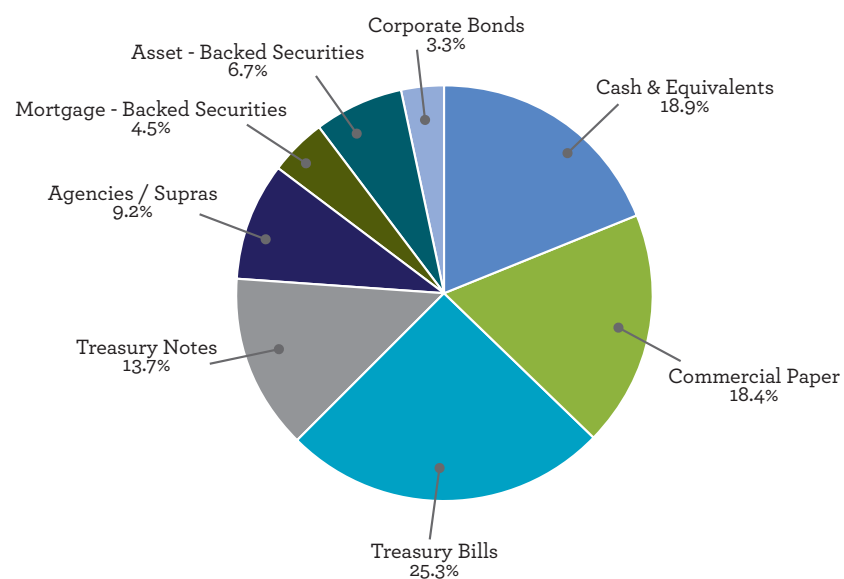
Asset Class Definitions

Asset Classes/Strategies	Liquidity
Cash (including Treasury Pool)	<p>Diversified portfolio of extremely short duration, high quality bonds. The cash portfolio is designed to be highly liquid with capital preservation as its primary focus.</p> <p>Highly Liquid</p>
Fixed Income-Absolute Return	<p>Diversified portfolio of fixed income and other investments designed to deliver relatively stable returns with reduced correlation to traditional fixed income markets. Generally, these strategies have a mandate to provide investors absolute returns (Cash +2% to 4%) without regard to specific market benchmarks. The ability to hedge away duration exposure and the use of derivatives are characteristics of these “unconstrained/opportunistic” mandates. The portfolio also includes a diversified portfolio of short duration, high quality (i.e. investment grade) bonds issued by the US Government and its agencies as well as major corporations.</p> <p>Highly Liquid</p>
Fixed Income-Unconstrained Rates and Credit	<p>Diversified portfolio of high quality (i.e. investment grade) bonds across the major bond market segments including US Government/Agency, Corporates, and Mortgage-Backed Securities. Also included are complimentary sectors that may be below investment grade. The core component generally includes U.S. Treasury securities, mortgage-backed securities, and bonds issued by U.S. companies. The complimentary strategies typically include exposures to diversifying strategies such as high yield corporate bonds (below investment grade), foreign bonds (developed and emerging markets), and other sectors.</p> <p>Highly Liquid</p>
Alternative Fixed Income	<p>Diversified portfolio of fixed income and other investments designed to deliver relatively stable returns with reduced correlation to broad market events. Generally, these strategies have a mandate to provide investors absolute returns (Cash +2% to 6%) without regard to specific market benchmarks. The ability to hedge away duration exposure and the use of synthetics are noteworthy characteristics of these “unconstrained” mandates. Also included in this asset class are Relative Value/Multi-Strategies where an investment thesis is predicated on realization of a spread between related yield instruments in which one or multiple components of the spread contains a fixed income, derivative, equity, real estate or a combination of these or other instruments. Strategies are typically quantitatively driven to identify attractive positions in which the risk adjusted spread between instruments represents an attractive opportunity for the investment manager.</p> <p>Semi-Liquid</p>

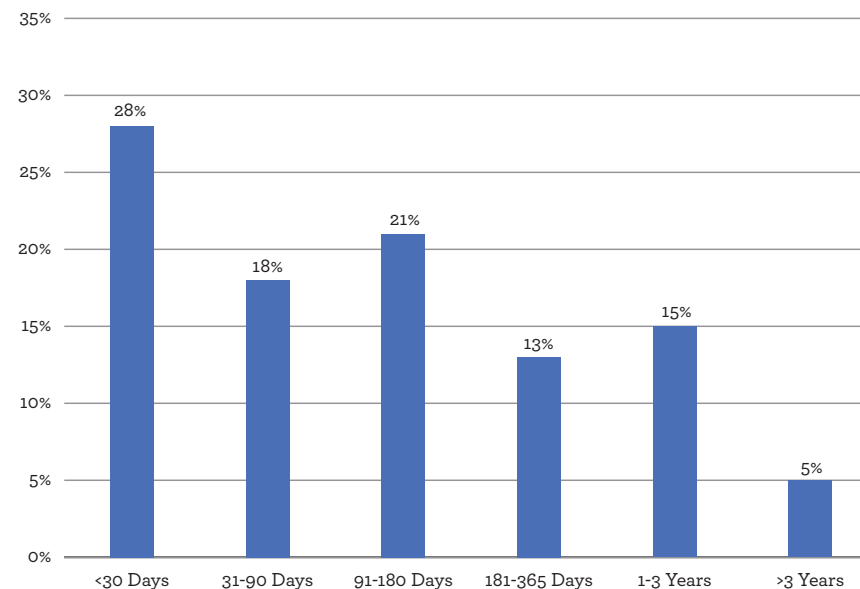
Treasury Pool Structure

As of February 28, 2023

Portfolio Composition



Maturity Structure





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