

Texas Local Government Investment Pool

Annual Financial Report
August 31, 2023 and 2022

Texas Local Government Investment Pool

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Independent Auditor's Report

Honorable Glenn Hegar
Comptroller of Public Accounts of the State of Texas
Texas Local Government Investment Pool

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

We have audited the financial statements of Texas Local Government Investment Pool (TexPool) an investment trust fund of the Texas Treasury Safekeeping Trust Company (Texas Trust), as of and for the years ended August 31, 2023 and 2022, 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 TexPool, an investment trust fund of Texas Trust, as of August 31, 2023 and 2022, 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. 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 Texas Trust 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 opinions.

Emphasis of a Matter

As described in Note 1, the financial statements present only TexPool, an investment trust fund of Texas Trust, and do not purport to, and do not, present fairly the financial position of the Texas Trust, as of August 31, 2023 and 2022, 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 opinions. 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 TexPool'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, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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 13, 2023, on our consideration of TexPool'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 TexPool'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 TexPool's internal control over financial reporting and compliance.

RSM US LLP

Austin, Texas
December 13, 2023

Texas Local Government Investment Pool

Management's Discussion and Analysis Years Ended August 31, 2023 and 2022

The Texas Local Government Investment Pool's (TexPool) management's discussion and analysis is designed to assist the reader in focusing on significant financial issues and provide a performance overview of TexPool's operations for the years ended August 31, 2023 and 2022.

Overview of the Financial Statements and Condensed Financial Information

This annual financial report consists of two parts:

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

The Statement of Fiduciary Net Position presents the financial position of TexPool at the end of the fiscal year and includes all assets and liabilities of TexPool. The difference between total assets and total liabilities—net position—equals the sum of all participants' interest in TexPool. At August 31, net position was calculated as follows:

	2023	2022	2021
Total assets	\$ 29,502,871,354	\$ 24,438,203,829	\$ 22,224,706,620
Total liabilities	(257,003,431)	(96,273,973)	(742,594)
Fiduciary net position held in trust for pool participants	<u>\$ 29,245,867,923</u>	<u>\$ 24,341,929,856</u>	<u>\$ 22,223,964,026</u>

Increase in participant subscriptions combined with a higher average annual yield resulted in an increase of total assets under management at year-end.

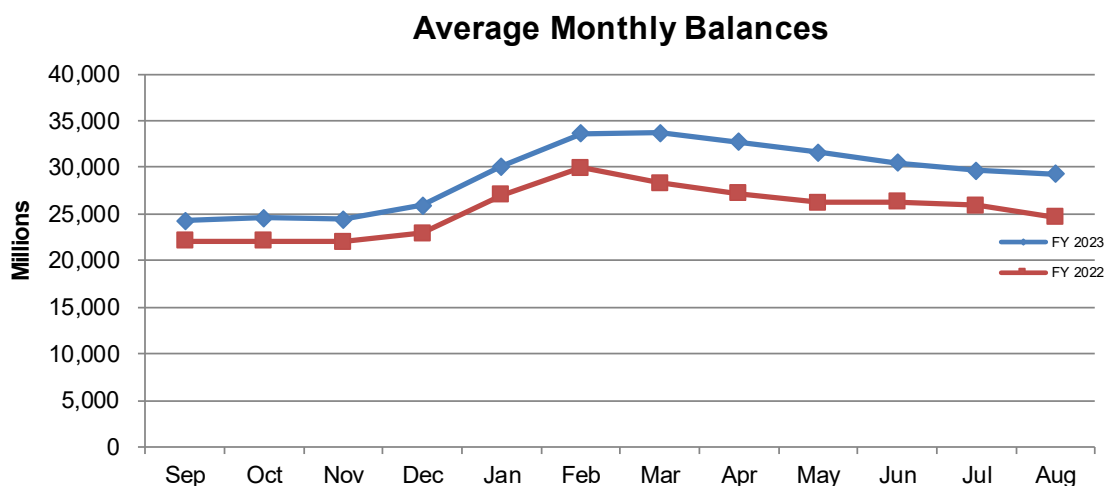
Texas Local Government Investment Pool

Management's Discussion and Analysis Years Ended August 31, 2023 and 2022

The Statement of Changes in Fiduciary Net Position presents the activity within the net position balance for the year ended. Significant activity accounts include net investment income, earnings distributions and net contributions/withdrawals by participants. The changes in net position for the years ended August 31, were as follows:

	2023	2022	2021
Net investment income	\$ 1,277,309,765	\$ 129,005,752	\$ 13,773,700
Earnings paid to investors from net investment income	(1,277,358,765)	(129,064,295)	(13,828,725)
Expense paid from management fees reserved for operating expenses	49,000	58,543	55,025
Net change in participant investments	4,903,938,067	2,117,965,830	(2,062,953,997)
Net increase (decrease) in fiduciary net position	\$ 4,903,938,067	\$ 2,117,965,830	\$ (2,062,953,997)

The average monthly balance in TexPool grew to \$33.7 billion in March 2023, up from \$24.2 billion in September 2022, in what is a typical seasonal pattern for the pool. The average monthly balance as of August 31, 2023, was \$29.3 billion.



During fiscal years 2023 and 2022, management and administrative fees to operate TexPool were set at 4.5 basis points (0.0450%). During both fiscal years 2023 and 2022, management fees were rebated on various occasions. During fiscal year 2023, the average net monthly fee ranged from a high of 4.1 basis points (0.041%) to a low of 3.4 basis points (0.034%). During fiscal year 2022, the average net monthly fee ranged from a high of 4.5 basis points (0.045%) to a low of 2.9 basis points (0.029%).

The notes to the financial statements provide narrative explanations of accounting policies and additional data needed for full disclosure, as required by accounting principles generally accepted in the United States of America.

Texas Local Government Investment Pool

Management's Discussion and Analysis Years Ended August 31, 2023 and 2022

Fiscal Year 2023 Performance

The fiscal year was marked by an aggressive pace of monetary policy tightening early in the reporting period, followed by a downshift, but not an end, to the Federal Reserve's tightening cycle.

Throughout the reporting period, inflation declined but remained stubbornly above the Fed's 2% target, buoyed by a labor market that continued to buck expectations with its resilience. Determined to restore price stability and avert the entrenchment of consumer inflation expectations, policymakers raised the federal funds target range by a cumulative 300 basis points over the course of the fiscal year. This caused many economists, analysts and investors to worry that the Fed's aggressive approach would push the U.S. economy into recession.

After a series of 75 basis-point hikes in 2022 appeared to soften inflation in the fall, the Fed pulled the reins in with a 50 basis-point rate hike in December 2022 followed by three successive 25 basis point hikes at the February, March, and May 2023 Federal Open Market Committee (FOMC) meetings, respectively. Despite assertions by Fed Chair and still-hawkish FOMC projections, the markets seemed to view the slowdown as a sign the Fed would soon cut rates.

Exacerbating the situation were three exogenous events. One was the continuing war in Ukraine. Although the initial elevated energy prices caused by the Russian invasion fell as Europe found alternatives to Russian oil and gas, they were volatile in the reporting period.

The second event was the return of political infighting in Congress over the debt ceiling. In January, Treasury Department Secretary announced that the federal government's statutory debt limit had been reached and that the Treasury would begin using "extraordinary measures" to meet obligations, yet lawmakers took no action. The reduced issuance of Treasury securities worsened the existing supply/demand strain on the front end of the Treasury yield curve.

The third event came with the swift collapse of three regional banks in March, clouding projections. While it appeared that their demise stemmed from mismanagement rather than systematic weakness in the sector, the Fed still created a new Bank Term Funding Program to alleviate liquidity concerns. Many thought the stress would lead the Fed to pause its tightening in March, but it again raised rates another quarter percentage point, and followed that with another in May, lifting the target range to a 16-year high of 5-5.25%. Its rationale in both cases was that restricting the economy to fight inflation outweighed the uncertainty of a labor market that continued to buck expectations with its resilience.

In June, lawmakers finally averted a debt-limit crisis by suspending it until January 2025. The immediate result was that the Treasury embarked on plans to issue a massive amount of securities to replenish its coffers. Some estimates put that amount as high as \$1 trillion, based on the need to make whole the federal accounts in which it had redeemed or suspended investments, service the national debt and fund government spending. In its June FOMC meeting, the Fed declined to change the policy range after 10 straight hikes. This was a hawkish pause as policymakers projected the tightening cycle likely will continue, which it did with a 25 basis-point bump in July. The period ended with the markets divided over the likelihood that the Fed campaign to fight inflation would push the economy into recession.

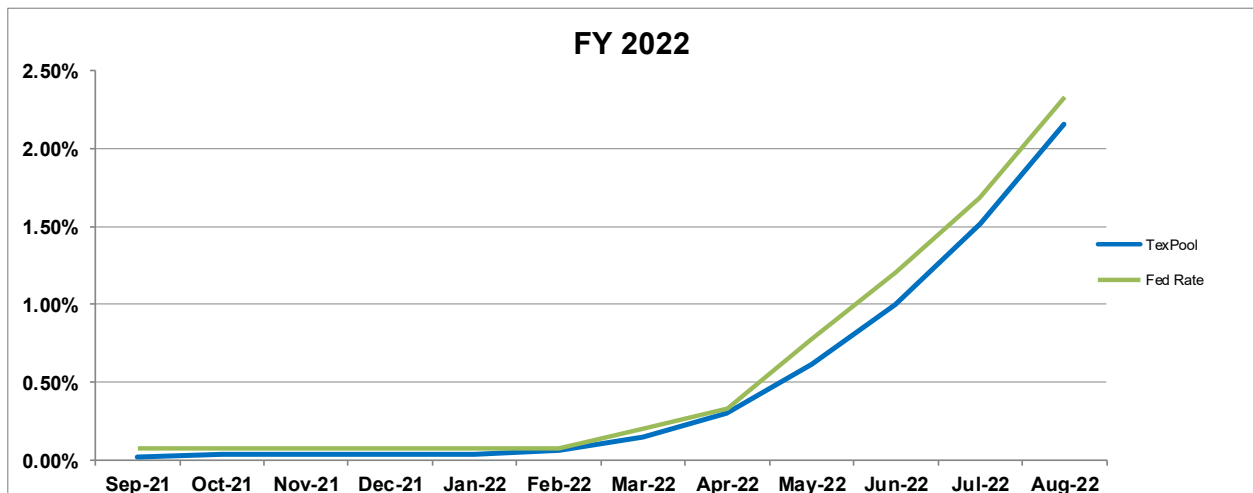
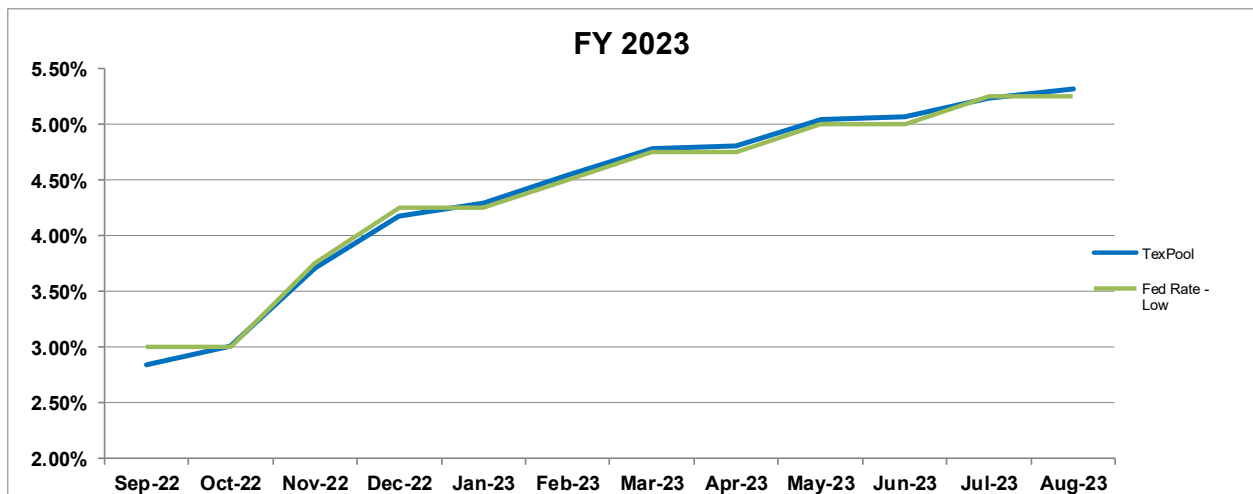
TexPool's average maturity ended the reporting period at 23 days, assets under management were \$29.2 billion and the average 7-day net yield was 5.32%. Yields on 1-, 3-, 6- and 12-month U.S. Treasuries were 5.39%, 5.46%, 5.51% and 5.40%, respectively.

Texas Local Government Investment Pool

Management's Discussion and Analysis Years Ended August 31, 2023 and 2022

TexPool vs. Fed Funds Rate

The following charts graphically depict the TexPool yield and the Fed rate for 2023 and 2022.



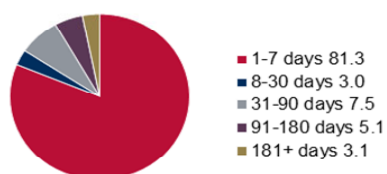
Texas Local Government Investment Pool

Management's Discussion and Analysis Years Ended August 31, 2023 and 2022

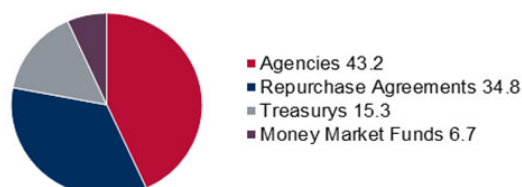
TexPool Information as of August 31, 2023

Additional information on the TexPool portfolio is reflected in the following graphics, which are available at www.texpool.com:

Portfolio by Maturity (%)
As of August 31, 2023



Portfolio by Type of Investment (%)
As of August 31, 2023



Participant Summary		
	Number of Participants	Balance
School District	616	\$9,228,475,680.39
Higher Education	60	\$1,478,336,676.04
County	197	\$3,422,443,158.05
Healthcare	92	\$1,593,403,623.86
Utility District	916	\$4,514,578,206.29
City	496	\$7,317,483,977.12
Emergency Districts	104	\$392,942,874.40
Economic Development Districts	89	\$187,071,922.33
Other	230	\$1,111,122,689.50

Fiscal Year 2022 Performance

A shift in the U.S. Federal Reserve's approach to rising inflation was the salient aspect of the reporting period. Even as broad measures of prices and costs accelerated as the period opened, policymakers continued to insist the increases would prove "transitory" and kept the fed funds target range at 0-0.25% and the asset-buying program intact. While this position stemmed from the Fed's established view that larger deflationary forces, such as globalization and retirements, would curb inflation, several exogenous events suggested that prices might normalize. The emergence of a highly transmissible strain of Covid-19 named delta disrupted supply chains and slowed the economic recovery. The former pushed prices further upward, arguing for removal of accommodation, while the latter argued for the opposite. A compromise of sorts came with the Fed's announcement at November's Federal Open Market Committee (FOMC) meeting that it would trim the amount of its monthly asset purchases. After the suspension of the federal debt ceiling expired in August, discussions over raising the spending limit intensified in Congress. After extended brinkmanship by lawmakers, Congress passed a bill in December that authorized \$2.5 trillion in new borrowing. This action righted a modest dislocation in the front end of the Treasury yield curve and optimism grew that the improving economy and robust labor market would put the troubles of the pandemic behind the U.S. in 2022.

Texas Local Government Investment Pool

Management's Discussion and Analysis Years Ended August 31, 2023 and 2022

But as the calendar flipped, additional events caused price pressures to soar and drove the Fed to begin raising rates. An even more contagious Covid-19 variant, omicron, swept across the U.S. in January and February before partially receding in March. This new wave, along with rising wages due to a general labor shortage, weighed on already stressed supply chains, helping to drive annualized inflation rates to multi-decade highs. More disruptive was the Russian invasion of Ukraine, which caused the price of crude oil and other commodities to surge. Realizing they had misjudged the stickiness of inflation, in March FOMC voters announced a 25 basis-point hike of the target range, shifting it to 0.25-0.50%. However, flight-to-safety trading due to the Ukraine war depressed yields at the front end of the Treasury curve.

With a larger hike of 50 basis points in May, Chair Jerome Powell pledged that the Fed would do what it takes to restore price stability, backed up by implementing quantitative tightening to reduce its mammoth balance sheet. A 75 basis-point hike followed in June accompanied by sharply increased projections of how high policymakers expect rates will have to reach to reduce inflation. The reporting period concluded with widespread concern the Fed's approach could push the U.S. economy into recession.

TexPool's average maturity ended the reporting period at 23 days, assets under management were \$24.3 billion and the average 7-day net yield at month-end was 2.21% in August 2022. At the end of August 2022, yields on 1-, 3-, 6- and 12-month U.S. Treasuries were 2.17%, 2.93%, 3.37% and 3.54%, respectively.

Texas Local Government Investment Pool

Statements of Fiduciary Net Position

August 31, 2023 and 2022

	2023	2022
Assets:		
Investments, at amortized cost:		
Securities purchased under agreement to resell	\$ 13,020,069,224	\$ 8,490,125,884
Money market mutual funds	2,025,085,200	1,627,074,000
United States government agency securities	10,926,131,011	10,532,413,985
United States treasury securities	3,388,621,552	3,753,132,797
	<u>29,359,906,987</u>	<u>24,402,746,666</u>
Accrued interest receivable	137,735,674	35,457,163
Cash	5,228,693	-
Total assets	<u>29,502,871,354</u>	<u>24,438,203,829</u>
Liabilities:		
Trades pending settlement	125,000,000	50,000,000
Amounts payable to participants	131,780,051	45,232,821
Accounts payable	-	784,625
Accrued expenses	32,128	24,628
Management fees reserved for operating expenses	191,252	231,899
Total liabilities	<u>257,003,431</u>	<u>96,273,973</u>
Fiduciary net position held in trust for pool participants	<u>\$ 29,245,867,923</u>	<u>\$ 24,341,929,856</u>

See accompanying notes to financial statements.

Texas Local Government Investment Pool

Statements of Changes in Fiduciary Net Position Years Ended August 31, 2023 and 2022

	2023	2022
Additions:		
Investment income:		
Interest income	\$ 1,288,121,217	\$ 138,991,940
Expenses:		
Management fees and expenses	(10,811,452)	(9,986,188)
Net investment income	1,277,309,765	129,005,752
Earnings paid to investors from net investment income	(1,277,358,765)	(129,064,295)
Expense paid from management fees reserved for operating expenses	49,000	58,543
Individual participant investment account transactions:		
Subscriptions	57,432,481,771	49,558,316,921
Reinvestments	1,179,747,085	83,858,612
Redemptions	(53,708,290,789)	(47,524,209,703)
Net change in participant investments	4,903,938,067	2,117,965,830
Net change in fiduciary net position	4,903,938,067	2,117,965,830
Fiduciary net position held in trust for pool participants at beginning of year	24,341,929,856	22,223,964,026
Fiduciary net position held in trust for pool participants at end of year	\$ 29,245,867,923	\$ 24,341,929,856

See accompanying notes to financial statements.

Texas Local Government Investment Pool

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies

Background and reporting entity: On September 1, 1989, local government investment pools became authorized investments for the majority of public entities in Texas. The Interlocal Cooperation Act was amended by the 71st Texas Legislature to facilitate the creation of local government investment pools in Texas. This act permits the creation of investment pools to which any political subdivision (local government) in Texas may delegate, by contract, the authority to make investments purchased with local investment funds and to hold legal title as custodian of the investment securities.

The Texas Legislature authorized the State Treasurer to incorporate a special-purpose trust corporation in 1986 called the Texas Treasury Safekeeping Trust Company (Texas Trust). Texas Trust has direct access to the services of the Federal Reserve Bank and performs other activities. It is specifically authorized to manage, disburse, transfer, safekeep and invest public funds and securities.

Texas Trust created the Texas Local Government Investment Pool (TexPool) as a public funds investment pool. Eligible participants include, but may not be limited to, incorporated cities, counties, villages, certain types of water districts, school districts, junior college districts, community college districts and certain other special districts in the State of Texas. TexPool began operations on December 6, 1989. On September 1, 1996, the operations of the State Treasury, including Texas Trust and TexPool, were merged with the State Comptroller of Public Accounts (State Comptroller).

The administrative and investment services to TexPool are provided by Federated Hermes, Inc. (Federated Hermes) under an agreement with Texas Trust effective April 8, 2002. The previous contract, which was effective through 2018, was renewed on September 1, 2018, and the terms of the agreement were extended through March 31, 2019. The current contract was executed on March 29, 2019, effective through December 31, 2024.

Federated Hermes is the investment manager and State Street Bank and Trust is the custodian for TexPool. Federated Hermes provides fund accounting and transfer agency services to TexPool. Effective July 1, 2004, Federated Hermes outsourced the transfer agent function to DST Asset Manager Solutions, Inc. Federated Hermes is the administrator for the TexPool program providing Participant Services and Marketing functions to TexPool participants. Federated Hermes is the participant contact point for account maintenance, assistance with transactions and other administrative information.

TexPool is established as an investment trust fund with Texas Trust as trustee, segregated from all other trustors, investments and activities of Texas Trust. Only local governments having contracted to participate in TexPool (Participants) have an undivided beneficial interest in its pool of assets. TexPool is not registered with the Securities and Exchange Commission (SEC) as an investment company.

These financial statements include only the operations of TexPool and do not purport to, and do not, present the financial position of the Texas Trust as of August 31, 2023 and 2022, the changes in its financial position, or, where applicable, its cash flows for the years then ended. The State Comptroller has established an eight member TexPool Advisory Board (Advisory Board) composed equally of Participants in the TexPool portfolios (TexPool and TexPool Prime) and other persons who do not have a business relationship with TexPool. Advisory Board members review TexPool's investment policy and management fee structure.

The State Comptroller exercises oversight responsibility over all other aspects of TexPool, including investment and accounting activity, development plans, etc. Oversight responsibility is demonstrated by financial interdependency, ability to significantly influence operations, designation of management and accountability for fiscal matters. As a result, the financial statements of TexPool are included in the financial statements of the Texas Trust as an investment trust fund, which are ultimately included in the financial statements of the State of Texas.

Texas Local Government Investment Pool

Notes to Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Basis of accounting: The accounting and reporting policies of TexPool relating to the accompanying financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Accounting principles generally accepted in the United States of America for state and local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB) in its publication *Codification of Governmental Accounting and Financial Reporting Standards* (the Codification).

The financial statements of TexPool are presented as an investment trust fund (a type of fiduciary fund) using the economic resources measurement focus and accrual basis of accounting. Investment income is recorded when earned and expenses are recorded when incurred. Net investment income is allocated to Participant accounts monthly on a pro-rata basis. All gains and losses from the sale of securities are distributed among Participants, and will be amortized over the remaining term to maturity of the liquidated securities. Participants may redeem their accounts at any time based on the previous day's balance of their account. Unrealized gains or losses are not allocated to Participant accounts.

In accordance with GASB requirements applicable to investment pools, investments are carried at amortized cost, which approximates fair value, as provided for by the Codification. Investments are priced daily and compared to TexPool's carrying value. If the ratio of the fair value of the portfolio of investments to the carrying value of investments is less than 0.995 or greater than 1.005, TexPool will sell investment securities, as required, to maintain the ratio at a point between 0.995 and 1.005.

Expenses: Expenses applicable to all Participants, paid in the form of a management fee to Federated Hermes, were allocated between all Participants as an adjustment to the daily investment yield so that only net investment income is credited to Participants' accounts. The Advisory Board has the responsibility under the provisions of the TexPool Participation Agreement to approve any modifications or other amendments of the management fee structure.

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 fund net position at the date of the financial statements. Actual results could differ from those estimates.

Note 2. Management Fees and Other Transactions With Affiliates

The Texas Trust, in order to recover its costs of operating TexPool, established a management fee for basic services provided to the Participants. During fiscal years 2023 and 2022, the total fee rate was 4.5 basis points (0.0450%), including one-half basis point (0.0050%) of Texas Trust's administrative fee. Under the current contract with Federated Hermes, the management fee may not be raised for the duration of the contract. The current contract was executed March 29, 2019, and is effective through December 31, 2024.

During fiscal years 2023 and 2022, the fees were reduced from the maximum allowed under the contract on various occasions. Fees are rebated when TexPool is invested in an affiliated money market product. During fiscal year 2023, the average net monthly fee ranged from a high of 4.07 basis points (0.0407%) to a low of 3.35 basis points (0.0335%). During fiscal year 2022, the average net monthly fee ranged from a high of 4.50 basis points (0.045%) to a low of 2.901 basis points (0.029%).

Texas Local Government Investment Pool

Notes to Financial Statements

Note 3. Investments

Investments of TexPool are only those authorized by the Texas Public Funds Investment Act governing pools for local governments, which was in effect as of and prior to August 31, 2023 and 2022. The portfolio may include the following:

1. Obligations of the United States or its agencies and instrumentalities
2. Direct obligations of the State of Texas or its agencies and instrumentalities
3. Collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States
4. Other obligations, for which the principal and interest are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or its agencies and instrumentalities
5. Obligations of states, agencies, counties, cities and other political subdivisions of any state having been rated as to investment quality by nationally recognized investment rating firms and having received a rating of not less than A or its equivalent
6. Bonds issued, assigned or guaranteed by the State of Israel
7. Certificates of deposit issued by state and national banks domiciled in the State of Texas, a savings bank domiciled in the State of Texas or a state or federal credit union domiciled in the State of Texas that are:
 - a. Guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor
 - b. Secured by obligations as described in items 1-4 above, which are intended to include all direct federal agency or instrumentality issued mortgage-backed securities that have a market value of not less than the principal amount of the certificates, but excluding mortgage-backed securities described by Section 2256.009(b) of the Texas Public Funds Investment Act
 - c. Secured in any other manner and amount provided by law for deposits of the investing entity
8. Fully collateralized direct repurchase agreements having a defined termination date, secured by obligations described by item 1 above, pledged with a third party selected or approved by TexPool, and placed through a primary government securities dealer, as defined by the Federal Reserve or a financial institution doing business in the State of Texas
9. Such other investments as may be authorized by the Texas Public Funds Investment Act, Chapter 2256 of Government Code

The above investments are the legally permitted investments; however, the TexPool Advisory Board has ratified an investment policy which further limits TexPool's portfolio to certain of the investments listed above. The investment policy does not allow for derivative securities, commercial paper or certificates of deposit.

Texas Local Government Investment Pool

Notes to Financial Statements

Note 3. Investments (Continued)

The State Comptroller approved the current TexPool investment policy effective August 2023 and 2022, which has been reviewed by the TexPool Advisory Board. Under this investment policy, the following are authorized investments:

- Obligations of the United States, its agencies or instrumentalities, including the Federal Home Loan Banks, except for:
 - Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal
 - Obligations whose payments represent the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest
 - Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years
 - Collateralized mortgage obligations, the interest rate of which, is determined by an index that adjusts opposite to the changes in a market index
- Fully collateralized repurchase and reverse repurchase agreements having a defined termination date, secured by any obligation of the United States, its agencies or its instrumentalities, to include certain mortgage-backed securities of the United States. The repurchase and reverse repurchase agreements are placed only with a primary government securities dealers, or a state or national bank doing business in the State of Texas.
- Money market mutual funds which are no-load, registered with and regulated by the SEC, provide a prospectus and other information required by the Securities and Exchange Act of 1934 or the Investment Company Act of 1940, complies with federal Securities and Exchange Commission rule 2a-7, as promulgated under the Investment Company Act of 1940, maintain a dollar-weighted average stated maturity of 90 days or fewer, and which include in its investment objectives the maintenance of a stable net asset value (NAV) of \$1.00 for each share.

TexPool is designed to be highly liquid in order to give Participants immediate access to their account balance. Therefore, the weighted average maturity of the investments (calculated using the reset date for variable rate notes) of TexPool cannot exceed 60 days. At August 31, 2023 and 2022, the approximate weighted average maturity of the portfolio was 23 days for both years.

Securities transactions are recorded on a trade date basis. Interest income, adjusted for amortization of premiums and accretion of discounts on investments, is accrued daily. Income to Participants is accrued daily and distributions or reinvestment of the income is made monthly.

Securities purchased under agreements to resell (repurchase agreements) are treated as investments, are collateralized by negotiable and eligible government securities and are carried at the amounts at which the securities were purchased as specified in the respective agreements.

Collateral on repurchase agreements is maintained in a segregated account by a third-party custodian upon entering into the repurchase agreement. The collateral is marked to market daily to ensure its market value as being at least equal to 100% of the resale price of the repurchase agreement. The November 2022 investment policy states that collateral on repurchase agreements will be equal to at least 102% of the total market value of the repurchase agreements, including accrued interest.

Texas Local Government Investment Pool

Notes to Financial Statements

Note 3. Investments (Continued)

In accordance with GASB requirements applicable to investment pools, investments are carried at amortized cost, which approximates fair value, as provided for by the Codification. However, GASB also requires fair value measurement disclosures. TexPool 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. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. 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 in 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.

If the fair value is measured using inputs from different levels in the fair value hierarchy, the measurement should be categorized based on the lowest priority level input that is significant to the valuation. TexPool'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.

TexPool has the following recurring fair value measurements as of August 31, 2023 and 2022:

2023	Par Value	Carrying Value	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)
Investments by fair value level:						
Debt securities:						
Securities purchased under agreement to resell	\$ 13,020,069,224	\$ 13,020,069,224	\$ 13,020,069,224	\$ -	\$ 13,020,069,224	\$ -
United States government agency securities	10,927,750,000	10,926,131,011	10,920,912,044	-	10,920,912,044	-
United States treasuries	3,399,590,000	3,388,621,552	3,389,235,898	-	3,389,235,898	-
Money market mutual funds	\$ 2,025,085,200	\$ 2,025,085,200	\$ 2,025,085,200	\$ 2,025,085,200	-	\$ -
Total investments by fair value level	\$ 29,372,494,424	\$ 29,359,906,987	\$ 29,355,302,366	\$ 2,025,085,200	\$ 27,330,217,166	\$ -
2022	Par Value	Carrying Value	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)
Investments by fair value level:						
Debt securities:						
Securities purchased under agreement to resell	\$ 8,490,125,884	\$ 8,490,125,884	\$ 8,490,125,884	\$ -	\$ 8,490,125,884	\$ -
United States government agency securities	10,535,550,000	10,532,413,985	10,525,123,474	-	10,525,123,474	-
United States treasuries	3,765,275,000	3,753,132,797	3,746,195,102	-	3,746,195,102	-
Money market mutual funds	1,627,085,200	1,627,074,000	1,627,085,200	1,627,085,200	-	-
Total investments by fair value level	\$ 24,418,036,084	\$ 24,402,746,666	\$ 24,388,529,660	\$ 1,627,085,200	\$ 22,761,444,460	\$ -

Texas Local Government Investment Pool

Notes to Financial Statements

Note 3. Investments (Continued)

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants. Debt securities and repurchase agreements classified as Level 2 of the fair value hierarchy are valued using other observable significant inputs, including but not limited to, quoted prices for similar securities, interest rates and a fixed-income pricing model. Money market mutual funds classified as Level 1 of the fair value hierarchy are valued using a published net asset value per share of \$1.00.

The following table provides additional information about TexPool's investment portfolio as of August 31, 2023 and 2022:

	August 31, 2023	
	Ranges of	
	Interest Rates	Maturity Dates
Securities purchased under agreement to resell	5.230% to 5.340%	09/01/2023-09/21/2023
United States government agency securities	0.010% to 5.740%	09/06/2023-09/05/2025
United States treasuries	0.010% to 5.613%	09/05/2023-7/31/2025
Money market mutual funds	5.248% to 5.262%	09/01/2023-09/01/2023
	August 31, 2022	
	Ranges of	
	Interest Rates	Maturity Dates
Securities purchased under agreement to resell	2.220% to 2.300%	09/01/2022-09/22/2022
United States government agency securities	0.010% to 5.375%	09/15/2022-07/22/2024
United States treasuries	0.010% to 2.950%	09/08/2022-7/31/2024
Money market mutual funds	2.137% to 2.162%	09/01/2022-09/01/2022

Custodial credit risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, TexPool would not be able to recover the loss of its investments or collateral securities that are in possession of an outside entity. As of August 31, 2023 and 2022, all of TexPool's investments are held by the Federal Reserve or the custodian in TexPool's name. TexPool's bank balances are fully collateralized by Federal depository insurance. The amounts that exceed the Federal depository insurance coverage are collateralized by the institution holding the funds. At August 31, 2023 and 2022, TexPool had a cash balance of \$5,228,693 and \$0, respectively.

Credit risk: The TexPool portfolio is designed and managed to ensure that it maintains its AAAM rating (or the equivalent) by a nationally recognized statistical rating organization (NRSRO). As of August 31, 2023 and 2022, TexPool investments in U.S. government securities and the underlying securities of the Repurchase Agreements were rated A-1+ by Standard & Poor's, P1 by Moody's and F-1+ by Fitch. Money market mutual funds were rated AAAM by Standard & Poor's, Aaa-mf by Moody's and AAAMmf by Fitch as of August 31, 2023 and 2022.

Texas Local Government Investment Pool

Notes to Financial Statements

Note 3. Investments (Continued)

Concentration of credit risk: Up to 100.0% of TexPool assets may be invested in government obligations of the United States, its agencies or instrumentalities. However, no more than 60.0% of the portfolio may be invested in variable rate notes. Up to 100.0% of TexPool assets may be invested in direct repurchase agreements. TexPool may enter into reverse repurchase agreements for up to one third (1/3) of the value of the TexPool assets. No more than 10.0% of the TexPool assets may be invested in a single money market fund. The money market mutual fund must be rated AAA or its equivalent by at least one NRSRO. TexPool's investment policy has no limit on the amount it may invest in any single Governmental Sponsored Enterprise (GSE). As of August 31, 2023, TexPool had more than 5% of the pool's investments in the following GSEs: 28.1% with the Federal Home Loan Bank and 8.8% with the Federal Farm Credit Bank. As of August 31, 2022, TexPool had more than 5% of the pool's investments in the following GSEs: 28.8% with the Federal Home Loan Bank and 8.6% with the Federal Farm Credit Bank.

Interest rate risk: The weighted-average maturity of the portfolio is limited to 60 days calculated using the reset date for variable rate notes (VRNs) and 90 days or fewer using the final maturity date for VRNs, with the maximum maturity for any individual security in the portfolio not exceeding 397 days for fixed rate securities and 24 months for VRNs. The following schedule reflects the weighted-average maturity by investment type and TexPool's portfolio as a whole:

	Weighted-Average Maturity (Days)	
	2023	2022
Investment type:		
Securities purchased under agreement to resell	3	2
United States government agency securities	51	26
United States treasuries	25	72
Money market mutual funds	1	1
TexPool's weighted-average maturity	23	23

**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 Glenn Hegar
Comptroller of Public Accounts of the State of Texas
Texas Local Government Investment Pool

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 Texas Local Government Investment Pool (TexPool), an investment trust fund of the Texas Treasury Safekeeping Trust Company (Trust), as of and for the year ended August 31, 2023, and the related notes to the financial statements, and have issued our report thereon dated December 13, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered TexPool'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 TexPool's internal control. Accordingly, we do not express an opinion on the effectiveness of TexPool'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 TexPool'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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether TexPool'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 TexPool's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering TexPool's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

RSM US LLP

Austin, Texas
December 13, 2023