

Texas Treasury Safekeeping Trust Company

(A Component Unit of the State of Texas)

Annual Financial Report
August 31, 2023

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Independent Auditor's Report

RSM US LLP

Honorable Glenn Hegar
Comptroller of Public Accounts of the State of Texas
Texas Treasury Safekeeping Trust Company

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

We have audited the financial statements of the business-type activities and fiduciary activities of the Texas Treasury Safekeeping Trust Company (Texas Trust), a component unit of the State of Texas, as of and for the year ended August 31, 2023, and the related notes to the financial statements, which collectively comprise the Texas Trust's basic 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 respective financial position of the business-type activities and fiduciary activities of the Texas Trust, as of August 31, 2023, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit 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 Texas Trust and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Texas Trust adopted Government Accounting Standards Board Statement No. 96, *Subscription Based Information Technology Arrangements*, as of September 1, 2022 which resulted in the restatement of certain beginning balances. Our opinions are 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Texas Trust's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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 the Texas Trust'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.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Texas Trust's ability to continue as a going concern for a reasonable period of time.

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, Schedule of Changes in Proportionate Share of the Net Pension Liability, Schedule of Contributions—Net Pension Liability, Schedule of Changes in Proportionate Share of the Net OPEB Liability, Schedule of Contributions—Net OPEB Liability and Notes to Required Supplementary Information, 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 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 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Texas Trust's basic financial statements. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements, or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2023, on our consideration of the Texas Trust'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 Texas Trust'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 Texas Trust's internal control over financial reporting and compliance.

RSM US LLP

Austin, Texas
December 20, 2023

Texas Treasury Safekeeping Trust Company

Management's Discussion and Analysis August 31, 2023

This section of the Texas Treasury Safekeeping Trust Company's (Texas Trust) annual financial report presents discussion and analysis of its financial performance during the fiscal year ended August 31, 2023, and should be read in conjunction with Texas Trust's financial statements, which follow this section.

Financial Highlights

- The Texas Trust's total managed funds, including pooled funds, exceeded one hundred and fifty-five (\$155) billion dollars at August 31, 2023.
- The Texas Trust had fees for services in fiscal year 2023 of \$32,319,394 and net nonoperating revenues of \$2,450,020 (interest income less nonoperating expenses). Operating expenses were \$23,384,702.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Texas Trust's financial statements. The financial statements include statements for each of the following funds: Proprietary Fund and Fiduciary Fund.

Proprietary Fund

The proprietary fund financial statements presented herein include the operations of the Texas Trust using the approach as prescribed by the Governmental Accounting Standards Board (GASB) in its publication *Codification of Governmental Accounting and Financial Reporting Standards*. They present the financial statements of the Texas Trust from the economic resources measurement focus using the accrual basis of accounting.

The Texas Trust Enterprise Fund is used to report any activity for which a fee is charged to users for services such as investment management and custodial services. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs. The Texas Trust accounts for its daily operations using an enterprise fund. The enterprise fund, which represents the Texas Trust's operating funds, is reported as a proprietary component unit of the State of Texas, and as such is accounted for using the flow of economic resources measurement focus and accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recognized when the liability is incurred regardless of the timing of the related cash flow, similar to private sector companies.

The following statements are presented as part of the enterprise fund:

- The Statement of Net Position presents information on all of the Texas Trust's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Texas Trust is improving or deteriorating. Additionally, certain eliminations have occurred in regard to interfund activity, payables and receivables.
- The Statement of Revenues, Expenses and Changes in Net Position presents information showing how the Texas Trust's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the time of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods. The business-type activities of the Texas Trust include providing investment management and custody services. Management fees charged to customers support these activities.

Texas Treasury Safekeeping Trust Company

Management's Discussion and Analysis

August 31, 2023

- The Statement of Cash Flows—This statement reports the cash receipts and payments of the Texas Trust according to whether they stem from operating, noncapital financing, capital and related financing, or investing activities.

Fiduciary Funds

Fiduciary funds are used to account for resources that a government holds as a trustee or agent on behalf of an outside party that cannot be used to support the government's own programs. The Texas Trust performs custodial and investment services for entities in two fund categories for a fee designed on a cost recovery basis. The two fund categories used under fiduciary fund types are:

Investment Trust Funds

Investment Trust Funds are used to report the external portion of investment pools reported by the sponsoring government. The Texas Trust accounts for monies constituting the Texas Local Government Investment Pool and the Texas Local Government Investment Pool Prime in an investment trust fund.

Custodial Funds

Custodial Funds are used to report fiduciary activities that are not required to be reported in pension (and other employee benefit) trust funds, investment trust funds, or private-purpose trust funds. Custodial funds typically involve only the receipt, temporary investment and remittance of fiduciary resources to individuals, private organizations, or other governments. The Texas Trust accounts for monies held for certain state agencies including the Treasury Pool, Tobacco Settlement Permanent Trust Fund, State Water Implementation Fund for Texas (SWIFT), Texas Economic Stabilization Investment Fund (TESTIF) and securities held on behalf of their owners or beneficiaries in custodial funds. Those agencies contract with the Texas Trust for investment management and custodial services.

Texas Treasury Safekeeping Trust Company

Management's Discussion and Analysis
August 31, 2023

Condensed Financial Information for 2023 and 2022 (in 000's)

	Business-Type Activities	
	2023	2022
Assets:		
Current assets	\$ 88,167	\$ 75,472
Capital assets	10,082	1,789
Total assets	98,249	77,261
Deferred outflow of resources:		
Deferred outflow for ERS pension liability	2,805	7,275
Deferred outflow for ERS OPEB liability	4,579	5,762
Total deferred outflows of resources	7,384	13,037
Liabilities:		
Current liabilities	17,883	5,850
Noncurrent liabilities	24,070	24,597
Total liabilities	41,953	30,447
Deferred inflows of resources:		
Deferred inflow for ERS pension liability	15,605	24,740
Deferred inflow for ERS OPEB liability	3,098	1,518
Total deferred inflows of resources	18,703	26,258
Net position:		
Invested in capital assets	1,769	1,789
Unrestricted	43,209	31,805
Total net position	\$ 44,978	\$ 33,594

Texas Treasury Safekeeping Trust Company

Management's Discussion and Analysis August 31, 2023

Condensed Financial Information for 2023 and 2022 (in 000's) (Continued)

	Business-Type Activities	
	2023	2022
Changes in net position:		
Charges for service:		
Treasury Pool	\$ 7,891	\$ 13,137
Endowments	9,847	10,124
SWIFT	3,319	3,420
TESTIF	7,551	4,622
Emerging Technology Fund	650	650
Investment Trust Fund	2,022	1,775
Agencies	1,039	889
Total charges for service	32,319	34,617
Net nonoperating revenues	2,450	367
Total revenues	34,769	34,984
Total operating expenses	23,385	24,532
Change in net position	\$ 11,384	\$ 10,452

Overall Financial Analysis

Business-type activities: The Texas Trust earns a fee based upon the assets under management for each client; consequently, revenue is directly related to the total assets under management by the Texas Trust. Business-type activities generated revenue of \$32.3 million, a decrease of \$2.3 million during FY 2023. Total expenses for business-type activities were \$23.4 million, a decrease of \$1.1 million during FY 2023.

The Texas Trust is required to have a fee schedule to maintain operations, being a self-supporting entity. A Capital Reserves Requirement policy exists in order to identify required reserves and other reserves necessary to support operations. This policy is reviewed periodically by executive management. If there are excess reserves at the end of the fiscal year, fees are waived or refunded until the excess is eliminated. During FY2023, management waived \$19.1 million in service fees to bring capital reserves to the required level for the year.

Texas Treasury Safekeeping Trust Company

Management's Discussion and Analysis August 31, 2023

The fee schedule for the various funds managed by the Texas Trust is as follows:

Account	Fees in Basis Points
Charges for service:	
Endowments	25
SWIFT	20
TESTIF	7
Treasury Pool	2
TexPool and TexPool Prime	0.5
Other Custodial Funds	Range from 2-6 Basis Points plus certain itemized charges for services

Capital assets and long-term debt: The Texas Trust's investment in capital assets for its business type activities as of August 31, 2023 amounts to \$10,081,857 (net of accumulated depreciation). This investment in capital assets includes building improvements, furniture, equipment, software and subscription assets.

The Texas Trust has not issued any long-term debt but has long-term liabilities which consist of employee compensable leave, net pension liability, and OPEB liability.

The Texas Trust reports in the Enterprise Fund its proportionate share of net pension liability, deferred outflows of resources, and deferred inflows of resources and related pension expenses of the Employee Retirement System of Texas Plan (ERS Plan). The proportionate share is an actuarial calculation based on ERS records of actual contributions from the Texas Trust as a percentage of total contributions from all other plan participants. The Texas Trust's proportionate share of net pension liability at August 31, 2023, is \$10.2 million, a decrease of \$2.7 million from August 31, 2022. See Note 4 to the Financial Statements for additional information.

The Texas Trust reports in the Enterprise Fund its proportionate share of Other Postemployment Benefits (OPEB) liability, deferred outflows of resources, and deferred inflows of resources and related OPEB expenses of the ERS Plan. The proportionate share is an actuarial calculation based on ERS records of actual contributions from the Texas Trust as a percentage of total contributions from all other plan participants. The Texas Trust's proportionate share of OPEB liability at August 31, 2023 is \$9.1 million, a decrease of \$2.1 million from August 31, 2022. See Note 5 to the Financial Statements for additional information.

Fiduciary Funds Financial Analysis

Investment Trust Fund: The net position includes the Texas Local Government Investment Pool (TexPool) and the Texas Local Government Investment Pool Prime (TexPool Prime) that are operated for the benefit of local governments.

The net position in the fund at August 31, 2023 totals \$42.1 billion and the net increase in fiduciary net position for FY 2023 is \$7.6 billion.

Custodial Fund: This fund includes assets held by the Texas Trust on behalf of various agencies, special accounts of the State of Texas and its component units. The fiduciary net position of funds held for others at August 31, 2023, was \$113.6 billion, an increase of \$22.8 billion in FY 2023.

Texas Treasury Safekeeping Trust Company

Management's Discussion and Analysis August 31, 2023

Economic Conditions and Outlook

The general economic conditions as well as the overall financial market performance have a significant impact on the assets Trust Company manages. Interest rates have gone up significantly 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. Recently, the yield curve has been steepening and thus becoming less inverted as the 2-year U.S. Treasury rate is down by just over 10 basis points while the 10-year U.S. Treasury rate is up by around 15 basis points since August 31, 2023. Against the backdrop of this economic environment, the Trust Company's investment portfolios, which are managed to achieve its investment objectives, are well positioned to meet or exceed its benchmark performance over the long run.

Contacting the Texas Trust's Financial Management

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

Basic Financial Statements

Texas Treasury Safekeeping Trust Company

Statement of Net Position—Proprietary Fund
August 31, 2023

Assets:

Current assets:

Cash and cash equivalents:

Cash in bank \$ 10,083,163

Cash in State Treasury 1,221,240

Restricted cash in bank 347,666

Investments in repurchase agreements 69,780,426

Restricted investments 619,099

Receivables, net from:

Management fees 4,743,580

Interest 14,849

Other 18,765

Prepaid expenses 1,338,613

Total current assets 88,167,401

Noncurrent assets:

Capital assets:

Subscription assets (net) 8,521,822

Depreciable:

Building and building improvements, net 1,289,194

Furniture and equipment, net 270,840

Total noncurrent assets 10,081,856

Total assets 98,249,257

Deferred outflows of resources:

Deferred outflow for ERS pension liability 2,804,953

Deferred outflow for ERS OPEB liability 4,579,314

Total deferred outflows of resources 7,384,267

See accompanying notes to financial statements.

Texas Treasury Safekeeping Trust Company

Statement of Net Position—Proprietary Fund (Continued)

August 31, 2023

Liabilities:

Current liabilities:

Accounts payable	\$ 8,474,395
Payroll payable	4,514,260
SBITA - Interest payable	180,757
SBITA - Current subscription Liability	3,940,308
Employee's compensable leave	773,207
Total current liabilities	17,882,927

Noncurrent liabilities:

Employees' compensable leave	559,537
SBITA - Non-current subscription liability	4,191,894
Net pension liability	10,225,784
OPEB liability	9,092,683
Total noncurrent liabilities	24,069,898

Total liabilities	41,952,825
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Deferred inflow of resources:

Deferred inflow for ERS pension liability	15,604,942
Deferred inflow for ERS OPEB liability	3,097,518
Total deferred inflows of resources	18,702,460

Net position:

Invested in capital assets	1,768,897
Unrestricted	43,209,342
Total net position	\$ 44,978,239

See accompanying notes to financial statements.

Texas Treasury Safekeeping Trust Company

**Statement of Revenues, Expenses and Changes in Net Position—Proprietary Fund
Year Ended August 31, 2023**

Operating revenue—management fees	\$ 32,319,394
Operating expenses:	
Salaries and wages	12,745,420
Payroll related costs	748,488
Pension and other postemployment expense	(4,615,265)
Professional fees and services	7,386,266
Travel	87,274
Materials and supplies	344,640
Communication and utilities	775,864
Repairs and maintenance	1,017,758
Rentals and leases	11,253
Printing and reproduction	14,657
SBITA - Amortization expense	3,705,806
Depreciation	228,597
Other operating expenses	933,944
Total operating expenses	<u>23,384,702</u>
Operating income (loss)	<u>8,934,692</u>
Nonoperating revenue (expenses):	
Investment income	2,450,020
Net nonoperating revenues	<u>2,450,020</u>
Change in net position	11,384,712
Total net position at beginning of year	<u>33,593,527</u>
Total net position at end of year	<u><u>\$ 44,978,239</u></u>

See accompanying notes to financial statements.

Texas Treasury Safekeeping Trust Company

Statement of Cash Flows—Proprietary Fund Year Ended August 31, 2023

Cash flows from operating activities:	
Proceeds from management fees	\$ 34,562,014
Payments to employees	(12,403,852)
Payments for pension and other postemployment benefits	(2,026,171)
Payments for operating expenses	(3,779,002)
Net cash provided by operating activities	16,352,989
Cash flows from capital and related financing activities:	
Payment for SBITA/Lease	(3,914,669)
Net cash used in capital and related financing activities	(3,914,669)
Cash flows from investing activities:	
Purchases of investments	(35,017)
Proceeds from interest and investment income	2,440,105
Net cash provided by investing activities	2,405,088
Net increase in cash and cash equivalents	14,843,408
Cash and cash equivalents at beginning of year	66,589,087
Cash and cash equivalents at end of year	\$ 81,432,495
Reconciliation of operating loss to net cash provided by operating activities:	
Operating income (loss)	\$ 8,934,692
Adjustments to reconcile operating loss to net cash provided by operating activities:	
SBITA - Amortization expense	3,705,806
Depreciation expense	228,597
Changes in assets/liabilities:	
Receivables	2,242,619
Prepaid expenses	(49,548)
Deferred outflows/inflows	(1,902,531)
Benefits payables	(4,738,905)
Payables	7,932,259
Net cash provided by operating activities	\$ 16,352,989
Displayed as:	
Cash in bank	\$ 10,083,163
Cash in State Treasury	1,221,240
Restricted cash in bank	347,666
Investments in repurchase agreements	69,780,426
Total cash and cash equivalents	\$ 81,432,495

See accompanying notes to financial statements.

Texas Treasury Safekeeping Trust Company

**Statement of Fiduciary Net Position—Fiduciary Funds
August 31, 2023**

	Investment Trust Funds	Custodial Funds
Assets:		
Cash in bank	\$ 5,229,457	\$ 87,753,770
Deposits	-	469,617,186
Investments	42,190,484,349	112,855,757,885
Other asset	-	40,777,998
Accrued interest receivable	165,967,911	140,667,364
Trades pending settlement	-	8,078,511
Total assets	\$ 42,361,681,717	\$ 113,602,652,714
Liabilities:		
Accounts payable and accrued expenses	\$ 49,140	\$ 4,691,723
Interest payable	-	5,365,651
Amounts payable to participants	186,023,207	-
Trades pending settlement	125,000,000	3,465,469
Management fees reserved for operating expenses	191,252	-
Obligations under reverse repurchase agreements	-	3,137,245
Total liabilities	\$ 311,263,599	\$ 16,660,088
Net position:		
Held in trust for pool participants	\$ 42,050,418,118	\$ -
Held for other governments	-	113,585,992,626
Total fiduciary net position	\$ 42,050,418,118	\$ 113,585,992,626

See accompanying notes to financial statements.

Texas Treasury Safekeeping Trust Company

Statement of Changes in Fiduciary Net Position—Fiduciary Funds
Year Ended August 31, 2023

	Investment Trust Funds	Custodial Funds
Additions:		
Investment income:		
Net increase (decrease) in fair value of investments	\$ -	\$ 249,561,848
Interest and investment income	1,813,674,986	3,407,981,528
Expenses:		
Professional fees and services	(16,136,871)	(37,870,767)
Net investment income	1,797,538,115	3,619,672,609
Other Additions:		
Deposits from other governments	-	666,154,470,825
Total Additions	1,797,538,115	669,774,143,434
Deductions:		
Earnings paid to investors from net investment income	(1,797,587,115)	-
Expenses paid from management fees reserved for operating expenses	49,000	-
Individual participant investment account transactions:		
Subscriptions	81,481,429,408	-
Reinvestments	1,661,147,894	-
Redemptions	(75,555,590,859)	-
Net increase in participant investments	7,586,986,443	-
Other Deductions:		
Withdrawals from other governments	-	646,982,715,673
Total Deductions	5,789,448,328	646,982,715,673
Change in net position restricted for other governments	7,586,986,443	22,791,427,761
Net position at beginning of year	34,463,431,675	90,794,564,865
Net position at end of year	\$ 42,050,418,118	\$ 113,585,992,626

See accompanying notes to financial statements.

Notes to Financial Statements

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements

August 31, 2023

Note 1. Summary of Significant Accounting Policies

Reporting entity: In 1986, the 69th Texas Legislature authorized the incorporation of the Texas Treasury Safekeeping Trust Company (Texas Trust) to give the Treasurer of the State of Texas access to the Federal Reserve System. The 77th Legislature amended the Texas Trust statute and the Texas Trust began operations as a separate State entity on September 1, 2001. The Comptroller of Public Accounts (Comptroller) is the single shareholder of the Texas Trust and is charged with managing the Texas Trust. The Texas Trust is reported as a blended, component unit of the State of Texas.

These financial statements include only the operations of the Texas Trust and do not purport to and do not present the financial position of the State of Texas as of August 31, 2023, and the changes in its financial position for the year ended.

The Texas Trust is authorized to manage, disburse, transfer, safekeep and invest funds and securities provided by statute or belonging to state and local entities and gives the Comptroller direct access to services provided by the Federal Reserve System. The enabling legislation also provides for:

- Specifically exempting the Texas Trust from other state laws regulating or limiting state purchasing or a purchasing decision if it is determined the purchase or decision relates to its fiduciary duties.
- The Texas Trust to enter into contracts, trust agreements, or other fiduciary instruments with the Comptroller, the Federal Reserve System, the Depository Trust Company and other third parties.
- The Comptroller appointing an investment advisory board to advise the Comptroller with respect to managing the assets held by the Texas Trust.
- The Comptroller appointing a person to serve as Chief Executive Officer in managing the Texas Trust and carrying out its duties.
- The development of a fee schedule in the amount necessary to recover costs of service and to retain adequate reserves to support the operations of the Texas Trust.

The Texas Trust is exempt from federal income taxation as a governmental entity under Internal Revenue Code Section 115. The accompanying financial statements present the activities and operations of the Texas Trust. The primary business functions provided by the Texas Trust are investment management and custodial services and therefore, the majority of the funds accounted for by the Texas Trust are fiduciary in nature. Separate audited financial statements are available for the Texas Local Government Investment Pool (TexPool), the Texas Local Government Investment Pool Prime (TexPool Prime), the Tobacco Settlement Permanent Trust Fund (Tobacco Trust) and the State Water Implementation Fund for Texas (SWIFT) and may be obtained from the Comptroller's Office by writing:

Texas Comptroller of Public Accounts
Post Office Box 13528
Austin, Texas 78711-3528

Financial statements: The Texas Trust financial statements report information on all of the nonfiduciary activities of the Texas Trust. All capital asset depreciation is reported as a direct expense of the proprietary fund. Operating revenues include charges for services relating to assets under management.

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements

August 31, 2023

Note 1. Summary of Significant Accounting Policies (Continued)

Effective September 1, 2022, the Texas Trust adopted new accounting guidance by implementing the provisions of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITA)*, which establishes criteria for identifying and reporting a right-to-use subscription asset and a corresponding subscription liability. The implementation of this statement resulted in adding SBITA assets and liabilities to the Statement a Net Position – Proprietary Fund as well as recognizing amortization expenses related to these SBITA assets in the Statement of Revenues, Expenses and Changes in Net Position – Proprietary Fund. The implementation of this statement has also resulted in adding descriptive information about SBITAs, such as the amount of the subscription asset, accumulated amortization, and other payments not included in the measurement of a subscription liability, and principal and interest requirements for the subscription liability. The adoption of new accounting standards impacted the beginning balance of subscription asset and a related subscription liability in the amount of \$11,917,190 without an impact to net position.

Measurement focus, basis of accounting and financial statement presentation: The Texas Trust financial statements include financial statements for each of the following fund classifications: a proprietary fund and fiduciary funds consisting of an investment trust fund and multiple custodial funds. The proprietary, investment trust funds and custodial funds are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Texas Trust accounts for its daily operations using an enterprise fund. Operating revenues result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as investment earnings, result from nonexchange transactions or ancillary activities. Operating expenses include the cost of services, administrative expenses and depreciation of capital assets.

The Texas Trust reports the following fiduciary funds.

Investment Trust Fund: Investment trust funds are used to report the external portion of investment pools reported by the sponsoring government. The Texas Trust accounts for monies constituting TexPool and TexPool Prime in an investment trust fund.

Custodial Fund: Custodial funds are used to report fiduciary activities that are not required to be reported in pension (and other employee benefit) trust funds, investment trust funds, or private-purpose trust funds. Custodial funds typically involve only the receipt, temporary investment and remittance of fiduciary resources to individuals, private organizations or other governments. The Texas Trust accounts for monies for individual state agencies contracting with the Texas Trust for investment management and custodial services in custodial funds.

Cash and cash equivalents: For purposes of the statement of cash flows, demand deposits and short-term highly liquid investments in the business type activities with an original maturity of three months or less are considered cash equivalents. For purposes of the statement of net position presentation, investments in repurchase agreements, cash in state treasury and restricted cash in bank are included in cash and cash equivalents.

Restricted cash and cash equivalents: The Texas Trust maintains an account with the Depository Trust Company (DTC). In accordance with the agreement between DTC and the Texas Trust, \$347,666 in cash was held at DTC as of August 31, 2023, in order to maintain the account.

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2023

Note 1. Summary of Significant Accounting Policies (Continued)

Deposits and investments: Money market instruments and repurchase agreements are reported at amortized cost. All other 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, other than money market instruments 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.

The Texas Trust manages the fiduciary funds and enterprise fund investments in accordance with the Comptroller's Investment Policy and Government Code Section 404.024. The portfolio of investments may include:

1. Direct security repurchase agreements;
2. Reverse security repurchase agreements;
3. Obligations of the United States or its agencies and instrumentalities, other than mortgage-backed securities interest only and principal only strips;
4. Bankers' acceptances that:
 - a. do not exceed 270 days to maturity; and
 - b. are issued by a bank that has received the highest short-term credit rating by a nationally recognized investment rating firm;
5. Commercial paper that:
 - a. does not exceed 270 days to maturity; and
 - b. except as provided by Subsection (i) of Government Code Section 404.024, has received the highest short-term credit rating by a nationally recognized investment rating firm;
6. Contracts written by the treasury in which the treasury grants the purchaser the right to purchase securities in the treasury's marketable securities portfolio at a specified price over a specified period and for which the treasury is paid a fee and specifically prohibits naked-option or uncovered option trading;
7. Direct obligations of or obligations guaranteed by the Inter-American Development Bank, the International Bank for Reconstruction and Development (the World Bank), the African Development Bank, the Asian Development Bank and the International Finance Corporation that have received the highest credit rating by a nationally recognized investment rating firm (collectively referred to herein as Supranationals);
8. Bonds issued, assumed, or guaranteed by the State of Israel;
9. Obligations of a state or an agency, county, city, or other political subdivision of a state that have received at least a single A rating or its equivalent by a nationally recognized investment rating firm as provided for by Government Code Section 404.024, Subsection (i);

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2023

Note 1. Summary of Significant Accounting Policies (Continued)

10. Mutual funds secured by obligations that are described by Subdivisions (1) through (6);
11. Foreign currency for the sole purpose of facilitating investment by state agencies that have the authority to invest in foreign securities; and
12. Such other investments as may be authorized by Government Code Section 404.024.

Fiduciary funds are managed in accordance with the respective entities' investment policies and governing statutes.

Security transactions are recorded on a trade date basis.

In connection with transactions in repurchase agreements, it is the Texas Trust's policy to hold the underlying collateral securities in their account at the Federal Reserve Bank of Dallas, San Antonio branch, in the name of the Texas Trust. The fair value of the underlying collateral securities exceeds the principal amount of the repurchase transaction, including accrued interest, at all times. Where tri-party agreements have been executed, the Texas Trust may enter into repurchase agreements whereby a third-party custodian holds the collateral in a segregated account in Texas Trust's name. As of August 31, 2023, the Texas Trust had no tri-party agreements outstanding. If the seller defaults, and the fair value of the collateral declines, realization of the collateral held by the Texas Trust may be delayed or limited. Repurchase agreements may be entered into only with State or National banks doing business in Texas or with primary dealers approved by the Federal Reserve System.

Government Code Section 404.024 provides for the use of reverse repurchase agreements by the Comptroller. In connection with transactions in reverse repurchase agreements (reverse), it is the Texas Trust's policy, consistent with Government Code Section 404.024, to match the maturity of the reverse with the maturity of securities purchased with the proceeds from the reverse. Further, proceeds from reverses are used to purchase securities. At August 31, 2023, the Custodial Fund had \$3,137,245 in reverse repurchase agreements.

In accordance with Government Code Section 404.021 and the State Depository Handbook, the Texas Trust may deposit state funds with approved national and state banks, savings and loan associations and credit unions doing business in Texas through a main office or one or more branches. Any entity where total deposits are in excess of \$237,500 requires acceptable collateral in an amount not less than 105% of the total deposit balance held in the Texas Trust's account at the Federal Reserve. Collateralization of 125% is required for any securities pledged that have a declining principal balance.

Receivables and payables: All trade receivables are shown net of an allowance for uncollectible amounts. The allowance as of August 31, 2023, was \$1,799. The liabilities are for the value of assets or services received at or before year-end for which payment was not made as of year-end.

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2023

Note 1. Summary of Significant Accounting Policies (Continued)

Capital assets: Assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year are capitalized. Assets are capitalized at cost when acquired. Donated assets are reported at acquisition value on the acquisition date. All capital assets are depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Software	3 years
Office equipment	5 years
Computer equipment	5 years
Building improvements	10 years

Subscription Based Information Technology Arrangements (SBITA): All SBITAs are a right to use vendor provided information technology (IT) assets. The SBITAs are recognized as a subscription liability and a right to use asset at the beginning of the subscription term exceeding one year and cumulated future payments on the contract exceed \$500,000 unless the contract is considered a short term SBITA. The asset is measured based on the net present value of the subscription payments expected to be made during the subscription term, using the incremental borrowing rate and amortized using the straight-line method over the shorter of the subscription term or the useful life of the underlying IT assets. Remeasurement of the subscription liability and related IT asset occurs when there is a change in the contract terms.

Compensable leave: A state employee is entitled to be paid for all unused vacation time accrued, in the event of the employee's resignation, dismissal or separation from state employment, provided the employee has had continuous employment with the state for six months. Therefore, the liability for unused vacation time has been recorded. No liability is recorded for non-vesting accumulating rights to receive sick pay benefits.

Common stock: One share of common stock issued and outstanding at August 31, 2023, is held by the Comptroller with a par value of \$1,000,000. This amount is reflected in the Statement of Net Position within the unrestricted net position balance.

Use of estimates: The preparation of the Texas Trust 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 financial statements and related notes. Actual results could differ from those estimates.

Risk management: The Texas Trust provides investment management and custodial services. Investments are managed for other State agencies in accordance with their applicable investment guidelines. Although every effort is made to preserve principal, the Texas Trust does not provide any guarantee or insurance against loss.

Pensions: The fiduciary net position of the Employees Retirement System of Texas Plan (ERS) has been determined using the flow of economic resources measurement focus and the accrual basis of accounting. This includes the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense and information about assets, liabilities and additions to/deductions from ERS's fiduciary net position. Benefit payments by ERS (including refunds of employee contributions) are recognized when due and payable in accordance with the terms of the plan. Investments of ERS are reported at fair value.

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2023

Note 2. Deposits and Investments

Other Post-Employment Benefits: The fiduciary net position of the ERS has been determined using the flow of economic resources measurement focus and the accrual basis of accounting. This includes the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense and information about assets, liabilities and additions to/deductions from ERS's fiduciary net position. Benefit payments by ERS are recognized when due and payable in accordance with the terms of the plan. Investments of ERS are reported at fair value.

Deposits: Cash deposits are made in state or national banks, savings and loan associations, or credit unions doing business in Texas through a main office or one or more branches. Single direct placements of deposits less than Deposit Insurance levels made with any qualifying institution are fully insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Share Insurance Fund. Deposits made in any single financial institution, which are in excess of its Deposit Insurance levels, may be made only if fully collateralized in accordance with the State Depository Handbook. Collateral is held by a qualifying institution. Cash in State Treasury is not considered a deposit with a financial institution for Texas Trust reporting purposes since the State Treasury is not a bank.

Securities pledged as collateral on August 31, 2023, were categorized under the Political Subdivision Securities or U.S. Government Securities as U.S. Treasury Bills or U.S. Treasury Notes and Bonds.

All bank balances were either insured or collateralized with securities held by the Texas Trust.

Bank balance	\$ 573,661,824
Carrying amount	\$ 573,031,243
Proprietary cash at bank	\$ 10,083,164
Proprietary Funds restricted cash at bank	347,666
Investment Trust Fund cash at bank	5,229,457
Custodial Fund cash at bank	87,753,770
Custodial Funds deposits	469,617,186
Total deposits carrying amount	\$ 573,031,243

Investment risks addressed by the Texas Trust's investment policy, including custodial credit risk, credit risk, interest rate risk, concentration risk and foreign currency risk are disclosed below by investment type, if applicable.

Investments—custodial credit risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Texas Trust 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 Texas Trust'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.

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2023

Note 2. Deposits and Investments (Continued)

The Texas Trust 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 nonactive 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 is categorized based on the lowest priority level input that is significant to the valuation. The Texas Trust'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. Investments measured at fair value using NAV per share (or equivalent) as a practical expedient to fair value are not classified in the fair value hierarchy.

A. Business-Type Activities:

Investments for the Enterprise Fund, as of August 31, 2023, are as follows:

Investments by Fair Value Level	Fair Value	Fair Value Measurements Using		
		Active Markets for Identical Assets	Observable Inputs (Level 2)	Unobservable Inputs
Equity securities	\$ 619,099	\$ -	\$ 619,099	\$ -
Total investments at fair value	<u>\$ 619,099</u>	<u>\$ -</u>	<u>\$ 619,099</u>	<u>\$ -</u>
Investments Measured at Amortized Cost		Carrying Value		
Repurchase agreements	<u>\$ 69,780,426</u>			
Total investments at amortized cost	<u>69,780,426</u>			
Total investments	<u>\$ 70,399,525</u>			

Equity securities 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.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Pursuant to Government Code section 404.024 (a) and (b), treasury funds may be invested in fully collateralized repurchase agreements secured by obligations of the U.S., its agencies, or Government Sponsored Enterprises (GSEs), or cash. The Enterprise Fund invests in the Repurchase Agreement Pool which the Texas Trust administers. The underlying securities in the Repurchase Agreement Pool are rated AA+ by Standard & Poor's and Aaa by Moody's.

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2023

Note 2. Deposits and Investments (Continued)

B. TexPool and TexPool Prime Investment Trust Fund:

Concentration of credit risk is the risk of loss attributable to the magnitude of the investment in a single issuer. The Enterprise Fund's investments are not exposed to concentration risk as of August 31, 2023.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The maximum maturity of direct repurchase agreements will not exceed 180 days. All Texas Trust repurchase agreement pools are in overnight repurchase agreements. The weighted average maturity of the Repurchase Agreement Pool is 1 day.

Investments for TexPool and TexPool Prime, as of August 31, 2023, are as follows:

Investments by Fair Value Level	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)
Repurchase agreements	\$ 14,478,429,224	\$ 14,478,429,224	\$ 14,478,429,224	\$ -	\$ 14,478,429,224	\$ -
Commercial paper	10,601,555,000	10,542,063,879	10,542,185,920	-	10,542,185,920	-
United States government treasuries	3,399,590,000	3,388,621,552	3,389,235,898	-	3,389,235,898	-
United States government agencies	10,927,750,000	10,926,131,011	10,920,912,044	-	10,920,912,044	-
Money market mutual funds	2,855,028,255	2,855,238,683	2,855,028,255	2,855,028,255	-	-
Total investments	\$ 42,262,352,479	\$ 42,190,484,349	\$ 42,185,791,341	\$ 2,855,028,255	\$ 39,330,763,086	\$ -

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants. Debt securities, commercial paper 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.

The following table provides additional information about TexPool's portfolio:

	August 31, 2023	
	Ranges of	
	Interest Rates	Maturity Dates
Repurchase agreements	5.230% to 5.340%	09/01/2023-09/21/2023
United States government agencies	0.010% to 5.740%	09/06/2023-09/05/2025
United States government 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

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2023

Note 2. Deposits and Investments (Continued)

The following table provides additional information about TexPool Prime's portfolio:

	August 31, 2023	
	Ranges of	
	Interest Rates	Maturity Dates
Repurchase agreements	5.300% to 5.340%	09/01/2023-09/21/2023
Commercial paper	0.000% to 6.000%	09/01/2023-08/23/2024
United States government treasuries	N/A	N/A
Money market mutual funds	5.430%	09/01/2023

Credit risk: TexPool and TexPool Prime portfolios are designed and managed to ensure that they maintain an AAAM rating (or the equivalent) by a nationally recognized statistical rating organization (NRSRO). As of August 31, 2023, TexPool and TexPool Prime's investments in United States government securities, commercial paper and the underlying securities of repurchase agreements were A-1 by Standard and Poor's, P-1 by Moody's and F-1 by Fitch. Money market mutual funds for TexPool were rated AAAM by Standard and Poor's, Aaa-mf by Moody's and AAAMmf by Fitch ratings and money market mutual funds for TexPool Prime were rated at least A-1 by Standard & Poor's and A by Moody's as of August 31, 2023.

Concentration of credit risk: Concentration of credit risk is the risk of loss attributable to the magnitude of the investment in a single issuer. TexPool's investment policy has no limit on the amount it may invest in any single Governmental Sponsored Enterprise. As of August 31, 2023, TexPool had more than 5.0% of the pool's investments in the following GSEs: 28.1% with the Federal Home Loan Bank and 8.8% with Federal Farm Credit Bank. TexPool Prime's investment policy limits commercial paper investments to less than 25% in a single industry or business sector, provided that this limitation does not apply to securities issued or guaranteed by companies in the financial services industry. No more than 5.0% of TexPool Prime assets at the time of purchase may be invested in a single corporate entity. As of August 31, 2023, TexPool Prime had 6.5% invested with Federated Prime.

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 as a whole:

Investment Type	Weighted Average Maturity (Days)	
	TexPool	TexPool Prime
Repurchase agreements	3	1
Commercial paper	-	32
Money market mutual funds	1	1
United States government agencies	51	-
United States government treasuries	25	-
Weighted average maturity	23	32

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2023

Note 2. Deposits and Investments (Continued)

C. Treasury Pool:

Investments for the Treasury Pool, a custodial fund, as of August 31, 2023, are as follows:

Investments by Fair Value Level	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)
United States government agencies	\$ 3,092,473,488	\$ 3,092,297,680	\$ -	\$ 3,092,297,680	\$ -
United States government treasuries	46,612,772,462	46,611,194,879	-	46,611,194,879	-
Government mortgage-backed securities	4,385,770,446	4,385,770,446	-	4,385,770,446	-
Commercial paper	10,312,955,991	10,312,955,991	-	10,312,955,991	-
Supranational	2,906,093,316	2,906,093,316	-	2,906,093,316	-
Corporate obligations	2,378,944,651	2,378,944,651	-	2,378,944,651	-
Asset backed securities	5,480,184,403	5,480,184,403	-	5,480,184,403	-
Small business administration	4,092,437	4,092,437	-	4,092,437	-
Stock in Texas Trust	1,000,000	1,000,000	-	-	1,000,000
Money market mutual funds	6,269,851,846	6,269,851,697	6,269,851,697	-	-
United States government agencies—Refco	92,815,690	92,815,690	-	92,815,690	-
Treasury Strips	147,929,089	147,929,089	-	147,929,089	-
Total investments at fair value	<u>\$ 81,684,883,819</u>	<u>\$ 81,683,130,279</u>	<u>\$ 6,269,851,697</u>	<u>\$ 75,412,278,582</u>	<u>\$ 1,000,000</u>
Investments Measured at Amortized Cost	Carrying Value				
Repurchase agreements	<u>\$ 7,900,000,000</u>				
Total investments at amortized cost	<u>7,900,000,000</u>				
Total investments	<u>\$ 89,584,883,819</u>				

Debt securities 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 fixed income pricing models. Stock classified as Level 3 of the fair value hierarchy is valued using a market comparable companies technique. There was no change in the Level 3 stock in the Texas Trust between 2023 and 2022. Mutual funds are valued daily or monthly, as appropriate, at fair value as noted in the table above.

Credit risk: The risk that an issuer or other counterparty to an investment will not fulfill its obligation. Pursuant to Government Code section 404.024(a) and (b), treasury funds may be invested in fully collateralized repurchase agreements secured by obligations of the U.S., its agencies, or GSEs, including mortgage-backed securities of such agencies and GSEs, as set out in section 404.001 of the Government Code. The Comptroller may purchase direct obligations of or obligations, the principal and interest of which are guaranteed by the U.S.; and direct obligations of, or obligations guaranteed by U.S. agencies or GSEs. Mortgage-backed securities are eligible for purchase except those specifically prohibited by section 404.024 (e) of the Government Code. Treasury funds may invest in commercial paper that has received the highest short-term credit rating by a NRSRO. "Highest short-term credit rating" includes at least one of the following short-term credit ratings, Moody's (P-1), Standard & Poor's (A-1), or Fitch, Inc. (F-1). Asset backed securities that have a weighted-average maturity of up to two years shall be rated A or better by two NRSRO's at the time of purchase. Asset backed securities with a weighted-average maturity between two and five years shall be rated AA or better by two NRSRO's at the time of purchase. Corporate debt securities with maturities of up to 25 months shall be rated A or better by two NRSRO's at the time of purchase.

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2022

Note 2. Deposits and Investments (Continued)

The amounts shown in Cash in State Treasury for the State Water Implementation Fund of Texas (SWIFT) and the Texas Economic Stabilization Investment Fund (TESTIF) represent the value of each Funds share of the investments in the Treasury Pool. For presentation of Net Fiduciary Position on the Financial Statements, these balances are eliminated from the SWIFT and TESTIF on the Combining Statement of Net Position.

Corporate debt securities with maturities between 25 months and five years shall be rated AA or better by two NRSRO's at the time of purchase. Supranationals must be rated AAA at the time of purchase. Money market funds must be rated AAAM by a NRSRO.

All fixed income securities, except those issued by GSEs, are rated by a NRSRO. The securities issued by GSEs are rated AA+. The Treasury portfolio is rated AAAf by Standard & Poor's.

The following table lists Standard & Poor's credit rating by investment type at fair value for the Treasury Pool securities that are subject to credit risk.

Investment Type	AAA	AA	A	A-1	A-2	Not Rated	Total
United States government agencies	\$ -	\$ 2,793,014,021	\$ -	\$ 299,283,659	\$ -	\$ -	\$ 3,092,297,680
Government mortgage-backed securities	64,834,218	4,320,936,228	-	-	-	-	4,385,770,446
Commercial paper	-	-	-	10,235,227,169	77,728,822	-	10,312,955,991
Supranational	2,133,752,653	75,000,000	-	697,340,663	-	-	2,906,093,316
Corporate obligations	44,131,838	2,145,467,687	189,345,126	-	-	-	2,378,944,651
Asset-backed securities	4,223,824,651	-	-	-	-	1,256,359,752	5,480,184,403
Small business administration	-	4,092,437	-	-	-	-	4,092,437
Stock in Texas Trust	-	-	-	-	-	1,000,000	1,000,000
Money market mutual funds	6,269,851,697	-	-	-	-	-	6,269,851,697
Repurchase agreement	-	7,900,000,000	-	-	-	-	7,900,000,000
US Government Agencies-Refco	-	92,815,690	-	-	-	-	92,815,690
US Government -Treasury Strips	-	147,929,089	-	-	-	-	147,929,089

Concentration of credit risk: With the exception of fully collateralized bank deposits, repurchase agreements, and securities of the U.S. government, its agencies, or GSEs, the Comptroller will not invest more than 5% of the Treasury Pool in any single corporate issuer. No more than 2% of the Treasury Pool may be invested in an asset backed security with a single issuer rated lower than AA. No more than 1% of the Treasury Pool may be invested in a corporate debt security with a single issuer rated lower than AA. Treasury Pool investments did not exceed these limits at August 31, 2023.

GASB requirements include disclosure of any investments by issuer that comprise more than 5% of total investments at year-end. At August 31, 2023, the Treasury Pool had no more than 5% of total investments in any issuer.

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2023

Note 2. Deposits and Investments (Continued)

Interest rate risk: In accordance with its investment policy, the Treasury Pool manages its exposure to interest rate risk by maintaining an overall weighted-average maturity of no more than two (2) years. The following schedule reflects the average modified duration (a measure of the price sensitivity of a bond to interest rate movements) of the Treasury Pool by investment type and as a whole:

Investment Type	Modified Duration (Years)
United States government agencies	1.889
United States government treasuries	0.930
Government mortgaged-backed securities	10.985
Commercial paper	0.263
Supranational and Israel bonds	3.833
Corporate obligations	3.092
Asset-backed securities	4.916
Small Business Administration	0.216
Repurchase agreements	0.003
U.S. government agencies—REFCO	2.210
U.S. government agencies—Lottery treasury strips	5.500
Place of deposits with financial institutions	1.297
Modified duration of the Treasury Pool Excluding the Lottery Securities	0.025

Reverse repurchase agreements: The Treasury Pool may enter into reverse repurchase agreements for up to 35% of the pool's assets. The Treasury Pool's aggregate amount of reverse repurchase agreement obligations at August 31, 2023, was \$3,137,268 including accrued interest. The aggregate fair value of the securities underlying those agreements, including accrued interest, was \$3,145,406. There was no credit exposure at year-end.

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2023

Note 2. Deposits and Investments (Continued)

D. Endowment Funds:

Investments for the Endowment Funds, a custodial fund, as of August 31, 2023, are as follows:

Investments by Fair Value Level	Fair Value	Fair Value Measurement Listing		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market funds	\$ 637,051,812	\$ 637,051,812	\$ -	\$ -
Mutual funds—global fixed income	44,132,562	44,132,562	-	-
Mutual funds—global equities	2,010,688	2,010,688	-	-
Total return swap—fixed income	(2,070,819)	-	(2,070,819)	-
Total return swap—equity	4,975,298	-	4,975,298	-
	<u>\$ 686,099,541</u>	<u>\$ 683,195,062</u>	<u>\$ 2,904,479</u>	<u>\$ -</u>

Investments Measured at NAV	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge funds—fund of funds	\$ 44,166,851	N/A	Daily, Monthly, Quarterly, Annually	1-95 days
Hedge funds—direct funds—fixed income	698,237,411	N/A	Daily, Monthly, Quarterly, Annually	2-92 days
Hedge funds—direct funds—equities	970,675,839	N/A	Daily, Monthly, Quarterly, Annually	1-120 days
Hedge funds—direct funds—all asset strategies	50,222,562	N/A	Annually	45 days
Hedge funds—direct funds—real assets	74,009,970	N/A	Monthly	30 days
Domestic alternative—private debt	504,325,832	\$ 458,520,083	N/A	N/A
Domestic alternative—private equity	976,736,044	511,580,743	N/A	N/A
Domestic alternative—real assets	922,902,630	246,275,819	N/A	N/A
International alternative—private debt	14,596	34,085,746	N/A	N/A
International alternative—private equity	41,773,546	10,236,414	N/A	N/A
International alternative—real assets	52,644,784	12,458,100	N/A	N/A
Total investments at NAV	<u>\$ 4,335,710,065</u>	<u>\$ 1,273,156,905</u>		
Total investments	<u>\$ 5,021,809,606</u>			

Mutual funds are valued daily or monthly, as appropriate, at fair value as noted in the table above. Through the use of derivatives, including total return swaps, the risks that are bound together in traditional cash market investments can be separated and managed independently. The primary intent of the Endowment Fund's investment in derivative instruments is to manage and implement investment strategies more effectively and at a lower cost than would be possible in the cash market. All of the Endowment funds' derivative instruments are considered investment derivatives and therefore are measured and reported at fair value. Fair value of total returns swaps entered into with counterparties is determined based on the percentage changes in the value of underlying indexes (such as bond index or equity index) over a specified period of time. The fair value of the derivatives is measured on a daily basis, by a third-party service provider, but is reported on a monthly basis.

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2023

Note 2. Deposits and Investments (Continued)

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 and international 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.

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, timber, infrastructure assets, industrial and precious metals, energy, livestock and grains.

Credit risk: Corporate obligations must be rated investment grade by at least one NRSRO and not rated below investment grade by any NRSRO. Short-term securities must be rated in the highest rating category by an NRSRO. The average quality rating of the high-yield fixed income portfolio shall be B1/B+ or higher. All high-yield securities when purchased must be rated at least CCC. Investments explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality. The following schedule lists Standard & Poor's credit rating by investment type for the Endowment Fund securities that are subject to credit risk.

Standard & Poor's Credit Ratings	Mutual Funds— Global Fixed Income	Money Market Funds
AAA	\$ -	\$ 637,051,812
Not rated	44,132,562	
Total	<u>\$ 44,132,562</u>	<u>\$ 637,051,812</u>

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2023

Note 2. Deposits and Investments (Continued)

Concentration risk: Excluding securities issued or guaranteed by the U.S. Government, its agencies, instrumentalities, and GSEs, no more than 5% of the portfolio at the time of purchase, shall be invested in securities of one issuer. As of August 31, 2023, no more than 5% of the portfolio was invested in securities of one issuer.

Interest rate risk: The endowment funds do not have a formal investment policy that limits investment maturities. The following schedule reflects the average effective duration of the endowment 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 (Years)
Mutual funds—global fixed income	1.95
	Weighted- Average Maturity
Money market mutual fund	25

Foreign currency risk: The endowment funds do not have a formal investment policy that limits foreign currencies. The endowment funds exposure to foreign currency risk derives from its position in foreign currency-denominated investment in alternative investments.

Currency	Cash	International Alternative Investments	Total
Euros	\$ -	\$ 94,432,926	\$ 94,432,926

Derivatives: Derivatives are financial instruments whose value is derived, in whole or part, from the value of any one of more underlying securities or assets, or index of securities or assets, such as stocks, bonds, commodities or currencies. The Endowment funds use derivatives as part of the hedging and overlays program. The objective of the program is to facilitate risk management and provide efficiency in the implementation of various investment strategies. Permitted applications of the portfolio hedging and overlays program are: to implement strategies in a low cost and efficient manner; to hedge and control risks; to alter the Endowment funds' market (systemic) exposure without trading the underlying cash market securities; to construct portfolios with risk and return characteristics that could not be created with cash market securities or; to facilitate transition trading.

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2023

Note 2. Deposits and Investments (Continued)

The fair value, changes in fair value, and notional value of the Endowment funds derivatives investments, classified by derivative type, are displayed in the following table as of August 31, 2023.

	Fair Value	Changes in Fair Value	Notional Value
Swaps:			
Total return swap—fixed income	\$ (2,070,819)	\$ (26,749,985)	\$ 402,633,421
Total return swap—equity	4,975,298	23,554,873	462,569,525
Total swaps	\$ 2,904,479	\$ (3,195,112)	\$ 865,202,946
Total derivatives	\$ 2,904,479	\$ (3,195,112)	\$ 865,202,946

E. State Water Implementation Fund for Texas:

Investments for the SWIFT, a custodial fund, as of August 31, 2023, are as follows:

Investments by 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	\$ 183,889,525	\$ 183,889,525	\$ -	\$ -
Mutual Funds—Global Fixed Income	177,195,422	177,195,422	-	-
Mutual Funds—Global Equities	119,234,118	119,234,118	-	-
Total investments by fair value level	\$ 480,319,065	\$ 480,319,065	\$ -	\$ -

Investments Measured at NAV	Investment Strategy	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge funds—fund of funds	Equity	\$ 17,983,938	N/A	Monthly, Quarterly	26 - 95 days
Hedge funds—direct funds—fixed income	Alternative fixed income	251,411,222	N/A	Daily, Monthly, Quarterly	2 - 65 days
Hedge funds—direct funds—equities	Equity	335,578,777	N/A	Monthly, Quarterly, Semi-Annually, Anniversary	30 - 120 days
Hedge funds—direct funds—all asset	All asset	88,329,645	N/A	Annually	45 days
Domestic alternative—private debt	Private debt	288,204,262	\$ 215,111,019	N/A	N/A
International alternative—private debt	Private debt	1,672,625	14,607,620	N/A	N/A
Domestic alternative—private equity	Equity	2,248,557	75,000,001	N/A	N/A
Domestic alternative—real assets	Real asset	229,983,211	14,404,877	N/A	N/A
Total investments at NAV		\$ 1,215,412,237	\$ 319,123,517		
Total investments		\$ 1,695,731,302			

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.

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2023

Note 2. Deposits and Investments (Continued)

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.

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, timber, infrastructure assets, industrial and precious metals, energy, livestock and grains.

Credit risk: The SWIFT 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 Ratings	Mutual Funds— Global Fixed Income	Money Market Funds
AAA	\$ -	\$ 183,889,525
Not rated	177,195,422	-
Total	<u>\$ 177,195,422</u>	<u>\$ 183,889,525</u>

Concentration risk: 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 firms' total assets under management. As of August 31, 2023, no more than 5% of the portfolio was invested in securities of one issuer.

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2023

Note 2. Deposits and Investments (Continued)

Interest rate risk: The SWIFT 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 (Years)
Mutual funds—global fixed income	5.58
	Weighted- Average Maturity
Money market mutual funds	25 days

F. Texas Economic Stabilization Investment Fund of Texas (TESTIF):

Investments for the TESTIF, a custodial fund, as of August 31, 2023, are as follows:

Investments by Fair Value Level		Fair Value Measurements Using			
		Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money market mutual funds		\$ 658,189,486	\$ 658,189,486	\$ -	\$ -
Mutual Funds—global fixed income		7,296,848,380	7,296,848,380	-	-
Domestic Fixed Income		1,191,723,400	1,191,723,400	-	-
Total investments by fair value level		<u>\$ 9,146,761,266</u>	<u>\$ 9,146,761,266</u>	<u>\$ -</u>	<u>\$ -</u>
Investments measured at amortized cost:		Carrying Value			
Treasury Bills		\$ 1,774,453,000			
Fixed Income Municipal—private debt		398,782,340			
Total investments measured at amortized cost		<u>\$ 2,173,235,340</u>			
Investments measured at NAV	Investment Strategy	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Domestic Alternative—Private Debt	Private debt	<u>\$ 1,302,172,266</u>	<u>\$ -</u>	N/A	N/A
Total investments		<u>\$ 12,622,168,872</u>			

Mutual funds are valued daily or monthly, as appropriate, at fair value as noted in the table above. 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.

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.

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2023

Note 2. Deposits and Investments (Continued)

During FY 2022, TESTIF initially invested \$800 million Senior Secured Texas Stabilization M Bonds, Series 2021, (private placement bond) in compliance with section 404.0241 b-1 of the Texas Government Code. During FY 2023, a part of the principal of this bond was redeemed by the issuer. This private placement bonds are reflected at amortized cost value of \$398,782,340 as of August 31, 2023, and reflected in the total investment balance of TESTIF at year-end.

As of August 31, 2023, TESTIF invested \$1,774,453,000 in U.S. Treasury bills. Since these are short-term investments, their value is presented at amortized cost in the financial statements

Credit risk: The TESTIF 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 Ratings	Mutual Funds— Global Fixed Income	Domestic Fixed Income	Fixed Income Municipal - Private Debt	Money Market Funds
AAA	\$ -	\$ -	\$ -	\$ 658,189,486
AA	-	1,191,723,400	-	-
Not rated	7,296,848,380	-	398,782,340	-
Total	\$ 7,296,848,380	\$ 1,191,723,400	\$ 398,782,340	\$ 658,189,486

Concentration risk: Exposure to any investment firm will generally be limited to no more than 25% of the fund's assets. Fund investments will generally not exceed more than 25% of any firm's total assets under management. As of August 31, 2023, 3.7% of the portfolio was invested in a bond issued by Electric Reliability Council of Texas (ERCOT).

Interest rate risk: The TESTIF 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 (Years)
Mutual funds—global fixed income	3.62
Domestic - fixed income	2.49
Fixed Income Municipal - Private Debt	0.42
	Weighted- Average Maturity
Money market mutual funds	25 days

G. Other Custodial Funds:

The Texas Trust functions as a custodian and/or depository to several state agencies. The functions are strictly fiduciary. Credit risk, interest rate risk, and concentration risk are not significantly different from the risks of similar investments disclosed above. Each respective state agency performs their own investment management activities within the parameters of their own respective investment policies.

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2023

Note 2. Deposits and Investments (Continued)

Investments for these other trust activities, as of August 31, 2023, are as follows:

Investments by 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)
Debt securities:				
Money market mutual funds	\$ 3,498,932	\$ 3,498,932	\$ -	\$ -
Commercial paper	347,343,317	-	347,343,317	-
Corporate obligations	9,556,326	-	9,556,326	-
Government mortgage-backed securities	-	-	-	-
Investment in guaranteed investment contracts (participating)	30,809,441	30,809,441	-	-
Nonagency collateralized mortgage obligations	82	-	82	-
Nonagency collateralized mortgage obligations	5,338,204	-	5,338,204	-
Political subdivision bonds	23,391,874	-	23,391,874	-
United States government agencies	127,644,117	-	127,644,117	-
United States government treasuries	441,193,674	-	441,193,674	-
Total debt securities	988,775,967	34,308,373	954,467,594	-
Equity securities:				
Common and preferred stock	418,609,935	418,609,935	-	-
Investment in real estate trust fund	5,467,149	-	5,467,149	-
Total equity securities	424,077,084	418,609,935	5,467,149	-
Total investments at fair value	\$ 1,412,853,051	\$ 452,918,308	\$ 959,934,743	\$ -
Investments measured at amortized cost:				
	Carrying Value			
Repurchase agreements	\$ 2,518,311,235			
Total investments measured at amortized cost	2,518,311,235			
Total investments	\$ 3,931,164,286			

Debt securities classified as Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities 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 fixed income pricing models.

Equity securities classified as Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Equity securities 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.

Mutual funds are valued daily or monthly, as appropriate, at fair value as noted in the table above.

Repurchase agreement investments for the Pool, as of August 31, 2023, consist of repurchase agreements carried at amortized cost.

Credit risk: Is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Pursuant to Government Code section 404.024 (a) and (b), treasury funds may be invested in fully collateralized repurchase agreements secured by obligations of the U.S., its agencies, or GSEs, including mortgage-backed securities of such agencies and GSE or cash. The underlying securities in the repurchase agreement investments are rated AA+ by Standard & Poor's. Treasury funds may invest in commercial paper that has received the highest short-term credit rating by a NRSRO. "Highest short-term credit rating" includes at least one of the following short-term credit ratings, Moody's (P-1), Standard & Poor's (A-1), or Fitch, Inc. (F-1). Corporate debt securities with maturities of up to 25 months shall be rated A or better by two NRSRO's at the time of purchase.

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2023

Note 2. Deposits and Investments (Continued)

Concentration of credit risk is the risk of loss attributable to the magnitude of the investment in a single issuer. The repurchase agreement investments are not exposed to concentration risk as of August 31, 2023.

Interest rate risk: The maximum maturity of direct repurchase agreements will not exceed 180 days. All investments are overnight repurchase agreements. The weighted average maturity of the repurchase agreement investments is 1 days.

Note 3. Capital Assets

Capital asset activity for the year ended August 31, 2023, was as follows:

Business-Type Activities	Restated Balance September 1, 2022	Additions	Deletions	Balance at August 31, 2023
Depreciable assets:				
Buildings and building improvements	\$ 2,316,717	\$ -	\$ -	\$ 2,316,717
Furniture and equipment	1,605,771	-	-	1,605,771
Total depreciable assets at historical cost	3,922,488	-	-	3,922,488
Less accumulated depreciation for:				
Buildings and building improvements	(893,843)	(133,680)	-	(1,027,523)
Furniture and equipment	(1,240,014)	(94,917)	-	(1,334,931)
Total accumulated depreciation	(2,133,857)	(228,597)	-	(2,362,454)
Total depreciable assets, net	1,788,631	(228,597)	-	1,560,034
Amortizable assets—intangible:				
Computer software	2,910,356	-	-	2,910,356
Subscription assets	11,917,189	310,439	-	12,227,628
Total amortizable assets—intangible	14,827,545	310,439	-	15,137,984
Less accumulated amortization for:				
Computer software	(2,910,356)	-	-	(2,910,356)
Subscription assets	-	(3,705,806)	-	(3,705,806)
Total accumulated amortization	(2,910,356)	(3,705,806)	-	(6,616,162)
Amortizable assets—intangible, net	11,917,189	(3,395,367)	-	8,521,822
Business-type activities—capital assets, net	\$ 13,705,820	\$ (3,623,964)	\$ -	\$ 10,081,856

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2023

Note 4. Pension Plan

The Texas Trust employees participate in the Employees Retirement System of Texas Plan (ERS Plan) which is one of the three retirement systems of the state of Texas. The ERS Plan is administered through a trust.

ERS Plan: The Board of Trustees of ERS is the administrator of four pension plans that provide a standard monthly benefit in a life annuity at retirement and death and disability benefits for members. In addition to the state of Texas, the employers of the ERS plan include various component units of the state. The Employees Retirement System and the Texas Trust, which are blended component units, and the State Bar of Texas, which is a discrete component unit, are also employers of the ERS plan. The ERS Plan is considered a single employer defined benefit plan under GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. For financial reporting purposes, ERS is treated as a cost-sharing plan, since each participating agency has an obligation to contribute.

ERS Plan covers members in employee and elected classes. Employee class includes employees and appointed officers of the agencies of the state of Texas except those who included in the coverage of Teacher Retirement System of Texas, Judicial Retirement System Plan I (JRS 1) and Plan II (JRS II). Elected class includes elected state officials not included in the coverage of JRS 1 and JRS II, and members of the Legislature and district and criminal district attorneys.

The benefit and contribution provisions of the ERS Plan are authorized by state law and may be amended by the Legislature. The monthly benefit may vary by membership class.

The monthly standard annuity of the employee class is determined by a statutory percentage of 2.3% of a member's average monthly compensation multiplied by number of years of service credit. The average monthly compensation of the employee class may vary depending on the hire date. For members hired on or before August 31, 2009, the average monthly compensation is the average of the highest 36 months of compensation. For members hired on or after September 1, 2009 and before September 1, 2013, the average monthly compensation is the average of the highest 48 months of compensation. For members hired on or after September 1, 2013, the average monthly compensation is the average of highest 60 months of compensation.

The monthly standard annuity of the elected class equals the statutory percentage of 2.3% of the current state salary of a district judge multiplied by the number of years of service credit. Retirement benefits are automatically adjusted as state judicial salaries change.

The contribution rates for the state and the agencies for the ERS Plan for the measurement period of August 31, 2023, are presented in the table below:

Required Contribution Rates—ERS Plan					
Employer			Members		
Employee Class	Elected Class—Legislators	Elected Class—Other	Employee Class	Elected Class—Legislators	Elected Class—Other
10.00%	10.00%	10.00%	9.50%	9.50%	9.50%

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2023

Note 4. Pension Plan (Continued)

The amount of the Texas Trust's contributions recognized by the ERS Plan for the measurement period of August 31, 2022, was \$1,534,995. Fiscal year 2023 contributions were \$1,034,120.

At August 31, 2023, the Texas Trust reported a liability of \$10,225,784 for its proportionate share of the net pension liability. The net pension liability was reported as of August 31, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of August 31, 2022. The Texas Trust's proportion of the net pension liability was based on a projection of the Texas Trust's long-term share of contributions to the pension plan relative to the projected contributions of all participating governments, actuarially determined.

The total pension liability, net pension liability certain sensitivity information shown in this report are based on an annual actuarial valuation performed as of August 31, 2022. The table below presents the actuarial methods and assumptions used to measure the total pension liability as of the August 31, 2022:

Actuarial Methods and Assumptions	
ERS Plan	
Actuarial valuation date	August 31, 2022
Actuarial cost method	Entry Age Normal
Amortization method	Level Percent of Payroll, plus Level Dollar Legacy Payment
Actuarial assumptions:	
Discount rate	7.00%
Investment rate of return	7.00%
Inflation	2.30%
Retirement Age	Experience-based table of rates that are specific to the class of employee. Updated for the 2020 valuation pursuant to an experience study of the 5-year period from September 1, 2014 to August 31, 2019.
Salary increase	0% to 8.8%
Mortality	2020 State Retirees of Texas (SRT) mortality table. Generational mortality improvements in accordance with the ultimate rates from the scale most recently published by Retirement Plans Experience Committee of the Society of Actuaries (Scale U-MP) and projected from the year 2020. Rates for male LECO members are set forward one year.
Cost-of-living adjustments	None—Employee 2.3%—Elected

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements

August 31, 2023

Note 4. Pension Plan (Continued)

For the valuation of August 31, 2022, Senate Bill 321 (2021 Session) provided additional annual contributions to allow for fiduciary net position to be sufficient to cover projected benefit payments and administrative expenses indefinitely. Therefore, the ERS Plan used the single discount rate of 7% which was the same as the prior valuation. Subsequent to the August 31, 2022 valuation, the following changes were adopted by the Board of Trustees to the benefits and assumptions as of August 31, 2023:

- ERS's calculated single discount rate remained 7%.
- There have been no changes to the benefit terms of the plan since the prior measurement date.
- The inflation rate at 2.3%;
- The average monthly compensation of the elected class may vary depending on the hire date.

The projections of cash flows used to determine this single discount rate assumed that plan member and employer contributions will be made at the current statutory levels and remain a level percentage of payroll. Consistent with the provisions of TGC Section 815.407, effective for the measurement period ending August 31, 2022, new level dollar contributions called Legacy Payments have been introduced as part of the funding policy. These Legacy Payments are the amounts necessary, in addition to the statutory 10% of payroll contributions, to fund the normal cost and fully amortize the UAAL as required before the end of fiscal year 2054. The provisions of the Legacy Payment structure adopted during the 2021 Legislative session were first reflected in the disclosures for the year ending August 31, 2022.

The long-term expected rate of return on plan investments was developed using a building-block method with assumptions including asset class of investment portfolio, target allocation, real rate of return on investments, and inflation factor. Under this method, best estimate ranges of expected future real rates of return (net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2023

Note 4. Pension Plan (Continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class for the plan's investment portfolio are presented below:

Asset Class	Target Allocation	Real Rate of Return
Global Equity	37.00%	8.10%
Private Equity	13.00%	11.20%
Global Credit	13.00%	5.80%
Special Situations	1.00%	7.80%
Real Estate Investment Trust	3.00%	7.60%
Private Real Assets - Infrastructure/Land	7.00%	7.20%
Private Real Estate	9.00%	5.70%
Fixed Income-Rates	11.00%	1.90%
Absolute Returns	5.00%	5.80%
Cash	1.00%	1.80%
Total	100.0%	

Sensitivity analysis was performed on the impact of changes in the discount rate on the proportionate share of the Texas Trust's net pension liability. The result of the analysis is presented in the table below:

	1% Decrease	Current Discount Rate	1% Increase
	6.00%	7.00%	8.00%
Texas Trust's proportionate share of the net pension liability	\$ 14,286,112	\$ 10,225,784	\$ 6,848,638

The pension plan's fiduciary net position is determined using economic resources measurement focus and the accrual basis of accounting, which is the same basis used by Employees Retirement System. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan. Investments of the pension trust fund are reported at fair value in accordance with GASB Statement No. 72. The fair value of investments is based on published market prices and quotations from major investment brokers at available current exchange rates. However, corporate bonds in general are valued based on currently available yields of comparable securities by issuers with similar credit ratings. Employees Retirement System issues a stand-alone audited Annual Comprehensive Financial Report (ACFR), which may be obtained from their website at www.ers.texas.gov and searching for reports and studies.

The Texas Trust's proportion of the entire ERS plan was 0.07369194% for the measurement period August 31, 2023, as compared with the 0.12183629% in the prior measurement period. There have been changes to the benefit terms of the plan since the prior measurement date.

The average monthly compensation of the elected class may vary depending on the hire date, a new defined benefit retirement structure will be created for employees hired after August 31, 2022 and new assumption changes have been adopted by the Board of Trustees of ERS. These changes will be reflected the actuarially determined contribution rates for fiscal year 2023.

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2023

Note 4. Pension Plan (Continued)

The Plan updated certain assumptions based on the experience study from September 1, 2014 through August 31, 2019.

For the fiscal year ending August 31, 2023, the Texas Trust recognized pension expense (credit) of \$(6,289,120). At August 31, 2022, the Texas Trust reported deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 290,914	\$ 209,780
Changes of assumptions	464,969	6,403,054
Net difference between projected and actual investment return	-	172,320
Change in proportion and contribution difference	1,014,950	8,819,788
Contributions subsequent to the measurement date	1,034,120	-
Total	<u>\$ 2,804,953</u>	<u>\$ 15,604,942</u>

The \$1,034,120 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending August 31, 2023.

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense in the following years:

Years ending August 31:	
2024	\$ (8,312,192)
2025	(5,356,081)
2026	(615,257)
2027	449,421
2028	-
Thereafter	-
	<u>\$ (13,834,109)</u>

The deferred outflows and inflows resulting from the difference between projected and actual earning on pension plan investments will be recognized as a reduction of pension expenses over five years. The other deferred outflows and inflows will be recognized in pension expense using the average expected remaining service lives of 3.08 years for all members.

Note 5. Other Post-Employment Benefit Plan (OPEB)

In addition to the pension benefits described in Note 4, the Employees Retirement System of Texas (ERS) provides postemployment health care, life and dental insurance benefits through the Group Benefits Program in accordance with Chapter 1551, Texas Insurance Code. This program is governed by the same Board of Trustees who is responsible for the defined benefit pension plans.

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2023

Note 5. Other Post-Employment Benefit Plan (OPEB) (Continued)

The Texas Trust employees participate in the State Retiree Health Plan (SRHP) administered by ERS. The SRHP is a cost-sharing multiple-employer postemployment health care plan with a special funding situation. This plan covers retired employees of the State, and other entities as specified by the State legislature. Benefit and contribution provisions of the State Retiree Health Plan are authorized by state law and may be amended by the Texas Legislature. Retirees must meet certain age and service requirements and have at least 10 years of service at retirement to participate in the plan. The principal participating employer is the state of Texas.

At August 31, 2023, the Texas Trust recognized a net OPEB liability of \$9,092,683 for its proportionate share of the collective total OPEB liability. The Texas Trust's proportionate share of the total OPEB liability was 0.03191876% and was based on contributions to the OPEB plan relative to the contributions of all employers and the non-employer contributing entity for the period. The proportionate share of the total OPEB liability was 0.03114282% in the prior year.

The contribution rates for the state and the agencies for the SRHP plan for the measurement period of August 31, 2023, are presented in the table below:

Retiree only	\$ 624.82
Retiree and spouse	1,339.90
Retiree and children	1,103.58
Retiree and family	1,818.66

The employer does not contribute toward dental or optional life insurance. Surviving spouses and their dependents do not receive any employer contribution. The amount of the Texas Trust's contributions recognized by the SHRP plan for the measurement period ended August 31, 2022, was \$941,149. Fiscal year 2023 contributions were \$992,051.

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2023

Note 5. Other Post-Employment Benefit Plan (OPEB) (Continued)

The table below presents the actuarial methods and assumptions used to measure the total OPEB liability as of the August 31, 2023:

Actuarial Methods and Assumptions	
ERS Plan	
Actuarial valuation date	August 31, 2022
Actuarial cost method	Entry Age
Amortization method	Level Percent of Payroll, Open
Remaining amortization period	30 years
Actuarial assumptions:	
Discount rate	3.59%
Inflation	2.30%
Salary increase	2.30% to 8.95%, including inflation
Healthcare cost and trend rate:	
HealthSelect	5.60% for FY 2024, 5.30% for FY 2025, 5.00% for FY 2026, 4.75% for FY 2027, 4.60% for FY 2028, decreasing 10 basis points per year to an ultimate rate of 4.30% for FY 2031 and later years
HealthSelect Medicare Advantage	66.67% for FY 2024, 24.00% for FY 2025, 5.00% for FY 2026, 4.75% for FY 2027, 4.60% for FY 2028, decreasing 10 basis points per year to an ultimate rate of 4.30% for FY 2031 and later years
Pharmacy	10.00% for FY 2024 and FY 2025, decreasing 100 basis points per year to 5.00% for FY 2030, and 4.30% for FY 2031 and later years
Aggregate payroll growth	2.70%
Retirement age	Experience-based tables of rates that are specific to the class of employee

* The source of the municipal bond rate is the Bond Buyer Index of general obligations bonds with 20 years to maturity and mixed credit quality. The bonds' average credit quality is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard & Poor's Corp.'s AA.

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2023

Note 5. Other Post-Employment Benefit Plan (OPEB) (Continued)

Actuarial Methods and Assumptions	
ERS Plan	
Mortality:	
State Agency Members:	
Service Retirees, Survivors and Other Inactive Members	2020 State Retirees of Texas Mortality table with a 1 year set forward for male CPO/CO members and Ultimate MP Projection Scale projected from the year 2020
Disabled Retirees	2020 State Retirees of Texas Mortality table set forward three years for males and females. Generational mortality improvements in accordance with the Ultimate MP 2019 Projection Scale are projected from the year 2020. Minimum rates of 3.0% and 2.5% apply at all ages for males and females respectively.
Active Members	Pub-2010 General Employees Active Member Mortality table for non-CPO/CO members and Pub-2010 Public Safety Active Member Mortality table for CPO/CO members with Ultimate MP-2019 Projection Scale from the year 2010
Higher Education Members:	
Service Retirees, Survivors and Other Inactive Members	Tables based on TRS experience with Ultimate MP 2019 Projection Scale from the year 2021
Disabled Retirees	Tables based on TRS experience with Ultimate MP Projection Scale from year 2018 using a 3-year set forward and minimum mortality rates of four per 100 male members and two per 100 female members
Active Members	Sex Distinct Pub-2010 Amount-Weighted Below-Median Income Teacher Mortality with a 2 year set forward for male with Ultimate MP Projection Scale from the year 2010
Ad hoc postemployment benefit changes	None

The many actuarial assumptions used in the valuation were primarily based on the result of actuarial experience studies performed by the ERS retirement plan actuaries for the period September 1, 2014 to August 31, 2019, for state agency members and for the period September 1, 2010 to August 31, 2017, for higher education members. The mortality rates were based on the tables identified in the table above titled Actuarial Methods and Assumptions.

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2023

Note 5. Other Post-Employment Benefit Plan (OPEB) (Continued)

The following assumptions have been changed since the previous Other Postemployment Benefits valuation:

- a. The percentage of current retirees and their spouses not yet eligible to participate in the HealthSelect Medicare Advantage Plan and future retirees and their spouses who will elect to participate in the plan at the earliest date at which coverage can commence;
- b. Proportion of future retirees assumed to cover dependent children;
- c. The proportion of future retirees assumed to elect health coverage at retirement and proportion of future retirees expected to receive the Opt-Out Credit at retirement;
- d. Assumed Per Capita Health Benefit Costs and Health Benefit Cost and Retiree Contribution trends have been updated since the previous valuation to reflect recent health plan experience and its effects on our short term expectations. The patient-Centered Outcomes Research Institute fee payable under the Affordable Care Act has been updated to reflect the most recent information; and
- e. The discount rate was changed from 2.14% as of August 31, 2021 to 3.59% as of August 31, 2022 as a result of requirements by GASB No. 74 to utilize the yield or index rate for 20-year, tax exempt general obligation municipal bonds rated AA/Aa (or equivalent) or higher in effect on the measurement date.

As noted above, the discount rate that was used to measure the total OPEB liability is the municipal bond rate of 3.59% as of the end of the measurement year; as of the beginning of the measurement year, the discount rate was 2.14%. Projected cash flows into the plan are equal to projected benefit payments out of the plan. As the plan operates on a pay as you go basis and is not intended to accumulate assets, there is no long-term expected rate of return.

Sensitivity analysis was performed on the impact of changes in the discount rate on the proportionate share of the Texas Trust's total OPEB liability. The result of the analysis is presented in the table below:

	1% Decrease	Current Discount Rate	1% Increase
	2.59%	3.59%	4.59%
Texas Trust's proportionate share of the total OPEB liability	\$ 10,604,820	\$ 9,092,683	\$ 7,883,343

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2023

Note 5. Other Post-Employment Benefit Plan (OPEB) (Continued)

Sensitivity analysis was performed on the impact of changes in the healthcare cost trend rates on the proportionate share of the Texas Trust's net OPEB liability. The result of the analysis is presented in the table below:

	1% Decrease	Current Healthcare/Pharmacy Cost Trend Rates	1% Increase
Texas Trust's proportionate share of the total OPEB liability	\$ 7,786,636	\$ 9,092,683	\$ 10,760,160

The OPEB plan's fiduciary net position is determined using economic resources measurement focus and the accrual basis of accounting, which is the same basis used by Employees Retirement System. Benefits and refunds of contributions are recognized when due and payable in accordance with the terms of the plan. Investments of the OPEB trust fund are reported at fair value in accordance with GASB Statements No. 72. The fair value of investments is based on published market prices and quotations from major investment brokers at available current exchange rates. However, corporate bonds in general are valued based on currently available yields of comparable securities by issuers with similar credit ratings. Employees Retirement System issues stand-alone audited Annual Comprehensive Financial Report (Annual Report). More detailed information on the plan's investment valuation, investment policy, assets and fiduciary net position may be obtained from ERS' fiscal 2022 Annual Report:

Employees Retirement System of Texas
200 E. 18th Street
Austin, Texas 78701

For the year ended August 31, 2023, the Texas Trust recognized OPEB expense of \$1,673,855. At August 31, 2023, the Texas Trust reported deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 286,884
Changes of assumptions	534,232	2,810,634
Net difference between projected and actual investment return	1,568	-
Effect of change in proportion and contribution difference	3,051,463	-
Contributions subsequent to the measurement date	992,051	-
Total	\$ 4,579,314	\$ 3,097,518

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2023

Note 5. Other Post-Employment Benefit Plan (OPEB) (Continued)

The \$992,051 reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction in the total OPEB liability for the year ending August 31, 2023. Amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense in the following years:

Year ended August 31:

2024	\$ 747,749
2025	49,499
2026	(12,865)
2027	(113,279)
2028	(181,361)
Thereafter	-
	<u>\$ 489,743</u>

The deferred outflows and inflows resulting from the difference between projected and actual earning on pension plan investments will be recognized as a reduction of pension expenses over five years. The other deferred outflows and inflows will be recognized in pension expense using the average expected remaining service lives of 5.53 years for all members.

Note 6. Related-Party Transactions

The Texas Trust has entered into a services agreement with the Comptroller of Public Accounts (CPA). The agreement provides for specified rates based on hours of utilization. For the fiscal year ended August 31, 2023, the Texas Trust paid CPA \$57,033 for services provided. At August 31, 2023, the Texas Trust had accrued \$16,934 for services provided by CPA and this amount is included in accounts payable.

The Texas Trust utilizes the CPA Payroll Department to service its payroll. Prior to the end of each month, the approximate amount of the Texas Trust's monthly payroll is transferred from the Texas Trust to the Comptroller's Office. At August 31, 2023, the Comptroller held \$1,221,240 to pay for the Texas Trust's September 1, 2023, payroll.

Note 7. Subscription Based Information Technology Arrangements (SBITAs)

In Fiscal Year 2023, the Texas Trust has agreements with certain IT vendors for information technology subscription agreements that resulted in annual subscription payments of \$4,100,521. The table below is the summary of the subscription agreements with a future commitments:

Fiscal Year	Principal	Interest	Total
2024	\$ 3,940,308	\$ 227,314	\$ 4,167,622
2025	4,056,191	111,431	4,167,622
2026	62,197	4,903	67,100
2027	64,603	2,497	67,100
2028	8,903	172	9,075
Total	<u>\$ 8,132,202</u>	<u>\$ 346,317</u>	<u>\$ 8,478,519</u>

Texas Treasury Safekeeping Trust Company

Notes to Financial Statements August 31, 2023

Note 8. Changes in Long-Term Liabilities

During the year ended August 31, 2023, the following changes occurred in liabilities:

	Balance September 1, 2022 - restated	Additions	Reductions	Balance August 31, 2023	Amounts Due Within One Year	Amounts Due Thereafter
Subscription liability	\$ 11,917,190	\$ 310,439	\$ (4,095,427)	\$ 8,132,202	\$ 3,940,308	\$ 4,191,894
Compensable leave	1,236,270	1,067,329	(970,855)	1,332,744	773,207	559,537
Total	<u>\$ 13,153,460</u>	<u>\$ 1,377,768</u>	<u>\$ (5,066,282)</u>	<u>\$ 9,464,946</u>	<u>\$ 4,713,515</u>	<u>\$ 4,751,431</u>

**Required Supplementary Information
(Unaudited)**

Texas Treasury Safekeeping Trust Company

**Schedule of Changes in Proportionate Share of the Net Pension Liability
Last Eight Fiscal Years**

Year	Texas Trust's proportionate share of the collective plan net pension liability	Texas Trust's proportionate share of the collective plan net pension liability	Texas Trust's covered payroll	Texas Trust's proportionate share of the net pension liability as a percentage of its covered payroll	Plan fiduciary net position as a percentage of total pension liability
2015	0.09956829%	\$ 14,398,372	\$ 5,929,750	242.82%	63.40%
2016	0.10548924%	13,994,671	6,487,794	215.71%	64.40%
2017	0.10855888%	21,447,953	7,319,190	293.04%	55.32%
2018	0.11235055%	24,564,998	7,706,918	318.74%	54.67%
2019	0.12162405%	24,557,084	8,284,940	296.41%	57.89%
2020	0.11800763%	35,384,775	8,198,727	431.59%	47.70%
2021	0.11284638%	42,871,096	8,078,035	530.71%	42.38%
2022	0.12183629%	12,884,727	8,757,055	147.14%	76.06%
2023	0.07369194%	10,225,784	9,477,604	107.89%	69.74%

The information disclosed for each fiscal year is reported as of the measurement date of the net pension liability which is August 31 of the preceding fiscal year.

Only nine years of data is presented in accordance with GASB Statement No. 68, Paragraph 138. The information for all periods for the ten-year schedules that are required to be presented as required supplementary information is not available. During this transition period, the information will be presented for as many years as are available.

See accompanying notes to required supplementary information.

Texas Treasury Safekeeping Trust Company

**Schedule of Contributions—Net Pension Liability
Last Eight Fiscal Years**

Fiscal Years Ending August, 31	Actuarially Determined Contributions	Contributions in Relation to the Actuarially Determined Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2015	\$ 777,573	\$ 527,863	\$ 249,710	\$ 6,487,794	8.14%
2016	737,990	745,626	(7,636)	7,319,190	10.19%
2017	801,652	786,614	15,038	7,706,918	10.21%
2018	1,135,865	847,950	287,915	8,284,940	120.23%
2019	1,116,667	840,979	275,688	8,198,727	10.26%
2020	1,111,538	830,387	281,151	8,078,035	10.28%
2021	1,399,535	901,101	498,434	8,757,055	10.29%
2022	1,534,995	1,534,995	-	8,779,045	17.48%
2023	961,743	1,624,970	(663,227)	9,477,604	17.15%

The information disclosed for each fiscal year is reported as of the fiscal year-end date.

Only nine years of data is presented in accordance with GASB Statement No. 68. The information for all periods for the ten-year schedules that are required to be presented as required supplementary information is not available. During this transition period, the information will be presented for as many years as are available.

See accompanying notes to required supplementary information.

Texas Treasury Safekeeping Trust Company

**Schedule of Changes in Proportionate Share of the Net OPEB Liability
August 31, 2023**

Year	Texas Trust's proportionate share of the collective net OPEB liability	Texas Trust's proportionate share of the collective net OPEB liability	Texas Trust's covered payroll	Texas Trust's proportionate share of the net OPEB liability as a percentage of its covered payroll	Plan fiduciary net position as a percentage of total OPEB liability
2018	0.00949250%	\$ 3,234,380	\$ 8,284,940	41.97%	2.04%
2019	0.02796021%	8,286,775	8,198,727	100.02%	1.27%
2020	0.02879944%	9,953,858	8,078,035	121.41%	0.17%
2021	0.02868817%	9,479,902	8,757,055	108.25%	0.31%
2022	0.31142820%	11,172,645	8,779,045	127.26%	0.38%
2023	0.03191876%	9,092,683	9,477,604	95.94%	0.57%

The information disclosed for each fiscal year is reported as of the measurement date of the net OPEB liability which is August 31 of the preceding fiscal year.

Only six years of data is presented in accordance with GASB Statement No. 75. The information for all periods for the ten-year schedules that are required to be presented as required supplementary information is not available. During this transition period, the information will be presented for as many years as are available.

See accompanying notes to required supplementary information.

Texas Treasury Safekeeping Trust Company

**Schedule of Contributions—Net OPEB Liability
August 31, 2023**

Fiscal Years Ending August 31	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2018	\$ 92,829	\$ 92,829	\$ -	\$ 8,284,940	1.12%
2019	46,357	46,357	-	8,198,727	0.57%
2020	182,520	182,520	-	8,078,035	2.26%
2021	935,996	935,996	-	8,757,055	10.69%
2022	941,149	941,149	-	8,779,045	10.72%
2023	992,051	992,051	-	9,477,604	10.47%

The information disclosed for each fiscal year is reported as of the fiscal year-end date.

Only six years of data is presented in accordance with GASB Statement No. 75. The information for all periods for the ten-year schedules that are required to be presented as required supplementary information is not available. During this transition period, the information will be presented for as many years as are available.

See accompanying notes to required supplementary information.

Texas Treasury Safekeeping Trust Company

Notes to Required Supplementary Information August 31, 2023

Note 1. Changes of Benefit Terms—Pension Plan

During fiscal year 2016, the 84th Texas Legislature increased the total state and employer contribution to 10% from 8% and the employee contribution to 9.5% from 6.9%. Contributing employees received a 2.5% salary increase to offset the retirement contribution increase. The legislature also eliminated the 90-day waiting period to participate in the retirement system for state agency employees hired on or after September 1 2015.

During fiscal years 2018, 2019, 2020, 2021, 2022 and 2023, there were no changes to benefit terms.

Note 2. Changes of Assumptions—Pension Plan

During fiscal years 2015, 2016 and 2017, actuarially determined contributions were adjusted for actual payroll and administrative expenses.

During fiscal year 2016, the single discount rate increased from 6.07% to 6.86%.

During fiscal year 2017, the single discount rate decreased from 6.86% to 5.73%.

During fiscal year 2018, the following changes were made:

- a. The single discount rate decreased from 5.73% to 5.36%
- b. Decrease the investment return assumption from 8.00% to 7.50%
- c. Decrease the inflation assumption from 3.50% to 2.50%
- d. Establish a general wage inflation assumption of 0.50% above inflation, or 3.00%
- e. Mortality assumptions updated from 1994 Group Annuity Mortality table to most recently published national tables, RP-2014 Mortality tables for employees and disability retirees
- f. Modified the application of Entry Age Normal (EAN) actuarial cost method from Ultimate EAN, the normal cost rate based on the benefits payable to a new member and the entry age characteristics of the current active membership, to individual EAN which bases the normal cost rate on benefits payable to each individual active member.

During fiscal year 2019, the single discount rate increased from 5.36% to 5.69%.

During fiscal year 2020, the single discount rate decreased from 5.69% to 4.42%.

During fiscal year 2021, the single discount rate decreased from 4.42% to 3.62%.

During fiscal year 2022, the single discount rate increased from 3.62% to 7.00%.

During fiscal year 2023, the single discount rate was kept at 7.00%.

A new defined benefit retirement structure will be created for employees hired after August 31, 2023, and new assumption changes have been adopted by the Board of Trustees. These changes will be reflected the actuarially determined contribution rates for fiscal year 2023. Assumption changes include the investment rate of return changing from 7.5% to 7.0%; the inflation rate from 2.5% to 2.3%; updated experience study five-year period from September 1, 2011 through August 31, 2016 to September 1, 2014 through August 31, 2019, and updated mortality rate tables from 2017 SRT to 2020 SRT.

Texas Treasury Safekeeping Trust Company

Notes to Required Supplementary Information August 31, 2023

Note 3. Changes of Benefit Terms—OPEB Plan

During fiscal years 2018, 2019, 2020 2021, 2022 and 2023, there were no changes to benefit terms.

The only benefit revisions that have been adopted since the prior valuation for retirees and dependents are minor benefit changes that became effective Jan. 1, 2021. These changes were not expected to have a significant impact on plan costs for fiscal year 2021 and are provided for in the 2021 Assumed Per Capital Health Benefit Costs.

Note 4. Changes of Assumptions—OPEB Plan

During fiscal year 2018, the following changes were made:

- a. Additional demographic assumptions (aggregate payroll increases and rate of general inflation) to reflect an experience study
- b. The percentage of current and future retirees and retirees spouses not yet eligible to participate in the Health Select Medicare Advantage plan who will elect to participate at the earliest date at which coverage can commence has been updated to reflect recent plan experience and expected trends
- c. Assumptions for administrative expenses, assumed per Capital Health Benefit Costs, Health Benefit Cost and Retiree Contribution trends to reflect recent health plan experience
- d. Effects in short-term expectations and revised assumed rate of general inflation. Decrease the investment return assumption from 8.00% to 7.50%

The following benefit revisions have been adopted since the prior valuations: a) an increase in the out-of-pocket cost applicable to services obtained at a free-standing emergency facility, b) an elimination of the copayment for virtual visits, c) a copay reduction for Airrosti and for out-of-state participants, d) elimination of the deductible for in-network services and application of a copayment rather than coinsurance to certain services like primary care and specialist visits. These minor benefit changes have been reflected in the fiscal year 2018 Assumed Per Capita Health Benefit Costs.

During fiscal year 2019, the following changes were made:

- a. demographic assumptions (including rates of retirement, disability, termination, mortality, and assumed salary increases) for higher education members have been updated to reflect assumptions recently adopted by the Trustees from TRS;
- b. assumed expenses, assumed Per Capita Health Benefit Costs and assumed Health Benefit Cost, Retiree Contribution and expense trends have been updated to reflect recent experience and its effects on our short-term expectations;
- c. percentage of current retirees and their spouses not yet eligible to participate in the HealthSelect Medicare Advantage plan and future retirees and their spouses who will elect to participate in the plan at the earliest date at which coverage can commence;
- d. percentage of future retirees assumed to be married and electing coverage for their spouse have been updated to reflect recent plan experience and expected trends; and,

Texas Treasury Safekeeping Trust Company

Notes to Required Supplementary Information August 31, 2023

Note 4. Changes of Assumptions—OPEB Plan (Continued)

- e. discount rate assumption was increased from 3.51% to 3.96% to utilize the yield or index rate for 20-year, tax-exempt general obligation municipal bonds rated AA/Aa (or equivalent) or higher in effect on the measurement date.

During fiscal year 2020, the following changes were made:

- a. assumed Per Capita Health Benefit Costs and assumed Health Benefit Cost, Retiree Contribution and expense trends have been updated to reflect recent experience and its effects on our short-term expectations;
- b. percentage of current retirees and their spouses not yet eligible to participate in the HealthSelect Medicare Advantage plan and future retirees and their spouses who will elect to participate in the plan at the earliest date at which coverage can commence;
- c. percentage of future male retirees assumed to be married and electing coverage for their spouse have been updated to reflect recent plan experience and expected trends;
- d. percentage of future retirees and their spouses assumed to use tobacco have been updated to reflect recent plan experience and expected trends; and,
- e. discount rate assumption was decreased from 3.96% to 2.97% to utilize the yield or index rate for 20-year, tax-exempt general obligation municipal bonds rated AA/Aa (or equivalent) or higher in effect on the measurement date.

The only benefit revisions that have been adopted since the prior valuation for retirees and dependents for whom Medicare is not primary is an increase in the out-of-pocket maximum for both HealthSelect and Consumer Directed HealthSelect plans in order to remain consistent with Internal Revenue Service maximums.

During fiscal year 2022, the following changes were made:

- a. Demographic assumptions (including rates of preretirement and post-disability mortality for all State Agency members; assumed rates of termination and retirement for certain members who are Certified Peace Officers/Custodial Officers (CPO/CO); and assumed salary, aggregate payroll increases and the assumed rate of general inflation) have been updated to reflect assumptions recently adopted by the System's Board of Trustees;
- b. Assumed Per Capita Health Benefit Costs and assumed Health Benefit Cost and Retiree Contribution trends have been updated to reflect recent experience and its effects on our short-term expectations;
- c. The percentage of current retirees and their spouses not yet eligible to participate in the HealthSelect Medicare Advantage Plan and future retirees and their spouses who will elect to participate in the plan at the earliest date at which coverage can commence. The percentage of future female retirees assumed to be married and electing coverage for their spouse;
- d. The proportion of future retirees assumed to cover dependent children have been updated to reflect recent plan experience and expected trends. Moreover, the PCORI fees payable under the ACA have been updated to reflect IRS Notice 2020-44; and,

Texas Treasury Safekeeping Trust Company

Notes to Required Supplementary Information August 31, 2023

Note 4. Changes of Assumptions—OPEB Plan (Continued)

- e. The discount rate was changed from 2.97% as of August 31, 2019 to 2.20% as of August 31, 2020 as a result of requirements by GASB No. 74 to utilize the yield or index rate for 20-year, tax exempt general obligation municipal bonds rated AA/Aa (or equivalent) or higher in effect on the measurement date.

During fiscal year 2022, the following changes were made:

Since the last valuation was prepared for this plan, assumed Per Capita Health Benefit Costs and assumed Health Benefit Cost and Retiree Contribution trends have been updated to reflect recent experience and its effects on our short-term expectations. Furthermore, (a) the percentage of current retirees and their spouses not yet eligible to participate in the HealthSelect Medicare Advantage Plan and future retirees and their spouses who will elect to participate in the plan at the earliest date at which coverage can commence, (b) the percentage of future retirees assumed to be married and electing Board of Trustees Page 3 November 29, 2021 coverage for their spouse, (c) the proportion of future retirees assumed to elect health coverage at retirement and the proportion of future retirees expected to receive the Opt-Out Credit at retirement, (d) the percentage of Higher Education vested terminated members assumed to have terminated less than one year before the valuation date and (e) the annual rate of increase in the Patient-Centered Outcomes Research Institute fee payable under the Affordable Care Act have been updated to reflect recent plan experience and expected trends. In addition, the assumption for expenses directly related to the payment of GBP HealthSelect medical benefits has been updated to reflect recent contract revisions. Lastly, the discount rate was changed from 2.20% as of August 31, 2020 to 2.14% as of August 31, 2021 as a result of requirements by GASB No. 74 to utilize the yield or index rate for 20-year, tax exempt general obligation municipal bonds rated AA/Aa (or equivalent) or higher in effect on the measurement date.

The following assumptions have been changed since the previous Other Postemployment Benefits valuation:

- a. The percentage of current retirees and their spouses not yet eligible to participate in the HealthSelect Medicare Advantage Plan and future retirees and their spouses who will elect to participate in the plan at the earliest date at which coverage can commence;
- b. Proportion of future retirees assumed to cover dependent children;
- c. The proportion of future retirees assumed to elect health coverage at retirement and proportion of future retirees expected to receive the Opt-Out Credit at retirement;
- d. Assumed Per Capita Health Benefit Costs and Health Benefit Cost and Retiree Contribution trends have been updated since the previous valuation to reflect recent health plan experience and its effects on our short term expectations. The patient-Centered Outcomes Research Institute fee payable under the Affordable Care Act has been updated to reflect the most recent information; and
- e. The discount rate was changed from 2.14% as of August 31, 2021 to 3.59% as of August 31, 2022 as a result of requirements by GASB No. 74 to utilize the yield or index rate for 20-year, tax exempt general obligation municipal bonds rated AA/Aa (or equivalent) or higher in effect on the measurement date.

Texas Treasury Safekeeping Trust Company

Notes to Required Supplementary Information
August 31, 2023

Note 4. Changes of Assumptions—OPEB Plan (Continued)

The discount rate that was used to measure the total OPEB liability is the municipal bond rate of 3.59% as of the end of the measurement year; as of the beginning of the measurement year, the discount rate was 2.14%. Projected cash flows into the plan are equal to projected benefit payments out of the plan. As the plan operates on a pay-as-you-go basis and is not intended to accumulate funds in advance of retirement, there is no long-term expected rate of return. ERS' board of trustees amended the investment policy statement in August 2022 to require that all funds in this plan be invested in cash and equivalent securities. The expected rate of return on these investments is currently 4.1%. The investment rate of return used to calculate the projected earnings on OPEB plan investments was 2.14%.

Supplementary Information

Texas Treasury Safekeeping Trust Company

**Combining Statement of Fiduciary Net Position—Custodial Fund
August 31, 2023**

Assets	Endowment Funds	State Water Implementation Fund	Texas Economic Stabilization Investment Fund	Treasury Pool	Other Custodial Funds	Inter-Fund Elimination	Totals
Current assets:							
Cash in State Treasury	\$ -	\$ 87,853,935	\$ 1,084,451,671	\$ -	\$ 265,845,637	\$ (1,438,151,243)	\$ -
Cash in bank	-	-	28,589,106	934,905	58,229,759	-	87,753,770
Deposits	-	-	-	460,799,000	8,818,186	-	469,617,186
Investments	5,021,809,606	1,695,731,302	12,622,168,872	89,584,883,819	3,931,164,286	-	112,855,757,885
Other assets	-	-	-	-	40,777,998	-	40,777,998
Receivables from:							
Interest and dividends	2,812,936	1,152,578	10,931,777	128,286,473	3,357,031	(5,873,431)	140,667,364
Trades pending settlement	7,903,705	-	-	18,120	156,686	-	8,078,511
Total assets	\$ 5,032,526,247	\$ 1,784,737,815	\$ 13,746,141,426	\$ 90,174,922,317	\$ 4,308,349,583	\$ (1,444,024,674)	\$ 113,602,652,714
Liabilities							
Liabilities:							
Accounts payable	\$ 1,641,816	\$ 576,731	\$ 979,937	\$ -	\$ 1,493,239	\$ -	\$ 4,691,723
Interest payable	5,365,628	-	-	23	-	-	5,365,651
Trades pending settlement	3,465,469	-	-	-	-	-	3,465,469
Obligations under reverse repurchase agreements	-	-	-	3,137,245	-	-	3,137,245
Total liabilities	\$ 10,472,913	\$ 576,731	\$ 979,937	\$ 3,137,268	\$ 1,493,239	\$ -	\$ 16,660,088
Net position held in trust for other governments	\$ 5,022,053,334	\$ 1,784,161,084	\$ 13,745,161,489	\$ 90,171,785,049	\$ 4,306,856,344	\$ (1,444,024,674)	\$ 113,585,992,626

Texas Treasury Safekeeping Trust Company

**Combining Statement of Changes in Fiduciary Net Position—Custodial Fund
Year Ended August 31, 2023**

	Endowment Funds	State Water Implementation Fund	Texas Economic Stabilization Investment Fund	Treasury Pool	Other Custodial Funds	Inter-Fund Elimination	Totals
Additions:							
Investment income:							
Net increase (decrease) in fair value of investments	\$ 65,524,461	\$ 38,336,183	\$ 105,838,659	\$ (65,890,020)	\$ 105,752,565	\$ -	\$ 249,561,848
Interest and investment income	29,455,389	31,880,964	301,819,083	2,975,737,890	162,414,867	(93,326,665)	3,407,981,528
Expenses:							
Professional fees and services	(9,847,079)	(3,319,594)	(7,550,910)	(16,055,548)	(1,097,636)	-	(37,870,767)
Net investment income	85,132,771	66,897,553	400,106,832	2,893,792,322	267,069,796	(93,326,665)	3,619,672,609
Deposits from other governments	-	-	3,629,000,000	214,936,580,000	446,122,969,011	1,465,921,814	666,154,470,825
Settlement of Claims	-	-	-	-	235,871,002	(235,871,002)	-
Total Additions	\$ 85,132,771	\$ 66,897,553	\$ 4,029,106,832	\$ 217,830,372,322	\$ 446,625,909,809	\$ 1,136,724,147	\$ 669,774,143,434
Deductions:							
Withdrawals from other governments	143,584,145	97,701,695	-	201,159,990,303	445,651,229,391	(69,789,861)	646,982,715,673
Total Deductions	\$ 143,584,145	\$ 97,701,695	\$ -	\$ 201,159,990,303	\$ 445,651,229,391	\$ (69,789,861)	\$ 646,982,715,673
Change in net position held in trust for other governments	\$ (58,451,374)	\$ (30,804,142)	\$ 4,029,106,832	\$ 16,670,382,019	\$ 974,680,418	\$ 1,206,514,008	\$ 22,791,427,761
Net position held in trust for other governments at beginning of year	5,080,504,708	1,814,965,226	9,716,054,657	73,501,403,030	3,332,175,926	(2,650,538,682)	90,794,564,865
Net position held in trust for other governments at end of year	\$ 5,022,053,334	\$ 1,784,161,084	\$ 13,745,161,489	\$ 90,171,785,049	\$ 4,306,856,344	\$ (1,444,024,674)	\$ 113,585,992,626

**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 Treasury Safekeeping Trust Company

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 business-type activities and fiduciary activities of the Texas Treasury Safekeeping Trust Company (Texas Trust), a component unit of the State of Texas, as of and for the year ended August 31, 2023, and the related notes to the financial statements, which collectively comprise the Texas Trust's basic financial statements, and have issued our report thereon dated December 20, 2023. Our report included an emphasis of a matter paragraph for the adoption of Governmental Accounting Standards Board Statement No. 96, *Subscription Based Information Technology Arrangements*.

Report On Internal Control over Financial Reporting

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

Austin, Texas
December 20, 2023