

State Water Implementation Fund for Texas

Basic Financial Statements
August 31, 2017 and 2016

Contents

Independent auditor's report	1-2
Management's discussion and analysis	3-6
<hr/>	
Basic financial statements	
Statements of fiduciary net position	7
Statements of changes in fiduciary net position	8
Notes to basic financial statements	9-14
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RSM US LLP

Independent Auditor's Report

To the Honorable Glenn Hegar
Comptroller of Public Accounts of the State of Texas
State Water Implementation Fund for Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the State Water Implementation Fund for Texas (the Fund), a private-purpose trust fund of the state of Texas, as of and for the year ended August 31, 2017, and the related notes to the basic financial statements, which collectively comprise the Fund's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements 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 Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of August 31, 2017, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2 to the financial statements, these financial statements present only the financial statements of the Fund, a private-purpose trust fund of the state of Texas, and do not purport to, and do not present fairly, the financial position of the state of Texas as of August 31, 2017, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter—Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Matter—2016 Financial Statements

The financial statements of the State Water Implementation Fund for Texas as of and for the year ended August 31, 2016, were audited by other auditors, whose report dated November 29, 2016, expressed an unmodified opinion on those statements with emphasis of matter paragraphs to alert the users that the entity is a private-purpose trust fund of the state of Texas, and that the entity adopted Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*. Our opinion is not modified with respect to this matter.

RSM US LLP

Austin, Texas
December 12, 2017

State Water Implementation Fund for Texas

Management's Discussion and Analysis August 31, 2017 and 2016

The State Water Implementation Fund for Texas (the SWIFT or the Fund) management's discussion and analysis is designed to assist the reader in focusing on significant financial issues and provide a performance overview of the Fund's operations for the years ended August 31, 2017 and 2016. Please read this analysis in conjunction with the basic financial statements which follow this section. The Texas Treasury Safekeeping Trust Company (Texas Trust) administers and manages the assets of the Fund.

Financial Highlights

- The total net position of the Fund is \$2.0 billion at August 31, 2017, and \$1.9 billion at August 31, 2016.
- The Fund earned \$145.3 million from investing activities during fiscal 2017 and had a gain from investing activities of \$50.3 million for the year ended August 31, 2016.

Overview of the Basic Financial Statements and Condensed Financial Information

The management's discussion and analysis is an introduction to the Fund's basic financial statements. The Fund has only one fund and therefore the government-wide and fund financial statements are the same since the Fund reports all of its activity as a fiduciary fund, which uses the same measurement focus for all statements.

The Fund was created by the 83rd Texas Legislature, Regular Session, and became effective once the voters approved the constitutional amendment to fund the SWIFT with \$2.0 billion from the Economic Stabilization Fund on November 22, 2013.

The Statements of Fiduciary Net Position provide information about the nature and amounts of the Fund's cash, investments and receivables (assets), and its management fees (liabilities). The Statements of Changes in Fiduciary Net Position report the additions to, deductions from, and net increases or decreases in net position.

This annual financial report consists of two parts:

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

State Water Implementation Fund for Texas

Management's Discussion and Analysis August 31, 2017 and 2016

The Statements of Net Position present the financial position of the Fund at the end of each fiscal year and include all assets and liabilities of the Fund. The difference between total assets and total liabilities equals the Fund's net position. At August 31, net position was calculated as follows:

	2017	2016	2015
Investment in State Treasury Pool	\$ 221,844,022	\$ 110,402,892	\$ 217,679,367
Investments	1,779,831,256	1,824,362,447	1,777,546,261
Other assets	276,744	89,311	91,208
Total assets	2,001,952,022	1,934,854,650	1,995,316,836
Total liabilities	604,473	615,642	912,445
Net position held in trust	<u>\$ 2,001,347,549</u>	<u>\$ 1,934,239,008</u>	<u>\$ 1,994,404,391</u>

From August 31, 2016 to August 31, 2017, assets increased by \$67.1 million dollars, while total liabilities decreased by \$0.01 million.

From August 31, 2015 to August 31, 2016, assets decreased by \$60.5 million dollars, while total liabilities decreased by \$0.3 million.

The Statements of Changes in Fiduciary Net Position present the activity within the net position balance for the period ended. Significant activity accounts include net investment income, allowable distributions and expenses which consist primarily of fees charged to manage the fund. The Fund distributed \$74.5 million during the fiscal year ending August 31, 2017. The change in net position for the years ended August 31, 2017, 2016 and 2015, was as follows:

	2017	2016	2015
Net investment income (loss)	\$ 145,289,400	\$ 50,347,300	\$ (27,182,864)
Distributions	74,523,944	108,174,488	-
Expenses	3,656,915	2,338,195	5,392,700
Net increase (decrease) in net position	67,108,541	(60,165,383)	(32,575,564)
Net position held in trust at beginning of period	1,934,239,008	1,994,404,391	2,026,979,955
Net position held in trust at end of period	<u>\$ 2,001,347,549</u>	<u>\$ 1,934,239,008</u>	<u>\$ 1,994,404,391</u>

Net investment income was \$145.3 million for the fiscal year ended August 31, 2017. The total rate of return for the fiscal year ended August 31, 2017, was 7.78 percent. The total Fund outperformed its benchmark by 0.30 percent for the year ended August 31, 2017.

Net investment income was \$50.3 million for the fiscal year ended August 31, 2016, and the rate of return for the fiscal year was 2.53 percent. The Fund outperformed its benchmark by 1.29 percent for the period ended August 31, 2016.

State Water Implementation Fund for Texas

Management's Discussion and Analysis August 31, 2017 and 2016

Asset Allocation

The current SWIFT asset allocation as of August 31, 2017, is shown in the chart below:

Asset Class	Current Market Value	Weight	Policy Range
Cash and Cash Equivalents	\$ 268,153,795	13.39%	0-40%
Fixed Income	223,323,735	11.16%	5-40%
Alternative Fixed Income	327,065,836	16.34%	5-40%
Private Debt	242,470,194	12.12%	0-30%
Directional Equity	80,032,125	4.00%	0-10%
Hedged Equity	447,636,914	22.36%	5-40%
Core Real Estate	274,349,798	13.71%	0-25%
Commodities	49,753,440	2.49%	0-10%
All Asset Strategies	88,561,712	4.43%	0-10%
Total Portfolio	<u>\$ 2,001,347,549</u>	<u>100.00%</u>	

The SWIFT asset allocation as of August 31, 2016, is shown in the chart below:

Asset Class	Current Market Value	Weight	Policy Range
Cash and Cash Equivalents	\$ 177,749,750	9.19%	0-40%
Fixed Income	548,442,971	28.35%	5-40%
Alternative Fixed Income	354,647,098	18.34%	5-40%
Private Debt	144,959,179	7.49%	0-30%
Directional Equity	92,030,723	4.76%	0-10%
Hedged Equity	431,626,967	22.32%	5-40%
Core Real Estate	122,251,639	6.32%	0-15%
Commodities	32,086,819	1.66%	0-20%
All Asset Strategies	30,443,862	1.57%	
Total Portfolio	<u>\$ 1,934,239,008</u>	<u>100.00%</u>	

The current asset allocation represents the ongoing effort by the Texas Trust to achieve its investment objective to preserve the Fund's purchasing power and achieve the return and liquidity requirements of the SWIFT as determined by the Texas Water Development Board (TWDB). The TWDB sets forth the liquidity requirements of the SWIFT, and works with the Texas Trust to establish the asset allocation to meet the liquidity and rate of return requirements of the SWIFT.

Fixed Income strategies are expected to generate relatively consistent positive returns with lower correlation to the public markets. Strategies selected are intended to provide positive returns during most economic and capital market environments.

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.

State Water Implementation Fund for Texas

Management's Discussion and Analysis August 31, 2017 and 2016

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.

Equity strategies (Directional Equity and Hedged Equity) are intended to provide for portfolio growth and inflation protection and help the fund achieve its performance expectations over time. Due to the inherent volatility of the asset class, hedged strategies may be emphasized over directional strategies.

Real Asset strategies (Core Real Estate and Commodities) are intended to serve primarily as inflation hedges and provide diversification benefits through low correlation with other investment strategies. Real Asset strategies may include investments in high quality real estate, timber, infrastructure assets, industrial and precious metals, energy, livestock and grains.

All Asset Strategies include exposures across equity, fixed income and real asset classes. All Asset portfolios may consist of long-only, hedged and private strategies whose portfolios are diversified across a broad range of asset types.

Unfunded Commitments

As of August 31, 2017 and 2016, the Fund's outstanding unfunded commitments totaled \$266,677,918 and \$246,161,219 respectively.

Contacting Texas Trust's Financial Management

This financial report is designed to provide the Fund's beneficiaries, business partners and creditors with a general overview of its finances. Questions about this report can be directed to Texas Trust's Chief Financial Officer at (512) 463-3129.

Basic Financial Statements

State Water Implementation Fund for Texas

**Statements of Fiduciary Net Position
August 31, 2017 and 2016**

	2017	2016
Assets:		
Investment in State Treasury Pool	\$ 221,844,022	\$ 110,402,892
Interest and other receivables	276,744	89,311
Investments	<u>1,779,831,256</u>	<u>1,824,362,447</u>
Total assets	<u>2,001,952,022</u>	<u>1,934,854,650</u>
Liabilities:		
Accounts payable	<u>604,473</u>	615,642
Total liabilities	<u>604,473</u>	<u>615,642</u>
Net position		
Net position held in trust	<u>\$ 2,001,347,549</u>	<u>\$ 1,934,239,008</u>

See notes to basic financial statements.

State Water Implementation Fund for Texas

**Statements of Changes in Fiduciary Net Position
Years Ended August 31, 2017 and 2016**

	2017	2016
Additions:		
Investment income:		
Net increase in fair value of investments	\$ 124,785,038	\$ 23,621,023
Interest and investment income	<u>20,504,362</u>	<u>26,726,277</u>
Total income from investing activities	<u>145,289,400</u>	<u>50,347,300</u>
Total additions	<u>145,289,400</u>	<u>50,347,300</u>
Deductions:		
Professional fees and services	3,656,915	2,338,195
Distributions	<u>74,523,944</u>	<u>108,174,488</u>
Total deductions	<u>78,180,859</u>	<u>110,512,683</u>
Change in net position	67,108,541	(60,165,383)
Net position held in trust at beginning of year	<u>1,934,239,008</u>	<u>1,994,404,391</u>
Net position held in trust at end of year	<u>\$ 2,001,347,549</u>	<u>\$ 1,934,239,008</u>

See notes to basic financial statements.

State Water Implementation Fund for Texas

Notes to Basic Financial Statements

Note 1. Reporting Entity

The State Water Implementation Fund for Texas (the SWIFT or the Fund) was created by the 83rd Texas Legislature, Regular Session, and became effective once the voters approved the constitutional amendment to fund the SWIFT with \$2 billion from the Economic Stabilization Fund on November 22, 2013. The creation of the SWIFT and its requirements are set forth in Chapter 15 of the Texas Water Code, pursuant to House Bill 4. The SWIFT is intended to serve as a water infrastructure bank whose objective is to enhance the financing capabilities of the Texas Water Development Board (TWDB) and to provide a cash flow mechanism where money used for TWDB's programs will flow back to the Fund. The purpose of the Fund is to provide financing assistance and revolving low-cost flexible financing options for water projects. The Fund will be used to help provide financing for projects in the State Water Plan overseen by the Texas Water Development Board.

The Texas Treasury Safekeeping Trust Company (Texas Trust) holds and invests the SWIFT for TWDB. The Texas Trust adopts an investment policy appropriate for the SWIFT and presents it to the Comptroller's Investment Advisory Board (CIAB). In accordance with Section 15.433(f) of the Water Code and CIAB procedures, the Texas Trust submits the investment policy to the CIAB and the Comptroller. The Comptroller is the sole officer, director and shareholder of the Texas Trust and charged with managing the company. The Comptroller has delegated management and investment related duties to the chief executive officer of the Texas Trust.

The Texas Trust Investment Committee (Investment Committee) is responsible for oversight of Texas Trust investment portfolios including: reviewing and recommending investment policies; approving certain investments; establishing strategic and tactical investment plans; evaluating and recommending the selection or dismissal of investment managers; reviewing quarterly portfolio performance; and reviewing and approving portfolio rebalancing and tactical asset allocation.

Note 2. Summary of Significant Accounting Policies

Measurement focus, basis of accounting and financial statement presentation: The state of Texas reports the Fund as a private-purpose trust fund in its basic financial statements. Private-purpose trust funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the liability is incurred regardless of the timing of the related cash flows.

Management and investment of the Fund: Section 15.433 of the Water Code (the Act) establishes the overall objective for investing the SWIFT "to maintain sufficient liquidity to meet the needs of the fund while striving to preserve the purchasing power of the fund." The Texas Trust shall invest the Fund in accordance with the prudent investor standard. It will consider only those investments appropriate for the SWIFT given its purpose and distribution requirements.

The Texas Trust has any power necessary to accomplish the purposes of managing and investing the assets of the Fund. The Texas Trust will manage and invest the assets of the Fund, through procedures, and subject to restrictions the Texas Trust considers appropriate. The Texas Trust may acquire, exchange, sell, supervise, manage or retain any kind of investment that a prudent investor, exercising reasonable care, skill and caution, would acquire or retain in light of the purposes, terms, distribution requirements and other circumstances of the fund then prevailing, taking into consideration the investment of all assets of the Fund rather than a single investment.

State Water Implementation Fund for Texas

Notes to Basic Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Investments: 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 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.

According to the Act, the Texas Trust is to administer and manage the assets of the Fund using the specified fiduciary standard of care and with the advice of, and in consultation with, the Investment Advisory Committee. The Fund is authorized to invest its funds according to the approved Investment Policy.

The following table reflects the Fund's asset class target allocation and the tolerance range per the Fund's Investment Policy as of August 31, 2017:

Asset Class	Strategy Description	Typical Liquidity	Benchmark(s) Strategy Range	Allocation Range
Cash	Stable Value, AAA rated	Daily	90 Day T-Bill	0-40%
Fixed Income	Unconstrained, Rates and credit	Daily/Monthly	Bloomberg Barclays US Universal Bond Index	5-40%
Alternative Fixed Income	Long/Short Relative Value and Multi-Strategy	Monthly/Quarterly	HFRI FoF Conservative	5-40%
Private Debt	Origination, Mezzanine and Distressed	Illiquid	Cambridge Associates— Custom Private Debt Index	0-30%
Equity	Directional	Daily/Monthly	MSCI ACWI IMI Net Index	0-10%
	Hedged Equity	Monthly/Quarterly	HFRI FoF Strategic Index	5-40%
Real Assets	Core Real Estate	Illiquid	NCREIF NFI—ODCE	0-25%
	Commodities	Daily/Monthly	Bloomberg Commodities Index	0-10%
All Asset Strategies	Risk Parity, Tactical Asset Allocation and Multi-strategy	Monthly/Quarterly	Total SWIFT Benchmark	0-10%

State Water Implementation Fund for Texas

Notes to Basic Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

The following table reflects the Fund's Phase 2 asset class target allocation and the tolerance range per the Fund's Investment Policy as of August 31, 2016:

Asset Class	Strategy Description	Typical Liquidity	Benchmark(s) Strategy Range	Allocation Range
Cash	Stable Value, AAA rated	Daily	90 Day T-Bill	0-40%
Fixed Income	Unconstrained, Rates and credit	Daily/Monthly	Barclays Multiverse 1-3 year	5-40%
Alternative Fixed Income	Long/Short Relative Value and Multi-Strategy	Monthly/Quarterly	HFRI FoF Conservative	5-40%
Private Debt	Origination, Mezzanine and Distressed	Illiquid	Cambridge Custom Private Credit Index	0-30%
Equity	Directional	Daily/Monthly	MSCI ACWI IMI Net Index	0-10%
	Hedged Equity	Monthly/Quarterly	HFRI FoF Strategic Index	5-40%
Real Assets	Core Real Estate	Illiquid	Cambridge Custom Private Real Asset Index	0-15%
	Commodities	Daily/Monthly	Bloomberg Commodities Index	0-20%

Custodian: The Fund contracts services to a custodian to discharge certain of its responsibilities. The custodian performs the duties involving the acquisition, sale and holding of fixed income and equity investments in the Fund's name.

Income tax: The Fund is exempt from federal income tax on its operations in accordance with Internal Revenue Code Section 115.

Distributions: The Texas Trust disburses money from the Fund as directed by the TWDB. The TWDB directs disbursements from the Fund on a semi-annual schedule specified by the TWDB and not more frequently than twice in any state fiscal year.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ significantly from these estimates.

Note 3. Investments

The Fund reports investments at fair value on the Statements of Fiduciary Net Position, and all investment income, including changes in the fair value of investments, are reported in the Statements of Changes in Fiduciary Net Position.

State Water Implementation Fund for Texas

Notes to Basic Financial Statements

Note 3. Investments (Continued)

The Texas Trust administers and manages the assets of the Fund using the specified fiduciary standard of care and with the advice of, and in consultation with, the Investment Advisory Committee. The Fund is authorized to invest its funds according to the approved Investment Policy. The Fund's investments as of August 31, 2017 and 2016, are as follows:

Investments measured at the Net Asset Value (NAV)	Carrying Value	August 31, 2017		
		Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Money Market Funds	\$ 46,637,503	N/A	Daily	1 day
Mutual Funds—Global Fixed Income	202,719,198	N/A	Daily	1 day
Mutual Funds—Global Equities	36,173,025	N/A	Daily	1 day
Mutual Funds—Commodities	9,009,290	N/A	Monthly	30 days
Hedge Funds—Fund of Funds	100,098,904	N/A	Monthly, Quarterly	26-95 days
Hedge Funds—Direct Funds—Fixed Income	347,670,373	N/A	Daily, Monthly Quarterly	2-65 days
Hedge Funds—Direct Funds—Equities	430,219,789	N/A	Monthly, Quarterly Semiannually Anniversary	30-120 days
Hedge Funds—Direct Funds—All Asset Strategies	88,561,711	N/A	Annually	45 days
Domestic Alternative—Private Debt	242,470,194	\$ 104,177,319	N/A	N/A
Domestic Alternative—Private Equity	1,921,471	100,723,530	N/A	N/A
Domestic Alternative—Real Assets	274,349,798	61,767,069	N/A	N/A
Total investments measured at the NAV	<u>\$ 1,779,831,256</u>	<u>\$ 266,667,918</u>		

Investments measured at the NAV	Carrying Value	August 31, 2016		
		Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Money Market Funds	\$ 67,873,189	N/A	Daily	1 day
Mutual Funds—Global Fixed Income	351,260,148	N/A	Daily	1 day
Mutual Funds—Global Equities	31,353,525	N/A	Daily	1 day
Mutual Funds—Commodities	6,302,926	N/A	Monthly	30 days
Hedge Funds—Fund of Funds	78,441,861	N/A	Monthly, Quarterly	26-95 days
Hedge Funds—Direct Funds—Fixed Income	551,829,921	N/A	Daily, Monthly Quarterly	2-65 days
Hedge Funds—Direct Funds—Equities	438,796,971	N/A	Monthly, Quarterly Semiannually Anniversary	30-120 days
Hedge Funds—Direct Funds—All Asset Strategies	30,443,862	N/A	Annually	45 days
Domestic Alternative—Private Debt	144,959,179	\$ 79,039,394	N/A	N/A
Domestic Alternative—Private Equity	849,225	101,795,776	N/A	N/A
Domestic Alternative—Real Assets	122,251,640	65,326,049	N/A	N/A
Total investments measured at the NAV	<u>\$ 1,824,362,447</u>	<u>\$ 246,161,219</u>		

State Water Implementation Fund for Texas

Notes to Basic Financial Statements

Note 3. Investments (Continued)

Money market funds and mutual funds are valued daily or monthly, as appropriate, at NAV per share.

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.

Fixed Income strategies are expected to generate relatively consistent positive returns with lower correlation to the public markets. Strategies selected are intended to provide positive returns during most economic and capital market environments.

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.

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.

Equity strategies (Directional Equity and Hedged Equity) are intended to provide for portfolio growth and inflation protection and help the fund achieve its performance expectations over time. Due to the inherent volatility of the asset class, hedged strategies may be emphasized over directional strategies.

Real Asset strategies (Core Real Estate and Commodities) are intended to serve primarily as inflation hedges and provide diversification benefits through low correlation with other investment strategies. Real Asset strategies may include investments in high quality real estate, timber, infrastructure assets, industrial and precious metals, energy, livestock and grains.

All Asset Strategies include exposures across equity, fixed income and real asset classes. All Asset portfolios may consist of long-only, hedged and private strategies whose portfolios are diversified across a broad range of asset types.

Credit risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Fund's 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 Rating	August 31			
	2017		2016	
	Mutual Funds— Global Fixed Income	Investments in Short-Term Investment Fund	Mutual Funds— Global Fixed Income	Investments in Short-Term Investment Fund
AAA	\$ -	\$ 46,637,503	\$ -	\$ 67,873,189
Not Rated	202,719,198	-	351,260,148	-
Total	<u>\$ 202,719,198</u>	<u>\$ 46,637,503</u>	<u>\$ 351,260,148</u>	<u>\$ 67,873,189</u>

State Water Implementation Fund for Texas

Notes to Basic Financial Statements

Note 3. Investments (Continued)

Custodial credit risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Fund 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 Fund'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.

Concentration risk: Concentration of credit risk is the risk of loss attributable to the magnitude of the investment in a single issuer. Excluding passive strategies, exposure to any investment firm will generally be limited to no more than 25 percent of Fund assets. Fund investments will generally not exceed more than 25 percent of any firms' total assets under management. As of August 31, 2017 and 2016, no more than 5 percent of the portfolio was invested in securities of one issuer.

Interest rate risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Fund's 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	
	August 31	
	2017	2016
Mutual funds:		
Global Fixed Income	2.32 years	2.42 years
	Weighted-Average Maturity	
	August 31	
	2017	2016
Investment in short-term investment fund	23 days	18 days

Treasury pool: The Fund participates in the Treasury Pool which is an internal investment pool of the state of Texas. The Comptroller maintains oversight responsibility for the Treasury Pool. This responsibility includes the ability to influence operations, designation of management, and accountability for fiscal matters. The Treasury Pool operates in accordance with the Comptroller's Investment Policy. The Fund may make withdrawals at any time and has no commitment to add additional funds to the Treasury Pool. The Fund receives allocated earnings based on its percentage share of the Treasury Pool, but its overall value remains the same as the initial deposit, cost, into the Treasury Pool plus accrued income. The Fund's balance in the Treasury Pool as of August 31, 2017, was \$221,844,022 plus accrued interest for August of \$233,700. The Fund's balance in the Treasury Pool as of August 31, 2016, was \$110,402,892 plus accrued interest for August of \$77,240.

Note 4. Related Parties

The contract and agreement between the Comptroller and the Texas Trust allows the Texas Trust to charge a fee of up to 30 basis points to recover all costs associated with the management of the Fund. The fee for the fiscal years ended August 31, 2017 and 2016, was 20 basis points. The Fund was charged \$3,656,915 for the year ended August 31, 2017, and \$2,338,195 for the year ended August 31, 2016.

