

TEXAS COLLEGE SAVINGS PLAN[®] AND LONESTAR 529 PLAN[®]

Combined Financial Statements
Year Ended August 31, 2022

TEXAS COLLEGE SAVINGS PLAN® AND LONESTAR 529 PLAN®

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Independent Auditor's Report

Members of the Texas Prepaid Higher Education Tuition Board
Texas College Savings Plan® and LoneStar 529 Plan®
Hauppauge, New York

Opinion

We have audited the combined financial statements of the Texas College Savings Plan® and the LoneStar 529 Plan®, a fiduciary fund of the State of Texas Office of the Comptroller, (collectively, the Plans), as of and for the year ended August 31, 2022, and the related notes to the combined financial statements, which collectively comprise the Plans' basic combined financial statements as listed in the table of contents.

In our opinion, the accompanying combined financial statements referred to above present fairly, in all material respects, the financial position of the Plans of the State of Texas Office of the Comptroller, as of August 31, 2022, and the change in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). 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 the Plans, 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 opinion.

Emphasis of a Matter

As discussed in Note 1, the basic combined financial statements present only the Plans and do not purport to, and do not, present fairly the financial position of the State of Texas, or the State of Texas Office of the Comptroller, as of August 31, 2022, or 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the combined financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Plans' ability to continue as a going concern for twelve 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 combined 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 opinion. 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 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 combined financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combined 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 combined 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 Plans' 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 combined financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management discussion and analysis be presented to supplement the basic combined financial statements. Such information is the responsibility of management and, although not a part of the basic combined 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 combined 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 combined financial statements, and other knowledge we obtained during our audit of the basic combined 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.

RSM US LLP

Kanas City, Missouri
November 3, 2022

TEXAS COLLEGE SAVINGS PLAN® AND LONESTAR 529 PLAN®
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2022
(Unaudited)

Management’s Discussion and Analysis

Management of the Texas College Savings Plan® and the LoneStar 529 Plan® (collectively, the “Plans”) is pleased to offer readers of the Plans’ combined basic financial statements this narrative overview and analysis of the financial activities for the fiscal year ended August 31, 2022.

Of particular note, each of the plans underwent structural changes during the fiscal year, as highlighted below:

Texas College Savings Plan

Effective December 13, 2021, the Texas College Savings Plan introduced a new and expanded investment lineup, which resulted in a mapping of assets from existing portfolios into new portfolios. In addition, Management Fees and State Administrative Fees were reduced at that time.

LoneStar 529 Plan

Effective March 7, 2022, the LoneStar 529 Plan introduced a new and expanded investment lineup, which resulted in a mapping of assets from existing portfolios into new portfolios, as well as other structural and fee changes:

- The new investment lineup included a transition from an age-based structure to an enrollment-date structure
- Assets in Advisor Class units were combined into Class A units
- A new RIA class of units was introduced, free of sales charges or distribution fees, to be sold through fee-based Registered Investment Advisors
- Management Fees and State Administrative Fees were reduced at that time

➤ **Overview of the Combined Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Plans’ combined basic financial statements. The Plans’ combined basic financial statements are comprised of two components: 1) combined basic financial statements and 2) notes to the combined financial statements.

Combined basic financial statements: The combined basic financial statements are designed to provide readers with a broad overview of the Plans’ finances in a manner similar to a private-sector business. The combined basic financial statements are prepared using fiduciary fund accounting that uses the similar basis of accounting as private-sector business enterprises. The Plans are reported as a fiduciary fund, not enterprise fund. Under this method of accounting, an economic resources measurement focus and the accrual basis of accounting is used. Revenue is recorded when earned and expenses are recorded when incurred. The combined basic financial statements include a combined statement of fiduciary net position, and a combined statement of revenues, expenses and changes in fiduciary net position. These are followed by notes to combined financial statements.

TEXAS COLLEGE SAVINGS PLAN® AND LONESTAR 529 PLAN®

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(Unaudited)

The combined statement of fiduciary net position presents information on all of the Plans' assets and liabilities, with the difference between the two 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 Plans is improving or deteriorating.

The combined statement of revenues, expenses and changes in fiduciary net position reports the operating revenues and expenses of the Plans for the fiscal year with the difference being combined with capital contributions and withdrawals to determine the change in net position for the fiscal year.

The notes to the combined basic financial statements provide additional information that is essential to a full understanding of the data provided in the combined basic financial statements.

➤ Financial Highlights

The net position of the direct-sold Texas College Savings Plan and the advisor-sold LoneStar 529 Plan, decreased from \$1,033,977,504.40 as of August 31, 2021 to \$911,582,325.02 as of August 31, 2022, a decrease of \$122,395,179.38. The decrease in net position was due to net investment loss of (\$134,020,580.70) for the year ended August 31, 2022. This decrease was partially offset due to an increase from participant transactions of \$11,625,401.19; with the number of account owners increasing from 47,593 as of August 31, 2021, to 48,931 as of August 31, 2022. The net investment loss amount is driven by revenues from dividend and interest, and service fees of \$37,786,543.59, realized and unrealized loss on investments of \$167,125,902.11, and expenses related to management, distributions and state administrative fees, net of waivers and reimbursements, of \$4,681,222.05.

➤ Fund Performance (Advisor-Sold)

The table below presents the return for each portfolio in the LoneStar 529 Plan from the inception of the portfolios on March 7, 2022 through August 31, 2022, compared to the total return for the Benchmark for the period beginning March 1, 2022 and ending August 31, 2022. This difference in reporting periods is due to the timing of the investment option restructuring that occurred during the audit period.

| Portfolio name | A Class total return (%) | RIA unit total return (%) | Benchmark returns (%) |
|--|--------------------------|---------------------------|-----------------------|
| LoneStar 2022-2023 Target Date Portfolio | -7.70% | -7.40% | -7.52% |
| LoneStar 2024-2025 Target Date Portfolio | -8.30% | -8.10% | -8.36% |
| LoneStar 2026-2027 Target Date Portfolio | -8.30% | -8.00% | -8.73% |
| LoneStar 2028-2029 Target Date Portfolio | -8.30% | -8.00% | -9.12% |
| LoneStar 2030-2031 Target Date Portfolio | -8.30% | -8.00% | -9.52% |
| LoneStar 2032-2033 Target Date Portfolio | -8.30% | -8.10% | -9.98% |
| LoneStar 2034-2035 Target Date Portfolio | -8.30% | -8.20% | -9.93% |
| LoneStar 2036-2037 Target Date Portfolio | -8.30% | -7.90% | -9.92% |
| LoneStar 2038-2039 Target Date Portfolio | -8.30% | -8.20% | -9.92% |
| LoneStar Enrollment Year Target Date Portfolio | -6.90% | -6.70% | -6.34% |
| LoneStar Balanced Allocation Portfolio | -8.30% | -8.00% | -9.10% |
| LoneStar Diversified Equity Portfolio | -8.50% | -8.20% | -10.77% |
| LoneStar US Growth Portfolio | -12.70% | -12.50% | -12.25% |
| LoneStar US Value Portfolio | -7.70% | -7.50% | -6.61% |
| LoneStar US Total Stock Market Portfolio | -8.50% | -8.30% | -9.58% |

TEXAS COLLEGE SAVINGS PLAN® AND LONESTAR 529 PLAN®

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED AUGUST 31, 2022

(Unaudited)

| | | | |
|---|---------|---------|---------|
| LoneStar Socially Responsible Portfolio | -9.70% | -9.50% | -11.07% |
| LoneStar Small-Cap Portfolio | -6.80% | -6.50% | -9.31% |
| LoneStar Active International Portfolio | -5.50% | -5.20% | -13.97% |
| LoneStar Passive Bond Portfolio | -8.30% | -8.00% | -7.82% |
| LoneStar Conservative Allocation Portfolio | -7.90% | -7.60% | -7.38% |
| LoneStar Aggressive Allocation Portfolio | -9.50% | -9.30% | -9.61% |
| LoneStar Diversified Fixed Income Portfolio | -7.10% | -6.80% | -6.73% |
| LoneStar Active Bond Portfolio | -9.10% | -8.90% | -7.76% |
| LoneStar Long-Term Fixed Income Portfolio | -19.40% | -19.40% | -18.20% |
| LoneStar Passive International Portfolio | -9.60% | -9.30% | -13.51% |
| LoneStar Emerging Markets Portfolio | -9.90% | -9.60% | -13.30% |
| LoneStar Real Estate Portfolio | -10.70% | -10.50% | -8.17% |
| LoneStar Commodity Portfolio | -1.20% | -1.00% | 6.96% |
| LoneStar Short-Term Fixed Income Portfolio | -2.60% | -2.40% | -2.23% |
| LoneStar International Fixed Income Portfolio | -6.50% | -6.60% | -7.42% |
| LoneStar High Yield Fixed Income Portfolio | -8.10% | -7.90% | -7.78% |
| LoneStar Capital Preservation Portfolio | 0.49% | 0.71% | 0.35% |
| LoneStar Inflation Protection | -7.50% | -7.20% | -6.38% |

The benchmarks for the LoneStar 529 Plan portfolios are based on a blend of benchmarks applicable to each Underlying Investment, as follows:

| Underlying Investment | Benchmark |
|---|--|
| Artisan Value Fund | Russell 1000 Value Index |
| Baird Short-Term Bond | Blmbg. U.S. Aggregate 1-3 Yrs |
| DFA US Small Cap Portfolio | Russell 2000 Index |
| DFA Inflation-Protected Securities | Blmbg. U.S. TIPS |
| Dodge & Cox International stock | MSCI AC World ex USA Index (Net) |
| Dodge & Cox Global Stock | MSCI World Index (Net) |
| Eaton Vance Floating-Rate Fund | Morningstar LSTA US Leveraged Loan |
| Federated Hermes Institutional High Yield | Blmbg. U.S. High Yield - 2% Issuer Cap |
| Neuberger Berman Emerging Markets Equity | MSCI Emerging Markets Index (Net) |
| PIMCO Commodity Real Return | Bloomberg Commodity Index Total Return |
| PIMCO International Bond (USD-Hdg) | FTSE Non-U.S. World Government Bond |
| PIMCO Total Return | Blmbg. U.S. Aggregate |
| T. Rowe Price Global Growth Stock | MSCI AC World Index (Net) |
| T Rowe Price Large Cap Growth | Russell 1000 Growth Index |
| Vanguard Total Bond Market Index | Performance Benchmark |
| Vanguard FTSE Social Index | Performance Benchmark |
| Vanguard Real Estate Index | Performance Benchmark |
| Vanguard Long-Term Treasury Index | Blmbg. U.S. Treasury: Long |
| Vanguard Total Stock Market Index | Performance Benchmark |
| Vanguard Total International Stock Market | Performance Benchmark |

TEXAS COLLEGE SAVINGS PLAN® AND LONESTAR 529 PLAN®
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➤ **Fund Performance (Direct-Sold)**

The table below presents the return for each portfolio in the Texas College Savings Plan from the inception of the portfolios on December 13, 2021 through August 31, 2022, compared to the total return for the Benchmark for the period beginning December 1, 2021 and ending August 31, 2022. This difference in reporting periods is due to the timing of the investment option restructuring that occurred during the audit period.

| Portfolio name | Direct total return (%) | Benchmark returns (%) |
|--|--------------------------------|------------------------------|
| TCSP Age-based 0-3 Years Portfolio | -15.50% | -13.15% |
| TCSP Age-based 4-6 Years Portfolio | -15.20% | -13.02% |
| TCSP Age-based 7-8 Years Portfolio | -14.60% | -12.63% |
| TCSP Age-based 9 Years Portfolio | -13.70% | -12.15% |
| TCSP Age-based 10-11 Years Portfolio | -13.10% | -11.74% |
| TCSP Age-based 12 Years Portfolio | -12.40% | -11.34% |
| TCSP Age-based 13-14 Years Portfolio | -11.70% | -10.95% |
| TCSP Age-based 15 Years Portfolio | -10.70% | -10.28% |
| TCSP Age-based 16-17 Years Portfolio | -9.60% | -9.44% |
| TCSP Age-based 18+ Years Portfolio | -8.40% | -8.44% |
| TCSP International Stock Fund Portfolio | -17.90% | -14.75% |
| TCSP Aggressive Allocation Portfolio | -15.70% | -12.81% |
| TCSP U.S. Stock Fund Portfolio | -15.80% | -14.02% |
| TCSP Diversified Equity Portfolio | -16.80% | -14.21% |
| TCSP Balanced Allocation Portfolio | -13.90% | -12.15% |
| TCSP Conservative Allocation Portfolio | -9.60% | -9.76% |
| TCSP Capital Preservation Portfolio | 0.94% | 0.36% |
| TCSP Diversified Fixed Income Portfolio | -9.10% | -9.29% |
| TCSP Bond Fund Portfolio | -11.00% | -11.12% |
| TCSP Inflation Protection Fund Portfolio | -6.60% | -7.19% |

The benchmarks for the Texas College Savings Plan portfolios are based on a blend of benchmarks applicable to each Underlying Investment, as follows:

| Underlying Investment | Benchmark |
|---|--|
| DFA Inflation Protected Securities Portfolio | Barclays Inflation Index Total Return |
| Eaton Vance Floating-Rate Fund | Morningstar LSTA US Leveraged Loan |
| Federated Hermes Institutional High Yield Bond | Blmbg. U.S. High Yield - 2% Issuer Cap |
| Vanguard Total Stock Market Index Fund Institutional Plus | S&P 500 Index Total Return |
| Vanguard Total Bond Market Index Fund Plus | Barclays Aggregate Bond Index Total Return |
| Vanguard Total International Stock Index Fund | FTSE Global All Cap ex US Index (Net) |

TEXAS COLLEGE SAVINGS PLAN® AND LONESTAR 529 PLAN®
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2022
(Unaudited)

➤ **Financial Analysis**

Combined fiduciary net position information as of August 31, 2022 and 2021 was as follows:

| | <u>2022</u> | <u>2021</u> |
|--|--------------------------|----------------------------|
| Assets | | |
| Current assets | \$ 2,953,539.39 | \$ 3,283,479.71 |
| Long-term assets | <u>911,637,882.85</u> | <u>1,034,419,671.26</u> |
| Total assets | <u>914,591,422.24</u> | <u>1,037,703,150.97</u> |
| Liabilities | | |
| Current liabilities | <u>3,009,097.22</u> | <u>3,725,646.57</u> |
| Total liabilities | <u>3,009,097.22</u> | <u>3,725,646.57</u> |
| Net position held in trust for participants | \$ <u>911,582,325.02</u> | \$ <u>1,033,977,504.40</u> |

Combined changes in fiduciary net position information for the years ended August 31, 2022 and 2021 were as follows:

| | <u>2022</u> | <u>2021</u> |
|-----------------------------------|--------------------------|----------------------------|
| Revenue and gains/(losses) | | |
| Contributions from participants | \$ 1,397,537,193.62 | \$ 312,424,543.84 |
| Investment gain/(losses) | <u>(129,339,358.52)</u> | <u>165,834,045.13</u> |
| Total revenue and gains | <u>1,268,197,835.10</u> | <u>478,258,588.97</u> |
| Expenses | | |
| Withdrawals to participants | 1,385,911,792.43 | 296,606,792.92 |
| Other expenses | <u>4,681,222.05</u> | <u>6,147,187.89</u> |
| Total expenses | <u>1,390,593,014.48</u> | <u>302,753,980.81</u> |
| Change in net position | <u>(122,395,179.38)</u> | <u>175,504,608.16</u> |
| Net position | | |
| Beginning of year | <u>1,033,977,504.40</u> | <u>858,472,896.24</u> |
| End of year | \$ <u>911,582,325.02</u> | \$ <u>1,033,977,504.40</u> |

Net participant contributions and withdrawals were approximately \$12 million for the year ended August 31, 2022 and \$16 million for the year ended August 31, 2021. Net investment earnings/(losses) were approximately (\$134) million for the year ended August 31, 2022, compared to \$160 million in earnings for the year ended August 31, 2021.

TEXAS COLLEGE SAVINGS PLAN® AND LONESTAR 529 PLAN®

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED AUGUST 31, 2022

(Unaudited)

➤ **Fund Performance (Advisor-Sold)**

The following tables provide the annual return, as of August 31, 2022, for each underlying investment as well as the Portfolios' relative target allocations to each of the underlying funds.

| Advisor-Sold Portfolios: | | | | | | | |
|---|--------------------------|--|-------------------------|--------------------------|------------------|------------------|------------------|
| | | | | Target Allocation | | | |
| Investment | Investment Return | Benchmark | Benchmark Return | 2038-2039 | 2036-2037 | 2034-2035 | 2032-2033 |
| Artisan Value Fund | -11.51% | Russell 1000 Value Index | -6.23% | 9.69% | 9.69% | 9.52% | 9.18% |
| DFA US Small Cap Portfolio | -9.26% | Russell 2000 Index | -17.88% | 2.42% | 2.42% | 2.38% | 2.30% |
| T Rowe Price Large Cap Growth | -28.06% | Russell 1000 Growth Index | -19.06% | 9.69% | 9.69% | 9.52% | 9.18% |
| Vanguard Total Stock Market Index | -13.67% | Performance Benchmark | -13.66% | 16.15% | 16.15% | 15.89% | 15.29% |
| T. Rowe Price Global Growth Stock | -30.57% | MSCI AC World Index (Net) | -15.88% | 14.13% | 14.13% | 13.88% | 13.39% |
| Dodge & Cox Global Stock | -7.86% | MSCI World Index (Net) | -15.08% | 14.13% | 14.13% | 13.88% | 13.39% |
| Dodge & Cox International stock | -12.07% | MSCI AC World ex USA Index (Net) | -19.52% | 6.46% | 6.46% | 6.35% | 6.12% |
| Vanguard Total International Stock Market | -19.71% | Performance Benchmark | -19.39% | 8.08% | 8.08% | 7.93% | 7.65% |
| Eaton Vance Floating-Rate Fund | -1.46% | Morningstar LSTA US Leveraged Loan | 0.38% | 3.80% | 3.80% | 3.73% | 3.60% |
| Federated Hermes Institutional High Yield | -10.61% | Blmbg. U.S. High Yield - 2% Issuer Cap | -10.61% | 3.80% | 3.80% | 3.73% | 3.60% |
| PIMCO Total Return | -12.38% | Blmbg. U.S. Aggregate | -11.52% | 2.50% | 2.50% | 3.33% | 5.00% |
| Vanguard Total Bond Market Index | -11.73% | Performance Benchmark | -11.65% | 2.50% | 2.50% | 3.33% | 5.00% |
| Vanguard Real Estate Index | -11.97% | Performance Benchmark | -11.91% | 6.65% | 6.65% | 6.53% | 6.30% |
| Investment | Investment Return | Benchmark | Benchmark Return | 2030-2031 | 2028-2029 | 2026-2027 | 2024-2025 |
| Artisan Value Fund | -11.51% | Russell 1000 Value Index | -6.23% | 7.82% | 6.46% | 5.10% | 3.74% |
| DFA US Small Cap Portfolio | -9.26% | Russell 2000 Index | -17.88% | 1.96% | 1.62% | 1.28% | 0.94% |
| T Rowe Price Large Cap Growth | -28.06% | Russell 1000 Growth Index | -19.06% | 7.82% | 6.46% | 5.10% | 3.74% |
| Vanguard Total Stock Market Index | -13.67% | Performance Benchmark | -13.66% | 13.04% | 10.77% | 8.50% | 6.23% |
| T. Rowe Price Global Growth Stock | -30.57% | MSCI AC World Index (Net) | -15.88% | 11.40% | 9.42% | 7.44% | 5.45% |
| Dodge & Cox Global Stock | -7.86% | MSCI World Index (Net) | -15.08% | 11.40% | 9.42% | 7.44% | 5.45% |
| Dodge & Cox International stock | -12.07% | MSCI AC World ex USA Index (Net) | -19.52% | 5.21% | 4.31% | 3.40% | 2.49% |

TEXAS COLLEGE SAVINGS PLAN® AND LONESTAR 529 PLAN®

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED AUGUST 31, 2022

(Unaudited)

| | | | | | | | |
|---|--------------------------|--|-------------------------|--|-------------------------------------|---|--------------------------------------|
| Vanguard Total International Stock Market | -19.71% | Performance Benchmark | -19.39% | 6.52% | 5.38% | 4.25% | 3.12% |
| DFA Inflation-Protected Securities | -6.44% | Blmbg. U.S. TIPS | -5.98% | 5.18% | 12.99% | 19.15% | 25.33% |
| Eaton Vance Floating-Rate Fund | -1.46% | Morningstar LSTA US Leveraged Loan | 0.38% | 3.07% | 2.53% | 2.00% | 1.47% |
| Federated Hermes Institutional High Yield | -10.61% | Blmbg. U.S. High Yield - 2% Issuer Cap | -10.61% | 3.07% | 2.53% | 2.00% | 1.47% |
| PIMCO Total Return | -12.38% | Blmbg. U.S. Aggregate | -11.52% | 9.07% | 11.84% | 15.42% | 19.00% |
| Vanguard Total Bond Market Index | -11.73% | Performance Benchmark | -11.65% | 9.07% | 11.84% | 15.42% | 19.00% |
| Vanguard Real Estate Index | -11.97% | Performance Benchmark | -11.91% | 5.37% | 4.43% | 3.50% | 2.57% |
| Investment | Investment Return | Benchmark | Benchmark Return | 2022-2023 | Enrollment Year | Aggressive Allocation Portfolio | Balanced Allocation Portfolio |
| Artisan Value Fund | -11.51% | Russell 1000 Value Index | -6.23% | 2.38% | 1.02% | 8.64% | 7.08% |
| DFA US Small Cap Portfolio | -9.26% | Russell 2000 Index | -17.88% | 0.60% | 0.26% | 2.16% | 1.77% |
| T Rowe Price Large Cap Growth | -28.06% | Russell 1000 Growth Index | -19.06% | 2.38% | 1.02% | 8.64% | 7.08% |
| Vanguard Total Stock Market Index | -13.67% | Performance Benchmark | -13.66% | 3.97% | 1.69% | 14.40% | 11.79% |
| T. Rowe Price Global Growth Stock | -30.57% | MSCI AC World Index (Net) | -15.88% | 3.47% | 1.49% | 12.60% | 10.33% |
| Dodge & Cox Global Stock | -7.86% | MSCI World Index (Net) | -15.08% | 3.47% | 1.49% | 12.60% | 10.33% |
| Dodge & Cox International stock | -12.07% | MSCI AC World ex USA Index (Net) | -19.52% | 1.59% | 0.68% | 5.76% | 4.72% |
| Vanguard Total International Stock Market | -19.71% | Performance Benchmark | -19.39% | 1.98% | 0.85% | 7.20% | 5.90% |
| DFA Inflation-Protected Securities | -6.44% | Blmbg. U.S. TIPS | -5.98% | 28.12% | 30.00% | 1.00% | 10.00% |
| Eaton Vance Floating-Rate Fund | -1.46% | Morningstar LSTA US Leveraged Loan | 0.38% | 0.93% | 0.40% | 3.50% | 3.00% |
| Federated Hermes Institutional High Yield | -10.61% | Blmbg. U.S. High Yield - 2% Issuer Cap | -10.61% | 0.93% | 0.40% | 3.50% | 3.00% |
| PIMCO Total Return | -12.38% | Blmbg. U.S. Aggregate | -11.52% | 0.2108 | 22.50% | 7.00% | 10.00% |
| Vanguard Total Bond Market Index | -11.73% | Performance Benchmark | -11.65% | 21.08% | 22.50% | 7.00% | 10.00% |
| Vanguard Real Estate Index | -11.97% | Performance Benchmark | -11.91% | 1.63% | 0.70% | 6.00% | 5.00% |
| New York Life Guaranteed Interest | 1.64% | 90 Day U.S. Treasury Bill | 0.37 | 6.39% | 15.00% | | |
| Investment | Investment Return | Benchmark | Benchmark Return | Conservative Allocation Portfolio | Diversified Equity Portfolio | Diversified Fixed Income Portfolio | US Growth Portfolio |
| Artisan Value Fund | -11.51% | Russell 1000 Value Index | -6.23% | 2.52% | 12.00% | | |
| DFA US Small Cap Portfolio | -9.26% | Russell 2000 Index | -17.88% | 0.63% | 3.00% | | |
| T Rowe Price Large Cap Growth | -28.06% | Russell 1000 Growth Index | -19.06% | 2.52% | 12.00% | | 100.00% |

TEXAS COLLEGE SAVINGS PLAN® AND LONESTAR 529 PLAN®

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED AUGUST 31, 2022

(Unaudited)

| | | | | | | | |
|---|--------------------------|--|-------------------------|--------------------------------|--|---|--|
| Vanguard Total Stock Market Index | -13.67% | Performance Benchmark | -13.66% | 4.19% | 20.00% | | |
| T. Rowe Price Global Growth Stock | -30.57% | MSCI AC World Index (Net) | -15.88% | 3.68% | 17.50% | | |
| Dodge & Cox Global Stock | -7.86% | MSCI World Index (Net) | -15.08% | 3.68% | 17.50% | | |
| Dodge & Cox International stock | -12.07% | MSCI AC World ex USA Index (Net) | -19.52% | 1.68% | 8.00% | | |
| Vanguard Total International Stock Market | -19.71% | Performance Benchmark | -19.39% | 2.10% | 10.00% | | |
| DFA Inflation-Protected Securities | -6.44% | Blmbg. U.S. TIPS | -5.98% | 28.00% | | | |
| Eaton Vance Floating-Rate Fund | -1.46% | Morningstar LSTA US Leveraged Loan | 0.38% | 1.00% | | 15.00% | |
| Federated Hermes Institutional High Yield | -10.61% | Blmbg. U.S. High Yield - 2% Issuer Cap | -10.61% | 1.00% | | 15.00% | |
| PIMCO Total Return | -12.38% | Blmbg. U.S. Aggregate | -11.52% | 20.50% | | 35.00% | |
| Vanguard Total Bond Market Index | -11.73% | Performance Benchmark | -11.65% | 20.50% | | 35.00% | |
| Vanguard Real Estate Index | -11.97% | Performance Benchmark | -11.91% | 2.00% | | | |
| New York Life Guaranteed Interest | 1.64% | 90 Day U.S. Treasury Bill | 0.37% | 6.00% | | | |
| Investment | Investment Return | Benchmark | Benchmark Return | US Value Portfolio | US Total Stock Market Portfolio | Socially Responsible Portfolio | Small-Cap Portfolio |
| Artisan Value Fund | -11.51% | Russell 1000 Value Index | -6.23% | 100.00% | | | |
| DFA US Small Cap Portfolio | -9.26% | Russell 2000 Index | -17.88% | | | | 100.00% |
| Vanguard Total Stock Market Index | -13.67% | Performance Benchmark | -13.66% | | 100.00% | | |
| Vanguard FTSE Social Index | -16.28% | Performance Benchmark | -16.17% | | | 100.00% | |
| Investment | Investment Return | Benchmark | Benchmark Return | Passive Int'l Portfolio | Active Int'l Portfolio | Emerging Markets Portfolio | Passive Bond Portfolio |
| Dodge & Cox International stock | -12.07% | MSCI AC World ex USA Index (Net) | -19.52% | | 100.00% | | |
| Neuberger Berman Emerging Markets Equity | -24.10% | MSCI Emerging Markets Index (Net) | -21.80% | | | 100.00% | |
| Vanguard Total International Stock Market | -19.71% | Performance Benchmark | -19.39% | 100.00% | | | |
| Vanguard Total Bond Market Index | -11.73% | Performance Benchmark | -11.65% | | | | 100.00% |
| Investment | Investment Return | Benchmark | Benchmark Return | Active Bond Portfolio | Inflation Protection Portfolio | Long-Term Fixed Income Portfolio | Short-Term Fixed Income Portfolio |
| Baird Short-Term Bond | -4.21% | Blmbg. U.S. Aggregate 1-3 Yrs | -4.01% | | | | 100.00% |
| DFA Inflation-Protected Securities | -6.44% | Blmbg. U.S. TIPS | -5.98% | | 100.00% | | |
| PIMCO Total Return | -12.38% | Blmbg. U.S. Aggregate | -11.52% | 100.00% | | | |

TEXAS COLLEGE SAVINGS PLAN® AND LONESTAR 529 PLAN®

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED AUGUST 31, 2022

(Unaudited)

| | | | | | | | |
|---|--------------------------|--|-------------------------|---------------------------------------|--|------------------------------|----------------------------|
| Vanguard Long-Term Treasury Index | -22.69% | Blmbg. U.S. Treasury: Long | -22.64% | | | 100.00% | |
| Investment | Investment Return | Benchmark | Benchmark Return | Int'l Fixed Income Portfolio | High Yield Fixed Income Portfolio | Real Estate Portfolio | Commodity Portfolio |
| Federated Hermes Institutional High Yield | -10.61% | Blmbg. U.S. High Yield - 2% Issuer Cap | -10.61% | | 100.00% | | |
| PIMCO International Bond (USD-Hdg) | -9.31% | FTSE Non-U.S. World Government Bond | -25.62% | 100.00% | | | |
| PIMCO Commodity Real Return | 24.58% | Bloomberg Commodity Index Total Return | 27.72% | | | | 100.00% |
| Vanguard Real Estate Index | -11.97% | Performance Benchmark | -11.91% | | | 100.00% | |
| Investment | Investment Return | Benchmark | Benchmark Return | Capital Preservation Portfolio | | | |
| New York Life Guaranteed Interest | 1.64% | 90 Day U.S. Treasury Bill | 0.37% | 100.00% | | | |

➤ **Direct-Sold Fund Performance**

The following tables provide the annual return, as of August 31, 2022, for each underlying investment as well as the Portfolios' relative target allocations to each of the underlying funds.

| Direct-Sold Portfolios: | | | | | | | |
|--|--------------------------|--|-------------------------|--|--|--|--|
| | | | | Target Allocation | | | |
| Investment | Investment Return | Benchmark | Benchmark Return | Blended Age Based 0-3 Years Portfolio | Blended Age Based 4-6 Years Portfolio | Blended Age Based 7-8 Years Portfolio | Blended Age Based 9 Years Portfolio |
| Vanguard Total Stock Market Index | -13.67% | Vanguard Spliced Total Stock Market Index | -13.66% | 57.00% | 54.00% | 48.00% | 42.00% |
| Vanguard Total Intl Stock Market Index | -19.71% | Vanguard Spliced Total International Stock Index | -19.39% | 28.50% | 27.00% | 24.00% | 21.00% |
| Vanguard Total Bond Market Index | -11.73% | Vanguard Spliced Blmbg. US Agg Fld Adj (N) | -11.65% | 5.00% | 10.00% | 16.48% | 20.00% |
| DFA Inflation-Protected Securities | -6.44% | Blmbg. U.S. TIPS | -5.98% | 0.00% | 0.00% | 3.52% | 10.00% |
| Federated Hermes High Yield Bond | -10.61% | Blmbg. U.S. High Yield - 2% Issuer Cap | -10.61% | 4.75% | 4.50% | 4.00% | 3.50% |

TEXAS COLLEGE SAVINGS PLAN® AND LONESTAR 529 PLAN®

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED AUGUST 31, 2022

(Unaudited)

| | | | | | | | |
|---|------------------------------|---|-----------------------------|---|---|--|--|
| Eaton Vance Floating-Rate Fund | -1.46% | Morningstar LSTA US Leveraged Loan | 0.38% | 4.75% | 4.50% | 4.00% | 3.50% |
| NYL Guaranteed Interest | 1.64% | 90 Day U.S. Treasury Bill | 0.37% | 0.00% | 0.00% | 0.00% | 0.00% |
| Investment | Investment Return | Benchmark | Benchmark Return | Blended Age Based 10-11 Years Portfolio | Blended Age Based 12 Years Portfolio | Blended Age Based 13-14 Years Portfolio | Blended Age Based 15 Years and Over Portfolio |
| Vanguard Total Stock Market Index | -13.67% | Vanguard Spliced Total Stock Market Index | -13.66% | 36.00% | 30.00% | 24.00% | 18.00% |
| Vanguard Total Intl Stock Market Index | -19.71% | Vanguard Spliced Total International Stock Index | -19.39% | 18.00% | 15.00% | 12.00% | 9.00% |
| Vanguard Total Bond Market Index | -11.73% | Vanguard Splice Blmbg. US Agg Flt Adj (N) | -11.65% | 25.38% | 30.83% | 36.24% | 40.25% |
| DFA Inflation-Protected Securities | -6.44% | Blmbg. U.S. TIPS | -5.98% | 14.62% | 19.17% | 23.76% | 26.65% |
| Federated Hermes High Yield Bond | -10.61% | Blmbg. U.S. High Yield - 2% Issuer Cap | -10.61% | 3.00% | 2.50% | 2.00% | 1.50% |
| Eaton Vance Floating-Rate Fund | -1.46% | Morningstar LSTA US Leveraged Loan | 0.38% | 3.00% | 2.50% | 2.00% | 1.50% |
| NYL Guaranteed Interest | 1.64% | 90 Day U.S. Treasury Bill | 0.37% | 0.00% | 0.00% | 0.00% | 3.10% |
| Investment | Investment Return | Benchmark | Benchmark Return | Blended Age Based 16-17 Years and Over Portfolio | Blended Age Based 18+ Years and Over Portfolio | Conservative Allocation Portfolio | Balanced Allocation Portfolio |
| Vanguard Total Stock Market Index | -13.67% | Vanguard Spliced Total Stock Market Index | -13.66% | 12.00% | 6.00% | 15.00% | 42.00% |
| Vanguard Total Intl Stock Market Index | -19.71% | Vanguard Spliced Total International Stock Index | -19.39% | 6.00% | 3.00% | 7.00% | 21.00% |
| Vanguard Total Bond Market Index | -11.73% | Vanguard Splice Blmbg. US Agg Flt Adj (N) | -11.65% | 42.96% | 45.00% | 41.00% | 20.00% |
| DFA Inflation-Protected Securities | -6.44% | Blmbg. U.S. TIPS | -5.98% | 28.90% | 30.00% | 28.00% | 10.00% |
| Federated Hermes High Yield Bond | -10.61% | Blmbg. U.S. High Yield - 2% Issuer Cap | -10.61% | 1.00% | 0.50% | 1.50% | 3.50% |
| Eaton Vance Floating-Rate Fund | -1.46% | Morningstar LSTA US Leveraged Loan | 0.38% | 1.00% | 0.50% | 1.50% | 3.50% |

TEXAS COLLEGE SAVINGS PLAN® AND LONESTAR 529 PLAN®

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED AUGUST 31, 2022

(Unaudited)

| | | | | | | | |
|--|--------------------------|--|-------------------------|--|---|---|---------------------------------------|
| NYL Guaranteed Interest | 1.64% | 90 Day U.S. Treasury Bill | 0.37% | 8.14% | 15.00% | 6.00% | 0.00% |
| Investment | Investment Return | Benchmark | Benchmark Return | Aggressive Allocation Portfolio | Diversified Equity Portfolio | Diversified Fixed Income Portfolio | U.S. Bond Fund Portfolio |
| Vanguard Total Stock Market Index | -13.67% | Vanguard Spliced Total Stock Market Index | -13.66% | 51.00% | 67.00% | | |
| Vanguard Total Intl Stock Market Index | -19.71% | Vanguard Spliced Total International Stock Index | -19.39% | 25.00% | 33.00% | | |
| Vanguard Total Bond Market Index | -11.73% | Vanguard Spliced Blmbg. US Agg Fld Adj (N) | -11.65% | 14.00% | | 70.00% | 100.00% |
| DFA Inflation-Protected Securities | -6.44% | Blmbg. U.S. TIPS | -5.98% | 1.00% | | | |
| Federated Hermes High Yield Bond | -10.61% | Blmbg. U.S. High Yield - 2% Issuer Cap | -10.61% | 4.50% | | 15.00% | |
| Eaton Vance Floating-Rate Fund | -1.46% | Morningstar LSTA US Leveraged Loan | 0.38% | 4.50% | | 15.00% | |
| NYL Guaranteed Interest | 1.64% | 90 Day U.S. Treasury Bill | 0.37% | 0.00% | | | |
| Investment | Investment Return | Benchmark | Benchmark Return | US Stock Fund Portfolio | International Stock Fund Portfolio | Inflation Protection Portfolio | Capital Preservation Portfolio |
| Vanguard Total Stock Market Index | -13.67% | Vanguard Spliced Total Stock Market Index | -13.66% | 100.00% | | | |
| Vanguard Total Intl Stock Market Index | -19.71% | Vanguard Spliced Total International Stock Index | -19.39% | | 100.00% | | |
| DFA Inflation-Protected Securities | -6.44% | Blmbg. U.S. TIPS | -5.98% | | | 100.00% | |
| NYL Guaranteed Interest | 1.64% | 90 Day U.S. Treasury Bill | 0.37% | | | | 100.00% |

TEXAS COLLEGE SAVINGS PLAN® AND LONESTAR 529 PLAN®
COMBINED STATEMENT OF FIDUCIARY NET POSITION
AS OF AUGUST 31, 2022

Assets:

| | |
|--|-----------------------|
| Investments, at fair value (cost \$1,035,733,288.67) | \$ 911,637,882.85 |
| Cash and cash equivalents | 563,802.33 |
| Receivable for securities sold | 635,664.28 |
| Dividends and interest receivable | 591,638.65 |
| Contributions receivable | <u>1,162,434.13</u> |
| Total assets | <u>914,591,422.24</u> |

Liabilities and Net Position:

Liabilities:

| | |
|---|-----------------------|
| Cash overdraft | \$ 661,146.76 |
| Payables and other liabilities: | |
| Payable for securities purchased | 819,460.74 |
| Withdrawals payable | 1,208,588.47 |
| Accrued expenses | <u>319,901.25</u> |
| Total liabilities | <u>3,009,097.22</u> |
| Net position held in trust for participants | <u>911,582,325.02</u> |

See accompanying notes to the combined financial statements

TEXAS COLLEGE SAVINGS PLAN® AND LONESTAR 529 PLAN®
COMBINED STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED AUGUST 31, 2022

Investment income (expense):

| | |
|---|-------------------------|
| Dividends and interest | \$ 26,827,587.54 |
| Distributions received from underlying investment companies | 10,935,117.29 |
| Realized and unrealized loss on investments | (167,125,902.11) |
| Service fees | 23,838.76 |
| Management fees | (3,384,975.19) |
| Distribution fees | (751,858.61) |
| State administrative fees | (597,968.47) |
| Waiver and reimbursement of expenses | 53,580.22 |
| Net investment loss | <u>(134,020,580.57)</u> |

Participant transactions:

| | |
|---|---------------------------|
| Contributions from participants | 1,397,537,193.62 |
| Withdrawals to participants | <u>(1,385,911,792.43)</u> |
| Total increase from participant transactions | 11,625,401.19 |
| Total decrease in net position held in trust for participants | <u>(122,395,179.38)</u> |

Net Position:

| | |
|-------------------|--------------------------|
| Beginning of year | <u>1,033,977,504.40</u> |
| End of year | <u>\$ 911,582,325.02</u> |

See accompanying notes to the combined financial statements

TEXAS COLLEGE SAVINGS PLAN® AND LONESTAR 529 PLAN®

NOTES TO COMBINED FINANCIAL STATEMENTS

1. Nature of the Plans

The Texas College Savings Plan and the LoneStar 529 Plan (collectively known as the “Plans”) are fiduciary funds of the State of Texas which are administered by the Texas Prepaid Higher Education Tuition Board (the “Board”). The Board is the Trustee of the assets which are held in trust by the Texas Comptroller of Public Accounts (“Comptroller”). The Board is comprised of seven members with the Comptroller of Public Accounts serving as the presiding officer of the Board. Two Board members are appointed by the Governor and four members are appointed by the Lieutenant Governor, with two of the Lieutenant Governor’s appointees recommended by the Speaker of the Texas House of Representatives. The Plans are established under Section 529 of the Internal Revenue Code of 1986 as amended (“Section 529”) to allow individuals to contribute to savings accounts to pay for qualified education expenses. Any earnings are tax free if used for qualified education expenses. Orion Advisor Solutions, Inc. (“Orion” or the “Plan Manager”), serves as Plan Manager, responsible for the day-to-day operation and marketing of the Plans.

The Plans offer different asset allocation mixes to provide for investors that have different needs, time frames, and tolerances to risk. The Texas College Savings Plan is a direct-sold plan, while the LoneStar 529 Plan is advisor-sold. The current Plans include thirty-three advisor-sold and twenty direct-sold portfolios.

The LoneStar 529 Plan includes the following advisor-sold portfolios with each portfolio offered in two unit classes: Class A and Advisor Class. All classes of units have identical right to earnings and assets, except for class-specific expenses.

| LoneStar 529 Advisor-Sold Portfolios | |
|--|-------------------------------------|
| LoneStar 2022-2023 | LoneStar US Total Stock Market |
| LoneStar 2024-2025 | LoneStar Socially Responsible |
| LoneStar 2026-2027 | LoneStar Small-Cap |
| LoneStar 2028-2029 | LoneStar Passive International |
| LoneStar 2030-2031 | LoneStar Active International |
| LoneStar 2032-2033 | LoneStar Emerging Markets |
| LoneStar 2034-2035 | LoneStar Passive Bond |
| LoneStar 2036-2037 | LoneStar Active Bond |
| LoneStar 2038-2039 | LoneStar Inflation Protection |
| LoneStar Enrollment Year Target Date Portfolio | LoneStar Long-Term Fixed Income |
| LoneStar Aggressive Allocation | LoneStar Short-Term Fixed Income |
| LoneStar Balanced Allocation | LoneStar International Fixed Income |
| LoneStar Conservative Allocation | LoneStar High Yield Fixed Income |
| LoneStar Diversified Equity | LoneStar Real Estate |
| LoneStar Diversified Fixed Income | LoneStar Commodity |
| LoneStar US Growth | LoneStar Capital Preservation |
| LoneStar US Value | |

TEXAS COLLEGE SAVINGS PLAN® AND LONESTAR 529 PLAN®

NOTES TO COMBINED FINANCIAL STATEMENTS

| Texas College Savings Plan 529 Direct-Sold Portfolios | |
|---|------------------------------------|
| Blended Age Based 0-3 Years | Conservative Allocation Portfolio |
| Blended Age Based 4-6 Years | Balanced Allocation Portfolio |
| Blended Age Based 7-8 Years | Aggressive Allocation Portfolio |
| Blended Age Based 9 Years | Diversified Equity Portfolio |
| Blended Age Based 10-11 Years | Diversified Fixed Income Portfolio |
| Blended Age Based 12 Years | U.S. Bond Fund Portfolio |
| Blended Age Based 13-14 Years | US Stock Fund Portfolio |
| Blended Age Based 15 Years and Over | International Stock Fund Portfolio |
| Blended Age Based 16-17 Years and Over | Inflation Protection Portfolio |
| Blended Age Based 18+ Years and Over | Capital Preservation Portfolio |

2. Summary of Significant Accounting Policies

a) Basis of Presentation

The accompanying combined basic financial statements have been prepared using the “economic resources” measurement focus and accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as defined by the Governmental Accounting Standards Board (“GASB”). Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The combined financial statements include the combined statement of fiduciary net position, the combined statement of revenues, expenses and changes in fiduciary net position and notes to the combined financial statements. The combined statement of fiduciary net position is a measure of the Plans’ assets and liabilities at the close of the fiscal year. The combined statement of revenues, expenses and changes in fiduciary net position includes contributions to and withdrawals from the Plans, as well as additions and deductions due to administration of the Plans during the fiscal year.

The accompanying combined financial statements include each of the twenty portfolios of the Texas College Savings Plan and each of the thirty-three portfolios of the LoneStar 529 Plan. No significant accounts or transactions exist between the Plans.

b) Investment Valuation

The Plans record investments, other than money market funds, at fair value based on quoted market prices. Money market funds are reported at amortized cost. The difference between the cost basis and the fair value of investments is reflected as unrealized gain/(loss) on investments, and any change in that amount from previous fiscal year end is reflected in the accompanying combined statement of revenues, expenses and changes in fiduciary net position as realized and unrealized loss on investments, see note 4.

c) Investment Earnings

Investment transactions are recorded on trade date. Realized gains and losses on investments sold are recognized as the difference between proceeds received and the original cost basis as determined using first-in-first-out method. Dividend income is recorded on the ex-dividend date. Noncash dividends included in dividend income, if any, are recorded at fair market value of the noncash dividend as of the date received. Income and capital gain distributions from the underlying investments are recorded on the ex-dividend date. Dividend income is included

TEXAS COLLEGE SAVINGS PLAN® AND LONESTAR 529 PLAN®

NOTES TO COMBINED FINANCIAL STATEMENTS

in investment income and capital gain distributions received are included in realized and unrealized loss on investments in the accompanying combined statement of revenues, expenses and changes in fiduciary net position.

d) Income Taxes

The Plans were established under Section 529 of the Internal Revenue Code, which provides that the Plans shall be exempt from income taxes. Therefore, no income tax provision is required.

e) Contributions and Withdrawals

Contributions and withdrawals are recorded at the unit value determined on the valuation date following receipt of notice of the contribution or withdrawal. Contributions and withdrawals are subject to sufficient advance notifications as outlined in the Plan Description and Savings Trust Agreements. The Plans' unit values (net asset values) are determined daily.

f) Use of Estimates

The preparation of the combined 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 combined financial statements and the reported amounts of income and expenses during the reported period. Actual results could differ from those estimates.

3. Related-Party Transactions

Plan participants bear ongoing fees, which are charged against the participants' accounts, to provide for the cost associated with the distribution, servicing, and administration of the Plans. There are also asset-based fees and expenses charged by the underlying investment funds in which the Plans invest.

a) Management Fees

From the fees assessed against participants' accounts, the Plans paid a management fee based on the average daily net position of the Plans in combination with one other plan administered by the state, the Texas Tuition Promise Fund®, which is paid on a monthly basis to the Plan Manager for plan manager services at the following levels:

The following rates were effective prior to December 13, 2021 for the Texas College Savings Plan, and prior to March 7, 2022 for the LoneStar 529 Plan:

| Average Daily Total Net Position Under Management | Annual Management Fee % |
|---|-------------------------|
| Up to \$1.0B | 0.535% |
| In excess of \$1.0B, but less than \$2.5B | 0.485% |
| In excess of \$2.5B, but less than \$5.0B | 0.435% |
| In excess of \$5.0B | 0.385% |

TEXAS COLLEGE SAVINGS PLAN® AND LONESTAR 529 PLAN®

NOTES TO COMBINED FINANCIAL STATEMENTS

The following rates were effective on December 13, 2021 for the Texas College Savings Plan, on March 7, 2022 for the LoneStar 529 Plan:

| Texas College Savings Plan | |
|---|-------------------------|
| Average Daily Total Net Position Under Management | Annual Management Fee % |
| Up to \$1.0B | 0.25% |
| In excess of \$1.0B, but less than \$2.0B | 0.24% |
| In excess of \$2.5B, but less than \$3.0B | 0.2325% |
| In excess of \$3.0B | 0.225% |

| LoneStar 529 Plan | |
|---|-------------------------|
| Average Daily Total Net Position Under Management | Annual Management Fee % |
| Up to \$0.5B | 0.28% |
| In excess of \$0.5B, but less than \$1.0B | 0.27% |
| In excess of \$1.0B, but less than \$1.5B | 0.2625% |
| In excess of \$1.5B | 0.255% |

The asset management fee was \$3,384,975.19 for the year ended August 31, 2022.

b) State Administrative Fees

Prior to December 13, 2021 for the Texas College Savings Plan, and prior to March 7, 2022 for the LoneStar 529 Plan, from the fees assessed against participants' accounts, an administrative fee at the annual rate of 0.0843% of the average daily net position of the Plans is paid to the Board on a monthly basis, to offset the Board's costs of administering the Plans on all portfolios except the eight index portfolios, which do not incur an administrative fee.

Effective on December 13, 2021 for the Texas College Savings Plan, and on March 7, 2022 for the LoneStar 529 Plan, from the fees assessed against participants' accounts, an administrative fee at the annual rate of 0.06% of the average daily net position of the Plans is paid to the Board on a monthly basis, to offset the Board's costs of administering the Plans.

The administrative fee was \$597,968.47 for the year ended August 31, 2022.

c) Distribution Fees

Northern Lights Distributor, LLC, (the "Plan Distributor") is a subcontractor of the Plan Manager. The distribution fee, which varies based on participant class, as a percentage of the average daily net position of the participant class, is paid to the Plan Distributor on a monthly basis.

Financial advisors and brokers who sell Class A units receive ongoing compensation, which is paid by the Plan Manager or one of its affiliates, of 0.25% (beginning in the first month after the contribution is made) of the average daily net position of Class A units sold by such financial advisor or broker in accounts.

TEXAS COLLEGE SAVINGS PLAN® AND LONESTAR 529 PLAN®

NOTES TO COMBINED FINANCIAL STATEMENTS

Financial advisors and brokers who sold Advisor Class units before they were combined into Class A units on March 7, 2022 received ongoing compensation, which was paid by the Plan Manager or one of its affiliates, of 1.00% of the average daily net position of Advisor Class units sold by such financial advisor or broker in accounts commencing 13 months following the purchase of such Advisor Class units.

The distribution fee was \$751,858.61 for the year ended August 31, 2022.

d) Sales Charges

Front-end sales charges and contingent deferred sales charges (“CDSC”) do not represent expenses of the account owners. They are deducted from the proceeds of the sales of units prior to investment or from withdrawal proceeds prior to remittance, as applicable. Prior to March 7, 2022, Class A units included a maximum initial sales charge of 5.75%. Effective March 7, 2022, Class A units include a maximum initial sales charge of 2.75%. Advisor Class units included the CDSC of 1.00% for the first year. RIA and Direct-sold units are sold at their offering price, which is the net position value per unit without any initial sales charge.

4. Investments

The Plans invest primarily in investments of registered mutual funds which include: DFA Inflation Protected Securities, Eaton Vance Floating-Rate Fund, Federated Hermes Institutional High Yield, PIMCO International Bond (USD-Hdg), PIMCO Total Return, Vanguard Long-Term Treasury Index, Vanguard Total Bond Market Index, Artisan Value Fund, Baird Short-Term Bond, DFA US Small Cap Portfolio, Dodge & Cox International Stock Fund, T. Rowe Price Large Cap Growth Fund, Dodge & Cox Global Stock, Neuberger Berman Emerging Markets Equity, PIMCO Commodity Real Return, Vanguard Total Inst. Stock Index, T. Rowe Price Global Growth Stock, Vanguard FTSE Social Index, Vanguard Real Estate Index, Vanguard Total Stock Market Index Fund Institutional Plus Shares.

TEXAS COLLEGE SAVINGS PLAN® AND LONESTAR 529 PLAN®

NOTES TO COMBINED FINANCIAL STATEMENTS

The fair value of investments held, and the corresponding shares owned as of August 31, 2022 were as follows:

| | Shares | Fair Value |
|--|------------|-----------------------|
| Fixed income mutual fund investments: | | |
| DFA Inflation Protected Securities | 11,507,381 | \$ 136,707,691.76 |
| Eaton Vance Floating-Rate Fund | 1,628,512 | 13,630,648.61 |
| Federated Hermes Institutional High Yield | 1,563,532 | 13,290,021.36 |
| PIMCO International Bond (USD-Hdg) | 374 | 3,647.27 |
| PIMCO Total Return | 2,391,794 | 21,310,882.15 |
| Vanguard Long-Term Treasury Index | 46 | 1,061.42 |
| Vanguard Total Bond Market Index | 19,916,763 | 195,582,612.39 |
| | | <u>380,526,564.96</u> |
| Equity mutual fund investments: | | |
| Artisan Value Fund | 876,968 | 11,619,825.40 |
| Baird Short-Term Bond | 6,642 | 61,836.74 |
| DFA US Small Cap Portfolio | 228,714 | 9,253,761.79 |
| Dodge & Cox International Stock Fund | 151,931 | 6,347,663.47 |
| T. Rowe Price Large Cap Growth Fund | 533,036 | 27,963,086.02 |
| Dodge & Cox Global Stock | 770,541 | 10,271,317.03 |
| Neuberger Berman Emerging Markets Equity | 3,938 | 69,537.91 |
| PIMCO Commodity Real Return | 15,827 | 103,191.71 |
| Vanguard Total Inst. Stock Index | 1,092,106 | 120,022,469.85 |
| T. Rowe Price Global Growth Stock | 323,823 | 10,304,035.10 |
| Vanguard FTSE Social Index | 77,117 | 2,834,809.23 |
| Vanguard Real Estate Index | 165,548 | 3,377,171.35 |
| Vanguard Total Stock Market Index Fund Institutional Plus Shares | 1,465,547 | 265,659,614.05 |
| | | <u>467,888,319.65</u> |
| Short Term Investments: | | |
| New York Life Guaranteed Interest | 63,222,998 | <u>63,222,998.24</u> |
| | | <u>911,637,882.85</u> |
| Investments, at fair value (cost \$1,035,733,288.67) | | \$ |

The Plans utilize various methods to measure the fair value of investments on a recurring basis. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB Statement No. 72, Fair Value Measurement and Application, establishes a hierarchy that prioritizes inputs to valuation methods. The three levels of input are:

Level 1 – Unadjusted quoted prices in active markets for identical assets and liabilities that the Plans have the ability to access.

Level 2 – Observable inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs may include quoted prices for the identical instrument in an inactive market, prices for similar instruments, interest rates, prepayment speeds, credit risk, yield curves, default rates and similar data.

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Level 3 – Unobservable inputs for the asset or liability, to the extent relevant observable inputs are not available, representing the Plans’ own assumptions about the assumptions a market participant would use in valuing the asset or liability, and would be based on the best information available.

The availability of observable inputs can vary from security to security and is affected by a wide variety of factors, including, for example, the type of security, whether the security is new and not yet established in the marketplace, the liquidity of markets, and other characteristics particular to the security. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3.

The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety, is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The following tables summarize the inputs used as of August 31, 2022 for the Plans’ assets and liabilities measured at fair value:

| Assets | Totals | Level 1 | Level 2 | Level 3 |
|--------------------------------------|-------------------|-------------------|---------|---------|
| Fixed income mutual fund investments | \$ 380,526,564.96 | \$ 380,526,564.96 | - | - |
| Equity mutual fund investments | 467,888,319.65 | 467,888,319.65 | - | - |
| Short Term Investments | 63,222,998.24 | 63,222,998.24 | - | - |
| Total | \$ 911,637,882.85 | \$ 911,637,882.85 | - | - |

There were no transfers between levels during the current period presented. It is the Plans’ policy to record transfers into and out of any level at the end of the reporting period. The Plan did not hold any Level 2 or Level 3 securities during the period.

Certain investments are subject to investment risk based on the amount of risk in the underlying investments. GASB Statement No. 40, *Deposit and Investment Risk Disclosures* requires that entities disclose essential risk information about deposits and investments. The Plan Description and Savings Trust Agreements provide greater detail about the investment policies and practices of the Plans.

a) Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Plans will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. None of the Plans’ deposits as of August 31, 2022 were exposed to custodial credit risk. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Plans will not be able to recover the value of investment or collateral securities that are in the possession of the outside party. Constellation Trust Company, the Custodian, is an affiliate of the Plan Manager. Other than cash, all investments are held direct to the Plans. The Plans do not have a formal policy for limiting its exposure to custodial credit risk. Because the Plans’ investments are generally in mutual funds, this risk is significantly mitigated.

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b) Credit Risk

Credit risk is the risk that an issuer or other counterparty of an investment will not fulfill its obligations. In order to monitor credit risk, on a quarterly basis the Board utilizes an investment consultant to review and report to the Board detailed performance reporting and risk assessments on each of the underlying holdings of the Plans. The Plans invest directly in mutual funds, which are registered under the Investment Company Act of 1940 (“40 Act”). Each mutual fund’s prospectus provides greater detail about the investment strategies and practices of the mutual funds, in compliance with federal regulations and specifically, the Form N-1A of the 40 Act. Form N-1A discloses information and policies about the mutual funds and its investment objectives, as well as information on the company structure and operations.

The Plans’ investment pools had the following credit risk structure as of August 31, 2022 based on the Nationally Recognized Statistical Rating Organization (NSRO). Data obtained from Morningstar:

| | DFA Inflation Protected Securities Portfolio | Eaton Vance Floating-Rate Fund | Federated Hermes Institutional High Yield |
|-----------|---|---------------------------------------|--|
| AAA | 100.00% | 0.00% | 2.80% |
| AA | 0.00% | 0.00% | 0.00% |
| A | 0.00% | 0.00% | 0.00% |
| BBB | 0.00% | 2.13% | 1.60% |
| BB | 0.00% | 25.98% | 27.90% |
| B | 0.00% | 59.53% | 41.80% |
| Below B | 0.00% | 4.57% | 24.90% |
| Not Rated | 0.00% | 7.79% | 1.00% |

| | PIMCO International Bond (USD-Hdg) | PIMCO Total Return | Vanguard Long-Term Treasury Index |
|-----------|---|---------------------------|--|
| AAA | 92.90% | 61.76% | 99.99% |
| AA | 2.24% | 9.14% | 0.00% |
| A | 2.79% | 5.72% | 0.00% |
| BBB | 1.42% | 12.62% | 0.00% |
| BB | 0.25% | 7.29% | 0.00% |
| B | 0.10% | 1.57% | 0.00% |
| Below B | 0.30% | 1.91% | 0.00% |
| Not Rated | 0.00% | 0.00% | 0.01% |

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| | Vanguard Total Bond Market Index |
|-----------|-------------------------------------|
| AAA | 70.91% |
| AA | 2.98% |
| A | 11.77% |
| BBB | 14.27% |
| BB | 0.00% |
| B | 0.00% |
| Below B | 0.09% |
| Not Rated | -0.02% |

The credit risk ratings presented above relate to each of the fixed income mutual funds' underlying portfolio holdings as of August 31, 2022. Mutual funds themselves are unrated.

c) Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. As of August 31, 2022, all investments held by the Plans were in mutual funds or other pooled investments, therefore the Plans did not have any investments subject to the concentration of credit risk.

d) Interest Rate Risk

Interest rate risk refers to the value fluctuations of fixed-income securities resulting from the inverse relationship between price and yield. The market value fluctuations of fixed-income securities that the Plans already hold will not affect the interest payable on those securities. However, the fluctuations will affect the market value and in turn will affect the Plans' net position. In order to monitor interest rate risk, on a quarterly basis the Board utilizes an investment consultant to review and report to the Board detailed performance reporting and risk assessments on each of the underlying holdings of the Plans.

The Plans' investment pools had the following interest rate risk structure as of August 31, 2022:

| Holding | Duration in Years ¹ |
|--|--------------------------------|
| DFA Inflation Protected Securities Portfolio | 7.11 |
| Eaton Vance Floating-Rate Fund | 0.36 |
| Federated Hermes Institutional High Yield | 4.50 |
| PIMCO International Bond (USD-Hdg) | 6.67 |
| PIMCO Total Return | 5.49 |
| Vanguard Long-Term Treasury Index | 16.75 |
| Vanguard Total Bond Market Index | 6.67 |

¹ Measure of the sensitivity of the price to a change in interest rates, expressed in years.

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e) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment in a foreign financial institution. In order to monitor foreign currency risk, on a quarterly basis the Board utilizes an investment consultant to review and report to the Board detailed performance reporting and risk assessments on each of the underlying holdings of the Plans. The registered underlying investments' prospectuses provide greater detail about the investment strategies and practices of the underlying investments, in compliance with federal regulations and specifically, the Form N-1A of the Investment Company Act of 1940. Form N-1A discloses information and policies about the underlying investment and its investment objectives, as well as information on the company structure and operations. The Plans are not exposed to foreign currency risks.

f) Coronavirus (COVID-19) Pandemic and General Geopolitical Unrest

Since early 2020, the worldwide COVID-19 pandemic has severely stressed the health care and public health systems of countries worldwide, with resulting disruption of world economies. The extent or duration of these impacts are still being experienced and cannot be predicted. Governments worldwide are unable to completely control or eliminate either the pandemic or its severe adverse impacts on daily life and world economies, including the securities markets. The adverse consequences of COVID-19 will persist.

General geopolitical unrest, including terrorist attacks, military conflicts, and related events, such as commodity shortages, supply-chain disruptions, and inflation, have led to increased short-term market volatility and may have long-term effects on U.S. and world economies and markets. The program does not know the extent to which and how long the securities markets may be affected by such events and cannot predict the effects of such events on the economies of the U.S., or of other countries, or on investment option or underlying investment values.

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5. Participant Transactions

Participant unit transactions for each class of shares within the Plans, including the corresponding unit activity for the year ended August 31, 2022, and balances outstanding as of August 31, 2022 were as follows:

| | Units | | Value |
|-------------------------------|--------------|----|--------------------|
| Class A: | | | |
| Balance as of August 31, 2021 | 10,144,196 | \$ | 212,269,854.78 |
| Contributions | 26,141,648 | \$ | 270,105,249.76 |
| Withdrawals | (13,494,660) | \$ | (241,205,127.31) |
| Balance as of August 31, 2022 | 22,791,184 | \$ | 209,302,119.38 |
| RIA Class: | | | |
| Balance as of August 31, 2021 | - | \$ | - |
| Contributions | 7,739 | \$ | 74,320.00 |
| Withdrawals | (33) | \$ | (330.00) |
| Balance as of August 31, 2022 | 7,706 | \$ | 70,484.39 |
| Advisor Class: | | | |
| Balance as of August 31, 2021 | 2,508,597 | \$ | 47,139,962.50 |
| Contributions | 352,395 | \$ | 5,068,008.40 |
| Withdrawals | (2,860,992) | \$ | (48,888,793.88) |
| Balance as of August 31, 2022 | - | \$ | - |
| Direct Sold Class: | | | |
| Balance as of August 31, 2021 | 38,897,550 | \$ | 774,567,687.12 |
| Contributions | 110,852,470 | \$ | 1,122,289,615.46 |
| Withdrawals | (69,590,087) | \$ | (1,095,817,541.24) |
| Balance as of August 31, 2022 | 80,159,933 | \$ | 702,209,721.25 |
| Total: | | | |
| Balance as of August 31, 2021 | 51,550,343 | \$ | 1,033,977,504.40 |
| Contributions | 137,354,252 | \$ | 1,397,537,193.62 |
| Withdrawals | (85,945,772) | \$ | (1,385,911,792.43) |
| Balance as of August 31, 2022 | 102,958,823 | \$ | 911,582,325.02 |

6. Subsequent Events

Subsequent events after the date of the combined statement of fiduciary net position have been evaluated through November 3, 2022 the date the combined financial statements were available to be issued. Management has concluded there are no subsequent events requiring adjustment or disclosure in the combined financial statements.