



Texas Capital Texas Equity Index

Tracking Texas, the Fastest Growing State Economy

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Key Takeaways

- Texas has the fastest growing economy in the U.S. with a 7.7% real GDP growth rate reported as of Q3 2023.[1]
- Texas is home to more Fortune 500 companies than any other state, and on a standalone basis would be one of the 10 largest countries in the world based on GDP.
- The Texas Capital Texas Equity Index provides the ability to measure the growing economic activity of the state by owning public companies headquartered in Texas. The growth in revenue and earnings per share of the companies in the Index compares favorably to the benchmark.
- Based on the volume and diversity of businesses headquartered in Texas, the Index can be considered a strong core position in a portfolio or as a complement to a more technology-heavy index such as the S&P 500.

Overview

Texans are not shy to let the world know that Texas is booming. It is the fastest growing state in the union, and according to the US Census Bureau estimates, roughly 475,000 people moved to Texas in 2023. That's about 1,300 people each day.[2] Companies are moving as well: in the past five years industry leading firms like Tesla, Caterpillar, Charles Schwab, AT&T, and Hewlett Packard have moved their headquarters to Texas. As a result of this trend, Texas is now the home of 55 Fortune 500 companies[3], more than any other state. The Texas economy is large and diversified – if Texas was a country, it would be the 8th largest economy in the world with a GDP of \$2.4 trillion, surpassing Brazil, Italy, Russia, and South Korea.[4]

There are a number of positive factors contributing to this migration of people and companies to Texas, including:

- Texas does not impose either an individual or corporate state income tax.
- A favorable business environment and attractive benefits for corporate relocations.
- A skilled workforce and access to higher education.
- Lower cost of living, particularly when compared to California and New York.

[1] Economy of Texas Statistics and Data Trends: GDP ranking, unemployment rate, and economic growth | USAFacts

[2] Texas gained more people than any other state in the last year

[3] Texas Fortune 500 Companies List 2023

[4] Why Texas is the Best State for Business



Recognizing the dynamic nature of the Texas economy, and its attractive positioning looking forward, Texas Capital Bank created the Texas Capital Texas Equity Index (index symbol: SYTXSX), calculated and maintained by Syntax, to provide investors access to companies headquartered in the state of Texas. The index is designed to reflect the performance of a diversified group of companies that are representative of the Texas economy by using GDP-based sector weights and market capitalization-based company weights. The Index selects eligible Texas companies that meet the investment criteria from the Syntax 3000 universe of public companies, which is representative of the broad U.S. stock market.

This paper will review the constituents and performance of SYTXSX as of March 31, 2024, and provide insights into the characteristics of the businesses found in this index.

Texas Capital Texas Equity Index

The analysis starts by looking at the weights of the Index to the eight primary sectors within Syntax's proprietary FIS Industry classification system, and drills down into sub-sectors descriptions that are more informative regarding the underlying business exposures. The weights shown in Exhibit 1 are based on product line detail, allocating companies to multiple sectors pro-rata to their revenue generated from each sector, which adds a layer of precision when compared to the normal industry practice of classifying companies by only their primary business line.

Given the history of Texas, it is not surprising to see Energy as the largest sector with a weight of 22%, of which 20% is tied to the Oil & Gas sub-sector. But Texas does a lot more today than just produce energy, as highlighted by the roughly 80% of the index allocated to businesses outside the Energy sector.

The weight to Energy is interesting from several perspectives. Compared to the importance of energy to the US economy, it is often underrepresented in most portfolios. For example, the weight to Oil & Gas in the S&P 500 is around 4.1%, compared to 20.3% in the SYTXSX Index. From this perspective, the Index can be viewed as a complement to the S&P 500. If the exposure to Oil & Gas is a concern, it should be noted that the Index has more exposure to the Syntax Clean Energy Transition Opportunity Lens (6.6%) than the S&P 500 (3.8%). This Syntax Lens captures the exposure to renewable energy, electric vehicles, batteries, fuel cells and other technology and services that support the reduction in greenhouse gases, including major players like Tesla.

Exhibit 1: SYTXSX Sector and Sub-Sector Weights

Sector (Sub-Sector)	% Index
Energy	22.2%
Oil and Gas	20.3%
Utilities	1.9%
Financials	15.4%
Real Estate	8.9%
Banking	4.7%
Insurance	1.8%
Industrials	12.8%
Services	9.1%
Equipment	1.5%
Materials	1.2%
Components	1.0%
Information	12.3%
Commercial Information Services	5.9%
Internet Services and Websites	4.4%
Media and Telecommunications	2.0%
Consumer	12.0%
Transportation	6.1%
Equipment and Services	4.6%
Apparel and Accessories	0.9%
Household and Personal Care	0.4%
Healthcare	10.6%
Consumer Healthcare	6.5%
Healthcare Industry	3.9%
Pharmaceuticals	0.2%
Information Tools	9.0%
Software	7.0%
Integrated Circuits	1.4%
IT Hardware	0.6%
Food	5.6%
Food Sales	5.5%
Food Production	0.1%

Sector and sub-sector weights as of 3.31.24 based on product line exposures and Syntax FIS industry classification system. Source: Syntax

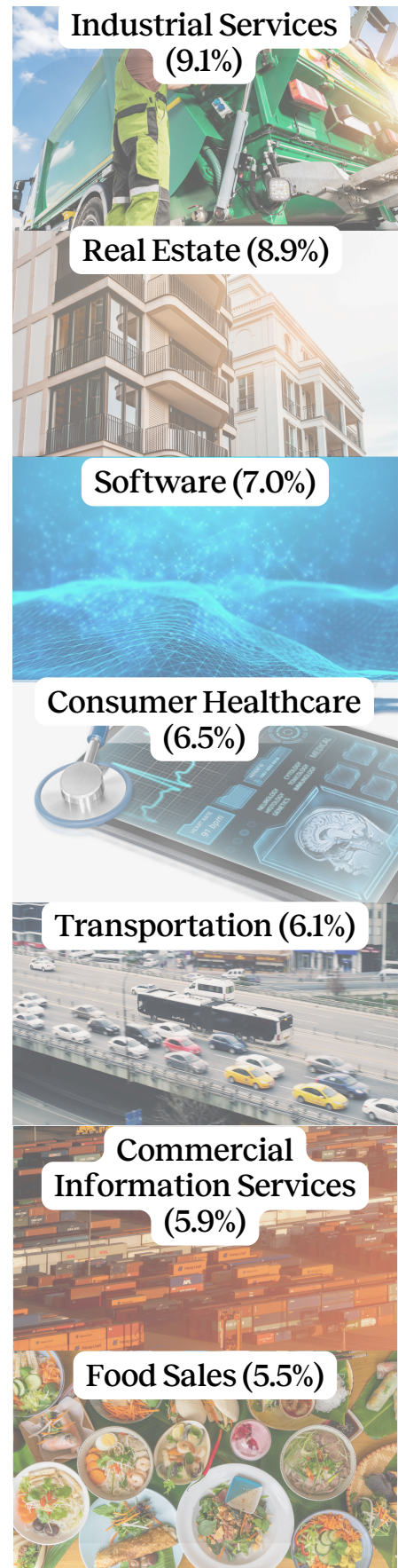


Overall, the Index is well diversified. The meaningful weight to Energy at 22% is complemented by index holdings in seven subsectors with weights of between 5% and 10% that comprise 49% of the portfolio. Other large exposures include:

- **Industrial Services (9.1%):** This is a diversified group of companies led by Waste Management (3.5%), Quanta Services (1.8%) a provider of infrastructure solutions for electric and gas utilities, and Caterpillar Inc. (1.4%) a leading manufacturer of construction and mining equipment.
- **Real Estate (8.9%):** Includes exposure to Crown Castle (3.6%, discussed further in the next section), D.R. Horton (2.2%) a home building company, and Invitation Homes (1.6%) a leading single family home leasing and real estate management company.
- **Software (7.0%):** CrowdStrike (4.0%) is a cybersecurity company, Oracle (2.2%) and Tyler Technologies (0.9%) are the other notable software companies headquartered in Texas found in the Index.
- **Consumer Healthcare (6.5%):** Led by Tenet Healthcare (4.2%) a diversified healthcare services company focused on Hospital Operations and Services, and Ambulatory Care. Tenet is the largest position in the Index.
- **Transportation (6.1%):** This is driven by the 3.7% weight to Tesla.
- **Commercial Information Services (5.9%):** CBRE Group (2.3%) is the largest company in this segment, the balance is diversified across companies that provide services like asset management and IT support and consulting.
- **Food Sales (5.5%):** The two primary index constituents are Wingstop (2.3%) a 2000 store restaurant chain, and Sysco Corporation (2.3%) a leading food distributor.

To quantify the diversification benefits of the Texas Capital Texas Equity Index, we calculated its active share^[5] relative to the S&P 500 as of March 31, 2024. The analysis shows the Index has an active share of 92.7%. Stated alternatively, there is roughly a 7% overlap in the stocks held between these two indices.

The Index has 218 holdings as of March 31, 2024. Exhibit 2 profiles the top 10 holdings in the Index, and includes each company's weight, their sector, sub-sector, and primary business. This group makes up 36% of the Index.



[5] Active share is a measure of the percentage of stock holdings in an index or portfolio that differs from the benchmark.



Exhibit 2: SYTXSX Top Ten Holdings by Sector, Sub-Sector and Primary Business

Rank	Company	% Index	Sector	Sub-Sector	Primary Business
1	Tenet Healthcare Corp	4.2%	Healthcare	Consumer Healthcare	General Medical Services; Private Insurance
2	CrowdStrike Holdings Inc	4.0%	Information Tools	Software	Cloud Security Software for Businesses and Governments
3	McKesson Corp	3.8%	Healthcare	Healthcare Industry	Pharmaceutical Distribution to Pharmacies
4	Tesla Inc	3.7%	Consumer	Consumer Transportation	Electric Automobiles; Direct Sales
5	Digital Realty Trust Inc	3.7%	Information	Internet Services and Websites	Cloud Services
6	Crown Castle Inc	3.6%	Financials	Real Estate	Communication Tower Lessor
7	Schwab (Charles) Corp	3.6%	Financials	Banking	Securities Broker for Businesses and Consumers
8	Exxon Mobil Corp	3.5%	Energy	Oil & Gas	Integrated Oil & Refined Fuel Production
9	Waste Management Inc.	3.5%	Industrials	Industrial Services	Non-Hazardous Waste Collection
10	CRBE Group	2.3%	Information	Commercial Information	Property Management
Total		36.0%			

Source: Syntax Affinity Platform

We have included each company's sub-sector and primary business line to help illustrate that two companies that share the same sector can have businesses that are quite different. As an example, consider two companies in the Financials sector, Crown Castle and Charles Schwab.

- Crown Castle's sub-sector is Real Estate, and its primary business is Leasing Communication Towers. The company therefore can be viewed as providing investors with exposure to infrastructure (cell towers) and being a service provider to tech driven telecommunication firms.
- Charles Schwab's sub-sector is Banking. However, its primary business is as a Securities Brokerage firm, which has business traits that are very different than the banks and insurance companies most people often equate to the Financials sector.

The remaining companies in the top 10 are a diversified group with an overlap of just two top ten companies in the S&P 500: Tesla and ExxonMobil. Notably, the technology bias found in the top holdings of the S&P 500 and that index overall is not found in the SYTXSX. The exposure to technology, as measured by Syntax's Technology Lens, is 18.4% for SYTXSX vs. 45.8% for the S&P 500 when looking across all sectors and product lines. But a lower exposure to technology doesn't mean giving up on growth.

Revenue and Earnings Per Share Growth

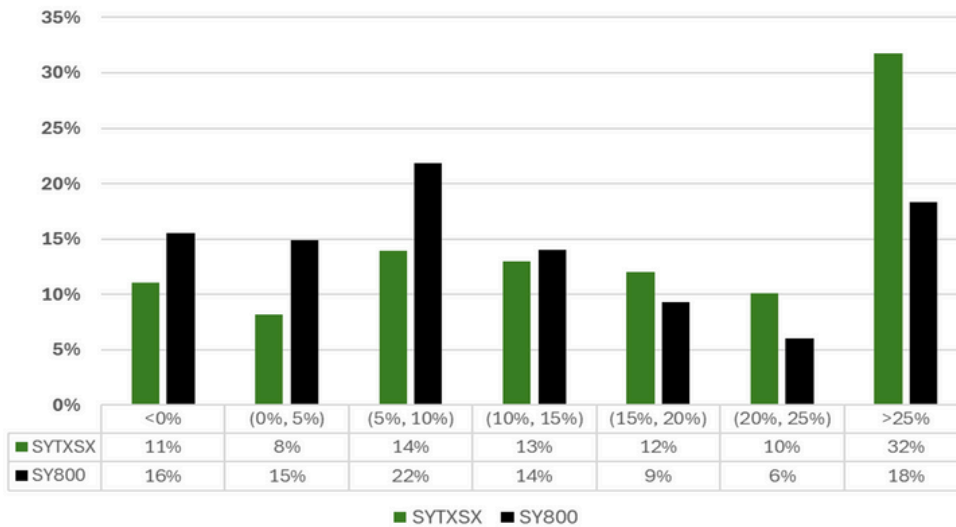
One of the appealing factors of Texas as a state is its growth rate. In this section we look at the growth in revenue and earnings per share (EPS) for the constituents of the SYTXSX Index and compare the results to those of its Syntax 800 benchmark. This benchmark is used as a proxy for the overall capitalization profile of the SYTXSX Index which holds large-, mid-, and small-cap companies.

To assess the growth in revenue, we annualized the sales growth over the trailing three years. It is important to note the starting point for measuring revenue and EPS growth was a period when the results for companies could be adversely impacted by the COVID Pandemic.



Exhibit 3 shows that SYTXSX had a favorable growth relative to its benchmark, the Syntax MidCap 800 Index (SY800), with the average company in the Index experiencing 11.1% revenue growth vs. 8.9% in the SY800 benchmark. The exhibit shows SYTXSX had fewer companies with negative revenue growth (11% of its companies vs. 16% in the benchmark) and a higher percentage with annualized revenue growth in excess of 25% (32% of its companies vs. 18% in the benchmark).

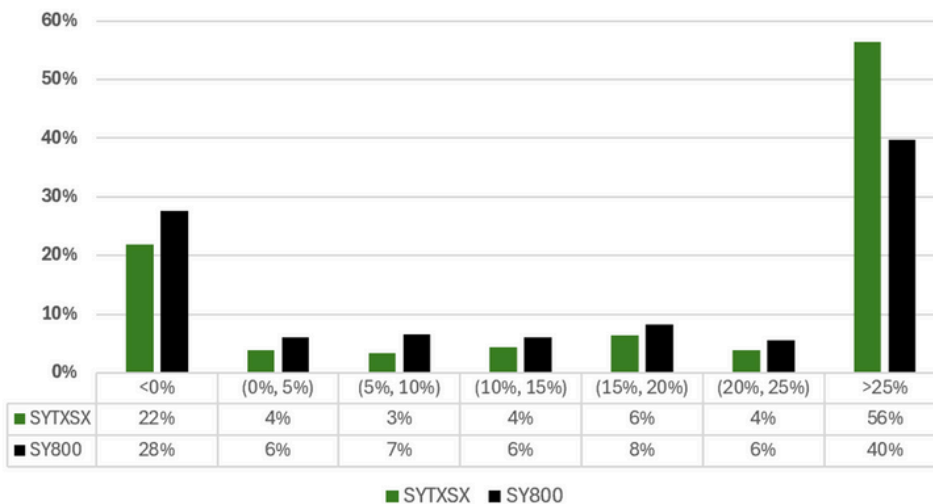
Exhibit 3: SYTXSX Trailing 3 Years Revenue Growth Annualized vs. Syntax US MidCap 800 Index (SY800)



Distribution of annualized trailing 3-year revenue growth of constituents of SYTXSX and SY800 as of 3.31.24. Source: Syntax, LSEG Data & Analytics

The story is similar for the growth in EPS: SYTXSX had a smaller percentage of companies with negative earnings growth than the benchmark (22% vs. 28%, respectively), and a higher percentage of companies with greater than 25% EPS growth (56%) relative to the benchmark (40%).

Exhibit 4: SYTXSX Trailing 3 Years EPS Growth Annualized vs. Syntax US MidCap 800 Index (SY800)



Distribution of annualized trailing 3-year EPS growth of constituents of SYTXSX and SY800 as of 3.31.24. Source: Syntax, LSEG Data & Analytics



Performance

To assess the effectiveness of the Index, we conducted a backtest from September 2005 through the Index's March 30, 2023, inception date and including live performance through March 31, 2024. Exhibit 5 shows the growth of a hypothetical \$10,000 investment in the Index and the Syntax MidCap 800 Index.

Exhibit 5: Growth of a Hypothetical \$10,000 Investment: Texas Capital Texas Equity Index vs. Syntax US MidCap 800 Index



Gross Total Return, 9.16.2005 - 3.31.2024. Performance does not reflect fees, taxes, or implementation costs as an investor cannot directly invest in an index. Please see important disclaimers regarding backtested data prior to index inception. Source: Syntax

The SYTXSX Index posted an annualized since inception return of 10.53% vs 9.68% for the Syntax benchmark, an outperformance of 0.85% per year. Exhibit 5 shows the cumulative return of a hypothetical \$10,000 investment in the SYTXSX Index in September of 2005 would have returned in total \$64,042 as of March 31, 2024, compared to \$55,314 for the Syntax benchmark, a cumulative increase of 16% over the benchmark.

Conclusion

The Texas economy is large, diverse, and growing. On a standalone basis, Texas would be one of the ten largest economies in the world. The state's economy continues to be robust, and its business climate continues to attract people and companies. The Texas Capital Texas Equity Index was designed to be representative of the economic activity of the state as accessed through an index of public companies headquartered in Texas. Like Texas, the Texas Capital Equity has favorable revenue and earnings per share growth characteristics. Given the robust nature of the Texas economy and the wide range of business opportunities present, the Index is a strong core position in a portfolio or as a complement to a broad range of tech focused ETFs as well as the S&P 500 index with its individual security concentration risk in technology driven stocks such as Apple, Microsoft, NVIDIA and Amazon.



About Syntax

Syntax LLC is a financial data and technology company that codifies business models. Syntax operates through three segments: Company Data, Wealth Technology, and Financial Indices. Using its patented FIS® technology inspired by systems sciences, the Company Data segment offers the most comprehensive, granular, and accurate product line revenue data available on the market. The Wealth Technology segment then uses this abundance of data to facilitate the instantaneous creation and ongoing management of direct indexing solutions and rules-based equity portfolios through a fully automated platform. The Financial Indices segment enables Syntax to deliver customized and proprietary indices, including core global benchmarks and micro- and macro-thematic, smart beta, defined outcome, and target volatility indices. These indices are foundational for a range of financial products, such as ETFs, UITs, and structured products. Learn more at www.syntaxdata.com.

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Past performance is no guarantee of future results. All performance presented prior to the inception date is backtested performance. Backtested performance is not actual performance but is hypothetical. The inception date of the Texas Capital Texas Equity Index was March 30, 2023. The backtest calculations for Index is based on the same methodology that was in effect when the index was officially launched. Back-tested data may reflect the application of the index methodology with the benefit of hindsight, and the historic calculations of an index may change from month to month based on revisions to the underlying economic data used in the calculation of the index.

Index performance does not represent actual fund or portfolio performance and such performance does not reflect the actual investment experience of any investor. An investor cannot invest directly in an index. In addition, the results actual investors might have achieved would have differed from those shown because of differences in the timing, amounts of their investments, and fees and expenses associated with an investment in a portfolio invested in accordance with an index. None of the Syntax Indices or the benchmark indices portrayed herein charge management fees or incur brokerage expenses, and no such fees or expenses were deducted from the performance shown; provided, however, that the returns of any investment portfolio invested in accordance with such indices would be net of such fees and expenses. Additionally, none of such indices lend securities, and no revenues from securities lending were added to the performance shown.

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