

**Report of the State Board of Education  
Committee on School Finance/Permanent School Fund  
Thursday, September 2, 2021**

The State Board of Education Committee on School Finance/Permanent School Fund met at 9:12 a.m. on Thursday, September 2, 2021, in the State Board of Education Room, Room #1-104 of the William B. Travis Building, 1701 N. Congress Avenue, Austin, Texas. Attendance was noted as follows:

Present: Tom Maynard, chair; Lawrence A. Allen, Jr., vice chair (virtual); Keven Ellis; Patricia Hardy; Marisa Perez-Diaz

Non-Committee Members Present: Rebecca Bell-Metereau; Will Hickman

**Public Testimony**

The Committee on School Finance/Permanent School Fund heard public testimony on agenda item #8. Information regarding the individual who presented public testimony is included in the discussion of that item.

**DISCUSSION ITEM**

**1. Per Capita Apportionment Rate for the 2021-2022 School Year**  
(Board agenda page III-1)

Leo Lopez, associate commissioner, school finance, explained the background of the per capita apportionment rate. Mr. Lopez stated that the preliminary 2021–2022 per capita apportionment rate is set at \$402.428.

**ACTION ITEM**

**2. Proposed Amendment to 19 TAC Chapter 109, Budgeting, Accounting, and Auditing, Subchapter B, Texas Education Agency Audit Functions, §109.25, State Compensatory Education Program Reporting and Auditing System**  
(Second Reading and Final Adoption)  
(Board agenda page III-3)

David Marx, director, financial compliance division, explained that the proposed amendment would update references to statutory citations in 19 Texas Administrative Code (TAC) §109.25 that were renumbered by House Bill (HB) 3, 86th Texas Legislature, 2019. He also explained that no changes were recommended since approved for first reading. He shared that one public comment was received. Mr. Maynard recommended that this item be moved from the consent agenda so that the SBOE could take a record vote for an earlier effective date.

**MOTION AND VOTE:** *It was moved by Dr. Ellis, seconded by Ms. Perez-Diaz, and carried unanimously to recommend that the State Board of Education approve for second reading and final adoption the proposed amendment to 19 TAC Chapter 109, Budgeting, Accounting, and Auditing.*

*Subchapter B, Texas Education Agency Audit Functions, §109.25, State Compensatory Education Program Reporting and Auditing System; and*

*Make an affirmative finding that immediate adoption of the proposed amendment to 19 TAC Chapter 109, Budgeting, Accounting, and Auditing, Subchapter B, Texas Education Agency Audit Functions, §109.25, State Compensatory Education Program Reporting and Auditing System, is necessary and shall have an effective date of 20 days after filing as adopted with the Texas Register.*

## **DISCUSSION ITEM**

### **3. Review of Permanent School Fund Securities Transactions and the Investment Portfolio** (Board agenda page III-8)

David Trice, managing director of investment finance and operations, provided a summary on the status of the Permanent School Fund (PSF) portfolio. Reports presented to the committee were for the reporting period May 1, 2021, through June 30, 2021, unless otherwise noted. Mr. Trice's report included reporting on the current fair market value of the Fund; the asset allocation mix as of June 30, 2021; PSF transactions occurring in the reporting period; revenues and expenditures for the fiscal period beginning September 1, 2020, through June 30, 2021; the activity in the securities lending program for the fiscal period beginning September 1, 2020, through June 30, 2021; the status of transfers from the General Land Office as of June 30, 2021, per approved resolutions; current status of the Bond Guarantee Program and the available capacity in the program; broker commissions on both the internal and external equity portfolios for the period beginning January 1, 2021, through June 30, 2021; fixed income rating changes for the fiscal period September 1, 2020, through June 30, 2021; and short-term cash investments.

## **ACTION ITEMS**

### **4. Ratification of the Purchases and Sales of the Investment Portfolio of the Permanent School Fund for the Months of May and June 2021** (Board agenda page III-9)

**MOTION AND VOTE:** *Based on the information provided by staff and the recommendation of the executive administrator and chief investment officer and the commissioner of education, the committee recommended by unanimous consent that the State Board of Education ratify the purchases and sales for the months of May and June 2021, in the amounts of \$1,112,312,733 and \$1,231,656,279, respectively (Attachment A).*

### **5. Report on Permanent School Fund Liquid Account and Ratification of Purchases and Sales for the Months of May and June 2021** (Board agenda page III-10)

Mr. Trice provided a summary on the status of the PSF Liquid Account. Reports presented to the committee were for the reporting period May 1, 2021, through June 30, 2021. Mr. Trice's report included the current fair market value of the Liquid Account, the asset allocation mix as of June 30, 2021, transfer activity between the General Land Office (GLO) and the Liquid Account, cumulative Income and Realized Gains transferred to the SBOE from the Liquid Account as of June 30, 2021,

transactions occurring in the reporting period, and ratification of the cumulative Purchases and Sales of the Liquid Account from May 1, 2021, through June 30, 2021.

**MOTION AND VOTE:** *Based on the information provided by staff and the recommendation of the executive administrator and chief investment officer and the commissioner of education, the committee recommended by unanimous consent that the State Board of Education ratify the purchases and sales of the PSF Liquid Account for the period May 1, 2021, through June 30, 2021, in the amounts of \$156,071,850 and \$44,518,526, respectively (Attachment B), and because the Liquid Account transition is almost complete, the committee also recommended by unanimous consent that Permanent School Fund staff be given discretion to prudently move faster to fully invest the Liquid Account.*

**6. Determination as to Whether Transfers May be Made from the Permanent School Fund to the Available School Fund**

(Board agenda page III-11)

Carlos Veintemillas, deputy chief investment officer and director of fixed income, gave a presentation describing the two constitutional limits on distributions from the PSF. The two tests are that an annual distribution cannot be greater than six percent of the value of the Fund assets and the total amount of distributions from the current and previous nine state fiscal years cannot exceed the total return on the Fund assets over the same period. Mr. Veintemillas stated that both tests were satisfied, allowing for a distribution from the PSF to the Available School Fund for fiscal year 2022.

Mr. Veintemillas stated that Rhett Humphreys, partner, NEPC, LLC, and Keith Stronkowsky, senior consultant, NEPC, LLC, agreed with PSF staff recommendations.

**MOTION AND VOTE:** *By unanimous consent, the committee recommended that the State Board of Education approve a distribution to the Available School Fund of approximately \$1.731 billion for fiscal year 2022.*

**DISCUSSION ITEM**

**7. Second Quarter 2021 Permanent School Fund Performance Report**

(Board agenda page III-12)

Mike Maher, vice president of BNY Mellon Global and Risk Solutions, presented the second quarter of 2021 PSF performance report. Mr. Maher began with an overview of the U.S and foreign capital markets and then reviewed the performance of the Fund for the second quarter of 2021. He stated that the PSF returned 5.74% net of fees for the second quarter outperforming the target benchmark by 58 basis point. Mr. Maher attributed most of the outperformance to Private Equity, Real Estate, and Fixed Income.

Mr. Maher reviewed the second quarter 2021 performance of the PSF by asset class, stating that the total domestic large cap equity composite returned 8.55%, coming flat against its benchmark for the quarter. Mr. Maher added that the Small/Midcap Equity portfolio returned 3.91% in the quarter, equaling its benchmark. He added that international equities returned 5.50% for the quarter, outperforming its benchmark by 10 basis points for the period.

The fixed income portfolio returned 3.21% for the quarter, outperforming its benchmark by 47 basis points. Mr. Maher stated that the Absolute Return composite returned 1.74% for the quarter,

underperforming its benchmark, the HFRI Fund of Funds Composite Index, by 109 basis points. Mr. Maher added that the Real Estate composite returned 3.23% for the quarter, outperforming its benchmark by 132 basis points. He further stated that the Real Return Asset class returned 6.61% for the quarter, underperforming its benchmark by 61 basis points. He added that Emerging Market Debt Local Currency returned 4.40% for the quarter, outperforming its benchmark by 86 basis points. Mr. Maher stated that private equity returned 10.61% for the quarter, outperforming its benchmark by 299 basis points. Finally, he stated that the total emerging market equity composite returned 5.09% for the second quarter 2021, beating its benchmark by 4 basis points.

## **ACTION ITEM**

### **8. Proposed Amendments to the Investment Procedures Manual** (Board agenda page III-13)

Public testimony was provided by the following individual:

NAME: Nicole Krishtal  
AFFILIATION: Self

Mr. Veintemillas provided an overview of the amendments to the investment procedures manual. He noted many of the amendments were made due to the addition of the new emerging manager asset class and to incorporate clarifying editorial language edits.

**MOTION AND VOTE:** *By unanimous consent, the committee recommended that the State Board of Education approve the amendments to the Investment Procedures Manual as presented by staff.*

## **DISCUSSION ITEMS**

### **9. Review of the Permanent School Fund Emerging Market Debt Asset Class** (Board agenda page III-14)

Katie Reissman, managing director of fixed income, gave an update on the emerging market debt asset class and performance history.

### **10. Review of the Permanent School Fund Public Equities Asset Classes** (Board agenda page III-15)

Andrew Bunker, acting director of equities, gave a presentation on the internally and externally managed global public equity program. The presentation covered objectives and guidelines, allocation, construction, strategies, and performance.

**11. Review of Senate Bill 1232, 87<sup>th</sup> Legislature, Regular Session, 2021 and Consideration of Articles of Incorporation for the Permanent School Fund Corporation**  
(Board agenda page III-16)

John Grubenman, director of private markets, and Chuck Campbell, fiduciary counsel, gave a presentation on Senate Bill 1232 that summarized the law, explained the implementation, and described the process needed for the board to create the PSF Corporation (Corporation). Mr. Grubenman and Mark Shewmaker, managing director of special projects and portfolio manager, also addressed many of the operational needs of the Corporation.

Mr. Campbell provided an overview of the draft certificate of formation of the Corporation, which would serve as the articles of incorporation, and answered questions about the document.

**12. Discussion of Proposed Amendments to 19 TAC Chapter 33, Statement of Investment Objectives, Policies, and Guidelines of the Texas Permanent School Fund, Subchapter A, State Board of Education Rules**  
(Board agenda page III-17)

Holland Timmins, executive administrator and chief investment officer, stated that the agenda item was for discussion only and amendments to be proposed will include terms for SBOE members serving on the PSF Corporation board and bond guarantee program updates.

Mr. Timmins anticipated that the item would be presented at the next meeting for first reading and filing authorization.

**13. Report of the Permanent School Fund Executive Administrator and Chief Investment Officer**  
(Board agenda page III-66)

Mr. Timmins provided the committee an update regarding the PSF Intern Program, scheduling efforts for the joint annual School Land Board/SBOE meeting, and the Bond Guarantee Program.

The meeting of the Committee on School Finance/Permanent School Fund adjourned at 12:43 p.m.

**TEXAS PERMANENT SCHOOL FUND  
SUMMARY OF TRANSACTIONS FOR APPROVAL  
(Including External Manager's Trades)  
For May 1, 2021 through June 30, 2021**

Purchases/Capital Calls:

Long Term Fixed Income	\$ 370,679,182
Public Market Equities	348,277,673
Alternative Investments	<u>393,355,878</u>
<b>TOTAL</b>	<b><u>\$ 1,112,312,733</u></b>

Sales/Distributions:

Long Term Fixed Income	\$ 156,058,173
Public Market Equities	295,161,389
Alternative Investments	<u>780,436,717</u>
<b>TOTAL</b>	<b><u>\$ 1,231,656,279</u></b>

General Land Office Contributions:

FY 2020	FY 2021
Cumulative	Cumulative
June 2020	June 2021
\$7,500,000	\$33,750,000

Based on the above information provided by staff including a report that deposits to the Permanent School Fund from the General Land Office were \$7,500,000 through June 2020 for fiscal year 2020 versus \$33,750,000 through June 2021 for fiscal year 2021, and the recommendation of the Executive Administrator and Chief Investment Officer and the Commissioner of Education; it is moved by unanimous consent that the Committee on School Finance/Permanent School Fund ratify for the months of May 2021 and June 2021 Permanent School Fund portfolio purchases of \$1,112,312,733 and sales of \$1,231,656,279.

**Attachment B**

**TEXAS PERMANENT SCHOOL FUND  
SUMMARY OF TRANSACTIONS FOR APPROVAL  
FOR PSF LIQUID ACCOUNTS  
For May 1, 2021 through June 30, 2021**

**Purchases:**

Fixed Income	\$ 69,620,345
Public Market Equities	<u>86,451,505</u>
<b>TOTAL</b>	<b><u>\$ 156,071,850</u></b>

**Sales:**

Fixed Income	\$ 28,435,016
Public Market Equities	<u>16,083,510</u>
<b>TOTAL</b>	<b><u>\$ 44,518,526</u></b>

Based on the above information provided by staff and the recommendation of the Executive Administrator and Chief Investment officer and the Commissioner of Education: It is moved by unanimous consent that the Committee on School Finance/Permanent School Fund ratify for the period May 1, 2021 through June 30, 2021 Permanent School Fund Liquid Account purchases of \$156,071,850 and sales of \$44,518,526.