

**Report of the State Board of Education  
Committee on School Finance/Permanent School Fund  
June 14, 2018**

The State Board of Education Committee on School Finance/Permanent School Fund met at 9:10 a.m. on Thursday, June 14, 2018, in Room #1-104 of the William B. Travis Building, 1701 N. Congress Avenue, Austin, Texas. Attendance was noted as follows:

Present: David Bradley, chair; Tom Maynard, vice chair; Lawrence A. Allen, Jr.; Patricia Hardy; Ken Mercer

**Public Testimony**

The Committee on School Finance/Permanent School Fund received no presentations of public testimony.

**CONSENT ITEM**

**1. Per Capita Apportionment Rate for the 2017-2018 School Year**

(Board agenda page III-1)

[Consent agenda item #(3)]

Al McKenzie, director, state funding, proposed that the preliminary per capita apportionment rate of \$206.566 stay the same. Mr. McKenzie answered questions from Mr. Bradley regarding the per capita apportionment rate.

**MOTION AND VOTE:** *It was moved by Mr. Maynard and carried unanimously to recommend that the State Board of Education adopt a per capita rate of \$206.566 for the 2017-2018 school year.*

**DISCUSSION ITEM**

**2. Review of Permanent School Fund Securities Transactions and the Investment Portfolio**

(Board agenda page III-17)

Catherine Civiletto, deputy executive administrator, provided a summary on the status of the Permanent School Fund portfolio. Reports presented to the committee were for the reporting period March and April 2018 unless otherwise noted. Ms. Civiletto's report included reporting on the current fair market value of the Fund, the asset allocation mix as of April 30, 2018, PSF transactions occurring in the reporting period, revenues and expenditures for the fiscal period beginning September 1 through April 30, 2018, the activity in the securities lending program for the fiscal period beginning September 1, 2017 through April 30, 2018, the status of transfers from the General Land Office as per the resolution they agreed to for the current fiscal year, 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, 2018 through April 30, 2018, fixed income rating changes for the fiscal period beginning September 1, 2017 through April 30, 2018, and short-term cash investments.

## **CONSENT ITEMS**

**3. Ratification of the Purchases and Sales of the Investment Portfolio of the Permanent School Fund for the Months of March and April 2018**

(Board agenda page III-5)

[Consent agenda item #(4)]

**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 to ratify the purchases and sales for the months of March and April 2018, in the amount of \$685,678,377 and \$820,449,474 respectively (Attachment A).*

**4. First Quarter 2018 Permanent School Fund Performance Report**

(Board agenda page III-19)

No action was taken on this item.

**5. Decision on Real Estate Investments**

(Board agenda page III-7)

[Consent agenda item #(5)]

The PSF real estate consultant, Courtland/Stepstone, was represented by Steve Novick, Partner and Tom Hester, Managing Director, joined by John Grubenman, director of private markets, and Ali Houshmand, portfolio manager PSF. Mr. Novick and Mr. Grubenman provided a brief introduction of three real estate investment recommendations.

Mr. Hester introduced a real estate investment recommendation, AG Realty Value Fund X, L.P. offered by Angelo, Gordon & Co., L.P. Mr. Hester, Mr. Grubenman, and Mr. Houshmand described the due diligence process conducted by both Courtland/Stepstone and PSF staff, provided a brief overview including its objectives and strategy, and outlined the merits and considerations.

**MOTION AND VOTE:** *By unanimous consent, the committee recommended to the State Board of Education approval to execute agreement(s) with Angelo, Gordon & Co., L.P., necessary to make an investment commitment of up to \$75 million in AG Realty Value Fund X, L.P., subject to continued due diligence and negotiation of fund terms, and authorization for contract execution by the Commissioner of Education.*

Mr. Hester introduced a real estate investment recommendation, Harrison Street European Property Partners II, L.P. offered by Harrison Street Real Estate Capital LLC. Mr. Hester, Mr. Grubenman, and Mr. Houshmand described the due diligence process conducted by both Courtland/Stepstone and PSF staff, provided a brief overview including its objectives and strategy, and outlined the merits and considerations.

**MOTION AND VOTE:** *By unanimous consent, the committee recommended to the State Board of Education approval to execute agreement(s) with Harrison Street Real Estate Capital LLC, necessary to make an investment commitment of up to €51 million in Harrison Street European Property Partners II, L.P., subject to continued due diligence and negotiation of fund terms, and authorization for contract execution by the Commissioner of Education.*

Mr. Hester introduced a recommendation to commit additional capital to an existing PSF commitment in PAG Enhanced Credit Fund L.P., offered by PAG Enhanced Credit Management Limited. Mr. Hester and Mr. Grubenman described the due diligence process conducted by both Courtland/Stepstone and PSF staff, provided a brief overview including its objectives and strategy, and outlined the merits and considerations.

**MOTION AND VOTE:** *By unanimous consent, the committee recommended to the State Board of Education approval to execute agreement(s) with PAG Enhanced Credit Management Limited, necessary to make an additional commitment of up to \$21 million in PAG Enhanced Credit Fund L.P., subject to continued due diligence and negotiation of fund terms, and authorization for contract execution by the Commissioner of Education.*

**6. Review of the Permanent School Fund Real Estate Annual Tactical Plan**

(Board agenda page III-9)

[Consent agenda item #(6)]

The PSF real estate consultant, Courtland Partners/Stepstone, was again represented by Mr. Novick, and Mr. Hester, joined by Mr. Grubenman.

Mr. Grubenman introduced the topic and the Annual Tactical Plan. Mr. Novick and Mr. Hester stated that Courtland concurs with the suggested updates to the tactical plan.

**MOTION AND VOTE:** *By unanimous consent, the committee recommended that the State Board of Education approve proposed changes to the Real Estate Annual Tactical Plan, Appendix B of the Real Estate Investment Policy approved by the State Board of Education in June 2017.*

**7. Review of the Permanent School Fund Private Equity Investment Policy and Guidelines**

(Board agenda page III-11)

[Consent agenda item #(7)]

Mr. Grubenman introduced the Private Equity Investment Policy and Guidelines document. He reviewed the proposed changes to the PSF Private Equity Investment Policy Guidelines.

**MOTION AND VOTE:** *By unanimous consent, the committee recommended that the State Board of Education approve proposed changes to the Private Equity Investment Policy and Guidelines approved by the State Board of Education in June 2017.*

**8. Review of the Bond Guarantee Program Charter Capacity**

(Board agenda page III-13)

[Consent agenda item #(8)]

Holland Timmins, executive administrator and chief investment officer, addressed this item. Mr. Timmins briefly discussed the most recent reports on the PSF credit rating and reviewed the schedule for increasing the bond guarantee program capacity for charter district bonds by 20%.

**MOTION:** *At this time the Board is not aware of conditions restricting a change to the charter district capacity limit of the bond guarantee program and affirms the annual implementation schedule referenced in 19 TAC 33.67(d)(2).*

**MOTION AND VOTE:** *By unanimous consent, the committee recommended that the State Board of Education take no action.*

## **DISCUSSION ITEM**

### **9. Report of the Permanent School Fund Executive Administrator and Chief Investment Officer** (Board agenda page III-21)

No report was provided.

## **ACTION ITEM**

### **10. Activities Related to a Student Art Competition to Develop a Permanent School Fund Logo**

(Board agenda page III-15)

[Official agenda item #10]

Mr. Maynard reported to the committee the efforts of staff, external parties and himself to develop an art contest to be launched in the fall of 2018 to render an art concept for a logo for the Fund and to award the selected winner with a monetary award. A sample branding graphic, a procedures document that describes procedures to be adopted by the Board and competition rules were presented for review and approval.

Mr. Maynard explained that the award funds to be given to the winning student need to come from donations raised. SBOE members are encouraged to donate for the purpose of reaching a target of at least \$3,000. The Texas Association of School Administrators Texas Leadership Center, a 501(c)(3) organization, has agreed to collect the funds and administer the award. Donations to this organization will be tax-deductible.

The winning artist will be awarded a \$3,000 award, a copy of the art and a congratulatory resolution from the Board.

Mr. Bradley suggested adding a runner up award and increasing the target to \$4,000 and award a \$1,000 runner up award, in addition to the first place \$3,000 award.

**MOTION AND VOTE:** *It was moved by Mr. Maynard, seconded by Mr. Mercer, and carried unanimously to recommend that the State Board of Education approve the procedures and rules for the PSF Logo Art Contest to include a \$3,000 first place award and a \$1,000 runner-up award.*

The meeting of the Committee on School Finance/Permanent School Fund adjourned at 11:33 a.m.

**TEXAS PERMANENT SCHOOL FUND  
SUMMARY OF TRANSACTIONS FOR APPROVAL  
(Including External Manager's Trades)  
For March 1, 2018 through April 30, 2018**

Purchases/Capital Calls:

Long Term Fixed Income	\$ 213,895,924
Public Market Equities	125,282,680
Alternative Investments	<u>346,499,773</u>
TOTAL	<u>\$ 685,678,377</u>

Sales/Distributions:

Long Term Fixed Income	\$ 182,517,030
Public Market Equities	428,961,827
Alternative Investments	<u>208,970,617</u>
TOTAL	<u>\$ 820,449,474</u>

General Land Office Contributions:

FY 2017	FY 2018
Cumulative	Cumulative
April 2017	April 2018
\$100,000,000	\$117,500,000

Based on the above information provided by staff including a report that deposits to the Permanent School Fund from the General Land Office were \$117,500,000 through April 2018 for fiscal year 2018 versus \$100,000,000 through April 2017 for fiscal year 2017, 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 March 2018 and April 2018 Permanent School Fund portfolio purchases of \$685,678,377 and sales of \$820,449,474.