

**Report of the State Board of Education
Committee on School Finance/Permanent School Fund
Thursday, January 27, 2022**

The State Board of Education Committee on School Finance/Permanent School Fund met at 9:07 a.m. on Thursday, January 27, 2022 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; Keven Ellis; Patricia Hardy; Marisa Perez-Diaz (virtual)

Public Testimony

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

DISCUSSION ITEMS

- 1. Discussion of Proposed Amendment to 19 TAC Chapter 109, Budgeting, Accounting, and Auditing, Subchapter C, Adoptions By Reference, §109.41, Financial Accountability System Resource Guide**
(Board agenda page III-1)

David Marx, director, financial compliance division, explained that the proposed amendment would adopt by reference the updated *Financial Accountability System Resource Guide* (FASRG). Mr. Marx explained the purpose of the FASRG and the types of changes being made.

- 2. Review of Permanent School Fund Securities Transactions and the Investment Portfolio**
(Board agenda page III-5)

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 October 1, 2021, through November 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 November 30, 2021, PSF transactions occurring in the reporting period, revenues and expenditures for the fiscal period beginning September 1, 2021, through November 30, 2021, the activity in the securities lending program for the fiscal period beginning September 1, 2021, through November 30, 2021, the status of transfers from the General Land Office as of November 30, 2021, as 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 November 30, 2021, fixed income rating changes for the fiscal period September 1, 2021, through November 31, 2021, and short-term cash investments.

ACTION ITEMS

3. Ratification of the Purchases and Sales of the Investment Portfolio of the Permanent School Fund for the Months of October and November 2021

(Board agenda page III-6)
[Consent agenda item #(5)]

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 October and November 2021, in the amount of \$1,339,173,674 and \$1,393,350,017, respectively (Attachment A).*

4. Report on Permanent School Fund Liquid Account and Ratification of Purchases and Sales for the Months of October and November 2021

(Board agenda page III-7)
[Consent agenda item #(6)]

Mr. Trice provided a summary on the status of the PSF Liquid Account. Reports presented to the committee were for the reporting period October 1, 2021, through November 30, 2021. Mr. Trice's report included reporting on the current fair market value of the Liquid Account, the asset allocation mix as of November 30, 2021, transfer activity between the GLO and the Liquid Account, cumulative Income and Realized Gains transferred to the SBOE from the Liquid Account as of November 30, 2021, transactions occurring in the reporting period, and ratification of the cumulative Purchases and Sales of the Liquid Account from October 1, 2021, through November 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 Permanent School Fund Liquid Account for the period October 1, 2021, through November 30, 2021, in the amounts of \$852,114,516 and \$248,607,620, respectively (Attachment B).*

DISCUSSION ITEMS

5. Annual Reporting Requirement of the Internally- Managed Permanent School Fund Investment Portfolio

(Board agenda page III-8)

Holland Timmins, executive administrator and chief investment officer, provided the required attestation regarding compliance with 19 TAC Chapter 33 of the internally managed investment portfolios in the matters of permissible and restricted investments, trading and brokerage policy, and proxy voting policy.

6. Third Quarter 2021 Permanent School Fund Performance Report
(Board agenda page III-10)

Mr. Mike Maher, vice president of BNY Mellon Global and Risk Solutions, presented the third quarter of 2021 PSF performance report. Mr. Maher began with an overview of the U.S and foreign capital markets. He then reviewed the performance of the Fund for the third quarter of 2021. He stated that the PSF returned 1.93% net of fees for the third quarter, outperforming the target benchmark by 75 basis points. Mr. Maher attributed most of the outperformance to Private Equity, Real Estate and Absolute Return.

Mr. Maher reviewed the third quarter 2021 performance of the PSF by asset class, stating that the total domestic large cap equity composite returned 0.61%, outperforming its benchmark for the quarter by three basis points. He added that Small/Midcap Equity portfolio returned -2.11% in the quarter, underperforming its benchmark by one basis point. He added that international equities returned -4.19% for the quarter, underperforming its benchmark by 33 basis points for the period.

The fixed income portfolio returned 0.10 % for the quarter, underperforming its benchmark by four basis points. Mr. Maher stated that the Absolute Return composite returned 2.00% for the quarter, outperforming its benchmark, the HFRI Fund of Funds Composite Index, by 144 basis points. Mr. Maher added that the Real Estate composite returned 5.09% for the quarter, outperforming its benchmark by 57 basis points. He further stated that the Real Return Asset class returned 2.98% for the quarter, underperforming its benchmark by one basis point. The Emerging Market Debt returned -3.08% for the quarter, outperforming its benchmark by two basis points. Mr. Maher stated that private equity returned 13.37% for the quarter, outperforming its benchmark by 408 basis points. Finally, he stated that the total emerging market equity composite returned -9.45% for the third quarter 2021, falling short of its benchmark by 136 basis points.

7. Review of the Bond Guarantee Program Capacity
(Board agenda page III-11)

Mr. Timmins updated the committee regarding activity by DLA Piper to address federal regulations pertaining to the Bond Guarantee Program. DLA Piper is working with members of the Texas Congressional delegation to communicate with the US Treasury Department on possible changes to the federal limit on the Bond Guarantee Program.

ACTION ITEM

8. Proposed New 19 TAC Chapter 33, Statement of Investment Objectives, Policies, and Guidelines of the Texas Permanent School Fund, Subchapter A, State Board of Education Rules, §33.21, Texas Permanent School Fund Corporation
(Second Reading and Final Adoption)
(Board agenda page III-12)
[Consent agenda item #(7)]

Chuck Campbell, Fiduciary Counsel, Jackson Walker LLP, stated that the agenda item was for second reading and final adoption and consisted of proposed new rule language to address terms for SBOE members serving on the Texas PSF Corporation board.

MOTION AND VOTE: *By unanimous consent, the committee recommended that the State Board of Education approve for second reading and final adoption proposed new 19 TAC Chapter 33, Statement of Investment Objectives, Policies, and Guidelines of the Texas Permanent School Fund, Subchapter A, State Board of Education Rules, §33.21, Texas Permanent School Fund Corporation; and*

Make an affirmative finding that immediate adoption of proposed new 19 TAC Chapter 33, Statement of Investment Objectives, Policies, and Guidelines of the Texas Permanent School Fund, Subchapter A, State Board of Education Rules, §33.21, Texas Permanent School Fund Corporation, is necessary and shall have an effective date of 20 days after filing as adopted with the Texas Register.

DISCUSSION ITEMS

9. Review of the Private Equity Asset Class for the Permanent School Fund

(Board agenda page III-17)

The PSF private equity consultant, Neuberger Berman, was represented by Brien Smith, chief operating officer and managing director, and Kaci Boyer, principal. PSF staff was represented by John Grubenman, chief of staff and director of private markets, and Erin Wedepohl, managing director of private equity.

Mr. Smith, Ms. Boyer, Mr. Grubenman, and Ms. Wedepohl provided an update on the performance and progress of the PSF private equity program.

10. Review of Real Return Asset Class for the Permanent School Fund

(Board agenda page III-18)

Carlos Veintemillas, deputy chief investment officer and director of fixed income, introduced the real return strategy. Katie Reissman, managing director of fixed income, and Bill Glenn, portfolio manager, provided an update on the real return strategy and performance history.

11. Report of the Permanent School Fund Executive Administrator and Chief Investment Officer

(Board agenda page III-19)

Mr. Timmins informed the committee that Fitch Ratings had reaffirmed the PSF's AAA rating and that the state auditor's office had communicated certification of the Bond Guarantee Program. He also provided an update on the PSF summer intern program.

The meeting of the Committee on School Finance/Permanent School Fund adjourned at 11:06 a.m.

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

Purchases/Capital Calls:

Long Term Fixed Income	\$ 534,283,940
Public Market Equities	227,681,236
Alternative Investments	<u>577,208,498</u>
 TOTAL	 <u><u>\$ 1,339,173,674</u></u>

Sales/Distributions:

Long Term Fixed Income	\$ 121,852,343
Public Market Equities	568,844,510
Alternative Investments	<u>702,653,164</u>
 TOTAL	 <u><u>\$ 1,393,350,017</u></u>

General Land Office Contributions:

FY 2021 Cumulative November 2020	FY 2022 Cumulative November 2021
\$11,250,000	\$0

Based on the above information provided by staff including a report that deposits to the Permanent School Fund from the General Land Office were \$11,250,000 through November 2020 for fiscal year 2021 versus \$0 through November 2021 for fiscal year 2022, 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 October 2021 and November 2021 Permanent School Fund portfolio purchases of \$1,339,173,674 and sales of \$1,393,350,017.

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

Purchases:

Fixed Income	\$ 236,006,228
Public Market Equities	<u>616,108,288</u>
 TOTAL	 <u><u>\$ 852,114,516</u></u>

Sales:

Fixed Income	\$ 233,239,980
Public Market Equities	<u>15,367,640</u>
 TOTAL	 <u><u>\$ 248,607,620</u></u>

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 October 1, 2021 through November 30, 2021 Permanent School Fund Liquid Account purchases of \$852,114,516 and sales of \$248,607,620.