

**Report of the State Board of Education
Committee on School Finance/Permanent School Fund
Thursday, November 18, 2021**

The State Board of Education Committee on School Finance/Permanent School Fund met at 9:04 a.m. on Thursday, November 18, 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; Keven Ellis; Patricia Hardy; Marisa Perez-Diaz

Public Testimony

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

ACTION ITEM

- 1. Approval of Costs to Administer the 2021–2022 State-Developed Assessments to Private School Students**
(Board agenda page III-1)

Julie Cole, director of policy and publications, student assessment division, explained that state law allows private schools to use state-developed assessments to evaluate their students. She explained that the State Board of Education (SBOE) is required to approve a cost per assessment for private schools each year.

MOTION AND VOTE: *It was moved by Mr. Allen, seconded by Ms. Perez-Diaz, and carried unanimously to recommend that the State Board of Education approve the recommended per-student costs for administering the state assessments to private school students in 2021–2022.*

DISCUSSION ITEM

- 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 of the status of the Permanent School Fund (PSF) portfolio. Reports presented to the committee were for the reporting period July 1, 2021, through September 30, 2021, unless otherwise noted. Mr. Trice's report included reporting on the current fair market value of the PSF; the asset allocation mix as of September 30, 2021; PSF transactions occurring in the reporting period; revenues and expenditures for the fiscal period beginning September 1 through August 31, 2021, and from September 1, 2021, through September 30, 2021; the activity in the securities lending program for the fiscal period beginning September 1 through August 31, 2021, and from September 1, 2021 through September 30, 2021; the status of transfers from the General Land Office as of September 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 September 30, 2021; fixed income rating changes for the fiscal period September 1, 2020, through August 31, 2021, and from September 1, 2021, through September 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 July, August, and September 2021**
(Board agenda page III-6)

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 July, August, and September 2021, in the amounts of \$1,884,442,726 and \$1,859,436,888, respectively (Attachment A).*

- 4. Report on Permanent School Fund Liquid Account and Ratification of Purchases and Sales for the Months of July, August, and September 2021**
(Board agenda page III-7)

Mr. Trice provided a summary on the status of the PSF Liquid Account. Reports presented to the committee were for the reporting period July 1, 2021, through September 30, 2021. Mr. Trice's report included reporting on the current fair market value of the Liquid Account; the asset allocation mix as of September 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 September 30, 2021; transactions occurring in the reporting period; and ratification of the cumulative Purchases and Sales of the Liquid Account from, July 1, 2021, through September 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 July 1, 2021, through September 30, 2021, in the amounts of \$1,182,720,285 and \$224,038,689, respectively (Attachment B).*

- 5. Review of the Permanent School Fund Liquid Account Strategic Asset Allocation**
(Board agenda page III-8)

Carlos Veintemillas, deputy chief investment officer and director of fixed income, presented a review of the PSF Liquid Account asset allocation. Keith Stronkowsky, Senior Consultant, NEPC, LLC presented a review of the PSF Liquid Account asset allocation. Both staff and NEPC recommended lowering exposure to cash and increasing exposure to equities and core fixed income. The proposed allocation provides sufficient liquidity while increasing expected returns.

MOTION AND VOTE: *Based on the information provided by staff and NEPC, the committee recommended by unanimous consent that the State Board of Education adopt Asset Mix D for the PSF Liquid Account.*

DISCUSSION ITEM

6. Overview of the Permanent School Fund Investment Portfolio

(Board agenda page III-9)

Jared Stout, senior risk manager, gave a presentation on the risk and return of the PSF's investment portfolio. The presentation covered the philosophy, process, and an analytical overview of the funds managed by the PSF.

ACTION ITEMS

7. Review of the Absolute Return Asset Class for the Permanent School Fund

(Board agenda page III-10)

Carlos Castro, director of global risk control strategies, introduced John Newell, managing director of global risk control strategies and Andriy Mysyk, managing director of global risk control strategies, and provided additional information on portfolio goals and characteristics of the absolute return asset class. Mr. Castro noted that staff recommended the termination of the relationship with Blackstone Alternative Asset Management.

Rhett Humphries, partner, NEPC LLC, stated that NEPC supported staff's recommendation to terminate the Blackstone Alternative Asset Management relationship.

MOTION AND VOTE: *By unanimous consent, the committee recommended that the State Board of Education terminate the Blackstone Alternative Asset Management relationship in the Absolute Return space and liquidate Raven 4 and Raven 7. The committee also recommended that the State Board of Education approve Grosvenor Capital Management to act as liquidating manager in collaboration with the PSF staff.*

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 (First Reading and Filing Authorization)

(Board agenda page III-11)

Holland Timmins, executive administrator, and chief investment officer provided an overview of the proposed new rule language and noted the rule would address terms for SBOE members serving on the Texas PSF Corporation board.

MOTION AND VOTE: *By unanimous consent, the committee approved for first reading and filing authorization 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, §33.21, Texas Permanent School Fund Corporation.*

DISCUSSION ITEM

9. Report of the Permanent School Fund Executive Administrator and Chief Investment Officer (Board agenda page III-15)

Mr. Timmins stated he was pleased to report the Fiscal Year 2020 PSF annual report received the GFOA certificate of achievement award for the seventh year. He notified the committee that the General Land Office would be sending \$500 million to the liquid account and he also thanked the PSF staff for all of their hard work.

The meeting of the Committee on School Finance/Permanent School Fund adjourned at 11:01 a.m.

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

Purchases/Capital Calls:

Long Term Fixed Income	\$ 658,090,405
Public Market Equities	469,605,986
Alternative Investments	<u>756,746,335</u>
 TOTAL	 <u>\$ 1,884,442,726</u>

Sales/Distributions:

Long Term Fixed Income	\$ 455,763,357
Public Market Equities	650,711,997
Alternative Investments	<u>752,961,534</u>
 TOTAL	 <u>\$ 1,859,436,888</u>

General Land Office Contributions:

FY 2020 Cumulative August 2020	FY 2021 Cumulative August 2021
\$10,000,000	\$45,000,000

FY 2021 Cumulative September 2020	FY 2022 Cumulative September 2021
\$0	\$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 \$10,000,000 through August 2020 for fiscal year 2020 versus \$45,000,000 through August 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 July 2021, August 2021, and September 2021 Permanent School Fund portfolio purchases of \$1,884,442,726 and sales of \$1,859,436,888.

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

<u>Purchases:</u>	
Fixed Income	\$ 345,854,573
Public Market Equities	<u>836,865,712</u>
TOTAL	<u><u>\$ 1,182,720,285</u></u>
<u>Sales:</u>	
Fixed Income	\$ 207,679,636
Public Market Equities	<u>16,359,053</u>
TOTAL	<u><u>\$ 224,038,689</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 July 1, 2021 through September 30, 2021 Permanent School Fund Liquid Account purchases of \$1,182,720,285 and sales of \$224,038,689.