

**Report of the State Board of Education  
Committee on School Finance/Permanent School Fund  
Thursday, June 24, 2021**

The State Board of Education Committee on School Finance/Permanent School Fund met at 9:06 a.m. on Thursday, June 24, 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 (virtual)

Non-Committee Members Present: Rebecca Bell-Metereau

**Public Testimony**

The Committee on School Finance/Permanent School Fund heard public testimony on agenda item #7. Information regarding the individuals who presented public testimony is included in the discussion of that item.

**ACTION ITEM**

1. **Proposed Repeal of 19 TAC Chapter 105, Foundation School Program, Subchapter A, Definitions, §105.1, Rules for the Definition of Tax Levy and Tax Collection (Second Reading and Final Adoption)**  
(Board agenda page III-1)

Amy Copeland, director, state funding, explained that the proposed repeal would implement House Bill (HB) 3, 86th Texas Legislature, 2019, which removed the board's rulemaking authority related to the definitions of tax levy and tax collection for the Foundation School Program (FSP). She also stated that no changes are recommended since approved for first reading.

**MOTION AND VOTE:** *It was moved by Mr. Allen, seconded by Ms. Hardy, and carried unanimously to recommend that the State Board of Education approve for second reading and final adoption the proposed repeal of 19 TAC Chapter 105, Foundation School Program, Subchapter A, Definitions, §105.1, Rules for the Definition of Tax Levy and Tax Collection; and*

*Make an affirmative finding that immediate adoption of the proposed repeal of 19 TAC Chapter 105, Foundation School Program, Subchapter A, Definitions, §105.1, Rules for the Definition of Tax Levy and Tax Collection, is necessary and shall have an effective date of 20 days after filing as adopted with the Texas Register.*

## DISCUSSION ITEM

### **2. Per Capita Apportionment Rate for the 2020-2021 School Year** (Board agenda page III-5)

Mrs. Copeland explained the background of the per capita apportionment rate and provided more information about it. The preliminary 2020–2021 per capita apportionment rate of \$411.574 was set in September 2020. Based on actual funds available for expenditure, the final per capita appointment rate for 2020–2021 is \$468.922. Dr. Ellis asked for historical per capita apportionment rates.

## ACTION ITEM

### **3. 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** **(First Reading and Filing Authorization)** (Board agenda page III-6)

David Marx, senior director, financial compliance, explained that the proposed amendment would update references to statutory citations that were renumbered by HB 3, 86th Texas Legislature, 2019.

**MOTION AND VOTE:** *It was moved by Mr. Allen, seconded by Ms. Hardy, and carried unanimously to recommend that the State Board of Education approve for first reading and filing authorization 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.*

## DISCUSSION ITEM

### **4. Review of Permanent School Fund Securities Transactions and the Investment Portfolio** (Board agenda page III-11)

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 March 1, 2021, through April 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 April 30, 2021; PSF transactions occurring in the reporting period; revenues and expenditures for the fiscal period beginning September 1 through April 30, 2021; the activity in the securities lending program for the fiscal period beginning September 1 through April 30, 2021; the status of transfers from the General Land Office as of April 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 April 30, 2021; fixed income rating changes for the fiscal period September 1, 2020 through April 30, 2021; and short-term cash investments.

## ACTION ITEMS

5. **Ratification of the Purchases and Sales of the Investment Portfolio of the Permanent School Fund for the Months of March and April 2021**  
(Board agenda page III-12)

**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 March and April 2021, in the amounts of \$1,164,734,198 and \$1,129,916,374, respectively (Attachment A).*

6. **Report on the Permanent School Fund Liquid Account**  
(Board agenda page III-13)

Mr. Trice provided a summary of the status of the PSF Liquid Account. Reports presented to the committee were for the reporting period March 1, 2021, through April 30, 2021. Mr. Trice's report included the current fair market value of the Liquid Account; the asset allocation mix as of April 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 April 30, 2021; transactions occurring in the reporting period; and ratification of the cumulative Purchases and Sales of the Liquid Account from March 1, 2021, through April 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 March 1, 2021, through April 30, 2021, in the amounts of \$194,784,513 and \$16,173,997 respectively (Attachment B).*

7. **Review of the Bond Guarantee Program Charter Capacity**  
(Board agenda page III-14)

Public testimony was provided by the following individual:

NAME: Kara Belew  
AFFILIATION: Texas Public Charter School Association

Holland Timmins, executive administrator and chief investment officer, provided a brief overview and update of the Bond Guarantee Program (BGP) Charter Capacity and reviewed the schedule for increasing the BGP capacity for charter district bonds by 20%, which would place the charter capacity at 100% of the new amount prescribed by legislation passed in 2017. He stated that if the board took no action, the charter capacity would automatically increase. Mr. Timmins also updated the committee regarding activity by DLA Piper to address federal regulations pertaining to the BGP.

No action was taken on this item.

## DISCUSSION ITEM

### **8. First Quarter 2021 Permanent School Fund Performance Report** (Board agenda page III-15)

Mike Maher, vice president of BNY Mellon Global and Risk Solutions, presented the first quarter of 2021 Permanent School Fund performance report. Mr. Maher began with an overview of the U.S. and foreign capital markets. Mr. Maher then reviewed the performance of the Fund for the first quarter of 2021. He stated that the PSF returned 3.48% net of fees for the first quarter, underperforming the target benchmark by seven basis point. Mr. Maher attributed most of the underperformance to Private Equity, Non-Core Real Estate and Emerging Market Debt.

Mr. Maher reviewed the first quarter 2021 performance of the PSF by asset class, stating that the total domestic large cap equity composite returned 6.20%, outperforming its benchmark for the quarter by two basis point. Mr. Maher added that Small/Midcap Equity portfolio returned 14.98% in the quarter, outperforming its benchmark by 10 basis point. He added that international equities returned 3.58% for the quarter, outperforming its benchmark by 30 basis points for the period.

The fixed income portfolio returned -5.28% for quarter, outperforming its benchmark by 19 basis points. Mr. Maher stated that the Absolute Return composite returned 3.58% for the quarter, outperforming its benchmark, the HFRI Fund of Funds Composite Index, by 199 basis points. Mr. Maher added that the Real Estate composite returned 2.17% for the quarter, underperforming its benchmark by 63 basis points. He further stated that the Real Return Asset class returned 2.46% for the quarter, underperforming its benchmark by 27 basis points. He added that Emerging Market Debt returned -7.51% for the quarter, underperforming its benchmark by 83 basis points. Mr. Maher stated that private equity returned 11.64% for the quarter, underperforming its benchmark by 183 basis points. Finally, he stated that the total emerging market equity composite returned 3.08% for the second quarter 2020, beating its benchmark by 79 basis points.

## ACTION ITEMS

### **9. Review of the Permanent School Fund Real Estate Asset Class and Real Estate Policy and Tactical Plan** (Board agenda page III-16)

The PSF real estate consultant, StepStone Real Estate Group, was represented by Steve Novick, partner, Andrew Mitro, managing director, and Tom Hester, managing director, and, joined by John Grubenman, director of private markets, Nick Tramontana, managing director, real estate and Ali Houshmand, portfolio manager.

Mr. Grubenman introduced the topic. Mr. Mitro and Mr. Hester provided the annual update on the PSF Real Estate Program.

Mr. Grubenman discussed options for recommended changes to select provisions in the Real Estate Investment Policy Statement. He explained that the recommended changes being presented by staff were made in consultation with StepStone Real Estate Group. Mr. Hester stated that StepStone concurred with the recommended changes.

Mr. Tramontana presented the Annual Tactical Plan (Appendix B of the Real Estate Investment Policy Statement). Mr. Hester stated that StepStone concurred 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 Investment Policy Statement and the Annual Tactical Plan, Appendix B of the Real Estate Investment Policy Statement.*

**10. Selection of Qualified Respondents to the Request for Qualifications (RFQ) for Outside Legal Counsel for the State Board of Education and the Texas Permanent School Fund: Fiduciary, Investment Contracting, Real Estate, Tax and Disclosure Counsel**  
(Board agenda page III-17)

Mr. Timmins explained the RFQ process to the committee and presented the list of all qualified law firms who were evaluated to provide fiduciary counsel, investment contracting counsel, real estate counsel, tax counsel, and disclosure counsel. Mr. Timmins recommended that the list be accepted by the committee for all services.

The firm that applied for fiduciary counsel services was Jackson Walker, L.L.P.

**MOTION AND VOTE:** *By unanimous consent, the committee recommended that the State Board of Education approve the list of qualified respondents for the categories of fiduciary, investment contracting, real estate, tax, and disclosure counsel.*

**11. Approval of the Selection of a Firm(s) to Provide Services Related to U.S. High Yield Fixed Income Discretionary Investment Managers for the Texas Permanent School Fund and the State Board of Education as outlined in Request for Proposal (RFP) 701-21-002 and Authorization for Contract Execution by the Commissioner of Education**  
(Board agenda page III-18)

Mr. Timmins reported on the process related to the selection of finalists for the RFP for U.S. High Yield Fixed Income Discretionary Investment Manager, to satisfy the three percent (3%) fund allocation to this asset class, with the primary objective of generating additional value for the PSF.

The following three (3) firms gave presentations by their respective representatives:

- *PineBridge Investments*
- *Barings LLC*
- *Lord, Abbett & Co.*

The PSF general consultant, NEPC, was represented by Keith Stronkowsky, senior consultant, joined by Carlos Veintemillas, deputy chief investment officer and director of fixed income for the PSF. They presented information about the search process.

**MOTION AND VOTE:** *By unanimous consent, the committee recommended that the State Board of Education approve execution of agreements with PineBridge Investments and Barings LLC, for the management of the Permanent School Fund's (PSF) U.S. high yield fixed income discretionary investments, and provide each manager with the authorization to initially invest up to \$600 million in U.S. high yield fixed income securities for the PSF and authorization for contract execution by the commissioner of education.*

**12. Selection of State Board Member Nominees for Statewide Board Positions**  
(Board agenda page III-19)

Mark Shewmaker, managing director special projects, portfolio manager provided the committee with an overview of the selection of nominees for the School Land Board.

**MOTION AND VOTE:** *By unanimous consent, the committee recommended that the State Board of Education submit the following lists of nominees to the governor for consideration for appointment to the School Land Board:*

- Rebecca Berger
- John Caley
- Jeremy Derington
- Michael Neill
- James Watt
- J. Brad Curlee
- Darrick Eugene
- Isidro Garza
- Lee Partridge
- Todd Williams
- Brad Wright

Mr. Shewmaker also provided an overview of the selection of nominees for consideration for appointment on the Teacher Retirement System of Texas board of trustees.

**MOTION AND VOTE:** *By unanimous consent, the committee recommended that the State Board of Education submit the following lists of nominees to the governor for consideration for appointment on the Teacher Retirement System of Texas board of trustees:*

- Britnny Allred
- Levi H. Davis
- Trey Denman
- Paula Ann Miller
- Scott Olguin

**DISCUSSION ITEM**

**13. Report of the Permanent School Fund Executive Administrator and Chief Investment Officer**  
(Board agenda page III-20)

Mr. Timmins provided an update regarding the PSF Intern Program. He also provided an overview of legislation passed by the 87<sup>th</sup> Legislature, Regular Session, 2021, that impacted the PSF.

Mr. Maynard called upon Mr. Grubenman to discuss the PSF real estate investment made with NW1. Mr. Grubenman provided an overview.

The meeting of the Committee on School Finance/Permanent School Fund adjourned at 2:36 p.m.

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

Purchases/Capital Calls:

Long Term Fixed Income	\$ 410,848,917
Public Market Equities	175,321,515
Alternative Investments	<u>578,563,766</u>
 TOTAL	 <u><u>\$ 1,164,734,198</u></u>

Sales/Distributions:

Long Term Fixed Income	\$ 124,011,211
Public Market Equities	329,573,970
Alternative Investments	<u>676,331,193</u>
 TOTAL	 <u><u>\$ 1,129,916,374</u></u>

General Land Office Contributions:

FY 2020 Cumulative April 2020	FY 2021 Cumulative April 2021
\$5,000,000	\$22,500,000

Based on the above information provided by staff including a report that deposits to the Permanent School Fund from the General Land Office were \$5,000,000 through April 2020 for fiscal year 2020 versus \$22,500,000 through April 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 March 2021, and April 2021 Permanent School Fund portfolio purchases of \$1,164,734,198 and sales of \$1,129,916,374.

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

<u>Purchases:</u>		
Fixed Income	\$	33,457,731
Public Market Equities		<u>161,326,782</u>
TOTAL	\$	<u><u>194,784,513</u></u>
 <u>Sales:</u>		
Fixed Income	\$	9,964,085
Public Market Equities		<u>6,209,912</u>
TOTAL	\$	<u><u>16,173,997</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 March 1, 2021 through April 30, 2021 Permanent School Fund Liquid Account purchases of \$194,784,513 and sales of \$16,173,997.