The State Board of Education Committee on School Finance/Permanent School Fund met at 9:04 a.m. on Thursday, November 19, 2015, in Room #1-104 of the William B. Travis Building, 1701 N. Congress Avenue, Austin, Texas. All members of the committee were present, as follows:

Presiding: Pat Hardy, chair; Lawrence A. Allen, Jr., vice chair; David Bradley; Ken Mercer; Thomas Ratliff

Public Testimony

This item provides an opportunity for the public to present testimony at the time the related item comes up for committee discussion or action. The procedures for registering and taking public testimony at State Board of Education committee meetings and general board meetings are provided at [http://tea.texas.gov/About_TEA/Leadership/State_Board_of_Education/SBOE_Meetings/SBOE_Operating_Rules_Amended_4-17-15/](http://tea.texas.gov/About_TEA/Leadership/State_Board_of_Education/SBOE_Meetings/SBOE_Operating_Rules_Amended_4-17-15/) or in the information section (yellow pages) of the agenda.

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

CONSENT ITEM

1. Approval of Costs of Administering the 2015-2016 State of Texas Assessments of Academic Readiness (STAAR) and the Texas English Language Proficiency Assessment System (TELPAS) Assessments to Private School Students

   (Board agenda page III-1)
   [Consent agenda item #1(1)]]

   Julie Guthrie, director of mathematics and science assessments, student assessment division, presented for approval the per-student assessment costs for the 2015-2016 school year as shown in the attachment on pages III-5 and III-6 of the SBOE agenda. The item is presented annually based on TEC, §39.033, which charges the SBOE with approving the costs for the administration of state-developed assessments to private school students. During the 2015 spring administration, 29 private schools participated in the state assessment program.

   **MOTION AND VOTE:** It was moved by Mr. Ratliff, seconded by Mr. Allen, and carried unanimously to recommend approval of the per-student costs for administering the STAAR and TELPAS tests to private school students in the 2015-2016 school year as reflected in the attachment on pages III-5 and III-6 of the SBOE agenda. (Mr. Bradley and Mr. Mercer were absent for the vote.)
DISCUSSION ITEMS

2. **Presentation on the Charter District Bond Guarantee Reserve Fund**  
   (Board agenda page III-77)

   No discussion took place on this item.

3. **Review of Permanent School Fund Securities Transactions and the Investment Portfolio**  
   (Board agenda page III-79)

   Deborah Saunders, director of investment operations, provided a summary on the status of the Permanent School Fund portfolio. Reports presented to the committee were for the reporting period August 1, 2015 through September 30, 2015, unless otherwise noted. Ms. Saunders’s report included reporting on the current fair market value of the Fund, the asset allocation mix as of September 30, 2015, PSF transactions occurring in the reporting period, revenues and expenditures for the fiscal period September through August 31, 2015 and the fiscal period beginning September 1 through September 30, 2015, the historical activity on the securities lending program through the fiscal period ended August 31, 2015, as well as the month of September 2015, 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, 2015 through September 30, 2015, and short-term cash investments.

CONSENT ITEM

4. **Ratification of the Purchases and Sales of the Investment Portfolio of the Permanent School Fund for the Months of August and September 2015**  
   (Board agenda page III-7)  
   [Consent agenda item #2]

   **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 August and September 2015 in the amount of $602,865,035 and $600,984,815, respectively (Attachment A).

DISCUSSION ITEM

5. **Third Quarter 2015 Permanent School Fund Performance Report**  
   (Board agenda page III-81)

   Tom Heiner, vice president and senior analytics consultant with BNY Mellon Performance and Risk Analytics, presented the third quarter of 2015 Permanent School Fund performance report. Mr. Heiner began with an overview of the U.S. and foreign capital markets. Mr. Heiner then reviewed the performance of the Fund for the third quarter of 2015. He stated that the PSF returned -5.44% for the third quarter outperforming the target benchmark by 14 basis points. The Fund ranked in the 63rd percentile of the Mellon Universe of Public Funds greater than $1.0 billion for the 3-month period ending September 30, 2015.
Mr. Heiner reviewed third quarter 2015 performance of the Permanent School Fund by asset class, stating that the total domestic large cap equity composite outperformed its benchmark by seven basis points for the quarter. Mr. Heiner added that Small/Midcap Equity portfolio outperformed its benchmark by five basis points. He added that international equities returned -12.01% for the quarter, having outperformed its benchmark by 16 basis points during the period. The fixed income portfolio returned 1.06% for quarter, falling behind its benchmark by 17 basis points. Mr. Heiner stated that the Absolute Return composite returned -2.54% for the quarter, outperforming its benchmark, the HFRI Fund of Funds Composite Index, by 126 basis points. Mr. Heiner added that the Real Estate composite returned 4.02% for the quarter, outperforming its benchmark by 6 basis points. Mr. Heiner added that Total Risk Parity Strategies returned -7.01% in the third quarter of 2015, underperforming its benchmark by 362 basis points. He further stated that the Real Return Asset class returned -7.57% for the quarter, coming in above its benchmark by 32 basis points. He added that Emerging Market Debt returned -11.07% for the quarter, falling short its benchmark by 53 basis points. Mr. Heiner stated that private equity returned 4.34% for the quarter, coming above its benchmark by 32 basis points. Finally, he stated that the total emerging market equity composite returned -17.48% for the third quarter 2015, exceeding its benchmark by 42 basis points.

CONSENT ITEMS

   (Adoption of Review)
   (Board agenda page III-9)
   [Consent agenda item #(3)]

   MOTION AND VOTE: By unanimous consent, the committee recommended to the State Board of Education to adopt the review of 19 TAC Chapter 33, Statement of Investment Objectives, Policies, and Guidelines of the Texas Permanent School Fund, Subchapter A, State Board of Education Rules.

7. Decision on Real Estate Investments
   (Board agenda page III-73)
   [Consent agenda item #(4)]

   The PSF real estate consultant, Courtland Partners, was represented by Jarrod Rapalje, Senior Analyst, and John Grubenman, PSF, director of private markets. Mr. Grubenman informed the committee that staff had two items to present.

   Mr. Grubenman provided an introduction to a real estate investment recommendation, the Mesa West Real Estate Income Fund IV, L.P. offered by Mesa West Real Estate Income Fund IV GP, LLC as General Partner. Mr. Rapalje described the due diligence process conducted by both Courtland 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 recommends to the State Board of Education approval to execute agreement(s) with Mesa West Real Estate Income Fund IV, GP, LLC, necessary to make an investment commitment of up to $75 million in Mesa West Real Estate Income Fund IV, L.P., subject to continued due diligence and negotiation of fund terms, and authorization for contract execution by the Commissioner of Education.
Mr. Grubenman provided a report on the real estate co-investment program, including an update on the recent transaction activity. He reported that, given the waiver approved by the SBOE at the September 11, 2015 meeting, the transaction is in compliance with standards set forth in the real estate investment policy.

8. Decision on Absolute Return Investments
   (Board agenda page III-75)
   [Consent agenda item #(5)]

Holland Timmins, chief investment officer and executive administrator, and Rhett Humphries, Partner, NEPC, provided the committee an update on the structure of the absolute return program, performance, and the expiration of the Mesirow Advanced Strategies contract on February 29, 2016.

**MOTION**: It was moved by Mr. Ratliff and seconded by Ms. Hardy to not renew Mesirow Advanced Strategies contract and distribute 50% of the fund evenly to Ravens 6 & 7 and 50% directly to a staff managed portfolio.

**MOTION AND VOTE**: It was moved by Mr. Ratliff and seconded by Mr. Mercer to terminate Mesirow Advanced Strategies at the end of their contract and have staff present options at the January meeting for the reallocation of fund. The motion failed.

**MOTION AND VOTE**: It was moved by Mr. Bradley, seconded by Mr. Mercer, and carried that PSF staff along with NEPC bring to the January meeting a proposal to develop a Raven 8.

DISCUSSION ITEMS

9. Presentations on Investment Management Services Provided to the Permanent School Fund
   (Board agenda page III-83)

Ms. Hardy called on Mr. Timmins to introduce the item to the committee.

The following five firms gave presentations from their respective representatives:

- **Investec Asset Management**
  Werner Gey van Pittius, Co-Head of Emerging Markets Fixed Income
  Doug Doucette, Client Director

- **Ashmore Investment Management**
  David Mueller, Senior Client Relationship Manager

- **Stone Harbor Investment Partners**
  Steffen Reichold, Portfolio Manager
  Eran Klein, Client Relationship Manager

- **Bridgewater**
  Paul Podolsky - Senior Portfolio Strategist
  Alan Bowser – Investor Relations
10. Report of the Permanent School Fund Executive Administrator and Chief Investment Officer
   (Board agenda page III-85)

   Mr. Timmins did not have a report for the committee.

   The meeting of the Committee on School Finance/Permanent School Fund adjourned at 2:35 p.m.