The State Board of Education Committee on School Finance/Permanent School Fund met at 9:10 a.m. on Thursday, July 21, 2016, in Room #1-104 of the William B. Travis Building, 1701 N. Congress Avenue, Austin, Texas. The following members of the committee were present:

Presiding: Pat Hardy, chair; Lawrence A. Allen, Jr., vice chair; David Bradley

Absent: 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/ 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. Per Capita Apportionment Rate for the 2015-2016 School Year
   (Board agenda page III-1)
   [Consent agenda item #(4)]

   Leo Lopez, chief school finance officer, presented this item. Mr. Lopez presented a proposed update to the preliminary per capita apportionment rate from $176.437 to $180.320 (Attachment A). Mr. Lopez responded to questions from Mr. Bradley regarding the per capita apportionment rate.

   MOTION AND VOTE: It was moved by Mr. Allen, seconded by Mr. Bradley, and carried unanimously to recommend that the State Board of Education adopt the recommended per capita rate of $180.320 for the 2015-2016 school year (Attachment A).
ACTION ITEM

2. Proposed Amendment to 19 TAC Chapter 129, Student Attendance, Subchapter B, Student Attendance Accounting, §129.21, Requirements for Student Attendance Accounting for State Funding Purposes
(Second Reading and Final Adoption)
(Board agenda page III-3)
[Official agenda item #7]

David Marx, director of Financial Compliance, presented this item. Mr. Marx explained that the proposed amendment would allow paraprofessionals to take attendance for funding purposes when accompanying students to off-campus activities. Mr. Marx responded to questions from Mr. Bradley regarding the amendment.

MOTION AND VOTE: It was moved by Mr. Bradley, seconded by Mr. Allen, and carried unanimously to recommend that the State Board of Education, by an affirmative vote of two-thirds of the members of the board, approve for second reading and final adoption the proposed amendment to 19 TAC Chapter 129, Student Attendance, Subchapter B, Student Attendance Accounting, §129.21, Requirements for Student Attendance Accounting for State Funding Purposes, with an effective date of 20 days after filing as adopted with the Texas Register.

DISCUSSION ITEM

3. Review of Permanent School Fund Securities Transactions and the Investment Portfolio
(Board agenda page III-51)

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 1, 2016 through May 31, 2016, unless otherwise noted. Ms. Civiletto’s report included reporting on the current fair market value of the Fund, the asset allocation mix as of May 31, 2016, PSF transactions occurring in the reporting period, revenues and expenditures for the fiscal period September 1, 2015 through May 31, 2016, the activity on the securities lending program for the fiscal period September 1, 2015 through May 31, 2016, 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, internal fixed income credit rating changes for the fiscal period September 1, 2015 through May 31, 2016, broker commissions on both the internal and external equity portfolios for the period beginning January 1, 2016 through May 31, 2016, 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 March, April and May 2016  
   (Board agenda page III-9)  
   [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 to ratify the purchases and sales for the months of March, April and May 2016, in the amount of $1,280,534,397 and $1,346,569,842, respectively (Attachment B).

DISCUSSION ITEM

5. First Quarter 2016 Permanent School Fund Performance Report  
   (Board agenda page III-53)  

No report was provided to the committee as the information was discussed with the Committee of the Full Board the previous day.

CONSENT ITEMS

6. Overview of the Permanent School Fund Real Estate Policy  
   (Board agenda page III-11)  
   [Consent agenda item #(6)]  

   Tom Hester, senior vice president, represented the PSF real estate consultant, Courtland Partners. John Grubenman, director of private markets, joined Mr. Hester. Mr. Grubenman introduced the topic and discussed recommended changes to select provisions in the Real Estate Investment Policy Statement and the Annual Tactical Plan. Mr. Hester stated that Courtland concurs with the suggested changes to both the policy and the tactical plan. The committee took no action on the item and requested that it be placed on the September agenda.

7. Decision on Real Estate Investments  
   (Board agenda page III-13)  
   [Consent agenda item #(7)]  

   This item was presented by Mr. Hester and Mr. Grubenman. Mr. Grubenman provided an introduction to a real estate investment recommendation, Cerberus Institutional Real Estate Partners IV, L.P. offered by Cerberus Real Estate GP IV, L.L.C., as General Partner. Mr. Hester 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. Mr. Grubenman stated that the board would need to review and approve the manager’s relationship with a placement agent.
MOTION AND VOTE: By unanimous consent, the committee recommended to the State Board of Education approval to execute agreement(s) with Cerberus Real Estate GP IV, L.L.C., necessary to make an investment commitment of up to $75 million in Cerberus Institutional Real Estate Partners IV, L.P., and to approve the relationship between Cerberus Capital Management L.P., and Hodes Weill Securities, LLC, after determining it meets the standards of 19 TAC Chapter 33, Section(j)(5), which has been disclosed in writing, subject to continued due diligence and negotiation of fund terms, and authorization for contract execution by the Commissioner of Education.

8. Decision on Absolute Return Investment Managers
   (Board agenda page III-15)
   [Consent agenda item #8]

Ms. Hardy called on Holland Timmins, executive administrator and chief investment officer, to present the item. Mr. Timmins informed the committee that the contracts for both Blackstone Alternative Asset Management, L.P. and Grosvenor Capital Management, L.P. would expire on August 31, 2016. He discussed the contract extension options with the committee.

MOTION AND VOTE: It was moved by Mr. Bradley, seconded by Mr. Allen, and carried unanimously to amend and extend the contracts with Blackstone Alternative Asset Management, L.P. and Grosvenor Capital Management, L.P. in their capacities as managers for Ravens 4 and 7 and Ravens 1 and 6, respectively, by authorizing the two remaining optional two-year contract extensions allowed by the operating agreements. The operating agreements for Ravens 1, 4, 6 and 7 will receive four-year extensions beginning September 1, 2016 through August 31, 2020. All contract execution is hereby delegated to the Commissioner of Education.

ACTION ITEM

   (Second Reading and Final Adoption)
   (Board agenda page III-17)
   [Official agenda item #8]

Ms. Hardy called on Carlos Veintemillas, deputy chief investment officer/director of fixed income, to address the item. Mr. Veintemillas stated that PSF staff went through a lengthy process and worked with several individuals to update certain portions of the Statement of Investment Objectives, Policies, and Guidelines of the PSF to better reflect the Fund’s asset allocation and to consolidate provisions to eliminate repetition, among other items.

Since the first reading of the proposed amendments the PSF staff sought input from the State Auditor’s Office and the Texas Ethics Commission regarding the proposed amendments to the Board rules on ethics. The State Auditor’s Office did not recommend any changes and the Ethics Commission recommended including references to certain Sections of the Government Code (Secs. 572.021 and 2252.908) and have been incorporated. Further, since first reading, an edit was made to align the guidelines for securities lending with those for the Fund’s fixed income allocation regarding the ratings of securities at time of purchase.
Mr. Chuck Campbell, partner with Jackson & Walker and fiduciary counsel, stated that the proposed amendments to ethics policies are for clarifying purposes. Mr. Veintemillas stated the changes to the investment policies are designed to remove repetitive provisions and reorganize items for clarity.

**MOTION AND VOTE:** It was moved by Mr. Bradley, seconded by Mr. Allen, and carried unanimously to recommend that the State Board of Education by an affirmative vote of two-thirds of the members of the board, approve the 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*, for second reading and final adoption, with an effective date of 20 days after filing as adopted with the *Texas Register*.

**DISCUSSION ITEM**

10. **Report of the Permanent School Fund Executive Administrator and Chief Investment Officer**
   (Board agenda page III-55)

   Mr. Timmins did not have an update for the committee.

The meeting of the Committee on School Finance/Permanent School Fund adjourned at 10:20 a.m.