

ATTACHMENT
Text of 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

§33.5. Code of Ethics.

- (a)-(c) (No change.)
- (d) Definitions. For purposes of this chapter, the following terms shall have the following meanings.
 - (1)-(3) (No change.)
 - (4) PSF Service Providers are the following Persons:
 - (A) any Person who is an external investment manager, as described in §33.20(c)(1) [~~§33.20(b)(1)~~] of this title (relating to Responsible Parties and Their Duties), or who is responsible by contract for providing legal advice regarding the PSF, executing PSF brokerage transactions, or acting as a custodian of the PSF;
 - (B) (No change.)
 - (C) any Person who is Investment Counsel as described in §33.20(c)(4) [~~§33.20(b)(4)~~] of this title or provides consultant services for compensation regarding the management and investment of the PSF;
 - (D)-(G) (No change.)
 - (5)-(6) (No change.)
- (e)-(v) (No change.)

§33.15. Objectives.

- (a) (No change.)
- (b) Goal and objectives for the PSF.
 - (1) Goal. The goal of the SBOE for the PSF shall be to invest for the benefit of current and future generations of Texans consistent with the safety of principal, considering [~~in light of~~] the strategic asset allocation plan adopted. To achieve this goal, PSF investment shall always be carefully administered [~~at all times~~] .
 - (2) (No change.)
- (c) (No change.)
- (d) Asset allocation policy.
 - (1) The SBOE shall adopt and implement a strategic asset allocation plan based on a well-diversified [~~well diversified~~] , balanced investment approach that uses a broad range of asset classes indicated by the following characteristics of the PSF:
 - (A)-(G) (No change.)
 - (2) (No change.)
 - (3) The SBOE Committee on School Finance/Permanent School Fund, with the advice of the PSF investment staff, shall review the provisions of this section at least annually and, as needed, rebalance the assets of the portfolio according to the asset allocation rebalancing procedure specified in the PSF Investment Procedures Manual. The SBOE Committee on School

Finance/Permanent School Fund shall consider the industry diversification and the percentage allocation within the following asset classes:

(A)-(I) (No change.)

(J) high yield;

~~[(J) risk parity;]~~

(K)-(L) (No change.)

(4)-(5) (No change.)

§33.25. Permissible and Restricted Investments and General Guidelines for Investment Managers.

(a) (No change.)

(b) Prohibited transactions and restrictions. Except as provided in subsection (a) of this section or as approved or delegated by the SBOE, the following prohibited transactions and restrictions apply to all Texas Permanent School Fund (PSF) investment managers with respect to the investment or handling of PSF assets, except as otherwise noted:

(1)-(5) (No change.)

(6) purchasing the equity or debt securities of the PSF investment manager's own organization or an affiliated organization, but excluding purchases with respect to indexed or passively managed portfolios ;

(7) engaging in any purchasing transaction, after which the cumulative market value of common stock in a single corporation exceeds 2.5% of the PSF total market value or 5.0% of the manager's total portfolio market value, but excluding purchasing transactions with respect to indexed or passively managed portfolios ;

(8) engaging in any purchasing transaction, after which the cumulative number of shares of common stock in a single corporation held by the PSF exceeds 5.0% of the outstanding voting stock of that issuer, but excluding purchasing transactions with respect to indexed or passively managed portfolios ;

(9)-(11) (No change.)

(12) purchasing any publicly traded fixed income security rated below BB- [not rated investment grade] by Standard & Poor's [~~(BBB-)~~], Ba3 by Moody's [~~(Baa3)~~], or BB- by Fitch [~~(BBB-)~~], subject to the provisions of the PSF Investment Procedures Manual and the following restrictions:

(A) when ratings are provided by the three rating agencies, the middle rating shall be used;

(B) when ratings are provided by two ratings agencies, the lower rating is used; or

(C) when a rating is provided by one rating agency, the sole rating is used;

(13) purchasing any publicly traded fixed income securities that are rated below investment grade by Standard & Poor's (below BBB-), Moody's (below Baa3), or Fitch (below BBB-), with such rating as determined in accordance with paragraph (12)(A)-(C) of this subsection, if the cumulative market value of such below investment grade rated securities after such purchase exceeds 5% of the total portfolio market par value of the PSF fixed income portfolio;

(14) [(13)] purchasing short-term money market instruments rated below A-1 by Standard & Poor's or P-1 by Moody's;

(15) [(14)] engaging in any transaction that results in unrelated business taxable income (excluding current holdings);

(16) [(15)] engaging in any transaction considered a "prohibited transaction" under the Internal Revenue Code or the Employee Retirement Income Security Act (ERISA);

(17) [(16)] purchasing precious metals or other commodities;

(18) ~~(17)~~ engaging in any transaction that would leverage a manager's position;

(19) ~~(18)~~ lending securities owned by the PSF, but held in custody by another party, such as a bank custodian, to any other party for any purpose, unless lending securities according to a separate written agreement the SBOE approved; and

(20) ~~(19)~~ purchasing fixed income securities without a stated par value amount due at maturity.

(c)-(d) (No change.)

§33.35. Guidelines for the Custodian and the Securities Lending Agent for the Texas Permanent School Fund (PSF) and the PSF Liquid Account .

Completing custodial and security lending functions in an accurate and timely manner is necessary for effective investment management and accurate records.

(1) A custodian shall have the following responsibilities regarding the segments of the funds for which the custodian is responsible.

(A) (No change.)

(B) Provide for daily investment of any cash ~~[on a daily basis]~~ to avoid uninvested amounts.

(C)-(I) (No change.)

(2) (No change.)

§33.60. Performance and Review Procedures.

As requested by the State Board of Education (SBOE) or Texas Permanent School Fund (PSF) investment staff, evaluation and periodic investment reports shall supply critical information on a continuing basis, such as the amount of trading activity, investment performance, cash positions, diversification ratios, rates of return, and other perspectives of the portfolios. The reports shall address compliance with investment policy guidelines.

(1)-(2) (No change.)

(3) Reports to the School Land Board. Each quarter, the SBOE shall provide the School Land Board a financial report on the portion of the PSF assets and funds for which the SBOE is responsible in accordance with Texas Education ~~[Natural Resources]~~ Code, §43.0052.

(4)-(6) (No change.)