The State Board of Education Committee on School Finance/Permanent School Fund met at 9:07 a.m. on Thursday, June 13, 2019, in 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 Allen, Jr., vice chair; Donna Bahorich; Patricia Hardy; Ken Mercer

Non-Committee Members Present: Aicha Davis

Public Testimony

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

DISCUSSION ITEM

1. Discussion of 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

   The committee discussed a proposed amendment to 19 Texas Administrative Code (TAC) Chapter 129, Student Attendance, Subchapter B, Student Attendance Accounting, §129.21, Requirements for Student Attendance Accounting for State Funding Purposes. The proposed amendment would update the rule to allow school districts and charter schools flexibility when selecting an official attendance-taking time during a campus's instructional day.

ACTION ITEM


   Yolanda Walker, manager, financial compliance, explained the proposed amendment to 19 TAC Chapter 109, Budgeting, Accounting, and Auditing, Subchapter C, Adoptions By Reference, §109.41, Financial Accountability System Resource Guide. The proposed amendment would update the Financial Accountability System Resource Guide (FASRG) and remove language relating to the commissioner's role in amending the FASRG. No changes are recommended since approved for first reading.
MOTION AND VOTE: It was moved by Mr. Mercer, seconded by Mrs. Bahorich, and carried unanimously to recommend that the State Board of Education approve for second reading and final adoption the proposed amendment to 19 TAC Chapter 109, Budgeting, Accounting, and Auditing, Subchapter C, Adoptions By Reference, §109.41, Financial Accountability System Resource Guide; and

Make an affirmative finding that immediate adoption of the proposed amendment to 19 TAC Chapter 109, Budgeting, Accounting, and Auditing, Subchapter C, Adoptions By Reference, §109.41, Financial Accountability System Resource Guide, is necessary and shall have an effective date of 20 days after filing as adopted with the Texas Register.

CONSENT ITEM

3. Per Capita Apportionment Rate for the 2018-2019 School Year
   (Board agenda page III-11)
   [Consent agenda item #(4)]

   Al McKenzie, director, state funding, advised the committee that funding was available to set the recommended per capita apportionment rate at $486.231 for the 2018–2019 school year, an increase over the preliminary rate of $459.764.

   MOTION AND VOTE: It was moved by Mr. Allen, seconded by Mr. Maynard, and carried unanimously to recommend that the State Board of Education approve a per capita rate of $486.231 for the 2018-2019 school year.

DISCUSSION ITEM

4. Review of Permanent School Fund Securities Transactions and the Investment Portfolio
   (Board agenda page III-14)

   Catherine Civiletto, deputy executive administrator, provided a summary of the status of the Permanent School Fund portfolio. Reports presented to the committee were for the reporting period February 2019 through April 2019 unless otherwise noted. Ms. Civiletto’s report included the current fair market value of the Fund, the asset allocation mix as of April 30, 2019, Permanent School Fund (PSF) transactions occurring in the reporting period, revenues and expenditures for the fiscal period September 1, 2018, through April 30, 2019, the activity in the securities lending program for the fiscal period September 1 through April 30, 2019, the status of transfers from the General Land Office per the agreed upon resolution 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 January 1, 2018, through April 30, 2019, fixed income rating changes for the fiscal period September 1, 2018, through April 30, 2019, and short-term cash investments.

CONSENT ITEM

5. Ratification of the Purchases and Sales of the Investment Portfolio of the Permanent School Fund for the Months of February, March and April 2019
   (Board agenda page III-15)
   [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 recommend that the State Board of Education ratify the purchases and sales for the months of February through April 2019, in the amount of $1,426,554,579 and $1,822,308,700, respectively (Attachment A).

**DISCUSSION ITEM**

6. **First Quarter 2019 Permanent School Fund Performance Report**  
   (Board agenda page III-16)

   Ms. Lori Roeller of BNY Mellon Global and Risk Solutions, presented the first quarter of 2019 PSF performance report. Ms. Roeller began with an overview of the U.S and foreign capital markets. Ms. Roeller then reviewed the performance of the Fund for the first quarter of 2019. She stated that the PSF returned 6.33% for the first quarter, outperforming the target benchmark by one basis point. Ms. Roeller attributed most of the outperformance to Emerging Market Equities, Risk Parity and Fixed Income.

   Ms. Roeller reviewed first quarter 2019 performance of the Permanent School Fund by asset class, stating that the total domestic large cap equity composite outperformed its benchmark for the quarter by five basis points. Ms. Roeller added that Small/Midcap Equity portfolio outperformed its benchmark by four basis points. She added that international equities returned 10.35% for the quarter, outperforming its benchmark by 11 basis points during the period. The fixed income portfolio returned 3.18% for the quarter, outperforming its benchmark by 24 basis points. Ms. Roeller stated that the Absolute Return composite returned 2.9% for the quarter, underperforming its benchmark, the HFRI Fund of Funds Composite Index, by 178 basis points. Ms. Roeller added that the Real Estate composite returned 1.65% for the quarter, outperforming its benchmark by 17 basis points. Ms. Roeller added that Total Risk Parity Strategies returned 9.57% in the first quarter of 2019, outperforming its benchmark by 26 basis points. She further stated that the Real Return Asset class returned 5.0% for the quarter, outperforming its benchmark by 23 basis points. She added that Emerging Market Debt returned 3.4% for the quarter, underperforming its benchmark by 22 basis points. Ms. Roeller stated that private equity returned 0.06% for the quarter, lagging its benchmark by nine basis points. Finally, she stated that the total emerging market equity composite returned 10.21% for the first quarter 2019, beating its benchmark by 30 basis points.

**CONSENT ITEMS**

7. **Permanent School Fund Pending Contract Renewals**  
   (Board agenda page III-17)  
   [Consent agenda item #6]

   Holland Timmins, executive administrator and chief investment officer, stated the purpose of the item was for the committee and board to review and consider extensions of contracts for StepStone Group Real Estate LP (formerly known as Courtland Partners, Ltd.), Navarro 1 Fund, LLC (Blackrock Investment Management, LLC), and Raven 8 Fund, LLC (Grosvenor Capital Management).

   **MOTION AND VOTE:** By unanimous consent, the committee recommended that the State Board of Education approve execution of agreements necessary to renew the standard contracts with StepStone Group Real Estate LP for real estate investment services through August 31, 2023; Navarro 1 Fund LLC for investment management services through August 31, 2024; and Raven 8 Fund, LLC for hedge
fund investment services through August 31, 2021, as presented, and authorization for contract execution by the Commissioner of Education.

8. Review of the Bond Guarantee Program Charter Capacity
   (Board agenda page III-18)
   [Consent agenda item #(7)]

   Mr. Timmins briefly discussed the most recent reports on the PSF credit rating and reviewed the schedule for increasing the bond guarantee program capacity for charter district bonds by 20%. He indicated that if the board took no action, the charter capacity would automatically increase.

   No action was taken on this item.

9. Review of the Permanent School Fund Emerging Market Equities Asset Class
   (Board agenda page III-19)
   [Consent agenda item #(8)]

   Mr. Timmins introduced Jared Stout, portfolio manager, to provide a review of the emerging market equities asset class. Keith Stronkowski, Senior Consultant at NEPC, also provided an overview of the emerging market equities asset class. Both staff and NEPC recommended that QMA be terminated and the net assets be reinvested with BlackRock Navarro 1.

   **MOTION AND VOTE:** By unanimous consent, the committee recommended that the State Board of Education terminate QMA and allocate funds to BlackRock Navarro 1 Fund, LLC.

10. Permanent School Fund Related Legislation, 86th Legislature, Regular Session
    (Board agenda page III-20)
    [Consent agenda item #(9)]

    Mr. Timmins summarized the main provision of Senate Bill 608 which increases the School Land Board (SLB) membership from three to five, with the four members other than the land commissioner appointed by the governor. Two of the gubernatorial appointees must be selected from lists of six nominees submitted by the SBOE. The bill also requires the SLB and SBOE to have a joint annual meeting to discuss PSF investments and asset allocation.

    Mr. Timmins summarized House Bill 4388 which creates the Permanent School Fund Liquid Account, requires the SBOE and SLB to send each other quarterly reports containing certain information on the PSF, and requires the Texas Education Agency to conduct a study on the distributions from the PSF to the Available School Fund.

    **MOTION AND VOTE:** In recognition of the passage of House Bill 4388 by the 86th Texas Legislature, Regular Session, which established the Permanent School Fund Liquid Asset Account in the Permanent School Fund to be managed by the State Board of Education in the same manner that the Permanent School Fund is managed by the board, it was moved to recommend that the State Board of Education apply the provisions of 19 TAC, Chapter 33, related to the investment and management of liquid assets of the Permanent School Fund to the management of the Permanent School Fund Liquid Account until such rules can be updated to reflect the addition of the Permanent School Fund Liquid Account.

    Furthermore, the committee recommended that, upon receipt from the School Land Board, the State
Board of Education authorize the staff of the PSF division of the Texas Education Agency to invest and manage the assets in the Permanent School Fund Liquid Account using the Bloomberg Barclays U.S. Aggregate 1-3 Year Total Return Index as the benchmark.

DISCUSSION ITEM

11. Discussion of Emerging and Diverse Investment Management in Alternative Asset Classes
   (Board agenda page III-21)

   Mr. Timmins introduced Sam Austin, Partner, and Mr. Stronkowsky, senior consultant at NEPC who provided the committee with an overview of their Emerging and Diverse Investment Manager program framework.

   Steven Brewster, managing director, and Derek Jones, managing director from Grosvenor Capital Management provided a companion presentation related to best practices and opportunities in alternative asset classes.

CONSENT ITEM

12. Review of the Permanent School Fund Asset Allocation
   (Board agenda page III-22)
   [Consent agenda item #(10)]

   Mr. Timmins called on Mr. Stronkowsky to present a review of the Permanent School Fund asset allocation. Both staff and NEPC recommended that no changes be made at this time. The committee directed staff and NEPC to bring back a recommendation for long-term strategic asset allocation for consideration at the June 2020 board meeting.

   No action was taken on this item.

DISCUSSION ITEM

13. Report of the Permanent School Fund Executive Administrator and Chief Executive Officer
   (Board agenda page III-23)

   No report was provided.

The meeting of the Committee on School Finance/Permanent School Fund adjourned at 1:43 p.m.
TEXAS PERMANENT SCHOOL FUND
SUMMARY OF TRANSACTIONS FOR APPROVAL
(INCLUDING EXTERNAL MANAGER’S TRades)
FOR FEBRUARY 1, 2019 THROUGH APRIL 30, 2019

Purchases/Capital Calls:
Long Term Fixed Income $ 658,174,359
Public Market Equities 161,695,161
Alternative Investments 606,685,059

TOTAL $ 1,426,554,579

Sales/Distributions:
Long Term Fixed Income $ 825,308,822
Public Market Equities 511,918,427
Alternative Investments 485,081,451

TOTAL $ 1,822,308,700

General Land Office Contributions:

<table>
<thead>
<tr>
<th></th>
<th>FY 2018</th>
<th>FY 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cumulative</td>
<td>$117,500,000</td>
<td>$127,500,000</td>
</tr>
<tr>
<td>April 2018</td>
<td></td>
<td></td>
</tr>
<tr>
<td>April 2019</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Based on the above information provided by staff including a report that deposits to the Permanent School Fund from the General Land Office were $127,500,000 through April 2019 for fiscal year 2019 versus $117,500,000 through April 2018 for fiscal year 2018, 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 February 2019, March 2019, and April 2019 Permanent School Fund portfolio purchases of $1,426,554,579 and sales of $1,822,308,700.