

**Report of the State Board of Education  
Committee on School Finance/Permanent School Fund  
September 1, 2020**

**(Permanent School Fund Items)**

The State Board of Education Committee on School Finance/School Finance Fund conducted a virtual meeting at 11:03 a.m. on Tuesday, September 1, 2020. Attendance was noted as follows:

Present: Tom Maynard, chair; Lawrence A. Allen, Jr., vice chair; Donna Bahorich; Pat Hardy; Ken Mercer

**Public Testimony**

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

**DISCUSSION ITEM**

**1. Per Capita Apportionment Rate for the 2020-2021 School Year**

(Board agenda page III-1)

Amy Copeland, director, state funding, provided an update on the proposed preliminary per capita apportionment rate of \$411.574 for the 2020-2021 school year. She explained what the per capita apportionment rate is, how it is funded, and what it does.

**2. Review of the Study of the Permanent School Fund Distributions as defined in House Bill 4388, 86<sup>th</sup> Legislature, 2019**

(Board agenda page III-2)

Jim Voytko, president, senior consultant, director of research, principal and Ryan Sullivan, senior consultant, principal of RVK, Inc., presented an overview on the review of the study of the Permanent School Fund Distributions as required by House Bill 4388, 86<sup>th</sup> Texas Legislature, 2019.

**3. Review of Permanent School Fund Securities Transactions and the Investment Portfolio**

(Board agenda page III-3)

Catherine Civileto, deputy executive administrator, provided a summary on the status of the Permanent School Fund (PSF) portfolio. Reports presented to the committee were for the reporting period of May and June 2020 unless otherwise noted. Ms. Civileto's report included the current fair market value of the Fund; the asset allocation mix as of June 30, 2020; PSF transactions occurring in the reporting period; revenues and expenditures for the fiscal year period of September 1, 2019, to June 30, 2020; the activity in the securities lending program for the fiscal period beginning September 1, 2019, through August 31, 2020; the status of transfers from the General Land Office as of June 30, 2020, per approved resolutions; the 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, 2020, through June 30, 2020; fixed income rating changes for the fiscal period September 1, 2019, through June 30, 2020; and short-term cash investment.

## **CONSENT ITEM**

### **4. Ratification of the Purchases and Sales of the Investment Portfolio of the Permanent School Fund for the Months of May and June 2020**

(Board agenda page III-4)

[Consent agenda item #(1)]

**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 May and June 2020 in the amounts of \$895,238,762 and \$1,065,447,343 respectively (Attachment A).*

## **DISCUSSION ITEM**

### **5. Second Quarter 2020 Permanent School Fund Performance Report**

(Board agenda Page III-5)

Mr. Mike Maher, vice president of BNY Mellon Global and Risk Solutions, presented the second quarter 2020 Permanent School Fund performance report. Mr. Maher began with an overview of the U.S and foreign capital markets and then reviewed the performance of the Fund for the second quarter of 2020. He stated that the PSF returned 7.89% net of fees for the second quarter underperforming the target benchmark by 53 basis points. Mr. Maher attributed most of the underperformance to Private Equity and Risk Parity.

Mr. Maher reviewed the second quarter 2020 performance of the Permanent School Fund by asset class, stating that the total domestic large cap equity composite returned 20.55%, outperforming its benchmark for the quarter by one basis point. Mr. Maher added that Small/Midcap Equity portfolio returned 23.44% in the quarter, underperforming its benchmark by three basis points. He added that international equities returned 16.60% for the quarter, outperforming its benchmark by 12 basis points for the period.

The fixed income portfolio returned 4.45% for the quarter, outperforming its benchmark by 155 basis points. Mr. Maher stated that the Absolute Return composite returned 6.18% for the quarter, underperforming its benchmark, the HFRI Fund of Funds Composite Index, by 194 basis points. Mr. Maher added that the Real Estate composite returned -0.62% for the quarter, outperforming its benchmark by 151 basis points. Mr. Maher added that Total Risk Parity Strategies returned 6.68% in the second quarter of 2020, underperforming its benchmark by 664 basis points. He further stated that the Real Return Asset class returned 5.39% for the quarter, outperforming its benchmark by 68 basis points. He added that Emerging Market Debt returned 10.74% for the quarter, outperforming its benchmark by 92 basis points. Mr. Maher stated that private equity returned -6.92% for the quarter, underperforming its benchmark by 41 basis points. Finally, he stated that the total emerging market equity composite returned 18.37% for the second quarter 2020, beating its benchmark by 28 basis points.

## **ACTION ITEM**

### **6. Determination as to Whether Transfers May be Made from the Permanent School Fund to the Available School Fund**

(Board agenda page III-6)

[Consent agenda item #(2)]

Carlos Veintemillas, deputy chief investment officer and director of fixed income, gave a presentation describing the two constitutional limits on distributions from the Permanent School Fund. The two limits require that an annual distribution cannot be greater than six percent of the value of the Fund assets and the total amount of distributions from the current and previous nine state fiscal years cannot exceed the total return on the Fund assets over the same time period. Mr. Veintemillas stated that both tests were satisfied, allowing for a distribution from the PSF to the Available School Fund for fiscal year 2021.

Keith Stronkowsky, senior consultant, NEPC, LLC stated that NEPC, LLC agreed with PSF staff recommendations.

**MOTION AND VOTE:** *By unanimous consent, the committee recommended that the State Board of Education approve a distribution to the Available School Fund of approximately \$1.102 billion for fiscal year 2021.*

## **DISCUSSION ITEM**

### **7. Discussion 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**

(Board agenda page III-7)

Mr. Veintemillas stated that the agenda item was for discussion only and provided an opportunity to notify the committee of the amendments to be proposed, which will include adjustments to reflect the changes to the asset allocation adopted in July 2020, items related to the PSF Liquid Account, and the management of internal public market portfolios.

Holland Timmins, executive administrator and chief investment officer, said he anticipated that the item would be brought back at the next meeting for first reading and filing authorization.

## **ACTION ITEMS**

### **8. Proposed Amendments to the Investment Procedures Manual**

(Board agenda page III-54)

[Consent agenda item #(3)]

Mr. Veintemillas provided an overview of the amendments to the Investment Procedures Manual. He noted some of the amendments were made due to the Permanent School Fund Liquid Account as well as changes to the strategic asset allocation plan.

Chuck Campbell, partner, Jackson Walker, LLP, and fiduciary counsel provided a summary of the amendments he provided counsel on and explained why the amendments were appropriate.

**MOTION AND VOTE:** *By unanimous consent, the committee recommended that the State Board of Education approve the amendments to the Investment Procedures Manual as presented by staff.*

**9. Review of the Permanent School Fund Real Estate Policy and Tactical Plan**

(Board agenda page III-55)  
[Consent agenda item #(4)]

The PSF real estate consultant, StepStone Real Estate Group, was represented by Andrew Mitro, managing director, and Tom Hester, managing director, and, joined by John Grubenman, director of private markets, and Nick Tramontana, managing director, real estate for PSF.

Mr. Grubenman introduced the topic. Mr. Mitro and Mr. Hester provided the annual update on the PSF Real Estate Program. Finally, Mr. Tramontana presented the Real Estate Annual Tactical Plan, Appendix B of the Real Estate Investment Policy Statement.

**MOTION AND VOTE:** *By unanimous consent, the committee recommended that the State Board of Education approve the proposed Real Estate Annual Tactical Plan as presented.*

**10. Authorization to Issue a Request for Proposals for Emerging Manager Investment Management in the Private Equity and Real Estate Asset Classes for the Permanent School Fund**

(Board agenda page III-56)  
[Consent agenda item #(5)]

Mr. Timmins presented the key points relevant to the issuance of the Request for Proposals (RFP) for Investment Management Services for a Private Equity Emerging Manager program and a Private Real Estate Emerging Manager program for the Texas Permanent School Fund and the State Board of Education. Ms. Civiletto provided an overview of the RFP posting and procurement process. Mr. Stronkowski discussed NEPC's role in the development of the RFP.

**MOTION AND VOTE:** *By unanimous consent, the committee recommended that the State Board of Education approve the issuance of the Request for Proposals for Investment Management Services for a Private Equity Emerging Manager program and a Private Real Estate Emerging Manager program for the Texas Permanent School Fund and the State Board of Education.*

**DISCUSSION ITEM**

**11. Report of the Permanent School Fund Executive Administrator and Chief Executive Investment Officer**

(Board agenda page III-57)

Mr. Timmins provided the committee an update on the status of the risk parity asset class.

The meeting of the Committee on School Finance/Permanent School Fund adjourned at 2:21 p.m.

**TEXAS PERMANENT SCHOOL FUND  
SUMMARY OF TRANSACTIONS FOR APPROVAL  
(Including External Manager's Trades)  
For May 1, 2020 through June 30, 2020**

Purchases/Capital Calls:

Long Term Fixed Income	\$ 336,201,370
Public Market Equities	319,055,015
Alternative Investments	<u>239,982,377</u>
<b>TOTAL</b>	<b><u>\$ 895,238,762</u></b>

Sales/Distributions:

Long Term Fixed Income	\$ 82,953,444
Public Market Equities	476,890,991
Alternative Investments	<u>505,602,908</u>
<b>TOTAL</b>	<b><u>\$ 1,065,447,343</u></b>

General Land Office Contributions:

FY 2019 Cumulative June 2019	FY 2020 Cumulative June 2020
\$191,250,000	\$7,500,000

Based on the above information provided by staff including a report that deposits to the Permanent School Fund from the General Land Office were \$191,250,000 through June 2019 for fiscal year 2019 versus \$7,500,000 through June 2020 for fiscal year 2020, 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 May 2020 and June 2020 Permanent School Fund portfolio purchases of \$895,238,762 and sales of \$1,065,447,343.