

**Report of the State Board of Education  
Committee on School Finance/Permanent School Fund  
September 12, 2019**

**(School Finance Items)**

The State Board of Education Committee on School Finance/Permanent School Fund met at 9:02 a.m. on Thursday, September 12, 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 A. 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.

The Committee on School Finance/Permanent School Fund heard the school finance items in this order: Items 1 and 11.

**ACTION ITEM**

1. **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 (First Reading and Filing Authorization)**  
(Board agenda page III-1)  
[Official agenda item #12]

David Marx, director, financial compliance, explained the proposed update to the rule regarding attendance-taking time.

**MOTION AND VOTE:** *It was moved by Mr. Allen and carried unanimously to recommend that the State Board of Education approve for first reading and filing authorization 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.*

**CONSENT ITEM**

**11. Per Capita Apportionment Rate for the 2019-2020 School Year**

(Board agenda page III-63)

[Consent agenda item #(8)]

Amy Copeland, assistant director, state funding, proposed a preliminary per capita apportionment rate of \$259.207 for the 2019-2020 school year and distributed an exhibit that explained the rate to committee members.

**MOTION AND VOTE:** *It was moved by Mr. Allen and carried unanimously to recommend that the State Board of Education adopt the preliminary per capita rate of \$259.207 for the 2019-2020 school year (Attachment A).*

**EXHIBIT**  
2019–2020 Preliminary Per Capita Rate

**TEXAS EDUCATION AGENCY**

Recommendation for Per Capita Rate  
2019–2020

Preliminary Rate as of September 12, 2019

Total Available for Expenditures per Projection	<b><u>1,305,008,476</u></b>
Divided by Estimated 2018–2019 Refined ADA	<b><u>5,034,600.775</u></b>
Proposed Preliminary Per Capita Rate	<b><u>\$ 259.207</u></b>

**Report of the State Board of Education  
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September 12, 2019**

**(Permanent School Fund Items)**

The State Board of Education Committee on School Finance/Permanent School Fund met at 9:02 a.m. on Thursday, September 12, 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 A. Allen, Jr., vice chair; Donna Bahorich; Patricia Hardy; Ken Mercer

**DISCUSSION ITEM**

**2. Review of Permanent School Fund Securities Transactions and the Investment Portfolio**  
(Board agenda page III-6)

Catherine Civileto, deputy executive administrator, provided a summary of the status of the Permanent School Fund (PSF) portfolio. Reports presented to the committee were for the reporting period May 2019 through July 2019 unless otherwise noted. Ms. Civileto's report included the current fair market value of the Fund; the asset allocation mix as of July 31, 2019; PSF transactions occurring in the reporting period; revenues and expenditures for the fiscal year to date September 1, 2018, through July 31, 2019; the activity in the securities lending program for the fiscal year to date September 1, 2018, through July 31, 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 July 31, 2019; fixed income rating changes for the fiscal period September 1, 2018, through July 31, 2019; and short-term cash investments.

**CONSENT ITEM**

**3. Ratification of the Purchases and Sales of the Investment Portfolio of the Permanent School Fund for the Months of May, June, and July 2019**

(Board agenda page III-7)

[Consent agenda item #(4)]

**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 through July 2019, in the amount of \$1,687,046,391 and \$1,622,061,401, respectively (Attachment A).*

## DISCUSSION ITEM

### **4. Second Quarter 2019 Permanent School Fund Performance Report**

(Board agenda page III-8)

Ms. Lori Roeller of BNY Mellon Global and Risk Solutions, presented the second quarter 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 second quarter of 2019. She stated that the PSF returned 3.27% for the second quarter, outperforming the target benchmark by 19 basis point. Ms. Roeller attributed most of the outperformance to Private Equity and Risk Parity.

Ms. Roeller reviewed second quarter 2019 performance of the PSF by asset class, stating that the total domestic large cap equity composite outperformed its benchmark for the quarter by two basis points. Ms. Roeller added that Small/Midcap Equity portfolio lagged its benchmark by one basis point. She added that International Equities returned 2.79% for the quarter, outperforming its benchmark by 23 basis points during the period. The fixed income portfolio returned 3.36% for quarter, outperforming its benchmark by 28 basis points. Ms. Roeller stated that the Absolute Return composite returned 2.01% for the quarter, outperforming its benchmark, the HFRI Fund of Funds Composite Index, by 13 basis points. Ms. Roeller added that the Real Estate composite returned 1.58% for the quarter, outperforming its benchmark by 41 basis points. Ms. Roeller added that Total Risk Parity Strategies returned 4.75% in the second quarter of 2019, outperforming its benchmark by 79 basis points. She further stated that the Real Return Asset class returned 0.83% for the quarter, underperforming its benchmark by three basis points. She added that Emerging Market Debt returned 5.59% for the quarter, underperforming its benchmark by four basis points. Ms. Roeller stated that Private Equity returned 4.36% for the quarter, exceeding its benchmark by 84 basis points. Finally, she stated that the total Emerging Market Equity composite returned 0.93% for the second quarter 2019, beating its benchmark by 32 basis points.

## CONSENT ITEMS

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

(Board agenda page III-9)

[Consent agenda item #(5)]

Carlos Veintemillas, deputy chief investment officer and director of fixed income, gave a presentation describing the two constitutional limits on distributions from the PSF. 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 2020.

Mr. Veintemillas stated that Rhett Humphreys, Partner, NEPC, LLC, and Keith Stronkowsky, Senior Consultant, 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 2020.*

**6. Proposed Amendments to the Investment Procedures Manual**

(Board agenda page III-10)

[Consent agenda item #(6)]

Mr. Veintemillas provided an overview of the amendments to the investment procedures manual. He noted many of the amendments were made due to the addition of the Permanent School Fund Liquid Account.

**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.*

**DISCUSSION ITEM**

**7. 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**

(Board agenda page III-11)

Holland Timmins, executive administrator and chief investment officer, stated that the Texas Government Code establishes that rules should be reviewed every four years. He stated that the last time the board reviewed Chapter 33 under this context was 2015 and that the need for the rules still exists. Mr. Timmins added that staff will bring the item back to the board at the November meeting to adopt the rule review.

**CONSENT ITEM**

**8. Review of the Permanent School Fund Liquid Account**

(Board agenda page III-60)

[Consent agenda item #(7)]

Rhett Humphreys, Partner, NEPC, LLC, and Keith Stronkowsky, Senior Consultant, NEPC, LLC, gave a presentation on the asset allocation scope and implementation of the Permanent School Fund Liquid Account that was created by House Bill (HB) 4388, 86<sup>th</sup> Texas Legislature, and took effect September 1, 2019. The recommendation is for the investment of the funds in the account to be implemented in two phases. Phase 1 is to develop near-term portfolio objectives and efficiently gain exposures to outperform cash. Phase 2 is to develop and implement a long-term plan for a diversified portfolio of liquid assets.

Mr. Timmins and Mr. Veintemillas stated that the staff had several discussions with NEPC about the Liquid Account and NEPC supports the recommendations.

**MOTION AND VOTE:** *By unanimous consent, the committee recommended that the State Board of Education direct the Texas Education Agency to invest and manage, over the near-term, the Permanent School Fund Liquid Account against a blended benchmark consisting of the three-month U.S. Treasury bill and the Bloomberg Barclays U.S. Aggregate 1-3 Year Total Return Index as allocated at the end of the prior month.*

## **DISCUSSION ITEMS**

### **9. Discussion of Emerging and Diverse Investment Management in Alternative Asset Classes** (Board agenda page III-61)

Mr. Timmins introduced Kirk Sims, emerging manager program director, and Jase Auby, deputy chief investment officer, investment management division of the Teacher Retirement System (TRS) of Texas. Mr. Auby provided the committee with an overview of the history of the emerging manager program and Mr. Sims reviewed the guidelines and current state of the TRS Emerging Manager Investment Fund.

### **10. Report of the Permanent School Fund Executive Administrator and Chief Executive Officer** (Board agenda page III-62)

Mr. Timmins provided the committee an update on HB 4388 passed by the 86<sup>th</sup> Texas Legislature and the required study of the Permanent School Fund distributions. He notified the committee that initial discussions between the PSF and both the General Land Office and NEPC have begun and that the report is due on June 1, 2020.

The meeting of the Committee on School Finance/Permanent School Fund adjourned at 12:16 p.m.

**TEXAS PERMANENT SCHOOL FUND  
SUMMARY OF TRANSACTIONS FOR APPROVAL  
(Including External Manager's Trades)  
For May 1, 2019 through July 31, 2019**

Purchases/Capital Calls:

Long Term Fixed Income	\$ 592,747,743
Public Market Equities	396,581,420
Alternative Investments	<u>697,717,228</u>
<b>TOTAL</b>	<b><u>\$ 1,687,046,391</u></b>

Sales/Distributions:

Long Term Fixed Income	\$ 567,978,585
Public Market Equities	543,879,249
Alternative Investments	<u>510,203,567</u>
<b>TOTAL</b>	<b><u>\$ 1,622,061,401</u></b>

General Land Office Contributions:

FY 2018 Cumulative July 2018	FY 2019 Cumulative July 2019
\$176,250,000	\$191,250,000

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 July 2019 for fiscal year 2019 versus \$176,500,000 through July 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 May 2019, June 2019, and July 2019 Permanent School Fund portfolio purchases of \$1,687,046,391 and sales of \$1,622,061,401.