

**Report of the State Board of Education  
Committee on School Finance/Permanent School Fund  
Thursday, April 7, 2022**

The State Board of Education Committee on School Finance/Permanent School Fund met at 11:40 a.m. on Thursday, April 7, 2022, in the State Board of Education Room, 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; Keven Ellis; Patricia Hardy; Marisa B. Perez-Diaz

Non-Committee Members Present: Will Hickman

**Public Testimony**

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

**ACTION ITEM**

- 1. Proposed Amendment to 19 TAC Chapter 109, Budgeting, Accounting, and Auditing, Subchapter C, Adoptions By Reference, §109.41, Financial Accountability System Resource Guide (First Reading and Filing Authorization)**  
(Board agenda page III-1)  
[Official agenda item #16]

David Marx, senior director, financial compliance, explained that the proposed amendment would adopt by reference the updated *Financial Accountability System Resource Guide* (FASRG). He explained the purpose of the guide, what it includes, why it is being updated, and what aspects are being updated.

**MOTION AND VOTE:** *It was moved by Mr. Allen, seconded by Ms. Perez-Diaz, 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 109, Budgeting, Accounting, and Auditing, Subchapter C, Adoptions By Reference, §109.41, Financial Accountability System Resource Guide, and placement of this item on the April 8, 2022, consent agenda.*

## **DISCUSSION ITEM**

### **2. Report by the State Auditor’s Office on the Audit of the Permanent School Fund’s Financial Statements and Certification of the Bond Guarantee Program for the Fiscal Year Ending August 31, 2021**

(Board agenda page III-7)

Holland Timmins, executive administrator and chief investment officer, introduced Michael Clayton, audit manager, and Amadou Ngaide, managing auditor from the State Auditor’s Office (SAO) for presentation of the annual audit of the Permanent School Fund (PSF) for the year ending August 31, 2021, and for presentation of results of the Certification of the PSF’s Bond Guarantee Program for fiscal year 2021.

Mr. Ngaide reported that the SAO issued an unmodified (“clean”) opinion on the financial statements audited for the period. He stated that the SAO conducted a review of internal controls and identified no reportable weakness or other items at the Texas Education Agency.

Mr. Ngaide then presented the results of the Certification of the PSF’s Bond Guarantee Program for the fiscal period. He stated that the amount of bonds guaranteed during FY 2021 was within all regulatory limits established by the Texas Education Code (§45.053(a) and (d), and §45.0531(a) and (b)), the Internal Revenue Service (Notice 2010-5 dated December 16, 2009), and the State Board of Education (SBOE), and that the Fund had sufficient reserves to meet the SBOE’s reserve requirements for the same period.

## **ACTION ITEMS**

### **3. Report on Permanent School Fund Securities Transactions and the Investment Portfolio and Ratification of Purchases and Sales for the Months of December 2021 and January 2022**

(Board agenda page III-8)

[Consent agenda item #(3)]

David Trice, managing director of investment finance and operations, provided a summary on the status of the PSF portfolio. Reports presented to the committee were for the reporting period December 1, 2021, through January 31, 2022, unless otherwise noted. Mr. Trice’s report included reporting on the current fair market value of the Fund; the asset allocation mix as of January 31, 2022; PSF transaction activity occurring in the reporting period; revenues and expenditures for the fiscal period beginning September 1, 2021, through January 31, 2022; the activity in the securities lending program for the fiscal period beginning September 1, 2021, through January 31, 2022; the status of transfers from the General Land Office (GLO) through January 31, 2022; current status of the Bond Guarantee Program and the available capacity in the program; broker commissions on both the internal and external equity portfolios and the internal commodities portfolio for the calendar year to date periods January 1, 2021, through December 31, 2021, as well as January 1, 2022, through January 31, 2022; fixed income rating changes for the fiscal period September 1, 2021, through January 31, 2022; short-term cash investments; and ratification of purchases and sales from December 1, 2021, through January 31, 2022.

**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, it was moved by Mr. Allen, seconded, and carried without objection to recommend that the State Board of Education ratify the purchases and sales for the months of December 2021 and January 2022 in the amounts of \$1,600,184,569 and \$1,943,010,053, respectively (Attachment A).*

**4. Report on Permanent School Fund Liquid Account and Ratification of Purchases and Sales for the Months of December 2021 and January 2022**

(Board agenda page III-9)

[Consent agenda item #(4)]

Mr. Trice provided a summary of the status of the PSF Liquid Account. Reports presented to the committee were for the reporting period December 1, 2021, through January 31, 2022. Mr. Trice's report included the current fair market value of the Liquid Account; the asset allocation mix as of January 31, 2022; transfer activity between the GLO and the Liquid Account; cumulative Income and Realized Gains transferred to the SBOE from the Liquid Account as of January 31, 2022; transactions occurring in the reporting period; broker commissions on equity portfolios for the calendar year to date periods January 1, 2021, through December 31, 2021, as well as January 1, 2022, through January 31, 2022; and ratification of the cumulative Purchases and Sales of the Liquid Account from December 1, 2021, through January 31, 2022.

**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, it was moved by Mr. Allen, seconded by Ms. Perez-Diaz, and carried without objection to recommend that the State Board of Education ratify the purchases and sales of the PSF Liquid Account for the period December 1, 2021, through January 31, 2022, in the amounts of \$1,429,209,087 and \$20,853,379, respectively (Attachment B).*

**5. Adoption of an Annual Report on the Status of the Bond Guarantee Program**

(Board agenda page III-10)

[Consent agenda item #(5)]

Mr. Timmins presented the annual report of the Bond Guarantee Program as required by the Texas Education Code and requested that the committee adopt the report as presented.

**MOTION AND VOTE:** *It was moved by Mr. Allen and carried without objection to recommend that the State Board of Education adopt the annual report on the status of the Bond Guarantee Program as of August 31, 2021.*

**DISCUSSION ITEMS**

**6. Fourth Quarter 2021 Permanent School Fund Performance Report**

(Board agenda page III-11)

Mike Maher, vice president of BNY Mellon Global and Risk Solutions, presented the fourth quarter of 2021 PSF performance report. Mr. Maher began with an overview of the U.S and foreign capital markets and reviewed the performance of the Fund for the fourth quarter of 2021. He stated that the PSF returned 3.61% net of fees for the fourth quarter, outperforming the target benchmark by 22 basis points. Mr. Maher attributed most of the outperformance to Private Equity, Non-core Real Estate, and Emerging Market Debt.

Mr. Maher reviewed the fourth quarter 2021 performance of the PSF by asset class, stating that the total domestic large cap equity composite returned 11.14%, outperforming its benchmark for the quarter by 11 basis points. He stated that the Small/Midcap Equity portfolio returned 7.28% in the quarter, outperforming its benchmark by one basis point. He added that international equities returned 1.58% for the quarter, outperforming its benchmark by 26 basis points for the period.

The fixed income portfolio returned 0.50% for the quarter, underperforming its benchmark by 12 basis points. Mr. Maher stated that the Absolute Return composite returned 0.04% for the quarter, underperforming its benchmark, the HFRI Fund of Funds Composite Index, by eight basis points. Mr. Maher added that the Real Estate composite returned 6.96% for the quarter, outperforming its benchmark by 150 basis points. He further stated that the Real Return Asset class returned 1.07% for the quarter, underperforming its benchmark by 23 basis points. He added that the Emerging Market Debt returned -1.71% for the quarter, outperforming its benchmark by 82 basis points. Mr. Maher stated that the private equity returned 4.16% for the quarter, outperforming its benchmark by 30 basis points. Finally, he stated that the total emerging market equity composite returned -1.71% for the fourth quarter 2021, outperforming its benchmark by eight basis points.

**7. Report of the Permanent School Fund Executive Administrator and Chief Investment Officer**  
(Board agenda page III-12)

Mr. Timmins provided the committee an update on DLA Piper efforts to increase the Bond Guarantee Program capacity. He also acknowledged the PSF staff for all of their hard work.

The meeting of the Committee on School Finance/Permanent School Fund adjourned at 12:46 p.m.

**TEXAS PERMANENT SCHOOL FUND  
SUMMARY OF TRANSACTIONS FOR APPROVAL  
(Including External Manager's Trades)  
For December 1, 2021 through January 31, 2022**

Purchases/Capital Calls:

Long Term Fixed Income	\$ 681,745,206
Public Market Equities	212,965,956
Alternative Investments	<u>705,473,407</u>
 TOTAL	 <u><u>\$ 1,600,184,569</u></u>

Sales/Distributions:

Long Term Fixed Income	\$ 148,101,253
Public Market Equities	914,309,002
Alternative Investments	<u>880,599,798</u>
 TOTAL	 <u><u>\$ 1,943,010,053</u></u>

General Land Office Contributions:

FY 2021 Cumulative January 2021	FY 2022 Cumulative January 2022
\$11,250,000	\$0

Based on the above information provided by staff including a report that deposits to the Permanent School Fund from the General Land Office were \$11,250,000 through January 2021 for fiscal year 2021 versus \$0 through January 2022 for fiscal year 2022, 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 December 2021 and January 2022 Permanent School Fund portfolio purchases of \$1,600,184,569 and sales of \$1,943,010,053.

**TEXAS PERMANENT SCHOOL FUND  
SUMMARY OF TRANSACTIONS FOR APPROVAL  
FOR PSF LIQUID ACCOUNTS  
For December 1, 2021 through January 31, 2022**

<u>Purchases:</u>		
	Fixed Income	\$ 231,763,120
	Public Market Equities	<u>1,197,445,967</u>
	 TOTAL	 <u><u>\$ 1,429,209,087</u></u>
 <u>Sales:</u>		
	Fixed Income	\$ -
	Public Market Equities	<u>20,853,379</u>
	 TOTAL	 <u><u>\$ 20,853,379</u></u>

Based on the above information provided by staff 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 period December 1, 2021 through January 31, 2022 Permanent School Fund Liquid Account purchases of \$1,429,209,087 and sales of \$20,853,379.