

**Report of the State Board of Education
Committee on School Finance/Permanent School Fund
Thursday, September 1, 2022**

The State Board of Education Committee on School Finance/Permanent School Fund met at 11:09 a.m. on Thursday, September 1, 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

Public Testimony

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

DISCUSSION ITEMS

1. **Discussion of Proposed Repeal of 19 TAC Chapter 129, Subchapter A, Student Attendance Allowed, and Subchapter B, Student Attendance Accounting**
(Board agenda page III-1)

David Marx, senior director, financial compliance division, explained that the proposed repeal would implement changes required by House Bill 3, 86th Texas Legislature, 2019, which removed the State Board of Education's (SBOE) rulemaking authority related to student attendance.

2. **Per Capita Apportionment Rate for the 2022-2023 School Year**
(Board agenda page III-4)

Amy Copeland, interim associate commissioner, department of school finance, explained the background of the per capita apportionment rate and provided additional information about the rate. Ms. Copeland stated that the preliminary 2022–2023 per capita apportionment rate is set at \$629.518.

ACTION ITEMS

3. **Report on Permanent School Fund Securities Transactions and the Investment Portfolio and Ratification of Purchases and Sales for the Months of May and June 2022**
(Board agenda page III-5)
[Consent agenda item #5]

David Trice, senior managing director of investment finance and operations, provided a summary on the status of the Permanent School Fund (PSF) portfolio. Reports presented to the committee were for the reporting period May 1, 2022, through June 30, 2022, unless otherwise noted. Mr. Trice's report included reporting on the current fair market value of the PSF; the asset allocation mix as of June 30, 2022; PSF transaction activity occurring in the reporting period; revenues and expenditures for the fiscal period beginning September 1, 2021, through June 30, 2022; the activity in the securities lending

program for the fiscal period beginning September 1, 2021, through June 30, 2022; the status of transfers from the General Land Office (GLO) through June 30, 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 period January 1, 2022, through June 30, 2022; fixed income rating changes for the fiscal period September 1, 2021, through June 30, 2022; short-term cash investments; and ratification of purchases and sales from May 1, 2022, through June 30, 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, the committee recommended by unanimous consent that the State Board of Education ratify the purchases and sales for the months of May 2022 and June 2022, in the amounts of \$1,242,364,268 and \$1,640,216,450, respectively (Attachment A).*

4. Report on Permanent School Fund Liquid Account and Ratification of Purchases and Sales for the Months of May and June 2022

(Board agenda page III-6)
[Consent agenda item #6]

Mr. Trice provided a summary on the status of the PSF Liquid Account. Reports presented to the committee were for the reporting period May 1, 2022, through June 30, 2022. Mr. Trice's report included reporting on the current fair market value of the Liquid Account; the asset allocation mix as of June 30, 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 June 30, 2022; transactions occurring in the reporting period; broker commissions on equity portfolios for the calendar year to date period January 1, 2022, through June 30, 2022; and ratification of the cumulative Purchases and Sales of the Liquid Account from May 1, 2022, through June 30, 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, the committee recommended by unanimous consent that the State Board of Education ratify the purchases and sales of the Permanent School Fund Liquid Account for the period May 1, 2022, through June 30, 2022, in the amounts of \$340,056,233 and \$25,032,133, respectively (Attachment B).*

DISCUSSION ITEM

5. Second Quarter 2022 Permanent School Fund Performance Report

(Board agenda page III-7)

Mike Maher, vice president of BNY Mellon Global and Risk Solutions, presented the second quarter of 2022 PSF performance report. Mr. Maher began with an overview of the U.S and foreign capital markets. Mr. Maher then reviewed the performance of the PSF for the second quarter of 2022. He stated that the PSF returned -6.86% net of fees for the second quarter, outperforming the target benchmark by 10 basis points. Mr. Maher attributed most of the outperformance to Absolute Return and Non-core Real Estate.

Mr. Maher then reviewed the second quarter 2022 performance of the PSF by asset class, stating that the total domestic large cap equity composite returned -16.11%, underperforming its benchmark for the quarter by one basis point. Mr. Maher added that Small/Midcap Equity portfolio returned -15.04%

in the quarter, underperforming its benchmark by two basis point. He added that international equities returned -13.78% for the quarter, underperforming its benchmark by five basis points for the period.

The fixed income portfolio returned -6.35% for the quarter, underperforming its benchmark by 19 basis points. Mr. Maher added that high yield returned -10.11% during the quarter, underperforming its benchmark by 27 basis points. Mr. Maher stated that the Absolute Return composite returned -1.50% for the quarter, outperforming its benchmark, the HFRI Fund of Funds Composite Index, by 255 points. Mr. Maher added that the Real Estate composite returned 6.21% for the quarter, outperforming its benchmark by 136 basis points. He further stated that the Real Return Asset class returned -6.03% for the quarter, underperforming its benchmark by 10 basis point. He added that Emerging Market Debt returned -8.15% for the quarter, outperforming its benchmark by 48 basis points. Mr. Maher stated that private equity returned -1.56% for the quarter, underperforming its benchmark by 101 basis points. He stated that the total emerging market equity composite returned -11.80% for the second quarter 2022, underperforming its benchmark by 35 basis points. Finally, Mr. Maher stated that the total emerging manager composite returned -24.84% for the quarter, underperforming the benchmark by 94 basis points.

ACTION ITEM

6. Determination Regarding Whether Transfers May be Made from the Permanent School Fund to the Available School Fund

(Board agenda page III-8)

[Consent agenda item #7]

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 tests 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 period. Mr. Veintemillas stated that both tests were satisfied, allowing for a distribution from the PSF to the Available School Fund for fiscal year 2023.

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 \$1.731 billion for fiscal year 2023.*

DISCUSSION ITEMS

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-9)

John Wright, PSF general counsel, gave a presentation on the proposed changes to the 19 TAC Chapter 33 administrative rules to include detail on the restructure of rules into subchapters. He explained that the rules would be identified for one of three actions: repeal, retention in existing Subchapters A and AA, or transfer to a new Subchapter B. Mr. Wright reported that draft language for the proposed amendments would be presented at the November board meeting.

8. Report of the Permanent School Fund Executive Administrator and Chief Investment Officer
(Board agenda page III-58)

Holland Timmins, chief investment officer and executive administrator, provided a brief history and overview of the federal bond guarantee capacity limits, the pace at which the amount of bonds guaranteed through the Texas PSF's Bond Guarantee Program (BGP) is rapidly approaching these limits, and the surge in demand for BGP guarantees.

Mr. Timmins called on representatives from DLA Piper, tax legal counsel retained by the board to address the regulatory constraints, to provide an update on efforts to increase the bond guarantee program capacity.

The meeting of the Committee on School Finance/Permanent School Fund adjourned at 1:10 p.m.

**TEXAS PERMANENT SCHOOL FUND
SUMMARY OF TRANSACTIONS FOR APPROVAL
(Including External Manager's Trades)
For May 1, 2022 through June 30, 2022**

Purchases/Capital Calls:

Long Term Fixed Income	\$ 608,998,056
Public Market Equities	258,336,543
Alternative Investments	<u>375,029,669</u>
 TOTAL	 <u><u>\$ 1,242,364,268</u></u>

Sales/Distributions:

Long Term Fixed Income	\$ 251,323,513
Public Market Equities	776,543,026
Alternative Investments	<u>612,349,912</u>
 TOTAL	 <u><u>\$ 1,640,216,450</u></u>

General Land Office Contributions:

FY 2021 Cumulative June 2021	FY 2022 Cumulative June 2022
\$33,750,000	\$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 \$33,750,000 through June 2021 for fiscal year 2021 versus \$0 through June 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 May 2022 through June 2022 Permanent School Fund portfolio purchases of \$1,242,364,268 and sales of \$1,640,216,450.

**TEXAS PERMANENT SCHOOL FUND
SUMMARY OF TRANSACTIONS FOR APPROVAL
FOR PSF LIQUID ACCOUNTS
For May 1, 2022 through June 30, 2022**

<u>Purchases:</u>		
	Fixed Income	\$ 63,306,816
	Public Market Equities	<u>276,749,417</u>
	 TOTAL	 <u><u>\$ 340,056,233</u></u>
 <u>Sales:</u>		
	Fixed Income	\$ -
	Public Market Equities	<u>25,032,133</u>
	 TOTAL	 <u><u>\$ 25,032,133</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 May 1, 2022 through June 30, 2022 Permanent School Fund Liquid Account purchases of \$340,056,233 and sales of \$25,032,133.