

**Report of the State Board of Education
Committee on School Finance/Permanent School Fund
January 28, 2016**

The State Board of Education Committee on School Finance/Permanent School Fund met at 9:01 a.m. on Thursday, January 28, 2016, in Room #1-104 of the William B. Travis Building, 1701 N. Congress Avenue, Austin, Texas. All members of the committee were present, as follows:

Presiding: Pat Hardy, chair; Lawrence A. Allen, Jr., vice chair; David Bradley; Ken Mercer; Thomas Ratliff

Public Testimony

This item provides an opportunity for the public to present testimony at the time the related item comes up for committee discussion or action. The procedures for registering and taking public testimony at State Board of Education committee meetings and general board meetings are provided at [http://tea.texas.gov/About TEA/Leadership/State Board of Education/SBOE Meetings/SBOE Operating Rules Amended 4-17-15/](http://tea.texas.gov/About_TEA/Leadership/State_Board_of_Education/SBOE_Meetings/SBOE_Operating_Rules_Amended_4-17-15/) or in the information section (yellow pages) of the agenda.

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

DISCUSSION ITEMS

- 1. Review of 19 TAC Chapter 129, Student Attendance, Subchapter A, Student Attendance Allowed, and Subchapter B, Student Attendance Accounting**
(Board agenda page III-7)

Amanda Brownson, director of state funding, explained that this rule is up for review in accordance with the four-year review cycle of state boards and will be open for public comment.

Dr. Brownson answered questions from the committee members.

- 2. Review of Permanent School Fund Securities Transactions and the Investment Portfolio**
(Board agenda page III-15)

Deborah Saunders, director of investment operations, provided a summary on the status of the Permanent School Fund portfolio. Reports presented to the committee were for the reporting period October 1, 2015 through November 30, 2015 unless otherwise noted. Ms. Saunders's report included reporting on the current fair market value of the Fund, the asset allocation mix as of November 30, 2015, PSF transactions occurring in the reporting period, revenues and expenditures for the fiscal period September 1, 2015 through November 30, 2015 and the fiscal period beginning September 1, 2015 through November 30, 2015, the status of transfers from the General Land Office, 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, 2015 through November 30, 2015, 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 October and November 2015

(Board agenda page III-1)

[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 to ratify the purchases and sales for the months of October and November 2015 in the amount of \$633,343,381 and \$654,804,698 respectively (Attachment A).*

DISCUSSION ITEM

4. Annual Reporting Requirement of the Internally Managed Permanent School Fund Investment Portfolio

(Board agenda page III-17)

Holland Timmins, executive administrator and chief investment officer, provided the required attestation regarding the compliance with 19 TAC Chapter 33 of the internally managed investment portfolio in the matters of permissible and restricted investments, trading and brokerage policy, and proxy voting policy.

CONSENT ITEM

5. Decision on Real Estate Investments

(Board agenda page III-3)

[Consent agenda item #(5)]

No real estate investments were presented.

DISCUSSION ITEMS

6. 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-19)

Ms. Hardy called on Carlos Veintemillas, deputy chief investment officer, to address the item.

Mr. Veintemillas stated that the agenda item allows the committee to review the board rules related to oversight of the PSF as part of the state agency rules review directed by Texas Government Code, Section 2001.039. Mr. Veintemillas stated that at a future meeting staff will be proposing amendments to better reflect the PSF's asset allocation and consolidation of some sections to avoid repetition. Chuck Campbell, fiduciary counsel, was comfortable with the review and will remain active in the process.

7. Presentations on the Private Equity Program of the Permanent School Fund
(Board agenda page III-85)

Representatives from the following firms made presentations to the committee in which they discussed recent market conditions and provided the committee with updates on strategy and performance for the private equity portfolios they manage for the benefit of the PSF.

Grosvenor Capital Management
Bernard Yancovich, Managing Director
Stephen Brewster, Managing Director

Neuberger Berman
Brien Smith, Managing Director
Doug Manor, Vice President

CONSENT ITEM

8. Decision on Absolute Return Investments

(Board agenda page III-5)
[Consent agenda item #(6)]

Mr. Timmins introduced this item and commented on the state of the PSF Absolute Return Program as well as on the economic environment. He indicated that the contract with Mesirow Advanced Strategies expired on February 29, 2016 unless the board extended it.

Mr. Timothy Bruce, Partner with NEPC, gave a presentation on the current state and performance of the Absolute Return Program and reviewed several alternatives to be considered by the committee in reference to the future structure of the program. NEPC, in agreement with PSF staff, recommended the creation of a new Raven 8 vehicle to be managed in-house by staff and to collaborate operationally with Grosvenor Capital Management. NEPC also recommended the new vehicle be funded by redeeming from Raven 2 managed by Mesirow.

The committee members discussed the merits of establishing a new Raven 8 vehicle to be managed in-house and the termination of the Mesirow Advanced Strategies contract.

MOTION: *It was moved by Mr. Ratliff to recommend to the State Board of Education to instruct PSF staff to allow the agreement with Mesirow Advanced Strategies, Inc. for its services as Manager of the Raven 2, to expire on its current expiration date of February 29, 2016; to direct staff to negotiate an acceptable agreement with Grosvenor Capital Management to become the Raven 2 liquidator; and to authorize staff create a new Raven 8, funded with assets from Raven 2, structured so that staff will act as fully discretionary hedge fund investment manager. The motion died for lack of a second.*

MOTION: *It was moved by Mr. Allen to recommend to the State Board of Education to extend Mesirow Advanced Strategies, Inc. contract for services as Manager of the Raven 2 for an additional term of 18 months. The motion died for lack of a second.*

MOTION: *It was moved by Mr. Bradley to include a contract extension for Mesirow Advanced Strategies, Inc. for an additional term of 12 months. The motion died for lack of a second.*

MOTION AND VOTE: *It was moved by Mr. Allen to recommend to the State Board of Education to extend Mesirow Advanced Strategies, Inc. contract for services as Manager of the Raven 2 for an additional term of 18 months. The motion failed*

MOTION AND VOTE: *It was moved by Mr. Ratliff, seconded by Mr. Bradley, and carried to recommend to the State Board of Education to direct staff to allow the agreement with Mesirow Advanced Strategies, Inc. for its services as Manager of the Raven 2 LLC to expire on its current expiration date of February 29, 2016; to direct PSF staff to negotiate an acceptable agreement with Grosvenor Capital Management to become the Raven 2 liquidator; to authorize PSF staff to create a new Raven 8, funded with assets from Raven 2, structured so that PSF staff will act as a fully discretionary hedge fund investment manager and, subject to negotiation of an acceptable agreement, Grosvenor Capital Management will be responsible for managing Raven 8 operations. All contract execution is hereby delegated to the Commissioner of Education.*

DISCUSSION ITEM

9. Report of the Permanent School Fund Executive Administrator and Chief Investment Officer (Board agenda page III-87)

Mr. Timmins informed the committee that the State Auditor's Office had completed their audit of the Permanent School Fund and was finalizing their review of the Bond Guarantee Program. The committee will receive a presentation on both reports at the meeting in April.

Mr. Bradley requested it be noted in the minutes that John Osborn, a member of the Committee of Investment Advisors, was present.

The meeting of the Committee on School Finance/Permanent School Fund adjourned at 10:42 a.m.