

**Report of the State Board of Education  
Committee on School Finance/Permanent School Fund  
Thursday, June 16, 2022**

The State Board of Education Committee on School Finance/Permanent School Fund met at 12:08 p.m. on Thursday, June 16, 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.

**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**  
**(Second Reading and Final Adoption)**  
(Board agenda page III-1)  
[Official agenda item #11]

Paul Moreno, assistant director, financial compliance, explained that the proposed amendment would adopt by reference the updated *Financial Accountability System Resource Guide* (FASRG) and that no changes are recommended since approved for first reading. He explained the purpose of the guide, what it includes, why it is being updated, and what aspects are being updated. He also explained the public comments that had been received.

**MOTION AND VOTE:** *It was moved by Mr. Allen, seconded by Ms. Hardy, and carried unanimously to recommend that the State Board of Education approve for second reading and final adoption 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*

*Make an affirmative finding that immediate adoption of the proposed amendment to 19 TAC Chapter 109, Budgeting, Accounting, and Auditing, Subchapter C, Adoptions By Reference, §109.41, Financial Accountability System Resource Guide, is necessary and shall have an effective date of 20 days after filing as adopted with the Texas Register.*

## DISCUSSION ITEM

### **2. Per Capita Apportionment Rate for the 2021-2022 School Year** (Board agenda page III-7)

Leo Lopez, associate commissioner, department of school finance, explained the background of the per capita apportionment rate and said the preliminary 2021–2022 per capita apportionment rate of \$402.428 was set in September 2021. Based on actual funds available for expenditure, the final per capita appointment rate for 2021–2022 is \$510.890.

## ACTION ITEMS

### **3. Report on Permanent School Fund Securities Transactions and the Investment Portfolio and Ratification of Purchases and Sales for the Months of February, March, and April 2022** (Board agenda page III-8) [Consent agenda item #6]

David Trice, managing director of investment finance and operations, provided a summary of the status of the Permanent School Fund (PSF) portfolio. Reports presented to the committee were for the reporting period February 1, 2022, through April 30, 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 April 30, 2022; PSF transaction activity occurring in the reporting period; revenues and expenditures for the fiscal period beginning September 1, 2021, through April 30, 2022; the activity in the securities lending program for the fiscal period beginning September 1, 2021, through April 30, 2022; the status of transfers from the General Land Office through April 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 April 30, 2022; fixed income rating changes for the fiscal period September 1, 2021, through April 30, 2022; short-term cash investments; and ratification of purchases and sales from February 1, 2022, through April 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, it was moved by Mr. Allen and carried without objection to recommend that the State Board of Education ratify the purchases and sales for the months of February, March, and April 2022, in the amount of \$1,302,927,099 and \$1,390,151,025, respectively (Attachment A).*

### **4. Report on Permanent School Fund Liquid Account and Ratification of Purchases and Sales for the Months of February, March, and April 2022** (Board agenda page III-9) [Consent agenda item #7]

Mr. Trice provided a summary of the status of the PSF Liquid Account. Reports presented to the committee were for the reporting period February 1, 2022, through April 30, 2022. Mr. Trice’s report included reporting on the current fair market value of the Liquid Account; the asset allocation mix as of April 30, 2022; transfer activity between the General Land Office and the Liquid Account; cumulative Income and Realized Gains transferred to the SBOE from the Liquid Account as of April 30, 2022; transactions occurring in the reporting period; broker commissions on equity portfolios for

the calendar year to date period January 1, 2022, through April 30, 2022; and ratification of the cumulative Purchases and Sales of the Liquid Account from February 1, 2022, through April 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, it was moved by Mr. Allen and carried without objection to recommend that the State Board of Education ratify the purchases and sales of the Permanent School Fund Liquid Account for the period February 1, 2022, through April 30, 2022, in the amounts of \$263,734,813 and \$56,014,234, respectively (Attachment B).*

## **DISCUSSION ITEMS**

### **5. First Quarter 2022 Permanent School Fund Performance Report**

(Board agenda page III-10)

Mike Maher, vice president of BNY Mellon Global and Risk Solutions, presented the first 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 Fund for the first quarter of 2022. He stated that the PSF returned -2.17% net of fees for the first quarter underperforming the target benchmark by eight basis points. Mr. Maher attributed most of the underperformance to Private Equity and Non-core Real Estate.

Mr. Maher reviewed the first quarter 2022 performance of the PSF by asset class, stating that the total domestic large cap equity composite returned -4.61%, underperforming its benchmark for the quarter by one basis point. Mr. Maher added that Small/Midcap Equity portfolio returned -5.14% in the quarter, underperforming its benchmark by four basis points. He added that international equities returned -5.63% for the quarter, underperforming its benchmark by 19 basis points for the period.

The fixed income portfolio returned -7.06% for quarter, underperforming its benchmark by 15 basis points. Mr. Maher added that high yield returned -4.42% during the quarter, underperforming its benchmark by 19 basis points. He stated that the Absolute Return composite returned -1.85% for the quarter, outperforming its benchmark, the HFRI Fund of Funds Composite Index, by 127 points. He added that the Real Estate composite returned 6.12% for the quarter, underperforming its benchmark by 29 basis points. He further stated that the Real Return Asset class returned 4.14% for the quarter, underperforming its benchmark by 47 basis points. He added that Emerging Market Debt returned -5.75% for the quarter, outperforming its benchmark by 71 basis points. Mr. Maher stated that private equity returned 3.76% for the quarter, underperforming its benchmark by 66 basis points. Finally, he stated that the total emerging market equity composite returned -7.24% for the first quarter 2022, underperforming its benchmark by 27 basis points.

## **ACTION ITEM**

### **6. Review the Process to Consider Board Member Nominees for a School Land Board Position**

(Board agenda page III-11)

[Consent agenda item #8]

Mark Shewmaker, managing director of special projects and portfolio manager, provided an overview of the process for selecting nominees to be sent to the Governor for membership on the School Land Board. No action was taken on this item.

**7. Review and Adoption of the Long-Term Strategic Asset Allocation Plan of the Permanent School Fund (SBOE) and the Permanent School Fund Liquid Account**

(Board agenda page III-12)

[Consent agenda item #9]

Holland Timmins, chief investment officer and executive administrator, introduced the review and adoption of the long-term strategic asset allocation plan of the PSF of the SBOE and the PSF Liquid Account.

Since the asset allocation had previously been discussed with committee members in the Texas PSF Corporation board meeting, Mr. Timmins recommended that the board approve the asset allocation recommended by NEPC on page 9 of the presentation titled “Texas Permanent School Fund: Asset Allocation Discussion.” The recommended target asset allocation is outlined below:

- U.S. Large Cap Equities 14%
- U.S. Small/Mid Cap Equities 6%
- International Equities 14%
- Emerging International Equities 3%
- Core Bonds 12%
- Non-Core Bonds (High Yield and Bank Loans) 4%
- Emerging Market Debt (Local Currency) 3%
- Treasuries 3%
- Private Equity 18%
- Real Estate 11%
- Real Return 4%
- Absolute Return 7%
- Emerging Manager Program 1%

	SBOE Current Targets	Recommended Targets
US Large-Cap Equity	14%	14%
US Small/Mid-Cap Equity	6%	6%
Non-US Developed Equity	14%	14%
Emerging Market Equity	3%	3%
<b>Total Equity</b>	<b>37%</b>	<b>37%</b>
Core Bonds	12%	12%
Non Core Bonds (High Yield and Bank Loans)	3%	4%
Emerging Market Local Currency Debt	7%	3%
U.S. Treasury Bonds	3%	3%
<b>Total Fixed Income</b>	<b>25%</b>	<b>22%</b>
Private Equity	15%	18%
Real Estate	11%	11%
Real Return	4%	4%
Absolute Return	7%	7%
Emerging Manager Program	1%	1%
<b>Total Alternatives</b>	<b>38%</b>	<b>41%</b>
<b>Expected Return 10 years</b>	<b>6.23%</b>	<b>6.32%</b>
<b>Standard Deviation</b>	<b>13.28%</b>	<b>13.73%</b>
<b>Sharpe Ratio</b>	<b>0.285</b>	<b>0.283</b>

Mr. Timmins also recommended that the board approve the Asset Allocation recommended by NEPC on page 10 of the presentation titled “Texas Permanent School Fund: Asset Allocation Discussion” for the Permanent School Fund Liquid Account. The recommended allocation is outlined below:

- Cash 2%
- U.S. Large Cap Equities 38%
- U.S. Small/Mid Cap Equities 10%
- International Equities 29%
- Core Bonds 16%
- Tips 5%

	Liquid Account Current Target	Recommended Target
Cash	2%	2%
<b>Total Cash</b>	<b>2%</b>	<b>2%</b>
US Large-Cap Equity	28%	38%
US Small/Mid-Cap Equity	7%	10%
Non-US Developed Equity	21%	29%
<b>Total Equity</b>	<b>56%</b>	<b>77%</b>
Core Bonds	12%	16%
Short Duration Fixed Income	25%	0%
TIPS	5%	5%
<b>Total Fixed Income</b>	<b>42%</b>	<b>21%</b>
<b>Expected Return 10 yrs</b>	<b>4.89%</b>	<b>5.38%</b>
<b>Standard Deviation</b>	<b>9.99%</b>	<b>13.63%</b>
<b>Sharpe Ratio</b>	<b>0.245</b>	<b>0.216</b>

**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: 1) adopt the recommendation of NEPC and PSF staff to approve the long-term strategic asset allocation of the Permanent School Fund, shown as Recommended Targets on page 9 of the NEPC presentation titled “Texas Permanent School Fund: Asset Allocation Discussion”; and, 2) adopt the recommendation of NEPC and PSF staff to approve the long-term strategic asset allocation of the Permanent School Fund Liquid Account, shown as Recommended Target on page 10 of the same NEPC presentation.*

**DISCUSSION ITEM**

**8. Report of the Permanent School Fund Executive Administrator and Chief Investment Officer**  
(Board agenda page III-13)

Mr. Timmins provided the committee an update on the potential impact of inflation on the bond guarantee program and the related efforts to address capacity issues. He also reported on the status of the lawsuit related to the Tribune Company bankruptcy. He noted that there were no longer any claims pending against the PSF related to prior holdings and that all claims had been resolved in favor of the shareholders.

The meeting of the Committee on School Finance/Permanent School Fund adjourned at 1:24 p.m.

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

Purchases/Capital Calls:

Long Term Fixed Income	\$ 554,864,074
Public Market Equities	184,177,421
Alternative Investments	<u>563,885,604</u>
 TOTAL	 <u><u>\$ 1,302,927,099</u></u>

Sales/Distributions:

Long Term Fixed Income	\$ 135,006,325
Public Market Equities	459,102,763
Alternative Investments	<u>796,041,937</u>
 TOTAL	 <u><u>\$ 1,390,151,025</u></u>

General Land Office Contributions:

FY 2021 Cumulative April 2021	FY 2022 Cumulative April 2022
\$22,500,000	\$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 \$22,500,000 through April 2021 for fiscal year 2021 versus \$0 through April 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 February 2022 through April 2022 Permanent School Fund portfolio purchases of \$1,302,927,099 and sales of \$1,390,151,025.

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

<u>Purchases:</u>	
Fixed Income	\$ 201,345,748
Public Market Equities	<u>62,389,065</u>
TOTAL	<u><u>\$ 263,734,813</u></u>
<u>Sales:</u>	
Fixed Income	\$ 34,127,482
Public Market Equities	<u>21,886,752</u>
TOTAL	<u><u>\$ 56,014,234</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 February 1, 2022 through April 30, 2022 Permanent School Fund Liquid Account purchases of \$263,734,813 and sales of \$56,014,234.