Texas PSF Corporation

Board Meeting Recap
June 27, 2024

TEXAS PSF
EST. 1845

SUMMARY

- The Texas PSF Corporation Board of Directors met Thursday, June 27, 2024, in person at the William B. Travis Building.
- A recorded webcast of this and previous archived meetings can be viewed at: adminmonitor.com/tx/tea

NEXT BOARD MEETING

- The next regular board meeting is set for September 12, 2024. The meeting location and agenda will be posted to the Texas PSF Corporation website in advance. www.texaspsf.org

MEETING HIGHLIGHTS

ITEM: CEO UPDATE ON TEXAS PSF STRATEGIC PLAN

Chief Executive Officer Robert Borden provided updates on the progress of the Corporation's strategic plan:

Asset allocation optimization / portfolio implementation

- Investment team has been working to implement the asset allocation adopted in February, which increased expected return from 6.60% to 7.05%, carefully but quickly reallocating billions across asset classes.
- The team eliminated emerging market exposures, outsourced the internal management program, and increased private credit and private equity commitments.
- A substantial portion of outsourced fixed income has been reallocated to Texas-based managers. A refined Texas First investment initiative is in progress.
- It will take 3-5 years to fully optimize the asset allocation. Staff will provide ongoing updates at future board meetings.

Attracting and developing talent

- Compensation consultant firm Mercer was engaged to conduct a salary study and to develop a recommended incentive compensation plan.
- Compensation recommendations have been vetted through the Budget and Compensation Committee.
- The Corporation has revamped all job descriptions, created career plans, and initiated a standardized evaluation period starting July 1.

Attracting and developing talent, cont'd

- Mike Meyer, currently Deputy Commissioner of Finance at the Texas Education Agency (TEA), will join the PSF on July 1 as Senior Vice President and Acting Chief Financial Officer.

Build new corporate infrastructure

- Innovation Tower. All contracts have been finalized and interior finish-out is underway. Project is currently on-time and on-budget, with move-in scheduled for the end of the calendar year.

Board action: None, discussion only.

ITEM: PROPOSED LEGISLATIVE APPROPRIATIONS REQUEST (LAR)

- Brad Wright, Chairman of the Budget and Compensation Committee, noted that the committee had been working with staff on proposed budget request for fiscal years 2026 and 2027.
- Two budget scenarios were presented: a "slow hiring" option in which the 2026-27 biennial budget is equal to the current biennium revised budget, and a "rapid hiring" option which represented a 3.7% increase.
- Proposed budget request reflects certain necessary expenses that are required as SB1232 continues to be fully implemented, including IT infrastructure costs and the compensation study to help Texas PSF achieve parity with peer funds.
- Texas PSF's proposed annual budget requests are 10 basis points of AUM, which is very lean, and approx. 20% lower than our state peers.

ITEM: PROPOSED LEGISLATIVE APPROPRIATIONS REQUEST (LAR), CONT'D

Board action: No action taken. The proposed LAR will be discussed with legislative leadership in July before the Texas PSF board of directors adopts it. A special called board meeting will take place following discussions with legislative leadership.

ITEM: RECOMMENDED COMPENSATION STRUCTURE AND NEW PLAN

- According to Mercer, Texas PSF's current compensation plan is low (bottom quartile), relative to market.
- Texas PSF proposes a performance-based compensation plan that pays out incentive compensation only when the Fund performs well.
- The plan makes progress toward parity with other Texas peer funds, including TRS but would remain below UTIMCO.
- The plan is capped to discourage inappropriate risk taking.
- The proposed plan is competitive for Austin and will allow the Corporation to attract and retain talented investment professionals.

Board action: The board did not take action on the proposed compensation plan. The plan will be vetted with legislative offices in July before the board considers it at a special meeting.

ITEM: ENDOWMENT SPENDING RATE AND SUPPLEMENTAL REVENUE DISTRIBUTION - DISCUSSION

- There are 2 distributions from PSF to the Available School Fund (ASF): a spending rate approved by the State Board of Education (SBOE), and a supplemental distribution to be made by the Texas PSF board of directors.
- Texas PSF board is directed to adopt a distribution policy, including a minimum distribution, and adopt a distribution amount at its September meeting. SBOE is to make their spending rate decision by November.
- Both decisions are guided by fiduciary responsibility and the endowment principle of intergenerational equity.
- Both the SBOE and Texas PSF board decisions are informed by expected rates of return, projections of inflation and student growth, and projections of GLO royalty revenues. These data will continue to be refined in the next few months.
- A preliminary estimated SBOE spending rate range between 2.43% and 3.88%, which projects to annual distributions of $1.27 to $2.03 billion.
- Discussion on the Texas PSF board distribution centered on the constitutional maximum of $600 million annually.

Board action: None, discussion only.