Texas PSF Corporation

Board Meeting Recap
September 12, 2024

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PSF
EST. 1845

SUMMARY

- The Texas PSF Corporation Board of Directors met Thursday, September 12, 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 Nov. 21, 2024. The meeting location and agenda will be posted to the Texas PSF Corporation website in advance. www.texaspsf.org

MEETING HIGHLIGHTS

ITEM: REPORT FROM THE CEO

Chief Executive Officer Robert Borden provided updates on the Corporation's strategic plan objectives. Key points included:

Asset allocation & Portfolio Implementation

- For the fiscal year ending August 31, 2024, the fund returned 10% after fees (approximately $5.2 billion in net earnings, or over $20 million per business day).
- The new asset allocation is expected to increase distributions from the Permanent School Fund by $250 million per year. Effective implementation could add another $1 billion per year to the fund's asset base, further increasing distributions over time.
- "Texas First" update: Texas PSF has placed about $18.5 billion with Texas-related firms since February 2024 and increased the assets placed with Texas Headquartered managers in the portfolio by a factor of five.

Attract and Develop Talent

- Texas PSF's success hinges on recruiting and retaining outstanding talent and alignment of individual responsibilities and goals to the organization's strategic plan.
- The following key leadership positions have been successfully recruited: Deputy CIO, Chief Financial Officer and Chief Audit Officer. Recruitment for a Chief Legal Officer is underway.
- Staff restructuring efforts have resulted in a net decrease of about 11 positions—a streamlined starting point for future growth.

Enhance Communications

- Texas PSF is proactively enhancing communications and transparency by implementing a comprehensive stakeholder outreach plan and actively engaging with state government leaders.

Fortify Internal Controls

- Texas PSF has established an Internal Audit department, recruiting Fernando Garza as Chief Audit Officer and contracting with KPMG as the external auditor.
- The team applies a robust process to assign each investment to the appropriate asset class and benchmark, and conducts extensive due diligence before a new deal is approved.
- Texas PSF anticipates that an Enterprise Risk Assessment will be completed in 2025.
- Cybersecurity remains a top priority, with ongoing phishing simulations, penetration testing, cybersecurity controls audits, and staff education efforts.

Strengthen Corporate Governance

- The board adopted a new proxy voting policy, standardized an Investment Management Agreement prohibiting ESG, and finalized policies on endowment spending and revenue distribution.

ITEM: REPORT FROM THE CEO, CONT.

New Corporate Infrastructure

- Innovation Tower update: The project is currently on-time and under budget, with move-in scheduled for mid-December.
- In preparation for the move, staff have eliminated 40 million pages of redundant or no longer needed documents, generating significant cost savings from document storage.
- The Information Systems Application Rationalization Project is eliminating redundancies, streamlining processes, and generating further savings.

Board action: None, discussion only.

ITEM: MERCER RECOMMENDED PERFORMANCE PAYOUT PLAN

- Mercer presented the firm's recommended performance-based compensation plan, based on an analysis of Texas PSF's peers.
- The plan will enable the Corporation to successfully compete for investment talent in the Austin market.
- While the plan covers all investment roles, most operations positions are excluded, except for key leadership and specific investment operations and legal roles.
- The plan uses a balanced mix of qualitative and quantitative performance metrics to assess and reward performance, and only pays if the team generates investment returns in excess of the policy benchmark.

Board action: The board voted to approve the Mercer recommended performance pay plan.

ITEM: PROPOSED LEGISLATIVE APPROPRIATONS REQUEST FOR FISCAL YEARS 2026-2027

- CEO Robert Borden discussed the 2026-2027 Legislative Appropriations Request (LAR), which includes a modest biennial increase of approximately $5.6 million (4.9%).
- The LAR is directly aligned with the strategic plan, proposing operational costs relative to assets at a level that is nearly 25% lower than sister funds.

Board action: The board voted to approve the LAR request for FY26-27 as presented and directed the CEO to submit it to the Governor's Office and the Legislative Budget Board.

ITEM: ENDOWMENT SPENDING RATE AND SUPPLEMENTAL REVENUE DISTRIBUTION POLICY

- The board discussed adoption of a 5(g) Supplemental Revenue Distribution policy of $600 million per year, the maximum constitutionally allowable distribution.

Board action: The board voted to approve an annual distribution in the amount of $600 million in each of the state Fiscal Years 2026 and 2027 from the PSF to the Available School Fund.

ITEM: PSF TRANSITION BENCHMARKS AND PACING

- CEO Robert Borden and Jared Stout, Managing Director of Risk, discussed proposed benchmark changes to the Investment Policy Statement designed to strengthen the Current Fund Policy Benchmark methodology while allowing the board and investment team quantify and measure the impact of active investment decisions.

Board action: The board voted to approve the proposed benchmark changes to the Investment Policy Statement as presented.

ITEM: PROXY VOTING ANALYSIS

- Jerry Bowyer of Bowyer Rereported on the proxy voting matrix used to cast votes for Texas PSF.
- The matrix, developed by Bowyer Research and implemented through ISS, ensures that proxy votes align with the board's fiduciary duty and Texas values.
- An analysis of 20,000 votes revealed that ISS has adhered with high fidelity to the Bowyer Guidelines.

Board action: None discussion only.