Minutes of the Texas Permanent School Fund Corporation

Board of Directors

August 31, 2023

The Board of Directors of the Texas Permanent School Fund (Texas PSF) Corporation met at 1:01 p.m. on Thursday, August 31, 2023, in Room #1-104 of the William B. Travis Building, 1701 N. Congress Avenue, Austin, Texas.

Present: Tom Maynard; Brad Wright; Aaron Kinsey; Keven Ellis; Pat Hardy; Marisa Perez-Diaz; Jim Stanislaus; Cliff Thomas, Jr.; Mark Havers for Commissioner Dawn Buckingham

Absent: Commissioner Dawn Buckingham

Public Testimony

The Board of Directors heard public testimony on agenda item #6. Information regarding the individual who presented public testimony is included in the discussion of that item.

Tom Maynard, Chair of the Texas PSF Corporation Board of Directors, called the meeting to order and welcomed new Member, Clifton L. Thomas, Jr., to the Board of Directors.

ACTION ITEM

1. **Discussion and Appropriate Action Related to the Minutes of the June 22, 2023, June 27, 2023, and July 17, 2023 Meetings (Discussion and Possible Action)**

   MOTION AND VOTE: *It was moved by Dr. Ellis, and seconded by Ms. Hardy, and carried without objection to approve the minutes of the June 22, 2023, June 27, 2023, and July 17, 2023, meetings of the Texas PSF Corporation Board, as printed.*

DISCUSSION ITEMS

2. **CEO Update: Market Perspective, Texas PSF Performance Review, and Review of Texas PSF Standing and Impact (Discussion Only)**

   Britt Harris, acting chief executive officer, provided opening comments to include the purpose of the Texas PSF; the five million school children of Texas. Mr. Harris began his presentation with an overview of the current state of the financial markets and the Texas PSF historical performance. He reviewed the Texas PSF regime framework and how the organization will look to implement this framework going forward when economic conditions change. Mr. Harris discussed past economic environments and how the last year has been unique when compared to prior economic scenarios. He discussed the Texas PSF performance over the past one and three years, highlighting a 1.7% and 2.0% excess return for the total fund over the past one- and three-year periods. Mr. Harris outlined Texas PSF performance relative to peers, highlighting the need to review the benchmark which performed in the lowest quartile over the past five-, seven-, and 10-year time periods. He concluded his remarks with the expression of his enthusiasm at being a part of the Texas PSF during the current and planned transformational initiatives.

3. **Review of Investment Teams Plans for Excellence (Discussion Only)**

Rusty Martin, deputy chief investment officer, introduced the Children's Fund Trains to Excellence project ("Trains"). He stated that the Trains project was comprised of four distinct but highly correlated and encompassing Trains, to include culture, investment, operations, and support, and that each train was manned by the members of the Texas PSF team. Mr. Martin noted that the goal of the project was threefold; the first goal, to achieve total alignment between the Texas PSF investment team, the Board, and the Texas PSF constituents; the children in the public school system of Texas. The second goal was to develop a clearly defined corporate culture. The third goal was to critically review and transform business processes to yield improvements that will result in higher investment returns and more efficient investment operations.

Mr. Martin introduced the Conductors of each of the Train cars to provide an overview of respective priority deliverables.

Culture Train

John McGeady, managing director of governmental relations, defined the components of culture building and the Train specific deliverables to include, mission and core values statements, code of conduct, empowerment formula, leadership instructional guide, and inventory of feedback systems with a plan for continuous improvement.

Investments Train

Investment Beta: Jared Stout, managing director of risk, described the goal and benefits of building a comprehensive risk management framework with agreed upon targets and limits for active risk and active return for each asset class across the entire portfolio.

Investment Alpha: Mr. Martin reviewed the interconnected nature of the Investment Alpha Train initiatives, to include the development of a strong and flexible investment policy statement and clearly defined liquidity policy, benchmark review and realignment, co-investment sourcing, strategic partnerships and reverse relationship management, due diligence processes, and alpha generation.

Operations Train

Finance: David Trice, senior managing director of investment finance and operations, provided background on the operations functions designed to ensure investment activities were executed and meticulously recorded and reported. He detailed the primary goals of the Operations Train, to include, enhanced reconciliation and data integrity, streamlined processes through automation and efficiency, and a completed buildout of the back-office support processes necessary for a stand-alone investment organization.

Investment Technology: Eric Obermier, managing director of information technology, provided an overview of the ongoing planning and preparation for the complete separation of all Texas PSF information technology functions from the Texas Education Agency that had begun early in the year. He highlighted priorities being addressed through the Trains project to include, the design and implementation of required infrastructure and cloud services, an inaugural Texas PSF cyber security program, and an inventory and adequacy review of all applications and system to prioritize investment, migration, and elimination of systems.

Support Train

Human Resources and Texas PSF Talent: Diana Herring, senior director of human resources, outlined the Talent Train priorities to include, evaluation and modeling of a Texas PSF compensation structure in alignment with peer group, the creation of career paths for advancement, an employee development program, a performance evaluation program tied to compensation, strategic workforce planning, and the identification of human resource software solutions to support the Talent Train deliverables.

Legal: John Wright, general counsel and chief compliance officer, noted the priority deliverables of the Legal Support Train to be the design and implementation of a Texas PSF Board Member training and orientation program, and the development of an internal operational due diligence program and strategic plan reflecting best practice protocols for conducting background checks on fund managers.

Communication: Carolyn Perez, director of communications, noted that Communication Train deliverables encompass both internal and external communication, as well as brand strategy, and include an employee intranet, a dynamic LinkedIn content calendar, and an educational video series that would highlight the history of the Texas PSF and showcase how the Texas PSF adds value to the State of Texas.

The Board of Directors of the Texas PSF Corporation entered into executive session at 2:40 p.m. to discuss agenda items four (4) and five (5) under the cited sections of the Texas Government Code.

ACTION ITEM

4. **Texas PSF Process Review and Building Recommendation (Discussion and Possible Action),** pursuant to Texas Government Code, Sections 551.071 and 551.072 to deliberate regarding real property and consult with legal counsel, as needed.

   The Board of Directors entered into open session at 4:17 p.m.

   No action was taken by the Board in closed session.

   MOTION AND VOTE: *It was moved by Mr. Wright, and seconded by Ms. Hardy, and carried without objection to authorize the Acting CEO to proceed with execution of the lease at Innovation Tower for facilities of the Corporation on the terms presented to the Board, subject to negotiations and legal review, and to perform all duties necessary to accomplish such task.*

DICUSSION ITEMS:

5. **Update on CIO/CEO Search (Discussion Only),** pursuant to Texas Government Code, Sections 551.071 and 551.074 to deliberate personnel matters, including the appointment, employment, evaluation, reassignment, duties, discipline, or dismissal of a public officer or employee, and to consult with legal counsel, as needed.

   The Board of Directors entered into open sessions at 4:17 p.m.

   No action was taken by the Board in closed session.

6. Discussion of Proxy Voting: Pros and Cons (Discussion Only)

Public testimony was provided by the following individual:

NAME: Brent Bennett, Ph.D.
AFFILIATION: Texas Public Policy Foundation

It was determined by the Board that the Texas PSF investment team would work collaboratively with the Proxy Voting Workgroup to develop a draft Proxy Voting Policy document to bring back the Board of Directors at a later date. The Board recommended that the investment team include a mechanism designed to proactively identify the dynamic proxy voting issues that may affect the fiduciary duties of the Board, audit procedures, and a method to ensure linkage between the Texas PSF policy and third-party fund managers in the proposed document.

7. Budget and Compensation Committee (Discussion Only)

Mr. Wright introduced the Budget and Compensation Committee Report and noted the significant level of detail reflected in the forecast elements, specifically, the organizational transition, incremental talent requirements, and office relocation.

8. Audit and Ethics Committee (Discussion Only)

Mr. Maynard provided a summary of the June 2023 Board of Directors meeting discussion and decision related to the Boards determination to use the State Auditor's Office to conduct the financial audit of the assets of the Texas PSF Corporation for the fiscal year 2023.

9. Strategic Planning and Policy Committee (Discussion Only)

No report was provided.

Mr. Maynard acknowledged the Texas PSF team members for their level of effort and contributions to the goals of the Texas PSF.

The meeting of the Board of Directors of the Texas PSF Corporation adjourned at 4:53 p.m.