Minutes of the Texas Permanent School Fund Corporation

Board of Directors

June 22, 2023

The Board of Directors of the Texas Permanent School Fund (Texas PSF) Corporation met at 9:05 a.m. on Thursday, June 22, 2023, in Room #1-104 of the William B. Travis Building, 1701 N. Congress Avenue, Austin, Texas.

Present: Tom Maynard; Brad Wright; Aaron Kinsey; Commissioner Buckingham; Keven Ellis; Patricia Hardy; Marisa Perez-Diaz; Jim Stanislaus

Public Testimony

The Board of Directors received no presentations of public testimony.

ACTION ITEMS

Tom Maynard, Chair of the Texas PSF Corporation Board of Directors, called the meeting to order.

1. **Approval of Minutes, Meeting of the Board of Directors, April 13, 2023 (Discussion and Possible Action)**

2. **Approval of Minutes, Meeting of the Board of Directors, May 3, 2023 (Discussion and Possible Action)**

3. **Approval of Minutes, Meeting of the Board of Directors, May 30, 2023 (Discussion and Possible Action)**

   MOTION AND VOTE: *It was moved by Commissioner Buckingham, and seconded by Ms. Perez-Diaz, and carried without objection to approve the minutes of the April 13, 2023, May 3, 2023, and May 30, 2023, meetings of the Texas PSF Corporation Board, as printed.*

DISCUSSION ITEMS

4. **Receive First Quarter 2023 Permanent School Fund Performance Report (Discussion)**

   Mr. Mike Maher, Vice President of BNY Mellon Global and Risk Solutions, presented the first quarter of 2023 Permanent School Fund 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 2023. He stated that the PSF returned 3.56% net of fees for the first quarter outperforming the target benchmark by 77 basis points. Mr. Maher attributed most of the outperformance to private equity, energy, and non-core real estate.

   Mr. Maher then reviewed the first quarter 2023 performance of the Permanent School Fund by asset class, stating that the total domestic large cap equity composite returned 7.51%, outperforming its benchmark for the quarter by one basis point. Mr. Maher added that Small/Midcap Equity portfolio returned 3.48% in the quarter, outperforming its benchmark by five basis points. He added that international equities returned 7.02% for the quarter, outperforming its benchmark by 15 basis points for the period. He stated that the total emerging market equity composite returned 4.68% for the first quarter 2023, outperforming its benchmark by 72 basis points.

The core fixed income composite returned 3.09% for the quarter, outperforming its benchmark by 13 basis points. Mr. Maher stated that the treasuries composite returned 6.21% during the quarter, outperforming the benchmark by five basis points. Mr. Maher added that high yield returned 3.83% during the quarter, outperforming its benchmark by 26 basis points. Mr. Maher stated that the absolute return composite returned 0.75% for the quarter, underperforming its benchmark, the HFRI Fund of Funds Composite Index, by ten basis points. Mr. Maher added that the real estate composite returned -1.10% for the quarter, outperforming its benchmark by 124 basis points. He further stated that the real return asset class returned -0.32% for the quarter, outperforming its benchmark by 26 basis points. He added that emerging market debt returned 4.75% for the quarter, underperforming its benchmark by 41 basis points. Mr. Maher stated that private equity returned 2.05% for the quarter, outperforming its benchmark by 103 basis points. Mr. Maher stated that the energy composite returned 4.78% for the quarter, outperforming its benchmark by 309 basis points. Mr. Maher added that the infrastructure composite returned 5.10% for the quarter, outperforming its benchmark by 346 basis points. Finally, Mr. Maher stated that the total emerging manager composite returned 3.69% for the quarter, outperforming the benchmark by 326 basis points.

5. **Review and Consider Possible Changes to the Permanent School Fund Asset Allocation (Discussion and Possible Action)**

John Grubenman, chief investment officer, introduced this item noting that asset allocation is an important function of the Board and is a large determinant in the fund's overall performance. He provided a recap of the recent Board activity related to asset allocation review and described the collaborative and iterative process between NEPC and the Texas PSF Corporation team.

Mr. Grubenman called on Rhett Humphries, Partner, NEPC LLC, to discuss asset class allocation mix options and prevailing concepts. Mr. Humphries stated that NEPC takes a multidimensional approach when reviewing asset allocation that considers long-term strategic views, current opportunities, and dynamic tilts to public markets in the short term.

Mr. Humphries discussed the market outlook, assumption development and how they are applied to the Texas PSF Corporation allocations. He presented recommendations for revising the funds allocation as it relates to the economic regimes of growth, inflation protections, and defensive strategies.

The board requested additional information related to asset allocation assumptions and current fund manager composition. It was determined that action on this item be postponed to a future Board meeting.

No action was taken.

Mr. Maynard announced that the Board of Directors of the Texas PSF Corporation was entering into executive session at 11:13 a.m. to discuss agenda items six (6) and eight (8) under the cited section of the Texas Government Code:

6. **Receive an Update on Facilities, Including a Review of Legislative Requirements, and Possible Next Steps (Discussion),** 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 12:40 p.m.

No action was taken by the Board in closed session.

ACTION ITEMS

7. Consider Recommendation from the Audit and Ethics Committee Regarding Selection of an Auditor (Discussion and Possible Action)

Mr. Maynard called on Dr. Ellis, Chair, Audit and Ethics Committee, and David Trice, senior managing director investment finance and operations, to present the recommendation for auditor for the Texas PSF Corporation.

Dr. Ellis provided background on the historical role of the Texas State Auditor's Office (SAO) in the annual audit of the Permanent School Fund as required by all State agencies and noted that the Texas PSF Corporation does not fall under that requirement. He stated that the Committee recommended that the Texas PSF Corporation should continue to use the SAO to conduct the fiscal year 2023 audit and that the Committee would work to prepare and issue a request for proposal (RFP) for a certified public accounting firm to conduct the fiscal year 2024 audit.

Mr. Trice provided additional detail related to the uniqueness of the fiscal year 2023 audit due to the transition timeline from the Permanent School Fund/Texas Education Agency structure to the Texas PSF Corporation structure over the course of the fiscal year 2023 audit period. He described the benefits of prior knowledge and continuity that the SAO would bring to the coordination of all parties involved in the audit requirements of the transition period, to include the Texas Education Agency, General Land Office, and the Texas PSF Corporation.

MOTION AND VOTE: *It was moved by Mr. Wright and carried without objection to select the Texas State Auditor's Office to conduct a financial audit of the assets of the Texas PSF Corporation for the fiscal year 2023.*

(Ms. Hardy and Mr. Stanislaus were absent for the vote.)

8. Update from Executive Search Committee; Discussion and Possible Recommendation for Naming Acting CEO Successor (Discussion and Possible Action), pursuant to Texas Government Code, Section 551.074 to deliberate the appointment, employment, evaluation, reassignment, duties, discipline, or dismissal of a public officer or employee.

The Board of Directors entered into open session at 12:40 p.m.

No action was taken by the Board in closed session.

MOTION AND VOTE: *It was moved by Mr. Wright and carried without objection to select Dave Barrett Partners, EFL Associates, and Korn Ferry as finalists to be interviewed by the Board in the search for Executive Services related to the hiring of a new permanent Chief Executive Officer.*

(Ms. Hardy and Mr. Stanislaus were absent for the vote.)

DISCUSSION ITEMS

9. Update from the Proxy Voting Working Group (Discussion)

Aaron Kinsey, Member, Proxy Working Group, stated the group was tasked to design a policy document that would provide both principles and prescriptive guidelines related to proxy voting.

Chuck Campbell, Fiduciary Council, Jackson Walker LLP, reviewed the collaborative working group process that includes Board members and General Land Office, Jackson Walker LLC, and Texas PSF Corporation team member representatives. Mr. Campbell discussed the suggested role and timeline for the Proxy Working Group activity in an interim period and then after the permanent Chief Executive Officer is appointed.

10. Receive an Update Regarding the 88th Legislative Session (Discussion)

John McGeady, managing director of governmental relations, reviewed the major elements of the bill pattern passed by the 88th Legislature, Regular Session, and signed by the Governor to include, 2024-25 budget, 2024-25 exempt positions and performance measures, 2024-25 riders, and significant legislation affecting the Texas PSF Corporation that did not pass.

11. **Receive an Update on the Bond Guarantee Program (Discussion**)

Mark Shewmaker, fixed income portfolio manager and director special projects, provided an overview of the May 10, 2023, Internal Revenue Service Notice 2023-39, that states its intent to amend federal regulation to increase the capacity limits for the Bond Guarantee Program. The proposed amendment would serve to strike the December 2009 cost value determination date for all bonds sold on or after May 10, 2023.

The meeting of the Board of Directors of the Texas Permanent School Fund Corporation adjourned at 1:06 p.m.