Minutes of the Texas Permanent School Fund Corporation

Board of Directors

September 12, 2024

The Board of Directors of the Texas Permanent School Fund Corporation ("Texas PSF") met at 10:01 a.m. on Thursday, September 12, 2024, in Room #1-104 of the William B. Travis Building, 1701 N. Congress Avenue, Austin, Texas.

Present: Tom Maynard; Brad Wright; Aaron Kinsey; Jennifer Jones for Commissioner Dawn Buckingham; Keven Ellis; Pat Hardy; Marisa Pérez-Diaz; Jim Stanislaus (virtually); Cliff Thomas, Jr.

Public Testimony

The Board of Directors received no presentations of public testimony.

ACTION ITEM

1. **Discussion and Appropriate Action Related to the Minutes of the June 27, 2024, Meeting (Discussion and Possible Action)**

   MOTION AND VOTE: *It was moved by Mr. Wright, and seconded by Mr. Kinsey, and carried without objection to approve the minutes of the June 27, 2024, meetings of the Texas PSF Corporation Board, as printed.*

DISCUSSION ITEM

2. **Report of the Chief Executive Officer Regarding Matters Relating to the Management of the Texas PSF (Discussion Only)**

   Robert L. Borden, chief executive officer, began his presentation by reporting the Texas PSF's performance for Fiscal Year 2024, noting a preliminary return of ten percent (10%) on the total portfolio. Mr. Borden provided a summary of the Texas PSF's new asset allocation targets, adopted on February 1, 2024, and their anticipated returns. Mr. Borden noted that the Texas PSF has evaluated, improved, and made significant deductions to the Fund's overall operating expenses.

   Mr. Borden provided a progress report on the Texas PSF's strategic plan, adopted on February 1, 2024. He highlighted key advances within the seven (7) strategic plan goals. The seven (7) goals highlighted are as follows: Optimize Asset Allocation, Improve Portfolio Implementation, Attract and Develop Talent, Enhance Communications, Strengthen Corporate Governance, Fortify Internal Controls, and Build New Corporate Infrastructure.

   Mr. Borden gave an overview of changes made to optimize asset allocation and portfolio implementation and outlined next steps for these specific strategic plan goals. Mr. Borden offered details in the steps taken by Texas PSF to attract and maintain talent and emphasized three significant hires to Texas PSF as: Stu Bohart, Deputy Chief Investment Officer; Mike Meyer, Chief Financial Officer; and Fernando Garza, Chief Audit Officer. He provided an update on Texas PSF's communications, corporate governance and internal controls efforts, acknowledged their growth and emphasized that the next steps require fresh development. Lastly, he provided insight on the current tasks being undertaken to facilitate the upcoming move to Innovation Tower.

Tom Maynard and Mr. Borden engaged in a discussion focused on the effectiveness and implementation of internal controls within Texas PSF, including analyzing current practices, identifying potential risks, and exploring strategies for improvement to endure compliance and operational efficiency. Mr. Borden elaborated on the methods and procedures used by Texas PSF regarding the "Texas First" initiative by detailing the step-by-step approach taken, the rationale behind the chosen methods and how these procedures align with best practices.

Mr. Borden, Rhett Humphries, NEPC, Aaron Kinsey and Jared Stout, managing director of risk and performance participated in a discussion relating to asset benchmarking, performance transparency, and the methodologies used to evaluate performance. Mr. Kinsey noted that he will collaborate with Mr. Stout in the development of additions to the investment guidelines.

3. Discussion and Possible Action Related to the Mercer Recommended Performance Payout Plan (Discussion and Possible Action)

Brad Wright, Chairman of the Budget and Compensation Committee, provided an account of the performance payout plan history. He detailed the initial assessment, during which needs and challenges were identified, made note of key milestones and decision points. Mr. Wright explained that through collaborative efforts, the final proposal of the performance payout plan was developed.

Mr. Borden elaborated on the performance payout plan by reiterating the strategic plan goal to attract and retain talent by remaining competitive and elevating the Texas PSF standards. He introduced Susan Lemke, Project Lead, Mercer consulting, who presented the proposed performance payout plan and the process undertaken by Mercer to develop the plan.

<u>MOTION AND VOTE</u>: *It was moved by Mr. Wright, and seconded by Ms. Hardy, and carried without objection to approve the Mercer recommended performance payout plan as presented and authorize the CEO to implement the plan and to develop appropriate procedures for implementation.*

4. Discussion and Possible Action Related to Proposed Legislative Appropriations Request for Fiscal Years 2026-2027 (Discussion and Possible Action)

Mr. Wright began with a description and overview of what the Legislative Appropriations Request is and made note of the connection between the performance payout plan and the Legislative Appropriations Request. He transitioned the presentation to Mr. Borden, who emphasized that the adopted strategic plan is fundamental to success and informs the Texas PSF proposed budget. Mr. Borden and Mr. Meyer offered insight to budget rider requests and proposed modifications.

<u>MOTION AND VOTE</u>: *It was moved by Mr. Wright, and seconded by Mrs. Perez-Diaz, and carried without objection to approve the Legislative Appropriations Request for Fiscal Year 2026 and Fiscal Year 2027 as presented and direct the CEO to submit the Legislative Appropriations Request to the Officer of the Governor and the Legislative Budget Board.*

5. Discussion and Possible Action Related to Endowment Spending Rate and Supplemental Revenue Distribution Policy (Discussion and Possible Action)

Mr. Maynard began by providing an explanation in the statutory differences between Texas Constitution, Article 7, Sec. 5(a) and Sec. 5(g). He transitioned to Mr. Kinsey, Chair of the Strategic Planning and Policy Committee, who relayed this process was undertaken with collaborative efforts and creating a framework for the future. Mr. Borden presented the proposed Texas PSF distribution allowed under Section 5(g) and offered further insight to the rationale used behind the decision-making processes.

MOTION AND VOTE: *It was moved by Mr. Wright, and seconded by Ms. Hardy, and carried without objection 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 ASF. The Corporation will transfer one-twelfth of that amount from the PSF to the ASF monthly.*

6. Discussion and Possible Action Related to the PSF Transition Benchmarks and Pacing (Discussion and Possible Action)

Mr. Borden began the discussion by outlining policy essentials that will produce a framework to effectively measure investment performance and introduced Mr. Stout. Mr. Stout highlighted two primary goals: to quantify and measure the value of investment decisions and to establish both a policy benchmark and an allocation benchmark. He acknowledged that the current policy presents challenges and that it is Texas PSF's goal is to enhance measuring capabilities. He explained that the immediate implementation of the proposed changes would not be feasible, therefore an implementation of a transitional policy benchmark would be beneficial to provide guidance during the shift. He presented the proposed policies and relayed that the proposed approach would enhance investment decision-making, measurement, and facilitate better alignment with strategic objectives.

MOTION AND VOTE: *It was moved by Mr. Wright, and seconded by Ms. Hardy, and carried without objection to approve the policy and strategy benchmarks construct and the private asset transitional benchmarks, including liquid substitutes and associated benchmarks, as presented.*

7. Discussion on Proxy Voting Analysis (Discussion Only)

Mr. Maynard began the discussion by providing a glimpse of the Texas PSF's proxy voting history and its importance as it relates to Texas PSF. Mr. Borden introduced Mr. Jerry Bowyer, of Bowyer Research, who presented a preliminary proxy voting review. He provided a detailed explanation of the process and analysis utilized in conducting their research. He outlined the steps taken to ensure the research was rigorous and comprehensive. Mr. Bowyer presented the findings of their research, highlighted key results supported by the data.

No Action was taken by the Board

COMMITTEE REPORTS

8. Report from Budget and Compensation Committee Chair and Recommendation Relating to the Proposed Legislative Appropriations Request and Recommended Performance Payout Plan (Discussion and Possible Action)

Mr. Wright noted the objectives of this committee were held in earlier discussions. The objectives discussed and reviewed were:

- *Legislative Appropriations Request for Fiscal Years 2026 and 2027.*
- *Performance Payout Plan; and*
- *Proposed Benchmark Changes.*

No Action was taken by the Board

9. Report from Audit and Ethics Committee

Dr. Keven Ellis noted this committees' objectives were highlighted in Mr. Borden's initial comments. He noted Mr. Garza's attendance. The objectives discussed and reviewed were:

- *Anticipate a year-end report by KPMG; and*
- *Payroll and Cybersecurity updates covered by Mr. Borden.*

No action was taken by the Board

10. Report from Strategic Planning and Policy Committee Chair and Recommendation Relating to Endowment Spending Rate and Supplemental Revenue Distribution Policy and PSF Transition Benchmarks and Pacing

Mr. Kinsey noted that this committees' objectives were thoroughly covered in earlier discussions. The objectives discussed and reviewed were:

- *Proxy Voting.*
- *Endowment Spending Rate.*
- *Investment Policy Statement Refinement and Benchmark Range Review; and*
- *Review of current Board governance policies.*

No action was taken by the Board

The meeting of the Board of Directors of the Texas PSF Corporation adjourned at 1:32 p.m.