Minutes of the Texas Permanent School Fund Corporation

Board of Directors

April 11, 2024

The Board of Directors of the Texas Permanent School Fund (Texas PSF) Corporation met at 10:00 a.m. on Thursday, April 11, 2024, in Room #1-104 of the William B. Travis Building, 1701 N. Congress Avenue, Austin, Texas.

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

Public Testimony

The Board of Directors received no presentations of public testimony.

Tom Maynard, Chair of the Texas PSF Board of Directors, called the meeting to order and provided an overview of the creation, history, and current activity of the Texas Bond Guarantee Program. He then introduced a celebratory video highlighting the impact of the Texas Bond Guarantee Program on the students, staff and leadership of the Forney Independent School District, Goose Creek Consolidated Independent School District and Los Fresnos Consolidated Independent School District.

1. Congratulatory Resolution, Bond Guarantee Program 40th Anniversary

The Texas PSF Corporation Board of Directors, by unanimous consent, adopted a resolution recognizing the 40th Anniversary of the Texas Bond Guarantee Program (Attachment A).

ACTION ITEM

2. Discussion and Appropriate Action Related to the Minutes of the January 16, 2024, and February 1, 2024, Meetings (Discussion and Possible Action)

MOTION AND VOTE: *It was moved by Mr. Wright, and seconded by Ms. Hardy, and carried without objection to approve the minutes of the January 16, 2024, work session and February 1, 2024, meeting of the Texas PSF Corporation Board, as printed.*

DISCUSSION ITEMS

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

Robert Lee Borden, chief executive officer, began his presentation with a report on the current state of the financial markets and the Texas PSF investment performance to include domestic equity, real estate, and hedge fund/absolute return portfolios. Mr. Borden noted a 1-year total Fund return of 1.14% outperformance over benchmark driven in part by strong performance in the absolute return and real assets portfolios over the past year.

Mr. Borden provided an update on key management initiatives framed in the context of strategic goals outlined in the Texas PSF Strategic Plan approved by the Board at their February 1, 2024, meeting. He reported on the progress of efforts to implement the new asset allocation, build a new staff performance evaluation and compensation plan, search for a Chief Audit Officer and Chief Financial Officer, enhance communication outreach to stakeholders, assess compliance controls, conduct cybersecurity intrusion testing, and obtain permit approval for the new facility.

Mr. Borden introduced, Stuart Bohart, deputy chief investment officer, strategic assets and absolute return, who then detailed his background and current role at the Texas PSF. Mr. Bohart concluded his remarks with the shared observation that during his three-month tenure at the Texas PSF he found the staff to be extremely talented, dedicated, and caring. He acknowledged and detailed efforts and contributions that the Texas PSF team was making to the Fund and the school children of Texas.

4. Overview on Private Equity, Real Estate and Private Credit Asset Classes (Discussion Only)

Mr. Borden introduced the item and noted that the presentations to follow were responsive to the request for additional information related to the current presence of private credit throughout the Fund's portfolio as well as the philosophy, guidelines, and implementation of the new private credit program.

Erin Wedepohl, senior managing director, private equity, and Nick Tramontana, senior managing director, real estate, each gave detailed presentations on their respective asset classes to include asset class definition and investment strategy, history of the asset class at the Texas PSF, manager sourcing, due diligence processes, contracting and monitoring of managers, investment guidelines, portfolio allocation within the asset class, asset class portfolio performance, and a comprehensive overview of the private credit currently held within both the private equity and real estate portfolios.

Ms. Wedepohl and Mr. Tramontana each introduced the members of their teams providing educational background and institutional investment experience statistics for each.

John Newell, senior managing director, private credit, and acting director of fixed income, first provided a brief overview of the Texas PSF hedge fund credit program to include investment philosophy, history of hedge fund credit within the hedge fund portfolio at the Texas PSF, asset allocation of the hedge fund credit book, and hedge fund credit performance within the portfolio.

Mr. Newell introduced each member of the new Texas PSF private credit team and provided an overview of the educational background and institutional investment experience of each.

Mr. Newell then presented an overview of the new Texas PSF private credit program and asset allocation target to include investment philosophy and strategies. He noted the private credit illiquidity premium and growth of private credit in the global credit markets to be attractive features of the asset class. Mr. Newell discussed the creation of the private credit investment process, manager sourcing and investment guidelines. He affirmed that the private credit asset class due diligence processes, and contracting and monitoring of managers mirror those outlined for the private equity and real estate asset classes. He also detailed the plans for building out the diversified private credit allocation at the Texas PSF.

5. Transition Funding Update (Discussion Only)

Jared Stout, managing director of risk and performance, reviewed the prior Texas PSF asset allocation targets, by asset class, against the Bank of New York Mellon universe index of endowments greater that one-billion dollars noting the Texas PSF allocation to be overweight in liquid assets and underweight in illiquid assets, historically.

Mr. Stout then provided a recap of the recent asset allocation changes, by asset class, approved by the Board at their February 1, 2024, meeting and presented a detailed update on the progress of the ongoing transition of assets towards these approved allocation targets.

6. Discussion and Possible Action Related to the Proposed Incentive Compensation Plan (Discussion and Possible Action)

No report provided.

7. Report from Budget and Compensation Committee Chair and Recommendation Relating to Proposed Incentive Compensation Plan (Discussion and Possible Action)

Brad Wright, Chair of the Budget and Compensation Committee, presented a summary of the preliminary report on the market study and incentive compensation plan redesign provided to the Committee by Ms. Susan Lemke, Project Lead, Mercer consulting, at the April 4, 2024, Committee meeting. The preliminary report included an overview of Mercer's review of the current Texas PSF incentive compensation plan, corresponding best practices observed in the peer group, and their observations and initial recommendations.

Mr. Borden suggested that the final incentive compensation plan report be presented to the Board for consideration at a special called meeting in late May in advance of the next scheduled meeting of the Board of Directors on June 27, 2024.

8. Report from Audit and Ethics Committee Chair (Discussion and Possible Action)

Keven Ellis, Chair of the Audit and Ethics Committee, affirmed the Committee's April 3, 2024, detailed discussion of prior agenda items to include a presentation of audit findings to the Committee by representatives from the State Auditor's office, fixed income program transition update, status of the external auditor RFQ and internal Chief Audit Officer search, and cybersecurity intrusion test outcome.

9. Report from Strategic Planning and Policy Committee Chair (Discussion and Possible Action)

Aaron Kinsey, Chair of the Strategic Planning and Policy Committee, provided a recap of discussion items from the April 4, 2024, Committee meeting to include a detailed update on the current status and upcoming deliverables for each of the goals outlined in the Texas PSF Strategic Plan, review of the fixed income program transition, and an overview of the new proxy voting guidelines matrix and implementation plan. Mr. Kinsey confirmed that there would be a retrospective review of actual proxy voting performance against the voting matrix guidelines at the conclusion of the voting season to ensure fidelity.

The meeting of the Board of Directors of the Texas PSF Corporation adjourned at 12:22 p.m.