Minutes of the Texas Permanent School Fund Corporation

Board of Directors

February 1, 2024

The Board of Directors of the Texas Permanent School Fund (Texas PSF) Corporation met at 10:08 a.m. on Thursday, February 1, 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; Pat Hardy; Marisa Pérez-Diaz; Jim Stanislaus

Absent: Kevin Ellis; Cliff Thomas, Jr.

Public Testimony

The Board of Directors received no presentations of public testimony.

ACTION ITEMS

1. **Discussion and Appropriate Action Related to the Minutes of the November 14, 2023, and November 16, 2023, 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 November 14, 2023, and November 16, 2023, meetings of the Texas PSF Corporation Board, as printed.*

2. **Consideration of Texas PSF Strategic Plan (Discussion and Possible Action)**

   Aaron Kinsey, Secretary of the Texas PSF Corporation Board of Directors and Chair of the Strategic Planning and Policy Committee introduced the item and noted that background and details of the information to be presented to the Board had been reviewed and discussed with the Texas PSF team at the Strategic Planning and Policy Committee meeting held January 25, 2024.

   Robert Lee Borden, chief executive officer, presented the Texas PSF mission and vision statements, core values and strategic plan. He detailed the goals of the strategic plan, to include asset allocation and portfolio implementation, attract and develop talent, enhance communications, strengthen corporate governance, fortify internal controls, and build a new corporate infrastructure. Mr. Borden stated that the Texas PSF strategic plan would shape long-term direction, inform the budget, and guide daily priorities.

   MOTION AND VOTE: *It was moved by Mr. Wright, and seconded by Mr. Kinsey, and carried without objection to approve the Texas PSF Strategic Plan, as presented.*

3. **Review and Recommendations on Investment Policy and Asset Allocation Targets (Discussion and Possible Action)**

   Mr. Kinsey introduced the item and provided an overview of the history and recent Board discussion related to required liquidity, asset allocation and benchmarking.

   Mr. Borden noted statutory requirements tasking the Board with setting asset allocation, targets, ranges, and benchmarks. He detailed that when evaluating changes to asset allocation consideration is given to peer performance, bond guarantee ability, and liquidity analysis.

Mr. Borden provided an overview of private credit as a feature of the proposed asset allocation, to include the secular decline in bank lending, attractive yields and spreads relative to other fixed income asset classes, and role as a return generator, risk diversifier, and funding source for other private assets.

The Board requested additional information related to the current presence and location of private credit within the Texas PSF portfolio and that the Board be provided with a deeper education of the private credit asset class.

Rhett Humphries, Partner, NEPC, LLC, noted the tenure of work, modeling, and research conducted by the Texas PSF investment team related to benchmark alignment and confirmed support for the benchmark recommendations, as proposed.

MOTION AND VOTE: *It was moved by Mr. Wright, and seconded by Ms. Pérez-Diaz, that the Texas PSF Board of Directors amend the Investment Policy with the proposed asset allocation targets, ranges, and benchmarks, as presented. The motion carried with 5 members voting Aye, 1 member voting No, and 1 member voting Present.*

4. Review and Recommendations on Interim Performance Incentive Pay Plan (Discussion and Possible Action)

Brad Wright, Vice-Chair of the Texas PSF Corporation Board of Directors and Chair of the Budget and Compensation Committee introduced the item and noted recent Board discussion focused on two elements of the Texas PSF Performance Incentive Pay Plan; first, the small, precise details of the historical plan document structure, and second, a revised plan that would be both competitive and centered on quantitative and qualitative performance.

Mr. Borden provided an overview of the design of the legacy performance incentive pay plan and noted that the transition away from the Texas Education Agency rendered the prescribed procedures of that plan document obsolete. He confirmed that the Texas PSF currently has no functional compensation plan. Mr. Borden outlined the need for the Texas PSF to develop an incentive pay plan that would meet the current and future needs of the organization, to include competitive talent recruitment and talent retention. A new plan would also address the inadequate elements and off-cycle performance measurement period of the legacy plan. Mr. Borden proposed an interim performance incentive pay plan that would migrate the historical plan measurement period to a superior period of July 1st through June 30th while facilitating a partial year compensation calculation for October 1st through June 30th, 2024. He noted that the Budget and Compensation Committee is currently working through consultant data and other peer group information to develop a new permanent plan for presentation to the Board at the April 2024 meeting.

MOTION AND VOTE: *It was moved by Mr. Wright, and seconded by Ms. Hardy, and carried without objection to approve adoption of the Texas PSF Interim Performance Incentive Pay Plan, as presented.*

DISCUSSION ITEMS

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

Mr. Borden introduced Stuart Bohart, deputy chief investment officer, strategic partnerships, and absolute return, and welcomed him to the Texas PSF team.

Mr. Borden provided an overview of strong total Fund performance through December 31, 2023, noting total return of 9.34% versus the composite benchmark of 8%. He also provided updates on key initiatives, to include the lease and space planning for the new facilities, internal audit division staffing, and staff feedback and communication efforts.

6. Report from Budget and Compensation Committee Chair (Discussion Only)

Mr. Wright reported on the Committee's January 17, 2024, and January 25, 2024, discussions to include the review of the incentive compensation program, the future C-Suite organization chart design, the key goals and objectives of the strategic plan, and the Committee Charter.

7. Report from Audit and Ethics Committee Chair (Discussion Only)

Mr. Borden provided the Committee report on behalf of Dr. Ellis, Chair of the Audit and Ethics Committee. He presented a summary of the Committee's January 16, 2024, and January 25, 2024, discussions to include the review of the State Auditor's Office Audit draft for FY2023 and the Texas PSF response, the hiring plan for the Chief Audit Officer, the internal audit staffing and audit project plan, the RFQ timeline and audit delegation authority for an external auditor, the existing internal controls, and the Committee Charter.

8. Report from the Strategic Planning and Policy Committee Chair (Discussion Only)

Mr. Kinsey affirmed the Committee's January 25, 2024, detailed discussion of prior agenda items to include peer group comparisons of asset allocation and portfolio performance, liquidity and cash flow analyses, private debt as an asset class, bond guarantee analyses and implications, asset allocation targets and performance benchmark recommendations, the strategic plan and the Committee Charter.

The meeting of the Board of Directors of the Texas PSF Corporation adjourned at 1:25 p.m.