Minutes of the Texas Permanent School Fund Corporation

Board of Directors

June 27, 2024

The Board of Directors of the Texas Permanent School Fund (Texas PSF) Corporation met at 10:00 a.m. on Thursday, June 27, 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.

ACTION ITEM

1. **Discussion and Appropriate Action Related to the Minutes of the April 11, 2024, Meeting (Discussion and Possible Action)**

   MOTION AND VOTE: *It was moved by Brad Wright, and seconded by Marisa Diaz- Perez, and carried without objection to approve the minutes of the April 11, 2024, meeting of the Texas PSF Corporation Board, as printed.*

DISCUSSION ITEMS

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

   Robert Borden, chief executive officer provided updates on the progress of the Corporation's strategic plan, including asset allocation optimization, portfolio implementation, talent acquisition and retention, and strengthening of internal controls.

   Mr. Borden noted that the investment team has been working to implement the asset allocation adopted in February, which increased expected return from 6.60% to 7.05% carefully but quickly reallocating billions across asset classes.

   Mr. Borden provided an update on the compensation review. Compensation consultant firm Mercer was engaged in to conduct a salary study and to develop a recommended incentive compensation plan. Initial compensation recommendations have been vetted through the Budget and Compensation Committee. The Corporation has revamped all job descriptions, created career plans, and initiated a standardized evaluation period starting in July. Mike Meyer, currently Deputy Commissioner of Finance at the Texas Education Agency (TEA), will join the PSF on July 1 as Senior Vice President and Acting Chief Financial Officer.

   Mr. Borden advised the board that all contracts at Innovation Tower have been finalized and interior finish-out is underway. Project is currently on-time and on-budget, with move-in scheduled for the end of the calendar year.

3. **Transition Funding (Discussion Only)**

Jared Stout, managing director of risk and performance, provided an update that the outsourcing of internal portfolio management has been completed, including re-allocating the existing private credit allocations from private equity, hedge funds and real estate programs into the private credit allocation as well as making additional commitments to the private credit allocation.

Additionally, next steps will be to re-allocate the equity and credit beta from the hedge funds programs into the public equity and public credit programs.

4. **Discussion Related to Endowment Spending Review and Draft Texas PSF Corporation Distribution Policy (Discussion Only)**

Mr. Borden provided the board an overview on the two different distributions from PSF to the Available School Fund (ASF). He discussed the timeline for the adoption a distribution policy for both the 5(a) and 5(g) distributions. The preliminary estimates for the School Board of Education spending rate range between 2.43% and 3.88%, which projects to annual distribution of $1.27 to $2.03 billion.

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

Mr. Borden gave an executive summary highlighting the implementation of SB1232, including the increase of governance by creating a budget and compensation committee, retained and independent compensation consultant, and the increased cost of supporting strategic plan initiatives.

Brad Wright, Chairman of the Budget and Compensation Committee, noted that the committee had been working with staff on proposed budget request for fiscal years 2026 and 2027 and discussed the two budget scenarios that were reviewed. Proposed budget requests reflect certain necessary expenses that are required as SB1232 continues to be fully implemented.

No Action was taken by the Board.

5. **Discussion and Possible Action Related to the Mercer Recommended New Performance Compensation Structure and Plan (Discussion and Possible Action)**

Mr. Borden presented an overview of the compensation assessment conducted for the Corporation by Mercer. Susan Lemke, Mercer consultant, gave a recap of the compensation assessment and discussed the recommendation based on the study.

No action was taken by the Board.

6. **Discussion and Possible Action Related to the Appointment of an Internal Chief Audit Officer (Discussion and Possible Action)**

Keven Ellis, Chairman of the Audit and Ethics Committee provided the board with a summary of the Chief Audit Officer role and gave overview of the selection process and the final candidate.

MOTION AND VOTE*: It was moved by Mr. Ellis to approve the appointment of Fernando Garza. as the Chief Audit Officer for the Texas PSF Corporation. The motion carried.*

7. **Discussion and Possible Action Related to the Selection of an External Audit Firm (Discussion and Possible Action)**

Dr. Ellis gave an overview of the RFQ process for the selection of the external audit firm.

MOTION AND VOTE*: It was moved by Mr. Ellis to that the Board approve the selection of KPMG to provide the Eternal Audit Firm services to the Texas PSF Corporation. The motion carried.*

8. **Discussion and Possible Action Related to the Investment Policy Statement including Refinement and Benchmark Range Review (Discussion and Possible Action)**

   No Action was taken by the Board

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

   Mr. Wright presented a summary of the Legislative Appropriations Request for fiscal years 2026-2027 and the final review and consideration of Mercer recommended new performance compensation structure plan.

10. **Report from Audit and Ethics Committee Chair and Recommendation relating to Appointment of an Internal Chief and Audit Officer, and Selection of External Audit Firm (Discussion and Possible Action)**

    Dr. Ellis presented a summary of the Chief Audit Officer selection and a recommendation of the External Auditor.

11. **Report from Strategic Planning and Policy Committee Chair and Recommendation Relating to the Investment Policy Statement Refinement and Benchmark Range Review, and Endowment Spending Review and Draft Texas PSF Corporation Distribution Policy (Discussion and Possible Action)**

    Aaron Kinsey, Chair of the Strategic Planning and Policy Committee gave an introduction of the Endowment Spending Rate. Mr. Borden provided an in-depth overview of the Endowment Spending Rate and the Supplemental Revenue Distribution.

    Mr. Kinsey also provided a recap from the committee meeting discussing the Strategic Plan for fiscal years 2025 to 2029, the investment policy statement and benchmark range review and noted the committee also discussed a calendar of recurring policy revisions and key board decisions.

The meeting of the Board of Directors of the Texas PSF Corporation adjourned at 2:26 p.m.