

**TEXAS PERMANENT SCHOOL FUND
CORPORATION**

Investment Policy Statement

Effective January 1, 2023

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Purpose

The Texas Permanent School Fund Corporation (“Texas PSF”, the “Corporation”) is organized for the purpose of managing and investing, on behalf of the State Board of Education (“SBOE”), the Permanent School Fund (the “Fund”) and the Charter District Bond Guarantee Reserve Fund, in accordance with Article VII of the Texas Constitution.

This document (the “IPS” or the “Policy”) outlines the investment policies and objectives of Texas PSF to assist the Board of Directors of the Corporation (the “Board”) in providing effective oversight and administration of Fund assets. This Policy provides a flexible framework with sufficient flexibility to capitalize on investment opportunities in a timely manner, while setting reasonable governance parameters to ensure prudence and care in the execution of the investment program. Consistent with the prudence standard as set forth in Article VII, Section 5(f) of the Texas Constitution, all investment decisions for the Fund shall be exercised with reasonable care, skill, and caution.

Investment Objectives

In its role, the Board shall strive to manage the Fund with respect to the following: support for public free schools in Texas, real growth in Fund asset values, protection of Fund capital, and the provision of sustained equitable income distributions to current and future generations of Texas school children.

The Fund’s investment objectives are as follows:

- Generate distributions for the benefit of public schools in Texas;
- Maintain the purchasing power of the Fund, after spending and inflation, in order to maintain intergenerational equity with respect to distributions from the Fund;
- Provide a maximum level of return consistent with prudent risk levels, while maintaining sufficient liquidity needed to support Fund obligations;
- Maintain a AAA credit rating, as assigned by a Nationally Recognized Securities Rating Organization (NRSRO),

Roles and Responsibilities

The Board recognizes the need to invest and manage Fund assets prudently, consistent with its statutory and fiduciary obligations, in order to achieve the Fund’s investment objectives. The following section outlines the roles and responsibilities for each of the key parties involved in executing this Policy.

Responsibilities of the Board include:

- i. Approve the asset allocation policy for the Fund, including determining the available asset classes for Fund investment and approving target percentages and ranges for allocation to each such asset class;
- ii. Approve performance benchmarks for the total Fund and for each individual asset class;
- iii. Periodically review the investment performance of the total Fund, including the performance of each individual asset class;

- iv. Employ and monitor the performance of a Chief Executive Officer (the “CEO”)
- v. Hire the following service providers to the Board and Corporation:
 - a. Investment Performance Measurement agent(s);
 - b. General Fund consultant, at the Board’s discretion;
 - c. Fiduciary Counsel;
 - d. External Auditor.
- vi. Approve an internal auditor, if appointed by the CEO;
- vii. Establish an annual minimum Available School Fund distribution rate, as described in TEC 43.066 (a) and (b);
- viii. Request, receive and review reports related to investment of the Fund.

Responsibilities of the Chief Executive Officer include:

- i. Ensure efficient implementation of the Fund’s investment program and the Corporation’s operations, including establishment of appropriate procedures and controls;
- ii. Approve delegation of authority;
- iii. Hiring and monitoring the performance of Corporation employees;
- iv. Monitoring external investment managers and other service providers;
- v. Maintain compliance with this IPS and other policies of the Corporation;
- vi. Maintain working relationships with Fund consultants and service providers;
- vii. Recommend an internal auditor to the Board for consideration, at the CEO’s discretion;
- viii. Hire, retain, or terminate Fund custodians and securities lending agents.

Responsibilities of the Chief Investment Officer include:

- i. Recommend to the Board asset allocation targets and investment policies, including changes to this IPS;
- ii. Rebalance actual asset allocations of the Fund towards Policy target weights, as described in this Policy;
- iii. Review and recommend investment performance benchmarks for the Fund and each individual asset class;
- iv. Hire, retain or terminate asset class investment consultants and investment managers;
- v. Approve investment manager guidelines, changes, and additions;
- vi. Monitor all investment managers and external advisors for compliance with this Policy and asset class investment guidelines;
- vii. Develop and recommend new investment strategies, as appropriate.

Custodian

The CEO selects the Fund’s Custodian(s), the primary function of which is to hold custody of all Fund assets, except for commingled funds (including private markets partnerships), mutual funds, and certain separate accounts, which may be held elsewhere in accordance with applicable legal or other requirements.

Strategic Asset Allocation

The strategic asset allocation is a material factor in meeting long-term investment objectives at a level of risk and liquidity that is appropriate for the Texas PSF. A formal asset allocation study will be conducted at least every two years or more frequently at the direction of the Board.

Appendix 1 shows the Fund's current asset allocation mix and the allowable range for each asset class. Each time the Board approves a new asset allocation, Appendix 1 will be updated to reflect any changes.

Rebalancing

The Chief Investment Officer ("CIO") will review deviations of actual Fund asset allocations from the asset class policy targets and may undertake a rebalancing of assets. All deviations outside the allowable ranges established in this Policy will be reported to the Board.

The Board recognizes that rebalancing may not be immediately appropriate under certain market conditions. Investment in certain illiquid asset classes (e.g., private markets investments) may impact rebalancing efforts. Furthermore, the expected pace of funding of commitments to these types of investments must be considered when constructing a well-diversified portfolio. Because of these constraints, temporary deviations from asset class policy targets may occur.

Performance Measurement

The Board will approve performance benchmarks for individual Fund asset classes and a Fund Policy Benchmark to employ in analyzing Fund performance. The Fund Policy Benchmark reflects the strategic asset allocation mix and the program level benchmarks approved by the Board during the asset allocation process. Appendix 1 sets forth the benchmarks for the Fund's asset classes and a description of the Fund Policy Benchmark and will be updated as needed to reflect Board approval of any future benchmark modifications.

During periods of transition to new asset allocation targets, investments in illiquid asset classes will be prudently implemented over time at the discretion of staff. Given the amount of time it may take to meet private market asset allocation targets, the policy weights of these asset classes will use actual weights at the end of the prior month for the Fund Policy Benchmark calculation.

Investment Guidelines

The CEO and CIO will jointly establish and modify appropriate investment guidelines (including restrictions) for each asset class. These guidelines will include diversification and concentration limits, as applicable, and other appropriate risk metrics necessary to establish suitable risk parameters for each asset class. These guidelines will be provided to the Board on an annual basis.

Use of Derivatives

The use of derivatives is permitted in the implementation of investment strategies, subject to applicable internal investment guidelines or contractual terms with external investment managers.

Leverage

Prudent use of leverage can be an appropriate tool used to enhance overall returns and is used in certain asset classes such as private markets and absolute return strategies. Investment managers may use leverage in a manner consistent with approved investment strategies and investment guidelines or other operational documents related to the applicable investments.

Liquidity

Sufficient liquidity must be maintained to facilitate the Fund's financial and operational requirements, and to meet the Fund's distributions requirements. Both short-term cash obligations and long-term projections

of cash needs will be reviewed by the CIO on a regular basis to establish an appropriate level of total Fund liquidity.

Best Execution

All securities transactions executed by internal and external investment managers for the Fund shall be obtained at best execution and at lowest cost if otherwise prudent. Efforts should be made to minimize trading costs and other fees and to provide best execution under prevailing market conditions.

Accounting

All investments of the Fund and the Account shall be accounted for in accordance with Generally Accepted Accounting Principles ("GAAP") as prescribed by the Governmental Accounting Standards Board ("GASB") unless otherwise prescribed by federal or state law.

Compliance with Applicable Law

The CEO will develop policies and procedures as warranted to maintain compliance of the Corporation with applicable federal and state laws and regulations related to the investment of Fund assets. These applicable laws include, but are not limited to, certain prohibitions on the involvement of placement agents with respect to Fund investments under federal law and compliance with applicable divestiture requirements related to the Fund under Texas law.

Socially and Politically Responsible Investment Policy

Pursuant to the Texas Constitution and applicable law, investments shall be considered based on the prudence standard and the provisions of this Policy. Investments shall provide the highest return commensurate with the lowest risk and shall be diversified.

Consideration of any factors in investment selection must consider and otherwise satisfy these principles.

Review of and Amendment to the Policy

The Board will periodically review this Policy to ensure it remains consistent with the Fund's investment objectives and investment operations. The Board may amend this Policy at any time through action at a Board meeting; provided, however, that Appendix 1 may be updated without formal amendment of the Policy to reflect Board actions related to asset allocation and benchmarks.

Appendix 1

Asset Class Targets, Ranges and Performance Objectives

To pursue the objectives of the Fund at an acceptable risk level, the following strategic (i.e., long-term) allocation is adopted for the Fund:

ASSET CLASS	STRATEGIC ASSET ALLOCATION*	RANGE	BENCHMARK
Equities			
Large Cap US Equity	15%	+/- 3.0%	S&P 500
Small/Mid-Cap US Equity	6%	+/- 1.0%	S&P 1000
Non-US Developed Equity	10%	+/- 3.0%	MSCI All Country World Index EX US (Net Dividend)
Emerging Market Equity	6%	+/- 1.0%	MSCI EM Index (Net Dividend)
<i>Total Equity</i>	37%		
Fixed Income			
Core Bonds	11%	+/- 2.0%	Bloomberg U.S. Aggregate Bond Index
Non-Core Bonds (High Yield & Bank Loans)	3%	+/- 3.0%	Bloomberg US Corporate High Yield 2% Issuer Capped Index
Emerging Market Debt (Local Currency)	2%	+/- 2.0%	JPM GBI-EM Global Diversified
U.S. Treasuries	2%	+/- 2.0%	Bloomberg U.S. Long Treasury Total Return
<i>Total Fixed Income</i>	18%		
Cash Equivalents	0%		
Alternatives			
Absolute Return	6%	+/- 1.0%	HFRI Fund of Funds Composite Index
Private Equity	15%	+/- 4.0 %	Custom Private iQ® Benchmark
Real Estate	12%	+/- 4.0 %	Core: NCREIF Fund Index - Open End Diversified Core Equity, Equally Weighted, Net of Fee (NFI-ODCE, EW, Net) or, if available, NCREIF Fund Index - Open End Diversified Core Equity Ex- 81-100 Trust Structure Funds, Equally Weighted, Net of Fee (NFI-ODCE Ex-81-100, EW, Net) Non-core: Custom Private iQ® Benchmark Non-Core (Real Assets – RE): NCREIF Fund Index – Open-End Equity, Net of Fee (NFI- OE, Net)
Emerging Manager Program (Private Equity/Real Estate)	1%	+/- 1.0%	Custom Private iQ® Benchmark
Real Return (Commodities & U.S. Treasury Inflation Protected Securities (TIPS))	4%	+/- 1.5%	Bloomberg Commodity Total Return Index Bloomberg U.S. Treasury: US TIPS Index
Private Real Assets – Natural Resources	3%	+/- 2.0%	Consumer Price Index-All Urban Consumers (“CPI-U”)
Private Real Assets - Infrastructure	4%	+/- 2.0%	Consumer Price Index-All Urban Consumers (“CPI-U”)
<i>Total Alternatives</i>	45%		

* Percentages (%) use NAVs derived from recommended targets for SBOE, and GLO data as of Q3 2021, to reach the aggregate allocation provided above.