2025 Year In Review

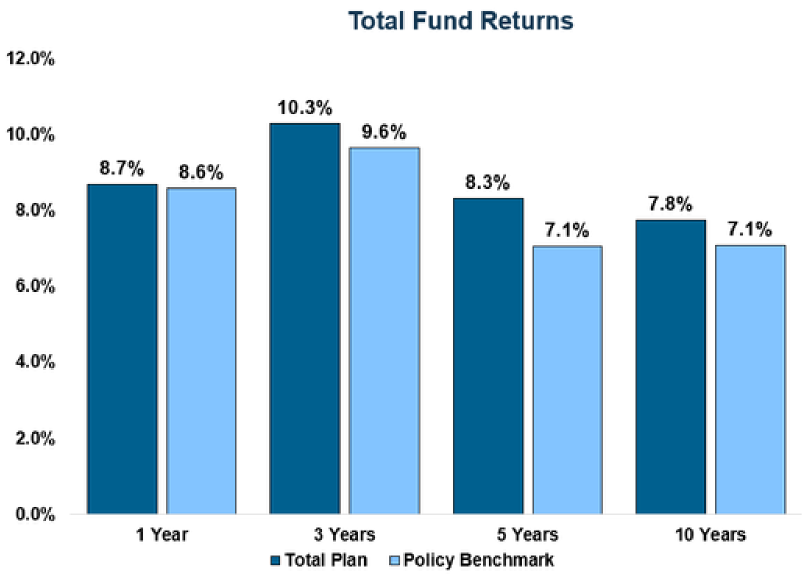
Texas Permanent School Fund Corporation

2025 was a year of remarkable change and growth for the Corporation and the PSF. Over the past 12 months, Texas PSF staff worked with focus and determination toward a clear goal: continuing to transform Texas PSF into a world-class investment organization worthy of the nation's largest educational endowment. This year-end review highlights several key accomplishments from 2025, and we look forward to an even more productive 2026.

– CEO/CIO Bob Borden

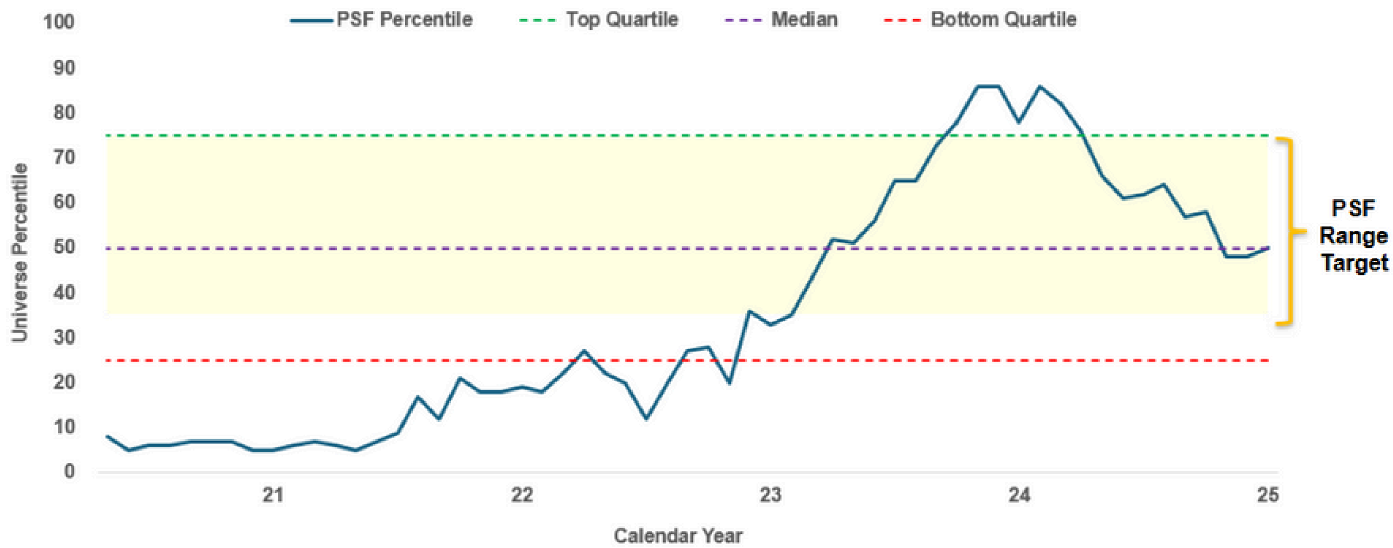
INVESTMENTS

- **Sustained Outperformance:** In 2025, the PSF outperformed its composite benchmark (8.7% to 8.6%), despite market volatility from tariffs and inflation.
- 1-year outperformance was driven by strong returns in **hedge funds** and **infrastructure**.
- PSF outperformance is greater at longer time horizons, with the 10-year excess returns totaling **70 basis points**.



Data source: Non-lagged NOF Performance ending September 2025

- **Performance vs. Peers Shows Improvement:** In 2025, the PSF remained in the top half of its peer universe; see chart below. Note that PSF's asset allocation is constrained by liquidity requirements.



Data source: BNY universe reporting ending September 2025

- **Stringent Investment Due Diligence:** In 2025, Texas PSF investment management took **2,223 meetings** with **858 potential investment partners**, including **583 new managers**. Of these, only **28 new managers** were selected as investment partners. In other words, Texas PSF's rigorous investment due diligence to find the best opportunities resulted in hiring only 1 of every 20 potential managers.

BOND GUARANTEE PROGRAM

The state of the Bong Guarantee Program (BGP) is strong at the end of 2025; here is a review of the numbers (and letters):

- **AAA Rating Reaffirmed:** In 2025 all three of the leading rating agencies – Moody's, Standard & Poor's, and Fitch – affirmed the financial strength and dependability of the BGP and the PSF assets that support it.

> **"(PSF) liquid assets continue to provide solid default tolerance and debt service coverage, even under stress scenarios."**
> *- Moody's Ratings*

> **"The very strong enterprise risk profile results from a combination of a low industry risk score and a strong market position."**
> *- S&P Ratings*

> **"Fitch views school district oversight in Texas as exceptionally strong based on the BGP's unblemished historical performance."**
> *- Fitch Ratings*

- **$144 Billion Guaranteed:** At the end of 2025, BGP was backing ~$144 billion in school district and charter bonds.
- **877 Districts Participating**: As of August 31, 2025, 877 school districts (over 85% of all ISDs) were participating in BGP. BGP also supported the bonds of 32 charter districts.
- **$474 Million in Savings Annually:** Texas schools, and ultimately Texas taxpayers, saved an estimated $474 million in reduced borrowing costs due to BGP.

PERSONNEL AND RECRUITMENT

New Employees: In 2025, the Corporation hired **10 new employees**, for a 7% increase in total headcount – all focused on achieving the Texas PSF Strategic Plan and filling critical needs across Investment, IT, Operations, Legal and Audit departments. We were fortunate to fill **three key executive and senior leadership roles** with exceptional individuals featured below, who now are applying their talents to the benefit of Texas public schools.

Lane Arnold, General Counsel

In June, Lane joined the Corporation as General Counsel, bringing 10+ years of investment and Texas state government experience. He previously worked at the UTIMCO and TRS. Lane earned his BA from Harvard University and has a JD from SMU.

Needhi Vasavada, Chief Operating Officer

Needhi joined in July with 11+ years of experience in international law and private equity. She provides key leadership for strategic planning, recruiting, training and communications. She earned her BA from UT Austin and her JD from Georgetown University Law Center.

Chris Eckerman, Vice President of Direct and Co-Investments

Chris joined in December to help lead direct and co-investment efforts. He has two decades of extensive investment experience, most recently at the State of Wisconsin Investment Board (SWIB). Chris holds a BBA in Finance and an MBA from UT Austin.

Internship Program: Additionally, Texas PSF expanded our Internship Program to include 3 Spring interns, a record 14 Summer interns and 12 Fall interns. This program is quickly developing into an effective pipeline to Texas universities for future talent, having led to 2 offers of full-time employment.

Staff Turnover: Finally, Texas PSF enjoyed very low staff turnover in 2025. Last year, only 5 employees left the Corporation – 3 retirements and 2 voluntary separations.

LEGISLATIVE ACTION

The Texas Legislature held its 89th Regular Session from January through May of 2025. Throughout the budget process, Texas PSF had the opportunity to showcase its recent successes, including:

- **ASF**: Helping to deliver an additional **$250 million** annually in Available School Fund distributions, totaling an historic high of **$4.8 billion** for the 2026-27 biennium
- **Texas First**: Ongoing deployment of the Texas First initiative, placing **$24.8 billion** to date in PSF assets with investment managers who have a significant presence in Texas
- **Proxy Voting**: Texas PSF was the first public fund in the country to adopt Bowyer Research proxy voting guidelines, focusing PSF votes by proxy advisors on strictly fiduciary matters
- **Low Cost Fund Management**: Even as Texas PSF has hired key investment talent and continued to professionalized its operations, we remain extremely cost-effective and efficient, with the lowest operating cost ratio among our state peers:

9.6 BPS
operating cost ratio for FY2026

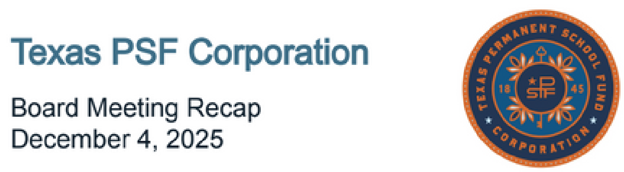
Texas PSF's operating budget of **$58.2 million** for FY2026 (which began on Sept. 1, 2025) is less than 10 basis points of assets under management, or under **0.1%** of the PSF's market value of **$60+ billion**.

The Legislature ultimately funded the Texas PSF's requested 2-year budget of just under **$120 million**, including the ability to increase our full-time equivalent positions to **115** by FY2027.

COMMUNICATIONS

Texas PSF made strides in 2025 to improve communications not only to its Board members, but to other key stakeholders, the investment industry and the general public. Here are some examples either launched or enhanced during this past year:

Regular Board Meeting Recaps: Concise summaries of Board presentations, discussions and actions, published immediately after meetings.

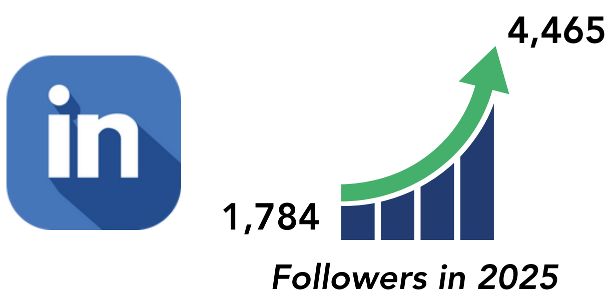


Monthly Board Member Newsletter: Investment and performance updates, market analysis, and operational news, delivered to Board members at the start of each month.

Quarterly Updates to the SBOE: Major investment, performance and market developments, distributed to all SBOE members prior to regular meetings.

LinkedIn Followers up 150%: Texas PSF significantly expanded its activity on LinkedIn in 2025, as part of a strategy to build the Corporation's brand and reputation, and as an important recruiting tool.

As a result, LinkedIn followers grew sharply over the course of the year to **4,465**, and Texas PSF posts garnered **20,800** unique views.



CORPORATE GOVERNANCE

Strengthening corporate governance was, and remains, a key goal in the Texas PSF Strategic Plan. Major accomplishments in this area in 2025 include:

- **Updated Ethics Policy:** Both Texas PSF staff and the board of directors worked to update and improve the Corporation's Ethics Policy, enhancing accountability, reducing risk and protecting the public trust in the Fund's management.

- **Adopted First-ever Board Governance Manual:** This important document represents the ongoing professionalization of the Corporation. The manual clearly defines the duties and responsibilities of both the board and CEO, and establishes parameters for board and committee operations, communications, travel and education.

INTERNAL CONTROLS

2025 highlights from the Corporation's many efforts to fortify internal controls include:

- **Clean Audits**: Received clean audit opinions on the Fund's financial statements from external auditor KPMG and from the State Auditor's Office on the Bond Guarantee Program.

- **Internal Audit Team Development:** Made key audit staff hires to continue to build out a robust Internal Audit team.

- **Achievement in Financial Reporting:** Received the Government Finance Officers Association (GFOA) **Certificate of Achievement for Excellence in Financial Reporting** for the FY2024 Annual Comprehensive Financial Report, making **11 consecutive years** for which the Fund's financial reporting has been recognized for excellence.

- **IT Application Rationalization**: Consolidated 27 technology applications into 11 streamlined platforms, yielding **$2.5M in annual savings.**

- **Strengthened Cybersecurity Program: I**nstituted several cyber upgrades, with the result being **zero major incidents.**