



Investment Policy Statement

Texas Permanent School Fund Corporation

Purpose

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

This document (the “IPS” or the “Policy”) outlines the investment policies and objectives of the Corporation to assist its Board of Directors (the “Board”) in providing effective oversight and administration of Fund assets. This Policy provides a flexible framework, 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.

Investment Objectives

The PSF is a perpetual public endowment serving Texans—particularly schoolchildren—in two ways: (1) making an annual distribution to the Available School Fund to complement tax revenue in support of public free schools and (2) guaranteeing bonds issued by participating Texas school districts and charter districts (the “Bond Guarantee Program” or “BGP”).

The PSF’s investment objectives are as follows:

1. Generate continuous distributions for the benefit of public schools in Texas;
2. Maintain purchasing power, after spending, inflation, and student population growth, in order to maintain intergenerational equity with respect to distributions;
3. Provide a maximum level of return consistent with prudent risk levels, while maintaining sufficient liquidity needed to support distributions and BGP obligations; and
4. Strive to maintain a AAA credit rating, as assigned by a Nationally Recognized Securities Rating Organization (“NRSRO”).

Roles and Responsibilities

The Board, the Chief Executive Officer (“CEO”), and others have the roles and responsibilities described and specified in the Board Governance Manual.

Strategic Asset Allocation

The strategic asset allocation is a material factor in meeting long-term investment objectives at a level of risk and liquidity appropriate for the Fund. A formal asset allocation study will be conducted, in conjunction with an appropriate committee of the Board, 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



Investment Policy Statement

Texas Permanent School Fund Corporation

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, deviations from asset class policy targets (but within the allowable ranges) 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 will be prudently implemented over time at the discretion of staff. Given the amount of time it may take to meet asset allocation targets, the policy weights of these asset classes may use actual weights for the Fund Policy Benchmark calculation during the transition period, as approved by the Board. The transition period for a particular asset class will cease when the allocation approaches the Appendix 1 target.

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.

Securities Lending

A securities lending program is permitted, subject to applicable internal investment guidelines and contractual terms with the lending agent. The program’s objective is to provide incremental income from



Investment Policy Statement

Texas Permanent School Fund Corporation

lending securities through prudent lending practices and performance from managing a conservative collateral program that safeguards principal and maintains adequate liquidity. The lending agent may be the Fund's primary custodian or an affiliate of the primary custodian. The lending agent must be (or must be insured by) an organization rated equivalent to A- or better by an NRSRO.

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.

The Fund can incur Leverage directly through derivatives and facilities such as repurchase agreements and reverse repurchase agreements, prime broker loans and other funding mechanisms (collectively "Leverage"). Generally, the Fund will only do so opportunistically and, in each case, as a liquidity management tool. Aggregate net exposure across all asset classes, including these forms of Leverage, shall not exceed 110% of the net asset value of the Fund. Asset class exposure will include leverage for the applicable asset class and must remain within the applicable policy range provided in [Appendix 1](#). Derivatives and other Leverage facilities incurred by external managers operating under limited partnership agreements, through corporations, or through other limited liability entities are not included in any asset class exposure.

Liquidity

Sufficient liquidity must be maintained to facilitate the Fund's financial and operational requirements, and to meet the Fund's distributions and BGP 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

Internal and external investment managers generally shall seek best execution and lowest cost, in each case under prevailing market conditions, for all trades, if otherwise prudent.



Investment Policy Statement

Texas Permanent School Fund Corporation

Accounting

Fund financial statements shall be accounted for in accordance with Generally Accepted Accounting Principles as prescribed by the Governmental Accounting Standards Board unless otherwise prescribed by law.

Compliance with Applicable Law

The CEO will develop policies and procedures as warranted to maintain compliance 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.

Authorized Investments and Shareholder Voting

Article VII, Section 5(f), of the Constitution authorizes the acquisition of “any kind of investment ... that persons of ordinary prudence, discretion, and intelligence, exercising the judgment and care under the circumstances then prevailing, acquire or retain for their own account in the management of their affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income as well as the probable safety of their capital.”

Investments shall be considered based on the prudence standard and the provisions of this Policy. Investments shall seek to provide the highest return commensurate with the lowest risk and shall be diversified. The Corporation shall not invest the Fund or vote as a shareholder to achieve temporal benefits for any purpose including use of its economic power to advance social or political purposes.

Review and Amendment of the Policy

Every odd-numbered year (or more frequently, as needed), the Board will 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.

Effective Date

This Policy is effective as of January 1, 2026, and supersedes the prior version effective January 1, 2023, and the Securities Lending Policy effective March 1, 2023.



Appendix 1 – Investment Policy Statement

Texas Permanent School Fund Corporation

Asset Class Targets, Ranges, and Performance Objectives (Effective as of January 1, 2026)

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	TARGET ALLOCATION*	RANGE ¹	BENCHMARK ^{2, 3}
Cash Equivalents	3.0%	n/a	ICE BofA US 3 Month Treasury Bill Index G001 Non-TC
Core Bonds	9.0%	+/- 5.0%	Bloomberg US Aggregate Bond Index
Non-Core Bonds (High Yield)	3.0%	+/- 5.0%	Bloomberg US Corporate High Yield Bond Index
Non-Core Bonds (Bank Loans)	3.0%	+/- 5.0%	S&P UBS Leveraged Loan Index
Large Cap US Equity	15.0%	+/- 5.0%	S&P 500 Index
Small/Mid-Cap US Equity	3.0%	+/- 5.0%	S&P 1000 Index
Non-US Developed Equity	8.0%	+/- 5.0%	MSCI World Ex United States Net Dividend
Absolute Return	6.0%	+/- 5.0%	HFRI Fund of Funds Conservative Index
Private Debt (Liquid Substitute)	9.5%	+/- 5.0%	Core: Bloomberg US Corporate 1-5 Years +50bps Index (4.5%) Non-Core: MSCI Global Private Debt Funds Index (5%) (S&P UBS Leveraged Loan Index)
Private Equity (Liquid Substitute)	20.0%	+/- 10.0%	Buyout + Growth: MSCI Global Private Equity ex-Venture Capital Fund of Funds Index (17%) Venture: MSCI Global Venture Capital Fund of Funds Index (3%) (Russell 2000 Index)
Real Estate	10.5%	+/- 5.0%	Core: NCREIF NFI ODCE Value Weighted Net Index (3.5%) Non-Core: MSCI Global Real Estate Fund of Funds Index (7%)
Natural Resources	4.0%	+/- 5.0%	MSCI Global Natural Resources Fund of Funds Index
Infrastructure	6.0%	+/- 5.0%	MSCI Global Infrastructure Funds Index
Total	100%		*Subject to Board approved transition plan

PORTFOLIO	BENCHMARK
Charter District Bond Guarantee Reserve Fund	Bloomberg US Aggregate 3-5 Years Index

¹ Range reflects thresholds approved by the Board. Subtracted results will not go below zero.

² Benchmark names reflect the current index name as provided by the Board selected performance measurement service.

³ Performance relative to policy will be measured net of internal administrative costs.