

# TEXAS PERMANENT SCHOOL FUND CORPORATION

*Presentation to the  
Senate Finance Committee*

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# Who We Are

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**Texas' Perpetual Education Endowment.** Established in 1845 for the benefit of K-12 public education.



**Special-Purpose Corporation.** Authorized by SB 1232 in 2021 to manage combined PSF and GLO investment assets; governed by a 9-member board.



**Over \$57 Billion in Assets.** Texas PSF is the largest education endowment in the nation.

## Our Mission

**To provide permanent funding** to Texas public schools by generating exceptional risk-adjusted investment returns

**To reduce borrowing costs** for Texas schools and charter districts through the Bond Guarantee Program (BGP)

As a **major revenue source** and through the BGP, Texas PSF is a key tool to **reduce property taxes** used to support public education.

# Mission Metrics

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**To provide permanent funding** to Texas public schools by generating exceptional risk-adjusted investment returns

**40 bps**

New asset allocation raised expected returns by 0.4%, or **40 basis points (bps)** of assets under management with no increase in risk

**\$4.8B**

Increased expected returns led to **\$500M increase** to ASF distribution for 2026-27 biennium for a record total **\$4.8B**

**\$550M -  
\$1.65B**

Goal of improved portfolio implementation is to increase returns by **an additional \$550M to \$1.65B per biennium** (50–150 bps)

**To reduce borrowing costs** for Texas schools and charter districts through the BGP

**\$130B BONDS  
GUARANTEED**

BGP currently guarantees **\$130B** in bonds at 864 Texas school districts and 32 charter districts

**\$112B ADD'L  
CAPACITY**

Federal limit increased in 2023 to provide significant program capacity

**\$400M cost  
savings per yr**

BGP's AAA rating reduces borrowing costs and saves Texas schools and taxpayers statewide an estimated **\$400M every year**

# Strategic Plan Goals

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Comprehensive strategic plan, launched in 2024, designed to maximize investment returns and to improve and professionalize all aspects of the PSF's management and operations

<b>INVESTMENT</b>	I. Optimize Asset Allocation II. Improve Portfolio Implementation
<b>TALENT</b>	III. Attract, Develop, & Retain Talent
<b>GOVERNANCE AND INTERNAL CONTROLS</b>	IV. Enhance Communications V. Strengthen Corporate Governance VI. Fortify Internal Controls VII. Build New Corporate Infrastructure

# Investments

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## **Improved Asset Allocation Model**

- Migration toward peer endowment allocations
- Quantified impact to BGP of allocation changes

## **Included Private Credit as a Diversifying Asset Class**

## **Eliminated Emerging Markets Allocation**

## **Developed a “Texas First” Investment Ideology**

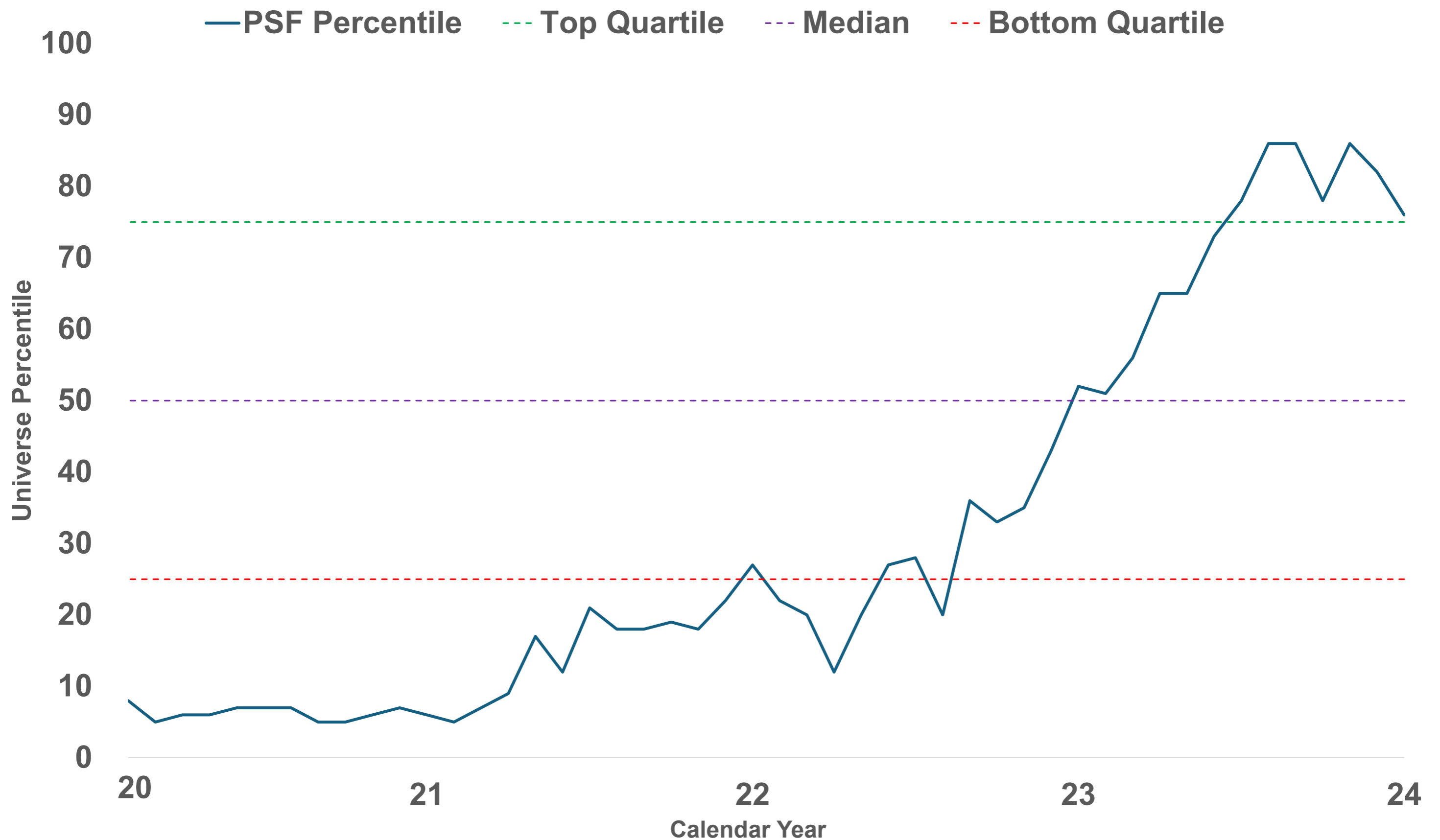
## **Build Meaningful Strategic Partnerships**

- Capturing economic advantages and special opportunities
- Co-investments, direct investments and seeding
- Special situations

## **Develop and Implement Tactical Asset Allocation Program**

NOTE: **Bolded** objectives are complete; others are in progress.

# PSF Performance Improvement vs. Peer Group



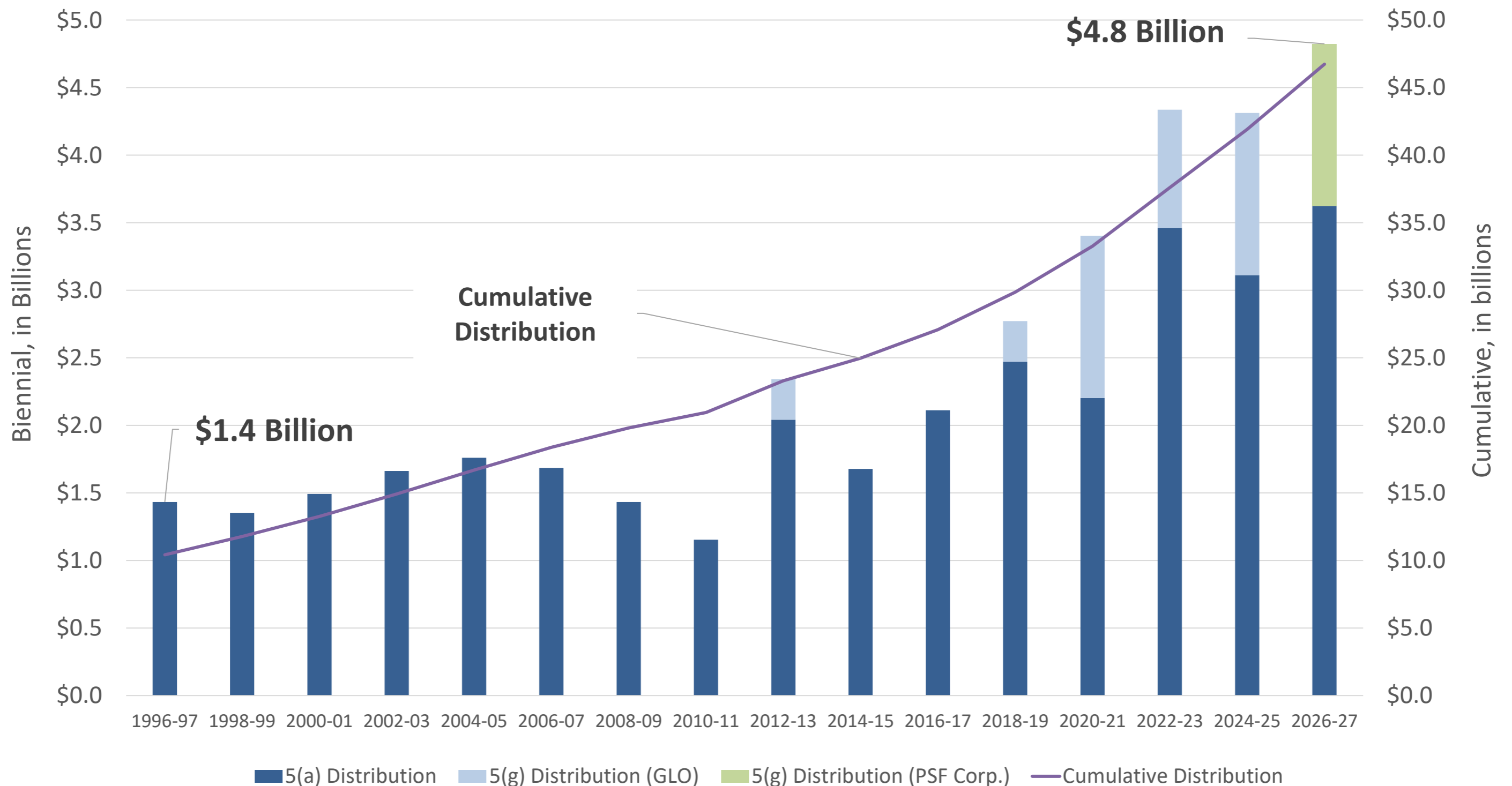
3-year rolling peer group percentile based on BNY Endowments & Foundations Greater than \$1B universe (50 members)

# Record High Distribution to Available School Fund

**\$500 MILLION** biennial increase in ASF distributions for 2026-27 over 2024-25

**\$4.8 BILLION** in total distributions to ASF during 2026-27 biennium, **an historic high**

**\$46.3 BILLION** in cumulative distributions from PSF to ASF over the last 50 years



# Texas First

Investment opportunities that combine excellent returns with synergistic benefits to Texans, Texas firms and the Texas economy

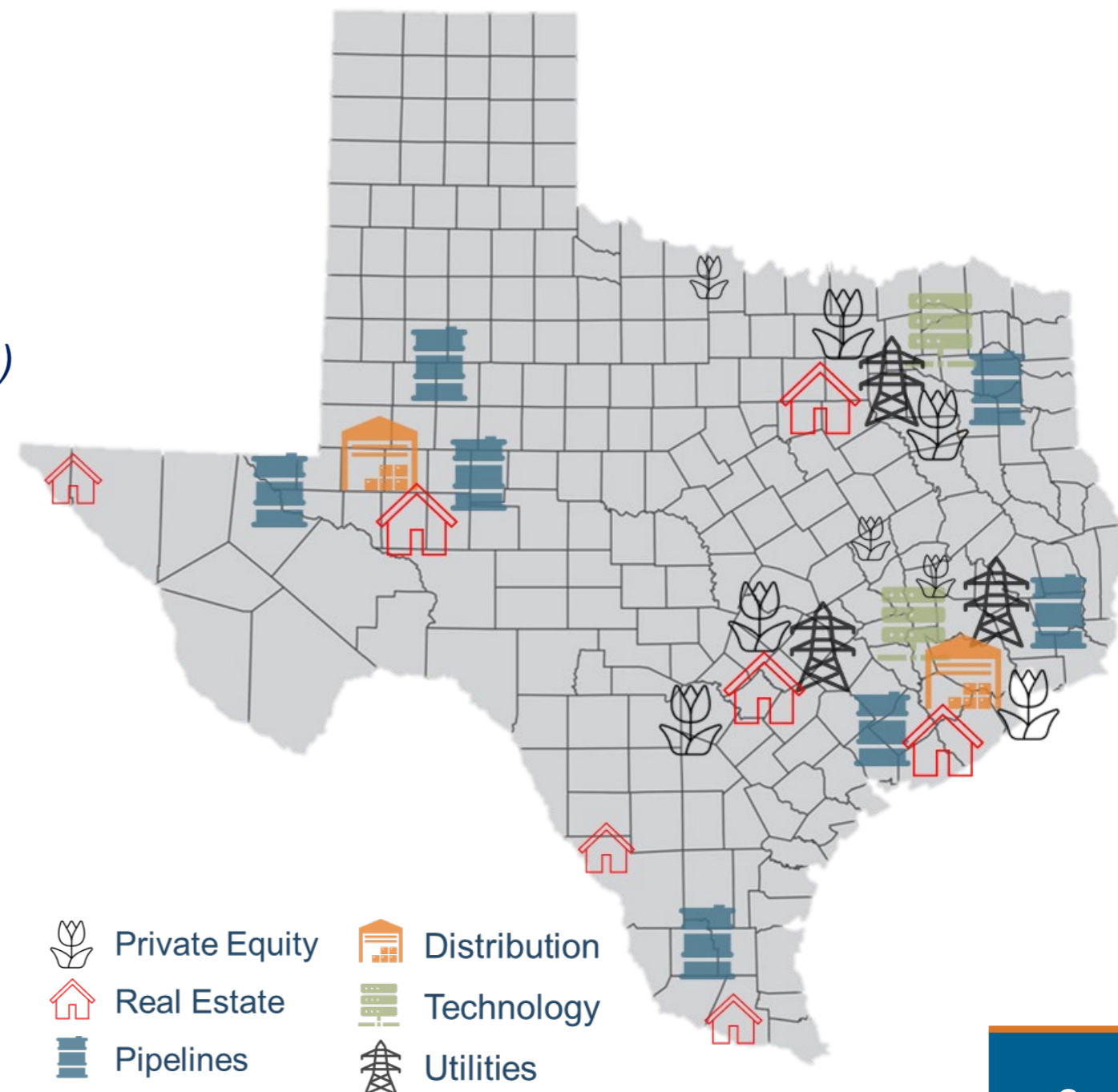
**\$19.2 Billion Placed in 2024**

## 46 Texas Firms Totaling \$31.9 Billion

- 17 are Texas Headquartered (*5-Fold AUM Increase*)
- 29 Have Significant Texas Presence (*50% AUM Increase*)
- 9,200+ Texas Based Employees

## Texas Direct Investments

- Private Texas Direct Investments Total **\$3.3 Billion**
- Public Texas Direct Investments Total **\$1.2 Billion**





# Talent

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## **Restructured Organization to Eliminate Poor Performance & Inefficiencies**

- Resulted in reduced headcount by 20%
- Currently operating at exceedingly lean level

## **Developed Competitive Compensation Plan**

- Board compensation and budget committee retained Mercer
- Compensation plan design based on endowment peer group

## **Expanded Recruitment Capabilities**

- Improving brand and reputation awareness
- Developing University liaison program

## **Develop Comprehensive Training Program**

- Technical skills
- Leadership and management skills

## **Create Employee Development Programs**

- Continuing education and professional certifications
- Tailored experience and skill building

NOTE: **Bolded** objectives are complete; others are in progress.

# Governance and Internal Controls

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**Developed and Updated Key Board Governance Policies**

**Adopted New Proxy Voting Program**

**Created Internal Audit Division and Onboarded External Auditor**

**Strengthened Cybersecurity Program**

Create Board Training Program

Establish Data Governance and Data Strategy

Enhance Operational Efficiency and Effectiveness

Develop Enterprise Risk Management Program

NOTE: **Bolded** objectives are complete; others are in progress.

# Governance: ESG-skeptical proxy voting

## First major state investment fund in the country to adopt the Bowyer Research Guidelines to counter shareholder activism on Environmental, Social and Governance (ESG) issues

- Refocus PSF's ~20,000 proxy votes on maximizing shareholder value
- Vote against anti-oil and gas and other imprudent activist initiatives

### 2024 Review: Sample of high-profile categories of proxy votes

Proposals	Total	Votes Against	Votes For	Abstentions	% Support
Abortion Advocacy	3	3	0	0	0%
Abortion Neutrality	2	0	2	0	100%
Fossil Fuel Opposition	32	32	0	0	0%
Pro-Fossil Inclusion	5	0	5	0	100%

For example, Bowyer Research identified 32 proxy proposals that were undisputably oriented against the fossil fuel industry.

What would have been an "abstain" vote under prior guidelines are now "against."

## Exceptional Item: Resources to Maximize Returns & Distributions

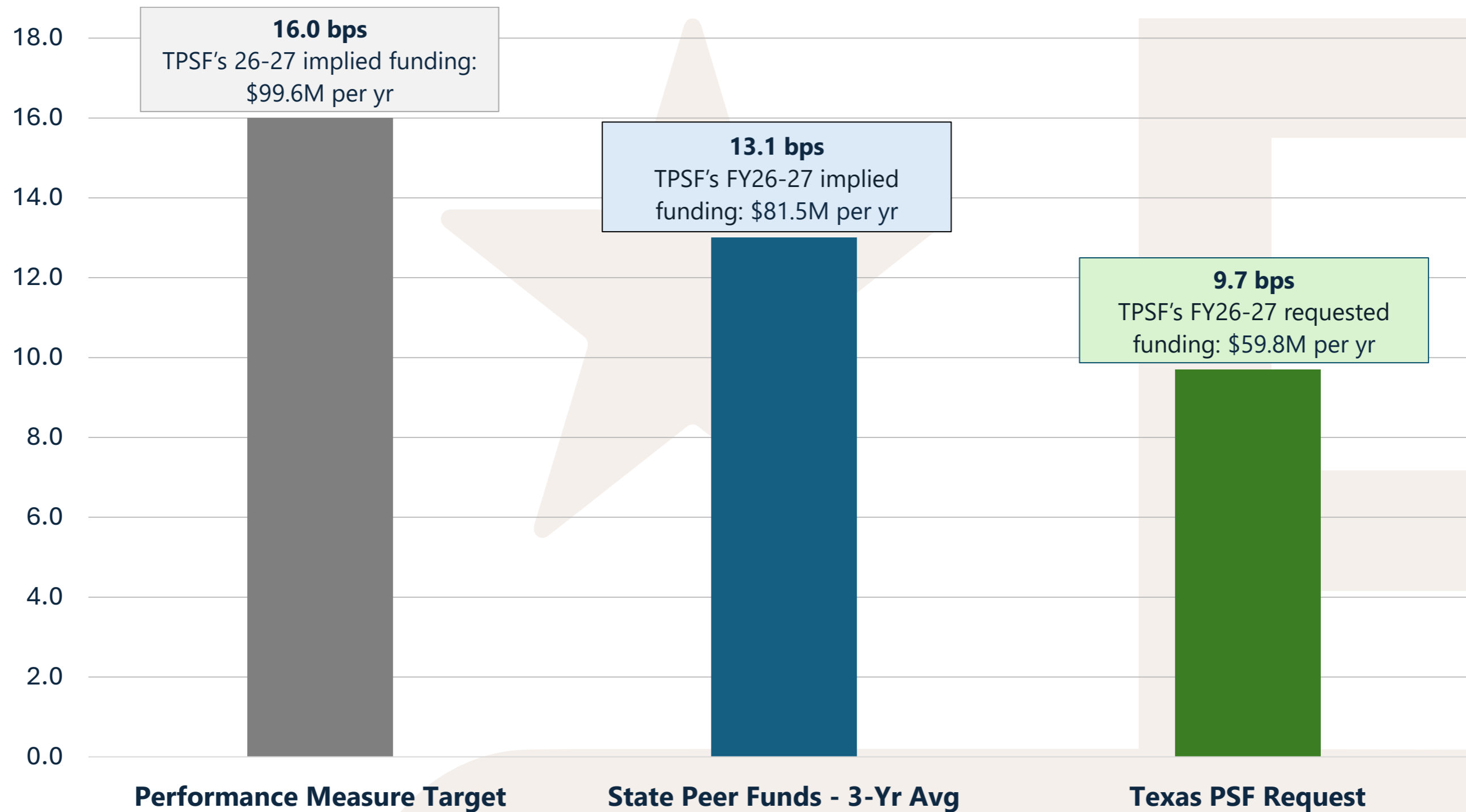
- The Corporation's budget plan was built from bottom up to support Strategic Plan, designed to deliver record distributions to Texas public schools.
- In 2024-25 staffing levels were reduced to eliminate poor performance & inefficiencies. SB1 funds Texas PSF at that reduced level.

**Texas PSF requests resources to strategically build the investment and support teams needed to maximize PSF returns and ASF revenue.**

Budget Request (in millions)	2026	2027
2026: 10 investment staff, 4 support staff	\$3.2	\$3.4
2027: 6 additional investment staff, 4 support staff		\$2.0
Professional fees & services	\$1.7	\$1.5
Supporting operating expenses	\$1.0	\$1.7
<b>TOTAL REQUEST</b>	<b>\$5.9</b>	<b>\$8.6</b>
<b>Requested Increase to FTE cap</b>	<b>14</b>	<b>24</b>

# Texas PSF: Low-Cost Provider

Texas PSF Corp.'s total operating expenses would remain **under 10 basis points (bps) of projected AUM, significantly below the average of peer public funds.**



Sources: SB1 (89R) TxPSF Corp. performance measure; Legislative Budget Board, Major State Investment Funds Report

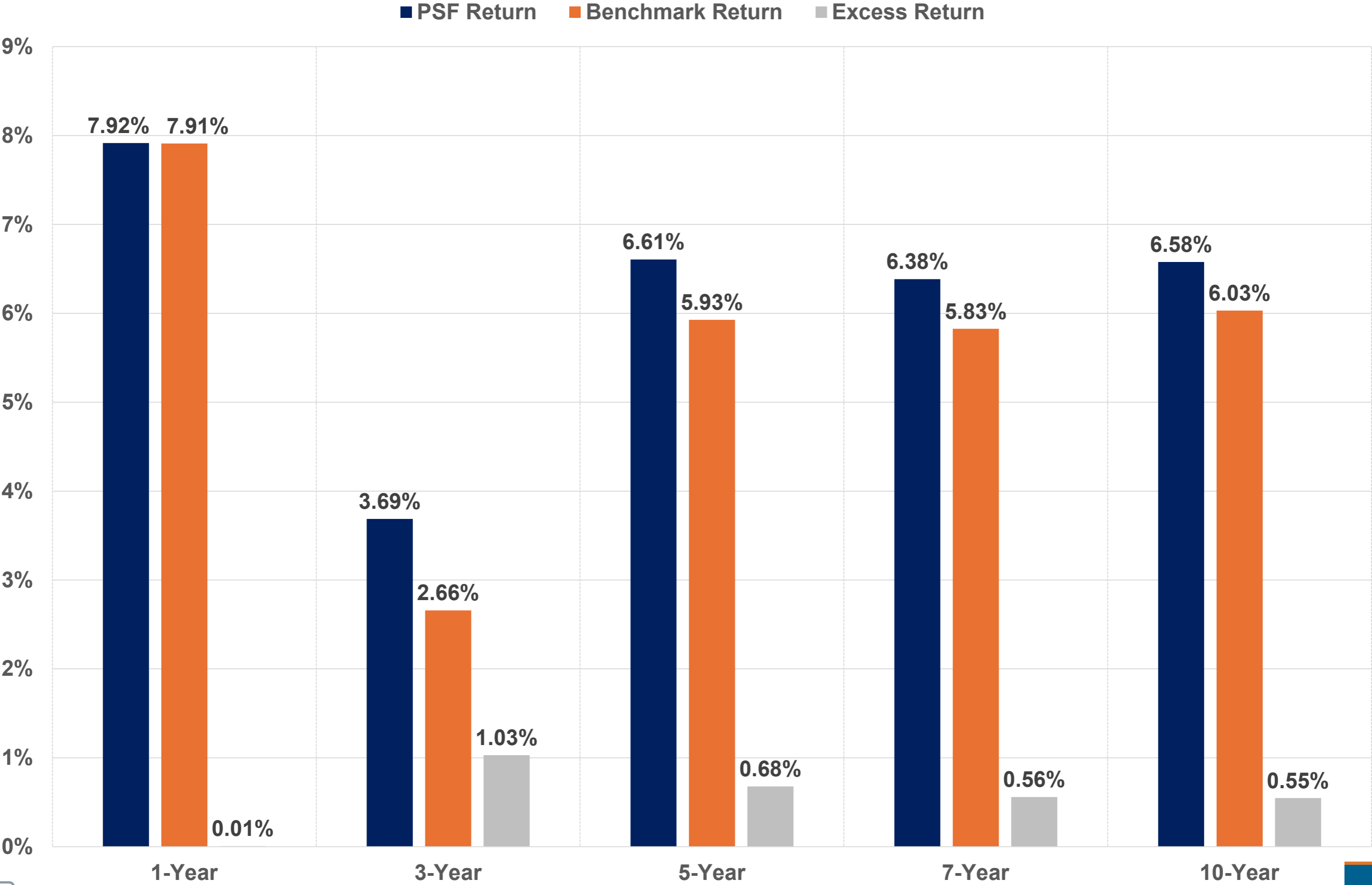


# Appendix

## - Performance and benchmarks



# Appendix: PSF Returns vs. Benchmarks



# Appendix: Texas PSF Benchmarks by Asset Class

ASSET CLASS	BENCHMARK	STRATEGIC ASSET ALLOCATION
Large Cap US Equity	S&P 500 Index	14%
Small/Mid-Cap US Equity	S&P 1000 Index	6%
Non-US Equity	MSCI World Ex United States Net Dividend Index	7%
Cash Equivalents	ICE BofA US 3 Month Treasury Bill Index G0O1 Non-Trade Cost	2%
Core Bonds	Bloomberg US Aggregate Bond Index	10%
High Yield	Bloomberg US Corporate High Yield Bond Index	2%
Bank Loans	Credit Suisse Leveraged Loan Index	4%
Treasury Inflation Protected Securities	Bloomberg US Treasury Inflation Linked (TIPS) Bond Index	2%
Absolute Return	HFRI Fund of Funds Conservative Index	3%
Private Equity (Liquid Substitute)	MSCI Global Private Equity Funds Index (Russell 2000 Index)	20%
Real Estate	Core: NCREIF NFI ODCE Value Weighted Net Index (4%) Non-Core: MSCI Global Real Estate Funds Index (8%)	12%
Private Debt (Liquid Substitute)	Investment Grade: Bloomberg US Corporate 3-5 Year + 1% (4%) Non-Investment Grade: MSCI Global Private Debt Funds Index (4%)* (Credit Suisse Leveraged Loan Index)	8%
Private Natural Resources	MSCI Global Natural Resources Funds Index	5%
Private Infrastructure	MSCI Global Infrastructure Funds Index	5%





# Thank you - Questions?

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