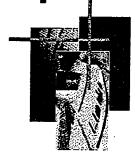# RVKuhns
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Spending Policy Analysis
for the
Texas Permanent School Fund
Methodology and Process

- The spending policy of the Texas Permanent School Fund is critical in order to "inflation proof" the assets for future generations.

- The spending policy analysis was based on several factors as follows:

  o Expected long-term rate of return of the capital markets

  o Short-and long-term volatility of the capital markets

  o Actual long-term volatility of the Texas Permanent School Fund

  o Long-term projection of inflation

  o Projected growth of student population

  o Impact of GLO contributions on the Texas Permanent School Fund

  o Expected long-term rate of return of the Texas Permanent School Fund

  o Transition of the Texas Permanent School Fund Asset Allocation to a higher returning portfolio

- Expected long-term rates of return were based on three important inputs

  o Return of the capital markets

    - Domestic Equities

    - Domestic Fixed Income

    - International Equities

  o Standard deviation of returns

  o Correlation between each asset class

- Other important factors include:

  - Ten-year inflation factor of 2.75%
  - Growth of student population of 1.89%

- Modeling of expected returns were calculated using the following three methods:

  - The simple "rule of thumb" model
  - The linear model
  - Comprehensive "stochastic" model

The Spending Policy Decision

What is RVK's Recommendation?

	Current Asset Allocation		Transition to New Asset Allocation	
	3 Year	10 Year	3 Year	10 Year
GLO = Ø	3.07%	3.00%	3.07%	3.43%
GLO $100 Million + Inflation	3.56%	3.50%	3.56%	3.93%
GLO $150 Million + Inflation	3.81%	3.74%	3.81%	4.17%
GLO $200 Million + Inflation	4.05%	3.99%	4.05%	4.42%
GLO $250 Million + Inflation	4.30%	4.23%	4.30%	4.66%
GLO $300 Million + Inflation	4.55%	4.48%	4.55%	4.91%

For speed and ease of analysis, these spending rates were generated using the linear approach. When the Board chooses a particular policy combination, RVK recommends it be recalculated using the stochastic model, which could yield a final rate +/- 10 bps from the ones shown here.

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