

Public Agenda Item #10

Review and Consideration of the Texa\$aver 401(k)/457 Program Updates – (Action)

March 10, 2021

Diana Kongevick, Director of Group Benefits

Georgina Bouton, CTCM, Assistant Director of Group Benefits

Thomas Nun, CFA® Portfolio Strategist, Great-West Investments

Nora Alvarado, CTCM, Voluntary Income Plans, Group Benefits

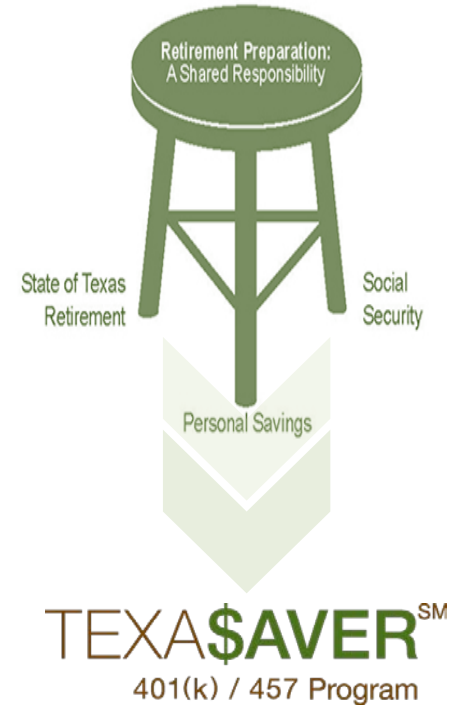
Blaise Duran, FSA, Actuarial and Reporting Services, Group Benefits

Texa\$averSM Program



Overview

- Texa\$aver 401(k)/457 program (Texa\$aver) is a voluntary tax-deferred supplemental retirement program
 - Designed to help state and eligible higher education employees with personal retirement savings
- Texa\$aver is comprised of two plans
 - 401(k) plan - available to state agency employees
 - 457 plan - available to state agency and eligible higher education employees



TexaSaver Program



Executive Summary: \$4.253B AUM 12/31/2020

401(k) Plan			457 Plan		
ASSETS	Traditional balances	\$3,036 million	ASSETS	Traditional balances	\$1,084 million
	Roth balances	\$72 million		Roth balances	\$61 million
	Total Assets Under Management (AUM)	\$3,108 million		Total Assets Under Management (AUM)	\$1,145 million
ACCOUNTS	Contributing	104,271	ACCOUNTS	Contributing	19,058
	Non-contributing	111,612		Non-contributing	14,465
	Total number of participant accounts	215,883		Total number of participant accounts	33,523
ACTIVITY	Contributions, deposits, loan repayments	\$53 million	ACTIVITY	Contributions, deposits, loan repayments	\$23 million
	Change in value, interest, dividends	\$313 million		Change in value, interest, dividends	\$111 million
	Withdrawals	(\$60) million		Withdrawals	(\$18) million

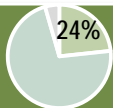
Texa\$aver Program



Investment offerings

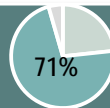
A range of investment products are offered to help participants reach their individual retirement savings goals. The same investment products are offered between plans.

Target Date Funds



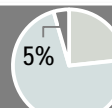
- Professionally managed asset allocation strategy
- Gradually reduces investment risk and equity exposure over time
- Offers a streamlined approach to investing
- Strategy requires the lowest level of participant engagement

Core Funds



- Allows participants to create their own investment portfolios based on defined asset classes
- Funds include both actively managed and passively managed investment funds
- Investment requires a higher level of participant engagement to maintain desired diversification and risk levels

Self Directed Brokerage Account



- Provides additional investment options
- Offered through Schwab Personal Choice Retirement Account®
- Investment requires the highest level of participant engagement for diversification and investment selection

Texa\$aver Program



Product Review Committee (PRC)

- **Porter Wilson** – ERS Executive Director
- **Catherine Terrell** – ERS Deputy Executive Director
- **Diana Kongevick** – ERS Director of Group Benefits
- **Tom Tull** – ERS Chief Investment Officer
- **Leighton Shantz** – ERS Director of Fixed Income
- **Carlos Chujoy** – ERS Investment Risk Officer
- **Gene L. Needles, Jr.** – Chairman and CEO Resolute Investment Managers and Vice-chair of ERS' Investment Advisory Committee (IAC)
- **Laurie L. Dotter, CPA** – IAC member
- **Laura T. Starks, Ph.D.** – Charles E. and Sarah M. Seay Regents Chair in Finance and Co-Executive Director, Social Innovation Initiative, McCombs School of Business, University of Texas at Austin



- PRC may appoint a sub-committee for a specific purpose (e.g., due diligence, fund evaluation, research, etc.), assisting the PRC in fulfilling its duties.
- PRC sub-committee members include:
 - Carlos Chujoy – PRC Member
 - Leighton Shantz – PRC Member
 - Dr. Laura T. Starks – PRC Member
 - Lauren Honza – ERS Portfolio Manager
 - Brannon Andrews – ERS Assistant General Counsel
 - Gene Needles – PRC Member to serve as an alternate, if necessary



Capital Markets Update

Equity Market Returns

(as of December 31, 2020)

		QTD	YTD	1 Year Trailing	3 Year Trailing	5 Year Trailing	10 Year Trailing	2020	2019	2018	2017	2016	2015	2014
Domestic Equity														
Large Cap	S&P 500	12.1%	18.4%	18.4%	14.2%	15.2%	13.9%	18.4%	31.5%	-4.4%	21.8%	12.0%	1.4%	13.7%
	Russell 1000 Value	16.3%	2.8%	2.8%	6.1%	9.7%	10.5%	2.8%	26.5%	-8.3%	13.7%	17.3%	-3.8%	13.5%
	Russell 1000 Growth	11.4%	38.5%	38.5%	23.0%	21.0%	17.2%	38.5%	36.4%	-1.5%	30.2%	7.1%	5.7%	13.0%
Mid Cap	Russell Mid Cap	19.9%	17.1%	17.1%	11.6%	13.4%	12.4%	17.1%	30.5%	-9.1%	18.5%	13.8%	-2.4%	13.2%
	Russell Mid Cap Value	20.4%	5.0%	5.0%	5.4%	9.7%	10.5%	5.0%	27.1%	-12.3%	13.3%	20.0%	-4.8%	14.7%
	Russell Mid Cap Growth	19.0%	35.6%	35.6%	20.5%	18.7%	15.0%	35.6%	35.5%	-4.8%	25.3%	7.3%	-0.2%	11.9%
Small Cap	Russell 2000	31.4%	20.0%	20.0%	10.2%	13.3%	11.2%	20.0%	25.5%	-11.0%	14.6%	21.3%	-4.4%	4.9%
	Russell 2000 Value	33.4%	4.6%	4.6%	3.7%	9.7%	8.7%	4.6%	22.4%	-12.9%	7.8%	31.7%	-7.5%	4.2%
	Russell 2000 Growth	29.6%	34.6%	34.6%	16.2%	16.4%	13.5%	34.6%	28.5%	-9.3%	22.2%	11.3%	-1.4%	5.6%
International Equity														
Developed Markets	MSCI EAFE	16.0%	7.8%	7.8%	4.3%	7.4%	5.5%	7.8%	22.0%	-13.8%	25.0%	1.0%	-0.8%	-4.9%
	Australia	22.9%	8.7%	8.7%	5.6%	9.5%	4.5%	8.7%	22.9%	-12.0%	19.9%	11.4%	-10.0%	-3.4%
	Canada	13.9%	5.3%	5.3%	3.6%	10.0%	2.2%	5.3%	27.5%	-17.2%	16.1%	24.6%	-24.2%	1.5%
	France	20.4%	4.1%	4.1%	4.5%	9.0%	5.9%	4.1%	25.7%	-12.8%	28.7%	4.9%	-0.1%	-9.9%
	Germany	11.5%	11.5%	11.5%	1.6%	6.6%	5.5%	11.5%	20.8%	-22.2%	27.7%	2.8%	-1.9%	-10.4%
	Japan	15.3%	14.5%	14.5%	6.1%	8.7%	6.5%	14.5%	19.6%	-12.9%	24.0%	2.4%	9.6%	-4.0%
	Switzerland	8.2%	11.6%	11.6%	10.3%	9.4%	8.4%	11.6%	32.3%	-9.1%	22.5%	-4.9%	0.4%	-0.1%
	UK	16.9%	-10.5%	-10.5%	-2.4%	2.6%	3.0%	-10.5%	21.0%	-14.2%	22.3%	-0.1%	-7.6%	-5.4%
Emerging Markets	MSCI Emerging Markets	19.7%	18.3%	18.3%	6.2%	12.8%	3.6%	18.3%	18.4%	-14.6%	37.3%	11.2%	-14.9%	-2.2%
	Brazil	37.0%	-19.0%	-19.0%	0.6%	16.0%	-3.6%	-19.0%	26.3%	-0.5%	24.1%	66.2%	-41.4%	-14.0%
	China	11.2%	29.5%	29.5%	9.1%	15.1%	7.6%	29.5%	23.5%	-18.9%	54.1%	0.9%	-7.8%	8.0%
	India	21.0%	15.6%	15.6%	4.8%	9.5%	3.4%	15.6%	7.6%	-7.3%	38.8%	-1.4%	-6.1%	23.9%
	Indonesia	31.8%	-8.1%	-8.1%	-3.1%	5.8%	1.4%	-8.1%	9.1%	-9.2%	24.2%	17.0%	-19.5%	26.6%
	Korea	38.3%	44.6%	44.6%	8.8%	15.6%	6.6%	44.6%	12.5%	-20.9%	47.3%	8.7%	-6.7%	-11.1%
	Mexico	31.0%	-1.9%	-1.9%	-2.6%	-0.6%	-1.5%	-1.9%	11.4%	-15.5%	16.0%	-9.2%	-14.4%	-9.3%
	Russia	21.6%	-12.5%	-12.5%	9.6%	16.5%	1.0%	-12.5%	50.9%	-0.4%	5.2%	54.8%	4.2%	-46.3%

Source: Morningstar Direct; GWCM Analysis; Individual country returns are represented by MSCI indices and shown as USD returns; *Canada is not part of the EAFE Index. Past performance is not a guarantee or prediction of future results.

Fixed Income and Specialty Returns

(as of December 31, 2020)

	QTD	YTD	1 Year Trailing	3 Year Trailing	5 Year Trailing	10 Year Trailing	2020	2019	2018	2017	2016	2015	2014
Fixed Income													
Bloomberg Barclays USAggregate	0.7%	7.5%	7.5%	5.3%	4.4%	3.8%	7.5%	8.7%	0.0%	3.5%	2.6%	0.5%	6.0%
Bloomberg Barclays US Treasury	-0.8%	8.0%	8.0%	5.2%	3.8%	3.3%	8.0%	6.9%	0.9%	2.3%	1.0%	0.8%	5.1%
Bloomberg Barclays USGovt/ Credit Intermediate	0.5%	6.4%	6.4%	4.7%	3.6%	3.1%	6.4%	6.8%	0.9%	2.1%	2.1%	1.1%	3.1%
Bloomberg Barclays USGovt/ Credit Long	1.7%	16.1%	16.1%	9.8%	9.3%	8.2%	16.1%	19.6%	-4.7%	10.7%	6.7%	-3.3%	19.3%
Bloomberg Barclays US TIPS	1.6%	11.0%	11.0%	5.9%	5.1%	3.8%	11.0%	8.4%	-1.3%	3.0%	4.7%	-1.4%	3.6%
Bloomberg Barclays US Corporate High Yield	6.5%	7.1%	7.1%	6.2%	8.6%	6.8%	7.1%	14.3%	-2.1%	7.5%	17.1%	-4.5%	2.5%
FTSE WGBI	2.8%	10.1%	10.1%	5.0%	4.8%	2.3%	10.1%	5.9%	-0.8%	7.5%	1.6%	-3.6%	-0.5%
JFM EMBI Global Diversified	5.8%	5.3%	5.3%	5.0%	7.1%	6.2%	5.3%	15.0%	-4.3%	10.3%	10.2%	1.2%	7.4%
FTSE Treasury Bill 3 Month	0.0%	0.6%	0.6%	1.6%	1.2%	0.6%	0.6%	2.3%	1.9%	0.8%	0.3%	0.0%	0.0%
Specialty													
Bloomberg Commodity	10.2%	-3.1%	-3.1%	-2.5%	1.0%	-6.5%	-3.1%	7.7%	-11.2%	1.7%	11.8%	-24.7%	-17.0%
DJ US Select REIT	12.9%	-11.2%	-11.2%	1.5%	3.0%	7.6%	-11.2%	23.1%	-4.2%	3.8%	6.7%	4.5%	32.0%
FTSE EPRA/NAREIT Developed Ex US	14.0%	-6.5%	-6.5%	2.4%	5.7%	5.1%	-6.5%	21.8%	-5.8%	20.8%	2.0%	-3.2%	3.2%

Source: Morningstar Direct; GWCM Analysis

Past performance is not a guarantee or prediction of future results.

Returns by Style

3 Months

	Value	Blend	Growth
Large	16.3%	12.1%	11.4%
Mid	20.4%	19.9%	19.0%
Small	33.4%	31.4%	29.6%

1 Year

	Value	Blend	Growth
Large	2.8%	18.4%	38.5%
Mid	5.0%	17.1%	35.6%
Small	4.6%	20.0%	34.6%

Since Market Peak (February, 2020)

	Value	Blend	Growth
Large	-17.0%	-7.3%	1.2%
Mid	-19.4%	-12.2%	-2.0%
Small	-21.6%	-13.9%	-7.1%

3 Year

	Value	Blend	Growth
Large	6.1%	14.2%	23.0%
Mid	5.4%	11.6%	20.5%
Small	3.7%	10.2%	16.2%

5 Year

	Value	Blend	Growth
Large	9.7%	15.2%	21.0%
Mid	9.7%	13.4%	18.7%
Small	9.7%	13.3%	16.4%

Since Market Low (March, 2020)

	Value	Blend	Growth
Large	57.4%	65.2%	81.5%
Mid	74.9%	82.8%	93.3%
Small	83.0%	96.8%	108.4%

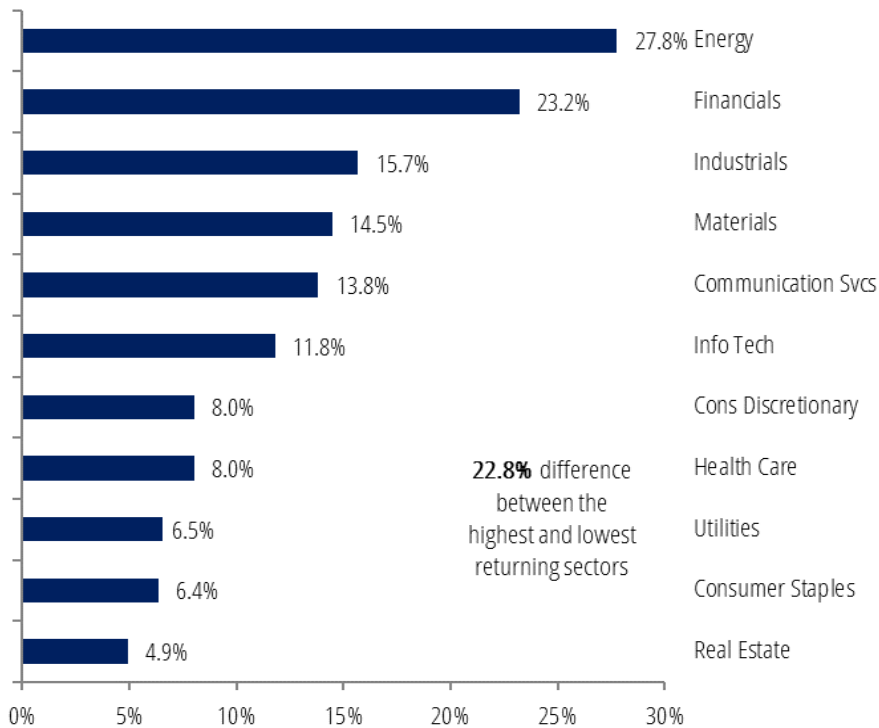
performance as of December 31, 2020

Source: Morningstar Direct; GWCM Analysis; Large Blend – S&P 500 Index, Large Value – Russell 1000 Value Index, Large Growth – Russell 1000 Growth Index, Mid Blend – Russell Mid Cap Index, Mid Value – Russell Mid Cap Value Index, Mid Growth – Russell Mid Cap Growth Index, Small Blend – Russell 2000 Index, Small Value – Russell 2000 Value Index, Small Growth – Russell 2000 Growth Index

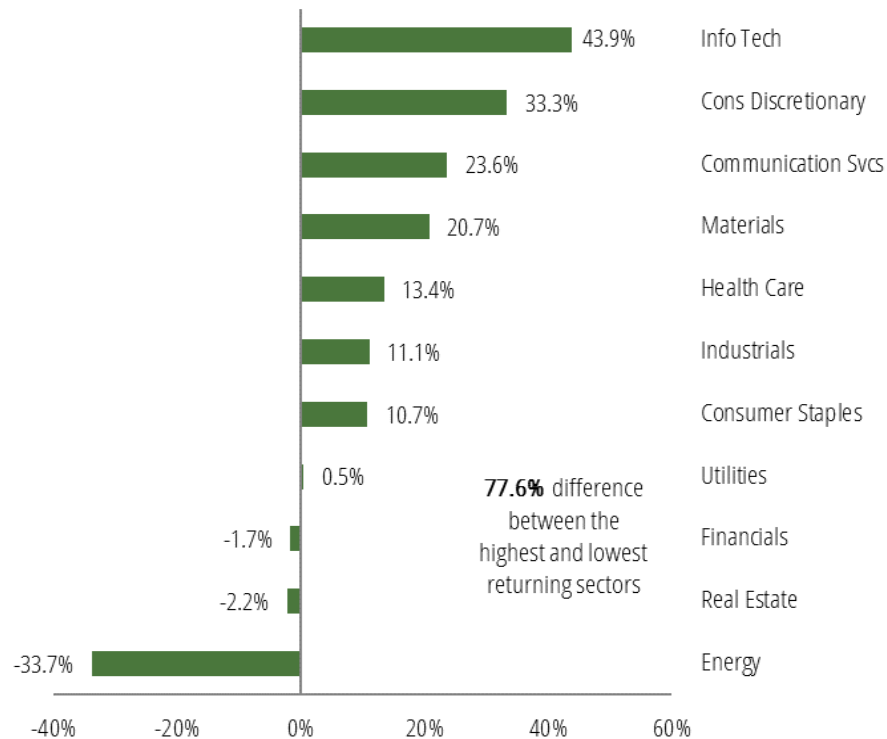
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S & P 500 Sector Returns

QTD Returns
as of December 31, 2020



1 Year Trailing Returns
as of December 31, 2020



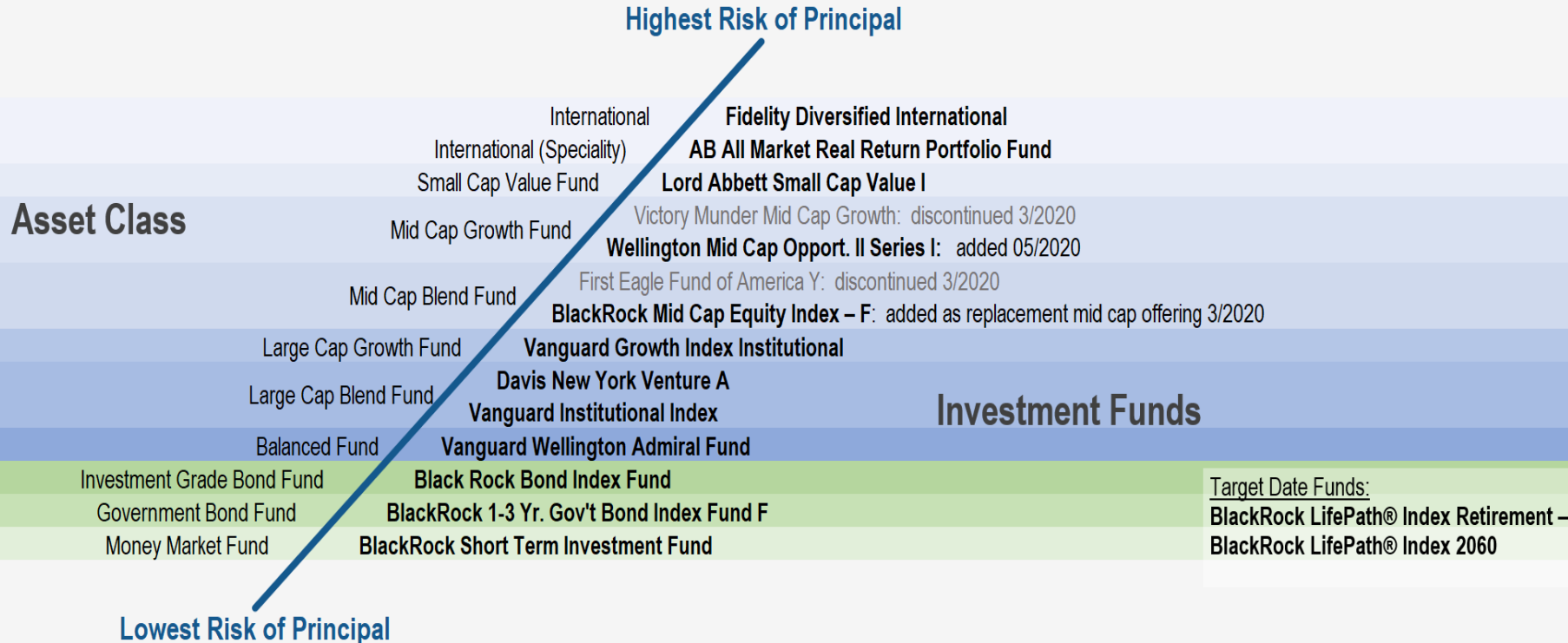
Source: Morningstar Direct; GWCM Analysis

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I. Texa\$aver Fund Performance Analysis

Texa\$aver Investment Funds

for the period ending December 31, 2020



BlackRock Mid-Cap Equity Index – F

Mid Cap Blend



2020 Fund Change

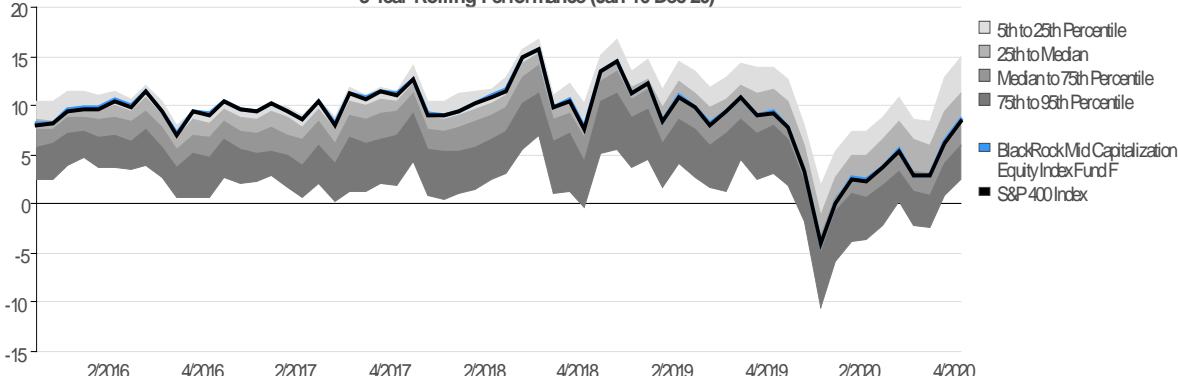
March 2020: Fund replaced Victory Munder Mid Cap Growth (MGOYX) and First Eagle Fund of America Y (FEAFX) as mid cap offering within program's lineup.

Program Assets: \$204.3 million

No. of Texa\$aver accounts: 32,348

PERFORMANCE, 12/31/2020	1Y	3Y	5Y	7Y	10Y
Fund	13.81	8.54	12.43	9.87	11.58
Benchmark: S&P 400 Index	13.66	8.45	12.35	9.78	11.51
Peer Group Median	12.82	8.28	11.70	8.87	10.87

3 Year Rolling Performance (Jan 16-Dec 20)



PORTFOLIO COMPOSITION

Asset Allocation



Cash	0.37%
US Stock	99.44%
Non US Stock	0.19%
Bond	0.00%
Other	0.00%

As of 12/31/2020

Overall Morningstar Rating™



FUND OVERVIEW

Investment type: Collective Trust

Investment strategy: Passive

Fund expense ratio: 0.02%

Fund reimbursement: 0.00%

Net Texa\$aver expense: 0.02% **67**

Wellington MidCap Opportunities - II



Mid Cap Growth

2020 Fund Change

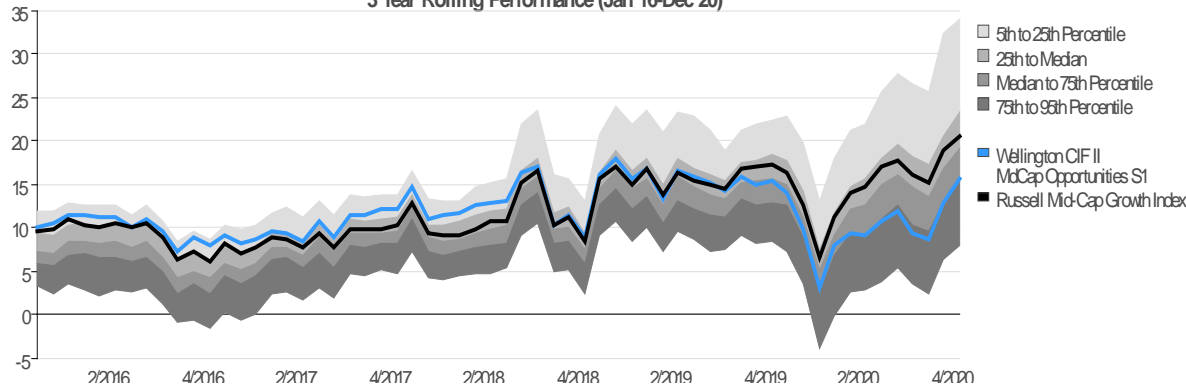
May 2020: Fund added to the lineup and available to accept contributions.

Program Assets: \$29.1 million

No. of Texa\$aver accounts: 22,208

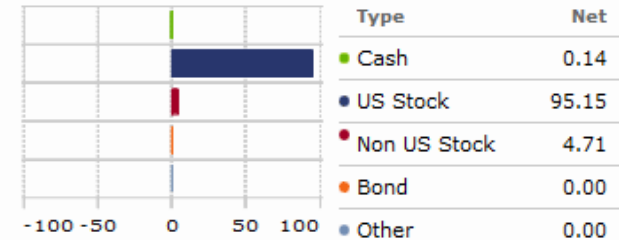
PERFORMANCE, 12/31/2020	1Y	3Y	5Y	7Y	10Y
Fund	25.09	15.60	16.57	13.50	13.99
Benchmark: Russell Mid-Cap Growth Index	35.59	20.50	18.66	14.79	15.04
Peer Group Median	33.41	19.16	17.61	13.68	14.06

3 Year Rolling Performance (Jan 16-Dec 20)



PORTFOLIO COMPOSITION

Asset Distribution



Overall Morningstar Rating™



FUND OVERVIEW

Investment type: Collective Trust

Investment strategy: Active

Fund expense ratio: 0.66%

Fund reimbursement: 0.00%

Net Texa\$aver expense: 0.66% **68**

Texa\$aver Investment Funds

for the period ending December 31, 2020



Highest Risk of Principal

Asset Class

2021 FUND CHANGES

March 5, 2021: Davis NY Venture discontinued. Assets transferred to the Vanguard Institutional Index fund.

March 10, 2021: Recommendation for the addition of a Passive International Fund (Board Action item)

Large Cap Blend Fund
 Davis New York Venture A
 Vanguard Institutional Index

Investment Funds

International	Fidelity Diversified International
International (Specialty)	AB All Market Real Return Portfolio Fund
Small Cap Value Fund	Lord Abbett Small Cap Value I
Mid Cap Growth Fund	Victory Munder Mid Cap Growth: discontinued 3/2020 Wellington Mid Cap Opport. II Series I: added 05/2020
Mid Cap Blend Fund	First Eagle Fund of America Y: discontinued 3/2020 BlackRock Mid Cap Equity Index – F: added as replacement mid cap offering 3/2020
Large Cap Growth Fund	Vanguard Growth Index Institutional
Balanced Fund	Vanguard Wellington Admiral Fund
Investment Grade Bond Fund	Black Rock Bond Index Fund
Government Bond Fund	BlackRock 1-3 Yr. Gov't Bond Index Fund F
Money Market Fund	BlackRock Short Term Investment Fund

Target Date Funds:
 BlackRock LifePath® Index Retirement –
 BlackRock LifePath® Index 2060

Lowest Risk of Principal

Davis New York Venture A (NYVTX)

Large Cap Blend



2021 Fund Change

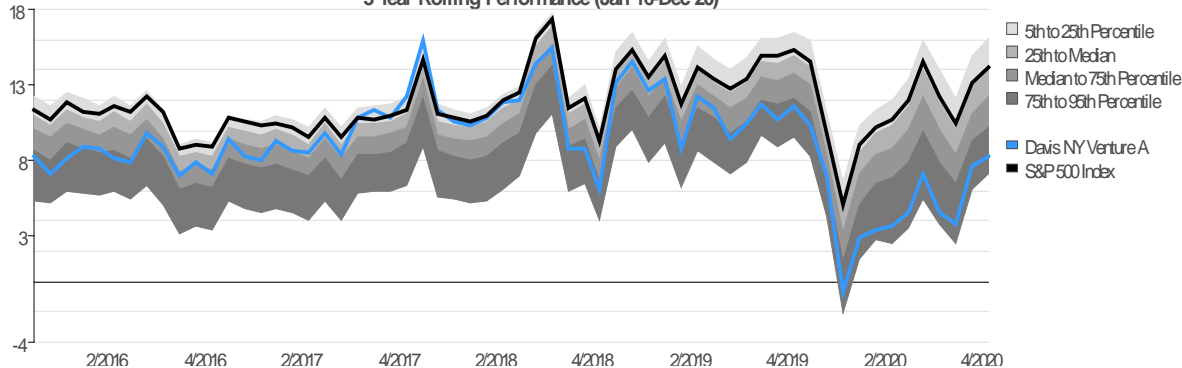
March 5, 2021: Fund scheduled to be discontinued; assets will be transferred to Vanguard Institutional Index fund.

Program Assets: \$156.9 million

No. of Texa\$aver accounts: 32,105

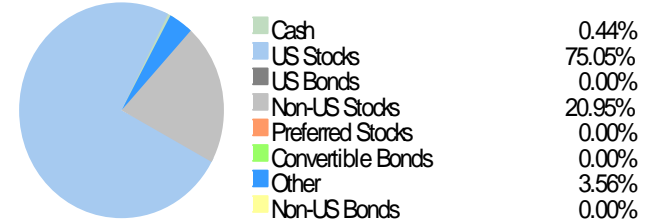
PERFORMANCE, 12/31/2020	1Y	3Y	5Y	7Y	10Y
Fund	11.41	8.26	11.71	9.67	10.67
Benchmark: S&P Index	18.40	14.18	15.22	12.92	13.88
Peer Group Median	16.35	12.18	13.58	11.30	12.50

3 Year Rolling Performance (Jan 16-Dec 20)



PORTFOLIO COMPOSITION

Assets



Overall Morningstar Rating™



FUND OVERVIEW

Investment type: Mutual fund

Investment strategy: Active

Fund expense ratio: 0.90%

Fund reimbursement: 0.55%

Net Texa\$aver expense: 0.35% 70

Vanguard Institutional Index (VIIIX)

Large Cap Blend



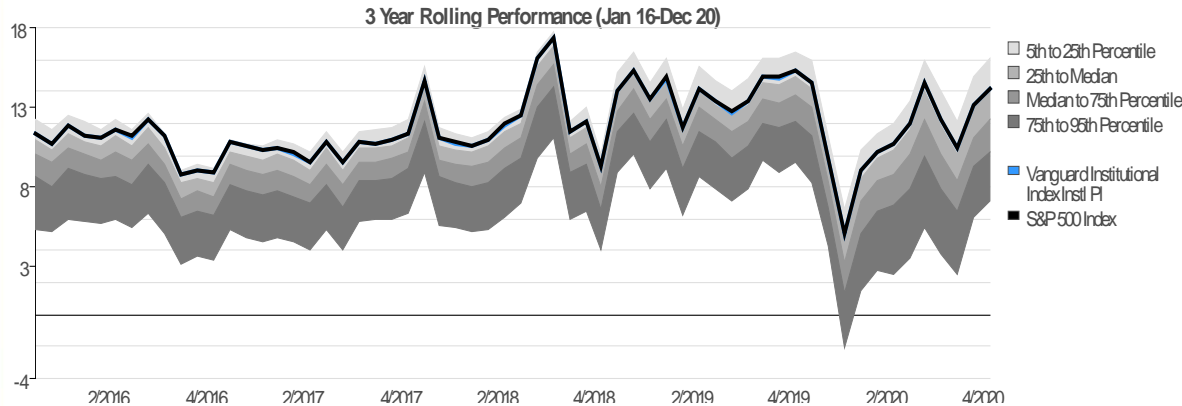
2021 Fund Change

March 5, 2021: Davis fund assets will be transferred to Vanguard Institutional Index fund

Program Assets: \$604.3 million

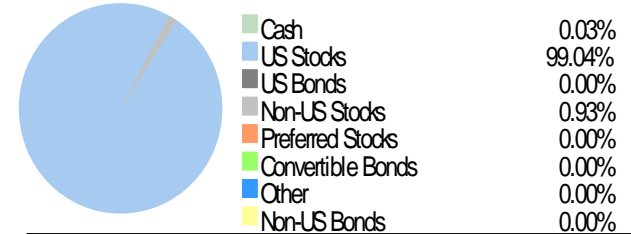
No. of Texa\$aver accounts: 39,347

PERFORMANCE, 12/31/2020	1Y	3Y	5Y	7Y	10Y
Fund	18.41	14.17	15.21	12.91	13.88
Benchmark: S&P 500 Index	18.40	14.18	15.22	12.92	13.88
Peer Group Median	16.35	12.18	13.58	11.30	12.50



PORTFOLIO COMPOSITION

Assets



Overall Morningstar Rating™



FUND OVERVIEW

Investment type: Mutual fund

Investment strategy: Passive

Fund expense ratio: 0.02%

Fund reimbursement: 0.00%

Net Texa\$aver expense: 0.02% 71

Vanguard Growth Index Institutional (VIGIX)



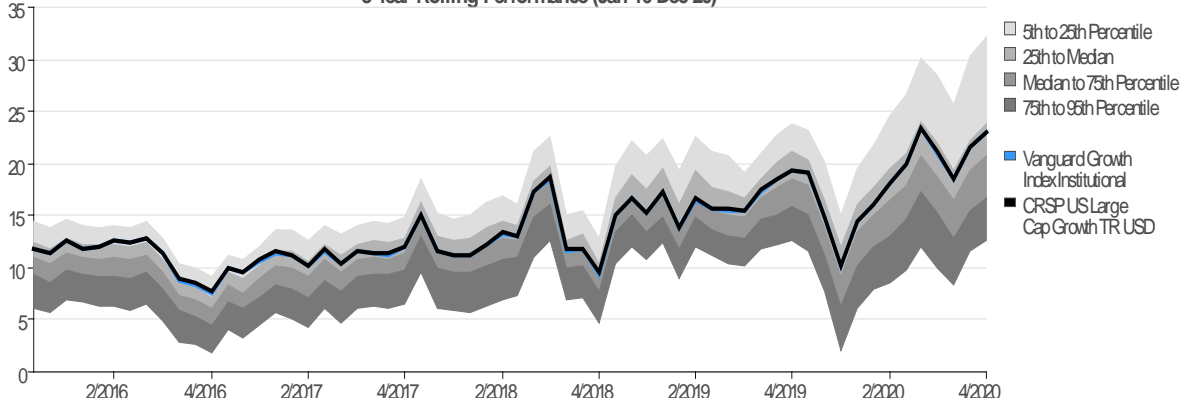
Large Cap Growth

Program Assets: \$573.2 million

No. of Texa\$aver accounts: 29,867

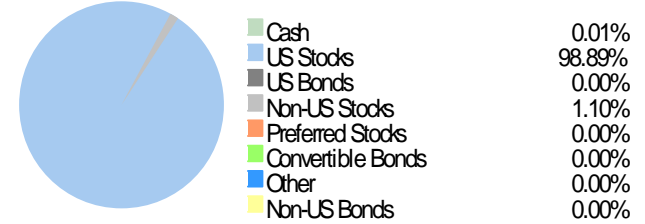
PERFORMANCE, 12/31/2020	1Y	3Y	5Y	7Y	10Y
Fund	40.20	22.99	20.34	16.78	16.68
Benchmark: CRSP US Lg. Growth Index	40.27	23.02	20.37	16.83	NA
Peer Group Median	34.34	20.70	18.41	15.25	15.36

3 Year Rolling Performance (Jan 16-Dec 20)



PORTFOLIO COMPOSITION

Assets



Overall Morningstar Rating™



FUND OVERVIEW

Investment type	Mutual fund
Investment strategy	Passive
Fund expense ratio	0.04%
Fund reimbursement	0.00%
Net Texa\$aver expense	0.04%

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BlackRock Short Term Investment Money Market

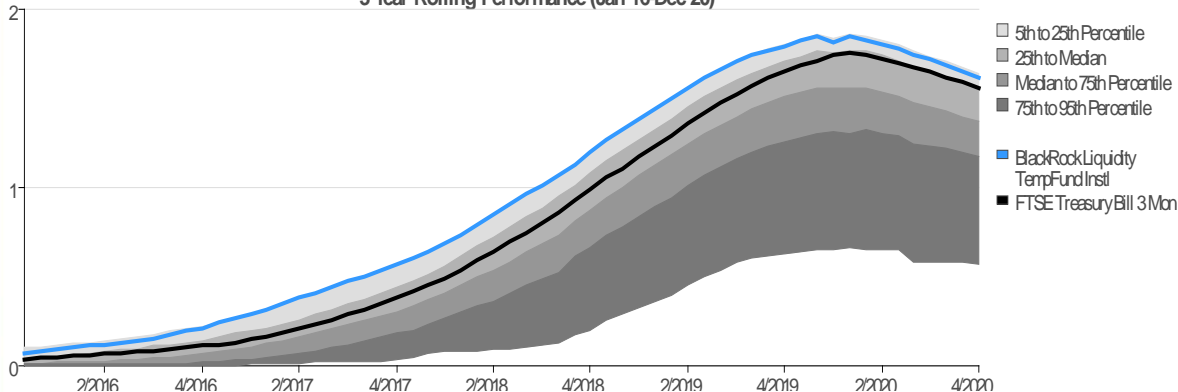


Program Assets: \$167.4 million

No. of Texa\$aver accounts: 21,409

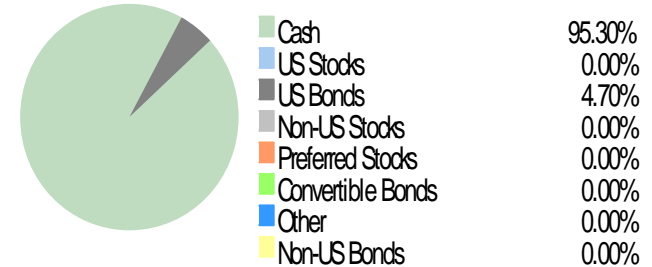
PERFORMANCE, 12/31/2020	1Y	3Y	5Y	7Y	10Y
Fund	0.57	1.62	1.29	0.94	0.69
Benchmark: FTSE 3 Month Treasury Bill Index	0.58	1.56	1.16	0.84	0.60
Peer Group Median	0.40	1.37	0.99	0.73	0.51

3 Year Rolling Performance (Jan 16-Dec 20)



PORTFOLIO COMPOSITION

Assets



FUND OVERVIEW

Investment type	Collective Trust
Investment strategy	Active
Fund expense ratio	0.08%
Fund reimbursement	0.00%
Net Texa\$aver expense	0.08% 73

BlackRock 1-3 Yr. Government Bond Index F



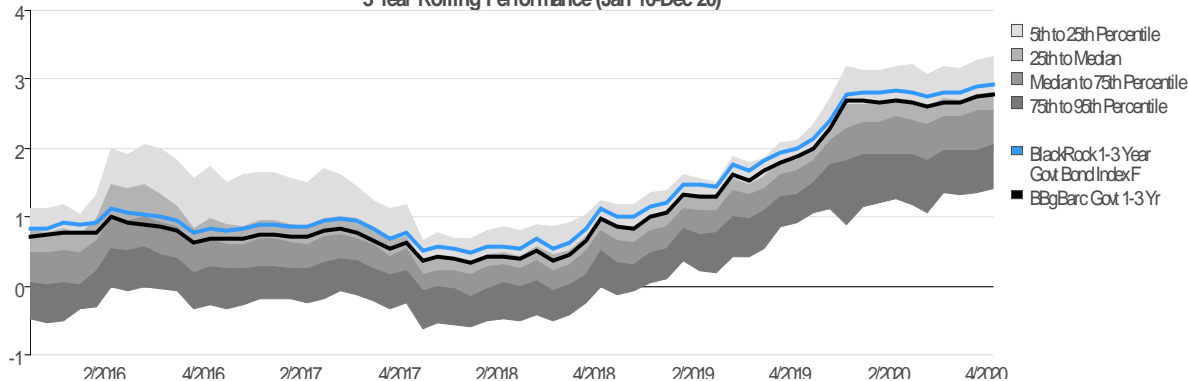
Short-term Bond

Program Assets: \$55.8 million

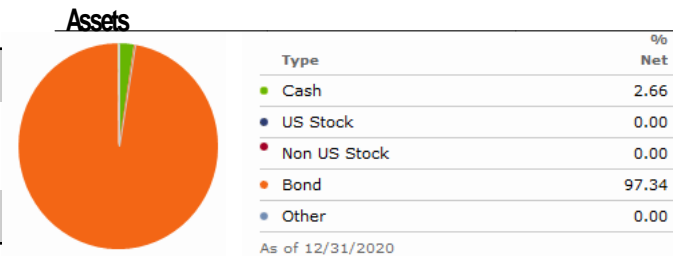
No. of Texa\$aver accounts: 19,030

PERFORMANCE, 12/31/2020	1Y	3Y	5Y	7Y	10Y
Fund	3.35	2.91	2.07	1.68	1.45
Benchmark: Bloomberg Barclays U.S. 1-3 Year Government Bond Index	3.14	2.77	1.92	1.54	1.32
Peer Group Median	3.16	2.56	1.80	1.47	1.31

3 Year Rolling Performance (Jan 16-Dec 20)



PORTFOLIO COMPOSITION



Overall Morningstar Rating™



FUND OVERVIEW

Investment type: Collective Trust

Investment strategy: Passive

Net expense ratio: 0.06%

Fund reimbursement: 0.00%

Net Texa\$aver expense: 0.06% 74

BlackRock Bond Index

Intermediate Bond

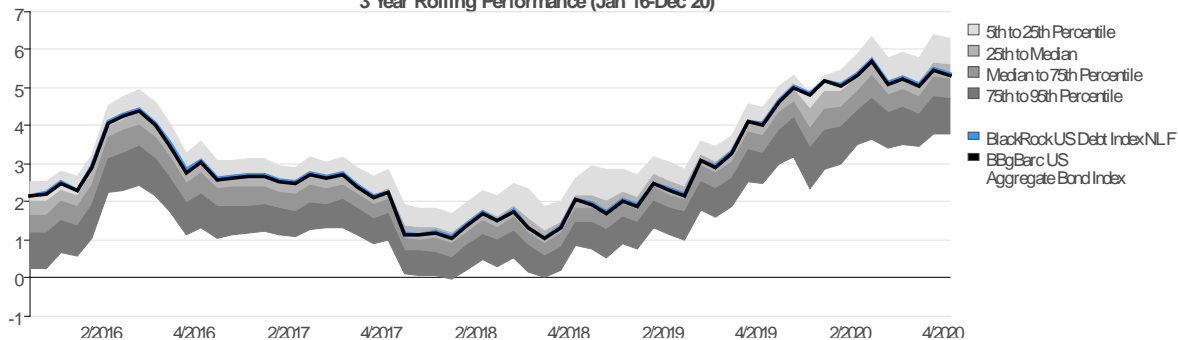


Program Assets: \$291.2 million

No. of Texa\$aver accounts: 32,637

PERFORMANCE, 12/31/2020	1Y	3Y	5Y	7Y	10Y
Fund	7.58	5.37	4.47	4.14	3.87
Benchmark: Bloomberg Barclays U.S. Aggregate Bond Index	7.51	5.34	4.44	4.09	3.84
Peer Group Median	7.78	5.23	4.37	3.94	3.79

3 Year Rolling Performance (Jan 16-Dec 20)



PORTFOLIO COMPOSITION

Asset Distribution	Type	% Net
	Cash	9.31
	US Stock	0.00
	Non US Stock	0.00
	Bond	89.85
	Other	0.84

As of 12/31/2020

Overall Morningstar Rating™



FUND OVERVIEW

Investment type	Collective Trust
Investment strategy	Passive
Fund expense ratio	0.11%
Fund reimbursement	0.00%
Net Texa\$aver expense	0.11% 75

Vanguard Wellington Admiral (VWENX)



Balanced Fund

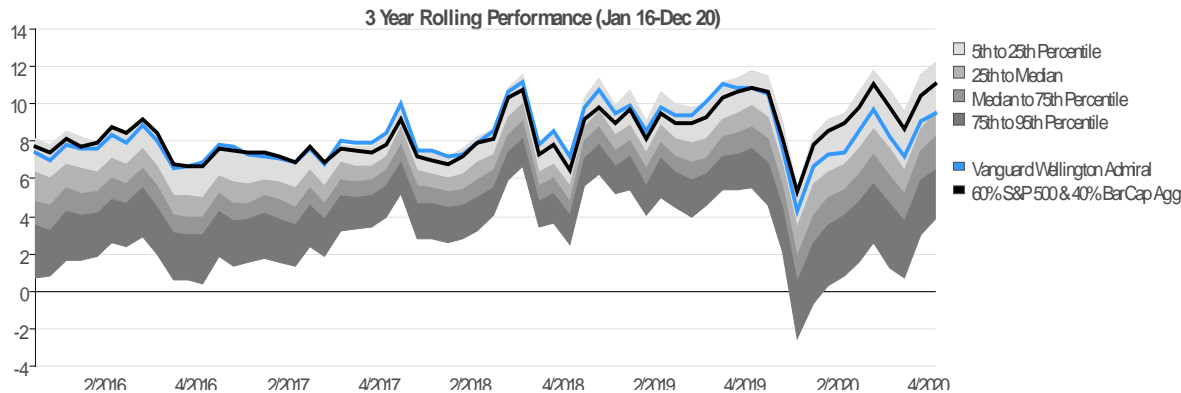
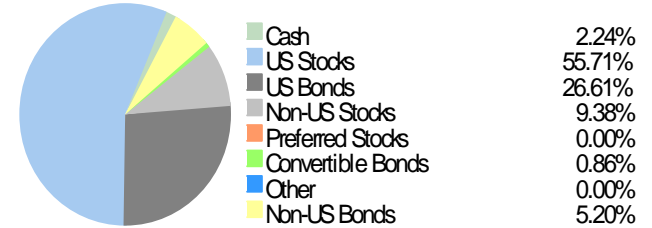
Program Assets: \$453.8 million

No. of Texa\$aver accounts: 36,373

PERFORMANCE, 12/31/2020	1Y	3Y	5Y	7Y	10Y
Fund	10.68	9.46	10.84	9.11	9.95
Benchmark: 60% S&P 500; and 40% BarCap Agg	14.73	11.03	11.11	9.58	10.02
Peer Group Median	12.27	8.24	8.24	7.30	8.02

PORTFOLIO COMPOSITION

Assets



Overall Morningstar
Rating™



FUND OVERVIEW

Investment type Mutual Fund

Investment strategy Active

Fund expense ratio 0.17%

Fund reimbursement 0.00%

Net Texa\$aver expense 0.17% 76

Lord Abbett Small Cap Value I (LRSYX)

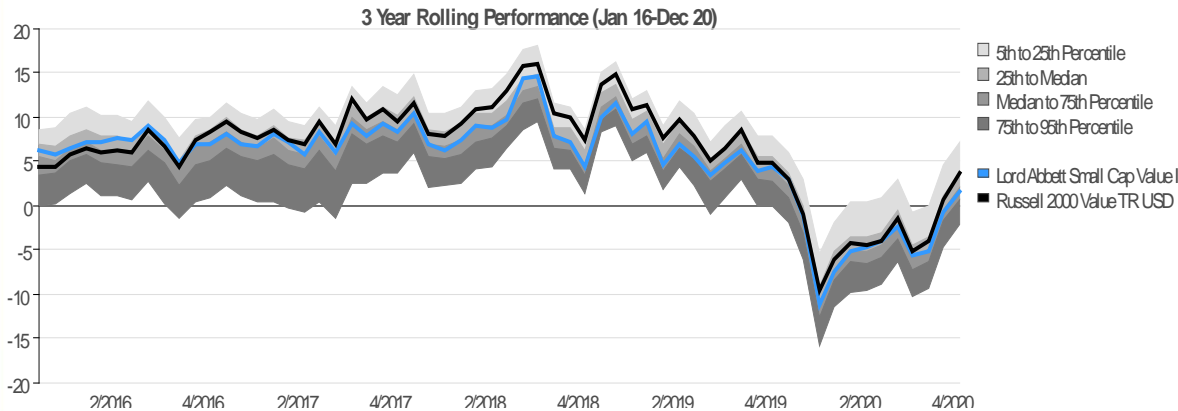
Small Cap



Program Assets: \$160.0 million

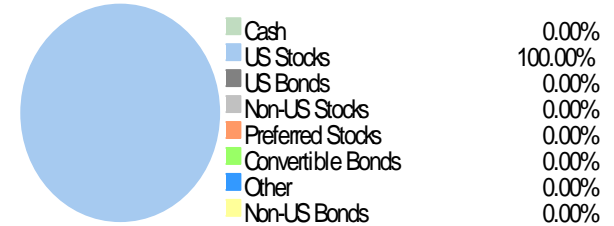
No. of Texa\$aver accounts: 32,478

PERFORMANCE, 12/31/2020	1Y	3Y	5Y	7Y	10Y
Fund	-1.25	1.70	6.25	4.61	6.90
Benchmark: Russell 2000 Value Index	4.63	3.72	9.65	6.25	8.66
Peer Group Median	3.50	2.17	7.85	5.21	8.01



PORTFOLIO COMPOSITION

Assets



Overall Morningstar Rating™



FUND OVERVIEW

Investment type	Mutual fund
Investment strategy	Active
Fund expense ratio	0.95%
Fund reimbursement	0.10%
Net Texa\$aver expense	0.85%

77

AB All Market Real Return Portfolio Fund

International (Specialty)



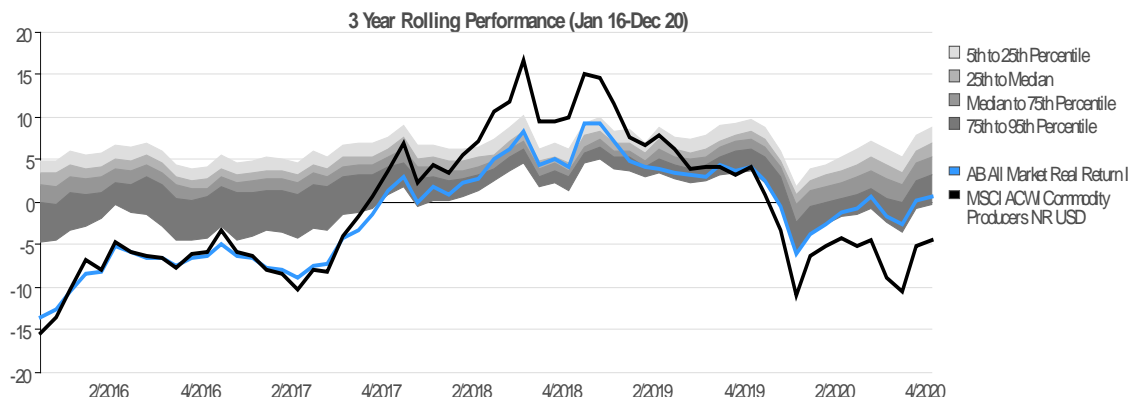
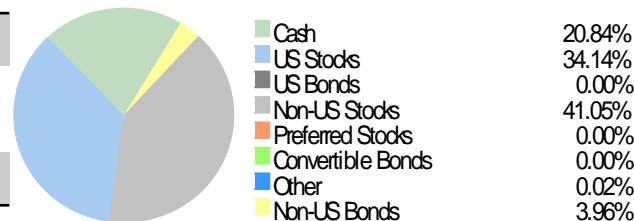
Program Assets: \$2.4 million

No. of Texa\$aver accounts: 658

PERFORMANCE, 12/31/2020	1Y	3Y	5Y	7Y	10Y
Fund	0.69	0.79	1.18	-1.16	-0.70
Benchmark: MSCI ACWI Commodity Producers Index	-12.32	-4.36	2.19	-0.26	2.54
Peer Group Median	6.65	5.39	4.87	5.91	6.01

PORTFOLIO COMPOSITION

Assets



Overall Morningstar Rating™



FUND OVERVIEW

Investment type	Mutual fund
Investment strategy	Active
Fund expense ratio	0.87%
Fund reimbursement	0.55%
Net Texa\$aver expense	0.32%

78

Fidelity Diversified International (FDIVX)



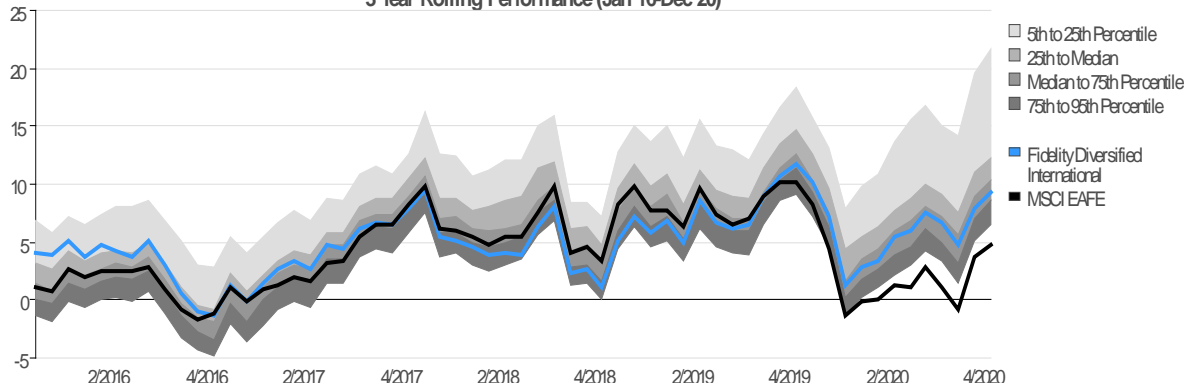
International

Program Assets: \$301.6 million

No. of Texa\$aver accounts: 35,734

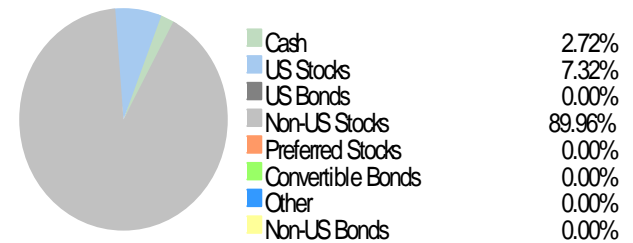
PERFORMANCE, 12/31/2020	1Y	3Y	5Y	7Y	10Y
Fund	18.91	9.34	9.77	6.86	7.45
Benchmark: MSCI EAFE	8.28	4.79	7.97	4.88	6.00
Peer Group Median	21.94	10.29	11.62	7.59	7.70

3 Year Rolling Performance (Jan 16-Dec 20)



PORTFOLIO COMPOSITION

Assets



Overall Morningstar Rating™



FUND OVERVIEW

Investment type: Mutual fund

Investment strategy: Active

Fund expense ratio: 1.05%

Fund reimbursement: 0.25%

Net Texa\$aver expense: 0.80% 79

BlackRock LifePath® Index Funds

Target Date Funds



	Excess Benchmark Performance						Peer Return Rank				Sharpe Ratio Rank	
	QTR	YTD	1Yr	3Yr	5Yr	10Yr	1Yr	3Yr	5Yr	10Yr	3Yr	5Yr
Target-Date Retirement												
BlackRock LifePath Index Retire F	1.86	3.23	3.23	1.47	1.45	0.84	9	6	8	9	40	39
S&P Target Date Retirement Income												
Number of Funds In Peer Group							38	30	33	23		
Target-Date 2025												
BlackRock LifePath Index 2025 F	-0.61	1.05	1.05	0.51	0.12	-0.43	63	52	62	80	32	21
S&P Target Date 2025												
Number of Funds In Peer Group							54	40	42	28		
Target-Date 2030												
BlackRock LifePath Index 2030 F	-0.42	1.06	1.06	0.62	0.25	-0.40	65	49	62	77	45	41
S&P Target Date 2030												
Number of Funds In Peer Group							54	50	42	25		
Target-Date 2035												
BlackRock LifePath Index 2035 F	-0.44	0.86	0.86	0.68	0.33	-0.37	68	51	54	77	50	43
S&P Target Date 2035												
Number of Funds In Peer Group							52	48	41	27		

BlackRock LifePath® Index Funds



Target Date Funds

	Excess Benchmark Performance						Peer Return Rank				Sharpe Ratio Rank	
	QTR	YTD	1 Yr	3 Yr	5 Yr	10 Yr	1 Yr	3 Yr	5 Yr	10 Yr	3 Yr	5 Yr
Target-Date 2040												
BlackRock LifePath Index 2040 F	-0.08	0.84	0.84	0.79	0.53	-0.27	62	45	37	73	54	57
S&P Target Date 2040												
Number of Funds In Peer Group							53	50	42	25		
Target-Date 2045												
BlackRock LifePath Index 2045 F	0.44	1.24	1.24	1.00	0.73	-0.14	59	36	34	63	51	57
S&P Target Date 2045												
Number of Funds In Peer Group							52	48	41	20		
Target-Date 2050												
BlackRock LifePath Index 2050 NL F	0.67	1.41	1.41	1.10	0.73		58	33	30	61	46	55
S&P Target Date 2050												
Number of Funds In Peer Group							53	50	42	20		
Target-Date 2055												
BlackRock LifePath Index 2055 NL F	0.59	1.49	1.49	1.10	0.62		62	35	35	49	47	58
S&P Target Date 2055												
Number of Funds In Peer Group							52	48	39	11		
Target-Date 2060+												
BlackRock LifePath Index 2060 F	0.59	1.39	1.39	-0.38	-0.37		64	86	80		86	87
S&P Target Date 2060+												
Number of Funds In Peer Group							64	47	25	0		

II. PRC Recommendations

Texa\$aver Fund Line-up Review



Identified opportunities

- GWI Portfolio Strategist led the PRC through a strategic review of the funds offered within the program
- PRC determined opportunities to explore a passive international equity and high yield bond fund (fund additions)
- Sub-committee appointed to determine options and provide timing recommendations
 - Passive international equity: due diligence began October 2020
 - High yield bond fund: due diligence to begin 3Q 2021

Additional Core Fund Offering



Passive international equity fund

- Passive international equity is a common offering for other large government plans
- New fund would *not* replace the existing actively-managed international equity option, Fidelity Diversified International Fund (FDIVX)
 - Some portion of Fidelity International fund will likely migrate
- Common for large plans to offer both active and passive international equity funds

Sub-committee



Passive international equity fund

- Established parameters for initial screening
 - \$2B minimum fund size
 - Net expense ratio \leq 25 bps
 - Availability on TPA's platform
 - Fund objective and investment style
- Passive International Fund Due Diligence Questionnaire (DDQ) finalized on October 13, 2020.
- PRC met on October 26 to finalize review sub-committee findings and determine funds advancing to the next Review Phase.

Sub-committee



Passive international equity fund

- DDQs sent on November 4, 2020 to the following:
 - Fidelity International Index Fund (FSPSX)
 - iShares MSCI EAFE International Index (BTMKX)
 - Schwab International Index (SWISX)
 - TIAA International Equity Index (TCIEX)
 - Vanguard Developed Markets Index (VDIPX)
- Responses were received from all five entities on November 18, 2020.

Sub-committee

Passive international equity fund



- Sub-committee's review included an initial evaluation of:
 - Minimum Requirements
 - Firm Qualifications
 - Management team; investment team
 - Compliance and operations
 - Strategy Qualifications
 - Investment strategy and philosophy; style and process; risk management; historical returns and performance; asset flows

Sub-committee



Passive international equity fund

- On December 14, 2020 the sub-committee recommended the following entities as finalists based on the DDQ responses provided during the Review Phase and performance information of the funds.
 - Fidelity International Index Fund (FSPSX)
 - iShares MSCI EAFE International Index (BTMKX)
- PRC agreed with the sub-committee's recommendation.
- Video conference meetings were held with each finalist on January 11, 2021.

	Fidelity International Index FSPSX	iShares MSCI EAFE International Index												
Fund size (AUM)	\$31.4 B	\$43.3B / \$6.9B												
Net expense ratio (bps)	3.5 bps	4.1 bps												
Morningstar Rating	3 star	3 star												
Fund type	Mutual fund	CIT (with iShares as a proxy)												
3 year annual returns	<table border="1"> <thead> <tr> <th>2018</th> <th>2019</th> <th>2020</th> </tr> </thead> <tbody> <tr> <td>-13.52%</td> <td>22.00%</td> <td>8.17%</td> </tr> </tbody> </table>	2018	2019	2020	-13.52%	22.00%	8.17%	<table border="1"> <thead> <tr> <th>2018</th> <th>2019</th> <th>2020</th> </tr> </thead> <tbody> <tr> <td>-13.37%</td> <td>21.80%</td> <td>8.03%</td> </tr> </tbody> </table>	2018	2019	2020	-13.37%	21.80%	8.03%
2018	2019	2020												
-13.52%	22.00%	8.17%												
2018	2019	2020												
-13.37%	21.80%	8.03%												
Portfolio Management and Firm detail	<ul style="list-style-type: none"> • Over \$592 B Equity Index AUM • Managing index since 2002 • Experienced team; 22 yrs. average experience • Geode Capital Management 	<ul style="list-style-type: none"> • Detailed knowledge of index methodologies • Proprietary tools allow PM to oversee large number of portfolios • Serves 65,000 DC plans – 2nd largest DC provider by AUM 												
Investment Strategy	<ul style="list-style-type: none"> • Limits exposure; provides high returns • Fully replicates 	<ul style="list-style-type: none"> • Majority of outperformance attributed to tax advantage • Does not fully replicate 												

Texa\$aver program



Passive international equity fund

- Passive international equity fund would enhance the program's fund line-up
 - High-quality, well-managed, competitively priced fund with international market exposure
- New fund would be
 - Offered alongside the existing international fund, Fidelity Diversified International Fund (FDIVX)
 - Available to participant contributions on or after May 1, 2021

Texa\$aver program: Passive International Equity



ERS Recommendation

ERS, together with the Texa\$aver Product Review Committee, recommends that the Board of Trustees of the Employees Retirement System of Texas approve the addition of the [], a passive international equity fund, to the Texa\$averSM 401(k)/457 Program.

Questions?
Action Item (Board Only)

III. Participant Fee Rate Restructure

Texa\$aver Program



Funding

ERS is responsible for the administration of the Texa\$aver 401(k) and 457 Program (Texa\$aver).

- The legislature does not appropriate funds for Texa\$aver administrative costs
- 100% funded by participants
- Costs are assessed to participant accounts as a monthly administrative fee and cover program recordkeeping costs and ERS' internal costs
- Assessed to the 401(k) and 457 plans separately

Texa\$aver Program

Participant Fee Structure



ERS adopted a tiered fee structure for Texa\$aver administrative fees effective September 1, 2009.

- ERS' Actuarial and Reporting Services (ARS) designed the tiered fee structure and corresponding fees.
 - Fees were based on participant's account balance.
 - Percentage of fees relative to the account balance declines with each progressive tier.

Texa\$aver Program

Participant Fee Structure

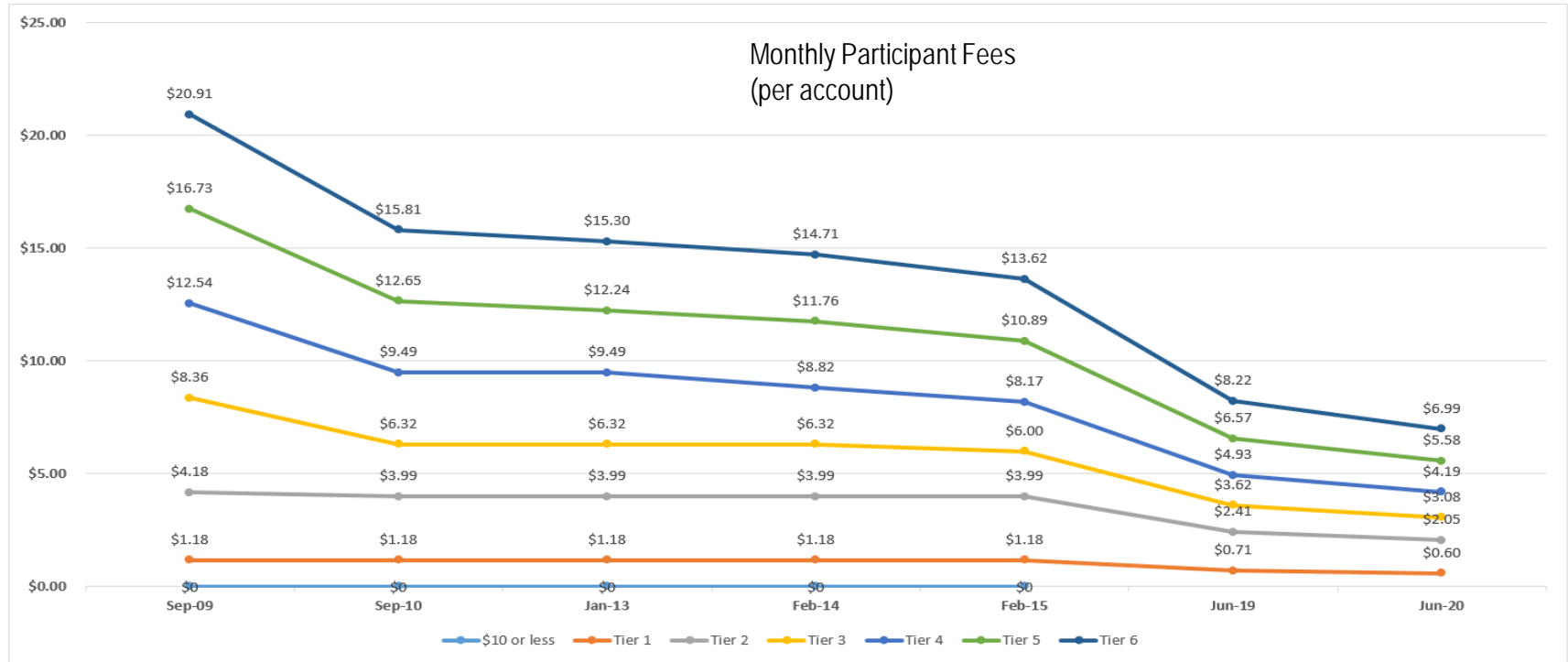


In May of 2019, ERS took action to reduce the number of small balance accounts.

- Those accounts with a \$10 or less fund balance did not pay administrative fees. This tier was combined with the next tier level, \$0.00 - \$1,000 account balance.
- This change eliminated higher balance accounts subsidizing fees for the growing number of small balance accounts, which were primarily due to automatic enrollment.
- New participants continued to enjoy a six-month fee waiver in order to build up their account balance.
- This change resulted in the number of Texa\$aver small balance accounts reduced by 99.4% due to fee attrition.

Texa\$aver

Participant Fee History



Participant fee review

- ERS analyzed the appropriateness of the current tier structure and reviewed standard fee options based on industry practices, participant ease in understanding, surveys, data, and Texa\$aver program design.
- Staff reviewed the following three participant fee options:
 - 1) an asset based fee,
 - 2) a flat fee, and
 - 3) tiered stratification (*current hybrid model*).

Participant Fee Review



Asset based fee

1. **Asset Based Fee** is based on a percentage of the participant's account balance and could change month to month.
 - Texa\$aver's Third Party Administrator (Empower), estimates that of the 39% of plans with asset based fees, only 25% have automatic enrollment.
 - As a standard practice, plans with automatic enrollment typically do not offer asset based fees.
 - Based on the 2019 National Association of Government Defined Contribution Administrators' (NAGDCA) Perspective in Practice (PIP) Survey, annual asset-based fees represented 47.8% of plans with assets over \$2.25 billion.

Participant Fee Review



Flat fee

2. **Flat Fee** structure uses a fixed dollar amount assessed monthly on a per participant per account basis.
 - The 2018 Texa\$aver Participant Satisfaction Survey indicates participants have a better understanding of a flat fee approach when compared to an asset based fee.
 - In the 2019 survey, ERS asked Texa\$aver participants their overall preference in the administrative fee structure:
 - 33.7% preferred a flat fee
 - 29.6% did not have a strong preference
 - 23.3% preferred the current hybrid tiered structure
 - 13.4% would rather have an asset based fee

Participant Fee Review



Flat fee

- Based on Empower's book of business, a flat fee is the most common structure among plans, followed by an asset based fee.
- The majority of state plans offering automatic enrollment tend to use a flat fee structure for ease in spreading administrative plan cost.
- The NAGDCA PIP Survey also showed 47.8% of plans with assets exceeding \$2.25B use a flat fee approach.

Participant Fee Review



Tiered (stratification) fee

3. Tiered Stratification (current fee structure) offers a progressively higher set monthly fee across six tiers, based on the participant's account balance.

- Newly enrolled participants have a six month fee waiver to assist with building initial retirement savings prior to incurring a fee.
- This is a hybrid, customized approach and not standard among other Deferred Compensation plans.

Account Balance		Monthly Fee per Participant	Number of Participants
		Waived	13,375
\$ 0.01	\$ 1,000.00	\$ 0.60	101,278
\$ 1,000.01	\$ 16,000.00	\$ 2.05	101,137
\$ 16,000.01	\$ 32,000.00	\$ 3.08	10,959
\$ 32,000.01	\$ 48,000.00	\$ 4.19	5,647
\$ 48,000.01	\$ 64,000.00	\$ 5.58	3,616
\$ 64,000.01		\$ 6.99	15,212
Totals			251,224

As of December 2020

Texa\$aver Participant Fee Restructure



ERS Recommendation

ERS recommends that the Board adopt the proposed revised Texa\$aver flat fee structure.

- \$1.50 monthly participant fee: per account, per participant regardless of account balance
- Continue six month fee waiver for new participants to allow account balance to build
- Effective May 1, 2021
- Establish a minimum \$1 million ERS account balance (baseline)
 - Due to the current large account balance, waive any “internal” administrative portion of the fee to allow the spend down of excess funds.

Questions?
Action Item (Board Only)