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**AGENDA ITEM DETAILS**

**Subject:** \*Consideration of ERS' Investment Policy – (Action)

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**RECOMMENDED ACTION:**

Move that the Investment Advisory Committee recommend that the Board of Trustees of the Employees Retirement System of Texas approve the Investment Policy Statement attached as **Exhibit A** to this agenda item.

Contingent upon adoption of the above motion by the Investment Advisory Committee, staff recommends the following motion to the Board of Trustees:

Move that the Board of Trustees of the Employees Retirement System of Texas approve the Investment Policy Statement attached as **Exhibit A** to this agenda item.

**BACKGROUND**

The Board of Trustees (Board) of the Employees Retirement System of Texas (ERS) determines the Investment Policy Statement (IPS). In accordance with Chapter VI, Item A of the ERS Investment Policy, staff recommends proposed changes to the policy to the Investment Advisory Committee (IAC) and Board as needed.

The IPS governs the strategic asset allocation, defines the portfolio planning process, and communicates the Board's investment objectives and constraints for managing Trust assets to agency investment staff. Staff reviews the IPS on at least an annual basis and brings proposed changes to the Board for consideration.

Staff has reviewed and discussed the following changes in collaboration with the Executive Office, Investments Division leadership, and the Office of General Counsel. The board last considered the IPS in August 2020. **Exhibit A** presents the proposed changes to the IPS for which staff is seeking Board approval.

**SUMMARY OF PROPOSED CHANGES:**

**1. Various Sections. Removal of Opportunistic Credit as an independent asset class:**

Implementation of the Opportunistic Credit strategy was constrained by internal team restructuring, Covid-19 which impeded due diligence efforts, and lower than expected rates of return by the time the Trust was able to invest.

In the interim, the fixed income team added depth to the Global Credit Portfolio, which is approximately 20% managed by external advisors and has approximately \$1 billion invested. This portion of the portfolio is opportunistically driven and intended to be complementary to the internally managed portfolio

The proposal removes references to Opportunistic Credit as an independent asset class throughout the IPS to reflect its removal as an independent asset class.

In particular, Opportunistic Credit will be removed from **Table 3- Asset Class Allocation and Ranges**, and as a result the Long-Term Targets for certain other asset class will be adjusted.

**TABLE 3 – ASSET CLASS ALLOCATIONS AND RANGES**

Asset Class	Long-Term Target	Min	Max
<b>Return Seeking Assets:</b>	<b>83%</b>	--	--
<b>Global Equity</b>	<b>50%</b>	--	--
Public Equity	37%	27%	47%
Private Equity	13%	8%	18%
<b>Global Credit</b>	<b>4113%</b>	<b>1%</b>	<b>21%</b>
<b>Real Assets</b>	<b>19%</b>	--	--
Public Real Estate	3%	0%	13%
Private Real Estate	9%	4%	14%
Private Infrastructure	7%	2%	12%
<b>Special Situations</b>	<b>0—51%</b>	--	<b>5%—</b>
<b>Opportunistic Credit</b>	<b>3%</b>	<b>0%</b>	<b>8%</b>
<b>Risk Assets: Reduction/Liquidity</b>	<b>17%</b>	--	--
<b>Fixed Income - Rates</b>	<b>11%</b>	--	--
<b>Cash (approximately)</b>	<b>1%</b>	--	--
<b>Hedge Funds/Absolute Return</b>	<b>5%</b>	<b>0%</b>	<b>10%</b>
<b>Global Total</b>	<b>100%</b>	--	--

## 2. Chapter VII: Code of Ethics; A. Personal Transactions

The Personal Transaction policy, contained within the Code of Ethics, describes the personal transaction requirements for staff designated as “Restricted Persons” under the policy. The policy requirements include disclosure of personal investment accounts and pre-clearance approval prior to conducting covered personal transactions in those accounts.

After internal review and discussion with the Chief Investment Officer and Office of General Counsel, staff proposes that all Exchange Traded Funds (“ETFs”) should be included in the securities which are exempt from the pre-clearance requirements of the Personal Transaction Policy, not only “Broad-Based ETFs” as currently defined in the Code of Ethics. Staff believes that the majority of ETFs are of sufficient size that ERS trades are unlikely to affect the market value of the ETF’s shares, and therefore there is little to no risk of violating the Code of Ethics through front running. Staff also believes that there is little to no Insider Trading risk related to material non-public information that would impact the underlying exposure of an ETF. Furthermore, due to the specific and dynamic criteria of “Broad- Based” ETFs described in the IPS, staff anticipates recurring technical violations of the policy from personal transactions in ETFs would not be deemed a material violation or compliance risk.

In addition, proposed changes to the ISP clarify additional securities that are exempt from pre-clearance, such as physical commodities, currencies, and digital assets/cryptocurrencies.

**3. Chapter VII: Code of Ethics; A. Personal Transactions; Addendum V Insider Trading and Confidentiality Policy**

The Personal Transaction policy, contained within the Code of Ethics, describes the personal transaction requirements for staff designated as “Restricted Persons” under the policy. The policy requirements include disclosure of personal investment accounts and pre-clearance approval prior to conducting covered personal transactions in those accounts.

Staff proposes updating references to the “Restricted List”, which includes securities of companies about which staff has received material non-public information. The policy prohibits Covered Persons from trading securities of any issuer on the Restricted List in their personal accounts for so long as the issuer remains on the list. The maintenance of the Restricted List is an existing process administered by Investment Operations that the current IPS does not reference.

**4. Addendum VI- Asset Class Investment Committee Charter**

The purpose of the ACIC Charter is to record the responsibilities, structure, and authority of the ACIC, and establish written procedures that foster prudent investment practices and active participation in investment operations by ACIC members.

Staff proposes updating language regarding ACIC approval of investments by email.]

[Specific approval of the changes to the Addendum will be considered in the Asset Class Investment Committee Charter agenda item.]

**STAFF RECOMMENDATION:**

Staff recommends the Board adopt the proposed draft of the ERS Investment Policy Statement included as **Exhibit A**.

*\* We are accredited by the State Pension Review Board (PRB) as a Minimum Educational Training (MET) sponsor for Texas public retirement systems. This accreditation does not constitute an endorsement by the PRB as to the quality of our MET program. This agenda item may be considered in-house training provided by ERS to board trustees and the system administrator for purposes of fulfilling the MET program requirements. ERS is an accredited sponsor of MET for its system administrator and trustees for continuing education.*

**ATTACHMENTS:**

1. Exhibit A — Draft Investment Policy Statement Proposed for August 25, 2021 Joint Meeting of the Board and IAC
2. Slides - ERS' Investment Policy