

**Employees Retirement System of Texas
Asset Class Investment Committee Charter**

Approved as of 8/21/2019/25/2021

- I. **Purpose:** The purpose of each Asset Class Investment Committee (each, an ACIC) is to support the ERS Board of Trustees (Board) in fulfilling its oversight responsibilities, in accordance with the ERS Investment Policy (Policy). As part of an authorized delegation to Staff, the ACIC reviews and approves Alternative Investments (as defined by Texas Government Code Section 815.3015) and other investment-related actions proposed by each of the asset classes managed by the ERS Investments division. This is to be done in a manner consistent with ERS' established investment objectives and strategies for the purpose of obtaining the optimum return on the Funds' portfolios in keeping with the assumption of prudent risk, as described further in the Policy.

The pertinent asset classes include, but are not limited to, Private Equity, Private Real Estate, Global Credit, Private Infrastructure, Hedge Funds, and Public Equity ~~and Opportunistic Credit~~. The provisions of this Charter shall conform to the Policy and any related policies approved by the Board or the Executive Director (ED).

- II. **Composition:** Each asset class will have its own ACIC.

Voting Members: There will be at least four Voting Members. Permanent Members of the ACIC include the ED, the ~~CIO~~ Chief Investment Officer (CIO), and a member of the Investment Advisory Committee (IAC) with expertise in the relevant asset class. In the event the appointed IAC member is not available for a particular ACIC meeting, the CIO will appoint another IAC member for that particular ACIC meeting.

The CIO, in consultation with the ED, shall appoint a fourth Voting Member with expertise valuable to the pertinent ACIC. The fourth member shall be a member of the senior investment Staff from a different asset class than the asset class under review. The ED shall have the final authority to approve or deny the composition of each ACIC.

Investment Consultant: If an investment consultant provides a recommendation for the specific asset class investment being reviewed, they will attend in person or via telephone or video conference.

Non-Voting Members: ~~There will be at least three Non-Voting Members in attendance or providing written or oral commentary, if applicable, at each ACIC Meeting, including one Staff member from each of the Office of General Counsel, Internal Audit and Investment Compliance. Non-Voting Members may provide written or oral commentary, if applicable, but they shall have no voting privileges related to investment actions. The attendance of Non-Voting Members is not required to meet quorum, however~~ Investment Compliance must certify prior to the vote that the pending investment is in compliance with the Policy.

Quorum: At least a majority of the Voting Members of the ACIC must be in attendance for a quorum, with the ED or his designee required to attend.

- III. **Authority and Responsibilities:** Pursuant to the Policy, each ACIC has the authority to review and approve the below recommendations from Staff to ensure that they conform to the investment objectives outlined in the Policy and are prudent given current and anticipated market dynamics.

The ACIC is delegated authority to:

1. Review and approve Staff recommendations for Alternative Investments that do not exceed the Board approval limits set forth in the Policy.
2. Review and approve Staff recommendations for selecting certain external advisors and investment managers, pursuant to the determination of the ED.

Each ACIC will discuss and review investment recommendations prepared by Staff and, when applicable, the investment consultant. The ACIC will consider the proposed ~~investments~~investment's alignment with the investment philosophy and performance objectives outlined in the Policy. The ACIC will vote to:

1. Approve the recommendation as submitted;
2. Approve with contingencies with such approval taking effect once the applicable ERS asset class Director warrants in writing that all such contingencies are met;
3. Postpone to allow for resolution of specified issues; or
4. Reject.

The ACIC will not consider any proposed investment that has not gone through the applicable ERS investment and operational due diligence processes, or the meeting procedures described in this Charter. All Voting and Non-Voting Members of each ACIC (together, Members) have the authority to request additional information related to the investment recommendation as is necessary or desirable to fulfill their roles and responsibilities.

IV. Meetings: The ACIC will meet as needed when a proposed investment is ready for consideration, with the exception of Co-Investments or "Top-up" investments in an amount of ~~\$45~~\$25 Million] or less, which may be approved by email as described below. ACIC meetings will generally be held in person, but they may also be attended by members via telephone or video conference as agreed upon by the ACIC. ACIC Members will get at least five business days' notice of the meeting when possible.

A Co-Investment is defined as any direct or indirect investment into a single asset or group of assets alongside or otherwise in connection with an investment in such asset(s) made by a private fund. Co-investments may also include Co-investment vehicles intended to hold multiple investments.

A ~~Co-Top-up~~ Investment is a direct commitment to a private fund or Co-Investment ~~Vehicle~~to which ERS has previously made a commitment.

A Co-Investment or Top-up Investment may be approved by Voting Members via email if it satisfies the following criteria: 1) the aggregate proposed commitment amount is equal to or less than ~~\$45~~\$25 Million; 2) it is made with a general partner or investment manager with which ERS has made a previous investment and has an existing relationship, and 3) it is approved by a unanimous vote of the Voting Members.

All other provisions of this Charter apply to Co-Investments reviewed and approved via email. The ED shall have the authority to require any Co-investment or Top-up Investment to be reviewed and voted on at an ACIC meeting instead of by email.

If any Top-up Investment results in a total aggregate commitment to such vehicle in excess of the applicable threshold pursuant to Texas Government Code Section 815.3016, the Top-Up Investment will be subject to the Board approval procedures described in Item VIII of this Charter.

V. Meeting Materials: Staff will make best efforts to provide ACIC Members with meeting materials at least 72 hours in advance of the meeting unless such schedule is not feasible given the timing of the potential investment. Meeting materials include, but are not limited to, an investment recommendation from Staff and, when appropriate, a separate recommendation or report from the applicable investment consultant. ERS Operational Due Diligence staff will provide a separate operational due diligence report when applicable.

- VI. Minutes:** Each meeting of an ACIC will have minutes documented of the Members present, material issues of significant discussion, and any actions taken. ~~If a decision is made, including but not limited to decisions to reject an investment or not approve until contingencies are met, all final decisions will be documented.~~
- VII. Approval:** At least a majority of the Voting Members must approve the investment recommendation or action. An investment approval must include the approval of the ED ~~{or his designee}~~.
- VIII. Limitations:** The ACIC may not approve any Alternative Investment that exceeds 0.6% of the total market value of the Funds' assets as reported in the most recent ERS CAFR, pursuant to Texas Government Code Section 815.3016 and the Policy. Any investment exceeding such Policy limits will first be presented to the applicable ACIC in accordance with this Charter, but only for the purpose of recommending the investment to the Board. If so recommended, the investment will then be presented by Staff to the Board at a regularly scheduled Board meeting or a meeting called for the express purpose of reviewing and approving said investment.
- IX. Reporting:** On a quarterly basis, Staff from each pertinent asset class will present a summary of investment activity, as set forth in the Policy.
- X. Conflicts of interest and declarations of interests:** All ACIC members are subject to ERS' Conflicts of Interest Policy and Insider Trading and Confidentiality Policy. Each ACIC member shall notify the Investment Compliance Officer of any actual or perceived conflict of interest arising in the matters discussed, prior to or during the meeting. The relevant provisions in ERS policies and statutes shall regulate participation or recusal from the ACIC meeting and/or vote if necessary.
- XI. Amendment:** The ACIC Charter shall be reviewed on at least an annual basis to determine if modifications are necessary or desirable. Any changes will be subject to the review and approval of the Board.
- XII. Interpretation:** It is intended that this Charter be construed and administered so that it complies with all applicable federal and state laws and regulations, as such ~~may~~ be amended from time to time. The ED is authorized to approve from time to time variances from the policies, practices, and procedures set forth above in furtherance of such compliance or as he deems to be in the best interest of ERS, consistent with both ERS' fiduciary responsibilities and the purpose and scope of this Charter and the Policy.

Adopted August 23, 2017

Revised to reflect current ACIC meeting practices and procedures on August 25, 2021