Joint Meeting of
The Board of Trustees
And
Investment Advisory Committee Minutes

May 26, 2021

ERS
Employees Retirement System of Texas

Presented for Review and Approval

August 26, 2021

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JOINT MEETING OF THE
BOARD OF TRUSTEES AND
INVESTMENT ADVISORY COMMITTEE
EMPLOYEES RETIREMENT SYSTEM OF TEXAS

The May 26, 2021 meeting of the ERS Board of Trustees was held by video conference call as authorized under Section 551.127 of the Texas Government Code, in accordance with the governor's authorization concerning suspension of certain open meeting law requirements in response to the COVID-19 (coronavirus) disaster. A quorum of members of the Board participated in the meeting remotely and will be visible and/or audible to the public.

TRUSTEES PRESENT
Craig Hester, Chair
Catherine Melvin, Vice-Chair
Brian Barth, Member
Ilesa Daniels, Member
James Kee, Member

INVESTMENT ADVISORY COMMITTEE (IAC) PRESENT
Bob Alley, Chair
Gene Needles, Vice-Chair
Caroline Cooley, Member
Laurie Dotter, Member
James Hille, Member
Milton Hixson, Member
Ken Mindell, Member

ERS DIRECTORS PRESENT
Porter Wilson, Executive Director
Catherine Terrell, Deputy Executive Director
Bernie Hajovsky, Director of Enterprise Planning Office
Cynthia Hamilton, Acting General Counsel
Robin Hardaway, Director of Customer Benefits
Diana Kongevick, Director of Group Benefits
Machelle Pharr, Chief Financial Officer
Gabrielle Schreiber, Director of Procurement and Contract Oversight
DeeDee Sterns, Director of Human Resource
Kathryn Tesar, Director of Benefits Communications
Tom Tull, Chief Investment Officer
Keith Yawn, Director of Strategic Initiatives

ERS STAFF PRESENT
Georgina Bouton, Group Benefits
Carlos Chujoy, Investments
Kelley Davenport, Executive Office
Christi Davis, Customer Benefits
Pablo de la Sierra Perez, Investments
Blaise Duran, Group Benefits
Peter Ehret, Investments
Richard Inzunza, Investments
Tiffani Jenkins, Benefits Communications
Lanesia Jones, Investments
Ricky Lyra, Investments
Betty Martin, Investments
Bruce Marton, Information Systems
Michael Miller, Investments
Jamey Pauley, Executive Office

Tim Reynolds, Investments
Tanna Ridgway, Investments
Tom Roberts, Investments
Bob Sessa, Investments
Leighton Shantz, Investments
Ryan Wilkinson, Investments

VISITORS PRESENT
Sam Austin, NEPC
Diell Bakalli, CBRE Caledon
Phil Dial, Rudd and Wisdom, Inc.
Stuart Greenfield, self
Assif Hussain, CBRE Caledon
Michael Malchenko, NEPC
Richard Whymark, AV Vendor
Ben Wylie, AV Vendor

Call to Order the Joint Meeting of the ERS Board of Trustees and Investment Advisory Committee

1. Call Meeting of the Board of Trustees to Order

Mr. Craig Hester, Chair of the Board of Trustees (Board) for the Employees Retirement System of Texas (ERS), called to reconvene with the Investment Advisory Committee (IAC) to take up the following Joint Meeting of the Board of Trustees and Investment Advisory Committee agenda items.

A public notice of the ERS Board of Trustees containing all items on the proposed agenda was filed with the Office of the Secretary of State at 11:09 a.m. on Monday, May 17, 2021 as required by Chapter 551, Texas Government Code, referred to as "The Open Meetings Law".

2. Call Meeting of the Investment Advisory Committee to Order

Mr. Bob Alley, Chair of the IAC for ERS, called the meeting to order and read the following statement:

A public notice of the ERS Investment Advisory Committee containing all items on the proposed agenda was filed with the Office of the Secretary of State at 11:09 a.m. on Monday, May 17, 2021 as required by Chapter 551, Texas Government Code, referred to as "The Open Meetings Law".

3. Review and Approval of the Minutes to the March 10, 2021 Joint Meeting of the Board of Trustees and Investment Advisory Committee – (Action)

Mr. Bob Alley, IAC Chair, opened the floor for a motion on the approval of the minutes from the March 10, 2021 Joint Meeting of the Board of Trustees and Investment Advisory Committee.

The IAC then took the following action:

Motion made that the Investment Advisory Committee of the Employees Retirement System of Texas approve the minutes of the Joint Meeting of the Board and IAC held on March 10, 2021.

Motion by Ken Mindell, seconded by Lauri Dotter
Final Resolution: Motion Carries
Aye: Robert G. Alley, Gene Needles, James R. Hille, Milton Hixson, Ken Mindell, Caroline Cooley, Lauri Dotter

The Board of Trustees then took the following action:

Motion made that the Board of Trustees of the Employees Retirement System of Texas approve the minutes of the Joint Meeting of the Board and IAC held on March 10, 2021.

Motion by James Kee, seconded by Catherine Melvin
Final Resolution: Motion Carries
Aye: Ilesa Daniels, James Kee**,** Craig Hester, Brian Barth, Catherine Melvin,

There were no questions or further discussion.

4. Review and Discussion of the Incentive Compensation Plan

Ms. DeeDee Sterns, Director of Human Resources, and Mr. Jamey Pauley, ICP Program Specialist, presented the review and discussion of the ERS Incentive Compensation Plan (ICP) for Plan Year 2022.

Mr. Porter Wilson, ERS Executive Director, explained that this item was being brought before the Joint meeting to solicit insight and expertise from IAC members who have experience with incentive compensation.

Ms. Sterns stated that this is an informational item and not an action item.

Ms. Sterns reminded the Board that staff provides an ICP overview each year during the May Board meeting and that a draft of the plan document is provided with any recommended changes for the upcoming plan year. Ms. Sterns also stated that the final plan document will be presented in August for the Board's approval. The plan must be adopted before the new fiscal year that begins September 1.

Mr. Pauley reviewed the primary objectives of the plan and then provided a general overview of various key features of the plan.

The changes recommended for next year are to certain maximum incentive award percentages in appendix A of the plan document. The recommended changes are based on a recent market compensation study conducted by ERS and will align the plan more closely to a peer universe of public pension systems.

Responding to questions, Mr. Pauley said that the one, three, and five year performance periods are weighted 33%, 33%, and 34% respectively. He also explained that plan participants must be active ERS employee on the day of the payment, in order to receive the payment.

Mr. Pauley indicated that there were 17 participating funds from across the country – including five local funds within Austin.

Mr. Wilson added that staff would be providing additional information to the Joint members in the coming weeks and at the August Board meeting regarding the benchmarks used for ICP.

Mr. Hille indicated his appreciation to Mr. Wilson for including the IAC in the presentation and said he thinks the committee will have some material input going forward.

There were no additional questions or further discussion, and no action was required on this item.

5. *Review of the Investment Performance for 1st Quarter of 2021 and Risk Update

Mr. Tom Tull, ERS Chief Investment Officer, Mr. Carlos Chujoy, ERS Director of Risk Management and Applied Research, and Mr. Sam Austin and Mr. Michael Malchenko, NEPC, presented the Investment Performance Review for the first calendar quarter of 2021.

Mr. Austin stated that the total fund generated a return of 4.9%, compared to the policy benchmark of 3.3% calendar year to date, with a total excess return of 1.6%. That put ERS in the 9th percentile of its peer universe. He noted that this outperformance was done with a rising tracking error of 2.38% from a low point of 1.63% as of March 31, 2020. Mr. Austin commented that ERS' 5 yr. Sharpe - ratio of 1.27% and 5 yr. Sortino ratio of 1.30% were in the top 10th percentile of ERS' peers.

The market value of the Trust at the end of the March 31, 2021 was $32.02 billion, which includes a $1.507 billion investment gain in the first calendar quarter of 2021.

Mr. Austin noted that Global Public Equity and Global Credit were the biggest contributors of the portfolio. No sectors detracted from performance.

Mr. Austin stated that the risk-reducing portion of the portfolio is 16% and the return seeking is 84%, compared to 82% last year.

Mr. Malchenko presented total fund performance noting that the Fund outperformed its benchmark for the 1-, 3-, 5-, and 10-year periods and that active management showed benefits for the Plan. He noted the total fund outperformed its benchmark by 3.3% for the year.

Dr. Kee raised concerns regarding the comment "extraordinary return". He stated that the Fund is underweight in international equities relative to the benchmark and he believes it explains some of the performance.

Mr. Malchenko responded that equities did have extraordinary returns in the past year with domestic equities, 62.9% in one year and international equities returning 55.2%. He further explained that the term "extraordinary return" comment was in reference to risk assets, and the 34.3% return for the 1 year total fund performance.

Mr. Malchenko stated that the long-term public index is completely public markets, being made up of 79% public equities and 21% intermediate treasuries.

Mr. Malchenko stated for the three-year period ending March 31, 2021, the return of 8.94% outperformed the benchmark by 0.73%. For the five-year period, the Fund returned 9.79% outperforming the policy benchmark, as well as the actuarial rate of return. On a risk-adjusted basis, the Fund's Sharpe ratio and the Sortino ratios (measures of risk-adjusted returns) outperformed their benchmark and were in the near top percentile indicating that active management benefited the Plan. The Fund performed on a risk-adjusted basis better than 90% of 83 funds within its peer universe.

Ms. Cooley asked if the peer analysis could be included in the table for viewing in the future. Mr. Austin stated that the data for peer analysis is not available in time enough to be included in the written presentation. He added that the final data comes out several days before the meeting.

At the beginning of the year, the trust value was $30.9 billion. There were benefit payments of around $3.3 billion, and investment earnings of about $1.5 billion.

Mr. Malchenko explained that the Plan has a negative net cash flow. While this is normal for most plans, it is something that NEPC monitors. He noted that the net cash flow out is over the long-term around $1.4 billion a year (around a -4%). Despite the $1.4 Billion outflow, Trust assets are growing and are now greater than the pre-pandemic level.

He commented that Global Public Equity and Private Equity are overweight as part of the risk posture staff has taken in the Portfolio.

Mr. Mindell asked if the performance helped the funding ratio and if so how much did it help.

Mr. Malchenko stated that NEPC does not have the current numbers, but NEPC speculates it did help reduce the unfunded liability.

Mr. Wilson added that there is no funding ratio report available at the end of quarter, but it is reported in odd number years. He stated that on February 28, 2021 the funding ratio was 66%. That does not include the March 2021 performance which reports a five-year rolling average.

For the calendar year returns, all asset classes are within compliance on all policy targets. Mr. Malchenko noted some asset classes are underweight, because of drawdowns and capital calls. These assets, like Infrastructure, are offset by risk seeking assets in public equity and private equity.

Ms. Chujoy started with a composition of the Risk team showing an average of 17 years of experience. He noted there is a vacancy for an investment analyst.

Mr. Chujoy stated that the 1st quarter headwinds were higher inflation expectations, COVID-19 mutations, rising bond yields, and concerns about market valuations, hedge fund issues, and corporate taxes.

He stated that the tailwinds were COVID-19 vaccinations, broadening of asset participation, global PMI's on the rise, and the $1.9 trillion federal relief package.

Mr. Chujoy explained that break-even-rates continue to rise implying there was a change in inflation expectations. Inflation rate expectations have been on the rise since June 30, 2020.

Mr. Chujoy explained that some market segments such as tech innovation stocks, clean energy, and electric vehicles which had performed strongly and reflected speculative type behavior, experienced large drawdowns during spikes in pricing of interest rate volatility.

The yield curve has been steepening over the past year. He noted that the year to date returns in the different asset classes showed long duration bonds were impacted due to yields rising. Mr. Chujoy stated that across asset classes, the increase in economic growth and higher inflation expectations translated in real estate outperformance, while fixed income assets delivered one of the worst quarters in years.

Mr. Chujoy stated that all asset class allocations were well within policy guidelines. The portfolio tracking error remains within policy guidelines, with the exception of Fixed Income, which reported a breach of tracking error limit during the March 2021 joint meeting. He noted that the measurement breach will roll off over the next 36-month period.

Mr. Chujoy gave an overview of the ERS Risk Survey provided by the Risk team. The purpose of the survey was to gauge sentiment and risk views on a variety of areas from each asset class.

The survey found there were concerns regarding interest rates, the pandemic, and valuation within the Investment team. The internal survey also showed that ERS' views valuation levels to be high on public equities, credit, rates and private equity.

Dr. Kee asked how many years of data were collected for the study for rising rates and the impact of these rates on asset classes. Mr. Chujoy stated the study covered about 23 years of data.

Mr. Tull commented that in regards to valuations being high, the Investment team has recently begun to harvest some gains in the public equity sector and noted that the team is always carefully entertaining the sale of selective private equity investments in the secondary market.

Mr. Hille asked if there is anything in the analysis regarding the volatility of the US dollar and if that leads to taking any action in non-dollar assets. Mr. Chujoy responded that the team has not explored currency volatility or currency management.

Mr. Greenfield, a member of the public, commented that he feels ERS should invest solely in the Standard & Poor's Index as the market has less risk than the risk that ERS is undertaking.

There were no additional questions or further discussion, and no action was required on this item.

6. *Review and Discussion of Fixed Income

Mr. Leighton Shantz, Director of Fixed Income, presented an update on the Fixed Income Program.

The ERS Fixed Income team has many years of combined experience.

The Fixed Income Portfolio is comprised of the risk-reducing Rates Portfolio and the return-seeking Credit Portfolio.

Mr. Shantz stated that the benchmark for Rates is the Bloomberg Barclays Intermediate Treasury Index comprised of 1-10 year securities and Credit's benchmark is the Bloomberg Barclays 2% Issuer Capped, Cash Pay, and U.S. High Yield Index.

Fiscal year to date the Rates portfolio is down -181 basis points and one-year returns are down -90 basis points. Both are positive relative to the benchmark by +10 and +36 basis points respectively. He noted that the larger magnitude of the 1-year outperformance is due to the timing of the COVID-19 pandemic, which started around March 2020. For the three-year period Rates are up 390 basis points per year.

Mr. Shantz went on to say that the Credit portfolio is up 1,339 basis points fiscal year to date and up 2,676 basis points for the 1-year period. Both are unusually large for the asset class and is a result of the recovery from the COVID-19 induced sell-off beginning in March 2020.

The Rates portfolio has a policy tracking error maximum of 100 basis points and the Credit portfolio 300 basis points. As of March 2021, Credit's tracking error was 314 basis points but a large portion of that is due to its private market holdings which are marked with a delay.

He stated that the reported policy tracking error is a 3-year rolling number, therefore it will likely remain above the limit until May 2023, when first quarter 2020 private market returns roll-off. He reiterated this is a measurement issue and that the management of the Fixed Income portfolio has not changed.

Mr. Shantz commented to the Board that eternal credit investments are a mix of structured credit, distressed, direct middle market origination, and real estate related investments. Generally, external credit assets have higher expected returns and risk than internally managed ones.

Mr. Shantz explained that the intention of the two different asset allocations is that both mandates have positive expected returns, but tend to have negative correlations in crises. When one portfolio is doing well, the other is not, to ensure that the total returns of the trust are appropriate to meet the objectives.

Review of the Securities Lending Program

Mr. Shantz explained that the goal of the Securities Lending program is only to lend securities that are on "special" (currently the Federal Reserve's Overnight Bank Funding Rate plus 41 basis points) in order to produce a high-risk adjusted return rather than to maximize income. To reduce risk, ERS tightly controls the cash collateral posted for margin to only overnight government repurchase agreements, eliminating gap and credit risk. He stated that an external securities lending agent runs the program.

The agent indemnifies the Trust against both borrower's failure to return assets and collateral losses, as long as it is invested in overnight government repos and that the market's perception of the agent's credit is watched closely to further manage risk.

Mr. Shantz stated that the lending agent's Credit Default Swap (credit Insurance in the form of a derivative contract) spread was 150.3 basis points in March 2020, and 170.3 basis points in April of that year, but subsequently fell to 55 basis points as of the end of March 2021, implying approximately a 1% one year probability of default. He stated that the team considered reducing lending in March 2020 but did not, and staff is comfortable with the credit risk at this time.

Fiscal year-to-date the program earned $1.2 million in revenue, which is the lowest amount since the program's restructure in 2011. He stated the primary reason for the lower revenue is that the demand to borrow securities has declined, and the Federal Reserve cutting rates reduced collateral revenue.

Mr. Shantz commented that the cumulative program revenue year to date is up to $49 million. Majority of the revenue is from rebates. He stated that the current environment has not been conducive to earning a high amount of revenue, but staff continues to run the program in a proactive and risk adverse way.

Staff believes the program is performing as it should and staff is not recommending any changes to the program and does not believe it is warranted to assume more risk to obtain more revenue.

Mr. Hester asked if the short end of the market, (short end of the curve T-bills and Rates) six months to a year were negative, and if of the treasury balances being released from the Federal Reserve were pressuring the short end of the market.

Tom Roberts responded that T-bill rates have been just below zero. He added that expectation is that the Federal Reserve will address this with a technical adjustment at the next meeting or they will increase the interest on excess reserves by 10 basis points, as well as the overnight repo rate to adjust those forward. He commented that the issuance in T-bills increased in preparation for fiscal spending, causing the need for future options in the T-bill space to diminish. This caused more demand than supply driving yields below zero.

There were no questions or further discussion, and no action was required on this item.

7. *Review, Discussion and Consideration of Private Infrastructure – (ACTION)

Mr. Pablo de la Sierra Perez, Director of Infrastructure, Mr. Ryan Wilkinson, Infrastructure Portfolio Manager, and Mr. Asif Hussain, CBRE Caledon, presented the Review, Discussion and Consideration of Private Infrastructure.

Mr. de la Sierra Perez showed the Infrastructure's team organizational chart. He noted that Michael Miller joined the team in the summer of 2019. The team will be seeking an approval for an analyst during Fiscal Year 2022.

Mr. de la Sierra Perez stated that since inception the portfolio has made $2.38 billion in commitments in 20 funds and 26 co-investments. The net asset value of the portfolio is above $1.2 billion, representing around 3.8% of the Trust.

He explained that the portfolio includes three legacy assets assigned to the Infrastructure portfolio upon creation eight years ago. The portfolio, as of March 31, is generating 1.14 times total value to be paid in capital. The portfolio has 0.36 distributed to paid in capital, and is showing an IRR of 4.93%, which places the portfolio on the positive side of the J curve and advancing towards maturity.

Mr. de la Sierra Perez stated that the portfolio, as of March 31, had $1.08 billion in unfunded commitments adjusted for currency. He noted that the benchmark is CPI plus 400 basis points, or 4%. During Fiscal Year 2020, the portfolio made $414 million in commitments versus its $450 million target, despite the difficulties throughout the year and the restrictions due to the pandemic.

For Fiscal Year 2021, the target is $475 million with $305 million already committed as of March 31. He commented that the team expects to make an additional $175 to $275 million in commitments before the end of the fiscal year.

Mr. de la Sierra Perez stated the key theme of the program is to deploy capital efficiently. The team is seeking to create and seed new funds and new managers, and partner with similar investors.

Ms. Cooley asked what how the team's current investment approach differs from when the underperforming legacy assets were added to the portfolio. Mr. de la Sierra Perez responded that the legacy assets were three power plants in Texas added to the portfolio in the special situations asset class, and later transferred to the infrastructure asset class. While the team continues to invest in the power sector, they are closely monitoring developments in the Texas energy market.

Mr. Wilkinson added that two other large sectors of the portfolio are Telecom and Digital Infrastructure. He commented that the team believes the portfolio is very diverse and has balanced investments across energy, utilities, transportation logistics, and small allocations to shipping and social infrastructure. He went on to say that investing in Greenfield, or new construction, has been one way the team seeks to add relative value.

Mr. de la Sierra Perez said that the portfolio does not have nuclear assets or coal, but the portfolio does hold renewables such as wind, solar, and cleaner fossil fuels like natural gas.

In response to a question from Ms. Cooley, Mr. de la Sierra Perez explained that the Social sector is a form of concession for facilities such as courthouses or health care facilities that have an investor manage the infrastructure side of the facility while the government or tenant runs the day to day business operations (judges, doctors, etc.). It is different from a real estate investment, as in most infrastructure there is a maintenance and an asset management component. He explained that there is a set of Key Performance Indicators for a number of functions the facility has to perform that is more in depth as a piece of infrastructure.

Mr. Wilkinson added that the operational intensity is quite different for Infrastructure versus Real Estate.

Dr. Kee questioned if the portfolio lacked coal or nuclear because of a lack of attractive opportunities in that area.

Mr. de la Sierra Perez responded that for the last few years coal has not been an attractive space to be in, as it is expensive to build and operate coal plants. He explained that with nuclear there are much less opportunities, and even if the team found the right opportunity it would be an issue evaluating the risk.

Mr. Mindell asked how much of the portfolio is international versus domestic.

Mr. Wilkinson responded that about 25% of the portfolio is in emerging markets, and that it can vary widely across sectors. He added that a lot of renewable and power are in emerging markets, as well as some transportation in countries like India and Latin America.

Mr. de la Sierra Perez stated the U.S. represents 49.6% of the portfolio as of March 31 and the remaining is international and it is well diversified. He added that the next largest country exposure in the portfolio is Chile, being approximately 7%.

Mr. Wilkinson explained that despite the difficulties over the past 14 months, 2020 ended up a very solid year. He added that 2021 is also shaping up well with several deals in the near-term pipeline. If those deals are completed over the summer, the portfolio will increase 8% by the end of the fiscal year.

Mr. Wilkinson commented that the team has a strong focus on co-investment, which allows them to achieve improved economics and target assets that will fill specific needs in the portfolio. He went on to say the team has been very successful to date, with nearly 40% co-investments, and that will continue to be a key theme moving forward for the portfolio.

Mr. de la Sierra Perez stated year to date, the team has lowered costs about $52 million. The portfolio also shows an average management fee and carry of 0.86% and 12.1%, well below the market averages.

He commented that fundraising suffered significantly during 2020 dropping from $112 billion in 2019 to $98 billion, disrupting a growing trend. He added that another trend that appears to have been disrupted is the average fund size that is around $110 million compared to a bigger average size in 2019.

Mr. de la Sierra Perez reminded the Board that this is still a developing and growing asset class and the long term impacts of COVID-19, and changes in people's habits are still unknown.

He stated that the goals going forward are to continue to grow the portfolio towards a 7% allocation, to execute the tactical plan for FY21 and FY22, improve portfolio diversification, and to fill an analyst position in the next fiscal year.

Mr. Hussain stated that like other asset classes, Infrastructure's activity decreased significantly during the first few months of the pandemic, but he has seen activity rebound significantly to pre-pandemic days.

He went over many sectors that were impacted such as how the drop in oil prices last year impacted drilling and not only on the oil and gas side, but also on the midstream infrastructure projects as well.

Mr. Hussain stated that due to the pandemic the impact within transportation has been mixed, with projects suffering from significantly lower volumes, particularly volumes related to people moving through facilities like airports, and some projects with increased demand, such as shipping items to homes as everyone was at home and buying things online.

He stated that within digital infrastructure, there continues to be an increase in data volumes and communications, and the need for infrastructure associated with that, such as data centers, fiber networks, and cellular towers. This, combined with the rollout of 5G technology, will place even more importance on digital infrastructure over the coming years.

Mr. Hussain went over a couple of non-sector specific themes including governmental efforts to meet individual decarbonization goals; infrastructure initiatives to not only meet goals, but also to create jobs and promote investment in a post COVID-19 world; and U.S. discussions to pass legislation to promote anywhere between a $1 to $2.5 trillion dollar infrastructure spending bill.

Mr. Hussain commented that ERS is probably at the forefront when it comes to emerging markets, but that he is seeing more and more managers come to market to raise funds and capital for emerging markets given the increased demand and potentially attractive returns.

Ms. Dotter asked if the team anticipates that the allocation is going to remain somewhat stable, or if they plan to pursue more Greenfield. She asked them to discuss how they are controlling the risk in that allocation. She commented that some of the real estate funds that ERS invests in have limits put on the fund manager in terms of how much exposure they can have to development.

Mr. de la Sierra Perez responded that he believes that is definitely an area that is an efficient way of adding value to the portfolio, and that's why the team pursues it. He went on to say that the team works carefully to select managers that have experience and know how to control those risks. They also establish contractual frameworks that are protective or the owners and the shareholders.

He added that there are limits for Greenfield that each fund can invest in which vary based on the manager's experience and risk profile. He stated that is usually a limit established in the corresponding agreements.

Ms. Cooley asked if there are areas in ERS' existing portfolio that the team is concerned about such as airports or toll roads where revenue has dried up. She then asked if the team has seen any opportunities that have opened up because of greater capital needs directly related to the pandemic.

Mr. de la Sierra Perez responded that the team has not seen any immediate risks, but there could be long term impact. To date most lenders and governments have been willing to support airport infrastructure and airport owners. He said that less than 1% of the portfolio is in airports, therefore underperformance in that sector would have a very small effect on the portfolio.

<u>Review, Discussion and Consideration of Proposed Private Infrastructure Annual Tactical Plan for Fiscal Year 2022 – (ACTION)</u>

Mr. de la Sierra Perez stated that the tactical plan was prepared in partnership with consultants, CBRE Caledon, based on market and portfolio conditions and serves as a guideline for the team to follow during the fiscal year.

Mr. de la Sierra Perez stated that the plan approved in May 2020, was based on the Trust's value at that time. By May 2021, the Trust has increased significantly. Through March 31, the team has already committed $305 million in commitments with a target of $400-$600 million.

For this reason, the team is proposing to amend the current Fiscal Year 2021 Annual Tactical Plan to increase commitments to $475 million (including co-investments/direct investments) from the previous approved amount of $400 million with a commitment target range of +/- 30% ($332.5 million - $617.5 million).

Mr. de la Sierra Perez stated that for the 2022 Tactical Plan the team is proposing to invest in 3-6 investments with commitments totaling $450 million (including co-investments/direct investments) with a commitment target range of +/- 30% ($315 million-$585 million).

Mr. de la Sierra Perez stated that the team continues to seek to diversify the portfolio into core assets and emerging markets. Additionally, the team seeks to add new relationships focusing on investment efficiency, co-investments, and direct investments.

Mr. Mindell asked if the team believes this is enough for them to reach the allocation, even though there's volatility in the asset size of the Trust that's growing. Mr. de la Sierra Perez responded that the team is assuming a 3.5% Trust growth. He added that the Trust has grown at least 20% and the team thinks that the long-term assumptions are reasonable.

He stated that if for some reason the team has incorrectly estimated, they would have the opportunity to adjust the numbers and request the change, as the team is doing this year for the current fiscal year.

The IAC then took the following action:

Motion that the Investment Advisory Committee of the Employees Retirement System of Texas amend the approved ERS Private Infrastructure Program Annual Tactical Plan for Fiscal Year 2021, and approve the proposed Tactical Plan for Fiscal Year 2022 as presented in Exhibit B.

Motion by Laurie Dotter, second by Gene Needles
Final Resolution: Motion Carries
Aye: Robert Alley, Gene Needles, Caroline Cooley, Laurie Dotter, James R. Hille, Milton Hixson, Ken Mindell

The Board of Trustees then took the following action:

Motion that the Board of Trustees of the Employees Retirement System of Texas amend the approved ERS Private Infrastructure Program Annual Tactical Plan for Fiscal Year 2021, and approve the proposed Tactical Plan for Fiscal Year 2022 as presented in Exhibit B.

Motion by Brian Barth second by Catherine Melvin
Final Resolution: Motion Carries
Aye: Craig Hester, Brian Barth, Ilesa Daniels, Jim Kee, Catherine Melvin

There were no questions or further discussion on this item.

8. Investment Advisory Committee Member Recognition

Mr. Tom Tull, Chief Investment Officer presented the Investment Advisory Committee Member Recognition.

Mr. Tull recognized Dr. Laura Starks' service to the Board and the Employees Retirement System of Texas, and her past role as a member on the Investment Advisory Committee for approximately 30 years.

Mr. Tull stated that she continues to serve on the Texa$aver^{SM} Product Review Committee.

Mr. Tull noted that during her tenure the Trust's assets grew from $6.2 billion to $28.65 billion. Ms. Starks provided investment advice and expertise on asset allocation, investment policy, governance, and strategy that helped contribute greatly to the program's success.

Mr. Wilson and members of the Board expressed their gratitude toward Dr. Stark's contribution.

There were no questions or further discussion, and no action was required on this item.

9. Reminder date for next Joint Meeting of the ERS Board of Trustees and Investment Advisory Committee, the next Meeting of the Board of Trustees and the next meeting of the Audit Committee

The next meeting date is (Wednesday) August 25, 2021 and a two day workshop on (Tuesday - Wednesday) December 7 and 8, 2021.

There were no questions or further discussion, and no action was required on this item.

10. Adjournment of the Joint Meeting of the Board of Trustees and Investment Advisory Committee

The Joint meeting of the Board of Trustees and Investment Advisory Committee adjourned at 11:40 a.m.

There were no questions or further discussion, and no action was required on this item.