

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

August 25, 2021



Presented for Review and Approval

December 8, 2021

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

**ERS Building – 9th Floor Conference Center – Rio Grande Conference Room  
1836 San Jacinto Blvd, Austin, Texas 78701  
August 25, 2021 – 8:00 a.m.**

**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  
Tony Chavez, Director of Internal Audit  
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  
DeeDee Sterns, Director of Human Resources  
Kathryn Tesar, Director of Benefits Communications  
Tom Tull, Chief Investment Officer  
David Veal, Incoming Chief Investment Officer  
Keith Yawn, Director of Strategic Initiatives

**ERS STAFF PRESENT**

Adriana Ballard, Investments  
Anthony Curtis, Investments  
Blaise Duran, Group Benefits  
Carlos Chujoy, Investments  
Greg Magness, Internal Audit  
Jamey Pauley, Executive Office  
Jason Avants, Information Systems  
Jennifer Chambers, Executive Office  
Jonathan Puckett, Internal Audit  
Kelley Davenport, Executive Office  
Lanesia Jones, Investments  
Nile Stork, Information Systems  
Raquel Colon, Investments  
Ricky Lyra, Investments  
Tanna Ridgway, Investments  
Tom Rashman, Investments

Tressie Landry, Internal Audit

**VISITORS PRESENT**

Sam Austin, NEPC

John Claisse, Albourne

Neika Clark, Trustee-Elect, Health and Human Services Commission

Phil Dial, Rudd and Wisdom, Inc.

Tom Martin, Aksia TorreyCove

Richard Whymark, AV Vendor

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

### **6. 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 convene 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 11:42 a.m. on Monday, August 16, 2021 as required by Chapter 551, Texas Government Code, referred to as "The Open Meetings Law".

### **7. 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 11:42 a.m. on Monday, August 16, 2021 as required by Chapter 551, Texas Government Code, referred to as "The Open Meetings Law".

### **8. Review and Approval of the Minutes to the May 26, 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 May 26, 2021 Joint Meeting of the Board of Trustees and Investment Advisory Committee.

The IAC then took the following action:

**Move** 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 May 26, 2021.

Motion by Laurie Dotter, second by Ken Mindell

Final Resolution: Motion Carries

Aye: Robert G. Alley, Gene Needles, James R. Hille, Milton Hixson, Ken Mindell, Caroline Cooley, Laurie Dotter

The Board of Trustees then took the following action:

**Move** 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 May 26, 2021.

Motion by Catherine Melvin, second by James Kee

Final Resolution: Motion Carries

Aye: Ilesa Daniels, James Kee, Craig Hester, Brian Barth, Catherine Melvin,

There were no questions or further discussion on this item.

### **9. Introduction of Incoming Chief Investment Officer**

Mr. Porter Wilson, ERS Executive Director, introduced David Veal, incoming Chief Investment Officer. Mr. Veal will assume CIO duties on September 1, 2021, following the retirement of Tom Tull. He comes to ERS with significant experience, most recently as CIO for the City of Austin Employees Retirement System. Previous experience includes stints at the Teacher Retirement System of Texas, and at ERS.

## **10. Consideration of Opportunistic Credit Asset Allocation – (Action)**

Mr. Tom Tull, ERS Chief Investment Officer, showed a timeline of the Opportunistic Credit asset class to the Board. He noted that the asset class was approved in August 2017 and that in December 2018 the Board adopted the guidelines for the asset class.

Deployment of the asset class during Fiscal Years 2019 and 2020 was complicated by employee turnover and internal team restructuring, and constraints on due diligence due to the COVID-19 pandemic.

As a result of delays in deployment, the return opportunities had diminished. The investment division reviewed the asset class and internal resources and felt that the Fixed Income (Global Credit) team, which now has the expertise to do so, would better manage investments that are currently considered Opportunistic Credit.

Mr. Tull recommended that the Opportunistic asset class be eliminated as a separate asset class. The 3% allocation to Opportunistic Credit should instead be redistributed 2% into Fixed Income and 1% to Special Situations.

The IAC then took the following action:

**Move** that the Investment Advisory Committee of the Employees Retirement System of Texas eliminate Opportunistic Credit as an asset class and redistribute the current 3% allocation to Fixed Income at 2% and Special Situations at 1%.

Motion by Caroline Cooley, second by James R. Hille

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:

**Move** that the Board of Trustees of the Employees Retirement System of Texas eliminate Opportunistic Credit as an asset class and redistribute the current 3% allocation to Fixed Income at 2% and Special Situations at 1%.

Motion by Jim Kee second by Brian Barth

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.

## **11.\*Consideration of Asset Class Investment Committee Charter**

Mr. Tom Tull, ERS Chief Investment Officer, stated that the Asset Class Investment Committee Charter's purpose is to support the Board in fulfilling its oversight responsibilities in accordance with the ERS Investment Policy.

He explained the intent is to review the charter on an annual basis. Voting members of the ACIC are the Executive Director, Chief Investment Officer, a senior staff member of investments, and an IAC member per asset class. The non-voting members are investment consultants, an ERS attorney, and Investment Compliance.

Mr. Tull highlighted the duties of the ACIC, among them being the approval of investment strategies based on merits and providing expertise in the relevant asset class.

During Fiscal Year 2021, there were 37 ACIC meetings during which \$1.6 billion was committed to alternative investments.

Mr. Tull discussed that the proposed changes of the ACIC are to:

- remove the Opportunistic Asset Class
- clarify the role of non-voting ACIC members
- increase the threshold for approval via email from \$15 million to \$25 million
- increase management flexibility in time-sensitive investment opportunities
- add a process for compliance with Texas Government Code 815.3015

The IAC then took the following action:

**Move** that the Investment Advisory Committee of the Employees Retirement System of Texas approve the Asset Class Investment Committee Charter.

Motion by Ken Mindell, second by Laurie Dotter

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:

**Move** that the Board of Trustees of the Employees Retirement System of Texas approve the Asset Class Investment Committee Charter.

Motion by Brian Barth second by Jim Kee

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.

## **12. \* Consideration of ERS' Investment Policy – (ACTION)**

Mr. Tom Tull, ERS Chief Investment Officer, presented the ERS Investment Policy for review, which is required annually.

The Investment Policy Statement is intended to ensure that the Board's investment objectives and constraints are clearly communicated for managing Trust assets.

During the annual review process, staff recommends changes to the Investment Advisory Committee and Board and seeks to:

- Align the IPS with new strategic decisions such as strategic asset allocation parameters, performance benchmarks, and risk limits.
- Reflect changes in business processes and organization of the ERS investment program.
- Maintain a "principles based" policy that is practical and understandable for the reader.

The proposed changes are:

1. Chapter IV: Asset Allocation; B. Transition of Assets
  - a) Removes Opportunistic Credit as an independent asset class and calculation methodology for purposes of Total Fund benchmark calculation.
  - b) Clarified Special Situations to state that any potential investment (in Special Situations) not aligned with an asset class included in this Policy shall require approval by an ACIC. Special Situations investments may be considered for permanent inclusion in an established asset class upon the recommendation of the CIO and approval by the ACIC of the asset class in which the investment will be included.

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

- a) Clarifies that a security, for pre-clearance for personal transactions does not include open-end mutual funds, closed-end funds, ETFs, or derivatives linked to the performance of any of the foregoing: currencies, physical commodities, U.S. Government obligations and debt, or direct investments in digital assets or cryptocurrencies.

3. Addendum V: Insider Trading and Confidentiality Policy

- a) Definition of restricted list - ERS covered persons are prohibited from trading either on behalf of the portfolios or in their personal accounts due to possession of material non-public information and clarification of protocol in determining if a security should be placed on the restricted list.

The change in the addendum added that when a "Covered Person" believes that he or she has received material, non-public information related to a security, the Covered Person should immediately contact their supervisor, Investment Compliance, or the Director of Investment Operations to determine if the security should be placed on the Restricted List. The change in the addendum also added that "Restricted List", means a list of securities for which ERS may possess material non-public information. The Restricted List will be maintained by Investment Operations staff and updated promptly when Covered Persons are in receipt of material non-public information. Staff will review the list periodically and may include any other securities which ERS determines could result in the appearance of impropriety or a conflict of interest. The CIO retains discretion in determining when to add issuers to and remove issuers from the list.

Proposed changes were reviewed in collaboration with the Executive Office, Investments, and the Office of the General Counsel.

The IAC then took the following action:

**Move** that the Investment Advisory Committee of the Employees Retirement System of Texas approve the Investment Policy Statement.

Motion by Milton Hixson, second by Caroline Cooley

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:

**Move** that the Board of Trustees of the Employees Retirement System of Texas approve the Asset Class Investment Committee Charter.

Motion by Catherine Melvin second by Brian Barth

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.

**13. Consideration of the ERS Incentive Compensation Plan for Investment Professionals and Leadership Employees – (Action – Board Only)**

Director of Human Resources, DeeDee Sterns, and ICP Compensation Program Specialist, Jamey Pauley, gave the required annual update on the ERS Incentive Compensation Plan (ICP) for ERS investment professionals and leadership employees. After discussion about the benchmarks against which performance is measured, the Board approved the recommended changes to the plan and plan document.

### **Staff Action Items**

1. Mr. Wilson indicated that, after the ICP awards are determined for Plan Year 2021, staff can plan to present to the Board and IAC how the investment teams performed relative to their benchmarks.
2. Mr. Hester suggested that the Board request that the new Chief Investment Officer, David Veal, take a look at the current benchmarks and determine whether or not they are appropriate and to report back to the Board.

The Board of Trustees then took the following action:

**Move** that the Board of Trustees approve the ERS Incentive Compensation Plan for Fiscal Year 2022 as presented and attached as Exhibit A.

Motion by James Kee, second by Ilesa Daniels

Final Resolution: Motion Carries

Aye: Brian Barth, Ilesa Daniels, Craig Hester, James Kee, Catherine Melvin

### **14. Review of 87th Legislative Session**

Porter Wilson, Executive Director, and Jennifer Chambers, Director of Governmental Affairs, provided the Board of Trustees an overview of the 87<sup>th</sup> Legislative Session. ERS tracked over 200 pieces of legislation that impact ERS members, benefits programs or operations.

The presentation provided a high-level overview of certain legislation with an impact to ERS. Specifically, House Bill 917, which will allow an ERS retiree to run as an elected member to the ERS Board of Trustees beginning with the 2023 election.

Legislation also passed which constrains statewide pension plan investments in certain companies, and adds contracting provisions.

The General Appropriations Act maintained Texas Employee Group Benefit Program (GBP) funding levels for state employee, retiree and dependent health coverage. Other GBP related legislation included Senate Bill 827 which limits member cost share for insulin and Senate Bill 1065 which requires ERS to cover more robust diagnostic imaging services for breast cancer detection.

Legislation that impacts the state retirement program includes Senate Bill 1071 relating to occupational disability retirements for state employees.

The major bill of the session for the retirement program is Senate Bill 321, introduced to return the ERS pension plan to actuarial soundness. The legislation stabilizes current and future ERS plan retirement benefits by establishing an annual Legacy Payment Schedule to address the current unfunded actuarial liabilities. It also creates a cash balance defined benefit plan referred to as Group 4, for new state employees starting on or after September 1, 2022. The SB 321 Legacy Payment fully pays down the current unfunded liability within 33 years while the new Group 4 Cash Balance benefit structure reduces the risk for the state accruing new unfunded liabilities. Cash balance benefit plans are a well-established type of benefit that has existed at the Texas County and District Retirement System and Texas Municipal retirement System for many decades. The new Group 4 Cash Balance benefit will have a reduced employee contribution rate, a 5-year vesting period, an enhanced benefit for law enforcement and correctional officers, a guaranteed annual interest credit and the potential for gain sharing for active employees and future retirees in years with positive investment returns over a 4% threshold.

The chair asked questions related to the Group 4 implementation timeline and the impact to the agency.

Trustees and IAC members asked various questions related to the impact on the emphasis on investment return performance, details of the investment return assumption utilized and how actuarial testing was performed during the development of the Cash Balance benefit structure. Mr. Wilson and Ms.

Chambers explained the various assumptions and processes used by the external actuaries and internal ERS staff during the legislative process.

Trustees and IAC members discussed the importance of clearly communicating the difference in benefits between Groups 1, 2, and 3 members and retirees and future Group 4 members and retirees.

Chairman Hester shared his appreciation to ERS' external actuaries, Joe Newton and Ryan Falls with Gabriel, Roeder, Smith and Company, and all the ERS staff for their work on SB 321. Additionally Chair Hester expressed gratitude to the SB 321 bill author, sponsor, and legislative leadership for their work and commitment to this significant legislation addressing the longevity and stability of the state employee pension plan.

### **15.\*Review of Investment Performance for the 2nd Quarter of 2021 and Risk Update**

Mr. Tom Tull, Chief Investment Officer, Mr. Carlos Chujoy, Director of Risk Management, Mr. Sam Austin, NEPC, presented the investment performance for the second calendar quarter of 2021.

Mr. Austin stated that three-year tracking error increased to 2.45% as of June 2021 from 1.38% in the last quarter showing that ERS added more risk. A Sharpe Ratio of 1.43 puts ERS in the 12<sup>th</sup> percentile of public funds greater than a billion dollars for risk-adjusted returns over this period.

The largest contributors of the quarter were Private Equity (+1.6), Total Global Credit (+0.2%) and Private Real Estate (+0.2). The largest detractor for the quarter was Global Public Equity (-0.1).

Mr. Austin stated that for the year ended June 30, 2021, the Fund outperformed the policy benchmark by 9.1%. Private Equity contributed +4.3%, Global Credit contributed +1.2%, Private Real Estate contributed +1.0%, and Absolute Return contributed +0.9% to returns vs. the policy benchmark.

The fund's assets increased from \$27.4 billion to \$33.9 billion in the calendar year, which includes a \$7.83 billion investment gain in the calendar year and a \$2.22 billion investment gain in the second calendar quarter of 2021.

For the five-year period ended June 30, 2021, the Fund returned 10.98% and outperformed the policy benchmark by 1.30%. On a risk-adjusted basis, the Fund's Sharpe and Sortino Ratios outperformed the benchmark. Both ratios indicate that active management benefitted the plan. Both the three year and five year Fund returns have outperformed the actuarial rate of return of 7%.

Mr. Austin discussed that the net cash outflow in the Portfolio has continued to rise and is a concern when the number exceeds 4%. ERS' net cash outflow was 4.84% as of June 30, 2021.

Mr. Austin commented that all asset classes' allocation have increased, with the exception of Rates, which has decreased from 12.7% as of June 2020 to 9.6% as of June 2021. Global Public Equity, a return seeking asset class, has risen from 38.8% to 41.2% of the Trust as of June 2021.

Over the past 10 years, the Total Fund returns outperformed the policy benchmark by 60 basis points (0.6%) and outperformed the plans actuarial rate of return of 7.0%.

Mr. Austin clarified to the Board the Private Equity benchmark and explained the reasons for the excess returns relative to that benchmark.

Mr. Tull added that part of the excess return was due to some catch up and that the Global Financial Crisis gave the private equity asset class the ability to take advantage of the opportunities. Some returns were four to six times more than the initial investment.

Mr. Chujoy highlighted major headwinds during the quarter including concerns about higher inflation expectations and higher interest levels; concerns that prompted investors to shift their views about the timing of future interest hikes and leading to portfolio reallocations.

Tailwinds include the continuation process and rate increases expected far out into the future resulting in continued prosperity.

The Heat Map Global Stress Indicators chart shows that despite the state of flux in the markets, the global stress financial indicator remained calm.

Mr. Chujoy presented an analysis of portfolio diversification designed to determine whether a different portfolio allocation would have benefitted the Trust. The research showed that although investing in a single asset class such as the S&P 500 would have resulted in the best performing allocation, it would have performed the worst in terms of drawdowns (losses) as compared to an investment in bonds, a 60/40 (equity/bonds) portfolio or a multi asset class portfolio such as that of ERS. For the past 20 years, the ERS portfolio has delivered results superior to a domestic 60/40 portfolio using a global multi-asset class approach that is structured to take advantage of a larger opportunity set.

Lastly, Mr. Chujoy discussed how international markets have gained considerable importance relative to domestic markets in terms of economic growth and market capitalization and have become a source for new investment opportunities.

Mr. Chujoy noted that there is a strong relationship between S&P 500 asset performance and liquidity. When the team sees a deceleration, in economic growth, it serves as a signal to become more cautious and the risk team would advise the CIO to entertain a more defensive stance for the Fund.

#### **16. Consideration of Hedge Funds – (Action)**

Mr. Anthony Curtiss, Director of Hedge Funds, and Mr. John Claisse, Albourne America, presented for the annual review of Hedge Funds.

Mr. Curtiss noted that Andrew Moore is a new addition to the team.

Since inception of the program, Albourne America Partners has served as the asset class consultant. Mr. Curtis stated the team oversees \$2.1 billion in assets, with two thirds from the Absolute Return Portfolio. The objectives of the portfolio is to outperform the T-Bills+350 return of the benchmark, maintain a beta to the Trust of 0.40 or lower, maintain a standard deviation target of 4% to 8%, and operate with low correlation to the Trust.

Mr. Curtis highlighted that the portfolio:

- Has an annualized return since inception of 6.53% versus +4.64% for the benchmark
- Has a Beta to the Trust of 0.35
- Has a current standard deviation (volatility) of 3.2%
- Has a correlation to the Trust of 0.73
- Has positive historical monthly performance 80% of the time

Mr. Curtis went over the different strategies of the portfolio and their characteristics. He stated that the majority of the portfolio is invested in relative value (28.2%) and event driven strategies (27.4%). Targeted ranges are well within policy range and no adjustment are needed at this time.

Mr. Curtis noted that over 70% of the portfolio is allocated to North America and Europe, with 15 holdings, and 90% of the assets are considered Core relationships. He said that Liquidity remains a focus and approximately 73% of the portfolio can be redeemed in 12 months. The portfolio successfully serves as a diversifier to the trust in times of stress.

Mr. Curtiss responded that some of the return is due to manager selection, and two multi-strategies that contributed to the return of the portfolio. Overall, the relative outperformance on sole the investment remain exceptionally strong and has met internal objectives. The absolute performance has been strong while providing for attractive risk reward characteristics, and the portfolio is able to outperform continually while maintaining beta and correlation guidelines.

Mr. Curtiss provided an overview of the proposed Fiscal Year 2022 Tactical Plan. He stated that the Absolute Return portfolio currently makes up approximately 5% of the Trust's assets and the target allocation remains at 5%, but there is further flexibility given the allowable strategy band of 0-10%. The focus remains on strategies within developed markets that are either liquid or illiquid. The goal is to have up to five new investments during FY22. Opportunities reside in the event driven, global macro, relative value, and opportunistic strategies with emphasis on diversifying strategies to complement existing allocations.

The IAC then took the following action:

**Move** that the Investment Advisory Committee of the Employees Retirement System of Texas Approve the Proposed Hedge Fund Tactical Plan for Fiscal Year 2022.

Motion by Ken Mindell, second by James R. Hille

Final Resolution: Motion Carries

Aye: Robert G. Alley, Gene Needles, Ken Mindell, James R. Hille, Milton Hixson, Laurie Dotter, Caroline Cooley

**Move** that the Board of Trustees of the Employees Retirement System of Texas Approve the Proposed Hedge Fund Program Tactical Plan for Fiscal Year 2022.

Motion by Jim Kee, second by Ilesa Daniels

Final Resolution: Motion Carries

Aye: Craig Hester, Brian Barth, Ilesa Daniels, Jim Kee, and Catherine Melvin

There were no questions or further discussion on this item.

#### **17. Consideration of Private Equity – (Action)**

Mr. Ricky Lyra, Director of Private Equity, Adriana Ballard, Portfolio Manager, Tom Rashman, Portfolio Manager, and Mr. Thomas Martin, Askia Torrey Cove, presented for the annual review of the Private Equity asset class.

Mr. Lyra gave a team update and highlighted the new addition, Mitch Holtz, to the team.

The Private Equity portfolio has committed \$800 million dollars for FY21 as of June 30, 2021 and expects to close on a few more deals by the end of the fiscal year to bring the total to \$865 million.

Approximately \$1 billion in capital was called (money was deployed towards Private Equity). Over \$1.2 billion dollars were returned back to ERS in Sept 2020 and June of 2021. The team expects to close FY 21 with \$1.6 billion in distributions.

The net asset value in the market grew by \$1.4 billion from \$4.5 to \$5.9 billion in June 2021 with the majority of the growth coming from value growth, not new investments.

All of the growth has increased Private Equity's overall participation to 17.4% of the Trust. The long-term target is 13% of the Fund plus or minus 5%.

The allocation to buyouts, which is the largest in the private equity portfolio, grew by 52% in value and secondary funds delivered growth of 38%.

Mr. Lyra explained that taking advantage of market volatility, the team identified opportunistic investments that delivered quick value growth mitigating the J-Curve effect for fiscal year to date commitments and investments.

Mr. Rashman gave a market update stating that as seen in public markets, valuations have returned to or exceeded pre-COVID-19 levels and that fundraising for Private Equity has grown strong in 2021. Within the first quarter \$188 billion was raised globally, a 16% increase from Q1 2020.

Mr. Lyra explained that not only is the portfolio performing well but also that it is allocated well and has a healthy exposure to risk. Staff believes that the Private Equity asset class is positioned to do well in the future.

Mr. Lyra discussed the team's efforts to limit the cost associated with the portfolio including management fees, carried interest and profit sharing.

Ms. Ballard presented the diversification metrics of the portfolio showing that the portfolio is invested in North America (54%), Europe (27%), and the remainder is allocated across developing markets.

She stated that, according to ERS Policy Guidelines, no sector may represent more than 20% of the portfolio. No single sector currently represents more than 15% of the portfolio with the exception of the diversified sector (24%). The next three largest sectors are Information technology (15%), Industrials (14%), and Health Care (11%).

Mr. Lyra concluded the presentation showing the goals and objective for the team in Fiscal Year 2022 are to execute on the approved tactical plan, continue sector focus commitments, and to perform a European portfolio review.

Mr. Martin stated that the long-term portfolio performance remains attractive, and the portfolio has rebounded strongly.

He stated that the FY21 Tactical Plan was successfully executed in line with the framework presented at the beginning of the fiscal year, despite doing so from a virtual work environment.

Mr. Lyra commented that the advantage of a virtual due diligence is at every point of contact the entire team was able to be present and the team adapted quite quickly. The team was extremely careful when reviewing new names and overcompensated to ensure due diligence was thoroughly completed.

Mr. Lyra presented the Proposed FY22 Tactical Plan. He stated that the team proposes to invest in 8 to 12 new fund commitments and 6 to 12 opportunistic co-investments totaling \$800 million with a commitment target range of +/- 25%(\$600M-1,000).

The IAC then took the following action:

**Move** that the Investment Advisory Committee of the Employees Retirement System of Texas Approve the Proposed Private Equity Tactical Plan for Fiscal Year 2022.

Motion by James R. Hille, second by Laurie Dotter

Final Resolution: Motion Carries

Aye: Robert G. Alley, Gene Needles, Ken Mindell, James R. Hille, Milton Hixson, Laurie Dotter, Caroline Cooley

**Move** that the Board of Trustees of the Employees Retirement System of Texas Approve the Proposed Private Equity Tactical Plan for Fiscal Year 2022.

Motion by Ilesa Daniels, second by Brian Barth

Final Resolution: Motion Carries

Aye: Craig Hester, Brian Barth, Ilesa Daniels, Jim Kee, and Catherine Melvin

There were no questions or further discussion on this item.

#### **18. Consideration of Reappointment of Investment Advisory Committee Member (Action – Board Only)**

Mr. Tull requested that Mr. Robert Alley be reappointed to the Investment Advisory Committee, based on his skills and experience.

The Board of Trustees then took the following action:

**Move** that the Board of Trustees of the Employees Retirement System of Texas reappoint Mr. Robert Alley to the Investment Advisory Committee for a three-year term ending August 31, 2024.

Motion by Jim Kee second by Ilesa Daniels

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.

**19. Election of Chair and Vice Chair of the ERS Investment Advisory Committee for Fiscal Year 2021 – 2023 – (Action – IAC Only)**

**Move** that the Investment Advisory Committee of the Employees Retirement System of Texas elect Gene Needles as Chair and Laurie Dotter as Vice Chair of the Investment Advisory Committee for a two year period from September 1, 2021 through August 1, 2023.

Motion by Caroline Cooley, second by James R. Hille

Final Resolution: Motion Carries

Aye: Robert G. Alley, Gene Needles, Ken Mindell, James R. Hille, Milton Hixson, Laurie Dotter, Caroline Cooley

There were no questions or further discussion on this item.

**20. Chief Investment Officer Recognition**

Mr. Wilson and the Board thanked Mr. Tull for his years of service at ERS, beginning in 2009. Prior to his 12 years as an employee, Mr. Tull served as a member of the Investment Advisory Committee. He has earned a number of industry awards while serving at ERS, such as the CIO of the Year Award by Institutional Investor, and the aiCIO Industry Innovation Award. Under his guidance, the Trust Fund grew from \$19.8 billion in 2009 to \$34 billion in 2021.

**21. 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 2:54 p.m.

**22. Recess of the Board of Trustees. Following a temporary recess, the Board of Trustees will reconvene to take up the Board agenda items.**