

*Public Agenda Item #30

**Annual Review of ERS' Emerging Manager Program*

December 8, 2021

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Emerging Manager Program



Agenda

- Background
- Team
- Approach
- Current Allocation
- Performance
- CY22 Initiatives

Emerging Manager Program

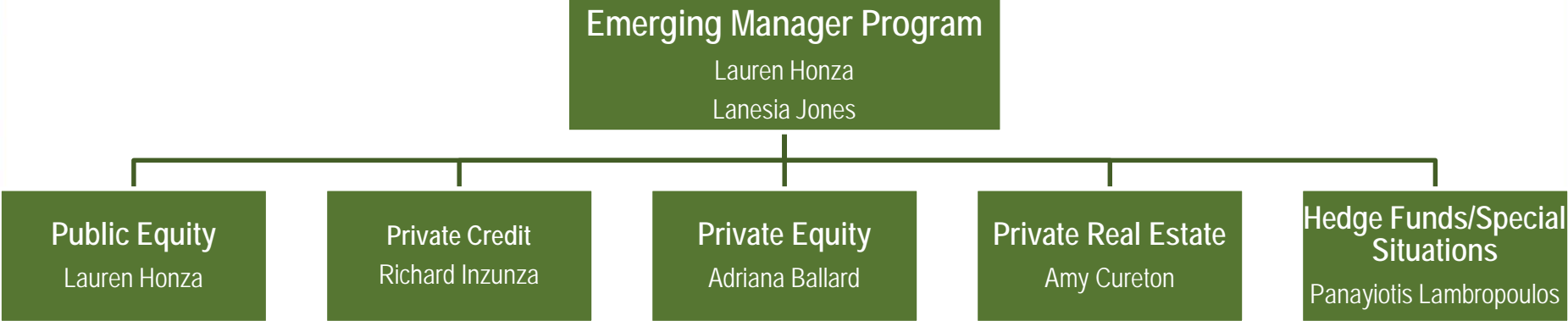
Defined



- Texas Government Code § 815.301 (g), (h) and (i) requires the Employees Retirement System of Texas to make a good faith effort to acquire financial services from emerging managers. Emerging managers are defined in the statute as private professional investment managers with less than \$2 billion in assets who provide pension fund management, consulting, investment advising, brokerage services, hedge fund management, private equity management, and real estate investment.

Emerging Manager Program

Team



Emerging Manager Program

Approach



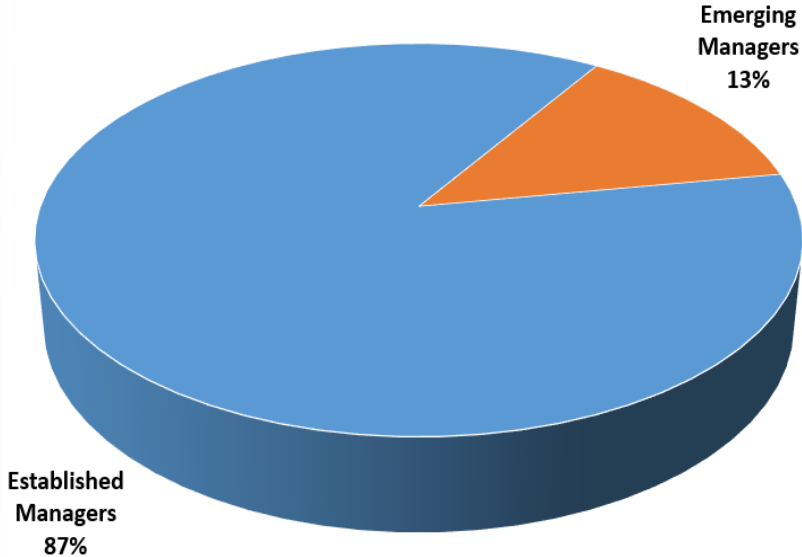
- ERS External Advisor Website
- Managers of Emerging Managers
- Consultants
- Outreach

Emerging Manager Program

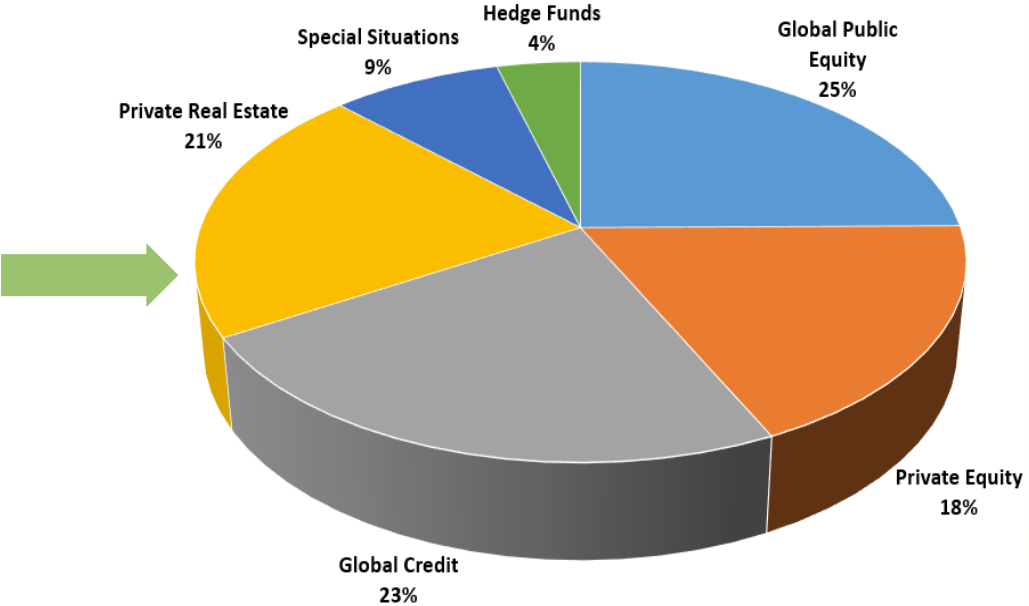
Investments as of September 30, 2021



Externally Managed/Advised Assets
\$17,676,679,882



Emerging Manager Program
\$2,331,614,121



Emerging Manager Program

Public Equity



- Direct
 - Funded (EAM and Global Alpha)
 - RFPs (International RFP and USLC RFP)
- Legato Capital Management
 - International Small Cap (\$218 MM)
 - Emerging Markets (\$134 MM)

Emerging Manager Program

Public Equity



Public Equity	1-Year	3-Year	5-Year	Since Inception (as of 09/30/21)
Legato International Small Cap Portfolio (Inception: February 1, 2017)	26.62%	8.38%	n/a	11.47%
MSCI EAFE Small Cap Index	29.02%	9.05%		11.03%
Legato Emerging Markets Portfolio (Inception: November 1, 2019)	16.65%	n/a	n/a	9.86%
MSCI Emerging Markets Index	18.20%			12.52%

Emerging Manager Program

Private Credit



- Direct Relationships: Six
- FY21 Commitments (\$275 MM)
 - CLO Warehousing and U.S. Middle Market Distressed Debt
- Expected FY22 Commitments (\$275 MM)
 - Non-performing Residential Mortgage Loans and European Direct Origination Middle Market Lending

Emerging Manager Program

Private Equity



- Direct Relationships: Three
- Fund of Funds
 - Fund I (Grosvenor)
 - Fund II (Grosvenor)
 - Fund III (Barings)
 - CY21 Commitments (\$15 MM)
 - Six investments in Healthcare, Information Technology, and Services

Emerging Manager Program

Private Equity



Private Equity	1-Year	3-Year	5-Year	Net IRR (as of 06/30/21)
Total Emerging Manager Portfolio (Inception: November 2010)	33.94%	13.73%	13.36%	15.40%
<i>Total Private Equity Portfolio</i>	52.41%	17.40%	17.16%	14.13%

Emerging Manager Program

Private Real Estate



- Direct Relationships: 11
 - FY21 Commitments (\$135 MM)
 - Two Investments in Manufactured Housing and PropTech
- Fund of Funds
 - Fund I (Oak Street)
 - Fund II (Oak Street)
 - FY21 Commitments (\$15 MM)
 - Three Investments in Medical Office, Student Housing, and Data Center

Emerging Manager Program

Private Real Estate



Private Real Estate	1-Year	3-Year	5-Year	Net IRR (as of 09/30/21)
Total Emerging Manager Portfolio (Inception: December 2010)	20.07%	12.98%	14.03%	16.03%
<i>Total Private Real Estate Portfolio</i>	14.09%	7.92%	9.79%	11.74%

Emerging Manager Program

Hedge Funds/Special Situations



- Direct Relationships: One
- PAAMCO Prisma Launchpad
 - Commitments
 - Original Commitment in June 2018 (\$150 MM)
 - Additional Commitment in April 2021 (\$175 MM)
 - Investments
 - Cinctive Capital Management
 - Phase 2 Partners
 - Additional Investment Expected Late CY21/Early CY22

Emerging Manager Program

Hedge Funds/Special Situations



Special Situations	1-Year	3-Year	5-Year	Since Inception (as of 09/30/21)
ERS Launchpad (Inception: October 1, 2019)	11.40%	n/a	n/a	6.59%
<i>Launchpad Benchmark</i>	12.93%			5.78%

Emerging Manager Program

Calendar Year 2022 Initiatives



- Maintain the target of 10% of externally managed assets with emerging managers
- Focus on relevant direct relationships with emerging managers in ERS Portfolio
- Continue to collaborate with fund-of-funds
- Promote emerging manager program best practices by working with other investors

Emerging Manager Program

Conferences



- Real Estate Emerging Manager (REEM) Summit (January 11–12, 2022)
- TRS/ERS Emerging Manager Conference (January 19, 2022)

Questions?