

AGENDA ITEM DETAILS

Subject: Consideration of TexaSaver Investment Performance Review for Calendar Year 2021

Background:

The Employees Retirement System of Texas (ERS) administers the deferred compensation TexaSaverSM 401(k) and 457 Program (TexaSaver program or program) on behalf of the State of Texas. The TexaSaver program, a defined contribution plan, provides tax-deferred supplemental retirement savings options to state and eligible higher education employees. As of December 31, 2021, the program offers 12 core funds, nine Target Date Funds, and a self-directed brokerage account option. ERS' intent is to provide program participants with low-cost, diversified investment choices.

The TexaSaver program is designed to help state and eligible higher education employees with their personal retirement savings. Participants direct payroll contributions to investment options, which they select. Although there is no employer contribution match provided to participants, TexaSaver has been a successful personal savings tool for its participants.

Participants have the flexibility to change their investment choices and contributions or opt out of participation in the program throughout the year. Since January 1, 2008, new state employees are automatically enrolled into the TexaSaver 401(k) Plan at 1% of salary until they change this default contribution or opt out.

Contribution limits. The Internal Revenue Service (IRS) announced that contribution limits will increase for the 2022 tax year. In 2022, participants may contribute up to \$20,500 to either plan. Participants age 50 or older may contribute an additional \$6,500 in 2022.

Program administration. During its May 22, 2019 meeting, the ERS Board of Trustees awarded the programs third party administrative (TPA) services contract to Great-West Life and Annuity Insurance Company (Empower Retirement), and the investment advisory services contract to Advised Assets Group, LLC (AAG).

PROGRAM PERFORMANCE REVIEW, CALENDAR YEAR 2021

Product Review Committee. The TexaSaver Program benefits from the expertise of a Product Review Committee (PRC). The PRC is a nine-person committee responsible for advising the program on investment options, fund managers, and investment advisory services provided to program participants.

The PRC is comprised of:

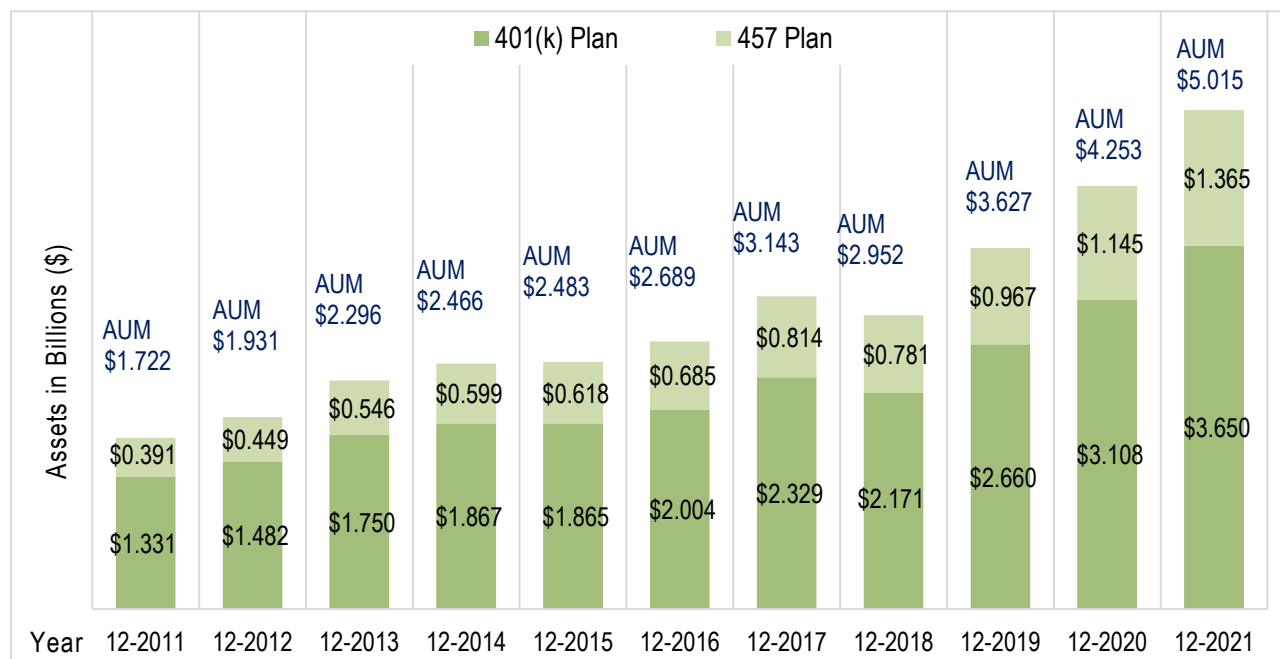
David Veal - ERS Chief Investment Officer;
Leighton Shantz - ERS Director of Fixed Income;
Carlos Chujoy - ERS Investment Risk Officer and Applied Research Supervisor;
Gene L. Needles, Jr. – Chairman and CEO Resolute Investment Managers and Vice-chair of
ERS Investment Advisory Committee (IAC);
Laurie L. Dotter, CPA – ERS IAC member.
Porter Wilson – ERS Executive Director;
Catherine Terrell - ERS Deputy Executive Director; and
Diana Kongevick – ERS Director of Group Benefits
The committee currently has one vacant position.

PRC members leverage their collective experience, expertise, and insight to provide oversight and professional guidance to the program.

Program Assets under Management (AUM). The program assets continue to reflect growth in both plans. For CY21 program assets showed growth at 17.82%. The ten-year average annual growth rate for the program is 11.63%. As of December 31, 2021, the program's AUM totaled \$5.015 billion. The 401(k) plan assets total \$3.65 billion or 73% of the program's AUM. The 457 plan assets total \$1.365 billion, representing 27% of program assets.

	AUM (in billions) 12-2021	10 Yr. Average Annual Growth Rate (AAGR)
TexaSaver 401(k) plan	\$ 3.650	10.97%
TexaSaver 457 plan	1.365	13.64%
TOTAL	\$ 5.015	11.63%

Chart 1
TexaSaver Program
Assets under Management (AUM)
December 2011 – December 2021



PROGRAM INVESTMENT PRODUCTS AND SERVICES

The TexaSaver program offers a range of investment products to participants. Both the TexaSaver 401(k) and TexaSaver 457 plans offer the same investment products to participants.

Professionally Managed Target Date (Target Date Funds). The TexaSaver program provides a series of Target Date Funds for participants who wish to invest in a set collection of funds that seek to gradually reduce investment risk and equity exposure as the fund's designed target year approaches. The target year approximates the year that the participant plans to retire. If a participant does not make an investment selection upon initial enrollment, they are defaulted to the target date fund with the year closest to when they turn age 65.

The TexaSaver program provides Target Date Funds for participants who do not want to make their own investment choices and prefer to have a professionally managed asset allocation strategy. This investment choice requires the lowest level of participant engagement. Target Date Funds are the Program's Qualified Default Investment Alternative (QDIA), or the default investment for participants who have not designated a specific investment structure.

TexaSaver Investment Offerings as of December 31, 2021		Asset Class
	BlackRock LifePath Index Retirement Fund F (Collective Trust)	Target Date Funds
	BlackRock LifePath Index 2025 Fund F (Collective Trust)	
	BlackRock LifePath Index 2030 Fund F (Collective Trust)	
	BlackRock LifePath Index 2035 Fund F (Collective Trust)	
	BlackRock LifePath Index 2040 Fund F (Collective Trust)	
	BlackRock LifePath Index 2045 Fund F (Collective Trust)	
	BlackRock LifePath Index 2050 Fund F (Collective Trust)	
	BlackRock LifePath Index 2055 Fund F (Collective Trust)	
	BlackRock LifePath Index 2060 Fund F (Collective Trust)	

Professionally Managed Core Funds (Core Funds). The program makes a core set of funds available. Participants create their own investment portfolios based on defined asset classes such as stocks, bonds or cash equivalents to suit the participant's time horizon, risk tolerance and investment objectives. The Core Funds include both actively managed and passively managed investment funds.

Investment in Core Funds requires a higher level of participant engagement than a Target Date Fund to maintain desired diversification and risk levels. To assist participants who may want investment advice, the program offers Online Advice and Managed Account services available through AAG, the registered investment adviser provided through Empower Retirement.

TexaSaver Investment Offering as of December 31, 2021		Asset Class
	BlackRock Short Term Investment (Collective Trust)	Money Market
	BlackRock 1-3 Year Government Bond Index F (Collective Trust)	Short Term Bond, Fixed Income
	BlackRock Bond Index Fund (Collective Trust)	Intermediate Term, Fixed Income
	AllianceBernstein (AB) All Market Real Return Portfolio Fund (AMTIX)	Specialty Fund, Real Assets
	Vanguard Wellington Admiral Fund (VWENX)	Balanced (Stocks, Bonds)
	Vanguard Institutional Index (VIXX)	Large Cap Blend
	Vanguard Growth Index (VIGIX)	Large Cap Growth
	BlackRock Mid Cap Equity Index F (Collective Trust)	Mid Cap Blend
	Wellington CIF II Mid Cap Opportunities S1	Mid Cap Growth
	Lord Abbett Small Cap Value Fund I Fund removal date: February 18, 2022	Small Cap Value
	Fidelity International Index (FSPSX)	International
	Fidelity Diversified Int'l (FDIVX)	International

*Lord Abbett Small Cap Value Fund I removed from line-up on February 18, 2022; refer to FUND CHANGES section below for details.

Self-Directed Brokerage Account (SDBA). The self-directed brokerage account option provided through Charles Schwab is available to participants who want additional investment options. Investments in the SDBA include individual stocks, bonds, money market instruments, exchange-traded funds, and certificate of deposits.

With a wider array of investment options available, the SDBA provides the greatest level of investment flexibility and requires the highest level of participant engagement for diversification and investment selection.

TexaSaver Investment Offering as of December 31, 2021	Asset Class
Schwab Personal Choice Retirement Account®	SDBA

FUND CHANGES

Passive international equity fund. During the joint Investment Advisory Committee (IAC) and Board meeting held on March 10, 2021, the Board approved a recommendation to add a passive international equity fund to enhance the fund line-up with a high quality, well-managed, competitively priced fund with international market exposure. The board selected the Fidelity International Index fund, which became available for participant contributions on May 3, 2021. As of December 31, 2021, the program had over 23,400 accounts with assets totaling \$38.709 million invested in the Fidelity International Index fund.

Small cap fund. The PRC presented a recommendation to the joint IAC and Board meeting on December 8, 2021 to add a small cap passive fund. Following a presentation of the PRC's due diligence, the Board selected Vanguard S&P Small-Cap 600 Index Institutional (VSMSX), as the program's new passive domestic small cap equity fund, with fund contribution availability beginning January 10, 2022.

Additionally, at the recommendation of the PRC, the Board approved a recommendation to remove the Lord Abbett Small Cap Value I (LRSYX) fund from the TexaSaver program and move program assets to the Vanguard S&P Small-Cap 600 Index fund. The effective date for the small cap fund transition from Lord Abbett to the Vanguard S&P Small-Cap 600 fund is February 18, 2022.

High yield bond fund. A sub-committee appointed by the PRC had begun initial due diligence for a high yield bond fund. However, the PRC directed the sub-committee to prioritize the due diligence for the passive domestic small cap equity fund in 2021. The high yield bond-fund due diligence will resume in 2022. The appointed PRC sub-committee members are Brannon Andrews, Carlos Chujoy, Lauren Honza, Leighton Shantz, and Gene Needles.

PERFORMANCE ANALYSIS: FUND PERFORMANCE

This section of the performance analysis reviews the Target Date Funds and Core Funds available under the program for Calendar Year 2021. A review of the fund's historical returns, ranking within its peer group and statistical information collectively serve as a key performance measure. Table 1 presents the annualized returns for 1-, 3-, 5- and 10-year periods for the Target Date Funds and Core Funds. A fund analysis overview presented in Exhibit A compares the annualized returns to each fund's respective benchmark, as well as how each fund performed within its peer group.

Table 1
TexaSaver Program Investment Performance
Period ending December 31, 2021

TexaSaver Investment Offerings (excl. SDBA brokerage offering)	Ticker	Returns as of Month Ending 12/31/2021			
		1 Yr.	3 Yr.	5 Yr.	10 Yr.
MONEY MARKET FUND					
BlackRock Short Term Investment	TMPXX	0.15%	1.07%	1.31%	0.79%
BOND FUND					
BlackRock 1-3 Yr. Government Bond Index F	N/A	-0.58%	2.09%	1.70%	1.17%
TexaSaver Investment Offerings <i>continued</i> (excl. SDBA brokerage offering)	Ticker	Returns as of Month Ending 12/31/2021			
		1 Yr.	3 Yr.	5 Yr.	10 Yr.
BlackRock Bond Index Fund	N/A	-1.72%	4.65	3.46%	2.81%
BALANCED FUND					

Vanguard Wellington Admiral Fund	VWENX	19.12%	17.36% .46%	12.40%	11.46%
LARGE CAP FUND					
Vanguard Institutional Index	VIIIX	28.69%	26.06%	18.46%	16.54%
Vanguard Growth Index	VIGIX	27.27%	34.79%	24.79%	19.31%
MID CAP FUND					
BlackRock Mid Cap Equity Index F	N/A	24.68%	21.44%	13.14%	14.26%
Wellington CIF II Mid Cap Opportunities	N/A	9.92%	22.26%	16.15%	16.05%
SMALL CAP FUND					
Lord Abbett Small Cap Value Fund I Fund removal date: February 18, 2022	LRSYX	26.75%	14.71%	7.29%	9.96%
Vanguard S&P Small Cap 600 Index Available for contributions: January 10, 2022	VSMSX	26.74%	20.14%	12.45%	14.48%
INTERNATIONAL FUND					
AB All Market Real Return Portfolio Fund	AMTIX	26.56%	13.87%	7.64%	2.56%
Fidelity Diversified International Fund	FDIVX	12.84%	20.28%	13.31%	10.38%
Fidelity International Index	FSPSX	11.26%	13.54%	9.55%	8.03%
TARGET DATE (ASSET ALLOCATION) FUNDS					
BlackRock LifePath Index Retirement	N/A	6.94%	11.45%	8.03%	6.55%
BlackRock LifePath Index 2025	N/A	8.97%	13.17%	9.45%	8.26%
BlackRock LifePath Index 2030	N/A	11.41%	14.94%	10.65%	9.19%
BlackRock LifePath Index 2035	N/A	13.79%	16.65%	11.79%	10.06%
BlackRock LifePath Index 2040	N/A	15.95%	18.17%	12.81%	10.81%
BlackRock LifePath Index 2045	N/A	17.70%	19.41%	10.58%	11.43%
BlackRock LifePath Index 2050	N/A	18.66%	20.05%	13.94%	11.82%
BlackRock LifePath Index 2055	N/A	18.81%	20.16%	14.00%	12.02%
BlackRock LifePath Index 2060	N/A	18.80%	20.15%	13.98%	10.62%

Source: Texa\$aver 401(k)/457 Program Investment Performance as of 12/31/2021,
https://docs.retirementpartner.com/ioag/98960-01_IOAG.pdf

The review of a fund's return or its ranking within its peer group is only part of the fund performance review. A review of statistical measurements provide an indication of the risk-return profile for the Target Date Funds and Core Funds.

Table 2
5-year Risk and Performance Measures by Asset Class
For period ending December 31, 2021

Texa\$aver Investment Offerings (excl. SDBA brokerage offering)	5 year Measures					
	Alpha Measure of excess return	Beta Measure of volatility	R ² Benchmark correlation	Sharpe Measure of risk-adjusted returns	Up Mkt Capture Measure of Portfolio Mgr. during up market	Down Mkt Capture Measure of Portfolio Mgr. during down market
MONEY MARKET FUND						
BlackRock Short Term Investment	0.10	1.69	87.88	0.18	107.01	N/A
BOND FUND						
BlackRock 1-3 Yr. Gov't Bond Index F	0.14	0.99	99.73	0.59	104.68	91.83
BlackRock Bond Index Fund	0.01	1.01	99.98	0.79	100.53	100.47
BALANCED FUND						
Vanguard Wellington Admiral Fund	-0.61	1.04	96.13	1.12	102.57	108.29
LARGE CAP FUND						
Vanguard Institutional Index	-0.01	1.00	100.00	1.11	99.98	100.03
Vanguard Growth Index	-0.45	1.00	99.49	1.36	98.22	99.21
MID CAP FUND						
BlackRock Mid Cap Equity Index F	0.06	1.00	100.00	0.69	100.07	99.81
Wellington CIF II Mid Cap Opportunities S1	3.39	0.94	93.12	0.84	96.09	80.92
SMALL CAP FUND						
Lord Abbett Small Cap Value Fund I Fund removal date: February 18, 2022	-1.52	1.01	95.26	0.38	95.21	101.35
INTERNATIONAL FUND						
AB All Market Real Return Portfolio Fund	3.53	0.60	88.19	0.51	64.68	55.22
Fidelity Diversified Int'l	-0.68	1.01	94.49	0.89	100.41	105.35
Fidelity International Index	-0.24	1.00	99.13	0.63	99.34	100.70
TARGET DATE (ASSET ALLOCATION) FUNDS						
BlackRock LifePath® Index Retirement Fund F	0.44	1.21	98.97	1.07	124.18	120.63
BlackRock LifePath® Index 2025 Fund F	0.49	0.92	98.96	1.00	93.65	88.70
BlackRock LifePath® Index 2030 Fund F	0.52	0.56	99.19	0.96	96.57	92.55
BlackRock LifePath® Index 2035 Fund F	0.49	0.97	99.29	0.93	98.07	94.90
BlackRock LifePath® Index 2040 Fund F	0.36	1.01	99.36	0.91	101.89	99.57
BlackRock LifePath® Index 2045 Fund F	0.30	1.05	99.41	0.90	105.75	103.64

BlackRock LifePath® Index 2050 Fund F	0.26	1.06	99.39	0.90	106.94	104.89
BlackRock LifePath® Index 2055 Fund F	0.25	1.05	99.39	0.90	106.29	104.36
BlackRock LifePath® Index 2060 Fund F	-0.66	1.06	98.54	0.84	15.51	109.42

Exhibit B – Texa\$aver Fund Analysis provides an investment overview, portfolio composition, asset holdings, 3-year rolling performance chart, 3- and 6-year risk and performance statistics for each of the applicable funds.

PERFORMANCE ANALYSIS: PLAN LEVEL PORTFOLIO ALLOCATION

In addition to how the fund performs in relation to its respective benchmark and peers, ERS also monitors how a fund performs as part of the overall program line-up. This section of the performance analysis is specific to portfolio performance as it relates to participant allocation services.

Table 3
Texa\$aver Plan-level
Investment Allocation Comparison
For period ending December 31, 2021

Texa\$aver Investment Offerings	Asset Class	Texa\$aver 401(k) Plan		Texa\$aver 457 Plan	
		Allocation (in millions)	Allocation (%)	Allocation (in millions)	Allocation (%)
BlackRock LifePath® Index Funds	Target Date Funds	\$968.13	26.53%	\$260.249	19.07%
BlackRock Short Term Investment	Money Market	\$108.24	2.97%	53.281	3.9%
BlackRock 1-3 Yr. Government Bond Index F	Fixed Income - Bond	42.995	1.18%	18.761	1.37%
BlackRock Bond Index Fund	Fixed Income - Bond	219.543	6.02%	94.968	6.96%
AB All Market Real Return Portfolio Fund	Specialty – Real Assets	2.282	0.06%	1.551	0.11%
Vanguard Wellington Admiral Fund	Balanced	335.528	9.19%	169.013	12.38%
Vanguard Institutional Index	Large Cap Blend	721.857	19.78%	237.250	17.38%
Vanguard Growth Index	Large Cap Growth	519.413	14.23%	175.172	12.83%
BlackRock Mid Cap Equity Index F	Mid Cap	185.371	5.08%	82.059	6.01%
Wellington CIF II Mid Cap Opportunities	Mid Cap	24.410	0.67%	10.326	0.76%
Lord Abbett Small Cap Value Fund I	Small Cap	125.913	3.45%	54.369	3.98%
Fidelity International Index	International	26.803	0.73%	11.907	0.87%
Fidelity Diversified Int'l	International	220.220	6.03%	93.653	6.86%
Self-Directed Brokerage Account	Brokerage	148.827	4.08%	102.42	7.50%
		\$3,649.536	100.0%	\$1,364.979	100.0%

The variance in investment allocation between plans is driven by the individual investment decisions made and/or accepted by each participant. These decisions may be a result of the participant using the program's available investment allocation tools.

This is an information item only. No action is required.

ATTACHMENTS:

1. Exhibit A – TexaSaver Fund Analysis, Calendar Year 2021
2. Exhibit B – TexaSaver Fund Performance, Calendar Year 2021
3. Exhibit C – Sector and Asset Class Returns, Calendar Year 2021
4. Exhibit D – Investment Allocation Tools and Observed Results, 2021
5. Slides – TexaSaver 401(k)/457 Program Updates