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

December 8, 2021

ERS
EMPLOYEES RETIREMENT SYSTEM OF TEXAS

Presented for Review and Approval

March 9, 2022

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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
December 8, 2021 – 8:30 a.m.

TRUSTEES PRESENT
Catherine Melvin, Chair
James Kee, Vice-Chair
Brian Barth, Member
Neika Clark, Member
Craig Hester, Member

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

ERS DIRECTORS PRESENT
Porter Wilson, Executive Director
Cathy Terrell, Deputy Executive Director
Jennifer Chambers, Director of Governmental Affairs
Tony Chavez, Director of Internal Audit
Bernie Hajovsky, Director of Enterprise Planning Office
Cynthia Hamilton, General Counsel
Robin Hardaway, Director of Customer Benefits
Diana Kongevick, Director of Group Benefits
Shack Nail, Special Projects and Policy Advisor
Machelle Pharr, Chief Financial Officer
DeeDee Sterns, Director of Human Resources
Kathryn Tesar, Director of Benefits Communications
David T. Veal, Chief Investment Officer
Gabrielle Schreiber, Director of Office of Procurement & Contract Oversight
Keith Yawn, Director of Office of Strategic Initiatives

ERS STAFF PRESENT
Nora Alvarado, Group Benefits
Jason Avants, Information Systems
Georgina Bouton, Group Benefits
Carlos Chujoy, Investments
Raquel Colon, Investments
Kurt Cressotti, Investment Compliance
Anthony Curtiss, Investments
Kelley Davenport, Executive Office
Angelica Harborth, Group Benefits
Dan Herron, Benefits Communications
Trudy Hill, Operations Support
Mitch Holtz, Investments
Lauren Honza, Investments

Tiffani Jenkins, Benefits Communications
Lanesia Jones, Investments
Ricardo Lyra, Investments
Tanna Ridgway, Investments
Bob Sessa, Investments
Nile Stork, Information Systems
Michael McCrary, Investments
Leighton Shantz, Investments
John Streun, Investments
Mary Jane Wardlow, Executive Office
Ariana Whaley, Executive Office
Micheal Yuan, Investments

VISITORS PRESENT
Sam Austin, NEPC
Ryan Falls, Gabriel, Roeder, Smith & Co.
Chuck Herring, Herring and Panzer
Joe Newton, Gabriel, Roeder, Smith & Co.
Thomas Nun, Great-West Investments
John Posey, Legislative Budget Board

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

20. Call Meeting of the Board of Trustees to Order

Ms. Catherine Melvin, Chair, called the Board of Trustees to order 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 12:56 p.m. on Monday, November 29, 2021 as required by Chapter 551, Texas Government Code, referred to as "The Open Meetings Law."

21. Call Meeting of the Investment Advisory Committee to Order

Mr. Gene Needles, Chair of the IAC, 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."

22. Review and Approval of the Minutes to the August 25, 2021 Joint Meeting of the Board of Trustees and Investment Advisory Committee – (Action)

Mr. Gene Needles, IAC Chair, opened the floor for a motion on the approval of the minutes from the August 25, 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 August 25, 2021.

Motion by Caroline Cooley, second by James Hille
Final Resolution: Motion Carries
Aye: Robert G. Alley, Gene Needles, James 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 August 25, 2021.

Motion by Craig Hester, second by Brian Barth
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.

23. Consideration of the Texa$aver℠ 401(k)/457 Program Updates: Texas$aver Product Review Committee Recommendations – (Action: Board Only Vote)

Ms. Diana Kongevick, Director of Group Benefits, Georgina Bouton, Assistant Director of Group Benefits and Thomas Nun with Great-West Investments presented Texa$aver Program updates and PRC recommendations to the IAC and Board.

Ms. Bouton provided an overview of the Texa$aver Program which is comprised of a 401(k) plan and 457 plan. The 401(k) plan is available to employees of state agencies. The 457 plan is available to employees of state agencies and employees of eligible institutions of higher education. The investment offerings are the same in both plans.

Ms. Bouton presented an executive summary of the program as of September 30, 2021 reporting assets under management (AUM) for both plans totaled just over $4.7 billion. The AUM in the 401(k) plan increased 23% compared to the same period last year. The plan reported year over year increases in contributions, deposits, loan payments, and plan withdrawals. The 401(k) plan fees had a modest increase of 5%. For the 457 plan, the AUM increased 25%. The plan reported increases in contributions, deposits, loan payments, and plan withdrawals. The plan reported an 8% decrease in fees.

Ms. Bouton provided a summary of the monthly participant fees from September 2009 through December 2021, outlining board actions to reduce participant fees, as well as the flat fee structure implemented in May of 2021. Ms. Bouton continued with an overview of the Texa$aver 401(k)/457 Program Investment Policy and the different investment offerings available within the program.

Ms. Kongevick explained the program uses a Product Review Committee (PRC), for guidance and oversight of the investment options offered by both plans. The nine-person PRC is comprised of ERS staff, IAC members, and an external investment professional, who until recently was Dr. Laura Starks. Ms. Kongevick also explained that the PRC may appoint a sub-committee for a specific purpose, such as fund due diligence or fund evaluation.

Ms. Kongevick gave an overview of the October 20, 2021 PRC semi-annual meeting, which included an investment performance update and next-step discussions regarding the program's small cap value fund, Lord Abbett Small Cap Value I (Lord Abbett). As of September 30, 2021, Texa$aver had 33,042 accounts invested in the small cap value fund, with assets totaling $169.7 million.

Mr. Nun provided an overview of the due diligence performed related to the Lord Abbett Small Cap Value I fund.

- May 2021 - review of changes in the investment process
- August 2021 - meeting was held to address portfolio management turnover
- September 2021 - annual review was conducted to address fund's underperformance, investment style, portfolio management turnover, and 2-star Morningstar rating

Mr. Nun provided an overview of the fund's 3rd Quarter performance which struggled to meet its benchmark, Russell 2000 Value Index, and has lagged for several periods. In addition, two significant personnel changes occurred.

Finding from due diligence included: performance of Lord Abbett has remained challenged from a benchmark and peer-relative basis, attrition from investors in the portfolio left ERS a significant holder of strategy assets, and personnel turnover provided an unclear direction for the fund's long-term strategy.

Mr. Nun noted that since the PRC and the Board have become more satisfied with a passive management across segments of the equity market, pointing to the addition of the passive internal fund, the PRC decided to pursue a passive domestic small cap fund and appointed a sub-committee for the search. On October 25, 2021, the sub-committee met to set parameters for the fund search. The sub-committee reviewed an initial list of funds, and passed nine funds to the next phase for the Passive Domestic Small Cap Fund Due Diligence Questionnaires (DDQ).

The sub-committee then performed an evaluation of minimum requirements, firm qualifications and strategy qualifications and recommended the following entities to the PRC as finalists: BlackRock Russell 2000 Index Fund, BlackRock S&P SmallCap 600® Equity Index Fund F, Fidelity Small Cap Index Fund, and Vanguard S&P Small-Cap 600 Index Fund I. Finalists meetings were held November 16-17, 2021.

Mr. Nun explained the selection was a two-step process. First, PRC selected an underlying benchmark. Although the Russell 2000 is more prominent benchmark in small cap, the PRC determined that S&P 600 proved to be more appropriate for the program. In addition to providing a slightly better risk-return profile, the proposed S&P 600 would provide a more consistent benchmark for participants who choose to build their own asset allocation. PRC also discussed potential of overlap in holdings and determined the S&P 600 was the most suitable benchmark.

Second, PRC chose between the two funds in the search that use the S&P 600 benchmark: Vanguard S&P Small-Cap 600, a mutual fund; and BlackRock S&P SmallCap 600, a CIT fund. As passively managed funds, both funds are priced lower than Lord Abbett, with BlackRock at 1.85 basis points (bps) and Vanguard at 8 bps. But Mr. Nun reported the Vanguard fund provides a longer term track record, provides slightly better tracking, and larger AUM. With these considerations, the PRC recommends the Vanguard S&P Small-Cap 600 as a replacement for Lord Abbett.

Ms. Kongevick stated that the fund would be available to participants in early January 2022. The replacement of the small cap value fund with a transfer of assets to Vanguard S&P Small-Cap 600 fund would occur in early February 2022. Empower Retirement, the program's third party administrator, and ERS will coordinate operational processes for the asset transitions, as well as the comprehensive communication strategy.

In response to a question from Mr. Craig Hester, Ms. Kongevick affirmed the transaction was a cash liquidation transaction, not an in-kind transfer of assets.

Move that the Board of Trustees remove the current small cap value fund from the Texa$aver 401(k)/457 Program with the program assets being transferred to Vanguard S&P Small-Cap 600 Index Fund.

Motion by James Kee, Second by Brian Barth
Final Resolution: Motion Carries
Aye: Craig Hester, Brian Barth, Neika Clark, James Kee, Catherine Melvin

There were no questions or further discussion on this item.

24. Review of Texa$aver Program Compliance and Operational Updates

Ms. Diana Kongevick, Director of Group Benefits, Georgina Bouton, Assistant Director of Group Benefits and Nora Alvarado of Group Benefits presented the compliance and operational updates of the Texa$aver program, the voluntary, tax-deferred supplemental defined contribution program designed to help employees with their personal retirement savings.

Ms. Bouton provided a summary on the development and structure of the performance guarantees (PGs) within the Texa$aver contracts used to assess amounts when a PG service level is missed. In response to the Board's request, a three-year summary of PG compliance was prepared for Texa$aver vendors and provided to the Board to determine overall contract compliance.

Ms. Alvarado stated that Empower Retirement provides third party administrative services for the Texa$aver program, while Advised Asset Group (AAG) provides advisory services. For Calendar Year 2020, Empower Retirement had three critical PG assessments (resolution of file and/or transaction errors), 5 moderate PG assessments (notification of file and/or transaction errors) and 4 minor PG assessments (3 communications, 1 interval service level). The critical contract performance misses were related to the failure of newly hired state employees from being automatically enrolled in the 401(k) plan due to a system error with the TPA. This issue occurred from October 2020 through January 2021 and caused the TPA to miss PG standards.

In response to questions from Ms. Catherine Melvin, Ms. Alvarado explained that approximately 5,000 newly hired state employees were not automatically enrolled in the plan. Empower Retirement corrected the error in February 2021 and notified impacted employees that they would be enrolled in the plan with the opportunity to opt-out. Following a waiting period, enrolled participants who were eligible for a qualified non-elective contribution (QNEC) based on IRS guidelines were provided this remedy by Empower Retirement. On September 23, 2021, Empower Retirement paid the QNEC, plus lost earnings, to approximately 2,500 participants.

Ms. Alvarado reported that AAG had two minor PG assessments (interval service level).

There were no questions or further discussion on this item.

25.* Annual Ethics Training

Mr. Chuck Herring, Partner of Herring and Panzer, presented the Annual Ethics Training.

26. Chief Investment Officer's Report

Mr. David T. Veal presented the Chief Investment Officer's Report on the performance, risk, and expenses of the ERS Retirement Trust Fund (Trust) as of September 30, 2021. He noted the primary goals for the ERS Investment Program, as established by the Board, are:

- Evaluate performance of the program to obtain returns over rolling five-year periods that are in excess of the adopted benchmark, and
- Achieve results that corresponded with the assumed amount of active risk.

He noted that the investment strategy used to accomplish these goals includes:

- Allocating thoughtfully to available assets
- Carefully selecting managers that add value
- Diversifying well to control risk as markets change

Mr. Veal demonstrated the Trust performance which has been above the Policy Benchmark across all time horizons, including an outperformance of 163 basis points over the trailing five-year period. He noted that this level of outperformance translates into approximately $3 billion of value added to the Trust over the last five years, including more than $2 billion over the last year.

Volatility of the Trust has increased due to larger market fluctuations amid the pandemic, but remains below the long-term average of 8%. He went on to say that relative risk, as measured by realized tracking error, has been rising due to greater implementation within private markets by the Trust and has reached a recent high of 247 basis points.

Mr. Veal stated that all asset classes remain within their policy ranges, noting that the private equity allocation reached 17.7% of the Trust at the end of September 2021 due to a 38% year-over-year gain in the value of these investments from $4.5 billion to $6.2 billion. The allocation was close to the asset class limit of 18%, and recent figures have exceeded that level.

He explained that majority of the Trust is now 53% externally managed due to the significant gains within private markets. He further explained that the shift toward private markets has led to an increase in expense levels from a recent average of 70 basis points of Trust assets to 99 basis points over the last year. These increases resulted primarily from the higher profit share allocated to private market investments from $59 million during FY20 to $150 million in FY21.

Mr. Veal discussed the liquidity profile of the Trust in the context of spending needs. He stated that the passage of SB 321 has positively changed the funding profile of the Trust quite by providing additional liquidity and reducing the projected net outflows of the Trust. He recommended that an asset liability study be conducted in 2022 to reassess the long-term outlook for liquidity and asset allocation, given that the funding profile of the Trust has materially changed for the better.

He concluded stating the investment performance for the Trust continues to achieve its stated objectives.

There were no questions or further discussion on this item.

27. *Review of Investment Performance for the 3rd Quarter of 2021 and Risk Update

Mr. David T. Veal, Chief Investment Officer, Mr. Carlos Chujoy, Director of Risk Management, Mr. Sam Austin, NEPC, presented the investment performance for the third calendar quarter of 2021.

Mr. Austin stated that fund performance calendar year-to-date was 15.3%, which was significantly above the policy benchmark. He added that the fund exceeded the actuarially assumed rate over all relevant periods.

Compared to its peers, defined by NEPC as public pension funds with assets greater than $1 billion, the ERS Trust ranked in the top quartile on a three-year and five-year basis, and in the sixth percentile for returns for the one-year basis. The three-year tracking error increased modestly to 2.47% as of September 30, 2021, from 2.45% in June 2021. The Sharpe Ratio over the five-year period was 1.39, which put the Trust in the eighth percentile of peer funds for risk-adjusted returns.

The largest contributors of the quarter were Private Equity (+0.9%), and Private Real Estate (+0.2%), and only Global Equity (-0.1%) detracted.

The Trust's assets increased from $28.6 billion to $34.9 billion in the calendar year, which included a $7.2 billion investment gain in the calendar year and a $919 million investment gain in the third calendar quarter of 2021. Mr. Austin highlighted that the most notable change for the quarter is the majority of the Trust is now externally managed. A large part of that shift was driven by the significant increase in value of the Private Equity portfolio.

For the year ended September 30, 2021, the Trust outperformed the policy benchmark by 7.7%. For the three-year period ended September 30, 2021, the return of 10.96% outperformed the benchmark by 1.86%. On a risk-adjusted basis, the Sharpe and Sortino Ratios over this period outperformed the benchmark.

For the five-year period ended September 30, 2021, the Trust returned 10.79% and outperformed the policy benchmark by 1.63%. The Sharpe and Sortino Ratios of the Trust also outperformed those of the policy benchmark, indicating that active management has benefitted the plan. The three-year and five-year Trust returns have also outperformed the actuarial rate of return.

Mr. Chujoy discussed the outlook for the Trust, highlighting major headwinds during the quarter that included concerns about slowing economic growth and higher inflation, more evidence of a deteriorating environment, and an economic slowdown in China. Tailwinds include the continued re-opening of the economy, the Fed's stance on ample liquidity and continued, however slower, growth in the market.

The Heat Map of Global Stress Indicators chart showed an increase of financial stress levels, including several risk indicators such as fund flow and volume flow that increased caution among market participants. He added that September proved to be a challenging month for risk seeking assets during the quarter.

Mr. Chujoy explained that concerns about the pace of economic recovery and higher inflation drove market sentiment during the quarter. Concerns about stagflation started to surface and risk-seeking assets remained volatile during the quarter. Cross asset analysis suggests that most assets are trading at a reasonable valuation level.

The Trust gained about $1 billion in value with half coming from state contributions and the remainder from investment gains of 2.7%. Mr. Chujoy stated Public Equity's position declined roughly $400 million in the quarter due to both negative returns and changes to Trust positioning during the quarter.

Mr. Chujoy reviewed the results of the short-term liquidity analysis performed by the ERS Risk Management and Applied Research team, which indicated the Trust has ample liquidity to meet its needs over a three-month period even in a stressed market environment. Such short-term needs would include paying benefits, taking advantage of any market opportunities, and meeting capital calls if needed.

The Board inquired how long the stress period was assumed to be, to which Mr. Chujoy responded that it varies based on the asset class. The Board requested that Mr. Chujoy refine this analysis to consider a longer horizon such as three years and report at a future meeting.

There were no questions or further discussion on this item.

28. *Annual Review of Retirement Program Actuarial Valuations and Financial Status

Ms. Ariana Whaley, ERS Pension Policy Analyst, introduced Mr. Ryan Falls and Mr. Joe Newton, from Gabriel, Roeder, Smith and Company (GRS), ERS' consulting actuaries for retirement, to present the results of the annual actuarial valuations as of August 31, 2021. Mr. Falls explained the purpose of the annual actuarial valuation as a financial health check-up for each pension plan.

Mr. Falls specifically noted the legislative changes from SB 321 passed during the 2021 legislative session changed the trajectory of the ERS plan significantly. Mr. Newton explained the funding policy changes included in SB 321 that established a funding strategy with the ability to adapt to future funding needs was the most impactful feature in the legislation. The 2021 annual valuation reports the ERS plan shifted from a projected depletion date to 100% funded in 33 years. Also of note, the FY21 25% return from investments equates to approximately 3.5 years of expected investment earnings.

Mr. Newton explained the new Legacy Payment structure laid out in SB 321. The Legacy Payment is a funding plan in which the state will pay an actuarially determined, level dollar amount annually to pay off the unfunded liability by 2054. The impact statement from the legislative session set this level dollar amount at $510 million per year for the FY22 -23 biennium in addition to existing payroll contributions. He also explained new terminology that has resulted from this actuarially determined payment schedule concept. Previously, the valuation would report a funding period, or how many years it would take to pay off the unfunded liability fully from the current contributions. Now, statute requires that the unfunded liability be paid by 2054, creating an amortization period, or the number of years to pay off the entirety of the unfunded liability in the timeline created in SB 321. The level dollar Legacy Payment will be determined each biennium prior to the legislative session budget process. Mr. Newton reiterated that this is a foundational change in the funding process for the ERS plan. To demonstrate the positive impact of a pension funding strategy based on actuarially determined contributions through historical experience, Mr. Newton presented studies from the National Association of State Retirement Administrators and the Texas Pension Review Board.

Mr. Newton reminded the Board that ERS will continue to receive the current payroll contributions from the state, which also continue to pay down a portion of the total unfunded liability. The Legacy Payment is designed to amortize the remaining portion, around $7 billion, of the current total unfunded liability. An additional benefit of the level dollar funding strategy is that the Legacy Payment amount is anticipated to remain relatively stable year over year, which will result in ERS funding needs becoming a smaller percentage of the state's total budget and payroll each year. Mr. Newton also pointed out that the level dollar funding approach takes pressure off state payroll growth. For example, in FY21 the active employee population declined by about 3.5%, consistent with many plans in the country. If contributions to the plan remained tied solely to payroll, the expected revenue stream would also decrease, undermining any type of funding solutions that would have relied only on payroll.

Mr. Newton explained that the new Group 4 cash balance benefit structure in SB 321 has minimal impact on projections since the employer benefit value is approximately the same if all assumptions are met. Ms. Whaley noted contributions and benefits for Group 4 will be paid to and from the same Trust Fund as previous groups. To illustrate its adaptability, Mr. Newton presented an analysis that compared multiple future investment return scenarios for an ERS Group 3 or Group 4 benefit structure.

Mr. Falls reported that while the FY21 investment return of roughly 25% was in excess of the 7% return assumption, the valuation report uses a smoothed asset value to stabilize reporting from year-over-year investment volatility. There are approximately $3.5 billion of deferred asset gains that will be incorporated into the smoothed actuarial value of assets over the next four years. Mr. Falls reported that over the last 20 years, expectations for investment returns are declining with a median assumed rate of return of about 7%. He noted that the transition to an actuarially determined contribution strategy has taken pressure off the investment return assumption since the Legacy Payment will help the plan maintain funding goals if future investment returns were below expectations.

Mr. Falls presented the traditional actuarial metrics reported in the valuation for the ERS plan, although the metrics – aside from the amortization period – have not been impacted yet by the recent legislative benefit changes. Both the funded ratio and the unfunded liability improved year-over-year due to the FY21 investment returns. He reported that this is the first year since 2001 the ERS plan's unfunded liability has decreased. As the Legacy Payment is paid and the deferred investment gains work through the calculation, the plan could see the unfunded liability continue to trend down immediately.

Mr. Falls presented the results of the Law Enforcement and Custodial Officers Supplemental (LECOS) Plan and Judicial Retirement System of Texas Plan 2 (JRS2). The metrics are very similar to past years in that each plan is on a path to depletion before all benefits are paid. However, these plans' liabilities much smaller in scale compared to the ERS plan. SB 321 enacted changes to the benefits in the LECOS plan mirroring the benefit structure for the ERS plan, although there was no change to the funding strategy for LECOS. Mr. Falls noted that neither LECOS nor JRS 2 are receiving contributions that are sufficient to pay their normal cost and thus not enough to address their unfunded liabilities. The Legacy Payment level dollar structure could be used to address the unfunded liabilities if payroll contributions are increased to meet normal costs.

Mr. Falls reiterated how important the SB 321 legislative changes were to the health of the ERS plan, adding while there is still work on the smaller LECOS and JRS 2 plans, the framework laid out this past legislative session could be applied. Ms. Melvin thanked GRS for their partnership and working with ERS. She noted that she watched some of the hearings and noted that legislators listened and valued GRS's information and advice. Mr. Wilson concluded that the focus last legislative session was on the larger, main ERS plan but the agency will look to carry the message forward on the two smaller plans next legislative session starting in January 2023.

29. Annual Review and Discussion of Global Equity

Mr. John Streun, Director of Internal Public Equity, and Ms. Lauren Honza, Director of External Public Equity, presented the Annual Review and Discussion of Global Equity.

Mr. Streun stated that the objective for the portfolio is to outperform the policy benchmark over a rolling five-year period while maintaining compliance with the active risk budget. The strategy employed by ERS staff to meet these objectives is to combine low risk/low cost internal strategies with higher risk/higher cost external strategies to generate an information ratio of 25 basis points on tracking error of 150 basis points.

Mr. Streun explained the Global Equity portfolio currently represents 57% of the Trust. The portfolio is made up of approximately 39% Public Equity and 18% Private Equity. Of the Public Equity portion, $9.2 billion is managed internally and $4.3 billion is managed externally.

The Board inquired whether the team intended to keep internally managed at that level, and Mr. Streun responded that he expects that the portfolio will be predominantly managed internally due to the cost advantage.

Mr. Streun reviewed the performance of the portfolio as of September 30, 2021 and stated that the portfolio endured a few rough years due to the pandemic and market volatility which caused an underperformance of 30 basis points on a five-year annualized basis.

On a one-year basis, the portfolio outperformed the benchmark by 77 basis points. Most of the domestic equity portfolios outperformed their respective benchmarks. Global Public Equity is underweight in US large cap and overweight in US small cap. The allocation was a detractor from performance since US large caps, particularly technology, have performed well.

Mr. Streun commented that while the asset class benefitted from positive stock selection of international stocks, a strategic underweight to US large cap stocks detracted from performance. Detractors from the portfolio were the underperformance from Internal Emerging Markets and Internal Small/Mid cap portfolios, strategic overweight to international markets and underweight to large cap domestic markets, and a cash drag.

Mr. Streun stated that the Public Equity External Advisor Program outperformed by 400 basis points.

The Board inquired if the team planned to remain overweight in international in the future. Mr. Streun stated that there is a greater U.S. concentration risk overweighting to domestic and, as a result, the portfolio is likely to maintain its current positioning.

Mr. Streun stated that 10 out of 12 funded mangers outperformed their benchmarks since inception. Two managers that detracted from performance were Allianz and Templeton. Both managers have been defunded.

Mr. Streun stated that the internal program is the most cost effective at about 9.5 basis points of assets under management.

Ms. Honza gave an overview of the external public equity program and the investment process. The goal of the program is to compliment the internal book by utilizing firms with expertise that the investment team does not have in-house that can add value to the Trust.

Ms. Honza explained the five phases of the investment process starting with research and ending with implementation.

Thanking ERS Office of Procurement and Contract Oversight (OPCO) for their assistance with the procurement process, Ms. Honza explained the phases of the RFP process, stating that in Stage II a very thorough due diligence is performed. Ms. Honza updated the board on the RFP process including what benchmarks are used to measure the performance during this process.

She stated that there are 16 managers and 17 strategies in the External Advisor Program. Mr. Streun went over the 2022 initiatives for Global Public Equity to continue to enhance the portfolio construction process, complete the US Large Cap RFP, evaluate existing software, examine the Special Situations Portfolio, and cultivate employee development and mentoring.

The board inquired about the Japan Activist Portfolio in the Special Situations Portfolio. Mr. Streun responded that the portfolio has been funded and has outperformed over 500 basis points.

There were no questions or further discussion on this item.

30. *Annual Review of ERS' Emerging Manager Program

Ms. Lauren Honza, Director of External Public Equity, presented the Annual Review of the ERS Emerging Manager Program. Ms. Honza stated that the definition of an Emerging Manager is a private professional investment manager with less than two billion in assets. Asset class consultants are Legato Capital Management, Barings, Grosvenor, Oak Street and PAAMCO, noting each helps ERS engage with emerging firms. She discussed the ERS External Advisor Website where firms can fill out a questionnaire to provide ERS information.

As of September 30, 2021, $17 billion of Trust assets were externally advised, and Ms. Honza said about 13% of that is invested with emerging managers, well above the internal goal of 10% which shows the program has been highly successful.

The Board asked if the Emerging Manager Program is included in the asset allocation in the performance and the benchmark. Ms. Honza responded in the affirmative and Mr. Veal added it is a great feature of the program since managers can keep growing within the allocation.

The allocation to Private Credit managers has had the most significant growth in the emerging manager space. Ms. Honza stated that the Private Credit team is looking for managers to complement their portfolio. Commitments for Fiscal Year 2021 was $275 million and the expected Fiscal Year 2022 commitment is $275 million.

Ms. Honza also reported the successes of the Real Estate Emerging Manager Conference on January 11-12, 2022 and the TRS/ERS Emerging Manager Conference on January 19, 2022 which gives managers a chance to speak with ERS and many other potential investors.

Ms. Honza stated that the Private Equity team has committed a total of $15 million. She stated that on behalf of Private Equity, during Calendar Year 2021, Barings made six commitments totaling $16 million. For Calendar Year 2022, ERS staff plans to target four to six new investments. The Hedge Fund team made an original commitment in June 2018 of $150 million and an additional commitment in April 2021 of $175 million.

Ms. Honza discussed performance of the different asset classes within the Emerging Manager program specifically noting, positive performance for international small cap, private equity and real estate, but weak performance in emerging market equities.

The board inquired what benchmarks were being used by the Private Equity Portfolio. She stated that she would check with the Private Equity team and follow up with them regarding benchmarks and returns.

There were no questions or further discussion on this item.

<u>31. *Educational Presentation: Global Demographic Trends and their Implication for the ERS Investment Program</u>

Mr. Micheal Yuan, Portfolio Manager, discussed key global demographic trends and their implications to investments, economic growth and societal changes. He highlighted demographic changes are one of the most important factors, but does not receive much attention. Investors believe demographics, over the long-term, exert a significant influence on the path of economic growth, inflation, interest rates, and therefore, fiscal and monetary policy.

He presented charts and graphs to illustrate that many countries are in danger of the aging demographic global wave with a lower birth rate than the replacement rate of 2.1 births per woman. He stated that by year 2050 there would be over 2 billion seniors globally, and most nations will have a larger proportion of seniors relative to the total population.

He stated the impact global aging wave would cause transformative change in economic growth, risk, and increases in government spending. He noted that China is “aging” at twice the rate of the United States. China's elderly dependency ratio is set to increase rapidly as the working age population shrinks by roughly 200 million workers over the next few decades.

He added that ERS should be mindful of these trends and construct a portfolio able to withstand sub-par economic growth, growing debt obligations and lower investment returns. Employers face challenges from an aging workforce and a changing post-pandemic workplace. These challenges may require employers to provide more flexible work arrangements, a more collaborative work culture, and increasing investments in productivity tools.

The Board inquired whether there are any investment changes needed in the near horizon due to these changes which would cause a shift in the ERS portfolio. Mr. Veal responded that he wants the team to have a strong fundamental view and dig deeper to see how it could affect decisions in investing.

32. Adjournment of the Joint Meeting of the Board of Trustees and Investment Advisory Committee and Reminder of Upcoming Meeting Dates

The Board was reminded that the next meeting dates and the Joint Meeting of The Board of Trustees and Investment Advisory Committee Meeting adjourned at 3:09 p.m.