

ERS HEDGE FUND PROGRAM ANNUAL CAPITAL PLAN FOR FISCAL YEAR 2023



TACTICAL PLAN FOR FISCAL YEAR 2023 - (ACTION)

The IPS requires staff to prepare and present a Tactical Plan (Plan) annually to the ERS Board of Trustees for review and approval. The Plan is an annual report submitted by the asset class detailing guidance for investment implementation. The Plan establishes the objectives for the fiscal year and guides program operations while allowing for prudent investment decision-making. The following portfolio summaries provide the expected outlook for the hedge fund allocations and the portfolio management activities that are expected as a result.

- **Absolute Return Portfolio** (4.4% of Trust assets):

ERS staff proposes transitioning the Launchpad Portfolio from the Special Situations Portfolio into the ERS Hedge Fund Program. With this transition, the ERS Hedge Fund Program will be at or near its 5% target allocation. While the ERS Hedge Fund Program has further flexibility due to its allowable strategy bands of 0-10%, staff does not currently intend to grow the ERS Hedge Fund Program meaningfully. Allocations to both the Absolute Return Portfolio as well as the Launchpad Portfolio will be considered on an opportunistic basis, with new opportunities to include both new exposures as well as replacements to existing allocations. As such, staff expects 0-2 new exposures including replacements or enhancements to existing allocations.

Looking into the remainder of FY22, the current environment is concerning. There are a number of geopolitical risks, inflation is at multi-decade highs, and COVID continues. Geopolitical risks, especially an outright war between two countries, could cause ripple effects across many markets, both directly (e.g. commodities) as well as indirectly (e.g. flight to safety assets, monetary and/or policy changes by global central banks). Maintaining a portfolio that is highly diversified by strategy, geographic region, and underlying investment markets/instruments will be important for the Absolute Return Portfolio to fulfill its role as a risk-mitigating portfolio within the Trust.

- **Directional Growth** (1.4% of Trust assets): There are no current plans to pursue any new investments in FY23. ERS staff proposes to transfer primary responsibility for the Directional Growth Portfolio to the External Public Equities team at the end of FY22, with the Hedge Fund team continuing to assist with identifying new opportunities as needed.
- **Launchpad** (0.8% of Trust assets): Given the proposed transition of these allocations out of the Special Situations Portfolio and into the ERS Hedge Fund Program, these allocations will then become part of the Absolute Return Portfolio's targeted 5% allocation. As such, the transition will take the ERS Hedge Fund Program to its 5% target. As noted, new opportunities will be considered on an opportunistic basis, and they will include both new exposures as well as replacements to existing allocations. ERS staff is currently working on a potential fourth investment. More specifically, staff is working alongside Cinctive Capital Management, a current manager relationship, on seeding a new multi-portfolio manager fund that will have a focus on global macro. Following this potential investment, the additional capital that was allocated to Launchpad by the Board in April 2021 would be fully committed. As such, staff expects 0-1 new exposures including replacements or enhancements to existing allocations during the next 12 months.