

Public Agenda Item #14

*Consideration of Annual Review of Hedge Fund Program and Proposed Hedge Fund Tactical Plan - (**Action**)*

May 11, 2022

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Hedge Fund Program

Program Overview



Key Components

- Absolute Return Portfolio
- Directional Growth Portfolio
- Launchpad Portfolio

Hedge Fund Program

Program Overview



Investment Objective

- Outperform relevant benchmark over rolling five-year periods
- Maintain compliance with risk and exposure guidelines

Absolute Return Portfolio

Key Characteristics



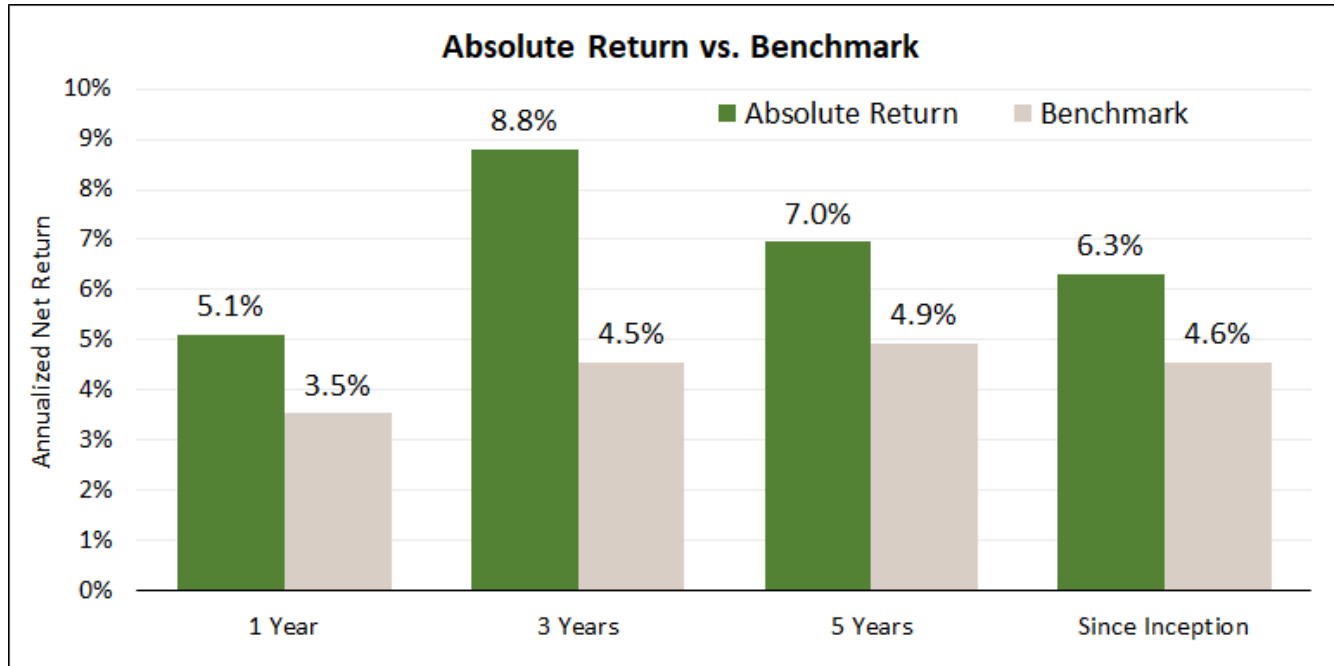
Attribute	Absolute Return Portfolio
Type of Allocation	Risk Reducing
Policy Allocation	Target weight of 5%, range of 0-10%
Management Style	External via limited partnership interests
Return Target	T-bills + 3.5% or better
Risk Budget	Volatility target of 4% to 8%
Beta Target	≤ 0.4 versus the Trust
Investment Expenses	~417 bps external, ~17 bps internal for FY21

Absolute Return Portfolio

Performance Snapshot



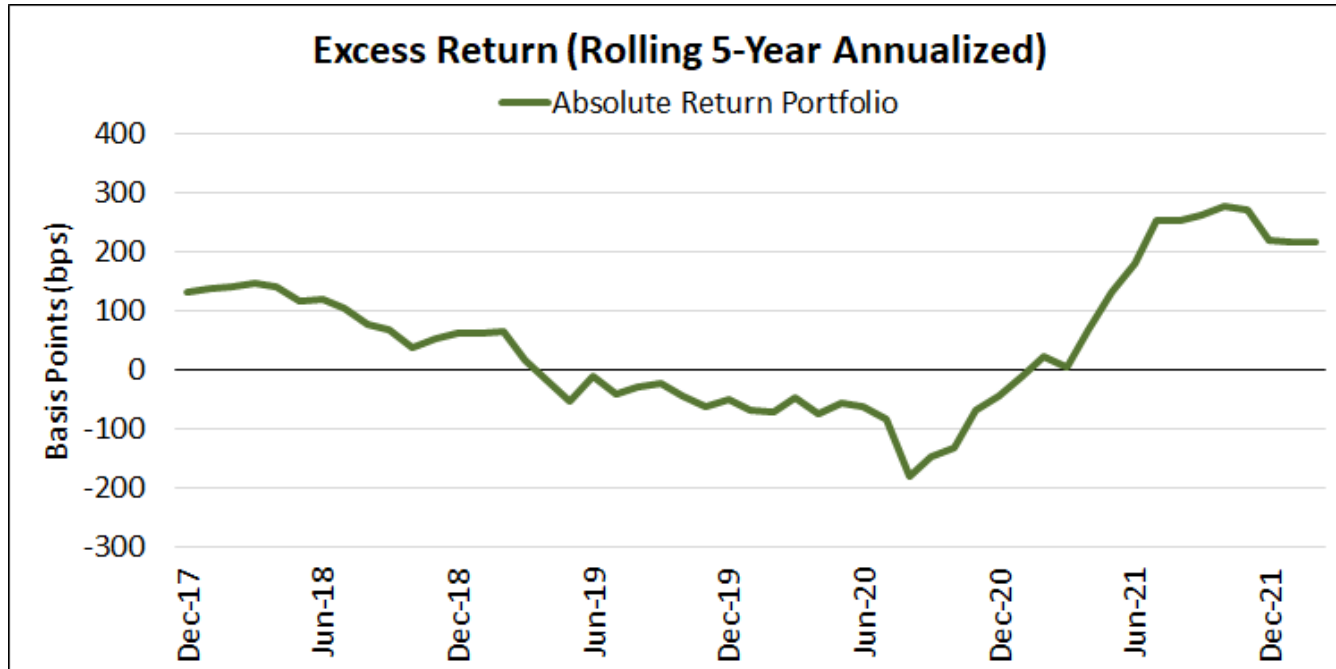
- Strong performance across all time horizons



Absolute Return Portfolio

Historical Performance

- Relative performance the strongest in recent years

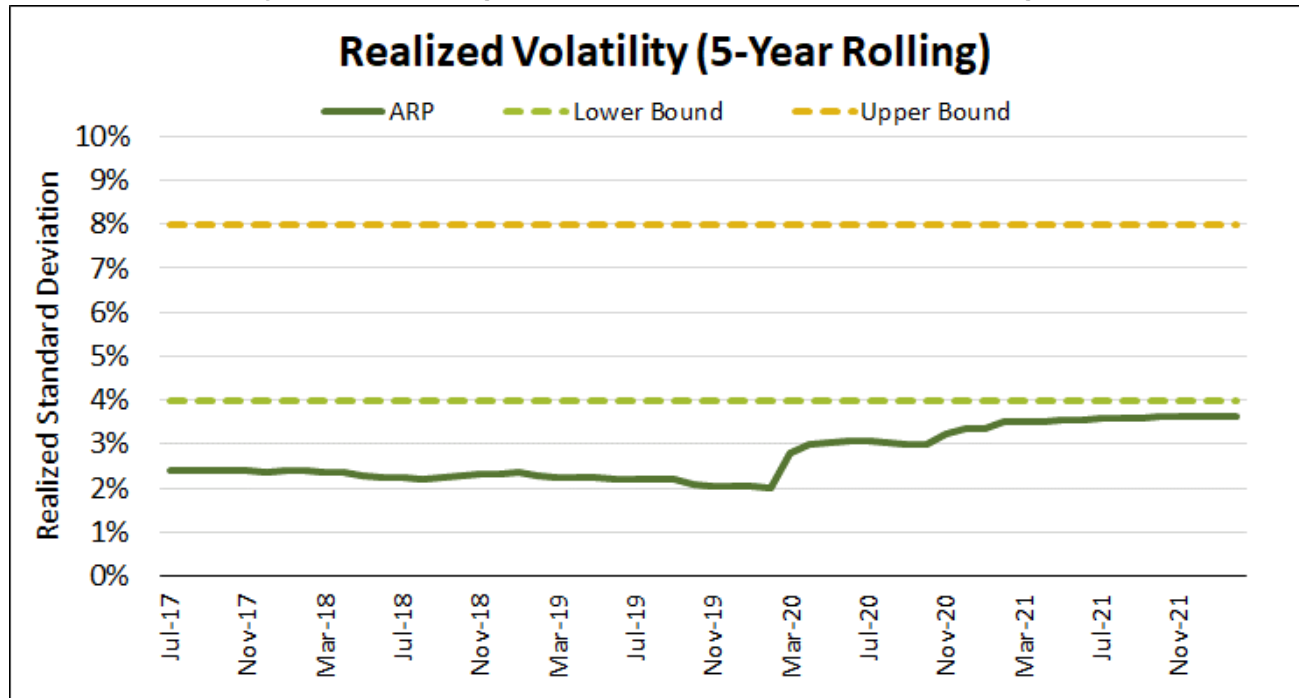


Absolute Return Portfolio

Historical Risk



- Risk levels consistently below target have still delivered strong performance

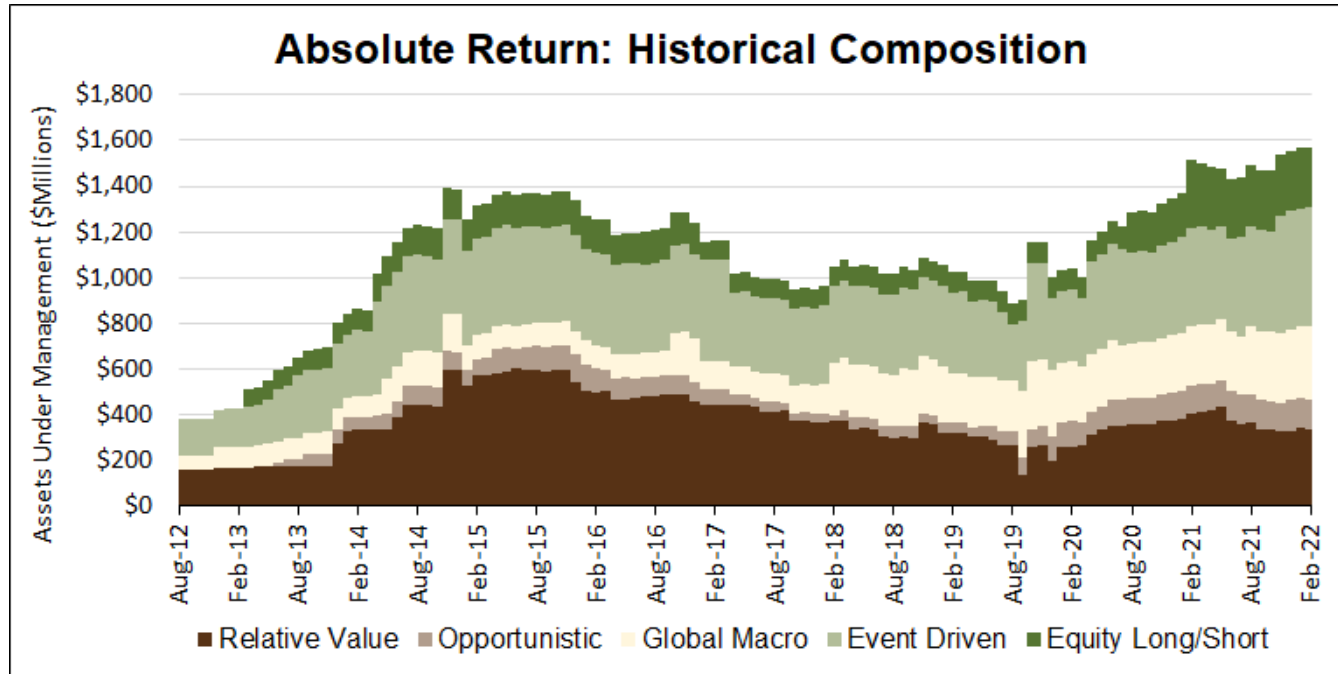


Absolute Return Portfolio

Historical Composition



- Portfolio has maintained diversification throughout its growth over time



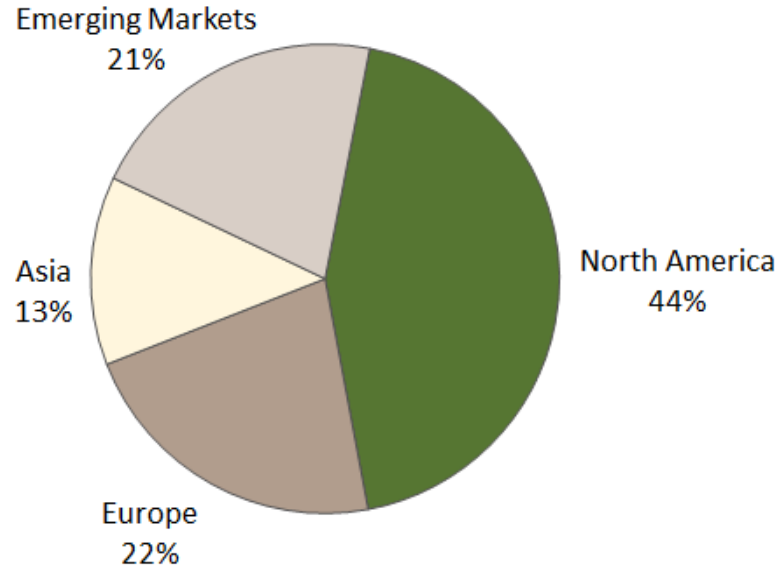
Absolute Return Portfolio

Composition by Geographic Region



- Portfolio remains well-diversified across geographies and within guidelines

Absolute Return: Geographic Exposure



Directional Growth Portfolio



Key Characteristics

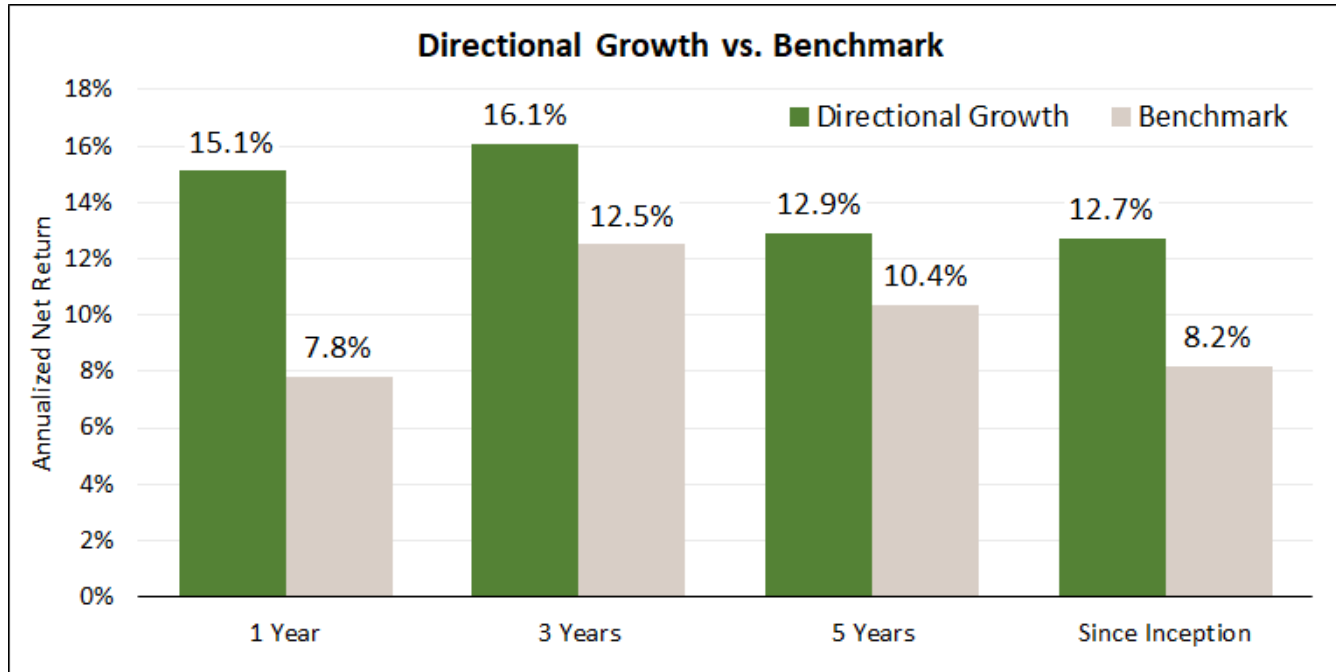
Attribute	Directional Growth Portfolio
Type of Allocation	Return Seeking
Policy Allocation	Opportunistic
Management Style	External via internal allocation decisions
Return Target	Outperform underlying benchmarks (i.e. MSCI ACWI)
Tracking Error	Target of 200-400 bps
Information Ratio	Target of 0.25
Investment Expenses	~124 bps external, ~6 bps internal for FY21

Directional Growth Portfolio



Performance Snapshot

- Performance remains strong across all time horizons

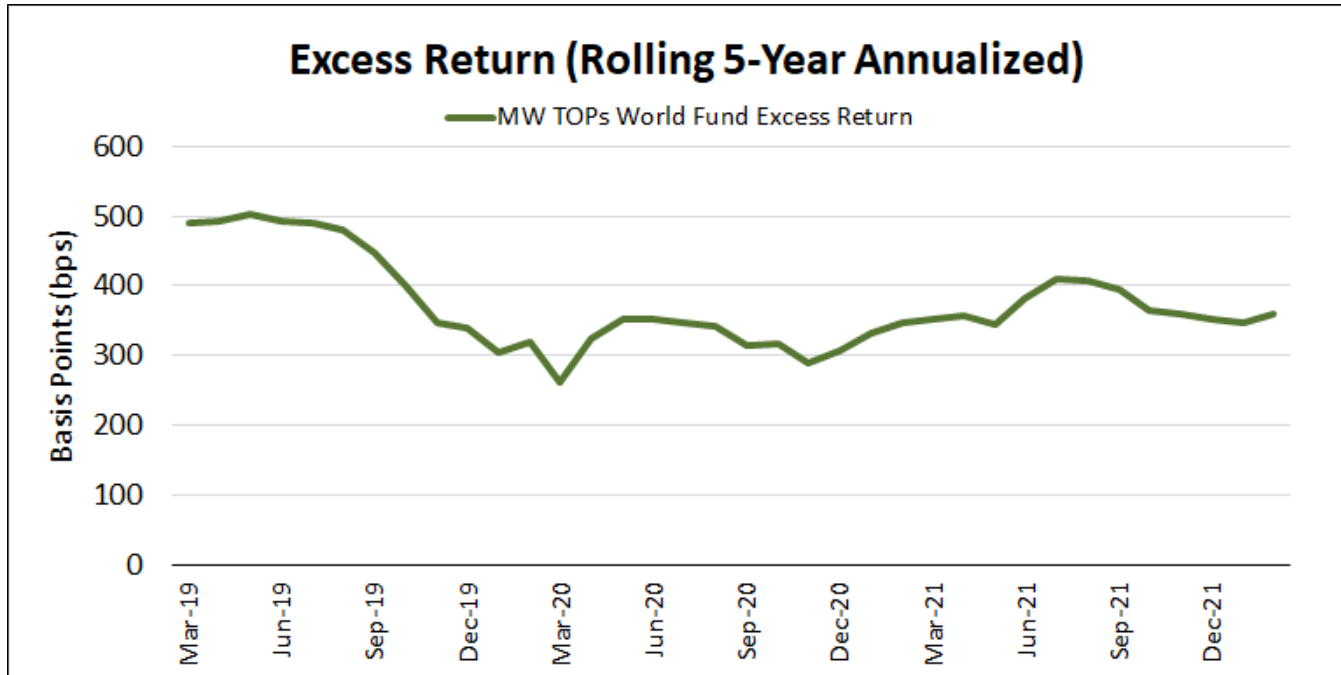


Directional Growth Portfolio



Historical Performance

- Performance for the current holding has been steady and consistent

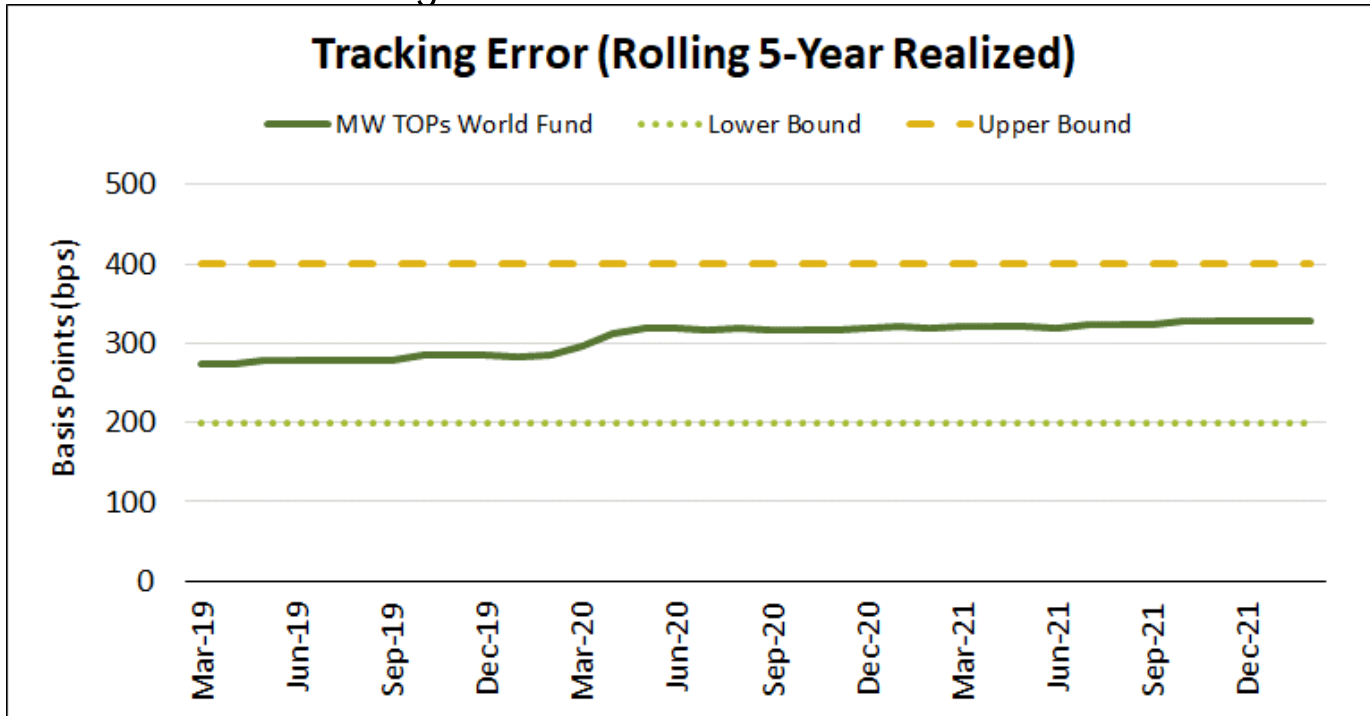


Directional Growth Portfolio



Historical Risk

- Risk levels remain within the guidelines for this allocation

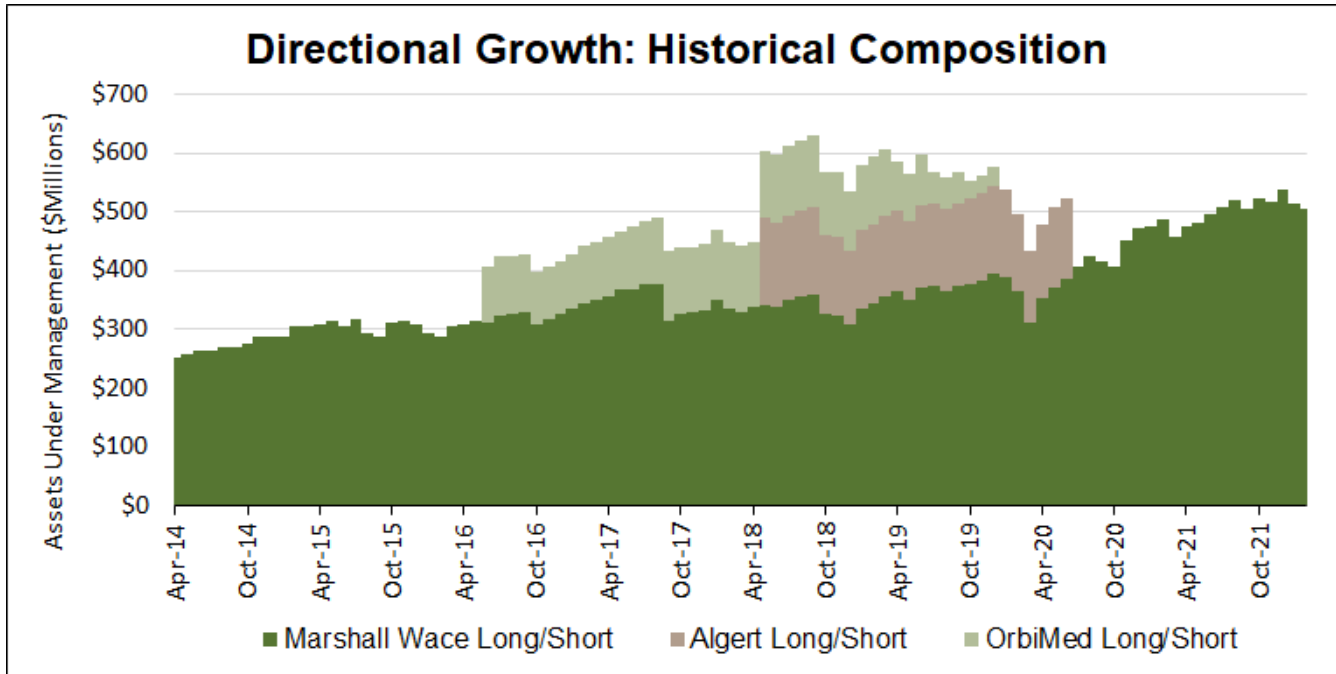


Directional Growth Portfolio



Historical Composition

- Portfolio is currently one allocation but has included others over time



Launchpad Portfolio

Key Characteristics

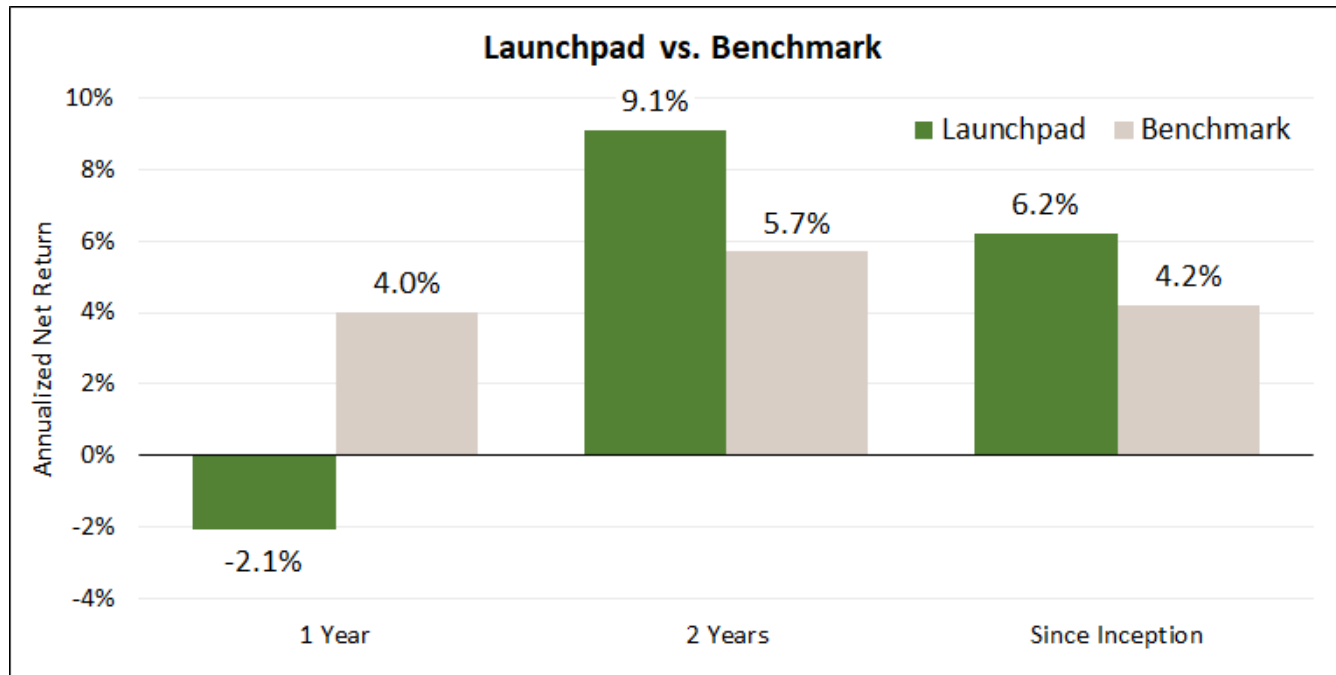


Attribute	ERS PAAMCO Launchpad
Type of Allocation	Return Seeking
Policy Allocation	Opportunistic
Management Style	External, with ERS retaining investment decisions through PAAMCO Prisma collaboration
Return Target	Blended benchmark based on underlying strategies
Risk Budget	Volatility target of 4-8%
Other Characteristics	All relationships include revenue sharing economics
Investment Expenses	~479 bps external, ~19 bps internal for FY21

Launchpad Portfolio

Performance Snapshot

- Good performance since inception despite weak results recently

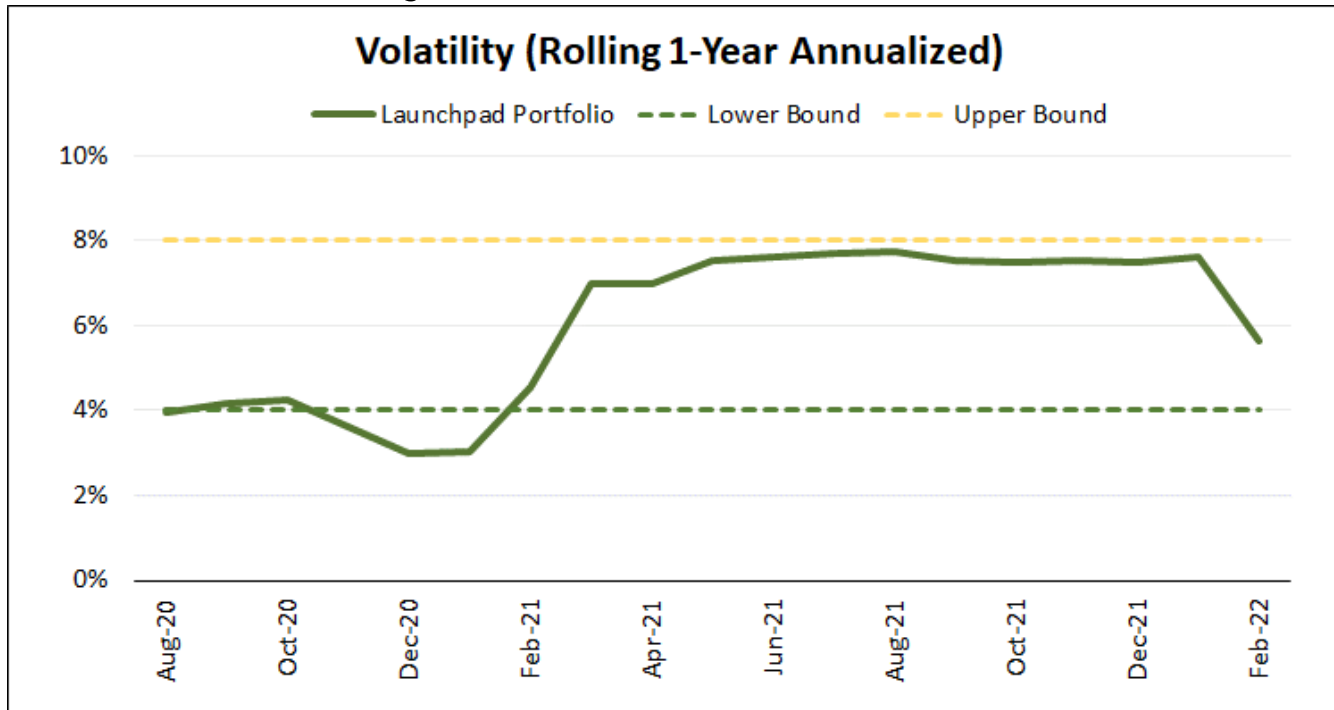


Launchpad Portfolio

Historical Risk



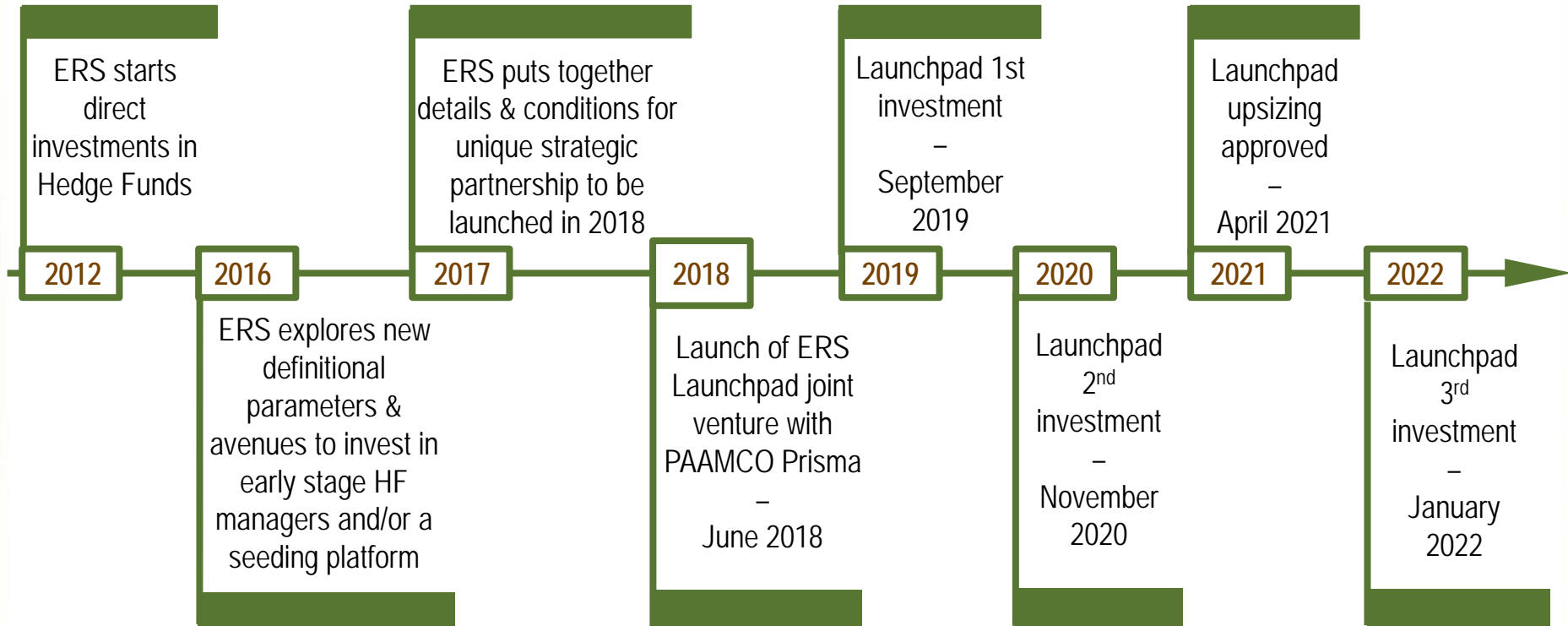
- Risk levels remain within the guidelines for this allocation



Launchpad Portfolio



History

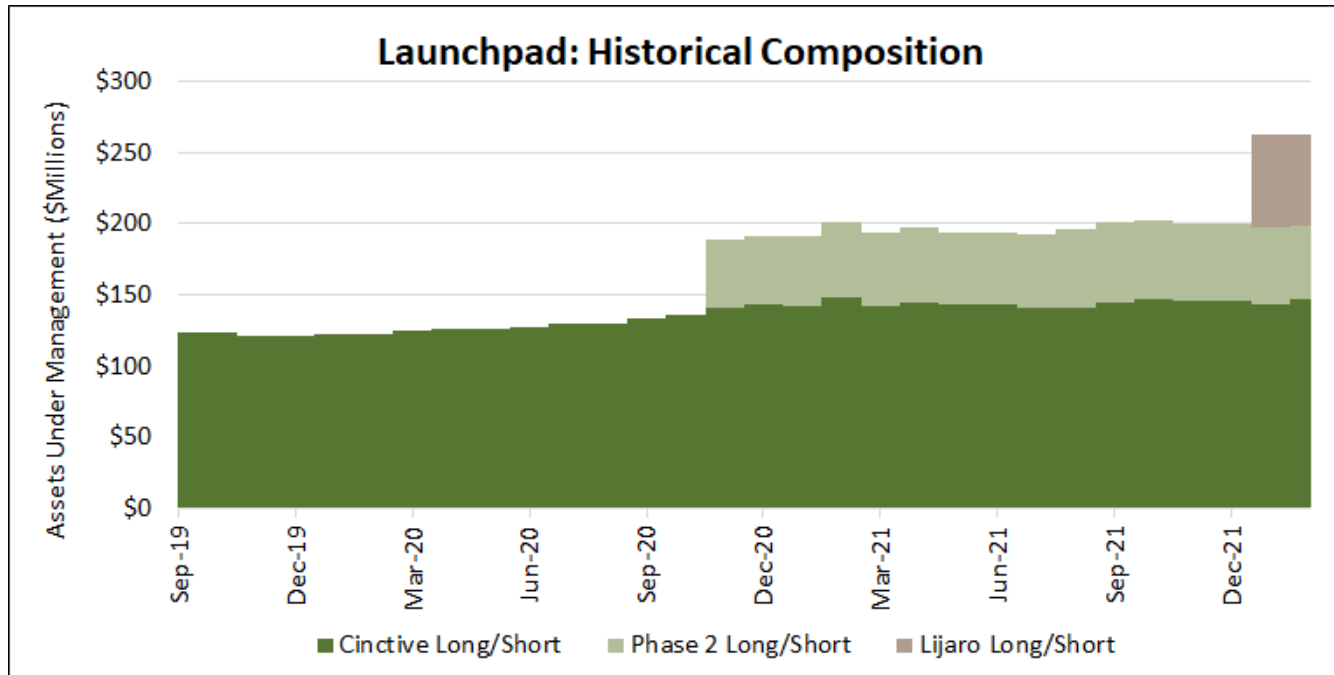


Launchpad Portfolio

Historical Composition



- Three allocations completed since inception with another in the pipeline



Launchpad Portfolio

Objectives



- Partner with high quality managers for attractive long term, risk-adjusted returns
- Build the Trust's "farm system" of next generation managers
- Communicate with industry about the unique structure and benefits of Launchpad
- Build a strong pipeline with potential Managers across the globe

Launchpad Portfolio

Accomplishments



- Launchpad has successfully seeded 3 strategies in the last 3 years
- Launchpad has been broadly recognized for its innovative structure
- ERS and PAAMCO Prisma have built a healthy pipeline of ideas globally
- Active sourcing (contact with ~300 managers last 12 months) leads to an active pipeline
- Demand for seed/acceleration capital puts ERS in strong economic position

Hedge Fund Program

Initiatives for FY23



Launchpad Portfolio

- Transition from Special Situations to Hedge Funds for FY23
- Manage opportunistically

Absolute Return Portfolio

- Hedge Fund Program at target allocation of 5%
- Manage opportunistically

Directional Growth Portfolio

- External Public Equity to become primary in FY23

Questions?

Review and Approval of Proposed Hedge Fund Tactical Plan for Fiscal Year 2023

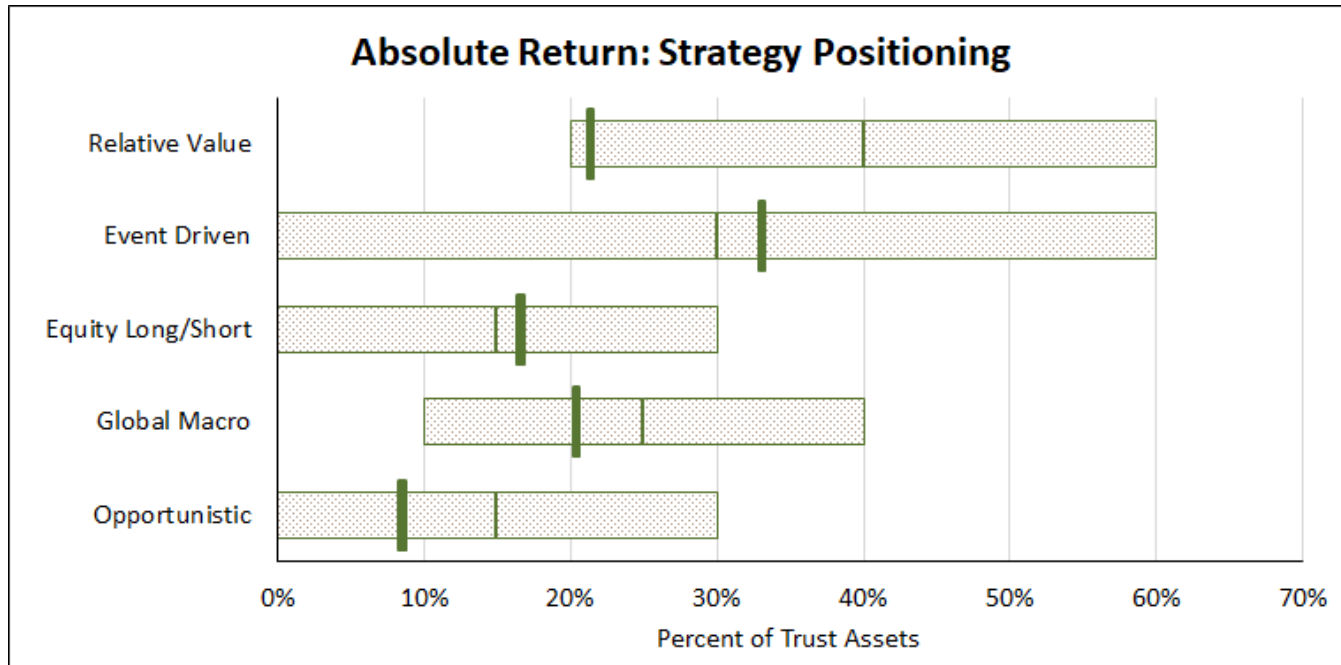
Nick Maffeo, Director of Hedge Funds

Tactical Plan

Proposed Allocation for Fiscal Year 2023



- With the proposed transition of Launchpad for FY23, the Program is at its 5% target.



Tactical Plan



Portfolio Plans for Fiscal Year 2023

- Absolute Return: 0-2 new exposures including replacements or enhancements to existing allocations.
- Launchpad: 0-1 new exposures including replacements or enhancements to existing allocations.
- Directional Growth: assist with transition to External Public Equities
- Maintain emphasis on diversifying strategies to complement existing investments across all three allocations

Questions?
Action Item