

## Public Agenda Item #10

### *Quarterly Report from Chief Investment Officer*

August 24, 2022

David T. Veal, Chief Investment Officer, CFA, CAIA, FRM

# Trust Performance

## Mission & Objectives



Prudently maintain a high-performing, well-diversified, and cost-effective portfolio to support the provision of promised benefits.



Add value vs. benchmark  
over rolling five-year periods



Earn appropriate returns  
for the risks assumed

# Trust Performance

## Investment Strategy



Allocate assets  
thoughtfully



Select effective  
managers



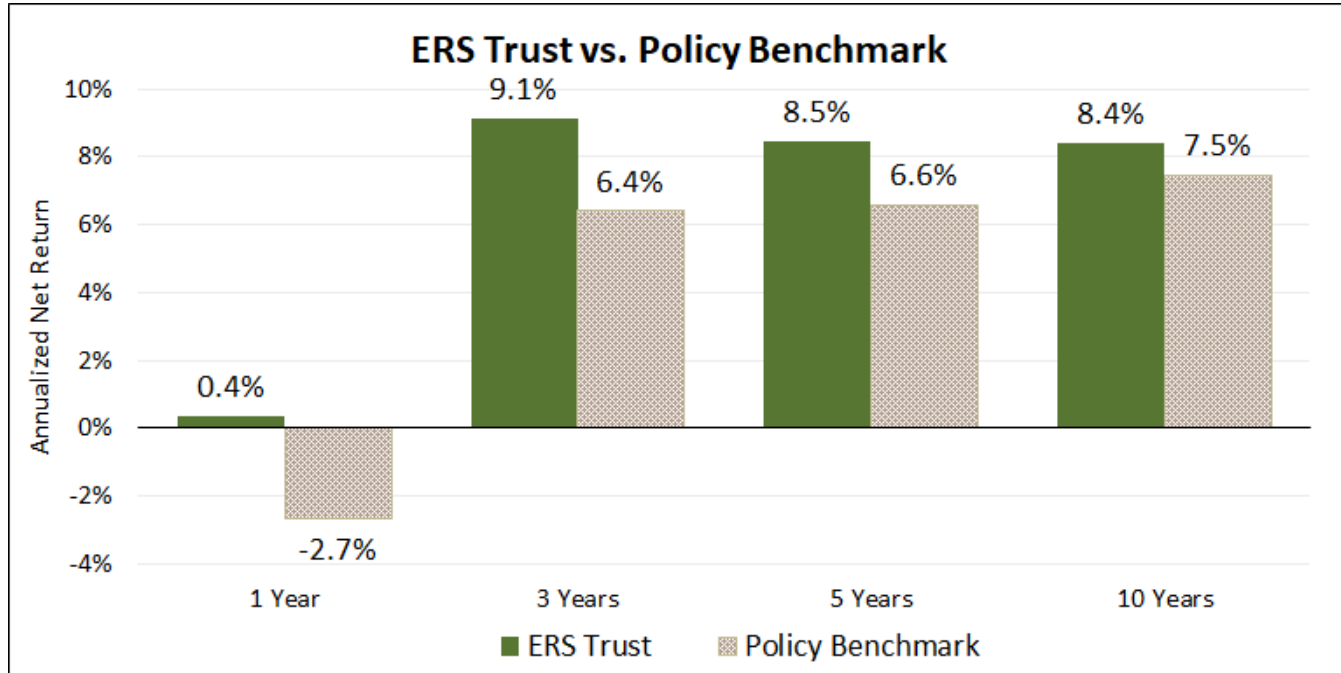
Diversify  
across risks

# ERS Trust Performance

## Relative Return



- Strong performance vs. Policy Benchmark, including 189 bps on a 5-year basis

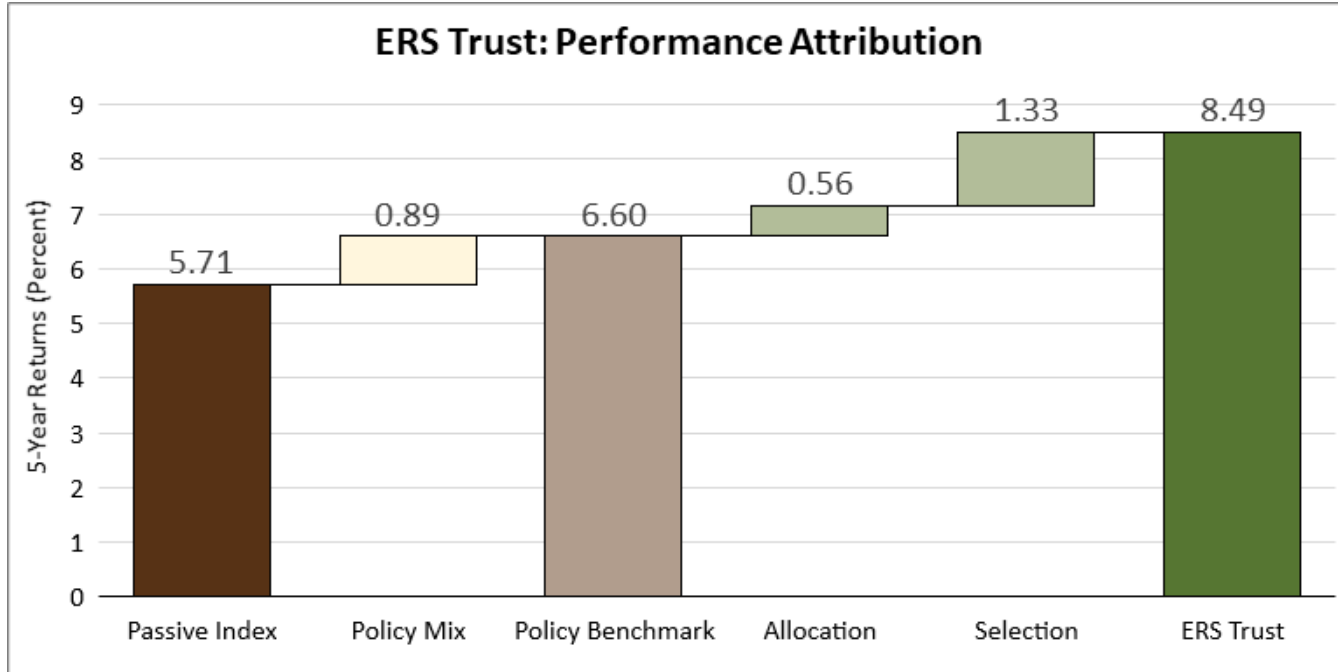


# ERS Trust Performance

## Attribution Analysis



- Meaningful excess return from both asset allocation and security selection decisions

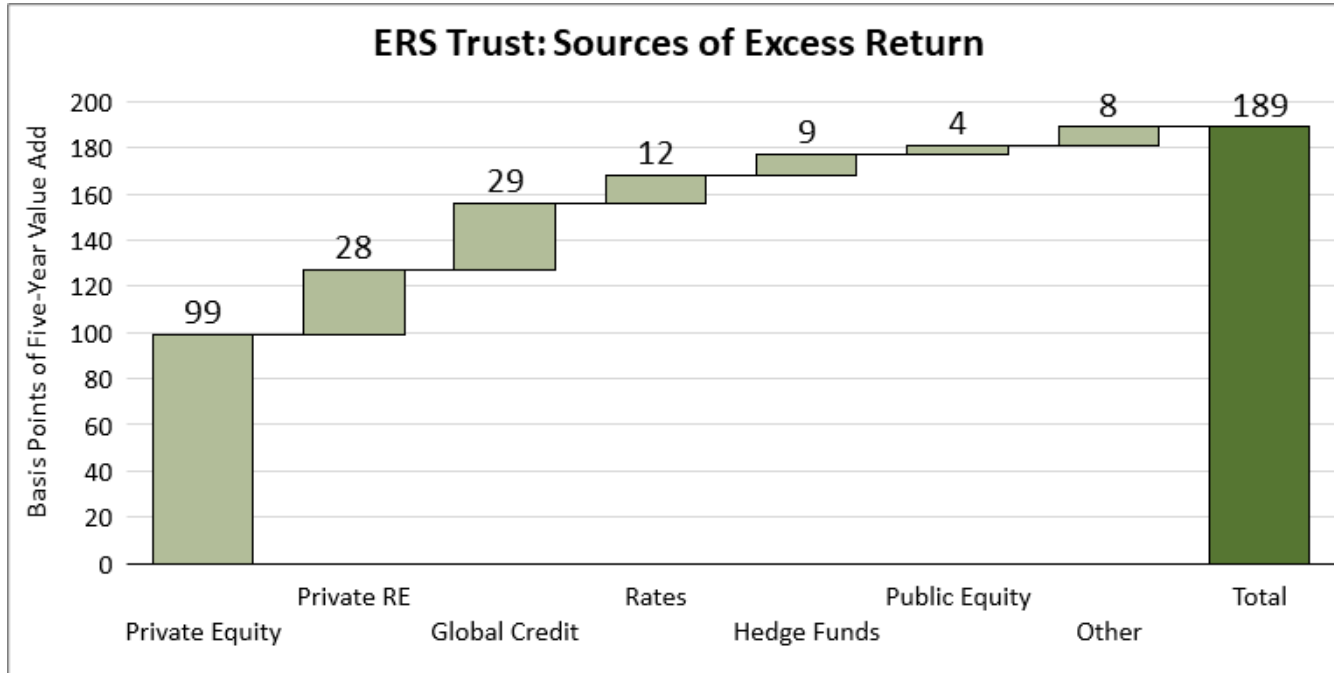


# ERS Trust Performance

## Attribution Analysis



- Private equity, private real estate, and credit represent 83% of five-year value add

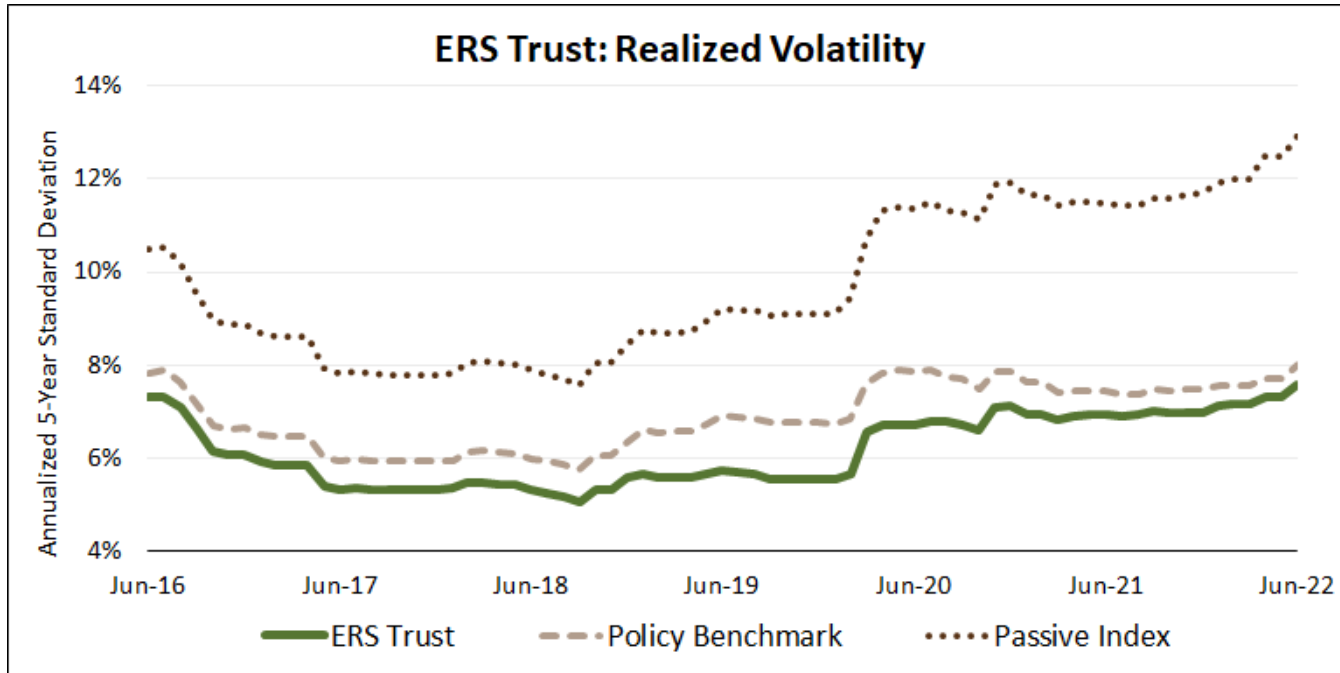


# ERS Trust Performance

## Absolute Risk



- Realized volatility levels now at 8% as the Passive Index reaches 13%

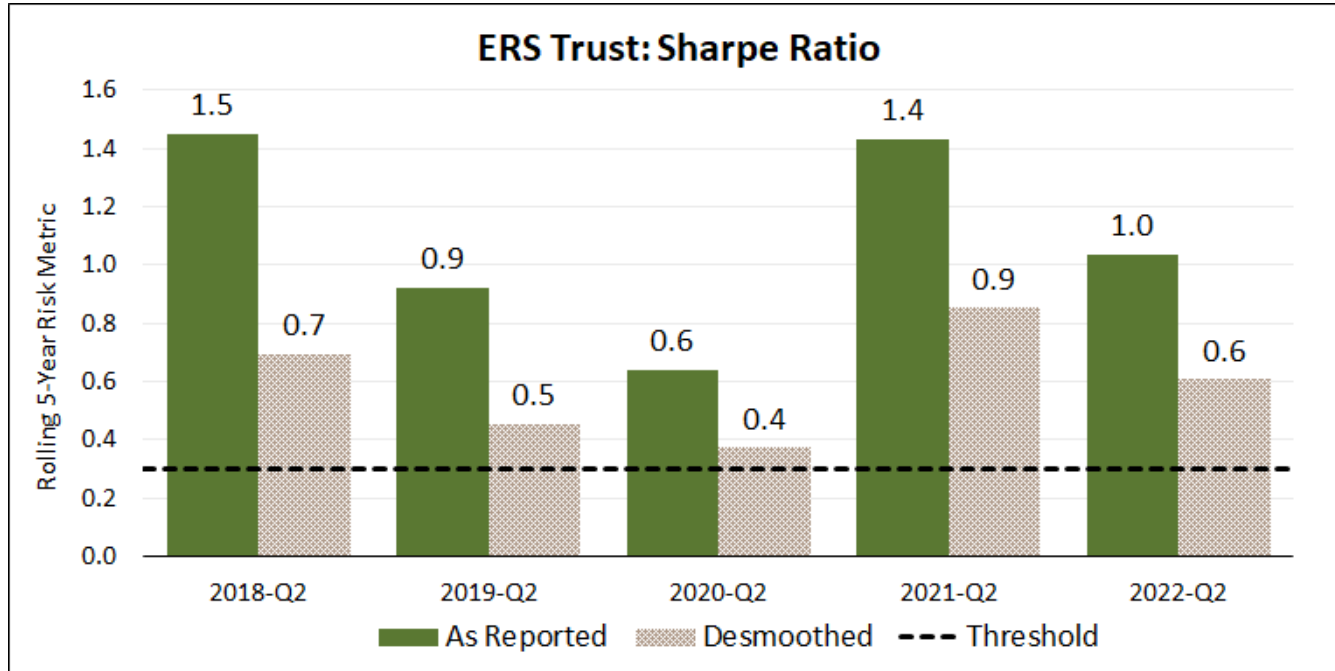


# ERS Trust Performance

## *Risk-Adjusted Returns*



- Good returns per unit of risk, even when compared to risk levels of the Passive Index



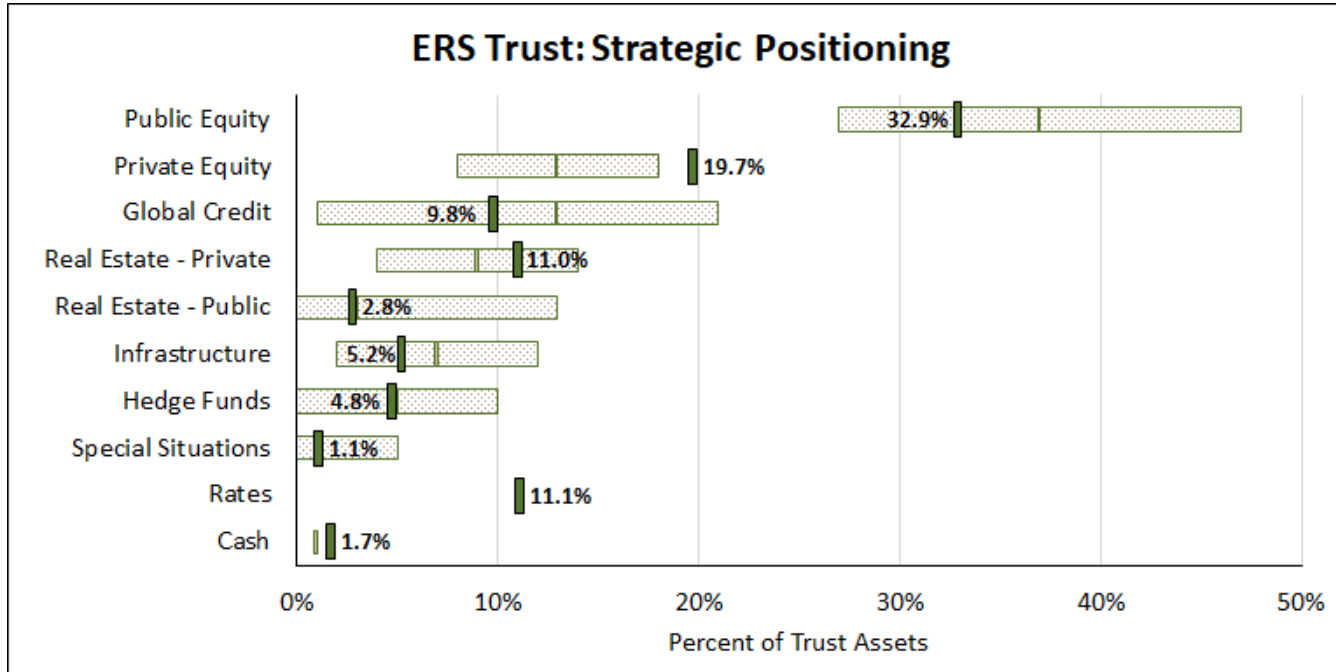


# ERS Trust Performance

## Asset Class Positioning



- Asset classes within ranges except private equity at 1.7% above 18% maximum

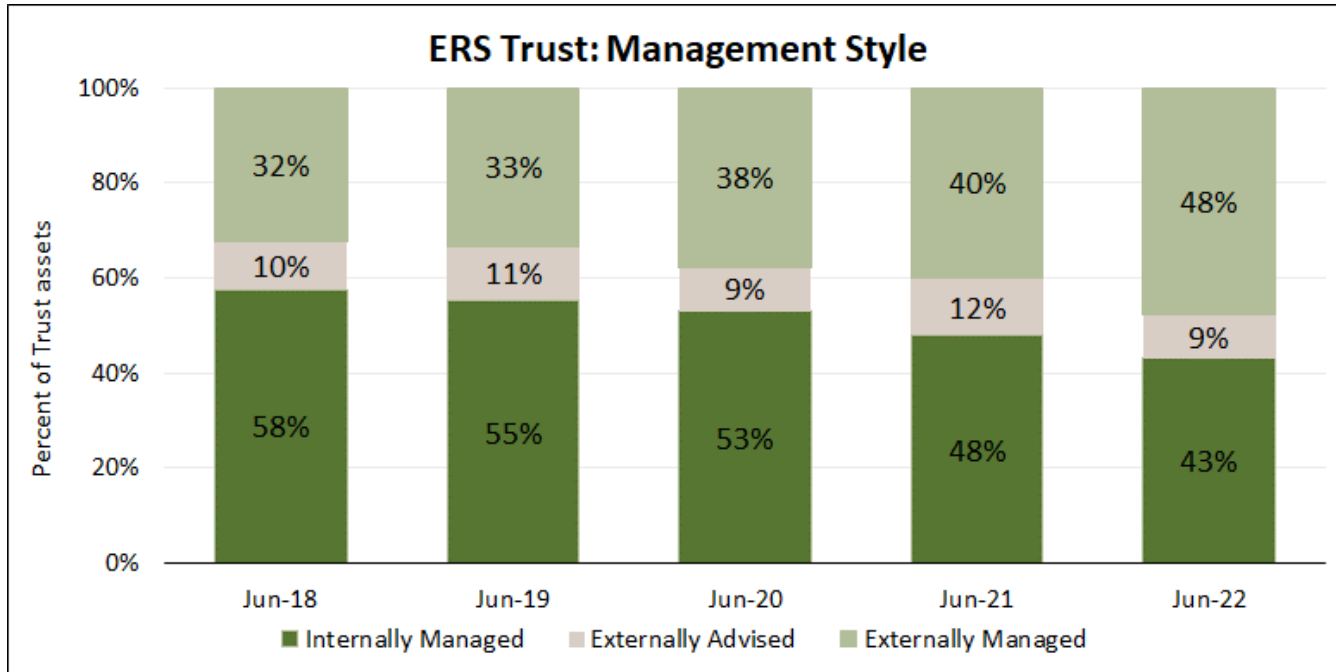


# ERS Trust Performance

## Management Style



- Mix shift toward private markets has made external management the majority

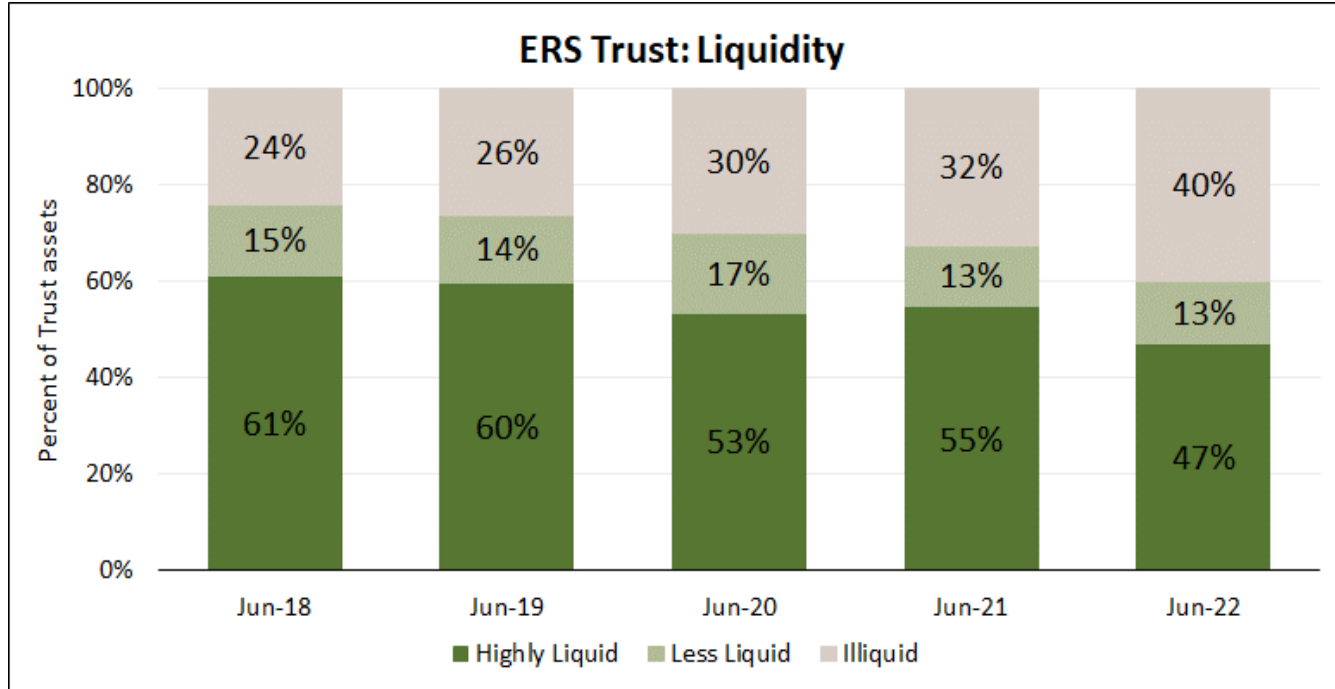


# ERS Trust Performance

## Liquidity Mix



- Mix shift toward private markets has made the Trust less liquid over time

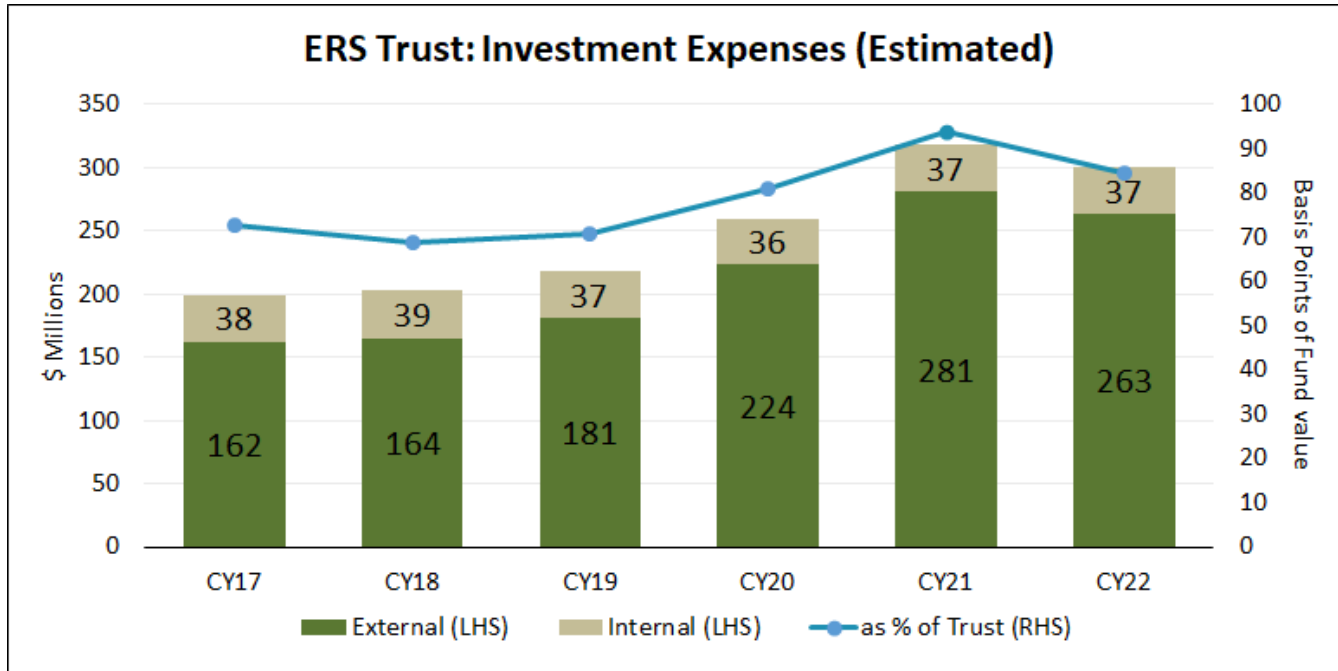


# ERS Trust Performance

## Investment Expenses



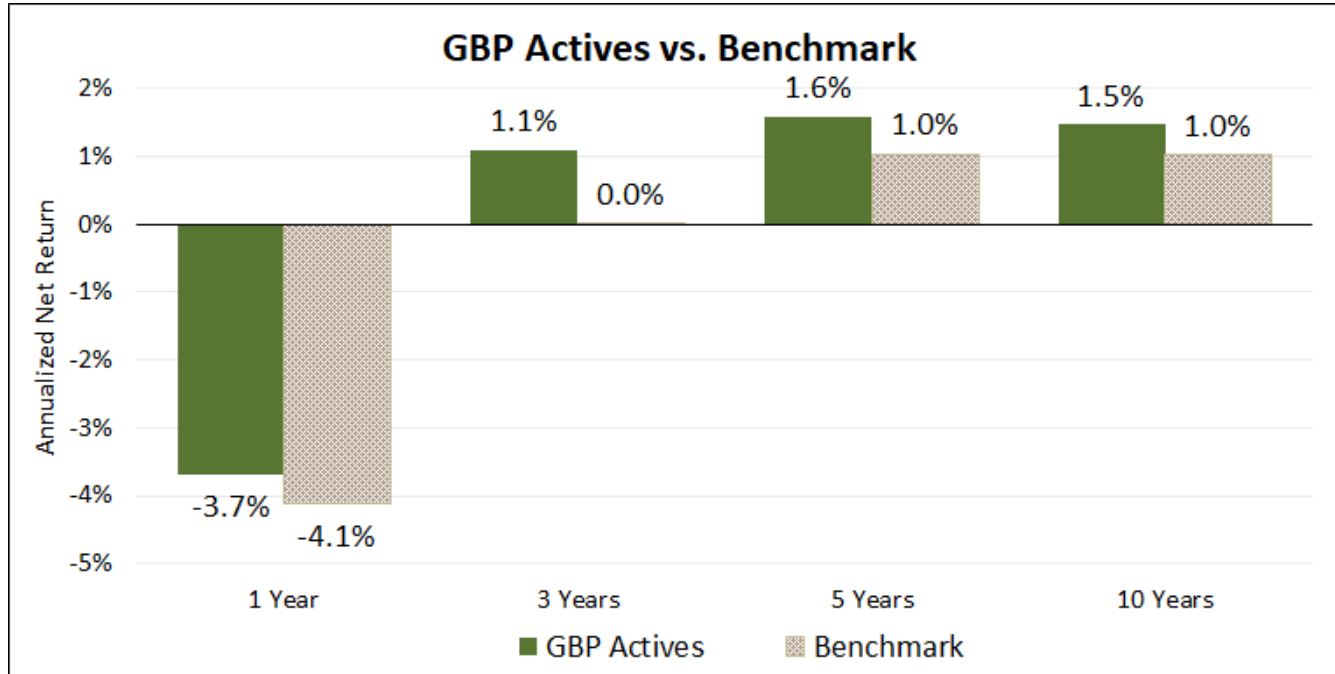
- Expense levels declining in 2022 with less profit share than during 2021



# GBP Funds Performance

## *Programs for Actives (i.e., Insurance Benefits Fund)*

- Good performance vs. highly conservative benchmark, funds now total \$3.3 billion



# Priorities for Fiscal Year 2022

## *Investments Division*



- Revisit organizational structure
- Update key policies and procedures
- Complete Asset/Liability Study
- Address consultant & audit recommendations

# Investment Division

## Governance Structure



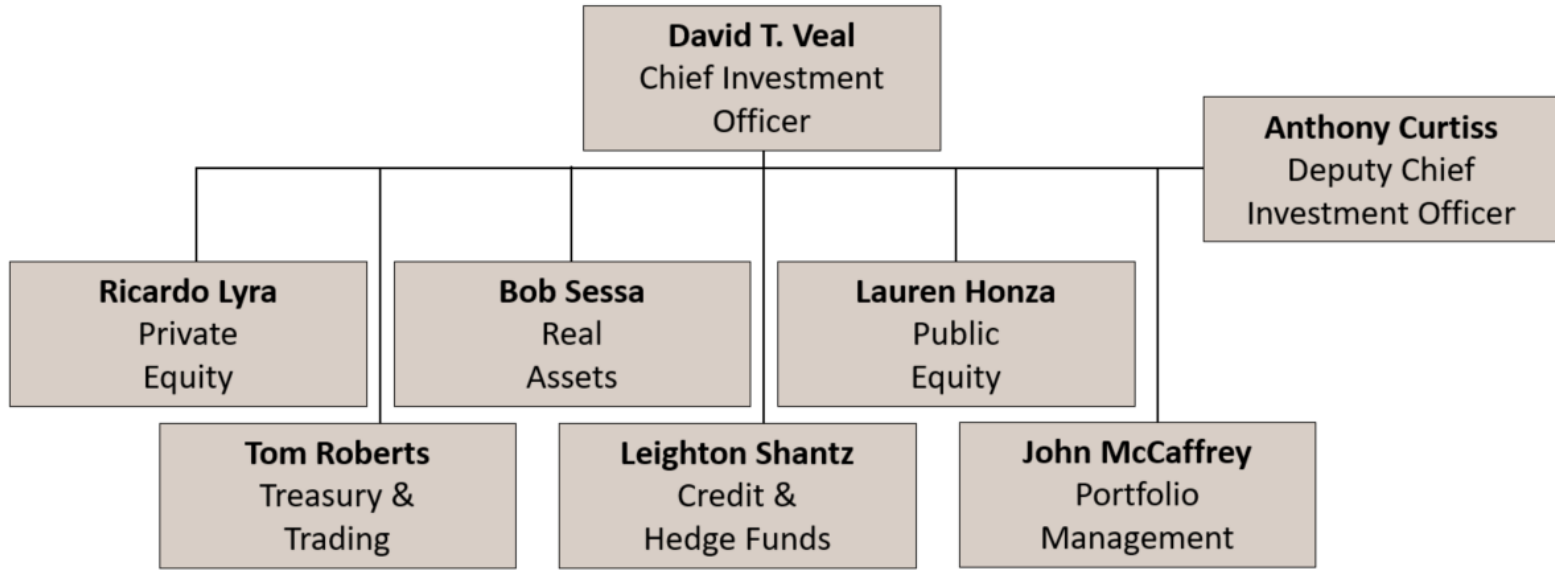
- IIP and SOPs guide Staff in day-to-day execution of the IPS

DOCUMENT	OWNER	SUBJECTS
Investment Policy Statement	Board/IAC with input from Staff, Consultant	Philosophy, Strategy and Authority
Investment Implementation Plan	CIO, DCIO and Risk Committee	Team Structure and Portfolio Guidelines
Standard Operating Procedures	DCIO and Program Heads	Routine Processes and Related Actions

# Investment Division

## Organizational Structure

- New organizational structure streamlines asset classes into teams



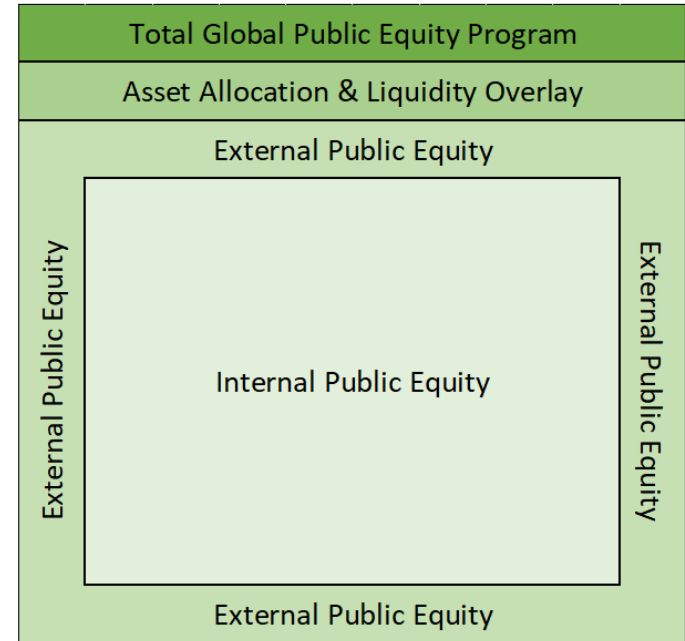


# Public Equity

## Organizational Restructuring

- Simplify and streamline to improve long-term performance

NUMBER OF PORTFOLIOS			
Geography	Internal	External	Total
US	3	2	5
International	5	15	20
Global	0	1	1
<b>TOTAL</b>	<b>8</b>	<b>18</b>	<b>26</b>



# Investment Policy Statement

## *Annual Update Process*



- Board requires review of IPS by staff at least annually
- Review conducted by Investments, Investment Compliance, Office of General Counsel, Executive Office, and General Investment Consultant
- Fresh eyes from CIO, General Counsel, and Compliance Officer
- Draft redline version circulated in July/August for feedback

# 2022 Asset/Liability Study

## *Timeline for NEPC*



Time Period	Activity
January-March	Receives background information from ERS
April	Conducts initial analysis of information
May	Provides draft findings to the ERS Board
August	Delivers final report to the ERS Board

# Priorities for Fiscal Year 2023

## *Investments Division*



- Focus on attracting and retaining talent
- Continue to improve key processes
- Conduct governance review with NEPC
- Sustaining the success of new initiatives

Questions?