

AGENDA ITEM DETAILS

Subject: Consideration of TexaSaver Investment Performance Review for Calendar Year 2022

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, 2022, 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. Participants who don't select an investment option are automatically enrolled in a Target Date fund that corresponds with their expected retirement date.

Contribution limits. The IRS has announced that contribution limits will increase for the 2023 tax year. In 2023, participants may contribute up to \$22,500 to either plan and those Participants age 50 or older may contribute an additional \$7,500.

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

PROGRAM PERFORMANCE REVIEW, CALENDAR YEAR 2022

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:

Carlos Chujoy - ERS Director of Risk and Reporting
Ruby Dang – Partner, Director of Marketing and Client Services, ERS Investment Advisory Committee (IAC)
Laurie Dotter, CPA, IAC
Diana Kongevick – ERS Director of Group Benefits
Gene L. Needles, Jr. – Vice-chair of ERS IAC
Leighton Shantz - ERS Managing Director of Credit and Hedge Funds
Cathy Terrell - ERS Deputy Executive Director

David Veal - ERS Chief Investment Officer and
Porter Wilson – ERS Executive Director.

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

FUND CHANGES

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. Contributions into the fund were made available on January 10, 2022.

Additionally, at the recommendation of the PRC, the Board approved removal of the Lord Abbett Small Cap Value I (LRSYX) fund from the Texa\$aver program, with assets moved 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.

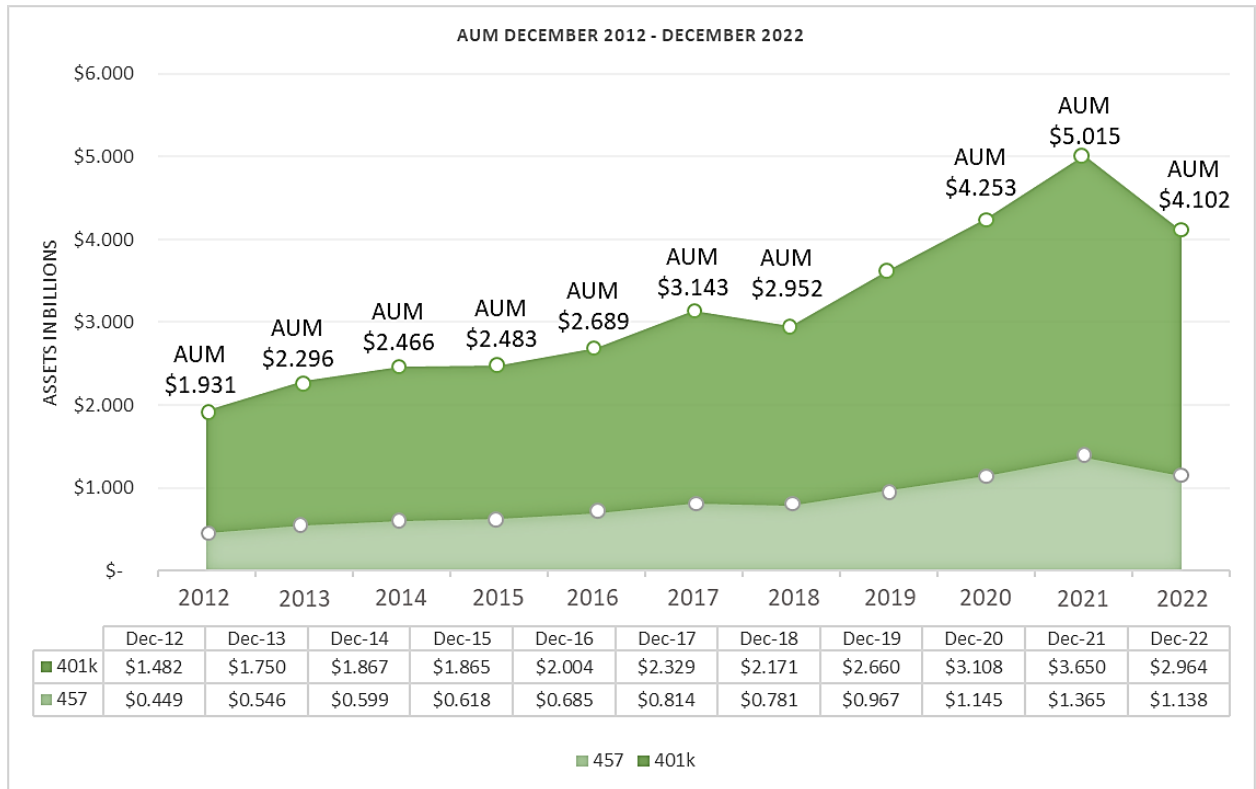
High yield bond fund. A sub-committee appointed by the PRC began initial due diligence for a high yield bond fund. PRC requested the sub-committee prioritize the passive domestic small cap equity fund due diligence in 2021. The high yield bond-fund due diligence resumed in October of 2022. The first screening results were presented to the PRC at its November semiannual meeting. Due diligence continues in 2023.

PERFORMANCE OVERVIEW

Program Assets under Management (AUM). While CY22 program assets dropped by 18.11%, primarily due to lower or negative investment performance as a result of declining markets, the ten-year average annual growth rate for the program is 8.59%. As of December 31, 2022, the program's assets under management (AUM) totaled \$4.102 billion. The 401(k) plan assets total \$2.964 billion or 72% of the program's AUM. The 457 plan assets total \$1.138 billion, representing 27% of program assets.

	AUM (in billions) 12-2022	10 Yr. Average Annual Growth Rate (AAGR)
Texa\$aver 401(k) plan	\$2.964	7.96%
Texa\$aver 457 plan	\$1.138	10.49%
TOTAL	\$4.102	8.59%

Chart 1
TexaSaver Program
Assets under Management (AUM)
December 2011 – December 2022



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.

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 represents an approximation of the year 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 closest to the year when they turn age 65.

Target Date Funds are also an option 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.

The target date funds are part of the BlackRock LifePath® Index Funds and are available to participants as a collective trust, which lowers the cost to the participant. Currently, nine funds are offered with varying risk levels that gradually become more conservative as the participant’s retirement date approaches. The participant is defaulted to the appropriate target date fund based their date-of-birth and their expected retirement year.

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 that suit their 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 Investments as of December 31, 2022	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 (VIGX)	Large Cap Growth
BlackRock Mid Cap Equity Index F (Collective Trust)	Mid Cap Blend
Wellington CIF II Mid Cap Opportunities S1	Mid Cap Growth
Vanguard Small-Cap 600 Index I (VSMGX) Fund addition date: January 10, 2022	Small Cap Blend
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

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, certificate of deposits, and socially responsible fund options.

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 as of December 31, 2022	Asset Class
Schwab Personal Choice Retirement Account®	SDBA

PERFORMANCE ANALYSIS: FUND PERFORMANCE

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 provides how each fund placed within its peer group.

Table 1
TexaSaver Program Investment Performance
Period ending December 31, 2022

TexaSaver Investments (excl. SDBA brokerage offering)	Ticker	Active or Passive	Returns as of Month Ending 12/31/2022			
			1 Yr.	3 Yr.	5 Yr.	10 Yr.
MONEY MARKET FUND						
BlackRock Short Term Investment	TMPXX	A	1.34%	0.64%	1.24%	0.80%
BOND FUND						
BlackRock 1-3 Yr. Government Bond Index F	N/A	P	-3.78%	-0.36%	0.85%	0.78%
<i>Represents absolute total return. Returns in GREEN indicate outperformance vs. benchmark during the stated period; returns in RED indicate underperformance. For passively managed strategies, only underperformance significantly in excess of fees is noted.</i>						
TexaSaver Investments <i>continued</i> (excl. SDBA brokerage offering)	Ticker	Active or Passive	Returns as of Month Ending 12/31/2022			
			1 Yr.	3 Yr.	5 Yr.	10 Yr.
BlackRock Bond Index Fund	N/A	P	-12.19%	-2.41%	0.22%	1.18%
BALANCED FUND						
Vanguard Wellington Admiral Fund	VWENX	A	-14.26%	4.17%	6.02%	8.46%
LARGE CAP FUND						
Vanguard Institutional Index	VIIIIX	P	-18.13%	7.65%	9.41%	12.55%
Vanguard Growth Index	VIGIX	P	-33.14%	6.06%	9.62%	12.81%
MID CAP FUND						
BlackRock Mid Cap Equity Index F	N/A	P	-13.07%	7.25%	6.75%	10.84%
Wellington CIF II Mid Cap Opportunities	N/A	A	-23.37%	1.76%	5.41%	11.03%
SMALL CAP FUND						
Lord Abbett Small Cap Value Fund I Fund removal date: February 18, 2022	LRSYX	A	-17.27%	1.17%	1.98%	6.78%
Vanguard S&P Small Cap 600 Index Available for contributions: January 10, 2022	VSMSX	P	-16.18%	5.79%	5.86%	10.80%
INTERNATIONAL FUND						
AB All Market Real Return Portfolio Fund	AMTIX	A	-4.24%	6.86%	4.41%	1.18%
Fidelity Diversified International Fund	FDIVX	A	-23.86%	0.71%	2.35%	5.52%
Fidelity International Index	FSPSX	P	-14.24%	1.12%	1.75%	4.73%
TARGET DATE (ASSET ALLOCATION) FUNDS						
BlackRock LifePath Index Retirement	N/A	TDF	-14.57%	6.81%	2.75%	4.08%
BlackRock LifePath Index 2025	N/A	TDF	-15.17%	1.27%	3.25%	5.36%
BlackRock LifePath Index 2030	N/A	TDF	-15.91%	1.94%	3.85%	6.84%
BlackRock LifePath Index 2035	N/A	TDF	-16.16%	2.57%	4.42%	7.42%
BlackRock LifePath Index 2040	N/A	TDF	-17.29%	3.10%	4.90%	7.29%
BlackRock LifePath Index 2045	N/A	TDF	-17.84%	3.60%	5.28%	8.02%

BlackRock LifePath Index 2050	N/A	TDF	-18.16%	3.86%	5.48%	8.02%
BlackRock LifePath Index 2055	N/A	TDF	-18.22%	3.90%	5.50%	8.13%
BlackRock LifePath Index 2060	N/A	TDF	-18.23%	3.90%	4.72%	NA
<i>Represents absolute total return. Returns in GREEN indicate outperformance vs. benchmark during the stated period; returns in RED indicate underperformance. For passively managed strategies, only underperformance significantly in excess of fees is noted.</i>						

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, 2022

TexaSaver 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	-0.06	1.60	61.44	2.60	NM	NM
BOND FUND						
BlackRock 1-3 Yr. Gov't Bond Index F	0.10	1.00	99.86	-0.31	103.56	98.29
BlackRock Bond Index Fund	0.25	0.98	98.89	-0.23	100.50	97.01
BALANCED FUND						
Vanguard Wellington Admiral Fund	0.03	1.03	97.59	0.42	105.31	103.57
LARGE CAP FUND						
Vanguard Institutional Index	-0.01	1.00	100.00	0.50	99.99	100.03
Vanguard Growth Index	-0.03	1.00	100.00	0.47	99.90	100.01
MID CAP FUND						
BlackRock Mid Cap Equity Index F	0.03	1.00	100.00	0.35	100.01	99.93
Wellington CIF II Mid Cap Opportunities S1	-4.49	0.94	94.82	0.21	78.79	95.93
SMALL CAP FUND						
Lord Abbett Small Cap Value Fund I Fund removal date: February 18, 2022	-3.21	1.00	96.38	0.15	91.76	101.74
Vanguard Small-Cap 600 Index I Available for contributions January 10, 2022	0.00	1.00	100.00	0.24	100.05	100.05
INTERNATIONAL FUND						
AB All Market Real Return Portfolio Fund	-0.55	0.60	84.23	0.26	56.60	65.27
Fidelity Diversified Int'l	0.03	0.99	94.85	0.14	102.13	101.89
Fidelity International Index	-0.15	1.03	98.38	0.11	102.25	102.50

TARGET DATE (ASSET ALLOCATION) FUNDS						
BlackRock LifePath® Index Retirement Fund F	0.44	1.25	99.17	0.20	129.99	124.88
BlackRock LifePath® Index 2025 Fund F	-0.94	0.97	98.72	0.23	93.14	98.93
BlackRock LifePath® Index 2030 Fund F	-0.76	0.99	99.16	0.26	97.27	101.25
BlackRock LifePath® Index 2035 Fund F	-0.69	1.00	99.43	0.28	98.17	101.28
BlackRock LifePath® Index 2040 Fund F	-0.62	1.03	99.54	0.30	101.96	104.07
BlackRock LifePath® Index 2045 Fund F	-0.43	1.06	99.60	0.31	106.37	106.95
BlackRock LifePath® Index 2050 Fund F	-0.35	1.07	99.62	0.31	108.73	108.55
BlackRock LifePath® Index 2055 Fund F	-0.36	1.07	99.63	0.32	108.50	108.39
BlackRock LifePath® Index 2060 Fund F	-0.34	1.07	99.62	0.32	108.38	108.23

Exhibit B – TexaSaver 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
 TexaSaver Plan-level
 Investment Allocation Comparison
 For period ending December 31, 2022

TexaSaver Investment Offerings	Asset Class	TexaSaver 401(k) Plan		TexaSaver 457 Plan	
		Allocation (in millions)	Allocation (%)	Allocation (in millions)	Allocation (%)
BlackRock LifePath® Index Funds	Target Date Funds	\$831.32	28.01%	\$219.55	19.26%
BlackRock Short Term Investment	Money Market	\$133.54	4.50%	\$62.95	5.53%
BlackRock 1-3 Yr. Government Bond Index F	Fixed Income - Bond	\$26.39	0.89%	\$13.20	1.16%
BlackRock Bond Index Fund	Fixed Income - Bond	\$215.66	7.27%	\$93.71	8.22%
AB All Market Real Return Portfolio Fund	Specialty – Real Assets	\$4.20	0.14%	\$2.20	0.20%
Vanguard Wellington Admiral Fund	Balanced	\$266.77	8.99%	\$138.47	12.15%
Vanguard Institutional Index	Large Cap Blend	\$576.07	19.41%	\$201.59	17.69%
Vanguard Growth Index	Large Cap Growth	\$329.04	11.09%	\$116.55	10.23%
BlackRock Mid Cap Equity Index F	Mid Cap	\$145.12	4.89%	\$64.01	5.62%

Wellington CIF II Mid Cap Opportunities	Mid Cap	\$6.56	0.22%	\$3.58	0.31%
Lord Abbett Small Cap Value Fund I	Small Cap	\$0	0%	\$0	0%
Vanguard Small-Cap 600 Index I Available for contributions January 10, 2022	Small Cap	\$119.32	4.02%	\$52.78	4.63%
Fidelity International Index	International	\$68.23	2.30%	\$29.92	2.63%
Fidelity Diversified Int'l	International	\$121.77	4.10%	\$53.39	4.69%
Self-Directed Brokerage Account	Brokerage	\$120.80	4.07%	\$86.91	7.62%
Holding/Unclaimed/Other	Other Assets	\$2.81	0.09%	\$0.48	0.04%
		\$2,967.62	100.0%	\$1,139.35	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 – Texa\$aver Fund Analysis
2. Exhibit B – Texa\$aver Fund Performance
3. Exhibit C – Texa\$aver Sector and Asset Class Returns
4. Exhibit D – Texa\$aver Portfolio Analysis
5. Slides – Texa\$aver Investment Performance for Calendar Year 2022