



Joint Board and IAC Meeting

8/23/2023

AGENDA ITEM DETAILS

Subject: *Consideration and Annual Review of Proposed Private Markets Capital Plans for Fiscal Year 2024 – (Action)

RECOMMENDED ACTION:

ERS Investment staff recommends the following motion to the **Investment Advisory Committee:**

Move that the Investment Advisory Committee recommend approval of the proposed Private Markets Capital Plan for Fiscal Year 2024.

Contingent upon adoption of the above motion by the Investment Advisory Committee, staff recommends the following motion to the **Board:**

Move that the Board of Trustees approve the proposed Private Markets Capital Plan for Fiscal Year 2024.

Background:

The Investment Policy Statement (IPS) requires that staff annually present a long-term capital plan and a forecasted 12-month tactical plan for each private markets asset class. This agenda item fulfills that requirement by proposing a capital plan for the Private Equity, Private Real Estate, Private Infrastructure, and Private Credit programs including a tactical plan for Fiscal Year 2024.

STRATEGIC PURPOSE

The IPS establishes a target allocation and role within the Trust for each private markets program as outlined in the table below.

Program	Strategic Target Allocation	Tactical Allocation Range	Role Within The Trust
Private Equity	16%	11% to 21%	Growth, Enhanced Returns, Illiquidity Premium
Private Real Estate	9%	4% to 14%	Diversification, Yield, Inflation Hedge, Enhanced Returns, Illiquidity Premium
Private Infrastructure	5%	0% to 10%	Diversification, Income-Orientation, Inflation Hedging, Illiquidity Premium
Private Credit	3%	0% to 8%	Yield, Diversification, Illiquidity Premium

IMPLEMENTATION OBJECTIVE

The establishment of suitable risk parameters for private market asset classes relies on these capital plans along with asset class guidelines maintained by staff that include parameters specific to each program such as strategy weights, geographic diversification requirements, manager and concentration

limits, and other metrics as appropriate. The asset class guidelines are incorporated into the Investment Implementation Plan, which is maintained by the Risk Committee pursuant to the IPS.

Capital plans provide staff the guidance needed to manage the level of future commitment activity for the Trust into private markets. Forecasts of future investment activity also guide the efforts to plan for the upcoming year’s Asset Class Investment Committee meetings, which total 35-40 annually and involve more than a dozen participants. Such an approach also informs the risk management activities of the Trust, particularly with regard to Trust positioning and liquidity risk.

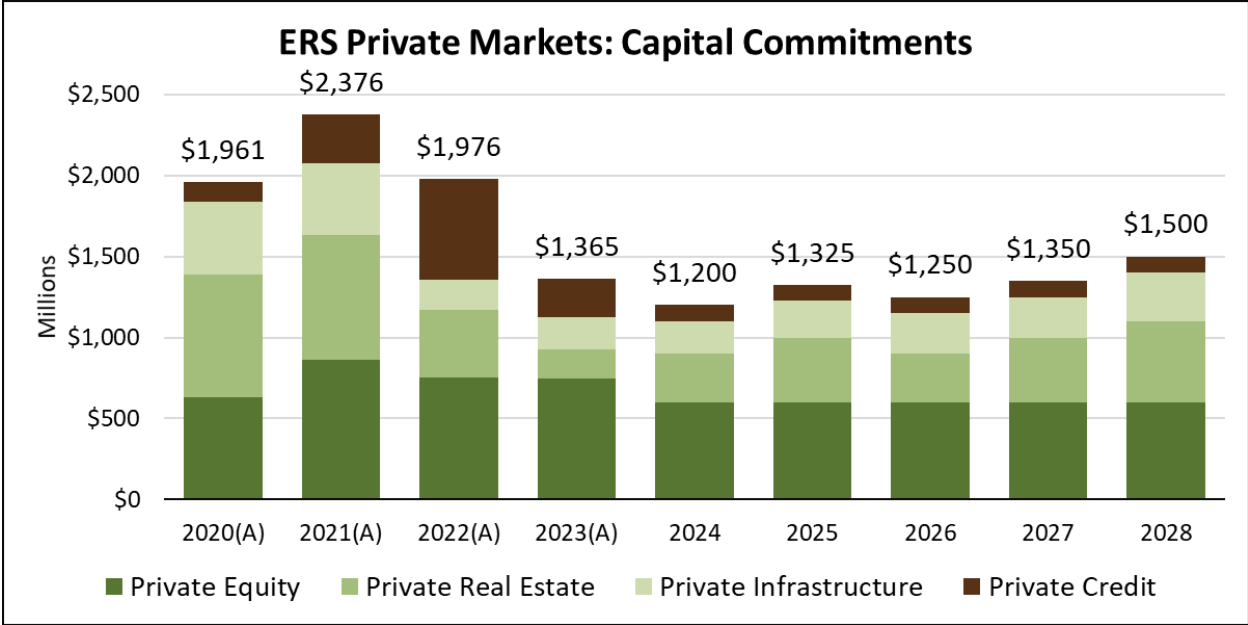
OVERVIEW OF STAFF PROPOSAL

Staff proposes the adoption of the capital plan that targets total commitments for Fiscal Year 2024 of \$1,200 million with a range of \$900 million to \$1,500 million. It is important to note that at the Trust level the minimum is higher and the maximum is lower than the sum of the individual asset classes since not all asset classes would be expected to tilt toward the outer ranges of these bands at the same time.

Asset Class	Minimum Commitment	Target Commitment	Maximum Commitment
Private Equity	\$450 million	\$600 million	\$750 million
Private Real Estate	\$150 million	\$300 million	\$450 million
Private Infrastructure	\$150 million	\$200 million	\$250 million
Private Credit	\$100 million	\$100 million	\$150 million
ERS TRUST	\$900 million	\$1,200 million	\$1,500 million

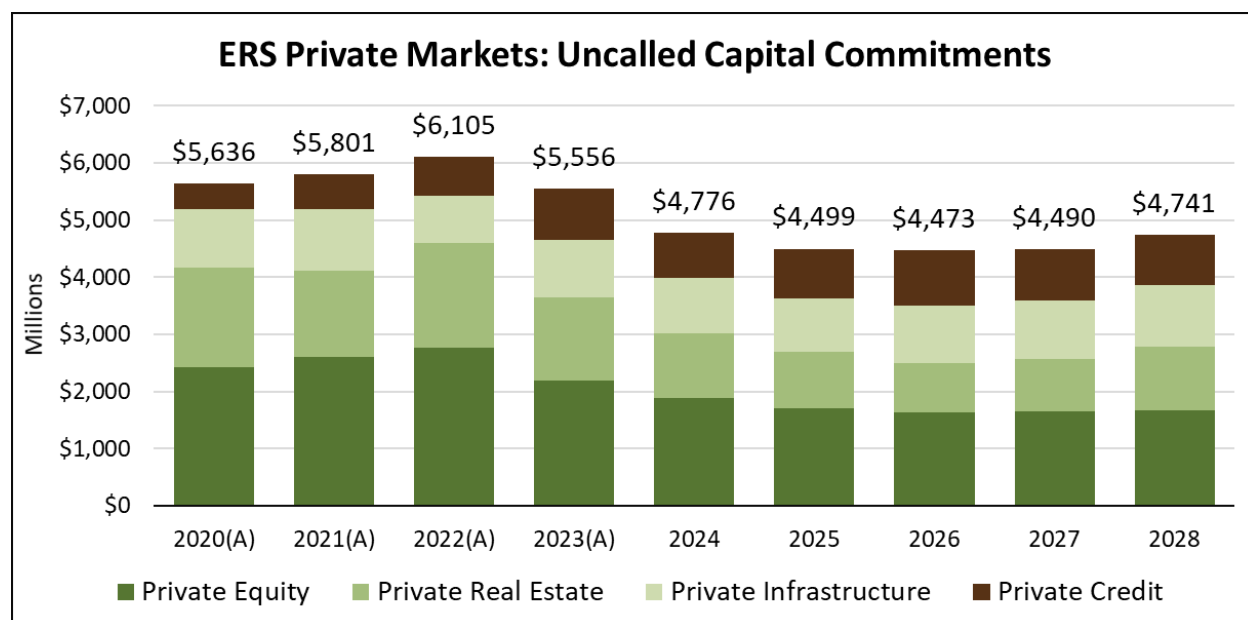
This level of flexibility is necessary to ensure that ERS can (1) remain selective regarding investment terms, (2) allocate capital as appropriate for prevailing market conditions, and (3) manage the pacing of commitments for the level of capital calls and distributions that occur during the course of FY24. As with any long-term strategic planning process, these projections are include a number of assumptions about asset class returns, portfolio cash flows and other key variables for which there is significant uncertainty.

As shown in the chart below, this capital plan would represent a continued reduction in the pace of capital commitments due to the current level of private markets, which are above their set allocation levels. Over time, the pacing of commitments would gradually increase as the allocation is reduced and the program trends towards steady state in terms of commitment pacing and allocation.

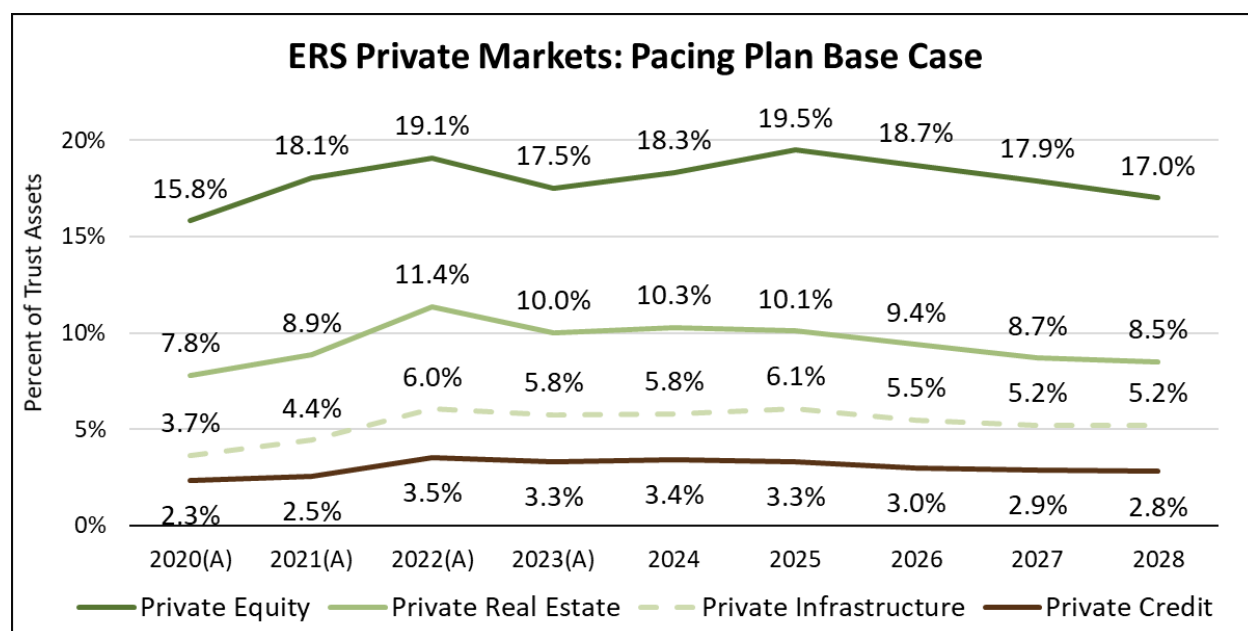


At present, the Trust has a significant level of uncalled capital commitments that totals more than \$5.5 billion. This figure amounts to 15.5% of the current value of the Trust, which is below recent peak levels of 16-18% but above the long-term expected value of 10-11%. The capital plans assume as their base case

that these commitments are drawn down at a stable and consistent rate over time, while the fast and slow cases alter that assumption to allow for more variation in the pacing of capital calls.



As shown in the chart below, the implementation of the base case pacing plans allows the private market allocations of the Trust to move back toward the target for each of the asset classes. At the end of the five-year horizon for capital planning, private equity and private infrastructure end slightly above their long-term strategic targets while private real estate and private credit end slightly below.



STAFF RECOMMENDATION – (ACTION)

Staff recommends the adoption of the capital plan for Fiscal Year 2024 targeting total commitments of \$1,200 million with a range of \$900 million to \$1,500 million. This capital plan including the pacing analysis contemplates commitments by each private asset class as described below:

- Private Equity: commitment target of \$600 million with a range of \$450 million to \$750 million, as detailed in Exhibit A. Expectations are for twelve new primary fund commitments and five to nine

new co-investments for the year. These investments will be diversified across the risk spectrum including by geography. Staff expects to maintain a similar pacing for the program through FY28.

- Private Real Estate: commitment target of \$300 million with a range of \$150 million to \$450 million, as detailed in Exhibit B. Staff expects to make four to six new primary fund commitments and one to two new co-investments for the year. These investments will be diversified across the risk spectrum including by geography. Staff plans to pull forward some additional commitment capacity in the early years of the plan and expects that pacing to stabilize in the later years.
- Private Infrastructure: commitment target of \$200 million with a range of \$150 million to \$250 million, as detailed in Exhibit C. Staff expects to make two to three new primary fund commitments and budgets around 30% of each year's commitments toward co-investments. These investments will be diversified across the risk spectrum including by geography. Staff expects to increase the pacing gradually for the program through FY28.
- Private Credit: commitment target of \$100 million with a possible increase to \$150 million, as detailed in Exhibit D. Expectations are for one to two new primary fund commitments for the year. These investments will be diversified across the risk spectrum including by geography. Staff expects to maintain roughly a similar pacing for the program through FY28.

**ERS is accredited by the State Pension Review Board (PRB) as a Minimum Educational Training (MET) sponsor for Texas public retirement systems. This accreditation does not constitute an endorsement by the PRB as to the quality of our MET program. This agenda item may be considered in-house training provided by ERS to board trustees and the system administrator for purposes of fulfilling the MET program requirements. ERS is an accredited sponsor of MET for its system administrator and trustees for continuing education.*

ATTACHMENTS:

1. Exhibit A - ERS FY2024 Private Equity Capital Plan
2. Exhibit B - ERS FY2024 Private Real Estate Capital Plan
3. Exhibit C - ERS FY2024 Private Infrastructure Capital Plan
3. Exhibit D - ERS FY2024 Private Credit Capital Plan
4. Slides – Consideration of Proposed Private Markets Capital Plans for Fiscal Year 2024