Joint Meeting of
The Board of Trustees
And
Investment Advisory Committee Minutes

May 17, 2023

ERS®

EMPLOYEES RETIREMENT SYSTEM OF TEXAS

Presented for Review and Approval

August 23, 2023

TABLE OF CONTENTS

JOINT MEETING OF THE
BOARD OF TRUSTEES AND
INVESTMENT ADVISORY COMMITTEE
EMPLOYEES RETIREMENT SYSTEM OF TEXAS

ERS Building – 9th Floor Conference Center – Rio Grande Conference Room
1836 San Jacinto Blvd, Austin, Texas 78701
May 17, 2023 – 8:30 a.m.

TRUSTEES PRESENT
Dr. James Kee, Chair
Brian Barth, Vice-Chair
Neika Clark, Member
Craig Hester, Member
Catherine Melvin, Member

TRUSTEES NOT PRESENT
John Rutherford, Member

INVESTMENT ADVISORY COMMITTEE (IAC) PRESENT
Gene Needles, Chair
Laurie Dotter, Vice-Chair
Bob Alley, Member
Ryan Bailey, Member
Jim Hille, Member
Milton Hixson, Member
Ken Mindell, Member
Ruby Muñoz Dang, Member

ERS DIRECTORS PRESENT
Porter Wilson, Executive Director
Cathy Terrell, Deputy Executive Director
Jennifer Chambers, Director of Government Relations & Special Projects
Tony Chavez, Director of Internal Audit
Bernie Hajovsky, Director of Enterprise Planning Office
Cynthia Hamilton, General Counsel
Robin Hardaway, Director of Customer Benefits
Diana Kongevick, Director of Group Benefits
Shack Nail, Special Projects & Policy Advisor
Machelle Pharr, Chief Financial Officer
Gabrielle Schreiber, Director Office of Procurement & Contract Oversight
DeeDee Sterns, Director of Human Resources
Kathryn Tesar, Director of Benefits Communications
Chuck Turner, Director of Information Systems
David T. Veal, Chief Investment Officer

ERS STAFF PRESENT
Jason Avants, Information Systems
Chris Beggs, Investments
Amanda Burleigh, Office of General Counsel
Kurt Cressotti, Investment Compliance
Amy Cureton, Investments
Anthony Curtiss, Investments
Kelley Davenport, Executive Office
Blaise Duran, Group Benefits
Lauren Honza, Investments
Tiffany Jenkins, Benefits Communications

Meagan Larson, Investments
Ricardo Lyra, Investments
Keith Lyons, Investments
John McCaffrey, Investments
Aris Ogelsby, Investments
Jamey Pauley, Enterprise Planning Office
Davis Peacock, Investments
Pablo de la Sierra Perez, Investments
Tom Rashman, Investments
Chris Roland, Information Systems
Tom Roberts, Investments
Cheryl Scott Ryan, Office of General Counsel
Benjamin Schuman, Investments
Robert Sessa, Investments
Leighton Shantz, Investments
Gabe Torres, Executive Office
Lacy Wolff, Executive Office
Annie Xiao, Investments

VISITORS PRESENT
Sam Austin, NEPC
Diana Head, BCBSTX
Casey Sharp, BCBSTX
Claire York, BCBSTX
Christy Fields, Meketa
Karen Reeves, Meketa
Aaron Vale, CBRE

Call to Order the Joint Meeting of the ERS Board of Trustees and Investment Advisory Committee

8. Call Meeting of the Board of Trustees to Order

Mr. James (Jim) Kee, Chair of the Board of Trustees (Board) for the Employees Retirement System of Texas (ERS), called the board to order to convene with the Investment Advisory Committee (IAC) to take up the following Joint Meeting of the Board of Trustees and Investment Advisory Committee agenda items.

A public notice of the ERS Board of Trustees and Investment Advisory Committee meeting was filed with the Office of the Secretary of State at 12:05 p.m. on Tuesday, May 9, 2023 as required by Chapter 551, Texas Government Code, referred to as “The Open Meetings Act.”

9. Call Meeting of the Investment Advisory Committee to Order

Mr. Gene Needles, Jr., Chair of the IAC for ERS, called the IAC to order.

A public notice of the ERS Board of Trustees and Investment Advisory Committee meeting was filed with the Office of the Secretary of State at 12:05 p.m. on Tuesday, May 9, 2023 as required by Chapter 551, Texas Government Code, referred to as “The Open Meetings Act.”

10. Consideration of Annual Review of ERS Incentive Compensation Plan

Ms. DeeDee Sterns, Director of Human Resources and Mr. Jamey Pauley, ICP Program Specialist presented on this agenda item.

After a brief introduction, Mr. Pauley outlined the ICP review process. He noted that the reason for the May presentation was to review key aspects of the plan, summarize recent awards, and provide information on proposed changes which are scheduled to be presented for approval at the August Joint Meeting.

Mr. Pauley then reviewed key features of the Plan, with particular emphasis on the deferral of payments rewarded during years of non-positive absolute returns for the Trust. He noted that such a deferral took place in Plan Year 2022. Mr. Pauley also noted that after three years of non-positive performance, rewards are forfeited.

There was some discussion about the deferral and if it applied to qualitative or quantitative portions of the ICP award. Mr. Pauley clarified that the full award can be deferred or forfeited due to non-positive performance.

Mr. Pauley then showed data that shows how much was realized in incentive compensation in the previous fiscal year. He noted that plan year realizations averaged 83.2% based on strong excess returns, despite the non-positive absolute return. Mr. Pauley emphasized the relationship between ICP realization and excess returns.

Mr. Pauley moved on to discuss a proposed material change that would eliminate the forfeiture provision to better align with the Plan’s objective to attract and retain talent, as well as align with peers which do not have a forfeiture provision.

There was some discussion about whether or not other plans ever had a forfeiture provision, and Mr. Pauley said he was not aware of the existence of a previous provision.

There was further discussion about the history of negative returns, and whether there had been any instances of three consecutive years of negative returns in the history of the plan. Mr. Pauley stated there has not.

Mr. Hester asked the IAC if any members had opinions based on relevant experience. James Hille noted that such a forfeiture provision was not standard in public or private sector firms.

There was further discussion about ICP deferrals and retirement. Mr. Pauley noted that upon retirement, an employee would forfeit any deferred or trailing ICP payments. Several Board and IAC members noted that this provision could serve as a disincentive to retain and motivate employees. It was further noted that retirement should have a unique distinction relative to other employee separations.

Mr. Pauley said that staff would do further research on the issue. Mr. Porter Wilson, Executive Director, noted that ERS staff would research peer best practices and other options and distribute language for review prior to the formal review of ICP changes in August.

Mr. Hester spoke to the role of the ERS Board, staff, and IAC in addressing asset allocation issues in the context of market volatility, liabilities, and funding status. He noted that the ICP Program has enabled the success of the Trust and subsequent positive returns and that changes are important for the plan to remain competitive.

Mr. Pauley then reviewed some non-material changes and invited further discussion.

There was some discussion about who participates in the ICP Program. Mr. Pauley noted that Investments staff, the executive director, and investments-focused Office of General Counsel staff are in the program. Mr. Wilson confirmed that all staff are aware of their specific incentive metrics.

With no further questions, Mr. Pauley concluded this presentation.

11. Consideration of Quarterly Review of Investment Performance and Risk Update

Mr. John McCaffrey, Managing Director of Portfolio Management, Mr. David T. Veal, Chief Investment Officer, and Mr. Sam Austin, NEPC presented on this agenda item.

Mr. Veal began this item by explaining that items are being presented in a new order to improve information flow. He then Introduced Mr. Austin from NEPC.

Mr. Austin began his presentation with an overview of economic metrics. He noted that inflation has begun to reduce, but getting to the Federal Reserve target of 2% remains challenging. He went on to discuss the impact of recent bank failures, which could limit the ability of the Fed to continue rate hikes. His third main point was that the probability of a recession is increasing according to the Conference Board, implied market data, and other indicators.

There was some discussion about labor markets and the impact of recently announced layoffs at large corporations. Mr. Austin noted that in aggregate, the labor market remains strong despite the headlines. He noted that an easing labor market would be a key driver of easing inflation.

There was further discussion about the debt ceiling negotiation and Mr. Austin noted that the U.S. government will likely reach an agreement before the June 1 deadline, and that the government could further delay default by delaying pay to some Federal employees or delaying Social Security payments. Mr. Austin noted that due to high stakes of failure, a resolution of some sort is likely.

Mr. Austin went on to discuss equity markets. He noted that Growth and international equities were the best performing indexes.

Mr. Veal asked Mr. Austin if he thought recent performance was indicative of a longer period of strength for international equities.

Mr. Austin noted that market participants were expecting such a shift, but he also noted that technology remains the strongest performing sector, which is more of a continuation of recent market trends.

Mr. Austin went on to discuss ERS trust performance, which outperformed its policy benchmark on a one-, three-, and five-year basis. Relative to a universe of 50 peers, the ERS trust has performed near the top of its peer group on a one-, three-, and five-year time horizon.

Mr. Austin noted that all ERS Asset Class allocations are within target ranges.

Mr. Austin then discussed Trust Attribution analysis. He noted that private markets have been the primary driver of excess returns over the most recent quarter and one-year period, led by private equity. He went on to explain that Private Markets have been the largest driver of excess returns in 11 of the 14 quarters that NEPC has worked with ERS. Mr. Austin stated that this is a key benefit of the diversification strategy of ERS, especially during periods of market volatility.

Mr. McCaffrey then began his presentation on the Risk Outlook.

Mr. McCaffrey began with an overview of the strategic goal of risk management at ERS. The goal is to balance risk and return while achieving diversification, maintaining appropriate volatility, and balancing liquidity needs with long-term growth.

Mr. McCaffrey then spoke on economic conditions. He explained that conditions have been normalizing following the impact of the COVID-19 pandemic and the ensuing inflationary rebound. He noted that economic activity has remained resilient despite rising rates.

Mr. McCaffrey walked through key metrics on consumer spending, consumption, employment, and savings that have thus far contributed to resilient consumer activity in aggregate.

Mr. McCaffrey moved on to discuss industrial activity, where global Purchasing Managers' Indices and other leading indicators point to a recession.

Mr. McCaffrey then spoke about financial conditions where overall levels are stressed, but have been easing since the third quarter of Calendar Year 2022. He then walked through some of the supporting data that contribute to financial conditions.

He showed a chart plotting market projections of policy rates relative to Fed guidance. He noted that the market is suggesting more aggressive path to lower rates when compared to Fed guidance, and that the nature of the inevitable convergence between expectations and reality could be a key driver of markets and asset pricing going forward.

Mr. McCaffrey noted that bond volatilities have increased, but that correlations with equities have been decreasing, which provides further evidence that economic conditions are normalizing.

Mr. McCaffrey closed his prepared comments with a summary. He said that economic growth is resilient as inflation has moderated somewhat. He added that growth will continue to depend on consumption trends, and that easing financial conditions are facing some headwinds. He reiterated the point that market pricing and fed guidance are divergent, and therefore market direction is uncertain and balanced near-term positioning is warranted.

There was some discussion about what signals would lead to increased risk taken on by the Trust. Mr. Veal noted that market sentiment rebounding from negative levels could be a significant driver.

There was some discussion about credit spreads as an indicator. Mr. Veal noted that credit spreads, as well as high-yield spreads relative to the equity risk premium, point to a more normalized environment.

The discussion shifted to international equities and what developments would lead to sustained outperformance of international equities. Mr. Veal noted that high profitability of U.S. companies has warranted elevated valuations and that U.S. corporate earnings power is the key metric to watch. He outlined a scenario where U.S. earnings could revert to the mean and lead to lagging performance.

There was discussion of cash positioning during a period of high interest rates. Mr. Veal noted that a higher return on cash does create an incentive to avoid risk while meeting the obligations of the Trust.

There was no further discussion.

12. Consideration of Quarterly Report from Chief Investment Officer

Mr. David T. Veal, Chief Investments Officer, presented on this agenda item. He presented a brief overview of the role of Investments at ERS, which is to prudently maintain a high-performing, well-diversified, and cost effective portfolio to support the provision of earned benefits.

Mr. Veal went on to discuss one- thee- and five-year returns which have outperformed a passive index over all reported time periods and have exceeded the assumed rate of return over a long-term time horizon.

Mr. Veal next discussed ERS Trust performance versus the Policy Benchmark. He noted that the five-year excess return of 142 basis points equates to almost $3 billion of value added. He also noted that long-term returns of the Policy Benchmark fall short of ERS' assumed rate of return of 7%, which highlights the role of staff implementation to exceed the assumed rate.

Mr. Veal then discussed quarterly performance versus the ERS peer ranking. He noted that quarterly volatility increased during and after the COVID-19 pandemic, but should begin to normalize.

Mr. Veal moved on to peer rankings, which slipped to the 83rd percentile in the first calendar quarter, but remains at the high end of the group over longer-term time periods.

Mr. Veal then reviewed Fund attribution, which demonstrates value added from policy mix, allocation, and selection relative to the Passive Index. In terms of asset allocation, value added has primarily come from private markets, representing 95% of five-year value add. He noted that Public Equities has been one area where value was detracted, but that performance has improved since the restructuring of that portfolio that took place in September.

There was some discussion about drivers of the recent Public Equity outperformance. Mr. Veal notes that the Lone Star portfolio is overweight international markets, which has been a large driver of its strong performance.

Mr. Veal presented a slide showing asset class allocations relative to strategic ranges. He reiterated that ERS is within its target ranges across asset classes but that incoming funds and the August capital planning process will inform future allocation decisions.

Mr. Veal went on to discuss developments and initiatives for ERS Investments Division. These included attracting and retaining talent, stewardship, the Investment Practices Review with NEPC, potential IPS changes, the move to the 5th floor, and the upcoming consultant RFP.

There was discussion about Proxy Voting, and ERS' ability to implement its custom Proxy policy. Mr. Veal explained that the new Proxy Guidelines prepare ERS to address the growing array of shareholder proposals while executing its Proxy Policy.

There was discussion about if Investment Practices Review with NEPC will be presented to the Board and IAC. Mr. Veal confirmed that the report will be presented in December.

Mr. Veal moved on to a section of his presentation on valuation practices at ERS ahead of a more comprehensive presentation to follow.

Mr. Veal reviewed the Government Accounting Standards Board (GASB) 72 accounting standards, which have been used to apply fair value to ERS investments since 2016. He noted that GASB 72 has three tiers of valuation standards ranging from exchange-quoted pricing to model-driven techniques when active markets are absent.

Mr. Veal noted that external managers' report a Net Asset Value to ERS which rely on processes governed by the Financial Accounting Standards Board (FASB). ERS in turn verifies the application of the

FASB standards under GASB guidelines. GASB 72 requires verification of manager's valuation process and standards, rather than performing extensive internal valuation analysis.

There was some discussion about the relevant time periods. Mr. Veal noted that year end valuations are subject to the most rigorous audit standards, and that in general valuations in private markets have a 90 day lag.

There was discussion about forced sales and if ERS has ever had to sell assets below the stated valuation in the secondary market. Mr. Veal said that ERS has not been forced to sell assets, although forced-selling has taken place among peers.

Mr. Veal presented a slide showing the exposure of the ERS Trust to various valuation methodologies. The slide showed that NAV-based valuation from managers has grown to about 48% of Trust assets as private markets have become a larger portion of the Trust.

Mr. Veal then went deeper into valuation methodologies used by external managers under the FASB ASC 820 standard. The techniques include a market approach, income approach, and cost approach. He then showed an example using a hypothetical home-based business.

Mr. Veal showed how asset valuation within the Trust has translated to unrealized gains and losses by asset class and over time.

Mr. Veal then presented an analysis showing private markets valuations relative to public market returns. The slide showed that public markets have outperformed private markets by 14-15% over the last five years. Mr. Veal noted that private markets are likely to converge with public markets over time.

Mr. Veal concluded his prepared remarks with a slide tying valuation to performance measurement. He noted that current ERS performance uses cash accounting, measures at a point in time. Group 4 gain sharing; however, uses an accrual-based methodology. All calculations are provided by the custodian bank and verified by ERS Staff, which has adhered to Global Investment Performance Standards since 2011.

There was no further discussion on this item.

13. Educational Presentation– Valuation Practices in Private Markets

Mr. David T. Veal, Chief Investment Officer, Ms. Meagan Larson, Director of Operational and Financial Diligence, and Mr. Tom Rashman, Portfolio Manager, Private Equity presented on this agenda item.

Mr. Veal began the presentation with an introduction and overview of the item. He reiterated information previously presented on application of GASB standards. Mr. Veal also reviewed a timeline of valuation practices in private equity, with fair value accounting broadly adopted in 2008, and ERS adoption of GASB 72 in 2016.

Mr. Veal presented data from an academic study, which shows that accuracy of valuation standards have improved over time.

Ms. Larson began her portion of the presentation with an overview of the Operational and Financial Diligence team, which includes three full time staff members. She also presented a process flow diagram showing the framework that guides an investment from proposal, to comprehensive review, approval by the Asset Class Investment Committee, and ongoing monitoring.

Ms. Larson outlined the ERS valuation review, which involves documentation of relevant accounting standards, methodologies, the manager Valuation Committee, use of external valuation reviews, and reporting standards.

Mr. Rashman began his portion of the presentation with a broad overview of the $12 billion ERS Private Equity program.

Mr. Rashman then discussed the manager due diligence process, which focuses on culture, organizational process, and track record. He noted that the team can meet with 500 managers in a year and that relationships are established over a period of multiple years.

Mr. Rashman covered the due diligence process in more depth. He reviewed performance metrics used to measure a manager's track record. Mr. Rashman emphasized the use of realized deals to evaluate a manager's value creation process. Mr. Rashman went through the components of realized value creation, noting that most value is generated by operational improvements. For unrealized investments, ERS looks at purchase price, financial performance, and mark-to-model valuation analysis.

Mr. Rashman then spoke about the Co-investment Program. He noted that these investments—held directly alongside the manager—provide additional insight into managers' investment process and valuation practices.

Mr. Rashman was asked to walk through an example of a co-investment. Mr. Rashman said that a manager will present an opportunity to invest $5 to $15 million directly in a single company alongside the manager. ERS works alongside its consultant to evaluate the merits of the commitment. Mr. Rashman further explained the mechanics and rationale behind co-investments.

There was some discussion about the impact of the co-investment program to portfolio concentration. Mr. Rashman acknowledged that the program increases concentration, but in areas of high investment conviction. Mr. Rashman noted that the portfolio remains diversified despite this concentration effect.

Mr. Rashman reviewed the portfolio monitoring program, which covers in-depth reporting, manager meetings, team portfolio reviews, and analysis of individual exposures as well as leverage.

There was some discussion of participation on advisory boards, which Mr. Rashman believe deepen the manager relationship and improve access to co-investments. Mr. Veal added that limited partner advisory committee (LPAC) seats are something that ERS aggressively pursues in term negotiations.

Mr. Rashman reviewed a sample schedule of investments from a fund. The sample showed strong returns and a vast majority of realized versus unrealized investments. He also showed key return metrics over time for the fund and the reported value of individual investments over time.

Mr. Rashman reviewed a recent analysis from Stepstone which showed that exit valuations are typically about 40% higher than marked valuations from one year prior. The paper notes that cases of inflated valuations are typically limited to managers with limited track record. ERS typically works with more established managers.

Mr. Veal then spoke on governance framework. He noted that a valuation lag occurs from the combined effect of delayed incorporation of public equity valuations and time needed for reporting. Mr. Veal further noted that Finance, Internal Audit, and Office of General Counsel all have input into the governance process.

There was some discussion about public markets pricing and special situations such as Russia when there is no active market. Mr. Veal noted that the ERS Valuation Committee reviews those securities and the valuations provided by the custodian bank.

There was discussion about inconsistent valuation of private investments held by long-only managers. ERS does not have significant exposure to high-growth, unprofitable tech companies where this occurs.

Mr. Veal was asked for the top three takeaways from this presentation. He replies that robust reporting standards, strong incentive alignment, and the composition and structure of the ERS team should provide assurances about ERS valuation procedures.

There was discussion about valuation of derivatives in the ERS portfolio. Mr. Veal noted that ERS typically internally trades exchange traded futures with transparent pricing. ERS managers do trade a variety of derivatives and value them according to the aforementioned FASB standards.

There was no further discussion on this item.

14. Consideration of Annual Review of Real Assets Program

Mr. Bob Sessa, Managing Director of Real Assets, Ms. Annie Xiao, Director of Public Real Estate, Ms. Amy Cureton, Director of Private Real Estate, and Mr. Pablo de la Sierra Perez, Director of Infrastructure, presented on this agenda item.

Mr. Sessa began by introducing the team and providing a high-level review of the Real Assets Program.

Ms. Xiao began her presentation with a review of the key characteristics of the Public Real Estate program. The Program consists of a Domestic REIT Portfolio and an International REIT Portfolio, with 60% exposure to the U.S. She noted that the Trust tactically allocated $200 million to Public Real Estate in 2021 and $325 million from the group in 2022.

Ms. Xiao went on to review performance, which has outperformed its benchmark across all reported time periods. She noted that both the U.S. and International portfolios have positive relative returns over a five-year period.

Ms. Xiao reviewed tracking error, which has been below the target range.

There was some discussion about exposure by property type. Ms. Xiao mentioned that the biggest underweight is office space, where fundamentals remained challenged. Mr. Sessa noted that the team could opportunistically change the exposure by property type if warranted.

There was discussion about the source of tracking error, which Mr. Sessa said was primarily driven by security selection and country weights.

There was discussion about relative attractiveness of public versus private markets. Mr. Sessa said that public market valuations have corrected ahead of private markets, but that maturities and debt defaults could be a catalyst for a correction in private markets.

There was discussion about retail exposure, which is slightly underweight overall. ERS is exposed to more favorable pockets such as Japan, but is underweight the U.S. where fundamentals are more challenged.

Ms. Cureton began her presentation with an overview of the Private Real Estate Program.

Ms. Cureton went on to discuss performance. She noted that the Program has outperformed its benchmark over all reported time periods, including outperformance of 290 basis points over the last five years.

Ms. Cureton reviewed the allocation to the Program, which has increased over time and is over its target allocation, but within policy range.

Ms. Cureton went on to review the $2.5 billion in value created by the program since its inception. She noted that distributions of $4.4 billion are a key component of the value bridge.

Ms. Cureton spoke about the composition of the Private Real Estate portfolio. North America exposure is 79%, with residential, office, and industrial being the largest property type exposures. In terms of office exposure where fundamentals are especially challenged, ERS is underweight relative to the benchmark.

Ms. Cureton addressed the Portfolio underweight to Industrial, which was a result of an index weight change. She noted that this is an area where the Portfolio is seeking increased exposure.

Ms. Cureton showed a chart tracking unrealized gains relative to cost basis. Unrealized gains have declined year-to-date and are likely to correct further as properties are appraised. She went on to show that private real estate market valuations have trailed the returns of public markets over five years.

There was some discussion about open ended fund redemptions. Ms. Cureton noted that redemption demand has increased and that the time to redeem requested funds varies.

Mr. Perez began his presentation with an overview of the Private Infrastructure Program.

He noted that the Portfolio has outperformed its benchmark over all reported time periods, including outperformance of 256 basis points over the last five years in terms of time-weighted return.

Mr. Perez presented a slide showing broad diversification across sector, manager exposure, geography, and strategy.

Mr. Perez then presented a slide showing a value bridge since inception, including $662 million in value creation and $1.1 billion in distributions.

Mr. Perez showed ERS Private Infrastructure valuations plotted against comparable public market returns. The slide shows that ERS Private Infrastructure has lagged comparable public markets by about 10% over the last five years.

There was some discussion about international infrastructure trends and the evolving roll of China overseas. Mr. Perez mentioned that there has been a broad effort to allocate funds to Asia, but that the U.S. investment environment has become more favorable in recent years.

There was discussion about the role of open ended funds and the long term nature of infrastructure investments. Mr. Perez mentioned that ERS takes a blended approach, owning some long-lived assets in open ended funds, but also working with managers that create value over a shorter time horizon.

There was discussion of benchmarks and the availability of an investible benchmark to replace the current non-investable benchmark used by ERS Private Infrastructure. Mr. Perez noted that there are no perfect benchmarks for infrastructure, but that the team is evaluating the use of a benchmark comprised of open-ended funds.

Mr. Wilson asked about the use of consultants on the Real Assets team. Mr. Sessa mentioned that consultants provide broad market insights based on their breadth of relationships outside of ERS. He also notes that the quarterly reports provide valuable market and portfolio insights. Mr. Veal noted that the consultants also have an important role in the ACIC process.

There was some discussion about the important work that Legal and Operations contributes to the Real Assets investment process.

There was no further discussion.

15. Consideration of Annual Review of Private Equity Program

Mr. Ricardo Lyra, Managing Director of Private Equity, presented on this item.

Mr. Lyra began his presentation with an overview of the Program, which began in 2008 and has commitments of $12 billion.

Mr. Lyra went on to discuss performance. He noted that the Program has outperformed its benchmark over all reported time periods, including outperformance of 220 basis points over the last 10 years.

Mr. Lyra spoke about the allocation to Private Equity, which exceeds the current policy target but is within the target range. This has been a function of strong relative and absolute performance of the Program.

Mr. Lyra then showed a slide presenting asset value over time. He noted that asset values have declines since 2021 as a function of cash distributions back to ERS. Mr. Veal noted that this is a unique characteristic relative to peers, who in general are not generating as much cash from private equity portfolios.

Mr. Lyra discussed portfolio diversification. The largest category is buyout funds, and he noted that the Portfolio has very low exposure to venture capital.

Mr. Lyra went on to review the $5.6 billion in value created by the program since its inception. He noted that distributions of $9.4 billion are a key component of the value bridge.

Mr. Lyra showed a chart depicting cost basis and unrealized gains over time. The chart shows that unrealized gains as a percentage of Portfolio value have declined since 2021.

Mr. Lyra presented ERS Private Equity valuations plotted against comparable public market returns. The slide shows that ERS Private Infrastructure has lagged comparable public markets by about 12% over the last five years.

There was some discussion about market multiples. Mr. Lyra mentioned that the highest quality companies are demanding a high valuation relative to lower quality peers. He went on to say that on the lower end of the market, EBITDA multiples are single-digit, and that there are more deals being done at single-digit multiples relative to recent past.

Mr. Lyra went on to present five-year IRR by strategy. He noted that energy returns of 33% in the last year has been a powerful diversifier in the Portfolio.

Mr. Lyra then presented broad diversification metrics across strategy, geography, sector, and manager. Diversification is within guidelines.

Mr. Lyra presented on fees. He showed that fees in absolute dollars appear high, but that the co-investment program has brought investment fees significantly below industry standard.

There was further discussion about co-investment distributions to paid-in capital, which is 80% at this point.

Mr. Wilson asked Mr. Lyra to describe the role of the private equity consultant. Mr. Lyra described the consultant as a key team member, working with staff across all elements the investment process.

There was no further discussion.

<u>16. Reminder Regarding Future Meetings of the Board of Trustees, Investment Advisory Committee, and Audit Committee</u>

The remaining Fiscal Year 2023 meeting date is August 23, 2023. Fiscal Year 2024 meeting dates will be presented during the August 23, 2023 joint meeting."

17. Adjournment of the Joint Meeting of the Board of Trustees and Investment Advisory Committee

Dr. James Kee thanked the Board and IAC and the meeting was adjourned at 3:23 PM.