

## Section 1: Introduction

The Employees Retirement System of Texas (“ERS”) Private Infrastructure Capital Plan (“Capital Plan”) is to outline the expected commitment schedule for the fiscal year from September 1, 2023, to August 31, 2024. The Capital Plan for fiscal year 2024 includes a review of the asset class exposures, commitments, current values, and performance. In addition, it includes an updated portfolio pacing analysis, which creates the foundation for the program’s fiscal year 2024 commitment schedule.

All Private Infrastructure portfolio information in this plan reflects values as of December 31, 2022, unless otherwise noted.

### Portfolio Statistics As of December 31, 2022 (\$ in millions)

	12/31/2021	12/31/2022
Committed Capital:	2,703.9	2,870.9
Unfunded Capital:	1,078.7	820.1
Net Contributed Capital:	1,959.9	2,508.3
Net Distributed Capital:	714.5	1,113.6
Recallable Capital:	321.6	425.8
Fair Market Value:	1,694.9	2,050.2
Net Gain / (Loss):	360.9	539.5
Total Value:	2,409.4	3,163.8
Total Exposure:	2,773.6	2,870.3
Distributed to Paid-In (DPI):	0.36x	0.44x
Total Value to Paid-In (TVPI):	1.23x	1.26x
Net Internal Rate of Return (IRR):	7.83%	8.56%

## Section 2: Portfolio Exposures

The Private Infrastructure portfolio remains well diversified. The Private Infrastructure team evaluates the portfolio's exposures based on both fair market value and total exposure. Although fair market value reflects the current portfolio position, total exposure incorporates both committed but undrawn capital, which provides additional insight into the future direction of the portfolio. The following table shows exposure by strategy, geography, and industry.

<b>Portfolio Exposure</b> <i>(per ERS' staff's analysis)</i>	<b>% of NAV</b>	<b>Target</b>
<b>Strategy</b>		
Core	18.2%	10 - 40%
Value-Added	59.2%	35 - 65%
Opportunistic	22.5%	10 - 40%
<b>Geography (markets)</b>		
Developed Markets	69.2%	50 - 90%
Emerging markets	30.8%	10 - 50%
North America	42.7%	n.a.
Europe	17.9%	n.a.
Australia/NZ	5.8%	n.a.
Asia	16.4%	n.a.
Other	17.3%	n.a.
<b>Industry</b>		
Digital Infrastructure	33.2%	n.a.
Power & Utilities	32.6%	n.a.
Transportation	15.3%	n.a.
Midstream	11.6%	n.a.
Other	7.3%	n.a.

Note: Figures are based on Q4 2022 NAV. Country classifications are based on MSCI standards, which may differ from CBRE IM's classification

From an investment strategy perspective, as outlined in the table above, the portfolio is within the various target ranges for each strategy. The current portfolio reflects prudent diversification by strategy. Each targeted strategy is designed to fulfill a role in the overall return profile of the portfolio and the target ranges reflect the potential scale for each strategy over the long term.

It should be noted that core and opportunistic are below their respective targets (core (25%) and value-add (50%)). Core strategies have attracted a significant amount of capital over the past few years and core assets are generally fully-priced. The Private Infrastructure team may consider an additional commitment to the core strategy, in order to get closer to the long-term target, and to be strategic about new value-added commitments to remain within the target ranges.

From a geographic perspective, as outlined in the table above, the current portfolio reflects broad geographic diversification, within each of the respective target ranges. Within developed markets, the U.S. represents the largest weight. The Private Infrastructure team is considering additional commitments to strategies with higher allocations to Europe and Australia/New Zealand. These represent a significant portion of the infrastructure market and the portfolio is currently underweight in these regions. The team further believes that the portfolio could further benefit from increased exposure to regions such as Asia, Latin America, and even Africa.

The table above also outlines diversification by industry. The portfolio is reasonably diversified across various industries, with digital infrastructure representing the largest allocation at 33%. The Private

Infrastructure team will take a cautious approach to new commitments that would potentially have a large allocation to digital infrastructure assets given the current allocation.

**Top 6 Managers by Exposure (NAV + Unfunded)**  
**As of December 31 2022** (*\$ in thousands*)

Rank	Firm	No. of Funds <sup>1</sup>	Commitment (\$)	Commitment (%)	% of Total NAV + Unfunded
1	Stonepeak	8	509,313	18%	19.17%
2	Ardian	5	343,406	12%	13.79%
3	I Squared	8	349,583	12%	12.52%
4	Digital Bridge	3	308,850	11%	12.28%
5	Actis	7	475,000	17%	12.18%
6	QIC	4	134,664	5%	6.71%
<b>Top 6 Managers</b>		<b>34</b>	<b>2,120,817</b>	<b>74%</b>	<b>76.6%</b>
<b>Other Commitments</b>		<b>18</b>	<b>4,932,357</b>	<b>26%</b>	<b>23.4%</b>
<b>Total</b>		<b>48</b>	<b>2,870,861</b>	<b>100%</b>	<b>100%</b>

<sup>1</sup>Includes commitments for co-investments

The table above presents the top 6 exposures to general partners in the portfolio by exposure (calculated as total net asset value plus committed but unfunded capital). All of the portfolio's exposures are within program guidelines (<25% exposure concentration limit) as of December 31, 2022.

As of December 31, 2022, the Private Infrastructure portfolio has invested in 25 funds, 20 co-investments, and 3 legacy assets. Commitments total over \$2.88 billion, with approximately \$2.0 billion of that called to date.

### Section 3: Performance Review

#### Performance Versus Benchmarks As of December 31, 2021

	1 Year	3 Year	5 Year	10 Year	Inception
<b>Program IRR</b>	14.0%	13.3%	12.1%	8.3%	8.5%
<b>Benchmark*</b> <b>(CPI + 400bps)</b>	10.5%	8.1%	7.3%	6.3%	6.5%
<i>Difference</i>	3.6%	5.2%	4.8%	2.0%	2.0%

*\*Calculated as a simple annualized average of the index for the referenced periods.*

From inception through December 31, 2022, the Private Infrastructure program has demonstrated strong performance, generating an IRR of +8.5%, 200bps above the targeted benchmark. The portfolio has outperformed its stated benchmark of CPI + 400 bps over all time periods.

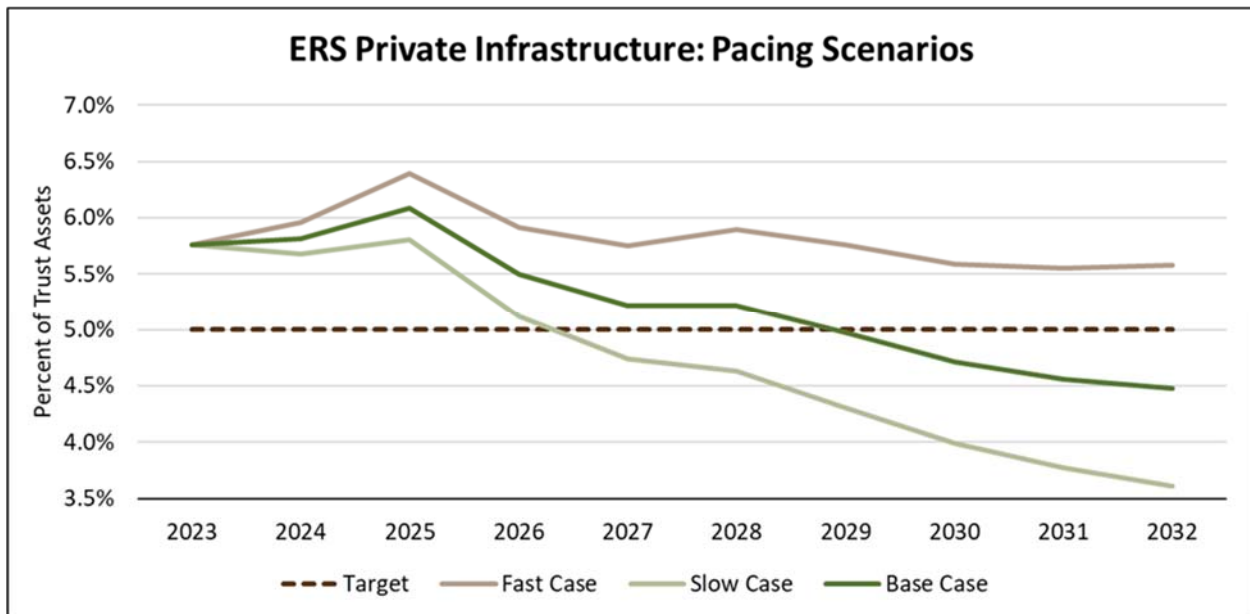
## Section 4: Pacing Analysis

The portfolio pacing plan analysis is built upon forward-looking investment parameters. The objective of the current pacing analysis is to create a realistic glidepath to manage the overall exposure down over time to the target of 5%, without undermining the core foundation of the portfolio.

CBRE's pacing model estimates fair market values and net cash flows arising from capital contributions, distributions and appreciation generated from existing and planned capital commitments. It is important to recognize that the model output is driven by numerous assumptions about the future and is more directional in nature than precise. It is a tool for planning purposes, but it should be expected that future values will not equal the precise amount predicted by the model. It should also be noted that the years shown in the pacing model are calendar years and not ERS' fiscal years as investments are generally labeled a certain "vintage year" based on the calendar year in which they first begin to accrue management fees. Over the long term, the discrepancy between the fiscal and calendar years should be immaterial.

The model incorporates cash flows, fair market values, and unfunded balances as of December 31, 2022.

The following graph summarizes three different scenarios for the trajectory of the allocation within the total Trust: Base Case, Fast Case, and a Slow Case. In each case capital commitments are held constant and various Trust growth, cash flow, and asset class return assumptions are adjusted.



The following table outlines the commitment projections over the next five years in order to achieve the 5% target in the Base Case, with a range of +/- 25%.

**Projected Commitment Requirements**  
*(\$ in millions)*

<b>Fiscal Year</b>	<b>Commitment (\$millions)</b>	<b>Ranges (+/-25%)</b>		
FY 2024 Projection	[200]	[150	-	250]
FY 2025 Projection	[225]	[170	-	280]
FY 2026 Projection	[250]	[190	-	315]
FY 2027 Projection	[250]	[190	-	315]
FY 2028 Projection	[300]	[225	-	375]

ERS was slightly over its targeted Private Infrastructure allocation of 5.0% as of December 31, 2022. The proposed pacing plan analysis projects a glidepath to the target over the next several years, without disrupting the consistency of pacing and the foundation of the core portfolio. The forecasted commitment levels are projections based on a variety of assumptions and should be viewed with a degree of flexibility in line with the target ranges outlined in the table above. Such flexibility allows for adjustments related to market conditions and the opportunity set over time.

## **Section 5: Prospective Investments**

Similarly to previous years, ERS will continue to focus on a combination of funds and co-investments. The Private Infrastructure team expects to make four to nine new infrastructure commitments totaling approximately \$[200] million in fiscal year 2024.

As a result of the portfolio review, the following investment objectives for the next year have been developed.

### ***Core:***

The ERS Private Infrastructure portfolio is currently below the lower end of the target range for core infrastructure and could potentially benefit from increased exposure, provided it can be obtained at an appropriate risk-return profile. The team recognizes that asset valuations with core infrastructure are high and expected returns are modest. Core assets can provide a strong cash yield with downside protection, especially in light of a macroeconomic environment facing inflationary pressures and rising interest rates. Core assets tend to have structured CPI escalators in their revenue streams and secured long-term fixed financing, which mitigates the risks of the current environment. The Private Infrastructure team will consider adding core exposure in FY2024.

### ***Non-U.S. Market Exposure:***

The team continues to develop their relationships with quality managers in Europe, Canada and Australia. Currently, the portfolio has some exposure to these regions, but the portfolio could benefit from continuing their diversification into both Europe and Australia given that they are a significant part of the infrastructure opportunity set. Moreover, many of the opportunities in these regions are core and core-plus, which would help to further diversify the portfolio. On that basis, the Private Infrastructure team will continue exploring potential commitments to non-US focused managers in FY2024.

### ***Co-Investments:***

In terms of planning, around 30% of each year's commitments are budgeted for co-investments.

### ***Other:***

Managers focused on small and mid-market deals are a promising area. Greenfield and build-out opportunities may present a good opportunity to earn a premium return relative to brownfield assets. Further, the portfolio could benefit from developing relationships and commitments to first-time managers. It is important be selective with first-time managers given the increased risk, favorable terms and governance that can be usually be obtained..



## **Section 6: Summary**

The targeted commitment amount for FY2024 is [200] million (+/- 25%). This capital commitment budget will be deployed within the pre-existing portfolio parameters guiding diversification as per the Investment Implementation Plan ("IIP"). The long-term objectives of the portfolio will inform each investment brought forward or not, with the ultimate objective of building a well-diversified, sustainable portfolio of high-quality general partners and associated co-investments. The Private Infrastructure team and CBRE Investment Management will continue to work closely to review actionable opportunities and continue to build relationships with high quality fund managers, including developing a pipeline of potential new relationships that may be suitable candidates to the portfolio in the near future. In addition, the ERS Private Infrastructure team and CBRE Investment Management will continue to work to source co-investments and direct investments to prudently build and evolve ERS' Private Infrastructure portfolio toward its proposed long-term target allocation of 5%.