

Section 1: Introduction

The Employees Retirement System of Texas (“ERS”) Private Credit Capital Plan (“Capital Plan”) 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 Credit 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:	1,517.00	1,867.00
Unfunded Capital:	605.10	677.80
Net Contributed Capital:	1,073.50	1,520.70
Net Distributed Capital:	363.70	664.70
Recallable Capital:	162.20	333.10
Fair Market Value:	1,164.40	1,190.50
Net Gain / (Loss):	268.70	167.50
Total Value:	1,528.10	1,855.20
Total Exposure:	1,769.50	1,868.30
Distributed to Paid-In (DPI):	1.78x	2.07x
Total Value to Paid-In (TVPI):	1.78x	1.78x
Net Internal Rate of Return (IRR):	11.17%	11.47%

Section 2: Portfolio Exposures

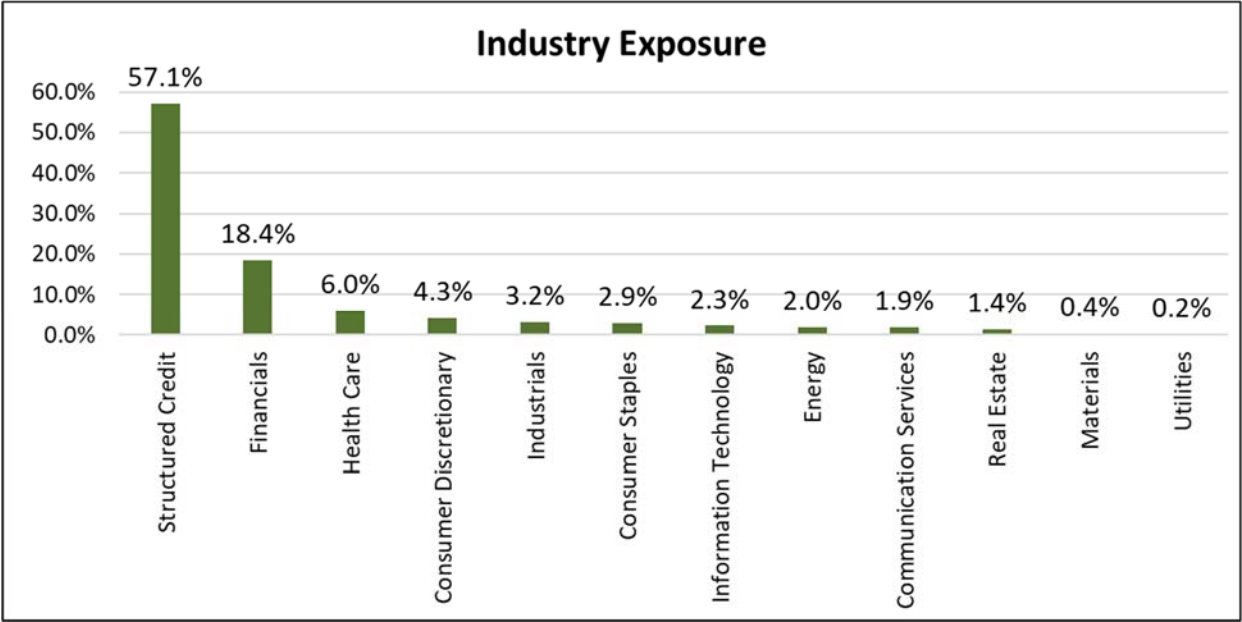
The Private Credit portfolio is well diversified portfolio. Portfolio exposures are based on both fair market value and total exposure. Although fair market value reflects the current portfolio position, total exposure incorporates both committed but undrawn capital, which provides additional insight into the future direction of the portfolio. The following table shows exposure by strategy, geography, and structure.

Strategy	Committed	FMV Exposure	
Structured-CLO	40.2%	54.5%	43.7%
Distressed	26.8%	23.2%	26.5%
Private Credit	17.0%	14.7%	18.5%
Asset Based Lending	10.7%	5.7%	10.0%
BDC	5.4%	1.9%	1.3%
Geography			
North America	93.7%	95.8%	93.4%
Europe	6.3%	4.2%	6.6%
Structure			
Primary Fund	59.8%	45.5%	56.3%
Managed Account	40.2%	54.5%	43.7%

The Private Credit portfolio has five broad categories of strategies and remains well diversified on its allocations to these strategies. The strategies are as follows: structured credit, private credit, distressed credit, business development company (BDC) and other. These broad categories may contain individual sub-strategies that can be significantly different from other strategies within the category. Therefore, the portfolio benefits from a level of diversification far greater than the four broad strategy categories. Each individual investment strategy was chosen to take advantage of an investment opportunity that was expected to be available during the investment period.

From an industry perspective, the portfolio has a heavy weighting to structured credit. This is through investment exposures to CLO's and mortgages. Although it appears concentrated, each structure is comprised of hundreds of corporate credits or thousands of mortgages.

Industry Exposure
As of December 31, 2022



From a geographic perspective, the portfolio is weighted toward markets in the United States. This is done for two reasons. First, legal jurisdictions within credit are important in regards to creditor rights and the ability to enforce remedies in the event of default. The United States has the most established and reliable legal system in regard to creditor protections. Second, the ERS Trust has U.S. dollar denominated liabilities. The addition of assets denominated in foreign currencies adds an additional risk to be managed. Currently, the portfolio has a 6% exposure to Western Europe and the Private Credit team is reviewing an additional investment in the region. However, these investments were pursued to access the investment opportunity and did not originate for a desire for non-U.S. assets.

Private Credit Portfolio
As of December 31, 2022

Private Credit Portfolio					
	Investment	Asset Class	Commitment	Value	% Portfolio
1	AGL	Structured Credit	500,000,000	371,069,443	31%
2	Bain Capital Credit	Structured Credit	250,000,000	277,605,868	23%
3	Marblegate Partners Fund II	Distressed	150,000,000	121,766,503	10%
4	Glendon Opportunities Fund II	Distressed	75,000,000	84,788,668	7%
5	Balance Point V	Private Credit	125,000,000	66,388,611	6%
6	Balance Point III	Private Credit	75,000,000	58,138,205	5%
7	All Seas Capital I	Private Credit	117,000,000	50,446,174	4%
8	VWH Master Fund III	Mortgage NPL	150,000,000	39,634,145	3%
9	Benefit St. Special Sits	Distressed	75,000,000	33,339,072	3%
10	VWH Master Fund	Mortgage NPL	50,000,000	27,934,346	2%
11	Benefit St. Special Sits II	Distressed	75,000,000	24,803,567	2%
12	BCSF	BDC Equity	100,000,000	23,169,645	2%
13	Glendon Opportunities Fund	Distressed	50,000,000	10,439,131	1%
14	Benefit St. Contingent Opps.	Distressed	75,000,000	1,003,496	0%
			1,867,000,000	1,190,526,874	100%

Currently, the Private Credit team is engaged on the addition of two private credit investments. A \$75mm investment in lower middle market private credit was executed at the end of FY2023 with no capital expected to be called until FY2024. A private credit seasoning warehouse facility was approved but not funded in FY2023. This investment has not been executed and funded, since a key credit facility associated with this investment is still being sought. This is likely to be executed in FY2024. The commitment to the seasoning warehouse is \$165mm, but only \$16.5mm will be called in the initial two years. The remaining amount is unlikely to be called due to the use of the credit facility.

Section 3: Performance Review

Performance Versus Benchmarks As of December 31, 2022

	Assets (\$millions)	(% of Trust)	1 Year	3 Years	5 Years	Since Inception
Private Credit	1,190.53	3.31%	-1.25%	11.65%	8.22%	7.12%
Benchmark *			-5.64%	2.10%	3.22%	4.28%
Excess Return			4.39%	9.55%	5.00%	2.84%

* Benchmark: LSTA Leveraged Loan Index plus 1.50%

Most investments in the Private Credit portfolio report performance quarterly. This data is received by ERS 45 to 90 days after the end of the performance period. The Private Credit portfolio has performed well over all periods and has exceeded the portfolio's benchmark by a material amount. The portfolio's benchmark is the LSTA leveraged loan index plus 1.5%. The portfolio's five-year return has exceeded its benchmark by +5.00%. Performance in recent years has been exceptional and is due to the maturation of the portfolio including the addition of new investments with attractive return profiles.

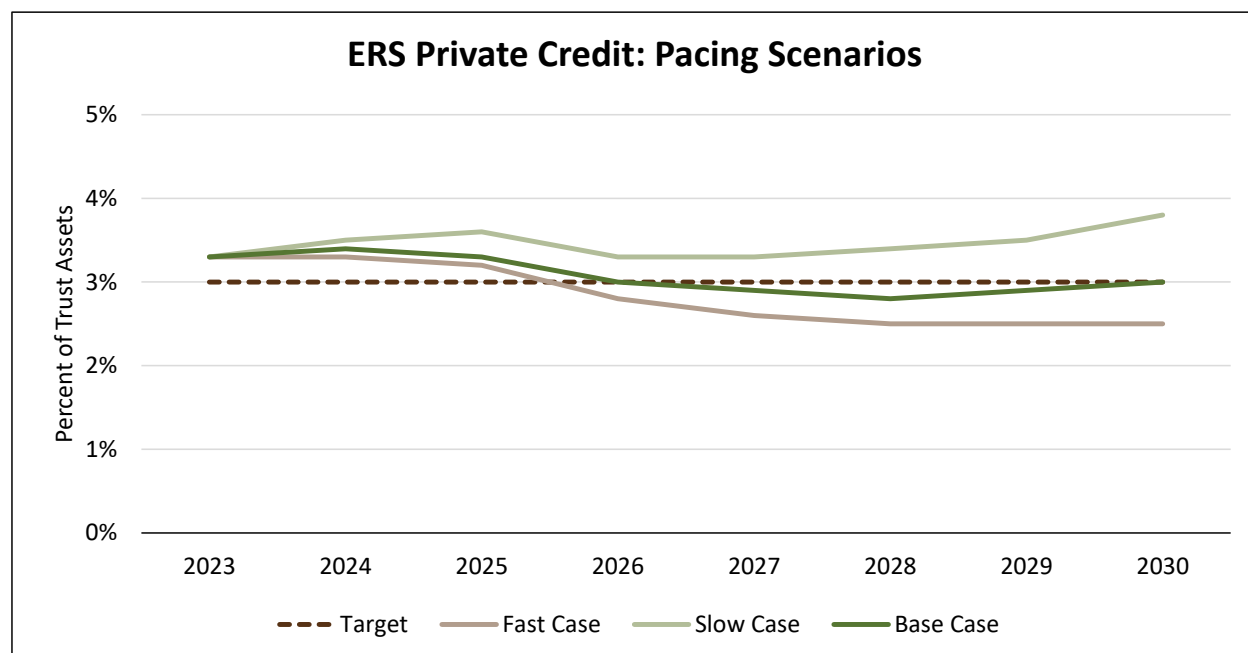
Section 4: Pacing Analysis

The portfolio pacing analysis is built upon the forward-looking investment parameters previously described. 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 3%, given the current overallocation, without undermining the core foundation of the portfolio.

The Private Credit 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 Private Credit allocation within the total Trust: Base Case, Fast Case, and a Slow Case. In each case presented, 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 3.0% target, with a commitment of \$100 million with the potential to increase to \$150 million.

Projected Commitment Requirements

(\$ in millions)

Fiscal Year	Target Commitment	Range	
FY 2024 Projection	100	100	150
FY 2025 Projection	100	100	150
FY 2026 Projection	100	100	150
FY 2027 Projection	100	100	150
FY 2028 Projection	100	100	150

ERS has been at or near its targeted private credit allocation of 3.0% since the initiation of the target in September 2022. The proposed Capital Plan maintains exposure at or near the 3% target for the foreseeable future. The forecasted commitment levels, post 2024, are a straight line projection intended to show a trend over time. The expected commitment is \$100 million with the potential to increase to \$150 million. This enables the portfolio to remain near the target and benefit from vintage diversity.

Section 5: Prospective Investments

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

Private Credit:

At this time, there are no expected investments for FY2024. As discussed in Section 2 of this document, there are some residual FY2023 commitments that are expecting funding in FY2024.

Structured Credit:

The Private Credit portfolio's largest exposure is to structured credit. This exposure is through CLO's, both CLO equity and mezzanine debt tranches. Currently, CLO mezzanine debt tranches appear particularly attractive relative to other public fixed income markets. This may be further reviewed with consideration for a potential investment in FY2024.

Distressed:

The Private Credit portfolio has exposure to three different segments of distressed credit based on the size of the borrower. The portfolio has an investment in lower middle market and private debt. This manager may potentially fundraise for a follow-on fund in FY2024. The portfolio has an investment in smaller, primarily public market, distressed credit. A new commitment was made in FY2022 and no further investments are expected in FY2024. Finally, the portfolio has exposure to large cap distressed credit. No further investments are expected in this market segment in the near-term.

Other:

The portfolio's exposure to other strategies is associated with a mortgage non-performing loan strategy. This strategy has performed well. A new commitment was made in FY2022. No additional investments are expected for FY2024.

Section 6: Summary

The targeted commitment amount for FY2024 is \$100 million with the potential to increase to \$150 million. The capital budget will be deployed within the pre-existing portfolio parameters as per the Investment Implementation Plan (“IIP”). The long-term objectives of the portfolio will guide each investment brought forward, with the ultimate objective of building a well-diversified, sustainable portfolio of high-quality general partners.