

Public Agenda Item #19

**Consideration and Annual Review of the ERS Investment Policy
Statement
(Action - Board Only)*

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Annual IPS Review



Process for Developing Recommendations

- Policy requires review of IPS by staff at least annually
- Review conducted by Investments, Investment Compliance, Office of General Counsel, Executive Office, and General Investment Consultant
- Second look from CIO, General Counsel, and Compliance Officer

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Highlights of Staff Recommendations



- Most significant proposed updates:
 - Adoption of Charter for Investment Advisory Committee (Board)
 - Update asset allocation parameters related to Cash (IAC)
 - Create two classes of Restricted Persons (Compliance)
 - Add language regarding statutory duty of diversification (Staff)
 - Add detail regarding the role of investment consultants (Staff)

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Adoption of IAC Charter



- IAC role and functioning not fully defined within the IPS
- Charter for the IAC would provide detailed guidance on its role
- Proposed charter modeled on ACIC Charter but is also customized
- Inserted as Addendum VI, ACIC Charter becomes Addendum VII
- Redundant text in IPS Chapter III regarding the IAC is deleted

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Updates to Strategic Asset Allocation Parameters for Cash

- Interest rates on cash now exceed 5%, making it more important
- Increase maximum Trust allocation from 3% to 5%, target remains 2%
- Increase GBP target allocation from 30% to 50%
 - Reduce allocation to Rates and Public Credit by 10% each
 - Improves risk/return profile by **+40%** while keeping yield above 5%

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Updates to Code of Ethics



- Clarifies who is subject to pre-clearing personal trades

Restricted Persons I	Restricted Persons II
Routine access to confidential information	Limited access to confidential information
ED, Investments staff and other personnel as designated by ED	Includes Deputy ED, IS, attorneys, and other personnel as designated by ED
Subject to Personal Transactions policy	Not subject to Personal Transactions policy
Submits quarterly affirmation of compliance	Submits quarterly affirmation of compliance
No gifts, benefits or favors	No gifts, benefits or favors

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Statutory Duty of Diversification



- Incorporates longstanding language from Texas statutes requiring a trustee to:
 - Make decisions at the trust level and as part of an overall investment strategy having risk and return objectives reasonably suited to the trust.
 - Diversify trust investments unless reasonably determined that, because of special circumstances, the trust purposes are better served without doing so.
 - Exercise its duty of care by considering all investments of the trust as a whole and not by considering the prudence of a single investment in isolation.

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Role of Investment Consultants



- Adds detail regarding the specific roles of investment consultants
- Clearer distinction between general and asset class consultants
- Language aims to support comprehensive RFQ process during FY24

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Other Proposed Updates



- Revise governance tables to provide additional clarity (NEPC)
- Clarify distinction between different types of benchmarks (Staff)
- Specifically prohibit the advancement of outside agendas (Staff)
- Delete obsolete language in Code of Ethics (OGC)

Discussion

Action Item - Board Only