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

December 5, 2023

EMPLOYEES RETIREMENT SYSTEM OF TEXAS

Presented for Review and Approval

March 20, 2024

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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
December 5th 2023 – 9:00 a.m.

TRUSTEES PRESENT
Brian Barth, Chair
Craig Hester, Vice-Chair
Neika Clark, Member
Dr. Stuart Greenfield, Member
Dr. James Kee, Chair
John Rutherford, Member

INVESTMENT ADVISORY COMMITTEE (IAC) PRESENT
Gene Needles, Chair
Laurie Dotter, Vice-Chair
Bob Alley, Member
Ryan Bailey, Member
Milton Hixson, Member
Mr. Ken D. Mindell
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
Blaise Duran, Acting Director of Group Benefits
Bernie Hajovsky, Director of Enterprise Planning Office
Cynthia Hamilton, General Counsel
Robin Hardaway, Director of Customer Benefits
Shack Nail, Special Projects & Policy Advisor
Machelle Pharr, Chief Financial Officer
Gabrielle Schreiber, Director Office of Procurement & Contract Oversight
Kathryn Tesar, Director of Benefits Communications
David T. Veal, Chief Investment Officer

ERS STAFF PRESENT
Amanda Burleigh, Office of General Council
Amy Chamberlain, Executive Office
Amy Cureton, Investments
Anthony Curtiss, Investments
Kelley Davenport, Executive Office
Peter Ehret, Investments
Angelica Harborth, Group Benefits
Trudy Hill, Operations
Mitch Holtz, Investments
Lauren Honza, Investments
Richard Inzunza, Investments
Tiffani Jenkins, Benefits Communications
Lanesia Jones, Investments
Dani Levrie, Benefits Communications

Meagan Larson, Investments
Ricardo Lyra, Investments
Keith Lyons, Investments
Nick Maffeo, Investments
John McCaffrey, Investments
Michael McCrary, Investments
Pablo de la Sierra Perez, Investments
Samantha Ramirez, Investments
Evelín Ramos, Investments
Chris Roland, Information Services
Tim Reynolds, Investments
Cheryl Scott Ryan, Office of General Council
Benjamin Schuman, Investments
Robert Sessa, Investments
Leighton Shantz, Investments
Summer Thomas, Office of General Council

VISITORS PRESENT
Sam Austin, NEPC
James Battjes, Public
Sherron Watkins, Guest Presenter
Joe Newton, GRS
Dana Woolfrey, GRS
John Posey, LBB
Charlie Smith, LBB

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

1. Call Meeting of the Board of Trustees to Order

Mr. Brian Barth, 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 10:13 a.m. on Tuesday, November 28, 2023 as required by Chapter 551, Texas Government Code, referred to as "The Open Meetings Act." Mr. Barth noted that the aforementioned notice also included the Audit Committee and Investment Advisory Committee.

2. Call Meeting of the Investment Advisory Committee to Order

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

Public Comment

Mr. Barth indicated that Mr. James Battjes was present at the meeting and wished to make a comment.

Mr. Battjes made a series of comments addressing his concerns about the alignment of ERS investments with his personal values. He specifically expressed concerns about investing in companies domiciled outside of the United States, as well as his personal disagreement with the corporate policies of some companies in which ERS is invested.

3. Consideration of Consent Agenda

The consent agenda was introduced, and included the following items: Minutes to the August 23, 2023 Audit Committee Meeting, Minutes to the August 23, 2023 Board of Trustees Meeting, Minutes to the August 23, 2023 Joint Meeting of the Board of Trustees and Investment Advisory Committee, Internal Audit Report: Status of Audit Recommendations, Actuarial Valuation of Retiree Health Insurance Benefits as of August 31, 2023, HealthSelect Plan Compliance and Operational Updates for Fiscal Year Programs, and Quarterly Performance of Texa$aver Investment Options.

Mr. Barth asked if any trustees wanted to remove any items from the consent agenda. The Board took the following action:

Move that the Board approve all items on the Consent Agenda as presented.

Motion by Craig Hester, second by Neika Clark
Final Resolution: Motion Carries
Aye: Brian Barth, Neika Clark, Stuart Greenfield, Craig Hester, Jim Kee, John Rutherford
.

4. Consideration of Texa$aver Product Review Committee Updates and Investment Policy

Mr. David T. Veal, Chief Investment Officer, and Ms. Angelica Harborth, Deferred Compensation Program Manager, presented this item.

Mr. Veal and Ms. Harborth opened the presentation with a review of the Texa$aver programs, the Texa$aver Product Review Committee and the periodic review of the Investment Policy Statement. The PRC charter and Investment Policy Statement are reviewed every three years, per policy.

Ms. Harborth noted that most changes were for clarity and readability, but that there were other changes related to performance monitoring and investment philosophy.

Ms. Harborth noted that new language clarifies the Texa$aver oversight roles of the IAC, Board of Trustees, and ERS Staff.

Ms. Harborth went on to note that contracted administrators, advisors, and vendors are now required to disclose conflicts of interest.

Ms. Harborth then explained new language that clarifies the need for participant engagement to enable informed investment decision making, and language that specifies low-cost passive funds should serve as the default option during fund due diligence.

The document also includes added language regarding potential selection of funds utilizing securities lending, an expanded code of ethics, and the addition of the PRC Charter as an addendum to the Investment Policy Statement.

Move that the Board approve the Texa$aver 401(k)/457 Program Investment Policy attached as exhibit A to the agenda item.

Motion by Jim Kee, seconded by Craig Heser
Final Resolution: Motion Carries
Aye: Brian Barth, Neika Clark, Stuart Greenfield, Craig Hester, Jim Kee, John Rutherford

5. *Consideration of Retirement Program Actuarial Valuations and Financial Status

Ms. Jennifer Chambers, Director of Government Relations & Special Projects, Mr. Joe Newton Gabriel, Roeder, Smith & Company (GRS), and Ms. Dana Woolfrey, GRS, presented on this item.

Ms. Woolfrey began remarks by reviewing the impact of recent appropriations from House Bill 1 to the Trust funds overseen by ERS. She noted that in addition to $1 billion appropriated to the ERS plan, the LECOSRF and JRS2 funds received enough additional state appropriations that both plans are now fully-funded.

Mr. Newton then reviewed the legacy payment dynamic, where an annual legacy payment of $510 million is projected to take the ERS Plan to fully funded status by 2054. He said that the impact to the unfunded liability of the $900 million inflow of funds from the state was largely offset by salary increases. Over time, higher payroll contributions will offset the increase in liabilities, therefore there was minimal impact to the long-term funding trajectory due to salary increases greater than the current assumption.

Mr. Newton went on to review the Investment Experience, which showed that the ERS FY23 Market Return of 6.75% nearly equates to the actuarial assumption of 7%. The five-year smoothed return of 7.5% exceeds the actuarial assumption.

Ms. Woolfrey went on to review the valuation results, which shows a funded ratio of 70.8%, up from 68.9% in 2022 for the ERS plan. She went on to show a chart that showed the ERS plan funded ratio declining from 2002 to 2020, then increasing slightly through 2023.

There was some discussion about expected increase in life expectancy. Mr. Newton mentioned that the actuarial model incorporates increasing life expectancy.

There was some discussion about the State credit rating, and if the improved funded status projections have affected the State of Texas credit rating. Mr. Porter Wilson noted that credit agency concerns about plan funding have been alleviated by the improved projected funding status.

Dr. Stuart Greenfield asked if increased legislative funding was required to enhance benefits. Ms. Chambers noted that the criteria for benefit enhancements as set forth in the Pension Funding Priorities and Guidelines of the ERS Board of Trustees dictates any benefit enhancement to be entirely pre-funded, and that a legislative appropriation for that specific purpose would be the only access to such pre-funding.

Mr. Wilson noted that Group 4 retirees will have an annuity increase tied to the gain sharing benefit.

Ms. Woolfrey moved on to LECOS and JRS2. She noted that the $772 million for LECOS and $99 million for JRS2 arrived eight days after the valuation date, but are included in the funding valuation. She explained that excluding the funding would have made the funding valuation useless for decision making purposes.

Ms. Woolfrey then went on to speak on LECOS, which was on a path to insolvency in 23 years as of the last valuation. However, the recent legislative session both increased ongoing employer contributions and eliminated the legacy debt through a one-time payment of $772 million. The result is a fully funded plan at this point.

She then spoke about JRS2, which was on a path to insolvency in 47 years as of the last valuation. However, the recent legislative session both increased ongoing employer contributions and eliminated the legacy debt through a one-time payment of $99 million. The result is a fully funded plan at this point, with about $8 million in surplus funding.

Ms. Woolfrey then explained that new hires (after September 1, 2024) in the JRS2 plan will have a cash balance benefit structure that mirrors most of the ERS Group 4 cash balance benefit structure.

Mr. Newton then presented a new actuarial measure, the Low-Default Risk Obligation Measure. This measure demonstrates the cost to fund the plan at a much lower assumed rate of return. The result of this analysis shows that an infusion of $11.7 billion would allow ERS to implement a low-risk investment approach and still meet its funding obligations. This amount is referred to as the cost to de-risk and is expected to be volatile going forward.

Mr. Newton concluded the presentation by recapping the dramatically improved outlook for LECOSRF and JRS2 and improved outlook for ERS. He noted that benefit security for all participants has improved remarkably over the last three years, and recommended ERS stays on its current course.

Mr. Hester thanked GRS for helping explain the funding situation to the legislature, ultimately resulting in positive action.

There was no further discussion on this item.

<u>6. Consideration of Quarterly Review of Investment Performance and Market Environment</u>

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

Mr. Austin opened this item with a broad discussion of the market environment. He noted that we remain in a period of uncertainty given various geopolitical events and Federal Reserve policy. Mr. Austin noted that short-term interest rates have likely peaked and that inflation has improved, but that the ability of the Federal Reserve to engineer a soft landing remains uncertain.

Mr. Austin then discussed ERS Trust returns. Relative return metrics were strong from a calendar- and fiscal-year standpoint, with excess return over both periods. Risk-adjusted returns also remain strong over a five-year time horizon. Measured by the five-year Sharpe Ratio, ERS has the highest five-year risk-adjusted return within its peer group.

Mr. Austin moved on to Trust returns over multiple time periods. He noted that returns have exceeded the actuarial assumed rate of 7%, as well as the Policy Benchmark over the one-, three-, five-, and 10-year periods. He also mentioned that the Trust has trailed the Passive Index over a one-year time period, but outperformed over longer time periods.

Mr. Austin then discussed cash flows. He mentioned that net negative cash flows had been reaching levels that merited closer monitoring, but have recently become positive with the recent infusion of funds by the Legislature.

Mr. Austin noted the 6.9% cash position of the Trust as being higher than usual, which he said was merited given the current high returns on cash.

He then showed an attribution analysis, which showed Private Real Estate as the top contributor to returns on a one-year basis.

Dr. Kee mentioned that he would like to see risk and return metrics broken out by public, private, and combined. Mr. Veal noted that ERS is developing this report.

Mr. McCaffrey noted that market conditions have normalized after a period of turmoil related to the COVID-19 pandemic.

He went on to discuss specific economic drivers. He highlighted consumption and wage growth as key components of recent economic growth, but expressed concern that declining purchasing power could limit consumption growth going forward.

There was some discussion about the impact of government stimulus on recent savings and spending growth. Mr. McCaffrey noted that government stimulus was a large driver of excess savings and that those savings have been depleted.

Mr. McCaffrey went on to discuss inflation, which continues to moderate from cycle highs.

Mr. John Rutherford noted that while the U.S. economy has normalized according to certain metrics, the level of debt financing to fund the ongoing deficit is neither normal nor sustainable, in his view. Mr. Veal agreed that the level of government intervention is unprecedented, and that equilibrium is a better characterization of current market conditions.

Mr. McCaffrey went on to discuss the divergence between market expectations and Federal Reserve guidance when it comes to the timing of rate decreases. Mr. Veal noted that this market divergence drove the recent strength in the U.S. equity market.

Mr. McCaffrey presented on several other economic indicators, which pointed to modest economic growth. There was a broad discussion about workforce productivity and how demographic trends could contribute to lower economic growth going forward.

Dr. Kee raised concerns about the role of macro forecasting to inform Trust investment decisions. Mr. Veal noted that bottom up selection is the main driver of relative returns for the Trust.

Mr. Ryan Bailey asked about potentially taking advantage of higher interest rates and improved funding status to de-risk the Trust. Mr. Veal noted that the Trust would need an additional $11 billion to fund its liabilities without investing in return-seeking assets.

Mr. McCaffrey ended his remarks with a brief recap of his presentation.

There was no further discussion on this item.

7. CONSIDERATION OF QUARTERLY REPORT FROM CHIEF INVESTMENT OFFICER

Mr. David T. Veal, Chief Investment Officer, presented on this agenda item.

Mr. Veal began the presentation with an overview of the mission and objectives of the ERS Investment Division. He showed a chart that demonstrates the achievement of certain objectives, including excess returns relative to the assumed rate of return, policy benchmark, passive index, and peer group.

Mr. Veal went on to discuss asset allocation, which remains within strategic ranges across all asset classes.

He then compared the returns of a passive portfolio compared to the ERS Trust returns, as well as the assumed rate of return. The chart showed that the passive allocation failed to meet the assumed rate of return over the three-, five-, and ten-year periods, highlighting the important role the strategic allocation and Staff implementation play in meeting the assumed rate.

Mr. Veal went on to show the Trust returns relative to the Policy Benchmark, noting that Staff implementation has added about $3 billion in value over a ten year period.

Moving onto peer performance, Mr. Veal noted that the ERS Trust has ranked high among its peers over three-, five-, and ten-year time horizons, with a top 1% ranking over three years.

Mr. Veal showed attribution analysis indicating that security selection is the top contributor to excess returns, with allocation and policy mix providing smaller positive contributions. Within asset classes, Private Equity and Private Real Estate have been the largest positive contributors.

Mr. Veal then showed a new chart comparing the historical returns of public markets investments to those of private markets investments. The chart showed that Private Market investments outperformed Public counterparts across Equity, Real Estate, and Credit markets.

There was some discussion about the divergence in performance between Private and Public Real Estate. Mr. Veal noted that ERS Staff has the ability to be more selective in private markets, since that allocation is unbound by the need to track an underlying index.

Mr. Veal moved onto a discussion of risk, noting that realized volatility has increased along with stock-bond correlations.

Next, Mr. Veal discussed organizational developments. He noted that talent retention remains a focus area, as does increasing strategic allocation capabilities. Other developments include the recent divisional office move, consulting RFQ, and Investment Practices Review.

Mr. Veal was asked about the impact of the Public Equity restructuring to the Trust return. Mr. Veal noted that about half of the excess return in Fiscal Year 2023 was driven by the Public Equity program. He also noted that the number of holdings in the portfolio was nearly cut in half.

Dr. Greenfield asked about the return of the Public Equity portion of the Trust relative to the S&P 500. He also asked how the actuarial liability could have worsened while relative returns were strong. Mr. Craig Hester noted that legislative and market developments early in the century were key drivers of the funding status.

Mr. Veal went on to note that the S&P 500 had flat returns in the decade following the dot-com bubble. Mr. Veal went on to discuss portfolio risk, which is best reflected in the returns of the Passive Index, which do not reflect the smoothing effect of private markets as it relates to reported risk metrics.

There was no further discussion on this item.

8. ANNUAL ETHICS TRAINING

Sherron Watkins, a noted former employee and whistleblower from Enron, presented on the Enron scandal and key takeaways from an ethics standpoint. Her presentation reinforced the role of good governance, due diligence, and transparency to support ethical behavior.

9. CONSIDERATION OF ANNUAL GAIN SHARING INTEREST ADJUSTMENT FOR GROUP 4 MEMBERS AND ANNUITANTS

Bernie Hajovsky, Director of Enterprise Planning Office, and Robin Hardaway, Director of Customer Benefits, presented on this item.

Mr. Hajovsky began the presentation by explaining the background of the creation of Group 4 and the gain sharing associated with this new cash balance plan.

Mr. Hajovsky explained that the gain sharing feature of the plan is based on a rolling five-year average return for the ERS Trust. Participant accounts are credited with 4% interest annually no matter what the overall Trust earns. He explained that the Trust and Group 4 members evenly split excess returns when the Trust return is between 4% and 10%. This equates to a return on account balances between 4% and 7%. Returns over 10% are accrued to the Trust and not split with Group 4 members.

In FY23, the five-year average return of the Trust was 7.53% and the gain share amount applied to participant account balances is 1.77%. Retired members of Group 4 will also see their annuity check increase permanently by this amount.

Mr. Hajovsky showed a historical chart, showing that the 4% return trigger would have been hit in 18 of the previous 25 years.

Mr. Hajovsky gave additional details on the return calculation, which are based on Public Market valuations as of August 31 and Private Markets valuations as of June 30. He went on to show some real and hypothetical examples to demonstrate the calculation methodology.

Ms. Hardaway then provided more details about the application of Group 4 gain sharing. She noted that as of August 2023 there are 24,000 contributing Group 4 members and fewer than 10 annuitants.

Ms. Hardaway then walked through hypothetical scenarios using account balance and annuity numbers with a calculated gain share adjustment.

Ms. Hardaway then showed the timeline for calculating and applying gain share adjustments between October and December.

There was some discussion about the relative benefits of Group 4 and Groups 1 to 3. Mr. Wilson noted that the Trust will still be managed to a 7% assumed return and Ms. Chambers noted that there is not a cost difference between Group 4 and Group 3.

There was no further discussion of this item.

10. CONSIDERATION OF ANNUAL REVIEW OF PUBLIC EQUITY PROGRAM

Ms. Lauren Honza, Managing Director of Public Equity, and Mr. Keith Lyons, Director of Global Internal Equity, presented on this item.

Ms. Honza began the presentation with a review of the goals and key characteristics of the Program. She noted that the objective of the Program is to exceed the return of the MSCI ACWI IMI Index.

Ms. Honza then moved on to performance. She noted that the program has beaten its benchmark on a one- and three-year basis, but is essentially even with the benchmark over longer term periods.

Ms. Honza showed a slide on tracking error as a measure of program risk, which shows the program at the lower end of its policy range, but moving higher.

She then went on to discuss the structure of the Program. At the core is the internal equity portfolio, which is supplemented by satellite portfolios and the Global Tactical Portfolio. She noted that the restructuring of the Program in September 2022 resulted in a reduction of the number of internal and external portfolios to 12 from 25. Tracking error increased to 222 basis points from 140 basis points, and fees declined to $11.1 million from $18.1 million. The restructured Program has generated an excess return of 140 basis points since inception after trailing the benchmark over the prior five-year time period.

There was some discussion about the diversification and volatility of the Internal Public Equity Portfolio with fewer stocks. Mr. Keith Lyons noted that the fund is sufficiently diversified and that Staff is comfortable with the level of volatility in the Portfolio.

There was additional discussion of the weight of domestic equities versus international. Mr. Lyons noted that the bottom up investment process has resulted in a slight overweight to U.S. equities. Mr. Lyons noted further that outperformance has been spread across regions, with international equities also posting positive performance.

Mr. Keith Lyons then began his presentation on the Internal Public Equity Fund, known internally as the Lone Star Fund. Mr. Lyons noted that the fund is internally managed, benchmarked to MSCI ACWI ex-China, and focuses on stock selection by keeping sector and region weights close to neutral.

Mr. Lyons went deeper into the Lone Star team culture and process, which focuses on knowledge sharing, accountability, and repeatable and trackable process.

Mr. Lyons went on to review performance, which has outperformed the benchmark by 120 basis points year to date and 70 basis points since inception.

Ms. Honza then discussed the Satellite portfolios, which include 11 strategies that have characteristics viewed by ERS Staff as complementary to the Core Lone Star Portfolio. She noted that Staff is working on a RFA to streamline the process of hiring Satellite Portfolio managers.

Ms. Honza discussed the Global Tactical Portfolio, which uses ETF positions to express tactical views, respond to liquidity needs, minimize cash drag, lower costs, and aid rebalancing. ETFs provide a way to achieve these goals without the disruption and workload caused by changing managers.

Finally, Ms. Honza discussed 2024 initiatives which include evaluating complementary strategies, enhancing the monitoring process, reviewing software and tools, and continuing to develop staff.

Ms. Laurie Dotter asked if ERS uses soft dollars to pay for research, and Mr. Lyons affirmed that the Internal Public Equity Team does use broker research.

Dr. Greenfield asked if Staff has compared Program returns to the S&P 500 and Ms. Honza noted that performance is measured against various relevant benchmarks to reflect the global diversification of the Trust.

There was no further discussion on this item.

11. CONSIDERATION OF ANNUAL REVIEW OF EMERGING MANAGER PROGRAM

Ms. Lanesia Jones, Investment Analyst, presented this item.

Ms. Jones began her presentation with a discussion of the background of the Emerging Manager Program. The Program results from a legislative requirement to make a good faith effort to invest in emerging managers, solely defined as managers with less than $2 billion AUM.

Ms. Jones then spoke about the structure of the ERS emerging manager program, which is managed within asset classes. Mr. Veal noted that this is a unique aspect of the ERS program and allows successful relationships to be maintained when a manager exceeds the $2 billion threshold.

She noted that ERS uses a variety of methods to find emerging managers including a specialized website (the ERS External Advisor Website) the TRS/ERS Emerging Manager Conference, a Real Estate Emerging Manager Conference, ERS consultants, and Manager of Managers relationships.

Ms. Jones said the current allocation is $2.4 billion, or 13% of externally managed assets. This exceeds the goal of 10%, and is not particularly concentrated in any single asset class.

Ms. Jones then discussed the size, performance, and diversification of each of the emerging manager portfolios with the asset classes. She noted that the Legato Public Equity Portfolio and Launchpad Hedge Fund Portfolio, and Infrastructure Emerging Manager Portfolio have underperformed their general asset class programs since inception. Private Equity, Private Real Estate, and Private Credit have outperformed the general asset class programs with their respective emerging manager portfolios.

Dr. Kee asked if Staff could provide details on Private Credit emerging managers. Mr. Leighton Shantz joined the discussion and outlined several examples and how they align with the objectives of the overall credit program.

Ms. Jones closed her prepared remarks with a discussion of 2024 initiatives.

Ms. Dotter asked about the stability of the fund-of-funds model for emerging managers. Ms. Honza noted that the manager relationships have been stable and are expected to remain so.

There was no further discussion of this item.

12. CONSIDERATION OF ANNUAL REVIEW OF STEWARDSHIP PROGRAM

This item was presented by Mr. Benjamin Schuman, Investments Chief of Staff.

Mr. Schuman began his presentation with an overview of the Stewardship Program, which oversees proxy voting, scrutinized investments, and restricted investments.

Mr. Schuman noted that ERS voted over 15,000 proxy items in Fiscal Year 2023, most of which occur during U.S. proxy voting season which runs from April to June. Mr. Schuman noted that ERS uses a proxy advisor to implement proxy voting according to the ERS Proxy Voting Policy and Guidelines.

Mr. Schuman then discussed ERS Proxy Voting Policy, philosophy, and guidelines. These documents use the Policy that is part of the ERS Investment Policy Statement to inform a specific set of implementation instructions. ERS conducted a comprehensive revision of the implementation document in 2023, which greatly simplified the instructions provided to the proxy advisor.

Mr. Schuman reviewed a slide on the proxy voting environment, noting that the number of environmental and social shareholder proposals is no longer growing at a high rate. He then showed that such proposals are seeing declining support levels. He noted that only eight proposals were passed in 2023, down from 37 in 2022.

Mr. Schuman then discussed the introduction of new fiduciary-focused benchmark policies that more closely align with the ERS Proxy Voting Guidelines. He noted that ERS is evaluating these policies on an ongoing basis but that Staff remains pleased with its custom approach.

Mr. Schuman then reviewed ERS proxy voting results. First he went over management proposals, which represent 95% of overall proposals. He noted that ERS votes align with management on these proposals 93% of the time, and are most opposed to management on compensation matters.

Mr. Schuman went on to discuss shareholder proposals, which represent under 5% of all items voted. He noted that ERS now aligns with management on 98% of environmental and social issues and 87% of all shareholder proposals.

Mr. Schuman then discussed Scrutinized Investments, which relates to state law that restricts ERS' investments in about 30 public companies. He noted that ERS has a strong process for evaluating the fiduciary impact of Scrutinized Lists and executing any required divestment activity.

Mr. Schuman then reviewed the various lists of scrutinized investments related to state and federal law, as well as internal possession of material inside information and Staff conflicts of interest.

Mr. Schuman closed his presentation with a review of 2024 goals for the Stewardship Program. These goals include updating the 2024 Proxy Voting Guidelines and evaluating new fiduciary aligned Proxy Advisor Policies.

Mr. Hester asked about previous instances where ERS did not agree with a vote cast by its proxy advisor. Mr. Schuman noted that sufficient steps have been taken to improve the process and minimize the risk of such an instance occurring again.

Mr. Hester congratulated Mr. Veal for recently receiving the Markets Group Strategy Award.

There was no further discussion of this item.

13. ADJOURNMENT OF THE JOINT MEETING OF THE BOARD OF TRUSTEES AND INVESTMENT ADVISORY COMMITTEE

The meeting of the Joint Board of Trustees and Investment Advisory Committee was adjourned at 3:55 p.m. on Tuesday, December 5, 2023.

14. RECESS OF THE BOARD OF TRUSTEES

The Board of Trustees recessed at 3:55 p.m. on Tuesday, December 5, 2023 and will reconvene on Wednesday, December 6, 2023 at 9:00 a.m. to take up the remaining items on the posted meeting agenda.

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