

Public Agenda Item #18

** Consideration of Annual Review of Public Credit, Private Credit & Hedge Fund Programs*

March 20, 2024

Leighton Shantz, CFA, Managing Director of Credit & Hedge Funds

Peter Ehret, CFA, Director of Public Credit

Richard Inzunza, CFA, Director of Private Credit

Nick Maffeo, CAIA, Director of Hedge Funds

Credit & Hedge Funds

Team Overview



- Formed in September 2022 amid organizational restructuring

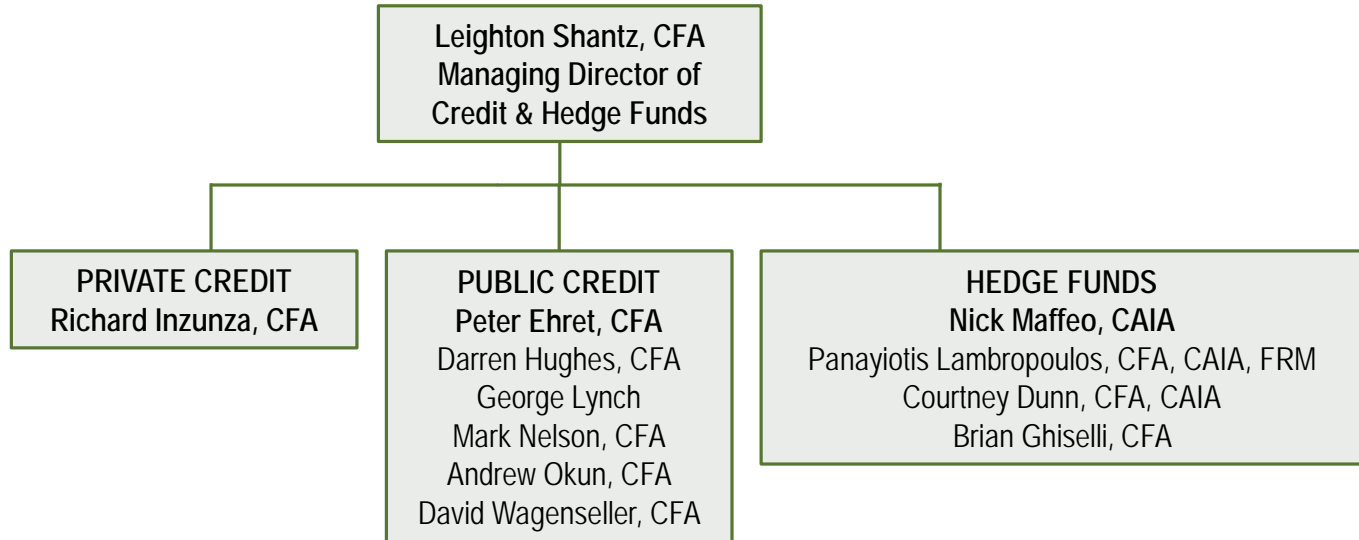
Program	Strategic Purpose	Implementation Objective
Public Credit	Growth-oriented asset class providing yield and diversification via public securities	Add value vs. benchmark with varying degrees of liquidity
Private Credit	Growth-oriented asset class earning illiquidity premium via private lending	
Hedge Funds	Diversifying asset class that provides downside protection and diversification	Add value vs. benchmark with low correlation to Trust

Credit & Hedge Funds

Organization and Responsibilities



- Collectively manages \$6.5 billion in assets with 12 team members



Credit & Hedge Funds

Summary Overview



Asset Class	Assets (\$ millions)	1 Year Relative	5 Year Relative
Global Credit	4,113	+158 bps	+143 bps
Public Credit ¹	2,668	+4 bps	+8 bps
Private Credit	1,445	+470 bps	+466 bps

Asset Class	Assets (\$ millions)	1 Year Relative	5 Year Relative
Hedge Funds	2,073	-499 bps	+155 bps
Absolute Return	1,719	-288 bps	+195 bps
Launchpad	354	-918 bps	N/A

Public Credit Program

March 20, 2024

Leighton Shantz, CFA, Managing Director, Credit & Hedge Funds

Peter Ehret, Director of Public Credit

Public Credit

Key Characteristics



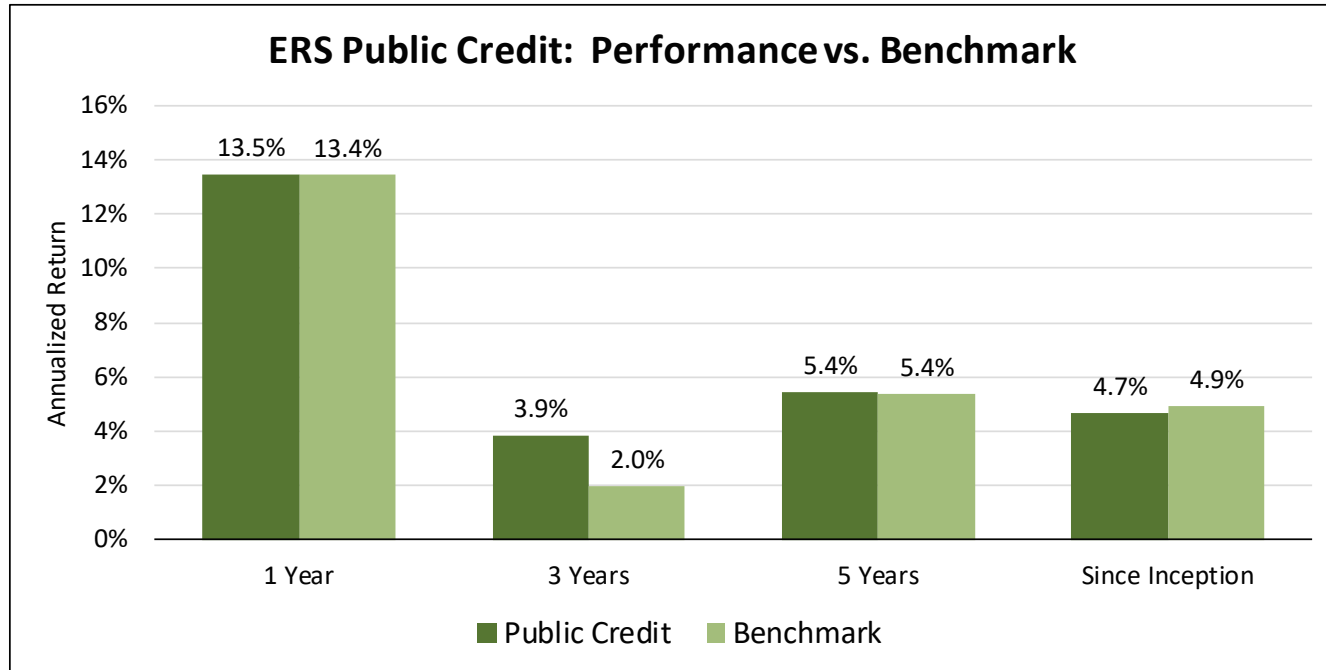
Attribute	Public Credit Portfolio
Type of Allocation	Return seeking
Policy Allocation	Target weight of 9%, range of 4-14%, currently 7.1%
Management Style	Actively managed internally
Benchmark	Bloomberg US High Yield 2% Issuer Capped Cash Pay Index
Benchmark Description	Market cap weighted index of high yield bonds with 2% issuer max
Risk Budget	Tracking error: 200 bps target, 300 bps maximum
Expected Information Ratio	0.35 or better
Investment Expenses	~16 bps internally

Public Credit

Periodic Performance



- Weak relative returns since inception attributable to ETFs and external advisor

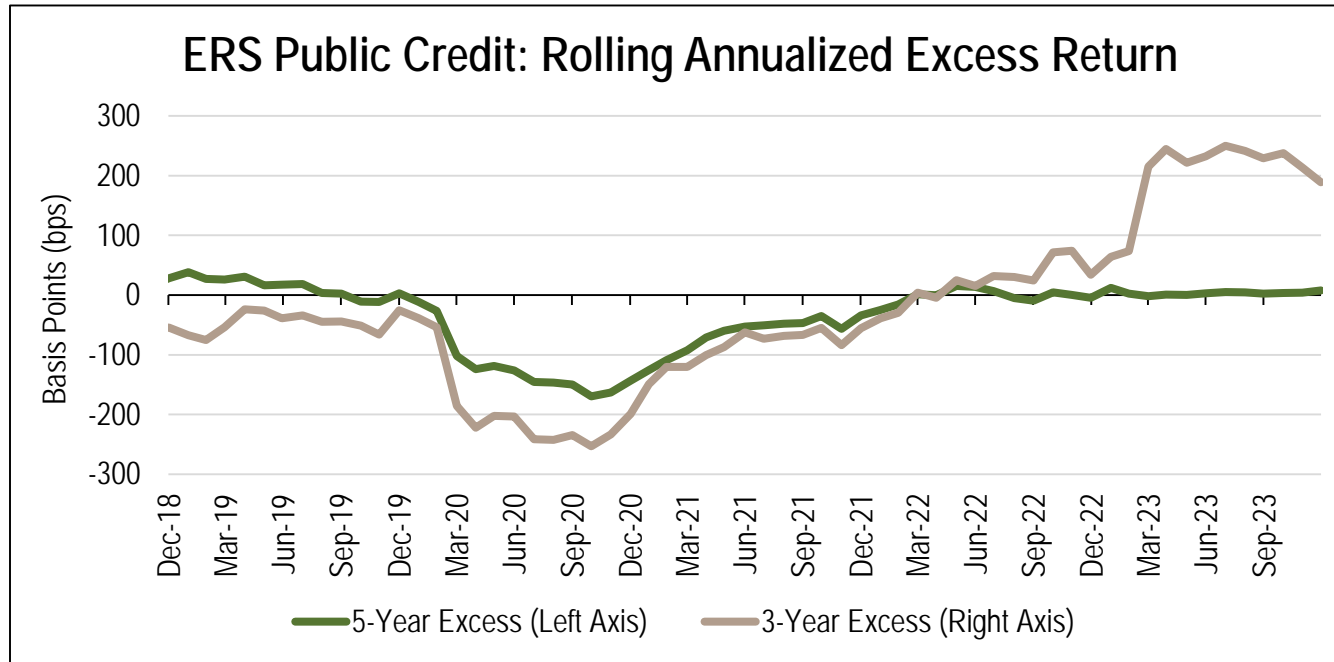


Public Credit

Historical Performance



- Negative relative performance at COVID-19 onset still detracting from long-term results

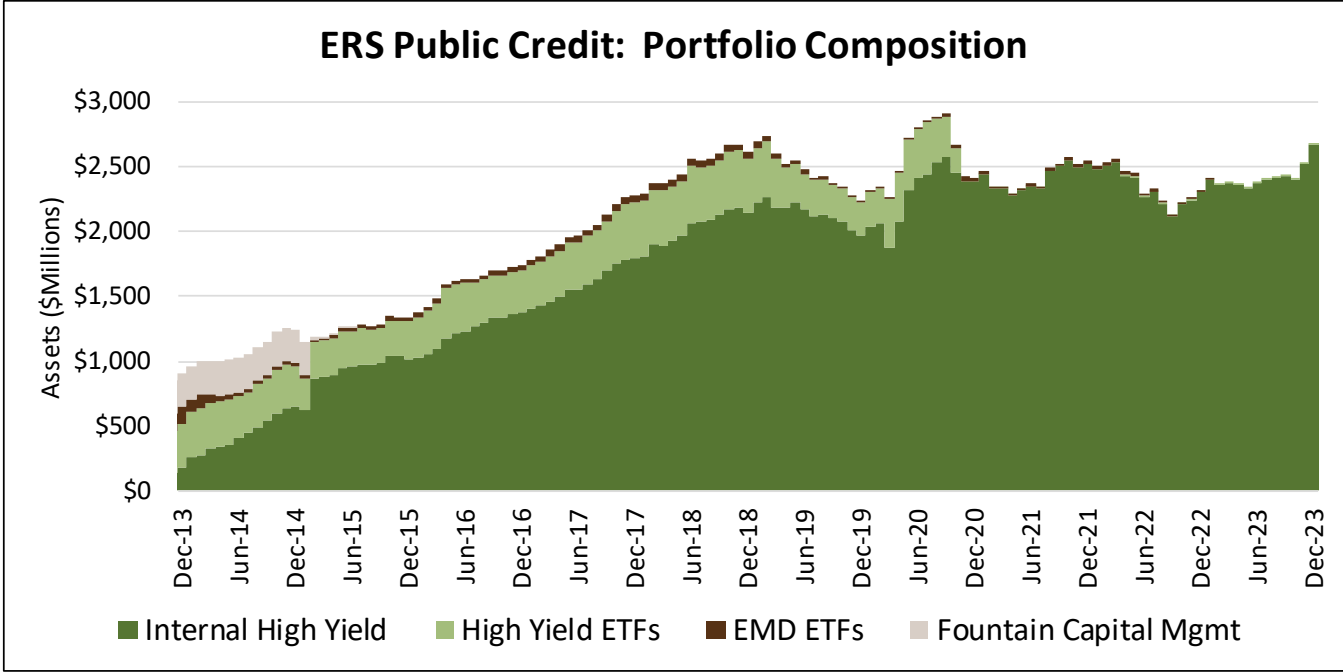


Public Credit

Historical Composition



- Internal High Yield portfolio has become sole holding in recent years

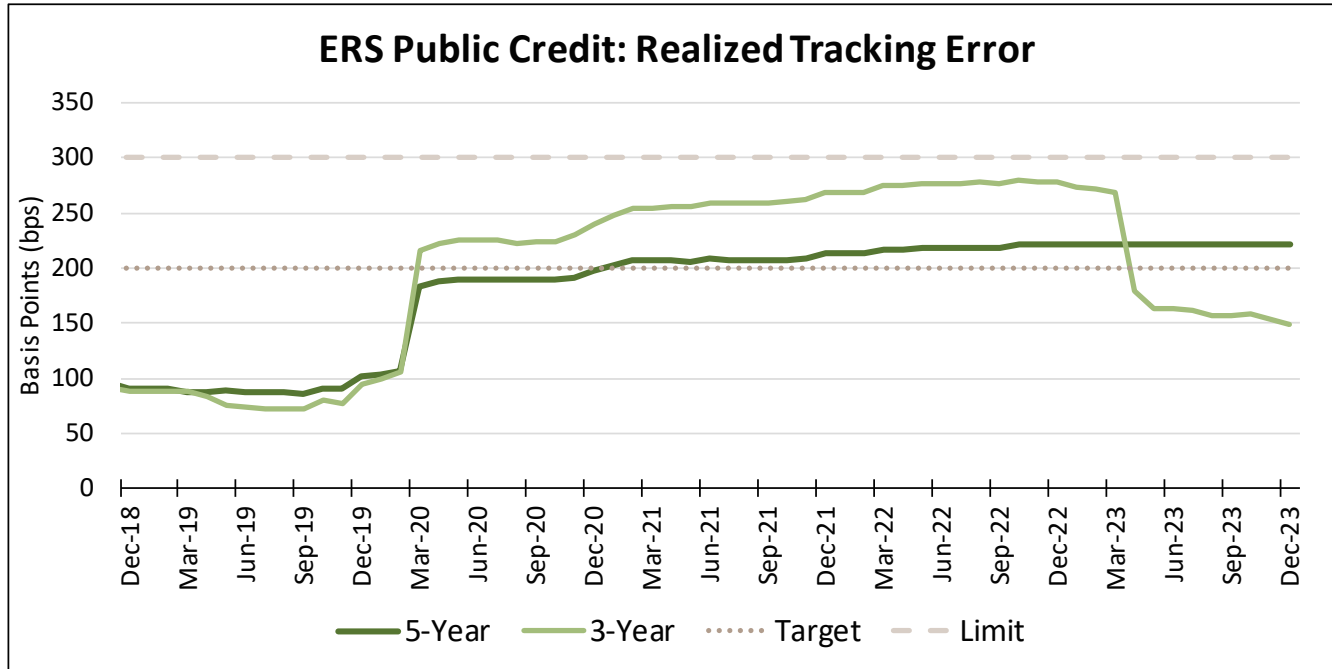


Public Credit

Historical Risk

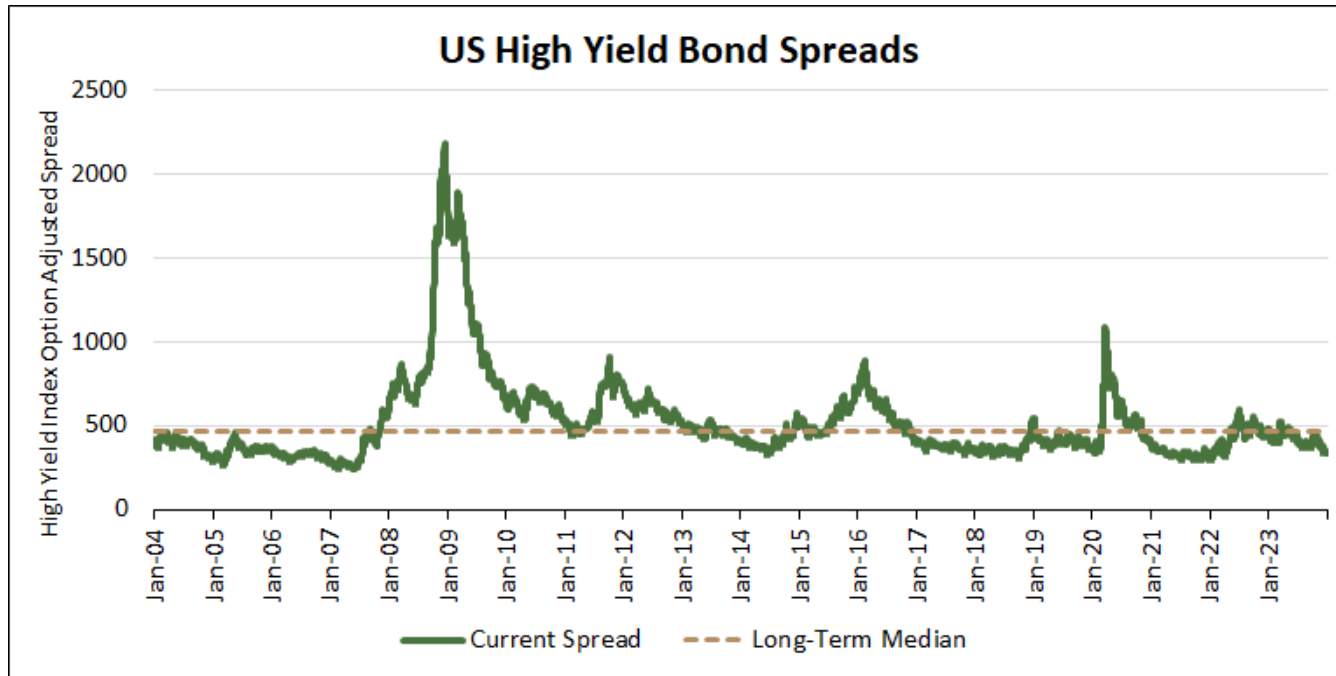


- Portfolio tracking error remains within IPS limits and is declining post-pandemic



Public Credit Yield Spreads

- Current yield spreads are quite low relative to the levels seen over last 20 years



Discussion

Private Credit Program

March 20, 2024

Leighton Shantz, CFA, Managing Director, Credit & Hedge Funds

Richard Inzunza, CFA, Director of Private Credit

Private Credit

Key Characteristics



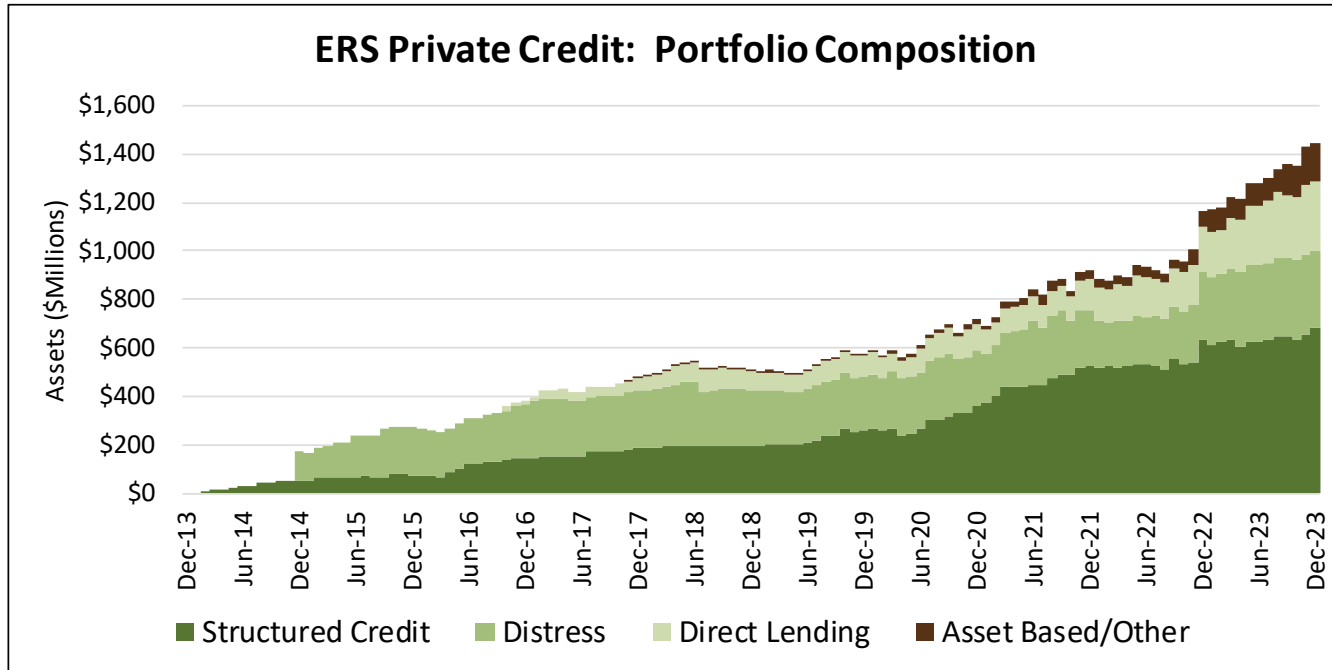
Attribute	Private Credit Portfolio
Role	Return seeking
Policy Allocation	Target weight of 3%, range of 0-8%, currently 3.8%
Management Style	Actively managed externally via limited partnership interests
Benchmark	Morningstar LSTA Leveraged Loan Total Return Index + 150 bps
Benchmark Description	Tracks the broadly syndicated loan facilities in the US leveraged loan market
Risk Budget	Allocation ranges
Investment Expenses	~9 bps internal, ~36 bps external

Private Credit

Historical Composition



- Asset class mix has evolved over time as portfolio growth has continued

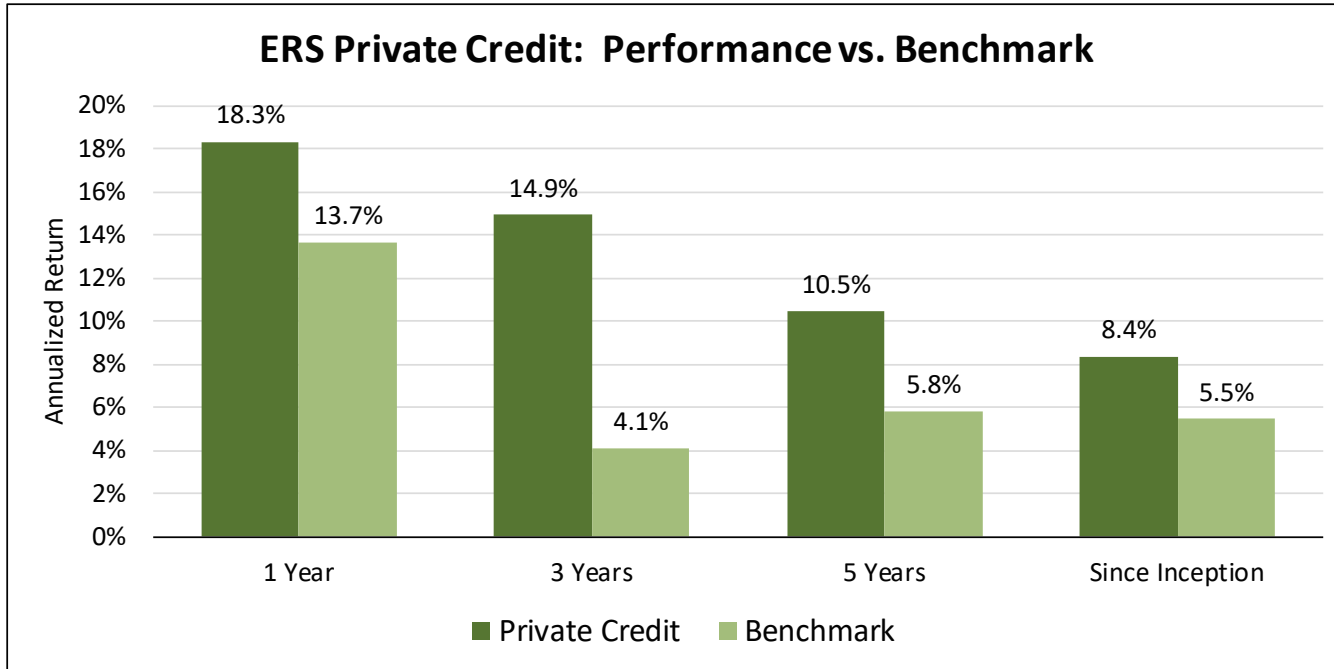


Private Credit

Periodic Performance



- Strong long-term absolute returns & relative performance over all periods

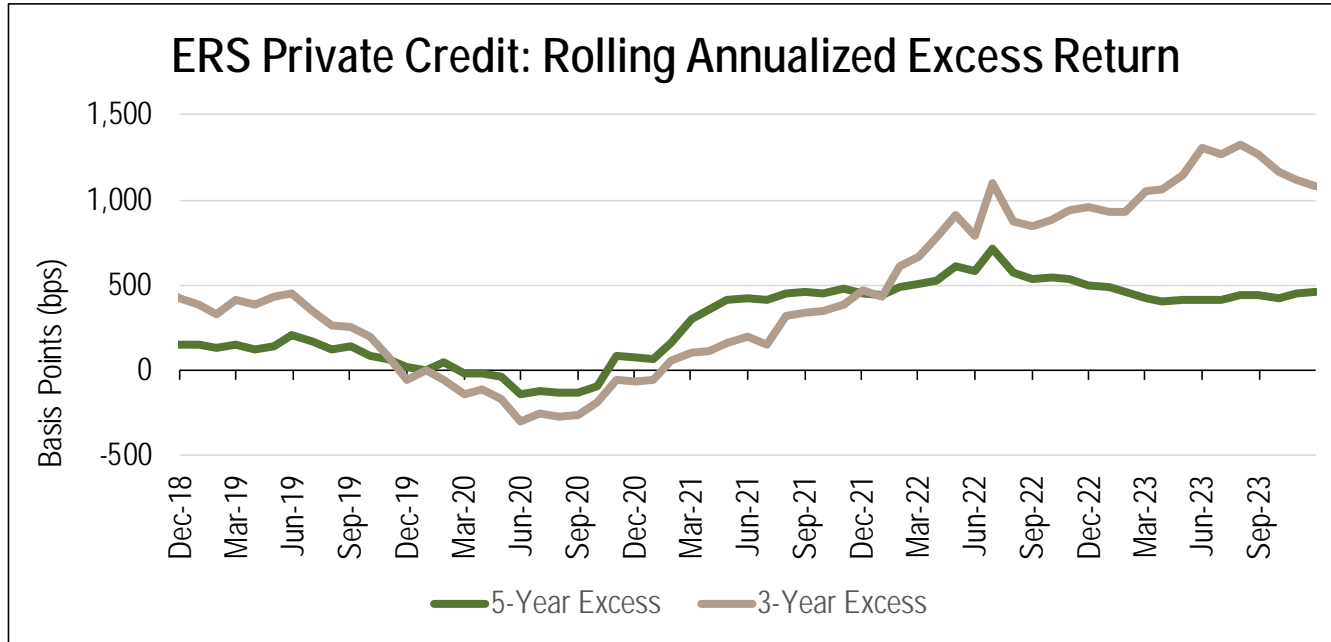


Private Credit

Historical Performance



- High levels of excess returns reflects strong selection of managers and strategies



Private Credit

Commitments and Pacing



Fiscal Year 2024

- \$100 million commitment target with approved range of \$100-150 million
 - \$75 million commitment approved by ACIC, legal documents under negotiation
 - \$75 million scheduled for ACIC review of a new emerging manager relationship

Fiscal Year 2025

- \$200 million target anticipated for commitments to existing managers
- Investment pacing will remain opportunistic and subject to change

Discussion

Hedge Funds Program

March 20, 2024

Leighton Shantz, CFA, Managing Director, Credit & Hedge Funds

Nick Maffeo, CAIA, Director of Hedge Funds

Hedge Funds Program

Key Characteristics



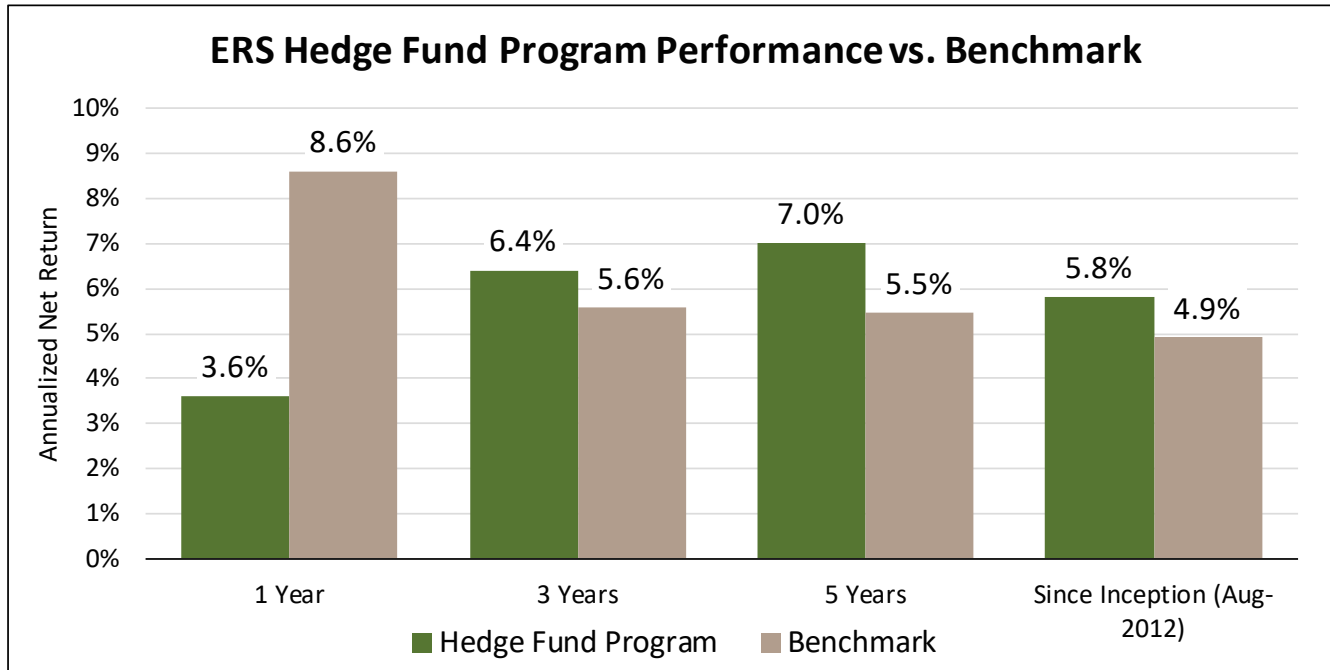
Attribute	Hedge Fund Program
Type of Allocation	Risk Reducing
Policy Allocation	Target weight of 6%, range of 0-11%, currently 5.5%
Management Style	Actively managed externally via limited partnership interests
Benchmark	3-month T-bills + 3.5% annually
Benchmark Description	Real return target over inflation, which is not investable
Risk Budget	Volatility target of 4% to 8%
Beta Target	≤ 0.4 versus the Trust
Investment Expenses	~268 bps external, ~16 bps internal

Hedge Funds Program

Program Performance



- Strong performance across over time since inception except for 1-year performance

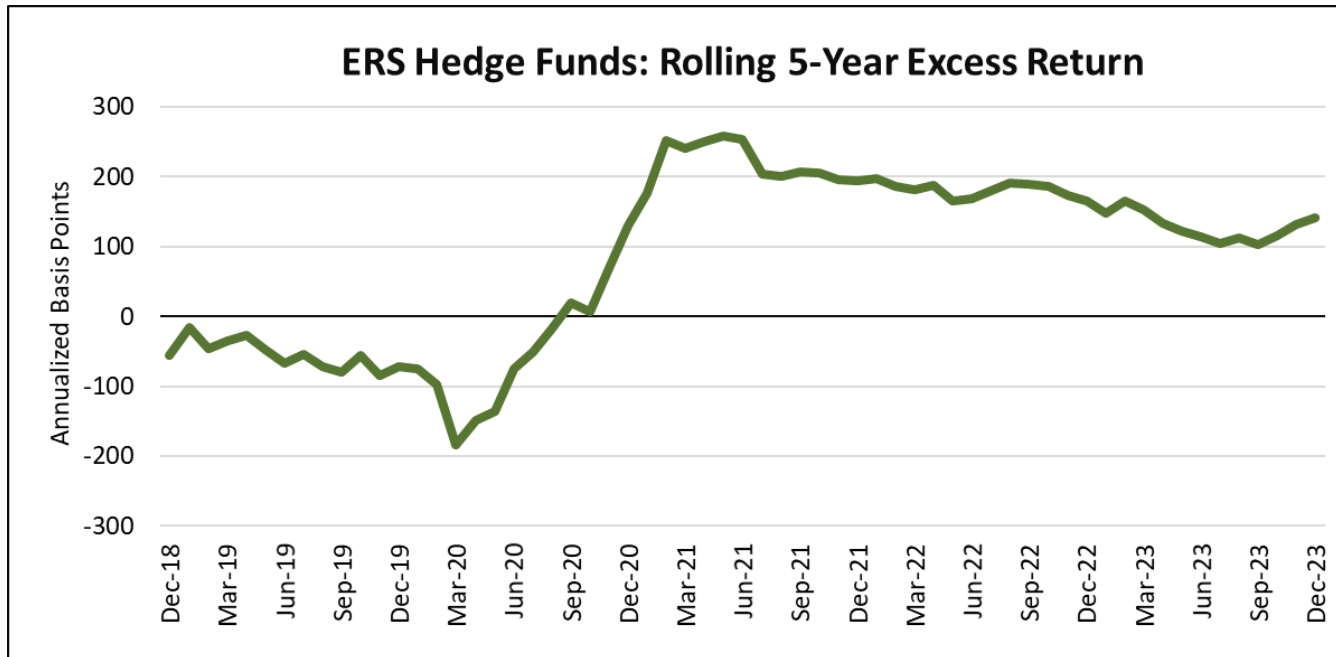


Hedge Funds Program

Historical Performance



- Long-term relative performance has been consistent in recent years



Absolute Return Portfolio

Key Characteristics



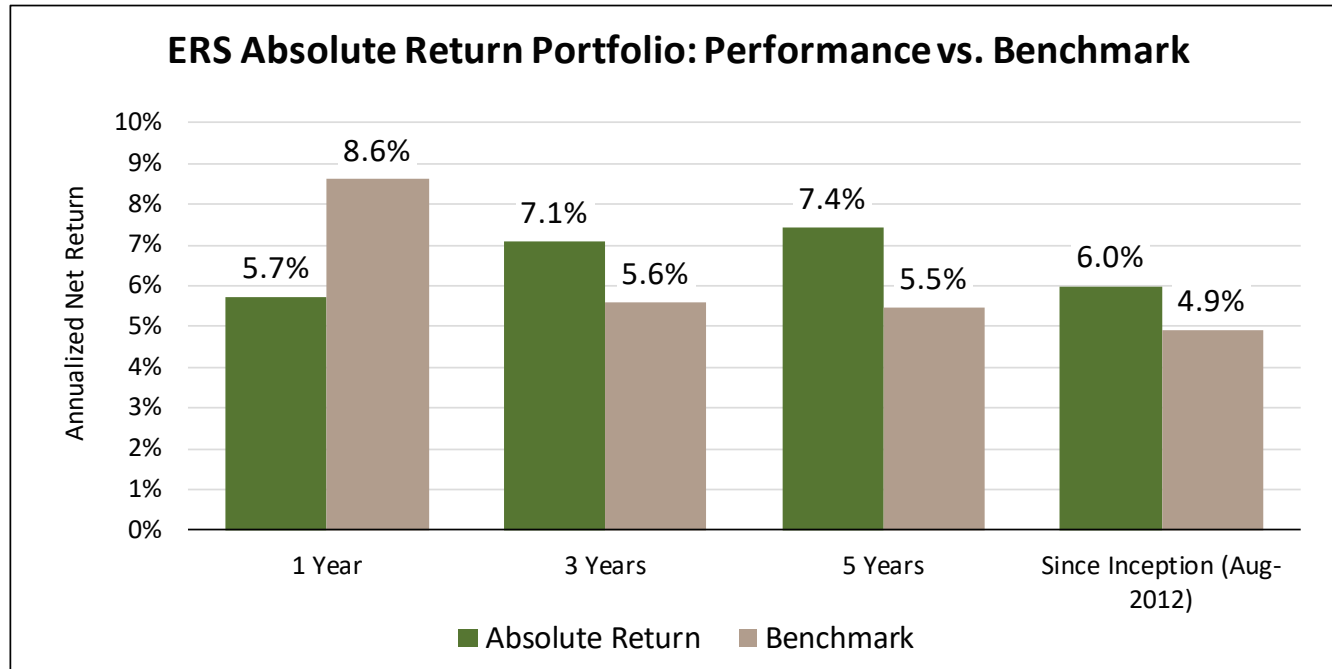
Attribute	Absolute Return Portfolio
Role	Risk Reducing
Policy Allocation	Target weight of 5%, range of 0-11%
Management Style	Actively managed externally via limited partnership interests
Return Target	3-Month T-bills + 3.5% annually
Risk Budget	Volatility target of 4% to 8%
Beta Target	≤ 0.4 versus the Trust
Investment Expenses	~219 bps external, ~16 bps internal

Absolute Return Portfolio

Performance Snapshot



- Strong performance across long-term time horizons despite one-year results

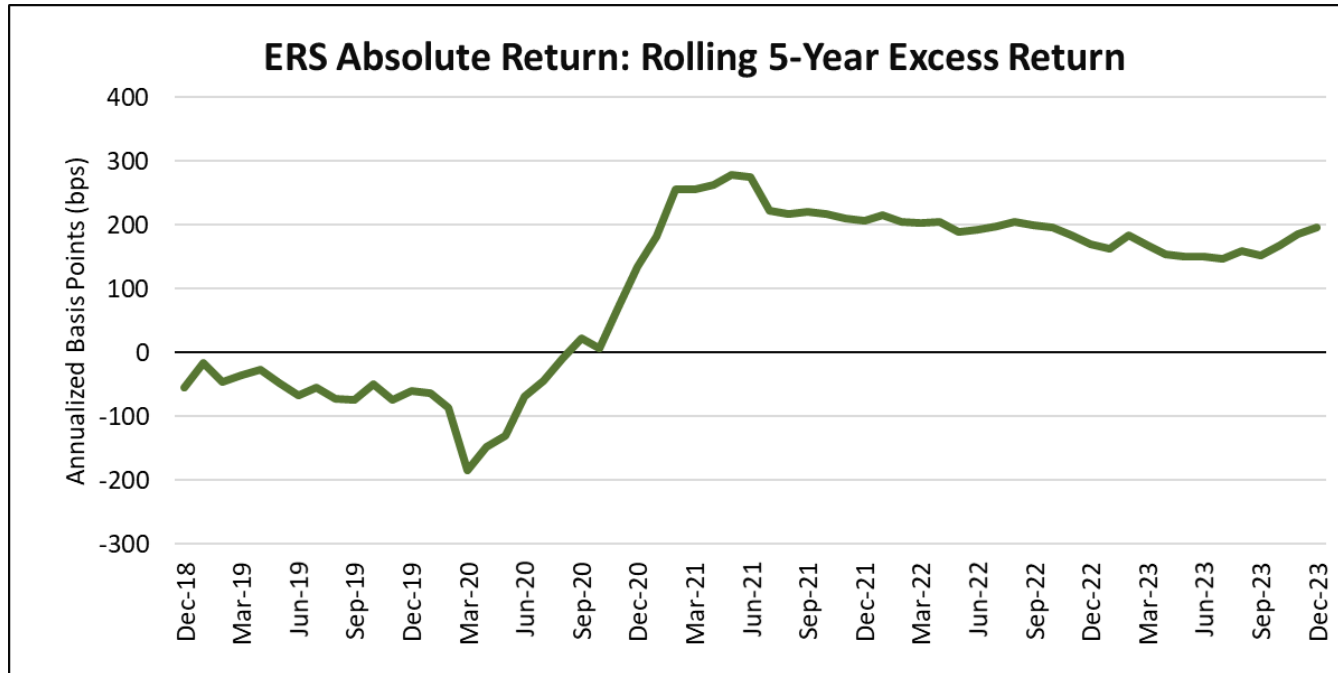


Absolute Return Portfolio

Historical Performance



- Portfolio has maintained strong relative performance in recent years

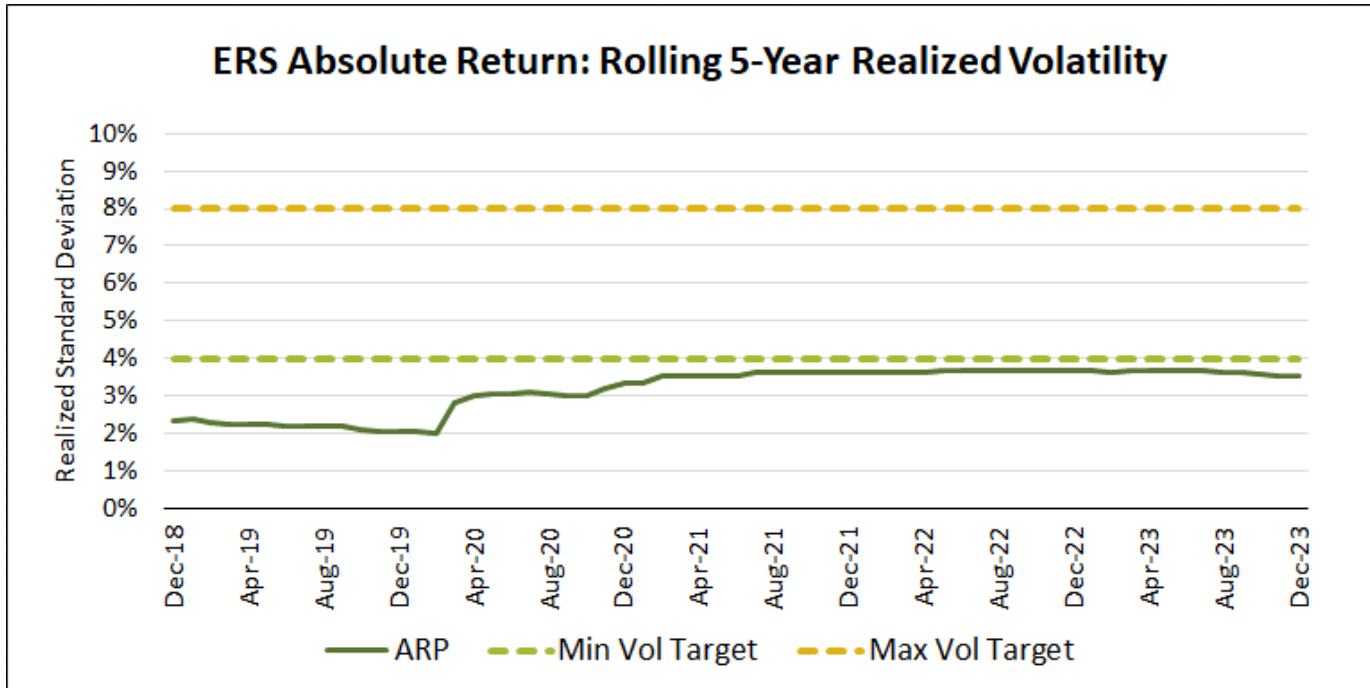


Absolute Return Portfolio

Historical Risk



- Risk levels consistently below target, despite increase in market volatility

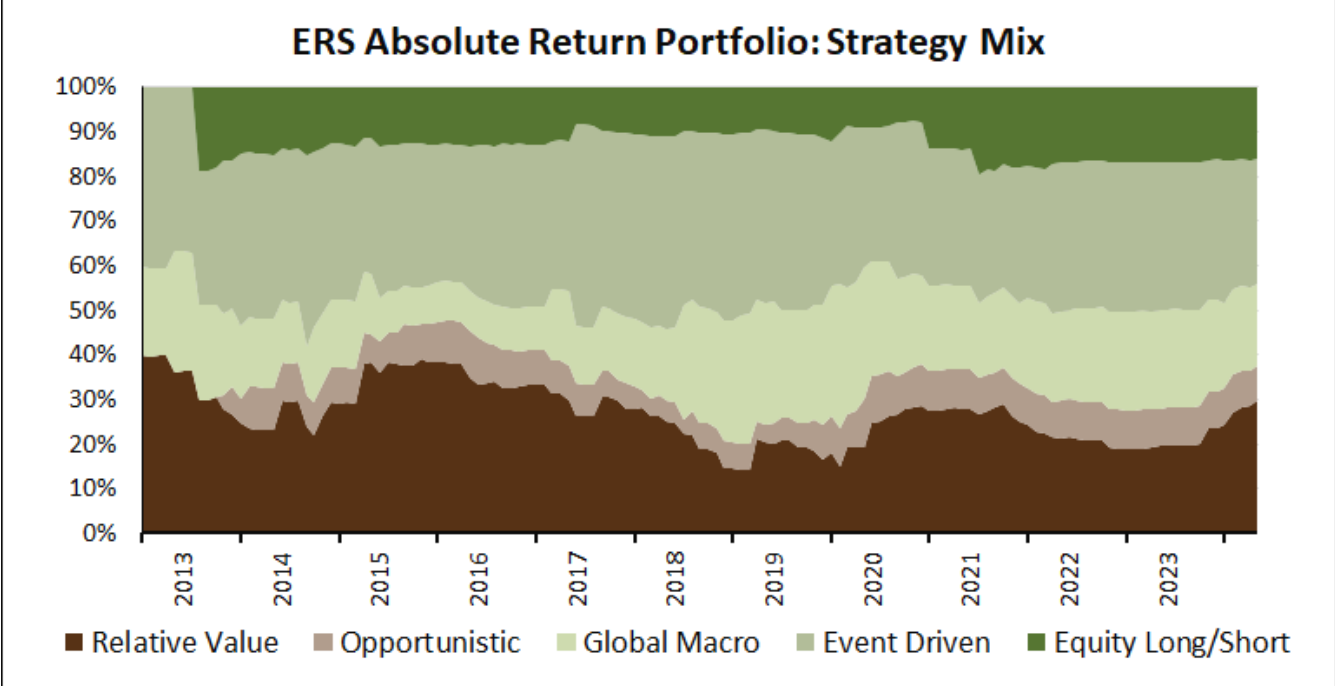


Absolute Return Portfolio

Historical Composition



- Portfolio has maintained diversification throughout its growth over time

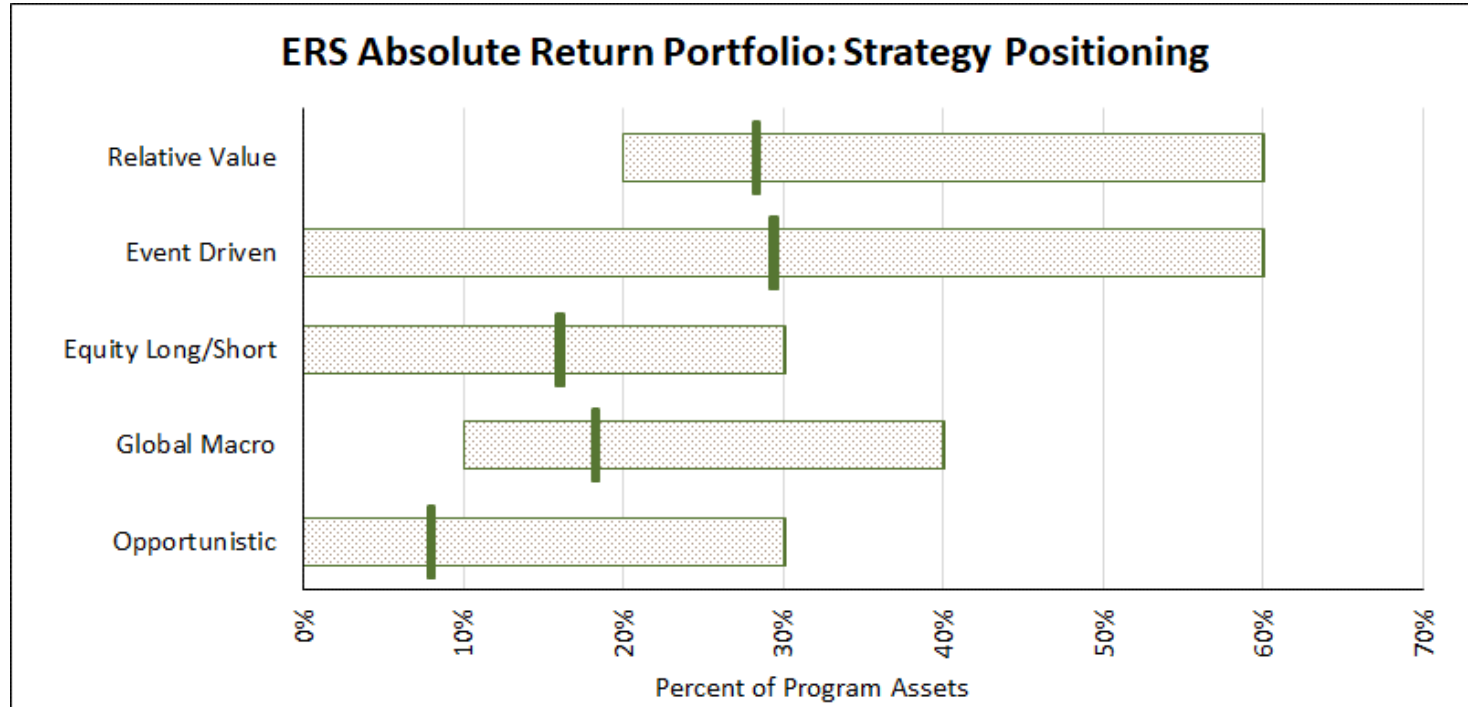


Absolute Return Portfolio

Historical Composition



- All strategy exposures within guidelines after underweight to Relative Value was addressed



Launchpad Portfolio

Key Characteristics



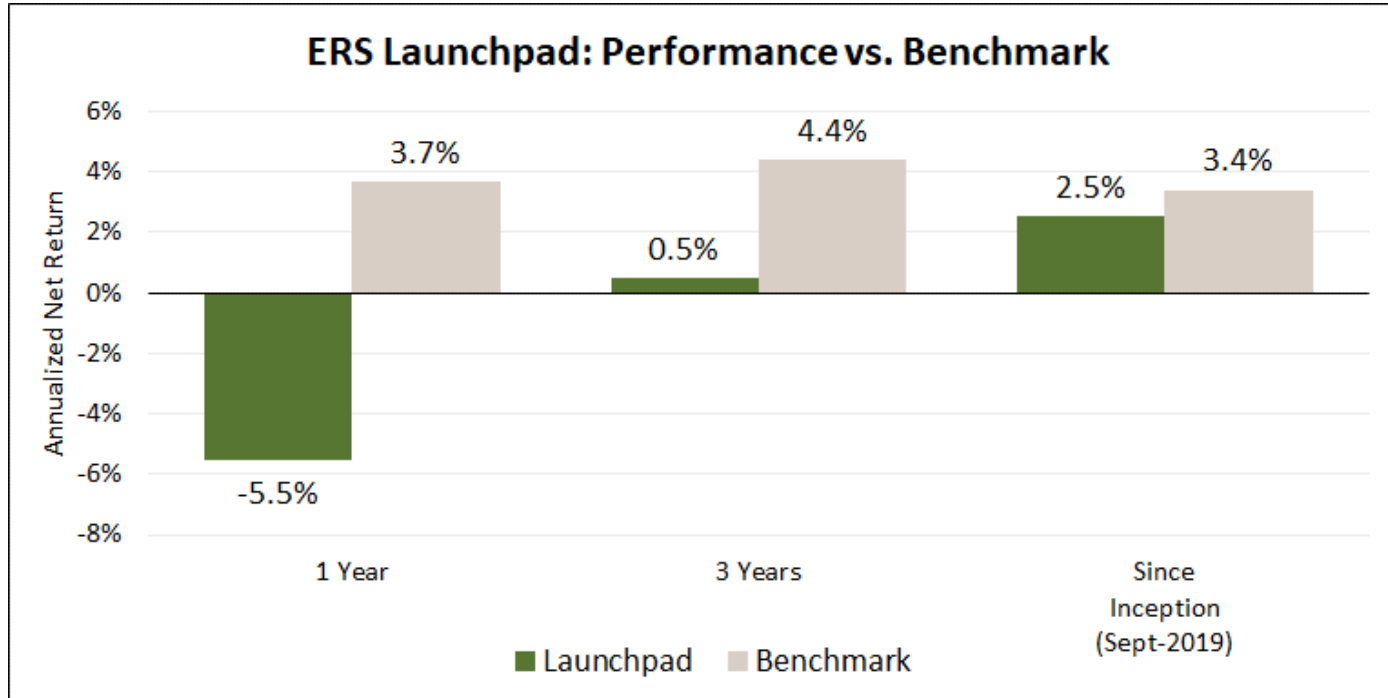
Attribute	ERS PAAMCO Launchpad
Role	Risk Reducing
Policy Allocation	Opportunistic
Management Style	Actively managed externally through PAAMCO Prisma collaboration, with ERS retaining investment decisions
Return Target	Blended benchmark based on underlying strategies
Risk Budget	Volatility target of 4-8%
Other Characteristics	All relationships include revenue sharing economics
Investment Expenses	~423 bps external, ~16 bps internal

Launchpad Portfolio

Performance Snapshot



- Challenging one-year performance adversely affected longer-term measures

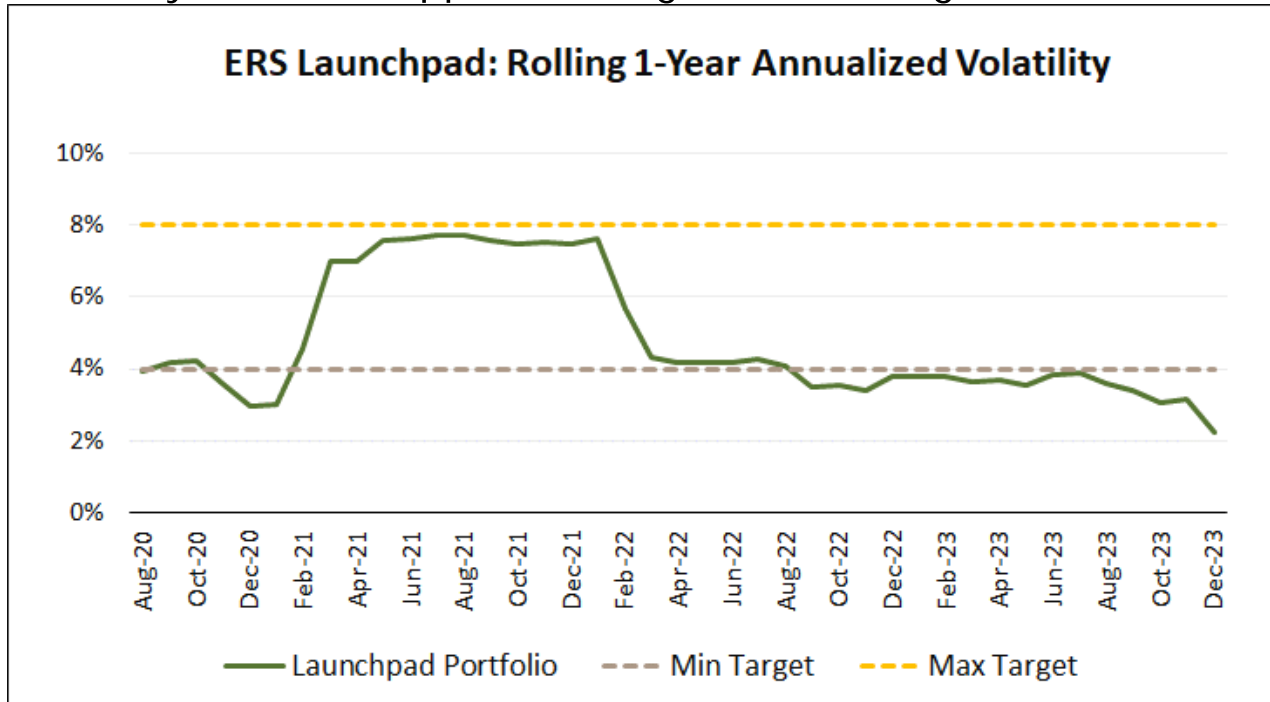


Launchpad Portfolio

Historical Risk



- Annualized volatility level has dipped below guideline with greater diversification

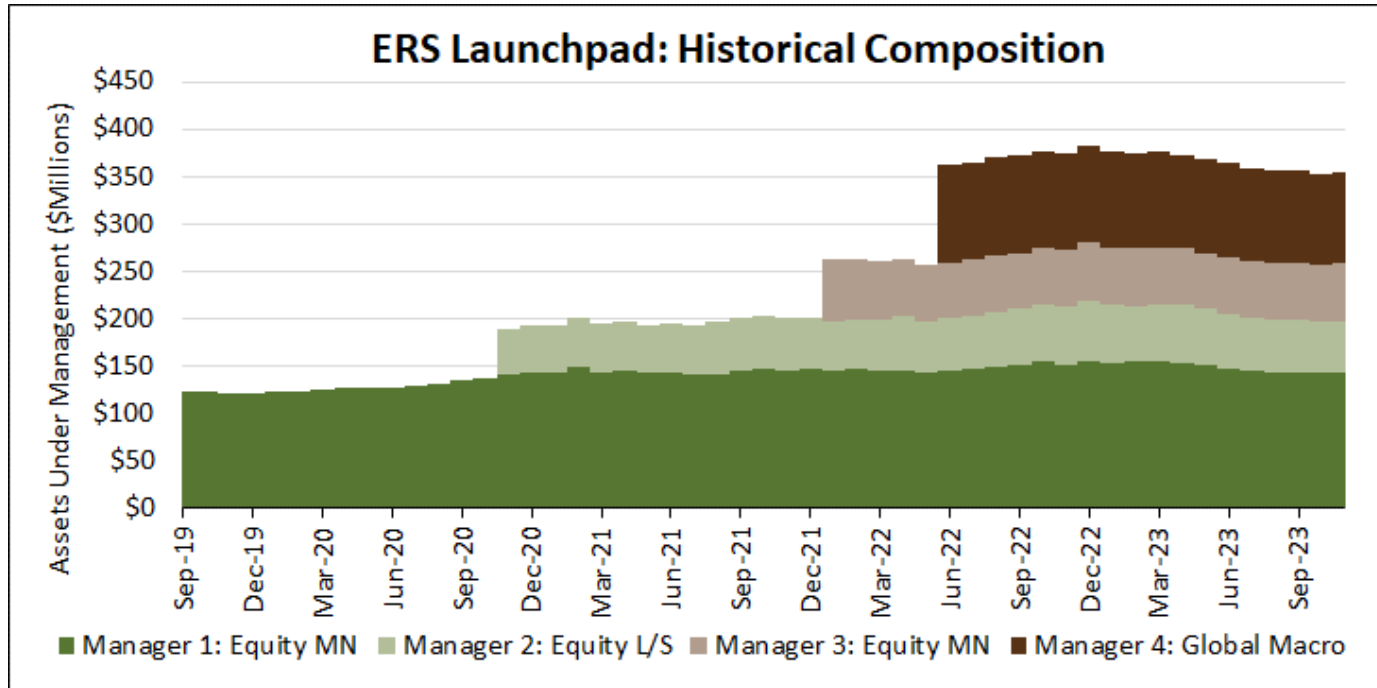


Launchpad Portfolio

Historical Composition



- Four allocations have been completed since inception, structure now fully allocated



Hedge Fund Program

Initiatives for FY24



- **Absolute Return Portfolio**
 - Portfolio at ~90% of target allocation (target allocation is 5% of Trust)
 - Strategically increase portfolio toward target allocation
 - Review Hedge Fund Program benchmark with potential recommendation to the Board in August 2024

Hedge Fund Program

Initiatives for FY24



- **Launchpad Portfolio**
 - Portfolio is fully allocated, but performance has been challenging
 - Manage existing investments opportunistically given current exposures within broader Hedge Fund Program
 - ERS to continue to consider emerging managers on a direct basis

Discussion