Section 1: Introduction

The Employees Retirement System of Texas ("ERS") Private Credit Capital Plan ("Capital Plan") for the fiscal year from September 1, 2024, to August 31, 2025. The Capital Plan for fiscal year 2025 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 2025 commitment schedule.

All Private Credit portfolio information in this plan reflects values as of December 31, 2023, unless otherwise noted.

Portfolio Statistics as of December 31, 2023 *($ in millions)*

	12/31/2022	12/31/2023
Committed Capital	1,992	2,232
Unfunded Capital	693	763
Net Contributed Capital	1,631	1,904
Net Distributed Capital	802	1,032
Recallable Capital	330	438
Fair Value	1,165	1,409
Net Realized Gain / (Loss)	50	59
Total Value	1,968	2,440
Total Exposure	1,858	2,171
Distributed to Paid-In (DPI)	0.49x	0.54x
Total Value to Paid-In (TVPI)	1.21x	1.28x
Net Internal Rate of Return (IRR)	9.14%	10.55%

Section 2: Portfolio Exposures

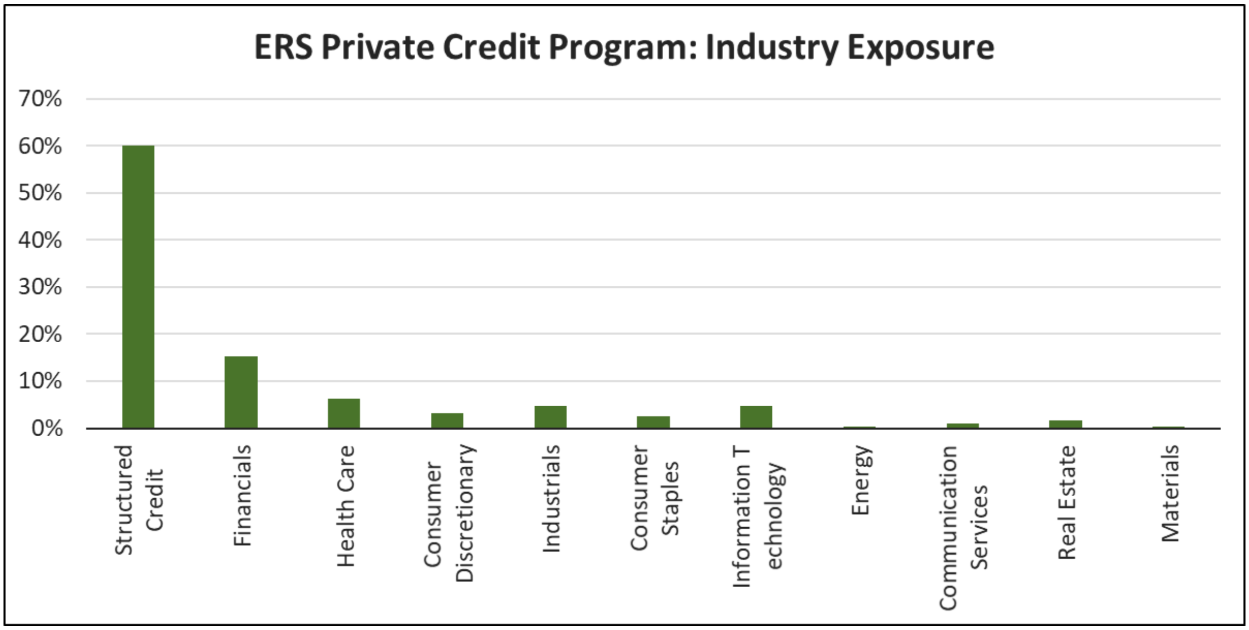
The Private Credit portfolio remains well diversified. Portfolio exposures are based on both fair value and total exposure. Although fair value reflects the current portfolio position, total exposure incorporates both committed but undrawn capital, which provides additional insight into the future direction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

Strategy	**Committed**	**FMV**	**Exposure**
Structured-CLO	48.0%	34.7%	36.4%
Distressed	22.0%	26.7%	24.7%
Private Credit	18.7%	29.3%	29.0%
Asset Based Lending	11.3%	9.3%	9.8%
	100.0%	100.0%	100.0%
Geography			
North America	94.6%	93.6%	94.5%
Europe	5.4%	6.4%	5.5%
Structure			
Primary Fund	57.6%	50.8%	63.6%
Managed Account	42.4%	49.2%	36.4%

The Private Credit portfolio has four broad categories of strategies (structured credit, distressed credit, private credit and asset based lending) and remains well diversified on its allocations to these strategies. These broad categories may contain individual sub-strategies that can be significantly different from other strategies within the category. As such, 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 an overweight to structured credit. This is through investment exposures to CLOs 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, 2023



From a geographic perspective, the portfolio is weighted toward markets in the United States. This is for two reasons. First, legal jurisdictions within credit are important in regard 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.

Private Credit Portfolio* as of December 31, 2023

Private Credit Portfolio					
	Investment	Asset Class	Commitment	Value	% Portfolio
1	AGL	Structured Credit	$ 500,000,000	$ 371,211,431	26%
2	Bain Capital Credit	Structured Credit	$ 250,000,000	$ 312,299,422	22%
3	AG TwinBrook	Private Credit	$ 165,000,000	$ 16,500,000	1%
4	All Seas Capital I	Private Credit	$ 117,000,000	$ 104,356,042	7%
5	Balance Point III	Private Credit	$ 75,000,000	$ 55,135,377	4%
6	Balance Point V	Private Credit	$ 125,000,000	$ 89,383,322	6%
7	Balance Point VI	Private Credit	$ 75,000,000	$ -	0%
8	Chambers Energy Capital V	Private Credit	$ 75,000,000	$ -	0%
9	Benefit St. Special Sits	Distressed	$ 75,000,000	$ 25,249,876	2%
10	Benefit St. Special Sits II	Distressed	$ 75,000,000	$ 55,775,025	4%
11	Benefit St. Contingent Opps.	Distressed	$ 75,000,000	$ 12,687,085	1%
12	Glendon Opportunities Fund	Distressed	$ 50,000,000	$ 11,323,516	1%
13	Glendon Opportunities Fund II	Distressed	$ 75,000,000	$ 86,407,708	6%
14	Marblegate Partners Fund II	Distressed	$ 150,000,000	$ 121,963,375	9%
15	Marblegate Partners Fund III	Distressed	$ 75,000,000	$ -	0%
16	VWH Master Fund	Asset Based	$ 50,000,000	$ 30,796,086	2%
17	VWH Master Fund III	Asset Based	$ 150,000,000	$ 130,550,474	9%
			$ 2,157,000,000	$ 1,423,638,739	100%

*Pro forma for subsequent additions and disposals in FY24

Since 12/31/23, the Private Credit team exited one investment and added two new commitments. The Private Credit portfolio held the public equity of Bain Capital Specialty Finance (ticker: BCSF). This was the result of an investment in a private BDC (Business Development Company) that subsequently became publicly traded. Staff ultimately exited the position in May 2024 to realize the investment. Staff received approval for a $75mm private credit commitment to Chambers Energy Capital V in April 2024. Staff intends to seek an additional commitment in the new fiscal year to increase the commitment. Lastly, Staff received approval for a $75mm commitment to Marblegate Partners III to continue the distressed credit strategy utilized in Marblegate Partners II. ERS will participate in a first closing for this fund. Staff intends to seek an additional commitment in the new fiscal year to increase the commitment.

Section 3: Performance Review

Performance Versus Benchmark as of December 31, 2023

	Assets ($millions)	(% of Trust)	1 Year	3 Years	5 Years	Since Inception
Private Credit	**1,445.33**	**3.8%**	**18.32%**	**14.93%**	**10.46%**	**8.20%**
Benchmark *			13.62%	4.10%	5.81%	5.18%
Excess Return			4.70%	10.83%	4.65%	3.02%

*** Benchmark: LSTA Levergaed Loan Index plus 1.50%**

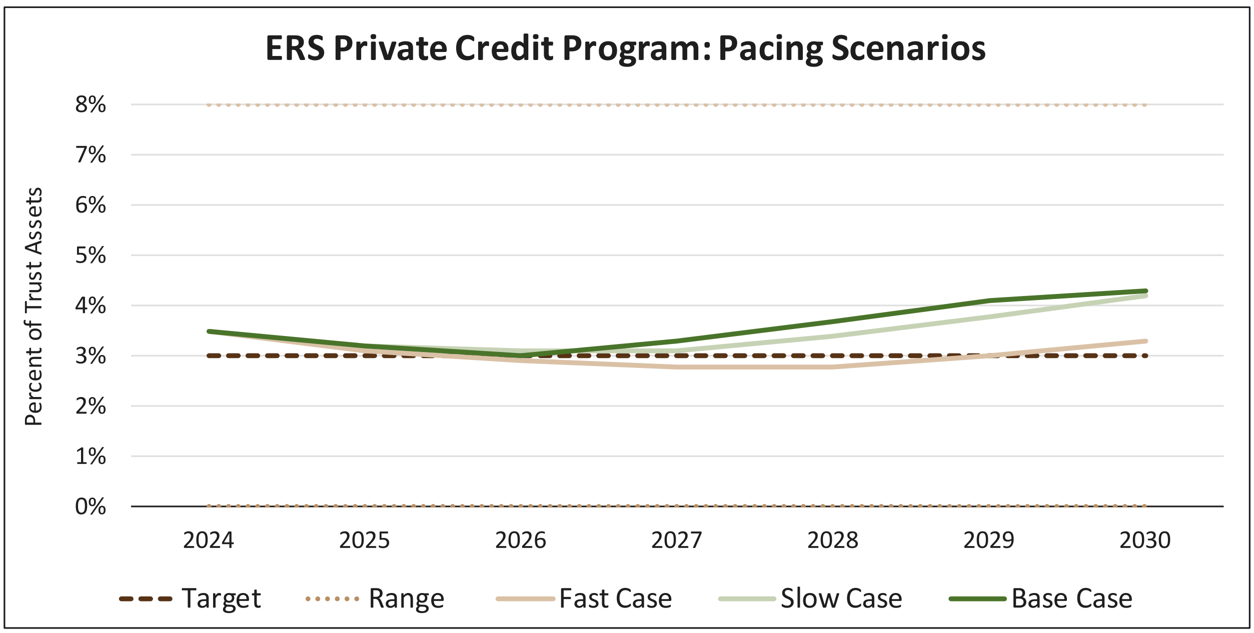
Most investments in the Private Credit portfolio report performance quarterly. This data is received by ERS 45 to 90 days after the end of the performance period. The Private Credit portfolio has performed well over all periods and has exceeded the portfolio's benchmark by a significant amount. The portfolio's benchmark is the LSTA leveraged loan index plus 1.5%. The portfolio's five-year return has exceeded its benchmark by +4.65%. Performance in recent years has been exceptional due to the maturation of the portfolio and 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 pacing analysis is to create a realistic path to manage overall exposure within approved parameters over time.

The Private Credit pacing model estimates fair values and net cash flows arising from capital contributions, distributions and appreciation generated from existing and planned capital commitments. The model incorporates cash flows, fair values, and unfunded balances as of December 31, 2023. It is important to recognize that the model output is driven by numerous assumptions about the future and is more directional in nature. 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 following graph summarizes three different scenarios for the trajectory of the Private Credit allocation within the total Trust: Base Case (3.5%), Fast Case (6.0%), and a Slow Case (3.0%). 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 investment objectives within approved parameters. The targeted commitment is $200 million, but may vary within a range of $150 million to $400 million.

Projected Commitment Requirements
($ in millions)

Fiscal Year	Target Commitment	Range	
FY 2025 Projection	200	150	400
FY 2026 Projection	200	150	400
FY 2027 Projection	200	150	400
FY 2028 Projection	200	150	400
FY 2029 Projection	200	150	400

ERS has been at or moderately above 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 2025, are a straight-line projection intended to show a trend over time. The targeted commitment is $200 million. Annual commitments may vary within a range of $150 million to $400 million depending upon the investment opportunities that are available. This enables the portfolio to remain near the target and benefit from vintage year diversification.

Section 5: Prospective Investments

As a result of the portfolio review, the following investment objectives for the next year have been developed. The focus of FY2025 investments will be follow-on investments in strategies and managers within the existing portfolio.

Structured Credit:

Due to its attractive return and cash flow characteristics, staff expects to review a potential commitment increase to the portfolio's existing CLO equity strategy.

Distressed:

The Private Credit portfolio has an existing investment in lower middle market distressed credit. Staff expects to increase its commitment to this fund.

Private Credit:

Two private credit investments are expected in FY2025. One is an additional commitment to a fund currently in the portfolio. The second is a subsequent fund with an identical strategy to an existing fund in the Private Credit portfolio.

Asset Based:

The Private Credit portfolio has investments in two funds with a manager executing a residential mortgage non-performing loan strategy. The manager is expected to raise capital for a new fund with the same strategy in FY2025. This strategy has performed well and staff expects to evaluate a commitment to the next fund in the series.

Section 6: Summary

The targeted commitment amount for FY2025 is $200 million within a range of $150 million to $400 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.