Investment Advisory Committee
Member Recruitment
Standard Operating Procedures

ERS
Employees Retirement System of Texas

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PURPOSE

This document complements the IAC Charter included in the ERS Investment Policy Statement by providing specific implementation guidance regarding the recruitment process for new IAC Members. It aims to help the ERS Board of Trustees (Board) attract and retain highly qualified individuals with an inclination toward public service to this important role.

The IAC Member recruitment cycle begins each September with the annual Board survey of IAC functioning. If a search is deemed appropriate by the Board IAC Working Group (IACWG), the process continues in December with solicitation of candidates, includes staff review and recommendations in January through March. The process concludes with the consideration of candidates at the May meeting of the Board. This process supports the requirement of Texas Government Code § 815.5093 for the Board to review the eligibility status and composition of the IAC at least annually.

EVALUATION

The Investment Policy Statement (IPS) requires that the Board's annual review of the IAC be accompanied by a survey of all current Trustees regarding the functioning of the IAC at the individual and aggregate level. The survey aims to regularly assess whether the IAC is meeting the needs of the Board, to consider the reappointment of IAC Members, and to provide feedback in pursuit of continuous improvement. This survey should be posted in the fall of the preceding year and closed in October to allow ample time for responses by the Board and the analysis of results by staff. This survey should also be accompanied by a self-assessment by IAC Members, which shall also be analyzed by staff and reported to the Board.

Staff will update the IAC Skills Matrix and distribute that document to the IAC Working Group along with the survey results. The IAC Working Group will use this information to make a determination as to whether a search process is necessary and/or appropriate for the upcoming class of renewals and/or any other IAC Members. The IACWG will notify the Board of this determination during or before its December meeting. This notification from the IACWG should incorporate the results of the Board survey regarding the functioning of the IAC.

NOTICE

Once a search process is initiated, ERS staff are encouraged to reach out to their networks to highlight the opportunity and to encourage qualified candidates to apply. Current Board and IAC Members are also encouraged to share the opportunity within their networks, as should the general investment consultant and the asset class consultants. The opportunity may also be highlighted by regular posts on appropriate ERS social media channels.

If deemed necessary by the IAC Working Group, the services of a professional search firm may be engaged to further publicize, solicit, and vet qualified candidates. Applications sourced from a search firm will go through the same review and evaluation process as all other applications.

Staff shall develop and make available a standardized application form for candidates to apply and for the Board or other interested parties to make referrals into the recruitment process. This form should allow for a statement of no more than 250 words describing the person's interest in and/or qualifications for

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becoming an IAC Member. This form shall be included for consideration at each stage of the evaluation process. Candidates will respond to the application and also provide a current resume.

REVIEW

The initial review of submissions will be conducted by ERS Investment Compliance to confirm that applicants meet the minimum qualifications described in the IPS and set forth in Texas Government Code § 815.5091. Specifically, a person is only qualified to be appointed to serve as an IAC Member if they are (1) a person with expertise in the management of a financial institution or other business in which investment decisions are made; or (2) a prominent educator in the field of economics, finance, or another investment-related area.

As set forth in Texas Government Code § 815.5092, a person is ineligible for appointment to the IAC if the person or the person's spouse:

- is employed by or participates in the management of a business entity or other organization receiving funds from the retirement system;
- owns or controls, directly or indirectly, more than a 10 percent interest in a business entity or other organization receiving funds from the retirement system; or
- is a paid officer, employee, or consultant of a Texas trade association in the field of insurance or investment; or
- is required to register as a lobbyist under Texas Government Code Chapter 305 because of their compensated activities for on behalf of a business or an association related to the investment of the assets of the state or ERS.

A person is also ineligible for appointment if they are a beneficiary of the retirement system or could become one.

The CIO will appoint a team from within the Investments division to review the skill set and experience of each candidate to determine which areas of expertise (i.e., asset allocation, asset classes, etc.) the candidate possesses and the extent to which their skill set and experience would be complementary to the existing IAC. Priority will be given to Texas residents given the lower costs associated with meeting attendance as well as familiarity with matters of the state.

SELECTION

On or about March 15 of each annual review cycle, the CIO will make a recommendation in writing to the Executive Director. This document will review with the ED the major milestones for the process and include an updated copy of the IAC Skills Matrix showing the effects of any proposed changes. The recommendation will include the existing candidates for renewal and, if a search process was conducted, a sufficient number of potential qualified new candidates to replace the departing IAC Members.

Consistent with Section Texas Government Code § 815.5093, Members are not eligible for reappointment if they are:

- not qualified for appointment to the IAC under Section 815.5091 or 815.5092;

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- unable to discharge their duties on the IAC because of illness, disability, or other personal circumstances; or
- absent from more than half of the scheduled meetings of the IAC that the person is eligible to attend during a calendar year.
- If the Executive Director or Member of the IAC has knowledge that a potential ground for removal exists, they are required by the IPS to notify the Board Chair.

In March of each year, the Executive Director will make a recommendation to the IAC Working Group, who will evaluate the ED recommendation and make its own recommendation to the Board.

APPROVAL

The recommendation will be reviewed with the Board in the May meeting and considered as an action item. At that time the Board will also review the IAC Skills Matrix and compliance report, which will fulfill the requirement of Texas Government Code § 815.5093 for the Board to review the eligibility status and composition of the IAC at least annually.

CONTRACTING

The results of the vote will be referred to the Office of the General Counsel, which will prepare contracts with those individuals as appropriate for a three-year term unless a different term is specified by the Board. Since invoicing of Member compensation occurs on a calendar quarter basis, July 1 will be the preferred start date for IAC Member contracts.

ONBOARDING

Orientation for new IAC members shall be conducted by staff including an overview of Trust structure and strategy from the CIO/DCIO and briefings from asset class heads plus Portfolio Management and Investment Operations. The onboarding process shall also include a meeting with the Board Chair to establish a baseline regarding the expectations and needs of the Board. A coincident or additional session with the IAC Chair should also be conducted to provide insight into the time requirements and examples of input expected of IAC members.

EXCEPTIONS

This process does not limit the power of the Board to remove a person from the IAC under Texas Government Code § 815.509(a), which may occur at any time. In such cases the Board may leave the position vacant or refer back to prior selection processes to find qualified replacement candidates on an ad hoc basis. This process may also be initiated on an ad hoc basis as needed to fill unexpected departures from the IAC that may impair its functioning with regard to Board/IAC meetings or other responsibilities such as Asset Class Investment Committees or the Texa$aver Product Review Committee.

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