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**JOINT MEETING OF THE
BOARD OF TRUSTEES AND
INVESTMENT ADVISORY COMMITTEE
EMPLOYEES RETIREMENT SYSTEM OF TEXAS**

**August 19, 2014
ERS Auditorium
200 E. 18th Street
Austin, Texas 78701**

COMMITTEE MEMBERS PRESENT

James Hille, Vice-Chair
Robert Alley, Member
Caroline Cooley, Member
Monty Jones, Member
Laura Starks, Member
Vernon Torgerson, Member

COMMITTEE MEMBERS ABSENT

Lenore Sullivan, Chair
Ken Mindell, Member

TRUSTEES PRESENT

Brian Ragland, Chair
Frederick E. Rowe, Jr., Vice-Chair
Cydney Donnell, Member
I. Craig Hester, Member
Cheryl MacBride, Member

TRUSTEES MEMBER ABSENT

Yolanda Griego, Member

ERS STAFF PRESENT

Ann Bishop, Executive Director
Larry Zeplin, Chief Operating Officer
Tom Tull, Chief Investment Officer
Paula Jones, General Counsel and Chief Compliance Officer
William Nail, Deputy Director of Governmental Affairs
Tony Chavez, Internal Auditor
Robert Kukla, Director of Benefit Contracts
Marci Sundbeck, Manager of Enterprise Risk Management
Ralph Salinas, Director of Human Resource
Catherine Terrell, Director of Governmental Affairs
Michael Wheeler, Chief Financial Officer
Nora Alvarado, Benefit Contracts
Carolyn Anderson, Investments
Kyla Cloutier, Benefit Contracts
Anthony Curtiss, Investments
Leah Erard, Governmental Affairs
Wesley Gipson, Investments
Beth Gilbert, Internal Auditing
Andrew Hodson, Investments

Sharmila Kassam, Investments
Robert Lee, Investments
Mark Lopez, Benefit Contracts
Betty Martin, Investments
Patti Maughan, Executive Office
Nancy McCarthy, Investments
Pablo de la Sierra Perez, Investments
Chris Tocci, Investments
DeeDee Sterns, Human Resources
Tim Reynolds, Investments
Tanna Ridgway, Investments
Leighton Shantz, Investments
Robert Sessa, Investments
John Streun, Investments
Nicholas Maffeo, Investments
Mary Jane Wardlow, Governmental Affairs
Karla West, Investments
Craig White, Investments

ALSO PRESENT

Chandler Beggerow, Altius
Tim Bryan, Prudential
William Charlton, Altius
John Claisse, Albourne
Gary Chandler, Texas Department of Public Safety Officers Association
Michael Clayton, Texas State Auditor's Office
Kristen Doyle, Hewitt EnnisKnupp
Katy Fallon, Legislative Budget Board
Jenny Fenton, Altius
Kris Hefner, Careington
Bill Hamilton, Retired State Employees Association
Casey Jones, White Oak
John Kull, State Auditor's Office
Emily Morgan, Legislative Budget Board
Angelica Ramirez, Texas State Auditor's Office
Steve Voss, Hewitt EnnisKnupp

Mr. Jim Hille, Vice Chair of the Investment Advisory Committee for the Employees Retirement System of Texas called the meeting to order and read the following statement:

"A public notice of the Joint Meeting of the Board of Trustees and Investment Advisory Committee containing all items on the proposed agenda was filed with the Office of the Secretary of State at 10:02 a.m. on Thursday, August 7, 2014 as required by Chapter 551, Texas Government Code, referred to as 'The Open Meetings Law.'"

XV. REVIEW AND APPROVAL OF THE MINUTES TO THE MAY 20, 2014 JOINT MEETING OF THE BOARD OF TRUSTEES AND INVESTMENT ADVISORY COMMITTEE

Mr. Jim Hille opened the floor for a motion to approve the minutes of the May 20, 2014 Joint Meeting of the Board of Trustees and Investment Advisory Committee.

The Investment Advisory Committee then took the following action:

MOTION made by Mr. Bob Alley, seconded by Mr. Vernon Torgerson and carried unanimously by the members present that the Investment Advisory Committee approve the minutes of the ERS Joint Meeting of May 20, 2014.

The Board of Trustees then took the following action:

MOTION made by Mr. Craig Hester, seconded by Mr. Brian Ragland, and carried unanimously by the members present that the Board of Trustees approve the minutes of the ERS Joint Meeting of May 20, 2014.

XVI. REVIEW AND DISCUSSION OF INVESTMENT PERFORMANCE FOR SECOND CALENDAR QUARTER OF 2014 AND REVIEW OF BENCHMARKING

Ms. Kristen Doyle and Mr. Steve Voss from Hewitt EnnisKnupp (HEK) and Ms. Sharmila Kassam, Chief of Staff for ERS, presented the review and discussion of investment performance for the second calendar quarter of 2014 and review of benchmarking.

Ms. Doyle began by highlighting the performance of the equity market. The equity market had a strong performance in the second quarter, followed by a volatile third quarter ending in August. Emerging markets had a weak performance in prior periods, compared to the global equity market, but outperformed in the second quarter with a 14% return for the year.

Ms. Doyle presented a chart depicting 24 month correlations for market relative to global equities. She noted that there is a high correlation between hedge funds and global equities. The Barclays Intermediate Treasure Index, the benchmark for the risk-reducing component, had the lowest correlation to the global equity markets.

Ms. Doyle explained that over the recent one-year period, the Fund has grown by about \$3 billion. This is due mainly to the strong investment performance that far outweighed the benefit payments that are coming out of the plan.

Ms. Doyle described the performance of global equities. There was an underperformance relative to the MSCI All Country World Index, mainly driven by the international equity component of this portion of the portfolio. In domestic equities, there has been a very slight underperformance over the quarter and the fiscal year-to-date period, but an outperformance over the one-year period. The positive relative performance has been driven by the large cap core portfolio managed internally by ERS staff. The large cap core portfolio has a large portion of the overall domestic equity portion of the portfolio, so it had a positive impact on overall relative performance.

Private equity completed 12 new deals year-to-date in 2014, and almost one billion dollars in additional capital committed. The other component of the return-seeking portion of the portfolio is global credit, which performed very well on an absolute basis. It's up 11% for the fiscal year-to-date period, and has also had a strong outperformance on a relative basis as well of 70 basis points over the Barclays U.S. High Yield – 2% Issuer Cap Index benchmark.

Ms. Doyle continued the presentation by discussing the performance of real assets, which are real estate and infrastructure. The real assets portfolio has been contributing on a relative and an absolute basis. Private real estate performed very well, and was up 10.1% through the fiscal-year-to-date. The public REIT component of the portfolio has also been performing very well on an absolute basis. There has been a little underperformance, but fiscal-year-to-date contributed over 17% in terms of absolute return to overall trust performance. The absolute return portfolio outperformed its benchmark by 150 basis points fiscal-year-to-date.

HEK's report on ERS' investment performance net of fees showed that during the 2014 second calendar quarter the Total Fund return of 3.79% underperformed the Total Fund Policy Benchmark by approximately 11 basis points. For the quarter ending June 30, 2014, global credit, real assets, rates, and cash contributed positive relative value. The remaining asset classes were flat or detracted from relative

performance during the period. The Total Fund trailed the Total Fund Policy Benchmark by 2 basis points over the trailing one-year period. ERS continues to tactically work toward its strategic and long-term allocation targets.

Mr. Monty Jones asked about adding graphs that would illustrate absolute performance. Mr. Voss responded that HEK could create a chart on a once-a-year basis, after the final valuation is done, using market value data and project unfunded liability. It would create a better and more frequent picture of liability. Mr. Jones also explained that he would like to see the impact of the benchmarks and where we outperform or underperform.

Ms. Sharmila Kassam began the review of the benchmark policy. The objective is to achieve overall investment returns over the adopted benchmark. HEK recommended best practices for Total Fund Policy Benchmark calculation methodology. They recommended that benchmarks are set to annual interim asset class benchmarks when long-term policy benchmarks are not yet meaningful. Asset class weighting targets for each asset class are set at the beginning of the fiscal year, and then these asset class weightings are applied to the asset class benchmarks to calculate the Total Fund Policy Benchmark for the full fiscal year. Staff will revisit the interim asset class benchmarks and asset class weighting targets each fiscal year.

Ms. Kassam continued that as part of working with HEK, the investment staff has been looking at benchmarks in light of the transition to the asset allocation that was adopted in February of 2013. Staff has also made a conscious effort to be aggressive in asset allocation implementation.

The goal is to use the benchmark that will be most relevant given the stage of investment for each asset class. Private equity and private infrastructure will continue to not be benchmarked because the policy target benchmarks are not yet meaningful and no other interim benchmark is suitable, in light of the maturity of these respective portfolios. The difference between actual weightings and the annual interim policy targets for these asset classes will be floated to global equities since these asset classes will be primarily funded by global equities, except underweighting of credit will be floated in rates which primarily will fund credit.

Credit will be set at an interim target weighting of 6% by the end of Fiscal Year 2015 to allow for a 3-year implementation period. The transition portfolio will also be moved into the Rates portfolio.

Ms. Cydney Donnell questioned how the benchmarks will be set and expressed her concern for obsessing over indexes and benchmarks. Ms. Kassam explained that staff works to find the best benchmark, but staff is not trying to underwrite asset allocation to be driven by the indexes.

Ms. Kassam noted that staff will continue to bring more data points to the Board and IAC, so that they can better portray absolute performance and its impact on the Trust.

XVII. REVIEW, DISCUSSION AND CONSIDERATION OF ERS PRIVATE EQUITY AND PRIVATE INFRASTRUCTURE PROGRAMS:

a. **Private Equity Market Update And Program Overview** - Mr. Wesley Gipson, ERS Director of Private Equity, Mr. Craig White, ERS Private Equity Portfolio Manager, Mr. Bill Charlton, US Head of Altius Associates, and Mr. Chason Beggerow, Partner at Altius Associates presented the review, discussion and consideration of the private equity market update and program overview.

Mr. White presented the private equity portfolio update as of June 30, 2014. Currently private equity is invested in 55 funds and is around \$4.4 billion in committed capital, with a NAV of over \$2 billion. Private equities invested in eleven new funds over the fiscal year, and six new co-investments, which equates to \$888 million in commitments for the fiscal year. That was a rise in a little over \$500 million in NAV.

The Fund is 2.8 times realized on the total investment. The Texas Growth Fund is excluded from that total. The Growth Fund was a commitment made outside of the formal adoption of the program in 1998 and had been completely liquidated.

Mr. White continued to discuss the commitment of funds by geography. The funds are currently allocated 50% to domestic funds and 50% to international funds. 50% international is the maximum allocation, not the target allocation. There is a higher commitment to developed private equity markets in the US and Europe with smaller allocations as opposed to emerging markets.

Mr. White presented the diversification by sectors. He explained that each sector is supposed to be below 20% and all are, except the “other” category. The “other” category encompasses either small allocations of things that do not represent broader allocations in terms of sectors, or it is a secondary investment, which are more difficult to classify in terms of the actual industries’ classifications.

Mr. Wesley Gipson presented the performance section of the program overview. He started by presenting a performance chart with vintage year statistics. He mentioned that funds from the early inception years (2007) were the strong performers.

Ms. Carolyn Cooley asked if the vintage years were compared to the benchmark S&P 1500 plus 300. Mr. Gipson explained that the private equities team performs a public market equivalent comparison of the entire program versus the S&P, not just vintage.

As of June 30, 2014, private equity had produced a Total Value to Paid in Capital (“TVPI”) of 1.24x, Distributed to Paid in Capital (“DPI”) ¹ of 0.38x, and an Internal Rate of Return (“IRR”) of 11.33% since inception. ERS’ pro rata share of the portfolio’s (excluding debt and funds of funds holdings) total Net Debt and EBITDA is \$903 million and \$257 million respectively, representing Net Debt to EBITDA of 3.5x. The average age of ERS commitments and underlying investments are three years.

Since inception through December 31, 2013, ERS has returned 2.0x cost on its realized investments. On a total value basis, the private equity portfolio has performed in line with the S&P 1500 Index. But on an IRR basis, the index has outperformed. The private equity team continues to evaluate methodologies to review private equity asset class performance against public markets.

Mr. Gipson discussed performance by geography. There are two commitments in Latin America and three commitments in Asia. The Asia commitments are recent and less drawn, and the Latin America commitment is more mature. Also, that entire component represents a small part of the portfolio. The US public markets have been the best performing markets. Out of the global program, 57% are US investments.

Mr. Gipson also discussed negotiated savings from investments. At the inception of the program around 2007, there was little negotiating power of management or interest fees. Now, the program has adjusted its strategy and started investing in smaller funds and created a co-investment program, which is more conducive to being able to negotiate fees. As it stands right now, the cumulative-to-date total estimated savings is \$183 million, and the realized savings to date is \$21.4 million.

Mr. Gipson concluded his presentation by outlining the goal and objective for fiscal year 2015. One objective for next fiscal year is to hire an additional analyst. Their responsibilities will be reporting on performance and reporting to all stakeholders. Another goal is to achieve the 10% allocation by 2016.

Mr. Chason Beggerow from Altius began his presentation of the private equity program. He reiterated Mr. Gipson’s comments regarding the vintage years and showed that there was a strong performance both on a vintage year basis, as well as by strategy. The co-investment pool, which was started in 2011, has done well and has been a strong contributor to keeping the vintage years out of the

¹ TVPI = (NAV + Distributions) / Paid in Capital
DPI = Distribution / Paid in Capital

J-curve. However, the mature vintage 2007 now has 0.7 DPI (Distributed to Paid in Capital). When those numbers come back, the portfolio will start to generate more cash flow on an ongoing basis.

Mr. Bill Charlton concluded the Altius portion of the ERS private equity program. He began with an overview of the program and commented on the positive returns. The ERS program is a good example of a way to avoid some of the pitfalls of a naive co-investment strategy. For example, the aspect of only investing with fund managers that already have an existing relationship is a good way to avoid a lot of problems in co-investments.

Mr. Charlton discussed issues with private equities due to the improving economy. M&A activity has been very significant and is driven by the public market. With the economy improving, a lot of corporations who have large amounts of capital are ready to invest. Credit is readily available and offered at historically low rates. Some managers are recapping their companies in order to take advantage of the lower covenants and lower interest rates.

Mr. Charlton concluded with private equity strategies. One of the key strategies in private equity is to stay in a long term disciplined mode. He continued that despite valuations being high, market to market time is difficult.

Mr. Jim Hille asked about the distressed debt in Europe and the impact while they undergo major restructuring. Mr. Charlton replied that they are looking at that area, mostly northern Europe as opposed to southern, because Northern seems more stable. The Altius team continues to monitor the situation in Europe.

Ms. Cooley asked about allocations and if they are impacted by the high costs. Mr. Charlton explained that they have been watching their managers closely for a long time and he said that strong performers go in cycles, and sometimes a mature ten year fund can be a good acquisition.

No further questions and no action was taken.

b. Proposed Private Equity Annual Tactical Plan for Fiscal Year 2015 - Mr. Wesley

Gipson presented the proposed Private Equity Annual Tactical Plan for fiscal year 2015. Specifically, staff recommends that the Private Equity Annual Tactical Plan for Fiscal Year 2015 target a commitment of \$950 million with a range of +/- 25% (or \$712 million to \$1,187 million). Staff will be targeting six to ten new fund commitments and opportunistic co-investments in strategies, including buyouts, turnaround/restructuring, growth equity, venture capital, energy, and media and communications. Staff will be selective in new relationships and focus on re-ups and co-investments.

The Fiscal Year 2015 Tactical Plan has been reviewed by and is supported by ERS' private equity consultant, Altius Associates.

Mr. Shad Rowe posed an objection regarding cash flow. He discussed how there is a negative cash flow and there is little control on the calls made. He continued that the returns are about the same as other strategies and that the fees are higher. He felt there was a liquidity issue that needed to be addressed and corrected.

Mr. Gipson addressed his concern and notified him that liquidity is monitored daily internally and that the annual liquidity report will be presented at the December Joint Board Meeting.

Mr. Jim Hille opened the floor for a motion to approve the proposed ERS Private Equity Annual Tactical Plan for Fiscal Year 2015, as presented in Exhibit A, to be Appendix A of the ERS Private Equity Policies and Procedures.

The Investment Advisory Committee then took the following action:

MOTION made by Mr. Bob Alley, seconded by Mr. Vernon Torgerson and carried unanimously by the members present that the Investment Advisory Committee approve the proposed ERS

Private Equity Annual Tactical Plan for Fiscal Year 2015, as presented in Exhibit A, to be Appendix A of the ERS Private Equity Policies and Procedures.

The Board then took the following action with Mr. Shad Rowe, Vice-Chair of the Board of Trustees, abstaining from the vote:

MOTION made by Mr. Craig Hester, seconded by Ms. Cheryl MacBride, and carried by the members voting that the Board of Trustees approve the proposed ERS Private Equity Annual Tactical Plan for Fiscal Year 2015, as presented in Exhibit A, to be Appendix A of the ERS Private Equity Policies and Procedures.

c. Private Infrastructure Market Update And Program Overview - Mr. Wesley Gipson, ERS Director of Private Equity, Mr. Pablo De La Sierra, ERS Portfolio Manager, Private Infrastructure, and Mr. Jay Yoder, Partner and Head of Infrastructure at Altius Associates presented the review, discussion and consideration of the ERS Private Infrastructure market update and program overview.

Mr. De la Sierra began the presentation with an overview of the private infrastructure program. Currently, the asset class is invested in one fund and three co-investments, which are three power plants based in Texas, two of which are already delivered and in operation. Total committed investment is \$275 million. No new investments are expected before the end of the fiscal year. For the full fiscal year 2015, ERS is targeting commitments totaling \$300 million with a range of +/- 25% (\$225 to 375 million). The benchmark for performance in infrastructure is CPI plus 450 BPs.

The private infrastructure focus is on establishing ERS as an infrastructure investor. Staff is expecting to meet their target allocation of 3% in 2020 to 2021, in accordance with the growth of the plan and opportunity.

Mr. Jay Yoder began his portion of the presentation. He explained facts about global infrastructure needs. There is a huge need for infrastructure funding. Governments around the world are broke and private capital will be needed to fill that funding gap. These total opportunities are measured in trillions of dollars. The market outlook for the next 12 months is that institutional investors will continue to expand their allocations to infrastructure. Energy infrastructure is projected to remain a large and profitable sub-sector.

Mr. Yoder also addressed important issues in infrastructure, such as co-investments, due diligence and geopolitical risks in emerging markets. ERS and Altius are continuing to work on implementing the infrastructure program over the next couple of years.

In the review of infrastructure during fiscal year 2013, staff expected the private infrastructure portfolio would be on track to be fully committed by the end of fiscal year 2015 and was projected to be fully invested by fiscal year-end 2019. During fiscal year 2014, staff strategically chose not to deploy capital into private infrastructure investments and is now seeking to review its strategy, with a focus on direct and co-investments, under the management of the private equity team and Altius Associates.

No further questions and no action was taken.

d. Proposed Revisions to the ERS *Investment Policy Addendum XIII: Private Infrastructure Policies and Procedures* - Mr. Wesley Gipson discussed the proposed revisions to the ERS Private Infrastructure policies and procedures. He explained that staff is recommending the removal of Public Infrastructure from the Private Infrastructure Policies and Procedures. For performance reporting, the System's infrastructure investments both public and private portfolios will still be aggregated to present as a whole asset class. Additionally, edits throughout the document to clarify that co-investments and/or direct investments will be an active part of the program are also recommended. Staff also wishes to set new allocation and investment leverage parameters.

The revised Infrastructure Policies and Procedures have been reviewed by and are supported by ERS' Infrastructure Consultant, Altius Associates.

Mr. Jim Hille opened the floor for a motion to approve the proposed ERS Private Equity Program Proposed revisions to the ERS Investment Policy Addendum XIII: Private Infrastructure Policies and Procedures, as presented in Exhibit A.

The Investment Advisory Committee then took the following action:

MOTION made by Ms. Laura Starks, seconded by Mr. Bob Alley and carried unanimously by the members present that the Investment Advisory Committee approve the proposed ERS Private Equity Program Proposed revisions to the ERS Investment Policy Addendum XIII: Private Infrastructure Policies and Procedures, as presented in Exhibit A.

The Board then took the following action with Mr. Shad Rowe, Vice-Chair of the Board of Trustees, abstaining from the vote:

MOTION made by Ms. Cydney Donnell, seconded by Mr. Craig Hester, and carried by the members voting that the Board of Trustees approve the proposed ERS Private Equity Program Proposed revisions to the ERS Investment Policy Addendum XIII: Private Infrastructure Policies and Procedures, as presented in Exhibit A.

e. Proposed Private Infrastructure Annual Tactical Plan for Fiscal Year 2015 –

Mr. Wesley Gipson presented the proposed Private Infrastructure Annual Tactical Plan for fiscal year 2015. Staff is recommending that the fiscal year 2015 Private Equity Annual Tactical Plan target a commitment of \$300 million with a range of +/- 25% (or \$225 million to \$375 million). In addition, staff will be targeting two to three new investments across the risk spectrum and all geographies.

Mr. Jim Hille opened the floor for a motion to approve the proposed Private Infrastructure Annual Tactical Plan for Fiscal Year 2015, as presented in Exhibit A.

The Investment Advisory Committee then took the following action:

MOTION made by Ms. Laura Starks, seconded by Mr. Bob Alley and carried unanimously by the members present that the Investment Advisory Committee approve the proposed ERS Private Equity Program Proposed revisions to the ERS Investment Policy Addendum XIII: Private Infrastructure Policies and Procedures, as presented in Exhibit A.

The Board then took the following action with Mr. Shad Rowe, Vice-Chair of the Board of Trustees, abstaining from the vote:

MOTION made by Ms. Cydney Donnell, seconded by Mr. Craig Hester, and carried by the members voting that the Board of Trustees approve the proposed ERS Private Equity Program Proposed revisions to the ERS Investment Policy Addendum XIII: Private Infrastructure Policies and Procedures, as presented in Exhibit A.

XVIII. REVIEW, DISCUSSION AND CONSIDERATION OF HEDGE FUND PROGRAM:

a. Market Update And Program Overview - Mr. Robert Lee, ERS Senior Hedge Funds Portfolio Manager, Mr. Anthony Curtiss, ERS Hedge Funds Portfolio Manager, and Mr. John Claisse from Albourne presented the review, discussion and consideration of the Hedge Fund program and market update and program overview.

Mr. Lee first introduced the ERS hedge fund team, which consists of Mr. Robert Lee, Mr. Anthony Curtiss, and Mr. Nicholas Maffeo, ERS hedge fund analyst. At least one new hire has been requested for fiscal year 2015 to support the management of existing allocations in the Absolute Return Portfolio, Directional Growth Portfolio, and the group's management and support of hedge fund exposures across asset classes. He mentioned that ERS has extended their contract with their hedge fund consultant, Albourne.

He continued with an overview of the hedge fund industry assets and trending strategies. Hedge fund assets have increased over 17% over the last year and industry assets are expected to reach \$3 trillion by the end of 2014. Risk-based asset allocation approaches, which use hedge funds within a traditional asset class, continue to become more common. Recent strategy themes are event driven and equity long-short.

Mr. Lee discussed the two hedge fund portfolios, directional growth and absolute return portfolios. The directional growth portfolio is a component of the return-seeking exposures for the trust. It is a portfolio that is wrapped around existing hedge fund allocations and is a component of public equity. The portfolio includes new allocation, Marshall Wace, and Omega, which is the longest standing allocation - made in February 2012. Marshall Wace was allocated in April of this year and has already demonstrated outperformance of its benchmark.

The Absolute Return Portfolio exceeded its return objective in FY 2014 with returns of 5.34% through May 30, 2014. The portfolio is mostly comprised of core allocations. The expectation of this market environment is that the absolute return portfolio will achieve its target return through core allocations and therefore will not need many satellite allocations.

Mr. Lee also described fee savings from hedge fund negotiations and their benefit to the fund. Since the inception of the ERS hedge fund investments 22 months ago, staff has realized savings of \$14.8 million. As a point of reference, the asset-weighted management fee for hedge funds is 1.08% and incentive fees have been negotiated to lower rates or to include hurdle rates on 37% of our funds.

Mr. John Claisse from Albourne began his presentation with an overview of the strategic planning of the hedge fund team. The program has completed the initial three-year strategic plan, and is on target to achieve the 5% allocation. The portfolios are also outperforming the strategic and tactical benchmarks.

Mr. Claisse mentioned diversification in the hedge fund portfolio. He noted that the use of hedge funds within asset classes such as real estate and fixed income is a trend among hedge fund allocators. He also described strategies and trends in hedge funds. Rankings as of Q3 of this year and looking forward, the long-short strategy has gone from fourth ranked to first ranked, and tactical macro-strategies have dropped from being first ranked to fourth ranked. Currently, it is a favorable market for stock selection. Also, there is preference for some relative value strategies, as well as fundamental equity strategies rather than credit, given credit's spreads at this time.

He discussed open protocol, a tool for monitoring the risk and exposures of hedge funds. At the moment, over 450 hedge fund managers are reporting in open protocol format. Their combined assets are over \$1 trillion dollars, which is a significant portion of the industry.

Mr. Jim Hille asked about open protocol transparency. Mr. Lee clarified that they follow the open protocol on a month-to-month basis. They study the portfolio and look for unexpected changes in the portfolio. The real value in open protocol is to aggregate it to create a comparison of exposures across the hedge fund portfolio. Aggregated open protocol is a new implementation in the ERS hedge fund division.

Ms. Carolyn Cooley inquired about how hedge funds are added to other asset classes. Mr. Robert Lee responded that because hedge funds are not delegated to one asset class, they are able to support other asset classes and work together to identify valuable exposures to create a deal.

Mr. Jones asked if the ERS hedge funds asset class is constrained by the 5% allocation limit when they work with other asset classes. Mr. Lee said that the 5% limit pertains only to the absolute return portfolio, which consists of only hedge funds. Hedge funds generally are not constrained by that number and allocation to hedge funds in other asset classes will be made opportunistically.

No further questions and no action was taken.

b. Proposed Revisions to The ERS *Investment Policy* Addendum X: Hedge Fund Policies and Procedures - Mr. Robert Lee discussed the proposed revisions to the ERS Investment Policy Addendum X: Hedge Fund policies and procedures to clarify language and concepts in the document. Staff proposed changes to reflect the full allocations of the Absolute Return Portfolio and the introduction of the Directional Growth Portfolio.

Due to growth in the Trust and the hedge funds team's use of hedge fund assets in other asset classes, staff is requesting an allocation increase from \$150 million to \$250 million.

Mr. Jim Hille opened the floor for a motion to approve the proposed ERS Investment Policy Addendum X: Hedge Fund policies and procedures, as presented in Exhibit A.

The Investment Advisory Committee then took the following action:

MOTION made by Mr. Monty Jones, seconded by Mr. Bob Alley and carried unanimously by the members present that the Investment Advisory Committee approve the proposed ERS Investment Policy Addendum X: Hedge Fund policies and procedures, as presented in Exhibit A.

The Board then took the following action:

MOTION made by Ms. Cydney Donnell, seconded by Mr. Craig Hester, and carried unanimously by the members present that the Board of Trustees approve the proposed ERS Investment Policy Addendum X: Hedge Fund policies and procedures, as presented in Exhibit A.

c. Proposed Hedge Fund Annual Tactical Plan for Fiscal Year 2015 - Mr. Robert Lee presented the proposed Hedge Fund Annual Tactical Plan for Fiscal Year 2015. Under the proposed Plan, staff will target up to four new hedge fund commitments, as well as additions and replacement of current managers, as prudent. Geographic focus will not be constrained and may include US, Europe, Asia, and Emerging Markets.

The absolute return portfolio is expected to remain within Policy guidelines via rebalancing and rotation of managers. Staff will rebalance as necessary to maintain 5% total allocation for the Trust. Regarding the Directional Growth Portfolio, the portfolio is expected to complement existing external managers and also provide tactical and opportunistic exposures that are appropriate within a Return-Seeking context. Such exposures may include Macro, Relative Value, Opportunistic, or Equity Long/Short strategies.

Mr. Jim Hille opened the floor for a motion to approve the proposed ERS Investment Policy Addendum X: Hedge Fund policies and procedures, as presented in Exhibit A.

The Investment Advisory Committee then took the following action:

MOTION made by Mr. Bob Alley, seconded by Ms. Caroline Cooley and carried unanimously by the members present that the Investment Advisory Committee approve the proposed ERS Hedge Fund program tactical plan for fiscal year 2015, as presented in Exhibit A, to be added to Appendix A of the ERS Hedge Fund program policies and procedures.

The Board then took the following action:

MOTION made by Mr. Craig Hester seconded by Ms. Cydney Donnell, and carried unanimously by the members present that the Board of Trustees approve the proposed ERS Investment Policy Addendum X: Hedge Fund policies and procedures, as presented in Exhibit A, to be added to Appendix A of the ERS Hedge Fund program policies and procedures.

XIX. SET DATE FOR THE NEXT JOINT MEETING OF THE ERS BOARD OF TRUSTEES AND THE INVESTMENT ADVISORY COMMITTEE, THE NEXT MEETING OF THE BOARD OF TRUSTEES, AND THE NEXT MEETING OF THE AUDIT COMMITTEE

The next meeting of the Board of Trustees will be on December 4, 2014. The Joint Meeting of the ERS Board of Trustees and the Investment Advisory Committee will convene on December 5, 2014.

XX. ADJOURNMENT OF THE INVESTMENT ADVISORY COMMITTEE

The Board then took the following action:

MOTION made by Mr. Craig Hester seconded by Ms. Cydney Donnell, and carried unanimously by the members present that the Board of Trustees adjourn the Investment Advisory Committee.

The August 19, 2014 Joint Meeting of the ERS Board of Trustees and Investment Advisory Committee was adjourned at 3:32 pm.