



MARKET SUMMARIES

AUGUST 2020

ERS[®]

EMPLOYEES  RETIREMENT
SYSTEM OF TEXAS

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DOMESTIC EQUITY MARKET SUMMARY

U.S. equity returns were strong again for August. The month was, in many ways, a reflection of year-to-date trends with overall gains and a remarkable divergence between growth and value. A continued economic recovery and optimism about a vaccine for COVID-19 contributed to strength, but gains were also concentrated in mega-cap technology stocks.

The technology-heavy NASDAQ Index was up 9.6%, leading the major domestic benchmarks. The S&P 500 Growth was also up over 9%, while small-cap, mid-cap and value benchmarks returned under 4%. Calendar year-to-date, the NASDAQ Index is up over 30%, S&P 500 Growth is up over 25% and the S&P 500 Value Index is down 11%.

In terms of the S&P 500 sector performance, Information Technology (up 11.8%), Consumer Discretionary (up 9.4%) and Communications Services (up 9.1%) occupied familiar spots at the top. Industrials stood out as a sector with strong performance (up 8.3%) that has been a laggard year-to-date. Real Estate, Energy and Utilities all posted negative returns for the month and year-to-date.

As far as the economic data, markets continued to focus on labor, with weekly initial jobless claims trending down through the month and ending well below 1 million. Unemployment also ticked down to 10.2% from 11.1% the prior month. Housing continues to be a very strong point with new and existing home sales up 13.9% and 24.7%, respectively. Housing permits and starts were strong as well. On the weaker side, Consumer Confidence and Consumer Sentiment surveys remain relatively weak.

About 40% of the S&P 500 reported calendar Q2 results in August. Earnings season continued the trend from July, beating low expectations amid very low visibility due to COVID-19. About 60% of reporting companies beat sales estimates, while 84% beat earnings expectations. Real Estate was the only sector that did not see broad-based earnings beat.

In terms of the S&P 500 stocks, Royal Caribbean had the best month, up 41% and continuing its rebound from pandemic lows. Salesforce.com was up nearly 40% after posting strong earnings. Occidental Petroleum was the worst performer; it was down 19% while continuing its woes related to lower oil prices and an ill-timed acquisition of Anadarko.

Table 1: Benchmark Returns – August 2020

Index	Close	August 2020 (%)	Calendar Year to Date (%)
NASDAQ	11775.5	9.6	31.2
S&P 500 Growth	2450.9	9.4	25.5
Dow Jones Industrial Avg.	28430.1	7.6	-0.4
S&P 500	3500.3	7.0	8.3
S&P 600 Small Cap	898.8	3.9	-12.0
S&P 400 Mid Cap	1926.5	3.4	-6.6
S&P 500 Value	1143.9	3.3	-11.0

Table 2: S&P 500 Economic Sector Returns

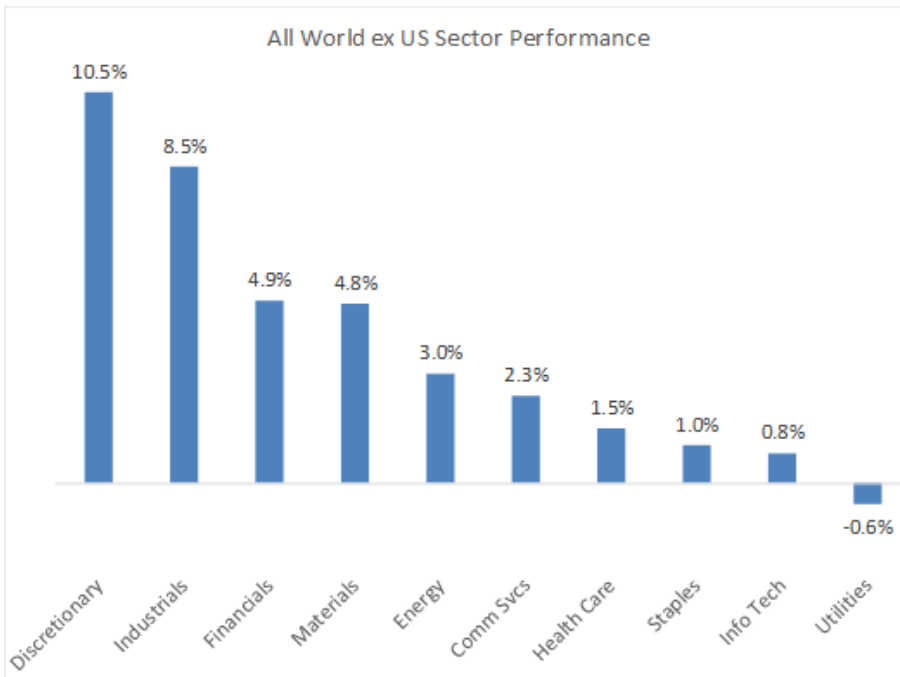
Sector	August 2020 (%)	Calendar Year to Date (%)
Information Technology	11.8	34.8
Consumer Discretionary	9.4	27.1
Communication Services	9.1	15.1
Industrials	8.3	-4.6
Consumer Staples	4.6	3.8
Materials	4.2	2.6
Financials	4.1	-18.7
Health Care	2.5	6.0
Real Estate	-0.1	-6.6
Energy	-2.1	-41.6
Utilities	-3.1	-8.8

INTERNATIONAL EQUITY MARKET SUMMARY

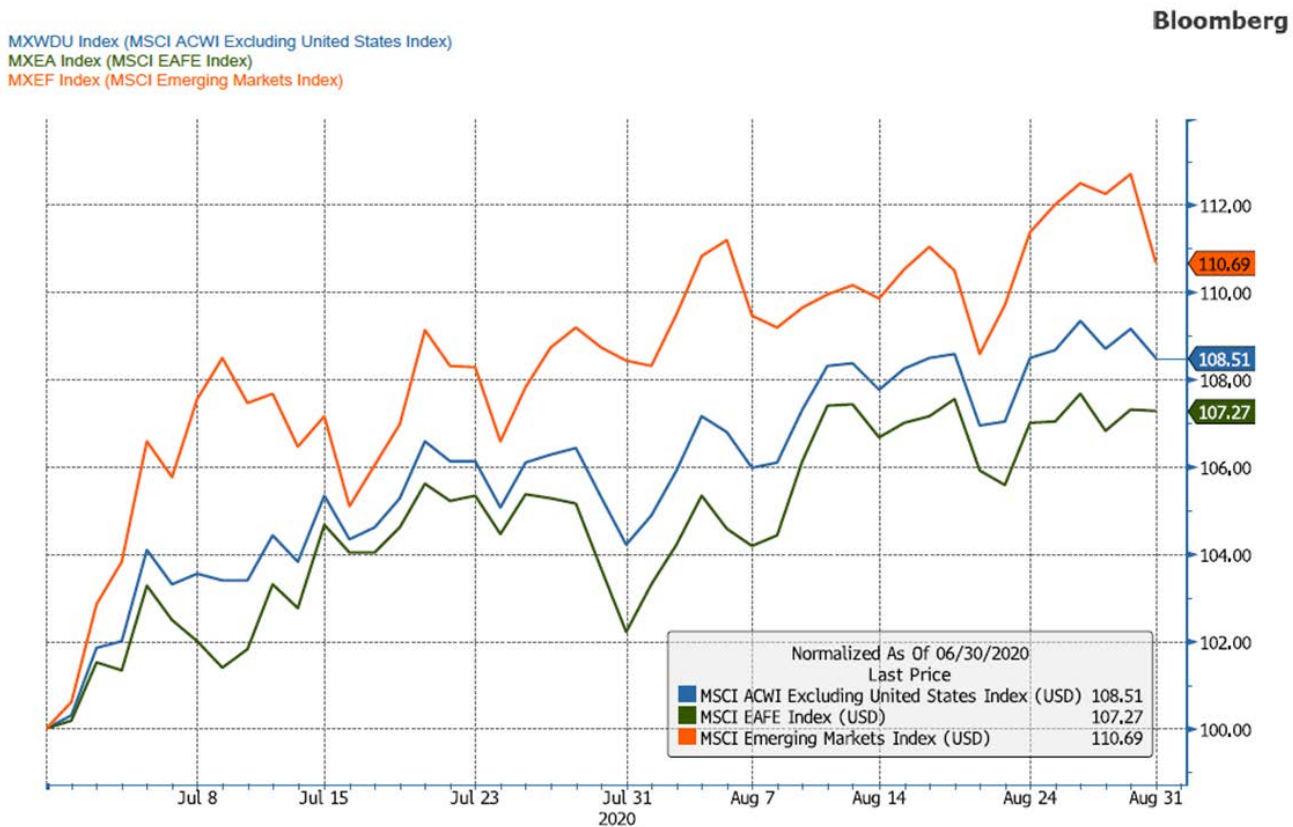
International stock markets, as measured by the MSCI ACWI ex U.S. Index, rose (4.3%) in August, after increasing (4.5%) in July and rising (4.6%) in June. Returns were positive across all sectors except Utilities, with Discretionary (10.5%) and Industrials (8.5%) leading the index while Information Technology (0.8%) and Utilities (-0.6%) were the smallest contributors of performance.

EUROPE/ASIA: MSCI EAFE rose more than the broader international index in August (5.2%) after lagging the group in July (2.4%) and June (3.5%). Europe and Developed Asia saw an acceleration in returns, in spite of elevated COVID-19 cases. Japan posted the strongest returns, as COVID-19 cases were judged to have peaked in the first week of August. Although European cases started increasing, they did not prevent summer travel plans from proceeding, and social safety nets continued to prevent major job losses. As a result, transportation and hotel stocks outperformed, and business and consumer confidence remained unaffected.

EMERGING MARKETS: MSCI Emerging Markets rose less than the broader international index in August (2.2%) after leading the group in July (9.0%) and June (7.4%). The pace of the stock rebound in emerging markets slowed meaningfully in August after a very strong July. The number of daily new COVID-19 cases rose in several Asian countries, notably India, Indonesia, the Philippines and South Korea. China's recovery continued at a more moderate pace, as retail sales continued to lag production, likely reflecting China's lack of government transfers to households. The industry performance was notable for Information Technology, as returns in August reversed into negative territory, after rising double digits in each of the two previous months.



The chart above shows sector returns for the MSCI ACWI ex U.S. index in August, with Discretionary (10.5%) and Industrials (8.5%) the top-performing sectors, and Information Technology (0.8%) and Utilities (-0.6%) the lowest.



The chart above shows the performance of the MSCI ACWI ex U.S. (8.5%), MSCI EAFE (7.3%) and MSCI Emerging Markets (10.7%) indices for July and August.

PUBLIC REAL ESTATE MARKET SUMMARY

The global real estate securities market as measured by the FTSE EPRA / NAREIT Developed Index was up 2.6% in August following July's 2.9% gain. Year-to-date performance was -16.6%, lagging the broader equity market MSCI World Index of +5.8% year-to-date, as the real estate sector was perceived to be relatively more exposed to the pandemic impact. The real estate sector performance fluctuated during the first half of the month and started rising on vaccine optimism in the latter part of the month. In terms of region in USD, Asia (USD +6.6%, local +6.2%) was the best performer, followed by Continental Europe (USD +3.5%, local +2.3%), U.K. (USD +2.9%, local +0.8%) and North America (USD +0.6%, local +0.5%).

Table 3: FTSE EPRA/NAREIT Developed Index Country –Total Return (USD)

Country	August 2020 (%)	Calendar Year to Date (%)
ISRAEL	11.5%	-24.6%
AUSTRALIA	11.1%	-24.1%
JAPAN	7.8%	-16.0%
GERMANY	7.5%	17.4%
HONG KONG	6.0%	-16.8%
SPAIN	5.5%	-32.5%
BELGIUM	5.2%	7.8%
IRELAND	3.4%	-4.5%
AUSTRIA	3.2%	-22.8%
SWITZERLAND	2.9%	-9.7%
UNITED KINGDOM	2.9%	-21.1%
GLOBAL	2.6%	-16.6%
NETHERLANDS	2.2%	-41.3%
NEW ZEALAND	1.8%	-35.1%
CANADA	1.4%	-23.2%
USA	0.6%	-17.4%
SINGAPORE	0.0%	-7.9%
FINLAND	-1.3%	17.5%
ITALY	-1.6%	-43.6%

Country	August 2020 (%)	Calendar Year to Date (%)
FRANCE	-2.3%	-48.8%
NORWAY	-2.5%	-15.0%
SWEDEN	-2.8%	-17.1%

* Norway, Italy and Austria each contain only one name in the index.

In the Asia market, Australia was the best performer, up 11.1%, but only up 7.7% in local currency due to the strength of the Aussie dollar. Earnings results from fund managers and residential developers were stronger than expected. Office fundamentals were still resilient, albeit deteriorating. The retail outlook remained challenged, but the subsector's share performance posted a strong rebound on vaccine headlines. The JREIT market declined from the second half of June through July, but rebounded sharply in August. While the COVID-19 situation has been worsening at times and improving at other times, risk-on sentiment emerged in the REIT market during the month. Hotel, retail and office REITs lifted the sector's performance. Earnings results and company targets were no worse than market expectations, therefore relieving some excess uncertainty. Hong Kong was up 6.0%, lifted by the strong share performance in retail and residential sectors. Singapore was flat. Hotel and retail sectors led the performance while the logistics sector was down 3.6% as investors rotated among the property sectors due to the large valuation disparity.

In the European market, Germany was the best performer, up 7.5%, as the residential sector reported solid earnings results. Retail names posted negative performances as structural woes continued to negatively impact the sector. The British pound strengthened considerably against the USD during the month.

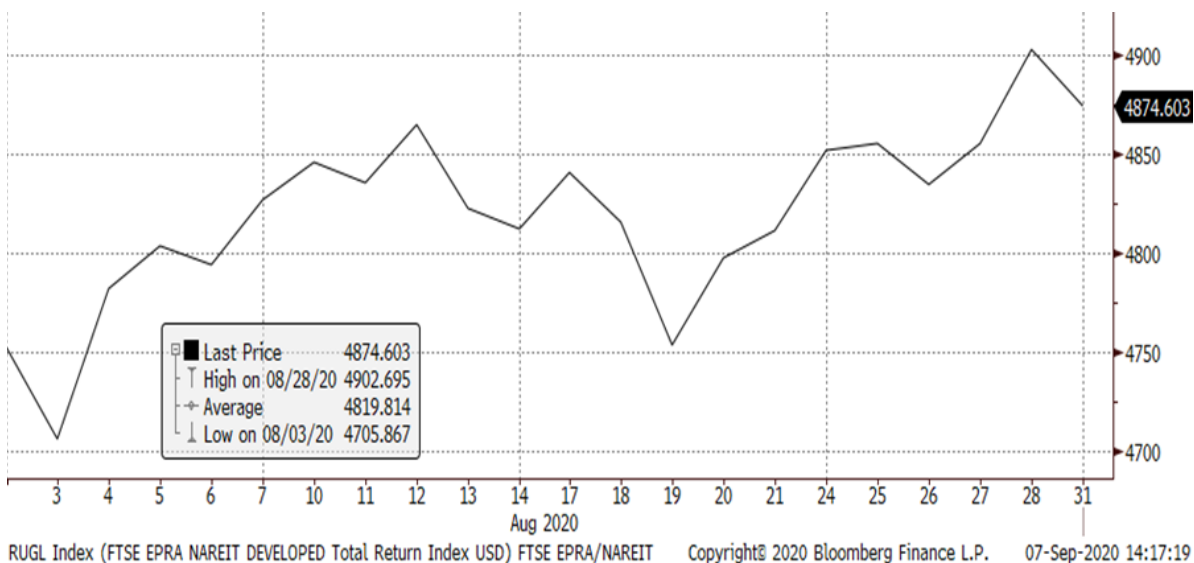
U.S. real estate securities, as measured by the FTSE EPRA / NAREIT US Index, were up 0.6% for the month, repeating yet another month of solid absolute performance, as concerns over COVID-19 have abated. Furthermore, as the economic backdrop has improved, the REIT index was able to exhibit a strong performance. The more cyclical and risk-on REIT subsectors materially outperformed on a relative basis versus those subsectors that were strong relative outperformers at the beginning of the pandemic. Along these lines, the Lodging/Resorts (+8.9%), Retail (+3.5%) and Health Care (+2.3%) subsectors were strong relative and absolute performers. With the exception of this month, the traditionally defensive Self Storage (+5.8%) subsector showed robust outperformance due to strong earnings results on relatively low expectations. Notably, those defensive and growth-oriented subsectors that exhibited strong performance for the year materially underperformed, as the Diversified (-0.3%, led by Data Centers), Residential (-0.5%) and Industrial (-2.8%) subsectors lagged the more cyclical and lower-growth REIT names. Lastly, despite underperforming the REIT index on a calendar-year basis, the Office (-2.9%) subsector was a material underperformer for the month due to a slew of negative announcements of technology tenants announcing a pause in their office space requirements.

Table 4: U.S. Sector Total Return

Sector	August 2020 (%)	Calendar Year to Date (%)
LODGING/RESORTS	8.9%	-41.3%
SELF STORAGE	5.8%	2.1%
RETAIL	3.5%	-38.2%
HEALTH CARE	2.3%	-21.1%
U.S. ALL SECTORS	0.6%	-17.4%
DIVERSIFIED	-0.3%	-7.5%
RESIDENTIAL	-0.5%	-16.7%
INDUSTRIAL	-2.8%	12.8%
OFFICE	-2.9%	-24.2%

The chart below illustrates the daily price change of FTSE EPRA/NAREIT Index for August 2020. On August 31, the index was at a level of 4874.

FTSE EPRA/NAREIT Index Daily Price Change – August 2020



PRIVATE REAL ESTATE MARKET SUMMARY

The net asset value of the private real estate portfolio as of August 31 was approximately \$2.4 billion. For the month, approximately \$11 million in capital was called for the private real estate program, and distributions for the month were \$25 million. Since inception of the program to date, total capital called is approximately \$3.9 billion. From inception through the end of the month, approximately \$3.0 billion was returned as income, capital

gain or return of capital. The chart below summarizes the various capital calls and distributions for the current month, fiscal year-to-date and since inception.

Table 4: Capital Calls and Distributions for August 2020

	August	Fiscal Year to Date	Inception
Calls	(\$11) million	(\$500) million	(\$3.9) billion
Distributions	\$25 million	\$331 million	\$3.0 billion
Net (Called)/Distributions	\$14 million	(\$169) million	(\$0.9) billion

One private real estate fund was closed in August in the amount of a \$50 million commitment to Waterton Fund XIV. ERS has committed \$260 million to four Waterton-sponsored multifamily funds and co-investments since 2011, and all have either exceeded or met ERS' return expectations (13% or greater net IRRs). The investment objective for Fund XIV is to acquire a balanced portfolio of multifamily assets diversified by location (in-fill submarkets in major U.S. suburban and urban metropolitan areas), and for which Waterton can add value through a combination of professional management, correction of deferred maintenance, physical property improvement and recapitalization. Target investments will include garden style, mid- and high-rise multifamily communities, as appropriate for their respective markets. Waterton's target net return is 13%.

For the 2020 fiscal year to date, ERS has closed on an aggregate \$699.5 million of commitments to 12 funds including one sidecar for co-investments. The commitment target for Fiscal Year 2020 is \$650 million, with an upper range of \$975 million. The ERS Private Real Estate portfolio represents 8.1% of the overall System's assets, which is slightly below the long-term target of 9% by 2021. The near-term focus continues to be on renewed commitments to performing fund managers in which ERS has investments, commingled "club funds" with the potential to drive terms and conditions, niche property sectors, co-investments and select international investments. Since inception, commitments by ERS' private real estate program total approximately \$5.2 billion.

PRIVATE EQUITY MARKET SUMMARY

ERS Private Equity did not close any new investments during August. Private Equity's target for commitments for Fiscal Year 2020 is \$800 million with a range of \$600 million to \$1.0 billion. As of August 31, the private equity portfolio net asset value was \$4.48 billion, or 15.4% of System assets.

From program inception through August 31, ERS has closed on 114 funds and 57 co-investments with commitments totaling \$10.2 billion (adjusted for currency exchange rates). In addition, ERS holds LP Advisory Committee seats on 69 active funds and six fund LP Advisory Observer seats.

Table 5: ERS Private Equity – Deals Closed During Fiscal Year 2020

Deal #	Fund Name	Fiscal Year	Geography / Strategy	Commitment (Local Currency)	Commitment (USD) ⁽¹⁾
1	Wind Point Partners IX, LP	2020	US - Buyout	\$60,000,000	\$60,000,000

Deal #	Fund Name	Fiscal Year	Geography / Strategy	Commitment (Local Currency)	Commitment (USD) ⁽¹⁾
2	TA Select Opportunities Fund-A LP	2020	Global - Growth	\$20,000,000	\$20,000,000
3	Co-Investment # 55	2020	US - Buyout	\$3,500,000	\$3,500,000
4	Hitecvision VIII, L.P.	2020	Europe - Energy	\$50,000,000	\$50,000,000
5	MBK Partners V	2020	Asia - Buyout	\$30,000,000	\$30,000,000
6	Crown Global Secondaries V	2020	Global - Secondaries	\$200,000,000	\$200,000,000
7	Hg 9, L.P.	2020	Europe - Buyout	€ 50,000,000	\$59,680,000
8	Arctos Sports Partners Fund I	2020	US - Buyout	\$35,000,000	\$35,000,000
9	K5 Private Investors LP	2020	US - Growth	\$50,000,000	\$50,000,000
10	Industry Ventures Direct II	2020	Global - Venture	\$30,000,000	\$30,000,000
11	Co-Investment # 56	2020	Asia - Buyout	\$10,000,000	\$10,000,000
12	Co-Investment # 57	2020	Global - Venture	\$50,000,000	\$50,000,000
13	Industry Ventures IX Secondary	2020	Global - Secondaries	\$40,000,000	\$40,000,000
Total					\$638,180,000

Footnotes:

(1) Foreign exchange rates as of: 8/31/2020

EURO / USD: 1.1936

FIXED INCOME MARKET SUMMARY

New cases and deaths from COVID-19 moderated in August. Economic data remained relatively strong, particularly home sales and durable goods orders. Consumer sentiment did decline, however, which has raised some concerns regarding further economic recovery. Congress has yet to pass an additional stimulus package and the unemployment rate remains very high, which are likely factors weighing on consumer sentiment. We expect the Federal Reserve to remain accommodative in order to continue to further support economic recovery. The Fed has also signaled that interest rates will likely remain very low for an extended period of time and has expressed a willingness to let inflation increase above 2% to get to a longer-run average inflation rate of 2%.

Table 6: Index Returns (%)

	Total Return August (%)	Total Return Calendar Year to Date (%)
Barclays Capital Intermediate Credit	-0.01	5.60

	Total Return August (%)	Total Return Calendar Year to Date (%)
Barclays Capital Intermediate Treasury	-0.20	5.95
U.S. Treasury	-1.10	8.75
U.S. Agency	-0.27	5.23
Corporate	-1.38	6.94
Securitized	0.05	3.94
U.S. Corporate High Yield	0.96	1.61
Emerging Markets	0.54	3.24

Labor: The economy added 1.37 million jobs during the month and the unemployment rate declined from 10.2% to 8.4%. While the number of jobs added surprise to the upside, the unemployment rate remains very high, providing a case for additional monetary and fiscal actions.

Inflation: The Federal Reserve's preferred measure of inflation, Core PCE, was at 1.3% year-over-year, well below the Fed's 2% target. The Fed has signaled that it is willing to let inflation run above 2% in the future to target a longer-run 2% average.

Housing: The housing market has remained relatively robust. Existing home sales increased 24.7% month-over-month and new home sales increased 13.9% month-over-month.

Durable Goods: Durable goods orders increased 11.4% month-over-month signaling the Industrial sector continued to recover at a robust rate in August.

Note: Due to the lagged nature of economic data we have not yet seen the data fully reflect the current economic environment.

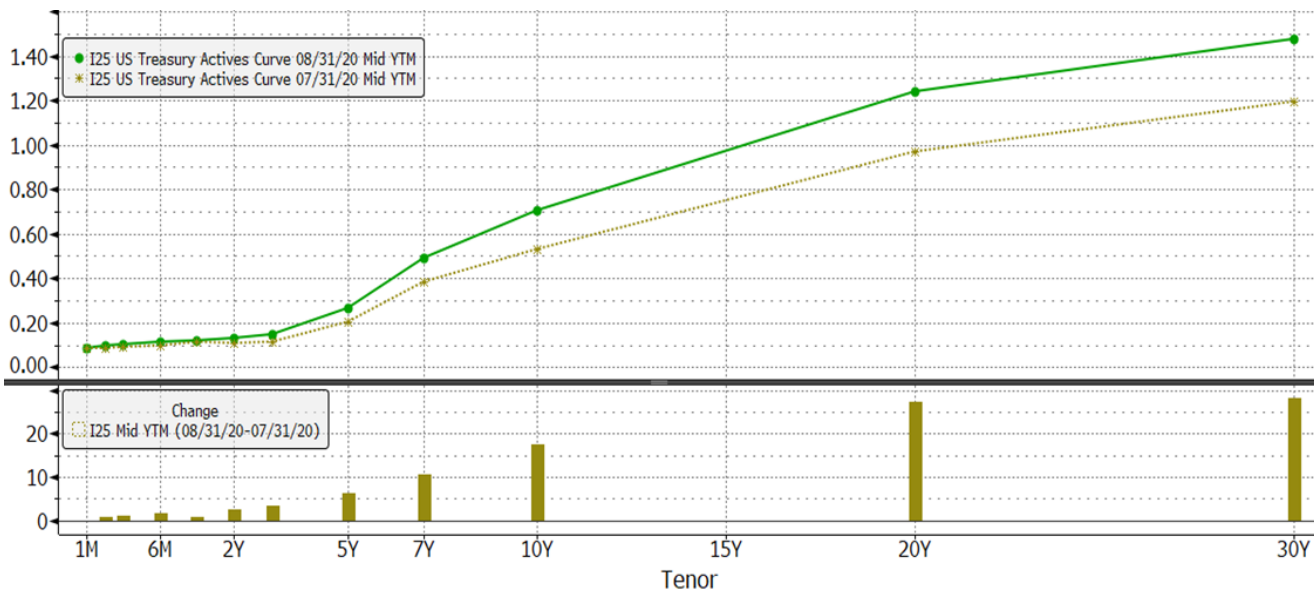
THE BOND MARKETS

As shown in the charts below, Treasury yields increased while the curve steepened; the yield spread between 10-year and 2-year Treasuries increased from 43 basis points to 57 basis points month-over-month. Risk assets notched another month of solid gains in August. The S&P 500 returned over 7%, while high-yield bonds returned nearly 1%. The steeper yield curve led U.S. Treasuries lower by about 1% while rates-sensitive Investment Grade Corporate Bonds returned -1.38%. Year-to-date, Treasuries have returned 8.75% while Investment Grade Corporate Bonds have returned 6.94%. High-yield has returned a modest 1.61% year-to-date.

2s-10s U.S. Government Yield Spread



The chart above shows that the yield spread between 10-year and 2-year Treasuries...



HEDGE FUND MARKET SUMMARY

The Absolute Return Portfolio generated an estimated return of +0.96% for August. Please note that this return is still very preliminary as several of the managers have less liquid holdings. The target return of 90-day T-bills plus 350 basis points returned +0.31% over the same period. For the fiscal year, the Absolute Return Portfolio generated an estimated return of +7.32%, while the 90-day T-bills plus 350 basis points has returned an estimated +5.02%. The portfolio's secondary benchmark, the HFRI Fund of Funds Diversified, returned +2.24% for August and +7.34% for the fiscal year.

The markets in August were overall quite strong. In contrast to recent months, there wasn't any major news dominating market participants' actions. Overall, investor sentiment remained mostly positive leading to a risk-

on market environment. An overall dovish Fed outlook, along with positive COVID-19 vaccine news, provided a tailwind for the month. Toward the end of August, Fed Chairman Jerome Powell announced the Fed would allow for more flexibility on inflation targets, which will allow more room for economic growth policies. The market digested this news to mean that the U.S. would be in a prolonged low-interest rate environment.

Within Europe, Brexit news was mostly negative as it seemed an agreement between the U.K. and the EU hit a standstill. Nevertheless, the equity markets remained positive to close out the month. In Asia, China posted mixed economic results with a drop in July retail sales, yet favorable industrial data. Within Japan, the equity markets were positive despite the news that Prime Minister Shinzo Abe would be stepping down due to health reasons. The Japanese equity markets benefited from favorable earnings data and it seems with Abe's chief cabinet secretary as his likely replacement, "Abenomics" will continue on as planned.

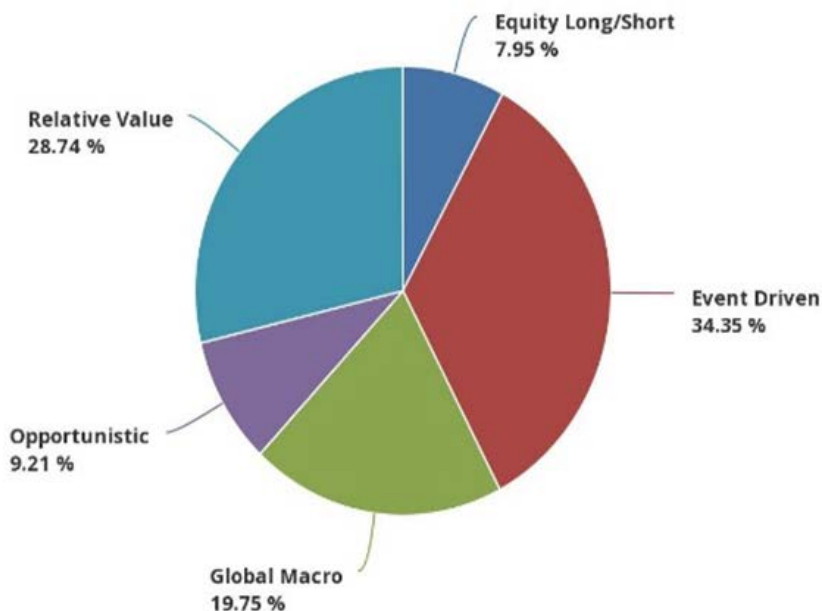
For the month, the S&P 500 returned +7.2%, while the FTSE 100 index and the EuroStoxx50 returned +1.6% and +3.2%, respectively. The CSI 300 and the Nikkei Index closed August +2.8% and +6.6%, respectively. During August, bond yields in the U.S. and Europe mostly increased given the risk-on market backdrop and due to countries deploying capital for COVID-19 stimulus packages.

August was a good month for the ERS Absolute Return Portfolio on an absolute and relative basis. The largest contributors during the month included equity long/short manager Samlyn (+4.2%) and relative value manager Garda (+2.6%). The largest detractor was Laurion, a relative value manager, which returned -0.78% for the month.

The graphs below indicate current (top) and historical (bottom) strategy positioning of the Absolute Return Portfolio as of July 2020 month-end. The five strategies (and current positioning) include relative value (28.74%), event-driven (34.35%), global macro (19.75%), equity long/short (7.95%) and opportunistic (9.21%). The ERS Hedge Fund team is focused on increasing its exposure to event-driven and equity long/short strategies.

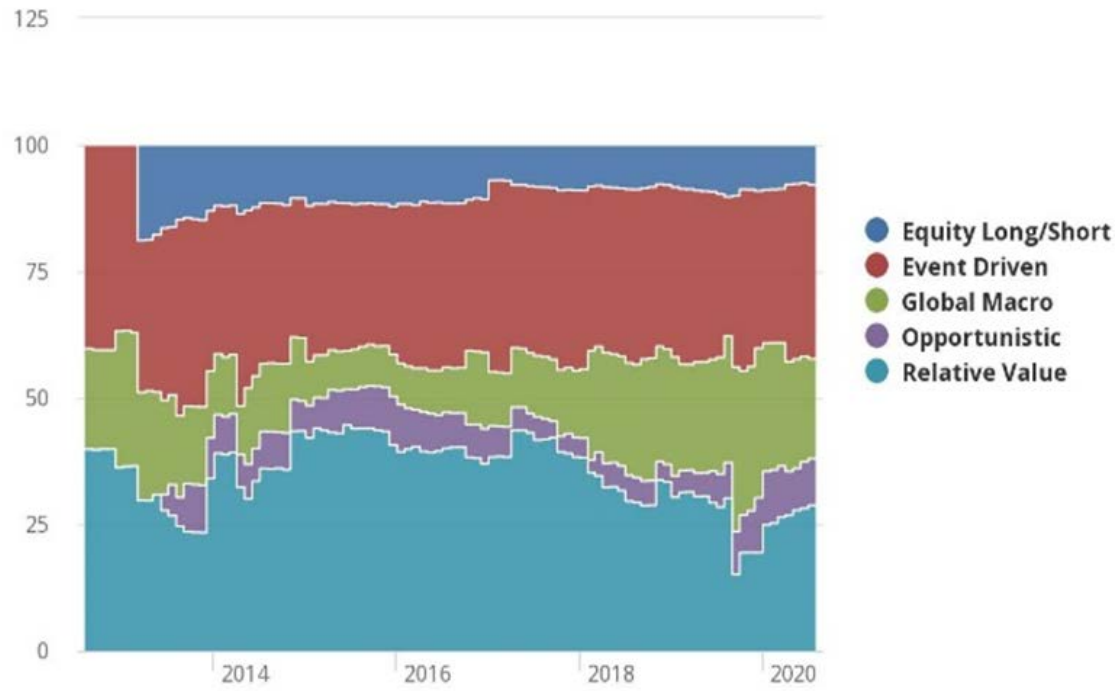
Strategy Exposures - Hedge Funds - Allocation, %

July-2020



Strategy Exposures - Hedge Funds - Allocation, %

August-2012 to July-2020



PRIVATE INFRASTRUCTURE MARKET SUMMARY

ERS Private Infrastructure closed one new transaction in August, a \$75 million co-investment. ERS Private Infrastructure's target commitments for Fiscal Year 2020 are \$450 million with a range of \$315 million to \$585 million.

Since inception, the Private Infrastructure team has closed on 20 co-investments and 18 funds with commitments totaling \$2.07 billion (adjusted for currency exchange rates). ERS holds an LP Advisory Committee seat on 17 funds and an observer seat on one fund. As of August 31, the Infrastructure portfolio net asset value was \$1.08 billion, or 3.7% of System assets.