Market Summaries
May 2022

ERS®
Employees Retirement
System of Texas

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Domestic Equity Market Summary

The S&P 600 index was the best-performing index for the month as investors found attractive valuations after recent weakness, while the S&P 500 Growth index posted the largest decline for the month.

US Nonfarm Payrolls were very strong for the month posting an increase of 390,000 jobs, surpassing estimates of 318,000. Consumer credit usage topped $38.1 billion, exceeding expectations of $35 billion as consumer spending rebounds. Lastly, CPI data for the month came in at an annualized rate of 8.6%, exceeding estimates of 8.3%. A large portion of market participants expected weakening inflation data but food and energy inflation were particularly. As a result, uncertainty around the level and timing of peak inflation continues to pressure equity markets as well as the threat of additional Fed rates hikes necessary to combat.

In terms of S&P 500 sector performance, Energy was the best-performing performing sector for the month, while also continuing to lead year-to-date. Real Estate was the worst-performing sector for the month, while Consumer Discretionary was the worst-performing on a year-to-date basis.

About 43% of the S&P 500 reported first quarter earnings. Roughly 2.7% of companies reported a positive sales surprise, with 3.5% surprising on earnings. Utilities, followed by Materials and Financials, reported the highest positive sales surprises for the month while Communications was the only sector to post a negative surprise on sales. Materials and Health Care posted the highest positive earnings surprise, while the Financials and Consumer Staples sectors posted the most negative surprise on earnings.

In terms of S&P 500 stocks, Specialty Chemicals, Oil and Gas, and IT Services, stocks posted the strongest returns. Albemarle Corp., Devon Energy Corp., NRG Energy Inc., EPAM Systems Inc., and Marathon Oil Corp. were the five best performers, up between 26% and 35%.

Table 1: U.S. Equity Index Total Returns

Index	Close	May 2022 (%)	Calendar Year to Date (%)
S&P 500 Large Cap	4,132.2	0.2	-12.8
S&P 500 Growth	2,655.7	-1.4	-21.1
S&P 500 Value	1,481.6	1.6	-3.5
S&P 400 Mid Cap	2,514.8	0.7	-11.0
S&P 600 Small Cap	1,235.6	1.9	-11.4

Table 2: S&P 500 U.S. Economic Sector Index Total Returns

Sector	May 2022 (%)	Calendar Year to Date (%)
Communication Services	1.8	-24.3
Consumer Discretionary	-4.9	-24.7
Consumer Staples	-4.6	-3.2
Energy	15.8	58.5
Financials	2.7	-8.8
Health Care	1.4	-5.8
Industrials	-0.5	-10.1
Information Technology	-0.9	-19.4
Materials	1.1	-4.7
Real Estate	-5.0	-14.1
Utilities	4.3	4.7

International Equity Market Summary

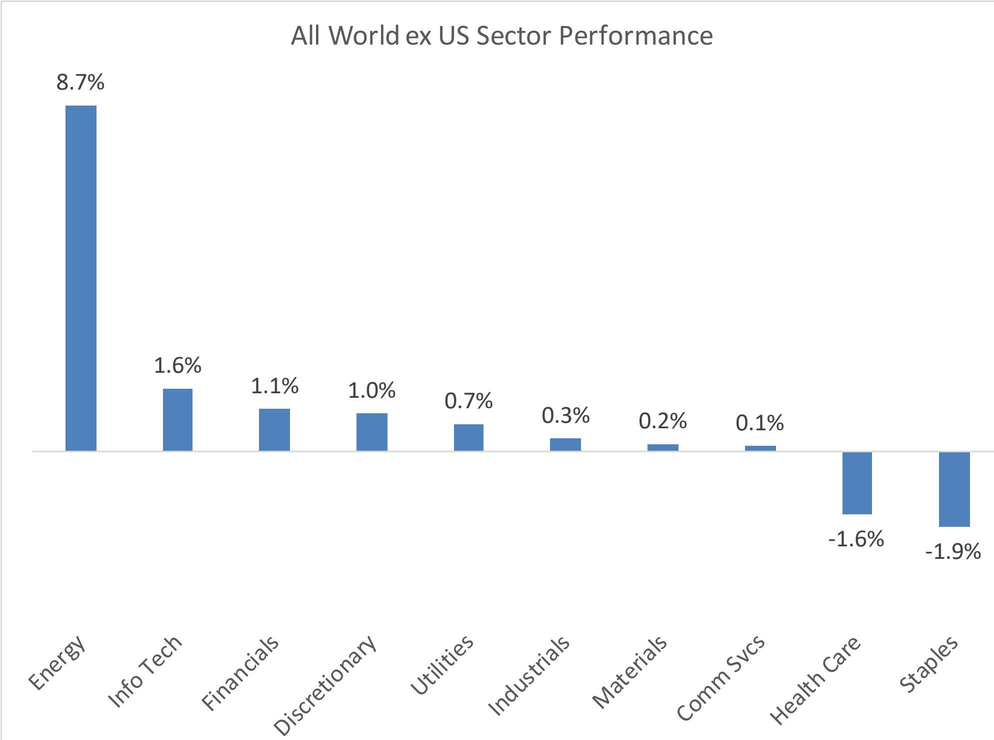
International stock markets, as measured by the MSCI ACWI ex U.S. Index, rose slightly in the month of May (0.7%), after falling in April (-6.3%) and remaining flat in March (0.2%). Performance was varied, as investors assessed the prospect of slower growth and inflation. Returns were mixed across sectors, as Energy (8.7%) and Info Tech (1.6%) led the index, while Staples (-1.9%) and Health Care (-1.6%) were the greatest detractors.

MSCI EAFE performance matched the broader international index in May (0.7%) after lagging the group in April (-6.5%) and leading in March (0.6%). Energy was the best performing sector on the back of strong earnings, while defensively oriented Staples and Health Care were the worst performers. From a regional standpoint, Hong Kong and Japan were top performers, while Israel was one of the worst performers.

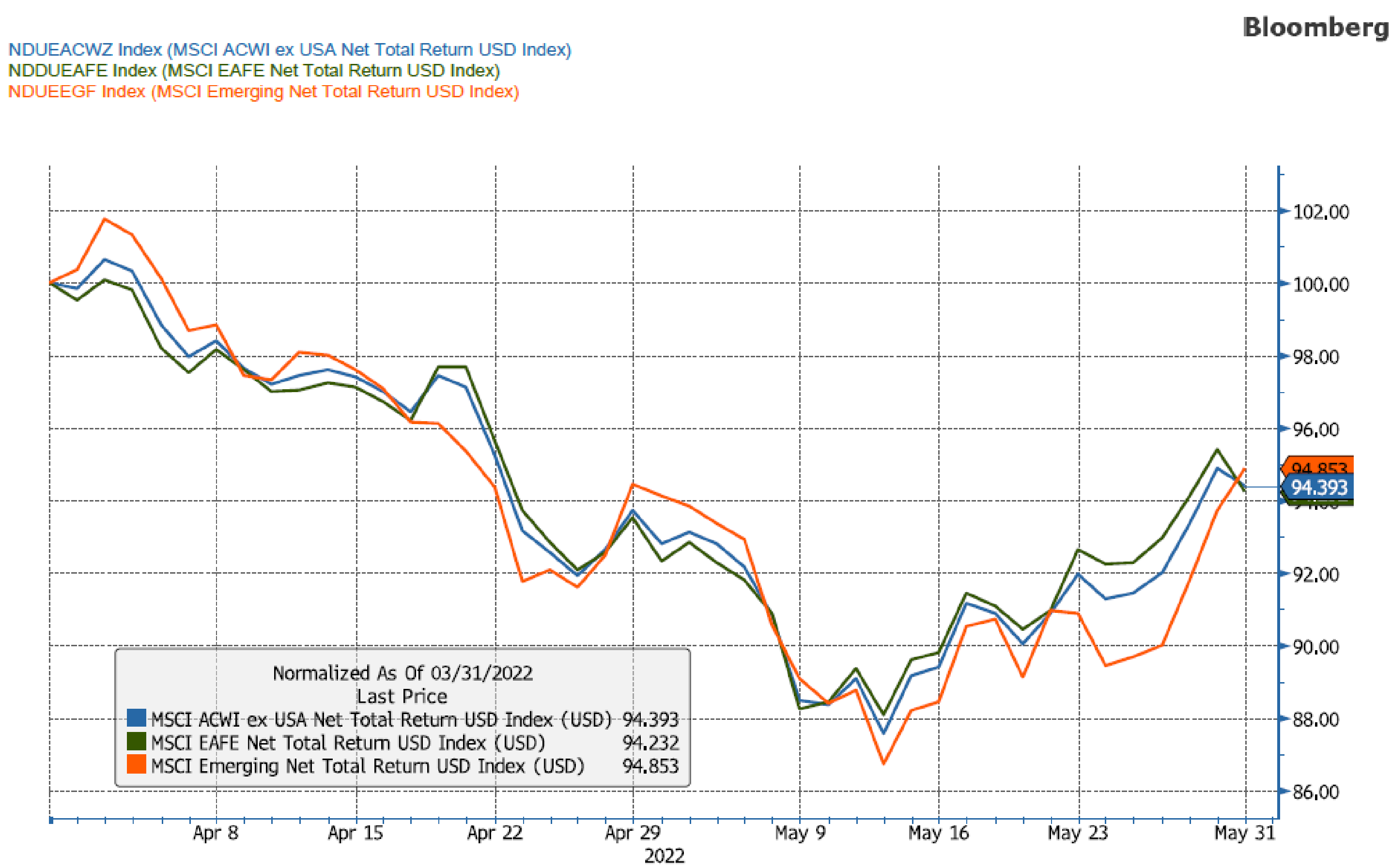
MSCI Emerging Markets (EM) performance lagged the broader international index in May (0.4%) after leading the group in April (-5.6%) and lagging in March (-2.3%). Emerging Market returns moved into slightly positive territory for the first time in three months. Info Tech and Energy were the best performing sectors, while Health Care was the worst performer. Latin American countries like Chile, Colombia and Brazil were the best performers, while Saudi Arabia and Turkey were the worst performers.

Table 3: Global Equity Index Total Returns

Index	Monthly (USD) (%)	Year to Date (%)
MSCI ACWI ex US	0.7%	-10.7%
MSCI EAFE	0.7%	-11.3%
MSCI Emerging Markets	0.4%	-11.8%



The chart above shows sector returns for the MSCI ACWI ex US index in May, with Energy (8.7%) and Info Tech (1.6%) the top performing sectors, and Staples (-1.9%) and Health Care (-1.6%) the lowest.



The chart above shows the performance of the MSCI ACWI ex US (-5.6%), MSCI EAFE (-5.8%) and MSCI Emerging Markets (-5.1%) indices for the months of April and May.

PUBLIC REAL ESTATE MARKET SUMMARY

The global real estate securities market as measured by the FTSE EPRA / NAREIT Developed Index was down 4.32% for May 2022. ERS' composite Internal Public Real Estate portfolio was down 4.01%, outperforming its benchmark by 31 basis points.

The Domestic REIT portfolio was down 5.46%, outperforming its benchmark the FTSE EPRA/NAREIT United States Index (-6.26%) by 80 basis points. Strong stock selection as well as overweight in Healthcare sector and cash position added most relative value. The International REIT portfolio was down 1.74%, underperforming the FTSE EPRA/NAREIT Developed ex USA Index (-1.20%) by 54 basis points. The underweight in Hong Kong and overweight in Singapore and Israel were the major detractors.

Table 4: Changes in REIT Portfolio Asset Value

Portfolio	Month Ending May (%)			Fiscal Year to Date (%)		
	Index	Portfolio	Difference	Index	Portfolio	Difference
Global REIT Portfolio	(4.32)	(4.01)	0.31	(9.50)	(8.33)	1.18
International REIT Portfolio	(6.26)	(5.46)	0.80	(5.88)	(3.75)	2.13
Domestic REIT Portfolio	(1.20)	(1.74)	(0.54)	(14.62)	(14.51)	0.10

PRIVATE REAL ESTATE MARKET SUMMARY

Table 5 below states the changes in NAV for the month and fiscal year to date. For the month, the private real estate portfolio increased in value by about 5% despite receiving net distributions of $10 million. The fiscal year to date increases are a combination of the net capital called (about 11% of total increase) and appreciation (about 89% of total increase) of the Portfolio investments.

Table 5: Changes in Private Real Estate Portfolio Net Asset Value

	May 31, 2022	April 30, 2022	Monthly Change (%)	Fiscal Year Change (%)
Net Asset Value (in billions)	$3.647	$3.476	4.9%	25.1%

Table 6: Capital Calls and Distributions

	May 2022	Fiscal Year to Date	Inception
Calls	($32) million	($611) million	($5.2) billion
Distributions	$42 million	$529 million	$4.0 billion

	May 2022	Fiscal Year to Date	Inception
Net (Called)/Distributions	$10 million	($82) million	($1.2) billion

The commitment target for Fiscal Year 2022 is $350 million, with an upper range of $700 million. In the month, ERS closed one deal (Wheelock LTVF – Tranche II) worth $100 million and has another potential investment in the pipeline worth $100 million.

To date, ERS has closed on six investments for a total of $300 million of commitments, 86% of the FY target allocation. The ERS Private Real Estate Portfolio represents 10.6% of the overall System's assets, 160bps above the 9% target.

Private Equity Market Summary

ERS Private Equity closed four new investments during May (Deals 9, 10, 11, and 12 in the below table). Private Equity's target commitments for Fiscal Year 2022 are $800 million with a range of $600 million to $1.0 billion. Private Equity's target commitments for Fiscal Year 2023 are $600 million with a range of $450 million to $750 million. As of May 31, 2022 the Private Equity Portfolio net asset value was $6.68 billion, or 19.4% of the System's assets.

From program inception through May, ERS has closed on 137 funds and 74 co-investments with commitments totaling $11.6 billion (adjusted for currency exchange rates). In addition, ERS holds LP Advisory Committee seats on 88 active funds and five fund LP Advisory Observer seats.

Table 7: ERS Private Equity – Deals Closed During Fiscal Year 2022

Deal #	Fund Name	Fiscal Year	Geography / Strategy	Commitment (Local Currency)	Commitment (USD) [1]
1	TPG Growth V, LP	2022	Global - Growth	$50,000,000	$50,000,000
2	Co-Investment # 71	2022	Europe - Buyout	€ 14,000,000	$14,863,800
3	Baring Asia VIII, LP	2022	Asia - Buyout	$50,000,000	$50,000,000
4	Industry Ventures Direct III, LP	2022	US - Venture	$30,000,000	$30,000,000
5	Co-Investment # 72	2022	US - Buyout	$10,400,000	$10,400,000
6	Hg Saturn 3	2022	Europe - Buyout	$44,000,000	$44,000,000
7	Cotton Creek IV LP	2022	US - Buyout	$60,000,000	$60,000,000
8	Advent International X, LP.	2022	Global - Buyout	$85,000,000	$85,000,000
9	LGT Crown Secondaries Special Opportunities III PLC	2022	Global - Secondaries	$100,000,000	$100,000,000
10	Brighton Park Capital Fund II, L.P.	2022	US - Growth	$50,000,000	$50,000,000

Deal #	Fund Name	Fiscal Year	Geography / Strategy	Commitment (Local Currency)	Commitment (USD) (1)
11	Avista Healthcare Partners VI, L.P.	2022	US - Buyout	$40,000,000	$40,000,000
12	Hg Genesis 10, L.P. (2)	2023	Europe - Buyout	€ 45,000,000	$48,321,000
Total					**$582,584,800**

Footnotes:

(1) Foreign exchange rates as of 04/30/2022
EURO / USD: 1.0617
(1) Foreign exchange rates as of 05/31/2022
EURO / USD: 1.0738

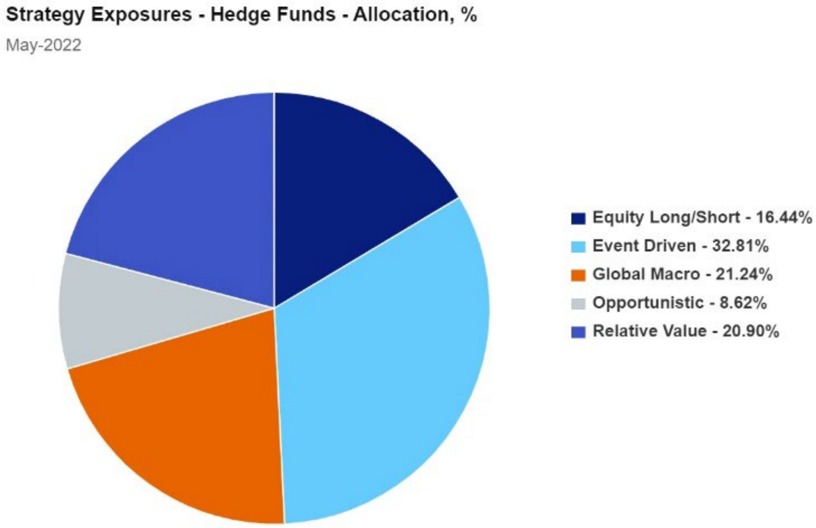
Hedge Fund Market Summary

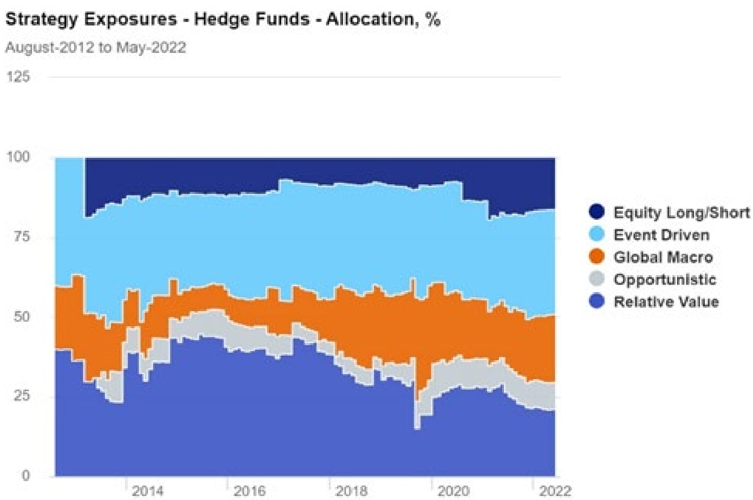
The Absolute Return Portfolio generated an estimated return of -0.30% for the month of May. Please note that this return is still preliminary as several managers have less liquid holdings. The benchmark return of 90-day T-bills + 350 bps was up +0.30% over the same period. For the fiscal year, the Absolute Return Portfolio has generated an estimated return of +2.36%, while 90-day T-bills + 350 bps has returned an estimated +2.69%. The portfolio's secondary benchmark, the HFRI Fund of Fund Diversified Index, returned -1.05% for May and -2.53% for the fiscal year.

The month of May exhibited some relief from an otherwise challenging 2022. The month opened with a continuation of April's negative market sentiment due to global growth concerns. The U.S. Federal Reserve ("Fed") hiked rates by 50 bps at the beginning of the month and announced it will be reducing its balance sheet beginning June 1st. Towards the end of the month, investor sentiment turned more positive as inflation numbers seemed to exhibit some stabilization. During the month, the April U.S. CPI Index figures were released displaying a year-over-year growth rate of +8.3%, which was down from +8.5% in March. Equity markets traded up on the shift in investor sentiment. Additionally, the European Central Bank's ("ECB") President, Christine Lagarde, announced expectations that the current -0.5% deposit rate in the Eurozone will return to neutral or even positive by the end of 3Q 2022. Furthermore, the ECB's asset purchasing program is expected to end in early 3Q 2022. In China, COVID-related lockdowns continued for the majority of the month. Towards the end of May, announcements of a lifting in restrictions proved to be a tailwind to market sentiment. In the fixed income space, the 10-year U.S. Treasury yield hit 3% before retreating back to 2.8% at month-end. In turn, yields in most European bond markets increased during the month, particularly during the back half when investors' demand for government bonds waned. For the month of May, the S&P 500 and the Dow Jones increased +0.18% and +0.33%; the FTSE 100 and the EuroStoxx 50 returned +1.13% and +1.28%; and the Hang Seng and the MSCI EM Index were up +2.15% and +0.47%, respectively.

During the month, the ERS Absolute Return Portfolio ("Portfolio") underperformed both on an absolute and relative basis to its primary benchmark. The Portfolio outperformed its secondary benchmark. For the month of May, performance was mixed across the Portfolio's underlying managers. In terms of attribution, the top two largest contributors were both Relative Value managers. The largest detractors during the month included a Global Macro and an Equity Long/Short manager.

The graphs below indicate current (left) and historical (right) strategy positioning of the Absolute Return Portfolio as of May 2022 month-end. The five strategies (and current positioning) include Relative Value (20.90%), Event Driven (32.81%), Global Macro (21.24%), Equity Long/Short (16.44%), and Opportunistic (8.62%). The ERS Hedge Fund team is focused on maintaining its current portfolio exposures. The team saw one analyst departure during May and will be looking to replace this employee over the coming months.





Private Infrastructure Market Summary

ERS Private Infrastructure closed one new transaction in the month of May, a $50 million commitment to KKR Asia Pacific Infrastructure Investors II. ERS Private Infrastructure's target commitments for fiscal year 2022 remains $450 million with a range of $315 million to $585 million.

Since inception, Private Infrastructure has closed on twenty-nine co-investments and twenty-three funds with commitments totaling $2,739 million (adjusted for currency exchange rates). ERS holds an LP Advisory Committee seat on twenty-one funds and an observer seat on one fund. As of May 31, 2022 the Infrastructure portfolio Net Asset Value was $1,672 million, or 4.9% of system assets.

Fixed Income Market Summary

The U.S. economy remains in expansion though inflation headwinds continue to persist. The Federal Reserve plans to tackle inflation by increasing interest rates over the coming months; the market is currently pricing in about 8 more Fed rate hikes of 25 bps in 2022. As the Fed continues to hike rates, the U.S. economy has begun slowing; this increases the risk that the Fed could push the U.S. into a recession. Treasury yields modestly declined in May as investors became more optimistic that the Fed may not increase rates through the end of the year as much as anticipated. This provided some stability in risk assets.

In May, the 10-year Treasury yield decreased 10 bps to 2.84% while the 2-year Treasury yield declined 16 bps to 2.56%. Declining yields offered a reprieve for fixed income. The aggregate U.S. Treasury Index returned 0.18% while the Investment Grade Corporate Index returned 0.93%. High Yield returned 0.23%, the first positive month of the calendar year. Domestic equities also had a positive month with the S&P 500 returning 0.18% and Russell 2000 small cap stocks returning about 0.14%.

Table 8: Index Total Returns

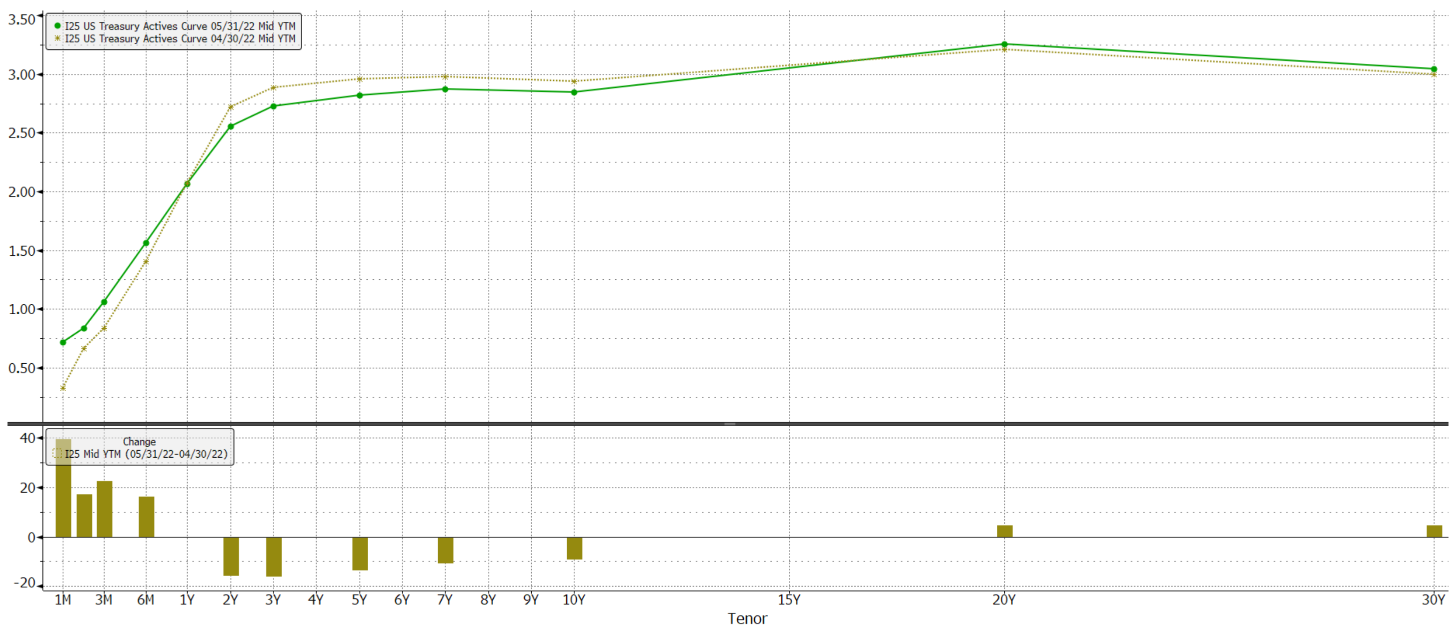
	May 2022 (%)	Calendar Year to Date (%)
Intermediate Credit	0.87	-6.85
Intermediate Treasury	0.68	-5.10
U.S. Treasury	0.18	-8.33
U.S. Agency	0.49	-5.31
U.S. TIPS	-0.99	-5.95
U.S. Investment Grade Corporate	0.93	-11.92
Securitized	1.04	-7.28
U.S. Corporate High Yield	0.23	-7.98
Emerging Markets	-0.02	-13.17

- **Labor**: The economy added 390,000 jobs during the month, beating expectations of 318,000 jobs added. The unemployment rate remained at 3.6%.
- **Inflation**: The Federal Reserve's preferred measure of inflation, Core PCE, decreased from 5.2% to 4.9% year over year. The market currently expects the Federal Reserve to increase interest rates 8 more times through the end of 2022 to stem the elevated levels of inflation.
- **Housing**: Existing home sales declined 2.4% month over month while new homes sales declined 16.6% month over month. Low inventories and supply chain issues have fueled large price increases in many markets. Rising interest rates also pose a significant headwind to affordability.
- **Durable Goods**: Durable goods orders increased 0.5% month over month. This measure signals that businesses have continued to make investments even while the economy slows.

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

The yield spread between 10-year and 2-year Treasuries increased from 22 basis points to 29 basis points.

U.S. Government Yield Curve



The chart above shows the current shape of the yield curve versus one month ago.