

Joint Meeting of the Board of Trustees
and
Investment Advisory Committee

December 10, 2024



Public Agenda Item #1

Call Meeting of the Board of Trustees to Order

December 10, 2024

Public Agenda Item #2

Call Meeting of the Investment Advisory Committee to Order

December 10, 2024

Public Agenda Item #3

Consideration of Consent Agenda - (Action)

December 10, 2024

Discussion

Action Item

Public Agenda Item #4
Consideration of Reports

December 10, 2024

Public Agenda Item #5

Annual Ethics Training

“Texas Ethics Laws for State Board Members and Employees”

December 10, 2024

Randy Erben, Adjunct Professor of Law, The University of Texas

DECEMBER 10, 2024

TEXAS ETHICS LAWS FOR STATE BOARD MEMBERS (AND EMPLOYEES TOO!)



TEXAS Law

The University of Texas at Austin
School of Law

Employees Retirement System Board of Trustees

RANDY ERBEN

Adjunct Professor of Law, The University of Texas at Austin
Chair, Texas Ethics Commission

General Conflict of Interest Provisions

The Legislature has adopted the following standards of conduct for state employees (Gov't Code §572.051):

A state officer or employee should not:

- (1) accept or solicit any gift, favor, or service that might reasonably tend to influence the officer or employee in the discharge of official duties or that the officer or employee knows or should know is being offered with the intent to influence the officer's or employee's official conduct;
- (2) accept other employment or engage in a business or professional activity that the officer or employee might reasonably expect would require or induce the officer or employee to disclose confidential information acquired by reason of the official position;
- (3) accept other employment or compensation that could reasonably be expected to impair the officer's or employee's independence of judgment in the performance of the officer's or employee's official duties;

General Conflict of Interest Provisions

(cont.)

(4) make personal investments that could reasonably be expected to create a substantial conflict between the officer's or employee's private interest and the public interest; or

(5) intentionally or knowingly solicit, accept, or agree to accept any benefit for having exercised the officer's or employee's official powers or performed the officer's or employee's official duties in favor of another.

- A state agency may not use appropriated funds to compensate a state employee who violates those standards. Gov't Code § 2113.014.
- Also, in some cases failure to follow the standards of conduct will violate criminal statutes, such as:
 - As a public servant, one commits the offense of bribery if one solicits, offers, or accepts a "benefit" in exchange for one's decision, opinion, recommendation, vote, or other exercise of official discretion. Penal Code § 36.02.

Fiduciary Duty Owed

- According to Black's Law Dictionary, a "fiduciary" is a person who is required to act for the benefit of another on all matters within the scope of their relationship; one who owes to another the duties of **good faith, trust, confidence, and candor**.
- A fiduciary is **legally and ethically** required to act in another's best interest.
- In 2011, a Texas court of appeals considering a breach-of-fiduciary-duty claim stated, "A fiduciary duty is the highest duty recognized by law."
- All powers held by a Trustee, whether express or implied, are held in a fiduciary capacity, and their exercise or non-exercise is subject to fiduciary duties.
- Gov't Code § 815.5091 authorizes the ERS Board to establish an Investment Advisory Committee to assist the Board in carrying out its fiduciary duties related to investments. When carrying out the Board's fiduciary duties, similar fiduciary standards apply.

Use of State Property for Political or Legislative Purposes is Prohibited

ERS has specific restrictions in Gov't Code §§ 815.106

- ERS may not influence the outcome of an election or support the passage or defeat of legislation
- ERS is **not** prohibited from acting as fiduciaries to make recommendations to the legislature regarding:
 - Actuarial soundness;
 - Fiscal soundness, or
 - Legal implications of proposed legislation; and
 - May provide factual information that is not confidential by law

Travel

- Travel for board members or ERS employees can be broken down into three categories:
 1. Official state travel.
 2. Personal, private citizen travel.
 3. Lobby-paid travel (generally prohibited, but more about that later)
- ERS board members or employees do not have to worry about the restrictions on campaign-related travel

Travel: Official state travel

- The ERS Board (and employees) can use funds from the ERS budget to travel for official state business.
- Informational trips and attendance at conferences related to ERS business or issues are examples of this type of travel.

Travel: Personal, private citizen travel

- ERS board members or employees can pay for whatever travel they wish from personal funds. However, if someone wants to provide or pay for the transportation of a board member, then that constitutes a gift, and the donor must be an “acceptable donor,” such as one with a personal or business relationship.
- Under Penal Code §§ 36.08-36.09, people are generally prohibited from giving a gift to a state official or employee. It is a Class A misdemeanor for both the donor and recipient. The main exceptions to that prohibition are at Penal Code sections 36.10(a)(2) (personal or business relationship), 36.10(a)(6) (item valued less than \$50), 36.10(a)(8) (travel where the ERS personnel renders services, such as a speech), and 36.10(b) (where the travel is required by law to be reported, such as by a lobbyist who is required to report it under Gov’t Code ch. 305).

Travel: Personal, private citizen travel

- Basically, an ERS board member or employee may only accept a “gift or other benefit conferred on account of kinship or a personal, professional or business relationship independent of the official status of the recipient.” Penal Code § 36.10(a)(2). This must be conservatively viewed. Many people might think they have a relationship that is independent of the board member’s official status, but that relationship must be examined objectively to determine if it is truly independent.
- Gifts received under this exception to the Penal Code must be reported on the board member’s annual Personal Financial Statement (PFS). For example, an offered gift of “airline miles” would be treated like any other potential gift. “Airline miles” may not be accepted from someone unless it is a “benefit conferred on account of kinship or a personal, professional or business relationship independent of the official status of the recipient” (i.e., a personal friend that is known outside of his holding political office). Penal Code § 36.10(a)(2). If acceptable, the gift would be reported on the board member’s PFS.

Travel: Travel paid for by lobbyists

- Under the lobby law (Gov't Code Ch. 305), an ERS board member or employee is subject to a general prohibition on the acceptance of transportation and lodging from a lobbyist. There are *limited* exceptions to this rule:
 - For transportation and lodging in connection with a fact-finding trip to explore matters *directly* related to ERS business where the information could not be otherwise obtained (e.g., a wind farm [Gov't Code § 305.025(3)]);
 - For transportation and lodging in connection with a conference or similar event at which the board member performs services that are more than merely perfunctory (e.g., a real speech [Gov't Code § 305.025(4)]);
 - For incidental transportation (e.g., a ride to the airport).

Travel: Travel paid for by lobbyists

- Under the lobby law (Gov't Code ch. 305), the lobbyist is required to publicly report (listing the names of recipients) expenditures for such transportation and lodging. So – your name could appear on someone's lobby report.
- There can also be travel by a board member that is accepted in lieu of an honorarium and that is reported on the Personal Financial Statement (Govt. Code ch. 572). Travel paid for by another political entity is permitted and will be reported on the board member's Personal Financial Statement. Please be aware that this provision has *extremely limited* application.

Gifts and Benefits – General Prohibition

RULE NO. 1:

- One May Never Take Anything As Consideration For An Official Act. The bribery law prohibits payments or gifts made in exchange for an official act. An official act includes a vote, a recommendation, and any other exercise of official discretion. Penal Code § 36.02. An offense is a second-degree felony.
- The statutory definition of "benefit" is "anything reasonably regarded as pecuniary gain or pecuniary advantage." Penal Code § 36.01(3). In advisory opinions, the Ethics Commission has stated that the following gifts are benefits: a \$50 clock, a hotel room, a hunting trip, football tickets, a \$160 rifle, and a \$60 restaurant meal. Ethics Advisory Opinion Nos. 97, 94, 90, 69, 60 (1992).

Gifts and Benefits – General Prohibition

RULE NO. 2:

- One May Not Accept An Honorarium For Services One Would Not Have Been Asked To Provide But For One's Official Status. This means, for example, that one may not accept a gift or payment for giving a speech if the person's official position was a reason for that person being asked to give the speech. Penal Code § 36.07.
- One may, however, accept meals, transportation, and lodging in connection with a speech if the speech is more than merely perfunctory. Penal Code § 36.07. See also Gov't Code § 305.025. Also, one may accept a gift that is not a "benefit" such as a plaque or something of minimal value like a coffee cup, key chain, or "gimme" cap.

Gifts From Registered Lobbyists

THE OTHER RULES: If acceptance of a gift or payment is permissible under Rule Nos. 1 and 2, the next step is to determine whether or not the person making the offer is a registered lobbyist.

- A. IF THE PERSON MAKING THE OFFER IS A REGISTERED LOBBYIST:

1. One may *not* accept:

- Loans, cash, or negotiable instruments other than political contributions.
- Travel or lodging for a pleasure trip. (Incidental transportation such as a short ride in a car or taxi is permissible.)
- Entertainment or gifts of more than \$500 per year.
- Food or entertainment if the lobbyist is not present.

Gifts and Benefits from Registered Lobbyists

2. One *may* accept:

- Food and beverages if the lobbyist is with the recipient. There is no annual limit on the value of food and beverages one may accept from a lobbyist.
- Entertainment worth up to \$500 in a calendar year (e.g., sports events and concerts.) The lobbyist providing the entertainment must be present for the event.
- Gifts, other than awards and mementos, that together do not exceed \$500 in value during a calendar year.
- Awards and mementos worth not more than \$500. This is not an annual cap, but a cap on the value of each individual award or memento.
- Travel and lodging in connection with a fact-finding trip or to a seminar or conference at which you are providing services, such as speaking, and the services are more than perfunctory. Any lobbyist who is providing travel or lodging must be present at the event.

Gifts and Benefits from Registered Lobbyists

Please Note: *Your name will appear* on a lobbyist's activities report (on the "Detailed Expenditures" Schedules B-G of Form LA (the Lobby Activity Report):

- if expenditures for the food, lodging, transportation, or entertainment in a day exceed \$160.20, which is 60 percent of the amount of the new legislative per diem of \$267 (Schedules B, C, and D);
- if expenditures for a gift, award, or memento exceed \$110 (Schedules E-F);
or
- each time an expenditure is made for the recipient to attend political fundraisers or charity events, regardless of the amount spent (Schedule G).

Gifts and Benefits from Non-Lobbyists

One may accept a gift, payment, or contribution from a non-lobbyist as long as the gift, payment, or contribution fits into any one of the following categories:

- **Items Worth Less Than \$50:** One may accept an item with a value of less than \$50. This exception does not apply to cash, checks, or negotiable instruments.
- **Independent Relationship:** There is an exception from the general prohibition on the acceptance of benefits for a gift based on (1) kinship, (2) a personal relationship independent of your official status, (3) a professional relationship independent of the recipient's official status, or (4) a business relationship independent of the recipient's official status.
- **Fees For Services:** One may accept a payment to which one is lawfully entitled in a capacity other than the recipient's official status. In this case the recipient may accept the offer without restriction. Remember, the recipient may not take an honorarium for a service that the recipient would not have been asked to provide but for the recipient's official status.

Gifts and Benefits from Non-Lobbyists

One may accept (continued):

- **Political Contributions:** One may accept a political contribution as a candidate or officeholder.
- **Government Property:** One may accept an item issued by a governmental entity that allows the use of property or facilities owned, leased, or operated by the entity.
- **Food, Entertainment, Transportation, & Lodging:** Benefits in the form of food, lodging, transportation, or entertainment are permissible if accepted as a "guest" and reported in accordance with any applicable reporting requirement. To accept something as a guest, the donor must be present. For most state employees there is no applicable reporting requirement. Board members and agency heads may be required to report certain gifts on their annual personal financial statement.

Gifts – Donations to Charity

- What should one do if someone sends one an unsolicited gift that one may not accept? Often public servants would prefer to donate such gifts to charity or to a governmental body, rather than returning them to the donor. A provision of the Penal Code allows such donations in specified circumstances:
- A public servant who receives an unsolicited benefit that the public servant is prohibited from accepting under [Section 36.08] may donate the benefit to a governmental entity that has the authority to accept the gift or may donate the benefit to a recognized tax-exempt charitable organization formed for educational, religious, or scientific purposes. Penal Code § 36.08 (i).
- ERS Policy requires these gifts to be delivered to the Deputy Executive Director for appropriate dispensation.
- Best practice is to ask when you receive a gift and before you do anything with it.

Reporting

- The ERS Board members are responsible for filing their own Personal Financial Statements. There are penalties assessed by the Texas Ethics Commission as required by statute for late filing, as well as political fallout for late, inaccurate, or incomplete reports.
- Board members should maintain all information required by the PFS to ensure timely, accurate, and complete reporting.

“REVOLVING DOOR” PROHIBITIONS

- Govt. Code § 572.069 imposes a revolving door restriction on former board members and employees:
 - A former state officer or employee who during their period of state service participated on behalf of ERS in a procurement or contract negotiation involving an individual or business entity may not accept employment from that individual or business entity for two years after the contract is signed or the procurement is terminated or withdrawn.

ERS-specific expectations

- ERS has identified additional expectations and responsibilities for certain roles and positions.
 - Statute requires the ERS investment policy to include a Code of Ethics. Chapter VII, Code of Ethics in the Investment Policy Statement (IPS), meets this standard. The IPS Code of Ethics describes standards and guidance for “covered persons” which includes the Board, Investment Advisory Committee members, certain agency leadership roles and all ERS investment-related staff.
 - The ERS agency “Ethics Policies and Related Information” serves as the general agency ethics policy. The document is currently under review and will be updated in early 2025.

“High ethical standards are essential to the success of ERS and the fulfillment of its fiduciary duty to Beneficiaries.”

ERS-specific expectations

Liability of Trustees for Acts of Co-Trustees:

- If an ERS Trustee learns that a fellow Trustee is taking action that appears to be detrimental to the retirement system or inconsistent with fiduciary obligations, appropriate remedial action may be required.
- Fiduciary standards usually would require that non-breaching co-trustees take reasonable steps to remedy the breach if possible.
- Non-breaching co-trustees also would want to make clear that they have not participated in the breach or taken any action to conceal or facilitate the breach.

ERS-specific expectations

General Considerations:

- A Trustee's actions and words might have a stronger impact (and can result in greater harm) than those of a non-trustee.
- A Trustee's opinions or concerns about the ERS trust or other policy issues should be addressed in conjunction with agenda items presented during board meetings.
- Once the Board acts as a whole and makes a decision, a dissenting Trustee should register his or her "no" vote for the record and thereafter accept the decision of the Board.

Conclusion

- In general, use common sense. If it feels to you like it should not be allowed, it probably should not be.
- If you have questions about acceptance of anything, please call the General Counsel's Office before you accept any benefit.



TEXAS Law

The University of Texas at Austin
School of Law

Public Agenda Item #6

Consideration of Retirement Program Actuarial Valuations and Financial Status

December 10, 2024

Jennifer Chambers, Director of Government Relations & Special Projects

Joe Newton, FSA, EA, MAAA

Dana Woolfrey FSA, EA, MAAA

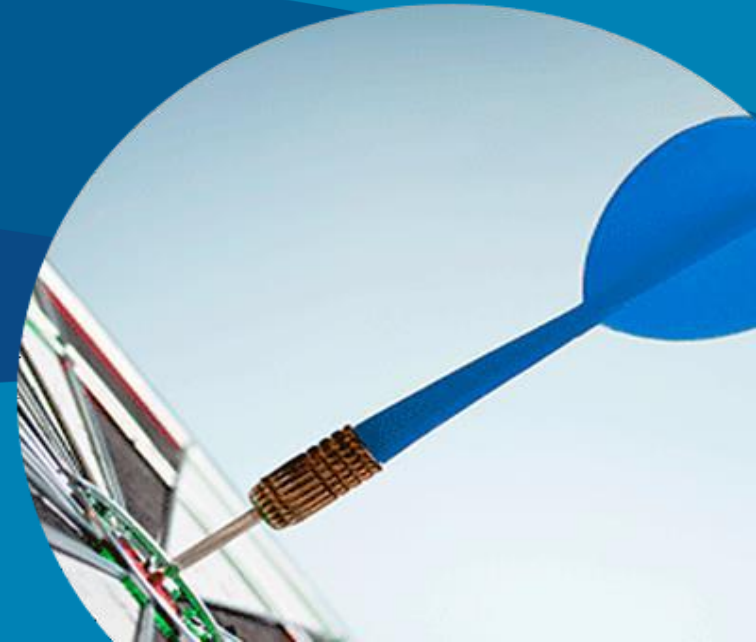


Actuarial Valuations of the ERS Retirement Funds as of August 31, 2024

Joe Newton, FSA, EA, MAAA

Dana Woolfrey, FSA, EA, MAAA

December 10, 2024



Agenda

- Experience Study Recap
- ERS Funding Valuation Results
- LECOSRF Valuation Results
- JRS2 Valuation Results

Experience Study Recap

Experience Study Recap

- At March meeting adopted new actuarial assumption set for first use in this August 31, 2024 valuation
- For the most part
 - modest changes
 - modest impact
- Increased longevity of judges was biggest assumption change

Experience Study Recommendations Impact

As of August 31, 2023 For FY 2024	Employees Retirement System of Texas (ERS)		Law Enforcement and Custodial Officers Supplemental Retirement Fund (LECOSRF)		Judicial Retirement System Plan 2 (JRS 2)	
	Current Assumptions	Proposed Assumptions	Current Assumptions	Proposed Assumptions	Current Assumptions	Proposed Assumptions
Normal Cost Rate*	13.52%	13.52%	2.11%	2.08%	28.24%	29.19%
Unfunded Liability	\$14.0 B	\$13.7 B	\$0 M	(\$10 M)	(\$8 M)	\$20 M
Funded Ratio	70.8%	71.2%	100.0%	100.6%	101.2%	97.1%
Legacy Payment to Eliminate UAAL by 2054	\$385 million	\$366 million	NA	NA	NA	NA
Recommended Legacy Payment for Upcoming Biennium	\$510 million	\$510 million	NA	NA	NA	NA
Are current contributions sufficient?	Yes	Yes	Yes	Yes	Yes	Yes

* Average normal cost rate for all groups, includes administrative expenses



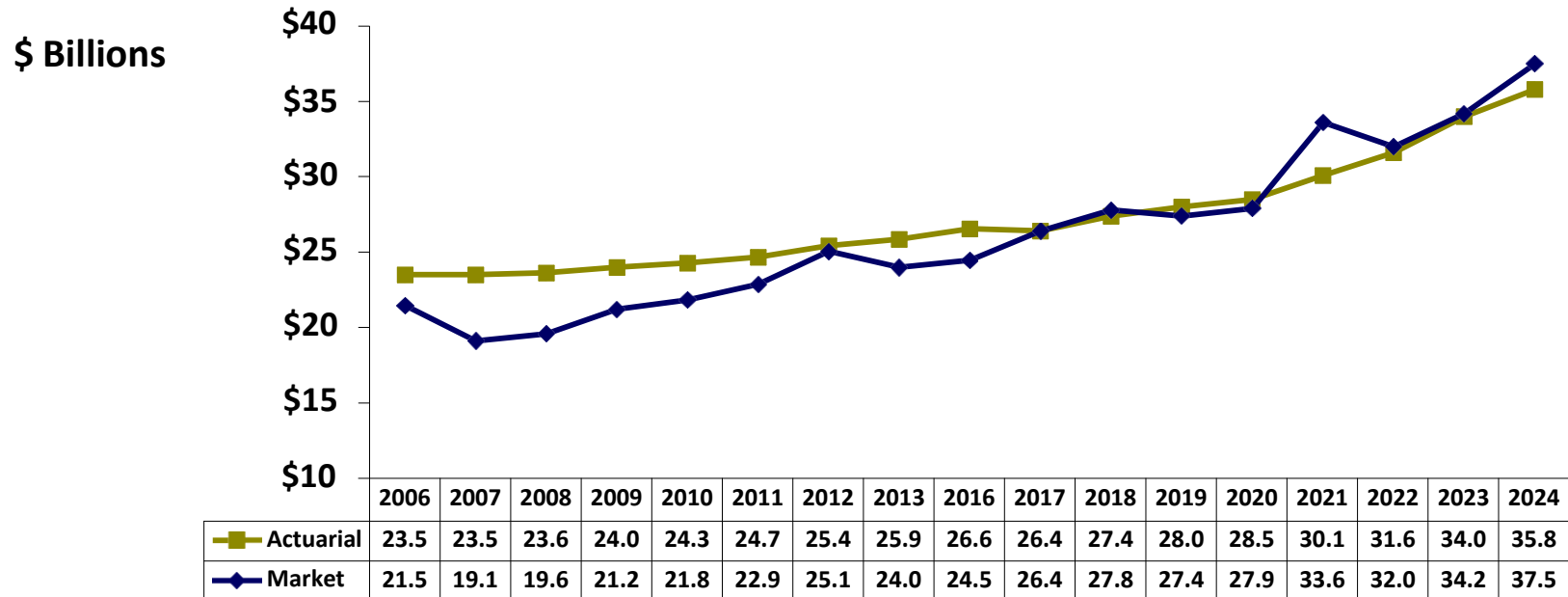
ERS

Funding Valuation Results

at August 31, 2024

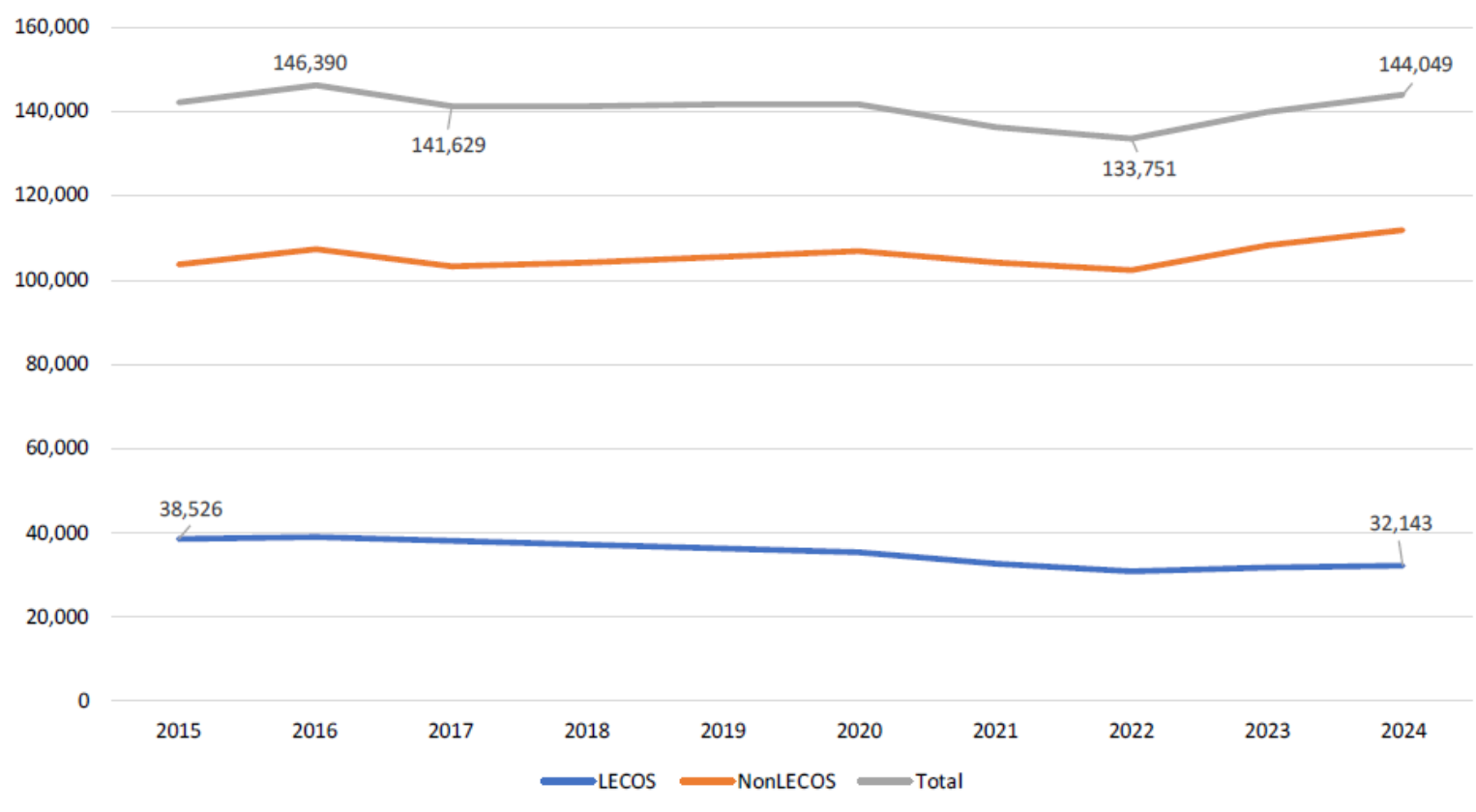
Historical Asset Values: Market vs. Smoothed

- Market Value Return of 12.5%
- Smoothed Return (5-year) of 8.0%



Active member counts

- Total counts have returned to historical norms but public safety counts still depressed



Results - ERS

	August 31, 2023		August 31, 2024
	Valuation	Post Experience Study	Valuation
Funded Ratio	70.8%	71.2%	72.0%
Unfunded Liability	\$14.0 B	\$13.7 B	\$13.9 B
Normal Cost Rate*	13.52%	13.52%	13.15%
Blended Employee Contribution Rate	9.08%	9.08%	8.80%
Net Employer Normal Cost	4.44%	4.44%	4.35%
Employer Contribution	10.00%	10.00%	10.00%
Payroll	\$8.5 B	\$8.5 B	\$9.6 B

* Average normal cost rate for all groups, includes administrative expenses

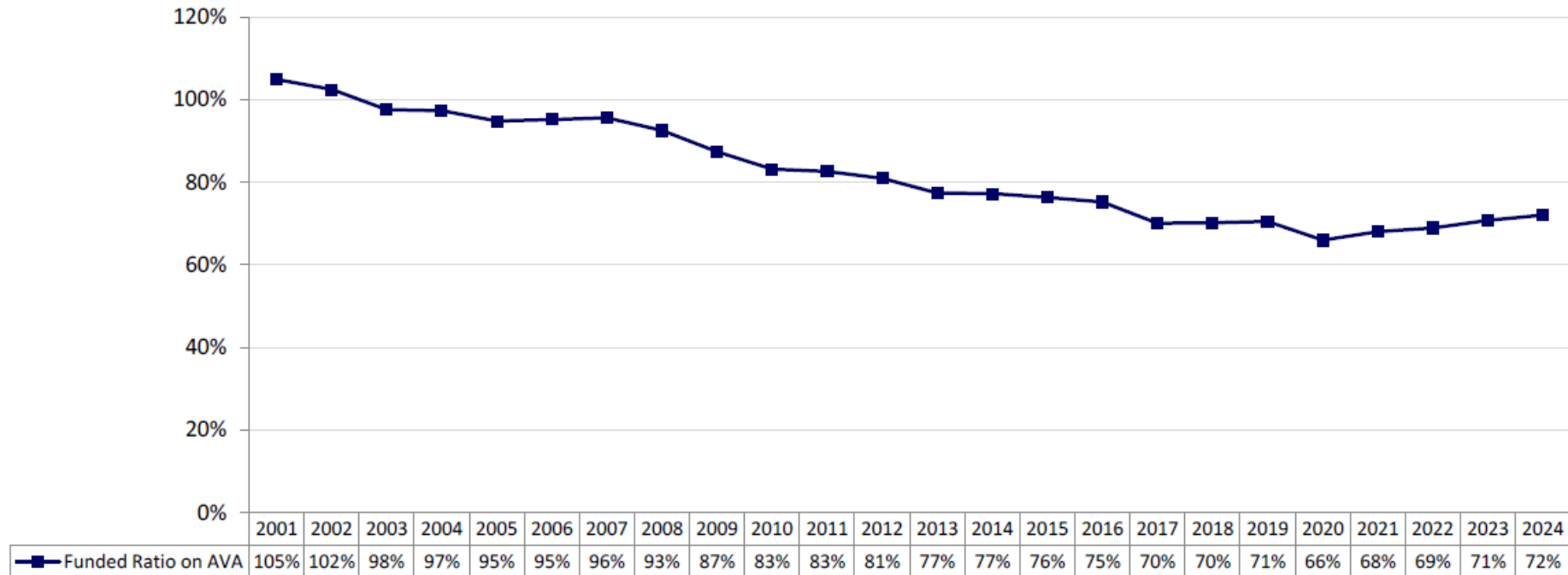


Results - ERS

	August 31, 2023		August 31, 2024 Valuation
	Valuation	Post Experience Study	
Legacy Payment to Eliminate UAAL by 2054	\$385 million	\$366 million	\$312 million
Are current contributions sufficient?	Yes	Yes	Yes
Recommended Legacy Payment for Upcoming Biennium	\$510 million	\$510 million	\$510 million
Full Funding Year with \$510 million	2048	2047	2046

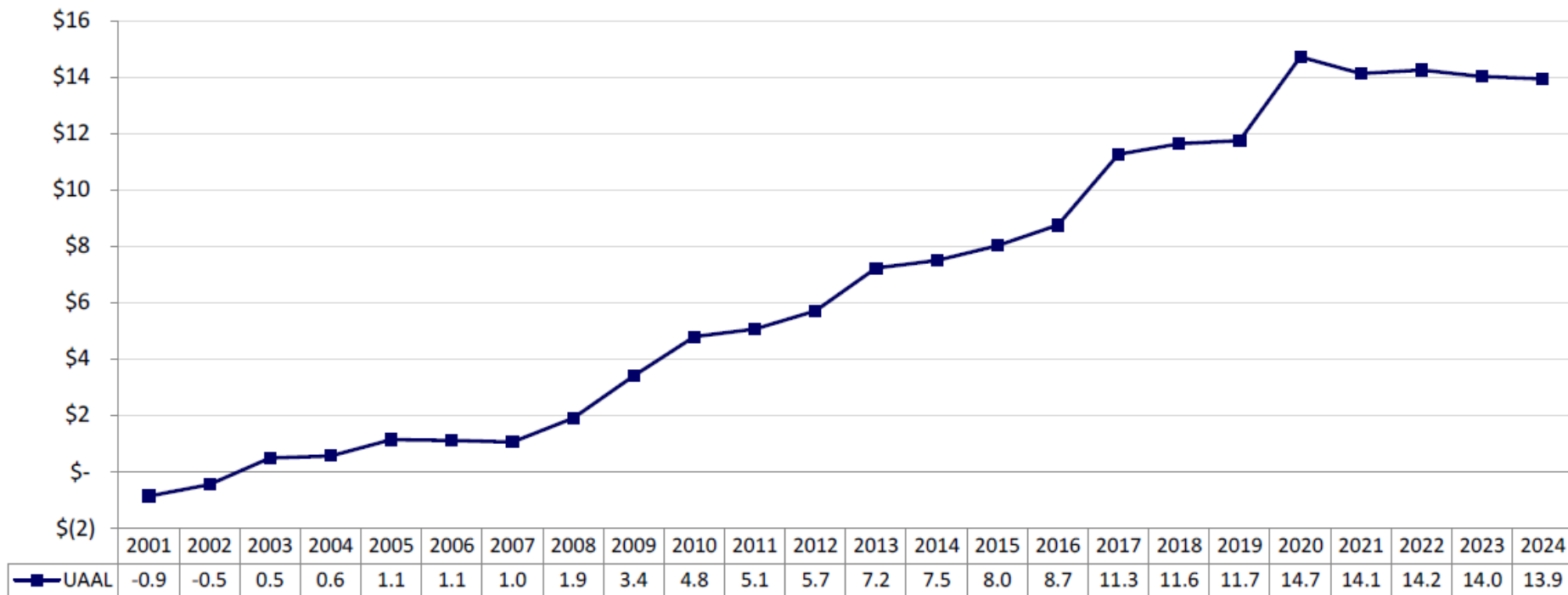
Funded Ratio

- The Funded Ratio increased from 71% to 72% on a smoothed basis
- 4th year in a row



UAAL History

- Trend in UAAL is the main metric for monitoring the strength of a pension system
- An increasing UAAL means the accumulation of assets is falling further behind the target
- A declining UAAL (especially for a number of years in a row) means the package of benefits, funding, and investments is strengthening in comparison to the target



Support for Continued \$510 Million Legacy Payment

- Although recent favorable experience and assumption changes have reduced the required legacy payment, there is still meaningful contribution risk to the State over long-term
 - Performed stochastic simulation of investment returns over next 20 years
 - Determined calculated legacy payment at each of next 10 legislative sessions and checked if in excess of \$510M level
 - Even if continue \$510M, **48% probability of exceeding \$510M** at some point over 20 year period
 - If switch to actuarial minimum (\$312M currently): **56%**

Support for Continued \$510 Million Legacy Payment

- Continued payment of \$510 expected to reduce time to full funding from 2054 to 2046
 - 8 fewer years of \$510m payments is \$4.1 billion
- Market value investment return needed to reach full funding in 2054 assuming continue \$510 million payments
 - 6.4%

LECOSRF

Funding Valuation Results

at August 31, 2024

Results - LECOSRF

	August 31, 2023		August 31, 2024
	Valuation	Post Experience Study	Valuation
Funded Ratio	100.0%	100.6%	101.5%
Unfunded Liability/ (Reserve)	\$0 M	(\$10 M)	(\$116M)
Normal Cost Rate*	2.11%	2.08%	2.20%
Blended Employee Contribution Rate	0.68%	0.68%	0.82%
Net Employer Normal Cost	1.43%	1.40%	1.38%
Employer Contribution Rate**	1.75%/2.58%	1.75%/2.58%	1.75%/2.36%
Payroll	\$1.8 B	\$1.8 B	\$2.0 B
Are current contributions sufficient?	Yes	Yes	Yes

*Average normal cost rate for all groups, includes administrative expenses

**Without/with court fees.



JRS2

Funding Valuation Results

at August 31, 2024

Visiting judge dynamic

- Former judge or justice who is assigned to a division of the business court by the chief justice of the supreme court
 - Part-time work, full-time benefit accrual
- Average salaried judge benefit pay: \$163,223
- Average salaried judge contributory pay: \$163,223
- Average visiting judge benefit pay: \$140,000
- Average visiting judge contributory pay: \$25,351
- Average cost of benefits as % of contributory pay 5x higher among visiting judges
- % of actives in visiting positions
 - 10%
 - Up from 6% last year

Results – JRS2

	August 31, 2023		August 31, 2024
	Valuation	Post Experience Study	Valuation
Funded Ratio	101.2%	97.1%	99.3%
Unfunded Liability/ (Reserve)	(\$8 M)	\$20 M	\$5 M
Normal Cost Rate*	28.24%	29.19%	29.76%
Blended Employee Contribution Rate	9.36%	9.36%	9.36%
Net Employer Normal Cost	18.88%	19.83%	20.40%
Employer Contribution Rate	19.25%	19.25%	19.25%
Payroll	\$94 M	\$94 M	\$98 M
Are current contributions sufficient?***	Yes	Yes	Yes

*Average normal cost rate for all groups, includes administrative expenses

***New cash balance design for members hired on or after September 1, 2024 is expected to reduce the JRS2 normal cost significantly. The normal cost with administrative expenses is expected to be less than the statutory contributions starting in FY 2026. The plan is expected to return to full funding in six years projecting off the smoothed or actuarial value of assets.



Summary

- Strong investment returns during FY 2024 improved already strong outlook of all three plans
- ERS still relies heavily on future legacy contributions and continued commitment from the State for security of already accrued benefits

Conditions Satisfied for 814.604 Cost-of-Living Payment

- 30 year amortization period (does not exceed 30 by one or more years) ✓
- Paying the adjustment does not increase amortization period to a period that exceeds 30 years by one or more years ✓
- Payable January 2025 to those retired 20 years or more

Public Agenda Item #7

Consideration of Policy Guidance Related to the Board's Pension Funding Policy

December 10, 2024

Jennifer Chambers, Director of Government Relations & Special Projects

Joe Newton, FSA, EA, MAAA, Gabriel, Roeder, Smith & Company

Dana Woolfrey FSA, EA, MAAA, Gabriel, Roeder, Smith & Company

Funding Policy Review

Pension Review Board Guidance



- Statute requires all public retirement systems to adopt a funding policy
- Goal of a funding policy is to help systems manage three fundamental goals of public pension funding:
 - benefit security,
 - contribution stability, and
 - intergenerational equity

Funding Policy Review

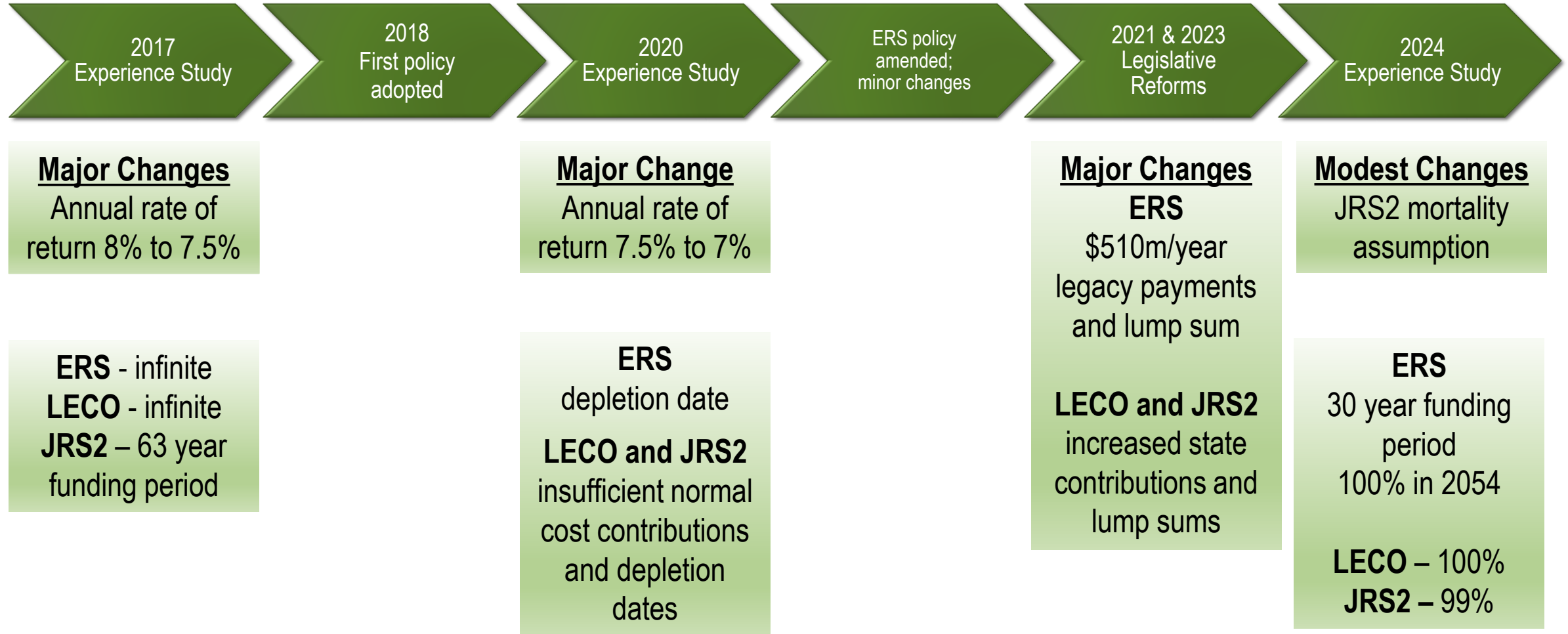
Pension Review Board Guidance



- Funding policies should include:
 - clear funding objectives,
 - actuarial methods,
 - a roadmap to achieve funding objectives, and
 - actions to address actual experience that diverges from assumptions
- Must be revised to reflect significant changes

Funding Policy Review

Background and History



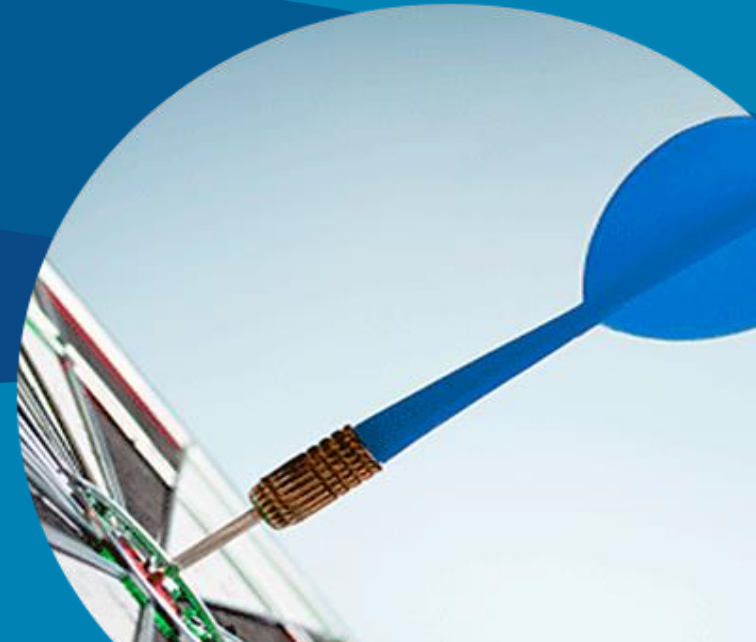


Funding Policy 101

Joe Newton, FSA, EA, MAAA

Dana Woolfrey, FSA, EA, MAAA

December 10, 2024

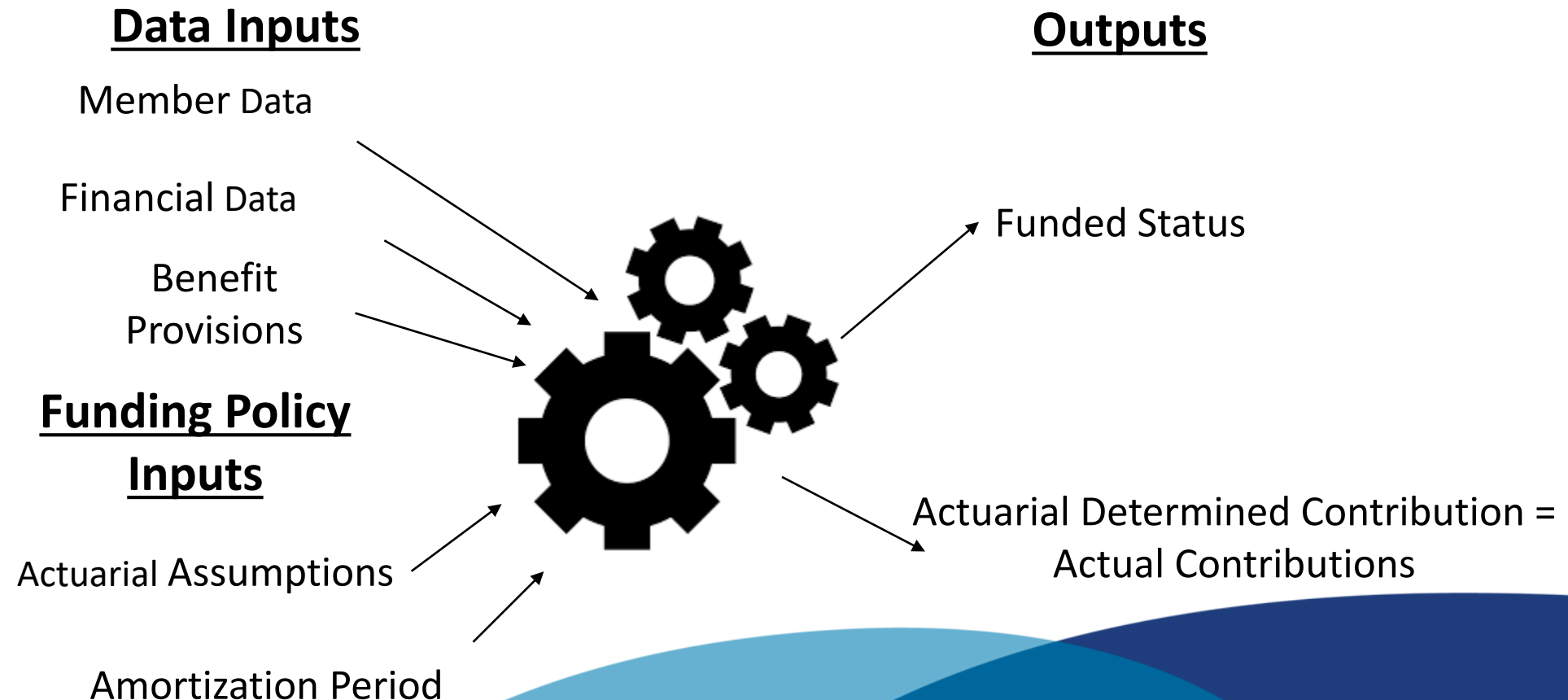


Definitions

- A Policy is
 - a deliberate system of guidelines to guide decisions and achieve rational outcomes.
 - a statement of intent and is implemented as a procedure or protocol.
- Retirement Boards have several policies, including investments, ethics, social media, etc.
- Similarly, a Funding Policy either sets procedures and/or provides guidance on how monies are contributed into the Trust
 - Can also include how monies are paid out as benefits, although sometimes that is a separate policy

The Actuarial Process for Actuarial Funding

- When the Board has authority to set contributions directly, various inputs are put through the valuation process to determine the employer contribution for a given year. The process and specific inputs need to be detailed in a protocol for the actuary to follow.



General Funding Policy Objectives

- Have enough money to pay all benefits when due
- Stability of contributions
- Intergenerational equity
- Margin for adverse experience

These are often competing objectives. Having a funding policy helps ensure that one objective does not receive the primary focus at the expense of the others.

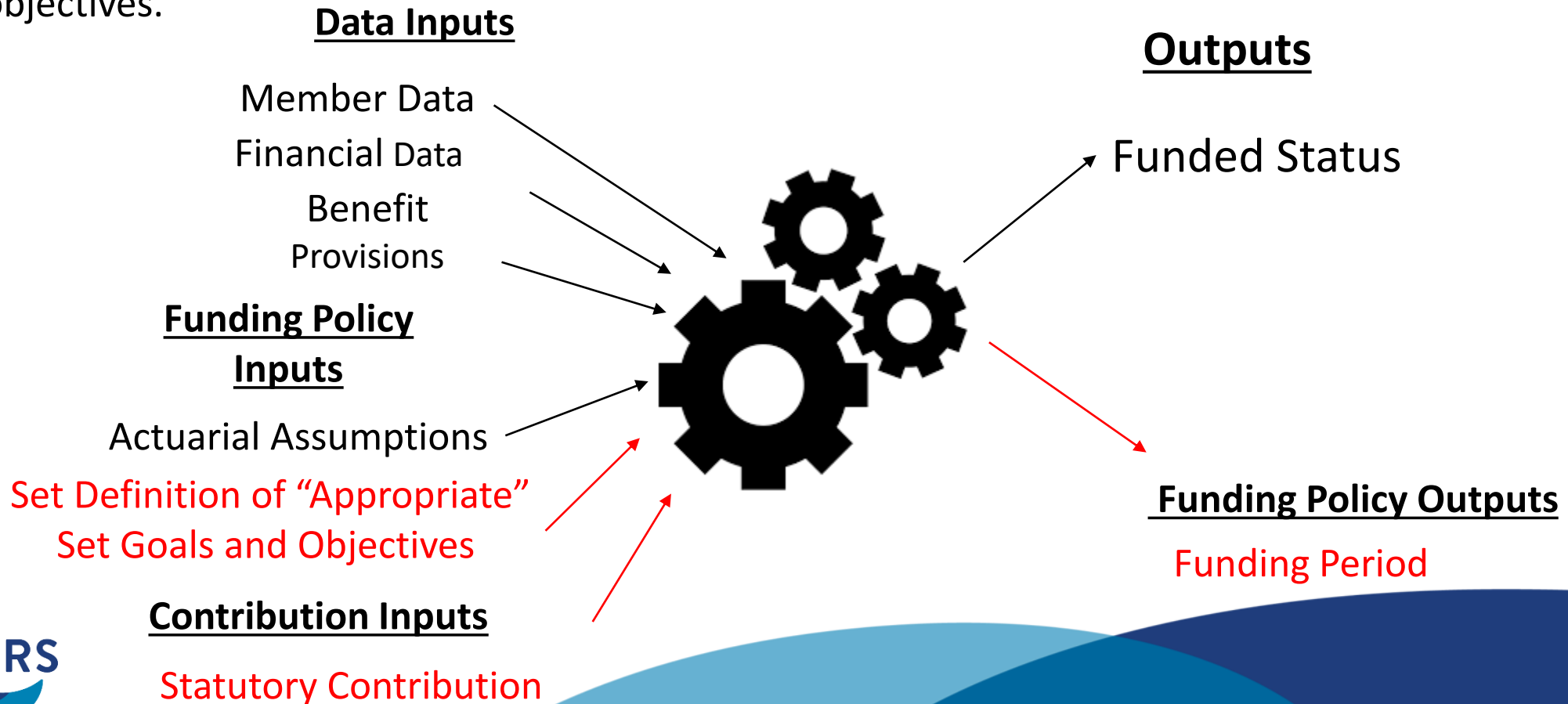
Elements of a Funding Policy

- Assumption Set ✓
- Actuarial Cost Method ✓
- Asset Smoothing Method ✓
- Amortization Policy
 - Funding unfunded liability / treatment of surplus
- Communications
 - Objectives
 - How progress will be monitored

First three were just reassessed with experience study

The Actuarial Process for Actuarial Funding

- Historically for ERS, and still so for JRS and LECOS, the contributions are set by Statute, and the valuation process is assessing whether that contribution level is appropriate. Generally, there is no formal definition of “appropriate”. Thus, the Funding Policy is an opportunity to set the goals and objectives.



Purpose of Written Board Policy

- Why should the Board have a written Funding Policy if most of the decisions are controlled by Statute and the State's budget process?
- It provides transparent communication to stakeholders:
 - the Board's funding goals and objectives
 - how progress will be monitored
 - leadership on appropriate funding practices
 - proactively outline when the Board would request additional contributions
 - how benefit enhancements should be financed
- It also provides administrative details not referenced in Statute

Current funding policy (adopted before 2021/2023 reforms)

1. Fund normal costs;
2. Avoid trust fund depletion of the pre-funded plans;
3. Meet current statutory standard of a less than 31-year funding period for unfunded liabilities, per Texas Government Code Sections 811.006 and 840.106; and
4. Match funding period to the average years of service at retirement once a 31-year funding period is achieved, and closed.

Reassessing current funding policy post 2023 reforms – LECOSRF/JRS2

1. Fund normal costs;
 2. Avoid trust fund depletion of the pre-funded plans;
 3. Meet current statutory standard of a less than 31-year funding period for unfunded liabilities, per Texas Government Code Sections 811.006 and 840.106; and
 4. Match funding period to the average years of service at retirement once a 31-year funding period is achieved, and closed.
- *New state contribution policy **significantly exceeds all of these objectives***
 - *Returning to a place where Objectives 2 or 3 were relevant again would be a **catastrophic failure***
 - ***New Board objectives should be significantly STRENGTHENED to support /reinforce statutory policy and how to protect against adverse experience***

Reassessing current funding policy post 2021 reforms - ERS

1. Fund normal costs;
 2. Avoid trust fund depletion of the pre-funded plans;
 3. Meet current statutory standard of a less than 31-year funding period for unfunded liabilities, per Texas Government Code Sections 811.006 and 840.106; and
 4. Match funding period to the average years of service at retirement once a 31-year funding period is achieved, and closed.
- *Statutory policy already accomplishes all of these objectives over time*
 - *First three objectives already met*
 - *As time to 2054 diminishes, so too does their relevance*
 - *Objective 4 will be met naturally over time, and is nonstandard*
 - *So basically, all of the previous objectives are no longer meaningful*
-
- ***Funding policy can become much simpler and consistent with best/common practices***
 - ***Board objectives should support /reinforce statutory policy and encourage continued funding at \$510M level***

Benefit Improvement Policy

- The Legacy Payment closed amortization policy makes the historical statutory standard of a less than 31-year funding period for any new benefit enhancement inappropriate
 - The Legacy Payments are forcing the funding period down by design
 - Legacy payment structure was implemented to pay for current unfunded liabilities
 - Statutory intent and industry best practices would require new contributions to finance any new liabilities from benefit enhancements
- For ERS, the Funding Policy should reflect that the plan still relies heavily on future legacy payment contributions and continued commitment from the State for security of already accrued benefits
 - No unfunded benefit improvements
- For LECOS/JRS2 protect “surplus” as reserve for adverse experience
 - For example: no unfunded benefit improvements until 120% funded ratio

Summary

- Current policy needs to address ERS and LECOSRF/JRS2 differently
- Simplify documents and language
- Strengthen objectives to reflect current funding situation and make them meaningful
- Update benefit improvement language

Public Agenda Item #8

Consideration of Final Report from Investment Governance Specialist

December 10, 2024

James R. Hille, CFA, CAIA, Investment Governance Specialist

Porter Wilson, Executive Director

Investments Governance Report



Process

- Conducted literature review of governance best practices
- Reviewed the governance practices at the largest Texas institutional investors and many other state pension funds
- Interviewed external and internal Board members, IAC, Staff and consultants

Investments Governance Report



Key Observations

- ERS has governance at least as good as, if not superior to, the other Texas institutional investors
- The Board-IAC-Staff relationship is professional, collaborative, and value enhancing
- Trustees value IAC input and would like to see fuller participation by its committee members
- IAC members are committed fiduciaries and are willing to do more
- Recent communication enhancements have improved awareness of IAC activity

Investments Governance Report

Primary Recommendations



- Enhance Expertise
 - Formalize the search method
 - Strive for a majority of members to have broad strategic asset allocation expertise
 - Strive to have asset class expertise for every major asset class
 - Consider term limits
 - New member orientations with Chairs of Board and IAC

Investments Governance Report

Primary Recommendations (cont.)



- Pay for Expertise
- Further enhance communication
 - IAC meeting minutes
 - IAC Chair report to the Joint Meeting
 - Asset Class Investment Committee participation report
 - Texa\$aver participation report

Investments Governance Report

Secondary Recommendations



- Consider the IAC as a resource for Board training
- Provide administrative assistance to IAC Chair

Investments Governance Report



Next Steps

- Board IAC Working Group evaluates recommendations
- Any amendments to IAC Charter presented with annual IPS update in August
 - Any financial impact would be reflected in budget for FY26

Discussion

Public Agenda Item #9

Consideration of Texa\$aver Product Review Committee Recommendation Regarding Change to the Texa\$aver Target Date Fund Series - (Action Item)

December 10, 2024

David T. Veal, Chief Investment Officer
Ben Schuman, Investments Chief of Staff
Nora Alvarado, Manager, Deferred Compensation, Group Benefits
Tom Nun, Portfolio Strategist, Empower

Texa\$averSM 401(k) / 457 Program



Program Overview

- Voluntary program for additional retirement savings to supplement pension
- Lower-than-average fees
- Traditional and Roth accounts
- Multiple investment options
- Plan administrator and investment advisory service procured through competitive bid process
- Empower provides third party administrative services

401(k) Plan

- Established 1985
- Available to state agency employees
- Automatic enrollment for new employees since Jan. 1, 2008

457 Plan

- Established 1974
- Available to employees of state agencies and participating higher education institutions

TEXA\$AVERSM
401(k) / 457 Program

Texa\$aver Program

Executive Summary



- Plan data as of 9/30/2024

401(k) Plan	
Assets under Management (AUM)	\$4,087 million
Traditional balances	\$3,914 million
Roth balances	\$173 million
Number of Participant Accounts	248,025
Contributing	114,910
Non-contributing	133,115

457 Plan	
Assets under Management (AUM)	\$1,597 million
Traditional balances	\$1,439 million
Roth balances	\$158 million
Number of Participant Accounts	34,385
Contributing	17,513
Non-contributing	16,872

Texa\$aver Program



Investment Products

Lineup offers a range of investment offerings to help a wide range of participants reach their individual retirement savings goals. The offerings are the same between the plan types.

Target Date Funds	Core Funds	Self-Directed Brokerage Account
<ul style="list-style-type: none">• Manager reduces investment risk over time by steadily lowering equity exposure	<ul style="list-style-type: none">• Participants (or managed account platform) create portfolios from asset class building blocks	<ul style="list-style-type: none">• Participants create their own investment portfolios using tradable securities
<ul style="list-style-type: none">• Requires the lowest level of participant engagement to build and maintain portfolio	<ul style="list-style-type: none">• Requires a higher level of participant engagement to build and maintain portfolio	<ul style="list-style-type: none">• Requires the highest level of participant engagement to build and maintain portfolio
<ul style="list-style-type: none">• Represents 26% of Texa\$aver program assets	<ul style="list-style-type: none">• Represents 69% of Texa\$aver program assets	<ul style="list-style-type: none">• Represents 5% of Texa\$aver program assets

Texa\$aver Program

Product Review Committee (PRC)



- Consultant to the Board regarding the Texa\$aver investment lineup
- Meets at least quarterly to conduct investment reviews and take any necessary action regarding the investment offerings

Executive Office	Group Benefits	Investments	IAC
Porter Wilson	Blaise Duran	David Veal (Chair)	Ruby Dang
Cathy Terrell		Lauren Honza	Laurie Dotter
		Leighton Shantz	Gene Needles

Texa\$aver Program

PRC Subcommittee



- PRC may appoint subcommittee(s) for a specific purpose (e.g. due diligence, fund evaluation, research, etc.)
- Current PRC subcommittees include:
 - Fund Selection Subcommittee
 - Money Market Review Subcommittee

*Target Date Funds:
Review and Recommendation*

December 10, 2024

Ben Schuman, Investments Chief of Staff

Target Date Fund Review



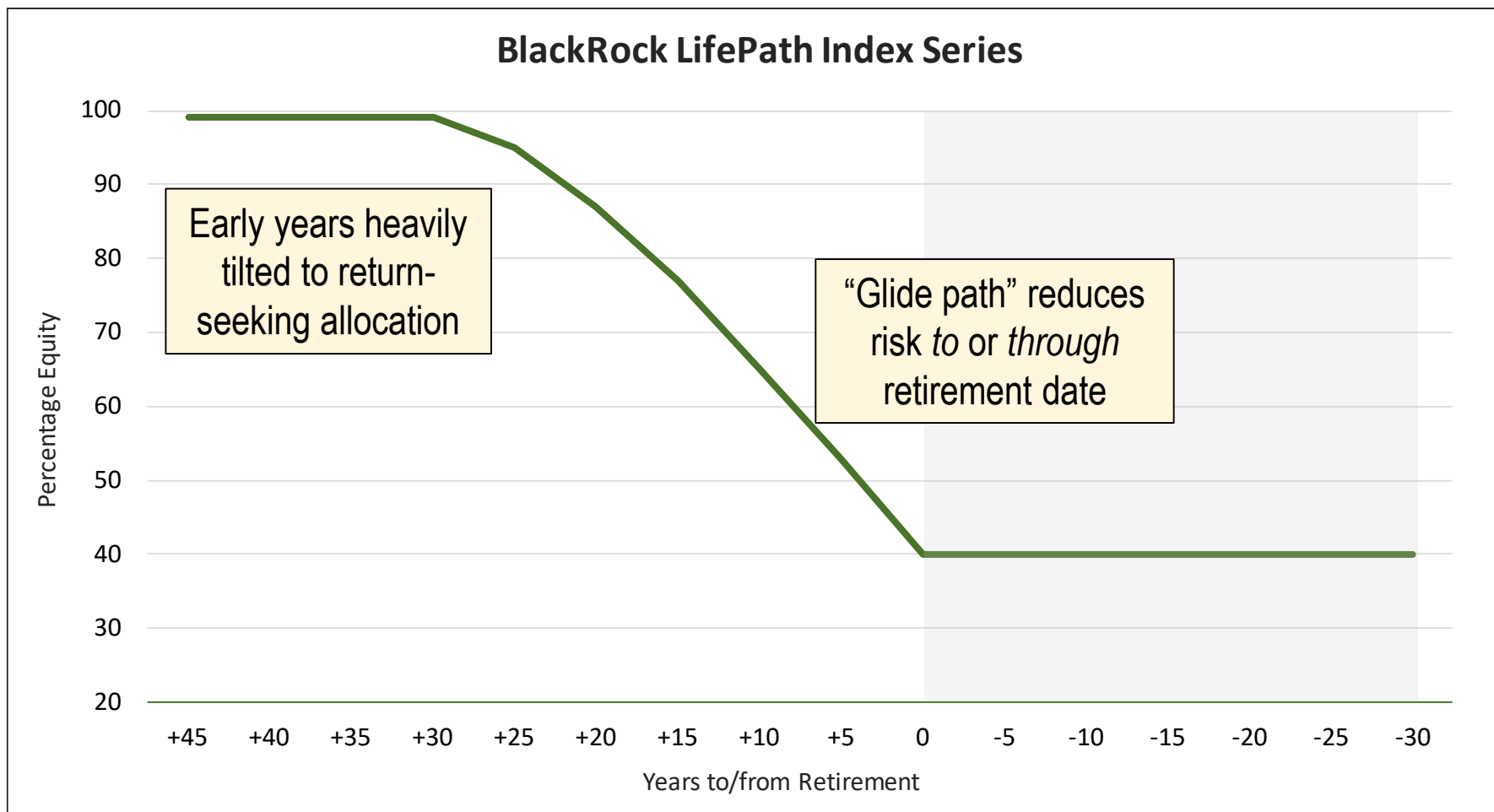
Overview of Target Date Funds

- Target Date Funds (TDFs) are diversified portfolios managed to reduce equity market risk gradually as the target retirement date approaches
- TDFs serve as the Qualified Default Investment Alternative (QDIA) within the Texa\$aver program
- Newly hired state employees are automatically enrolled into TDFs at 1% of monthly salary (pre-tax)
- Employees are enrolled based on their assumed retirement age of 65

Texa\$aver Assets Under Management by TDF Vintage Year (\$ millions)									
Retirement	2030	2035	2040	2045	2050	2055	2060	2065	2070
\$430.1	\$185.5	\$173.7	\$160.7	\$169.1	\$179.1	\$112.6	\$58.1	\$1.3	\$0.0

Target Date Fund Review

Glide Path Example: Current Texa\$aver TDF Series



Target Date Fund Review

Initial Subcommittee Review



- Fund Selection Subcommittee: Schuman, Honza, Needles, Shantz, Scott-Ryan
- Periodic evaluation of TDF series required by Texa\$aver Investment Policy
 - Glide path suitability
 - Investment performance
- Last broad evaluation conducted in 2017
- Initial determinations from Subcommittee meeting in January
 - TDF landscape has evolved significantly from 2017
 - Performance of the current TDF series lags peers in some vintages
 - Glide path suitability should be carefully reviewed

Target Date Fund Review

PRC Review Criteria



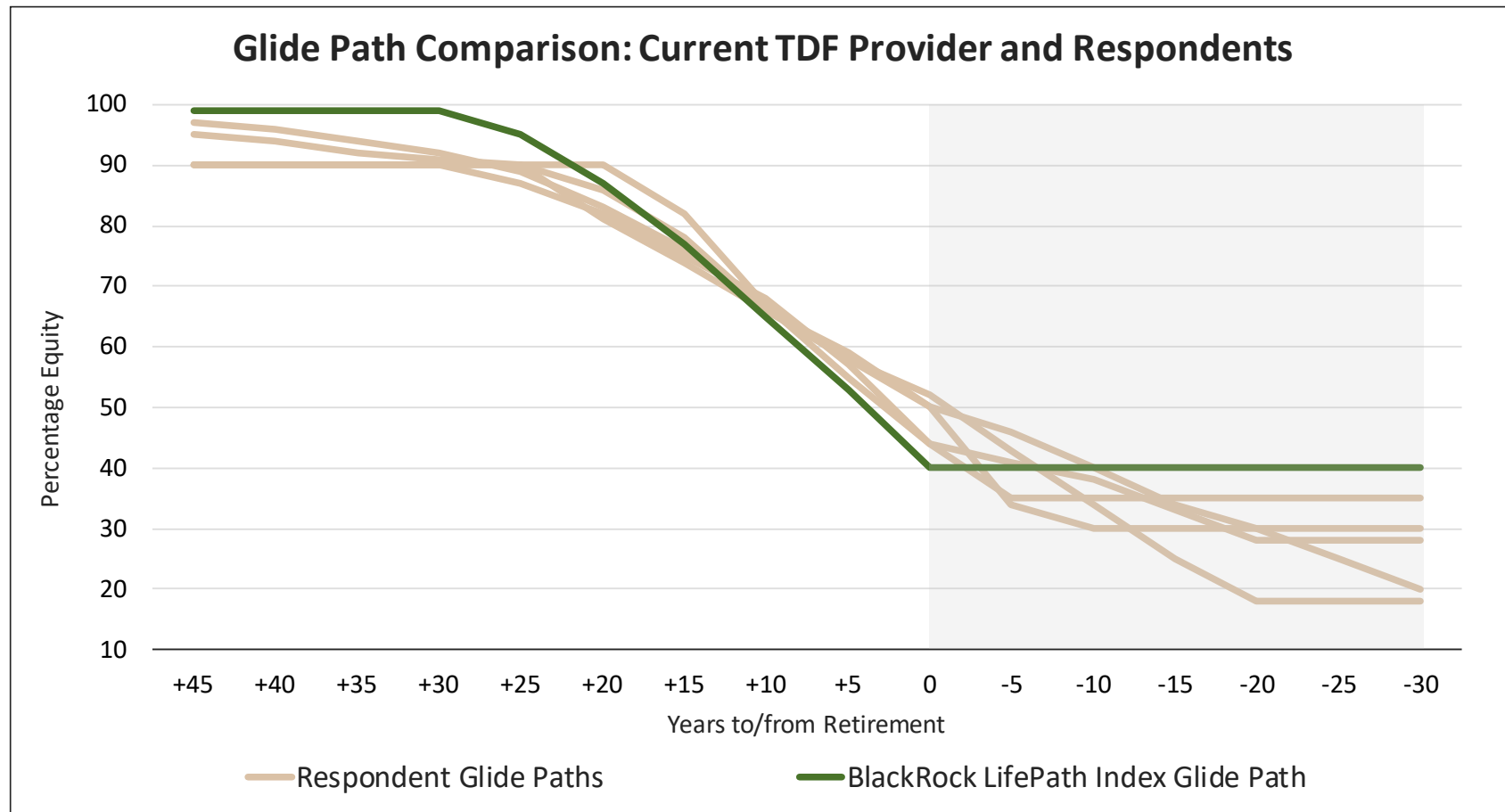
- Initial review criteria set in April 2024
- Required characteristics:
 - 5-year firm track record, 3-year strategy track record
 - At least \$5 billion invested in the strategy
 - Annual fee ≤ 10 basis points at Texa\$aver asset threshold
 - Available via Empower but not owned by Empower (third party administrator)
- Six strategies, including current strategy, met these criteria

Target Date Fund Review

Due Diligence Overview: Glide Path Suitability



- Committee determined “through” glide path is best fit for Plan participants



Target Date Fund Review



Due Diligence Overview: Risk-Adjusted Returns

- Performance was reviewed using multiple metrics and across time periods
- Sharpe Ratio used as primary metric to account for varied risk levels

5-Year Sharpe Ratio by TDF Vintage

Vintage	Respondent 1	Respondent 2	Respondent 3	Respondent 4	Respondent 5	Current Provider*	Morningstar benchmark
2015	0.34	0.25	0.37	0.33	0.40	0.27	0.27
2020	0.36	0.35	0.40	0.37	0.42	0.27	0.27
2025	0.40	0.39	0.43	0.41	0.47	0.27	0.28
2030	0.45	0.44	0.46	0.45	0.50	0.38	0.32
2035	0.47	0.47	0.49	0.51	0.51	0.43	0.36
2040	0.49	0.50	0.52	0.55	0.52	0.47	0.40
2045	0.50	0.52	0.54	0.56	0.53	0.50	0.43
2050	0.50	0.53	0.55	0.56	0.54	0.52	0.44
2055	0.51	0.53	0.55	0.56	0.54	0.52	0.44
2060	0.51	0.53	0.56	0.56	0.54	0.52	0.43

*Current provider TDF series ends at 2030 and transitions to Retirement vintage

Target Date Fund Review

Due Diligence Overview: Fees



- All respondents below current fee of 0.08% (8 bps)
- Lowest-fee respondents incorporate securities lending

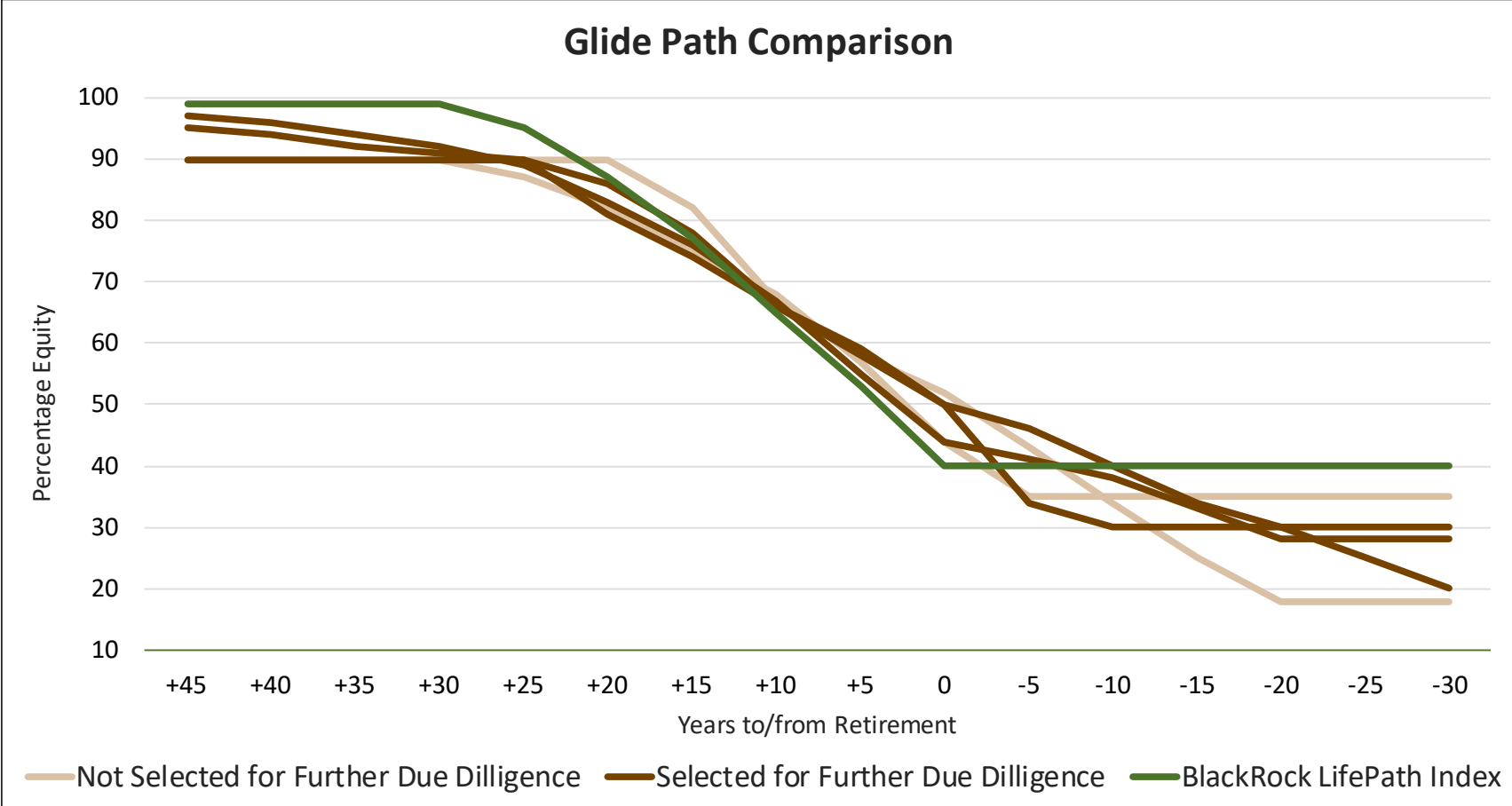
	TexaSaver Rate	
	Fee (bps)	Rank
Respondent 4	6	6
Current Provider	5	3
Respondent 3	5	3
Respondent 1	5	3
Respondent 5	4.5	1
Respondent 2	4.5	1

Target Date Fund Review



Due Diligence Overview: Further Due Diligence

- Three strategies selected for on-site due diligence



Target Date Fund Review

Due Diligence Overview: Further Due Diligence



- Site visits conducted in October 2024
- In-depth discussion with manager teams
 - Glide path methodology
 - Underlying fund selection
 - Risk management
 - Participant engagement
- Two finalists selected for interviews with PRC

Target Date Fund Review

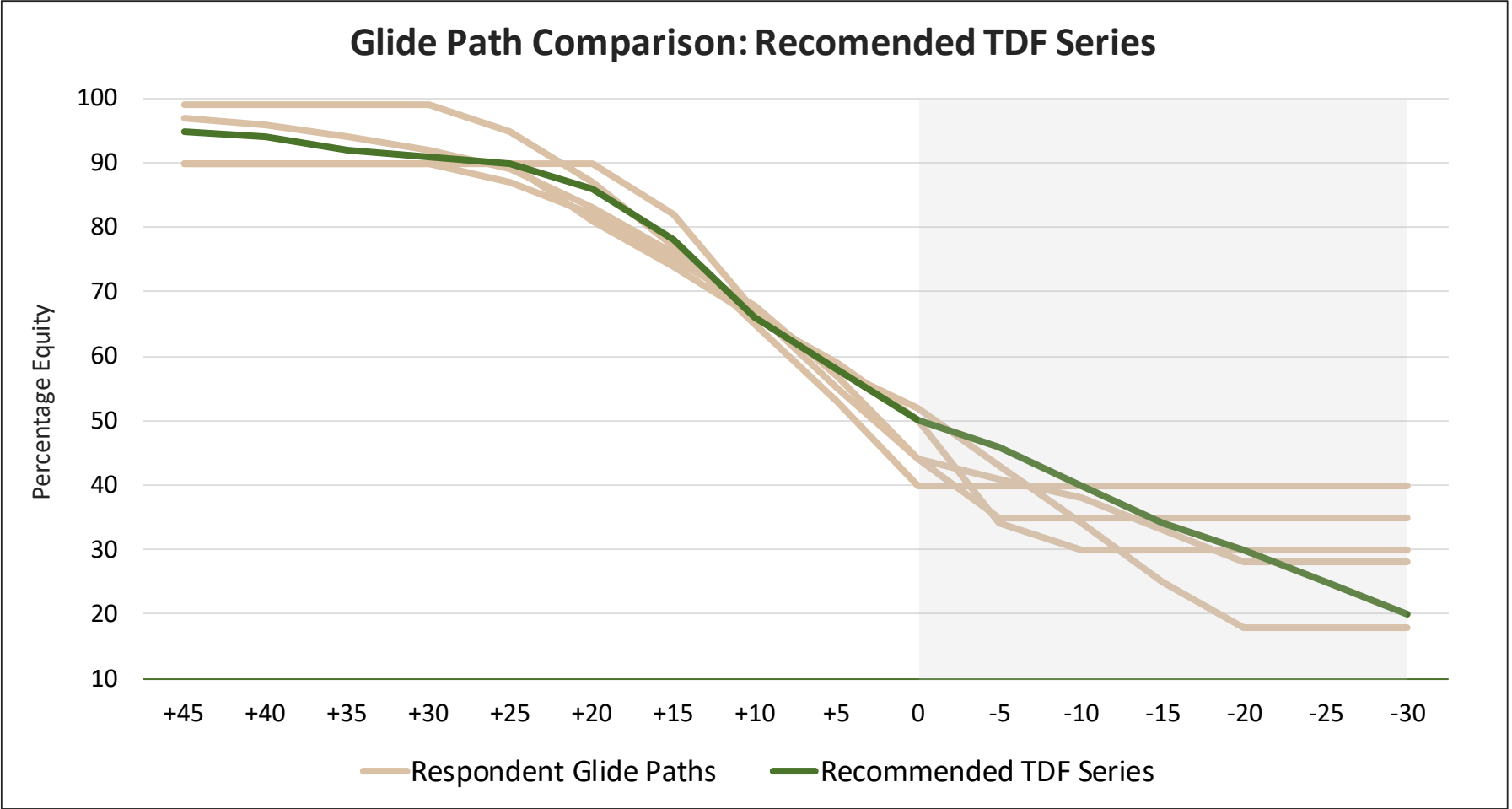
Finalist Review and Recommendation



- PRC interviewed finalists on October 23, 2024
- Recommend selection of _____ target date fund series
 - Meets all required PRC criteria
 - Simple and effective use of six underlying low-cost passive index funds
 - “Through” glide path with broad suitability for Texa\$aver participants
 - Strong risk-adjusted investment performance net of fees
 - Appropriate use of fixed income allocations to mitigate risk
 - Demonstrated focus on managing retirement assets as a core competency
 - Strong implementation track record and underlying methodology

Target Date Fund Review

Recommended TDF Series Glide Path



Target Date Fund Review

Recommended TDF Series Sharpe Ratio



5-Year Sharpe Ratio by TDF Vintage

Vintage	Respondent 1	Respondent 2	Respondent 3	Respondent 4	Respondent 5	Current Provider	Morningstar benchmark
2015	0.34	0.25	0.37	0.33	0.40	0.27	0.27
2020	0.36	0.35	0.40	0.37	0.42	0.27	0.27
2025	0.40	0.39	0.43	0.41	0.47	0.27	0.28
2030	0.45	0.44	0.46	0.45	0.50	0.38	0.32
2035	0.47	0.47	0.49	0.51	0.51	0.43	0.36
2040	0.49	0.50	0.52	0.55	0.52	0.47	0.40
2045	0.50	0.52	0.54	0.56	0.53	0.50	0.43
2050	0.50	0.53	0.55	0.56	0.54	0.52	0.44
2055	0.51	0.53	0.55	0.56	0.54	0.52	0.44
2060	0.51	0.53	0.56	0.56	0.54	0.52	0.43

Target Date Fund Review

Recommended TDF Series Expense Ratio



	Texa\$aver Rate	
	Fee (bps)	Rank
Respondent 4	6	6
Current Provider	5	3
Respondent 3	5	3
Respondent 1	5	3
Respondent 5	4.5	1
Respondent 2	4.5	1

Target Date Fund Review

Product Review Committee Recommendation



The PRC recommends removal of the BlackRock LifePath Index Retirement Funds from the Texa\$aver 401(k)/457 Program with participant assets transferred to the _____ target date series.

The PRC further recommends that participants be transferred into the TDF vintage that corresponds to their estimated retirement date by default, with additional transfer options made available to participants through a targeted communication strategy.

Target Date Fund Review

Communication and Implementation



- Pre go-live communications will begin immediately following Board approval.
 - ✓ Pre and post-login Texa\$aver website notices
 - ✓ Participant email notification
 - ✓ ERS newsletter articles and website updates
- Ongoing post-implementation communication and education.
- Empower and ERS staff will coordinate operational processes for adding new funds and asset transitions.
- Asset transfers will occur by end of Q2 of 2025.



Discussion
Action Item

Public Agenda Item #10

Consideration of Quarterly Review of Investment Performance

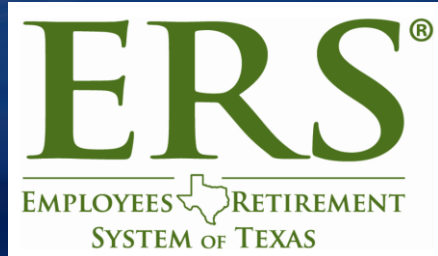
December 10, 2024

John McCaffrey, Managing Director of Portfolio Management

Sam Austin, Partner, NEPC

Christian McCormick, Senior Consultant, NEPC

David T. Veal, Chief Investment Officer



QUARTERLY PERFORMANCE REPORT

EMPLOYEES RETIREMENT
SYSTEM OF TEXAS

DECEMBER 10, 2024

Sam Austin, Partner

Christian McCormick, Senior Consultant



TABLE OF CONTENTS

- Economic and Market Environment
- Executive Summary

ECONOMIC AND MARKET ENVIRONMENT

ECONOMIC ENVIRONMENT



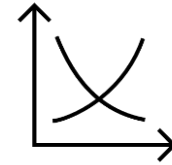
Easing of monetary policy

- Inflation continues to show signs of deceleration
- Shelter is one of biggest contributors to remaining inflation
- Fed Chair Powell signals a likely gradual approach to interest rate reduction



Soft landing looking probable

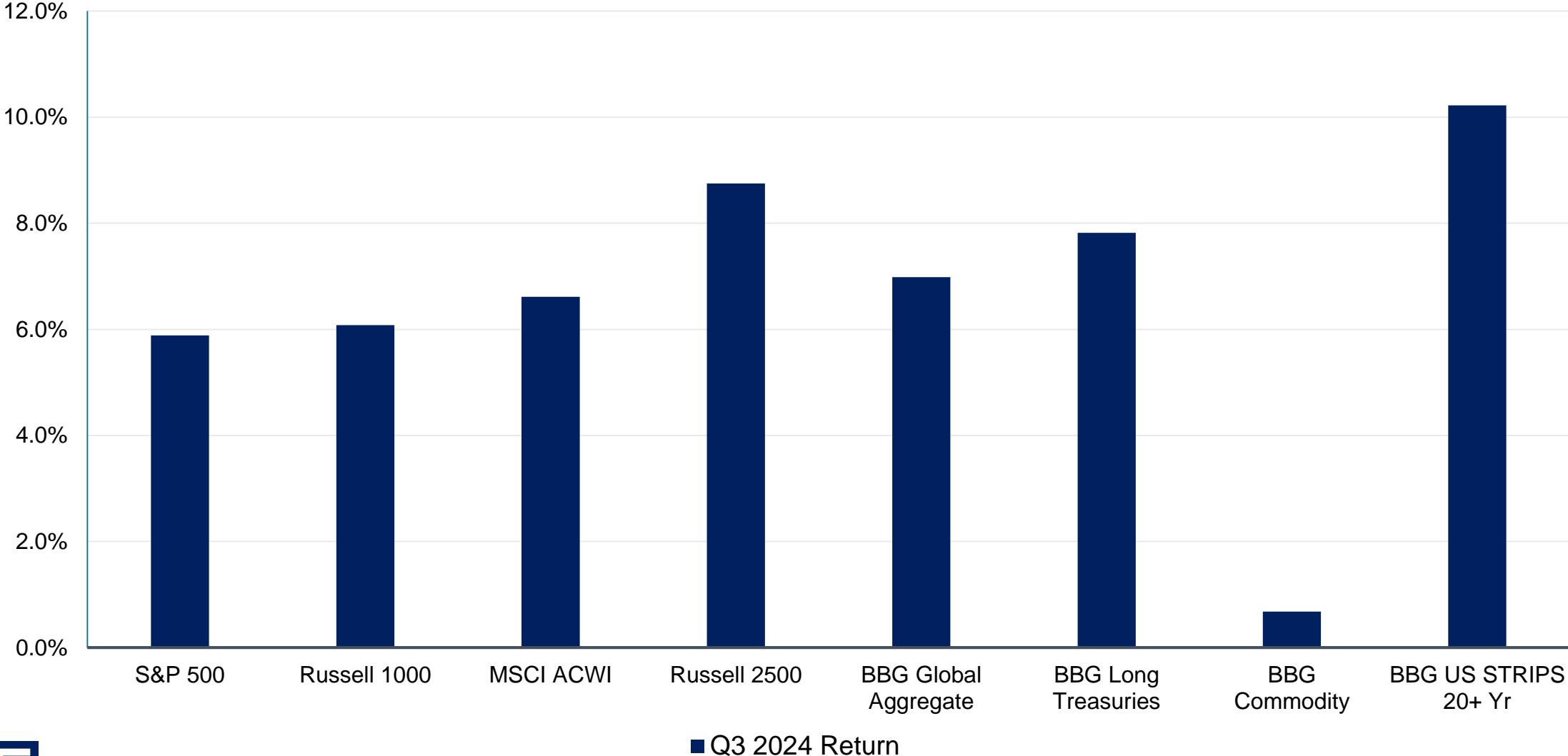
- Economy remains solid despite slowed growth
- U.S. household income and consumer spending show modest growth
- Labor market remains strong with unemployment rate still close to 4%



Uncertainties remain

- Geopolitical tensions may heighten market volatility
- Policy proposals from new U.S. administration and potential impact on prices and taxes
- Wage acceleration may further complicate picture for Fed policy normalization

BEST AND WORST INDEX PERFORMANCE





EXECUTIVE SUMMARY



ERS TRUST DASHBOARD

Performance	CYTD	FYTD 2025
Total Trust	9.45% (58)	0.73% (100)
Policy Benchmark	8.89% (75)	1.24% (68)
Excess Return	0.56%	-0.51%

Risk Statistics	5-Year	3-Year	
	Sharpe Ratio	Sortino Ratio	Tracking Error
Total Trust	0.93 (1)	1.43 (1)	1.69%
Policy Benchmark	0.71 (13)	1.08 (13)	-

Attribution Summary

Largest Contributors (Quarter)

Infrastructure was the largest contributor (+0.1%).

Largest Detractors (Quarter)

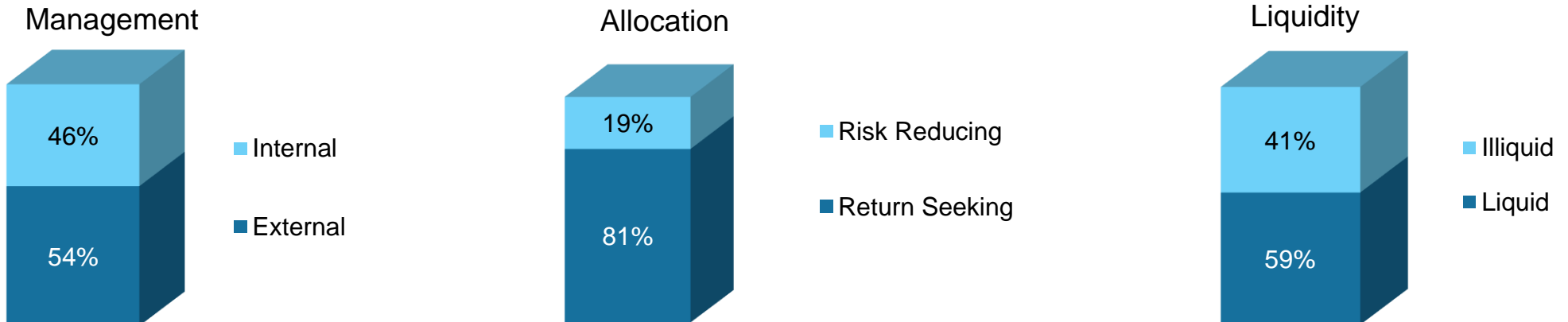
Public Equity (-0.8%) was the largest detractor, followed by Public Real Estate (-0.2%).



Note: Numbers in parentheses indicate the Trust's rank among the peer universe of Public Defined Benefit plans greater than \$1 Billion.

ERS TRUST DASHBOARD

Profile	
Market Value at September 30, 2024	\$40.6 Billion
Actuarial Accrued Liability August 31, 2023	\$48.0 Billion
Actuarial Value of Assets August 31, 2023	\$34.0 Billion
ERS Trust Funded Ratio August 31, 2023	70.8%
Actuarial Assumed Rate of Return	7.00%
Retirees and Beneficiaries August 31, 2023	124,504
Retirement Payments Year Ended August 31, 2023	\$3.0 Billion





PERFORMANCE SUMMARY

TOTAL TRUST PERFORMANCE DETAIL (NET OF FEES)

	Market Value	3 Mo	Fiscal YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs
Total Trust	\$40,615,882,527	3.3% (99)	0.7% (100)	15.2% (75)	6.3% (5)	9.6% (3)	8.1% (7)
<i>Policy Benchmark</i>		4.4% (73)	1.2% (68)	15.2% (74)	5.6% (16)	8.0% (38)	7.1% (34)
<i>Passive Index</i>		6.3% (6)	2.1% (2)	26.5% (1)	6.3% (5)	10.1% (1)	8.1% (9)

- For the one-year period ended September 30, 2024, the Trust matched the policy benchmark return of 15.2%
- In the one-year period, the Trust's assets increased from \$36.04 billion to \$40.62 billion. This includes a \$5.59 billion net investment gain within the one-year period and a \$1.29 billion net investment gain within the third calendar quarter of 2024.

Note: The Passive Index is comprised of 80% MSCI ACWI IMI and 20% Bloomberg Intermediate Treasury Index. Index definitions can be found in the appendix. Numbers in parentheses indicate the Trust's rank among the peer universe of Public Defined Benefit plans greater than \$1 Billion.



TOTAL TRUST PERFORMANCE DETAIL (NET OF FEES)

3 Years Ending September 30, 2024

	Return	Standard Deviation	Sharpe Ratio	Sortino Ratio
--	--------	--------------------	--------------	---------------

Total Trust	6.3% (5)	6.6% (4)	0.45 (5)	0.62 (7)
Policy Benchmark	5.6% (16)	7.5% (15)	0.31 (11)	0.44 (11)

5 Years Ending September 30, 2024

	Return	Standard Deviation	Sharpe Ratio	Sortino Ratio
--	--------	--------------------	--------------	---------------

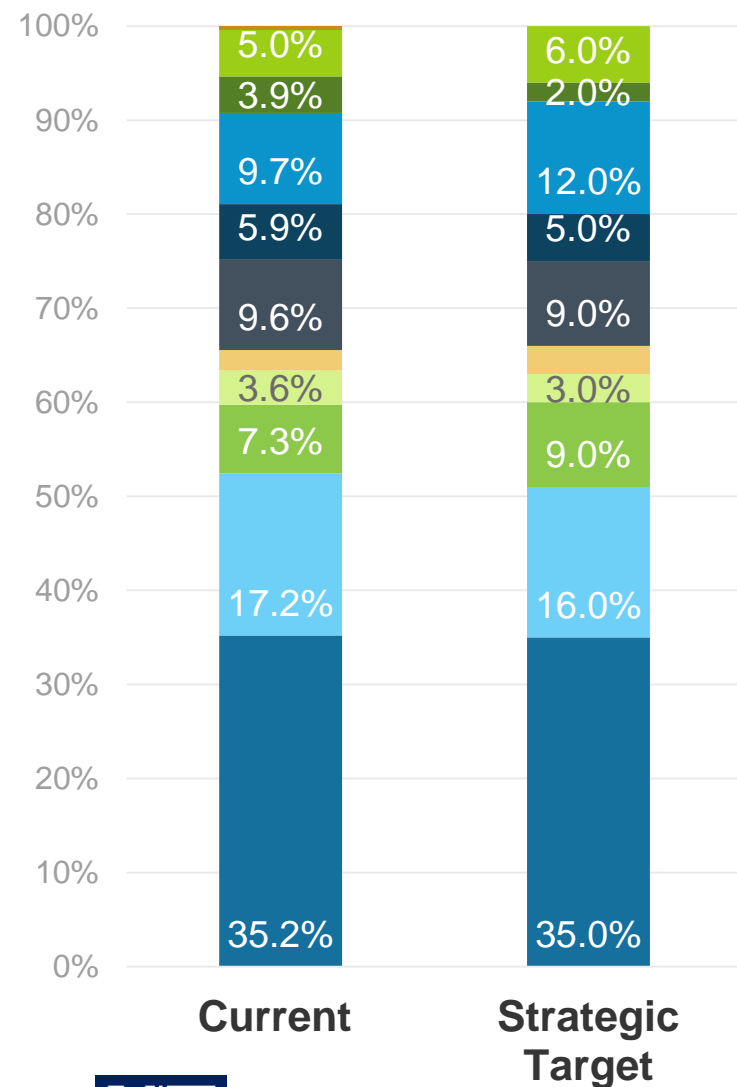
Total Trust	9.6% (3)	7.7% (4)	0.93 (1)	1.43 (1)
Policy Benchmark	8.0% (38)	8.0% (9)	0.71 (13)	1.08 (13)

- **The five-year Trust return has outperformed the actuarial rate of return.**
- **On a risk-adjusted basis, the three-year and five-year Sharpe and Sortino Ratios outperformed the benchmark, indicating that active management benefitted the plan.**

TOTAL TRUST ASSET GROWTH SUMMARY

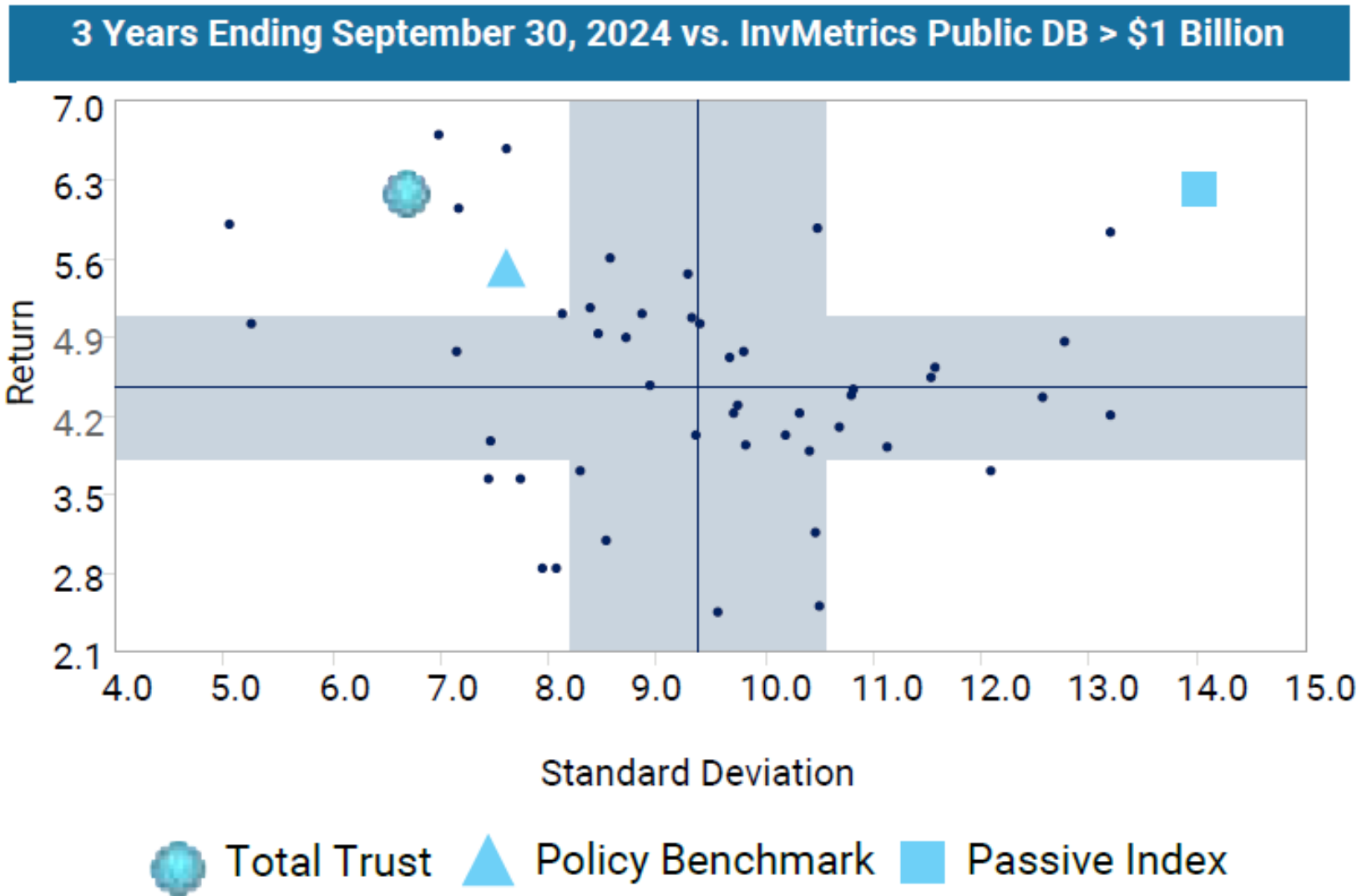
	Last Three Months	Year-To-Date	Fiscal Year-To-Date	One Year	Three Years	Five Years
Beginning Market Value	\$39,102,741,120	\$37,592,117,969	\$39,929,324,638	\$36,043,223,870	\$34,948,286,762	\$28,644,607,856
Contributions	\$910,200,000	\$1,717,728,631	\$639,400,000	\$2,114,628,631	\$7,435,733,405	\$10,578,871,430
Withdrawals	-\$686,100,000	-\$2,412,944,745	-\$256,600,000	-\$3,134,044,745	-\$8,577,133,405	-\$13,944,471,430
Net Cash Flow	\$224,100,000	-\$695,216,114	\$382,800,000	-\$1,019,416,114	-\$1,141,400,000	-\$3,365,600,000
Net Investment Change	\$1,289,041,407	\$3,718,980,671	\$303,757,889	\$5,592,074,771	\$6,808,995,765	\$15,336,874,671
Ending Market Value	\$40,615,882,527	\$40,615,882,527	\$40,615,882,527	\$40,615,882,527	\$40,615,882,527	\$40,615,882,527
Net Change	\$1,513,141,407	\$3,023,764,558	\$686,557,889	\$4,572,658,657	\$5,667,595,765	\$11,971,274,671

TRUST ASSET ALLOCATION VS. POLICY TARGETS

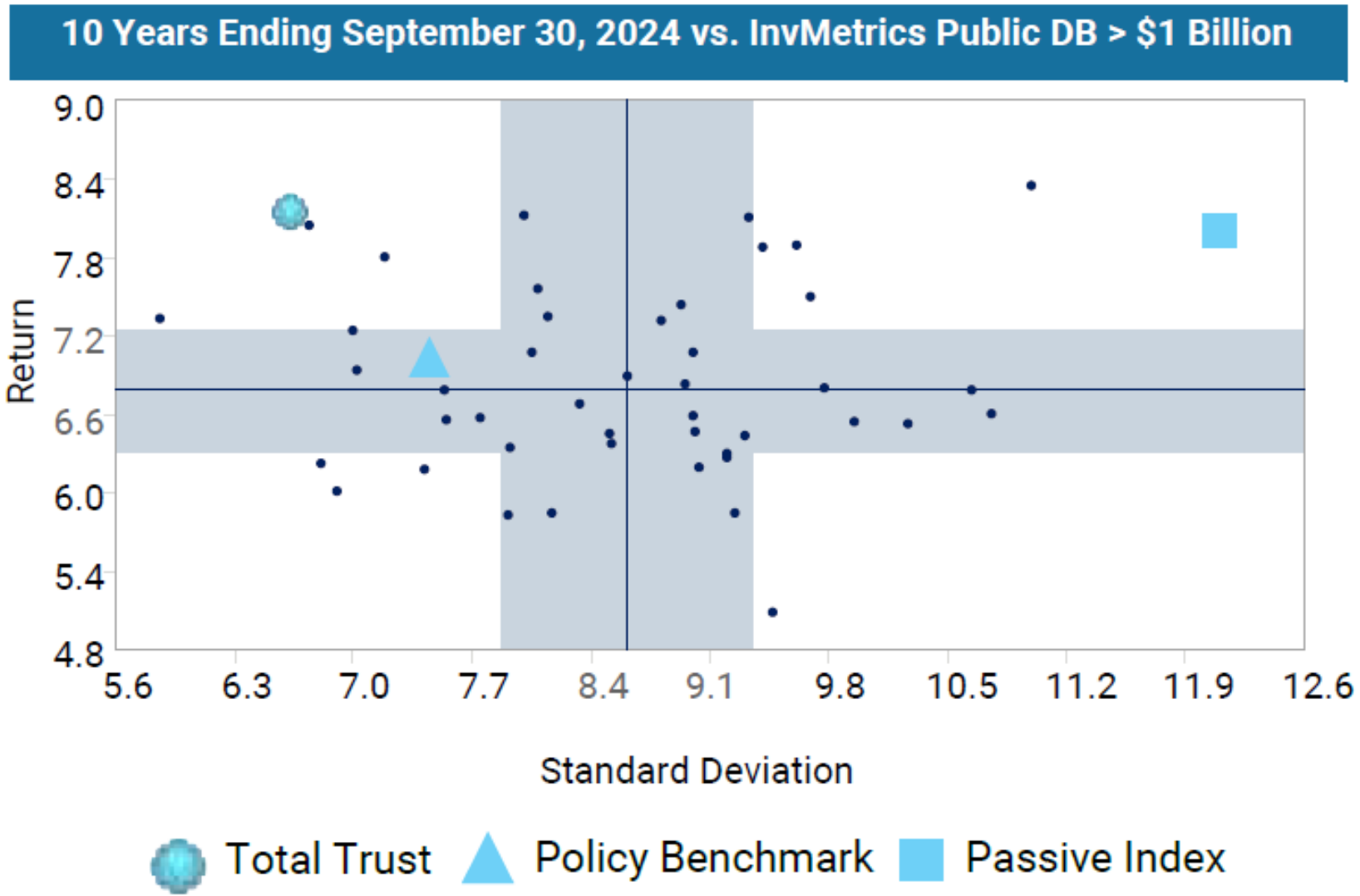


Asset Allocation as of September 30, 2024				
	Current Value	Current	Strategic Target	Tactical Range
Public Equity	\$14,301,167,834	35.2%	35.0%	25.0% - 45.0%
Private Equity	\$6,996,421,428	17.2%	16.0%	11.0% - 21.0%
Public Credit	\$2,961,232,427	7.3%	9.0%	4.0% - 14.0%
Private Credit	\$1,481,149,939	3.6%	3.0%	0.0% - 8.0%
Real Estate - Public	\$888,696,366	2.2%	3.0%	0.0% - 13.0%
Real Estate - Private	\$3,892,417,394	9.6%	9.0%	4.0% - 14.0%
Infrastructure	\$2,409,022,634	5.9%	5.0%	0.0% - 10.0%
Rates	\$3,941,445,475	9.7%	12.0%	7.0% - 17.0%
Cash	\$1,565,965,650	3.9%	2.0%	1.0% - 10.0%
Hedge Funds	\$2,040,767,638	5.0%	6.0%	0.0% - 11.0%
Special Situations	\$137,595,742	0.3%	0.0%	0.0% - 5.0%
Total	\$40,615,882,527	100%	100%	

TOTAL TRUST RISK/RETURN



TOTAL TRUST RISK/RETURN



PERFORMANCE DETAIL: PUBLIC MARKETS

	Market Value	3 Mo	Fiscal YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs
ERS Public Markets	\$25,836,871,132	4.3% (76)	1.0% (93)	21.7% (6)	5.6% (15)	8.7% (19)	7.1% (34)
<i>Public Blended Benchmark</i>		<i>5.9% (13)</i>	<i>1.8% (11)</i>	<i>22.0% (6)</i>	<i>5.3% (19)</i>	<i>8.1% (37)</i>	<i>6.9% (42)</i>
<i>Passive Index</i>		<i>6.3% (6)</i>	<i>2.1% (2)</i>	<i>26.5% (1)</i>	<i>6.3% (5)</i>	<i>10.1% (1)</i>	<i>8.1% (9)</i>

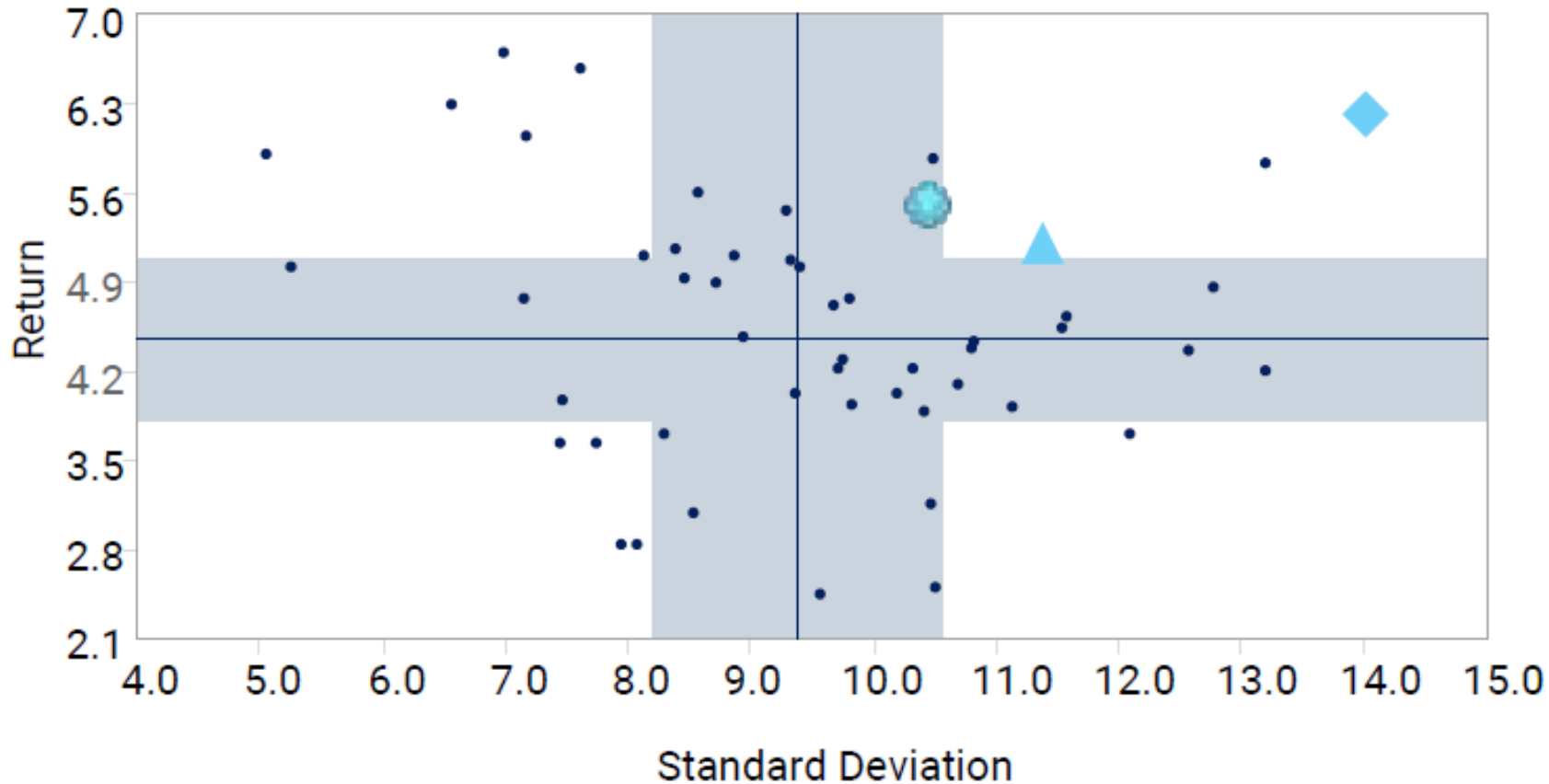
- **For the one-year period ended September 30, 2024, ERS Public Markets underperformed the Public Blended Benchmark by 0.3%.**

Note: The Passive Index is comprised of 80% MSCI ACWI IMI and 20% Bloomberg Intermediate Treasury Index. Index definitions can be found in the appendix. Numbers in parentheses indicate the Trust's rank among the peer universe of Public Defined Benefit plans greater than \$1 Billion.



RISK/RETURN: PUBLIC MARKETS

3 Years Ending September 30, 2024 vs. InvMetrics Public DB > \$1 Billion



ERS Public Markets Public Blended Benchmark Passive Index



PERFORMANCE DETAIL: PRIVATE MARKETS

	Market Value	3 Mo	Fiscal YTD	1 Yr	3 Yrs	5 Yrs	10 Yrs
ERS Private Markets	\$14,779,011,396	1.6% (100)	0.3% (100)	4.9% (100)	8.0% (1)	11.6% (1)	11.1% (1)
<i>Private Blended Benchmark</i>		<i>1.2% (100)</i>	<i>0.1% (100)</i>	<i>2.2% (100)</i>	<i>5.9% (10)</i>	<i>7.4% (70)</i>	<i>7.9% (14)</i>
<i>Passive Index</i>		<i>6.3% (6)</i>	<i>2.1% (2)</i>	<i>26.5% (1)</i>	<i>6.3% (5)</i>	<i>10.1% (1)</i>	<i>8.1% (9)</i>

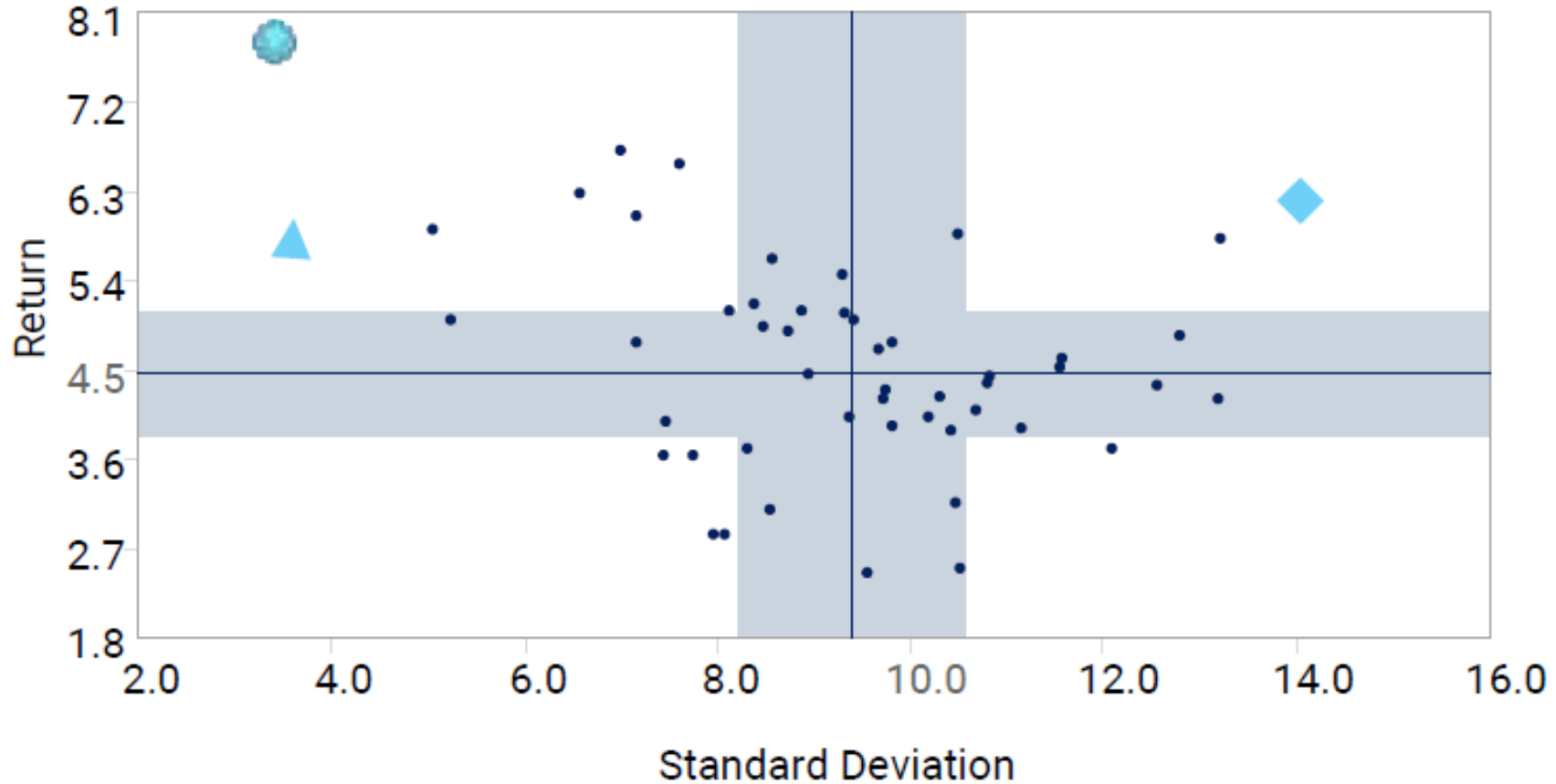
- **For the one-year period ended September 30, 2024, ERS Private Markets outperformed the Private Blended Benchmark by 2.7%.**

Note: The Passive Index is comprised of 80% MSCI ACWI IMI and 20% Bloomberg Intermediate Treasury Index. Index definitions can be found in the appendix. Numbers in parentheses indicate the Trust's rank among the peer universe of Public Defined Benefit plans greater than \$1 Billion.



RISK/RETURN: PRIVATE MARKETS

3 Years Ending September 30, 2024 vs. InvMetrics Public DB > \$1 Billion

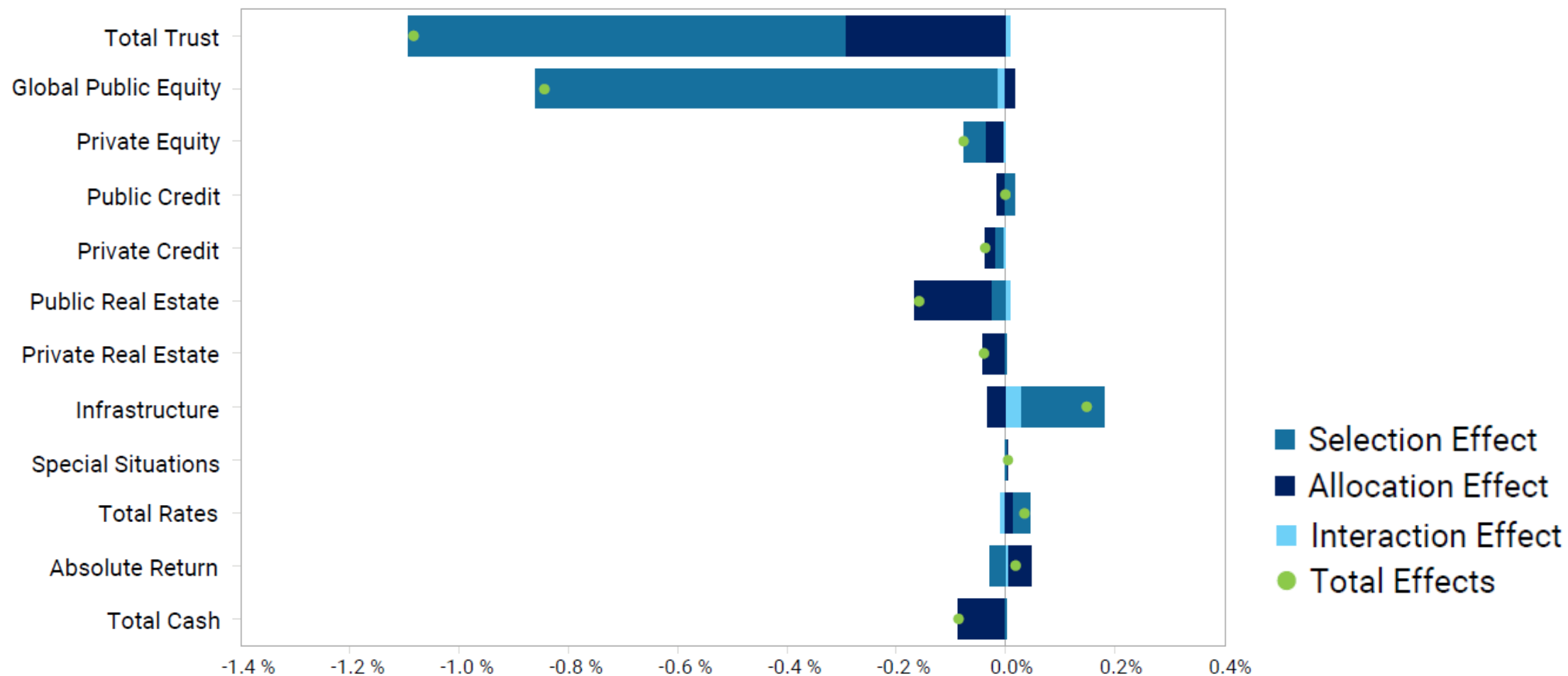


ERS Private Markets Private Blended Benchmark Passive Index



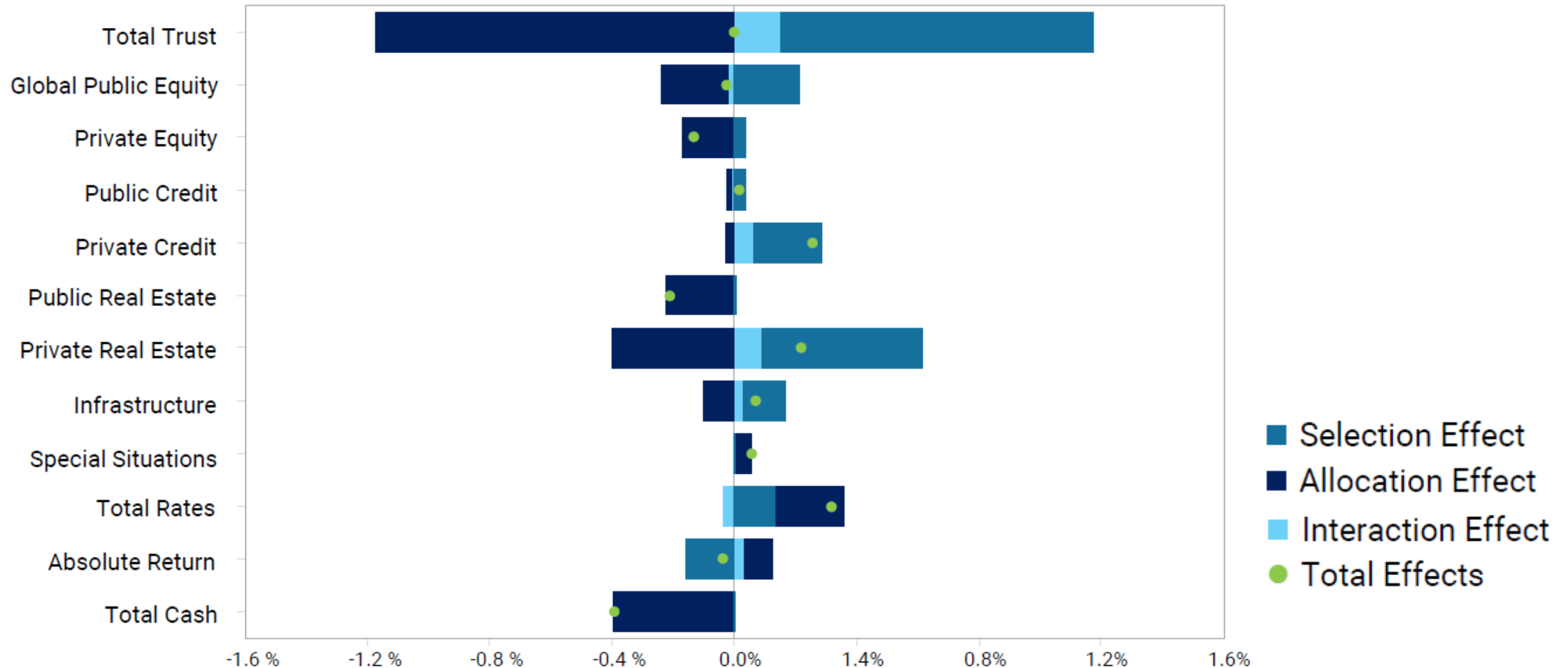
TOTAL TRUST ATTRIBUTION ANALYSIS

Attribution Effects: 1 Quarter Ending September 30, 2024



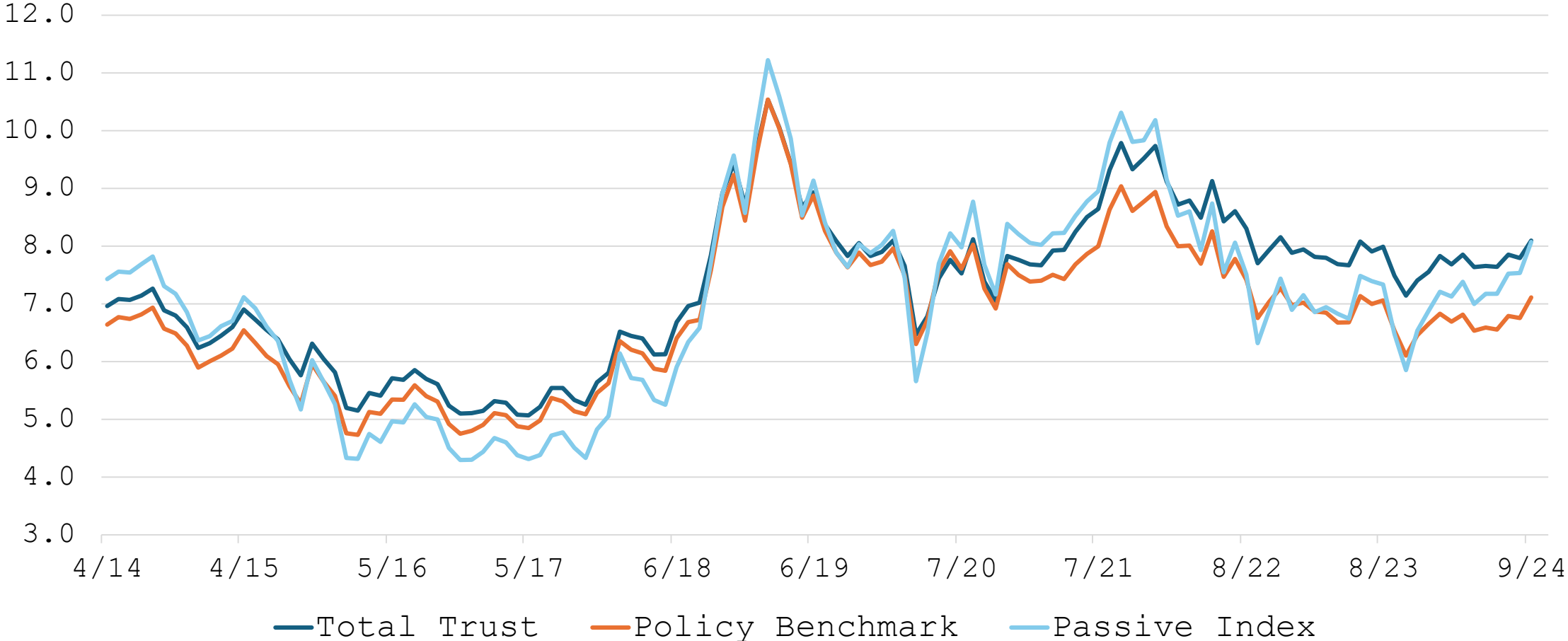
TOTAL TRUST ATTRIBUTION ANALYSIS

Attribution Effects: 1 Year Ending September 30, 2024



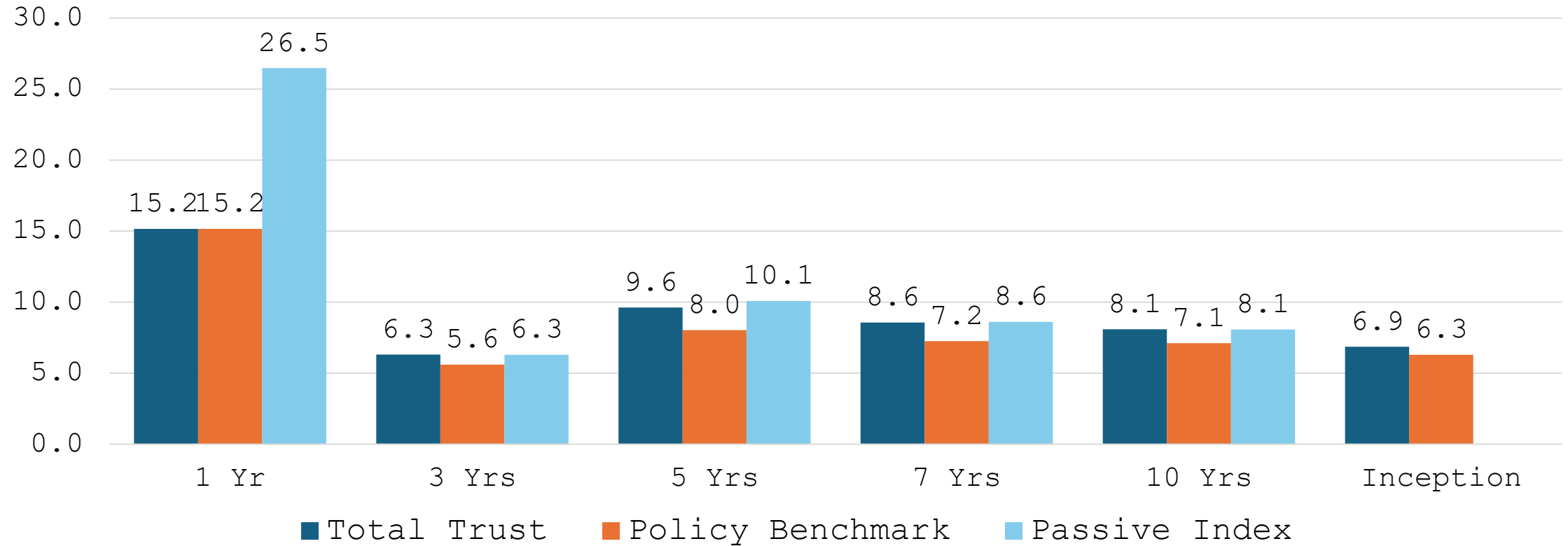
LONG TERM INVESTMENT RESULTS

Rolling 10-Year Annualized Return (%)



LONG TERM INVESTMENT RESULTS

Return Summary (net of fees)

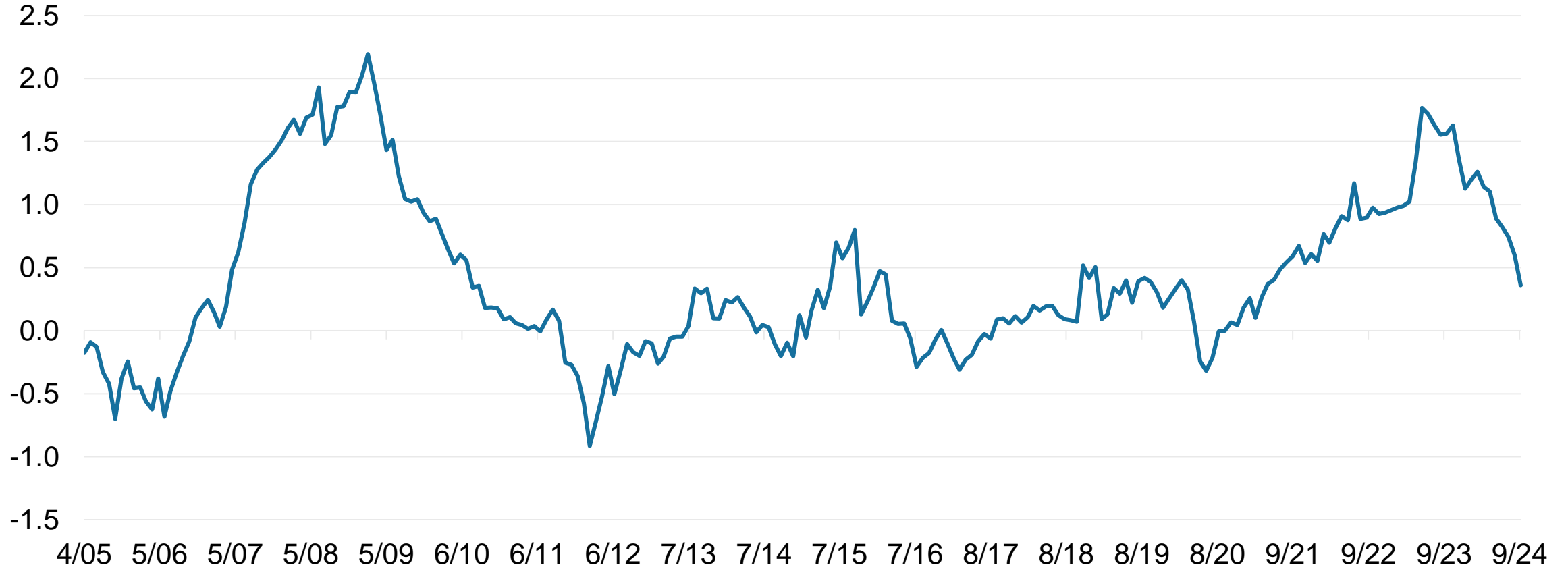


Note: The Passive Index is comprised of 80% MSCI ACWI IMI and 20% Bloomberg Intermediate Treasury Index. Index definitions can be found in the appendix.



ROLLING INFORMATION RATIO

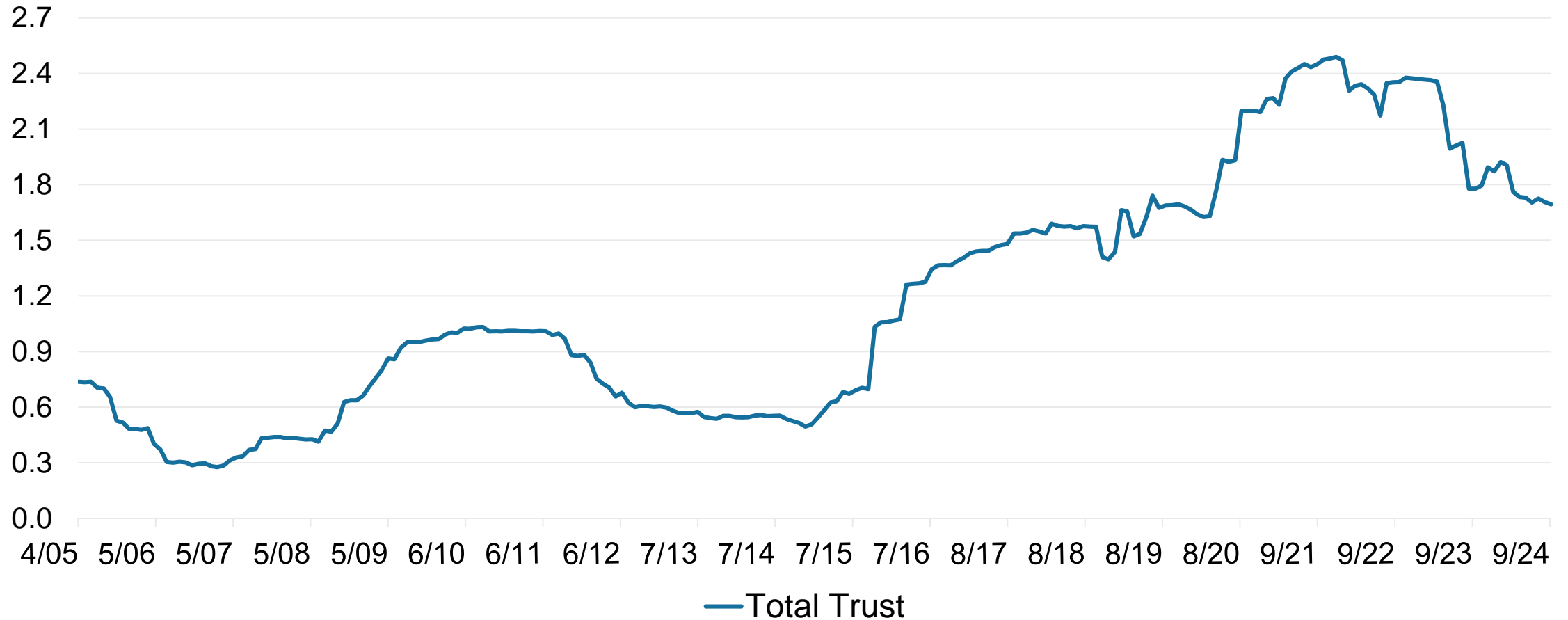
Rolling 3-Year Information Ratio



— Total Trust

ROLLING TRACKING ERROR

Rolling 3-Year Tracking Error



PERFORMANCE SUMMARY COMMENTARY

- **Over the past 10 years, Total Trust outperformed the Policy Benchmark by 1.0% and outperformed the Plan's actuarial rate of return of 7.0% by 1.1%.**
- **In the one-year period ended September 30, 2024, the Trust matched the Policy Benchmark return of 15.2%.**
 - The largest contributors to performance against the benchmark were Private Credit (+0.3%), Rates (+0.3%), and Private Real Estate (+0.2%).
 - The largest detractor was Cash (-0.4%), followed by Public Real Estate (-0.2%) and Private Equity (-0.1%).
- **In the past one-year, portfolio positioning at the asset class level detracted -1.2% from Total Trust returns versus the policy benchmark.**
 - An overweight position in Private Real Estate contributed negatively (-0.4%).
 - An underweight position in Public Equity contributed negatively (-0.2%).
 - An overweight position in Cash contributed negatively (-0.4%).

Discussion

Quarterly Review of Investment Performance

December 10, 2024

John McCaffrey, Managing Director of Portfolio Management

Investment Performance

Mission & Objectives



Prudently maintain a high-performing, well-diversified, and cost-effective portfolio to support the provision of earned benefits.



Add value vs. benchmarks
over rolling five-year periods



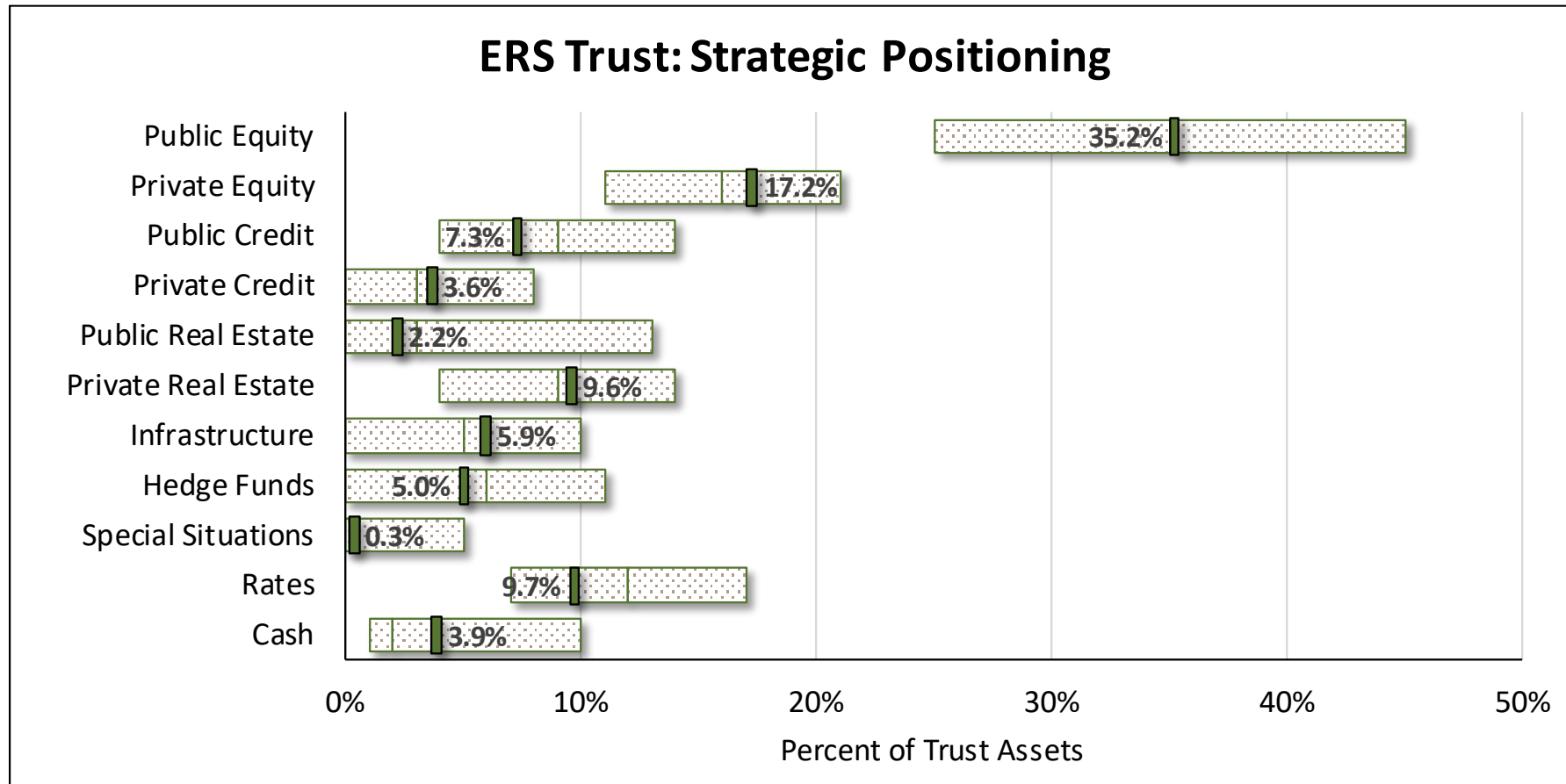
Earn appropriate returns
for the risks assumed

Investment Performance

Trust Positioning



- Tilts toward private markets and cash, away from public markets and rates

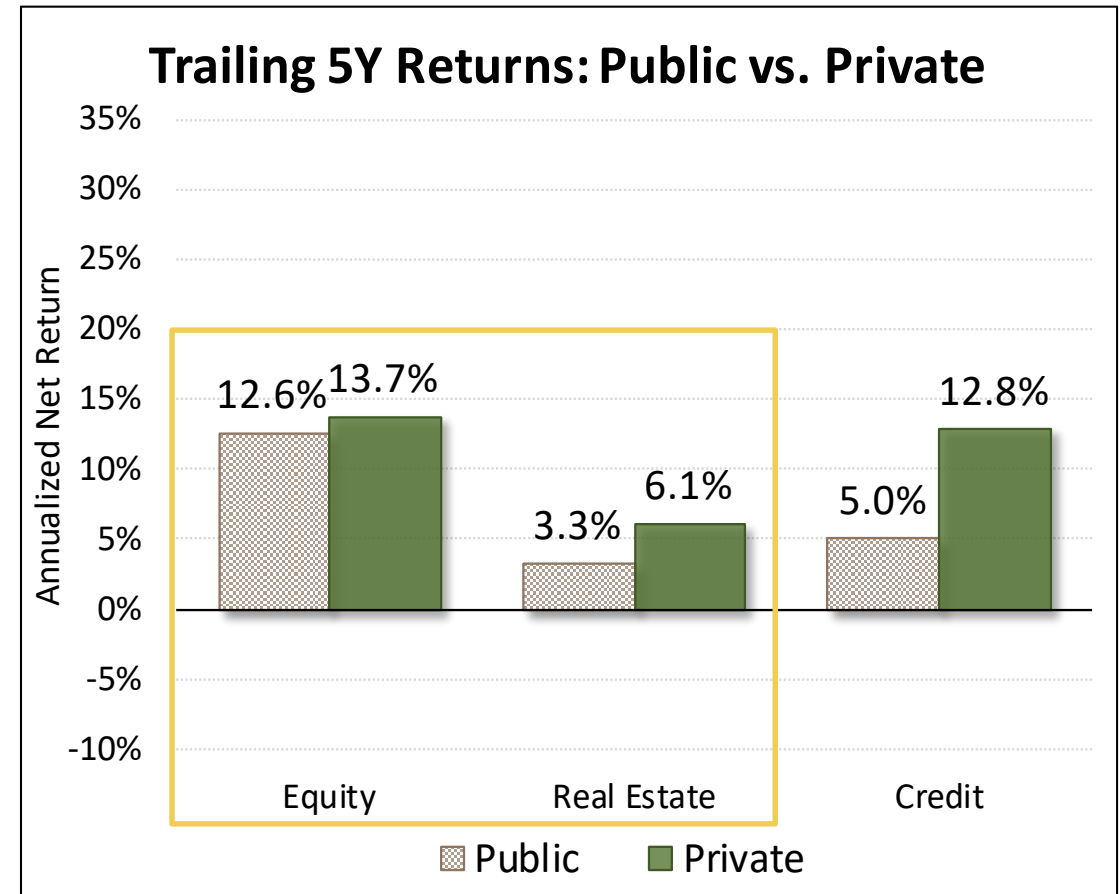
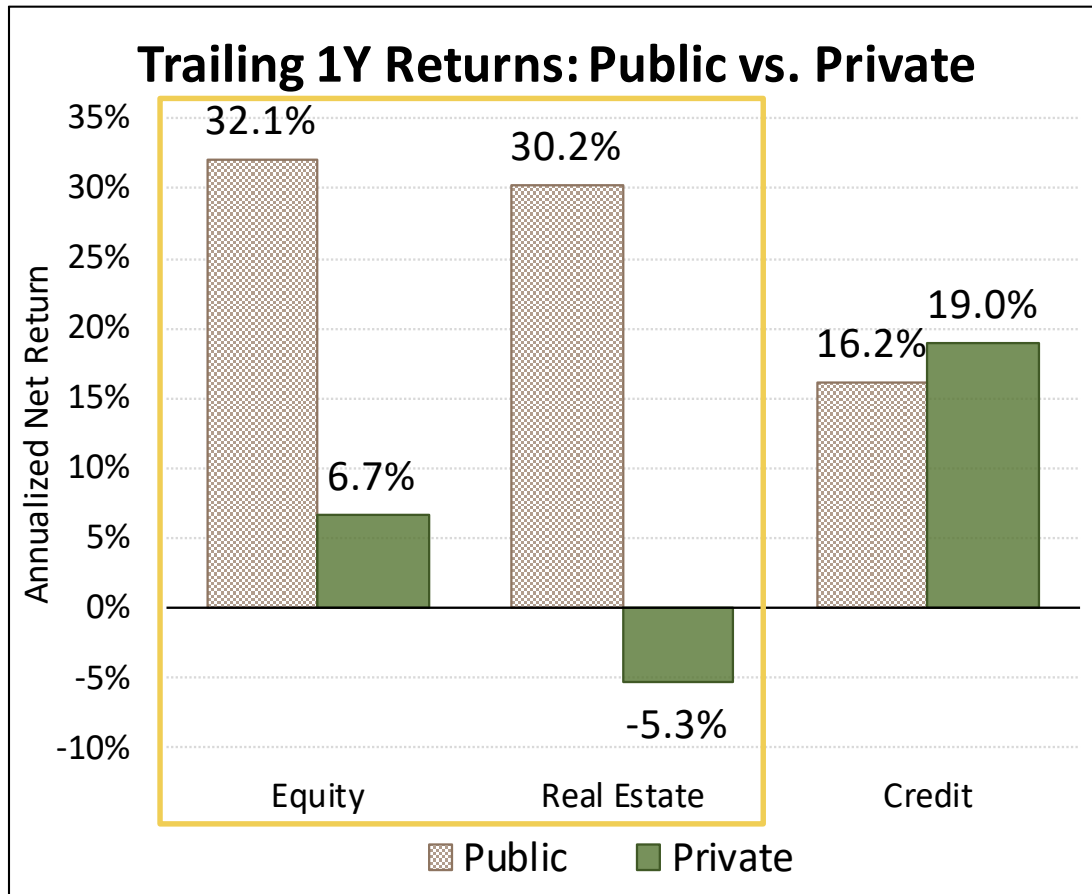


Investment Performance

ERS Public vs Private Asset Class Performance



- Public equity and real estate outpace private market counterparts over one year

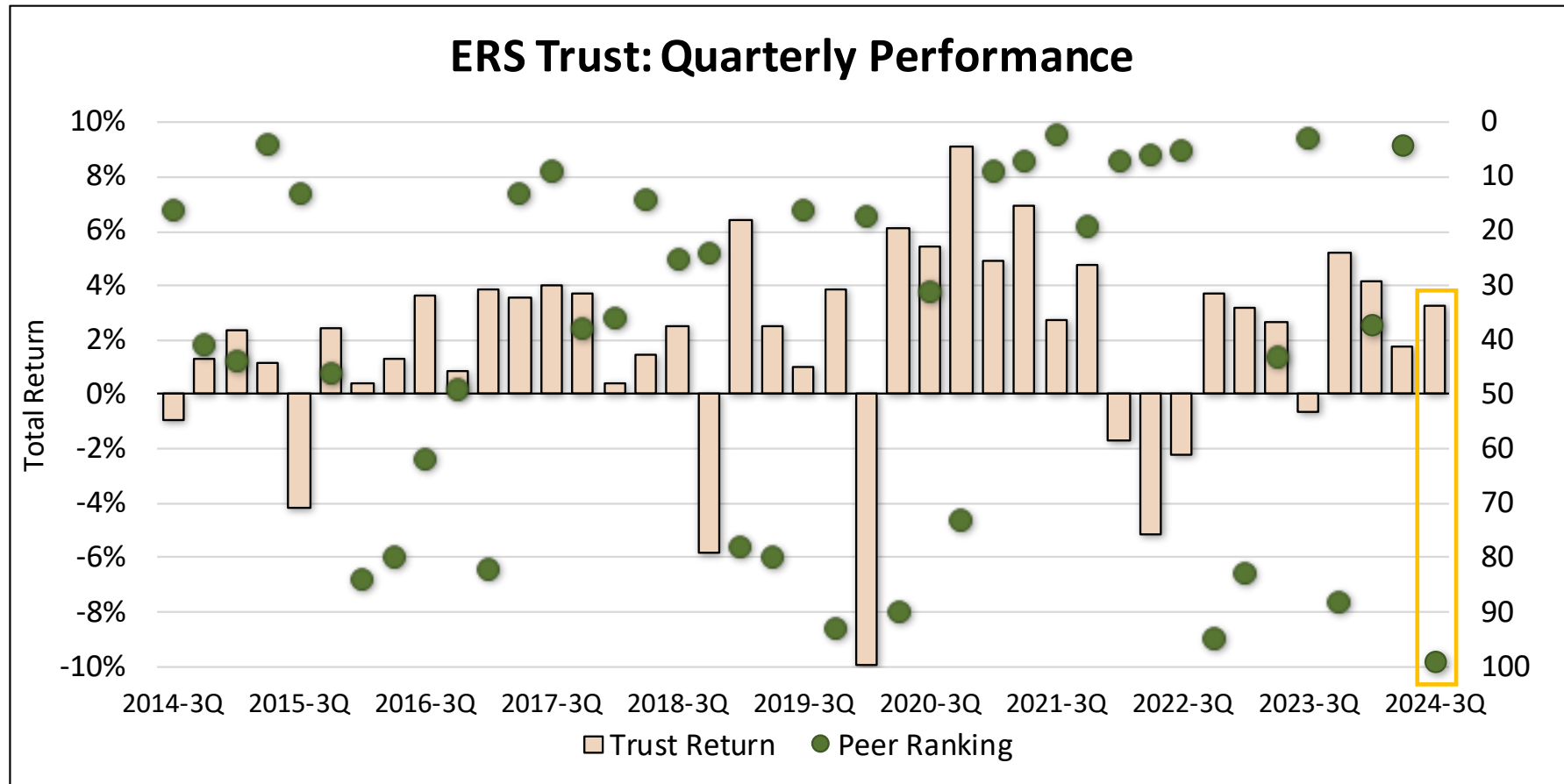


Investment Performance

Quarterly Performance



- Difficult quarter but positive absolute return for seventh time in the last eight quarters

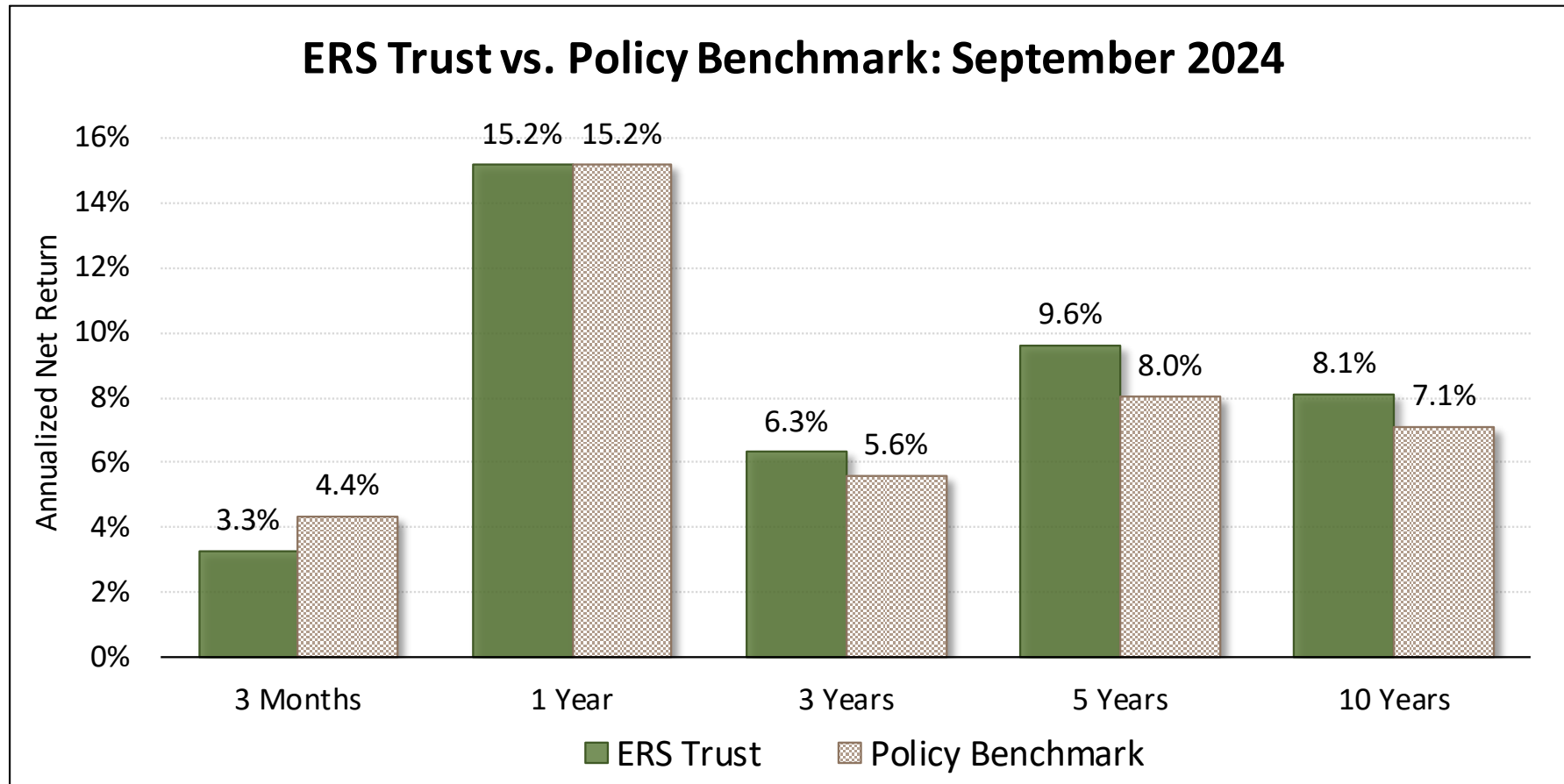


Investment Performance

Absolute & Relative Return



- Strong long term performance vs. Policy Benchmark, including +159 bps on a 5-year basis

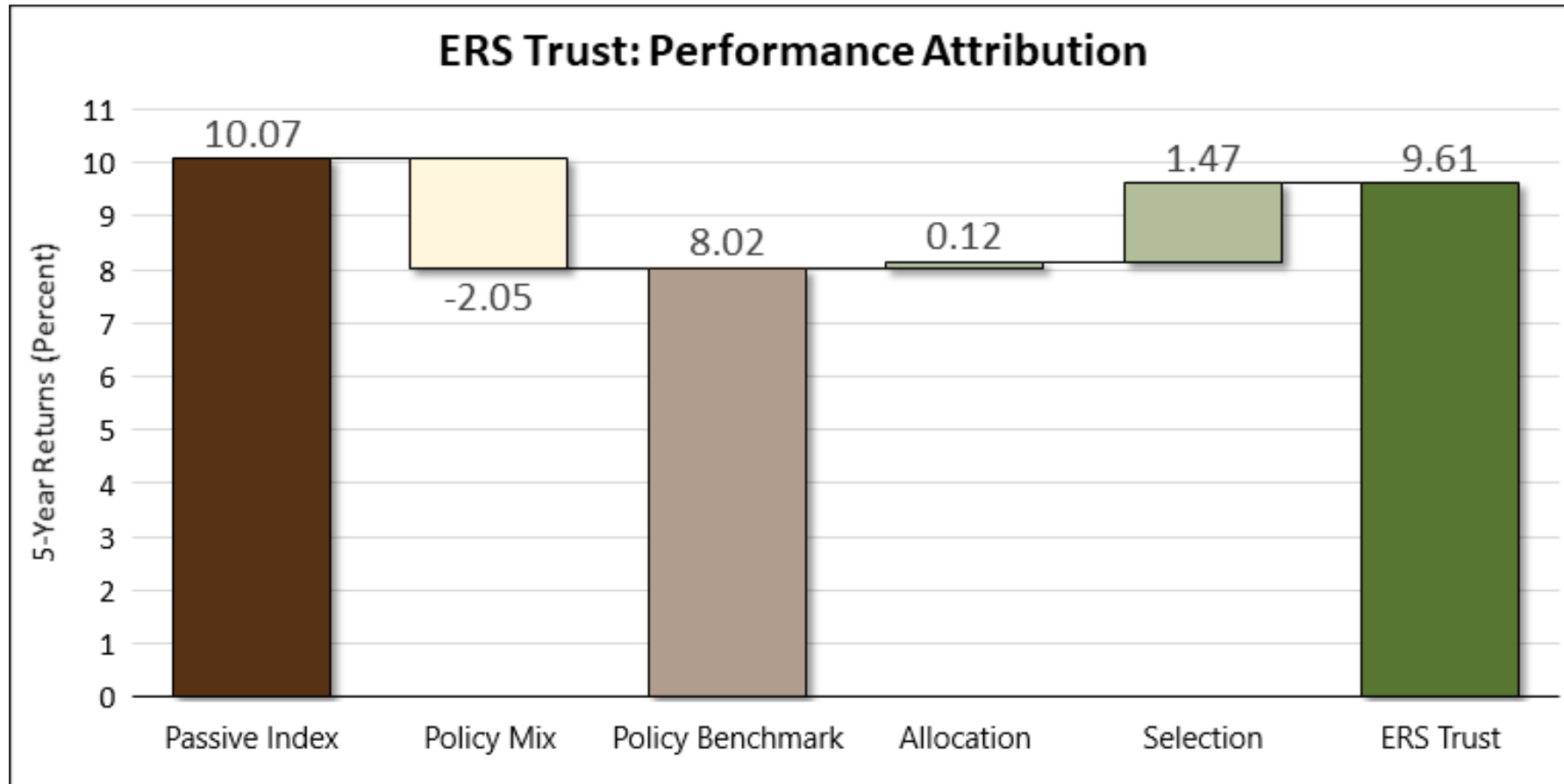


Investment Performance

Sources of Performance – Last Five Years



- Favorable Trust positioning adds to very strong results from security selection

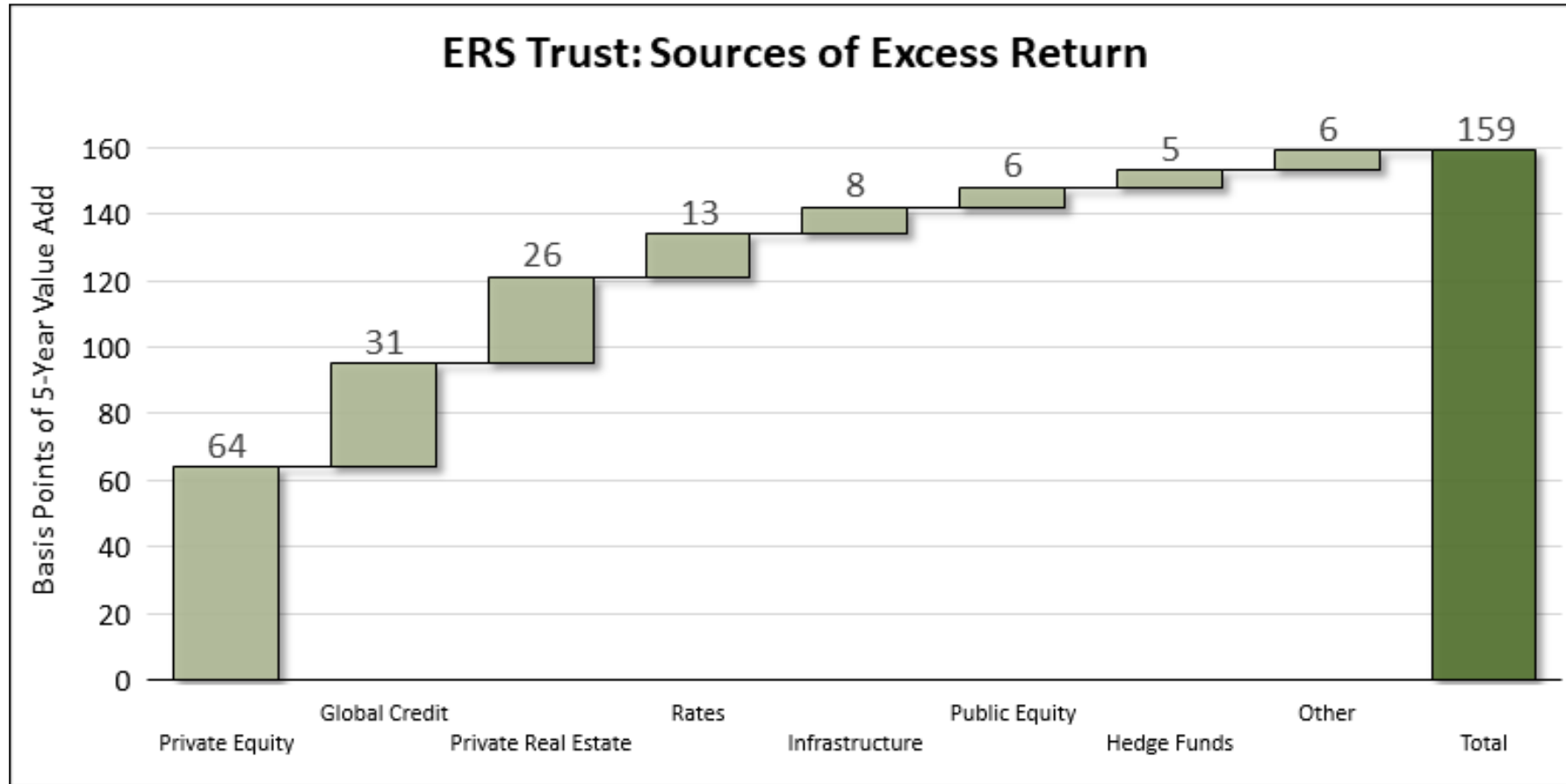


Investment Performance

Sources of (Out)performance – Last Five Years



- Strong security selection seen across all asset classes

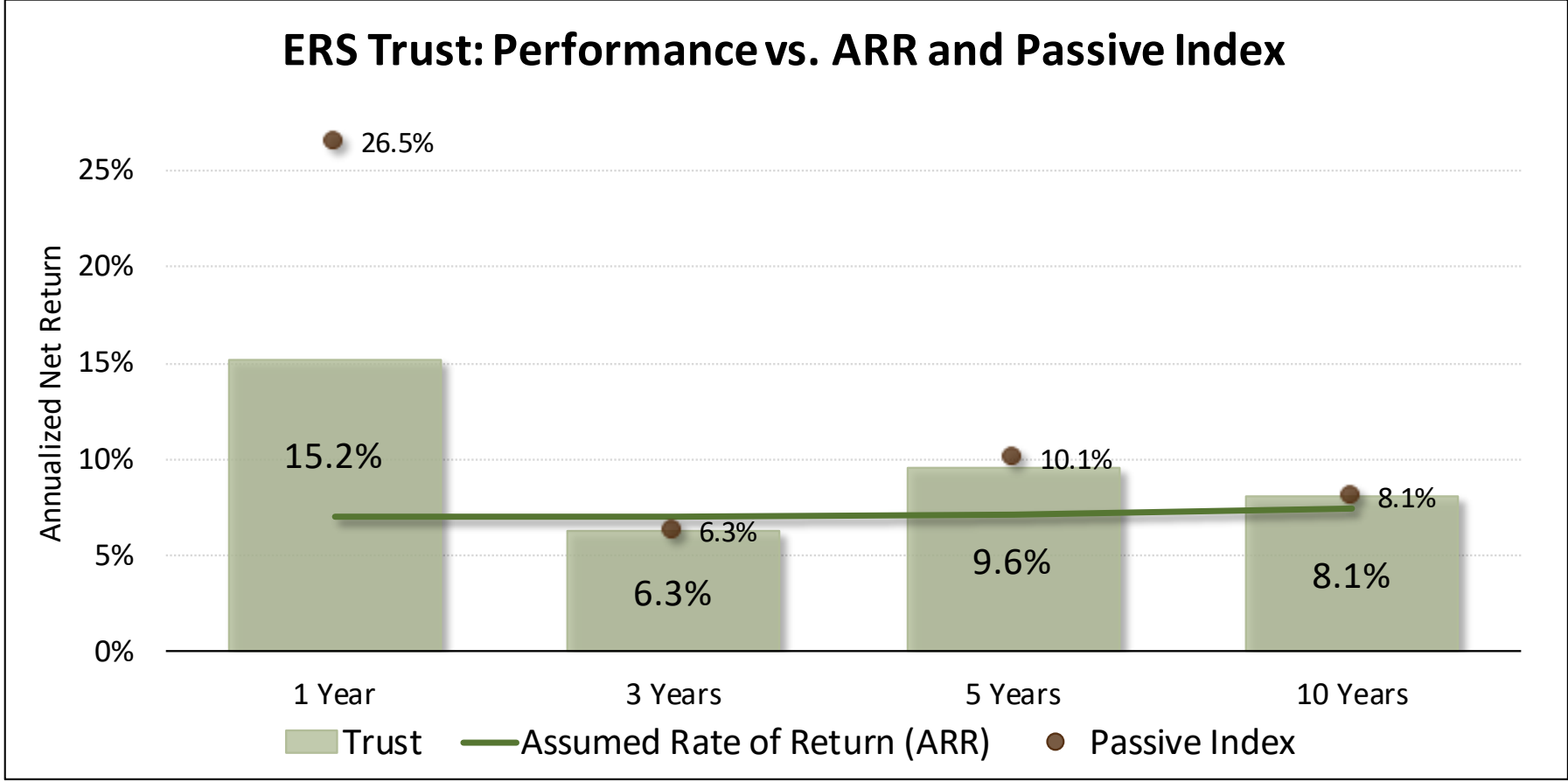


Investment Performance

Assumed Rate of Return



- Strong implementation gains have kept realized long-term returns above the ARR

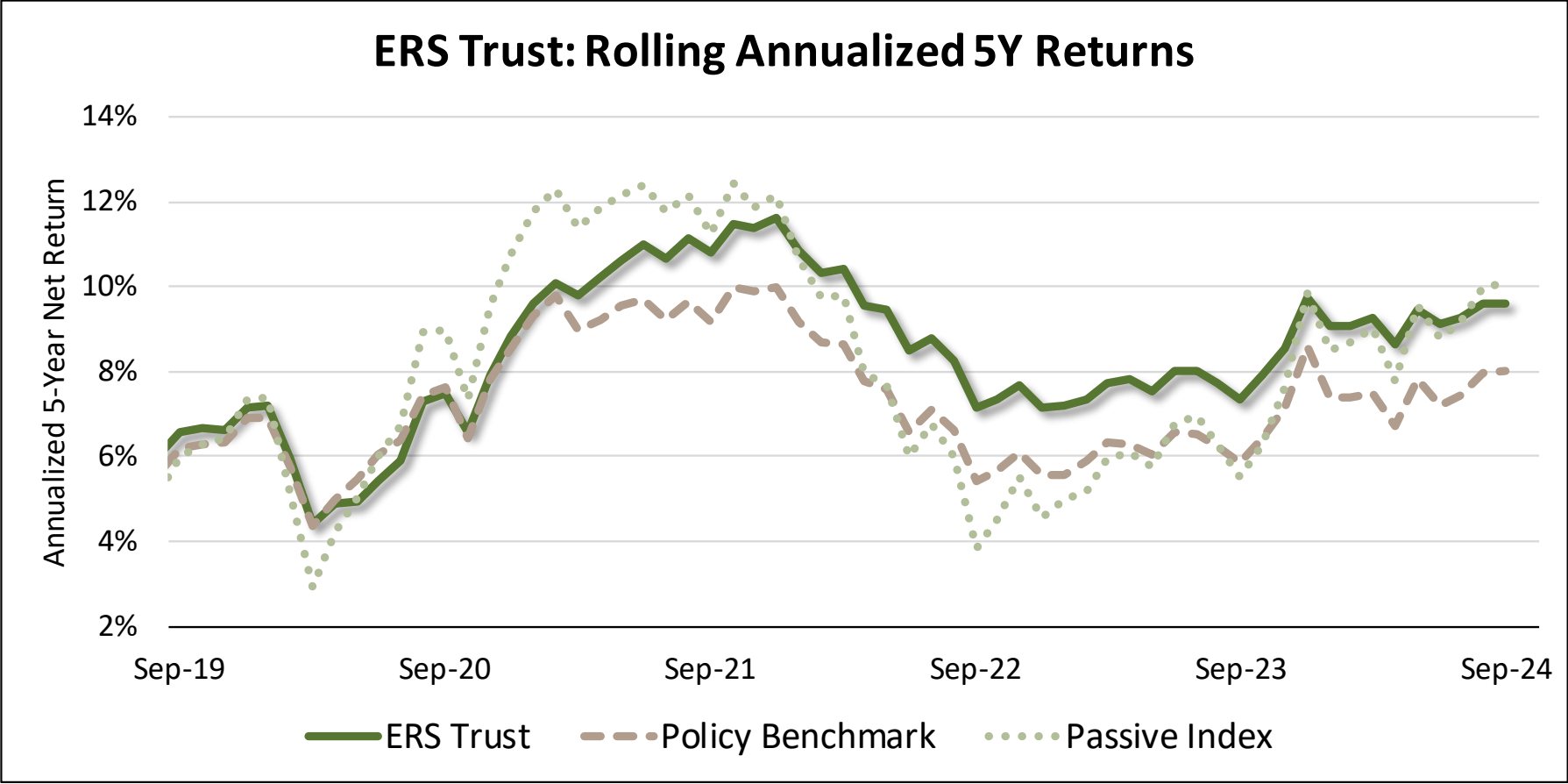


Investment Performance

Absolute Returns Over Time



- Trust delivers more consistent performance despite current results below the Passive Index

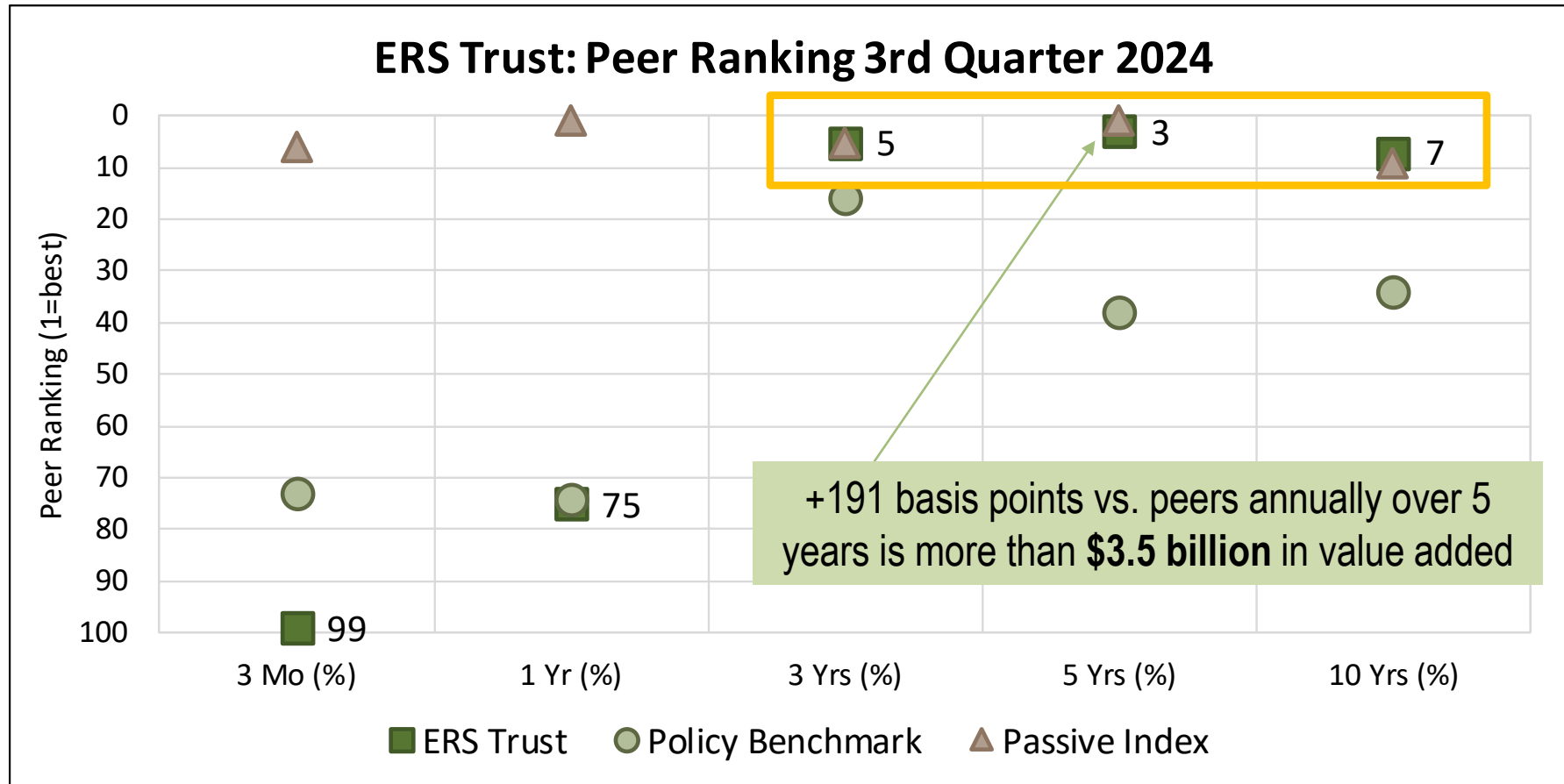


Investment Performance

Peer Rankings for Current Quarter



- Superior performance over long horizons; top decile over last three-, five-, and ten years

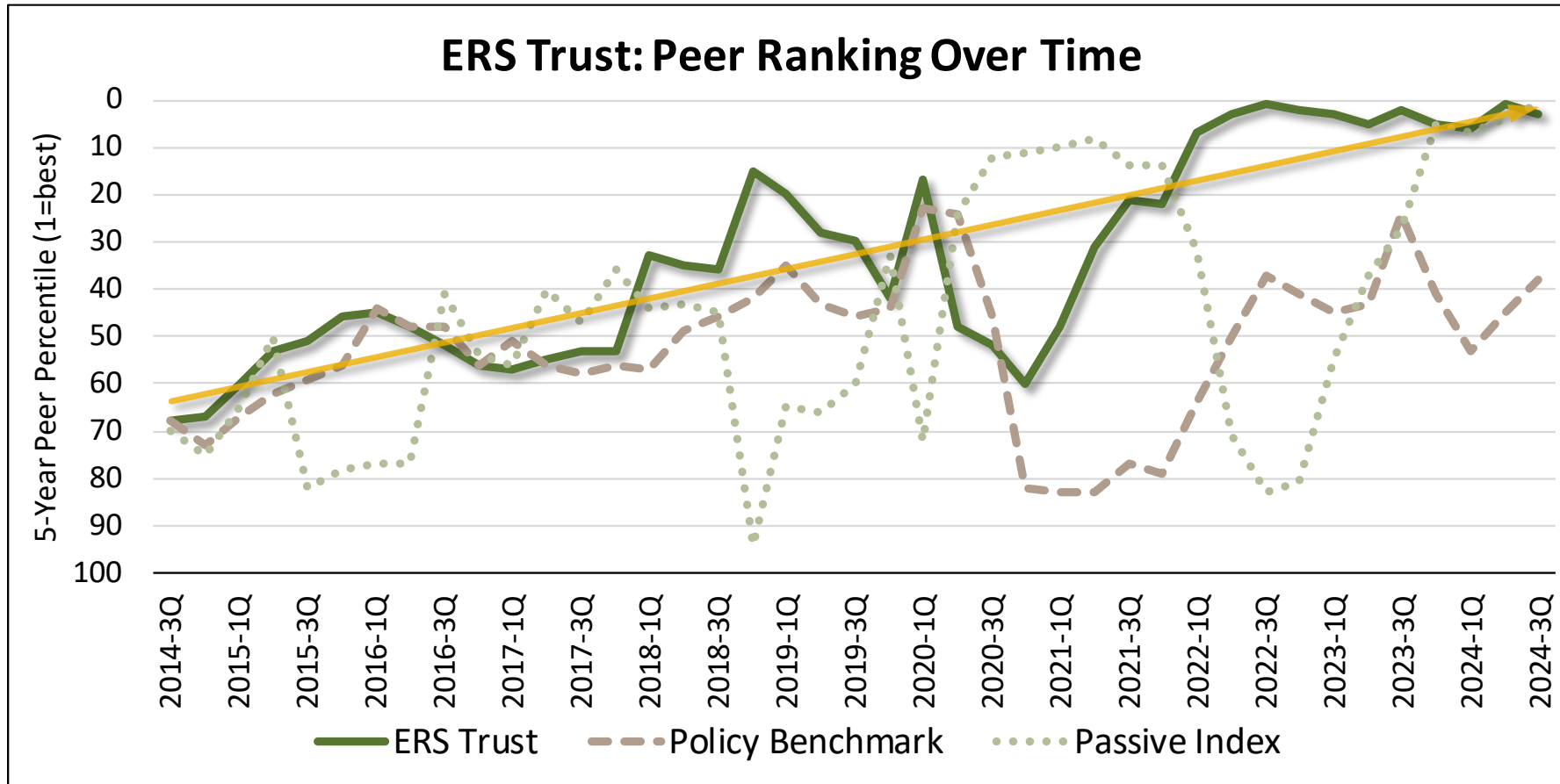


Investment Performance

Peer Ranking Over Time



- A decade of progress culminates in a top performing fund over long time horizons



Top 10%
3 year
5 year
10 year

Discussion

Public Agenda Item #11

Consideration of Quarterly Report from Chief Investment Officer

December 10, 2024

David T. Veal, CFA, CAIA, FRM

CIO Report

Performance Dashboard



- Meaningful amounts of value added vs. key benchmarks over long-term time horizons

Net Investment Returns as of September 30, 2024

	Last 3 Years		Last 5 Years		Last 10 Years	
ERS Trust	6.3%		9.6%		8.1%	
Assumed Rate	7.0%	-0.69%	7.1%	+2.55%	7.4%	+0.67%
Policy Benchmark	5.6%	+0.71%	8.0%	+1.59%	7.1%	+0.98%
Passive Index	6.3%	+0.02%	10.1%	-0.46%	8.1%	+0.02%
Median Peer	4.5%	+1.85%	7.7%	+1.91%	6.8%	+1.30%

CIO Report

Peer Ranks



- Top 10% of peers over long-term time horizons, including top 3% over trailing 5 years

Investment Performance Peer Ranking (*1 = best, 100 = worst*)

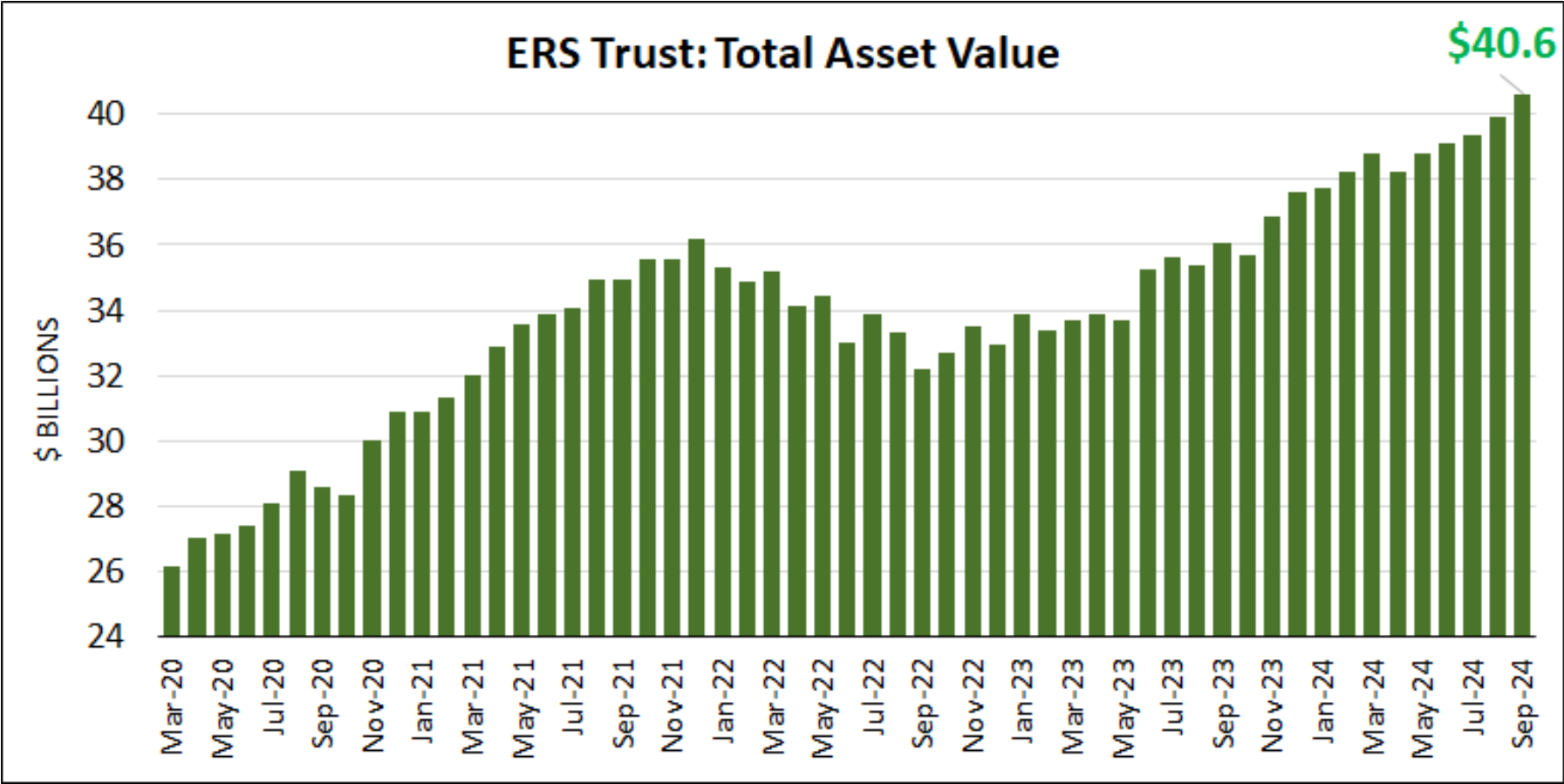
As of date	ERS Trust			Policy Benchmark			Passive Index		
	3 Years	5 Years	10 Years	3 Years	5 Years	10 Years	3 Years	5 Years	10 Years
2022-4Q	1	2	7	28	41	48	98	81	52
2023-1Q	12	3	6	86	45	56	21	56	48
2023-2Q	5	5	11	60	43	49	43	38	39
2023-3Q	1	2	6	28	24	35	68	28	37
2023-4Q	1	5	6	15	42	31	55	4	25
2024-1Q	3	6	10	6	53	39	18	7	22
2024-2Q	1	1	4	7	45	32	17	4	15
2024-3Q	5	3	7	16	38	34	5	1	9

CIO Report



Total Trust Asset Value

- Assets now above \$40B vs. \$32B in September 2022 and \$26B at March 2020 lows

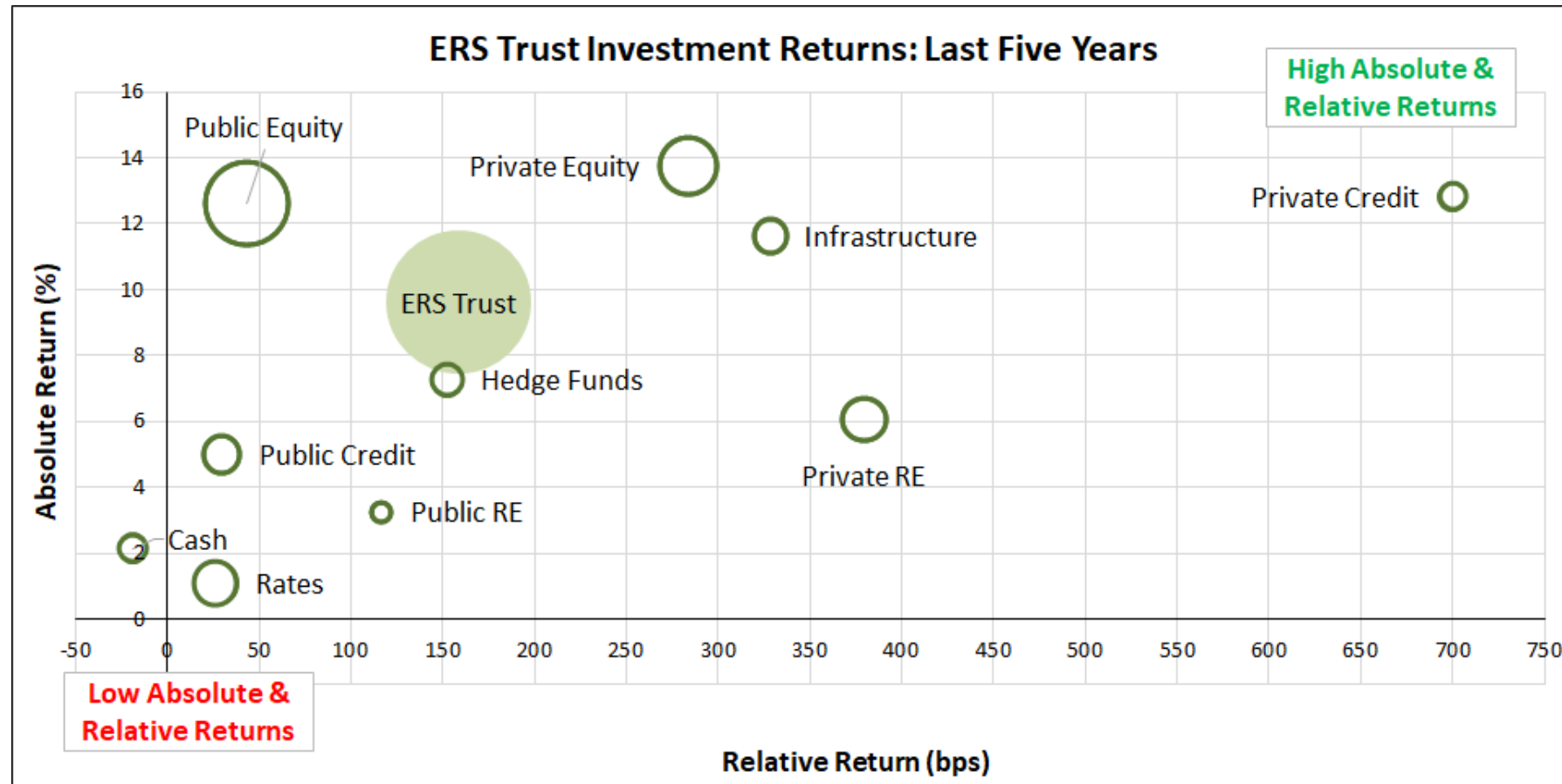


CIO Report

Absolute & Relative Trust Returns



- All asset classes except cash contributing to absolute and relative returns

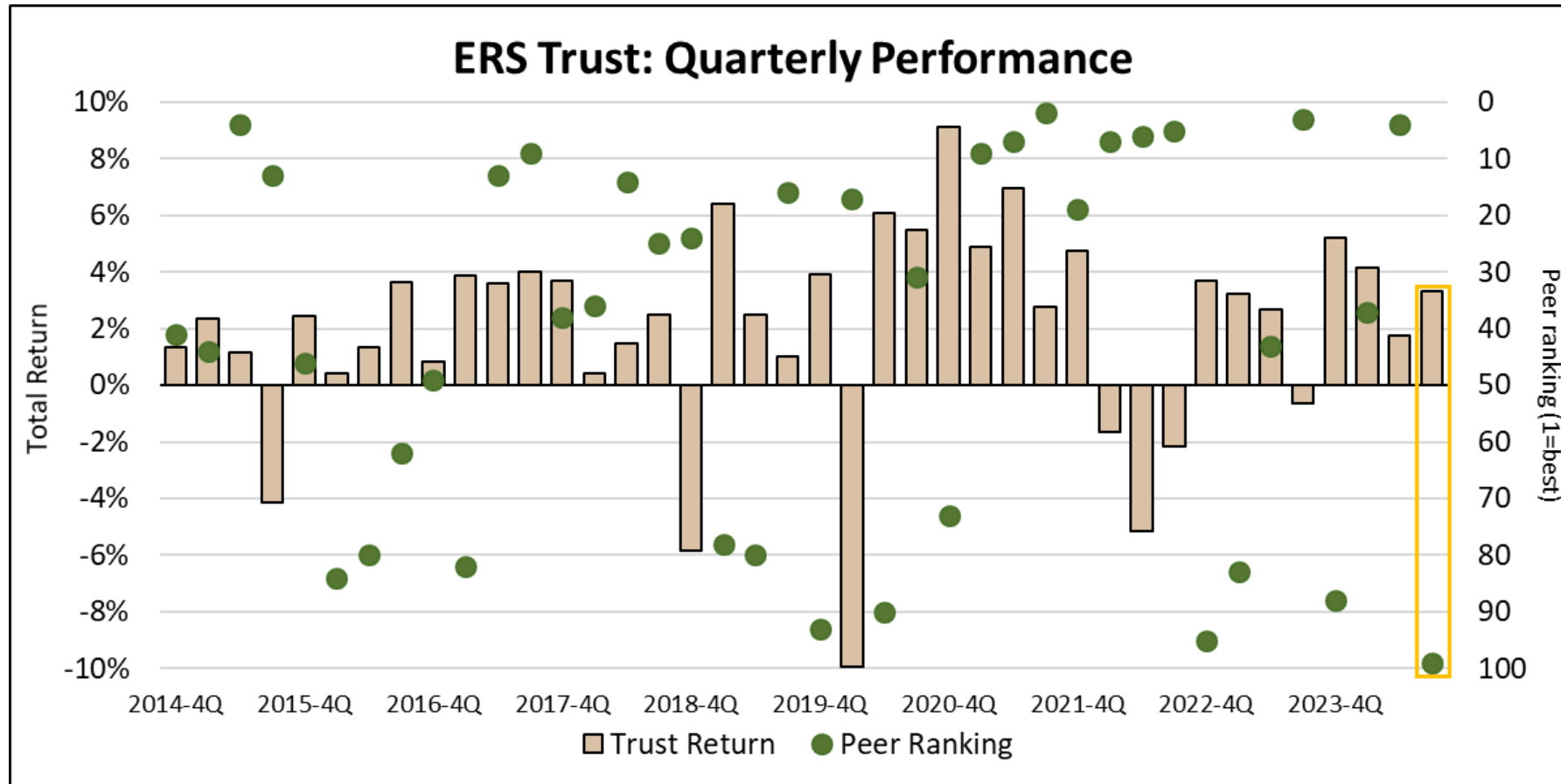


CIO Report



Absolute Trust Returns & Peer Rank

- Difficult quarter for peer rank (99th percentile) due to weak relative returns (-108 bps)

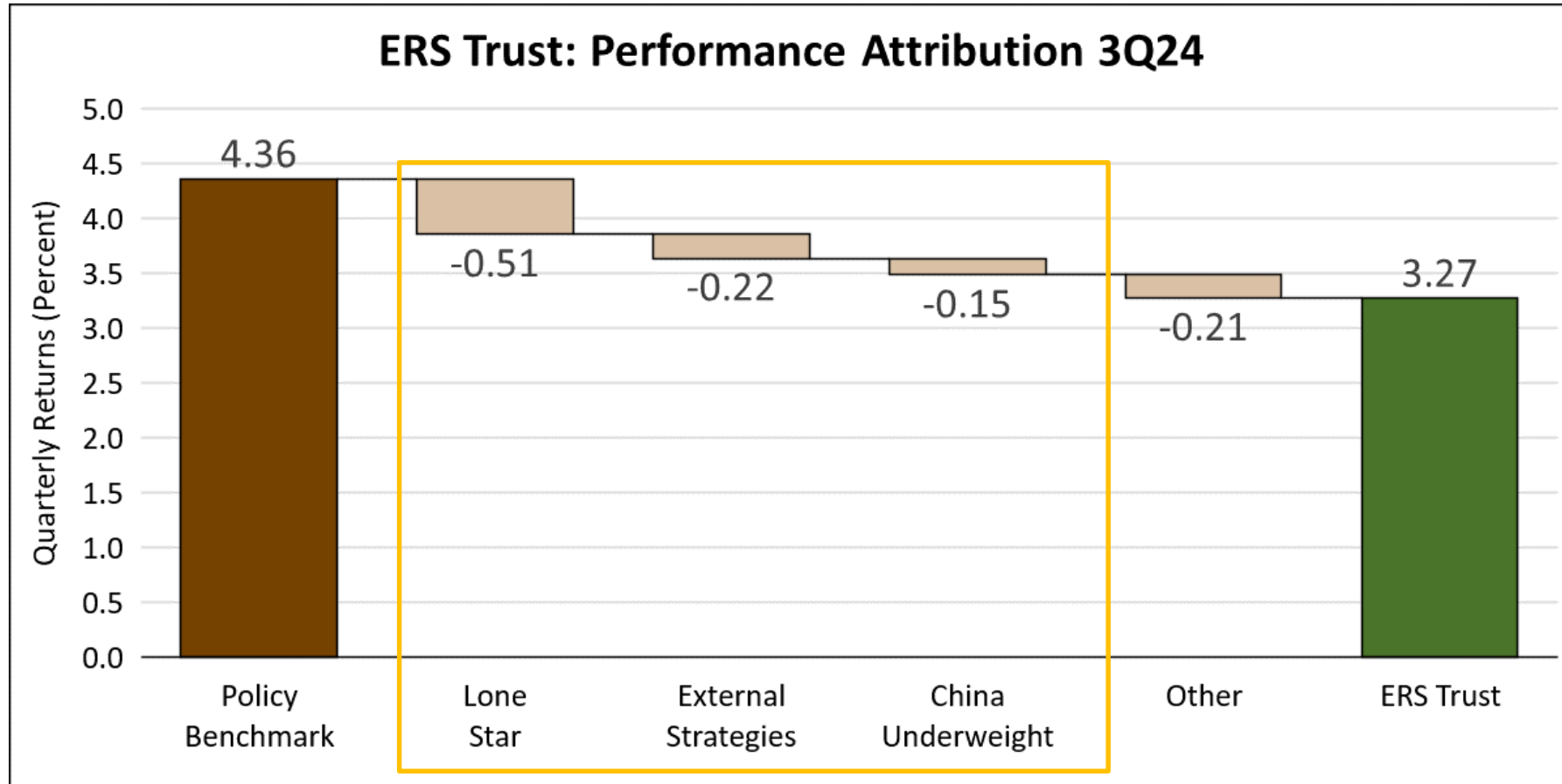


CIO Report

Trust Performance Attribution



- Three factors within Public Equity explain most of the 3Q24 underperformance

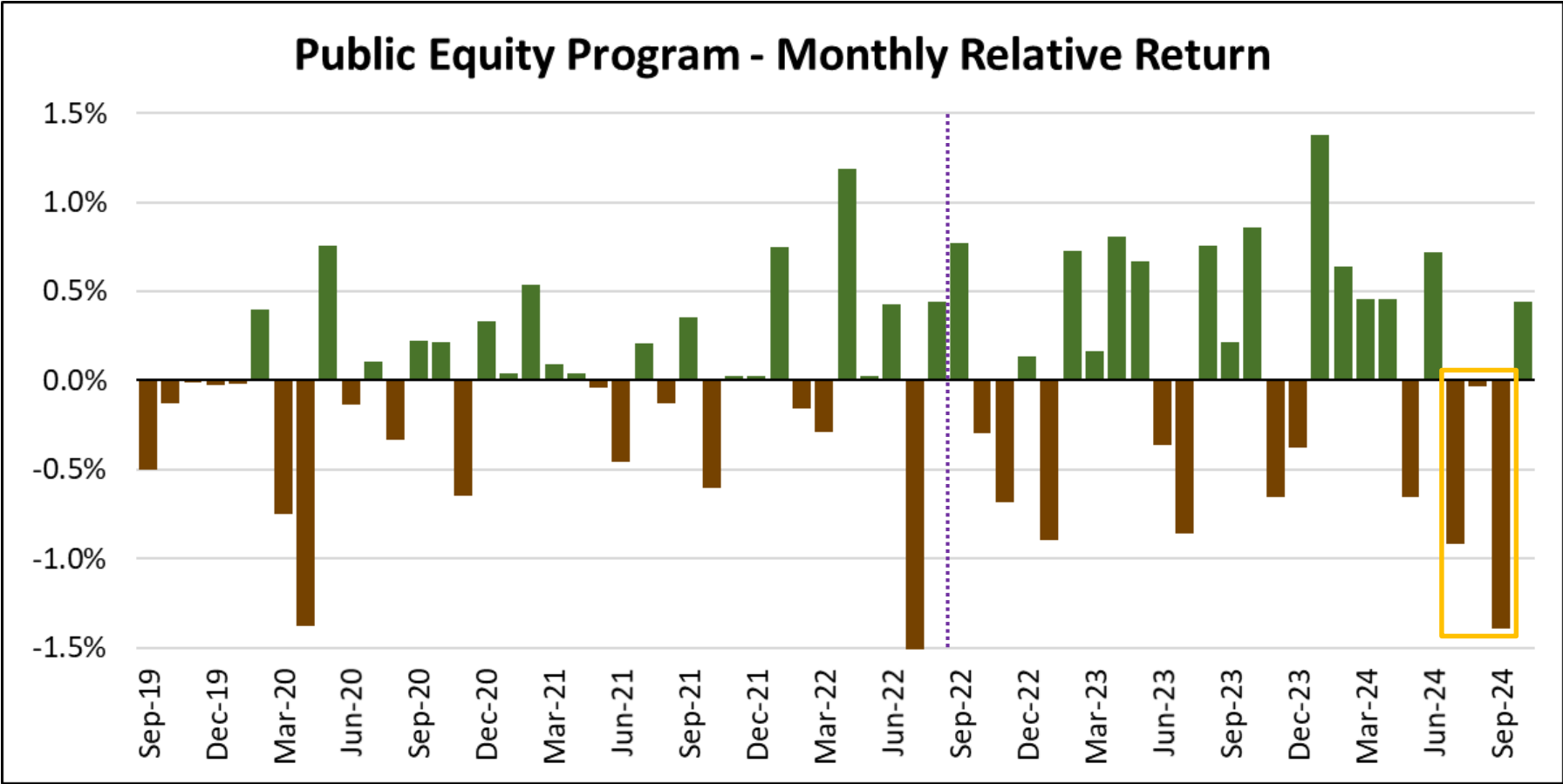


CIO Report



Public Equity Program Performance

- Public Equity: 4.4% for 3Q24 vs. 6.7% for the benchmark after three challenging months

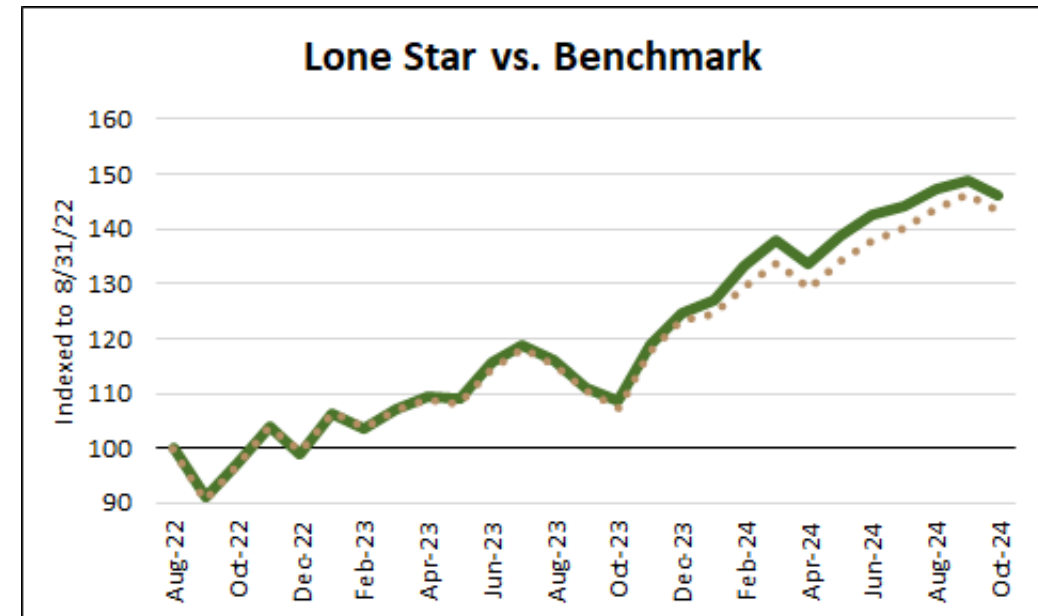
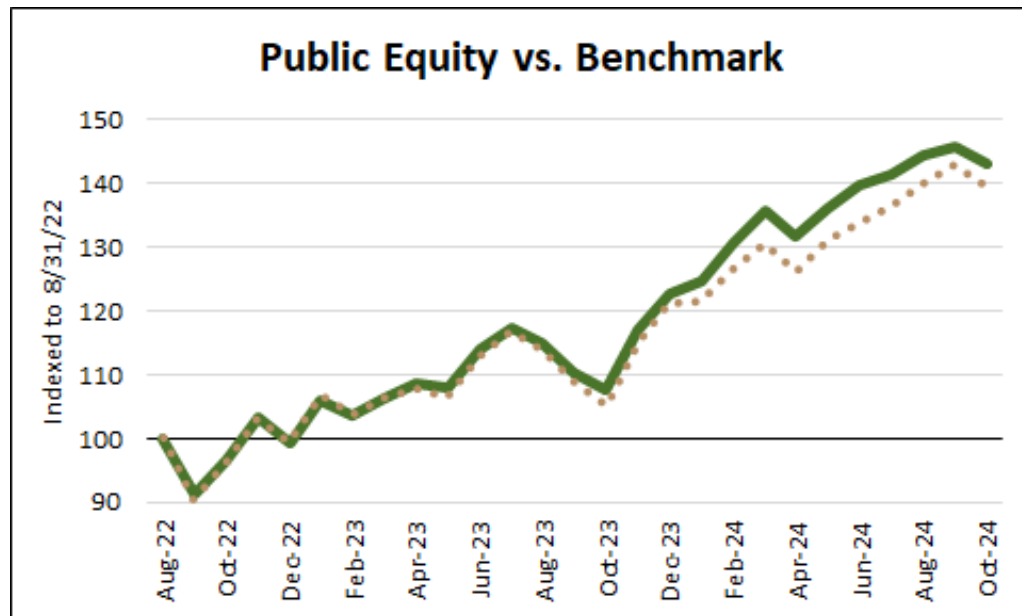


CIO Report

Public Equity Program Performance



- Public Equity has been performing well since September 2022 restructuring
 - Public Equity: +133 basis points of annualized outperformance (+\$385M)
 - Lone Star: +118 basis points of annualized outperformance (+\$320M)

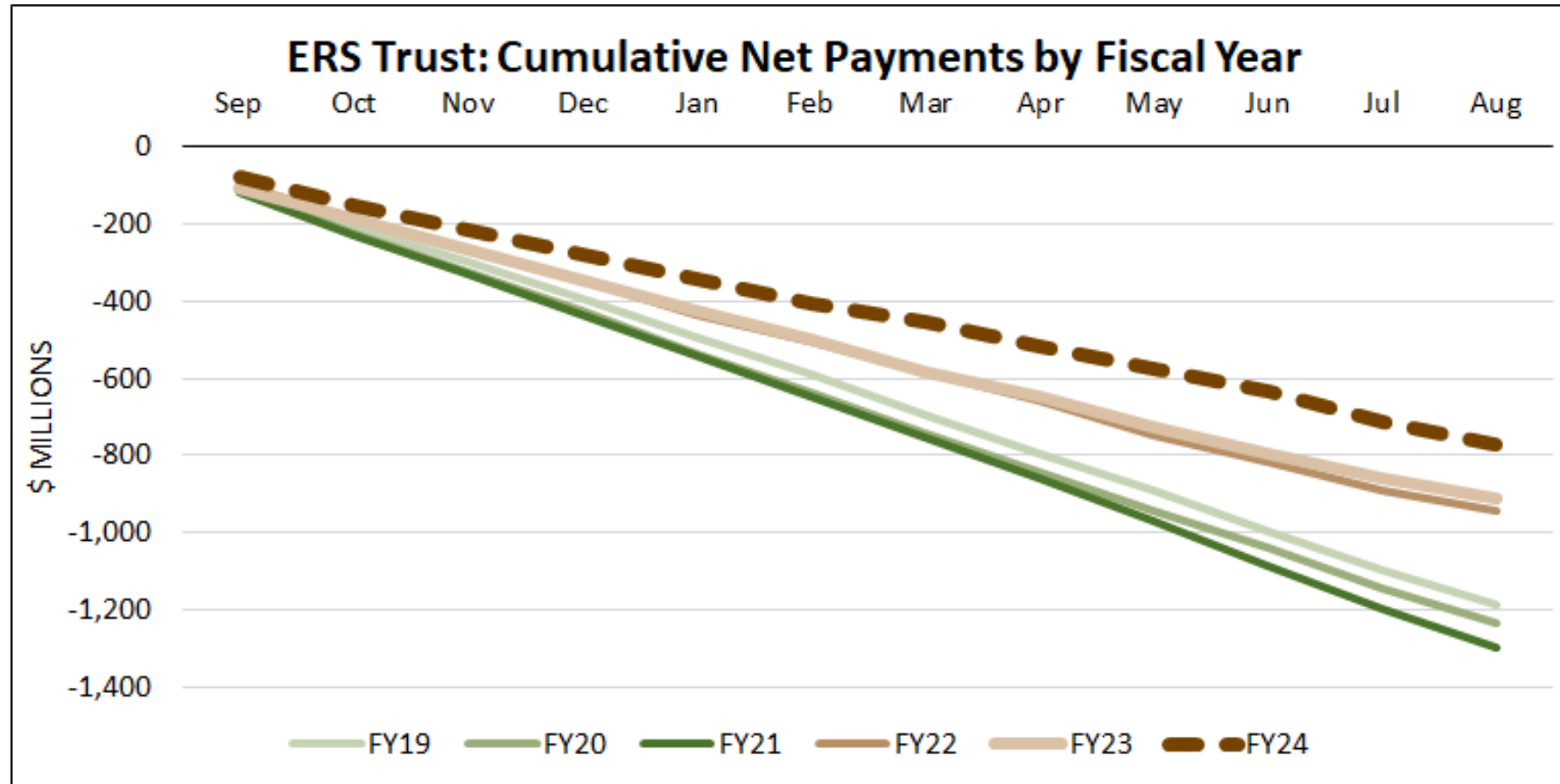


CIO Report

Liquidity Profile



- Net outflows continue to moderate due to legacy payments and higher contributions

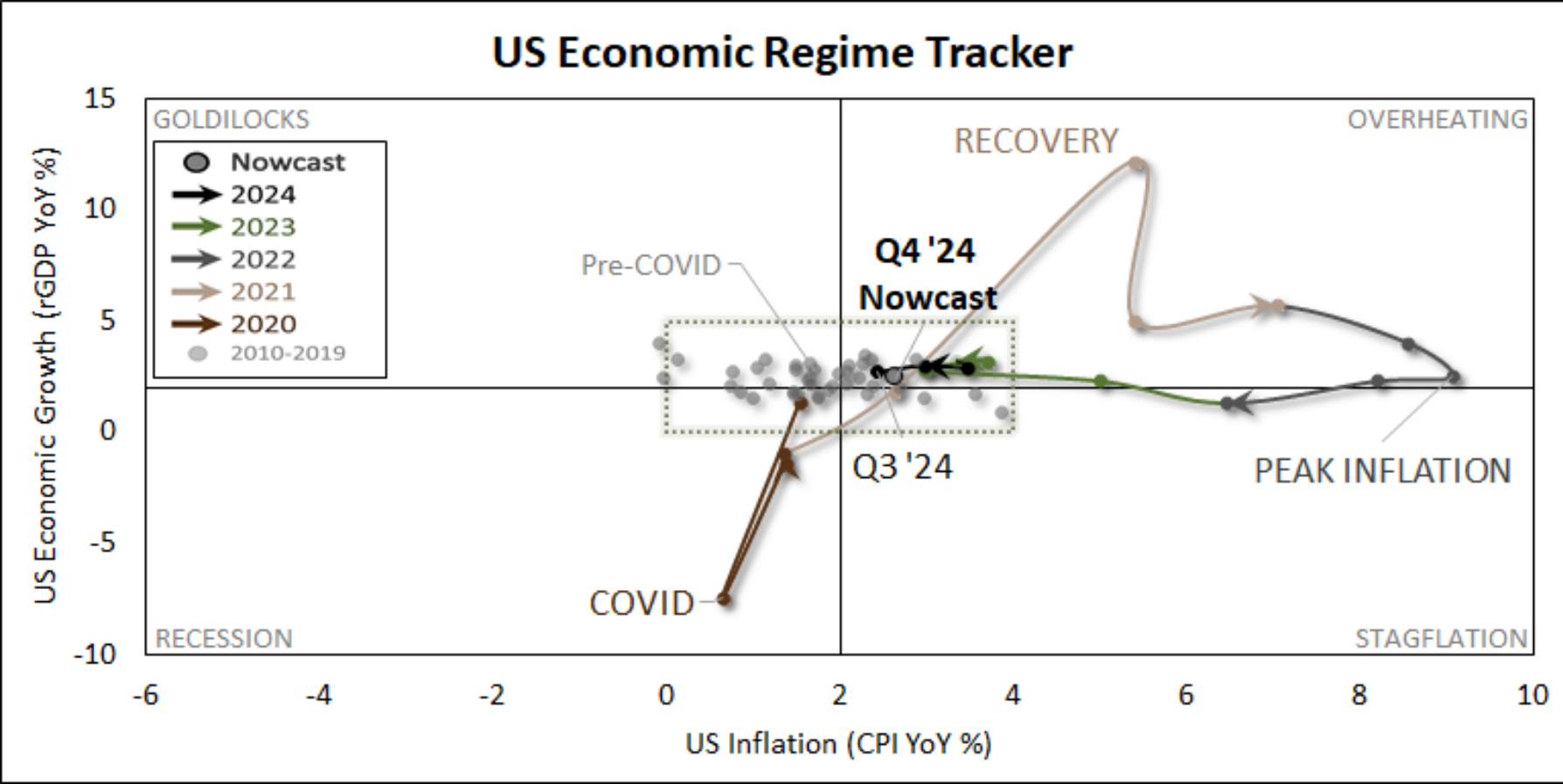


CIO Report

2024 Market Environment



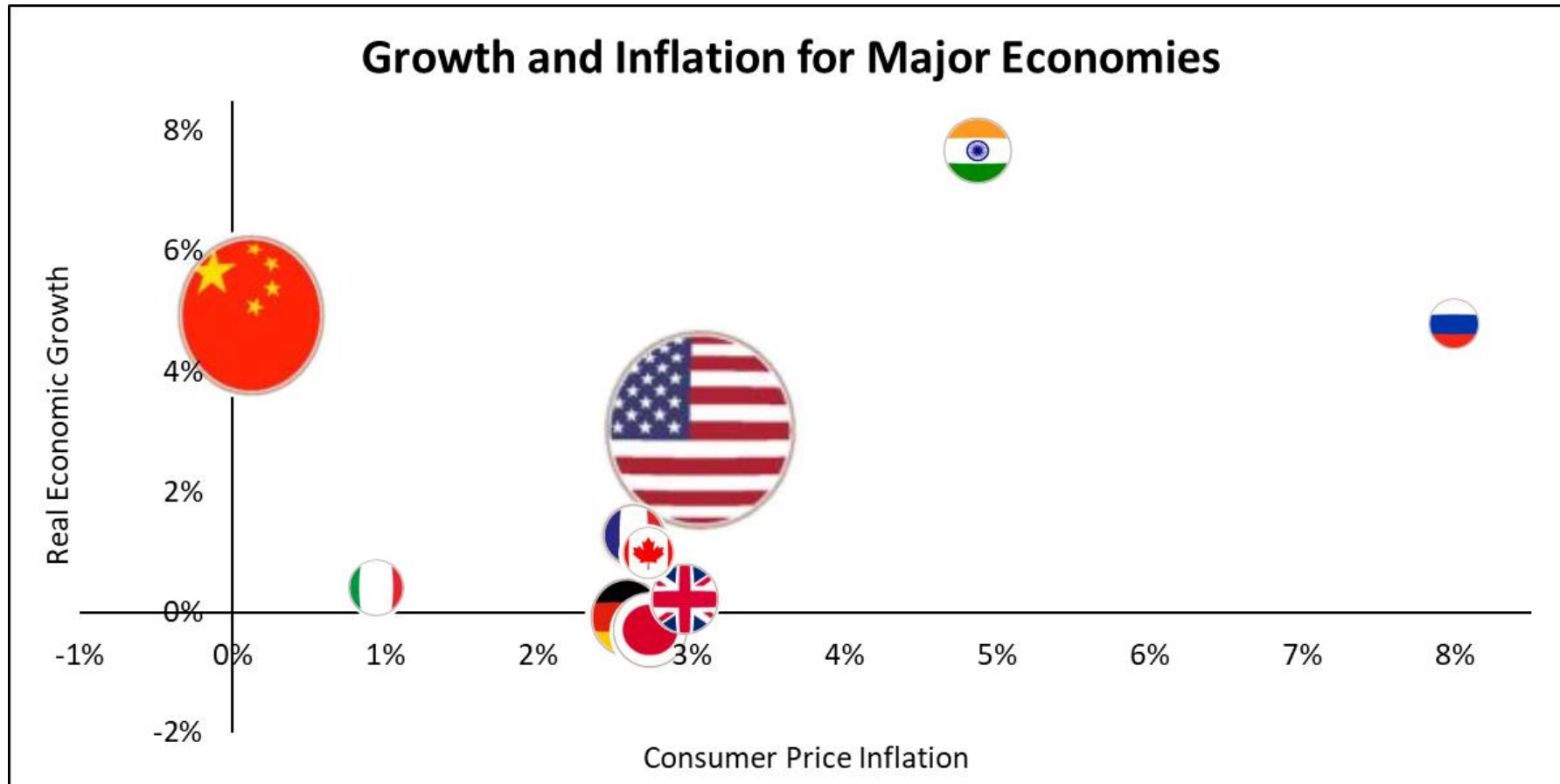
- U.S. economic conditions have remained more or less normal



CIO Report

Market Environment

- Growth and inflation holding up well across most major countries

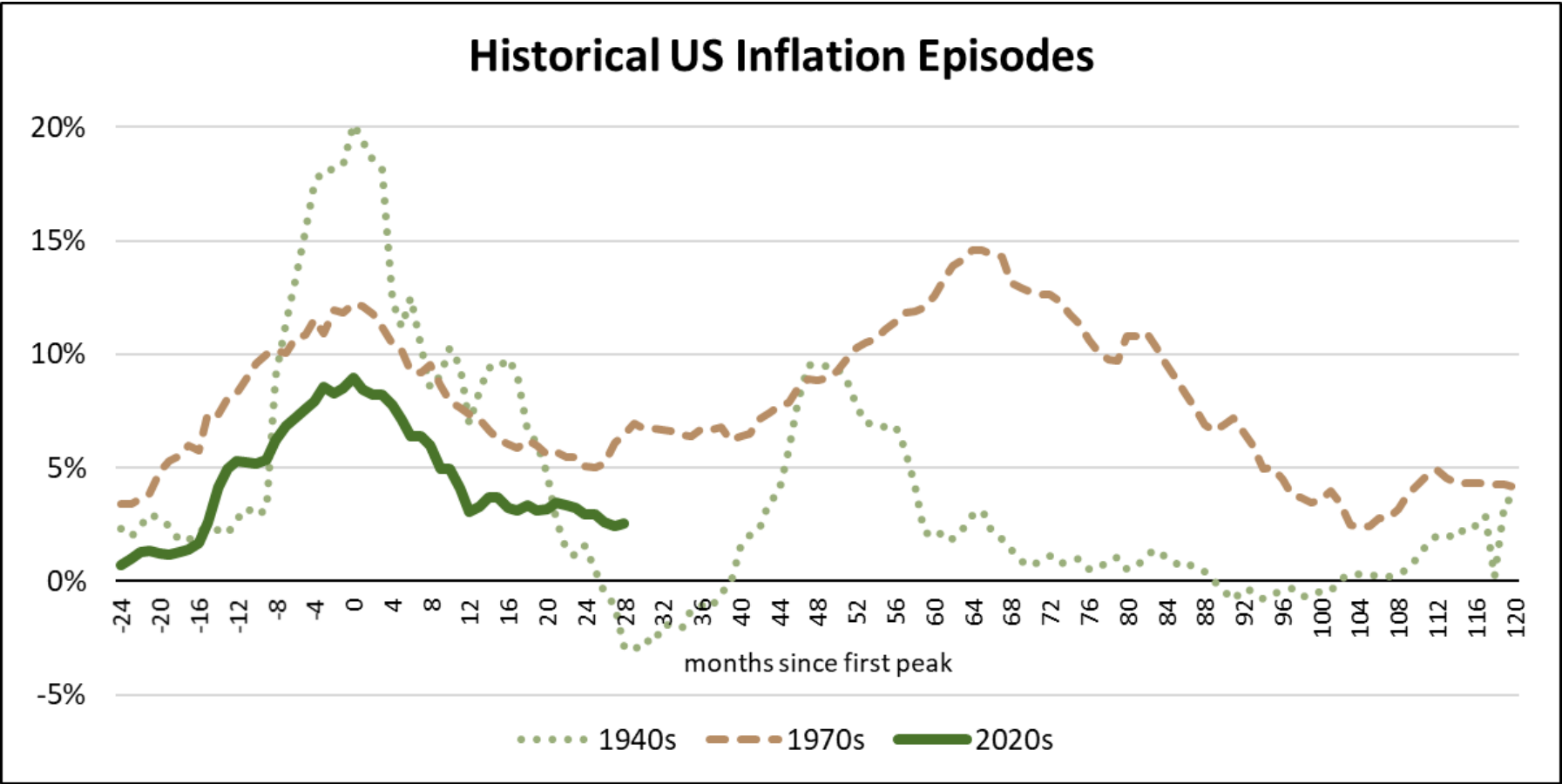


CIO Report

Market Environment



- Risk of resurgent U.S. inflation lingers given historical patterns



CIO Report

Key Current Initiatives



- Attracting and retaining top investment talent
 - Setting ambitious goals for excellence and engagement
- Implementation of Investment Practices Review
- Investment Consulting RFQ (with Board selection in December)

Discussion

Public Agenda Item #12

Consideration of Annual Review of Public Equity Program

December 10, 2024

Lauren Honza, Managing Director of Public Equity

Keith Lyons, Director of Global Internal Equity

Public Equity Program

Program Overview



- **Strategic Purpose**

- Return seeking allocation providing long-term growth and liquidity
- Program inception in November 1996, restructured in 2022

- **Implementation Objective**

- Outperform global equity benchmark over rolling five-year periods
- Maintain compliance with portfolio guidelines

Public Equity Program

Key Characteristics



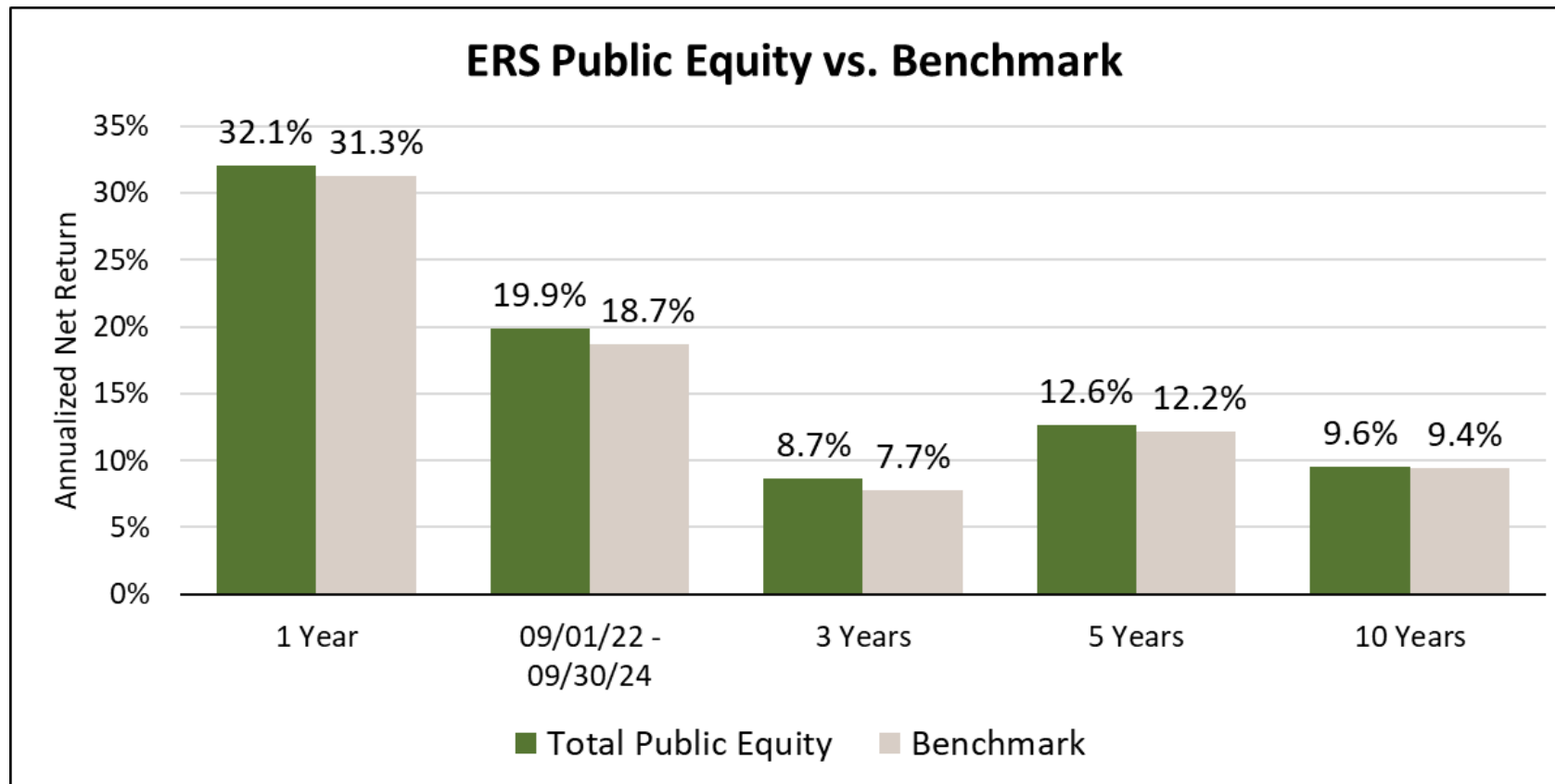
Attribute	Public Equity Portfolio
Type of Allocation	Return Seeking
Policy Allocation	Target weight of 35%, range from 25% to 45%
Performance Objective	Exceed return of MSCI ACWI IMI index
Management Style	Internally and externally managed funds
Risk Budget	Tracking error: target 200 bps, limit 300 bps
Expected Information Ratio	0.25 or better
Investment Expenses	~50 bps overall including 11 bps internal, 44 bps external

Public Equity Program

Performance Snapshot



- Strong performance since restructuring of Program; flat over long-term

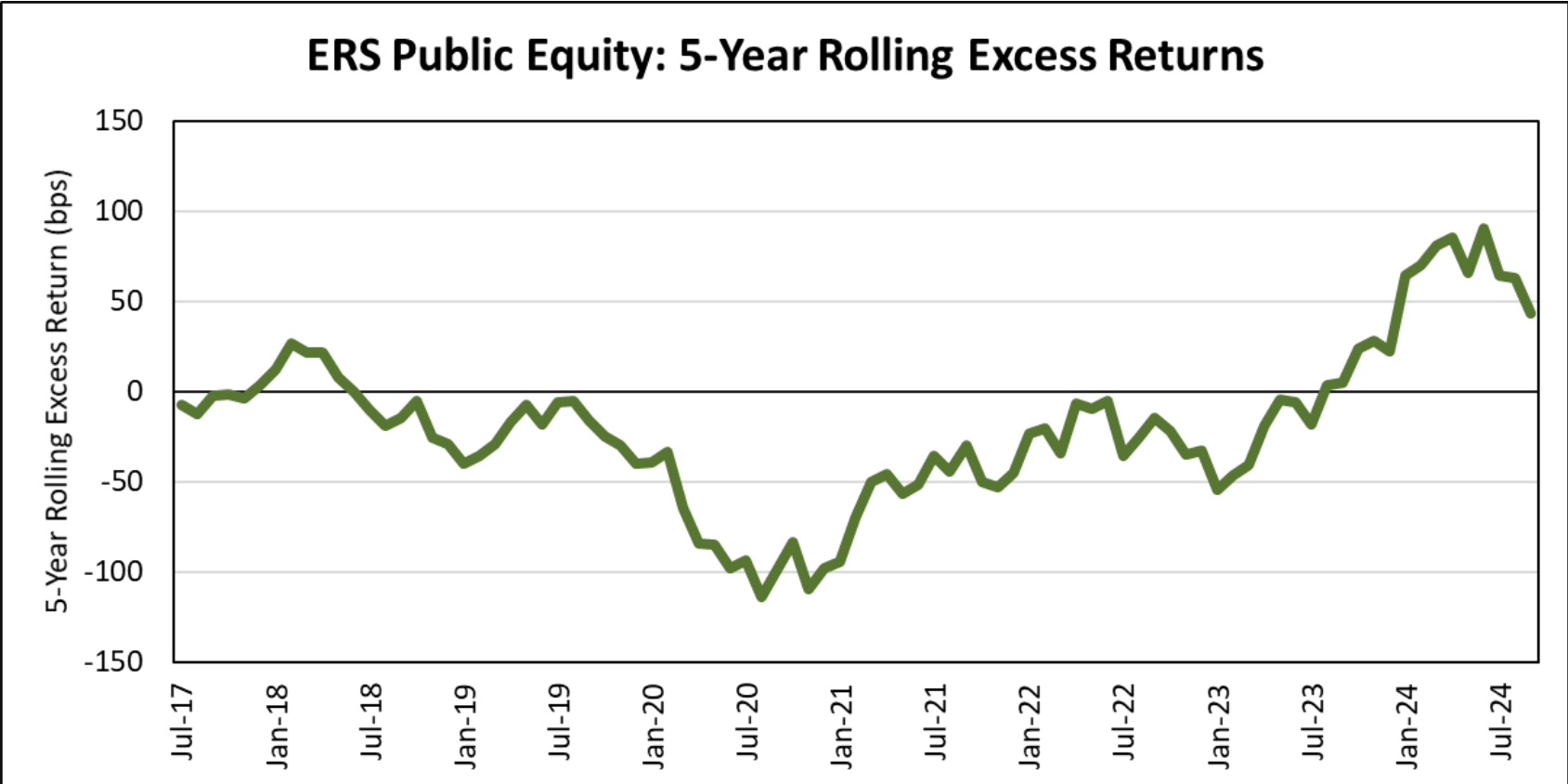


Public Equity Program

Historical Performance



- Five-year rolling return into positive territory with recent improvement

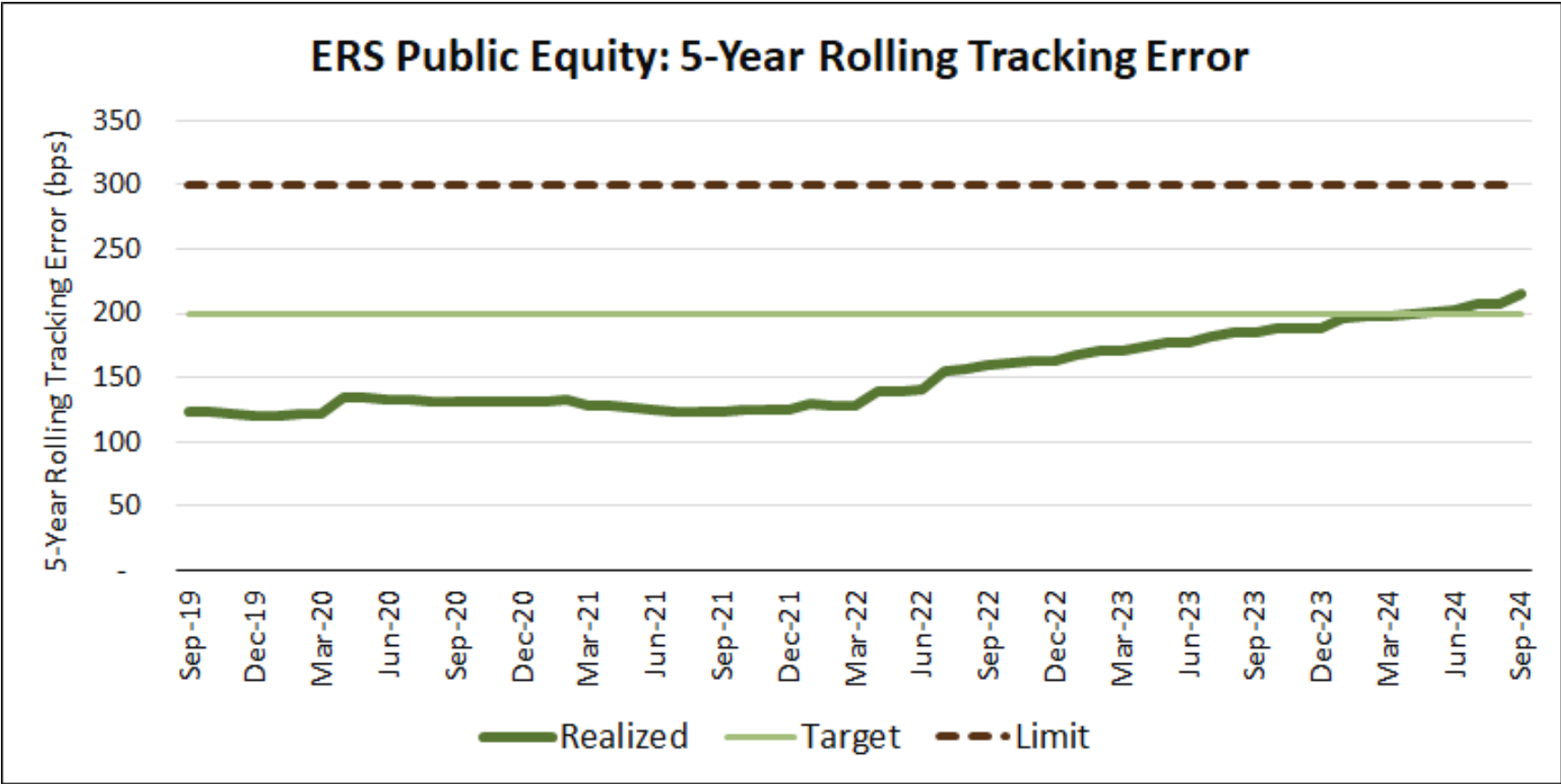


Public Equity Program

Historical Risk



- Tracking error up on higher volatility, less portfolio complexity

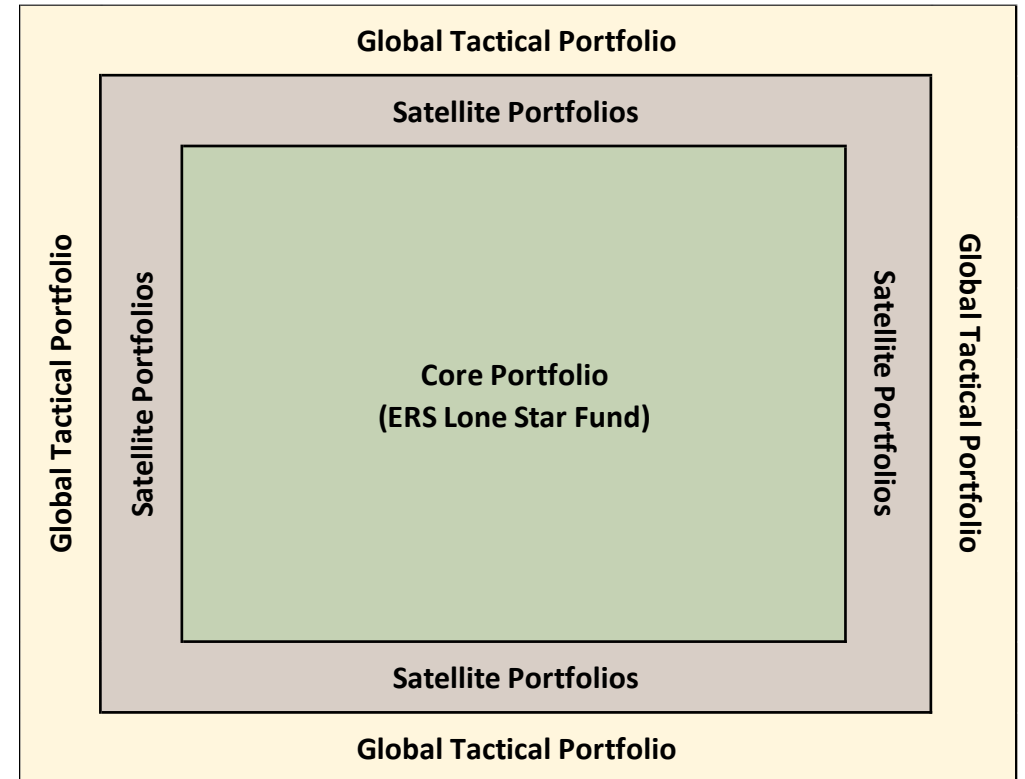


Public Equity Program

Architecture Effective September 1, 2022



- Internal public equities serves as the centerpiece of the portfolio
- Team identifies complementary exposures and strategies
- Liquidity & allocation overlay allows for more rapid rebalancing and tilts



Public Equity Program

Goals of Restructuring



- Improve risk-adjusted performance
- Simplify portfolio structure
- Enhance allocation capabilities
- Improve alignment of interests

Public Equity Program

Before and After Restructure



	June 30, 2022	September 30, 2024
Internal Portfolios	8	1
Satellite Portfolios	18	10
Total Holdings / Internal Holdings	2,342 / 1,259	1,367 / 139
Tracking Error	140 basis points (5Y)	215 basis points (5Y)
Excess Returns (Annualized)	-5 bps last 5 years	+115 bps since inception
External Advisor Fees	\$18.3 million	\$9.5 million

Public Equity Program

Current Allocation as of September 30, 2024



- Program currently in line with long-term target

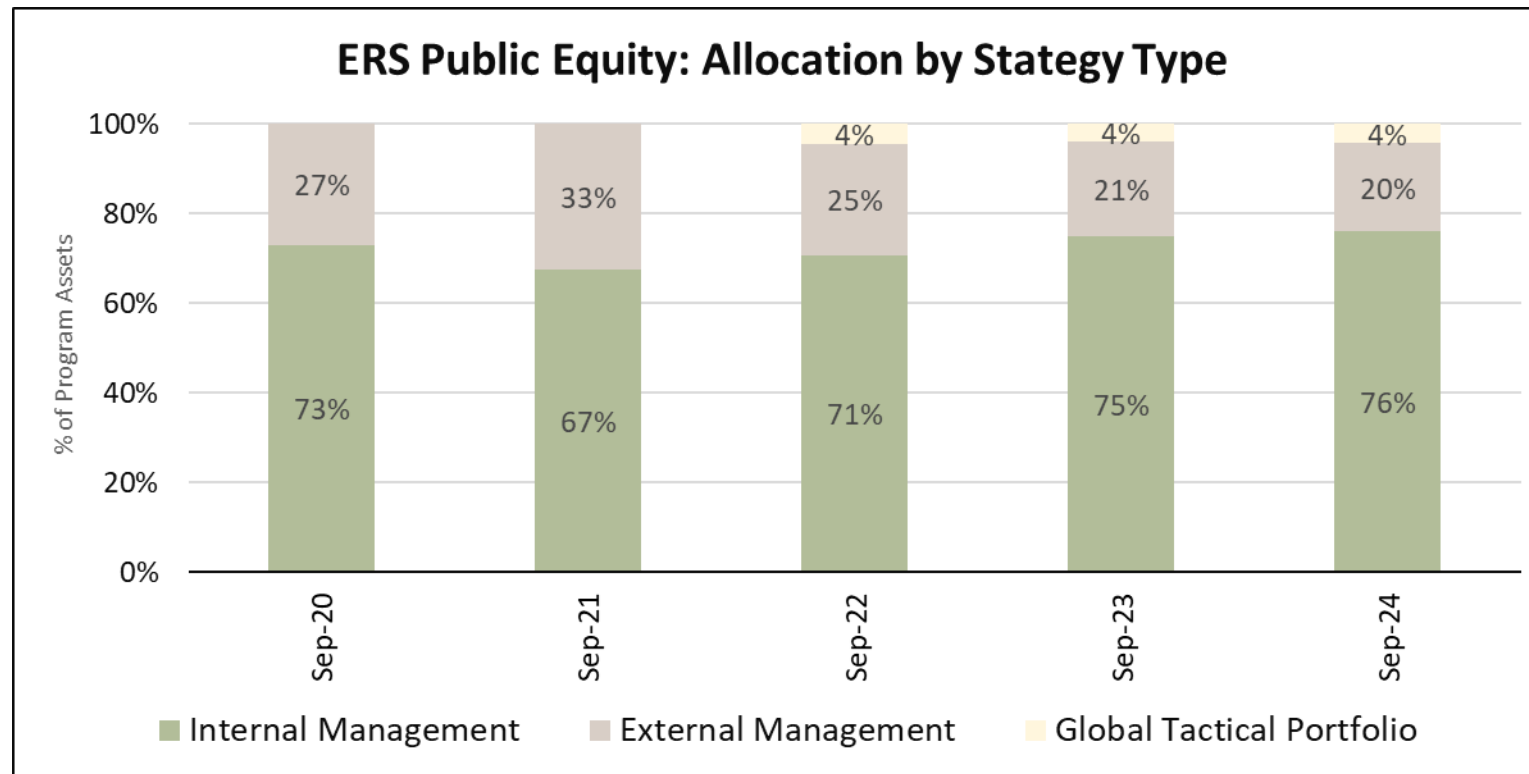
	Assets	% of Public Equity	Long-Term Range
Core Portfolio (Lone Star Fund)	\$ 10,863,407,944	76.0%	70% ± 20%
Satellite Portfolios	\$ 2,819,724,688	19.7%	25% ± 20%
Global Tactical Portfolio	\$ 618,035,202	4.3%	5% ± 5%
Total Public Equity Program	\$ 14,301,167,834	100.0%	100.0%

Public Equity Program

Historical Composition



- 70% internal management historically, tactical portfolio adds 4-5%



Public Equity Program

Organizational Chart



Lauren Honza
Managing Director
of Public Equity

Keith Lyons
Director
of Global Internal Equity

Michael McCrary
Lanesia Jones
Satellite Portfolios

Andrew Hodson
Deputy Portfolio Manager
of Global Internal Equity

Mark Long
Sector Head
Health Care

Kelley Hewell
Sector Head
Rate Sensitive

Derek Sadowsky
Sector Head
Information Technology

John Streun
Sector Head
Consumer

Teofilo Bacungan
Sector Head
Cyclicals

Jason Bergstrand

Ian Smith
John Taylor

David Lazarz

Aris Oglesby

Taylor Close
Barnabas Koncz

Public Equity Program

ERS Lone Star Fund



- Objective: Core portfolio for Public Equity
- Internally managed
- Benchmark: MSCI ACWI ex-China
- Region allocation +/- 300 basis points as a result of stock selection
- Sector neutral
- Stock selection key driver of long-term returns

Public Equity Program

ERS Lone Star Fund



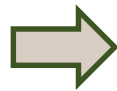
- Principles
 - Fundamental company analysis drives stock selection
 - Focus on systems
 - Servant leadership
 - Strive to be uncomfortable
 - Prudent risk-taking behavior
 - Repeatable process

Public Equity Program

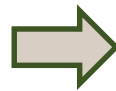
ERS Lone Star Fund



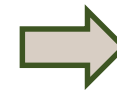
Idea
Generation



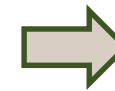
Tear
Sheet



Sector
Head



Investment
Committee



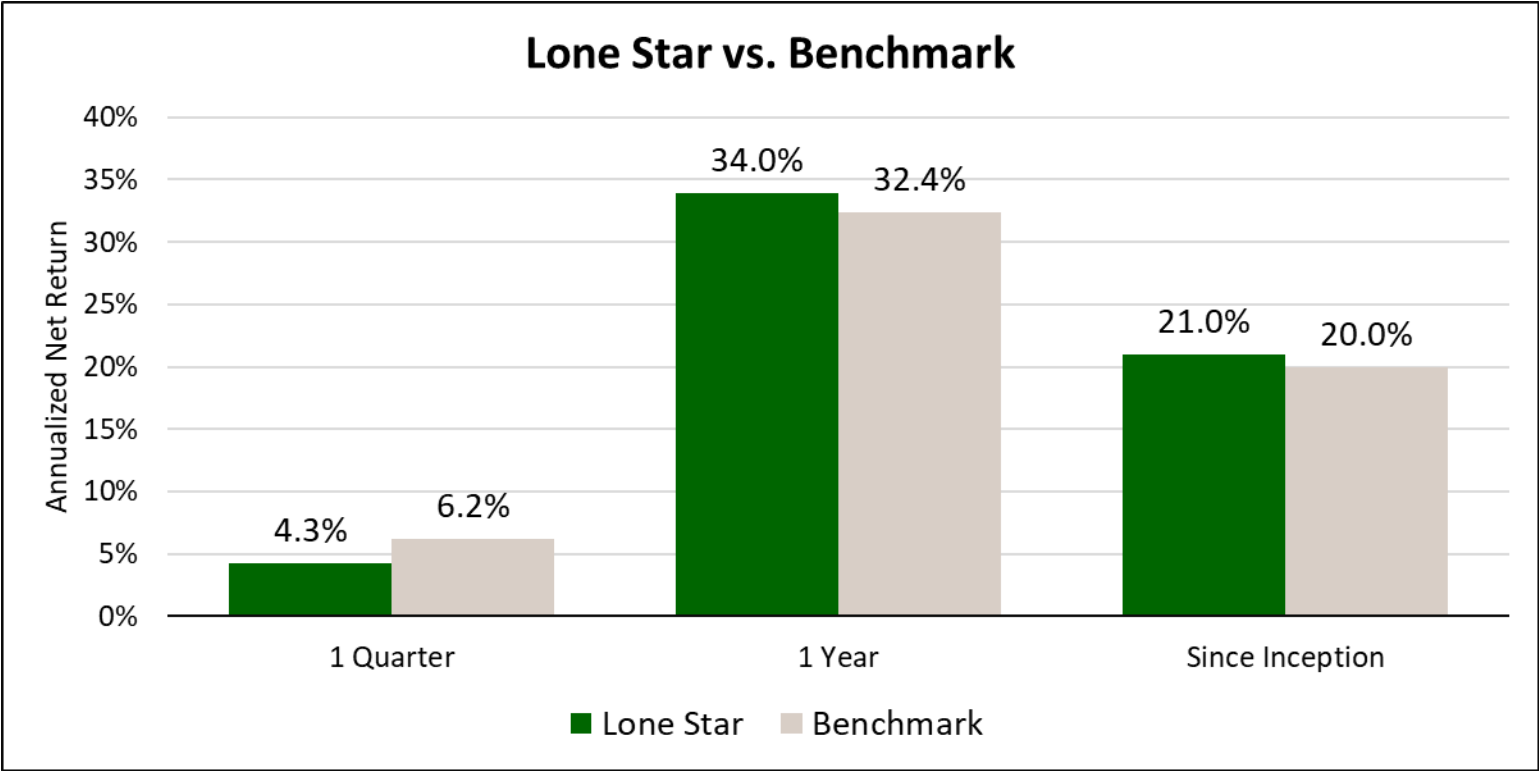
Lone Star
Portfolio

Public Equity Program

Lone Star Fund Performance Snapshot



- Strong performance since launch of a single internal portfolio



Public Equity Program

Satellite Portfolios



- Objective: Provide complementary exposures
- Externally managed/advised
- Diversification benefits through increased returns and/or risk reduction
- Differentiated strategies
- Selected in accordance with applicable policies
- Approved for Select Pool by Asset Class Investment Committee

Public Equity Program

Satellite Portfolios



Item	Details
Total Funded	10 strategies
Select Pool	18 strategies
Funded FY24	1 strategy
Defunded FY24	1 strategy
Combined FY24	2 strategies
RFA	Calendar Year 2024

Public Equity Program

Global Tactical Portfolio



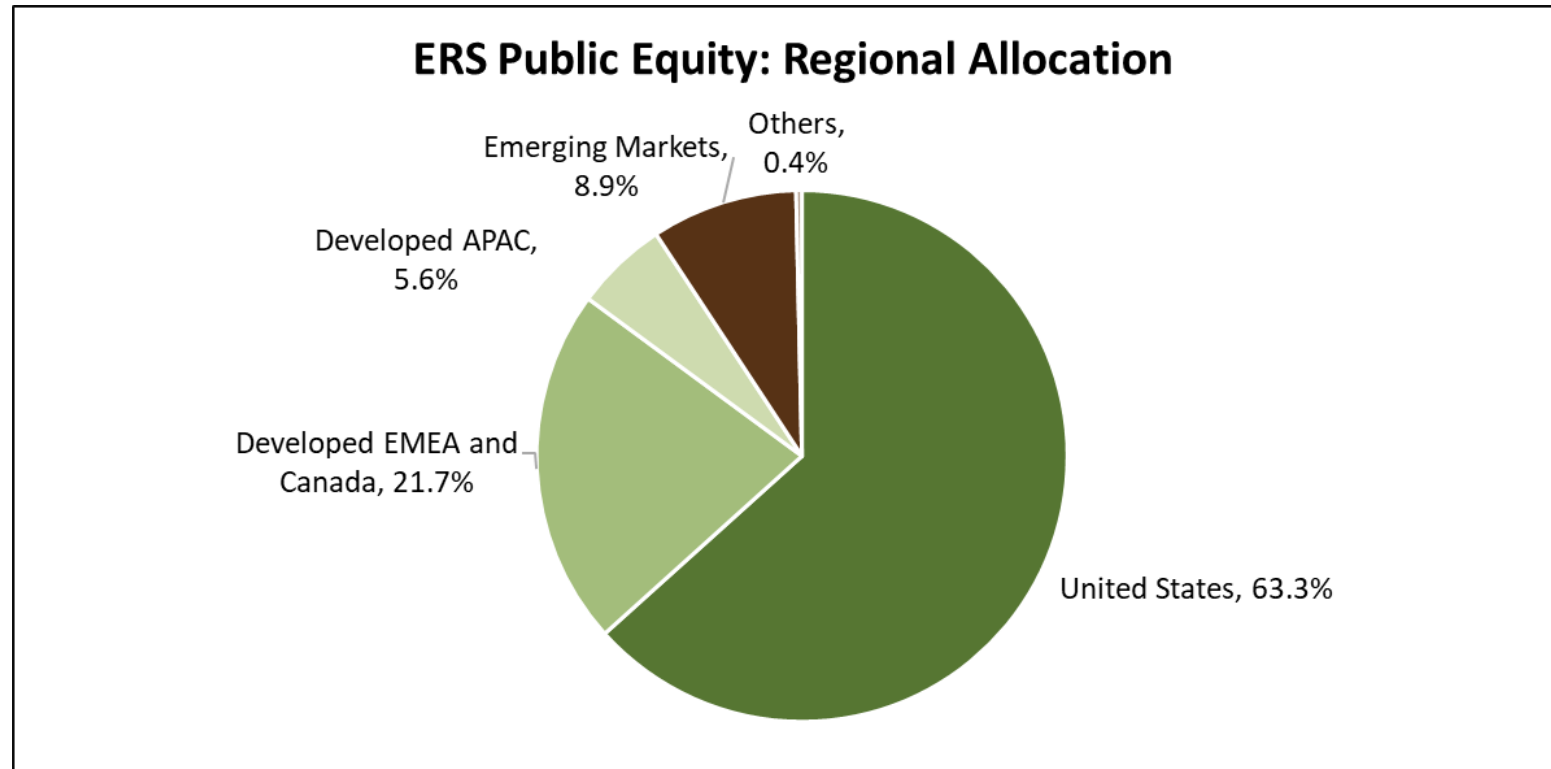
- Objective: Efficient exposure to markets, factors, and strategies
 - Ability to express tactical views
 - Ready funding for liquidity needs
 - Minimize cash drag
 - Lower transaction costs
 - Effective and efficient rebalancing tool in volatile markets
 - Less disruptive to managers when rebalancing

Public Equity Program

Composition by Region



- Portfolio remains well-diversified across geographies and within guidelines

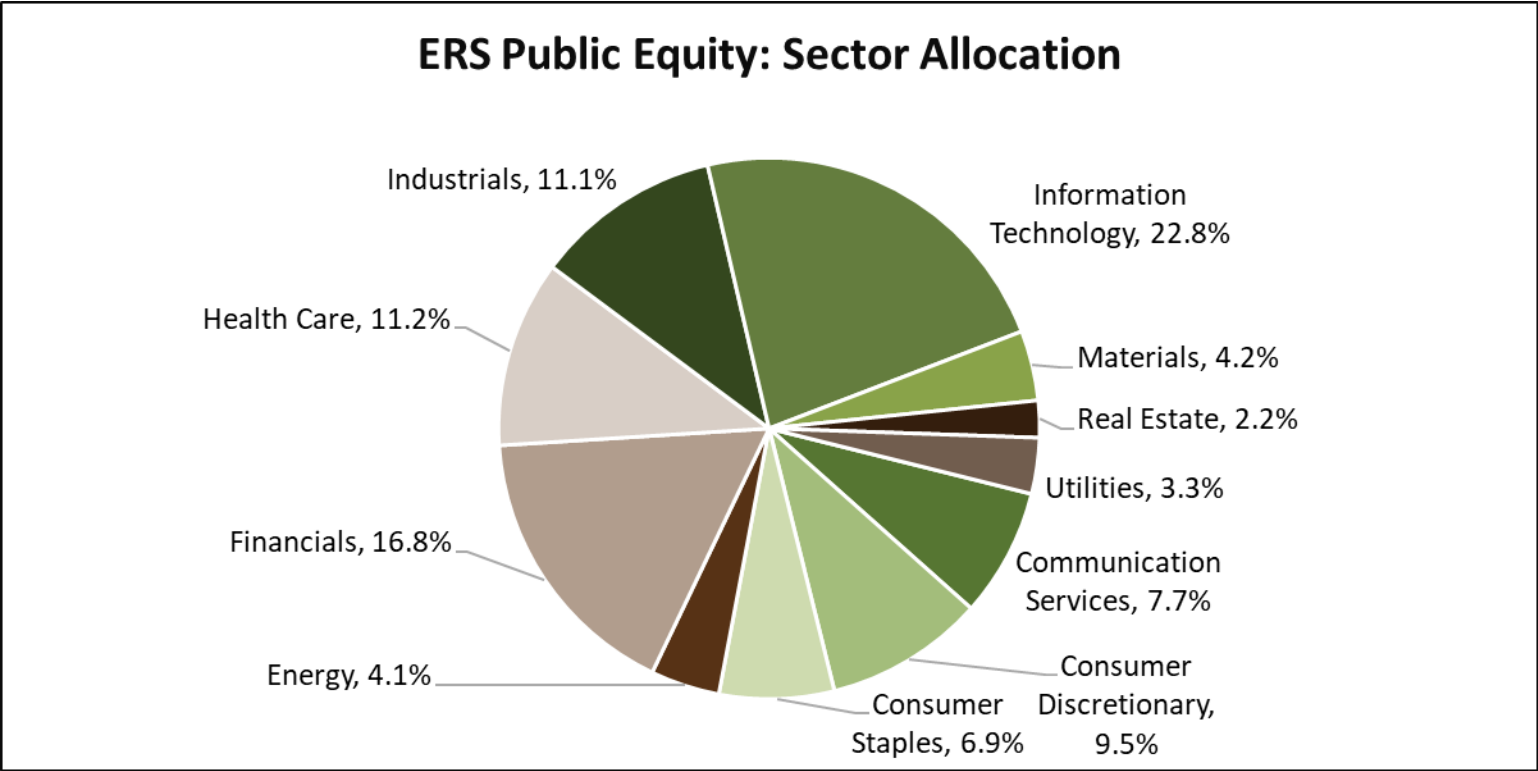


Public Equity Program

Composition by Sector



- Portfolio remains well-diversified across sectors and within guidelines



Public Equity Program

Initiatives



- Continue to implement and refine the investment process for the Lone Star Fund
- Identify and perform diligence on equity strategies that can add value to the Trust
- Implement recently approved pooled index fund vehicles
- Enhance the portfolio construction process including the development of new analytics
- Continue to develop and implement a robust monitoring process
- Review software and tools to ensure the prudent use of the technology budget
- Study how to use AI to improve productivity
- Develop investment, management and leadership skills and provide opportunities for growth

Discussion

Public Agenda Item #13

Consideration of Annual Review of Emerging Manager Program

December 10, 2024

Lauren Honza, Managing Director of Public Equity
Lanesia Jones, Investment Analyst

Emerging Manager Program

Statutory Definition



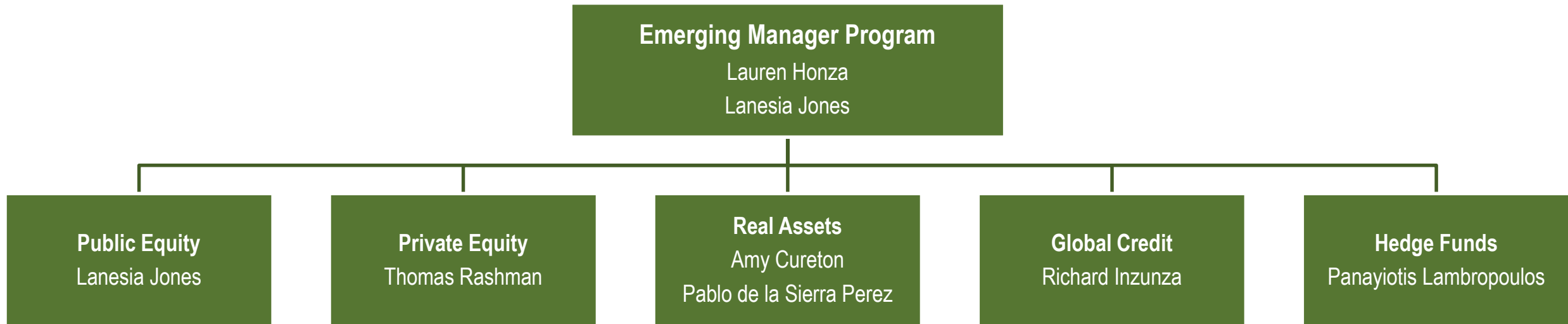
- Texas Government Code § 815.301 (g), (h) and (i) requires ERS to make a good faith effort to acquire financial services from emerging managers.
- The statute defines emerging managers as private professional firms with **less than \$2 billion in assets under management** who provide pension fund management, consulting, investment advising, brokerage services, hedge fund management, private equity management, and real estate investment.

Emerging Manager Program



Team

- Integration within asset classes represents a significant success factor



Emerging Manager Program

Approach



- ERS External Advisor Website
- Managers of Emerging Managers
- Investment Consultants
- Industry Outreach

Emerging Manager Program

Event Highlights



- Real Estate Emerging Manager (REEM) Summit (January 10–11, 2024)
 - 143 Attendees
 - 56 General Partners
 - 55 Limited Partners
- TRS/ERS Emerging Manager Conference (February 28, 2024)
 - 2,012 Attendees
 - 1,100 Networking Meetings
- TRS/ERS Emerging Manager Conference (February 11, 2025)

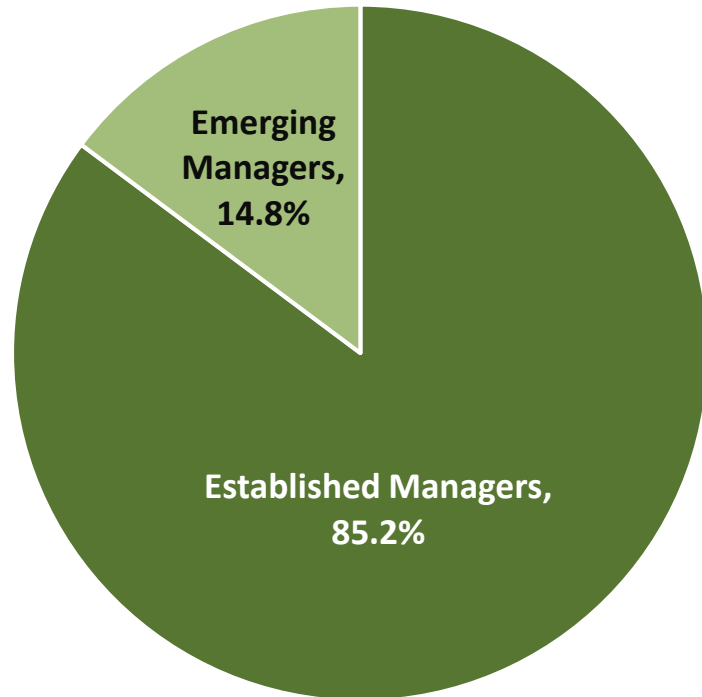
Emerging Manager Program

Investments as of September 30, 2024

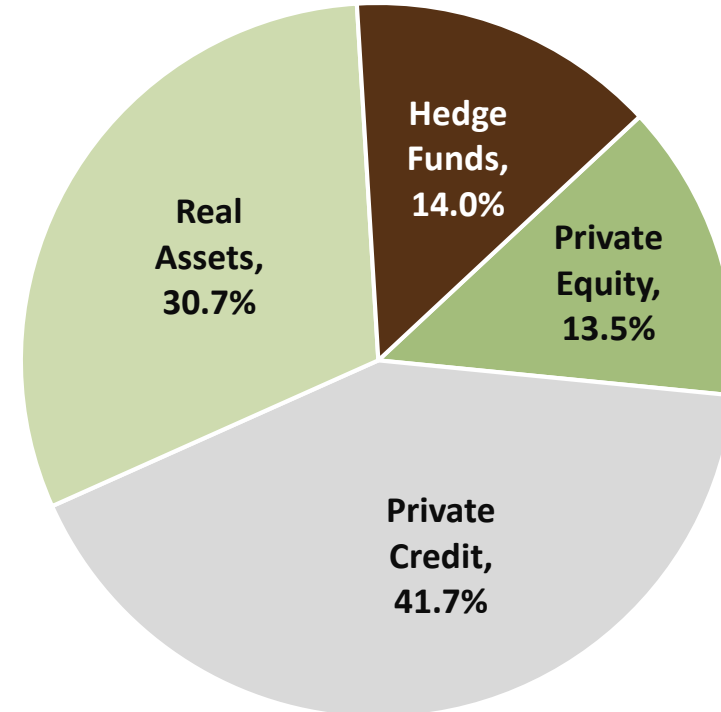


- \$2.4 billion in total assets = 14.8% of external assets

Externally Managed/Advised Assets \$18.4 billion



Emerging Manager Program \$2.4 billion



Emerging Manager Program

Private Equity



- Total Commitments: \$585 million
- Direct Relationships: 3
- Fund of Funds: 2
- FY24 Commitments: \$0

Private Equity (IRR as of 06/30/24)	Since Inception
Total Emerging Manager Portfolio (Inception: November 2010)	14.65%
<i>Total Private Equity Portfolio</i>	<i>12.85%</i>

Emerging Manager Program

Real Assets – Private Real Estate



- Total Commitments: \$1.2 billion
- Direct Relationships: 12
- Fund of Funds: 3
- FY24 Commitments: \$75 million

Private Real Estate (IRR as of 06/30/24)	Since Inception
Total Emerging Manager Portfolio (Inception: December 2010)	13.56%
<i>Total Private Real Estate Portfolio</i>	<i>9.84%</i>

Emerging Manager Program

Real Assets – Infrastructure



- Total Commitments: \$181 million
- Direct Relationships: 3
- FY24 Commitments: \$50 million

Infrastructure Assets (IRR as of 06/30/24)	Since Inception
Total Emerging Manager Portfolio (Inception: August 2017)	7.69%
<i>Total Infrastructure Portfolio</i>	<i>8.62%</i>

Emerging Manager Program

Private Credit



- Total Commitments: \$1.4 billion
- Direct Relationships: 5
- FY24 Commitments: \$75 million

Private Credit (TWR as of 06/30/24)	Since Inception
Total Emerging Manager Portfolio (Inception: October 2017)	14.13%
<i>LSTA Leveraged Loan Index + 150</i>	5.48%

Emerging Manager Program

Hedge Funds



- Total Commitments: \$340 million
- Direct Relationships: 1
- FY24 Commitments: \$0

Hedge Funds (TWR as of 08/31/24)	Since Inception
Total ERS Launchpad (Inception: September 2019)	3.18%
<i>Launchpad Benchmark</i>	4.38%

Emerging Manager Program

Calendar Year 2025 Initiatives



- Maintain goal of 10% of external assets with emerging managers
- Focus on relevant direct relationships with existing managers
- Continue to collaborate with fund-of-funds
- Promote best practices by working with other programs
- Co-host 2025 TRS/ERS Emerging Manager Conference

Discussion

Public Agenda Item #14

Consideration of Annual Review of Stewardship Program

December 10, 2024

David T. Veal, Chief Investment Officer

Ben Schuman, CFA, Investments Chief of Staff

Investments Stewardship

Program Overview



- Primary Stewardship functions
 - Committee meets monthly since May 2022
 - Proxy Voting
 - Scrutinized Investments
 - Restricted Investments
 - Industry engagement on Stewardship matters

Annual Review of Stewardship Program



Overview of Proxy Voting

- ERS owns shares of ~1400 companies globally
 - Voting gives shareholders a significant say in company management
 - Such votes occur seasonally around annual meetings in April-June
 - ERS contracts with a proxy advisor to cast these ballots

ERS FY24 Proxy Voting by the Numbers

23,060 proposals voted	1,885 meetings	53 countries
339 issues under consideration	97% voted automatically based on ERS Proxy Voting Guidelines	91% voted with management

Annual Review of Stewardship Program



ERS Proxy Voting Policy

- The ERS Investment Policy Statement (IPS) establishes the framework for the management of the Trust
- IPS includes the ERS Proxy Voting Policy
- Divides the subjects of these votes into six broad categories

Routine / Miscellaneous

Shareholder Rights & Defenses

Board of Directors

Compensation

Capital / Restructuring

Social / Environmental Issues

Annual Review of Stewardship Program



ERS Proxy Voting Philosophy

- Rooted in IPS language: *The right to vote proxies for securities held by the Trust has **economic value***
- Managing these voting rights is a **fiduciary act**
- Consider **only** factors related to the economic value of investments
- Cast all votes solely in the **economic best interest** of the Trust

Annual Review of Stewardship Program

ERS Proxy Voting Guidelines



- Document guiding implementation of Proxy Policy
- Comprehensive update completed in FY23
- Principles-based guidelines increased simplicity and reduce failure points
- 60 pages reduced to 10 with principles-based instructions
- Typically updated annually to coincide with start of annual meetings

Annual Review of Stewardship Program



Proxy Voting Environment

- Environmental & social shareholder proposals have leveled out



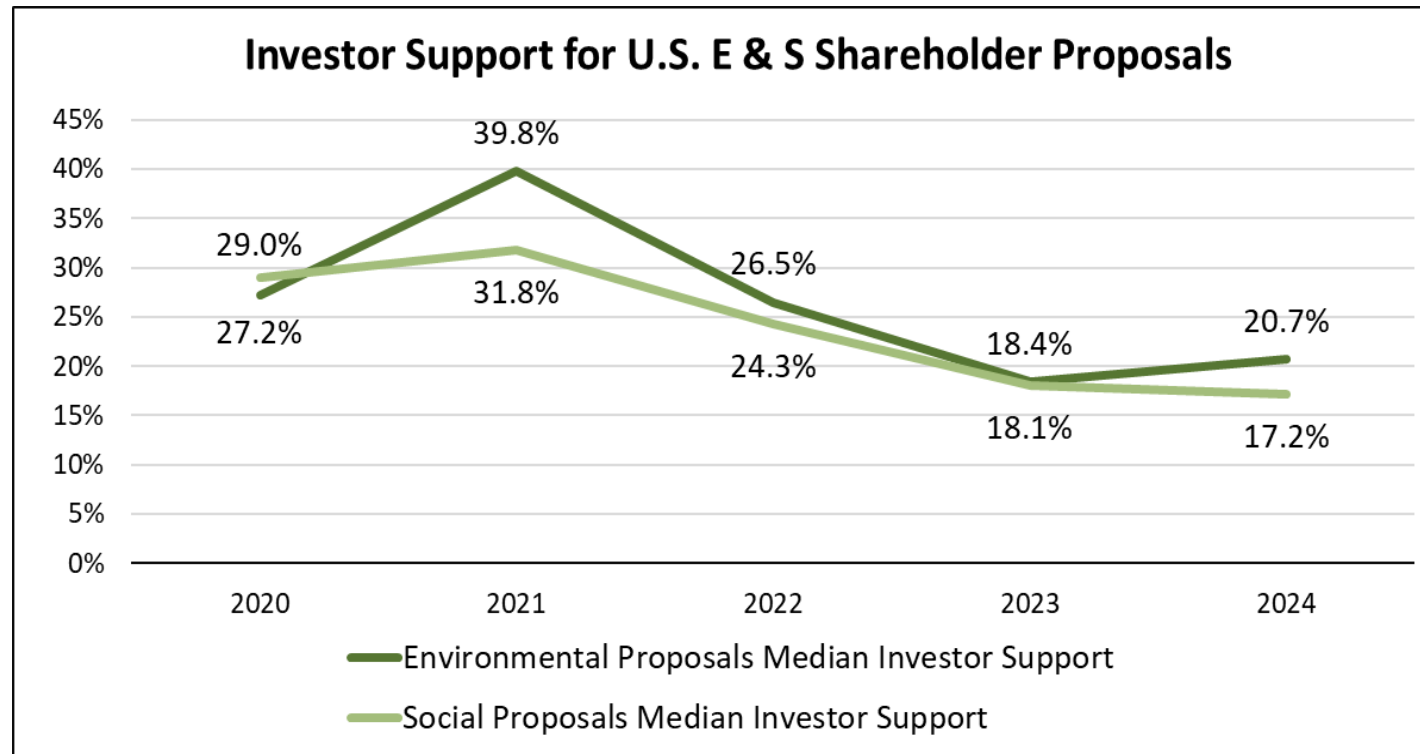
Source: ISS-Corporate Proxy Season Highlights. *2024 data through August 15, 2024. U.S. represented by Russell 3000 constituents.

Annual Review of Stewardship Program



Proxy Voting Environment

- Shareholder support for environmental & social proposals remains low



Source: ISS-Corporate Proxy Season Highlights. *2024 data through August 15, 2024. U.S. represented by Russell 3000 constituents.

Annual Review of Stewardship Program

Proxy Voting Environment



- Continued monitoring of recently introduced policies
 - Policies align with management on Environmental/Social proposals
 - ISS Global Board Aligned Policy, Glass Lewis Governance-Focused Policy, Egan Jones Wealth-Focused Policy
 - ISS/Bowyer introduced “ESG-skeptical” policy
- Confident in current approach during ongoing evaluation of new policies

Annual Review of Stewardship Program



ERS Votes on Management Proposals in FY24

- Management proposals represented 95.9% of all proposals voted
- ERS voted with management 91% of the time

ERS Proxy Voting Results: Management Proposals			
Fiscal Year 2024			
Agenda Item Category	Total Voted Proposals FY24	% Voted With Management FY24	% Voted With Management FY23
Routine/Miscellaneous	3,085	98%	96%
Board of Directors	12,085	92%	93%
Shareholder Rights and Defenses	100	94%	98%
Capital/Restructuring	1,664	90%	92%
Compensation	2,579	83%	86%
Social/Environmental Issues	123	90%	85%
Other Management Proposals	2,479	92%	94%
Total for Management Proposals	22,115	91%	93%

Annual Review of Stewardship Program



ERS Votes on Shareholder Proposals in FY24

- Shareholder proposals represented only 4.1% of total proposals
- ERS voted with management 92% of the time, up from 87% in FY23
- Social/Environmental: 100% with management in FY24

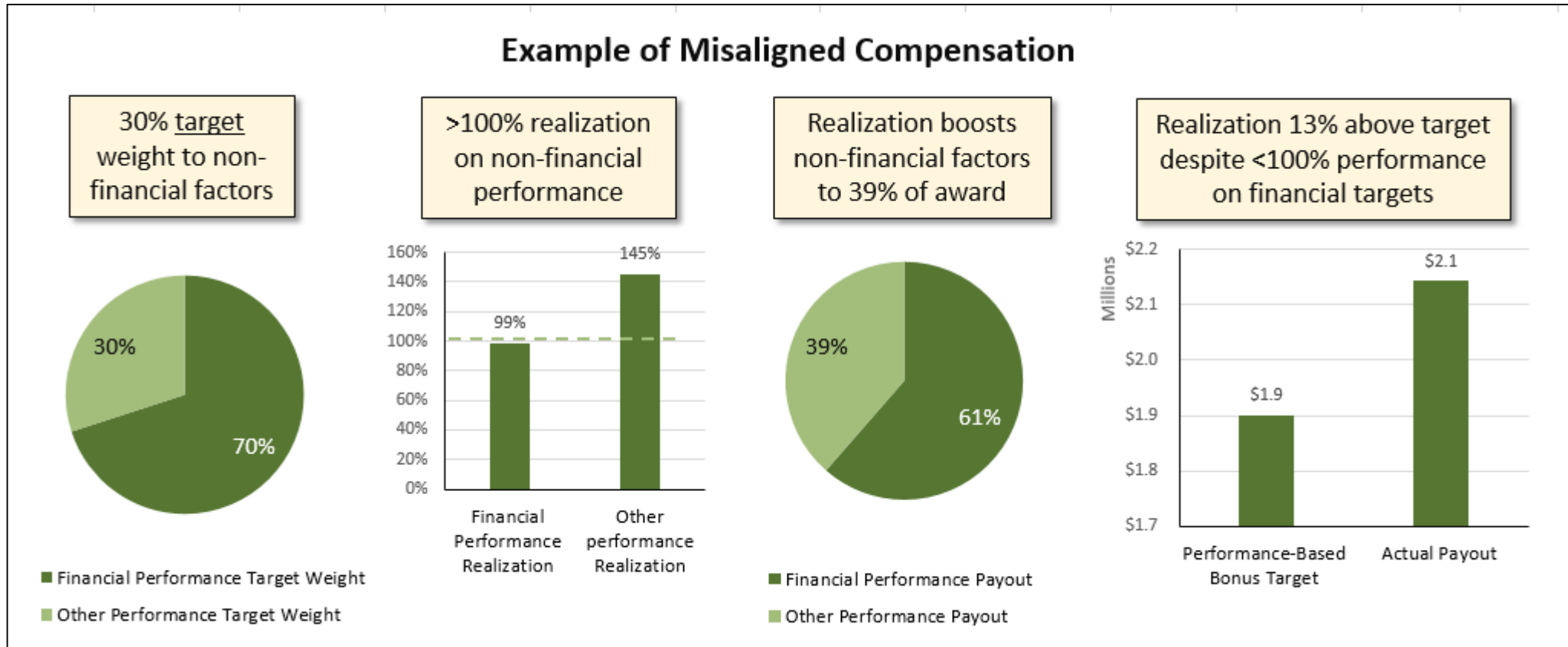
ERS Proxy Voting Results: Shareholder Proposals			
Fiscal Year 2024			
Agenda Item Category	Total Voted Proposals FY24	% Voted With Management FY24	% Voted With Management FY23
Board Governance	324	89%	78%
Compensation	35	63%	37%
Social/Environmental Issues	350	100%	98%
Other Shareholder Proposals	236	88%	83%
Total for Shareholder Proposals	945	92%	87%

Annual Review of Stewardship Program



2024 Guideline Updates

- Reviewing incentive compensation when non-financial factors exceed 25% weighting



Source: ERS and company filings

Annual Review of Stewardship Program



Overview of Scrutinized Investments

- Scrutinized Investments Policy specifically applies three Texas statutes
 - **Texas Government Code Chapter 2270.** PROHIBITION ON INVESTING PUBLIC MONEY IN CERTAIN INVESTMENTS – Iran, Sudan, Foreign Terrorist Organizations
 - **Texas Government Code Chapter 808.** PROHIBITION ON INVESTMENT IN COMPANIES THAT BOYCOTT ISRAEL
 - **Texas Government Code Chapter 809.** PROHIBITION ON INVESTMENT IN FINANCIAL COMPANIES THAT BOYCOTT CERTAIN ENERGY COMPANIES
- Lists of Scrutinized Companies provided by Comptroller at least annually
- Staff is responsible for evaluating fiduciary impact, compliance and reporting
- Requires significant coordinated effort among Investments, Legal, Audit & Executive Office

Annual Review of Stewardship Program



Overview of Restricted Investments

- Stewardship team works with Investments Operations to oversee restricted lists
 - Scrutinized Investments as outlined previously
 - Companies subject to U.S. Government ownership restriction
 - Possession of material non-public information
 - U.S. Department of Commerce Foreign Adversaries List
 - Conflicts of interest on the part of staff, Trustees, or IAC members
 - Criteria deemed to carry excessive operational or investment risk
 - Currently cannabis-related businesses, restricted by custodian bank

Annual Review of Stewardship Program

Stewardship in 2025



- Review Proxy Voting guidelines ahead of U.S. voting season
- Ongoing evaluation of new proxy advisor policies
- Respond to any relevant legislative developments
- Hire analyst resource
- Continued engagement with industry groups

Discussion

Public Agenda Item #15

Consideration of Contract Award Recommendations to Provide Investment Consulting Services (Action)

December 10, 2024

David T. Veal, Chief Investment Officer

Gabrielle Schreiber, Director of Procurement and Contract Oversight

Investment Consulting Services

Current Contracts



Currently, ERS contracts with the following consultants:

Role	Consultant
General Investment Consulting	NEPC LLC
Investment Practices & Performance Evaluation	NEPC LLC
Private Equity Consulting	Aksia LLC
Private Real Estate Consulting	Meketa Investment Group Inc.
Private Infrastructure Consulting	CBRE IM Infrastructure Inc.
Hedge Fund Consulting	Albourne America LLC
Private Credit Consulting	Albourne America LLC

Investment Consulting Services

RFQ Structure



Historically, ERS has issued separate solicitations for the distinct services. This time, we consolidated the services into one RFQ.

Separate Responses Only (Cannot Submit a Response for Other Services)

Investment Practices and Performance Reporting

May Submit Response(s) on All, Some, or One if No Bundling is Required

May Submit on One or Both

Bundling Required

General Investment

Private Real Estate + Private Infrastructure

Private Equity

Private Credit + Hedge Fund Consulting Services

Investment Consulting Services

RFQ Structure



- ERS followed its standard phased RFQ review process:
 - Preliminary Review Phase;
 - Response Review Phase; and
 - Finalists Review Phase.
- However, each service category was evaluated separately and with tailored criteria weightings, SMEs assigned, and due diligence.
- Additionally, ERS included valuable IAC member involvement.

Investment Consulting Services

IAC Board Working Group and IAC Board Members Input



- IAC Members Gene Needles and Laurie Dotter provided extensive consultation throughout the solicitation process.
- Mr. Needles and Ms. Dotter attended and participated in key internal meetings and vendor face-to-face interviews.
- Mr. Needles and Ms. Dotter did not score the consultants.

Investment Consulting Services

Investment Practices and Performance Reporting Consulting Services



For Investment Practices and Performance Reporting, ERS received and evaluated one response:

- The Hackett Group LLC.

ERS ultimately decided not to continue evaluating the one response.



Investment Consulting Services

Response Review Phase – General Investment Consulting Services



For General Investment Consulting Services, ERS evaluated six responses:

- Aon Investments USA Inc.;
- Callan LLC;
- Meketa Investment Group Inc.;
- NEPC LLC;
- R.V. Kuhns and Associates, Inc. dba RVK Inc.; and
- Verus Advisory Inc.

Investment Consulting Services

Response Review Phase – General Investment Consulting Services



Response Review Phase weights for General Investment Consulting Services are as follows:

- Qualifications and Experience, 40%;
and
- Methodology and Soundness of Approach, 60%.



Investment Consulting Services

Response Review Phase – General Investment Consulting Services



- Qualifications and Experience (40%) includes evaluation of:
 - Firm qualifications and experience; and
 - Staff qualifications and experience.
- Methodology and Soundness of Approach (60%) includes evaluation of:
 - Consulting philosophy and process;
 - Defined contribution services; and
 - Consolidation of services benefit/cooperation with other consultants.

Investment Consulting Services

Response Review Phase – General Investment Consulting Services



ERS also began evaluating several pass/fail items during the Response Review Phase:

- Contractibility;
- Legal requirements and regulatory compliance; and
- Financial stability.

Investment Consulting Services

Response Review Phase – General Investment Consulting Services



Based on the evaluation of the pass/fail items, Qualifications and Experience, and Methodology and Soundness of Approach during the Response Review Phase, ERS selected two finalists:

- Callan LLC; and
- RVK Inc.

Investment Consulting Services

Finalists Review Phase – General Investment Consulting Services



ERS evaluated the Finalists based on new and clarified information:

- Interviews (in person);
- Past Performance;
- Contractibility;
- Legal requirements and regulatory compliance;
- Financial stability; and
- Best and Final Offer (BAFO), Price.



Investment Consulting Services

Finalists Review Phase – Scoring – General Investment Consulting Services



Finalist	Total 100%	Qualifications and Experience 40%	Methodology and Soundness of Approach 60%
RVK	90.00	38.57	51.43
Callan	78.04	35.71	42.32

Investment Consulting Services



ERS Recommendation – General Investment Consulting Services

Based on the evaluation process discussed, ERS recommends the Board of Trustees of the Employees Retirement System of Texas award the contract to RVK Inc. to provide General Investment Consulting Services.

Discussion
Action Item

Investment Consulting Services

Response Review Phase – Private Equity Consulting Services



For Private Equity Consulting Services, ERS evaluated four responses:

- Aksia LLC;
- Albourne America LLC;
- Aon Investments USA, Inc.; and
- Wilshire Advisors LLC.

Cambridge Associates LLC was disqualified during the Preliminary Review Phase.

Investment Consulting Services

Response Review Phase – Private Equity Consulting Services

Response Review Phase weights for Private Equity Consulting Services are as follows:

- Qualifications and Experience, 40%;
and
- Methodology and Soundness of Approach, 60%.



Investment Consulting Services



Response Review Phase – Private Equity Consulting Services

- Qualifications and Experience (40%) includes evaluation of:
 - Firm qualifications and experience; and
 - Staff qualifications and experience.
- Methodology and Soundness of Approach (60%) includes evaluation of:
 - Research, Selection, Policy Formation and Due Diligence;
 - Manager Research;
 - Portfolio Construction Process;
 - Risk Management;
 - Monitoring; and
 - Consolidation of Services Benefit/Cooperation with Other Consultants.

Investment Consulting Services

Response Review Phase – Private Equity Consulting Services



ERS also began evaluating several pass/fail items during the Response Review Phase:

- Contractibility;
- Legal requirements and regulatory compliance; and
- Financial stability.

Investment Consulting Services

Response Review Phase – Private Equity Consulting Services



Based on the evaluation of the pass/fail items, Qualifications and Experience, and Methodology and Soundness of Approach during the Response Review Phase, ERS chose to continue to review the following respondents in the Finalists Review Phase:

- Aksia LLC; and
- Albourne America LLC.

Investment Consulting Services

Finalists Review Phase – Private Equity Consulting Services



ERS evaluated the Finalists based on new and clarified information:

- Interviews (in person);
- Past Performance;
- Contractibility;
- Legal requirements and regulatory compliance;
- Financial stability; and
- Best and Final Offer (BAFO), Price.



Investment Consulting Services

Finalists Review Phase – Scoring – Private Equity Consulting Services



Finalist	Total 100%	Qualifications and Experience 40%	Methodology and Soundness of Approach 60%
Aksia	100.00	40.00	60.00
Albourne	60.12	24.76	35.35

Investment Consulting Services



ERS Recommendation – Private Equity Consulting Services

Based on the evaluation process discussed, ERS recommends the Board of Trustees of the Employees Retirement System of Texas award the contract to Aksia LLC to provide Private Equity Consulting Services.

Investment Consulting Services

Response Review Phase – Private Real Estate and Private Infrastructure Consulting Services



For Private Real Estate and Private Infrastructure Consulting Services, ERS evaluated four responses:

- Aksia LLC;
- Albourne America LLC;
- Aon Investments USA, Inc.; and
- Meketa Investment Group, Inc.

Investment Consulting Services

Response Review Phase – Private Real Estate and Private Infrastructure Consulting Services



Response Review Phase weights for Private Real Estate and Private Infrastructure Consulting Services are as follows:

- Qualifications and Experience, 40%;
and
- Methodology and Soundness of Approach, 60%.



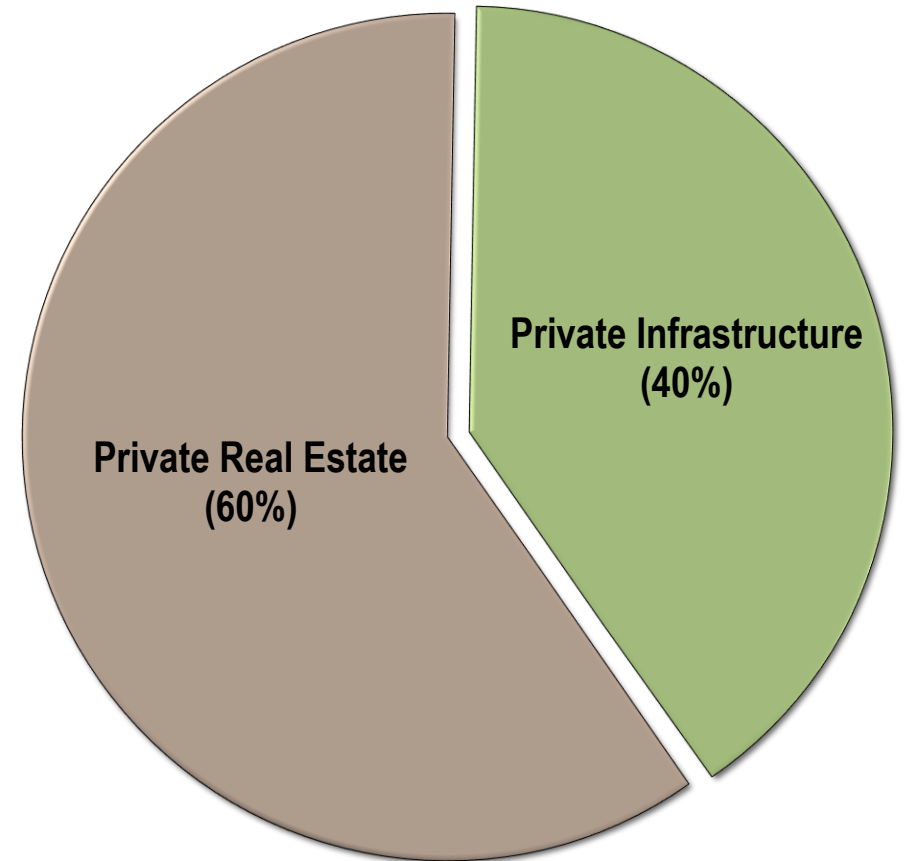
Investment Consulting Services

Response Review Phase – Private Real Estate and Private Infrastructure Consulting Services



Within the 40% for Qualifications and Experience and 60% for Methodology and Soundness of Approach:

- Private Real Estate, 60% of each criteria; and
- Private Infrastructure, 40% of each criteria.



Investment Consulting Services



Response Review Phase – Private Real Estate and Private Infrastructure Consulting Services

- Qualifications and Experience (40%) includes evaluation of:
 - Firm qualifications and experience; and
 - Staff qualifications and experience.
- Methodology and Soundness of Approach (60%) includes evaluation of:
 - Research, Selection, Policy Formation and Due Diligence;
 - Manager Research;
 - Portfolio Construction Process;
 - Risk Management;
 - Monitoring; and
 - Consolidation of Services Benefit/Cooperation with Other Consultants.

Investment Consulting Services

Response Review Phase – Private Real Estate and Private Infrastructure Consulting Services



ERS also began evaluating several pass/fail items during the Response Review Phase:

- Contractibility;
- Legal requirements and regulatory compliance; and
- Financial stability.

Investment Consulting Services

Response Review Phase – Private Real Estate and Private Infrastructure Consulting Services



Based on the evaluation of the pass/fail items, Qualifications and Experience, and Methodology and Soundness of Approach during the Response Review Phase, ERS chose to continue to review the following respondents in the Finalists Review Phase:

- Aksia LLC;
- Albourne America LLC; and
- Meketa Investment Group, Inc.

Investment Consulting Services

Finalists Review Phase – Private Real Estate and Private Infrastructure Consulting Services



ERS evaluated the Finalists based on new and clarified information:

- Interviews (in person);
- Past Performance;
- Contractibility;
- Legal requirements and regulatory compliance;
- Financial stability; and
- Best and Final Offer (BAFO), Price.



Investment Consulting Services

Finalists Review Phase – Scoring – Private Real Estate Consulting Services



Finalist	Total 100%	Qualifications and Experience 40%	Methodology and Soundness of Approach 60%
Aksia	87.62	36.19	51.43
Meketa	67.74	32.38	35.36
Albourne	66.31	26.67	39.65

Investment Consulting Services

Finalists Review Phase – Scoring – Private Infrastructure Consulting Services



Finalist	Total 100%	Qualifications and Experience 40%	Methodology and Soundness of Approach 60%
Aksia	96.79	40.00	56.79
Albourne	79.52	32.38	47.14
Meketa	62.86	28.57	34.29

Investment Consulting Services



Finalists Review Phase – Scoring – Private Real Estate and Private Infrastructure Consulting Services

Finalist	Total 100%	Private Real Estate 60%	Private Infrastructure 40%
Aksia	91.29	52.57	38.72
Albourne	71.59	39.79	31.81
Meketa	65.79	40.64	25.14

Investment Consulting Services

ERS Recommendation – Private Real Estate and Private Infrastructure Consulting Services



Based on the evaluation process discussed, ERS recommends the Board of Trustees of the Employees Retirement System of Texas award the contract to Aksia LLC to provide Private Real Estate and Private Infrastructure Consulting Services.

Investment Consulting Services

Response Review Phase – Private Credit and Hedge Fund Consulting Services



For Private Credit and Hedge Fund Consulting Services, ERS evaluated four responses:

- Aksia LLC;
- Albourne America LLC;
- Aon Investments USA, Inc.; and
- Wilshire Advisors LLC.

Investment Consulting Services

Response Review Phase – Private Credit and Hedge Fund Consulting Services



Response Review Phase weights for Private Credit and Hedge Fund Consulting Services are as follows:

- Qualifications and Experience, 40%;
and
- Methodology and Soundness of Approach, 60%.



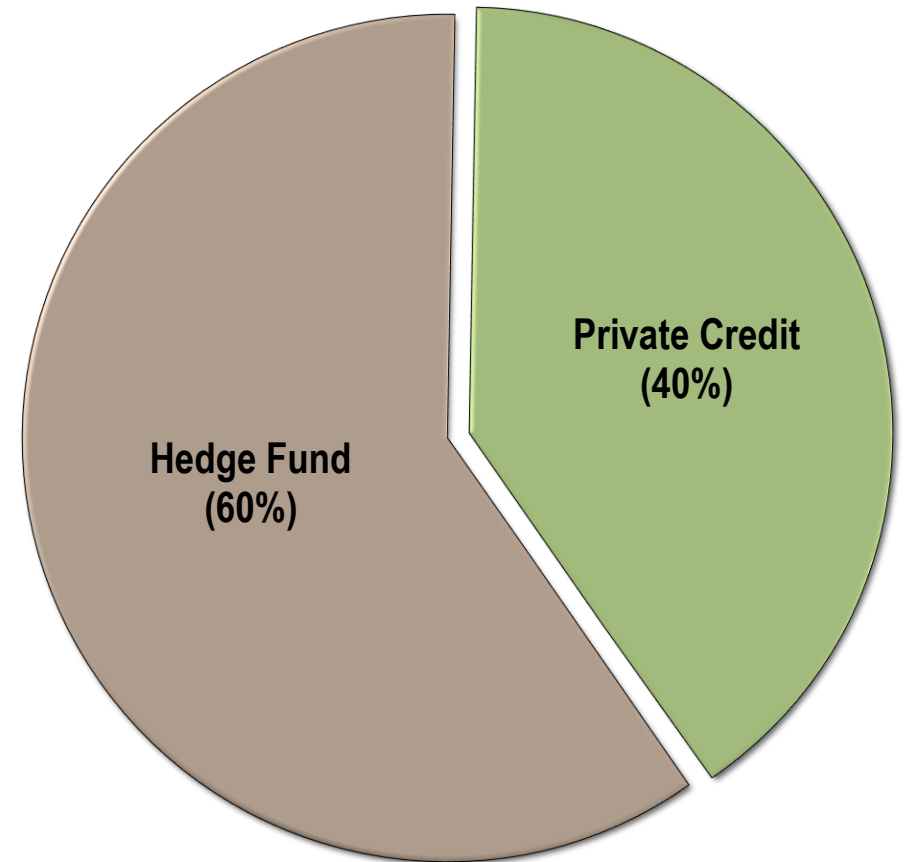
Investment Consulting Services

Response Review Phase – Private Credit and Hedge Fund Consulting Services



Within the 40% for Qualifications and Experience and 60% for Methodology and Soundness of Approach:

- Hedge Fund, 60% of each criteria; and
- Private Credit, 40% of each criteria.



Investment Consulting Services

Response Review Phase – Private Credit and Hedge Fund Consulting Services



- Qualifications and Experience (40%) includes evaluation of:
 - Firm qualifications and experience; and
 - Staff qualifications and experience.
- Methodology and Soundness of Approach (60%) includes evaluation of:
 - Research, Selection, Policy Formation and Due Diligence;
 - Manager Research (Hedge Fund only);
 - Manager Database (Private Credit only);
 - Due Diligence (Hedge Fund only);
 - Risk Management;
 - Portfolio Construction Process (Hedge Fund only);
 - Portfolio Implementation and Portfolio Rebalancing (Hedge Fund only);
 - Monitoring (Hedge Fund only);
 - Miscellaneous Information; and
 - Consolidation of Services Benefit/Cooperation with Other Consultants.

Investment Consulting Services

Response Review Phase – Private Credit and Hedge Fund Consulting Services



ERS also began evaluating several pass/fail items during the Response Review Phase:

- Contractibility;
- Legal requirements and regulatory compliance; and
- Financial stability.

Investment Consulting Services

Response Review Phase – Private Credit and Hedge Fund Consulting Services



Based on the evaluation of the pass/fail items, Qualifications and Experience, and Methodology and Soundness of Approach during the Response Review Phase, ERS chose to continue to review the following respondents in the Finalists Review Phase:

- Aksia LLC; and
- Albourne America LLC.

Investment Consulting Services

Finalists Review Phase – Private Credit and Hedge Fund Consulting Services



ERS evaluated the Finalists based on new and clarified information:

- Interviews (in person);
- Past Performance;
- Contractibility;
- Legal requirements and regulatory compliance;
- Financial stability; and
- Best and Final Offer (BAFO), Price.



Investment Consulting Services

Finalists Review Phase – Scoring – Private Credit Consulting Services



Finalist	Total 100%	Qualifications and Experience 40%	Methodology and Soundness of Approach 60%
Albourne	72.50	28.57	43.93
Aksia	68.57	25.71	42.86

Investment Consulting Services

Finalists Review Phase – Scoring – Hedge Fund Consulting Services



Finalist	Total 100%	Qualifications and Experience 40%	Methodology and Soundness of Approach 60%
Albourne	81.43	34.29	47.15
Aksia	71.79	25.71	46.07

Investment Consulting Services

Finalists Review Phase – Scoring – Private Credit and Hedge Fund Consulting Services



Finalist	Total 100%	Hedge Fund 60%	Private Credit 40%
Albourne	77.86	48.86	29.00
Aksia	70.50	43.07	27.43

Investment Consulting Services

ERS Recommendation – Private Credit and Hedge Fund Consulting Services



Based on the evaluation process discussed, ERS recommends the Board of Trustees of the Employees Retirement System of Texas award the contract to Albourne America LLC to provide Private Credit and Hedge Fund Consulting Services.

Investment Consulting Services

ERS Recommendations – All Service Categories



In sum, ERS recommends that the Board of Trustees of the Employees Retirement System of Texas award the following services to these consultants:

Role	Consultant
General Investment Consulting	RVK Inc.
Private Equity Consulting	Aksia LLC
Private Real Estate & Private Infrastructure Consulting	Aksia LLC
Private Credit & Hedge Fund Consulting	Albourne America LLC

Discussion
Action Item

Public Agenda Item #16

Adjournment of the Joint Meeting of the Board of Trustees and Investment Advisory Committee

December 10, 2024

Public Agenda Item #17

Recess of the Board of Trustees

December 10, 2024