

Joint Meeting of the Board of Trustees
and
Investment Advisory Committee

May 22, 2024



Public Agenda Item # 1

Call Meeting of the ERS Board of Trustees to Order

May 22, 2024

Public Agenda Item # 2

Consideration of Consent Agenda – (Action)

May 22, 2024

Discussion
Action Item

Public Agenda Item # 3

Executive Session –

In accordance with Section 551.071, Texas Government Code, the Board of Trustees will meet in executive session to consult with its attorney to seek advice on legal matters, including pending or contemplated litigation and other legal matters in which the duty of the attorney to the Board of Trustees under the Texas Disciplinary Rules of Professional Conduct clearly conflicts with the Open Meetings Act.

May 22, 2024

Public Agenda Item # 4

Call the Investment Advisory Committee to Order

May 22, 2024

Public Agenda Item #5

** Consideration of Annual Review of the ERS Incentive Compensation Plan Document for Plan Year 2025*

May 22, 2024

DeeDee Sterns, Director of Human Resources

Jamey Pauley, ICP Program Specialist

Incentive Compensation Plan (ICP)

Annual Review



- The Board of Trustees reviews and approves the ICP on an annual basis.
- For the May Board meeting, staff provides:
 - A review of the plan objectives and key features
 - A summary of the ICP awards over the last five years
 - Information on any proposed plan changes
 - A draft plan document for the upcoming fiscal year
- At the August Board meeting:
 - Staff presents the final proposed plan document for consideration and approval

Incentive Compensation Plan



Objectives

- Communicate strategic performance priorities.
- Incentivize the prudent achievement of sustained levels of high investment performance, without undue risk.
- Promote teamwork among employees.
- Support strategic and operational goals.
- Attract and retain key employees in a cost-effective manner.

Incentive Compensation Plan



Key Features

- Performance measures are based on 1-year, 3-year, and 5-year performance periods; weighted 20%, 30%, and 50% respectively.
- Participants have asset class and total trust performance benchmarks.
- Participants must exceed their benchmarks to receive an incentive award.
- Participants are evaluated on both quantitative (75%) and qualitative (25%) metrics.
- Incentive awards are generally paid out over a three-year period: 50/25/25.
- Awards can be earned during non-positive years. However, award payments are deferred until the next 1-year performance period is positive.

Incentive Compensation Plan

Awards Summary



ICP Awards

(Quantitative & Qualitative)

Plan Year	Average Realization	Minimum Realization	Maximum Realization
2023	89.3%	55.5%	100.0%
2022	83.2%	45.0%	100.0%
2021	81.4%	45.0%	100.0%
2020	43.0%	15.0%	72.5%
2019	52.3%	16.3%	86.2%
Average	69.8%	35.4%	91.7%

Trust Fund Returns by Performance Period

1-Year

3-Year

5-Year

1-Year		3-Year		5-Year	
Total Trust Return	Excess Return Over Benchmark	Total Trust Return	Excess Return Over Benchmark	Total Trust Return	Excess Return Over Benchmark
6.73%	0.81%	9.63%	2.99%	7.71%	1.50%
-1.59%	1.79%	9.66%	2.27%	8.27%	1.65%
25.46%	6.96%	11.34%	1.62%	11.13%	1.50%
6.82%	-1.35%	6.42%	0.05%	7.30%	-0.16%
3.00%	-0.06%	8.15%	0.83%	5.99%	0.41%
8.08%	1.63%	9.04%	1.55%	8.08%	0.98%

Revised: 04/10/24

Incentive Compensation Plan

Plan Year 2025 – Proposed Material Changes



- 1. Methodology change for setting “Maximum Performance Goals”**
- 2. Changes to investment attorney plan group on Appendix A**

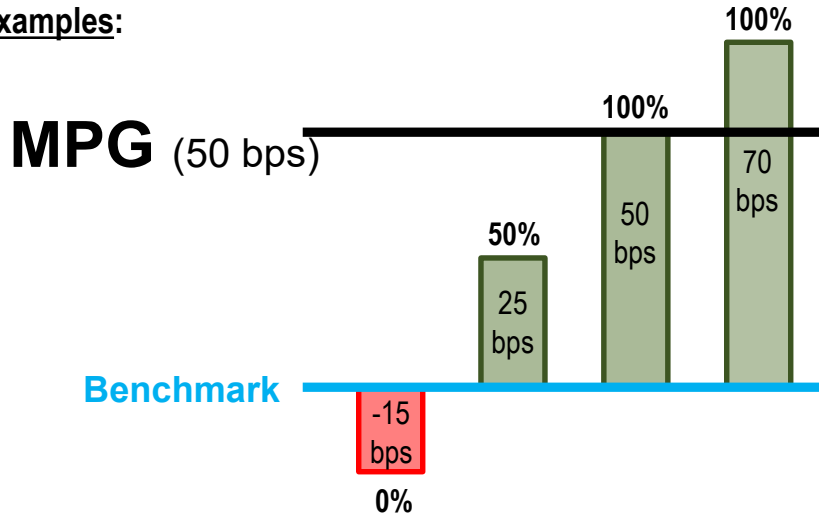
Incentive Compensation Plan

Plan Year 2025 – Proposed Methodology Change

What is a “Maximum Performance Goal (MPG)?”

- It’s the point above the benchmark at which the award realization for a particular performance goal caps out at 100%.

Examples:



Incentive Compensation Plan

Plan Year 2025 – Proposed Methodology Change



What is being proposed?

- Changing how the MPG for each Public Market Asset Class is determined.

	Current	Proposed
Trust	Excess Return Targets	Excess Return Targets
Public Market Asset Classes	Information Ratios	Excess Return Targets

Incentive Compensation Plan

Plan Year 2025 – Proposed Methodology Change



Why is this change being proposed?

- **To provide consistency between how ICP awards are calculated for the Public Market Asset Classes and for the Trust overall.**
- **To align more closely with the objective established in the IPS, which is to obtain returns in excess of the assigned benchmarks.**

Incentive Compensation Plan

Plan Year 2025 – Proposed Methodology Change



What impact will this change have?

	Proposed Maximum Performance Goal (basis points)	
Plan Years:	2024 and prior	2025 and beyond
Based on:	Expected Information Ratio	Excess Return Target *
Public Equity	25	50
Public Credit	35	50
Public Real Estate	30	50
Special Situations	25	50
Hedge Funds	25	50
Rates	20	10
Cash	20	5

* Includes some anticipated changes to the IPS.

Incentive Compensation Plan

Plan Year 2025 – Proposed Material Changes



- 1. Methodology change for setting “Maximum Performance Goals”**
- 2. Changes to investment attorney plan group on Appendix A**

Incentive Compensation Plan

Plan Year 2025 – Proposed Change to Appendix A



APPENDIX A

ELIGIBLE EMPLOYEE POSITIONS WITH
MAXIMUM INCENTIVE AWARD PERCENTAGES AND PAYMENT SCHEDULES

Plan Groups	Maximum Incentive Award Percentages	Payment Schedules (Year 1/2/3, see Section 6.2)
Executive Director	100%	50/25/25
Chief Investment Officer	100%	50/25/25
Deputy Chief Investment Officer	100%	50/25/25
Managing Director	100%	50/25/25
Program Director	90%	50/25/25
Supervising Portfolio Manager	90%	50/25/25
Portfolio Manager IV, V & VI	80%	50/25/25
Portfolio Manager I, II & III	70%	50/25/25
Chief Trader I & II	70%	50/25/25
Investment Analyst V	70%	50/25/25
Trader I, II & III	65%	50/25/25
Investment Analyst III & IV	58%	50/25/25
Investment Operations Manager	50%	50/25/25
Investment Analyst I & II	35%	50/25/25
Performance Specialist	35%	50/25/25
Investment Operations Specialist	25%	50/50/0
Investment Administrative Support	5%	100/0/0
Investments and Securities, Attorney	65%	50/25/25
Deputy General Counsel (Investment Attorney)	90%	50/25/25
Senior Investment Attorney	80%	50/25/25
Investment Attorney	70%	50/25/25
Investments and Securities, Paralegal	35%	50/25/25

APPENDIX A

Plan Groups	Maximum Incentive Award Percentages	Payment Schedules (Year 1/2/3, see Section 6.2)
Investments and Securities, Attorney	65%	50/25/25
Deputy General Counsel (Investment Attorney)	90%	50/25/25
Senior Investment Attorney	80%	50/25/25
Investment Attorney	70%	50/25/25
Investments and Securities, Paralegal	35%	50/25/25

Incentive Compensation Plan

Plan Year 2025 – Other Proposed Changes



In addition to the proposed material changes, staff is proposing some other changes to the Plan document that will provide clarification and better reflect current processes and practices. These include:

- Removing references to “Individual Research Coverage.”
- Adding a definition for “Tracking Error.”
- Updating and simplifying the language in Appendix C.

These changes are reflected in the draft Plan document.

Discussion

Public Agenda Item #6

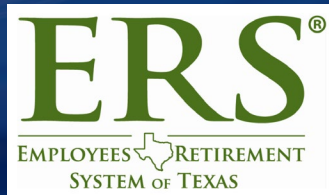
**Consideration of Quarterly Review of Investment Performance*

May 22, 2024

John McCaffrey, Managing Director of Portfolio Management

Sam Austin, Partner, NEPC

David T. Veal, Chief Investment Officer



QUARTERLY PERFORMANCE REPORT

EMPLOYEES RETIREMENT
SYSTEM OF TEXAS

MAY 22, 2024

Sam Austin, Partner



TABLE OF CONTENTS

- Economic and Market Environment
- Executive Summary



ECONOMIC AND MARKET ENVIRONMENT

ECONOMIC ENVIRONMENT



Bumpy path to 2% inflation

- Data from recent months indicate that inflation may be sticky above the Fed's target
- Core Services remain the largest contributor to inflation
- Fed's rate cuts in 2024 likely to be less aggressive than projected at the start of the year



Resilient economy

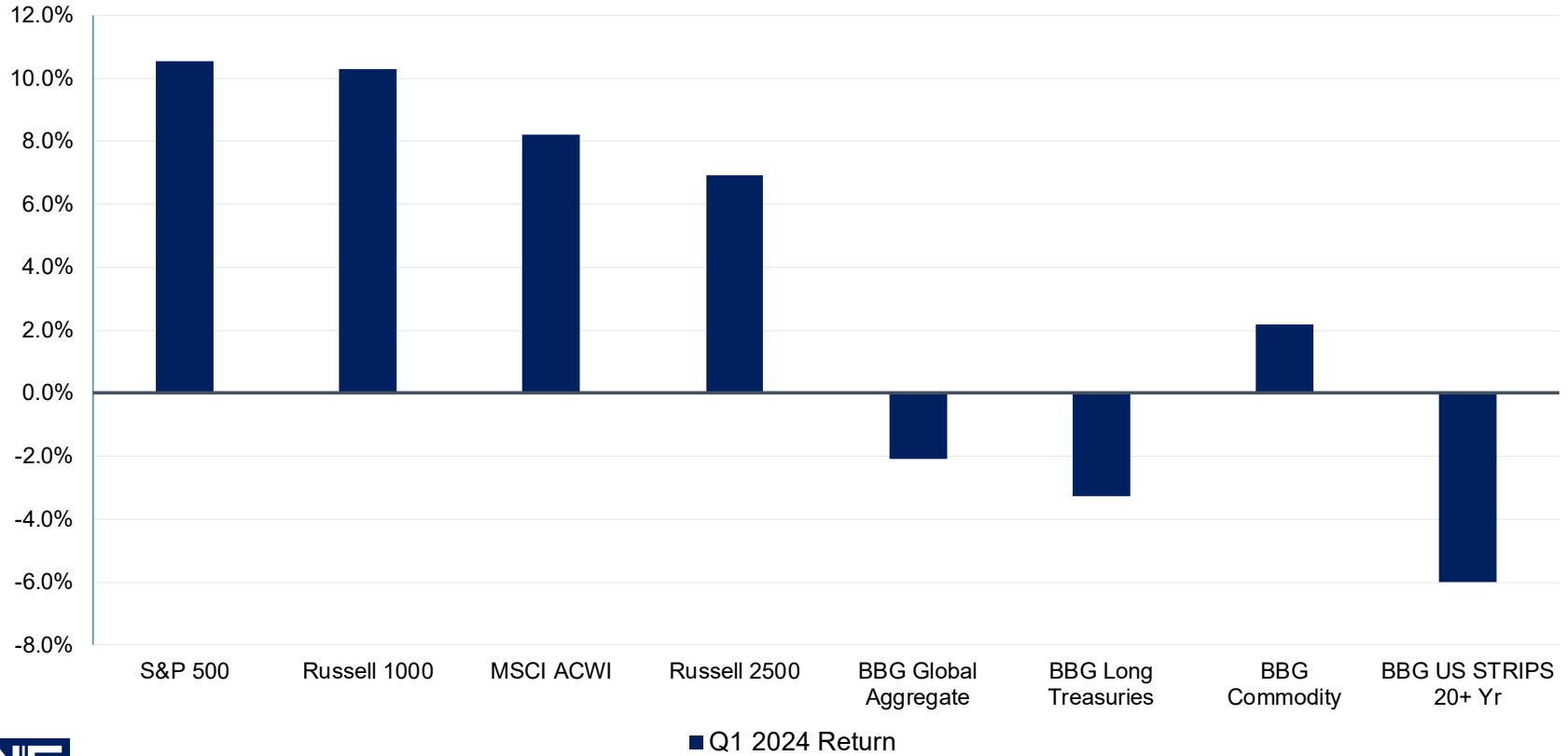
- Despite challenges, real U.S. GDP increased 2.5% in 2023
- Consumer spending remains strong, supported by a tight labor market
- Business investments are continuing even in a high-rate environment



Uncertainties remain

- Ongoing tight credit conditions and the potential impact on growth
- Upcoming U.S. presidential election and possible policy changes
- Geopolitical tensions

BEST AND WORST INDEX PERFORMANCE





EXECUTIVE SUMMARY

ERS TRUST DASHBOARD

Performance	CYTD	FYTD 2024
Total Trust	4.14% (37)	7.83% (50)
Policy Benchmark	2.90% (86)	6.93% (78)
Excess Return	1.24%	0.90%

Risk Statistics	5-Year		3-Year
	Sharpe Ratio	Sortino Ratio	Tracking Error
Total Trust	0.92 (3)	1.43 (4)	1.76%
Policy Benchmark	0.67 (9)	1.03 (7)	-

Attribution Summary

Largest Contributors (Quarter)

Public Equity (+0.9%) was the largest contributor, followed by Private Credit (+0.2%) and Private Real Estate (+0.2%).

Largest Detractors (Quarter)

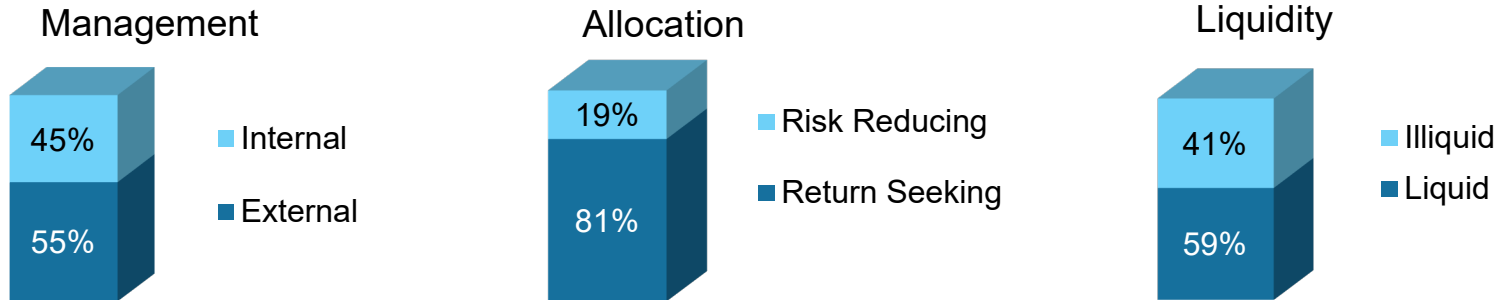
Infrastructure was the sole detractor (-0.1%).



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 March 31, 2024	\$38.8 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	\$38,798,131,597	4.1% (37)	7.8% (50)	11.8% (36)	7.9% (3)	9.3% (6)	7.9% (10)
<i>Policy Benchmark</i>		2.9% (86)	6.9% (78)	10.1% (75)	5.7% (6)	7.5% (53)	6.8% (39)
<i>Passive Index</i>		6.1% (1)	12.4% (1)	18.4% (1)	5.1% (18)	9.0% (7)	7.4% (22)

- For the one-year period ended March 31, 2024, the Trust outperformed the policy benchmark by 1.7%.
- In the one-year period, the Trust's assets increased from \$33.69 billion to \$38.80 billion. This includes a \$4.10 billion net investment gain within the one-year period and a \$1.55 billion net investment gain within the first calendar quarter of 2024.

Note: The Passive Index is comprised of 80% MSCI ACWI IMI and 20% Bloomberg Intermediate Treasury Index. 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 March 31, 2024

	Return	Standard Deviation	Sharpe Ratio	Sortino Ratio
Total Trust	7.9% (3)	6.9% (1)	0.77 (1)	1.18 (4)
Policy Benchmark	5.7% (6)	7.6% (1)	0.44 (4)	0.64 (4)

5 Years Ending March 31, 2024

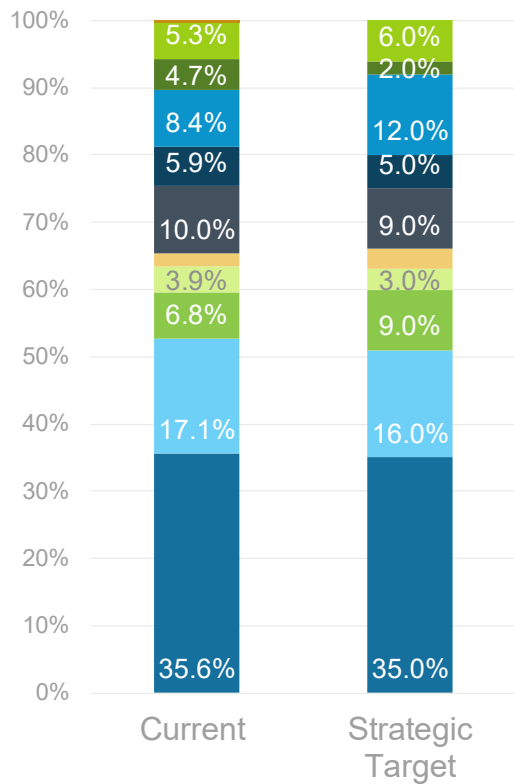
	Return	Standard Deviation	Sharpe Ratio	Sortino Ratio
Total Trust	9.3% (6)	7.8% (1)	0.92 (3)	1.43 (4)
Policy Benchmark	7.5% (53)	8.2% (1)	0.67 (9)	1.03 (7)

- The three-year and five-year Trust returns have 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	Fiscal Year-To-Date	One Year	Three Years	Five Years
Beginning Market Value	\$37,592,117,969	\$35,363,436,955	\$33,690,927,096	\$32,023,039,282	\$28,285,241,189
Contributions	\$2,616,079,456	\$9,592,885,827	\$14,287,661,973	\$56,341,868,018	\$84,717,137,388
Withdrawals	-\$2,963,163,791	-\$9,007,581,362	-\$13,279,234,293	-\$58,030,345,037	-\$89,049,656,021
Net Cash Flow	-\$347,084,335	\$585,304,465	\$1,008,427,679	-\$1,688,477,019	-\$4,332,518,633
Net Investment Change	\$1,553,097,962	\$2,849,390,176	\$4,098,776,822	\$8,463,569,334	\$14,845,409,040
Ending Market Value	\$38,798,131,597	\$38,798,131,597	\$38,798,131,597	\$38,798,131,597	\$38,798,131,597
Net Change	\$1,206,013,627	\$3,434,694,641	\$5,107,204,501	\$6,775,092,315	\$10,512,890,407

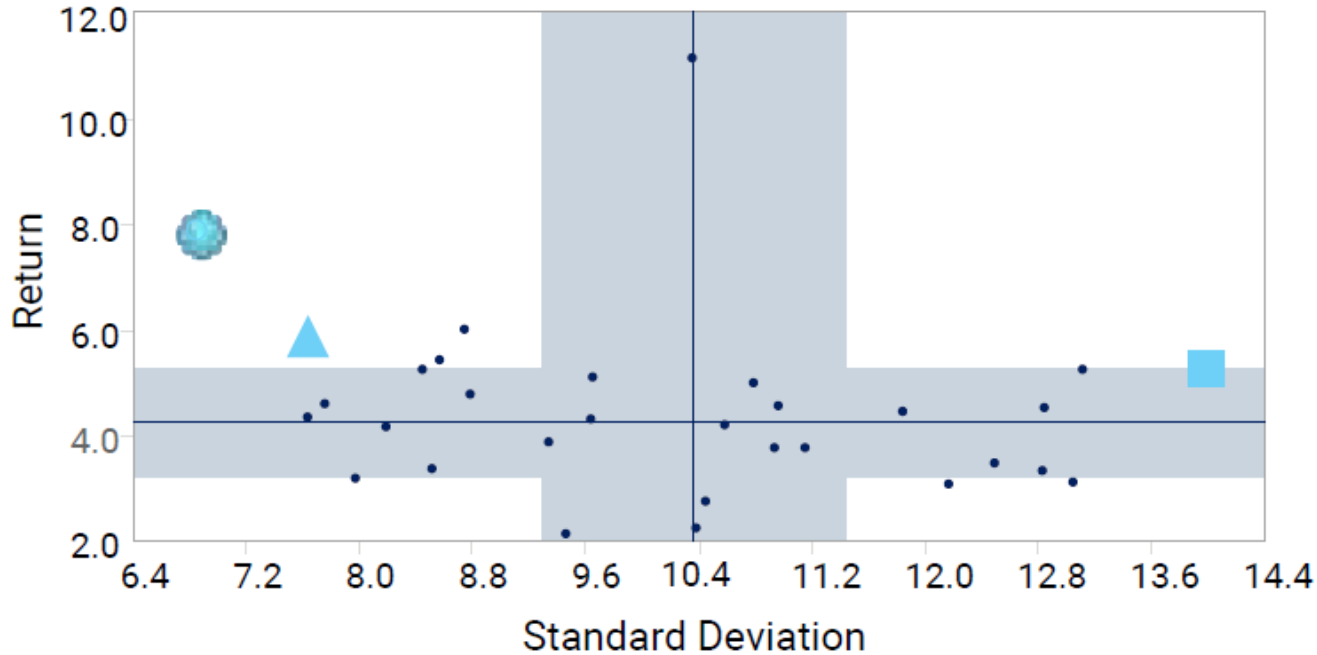
TRUST ASSET ALLOCATION VS. POLICY TARGETS



Asset Allocation as of March 31, 2024					
	Current Value	Current	Strategic Target	Tactical Range	
Public Equity	\$13,824,424,540	35.6%	35.0%	25.0% - 45.0%	
Private Equity	\$6,642,010,491	17.1%	16.0%	11.0% - 21.0%	
Public Credit	\$2,644,153,670	6.8%	9.0%	4.0% - 14.0%	
Private Credit	\$1,503,088,398	3.9%	3.0%	0.0% - 8.0%	
Real Estate - Public	\$740,725,149	1.9%	3.0%	0.0% - 13.0%	
Real Estate - Private	\$3,879,513,922	10.0%	9.0%	4.0% - 14.0%	
Infrastructure	\$2,287,213,964	5.9%	5.0%	0.0% - 10.0%	
Rates	\$3,251,546,007	8.4%	12.0%	7.0% - 17.0%	
Cash	\$1,824,939,119	4.7%	2.0%	1.0% - 10.0%	
Hedge Funds	\$2,075,440,493	5.3%	6.0%	0.0% - 11.0%	
Special Situations	\$125,075,845	0.3%	0.0%	0.0% - 5.0%	
Total	\$38,798,131,597	100%	100%		

TOTAL TRUST RISK/RETURN

3 Years Ending March 31, 2024 vs. InvMetrics Public DB > \$1 Billion

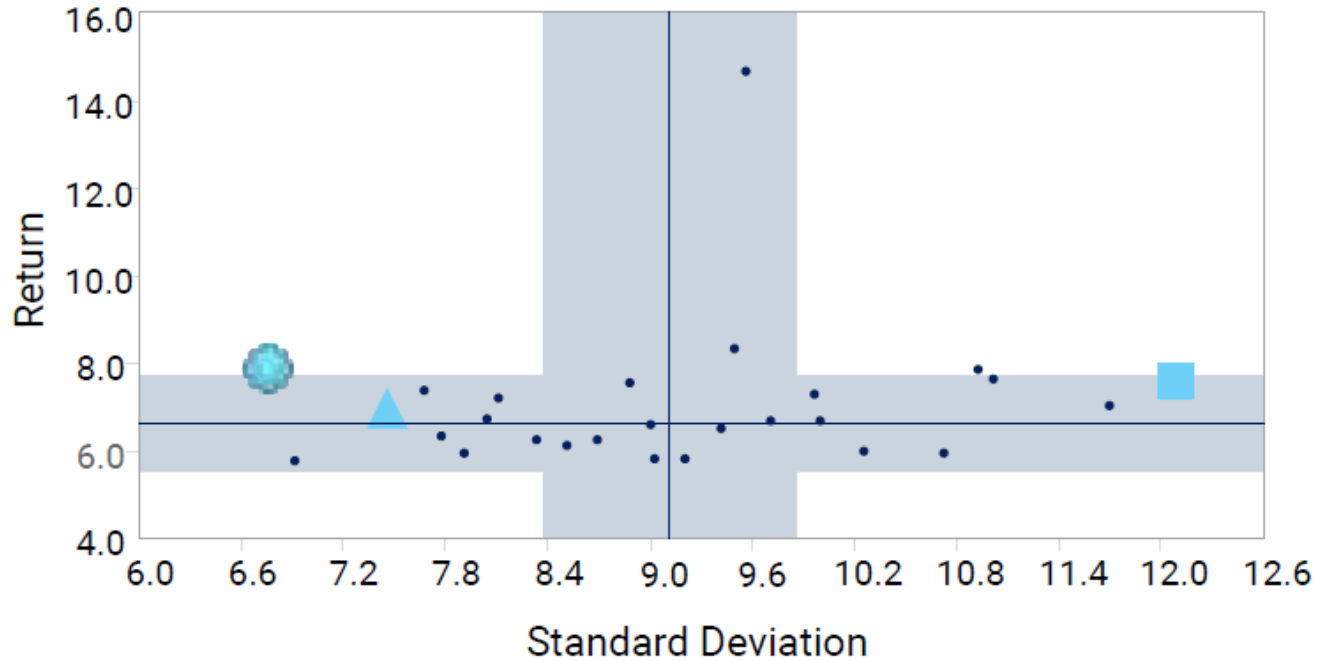


● Total Trust ▲ Policy Benchmark ■ Passive Index



TOTAL TRUST RISK/RETURN

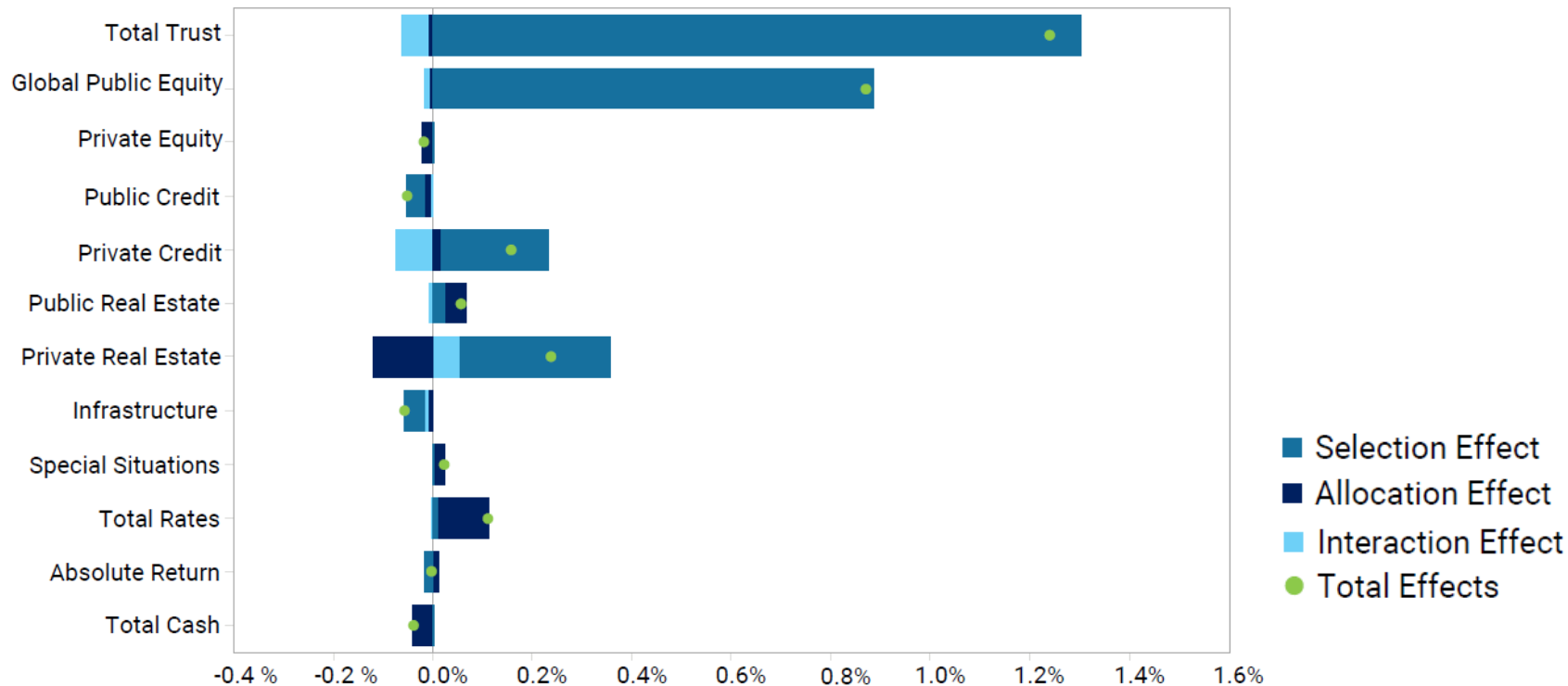
10 Years Ending March 31, 2024 vs. InvMetrics Public DB > \$1 Billion



● Total Trust ▲ Policy Benchmark ■ Passive Index

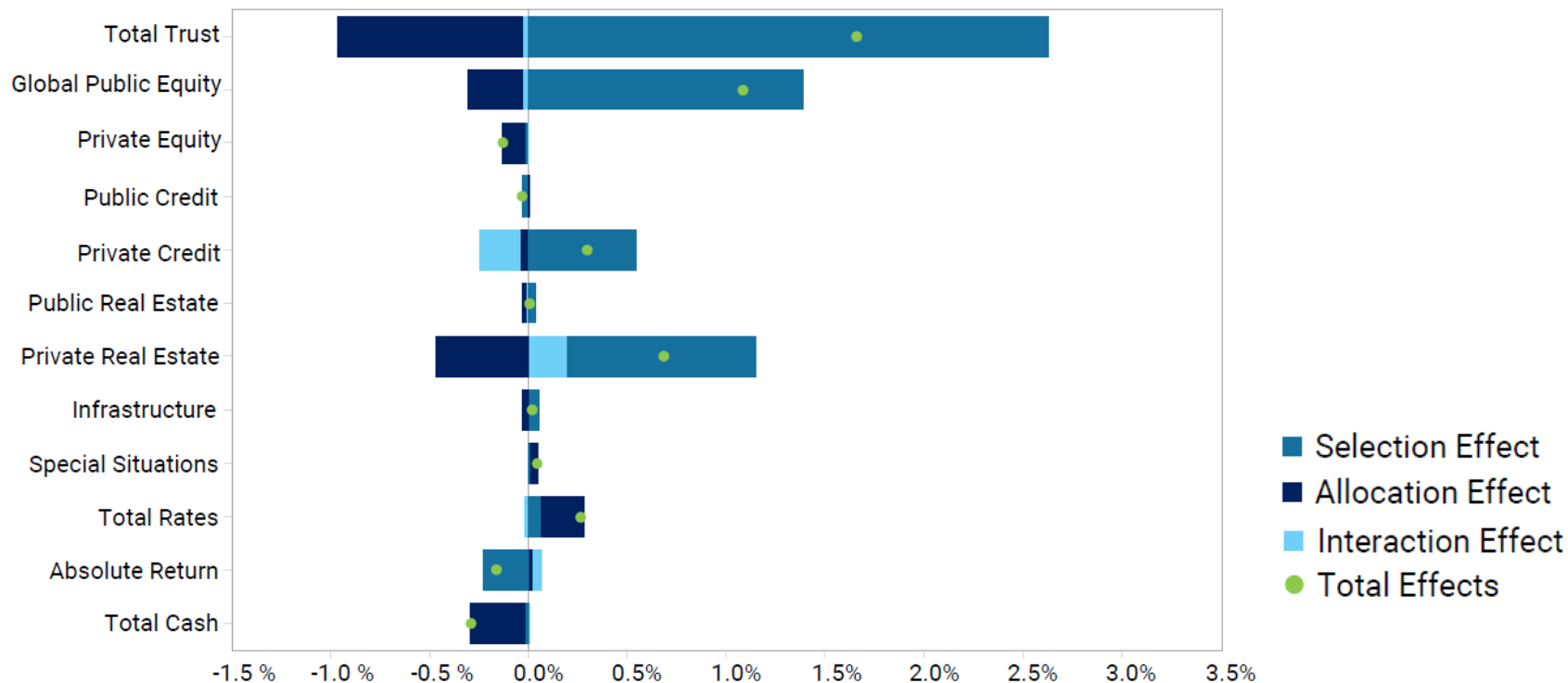
TOTAL TRUST ATTRIBUTION ANALYSIS

Attribution Effects: 1 Quarter Ending March 31, 2024



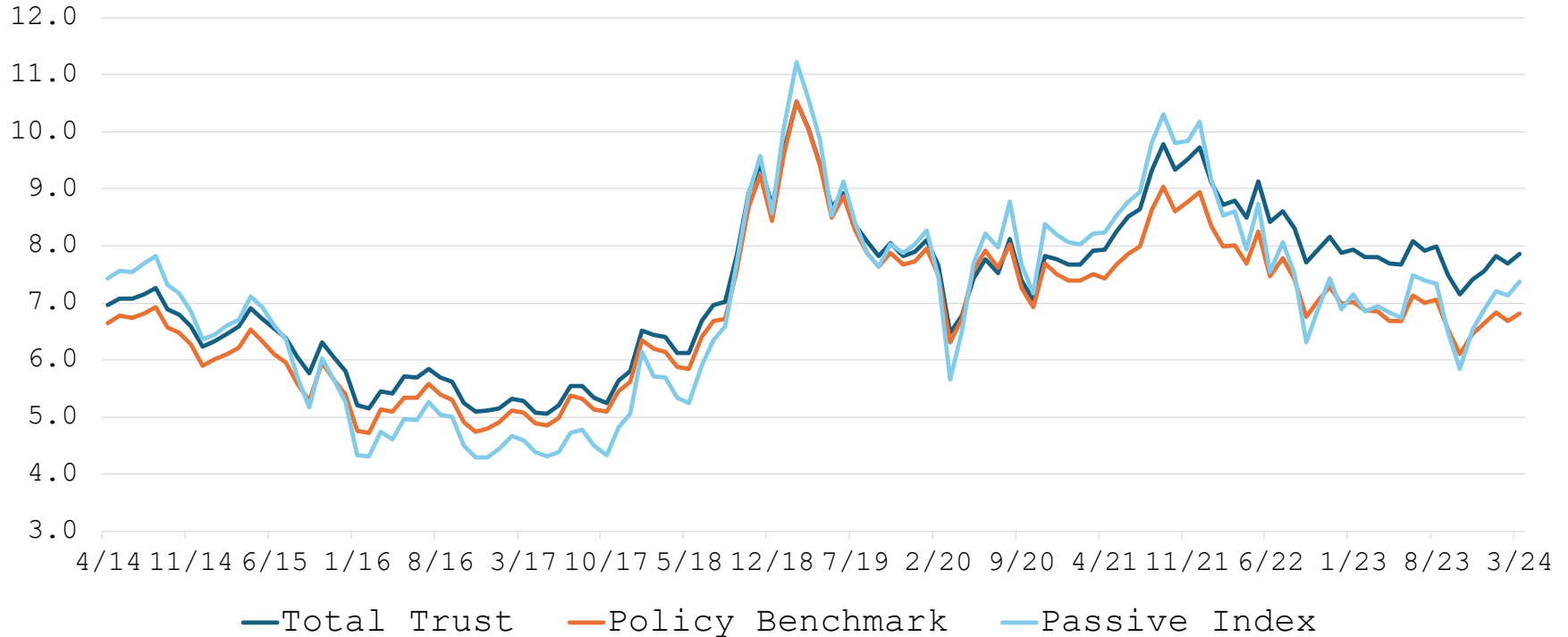
TOTAL TRUST ATTRIBUTION ANALYSIS

Attribution Effects: 1 Year Ending March 31, 2024



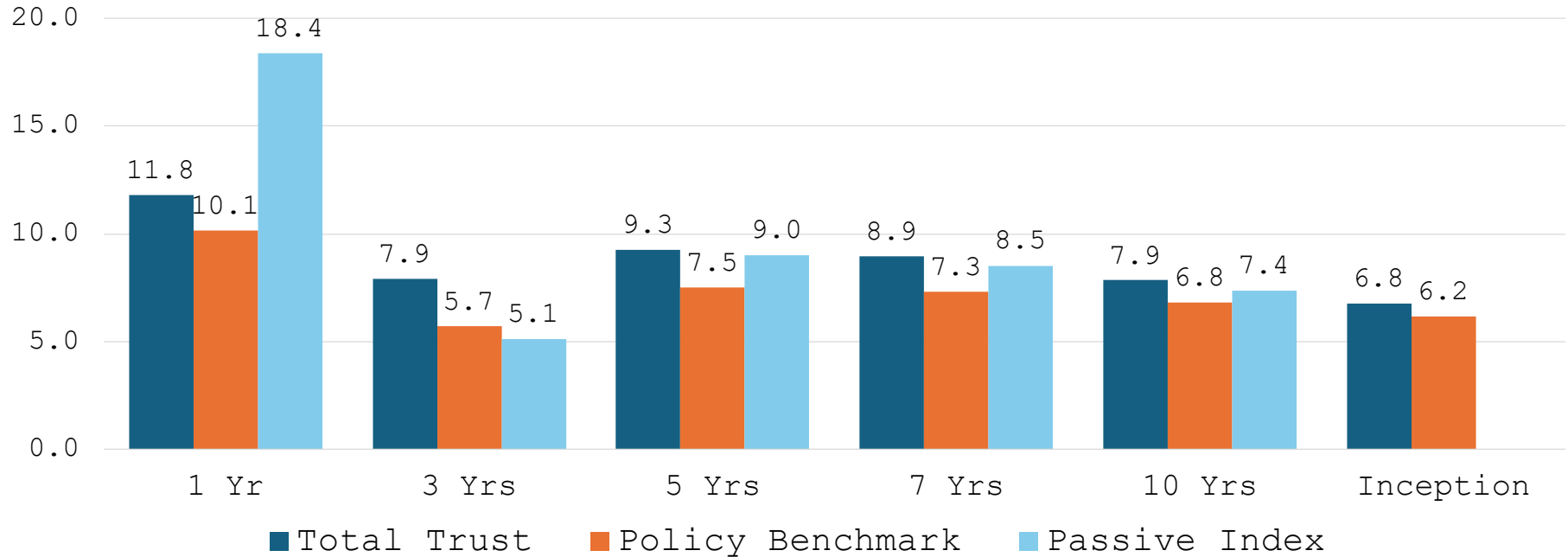
LONG TERM INVESTMENT RESULTS

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.



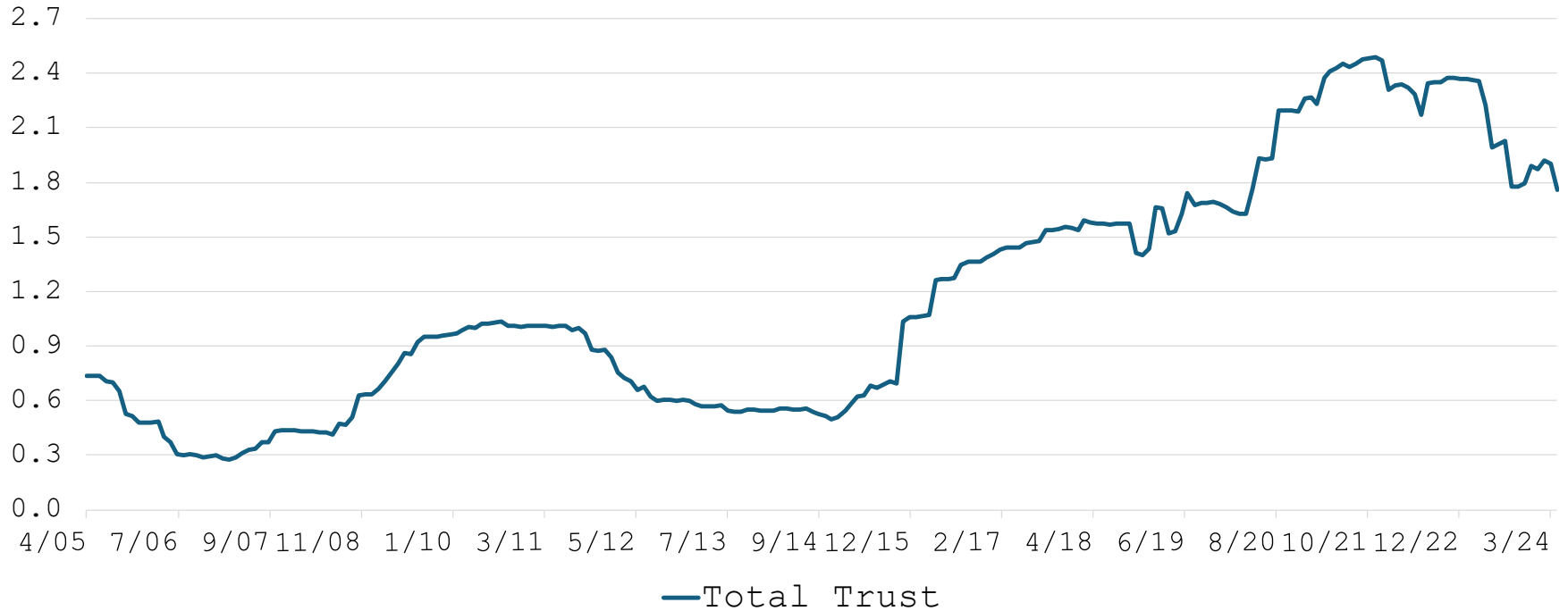
ROLLING INFORMATION RATIO

Rolling 3-Year Information Ratio



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 0.9%.**
- **In the one-year period ended March 31, 2024, the Trust outperformed the Policy Benchmark by 1.7%.**
 - The largest contributors to performance against the benchmark were Public Equity (+1.1%), and Private Real Estate (+0.7%).
 - The largest detractor was Cash (-0.3%), followed by Absolute Return (-0.2%) and Private Equity (-0.1%).
- **In the past one-year, portfolio positioning at the asset class level detracted -0.9% from Total Trust returns versus the policy benchmark.**
 - An overweight position in Private Real Estate contributed negatively (-0.5%).
 - An underweight position in Public Equity contributed negatively (-0.3%).
 - An overweight position in Cash contributed negatively (-0.3%).

Discussion

Quarterly Review of Investment Performance

May 22, 2024

John McCaffrey, Managing Director of Portfolio Management

Quarterly Review of Investment Performance

May 22, 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



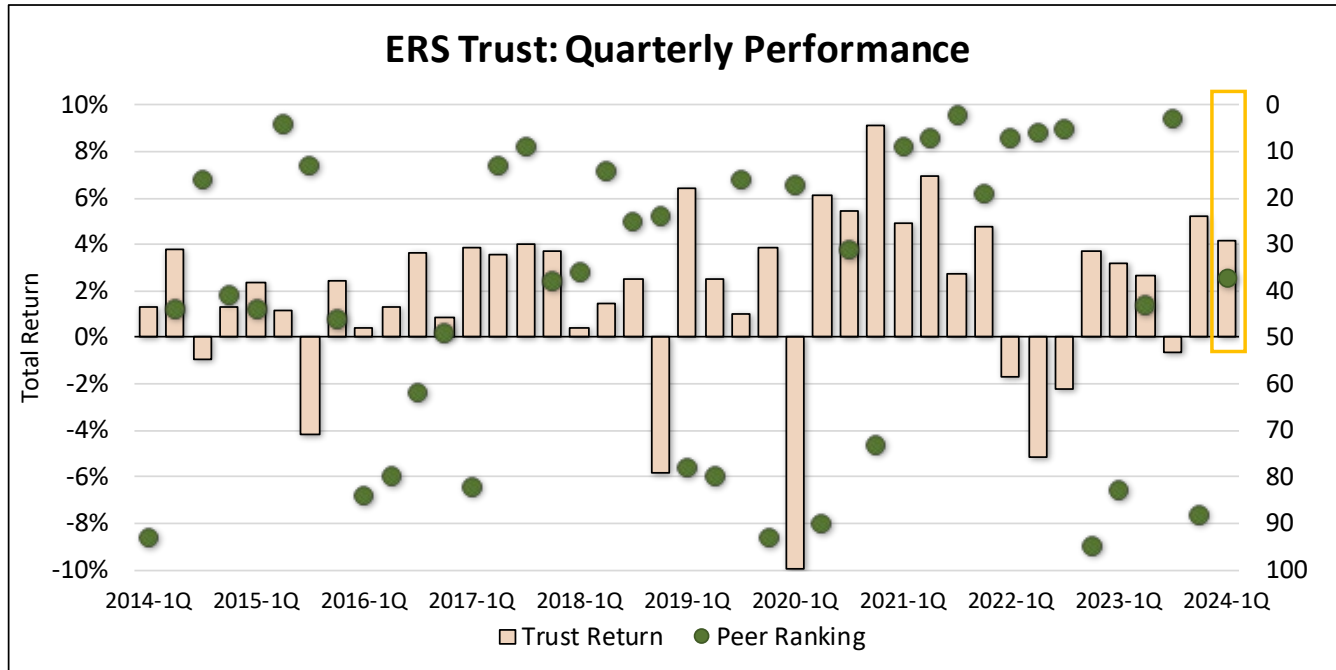
Earn appropriate returns
for the risks assumed

Investment Performance

Quarterly Performance



- Positive return for five out of the last six quarters, with peer ranking in 37th percentile

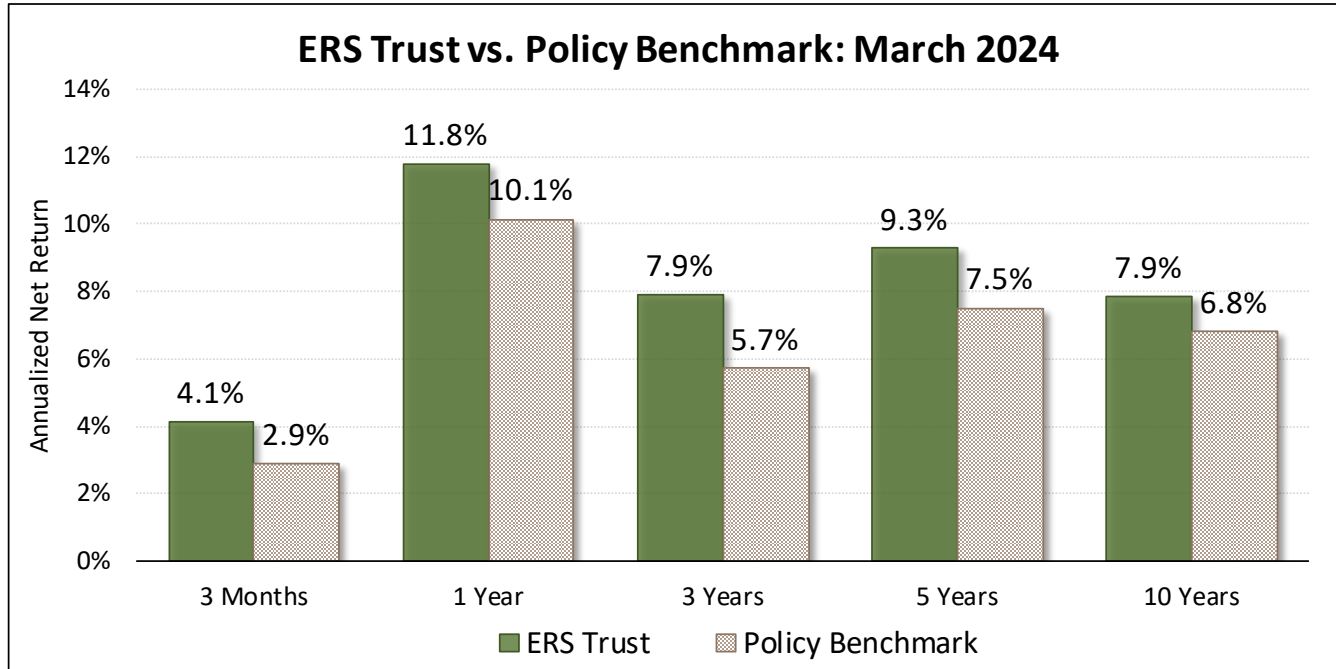


Investment Performance

Absolute & Relative Return



- Strong performance vs. Policy Benchmark, including +177 bps on a 5-year basis

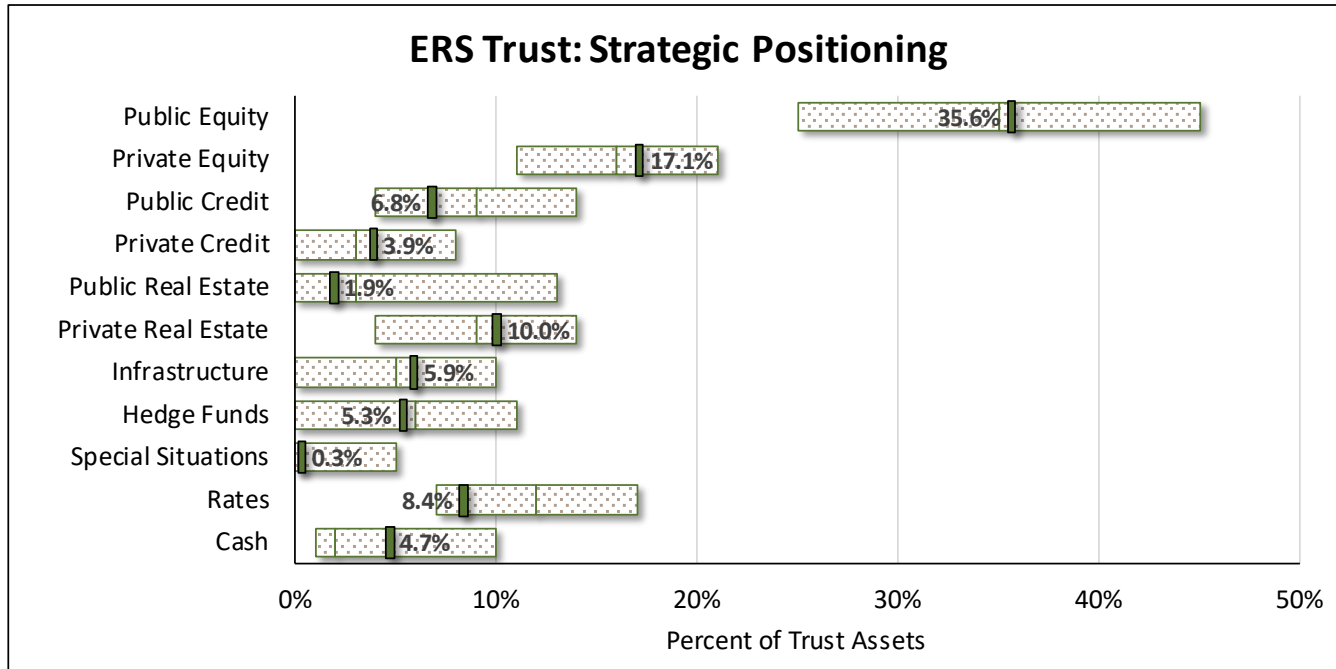


Insurance Fund Performance

Trust Positioning



- Tilts toward private markets, public equity, and cash vs. public credit, real estate, and rates

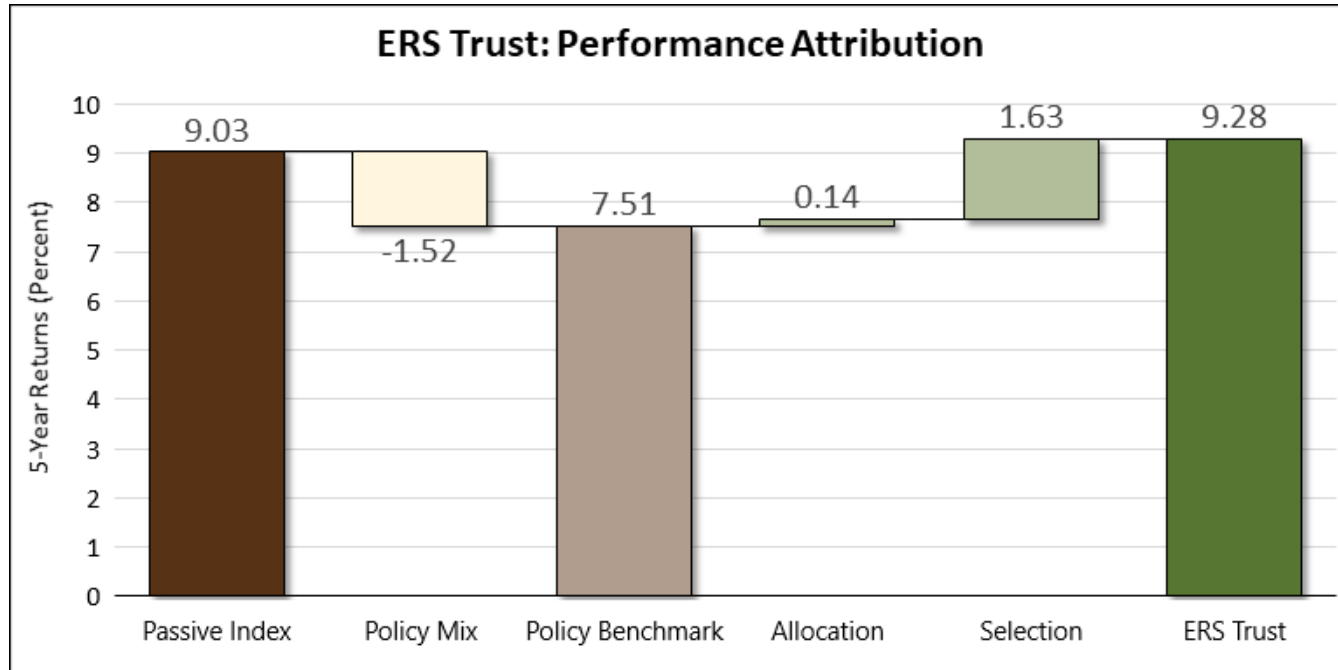


Investment Performance

Attribution Analysis – Last Five Years



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

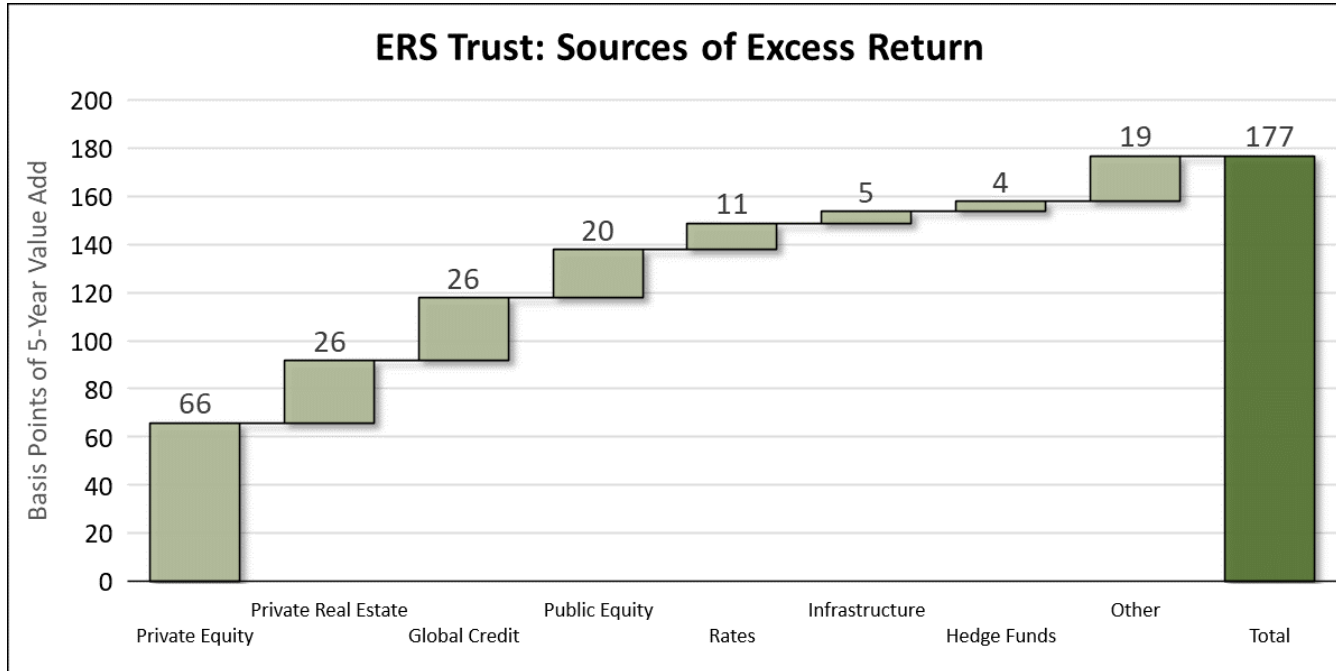


Investment Performance

Attribution Analysis – Last Five Years



- Strong security selection seen across all asset classes including public equity

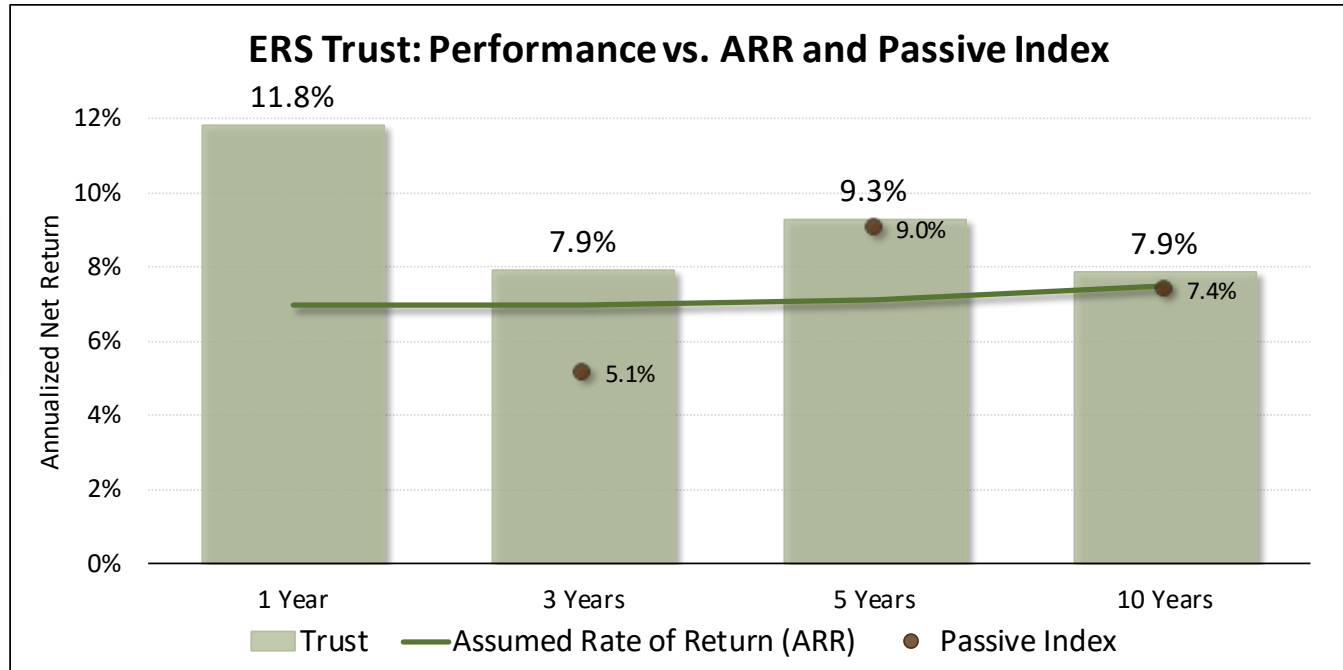


Investment Performance

Absolute & Relative Return



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



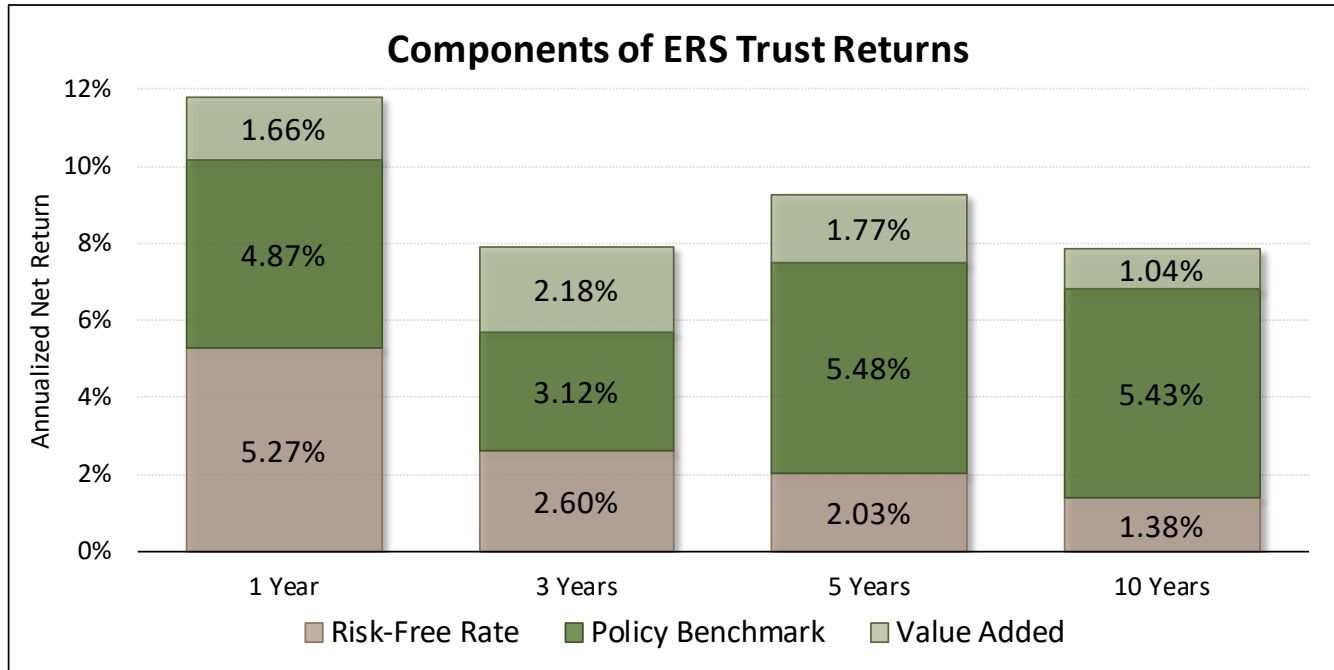
The Passive Index returned +18.4% over the 1-year period.

Investment Performance

Building Blocks of Returns



- Risk-free rates remain a key driver of recent returns: above 5.25% on a one-year basis

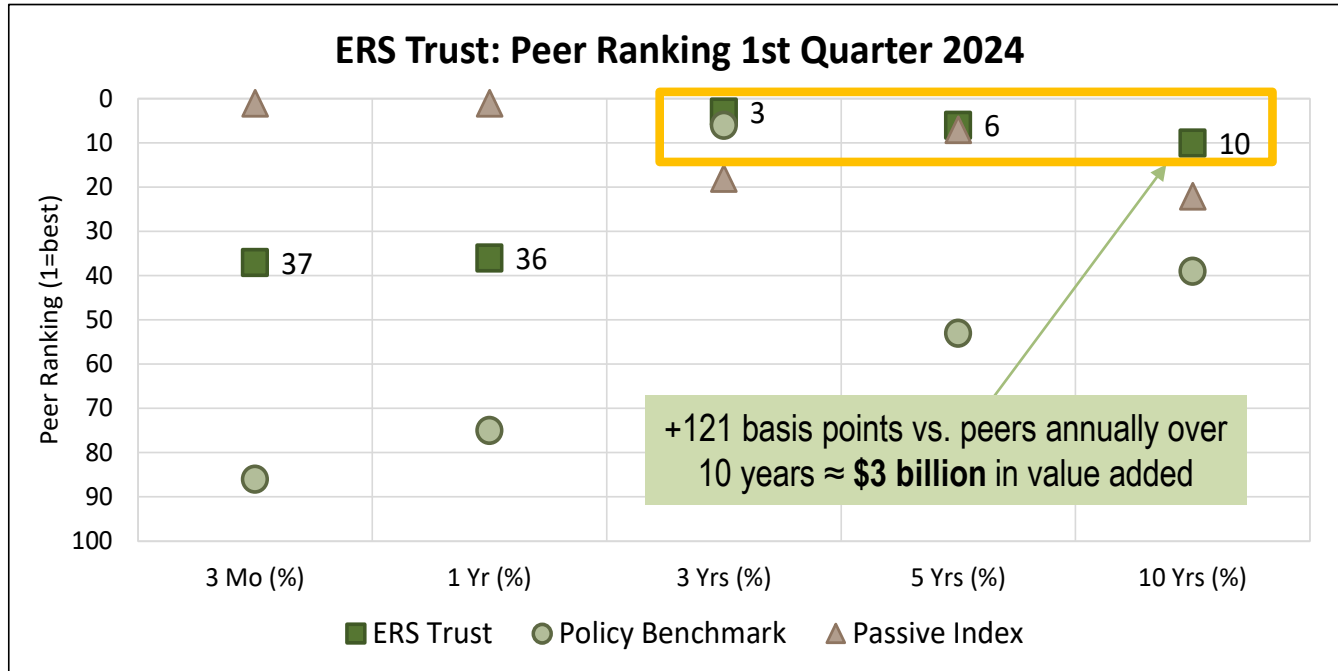


Investment Performance

Peer Rankings for Current Quarter



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

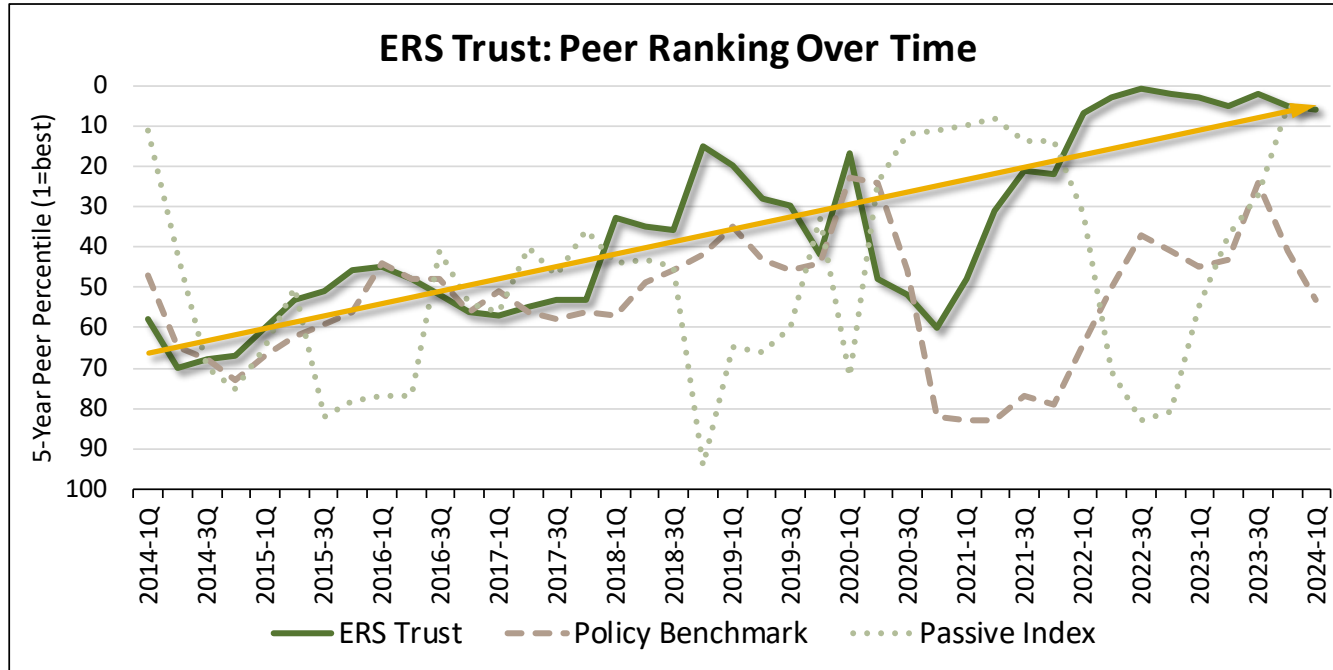


Investment Performance

Peer Ranking Over Time



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



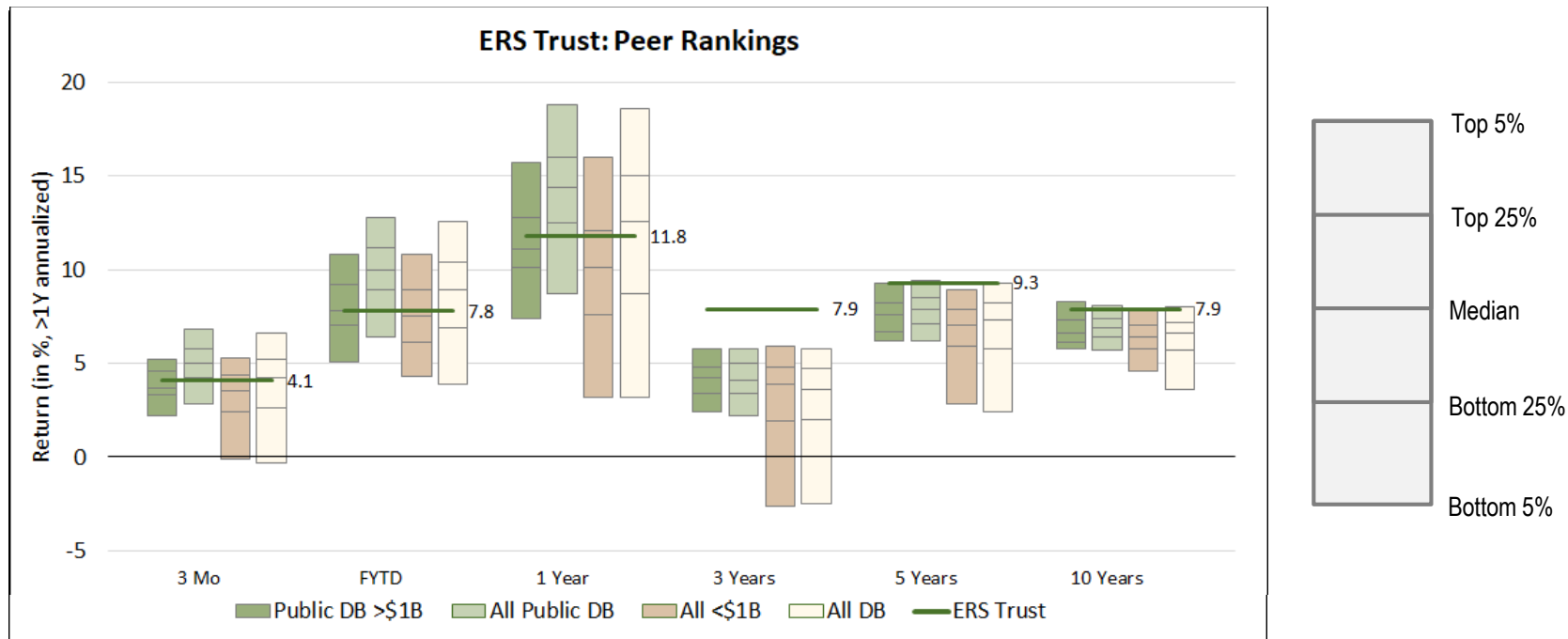
Top 10%
3 year
5 year
10 year

Investment Performance

Peer Ranking vs. Broad Pension Universe



- Top 10% vs. peer funds across long-term horizons, including high 3-year returns

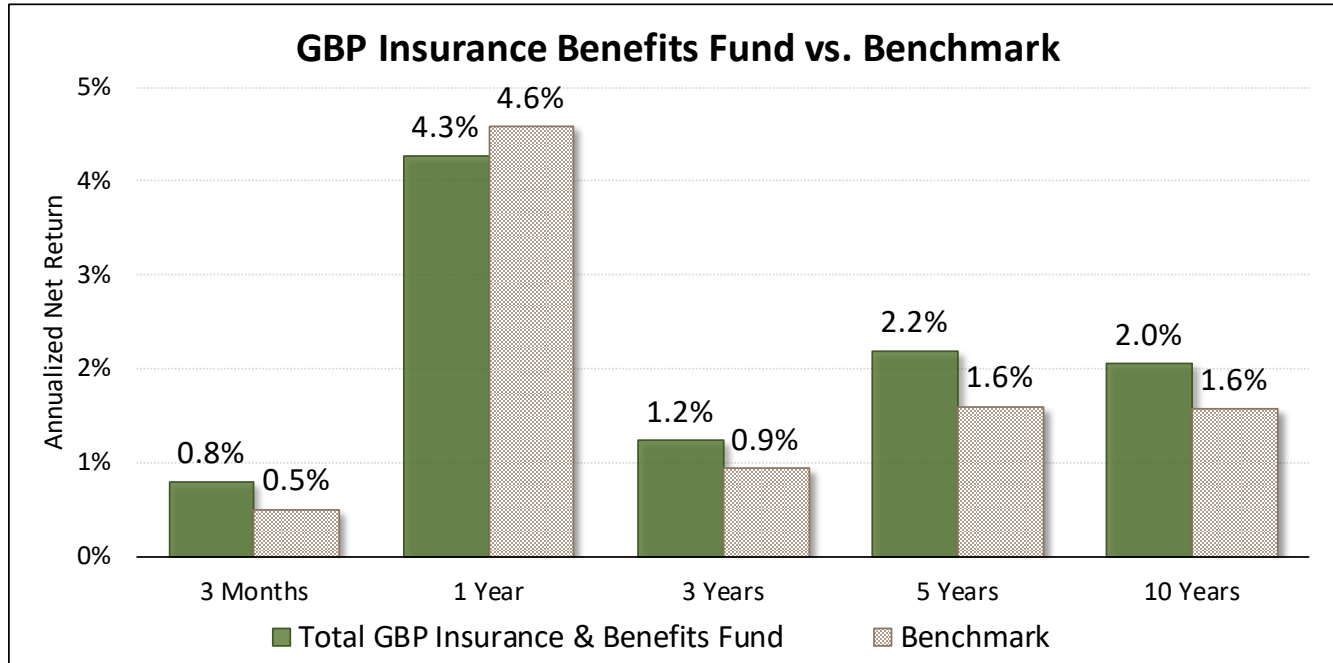


Investment Performance

GBP Insurance & Benefits Fund



- Strong performance over long-term horizons for this highly conservative allocation



Discussion

Public Agenda Item #7

**Consideration of Quarterly Report from Chief Investment Officer*

May 22, 2024

David T. Veal, CFA, CAIA, FRM

CIO Report

Retirement Fund Performance Dashboard



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

Net investment returns as of March 31, 2024

	Last 3 Years		Last 5 Years		Last 10 Years	
ERS Trust	7.9%		9.3%		7.9%	
Assumed Rate	7.0%	+0.90%	7.1%	+2.17%	7.5%	+0.38%
Policy Benchmark	5.7%	+2.19%	7.5%	+1.77%	6.8%	+1.04%
Passive Index	5.1%	+2.77%	9.0%	+0.25%	7.4%	+0.47%
Median Peer	4.3%	+3.65%	7.6%	+1.64%	6.6%	+1.21%

CIO Report

Peer Ranks



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

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

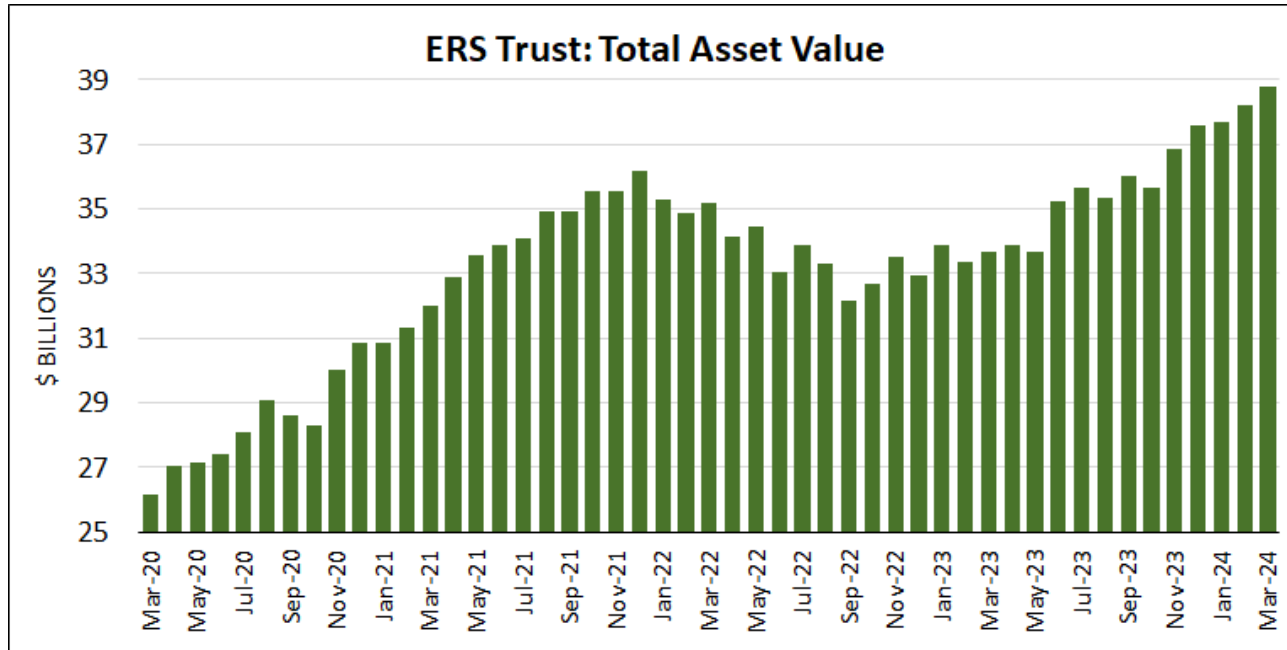
As of date	ERS Trust				Policy Benchmark				Passive Index			
	1 Year	3 Years	5 Years	10 Years	1 Year	3 Years	5 Years	10 Years	1 Year	3 Years	5 Years	10 Years
2022-2Q	3	6	3	14	15	47	50	56	100	80	71	73
2022-3Q	1	1	1	10	10	36	37	45	100	86	83	79
2022-4Q	2	1	2	7	9	28	41	48	100	98	81	52
2023-1Q	3	12	3	6	11	86	45	56	90	21	56	48
2023-2Q	55	5	5	11	52	60	43	49	1	43	38	39
2023-3Q	76	1	2	6	89	28	24	35	1	68	28	37
2023-4Q	72	1	5	6	80	15	42	31	1	55	4	25
2024-1Q	36	3	6	10	75	6	53	39	1	18	7	22

CIO Report

Total Trust Asset Value



- Assets now total ~\$38B vs. \$36B in December 2021 and \$26B at May 2020 lows

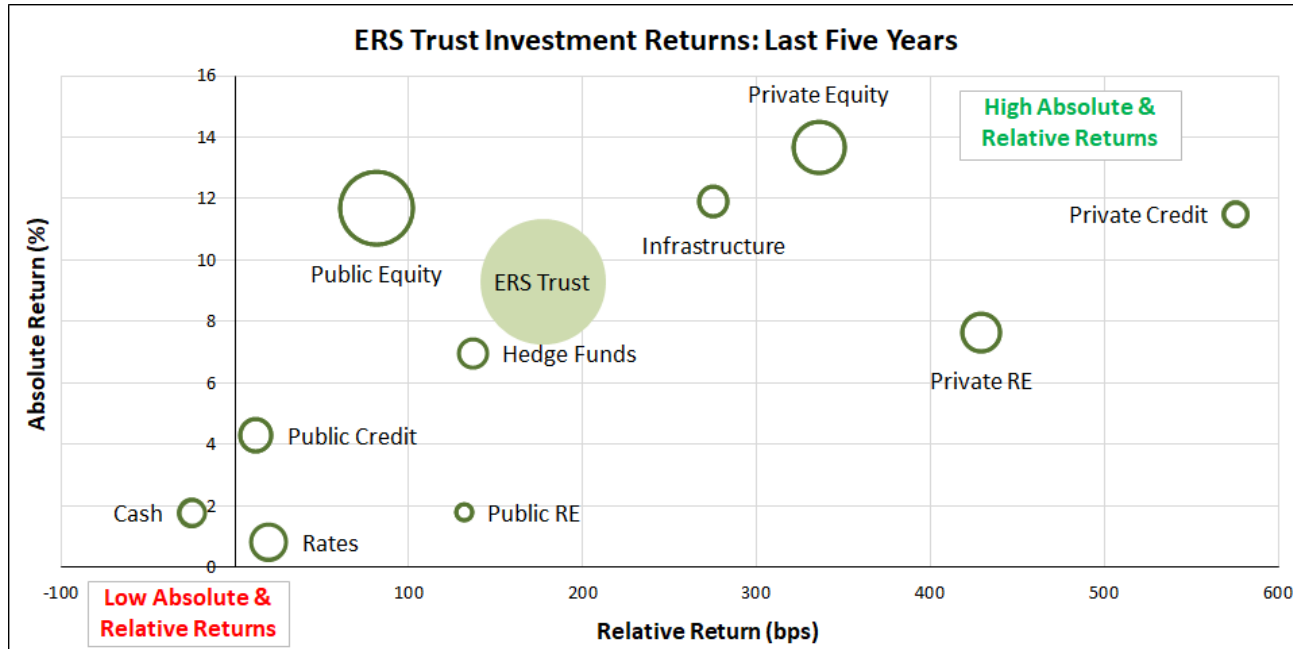


CIO Report

Absolute & Relative Trust Returns



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

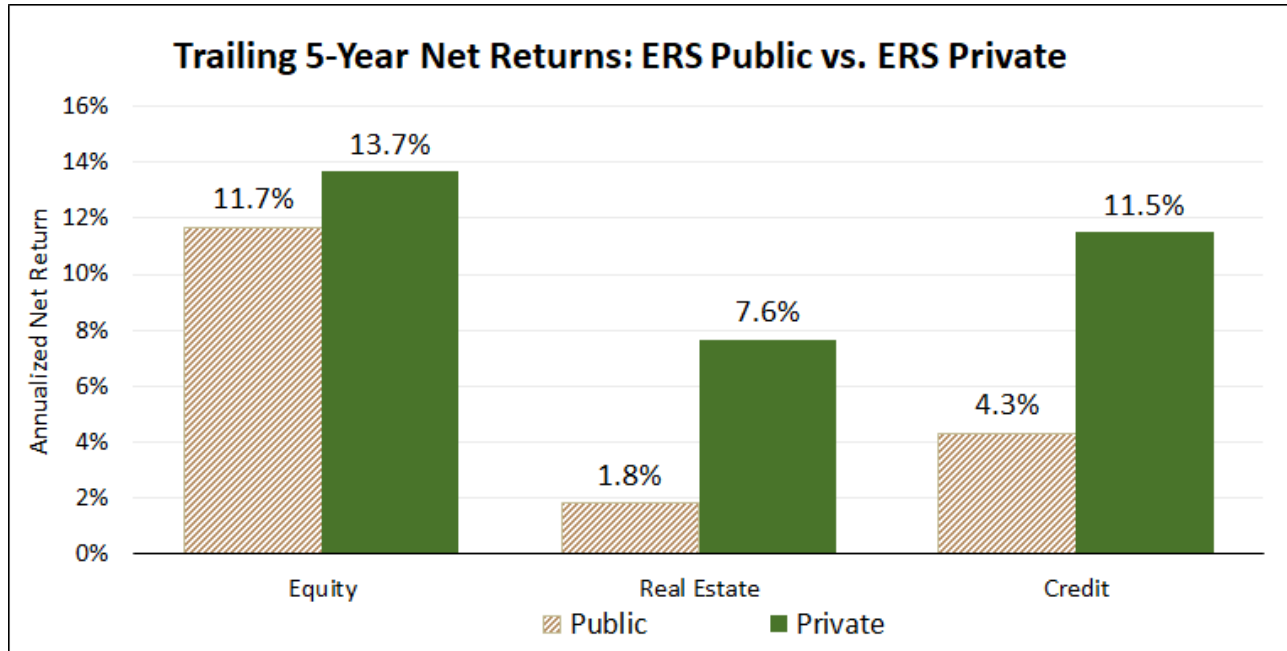


CIO Report

Private vs. Public Market Returns

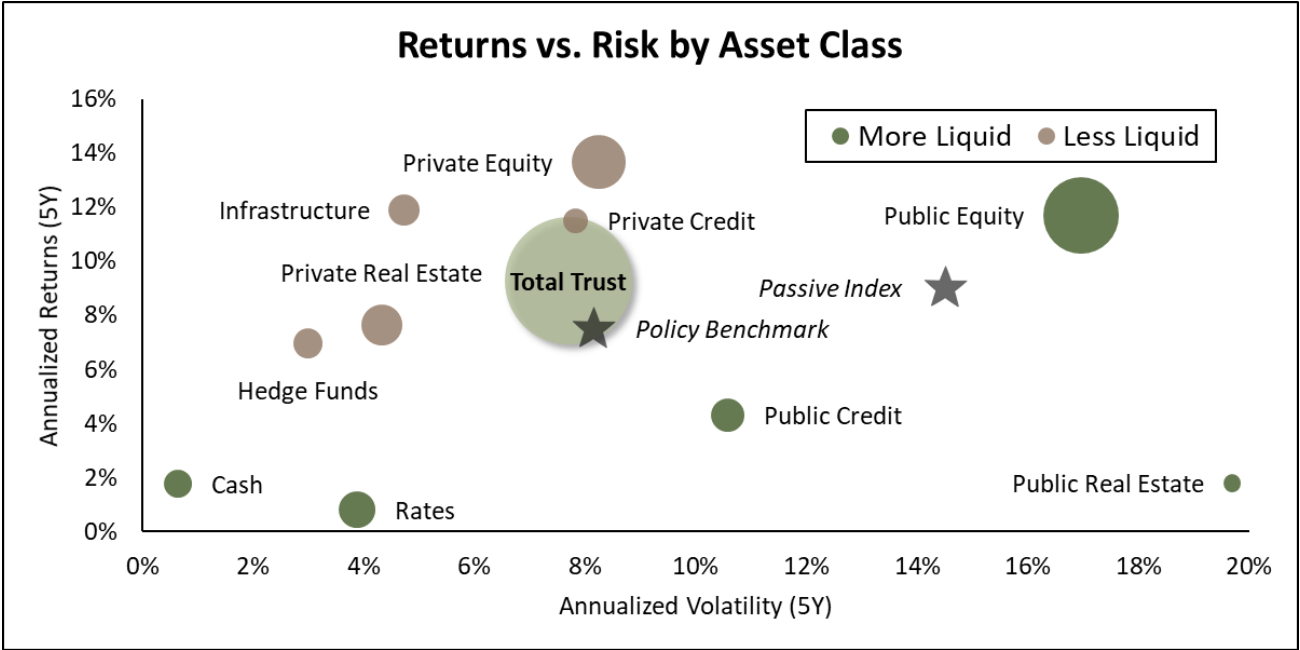


- Private market allocations have outperformed their public market counterparts



Risk vs. Return By Asset Class

- Private market allocations have exhibited lower volatility than public market counterparts

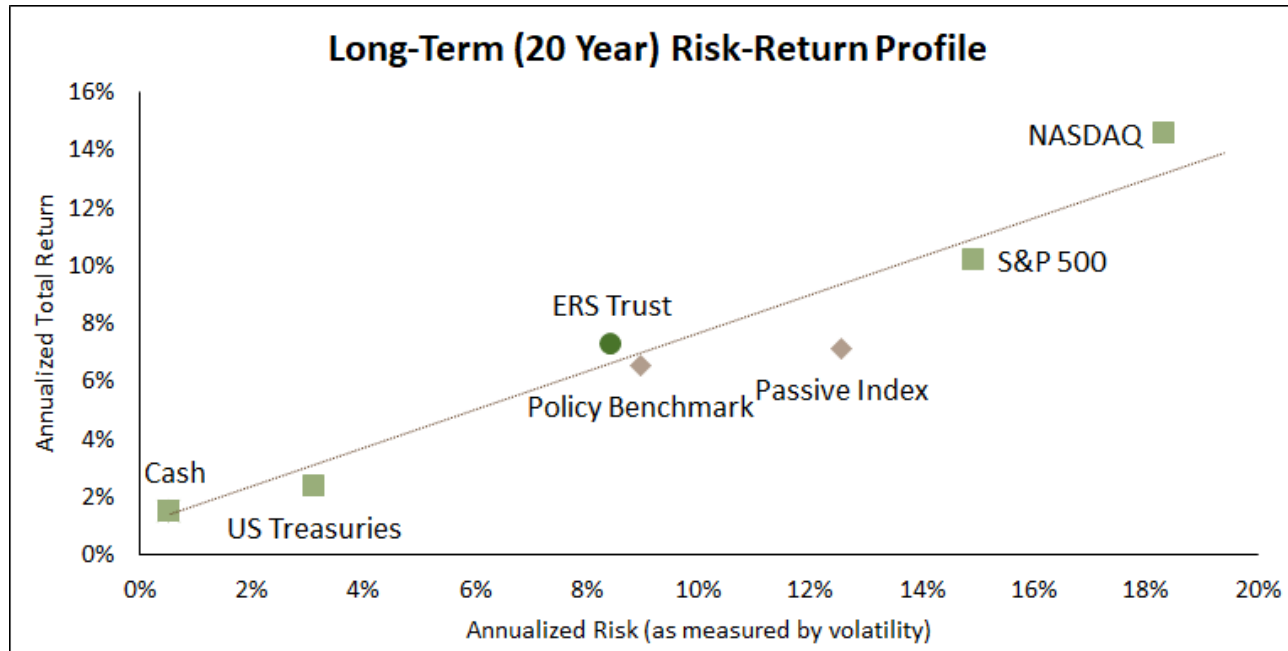


CIO Report

Risk vs. Return for Trust Overall



- Trust providing strong long-term returns at levels of risk appropriate for pension fund

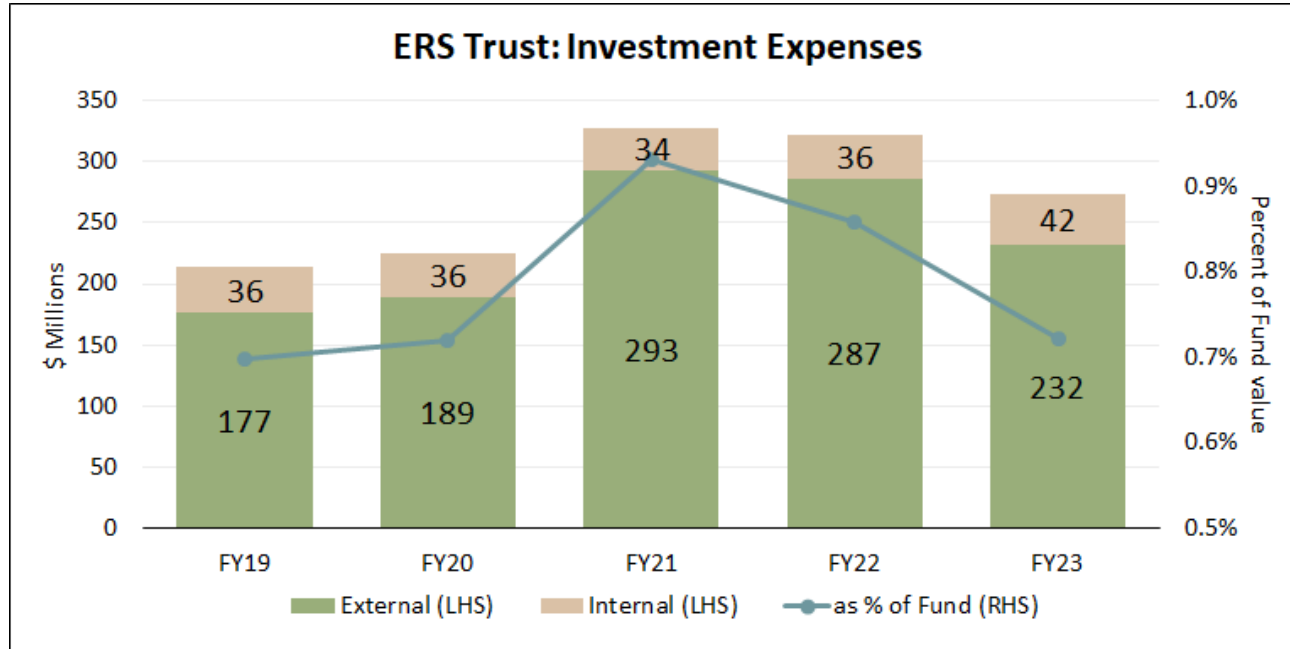


CIO Report

Investment Expenses



- FY23 expenses trended lower both on an absolute basis and relative to total assets

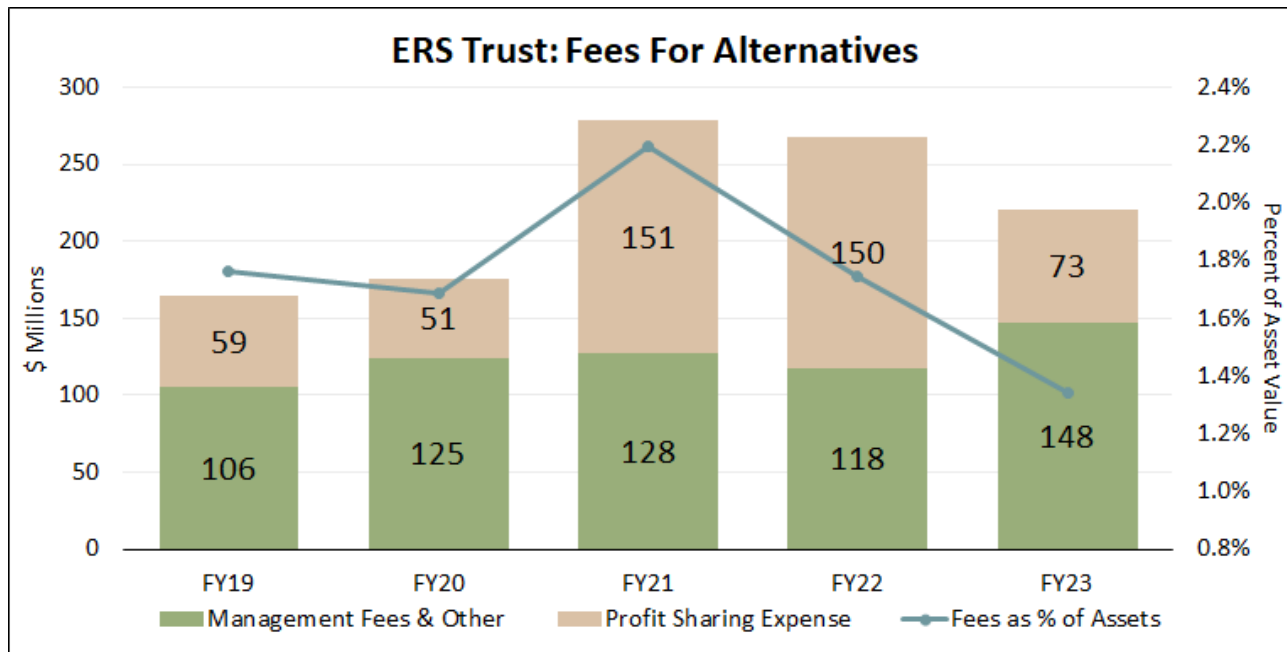


CIO Report

Investment Expenses



- Expenses related to alternative investments reflect the broader trend lower

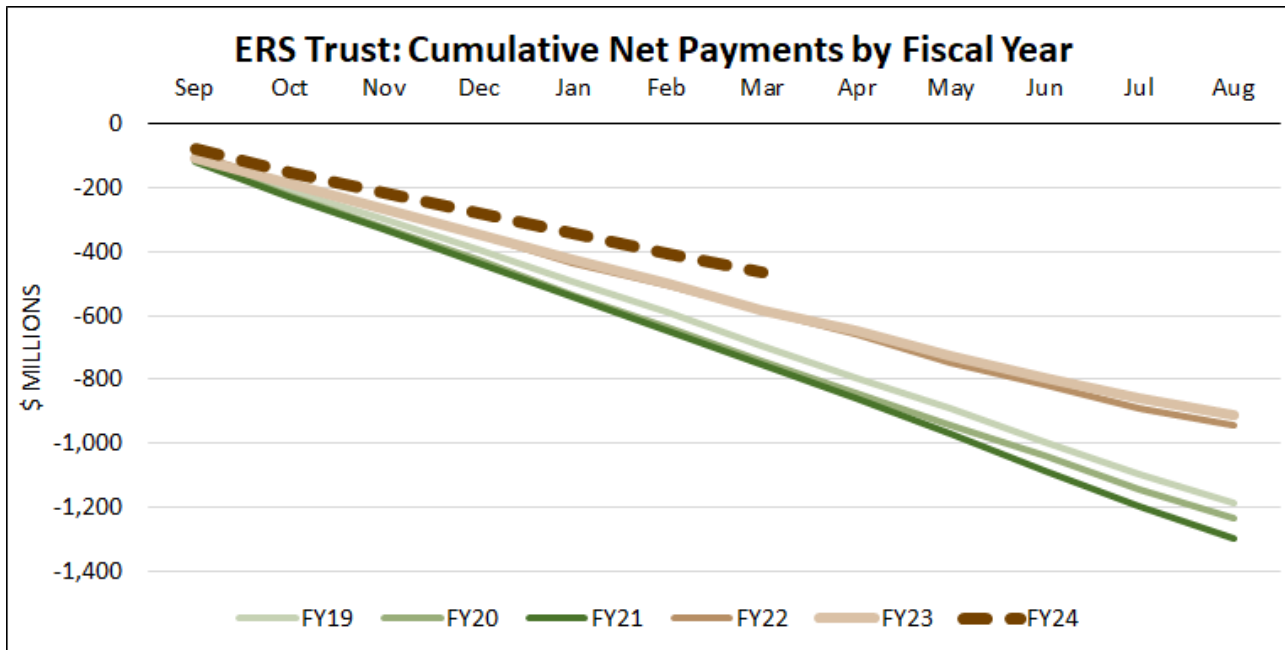


CIO Report

Liquidity Profile



- Outflows continue to moderate due to ongoing legacy payments and higher contributions

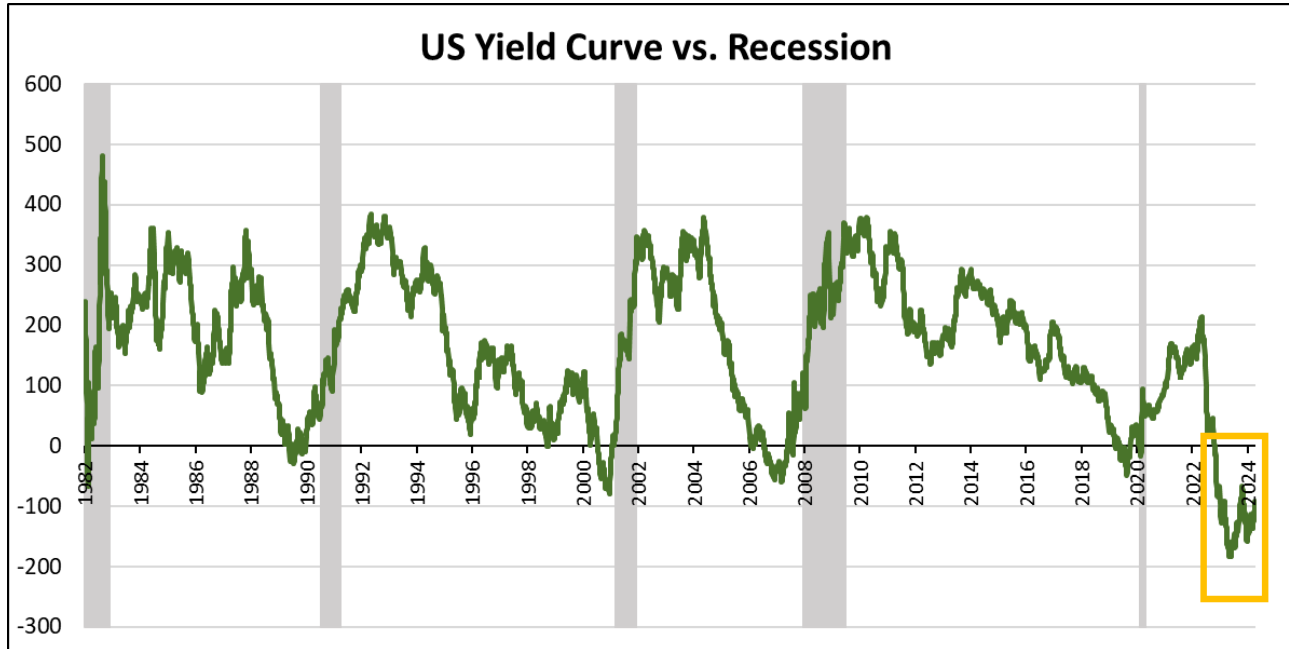


CIO Report

Market Environment



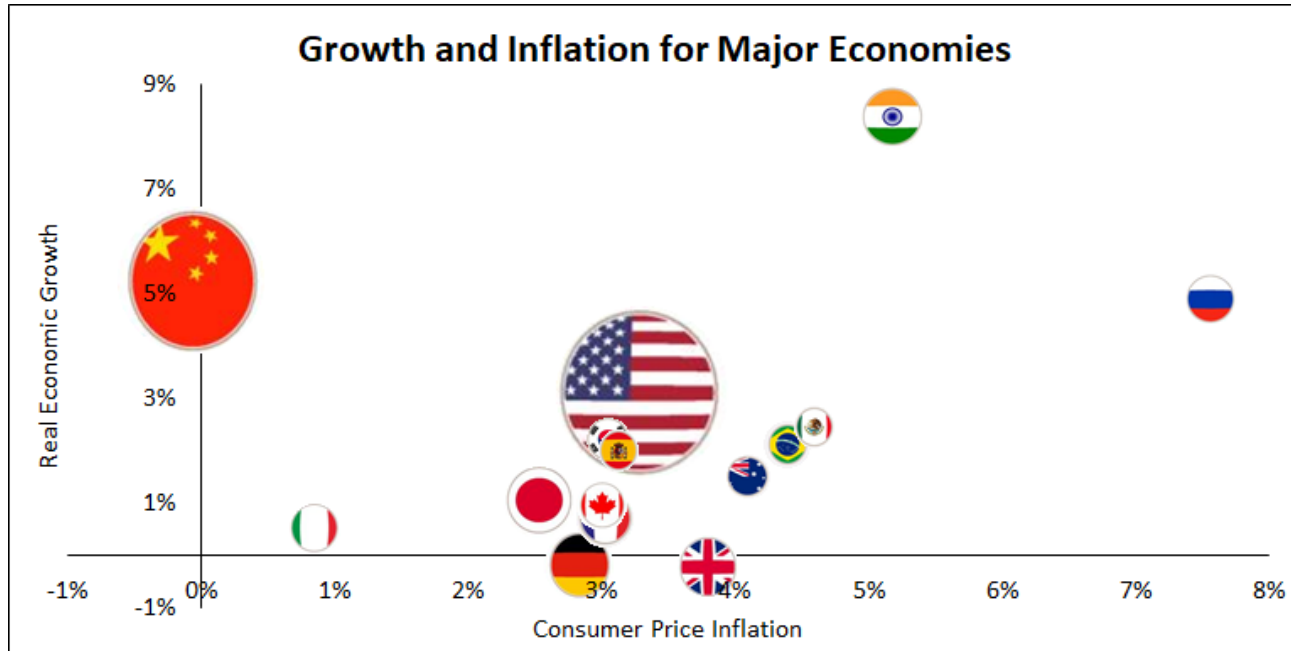
- Historically reliable economic indicators still signaling recession risk



CIO Report

2023 Market Environment

- Growth and inflation holding up well across most major economies

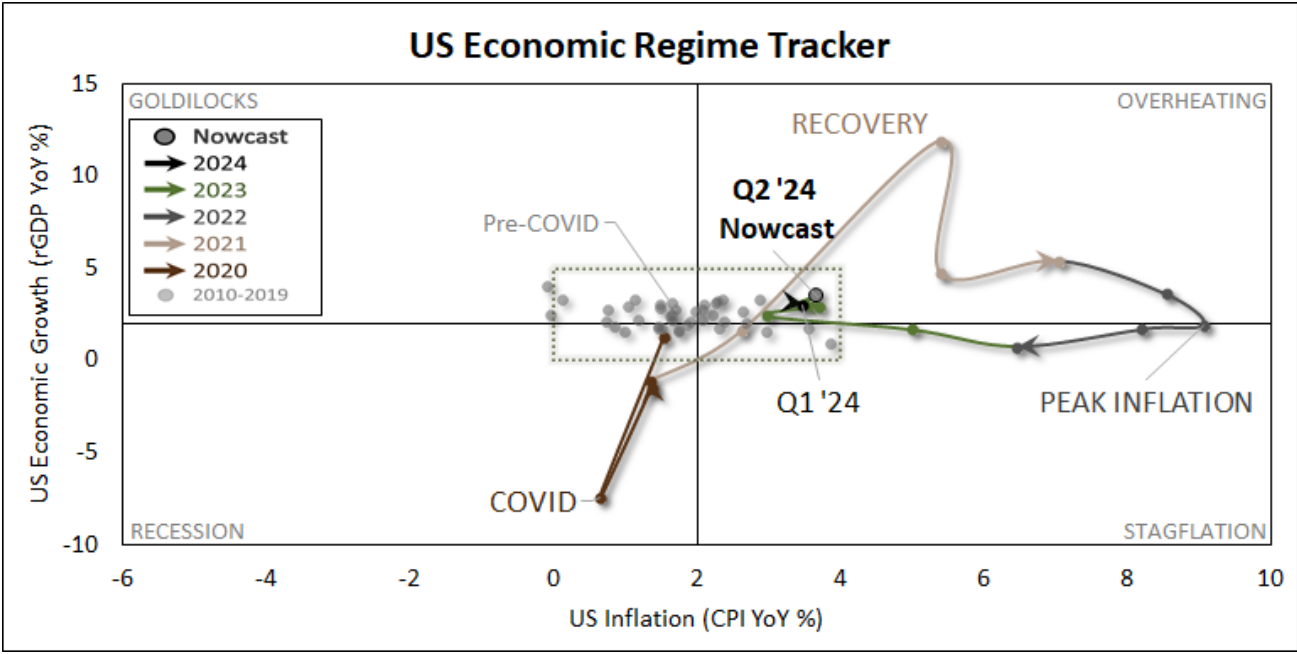


CIO Report

2024 Market Environment



- US economic conditions have remained more or less normal recently

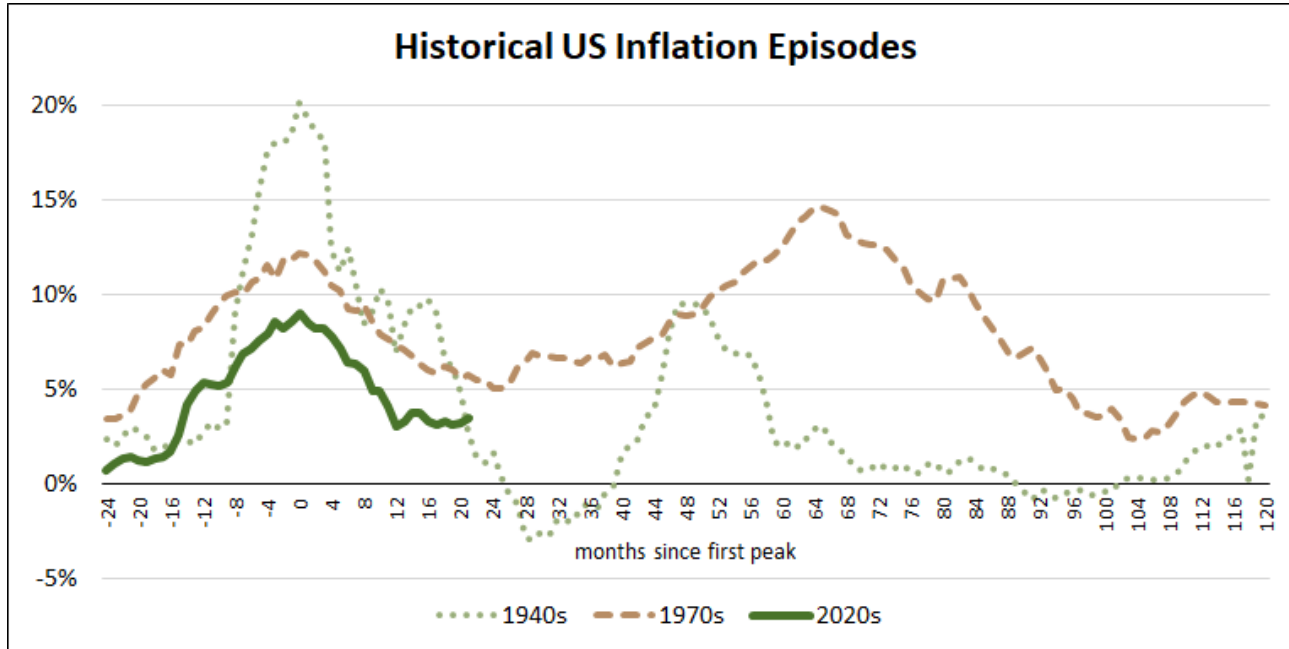


CIO Report

Market Environment



- Risk of resurgent US inflation lingers given historical precedents



CIO Report

Private Equity Environment

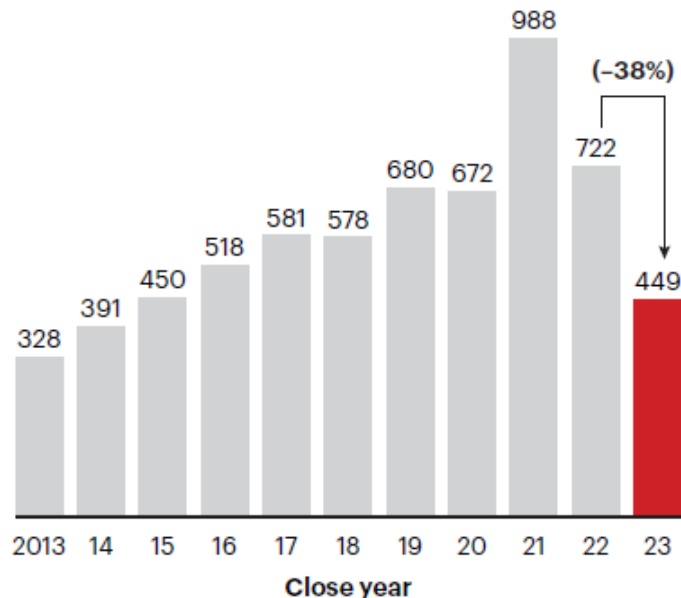


Private equity in 2023 vs. 2021

- Total deal value -60% (-37% y-y)
- Total exit value -66% (-44% y-y)
- Funds formed -55% (-38% y-y)

Lack of distributions becoming an issue for investors with high liquidity needs.

Count of buyout funds closed globally



CIO Report

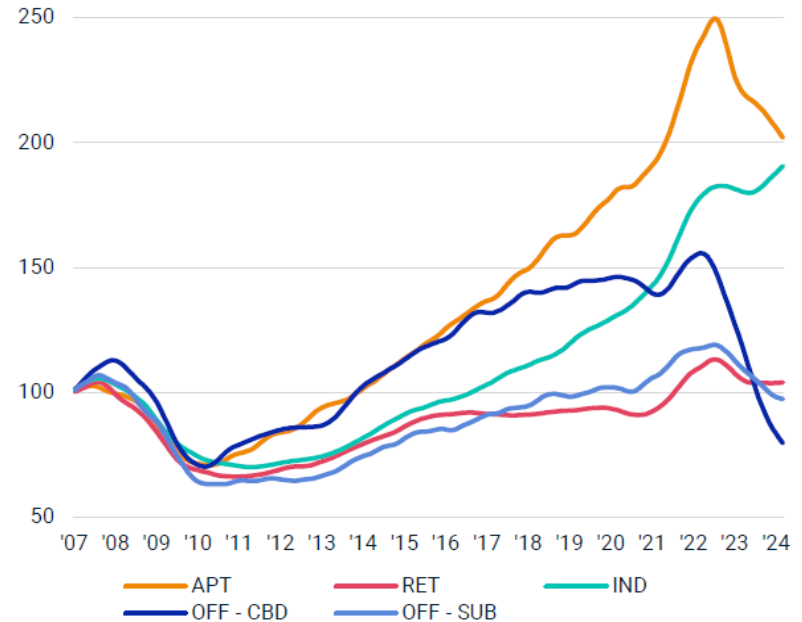
Real Estate Environment



Real estate value trends

- Industrial: +9.2% annualized gains
- Retail: -1.2% y-y, above 2020
- Apartment: -8.4% y-y, above 2020
- Office: -16.6% y-y, including:
 - CBD: -33% y-y, 50% below 2020 levels
 - Suburban: -11% y-y, back to 2020 levels and still falling

National Property Types



CIO Report

Key Current Initiatives



- Attracting and retaining top investment talent
- Completion of Investment Practices Review
- Investment Consulting RFQ (with Board selection in December)
- Separation of Retirement Trust from Insurance & Benefits Fund
- Annual Review of Investment Policy Statement
- Annual Private Markets Capital Planning Process

Discussion

Public Agenda Item #8

** Consideration of Annual Review of Real Assets Program*

May 22, 2024

Robert Sessa, Managing Director of Real Assets

Annie Xiao, Director of Public Real Estate

Amy Cureton, Director of Private Real Estate

Pablo de la Sierra Perez, Director of Infrastructure

Real Assets

Asset Class Overview



Three Separate Programs

- **Public Real Estate:** Return seeking allocation to provide long-term growth and liquidity
- **Private Real Estate:** Return seeking allocation to provide long-term growth and inflation hedge
- **Private Infrastructure:** Return seeking allocation to provide long-term growth and inflation hedge

Investment Objective

- Outperform their respective benchmarks over rolling 5-year (public real estate) or 10-year periods (private real estate and infrastructure)
- Remain in compliance with risk budgets assigned by policy

Public Real Estate

Key Characteristics



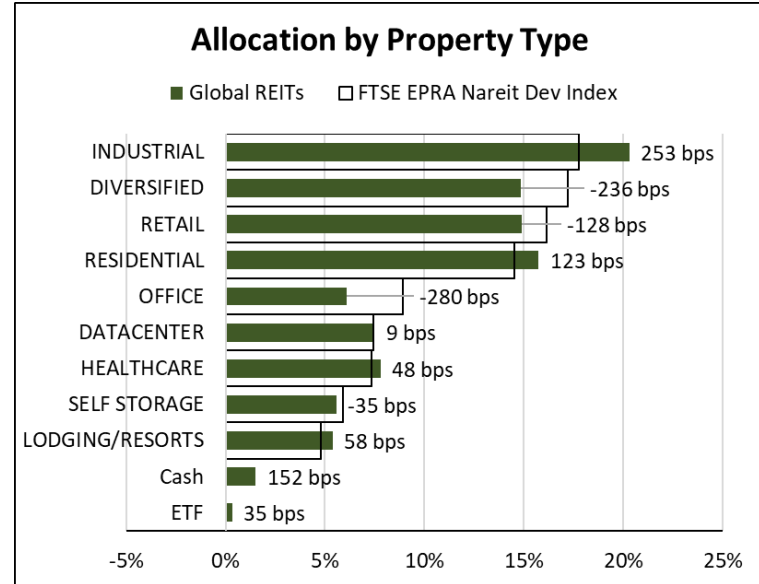
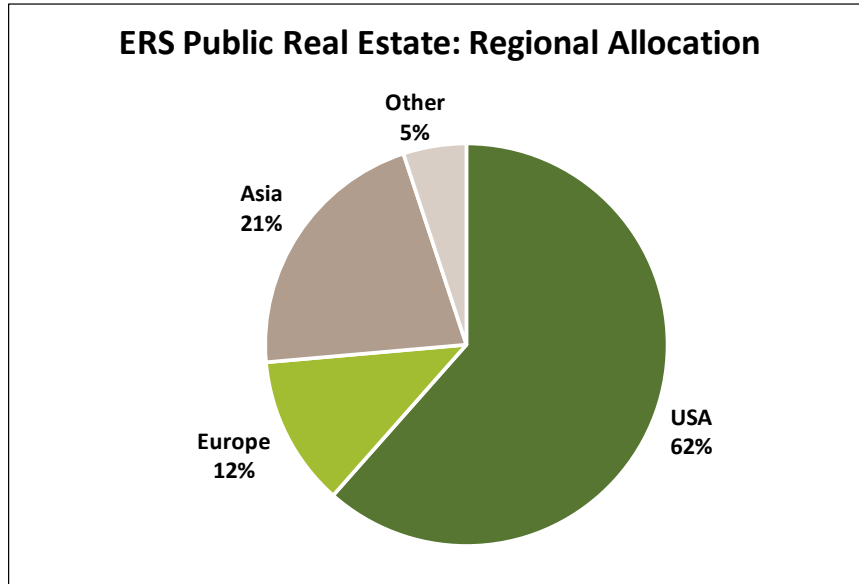
Attribute	Public Real Estate Portfolio
Type of Allocation	Return Seeking
Policy Allocation	Target weight of 3%, range from 0% to 13%
Management Style	Actively managed internally
Performance Objective	Outperform FTSE EPRA Nareit Developed Total Return Index
Risk Budget	Tracking error target of 200 basis points
Information Ratio	Target ≥ 0.30 or better; Currently 1.14
Investment Expenses	~31 bps internally (~18 bps at target allocation)

Public Real Estate

Portfolio Structure



- \$741 million represents 1.9% of the Trust, diversified across major regions and property sectors

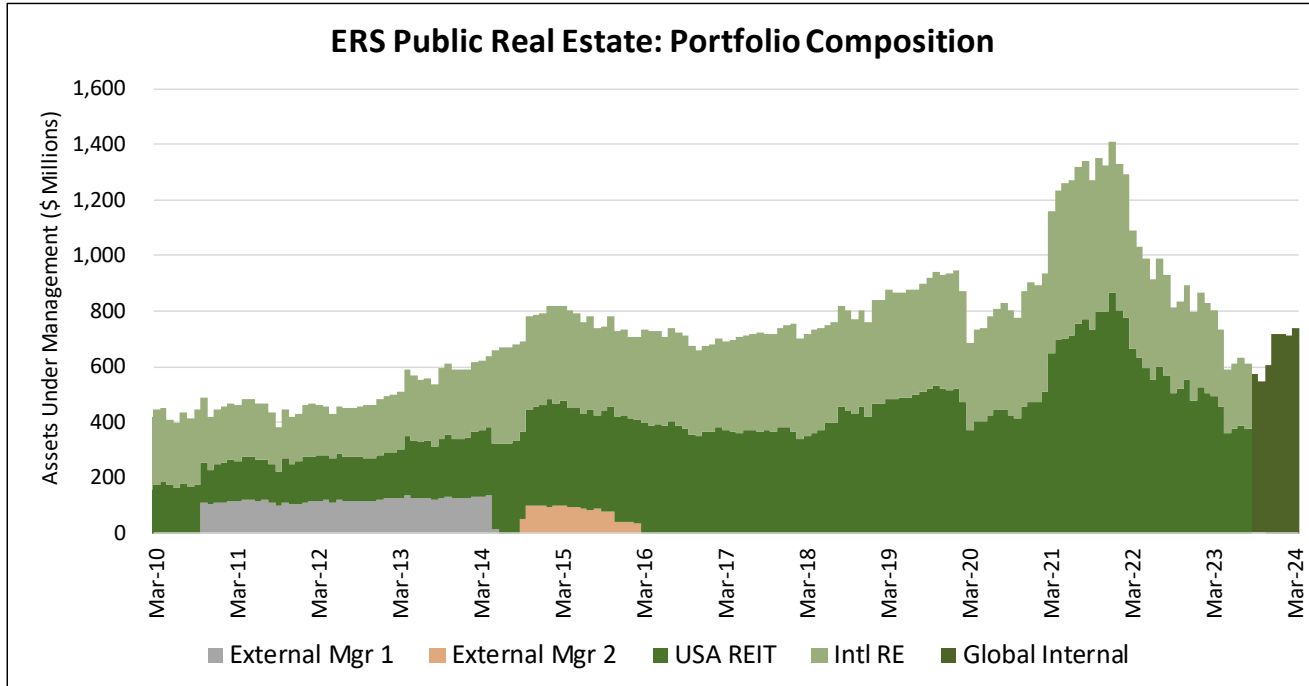


Public Real Estate

Historical Composition



- Tactical asset allocation (in \$M): +200 in 2021, -325 in 2022, -175 in 2023, +25 in Jan 24

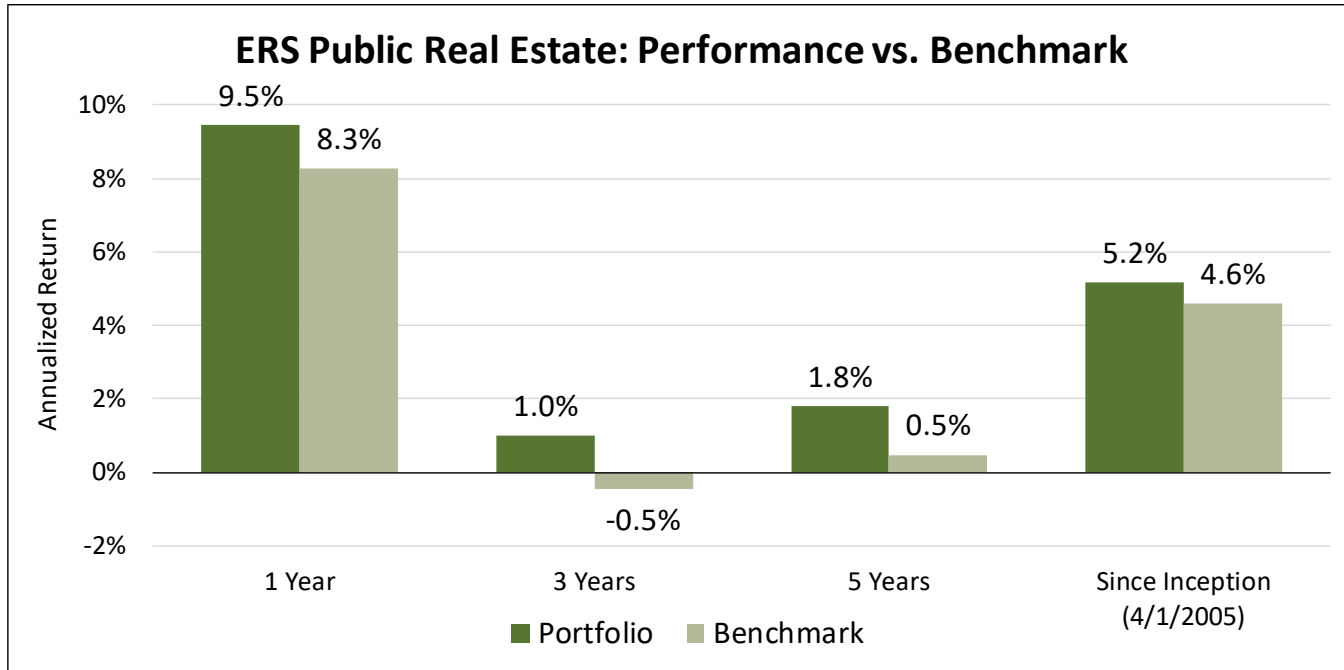


Public Real Estate

Periodic Performance



- Outperformance across all time horizons: +118 bps for 1Y, +144 bps for 3Y, +132 bps for 5Y

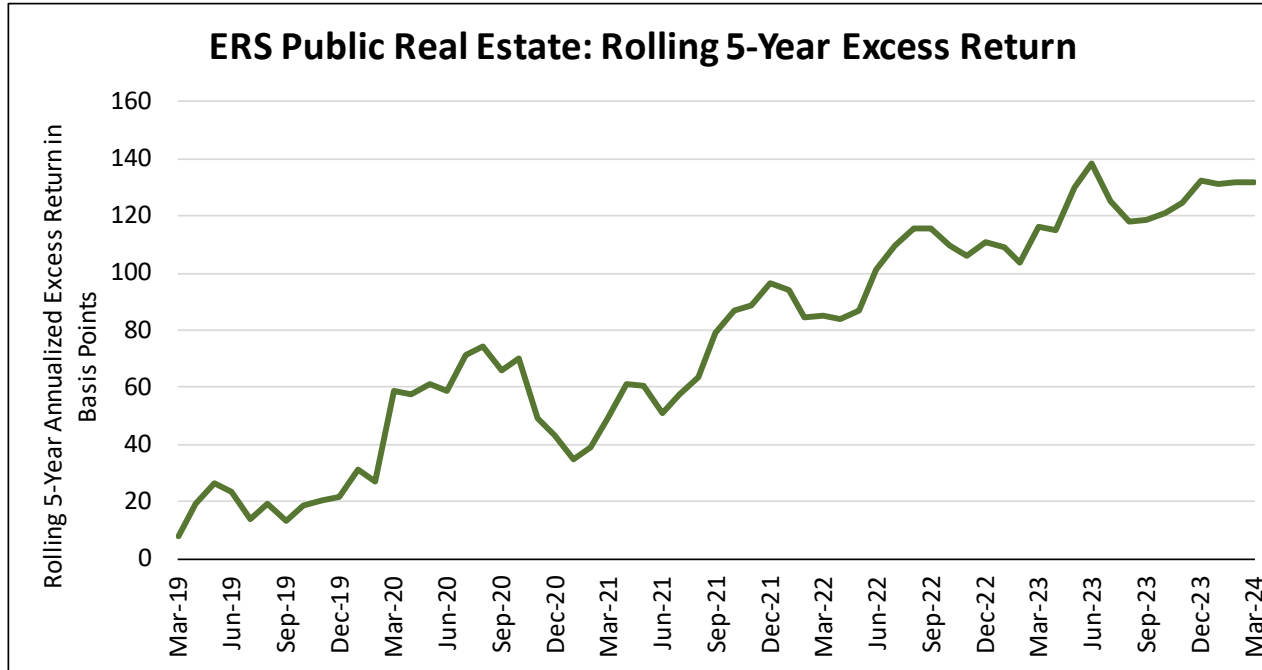


Public Real Estate

Relative Returns



- +132 bps of excess return over rolling five years with low levels of risk

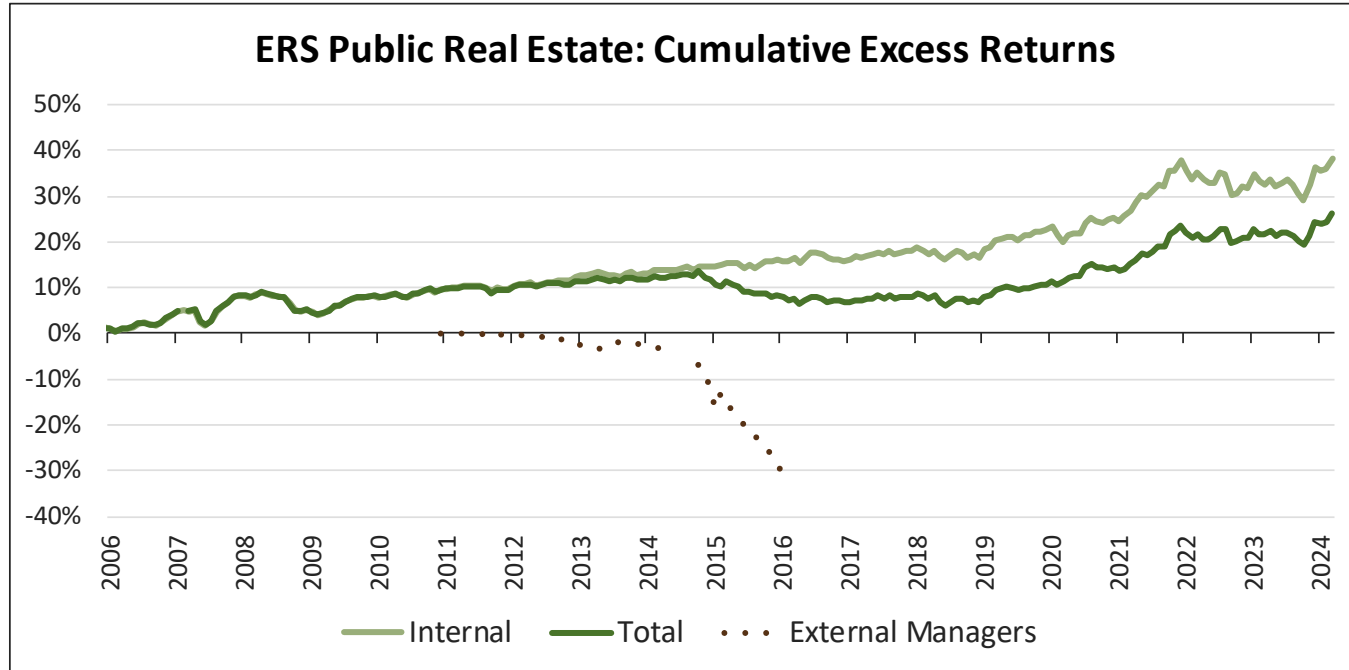


Public Real Estate

Cumulative Excess Return



- Added significant value over time despite some periods of underperformance

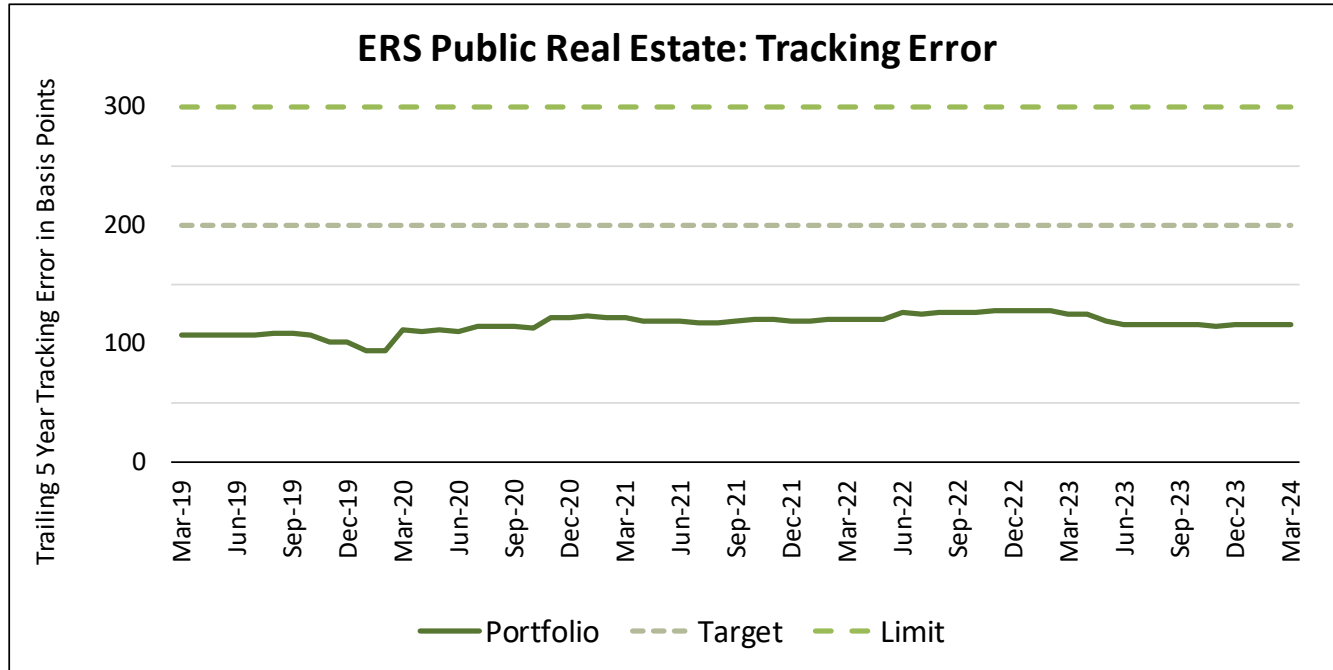


Public Real Estate

Risk Parameters



- Realized tracking error 116 bps remains within the assigned risk budget



Public Real Estate

Goals and Objectives for Fiscal Years 2024 & 2025



FY24

- Outperform respective benchmarks – Ongoing
- Execute on Tactical Plan – Ongoing
- Continue to Improve Investment Process
- Policy Compliant

FY25

- Outperform respective benchmarks
- Execute on Tactical Plan
- Continue to Improve Investment Process
- Maintain Policy Compliance

Discussion

Private Real Estate

Key Characteristics



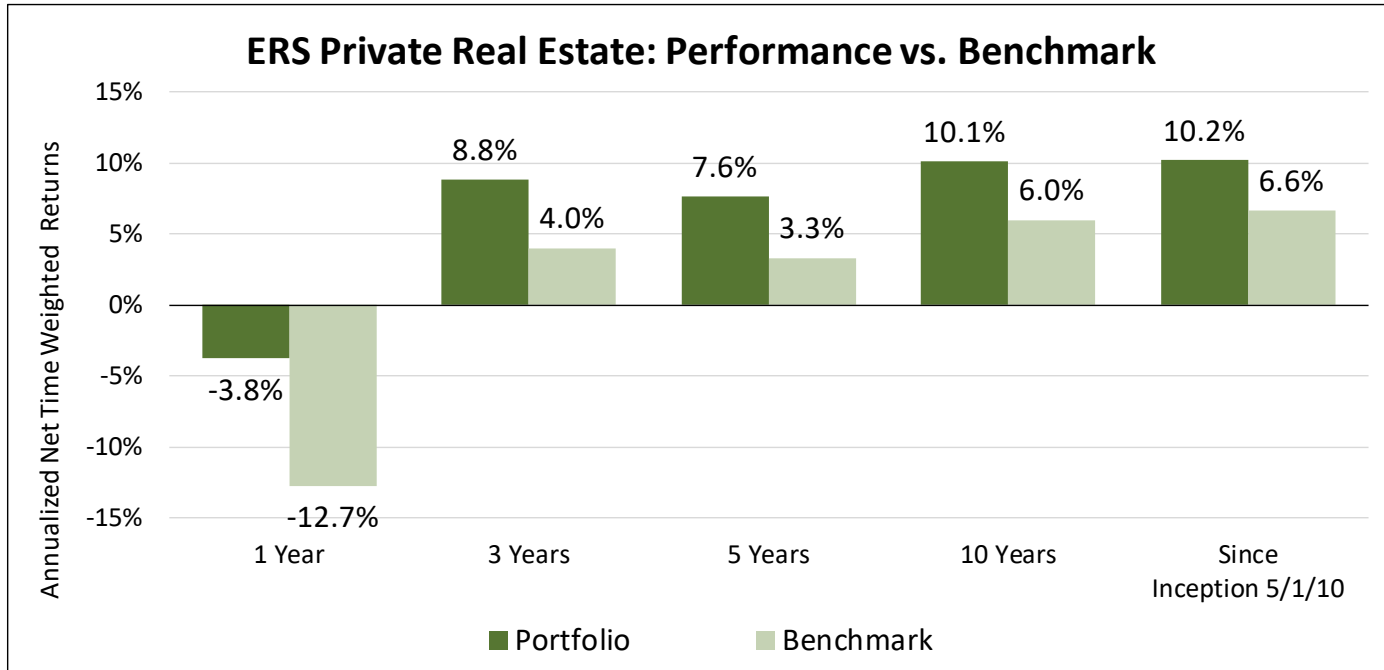
Attribute	Private Real Estate Portfolio
Type of Allocation	Return Seeking
Policy Allocation	Target weight of 9%, range from 4% to 14%
Management Style	Externally managed via commingled funds Also fund of funds, separate accounts, and co-investments
Performance Objective	Outperform the NCREIF-ODCE Net Total Return Index
Risk Mitigation	Diversify across vintages, geographies, strategies, sectors and managers
Investment Expenses	~194 basis points external, ~11 bps internal

Private Real Estate

Performance Snapshot



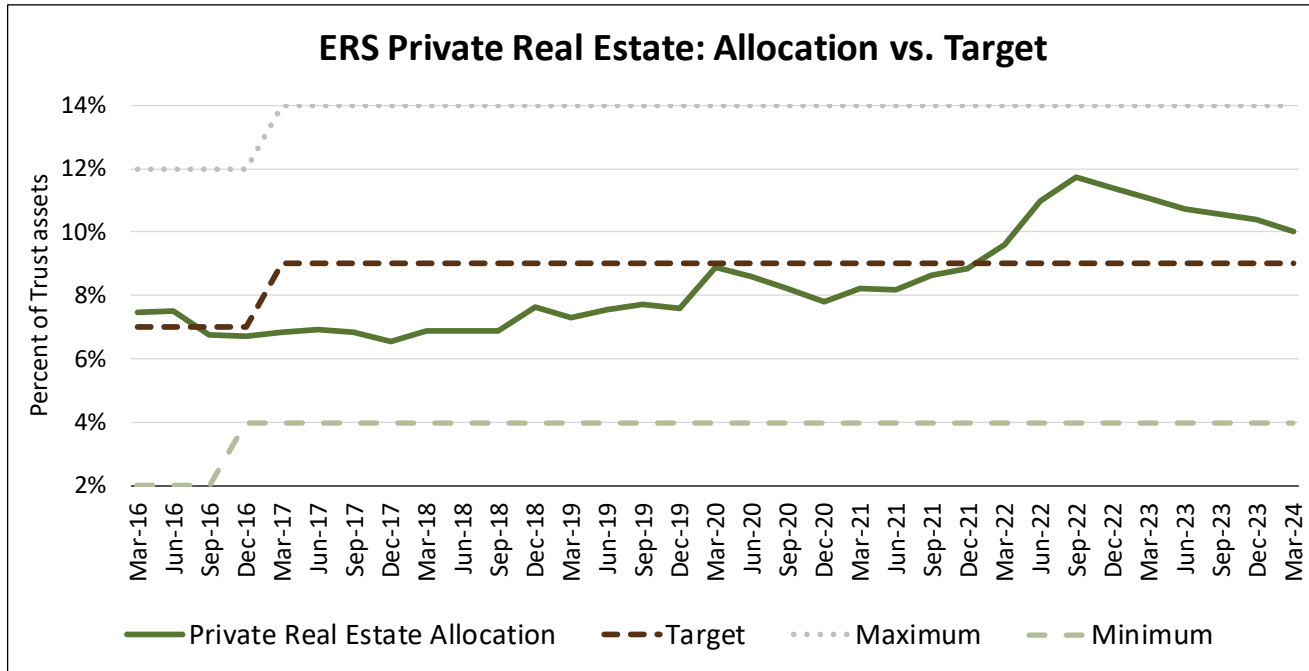
- Strong performance across all time horizons, including +430 bps of value add last 5 years



Private Real Estate

Historical Allocation

- Strong performance has led to increased allocation to Private Real Estate

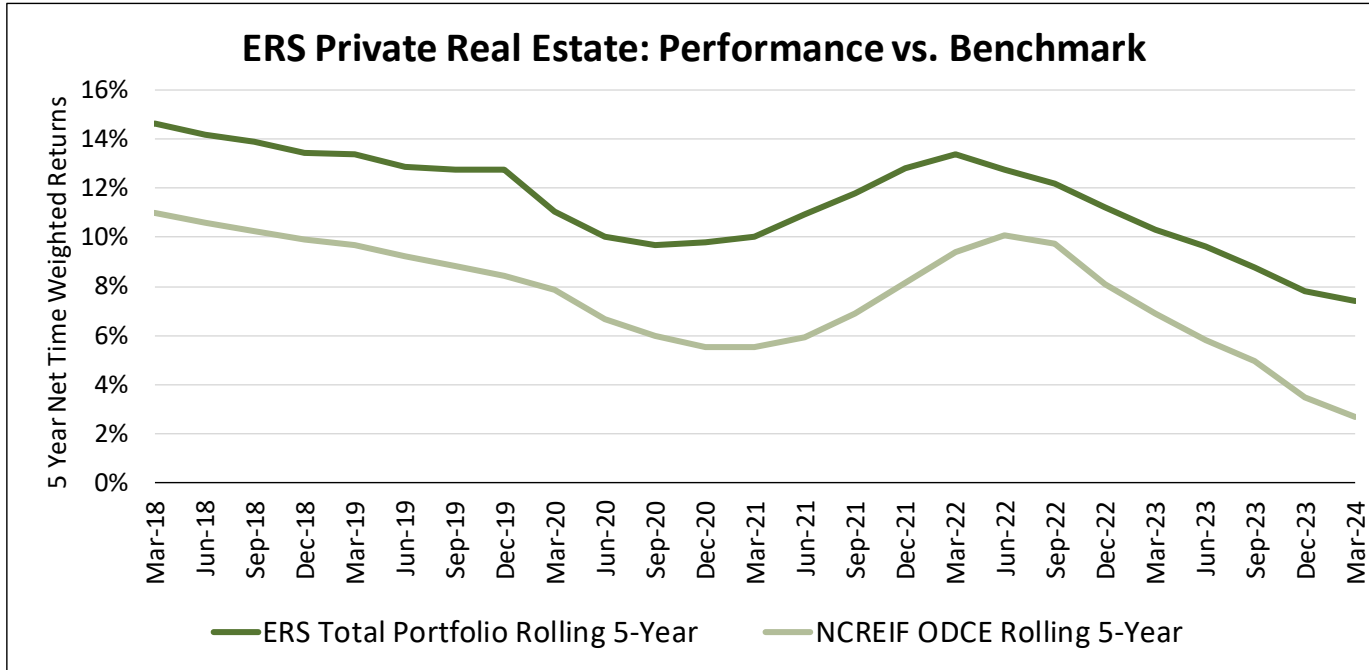


Private Real Estate

Historical Performance



- Strong and improving performance vs. benchmark across recent horizons

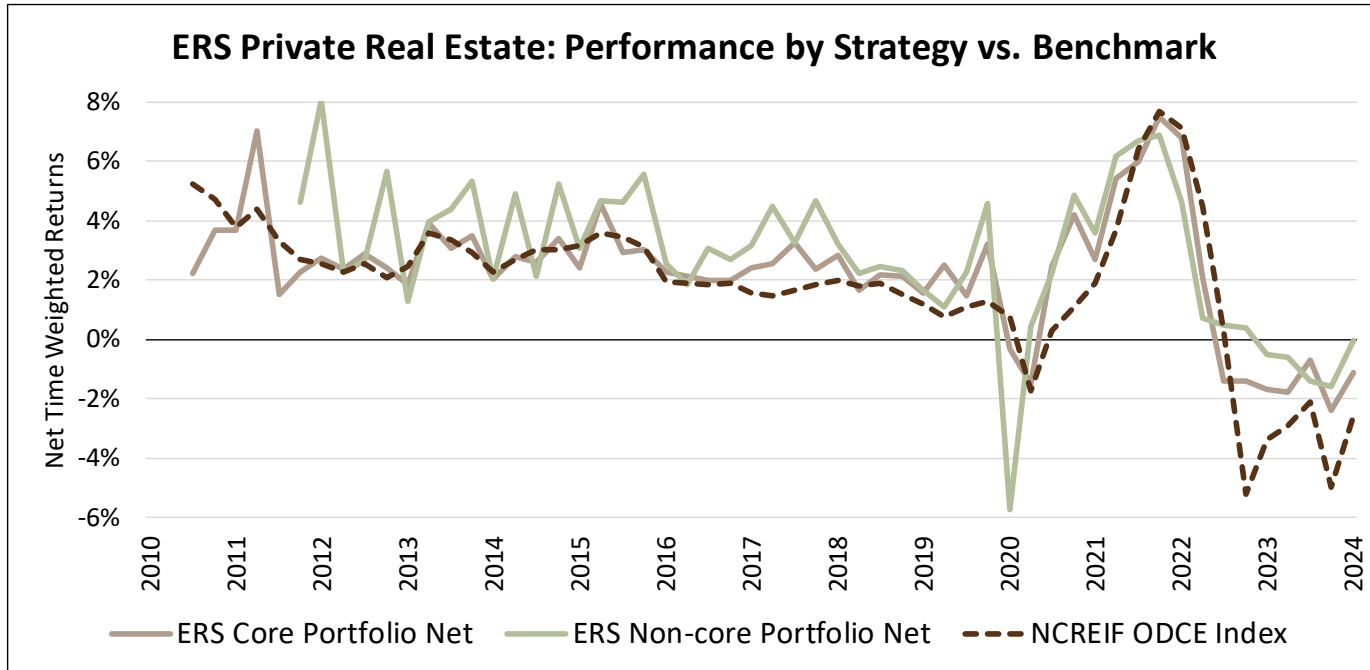


Private Real Estate

Historical Performance



- Good relative performance by both core and non-core amid market weakness

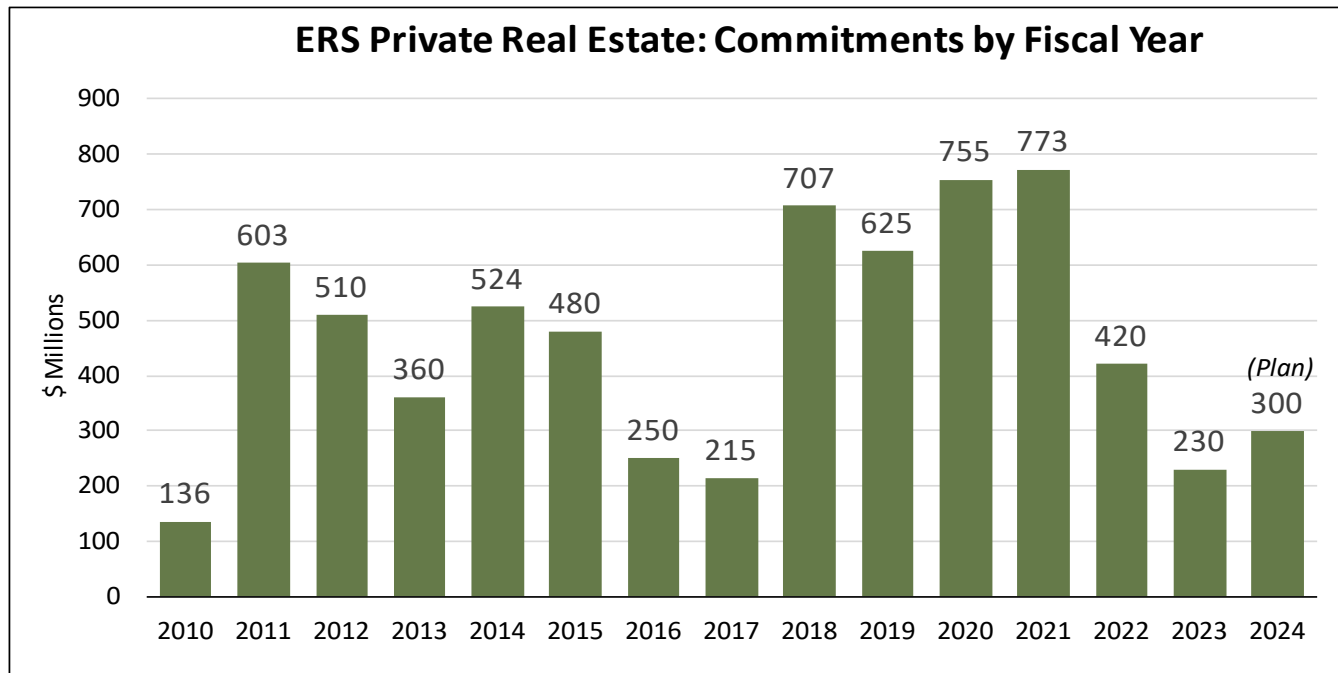


Private Real Estate



Historical Performance: Commitments by Fiscal Year

- Commitments driven by allocation target, portfolio construction, and diversification

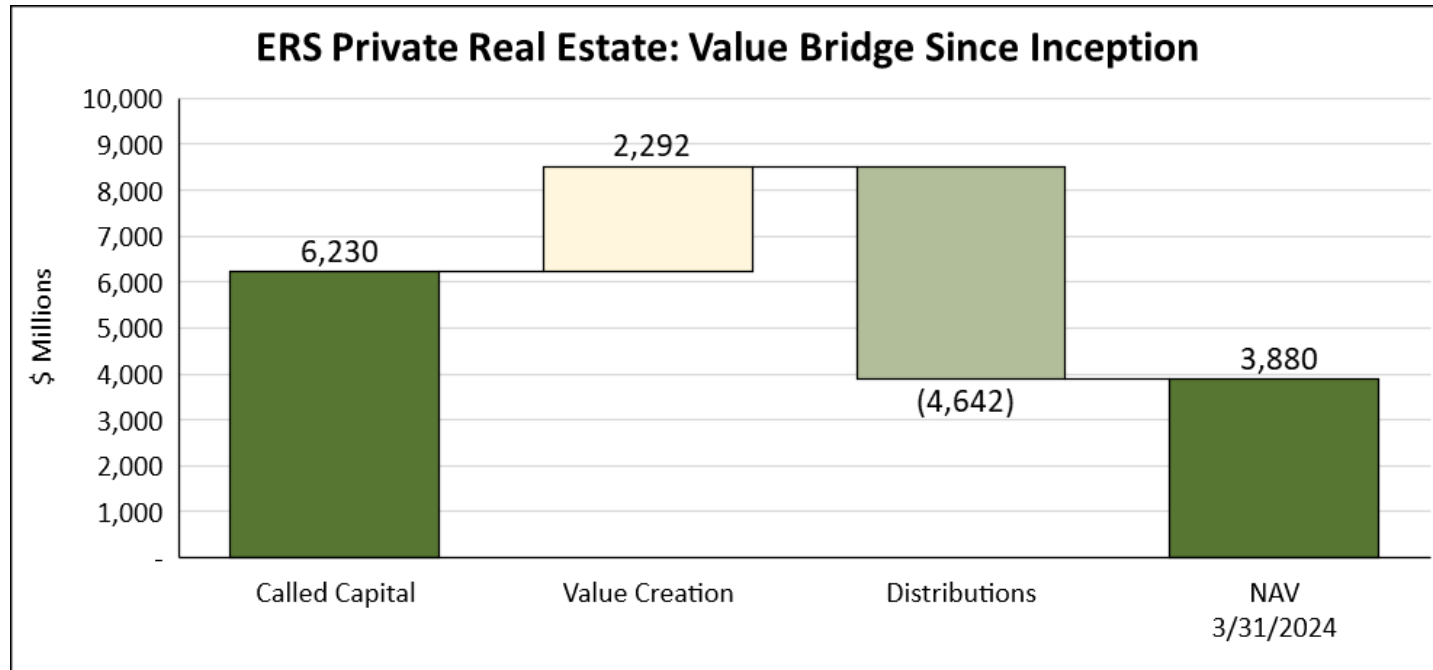


Private Real Estate

Historical Performance: Value Bridge



- Significant value creation for the Trust with meaningful distributions over time

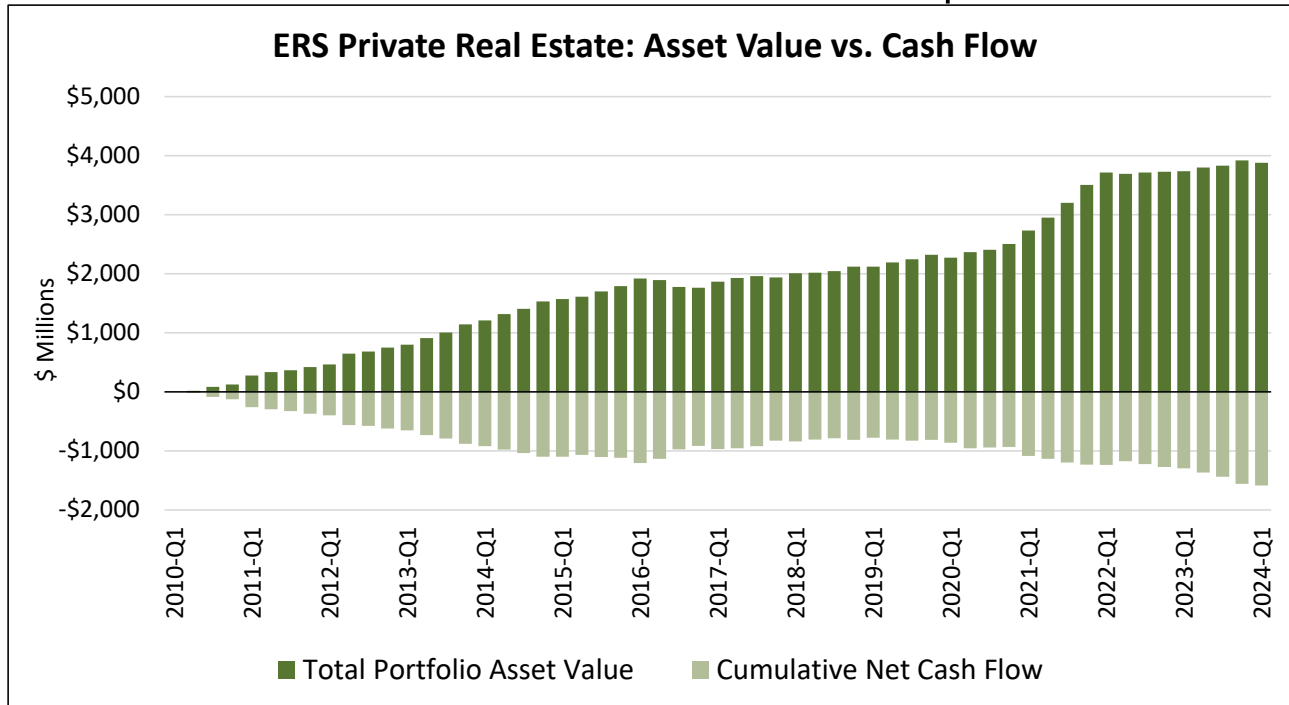


Private Real Estate

Historical Performance



- Portfolio asset value and cash flow continue to rise as the portfolio matures

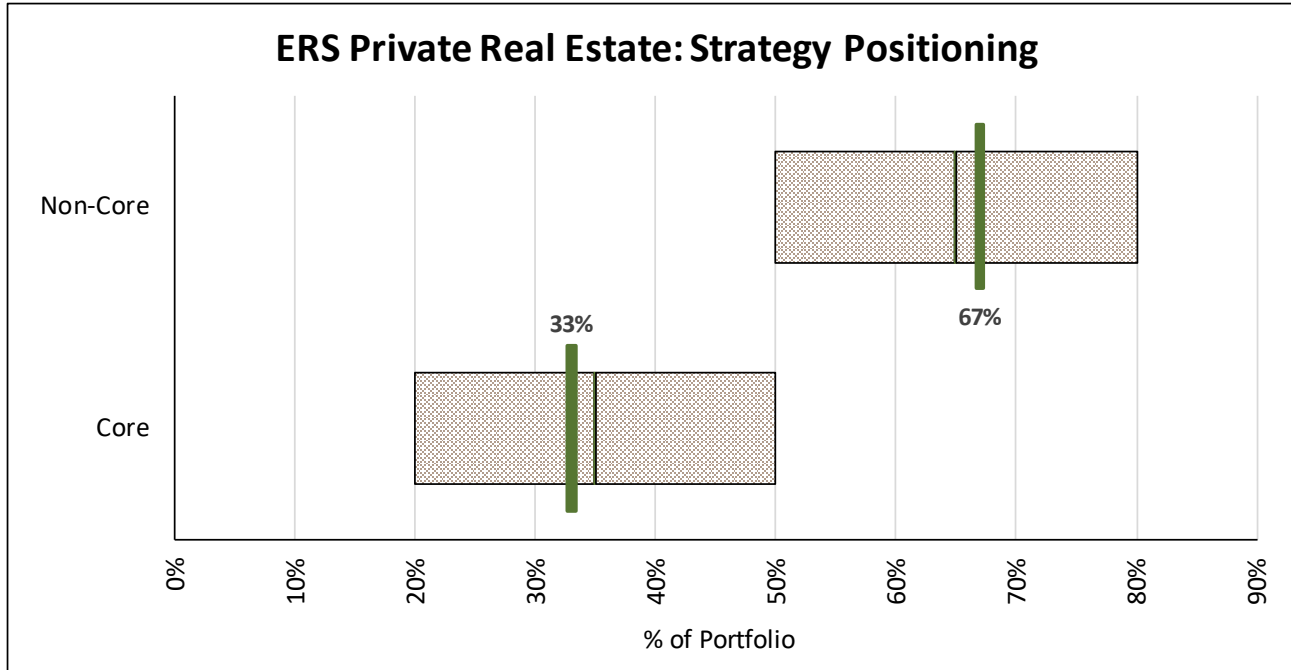


Private Real Estate

Risk Diversification



- Portfolio remains diversified and slightly overweight non-core strategy



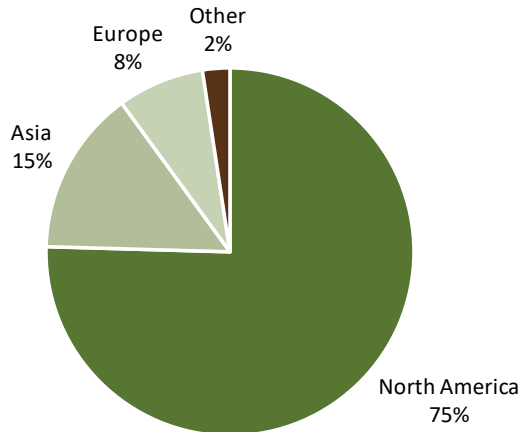
Private Real Estate

Risk Diversification

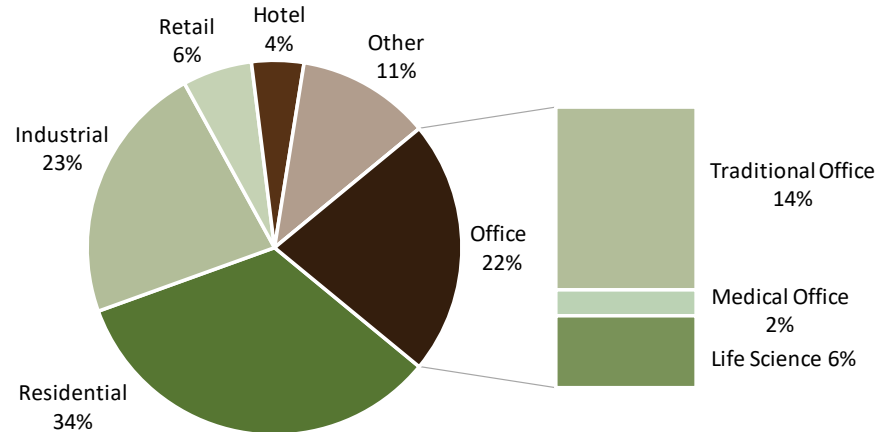


- Portfolio remains properly diversified across regions and property types

Private Real Estate NAV by Geography



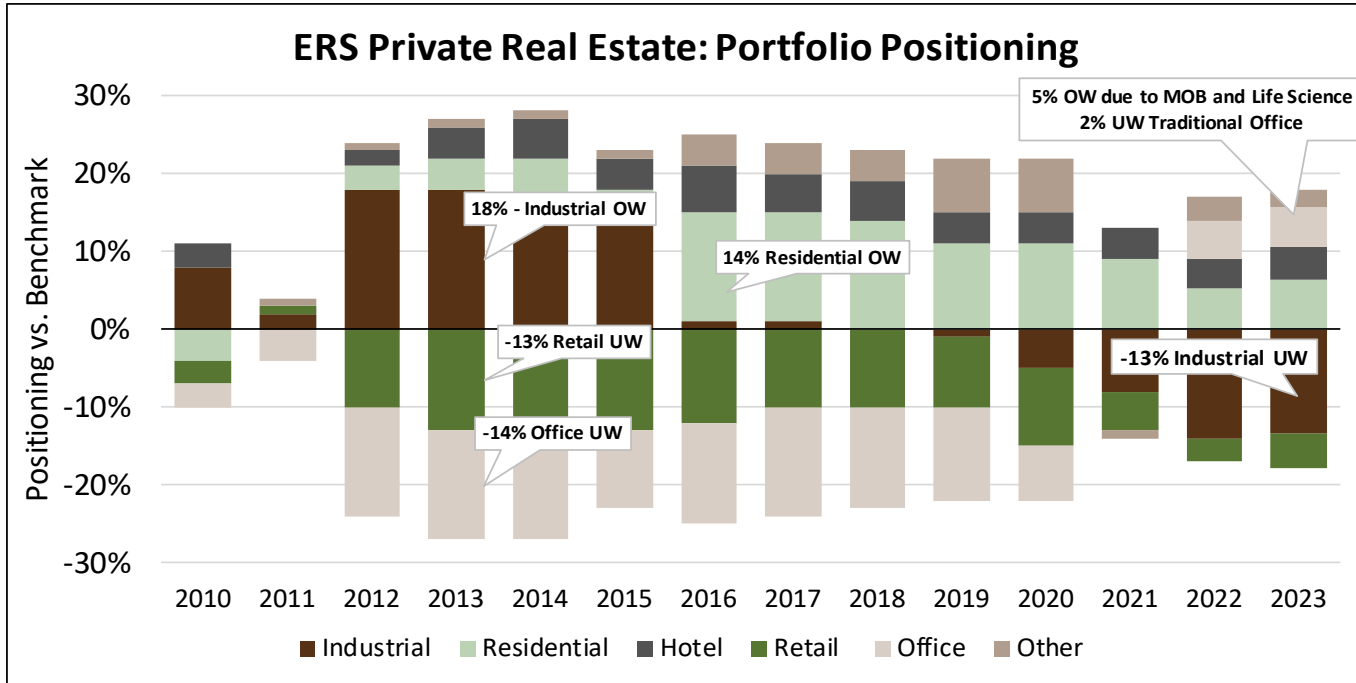
Private Real Estate NAV by Property Type



Private Real Estate

Historical Composition

- Highly diversified with current tilts toward residential and away from industrial

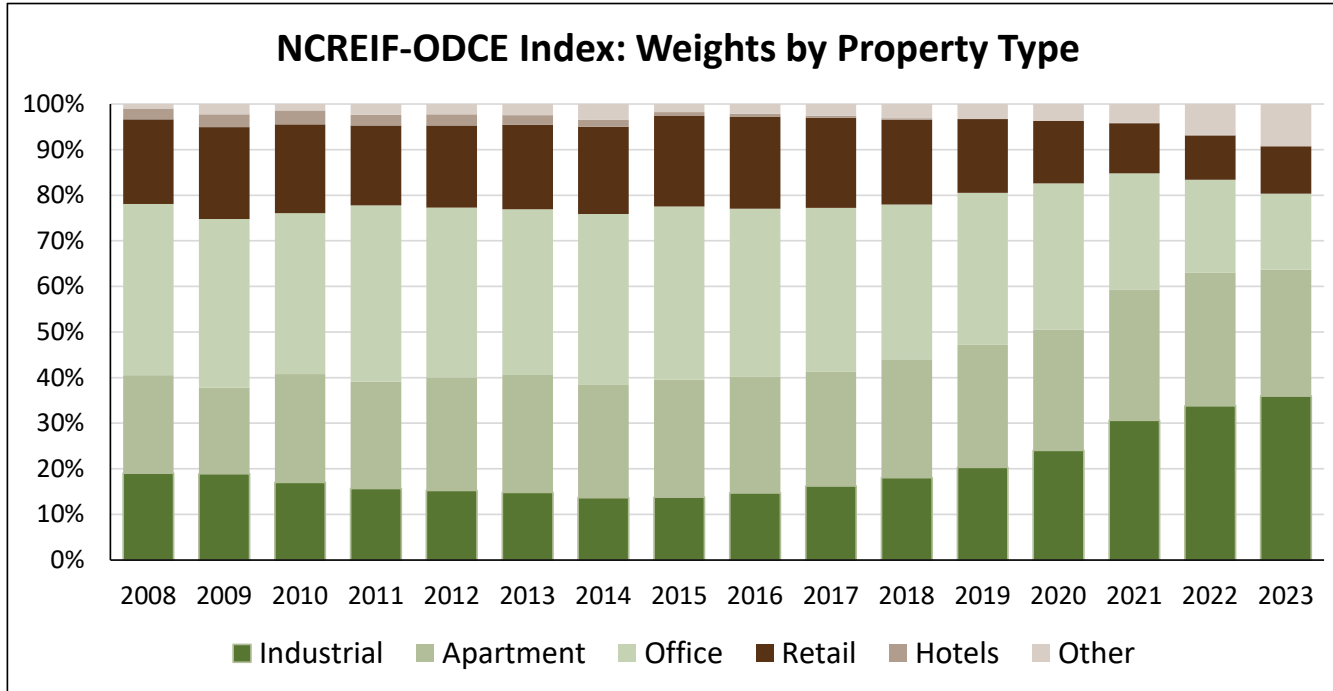


Private Real Estate

Historical Composition of Benchmark



- Benchmark weightings have tilted towards industrial and away from retail and office



Change (%)
2019 to Present

Industrial +16%
Other +6%
Apartment +1%

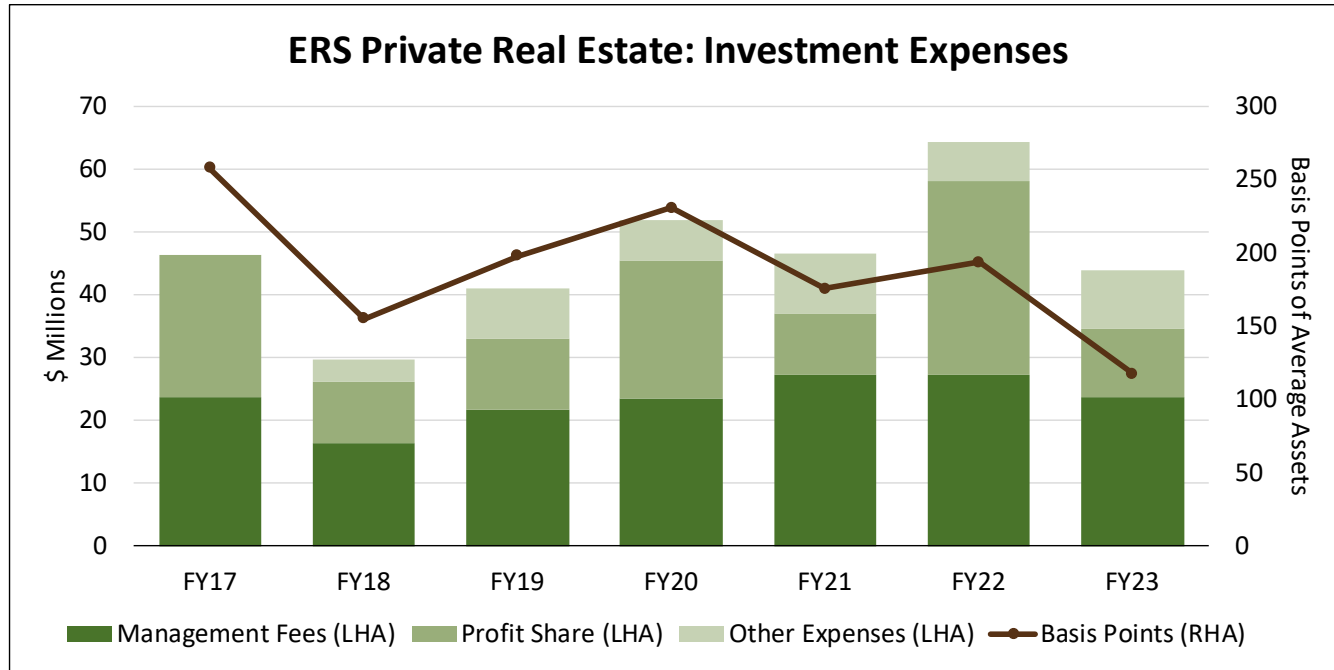
Office -17%
Retail -6%
Hotels 0%

Private Real Estate

Investment Expenses



- Profit share normalized due to reduced transaction volume in FY23



Private Real Estate

Goals and Objectives for Fiscal Years 2024 & 2025



FY24

- Outperform benchmarks – Ongoing
- Execute on Tactical Plan – Ongoing
- Target Allocation Strategy Adjustments – Ongoing
- Continue to Improve Investment Process
- Policy Compliant
- On-boarded new hire Jay Hu
- Co-Hosted Real Estate Emerging Managers Conference (REEM) January 2024

FY25

- Outperform respective benchmarks
- Execute on Tactical Plan
- Target Allocation Strategy Adjustments
- Continue to Improve Investment Process
- Maintain Policy Compliance

Discussion

Private Infrastructure

Key Characteristics

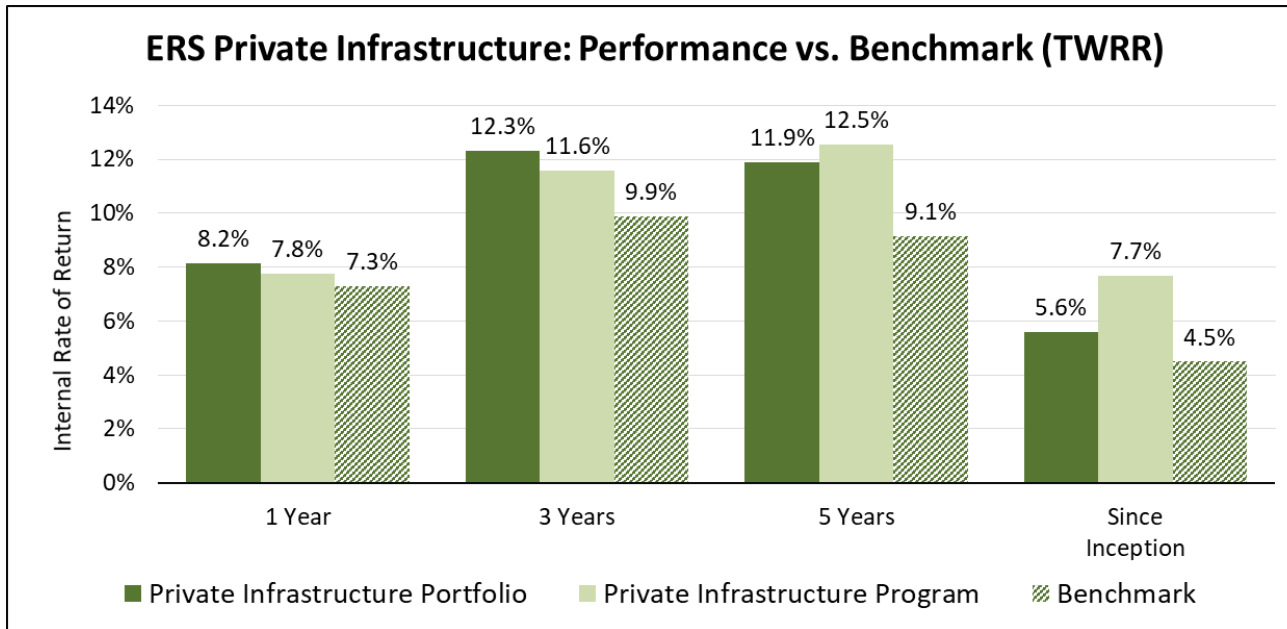


Attribute	Private Infrastructure Portfolio
Type of Allocation	Return Seeking
Policy Allocation	Target weight of 5%, range from 0% to 10%
Management Style	Externally managed open- and closed-end funds Also include co-investments and direct investments
Performance Objective	Exceed US Consumer Price Index +400 basis points annually
Risk Mitigation	Diversification across vintages, geographies, strategies, sectors and managers
Investment Expenses	~167 bps external, ~16 bps internal

Private Infrastructure

Performance Snapshot

- Strong performance across time horizons, including +275 bps of value add last 5 years



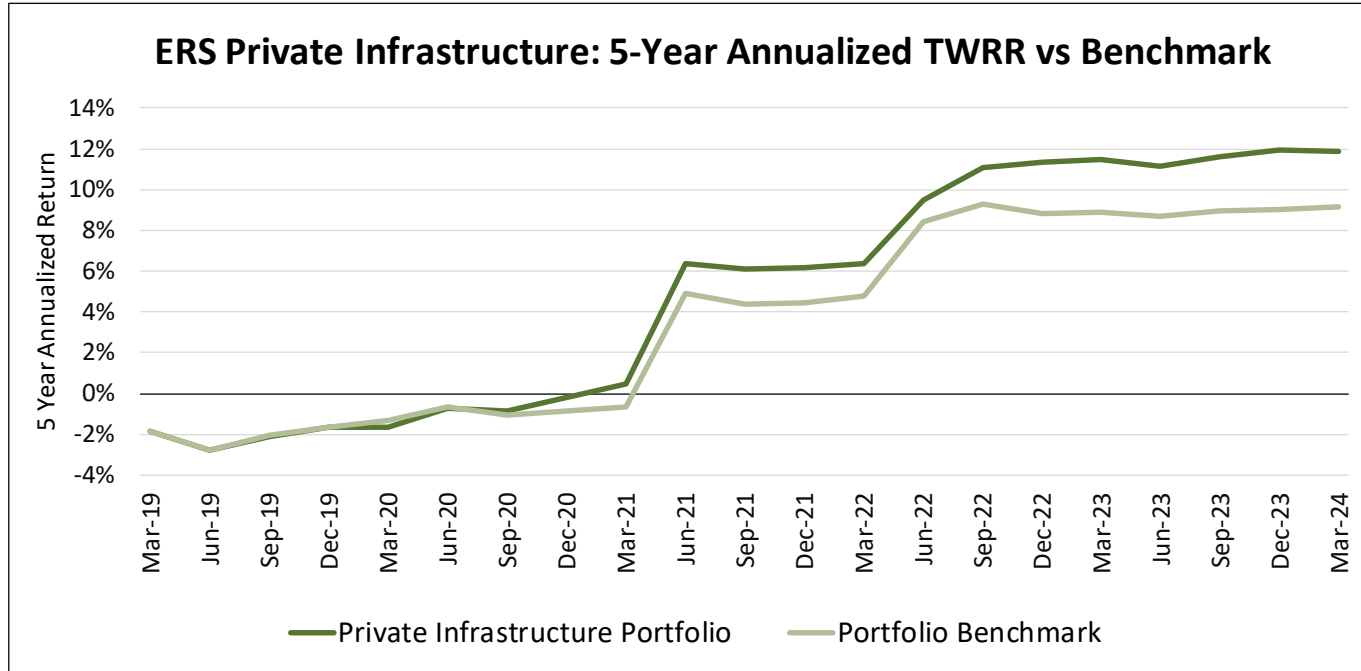
Private Infrastructure Portfolio Inception: 7/1/2012; Private Infrastructure Program Inception: 10/1/2013

Private Infrastructure

Historical Performance



- Strong and improving performance vs. benchmark index

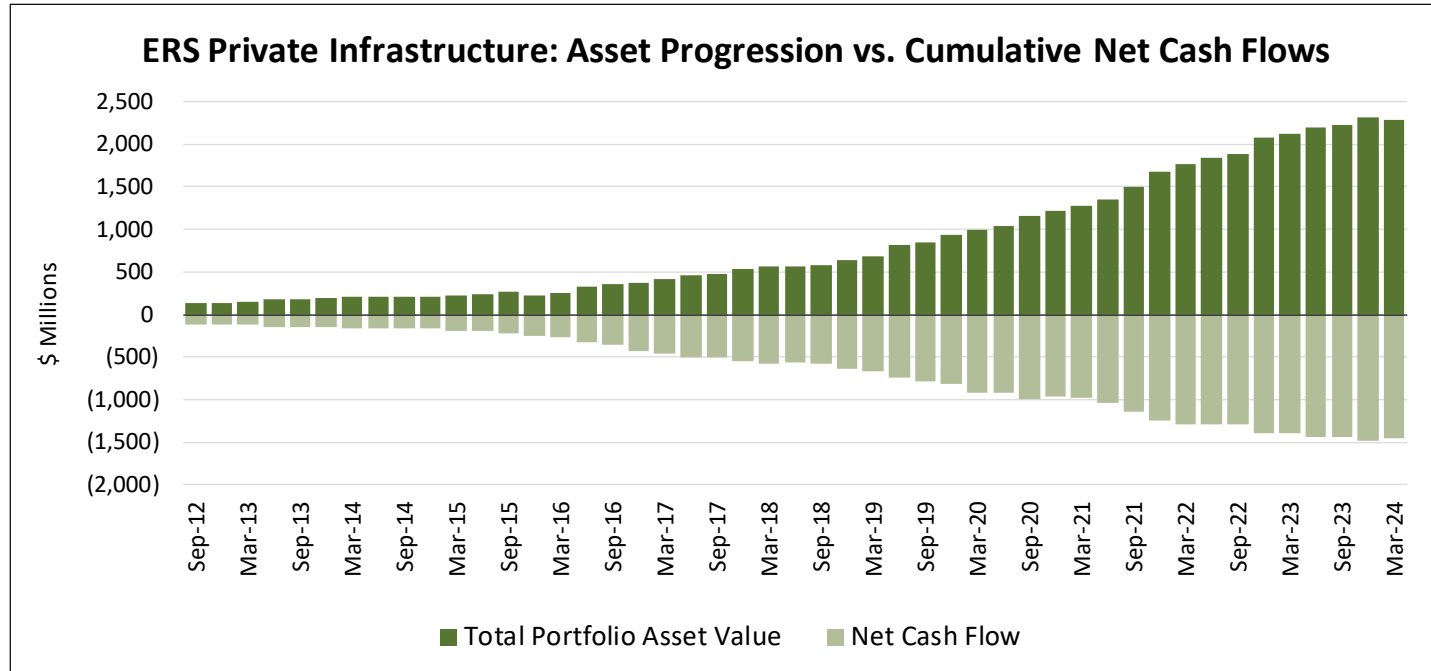


Private Infrastructure

Historical Performance



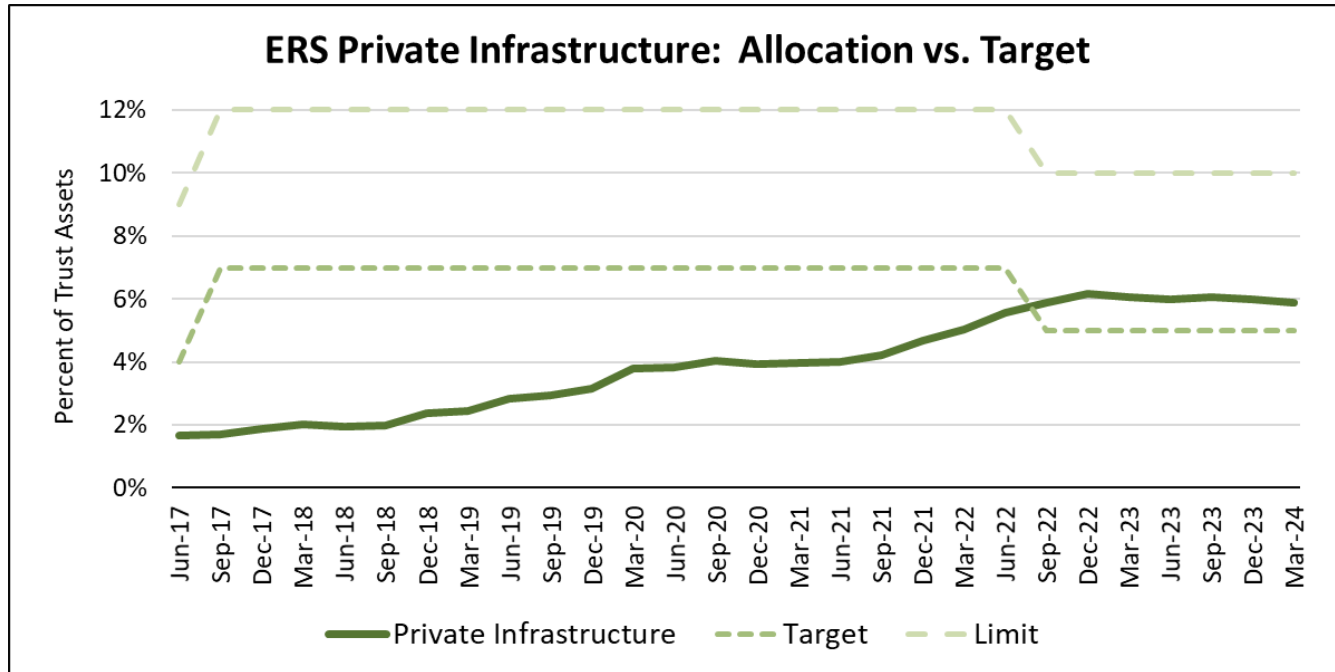
- Portfolio asset value and cash flow continue to rise as the portfolio matures



Private Infrastructure

Historical Allocation

- Gliding towards 5% target allocation under current capital plan

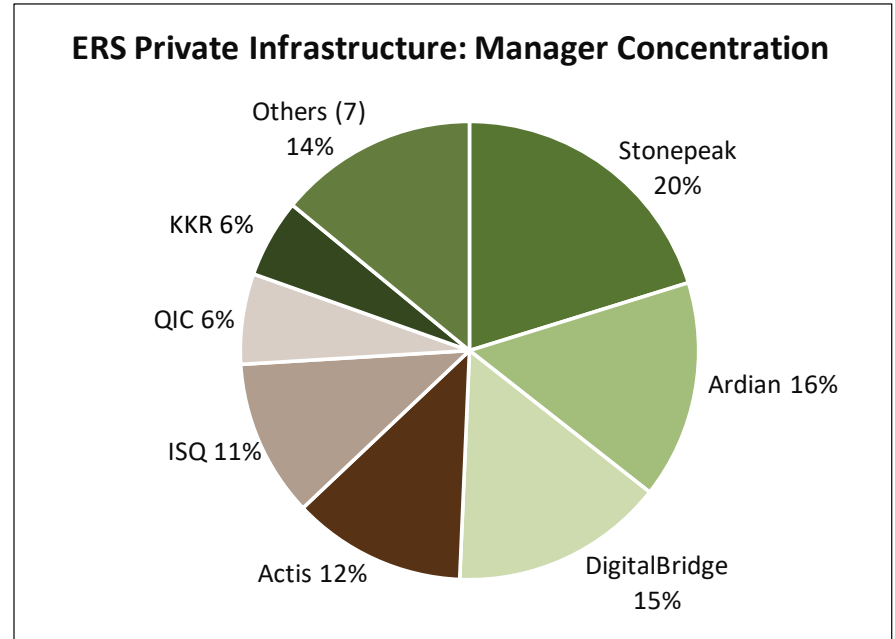
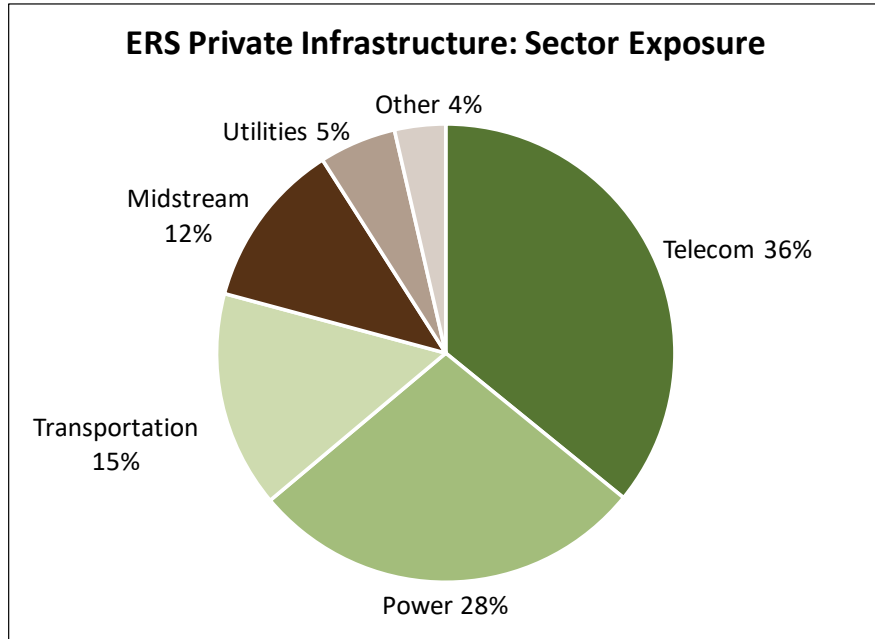


Private Infrastructure

Risk Diversification



- Portfolio remains properly diversified across sectors and manager exposure



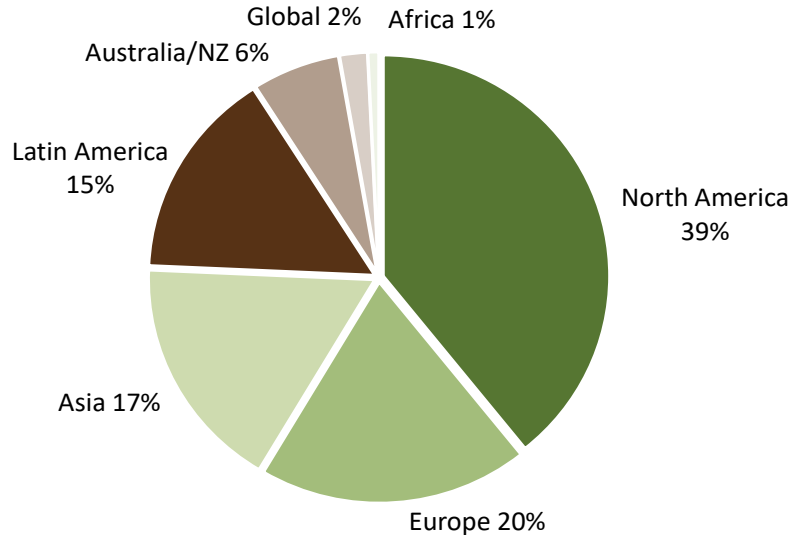
Private Infrastructure

Risk Diversification

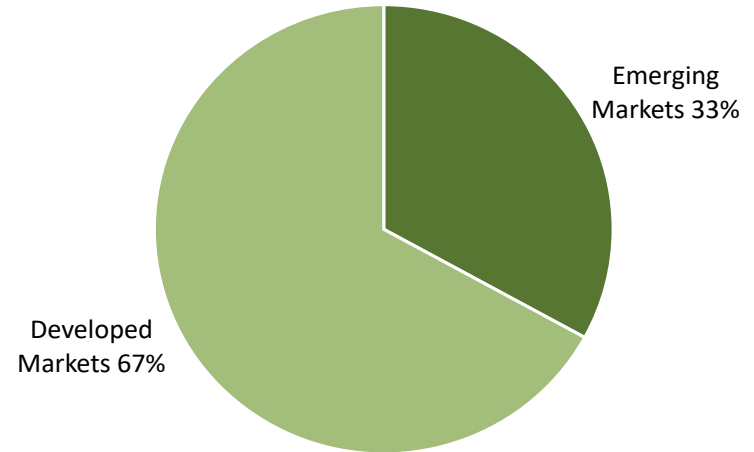


- Portfolio remains properly diversified across geographies and markets

ERS Private Infrastructure: Geographic Diversification



ERS Private Infrastructure: Market Diversification



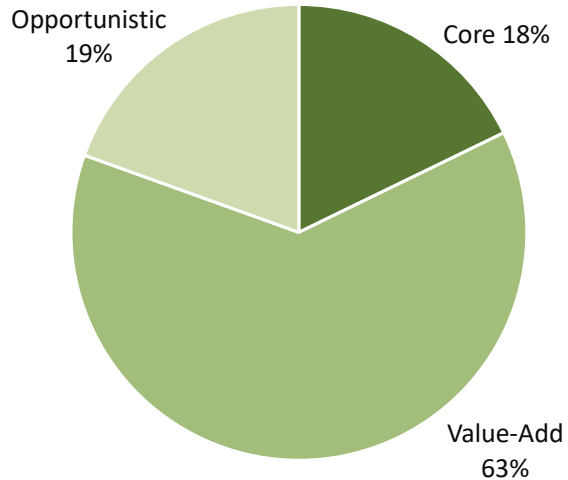
Private Infrastructure

Risk Diversification

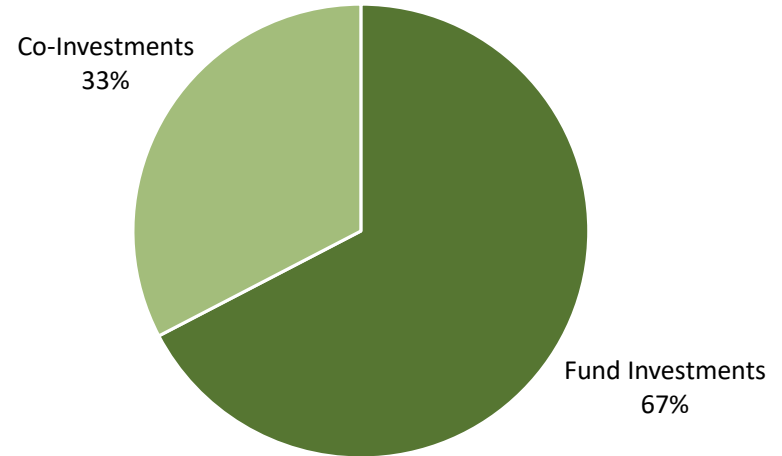


- Portfolio remains well-diversified across strategies and investment types

ERS Private Infrastructure: Strategy Diversification



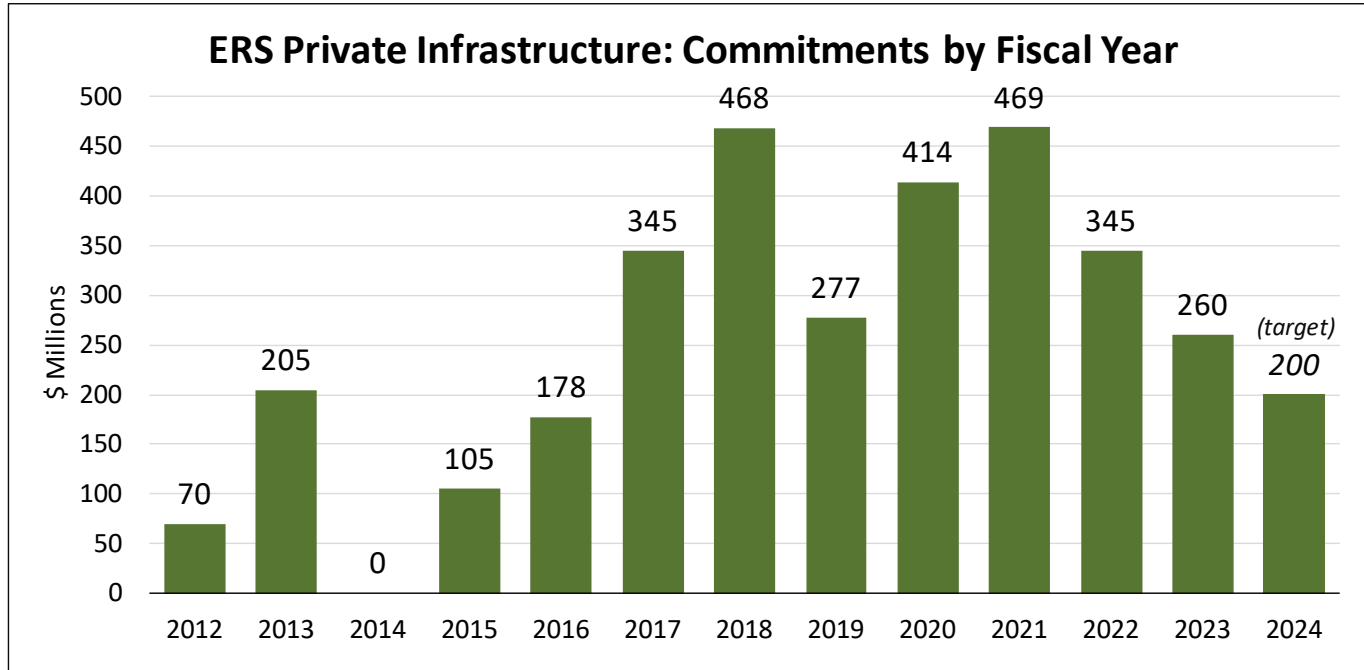
ERS Private Infrastructure: Commitments



Private Infrastructure

Historical Performance: Commitments by Fiscal Year

- Declining commitments: maturing Program and glide path towards target allocation

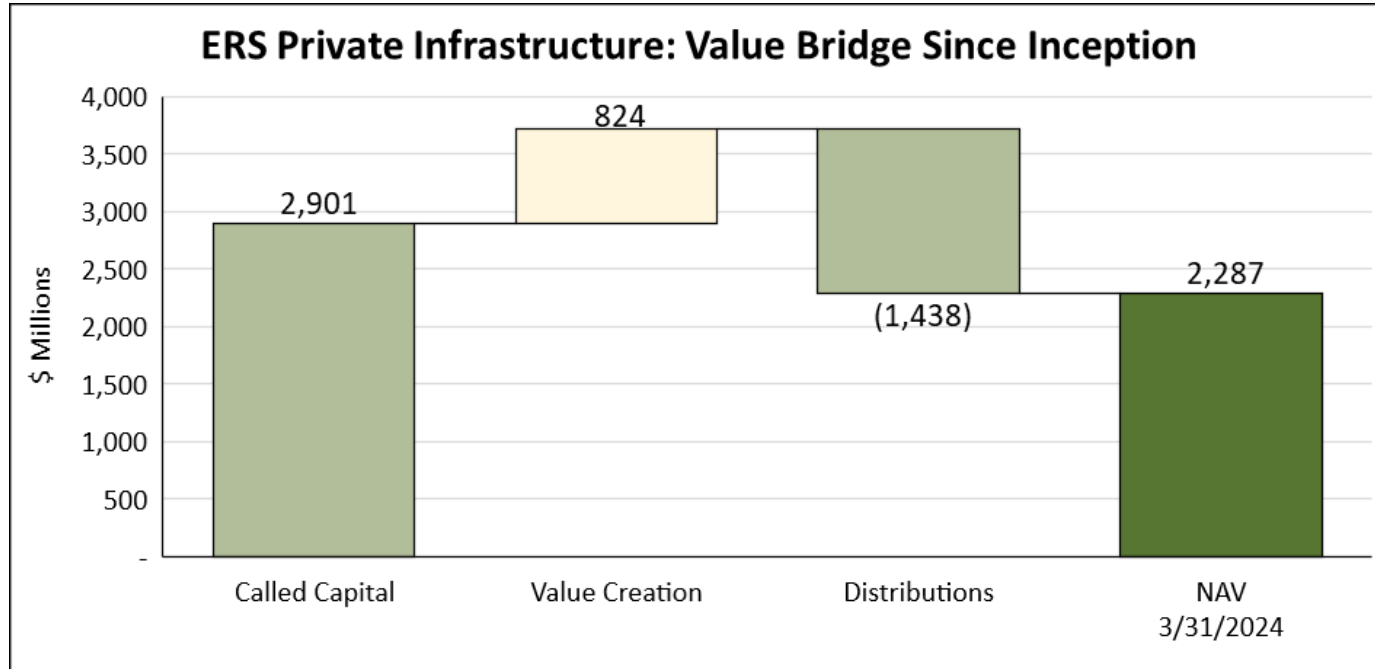


Private Infrastructure



Historical Performance: Value Bridge

- Significant value creation for the Trust with contributions from income and appreciation

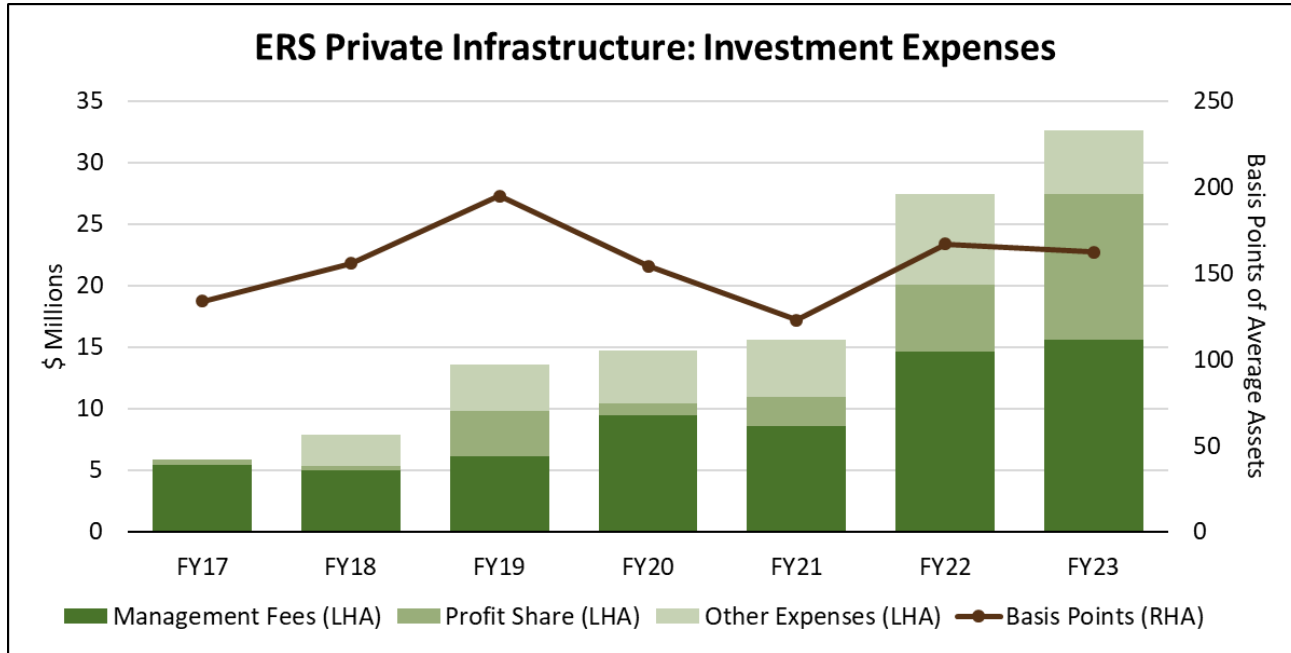


Private Infrastructure

Investment Expenses



- Profit share continues to increase as portfolio has matured in recent years



Private Infrastructure

Achievements and Objectives



Achievements

- ✓ Deployed within target range in FY23
- ✓ Exceeding benchmark performance
- ✓ On-track for execution of FY24 Tactical Plan – ongoing

Forward Looking / Objectives

- ❑ Continued focus on co-investments/directs
- ❑ Seek paths to deploy in emerging markets
- ❑ Selectively explore new relationships
- ❑ Steer deployment to meet diversification guidelines and liquidity needs of the Trust
- ❑ Hire an Analyst
- ❑ Execute on FY25 Tactical Plan – to be presented in August

Discussion

Public Agenda Item #9

** Consideration of Annual Review of Private Equity Program*

May 22, 2024

Ricardo Lyra, Managing Director of Private Equity

Thomas Rashman, Private Equity Portfolio Manager

Private Equity

Program Overview



Private Equity Program

- Program inception in 2008
- Cumulative commitments totaling \$12.9 billion

Investment Objective

- Outperform its benchmark over rolling 10-year period
- Maintain risk compliance through portfolio diversification

Private Equity

Key Characteristics

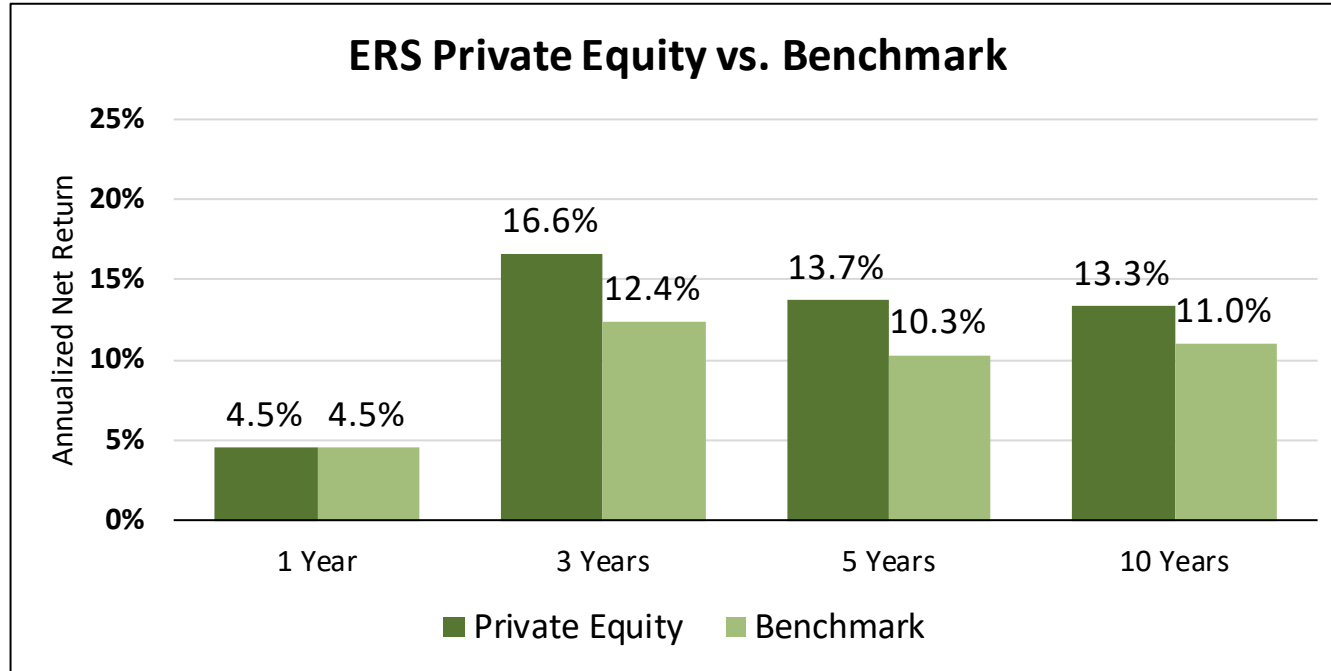


Attribute	Private Equity Portfolio
Type of Allocation	Return Seeking
Policy Allocation	Target weight of 16%, range from 11% to 21%
Performance Objective	Exceed median return of peers in Wilshire TUCS
Management Style	Externally managed closed-end funds
	Participate in co-investments to mitigate investment expenses
Risk Mitigation	Diversification across vintages, geographies, strategies, sectors and managers
Investment Expenses	122 bps external, 9 bps internal for FY23

Private Equity

Performance Snapshot

- Strong performance across all time horizons, including +230 bps over 10 years

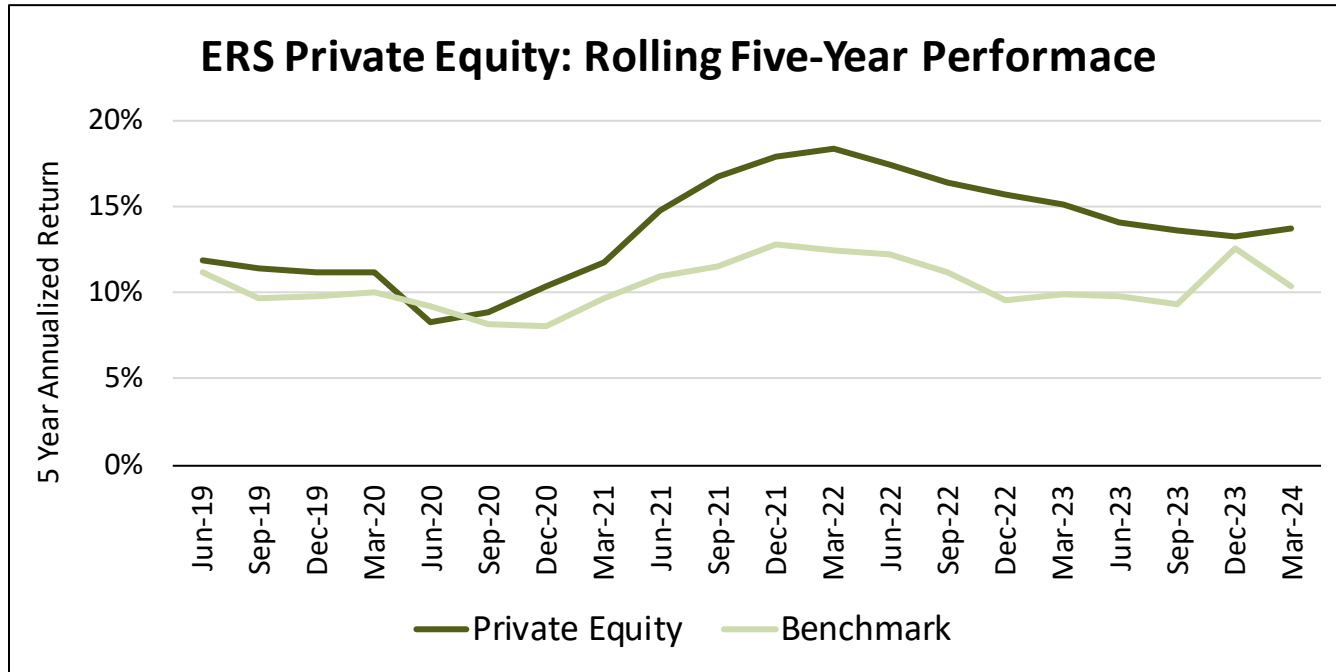


Private Equity

Historical Performance



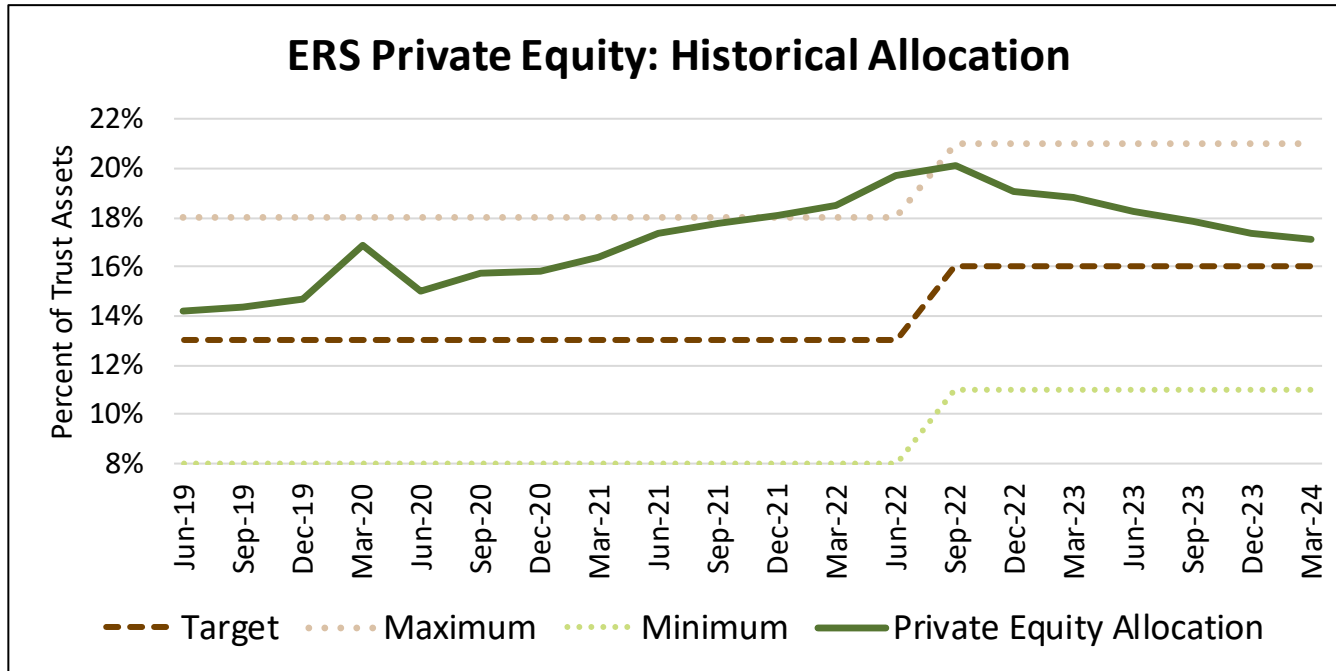
- Strong performance against peer universe across recent horizons



Private Equity

Historical Allocation

- Strong positive cash flow has led to decreased allocation to Private Equity

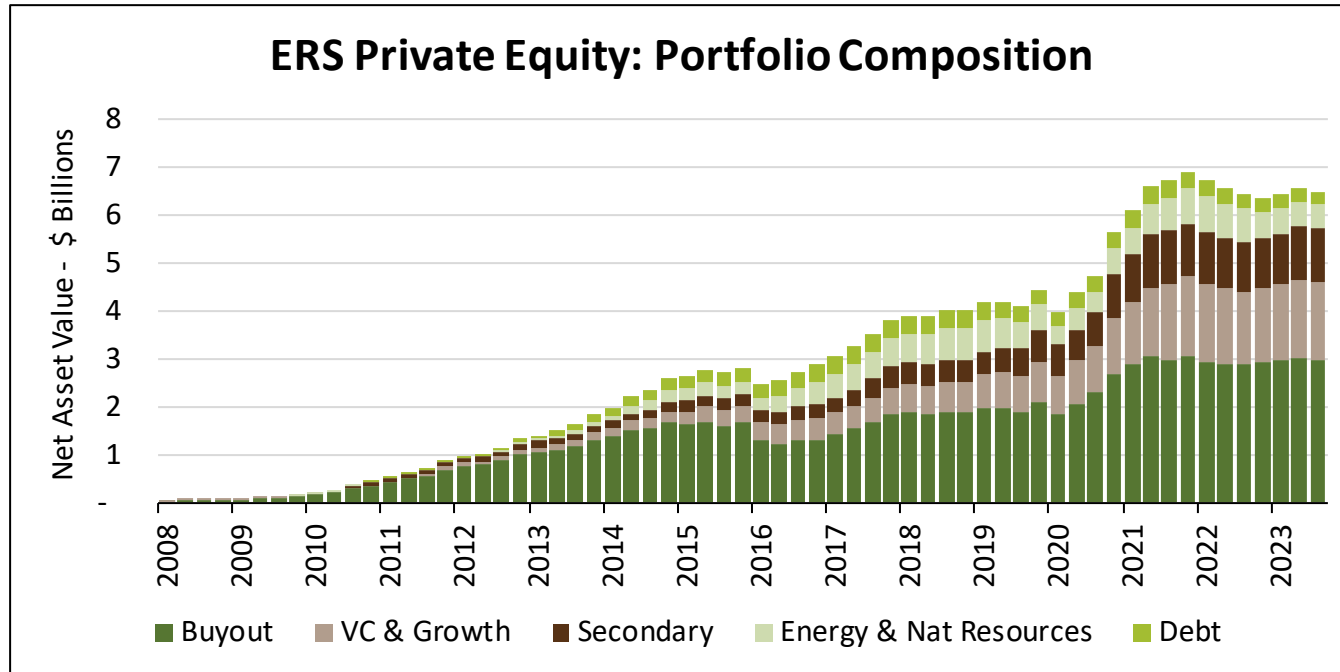


Private Equity

Historical Composition



- Portfolio has remained properly-diversified as assets have grown over time

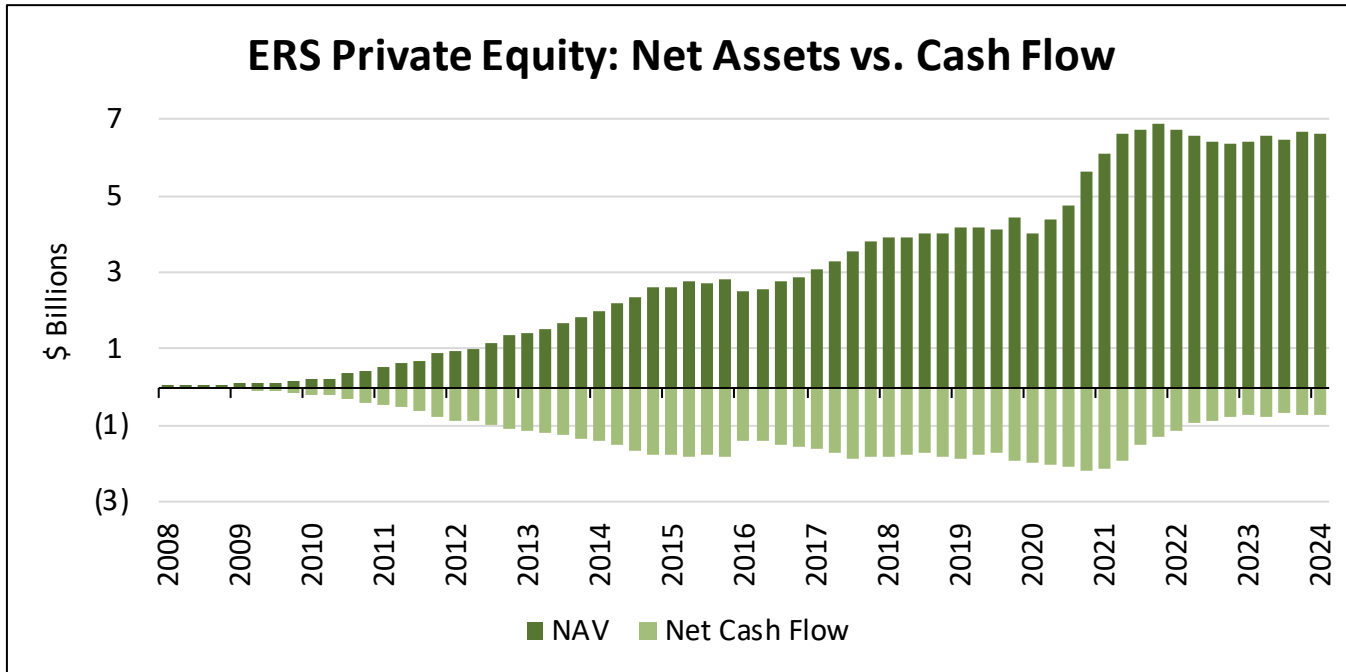


Private Equity

Historical Performance



- Strong positive cash flow has continued despite slower M&A market

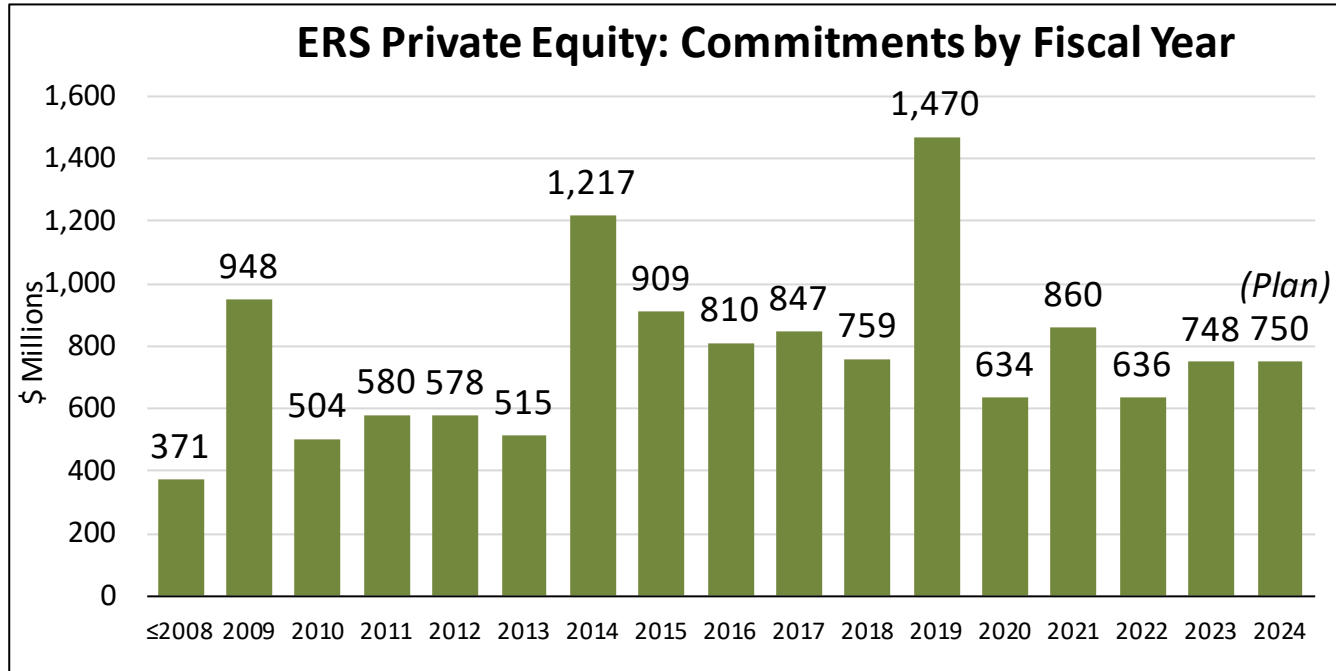


Private Equity

Commitments by Fiscal Year



- Strategic allocation driven by consistent execution on capital plan

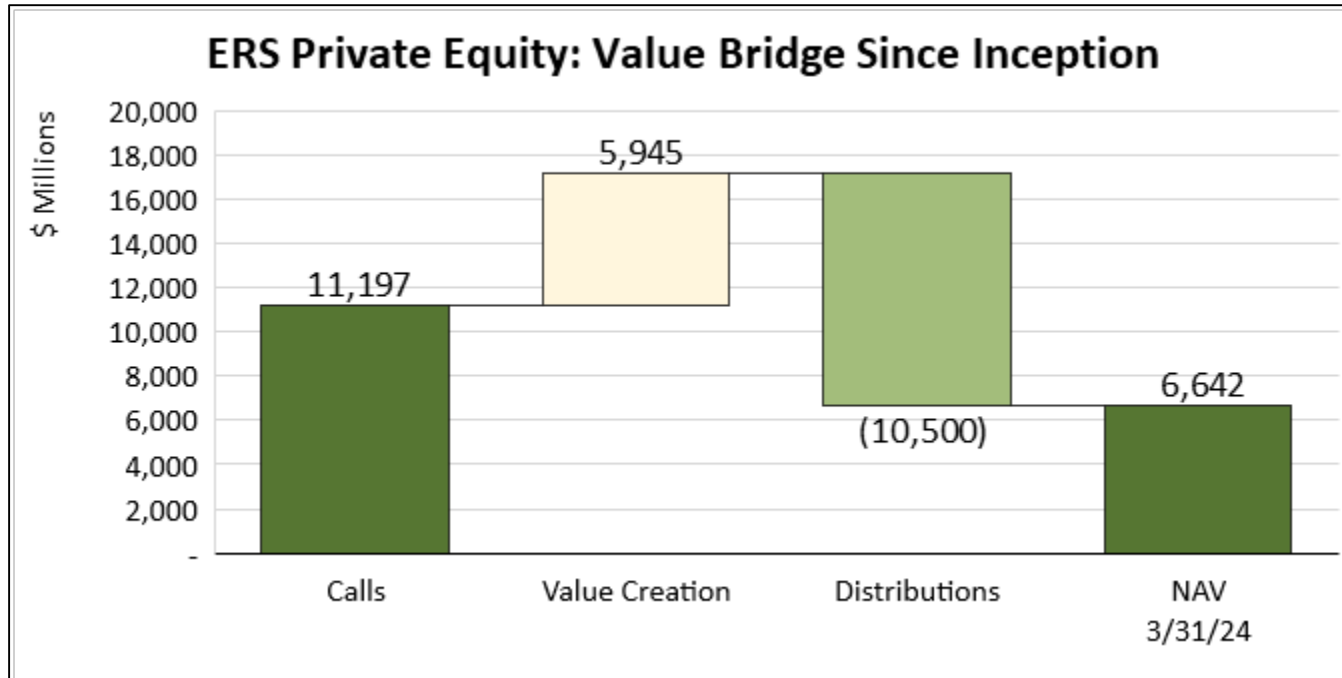


Private Equity

Value Bridge



- The portfolio has distributed 93% of called capital since inception in 2008

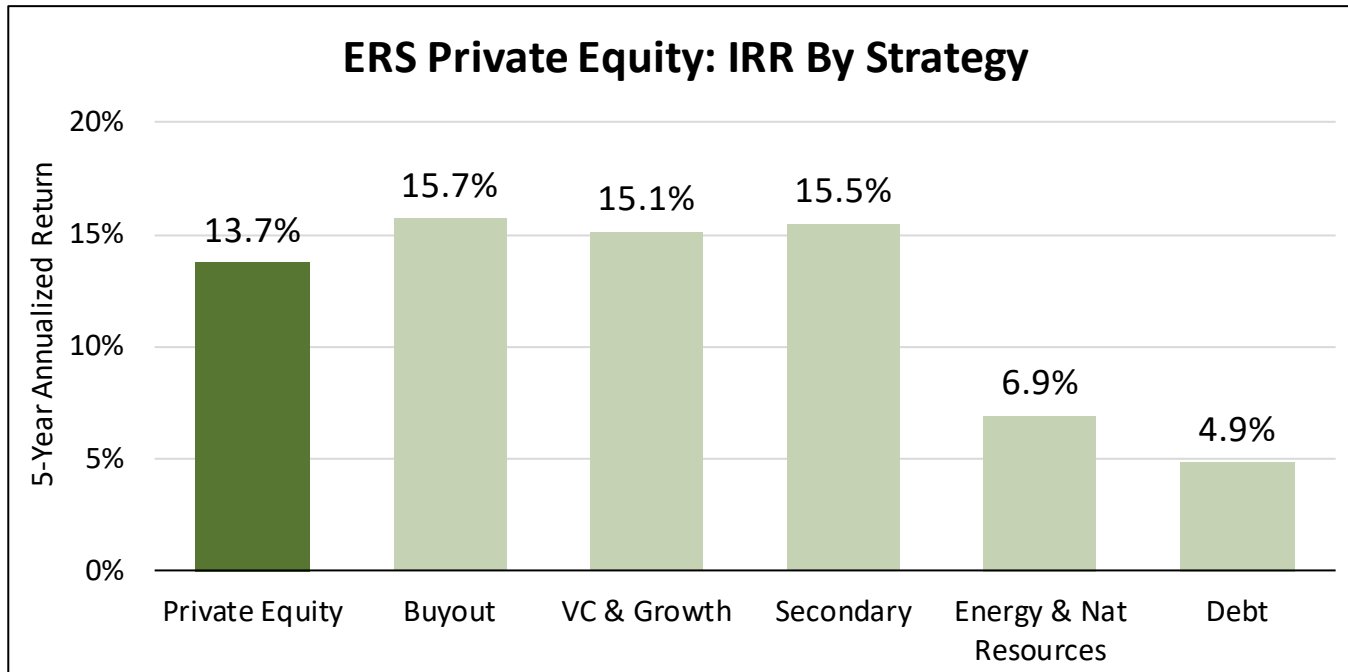


Private Equity

Performance Drivers



- Buyout and Secondaries lead as Venture and Growth see lower multiples

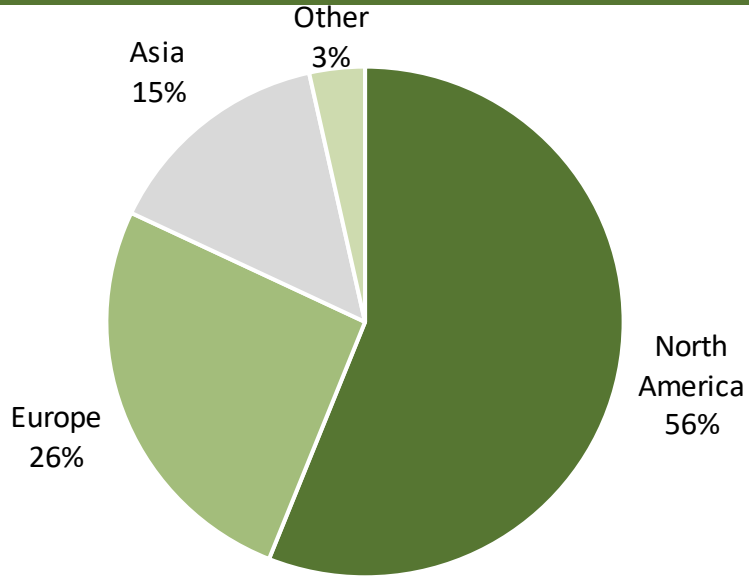


Private Equity

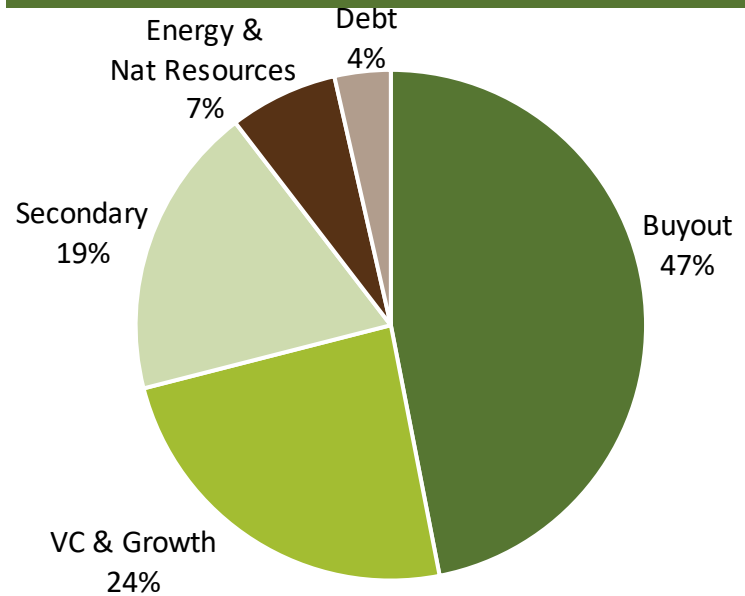
Risk Diversification



Portfolio Value by Geography



Portfolio Value by Strategy

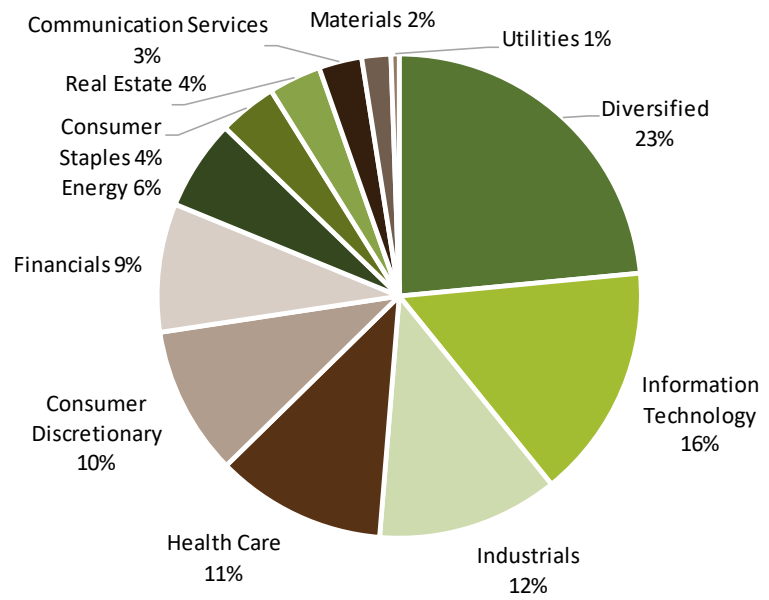


Private Equity

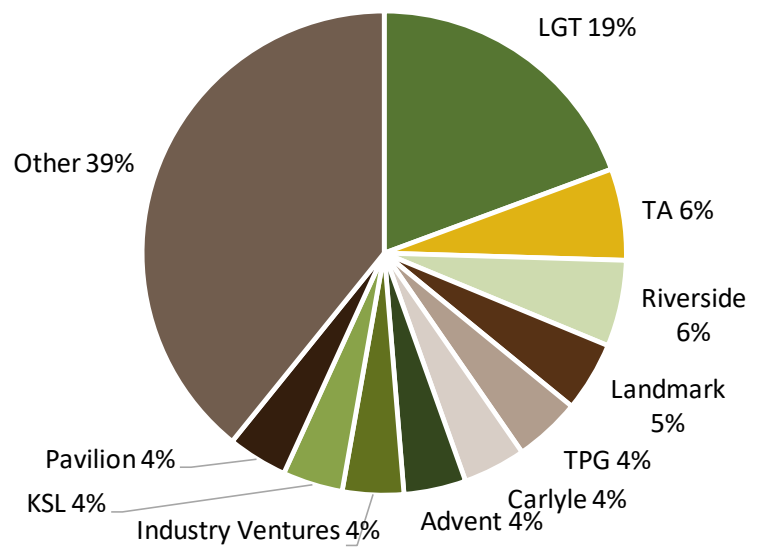
Risk Diversification



Portfolio Value by Sector



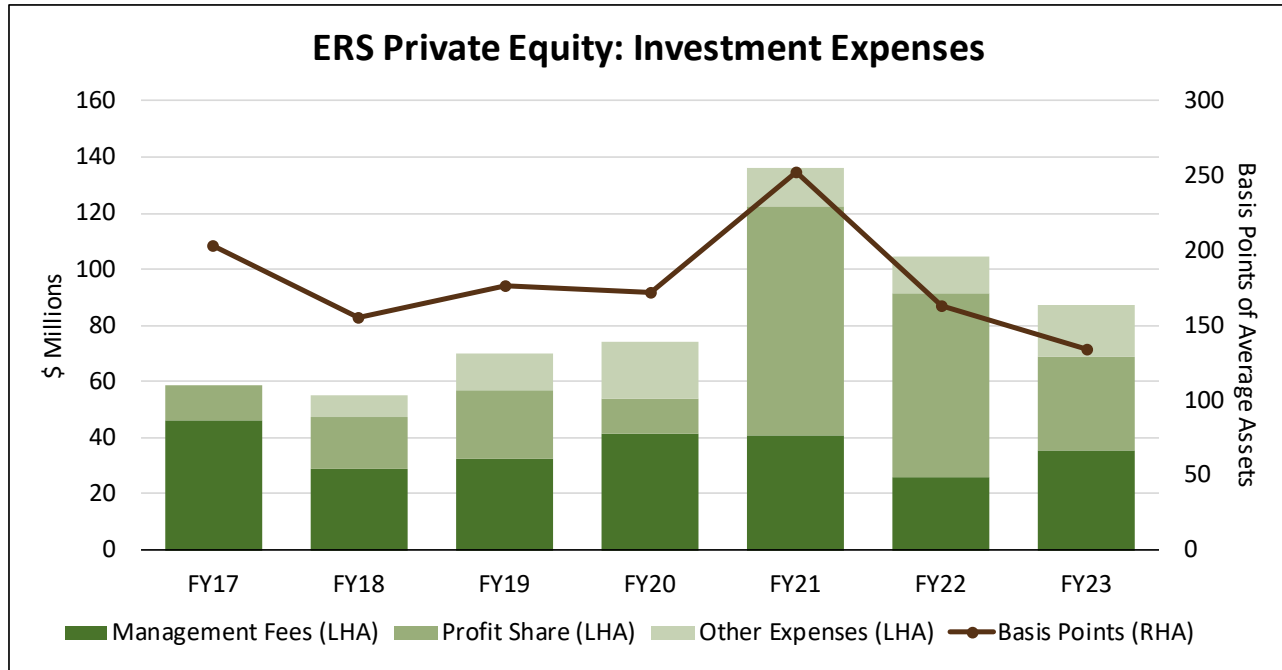
Economic Exposure by Manager



Private Equity

Investment Expenses

- Reduced expenses as returns moderate and net cash flow remains positive

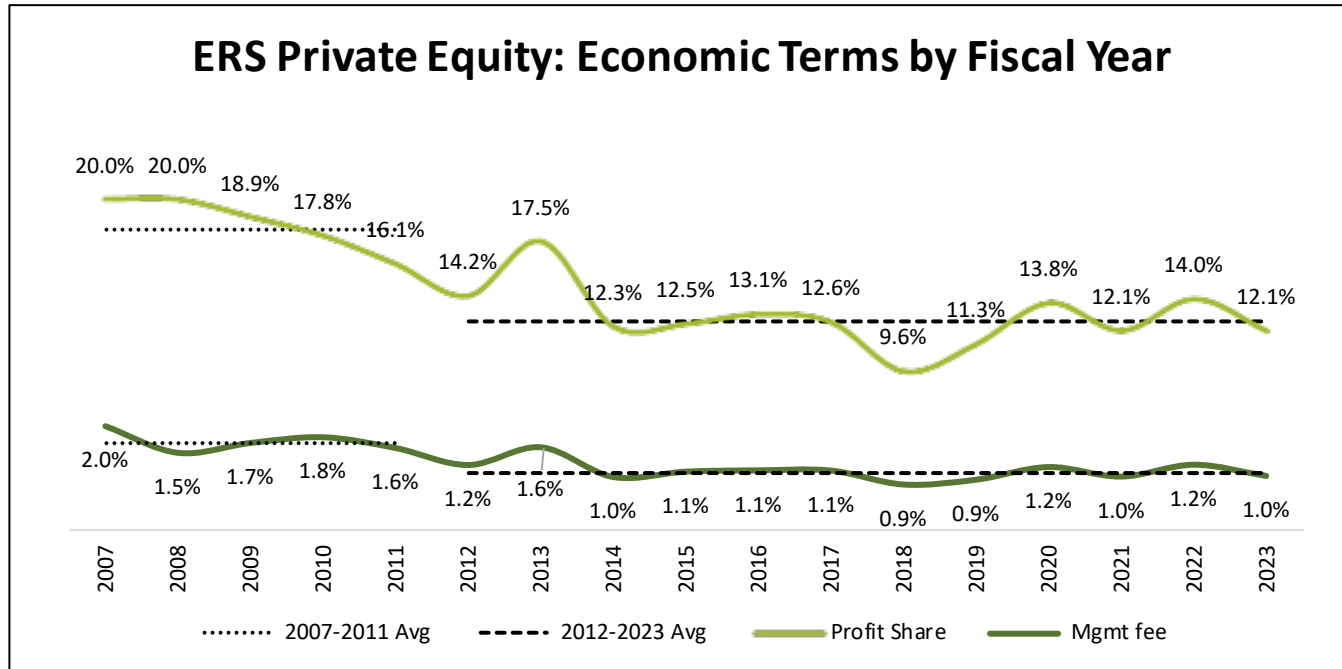


Private Equity

Investment Expenses



- Strong performance from allocation to co-investments and negotiated terms



Private Equity

Goals and Objectives for Fiscal Years 2024 & 2025



FY24

- Execute on Tactical Plan – Ongoing
- Continued Monitoring/Reporting Improvements
- Co-Investment Sourcing

FY25

- Execute on Tactical Plan – to be Approved in August
- Hire an Analyst
- Continued Monitoring/Reporting Improvements
- Co-Investment Sourcing

Discussion

Public Agenda Item #10

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

May 22, 2024

Public Agenda Item #11

*Recess of the Board of Trustees –
Following a temporary recess, the Board of Trustees will reconvene to take up the
remaining items listed on the agenda.*

May 22, 2024