



# INVESTMENT PRACTICES AND PERFORMANCE EVALUATION

MAY 16, 2024



## Table of Contents

Executive Summary.....	3
Methodology.....	5
Section 1. Review of Governance Processes Related to Investment Activities.....	8
Section 2. Investment Policy Statement Analysis and Compliance.....	24
Section 3. Asset Allocation Review.....	26
3(A). Process for Determining Target Allocations.....	26
3(B). Expected Risk & Return .....	27
3(C). Appropriateness of Selection and Valuation Methodologies of Alternative/Illiquid Assets.....	33
3(D). Consideration and Incorporation of Future Cash Flow and Liquidity Needs .....	34
Section 4. Investment Manager Selection and Monitoring Process.....	37
Section 5. Review of the Appropriateness of Fees and Commissions Paid .....	43
Section 6. Progress on Recommendations from 2020 IPPE Report .....	46
Section 7. Qualifications of NEPC to Prepare IPPE Report .....	49
Appendix A.....	51
Appendix B.....	53

## Executive Summary

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Pursuant to Section 802.109 of Texas Government Code, NEPC, LLC (“NEPC”) has been engaged by the Employees Retirement System of Texas (“ERS” or “the Trust”) to conduct an independent evaluation of the appropriateness, adequacy and effectiveness of ERS’ investment practices and performance. In preparing this evaluation, NEPC has followed the guidance provided by the Texas Pension Review Board in composing our evaluation.

The 2024 Investment Practices and Performance Evaluation for ERS Texas covers five Evaluation Topics, broadly defined in Section 802.109 of the controlling Government Code:

- A review of the retirement system’s governance processes related to investment activities;
- An analysis of any investment policy or strategic investment plan adopted by the retirement system;
- A detailed review of the retirement system’s investment asset allocation;
- A review of the retirement system’s investment manager selection and monitoring process; and
- A review of the appropriateness of investment fees and commissions.

### **Overview of Findings:**

NEPC finds ERS’ policies, procedures and practices to be appropriate and effective when compared to industry prevailing practice.

### **Overview of Recommendations:**

As will be discussed in Section 6 of this evaluation, NEPC found that ERS Texas took significant steps over the last four years toward addressing the eight recommendations identified in the 2020 Investment Practices and Performance Evaluation. This 2024 IPPE report recommends eight additional actions ERS Texas could undertake which can mitigate potential impediments to efficiency and optimal investment results.

- 1) ERS Texas should continue to develop innovative policies focused on recruiting, compensation, and career development to secure and retain investment talent.** The ability to hire, retain and offer competitive compensation to investment professionals is a key requirement for achieving the Trust’s investment objectives with optimal efficiency.
- 2) To the extent permitted under Texas Law, ERS should seek procurement flexibility** to allow for additional operational flexibility when there is a need to quickly replace a struggling investment manager or take prompt advantage of an opportunistic investment.
- 3) ERS may wish to consider including total public markets portfolio tracking error, including a curing period, in future revisions of the Investment Policy Statement.** This would be consistent with the IPS documents of peer institutions that reflect best practices.
- 4) ERS should periodically re-evaluate the most useful fee benchmarks and universes of manager data when reporting on manager fees.**
- 5) ERS Texas should also periodically re-evaluate the current practice of bundling the cost of research with total trade costs.** NEPC acknowledges that ERS considered this same

recommendation in the 2020 IPPE report and decided not to make a change because the current practice is best suited for the Trust. While permissible in the current regulatory environment, a growing number of Public Funds no longer use a soft dollar program. Instead, many have unbundled from the payment for research from trade execution. We acknowledge that ERS has an understandably larger appetite for research than most public funds given the Trust's larger percentage of assets under internal active management in comparison with peers. Paying for research directly can be a challenge in an unbundled environment.

- 6) **NEPC recommends regular review of asset class benchmarks.** This is particularly important for asset classes like private markets and hedge funds that, by their nature, do not have benchmarks that meet the investable and reflective characteristics of CFA Institute's SAMURAI model. For these asset classes, there is no perfect benchmark. Therefore, it is reasonable to periodically assess the appropriateness of other existing benchmark options in wide use by peer institutions and to evaluate new benchmarks that are being developed.
- 7) **ERS should consider establishing a more rigorous manager monitoring process.** The purpose is to guard against holding on to poorly performing strategies longer than necessary when performance has been a struggle.
- 8) **Improvements to the SOPs for Investment Compliance and further opportunities for automation of compliance functions should be considered.**

## Methodology

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For each of the five Evaluation Topics, we have noted the Activities Completed, Standards for Comparison, NEPC's Findings and Recommendations for Improvement. NEPC wishes to thank the entire investment staff at ERS Texas for their timely and thorough cooperation in this evaluation process that began in January 2023.

### **Documents Reviewed:**

NEPC requested and received a number of source documents from the ERS Texas investment staff. The reviewed documents include:

Texas Pension Review Board IPPE Guidance (adopted October 17, 2019; updated October 6, 2022)

Investment Policy Statement (adopted August 23, 2023; effective September 1, 2023)

Investment Implementation Plan (effective January 10, 2023)

Annual Comprehensive Financial Report for FY 2022 (published December 2022)

ACFR Preparation Procedures

ERS Identification of Peer Institutional Investors (March 24, 2023)

Investment Compliance Annual Report for CY 2022 (March 1, 2023)

Investment Valuation Committee Charter (effective November 30, 2022)

Stewardship Committee Charter (effective April 29, 2022)

Proxy Voting Guidelines (Effective March 28, 2023)

Board Biographies (from website as of December 31, 2023)

Board Training Manual (published December 2022)

Investment Advisory Committee (IAC) Skills Assessment (September 1, 2023)

Minutes from ERS Joint Board & IAC Meetings (all meetings 2000-2023)

Asset Class Investment Committee (ACIC) Membership (January 1, 2023)

Sample ACIC Memos for each asset class (2023)

GRS Presentation to ERS Joint Board & IAC Meeting on Actuarial Valuations (as of August 31, 2023)

ERS Board Pension Funding Priorities & Guidelines (adopted May 2018; amended May 2020)

Office of General Counsel Contracting Process (January 31, 2023)

Domestic Commissions CY 2022

International Commissions CY 2022

Coalition Greenwich 2022 Global Equity Commission Rate Analytics (December 2022)

Broker Vote Analysis & Process (March 24, 2023)

Standard Operating Procedures (most recent updates 2022-2023)

\*Hedge Funds

\*Private Credit

\*Private Equity

\*Private Infrastructure

\*Private Real Estate

\*Public Credit

\*Public Equity

\*Public Real Estate

\*Rates Portfolio

\*Group Benefit Plan

\*Investment Operations

\*Operational Due Diligence

\*Securities Lending

\*Trading Desk

**Interviews with ERS Staff:**

Three NEPC Partners (Sam Austin, Tim Bruce, Neil Sheth) and Operational Due Diligence Director (Charlie Tilden) traveled to the ERS Texas headquarters for interviews with ERS Staff on May 18, 2023. On-site interviews were conducted with the following individuals:

**Porter Wilson** – Executive Director  
**David Veal** – Chief Investment Officer  
**Anthony Curtiss** – Deputy Chief Investment Officer  
**Ben Schuman** – Investments Chief of Staff  
**John McCaffrey** – Managing Director, Portfolio Management  
**Meagan Larson** – Director, Operational & Financial Diligence  
**Lauren Honza** – Managing Director, Public Equity  
**Keith Lyons** – Director, Internally Managed Portfolio, Public Equity  
**Leighton Shantz** – Managing Director, Credit & Hedge Funds  
**Richard Inzunza** – Supervisor, External Credit  
**Peter Ehret** – Supervisor, Internal Credit  
**Nick Maffeo** – Director, Hedge Funds  
**Tom Roberts** – Managing Director, Trading & Treasury  
**Michael Clements** – Supervisor, Trading  
**Ricardo Lyra** – Managing Director, Private Equity  
**Bob Sessa** – Managing Director, Real Assets  
**Amy Cureton** – Director, Private Real Estate  
**Pablo de la Sierra Perez** – Director, Infrastructure  
**Gabrielle Schreiber** – Director, Procurement & Contracts Oversight  
**Michael Shoop** – Manager, Investment Operations

Additional interviews were conducted by telephone on October 11, 2023, by NEPC Partner & Head of Human Resources (Judy Murphy) with ERS officials:

**David Veal** – Chief Investment Officer  
**DeeDee Sterns** - Director of Human Resources  
**Jamey Pauley** – Incentive Compensation Plan Program Specialist

Document review and interviews were supplemented by numerous follow-up emails and telephone calls to further investigate context and implementation of policy and procedures.

**Standards of Comparison:**

NEPC asked ERS for a list of institutional investors that are considered to be peers of the Trust. ERS Staff provided the following list of seventeen (17) peers. This peer group served as a standard of comparison for the Investment Practices and Performance Evaluation. We studied each peer’s website, IPS, ACFR and other publicly available documents for comparisons of governance, investment objectives, assumed rate, funding ratio, asset allocation, historical performance and internal portfolio management.

**ERS Texas Peer Group:**

California Public Employees' Retirement System  
California State Teachers Retirement System  
Colorado Public Employees' Retirement Association  
State Board of Administration of Florida  
Indiana Public Retirement System  
Massachusetts Pension Reserves Investment Management Board  
Ohio Public Employees Retirement System

State Teachers Retirement System of Ohio  
Oregon Public Employees Retirement System  
Tennessee Consolidated Retirement System  
Texas County & District Retirement System  
Texas Municipal Retirement System  
Texas Permanent School Fund  
Teacher Retirement System of Texas  
Texas Treasury Safekeeping Trust Company  
Utah Retirement Systems  
Washington State Investment Board

Where applicable, we also compared the ERS Texas investment policies and practices against industry standards articulated by institutions of national scope such as the Governmental Accounting Standards Board (GASB), the Actuarial Standards Board (ASB), the Association of Public Pension Fund Auditors (APPFA), CFA Institute, Government Finance Officers Association (GFOA), National Association of State Retirement Administrators (NASRA), the National Conference on Public Employee Retirement Systems (NCPERS).

Another standard of comparison was NEPC's deep experience with other pension funds across the country. The Firm currently advises 420 retainer clients, including 71 government-sponsored retirement systems ("public funds"), representing \$775 billion of public fund assets under advisement. NEPC's Public Fund Team consists of 18 investment professionals, including five Partners that collectively have advised pension clients on investment best practices for more than 100 years.

**Findings:**

The findings reported herein are a summary of NEPC's review of source documents and interviews with staff versus the standards of comparison listed above.

**Recommendations:**

Where applicable, NEPC identifies suggestions that can bring ERS Texas closer in line with industry best practice or improve operational efficiency.

## Section 1. Review of Governance Processes Related to Investment Activities

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### **Activities Completed:**

NEPC requested and, in timely fashion, received materials from ERS Staff to document the roles of Board members, how Board members are selected, the terms of their appointment/election, as well as detailed biographies on current Board members. Staff provided NEPC a description of the role of the ERS Investment Advisory Committee as a resource to the Board, a list of current IAC members as well as a skills inventory of each member's asset class specialization. NEPC also reviewed documents listing fiduciary education standards required by the Texas Pension Review Board. In interviews with ERS staff, NEPC inquired how each Board member's compliance with these educational requirements is monitored.

As part of the governance analysis, NEPC evaluated the following documents.

- Texas Constitution, Article XVI, Section 67
- Texas Government Code Title 8, Subtitle B, Chapter 815
- Texas Administrative Code, Title 34, Part 4
- ERS Investment Policy Statement
- ERS Board Minutes
- ERS Board Bios
- <https://ers.texas.gov/About-ERS/ERS-Board-of-Trustees/Members/Bios>
- Board of Trustees Training Manual
- ERS Investment Advisory Committee Skills Assessment
- Texas Pension Review Board Minimum Educational Training (MET) program
- <https://www.prb.texas.gov/education-met-program/>
- ERS Peer Group provided by Staff

### **Standard of Comparison:**

NEPC compared the governance structure of ERS against governance information publicly available on the websites of the 17 institutional investors identified by ERS as its peers. We also asked our NEPC colleagues for feedback on whether ERS Board governance is consistent with leading and prevailing practice among the dozens of other U.S. public pension funds to whom our consultants advise.

### **Findings:**

ERS draws its authority from Article XVI, Section 67 of the Texas Constitution:

“The legislature shall establish by law an Employees Retirement System of Texas to provide benefits for officers and employees of the state and such state-compensated officers and employees of appellate courts and judicial districts as may be included under the Retirement System by law.”

According to the ERS IPS, the Retirement System has a fiduciary responsibility to:

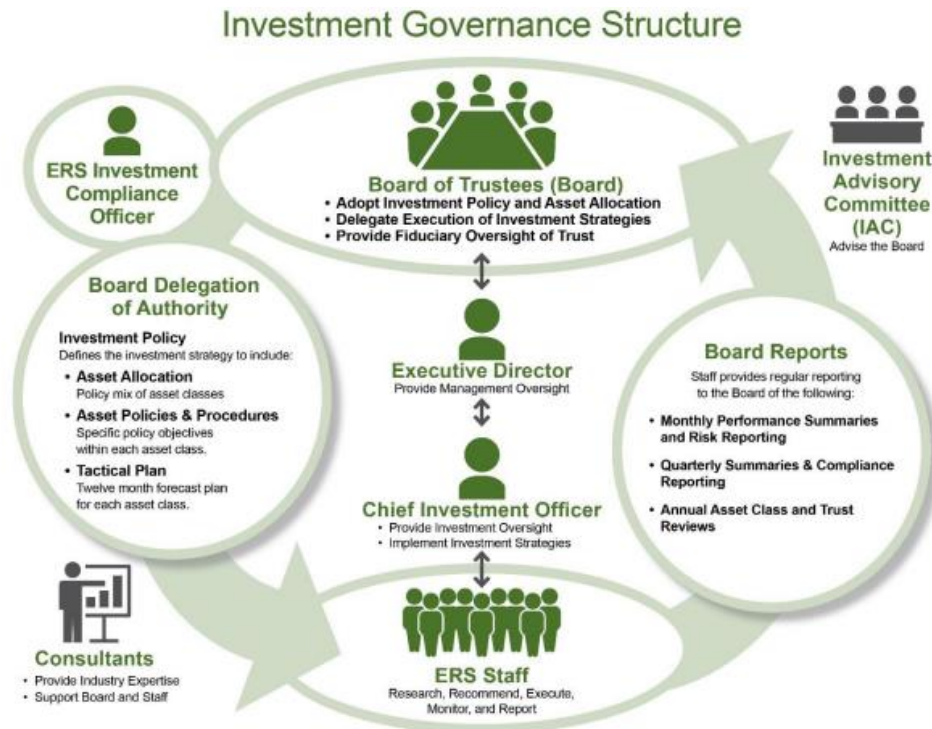
- Manage Trust assets prudently for the exclusive benefit of the Beneficiaries;
- Define investment objectives and strategies;
- Adopt a long-term asset allocation;
- Seek to maximize investment returns while minimizing the risk of loss;
- Provide for short-term liquidity needs while investing for the long term;
- Diversify the Trust's investments to reduce risk of loss;
- Diligently monitor investment performance;
- Efficiently manage the costs associated with investment of the Trust's capital; and



- Adhere to the ethical standards set forth in Chapter VII of this Policy.

To execute this fiduciary responsibility, ERS has established a governance structure that includes a Board of Trustees, which delegates authority to the Executive Director, Investment Advisory Committee, Asset Class Investment Committees, Investment Staff, Compliance Staff, and to external vendors hired by the Board including Investment Consultants, a Retirement Actuary, a Custodian, External Advisors and Emerging Managers. Illustration 1.1, below, is a helpful visualization of the System’s governance structure.

**Illustration 1.1**  
**ROLES AND RESPONSIBILITIES**



ERS does an excellent job of illustrating a roadmap of how decisions are made at ERS. Illustrations 1.2 and 1.3, below, break out the roles of each contributor to the governance process. Levels of responsibility are characterized by Approval or Provides Recommendation in Illustration 1.2.

**Illustration 1.2**  
**POLICY LEVEL INVESTMENT RESPONSIBILITIES**

Investment Responsibility	Board	IAC	ED	CIO / Staff	Consultant / Actuary (as applicable)
Investment Policy Statement	A*	R	R	R	R
Asset Allocation Parameters	A	R	R	R	R
Permissible Asset Classes	A	R	R	R	R
Strategic Performance Benchmarks	A	R	R	R	R
Decisions about Deviations from Policies	A	R	A**	R	R
Selection of General Investment Consultant*	A	N/A	R	R	N/A
Selection of Asset Class Consultant(s)	A	N/A	R	R	N/A
Selection of Custodian Bank*	A	N/A	R	R	R
Selection of Securities Lending Agent*	A	N/A	R	R	R
Selection of Assumed Rate of Return	A	R	R	R	R
Proxy Voting Policy	A	R	R	R	R
Selection of Proxy Agent	--	--	A	R	N/A
Selection of IAC Members	A	N/A	R	R	N/A

A = Approves, R = Provides Recommendation

\* Approval is required by law. \*\* Approval when timing does not allow for presentation to the Board and such action is in the best interest of the System, which shall be followed by reporting to the Board and IAC.

Levels of responsibility for implementation are characterized by Approval, Provides Oversight, Provides Recommendation, or Responsible for Implementation in Illustration 1.3

**Illustration 1.3**  
**IMPLEMENTATION RELATED INVESTMENT RESPONSIBILITIES**

Investment Responsibility	Board	IAC	ACIC	ED	CIO	Staff	Consultants (as applicable)
Approve Alternative Investments Over Board Approval Threshold +*	A	R	R	R	R	R	R
Approve Investments Under Board Approval Threshold	O	O	A	A	R	R	R
Approve External Advisors	O	O	A	R	R	R	R
Funding/Defunding of External Advisors	O	O	O	O	A	R&I	R
Contract Execution**	O	N/A	N/A	A	R	R	N/A
Rebalancing/Asset Overlays	O	R	N/A	O	A	R&I	R
Derivatives – Internally Managed	O	O	N/A	O	A	R&I	R
Derivatives – Externally Managed	O	O	A	O	R	R	R
Risk Management	O	R	R	O	A	R&I	R
Proxy Voting	O	O	O	O	A	R&I	R

A = Approves, O = Provides Oversight, R = Provides Recommendation, I = Responsible for Implementation

\* Approval is required by law. \*\*Oversight for contract negotiation and execution is provided by OGC.

+ - Pursuant to Texas Government Code § 815.3016, Board approval is required for alternative investments that exceed the Board Approval Threshold.

**Board of Trustees**

Per Article XVI, Section 67 of the Texas Constitution, “each statewide benefit system must have a board of trustees to administer the Retirement System and to invest the funds of the Retirement System in such securities as the board may consider prudent investments. In making investments, a board shall exercise the judgment and care under the circumstances then prevailing that persons of ordinary prudence, discretion, and intelligence exercise in the management of their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income therefrom as well as the probable safety of their capital.”

As stated in ERS’ IPS, the ERS Board is responsible for formulating, adopting, and overseeing the investment policies of the Trust. Pursuant to Texas Government Code Section 815.3016, the Board retains responsibility to approve alternative investments over 0.6% of the total market value of the Retirement System’s assets as reported in the most recent ERS Annual Comprehensive Financial Report (ACFR).

There are six members of the ERS Board of Trustees. Three members are appointed by statewide elected government leaders. The Governor, Speaker of the House of Representatives, and Chief Justice of the Supreme Court of Texas each appoint one Board member. Three other Board members are elected by members and retirees in the Texas Employees Retirement System in accordance with Texas law and rules adopted by the Board.

Per Texas Government Code Section 815.003, both appointed and elected Board Members serve staggered six-year terms. The terms of appointees expire on August 31 of each even-numbered

year. The terms of elected Board Members expire on August 31 of each odd-numbered year. To be eligible to serve as an elected member of the board, a person must be a member of the retirement system. One elected position may be held by a system retiree. No elected Board Member may work for the same agency or department as another Board Member. The board shall hold elections for the members and retirees to nominate and elect a trustee. The board shall make ballots available to members of the retirement system and retirees and all votes must be cast either on those ballots or through an online voting process. The trustee elections are administered by an independent third party. The board shall fill vacancies of elected positions on the board for the unexpired terms.

Before taking office as a member of the board of trustees, a person shall subscribe to two oaths of office. One is required by the Texas Constitution to be taken by all State Officers. The other oath is specific to ERS trustees, and it states the following:

*“I do solemnly swear that I will, to the best of my ability, discharge the duties of a trustee of the Employees Retirement System, that I will diligently and honestly administer the affairs of the Board of Trustees of the retirement system, and that I will not knowingly violate or willingly permit to be violated any of the laws applicable to the retirement system”.*

#### BOARD BIOGRAPHIES:

**Brian Barth** (Chair)

***Elected Board Member - Term expires August 31, 2025***

Elected in 2019, Brian R. Barth is the Director of Project Planning and Development for the Texas Department of Transportation (TxDOT), responsible for overseeing the Transportation Planning and Programming, Right of Way, Environmental Affairs, Professional Engineering Procurement and Transportation Programs divisions.

A member of the TxDOT family since 1988, Mr. Barth began his career as an engineering assistant in the Dallas District. In 2003, he was appointed as the Dallas District’s director of transportation planning and development. From 2009 to 2013, he served as the Fort Worth District’s deputy district engineer, providing joint oversight and development of the DFW Connector, North Tarrant Express, I-35W, I-30 and Chisholm Trail Parkway.

In November 2013, Mr. Barth was appointed as Fort Worth district engineer and served on the Regional Council of the North Central Texas Council of Governments working to solve Metroplex-area transportation issues. In that role, he also oversaw over \$1 billion in construction work each year in addition to major projects on I-35W, SH 360 South and the I-30/SH 360 Interchange.

Mr. Barth graduated from the University of Texas at Austin with a bachelor’s degree in civil engineering.

**I. Craig Hester** (Vice Chair)

***Appointed Board Member – Term expires August 31, 2028***

Craig Hester was first appointed to the ERS Board in 2005 by Texas Supreme Court Chief Justice Wallace Jefferson and has been reappointed twice, most recently by Chief Justice Nathan Hecht.

Mr. Hester has been actively involved in professional investment management since 1972. He is a Principal at Luther King Capital Management. Prior to joining LKCM, he formed Hester Capital

Management, where he acted as Chairman, CEO and Chief Investment Officer. Before that, Mr. Hester served as Director of Regional Asset Management for InterFirst Investment Management, Chief Investment Officer of the Texas Municipal Retirement System, Assistant Vice President & Trust Officer at Republic National Bank, Dallas and Senior Analyst for the Teacher Retirement System of Texas.

He currently serves on the Advisory Committee of the MBA Investment Fund, LLC of the University of Texas Graduate School of Business. Mr. Hester is a former board member of the University of Texas Investment Management Company (UTIMCO), former Investments Committee member and past chair of the University of Texas' Ex-Student's Association, former member and past chair the Investment Advisory Committee of the Employees Retirement System of Texas and former investment advisor to the Teacher Retirement System of Texas. He is the past president of the Austin Investment Association and a member and past president of the Austin/San Antonio Society of Financial Analysts and the Austin Society of Financial Analysts. He is a former member of the Board of Governors of the Investment Adviser Association (IAA), a current Board member and past chairman of the Board of Trustees of the Joe R. and Teresa Lozano Long Center for the Performing Arts and is a former member and past chair of the Foundation for SafePlace. Mr. Hester is a member of the Executive Committee of the University of Texas Chancellor's Council and of the Littlefield Society.

Mr. Hester received his Bachelor of Business Administration and Master of Business Administration at the University of Texas at Austin. He received the Chartered Financial Analyst designation in 1977 and the Chartered Investment Counselor designation in 1992.

### **Neika Clark**

#### ***Elected Board Member – Term Expires August 31, 2027***

Neika Clark was certified to fill an elected seat on the ERS Board in 2021.

She is a Training Specialist IV in the Community Care Services and Eligibility Department of Texas Health and Human Services (HHS) in Houston, where she prepares to administer and deliver critical state services to older and disabled Texans.

Ms. Clark joined HHS in 1998 as a clerk. Since then, she progressed to jobs as Intake Screener, Case Manager/Worker and Community Care Services Eligibility Unit Supervisor until reaching her current position.

A native Texan, Ms. Clark currently serves on the board of trustees of St. John's United Methodist Church. She is actively involved with community service and outreach programs in Houston and the surrounding community.

### **Stuart Greenfield, Ph.D.**

#### ***Elected Board Member – Term Expires August 31, 2029***

Stuart Greenfield, Ph.D., was elected to the ERS Board in 2023. He is the first state agency retiree elected to the Board.

Dr. Greenfield began his career in 1977 as an economist at the Office of the Comptroller of Public Accounts (CPA). He worked for three state comptrollers and at other state agencies before retiring from the CPA in 2000.

After he retired from state service, Dr. Greenfield began teaching economics at Austin Community College and the University of Maryland Global College.

Throughout his career and into retirement, Dr. Greenfield has had an interest in employee and retiree benefits and other issues affecting active and retired State of Texas workers. In 1991, he received Governor Ann Richards' Productivity Suggestion Award for his ideas to improve employee benefits. Dr. Greenfield has researched the aging of the public sector workforce and analyzed COVID-19 in Texas. More recently, he has been exploring artificial intelligence and hopes to see how it can be applied to enhance service delivery to ERS members and retirees.

Dr. Greenfield has a Ph.D. in Economics from The University of Texas at Austin and economics degree from the University of Dayton.

**James Kee, Ph.D.**

***Appointed Board Member – Term expires August 31, 2026***

Appointed in 2018 by Texas House of Representatives Speaker Joe Straus, Dr. Kee was reappointed in 2020 by Speaker Dennis Bonnen. James (Jim) Kee, Ph.D., is a Clinical Assistant Professor in the Department of Entrepreneurship and Corporate Innovation at Baylor University. Prior to joining the Baylor faculty, he was President and Chief Economist of South Texas Money Management (STMM). He joined the firm in 2009 and was appointed President in 2011.

Before joining STMM, Dr. Kee was the HOLT Global Strategist for Credit Suisse in Chicago. He served as a Portfolio Consultant with HOLT Value Associates prior to their acquisition by Credit Suisse in 2002. Dr. Kee also has produced research under contract for the Institute for Research on the Economics of Taxation (IRET) and Polyconomics. He has taught course in finance and economics at Wabash College and Auburn University.

With expertise in combining top-down macroeconomic insights with bottom-up stock selection tools, Dr. Kee has been nationally recognized for his views on investing and the economy. He has made numerous appearances on Fox Business with Maria Bartiromo and on CNBC. He has been interviewed on or cited by many other media outlets, including Bloomberg Radio's "Taking Stock," MarketWatch Radio, Bloomberg News, The Wall Street Journal, Barron's, Financial Times, CNN Money and U.S. News & World Report. In 2016, the San Antonio Business Journal recognized Dr. Kee as a top executive with a C-Suite Award in the CEO category.

Dr. Kee serves on the St. Edward's Munday School of Business Advisory Board and has advised several non-profit organizations. In the past, he has served on the board of directors for the Catholic Citizens of Illinois, the University of the Incarnate Word Advisory Board and as finance chair on the school council for the Archdiocese of San Antonio.

Dr. Kee has a Ph.D. in Economics from Auburn University; a Master's degree in Economics (Distinguished Graduate) from St. Mary's University of San Antonio and a Bachelor of Arts in Economics from St. Edward's University in Austin.

**John R. Rutherford**

***Appointed Board Member – Term expires August 31, 2024***

John R. Rutherford was appointed to the ERS Board in May 2022 by Gov. Greg Abbott. Mr. Rutherford is a former energy and finance executive. He currently serves as a part-time senior advisor for ECP GP and on the board of directors of Enterprise Product Partners, L.P. He previously served as a director of Enterprise GP and member of its Audit and Conflicts Committee.

For more than 20 years, Mr. Rutherford has been actively involved in investment banking as a mergers & acquisitions and strategic advisor to public and private energy companies, investment firms, management teams and boards of directors. He served as senior managing director of NRI Energy Partners LLC, a firm that evaluates and invests in private and public energy companies and provides financial and strategic consulting services to energy companies and investment firms. Before that, he was with Plains All American Pipeline, L.P. (Plains), where he served as executive vice president (strategic planning, M&A and business development) of the general partner, on the executive committee and as a financial consultant. Prior to joining Plains, Mr. Rutherford was Managing Director of the North American Energy Practice of Lazard Freres & Company. Before that, he served as a partner at Simmons & Company for more than 10 years.

In addition to his leadership in the energy and finance sectors, Mr. Rutherford previously worked as an accountant. He currently serves on the Executive Council of the Kay Bailey Hutchison Energy Center at The University of Texas at Austin and actively volunteers with the Navy Seal Foundation and the Marine Corps Scholarship Foundation. He was previously the executive director of the Coalition for a Fair and Open Port.

Mr. Rutherford received a Bachelor of Business Arts from the University of Texas at Austin and a Master of Business Administration in Finance from the Wharton School of Business at the University of Pennsylvania.

*Structure of Board:*

NEPC finds the structural composition of the ERS Board to be consistent with prevailing practice among U.S. public fund Trustee Boards. The presence of members appointed by elected representatives of the Plan Sponsor (the State of Texas) as well as elected members (who are two Active Participants in the Plan and one Retiree from the Plan) demonstrates an alignment of interest in the success of achieving the goal of ERS to prudently administer the Trust and pay retirement benefits. The three current appointed Board members are financial professionals with many years of experience in the investment industry.

The size and composition of the ERS Board is also consistent with prevailing practice among the 17 government-sponsored allocators that ERS names as peers (see Illustration 1.4, below). The boards of the peer group range in size from three to 20 members. In most cases, some board members are elected, and some are appointed by state officials. SBA Florida is an outlier with the State Governor, Chief Financial Officer and Attorney General serving directly as the ex-officio Trustees, with ultimate authority and oversight for the SBA's overall strategy. Texas Treasury and Safekeeping Trust Co. is a unique entity, with the Texas Comptroller of Public Accounts serving as the chief steward. At the other end of the spectrum among the peer group Tennessee Consolidated Retirement System and Colorado PERA have the largest boards with 20 and 16 members, respectively.

**Illustration 1.4**

<b><u>Peer System</u></b>	<b><u>Board Members</u></b>	<b><u>Selection Method</u></b>			<b><u>Inv. Advisory Committee?</u></b>
		<b><u>Appointed</u></b>	<b><u>Elected</u></b>	<b><u>Ex-Officio</u></b>	
		<b><u>A</u></b>	<b><u>E</u></b>	<b><u>O</u></b>	
Tennessee Consolidated RS	20	9	2	9	No
Colorado PERA	16	3	12	1	No
CalPERS	13	3	6	4	No
CalSTRS	12	5	3	4	No
Ohio PERS	11	3	7	1	No
Ohio STRS	11	3	7	1	No
Indiana PRS	9	8	0	1	No
MassPRIM	9	3	4	2	Yes
Texas CDRS	9	9	0	0	No
Texas Permanent School Fund	9	3	0	6	No
TRS Texas	9	9	0	0	No
State of Wisconsin IB	9	8	0	1	No
Utah RS	7	7	0	0	No
Texas ERS	6	3	3	0	Yes
Oregon PERS	5	5	0	0	No
Texas MRS	5	5	0	0	No
SBA Florida	3	0	0	3	Yes
Texas Treasury Safekeeping	1	0	0	1	Yes

**INFORMATION AND TRAINING AVAILABLE TO BOARD:**

Adequate information is available to the ERS Board via readily accessible Board Meeting Agendas and Minutes. The Board is supported by education and training regarding the members' fiduciary responsibility. Upon appointment or election to the Board, new members are provided with three training modules to acquaint them with the ERS Texas organization, governance and investment policy. The 83rd Texas Legislature required the Pension Review Board (PRB) to establish a Minimum Educational Training (MET) Program for trustees and system administrators of Texas public retirement systems. The Core training is available to trustees on-line and is designed to cover the fundamental competencies of public pensions necessary for trustees and system administrators to successfully discharge their duties. The Core training courses are:

- Benefits Administration – 45 minutes
- Risk Management – 60 minutes
- Ethics – 45 minutes
- Governance – 45 minutes
- Actuarial Matters – 90 minutes
- Fiduciary Matters – 60 minutes
- Investments – 90 minutes

All trustees must complete 7 credit hours of Minimum Educational Credit (MET) core training in their first year and 4 credit hours of continuing education for each following two-year period. At this time, ERS is approved to provide continuing education courses but no core classes. ERS Board members can schedule internal training sessions using “primers” that provide deeper understanding of an asset class and its role in the ERS portfolio. Based on documentation provided by ERS, all Board members have either completed (or are in process of completing) their training requirements.



DELEGATION OF AUTHORITY:

The Board delegates some responsibility to several Asset Class Investment Committees, as well as to the Executive Director, Investment Staff, Compliance Staff, and external vendors hired by the Board including Consultants, an Actuary and a Custodian. The Investment Advisory Committee assists the Board in carrying out its fiduciary duties with regard to the investment of the Trust and related duties.

**Investment Advisory Committee**

The presence of an Investment Advisory Committee (IAC) is a governance component that NEPC believes is above the level of prevailing practice among U.S. public pension plans. The IAC assists the Board in carrying out its fiduciary duties about the investment of the Trust and related duties. The IAC was created to consult and advise the ERS Board of Trustees on investments and investment related issues. This Advisory Committee reviews investment strategies and related policies of ERS to provide comments and recommendations to assist the Board in adopting prudent and appropriate investment policies. In addition, from time to time, together with the Staff and investment consultants or advisors, they recommend to the Board asset mix, portfolio strategy, investment policies, and eligible securities.

The IAC was established at the discretion of the Board pursuant to Texas Government Code § 815.509 and Texas Administrative Code § 63.17(b) with the committee composed of at least five members and a maximum of nine members prior to September 1, 2023, and seven members afterwards. Currently, there are seven IAC Advisors serving as a source of investment expertise to the Board. IAC members serve at the pleasure of the Board for staggered terms of three years at a compensation and reasonable reimbursement as determined by the Board. The Board selects the IAC chair and vice chair, for a two-year term, to serve as liaison to the Board and to preside over IAC meetings. Generally, the IAC meets quarterly, on the same day as each Board meeting, to consider investment-related issues in depth.

The IAC members offer an impressive breadth and depth of practitioner experience, as catalogued in the skills inventory outlined in Illustration 1.5, below.

**Illustration 1.5**  
**Investment Advisory Committee Skills Assessment**  
*as of September 1, 2023*

	Term Expiration	Investment Experience	Public Equity	Private Equity	Credit	Hedge Funds	Rates & Cash	Real Estate	Infra-structure	Special Situations
<b>IAC Chair, Gene L. Needles, Jr.</b> Former Chairman, President and CEO, Resolute Investment Managers	5/31/26	42 years	✓	✓	✓	✓		✓		✓
<b>IAC Vice-Chair, Laurie Dotter</b> Retired from Transwestern Corporate Properties as President	5/31/25	38 years						✓	✓	✓
<b>Bob Alley, CFA</b> Retired from AIM Advisors, Inc. as Chief Fixed Income Officer	8/31/24	46 years	✓	✓	✓		✓			✓
<b>Ryan Bailey, CFA, FRM, CAIA, CMT</b> Partner & Co-CIO, Investment Office Resources	3/31/25	23 years	✓	✓	✓	✓	✓	✓	✓	✓
<b>Milton Hixson, CPA, CFP</b> Founder & President, FMP Wealth Advisors	3/31/26	49 years	✓	✓	✓	✓		✓	✓	✓
<b>Ken Mindell</b> Retired SVP, Treasurer & Dir. Investments for Rosewood Management Corporation	5/31/25	41 years	✓	✓	✓	✓		✓		✓
<b>Ruby Muñoz Dang</b> Partner and Director of Marketing & Client Services, Garcia Hamilton & Associates, L.P.	3/31/25	26 years	✓		✓		✓			✓

Among the 17 allocators identified as peers by ERS, only five appear to have similar advisory councils of investment professionals to serve as a resource to their board.

The nine-member SBA Florida Investment Advisory Council provides independent oversight of SBA's funds and major investment responsibilities. Additionally, the Council meets quarterly to discuss general policies such as risk budgets, alternative investments, and investment protection principles, while more broadly covering topics related to the general economic outlook.

The 14-member MassPRIM Investment Committee (IC) advises the Board with respect to the asset allocation policy of PRIM and related investment policies and assists the Board in overseeing the investment program. The mandate of the IC does not include real estate or timber. For these real assets, the Board also established a Real Estate and Timberland Committee (currently nine members) to advise the Board in setting investment policy within the real estate and timber portfolios and assist the Board in overseeing these portfolios.

The Texas Treasury Safekeeping Trust Company is a special-purpose entity established by the Texas Legislature as a stand-alone organization with the Texas Comptroller of Public Accounts as the chief steward of the state's finances. The Comptroller appoints an Investment Advisory Board of financial professionals (currently 6 members).

#### **Asset Class Investment Committees**

Certain IAC members are designated as members of Asset Class Investment Committees (further described below) from time to time as determined by the CIO, in consultation with the Executive Director.

An Asset Class Investment Committee (ACIC) is assigned to each asset class to review the prospective investments of that asset class, ensuring that they conform to the investment objectives outlined in this Policy and are prudent given current and anticipated market dynamics. The ACIC charter can be found in the Investment Policy Statement. Each ACIC is comprised of the Executive Director, the CIO, an IAC member, and a senior member of Staff. In addition, there are non-voting members with one staff member from each of the Office of the General Counsel (OGC) and Investment Compliance. Attendance by these non-voting members is not compulsory; however, Investment Compliance must certify prior to the vote that the pending investment is in compliance with the Policy. Each ACIC reviews investment recommendations prepared by Staff and, if applicable, the consultant. Each ACIC will approve, deny, or allow by contingent approval the investment decision based on information provided as well as investment information available to ACIC members based on their respective professional expertise. If the investment amount is under the dollar amount of the Board approval authority, which for alternative investments is over 0.6% of the total market value of ERS' assets as reported in the most recent ERS ACFR, then the ACIC will approve or deny the decision.

The 2023 designated voting members of each Asset Class Investment Committee are shown in Illustration 1.6, below.

**Illustration 1.6**  
**ACIC Designated Voting Members**  
*as of January 1, 2023*

	Public Equity	Private Equity	Credit	Hedge Funds	Rates & Cash	Real Estate	Infrastructure	Special Situations	TexasSaver
IAC Main	Needles	Alley	Alley	Bailey	Dang	Dotter	Dotter	Bailey	Needles
IAC Alternate	Bailey	Hille	Dang	Mindell	Bailey	Mindell	Mindell	Hille	Dang
Staff Main	Shantz	Sessa	Roberts	Roberts	Honza	Lyra	Lyra	Roberts	Shantz
Staff Alternate	Xiao	Cureton	Honza	de la Sierra	Lyons	Maffeo	Maffeo	Shantz	Honza

**The Executive Director**

In accordance with Texas Government Code § 815.301(b) and § 4 Texas Administrative Code §65.1, the Executive Director is delegated full authority and responsibility by the Board to perform the responsibilities of the Board and in the implementation and administration of the Trust subject to Board policies, rules, regulations, and directives consistent with constitutional and statutory limitations. The Executive Director establishes procedures and controls for efficient implementation of the Trust by Staff. The Executive Director may delegate to another employee of ERS any right, power or duty assigned to the Executive Director pursuant to Texas Government Code § 815.202(f). Any reference to Staff responsibilities in the IPS, including any addendum to the IPS, should be construed to mean that the Chief Investment Officer (CIO) has supervisory and oversight authority of such delegated responsibilities.

Porter Wilson was appointed executive director of the Employees Retirement System of Texas on June 1, 2015.

Under his guidance, ERS administers programs that provide retirement, deferred compensation and flexible benefits for more than 256,000 state employees and retirees. ERS is entrusted with an investment portfolio of approximately \$35 billion and is responsible for managing the Texas Employees Group Benefits Program, which provides health care coverage to more than 538,000 state and higher education employees, retirees and their families.

Before joining ERS, Mr. Wilson served as associate vice chancellor for governmental relations for the Texas Tech University System. Prior to that, from 1996 to 2014, he served as Chief of Staff for Texas State Senator Robert Duncan. In that role, he worked closely with ERS on legislation related to state employee benefits, demonstrating a strong commitment to ERS members and retirees, as well as keen knowledge of state government, benefits and budgets. Earlier in his career, Mr. Wilson was Mr. Duncan's legislative assistant when he served in the Texas House of Representatives.

In his years in state government, Mr. Wilson earned the respect of lawmakers, colleagues and other associates. He has long-term relationships throughout Texas state government, and with employee and retiree associations and organizations. He received the Texas Public Employees Association's Public Service Award for the 83rd legislative session and was named the Department of Public Safety Officers Association's Legislative Staffer of the Year for both the 82nd and 83rd sessions.

Mr. Wilson holds a Bachelor of Arts in Government from the University of Texas at Austin.

**Chief Investment Officer and Investment Staff**

*The Chief Investment Officer (CIO) reports to the Executive Director and directs the investment program consistent with this Policy, and within applicable state and federal laws. The CIO has supervisory and oversight authority over all investment staff in the implementation of this Policy. The CIO is accountable for the investment process in pursuit of strong performance, cost effectiveness,*

*appropriate diversification, and risk management for the overall portfolio. The CIO also advises and informs the Executive Director on investment matters and keeps the Executive Director apprised of situations that merit attention.<sup>1</sup>*

The Chief Investment Officer, David T. Veal, CFA, CAIA, FRM, brings more than two decades of investment experience to the role, including a track record of success across both the private and public sectors. Prior to taking on his current role at ERS in August 2021, Mr. Veal served for five years as Chief Investment Officer for the City of Austin Employees Retirement System. Earlier in his career, Veal held leadership roles with the Teacher Retirement System of Texas, where he was the Director of Strategic Partnerships & Research, and the Employees Retirement System of Texas, where he was the Global Strategist & Portfolio Manager for Emerging Markets. Before moving his career and family to Texas in 2009, Mr. Veal spent 10 years with Morgan Stanley in New York as an equity research analyst. He is a graduate of Auburn University with honors and holds an MBA from the University of Michigan with high distinction. Mr. Veal has also served for six years as a U.S. Navy Officer, where he was twice decorated with the Navy Commendation Medal.

*At the Trust level, Staff responsibilities include review and monitoring of external investment consultants and their recommendations, as well as maintenance of the ERS Proxy Voting Guidelines. Additional responsibilities will include the development, recommendation, and implementation of this Policy, as well as asset allocation, portfolio construction, advisor/consultant selection, and oversight of the custodian, General Investment Consultant, and other advisors/consultants with whom ERS contracts.<sup>1</sup>*

*Within internal management, these responsibilities include portfolio management, investment analysis and research, monitoring of external advisors and their recommendations, trade execution, and voting of proxies. Within the context of externally advised mandates, these responsibilities include portfolio construction, performance measurement, and manager selection. Within private markets, these responsibilities include sourcing and underwriting opportunities in funds, co-investments, and secondaries; preparing investment memoranda; actively monitoring and managing existing portfolios; developing capital plans; and performing operational due diligence.<sup>1</sup>*

### **Compliance**

*The Executive Director shall create an Investment Compliance function with responsibility for the overall monitoring, testing, and reporting related to compliance with this Policy and each of the asset class capital plans, which are annual reports submitted for private market asset classes detailing guidance for investment implementation over the medium term. Investment Compliance shall notify the Executive Director, the CIO, the General Counsel, and any other relevant staff of any suspected or actual violations of the Policy. All actual violations of the Policy shall also be reported to the Board. On a periodic basis not less than annually, Investment Compliance shall present to the Board the results of compliance activities performed during the review period and any material compliance issue(s). Investment Compliance also shall develop and maintain internal policies and procedures related to the ERS compliance program.<sup>1</sup>*

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<sup>1</sup> ERS Investment Policy Statement, effective September 1, 2023

### **Investment Consultants**

*ERS may periodically retain professional investment consultants to assist and advise the Board and Staff in connection with the investment of Trust assets.*

*The General Investment Consultant selected by the Board provides independent review, analysis, and recommendations to the Board regarding the management of the Trust overall. This may include, but is not limited to, recommending appropriate strategic policy and implementation structure, conducting manager due diligence, and assisting with manager searches and selection. The General Investment Consultant also aids the Board in performing its oversight function and adhering to the guidelines of this Policy, and makes recommendations regarding the prudence of proposed revisions, including the use of appropriate performance benchmarks. The General Investment Consultant also makes recommendations regarding the development and revision of policies to ensure overall consistency, use of best practices, a system-wide approach, and proper implementation of ERS policies.*

*Consultants also may be retained to provide industry expertise within specific asset classes. They may provide investment recommendations and conduct diligence on specific investments, including recommendations to the ACIC on proposed capital commitments and review of implementation benchmarks proposed by staff to the Executive Director. At least annually, any such asset class consultants within private markets shall provide to the Board:*

- *An annual review of the program and any major sub-programs, including an opinion letter on performance, risk, fund selection and monitoring processes, internal controls, and staffing;*
- *Opinion letters on proposed capital plans and the appropriateness of asset class benchmarks;*
- *Regular reports on the outlook for asset class returns, valuation trends, market conditions, and macro level view of market opportunities; and*
- *Regular reports regarding investment performance, including relative returns, peer benchmarking, performance attribution analysis, portfolio risk, and policy compliance.*

*Consultants engaged by ERS must consider only those factors that relate to economic value and financial benefits to the Trust in carrying out their duties to ERS. The fiduciary interests of the Trust shall not be subordinated to unrelated objectives by any consultant in connection with their service to ERS.<sup>2</sup>*

### **Retirement Actuary**

*The Board selects and retains an actuary for forecasting asset and liability growth and the many complex factors included in estimating future pension costs. These factors include interest rates, inflation, salary growth, mortality rates, employee turnover, and other relevant factors. The actuary also assists the Board in setting the assumed rate of return (ARR), which is informed by the asset allocation parameters of the Trust and the outlook for the capital markets. These actuarial assumptions are reviewed during the actuarial experience study and used as inputs for asset/liability studies.<sup>2</sup>*

### **Custodian**

*The Board selects the Trust's custodian subject to the statutory procurement process and with a recommendation from Staff. The custodian's primary function is to hold custody of all investments of the System, other than certain interests in limited partnerships, limited liability companies, and other*

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<sup>2</sup> ERS Investment Policy Statement, effective September 1, 2023

*illiquid investments that may be held directly by ERS and are typically only accounted for by the custodian. The custodian also calculates investment performance and benchmark comparisons.<sup>3</sup>*

### **Investment Managers**

*Staff is responsible for managing the Trust in the best interest of the Beneficiaries by making prudent investment decisions, adopting investment strategies, and reporting investment results to the Board. Staff may both internally manage assets and elect to use external management when appropriate. When the term “Investment Managers” is used in the IPS, it is intended to include both internal and external managers unless otherwise specified.*

*Investment shall be made and managed by one or more Investment Managers who meet the requirements described in Texas Government Code §§ 802.203 and 802.204. Managers shall construct and manage one or more portfolios of investments consistent with the investment philosophy and strategy they are hired to implement in compliance with this Policy and any agreement(s) they execute with the System. The Investment Implementation Policy (IIP) establishes specific processes and procedures with respect to manager selection, monitoring, and retention.*

*In public asset classes, external management may be carried out by external advisors where oversight of the trade approval process is retained by Staff. External advisors are selected, in accordance with applicable laws, by the appropriate ACIC for inclusion in a Select Pool. From within a Select Pool, Staff shall recommend external advisors for funding or de-funding, and the CIO, in consultation with the Executive Director, shall determine whether to approve Staff’s recommendations. Staff shall make recommendations to the Executive Director regarding the assignment of benchmarks for external advisors, a process that shall include input from the General Investment Consultant.*

*Private asset classes may use external managers that may exercise full investment discretion with respect to buying, managing, and selling assets within the terms of the applicable securities and the approved guidelines in order to achieve pertinent objectives.*

*Investment Managers shall act as fiduciaries of the Trust and exercise prudence, care, skill, and due diligence in the course of selecting investments to buy or sell for the Trust. Investment Managers are responsible for adhering to the contractual terms of their agreements with ERS, as well as all relevant provisions of this Policy and all applicable laws. Staff shall monitor all Investment Managers for compliance.<sup>3</sup>*

### **Emerging Managers**

*In selecting managers, advisors, consultants, and other financial service providers, the Board shall make a good faith effort to evaluate qualified emerging firms as candidates to award contracts to or acquire services from when acquiring private financial services as set forth in Texas Government Code § 815.301 (g), (h), and (i). An “emerging fund manager” is defined as a private professional investment manager with assets under management of not more than \$2 billion.*

*In establishing an emerging manager program, Staff shall seek to find smaller investment managers that can benefit the Trust by enhancing risk-adjusted returns, net of expenses. The Board expects that over the long term, inclusion of emerging managers as part of external investment management will enhance the Trust’s expected investment performance by serving to complement the Trust’s internal investment management. Such relationships shall exhibit strong alignment of interest with investors*

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<sup>3</sup> ERS Investment Policy Statement, effective September 1, 2023

*and seek to provide ERS with long-term access to the next generation of talent. The ERS emerging manager program is to be integrated within each asset class.*

*Staff shall report to the Board annually on the methods and results of efforts to hire emerging fund managers in accordance with Texas Government Code § 805.301(i), including data disaggregated by race, ethnicity, gender, and fund size, and the extent to which the emerging manager program has fulfilled the expected benefits described above.<sup>4</sup>*

**Recommendations:**

In our previous Evaluation, NEPC recommended that ERS Texas explicitly define the role of the Chief Investment Officer (CIO) in the Governance section of the IPS. At the time, the IPS only referenced the position as related to supervisory authority over the Investment Staff. The current IPS now outlines the CIO's responsibilities as they relate to the investment staff, implementation of investment policy, and advisory capacity to the Executive Director.

We do have suggestions for modest improvements in the Investment Compliance area.

ERS should consider reviewing staffing levels for the Investment Compliance team as currently there is only one team member.

Additionally, the development of Standard Operating Procedures for the Investment Compliance function would assist with any personnel departure risks on the Investment Compliance team as well as further codify and enhance existing processes.

For the September 2022 IPS, ERS added a section regarding Standards of Conduct and added an additional pre-clearance requirement exception for "less than \$500.00 of any applicable security transacted over a rolling 30-day period." ERS may want to consider whether the new additional pre-clearance requirement exception is necessary, desired, and consistent with the goal of the compliance program.

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<sup>4</sup> ERS Investment Policy Statement, effective September 1, 2023

## Section 2. Investment Policy Statement Analysis and Compliance

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### **Activities Completed:**

NEPC reviewed the two most recent revisions to the ERS Investment Policy Statement (IPS). NEPC also audited the ERS Investment Implementation Plan, Asset Class Standard Operating Procedures, and Board minutes to confirm that the Retirement System has remained in compliance with the IPS.

### **Standard of Comparison:**

To document that the structure of the IPS and ERS compliance with its IPS are consistent with prevailing practice, NEPC used a three-step evaluation process. The first step was to compare the ERS IPS to the investment policy statements of the large, sophisticated institutional investors identified as peers by ERS. The second step involved comparing the IPS to the recommended investment policy statements by the Government Financial Officers Association (“GFOA”), the CFA Institute and NEPC. The third step was to evaluate whether the actions and decision-making processes of ERS Texas that NEPC has directly observed since 2019 have been in compliance with the IPS.

### **Findings:**

As noted in Section 7, ERS Texas has made significant revisions to the Investment Policy Statement since 2020 that have improved clarity of the document. The most recent revision became effective on September 1, 2023. This revision was a collaborative effort between the ERS Texas Executive Director, Chief Investment Officer, Investment Staff, Office of the General Counsel, Board of Trustees and Investment Advisory Committee. NEPC was consulted for review. Notably, ERS also introduced in January 2023 an Investment Implementation Plan that improves consistency in connecting the Standard Operating Procedures of each functional part of the investment organization to the IPS.

The ERS IPS compares favorably with the investment policy statements NEPC examined from the peer group of similar investors. The ERS document states that “the strategic objective of the Investment program is to deliver performance that supports the current and future provision of earned benefits for Beneficiaries. That is, the Investment program aims to provide for long-term obligations of the retirement plans while also fulfilling their short-term payment obligations. The first goal is achieved by delivering long-term investment returns that are consistent with the Assumed Rate of Return (ARR), while the second goal is achieved by maintaining sufficient liquidity to ensure that benefit payments are made regularly. Within this context, the implementation objective for the Investment program as a whole is to obtain overall investment returns over rolling five-year periods in excess of the adopted benchmark. Such returns are expected to exceed benchmark returns net of expenses and to be commensurate with the amount of risk assumed.”

Some peers do take a different approach to defining their objectives, either more specifically or more broadly than ERS. For example, some may list specific objectives relative to the actuarial rate of return, liabilities, inflation rate, and a benchmark and reference portfolio. Others may state their objectives in very broad terms such as “seeking to optimize risk and return in the context of short-term and long-term obligations.” NEPC is comfortable with ERS’ balanced articulation of anchoring its strategic objective to the current and future provision of earned benefits, while seeking performance that is consistent with the Assumed Rate and that exceeds the policy benchmark over rolling five-year periods.

The ERS Investment Policy Statement (IPS) is generally consistent with the following elements



recommended by GFOA, the CFA Institute and NEPC:

- Scope, purpose, investment objectives, investment philosophy/beliefs
- Governance
- Investment guidelines
- Asset allocation, rebalancing and funding policy/procedures
- Internal controls
- Authorized intermediaries (custodians, depositories, broker/dealers, etc.)
- Risk management and objectives
- Performance standards and procedures
- Reporting and disclosure policy/procedures

In the role of General Investment Consultant, NEPC has directly observed that ERS Texas is adhering to the governance and compliance guidelines set forth in the IPS. ERS has taken the necessary steps to diversify its portfolio and put in place prudent risk controls. Under normal market conditions, the Trust should be able to sustain a commitment to the IPS policies under most likely foreseeable market environments and the investment managers should be able to maintain fidelity to their respective policies. However, it is important to note that ERS may not achieve stated objectives over significant periods of time given persistently abnormal circumstances (including, but not limited to, low or negative interest rates, deflation, liquidity traps, global recession, heightened barriers to trade, breakdown of financial markets, or exogenous geopolitical turmoil).

**Recommendations:**

ERS may wish to consider including total public markets portfolio tracking error, including a curing period, in future revisions of the Investment Policy Statement. This would be consistent with the IPS documents of peer institutions that reflect best practices.

## Section 3. Asset Allocation Review

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### 3(A). Process for Determining Target Allocations

#### **Activities Completed:**

NEPC evaluated the asset allocation targets and ranges of the Trust in 2023. The most recent asset liability study was also reviewed.

#### **Standard of Comparison:**

To ensure the Plan is following prevailing practices as it relates to the asset allocation process, NEPC used a two-step evaluation process. The first step involved comparing ERS' policies and practices to the prevailing practice of NEPC's clients. As part of our methodology for evaluating the reasonableness of this policy as outlined above in the Standard of Comparison section, several peer institutions were compared to ERS' asset allocation policies.

#### **Findings:**

ERS has developed a clear process that allows for routine setting, monitoring, and review of both the asset allocation of the portfolio and the assets and liabilities of ERS. This process is consistent with prevailing practice among peer public pension funds. The importance of asset allocation codified in ERS' IPS as central to the investment philosophy of the ERS portfolio. Chapter II, Section A of the IPS states that the "most important decision the Board makes is setting the parameters of the long-term asset allocation. Staff is tasked with implementation through prudent and sound strategic decisions". NEPC believes this charge provides clarity and context on the importance of this function as well as the oversight for responsibility.

The strategic asset allocation process is outlined as follows in the IPS:

The Board, with advice from Staff and the General Investment Consultant, is responsible for establishing the Strategic Asset Allocation (SAA) process and parameters for the Trust. SAA refers to the establishment of the strategic targets and tactical ranges for the included asset classes (i.e., securities sharing certain fundamental and risk-based characteristics), which will determine the distribution of investments within the Trust. The SAA process is intended to optimize expected returns net of expenses for the Trust within the established risk budget over a long-term horizon by maintaining a prudent and well-diversified portfolio.

An actuarial experience study shall be conducted every four years pursuant to Texas Government Code § 815.206(c). The General Investment Consultant shall conduct formal asset/liability studies in connection with each actuarial experience study. Such studies also shall include a detailed review of the asset allocation parameters and a comprehensive assessment of the liquidity needs of the Trust as compared to the potential trajectories of the asset base. These periodic studies shall provide the primary basis upon which significant changes may be made to the SAA parameters for the Trust. The Executive Director may direct that additional actuarial studies take place as needed.

The likelihood of superior long-term investment performance arising out of the SAA process depends greatly on the accuracy of the assumptions used to establish its parameters. As such, these assumptions should be monitored continually and revisited regularly by Staff with the results reported to the Board at least annually.

Reviews of the adopted SAA parameters using updated capital market assumptions and other market-related inputs shall also be provided to the Board by Staff at least annually. These reviews

shall discuss the alignment of the asset allocation parameters with the assumed rate of return and shall discuss how the implementation plan supports the long-term strategic objectives of the program. These reviews also shall discuss risk-return assumptions, correlation of returns, and implementation approaches using applicable strategic benchmarks and other relevant data.

Within each asset class, the CIO, in consultation with the Executive Director, shall adopt portfolio implementation strategies and investment approaches to meet the overall investment objective of each asset class. Staff shall present to the Board at least annually an overview of each asset class, including a long-term capital plan for private markets asset classes with forecasted 12-month tactical ranges.

**Recommendations:**

None.

**3(B). Expected Risk & Return**

**Activities Completed:**

NEPC reviewed the following documents:

NEPC Asset Allocation Team process for developing expected risk and return forecasts

ERS Investment Policy Statement

ERS Investment Implementation Plan

2023 Actuarial Valuation Report

2018 Funding Policy

2022 ALM Study

2015 Liquidity Study

Hedge Fund Annual Review

Private Real Estate Annual Review

External Advisor Program Update

Opportunistic Credit Tactical Plan

Private Equity Annual Review

Private Infrastructure Annual Review

Fixed Income Program Annual Review

Hedge Fund Program Annual Review

Global Public Equity Annual Review

**Standard of Comparison:**

We compared the process by which ERS Texas sets and regularly assesses expected risk and return information with NEPC's experience with how similar public pension plans approach this process.

**Findings:**

As with most other public pension funds, ERS receives input from its General Consultant regarding capital market forecasts for expected returns, volatilities and correlations among the asset classes. Unlike many other public funds, ERS also produces its own capital market forecasts. The CIO has recently charged the Portfolio Management team with producing capital market forecasts in-house.

NEPC's capital market assumptions provided to ERS are developed by NEPC's asset allocation team which consists of senior investment professionals as well as licensed actuaries. These assumptions are forward-looking and fundamentally based forecasts developed with proprietary valuation models to generate both an intermediate and long-term outlook. The long-term outlook represents

a foundation on which to build a strategic allocation to meet long-term objectives. The intermediate outlook represents a planning horizon over which more dynamic asset allocation decisions can be developed.

Asset class forecasts are based on a combination of forward-looking analysis and historical data. NEPC produces forecasts for more than 70 asset classes. Historical information dating back to 1926, which includes monthly index returns, cash rates, inflation rates, bond yields, and valuation metrics are utilized to both frame the current economic environment and serve as the foundation for the volatility and correlation assumptions for all asset classes. Volatility assumptions are based primarily on the long-term history of the asset class with some adjustments for the current environment, while correlation assumptions are based on a mix of both long-term history and current trend.

Expected return forecasts are based on current market prices and forward-looking estimates. The forward-looking estimates rely on a fundamental building block approach that broadly includes intermediate and long-term assumptions for economic growth, supply/demand dynamics, inflation, valuation changes, currency markets, forward-looking global yield curves, and credit spreads. The building blocks are specific to each major asset class and represent the primary drivers of future returns. For example, the equity forecast model is based upon assumptions for real earnings growth with adjustments incorporated for profit margin changes, inflation, dividend yield, and current valuations trending to long-term averages. Fixed income return forecasts are based upon changes in real interest rates and forward yield curves, with credit sectors including an assumption for changes in credit spreads and credit defaults. Alternative investment strategies are similarly built from the bottom up with a building blocks approach based upon public market beta exposures while also incorporating an appropriate risk premium for illiquidity.

The asset class assumptions are prepared quarterly by NEPC. The review process is overseen by the Asset Allocation Committee. The responsibilities of the Asset Allocation Committee include highlighting current market risks and identifying macro-themes that may produce event-driven inflection points for the economy and markets.

ERS 2023 capital market assumptions and expected rates of return and risk are presented for the 10-year and 30-year periods in Illustration 3.1 below. Risk is expressed as the expected standard deviation of the asset class and the total asset mix. Risk, as shown in the table, is calculated using the correlation of assets and variance-covariance matrix based on the 2023 NEPC capital market expectations.

**Illustration 3.1**  
**Expected ERS Returns & Vol Using NEPC 2023 Capital Market Assumptions**

Asset Class	Policy Asset Allocation	10 Year Expected Rate of Return	30 Year Expected Rate of Return	Expected Risk (Standard Deviation)
Public Equity	35%	5.7%	7.4%	18.0%
Private Equity	16%	8.5%	9.7%	24.3%
Public Credit	9%	6.9%	6.9%	11.2%
Private Credit	3%	8.6%	9.1%	12.9%
Real Estate - Public	3%	6.4%	7.4%	21.7%
Real Estate - Private	9%	6.2%	6.7%	16.5%
Infrastructure	5%	6.3%	6.9%	12.4%
Rates	12%	4.2%	4.1%	5.4%
Cash	2%	4.0%	3.4%	0.6%
Hedge Funds	6%	6.3%	6.5%	8.7%
Special Situations	0%	6.3%	6.5%	8.7%
<b>Total</b>	<b>100%</b>	<b>6.7%</b>	<b>7.5%</b>	<b>13.4%</b>

Source: NEPC 2023 capital market expectations

The mix of assets in the above table is expected to achieve the plan’s actuarial rate of return, which is currently 7.0% over the next 30 years. It is important to note that capital market expectations are subject to change from year to year based on prevailing market conditions and the myriad of inputs considered when setting forward-looking capital market expectations.

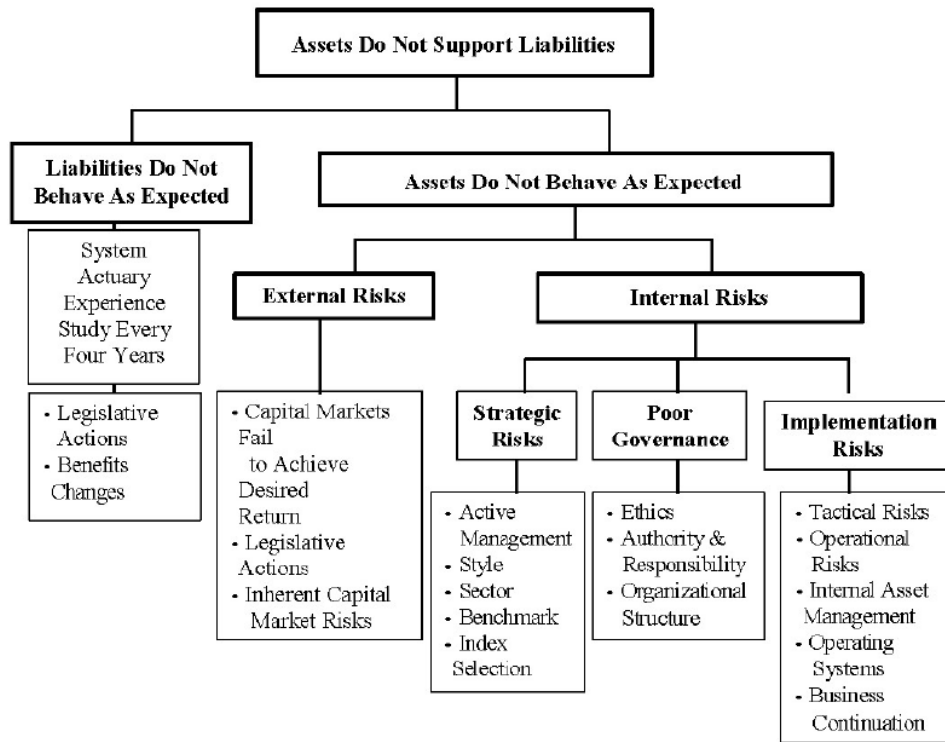
ERS manages risk at several levels of the organization. As outlined in the Investment Implementation Plan, the plan aims to support the ability of the Investment Staff (Staff) of the Employees Retirement System of Texas (ERS) to carry out its responsibilities with respect to the overall management of the ERS Trust (Trust) as well as the selection, contracting, and monitoring of its investments. This document is crafted within the context of the governance framework outlined below in Illustration 3.2.

**Illustration 3.2**  
**ERS Governance Framework**

Source of Direction	Responsible Authority	Role
Laws and regulations	Legislators and policymakers	Statutory framework for the operation of ERS
ERS Investment Policy Statement	ERS Board of Trustees	Policy framework for the management of the Trust
ERS Investment Implementation Plan	ERS CIO and Risk Committee	Plan for the implementation of strategy for the Trust including Asset Class Guidelines
ERS Asset Class Standard Operating Procedures	ERS Asset Class Directors	Processes for the implementation of asset class/program strategy including specific procedures

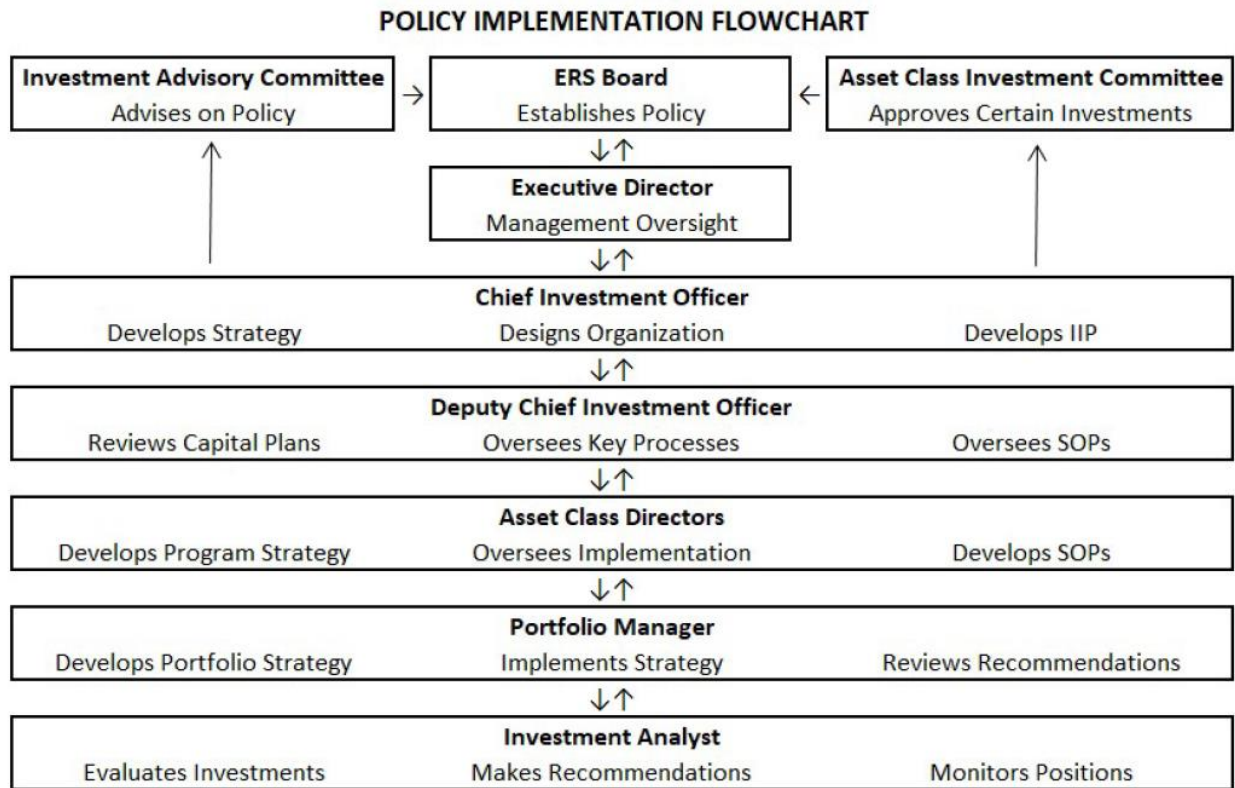
Source: ERS Investment Implementation Plan pg. 1

ERS has adapted the risk matrix set forth in Statements of Key Investment Risk and Common Practices to Address Those Risks, June 2000. This standard is endorsed by the Government Finance Officers Association (GFOA) and Association of Public Pension Fund Auditors (APPFA). These standards inform the ERS investment risk framework, which is depicted below:



Source: ERS Investment Implementation Plan pg. 2

The IPS has set forth the governance structure below for the Trust, and this Plan aims to define the specific roles of Investment Staff within that context. This framework for policy implementation by Investment Staff is illustrated below:



Source: ERS Investment Implementation Plan pg. 4

The ERS strategic asset allocation is shown in Illustration 3.3, below.

**Illustration 3.3**  
**ERS Strategic Asset Allocation Targets and Ranges as of September 1, 2023**

<b>Asset Class</b>	<b>Strategic Target</b>	<b>Tactical Minimum</b>	<b>Tactical Maximum</b>
<b>Return Seeking Assets</b>	<b>80%</b>	<b>70%</b>	<b>88%</b>
<b>Global Equity</b>	<b>51%</b>	<b>42%</b>	<b>60%</b>
Public Equity	35%	25%	45%
Private Equity	16%	11%	21%
<b>Global Credit</b>	<b>12%</b>	<b>6%</b>	<b>21%</b>
Public Credit	9%	4%	14%
Private Credit	3%	0%	8%
<b>Real Assets</b>	<b>17%</b>	<b>12%</b>	<b>22%</b>
Public Real Estate	3%	0%	13%
Private Real Estate	9%	4%	14%
Private Infrastructure	5%	0%	10%
<b>Risk Reducing Assets</b>	<b>20%</b>	<b>12%</b>	<b>28%</b>
<b>Liquidity Assets</b>	<b>14%</b>	<b>8%</b>	<b>20%</b>
Rates	12%	7%	17%
Cash & Equivalents	2%	1%	10%
<b>Diversifying Assets</b>	<b>6%</b>	<b>4%</b>	<b>10%</b>
Hedge Funds	6%	0%	11%
Special Situations	0%	0%	5%
<b>Global Total</b>	<b>100%</b>	<b>--</b>	<b>--</b>

Source: ERS IPS pg. 12

The ranges outlined in Table 3.3, above, reflect the expectation that Staff will be tactical in its implementation decisions to prudently manage risk and maximize return (per IPS pg. 12). NEPC finds that ERS appropriately considers the amount of active risk taken within portfolios. Per the IPS table that profiles ‘Asset Classes, Leverage, Risk and Risk Budget’ as well as the individual Asset Class Program Overviews and Investment Implementation Plan, each asset class has well-defined active risk budgets, investment objectives and investment strategies. The active risk budgets cite the benchmark, reference indices, risk controls, investment management style and expected investment manager skill as measured by Information Ratio. Note, NEPC finds that the ERS Investment Implementation Plan adopted on January 10, 2023 is an industry prevailing best practice document and is an enhancement over previous versions of related documentation.

**Recommendations:**

None.



### 3(C). Appropriateness of Selection and Valuation Methodologies of Alternative/Illiquid Assets

#### **Activities Completed:**

NEPC reviewed the following documents:

- ERS Investment Policy Statement
- ERS Investment Implementation Plan
- ERS Investments Valuation Committee Charter
- Hedge Fund Standard Operating Procedures
- Private Equity Standard Operating Procedures
- Private Infrastructure Standard Operating Procedures
- Real Estate Standard Operating Procedures

#### **Standard of Comparison:**

Alternative investments are defined in the Texas Government Code Sec. 815.3015 as “an investment in a private equity fund, private real estate fund, hedge fund, infrastructure fund, or another asset as defined by rule of the Board of Trustees.” Thus, to gain an understanding of how illiquid assets are selected, measured, and evaluated, all the above listed documents were reviewed.

#### **Findings:**

As discussed in more detail in Section 4 of this Report, the IPS states that the Board has delegated authority of individual investment selection, including alternative assets, to the ERS Staff. Alternative assets are selected and evaluated by Investment Staff in conjunction with support from asset class consultants as described in the Standard Operating Procedure documents. Selected investments are then reviewed by the respective Asset Class Investment Committee to ensure that the investment conforms to the investment objectives outlined in the Capital Plan and IIP. The Asset Class Investment Committees generally have the authority to approve prospective investments in alternative assets up to a limit of 0.6% of the total market value of ERS’ assets as reported in the most recent ERS ACFR, pursuant to Texas Government Code Section 815.3016. The Board must approve investments above this limit.

The IPS outlines the asset classes that ERS can invest in, including the benchmarks for each asset class and the role that each asset class plays in the Trust’s portfolio. This makes it clear to the reader how to measure the performance of the asset classes according to the benchmarks and according to the role that the asset classes play in the portfolio. Program Guidelines for the asset classes also include information regarding the eligible types of investments and other attributes that should be considered when considering investments in alternative asset classes.

The IPS refers to the definition of alternative investments included in Texas Government Code as being Private Equity, Private Real Estate, Private Infrastructure and Hedge Funds. Within the Asset Allocation chapter of the IPS, long-term target allocations along with ranges defined by a minimum and a maximum are set out for each of those asset classes. The IPS explains that “The Board has set the ranges with an expectation that Staff will be tactical in its implementation decisions in an effort to prudently manage risk and maximize the expected return given that risk.” These targets and ranges defined in the IPS are shown in Illustration 3.3, above.

Valuation checks are typically compiled in valuation reports which are presented to the ERS Investment Valuation Committee (IVC). Per the IVC Charter, this Committee is charged with regularly reviewing the pricing and valuations of the securities held by the Trust for reliability and

reasonableness. Such reviews include a particular focus on private market valuations given the illiquid nature of those investments and subjective process for valuing them. The IVC also reviews various valuation matters related to publicly traded securities to assess the reliability and reasonableness of any proposed changes and to determine whether any further action is necessary.

High-level responsibilities of the Committee include:

- Review at least annually the process by which it assesses the valuation of assets for the Trust.
- Upon determining a change in valuation is necessary, the IVC will formally notify Investment Operations and Finance to ensure that a proper valuation change occurs for the asset.
- Ensure a timely review of valuation matters for the holdings of the Trust including the recording of minutes for each meeting held.
- Make recommendations to the CIO, request additional information from portfolio management teams, and consult with investment managers independent of the teams if necessary.

ERS must use June 30 private markets (private equity, private infrastructure, and real estate) fund valuations since that is typically the last valuation date for those funds before the end of the Retirement System's fiscal year on August 31. Thus, one focus of the IVC is to review market movements between June 30 and August 31 and to determine whether markets have moved materially in a way that could impact the valuations in the private market funds. If it is determined that there was a market event that could impair the reported June 30 valuations, the Valuation Committee may recommend a discount to those valuations. Such a discount has rarely, if ever, been applied.

The Valuation Committee is comprised of not more than five qualified, professional members of the Investments Division. The Committee is chaired by the Director of Operational & Financial Diligence. The CIO and DCIO are standing members of the committee. The two other members of the Committee shall each respectively represent private and public markets. Voting is based on a majority of the total appointed members of the Committee with the requirement that the CIO is not a dissenting voter. The IVC meets quarterly or more frequently as circumstances dictate.

**Recommendations:**

NEPC has no further recommendations for improvement at this time. In the 2020 IPPE report, NEPC recommended that the purpose, functions, membership, and possible actions of the Valuation Committee be formalized. ERS Texas has since drafted and adopted a detailed Investment Valuation Committee Charter that is excellent.

### 3(D). Consideration and Incorporation of Future Cash Flow and Liquidity Needs

**Activities Completed:**

To assess the consideration and incorporation of future cash flow and liquidity, NEPC asked that the staff of ERS provide the most recent version of the IPS; the 2023 actuarial valuation report conducted by the System's Actuary, Gabriel Roeder Smith & Company (GRS); the 2022 asset-liability study conducted by GRS and NEPC; the 2018 funding policy; and the most recent liquidity study presented by Staff to the ERS Board in 2015.

**Standard of Comparison:**

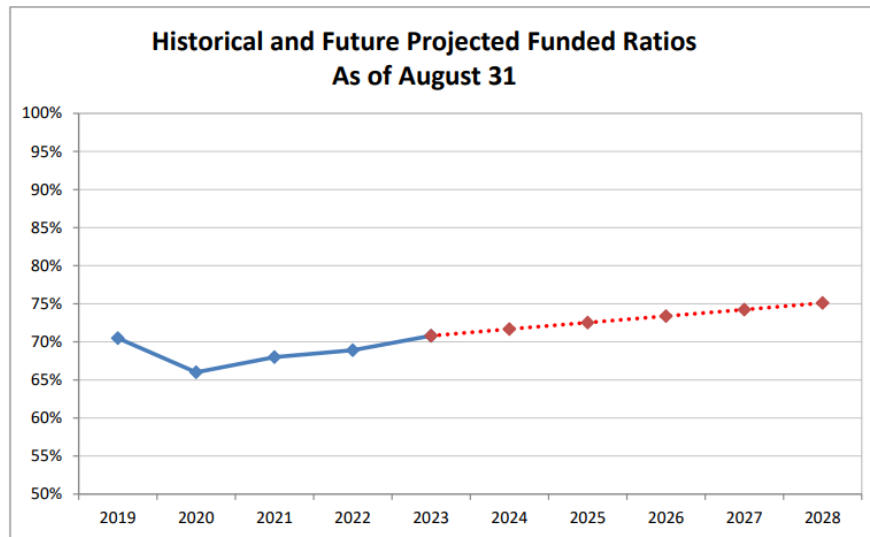
ERS’ asset allocation is a function of a mosaic of inputs, including, but not limited to, actuarial evaluations, risk tolerance, and liquidity needs. NEPC evaluated the policies that were made available by the 17 public funds ERS considers peers; however, unfortunately, not all the documents needed to make a fair comparison are publicly available. Policies around liquidity may be compared to peers and industry prevailing practice but is mainly rooted within the funding needs of the Plan.

However, we can speak to how the System is handling its future cash flow and liquidity needs versus our clients as we have a more holistic view of what is being done by them. As a result, we asked our Asset Allocation team who has the perspective of seeing what all our public fund clients are doing to address these issues and have actuarial backgrounds to speak to the processes and methodologies being used. Primarily, NEPC has observed the positive impact of the State’s commitment to pension funding in the 2023 legislative session. In particular: House Bill 1 Appropriations and Senate Bill 30 Supplemental Appropriations and impact on ERS’ Funding valuation results including: ERS’ \$900 million additional appropriation; LECOSRF valuation results given the \$772 million appropriation; employer contributions increasing from 0.50% to 1.75% of pay and JRS2 valuation results given a \$99 million appropriation and employer contributions increasing from 15.663% to 19.25% of pay.

**Findings:**

**Illustration 3.4**

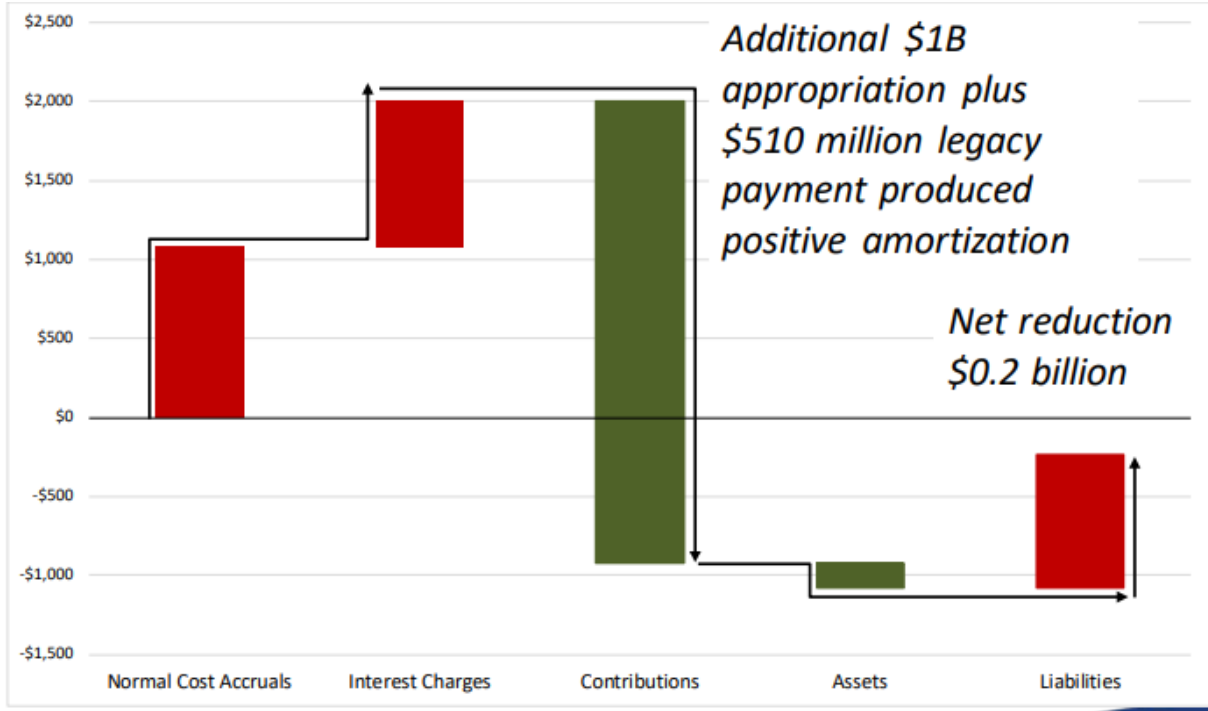
**GRS Table 1: Historical vs. Projected Funded Ratios and UAAL**



August 31,	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Funded Ratio	70.5%	66.0%	68.0%	68.9%	70.8%	71.7%	72.5%	73.4%	74.2%	75.1%
UAAL (in billions)	\$11.7	\$14.7	\$14.1	\$14.2	\$14.0	\$14.0	\$13.9	\$13.8	\$13.7	\$13.6

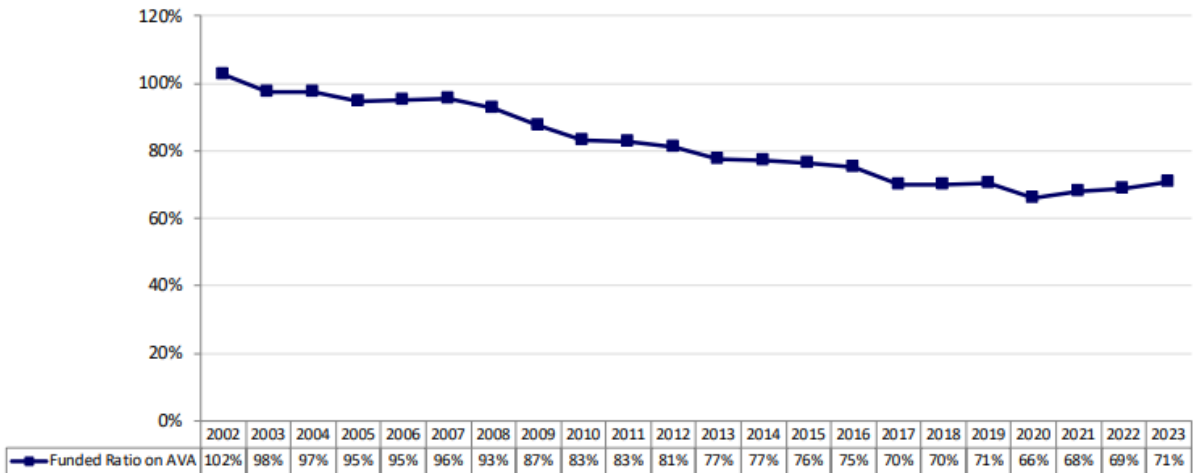
Source: Annual Actuarial Valuation – Funding As of August 31, 2023

**GRS Table 2: Change in UAAL Since Prior Valuation**



Source: Annual Actuarial Valuation – Funding As of August 31, 2023

**GRS Table 3: Funded Ratio History**



Source: Annual Actuarial Valuation – Funding As of August 31, 2023

**Recommendations:**

None.

## Section 4. Investment Manager Selection and Monitoring Process

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### **Activities Completed:**

To gain a complete overview of the Fund's Investment Manager Selection and Monitoring Process, NEPC reviewed the IPS along with the Investment Implementation Plan, as well as Guidelines and SOPs for specific asset classes.

### **Standard of Comparison:**

When reviewing ERS' investment manager selection process, NEPC analyzed the investment processes that are currently described in the Standard Operating Procedure documents of each of the asset classes and in the Investment Implementation Plan. NEPC was looking for processes that exhibited the following:

- A consistent and comprehensive process that members of the team are trained to follow which describes the steps for investment selection and monitoring
- Addresses ethics and conflicts of interest that may present themselves
- Detailed investment selection criteria that investment manager candidates must meet in order to be approved for funding
- A review of the contractual agreements conducted by legal experts
- An approval process where the investments are presented to a committee
- And a monitoring process that strives to hold investment managers accountable to the agreements they made with the Retirement System

NEPC reviewed the recommended resource provided by the Government Finance Officers' Association regarding "Selecting Third-Party Investment Professionals for Pension Fund Asset". While this resource was useful and comprehensive, NEPC recognizes that there is some understandable variability in investment manager selection and monitoring process between asset classes.

### **Findings:**

ERS' IPS states that the Board is responsible for making long-term asset allocation decisions and that ERS Staff is tasked with implementation through prudent and sound strategic decisions. For public asset classes, Staff may select "External Advisors" where discretion for management of assets is maintained by Staff or "External Managers" in private investments who have discretion over the management of assets invested in the private markets. For private asset classes, Staff will generally use External Managers who have full investment discretion with respect to buying, managing, and selling assets in accordance with limited partnership agreements or similar contracts that are considered securities under Texas Law. The IPS states that the Board should also make a good-faith effort to evaluate qualified emerging firms, defined as a fund manager with assets under management of under \$2 billion.

Staff is responsible for selecting investment managers with the Board providing an oversight role, supported by recommendations from Staff, independent external advisors that are appointed by the Board (Investment Advisory Committee) and consultants hired by the Board. The Board retains responsibility for approving alternative investments over 0.6% of the total market value of the Retirement System's assets as reported in the most recent ERS ACFR pursuant to Texas Government Code Section 815.3016.

The IPS describes the Board’s investment philosophy. This guides the Board’s asset allocation decisions as well as informs Staff as to the Board’s priorities when making investment recommendations. These philosophy statements place emphasis on making long-term asset allocation decisions that are geared towards meeting the Trusts’ liabilities by achieving its long-term return goals, balancing portfolio risk through diversification to construct a portfolio that is positioned for various economic conditions, and the management of costs. These philosophy statements are taken into consideration in the asset class program guidelines and asset class standard operating procedure (“SOP”) documents that were reviewed.

ERS’ Standard Operating Procedures (“SOP”) read clearly and explicitly regarding Asset Class procedures and Investment Operations procedures.

The Asset Class SOPs now mostly follow a uniform structure. Since 2019, there have been substantial improvements to the SOPs for Real Estate and for Public Equity. The more uniform structure across Standard Operating Procedures for all asset classes represents a significant improvement for readability and clarity. The Asset Class SOPs mostly follow the structure of Purpose, Program Overview, Procedures for Investment (including Capital Plan description, Investment Selection Process, Ongoing Due Diligence, and Co-Investments and Direct Investments Due Diligence (if applicable)), and Valuation. During the document review, one item was noted as being out of date; the Hedge Fund SOP details Operational Due Diligence being performed by the ERS Operations team, but this function was moved into a separate team.

Although there is significantly more uniformity and readability among Asset Class SOPs than noted in the 2020 IPPE review, there are naturally still several differences across asset classes. The Asset Class SOPs include a section detailing Diversification except for the Hedge Fund SOP. The Hedge Fund SOP contains an additional section regarding Initial Due Diligence/Sourcing, which goes into significant detail regarding the phases of diligence. The structure of the Public Real Estate SOP differs significantly as it separates out sections regarding Investment Process, Portfolio Construction and Performance Objective, and Trade Approval. Additionally, the Public Real Estate SOP outlines the Program Philosophy and Investment Philosophy and additionally has a section briefly detailing Proxy Voting.

NEPC had several observations for the Public Equity Team and the Public Equity SOP. ERS undertook a detailed project to overhaul the portfolio between external and internal managers with the goal to simplify and reduce the number of holdings. While this is detailed in the SOP and the proposal given to the board, one suggestion is to have the rationale and philosophy clearly articulated in the policy or SOP. It is a sound approach, but having the rationale clearly stated could be helpful for staff reference.

It may also be worth highlighting the implications of this reorganization. For example, it means that, in practice, there is an underweight to small cap because the Lone Star Fund by nature has a large cap tilt. NEPC thinks this is a reasonable, thoughtful approach, but having these tilts clearly explained would be useful for the Board and stakeholders. A similar philosophical point worth documenting is that the Public Equity Team wants stock selection to drive performance versus getting allocation tilts correct.

The Public Equity Team’s approach to research is holistic. Current SOP highlights HOLT in their process, but it is worth updating the SOP to say that this is one framework and not the only

framework used, and that the main objective is to find companies and stocks that are in line with ROE expectations.

NEPC repeats its observation from the 2020 IPPE report that the Trust would benefit from seeking to have flexibility to deviate from current state procurement regulations that are broadly applied to hiring all vendor contracts. Circumstances can change quickly in the economy and investment markets. In that dynamic environment, it is important to have the flexibility to act quickly on opportunistic hires of new strategies and replacement of struggling investments. The issuance of a formal RFP is mandated by Title 10, Subtitle D of the Texas Government Code.

But the current RFP process can take up to a year to complete, during which time the investment opportunity that was identified may no longer be available. In addition, pursuant to ERS's Sunset Review and under state procurement guidance (see the Procurement and Contract Management Guide), contracts should be periodically resolicited, regardless of the performance of the investment manager under the current relationship. Ideally, these contracts would be evergreen and only resolicited for poor performance, which would be evaluated regularly by Staff.

There may be advantages to seeking procurement flexibility to the extent consistent with Texas Government Code Section 815.106.

At a high level, it is up to Staff to identify investment opportunities and investment managers that will fit within the ERS portfolio by providing appropriate diversification while generating a reasonable risk-adjusted return. Thus, if multiple investment managers are being considered, Staff is responsible for choosing the manager that is most aligned with the Retirement System's investment philosophy. Similarly, Staff may determine that an investment manager is no longer aligned with the Retirement System's investment philosophy or is no longer providing the kind of returns or diversification that was intended, thus causing Staff to replace that manager.

The IPS states that Staff and the General Plan Investment Consultant will "monitor the performance of each investment strategy quarterly, while retaining a long-term focus." The IPS lists several factors that Staff should look out for as being possible triggers for recommending termination. These include but are not limited to:

- a) Substantial changes in assets under management (external advisors);
- b) Material changes to policy and objectives as previously approved by the Board;
- c) Performance relative to assumed risk (benchmark comparison over five years);
- d) Investment holdings consistent with style;
- e) Stability of the organization and personnel turnover; and
- f) Performance relative to peer group over three years.

Regarding the monitoring of managers, it was noted during NEPC interviews with Staff that there may be a tendency to let poorly performing managers run. There appears to be a need for a more rigorous manager monitoring process.

Performance is monitored on an ongoing basis at the asset class level and at the Trust level. It is reviewed through regularly scheduled meetings of Investment Staff, Investment Directors and the Risk Committee. It is reported to the Board monthly and quarterly through reporting and Board Meeting presentations.

According to the IPS, primary responsibility for monitoring investment performance falls on Staff. Staff is tasked with reporting performance of individual and overall fund performance to the Board

in monthly and quarterly performance reports and Board Meeting presentations. The IPS further states that Staff must provide a performance evaluation on a quarterly basis where rates of return are compared with

- a) The risk and return of an appropriate market index
- b) The return of an appropriate style benchmark, where applicable; and
- c) The returns of a universe of comparable investment strategies.

The Trust's performance is calculated by the General Plan Consultant, and Staff is tasked with providing a summary explaining the Trust's performance in the context of the financial market developments over the periods considered. Performance is measured against the benchmarks that are listed in the IPS in Table 4. Each asset class director monitors performance in relation to their respective benchmarks in collaboration with the CIO. The custodian also calculates investment performance and benchmark comparisons. The following benchmarks are listed in Table 4 of the IPS:

**Illustration 4.1**  
**ERS Asset Class Benchmarks**

<b>Asset Class</b>	<b>Benchmark</b>
<b>Public Equity</b>	MSCI ACWI IMI with USA Gross Total Return index (M1WDW\$GI)
<b>Private Equity</b>	Median of Wilshire Associates Trust Universe Comparison Service's (TUCS) Total Private Equity Return of Master Trusts for Public Plans > \$5 Billion
<b>Public Credit</b>	Bloomberg US High Yield 2% Issuer Capped Cash Pay Total Return Index (LF89TRUU)
<b>Private Credit</b>	S&P/LSTA Leveraged Loan Total Return Index (SPBDAL) + 150 bps
<b>Public Real Estate</b>	FTSE EPRA/NAREIT Developed Total Return Tax Adjusted Valuation Index (TGPGHM4U)
<b>Private Real Estate</b>	NCREIF Fund Index – Open End Diversified Core Equity (NPPIODCE)
<b>Private Infrastructure</b>	US CPI Urban Consumers NSA Index (CPURNSA) + 400 bps
<b>Rates</b>	Bloomberg US Intermediate Treasury Total Return Index (LT08TRUU)
<b>Hedge Funds/Absolute Return</b>	ICE BofA U.S. 3-Month Treasury Bill Index (G001) + 350 bps
<b>Cash</b>	ICE BofA U.S. 3-Month Treasury Bill Index (G001)

Monthly and Quarterly Investment Reports are provided to Board Members for their review. These reports have narrative and graphic elements. There are also quarterly Board meetings and presentations from the CIO and General consultant. Gross and Net of fee performance is provided monthly in the monthly Investment Summary reports provided to the Board.



**OTHER OPERATIONAL AND ADMINISTRATIVE ISSUES IMPACTING PORTFOLIO MANAGEMENT:**  
During interviews and follow-up phone calls, several administrative issues were mentioned as hindering the efficiency of some investment functions.

The issue of recruiting and retaining investment staff was identified as perhaps the single most important constraint, going forward. In the past, ERS has been able to recruit highly qualified professionals from the private sector because they were attracted to the perceived advantages in lifestyle and cost of living in Austin, Texas. These advantages have faded as housing costs have risen dramatically over the last decade and remote work options have proliferated.

Several asset class directors mentioned they have lost key personnel or been unable to fill needed positions in the last two years. The need for a better compensation package was mentioned multiple times. ERS has the challenge of recruiting in an environment where private sector investment positions generally carry higher compensation packages and some larger public pension plans are perceived to offer an incentive compensation plan (ICP) that is more competitive than the legacy ERS ICP program. To its credit, ERS Board approved Staff's recommendation of a much more competitive ICP in September 2023. Additionally, in line with a legislative pay increase for state employees, ERS increased agency salaries by 5% in July 2023 and will consider a second 5% increase in September 2024.

Another administrative topic that was shared in several Staff interviews centered on technology and travel policies that distract attention from necessary due diligence visits with asset managers. Difficulty with network IT connectivity from the road was cited as a hindrance to efficiency. Travel per diems and insufficient flexibility of travel policies were also mentioned as problems for staff with heavy travel responsibilities.

**Recommendations:**

To the extent permitted under Texas Law, ERS should seek procurement flexibility to allow for additional operational flexibility when there is a need to quickly replace a struggling investment manager or take prompt advantage of an opportunistic investment.

NEPC recommends regular review of asset class benchmarks. This is particularly important for asset classes like private markets and hedge funds that, by their nature, do not have benchmarks that meet the investable and reflective characteristics of CFA Institute's SAMURAI model. For these asset classes, there is no perfect benchmark. Therefore, it is reasonable to periodically assess the appropriateness of other existing benchmark options in wide use by peer institutions and to evaluate new benchmarks that are being developed.

ERS should consider establishing a more rigorous manager monitoring process. The purpose is to guard against holding on to poorly performing strategies longer than necessary when performance has been a struggle. An example of best practice would be to codify a policy that strategies trailing their benchmarks over a rolling three-year period will be assessed to see if the original thesis for hiring the manager still holds. One tool that is often used in this process is factor analysis to test for whether the strategy has undergone style drift. Another tool is to use a realized alpha analysis. This should not be the only tool used since more than seven years of data is required to show statistical significance, but it can be a useful supplement to the rolling three-year factor analysis.

ERS Texas should continue to develop innovative policies focused on recruiting, compensation, and career development to secure and retain investment talent. The ability to hire, retain and offer

competitive compensation to investment professionals is a key requirement for achieving the Trust's investment objectives with optimal efficiency.

## Section 5. Review of the Appropriateness of Fees and Commissions Paid

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### **Activities Completed:**

NEPC reviewed the following documents:

- Investment Policy Statement
- Investment Operations Standard Operating Procedures:
  - Externally Advised Manager Fees
  - Private Markets Management Fee Reconciliation
- ERS Office of General Counsel: Procedures Related to Private Fund Investments
- Annual Comprehensive Financial Report (ACFR)
- Investment due diligence memos
- Asset Class Guidelines and Standards of Practice documents
- Externally Advised Manager Fee calculation document
- Manager Fee Policy
- Investment Program Annual Review: Public Equity, Credit, Hedge Funds, Private Equity, Treasury and Trading, Real Assets
- Staff broker vote document
- Brokerage Commissions presentation
- Coalition Greenwich 2022 Global Equity Commission Rate Analytics
- ERS Fixed Income Broker Trading Analysis - BVAL

### **Standard of Comparison:**

NEPC compared the Plan's investment policies, SOPs and legal procedures to the policies of peers (peers are defined by the list of Plans provided by the ERS Staff). Externally managed advisor fees and private market fees were compared to industry averages using ubiquitously known vendors who specialize in aggregating fee data across public and private markets. Investment fees and commissions paid were sourced directly from the ACFR. NEPC compared the securities brokerage language within ERS' policies, guidelines and internal broker/dealer evaluation documents and compared them to peers and industry prevailing practice.

### **Findings:**

#### *Investment Fees*

The direct and indirect fees and commissions paid by the System include fees that are paid by the System and fees that are netted against returns. The System pays management fees, performance/carried interest, and brokerage fees. Additionally, the System pays custodian fees, security lending agent fees, investment consultant fees, internal staff salaries and investment banking fees.

ERS provided a SOP document addressing the reconciliation of management fees (direct fees) for private market funds as well as one addressing the calculation of management fees due to external advisors for public equity. The Investment Operations Team is responsible for executing the procedures described in these documents on a quarterly or monthly basis. The stated purpose of conducting these procedures is to mitigate the risk of overpaying management fees and the risk of a variance of management fee details and not reconciling with the Custodian book of record.

The ACFR discloses fees for externally advised portfolios in addition to all expenses related to investment related activities. Fees are summarized and compared in the chart below. The comparison is subject to several important biases including investment strategy bias (the extent to

which the System’s strategies are different than the universe data) and scale bias (the extent to which an investor may be able to negotiate fees based their size) however, we believe that in aggregate, the universe data is sufficiently robust and provides an appropriate comparison. Given the data in Illustration 5.1, below, we conclude that the System has the ability to access complex asset classes that are expected to outperform on a forward-looking basis at attractive investment management fee structures. This is a function of scale, investment program structure, investment process/ governance and strong oversight by Staff and consultants.

**Illustration 5.1**  
**ERS Manager Fees in Context of Universe Data**

Asset Class	Asset Value (\$)	Management Fees (\$)	Management Fees (%)	Median Universe Management Fee	Median Universe Carried Interest	Universe	Number of Observations
Private Equity	6,489,096,639	25,804,985	0.40%	2.00%	20.00%	Preqin Global Private Equity	1,965
Private Real Estate	3,692,468,016	27,258,647	0.74%	1.50%	20.00%	Preqin Global Real Estate	513
Private Infrastructure	1,827,919,176	14,680,130	0.80%	1.50%	20.00%	Preqin Global Infrastructure	79
Private Fixed Income	1,036,539,271	3,612,993	0.35%	1.50%	20.00%	Pitchbook	966
Hedge Funds	2,388,639,686	16,407,019	0.69%	1.28%	17.00%	JP Morgan	781
Public Equity (within Alternatives)	679,878,983	198,906	0.03%	0.56%	--	eVestment All Global Equity	1,084
Domestic Equity	363,864,873	934,648	0.26%	0.54%	--	eVestment All US Equity	2,626
International Equity	1,647,070,295	12,625,982	0.77%	0.58%	--	eVestment Non-US Diversified Equity	683

Source: ERS Texas 2022 ACFR, NEPC calculations

Citing Schedule 4 on page 90-to-91 of the ERS 2022 ACFR, we find that the itemization of fees related to administrative and investment expenses is thorough and within prevailing industry standard. This list includes expenses for Personnel Services, Professional Services, Materials and Supplies, Communications and Utilities, Maintenance and Other Operating Service Charges. Since the System manages a significant portion of its investments internally, it is important to note that compensation of investment staff is not included in the total. As compared to plans of similar size and investment programs, the expenses are reasonable and represent a significant cost savings when considering asset size and prevailing investment management fees that external investment managers may charge.

*Commissions*

Securities brokerage commissions are charged by brokers to execute trades within internally and externally managed portions of the Global Public Equity, Public REIT and Public Credit portfolios. The IPS states that Staff should allocate trades to broker/dealers based on their relative ability to add value to the Trust through:

- A. Products or services of benefit to the investment program such as research products or portfolio analytics that are used in ERS’ investment decision-making process;
- B. Trade execution;
- C. Or a commission sharing agreement.

The IPS states further that trades allocated to specific brokers for execution purposes must be executed at discounted commission rates. The policy outlines minimum qualifications for

broker/dealers thereby setting the bar unto which staff must evaluate broker/dealer relationships. Staff monitors broker/dealers through an extensive process wherein domestic and international brokers are evaluated based on 10 categories of performance including staff time spent analyzing the broker/dealer and broker/dealer market share. NEPC believes that a prevailing industry practice has moved to dis-aggregate the evaluation of broker/dealers based on trade execution and research capability. In the past decade, we have seen best-in-breed investment managers focus on trade execution and engage investment research resources separately. This practice may better align with investment outcomes and may allow the system to more thoroughly, directly and transparently value the research for which it pays. We also believe that securities brokerage skill should be measured through an evaluation of trade execution standards and commission costs not solely commission costs as presented in the commission presentation. We note that best execution is intrinsically tied to portfolio decision value and cannot be evaluated independently.

NEPC did find peers within the System's universe whose securities brokerage policy does not allow for research related activities to be contemplated as part of a best execution securities brokerage model. ERS does have a policy around directed brokerage that is well written. Again, it is believed that broker/dealers should be evaluated based on their ability to execute trades efficiently and add value against the trading strategy that is employed.

The IPS was enhanced to specify that fees are monitored and/or reported to the Board. This responsibility is defined in ERS' investment policies. ERS' fees are clearly reported in the ACFR. The preparation of this section of the ACFR is ERS' Finance department.

Fees charged to the System are reported annually in the ACFR and should encompass all forms of manager compensation. According to the policies and procedures provided, fees are checked for reasonableness monthly for external advisors for public equity, and on a quarterly basis for private markets. This is done by reconciling the reported and paid management fees provided by the General Partner quarterly in account statements to the fee calculated internally by ERS Staff based on the LP Agreement or other similar agreement with the External Advisor. The Investment Operations Team requests the Asset Class Team follow up with General Partners when there are differences greater than  $\pm 10\%$  for an explanation of the differences. This  $\pm 10\%$  check is an appropriate reasonableness check.

**Recommendations:**

ERS should periodically re-evaluate the most useful fee benchmarks and universes of manager data when reporting on manager fees.

ERS should also periodically re-evaluate the current practice of bundling the cost of research with total trade costs. NEPC acknowledges that ERS considered this same recommendation in the 2020 IPPE report and decided not to make a change because the current practice is best suited for the Trust. While permissible in the current regulatory environment, a growing number of Public Funds no longer use a soft dollar program. Instead, many have unbundled from the payment for research from trade execution. We acknowledge that ERS has an understandably larger appetite for research than most public funds given the Trust's larger percentage of assets under internal active management in comparison with peers. Paying for research directly can be a challenge in an unbundled environment.

## Section 6. Progress on Recommendations from 2020 IPPE Report

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For context, we have included a summary of recommendations from the ERS Texas 2020 IPPE Report. We also include actions and considerations made by ERS Texas on those recommendations. ERS Texas made significant improvements in creating a comprehensive policy framework that includes a well-written IPS and an Investment Implementation Plan that ties together standardization of SOPs and Asset Class Guidelines. Policies and decision ownership are now much clearer.

### **Review of Findings from 2020 IPPE Report:**

NEPC finds ERS' policies, procedures, and practices to be appropriate, adequate, and effective when compared to industry prevailing practice. NEPC did identify several areas that ERS and its stakeholders may want to consider for improvement.

### **Critical Recommendation:**

- 1) ERS and the plan sponsor should develop a comprehensive plan to mitigate the consistent negative cash flow impact to the Trust resulting from underfunding of the Actuarially Determined Contribution from the Plan Sponsor to ERS. This recommendation is central to the future health of the Retirement System and its ability to pre-fund benefits.

The Texas Legislature passed significant legislation in 2021 and 2023 to increase Plan Sponsor contributions and put the Trust on track to eliminate its Unfunded Actuarial Accrued Liability (UAAL) by 2054. Quoting the Actuarial Valuation Report as of August 31, 2023, prepared by GRS, "Senate Bill 321, enacted during the 2021 Regular Legislative Session, introduced a new level dollar contribution structure in Texas Government Code Section 815.407, called Legacy Payments. These amounts are budgeted for each biennium to fully amortize the Unfunded Actuarial Accrued Liability (UAAL) as required before the end of fiscal year 2054. The 2023 Legislature appropriated \$510 million per year for fiscal years 2024 and 2025. We recommended a continued appropriation of \$510 million which is still expected to eliminate the UAAL before the end of fiscal year 2054. The target date of 2054 produces an amortization period of 31 years as of this 2023 valuation."

### **Non-Critical Recommendations:**

- 2) ERS should conduct an informal annual review of capital market assumptions as currently required by statute.

ERS Texas has established annual reviews of capital market assumptions.

- 3) To the extent permitted under Texas Law, ERS should seek statutory procurement exemptions similar to those applicable to other large public funds among the peer group to allow ERS additional operational flexibility when there is a need to quickly replace a struggling investment manager or take prompt advantage of an opportunistic investment.

NEPC recommended reviewing whether the current RFP process for public equity investment managers has caused ERS to miss investment opportunities and to measure

missed investment returns. This recommendation is tied to the observation that Procurement constraints may hamper ERS' operational flexibility. Conversations with Staff indicate that the RFP process for Public Equity external advisors is lengthy due to the universe of respondents to the RFPs issued by ERS, and can cause ERS to miss out on specific investment strategies as they can mature in the time it takes. Staff highlights that investment managers in private asset classes are not required to go through a similar process because they are considered to be an investment in securities under the law, as opposed to being a contract for goods and services when contracting. Changes to allow for a more informal process could lead to nimbler investment strategy implementation. NEPC recommends that Staff analyze past RFP searches for investment managers for newly identified investment strategies and measure lost returns to the Retirement System from the beginning of the RFP process to eventual funding of an investment strategy.

- 4) ERS should establish a more formal process of projecting and reporting on liquidity risk. This process should be a collaboration between the Director of Fixed Income and the Risk Committee. This process should monitor liquidity risk using scenario stress testing. A well-defined process and procedure should be in place and memorialized within guideline or policy documentation.

This has been cited as a priority, but progress has been slow in building more robust stress-testing models for regular reporting on liquidity. Staff indicates this will be addressed when an anticipated new hire on the Risk Team comes on board.

- 5) Future trade cost analyses should include fees, estimated impact and other implicit costs of trading, as well as the current tracking of explicit commission costs. This more granular review of trade costs will require that the Trust maintain a database of time-stamped trade information that can be readily accessed by a third-party firm engaged to produce future trade cost analysis against an appropriate benchmark. A summary of the trade cost analysis should be reported to the Board at least every three years.

ERS Texas compares its trade cost data against that of other institutional investors. An example was the Public Equity Team's use of 2022 Global Equity Commission Rate Analytics published by Coalition Greenwich. NEPC's recommendation was to also share estimated impact and implicit trade costs in addition to explicit commission data.

- 6) ERS should review the current practice of bundling the cost of research with total trade costs. While permissible in the current regulatory environment, a growing number of Public Funds no longer use a soft dollar program. Instead, many have unbundled from the payment for research from trade execution. We acknowledge that ERS has an understandably larger appetite for research given the Trust's larger percentage of assets under internal active management in comparison with peers.

NEPC acknowledges that ERS considered this recommendation, but Staff strongly believes the current practice of soft dollar payment for research is best suited for the Trust.

- 7) In its next annual review of the Investment Policy Statement (IPS), ERS should make revisions to improve clarity, efficiency and accountability within the document.

ERS Texas amended its IPS several times since 2020, resulting in a much better policy document. The most recent revision, in September 2023, brought clarity to many elements of the 2020 IPS that were unclear or silent. Creation of the Investment Valuation Committee Charter, the Investment Stewardship Committee Charter and the Investment Implementation Plan were also welcome additions in governance documentation.

- 8) ERS should compare Standard Operating Procedures (SOPs) across asset classes and create a standard format that is more consistent. While some policies and procedures will necessarily be unique to each asset class, there is a wider than expected variance in detail and clarity among the asset class SOPs.

ERS has achieved broad standardization across the asset class SOPs since 2020.



## **Section 7. Qualifications of NEPC to Prepare IPPE Report**

Texas Government Code §802.109 stipulates that “a public retirement system shall select an independent firm with substantial experience in evaluating investment practices and performance to evaluate the appropriateness, adequacy, and effectiveness of the retirement system’s investment practices and performance and to make recommendations for improving the retirement system’s investment policies, procedures and practices.” Each evaluation must include the elements, below, which are confirmed by NEPC.

(1) A summary of the independent firm’s experience in evaluating institutional investment practices and performance and a statement that the firm...meets the experience required.

NEPC, LLC has been providing investment consulting services since 1986. As of October 1, 2023, NEPC advises 420 retainer clients with \$1.6 trillion in assets, including 71 public fund clients with \$775 billion in assets. Our services for many of these clients include evaluation of investment practices and performance. We assess our clients’ progress against their own unique goals and objectives as well as versus peer group results across multiple metrics.

Our specific experience in the type of evaluation codified in Texas Government Code §802.109 includes preparation of IPPE reports in 2020 for ERS Texas and for San Antonio Fire & Police Pension Fund.

(2) A statement indicating the nature of any existing relationship between the independent firm and the public retirement system and confirming that the firm and any related entity are not involved in directly or indirectly managing the investments of the system.

ERS Texas engaged NEPC as General Investment Consultant in January 2019. NEPC is not involved, either directly or indirectly, in managing the investments of ERS Texas.

(3) A list of the types of remuneration received by the independent firm from sources other than the public retirement system for services provided to the system.

NEPC receives no remuneration from sources other than ERS Texas for services provided to the Trust.

(4) A statement identifying any potential conflict of interest or any appearance of a conflict of interest that could impact the analysis included in the evaluation due to an existing relationship...”

There are no conflicts of interest or an appearance of a conflict of interest impacting the analysis included in the evaluation. NEPC takes pride in our 38-year record of providing independent, objective analysis to our clients.

NEPC assembled the following team of 10 investment professionals who assisted in preparing this IPPE report.

**Sam Austin** – Partner, Public Fund Team, Lead Consultant for ERS Texas

**Rose Dean** – Partner, Public Fund Team

**Michael Malchenko** – Consultant, Public Fund Team, Secondary Consultant for ERS Texas

**Thao Nguyen** – Senior Consulting Specialist, Public Fund Team

**Leah Tongco** – Consulting Analyst, Public Fund Team  
**Tim Bruce** – Partner and Director of Portfolio Construction  
**Judy Murphy** – Partner and Head of Human Resources  
**Neil Sheth** – Partner and Head of Global Research  
**Kevin Lau-Hansen** – Head of Operational Diligence Team  
**Charlie Tilden** – Senior Investment Analyst, Operational Diligence Team

## Appendix A

### NEPC Overview

#### Company Overview

NEPC has been providing investment consulting services since 1986. We are one of the largest independent investment consulting firms in the industry. As of October 1, 2023, we advise 420 retainer clients with \$1.6 trillion in assets. Today, the firm has formal offices in Atlanta, Boston, Charlotte, Chicago, Las Vegas, Portland and San Francisco. Our growth is attributed to the high quality results our clients have achieved and our high service model. We have a dedicated public fund team that advises 71 public funds representing \$775 billion in assets. NEPC is a Limited Liability Company (LLC).

NEPC receives 100% of its revenue exclusively from providing advisory consulting and discretionary investment services to our clients. NEPC does not have any conflicts of interest with ERS and does not, directly or indirectly, manage assets or select managers for ERS.

Since inception in 1986, NEPC has been 100% employee-owned and is therefore neither an affiliate nor a subsidiary of any organization. NEPC's equity plan is designed to ensure the continued stability of our professional staff by allowing future employees to share in the profits of the company and in the long-term appreciation of its equity. As of January 1, 2024, ownership is shared among 51 Partners; and no single Partner owns more than 6% of the firm. Individual ownership percentages are not disclosed.

#### Ownership of NEPC, LLC

Name of NEPC, LLC Owner	Owner Since
Richard Charlton, Chairman Emeritus	1986
Michael Manning, CFA, CAIA, Managing Partner	1998
Samuel Austin, III, Partner	2017
Josh Beers, Partner, Head of Private Equity Investments	2023
Margaret Belmondo, Partner, Public Fund Team Leader	2021
Ross Bremen, CFA, Partner	2008
Tim Bruce, Partner, Head of Portfolio Construction	2014
Mike Cairns, CEBS, Partner	2011
Richard Ciccione, Partner	2024
Steve Charlton, CFA, Head of Client Solutions	2001
KC Connors, CFA, CAIA, Partner, Chief Consulting Officer	2010
Rose Dean, CFA, Partner	2024
Brian Donoghue, Partner, Sr. Director of Portfolio Strategy	2013
Chenae Edwards, CPA, Partner	2021
John Elliot, Partner, Taft-Hartley Team Leader	2006
Oliver Fadly, Partner, Head of Private Debt Investments	2024
Will Forde, CFA, CAIA, Partner, Head of Marketable Equity	2022
Sebastian Grzejka, CAIA, Partner	2023
Kristi Hanson, CFA, Partner	2017
Karen Harding, CFA, Partner, Private Wealth Team Leader	2017
Rhett Humphreys, CFA, Partner	2006
Kellie Kane, Chief Operating Officer	2022

Name of NEPC, LLC Owner	Owner Since
Chris Klapinsky, CFA, Partner, Sr. Director of Portfolio Strategy	2008
Kevin Leonard, Partner, Practice Group Director	2011
Tim McCusker, CAIA, CFA, FSA, Chief Investment Officer	2011
David Moore, Partner, Healthcare Team Leader	2010
Doug Moseley, Partner	2007
Judy Murphy, SPHR, Partner, Chief Human Resources Officer	2021
Joe Nankof, ASA, Partner	2024
Phillip Nelson, CFA, Partner, Head of Asset Allocation	2018
Dulari Pancholi, CFA, CAIA, Partner, Head of Credit & Multi-Asset Investments	2023
Kristine Pelletier, Partner, Endowment and Foundation Team Leader	2019
Scott Perry, CAIA, Partner, Head of Portfolio Strategy	2012
Samuel Pollack, CAIA, Partner	2020
Kelly Regan, Partner	2023
James Reichert, CFA, Partner, Sr. Director of Portfolio Strategy	2013
Kristin Reynolds, CFA, CAIA, Partner, Practice Group Director	2012
Matt Ritter, CAIA, Partner, Head of Real Assets Investments	2023
Deirdre Robert, CFA, CAIA, Partner	2024
Brian Roberts, CAIA, Partner, Corporate Team Leader	2018
Jay Roney, CTP, Partner	2007
Dan Runnals, CFA, CAIA, Partner	2024
Bill Ryan, CAIA, SPHR, Partner, Head of DC Solutions	2021
Sarah Samuels, CFA, CAIA, Partner, Head of Investment Strategy Selection	2019
Neil Sheth, Partner, Head of Global Research	2012
Brad Smith, CFA, CEBS, Partner	2012
Carolyn Smith, Partner	2008
Michael Sullivan, Partner	2017
Craig Svendsen, CFA, Partner, Practice Group Director	2009
Elton Thomaj, CAIA, Partner	2023
Gary Wyniemko, CFA, Partner	2020

## **Appendix B**

### **Institutional Investors ERS Texas Considers as Peers**

- CalPERS website:  
<https://www.calpers.ca.gov/>
- CalSTRS website:  
<https://www.calstrs.com/>
- Colorado PERA website:  
<https://www.copera.org/>
- State Board of Administration of Florida:  
<https://www.sbafla.com/fsb>
- Indiana Public Retirement System  
[https://www.in.gov/inprs/board\\_of\\_trustees.htm](https://www.in.gov/inprs/board_of_trustees.htm)
- Massachusetts Pension Reserves Investment Management Board  
<http://www.mapension.com/about-prim/>
- Ohio Public Employees Retirement System  
<https://www.opers.org/>
- State Teachers Retirement System of Ohio  
<https://www.strsoh.org/>
- Oregon Public Employees Retirement Fund  
<https://www.oregon.gov/PERS/>
- Tennessee Consolidated Retirement System  
<https://treasury.tn.gov/Retirement/>
- Texas County & District Retirement System  
<https://www.tcdrs.org/about-us/>
- Texas Municipal Retirement System  
<https://www.tmr.com/overview>
- Texas Permanent School Fund  
<https://texaspsf.org/>
- Teacher Retirement System of Texas  
<https://www.trstexas.gov/>
- Texas Treasury Safekeeping Trust Company  
<https://ttstc.org/>

- Utah Retirement Systems  
<https://www.urs.org/>
- Washington State Investment Board  
<https://www.sib.wa.gov/>