

June 2022 Board Meeting

Schedule

Thursday, June 23, 2022 10:00 AM — 2:00 PM CDT


Organizer

Sarah McCleary

Agenda


1. Call meeting to order

Presented by Chris Noak, Chair

 [Item #1 Summary.docx](#)


2. Call roll of Trustees

Presented by Chris Noak, Chair

 [Item #2 Summary.docx](#)


3. Review order of business and establish meeting objectives

Presented by Chris Noak, Chair

 [Item #3 Summary.docx](#)

4. Receive System member and public comments

Presented by Chris Noak, Chair

 [Item #4 Summary.docx](#)

5. Consent items

All of the following items may be acted upon by one motion. No separate discussion or action on any of the items is necessary unless desired by a Trustee.

A. March 31, 2022 Board meeting minutes

B. Ratification of March, April, and May 2022 retirements

C. Ratification, confirmation, and approval of Benefits and Services Committee recommendation on Disability Application #2201

D. Appointment of Nominating and Election Committee for 2022

Presented by Chris Noak, Chair

 [Item #5 Summary.docx](#)

 [05A 2022 03 31 Board Minutes.docx](#)

 [05B New Retirements March-May 2022 Confidential.pdf](#)



 [05C Disability recommendation.pdf](#)

 [05D 2022 Place 11 Nominating & Election Committee.pdf](#)

6. Receive reports on the following Board administrative matters including:




- A. Ethics policy disclosure statements
- B. 2022 meeting calendar
- C. May 20, 2022 Investment Committee meeting
- D. June 2, 2022 Governance and HR Committee meeting
- E. June 2, 2022 Benefits and Services Committee meeting
- F. June 2, 2022 Audit and Risk Committee meeting

Presented by Chris Noak, Chair

-  Item #6 Summary.docx
-  06A Quarterly form.pdf
-  06B Calendar.docx
-  06C Investment Committee Report .docx
-  06D Governance and HR Committee Report.docx
-  06E Benefits and Services Committee Report.docx
-  06F Audit and Risk Committee Report.docx









7. Discuss and consider System long-term sustainability including COAERS and City of Austin Working Group recommendations





Presented by Christopher Hanson

-  Item #7 Summary.docx
-  07 COAERS Long-Term Plan Sustainability.pptx
-  07 Working Group Recommendations.docx

8. Investment Committee:





- A. Discuss and consider Premier List for Fixed Income and Cash & Equivalents including funding implementation plan
- B. Discuss and consider Amendment #3 to the Service Agreement between RVK and COAERS and amendment to the 2022 Investment Budget
- C. Discuss results of the investment beliefs survey

-  08A Summary.docx
-  08A1 \$ Confidential Annual Review of Cash & Equivalents Portfolio.pptx
-  08A2 \$ Confidential Annual Review of Fixed Income Portfolio.pptx
-  08A3 \$\$\$ Confidential Proposed Premier List 2022-Q1.pdf
-  08A4 \$\$\$ Confidential Proposed Funding Implementation Plan.docx
-  08B Item Summary.docx
-  08B1 Staff Review of Investment Consultant Services.docx
-  08B2 Proposed RVK Retainer Agreement Amendment 3.docx

-  08B3 Proposed Update to IC 2022 Budget.pdf
 -  08C Item Summary.docx
 -  08C1 Refreshing the System's Investment Beliefs.pptx
 -  08C2 Investment Beliefs Survey Results.pdf
-






9. Discuss and consider Board Resolution 2022-0623

Presented by Christopher Hanson

-  Item #9 Summary.docx
 -  09A Resolution.Designate.Authorized.Persons.docx
 -  09B Resolution Signatory Page for 2022.docx
 -  09C Resolution 2022-0131.pdf
-




10. Governance Committee:

- A. Discuss and consider Election Policy
- B. Discuss and consider Emergency Succession Policy

-  Item #10A Summary.docx
 -  10A1 Draft Election Policy with comments.pdf
 -  Item #10B Summary.docx
 -  10B1 Draft Emergency Succession Policy.docx
 -  10B2 Emergency Succession Policy.pdf
-

11. Discuss and consider acceptance of the financial statement audit report as of December 31, 2021

Presented by Bhakti Patel, CLA

-  Item #11 Summary.docx
 -  2021 Signed Independent Auditors' Report .pdf
 -  2021 COAERS ACFR Financial Section.pdf
-

12. Facility options




- A. Convene into executive session pursuant to 551.072, Texas Government Code to deliberate the purchase, exchange, lease, or value of real property
- B. Reconvene into public session and take action as determined appropriate by the Board regarding the purchase, exchange, lease, or value of real property

Presented by Christopher Hanson

-  Item #12 Summary.docx
-

13. Discuss and consider performance for the Executive Director
- A. Convene into executive session pursuant to Tex. Government Code 551.074 to deliberate the evaluation, employment, and/or duties of the Executive Director
 - B. Reconvene into public session and take action, if any, as determined appropriate




Presented by Chris Noak, Chair

-  Item #13 Summary.docx
 -  13A ED Performance Appraisal Tool 2022.docx
 -  13B 2022 ED Professional Goals and Professional Development Objectives.docx
-

14. Review and discuss the Executive Director's report on the following matters:





- A. Operational matters including staffing and facilities
- B. Review of Member Meeting
- C. Update on October Board Workshop
- D. MET report and upcoming educational programs and conferences

Presented by Christopher Hanson

-  Item #14 Summary.docx
 -  14D1 COAERS 2022 MET Report.docx
 -  14D2 List of Upcoming Educational Events and Conferences.docx
-

15. Receive presentation on Fixed Income asset class and diversification of the Strategic Asset Allocation

Presented by David Stafford and RVK

-  15A Item Summary.docx
 -  15B RVK Fixed Income Education.pptx
 -  15C Assessing the Diversification Benefits of Fixed Income .pptx
 -  15D Evaluation Form.docx
-

16. Review key meeting takeaways and call for future agenda items

Presented by Chris Noak, Chair

-  Item #16 Summary.docx
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1. Call meeting to order

Presented by Chris Noak, Chair

AGENDA ITEM 1:
Call meeting to order

AGENDA ITEM OBJECTIVE

The objective of the agenda item is to formally begin the Board meeting. This is a standing Board item.

2. Call roll of Trustees

Presented by Chris Noak, Chair

AGENDA ITEM 2:
Call roll of Trustees

AGENDA ITEM OBJECTIVE

The objective of the agenda item is to determine for the record which Trustees are present at the start of the meeting.

Each Trustee should respond to the roll call, and it will be noted which Trustees are present in person and which Trustees have joined via video conference.

3. Review order of business and establish meeting objectives

Presented by Chris Noak, Chair

AGENDA ITEM 3:
Review order of business and meeting objectives

AGENDA ITEM OBJECTIVE

This agenda item provides Trustees the opportunity to review the order of business and hear if any Trustee wishes to take an agenda item out of order, and to discuss the overall objectives of the meeting.

RELEVANCE TO STRATEGIC PLAN/CORE COMPETENCIES

This agenda item meets COAERS Strategic Plan Goal 4: Identify and implement leading practices in board governance, pension administration, and investment management.

MEETING OBJECTIVES

Below is a short summary of the major agenda items which the Board will discuss and consider during its June meeting:

1. The Board will consider the recommendations of the COAERS and City of Austin working group related to contribution, benefit, and governance policies and potential referral of those recommendations to the Legislative Committee for possible legislation for the 88th Legislative Session.
2. The Board will consider approval of the Fixed Income and Cash & Equivalents Premier Lists and the proposed funding implementation plan.
3. The Board will consider an amendment to the service agreement between COAERS and RVK to extend RVK as COAERS investment consultant for an additional two years. The Board will also consider an amendment to the 2022 Investment Budget for an asset liability study to be conducted this year.
4. The Board will discuss the results of the recent investment beliefs survey and steps related to the Fund's strategic goals and guidelines.
5. The Board will consider approving an updated resolution authorizing Staff to give instructions to COAERS' investment managers. The updated version reflects the newly appointed Chief Investment Officer and Deputy Chief Investment Officer.
6. The Board will consider approval of proposed revisions to the Election Policy and Emergency Succession Policy as recommended by the Governance Committee.
7. The Board will consider acceptance of the financial statement audit report as of December 31, 2021 as recommended by the Audit and Risk Committee.
8. The Board will discuss matters related to COAERS long-term facility needs.
9. The Board will review the performance of the Executive Director and receive an update on the Executive Director's 2022 professional goals and professional development objectives.
10. The Board will receive a report from the Executive Director on operations and staffing, the upcoming Annual Member Meeting, the 2022 Board Workshop, and current MET hours and upcoming educational events.

4. Receive System member and public comments

Presented by Chris Noak, Chair

AGENDA ITEM 4:
Receive System member and public comments

AGENDA ITEM OBJECTIVE

The objective of the agenda item is to allow any System member or a member of the public a chance to provide comment to the Board.

RELEVANCE TO STRATEGIC PLAN/CORE COMPETENCIES

This agenda item aligns with one of the five core competencies established in the COAERS Strategic Plan “**Transparency**: *Complying with open meeting and public information laws to ensure the decision-making process is clear to members and the public.*”

The Chair will recognize any person who wishes to comment, limiting comments to three minutes per person.

5. Consent items

All of the following items may be acted upon by one motion. No separate discussion or action on any of the items is necessary unless desired by a Trustee.

A. March 31, 2022 Board meeting minutes

B. Ratification of March, April, and May 2022 retirements

C. Ratification, confirmation, and approval of Benefits and Services Committee recommendation on Disability Application #2201

D. Appointment of Nominating and Election Committee for 2022

Presented by Chris Noak, Chair

AGENDA ITEM 5:
Consent items

- A. March 31, 2022 Board meeting minutes
- B. Ratification of March, April, and May 2022 retirements
- C. Ratification, confirmation, and approval of Benefits and Services Committee recommendation on Disability Application #2201
- D. Appointment of Nominating and Election Committee for 2022

AGENDA ITEM OBJECTIVE

The objective of the agenda item is to approve required routine matters.

RELEVANCE TO STRATEGIC PLAN/CORE COMPETENCIES

This agenda item aligns with one the five core competencies in the COAERS Strategic Plan: “**Transparency**: *Complying with open meeting and public information laws to ensure the decision-making process is clear to members and the public*”

RECOMMENDATION FOR BOARD ACTION

Staff recommends the Board approve the consent agenda.

BACKGROUND

Minutes are kept and posted for each Board meeting. COAERS governing statute requires the Board to approve all retirement and disability retirement claims.

ATTACHMENTS

- 1. March 31, 2022 Board meeting minutes
- 2. New retirements from March, April, and May 2022 (Confidential)
- 3. Committee recommendation re: Disability Application #2201
- 4. Appointments to the Nominating and Election Committee – 2022 Election



MINUTES

BOARD MEETING

Public Meeting held in-person and telephonically on March, 31 2022 at 10:00 am CT
Pursuant to Texas Govt. Code 551.127 – COVID-19 circumstances

Board Members Present

Michael Benson
Kelly Crook
Amy Hunter
Dick Lavine
Chris Noak, Chair
Leslie Pool
Anthony B. Ross, Sr.
Brad Sinclair
Diana Thomas†

Board Members Absent

Yuejiao Liu
Michael Granof

Guests:

Paige Saenz, General Counsel
Ed Van Eenoo
Corey Martin, Avison Young
Andrew Alizzi, Avison Young
Lewis Ward, GRS*
Eddie Solis, Hillco*
Madeline Shi*
Kevin Balaud, withIntelligence*
Belinda Weaver*
Spencer Hunter, RVK*
Ian Bray, RVK*
Jacob Chilvers, withIntelligence*

Staff:

Christopher Hanson
Russell Nash
David Stafford
Sarah McCleary
Mehrin Rahman
Jenni Bonds*
Michelle Mahaini*
Yun Quintanilla*
Amy Kelley*
Teresa Cantu*
Ty Sorrel*
Kelly Doggett*

* present telephonically

† present via videoconference

1 Call meeting to order

Chair Chris Noak called the meeting to order at 10:01 a.m.

2 Call roll of Trustees

Ms. Sarah McCleary called the roll. The following Trustees were present in person: Benson, Crook, Hunter, Lavine, Noak, Pool, Ross, and Sinclair. The following Trustee was present virtually: Thomas.

3 Review order of business and establish meeting objectives

Chair Noak reviewed the objectives of the meeting and asked if Trustees needed to take any agenda items out of order. No changes were made to the order of business, though both Mr. Ross and Mr. Benson indicated the need to depart the meeting by certain times.

4 Receive system member and public comments

Chair Noak asked if there was anyone who wished to make a public comment; there were none.

5 Consent items:

All of the following items may be acted upon by one motion. No separate discussion or action on any of the items is necessary unless desired by a Trustee.

A. January 31, 2022 Board meeting minutes

B. Ratification of December 2021, and January and February 2022 retirements

Mr. Anthony Ross moved to approve the consent agenda. Mr. Brad Sinclair seconded, and the motion passed 9-0.

6 Receive reports on the following Board administrative matters including: - Board Chair

A. Ethics policy disclosure statements

B. Report on 2021 annual financial disclosure and annual ethics policy statements

C. 2022 meeting calendar

D. February 18, 2022 Investment Committee meeting

E. March 10, 2022 Governance and HR Committee meeting

F. March 10, 2022 Benefits and Services Committee meeting

G. March 10, 2022 Audit and Risk Committee meeting

H. March 10, 2022 Policy Committee meeting

Chair Noak asked Trustees to complete their ethics disclosure forms if they had not already submitted those forms to Ms. McCleary. Ms. Liu reported a meeting with Robbins Geller Rudman Dowd LLC. Chair Noak also noted the presence of Committee reports and asked Trustees to contact Staff if they need additional information on the Committee meetings.

7 Investment Committee:

A. Discuss strategic goals of the investment program

Mr. David Stafford reported on the goals of the investment program. Mr. Stafford provided an overview of the expected risk and return for the Fund using capital market assumptions (CMAs) from RVK and other providers. He noted that these CMAs implied passive returns for the Fund near 5% and risk within guidelines set forth in policy. Additionally, he presented data supporting the use of the risk budgets to achieve the

System's assumed rate of return, noting that there was little room for error. Given this backdrop, he indicated that it may be appropriate to consider ways to increase the likelihood of success for the investment program. In this effort, Staff suggested that the Board consider a variety of items over the coming quarters including refreshing the System's investment beliefs, assessing the Strategic Asset Allocation, and performing an asset/liability study.

B. Discuss and consider proposed updates to Investment Policy Statement and Investment Implementation Policy

Mr. Stafford reviewed the Investment Policy Statement (IPS) and Investment Implementation Policy (IIP) noting that, generally, he believed the current policies to be well-crafted and appropriate. Mr. Stafford presented proposed changes to these policies which clarified risk and return goals, tweaked certain asset allocation targets, and expanded the securities litigation policy, among other minor changes.

Mr. Mike Benson moved to approve the Investment Policy Statement and Investment Implementation Policy as revised. Ms. Leslie Pool seconded, and the motion passed 9-0.

C. Discuss and consider Premier List for Multi Asset

Mr. Stafford presented the review of the Multi-Asset portfolio including a summary of its evolution and the lessons learned over the past five years. He suggested that many of the prior investment challenges faced by the System have been well addressed and that the Multi-Asset section of the Strategic Asset Allocation could be considered for further restructuring into new asset classes or approaches. Mr. Stafford also reviewed the proposed Premier List for Multi-Asset.

Ms. Thomas was off camera from 10:39 a.m. to 10:40 a.m.

Mr. Benson moved to approve the Multi Asset Premier List as presented. Mr. Sinclair seconded, and the motion passed 9-0.

D. Discuss and consider funding implementation plan

Mr. Stafford presented the Funding Implementation Plan related to the adopted changes to the Multi-Asset Premier List as well as rebalancing within the US Treasury accounts to reduce the Fund's duration. Mr. Ross moved to approve the funding implementation plan as presented. Mr. Dick Lavine seconded, and the motion passed 9-0.

Trustees took a break from 10:51 a.m. to 10:57 a.m.

8 Discuss and consider System long-term sustainability including contribution, benefit, and governance policy proposals

Mr. Christopher Hanson presented a summary from the COAERS and City of Austin working group. Mr. Hanson reported on a long-term sustainability framework comprised of contribution, benefit, and governance policies discussed by the working group including:

1. Moving to an Actuarially Determined Employer Contribution (ADEC) rate with the following specifics:
 - a. Annual contributions by the City comprised of normal costs plus “layers” of future gains and losses amortized over a period of not more than 30 years
 - b. Carve out the unfunded actuarial accrued liability (UAAL) as the “Legacy Liability” and pay off on a schedule of not more than 30-years with an initial phase-in over three years,
 - c. Base the total employer contribution on a 6.75% discount rate
2. Structure the ADEC with corridors and built-in correction actions including:
 - a. +/-5% corridor bands around the ADEC “mid-point” with automatic employee contribution increase of up to 2% if corridor ceiling is breached
 - b. COAERS and City develop further modifications if problems persist further
3. Increase the employee contribution rate by 2% from 8% to 10%
4. Maintain service purchase options but modify the cost methodologies to mitigate the risk of actuarial losses such as:
 - a. Military service purchase: remove the 75% subsidy and allow purchase only at retirement
 - b. Supplemental service purchase: allow purchase only at retirement
 - c. Non-contributory service purchase: allow purchase only at retirement
5. Convert one active member board position to a City of Austin appointed position
6. Require citizen appointed positions to have finance or investment experience
7. Establish a risk sharing valuation study process
8. Future cost of living adjustments would require both COAERS and the City of Austin support before seeking legislative approval

Trustees discussed modifications related to converting one active member position to a City of Austin appointed position, including a requirement for the appointee to be a City of Austin employee and a requirement to have financial experience. Ms. Pool noted that the City Council could make its preference known that the appointee be a City of Austin employee.

At the conclusion of the discussion, Ms. Pool moved to approve the long-term sustainability framework as presented with the modification that the City Council recommend the City of Austin appointee be a COAERS active member with financial experience. Mr. Benson seconded, and the motion passed 8-1 with Mr. Ross dissenting.

Mr. Hanson briefly reviewed the next steps for the working group related to the System’s long-term sustainability. Mr. Hanson noted the following items required further review by the working group and expected to present recommendations on these remaining items in the second quarter:

1. Prior service purchase
2. Sick leave conversion

3. Amortization period and layers
4. City-appointed seat

9 Discuss and consider the December 31, 2021 actuarial valuation results

Mr. Lewis Ward from GRS reported the actuarial valuation results and noted to the Board that he was presenting results based on the Benefits and Services Committee recommendation to reduce the assumed rate of return from 7.00% to 6.75%. He reported that as of December 31, 2021, the funding period of the Plan is 33 years, up from 32 years in 2020, and that the funded ratio is 66.5%, up from 65.3% in 2020.

Mr. Ward reported that the valuation results were a product of several key changes, such as: the City increasing its contribution rate by 1% to a total of 19% effective January 1, 2021; COAERS investment performance exceeding the return on assets assumption; a liability experience gain of more than \$18 million partly due to lower-than-expected salary increases, and a change in our return on assets assumption from 7.00% to 6.75%.

Mr. Ward stated that positive returns on investments over the past three years have increased the actuarial value of assets more than expected. The change in the investment return assumption offset the experience gains on assets and liabilities. Mr. Ward reported that the funding period still exceeds the maximum period in the Board's funding policy and without additional gains the UAAL is expected to grow for the next 14 years. Therefore, GRS is recommending that the Board continue discussions with the City about improving the long-term sustainability of the System with additional funding and/or other changes to the System.

Mr. Ross moved to adopt the December 31, 2021 actuarial valuation results with a 6.75% investment rate of return assumption, composed of an inflation component of 2.5% and a real rate of investment return of 4.25%, and to direct Staff to defer administrative implementation of the investment return assumption change until pension legislation is enacted. Ms. Amy Hunter seconded, and the motion passed 9-0.

10 Discuss and consider Board Bylaws

Mr. Hanson explained that the COAERS Bylaws were adopted prior to the pandemic and did not address all situations which could require the use of videoconferencing. Mr. Hanson reported that Staff and General Counsel propose a revision which would clarify who should chair a meeting if the Committee or Board Chair has joined the meeting via videoconference.

Ms. Pool moved to adopt the revised Board Bylaws as presented. Mr. Ross seconded, and the motion passed 9-0.

Trustees took a break from 11:59 a.m. to 12:11 p.m.

Ms. Crook left the meeting at 12:05 p.m.

11 Facility options

A. Convene into executive session pursuant to 551.072, Texas Government Code to deliberate the purchase, exchange, lease, or value of real property

B. Reconvene into public session and take action as determined appropriate by the Board regarding the purchase, exchange, lease, or value of real property

The Board convened into Executive Session at 12:12 p.m.

Ms. Thomas was off camera from 12:23 p.m. to 12:24 p.m. and again from 12:36 p.m. to 12:37 p.m.

Ms. Pool left the meeting at 12:40 p.m.

The Board reconvened into public session at 12:48 p.m.

Mr. Sinclair moved to authorize the Executive Director to sign the Buyer or Tenant Representation Letter and the Broker Fee Agreement pending final approval by legal counsel. Mr. Benson seconded, and the motion passed 7-0.

Mr. Ross left the meeting at 12:51 p.m.

12 Receive report from Executive Director on the following matters:

A. Operational matters including staffing

Mr. Hanson updated Trustees on staffing and return-to-office planning logistics.

B. 2021 administrative budget

Mr. Hanson presented the year-end 2021 administrative budget.

C. Update on October Board workshop

Mr. Hanson stated that Staff had found several viable options for the Board Workshop in October and asked Trustees to weigh in on their criteria for choosing a location and format.

D. MET report and upcoming educational programs and conferences

Mr. Hanson reported that training was on schedule for all Trustees to meet the Pension Review Board requirements and encouraged Trustees who were interested in upcoming conferences to reach out to Staff with questions or for registration and travel help.

13 Review key meeting takeaways and call for future agenda items

Chair Noak summarized the decisions made at this meeting and asked for future agenda items.

As there were no other items to discuss, the meeting adjourned at 1:08 p.m.

COAERS

CITY OF AUSTIN
EMPLOYEES' RETIREMENT SYSTEM

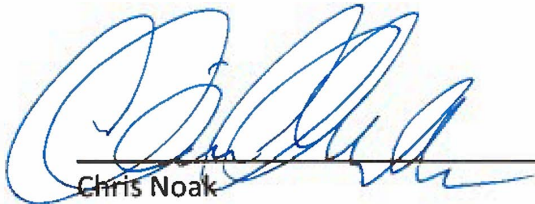
June 2, 2022
DISABILITY RECOMMENDATION

Disability retirement application #2201

The Disability Committee recommends that Board

Approve Deny

Retirement application #2201.



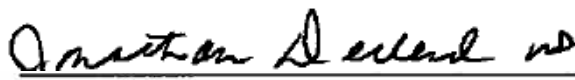
Chris Noak
Chair

June 2, 2022
Date

The physician recommends that Board

Approve Deny

Retirement application #2201.



Jonathan Decherd, M.D.
Physician

June 2 2022
Date

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM

2022 Election for Retired Member Place 11

Nominating and Election Committee

Committee Members

Garland (Rod) Ellis

Eric Ohlenburger

Joyce Herring

Laura Maloy

Gricelda Diaz

Alternates

Norma Godinez

Dennis Crabill

Mario Guerrero

Judy Lindsey

Leandro Garcia

6. Receive reports on the following Board administrative matters including:

A. Ethics policy disclosure statements

B. 2022 meeting calendar

C. May 20, 2022 Investment Committee meeting

D. June 2, 2022 Governance and HR Committee meeting

E. June 2, 2022 Benefits and Services Committee meeting

F. June 2, 2022 Audit and Risk Committee meeting

Presented by Chris Noak, Chair

AGENDA ITEM 6:

Receive reports on the following Board administrative matters, including:

- A. Ethics policy disclosure statements
- B. 2022 meeting calendar
- C. May 20, 2022 Investment Committee meeting
- D. June 2, 2022 Governance and HR Committee meeting
- E. June 2, 2022 Benefits and Services Committee meeting
- F. June 2, 2022 Audit and Risk Committee meeting

AGENDA ITEM OBJECTIVE

The objective of the agenda item is to comply with the Board approved Code of Ethics.

RELEVANCE TO STRATEGIC PLAN/CORE COMPETENCIES

This agenda item aligns with one of the goals of the COAERS Strategic Plan “**Goal 4: Identify and implement leading practices in board governance, pension administration, and investment management.** Additionally, this agenda item also aligns with one of the five core competencies of the COAERS Strategic Plan: “**Transparency:** Complying with open meeting and public information laws to ensure the decision-making process is clear to members and the public.”

RECOMMENDATION FOR BOARD ACTION

All Trustees and Key Staff are required to return the quarterly disclosure form in a timely manner after the March Board meeting.

BACKGROUND

The COAERS Code of Ethics requires Trustees and Key Staff to file ethics statements within 30 days of each Board meeting. The period covered is since the last regularly scheduled Board meeting, March 31, 2022. Those who have nothing to declare may say so in writing to Sarah.McCleary@coaers.org or sign the form when sent by DocuSign.

ATTACHMENTS

- 1. Ethics policy disclosure statements
- 2. 2022 meeting calendar
- 3. Report from February 18, 2022 Investment Committee meeting
- 4. Report from June 2, 2022 Governance and HR Committee meeting

5. Report from June 2, 2022 Benefits and Services Committee meeting
6. Report from June 2, 2022 Audit and Risk Committee meeting



CITY OF AUSTIN
EMPLOYEES' RETIREMENT SYSTEM

**Ethics Policy Disclosure Statement
(Gifts, Meals and Other Declarations)**

For the period April 1, 2022 to June 23, 2022

In compliance with Board Approved Policy: Code of Ethics, I declare I have received, attended, and/or had contact related to COAERS as follows:

Gifts:

Meals:

Other Declarations:

Signature of Trustee or COAERS Key Staff

Date

2022 Board and Committee Calendar

Thursday, July 21, 2022

Annual Members Meeting 5:30 pm

Thursday, August 25, 2022

Beginning at 10:00 a.m.; order not set

Audit and Risk Committee

Benefits and Services Committee

Governance and HR Committee

Policy Committee

Legislative Committee

Friday, August 26, 2022

Investment Committee 10 a.m.

Thursday, September 22, 2022

Full Board 10 a.m.

Monday-Tuesday, October 17-18, 2022

Board Workshop

Thursday, November 10, 2022

Beginning at 10:00 a.m.; order not set

Audit and Risk Committee

Benefits and Services Committee

Governance and HR Committee

Legislative Committee

Policy Committee

Full Board

Friday, November 18, 2022

Investment Committee 10 a.m.

Thursday, December 15, 2022

Full Board 10 a.m.

Report from Investment Committee

The May 20, 2022 Investment Committee meeting included a review of first quarter investment performance; a review of the Investment Risk Framework; review of investment implementation, including consideration of the Premier List for Fixed Income and Cash & Equivalents; and an educational program on fixed income asset class and diversification of strategic asset allocation. The Committee also met Mr. David Kushner who was named the new Chief Investment Officer.

1. The Committee reviewed performance data from RVK through March 31, 2022. Staff reported Fund investments lost 5.15% net of fees during the first quarter, gained 5.29% during the trailing one-year period, and exceeded the assumed rate of return over the trailing 3-, 5- and 10-year periods.
2. Staff provided a review of the Investment Risk Framework. Staff noted that markets imply elevated volatility for neutral Fund positioning. Staff discussed that the market environment is highly unusual with both stocks and bonds performing poorly at the same time, with both down more than 5% in the quarter. Staff also noted that other diversifying exposures, such as Cash & Equivalents and Real Assets, remain important allocations.
3. RVK gave an educational overview of the broad fixed income universe including a discussion on the spectrum of risk/return profiles available. This discussion included data on the challenges faced in the public, investment grade fixed income universe. Staff suggested that a carefully constructed portfolio of higher returning Fixed Income strategies could improve the likelihood of favorable outcomes for the Fund and laid out possible next steps for implementing such an approach. A request was made to provide this training to all Trustees.
4. Staff presented the annual review of the Fixed Income and Cash & Equivalents Premier Lists, noting that these portfolios are generally well positioned to meet their current portfolio roles. The Committee recommended Staff's proposed changes to the Premier Lists be recommended to the Board for approval.
5. The Committee received a presentation regarding the recent survey on investment beliefs, goals, and strategy that was taken by Staff, Trustees, and Consultants. Staff noted strong agreement with the existing investment beliefs that are incorporated into the Investment Policy Statement and more mixed results for the prospective beliefs.
6. The Committee considered the Staff evaluation of RVK's performance. Staff noted that RVK remains a well aligned resource who provides high quality consulting services and recommended renewing the RVK contract for a final 2-year extension. The Committee recommended to the Board an amendment to the RVK contract and an amendment to the investment budget to add funding for an asset liability study in 2022.

Report from Governance and Human Resources Committee Meeting

The June 2, 2022 Governance and Human Resources Committee meeting included a review of the final remaining recommendations from the 2021 Governance Effectiveness Assessment, an annual review of the Election Policy and Emergency Succession Policy, and discussion of a Board Governance Manual.

1. The Committee discussed both the GGA recommendations regarding trustee term limits and requirements to serve as Board Chair. The Committee discussed the need to focus possible legislation during the 88th Legislative Session on the System's long-term financial sustainability and therefore chose not to recommend Trustee term limits to the Board. The Committee discussed the possibility of establishing requirements regarding who can serve as Board Chair in policy instead of adding the item to possible legislation next session; however, the Committee did not make a recommendation and will review at a future time.
2. The Committee conducted its annual review of the Election Policy. Staff reviewed proposed minor updates in the Election Policy. The Committee referred those proposed updates to the Board for approval.
3. Staff discussed the proposed changes to the Emergency Succession Policy. The Committee discussed the Policy and the role of the Board in the processes outlined in the Policy. The Committee referred the Policy to the Board with Staff directed to incorporate the key points of discussion into a new draft for consideration by the Board.
4. The Committee discussed the possible creation of a Board Governance Manual and gave Staff direction on next steps.

Report from Benefits and Services Committee Meeting

The June 2, 2022 Benefits and Services Committee meeting included discussion on long-term plan sustainability including the recommendations from the COAERS/City of Austin working group, a report on annual IRS compliance, and one disability application.

1. The Committee reviewed additional recommendations from the COAERS/City working group including:
 - Setting the amortization period for gain and loss layers at 20-years to prevent future negative amortization
 - Establishing a funded ratio at 90% where the City would be allowed to contribute the less than the corridor midpoint if the ADEC calculated rate is less than the midpoint
 - Changing the interest rate for prior service purchases from the current statutory rate (member interest credit rate divided by .75) to the assumed rate of return (currently 6.75%)
 - Converting the actuarial cost of sick leave conversion to an actuarial assumption to be priced into the System's normal cost calculation and keep the member's purchase cost at the applicable employee contribution rate

It was reported that the City preferred not to move forward with the alternative DC plan for the upcoming legislative session. The Committee referred the additional working group recommendations to the Board.

2. The Committee received a report from Mr. Brad Oxford regarding the annual review of federal tax legislation that affects the Plan. Mr. Oxford reported to the Committee that he recommended no changes to the COAERS plan documents.
3. The Committee recommended approval of one new disability application.

Report from Audit and Risk Committee

The June 2, 2022 Audit and Risk Committee meeting included a review and consideration of the financial statement audit report, discussion of the Enterprise Risk Management program, review of the first quarter unaudited financial statements, and a cybersecurity program update.

1. The Committee received the report of Ms. Bhakti Patel of CliftonLarsonAllen (CLA) regarding the results of the December 31, 2021 audit. Ms. Patel stated that CLA issued an unqualified opinion on the financial statements. She further stated that CLA found no significant corrected or uncorrected adjustments during the 2021 audit of the financial statements. Ms. Patel reviewed significant accounting policies used by COAERS and reported that there were no unusual transactions. The Committee referred the financial statement audit report to the Board for approval.
2. Staff reported on activities in the Enterprise Risk Management Policy. The Committee discussed four risk categories: operations, governance, legislative, and mission. Staff reviewed each category with the Committee, including current risks with each category as well as the status of on-going risk management activities.
3. The Committee reviewed the first quarter 2022 unaudited financial statements.
4. The Committee received an update on COAERS cybersecurity program and 2022 program initiatives.

7. Discuss and consider System long-term sustainability including COAERS and City of Austin Working Group recommendations

Presented by Christopher Hanson

AGENDA ITEM 7:

Discuss and consider System long-term sustainability including COAERS and City of Austin Working Group recommendations

AGENDA ITEM OBJECTIVE

This agenda item is intended for Trustees to discuss and consider possible changes to contribution, benefit, and governance policies as part of the efforts to ensure the System's long-term financial sustainability.

RELEVANCE TO STRATEGIC PLAN/CORE COMPETENCIES

This agenda item meets **COAERS Strategic Plan Goal 1: Achieve and maintain a funding level that ensures the long-term sustainability of the retirement system.** This agenda item is a Strategic Plan action item for 2022 and supports the actuarial funding objectives for Goal 1.

RECOMMENDATION FOR BOARD ACTION

Staff recommends the Board approve the recommendations of the COAERS and City of Austin working group and refer the recommendations to the Legislative Committee for the development of legislation to be filed during the 88th Legislative Session.

BACKGROUND

At the December 2021 Board meeting, COAERS and City Staff discussed forming a working group to develop a framework that would be the basis for pension legislation during the 88th Legislative Session. The Board supported the working group's approach and directed COAERS Staff to report back to the Committee in the first quarter of 2022.

COAERS and City Staff, along with their actuarial consultants, have met regularly in 2022 to discuss benefit, contribution, and governance policy options which would strengthen the System's long-term financial sustainability. The Benefits and Services Committee and the Governance Committee have reviewed recommendations by the working group. The Board will consider the entirety of the working group recommendations and potential referral to the Board's Legislative Committee.

ATTACHMENTS

1. Staff Presentation: "Long-Term Plan Sustainability"
2. Recommendations of the COAERS and City of Austin Working Group



Long-Term Plan Sustainability

Christopher Hanson
Executive Director
June 23, 2022

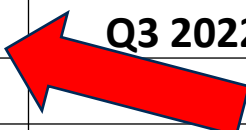
Long-Term Plan Sustainability

- Timeline
- Working Group Recommendations
- Board Decision Point
- Next Steps



Timeline and Action Items

TIMELINE AND ACTION ITEMS FOR 88TH SESSION PENSION LEGISLATION - CONVENES JANUARY 10, 2023							
DESCRIPTION	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023
Define Roles and Responsibilities	█						
Establish Goals	█	█					
Establish Timeline and Action Items	█	█					
Discuss and Consider Policy Options							
Benefit		█	█	█			
Contribution		█	█	█			
Governance		█	█	█			
Administration			█	█	█		
Governmental Relations Communication							
Austin Delegation	█	█	█	█	█	█	█
House and Senate Pension committees	█	█	█	█	█	█	█
Pension Review Board			█	█	█	█	
Development and Adoption of Funding Policy				█	█	█	
COAERS Board Final Approval				█			
Presentation at Member Meeting					█		
Bill Drafting						█	
Bill Sponsor						█	
Bill Filing							█



You are here!

COAERS AND THE CITY OF AUSTIN WORKING GROUP RECOMMENDATIONS

Contributions

Benefits

Governance



Contributions

Employer Contributions: Move to an actuarially determined employer contribution rate (ADEC)

1. Annual contributions by City comprised of normal costs plus future amortization layers of gains and losses of 20-years;
2. Carve out the UAAL as the “Legacy Liability” and pay off on a schedule of not more than 30-years with phase-in over three years; and
3. Establish a funded ratio at 90% where the City would be allowed to contribute the less than the corridor midpoint if the ADEC calculated rate is less than the midpoint



Contributions

Employee Contributions

Increase the employee contribution rate by 2% from 8% to 10%.

ADEC Corridor and Corrective Steps

Structure the ADEC with corridors and built-in corrective actions: 5% corridor bands around the ADEC with automatic employee contribution increase of up to 2% if corridor ceiling is breached; COAERS and City develop further modifications if problems persist thereafter.



Benefits

Maintain service purchase options but modify the cost methodologies to mitigate the risk of actuarial losses:

Military Service Purchase: Remove the 75% subsidy, allow purchase only at retirement

Supplemental Service Purchase: Allow purchase only at retirement

Non-contributory Service Purchase: Allow purchase only at retirement



Benefits

Maintain service purchase options but modify the cost methodologies to mitigate the risk of actuarial losses:

Change the interest rate for prior service buyback from the current statutory rate (member interest credit rate divided by .75) to the assumed rate of return (currently 6.75%)

Convert the actuarial cost of sick leave conversion to an actuarial assumption to be priced into the System's normal cost calculation and keep the member's purchase rate as the employee contribution rate in effect at the time of purchase

Governance

Convert one active member board position to a city-appointed position

Require citizen appointed positions to have finance or investment expertise

Establish a risk-sharing valuation study (RSVS) process

Future cost-of-living adjustments (COLA) require both COAERS and City of Austin support before seeking legislative approval

Board Decision Point

Governance

- Trustee positions are written into COAERS governing statute (Places 1-11)
- Active member trustees are Places 6-9 currently held as follows:
 - Place 6 – Mr. Brad Sinclair; current term January 2021 – December 2023
 - Place 7 – Ms. Amy Hunter; current term January 2020 – December 2023
 - Place 8 – Mr. Chris Noak; current term January 2022 – December 2025
 - Place 9 – Ms. Yuejiao Lui; current term January 2022 – December 2025
- Converting one active member position to a City appointed position requires the Board to be specific about which of the four current active member places is to be converted

BOARD DECISION: Which position is to be converted?

Next Steps

- Consider all working group recommendations regarding proposed changes to COAERS contribution, benefits, and governance provisions
- Consider referral of working group recommendations to the Legislative Committee for development of legislation for the 88th Legislative Session



Recommendations of the COAERS and City of Austin Working Group

The following is a summary of the working group recommendations of amendments to the governing statute of COAERS to be included in legislation for the 88th Legislative Session.

Contribution Policy

- Transition to an Actuarially Determined Employer Contribution (ADEC) rate with the following specifics:
 - Annual contributions by the City comprised of normal costs plus “layers” of future gains and losses amortized over a period of 20 years
 - Carve out the unfunded actuarial accrued liability (UAAL) as the “Legacy Liability” and pay off on a schedule of not more than 30-years with an initial phase-in over three years
 - Establish a funded ratio at 90% where the City would be allowed to contribute less than the corridor midpoint if the ADEC calculated rate is less than the midpoint
 - Structure the ADEC with corridors and built-in correction actions including:
 - +/-5% corridor bands around the ADEC “mid-point” with automatic employee contribution increase of up to 2% if corridor ceiling is breached; COAERS and City to develop further modifications if problems persist

- Increase the employee contribution rate by 2% from 8% to 10%

Benefit Policy

- Modify the following existing service purchase options:
 - Military service purchase: remove the 75% subsidy and allow purchase only at retirement
 - Supplemental service purchase: allow purchase only at retirement
 - Non-contributory service purchase: allow purchase only at retirement
 - Prior service buyback: Change the interest rate from the current statutory rate (member interest credit rate divided by .75) to the assumed rate of return (currently 6.75%)
 - Sick leave conversion: Convert the actuarial cost to an actuarial assumption to be priced into the System’s normal cost calculation and keep the member’s purchase rate as the employee contribution rate in effect at the time of purchase

- Any future cost-of-living adjustment requires both COAERS and the City of Austin support before seeking legislative approval

Governance Policy

- Convert active member place ____ to a City of Austin appointed position¹
- Require the three citizen appointed positions (places 3-5) to have finance or investment experience
- Establish a risk-sharing valuation study process which requires the System to notify the City when it conducts an experience study. The City will then inform the System whether it would perform its own experience study, review the experience study, or accept the System's. If the City performs its own or does a review, the actuaries from the City and System will be required to determine the hypothetical contribution rate based on the proposed assumptions. If the difference is greater than 2% of payroll, the actuaries would be required to reconcile the difference within 20 business days or consult a third-party actuary. The Board retains the responsibility to set actuarial assumptions.

¹ City Council to recommend the City of Austin appointee be an active COAERS member with financial experience.

8. Investment Committee:

A. Discuss and consider Premier List for Fixed Income and Cash & Equivalents including funding implementation plan

B. Discuss and consider Amendment #3 to the Service Agreement between RVK and COAERS and amendment to the 2022 Investment Budget

C. Discuss results of the investment beliefs survey

AGENDA ITEM 8:
Investment Committee

- A. Discuss and consider Premier Lists for Fixed Income and Cash & Equivalents including funding implementation plan

AGENDA ITEM OBJECTIVE

The Board will review proposed updates to the System's investment strategies and the status of the System's funded investment managers.

RELEVANCE TO STRATEGIC PLAN

This agenda item is part of the core competency set forth in the **COAERS Strategic Plan** "*Prudent investment management: Fulfilling fiduciary duty through monitoring performance within adopted process and stated goals.*" Board review of the implementation of the investment program ensures that Trustees monitor the performance of the portfolio.

RECOMMENDATION FOR BOARD ACTION

The Investment Committee recommends that the Board approve the proposed changes to the Premier Lists for Fixed Income and Cash & Equivalents. Staff recommends that the Board approve the proposed funding implementation plan.

BACKGROUND

The Investment Implementation Policy (IIP) requires Staff to develop and maintain a Premier List of viable managers for potential inclusion within each allocation of the Fund. The IIP also requires the Premier List for each asset class to be reviewed with the Board via the Investment Committee on an annual basis.

Staff will lead the required annual review of the current construction and composition of the Fixed Income and Cash & Equivalent allocations, including the associated Premier Lists.

ATTACHMENTS

1. Staff Presentation "Annual Review of Cash & Equivalents Portfolio" [Portions CONFIDENTIAL]
2. Staff Presentation "Annual Review of Fixed Income Portfolio" [Portions CONFIDENTIAL]
3. Proposed COAERS Premier List [CONFIDENTIAL]
4. Proposed Funding Implementation Plan [CONFIDENTIAL]



Annual Review of Cash & Equivalents

David Stafford

Deputy Chief Investment Officer

June 23, 2022

Cash as a Strategic Asset Class

- Cash is regarded as a strategic asset class because of its unique investment properties and its vital role in achieving the Fund's primary objectives
- Cash increases **liquidity** and can act as a **diversifier** to the rest of the Fund, investing in liquid, short-term assets with maturities less than a year

Investment Uses

Manage Fund Risk

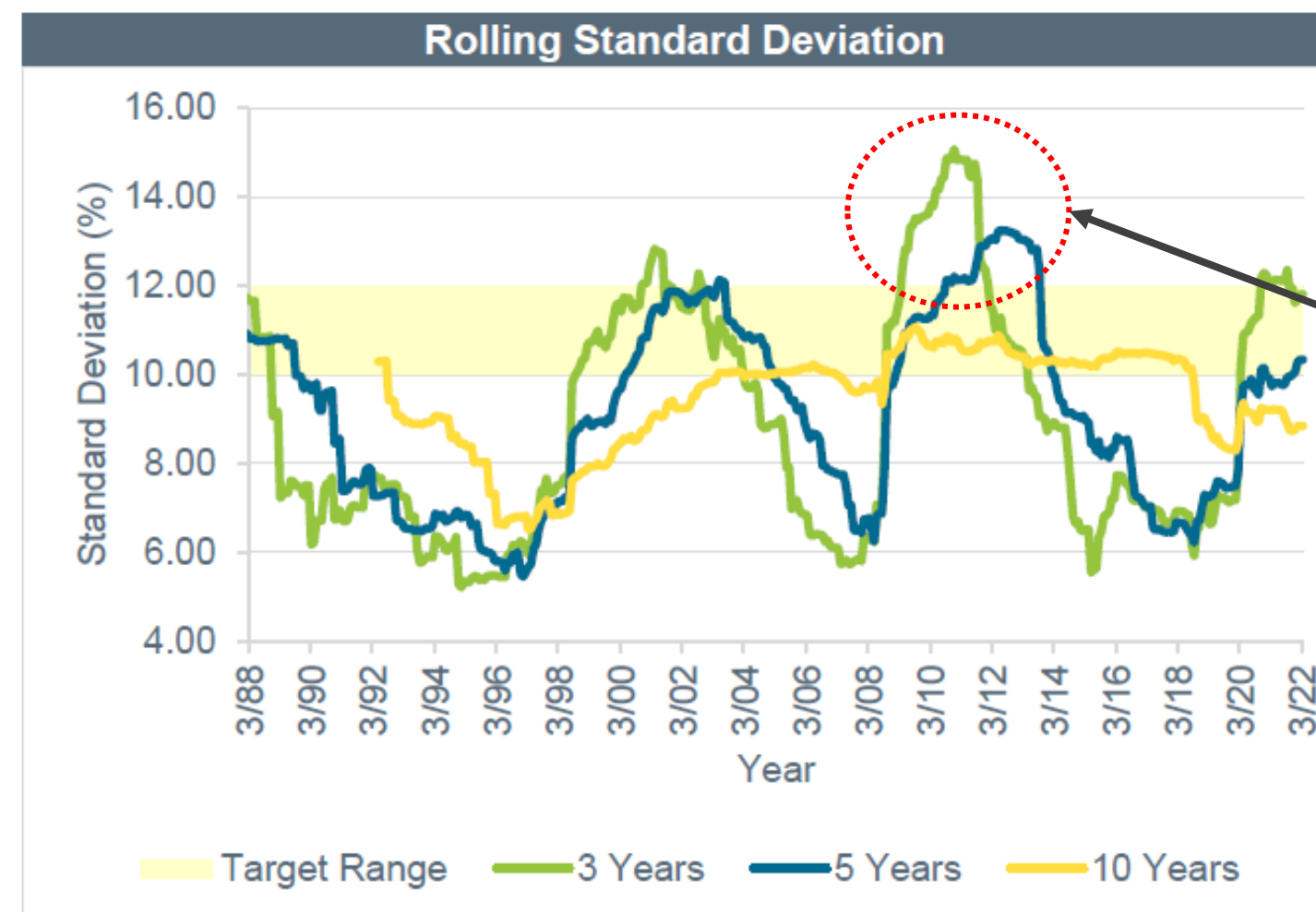
Receive Investment Income

Collateralize Futures

Operational Uses

Make Benefit Payments

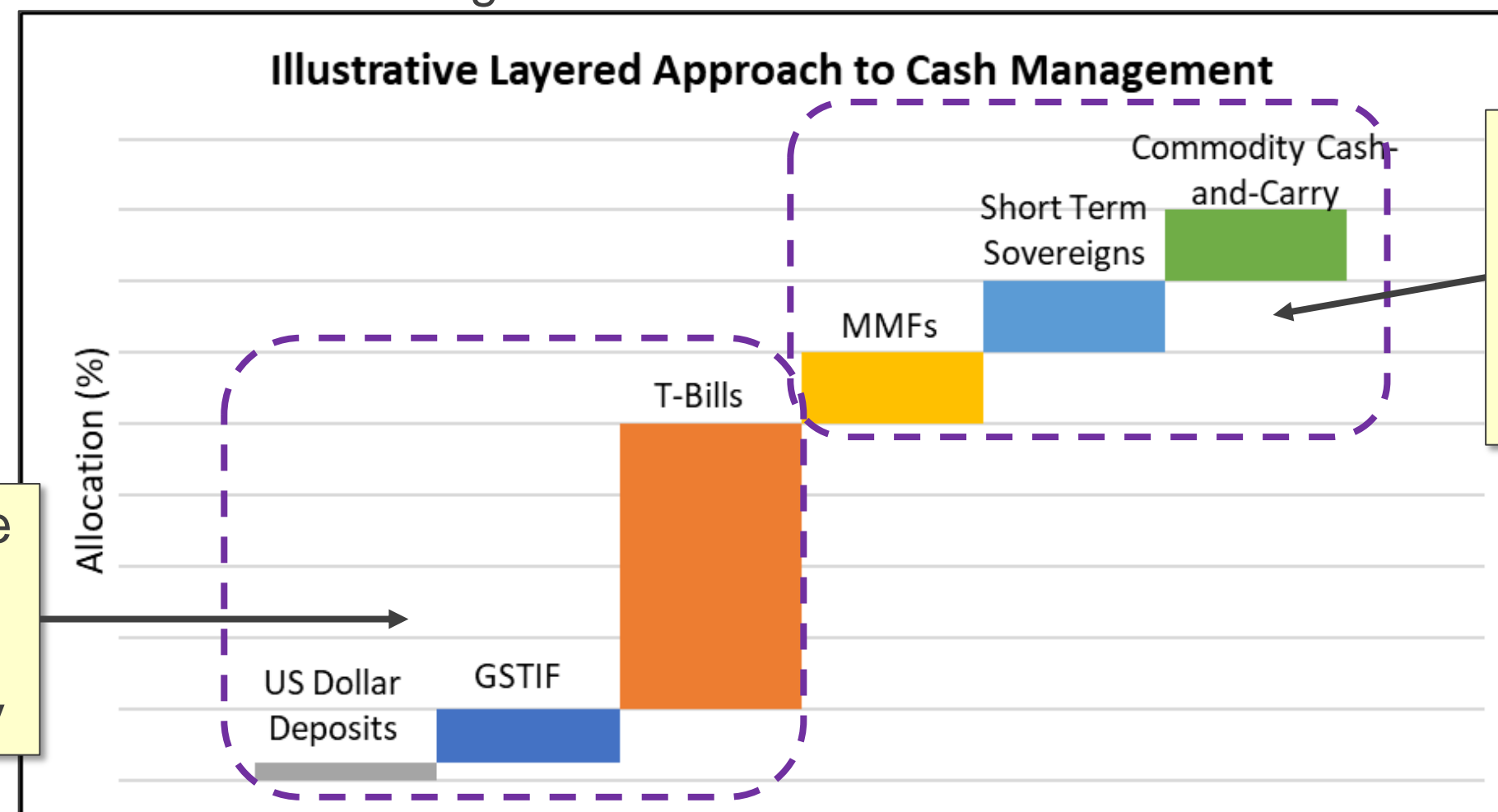
Pay System Expenses



Source: RVK Summary of Investment Performance, March 31, 2022

Cash & Equivalents Approach for COAERS

- Cash & Equivalents are implemented in a layered approach to ensure that both operational and investment needs are effectively met
 - **Core Cash** is held in extremely high quality, liquid strategies in order to ensure that cash is available to pay benefits and System expenses
 - **Incremental Cash** is invested in strategies which improve yields and increase expected returns for investment purposes and may introduce small marginal risks



Core cash represents the base layer and only invests in the highest quality instruments in order to ensure proper liquidity

When appropriate to hold incremental cash (i.e. overweights to cash & equivalents) additional yield enhancing strategies may be considered

Cash is Increasingly Important Allocation Tool

- During periods of weak growth, cash can preserve capital and outperform other assets
- During the inflationary period of the 1970s, real assets and cash performed well

↑ strong GROWTH ↓ weak	Regime	Disinflationary Boom	Inflationary Boom
	Nickname	SPRING	SUMMER
	Example	2010-2020	1973-1980
	Best	Stocks	Real Assets
	Favor	High growth stocks Long-term govt bonds Leveraged companies	Gold, silver, oil, etc. Real estate Cash
	Avoid	Cash Short-term bonds	Fixed rate bonds Long-term bonds
	Regime	Disinflationary Bust	Inflationary Bust
	Nickname	WINTER	FALL
	Example	1932, 2008	1966-1970
	Best	Long-term govt bonds	Safe currencies Cash
Favor	Dividend paying stocks Strong balance sheets Cash	Floating rate bonds	
Avoid	Companies with no pricing power Negative cash flow assets	Financial assets Long-term bonds	
		← low INFLATION high →	

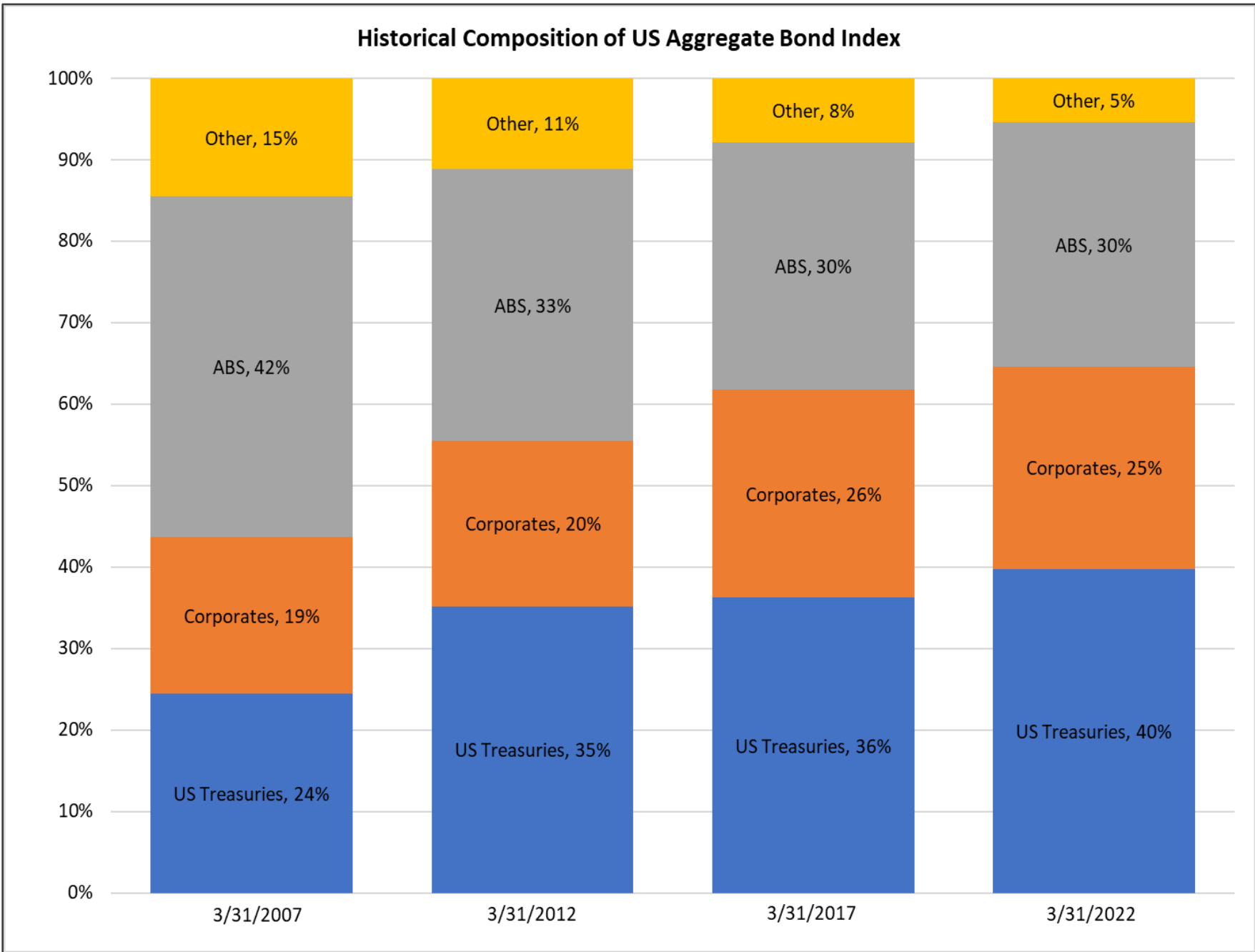


Annual Review of Fixed Income Portfolio

David Stafford
Deputy Chief Investment Officer
June 23, 2022

Implementation Through Aggregate Bond Mandates

- Historically, the fixed income portfolio was implemented using a core US aggregate bond approach
- This approach to portfolio construction was producing a sub-optimal risk-return profile and was a moving target as the index composition shifted
- In 2018, the Board approved adapting the fixed income portfolio to provide consistent exposure, but remain flexible as needed

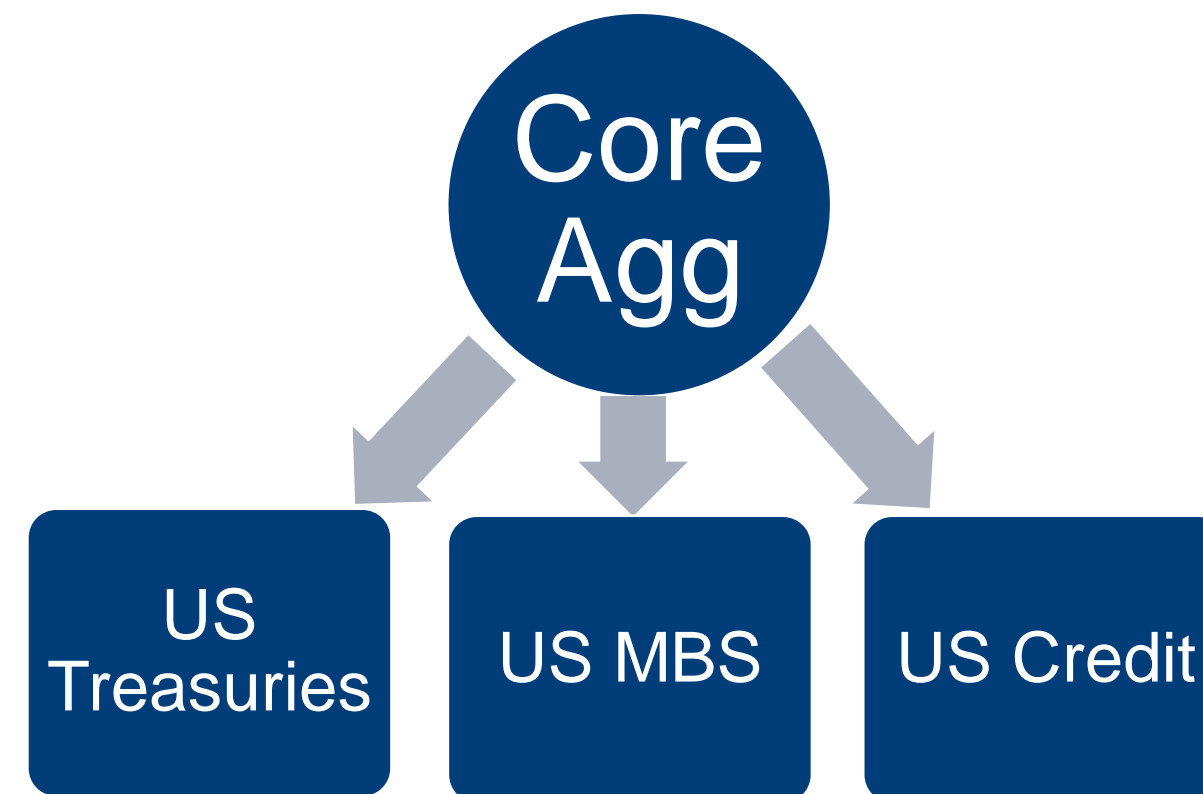


Historical US Aggregate Bond Index Characteristics				
	3/31/1995	3/31/2002	3/31/2018	3/31/2022
Yield to Worst	7.51%	5.92%	3.12%	2.92%
Duration in Years	4.7	4.5	6.4	6.6
Return / Risk	1.60	1.32	0.49	0.44

Source: Staff analysis of Bloomberg data

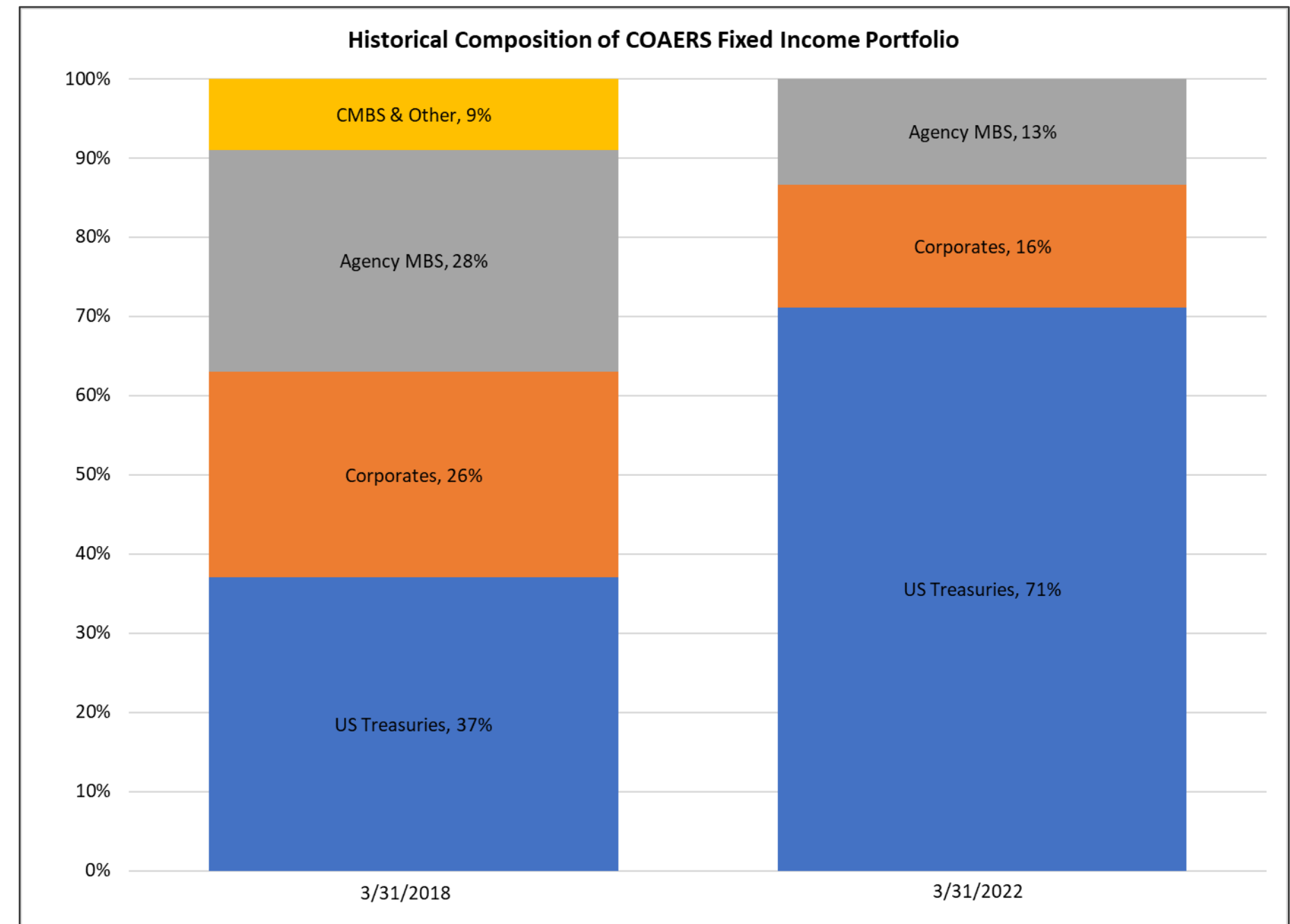
The Great Disaggregation

- The Board approved restructuring the fixed income portfolio by disaggregating the existing bond mandates into its component sub-asset classes: US Treasuries, US MBS, and US Credit
- The reasons for the disaggregation include increased control regarding interest rate sensitive US Treasuries (duration), reduced credit exposure (corporate bonds), and greater liquidity to better serve the intended portfolio role



Changing Composition of Fixed Income

- This restructuring reduced credit exposure from 26% to 16% of fixed income and increased exposure to US treasuries
- This allowed for extending duration in US Treasuries to increase their hedging characteristics, providing significant diversification during the market sell-off in March 2020

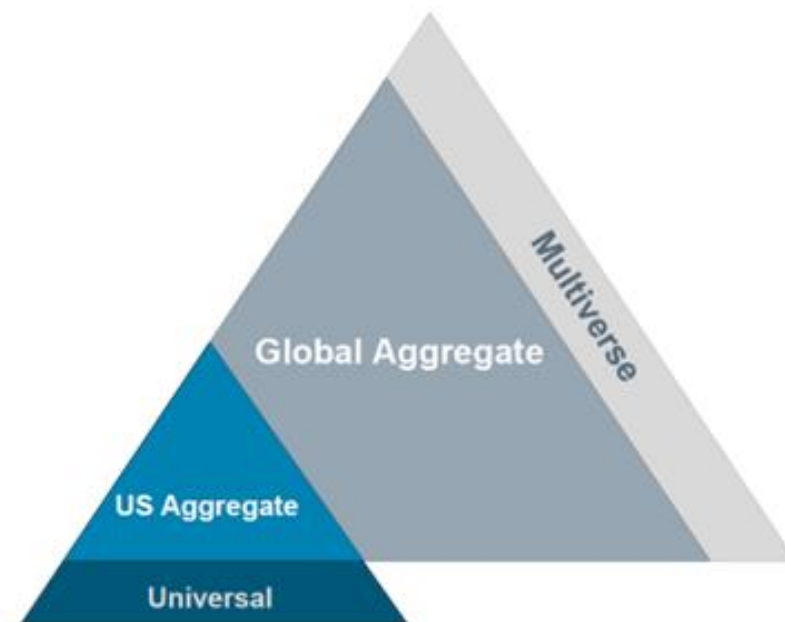


Source: Staff analysis of Northern Trust, BNYM data

Implementation: US vs Global

- A key decision in this process was to maintain the Global Aggregate Bond Index as an appropriate benchmark representing, "...the opportunity set and return characteristics associated with the asset class."
- However, Staff recommended implementing only in the US in order to increase liquidity, reduce operational complexities (i.e., multiple currencies, sampling decisions, etc.), and to provide greater hedges to equity exposure through lower expected correlations

Bloomberg Barclays Fixed Income Benchmarks



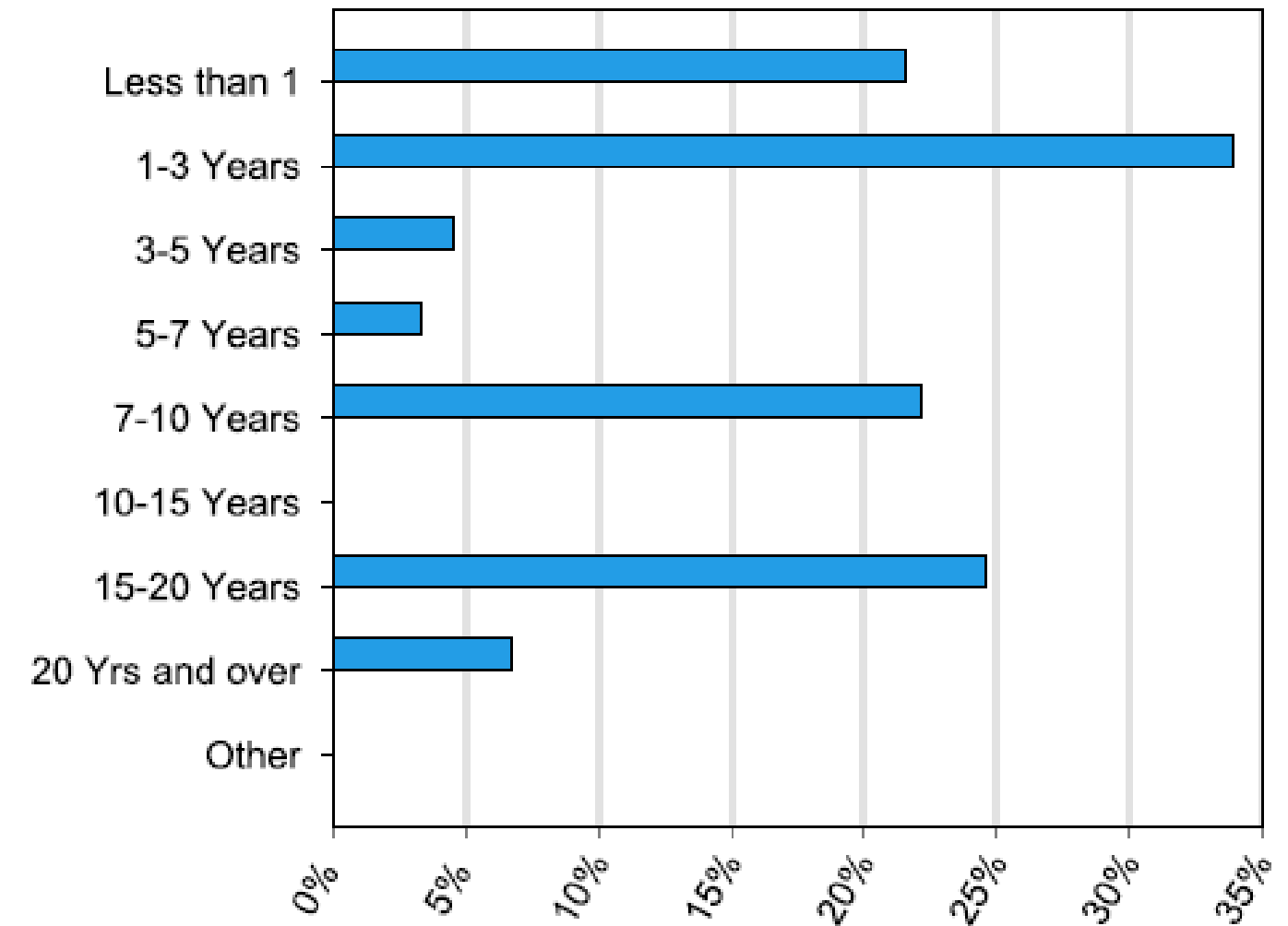
	Global Agg Bond Index	US Agg Bond Index
Number of Bonds	27,979	12,393
Currencies	28	1
Yield to Worst	2.15%	2.92%

Source: RVK and Staff analysis of Bloomberg data as of March 31, 2022

US Treasuries

- US Treasuries (USTs) serve two roles in the portfolio: **providing liquidity** and **hedging equity risk**
- The Fund has meaningful allocations to short and long duration mandates which can be adjusted to achieve a desired level of duration
- The portfolio is currently positioned with longer duration than the benchmark and will exhibit larger price moves (both up and down) based on changes in interest rates
- Additionally, active manager Hoisington has discretion to allocate to any maturity USTs which **could materially move duration lower**

Duration Breakdown - Broad Duration - OAD

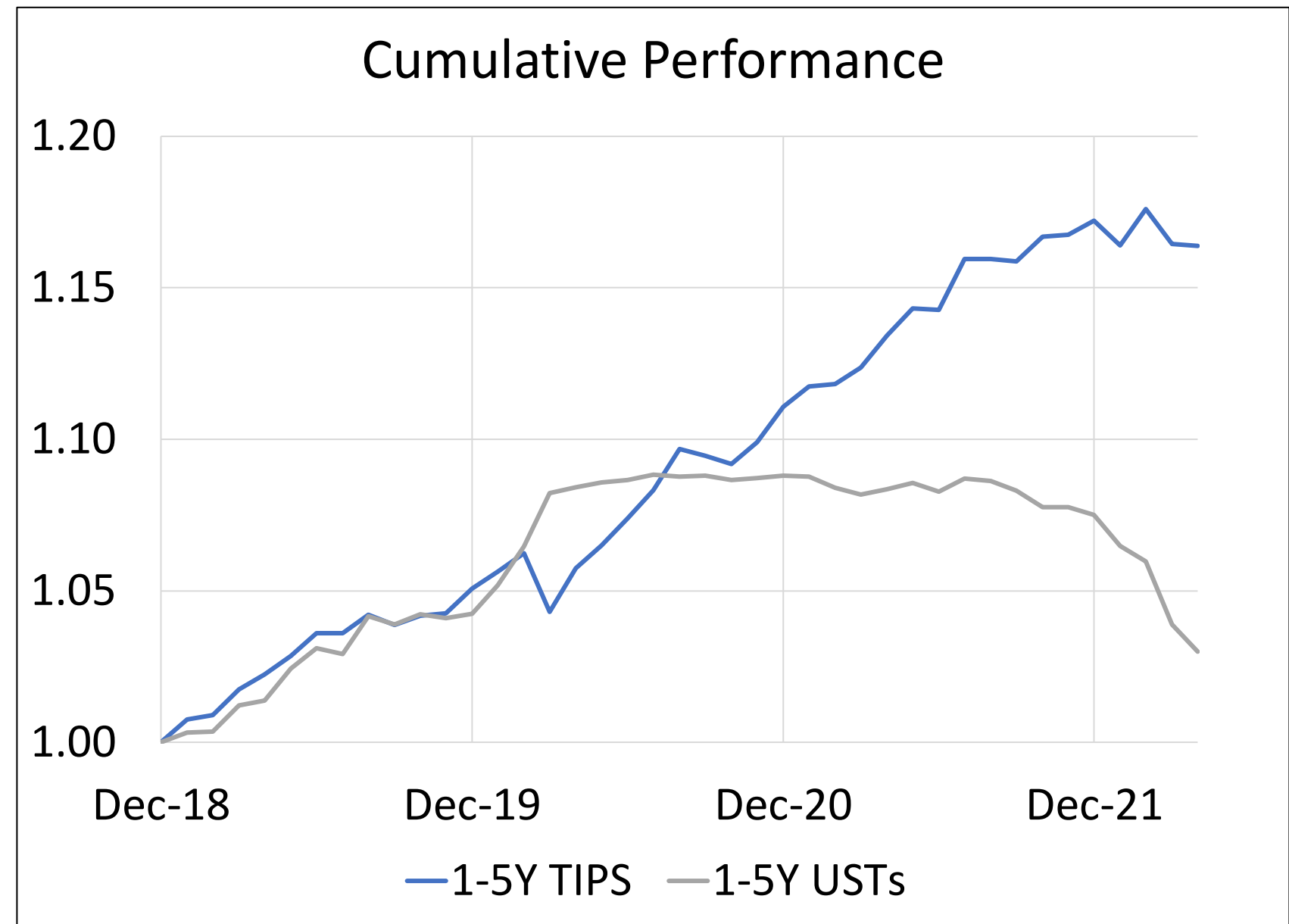


Source: BNY Mellon (custodian) as of March 31, 2022

Positioning US Treasuries During Inflationary Times

- Within US Treasuries, COAERS has two Treasury Inflation Protected Securities (TIPS) mandates which add inflation protection
- The two TIPS mandates cover the short (1-5 years) and intermediate (5-15 years) parts of the curve and have provided meaningful diversification benefits within USTs

While not a perfect inflation hedge, TIPS have held up much better through the recent volatility in interest rates



Source: Staff analysis of Bloomberg data

Fixed Income Performance

- Overall, strong manager selection and mandate specification have led to better returns than the underlying benchmarks

	Allocation		Rate of Return (%)								
	Market Value (\$)	%	MTD	QTD	CYTD	1 Year	3 Years	5 Years	10 Years	Since Incep.	Inception Date
Global Fixed Income	697,961,453	20.89	-2.81	-6.12	-6.12	-2.00	1.43	2.03	2.26	5.40	02/01/1991
Global Fixed Income Benchmark			-3.05	-6.16	-6.16	-6.40	0.69	1.43	1.88	5.22	
Excess Return			0.24	0.04	0.04	4.40	0.74	0.60	0.38	0.18	
US Treasuries	475,316,587	14.22	-2.89	-5.97	-5.97	-0.55	N/A	N/A	N/A	2.68	05/01/2019
US Treasuries Benchmark			-3.11	-5.58	-5.58	-3.67	1.39	1.76	1.68	1.53	
Excess Return			0.22	-0.39	-0.39	3.12	N/A	N/A	N/A	1.15	
US Mortgages	105,513,466	3.16	-2.72	-4.85	-4.85	-5.44	N/A	N/A	N/A	-0.34	08/01/2019
US Mortgages Benchmark			-2.60	-4.97	-4.97	-4.92	0.56	1.36	1.70	-0.25	
Excess Return			-0.12	0.12	0.12	-0.52	N/A	N/A	N/A	-0.09	
US Credit	117,131,400	3.51	-2.59	-7.83	-7.83	-4.01	N/A	N/A	N/A	2.03	08/01/2019
US Credit Benchmark			-2.51	-7.42	-7.42	-4.16	2.81	3.18	3.44	1.36	
Excess Return			-0.08	-0.41	-0.41	0.15	N/A	N/A	N/A	0.67	

Source: RVK Monthly Investment Performance Analysis, March 31, 2022

AGENDA ITEM 8:
Investment Committee

- B. Discuss and consider Amendment #3 to the Service Agreement between RVK and COAERS and amendment to the 2022 Investment Budget

AGENDA ITEM OBJECTIVE

The Board will conduct the required annual review of the System’s investment consultant.

RELEVANCE TO STRATEGIC PLAN

This agenda item is part of the core competency set forth in the **COAERS Strategic Plan “Prudent Investment Management: Fulfilling fiduciary duty through monitoring performance within adopted process and stated goals.”** Board review of the performance of the investment consultant helps ensure that Trustees monitor the performance of the portfolio and achieve the goal of prudent investment management.

RECOMMENDATION FOR COMMITTEE ACTION

The Investment Committee recommends that the Board approve Amendment No.3 to the Service Agreement between RVK and the System. The Investment Committee also recommends that the Board approve an amendment to the Investment budget to add funding of \$55,000 in 2022 for an asset liability study.

BACKGROUND

Best practices for fiduciaries require the regular evaluation of key service providers, particularly those that are engaged in a fiduciary capacity to provide strategic advice to the Board. To that end, Staff has (1) provided its assessment of the services RVK provides to COAERS and (2) conducted a detailed review of the relevant compliance and regulatory documents to gauge the overall health and stability of the firm. An overview of the fees paid to RVK since 2018 is below:

	2018A	2019A	2020A	2021A	2022E
Base fee	\$250,000	\$250,000	\$253,750	\$264,452	\$274,431
Asset Liability Study	\$40,000	-	-	-	\$55,000
TX 802.109 Report	-	-	\$45,000	-	-
Custodian RFP	-	-	\$35,000	-	-
TOTAL	\$290,000	\$250,000	\$333,750	\$264,452	\$329,431

The contract with RVK included an initial 3-year period that ended on June 30, 2020, and two potential extensions of 2 years. The first 2-year contract extension was executed and continues through June 30, 2022. This review covers services provided over the last year of that 2-year extension and will include a recommendation on the final proposed 2-year contract extension through June 30, 2024, with any further determination of general investment consulting services made through an RFP process prior to this date.

ATTACHMENTS

1. Staff Assessment of Investment Consultant Services
2. Proposed RVK Retainer Agreement Amendment 3
3. Proposed Update to the 2022 Investment Budget

SUPPLEMENTAL INFORMATION PROVIDED VIA CONVENE APP

1. Staff Review of RVK Firm, Compliance and Regulatory Documents
2. RVK Contract with COAERS as Amended

Staff Assessment of Investment Consultant Services

Summary rating: Outstanding. RVK was selected to provide objective, strategic advice to the Board and, in the view of Staff, has contributed meaningfully to the Fund through sound fiduciary recommendations and perspectives.

Governance: RVK perspectives on governance have provided thoughtful views on industry best practices and actively encouraged strategic focus, which avoids the often cookie cutter approach to advice on this subject. As a result, RVK has been able to help the Board solve for and move towards best-in-class Fund governance that is tailored to the needs of the System.

Written materials/communications: RVK has provided committee materials and presentations in advance of deadlines. In response to committee feedback, these materials have become more and more streamlined to help focus conversations on the most meaningful topics. RVK also provides capital market assumptions, detailed investment analysis, monthly performance reporting and materials for the annual comprehensive financial report in a timely and relatively accurate fashion. RVK has a dedicated email address for the COAERS relationship and individuals are prompt in their responses.

Meeting Attendance: As promised, RVK sends two consultants to be regular attendees of investment committee meetings and important board meetings with investment related items. Given health and safety guidance, attendance over the past year has been done virtually though RVK has expressed a willingness to return to attending in person when appropriate. Despite the challenges with virtual meetings, the consultants still manage to contribute meaningfully to the conversation and provide differentiated perspectives.

Manager Diligence: On the whole, RVK has provided meaningful contributions to manager selection, portfolio construction and Staff's efforts in the Premier List process. Staff notes that the RVK approach to manager selection and monitoring tends to focus on more customized approaches with fewer, best-in-class managers which is well aligned with the Premier List philosophy. However, should the Board choose to pursue certain private markets strategies, such as venture capital, it may be prudent to closely review RVK's capabilities and consider whether a specialized consultant could be additive to that approach.

Special Projects: Historically, RVK has provided assistance on a variety of special projects such as the asset/liability study, custodial bank RFP, TX 802.109 report and custom peer benchmarking reports with great success. Given the ongoing progress with pension modernization, it may be prudent to consider bringing forward the next required asset/liability study into 2022.

Other Considerations: The firm remains strongly committed to its conflict-free business model, which is a rarity in the consulting world and a source of strong alignment with clients. Billing and other operational details have been handled smoothly.

April 29, 2022



City of Austin Employees' Retirement System
6850 Austin Center Blvd., Suite 320
Austin, Texas 78731

Re: Amendment No. 3 to the Service Agreement ("Agreement") between RVK, Inc. and City of Austin Employees' Retirement System ("Client")

Dear Client,

Thank you very much for the opportunity to serve you as your investment consultant. This Amendment No. 3 (the "Amendment") extends the term of the Agreement as indicated below.

Whereas, pursuant to Section 1 of the Agreement, RVK and Client exercise the final option to renew the agreement for two (2) years, commencing July 1, 2022 and ending June 30, 2024.

Client may extend the term of this Agreement on a month-to-month basis subsequent to June 30, 2024. Either party may terminate this contract at any time after June 30, 2024 by providing 30 days prior notice at the beginning of a calendar month.

If the foregoing meets with your approval, please sign this Agreement. This Agreement may be executed in one or more counterparts, each of which shall be considered to be an original, and all of which, when taken together, shall constitute one of the same instrument. Delivery of an executed counterpart of a signature page of this Agreement by facsimile or electronic mail in portable document format shall be effective as delivery of a manually executed counterpart of this Agreement.

Best Regards,

Rebecca A. Gratsinger, CFA
Chief Executive Officer
RVK, Inc.



This Agreement is executed by the person(s) signing below who warrant that they have the authority to execute this contract.

City of Austin Employees' Retirement System

Authorized Signature _____

Name (print) _____

Title (print) _____

Date Executed _____

Authorized Signature _____

Name (print) _____

Title (print) _____

Date Executed _____

RVK, Inc.

Authorized Signature _____

Name: Rebecca A. Gratsinger

Title: Chief Executive Officer

Date Executed: _____

COAERS Investment Budget -2022E		
		2022 Budget
Investment Manager Fees		
	Total Investment Manager Fees	8,863,532
	Basis Points of Average AUM	24.9
Investment Consulting		
	Investment Consultant - Base Fees	274,431
	Investment Consultant - Project Fees	55,000
	Total Investment Consultant Costs	329,431
Investment Personnel		
	Total Personnel Costs	1,305,719
Travel and Training		
	Due Diligence & Site Visits	30,000
	Staff Continuing Education	35,000
	Total Travel and Training Costs	65,000
Staff Investment Resources		
	Investment Systems	175,000
	Investment Research	160,000
	Memberships and Licenses	25,000
	Total Staff Investment Resources Costs	360,000
Other Investment Costs		
	Investment Legal Counsel	75,000
	Reporting and Monitoring	50,000
	Subscriptions	10,000
	Securities Lending Fees	-
	Commissions & Other Transaction Costs	220,000
	Transition and Other Fees	50,000
	Custodial Fees	260,000
	Total Other Investment Costs	665,000
	Total Investment Budget	\$ 11,588,682
	Basis Points of Average AUM	32.6

AGENDA ITEM 8:
Investment Committee

C. Discuss results of the investment beliefs survey

AGENDA ITEM OBJECTIVE

The Board will receive a presentation discussing the results of the recent investment beliefs survey.

RELEVANCE TO STRATEGIC PLAN

This agenda item is central to **COAERS Strategic Plan Goal 4: Identify and implement leading practices in board governance, pension administration, and investment management**. Investment beliefs represent key foundational concepts on which recommendations in the investment program are based.

RECOMMENDATION FOR BOARD ACTION

For discussion and informational purposes only, no action required.

BACKGROUND

Adopted in 2017, the System's investment beliefs are codified into the Investment Policy Statement and represent foundational assumptions that shape the way the investment program is structured and implemented. In this agenda item, Staff will lead a review of these investment beliefs based on recent survey information and discuss with the Board any next steps to update these adopted beliefs.

ATTACHMENT

1. Staff Presentation: "Refreshing the System's Investment Beliefs"
2. Investment Beliefs Survey Results



Refreshing the System's Investment Beliefs

David Stafford

Deputy Chief Investment Officer

June 23, 2022

Investment Beliefs

- Having a coherent and explicit investment philosophy is a best practice that can help enhance governance and performance
- The Board has adopted investments beliefs in the Investment Policy Statement which set the direction of investment policy, implementation and governance
- They help define how COAERS will create investment value in the context of future uncertainty, risk and opportunity

- The purpose of this survey was to gauge the appropriateness of the adopted investment beliefs and guide conversations about any modifications that might be prudent to consider

- The goal for this presentation is to provide an overview of the survey responses, discuss various perspectives and propose next steps in this process

Survey Methodology

- Respondents:
 - Trustees: 9
 - Staff: 4
 - RVK: 3
- Scoring: higher average scores indicate stronger agreement with the statement

Response	Score
Strongly Agree	5
Agree	4
Neither Agree nor Disagree	3
Disagree	2
Strongly Disagree	1
Don't Know/Need More Information	Omitted

- Dispersion of responses: the standard deviation of scores; a higher number indicates a wider range of views

Current Investment Beliefs		Total Responses						Average Response				Dispersion of Responses
Question	Statement	Strongly Agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree	Don't know/NMI	All Respondents	Trustees Only	Staff Only	RVK Only	
1	The Fund is a permanent entity with long-lived liabilities and, as such, it should strive to be a thoughtful, analytical, and patient investor that is focused on achieving successful outcomes.	11	5	0	0	0	0	4.69	4.44	5.00	5.00	0.46
2	Clear governance and decision-making structures that promote decisiveness, simplicity, efficiency, and accountability are effective and add value to the Fund.	12	4	0	0	0	0	4.75	4.56	5.00	5.00	0.43
3	To the extent possible, investment decision-making should be driven by data and analysis, including the findings of relevant research on financial markets and investment management.	13	3	0	0	0	0	4.81	4.67	5.00	5.00	0.39
4	Strategic asset allocation is the most critical aspect of the investment process, with the level of risk assumed by the Fund driven primarily by its allocation to equity investments.	8	6	1	0	0	1	4.47	4.25	4.75	4.67	0.62
5	The Fund should seek to be well compensated for the investment risks it chooses to bear, risks that should be articulated at the time of investment and revisited regularly.	10	6	0	0	0	0	4.63	4.33	5.00	5.00	0.48
6	Diversification across asset classes and risk factors is central to the System's investment strategy, and investments that may improve the Fund's risk/return profile will be considered.	11	4	1	0	0	0	4.63	4.33	5.00	5.00	0.60
7	Equities are the most prudent investment vehicle for long-term growth of real values, and the associated drawdown risk should be carefully managed in light of the Fund's liabilities.	6	8	0	0	0	2	4.43	4.29	4.25	5.00	0.49
8	Costs can significantly reduce net returns and therefore must be carefully measured and managed when making decisions regarding investment strategy and implementation.	11	5	0	0	0	0	4.69	4.56	5.00	4.67	0.46
9	Implementation should occur passively and in public markets unless a high likelihood of success on a risk-adjusted, net-of-fees basis can be expected from other approaches.	9	6	0	0	0	1	4.60	4.38	4.75	5.00	0.49

Current Beliefs

- Survey results suggest that there is broad agreement among the existing investment beliefs
- Questions 4 and 7 discuss the role of equities in the total Fund and show the lowest (though still high) levels of agreement

Prospective Beliefs

Prospective Investment Beliefs		Total Responses						Average Response				Dispersion of Responses
Question	Statement	Strongly Agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree	Don't know/NMI	All Respondents	Trustees Only	Staff Only	RVK Only	
10	Risk is multi-faceted and robust risk management enhances our ability to achieve our mandates.	10	5	1	0	0	0	4.56	4.22	5.00	5.00	0.61
11	Markets are largely efficient over the long term (10–20 years); however, during certain economic and financial environments markets may not be efficient in setting prices.	7	5	3	0	0	1	4.27	4.13	4.00	5.00	0.77
12	Environmental, social and governance (ESG) considerations matter and are especially important for investors with a long-term investment horizon.	3	4	7	1	1	0	3.44	3.11	3.00	5.00	1.06
13	The relative performance of asset classes and investment styles is generally subject to reversion to the mean, although timing such moves is challenging.	2	11	3	0	0	0	3.94	3.89	3.75	4.33	0.56
14	Investment or asset class constraints and/or mandates will likely reduce investment returns.	4	3	6	0	0	3	3.85	3.57	4.75	3.00	0.86
15	A long-time horizon enables the Fund to invest in private market strategies which may provide diversification and/or enhanced returns, provided Fund liquidity is carefully managed.	8	5	0	1	0	2	4.43	3.86	5.00	5.00	0.82
16	Investment decisions may reflect wider stakeholder views, provided they are consistent with fiduciary duty to members and beneficiaries.	3	6	6	0	1	0	3.63	3.67	3.00	4.33	0.99
17	In pursuing a diversified portfolio, investments should be primarily considered and evaluated based on their functional role in the total Fund context.	7	7	0	0	0	2	4.50	4.00	5.00	5.00	0.50
18	Where appropriate, resources should be allocated to well-aligned, internal investment functions in order to improve outcomes over time.	9	2	3	0	0	2	4.43	3.86	5.00	5.00	0.82

- Responses suggest a few topics that likely could use additional discussion such as ESG, private markets and internal resources
- Questions 10, 15, 17 and 18 scored equal to or higher than the lowest scoring current investment belief

Role of Equities and Risk Management

- These three statements garnered favorable responses and focus on similar topics of risk management, equity allocations and the strategic asset allocation

Question	Statement	Total Responses						Average Response				Dispersion of Responses
		Strongly Agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree	Don't know/NMI	All Respondents	Trustees Only	Staff Only	RVK Only	
4	Strategic asset allocation is the most critical aspect of the investment process, with the level of risk assumed by the Fund driven primarily by its allocation to equity investments.	8	6	1	0	0	1	4.47	4.25	4.75	4.67	0.62
7	Equities are the most prudent investment vehicle for long-term growth of real values, and the associated drawdown risk should be carefully managed in light of the Fund's liabilities.	6	8	0	0	0	2	4.43	4.29	4.25	5.00	0.49
10	Risk is multi-faceted and robust risk management enhances our ability to achieve our mandates.	10	5	1	0	0	0	4.56	4.22	5.00	5.00	0.61

Stewardship and Sustainability

- The statements regarding stewardship had the largest dispersion of views and could likely warrant additional discussion around what these concepts suggest

Question	Statement	Total Responses						Average Response				Dispersion of Responses
		Strongly Agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree	Don't know/NMI	All Respondents	Trustees Only	Staff Only	RVK Only	
12	Environmental, social and governance (ESG) considerations matter and are especially important for investors with a long-term investment horizon.	3	4	7	1	1	0	3.44	3.11	3.00	5.00	1.06
16	Investment decisions may reflect wider stakeholder views, provided they are consistent with fiduciary duty to members and beneficiaries.	3	6	6	0	1	0	3.63	3.67	3.00	4.33	0.99

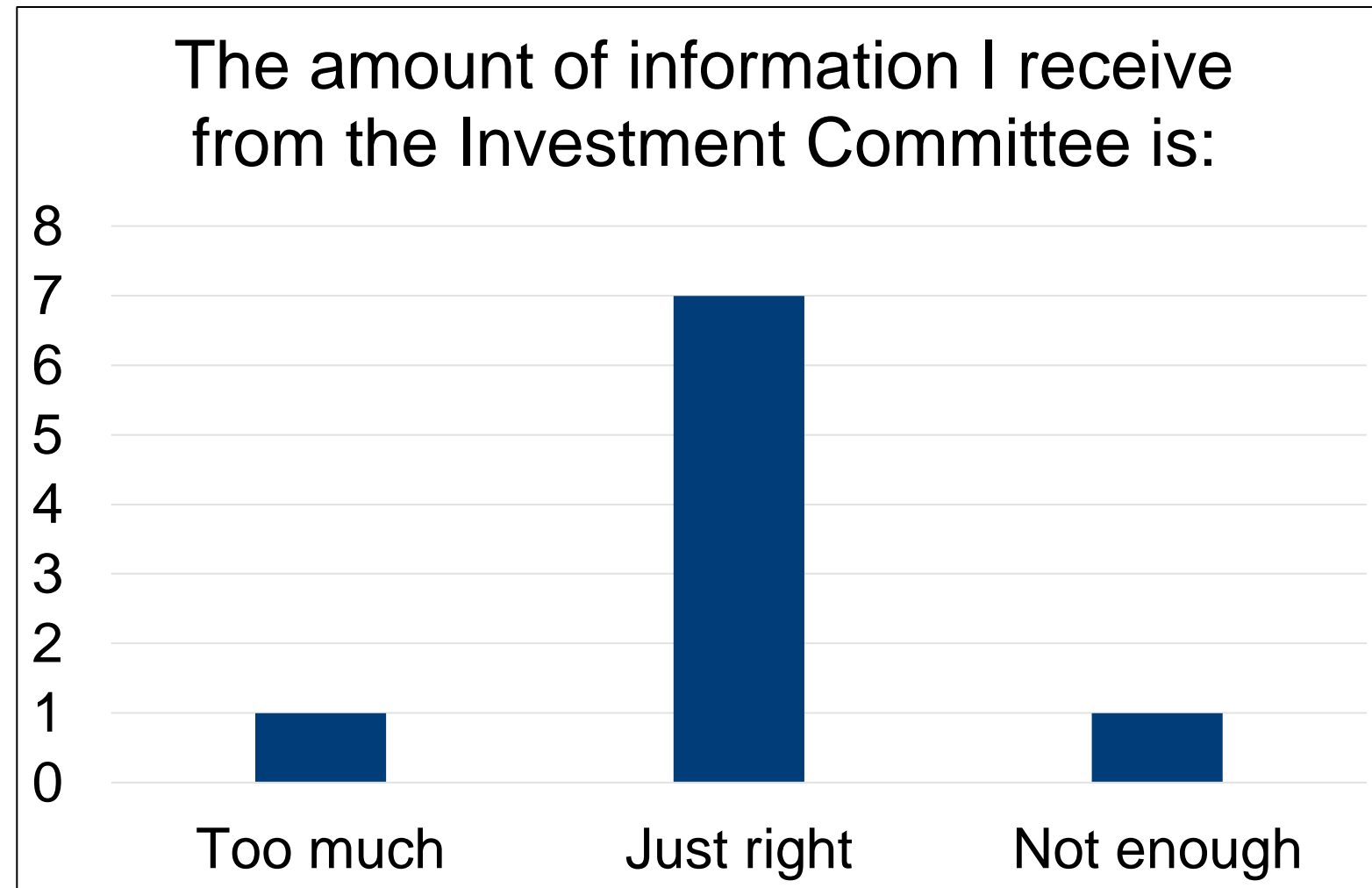
Strongest Contenders Among Prospective Beliefs

- The below prospective statements all scored within the range of existing investment beliefs and have strong agreement from Staff and Consultant

Question	Statement	Total Responses						Average Response				Dispersion of Responses
		Strongly Agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree	Don't know/NMI	All Respondents	Trustees Only	Staff Only	RVK Only	
10	Risk is multi-faceted and robust risk management enhances our ability to achieve our mandates.	10	5	1	0	0	0	4.56	4.22	5.00	5.00	0.61
15	A long-time horizon enables the Fund to invest in private market strategies which may provide diversification and/or enhanced returns, provided Fund liquidity is carefully managed.	8	5	0	1	0	2	4.43	3.86	5.00	5.00	0.82
17	In pursuing a diversified portfolio, investments should be primarily considered and evaluated based on their functional role in the total Fund context.	7	7	0	0	0	2	4.50	4.00	5.00	5.00	0.50
18	Where appropriate, resources should be allocated to well-aligned, internal investment functions in order to improve outcomes over time.	9	2	3	0	0	2	4.43	3.86	5.00	5.00	0.82

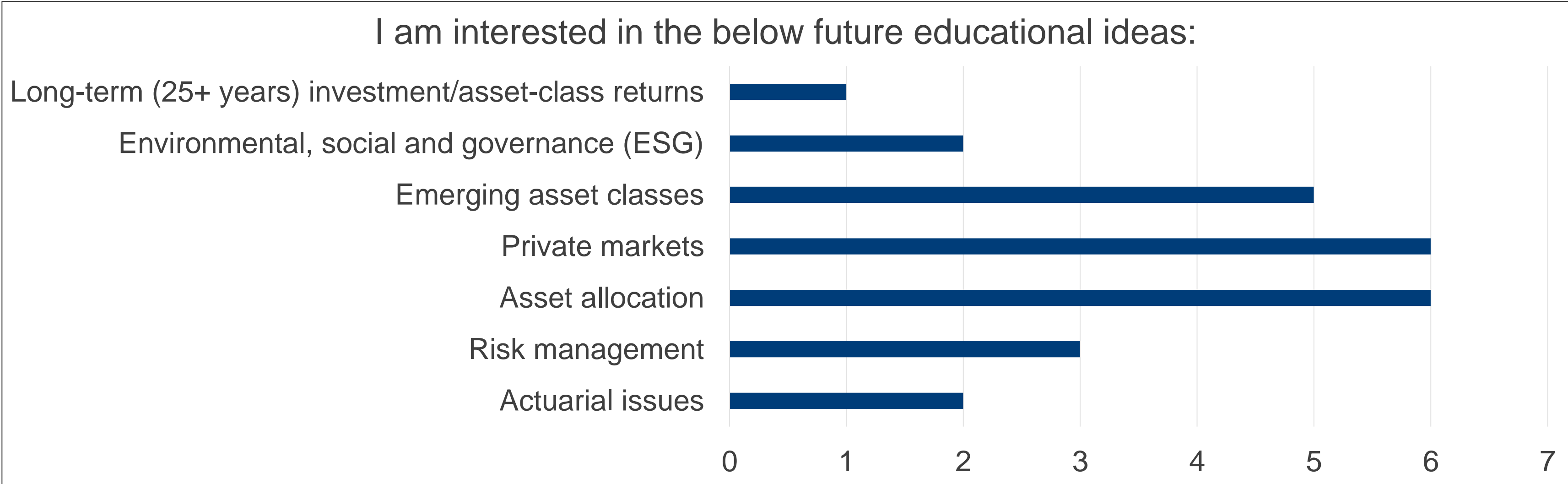
Amount of Information Provided from IC

- Trustee responses generally suggest that just the right amount of information is being provided by the investment committee after recent efforts to streamline packets



Future Educational Areas

- Educational interest in private markets, asset allocation and emerging asset classes remain popular among Trustees



Staff Recommendation on Next Steps

- Educational, training and discussion in three major areas:
 1. Role of equities and risk management
 2. The potential of private markets and emerging asset classes
 3. Stewardship and sustainability (i.e. ESG)
- These items could be discussed at the next IC meeting and Board retreat in October alongside any proposed amendments to the adopted investment beliefs

Current Investment Beliefs		Total Responses						Average Response				Dispersion of Responses	Original Source
Question	Statement	Strongly Agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree	Don't know/NMI	All Respondents	Trustees Only	Staff Only	RVK Only		
1	The Fund is a permanent entity with long-lived liabilities and, as such, it should strive to be a thoughtful, analytical, and patient investor that is focused on achieving successful outcomes.	11	5	0	0	0	0	4.69	4.44	5.00	5.00	0.46	COAERS IPS
2	Clear governance and decision-making structures that promote decisiveness, simplicity, efficiency, and accountability are effective and add value to the Fund.	12	4	0	0	0	0	4.75	4.56	5.00	5.00	0.43	COAERS IPS
3	To the extent possible, investment decision-making should be driven by data and analysis, including the findings of relevant research on financial markets and investment management.	13	3	0	0	0	0	4.81	4.67	5.00	5.00	0.39	COAERS IPS
4	Strategic asset allocation is the most critical aspect of the investment process, with the level of risk assumed by the Fund driven primarily by its allocation to equity investments.	8	6	1	0	0	1	4.47	4.25	4.75	4.67	0.62	COAERS IPS
5	The Fund should seek to be well compensated for the investment risks it chooses to bear, risks that should be articulated at the time of investment and revisited regularly.	10	6	0	0	0	0	4.63	4.33	5.00	5.00	0.48	COAERS IPS
6	Diversification across asset classes and risk factors is central to the System's investment strategy, and investments that may improve the Fund's risk/return profile will be considered.	11	4	1	0	0	0	4.63	4.33	5.00	5.00	0.60	COAERS IPS
7	Equities are the most prudent investment vehicle for long-term growth of real values, and the associated drawdown risk should be carefully managed in light of the Fund's liabilities.	6	8	0	0	0	2	4.43	4.29	4.25	5.00	0.49	COAERS IPS
8	Costs can significantly reduce net returns and therefore must be carefully measured and managed when making decisions regarding investment strategy and implementation.	11	5	0	0	0	0	4.69	4.56	5.00	4.67	0.46	COAERS IPS
9	Implementation should occur passively and in public markets unless a high likelihood of success on a risk-adjusted, net-of-fees basis can be expected from other approaches.	9	6	0	0	0	1	4.60	4.38	4.75	5.00	0.49	COAERS IPS

Prospective Investment Beliefs		Total Responses						Average Response				Dispersion of Responses	Original Source
Question	Statement	Strongly Agree	Agree	Neither agree nor disagree	Disagree	Strongly disagree	Don't know/NMI	All Respondents	Trustees Only	Staff Only	RVK Only		
10	Risk is multi-faceted and robust risk management enhances our ability to achieve our mandates.	10	5	1	0	0	0	4.56	4.22	5.00	5.00	0.61	Future Fund
11	Markets are largely efficient over the long term (10–20 years); however, during certain economic and financial environments markets may not be efficient in setting prices.	7	5	3	0	0	1	4.27	4.13	4.00	5.00	0.77	LACERA
12	Environmental, social and governance (ESG) considerations matter and are especially important for investors with a long-term investment horizon.	3	4	7	1	1	0	3.44	3.11	3.00	5.00	1.06	UTAM
13	The relative performance of asset classes and investment styles is generally subject to reversion to the mean, although timing such moves is challenging.	2	11	3	0	0	0	3.94	3.89	3.75	4.33	0.56	WSIB
14	Investment or asset class constraints and/or mandates will likely reduce investment returns.	4	3	6	0	0	3	3.85	3.57	4.75	3.00	0.86	WSIB
15	A long-time horizon enables the Fund to invest in private market strategies which may provide diversification and/or enhanced returns, provided Fund liquidity is carefully managed.	8	5	0	1	0	2	4.43	3.86	5.00	5.00	0.82	COAERS Staff
16	Investment decisions may reflect wider stakeholder views, provided they are consistent with fiduciary duty to members and beneficiaries.	3	6	6	0	1	0	3.63	3.67	3.00	4.33	0.99	CaIPERS
17	In pursuing a diversified portfolio, investments should be primarily considered and evaluated based on their functional role in the total Fund context.	7	7	0	0	0	2	4.50	4.00	5.00	5.00	0.50	COAERS Staff
18	Where appropriate, resources should be allocated to well-aligned, internal investment functions in order to improve outcomes over time.	9	2	3	0	0	2	4.43	3.86	5.00	5.00	0.82	COAERS Staff

9. Discuss and consider Board Resolution 2022-0623

Presented by Christopher Hanson

AGENDA ITEM 9:
Discuss and consider Board Resolution 2022-0623

AGENDA ITEM OBJECTIVE

This agenda item is intended for the Board to consider adoption of a new resolution authorizing certain staff members to provide instructions to COAERS investment managers.

RELEVANCE TO STRATEGIC PLAN/CORE COMPETENCIES

This agenda item aligns with one of the five core competencies of in the **COAERS Strategic Plan**: “*Dependable operations*: Managing the financial and operational commitments of the system within appropriate measurable standards.”

RECOMMENDATION FOR BOARD ACTION

Staff recommends the adoption of Board Resolution 2022-0623.

BACKGROUND

Historically, the Board has authorized certain staff members to give instructions to COAERS investment managers. This agenda item seeks to replace the current Board Resolution 2022-0131 with a new proposed Board Resolution. The reason for the change is the appointment of Mr. David Kushner as COAERS Chief Investment Officer and Mr. David Stafford as Deputy Chief Investment Officer. COAERS General Counsel has reviewed and approved the proposed Board Resolution.

ATTACHMENT

1. Proposed Board Resolution 2022-0623
2. Resolution Signatory Page
3. Board Resolution 2022-0131

RESOLUTION NO. 2022-0623

A RESOLUTION OF THE CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM BOARD OF TRUSTEES AUTHORIZING THE EXECUTIVE DIRECTOR, THE CHIEF INVESTMENT OFFICER, DEPUTY CHIEF INVESTMENT OFFICER, AND THE DEPUTY EXECUTIVE DIRECTOR TO GIVE WRITTEN INSTRUCTIONS TO INVESTMENT MANAGERS

WHEREAS, the City of Austin Employees' Retirement System ("COAERS") contracts with several investment managers to supervise and manage the investment of System funds (the "Investment Managers"); and

WHEREAS, the Board wishes to designate those persons who are authorized to communicate and give written instructions to the Investment Managers on the System's behalf.

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF TRUSTEES OF THE CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM, TEXAS:

Authority to Give Instructions. The Executive Director, Christopher D. Hanson; the Deputy Executive Director, Russell D. Nash; the Chief Investment Officer, David Kushner; and the Deputy Chief Investment Officer, David Stafford; are authorized to communicate with and give instructions to the Investment Managers with whom the System contracts from time to time, as authorized by the Board of Trustees and as required from time to time in the daily business of the System, with respect to all matters under the respective investment management agreements; provided that such instructions and communications shall be in writing or confirmed in writing and provided further that instructions to transfer funds outside of the trust are not authorized. All prior authorizations related to persons authorized to instruct Investment Managers, including but not limited to Resolution 2022-0131, are cancelled.

PASSED AND APPROVED this the 23rd day of June 2022.

ATTEST:

CITY OF AUSTIN EMPLOYEES'
RETIREMENT SYSTEM, TEXAS

Sarah McCleary, Executive Assistant

Chris Noak, Board Chair



**BOARD RESOLUTION
NO. 2022-0623**

AUTHORITY TO GIVE INSTRUCTIONS

The resolution referenced above grants named individuals ***Authority to Give Instructions*** to Investment Managers on the System's behalf. The following are signatures of those authorized persons and their corresponding titles:

Name:

Christopher D. Hanson

Title: Executive Director

Name:

Russell D. Nash

Title: Deputy Executive Director

Name:

David Kushner

Title: Chief Investment Officer

Name:

David Stafford

Title: Deputy Chief Investment Officer

RESOLUTION NO. 2022-0131

A RESOLUTION OF THE CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM BOARD OF TRUSTEES AUTHORIZING THE EXECUTIVE DIRECTOR, THE INTERIM CHIEF INVESTMENT OFFICER, AND THE DEPUTY EXECUTIVE DIRECTOR TO GIVE WRITTEN INSTRUCTIONS TO INVESTMENT MANAGERS

WHEREAS, the City of Austin Employees' Retirement System ("COAERS") contracts with several investment managers to supervise and manage the investment of System funds (the "Investment Managers"); and

WHEREAS, the Board wishes to designate those persons who are authorized to communicate and give written instructions to the Investment Managers on the System's behalf.

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF TRUSTEES OF THE CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM, TEXAS:

Authority to Give Instructions. The Executive Director, Christopher D. Hanson, the Deputy Executive Director, Russell D. Nash, , and the Interim Chief Investment Officer, David Stafford, are authorized to communicate with and give instructions to the Investment Managers with whom the System contracts from time to time, as authorized by the Board of Trustees and as required from time to time in the daily business of the System, with respect to all matters under the respective investment management agreements; provided that such instructions and communications shall be in writing or confirmed in writing and provided further that instructions to transfer funds outside of the trust are not authorized. All prior authorizations related to persons authorized to instruct Investment Managers, including but not limited to Resolution 2021-0728, are cancelled.

PASSED AND APPROVED this the 31st day of January 2022.

ATTEST:

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM, TEXAS

DocuSigned by:

7818278342AA4BC...
Sarah McCleary, Executive Assistant

DocuSigned by:

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Chris Noak, Board Chair

10. Governance Committee:

A. Discuss and consider Election Policy

B. Discuss and consider Emergency

Succession Policy

AGENDA ITEM 10:
Governance Committee

A. Discuss and consider Election Policy

AGENDA ITEM OBJECTIVE

This agenda item is for discussion and consideration of the Election Policy

RELEVANCE TO STRATEGIC PLAN

This agenda item meets with the core competency established in the **COAERS Strategic Plan** *“Dependable operations: Managing the financial and operational commitments of the system within appropriate measurable standards”*.

RECOMMENDATION FOR BOARD ACTION

The Governance Committee recommends the Board adopt the Election Policy.

BACKGROUND

This year the Board will conduct an election for Retired Member Place 11 currently held by Mr. Anthony B. Ross, Sr. The election will be held in fall of 2022 with ballots distributed late October and the election concluding December 1, 2022.

COAERS statutes require the Board to review and approve written procedures for the election no later than August 1 of each year in which an election is held. These procedures are memorialized in the Board’s policy “Election for Active-Contributory and Retired Board Members” (Election Policy). This agenda item is designed to review the edits to the Election Policy. Staff has the following proposed changes summarized as follows:

1. The duties of “volunteers” have been made more general.
2. Language from the COAERS Bylaws has been added to allow videoconferencing if the Election Committee Chair is physically present at the location posted on the agenda.
3. The prohibition on two candidates running from the same department has been clarified as the COAERS statutes only apply this provision to active elections.

ATTACHMENT

1. Draft Election for Active-Contributory and Retired Board Members Policy



Board Approved Policy

Subject: Election for Active-Contributory and Retired Board Members

Review Committee: Policy

Date Implemented: July 23, 1998

Date Updated: June 23, 2022

Signature of Chairperson: _____
Chris Noak

**CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM
BOARD APPROVED POLICY E-1
ELECTION POLICY FOR
ACTIVE-CONTRIBUTORY AND RETIRED BOARD MEMBERS**

I. PURPOSE AND SCOPE

This Policy sets forth a plan for the election of Active-Contributory and Retired Members, Places Six through Eleven, to the City of Austin Employees' Retirement System (COAERS) Board of Trustees (Board) based upon the requirements stated in Article 6243n., Tex. Rev. Civ. Stat. (the "Act"), regarding the City of Austin Employees' Retirement System. Member-elected Trustees each serve on the Board for a four-year term, with the term beginning on January 1.

Subject to the Act, the Board is composed of a total of eleven Members:

Place One	City Council Member
Place Two	City Manager of the City of Austin or designee
Place Three	Council Appointed Citizen Member
Place Four	Council Appointed Citizen Member
Place Five	Board Appointed Citizen Member
Place Six	Active-Contributory Member
Place Seven	Active-Contributory Member
Place Eight	Active-Contributory Member
Place Nine	Active-Contributory Member
Place Ten	Retired Member
Place Eleven	Retired Member

This Policy also sets forth a plan for special elections to fill unexpired terms of one year or longer of Active-Contributory and Retired Board Members whose service is terminated by death, resignation, termination of employment, disability, retirement, or removal of the Board Member.

If the unexpired term is less than one year, or if a general election is scheduled to be held within approximately one year for which sufficient notice of a special election may be given, the Board may appoint an Active-Contributory or Retired Member to fill the remaining term until the next available general election date (refer to Board-Approved Policy A-1 "Appointments to Fill Unexpired Terms").

II. RESPONSIBILITIES

- A. COAERS Board of Trustees:** Will review and approve this Policy to assure conformance with the Act, as well as provide for the conduct of the election process. Board Trustees are strongly recommended not to provide written endorsement for any candidate and efforts should be made by Board Trustees to avoid public endorsement of any candidate.
- B. Nominating and Election Committee Members:** Will oversee the election process, prepare the ballot, canvass the returns, serve as election judges, and declare the official results of the election.
- C. Alternate Committee Members:** Will perform all of the duties and responsibilities of a Committee member when so designated by the Nominating and Election Committee Chair. Otherwise, Alternate Committee members cannot make motions, second a motion, or vote on Committee decisions.
- D. Executive Director:** May approve variances to the approved election schedule in consultation with the Nominating and Election Committee Chair to facilitate the election consistent with the Act. Variances will be reported to the Nominating and Election Committee at their next scheduled meetings.
- E. COAERS Staff:** Will maintain election procedures, coordinate the election process, provide support to the Nominating and Election Committee, prepare disclosure forms required by this Policy, and conduct a Candidates' Training Workshop. The Candidates' Training Workshop will include training in the fiduciary responsibilities of the Trustees, ethics, and behaviors as a candidate, and for service as a Trustee.
- F. Candidates:** Will comply with the application and timeline requirements as established in this Policy. Are strongly encouraged to attend the Candidates' Training Workshop.
- G. Volunteers:** COAERS members who have properly notified COAERS staff of their willingness to assist ~~with the counting of ballots~~ Committee and Staff. Volunteers cannot vote or participate in any decision of the Nominating and Election Committee.

Commented [RN1]: COAERS now uses a vendor to count ballots, so we have made this definition more general.

III. GUIDELINES

A. DUTIES OF THE NOMINATING AND ELECTION COMMITTEE

1. The Nominating and Election Committee (the "Committee") will oversee the election process in conformance with this Policy and may authorize Staff to facilitate activities of the election.
2. The Committee will evaluate the potential candidates to assure they meet the qualification requirements in III.B. of this Policy, which are also stated in the Act.
3. The Committee will reconvene following the election to tabulate the votes or review the tabulation of the votes by a third-party vendor, certify the results, and ensure candidates are contacted with the results.
4. The Committee will receive and investigate any challenge(s) to the election by any official candidate (refer to III.F. below).
5. The Committee Chair or designee will report the election results to the Board.

6. A quorum of the Committee shall be a majority of the members of the Committee excluding alternates and volunteers. The Nominating and Election Committee Chair can appoint Alternate Committee Members to serve as Committee Members in-person, by telephone, or by paper or electronic written communication as needed.

Commented [RN2]: This paragraph is not new, it has been relocated to this subsection from subsection E.

7. Meetings of the Committee shall be held at a place designated by the agenda of each Board meeting, except as may be otherwise authorized by the Texas Open Meetings Act. If the Committee Chair is not present at the physical location of the Committee meeting, the Secretary will serve as the presiding officer. If the Committee Chair and the Secretary are not present at the physical meeting location, the Committee member with the longest service on the Committee, as determined by Staff, shall serve as the presiding officer.

Commented [RN3]: This is the same language used in the COAERS bylaws which allows videoconferencing if the Chair is physically present at the location posted on the agenda.

C. CANDIDATE QUALIFICATIONS

1. Each candidate must be an Active-Contributory or Retired Member of COAERS, as appropriate, and maintain that status from the date of the candidate's application through the day before the results of the election are certified by the Board.
2. The Act provides that "Not more than one active-contributory member may

be eligible for election from any one department or office or similar organizational unit that is established in the annual budget of an employer and that is not a part of any department." Persons from departments currently represented on the Board may not be election candidates except at an election to fill the place then held by such Board member. For the purpose of determining whether a particular department is currently represented on the Board, the department a Trustee represents is determined at the time the Trustee is elected and will remain as such throughout the term of his/her office regardless of interdepartmental position changes of the Trustee during that particular term on the Board. Interdepartmental position changes of a Trustee that occur after the election do not disqualify the Trustee from serving the remainder of his or her term.

C. CANDIDATE REQUIREMENTS

1. Qualified candidates must submit an application by the established deadline to the Retirement Office for consideration. Applications filed with COAERS for the purpose of a Member becoming a candidate for election to the Board are public information and are not "Member" information that is confidential under Sec. 13 of the Act.
2. Candidates who do not meet the deadline for filing applications will not be presented on the official election ballot.
3. Candidates will be provided a specific timeline in which to review their election ballot statement and submit any revisions.

D. MEMBERS ELIGIBLE TO VOTE

1. Member-elected Trustees are elected at large by the appropriate membership voting in the election (Active-Contributory or Retired).
2. All current COAERS Retirees receiving an annuity from the COAERS will be eligible to vote in Retired Member elections. Beneficiaries are not entitled to vote.
3. All current COAERS Active-Contributory Members will be eligible to vote in Active-Contributory Member elections.
4. City employees who have not yet attained membership in COAERS or those employees participating in another City retirement system (e.g. Austin Police or Fire retirement systems) are not eligible to vote.

E. GENERAL ELECTION PROCESS

1. General elections shall be held in December to fill full, four-year terms of office. Timelines for the process may begin earlier as outlined in Staff procedures to ensure a thorough and timely election process.
2. In accordance with the Act, no later than August 1, the Board shall review/approve this Policy for the conduct of the election.
3. The Board will appoint a Committee no later than the first day of October.
 - a. Staff is responsible for recruitment of the Committee Members for Board approval. The Board will appoint the Committee Members and alternates as specified in the Act. The Board may authorize Staff to recruit and appoint Committee Members as appropriate.
 - b. Committee Members for Retired Member Trustee elections (places ten and eleven) must be retired at the time the Member is appointed to the Committee. The Act provides that only Retired Members may be appointed to the election Committee.
 - c. If a Member of the Committee files an application to run for a Retired Member Trustee position, the filing of the application constitutes an automatic resignation from the Committee.
 - ~~d. a. A quorum of the Committee shall be a majority of the members of the Committee excluding alternates and volunteers. The Nominating and Election Committee Chair can appoint Alternate Committee Members to serve as Committee Members in person, by telephone, or by paper or electronic written communication as needed.~~
4. Staff will coordinate a schedule for the election activities for approval by the Committee. At the first meeting, the Committee will review the duties of the Committee, the election policy and procedures, and the schedule of election activities, and elect from its membership a Chair and Secretary.
5. If the Board authorizes the use of a third-party to conduct election activities including but not limited to, distribution of the ballots, providing online electronic election tools for voters, tabulation of votes, and communication to voters, Staff and the Committee will work with the third-party to conduct the election.
6. Staff will coordinate the election meetings and activities in accordance with established procedures.
7. In the event that no candidates submit applications by the established deadline, the election process will start over and all timeframes will be adjusted accordingly.

8. If a single candidate is unopposed, the election process will be followed as established in this Policy and the election procedures.
9. The Committee will evaluate the candidate applications to assure they meet the qualification requirements of this Policy, which are also stated in the Act (refer to III.B. above).
10. An educational workshop will be offered to advise candidates of the requirements of serving on the Board. Although strongly encouraged to attend, candidates may decide whether or not to attend the workshop. A training workshop will not be conducted if none of the candidates are interested in attending.
11. Candidates will be given an opportunity to withdraw their application from the election or modify their ballot statement at the conclusion of the workshop.
12. The Committee will review applications filed by candidates. The review will include a determination of COAERS membership, timeliness of the filing, and word limit. The Committee will establish a timeline for statement modification.
13. The Committee will authorize Staff to prepare the election ballot and coordinate ballot printing. The only information about the candidates that will appear on the ballot will be as follows:
 - a. For active member elections, the candidates' name, department, position, and length of city employment, or
 - b. For retired members, the candidates' name, the department from which the member retired, the last position held, and the length of city employment.
14. The candidate statement will be included with the ballots sent to voters on a separate document. Candidate statements will be prepared verbatim from Member applications. Candidates will be given the option to include a photo with the candidate statement.
15. The Committee shall specify on the ballot the exact date and time the ballot must be completed online, received through the mail, or delivered in person in order for the ballot to be counted. Numbers will be drawn to determine candidate placement on the ballot.
16. The Committee will verify printed ballot information. If all information is correct, the Committee may authorize Staff to hire a qualified independent

company to insert and mail the ballots on the date scheduled for mailing of ballots to Members' home addresses along with instructions and postage-paid return envelopes. In Active-Contributory Trustee elections, ballots will be mailed to Active-Contributory Members; in Retired Member Trustee elections, ballots will be mailed to Retired Members.

17. The Committee will approve the format used to allow Voting Members to vote online.
18. A Voting Member may write in the name and department (or former department if a retiree), of any eligible Member he/she wishes to elect in place of the official candidates. The number of write-ins on any one ballot may not exceed the number of Trustee places to be filled. If a write-in candidate receives the highest number of votes, the Committee will confirm whether the candidate meets the qualifications to hold the position, and if the candidate does, the candidate may be declared the apparent winner. If the candidate does not meet the qualifications, the candidate who receives the next highest number of votes will be declared the apparent winner.
19. Paper ballots must be received at the address on the return envelope before the close of business on the first weekday that is not a holiday in December. Online votes must be cast before the close of business on the first weekday that is not a holiday in December. Ballots will be retained in accordance with COAERS Records Control Schedule.
20. Voting Members must mark candidate choices on the paper or electronic ballot. The Committee shall count the ballots, or review the ballots cast if a third party vendor is used to receive and tabulate the ballots, to determine the winner. Invalid ballots will include, but are not limited to the following: no votes marked; ballot numbers cut off; ballot altered; more than the required number of votes marked; ballot received after election deadline. Volunteers may assist with the counting of ballots but may not vote or participate in Committee decisions.
21. The candidate receiving the highest number of eligible votes will be declared the "apparent" winner. If two Board places are to be filled by vote of the appropriate membership, the two qualified candidates that receive the highest number of votes will be declared the winners for the Board places. Board Member placement will be based on the candidate with the highest number of votes being placed in the first elected place and the second highest in the second elected place.
22. If two or more candidates from a single department run for the active election, and two or more receive the highest number of votes, the candidate receiving the highest number of votes will be elected, and the other candidate(s) from the same department will be declared disqualified

Commented [RN4]: Clarifies this prohibition is only for active member elections as stated in the COAERS statutes.

due to the Act requirements that not more than one representative per department may be elected to the Board. In that event, the candidate receiving the next highest number of votes, who is not from a department already represented on the Board, will be elected to the Trustee place sought by the disqualified candidate.

23. In accordance with the Act, in the case of a tie vote, selection will be made by lot drawn by an existing member of the Board of Trustees at a meeting of the Retirement Board before the first day of January of the year after the election.
24. All candidates will be notified of the results by the Committee Chair or designee by telephone (documented), email, and/or mailed letter and advised of right to challenge the results (see III.F. below).
25. The Act provides that each Member of the Retirement Board shall, within 30 days after appointment or election, take an oath of office that he/she will diligently and honestly administer the affairs of the Retirement System and will not knowingly violate or willingly permit to be violated any law or statute applicable to the Retirement System.

F. CHALLENGE OF ELECTION RESULTS

1. Candidates may submit written requests to challenge election results to the Committee within five calendar days following notification of the results tabulated by the Committee. If the fifth calendar day falls on a weekend or holiday, the final day to challenge results will be the first working day following the fifth calendar day of the challenge period.
2. Within 30 calendar days of the date the challenge is received, the Committee will investigate and resolve any issues cited in the candidate's challenge. The Committee will report its recommendations to the Board.
3. In the event of challenge or complaint before the Board has certified the election results, the official results of the election will not be certified by the Board until such challenge or complaint has been resolved (within 30 calendar days). If a challenge is timely received after the Board has certified the election results, a Special Called Board meeting will be held if necessary to rule on the Committee's recommendations.
4. The Board's decision is final.

G. ANNOUNCEMENT OF ELECTION RESULTS

1. If no complaints have been received per guidelines in III.F. above, the announcement of official results will be issued by the Chair of the

Committee or designee at the December Board meeting. The announcement will identify the “apparent” winner(s) and list each nominee and write-in candidate, showing the number of tabulated votes cast for each. The Board will certify the vote based on the election results and declare the “official” winner(s). The winning candidate(s) will be sworn in as Active-Contributory or Retired elected Member, as appropriate, and take an Oath of Office (refer to Board-Approved Policy A-1 “Appointments to Fill Board Vacancies”). Oaths of office may, but are not required to, be taken at a Board meeting.

2. Official election results will be published in the COAERS newsletter.

H. SPECIAL ELECTION

1. Special elections may be held at the same time as general elections, however special elections fill only unexpired terms of office. A special election will be held to fill unexpired terms of one year or longer of Active-Contributory or Retired Board Members whose service is terminated by death, disability, or removal from the Board, and in the case of Active-Contributory Members, whose service is also terminated by retirement or termination of employment.
2. If held in conjunction with a general election, the special election place(s) will be posted separately on the ballot from the general election place(s) due to the term differences. Candidates must designate the Board election (general or special) for which they are running.
3. If a special election is ordered by the Board to fill any vacancy on the Board, the Board will adopt a process for the special election with notice and guidelines comparable to those for the general Board elections.

I. DISCLOSURE OF RELATIONSHIPS; NO CONTACT PERIOD

1. At the time that a candidate submits an application pursuant to Section C, the candidate shall disclose whether: (a) the candidate has a business relationship with an election committee member, a Trustee, or a COAERS staff member who is assisting with running the election; (b) the candidate is related within the third degree by affinity or consanguinity to a member of the election committee, a Trustee, or a COAERS staff member who is assisting with running the election; (c) the candidate has given or received one or more gifts to or from a member of the election committee, a Trustee, or a COAERS staff member who is assisting with running the election within the previous 12 month period that in the aggregate exceeds \$100 in value;

or (d) the candidate is supervised by or supervises a member of the election committee at the candidate's place of employment.

2. No later than the first committee meeting convening after the deadline for candidate applications, members of the election committee shall disclose in writing whether: (a) the member is related within the third degree of affinity or consanguinity to a candidate; (b) the member has a business relationship with a candidate; (c) the member has given a gift to or received one or more gifts from a candidate within the previous 12 month period that in the aggregate exceeds \$100 in value; or (d) the member supervises or is supervised by a candidate at the member's place of employment.
3. For the purposes of this Section I, a "business relationship" is defined as a connection between two or more parties based on commercial activity of one of the parties. Business relationship does not include interactions between two or more parties in their capacity as City of Austin employees.
4. Beginning with the deadline for submission of candidates' applications and ending on the day that the Board of Trustees accepts and certifies the election results, except as specifically permitted by this Policy, an election committee member may not knowingly communicate with a candidate about the election. This section does not prohibit communications that: (a) are part of a scheduled election committee meeting; (b) are required by this Policy; (c) are incidental, exclusively social, and do not involve COAERS or its business or the election committee member's role as a committee member; or (d) pertain to an existing employment or business relationship between the committee member and the candidate. Election committee members shall disclose in writing any communications or contacts with a candidate that do not fall within one of the exceptions set forth herein at the next election committee meeting, or within 15 days of the communication having been made.
5. The Board may remove an election committee member who fails to comply with this Section.

AGENDA ITEM 10:
Governance Committee

B. Discuss and consider Emergency Succession Policy

AGENDA ITEM OBJECTIVE

This agenda item is for discussion and consideration of possible revisions to the Emergency Succession Policy.

RELEVANCE TO STRATEGIC PLAN

This agenda item meets **COAERS Strategic Plan Goal 4: Identify and implement leading practices in board governance, pension administration, and investment management**. An emergency succession plan for the executive director position is a Board best practice. The existing policy is required to be reviewed annually.

RECOMMENDATION FOR BOARD ACTION

Staff recommends the Board adopt the proposed revisions to the Emergency Succession Policy.

BACKGROUND

The Emergency Succession Policy was first approved in June 2021 and is scheduled to be reviewed annually.

The Governance Committee considered a draft of the policy and discussed the role of the Board in the processes outlined in the Policy. The Committee referred the Policy to the Board with Staff directed to incorporate the key points of discussion into a new draft for consideration by the Board.

Due to the significant number of changes, the draft policy is presented without redline. For comparison, the current approved policy is also attached.

ATTACHMENTS

1. Draft Emergency Succession Policy
2. Approved Emergency Succession Policy

**CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM
BOARD APPROVED POLICY
EMERGENCY SUCCESSION POLICY**

I. PURPOSE AND SCOPE

The City of Austin Employees' Retirement System ("COAERS" or "System") Board of Trustees ("Board") recognizes that this is a plan for contingencies due to the disability, death, or departure of the Executive Director. If the organization is faced with the unlikely event of an untimely vacancy, COAERS has in place the following emergency succession plan to facilitate the transition to both interim and longer-term leadership.

The COAERS Board has reviewed the job description of the Executive Director. The job description is attached. The Board has a clear understanding of the Executive Director's role in organizational leadership, System administration, operations, Board of Directors' relationships, investment activities, financial operations, and stakeholder relationship management.

II. PROCESSES AND RESPONSIBILITIES

A. In Event of a Temporary, Unplanned Absence: Short-Term

A temporary absence is one of less than three months in which it is expected that the Executive Director will return to their position once the events precipitating the absence are resolved. An unplanned absence is one that arises unexpectedly, in contrast to a planned leave, such as a vacation or a sabbatical. The Board of Trustees is authorized to implement the terms of this emergency plan in the event of the unplanned absence of the Executive Director.

In the event of an unplanned absence of the Executive Director, COAERS General Counsel is to immediately inform the Board Chair of the absence. The Board Chair shall temporarily designate a senior management member from Section III to perform such duties as are necessary for the administration of the System.

As soon as it is feasible, the Chair shall convene a meeting of the Board to designate a person succeeding the responsibilities and authority of the Executive Director on a temporary basis, known as the Acting Executive Director.

Authority and Compensation of the Acting Executive Director

The person appointed as Acting Executive Director shall have the full authority

for decision-making and independent action as the regular Executive Director.

The Acting Executive Director may be offered a temporary and appropriate salary increase within the Executive Director position salary range for the time spent in the Acting Executive Director role.

Board Oversight

The Board Chair and Governance and Human Resources Committee Chair will be responsible for monitoring the work of the Acting Executive Director and will be sensitive to the required needs of the Acting Executive Director in this temporary leadership role.

Communications Plan

Immediately upon transferring the responsibilities to the Acting Executive Director, the Board Chair will notify staff members and key stakeholders.

Completion of Short-Term Emergency Succession Period

The returning Executive Director and the Board Chair will collectively decide when the absent Executive Director returns to lead the System and establish a mutually agreed upon schedule and start date. A reduced schedule for a set period will be allowed, pending Board Chair approval, with the intention of working their way back up to a full-time commitment.

B. In Event of a Temporary, Unplanned Absence: Long-Term

A long-term absence is one that is expected to last more than three months. The procedures and conditions to be followed will be the same as for a short-term absence. However, in addition, the Board of Trustees will give consideration, in consultation with the Acting Executive Director, to temporarily filling the management position left vacant by the Acting Executive Director. This is in recognition of the fact that for a term of more than three months, it may not be reasonable to expect the Acting Executive Director to carry the duties of both positions. The position description of a temporary manager would focus on covering the priority areas in which the Acting Executive Director needs assistance.

Completion of Long-Term Emergency Succession Period

The returning Executive Director and the Board Chair will collectively decide when the absent Executive Director returns to lead the System and establish a mutually agreed upon schedule and start date. A reduced schedule for a set period will be allowed, by approval of the Board Chair, with the intention of working the way up to a full-time commitment.

C. In Event of a Permanent Change

A permanent change is one in which it is firmly determined that the Executive Director will not be returning to the position. If necessary, The Board Chair shall temporarily designate a senior management member from Section III to perform such duties as are necessary for the administration of the System.

As soon as it is feasible, the Chair should convene a meeting of the Board to designate a person succeeding to the responsibilities and authority of the executive director on an interim basis (“Interim Executive Director”). In addition, the Board of Trustees will appoint a Transition and Search Committee to plan and carry out a transition to a new permanent Executive Director. The Board will also consider the need for outside consulting assistance depending on the circumstances of the transition and the Board’s capacity to plan and manage the transition and search.

III. COAERS SENIOR MANAGEMENT

At the time this policy was approved, the positions of COAERS Senior Management are the following:

- Deputy Executive Director
- Chief Investment Officer
- Deputy Chief Investment Officer
- Chief Financial Officer
- Chief Information Officer
- Accounting Director
- Benefits Manager
- Communications Director

IV. ONGOING REVIEW AND APPROVAL OF THIS POLICY

Annually, the Board or a committee of the Board will review this policy and assess its effectiveness in safeguarding the provision of management leadership within the System. The Executive Director will provide the Board or a committee of the Board with updates, as needed, on any changes made within senior leadership of the System that could impact the succession policy. This will include updates on the development needs and opportunities provided within the System for high potentials to advance their potential and further enhance their existing leadership skills.

The following is the current Board-approved policy for reference only.

Board Approved Policy

Subject: Emergency Succession

Review Committee: Governance and Human Resources

Date Implemented: June 29, 2021

Date Updated:

Signature of Chairperson:



Chris Noak

**CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM
BOARD APPROVED POLICY
EMERGENCY SUCCESSION POLICY**

I. PURPOSE AND SCOPE

The City of Austin Employees' Retirement System ("COAERS" or "System") Board of Trustees ("Board") recognizes that this is a plan for contingencies due to the disability, death, or departure of the Executive Director. If the organization is faced with the unlikely event of an untimely vacancy, COAERS has in place the following emergency succession plan to facilitate the transition to both interim and longer-term leadership.

The COAERS Board has reviewed the job description of the Executive Director. The job description is attached. The Board has a clear understanding of the Executive Director's role in organizational leadership, System administration, operations, Board of Directors' relationships, investment activities, financial operations, and stakeholder relationship management.

II. PROCESSES AND RESPONSIBILITIES

A. In Event of a Temporary, Unplanned Absence: Short-Term

A temporary absence is one of less than three months in which it is expected that the Executive Director will return to their position once the events precipitating the absence are resolved. An unplanned absence is one that arises unexpectedly, in contrast to a planned leave, such as a vacation or a sabbatical. The Board of Trustees is authorized to implement the terms of this emergency plan in the event of the unplanned absence of the Executive Director.

In the event of an unplanned absence of the Executive Director, COAERS General Counsel is to immediately inform the Board Chair of the absence. As soon as it is feasible, the Chair should convene a meeting of the Governance & Human Resources Committee ("Committee") to affirm the procedures prescribed in this plan or to make modifications as the Committee deems appropriate.

At the time that this plan was approved, the position of Acting Executive Director will be the:

Deputy Executive Director.

Should the standing appointee to the position of Acting Executive Director be

unable to serve, the first and second back-up appointees for the position of Acting Executive Director will be:

(1) Chief Investment Officer ; and (2) Chief Financial Officer .

If this Acting Executive Director is new to their position and inexperienced with the COAERS System (i.e., less than 12 months), the Board may decide to appoint one of the back-up appointees to the acting executive position. The Board may also consider the option of splitting executive duties among the designated appointees.

Authority and Compensation of the Acting Executive Director

The person appointed as Acting Executive Director shall have the full authority for decision- making and independent action as the regular Executive Director.

The Acting Executive Director may be offered a temporary and appropriate salary increase within the Executive Director position salary range for the time spent in the Acting Executive Director role.

Board Oversight

The Board Chair and Governance & Human Resources Committee Chair will be responsible for monitoring the work of the Acting Executive Director and will be sensitive to the required needs of the Acting Executive Director in this temporary leadership role.

Communications Plan

Immediately upon transferring the responsibilities to the Acting Executive Director, the Board Chair will notify staff members, other members of the Board of Trustees, and key stakeholders.

Completion of Short-Term Emergency Succession Period

The returning Executive Director and the Board Chair will collectively decide when the absent Executive Director returns to lead the System and establish a mutually agreed upon schedule and start date. A reduced schedule for a set period will be allowed, by pending Board Chair approval, with the intention of working their way back up to a full-time commitment.

B. In Event of a Temporary, Unplanned Absence: Long-Term

A long-term absence is one that is expected to last more than three months.

The procedures and conditions to be followed will be the same as for a short-term absence. However, in addition, the Governance & Human Resources Committee will give immediate consideration, in consultation with the Acting Executive Director, to temporarily filling the management position left vacant by the Acting Executive Director. This is in recognition of the fact that for a term of more than three months, it may not be reasonable to expect the Acting Executive Director to carry the duties of both positions. The position description of a temporary manager would focus on covering the priority areas in which the Acting Executive Director needs assistance.

Completion of Long-Term Emergency Succession Period

The returning Executive Director and the Board Chair will collectively decide when the absent Executive Director returns to lead the System and establish a mutually agreed upon schedule and start date. A reduced schedule for a set period will be allowed, by approval of the Board Chair, with the intention of working the way up to a full-time commitment.

C. In Event of a Permanent Change

A permanent change is one in which it is firmly determined that the Executive Director will not be returning to the position. The procedures and conditions should be the same as for a long-term temporary absence. However, in addition, the Board of Trustees will appoint a Transition & Search Committee within 14 days to plan and carry out a transition to a new permanent Executive Director. The Board will also consider the need for outside consulting assistance

depending on the circumstances of the transition and the board's capacity to plan and manage the transition and search. The Transition & Search Committee will also determine the need for an Interim Executive Director, and plan for the recruitment and selection of an Interim Executive Director and/or permanent Executive Director.

III. ONGOING REVIEW AND APPROVAL OF THIS POLICY

Annually, the Board or a committee of the Board will review this policy and assess its effectiveness in safeguarding the provision of management leadership within the System. The Executive Director will provide the Board or a committee of the Board with updates, as needed, on any changes made within senior leadership of the System that could impact the succession policy. This will include updates on the development needs and opportunities provided within the System for high potentials to advance their potential and further enhance their existing leadership skills.

11. Discuss and consider acceptance of the financial statement audit report as of December 31, 2021

Presented by Bhakti Patel, CLA

AGENDA ITEM 11:
Discuss and consider acceptance of financial statement audit report
as of December 31, 2021

AGENDA ITEM OBJECTIVE

This agenda item is intended for the Board to discuss and consider the report from COAERS' financial statement auditor regarding the December 31, 2021 financial statement audit.

RELEVANCE TO STRATEGIC PLAN

This agenda item meets **COAERS Strategic Plan Goal 2: Responsibly manage the risks of the System.**

RECOMMENDATION FOR BOARD ACTION

The Audit and Risk Committee recommends the Board accept the December 31, 2021 financial statements and auditor's report from CliftonLarsonAllen (CLA).

BACKGROUND

The statutes that govern COAERS require an annual independent audit of the System's accounts performed by a certified public accounting firm. CLA has been engaged to perform the financial audit for fiscal year ended December 31, 2021. Ms. Bhakti Patel from CLA will provide required communications.

CLA has issued an unqualified opinion on the financial statements. CLA found no significant corrected or uncorrected adjustments nor any unusual transactions.

CLA also provided COAERS management with best practice recommendations to improve efficiency and strengthen internal controls. Management is working to implement the recommendations. Those recommendations are:

1. Planning for regular external and internal penetration testing within the information technology environment,
2. Formalizing a disaster recovery policy based on the newly implemented backup system with a plan for regular testing,
3. Annual backup testing and restoring of the most critical systems and applications, including the financial system database,
4. Implementing a workflow whereby manual journal entry approval is noted.

ATTACHMENTS

1. Independent Auditor's Report
2. Financial Section of COAERS December 31, 2021 Annual Comprehensive Financial Report

SUPPLEMENTAL MATERIAL AVAILABLE VIA CONVENE APP

1. December 31, 2021 COAERS Annual Comprehensive Financial Report
2. Governance presentation from CLA
3. Letter to Management



INDEPENDENT AUDITORS' REPORT

Audit and Risk Committee of the Board of Directors
City of Austin Employees' Retirement System
Austin, Texas

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the City of Austin Employees' Retirement System (COAERS), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City of Austin Employees' Retirement System's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective fiduciary net position of the City of Austin Employees' Retirement System, as of December 31, 2021, and the respective changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Austin Employees' Retirement System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Other Matter

The financial statements of COAERS as of December 31, 2020, and for the year then ended were audited by other auditors. Those auditors expressed an unmodified opinion on those financial statements in their report dated May 20, 2021.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Austin Employees' Retirement System's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Austin Employees' Retirement System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Austin Employees' Retirement System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of Changes in Net Pension Liability and Related Ratios, the Schedule of Contributions, and the Schedule of Investment Returns be presented to supplement the basic financial statements. Such information is the responsibility of management and,

although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Austin Employees' Retirement System's basic financial statements. The Other Supplementary Information – Investment, General & Administrative, and Professional Services and Consultant Expenses on page 59 is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the Other Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole. The 2020 information included in the Other Supplementary Information – Investment, General & Administrative, and Professional Services and Consultant Expenses was subjected to the auditing procedures applied in the 2020 audit of the basic financial statements by other auditors, whose report on such information stated that it was fairly stated in all material respects in relation to the 2020 consolidated financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Introductory Section on pages 1-22; the Investment Section on pages 60-78; the Actuarial Section on pages 79-128; and the Statistical Section on pages 129-148 but does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.



CliftonLarsonAllen LLP

Austin, Texas
May 24, 2022

A vertical, blue-tinted photograph of a city skyline reflected in water. The image shows several tall buildings, including a prominent skyscraper with a glass facade, and a lower, white building with a grid-like facade. The buildings are reflected in the calm water below. The sky is a clear, light blue.

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Audit and Risk Committee of the Board of Directors
City of Austin Employees' Retirement System
Austin, Texas

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the City of Austin Employees' Retirement System (COAERS), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City of Austin Employees' Retirement System's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective fiduciary net position of the City of Austin Employees' Retirement System, as of December 31, 2021, and the respective changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Austin Employees' Retirement System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Other Matter

The financial statements of COAERS as of December 31, 2020, and for the year then ended were audited by other auditors. Those auditors expressed an unmodified opinion on those financial statements in their report dated May 20, 2021.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.



In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Austin Employees' Retirement System's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Austin Employees' Retirement System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Austin Employees' Retirement System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of Changes in Net Pension Liability and Related Ratios, the Schedule of Contributions, and the Schedule of Investment Returns be presented to supplement the basic financial statements. Such information is the responsibility of management and,

although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Austin Employees' Retirement System's basic financial statements. The Other Supplementary Information – Investment, General & Administrative, and Professional Services and Consultant Expenses on page 59 is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the Other Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole. The 2020 information included in the Other Supplementary Information – Investment, General & Administrative, and Professional Services and Consultant Expenses was subjected to the auditing procedures applied in the 2020 audit of the basic financial statements by other auditors, whose report on such information stated that it was fairly stated in all material respects in relation to the 2020 consolidated financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Introductory Section on pages 1-22; the Investment Section on pages 60-78; the Actuarial Section on pages 79-128; and the Statistical Section on pages 129-148 but does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.



CliftonLarsonAllen LLP

Austin, Texas
May 24, 2022

This section of the City of Austin Employees' Retirement System's (COAERS, or, the System) financial report presents our discussion and analysis of the System's financial performance during fiscal years 2021 and 2020. We encourage readers to consider the information presented here in conjunction with our financial statements that follow.

FINANCIAL HIGHLIGHTS

Net position held in trust by the System increased by \$365.6 million, or 11.4%, in 2021, and increased by \$271.5 million, or 9.3%, in 2020. All changes primarily correlate with investment returns.

Contributions increased by \$5.9 million, or 2.9%, in 2021, and by \$15.0 million, or 8.0%, in 2020. The 2021 increase was due to a \$7.3 million increase in the City's supplemental funding, an increase of \$4.7 million in employee and employer contributions based on payroll, and a \$6.1 million decrease in employee creditable service purchases. The 2020 increase was due to a \$7.1 million increase in the employer contributions, an increase of \$3.0 million in employee contributions, and a \$4.9 million increase in employee creditable service purchases.

The amount of benefits paid to retired members and beneficiaries, and refunded to terminating employees, increased by approximately \$15.8 million, or 6.8% during 2021, and by approximately \$13.2 million, or 6.0%, during 2020. This is the result of increases in the number of System retirees and the average annuity payment. Benefit payments exceeded employee and City contributions by \$39.1 million in 2021, and by \$29.2 million in 2020.

The System's time-weighted rate of return on investments for the year ended December 31, 2021, was 13.2% gross of fees, and 13.0% net of fees, on a fair value basis, which was an increase from the return of 11.1% gross of fees and 10.8% net of fees for the year ended December 31, 2020. The actuarial investment return assumption is 6.75%.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to assist the reader in better understanding the purpose and meaning of each of the key components of COAERS' financial statements, which are comprised of the following:

- Statement of Fiduciary Net Position
- Statement of Changes in Fiduciary Net Position
- Notes to the Financial Statements

Collectively, this information presents the net position held in trust for pension benefits as of the end of each year and summarizes the changes in net position held in trust for pension benefits for the year. The information available in each of these components is briefly summarized below:

Financial Statements

- The *Statement of Fiduciary Net Position* presents the System's assets and liabilities and the resulting net position, which is held in trust for pension benefits. This statement reflects a year-end comparison of the Plan's investments, at fair value, along with cash and short-term investments, receivables, and other assets and liabilities to the previous year.
- The *Statement of Changes in Fiduciary Net Position* provides a view of current year additions to and deductions from the plan.

(CONTINUED)

These two statements report the System's net fiduciary position held in trust for pension benefits (net position restricted for pensions), the difference between assets and liabilities, as one way to measure COAERS' financial position. Over time, increases and decreases in net position are one indicator of whether its financial health is improving or deteriorating.

- Notes to the Financial Statements provide important background and detailed information about COAERS, the plan, and the financial statements.

FINANCIAL ANALYSIS

Summary of Fiduciary Net Position December 31, 2021, 2020, 2019

Assets	2021	2020	2019
Cash and receivables	\$ 33,705,576	24,715,443	23,062,058
Investments	3,535,433,558	3,179,458,128	2,911,507,641
Capital assets, net	4,125,172	4,825,644	5,468,035
Total assets	<u>3,573,264,306</u>	<u>3,208,999,215</u>	<u>2,940,037,734</u>
Liabilities			
Total liabilities	<u>8,104,462</u>	<u>9,432,632</u>	<u>11,984,658</u>
Net position restricted for pensions	<u>\$ 3,565,159,844</u>	<u>3,199,566,583</u>	<u>2,928,053,076</u>

Assets

As shown in the table above, assets increased by \$364.3 million in 2021, and increased by \$269.0 million in 2020, due primarily to the changes in the value of investments.

- During 2021, there was a \$9.0 million increase in the net amount of cash and receivables; this resulted from a \$9.5 million increase in the amount of cash, which was offset by a \$1.3 million decrease in investment receivables and an increase of \$0.8 million in contributions and other receivables.
- During 2020, there was a \$1.7 million increase in the net amount of cash and receivables; this resulted from a \$2.6 million increase in the amount of cash, which was offset by a \$2.4 million decrease in investment receivables and an increase of \$1.5 million in contributions and other receivables.
- In 2021, investments increased by \$356.0 million; in 2020, investments increased by \$268.0 million, reflective of the changes in the financial markets.
- In both 2021 and 2020, the decrease in capital assets reflects depreciation of furniture and equipment.

(CONTINUED)

Liabilities

Liabilities decreased by \$1.3 million in 2021 and decreased by \$2.6 million in 2020. These fluctuations were primarily due to changes in trades pending settlement.

Summary of Changes in Fiduciary Net Position December 31, 2021, 2020, 2019

	2021	2020	2019
Additions:			
Contributions	\$ 208,237,660	202,383,445	187,395,797
Investment income	417,958,864	313,802,945	507,269,478
Investment expenses	6,749,253	6,513,904	5,164,777
Net investment income	411,209,611	307,289,041	502,104,701
Other income	962	175	1,748,803
Total additions	619,448,233	509,672,661	691,249,301
Deductions:			
Benefit payments and contribution refunds	247,326,473	231,564,618	218,381,374
General and administrative expenses	6,528,499	6,594,536	6,218,288
Total deductions	253,854,972	238,159,154	224,599,662
Net increase in net position	365,593,261	271,513,507	466,649,639
Net position restricted for pensions:			
Beginning of year	3,199,566,583	2,928,053,076	2,461,403,437
End of year	\$ 3,565,159,844	3,199,566,583	2,928,053,076

Additions

Additions needed to fund benefits are accumulated through contributions and returns on investments. Contributions from COAERS members and the City of Austin for 2021 and 2020 totaled \$208.2 million and \$202.4 million, respectively. The 2021 contributions represent an increase of \$5.9 million, or 2.9% above 2020. 2020 contributions represent an increase of \$15.0 million, or 8.0% above 2019. The 2021 increase was due primarily to an increase in the City's supplemental funding from 18% to 19% starting in January 2021. The increase in 2020 was due to an increase in base salaries on which employee and employer contributions are made.

In 2021, COAERS had a net investment income on the fair value of its securities of \$411.2 million, an increase of \$103.9 million from 2020. In 2020, the net investment income on the market value of securities was \$307.3 million, a decrease of \$194.8 million from 2019. In 2021, interest and dividend income generated income of \$39.7 million, a decrease from the 2020 income of \$0.8 million. In 2021, investment expenses increased by \$0.2 million; in 2020, investment expenses increased by \$0.4 million. The total rate of return (net of fees) for the System's investment portfolio in 2021 was 13.0%; in 2020 it was 10.8%.

(CONTINUED)

Deductions

The expenses paid by COAERS include benefit payments, refunds of member contributions, and administrative expenses.

Benefits paid in 2021 were \$243.1 million, an increase of \$15.2 million from payments made in 2020, which is consistent with an increase in the number of retirees to 7,221 in 2021. Refunds to terminating employees increased by \$0.6 million. Administrative expenses in 2021 were \$6.5 million, a decrease of \$0.1 million, or 1.0% from 2020.

Benefits paid in 2020 were \$227.9 million, an increase of \$13.8 million from payments made in 2019, which is consistent with an increase in the number of retirees to 6,963 in 2020. Refunds to terminating employees decreased by \$0.6 million. Administrative expenses in 2020 were \$6.6 million, an increase of \$0.4 million, or 6.1% over 2019.

Overall Analysis

Overall, as of December 31, 2021, net position increased by \$365.6 million, or 11.4%, from the prior year; over the five-year period ending December 31, 2021, net position increased by 55.0%.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the finances of the City of Austin Employees' Retirement System for all parties with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to City of Austin Employees' Retirement System, 6850 Austin Center Boulevard, Suite 320, Austin, Texas 78731.

STATEMENT OF FIDUCIARY NET POSITION DECEMBER 31, 2021

	Retirement Plan	Restoration Plan	Total
Assets			
Cash and cash equivalents (note 3)	\$ 19,222,506	20,000	19,242,506
Receivables			
Interest and dividends receivable	6,383,276	-	6,383,276
Trades pending settlement	758,032	-	758,032
Employer contributions receivable	5,096,000	-	5,096,000
Employee contributions receivable	2,144,463	-	2,144,463
Other	81,299	-	81,299
Total receivables	14,463,070	-	14,463,070
Investments, at fair value (note 3):			
US Equities	1,226,040,135	-	1,226,040,135
DM Equities	462,472,831	-	462,472,831
EM Equities	275,518,081	-	275,518,081
Fixed income	736,814,659	-	736,814,659
Real assets	566,757,450	-	566,757,450
Multi-asset	175,339,728	-	175,339,728
Cash and equivalents	92,490,674	-	92,490,674
Total investments	3,535,433,558	-	3,535,433,558
Capital assets, net (note 7)	4,125,172	-	4,125,172
Total assets	3,573,244,306	20,000	3,573,264,306
Liabilities			
Payables			
Accrued expenses	2,132,209	-	2,132,209
Trades pending settlement	2,313,171	-	2,313,171
Refunds and death benefits payable	3,659,082	-	3,659,082
Total liabilities	8,104,462	-	8,104,462
Net position restricted for pensions	\$ 3,565,139,844	20,000	3,565,159,844

See accompanying notes to financial statements.

STATEMENT OF FIDUCIARY NET POSITION DECEMBER 31, 2020

	Retirement Plan	Restoration Plan	Total
Assets			
Cash and cash equivalents (note 3)	\$ 9,699,756	20,000	9,719,756
Receivables			
Interest and dividends receivable	7,318,469	-	7,318,469
Trades pending settlement	1,130,113	-	1,130,113
Employer contributions receivable	4,558,217	-	4,558,217
Employee contributions receivable	1,916,406	-	1,916,406
Other	72,482	-	72,482
Total receivables	14,995,687	-	14,995,687
Investments, at fair value (note 3):			
US Equities	1,064,515,590	-	1,064,515,590
DM Equities	447,308,583	-	447,308,583
EM Equities	294,199,713	-	294,199,713
Fixed income	621,428,221	-	621,428,221
Real assets	419,983,836	-	419,983,836
Multi-asset	245,874,545	-	245,874,545
Cash and equivalents	86,147,640	-	86,147,640
Total investments	3,179,458,128	-	3,179,458,128
Capital assets, net (note 7)	4,825,644	-	4,825,644
Total assets	3,208,979,215	20,000	3,208,999,215
Liabilities			
Payables			
Accrued expenses	1,813,752	-	1,813,752
Trades pending settlement	4,764,623	-	4,764,623
Refunds and death benefits payable	2,854,257	-	2,854,257
Total liabilities	9,432,632	-	9,432,632
Net position restricted for pensions	\$ 3,199,546,583	20,000	3,199,566,583

See accompanying notes to financial statements.

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

YEAR ENDED DECEMBER 31, 2021

	Retirement Plan	Restoration Plan	Total
Additions:			
Contributions:			
Employer contributions (note 6)	\$ 141,218,720	199,076	141,417,796
Employee contributions (note 6)	66,819,864	-	66,819,864
Total contributions	208,038,584	199,076	208,237,660
Investment income:			
Net appreciation in fair value of investments	378,217,863	-	378,217,863
Interest	9,540,959	-	9,540,959
Dividends	30,200,042	-	30,200,042
Less: Investment expense	(6,749,253)	-	(6,749,253)
Net investment appreciation	411,209,611	-	411,209,611
Other income	962	-	962
Total additions	619,249,157	199,076	619,448,233
Deductions:			
Retirement annuities	231,649,548	199,076	231,848,624
Contributions refunded to terminating employees	4,266,759	-	4,266,759
DROP disbursements	4,724,045	-	4,724,045
Retiree lump-sum annuity	2,715,305	-	2,715,305
Death benefits	3,771,740	-	3,771,740
Total benefit payments, including refunds of member contributions	247,127,397	199,076	247,326,473
General and administrative expenses	6,528,499	-	6,528,499
Total deductions	253,655,896	199,076	253,854,972
Net increase in net position	365,593,261	-	365,593,261
Net position restricted for pensions:			
Beginning of year	3,199,546,583	20,000	3,199,566,583
End of year	\$ 3,565,139,844	20,000	3,565,159,844

See accompanying notes to financial statements.

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

YEAR ENDED DECEMBER 31, 2020

	Retirement Plan	Restoration Plan	Total
Additions:			
Contributions:			
Employer contributions (note 6)	\$ 130,742,811	170,932	130,913,743
Employee contributions (note 6)	71,469,702	-	71,469,702
Total contributions	202,212,513	170,932	202,383,445
Investment income:			
Net appreciation in fair value of investments	273,311,257	-	273,311,257
Interest	12,545,383	-	12,545,383
Dividends	27,946,305	-	27,946,305
Less: Investment expense	(6,513,904)	-	(6,513,904)
Net investment appreciation	307,289,041	-	307,289,041
Other income	175	-	175
Total additions	509,501,729	170,932	509,672,661
Deductions:			
Retirement annuities	219,410,787	170,932	219,581,719
Contributions refunded to terminating employees	3,656,402	-	3,656,402
DROP disbursements	4,093,912	-	4,093,912
Retiree lump-sum annuity	1,354,674	-	1,354,674
Death benefits	2,877,911	-	2,877,911
Total benefit payments, including refunds of member contributions	231,393,686	170,932	231,564,618
General and administrative expenses	6,594,536	-	6,594,536
Total deductions	237,988,222	170,932	238,159,154
Net increase in net position	271,513,507	-	271,513,507
Net position restricted for pensions:			
Beginning of year	2,928,033,076	20,000	2,928,053,076
End of year	\$ 3,199,546,583	20,000	3,199,566,583

See accompanying notes to financial statements.

NOTE 1: PLAN DESCRIPTION

Plan Administration

The City of Austin Employees’ Retirement System (COAERS, or the System) administers the Plan, a single employer defined benefit pension plan that provides pensions for eligible employees of the City of Austin.

The System was created under Article 6243n, Vernon’s Texas Civil Statutes (the Pension Statute), as amended. The Pension Statute grants the authority to establish and amend the benefit terms to the Texas State Legislature. Management of the Plan is vested in the eleven-member COAERS Board of Trustees, which is composed of:

- 4 active members elected by the active membership
- 2 retired members elected by the retired membership
- 2 City Council Appointed Citizen Members
- 1 Board Appointed Citizen Member
- 1 City Manager of the City of Austin or Designee
- 1 City Council Member

Plan Membership

Participating employees include all regular, full-time employees who work at least 30 hours per week, except for civil service firefighters and civil service police officers. On December 31, 2021, 2020, and 2019 membership consisted of the following:

	2021	2020	2019
Inactive plan members or beneficiaries currently receiving benefits	7,221	6,963	6,703
Inactive plan members entitled to but not yet receiving benefits	3,459	3,118	3,057
Active plan members	10,228	10,138	10,149
Total plan members	20,908	20,219	19,909

Benefits Provided

The System provides service retirement, death, disability, and withdrawal benefits. Benefits vest with five years of creditable service.

Membership in the System is comprised of two benefit tiers: Group A and Group B.

Group A members continue under the plan originated in 1941. Participants may retire at age 62, at age 55 with 20 years of service, or at any age with 23 years of service. Prior to October 1, 1999, the monthly benefit was equal to 2.6% of the highest 36-month average annual salary of the last ten years multiplied by years and months of service. Effective October 1, 1999, the monthly benefit multiplier was increased to 2.7%. Effective April 1, 2000, the monthly benefit multiplier was increased to 2.98%. Effective January 1, 2002, the monthly benefit multiplier was increased to 3.0%. Effective January 1, 2001, the System approved a 3.5% ad hoc retiree increase and a 2.5% increase effective January 1, 2002.

Group B members are employees who were hired on and after January 1, 2012, with the following provisions:

- Normal retirement eligibility at age 65 with 5 years of service credit; or at age 62 with 30 years of service credit;
- Early reduced retirement eligibility at age 55 with 10 years of service credit;
- An annuity formula multiplier of 2.5%;
- The purchase of nonqualified permissive service (supplementary service credit) for annuity calculations only, not for eligibility purposes.

The following apply to both Group A and Group B:

- Effective in 2002, a member may elect to retroactively participate in the System's Backward DROP (Deferred Retirement Option Program). This program benefits retiring employees by allowing a lump-sum payment in lieu of additional creditable service time after reaching retirement eligibility. The Member would receive a lump-sum payment equal to 90% of the sum of the monthly annuities the participant would have received if the member had retired at the DROP entry date. While the nomenclature used in the Pension Statute resembles that of an arrangement requiring additional disclosures under GASB 67, the COAERS Backward Drop benefit is technically different.
- The lump sum death benefit payable upon the death of a retiree is \$10,000.
- There is no guaranteed cost of living increase.

Contributions

Section 10 of Article 6243n of the Texas Civil Statutes sets the minimum contribution requirements of the City of Austin and active plan members. For the year ended December 31, 2021 the active employee contribution rate was 8% of base compensation and the City of Austin's contribution rate was 19% of base compensation.

Prior to October 1, 1999, active member contributions to the Plan were 7%. Effective October 1, 1999, active member contributions increased to 8%. Pursuant to a 2005 City Council COAERS Supplemental Funding Plan and beginning in October 2006, the City contributed an additional 4% subsidy for their 2010 fiscal year ended September 30, 2010. An Amended Supplemental Funding Plan (ASFP), adopted by the City Council in October 2010, incrementally increased the supplemental contribution to the Plan from 6% of base compensation to 10% of base compensation effective October 1, 2012 for fiscal year 2012-13, and each fiscal year thereafter. Effective January 1, 2021, the City increased its supplemental employer contribution 1% to a total 19% of base compensation.

Under the terms of the Plan, the System's employees obtain membership in the Plan on the same basis as City employees. Accordingly, the System contributes 8% of base employee compensation to the Plan, plus a 11% subsidy, as described above, for its current employees; System employees also contribute 8% of their base compensation to the Plan. Since there is only one Plan, all actuarial calculations are provided on an aggregate basis.

The System participates in the Proportionate Retirement Program through which a member of the System may meet requirements for service retirement eligibility by combining COAERS membership service with service credit from the following participating entities: City of Austin Police Retirement System, The El Paso City Employees' Pension Fund and Firemen and Policemen's Pension Fund, Employees' Retirement System of Texas, Judicial Retirement System of Texas I & II, Texas Municipal Retirement System, Texas County and District Retirement System, Teacher Retirement System of Texas, or any other Texas retirement systems covering municipal employees who have qualified plans and have elected to participate in the Proportionate Retirement Program. A limited proportionate service arrangement was established in 2007 between COAERS and individuals who have membership in a retirement system within the Travis County Healthcare District.

Restoration Plan

On November 23, 1999, the Board adopted a resolution to establish a "Restoration of Retirement Income Plan for Certain Participants in the City of Austin Employees' Retirement System" (Restoration Plan).

This Restoration Plan is effective as of January 1, 2000 and is intended to be a "qualified governmental excess benefit arrangement" within the meaning of Section 415(m) of the Internal Revenue Code, and shall be construed, interpreted, and administered in accordance with such provision. The Restoration Plan shall be administered as an unfunded plan which is not intended to meet the qualification requirements of Section 401 of the Internal Revenue Code. Eligible members are those who are members in the Plan whose pension or pension related benefits under the Plan are limited due to the provision of Section 415 of the Internal Revenue Code.

All benefits payable under this Restoration Plan shall be paid by the City of Austin Employees' Retirement System from contributions provided by the employer and not from the Fund or any other trust unless such trust is maintained solely for the purpose of providing benefits from this Restoration Plan. No contribution receivable is due for the years ended December 31, 2021, and 2020 for the Restoration Plan. Assets remaining in this plan as of December 31, 2021, and 2020, were \$20,000.

On December 31, 2021, 2020, and 2019, membership in the Restoration Plan included the following:

	2021	2020	2019
Retirees and beneficiaries currently receiving benefits	19	17	16

Other Information

The System is required by the state statute to maintain two separate funds in its internal accounting records. The first fund, defined in the statute as “Fund 1”, shall be maintained to account for all accumulated deposits (contributions and interest) of Members who have not withdrawn from the System. The second fund, defined as “Fund 2”, shall be maintained to account for all other net position of the System less the amount held in “Fund 3”; this third fund is maintained to account for accumulated contributions by the employer for the Internal Revenue Code Section 415 Restoration Plan as adopted by Board Resolution on November 23, 1999. On December 31, 2021, the balances of Fund 1, Fund 2, and Fund 3 were \$606,670,096, \$2,958,469,748, and \$20,000, respectively. On December 31, 2020, the balances of Fund 1, Fund 2, and Fund 3 were \$595,004,859, \$2,604,541,724, and \$20,000, respectively.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND SYSTEM ASSET MATTERS

The System is not included in any other governmental “reporting entity” as defined by the Governmental Accounting Standards Board (GASB). The System has no component units and is not a component unit of any other entity.

a. Basis of Accounting

The System’s financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Contributions are recognized when due pursuant to formal commitments, as well as statutory or contractual requirements; accordingly, contributions are recognized as revenues in the period in which the employer reports compensation for their employees. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

b. Cash and Cash Equivalents

Cash and cash equivalents include demand deposit accounts and money market checking accounts. As of December 31, 2021 and 2020, the book balances of the demand deposit accounts totaled \$19,242,506 and \$9,719,756, respectively.

c. Method Used to Value Investments

Plan investments are reported at fair value. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Refer to Note 5(c) for more detail regarding the System’s policy on accounting for investments.

d. Contributions Receivable

The employee and City contributions for the years ended December 31, 2021 and 2020 that were not deposited with the System by year end are shown as contributions receivable.

e. Capital Assets

Capital assets are recorded at cost. The System capitalizes computers and electronic equipment purchased as well as any other assets greater than \$1,000. Depreciation is computed using the straight-line method over the assets’ estimated useful lives. Furniture and Equipment are scheduled with a useful life from three to twelve years.

f. System Expenses

Substantially, all System administrative costs are the responsibility of the System. The administrative costs are funded through the investment income.

g. Use of Estimates

The preparation of financial statements in conformity with United States Generally Accepted Accounting Principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

h. Reclassification

Reclassification of certain prior year investment amounts has been made to conform with current-year presentation.

NOTE 3: DEPOSIT AND INVESTMENT RISK DISCLOSURE

Bank deposits and investments are exposed to risks that have the potential to result in losses that could impact delivery of System services. The Board has adopted an Investment Policy Statement and Investment Implementation Policy to set forth the processes and procedures to be used in the management of investment assets for the System. These policies are incorporated by reference into every investment management agreement. These documents are designed to mitigate risk by requiring that investment activities be conducted in compliance with these policy guidelines by ensuring portfolio diversification, qualifying counterparties, establishing sufficient collateralization, and limiting maturity. The System's Board, in accordance with the power and authority conferred under the Texas Statutes, has employed The Bank of New York Mellon as the master custodian of the investment assets of the System.

The following summary of total investments by type presents the System's investment mix as of December 31, 2021 and 2020.

	2021	2020
Summary of investments by type:		
Global equities:		
US equities	\$ 1,655,741,264	1,483,408,106
Developed markets equities	308,289,783	322,615,780
	<u>1,964,031,047</u>	<u>1,806,023,886</u>
Fixed income:		
Corporate bonds	127,084,019	127,553,289
Government bonds	503,269,453	385,622,277
Government mortgage-backed securities	106,461,187	108,252,655
	<u>736,814,659</u>	<u>621,428,221</u>
Real assets:		
Real estate equity		
US REITs	212,428,546	140,729,752
Real estate institutional collective trust	176,772,484	143,976,246
	<u>389,201,030</u>	<u>284,705,998</u>
Infrastructure		
US equities	49,954,028	34,261,663
Developed markets equities	45,968,017	31,534,757
Limited partnership	81,634,375	69,481,418
	<u>177,556,420</u>	<u>135,277,838</u>
Multi-asset:		
Asset allocation	138,500,388	54,274,931
Strategic partnership	-	163,602,475
Commodities & other	36,839,340	27,997,139
	<u>175,339,728</u>	<u>245,874,545</u>
Short-term investments		
US Dollar	89,462,234	86,147,640
Foreign currency	3,028,440	-
	<u>92,490,674</u>	<u>86,147,640</u>
Investments at fair value on balance sheet	3,535,433,558	3,179,458,128
Receivables, payables and pending trades, net	3,299,181	3,683,959
Total investments (per investment consultant)	\$ <u>3,538,732,739</u>	<u>3,183,142,087</u>

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the System will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. COAERS' operating bank account deposits in excess of Federal Deposit Insurance Corporation (FDIC) insured amounts are backed by US government, treasury and agency securities, repurchase agreements, and pledged securities held as collateral. As of December 31, 2021 and 2020, the System's operating bank balances of \$19,242,506, and \$9,719,756, respectively, were not exposed to custodial credit risk.

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the System will not be able to recover the value of its investment or collateral

securities that are in the possession of an outside party. Investment securities are exposed to custodial risk if the securities are uninsured, are not registered in the name of the System, and/or are not held by the counterparty in the System's name. The System's investment securities are not exposed to custodial credit risk because all securities are held by the System's custodial bank in the System's name.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the System's investment in a single issuer. The following restrictions apply to System investments by asset class as of December 31, 2021:

a. Global Equity

- The aggregate exposure to the global equity asset class should be no less than 46% and may not exceed 66% of the fund:
- US equity investments should total no less than 21%, and no more than 46%, of the total fund measured at fair value.
- Developed market investments should total no less than 10%, and no more than 19% of total value of the System's investments at fair value.
- Emerging market equity investments should total no less than 3%, and no more than 15% of the total fund measured at fair value.
- No single company's securities shall represent more than 6% of the fair value of any manager's portfolio.
- SEC Rule 144(a) securities shall be limited to no more than 5% of the portfolio at market value of any manager's portfolio.

b. Fixed Income

- Fixed income investment should be no less than 16% and no more than 33% of the fund measured at fair value.
- No single issuer's securities shall represent more than 6% of the Portfolio at market. This restriction also applies to asset-backed securities, non-agency mortgage-backed securities (including commercial mortgage-backed securities) and taxable municipal securities. This restriction does not apply to any agency mortgage-backed securities (including agency commercial mortgage-backed securities).
- The total holdings of a federal agency issued mortgage backed security of the same coupon and maturity series of the same agency (i.e., issuance by issuance as identified by the same CUSIP) shall not exceed 20% of the Portfolio at fair value. Such securities include, but are not limited to, those issued by Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), and Federal Home Loan Mortgage Corporation (FHMLC).
- The direct debt of the U.S. government (Treasury bonds, TIPS, bills and notes) and its agencies (including any mortgage-backed securities issued or guaranteed by GNMA, FNMA and FHMLC) shall not be restricted as a percentage of the Portfolio.
- SEC Rule 144(a) securities shall be limited to no more than 5% of the portfolio at market value of any manager's portfolio.

c. Real Assets

- The aggregate exposure to Real Assets should total no less than 10%, and no more than 20% of the portfolio:
- Total investments in Real Estate Equity, while not exposed to concentration of credit risk, should be no less than 5% and no more than 15% of the investment portfolio measured at fair value.
- Infrastructure Equity investments should total no more than 10% of the total fund measured at fair value.

d. Multi-Asset Investments

- The aggregate exposure to Multi-Asset classes should total no less than 2.5%, and no more than 15% of the Portfolio.
- Asset Allocation investments should total no less than 2.5%, and no more than 10% of the total fund measured at fair value.
- Commodities & Other should total no more than 10% of the total fund measured at fair value.

e. Cash

- Cash investments should total no more than 10.0% of the investment portfolio measured at fair value.

f. Other Investment Information

- As of December 31, 2021 and 2020, the following was the composition of the System’s portfolio:

	2021	2020
US equities	46.83%	46.66%
Developed markets equities	8.72%	10.15%
Fixed income		
Corporate bonds	3.59%	4.01%
Government bonds	14.24%	12.13%
Government mortgage-backed securities	3.01%	3.40%
Real estate equity		
US REITs	6.01%	4.42%
Real estate institutional collective trust	5.00%	4.53%
Infrastructure		
US equities	1.41%	1.08%
International equities	1.30%	0.99%
Limited partnership	2.31%	2.19%
Strategic partnership	-	5.14%
Multi-asset	3.92%	1.71%
Commodities & other	1.04%	0.88%
Short-term investments		
US Dollar	2.53%	2.71%
Foreign currency	0.09%	-
	100.00%	100.00%

The asset allocation policy noted in footnote 3 (a to f) is based on the type of investment strategy. The composition percentages in this table reflect the classification of investments for GASB 40 presentation purposes. Certain amounts have been reclassified from international to U.S. equities as they are denominated in U.S. dollars.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The System’s policies regarding interest rate risk do not explicitly limit maturities of investments by type but do require fixed income managers to disclose the credit exposure and portfolio duration of their portfolios in their quarterly reports. The System monitors the level interest rate risk primarily using duration, which is a widely used measure of interest rate sensitivity. Mortgage obligations are sensitive to changes in prepayments that may arise from a change in interest rates.

As of December 31, 2021, the System held the following investments and duration:

Investment type	Fair value	Effective Duration
Corporate Bonds	\$ 127,084,019	8.57
Government Bonds	503,269,453	9.61
Government mortgage-backed Securities	106,461,187	4.47
	<u>\$ 736,814,659</u>	8.67

As of December 31, 2020, the System held the following investments and duration:

Investment type	Fair value	Effective Duration
Corporate bonds	\$ 127,553,289	8.64
Government bonds	385,622,277	13.00
Government mortgage-backed securities	108,252,655	1.54
	<u>\$ 621,428,221</u>	10.11

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the System. To control credit risk, credit quality guidelines are incorporated into the Investment Policy Statement and Investment Implementation Policy as follows:

- Fixed income securities shall not be rated lower than investment grade (Baa3 by Moody’s or BBB by Standard & Poor’s or Fitch) by any of the three designated rating agencies unless authorization is granted to a Manager by the Board, or the mandate provided to a Manager specifies otherwise.
- Split rated securities in which the middle rating is below investment grade shall not comprise more than 5% of the fair value of any manager’s portfolio unless specific authority has been granted.
- The issues of individual entities rated AAA to Aa3 (Moody’s) or AA (Standard & Poor’s and Fitch) may have a 7% position at market value.
- Issues of individual entities rated below Aa3 (Moody’s) or AA (Standard & Poor’s and Fitch) may have a 3% position at fair value.
- The ratings criteria and percentage limit requirements do not apply to direct obligations of the US Government and its agencies (including GNMA, FNMA and FHLMC) as defined in the Permissible Investments section of Investment Implementation Policy, but the securities issued by any one issuer shall not otherwise, in the aggregate, exceed the foregoing limitations.

- If specific managers are given latitude to invest in securities issued by non-U.S. entities, the same quality restrictions apply.
- Money market instruments shall have a minimum quality rating comparable to an A3 (Moody's) or A (Standard & Poor's and Fitch) bond rating and commercial paper shall be rated A1/P1 unless held in a diversified short term commingled fund.

The quality ratings of investments in fixed income securities as described by nationally recognized statistical rating organizations on December 31, 2021, are as follows:

Standard & Poor's Quality Rating	Total fair value	Corporate bonds	US govt. & agencies
AAA	\$ 106,461,187	-	106,461,187
BBB	127,084,019	127,084,019	-
Total credit risk of debt securities	233,545,206	127,084,019	106,461,187
US govt. & agencies*	503,269,453		
	<u>\$ 736,814,659</u>		

*Obligations of the US government or obligations explicitly guaranteed by the US government are not considered to have credit risk and do not have purchase limitations.

The quality ratings of investments in fixed income securities as described by nationally recognized statistical rating organizations on December 31, 2020, are as follows:

Standard & Poor's Quality Rating	Total fair value	Corporate bonds	US govt. & agencies
AAA	\$ 108,252,655	-	108,252,655
BBB	127,553,289	127,553,289	-
Total credit risk of debt securities	235,805,944	127,553,289	108,252,655
US govt. & agencies*	385,622,277		
	<u>\$ 621,428,221</u>		

*Obligations of the US government or obligations explicitly guaranteed by the US government are not considered to have credit risk and do not have purchase limitations.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.

The System's exposure to currency risk, or exchange rate risk, primarily resides within the System's international equity investment holdings. The System's Investment Policy is to allow its active managers to decide whether to hedge the currency risk in their respective portfolios.

The System's exposure to foreign currency risk includes the following international investments (cash and equity) as of December 31, 2021 and December 31, 2020:

Currency	2021 Fair value	2020 Fair value
UK Pound Sterling	\$ 103,407,645	99,982,258
Euro	89,400,020	80,681,717
Japanese Yen	54,235,022	68,196,146
Swiss Franc	31,222,629	27,711,910
Danish Krone	21,696,287	19,980,895
Canadian Dollar	21,448,869	16,956,012
Australian Dollar	17,682,651	18,648,664
Hong Kong Dollar	13,875,207	18,137,944
Singapore Dollar	3,806,078	3,343,118
New Zealand Dollar	471,622	458,517
Norwegian Krone	40,211	53,356
Total securities subject to foreign currency risk	\$ 357,286,241	354,150,537

Foreign Currency Options

The System periodically invests in foreign currency options in order to hedge the value of a portion of its investments denominated in foreign currencies. Financial options are an agreement giving one party the right, but not the obligation, to buy or sell a specific amount of an asset for a specified price on or before a specified expiration date. The foreign currency options held by the System entitle the System to convert the value of certain foreign equities into US dollars at an agreed rate. On December 31, 2021 and 2020, the System held no foreign currency options.

NOTE 4: FAIR VALUE MEASUREMENT

In accordance with GASB 72, COAERS categorizes the fair value measurements of its investments within a fair value hierarchy as established by generally accepted accounting principles. Fair value measurements are classified as Level 1, Level 2 or Level 3, based on the inputs utilized to establish fair value:

Level 1 inputs are based on quoted prices (unadjusted) in active markets for identical assets or liabilities in active markets that an entity can access at the measurement date.

Level 2 inputs (other than quoted prices included within Level 1) are observable for similar assets or liabilities, either directly or indirectly. These include quoted prices of securities that are comparable in coupon, rating, maturity and industry. Inputs other than observable quoted prices take into account operational, market, financial and non-financial factors (interest rates, yield curves, credit risk, and default rates) or other market corroborated inputs that are observable at commonly quoted intervals for the full term of the investment.

Level 3 inputs are developed by the reporting entity based on unobservable inputs for an asset or liability.

For investments in certain entities that calculate net asset value and do not have a readily determinable fair value, fair value reporting is permitted based on the NAV per share (or its equivalent) as a practical expedient, where certain conditions are met. These investments are not included in the leveling hierarchy.

The categorization of investments described above is based solely upon the objectivity of the inputs used, to reflect their relative reliability in the measurement of an investment's fair value and does not reflect the level of risk associated with the investment.

All equities securities, which include U.S., International, Emerging Markets, Real Estate Investment Trusts, and Infrastructure, are classified in Level 1 of the fair value hierarchy as these are valued using quoted prices in active markets for those investments.

The investments classified in Level 2 of the fair value hierarchy have available prices but are not traded in an active market. Short-term investment funds, and domestic fixed income, all fall into this category based on this criteria. Additionally, the short-term investment fund is a highly liquid instrument that is priced based on the fair values of its underlying investments which are less liquid than equities. Collective Trusts have daily liquidity available at a single NAV are classified as Level 2.

COAERS' investments have the following fair value measurements as of December 31, 2021 and 2020, respectively.

	2021				Net asset value (NAV)
	Fair value measurements using				
Investments at fair value:	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Short-term investments					
US Dollar	\$ 89,462,234	3,479,448	85,982,786	-	-
Foreign currency	3,028,440	3,028,440	-	-	-
	92,490,674	6,507,888	85,982,786		
Fixed income					
Corporate bonds	127,084,019	-	127,084,019	-	-
Government bonds	503,269,453	98,182,895	405,086,558	-	-
Government mortgage-backed securities	106,461,187	-	106,461,187	-	-
	736,814,659	98,182,895	638,631,764		
Global equities					
US equities					
US equities	949,298,529	949,298,529	-	-	-
US equity collective trust	276,741,606	-	276,741,606	-	-
	1,226,040,135	949,298,529			
Developed markets equities					
Developed markets equities	380,130,667	380,130,667	-	-	-
Developed markets equity collective trust	82,342,164	-	82,342,164	-	-
	462,472,831	380,130,667			
Emerging markets equities					
Emerging markets equities	34,137,969	34,137,969	-	-	-
Emerging markets collective trust	87,545,226	-	87,545,226	-	-
Emerging markets equity mutual fund	153,834,886	153,834,886	-	-	-
	275,518,081	187,972,855			
Real assets					
Real estate equity					
US REITS	212,428,546	212,428,546	-	-	-
Real estate institutional collective trust	176,772,484	-	176,772,484	-	-
	389,201,030	212,428,546			
Infrastructure & other					
US equities	49,954,028	49,954,028	-	-	-
International equities	45,968,017	45,968,017	-	-	-
	95,922,045	95,922,045			
Multi-asset					
Asset allocation	113,021,024	113,021,024	-	-	-
Asset allocation mutual fund	25,479,364	25,479,364	-	-	-
Commodities & other	36,839,340	36,839,340	-	-	-
	175,339,728	175,339,728			
Total investments by fair value level	3,453,799,183	2,105,783,153	1,348,016,030		
Investments measured at NAV:					
Infrastructure					
Infrastructure limited partnership	81,634,375	-	-	-	81,634,375
Total investments	\$ 3,535,433,558				

Investments measured at the net asset value (NAV)				
2021	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice
Infrastructure limited partnership	81,634,375	-	Quarterly	90 days

IFM’s Global Infrastructure Fund invests in core infrastructure assets in developed markets. The investment in the fund is through a Delaware limited partnership, which offers quarterly redemptions given 90 days’ notice.

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021 & 2020 (CONTINUED)

2020					
Fair value measurements using					
	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Net asset value (NAV)
Investments at fair value:					
Short-term investments	\$ 86,147,640	1,000,000	85,147,640	-	-
Fixed income					
Corporate bonds	127,553,289	-	127,553,289	-	-
Government bonds	385,622,277	102,214,205	283,408,072	-	-
Government mortgage-backed securities	108,252,655	-	108,252,655	-	-
	621,428,221	102,214,205	519,214,016	-	-
Global equities					
US equities					
US equities	729,325,616	729,325,616	-	-	-
US equity collective trust	335,189,974	-	335,189,974	-	-
	1,064,515,590	729,325,616	-	-	-
Developed markets equities					
Developed markets equities	339,766,655	339,766,655	-	-	-
Developed markets equity collective trust	107,541,928	-	107,541,928	-	-
	447,308,583	339,766,655	-	-	-
Emerging markets equities					
Emerging markets equities	35,222,105	35,222,105	-	-	-
Emerging markets collective trust	89,872,271	-	89,872,271	-	-
Emerging markets equity mutual fund	169,105,337	169,105,337	-	-	-
	294,199,713	204,327,442	-	-	-
Real assets					
Real estate equity					
US REITS	140,729,752	140,729,752	-	-	-
Real estate institutional collective trust	143,976,246	-	143,976,246	-	-
	284,705,998	140,729,752	-	-	-
Infrastructure & other					
US equities	34,261,663	34,261,663	-	-	-
International equities	31,534,757	31,534,757	-	-	-
	65,796,420	65,796,420	-	-	-
Multi-asset					
Asset allocation	30,424,426	30,424,426	-	-	-
Asset allocation mutual fund	23,850,505	23,850,505	-	-	-
Strategic partnership collective funds	163,602,475	-	163,602,475	-	-
Commodities & other	27,997,139	27,997,139	-	-	-
	245,874,545	82,272,070	-	-	-
Total investments by fair value level	3,109,976,710	1,665,432,160	1,444,544,550	-	-
Investments measured at NAV:					
Infrastructure					
Infrastructure limited partnership	69,481,418	-	-	-	69,481,418
Total investments	\$ 3,179,458,128				

Investments measured at the net asset value (NAV)				
2020	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice
Infrastructure limited partnership	69,481,418	-	Quarterly	90 days

IFM’s Global Infrastructure Fund invests in core infrastructure assets in developed markets. The investment in the fund is through a Delaware limited partnership, which offers quarterly redemptions given 90 days’ notice.

NOTE 5: PENSION PLAN INVESTMENTS

a. Investment Policy

The Board has the authority to establish the investment policy and the asset allocation policy. The general investment objective is to obtain a reasonable long-term total return consistent with the degree of risk assumed, while emphasizing the preservation of capital. There were no significant investment policy changes during the period ending December 31, 2021.

b. Asset Allocation

The System’s strategic asset allocation neutral weights as of December 31, 2021 and 2020, as adopted by the Board of Trustees, are as follows:

	2021	2020
US equities	33.0%	32.0%
Developed markets equities	15.0%	15.0%
Emerging markets equities	8.0%	8.0%
Fixed income	21.0%	20.0%
Real estate	10.0%	10.0%
Infrastructure	5.0%	5.0%
Strategic partnership	-	5.0%
Multi-asset	5.0%	4.0%
Commodities & other	2.0%	-
Cash & equivalents	1.0%	1.0%
	<u>100.0%</u>	<u>100.0%</u>

c. Method Used to Value Investments

- The System’s equity and fixed income investments are reported at fair value based on independent pricing services.
- Short-term cash investments are reported at cost, which approximates fair value.
- International securities are reported at fair value in US dollars converted at current exchange rates.
- Investments that do not have an established market are valued based on the net asset value provided by independent audits.
- The System’s pooled investments include collective investment trusts, mutual funds, and limited partnerships. The investments are priced at the net asset value per share by the fund administrators or general partners, and pricing of securities and financial instruments is according to each funds’ established framework to ensure a fair, accurate and consistent valuation.
- The System’s derivative instruments include futures, options, and warrants. They are executed on an exchange, priced at the last sale price in their respective active markets.
- The System’s strategic partnership with BlackRock Institutional Trust Company invests in BlackRock managed funds. Each fund’s net asset value is based on the fair value of the fund’s assets on the valuation date minus the Fund’s liabilities on the valuation date. The fund’s unit value is calculated by dividing the Fund’s net asset value on the valuation date by the number of units of the Fund that are outstanding on the valuation date.

- Investment income is recognized in the period earned, and purchases and sales of investments are recorded on a trade date basis. Net appreciation/depreciation in Plan investments includes both realized and unrealized gains and losses.

d. Rate of Return

For the year ended December 31, 2021, the annual money-weighted rate of return on System investments net of pension plan investment expense was 13.01%, an increase from 10.65% on December 31, 2020. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

e. Concentrations

If the pension plan held investments (other than those issued or explicitly guaranteed by the U.S. government, commingled funds, and other pooled investments) in any one organization representing 5% or more of the pension plan’s fiduciary net position, the pension plan should disclose this information. On December 31, 2021 and 2020, there are no holdings that exceeded this disclosure trigger.

NOTE 6: CONTRIBUTIONS AND FUNDING POLICY

As of December 31, 2021, and 2020, state law requires contributions equal to 8% of base compensation by the participants and by the City.

While the contribution requirements are not actuarially determined, state law requires that each plan of benefits adopted by the System must be approved by a qualified actuary. The actuary certifies that the contribution commitment by the participants and the City provides an adequate financing arrangement. Using the entry age actuarial cost method, the System’s normal cost is determined as a percentage of payrolls. The excess of the total contribution rate over the normal cost rate is used to amortize the System’s unfunded actuarial accrued liability, if any exists, and the number of years needed to amortize the System’s unfunded actuarial accrued liability is determined using a level percentage of payroll method.

The funding objective of the System is for contribution rates to be sufficient to cover the normal cost of the plan and to amortize any Unfunded Actuarial Accrued Liabilities (UAAL) as of December 31, 2020 over a closed period of 25 years, with subsequent unanticipated changes in the UAAL amortized over closed 15-year periods (layers).

In 2005, the City of Austin City Council approved a Supplemental Funding Plan (SFP) relating to the System. The basic elements of this plan provided for an initial 1% contribution from the City beginning in October 2006 and increasing 1% each year until reaching a cap of 4%. This additional funding would continue as long as necessary, and in an amount necessary, up to 4%, to sustain a 25-year funding period. While compliance with the SFP continued into 2010, the negative impact of 2008 capital markets on the Plan rendered the effect of SFP, the contributions of which had reached the 4% maximum, inadequate to achieve the System’s funding goal.

An Amended Supplemental Funding Plan, adopted by the City Council in October 2010, increased the total employer contribution to the System to 14% of base compensation effective October 1, 2010. The Amended Supplemental Funding Plan also increases future employer contributions as follows: 16% of base compensation effective October 1, 2011 for fiscal year 2011-12; and 18% of base compensation effective October 1, 2012 for fiscal year 2012-13, and each fiscal year thereafter. Effective January 1, 2021, the City increased its supplemental employer contribution to 19% of base compensation.

NOTE 7: CAPITAL ASSETS

The following summarizes the capital asset account balances as of December 31, 2021 and December 31, 2020, and changes to the accounts during the years then ended:

	Balance 12/31/2019	Additions	Disposals	Balance 12/31/2020	Additions	Disposals	Balance 12/31/2021
Capital assets being depreciated:							
Furniture and equipment	\$ 6,658,708	85,321	-	6,744,029	30,837	-	6,774,866
Total	6,658,708	85,321	-	6,744,029	30,837	-	6,774,866
Less accumulated depreciation:							
Furniture and equipment	1,190,673	727,712	-	1,918,385	731,309	-	2,649,694
Total	1,190,673	727,712	-	1,918,385	731,309	-	2,649,694
Total capital assets, net of accumulated depreciation	\$ 5,468,035	(642,391)	-	4,825,644	(700,472)	-	4,125,172

NOTE 8: FEDERAL INCOME TAXES

The Plan is a Public Employee Retirement System and is exempt from federal income taxes. A favorable determination letter from the Internal Revenue Service was issued in February 2014.

NOTE 9: RISK MANAGEMENT

The System is exposed to various risks of loss related to torts; errors; omission; theft of, damage to, and destruction of assets; and natural disasters. The risk of loss for such events is transferred through the purchase of various commercial insurance policies. Insurance for workers compensation is maintained in accordance with Texas state law. Management has in place a system of managing risk and reporting mitigation activities to the Board periodically.

NOTE 10: NET PENSION LIABILITY

The net pension liability is measured as the total pension liability, less the amount of the pension plan's fiduciary net position. In actuarial terms, this will be the accrued liability less the fair value of assets. The components of COAERS' net pension liability on December 31, 2021 and December 31, 2020 were as follows:

Schedule of Net Pension Liability

FY Ending December 31	Total Pension Liability	Plan Net Position	Net Pension Liability	Plan Net Position as a % of Total Pension Liability
2021	\$5,032,043,201	\$3,565,139,844	\$1,466,903,357	70.85%
2020	\$4,701,215,166	\$3,199,546,583	\$1,501,668,583	68.06%

In addition to the above, this information is presented in the Required Supplementary Information section. The Schedule of Changes in Net Pension Liability and Related Ratios presents multi-year trend information (beginning with FY 2014) to illustrate changes in the plan fiduciary net positions over time, relative to the total pension liability.

- a. **Actuarial Methods and Assumptions Used to Determine Total Pension Liability**
 The total pension liability was determined by an actuarial valuation as of December 31, 2021, using the following actuarial assumptions:

Summary of Actuarial Assumptions

Valuation date: December 31, 2021
Notes Members and employers contribute based on statutorily fixed or negotiated rates. A funding period is solved for through open group projections. The actuarially determined contribution is determined by applying the contribution rate from the funding valuation based on the Board's Funding Policy to the calendar year payroll following the valuation date. In other words, the contribution rate determined by the December 31, 2020 valuation is used to determine the actuarially determined contribution amount for the period January 1, 2021 through December 31, 2021.

Methods and Assumptions Used to Determine Total Pension Liability:

Actuarial Cost method	Entry Age Normal
Inflation	2.50%
Salary increases	3.50% to 5.75%
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are gender specific. Last updated for December 31, 2019 valuation pursuant to an experience study of the 5-year period ending December 31, 2018.
Mortality	PubG-2010 Healthy General Tables with full generational projection assuming immediate convergence of rates in the mortality projection scale MP-2018, 2D for male and female. Mortality improvement is projected from the mortality table's base year of 2010.

Other Information:

Notes There were no benefit changes during the year.

The Plan does not require regular ad hoc post-employment benefits, and none have been made since 2002.

b. Single Discount Rate

The Single Discount Rate of 6.75% used to measure the total pension liability, was based on the expected rate of return on pension plan investments. The projection of cash flows used to determine this Single Discount Rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made in accordance with the Supplemental Funding Plan. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The COAERS Board elected to decrease the Single Discount Rate from 7.0% to 6.75% in 2021.

Long-Term Expected Real Rate of Return

Asset Class	2021	2020
Global equities	7.05%	7.25%
Fixed income	1.88%	3.00%
Real assets	6.42%	6.00%
Multi-asset	5.77%	5.50%
Cash & equivalents	1.50%	2.25%

Estimates are nominal and arithmetic as provided by RVK.

c. Sensitivity of the Net Pension Liability to Changes in the Discount Rate

Regarding the sensitivity of the net pension liability to changes in the Single Discount Rate, the following presents the plan’s net pension liability, calculated using a Single Discount Rate of 6.75%, as well as what the plan’s net pension liability would be if it were calculated using a Single Discount Rate that is one percent lower or one percent higher:

Sensitivity of Net Pension Liability to the Single Discount Rate Assumption

1% Decrease 5.75%	Current Single Discount Rate Assumption 6.75%	1% Increase 7.75%
\$ 2,110,564,700	\$ 1,466,903,357	\$ 936,048,971

REQUIRED SUPPLEMENTARY INFORMATION DECEMBER 31, 2021

Schedule of Changes in the Net Pension Liability and Related Ratios

Fiscal year ending December 31,	2021	2020	2019	2018	2017	2016	2015	2014
Total Pension Liability								
Service Cost	\$ 122,860,286	\$ 121,881,354	\$ 117,635,215	\$ 111,438,032	\$ 107,767,510	\$ 107,111,330	\$ 93,506,590	\$ 89,235,267
Interest on the Total Pension Liability	324,735,713	310,318,953	295,341,490	281,403,651	266,257,048	251,684,051	236,843,912	222,709,911
Benefit Changes	-	-	-	-	-	-	-	-
Difference between Expected and Actual Experience	(11,910,396)	12,524,483	23,671,597	1,882,436	22,754,618	19,913,690	13,413,789	33,911,010
Assumption Changes	142,269,829	-	279,897,169	-	-	-	123,493,165	-
Benefit Payments	(242,860,638)	(227,737,284)	(213,956,372)	(198,846,376)	(186,286,855)	(175,218,095)	(165,464,616)	(157,563,807)
Refunds	(4,266,759)	(3,656,402)	(4,265,174)	(4,140,909)	(4,045,324)	(3,910,786)	(4,052,436)	(4,154,419)
Net Change in Total Pension Liability	330,828,035	213,331,104	498,323,925	191,736,834	206,446,997	199,580,190	297,740,404	184,137,962
Total Pension Liability - Beginning	4,701,215,166	4,487,884,062	3,989,560,137	3,797,823,303	3,591,376,306	3,391,796,116	3,094,055,712	2,909,917,750
Total Pension Liability - Ending (a)	\$ 5,032,043,201	\$ 4,701,215,166	\$ 4,487,884,062	\$ 3,989,560,137	\$ 3,797,823,303	\$ 3,591,376,306	\$ 3,391,796,116	\$ 3,094,055,712
Plan Fiduciary Net Position								
Employer Contributions	\$ 141,218,720	\$ 130,742,811	\$ 123,609,683	\$ 116,485,749	\$ 110,846,582	\$ 104,272,794	\$ 100,484,694	\$ 93,331,482
Employee Contributions	66,819,864	71,469,702	63,626,285	58,713,327	56,193,592	60,801,253	54,065,793	50,489,091
Pension Plan Net Investment Income	411,209,611	307,289,216	503,853,505	(157,242,103)	376,820,025	171,640,015	(47,607,661)	99,704,100
Benefit Payments	(242,860,638)	(227,737,284)	(213,956,372)	(198,846,376)	(186,286,855)	(175,218,095)	(165,464,616)	(157,563,807)
Refunds	(4,266,759)	(3,656,402)	(4,265,174)	(4,140,909)	(4,045,324)	(3,910,786)	(4,052,436)	(4,154,419)
Pension Plan Administrative Expense	(6,528,499)	(6,594,536)	(6,218,288)	(4,024,367)	(2,778,290)	(2,700,916)	(2,421,331)	(2,631,218)
Other	962	-	-	-	-	-	-	-
Net Change in Plan Fiduciary Net Position	365,593,261	271,513,507	466,649,639	(189,054,679)	350,749,730	154,884,264	(64,995,557)	79,175,229
Plan Fiduciary Net Position - Beginning	3,199,546,583	2,928,033,076	2,461,383,437	2,650,438,116	2,299,688,386	2,144,804,122	2,209,799,679	2,130,624,450
Plan Fiduciary Net Position - Ending (b)	\$ 3,565,139,844	\$ 3,199,546,583	\$ 2,928,033,076	\$ 2,461,383,437	\$ 2,650,438,116	\$ 2,299,688,386	\$ 2,144,804,122	\$ 2,209,799,679
Net Pension Liability - Ending (a) - (b)	1,466,903,357	1,501,668,583	1,559,850,986	1,528,176,700	1,147,385,187	1,291,687,920	1,246,991,994	884,256,033
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	70.85%	68.06%	65.24%	61.70%	69.79%	64.03%	63.24%	71.42%
Covered Payroll	743,256,421	726,348,950	686,720,461	647,143,050	615,814,344	579,293,294	558,248,300	518,508,233
Net Pension Liability as a Percentage of Covered Payroll	197.36%	206.74%	227.14%	236.14%	186.32%	222.98%	223.38%	170.54%

Notes to Schedule:

1. Covered payroll is imputed from the actual employer contributions during the calendar year.
2. Schedule will be built out to 10 years.
3. For 2014, there were no assumption changes. For 2015, changes in assumptions included a decrease in the investment rate of return to 7.5%; inflation decrease to 2.75%; rate of salary increase range changed to 4.00% - 6.25%; retirement age experience-based table updated; mortality changed to the RP-2014 Mortality Table with Blue Collar adjustments and generational mortality improvements. For 2018, 2017 and 2016 there were no changes in assumptions. For 2019, changes in assumptions included a decrease in the investment return to 7%, a decrease in inflation to 2.5%, the salary increase range set at 3.5% - 5.75%, retirement age experience-based table updated; and a change in mortality tables to the PubG-2010 Healthy Retiree Mortality Table with full generational projection. For 2020, there were no assumption changes. For 2021, the investment return assumption was decreased to 6.75% while keeping the inflation assumption at 2.5%.

See accompanying Independent Auditors' report

Schedule of Contributions

FY Ending December 31	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
2014	\$ 94,627,753	\$ 93,331,482	\$ 1,296,271	\$ 518,508,233	18.00%
2015	98,419,175	100,484,694	(2,065,519)	558,248,300	18.00%
2016	114,931,790	104,272,793	10,658,997	579,293,294	18.00%
2017	120,761,193	110,846,582	9,914,611	615,814,344	18.00%
2018	125,092,752	116,485,749	8,607,003	647,143,050	18.00%
2019	133,017,753	123,609,683	9,408,070	686,720,461	18.00%
2020	156,528,199	130,742,811	25,785,388	726,348,950	18.00%
2021	156,232,500	141,218,720	15,013,780	743,256,421	19.00%

Schedule of Investment Returns

Year	Annual Return *
2021	13.01%
2020	10.65%
2019	20.70%
2018	-5.97%
2017	16.61%
2016	8.08%
2015	-2.19%
2014	4.75%

* Annual money-weighted rate of return is calculated as the internal rate of return on pension plan investments, net of investment expenses

Note: Both schedules above will be built out to 10 years.

See accompanying Independent Auditors' report

Investment Expenses

	<u>2021</u>	<u>2020</u>
Custodial & Transaction Fees		
The Bank of New York Mellon	\$ 260,000	-
The Northern Trust Company	-	183,028
Transaction and other fees	64,153	986,340
	<u>324,153</u>	<u>1,169,368</u>
Investment Manager Fees	5,776,497	4,481,344
Other Investment-related Expenses		
Consultant Fees - RVK	264,452	348,750
Investment Research	143,920	144,774
Reporting and Monitoring	36,500	22,000
Investment Systems	112,558	157,785
Investment Legal Counsel	58,179	122,517
Staff Professional Development	8,092	35,572
Other	24,902	31,794
	<u>648,603</u>	<u>863,192</u>
Total	\$ <u>6,749,253</u>	<u>6,513,904</u>

Note: Investment Manager Fees are presented on an accrual basis and do not include fees directly charged against commingled funds. For more information, please refer to the Investment Section.

General & Administrative Expenses

	<u>2021</u>	<u>2020</u>
Actuarial	\$ 62,541	139,803
Legal	62,801	73,598
Audit	121,375	100,000
Consultants	396,959	326,717
Information Technology	391,905	492,347
Administrative	4,431,848	4,438,553
Depreciation	731,309	727,712
Insurance	193,217	161,797
Member Communications	100,576	78,577
Professional Development	35,968	55,432
Total	\$ <u>6,528,499</u>	<u>6,594,536</u>

Professional Services and Consultant Expenses

Actuarial		
GRS Retirement Consulting Group	\$ 62,541	139,803
Legal		
Clark Hill Strasburger	5,320	10,800
The Knight Law Firm LLP	57,481	62,798
	<u>62,801</u>	<u>73,598</u>
Audit		
KPMG LLP	103,000	100,000
RSM US LLP	18,375	-
	<u>121,375</u>	<u>100,000</u>
Consultants		
Express Information Systems	14,474	11,967
Freeit Data Solutions	19,648	38,842
Gartner	82,384	82,300
Global Governance Advisors	74,747	43,623
Harold Skaggs MD	2,930	4,453
Hillco Partners LLC	48,000	48,000
Jonathan Decherd MD	837	2,429
Kudelski Security	2,432	10,255
Ntirety	69,666	33,977
Whitehat Virtual Technologies	81,841	50,871
	<u>396,959</u>	<u>326,717</u>
Total	\$ <u>643,676</u>	<u>640,118</u>

See accompanying Independent Auditors' report

12. Facility options

A. Convene into executive session

pursuant to 551.072, Texas Government Code to deliberate the purchase, exchange, lease, or value of real property

B. Reconvene into public session and

take action as determined appropriate by the Board regarding the purchase,

exchange, lease, or value of real property

Presented by Christopher Hanson

AGENDA ITEM 12:
Facility options

- A. Convene into executive session pursuant to 551.072, Texas Government Code to deliberate the purchase, exchange, lease, or value of real property
- B. Reconvene into public session and take action as determined appropriate by the Board regarding the purchase, exchange, lease, or value of real property

13. Discuss and consider performance for the Executive Director

A. Convene into executive session pursuant to Tex. Government Code 551.074 to deliberate the evaluation, employment, and/or duties of the Executive Director

B. Reconvene into public session and take action, if any, as determined appropriate

Presented by Chris Noak, Chair

AGENDA ITEM 13:

Discuss and consider performance for the Executive Director

- A. Convene into executive session pursuant to Tex. Government Code 551.074 to deliberate the evaluation, employment, and/or duties of the Executive Director
- B. Reconvene into public session and take action, if any, as determined appropriate

14. Review and discuss the Executive Director's report on the following matters:

A. Operational matters including staffing and facilities

B. Review of Member Meeting

C. Update on October Board Workshop

D. MET report and upcoming educational programs and conferences

Presented by Christopher Hanson

AGENDA ITEM 14:

Receive report from Executive Director on the following matters:

- A. Operational matters including staffing and facilities
- B. Review of Member Meeting
- C. Update on October Board Workshop
- D. MET report and upcoming educational programs and conferences

AGENDA ITEM OBJECTIVE

The objective of the agenda item is for the Executive Director to provide the Board a report on upcoming educational programs and conferences.

RELEVANCE TO STRATEGIC PLAN/CORE COMPETENCIES

This agenda item aligns with one of the five core competencies established in the COAERS Strategic Plan: “**Dependable Operations:** *Managing the financial and operational commitments of the system within appropriate measurable standards.*”

This agenda item also aligns with one of the five core competencies established in the COAERS Strategic Plan: “**Education:** *Promoting educational opportunities that enhance knowledge and develop appropriate skill sets for Trustees, Staff, and customers.*”

RECOMMENDATION FOR BOARD ACTION

For informational purposes only; no action required.

BACKGROUND

Many Trustees’ terms have rolled over and reset to zero hours at the beginning of 2022. Staff will continue to log hours and prompt Trustees who may need additional training.

ATTACHMENTS

1. COAERS 2022 MET report
2. Upcoming Educational Programs and Conferences

The following report provides information on COAERS Trustee and administrator progress in completing the Pension Review Board (PRB) training requirements. The report does not include courses that have been registered for but not yet taken or reported.

Accredited Sponsor

COAERS obtained approval to be renewed for four more years as an accredited sponsor of both Core and Continuing Education MET activities, meaning that in-house trainings will continue to be counted toward PRB requirements.

PRB Terms

All Trustees were current at the end of 2021. Several Trustees have begun new terms.

Core MET Requirements

New Trustees and administrators are required to receive a minimum of seven hours of training in the “core” topic areas of: fiduciary, governance, ethics, investments, actuarial, benefits administration, and risk management. The seven hours of “core” training must include every topic area and training in each topic area and must be at least 0.5 hours and not more than 2 hours.

(COAERS has three Trustees in this cycle, Dr. Crook, Dr. Granof, and Mr. Lavine)

Continuing Education MET Requirements

After the “core” training cycle ends, Trustees and administrators are required to complete a minimum of four hours of training every two years. “Continuing education” training may be in the “core” topic areas, as well as “non-core” topic areas such as: compliance, legal and regulatory, pension, accounting, custodial issues, plan administration, Texas Open Meetings, and Texas Public Information Acts.

Continuing Ed Training 2-year cycle Cycles are PRB terms, not the full range of Board elections/assignments	Core	Non-core	Total	Completed
M. Benson January 1, 2021-December 31, 2022		4.5	4.5	√
C. Hanson January 11 2022 – January 10, 2024	3.75	4	7.75	√
A. Hunter January 30, 2022 to January 29, 2024		1	1	
Y. Liu January 1, 2022 to December 31, 2023		33	33	√
C. Noak January 1, 2022-December 31, 2023		2	2	
L. Pool Feb 19, 2022 – Feb. 18, 2024		4	4	√
A. Ross January 1, 2022-December 31, 2023				
Brad Sinclair January 1, 2022 – December 31, 2023				
Diana Thomas January 19, 2022 – January 18, 2024				
Core Training 1-year cycle	Core	Non-core	Total	Completed
Kelly Crook August 30, 2021 – August 29, 2022	7	2.75*	9.75	√
Dick Lavine January 1, 2022 – December 31, 2022	7	2	9	√
Michael Granof January 1, 2022 – December 31, 2022	7	2	9	√

**Ms. Crook returned from IFEBP this week; more non-core hours not logged yet.*

Upcoming Educational Programs and Conferences

This page contains links with information on upcoming conferences and educational programs. Noted programs are pre-approved for meeting either core or continuing education requirements from the PRB. We can request credit in advance from the PRB for trainings not pre-qualified. If you have any questions or need any additional information, please contact Sarah McCleary.

- www.BoardSmart.com virtual training for Pension Trustees (contact Sarah if you need help logging in; COAERS has a subscription)
- [CAIA Association Fundamental of Alternative Investments](#) (self-study)(pre-approved for PRB)
- [IFEBP](#)
 - October 23-26, 2022 Employee Benefits Conference – Las Vegas, NV
(a virtual option is also available)
- [NACD](#)
 - Virtual Director Professionalism (online)
 - Cyber Risk Oversight Certificate (online)
 - Director Essential Series (online)
- [NASRA](#) (National Association of State Retirement Administrators)
 - August 6-10, 2022 Annual Conference – Long Beach, CA
- [NCPERS](#) (pre-approved for PRB, Continuing Education only)
 - August 21-23, 2022 Public Pension Forum, Los Angeles, CA
 - October 22-23, 2022 NCPERS Accredited Fiduciary (NAF) Program, Nashville, TN
 - May 20-21, 2023 NCPERS Accredited Fiduciary (NAF) Program, Detroit, MI
- [Pension Review Board online trainings:](#) (all count toward PRB training requirements)
 - *Risk Management (45 min); Risk Management (1 hr); Ethics (45 min); Governance (45 min); Actuarial matters (1.5 hrs); Fiduciary Matters (1 hr) and Investments (1.5 hrs)*

COAERS Board Meeting
June 23, 2022

Recommended Reading:

- *The Future of Pension Management* – Keith P. Ambachtsheer
- *Investment Beliefs: A Positive Approach to Institutional Investing* – K. Koedijk
- *Achieving Investment Excellence: A Practical Guide for Trustees of Pension Funds, Endowments and Foundations* – K. Koedijk
- *Winning at the Loser's Game* – Charles D. Ellis
- *Think Again* – Adam Grant

15. Receive presentation on Fixed Income asset class and diversification of the Strategic Asset Allocation

Presented by David Stafford and RVK

AGENDA ITEM 15:
Receive presentation on Fixed Income asset class
and diversification of the Strategic Asset Allocation

***This agenda item is considered in-house training provided by COAERS, an accredited sponsor of Minimum Educational Training (MET) for purposes of fulfilling the Pension Review Board's MET Program requirements.*

AGENDA ITEM OBJECTIVE

The Board will receive presentations discussing the characteristics of the fixed income universe, including expected portfolio role and risk/return dynamics.

RELEVANCE TO STRATEGIC PLAN/CORE COMPETENCIES

This agenda item is central to **COAERS Strategic Plan Goal 2: Responsibly Manage the Risks of the System**. Pursuing a highly diversified portfolio is a central tenet of the Strategic Asset Allocation process and fixed income securities play a vital role in controlling the expected risk and return levels of the Fund.

RECOMMENDATION FOR BOARD ACTION

For discussion and informational purposes only, no action required.

BACKGROUND

The Investment Committee received this presentation during its May 20 meeting and recommended that the Board receive the presentation as well for educational purposes.

RVK and Staff will lead a review of the implications of the wide range of fixed income securities in which the Fund could invest. In this discussion, RVK will provide an educational overview of the different types of fixed income securities as well as the current market environment for these strategies. Staff will then present on the effects that current and possible future fixed allocations could have on the level of diversification provided by the Strategic Asset Allocation.

ATTACHMENTS

1. RVK Presentation: "Fixed Income Education"
2. Staff Presentation: "Diversification of the Strategic Asset Allocation"
3. Course evaluation form for continuing education



Fixed Income Education

City of Austin Employees' Retirement System

June 2022



Fixed Income Education



Fixed Income – Purpose

- The size and structure of a fixed income allocation is closely tied to each investor's goals.
- The primary goals of a traditional fixed income allocation for institutional investors include:



The provision of a predictable and consistent source of **income**, typically at a set targeted level



A reliable source of **liquidity** from which to meet expected near-term and intermediate-term cash needs



Helps **diversify** other portfolio risks (typically equity risk and deflation risk) due to expected **low correlation** with equity-oriented asset classes

The **mitigation of concrete losses** from asset sales during periods when market or economic stress causes assets with high sensitivity to growth or future earnings levels to depreciate in value

- Metrics such as yield, correlation, and rate of default are often used to measure the likely ability of a fixed income portfolio to meet these goals.

Fixed Income – Challenges

Traditional fixed income portfolios—particularly those more heavily reliant on U.S. Treasury, agency and non-agency MBS, and investment grade corporate exposures—currently face a number of important challenges in accomplishing the traditional goals as outlined on the previous slide.

Key challenges presented by the current market include:

- A **low yield environment**, which negatively impacts the level of income that traditional portfolios are able to generate
- The expectation of a continued **rise in interest rates**, which is likely to cause ongoing losses across fixed income assets with high levels of interest rate sensitivity, impacting their ability to act as a less volatile source of cash
- The possibility of **stagflation**, in which a higher correlation between losses in traditional fixed income portfolios and losses in economically sensitive asset classes such as equities could impair fixed income’s ability to act as a “shelter” during periods of market and economic volatility

Fixed Income – Solutions

The solutions pursued by institutional investors will depend on the relative priorities of the many respective goals their fixed income allocations are intended to meet.

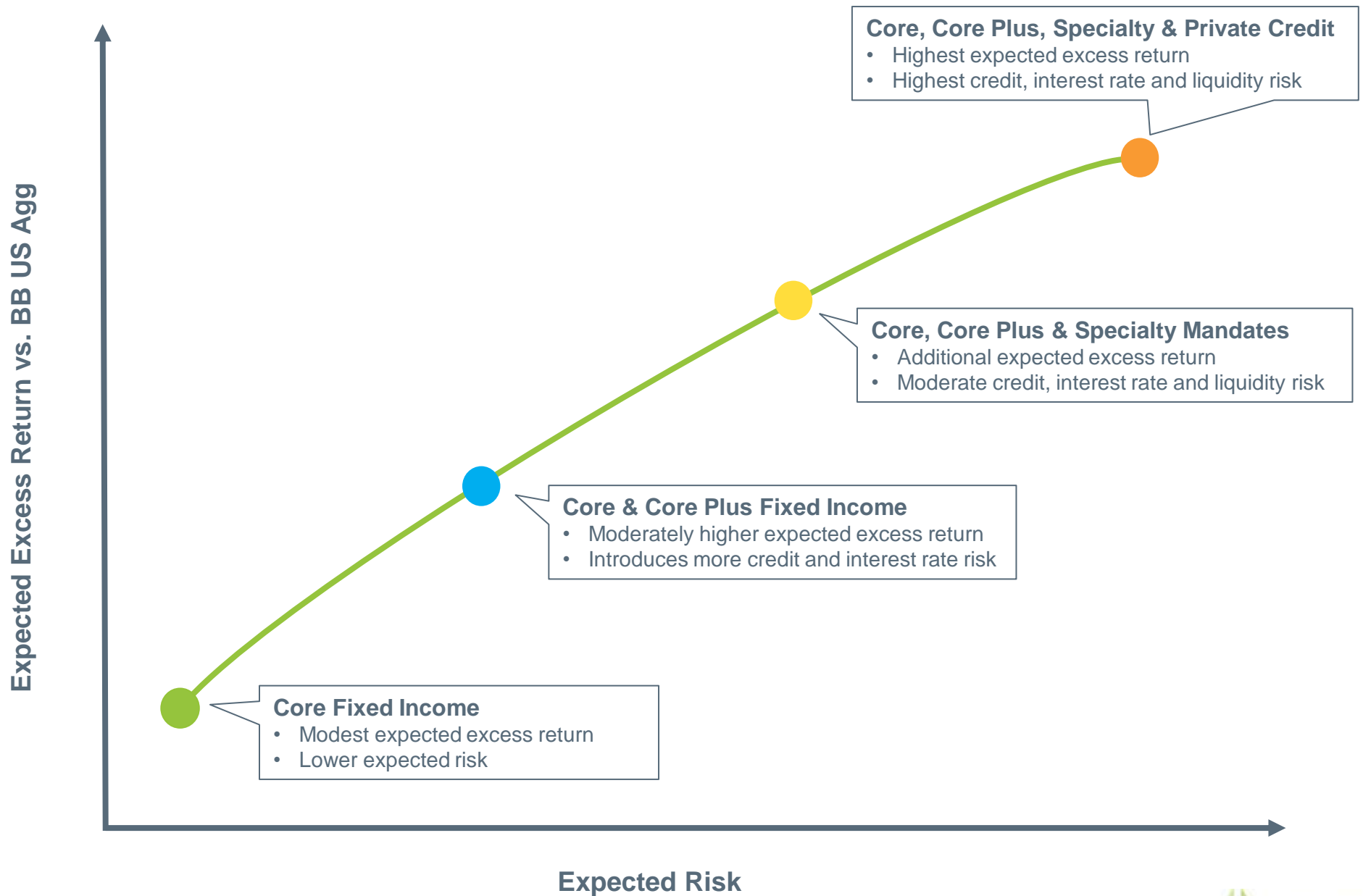
- Investors prioritizing long-term **income** may explore the addition of allocations to fixed income assets with higher yields and higher risk of loss from default, such as bank loans, CLOs, high yield bonds or emerging markets debt
- Investors concerned with **interest rate sensitivity** may consider investments in shorter-duration assets such as securitized credit, or the reallocation of some of their fixed income allocation to other asset types
- Investors with few near-term cash needs and high tolerance for **illiquidity** may allocate a portion of their fixed income portfolio to private credit assets, in order to both boost income and limit rate sensitivity simultaneously
- Although high quality fixed income is expected to remain a generally effective “safe haven” asset, investors seeking a source of cash during a **stagflationary downturn** may consider the use of derivatives as a portfolio-level “hedge”

A Review of Fixed Income Risks

- **Interest Rate Risk:** *How sensitive is the portfolio to interest rate movements?*
 - Prices and interest rates are inversely related
 - Duration: measures sensitivity to interest rates, stated in years
 - For example, a fixed income security with a 6 year duration implies that a 1% simultaneous *increase* in interest rates will result in a 6% *decrease* in price
 - All else equal, longer maturity bonds and lower coupon bonds will be more sensitive to interest rates
- **Credit Risk:** *How likely am I to be paid back?*
 - Credit risk is assessed based on the borrowers' ability to repay
 - Credit rating agencies evaluate and publish ratings for thousands of corporate and government bond issuers
- **Liquidity Risk:** *Can I sell quickly, at an attractive price?*
 - Unlike stocks, most bonds do not trade daily
 - Regulations introduced following the 2008 Great Financial Crisis have reduced corporate bond trading activity of large commercial banks

S&P Ratings	
AAA	Investment grade
AA	
A	
BBB	
BB	Non-investment grade
B	
CCC	
CC	
C	
D	

Spectrum of Fixed Income Portfolio Approaches



Fixed Income Universe – Publicly Traded



The Public Bond Market In Context

The Fixed Income Opportunity Set



U.S. Bond Market Sectors

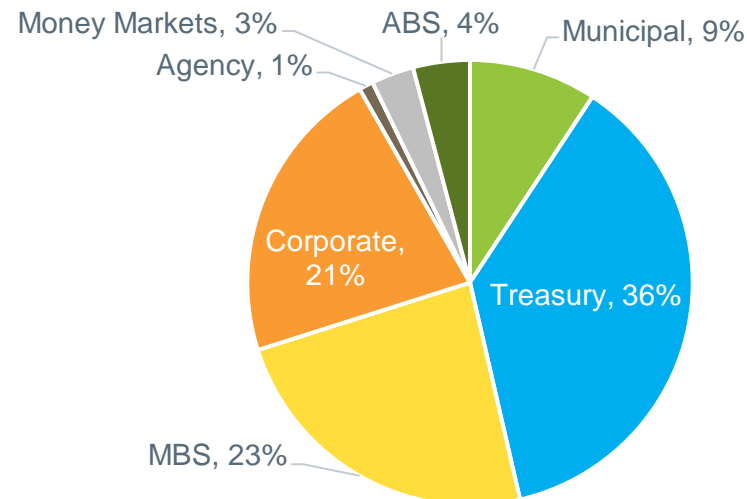


Chart Source: PIMCO

Sectors/Strategies Overview

Core Sectors

Strategy	Strategy Overview/Characteristics	Strategy Benefits	Risks for Consideration
Treasuries	<ul style="list-style-type: none"> • Issued by the US government • Maturities ranging from 1 month to 30 years • Referred to as “risk-free” given support from US government • Typically issued as fixed-rate instruments • Can be issued as TIPS which are linked to inflation 	<ul style="list-style-type: none"> • Capital preservation • Highly liquid • Safe haven asset with little to no risk of default • Lower correlation to equity markets than many other fixed income asset classes • Diversification of equity risk 	<ul style="list-style-type: none"> • Primary risk is interest rate risk • Low current expected return due to depressed yield environment and potential for future rate increases
Agency MBS	<ul style="list-style-type: none"> • Issues consist of a group of home loans purchased from banks supported by government-sponsored entities (Ginnie Mae, Fannie Mae, Freddie Mac) • Fixed rate 	<ul style="list-style-type: none"> • Backed by US government with extremely low default risk (only Ginnie Mae <i>fully</i> backed by US government) • Higher yielding than Treasuries • Low volatility • Diversification of equity risk • Liquid 	<ul style="list-style-type: none"> • Interest rate risk • Duration risk • Prepayment risk
Investment Grade Corporate	<ul style="list-style-type: none"> • Issued by corporations (e.g. to fund ongoing capital projects) • Typically fixed-rate • Some may be issued with covenants which can be recalled by the issuer or converted to common stock 	<ul style="list-style-type: none"> • Higher yielding than Treasuries • Diversification of equity risk • Liquid • Riskier than Treasuries but still considered lower risk than many other fixed income sectors 	<ul style="list-style-type: none"> • Default risk • Interest rate risk • Credit risk • Higher correlation to equity markets than some fixed income sectors

Sectors/Strategies Overview

Plus Sectors

Strategy	Strategy Overview/Characteristics	Strategy Benefits	Risks for Consideration
Emerging Market (EM) Debt	<ul style="list-style-type: none"> • Issued by developing foreign countries and corporations, many of which are denominated in the country's local currency • Fixed or floating rate coupons often characterized by unique features • Primarily issued by sovereign entities with corporate borrowing directly from banks 	<ul style="list-style-type: none"> • Fixed Income portfolio diversification • Relatively strong long-term economic growth prospects • Attractive yields 	<ul style="list-style-type: none"> • Currency exchange rate fluctuations • Geopolitical risks • Credit worthiness • Liquidity • Rising US Treasury yields
High Yield	<ul style="list-style-type: none"> • Debt issued by sub-investment grade companies • Below investment grade bond ratings 	<ul style="list-style-type: none"> • Fixed Income portfolio diversification • Higher expected income relative to core fixed income • Less interest rate risk 	<ul style="list-style-type: none"> • Duration • Higher volatility • Relatively higher risk of default • Greater credit risk
Bank Loans	<ul style="list-style-type: none"> • Short-term loans extended by banks to non investment-grade companies • Considered senior secured debt in the borrower's capital structure • Credit spread component reflects credit quality and liquidity 	<ul style="list-style-type: none"> • Fixed Income portfolio diversification • Minimal correlation to Barclays Aggregate Index • Protect against rising interest rates • Floating rate structure provides rate protection 	<ul style="list-style-type: none"> • Credit risk • Shocks to financial markets and loan issuance • Call risk
Global Multi-Sector Fixed Income	<ul style="list-style-type: none"> • Ability to invest in various types of fixed income, including global bonds 	<ul style="list-style-type: none"> • Fixed Income portfolio diversification • May shield against rising interest rates • Additional return opportunities with relatively lower volatility 	<ul style="list-style-type: none"> • Underlying holdings may exhibit higher correlation with equities • Exposed to risks of underlying strategies • Greater reliance on manager's skills, resources, and abilities

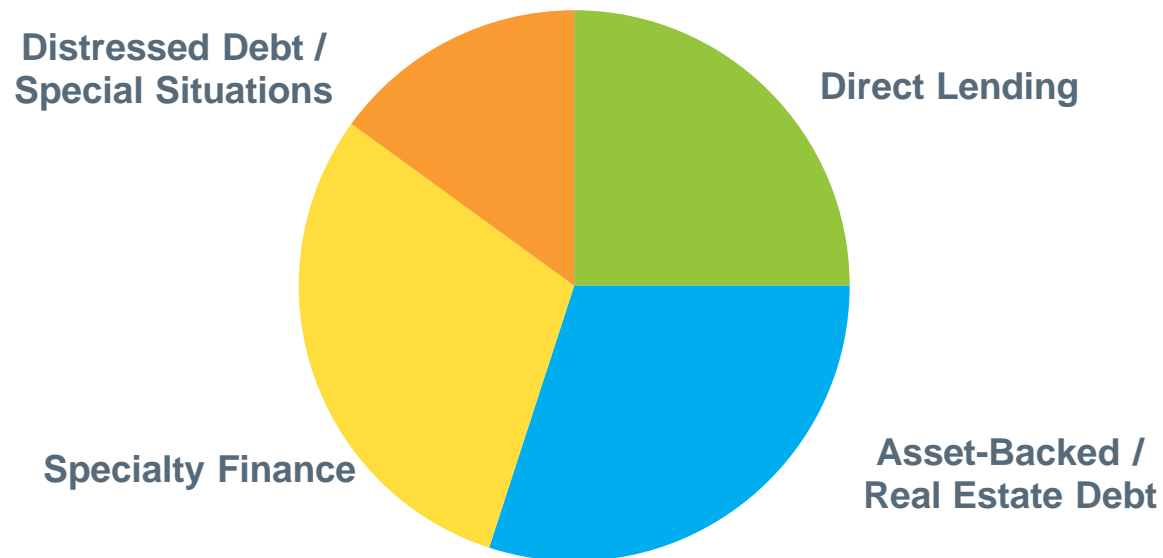
Fixed Income Universe – Private Credit



Private Credit

Introduction

- Since the Global Financial Crisis, the private credit opportunity set has greatly expanded in size, breadth, and complexity.
- Opportunities exist across the private credit landscape, including a variety of sub-strategies and collateral types with additional diversification across return targets, geographies, and use of fund-level leverage.
- For illustrative purposes, the sample allocation below represents one “typical” diversified institutional investor allocation to private credit:



Recent Changes to Regulatory Environment

Dodd-Frank Act:

- Enacted in 2010, the Dodd-Frank act targets banks, mortgage lenders, and credit rating agencies and was enacted as a direct response to the Global Financial Crisis in 2007 & 2008, establishing widespread financial system reforms.
- Primary provisions include limits on banks' speculative and proprietary trading, enhanced monitoring of financial institutions, prevention of predatory mortgage lending, and establishing reliable credit ratings. Congress rolled back some provisions in 2018, but most provisions remain in place today.

US Basel III:

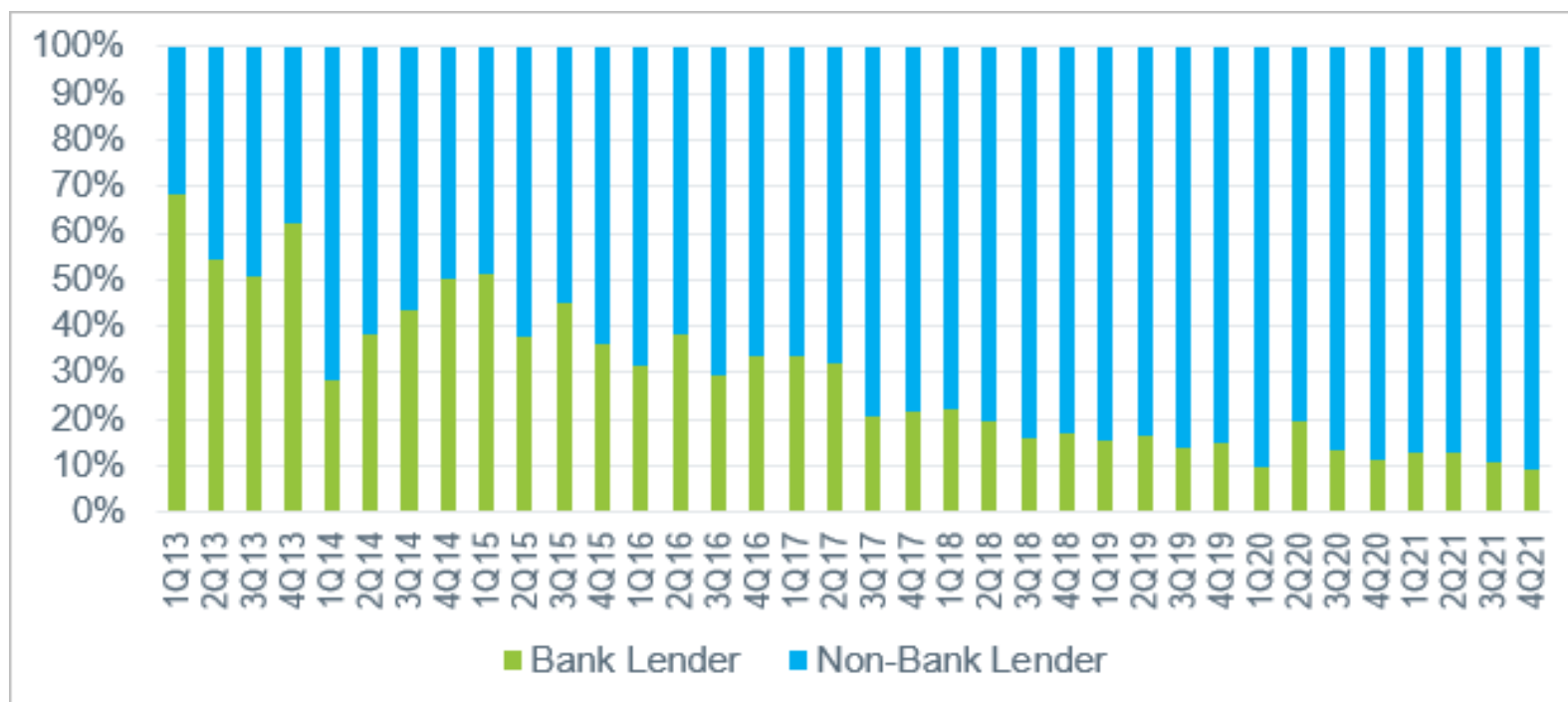
- Originally scheduled to be introduced in 2013 but delayed to 2023, the Basel Accords focus on ensuring that banks have an adequate cushion of capital to support their operations in the event of an unexpected or severe market downturn.
- The key provision of Basel III indicates that banks must have an equal or greater percentage of regulatory capital than risk-weighted assets and is comprised of the three pillars below:
 - *Pillar I: Quantifying risk (operational and market related) and minimum capital requirements*
 - *Pillar II: Supervisory review to address risks not covered in the first pillar (legal, liquidity, concentration, systemic, strategic, and reputational risk)*
 - *Pillar III: Encourages market discipline by setting minimum disclosure standards*

Current Regulatory Environment

Outcomes on Lending:

- Recent regulation has primarily served to limit client-facing financing institutions from lending capital at rates seen prior to the Global Financial Crisis.
- As illustrated below, banks have lost significant market share relating to middle market lending. As of 12/31/2021, Non-bank lenders (Private Credit) accounted for approximately 90% of all middle market lending.

Lenders' Share of Middle Market Deals



Source: Refinitiv LPC, RVK. Data derived from private data submissions to LPC's private database from 1/1/2013 to 12/31/2021 and represents sponsor-backed deals.

Private Credit Education

Definition and Characteristics

Private credit refers to debt financing provided by non-bank institutions that are not traded on the public market.

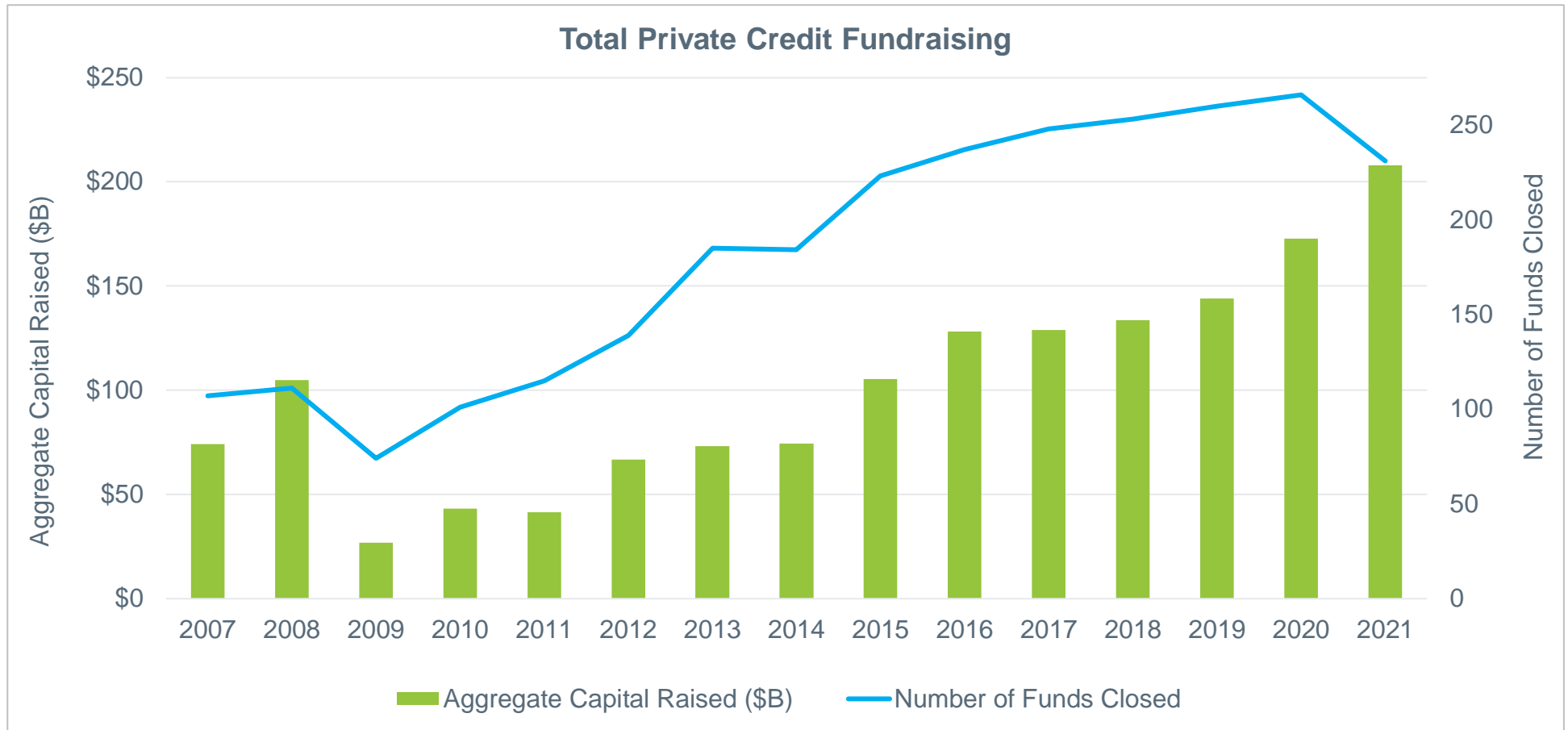
Characteristics

- Investments span a wide range of sub-strategies and collateral types
- High current income component
- Limited dependence on capital gains through price appreciation
- Limited liquidity
- Less efficient, more complex opportunity set than public fixed income
- More defensive profile than public fixed income driven by stronger lender protections
- Bespoke investment structures are typical
- Lower levels of risk and return than private equity
- Higher fees than public fixed income, lower fees than private equity

Sub-strategies include direct lending, asset-backed debt, real estate debt, specialty finance, special situations, and distressed debt, among several other private credit sub-strategies.

Private Credit Current Landscape

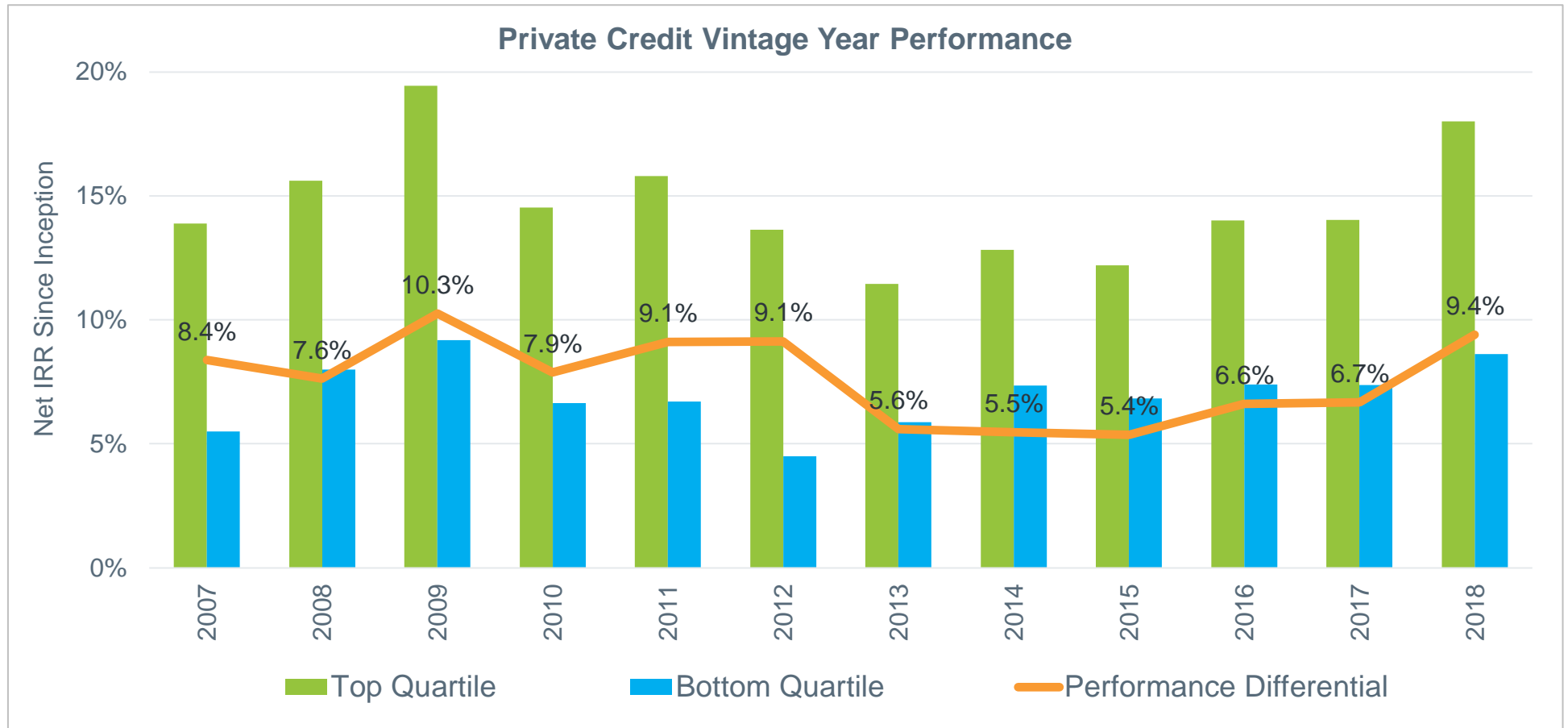
Fundraising



- The size of the private credit asset class has enjoyed consistent growth in recent years as a greater number of investors seek the benefits found in private credit, such as high risk-adjusted yield, low market sensitivity, and meaningful portfolio diversification.
- Since the Global Financial Crisis, fundraising has been robust, leading to overcrowding, compressed yields, and lower investor protections within many private credit strategies.

Private Credit Current Landscape

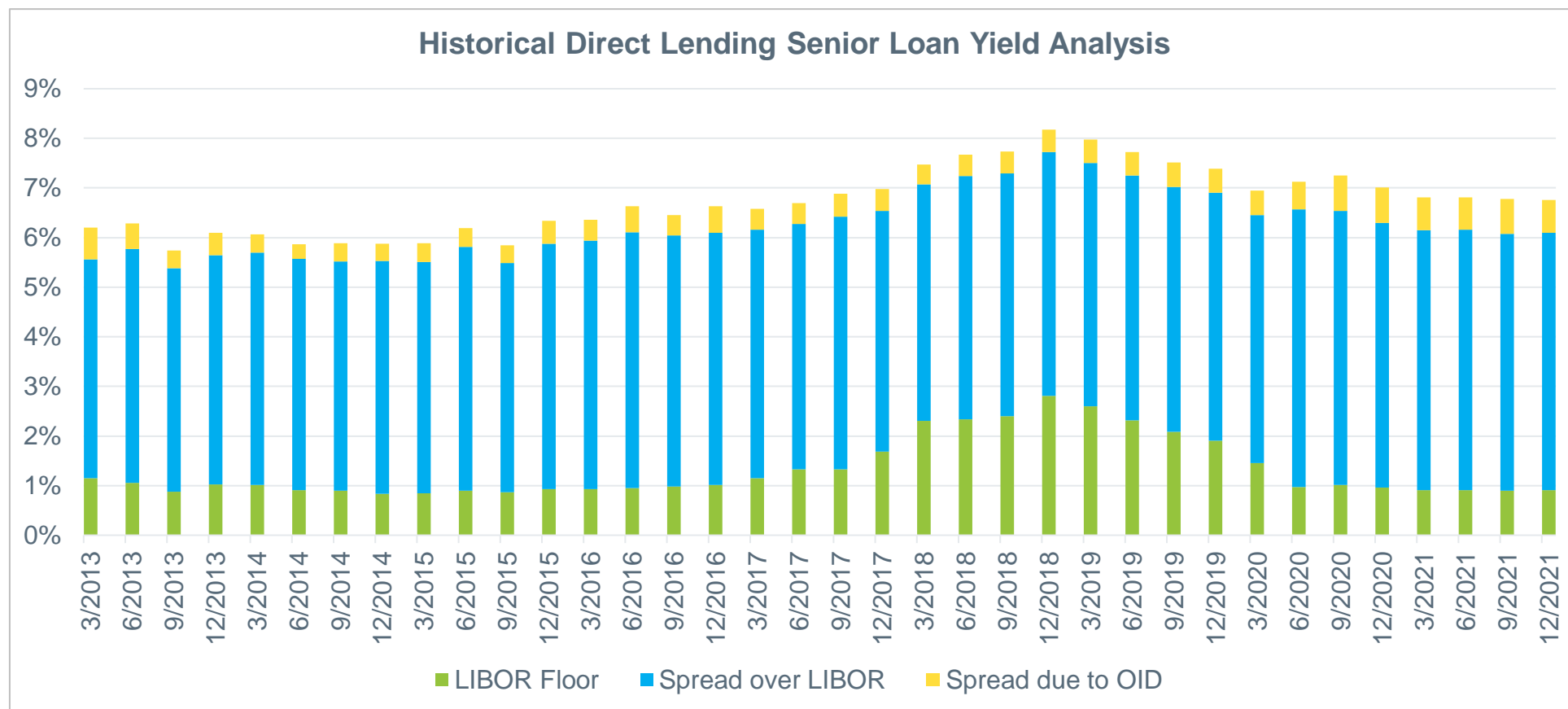
Performance



- Private credit median performance has been approximately 9% to 11% net IRR since 2007.
- Manager selection within private credit is essential, as the spread between the top and bottom performing private credit funds is significant, with an average differential of approximately 7.6% since 2007.

Private Credit Current Landscape

Yield Characteristics



- Investors in private credit can generally expect an increased yield compared to their public fixed income portfolios, as private middle-market loans often provide a yield premium of 1% to 3% over securities of comparable credit quality in public fixed income markets.
- Senior loans in the direct lending market have historically offered lenders consistent all-in yields of between 6% and 8%, with an average yield of 6.7% since 2013.

Source: Refinitiv LPC, RVK. Represents the average first-lien term loan yield with a three-year term. Data is based on private data submissions and excludes unitranche and second lien term loans. Data as of 12/31/2021.

Private Credit Education

Benefits and Risks

Benefits

- High and stable cash yields
- Superior risk-adjusted returns vs public fixed income
- Defensive profile with greater lender protections compared to public fixed income
- Bespoke investments are typical
- Low to moderate correlation to other asset classes
- Wide variety of sub-strategies and collateral types
- Diversification available across risk and return targets, geographies, and use of fund-level leverage
- Portfolios can be tailored to meet investors' specific risk/return needs and objectives

Risks

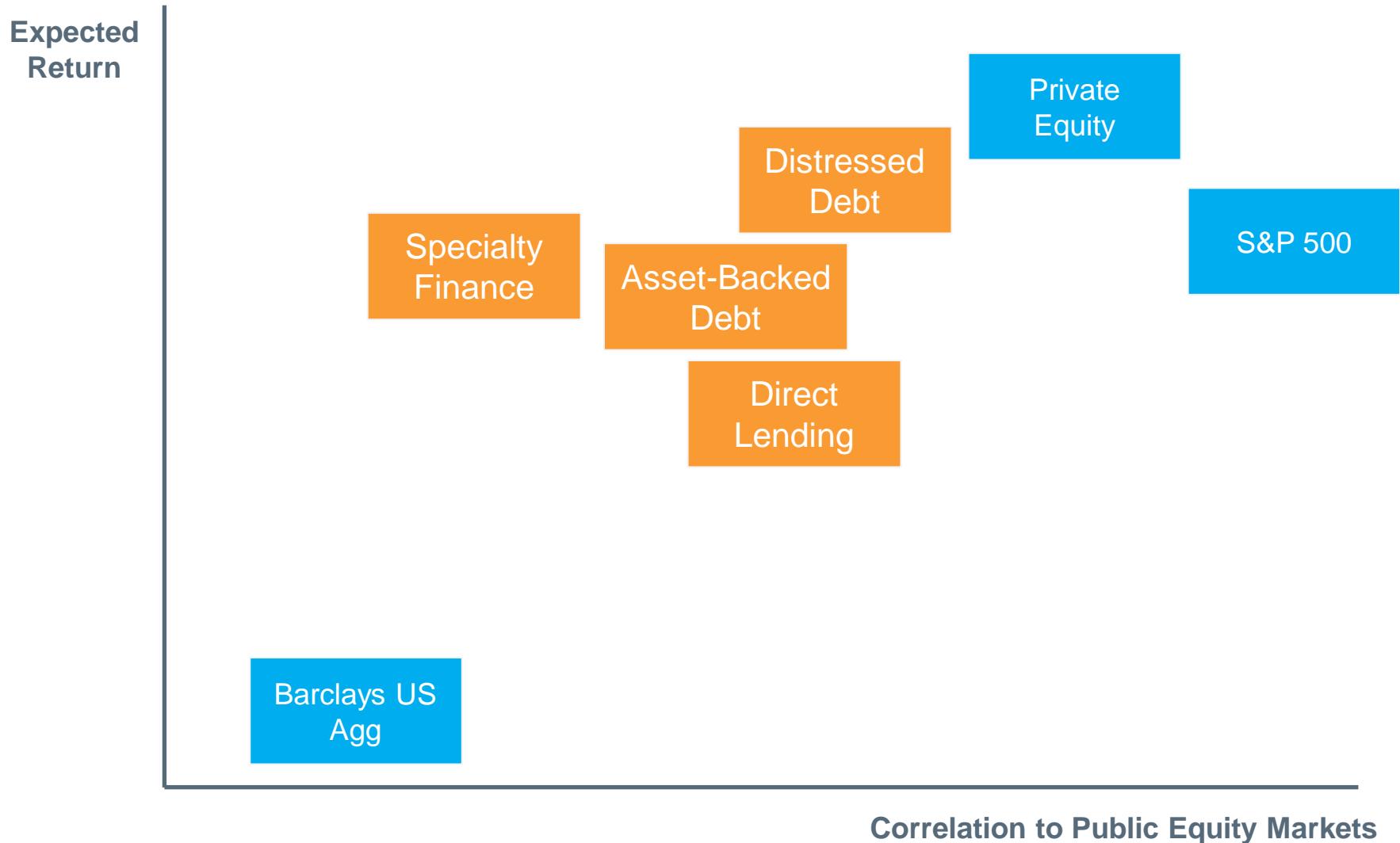
- Long-term, illiquid fund structures
- Lower return potential than some other alternative strategies like private equity
- Occasional use of fund-level leverage
- Higher fees than public fixed income
- Recent record fundraising has driven increased competition
- Managers within over-crowded sub-strategies have recently become “price-takers”
- In some congested markets, lender protections have weakened

Private Credit offers investors portfolio-level diversification and a high risk-adjusted yield with limited dependence on asset price appreciation.

Spectrum of Private Credit

Sub-Asset Class Return & Correlation Spectrum

Private Credit offers a variety of risk, return, and correlation profiles depending on the sub-strategy and collateral type.



Private credit investments are not traded in public markets, and as such, a true correlation to public markets cannot be accurately calculated. Presented for illustrative purposes only.

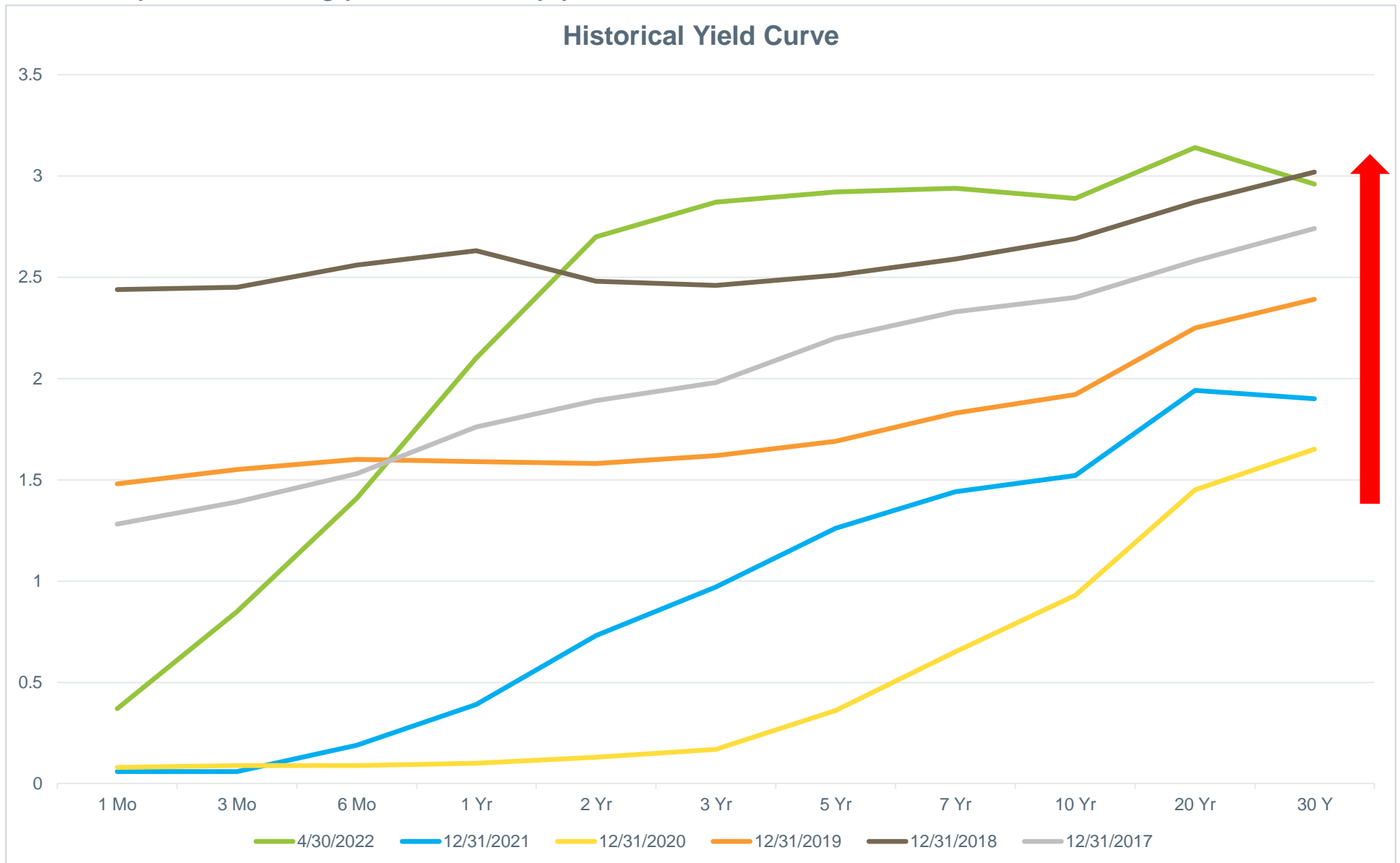
Appendix



Current Fixed Income Environment

Yields

- After years of falling yields, treasury yields have risen in 2022

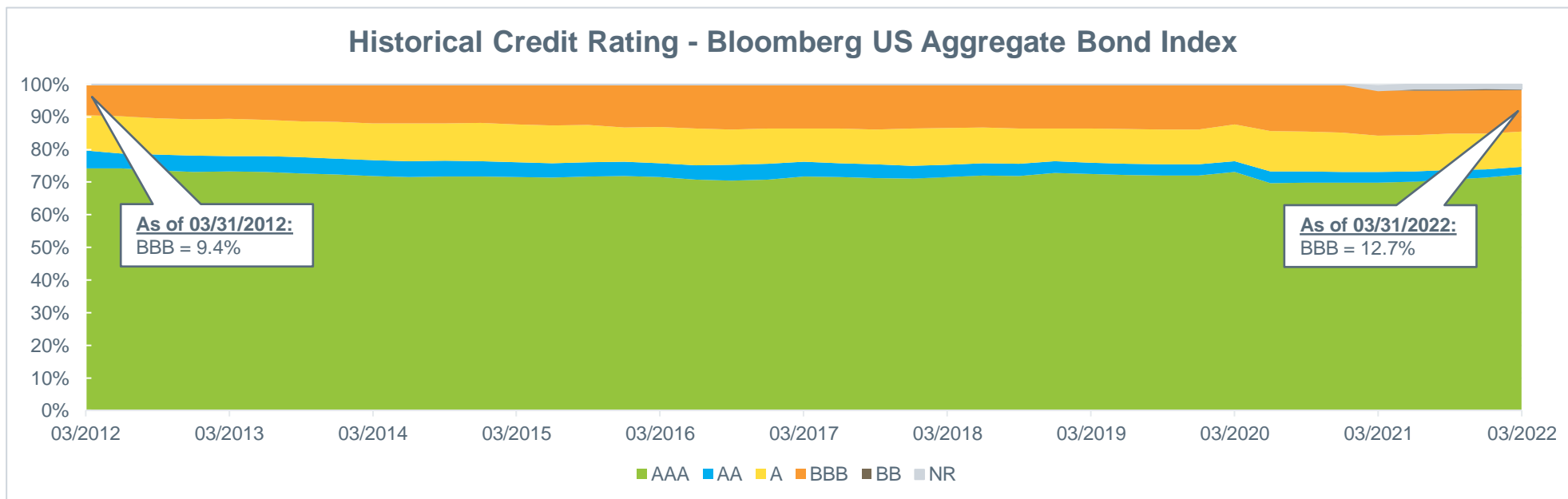
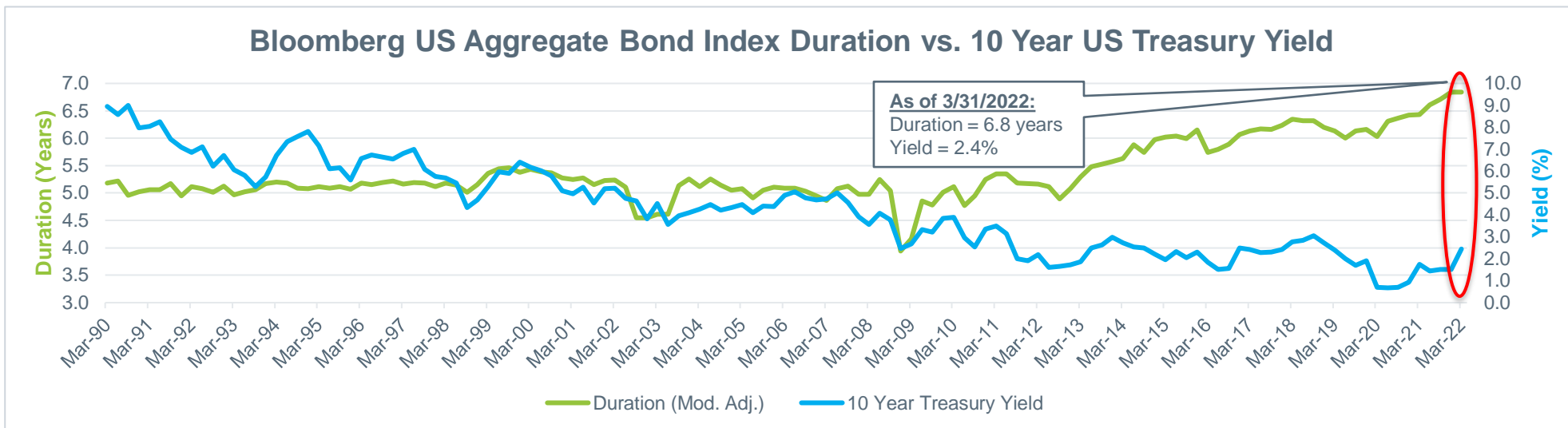


Source: US Dept. of the Treasury.

Current Fixed Income Environment

Duration and Quality

- Duration has increased, yields have fallen, and the BBB component increased



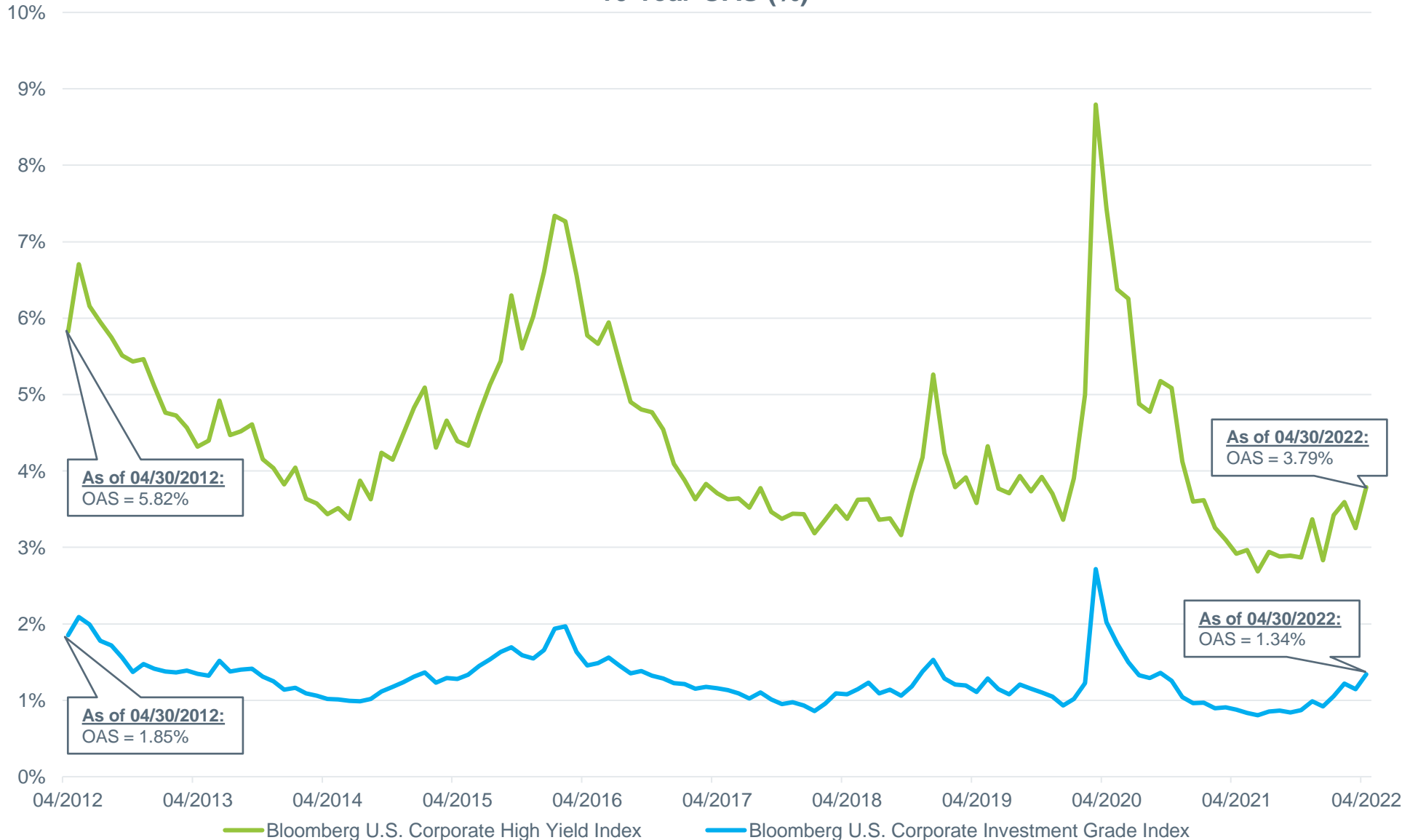
Source: Bloomberg Barclays and US Dept. of the Treasury. All data as of March 31, 2022.

Current Fixed Income Environment

Spreads

- Spreads are historically tight

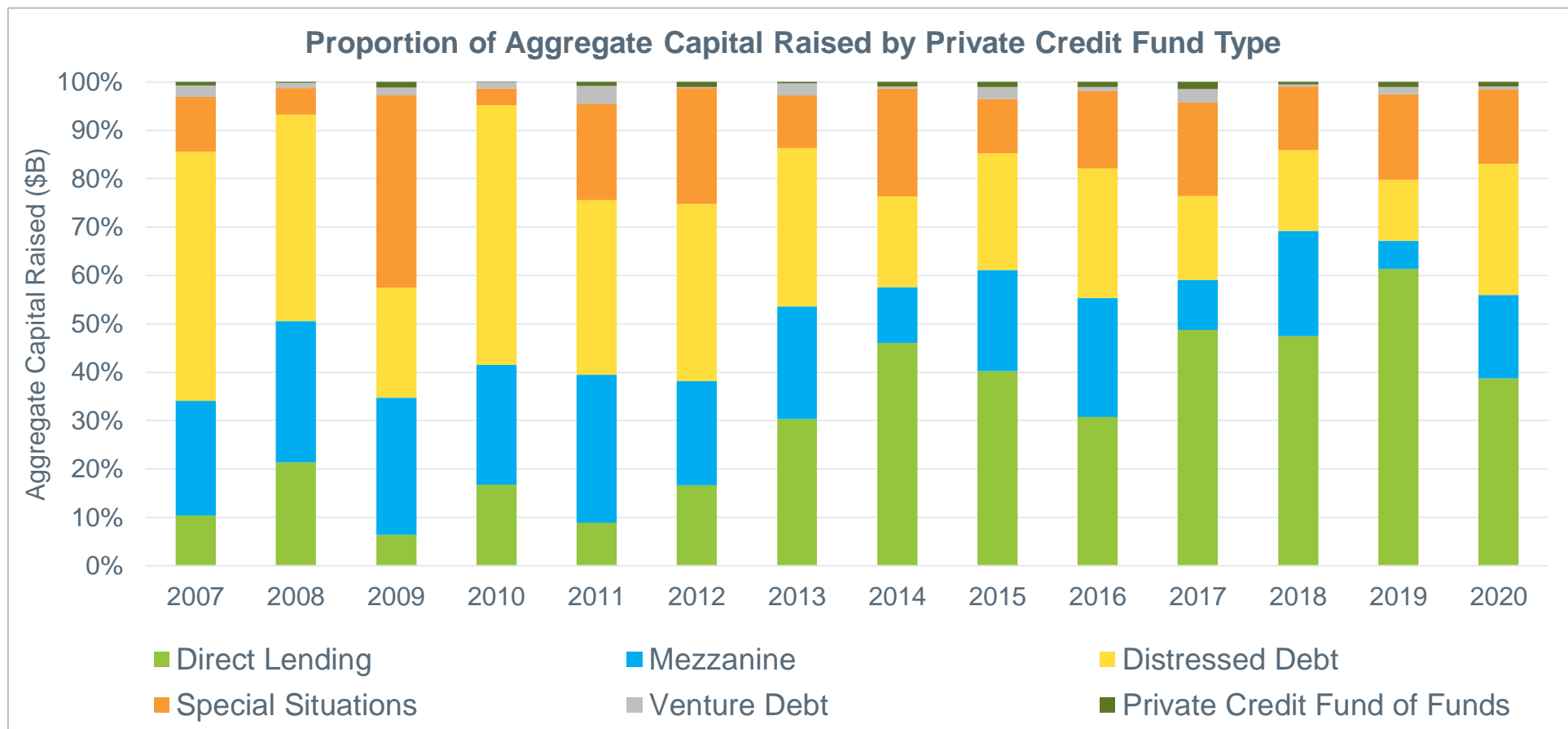
10 Year OAS (%)



Source: Bloomberg Barclays. All data as of April 30, 2022.

Private Credit Current Landscape

Strategy Specific Fundraising



- Direct Lending continues to be the dominant strategy within Private Credit, as approximately half of the capital raised since 2017 has been committed to Direct Lending managers.

Private Credit Education

Asset Class Comparison

Benefits of Private Credit:

- ✓ Superior risk-adjusted returns due to a less efficient investment space than more liquid, widely traded, and well-understood asset classes, such as public fixed income.
- ✓ Features a heavy income component with limited dependence on asset price appreciation.
- ✓ Typically includes greater lender protections, indicating a more defensive profile.

Drawbacks of Private Credit:

- Illiquid fund structures with investor's capital locked-up for 4-8 years.
- Higher fees than public fixed income as a result of added asset class complexity.
- Lower levels of long-term return vs. higher-risk asset classes, such as private equity.

	Public Fixed Income	Private Credit	Private Equity
Target Net Return	3-6%	6-14%	10-18%
Fund Life	Evergreen	4-8 Years	10-12 Years
Liquidity	Daily	None	None
Income Distributions	Monthly	Quarterly	None
Management Fee	0.25% - 0.75%	0.75% - 1.75%	2%
Incentive Fee	None	15% - 20% over a 6% - 8% Hurdle	20% over an 8% Hurdle
J-Curve	None	Moderate	Drastic

Appendix: Differentiated Approaches to Fixed Income

Securitized Credit

Securitized credit strategies are strategies that invest in tradeable credit securities collateralized by large and diverse pools of loans. Collateral packages may include residential and commercial mortgages, credit card receivables and other asset-backed securities, and often tilt toward consumer loans of various types.

- **Strengths** of this asset class include a generally low duration, diverse sources of risk relative to most fixed income portfolios (consumer risk vs. corporate risk), higher yield, and less efficient pricing than is generally seen in core bonds, allowing for more value to be added by skilled managers.
- **Weaknesses** include a higher overall risk of loss from default relative to core bonds, a higher level of volatility, and periods of lower liquidity such as March of 2020, when technical market forces froze parts of the securitized credit space.

Sample Metrics – Securitized Credit Offering

	Quartiles	Yield to Maturity	Current Yield	5Y Annualized Return	5Y Standard Deviation	Effective Duration		
Peer Group: eV Securitized Non-Traditional	5 th	7.17%	5.30%	7.32	1.55	5.59		
	25 th	4.66%	3.79%	5.27	3.53	2.99		
	Median	3.34%	3.17%	4.54	5.29	1.95		
	75 th	2.49%	2.48%	3.85	7.06	0.78		
	95 th	1.36%	1.68%	2.86	10.65	0.11		
Sample Strategies	Manager	Yield to Maturity	Current Yield	5Y Annualized Return	5Y Standard Deviation	Effective Duration	5Y Correlation to S&P 500	Average Credit Quality
	Strategy 1	5.30%	1.69%	5.55	5.18	0.44	0.51	BB
	Strategy 2	3.27%	1.27%	5.17	3.49	1.08	0.44	BBB

Emerging Markets Debt

- Emerging markets debt strategies invest in bonds issued by countries with developing economies such as Latin America, Eastern Europe, Middle East, Africa, and certain regions in Asia. The type of issuers can include sovereign, quasi-sovereign, or corporate entities. Although many bonds are issued in the “local” currency of the country of domicile, others may be issued in US dollars or other “hard” currencies of developed countries.
- **Strengths** of this asset class include diversification to US markets and many traditional asset classes, and a yield advantage over developed markets, often without sacrificing quality.
- **Weaknesses** include risk due to political or economic instability, lower liquidity, weaker corporate governance, and higher default rates compared to otherwise equivalent developed markets securities. Investing in local currency debt also has foreign exchange rate risk due to currency fluctuations.

Sample Metrics – Emerging Markets Debt Offering

Yield to Maturity	5Y Annualized Return	5Y Standard Deviation	5Y Correlation to S&P 500	Effective Duration	Average Credit Quality
6.64	1.95	9.33	0.62	7.52	BB+

Source: JPMorgan EMBI Global Diversified Index as of February 28, 2022.

Leveraged Loans

Also known as “senior secured loans” or “bank loans,” leveraged loans are debt obligations of below investment-grade companies with a floating interest rate that resets every 30 to 90 days. They are normally secured by assets such as inventories, real estate, equipment, etc.

- **Strengths** of this asset class include very low duration (~0.25 years) as the yield resets periodically, higher yield, and seniority to bonds and equity in the capital structure, which can lead to higher recoveries in the event of default. They may also contain covenants which require an issuer to maintain certain financial ratios or control cash flows.
- **Weaknesses** include a higher risk of loss from default, higher volatility, lower liquidity, and longer settlement times. In addition, leveraged loans have limited potential for appreciation as most are callable at par, allowing borrowers to retire or refinance loans at virtually any time.

Sample Metrics – Leveraged Loan Offering

Current Yield	5Y Annualized Return	5Y Standard Deviation	5Y Correlation to S&P 500	Effective Duration	Average Credit Quality
4.17	4.06	6.73	0.65	0.25	B+

Source: Credit Suisse Leveraged Loan Index as of February 28, 2022.

High Yield Bonds

High yield (or “junk”) bonds are debt obligations issued by companies rated below investment grade (i.e., BB+ or lower). The lower rating is indicative of the increased risk of default and consequently commands higher yields by investors. Issuers tend to include startup companies or firms with high debt ratios.

- **Strengths** of this asset class include a lower duration than core bonds, yield advantage over investment grade credit, and less efficient pricing, allowing for more value to be added by skilled managers. High yield bonds can potentially be upgraded to investment grade by rating agencies (“rising stars”), creating an opportunity for significant price appreciation.
- **Weaknesses** include a higher risk of loss from default, higher volatility, periods of significant illiquidity, and higher correlation to equity markets which can lead to substantial losses during market downturns.

Sample Metrics – High Yield Bond Offering

Yield to Worst	5Y Annualized Return	5Y Standard Deviation	5Y Correlation to S&P 500	Effective Duration	Average Credit Quality
5.62	4.88	7.45	0.79	4.03	B+

Source: Bloomberg US High Yield Index as of February 28, 2022.

Opportunistic Credit

Opportunistic credit strategies have high latitude to invest across credit sectors and can vary greatly in their opportunity set, allowing for investments such as high yield, leveraged loans, structured products, and emerging markets debt, among others. Some strategies may even allow for a limited allocation to private credit.

- **Strengths** of this asset class include diverse sources of risk among various types of credit, higher yield, and lower correlation to other fixed income strategies. The added flexibility also allows a skilled manager to capitalize on market dislocations or take advantage of mispriced or misunderstood credit types.
- **Weaknesses** include higher risk of loss from default, higher volatility, and lower liquidity. In addition, because managers have flexibility to shift between credit types, there is a risk of allocating to underperforming sectors or failing to capture superior market opportunities.

Sample Metrics – Opportunistic Credit

		Quartiles	Yield to Maturity	Current Yield	5Y Annualized Return	5Y Standard Deviation	Effective Duration		
Peer Group: eV Multi-Asset Credit		5 th	7.55%	6.35%	8.16%	4.46	5.55		
		25 th	5.21%	4.98%	6.29%	6.10	3.55		
		Median	4.26%	4.30%	5.73%	7.32	2.41		
		75 th	3.46%	3.55%	4.82%	7.94	1.56		
		95 th	2.00%	2.41%	3.77%	10.98	0.35		
Sample Strategy		Manager	Yield to Maturity	Current Yield	5Y Annualized Return	5Y Standard Deviation	Effective Duration	5Y Correlation to S&P 500	Average Credit Quality
		Strategy 1	3.87%	4.15%	6.53%	5.94	3.49	0.71	BB

Private Credit

- Private Credit strategies are strategies focused on non-tradeable credit instruments, such as directly originated private loans.
- **Strengths** of this asset class include high income levels due to the presence of an illiquidity premium in most private credit markets, a lower level of default compared to below investment grade public fixed income options such as high yield bonds, reduced volatility due to a lack of sensitivity to technical or trading-driven price movements, and the presence of stronger lender protections due to high and growing levels of borrower demand.
- **Weaknesses** include an extremely low level of liquidity, potential volatility from an evolving regulatory system, and lower overall levels of capital efficiency for highly regulated investors such as insurance institutions.

PORTLAND

BOISE

CHICAGO

NEW YORK

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Assessing the Diversification Benefits of Fixed Income

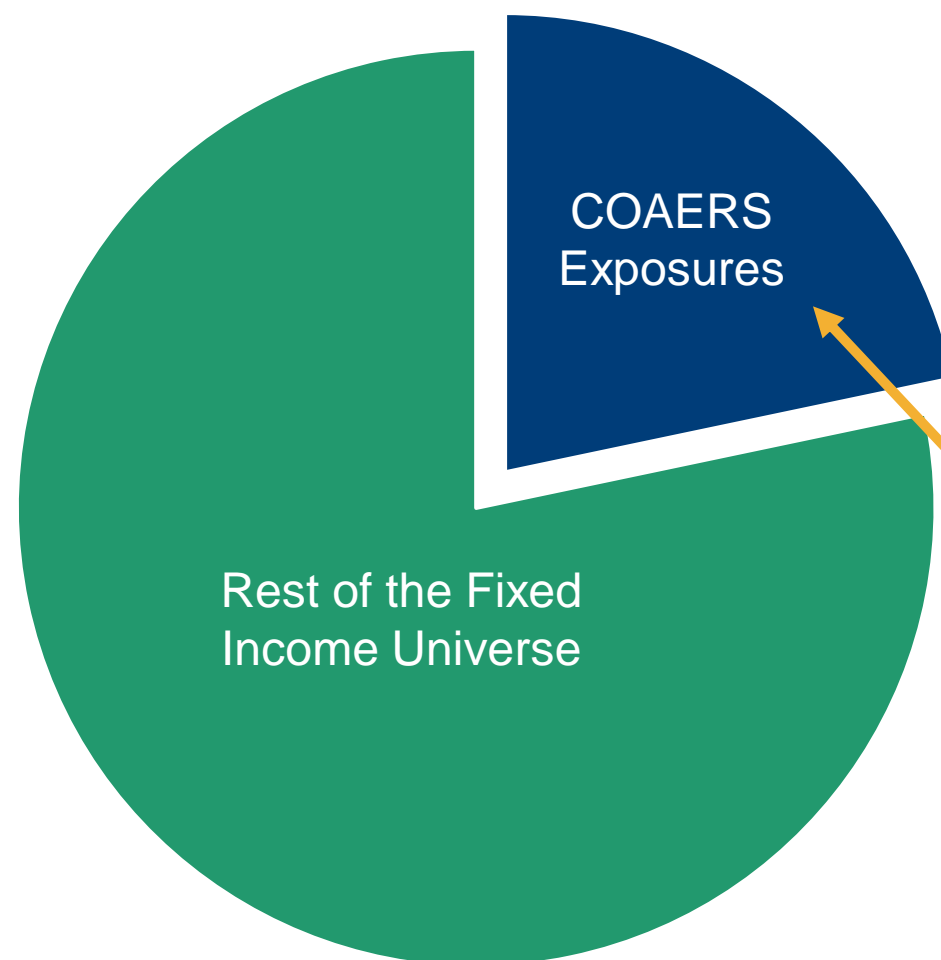
David Stafford

Deputy Chief Investment Officer

June 23, 2022

COAERS Fixed Income Structure

Estimated Bond Market Breakdown



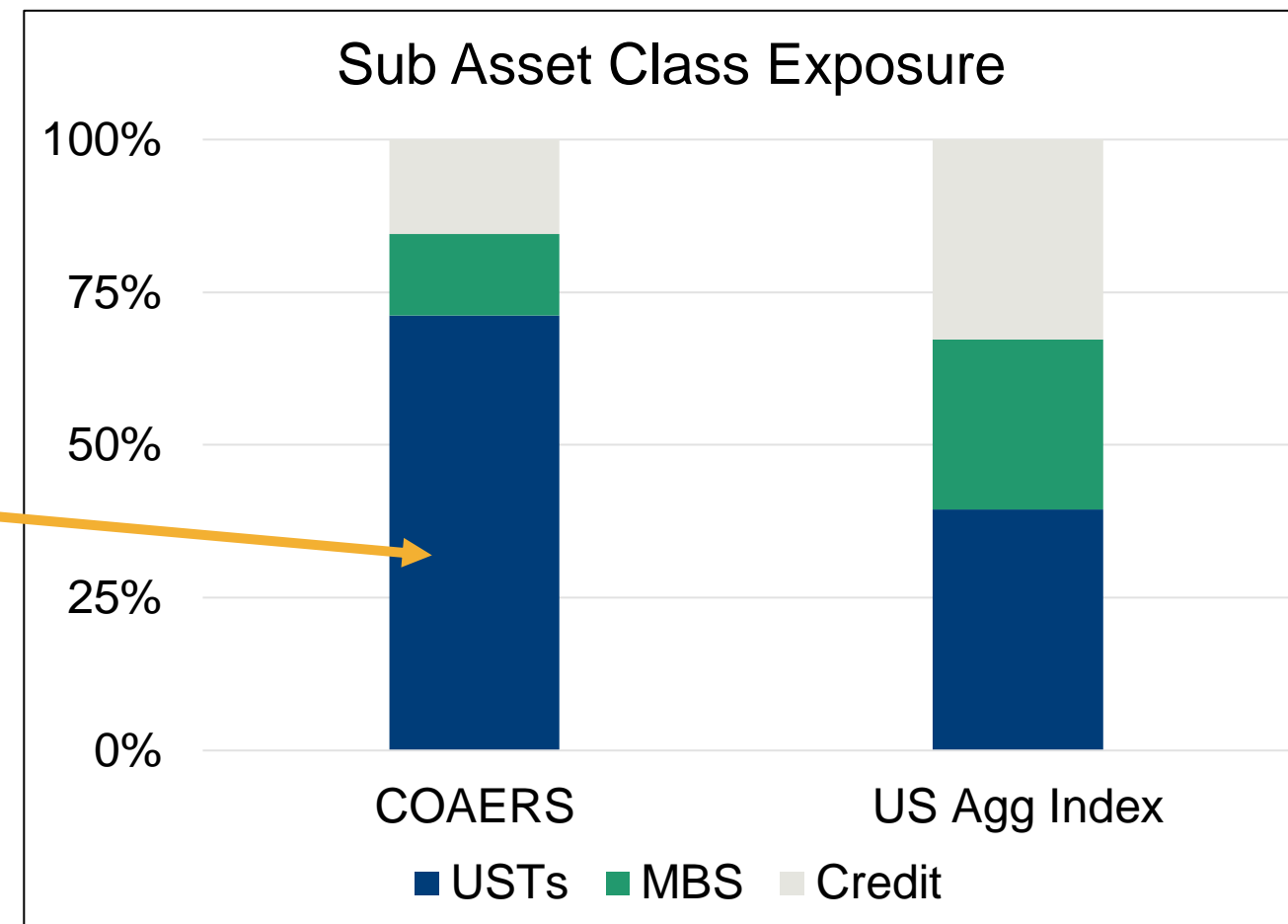
- The Strategic Asset Allocation currently has fixed income implemented within three sub-asset classes – US Treasuries, US Mortgage-Backed Securities (MBS), and US Investment Grade Credit
- Implementation is currently all through public markets and investment grade securities, a small sliver of the total investable universe

Of the estimated \$100 trillion+ bond market, the Fund only has exposure to approximately **22%** of the available universe through these sub-asset classes

Portfolio Role for Fixed Income

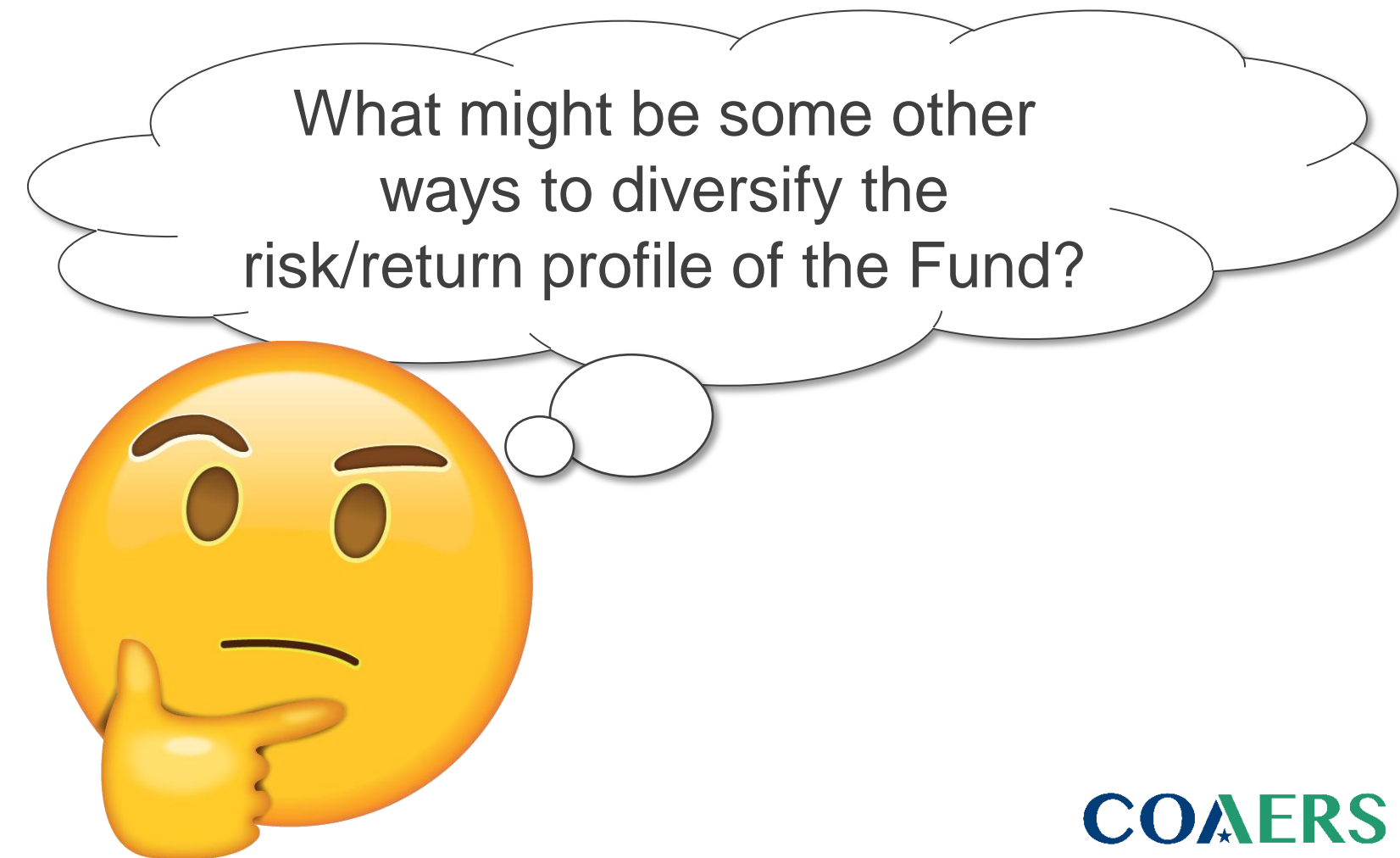
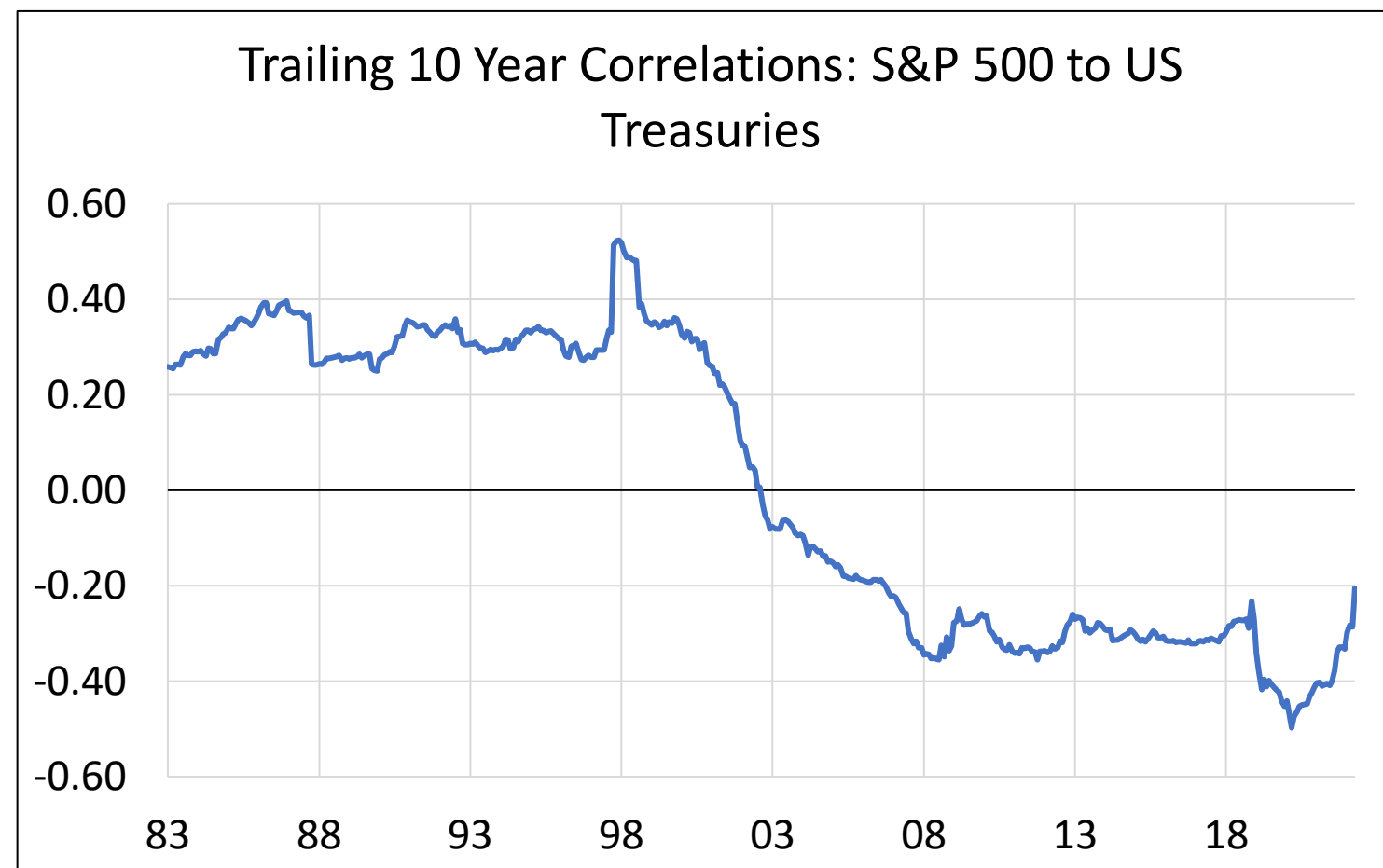
- As currently constructed, primary roles for the fixed income portfolio include a **hedge against equity risk** (i.e. negative correlations) through larger allocations to US Treasuries and a **source of liquidity**
- Smaller exposure to corporate credit risk is picked up through allocations to public markets investment grade credit, though spreads are small

On top of having a larger allocation to USTs, the Fund also owns longer duration USTs which provide a better crisis hedge during deflationary shocks



Risks of the COAERS Fixed Income Portfolio

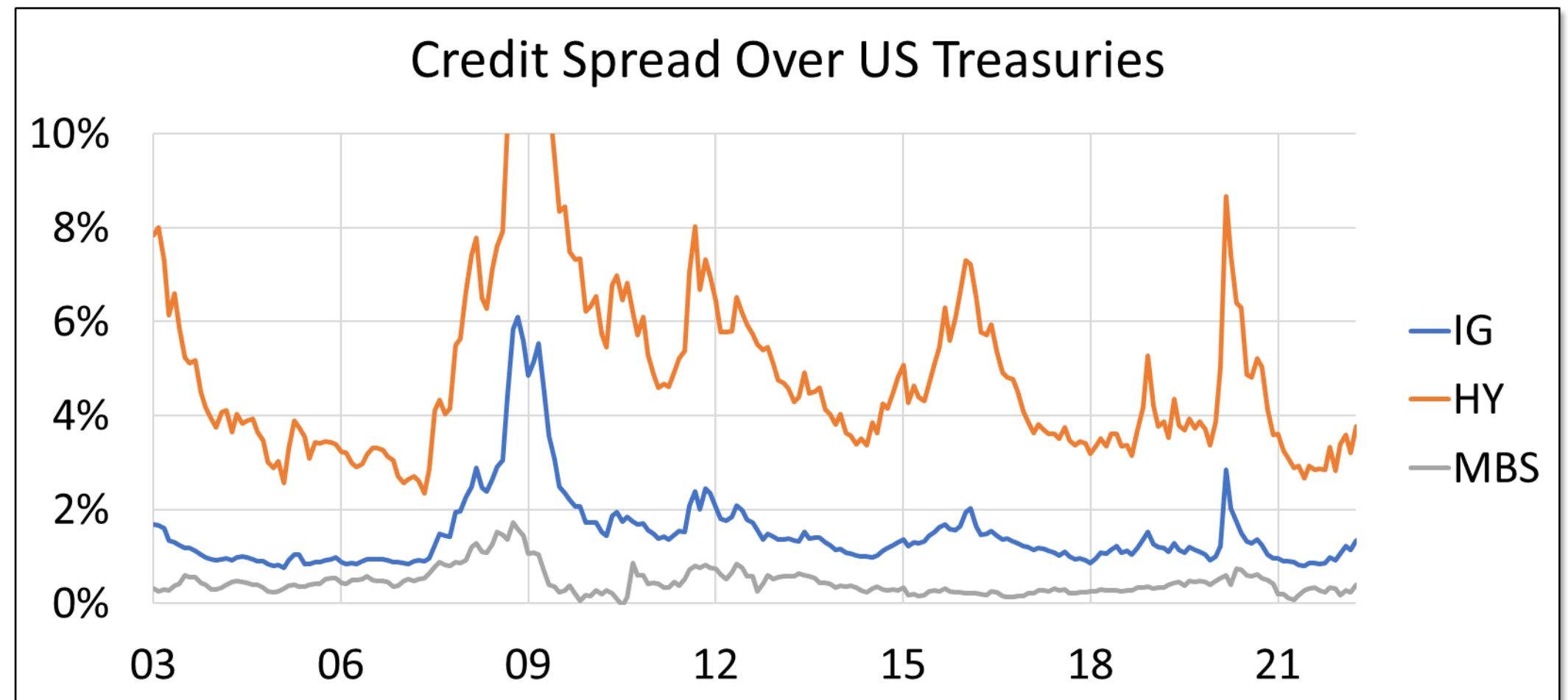
- Given the size of Fixed Income as a dedicated asset class, the portfolio has been constructed to be very “hedgy” to equities which involves incurring more interest rate risk
- A key assumption of this approach is that correlations between stocks and bonds stay negative, which hasn’t always been the case as seen over long periods of time prior to the year 2002



Talking Spreads

- Public market spreads to USTs represent the additional yield for taking on credit risk and currently provide only marginal incremental returns for investment grade bonds
- These credit spreads are largely priced based on corporate credit risk and the Fund has much less exposure to other types of credit risk including consumer credit and asset backed securities

Gaining exposure to differentiated credit risk would likely require allocations to below investment grade bonds or private credit



Other Ways to Diversify the Fund using Fixed Income

- In addition to an outright hedge against equity risk, it may be prudent to consider broadening the range of allowable fixed income securities which could provide a diversified source of returns for the Fund
- Most capital market assumptions (CMAs) suggest that many of the higher returning fixed income strategies are expected to have strong risk adjusted returns, particularly relative to public equities

Select RVK 2022 CMAs	Return	Risk	Return/Risk
Global Equity	7.1%	16.6%	0.42
US Equity	6.1%	16.1%	0.38
DM Equity	7.5%	17.0%	0.44
EM Equity	10.0%	25.0%	0.40
US Agg Fixed Income	2.0%	5.0%	0.40
High Yield	4.8%	10.0%	0.48
Bank Loans	4.8%	8.0%	0.59
Private Credit	6.8%	13.0%	0.52

Filling a different portfolio role, these strategies could serve as a complement to the “growth-oriented” equity exposures of the Fund

Expectations in Private Markets

- Private credit strategies should be expected to exhibit positive correlations to equity markets and may be a way to more steadily increase asset values as most returns are income driven
- Carefully constructing a portfolio of these investments could provide a wide array of favorable outcomes for the Fund as suggested by the range of expected returns of 5-20%

Fund Strategy	Description	Target Return (Net IRR)
Direct Lending	Private loans to stable corporate borrowers which are backed by borrower cash flows	5 – 13%
Asset-Backed / Real Estate Debt	Private loans to established borrowers which are backed by assets such as pools of receivables, royalty streams, inventory, or real estate	8 – 13%
Specialty Finance	Niche investments where targeted borrowers, loan structures, or collateral packages have atypical features.	10 – 15%
Distressed Debt / Special Situations	Debt investments in unstable borrowers, where companies may not be expected to persist as going concerns or expect an upcoming event	12 – 20%

Considering Total Fund Liquidity

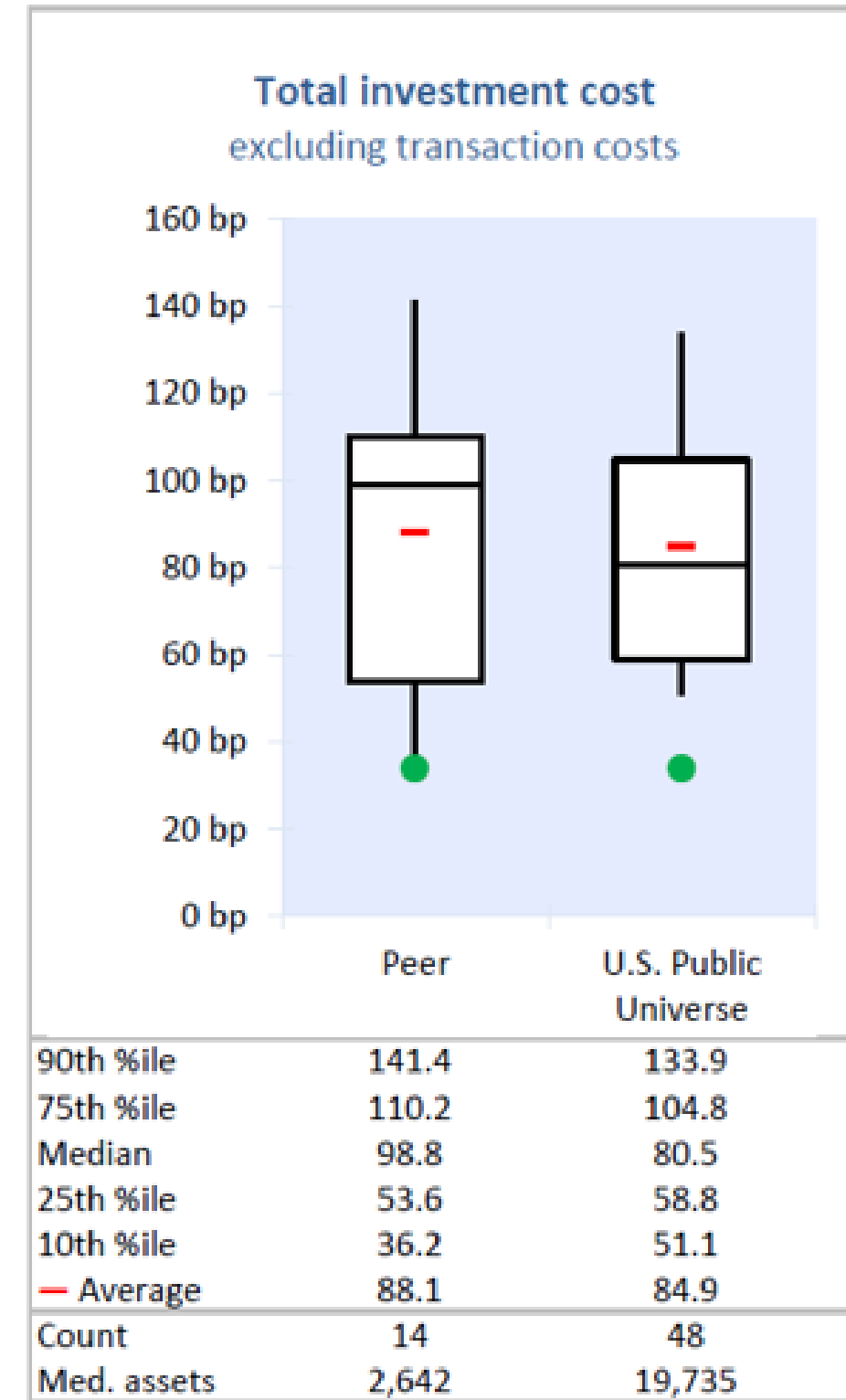
- Fixed income as currently constructed provides excellent source of liquidity for the Fund, though overall the Fund may have excess liquidity
- It may be prudent to increase levels of illiquidity elsewhere in the Fund should higher levels of returns or better diversification be available

Liquidity:	\$ millions	% of Fund	Accounts Included
0 - 5 Days	2,508	75%	All except those listed below
5-30 Days	562	17%	1607, PGIM, DoubleLine, Fidelity, Agincourt
30+ Days	272	8%	Principal, IFM

As reported in the compliance dashboard, the Fund is highly liquid and could bear additional illiquidity if managed prudently and intentionally with possible updates to policy regarding appropriate levels

Prudently Controlling Investment Manager Fees

- These differentiated strategies tend to have higher costs that should be weighed against diversification and returns benefits to the Fund on a net of fees basis
- Overall, the Fund is very low-cost and recent benchmarking data suggest that **even a 2X increase in costs for the Fund would still place it below the peer median** alongside best-in-class transparency



Strategic Asset Allocation Defined by Asset Classes

- As currently constructed, clearly defined asset classes and portfolio roles for fixed income are appropriate alongside other diversifying strategies
- Shifting the SAA process towards a “**functionally focused portfolio**” could result in less focus on asset classes and a larger focus on role in the total portfolio context
- As such, possible inclusion of these types of strategies could fit in well alongside other growth-oriented assets or even in multi-asset

Asset Class/Sub-Asset Class Policy Weights & Rebalancing Ranges						
	Asset Class	Min ^S	Min ^T	Neutral	Max ^T	Max ^S
Growth-Oriented Assets	Global Equity	46.0%	51.0%	56.0%	61.0%	66.0%
	US Equity	22.0 %	29.0 %	34.0 %	39.0 %	47.0 %
	DM Equity	11.0 %	13.5 %	16.0 %	18.5 %	20.0 %
	EM Equity	2.0 %	4.0 %	6.0 %	10.5 %	13.0 %
	Real Assets	10.0%	11.0%	15.0%	19.0%	20.0%
	Real Estate Equity	5.0%	7.0%	10.0%	13.0%	15.0%
	Infrastructure Equity	0.0%	1.0%	5.0%	7.0%	10.0%
Liquidity & Diversifying Assets	Fixed Income	16.0%	18.0%	21.0%	27.0%	33.0%
	US Treasuries	9.0%	11.0%	13.0%	21.0%	25.0%
	US Mortgages	2.0%	3.0%	4.0%	6.0%	8.0%
	US Credit	1.0%	2.5%	4.0%	7.0%	10.0%
	Multi-Asset	2.5%	4.5%	7.0%	12.5%	15.0%
	Asset Allocation	2.5%	3.5%	5.0%	7.5%	10.0%
	Commodities & Other	0.0%	1.0%	2.0%	5.0%	10.0%
	Cash & Equivalents	-10.0%	-5.0%	1.0%	5.0%	10.0%
	US Dollar instruments	-10.0%	-5.0%	1.0%	5.0%	10.0%
	Other currencies	0.0%	0.0%	0.0%	1.0%	2.0%

T: Tactical Rebalancing Range S: Strategic Rebalancing Range

Broadening the Range of Fixed Income Instruments

- Currently, the IIP is very prescriptive on the types of allowable fixed income securities to include those that are likely to be effective equity hedges and doesn't contemplate well a more nuanced approach
- Using a principles-based approach to fixed income portfolio guidelines which is less prescriptive could be an effective approach to successfully managing to desired portfolio roles

Fixed income securities shall not be rated lower than investment grade (Baa3 by Moody's or BBB- by Standard & Poor's or Fitch) by any of the three designated rating agencies unless authorization is granted to a Manager by the Board or the mandate provided to a Manager specifies otherwise. Split-rated securities in which the middle rating is below investment grade shall not comprise more than 5% of the market value of any Manager's Portfolio unless specific authority has been granted.

The issues of individual entities rated AAA to Aa3 (Moody's) or AA- (S&P, Fitch) may have a 7% position at market value. Issues of individual entities rated below Aa3 (Moody's) or AA- (S&P, Fitch) may have a 3% position at market value.

Next Steps

- As Trustees consider the role of the investment program in contributing to the overall funding equation for the System, Staff will plan to incorporate these and other concepts into their analysis:
 - Functionally focused portfolio in the Strategic Asset Allocation process
 - Appropriate range of fixed income securities
 - Total Fund liquidity guidelines
 - Principles based portfolio guidelines
 - Additional diligence within these differentiated strategies to avoid pitfalls of traditional programs

Illustrative Process



Minimum Required Educational Training (MET)

Course Name: Fixed Income asset class and diversification of the SAA

You have completed a Minimum Educational Training (MET) program offered by the City of Austin Employees' Retirement System (COAERS), a Pension Review Board accredited sponsor. All accredited sponsors must provide participants a process for evaluating the quality of the course.

Course Objectives:

The objective of this course was to examine a wide range of fixed income sub asset classes and their expected risk and return profiles.

Evaluation:

Please take some time to provide a rating on the items below. You may also leave any additional comments that you think may be helpful for future courses.

Please provide a rating on these items	I strongly agree	I agree	I disagree	I strongly disagree
1. These course objectives were met.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
2. The facilities and technology were satisfactory.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
3. The instructor was effective.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
4. The program content was relevant and up-to-date.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Additional Comments:

Thank you for your feedback.

16. Review key meeting takeaways and call for future agenda items

Presented by Chris Noak, Chair

AGENDA ITEM 16:

Receive key meeting takeaways and call for future agenda items

AGENDA ITEM OBJECTIVE

The objectives of the agenda item are to ensure Trustees and Staff have a mutual understanding of any decisions from this meeting, Trustees and Staff have a chance to clarify any direction requested during the meeting, and Trustees can request items for future meeting agendas.

RELEVANCE TO STRATEGIC PLAN

This agenda item meets **COAERS Strategic Plan Goal 4: Identify and Implement Best Practices in Board governance, pension administration, and investment management**. It is an industry best practice to review key meeting takeaways to summarize what was accomplished at the meeting as well as ensure Staff has clear direction on further work and future agenda items.

RECOMMENDATION FOR BOARD ACTION

Trustees will review key meeting takeaways and provide any additional direction to Staff.