



CITY OF AUSTIN
EMPLOYEES' RETIREMENT SYSTEM

Public Meeting held in person and videoconference
on August 25, 2023 at 10:00 a.m. CT

Pursuant to Texas Govt. Code 551.127
6850 Austin Center Blvd., Suite 320, Austin, TX 78731

Committee Member

Present/(Absent)

Yuejiao Liu, Committee Chair
Michael Granof
Amy Hunter
Dick Lavine†
Diana Thomas

Guests:

Ian Bray, RVK
Ryan Sullivan, RVK
Paige Saenz, General Counsel
Joe Ebisa, WithIntelligence*
Jie Li*

Other Board Trustees

Present/(Absent)

Michael Benson
(Kelly Crook)
Chris Noak†
(Leslie Pool)
(Anthony Ross)
Brad Sinclair

Others Present

Staff:

Christopher Hanson
David Kushner
David Stafford
Ty Sorrel
Kelly Doggett
Sarah McCleary
Mehrin Rahman
Jenni Bonds
Yun Quintanilla
Russell Nash

* present telephonically
† present via videoconference

1 Call roll of Committee members

Committee Chair Liu called the meeting to order at 10:01 a.m. The following Committee members were present in person: Liu, Granof, Hunter, and Thomas. Mr. Lavine was present on videoconference.

2 Review order of business and establish meeting objectives

Committee Chair Liu reviewed the order of business and meeting objectives with the Committee. No changes were made to the order of business.

3 Receive public comments

Committee Chair Liu asked if any members of the public wished to speak, either now or during an agenda item. There were no comments.

4 Consider approval of the May 19, 2023 Investment Committee minutes

Committee Chair Liu asked the Committee to review the Investment Committee minutes. Ms. Diana Thomas moved approval of the May 19, 2023 Investment Committee minutes. Mr. Michael Granof seconded, and the motion passed unanimously.

5 Review investment performance including strategy, compliance, and delegation of authority

The Committee reviewed investment performance and market data from RVK through June 20, 2023. Fund investments increased 2.65% net of fees during the second quarter.

Mr. David Stafford discussed the investment strategy and the compliance dashboards. He shared data showing absolute Fund returns were lower than the assumed rate of return over the trailing 10-years but have shown improvement. Additionally, he discussed relative returns noting that realized returns were above the passive index and near to the policy index on a longer-term basis. He also noted the high variation in peer rankings, which were largely resulting from the Fund's lower allocation to private markets strategies.

Mr. Ian Bray of RVK reported that results across equities were positive, as were bonds, in contrast to the difficult end of 2022. He noted that though inflation has come down the Fed may raise rates again as unemployment remains low. Despite this, the yield curve has flattened suggesting that the market is no longer pricing in the rate increases. Mr. Bray also noted that the drivers of returns in U.S. equities were led by a narrow market rally of a few concentrated names.

Mr. Stafford also reviewed the delegation of authority report and the investment cash activity report. Additionally, he noted that Fund positioning was in the Strategic Bands across a variety of asset and sub-asset classes, as approved by the Board.

6 Discuss and consider investment strategy including Investment Risk Framework

Mr. Stafford reported that the Fund is positioned with a heavy overweight to Cash & Equivalents, heavy underweights to Multi Asset and Fixed Income, Real Assets near neutral, and Global Equities slightly overweight. Mr. Stafford suggested that in the view of Staff, this positioning in the Strategic Bands remained appropriate as the outlook had not materially changed since the Board approved this positioning. He also noted that Cash & Equivalents continue to offer an attractive risk/return profile, particularly when compared to Fixed Income.

Additionally, he discussed the significant concentration building in the US Equities benchmark and noted the more diversified approach taken by the Fund as a prudent risk-management approach despite recent underperformance.

7 Review investment implementation including Premier List for Global Equities

Mr. Ty Sorrel presented a report of the second quarter's investment program implementation activities, reviewed the manager monitoring report, and discussed investment manager fees by quarter.

Mr. Sorrel presented a report on Global Equities including the historical context and the current construction and composition of sub-asset class exposures in the United States, international developed markets, and emerging markets. He also outlined how the choice to diversify the US Equity portfolio due to the high concentration has reduced risk but also reduced returns. Additionally, he noted that active management is used primarily in developed and emerging markets, and much less so in the US.

Mr. Sorrel noted that Staff proposed two changes to the Premier List.

Ms. Thomas moved to recommend to the Board for approval the Premier Lists for Global Equities as presented. Mr. Lavine seconded, and the motion passed unanimously.

Trustees took a break from 11:40 a.m. to 12:09 p.m.

8 Receive report on updated Asset/Liability Study

Mr. Christopher Hanson presented data that compared the Asset/Liability Study completed earlier in the year to this Asset/Liability Study which incorporated the passage of SB 1444. He noted that across every metric, the System had materially better outcomes than in the previous study including that the System's unfunded actuarial accrued liabilities trend significantly lower and future net cash flows are better.

Mr. Stafford discussed the implications of this data for the investment program. He noted that the flexible actuarial determined contribution rate responds much better to portfolio volatility, that RVK capital market assumptions were below the assumed rate of return, that the study suggested that the System may be able to bear incrementally more investment risk, that somewhat better outcomes may be available through additional private markets allocations and that the study was supportive of bearing additional illiquidity risk in the Fund.

Mr. Ryan Sullivan of RVK presented updated results of the Asset/Liability Study incorporating the contribution policy changes enacted by the passage of SB 1444.

Both Staff and RVK noted that additional portfolio diversification could provide better risk-adjusted returns.

Mr. Noak left the meeting at 12:26 p.m.

- 9 Discuss and consider investment program including goals, strategy, and allocation:**
- A. Asset Allocation Study**
 - B. Private credit**
 - C. Functionally focused portfolio allocation**

9A. Asset Allocation Study

Mr. Stafford and Mr. Bray both presented on concepts related to an updated Asset Allocation Study. Mr. Stafford reported on Staff's key takeaways, including that the inclusion of Private Credit and Private Equity suggested better risk-adjusted returns than the current portfolio allocation. Additionally, he noted that the "Potential Target" portfolio had a variety of attractive attributes including higher expected return with lower expected risk, more portfolio diversification, less reliance on public equities, the elimination of multi-asset and slightly better outcomes through Monte Carlo modeling.

Mr. Bray suggested RVK was supportive of moving the System's long-term strategic allocation to the "Potential Target" portfolio and acknowledged that details associated with governance and policy updates, specific implementation plans, and general education on specific private credit strategies would be forthcoming and preempt rebalancing to this new target, should it be approved by the Board. He also presented information in the Asset Allocation Study that showed better downside scenarios modeled for allocations that include additional private markets exposures.

9B. Private credit

Mr. David Kushner reviewed with Trustees the definition and characteristics of private credit, including different strategies and implementation structures. He also discussed ongoing due diligence efforts in private credit and potential next steps. The Committee expressed support for continuing to conduct due diligence on potential private credit opportunities.

Mr. Benson left the meeting at 1:28 p.m.

9C. Functionally focused portfolio allocation

Mr. Stafford reviewed the outputs from the Asset Allocation Study through a Functionally Focused Portfolio lens and noted that this approach could be complementary to the statistical output from the study. He presented data that

suggested the Fund can bear more illiquidity, that the Fund could modestly increase exposure to a diversified set of growth assets, that private credit could diversify the sources of return for the Fund, and that more work would be done on the mix of diversifying strategies. He then reviewed Staff's key takeaways including a recommendation to move toward the "Potential Target" contingent on additional Committee and Board discussion and consideration.

Ms. Amy Hunter moved to refer to the Board for approval the "Potential Target" portfolio and directed Staff and Consultant to develop the associated policies and implementation plans, and education and governance reviews for the Board's future consideration. Mr. Lavine seconded, and the motion passed unanimously.

10 Receive update on general investment consultant RFP

Mr. Hanson reported that Staff had delayed the issuance of the RFP to better understand the scope of the needs regarding private markets and would bring the subject back to the Committee in November.

11 Receive report on custody bank

Mr. Kelly Doggett presented a report on the custody bank. Mr. Doggett reviewed Staff scoring of service levels across a variety of categories and noted that Staff rated BNYM as "satisfactory." He additionally noted that COAERS was invited to join the BNYM Client Advisory Council.

12 Receive key meeting takeaways and call for future agenda items

Committee Chair Liu summarized the actions taken and information discussed at the meeting and provided an opportunity to add future agenda items.

As there were no further items to address, the meeting adjourned at 1:41 p.m.

These minutes were approved at the November 17, 2023 Investment Committee meeting.