




June 2024 Audit and Risk Committee meeting



Schedule Thursday, June 13, 2024 10:30 AM — 11:30 AM CDT
Venue 4700 Mueller Blvd., Suite 100, Austin, TX
Organizer Sarah McCleary






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1. Call roll of Committee members

Presented by Michael Benson



COMMITTEE MEETING Agenda Item Information Sheet

AGENDA ITEM 1: Call roll of Committee members

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.

2. Review order of business and meeting objectives

Presented by Michael Benson



COMMITTEE MEETING Agenda Item Information Sheet

AGENDA ITEM 2:

Review order of business and establish meeting objectives

AGENDA ITEM OBJECTIVE

This agenda item provides Trustees the opportunity to review the order of business and to express a desire to take an agenda item out of order, and to discuss the key objectives of the meeting.

1. The Committee will consider acceptance of the financial statement audit report as of December 31, 2023.
2. The Committee will review and consider proposed revisions to the Travel Reimbursement Policy.
3. The Committee will review the Enterprise Risk Management Report and dashboard and discuss the following four risk categories: personnel, physical, legislative, and cybersecurity.
4. The Committee will receive the Staff report on first quarter 2023 unaudited financial statements.

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**. It is an industry best practice to establish meeting objectives and review them at the outset of each meeting.

3. Receive public comments

Presented by Michael Benson



COMMITTEE MEETING Agenda Item Information Sheet

AGENDA ITEM 3: Receive public comments

AGENDA ITEM OBJECTIVE

This standing agenda item allows System members and members of the public the opportunity to provide comments to the Board.

ITEM SUMMARY

The Chair will recognize any person who wishes to comment for up to three minutes per person.

RELEVANCE TO STRATEGIC PLAN/CORE COMPETENCIES

This agenda item meets the core competency 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.*”

4. Consider approval of the March 6, 2024
Audit and Risk Committee minutes
Presented by Michael Benson



COMMITTEE MEETING Agenda Item Information Sheet

AGENDA ITEM 4:

Consider approval of the March 6, 2024 Audit and Risk Committee minutes

AGENDA ITEM OBJECTIVE

This standing agenda item seeks approval of the minutes from the prior Audit and Risk Committee meeting.

RECOMMENDATION FOR COMMITTEE ACTION

Staff recommends approval of the minutes of the March 6, 2024 Audit and Risk Committee meeting.

RELEVANCE TO STRATEGIC PLAN

This agenda item meets the core competency 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.*"

ATTACHMENT

1. Draft minutes of March 6, 2024 Audit and Risk Committee meeting



MINUTES

AUDIT AND RISK COMMITTEE

Public Meeting held in-person and videoconference

Pursuant to Texas Govt. Code 551.127

4700 Mueller Blvd., Austin, TX 78723

Wednesday, March 6, 2024 10:45 a.m. CT

Committee Members

Present/(Absent)

Michael Benson, Committee
Chair
Michael Granof
Dick Lavine†
Chris Noak
Anthony Ross

Guests:

Paige Saenz, General
Counsel
Bhakti Patel, CLA

Other Board Trustees

Present/(Absent)

Kelly Crook
(Yuejiao Liu)
(Leslie Pool)
Brad Sinclair
(Diana Thomas)
(Ed Van Eenoo)

Others Present

Staff:

Christopher Hanson
Sarah McCleary
Russell Nash
Teresa Cantu
Jenni Bonds
Yun Quintanilla
Mehrin Rahman
David Kushner*
Amy Kelley*

*present telephonically

† present videoconference

1 Call roll of Committee members

Committee Chair Michael Benson called the meeting to order at 11:14 a.m. The following Committee members were present in person: Benson, Granof, and Ross. The following Committee member was present via teleconference: Lavine.

2 Review order of business and meeting objectives

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

Chris Noak arrived at 11:16 a.m.

3 Receive public comments

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

Mr. Sinclair left the meeting and 11:18 a.m.

4 Consider approval of the November 9, 2023 Audit and Risk Committee minutes

Committee Chair Benson asked the Committee to review the Audit and Risk Committee minutes. Mr. Anthony Ross moved approval of the November 9, 2023 minutes as presented. Mr. Michael Granof seconded, and the motion passed unanimously.

5 Review 2024 Audit and Risk Committee Work Plan

Mr. Christopher Hanson presented the Audit and Risk Committee Work Plan for 2024. Trustees discussed it and gave general approval.

6 Receive presentation of required auditor communications in conjunction with the financial statement audit

Ms. Bhakti Patel of CliftonLarsonAllen (CLA) outlined the required communications and summary of services to be performed for the December 31, 2023 financial statement audit. Ms. Patel reported that the CLA team will conduct walkthroughs and individual meetings with Trustees and Staff in March and April, and that substantive testing of all audit areas are scheduled to conclude in May.

Ms. Pool left the meeting at 11:19 a.m.

Mr. Sinclair returned to the meeting at 11:21 a.m.

7 Discuss and consider Fraud, Waste, and Abuse Reporting policy

Mr. Russell Nash presented one proposed edit to the Fraud, Waste, and Abuse Reporting policy and indicated that Staff planned to test the online reporting system. Staff noted Trustees' request to receive a report yearly, even if no reports are received. Mr. Noak moved to refer to the Board for approval the revisions to the Fraud, Waste, and Abuse Reporting Policy. Mr. Ross seconded, and the motion passed unanimously.

8 Receive report on the unaudited 2023 year-end financial statements

Ms. Yun Quintanilla presented the December 30, 2023 unaudited financial statements.

9 Receive report on COAERS Enterprise Risk Management program including funding, market, counterparty, and operational

Mr. Hanson presented a report related to the Enterprise Risk Management program and highlighted the four categories of the Enterprise Risk Management program within the report which were under review at this Committee meeting including funding, market, counterparty, and operational risk.

10 Review key meeting takeaways and call for future agenda items

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

As there were no other items to address, the meeting adjourned at 11:44 a.m.

5. Discuss and consider acceptance of
financial statement audit report as of
December 31, 2023

Presented by Bhakti Patel, CLA



COMMITTEE MEETING Agenda Item Information Sheet

AGENDA ITEM 5:

Discuss and consider acceptance of financial statement audit report
as of December 31, 2023

AGENDA ITEM OBJECTIVE

This agenda item is intended for the Committee to discuss and consider the report from COAERS' financial statement auditor regarding the December 31, 2023 financial statement audit.

RECOMMENDATION FOR COMMITTEE ACTION

Staff recommends the Committee refer to the Board the acceptance of the December 31, 2023 financial statements and auditor's report from CliftonLarsonAllen (CLA).

ITEM SUMMARY

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, 2023. Ms. Bhakti Patel from CLA will provide required communications.

RELEVANCE TO STRATEGIC PLAN

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

ATTACHMENTS

1. Independent Auditor's Report
2. Governance Letter
3. Committee Presentation Slide Deck
4. Financial Section of COAERS December 31, 2023 Annual Comprehensive Financial Report

SUPPLEMENTAL MATERIAL AVAILABLE VIA CONVENE APP

1. December 31, 2023 COAERS Annual Comprehensive Financial Report



CliftonLarsonAllen LLP
CLAconnect.com

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

We have audited the financial statements of the City of Austin Employees' Retirement System as of and for the year ended December 31, 2023, and have issued our report thereon dated May 31, 2024. We have previously communicated to you information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit in our statement of work dated November 13, 2023. Professional standards also require that we communicate to you the following information related to our audit.

Significant audit findings or issues

Qualitative aspects of accounting practices

Accounting policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by City of Austin Employees' Retirement System are described in Note 2 to the financial statements.

No new accounting policies were adopted and the application of existing policies was not changed during 2023.

We noted no transactions entered into by the entity during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of accumulated depreciation is based the useful lives of capital assets.
- Management's estimate of the valuation of alternative investments is based on net asset values reported by the investment managers.
- Management's estimate of the total pension liability is based on a third-party actuarial valuation in accordance with GASB 67.

We evaluated the key factors and assumptions used to develop management's estimates in determining they are reasonable in relation to the financial statements taken as a whole.

Financial statement disclosures

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no particularly sensitive financial statement disclosures.

The financial statement disclosures are neutral, consistent, and clear.

Significant unusual transactions

We identified no significant unusual transactions.

Difficulties encountered in performing the audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Uncorrected misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management did not identify and we did not notify them of any uncorrected financial statement misstatements.

Disagreements with management

For purposes of this communication, a disagreement with management is a disagreement on a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. No such disagreements arose during our audit.

Management representations

We have requested certain representations from management that are included in the management representation letter dated May 31, 2024.

Management consultations with other independent accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the entity's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Significant issues discussed with management prior to engagement

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to engagement as the entity's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our engagement.

Required supplementary information

With respect to the required supplementary information (RSI) accompanying the financial statements, we made certain inquiries of management about the methods of preparing the RSI, including whether the RSI has been measured and presented in accordance with prescribed guidelines, whether the methods of measurement and preparation have been changed from the prior period and the reasons for any such changes, and whether there were any significant assumptions or interpretations underlying the measurement or presentation of the RSI. We compared the RSI for consistency with management's responses to the foregoing inquiries, the basic financial statements, and other knowledge obtained during the audit of the basic financial statements. Because these limited procedures do not provide sufficient evidence, we did not express an opinion or provide any assurance on the RSI.

Audit and Risk Committee of the Board of Trustees
City of Austin Employees' Retirement System
Page 3

Supplementary information in relation to the financial statements as a whole

With respect to the Investment, General and Administrative, and Professional Services and Consultant Expenses (collectively, the supplementary information) accompanying the financial statements, on which we were engaged to report in relation to the financial statements as a whole, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period or the reasons for such changes, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves. We have issued our report thereon dated May 31, 2024.

Other information included in annual reports

Other information (financial or nonfinancial information other than the financial statements and our auditors' report thereon) is being included in your annual report and is comprised of the introductory, investment, actuarial, and statistical sections. Our responsibility for other information included in your annual report does not extend beyond the financial information identified in our opinion on the financial statements. We have no responsibility for determining whether such other information is properly stated and do not have an obligation to perform any procedures to corroborate other information contained in your annual report. We are required by professional standards to read the other information included in your annual report and consider whether a material inconsistency exists between the other information and the financial statements because the credibility of the financial statements and our auditors' report thereon may be undermined by material inconsistencies between the audited financial statements and other information. 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. Our auditors' report on the financial statements includes a separate section, "Other Information," which states we do not express an opinion or any form of assurance on the other information included in the annual report. We did not identify any material inconsistencies between the other information and the audited financial statements.

This communication is intended solely for the information and use of the the Board of Trustees and management of City of Austin Employees' Retirement System and is not intended to be, and should not be, used by anyone other than these specified parties.



CliftonLarsonAllen LLP

Austin, Texas
May 31, 2024



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INDEPENDENT AUDITORS' REPORT

Audit and Risk Committee of the Board of Trustees
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 as of and for the years ended December 31, 2023 and 2022, 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 fiduciary net position of the City of Austin Employees' Retirement System as of December 31, 2023 and 2022, and the changes in fiduciary net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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.

Audit and Risk Committee of the Board of Trustees
City of Austin Employees' Retirement System

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 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 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.

Audit and Risk Committee of the Board of Trustees
City of Austin Employees' Retirement System

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 the 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 GAAS, 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 audits 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 an opinion on the financial statements that collectively comprise the City of Austin Employees' Retirement System's basic financial statements. The Other Supplementary Information – Investment, Professional Services and Consultant, and General and Administrative Expenses (as referenced in the table of contents) is presented for purposes of additional analysis and is 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.

Other Information

Management is responsible for the other information included in the annual report. The other information (as referenced in the table of contents) comprises the Introductory Section, the Investment Section, the Actuarial Section, and the Statistical Section but does not include the basic financial statements and our auditors' report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon. In connection with our audits 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 31, 2024



We'll get you there.

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City of Austin Employees' Retirement System

Audit Exit Presentation

Year ended December 31, 2023

Agenda

- Audit scope and process
- Audit opinions and communications
- Financial statement highlights
- Engagement finalization
- Industry insights and emerging issues
- Thought leadership and upcoming webinars



Audit Scope



Report on the
CAOERS' financial
statements



Internal control/
management letter



Required
governance
communications
letter



Report on Schedule
of Pension
Amounts



AUDIT OPINIONS

Financial statement

Financial statement audit opinion is in **unmodified**.

Schedule of Pension Amounts

Schedule of Pension Amounts audit opinion is **unmodified**.



AUDIT RESULTS

Financial statement

No material weaknesses noted.
No significant deficiencies noted.

Schedule of Pension Amounts

No material weaknesses noted.
No significant deficiencies noted.



Audit Process

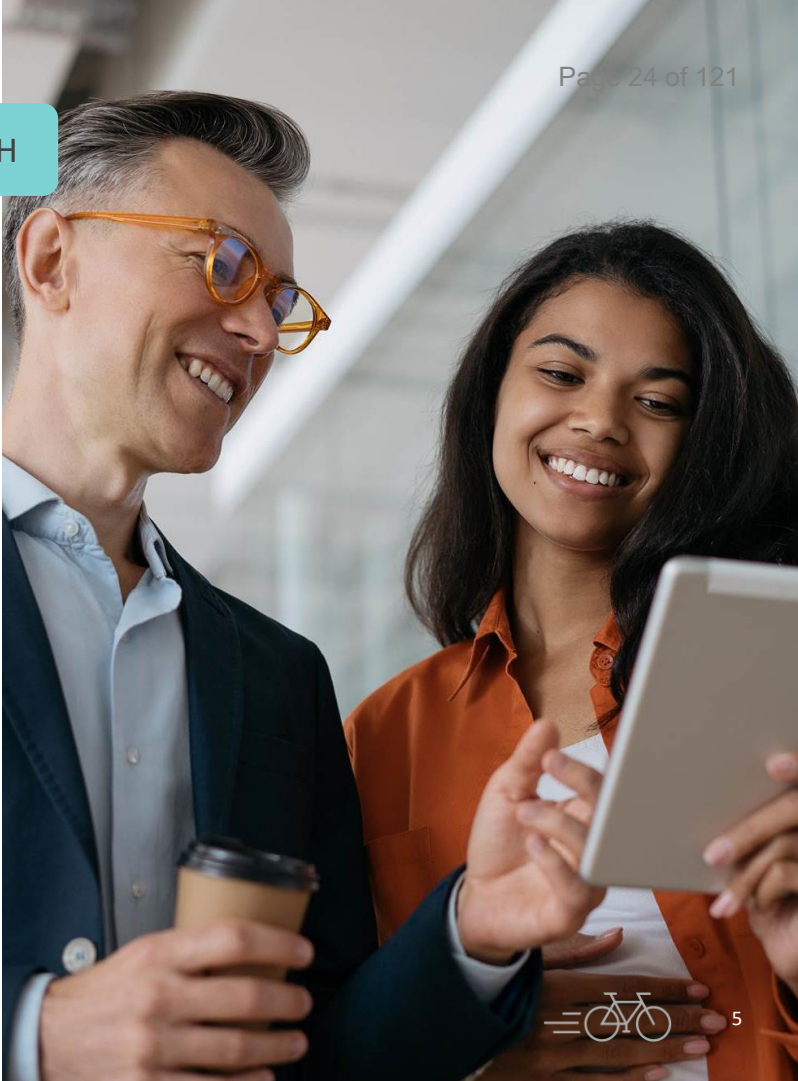
RISK-BASED APPROACH

Internal controls

Revenue recognition

Significant estimates

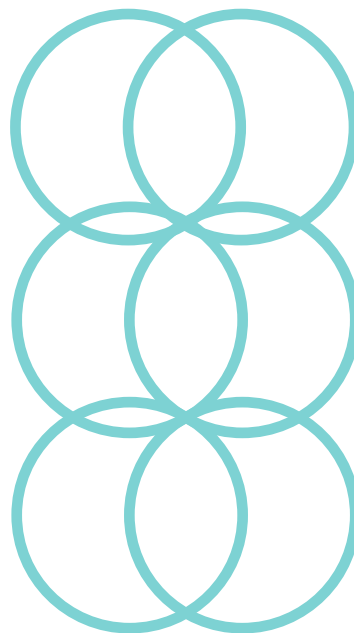
Investments



Governance Communications

Overall

- Management is responsible for the accounting policies of the organization
- Accounting policies are outlined in Note 2 to the financial statements
- No significant changes to the accounting policies during the year
- Accounting policies deemed appropriate
- Significant Financial Statement Disclosures - Fair value measurements – Note 4
- No significant unusual transactions



Estimates

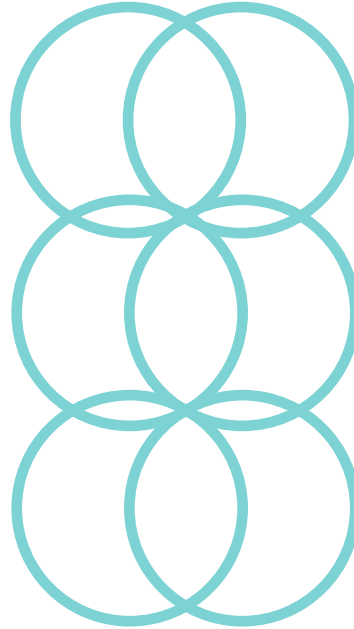
- An area of focus under a risk-based audit approach
- Significant estimates include fair value of investments and total pension liability
- Estimates determined by management based on their knowledge and experience
- No management bias indicated
- Estimates were deemed reasonable
- Estimate uncertainty is disclosed in the financial statements



Governance Communications

Difficulties

- No difficulties encountered in performing the audit
- No issues discussed prior to retention as independent auditors
- No disagreements with management regarding accounting, reporting, or other matters
- No management consultations with other independent auditors
- No difficult or contentious matters requiring consultations outside of the engagement team
- No other findings or issues were discussed with, or communicated to, management



Supplementary Information

- Investment, General & Administrative, and Professional Services and Consultant Expenses
- Engaged to report in relation to the financial statements as a whole
- Method of preparing has not changed from the prior year
- Supplementary information reconciles to financial statements
- Supplementary information is appropriate and complete in relation to our audit

Approval
from Audit &
Risk Committee

Signed
representation
letter



Emerging Issues

SIGNIFICANT AUDIT CHANGES

What changed

Auditing standards (SAS 143-145) were modernized for evolving business environment

Effective for 2023 year-end audits

New requirements

Enhanced risk assessment and understanding of estimates

Deeper IT understanding; more inquiries; data requests and testing

Audit impact

More time evaluating controls; more use of IT specialists

Potential for additional recommendations

Greater impact on complex IT systems



Emerging Issues

Upcoming GASB Pronouncements

GASBS No. 100, *Accounting Changes and Error Corrections*

GASBS No. 101, *Compensated Absences*

GASBS No. 102, *Certain Risk Disclosures*



Insights

Stay informed and
prepare for what's next.



Find support at *every* turn

Benefit from guidance on
all aspects of your business.



Questions and Feedback

We appreciate the opportunity to serve you and welcome any feedback relative to our performance and to the engagement.



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FINANCIAL SECTION





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INDEPENDENT AUDITORS' REPORT

Audit and Risk Committee of the Board of Trustees
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 as of and for the years ended December 31, 2023 and 2022, 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 fiduciary net position of the City of Austin Employees' Retirement System as of December 31, 2023 and 2022, and the changes in fiduciary net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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.

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Audit and Risk Committee of the Board of Trustees
City of Austin Employees' Retirement System

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 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 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.

Audit and Risk Committee of the Board of Trustees
City of Austin Employees' Retirement System

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 the 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 GAAS, 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 audits 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 an opinion on the financial statements that collectively comprise the City of Austin Employees' Retirement System's basic financial statements. The Other Supplementary Information – Investment, Professional Services and Consultant, and General and Administrative Expenses (as referenced in the table of contents) is presented for purposes of additional analysis and is 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.

Other Information

Management is responsible for the other information included in the annual report. The other information (as referenced in the table of contents) comprises the Introductory Section, the Investment Section, the Actuarial Section, and the Statistical Section but does not include the basic financial statements and our auditors' report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon. In connection with our audits 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 31, 2024

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 2023 and 2022. We encourage readers to consider the information presented here in conjunction with our financial statements that follow.

FINANCIAL HIGHLIGHTS

The net position held in trust by the System increased by \$318.9 million, or 10.8%, in 2023, and decreased by \$605.4 million, or 17.0%, in 2022. The changes in net position are due primarily to changes in investment returns.

Contributions increased by \$28.5 million, or 13.2%, in 2023, and by \$7.8 million, or 3.7%, in 2022. The 2023 increase was due to a \$17.1 million increase in employer contributions, an increase of \$7.1 million in employee contributions, and a \$4.3 million increase in employee creditable service purchases. The 2022 increase was due to a \$5.4 million increase in employer contributions, an increase of \$2.4 million in employee contributions.

The amount of benefits paid to retired members and beneficiaries, and refunded to terminating employees, increased by approximately \$9.7 million, or 3.7% during 2023, and by approximately \$17.2 million, or 6.9% during 2022. 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 \$29.6 million in 2023, and by \$48.5 million in 2022.

The System's time-weighted rate of return on investments for the year ended December 31, 2023, was 12.5% gross of fees, and 12.3% net of fees, on a fair value basis, which was an increase from the return of -15.5% gross of fees, and -15.6% net of fees for the year ended December 31, 2022. The actuarial investment return assumption is 6.75%.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to assist the reader's understanding of 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 the System’s 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
Years Ended December 31, 2023, 2022, 2021**

Assets	2023	2022	2021
Cash and receivables	\$ 81,885,874	72,077,402	33,705,576
Other current assets	-	343,578	-
Investments	3,218,572,684	2,940,262,105	3,535,433,558
Capital assets, net	<u>32,527,687</u>	<u>3,403,389</u>	<u>4,125,172</u>
Total assets	<u>3,332,986,245</u>	<u>3,016,086,474</u>	<u>3,573,264,306</u>
Liabilities			
Total liabilities	<u>54,273,929</u>	<u>56,290,713</u>	<u>8,104,462</u>
Net position restricted for pensions	<u>\$ 3,278,712,316</u>	<u>2,959,795,761</u>	<u>3,565,159,844</u>

Assets

As shown in the table above, assets increased by \$316.9 million in 2023 and decreased by \$557.2 million in 2022, due primarily to the changes in the value of investments.

- During 2023, there was a \$9.8 million increase in the net amount of cash and receivables; this resulted from a \$8.7 million strategic increase in the amount of cash, which was offset by a \$0.1 million decrease in investment receivables and an increase of \$1.2 million in contributions and other receivables.
- During 2022, there was a \$38.4 million increase in the net amount of cash and receivables; this resulted from a \$8.4 million decrease in the amount of cash, which was offset by a \$45.6 million increase in investment receivables and an increase of \$1.2 million in contributions and other receivables.
- In 2023, investments increased by \$278.3 million; in 2022, investments decreased by \$595.2 million, reflective of the changes in the financial markets.
- In 2023, capital assets increased by \$29.1 million attributed to the acquisition of the System’s office facility. In 2022, the decrease in capital assets reflects depreciation of furniture and equipment.

(CONTINUED)

Liabilities

Liabilities decreased by \$2.0 million in 2023 and increased by \$48.2 million in 2022. These fluctuations were primarily due to changes in trades pending settlement.

**Summary of Changes in Fiduciary Net Position
Years Ended December 31, 2023, 2022, 2021**

	2023	2022	2021
Additions:			
Contributions	\$ 244,509,559	215,988,408	208,237,660
Investment appreciation (depreciation)	360,418,271	(544,614,281)	417,958,864
Investment expenses	5,315,186	5,599,635	6,749,253
Net investment appreciation (depreciation)	355,103,085	(550,213,916)	411,209,611
Other income	2,010,379	126,935	962
Total additions (deductions)	601,623,023	(334,098,573)	619,448,233
Deductions:			
Benefit payments and contribution refunds	274,157,183	264,501,872	247,326,473
General and administrative expenses	8,549,285	6,763,638	6,528,499
Total deductions	282,706,468	271,265,510	253,854,972
Net increase (decrease) in net position	318,916,555	(605,364,083)	365,593,261
Net position restricted for pensions:			
Beginning of year	2,959,795,761	3,565,159,844	3,199,566,583
End of year	\$ 3,278,712,316	2,959,795,761	3,565,159,844

Additions

Additions needed to fund benefits are accumulated through contributions and returns on investments. Contributions from COAERS members and the City of Austin for 2023 and 2022 totaled \$244.5 million and \$216.0 million, respectively. The 2023 contributions represent an increase of \$28.5 million, or 13.2% above 2022. The 2022 contributions represent an increase of \$7.8 million, or 3.7% above 2021. The 2023 increase was due to the City's hiring growth, an increase in base salaries on which employee and employer contributions were made, and employee service purchases. The increase in 2022 was due to an increase in base salaries on which employee and employer contributions were made.

In 2023, COAERS had a net investment appreciation on the fair value of its securities of \$355.1 million, an increase of \$905.3 million from 2022. In 2022, COAERS had a net investment depreciation on the fair value of its securities of \$550.2 million, a decrease of \$961.4 million from 2021. The appreciation and depreciation of the investments are due to the fluctuation in the financial markets. In 2023, interest and dividend income generated income of \$53.3 million, an increase of \$5.4 million from the 2022 income due primarily to higher interest rates. In 2023, investment expenses decreased by \$0.3 million; in 2022, investment expenses decreased by \$1.1 million. The total rate of return (net of fees) for the System's investment portfolio in 2023 was 12.3%; in 2022 it was -15.6%.

(CONCLUDED)

Deductions

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

Benefits paid in 2023 were \$270.1 million, an increase of \$10.7 million from payments made in 2022, which is consistent with an increase in the number of retirees to 7,802 in 2023. Refunds to terminating employees were \$4.0 million in 2023, a decrease of \$1.1 million from 2022. Administrative expenses in 2023 were \$8.5 million, an increase of \$1.8 million, or 26.4% from 2022. This increase was largely driven by additional expenses associated with the office building acquired during 2023.

Benefits paid in 2022 were \$259.4 million, an increase of \$16.3 million from payments made in 2021, which is consistent with an increase in the number of retirees to 7,530 in 2022. Refunds to terminating employees were \$5.1 million in 2022, an increase of \$0.8 million from 2021. Administrative expenses in 2022 were \$6.8 million, an increase of \$0.2 million, or 3.6% from 2021.

Overall Analysis

Overall, as of December 31, 2023, net position increased by \$318.9 million, or 10.8%, from the prior year; over the three-year period ending December 31, 2023, net position increased by 2.5%.

CONTRIBUTIONS AND FUNDING INFORMATION

Senate Bill 1444, enacted on May 29, 2023, amended Article 6243n and introduced significant changes related to funding, contributions, benefits, and governance. These changes included transitioning to a flexible actuarially determined employer contribution rate, implementing a fixed payment schedule for the City of Austin to address the Unfunded Actuarial Accrued Liability (UAAL) within a 30-year period, and gradually increasing employee contributions to 9% in 2024 and 10% in 2025. The provisions of the bill will have a significantly positive impact on the funding of the System in future years.

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, 4700 Mueller Boulevard, Suite 100, Austin, Texas 78723.

	Retirement Plan	Restoration Plan	Total
Assets			
Cash and cash equivalents (note 3)	\$ 19,537,740	20,000	19,557,740
Receivables			
Interest and dividends receivable	6,692,763	-	6,692,763
Trades pending settlement	45,989,836	-	45,989,836
Employer contributions receivable	6,737,379	-	6,737,379
Employee contributions receivable	2,823,423	-	2,823,423
Other	84,733	-	84,733
Total receivables	62,328,134	-	62,328,134
Investments, at fair value (note 3):			
US Equities	1,121,394,436	-	1,121,394,436
DM Equities	468,612,797	-	468,612,797
EM Equities	213,962,996	-	213,962,996
Fixed income	527,180,065	-	527,180,065
Real assets	443,223,702	-	443,223,702
Multi-asset	130,739,028	-	130,739,028
Cash and equivalents	313,459,660	-	313,459,660
Total investments	3,218,572,684	-	3,218,572,684
Capital assets, net (note 7)	32,527,687	-	32,527,687
Total assets	3,332,966,245	20,000	3,332,986,245
Liabilities			
Payables			
Accrued expenses	2,178,199	-	2,178,199
Trades pending settlement	47,685,678	-	47,685,678
Refunds and death benefits payable	4,410,052	-	4,410,052
Total liabilities	54,273,929	-	54,273,929
Net position restricted for pensions	\$ 3,278,692,316	20,000	3,278,712,316

See accompanying notes to financial statements.

	Retirement Plan	Restoration Plan	Total
Assets			
Cash and cash equivalents (note 3)	\$ 10,796,741	20,000	10,816,741
Receivables			
Interest and dividends receivable	6,231,596	-	6,231,596
Trades pending settlement	46,550,842	-	46,550,842
Employer contributions receivable	5,911,143	-	5,911,143
Employee contributions receivable	2,486,343	-	2,486,343
Other	80,737	-	80,737
Total receivables	61,260,661	-	61,260,661
Other current assets	343,578	-	343,578
Investments, at fair value (note 3):			
US Equities	999,889,324	-	999,889,324
DM Equities	389,416,637	-	389,416,637
EM Equities	190,635,724	-	190,635,724
Fixed income	559,723,475	-	559,723,475
Real assets	465,255,669	-	465,255,669
Multi-asset	143,059,844	-	143,059,844
Cash and equivalents	192,281,432	-	192,281,432
Total investments	2,940,262,105	-	2,940,262,105
Capital assets, net (note 7)	3,403,389	-	3,403,389
Total assets	3,016,066,474	20,000	3,016,086,474
Liabilities			
Payables			
Accrued expenses	1,614,035	-	1,614,035
Trades pending settlement	50,811,224	-	50,811,224
Refunds and death benefits payable	3,865,454	-	3,865,454
Total liabilities	56,290,713	-	56,290,713
Net position restricted for pensions	\$ 2,959,775,761	20,000	2,959,795,761

See accompanying notes to financial statements.

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

YEAR ENDED DECEMBER 31, 2023

	Retirement Plan	Restoration Plan	Total
Additions:			
Contributions:			
Employer contributions (note 6)	\$ 163,839,285	97,305	163,936,590
Employee contributions (note 6)	80,572,969	-	80,572,969
Total contributions	244,412,254	97,305	244,509,559
Investment income:			
Net appreciation in fair value of investments	307,153,542	-	307,153,542
Interest	20,056,394	-	20,056,394
Dividends	33,208,335	-	33,208,335
Less: Investment expense	(5,315,186)	-	(5,315,186)
Net investment appreciation (depreciation)	355,103,085	-	355,103,085
Other income	2,010,379	-	2,010,379
Total additions (deductions)	601,525,718	97,305	601,623,023
Deductions:			
Retirement annuities	262,203,404	97,305	262,300,709
Contributions refunded to terminating employees	4,033,161	-	4,033,161
DROP disbursements	2,541,362	-	2,541,362
Retiree lump-sum annuity	1,464,957	-	1,464,957
Death benefits	3,816,994	-	3,816,994
Total benefit payments, including refunds of member contributions	274,059,878	97,305	274,157,183
General and administrative expenses	8,549,285	-	8,549,285
Total deductions	282,609,163	97,305	282,706,468
Net increase (decrease) in net position	318,916,555	-	318,916,555
Net position restricted for pensions:			
Beginning of year	2,959,775,761	20,000	2,959,795,761
End of year	\$ 3,278,692,316	20,000	3,278,712,316

See accompanying notes to financial statements.

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

YEAR ENDED DECEMBER 31, 2022

	Retirement Plan	Restoration Plan	Total
Additions:			
Contributions:			
Employer contributions (note 6)	\$ 146,618,486	180,910	146,799,396
Employee contributions (note 6)	69,189,012	-	69,189,012
Total contributions	215,807,498	180,910	215,988,408
Investment income:			
Net depreciation in fair value of investments	(592,519,486)	-	(592,519,486)
Interest	13,503,542	-	13,503,542
Dividends	34,401,663	-	34,401,663
Less: Investment expense	(5,599,635)	-	(5,599,635)
Net investment appreciation (depreciation)	(550,213,916)	-	(550,213,916)
Other income	126,935	-	126,935
Total additions (deductions)	(334,279,483)	180,910	(334,098,573)
Deductions:			
Retirement annuities	247,862,193	180,910	248,043,103
Contributions refunded to terminating employees	5,075,851	-	5,075,851
DROP disbursements	4,166,660	-	4,166,660
Retiree lump-sum annuity	3,253,220	-	3,253,220
Death benefits	3,963,038	-	3,963,038
Total benefit payments, including refunds of member contributions	264,320,962	180,910	264,501,872
General and administrative expenses	6,763,638	-	6,763,638
Total deductions	271,084,600	180,910	271,265,510
Net increase (decrease) in net position	(605,364,083)	-	(605,364,083)
Net position restricted for pensions:			
Beginning of year	3,565,139,844	20,000	3,565,159,844
End of year	\$ 2,959,775,761	20,000	2,959,795,761

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

As a result of the legislative change pursuant to SB1444, one of the elected active member positions was converted to the Chief Financial Officer of the City of Austin or designee effective January 1, 2024.

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, 2023, 2022, and 2021 membership consisted of the following:

	2023	2022	2021
Inactive plan members or beneficiaries currently receiving benefits	7,802	7,530	7,221
Inactive plan members entitled to but not yet receiving benefits	4,280	3,934	3,459
Active plan members	11,197	10,438	10,228
Total plan members	23,279	21,902	20,908

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 with 5 years of service credit, at age 55 with 20 years of service, or at any age with 23 years of service. Effective January 1, 2002 the monthly benefit was equal to 3.0% of the highest 36-month average annual salary of the last ten years multiplied by years and months of service.

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, 2023 the active employee contribution rate was 8% of base compensation and the City of Austin's contribution rate was 19% of base compensation. The City of Austin's 19% employer contribution rate became effective January 1, 2021. More detailed information about contributions can be found in Note 6.

Under the terms of the Plan, the System's employees obtain membership and contribute to the Plan on the same basis as City employees. 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 City of El Paso 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 that 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 was 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(m) 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, 2023, and 2022 for the Restoration Plan. Assets remaining in this plan as of December 31, 2023, and 2022, were \$20,000.

On December 31, 2023, 2022, and 2021, membership in the Restoration Plan included the following:

	2023	2022	2021
Retirees and beneficiaries currently receiving benefits	15	17	19

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”; the 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, 2023, the balances of Fund 1, Fund 2, and Fund 3 were \$684,851,187, \$2,593,841,129, and \$20,000, respectively. On December 31, 2022, the balances of Fund 1, Fund 2, and Fund 3 were \$637,967,531, \$2,321,808,230, 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 are held in demand deposit accounts. As of December 31, 2023 and 2022, the book balances of the demand deposit accounts totaled \$19,557,740 and \$10,816,741, 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, 2023 and 2022 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 all assets purchased with a cost greater than \$5,000. 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 ten years, while Building and Building Improvements are scheduled with a useful life from 20 to 40 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.

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, 2023 and 2022.

	2023	2022
Global equities:		
US equities	\$ 1,486,425,575	1,321,385,448
Developed markets equities	317,544,654	258,556,237
	<u>1,803,970,229</u>	<u>1,579,941,685</u>
Fixed income:		
Corporate bonds	84,561,188	106,171,553
Government bonds	371,221,110	355,999,358
Government mortgage-backed securities	71,397,767	97,552,564
	<u>527,180,065</u>	<u>559,723,475</u>
Real assets:		
Real estate equity		
US REITs	116,519,339	130,664,601
Real estate institutional collective trust	164,470,378	184,237,745
	<u>280,989,717</u>	<u>314,902,346</u>
Infrastructure:		
US equities	34,649,622	32,872,086
Developed markets equities	31,894,495	29,186,315
Limited partnership	95,689,868	88,294,922
	<u>162,233,985</u>	<u>150,353,323</u>
Multi-asset:		
Asset allocation	90,193,941	106,087,904
Commodities & other	40,545,087	36,971,940
	<u>130,739,028</u>	<u>143,059,844</u>
Short-term investments:		
US Dollar	262,663,737	141,043,946
Foreign currency	50,795,923	51,237,486
	<u>313,459,660</u>	<u>192,281,432</u>
Investments at fair value on balance sheet	3,218,572,684	2,940,262,105
Receivables, payables and pending trades, net	4,043,135	989,054
Total investments (per investment consultant)	\$ <u>3,222,615,819</u>	<u>2,941,251,159</u>

The asset allocation noted in the table above shows the composition to reflect the classification of investments for GASB 40 presentation purposes. Certain amounts have been reclassified from international to US equities as they are denominated in U.S. dollars.

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, 2023 and 2022, the System's operating bank balances of \$19,557,740, and \$10,816,741, 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. Additionally, as of December 31, 2023 and 2022, the System held liquidity reserve balances at BNYM of \$1,019,537, and \$1,005,060, respectively. The account is not backed with collateral securities and is exposed to custodial credit risk.

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, 2023:

Asset Class	Minimum	Maximum
Global Equity (a)	46%	66%
US Equity	22%	47%
Developed Market Equity	11%	20%
Emerging Market Equity	2%	13%
Fixed Income (b)	16%	33%
US Treasuries	9%	25%
US Mortgages	2%	8%
US Credit	1%	10%
Real Assets	10%	20%
Real Estate Equity	5%	15%
Infrastructure Equity	0%	10%
Multi-Asset	2.5%	15%
Asset Allocation	2.5%	10%
Commodities & Other	0%	10%
Cash & Equivalents	-10%	10%

(Restrictions continued on next page)

a. Global Equity

- No single company’s securities shall represent more than 6% of the fair value of any manager’s portfolio.

b. Fixed Income

- 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 FHLMC) 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. Other Investment Information

- As of December 31, 2023 and 2022, the following was the composition of the System’s portfolio:

	2023	2022
US equities	46.18%	44.94%
Developed markets equities	9.87%	8.79%
Fixed income		
Corporate bonds	2.63%	3.61%
Government bonds	11.53%	12.11%
Government mortgage-backed securities	2.22%	3.32%
Real estate equity		
US REITs	3.62%	4.44%
Real estate institutional collective trust	5.11%	6.27%
Infrastructure		
US equities	1.08%	1.12%
International equities	0.99%	0.99%
Limited partnership	2.97%	3.00%
Multi-asset	2.80%	3.61%
Commodities & other	1.26%	1.26%
Short-term investments		
US Dollar	8.16%	4.80%
Foreign currency	1.58%	1.74%
	100.00%	100.00%

The asset allocation noted in the table above shows the composition percentages to reflect the classification of investments for GASB 40 presentation purposes. Certain amounts have been reclassified from international to US 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 Fund 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, 2023, the System held the following investments and duration:

Investment type	Fair value	Effective Duration
Corporate Bonds	\$ 84,561,188	6.82
Government Bonds	371,221,110	5.38
Government mortgage-backed Securities	71,397,767	5.94
	<u>\$ 527,180,065</u>	<u>5.67</u>

As of December 31, 2022, the System held the following investments and duration:

Investment type	Fair value	Effective Duration
Corporate Bonds	\$ 106,171,553	7.31
Government Bonds	355,999,358	8.01
Government mortgage-backed Securities	97,552,564	6.52
	<u>\$ 559,723,475</u>	<u>7.63</u>

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, 2023, are as follows:

Standard & Poor's Quality Rating	Total fair value	Corporate bonds	Government mortgage-backed securities
AAA	\$ 71,397,767	-	71,397,767
BBB	84,561,188	84,561,188	-
Total credit risk of debt securities	155,958,955	84,561,188	71,397,767
US govt. & agencies*	371,221,110		
	\$ 527,180,065		

*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, 2022, are as follows:

Standard & Poor's Quality Rating	Total fair value	Corporate bonds	Government mortgage-backed securities
AAA	\$ 97,552,564	-	97,552,564
BBB	106,171,553	106,171,553	-
Total credit risk of debt securities	203,724,117	106,171,553	97,552,564
US govt. & agencies*	355,999,358		
	\$ 559,723,475		

*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 (short-term investments and equity) as of December 31, 2023 and 2022:

Currency	Cash & Cash Equivalents	Equity	2023 Fair value
Australian Dollar	\$ 238,786	18,267,138	18,505,924
Canadian Dollar	41,299	21,479,416	21,520,715
Danish Krone	-	12,155,977	12,155,977
Euro	2,081,382	95,290,280	97,371,662
Hong Kong Dollar	368	9,308,892	9,309,260
Japanese Yen	46,467,209	46,699,332	93,166,541
New Zealand Dollar	350	428,276	428,626
Norwegian Krone	120,285	1,557,500	1,677,785
UK Pound Sterling	1,845,421	112,231,094	114,076,515
Singapore Dollar	211	3,992,210	3,992,421
Swedish Krona	-	3,427,445	3,427,445
Swiss Franc	612	24,601,589	24,602,201
Total	\$ 50,795,923	349,439,149	400,235,072

Currency	Cash & Cash Equivalents	Equity	2022 Fair value
Australian Dollar	\$ 37,302	13,779,106	13,816,408
Canadian Dollar	9,365	17,861,238	17,870,603
Danish Krone	-	18,121,346	18,121,346
Euro	2,717,418	70,260,066	72,977,484
Hong Kong Dollar	2,399	11,193,884	11,196,283
Japanese Yen	44,725,181	36,381,946	81,107,127
New Zealand Dollar	1,906	334,612	336,518
Norwegian Krone	2,388	-	2,388
UK Pound Sterling	3,736,321	92,983,523	96,719,844
Singapore Dollar	3,041	3,550,631	3,553,672
Swedish Krona	-	1,821,189	1,821,189
Swiss Franc	2,165	21,455,011	21,457,176
Total	\$ 51,237,486	287,742,552	338,980,038

The System’s exposure to foreign currency risk also includes the following trades pending settlement as of December 31, 2023 and 2022:

Currency	Investment type	2023 Fair value	2022 Fair value
Japanese Yen	Currency forward	\$ 46,668,292	44,933,128

Foreign Currency Forwards

The System periodically invests in foreign currency forwards to hedge the value of a portion of its investments denominated in foreign currencies. Currency forwards are an agreement between the System and a counterparty to exchange a specific amount of currency, at a specific rate, and specific date. Beginning in 2022, COAERS implemented a cash enhancement strategy that utilizes both foreign sovereign short-term debt and currency forwards. The System's forward contracts are classified as pending trades on the Statement of Fiduciary Net Position, and the changes in their fair value are classified as investment appreciation/depreciation on the Statement of Changes in Fiduciary Net Position. As of December 31, 2023, the fair value of the payable for forward foreign exchange contracts was \$46,668,292, an increase of \$1,735,164 and related contracts receivable was \$45,055,175, an increase of \$2,226,852 from December 31, 2022. The fair value of the payable for forward foreign exchange contracts was \$44,933,128, and related contracts receivable was \$42,828,323 as of December 31, 2022. The forward contracts had no notional amount.

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. 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, 2023 and 2022, respectively.

2023					
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					
US Dollar	\$ 262,663,737	65,589,415	197,074,322	-	-
Foreign currency	50,795,923	4,328,991	46,466,932	-	-
	<u>313,459,660</u>	<u>69,918,406</u>	<u>243,541,254</u>		
Fixed income					
Corporate bonds	84,561,188	-	84,561,188	-	-
Government bonds	371,221,110	60,536,645	310,684,465	-	-
Government mortgage-backed securities	71,397,767	-	71,397,767	-	-
	<u>527,180,065</u>	<u>60,536,645</u>	<u>466,643,420</u>	-	-
Global equities					
US equities					
US equities	895,909,683	895,909,683	-	-	-
US equity collective trust	225,484,753	-	225,484,753	-	-
	<u>1,121,394,436</u>	<u>895,909,683</u>	<u>225,484,753</u>	-	-
Developed markets equities					
Developed markets equities	393,395,806	393,395,806	-	-	-
Developed markets equity collective trust	75,216,991	-	75,216,991	-	-
	<u>468,612,797</u>	<u>393,395,806</u>	<u>75,216,991</u>	-	-
Emerging markets equities					
Emerging markets equities	8,129,205	8,129,205	-	-	-
Emerging markets collective trust	76,297,605	-	76,297,605	-	-
Emerging markets equity mutual fund	129,536,186	129,536,186	-	-	-
	<u>213,962,996</u>	<u>137,665,391</u>	<u>76,297,605</u>	-	-
Real assets					
Real estate equity					
US REITS	116,519,339	116,519,339	-	-	-
Real estate institutional collective trust	164,470,378	-	164,470,378	-	-
	<u>280,989,717</u>	<u>116,519,339</u>	<u>164,470,378</u>	-	-
Infrastructure & other					
US equities	34,649,622	34,649,622	-	-	-
International equities	31,894,495	31,894,495	-	-	-
	<u>66,544,117</u>	<u>66,544,117</u>	-	-	-
Multi-asset					
Asset allocation	90,193,941	90,193,941	-	-	-
Commodities & other	40,545,087	40,545,087	-	-	-
	<u>130,739,028</u>	<u>130,739,028</u>	-	-	-
Total investments by fair value level	<u>3,122,882,816</u>	<u>1,871,228,415</u>	<u>1,251,654,401</u>	-	-
Investments measured at NAV:					
Infrastructure					
Infrastructure limited partnership	95,689,868	-	-	-	95,689,868
Total investments	<u>\$ 3,218,572,684</u>				
Foreign exchange contracts (liabilities)	<u>\$ (46,668,292)</u>				

Investments measured at the net asset value (NAV)				
2023	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice
Infrastructure limited partnership	95,689,868	-	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.

2022					
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)	Net asset value (NAV)
Short-term investments					
US Dollar	\$ 141,043,946	21,317,382	119,726,564	-	-
Foreign currency	51,237,486	6,514,217	44,723,269	-	-
	192,281,432	27,831,599	164,449,833		
Fixed income					
Corporate bonds	106,171,553	-	106,171,553	-	-
Government bonds	355,999,358	59,804,325	296,195,033	-	-
Government mortgage-backed securities	97,552,564	-	97,552,564	-	-
	559,723,475	59,804,325	499,919,150	-	-
Global equities					
US equities					
US equities	775,833,445	775,833,445	-	-	-
US equity collective trust	224,055,879	-	224,055,879	-	-
	999,889,324	775,833,445	224,055,879	-	-
Developed markets equities					
Developed markets equities	323,119,870	323,119,870	-	-	-
Developed markets equity collective trust	66,296,767	-	66,296,767	-	-
	389,416,637	323,119,870	66,296,767	-	-
Emerging markets equities					
Emerging markets equities	7,442,687	7,442,687	-	-	-
Emerging markets collective trust	69,958,437	-	69,958,437	-	-
Emerging markets equity mutual fund	113,234,600	113,234,600	-	-	-
	190,635,724	120,677,287	69,958,437	-	-
Real assets					
Real estate equity					
US REITS	130,664,601	130,664,601	-	-	-
Real estate institutional collective trust	184,237,745	-	184,237,745	-	-
	314,902,346	130,664,601	184,237,745	-	-
Infrastructure & other					
US equities	32,872,086	32,872,086	-	-	-
International equities	29,186,315	29,186,315	-	-	-
	62,058,401	62,058,401	-	-	-
Multi-asset					
Asset allocation	106,087,904	106,087,904	-	-	-
Commodities & other	36,971,940	36,971,940	-	-	-
	143,059,844	143,059,844	-	-	-
Total investments by fair value level	2,851,967,183	1,643,049,372	1,208,917,811	-	-
Investments measured at NAV:					
Infrastructure					
Infrastructure limited partnership	88,294,922	-	-	-	88,294,922
Total investments	\$ 2,940,262,105				
Foreign exchange contracts (liabilities)	\$ (44,933,128)				

Investments measured at the net asset value (NAV)				
2022	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice
Infrastructure limited partnership	88,294,922	-	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, 2023.

b. Asset Allocation

The System’s strategic asset allocation neutral weights as of December 31, 2023 and 2022, as adopted by the Board of Trustees, are as follows:

	2023	2022
US equities	34.0%	34.0%
Developed markets equities	16.0%	16.0%
Emerging markets equities	6.0%	6.0%
Fixed income	21.0%	21.0%
Real estate	10.0%	10.0%
Infrastructure	5.0%	5.0%
Multi-asset	5.0%	5.0%
Commodities & other	2.0%	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 fund's established framework to ensure a fair, accurate and consistent valuation.
- The System’s derivative instruments include futures, options, warrants and forwards. Futures, options, and warrants are executed on an exchange, priced at the last sale price in their respective active markets. Forwards’ pricing is negotiated between the investment manager and the respective counterparty.
- 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, 2023, the annual money-weighted rate of return on System investments net of pension plan investment expense was 12.31%, an increase from -15.63% on December 31, 2022. 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, 2023 and 2022, there were no holdings that exceeded this disclosure trigger.

NOTE 6: CONTRIBUTIONS AND FUNDING POLICY

As of December 31, 2023, and 2022, state law required contributions equal to 8% of base compensation by the participants. Employers contributed 19% of base compensation.

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 increased 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.

The provisions of Senate Bill 1444, enacted on May 29, 2023 will require the annual calculation of the employer's actuarially determined contribution rate based on the normal cost, as well as gains and losses of the System amortized over the period of time established in SB 1444. Additionally, the City of Austin will make an annual payment on the legacy liability until it is exhausted in 2054.

NOTE 7: CAPITAL ASSETS

The following summarizes the capital asset account balances as of December 31, 2023 and December 31, 2022, and changes to the accounts during the years then ended:

	Balance 12/31/2021	Additions	Disposals	Balance 12/31/2022	Additions	Disposals	Balance 12/31/2023
Capital assets not being depreciated:							
Land	\$ -	-	-	-	8,625,000	-	8,625,000
Capital assets being depreciated:							
Furniture and equipment	6,774,866			6,774,866	117,014		6,891,880
Building and improvements	-			-	21,483,768		21,483,768
Total	6,774,866	-	-	6,774,866	21,600,782	-	28,375,648
Less accumulated depreciation:							
Furniture and equipment	2,649,694	721,783		3,371,477	662,129		4,033,606
Building and improvements	-			-	439,355		439,355
Total	2,649,694	721,783	-	3,371,477	1,101,484	-	4,472,961
Total capital assets, net of accumulated depreciation	\$ 4,125,172	(721,783)	-	3,403,389	29,124,298	-	32,527,687

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, 2023 and December 31, 2022 was 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
2023	\$5,617,502,302	\$3,278,692,316	\$2,338,809,986	58.37%
2022	\$5,884,128,584	\$2,959,775,761	\$2,924,352,823	50.30%

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's 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, 2023, using the following actuarial assumptions:

Summary of Actuarial Assumptions

Valuation date: December 31, 2023
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, 2022 valuation is used to determine the actuarially determined contribution amount for the period January 1, 2023 through December 31, 2023.

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 reflected in the Actuarially Determined Employer Contribution (ADEC) for 2023. SB 1444 which was enacted in 2023 will impact the ADEC for calendar year 2024
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The Plan does not require regular ad hoc post-employment benefits, and none have been made since 2002.

b. Single Discount Rate

In fiscal year 2023, the single discount rate was 6.75%. This single discount rate was based on the actuarial assumed long-term expected rate of return of 6.75% and the municipal bond rate of 3.77%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions and employer contributions will be made in accordance with the actuarial determined contributions as specified by statute. Based on these assumptions, the pension plan's fiduciary net position was projected to be sufficient to finance the projected future benefit payments of current plan members. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments.

In fiscal year 2022, the single discount rate was 5.87%. This single discount rate was based on the actuarial assumed long-term expected rate of return of 6.75% and the municipal bond rate of 4.05%. The 6.75% actuarial assumed long-term expected rate of return on pension plan investments was applied to projected benefit payments through the 2057 fiscal year, and the municipal bond rate of 4.05% was applied to all benefit payments after that date.

Long-Term Expected Real Rate of Return

Asset Class	2023	2022
Global equities	5.35%	4.30%
Fixed income	1.50%	-0.19%
Real assets	4.58%	4.00%
Multi-asset	4.37%	3.20%
Cash & equivalents	0.00%	-1.00%

Estimates are arithmetic as provided by RVK. The real rate of return of an investment is defined as the rate of return after adjustment to eliminate inflation. RVK's inflation expectation was 2.50% for 2023 and 2022.

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%
\$ 3,061,388,682	\$ 2,338,809,986	\$ 1,745,894,787

NOTE 11: SUBSEQUENT EVENTS

On May 29, 2023, SB 1444 was signed into law, which instituted future contribution changes beginning January 2024 and beyond to include: transitioning to a flexible actuarially determined employer contribution rate; establishing a fixed payment schedule for the City of Austin to pay off the UAAL (Unfunded Actuarial Accrued Liability) within a 30-year fixed period (known as the “legacy liability”); and incrementally raising employee contributions to 9% in 2024 and 10% in 2025. The employer’s actuarially determined contribution rate for 2024 is 8.68% and, in addition, the City of Austin’s UAAL payment is \$98,896,162.

Schedule of Changes in the Net Pension Liability and Related Ratios

Fiscal year ending December 31,	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
Total Pension Liability										
Service Cost	\$ 175,911,653	\$ 132,573,978	\$ 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	342,517,697	335,216,455	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	(5,148,592)	-	-	-	-	-	-	-	-	-
Difference between Expected and Actual Experience	122,135,399	60,429,133	(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	(627,982,561)	588,186,779	142,269,829	-	279,897,169	-	-	-	123,493,165	-
Benefit Payments	(270,026,717)	(259,245,111)	(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	(4,033,161)	(5,075,851)	(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	(266,626,282)	852,085,383	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	5,884,128,584	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	2,909,917,750
Total Pension Liability - Ending (a)	\$ 5,617,502,302	\$ 5,884,128,584	\$ 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	\$ 163,839,285	\$ 146,618,486	\$ 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	80,572,969	69,189,012	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	357,113,464	(550,086,981)	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	(270,026,717)	(259,245,111)	(242,860,638)	(227,737,284)	(213,956,372)	(198,846,376)	(186,286,855)	(175,218,096)	(165,464,616)	(157,563,807)
Refunds	(4,033,161)	(5,075,851)	(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	(8,549,285)	(6,763,638)	(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	318,916,555	(605,364,083)	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	2,959,775,761	3,565,139,844	3,199,548,583	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)	\$ 3,278,692,316	\$ 2,959,775,761	\$ 3,565,139,844	\$ 3,199,548,583	\$ 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)	2,338,809,986	2,924,352,823	1,466,903,357	1,501,666,583	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	58.37%	50.30%	70.85%	68.06%	65.24%	61.70%	69.79%	64.03%	63.24%	71.42%
Covered Payroll	\$ 862,312,026	\$ 771,676,242	\$ 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	271.23%	378.96%	197.36%	206.74%	227.14%	236.14%	186.32%	222.98%	223.38%	170.54%

Notes to Schedule:

- Covered payroll is imputed from the actual employer contributions during the calendar year.
- Actuarial Assumption History. For 2014, there were no actuarial 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, investment return was decreased to 6.75% while keeping the inflation assumption at 2.5%. For 2022, the actuarial assumption of 6.75% remained, however, because the pension plan's fiduciary net position was only expected to be available through 2057, the actuarial assumed rate of return was blended with the municipal bond rate of 4.05% to produce a Single Discount Rate of 5.87%. For 2023, the actuarial assumption of 6.75% was applied to all projected benefit payments.

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%
2022	168,842,762	146,618,486	22,224,276	771,676,242	19.00%
2023	197,555,685	163,839,285	33,716,400	862,312,026	19.00%

Schedule of Investment Returns

Year	Annual Return *
2023	12.31%
2022	-15.63%
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

See accompanying Independent Auditors' report

Investment Expenses

	<u>2023</u>
Custodial & Transaction Fees	
The Bank of New York Mellon	\$ 260,000
Transaction and other fees	<u>52,288</u>
	312,288
Investment Manager Fees	4,214,349
Other Investment-related Expenses	
Consultant Fees - RVK	384,544
Investment Research	94,475
Reporting and Monitoring	34,875
Investment Systems	184,990
Investment Legal Counsel	30,713
Staff Professional Development	18,585
Due Diligence Site Visits	15,330
Other	<u>25,037</u>
	788,549
Total	\$ <u>5,315,186</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>2023</u>
Actuarial	\$ 116,125
Legal	77,747
Audit	66,000
Consultants	638,348
Information Technology	210,751
Administrative	5,970,934
Depreciation	1,101,484
Insurance	173,236
Member Communications	92,948
Professional Development	101,712
Total	\$ <u>8,549,285</u>

Professional Services and Consultant Expenses

Actuarial	
GRS Retirement Consulting Group	\$ 116,125
Legal	
Clark Hill Strasburger	20,092
Dubois, Bryant, & Campbell	2,661
Jackson Walker	28,578
The Knight Law Firm	<u>26,416</u>
	77,747
Audit	
CLA LLP	66,000
Consultants	
Levi, Ray & Shoup	133,344
Express Information Systems	14,958
Freeit Data Solutions	44,989
Gartner	100,283
Hillco Partners LLC	84,000
Kudelski Security	73,314
Ntirety	71,145
Security Pursuit	17,000
Whitehat Virtual Technologies	<u>99,315</u>
	638,348
Total	\$ <u>898,220</u>

See accompanying Independent Auditors' report

6. Discuss and consider Travel Reimbursement Policy

Presented by Michael Benson



COMMITTEE MEETING Agenda Item Information Sheet

AGENDA ITEM 6:

Discuss and consider Board Approved Travel Reimbursement Policy

AGENDA ITEM OBJECTIVE

This agenda item is intended for the Committee to conduct its annual review of the Travel Reimbursement Policy.

RECOMMENDATION FOR BOARD ACTION

Staff recommends the Committee refer to the Board for approval the proposed revisions to the Travel Reimbursement Policy.

ITEM SUMMARY

The Travel Reimbursement Policy was created in 2017 when the prior “Training, Research, and Education Expense Policies” were changed to carve out the educational and investment site visit components into separate policies. The Travel Reimbursement Policy is reviewed periodically to ensure it is up to date with current IRS regulations as well as changes to the ways COAERS Trustees and Staff travel. Staff has reviewed the Policy and will discuss with the Committee a group of proposed revisions.

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**. It is an industry best practice to review policies on a regular basis.

ATTACHMENT

1. Proposed Travel Reimbursement Policy



Board Approved Policy

Subject: Travel Reimbursement

Review Committee: Audit and Risk

Date Implemented: December 12, 2017

Date Updated: June 27, 2024

Signature of Chairperson:

Yuejiao Liu

DRAFT

**CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM
BOARD APPROVED POLICY
TRAVEL REIMBURSEMENT POLICY**

I. PURPOSE AND SCOPE

To support the ability of the Board of Trustees and Staff of the City of Austin Employees' Retirement System (COAERS) to carry out their responsibilities, participation in topically relevant seminars and educational programs is encouraged and the costs of these events and related travel may be paid or reimbursed by COAERS.

Travel may also be authorized for onsite research and evaluation of professional firms or organizations and also for site visits conducted for due diligence or investigative purposes. (See also Board Education Policy) This policy describes the eligibility for, and the conditions under which, COAERS will pay or reimburse travel expenses. The provisions of this policy are intended to create an accountable plan under the Internal Revenue Code and Treasury Regulations and therefore, allowances or reimbursements paid for COAERS-related expenses are excluded from wages and are not subject to withholding for federal tax purposes.

II. RESPONSIBILITIES

A. COAERS Board of Trustees:

Shall determine the quantity and type of education and travel available to a Trustee. Shall assign responsibility to the Audit and Risk Committee to review this policy and oversee its implementation.

B. Board Chair:

Shall be authorized to make exceptions to this policy. Shall review and authorize travel expenses for the Executive Director.

C. Audit and Risk Committee:

Shall periodically review and update this policy ~~as necessary~~ at least every three years.

D. Authorized Travelers:

Shall be mindful of the public trust and comply with the provisions of this policy when incurring training, research, or education expenses on behalf of COAERS. Shall strive to make arrangements resulting in reasonable expense to the System.

E. Executive Director:

- Shall approve or deny all proposed training, research, or educational expenses for COAERS staff.
- Shall work with Trustees in determining appropriate expenses and report on

- travel and training budget expenditures at least annually.
- Refer proposed policy changes to the Audit and Risk Committee.

III. GUIDELINES

A. Authorized Traveler:

A person who is authorized to travel in connection with COAERS-related business or an event.

B. Authorized Travel Days

Travel will generally be arranged on the days immediately preceding and immediately after the conference or “scheduled event”, unless savings can be achieved by incurring a Saturday stay-over or if the travel can be reasonably accomplished on the day the event begins or ends. A “Scheduled event” means anything that is part of the published program; a related activity, or held in conjunction with a conference or scheduled meeting, supported by written documentation. All itineraries should be coordinated so that the most economical package can be obtained considering cost and time. The number of days of approved lodging will be sufficient so as not to require conference or meeting attendance and travel time in excess of 12 hours in any one day, and reasonable considering time zone differences. One additional day of travel with lodging and per diem is allowed for each day of travel in excess of 12 hours.

C. Authorized Expenses

1. COAERS pays and reimburses for expenses which meet the following requirements:
 - a. There must be a business connection to the expenditure.
 - b. There must be “adequate” accounting by the recipient within 30 calendar days of conclusion of the event including verification of business purpose, date, time, place, amount and receipts for any item for which reimbursement is requested except for per diem paid at the Federal rate.
 - c. Excess reimbursements or advances must be returned within 30 calendar days of the accounting of the authorized expenses or notification to the traveler of the excess whichever is later.
2. Subject to the guidelines listed below in Section E, COAERS will pay or reimburse for the following expenses:
 - a. Conference or seminar registration
 - b. Transportation
 - c. Lodging expenses, including parking
 - d. On-site airport parking
 - e. Shuttle, taxi, or rideshare
 - f. Rental car, including associated expenses
 - g. Personal vehicle mileage reimbursement for driving to and from the airport

- h. Meals & incidental expenses (M&IE)
- i. Telecommunication charges
- j. Books and supplies
- k. Laundry/dry cleaning if the trip exceeds five continuous days or during international travel out of North America
- l. Flight or trip insurance
- m. Registration costs for State core minimum education training for approved candidates running for Trustee positions
- n. Shipping costs incurred for materials shipped to or from an approved conference
- o. Airline change fees incurred when the business travel scope or event schedule changes.
- p. TSA pre-check or Global Entry expenses.

D. Unauthorized/Non-Reimbursable Expenses

1. Expenses for non-authorized travelers
2. Loss of personal funds or property
3. Personal expenses such as haircuts, medicine, newspapers, etc.
4. Entertainment and/or alcoholic beverages
5. Shuttle and/or taxi to personal destinations

E. Additional Guidelines for Authorized Expenses

1. Transportation

- a. The most economical method of transportation should be used considering overall costs and time. Transportation provided to a System Representative must meet the requirements of Board Approved Policy ~~C-3~~ "Code of Ethics." Advanced purchase economy airfare should be made as far in advance as possible to achieve the most reasonable fare. Non-stop flights and/or direct flights should be scheduled when available. Whenever possible, airfare will be paid in advance by COAERS. Otherwise, payment should be made using a COAERS credit card. If no COAERS credit card is available, travelers may use personal credit cards or funds, and submit receipts for reimbursement. For any flights of 5 or more hours of continuous in-air travel, business class airfare should be allowed or one additional travel day with lodging and per diem can be provided. COAERS can incur an airfare cost to allow for main cabin upgrades when business class travel is not authorized, such as the following: to confirm an economy seat assignment, allow for early boarding, hold a price on a ticket when travel arrangements are not finalized, provide extra leg room, and allow for assigned seating, or checked baggage.
- b. Trustee mileage for a personal vehicle will be reimbursed at the prevailing IRS mileage reimbursement rate for travel to and from the airport or travel to an educational or research event. Miles driven for personal reasons will not be reimbursed. Individuals may declare a

reasonable number of miles in order to obtain payment in advance of travel. Mileage can be calculated either by noting the actual beginning and ending mileage of the trip, or by using a mapping application that describes the actual route. Highway toll charges are reimbursable if necessary to attend a COAERS-business related event or to ensure on-time arrival at the airport for COAERS-business related travel.

- c. Shuttles, taxis, public transportation, ride-sharing, private charter bus or rental vehicles may be used for travel to and from the airport and a conference or meeting destination(s). Authorized travelers should select the most economical method based on available methods and circumstances. Persons travelling in groups should coordinate these expenses if feasible.

2. Lodging

Lodging associated with a conference should be arranged at the hotel in which the conference or seminar is held, if applicable. Otherwise, accommodations should be arranged at a rate comparable to that of the conference designated hotel.

- a. Authorized Hotel Expenses are room, tax, destination (or similar) fee, internet connectivity, business center expenses, and hotel parking.
- b. Hotel services, movies, and non-COAERS phone calls are examples of personal expenses, which are not reimbursable. The authorized traveler must mark personal expenses on bill, invoice, or receipt before submission.
- c. COAERS will reimburse up to the costs of a double occupancy room rate. If a traveler makes their own lodging arrangements, reimbursement will be based on the comparable rate to the other travelers whose arrangements were made by COAERS.

3. **Considering costs and logistics, hotel deposits and/or full expenses may be paid in advance by COAERS. Otherwise, payment should be made using a COAERS credit card. If no COAERS credit card is available, travelers may use personal credit cards or funds, and submit receipts for reimbursement. Per Diem Allowance for Meals & Incidental Expenses (M&IE)**

For COAERS-related travel that requires an overnight stay, the Federal per diem rate will be paid for meals and incidental expenses (M&IE). No receipts are required, but the payment must meet the other substantiation requirements including date, time, place, and business purpose. Meals provided to a System Representative must meet the requirements of

Board Approved Policy ~~C-3~~ "Code of Ethics."

- a. Federal per diem rate: These rates are established by the General Services Administration (GSA) and the U.S. Department of State. An amount is assigned to respective cities which includes allowances for breakfast, lunch and dinner plus incidental expenses to cover the cost of tips and fees for food and luggage handling type services.
 1. The per diem will be the current rate published for the destination locality at the time of the advance or reimbursement whichever occurs first.
 2. For both the day travel begins and the day travel ends, the M&IE per diem allowance will be prorated at 75% of the daily rate.
 3. For purposes of figuring the appropriate location per diem, COAERS will use the rate of where the traveler will spend the night. If the traveler is in the air overnight (for example, leaving Chicago in the evening and arriving in Edinburgh early morning), the destination is used as the location the traveler spent the night. On the last day of travel, COAERS will use the rate where the traveler previously spent the night.
 4. If a meal or meals are part of a registration fee, those meals will be deducted from the per diem of the traveler. If a hotel offers a continental breakfast as part of its published price, the meal will be deducted from the per diem of the traveler.
 5. Expenses incurred due to travel delays beyond the traveler's control which extend the travel period are reimbursable.
- b. Any matters related to per diem not specifically addressed in this policy will be administered in accordance with the IRS guidance for accountable plans.

4. Day Trips – Reimbursement for mileage and business-related meals

For trips not requiring an overnight stay, authorized travelers will be reimbursed for reasonable transportation and COAERS-related expenses submitted with receipts on COAERS Travel Request Claim Form.

5. Pre-trip Advances

Authorized travelers may receive an advance of per diem and mileage reimbursement, if requested.

F. Emergency Expenditures and Exceptions

For emergency situations requiring immediate departure from Austin to

attend to COAERS business, or in the event of a personal emergency which requires early departure or, other change in plans, every effort should be made to contact the Board Chairperson or Vice Chairperson to authorize the emergency expenditures. If this authorization is not obtained, the circumstances will be reviewed by the Audit and Risk Committee at their next meeting to recommend an appropriate Board response.

Any exceptions to these procedures may be reviewed and approved by the Audit and Risk Committee, in advance. Emergency exceptions shall be addressed on their own merits.

G. Final Travel Expense Claim Form

1. Travel Expense Claim Submittals and Documentation

Within 30 calendar days of their return, individuals shall complete and submit the "Travel Expense Claim Form". All authorized expenses, including those prepaid by COAERS, and regardless of method of payment, should be recorded on the Travel Expense Claim form. Receipts or a statement of expense incurred are required for authorized expenses, including ground transportation and parking. No receipts are required for expenses covered by the Per Diem Allowance, including meals. If receipts include both personal expenses and authorized expenses, they should be itemized and personal expenses should be marked "personal." A final travel package will have a completed and signed Trustee Education Program Feedback Form attached.

2. Trustee Education Program Feedback Form

When travel is for education or training, trustees are encouraged to complete a Trustee Education Program Feedback Form and submit it to the Executive Assistant. A copy of this form will be posted on the Board Portal.

3. Review of Expense Claim Forms

The Audit and Risk Committee may review any situations when a Travel Expense Claim Form is not submitted within 30 calendar days, or where exceptions to this policy are noted. In addition, the Audit and Risk Committee may periodically review sample Travel Expense Claim Forms.

H. Direct Booking/Travel Agencies

To avoid transaction fees charged by travel agencies, transportation/accommodation arrangements will generally be booked directly with the provider. In the case of complex arrangements, i.e., involving multiple cities or international travel, or short notice travel, travel agencies may be used. Agencies will be selected on the basis of service quality, being mindful of fiduciary responsibilities regarding expenditures.

I. Non Exempt Staff Travelers

Travel that keeps a nonexempt COAERS employee traveler away from home overnight is worktime when it cuts across the employee's workday. The employee is simply substituting travel for other duties. The time is not only hours worked on regular working days during normal working hours but also during the corresponding hours on nonworking days. Thus, if an employee regularly works from 8 a.m. to 5 p.m. from Monday through Friday the travel time during these hours is worktime on Saturday and Sunday as well as on the other weekdays. Regular meal period time is not worktime. When connected with an overnight stay, travel from the employee's home or primary work location to the event or to the airport is worktime. Likewise, travel home from the event or the airport is worktime.

IV. ADMINISTRATION

All forms used for the administration of this policy may be created and revised by Staff.

7. Receive report on COAERS Enterprise Risk Management program including the following:

7A: Risk categories of personnel, physical, and legislative

7B: Cybersecurity risk category and information security program

7A: Risk categories of personnel, physical, and legislative

Presented by Christopher Hanson



COMMITTEE MEETING Agenda Item Information Sheet

AGENDA ITEM 7:

Receive report on COAERS Enterprise Risk Management program including the following:

A. personnel, physical, and legislative

AGENDA ITEM OBJECTIVE

This agenda item is for discussion of three of the risk categories in the Enterprise Risk Management Report.

RECOMMENDATION FOR COMMITTEE ACTION

For informational purposes; no action required.

ITEM SUMMARY

The 2024 Enterprise Risk Management Report contains 12 risk categories. This meeting's focus will be the categories of personnel, physical, and legislative. Staff has provided a summary report of the presentation and the full Risk Management Report with all risk categories is provided in the Supplemental Materials.

RELEVANCE TO STRATEGIC PLAN

This agenda item meets **COAERS Strategic Plan Goal 2: Responsibly manage the risks of the System**. The Committee's regular review of COAERS Enterprise Risk Management System is one of the strategic objectives of Goal 2 and a key performance indicator is the successful implementation of all annual risk management activities.

ATTACHMENTS

1. Staff Report on Personnel, Physical, and Legislative Risks
2. Staff Presentation on Personnel, Physical, and Legislative Risks

SUPPLEMENTAL MATERIALS

1. Second Quarter Enterprise Risk Management Report 2024



2024 Second Quarter Risk Management Report Personnel, Physical, and Legislative Risks

RISK CATEGORY: Personnel (Second Quartile)

Review of Recent Risk Management Activities

In 2023, the Member Services division was restructured to provide career pathways for employees, ensure adequate staffing and backup support across the range of customer-focused services, and expand job activities for employees on the team. Additionally, each division in COAERS worked with executive management to project their near and mid-term staffing needs. With the acquisition of 4700 Mueller providing more space for additional staff, the Board approved seven new FTEs across the Member Services, Finance, Investment, and Information Technology divisions. The additional staffing will allow COAERS to expand the reach of its customer service, educational activities, and City department presentations, as well as add investment analysis and back-office support for the growing private markets program and ensure the IT division is appropriately staffed to manage effectively manage the COAERS information security program and the increase in staff.

2024 Risk Management Activities

1. Beginning in 2024, management introduced an expanded onboarding program for new staff, including enhanced cybersecurity training, review of the COAERS strategic plan, culture statement, and risk management program, as well as all-staff events to introduce the new employees to the COAERS team. This onboarding is designed to quickly acclimate new employees to key organizational initiatives, the staff culture, and introduce them to the existing teams and the functions they serve at COAERS.
2. Management is currently developing a culture statement lunch and learn where the entire staff will discuss the existing culture statement, as well as review staff feedback and seek suggestions on areas where COAERS can improve to ensure better alignment with the expected culture.
3. Professional development is an integral part of COAERS and is part of the COAERS culture statement "Continue to Develop: We continually learn and develop our skills. We seek to improve ourselves, challenge prevailing assumptions, and suggest better approaches." COAERS has budgeted funds dedicated to staff professional development and all staff are required to have professional development plans as part of their annual evaluation process. Managers work with each staff member to identify professional development opportunities, and the budget is allocated to ensure that each staff member can attend and participate in their selected educational event(s). To date, staff have attended or are registered to attend events such as the Public Retirement Information Systems Management (PRISM) Annual Conference, CEM Benchmarking Pension Administration Conference, NCPERS Chief Officers Summit, National Association of State Retirement Administrators summer conference, and the Institutional Investor Annual Conference. Other professional development pursued by COAERS staff include the University of Texas Center for Professional Education "Transitioning from Employee to Manager" and CLE for "401(k) and 403(b) Plan Litigation".



4. Executive management is working with each division to assess its current and future staffing needs. Discussions include preparing for possible retirements of long-tenured employees and ensuring the appropriate transfer of key institutional knowledge, as well as the potential to utilize new technologies to assist in managing workloads. The needs of one division are often separate from those of another; however, some mission-critical functions touch multiple divisions and require coordinated efforts when looking at future staffing needs. For instance, as the City's workforce continues to age and more Group A members retire, both the Member Services and Finance divisions need to consider the impact of the growing number of retirees on their workloads and staff needs.

RISK CATEGORY: Physical (Third Quartile)

Review of Recent Risk Management Activities

In February 2023, COAERS completed its purchase of 4700 Mueller. The new property serves as COAERS' headquarters and provides sufficient space for the organization now and for many years to come. All staff relocated from the old COAERS offices at Northpoint Center to 4700 Mueller in March 2024 and COAERS opened its doors to its members and the public on April 1, 2024.

2024 Risk Management Activities

1. COAERS management meets regularly to discuss key issues related to the ownership of 4700 Mueller, including a review of the monthly expense reports provided by the property manager. Additionally, the management team is working with the Mueller Property Owners Association (POA) to assist with their request for proposal for a property manager for the Mueller POA, assist with the drafting of a reserve investment policy, and serving as a commercial property owner representative on both the Transition and Budget Committees, as well as participating in Mueller community meetings about the transition of managing the Mueller District from the Catellus Development Corporation to the Mueller POA.
2. COAERS executive management is currently reviewing a list of vendors in property management, building security, and improved cellular connectivity at the building, as well as developing an onboarding process for any new vendors at 4700 Mueller.
3. After moving COAERS daily operations to 4700 Mueller in March, COAERS management has been updating policies and guidelines related to workplace safety and violence prevention. The Workplace Safety Policy has been updated to reflect new evacuation and safety plans, as well as conducting staff training on the new plans. COAERS has already completed the onsite safety inspections by the Austin Fire and Austin Police Departments, as well as a request for additional trespass patrol by the Austin Police Department's Central West District, which covers the Mueller District. COAERS has also established direct contact with a commanding officer at the Central West District of the Austin Police Department. Staff is currently conducting premises liability walk throughs with representatives from COAERS property insurance company (Zurich) and evaluating the cost and efficacy of safety window film for interior glass and some exterior glass at 4700 Mueller. Lastly, COAERS is working with the tenants to conduct a building-wide



evacuation plan and fire drill, as well as getting the tenants to utilize the panic push button application that COAERS staff have been using for several years.

RISK CATEGORY: Legislative (Third Quartile)

Review of Recent Risk Management Activities

In 2023, COAERS, working with its governmental relations consultant and the City of Austin, achieved passage of the pension legislation, SB 1444. Additionally, several other bills filed related to ESG investing and maintaining the Board's control over the investment program failed to pass.

2024 Risk Management Activities

1. COAERS is monitoring all public pension-related activity at both the state and federal level. Currently, both the House and Senate have released their interim charges and included in both are reviews of ESG investing and its impact on fiduciary duty. The COAERS Legislative Committee will receive an update on this issue at its June Committee meeting. On the national level, the most significant legislative item is potential removal of Chinese companies from U.S. stock indices. The bill has been filed with bipartisan support, but currently has not been scheduled for a hearing in the House of Representatives. Staff anticipated this potential action and has already requested and received confirmation that its investments in emerging market indices have been separated into China and Ex-China structures. This will allow for an easier path to divestment if such action becomes legally required. Staff will continue to monitor these issues and report to the Board and appropriate Committees if legislation begins to move towards passage.
2. Staff and consultant continue to keep open communication with key stakeholders at the state level as well as leveraging relationships with both the NCPERS and NASRA organizations for communication with key stakeholders at the federal level. Furthermore, Staff regularly participate in meetings with their peers at other public retirement systems across the state and country to stay abreast of these key issues and work collaboratively where necessary to educate and inform stakeholders and lawmakers of issues and concerns related to legislation that could impact systems such as COAERS.



Risk Management Report: Personnel, Physical, and Legislative Risks

Audit and Risk Committee

June 13, 2024

2024 Enterprise Risk Management Report: Quarterly Review

	Risk Category	Risk Description	2024 Rank	2023 Rank	Risk Level 2024	Risk Level 2023	Expected Risk Level Trend (next 12 months)	Risk Response	Risk Owner	Reporting and Oversight Committee
1st Quartile Risk	MARKET	Too little or too much exposure to market risk could lead to undesirable investment outcomes.	1	2	High	High	↑	Accept	Chief Investment Officer	Investment Committee
	CYBER	Ineffective cyber security controls could lead to breaches or sabotage of COAERS systems. Unauthorized access of confidential information could result in state or federal law violations and harm the best interests of COAERS.	2	3	High	High	↑	Mitigate	Chief Information Officer	Audit and Risk Committee
	FUNDING	A lack of sound funding for the plan could lead to insufficient assets to pay for long-term benefits and financial obligations.	3	1	High	High	↓	Mitigate	Executive Director	Benefits and Services Committee
2nd Quartile Risk	COUNTERPARTY	Business partners or entities are unable to fulfill their obligations or do not complete transactions as agreed upon.	4	6	Medium	Medium	↑	Mitigate	Executive Director, Deputy Executive Director, Chief Investment Officer, Chief Financial Officer, Chief Information Officer	Investment Committee, Audit and Risk Committee, Benefits and Services Committee, and Policy Committee
	OPERATIONAL	Event causes a major business interruption	5	4	Medium	Medium	↔	Mitigate	Deputy Executive Director	Audit and Risk Committee
	PERSONNEL	Ability to attract and retain talented staff; succession planning	6	9	Medium	Medium	↑	Mitigate	Executive Director	Governance and Human Resources Committee, and Board of Trustees
3rd Quartile Risk	PHYSICAL	Inadequate facilities management; ineffective space utilization; staff effort to manage issues	7	10	Medium	Low	↑	Mitigate	Executive Director and Deputy Executive Director	Board of Trustees
	LEGISLATIVE	Legislative events lead to adverse relations, unfavorable legislation, and restricted funding	8	5	Medium	Medium	↓	Mitigate	Executive Director	Legislative Committee
	ADAPTABILITY	Inability to meet the strategic mission and vision of the organization; not achieving best outcomes for the system	9	12	Medium	Low	↑	Mitigate	Executive Director	Board of Trustees
4th Quartile Risk	REPUTATIONAL	Erosion of trust in organization either rapidly or slowly over a period of time	10	11	Low	Low	↔	Mitigate	Executive Director	Board of Trustees
	MISSION	Inability to make monthly retirement benefit payments	11	7	Low	Medium	↓	Mitigate	Executive Director and Deputy Executive Director	Audit and Risk Committee, and Investment Committee
	GOVERNANCE	Not following processes and procedures in decision making	12	8	Low	Medium	↓	Mitigate and Transfer	Board of Trustees	Governance and Human Resources Committee



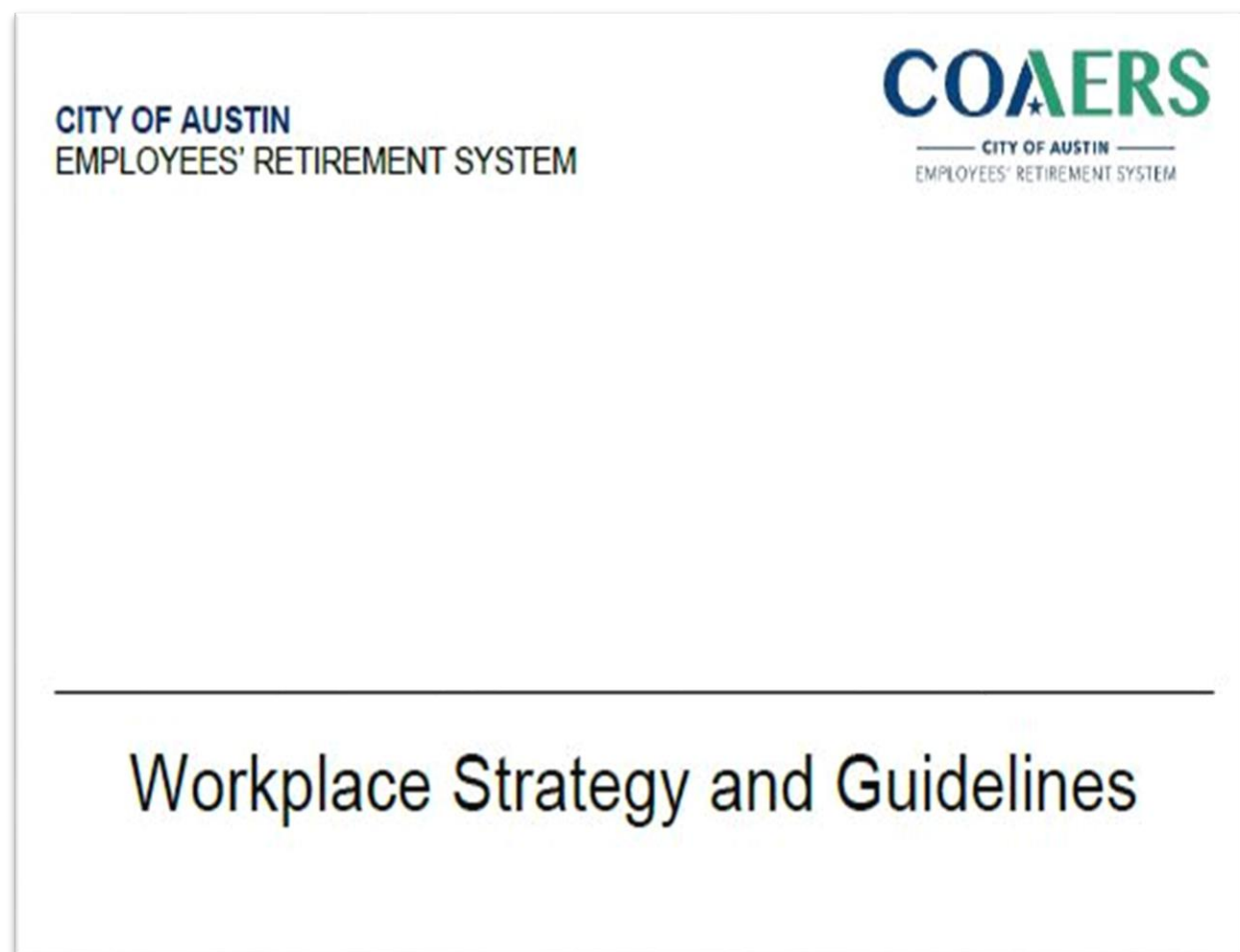


Personnel Risks

Second Quartile Risk

2nd Quartile Risk	Risk Category	Risk Description	Rank	Risk Level 2024	Risk Level 2023	Expected Risk Level Trend (next 12 months)	Risk Response	Risk Owner	Reporting and Oversight Committee		
	PERSONNEL	Ability to attract and retain talented staff; succession planning	6	Medium	Medium	↑	Mitigate	Executive Director	Governance and Human Resources Committee, and Board of Trustees		
	Current Status Summary (Trending)		2024 Risk Management Activities							Activity Status	
	In 2023, the Member Services division was restructured to provide career pathways for employees, ensure adequate staffing and backup support across the range of customer-focused services, and expand job activities for employees on the team. Additionally, each division in COAERS worked with executive management to project their near and mid-term staffing needs.								OPEN	CLOSED	
		Management to revisit existing culture statement to evaluate any needed changes							x		
		Provide training to new hires and professional development for existing staff.							x		
		Ensure thorough onboarding of new staff to promote alignment and integration into organization							x		
	Continue staffing assessment across all divisions.							x			
	Notable Risks (Root Causes)				Probability	Impact	Risk Management Strategies and Action Items				
	Employee retention and turnover				High	Medium	Cross-training for each position; Workplace Strategy and Guidelines				
Ability to attract top talent				High	Medium	Market compensation studies; Well-articulated compensation philosophy					
Employee resistance to culture change				Medium	Medium	Management promoting culture statement					
Employee burnout				Low	Medium	Health insurance; "fit to work"					
Lack of training opportunities				Low	Medium	Professional development and continuing education					
Lack of succession planning				Low	Medium	Succession planning					
Employees performing inadequately in position				Low	Medium	Performance appraisals; Professional development; Training; Personnel Policy and Employee Handbook					
Accidents/Injury/Health				Low	Medium	Workplace Safety Policy					

Personnel Risk Management



COAERS Workplace Strategy and Guidelines serve to provide clear policy around hybrid work and ensuring COAERS maintains the appropriate procedures in place to manage employee health and well-being risks such as the COVID-19 pandemic.

Professional Development
 Each supervisor and employee should establish one to three professional development opportunities each evaluation period. Examples of professional development can include continuing education, participation in professional organizations, training programs, research, and exposure to different duties and responsibilities.

Professional Development Areas	Desired Results

Every staff member works with their supervisor to develop an annual professional development plan. Board-approved budgeted funds support each staff member's plan to ensure each employee can attend and participate in their professional development activities.

Personnel Risk Management

COAERS Culture

An organizational culture identifies the skills and behaviors which places the organization in the best position to succeed. Below are the skills and behaviors which embody our culture at COAERS.

Use Good Judgment: It is important to use sound judgment and make wise decisions, even in times of ambiguity. We strive to think strategically and use data to inform our decisions.

Make an Impact: We strive for excellence in our very important work. We inspire others to be better. We are optimistic, quietly confident, and openly humble.

Collaborate and Include Others: We collaborate effectively with people of diverse backgrounds and cultures. We embrace differing perspectives to make better decisions for our organization.

Employ Thoughtful Communication: We are mindful of how and what we communicate. We listen well and seek to understand before reacting. We maintain calm poise in stressful situations to draw out our clearest thinking.

Practice Selflessness: We care about our members and we do what is best for COAERS, rather than what is best for ourselves. We are open-minded in search of the best ideas, we make time to help colleagues, and we share information openly and proactively.

Be a Problem Solver: Issues and challenges will always arise in our work. Before reacting to an issue, we take time to think through the causes and possible solutions so that when we communicate the problem, we move quickly towards finalizing a solution.

Work Smarter: We appreciate a strong work ethic. However, long hours don't necessarily produce top results. We focus on effectiveness and quality of work. We continually strive to find more effective and innovative ways of working.

Ask for and Offer Assistance: Nobody can do everything on their own, nor should they. We maintain collaborative, professional relationships with our co-workers to accomplish our shared organizational goals as a team.

Be Adaptable: Change happens. Sometimes change can happen rapidly. We adapt and respond effectively to change so that we achieve our goals as an organization.

Continue to Develop: We continually learn and develop our skills. We seek to improve ourselves, challenge prevailing assumptions, and suggest better approaches.

The workplace continues to transform - from office to remote and to hybrid to ...

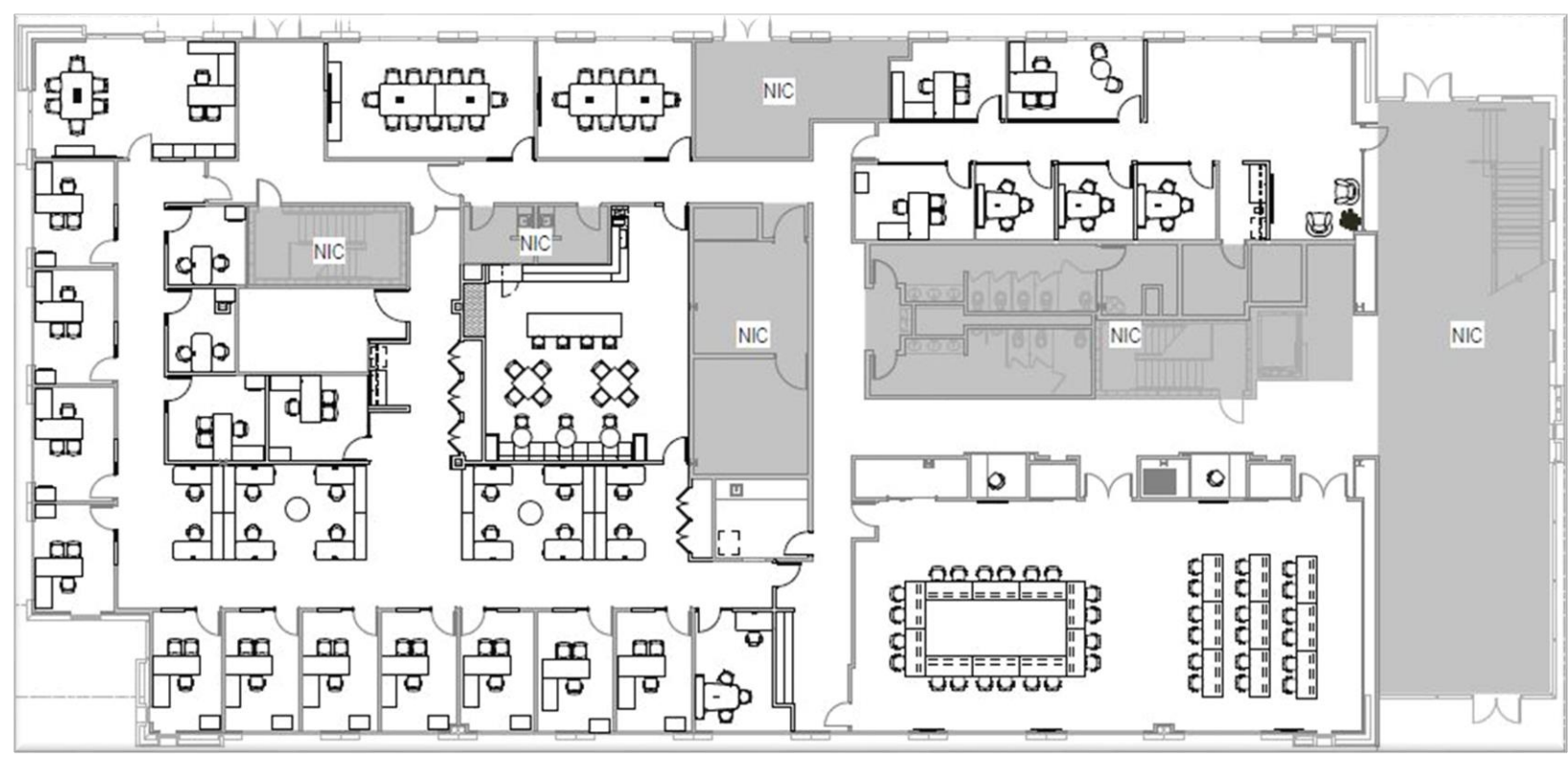
- “Workforce Strategy and Guidelines” - Updated as events change
- Constant updates from management about strategy
- Providing tools needed to be productive no matter location
- Promote productivity and controls, but allow flexibility where appropriate
- Culture promotes “Work Smarter” and “Be Adaptable”
- Promote the value of the work we perform for our members and beneficiaries



Physical Risks

Third Quartile Risk

4700 Mueller



Physical Risk Management

CITY OF AUSTIN
EMPLOYEES' RETIREMENT SYSTEM



**COAERS
Workplace Safety
Procedures**

Workplace Strategy and Guidelines

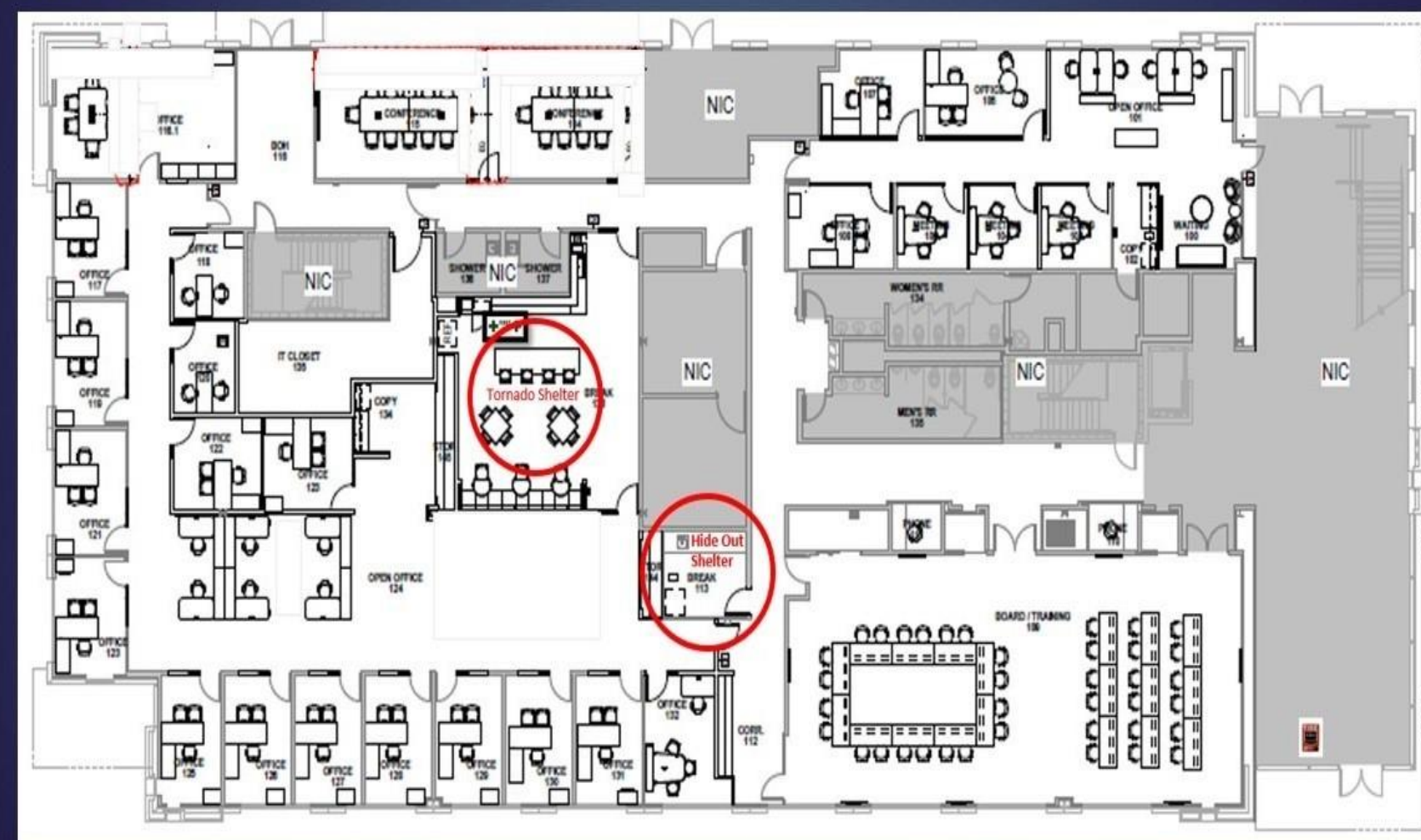
Designated Meeting Areas



Designated Meeting Locations

Safe Rooms

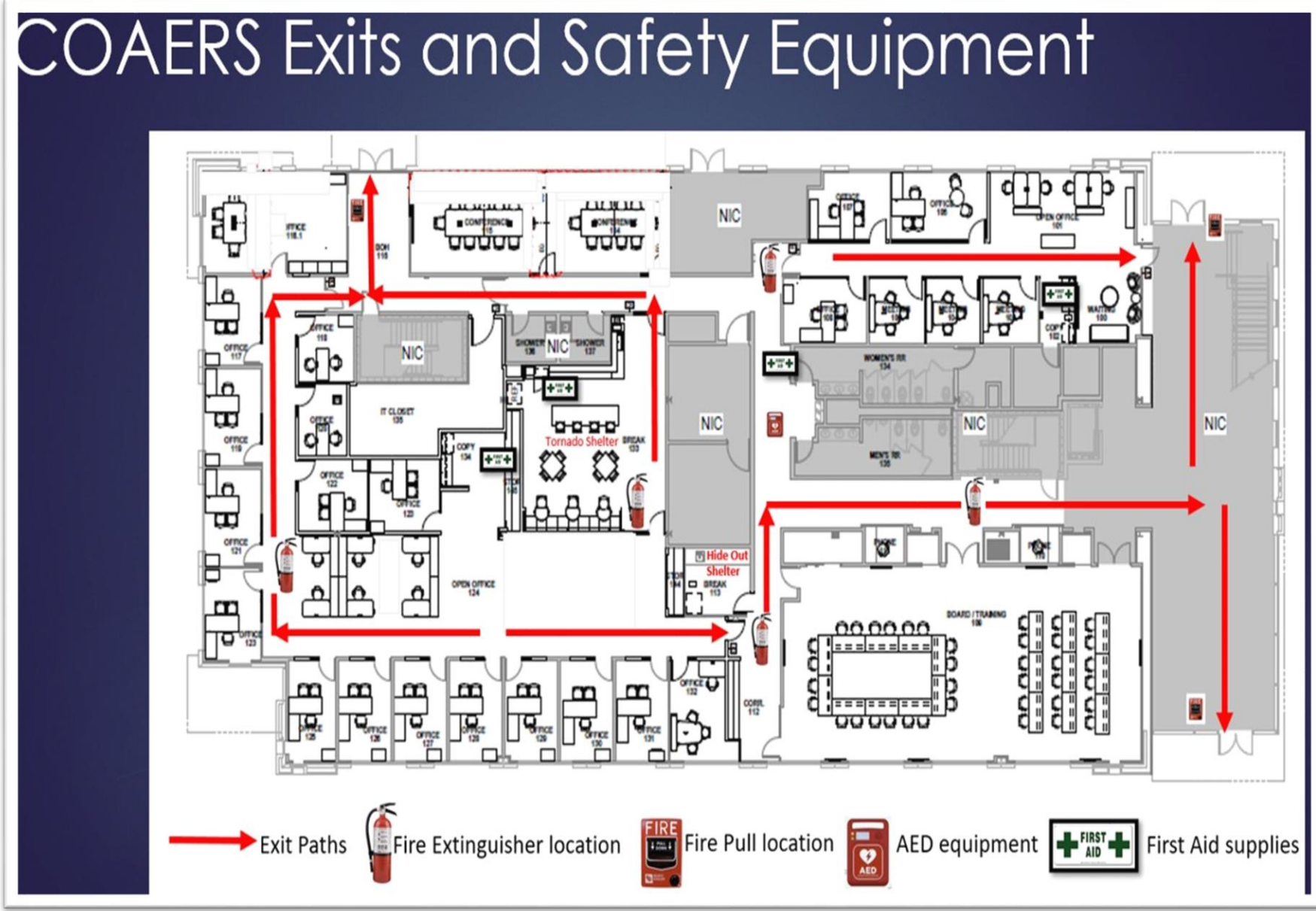
Make note of safe rooms in case of tornado or active shooter event



Designated Safe Rooms



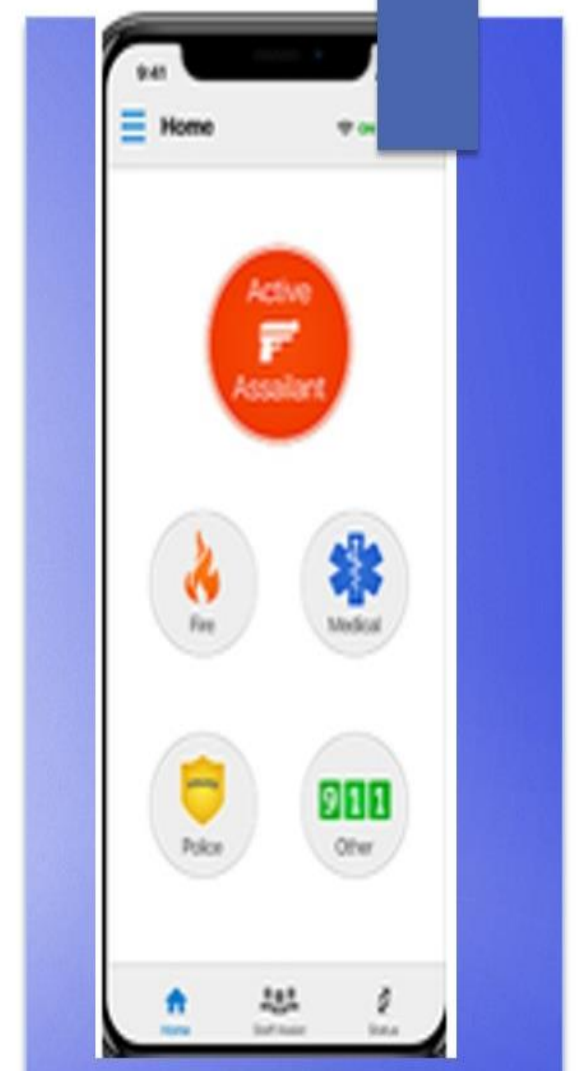
Physical Risk Management



Safety and Exit Maps for Staff Training

RAVE Cell Phone Application

- ▶ We will need you to update to the latest version of RAVE Panic Button App
- ▶ Staff will get notified of threats, fires, medical situations and various situations through the "Staff Assist" button. There is also a new feature for "Status checks" that sends us your check-in response in case of emergency.



Staff Mobile Safety App



Legislative Risks

Third Quartile Risk

3rd Quartile Risk	Risk Category	Risk Description	Rank	Risk Level 2024	Risk Level 2023	Expected Risk Level Trend (next 12 months)	Risk Response	Risk Owner	Reporting and Oversight Committee	
	LEGISLATIVE	Legislative events lead to adverse relations, unfavorable legislation, and restricted funding	7	Medium	Medium	↓	Mitigate	Executive Director	Legislative Committee	
	Current Status Summary (Trending)	2024 Risk Management Activities							Activity Status	
	Successful passage of SB 1444, along with the failure of other pension bills to pass the session, reduces risk. However, many key issues and risks remain such as ESG and China divestment, federal regulation, and anti-public sector DB policies.	Monitor key public pension policy issues at national and state levels, including 88th interim session charges							OPEN	CLOSED
		Engage and educate key policymakers regarding COAERS perspectives on related policy issues							x	
		Develop and adopt COAERS legislative agenda for 89th Session.								
		Continue to engage with City governmental relations team in preparation for 89th Session								
	Notable Risks (Root Causes)			Probability	Impact	Risk Management Strategies and Action Items				
	State forces legislative changes to plan			Medium	High	Engagement with governmental relations firms; development of legislative priorities and agenda; Increase stakeholder engagement on legislative agenda through events and meetings				
	Lack of relationships with key offices			Low	High	Communications planning for legislative agenda messaging				
Risks to the COAERS reputation elevated as the legislation grabs the attention of opponents (DB pundits; Members; Groups that oppose our legislation)			Low	High	Monitor sentiments; address concerns					
Outside organizations promoting anti-DB policies			Medium	Medium	Identify potential opposition groups and stakeholders and create unified messaging to combat misinformation					
Negative or inaccurate media content			Low	Medium	Develop relationships with industry media; Proactive media outreach; Engage consulting/crisis communications					
Social media comments			Low	Low	Social Media Policy					
Unauthorized contact with media			Low	Low	Communications Policy					
Lack of alignment with plan sponsor			Low	Medium	Develop and maintain strong communication with appropriate plan sponsor liaisons					

Legislative Risk Management



HILLCO PARTNERS
Experienced advocacy
TARGETED STRATEGIES.
Proven results.



ALEC American Legislative Exchange Council
Texas Public Policy Foundation



Local and national policy groups regularly target public defined benefit systems for adverse policy including closing those systems in favor of defined contribution plans.



The Board partners with a governmental relations consultant to help provide expertise and guidance in managing the Texas political landscape.



COAERS
CITY OF AUSTIN
EMPLOYEES RETIREMENT SYSTEM



COAERS works with the City to ensure we are on the same page on any pension-related matters that arise at the State Capitol.

Legislative Risk Management

Spartz, Sherman Introduce Four Bills to Address China Risk in the U.S. Stock Market



Recent Federal Legislation

State Affairs Committee

- **Responsible Investing:** Study the impact of environmental, social, and governance (ESG) factors on our state's public pensions, with a focus on proxy voting services. Make recommendations to ensure our state's pension systems vote and invest in accordance with their fiduciary responsibility to maximize profit. Additionally, monitor the implementation of Senate Bill 13, 87th Legislature, relating to state contracts with and investments in certain companies that boycott energy companies. Specifically, examine how a company is removed from the list of companies that boycott energy companies when the company ceases to boycott energy companies. Report on how frequently the list maintained by the comptroller is updated and make recommendations to ensure an ongoing accurate list.

Committee on Pensions, Investments & Financial Services

1. **Monitoring:** Monitor the agencies and programs under the Committee's jurisdiction and oversee the implementation of relevant legislation passed by the 88th Legislature. Conduct active oversight of all associated rulemaking and other governmental actions taken to ensure the intended legislative outcome of all legislation, including the following:
 - SB 10, relating to certain benefits paid by the Teacher Retirement System of Texas.
2. **ESG:** Examine the ways in which environmental, social, and governance (ESG) policies are contradictory to fiduciary duties and the resultant detrimental effect on investors.

Senate and House Interim Charges



7B: Cybersecurity risk category and information security program

Convene into Executive Session pursuant to Section 551.071, Texas Government Code, Section 1.05, Texas Disciplinary Rules of Professional Conduct, and Section 551.089, Texas Government Code, to consult with legal counsel and deliberate security assessments or deployments relating to information resources technology, network security information described in Section 2059.055, Texas Government Code, and deployment and implementation of security personnel, critical infrastructure, and security devices

Presented by Amy Kelley



COMMITTEE MEETING Agenda Item Information Sheet

AGENDA ITEM 7:

Receive report on COAERS Enterprise Risk Management program including the following:

- B. Cybersecurity risk category and information security program – Amy Kelley
 - 1. Convene into Executive Session pursuant to Section 551.071, Texas Government Code, Section 1.05, Texas Disciplinary Rules of Professional Conduct, and Section 551.089, Texas Government Code, to consult with legal counsel and deliberate security assessments or deployments relating to information resources technology, network security information described in Section 2059.055, Texas Government Code, and deployment and implementation of security personnel, critical infrastructure, and security devices
 - 2. Reconvene into open session to take action as determined appropriate regarding security assessments or deployments relating to information resources technology, network security information described in Section 2059.055, Texas Government Code, and deployment and implementation of security personnel, critical infrastructure, and security devices

RECOMMENDATION FOR COMMITTEE ACTION

For informational purposes; no action required.

RELEVANCE TO STRATEGIC PLAN

This agenda item meets **COAERS Strategic Plan Goal 2: Responsibly manage the risks of the System.** The Committee's regular review of COAERS Enterprise Risk Management System is one of the strategic objectives of Goal 2 and a key performance indicator is the successful implementation of all annual risk management activities.

Reconvene into open session to take action as determined appropriate regarding security assessments or deployments relating to information resources technology, network security information described in Section 2059.055, Texas Government Code, and deployment and implementation of security personnel, critical infrastructure, and security devices

8. Receive report on the first quarter 2024 unaudited financial statements

Presented by Yun Quintanilla



COMMITTEE MEETING Agenda Item Information Sheet

AGENDA ITEM 8:

Receive report on the first quarter 2024 unaudited financial statements

AGENDA ITEM OBJECTIVE

This item presents the unaudited March 31, 2024 financial statements which show the net position of the fund and related financial details.

RECOMMENDATION FOR COMMITTEE ACTION

For informational purposes only; no action required.

RELEVANCE TO STRATEGIC PLAN

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

ATTACHMENT

1. COAERS unaudited financial statements for the period ending March 31, 2024, including the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM
Statement of Fiduciary Net Position
March 31, 2024

	<u>Unaudited</u>		<u>Variance</u>
	<u>3/31/2024</u>	<u>3/31/2023</u>	Favorable (Unfavorable)
Assets			
Cash - operating account	\$ 18,650,081	\$ 17,715,698	\$ 934,383
Receivables	101,463	79,539	21,924
Total cash and receivables	<u>18,751,544</u>	<u>17,795,237</u>	<u>956,307</u>
Investments, at fair value:			
US equities	1,219,084,067	1,044,705,233	174,378,834
DM Equities	536,882,833	481,281,104	55,601,729
EM Equities	220,195,188	202,093,159	18,102,029
Fixed income	567,806,156	581,489,402	(13,683,246)
Real assets	440,895,832	470,475,392	(29,579,560)
Multi-asset	140,241,748	154,506,270	(14,264,522)
Cash and cash equivalents	231,721,845	103,248,131	128,473,714
Total investments	<u>3,356,827,669</u>	<u>3,037,798,691</u>	<u>319,028,978</u>
Capital assets, net of depreciation	32,232,160	32,089,454	142,706
Total assets	<u>3,407,811,373</u>	<u>3,087,683,382</u>	<u>320,127,991</u>
Liabilities			
Payables:			
Accrued expenses	352,999	430,032	77,033
Payables and deposits - Mueller	393,563	1,629,682	1,236,119
Refunds and death benefits payable	4,131,667	3,616,442	(515,225)
Total liabilities	<u>4,878,229</u>	<u>5,676,156</u>	<u>797,927</u>
Net position restricted for pensions	<u><u>\$ 3,402,933,144</u></u>	<u><u>\$ 3,082,007,226</u></u>	<u><u>\$ 320,925,918</u></u>

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM
Statement of Changes in Fiduciary Net Position
For the Three Months Ending March 31, 2024

	Unaudited		Variance
	3/31/2024	3/31/2023	Favorable (Unfavorable)
Additions:			
Contributions:			
Employer contributions	\$ 45,218,522	\$ 36,380,548	\$ 8,837,974
Employee contributions	19,256,423	15,203,886	4,052,537
Creditable service purchases	287,737	1,729,694	(1,441,957)
Total contributions	64,762,682	53,314,128	11,448,554
Investment Income:			
Realized gain/(loss) on investments	22,874,493	(4,657,070)	27,531,563
Unrealized gain/(loss) on investments	99,464,381	132,259,358	(32,794,977)
Net investment appreciation (depreciation) in fair value of investments	122,338,874	127,602,288	(5,263,414)
Dividends	6,418,488	6,926,263	(507,775)
Interest	6,649,030	4,626,851	2,022,179
Investment appreciation (depreciation) before expenses	135,406,392	139,155,402	(3,749,010)
Investment expenses:			
Investment manager fees	1,066,646	1,095,524	28,878
Custodial fees	65,000	65,000	-
Commissions & other fees	14,671	21,346	6,675
Investment consultant fees	76,246	74,026	(2,220)
Investment legal counsel	18,520	256	(18,264)
Staff continuing education & site visits	3,949	2,155	(1,794)
Investment staff resources	152,986	72,900	(80,086)
Total investment expenses	1,398,018	1,331,207	(66,811)
Net Investment appreciation (depreciation)	134,008,374	137,824,195	(3,815,821)
DDA interest Income	265,205	153,569	111,636
Rent Income - Mueller	491,805	72,236	419,569
Total additions (deductions)	199,528,066	191,364,128	8,163,938
Deductions:			
Retirement annuities	67,992,035	64,254,708	(3,737,327)
Contributions refunded to terminating employees	1,211,824	490,177	(721,647)
DROP disbursements	1,514,748	676,182	(838,566)
Retiree lump-sum annuity	1,167,490	960,973	(206,517)
Death benefits	1,102,816	879,471	(223,345)
Total benefit payments, including refunds of member contributions	72,988,913	67,261,511	(5,727,402)
General and administrative expenses	1,950,346	1,754,899	(195,447)
Expenses - Mueller	367,979	136,253	(231,726)
Total deductions	75,307,238	69,152,663	(6,154,575)
Net increase/(decrease) in net position	124,220,828	122,211,465	2,009,363
Net position restricted for pensions:			
Beginning of year	3,278,712,316	2,959,795,761	318,916,555
End of period	\$ 3,402,933,144	\$ 3,082,007,226	\$ 320,925,918

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

Presented by Michael Benson



COMMITTEE MEETING Agenda Item Information Sheet

AGENDA ITEM 9:

Review key meeting takeaways and call for future agenda items

AGENDA ITEM OBJECTIVE

This standing agenda item provides Trustees the opportunity to review the key takeaways from the meeting.

RECOMMENDATION FOR COMMITTEE ACTION

Trustees will review key meeting takeaways and delineate next steps.

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**. 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.

2024 Audit and Risk Committee Work Plan

Scheduled Quarterly Meetings

1. March meeting
 - ✓ Required Communications for 12/31/2023 Financial Statement Audit
 - ✓ Quarterly review of Enterprise Risk Management Program
 - ✓ Quarterly Financial Statements
 - ✓ Fraud, Waste, and Abuse Policy
2. June meeting
 - ✓ 12/31/2023 Financial Statement Audit presentation
 - ✓ Quarterly review of Enterprise Risk Management Program
 - ✓ Review of Cybersecurity Program
 - ✓ Quarterly Financial Statements
 - ✓ Travel Reimbursement Policy
3. August meeting
 - Quarterly review of Enterprise Risk Management Program
 - Review of Cybersecurity Program
 - Annual review of financial audit service provider and renewal decision
 - Quarterly Financial Statements
4. November meeting
 - Annual review of Enterprise Risk Management Program
 - Enterprise Risk Management Policy
 - Review of Cybersecurity Program
 - Quarterly Financial Statements
 - Engagement Letter - Auditor
 - 2025 Committee Work Plan