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| Schedule | Thursday, June 15, 2023 10:30 AM — 11:30 AM CDT |
| Venue | 6850 Austin Center Blvd., Suite 320, Austin, TX 78731 |
| Organizer | Sarah McCleary |

Agenda

| | |
|---|----|
| 1. Call roll of Committee members | 1 |
| Presented by Brad Sinclair | |
|  Item #1 Summary.docx | 2 |
| <hr/> | |
| 2. Review order of business and meeting objectives | 3 |
| Presented by Brad Sinclair | |
|  Item #2 Summary.docx | 4 |
| <hr/> | |
| 3. Consider approval of the March 9, 2023 Audit and Risk Committee minutes | 5 |
| Presented by Brad Sinclair | |
|  Item #3 Summary.docx | 6 |
|  2023 03 09 Audit and Risk Committee Minutes.docx | 7 |
| <hr/> | |
| 4. Discuss and consider acceptance of financial statement audit report as of December 31, 2022 | 10 |
| Presented by Bhakti Patel, CLA | |
|  00 Item #4 Summary.docx | 11 |
|  01 Auditors Report.pdf | 12 |
|  02 Governance Letter.pdf | 15 |
|  03 Audit Committee Communications Presentation.pptx | 23 |
|  ACFR 2022 - Financial Section.pdf | 31 |

| | |
|---|-----|
| 5. Discuss and consider the COAERS Enterprise Risk Management program including the following risk categories: operations, counterparty, mission, and personnel | 67 |
| Presented by Christopher Hanson | |
|  Item 5 Summary.docx | 68 |
|  05 ERM Report June 2023.pptx | 69 |
|  Risk Management Dashboard June 2023.pdf | 94 |
| <hr/> | |
| 6. Receive Staff reports on the following matters: | 107 |
| A. First quarter 2023 unaudited financial statements | |
| B. Cybersecurity update | |
| <hr/> | |
| 6A. First quarter 2023 unaudited financial statements | 108 |
| Presented by Yun Quintanilla | |
|  Item #6A Summary.docx | 109 |
|  Unaudited Financial Statements Mar. 31, 2023 and 2022.pdf | 110 |
| <hr/> | |
| 6B. Cybersecurity update | 112 |
| Presented by Amy Kelley | |
|  Item #6b Summary.docx | 113 |
|  06B Confidential CybersecurityProgramQ2_23.pptx | 114 |
| <hr/> | |
| 7. Review key meeting takeaways and call for future agenda items | 124 |
| Presented by Brad Sinclair | |
|  Item #7 Summary.docx | 125 |
|  2023 Audit and Risk Committee Work Plan.docx | 126 |
| <hr/> | |

1. Call roll of Committee members

Presented by Brad Sinclair



**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 Brad Sinclair



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.

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.

MEETING OBJECTIVES

1. The Committee will consider acceptance of the financial statement audit report as of December 31, 2022
2. The Committee will review the Enterprise Risk Management Report and dashboard and discuss the following four risk categories: operations, counterparty, mission, and personnel.
3. The Committee will receive Staff reports on first quarter 2023 unaudited financial statements and a cybersecurity update.

3. Consider approval of the March 9, 2023
Audit and Risk Committee minutes
Presented by Brad Sinclair



COMMITTEE MEETING Agenda Item Information Sheet

AGENDA ITEM 3:

Consider approval of the March 9, 2023 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.

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.*”

RECOMMENDATION FOR COMMITTEE ACTION

Staff recommends approval of the minutes of the March 9, 2023 Audit and Risk Committee meeting.

ATTACHMENT

1. Draft minutes of March 9, 2023 Audit and Risk Committee meeting



MINUTES

AUDIT AND RISK COMMITTEE

Public Meeting held in-person and telephonically on March 9, 2023 at 10:45 a.m. CT
Pursuant to Texas Govt. Code 551.127 – COVID-19 circumstances

Committee Members Present/(Absent)

Michael Benson,
Committee Chair
Michael Granof
Amy Hunter†
Dick Lavine†
Anthony Ross

Guests:

Paige Saenz, General
Counsel
Bhakti Patel, CLA
Roy Cobb, CLA*

Other Board Trustees Present/(Absent)

Kelly Crook
(Yuejiao Liu)
Chris Noak†
(Leslie Pool)
Brad Sinclair
Diana Thomas

Others Present

Staff:

Christopher Hanson
Sarah McCleary
Russell Nash
Teresa Cantu*
Jenni Bonds
Yun Quintanilla
Mehrin Rahman
Cathy Edwards*
Michelle Mahaini*
David Kushner*

*present telephonically

† present videoconference

1 **Call roll of Committee members**

Committee Chair Michael Benson called the meeting to order at 10:53 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 establish meeting objectives**

Committee Chair Benson reviewed the order of business and meeting objectives with the Committee.

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.

3 **Review 2023 Audit and Risk Committee Work Plan**

Mr. Christopher Hanson presented the Audit and Risk Committee Work Plan for 2023. Trustees discussed it and gave general approval.

4 Consider approval of the November 10, 2022 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 10, 2022 minutes as presented. Mr. Michael Granof seconded, and the motion passed 4-0.

5 Discuss and consider the December 31, 2021 financial statements including the following:

A. Review of the unaudited 2022 year-end financial statements

Ms. Amy Hunter arrived via videoconference at 11:08 a.m.

Ms. Yun Quintanilla presented the 2022 year-end unaudited financial statements that showed the net position compared to year-end 2021.

B. 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, 2022 financial statement audit. Ms. Patel reported that the 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. Patel received input and answered questions from Trustees about the timeline and the audit approach.

6 Discuss and consider the Enterprise Risk Management Policy and Report including the following:

A. Receive report on the following risk categories: funding, market, and legislative

Mr. Christopher Hanson presented a report on three of the key Enterprise Risk Management categories focusing on current risk trends and mitigation activities. Mr. Hanson covered trends and activities related to funding, market, and legislative risks. Trustees discussed the risk and provided feedback on the report.

B. Receive report on the cybersecurity risk

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

Trustees convened into Executive Session at 11:42 a.m. and reconvened into Public Session at 11:58 a.m.

7 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 11:59 a.m.

DRAFT

4. Discuss and consider acceptance of
financial statement audit report as of
December 31, 2022

Presented by Bhakti Patel, CLA



COMMITTEE MEETING Agenda Item Information Sheet

AGENDA ITEM 4:

Discuss and consider acceptance of financial statement audit report
as of December 31, 2022

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, 2022 financial statement audit.

RELEVANCE TO STRATEGIC PLAN

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

RECOMMENDATION FOR COMMITTEE ACTION

Staff recommends the Committee refer to the Board the acceptance of the December 31, 2022 financial statements and auditor's report from CliftonLarsonAllen (CLA).

BACKGROUND

The statutes that govern COAERS require an annual independent audit of the System's accounts performed by a certified public accounting firm. CLA has been engaged to perform the financial audit for fiscal year ended December 31, 2022. Ms. Bhakti Patel from CLA will provide required communications.

ATTACHMENTS

1. Independent Auditor's Report
2. Governance Letter
3. Committee Presentation Slide Deck
4. Financial Section of COAERS December 31, 2022 Annual Comprehensive Financial Report

SUPPLEMENTAL MATERIAL AVAILABLE VIA CONVENE APP

1. December 31, 2022 COAERS Annual Comprehensive Financial Report



CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the City of Austin Employees' Retirement System as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the City of Austin Employees' Retirement System's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Austin Employees' Retirement System as of December 31, 2022 and 2021, and the changes in financial 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 Directors
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 Directors
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 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 audits were 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, General & Administrative, and Professional Services and Consultant Expenses (as referenced in the table of contents) is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits 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, 2023



CliftonLarsonAllen LLP
CLAconnect.com

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

We have audited the financial statements of the of City of Austin Employees' Retirement System as of and for the year ended December 31, 2022, and have issued our report thereon dated May 31, 2023. 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 October 7, 2022. 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 2022.

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 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 attached management representation letter dated May 31, 2023.

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.

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, 2023.

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 Audit and Risk Committee of the Board of Directors 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, 2023



May 31, 2023

CliftonLarsonAllen LLP
11501 Burnet Road, Bldg 906, Suite 125
Austin, TX 78758

This representation letter is provided in connection with your audit of the financial statements of City of Austin Employees' Retirement System, which comprise the fiduciary net position as of December 31, 2022, and the related changes in fiduciary net position for the year then ended, and the related notes to the financial statements, for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to misstatements that are material. Misstatements, including omissions, 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.

We confirm, to the best of our knowledge and belief, as of May 31, 2023, the following representations made to you during your audit of the financial statements as of and for the year ended December 31, 2022.

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement agreement dated October 7, 2022, for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP.
2. We acknowledge and have fulfilled our responsibility 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.
3. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
5. Significant estimates have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP. Significant estimates are estimates at the financial statement date that could change materially within the next year.
6. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.

7. All significant plan amendments, adopted during the period or subsequent to the date of the financial statements, and their effects on benefits and fiduciary net position have been disclosed in the financial statements.
8. All events occurring subsequent to the date of the financial statements and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.
9. We have not identified or been notified of any uncorrected financial statement misstatements.
10. We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements in accordance with U.S. GAAP, and we have not consulted a lawyer concerning litigation, claims, or assessments.
11. We have analyzed all lease contracts and have considered and recorded material embedded leases contained within other contracts in accordance with U.S. GAAP.
12. The methods and significant assumptions used to determine fair values of financial instruments are disclosed in note 5c.. The methods and significant assumptions used result in a measure of fair value appropriate for financial statement measurement and disclosure purposes.
13. We have no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or equity.
14. Capital assets have been evaluated for impairment as a result of significant and unexpected decline in service utility. Impairment loss and insurance recoveries have been properly recorded.
15. We believe that all material expenditures that have been deferred to future periods will be recoverable.
16. We believe that the actuarial assumptions and methods used to measure pension liabilities and costs for financial accounting purposes are appropriate in the circumstances.
17. We believe the plan and trust established under the plan are qualified under the appropriate section of the Internal Revenue Code, and we intend to continue them as a qualified plan and trust.
18. We are not aware of any present legislative intentions to terminate the plans.
19. All material concentrations have been properly disclosed in accordance with U.S. GAAP. We understand that concentrations include the nature and type of investments held by the entity, or markets for which events could occur which would significantly disrupt normal finances within the next year.

Information Provided

1. We have provided you with:
 - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters.
 - b. Additional information that you have requested from us for the purpose of the audit.

- c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - d. Complete minutes of the meetings of the governing board and related committees, or summaries of actions of recent meetings for which minutes have not yet been prepared.
 - e. All actuarial valuation reports prepared for the plan during the year.
2. All transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have no knowledge of any fraud or suspected fraud that affects the entity and involves:
 - a. Management;
 - b. Employees who have significant roles in internal control; or
 - c. Others when the fraud could have a material effect on the financial statements.
5. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, regulators, or others.
6. We have no knowledge of any instances of noncompliance or suspected noncompliance with laws and regulations and provisions of contracts, or abuse whose effects should be considered when preparing financial statements.
7. We are not aware of any pending or threatened litigation, claims, or assessments, or unasserted claims or assessments, that are required to be accrued or disclosed in the financial statements in accordance with U.S. GAAP, and we have not consulted a lawyer concerning litigation, claims, or assessments.
8. There are no other material liabilities or gain or loss contingencies that are required to be accrued or disclosed in accordance with U.S. GAAP.
9. We have disclosed to you the identity of all the entity's related parties and all the related party relationships and transactions of which we are aware, including any side agreements.
10. We are responsible for compliance with the laws, regulations, and provisions of contracts applicable to the entity; and we have identified and disclosed to you all laws, regulations, and provisions of contracts that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
11. There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts, or any debt

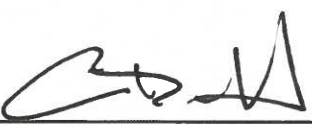
covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.

12. The entity has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
13. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
14. Investments, derivative instruments, and land and other real estate held by endowments are properly valued.
15. The values of non-readily marketable investments represent good faith estimates of fair value. The methods and significant assumptions used result in a measure of fair value appropriate for financial measurement and disclosure purposes.
16. Provisions for uncollectible receivables have been properly identified and recorded.
17. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
18. Deposits and investment securities and derivative instruments are properly classified as to risk and are properly valued and disclosed.
19. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
20. We have obtained the service auditor's report from our service organization Bank of New York Mellon. We have reviewed such report, including the complementary user controls. We have implemented the relevant user controls, and they were in operation for the year ended 2022.
21. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
22. We acknowledge our responsibility for presenting the Investment, General & Administrative, and Professional Services and Consultant Expenses (the supplementary information) in accordance with U.S. GAAP, and we believe the supplementary information, including its form and content, is fairly presented in accordance with U.S. GAAP. The methods of measurement and presentation of the supplementary information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information. If the supplementary information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditors' report thereon.

- 23. We acknowledge our responsibility for the preparation of the other information included in our annual report, which is comprised of the Introductory, Investment, Actuarial, and Statistical sections (other information). The other information is consistent with the financial statements and does not contain any material misstatements. With regard to the other information that has not been provided to you, the final version of the documents will be provided to you when available, and prior to issuance of the annual report by the entity, so that you can complete your required procedures. We agree to correct material inconsistencies that you may identify.

- 24. As part of your audit, you prepared the draft Schedule of Pension Amounts and related notes. We have designated an individual who possesses suitable skill, knowledge, and/or experience to understand and oversee your services; have made all management judgments and decisions; and have assumed all management responsibilities. We have evaluated the adequacy and results of the service. We have reviewed, approved, and accepted responsibility for those financial statements, related notes, and supplementary information. We have also ensured that the entity's data and records are complete and received sufficient information to oversee the service.

- 25. In regards to the preparation of the Schedule of Pension Amounts and related notes performed by you, we have:
 - a. Made all management judgments and decisions and assumed all management responsibilities.
 - b. Designated an individual who possesses suitable skill, knowledge, and/or experience to understand and oversee the services.
 - c. Evaluated the adequacy and results of the services performed.
 - d. Accepted responsibility for the results of the services.
 - e. Ensured that the entity's data and records are complete and received sufficient information to oversee the services.

Signature:  Title: Executive Director
Christopher Hanson

Signature:  Title: Chief Financial Officer
Yun Quintanilla



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City of Austin Employees' Retirement System – Fiscal Year 2022 External Audit



Summary

Results of Professional Services

Required Communications

| Topic | Communication |
|---|---|
| Significant Accounting Policies | <ul style="list-style-type: none">• 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 Accounting Estimates | <ul style="list-style-type: none">• 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 |
| Significant Financial Statement Disclosures | <ul style="list-style-type: none">• Fair value measurements – Note 4 |
| Significant Unusual Transactions | <ul style="list-style-type: none">• No significant unusual transactions |



Required Communications

| Topic | Communication |
|--|--|
| Supplementary Information | <ul style="list-style-type: none">• 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 |
| Management Representation Letter | <ul style="list-style-type: none">• Management provided signed representation letter prior to finalization of the audit report |
| Other | <ul style="list-style-type: none">• 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 |
| Form and Content of the Auditors' Report | <ul style="list-style-type: none">• Unmodified |

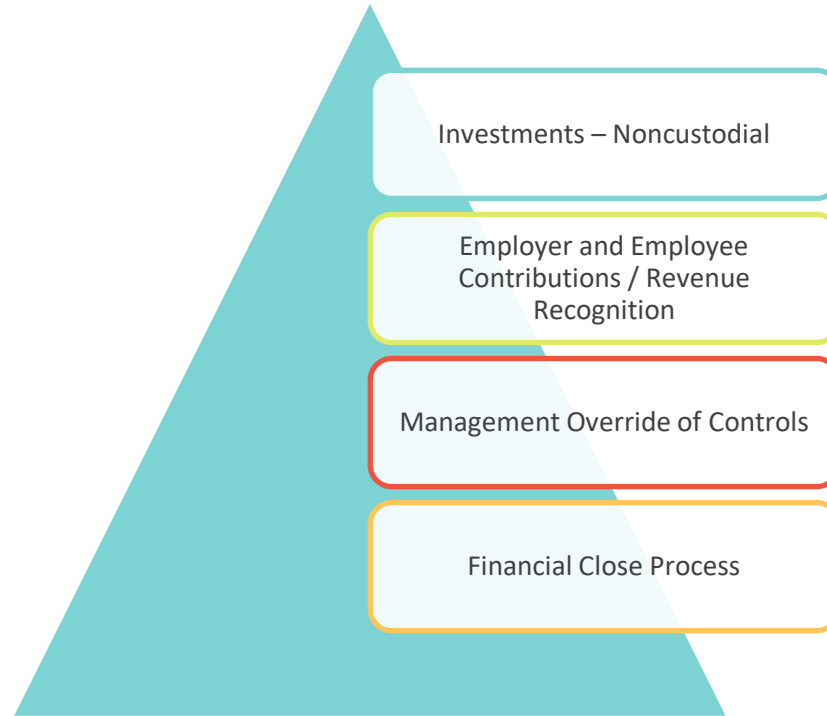


Internal Control Matters

| Topic | Communication |
|--------------------------|---|
| Purpose | <ul style="list-style-type: none">• Express an opinion on the financial statements, not on the effectiveness of internal control.• Our consideration of internal control was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to fraud or error may occur and not be detected by such controls. |
| Material Weakness | <ul style="list-style-type: none">• Reasonable possibility that a material misstatement would not be prevented, or detected and corrected, on a timely basis. |
| Significant Deficiencies | <ul style="list-style-type: none">• Less severe than a material weakness, yet important enough to merit the attention of governance. |
| Restricted Use | <ul style="list-style-type: none">• This communication is intended solely for the information and use of management, those charged with governance, and others within the entity, and is not intended to be, and should not be, used by anyone other than these specified parties. |
| Results | <ul style="list-style-type: none">• No material weaknesses identified |



Significant Risk Areas



Report on the
Financial
Statements

Report on Schedule
of Pension
Amounts
(to City of Austin)

Governance
Communication

Bhakti Patel, CPA, Principal
State and Local Government
Bhakti.Patel@CLAconnect.com
512.276.6053



CLAconnect.com



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FINANCIAL SECTION





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INDEPENDENT AUDITORS' REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the City of Austin Employees' Retirement System as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the City of Austin Employees' Retirement System's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the City of Austin Employees' Retirement System as of December 31, 2022 and 2021, and the changes in financial 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 Directors
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 Directors
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 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 audits were 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, General & Administrative, and Professional Services and Consultant Expenses (as referenced in the table of contents) is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits 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, 2023

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 2022 and 2021. We encourage readers to consider the information presented here in conjunction with our financial statements that follow.

FINANCIAL HIGHLIGHTS

Net position held in trust by the System decreased by \$605.4 million, or 17.0%, in 2022, and increased by \$365.6 million, or 11.4%, in 2021. All changes primarily correlate with investment returns.

Contributions increased by \$7.8 million, or 3.7%, in 2022, and by \$5.9 million, or 2.9%, in 2021. The 2022 increase was due to a \$5.4 million increase in employer contributions, an increase of \$2.4 million in employee contributions, and a small increase in employee creditable service purchases. The 2021 increase was due to a \$7.3 million increase in the City's supplemental funding, an increase of \$4.7 million in employee and employer contributions based on payroll, and a \$6.1 million decrease in employee creditable service purchases.

The amount of benefits paid to retired members and beneficiaries and refunded to terminated employees increased by approximately \$17.2 million or 6.9% during 2022. It increased by approximately \$15.8 million or 6.8% during 2021. 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 \$48.5 million in 2022 and by \$39.1 million in 2021.

The System's time-weighted rate of return on investments for the year ended December 31, 2022, was -15.4% gross of fees, and -15.6% net of fees, on a fair value basis, which was a decrease from the return of 13.2% gross of fees and 13.0% net of fees for the year ended December 31, 2021. The actuarial investment return assumption is 6.75%.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

Financial Statements

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

(CONTINUED)

These two statements report the System’s net fiduciary position held in trust for pension benefits (net position restricted for pensions), the difference between assets and liabilities, as one way to measure COAERS’ financial position. Over time, increases and decreases in net position are one indicator of whether 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, 2022, 2021, 2020**

| Assets | 2022 | 2021 | 2020 |
|---|-------------------------|----------------------|----------------------|
| Cash and receivables | \$ 72,077,402 | 33,705,576 | 24,715,443 |
| Other current assets | 343,578 | - | - |
| Investments | 2,940,262,105 | 3,535,433,558 | 3,179,458,128 |
| Capital assets, net | 3,403,389 | 4,125,172 | 4,825,644 |
| Total assets | <u>3,016,086,474</u> | <u>3,573,264,306</u> | <u>3,208,999,215</u> |
| Liabilities | | | |
| Total liabilities | <u>56,290,713</u> | <u>8,104,462</u> | <u>9,432,632</u> |
| Net position restricted for pensions | <u>\$ 2,959,795,761</u> | <u>3,565,159,844</u> | <u>3,199,566,583</u> |

Assets

As shown in the table above, assets decreased by \$557.2 million in 2022 and increased by \$364.3 million in 2021, due primarily to the changes in the value of investments.

- During 2022, there was a \$38.4 million increase in the net amount of cash and receivables; this resulted from an \$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 2022, there was a \$0.3 million increase in other current assets.
- During 2021, there was a \$9.0 million increase in the net amount of cash and receivables; this resulted from a \$9.5 million increase in the amount of cash, which was offset by a \$1.3 million decrease in investment receivables and an increase of \$0.8 million in contributions and other receivables.
- In 2022, investments decreased by \$595.2 million; in 2021, investments increased by \$356.0 million, reflective of the changes in the financial markets.
- In both 2022 and 2021, the decrease in capital assets reflects depreciation of furniture and equipment.

(CONTINUED)

Liabilities

Liabilities increased by \$48.2 million in 2022 and decreased by \$1.3 million in 2021. These fluctuations were primarily due to changes in trades pending settlement.

**Summary of Changes in Fiduciary Net Position
Years Ended December 31, 2022, 2021, 2020**

| | 2022 | 2021 | 2020 |
|--|-------------------------|----------------------|----------------------|
| Additions: | | | |
| Contributions | \$ 215,988,408 | 208,237,660 | 202,383,445 |
| Investment appreciation (depreciation) | (544,614,281) | 417,958,864 | 313,802,945 |
| Investment expenses | 5,599,635 | 6,749,253 | 6,513,904 |
| Net investment appreciation (depreciation) | <u>(550,213,916)</u> | <u>411,209,611</u> | <u>307,289,041</u> |
| Other income | 126,935 | 962 | 175 |
| Total additions (deductions) | <u>(334,098,573)</u> | <u>619,448,233</u> | <u>509,672,661</u> |
| Deductions: | | | |
| Benefit payments and contribution refunds | 264,501,872 | 247,326,473 | 231,564,618 |
| General and administrative expenses | 6,763,638 | 6,528,499 | 6,594,536 |
| Total deductions | <u>271,265,510</u> | <u>253,854,972</u> | <u>238,159,154</u> |
| Net increase (decrease) in net position | (605,364,083) | 365,593,261 | 271,513,507 |
| Net position restricted for pensions: | | | |
| Beginning of year | <u>3,565,159,844</u> | <u>3,199,566,583</u> | <u>2,928,053,076</u> |
| End of year | <u>\$ 2,959,795,761</u> | <u>3,565,159,844</u> | <u>3,199,566,583</u> |

Additions

Additions needed to fund benefits are accumulated through contributions and returns on investments. Contributions from COAERS members and the City of Austin for 2022 and 2021 totaled \$216.0 million and \$208.2 million, respectively. The 2022 contributions represent an increase of \$7.8 million, or 3.7% above 2021. The 2021 contributions represent an increase of \$5.9 million, or 2.9% above 2020. The 2022 increase was due to an increase in base salaries on which employee and employer contributions are made. The increase in 2021 was due primarily to an increase in the City's supplemental funding from 18% to 19% starting in January 2021.

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. In 2021, the net investment income on the fair value of securities was \$411.2 million, an increase of \$103.9 million from 2020. In 2022, interest and dividend income generated income of \$47.9 million, an increase from the 2021 income of \$8.2 million. In 2022, investment expenses decreased by \$1.1 million; in 2021, investment expenses increased by \$0.2 million. The total rate of return (net of fees) for the System's investment portfolio in 2022 was -15.6%; in 2021 it was 13.0%.

(CONCLUDED)

Deductions

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

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 terminated 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.

Benefits paid in 2021 were \$243.1 million, an increase of \$15.2 million from payments made in 2020, which is consistent with an increase in the number of retirees to 7,221 in 2021. Refunds to terminated employees were \$4.3 million, an increase of \$0.6 million over 2020. Administrative expenses in 2021 were \$6.5 million, a decrease of \$0.1 million, or 1.0% from 2020.

Overall Analysis

Overall, as of December 31, 2022, net position decreased by \$605.4 million, or 17.0%, from the prior year; over the three-year period ending December 31, 2022, net position increased by 1.1%.

REQUEST FOR INFORMATION

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

| | 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.

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

See accompanying notes to financial statements.

STATEMENT OF 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.

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

YEAR ENDED DECEMBER 31, 2021

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

See accompanying notes to financial statements.

NOTE 1: PLAN DESCRIPTION

Plan Administration

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

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

- 4 Active members elected by the active membership
- 2 Retired members elected by the retired membership
- 2 City Council appointed citizen members
- 1 Board appointed citizen member
- 1 City Manager of the City of Austin or designee
- 1 City Council Member

Plan Membership

Participating employees include all regular, full-time employees who work at least 30 hours per week, except for civil service firefighters and civil service police officers. On December 31, 2022, 2021, and 2020 membership consisted of the following:

| | 2022 | 2021 | 2020 |
|---|---------------|---------------|---------------|
| Inactive plan members or beneficiaries currently receiving benefits | 7,530 | 7,221 | 6,963 |
| Inactive plan members entitled to but not yet receiving benefits | 3,934 | 3,459 | 3,118 |
| Active plan members | 10,438 | 10,228 | 10,138 |
| Total plan members | 21,902 | 20,908 | 20,219 |

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. Effective January 1, 2001, the System approved a 3.5% ad hoc retiree increase and a 2.5% increase effective January 1, 2002.

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

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

The following apply to both Group A and Group B:

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

Contributions

Section 10 of Article 6243n of the Texas Civil Statutes sets the minimum contribution requirements of the City of Austin and active plan members. For the year ended December 31, 2022 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.

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 El Paso City Employees' Pension Fund and Firemen and Policemen's Pension Fund, Employees Retirement System of Texas, Judicial Retirement System of Texas I & II, Texas Municipal Retirement System, Texas County and District Retirement System, Teacher Retirement System of Texas, or any other Texas retirement systems covering municipal employees 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 is effective as of January 1, 2000 and is intended to be a “qualified governmental excess benefit arrangement” within the meaning of Section 415(m) of the Internal Revenue Code, and shall be construed, interpreted, and administered in accordance with such provision. The Restoration Plan shall be administered as an unfunded plan which is not intended to meet the qualification requirements of Section 401 of the Internal Revenue Code. Eligible members are those who are members in the Plan whose pension or pension related benefits under the Plan are limited due to the provision of Section 415(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, 2022, and 2021 for the Restoration Plan. Assets remaining in this plan as of December 31, 2022, and 2021, were \$20,000.

On December 31, 2022, 2021, and 2020, membership in the Restoration Plan included the following:

| | 2022 | 2021 | 2020 |
|---|------|------|------|
| Retirees and beneficiaries currently receiving benefits | 17 | 19 | 17 |

Other Information

The System is required by the state statute to maintain two separate funds in its internal accounting records. The first fund, defined in the statute as “Fund 1”, shall be maintained to account for all accumulated deposits (contributions and interest) of members who have not withdrawn from the System. The second fund, defined as “Fund 2”, shall be maintained to account for all other net position of the System less the amount held in “Fund 3”; this third fund is maintained to account for accumulated contributions by the employer for the Internal Revenue Code Section 415 Restoration Plan as adopted by Board Resolution on November 23, 1999. On December 31, 2022, the balances of Fund 1, Fund 2, and Fund 3 were \$637,967,531, \$2,321,808,230, and \$20,000, respectively. On December 31, 2021, the balances of Fund 1, Fund 2, and Fund 3 were \$606,670,096, \$2,958,469,748, and \$20,000, respectively.

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

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

a. Basis of Accounting

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

b. Cash and Cash Equivalents

Cash and cash equivalents include demand deposit accounts and money market checking accounts. As of December 31, 2022 and 2021, the book balances of the demand deposit accounts totaled \$10,816,741 and \$19,242,506, 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, 2022 and 2021 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 assets purchased with an individual 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.

f. System Expenses

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

g. Use of Estimates

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

h. Reclassification

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

NOTE 3: DEPOSIT AND INVESTMENT RISK DISCLOSURE

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

The following summary of total investments by type presents the System's investment mix as of December 31, 2022 and 2021.

| | 2022 | 2021 |
|--|--------------------------------|-----------------------------|
| Global equities: | | |
| US equities | \$ 1,321,385,448 | 1,655,741,264 |
| Developed markets equities | 258,556,237 | 308,289,783 |
| | <u>1,579,941,685</u> | <u>1,964,031,047</u> |
| Fixed income: | | |
| Corporate bonds | 106,171,553 | 127,084,019 |
| Government bonds | 355,999,358 | 503,269,453 |
| Government mortgage-backed securities | 97,552,564 | 106,461,187 |
| | <u>559,723,475</u> | <u>736,814,659</u> |
| Real assets: | | |
| Real estate equity | | |
| US REITs | 130,664,601 | 212,428,546 |
| Real estate institutional collective trust | 184,237,745 | 176,772,484 |
| | <u>314,902,346</u> | <u>389,201,030</u> |
| Infrastructure: | | |
| US equities | 32,872,086 | 49,954,028 |
| Developed markets equities | 29,186,315 | 45,968,017 |
| Limited partnership | 88,294,922 | 81,634,375 |
| | <u>150,353,323</u> | <u>177,556,420</u> |
| Multi-asset: | | |
| Asset allocation | 106,087,904 | 138,500,388 |
| Commodities & other | 36,971,940 | 36,839,340 |
| | <u>143,059,844</u> | <u>175,339,728</u> |
| Short-term investments: | | |
| US Dollar | 141,043,946 | 89,462,234 |
| Foreign currency | 51,237,486 | 3,028,440 |
| | <u>192,281,432</u> | <u>92,490,674</u> |
| Investments at fair value on balance sheet | 2,940,262,105 | 3,535,433,558 |
| Receivables, payables and pending trades, net | 989,054 | 3,299,181 |
| Total investments (per investment consultant) | \$ <u>2,941,251,159</u> | <u>3,538,732,739</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, 2022 and 2021, the System's operating bank balances of \$10,816,741, and \$19,242,506, 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, 2022 and 2021, the System held liquidity reserve balances at BNYM of \$1,005,060, and \$1,000,088, 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, 2022:

| 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 FHMLC) shall not be restricted as a percentage of the Portfolio.
- SEC Rule 144(a) securities shall be limited to no more than 5% of the portfolio at market value of any manager’s portfolio.

c. Other Investment Information

- As of December 31, 2022 and 2021, the following was the composition of the System’s portfolio:

| | 2022 | 2021 |
|--|---------|---------|
| US equities | 44.94% | 46.83% |
| Developed markets equities | 8.79% | 8.72% |
| Fixed income | | |
| Corporate bonds | 3.61% | 3.59% |
| Government bonds | 12.11% | 14.24% |
| Government mortgage-backed securities | 3.32% | 3.01% |
| Real estate equity | | |
| US REITs | 4.44% | 6.01% |
| Real estate institutional collective trust | 6.27% | 5.00% |
| Infrastructure | | |
| US equities | 1.12% | 1.41% |
| International equities | 0.99% | 1.30% |
| Limited partnership | 3.00% | 2.31% |
| Multi-asset | 3.61% | 3.92% |
| Commodities & other | 1.26% | 1.04% |
| Short-term investments | | |
| US Dollar | 4.80% | 2.53% |
| Foreign currency | 1.74% | 0.09% |
| | 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 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, 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> |

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

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

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

| Standard & Poor's Quality Rating | Total fair value | Corporate bonds | Government mortgage-backed securities (a) |
|--------------------------------------|-----------------------|-----------------|---|
| AAA | \$ 106,461,187 | - | 106,461,187 |
| BBB | 127,084,019 | 127,084,019 | - |
| Total credit risk of debt securities | 233,545,206 | 127,084,019 | 106,461,187 |
| US govt. & agencies* | 503,269,453 | | |
| | \$ 736,814,659 | | |

*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.

(a) Investment description updated for historical clarification

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, 2022 and December 31, 2021:

| 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 |

| Currency | Cash & Cash Equivalents | Equity | 2021 Fair value |
|--------------------|-------------------------|--------------------|--------------------|
| Australian Dollar | \$ 1,281,014 | 16,401,637 | 17,682,651 |
| Canadian Dollar | 5,859 | 21,443,010 | 21,448,869 |
| Danish Krone | - | 21,696,287 | 21,696,287 |
| Euro | 16,069 | 89,383,951 | 89,400,020 |
| Hong Kong Dollar | 5,067 | 13,870,140 | 13,875,207 |
| Japanese Yen | 6,153 | 54,228,869 | 54,235,022 |
| New Zealand Dollar | 4,356 | 467,266 | 471,622 |
| Norwegian Krone | 2,125 | 38,086 | 40,211 |
| UK Pound Sterling | 1,701,618 | 101,706,027 | 103,407,645 |
| Singapore Dollar | 3,025 | 3,803,053 | 3,806,078 |
| Swiss Franc | 3,154 | 31,219,474 | 31,222,628 |
| Total | \$ 3,028,440 | 354,257,800 | 357,286,240 |

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

| Currency | Investment type | 2022 Fair value |
|--------------|------------------|-----------------|
| Japanese Yen | Currency forward | \$ 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, 2022, the fair value of the payable for forward foreign exchange contracts was \$44,933,128, and related contracts receivable was \$42,828,323. 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, 2022 and 2021, respectively.

| 2022 | | | | | |
|---|-------------------------|---|--|--|-----------------------------|
| 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 | \$ 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.

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

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

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

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, 2022.

b. Asset Allocation

The System's strategic asset allocation neutral weights as of December 31, 2022 and 2021, as adopted by the Board of Trustees, are as follows:

| | 2022 | 2021 |
|----------------------------|---------------|---------------|
| US equities | 34.0% | 33.0% |
| Developed markets equities | 16.0% | 15.0% |
| Emerging markets equities | 6.0% | 8.0% |
| 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, 2022, the annual money-weighted rate of return on System investments net of pension plan investment expense was -15.63%, a decrease from 13.01% on December 31, 2021. 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, 2022 and 2021, there were no holdings that exceeded this disclosure trigger.

NOTE 6: CONTRIBUTIONS AND FUNDING POLICY

As of December 31, 2022, and 2021, state law requires contributions equal to 8% of base compensation by the participants and by the City.

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

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

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

An Amended Supplemental Funding Plan, adopted by the City Council in October 2010, increased the total employer contribution to the System to 14% of base compensation effective October 1, 2010. The Amended Supplemental Funding Plan also 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.

NOTE 7: CAPITAL ASSETS

The following summarizes the capital asset account balances as of December 31, 2022 and December 31, 2021, and changes to the accounts during the years then ended:

| | Balance 12/31/2020 | Additions | Disposals | Balance 12/31/2021 | Additions | Disposals | Balance 12/31/2022 |
|--|-----------------------|------------------|-----------|-----------------------|------------------|-----------|-----------------------|
| Capital assets being depreciated: | | | | | | | |
| Furniture and equipment | \$ 6,744,029 | 30,837 | - | 6,774,866 | - | - | 6,774,866 |
| Total | 6,744,029 | 30,837 | - | 6,774,866 | - | - | 6,774,866 |
| Less accumulated depreciation: | | | | | | | |
| Furniture and equipment | 1,918,385 | 731,309 | - | 2,649,694 | 721,783 | - | 3,371,477 |
| Total | 1,918,385 | 731,309 | - | 2,649,694 | 721,783 | - | 3,371,477 |
| Total capital assets, net of accumulated depreciation | \$ 4,825,644 | (700,472) | - | 4,125,172 | (721,783) | - | 3,403,389 |

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, 2022 and December 31, 2021 were as follows:

Schedule of Net Pension Liability

| FY Ending December 31 | Total Pension Liability | Plan Net Position | Net Pension Liability | Plan Net Position as a % of Total Pension Liability |
|----------------------------------|------------------------------------|------------------------------|----------------------------------|--|
| 2022 | \$5,884,128,584 | \$2,959,775,761 | \$2,924,352,823 | 50.30% |
| 2021 | \$5,032,043,201 | \$3,565,139,844 | \$1,466,903,357 | 70.85% |

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, 2022, using the following actuarial assumptions:

Summary of Actuarial Assumptions

Valuation date: December 31, 2022
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, 2021 valuation is used to determine the actuarially determined contribution amount for the period January 1, 2022 through December 31, 2022.

Methods and Assumptions Used to Determine Total Pension Liability:

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

Other Information:

Notes There were no benefit changes during the year.

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

b. Single Discount Rate

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 projection of cash flows used to determine this single discount rate assumed that plan member contributions and employer contributions will be made at the current contribution rates assuming that the System annually earns 6.75% on its market value of assets and that the number of active members remain constant in the future. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members through the year 2057. As a result, 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.

In fiscal year 2021, the single discount rate was the actuarial assumed long-term expected rate of return of 6.75% because the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members.

Long-Term Expected Real Rate of Return

| Asset Class | 2022 | 2021 |
|--------------------|--------|--------|
| Global equities | 4.30% | 5.05% |
| Fixed income | -0.19% | -0.12% |
| Real assets | 4.00% | 4.42% |
| Multi-asset | 3.20% | 3.77% |
| Cash & equivalents | -1.00% | -0.50% |

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 2022 and 2.00% for 2021.

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 5.87%, 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 4.87% | Current Single Discount Rate Assumption 5.87% | 1% Increase 6.87% |
|----------------------|--|----------------------|
| \$ 3,731,197,820 | \$ 2,924,352,823 | \$ 2,263,529,950 |

NOTE 11: SUBSEQUENT EVENTS

In 2022, the COAERS Board of Trustees and the City of Austin developed a proposal to amend the COAERS governing statute to ensure the long-term financial sustainability of the retirement system. The collaborative effort between COAERS and its plan sponsor resulted in Senate Bill 1444, which was introduced during the 88th Texas legislative session. The proposed legislation touches on several policy areas, including contributions, benefits, and governance. The key concepts of the legislation are outlined in the Letter of Transmittal. The provisions of the bill are expected to have a significantly positive impact on the funding of the System in future years. Most notably, the legislation will retire the System’s unfunded liability over a fixed 30-year period, increase employee contributions to the System, and move the System to a flexible actuarially determined employer contribution rate, which can increase to keep the plan on a steady path towards full funding.

After passage in both houses of the Legislature, Senate Bill 1444 was sent to the governor on May 17, 2023. SB1444 became law upon the governor’s signature on May 29, 2023.

Schedule of Changes in the Net Pension Liability and Related Ratios

| Fiscal year ending December 31, | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Total Pension Liability | \$ 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 |
| Service Cost | 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 |
| Interest on the Total Pension Liability | - | - | - | - | - | - | - | - | - |
| Benefit Changes | - | - | - | - | - | - | - | - | - |
| Difference between Expected and Actual | 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 |
| Experience | 588,186,779 | 142,269,829 | - | 279,897,169 | - | - | - | 123,493,165 | - |
| Assumption Changes | (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) |
| Benefit Payments | (5,075,851) | (4,266,759) | (3,656,402) | (4,285,174) | (4,140,909) | (4,045,324) | (3,910,786) | (4,052,436) | (4,154,419) |
| Refunds | 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 |
| Net Change in Total Pension Liability | 5,032,043,201 | 4,701,215,166 | 4,487,884,062 | 3,989,580,137 | 3,797,823,303 | 3,591,376,306 | 3,391,796,116 | 3,094,055,712 | 2,909,917,750 |
| Total Pension Liability - Beginning | \$ 5,884,128,584 | \$ 5,032,043,201 | \$ 4,701,215,166 | \$ 4,487,884,062 | \$ 3,989,580,137 | \$ 3,797,823,303 | \$ 3,591,376,306 | \$ 3,391,796,116 | \$ 3,094,055,712 |
| Total Pension Liability - Ending (a) | | | | | | | | | |
| Plan Fiduciary Net Position | \$ 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 |
| Employer Contributions | 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 |
| Employee Contributions | (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 |
| Pension Plan Net Investment Income | (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) |
| Benefit Payments | (5,075,851) | (4,266,759) | (3,656,402) | (4,285,174) | (4,140,909) | (4,045,324) | (3,910,786) | (4,052,436) | (4,154,419) |
| Refunds | (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) |
| Pension Plan Administrative Expense | - | - | - | - | - | - | - | - | - |
| Other | (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 |
| Net Change in Plan Fiduciary Net Position | 3,565,139,844 | 3,199,546,583 | 2,928,033,076 | 2,461,383,437 | 2,650,438,116 | 2,299,688,386 | 2,144,804,122 | 2,209,799,679 | 2,130,624,450 |
| Plan Fiduciary Net Position - Beginning | \$ 2,959,775,761 | \$ 3,565,139,844 | \$ 3,199,546,583 | \$ 2,928,033,076 | \$ 2,461,383,437 | \$ 2,650,438,116 | \$ 2,299,688,386 | \$ 2,144,804,122 | \$ 2,209,799,679 |
| Plan Fiduciary Net Position - Ending (b) | 2,924,352,823 | 1,466,903,357 | 1,501,668,583 | 1,559,850,986 | 1,528,176,700 | 1,147,385,187 | 1,291,687,920 | 1,246,991,994 | 884,256,033 |
| Plan Fiduciary Net Position as a Percentage of Total Pension Liability | 50.30% | 70.85% | 68.06% | 65.24% | 61.70% | 69.79% | 64.03% | 63.24% | 71.42% |
| Covered Payroll | 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 | 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.
- Schedule will be built out to 10 years.
- 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%.

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% |

Schedule of Investment Returns

| Year | Annual Return * |
|-------------|----------------------------|
| 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

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

See accompanying Independent Auditors' report

Investment Expenses

| | <u>2022</u> | <u>2021</u> |
|--|---------------------|------------------|
| Custodial & Transaction Fees | | |
| The Bank of New York Mellon | \$ 260,000 | 260,000 |
| Transaction and other fees | 40,822 | 64,153 |
| | <u>300,822</u> | <u>324,153</u> |
| Investment Manager Fees | 4,566,476 | 5,776,497 |
| Other Investment-related Expenses | | |
| Consultant Fees - RVK | 338,754 | 264,452 |
| Investment Research | 129,974 | 143,920 |
| Reporting and Monitoring | 28,000 | 36,500 |
| Investment Systems | 133,164 | 112,558 |
| Investment Legal Counsel | 19,882 | 58,179 |
| Staff Professional Development | 29,526 | 8,092 |
| Due Diligence Site Visits | 27,994 | - |
| Other | 25,043 | 24,902 |
| | <u>732,337</u> | <u>648,603</u> |
| Total | \$ 5,599,635 | 6,749,253 |

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>2022</u> | <u>2021</u> |
|--------------------------|---------------------|------------------|
| Actuarial | \$ 119,723 | 62,541 |
| Legal | 60,392 | 62,801 |
| Audit | 60,000 | 121,375 |
| Consultants | 551,597 | 541,560 |
| Information Technology | 209,796 | 243,537 |
| Administrative | 4,651,517 | 4,435,615 |
| Depreciation | 721,782 | 731,309 |
| Insurance | 190,784 | 193,217 |
| Member Communications | 124,534 | 100,576 |
| Professional Development | 73,513 | 35,968 |
| Total | \$ 6,763,638 | 6,528,499 |

Professional Services and Consultant Expenses

| | | |
|---------------------------------|-------------------|----------------|
| Actuarial | | |
| GRS Retirement Consulting Group | \$ 119,723 | 62,541 |
| Legal | | |
| Clark Hill Strasburger | 18,840 | 5,320 |
| Jackson Walker | 7,622 | - |
| The Knight Law Firm | 33,930 | 57,481 |
| | <u>60,392</u> | <u>62,801</u> |
| Audit | | |
| CLA LLP | 60,000 | - |
| KPMG LLP | - | 103,000 |
| RSM US LLP | - | 18,375 |
| | <u>60,000</u> | <u>121,375</u> |
| Consultants | | |
| Levi, Ray & Shoup | 173,446 | 148,368 |
| CBIZ | 12,000 | - |
| Express Information Systems | 17,756 | 14,474 |
| Freeit Data Solutions | 20,229 | 19,648 |
| Gartner | 95,167 | 82,384 |
| Global Governance Advisors | - | 74,747 |
| Hillco Partners LLC | 48,000 | 48,000 |
| Kudelski Security | 15,188 | 2,432 |
| McLagan Partners | 15,000 | - |
| Ntirety | 73,517 | 69,666 |
| Whitehat Virtual Technologies | 81,294 | 81,841 |
| | <u>551,597</u> | <u>541,560</u> |
| Total | \$ 791,712 | 788,277 |

See accompanying Independent Auditors' report

5. Discuss and consider the COAERS Enterprise Risk Management program including the following risk categories: operations, counterparty, mission, and personnel

Presented by Christopher Hanson



COMMITTEE MEETING Agenda Item Information Sheet

AGENDA ITEM 5:

Discuss and consider COAERS Enterprise Risk Management program including reports on operations, counterparty, mission, and personnel

AGENDA ITEM OBJECTIVE

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

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.

RECOMMENDATION FOR COMMITTEE ACTION

At the Committee's discretion.

BACKGROUND

The 2023 Enterprise Risk Management Report contains 12 risk categories. Staff will present the full report in a new dashboard format and then conduct a deeper dive on select risk categories. For this agenda item, the categories are operational, counterparty, personnel, and mission.

ATTACHMENTS

1. Staff Presentation: "Risks: Operational, Counterparty, Personnel, and Mission"
2. Enterprise Risk Management Report Q2 2023



Risk Management Report: Operational, Counterparty, Mission, and Personnel Risks

Audit and Risk Committee
June 15, 2022

Enterprise Risk Management Report

| | Risk Category | Risk Description | 2022 Rank | 2023 Rank | Risk Level 2022 | Risk Level 2023 | Expected Risk Level Trend (next 12 months) | Risk Response | Risk Owner | Reporting and Oversight Committee |
|-------------------|---------------|--|-----------|-----------|-----------------|-----------------|--|-----------------------|---|---|
| 1st Quartile Risk | FUNDING | A lack of sound funding for the plan could lead to insufficient assets to pay for long-term benefits and financial obligations. | 1 | 1 | High | High | ↑ | Mitigate | Executive Director | Benefits and Services Committee |
| | MARKET | Too little or too much exposure to market risk could lead to undesirable investment outcomes. | 2 | 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. | 3 | 3 | High | High | ↑ | Mitigate | Chief Information Officer | Audit and Risk Committee |
| 2nd Quartile Risk | OPERATIONAL | Event causes a major business interruption | 4 | 4 | Medium | Medium | ↔ | Mitigate | Deputy Executive Director | Audit and Risk Committee |
| | LEGISLATIVE | Legislative events lead to adverse relations, unfavorable legislation, and restricted funding | 6 | 5 | Medium | Medium | ↑ | Mitigate | Executive Director | Legislative Committee |
| 3rd Quartile Risk | COUNTERPARTY | Business partners or entities are unable to fulfill their obligations or do not complete transactions as agreed upon. | 8 | 6 | Medium | Medium | ↑ | Mitigate | Executive Director, Deputy Executive Director, Chief Investment Officer, Chief Financial Officer, | Investment Committee, Audit and Risk Committee, Benefits and Services Committee, and Policy Committee |
| | MISSION | Inability to make monthly retirement benefit payments | 7 | 7 | Medium | Medium | ↔ | Mitigate | Executive Director and Deputy Executive Director | Audit and Risk Committee, and Investment Committee |
| | GOVERNANCE | Not following processes and procedures in decision making | 5 | 8 | Medium | Medium | ↓ | Mitigate and Transfer | Board of Trustees | Governance and Human Resources Committee |
| 4th Quartile Risk | PERSONNEL | Ability to attract and retain talented staff; succession planning | 9 | 9 | Medium | Medium | ↔ | Mitigate | Executive Director | Governance and Human Resources Committee, and Board of Trustees |
| | PHYSICAL | Inadequate facilities management; ineffective space utilization; staff effort to manage issues | 10 | 10 | Low | Low | ↔ | Mitigate | Executive Director and Deputy Executive Director | Board of Trustees |
| | REPUTATIONAL | Erosion of trust in organization either rapidly or slowly over a period of time | 11 | 11 | Low | Low | ↔ | Mitigate | Executive Director | Board of Trustees |
| | ADAPTABILITY | Inability to meet the strategic mission and vision of the organization; not achieving best outcomes for the system | 12 | 12 | Low | Low | ↔ | Mitigate | Executive Director | Board of Trustees |

June 15 Committee Review



Operational Risks

| Risk Category | Risk Description | Rank | Risk Level 2022 | Risk Level 2023 | Expected Risk Level Trend (next 12 months) | Risk Response | Risk Owner | Reporting and Oversight Committee | |
|--|--|------|--------------------|-----------------|---|---------------|---------------------------|-----------------------------------|--------|
| OPERATIONAL | Event causes a major business interruption | 4 | Medium | Medium | ↔ | Mitigate | Deputy Executive Director | Audit and Risk Committee | |
| Current Status Summary (Trending) | 2023 Risk Management Activities | | | | | | | Activity Status | |
| Post pandemic operations have been put in place as the new normal mode of conducting business. Customer survey results are positive and within strategic plan threshold. New audit firm relationship is strong. Policies and procedures update. Financial controls in place. | | | | | | | | OPEN | CLOSED |
| | Conduct 12/31/2022 financial statement audit. | | | | | | | | X |
| | Continue implementation of RSM Rapid Assessment recommendations. | | | | | | | X | |
| | Continue the development of COAERS IT Roadmap for operational technology upgrades in the future. | | | | | | | X | |
| Implement restructure of work teams to mitigate effects of attrition and handle future demand for services. | | | | | | | X | | |
| Notable Risks (Root Causes) | | | Probability | Impact | Risk Management Strategies and Action Items | | | | |
| Obsolescence of service delivery methods | | | Medium | Medium | Communication with membership regarding business operations | | | | |
| IT disruptions | | | Medium | Medium | Capital Improvement Plan | | | | |
| Pandemic or natural disaster | | | Medium | Medium | COAERS Workplace Strategy and Guidelines | | | | |
| Customer service failures | | | Medium | Medium | Employee Training/Reviews/Internal Communication | | | | |
| Accounting and reporting | | | Low | High | Financial Statement Audit | | | | |
| Fraud | | | Low | High | Internal controls, policies, and procedures | | | | |
| Business Continuity | | | Low | High | Backup & Disaster Recovery Plan/Testing | | | | |
| Failure to follow applicable laws, regulations and policies | | | Low | Medium | Legal reviews by tax and general counsel | | | | |
| Benefit payment inaccuracies | | | Low | Medium | Internal controls, policies, and procedures | | | | |
| Records management | | | Low | Low | Electronic File & Delivery Systems | | | | |

Strategic Core Competency: Dependable Operations

A long-standing component of the COAERS Strategic Plan are Core Competencies. Proficiency in these Core Competencies is necessary for the organization to deliver on its mission to provide our members with their promised benefits.

Dependable Operations: Managing the financial and operational commitments of the system within appropriate measurable standards.



CITY OF AUSTIN
EMPLOYEES'
RETIREMENT SYSTEM

STRATEGIC PLAN
2022 - 2026

Operational Risk Management

Spotlight: The COAERS Member Services Team

The COAERS Member Services department works closely with the retirement system's active members, retired members, and all beneficiaries to facilitate retirement planning, assist in the administration of retirement benefits, and provide all aspects of customer service to the System's membership.

In addition to providing retirement counseling, the Member Services team also works closely with the City's various departments to host and provide member education sessions, tailored presentations about planning for retirement.

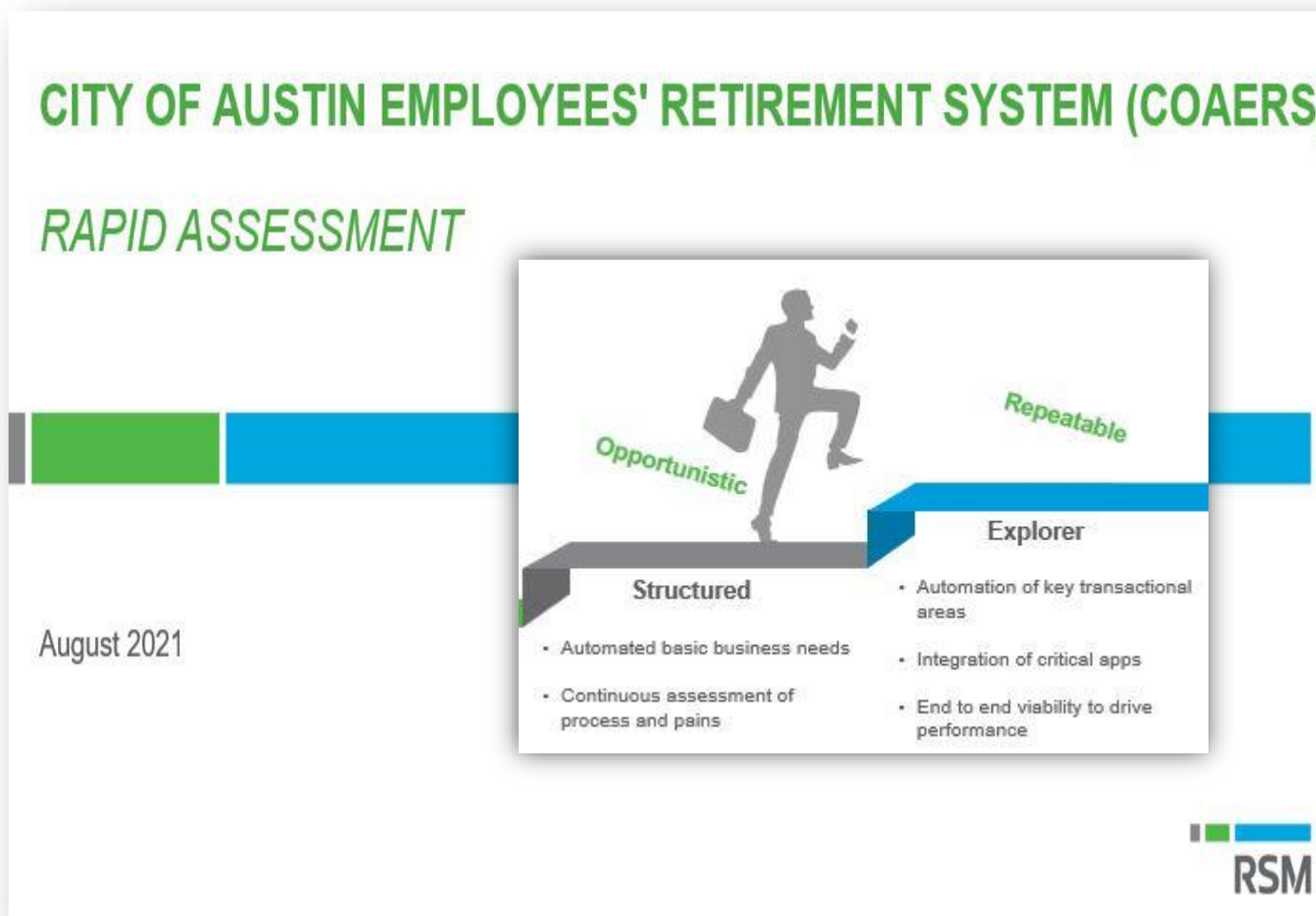
Whether you have questions about your retirement eligibility, are applying for retirement, need help with forms, service purchases, benefit estimates, and much more, the Member Services team is ready to help. To speak with our Member Services team or make an appointment, please contact member.services@coaers.org or call (512) 458-2551.



COAERS Member Services Team



12/31/2022 ACFR



RSM Rapid Assessment and Business Process Consulting

Financial Management: Controls

City of Austin Employees' Retirement System Administrative Standard Operating Procedure Internal Controls

Procedure: A-3
Subject: Accounts Payable Process



CITY OF AUSTIN
EMPLOYEES' RETIREMENT SYSTEM

COAERS Process Memo

Custodial Banking Transaction Oversight and Approval Processes



CITY OF AUSTIN
EMPLOYEES' RETIREMENT SYSTEM

**Authentication,
Fraud Reporting, and ACH Reissuance**



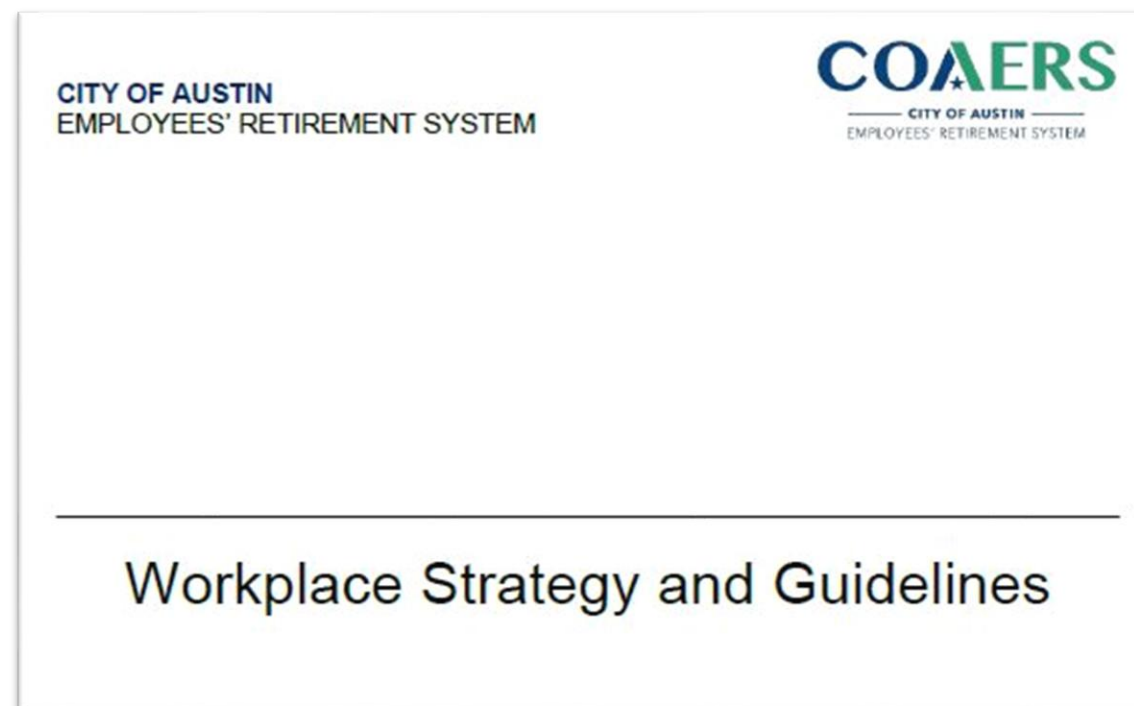
CITY OF AUSTIN
EMPLOYEES' RETIREMENT SYSTEM

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM
CREDIT CARD POLICY

- COAERS Staff maintain financial and operational controls to ensure the system is aligned with the Core Competency in the Strategic Plan.
- The annual financial audit requires the auditors to review and test controls.
- Management regularly reviews existing controls and procedures, as well as creating new ones when needed. Recently, information technology and cybersecurity processes and controls have been become significant towards risk management efforts.



Operational Risk Management



COAERS Tax Counsel IRS Review

Internal Policies and Procedures



Counterparty Risks

| Risk Category | Risk Description | Rank | Risk Level 2022 | Risk Level 2023 | Expected Risk Level Trend (next 12 months) | Risk Response | Risk Owner | Reporting and Oversight Committee |
|---------------|---|------|-----------------|-----------------|--|---------------|---|---|
| COUNTERPARTY | Business partners or entities are unable to fulfill their obligations or do not complete transactions as agreed upon. | 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 |

| Current Status Summary (Trending) | 2023 Risk Management Activities | Activity Status | |
|--|--|-----------------|--------|
| | | OPEN | CLOSED |
| Key vendor relationships are well-established and vendors are generally meeting expectations. Committees review key service providers such as investment consultant, actuary, and legal counsel. Third-party IT vendor compliance budgeted and implementation is planned for 2023. Results could reveal additional risks that would need to be addressed. Facility needs may lead to new vendor relationships. | Continual underwriting of premier list managers. | x | |
| | Issuance of RFP for General Investment Consultant. | | |
| | Comprehensive review of custodial bank relationship | x | |
| | Annual review to Committees of key service providers. | x | |
| | Third-party IT security audits for mission-critical service providers. | x | |

| Notable Risks (Root Causes) | Probability | Impact | Risk Management Strategies and Action Items |
|---------------------------------------|-------------|--------|---|
| IT security providers and consultants | Medium | High | Annual 3rd party security reviews; Compliance Manager software; Vendor Risk Management |
| City of Austin contribution issues | Low | High | Communication with plan sponsor; cash management program |
| Custodial banks | Low | High | IC Dashboard to monitor counterparty ratings |
| Actuary | Low | Medium | Actuarial audits |
| Legal counsel | Low | Medium | Engagement with specialized counsel |
| Investment managers | Low | Medium | Premier List; Due Diligence |
| Operating bank | Low | Medium | Monitor operating bank counterparty ratings; conduct security assessment; revisit interest credit rates; research alternative vendors |
| Brokers and related vendors | Low | Low | Transaction Cost Analysis |
| Medical consultants | Low | Low | Engagement with multiple parties including outsourced medical service provider program |
| Investment consultant | Low | Low | Annual review of general investment consultant, issuance of RFP |



Strategic Goals #2, #4, and #5

The Board established multiple goals in the current Strategic Plan that relate to managing counterparty risk: Goals #2, #4, and #5. All three goals have action-items related to mitigating counterparty risk:

Goal #2: Third-party vendor risk assessment

Goal #4: Actuarial consultant and investment consultant RFPs

Goal #5: Reviewing existing processes and vendor/third-party relationships to identify areas for enhancement.




CITY OF AUSTIN
EMPLOYEES'
RETIREMENT SYSTEM

STRATEGIC PLAN
2022 - 2026

Counterparty Risk Management

Strategy Summary

As of June 30, 2020



| | | |
|--|--------------------------------------|--|
| Investment Manager: IFM Investors | Asset Class: Infrastructure | |
| Product: Global Infrastructure Fund | Strategy: Core | |
| Vehicle: Open-end commingled | Inception Date: December 2004 | |
| Ranking: Positive | Profile Date: August 2020 | |

| | | |
|--|---|--|
| Sector Exposure: Diversified | Geography: Global | |
| Fund Level Leverage: 10% cap | Current Assets: \$32 billion | |
| Asset Level Leverage: ~40% | Portfolio Companies: 17 | |
| Minimum Investment: US \$10 million | Investment Queue: 6 to 12 months | |

Executive Summary & Key Points Supporting Rankings Status

IFM's Global Infrastructure Fund is the firm's flagship strategy and the largest open-ended core infrastructure fund. The strategy was established in 2004, making it one of the longest standing infrastructure funds. IFM's investment team has managed the strategy through multiple market cycles and the fund's assets have grown to almost \$24 billion.

The fund has a moderate risk profile and invests in diversified infrastructure assets globally across a broad range of sectors including transportation, utilities, energy transmission & distribution, and telecommunications. The fund invests in assets with series of infrastructure characteristics including monopolistic market dynamics, high barriers to entry, limited demand elasticity, long lives, a history of stable cash flows, and a predictable regulatory environment. Geographically, the Global Infrastructure Fund focuses on North America and Europe but invests across the OECD. The strategy is ultimately a buy-and-manage but will exit assets opportunistically.

Merits

- Track record – The fund has one of the longest core infrastructure track records and has consistently outperformed peers.
- Alignment with investors – IFM is owned by 27 Australian pension funds and the majority of the firm's owners are also investors in IFM's investment products, aligning ownership and investors.
- Infrastructure platform – IFM has one of the largest infrastructure platforms globally and invests in both equity and debt of infrastructure companies.
- Fees – The Global Infrastructure Fund has low fees relative to competitors, charging 0.77% management fees for investors below \$300 million alongside a 10% performance fee.

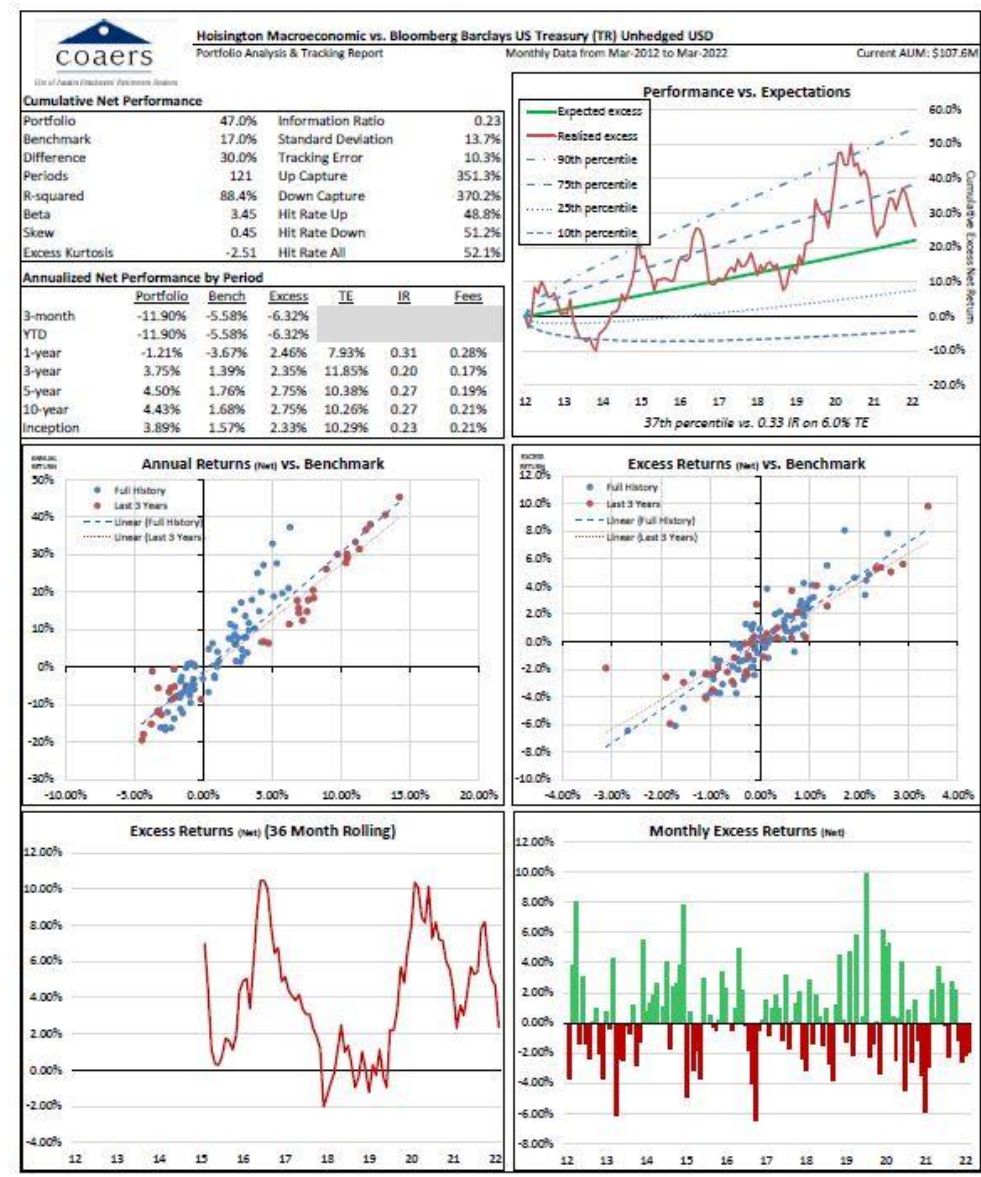
Considerations

- Size – The Global Infrastructure Fund is the largest open-ended infrastructure fund and primarily focuses on the upper-mid and large end of the infrastructure market.

Firm

Based in Melbourne, Australia, and with office locations around the world, IFM is one of the largest infrastructure investment firms in the world. The firm currently manages approximately \$90 billion products in infrastructure equity, infrastructure debt, private equity, and listed equities.

IFM was established by 27 Australian pension funds in the 1990s. The firm has invested in Australian infrastructure since 1995 and has invested in similar assets in Europe and the Americas since 2004. IFM offers two primary private infrastructure funds, the Global Infrastructure Fund and the Australian Infrastructure Fund, with the second fund serving as a domestic vehicle for Australian investors.



CONFIDENTIAL - DUE DILIGENCE/CONTRACTING INFORMATION

COAERS Investment Manager Premier List

| GLOBAL EQUITY | | | | | | | | | |
|------------------------------------|---|---------|---------|--------------------|----------------|----------------------|------------------|--------------------|-----------------|
| Firm | Strategy | Vehicle | Style | Neutral Allocation | Max Allocation | Management Fee (bps) | Other Fees (bps) | Alpha Target (bps) | TE Target (bps) |
| US Equity | | | | | | | | | |
| Newton | Dynamic US Equity (DUSE) | SMA | Active | 3.4% | 10% | 35 | - | 150 | 300 |
| Melion | 50 Beta US Max Decorelation | SMA | Passive | 4.0% | 10% | 13 | - | - | - |
| Legal & General | 50 Beta Inflation + Index | SMA | Passive | 3.0% | 10% | 13 | - | - | - |
| TOBAM | Max Diversification USA | SMA | Passive | 4.0% | 10% | 25 | - | - | - |
| NISA | S&P 500 Index Futures | SMA | Passive | 3.0% | 15% | 6 | - | - | - |
| NISA | S&P 500 Index Options | SMA | Passive | 0.1% | 10% | 9 | - | - | - |
| Legal & General | S&P 500 Index | Fund | Passive | 0.0% | 15% | 1.3 | - | - | - |
| Legal & General | MSCI USA Index | Fund | Passive | 6.5% | 15% | 3 | - | - | - |
| Legal & General | MSCI USA Equal Weight Index | SMA | Passive | - | 15% | 8 | - | - | - |
| State Street | MSCI USA Equal Weight Index | SMA | Passive | 3.5% | 15% | 2.5 | - | - | - |
| State Street | MSCI USA Small Cap Index | Fund | Passive | 1.5% | 15% | 3 | - | - | - |
| Legal & General | Russell 2000 Index | Fund | Passive | - | 10% | 3 | - | - | - |
| NISA | Russell 2000 Index Futures | SMA | Passive | - | 10% | 6 | - | - | - |
| Legal & General | Russell 2000 Index | Fund | Passive | - | 15% | 3 | - | - | - |
| EM Equity | | | | | | | | | |
| Firm | Strategy | Vehicle | Style | Neutral Allocation | Max Allocation | Management Fee (bps) | Other Fees (bps) | Alpha Target (bps) | TE Target (bps) |
| 1807 Capital | International Equities | SMA | Active | 4.5% | 10% | 68 | 79 | 200 | 500 |
| Walter Scott | International Equities | SMA | Active | 6.5% | 10% | 43 | - | 250 | 700 |
| Newton | Dynamic Equity ex-US (DEIUS) | Fund | Active | 1.5% | 10% | 35 | - | 150 | 300 |
| NTAM | MSCI World ex-US Small Cap Index | Fund | Passive | 1.0% | 5% | 6 | - | - | - |
| LGIMA | MSCI World ex-US Small Cap Index | SMA | Passive | - | 5% | 10 | - | - | - |
| NISA | MSCI EAFE Index Futures | SMA | Passive | 0.75% | 10% | 6 | - | - | - |
| NISA | MSCI Currency Hedged EAFE Index Futures | SMA | Passive | 0.75% | 10% | 13 | - | - | - |
| SSGA | MSCI EAFE Index | Fund | Passive | - | 15% | 3 | - | - | - |
| REAL ASSETS | | | | | | | | | |
| Real Estate | | | | | | | | | |
| Firm | Strategy | Vehicle | Style | Neutral Allocation | Max Allocation | Management Fee (bps) | Other Fees (bps) | Alpha Target (bps) | TE Target (bps) |
| Principal Real Estate | US Property Separate Account | Fund | Active | 3% | 8% | 80 | - | 100 | N/A |
| Fidelity | US REITs Completion Index | SMA | Passive | 4.5% | 10% | 7 | - | - | - |
| Ancourt | FTSE NAREIT Equity REITs Index | SMA | Passive | 0.5% | 15% | 4 | 8 | - | - |
| SSGA | FTSE NAREIT Equity REITs Index | SMA | Passive | - | 15% | 10 | - | - | - |
| Legal & General | US REITs Completion Index | SMA | Passive | - | 10% | 9 | - | - | - |
| Infrastructure & Equity | | | | | | | | | |
| Firm | Strategy | Vehicle | Style | Neutral Allocation | Max Allocation | Management Fee (bps) | Other Fees (bps) | Alpha Target (bps) | TE Target (bps) |
| IFM | Global Private Infrastructure Fund | Fund | Active | 2.5% | 5% | 77 | - | 100 | N/A |
| Fidelity | DJ Brookfield Global Infrastructure Index | SMA | Passive | 2.5% | 10% | 9 | - | - | - |
| Melion | DJ Brookfield Global Infrastructure Index | Fund | Passive | - | 10% | 10 | - | - | - |

¹ Includes annualized base fee and performance fee
² Uses a tiered fee structure
³ Estimated fees for the asset type

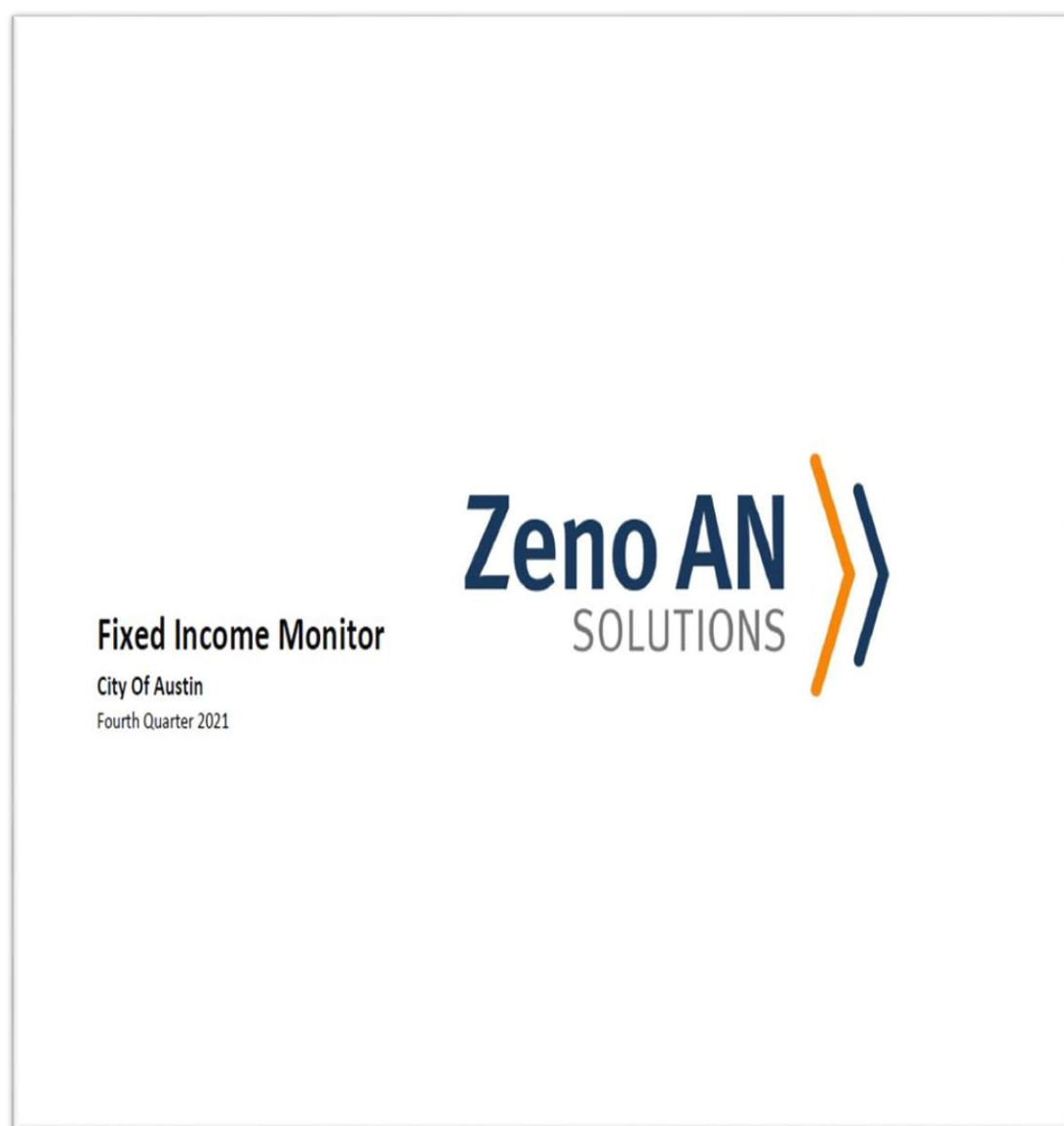
Investment Manager Due Diligence Reports

Investment Manager Quantitative Analysis

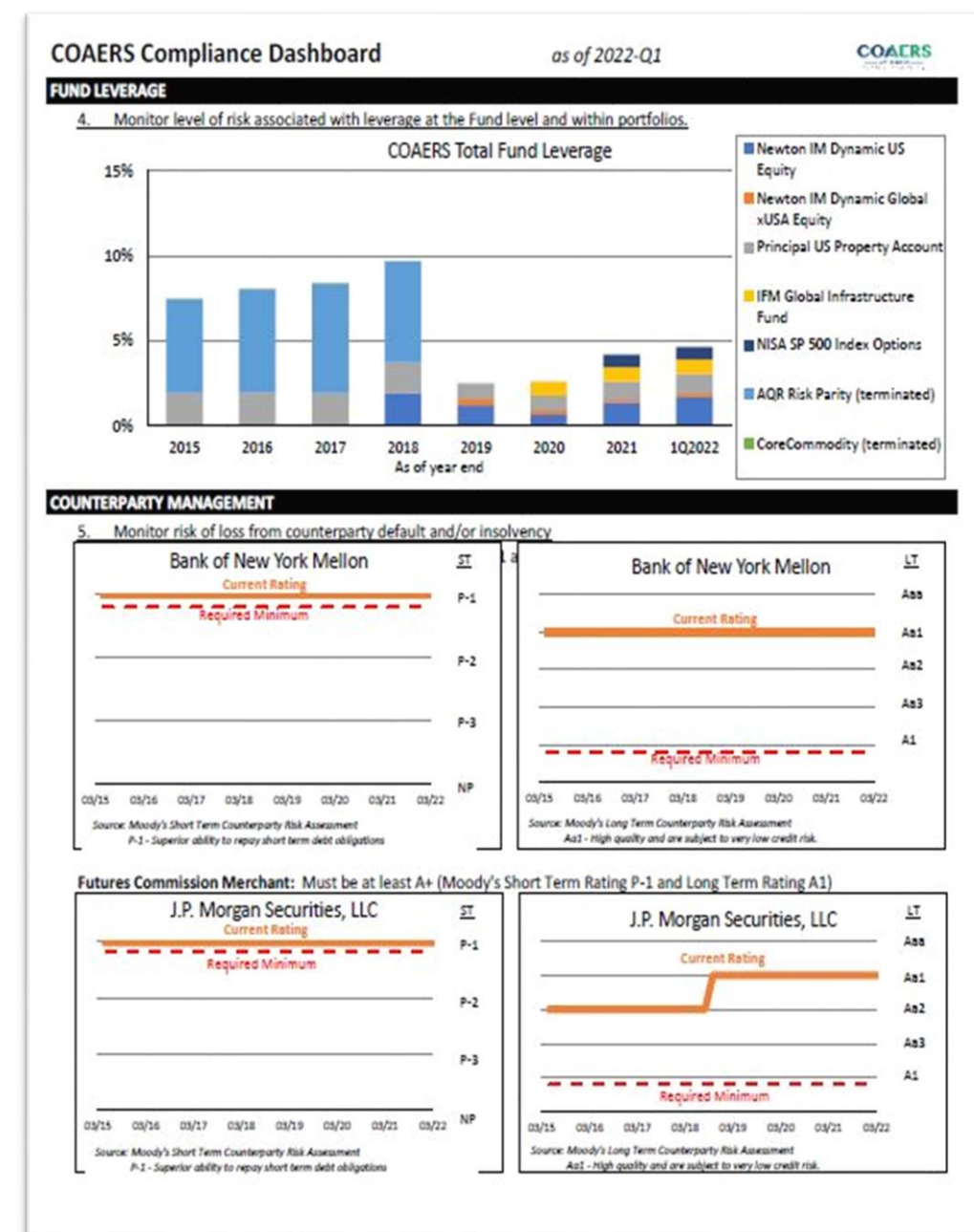
Investment Manager Premier List



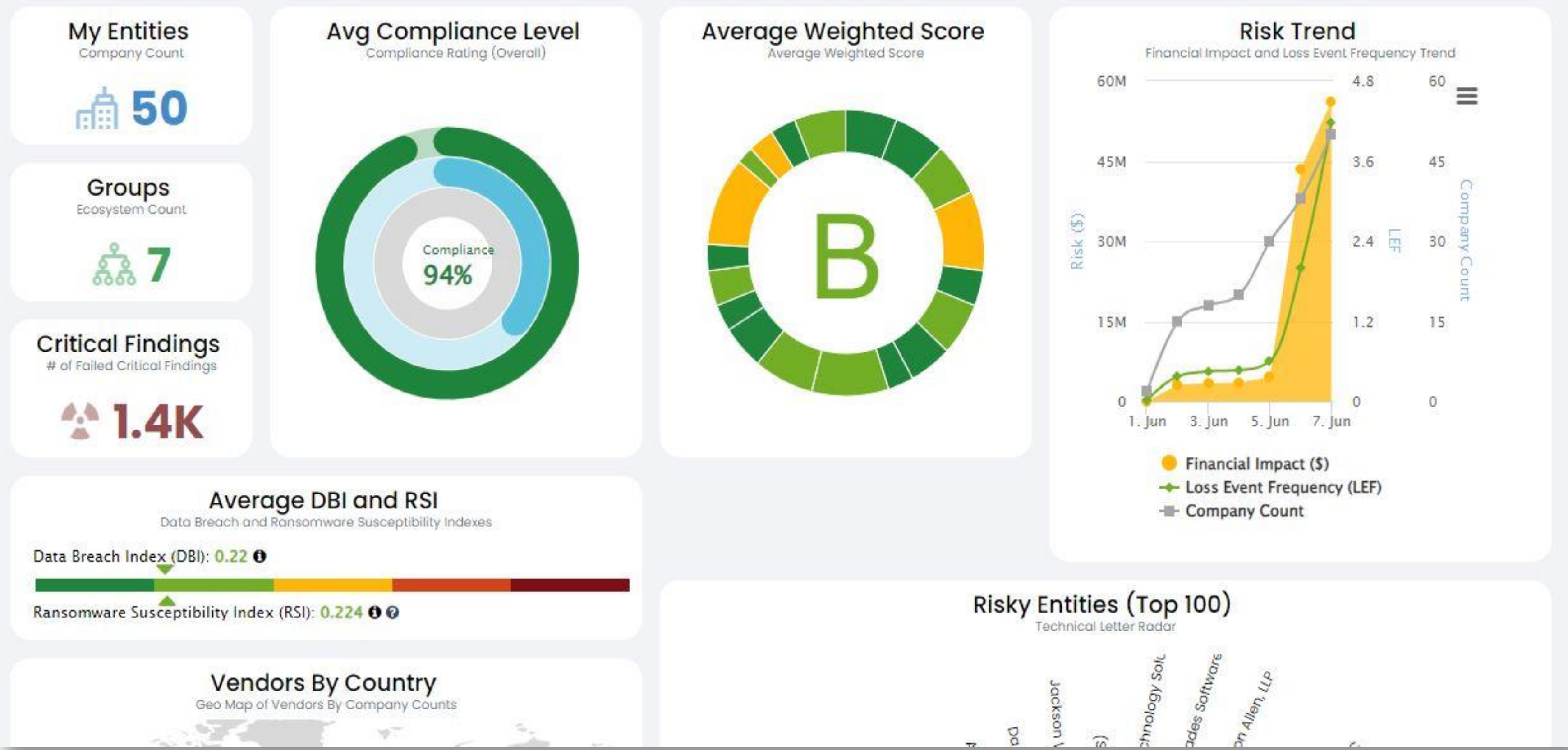
Counterparty Risk Management



Transaction Cost Analysis



IC Compliance Dashboard with Counterparty Risk Management Data



Third-Party Risk Management: Analytics on vendor IT security posture

Counterparty Risk Management

Staff Assessment of Investment Consultant Services


Summary rating: Outstanding. Board and, in the view of Staff, fiduciary recommendations are...

Governance: RVK perspective practices and actively encourage approach to advice on this subject and move towards best-in-class.

Written materials/communications: in advance of deadlines. In recent more and more streamlined to also provides capital market and reporting and materials for the accurate fashion. RVK has a diverse individuals are prompt in their

Meeting Attendance: As per investment committee meeting. Given health and safety guidance though RVK has expressed a view. Despite the challenges with virtual meaningfully to the conversation.

Manager Diligence: On the selection, portfolio construction, the RVK approach to management approaches with fewer, best-in-philosophy. However, should such as venture capital, it may whether a specialized consultant



Report on COAERS' Financial Statement Audit Firm


Summary rating: Good. CliftonLarsonAllen (CLA) has the depth and expertise to provide valuable financial statement assurance services to COAERS.

Scope of the Relationship: The purpose of the Board of Trustees and other financial on whether the financial statements are within an applicable financial reporting framework that intended users can place in the financial

CLA has provided one audit since the re for the December 31, 2021 financial statements 2021 financial statements were presented accordance with accounting principles generally

Independence: CLA has affirmed that there and currently no relationships would lead to conclude that there is a threat to the firm's

Personnel Assigned to COAERS: The Bhakti Patel. Bhakti has more than 18 years and local government assurance. Ms. Patel of Virginia and a master's degree in accounting University. She is a member of the AICPA and Virginia. She is a past member of the Certificate of Achievement for Excellence in Financial Reporting Program. The Audit Manager assigned to COAERS is Mr. Roy Cobb. Mr. Cobb has 10 years of experience. Mr. Cobb has a bachelor's degree from the University of Texas, and a master's degree in accounting from Trinity University. He is a member of the AICPA and holds CPA licenses in Texas and New Jersey.



Report on COAERS Medical Consultants

Summary rating: Good. The two primary medical consultants provide fact-based opinions and additional providers can be utilized if needed.

Medical Consultants Information: Dr. Harold Skaggs, Jr. and Dr. Jonathan Dechard provide primary medical consultation to COAERS. Dr. Skaggs earned his medical degree from the University of Texas Medical School and performed his residency in internal medicine. He practiced neurology in Austin, Texas, and a University of Texas Medical Internal Medicine. He practiced internal medicine.

Our primary medical consultants are established the scope and remuneration of the relationship.

Committee meeting: The Committee (concerning System process) will also review the relationship.

Consumer Price Index (CPI) established by the Houston-Galveston-Brazoria, Texas.

to provide consistent, fact-based of Ms. Tania Glen. Ms. Glen treatment of post-traumatic stress Equation, an Austin-based that offers a variety of medical utilization management services for several lines of business including peer review and medical review services. Staff maintains a relationship with Medical Equation so that COAERS can procure their services if they may be needed.

Report on COAERS' General Counsel

Summary Rating: Good. The Knight Law firm provides effective legal advice for COAERS' Trustees and Staff.

Firm Information: The Knight Law Firm has provided general counsel representation and legal services for more than 25 years. The firm focuses its practice on Texas municipalities, local governments, their officials, and employees.

Ms. Paige Saenz currently represents COAERS as General Counsel and is a partner in the firm. Ms. Saenz has been licensed to practice law since 2001 and has been with the Knight Law Firm since 2002. Her practice is focused on municipal and local governments. She is a graduate of the University of Texas School of Law. Ms. Audrey Guthrie has recently joined the firm and provides additional consultancy and assistance to the Staff. Ms. Guthrie has been licensed to practice since 2012 and her focus is on administrative law, government practice, and litigation.

Terms of the Representation: The firm provides general counsel and legal services to COAERS under a fee for service arrangement. COAERS pays an hourly fee of \$225.00 for services rendered by Ms. Saenz. COAERS is also billed for expenses such as copying, postage, and delivery fees. Annual budget for services is \$75,000.

Staff Report on COAERS' Actuarial Consulting Firm

retirement Consulting has provided thorough with preparing for legislative changes.

ained the services of GRS Retirement Consulting (Company) for actuarial consultation services. fits consulting firm. Mr. Lewis Ward and Mr. Ryan Ward has served as the COAERS lead consultant 5 years.

own for their responsiveness, communication, and any other local and national public retirement staff with a broad perspective of the industry that they ship. Of note recently is Mr. Ward's analysis and the 88th Legislature and his assistance with the onensive and works effectively with the COAERS City working group and RVK).

provides services to COAERS under an scope and fees of the relationship. The current of 2024.

| Engagement Letter Period | | | |
|--------------------------|----------|----------|----------|
| | 2022 | 2023 | 2024 |
| | \$44,000 | \$45,000 | \$46,000 |
| | | | \$45,000 |
| | \$2,300 | \$2,400 | \$2,500 |
| in | \$3,500 | \$3,600 | \$3,700 |
| | \$440 | \$450 | \$460 |
| | \$390 | \$400 | \$410 |
| | \$270 | \$275 | \$280 |
| | \$220 | \$225 | \$230 |
| | \$180 | \$185 | \$190 |

Annual Reviews of Key Consultants and Service Providers





Mission Risks

| Risk Category | Risk Description | Rank | Risk Level 2022 | Risk Level 2023 | Expected Risk Level Trend (next 12 months) | Risk Response | Risk Owner | Reporting and Oversight Committee | |
|---|--|------|--------------------|--------------------|---|---------------|--|--|--------|
| MISSION | Inability to make monthly retirement benefit payments | 7 | Medium | Medium | ↔ | Mitigate | Executive Director and Deputy Executive Director | Audit and Risk Committee, Investment Committee | |
| Current Status Summary (Trending) | 2023 Risk Management Activities | | | | | | | Activity Status | |
| Trust fund liquidity and cash management activities continue to ensure promised benefits are paid. Successful initial tests of new disaster recovery system completed in 2022 along with new policies related to business continuity. Finance and Member Service division staff levels continue to support mission-critical activities in the near future, with long-term staffing assessment underway. | | | | | | | | OPEN | CLOSED |
| | Cash projections and liquidity management. | | | | | | | x | |
| | Penetration testing to ensure systems resiliency and identify any critical weaknesses. | | | | | | | x | |
| | Continue to develop cross-training. | | | | | | | x | |
| Implement team restructuring and professional development. | | | | | | | x | | |
| Notable Risks (Root Causes) | | | Probability | Impact | Risk Management Strategies and Action Items | | | | |
| Employee turnover at critical positions | | | Medium | Medium | Succession planning and cross-training | | | | |
| Lack of liquidity to make annuity payments | | | Low | High | Liquidity monitoring | | | | |
| Failure to transmit bank files for payments | | | Low | High | Cash management program | | | | |
| Cyberattack causes loss of money, data, business disruption, or sponsor to miss contributions | | | Low | High | Managed Service Security Provider/Security Program | | | | |
| IT system outages | | | Low | Medium | Business continuity and disaster recovery plans | | | | |
| Sponsor contribution not made timely | | | Low | Medium | Communication with plan sponsor | | | | |

Mission Statement: Providing Promised Benefits

The mission statement of COAERS: Provide our members their promised benefits.




CITY OF AUSTIN
EMPLOYEES'
RETIREMENT SYSTEM

STRATEGIC PLAN
2022 - 2026

Mission Risk Management: Cash Management

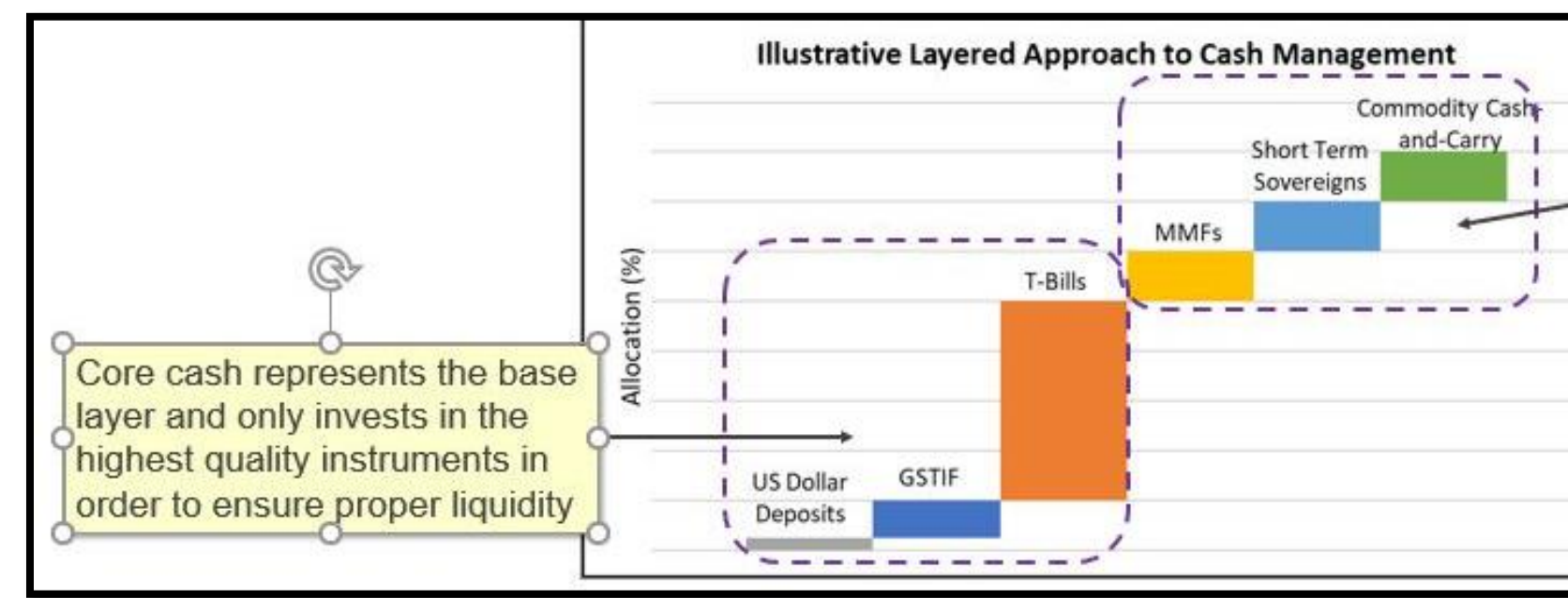
2020 Cash Flow Analysis



City of Austin Employees' Retirement System

| | 2020 Forecast | | | Semi Stressed 2020 Forecast | | | Stressed 2020 Forecast | | |
|-------------------------|---------------|------------|--------------|-----------------------------|------------|--------------|------------------------|------------|--------------|
| | Average | May 2020 | October 2020 | Average | May 2020 | October 2020 | Average | May 2020 | October 2020 |
| Inflow | 15,125,000 | 22,800,000 | 22,012,500 | 15,125,000 | 22,800,000 | 22,012,500 | 14,106,502 | 21,021,003 | 20,833,503 |
| Outflow | 20,030,197 | 19,876,061 | 20,026,258 | 20,282,562 | 20,142,501 | 20,201,084 | 20,507,392 | 20,357,453 | 20,387,477 |
| Cash Need | 4,905,197 | | | 5,157,562 | | | 6,400,890 | | |
| | 2020 Forecast | | | Semi Stressed 2020 Forecast | | | Stressed 2020 Forecast | | |
| Highest Monthly Outflow | | 21,074,576 | | | 21,516,252 | | | 21,828,013 | |

Annually, Staff performs a prospective cash flow analysis for the upcoming fiscal year which establishes a baseline, or “green” scenario. Additionally, a semi-stressed or “yellow” and stressed or “red” scenario, are also reviewed and plans discussed for managing those scenarios should they arise during the year.



Cash instruments are categorized as either core cash or incremental cash. Core cash is the base layer utilized for the System to maintain adequate liquidity to meet its obligations.

Mission Risk Management



Disaster Recovery and Business Continuity Plan

Policies and Procedures

2. Penetration Testing

External Network Penetration Testing

The external network penetration test identifies public-facing vulnerabilities that could be exploited by an attacker to gain access to private systems/data from the Internet. The assessment begins with a thorough analysis of the entity's public Internet and Darknet exposure; searches are conducted that discover employee information (names, titles, email addresses, passwords, etc.) which could be used to aid in an attack. Hostnames, IP addresses, websites, and exposed ports/services are also enumerated.

Once the discovery phase is completed, vulnerabilities are identified and analyzed, and manual exploitation attempts are performed. Key web applications discovered are assessed for most common vulnerabilities. If access is achieved, the assessor demonstrates the level of risk as is permitted by pre-defined rules of engagement.

Deliverables for this engagement include a detailed report and debriefing provided by the testing consultant. Reporting includes vulnerabilities ranked by risk, step-by-step narratives with screenshots for all exploited vulnerabilities, and remediation guidance.



Internal Network Penetration Testing

Penetration testing of an entity's internal, or "private side" network is a critical, yet oftentimes overlooked aspect of cybersecurity due diligence. It is ill-advised to conclude assets residing on the internal network are protected because the perimeter is secure. The objective of this assessment is to evaluate the internal network's risk exposure to insider threats, computers infected by sophisticated malware, or a malicious intruder who has gained access inside the network perimeter.

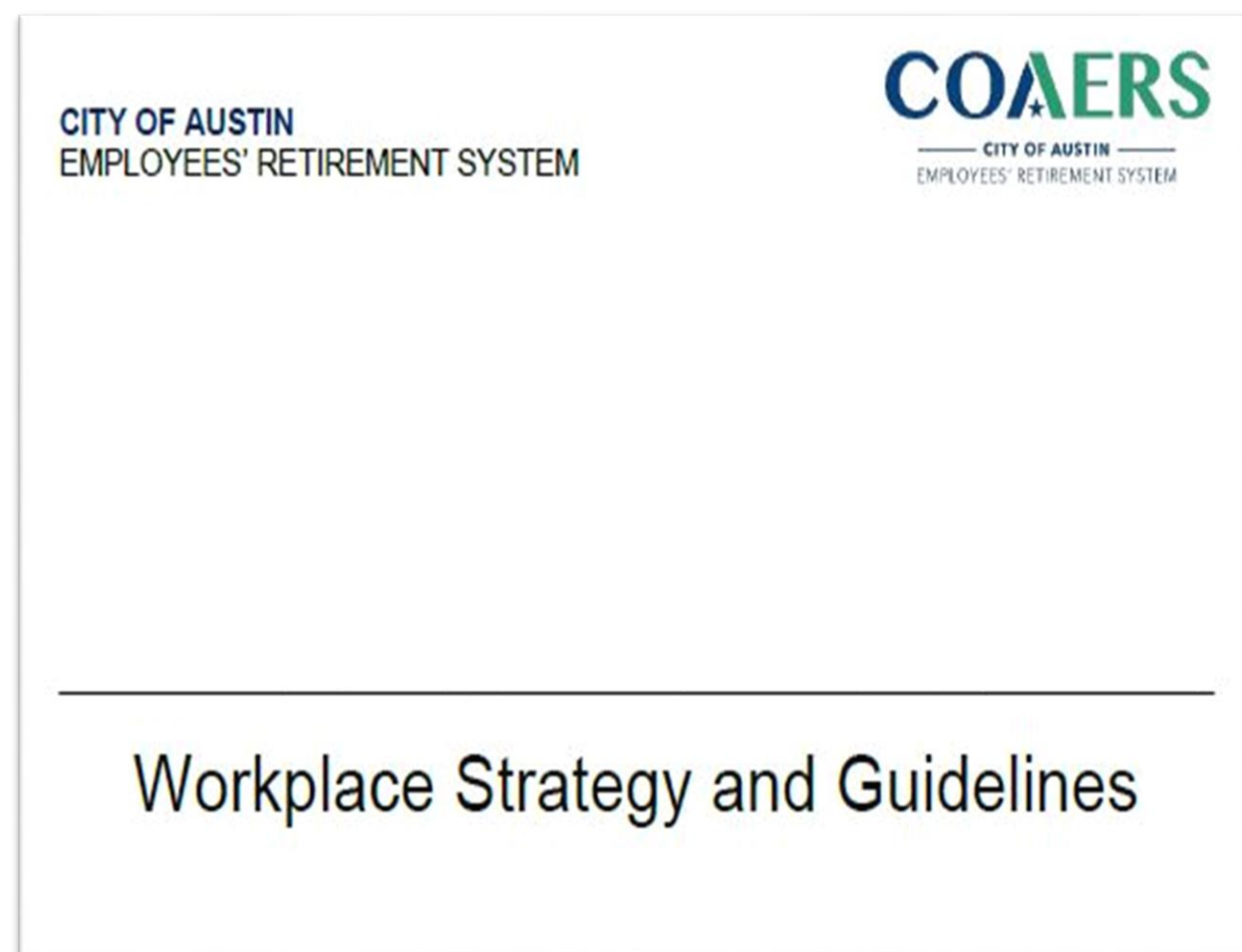
Penetration Testing



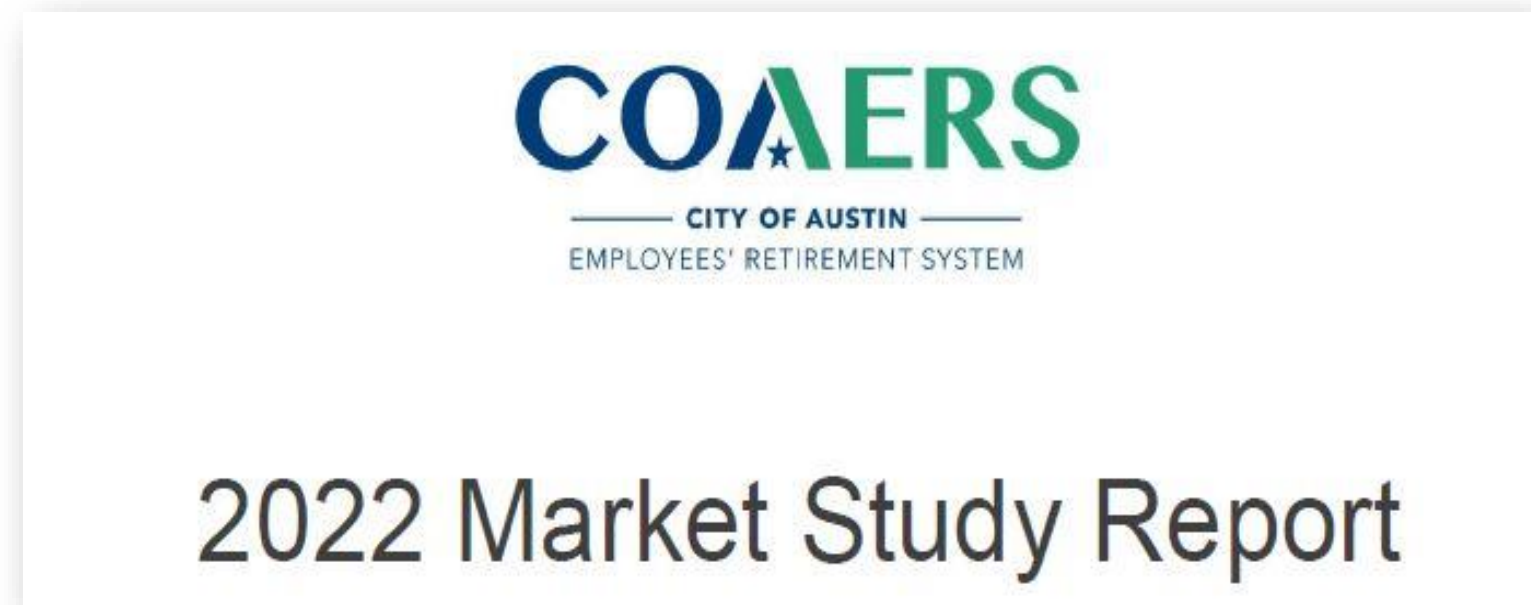
Personnel Risks

| Risk Category | Risk Description | Rank | Risk Level 2022 | 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 | 9 | Medium | Medium | ↔ | Mitigate | Executive Director | Governance and Human Resources Committee, and Board of Trustees | |
| Current Status Summary (Trending) | 2023 Risk Management Activities | | | | | | | Activity Status | |
| Retirement eligibility of a few mission critical employees will continue through 2026. The red-hot labor market may be showing signs of normalization. While COAERS experienced turnover in 2022, all vacant positions were filled with qualified talent. Member Services restructuring will add capacity and development opportunities. | | | | | | | | OPEN | CLOSED |
| | Implement Member Services team restructure. | | | | | | | x | |
| | Provide training to new hires and professional development for existing staff. | | | | | | | x | |
| | Implement HR technology for more efficient and employee-friendly HR experience. | | | | | | | x | |
| | Continue long-term staffing assessment across all divisions. | | | | | | | x | |
| Notable Risks (Root Causes) | | | Probability | Impact | Risk Management Strategies and Action Items | | | | |
| Employee burnout | | | High | Medium | Health insurance; "fit to work" | | | | |
| Employee retention and turnover | | | Medium | Medium | Cross-training for each position; Workplace Strategy and Guidelines | | | | |
| Ability to attract top talent | | | Medium | Medium | Market compensation studies; Well-articulated compensation philosophy | | | | |
| 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 | | | | |
| Employee resistance to culture change | | | Low | Medium | Management promoting culture statement | | | | |

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.



COAERS regularly conducts market studies to ensure pay structures and compensation philosophy are appropriate in each employment market environment. The last market study was completed in 2022.

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



Enterprise Risk Management Report

| | | | | | | | | | | | Audit and Risk Committee 2023 review |
|-------------------|------------------|-----------|-----------|-----------------|-----------------|--|-----------------------|---|---|------------------|---|
| Risk Category | Risk Description | 2022 Rank | 2023 Rank | Risk Level 2022 | Risk Level 2023 | Expected Risk Level Trend (next 12 months) | Risk Response | Risk Owner | Reporting and Oversight Committee | | |
| 1st Quartile Risk | FUNDING | 1 | 1 | High | High | ↑ | Mitigate | Executive Director | Benefits and Services Committee | Q1 | |
| | MARKET | 2 | 2 | High | High | ↑ | Accept | Chief Investment Officer | Investment Committee | Q1 | |
| | CYBER | 3 | 3 | High | High | ↑ | Mitigate | Chief Information Officer | Audit and Risk Committee | Q1 | |
| 2nd Quartile Risk | OPERATIONAL | 4 | 4 | Medium | Medium | ↔ | Mitigate | Deputy Executive Director | Audit and Risk Committee | Q2 | |
| | LEGISLATIVE | 6 | 5 | Medium | Medium | ↑ | Mitigate | Executive Director | Legislative Committee | Q1 | |
| | COUNTERPARTY | 8 | 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 | Q2 | |
| 3rd Quartile Risk | MISSION | 7 | 7 | Medium | Medium | ↔ | Mitigate | Executive Director and Deputy Executive Director | Audit and Risk Committee, and Investment Committee | Q2 | |
| | GOVERNANCE | 5 | 8 | Medium | Medium | ↓ | Mitigate and Transfer | Board of Trustees | Governance and Human Resources Committee | Scheduled for Q3 | |
| | PERSONNEL | 9 | 9 | Medium | Medium | ↔ | Mitigate | Executive Director | Governance and Human Resources Committee, and Board of Trustees | Q2 | |
| 4th Quartile Risk | PHYSICAL | 10 | 10 | Low | Low | ↔ | Mitigate | Executive Director and Deputy Executive Director | Board of Trustees | Scheduled for Q3 | |
| | REPUTATIONAL | 11 | 11 | Low | Low | ↔ | Mitigate | Executive Director | Board of Trustees | Scheduled for Q3 | |
| | ADAPTABILITY | 12 | 12 | Low | Low | ↔ | Mitigate | Executive Director | Board of Trustees | Scheduled for Q3 | |



Enterprise Risk Management Report

| Risk Category | Risk Description | Rank | Risk Level | Risk Level | Expected | Risk Response | Risk Owner | Reporting and Oversight Committee | | |
|--|---|---|------------|------------------------|---|--|--------------------|-----------------------------------|------------------------|--------|
| | | | 2022 | 2023 | Risk Level | | | | | |
| | | | | Trend (next 12 months) | | | | | | |
| FUNDING | A lack of sound funding for the plan could lead to insufficient assets to pay for long-term benefits and financial obligations. | 1 | High | High | ↑ | Mitigate | Executive Director | Benefits and Services Committee | | |
| 1st Quartile Risk | Current Status Summary (Trending) | 2023 Risk Management Activities | | | | | | | Activity Status | |
| | System funded ratio and amortization period expected to deteriorate due to 2022 market losses. | Seek passage of pension legislation to address long-term financial sustainability | | | | | | | OPEN | CLOSED |
| | | Conduct 12/31/2022 actuarial valuation and risk sharing valuation study | | | | | | | x | |
| | | Update Funding Policy with City of Austin and continue reporting to Board | | | | | | | x | |
| | | Inform members and stakeholders on legislative progress and provide notice of bill enactment and effective dates of admin changes | | | | | | | x | |
| | | Host stakeholder meeting on funded status of the System | | | | | | | x | |
| | | Continue regular cash flow and benefit monitoring. | | | | | | | x | |
| | Notable Risks (Root Causes) | | | Probability | Impact | Risk Management Strategies and Action Items | | | | |
| Assets insufficient to fund liabilities | | | High | High | Annual Actuarial Valuation and Board Funding Policy | | | | | |
| Contribution rates are not sufficient to fund benefits | | | High | High | Asset/Liability Study | | | | | |
| Sponsor closes DB plan in favor of DC plan | | | High | Medium | Communication with membership | | | | | |
| Unexpected decline in sponsor payroll | | | Medium | Medium | Cash flow monitoring and monthly benefit reporting | | | | | |
| Rate of Return assumption too aggressive | | | Medium | Medium | Actuarial Experience Studies | | | | | |
| Unexpected increase in benefits payroll | | | Medium | Medium | Cash flow monitoring and monthly benefit reporting | | | | | |
| Actuarial miscalculation | | | Low | Medium | Actuarial Audit by sponsor | | | | | |



Enterprise Risk Management Report

| Risk Category | Risk Description | Rank | Risk Level | Risk Level | Expected | Risk Response | Risk Owner | Reporting and Oversight Committee | |
|--|---|------|--------------------|---------------|--|---------------|--------------------------|-----------------------------------|--------|
| | | | 2022 | 2023 | Risk Level Trend (next 12 months) | | | | |
| MARKET | Too little or too much exposure to market risk could lead to undesirable investment outcomes. | 2 | High | High | ↑ | Accept | Chief Investment Officer | Investment Committee | |
| Current Status Summary (Trending) | 2023 Risk Management Activities | | | | | | | Activity Status | |
| Large drawdown of -15% as of 12/31/2022 has increased realized volatility on a 5-year basis to near the upper end of the range targeted in policy. Relative outperformance has somewhat dampened the current drawdown in Fund AUM. | Conduct Asset/Liability and Asset Allocation study to evaluate appropriateness of the Strategic Asset Allocation | | | | | | | OPEN | CLOSED |
| | Update Investment Risk Framework by deploying investment risk management software to enhance risk management capabilities | | | | | | | x | |
| | Conduct CEM Investment Cost Benchmarking to evaluate value for investment fees paid | | | | | | | x | |
| Notable Risks (Root Causes) | | | Probability | Impact | Risk Management Strategies and Action Items | | | | |
| Large market drawdown | | | High | High | Investment Risk Framework | | | | |
| Lower longer-term performance vs. assumed rate | | | Medium | High | Strategic Asset Allocation Study and Asset/Liability Study | | | | |
| Failure to adapt diversification strategy | | | Medium | High | Investment Risk Framework | | | | |
| Poor investment manager performance | | | Medium | Medium | Premier List | | | | |
| Poor implementation of policy leads to underperformance vs. the benchmark | | | Medium | Medium | Annual review of key policies, regular performance rating | | | | |
| Poor value for investment fees paid | | | Low | Medium | Premier List and CEM Investment Benchmarking | | | | |
| Chasing performance | | | Low | Medium | Strategic Asset Allocation Reviews (annual) | | | | |

1st Quartile Risk



Enterprise Risk Management Report

| Risk Category | Risk Description | Rank | Risk Level | Risk Level | Expected Risk Level Trend (next 12 months) | Risk Response | Risk Owner | Reporting and Oversight Committee | | |
|---|--|---|--|--|--|---------------|---------------------------|-----------------------------------|------------------------|--------|
| | | | 2022 | 2023 | | | | | | |
| 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. | 3 | High | High | ↑ | Mitigate | Chief Information Officer | Audit and Risk Committee | | |
| 1st Quartile Risk | Current Status Summary (Trending) | 2023 Risk Management Activities | | | | | | | Activity Status | |
| | Cyber activity continues to increase globally. Breaches and attacks have grown significantly since the outset of the COVID-19 pandemic. While the System has taken significant steps to improve its cybersecurity posture, this activity would indicate this risk trend is increasing. | Continue to develop and build security program utilizing NIST compliance. | | | | | | | OPEN | CLOSED |
| | | Continue build out of best-in-class disaster recovery. | | | | | | | x | |
| | | Continue to mature IT security program. | | | | | | | x | |
| | | Implement third-party vendors risk management to key vendors. | | | | | | | x | |
| | | Perform network penetration testing. | | | | | | | x | |
| | Notable Risks (Root Causes) | Probability | Impact | Risk Management Strategies and Action Items | | | | | | |
| Cyberattack causes loss of money, data, business disruption, or sponsor to miss contributions | Medium | High | MSSP and IT Security Program; Web Application Firewall; HA Palo Alto; Global Protect VPN and Wildfire subscriptions; SOC | | | | | | | |
| Phishing attack (ransomware, credential harvesting) | Medium | High | KnowBe4 Security Awareness Training and Phish Tests; HA Palo Alto | | | | | | | |
| Website attack (DDos, SQL Injection, Cross site scripting, Illegal resource access) | Medium | High | MSSP and IT Security Program; Web Application Firewall; HA Palo Alto | | | | | | | |
| 3rd party data breach | Medium | Medium | Annual 3rd party security reviews; Compliance Manager software; Vendor Risk Mgmt | | | | | | | |
| Internal COAERS employee attack | Low | High | KnowBe4 Security Awareness Training; Strict financial auditing controls and separation of duties; IT Security policies; Data management and classification | | | | | | | |
| IT disruptions caused by outdated hardware and software | Low | Medium | Asset management/Patch management | | | | | | | |
| Member Direct user imposter | Low | Medium | LexisNexis; MFA; Membership education on cybersecurity awareness | | | | | | | |



Enterprise Risk Management Report

| Risk Category | Risk Description | Rank | Risk Level | Risk Level | Expected | Risk Response | Risk Owner | Reporting and Oversight Committee | | |
|---|--|---|------------|--------------------|---|---|---------------------------|-----------------------------------|------------------------|--------|
| | | | 2022 | 2023 | Risk Level Trend (next 12 months) | | | | | |
| OPERATIONAL | Event causes a major business interruption | 4 | Medium | Medium | ↔ | Mitigate | Deputy Executive Director | Audit and Risk Committee | | |
| 2nd Quartile Risk | Current Status Summary (Trending) | 2023 Risk Management Activities | | | | | | | Activity Status | |
| | Post pandemic operations have been put in place as the new normal mode of conducting business. Customer survey results are positive and within strategic plan threshold. New audit firm relationship is strong. Policies and procedures update. Financial controls in place. | Conduct 12/31/2022 financial statement audit. | | | | | | | OPEN | CLOSED |
| | | Continue implementation of RSM Rapid Assessment recommendations. | | | | | | | x | |
| | | Continue the development of COAERS IT Roadmap for operational technology upgrades in the future. | | | | | | | x | |
| | | Implement restructure of work teams to mitigate effects of attrition and handle future demand for services. | | | | | | | x | |
| | Notable Risks (Root Causes) | | | Probability | Impact | Risk Management Strategies and Action Items | | | | |
| | Obsolescence of service delivery methods | | | Medium | Medium | Communication with membership regarding business operations | | | | |
| | IT disruptions | | | Medium | Medium | Capital Improvement Plan | | | | |
| | Pandemic or natural disaster | | | Medium | Medium | COAERS Workplace Strategy and Guidelines | | | | |
| | Customer service failures | | | Medium | Medium | Employee Training/Reviews/Internal Communication | | | | |
| Accounting and reporting | | | Low | High | Financial Statement Audit | | | | | |
| Fraud | | | Low | High | Internal controls, policies, and procedures | | | | | |
| Business Continuity | | | Low | High | Backup & Disaster Recovery Plan/Testing | | | | | |
| Failure to follow applicable laws, regulations and policies | | | Low | Medium | Legal reviews by tax and general counsel | | | | | |
| Benefit payment inaccuracies | | | Low | Medium | Internal controls, policies, and procedures | | | | | |
| Records management | | | Low | Low | Electronic File & Delivery Systems | | | | | |



Enterprise Risk Management Report

| 2nd Quartile Risk | Risk Category | Risk Description | Rank | Risk Level 2022 | 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 | 5 | Medium | Medium | ↑ | Mitigate | Executive Director | Legislative Committee | | |
| | Current Status Summary (Trending) | | 2023 Risk Management Activities | | | | | | | Activity Status | |
| | The 88th Legislative Session begins in January 2023. COAERS will be seeking the passage of legislation to improve the long-term financial sustainability of the System. | | Seek passage of pension legislation. | | | | | | | OPEN | CLOSED |
| | | | Engage and educate key stakeholders and policymakers regarding COAERS 88th Legislative Session agenda. | | | | | | | x | |
| | | | Develop and adopt COAERS legislative agenda for 88th Session. | | | | | | | x | |
| | | | Engage stakeholders regarding legislative agenda and priorities. | | | | | | | x | |
| | Notable Risks (Root Causes) | | | | Probability | Impact | Risk Management Strategies and Action Items | | | | |
| | State forces legislative changes to plan | | | | High | 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 | | | | High | 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) | | | | High | High | Monitor sentiments; address concerns | | | | | |
| Outside organizations promoting anti-DB policies | | | | High | Medium | Identify potential opposition groups and stakeholders and create unified messaging to combat misinformation | | | | | |
| Negative or inaccurate media content | | | | High | Medium | Develop relationships with industry media; Proactive media outreach; Engage consulting/crisis communications | | | | | |
| Social media comments | | | | High | Low | Social Media Policy | | | | | |
| Unauthorized contact with media | | | | High | Low | Communications Policy | | | | | |
| Lack of alignment with plan sponsor | | | | Low | Medium | Develop and maintain strong communication with appropriate plan sponsor liaisons | | | | | |



Enterprise Risk Management Report

| Risk Category | Risk Description | Rank | Risk Level | Risk Level | Expected | Risk Response | Risk Owner | Reporting and Oversight Committee | | |
|---------------------------------------|--|--|------------|------------|---|---------------|---|---|------------------------|---------------|
| | | | 2022 | 2023 | Risk Level Trend (next 12 months) | | | | | |
| COUNTERPARTY | Business partners or entities are unable to fulfill their obligations or do not complete transactions as agreed upon. | 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 | | |
| 2nd Quartile Risk | Current Status Summary (Trending) | 2023 Risk Management Activities | | | | | | | Activity Status | |
| | Key vendor relationships are well-established and vendors are generally meeting expectations. Committees review key service providers such as investment consultant, actuary, and legal counsel. Third-party IT vendor compliance budgeted and implementation is planned for 2023. Results could reveal additional risks that would need to be addressed. Facility needs may lead to new vendor relationships. | Continual underwriting of premier list managers. | | | | | | | OPEN | CLOSED |
| | | Issuance of RFP for General Investment Consultant. | | | | | | | | |
| | | Comprehensive review of custodial bank relationship | | | | | | | x | |
| | | Annual review to Committees of key service providers. | | | | | | | x | |
| | | Third-party IT security audits for mission-critical service providers. | | | | | | | x | |
| | | Notable Risks (Root Causes) | | | | | | | Probability | Impact |
| IT security providers and consultants | | | Medium | High | Annual 3rd party security reviews; Compliance Manager software; Vendor Risk Management | | | | | |
| City of Austin contribution issues | | | Low | High | Communication with plan sponsor; cash management program | | | | | |
| Custodial banks | | | Low | High | IC Dashboard to monitor counterparty ratings | | | | | |
| Actuary | | | Low | Medium | Actuarial audits | | | | | |
| Legal counsel | | | Low | Medium | Engagement with specialized counsel | | | | | |
| Investment managers | | | Low | Medium | Premier List; Due Diligence | | | | | |
| Operating bank | | | Low | Medium | Monitor operating bank counterparty ratings; conduct security assessment; revisit interest credit rates; research alternative vendors | | | | | |
| Brokers and related vendors | | | Low | Low | Transaction Cost Analysis | | | | | |
| Medical consultants | | | Low | Low | Engagement with multiple parties including outsourced medical service provider program | | | | | |
| Investment consultant | | | Low | Low | Annual review of general investment consultant, issuance of RFP | | | | | |



Enterprise Risk Management Report

| Risk Category | Risk Description | Rank | Risk Level | Risk Level | Expected | Risk Response | Risk Owner | Reporting and Oversight Committee | | |
|---|---|--|------------|------------|--|---------------|--|--|------------------------|------------------------|
| | | | 2022 | 2023 | Risk Level | | | | | Trend (next 12 months) |
| MISSION | Inability to make monthly retirement benefit payments | 7 | Medium | Medium | ↔ | Mitigate | Executive Director and Deputy Executive Director | Audit and Risk Committee, Investment Committee | | |
| 3rd Quartile Risk | Current Status Summary (Trending) | 2023 Risk Management Activities | | | | | | | Activity Status | |
| | Trust fund liquidity and cash management activities continue to ensure promised benefits are paid. Successful initial tests of new disaster recovery system completed in 2022 along with new policies related to business continuity. Finance and Member Service division staff levels continue to support mission-critical activities in the near future, with long-term staffing assessment underway. | Cash projections and liquidity management. | | | | | | | OPEN | CLOSED |
| | | Penetration testing to ensure systems resiliency and identify any critical weaknesses. | | | | | | | x | |
| | | Continue to develop cross-training. | | | | | | | x | |
| | | Implement team restructuring and professional development. | | | | | | | x | |
| | | Notable Risks (Root Causes) | | | | | | | Probability | Impact |
| Employee turnover at critical positions | | | Medium | Medium | Succession planning and cross-training | | | | | |
| Lack of liquidity to make annuity payments | | | Low | High | Liquidity monitoring | | | | | |
| Failure to transmit bank files for payments | | | Low | High | Cash management program | | | | | |
| Cyberattack causes loss of money, data, business disruption, or sponsor to miss contributions | | | Low | High | Managed Service Security Provider/Security Program | | | | | |
| IT system outages | | | Low | Medium | Business continuity and disaster recovery plans | | | | | |
| Sponsor contribution not made timely | | | Low | Medium | Communication with plan sponsor | | | | | |



Enterprise Risk Management Report

| Risk Category | Risk Description | Rank | Risk Level | Risk Level | Expected | Risk Response | Risk Owner | Reporting and Oversight Committee | | |
|---|--|---|---|-----------------------------------|------------|-----------------------|-------------------|--|---------------|--|
| | | | 2022 | 2023 | Risk Level | | | | | Trend (next 12 months) |
| GOVERNANCE | Not following processes and procedures in decision making | 8 | Medium | Medium | ↓ | Mitigate and Transfer | Board of Trustees | Governance and Human Resources Committee | | |
| 3rd Quartile Risk | Current Status Summary (Trending) | 2023 Risk Management Activities | | | | | | Activity Status | | |
| | The implementation of the 2020 Governance Effectiveness Assessment has been completed. Board policy review cycles have been established and are monitored. Recently created policies such as the Board Governance Manual, Diversity Policy, Emergency Succession Policy, and Communications Policy bolster already effective Board governance. | Implementation of personalized Trustee education and professional development plans. | | | | | | OPEN | CLOSED | |
| | | Board Annual Self-Assessment | | | | | | | | |
| | | Trustee continuing education and utilization of Board Skills Matrix to expand trustee training options. | | | | | | x | | |
| | | Begin to foster candidates for possible future Board appointment | | | | | | | | |
| | | Notable Risks (Root Causes) | | | | | | Probability | Impact | Risk Management Strategies and Action Items |
| | Ineffective Board leadership | Medium | Medium | Board and Trustee Self-Evaluation | | | | | | |
| Policy-making versus administration lines not held | Low | Medium | Training/Policy & Procedure | | | | | | | |
| Effectiveness of board governance declines | Low | Medium | Board Governance Effectiveness Survey Follow-Up | | | | | | | |
| Policies and procedures not followed or established | Low | Medium | Regular Policy Review | | | | | | | |
| Lack of appropriate skills | Low | Medium | Board Skills Matrix and Board Education Policy | | | | | | | |
| Lack of trust between trustees | Low | Medium | Communication/Board Workshops | | | | | | | |



Enterprise Risk Management Report

| Risk Category | Risk Description | Rank | Risk Level | Risk Level | Expected | Risk Response | Risk Owner | Reporting and Oversight Committee | | |
|---|--|---|------------|--------------------|--|---|--------------------|---|------------------------|--------|
| | | | 2022 | 2023 | Risk Level Trend (next 12 months) | | | | | |
| PERSONNEL | Ability to attract and retain talented staff; succession planning | 9 | Medium | Medium | ↔ | Mitigate | Executive Director | Governance and Human Resources Committee, and Board of Trustees | | |
| 3rd Quartile Risk | Current Status Summary (Trending) | 2023 Risk Management Activities | | | | | | | Activity Status | |
| | Retirement eligibility of a few mission critical employees will continue through 2026. The red-hot labor market may be showing signs of normalization. While COAERS experienced turnover in 2022, all vacant positions were filled with qualified talent. Member Services restructuring will add capacity and development opportunities. | Implement Member Services team restructure. | | | | | | | OPEN | CLOSED |
| | | Provide training to new hires and professional development for existing staff. | | | | | | | x | |
| | | Implement HR technology for more efficient and employee-friendly HR experience. | | | | | | | x | |
| | | Continue long-term staffing assessment across all divisions. | | | | | | | x | |
| | Notable Risks (Root Causes) | | | Probability | Impact | Risk Management Strategies and Action Items | | | | |
| | Employee burnout | | | High | Medium | Health insurance; "fit to work" | | | | |
| | Employee retention and turnover | | | Medium | Medium | Cross-training for each position; Workplace Strategy and Guidelines | | | | |
| | Ability to attract top talent | | | Medium | Medium | Market compensation studies; Well-articulated compensation philosophy | | | | |
| | 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 | | | | | |
| Employee resistance to culture change | | | Low | Medium | Management promoting culture statement | | | | | |



Enterprise Risk Management Report

| 4th Quartile Risk | Risk Category | Risk Description | Rank | Risk Level 2022 | Risk Level 2023 | Expected Risk Level Trend (next 12 months) | Risk Response | Risk Owner | Reporting and Oversight Committee | |
|---------------------------|---|---|------|--------------------|--|---|---------------|--|-----------------------------------|--------|
| | PHYSICAL | Inadequate facilities management; ineffective space utilization; staff effort to manage issues | 10 | Low | Low | ↔ | Mitigate | Executive Director and Deputy Executive Director | Board of Trustees | |
| | Current Status Summary (Trending) | 2023 Risk Management Activities | | | | | | | Activity Status | |
| | Hybrid work environment has mitigated certain physical risks. Long-term facilities decisions could be made at the beginning of 2023. Existing policies, procedures, vendors, and finances will need to be reviewed as long term facilities decisions are completed. | Long-term facility due diligence and planning for future office needs | | | | | | | OPEN | CLOSED |
| | | Review existing policies and guidelines such as workplace safety in accordance with long-term facility decisions. | | | | | | | x | |
| | Notable Risks (Root Causes) | | | Probability | Impact | Risk Management Strategies and Action Items | | | | |
| | Facility transition | | | Medium | Medium | Proper planning, communication, adaptability | | | | |
| | Threats to physical safety of employees | | | Low | High | RAVE application; Workplace Safety Policy; Fire Drills and Training | | | | |
| | Accidents or injury | | | Low | Medium | Workplace Safety Policy | | | | |
| | Physical risks created by facility management | | | Low | Medium | Facility management plan | | | | |
| Global pandemic | | | Low | Low | Workplace Strategy and Guidelines; Air quality monitoring; PPE where appropriate | | | | | |
| Public spaces in building | | | Low | Low | Key card system; Camera system | | | | | |



Enterprise Risk Management Report

| 4th Quartile Risk | Risk Category | Risk Description | Rank | Risk Level 2022 | Risk Level 2023 | Expected Risk Level Trend (next 12 months) | Risk Response | Risk Owner | Reporting and Oversight Committee | |
|--|--|---|--------------------|---|--|--|---------------|--------------------|-----------------------------------|--------|
| | REPUTATIONAL | Erosion of trust in organization either rapidly or slowly over a period of time | 11 | Low | Low | ↔ | Mitigate | Executive Director | Board of Trustees | |
| | Current Status Summary (Trending) | 2023 Risk Management Activities | | | | | | | Activity Status | |
| | Organizational outreach and communication regarding funding and legislative proposal provided transparency about challenges and solutions. Stakeholder comments have been received, reviewed, and to the extent possible addressed. COAERS leadership is engaged with stakeholders, the City, legislative contingent, and PRB. | Continue promoting COAERS value proposition to members including launch of new Financial Wellness event. | | | | | | | OPEN | CLOSED |
| | | Maintain contacts with industry media. | | | | | | | x | |
| | | Respond rapidly and effectively as situations develop. | | | | | | | x | |
| | | Keep stakeholders and membership informed and educated on key organization matters such as pension legislation. | | | | | | | x | |
| | Notable Risks (Root Causes) | | Probability | Impact | Risk Management Strategies and Action Items | | | | | |
| | Negative or inaccurate media content | | Medium | Medium | Develop relationships with industry media; Proactive media outreach; Engage consulting/crisis communications | | | | | |
| | Social media comments | | Medium | Low | Social Media Policy | | | | | |
| Unauthorized release of confidential information | | Low | High | Control procedures and processes/financial audit | | | | | | |
| Illegal/Unethical behavior | | Low | High | Code of Ethics, Whistleblower Policy; Personnel Policy | | | | | | |
| Poor outcomes for organization | | Low | Medium | Customer service training; Engaging with stakeholders; Transparency | | | | | | |
| Unauthorized contact with media | | Low | Low | Communications Policy | | | | | | |



Enterprise Risk Management Report

| Risk Category | Risk Description | Rank | Risk Level | Risk Level | Expected | Risk Response | Risk Owner | Reporting and Oversight Committee | |
|--|--|------|--------------------|---------------|---|---------------|--------------------|-----------------------------------|--------|
| | | | 2022 | 2023 | Risk Level Trend (next 12 months) | | | | |
| ADAPTABILITY | Inability to meet the strategic mission and vision of the organization; not achieving best outcomes for the system | 12 | Low | Low | ↔ | Mitigate | Executive Director | Board of Trustees | |
| Current Status Summary (Trending) | 2023 Risk Management Activities | | | | | | | Activity Status | |
| Strategic activities deployed in 2022 including the creation of an internal Innovation Committee. Strong engagement with staff led to several innovation submissions for review and implementation. Completed review of organizational strengths, challenges, threats, and opportunities at the Board and staff level. | Strategic KPIs for innovation. | | | | | | | OPEN | CLOSED |
| | Engagement with NACD, NCPERS, NASRA. | | | | | | | x | |
| | Develop and implement plans to build on key organizational strengths and address challenges. | | | | | | | x | |
| | Continue to promote culture statement internally and assess effectiveness through survey. | | | | | | | x | |
| Notable Risks (Root Causes) | | | Probability | Impact | Risk Management Strategies and Action Items | | | | |
| Inability to innovate | | | Low | Medium | Implement technology and industry best practices; Professional development; Promote innovation internally | | | | |
| Inability to use analytics and data | | | Low | Medium | Utilize data and analytics | | | | |
| Complacency and "we've always done it this way" | | | Low | Medium | Challenge traditional thinking; Engaging industry leading organizations; Executive Leadership | | | | |
| Employee resistance to culture change | | | Low | Medium | Culture statement; Executive Leadership | | | | |

4th Quartile Risk

6. Receive Staff reports on the following matters:

A. First quarter 2023 unaudited financial statements

B. Cybersecurity update

6A. First quarter 2023 unaudited financial statements

Presented by Yun Quintanilla



COMMITTEE MEETING Agenda Item Information Sheet

AGENDA ITEM 6:

Receive reports on the following matters:

- A. First quarter 2023 unaudited financial statements

AGENDA ITEM OBJECTIVE

This item presents the unaudited March 30, 2023 financial statements, which show the net position of the fund and related financial details.

RELEVANCE TO STRATEGIC PLAN

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

RECOMMENDATION FOR COMMITTEE ACTION

For informational purposes only; no action required.

ATTACHMENT

1. 03/31/2023 Unaudited Financial Statements

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM
Statement of Fiduciary Net Position
March 31, 2023

| | <u>Unaudited</u> | | <u>Variance</u> |
|---|--------------------------------|--------------------------------|------------------------------------|
| | <u>3/31/2023</u> | <u>3/31/2022</u> | <u>Favorable (Unfavorable)</u> |
| Assets | | | |
| Cash - operating accounts | \$ 17,715,698 | \$ 15,959,274 | \$ 1,756,424 |
| Receivables | 79,539 | 78,958 | 581 |
| Total cash and receivables | <u>17,795,237</u> | <u>16,038,232</u> | <u>1,757,005</u> |
| Investments, at fair value: | | | |
| US equities | 1,044,705,233 | 1,151,396,996 | (106,691,763) |
| DM Equities | 481,281,104 | 474,600,767 | 6,680,337 |
| EM Equities | 202,093,159 | 246,560,131 | (44,466,972) |
| Fixed income | 581,489,402 | 697,961,453 | (116,472,051) |
| Real assets | 470,475,392 | 578,372,638 | (107,897,246) |
| Multi-asset | 154,506,270 | 173,334,099 | (18,827,829) |
| Cash and cash equivalents | 103,248,131 | 19,409,603 | 83,838,528 |
| Total investments | <u>3,037,798,691</u> | <u>3,341,635,687</u> | <u>(303,836,996)</u> |
| Capital assets, net of depreciation | 32,089,454 | 3,944,726 | 28,144,728 |
| Total assets | <u>3,087,683,382</u> | <u>3,361,618,645</u> | <u>(273,935,263)</u> |
| Liabilities | | | |
| Payables: | | | |
| Accrued expenses | 430,032 | 284,973 | 145,059 |
| Payables and deposits - Mueller | 1,629,682 | - | 1,629,682 |
| Refunds and death benefits payable | 3,616,442 | 3,179,713 | 436,729 |
| Total liabilities | <u>5,676,156</u> | <u>3,464,686</u> | <u>2,211,470</u> |
| Net position restricted for pensions | <u>\$ 3,082,007,226</u> | <u>\$ 3,358,153,959</u> | <u>\$ (276,146,733)</u> |

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM
Statement of Changes in Fiduciary Net Position
For the Three Months Ended March 31, 2023

| | <u>Unaudited</u> | | <u>Variance</u> |
|--|-------------------------|-------------------------|--|
| | <u>3/31/2023</u> | <u>3/31/2022</u> | <u>Favorable</u> <u>(Unfavorable)</u> |
| Additions: | | | |
| Contributions: | | | |
| Employer contributions | \$ 36,380,548 | \$ 28,016,160 | \$ 8,364,388 |
| Employee contributions | 15,203,886 | 11,687,403 | 3,516,483 |
| Creditable service purchases | 1,729,694 | 2,367,254 | (637,560) |
| Total contributions | 53,314,128 | 42,070,817 | 11,243,311 |
| Investment Income: | | | |
| Realized gain/(loss) on investments | (4,657,070) | (25,709,331) | 21,052,261 |
| Unrealized gain/(loss) on investments | 132,259,358 | (163,612,829) | 295,872,187 |
| Net investment appreciation (depreciation) in fair value of investments | 127,602,288 | (189,322,160) | 316,924,448 |
| Dividends | 6,926,263 | 5,958,305 | 967,958 |
| Interest | 4,626,851 | 2,655,667 | 1,971,184 |
| Investment appreciation (depreciation) before expenses | 139,155,402 | (180,708,188) | 319,863,590 |
| Investment expenses: | | | |
| Investment manager fees | 1,095,524 | 1,313,364 | 217,840 |
| Custodial fees | 65,000 | 65,000 | - |
| Commissions & other fees | 21,346 | 12,500 | (8,846) |
| Investment consultant fees | 74,026 | - | (74,026) |
| Investment staff resources | 72,900 | 97,956 | 25,056 |
| Other expenses | 2,411 | 13,876 | 11,465 |
| Total investment expenses | 1,331,207 | 1,502,696 | 171,489 |
| Net investment appreciation (depreciation) | 137,824,195 | (182,210,884) | 320,035,079 |
| Other income | 225,805 | - | 225,805 |
| Total additions (deductions) | 191,364,128 | (140,140,067) | 331,504,195 |
| Deductions: | | | |
| Retirement annuities | 64,254,708 | 60,589,743 | (3,664,965) |
| Contributions refunded to terminating employees | 490,177 | 742,606 | 252,429 |
| DROP disbursements | 676,182 | 1,767,722 | 1,091,540 |
| Retiree lump-sum annuity | 960,973 | 1,737,530 | 776,557 |
| Death benefits | 879,471 | 648,855 | (230,616) |
| Total benefit payments, including refunds of member contributions | 67,261,511 | 65,486,456 | (1,775,055) |
| General and administrative expenses | 1,891,152 | 1,379,362 | (511,790) |
| Total deductions | 69,152,663 | 66,865,818 | (2,286,845) |
| Net increase/(decrease) in net position | 122,211,465 | (207,005,885) | 329,217,350 |
| Net position restricted for pensions: | | | |
| Beginning of year | 2,959,795,761 | 3,565,159,844 | (605,364,083) |
| End of period | \$ 3,082,007,226 | \$ 3,358,153,959 | \$ (276,146,733) |

6B. Cybersecurity update

Presented by Amy Kelley



COMMITTEE MEETING Agenda Item Information Sheet

AGENDA ITEM 6:
Receive Staff reports on the following matters:

B. Cybersecurity update

AGENDA ITEM OBJECTIVE

This agenda item allows the Committee to review the COAERS cybersecurity and network security activities.

RELEVANCE TO STRATEGIC PLAN

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

RECOMMENDATION FOR BOARD ACTION

No action required; for informational purposes only.

ATTACHMENT

1. Cybersecurity Program Update (CONFIDENTIAL)

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

Presented by Brad Sinclair



COMMITTEE MEETING Agenda Item Information Sheet

AGENDA ITEM 7:

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.

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.

RECOMMENDATION FOR COMMITTEE ACTION

Trustees will review key meeting takeaways and delineate next steps.

2023 Audit and Risk Committee Work Plan

Scheduled Quarterly Meetings

1. March meeting
 - ✓ Required Communications for 12/31/2022 audit
 - ✓ Quarterly review of Enterprise Risk Management program
 - ✓ Review of cybersecurity program
 - ✓ Quarterly Financial Statements
2. June meeting
 - ✓ 12/31/2022 financial statement audit presentation
 - ✓ Quarterly review of Enterprise Risk Management program
 - ✓ Review of cybersecurity program
 - ✓ Quarterly Financial Statements
3. August meeting
 - Quarterly review of Enterprise Risk Management program
 - Review of cybersecurity program
 - Annual review of financial audit service provider
 - Quarterly Financial Statements
4. November meeting
 - Annual review of Enterprise Risk Management program
 - Review of cybersecurity program
 - Quarterly Financial Statements
 - Engagement Letter - Auditor
 - 2024 Committee Work Plan