



MINUTES

INVESTMENT COMMITTEE

Public Meeting held in person and videoconference

on February 18, 2022 at 10:00 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†
Chris Noak †

Guests:
Ian Bray*, RVK
Spencer Hunter*, RVK
Paige Saenz*, General
Counsel
Diana Maldonado*
Joe Ebisa WithIntelligence*

Other Board Trustees Present/(Absent)

(Kelly Crook)
Yuejiao Liu†
(Leslie Pool)
(Anthony B. Ross, Sr.)
(Brad Sinclair)
(Diana Thomas)

Others Present

Staff:
Christopher Hanson†
David Stafford
Sarah McCleary
Ty Sorrel
Kelly Doggett*
Yun Quintanilla*
Mehrin Rahman
Jenni Bonds*

* present telephonically

† present via videoconference

1 Call meeting to order

Chair Benson called the meeting to order at 10:01 a.m. The following Committee members were present in person: Mr. Benson and Dr. Granof. The following Committee members were in virtual attendance: Ms. Hunter, Mr. Lavine and Mr. Noak.

2 Review order of business and establish meeting objectives

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

3 Receive public comments

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

4 Consider approval of the November 19, 2021 Investment Committee minutes

Chair Benson asked the Committee to review the Investment Committee minutes. Mr. Chris Noak moved approval of the November 19, 2021 Investment Committee minutes. Ms. Amy Hunter seconded, and the motion passed 4-0, with Mr. Lavine abstaining.

5 Discuss and consider 2022 Investment Committee work plan

The Committee reviewed the proposed Committee work plan and suggested to Staff that the work plan was reasonable as presented.

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

The Committee reviewed investment performance and market data from RVK through December 31, 2021. Fund investments gained 5.20% net of fees during the quarter and gained 12.99% during the trailing one-year period.

Mr. David Stafford reviewed the investment strategy dashboard and noted that net returns were very high over a 3-, 5-, and 10-year horizon and exceeded the assumed actuarial rate of return for the system. Mr. Stafford also noted that risk-adjusted returns were high over the trailing 10-year period with a Sharpe ratio of 1.01.

Mr. Stafford also reviewed the compliance report, the delegation of authority report, and the investment cash activity report.

7 Discuss and consider investment strategy including Investment Risk Framework

As required annually by policy, Mr. Stafford reviewed with the Committee the Investment Risk Framework process, including key concepts and philosophy. Mr. Stafford noted that after an internal review of the policy, staff did not recommend any proposed updates.

Additionally, Mr. Stafford reviewed the risk/return outlook for the Fund via the IRF. He noted that markets imply volatility for the Fund of 13.5% in the near-term, slightly above the long-term risk budget of 10-12% set forth in the Investment Policy Statement. He also noted that the equity earnings yield remains in line with its longer-term average and that correlations between US Treasuries and Global Equities have been challenged over shorter time horizons, though not enough to suggest a regime shift.

Mr. Stafford noted that Fund positioning near neutral at the asset class level remained appropriate and that this process had produced better risk-adjusted returns than the Policy Benchmark.

*Trustees took a break from 11:22 to 11:28 a.m.
Mr. Noak returned to the meeting at 11:31 a.m.*

8 Discuss and consider investment implementation including Premier List for Multi-Asset

Mr. Ty Sorrel presented an update on implementation activities during the fourth quarter, reviewed the manager monitoring report, and discussed investment manager fees by quarter.

Mr. Stafford outlined the evolution of Multi-Asset allocation for the COAERS fund, noting the lessons learned along the way. He discussed some of the organizational challenges faced by the System over time and the ways in which these challenges have been successfully addressed. Mr. Stafford suggested that Staff views the continuing evolution of this asset class as important in informing investment strategy, and noted that it may be prudent to consider proposed restructuring into new asset classes or approaches in the future.

Mr. Sorrel reviewed the performances of both sub-asset classes in Multi-Asset, including individual manager performance. Mr. Sorrel noted certain challenges with current mandates including timeliness of market commentary and strategy adherence. Mr. Sorrel also discussed the key takeaways from implementing multi-asset allocations such as strategy, mandate sizing, and fees. He then proposed several changes to the Premier Lists for Multi-Asset.

Ms. Amy Hunter left the meeting at 12:00 p.m.

Mr. Chris Noak moved to recommend to the Board the proposed changes to the Multi-Asset Premier Lists and to direct Staff to develop a funding implementation plan to present at the March Board meeting. Dr. Granof seconded, and the motion passed 4-0.

9 Discuss and consider strategic goals and policies of the investment program including: A. Capital markets assumptions, program goals, and guidelines

Mr. Spencer Hunter reviewed the capital market assumptions for 2022 and noted expected returns were slightly lower compared to 2021 capital market assumptions. When modeling inputs for the neutral Strategic Asset Allocation, he noted that projections for implied returns were 5.03%, which is less than the assumed rate of return of 7.00%. Considering the distribution of expected outcomes, he shared Monte Carlo data that suggested the probability of exceeding 7.00% was 33% over a 10-year horizon, absent any implementation gains. He stated that naively increasing the long-term expected compound return would imply a significant increase in expected risk.

Mr. Stafford reviewed how these capital market assumptions and other measures fit into the overall goals for the investment program. He presented data suggesting that RVK capital market assumptions are in line with other providers and that the risk premium for earned by the System was the highest it has been in over 25 years. Using RVK capital market assumptions, Mr. Stafford suggested that the strategic asset allocation was appropriate to achieve risk budgets prescribed in policy. He also reported that these risk budgets provided a way to bridge the gap between expected passive market returns and the actuarially assumed rate of return, though with little room for error. Mr. Stafford and Mr. Hanson recommended that the Committee thoughtfully consider ways to improve the likelihood of success for the Investment Program over a multi-quarter process. Staff proposed that the Committee first refresh the investment beliefs adopted in policy through a survey process and discussed other steps to be completed over the next six to twelve months.

B. Proposed revisions to the Investment Policy Statement and Investment Implementation Policy

As required annually by policy, Mr. Stafford reviewed current policies regarding the investment program and reported the current policies are remain appropriate. Mr. Stafford proposed changes to the Investment Policy Statement which included rank ordering in terms of importance the adopted return goals, clarifying the risk budget for the program, delegating authority to the Executive Director and General Counsel in the securities litigation process, and tweaking sub-asset class weights within Global Equities.

Mr. Noak moved to recommend that the Board adopt proposed changes to the Investment Policy Statement and the Investment Implementation Plan. Dr. Granof seconded, and the motion passed 4-0.

10 Receive update on Chief Investment Officer position

Mr. Christopher Hanson updated the Committee on the process to fill the Chief Investment Officer position. He noted that he had completed two rounds of interviews and would schedule the third round of in-person interviews soon.

11 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.

These minutes were approved at the May 20, 2022 Investment Committee meeting.