



MINUTES

INVESTMENT COMMITTEE

Public Meeting held in person and videoconference

on May 20, 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
Joe Ebisa WithIntelligence*
David Kushner
Matthew Featherston,
PRB*

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*
Amy Kelley*

* 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, Mr. Lavine, Mr. Noak, and Dr. Granof. The following Committee member was in virtual attendance: Ms. Hunter.

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 update on Chief Investment Officer Position

Mr. Christopher Hanson introduced David Kushner who will start on May 23, 2022 as COAERS' new Chief Investment Officer.

4 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.

5 Consider approval of the February 18, 2022 Investment Committee minutes

Chair Benson asked the Committee to review the Investment Committee minutes. Mr. Chris Noak moved approval of the February 18, 2022 Investment Committee minutes. Mr. Dick Lavine seconded, and the motion passed unanimously.

6 Review investment performance including strategy, compliance, and reporting

The Committee reviewed investment performance and market data from RVK through March 31, 2022. Fund investments lost 5.15% net of fees during the quarter and gained 5.29% during the trailing one-year period.

Mr. Noak left the meeting from 10:34 a.m. to 10:38 a.m.

Mr. David Stafford reviewed the investment strategy dashboard and noted that Staff continues to balance the long-term performance of the Fund with what has been a challenging current market environment. Mr. Stafford noted that the Fund exceeded the assumed rate of return and passive benchmark over the trailing 3-, 5- and 10-year periods. Mr. Stafford also presented data that suggested the Fund has been very well rewarded on a risk-adjusted basis.

Mr. Ian Bray and Mr. Spencer Hunter of RVK noted that the first quarter headwinds including inflation and supply chain disruption were exacerbated by soaring energy costs and commodity shortages caused by the war in Ukraine. Despite the Federal Reserve raising interest rates, inflationary pressures remained.

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

Mr. Stafford reviewed the risk/return outlook for the Fund via the IRF. He noted that markets imply elevated volatility for neutral Fund positioning. He further noted that the market environment is highly unusual with both stocks and bonds performing poorly at the same time, with both down more than 5% in the quarter. He also noted that US Treasuries are losing some of their efficacy as a hedge to equity risk, and that Fund positioning with heavy overweight to real assets remains appropriate. He discussed

the market environment for other diversifying exposures in the Fund including Cash & Equivalents and private markets exposures in Real Assets.

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

Trustees received an educational presentation given by both Ian Bray and Spencer Hunter of RVK, and by Mr. Stafford. RVK gave an overview of the broad fixed income universe including a discussion on the spectrum of risk/return profiles available across strategy types. This discussion included data on the challenges faced in the public, investment grade fixed income universe as well as the growing importance of private credit and below investment grade strategies.

Trustees took a break from 11:53 a.m. to 12:10 p.m.

Mr. Stafford noted that the Fund's Fixed Income portfolio as currently constructed is expected to serve as a hedge to equity risk through negative correlations and provide a source of liquidity. He also discussed the risks to this outlook and noted that it may be prudent to consider other ways to improve the diversification of the Fund. Mr. Stafford suggested that a carefully constructed portfolio of higher returning Fixed Income strategies could improve the likelihood of favorable outcomes for the Fund and laid out possible next steps for implementing such an approach.

For reporting purposes to the Pension Review Board, training began at 11:06 am and ended at 12:22 p.m., with a break as noted above.

9 Discuss and consider investment implementation including:

- A. Premier List for Fixed Income**
- B. Premier List for Cash and Equivalents**

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

Mr. Sorrel explained that Cash & Equivalents are implemented in a layered approach to assure that both operational and investment needs are effectively met. Core cash is held in extremely high-quality, liquid strategies and incremental cash is invested in strategies which provide improved yields with small marginal risks. This discussion also included data which suggested that Cash & Equivalents were becoming an increasingly important allocation tool. Mr. Sorrel proposed an update to the Premier List for Cash & Equivalents.

Mr. Noak moved to recommend the proposed change to the Premier List for Cash & Equivalents. Dr. Granof seconded, and the motion passed unanimously.

Mr. Sorrel reviewed the Fixed Income portfolio including the disaggregated portfolio construction with mandates in US Treasuries, US MBS, and US Credit. He reviewed data which suggested that the portfolio was well constructed to meet the intended

portfolio goals of hedging equity risk and providing liquidity despite inflationary headwinds. He then proposed changes to the existing Premier List for Fixed income.

Mr. Noak moved to recommend the proposed changes to the Premier List for Fixed Income. Mr. Lavine seconded, and the motion passed unanimously.

10 Discuss and consider investment beliefs, goals, and strategy

Mr. Stafford presented the results of the investment beliefs survey which was taken by Staff, Consultants, and Trustees. He noted strong agreement with the existing investment beliefs that are incorporated into the Investment Policy Statement. He also presented the more mixed results of prospective beliefs along with areas where Trustees had requested more information and educational opportunities.

Mr. Benson left the meeting at 1:45 p.m.

Mr. Noak chaired the remainder of the meeting.

11 Discuss and consider Investment Consultant including annual review and contracting

Trustees reviewed the current contract for RVK and considered the Staff evaluation of RVK performance. Staff noted that RVK remains a well aligned resource who provides high quality consulting services and recommended renewing the RVK contract for a final 2-year extension. Considering the significant progress that COAERS and the City of Austin working group have been making, Staff recommended an investment budget amendment to fund an asset liability study in 2022 rather than waiting until 2023.

Mr. Lavine moved to refer to the Board Amendment No. 3 to the Service Agreement between RVK and the System, and an amendment to the investment budget to add funding of \$55,000 in 2022 for an asset liability study. Dr. Granof seconded, and the motion passed 4-0.

12 Review key meeting takeaways and call for future agenda items

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

As there were no further items to address, the meeting adjourned at 2:00 p.m.

These minutes were approved at the August 26, 2022 Investment Committee meeting.