



CITY OF AUSTIN
EMPLOYEES' RETIREMENT SYSTEM

Public Meeting held in person and videoconference
on May 19, 2023 at 10:00 a.m. CT

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

**Committee Member
Present/(Absent)**

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

Guests:

Ian Bray, RVK
Spencer Hunter, RVK
Paige Saenz, General Counsel
Kevin Balaod,
WithIntelligence*
Issa Frampton, T Rowe Price*

**Other Board Trustees
Present/(Absent)**

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

Others Present

Staff:

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

* present telephonically
† present via videoconference

1 Call roll of Committee members

Committee Chair Liu called the meeting to order at 10:01 a.m. The following Committee members were present in person: Liu, Granof, Lavine, and Thomas. Trustee Benson was not on camera thus not considered present at this meeting except for purposes of receiving PRB training.

2 Review order of business and establish meeting objectives

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

3 Receive public comments

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

4 Consider approval of the April 21, 2023 Investment Committee minutes

Committee Chair Liu asked the Committee to review the Investment Committee minutes. Mr. Michael Granof moved approval of the April 21, 2023 Investment Committee minutes. Ms. Diana Thomas seconded, and the motion passed 4-0.

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

The Committee reviewed investment performance and market data from RVK through March 31, 2023. Fund investments increased 4.7% net of fees during the first quarter.

Mr. David Stafford discussed the investment strategy and the compliance dashboards. He shared data showing Fund returns were lower than the assumed rate of return over the trailing 10-years and that 3-year returns were skewed upward as a result of measuring from near the COVID lows. Additionally, he discussed relative returns noting the strong performance relative to the Passive Benchmark and near to the Policy Benchmark over longer periods of time. He noted that Staff completed Board approved rebalancing activities in the month of April that somewhat significantly changed Fund positioning when compared to the end of the first quarter.

Mr. Ian Bray of RVK noted that both defensive and risk assets generally provided positive returns during the first quarter, and although capital markets continued to experience bouts of volatility, broad equity market indexes finished the first quarter in positive territory. Investor sentiment was driven partly by the failure of three US banks, and the Federal Open Market Committee's decision to increase the federal funds rate target.

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

6 Discuss and consider Investment Risk Framework Process

Mr. Stafford presented the IRF update via a memo this quarter and asked for feedback on the reporting change. Trustees were supportive of the new format.

Mr. Stafford reported that the Fund is positioned with a heavy overweight to Cash & Equivalents and heavy underweights to Multi-Asset and Fixed Income as of the end of April 2023, based on best available data. Mr. Stafford suggested that in the view of Staff, this positioning in the Strategic Bands remained appropriate as the outlook had not materially changed since completion of the rebalance. He also noted that a key risk to this outlook was the likelihood of default on US Treasury debt, though Staff believed the actual likelihood to be close to 0%. He also suggested that Staff was prepared with a plan should this risk increase materially.

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

7 Receive educational presentation on Functionally Focused Portfolios

****This agenda item is considered in-house training provided by COAERS, an accredited sponsor of Minimum Educational Training (MET) for purposes of fulfilling the Pension Review Board's MET Program requirements.**

(For PRB purposes, this presentation began at 10:48 a.m. and ended at 11:36 a.m.)

Mr. David Stafford led an educational presentation on Functionally Focused Portfolio construction as a follow-up to a previous presentation on this concept to the Committee in April. He discussed applying this approach to the current Strategic Asset Allocation, noting that the Fund has approximately 70% exposure to Growth Assets. Additionally, he discussed the shortcomings of mean variance optimization processes used in setting asset allocations including the “fast food ordering” approach that gives the illusion of precision.

Mr. Stafford discussed the importance of using common sense in addition to quantitative measures for setting the asset allocation. He noted four steps of decision-making to better think through setting the Fund's asset allocation starting with determining the liquidity needs of the System, then selecting the amount of growth investments, then deciding the mix of growth investments, and finally choosing the mix of diversifying investments. Mr. Stafford discussed several methods to choose appropriate benchmarks under this framework which warranted further Committee and Board discussion. Additionally, he suggested that Staff believes that increasing Fund exposure to additional asset classes and strategy types was prudent to consider in this process and noted that Private Credit could be a near term consideration for the Committee.

Mr. Stafford then discussed potential policy considerations for this approach including those on investment beliefs, risk guidelines, risk modelling, permissible investments, and manager selection.

8 Discuss and consider investment implementation including Premier List for Fixed Income and Cash & Equivalents

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

Mr. Sorrel presented reports on both Fixed Income and Cash & Equivalents, including the historical context and the current construction and composition of those

asset classes. He observed that the allocation to Cash & Equivalents has been stable but has risen recently in response to higher short-term rates and increased opportunities. He noted that the Fixed Income allocation has changed several times over the years; in 2019 the Fixed Income portfolio was disaggregated into the current three sub-strategies and in 2020 US Treasury Futures were added.

Mr. Sorrel noted that Staff proposed no changes to the Premier List.

Mr. Lavine moved to recommend to the Board for approval the Premier Lists for Fixed Income and Cash & Equivalents as presented. Mr. Granof seconded, and the motion passed 4-0.

Trustees took a break from 12:07 p.m. to 12:35 p.m.

Ms. Thomas rejoined the meeting at 12:46 p.m.

9 Receive educational presentation on Private Credit

****This agenda item is considered in-house training provided by COAERS, an accredited sponsor of Minimum Educational Training (MET) for purposes of fulfilling the Pension Review Board's MET Program requirements.**

(For PRB purposes, this presentation began at 12:35 p.m. and ended at 1:41 p.m.)

Ty Sorrel, along with Ian Bray and Spencer Hunter of RVK, led an educational presentation regarding Private Credit as a follow-up to April's presentation. RVK presented several types of private credit strategies (distressed debt, direct lending, specialty finance, and asset-backed/real estate debt) and discussed their respective characteristics, such as risk and return, among other key attributes. Mr. Sorrel educated Trustees on four different approaches to private credit implementation, each with different benefits and drawbacks. Mr. Sorrel also briefly discussed different methods of benchmarking a private credit allocation.

Chair Liu directed Staff and RVK to proceed as discussed relating to the August Committee meeting as well as continuing work for the Asset Allocation Study and private equity education.

10 Discuss and consider Investment Consultant annual review

Mr. David Kushner shared Staff's assessment of investment consultant services by RVK, which was rated excellent. He reminded Trustees that the contract with RVK included an initial 3-year period that ended on June 30, 2020, and two potential extensions of 2 years. As last year the second and final 2-year contract extension was executed, COAERS will issue a Request for Proposal later this year.

Ms. Thomas left the meeting at 1:53 p.m. and rejoined at 2:05 p.m.

Mr. Benson left the meeting at 1:58 p.m.

11 Discuss and consider consultant selection for 2023 PRB Investment Practices and Performance Evaluation report

Mr. Hanson reported that after the Investment Committee's approval in February, Staff had issued a Request for Information (RFI) in March to complete the Investment Practices and Performance Evaluation Report. He noted that four firms responded, and results were summarized. Mr. Hanson discussed considerations in Staff's scoring of these responses and noted that two firms ranked highly.

Mr. Granof moved to recommend that the Board select RVK as the firm to conduct the 2023 Investment Practices and Performance Evaluation, and to direct Staff to negotiate a final contract with said firm in advance of the June 29 Board meeting. Ms. Thomas seconded, and the motion passed 4-0.

12 Receive key meeting takeaways and call for future agenda items

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

As there were no further items to address, the meeting adjourned at 2:25 p.m.