May 23, 2025 Investment Committee Meeting

Schedule	Friday, May 23, 2025 10:00 AM — 12:00 PM CDT
Venue	4700 Mueller Blvd., Suite 100, Austin, TX 78723
Organizer	Shawna Santos

Agenda

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3. Receive public comments 5
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   - **Vote** Vote to approve the April 9, 2025 Called Investment Committee minutes
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1. Call roll of Committee members

Presented by Ed Van Eenoo

COAERS

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.

Please note that logging in to this meeting in real-time on Convene will automatically mark you as “present”. Shawna will indicate in the minutes if you are in person or virtual. If there are any Trustees who have not yet logged into Convene, please indicate to Shawna so she can mark you as present.

2. Review order of business and establish meeting objectives

Presented by Ed Van Eenoo

COAERS

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

1. The Committee will receive reports on the first quarter 2025 investment performance, as well as compliance.
2. The Committee will conduct its review of the Fixed Income and Cash & Equivalents asset classes and consider recommendations.
3. The Committee will review recommendations related to the Global Equity portfolio.
4. The Committee will discuss and consider the Site Visit team recommendation related to the request for proposal for private markets investment consultant.

RELEVANCE TO STRATEGIC PLAN

This agenda item meets **COAERS Strategic Plan Goal 4: Identify and implement leading practices in board governance, pension administration, and investment management.** It is an industry best practice to establish meeting objectives and review them at the outset of each meeting.

3. Receive public comments

Presented by Ed Van Eenoo

COAERS

COMMITTEE MEETING
Agenda Item Information Sheet

AGENDA ITEM 3:
Receive public comments

AGENDA ITEM OBJECTIVE
This standing agenda item allows System members and members of the public the opportunity to provide comments to the Committee.

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

RELEVANCE TO STRATEGIC PLAN/CORE COMPETENCIES
This agenda item meets the core competency established in the **COAERS Strategic Plan** "*Transparency: Complying with open meeting and public information laws to ensure the decision-making process is clear to members and the public.*"

4. Consider approval of the April 9, 2025 Investment Committee Minutes

For Vote

Presented by Ed Van Eenoo

COAERS

COMMITTEE MEETING
Agenda Item Information Sheet

AGENDA ITEM 4:
Consider approval of the April 9, 2025 Investment Committee minutes

AGENDA ITEM OBJECTIVE
This standing agenda item seeks approval of the minutes from the prior Investment Committee meeting. The charter for the Investment Committee requires the Committee to keep minutes of its meetings.

RECOMMENDATION FOR COMMITTEE ACTION
Staff recommends approval of the minutes of the April 9, 2025 Investment Committee meeting.

RELEVANCE TO STRATEGIC PLAN
This agenda item meets the core competency established in the **COAERS Strategic Plan** "*Transparency: Complying with open meeting and public information laws to ensure the decision-making process is clear to members and the public.*"

ATTACHMENT
1. Draft minutes of April 9, 2025 Investment Committee meeting

COAERS
CITY OF AUSTIN
EMPLOYEES' RETIREMENT SYSTEM

MINUTES
CALLED INVESTMENT COMMITTEE MEETING
Public Meeting held in-person and videoconference
Pursuant to Texas Govt. Code 511.127
4700 Mueller Blvd., Suite 100, Austin, TX 78723
Wednesday, April 9, 2025 @ 10:00 a.m.

Committee Members	Others Present: Staff	Guests
Ed Van Eenoo, Committee Chair	Christopher Hanson	Paige Saenz, General Counsel
Dick Lavine, Vice Chair	Sarah McCleary	
Michael Granof	Russell Nash	
Anthony Ross	Jenni Bonds	
Diana Thomas	Shawna Santos	
Other Board Trustees	David Stafford	
Michael Benson	David Kushner	
Kelly Crook	Ty Sorrel	
Yuejiao Liu†	Kelly Doggett	
Chris Noak	Mehrin Rahman	
Ben Ellinor		* Present telephonically
(Krista Laine)		† Present via videoconference
		(Absent)

DRAFT

1. **Call roll of Committee members – Committee Chair Van Eenoo**

Committee Chair Van Eenoo called the meeting to order at 10:03 a.m. The following Committee members were present in person: Van Eenoo, Lavine, Granof, Ross and Thomas.

2. **Review order of business and establish meeting objectives – Committee Chair Van Eenoo**

Chair Van Eenoo referred Trustees to the order of business and meeting objectives. No changes were made to the order of business.

3. **Receive public comments – Committee Chair Van Eenoo**

Chair Van Eenoo 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 February 21, 2025 Investment Committee Minutes - Committee Chair Van Eenoo**

Chair Van Eenoo asked the Committee to review the February 21, 2025 Investment Committee minutes. Mr. Athony Ross requested to add an amendment to agenda item 9 (Discuss timeline for private markets consultant Request for Proposals (RFP) process, bid

submission, and establish review committee) of the minutes and advised it should include the matrix categories for awareness. The Committee accepted the amendment.

Ms. Diana Thomas moved to approve the February 21, 2025 Investment Committee meeting minutes with the recommendation of adding the matrix categories to agenda item 9. Mr. Dick Lavine seconded. The motion passed unanimously, 5 to 0.

5. Discuss and consider Private Markets Consultant Requests for Proposals including: (RFP) – Christopher Hanson

A. Results of scoring submitted bids

Mr. Christopher Hanson presented the results of the Private Market Consultant Request for Proposals. Mr. Hanson reported COAERS received bids from nine firms and that each bid was scored based on the scoring matrix approved by the Committee. Mr. Hanson reported that four firms consistently scored highest across the “Firm” and “Investment Capabilities” categories. Staff discussed and answered questions on the decision making and evaluation process.

Mr. Michael Benson arrived at 10:08 AM

Ms. Thomas moved to approve the recommended top four firms for the next phase of the RFP process. Ms. Thomas motioned the approval, and Mr. Lavine seconded. The motion passed 4 to 1 with Mr. Anthony Ross voting against.

B. Total scoring process and next steps

Mr. Hanson discussed scoring options for the next phase of the RFP and noted that Staff recommended RFP option 2 (cumulative scoring) for the Committee to consider for the next steps in the non-discretionary Private Markets Investment Consultant RFP process. The Committee discussed the two options and Staff answered questions.

Mr. Ross moved to approve RFP scoring option 2. Mr. Lavine seconded. The motion passed unanimously, 5 to 0.

6. Call for future agenda items – Committee Chair Van Eenoo

Chair Van Eenoo summarized the actions taken and the information discussed during the meeting. He asked for any future agenda items and there were no further items to address.

Chair Van Eenoo adjourned the April 9, 2025 Investment Committee meeting at 10:27 a.m.

DRAFT

5. Review of total portfolio, asset class, investment manager performance, and compliance reports for first quarter of 2025

Presented by Leo Festino and Stephanei Sorg

COAERS

COMMITTEE MEETING
Agenda Item Information Sheet

AGENDA ITEM 5:
Review of total portfolio, asset class, investment manager performance, and compliance reports for the first quarter of 2025

AGENDA ITEM OBJECTIVE
This agenda item is for the Committee to review the Fund's performance through March 31, 2025.

RECOMMENDATION FOR COMMITTEE ACTION
At the Committee's discretion.

ITEM SUMMARY
Meketa will lead a review of the Fund's performance through March 31, 2025. Additionally, Staff has provided standard quarterly reports in a consolidated fashion. Based on Trustee feedback to streamline meetings, standard quarterly reports have been included in the supplemental materials.

RELEVANCE TO STRATEGIC PLAN
This item allows the Committee to review Fund performance and assess the extent to which the System is meeting **COAERS Strategic Plan Goal 1: Achieve and maintain a funding level that ensures the long-term sustainability of the retirement system**. Long-term investment performance consistent with the investment program's goals is central to long-term system sustainability. Additionally, the agenda item allows the Committee to review the Fund goals and compliance requirements to ensure the System is fulfilling **COAERS Strategic Plan Goal 2: Responsibly Manage the Risks of the System**.

ATTACHMENT
1. Meketa Summary of Fund Performance 2025-Q1

SUPPLEMENTAL MATERIALS PROVIDED VIA CONVENE APP
1. Additional Investment Performance Reports
2. Additional Quarterly Staff Reports

MEKETA

City of Austin Employees' Retirement System

May 23, 2025

Meeting Materials

MEKETA

City of Austin Employees' Retirement System

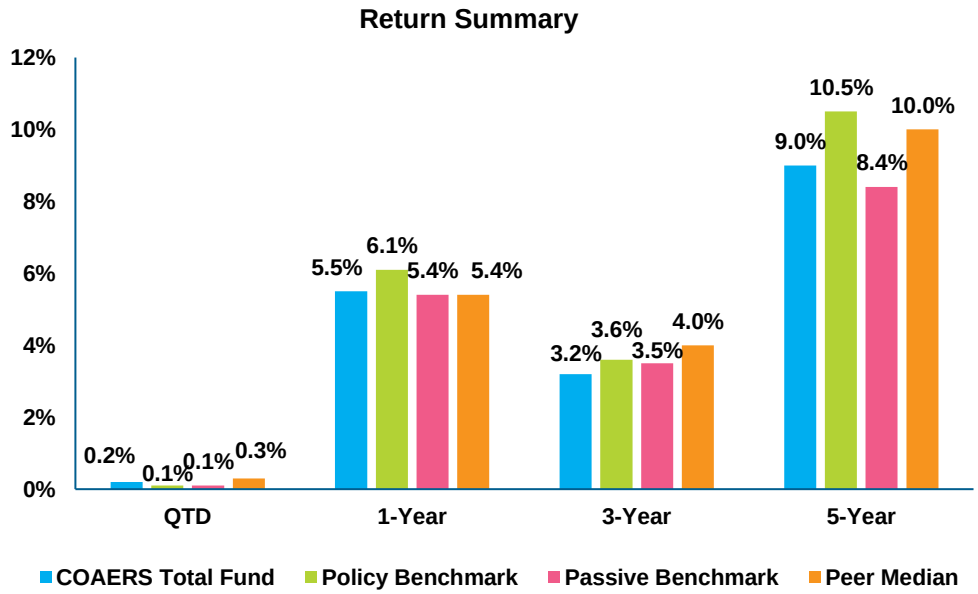
Agenda

1. **Executive Summary**
2. **Performance Update as of March 31, 2025**

Executive Summary

Executive Summary

- As of March 31, 2025, the COAERS portfolio was valued at $3.5 billion, reflecting an $8.7 million increase from the end of the fourth quarter. In the first quarter of 2025, the portfolio returned 0.2%, outperforming both the Policy Benchmark (0.1%) and Passive Benchmark (0.1%), but marginally lagged the peer median.
- Over the trailing one-year period, the COAERS portfolio returned 5.5%, outperforming both the Passive Benchmark and peer median return by 0.1% each, but lagged both the Policy Benchmark by -0.6%.
- The portfolio's risk volatility, as indicated by standard deviation, was below the Policy Benchmark but above the peer group median for the trailing one-year period, at 7.1% versus 8.0% and 6.0%, respectively. The long-term risk-adjusted return of the COAERS portfolio, as indicated by the Sharpe Ratio over the past five-year period, matched the Policy Benchmark at 0.6, but was below peer group median of 0.8.



Summary of Cash Flows	QTD	1-Year
Beginning MV	**$3,515,744,265**	**$3,356,827,670**
Net Cash Flow	-115,861	-16,505,210
Net Investment Change	8,858,353	184,164,297
Ending Market Value	**$3,524,486,757**	**$3,524,486,757**

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City of Austin Employees' Retirement System

Executive Summary

Report Card

Category	Results			
	QTD	One-Year	Three-Year	Five-Year
Total Fund Absolute Performance	Positive	Positive	Positive	Positive
Total Fund Performance vs. Policy Benchmark	Outperformed	Underperformed	Underperformed	Underperformed
Total Fund Performance vs. Peers[1]	3rd Quartile	2nd Quartile	4th Quartile	4th Quartile
% Active Public Managers Outperforming Benchmarks[2]	44%	22%	43%	43%
Compliance with Targets	In Compliance	In Compliance	In Compliance	In Compliance
Return in Excess of Actuarial Target (6.75%)	NM	No	No	Yes

→ The Total Fund experienced positive returns in the most recent quarter, one-, three-, and five-year periods. Despite outperforming the Policy Benchmark over the most recent quarter, it underperformed across all longer-term time periods and lagged the actuarial target of 6.75% over the trailing one- and three-year periods.

- Underperformance versus the Policy Benchmark over the trailing one-, three-, and five-year periods is predominantly attributable to manager selection/execution within the Global Equity sleeve. This exposure represents over 50% of the Total Fund value and lagged its respective benchmark by -2.1%, -1.7%, and -2.0% over the past one-, three-, and five-year periods (annualized), on average.

[1] InvMetrics Public DB $1B - $5B net.
[2] Strategies that do not have a full quarter of performance are excluded form this statistic.

Performance Drivers and Detractors

→ The Real Assets composite was the primary contributor to the Total Fund's relative outperformance compared to the Policy Benchmark in the first quarter.[1] The asset class represented roughly 15.2% of the COAERS portfolio and returned 4.0%, which outperformed its benchmark by 0.4% and contributed 0.06% to the Total Fund's positive relative results.

- Within Real Assets, Commodities & Other (18.4%) was the best performing sub-asset class within the Total Fund. Furthermore, Infrastructure Equity and Real Estate Equity both posted positive absolute returns, returning 4.5% and 1.2%, respectively.
- Commodities led the way during the quarter due to the safe haven nature of the asset class(i.e., Gold). The strong performance in Gold is partially attributed to global central banks continuing to buy gold, with purchases exceeding 1,000 tonnes annual for the past three years. Central banks have been buying gold in recent years to diversify their reserves and hedge against economic uncertainties and geopolitical tensions.

→ Although Global Equity posted a -1.5% return for the quarter, it still positively impacted the Total Fund's relative performance, outperforming its benchmark by 0.1%.

- At the end of the first quarter, global investors rotated away from the US, with domestic equities in negative territory, while other asset classes were positive. More specifically, within the Global Equity sleeve of the Fund's portfolio, US Equity was the only sub-asset class that posted negative returns for the quarter, returning -3.9%, while both Developed Market Equities and Emerging Market Equities returned 2.4% and 3.7%, respectively. Developed Market Equities rallied due to rate cuts from the ECB, EU planned increases in defense spending, and a weakening dollar. Meanwhile, the rally in Emerging Market Equities was largely supported by a rally in Chinese stocks on DeepSeek AI enthusiasm.

[1] Multi-Asset asset class was dissolved in Q1 2025 and is therefore not being taken into consideration.

Performance Update
As of March 31, 2025

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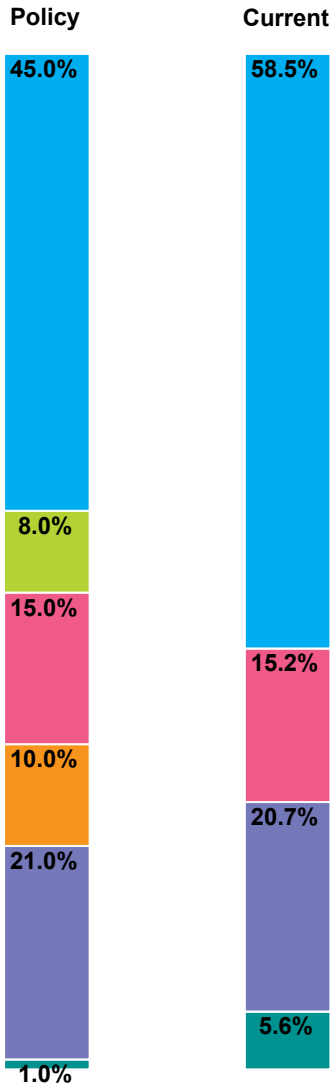
City of Austin Employees' Retirement System

Asset Allocation Compliance | As of March 31, 2025



Allocation vs. Targets and Policy

	Balance ($)	Current Allocation (%)	Long Term Policy Target (%)	Policy Range (%)	Within IPS Range?
Global Equity	2,060,936,758	58.5	45.0	38.0 - 63.0	Yes
Private Equity		0.0	8.0	0.0 - 10.0	Yes
Real Assets	536,103,068	15.2	15.0	12.0 - 19.0	Yes
Private Credit		0.0	10.0	0.0 - 13.0	Yes
Fixed Income	729,046,956	20.7	21.0	15.0 - 28.0	Yes
Multi-Asset	102,300	0.0	0.0	0.0 - 7.0	Yes
Cash & Equivalents	198,297,674	5.6	1.0	0.0 - 10.0	Yes
Total	**3,524,486,757**	**100.0**	**100.0**		

Performance for Private Real Estate (Principal US Property), Private Infrastructure (IFM Global Infrastructure), and Private Credit (Blue Owl Diversified Lending Fund), as well as their respective benchmarks, are lagged by one quarter.

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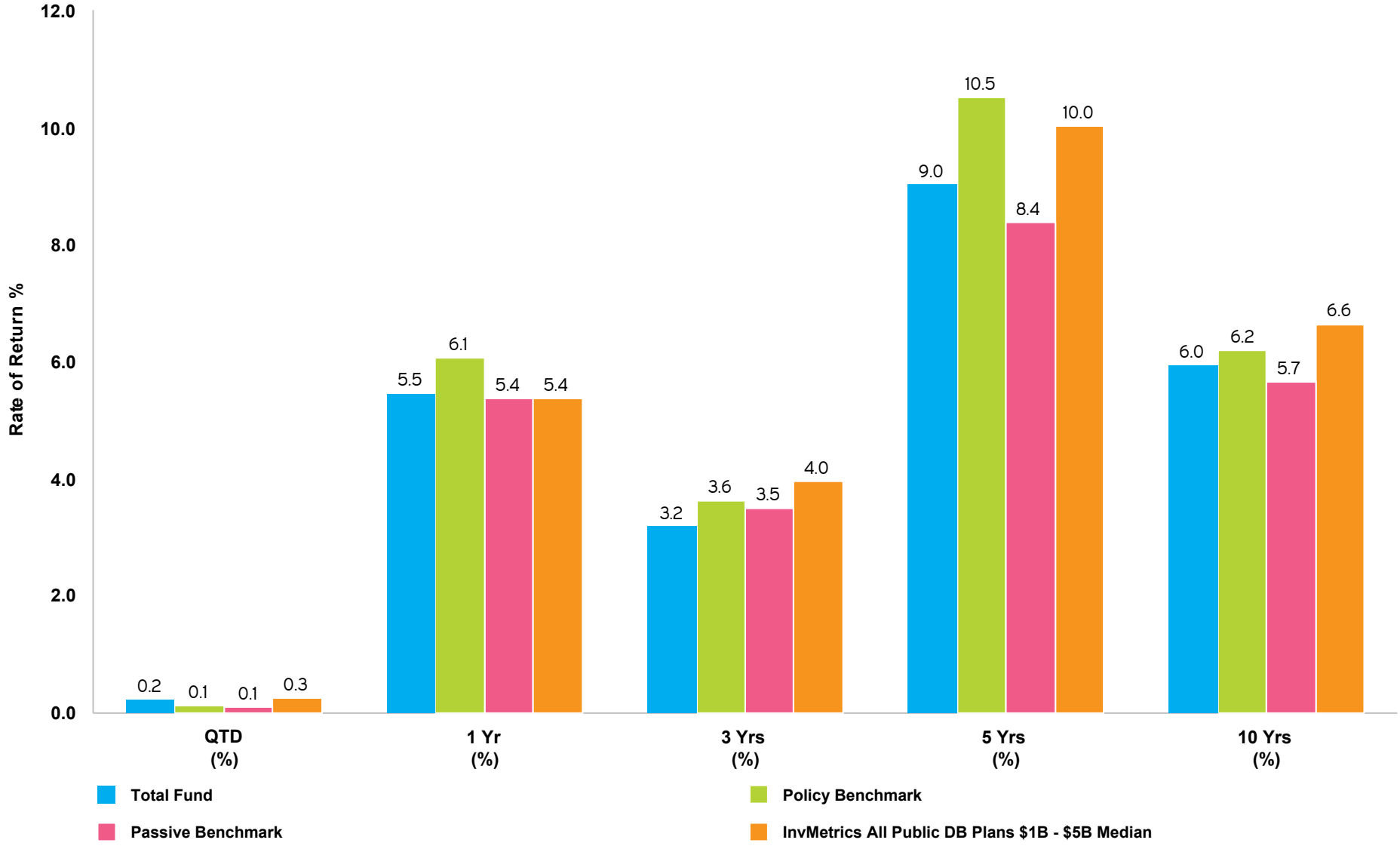
City of Austin Employees' Retirement System

Total Fund Performance | As of As of March 31, 2025

Net Return Summary



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City of Austin Employees' Retirement System

Total Portfolio Net Performance | As of March 31, 2025

	Market Value ($)	% of Portfolio	QTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)	Since Inception	Inception Date
Total Fund	**3,524,486,757**	**100.0**	**0.2**	**5.5**	**3.2**	**9.0**	**6.0**	**9.3**	**Jun-82**
Policy Benchmark			*0.1*	*6.1*	*3.6*	*10.5*	*6.2*	*--*	
Passive Benchmark			*0.1*	*5.4*	*3.5*	*8.4*	*5.7*	*--*	
Global Equity	**2,060,936,758**	**58.5**	**-1.5**	**4.2**	**4.6**	**13.0**	**7.7**	**8.9**	**Jun-88**
MSCI AC World IMI Index (Net)			*-1.6*	*6.3*	*6.3*	*15.0*	*8.6*	*--*	
US Equity	**1,286,802,555**	**36.5**	**-3.9**	**5.3**	**6.0**	**15.8**	**9.8**	**10.6**	**Jun-88**
US Equity Benchmark			*-4.9*	*7.5*	*8.3*	*18.0*	*11.9*	*10.9*	
Developed Markets Equity	**538,714,841**	**15.3**	**2.4**	**0.4**	**2.7**	**9.7**	**5.9**	**4.9**	**Jan-08**
Developed Market Equity Benchmark			*5.8*	*5.2*	*5.7*	*12.1*	*5.5*	*3.2*	
Emerging Markets Equity	**235,419,363**	**6.7**	**3.7**	**7.0**	**1.8**	**7.5**	**3.1**	**1.5**	**Mar-08**
Emerging Markets Equity Benchmark			*1.7*	*6.5*	*0.9*	*7.6*	*3.5*	*2.0*	
Real Assets	**536,103,068**	**15.2**	**4.0**	**9.2**	**0.5**	**7.8**	**5.6**	**6.0**	**Sep-04**
Real Assets Benchmark			*3.6*	*9.5*	*0.5*	*11.4*	*5.3*	*7.6*	
Real Estate Equity	**291,714,236**	**8.3**	**1.2**	**4.2**	**-3.1**	**6.1**	**6.0**	**6.3**	**Sep-04**
Real Estate Equity Benchmark			*1.2*	*5.3*	*-2.0*	*10.4*	*6.4*	*7.8*	
Infrastructure Equity	**182,113,871**	**5.2**	**4.5**	**12.8**	**6.2**	**10.0**	**--**	**4.5**	**Jan-20**
Infrastructure Equity Benchmark			*3.3*	*12.0*	*3.4*	*11.7*	*--*	*4.1*	
Commodities & Other	**62,274,961**	**1.8**	**18.4**	**39.8**	**15.3**	**12.4**	**--**	**12.4**	**Apr-20**
Commodities and Other Benchmark			*18.2*	*21.9*	*2.0*	*16.4*	*--*	*16.4*	

The Policy Benchmark includes the Real Assets Benchmark, which incorporates the MSCI Burgiss Infrastructure Funds Benchmark as of 7/1/2024. The MSCI Burgiss Infrastructure Funds index is released quarterly, with returns lagging by one quarter.

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City of Austin Employees' Retirement System

Total Portfolio Net Performance | As of March 31, 2025

	Market Value ($)	% of Portfolio	QTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)	Since Inception	Inception Date
Fixed Income	**729,046,956**	**20.7**	**2.4**	**5.5**	**0.2**	**-1.1**	**1.4**	**4.9**	**Feb-91**
Global Fixed Income Benchmark			*2.8*	*3.7*	*-1.4*	*-1.3*	*0.5*	*4.6*	
Core Bond	**490,965,504**	**13.9**	**2.5**	**--**	**--**	**--**	**--**	**2.5**	**Jan-25**
Core Bond Benchmark			*2.8*	*--*	*--*	*--*	*--*	*2.8*	
US Treasuries	**490,965,504**	**13.9**	**2.5**	**4.3**	**-0.8**	**-2.8**	**--**	**0.9**	**May-19**
Blmbg. U.S. Treasury Index			*2.9*	*4.5*	*0.0*	*-1.7*	*--*	*0.7*	
Plus Bond	**238,081,452**	**6.8**	**2.4**	**--**	**--**	**--**	**--**	**2.4**	**Jan-25**
Plus Bond Benchmark			*2.8*	*--*	*--*	*--*	*--*	*2.8*	
US Mortgages	**75,898,531**	**2.2**	**2.6**	**5.5**	**0.8**	**-0.5**	**--**	**0.3**	**Aug-19**
Blmbg. U.S. Mortgage Backed Securities			*3.1*	*5.4*	*0.6*	*-0.7*	*--*	*0.2*	
US Credit	**162,182,922**	**4.6**	**2.3**	**8.9**	**3.4**	**3.4**	**--**	**2.7**	**Aug-19**
Blmbg. U.S. Credit Index			*2.4*	*4.9*	*1.1*	*1.3*	*--*	*1.2*	
Multi-Asset	**102,300**	**0.0**	**2.1**	**12.3**	**7.0**	**12.2**	**6.2**	**6.2**	**Feb-14**
Multi-Asset Benchmark			*0.1*	*5.4*	*3.5*	*9.6*	*5.6*	*5.5*	
Asset Allocation	**102,300**	**0.0**	**2.1**	**8.4**	**5.8**	**--**	**--**	**8.4**	**May-20**
Multi-Asset Benchmark			*0.1*	*5.4*	*3.5*	*--*	*--*	*8.0*	
Cash & Equivalents	**198,297,674**	**5.6**	**1.1**	**5.0**	**4.4**	**2.6**	**--**	**2.3**	**Jul-17**
Blmbg. U.S. Treasury Bills: 1-3 Months			*1.0*	*5.0*	*4.3*	*2.6*	*--*	*2.3*	
US Dollar Instruments	**152,836,303**	**4.3**	**1.1**	**5.0**	**4.4**	**2.6**	**--**	**--**	**Jun-88**
Blmbg. U.S. Treasury Bills: 1-3 Months			*1.0*	*5.0*	*4.3*	*2.6*	*1.9*	*--*	
Other Currencies	**45,461,371**	**1.3**	**1.0**	**4.8**	**4.3**	**--**	**--**	**3.9**	**Dec-21**
Blmbg. U.S. Treasury Bills: 1-3 Months			*1.0*	*5.0*	*4.3*	*--*	*--*	*3.9*	

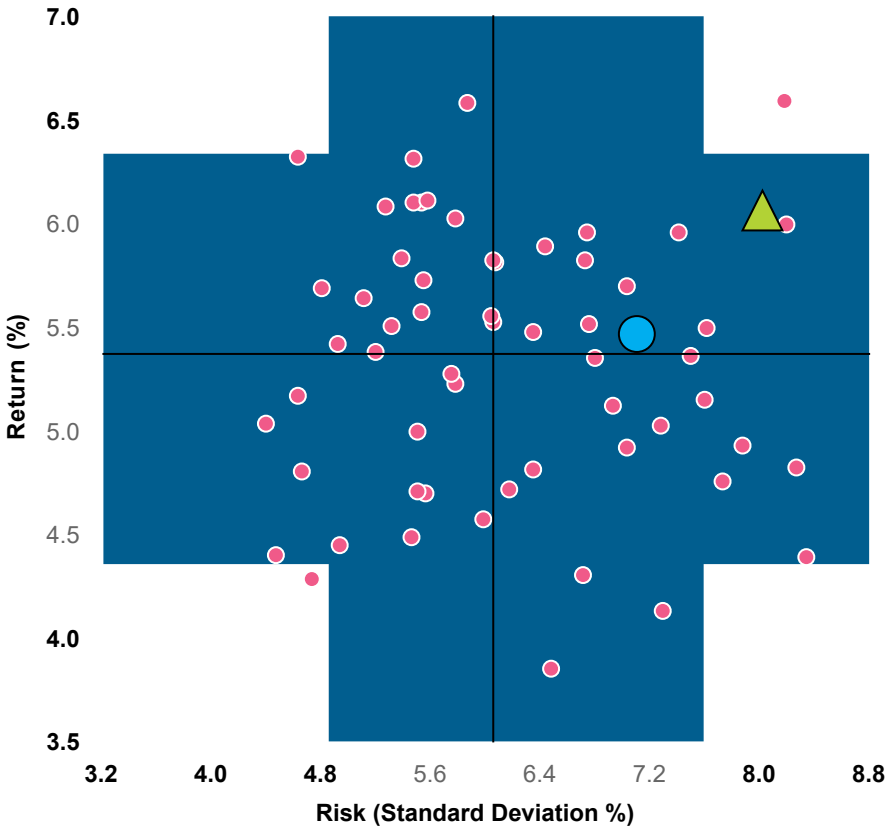
The Asset Allocation sub-asset class within Multi-Asset was liquidated in Q1 2025. The Commodities & Other sub-asset class has been reclassified under Real Assets. Consequently, the balance shown for the Asset Allocation sub-asset class represents $102,300 in cash holdbacks from manager Agincourt.

MEKETA

City of Austin Employees' Retirement System

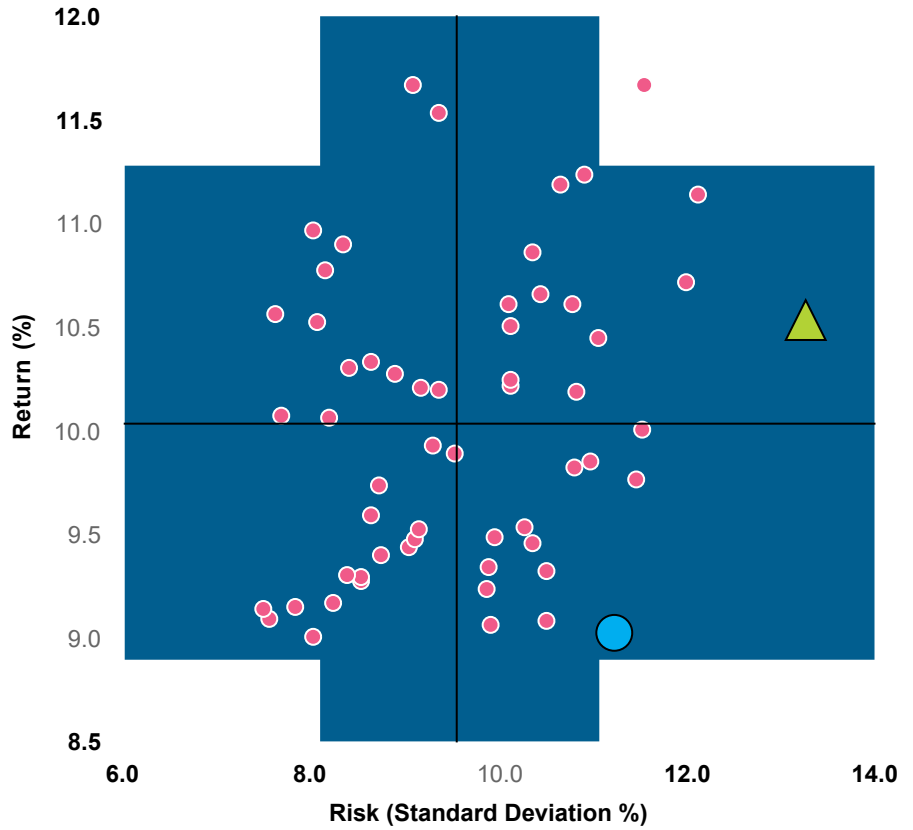
Total Fund | As of March 31, 2025

Annualized Return vs. Annualized Standard Deviation
1 Year Ending March 31, 2025



	Return	Standard Deviation
Total Fund	5.5	7.1
Policy Benchmark	6.1	8.0
Median	5.4	6.0
68% Confidence Interval		

Annualized Return vs. Annualized Standard Deviation
5 Years Ending March 31, 2025



	Return	Standard Deviation
Total Fund	9.0	11.2
Policy Benchmark	10.5	13.3
Median	10.0	9.5
68% Confidence Interval		

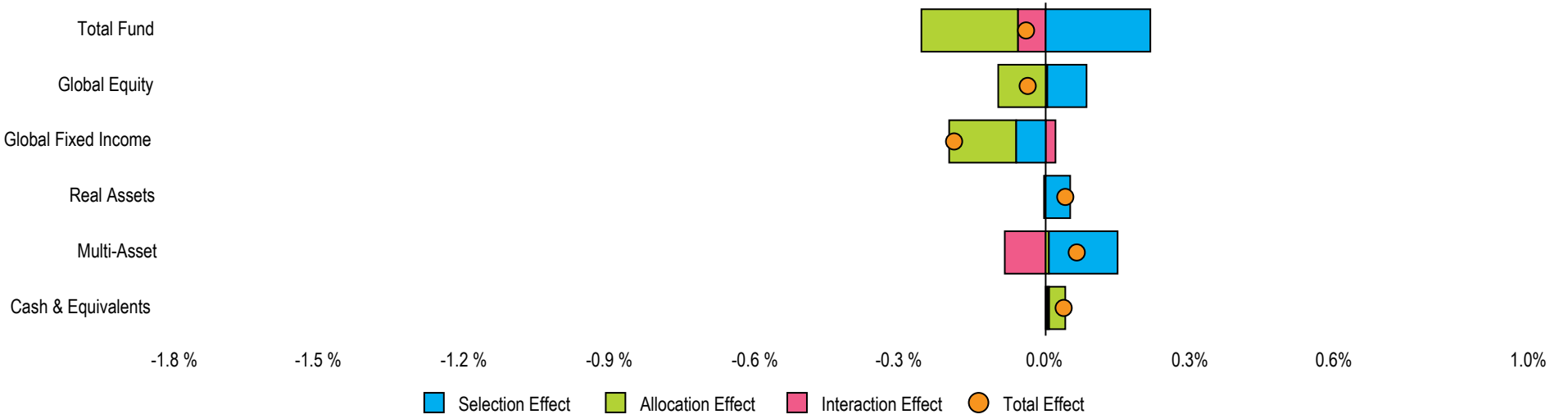
Peer Universe is InvMetrics All Public DB Plans $1B - $5B.

MEKETA

City of Austin Employees' Retirement System

Total Fund Attribution | 1 Quarter Ending March 31, 2025

Attribution Effects
1 Quarter Ending March 31, 2025



Attribution Summary
1 Quarter Ending March 31, 2025

	Wtd. Actual Return (%)	Wtd. Index Return (%)	Excess Return (%)	Selection Effect (%)	Allocation Effect (%)	Interaction Effect (%)	Total Effect (%)
Global Equity	-1.5	-1.6	0.1	0.1	-0.1	0.0	0.0
Global Fixed Income	2.4	2.8	-0.3	-0.1	-0.1	0.0	-0.2
Real Assets	4.0	3.7	0.3	0.1	0.0	0.0	0.0
Multi-Asset	2.1	0.1	2.0	0.1	0.0	-0.1	0.1
Cash & Equivalents	1.1	1.0	0.1	0.0	0.0	0.0	0.0
Total Fund	**0.2**	**0.3**	**0.0**	**0.2**	**-0.2**	**-0.1**	**0.0**

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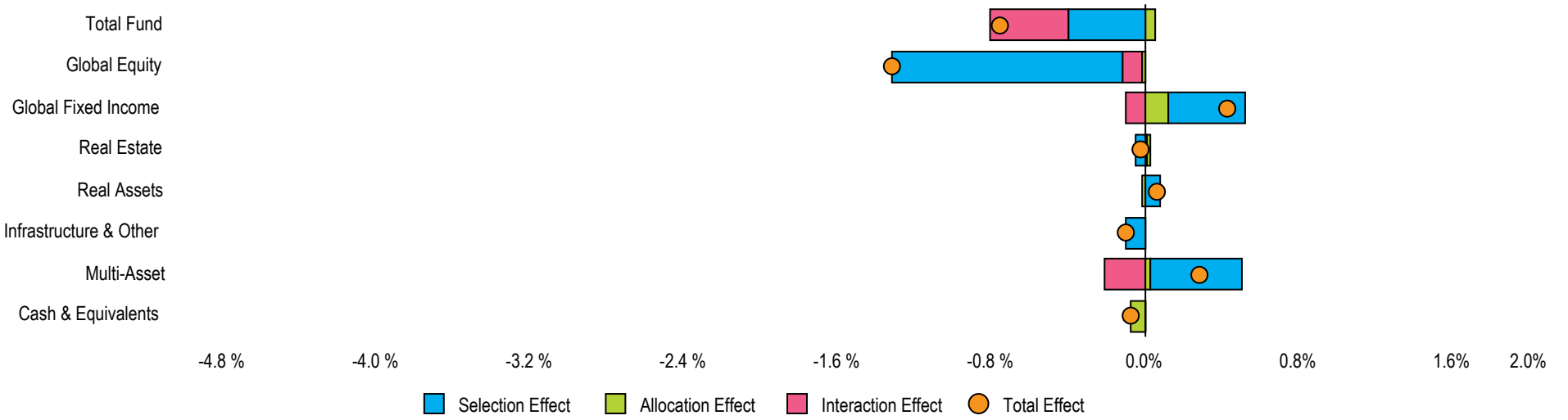
City of Austin Employees' Retirement System

Total Fund Attribution | 1 Year Ending March 31, 2025



Attribution Summary
1 Year Ending March 31, 2025

	Wtd. Actual Return (%)	Wtd. Index Return (%)	Excess Return (%)	Selection Effect (%)	Allocation Effect (%)	Interaction Effect (%)	Total Effect (%)
Global Equity	4.2	6.3	-2.1	-1.2	0.0	-0.1	-1.3
Global Fixed Income	5.5	3.7	1.9	0.4	0.1	-0.1	0.4
Real Estate	-0.3	0.1	-0.4	-0.1	0.0	0.0	0.0
Real Assets	9.2	8.7	0.5	0.1	0.0	0.0	0.1
Infrastructure & Other	0.5	2.3	-1.8	-0.1	0.0	0.0	-0.1
Multi-Asset	12.3	5.4	6.9	0.5	0.0	-0.2	0.3
Cash & Equivalents	5.0	5.0	0.0	0.0	-0.1	0.0	-0.1
Total Fund	**5.5**	**6.2**	**-0.8**	**-0.4**	**0.0**	**-0.4**	**-0.8**

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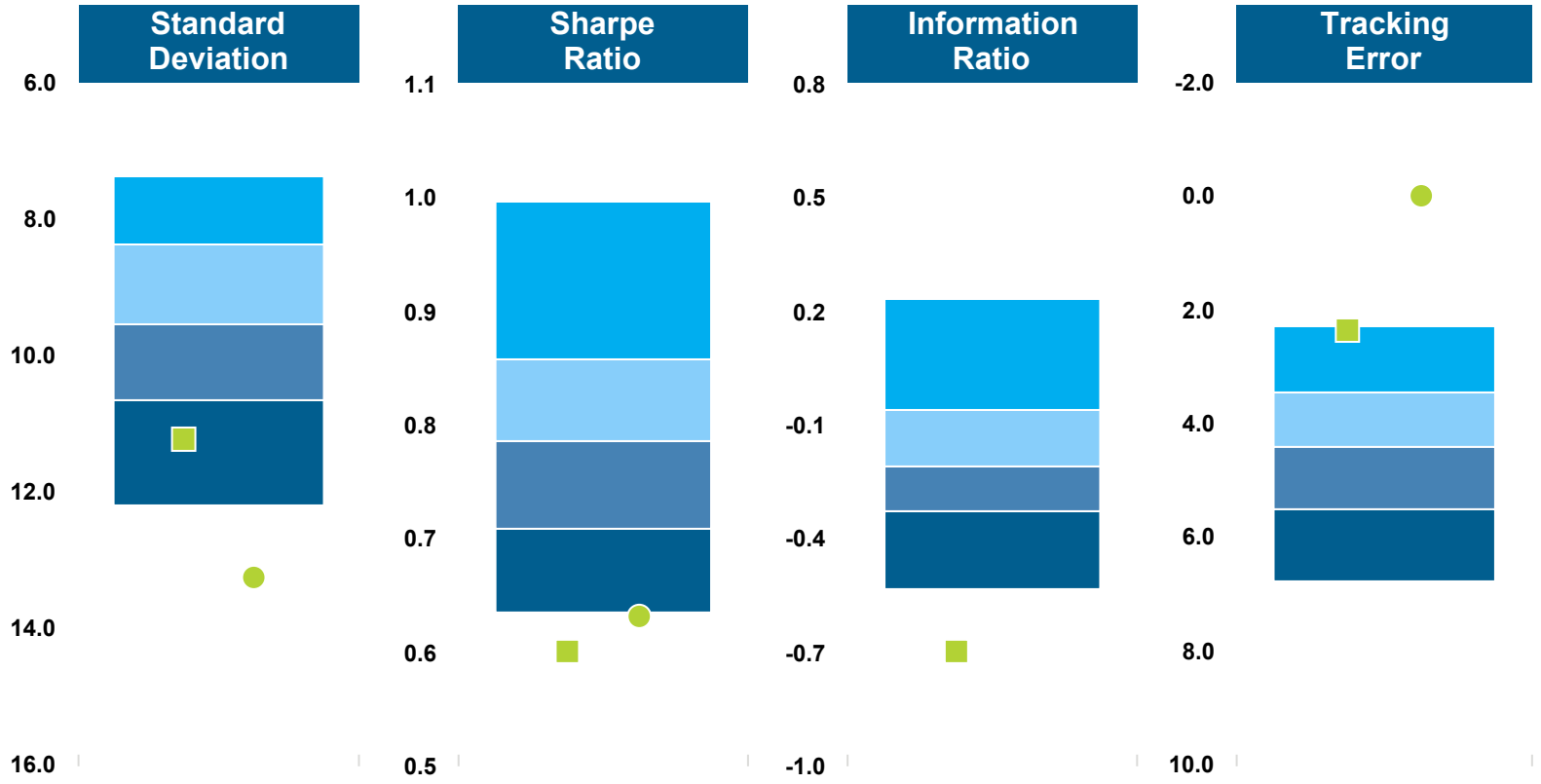
Total Fund Risk Statistics vs. Peer Universe | As of March 31, 2025



	5 Yrs (%)	5 Yrs (%)	5 Yrs (%)	5 Yrs (%)
Total Fund	11.2 (85)	0.6 (98)	-0.7 (100)	2.3 (5)
Policy Benchmark	13.3 (100)	0.6 (96)	-	0.0 (1)
5th Percentile	7.4	1.0	0.2	2.3
1st Quartile	8.4	0.9	-0.1	3.4
Median	9.5	0.8	-0.2	4.4
3rd Quartile	10.7	0.7	-0.3	5.5
95th Percentile	12.2	0.6	-0.5	6.8

Parentheses contain percentile rankings. Calculation based on monthly periodicity. Peer Universe is InvMetrics All Public DB Plans $1B - $5B.

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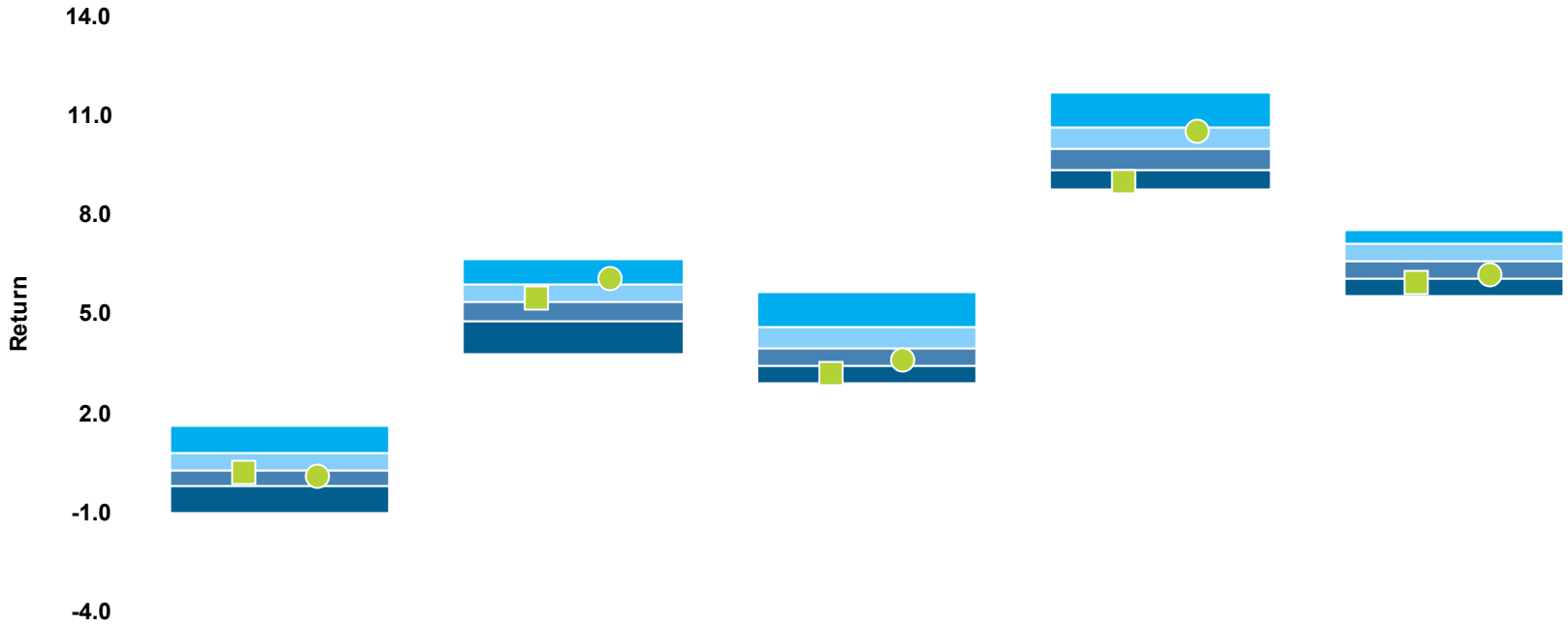
Plan Sponsor Peer Group Analysis | As of March 31, 2025

InvMetrics All Public DB Plans $1B - $5B Net



	QTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)
Total Fund	0.2 (53)	5.5 (47)	3.2 (84)	9.0 (93)	6.0 (84)
Policy Benchmark	0.1 (63)	6.1 (18)	3.6 (69)	10.5 (31)	6.2 (63)
5th Percentile	1.7	6.7	5.7	11.7	7.6
1st Quartile	0.8	5.9	4.6	10.7	7.1
Median	0.3	5.4	4.0	10.0	6.6
3rd Quartile	-0.2	4.8	3.5	9.3	6.1
95th Percentile	-1.0	3.8	2.9	8.8	5.6
Population	74	74	72	72	69

Parentheses contain percentile rankings.
Calculation based on monthly periodicity.

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6. Discuss and consider Fixed Income and Cash & Equivalents asset classes including asset allocation, benchmarking, and investment fee analysis

Presented by Leo Festino and Stephanei Sorg

COAERS

COMMITTEE MEETING
Agenda Item Information Sheet

AGENDA ITEM 6:
Discuss and consider Fixed Income and Cash & Equivalents asset classes

AGENDA ITEM OBJECTIVE
This agenda item is for the Committee to review the strategy for the Fixed Income and Cash & Equivalents portfolios.

RECOMMENDATION FOR COMMITTEE ACTION
Meketa recommends that the Committee direct Meketa and Staff as laid out on the "Next Steps" page in their presentation.

ITEM SUMMARY
This agenda item will review the Fixed Income and Cash & Equivalents portfolios, related strategies, and implementation considerations. Meketa will provide asset class structure reviews for Fixed Income and Cash & Equivalents, including recommendations for consideration. This review will discuss the functional role, implementation styles, benchmarks, and fees of the asset classes. Staff provided their thoughts on the associated recommendations in a separate memo.

RELEVANCE TO STRATEGIC PLAN
This agenda item is central to **COAERS Strategic Plan Goal 4: Identify and implement leading practices in Board governance, pension administration, and investment management.**

ATTACHMENTS
1. Meketa Presentation: Fixed Income and Cash Structure Review
2. Staff Memo: Fixed Income and Cash Equivalents (CONFIDENTIAL)

SUPPLEMENTAL MATERIAL PROVIDED VIA CONVENE APP
1. Meketa Manager Summaries (CONFIDENTIAL)

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City of Austin Employees' Retirement System

May 23, 2025

Fixed Income and Cash Structure Review

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City of Austin Employees' Retirement System

Agenda

1. **Introduction and Background**
2. **Summary & Recommendations**
   - Summary of Considerations
   - Proposed Asset Class Guidelines
   - Next Steps
3. **Structure Review**
   - Functional Role of Fixed Income in COAERS Portfolio
   - Core Fixed Income
   - Non-Core Fixed Income (Plus sectors)
   - Cash
   - Active vs. Passive Investing
4. **Substitution of Plus Sector Components**
   - Summary and Recommendation
   - Benchmark Review
5. **Managers Fee Review**
6. **Appendix: Key Components of Core Plus Fixed Income**
   - High Yield Bonds
   - Bank Loans
   - Emerging Markets Debt

Introduction

Introduction

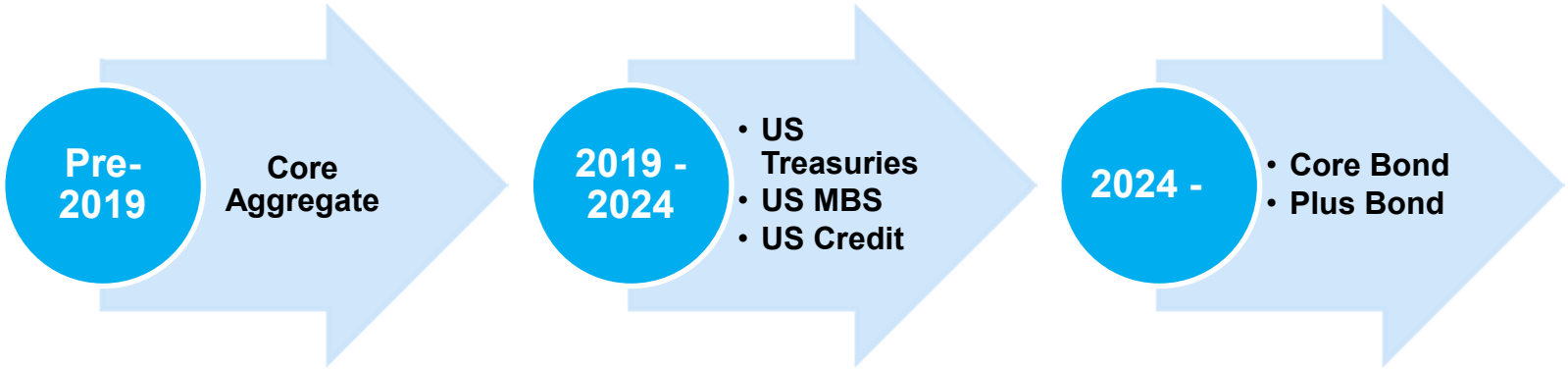
- This presentation provides a comprehensive review of the COAERS Fixed Income and Cash & Equivalents portfolio structures.
- The assessment will first highlight the functional role of the asset class within the broader strategic asset allocation, and then dive into themes driving the makeup of the asset class (e.g., active vs. passive management, core vs. non-core), underwrite the sub-asset classes and investment strategies within Fixed Income (Core, Plus, Cash & Equivalents), and reassess the underlying benchmarks, guidelines, and fee schedules at both the asset class and strategy level.
- The goal of this review is to reaffirm the aspects of the current structure that we believe are best in class and appropriate for COAERS and suggest adjustments where needed in an effort to both improve the long-term success of the portfolio as well as align the assets with the investment beliefs, objectives, and constraints of the Investment Policy Statement.
- We include the summary and recommendations at the beginning of the document for ease of reference.

Background – Fixed Income

→ COAERS currently has a 21% strategic policy target to Fixed Income, which consists of Core and Plus (non-Core) Bond assets.

→ COAERS has held exposure to the fixed income market in various forms over the years. In COAERS' earliest years, the Fund invested solely in government bonds as its total investment program. As years progressed, the Fund evolved alongside the changing market environment.

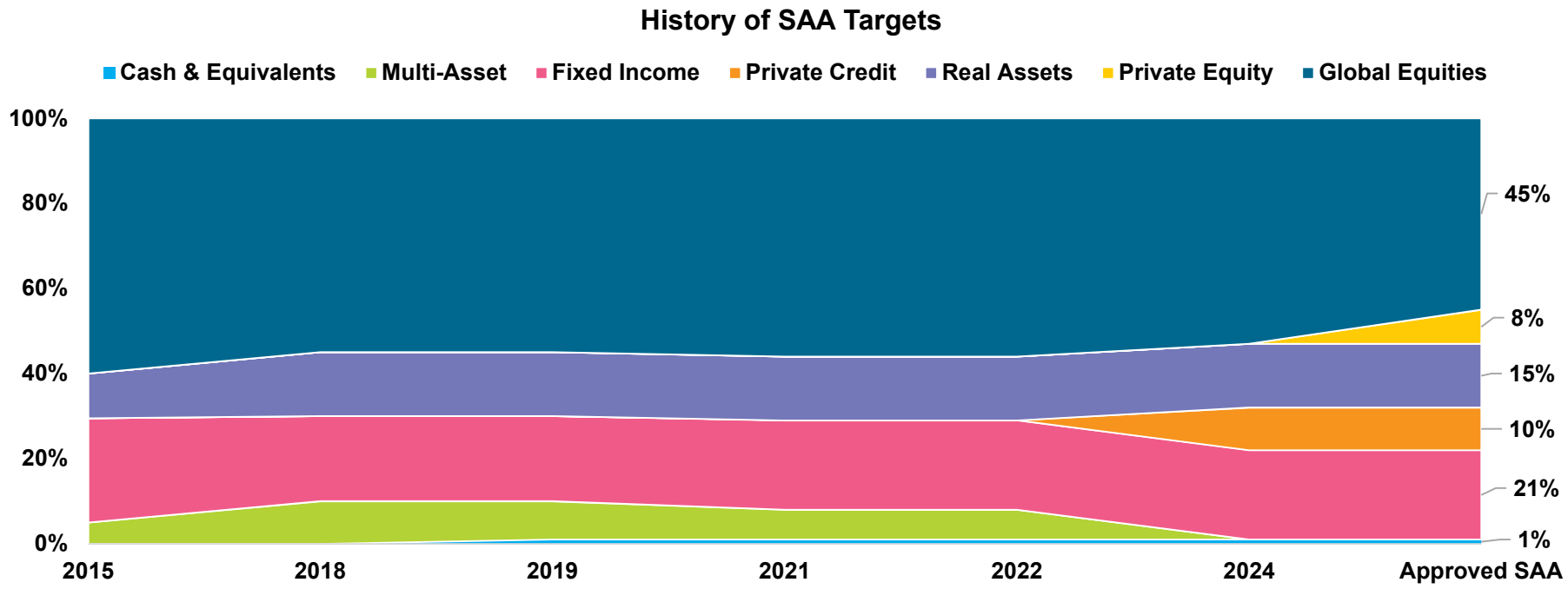
- Historically (1991 – 2018), the fixed income portfolio was implemented using a core US aggregate bond approach.
- In 2019, the fixed income portfolio was disaggregated into three sub-strategies: US Treasuries, US MBS, and US Credit.
- In 2024, the 'hybrid' approach was adopted, where the vast majority of the portfolio is implemented through core mandates that broadly represent the benchmark (US Aggregate Bond Index). The core exposure is complemented with specialty 'plus' exposures that currently house the legacy mortgage, credit, and direct lending mandates.



Background – Cash & Equivalents

→ COAERS currently has a 1% strategic policy target to Cash & Equivalents.

- Cash & Equivalents was established as a strategic asset class in 2017 to increase overall Fund liquidity and to recognize cash as another strategic investment. The target allocation of 1% ensures there is sufficient, readily available cash to pay the necessary benefits of the Fund, but the maximum allocation of 10% allows Cash to be used should it be expected to provide better investment outcomes than other asset classes.
- Cash & Equivalents consists of two sub-strategies classes: US Dollar Instruments and Other Currencies.



Summary & Recommendations

Proposed Asset Class (Fixed Income) Guidelines

→ Meketa concurs with Staff's adoption of the following Fixed Income Guidelines, as directed by the Board:

Functional Role: Diversifier; Asset Class: Fixed Income (Strategic Long Term Target Allocation 21%; Range of 18% to 28%)[1]		
	Current	**Proposed**
Benchmark	Bloomberg US Aggregate Bond Index	Bloomberg US Aggregate Bond Index
Active vs Passive	N/A	Active: 50 – 100%; Passive: 0 – 50%
Core[2] vs Plus[3]	Core: 60 – 100%; Plus: 0 – 40%	Core: 60 – 100%; Plus: 0 – 40%
Tracking Error	N/A	Less than 1.5% relative to the Bloomberg US Aggregate Bond Index
Credit Quality	N/A	Average Credit Rating should be Investment Grade (BBB-) or higher. Maximum of 10% to securities rated lower than BBB-.
Duration	N/A	+/- 1 Year relative to the Bloomberg US Aggregate Bond Index
Fixed Income Manager Diversification	N/A	Active: Single Fixed Income strategy shall not exceed 12% of total COAERS portfolio
Leverage	N/A	Prohibited at both the asset class level and strategy level

[1] The displayed range of 18-28% is derived from the long-term Strategic Asset Allocation. However, there is a phased transition range of 15-28%.
[2] Core mandates are those which are benchmarked to and represent the general characteristics of the Bloomberg US Aggregate Bond Index.
[3] Plus mandates may include public markets strategies in US High Yield, Bank Loans, Emerging Market Debt, and Multi-Asset Credit.

Proposed Asset Class (Cash & Equivalents) Guidelines

→ Meketa concurs with Staff's adoption of the following Cash & Equivalents Guidelines, as directed by the Board:

Functional Role: Liquidity; Asset Class: Cash & Equivalents (Strategic Long Term Target Allocation 1%; Range of 0% to 10%)		
	Current	**Proposed**
Benchmark	Bloomberg US T. Bills 1-3 Month Index	Bloomberg US T. Bills 1-3 Month Index
Enhanced Cash Strategies	N/A	Allowable on balances in excess of $30M
Liquidity	N/A	First $30M in allocation is daily liquid
Foreign Currency Exposure	< 25% of Cash & Equivalents	< 25% of Cash & Equivalents
Maturity	N/A	Less than 1 year
Leverage	N/A	Not permitted

Structure Review

Functional Role of Fixed Income and Cash & Equivalents in COAERS Portfolio

Diversification & Liquidity

Fixed Income

→ The primary role of Fixed Income is to diversify the risk of equity drawdowns and portfolio volatility across regimes to help smooth Fund returns and increase compounding effects over time. Key characteristics include:

- Stability and capital preservation
- Income generation
- Predictable returns

→ According to Meketa's 2025 Capital Market Expectations ("CMEs"), core fixed income assets have a 5.3% annualized average expected rate of return (20-year projection), with a 4% standard deviation.

Diversifiers: *offset some of the risk in the Growth portfolio*

Cash & Equivalents

→ The main characteristic and functional role of the Cash & Equivalents asset class is liquidity, which supports the payment of the System's benefits and expenses.

→ Due to the high quality of these investments, increasing allocations to cash reduces Fund volatility and can increase diversification due to the stable and uncorrelated characteristics of the asset class. As short-term interest rates rise, cash and short-term investments can also provide yield enhancement to the overall portfolio.

→ According to Meketa's 2025 Capital Market Expectations ("CMEs"), Cash & Equivalents assets have a 3.1% annualized average expected rate of return (20-year projection), with a 1% standard deviation.

Liquidity: *provide for benefits payments*

Current Fixed Income Portfolio (net)

As of March 31, 2025

Trailing Performance	Market Value ($)	% of Total Fund	% of Fixed Income	QTD (%)	One-Year (%)	Three-Year (%)	Five-Year (%)	10-Year (%)	Since Inception (%)
Fixed Income	**729,046,956**	**20.7**	**100**	**2.5**	**5.6**	**0.3**	**-1.1**	**1.4**	**4.9**
Global Fixed Income Benchmark[1]				*2.8*	*3.7*	*-1.4*	*-1.3*	*0.5*	*4.6*
Core Bond	**490,965,504**	**13.9**	**67.1**	**2.6**	**--**	**--**	**--**	**--**	**2.6**
Core Bond Benchmark[2]				*2.8*	*--*	*--*	*--*	*--*	*2.8*
Plus Bond[3]	**238,081,452**	**6.8**	**32.9**	**2.4**	**--**	**--**	**--**	**--**	**2.4**
Plus Bond Benchmark [4]				*2.8*	*--*	*--*	*--*	*--*	*2.8*

→ COAERS' Fixed Income returns have outperformed the COAERS fixed income benchmark over the trailing 1-, 3-, 5-, 10-, and Since Inception periods.

[1] Global Fixed Income Benchmark is currently the Bloomberg U.S. Aggregate. Previously, the Bloomberg Global Aggregate Index and the Bloomberg U.S. Aggregate Index were used at different times.
[2] Core Bond Benchmark consists entirely of the Bloomberg US Aggregate Index.
[3] Blue Owl is currently being incorporated into the Plus Bond sector of the portfolio.
[4] Plus Bond Benchmark consists entirely of the Bloomberg US Aggregate Index.

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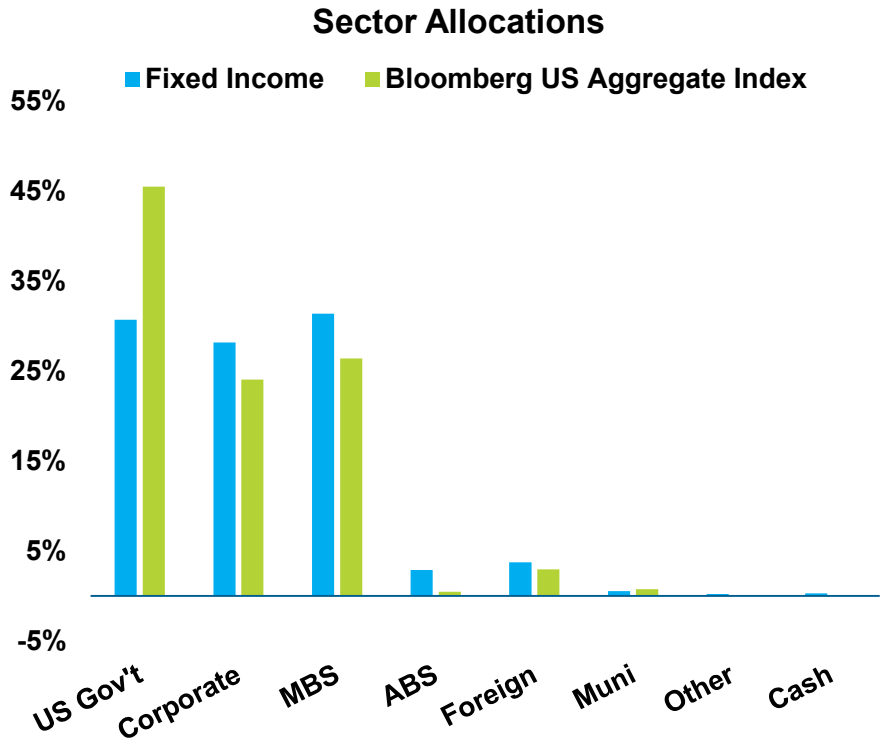
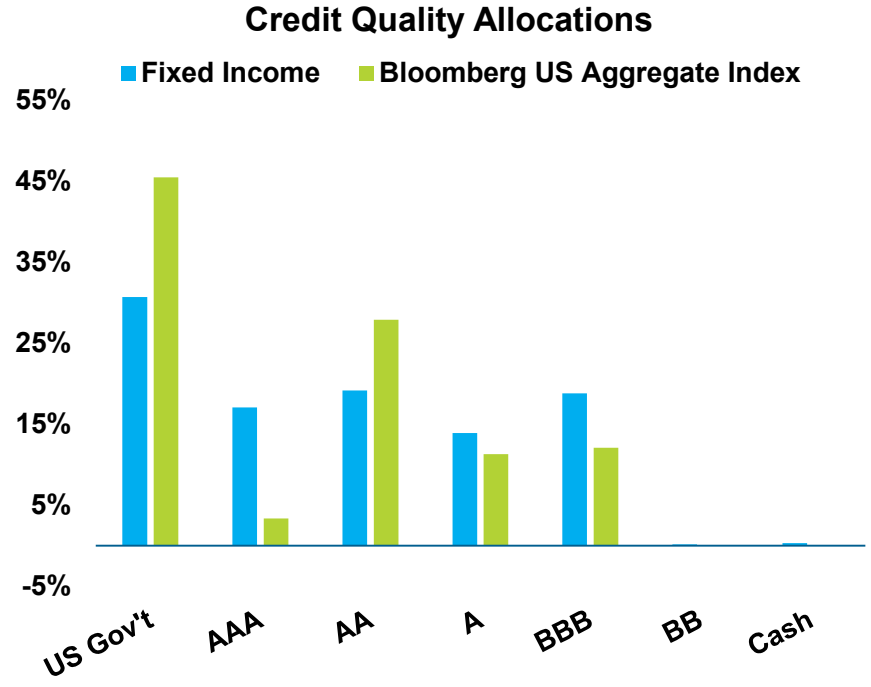
Structure Review

Fixed Income Portfolio Positioning[1]





→ Compared to the Bloomberg US Aggregate Index, the COAERS' Fixed Income portfolio is underweight US Government securities and AA-rated bonds, and overweight AAA bonds. The allocation differences indicate that the Fixed Income portfolio is positioned slightly less conservative than the index.

[1] Fixed Income composite data are based on 3/31/2025 allocations for Loomis Core Disciplined Alpha, Loomis Core Fixed Income, IRM Core Aggregate Bond, DoubleLine MBS, and PGIM US IG Corporate. Blue Owl Diversified Lending Fund is not included because of the recommendation to separate Private Credit from Fixed Income.

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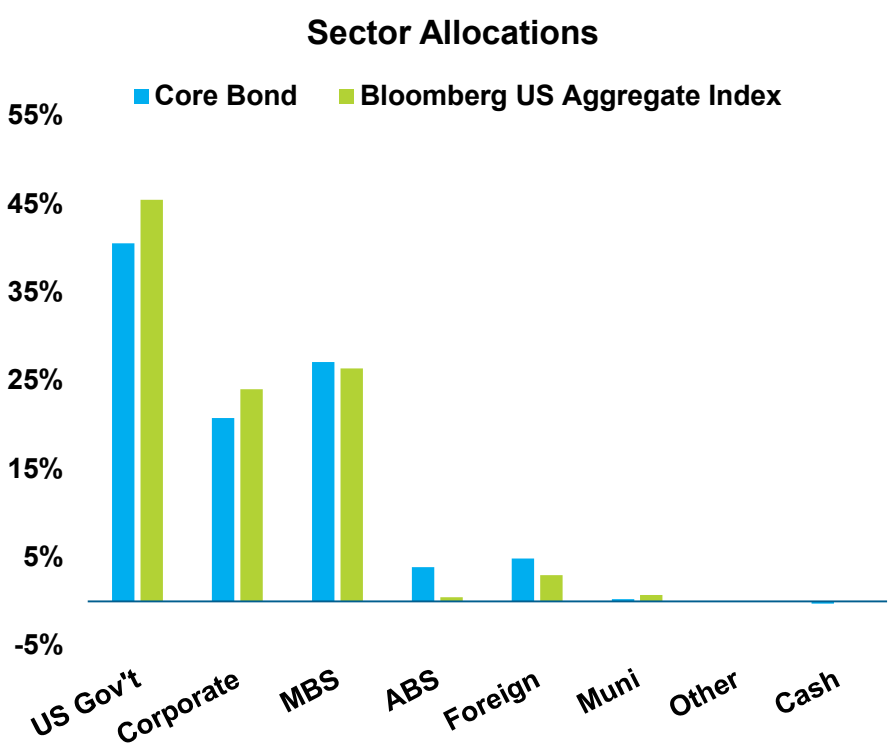
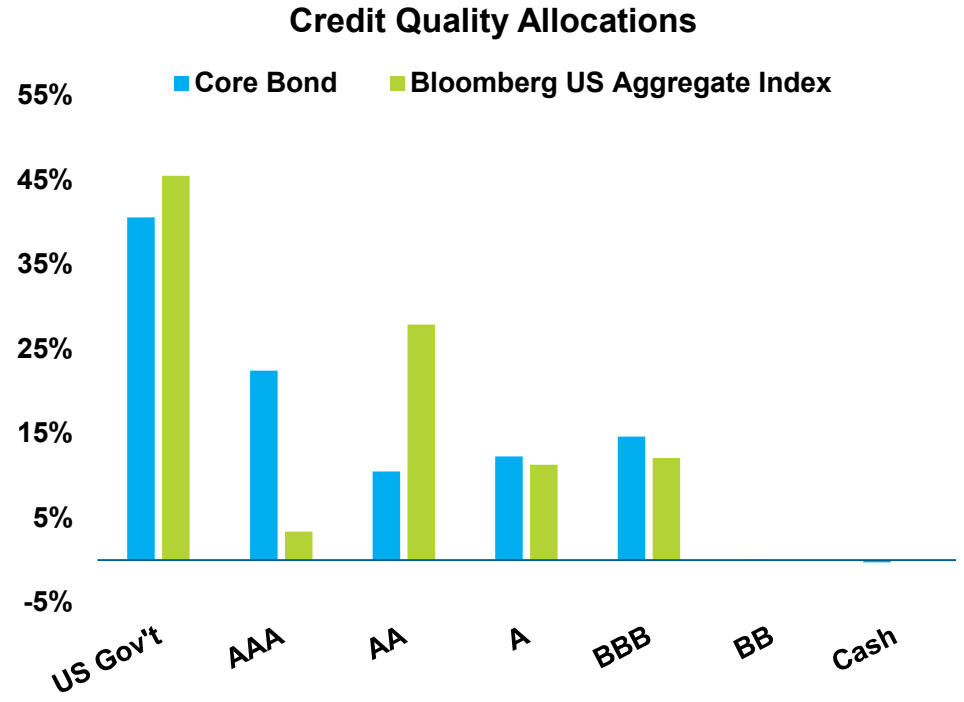
Structure Review

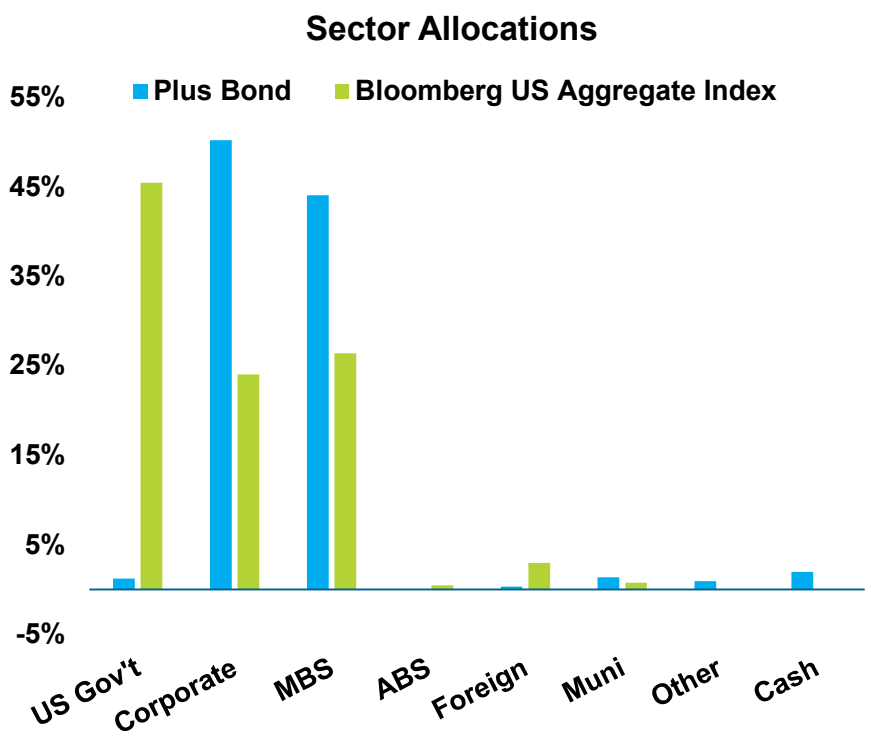
Core Bond Sector & Credit Quality Exposure Comparison[1]

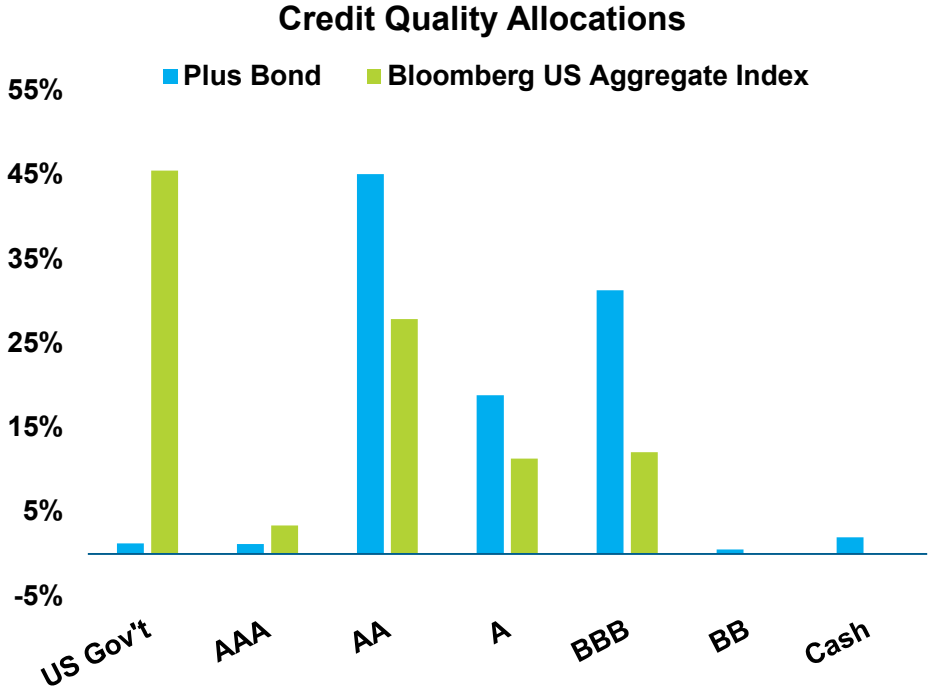




→ COAERS' Core Bond portfolio is underweight AA-rated bonds and overweight AAA-rated bonds when compared to the benchmark.

Plus Bond Sector & Credit Quality Exposure Comparison[1]





→ COAERS' Plus Bond portfolio is majority-comprised of corporate and MBS (mortgage-backed securities) exposures. The credit quality of the asset class largely ranges between AA – BBB-rated bonds.

[1]

Current Cash & Equivalents Portfolio (net)

As of March 31, 2025

Trailing Performance	Market Value	% of Total Fund	% of Cash & Equiv.	One-Year (%)	Three-Year (%)	Five-Year (%)	Ten-Year (%)	Since Inception (%)
Cash & Equivalents	**198,297,674**	**5.6**	**100**	**5.0**	**4.4**	**2.6**	**--**	**2.3**
Bloomberg US Treasury Bill 1-3 Mo.				*5.0*	*4.3*	*2.6*	*--*	*2.3*
US Dollar Instruments	**152,836,303**	**4.3**	**77.1**	**5.0**	**4.4**	**2.6**	**--**	**--**
Bloomberg US Treasury Bill 1-3 Mo.				*5.0*	*4.3*	*2.6*	*--*	*--*
Agincourt 1-3 Month Treasury	78,858,912	2.2	39.8	5.0	4.2	2.5	--	2.5
Bloomberg US Treasury Bill 1-3 Mo.				*5.0*	*4.3*	*2.6*	*--*	*2.5*
Mellon Government STIF	1,872,413	0.1	0.9	4.9	4.2	--	--	3.1
Bloomberg US Treasury Bill 1-3 Mo.				*5.0*	*4.3*	*--*	*--*	*3.1*
NISA Cash and Carry	72,104,977	2.0	36.4	5.0	--	--	--	5.2
Bloomberg US Treasury Bill 1-3 Mo.				*5.0*	*--*	*--*	*--*	*4.8*
Other Currencies	**45,461,371**	**1.3**	**22.9**	**4.8**	**4.3**	**--**	**--**	**3.9**
Bloomberg US Treasury Bill 1-3 Mo.				*5.0*	*4.3*	*--*	*--*	*3.9*
NISA ST Sovereigns	45,461,371	1.3	22.9	*4.8*	4.3	--	--	4.0
Bloomberg US Treasury Bill 1-3 Mo.				*5.0*	*4.3*	*--*	*--*	*4.0*

→ Mellon Government STIF and NISA Cash and Carry have added value relative to their benchmarks over both recent and since inception periods.

Active vs. Passive Investing

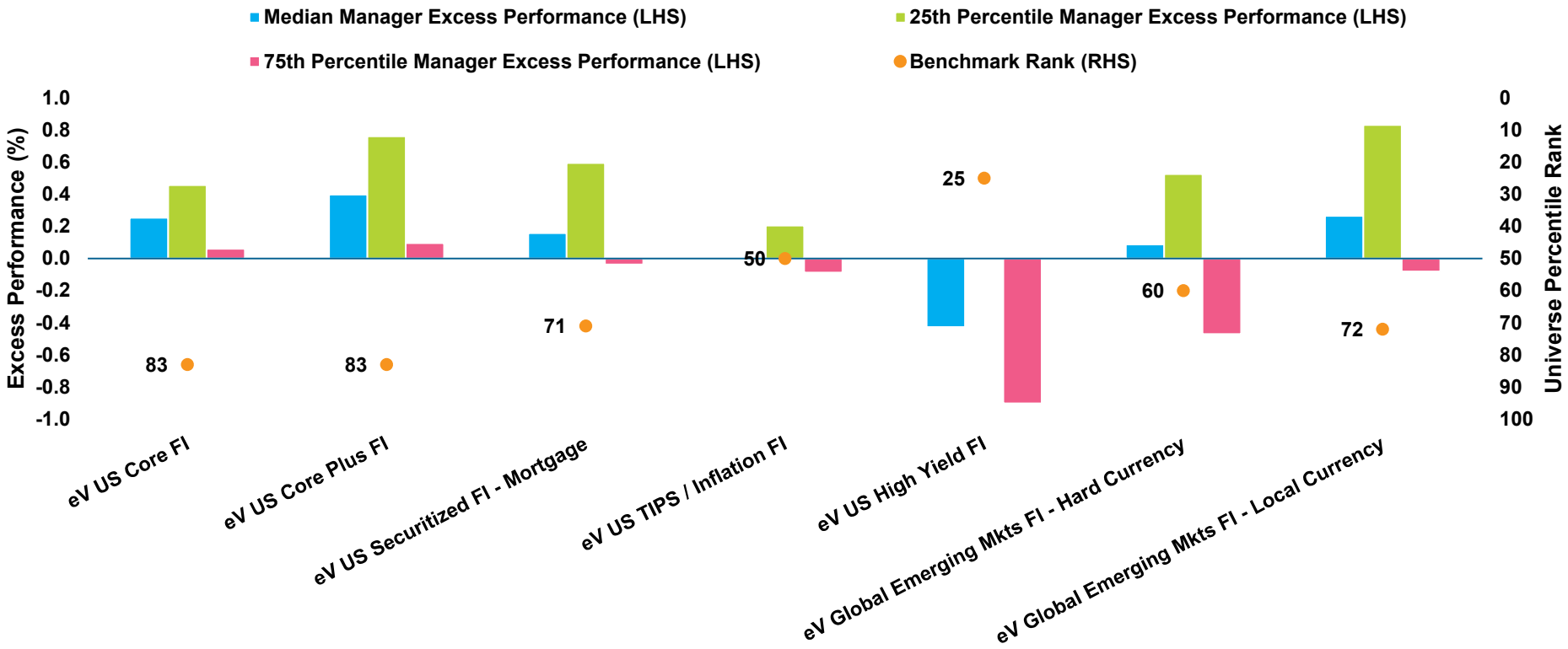
- Active management aims to add value by achieving higher returns or reducing risk compared to market benchmarks. Active managers try to outperform by selecting specific securities, strategies, or sectors. However, this approach carries risks, including the potential for underperformance, unintentionally large bets, personnel issues, and challenges in managing large asset pools. A sound investment strategy recognizes these risks.
- Market efficiency varies, with some markets being more efficient than others based on the value added by active managers, on average. Superior manager selection can add value across asset classes, but it's unrealistic to expect all managers to achieve top quartile returns. In highly efficient markets, passive management is more likely to succeed due to its low fees and ability to replicate market segment returns. Passive strategies are ideal for achieving broad diversification at very low costs.
- Some areas of the fixed income universe (e.g., Treasuries) tend to be more conducive to passive management, while others may be more conducive to active management.

Core

- Active core fixed income approaches have a strong record of outperformance versus their passive counterparts on a gross of fee and net of fee basis.
- Returns of the Bloomberg US Aggregate, the primary benchmark for Core Fixed Income managers, have ranked in the bottom decile relative to active Core Bond managers over all trailing time periods gross of fees. The median manager has outperformed by 50 basis points (0.50%) over the last 10 years while the top quartile managers have outperformed by 70 basis points.
- The median Core Bond manager has outperformed the index 17 of the past 20 years gross of fees and top quartile managers have outperformed the index every year over the past 20 years.
- Fees for active Core Bond mandates are low, with the median fee for a $100 million commingled fund or separate account at 25 basis points (0.25%). Net of fees, the median and top-quartile managers have generated 25 basis points and 45 basis points of excess return over the previous 10 years.
- However, these represent "rack rate" fees, and an investor can often negotiate lower fees.

Active vs. Passive Investing (continued)

eV Universe Performance (Net of Fees) Trailing 10 Years as of 12/31/2024



→ The asset classes with the highest median outperformance were Core, Core Plus, and Local Currency EM Debt.

→ Core Plus managers are more likely to own riskier portfolios than the benchmark, sometimes leading to disproportionately higher excess performance versus risk-adjusted excess performance.

Plus

→ Core Plus Fixed Income strategies combine traditional fixed income assets with additional sectors such as high yield bonds, bank loans, and emerging markets debt.

- **Enhance Return**
  - Higher Yields: Core Plus strategies seek higher yields than traditional fixed income by including assets with greater return potential.
  - Dynamic Allocation: Investment managers can dynamically allocate assets across various bond types to optimize returns.
- **Higher Income**
  - Diversified Bond Types: By incorporating high yield bonds, bank loans, and emerging markets debt, Core Plus strategies provide greater income potential compared to traditional fixed income.
  - Income Stability: These diversified sources of income can help stabilize overall portfolio returns.
- **Growth Potential**
  - Capital Appreciation: Core Plus strategies offer opportunities for capital appreciation through investments in sectors that may benefit from economic growth.
  - Tactical Investing: Managers can tactically invest across multiple bond sectors to capture growth opportunities.
- **Additional Diversification**
  - Risk Reduction and Broad Market Exposure: By spreading investments across various sectors, Core Plus strategies reduce risk and enhance portfolio stability.

Substitution of Plus Sector Components

Benchmark Review

→ A benchmark is a reference for the evaluation and analysis of a portfolio, composite, or investment manager.

- The Bailey Criteria states that a benchmark should be unambiguous, investable, measurable, appropriate, reflective of current investment options, and specified in advance.
- In addition to serving as a metric for performance comparison, a fixed income benchmark helps demonstrate a composite or manager's credit quality, duration, yield to maturity, sector allocation, and other exposure tilts.

→ Meketa reviewed COAERS' fixed income benchmarks and determined that all composite and manager benchmarks are appropriate. Additionally, since COAERS will only have three Core bond managers, we recommend maintaining the current approach and continuing to benchmark them against the Bloomberg US Aggregate Index.

Managers Fee Review

Background

- Fees can range dramatically across asset classes and investment vehicle types. Passive public fixed income strategies traditionally have much lower fees than active, private or alternative strategies. As such, it is better to review each investment manager within the context of its respective peer group.
- Meketa Investment Group believes the fees for all current COAERS investment managers are reasonable and all are below median.
- This document first compares the fees for the investment managers to their relevant peer groups, and then combines fees for every manager, sub-asset class and the global equity asset class.
- The peer analysis utilizes two sets of peer groups for comparison:
  1. *eVestment Universes* – Data is sourced from investment managers and reflect "rack rate" fee schedules. Each peer group is curated based upon the asset class, vehicle type, mandate size, and investment style.
  2. *Investment Metrics Fee Analyzer Universes* – Peer groups reflect negotiated rates across 65+ style groups and asset classes using Investment Metrics' client universe, which is roughly 20,000 institutional plans and 500,000 portfolios.

Appendix: Key Components of Core Plus Fixed Income

Core Plus Investment Types

→ **High Yield Bonds:**

- Definition: High yield bonds, also known as junk bonds, are issued by companies with lower credit ratings. These bonds offer higher yields to compensate for the increased risk of default.
- Characteristics:
  - Higher Returns: Due to their higher risk, high yield bonds provide greater returns compared to investment grade bonds.
  - Credit Risk: Investors must carefully assess the creditworthiness of issuers, as these bonds are more susceptible to default.
  - Economic Sensitivity: High yield bonds are sensitive to the economic cycles; they tend to perform well during economic expansions and poorly during recessions.

→ **Bank Loans**

- Definition: Bank loans, also known as leveraged loans, are loans extended to companies with lower credit ratings. These loans are typically secured by the company's assets.
- Characteristics:
  - Floating Interest Rates: Banks loans often have floating interest rates, which adjust periodically based on market conditions.
  - Secured Debt: These loans are usually secured by collateral, reducing the risk compared to unsecured high yield bonds.
  - Income Generation: Bank loans provide regular interest payments, contributing to income generation within a portfolio.

Core Plus Investment Types (continued)

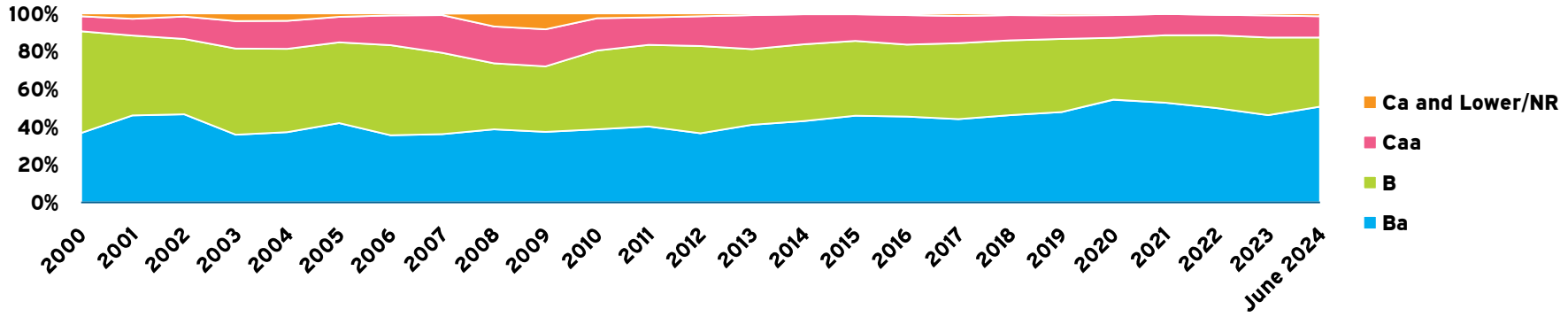
→ **Emerging Market Debt:**

- Definition: Emerging markets debt includes bonds issued by governments or corporations in developing countries. These bonds offer higher yields due to the increased risk associated with emerging markets.
- Characteristics:
  - Diversification: Investing in emerging markets debt adds geographical diversification to the portfolio
  - Economic and Political Risk: Emerging markets are subject to greater economic and political instability, which can affect bond performance.
  - Currency Risk: Fluctuations in exchange rates can impact returns.
  - Higher Yields: Provide higher yields compared to developed market bonds.

High Yield Bonds

High Yield Bonds[1]

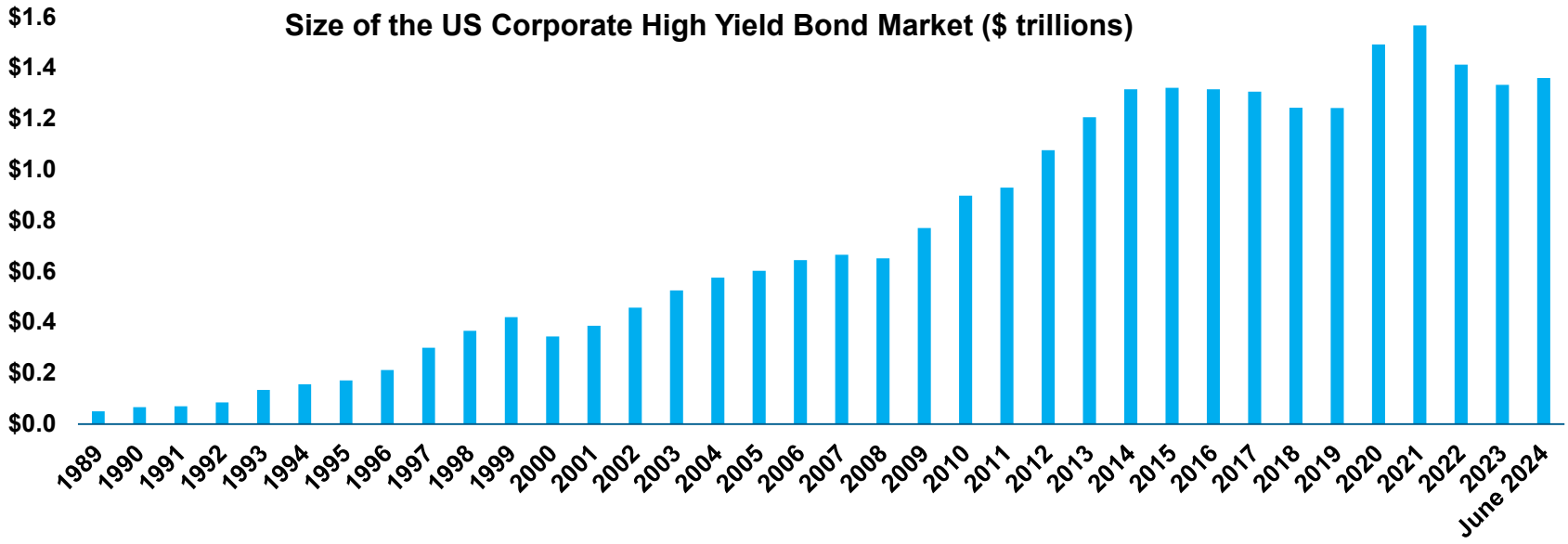
- → High yield bonds are fixed-rate bonds issued by corporations that are rated below investment grade.
- → These bonds offer a higher yield because they entail higher risk of default.
- → The high yield bond asset class covers a wide range of bonds, from just below investment grade issues to much riskier securities that have lost their credit ratings entirely. Non-investment grade ratings include BB+ / Ba1 or lower.
- → The US high yield bond market has nearly 2,000 issues worth ~$1.3 trillion market value. This represents ~20% of all US corporate bonds tracked by Bloomberg.
- → Most bonds in the high yield market are rated BB or B, while CCC rated bonds represent 10-15%. Over the past decade, there has been an improvement in average credit quality.
  - BB-rated bonds increased from 37% (Dec 2000) to 51% (June 2024).
  - This was offset by a reduction in B and CCC-rated bonds.



[1] The major bond rating agencies (Moody's, S&P, and Fitch) provide letter grades of credit worthiness that indicate how likely it is that debt issues will be repaid. Source: Barclays Live, as of June 30, 2024. Index: Bloomberg US Corporate High Yield Bonds.

History of High Yield Bonds[1]

- From the late 1800s to late 1900s, high yield was mainly "fallen angels" (downgraded investment grade debt).
- In the late 1970s, original-issue high yield debt began to gain respectability.
- The last quarter of the twentieth century saw a surge of new high yield issues, partly due to:
  - Increased ability for companies to fundraise directly from lenders, bypassing banks and middlemen.
  - Companies finding it profitable to use the high yield market to finance LBOs or capital restructurings.
- The market grew to more than $1 trillion in 2012 and has stayed above that level ever since.



[1] Source: Barclay's Live, as of June 30, 2024. Index: Bloomberg US Corporate High Yield, Amount Outstanding.

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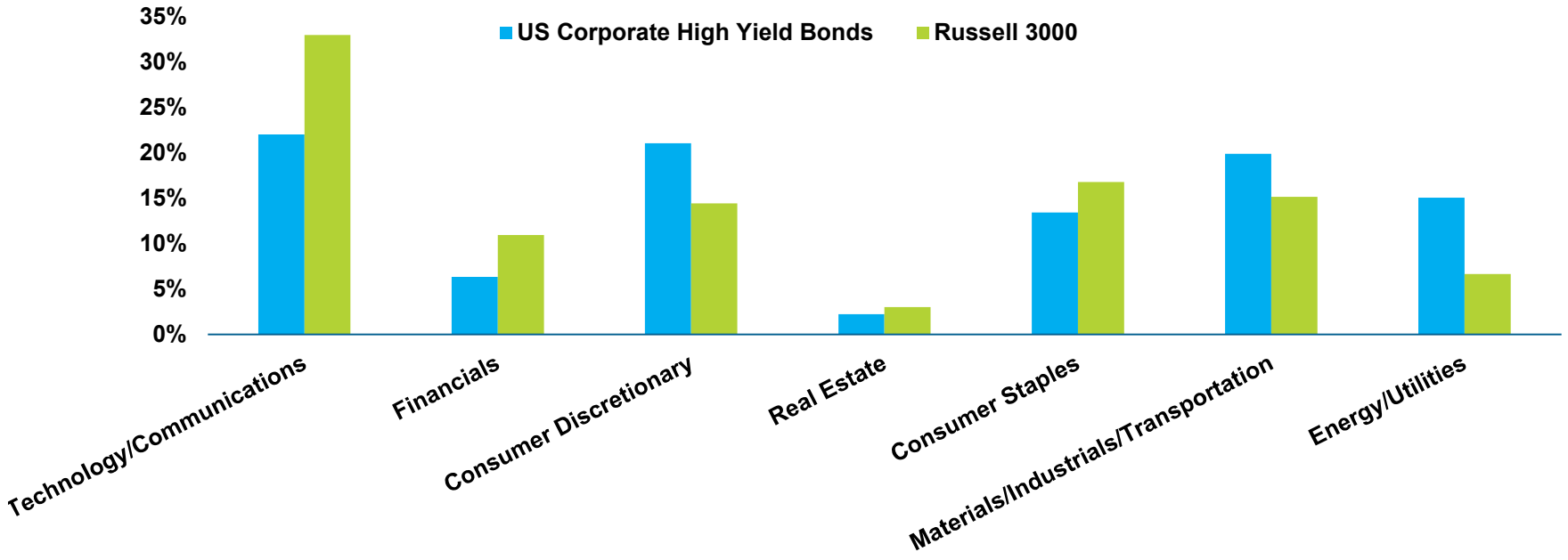
Appendix: Key Components of Core Plus Fixed Income

High Yield Bonds – Sector Breakdown[1]

- → High yield bond issuance is more evenly distributed across sectors than is market cap for US equities.
- → US equity's largest sectors are technology and communications (33%) and consumer staples (17%).
- → High yield's largest sectors are technology and communications (22%) and consumer discretionary (21%).



[1] Source: Barclay's Live and FactSet as of December 31, 2023. Index: Bloomberg US Corporate High Yield, Russell 3000. Some sectors were grouped together for the purposes of the chart, they include: Technology, Telecommunications, and Communications as "Technology/Communications," Finance, Finance Companies, Banking, Other Finance, and Brokerage Asset Managers Exchanges as "Financials," Consumer Discretionary and Consumer Cyclical as "Consumer Discretionary," Real Estate and REITs as "Real Estate," Consumer Staples, Healthcare, Consumer Non-cyclical, and Insurance as "Consumer Staples," Materials, Industrials, Basic Industry, Capital Goods, and Transportation as "Materials/Industrials/Transportation," Energy, Utilities, Natural Gas, Electric as "Energy/Utilities."

High Yield Bonds – Risk and Return Profile and Quality Spectrum[1]

→ Despite being referred to as "junk" bonds, high yield bonds are generally less risky than US equity.

- This is partly because high yield bonds are ahead of equity in the capital structure (they offer a better chance to recover at least part of their investment in a default).
- They also have a large income component, which may help stabilize their performance.

→ Like their risk level, high yield bonds have produced returns between investment grade bonds and US equity.

Annualized Return and Volatility Since 1985

	Investment Grade Bonds	High Yield Bonds	US Equity
Annualized Return	5.9%	8.2%	11.5%
Annualized Standard Deviation	4.4%	8.4%	15.6%

→ Historically, BB- and B-rated bonds have produced better absolute and risk-adjusted returns than CCC-D rated bonds (CCC-D bonds have produced the wildest swings [e.g., higher maximum out/underperformance months]).

Historical Performance of High Yield Bonds by Rating (January 1, 1995 – June 30, 2024)

	Ba	B	Ca-D
Annualized Return	7.4%	6.2%	5.2%
Annualized Risk	7.2%	8.6%	27.4%
Sharpe Ratio	0.69	0.44	0.10
Best Month	7.8%	10.8%	75.1%
Worst Month	-13.7%	-14.2%	-39.9%

[1] Source: Investment Metrics, as of June 30, 2024. Indexes: Bloomberg US Aggregate, Bloomberg US Corporate High Yield Bond, Russell 3000. Period is January 1, 1985, to June 30, 2024. Bottom table: Bloomberg, as of June 30, 2024. Index used: Bloomberg Ba US High Yield index, Bloomberg B High Yield index, Bloomberg Ca to D US High Yield Index. Period is January 1, 1995, to June 30, 2024.

Advantages and Risks of High Yield Bonds

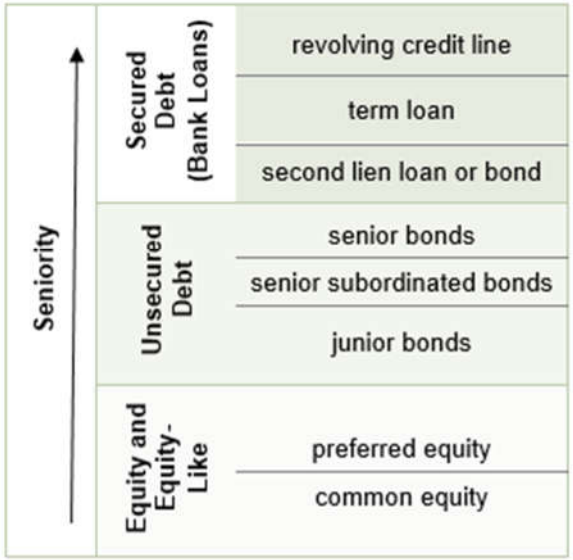
Advantages	Risks
Higher Returns → Offer higher interest rates compared to investment grade bonds, compensating for the increased risk.	**Default Risk** → The primary risk is the higher likelihood of default, as these bonds are issued by companies with lower credit ratings. → High yield defaults due to bankruptcy have historically been recoverable at around 30-50 cents on the dollar.
Diversification → Due to their modest correlation with other asset classes and attractive historical returns, the inclusion of high yield bonds in a traditional stock-bond portfolio may allow investors to construct more efficient portfolios.	**Liquidity Risk** → High Yield Bonds can be less liquid than investment grade bonds.
Potential for Capital Appreciation → If the issuing company's financial health improves, the bond's credit rating may be upgraded, leading to potential capital gains.	**Credit Risk** → The value/price of a high-yield corporate bond can be affected by a drop in the issuer's credit rating.
	Interest Rate Risk → Interest rate risk plays only a minor role, because duration is much lower for high yield bonds.

Bank Loans

Bank Loans

- Bank loans are senior secured, floating-rate loans made to corporations with below investment grade ratings.
- The most common reason a company issues loans are to finance an acquisition, corporate project, or leveraged buyout, or to refinance existing bank loans.
- Similar to high yield bonds, investment banks underwrite and syndicate bank loans, working with investment managers on pricing, structure, and covenants. Bank loans typically have three tranches: (1) the revolving credit line, (2) term loans, and (3) second lien loans or bonds. The revolving credit line is typically retained by banks.
- Bank loan managers invest primarily in institutional bank loan tranches.

Typical Capital Structure of a Below Investment Grade Company



History of Bank Loans

- Bank loans emerged in the 1980s. They were typically held by banks on their balance sheets and not traded. In 1995, the industry established the Loan Syndications and Trading Association (LSTA), to develop and to govern market standards. The LSTA helped create stability in the asset class, causing the secondary market to flourish.
- The par amount of issuance of total bank loan (including revolvers and non-institutional tranches) rose from approximately $100 billion in 1990 to approximately $1 trillion in the mid-2000s.
- The bank loan buyer profile also changed dramatically. Originally, only banks purchased and held loans. Today, bank loan buyers include high yield managers, mutual funds, hedge funds, leveraged closed-end funds (Collateralized Loan Obligations or CLOs), and other institutional investors.

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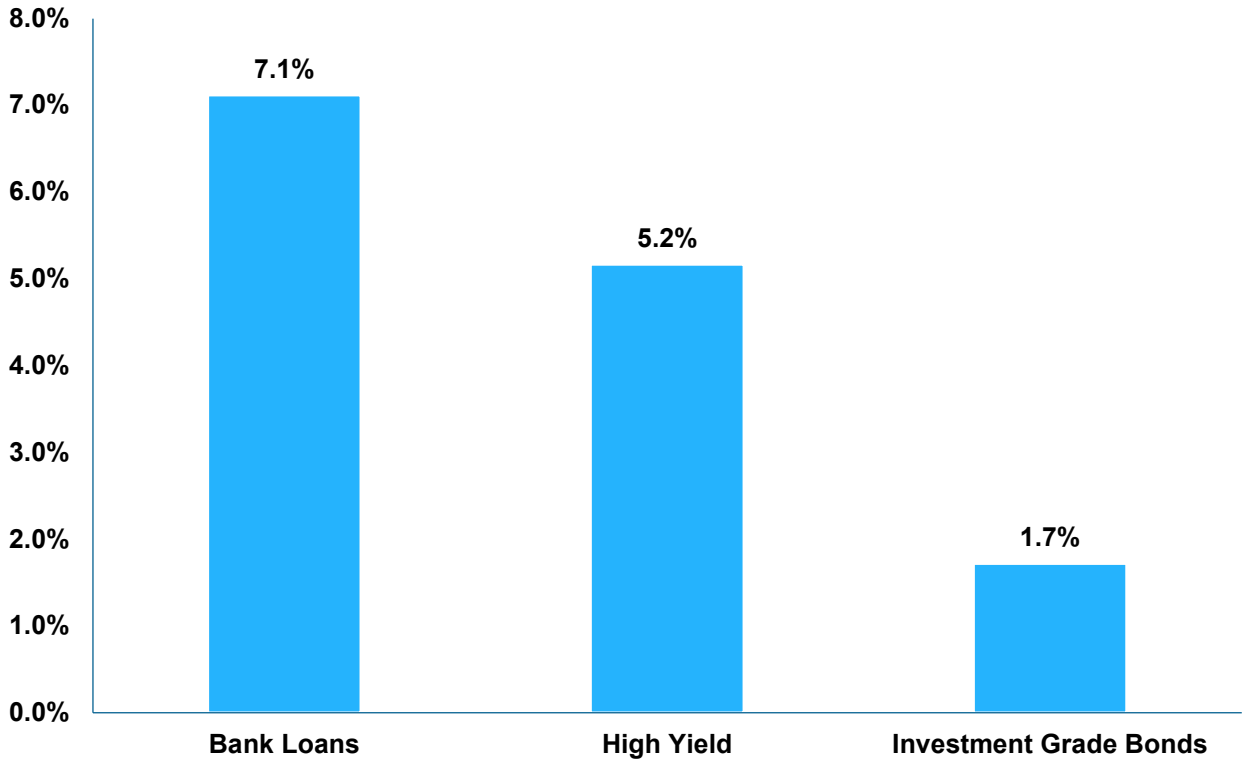
Appendix: Key Components of Core Plus Fixed Income

Average One-Year Performance in Rising Rate Environments[1]



→ Bank Loans have outperformed high yield and investment grade bonds during periods of rising short-term interest rates.

[1] Proxies for Bank Loans, High Yield, and Investment Grade Bonds are the CSFB Leveraged Loan index, Barclays High Yield index, and Barclays Aggregate index, respectively. A rising rate environment was defined as a 12-month period in which the 3-month Treasury yield increased by one standard deviation more than average.

Advantages and Risks of Bank Loans

Advantages	Risks
Structure → Unlike bonds that typically have fixed coupons, bank loan coupons are tied to short-term interest rates, which are variable. → In the corporate capital structure, bank loans are senior and secured. Relative to bonds and equity, they have more protective covenants and a higher claim on company assets and cash flows in the event of default.	**Company-specific Risk** → Risk that the borrower will not meet the terms of the loan due to insufficient cash flow or covenant violations.
Diversified Source of Return → Bank loans represent an alternative, or complement, to high yield bonds, both from an investors and an issuer's standpoint. → Bank loans have exhibited lower correlations to other asset classes and can lower total Fund standard deviation, thus increasing risk-adjusted returns. → Bank loans have historically experienced less volatility than high yield bonds.	**Industry Risk** → A company's financial health is tied to the industry in which it operates. Highly leveraged companies are more vulnerable to negative industry trends.
Current Opportunity → The bank loan market has grown rapidly in the last decade due to the establishment of governance standards and the popularity of bank loans as a source of financing mergers and acquisitions. → Bank loan yields are near high yield bond yields and offer attractive relative value.	**Capital Market Risk** → Broadly syndicated bank loans typically do not amortize so issuing companies must repay the principal of maturing loans by issuing new loans. If the availability of credit in the markets is scarce, companies may find it difficult to refinance their debt.

Emerging Markets Debt

Emerging Markets Debt

- Emerging market debt (EMD) is issued by governments and companies in middle-income economies considered to be emerging from underdevelopment. Emerging market economies include much of Africa, Eastern Europe, Latin America, the Middle East, and Asia.
  - Investing in emerging market debt may offer:
    - Strong macroeconomic fundamentals
    - Attractive yields
    - Diversification benefits
- The asset class continues to evolve as global capital markets develop with improving credit quality and market liquidity.
  - Institutional investors such as pension funds and endowments commonly include emerging market debt in their portfolios.
- EMD is issued in two types of currency: 1) Hard currency debt is issued in a currency other than the country's home currency (Usually in US dollars or euros), 2) Local debt is issued in the home currency of the issuing country.

Emerging Markets Debt – Corporate or Sovereign Debt[1]

- → EM debt can be issued either by governments (i.e., sovereign debt) or corporations.
  - Government debt constitutes the majority of EMD universe.
  - The corporate bond market is growing and may offer higher yields.
- → Corporate debt is typically denominated in US dollars.

Emerging Markets Debt – Attractive Yields[2]

- → Much of the EMD universe offers higher yields than is on offer from many advanced economies.
- → Since their peak during the Global Financial Crisis (GFC), EMD yields have declined but remain relatively attractive for investors.
- → As markets have matured, the spread between US high yield and EM debt yields has narrowed, though they appear to respond in a similar manner to global risk sentiment.

[1] Source: JP Morgan. Hard currency sovereign proxied by the EMBI Global index, Local currency sovereign proxied by the GBI-EM Global index, and Corporate proxied by CEMBI Broad Diversified index. Data shown is as of December 2002 and December 2022. Not all sovereign emerging market debt is investible, so that public debt market values may not align with EMD indices market capitalization values.

[2] Sources: JP Morgan and Neuberger Berman data as of September 2022. Hard currency EM debt is proxied by the JPM EMBI Global Diversified Index; EM corporate debt is proxied by the JPM CEMBI Broad Diversified index; Local currency EM debt is proxied by the JPM GBI-EM Global / Diversified index US high yield is proxied by the Bloomberg US High Yield index; US bonds are proxied by the Bloomberg US Aggregate index.

Emerging Markets Debt – Strong Fundamentals[1]

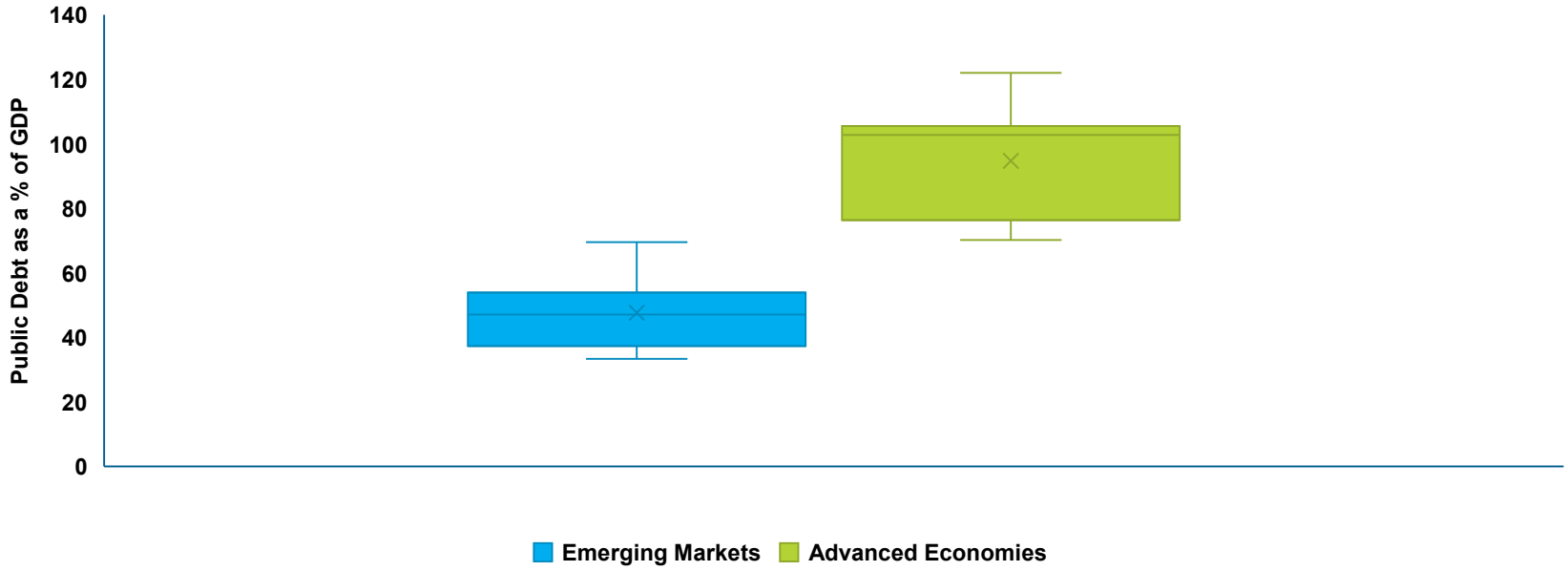
→ The primary concern for most investors is the ability and willingness of the issuer to service (i.e., pay) its debts.

- The improved fundamentals of many emerging markets have led to a better position on both measures.

→ Many emerging market economies have a lower government debt-to-GDP ratio than advanced economies.

- In theory, this lower debt burden implies a higher level of sovereign creditworthiness among emerging market countries, or at least a higher ability to repay their debt.

Historical Public Debt-to-GDP Ranges for Emerging and Advanced Economies (2001-2024)



[1] Source: IMF. Data is for the period 2001 through 2024.

Advantages & Risks of Emerging Markets Bonds

Advantages	Risks
Attractive Yields → Emerging markets debt typically offers higher yields compared to developed market bonds, compensating investors for the increased risk.	**Political and Country Risks** → Although emerging countries, overall, have taken great strides in limiting country risks or sovereign risk, it is undeniable that the chance of socioeconomic instability is more considerable in these nations than in developed countries, particularly the US.
Diversification Benefits → Emerging market debt offers geographical and macro-economic diversification. → Emerging market countries may not be as influenced by US policy rates, hence correlation with the US investment grade bond market can vary considerably. → EM countries have their own business and growth cycles resulting in varying correlations with US equities.	**Return Volatility** → Despite improving macro-economic fundamentals, emerging market bond volatility tends to resemble that for high yield bonds. → Moreover, EM bonds are highly susceptible to domestic and international crises. → The trailing five-year volatility for EMD has been 11.6%, which is at least 25% higher than the other public credit asset classes.
Strong Economic Fundamentals → Many emerging market economies have a lower government debt-to-GDP ratio than advanced economies. → Lower debt burden implies a higher level of sovereign creditworthiness among emerging market countries, or at least a higher ability to repay their debt.	**Higher Transaction Costs** → EMD investment costs are high when compared to developed markets. EMD is relatively illiquid when compared to larger, more mature bond markets. Illiquidity can increase the transaction costs, especially during periods of market volatility.
	Currency Risks → Investors in foreign assets may be subject to the risk of the foreign currency declining relative to the investor's domestic currency.

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PERFORMANCE DATA CONTAINED HEREIN REPRESENT PAST PERFORMANCE. PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS.

7. Discuss and consider Global Equity portfolio including:

A. Global Equity Benchmarking

B. Phase Out Guidelines for US Equal Weight Exposure

C. US Small Cap recommendation

Presented by Leo Festino and David Stafford

COAERS

COMMITTEE MEETING
Agenda Item Information Sheet

AGENDA ITEM 7A
Discuss and consider Global Equities portfolio including

A. Global Equity Benchmarking

AGENDA ITEM OBJECTIVE
This agenda item is for the Committee to review benchmarking for the Global Equities portfolio.

RECOMMENDATION FOR COMMITTEE ACTION
At the Committee's discretion.

ITEM SUMMARY
At its February meeting, the Committee directed Meketa and Staff to provide additional analysis regarding the benchmarking recommendation for the Global Equity portfolio. Meketa will provide an analysis of their recommendation for benchmarking the US Equal Weight Exposure and how that rolls up into the Global Equities portfolio. Also provided in the materials is a memo from Staff on the associated recommendations.

RELEVANCE TO STRATEGIC PLAN
This agenda item is central to **COAERS Strategic Plan Goal 4: Identify and implement leading practices in Board governance, pension administration, and investment management.**

ATTACHMENTS
1. Meketa Memo "Benchmarking Adjustments Associated with US Equal Weight Exposure"
2. Staff Memo "Global Equities Benchmark" (CONFIDENTIAL)

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MEMORANDUM

TO: Investment Committee, City of Austin Employees' Retirement System
FROM: Leandro A. Festino, Stephanie Sorg, Meketa Investment Group
DATE: May 23, 2025
RE: Benchmarking Adjustments Associated with US Equal Weight Exposure

Background

Meketa and Staff were tasked with recommending the appropriate benchmarking adjustments related to the US Equal Weight exposure.

The Equal Weight exposure is a meaningful portion of the US Equity composite, representing about 25% of US Equity as of March 31, 2025. Without a dynamically weighted Equal Weight benchmark component, the current US Equity Benchmark could demonstrate unnecessary tracking error versus the US Equity composite. Additionally, the current US Equity Benchmark is a "Net" benchmark, rather than a "Gross" benchmark. In contrast to "Net" benchmarks, "Gross" benchmarks do not deduct withholding taxes on dividends generated from the underlying stocks within the index.

Recommendation

Meketa recommends employing a spliced benchmark for US Equity that incorporates the benchmarks associated with the Equal Weight exposure (MSCI USA Equal Weighted Index (Gross)) and the remaining US equity composite (MSCI USA IMI Index (Gross)). This approach will float the weights for the two distinct exposures using the beginning of each month weights and thereby reduce unnecessary tracking error. As this position is reduced and eventually eliminated, the benchmark for the US equity composite will become solely the MSCI USA IMI Index (Gross) Index. Meketa believes "Gross" MSCI benchmarks are more appropriate than "Net" benchmarks for COAERS' US Equity investments, given the System's tax-exempt status.

Benchmark	Constituents		Weights of Constituents (calculated using beg. of month MVs, updated monthly)
US Equity Spliced Benchmark	MSCI USA Equal Weighted Index (Gross)	→	NT MSCI USA EW Index Fund's weight as a % of total US Equity
	MSCI USA IMI Index (Gross)	→	100% - NT MSCI USA EW Index Fund's weight as a % of total US Equity

Meketa analyzed the potential impact to benchmark performance from the proposed benchmark change. Had the proposed US Equity Spliced Benchmark been implemented at the time the Equal Weighted fund had been added to the portfolio in October 2020, the proposed benchmark would have had stronger performance over the quarter to date, 1 year, and since inception periods. The table below includes calculations utilizing both "Net" and "Gross" underlying benchmarks for comparison.

Period ending 3/31/2025	QTD	1 Yr	3 Yr	Since 10/01/2020
COAERS US Equity Composite[1]	-3.9%	5.3%	6.0%	11.2%
US Equity Benchmark (Gross)[2]	-4.8%	7.9%	8.8%	13.3%
Proposed US Equity Spliced Benchmark (Gross)[3]	-3.9%	7.6%	8.2%	12.9%
Current US Equity Benchmark (Net)[4]	-4.9%	7.5%	8.3%	12.8%
US Equity Spliced Benchmark (Net)[5]	-4.0%	7.1%	7.7%	12.4%

To maintain consistency across composite-level benchmarks containing US Equity constituents, Meketa recommends updating the Global Equity Benchmark and the Total Fund Policy Benchmark as follows: Blend the proposed US Equity Spliced Benchmark, the current Developed Markets Equity Benchmark, and the current Emerging Markets Equity Benchmark to create a Global Equity Spliced Benchmark. Weight each regional benchmark component based on the region's beginning of month weight within the MSCI ACWI IMI Index, the current Global Equity Benchmark. Once the Equal Weight exposure has been fully eliminated, update the Global Equity Benchmark to the MSCI ACWI IMI with USA Gross (Net) Index. This index is for tax-exempt, US-based investors and only deducts withholding taxes on dividends from foreign-based companies. Within the Policy Benchmark, replace the MSCI ACWI IMI Index with the Global Equity Spliced Benchmark. Once the Equal Weight exposure has been fully eliminated, replace the Global Equity Spliced Benchmark with the MSCI ACWI IMI with USA Gross (Net) Index.

Benchmark	Constituents		Weights of Constituents (calculated using beg. of month weights, updated monthly)
Global Equity Spliced Benchmark	US Equity Spliced Benchmark	→	US Region weight in MSCI ACWI IMI Index
	MSCI World ex USA IMI Index (Net)	→	DM ex US Region weight in MSCI ACWI IMI Index
	MSCI Emerging Markets IMI Index (Net)	→	EM Region weight in MSCI ACWI IMI Index

We look forward to reviewing these items with the Committee at the upcoming meeting. In the meantime, if you have any questions, please contact us at (760) 795-3450.

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[1] COAERS US Equity Composite returns are net of manager fees.
[2] US Equity Benchmark (Gross) is comprised of MSCI USA (Gross) from 10/01/2020 to 6/30/2024, and MSCI USA IMI (Gross) thereafter.
[3] Proposed US Equity Spliced Benchmark (Gross) is comprised of MSCI USA (Gross) and MSCI USA EW (Gross) from 10/01/2020 to 6/30/2024, and MSCI USA IMI (Gross) and MSCI USA EW (Gross) thereafter.
[4] Current US Equity Benchmark (Net) is comprised of MSCI USA (Net) from 10/01/2020 to 6/30/2024, and MSCI USA IMI (Net) thereafter.
[5] US Equity Spliced Benchmark (Net) is comprised of MSCI USA (Net) and MSCI USA EW (Net) from 10/01/2020 to 6/30/2024, and MSCI USA IMI (Net) and MSCI USA EW (Net) thereafter.

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COMMITTEE MEETING
Agenda Item Information Sheet

AGENDA ITEM 7B
Discuss and consider Global Equities portfolio including

B. Phase Out Guidelines for US Equal Weight Exposure

AGENDA ITEM OBJECTIVE
This agenda item is for the Committee to review the Phase Out Guidelines for US Equal Weight Exposure.

RECOMMENDATION FOR COMMITTEE ACTION
At the Committee's discretion.

ITEM SUMMARY
This agenda item will review the Global Equities portfolio and related strategy and implementation considerations. Meketa will provide an analysis of their recommendation for eventual elimination of the US Equal Weight Exposure. Also provided in the materials is a memo from Staff on the associated recommendations.

RELEVANCE TO STRATEGIC PLAN
This agenda item is central to **COAERS Strategic Plan Goal 4: Identify and implement leading practices in Board governance, pension administration, and investment management.**

ATTACHMENTS
1. Meketa Memo "Review of US Equal Weight Phase Out Guidelines"
2. Staff Memo "US Equities Equal Weight Phase Out" (CONFIDENTIAL)

MEKETA

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MEMORANDUM

TO: Investment Committee, City of Austin Employees' Retirement System
FROM: Leandro A. Festino, Stephanie Sorg, Meketa Investment Group
DATE: May 23, 2025
RE: Review of US Equal Weight Phase Out Guidelines

Background

Meketa and Staff were tasked with reviewing the Board-approved rules-based mechanism for phasing out the US Equal Weight exposure at multiple declining market-concentration levels.

We note that these guidelines were calibrated based on the effective number of stocks in the benchmark and aim to reduce and eventually eliminate the Equal Weight exposure as this measure approaches a more normal level (within 1.25 standard deviations of its relevant average). The number of effective stocks is a statistical measure that estimates the number of securities needed to reasonably replicate the index. Using just this approach, US Equal Weight exposure will be eliminated only when market concentration levels return to historical norms.

US Equal Weight Phase Out Levels

Phase Out of US Diversifiers		
When Effective Stocks in the benchmark reaches this level....		...then reduce US Equal Weight exposure to this
MSCI USA IMI Effective Stocks	Effective Stocks z-Score	US EW Exposure
74	-2.00	25%
86	-1.75	15%
98	-1.50	10%
109	-1.25	0%

US Equal Weight Exposure is expressed relative to the total US Equity portfolio.

Recommendation

Meketa has reviewed the feasibility and application of the phase out guidelines, as well as alternative options, in the context of the current market environment and reaffirm the current disciplined approach.

However, in addition to the current guidelines, Meketa acknowledges that there may be circumstances and environments where, for the best of the System, a judgement-based decision to reduce the US Equal Weight exposure may be warranted irrespective of the rules-based guidelines. As a result, Meketa recommends that in addition to maintaining the disciplined phase out levels, the Board considers granting COAERS' Staff the authority to reduce the US Equal Weight exposure if the General Consultant and Executive Director concur in writing that such action would be in the best interest of the System.

We look forward to reviewing these items with the Committee at the upcoming meeting. In the meantime, if you have any questions, please contact us at (760) 795-3450.

LAF/SBS/AL/sf

COAERS

COMMITTEE MEETING
Agenda Item Information Sheet

AGENDA ITEM 7C
Discuss and consider Global Equities portfolio including

C. US Small Cap recommendation

AGENDA ITEM OBJECTIVE
This agenda item is for the Committee to review the recommendation related to the US Small Cap portfolio.

RECOMMENDATION FOR COMMITTEE ACTION
At the Committee's discretion.

ITEM SUMMARY
This agenda item will review the recommendation related to implementing active management in the US Small Cap portfolio. Meketa will present the results of the US Small Cap manager search. Staff have prepared a corresponding memo included in the packet, and a process memo in Supplemental Materials.

RELEVANCE TO STRATEGIC PLAN
This agenda item is central to **COAERS Strategic Plan Goal 4: Identify and implement leading practices in Board governance, pension administration, and investment management.**

ATTACHMENTS
1. Meketa Manager Report "US Small Cap" (CONFIDENTIAL)
2. Staff Memo "US Small Cap Manager" (CONFIDENTIAL)

SUPPLEMENTAL INFORMATION PROVIDED VIA CONVENE APP
1. Staff Memo "Core US Small Cap Manager Search Recommendation" (CONFIDENTIAL)

8. Discuss and consider Private Markets investment consultant Request for Proposal

Presented by Christopher Hanson

COAERS

COMMITTEE MEETING
Agenda Item Information Sheet

AGENDA ITEM 8:

Discuss and consider request for proposal for COAERS Private Markets Investment Consultant

AGENDA ITEM OBJECTIVE

This item is for the Committee to receive the report on the site visit phase of the Private Markets Investment Consultant RFP and consider the Site Visit Team's recommendation.

RECOMMENDATION FOR COMMITTEE ACTION

The Site Visit Team recommendation is included in the attached memo.

ITEM SUMMARY

At its April 9 meeting, the Investment Committee approved moving forward with onsite diligence of four Private Markets Investment Consulting firms, creating a team of Trustees and Staff to perform the site visits, and the scoring system for the recommendation of the finalists for Board consideration. The Committee will review the update on the site visit phase of the RFP and consider the finalist recommendations of the Site Visit Team.

RELEVANCE TO STRATEGIC PLAN

This agenda item is central to **COAERS Strategic Plan Goal 4: Identify and implement leading practices in Board governance, pension administration, and investment management.** It is considered a best practice to periodically review major service providers, including consulting relationships.

ATTACHMENT

1. Private Markets Investment Consultant RFP Site Visit Team Memo (CONFIDENTIAL)

SUPPLEMENTAL MATERIALS PROVIDED VIA CONVENE APP

The onsite presentation deck for each firm is provided in the supplemental Committee materials. (CONFIDENTIAL)

9. Call for future agenda items

Presented by Ed Van Eenoo

COAERS

COMMITTEE MEETING
Agenda Item Information Sheet

AGENDA ITEM 9:
Call for future agenda items

AGENDA ITEM OBJECTIVE
This standing agenda item provides Trustees the opportunity to review the key takeaways from the meeting and call for any future agenda items.

RECOMMENDATION FOR COMMITTEE ACTION
Trustees will review key meeting takeaways, delineate any next steps, and call for future Committee agenda items.

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.

ATTACHMENT
1. 2025 Investment Committee Work Plan and Priorities

COAERS
CITY OF AUSTIN
EMPLOYEES' RETIREMENT SYSTEM

Investment Committee
2025 Work Plan

2025 Investment Committee Priorities and Work Plan

Priority 1: Review and update Investment Policy Statement and Strategic Asset Allocation

- February:
  - ✓ Review 2025 capital market assumptions and current SAA
  - ✓ Global Equities strategic review, benchmarking, and investment manager fee analysis
- May:
  - ✓ Fixed Income and Cash & Equivalents strategic review, benchmarking, and investment fee analysis
  - ✓ Global Equity recommendations for US Small Cap and benchmark
- August:
  - Real Assets strategic review, benchmarking, and investment manager fee analysis
- November:
  - Private Credit strategic review, benchmarking, and investment manager fee analysis
  - Annual review of IPS

Priority 2: Development of private markets program

- February:
  - ✓ Discuss timeline for RFP process, bid submission, and establish review committee
- April:
  - ✓ Consultant RFP initial evaluation
  - ✓ Consultant RFP Site Visits
- May:
  - ✓ Consultant RFP recommendation to Board
- August:
  - Discuss private markets program, including development of strategic plan, pacing analysis, and 2025 funding plan
  - Possible private markets manager recommendations
- November:
  - Possible private markets manager recommendations

COAERS
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EMPLOYEES' RETIREMENT SYSTEM

Investment Committee
2025 Work Plan

Priority 3: Monitor the performance of the investment portfolio, investment staff, investment managers, and investment consultant

- February:
  - ✓ Quarterly review of investment performance, strategy, implementation, manager monitoring and compliance, implementation and related items
- May:
  - ✓ Quarterly review of investment performance, strategy, implementation, manager monitoring and compliance, implementation and related items
- August:
  - Quarterly review of investment performance, strategy, implementation, manager monitoring and compliance, implementation and related items
  - Annual Review of General Investment Consultant

- November:
  - Quarterly review of investment performance, strategy, implementation, manager monitoring and compliance, implementation and related items
  - Annual review of investment budget
  - Annual risk report and review
  - Development of draft 2026 committee Work Plan