



MINUTES
INVESTMENT COMMITTEE

Public Meeting held in person and videoconference
on February 24, 2023 at 10:00 a.m. CT

Pursuant to Texas Govt. Code 551.127

**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
Joe Ebisa, WithIntelligence*

**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
Sarah McCleary
Ty Sorrel
Kelly Doggett
Jenni Bonds
Yun Quintanilla
Amy Kelley*

* present telephonically

† present via videoconference

1 Call roll of Committee members

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

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 November 18, 2022 Investment Committee minutes

Committee Chair Liu asked the Committee to review the Investment Committee minutes. Mr. Michael Granof moved approval of the November 18, 2022 Investment Committee minutes. Mr. Dick Lavine seconded, and the motion passed unanimously.

5 Discuss and consider 2023 Investment Committee Work Plan

Mr. Christopher Hanson reviewed the draft Committee Work Plan, noting that each meeting had a number of agenda items that are reported routinely, and each meeting also includes a deeper dive into at least one subject area. He also suggested that the work plan may change throughout the year as the Committee and Board consider the System's overall investment strategy and strategic asset allocation.

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

The Committee reviewed investment performance and market data from RVK through December 31, 2022. Fund investments increased 6.13% net of fees during the quarter.

Mr. David Stafford provided an assessment of the year 2022 which represented a uniquely challenging year in the capital markets with most asset classes declining at the same time. As such, absolute performance for the Fund was negatively impacted, which pushed longer term realized returns below the System's assumed rate of return. He noted that effective implementation added value during the year, primarily attributable to effective structuring of the Fund. He discussed that Staff continues to assess the efficacy of key processes (including the Investment Risk Framework and Premier List), Fund structuring, and looks to incorporate additional best practices in the year ahead.

Mr. Ian Bray of RVK noted that equity and fixed income markets delivered improved results during the fourth quarter and are likely to continue to experience elevated volatility. He also discussed the Fund's large exposures to public markets and noted that overall performance was in line with expectations, given the market backdrop.

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

7 Review 2023 capital market assumptions

Mr. David Kushner reviewed capital market assumptions and their relevance to the actuarially assumed rate of return. He emphasized evaluating return expectations using the risk budget adopted by the Board. Capital Market Assumptions (CMAs) suggest that the return environment going forward is likely to remain challenging, and that implementation gains are needed. It was noted that the Asset/Liability Study provides some direction toward considering ways to increase the likelihood of success, and the Asset Allocation Study will further refine this direction.

8 Discuss and consider Asset/Liability Study

Mr. Stafford stated that after reviewing the RVK Asset/Liability Study, Staff noted areas for the Committee to consider when interpreting the data. He noted that the current contribution policy was very likely to fall short of achieving full funding for the System. Additionally, he stated that the study suggests that expected returns and risk might be improved by including incremental exposures to private markets in the Strategic Asset Allocation with careful consideration of the liquidity needs of the System.

RVK presented the overview of their findings in the study and discussed the differences between the stochastic and deterministic modelling. RVK noted that the study covered a twenty-year time period and does not account for future changes in policy such as those that the proposed legislation may impact. Trustees asked questions about the results and discussed the types of portfolios to consider in the upcoming Asset Allocation Study with RVK and Staff.

Committee Chair Liu directed Staff and RVK to proceed as discussed to prepare the asset allocation study for review and discussion at the April Committee meeting.

Trustees took a break from 11:52 a.m. to 12:10 p.m.

9 Discuss and consider Investment Risk Framework Process

As required annually by policy, Mr. Stafford reviewed the Investment Risk Framework (IRF) process, including key concepts and philosophy, with the Committee. He noted that after an internal review of the policy, Staff recommended only administrative changes to the Executive Director, which were approved.

Additionally, he reviewed the risk/return outlook for the Fund via the IRF. He noted that markets imply modestly elevated volatility for the COAERS Fund in the near-term, somewhat above the long-term risk budget of 10-12% set forth in the Investment Policy Statement. Additionally, he noted that the current environment suggests a regime change between stocks and bonds as high inflation has reduced the efficacy of bonds as a portfolio hedge. He showed data that supported using Cash & Equivalents as a diversifying asset class and noted that Staff intends to recommend a strategic rebalance of the Fund at the March Board meeting which incorporates these discussions.

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

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

Mr. Sorrel presented a report on Multi-Asset including the historical context of this asset class and portfolio role. He observed that Multi-Asset mandates are unique in that they allow a single mandate to invest across all the investable asset classes in the Strategic Asset Allocation. Mr. Sorrel noted the evolution of this asset class at the

System, the pros and the cons experienced, and the ways in which the System has improved over the prior years. He stated that given the evolution of Multi-Asset and its current implementation, Staff believes that Multi-Asset could serve as a good funding source for any new recommendations that come from the Asset Allocation study.

Mr. Sorrel then presented proposed changes to the Premier List.

Ms. Amy Hunter moved to recommend to the Board the proposed changes to the Premier List for Multi-Asset and to direct Staff to develop a funding implementation plan related to the Premier Lists and the prior risk management discussion. Mr. Michael Granof seconded, and the motion passed unanimously.

11 Discuss and consider proposed revisions to Investment Policy Statement (IPS) and Investment Implementation Policy (IIP)

Mr. Benson left the meeting at 1:22 p.m.

Mr. Kushner noted proposed changes to the IPS and discussed the two most significant changes, namely, the ability for the Deputy Chief Investment Officer to act in the absence of the Chief Investment Officer, and updates to the market drift rebalancing guidelines. He noted one change in the IIP, which clarified proxy voting requirements.

Ms. Thomas moved to recommend to the Board the Investment Policy Statement and Investment Implementation Policy as presented. Ms. Hunter seconded, and the motion passed unanimously.

12 Discuss and consider Investment Practices and Performance Evaluation: Scope and RFI

Mr. Hanson reported that COAERS is required every three years to select an independent firm to evaluate the System's investment practices and performance and to make recommendations for improving its investment policies, procedures, and practices. Mr. Hanson noted that the last evaluation occurred in 2020 and that RVK performed this review.

Mr. Hanson explained that Staff believes it would be prudent to consider additional vendors and proposes a Request for Information (RFI) be issued.

After discussion, Committee Chair Liu directed Staff to proceed as discussed regarding the RFI and report back to the Committee in May on the firms for final consideration.

13 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 1:35 p.m.

These minutes were approved at the April 21, 2023 Investment Committee meeting.