Joint Meeting of
The Board of Trustees
And
Investment Advisory Committee Minutes
December 11, 2019

ERS
Employees Retirement System of Texas

March 11, 2020

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JOINT MEETING OF THE
BOARD OF TRUSTEES AND
INVESTMENT ADVISORY COMMITTEE
EMPLOYEES RETIREMENT SYSTEM OF TEXAS

TRS Building – Board Room
1000 Red River Street, Austin, Texas 78701
December 11, 2019 – 9:00 am

TRUSTEES PRESENT
Ilesa Daniels, Chair
Craig Hester, Vice-Chair
Brian Barth, Member James
Kee, Member
Catherine Melvin, Member

INVESTMENT ADVISORY COMMITTEE (IAC) PRESENT
Bob Alley, Chair Gene
Needles, Vice-Chair
Laurie Dotter, Member
James Hille, Member
Ken Mindell, Member
Didi Weinblatt, Member
Caroline Cooley, Member

ERS DIRECTORS PRESENT
Porter Wilson, Executive Director
Catherine Terrell, Deputy Executive Director
Paula A. Jones, Deputy Executive Director and General Counsel
Jennifer Chambers, Director of Government Relations
Tom Tull, Chief Investment Officer
William Nail, Special Projects & Policy Advisor
Machelle Pharr, Chief Financial Officer
Gabrielle Schreiber, Director of Procurement and Contract Oversight
DeeDee Sterns, Director of Human Resources
Kathryn Tesar, Director of Benefits Communications Keith
Yawn, Director of Strategic Initiatives

ERS STAFF PRESENT
Jason Avants, Information Systems
Amanda Burleigh, Office of General Counsel
Carlos Chujoy, Investments Kelley
Davenport, Executive Office
Christi Davis, Customer Benefits
Juli Davila, Investments
Lauren Honza, Investments
Aaron Ismail, Internal Audit
Lanesia Jones, Investments
Panayiotis Lambropoulos, Investments
Aris Oglesby, Investments
Susie Ramirez, Executive Office
Tanna Ridgway, Investments Tom
Roberts, Investments

Cheryl Scott Ryan, Office of General Counsel Robert
Sessa, Investments
John Streun, Investments
Mary Jane Wardlow, Executive Office

Ariana Whaley, Government Relations
Stuart Williams, Investments

VISITORS PRESENT
Sam Austin, NEPC
Tim Bruce, NEPC
Robert Prentice, University of Texas at Austin
Ken Barrett, Cinctive Capital Management
Rich Schimel, Cinctive Capital Management

2. Joint Meeting of the ERS Board of Trustees and Investment Advisory Committee

1. CALL TO ORDER

1.1 Call Meeting to Reconvene the Board of Trustees

Ms. Ilesa Daniels, Chair of the Board of Trustees (Board) for the Employees Retirement System of Texas (ERS), called to reconvene with the Investment Advisory Committee (IAC) to take up the following Joint Meeting of the Board of Trustees and Investment Advisory Committee agenda items.

A public notice of the ERS Board of Trustees containing all items on the proposed agenda was filed with the Office of the Secretary of State at 10:50 a.m. on Monday, December 2, 2019 as required by Chapter 551, Texas Government Code, referred to as "The Open Meetings Law."

1.2 Call Meeting of the Investment Advisory Committee to Order

Mr. Bob Alley, Chair of the IAC for ERS, called the meeting to order and read the following statement:

A public notice of the Joint Meeting of the ERS Board of Trustees and Investment Advisory Committee containing all items on the proposed agenda was filed with the Office of the Secretary of State at 10:50 a.m. on Monday, December 2, 2019 as required by Chapter 551, Texas Government Code, referred to as "The Open Meetings Law."

2. MINUTES

2.1 Review and Approval of the minutes to the August 21, 2019 Joint Meeting of the Board of Trustees

and IAC meeting – (Action)

Mr. Bob Alley, IAC Chair, opened the floor for a motion on the approval of the minutes from the August 21, 2019 Joint Meeting of the Board and IAC.

Move that the Joint Meeting of the Board of Trustees and IAC approve the minutes to the minutes
to the meeting held on August 21, 2019.

The IAC then took the following action:

Motion made by Mr. Gene Needles, seconded by Ms. Didi Weinblatt
Aye: James Hille, Robert Alley, Caroline Cooley, Gene Needles, Didi Weinblatt, Laurie Dotter

The Board of Trustees then took the following action:

Motion made by Ms. Catherine Melvin, seconded by Mr. Craig Hester.
Final Resolution: Motion Carries
Aye: Craig Hester, Ilesa Daniels, Catherine Melvin, Ken Mindell, Jim Kee, Brian Barth
There were no questions or further discussion.

3. IAC REAPPOINTMENT

3.1 Consideration of Reappointment of ERS Investment Advisory Committee Member with term expiring August 21, 2019 – (Action)

Mr. Tom Tull, Chief Investment Officer, presented a recommendation to reappoint Ms. Caroline Cooley to the IAC for a three-year term ending December 31, 2022.

Mr. Tull explained that the IAC was established at the discretion of the Board and is made up of no less than five and no more than nine members. A quorum of the IAC meets quarterly with the Board and a considerable amount of members' time are spent reviewing investments for the Trust's Asset Class Investment Committees.

Mr. Tull noted that Ms. Cooley's term is set to expire December 31, 2019 and she has expressed the desire to continue to serve on the IAC. He highlighted her contributions to the IAC and investment expertise.

Ms. Ilesa Daniels, Chair, opened the floor for a motion on the approval of the IAC reappointment.

Move that the Joint Meeting of the Board of Trustees and IAC approve the reappointment of Ms. Caroline Cooley to the Investment Advisory Committee for a three-year term ending December 31, 2022.

The Board of Trustees then took the following action:

Motion made by Mr. Craig Hester, seconded by Ms. Catherine Melvin.
Final Resolution: Motion Carries
Aye: Craig Hester, Ilesa Daniels, Catherine Melvin, Jim Kee, Brian Barth There were no questions or further discussion on this item.

4. INVESTMENT PERFORMANCE

4.1 Review of the Investment Performance for Third Calendar Quarter of 2019

Mr. Tom Tull, Chief Investment Officer, Mr. Sam Austin and Mr. Tim Bruce, NEPC, presented the Investment Performance Review for the third calendar quarter of 2019.

Mr. Tull started by stating the review would give an overview of where the Trust had been, where it is currently, and where the team would like to be in terms of making market portfolio adjustments.

Mr. Austin explained that the presentation would provide visuals to support the information given to the Board.

Mr. Austin began by focusing on calendar year returns. The market value of the portfolio as September 30, 2019 was $28.6 billion in assets, which is slightly down from the $28.92 billion over the previous calendar year, which included a $55.39 million gain in the third calendar quarter of 2019.

Mr. Austin presented to the Board that calendar year returns through September 30 were 10.2%, exceeding the 7.5% assumed return.

Mr. Austin then turned the Board's attention to the amount of active risk in the portfolio. He stated that two-thirds of the time the tracking error was between 1.69% and -1.69% of the benchmark. He noted that the Sharpe ratio, which measures excess return over the benchmark, was 1.01. He explained that it was a very good number compared to peers in the industry. He noted that the active managers in the portfolio have added value and have been good investment decisions. He stated that the Trust had done very well and had minimized risk. The Sortino ratio, which is an adjusted Sharpe ratio that measures downside risk, was at 1.38 and was a good measure compared to peers.

Mr. Austin discussed management, allocation, and liquidity of the Trust. He stated that to limit the cost of the Trust, the Trust is managed 54% internally while 46% is managed externally. To mitigate volatility and lower risk, the plan is allocated to 77% (down from 80%) return seeking assets and 23% risk reducing assets. The funds liquidity has remained stable over the last several quarters at 71% to ensure the fund is able to pay all obligations.

Mr. Austin reiterated the importance of staying focused on the long-term growth of the fund rather than focusing on one specific quarter when there may have been a dramatic downturn of the market. He noted to focus on the 3-, 5-, and 10-year periods.

Mr. Austin explained to the Board that over the past 3-year period the Trust has outperformed the policy benchmark by 0.7%. He stated that over the 5-year period the Trust has outperformed the policy benchmark by 0.4%. Over the previous quarter, the Trust returned 1% in comparison to peers (public funds greater than 1 billion in size) who had a median return of 0.5%.

Mr. Austin went over the 10-year period of the fund. Over the 10-year period, the Trust had a return of 7.8% while the policy benchmark returned 7.6%, putting the Trust in the 50th percentile of other public funds over $1 billion dollars in assets.

Mr. Tom Tull commented that on a monthly basis the Trust receives about $100 million in contributions and pays out about $210 million on a regular basis, which puts the Trust at a net negative of about $1.3 billion a year that needs to be recouped in investment gains.

Mr. Hester asked Mr. Austin if he was comfortable with the illiquid part of the portfolio.

Mr. Austin responded by saying he was comfortable with the illiquid part of the portfolio. Mr. Austin turned the Board's attention to the asset growth of the Trust showing that over a 5-year period the total portfolio had a net cash flow of $4.9 billion dollars. He stated that the Trust currently has about a 3.9% net cash outflow. He stated he would be concerned if the net cash outflow was more than 5%.

Mr. Hille asked, in terms of liquidity, if commitments versus calls and distributions are currently net negative.

Mr. Tull explained that it had been a strange year for private equity noting that there was an expectation of higher distributions. He noted that the team was beginning to see acceleration in distributions as year-end approached. The senior team monitors net cash flow on a monthly basis during asset allocation meetings. He felt confident in the Trust having enough liquidity to meet cash calls.

Mr. Hille noted that the Private Equity Program had roughly $1.5 billion in net capital outflows to be taken into account with cash flows.

Mr. Hester asked if there was a limit on the amount that can be allocated to illiquid assets.

Mr. Austin replied that there is definitely a limit, but there is a structural safety net in place with the Rates Portfolio, which can easily be liquidated at any time. Mr. Austin stated that while NEPC does not create the pacing plan, the Trust was well within comfort levels for liquidity in the Private Equity Program.

Mr. Tull added that there would likely be another asset allocation study in the near future and depending on the Board's comfort level with risk at that time the allocation could be adjusted accordingly. He noted that he is inclined to stay within the current guidelines. He added that the Investments Division is still in the process of building out the Infrastructure Portfolio, reducing the slight overweight in the Private Equity Program, paring back the Public Equity Portfolio, and building the Private Real Estate Portfolio.

Mr. Hester asked that if the portfolios were fully invested, where would the Trust stand on the illiquid side as a percentage of the Trust.

Mr. Tull replied that the Alternative side would be at 37% versus the current 30%. The Public Equity side is at 39% with a target of 37%.

Ms. Cooley noted that year-to-date the Trust had underperformed the benchmark and asked if it was due to reporting lag.

Mr. Austin confirmed that it was due to lag time of private market reporting. He noted that during the August meeting private equity was the biggest detractor to performance from lag effects that spanned approximately two quarters in from the fourth quarter. In turn, Private Equity was the largest contributor in the current quarter.

Mr. Austin discussed the overall exposure of the fund. The Infrastructure Portfolio, not fully built out is 4.1% below the target of 7%. Real Estate and the Absolute Return Portfolio were below target as well.

Mr. Austin discussed total fund asset growth summary and noted the Global Equity Portfolio has come down from 40.3% in June 2019 to 38.3%. The Absolute Return Portfolio was down from 3.4% to 3.1% of the portfolio. The team took some risk off the table with Global Equity.

Mr. Austin stated that the Trust is very competitive with peers across the board with risk-adjusted return. The Trust returned 8.23% over the 3-year period versus the median return is 7.74%. The Trust's standard deviation of 5.2% was lower than the industry median of 6.1%, indicating a good risk adjusted return.

Mr. Austin summarized up by stating that the Trust should stay focused on the long-term 7.5% return. The Trust numbers looked good year-to-date and are very competitive with peers for the 3- and 10-year versus the 7.5% assumed return.

Mr. Tull added that a synopsis is available in the board portal showing asset class performance, in a 2-page format

Mr. Tull then opened the floor for any questions and thanked everyone for their time.

There were no questions or further discussion, and no action was required on this item.

5. RISK MANAGEMENT

5.1 Review and Discussion of the Risk Management Program

Mr. Carlos Chujoy, Risk Officer, and Mr. Stuart Williams, Senior Portfolio Manager presented a market risk update.

Mr. Chujoy provided an update on the Risk Management & Applied Research (RMAR) team and noted a current vacancy on his team would be filled in the future.

Mr. Chujoy discussed the internal Risk Committee members comprised of the CIO and asset class directors. Non-voting Risk Committee members include the Directors of Real Estate, Private Equity, and Infrastructure.

Mr. Chujoy highlighted heightened levels of uncertainty, geopolitical risks, and the yield curve discussed in previous risk presentations and their impact on economic activity. He explained that the presentation would provide visuals to support those discussions.

Mr. Chujoy noted that leading economic indicators for the US, Europe, and China have experienced a downward trend at different periods for some time. Recently, China's economy has showed signs of a rebound, which is important to mitigate global recession risks. Manufacturing PMI's, which assess business conditions, has weakened globally since the September 2019 publication. He explained that the November PMI data showed an improvement in economic activity. He attributed the results to accommodative Central Bank policy and improved US economic data. As of September 2019, new orders for capital goods had declined since the beginning of the trade disputes. He noted that the RMAR team expects GDP to be less vibrant than past numbers.

Mr. Chujoy explained that a decline in business confidence has influenced the PMI data.

Consumer confidence has remained strong and accounts for two-thirds of economic growth in the US.

Mr. Chujoy discussed the distinct relationship between the S&P 500 and the unemployment rate. He noted that the unemployment rate, at 3.5%, is at a historic low causing equity markets to rally. The team monitors conditions that could impact the unemployment rate. Mr. Chujoy noted that the unemployment increases as average hourly earnings declines. The relationship between unemployment and average hourly earnings is considered a leading indicator, which the team actively monitors.

Mr. Chujoy noted that with a buoyant economy, low interest rates and inflation, since the Great Financial Crisis (GFC), have helped corporate profits. The S&P 500, emerging markets, and Europe experienced positive corporate profits since the GFC. He noted that strong economies can lead to wage growth pressure and further noted that wage pressures have increased through the end of September 2019. Year-over-year US wage growth reached 3.4% in February 2019 and is at 3.1% in the latest reading, putting pressure on profits.

Mr. Chujoy explained that the team monitors derivative option pricing for implied levels of risk across asset classes. He noted that concerns of an impending recession lifted risk across asset classes.

Mr. Hester asked if the team sees an inflation surprise increase in the future.

Mr. Chujoy explained that the 12-month inflation expectations are stable at around 2%.

Mr. Williams discussed the business cycle and noted that based on slow growth, credit tightening, high yield bonds, and annual earnings, the economy is in the late stage of the cycle. He highlighted that the pro-cyclical policy from the Federal Reserve has a good chance of extending the business cycle.

Mr. Williams discussed the macroeconomic heat map and noted mixed results across the economy. He highlighted the current recession in manufacturing and explained that Fed's actions have helped housing.

Mr. Williams discussed the market environment for an economy in the late stage of a business cycle or during economic contraction. He noted that late cycles experience low growth and when interest rates are decreasing it is generally due to lower expectations for GDP. Real estate performed worse during the GFC due to a housing bubble. He added that asset class performance is poor during contractionary environments.

Mr. Williams explained the team's evaluation of asset class types and noted that the Rates and Hedge Fund Absolute Return are low risk. He noted that the conservative approach of the Hedge Funds Program reduced risk. He further noted that Credit historically has about half the volatility of equity, making it a medium risk. He added that Real Estate is rated medium risk since it is no longer in a bubble as seen during the GFC. The report timing of Private Equity reduces its drawdown risk and yields a medium risk.

Mr. Hille commented that private equity seemed like it should be considered higher risk and suggested using other measurements of risk.

Mr. Williams highlighted that the risk of private equity is based on how valuations are marked, rather than the real value of the underlying assets.

Mr. Chujoy noted that from a risk-modeling standpoint, a public proxy is used for asset classes that mark infrequently. He added that for the public proxies a scaler is used to bump the risk profile. The return streams are combined with liquid assets to conduct a marginal contribution analysis that gives the team the ability to calculate total, active, and downside risk.

Mr. Alley explained that fund flows into private equity were quite strong and the question is whether more and more risk is entering private equity in search of returns.

Mr. Tull agreed that there is currently a lot of money chasing private equity deals these days. Accordingly, a more cautious approach is being taken with secondaries, co-investments, and smaller investment amounts being committed. Mr. Tull highlighted that private equity is comprised of many different types of investments within one asset class. The asset class invests in small companies, but also very large companies as well as niches and special situation investments. He added that the team's recent investment commitments are smaller by dollar value to reduce risk, increase diversification, and adhere to policy guidelines.

Mr. Williams compared the global economy and the Trust noting that the Trust is not insulated from global conditions. He discussed the Trust's growth in risk mitigating holdings and further explained that risk has been reduced over the last three years.

Mr. Williams noted that the Trust's allocation to public equity has declined over the last three years to slightly below half of the assets, while the allocation to other asset classes had increased somewhat over the period. He then discussed the marginal contribution to expected tail loss and noted that private equity's underlying risk is captured and represented the highest value at 12.22%. The measure is used internally to monitor risk.

Mr. Williams discussed the cumulative excess returns due to asset allocation recommendations. He explained that the tactical allocations made by the team have added value to the Trust.

Ms. Cooley asked what the allocation recommendations are for the Trust.

Mr. Chujoy explained that the model maintains a risk-on recommendation that prefers domestic over international and growth over value. The model does not change much month to month, but in July 2018 it signaled an early warning. The team is very pleased with the performance of the model to date.

Mr. Kee asked what percentage of the portfolio is characterized by assets that are not marked to market and how the allocation has changed over time.

Mr. Chujoy explained that when the team joined the Trust in 2009 the transition into illiquid assets were already underway and today includes Private Equity and Infrastructure. Through November 2019, the allocation to illiquid assets was at about 30% of the Trust.

Mr. Kee noted that Trust numbers indicate that the action does generate a better risk-adjusted return and asked if it would still be the case if the mark to market investments, that are somewhat contrived, were removed. He explained that the standard deviation for these investments tend to make variances lower than they would be otherwise.

Mr. Chujoy noted that the team would refer back to Mr. Kee with the information.

Mr. Kee added that as a Trustee it would be something that he would be interested in seeing.

Mr. Mindell asked how downside risk was managed and if it was structural or tactical when it comes to market corrections.

Mr. Chujoy explained that the asset class heads manage the complexion of their exposures and make changes as necessary. On a tactical basis, the team sits down with the CIO to discuss views on the market and different ways to express those views.

Mr. Williams explained that the Trust is in compliance with guidelines. He concluded that global conditions point to a slowdown, and the US economy is the best performer. Unemployment is at a record low, but corporate profits are pressured as labor cost rise. Expectations are for a modest economic deceleration as seen in the mixed set of economic indicators. The Trust is positioned a little more conservatively with the increased allocation to risk mitigating assets.

There were no questions or further discussion, and no action was required on this item.

6. ETHICS TRAINING

6.1 Discussion and Training Regarding Ethics

Ms. Paula A. Jones, Deputy Executive Director and General Counsel and Dr. Robert Prentice, Department Chair and Professor, University of Texas at Austin, McCombs School of Business presented training on ethics.

Ms. Jones revisited the ERS policies and noted ERS employees are required to perform their duties in an ethical manner, as required by the personnel policy and procedure manual. She further noted that ERS works very hard to promote an ethical work environment.

Ms. Jones noted that a 2018 survey of employee engagement showed that employees believe that ERS adheres to an ethical work environment. She highlighted that employees at all levels demonstrate high ethical standards and that employees felt that leadership regularly shows that it cares about and concerns itself with ethical issues. She noted that the engagement survey would be conducted again in 2020.

Ms. Jones explained that employees are encouraged to discuss their issues, if they have any, with regard to ethics with their supervisors. Staff can go to Ms. Jones or to Human Resources to ask any questions or to get any advice they believe they need. She further noted the intranet site, which allows employees to report matters anonymously. She noted the reports come directly to her, the Director of Human Resources, and the Director of Internal Audit. She highlighted that all reports are investigated.

Ms. Jones discussed the requirement and rule, with regard to Board and IAC members, to receive ethics training annually along with staff.

Dr. Prentice discussed various topics on ethics. He focused on the importance of being selfaware and cognizant of our own biases, and other tips on how to identify and manage ethical situations.

There were no questions or further discussion, and no action was required on this item.

7. EMERGING MANAGER PROGRAM

7.1 Market Update and Program Overview

Ms. Lauren Honza, External Management Portfolio Manager, Mr. Panayiotis Lambropoulos, Hedge Funds Portfolio Manager, and Mr. Richard Schimel, Cinctive Capital Management (Cinctive) presented an update and program overview to the Emerging Manager Program.

Ms. Honza discussed 2009 legislation that required ERS to make a good faith effort to acquire financial services from emerging managers. She highlighted that the legislation defines an emerging manager as a manager with less than $2 billion in assets under management. Ms. Honza coordinates the Emerging Manager Program in conjunction with the CIO and a representative from each asset class drives the initiative for each group.

As of September 30, 2019, approximately $1.1 billion was invested or committed to the Emerging Manager Program, representing roughly 11% of externally managed assets. The Public Equity Program and the Hedge Funds Program represent the largest allocations at 25% and 30%, respectively.

Ms. Honza discussed Calendar Year 2019 highlights and noted the Hedge Funds' ERS Launchpad initiative as well as a public equity international small cap Select Pool search and an emerging markets mandate. Ten managers were selected for the Select Pool and five of those managers are small or diverse managers. The Private Equity Program funded its third emerging manager with a $25 million commitment.

Ms. Honza explained that in 2020 the team would strive to maintain the 10% target of externally managed assets with emerging managers and look for direct investment opportunities. She further explained that the hedge fund team would continue to work on the ERS Launchpad initiative. In 2020, ERS will host the Real Estate Emerging Manager (REEM) Summit and the ERS & TRS Emerging Manager Conference.

Ms. Honza discussed the inception to date performance of the Emerging Manager Program and noted that each asset class is outperforming its respective benchmark.

Mr. Lambropoulos presented an overview of the Hedge Funds Emerging Manager Program and noted that the main Hedge Funds Program was introduced in 2011. Following the initiation of the program, the team began discussion on expanding the program to include less established managers. In late 2018, ERS Launchpad was launched and in 2019, Cinctive Capital Management was announced as the first investment.

Mr. Lambropoulos discussed the program's goals of customization, extending staff bandwidth, control of the due diligence process, and creating another alpha stream. He highlighted that the partnership has allowed the team to meet these goals. The team seeks to add one to three manager investments within the first three years. Beyond three years, the target is seven to 10 managers, depending on the opportunity set.

Mr. Lambropoulos highlighted that there has been a great deal of interest from managers since the announcement of the partnership. He further highlighted that the National Association of Investment Companies awarded the partnership the "Hedge Fund of the Year Award" in recognition of the innovative structure.

Mr. Lambropoulos discussed an internal proprietary database created to track managers and transfer information between ERS and PAAMCO Prisma teams. As of September 2019, there have been 120 calls and meetings with managers with 300 manager meetings over the last 12 months. There have been wide ranges of manager meetings with diversified investment strategies and geography. He noted that the top priority managers have a wealth of industry experience over a variety of investment strategies.

Mr. Lambropoulos explained that the hedge fund industry is roughly $3.2 trillion in assets under management (AUM). AUM grew between 2010 and 2015, but asset growth has stalled around the $3.2 trillion mark recently. Early stage capital is in high demand, which puts allocators like ERS in an advantageous position to demand better terms and the time to evaluate investments. ERS is on pace to have more hedge fund launches in 2019 than the 561 launched in 2018.

Mr. Lambropoulos noted that mainly due to regulations, the cost of launching and maintaining new hedge funds have increased over the last eight or nine years. He further noted that research has found that smaller managers perform better compared to larger peers, but have a difficult time finding the right amount of capital. The top 50 managers manage close to 40% of industry AUM, leaving roughly 9,500 managers competing for the remaining 60% of industry assets.

Mr. Lambropoulos explained that the Hedge Fund Program would continue to execute the goal of the program by talking to peers and will target one to two hedge fund investments.

Mr. Lambropoulos introduced Mr. Schimel and highlighted that the firm launched in 2019, manages $1 billion in AUM, and uses a US equity market neutral strategy.

Mr. Schimel discussed his background prior to launching Cinctive Capital Management and his relationship with co-founder Lawrence Sapanski. He further discussed the relationship the firm has with ERS and PAAMCO Prisma. Cinctive is an equity long short multi manager platform that invests in small, mid, and large market capitalization stocks. The team has specialized sector coverage and the Co-CIOs manage fund risk and factor exposures.

Mr. Mindell asked if portfolio managers were employees of the firm or if the manager is setup like a fund-of-funds structure.

Mr. Schimel explained that portfolio managers are employees of Cinctive and the firm has full risk management capabilities.

Mr. Mindell asked how capital was allocated among the portfolio managers.

Mr. Schimel explained that the firm used eight key performance indicators managed by the firm's risk officer. The indicators are used to generate a quantitative score that that is used by the Co-CIOs to allocate along with qualitative factors.

Mr. Mindell asked how risk was managed, specifically downside risk.

Mr. Schimel discussed risk parameters set on each portfolio and market capitalization restrictions below $500 million. Drawdown limits are set at 3% where the portfolio could then be cut.

Mr. Mindell asked how leverage was managed and how much is employed.

Mr. Schimel explained that the target volatility is at 5% to 6% and ranges in 4x to 6x but is currently at 2.4x since the fund is ramping up.

Mr. Hester asked how many portfolio managers are currently at the firm.

Mr. Schimel explained that there are currently 12 with an offer for a 13^{th}. Each team has between one to three analysts and overall fund exposure is 90% North America and 10% Europe.

There were no questions or further discussion, and no action was required on this item.

8. CHIEF INVESTMENT OFFICER'S REPORT

8.1 Chief Investment Officer's Report

Mr. Tom Tull, Chief Investment Officer, presented the Chief Investment Officer's Report.

Mr. Tull noted that there will be no changes made to the Investments Policy Statement at this time and any changes made in the future would be discussed at Board meetings.

Mr. Tull thanked the IAC members and the Office of General Counsel (Legal) for being actively engaged and helping with the Asset Class Investment Committee (ACIC) as well. There were a total of 41 ACIC meetings and a total of $2.3 billion in assets committed during Fiscal Year 2019.

Mr. Tull explained that despite the challenging investment environment such as slowing economic growth, increased market volatility, less liquidity in the financial market, change in global alliances, and geopolitical trade risks, he is still optimistic about investment opportunities for ERS in Fiscal Year 2020.

Mr. Tull discussed Investments initiatives that ensure opportunities are not missed. The Investments Division will bring a tactical plan to the Board in March to discuss the Opportunistic Credit Portfolio development, continue to focus on development of the Infrastructure Portfolio, and ramping up the seeding platform for hedge funds while continuing to enhance risk management and report any known risks to the board.

Mr. Tull went on to provide other initiatives the Investments Division plans to take advantage of in Fiscal Year 2020. Plans include implementing the asset allocation guidelines, supporting legislative initiatives for addressing unfunded pension liabilities, exploring new investment opportunities, and refine/refresh the mix of Internal and External Management.

Mr. Tull discussed investments current heavy weight of growth in the equity portfolio, with value stocks having underperformed for a number of years, more attention is being placed on a value tilt of the equity portfolio. The Investments Division will focus more on value. Value has underperformed for four to five years. More attention would be placed on putting more value in the portfolio.

Mr. Tull highlighted and noted efforts to continue to develop the Emerging Manager Program. ERS will be hosting, on January 8 and 9, a Real Estate Emerging Manager Conference and on February 26, 2020 ERS/TRS Emerging Manager Conference, with an average of about 1,400 participants, to leverage external relationships for strategic resources and opportunities.

Mr. Tull ended his report by stating the Investment Division will also be working on enhancing the Investment Division's career path development, communication, and succession planning/team development.

Mr. Tull then opened the floor for any questions.

Dr. Kee congratulated the Investments Division for doing an excellent job reporting complex information to the Board clearly, being transparent, and answering any inquiries the Board has.

There were no questions or further discussion, and no action was required on this item.

9. ADJOURNMENT

9.1 Adjournment of the Joint Meeting of the Board of Trustees and Investment Advisory Committee

There were no questions or discussion, and no action was required on this item.

Certified: ______________________________
Porter Wilson, Executive Director
Employees Retirement System of Texas

Witnessed: ______________________________
Tanna Ridgway, Executive Assistant
Employees Retirement System of Texas