

Public Agenda Item #9

Review and Discussion of the Asset Allocation Study

August 16, 2016

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What is an Asset Allocation Study?



- Provides fiduciaries with an understanding of the dynamic relationship between plan assets and liabilities over time
- Illustrates the impact of various asset allocation targets on required contributions and funded status under a range of different macro-economic scenarios
- Identifies future trends in the financial health of the plan based on economic uncertainties that may not be evident from an actuarial valuation, which provides only a snapshot at a point in time
- Helps determine the level of risk that is appropriate in the context of the plan's liabilities

***An asset allocation study provides the tools to align
a plan's risk taking with its liabilities***

Asset Allocation Study

Background



- Study conducted at least every five years with annual reviews of the adopted asset allocation
- Conducted by the Board with the advice of the Investment Advisory Committee (IAC) and supported by ERS staff and ERS' pension plan consultant, Aon Hewitt Investment Corporation (AHIC)
- Most recent asset allocation study was completed and adopted as of February 26, 2013

Asset Allocation Study

Background



- Last few studies focused on incorporating alternative asset classes not previously adopted in ERS' investment program and assessing related implementation
- Focus of this asset allocation study will be to measure Board's risk tolerance and investment objectives to determine where asset allocation should go for the next five years
- Starting at the advantage from prior studies that ERS already have a robust current asset allocation

Asset Allocation Study

Investment Policy Structure



Pursuant to Tex. Gov't Code Section 815.301(e), the Board develops written investment objectives of the assets of the retirement system, referred to as the Investment Policy.

The Asset Allocation Study is a key component for establishing the ERS Investment Policy.

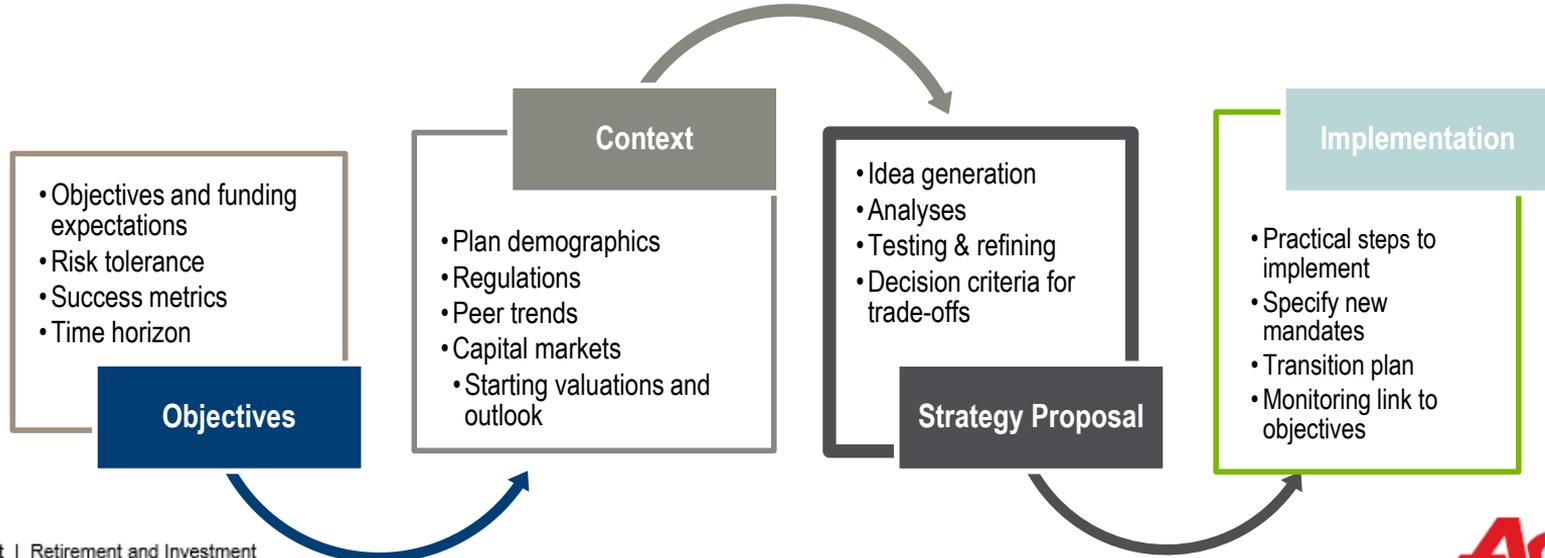


Setting Asset Allocation

Asset Liability Process



The Asset Liability process is the main driver for setting long-term policy allocations for public pension plans



Asset Allocation Study

Proposed Working Schedule



February 2016 – August 2016 (Pre-Study)	Discussion of Asset Allocation Study in conjunction with Pension Experience Study / Asset Allocation Education
September – October 2016	Distribute Risk Survey to Board, IAC, and Staff with Orientation and Assessment of Results
December 2016	Present Results of Risk Survey & Capital Market Assumptions (1/2 day)
February 2017	Conduct Working Session #1
May 2017	Conduct Working Session #2
August 2017	Conduct Working Session #3
December 2017	Conduct Working Session #4 (1/2 day)
February 2018	Present Recommendations for Asset Allocation and Investment Policy Changes for Board Adoption

Questions?