

Public Agenda Item #7

Review, Discussion and Consideration of ERS' Emerging Manager Program

December 1, 2016

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Emerging Manager Program

Agenda



- Background
- Investments and Commitments as of September 30, 2016
- Calendar Year 2016 Highlights
- Calendar Year 2017 Initiatives

Emerging Manager Program

Background



Emerging managers, as defined by Texas Legislature, are private professional investment managers with assets under management of \$2 billion or less

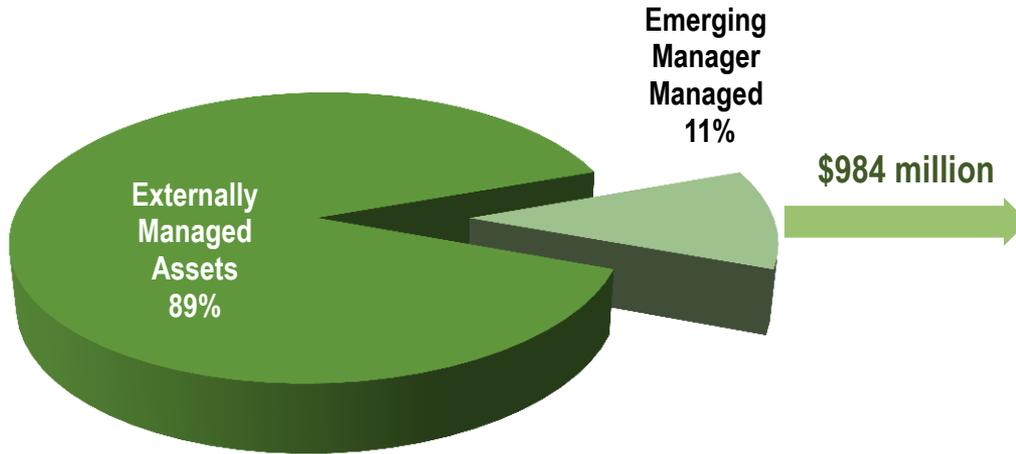
Staff has determined that, over the long term, inclusion of emerging managers should enhance and diversify ERS' portfolio and complement ERS' internal investment management

Emerging Manager Program

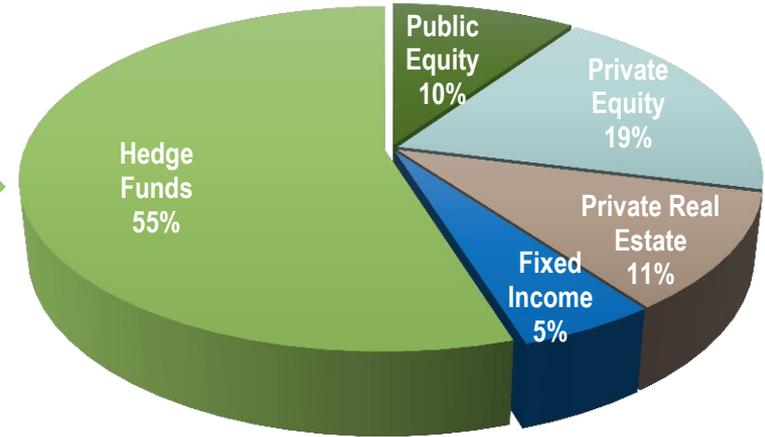
Investments and Commitments as of September 30, 2016



ERS' Total Externally Managed Assets \$8.6 billion



Current Allocation by Asset Class



- Public Equity
- Private Equity
- Private Real Estate
- Fixed Income
- Hedge Funds

Emerging Manager Program

Calendar Year 2016 Highlights



- Evolution to an ERS Emerging Manager Team
- Enhanced utilization of the ERS External Advisor Website
- Leveraged partnerships with Managers of Emerging Managers – Legato, Oak Street and GCM Grosvenor
- Continued industry outreach and exposure at conferences
- Maintain 10% target allocation

Emerging Manager Program

Calendar Year 2017 Initiatives



- Continue to refine the process for emerging managers with access to ERS
- Continue to develop and enhance the ERS *External Advisor Website*
- Continue ERS' participation at industry conferences to expand ERS' network of emerging managers and to promote emerging manager program best practices
- Focus on relevant direct relationships with emerging managers in ERS portfolios
- Promote emerging manager program best practices by working with other investors

Real Estate Program Highlight

Emerging Manager Program: Private Real Estate

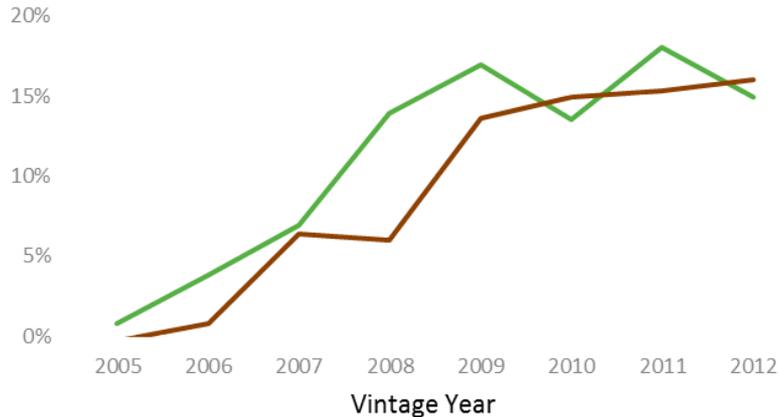
Program Benefits of Emerging Manager Investing



- Investing in emerging managers provides diversification and alpha to the broader real estate portfolio

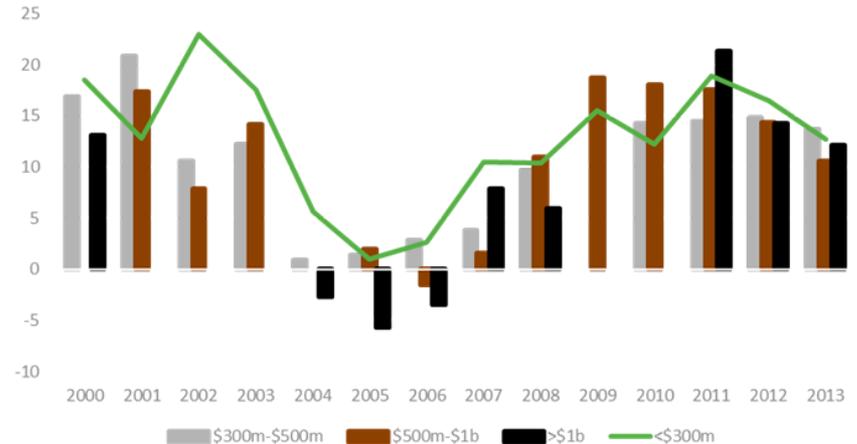
Potential For Outperformance vs. Larger Funds

U.S. Private Real Estate Median Net IRR*



— First- or Second-Time Fund Managers — All Other Funds

U.S. Private Real Estate Median Net IRR**



■ \$300m-\$500m ■ \$500m-\$1b ■ >\$1b — <\$300m

Emerging Manager Program: Private Real Estate

Program Structure and Initiatives



- Fund of one structure provides diversification, expertise, and oversight
- ERS' program seeks to promote the growth and proliferation of best in class institutional quality emerging manager platforms through capital and non-economic initiatives:
 - Financial Viability and Alignment of Incentives
 - Relationship/Network Building:
 - Peer to Peer Relationship Building: ERS/ Oak Street Annual Fund meeting
 - Industry Relationship Building: ERS, TRS, and Oak Street have co-hosted the successful biannual Real Estate Emerging Manager Conference since 2012

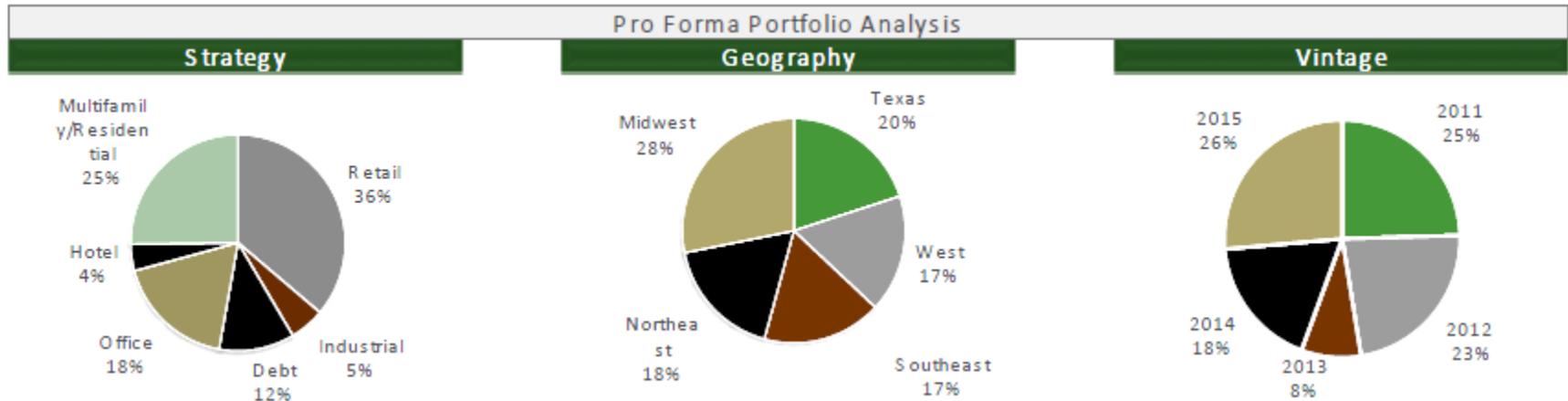


Emerging Manager Program: Private Real Estate

Fund I & Side Cars: Portfolio Update as of June 30th, 2016



- Portfolio Composition: The Fund is fully committed to date in a diversified portfolio of 11 underlying funds



- Performance: The Fund is tracking upper-quartile results and has produced a 1.45x multiple to date in the main fund, and a 1.85x in the side cars. 196 underlying deal realizations have produced a 35% Gross IRR, 2.1x gross multiple

Emerging Manager Program: Private Real Estate *Fund II and Direct Follow-on Fund Investments Update*



- ERS EM FOF II:
 - \$50 million commitment January 2016/ \$17ml in three underlying funds committed to date
 - Investment Strategy:
 - Seeks alpha through investments with early stage/ small cap managers
 - Frequent anchor for first-time funds and creative structures offering reduced fees
 - Focused, operationally intensive strategies
- Direct Follow-on Fund Investments:
 - Three fund and one co-investment to date
 - One additional follow-on investment in underwriting

Questions?