

Public Agenda Item #8

Chief Investment Officer's Report

December 1, 2016

Porter Wilson, Executive Director

Tom Tull, CFA, Chief Investment Officer

Chief Investment Officer Report

Agenda



- Objective and Philosophy
- Investment Challenges for FY2017
- Investment Opportunities for FY2017
- Major Initiatives for FY2017
- Staffing changes
- Process

Chief Investment Officer Report

Objective and Philosophy



Objective:

Investment staff continues to work with the Executive Director, Board of Trustees (Board), Investment Advisory Committee (IAC) and other divisions within the Agency to build a premier and competitive investment organization in the best interest of the Trust and its beneficiaries

Philosophy:

- Position the Trust for the future for the sole benefit of its members and retirees
- Establish investment policies, objectives, and strategies for the purpose of earning a competitive risk-adjusted rate of return at a reasonable cost

Chief Investment Officer Report

Investment Challenges for FY2017



- Expect higher interest rates
- Increased risk of political uncertainties
- Strong US dollar exporting inflation and challenging trade exports
- Brexit
- Energy prices
- Implications of honeymoon period after election cycle
- Geopolitical risk

Chief Investment Officer Report

Investment Opportunities for FY2017



- Credit
- Secondaries
- GTAA (Global Tactical Asset Allocation)
- Infrastructure

Chief Investment Officer Report

Major Initiatives for FY2017



- Asset liability study to target future asset allocation mix
- Support legislative initiatives, such as ERS Sunset Review and alternatives for addressing unfunded pension liabilities
- Continue to advance derivative program
- Assess current and future savings through diligent negotiation of best economic terms
- Leverage internal investment resources to assist investment product monitoring in the Texa\$aver Program and continue discussions on management of customized Texa\$aver fund offerings

Chief Investment Officer Report

Staffing



Continue development of the Investment Division career path, succession planning, team dynamics, and intra-agency communication

Promotions: 10	
Global Equities:	3
Operations:	4
Risk Management:	1
Real Estate:	1
Admin:	1
Other: 9	
New Employees:	4
Retirements:	2
Separations:	3

Chief Investment Officer Report

Process



Asset Allocation Implementation:

- Transition to the new asset allocation is almost completed except for Credit and Infrastructure
- Private Real Estate and Private Equity met asset allocation guidelines as targeted in CY2015
- Realized savings from negotiations of fee and terms for calendar year 2016 are approximately **\$28 million**

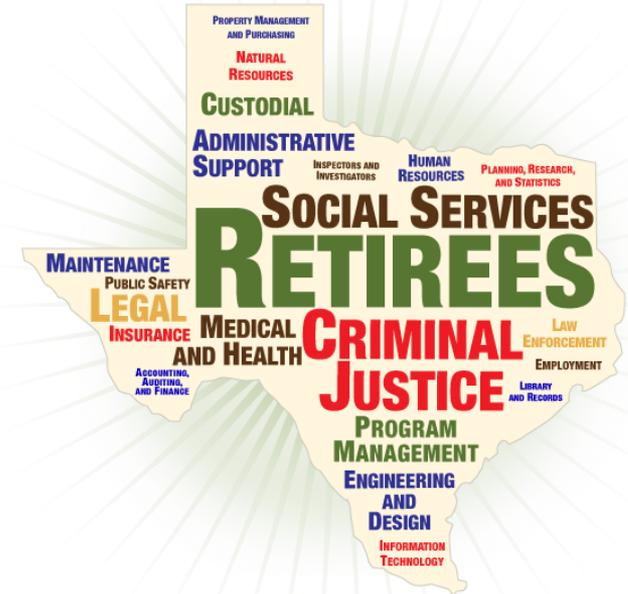
Tactical Asset Allocation Opportunities in FY 2016:

- Reduced the Trust's UK exposure
- Utilized options in both fixed income and equities to enhance trade execution - **Net Profit: \$3.5 million**
- Increased use of Exchange Traded Funds as placeholder until capital could be deployed effectively

Sunset Review Update – New Recommendations



1. **Experience Study:** Require adoption of the experience study and actuarial assumptions every four years. (Statutory Change)
2. **Investment Governance Audit:** Direct the ERS 2017 internal audit review of investment governance to consider industry best practices. (Management Action)
3. **Alternative Investment Approval:** Require **Board** approval of investments over \$100 million. (Statutory Change)



Questions?