

# Public Agenda Item #5

## Review and Discussion of Investment Performance for First Calendar Quarter of 2016

May 17, 2016

Sharmila Kassam, Esq., CPA, Deputy Chief Investment Officer  
Kristen Doyle, Aon Hewitt

# ERS Trust Fund Dashboard

## Performance

Fund	<u>CYTD</u>	<u>FYTD</u>
Performance:	0.4%	0.9%
Benchmark:	1.5%	2.4%
Excess Return:	-1.0%	-1.5%

3-Yr Tracking error 1.27

### Largest Contributors (quarter):

- Underweight positioning to Large Cap U.S. Equity

### Largest Detractors (quarter):

- Underperformance within the domestic and international equity components
- Underweight positioning to Rates
- Underperformance of absolute return component

## Profile

**Market Value at 3/31/16:**  
\$24.8 Billion

**Actuarial Accrued Liability 8/31/15:**  
\$33.9 Billion

**Retirees and Beneficiaries 8/31/15:**  
100,716

**Retirement Payments Annually 8/31/15:**  
\$2.1 Billion

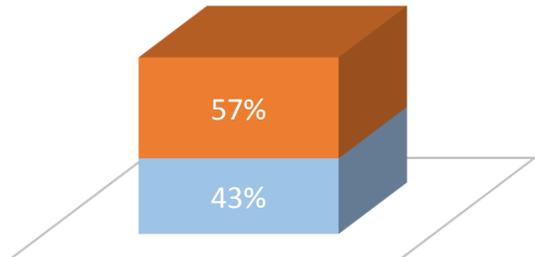
**ERS Trust Funding Ratio 8/31/15:**  
76.3%

## Compliance

**Asset Allocation Compliance:** Yes  
**Tracking Error Compliance:** Yes  
**Investment Policy Compliance:** Yes

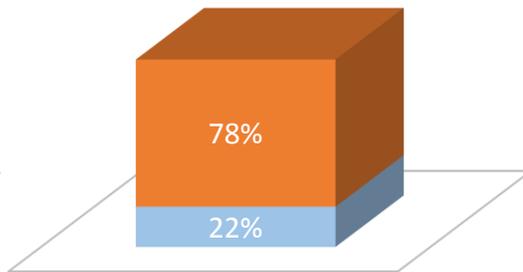
### MANAGEMENT

External Internal



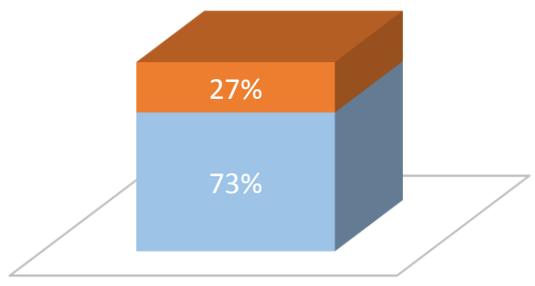
### ALLOCATION

Risk Reducing Return Seeking



### LIQUIDITY

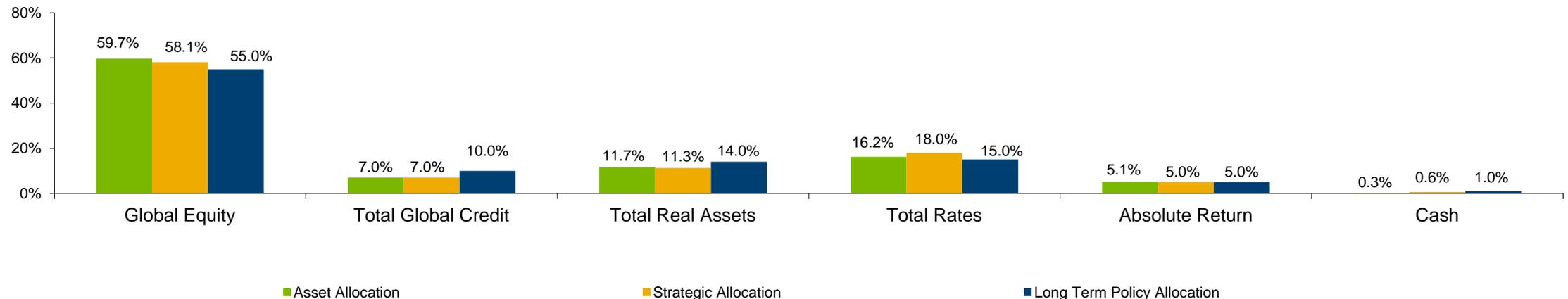
Liquid Illiquid



# Total Fund: Asset Allocation

	1 Quarter	Fiscal YTD	1 Year
<b>Total Fund</b>			
Beginning Market Value	24,891,929,422	25,177,941,024	25,886,213,890
+ Additions / Withdrawals	-220,002,168	-543,828,952	-1,052,419,950
+ Investment Earnings	98,710,525	136,525,707	-63,156,160
<b>= Ending Market Value</b>	<b>24,770,637,779</b>	<b>24,770,637,779</b>	<b>24,770,637,779</b>

**Employees Retirement System of Texas -  
Quarterly Asset Allocation Including Risk Management vs. Policy Target as of 3/31/2016**

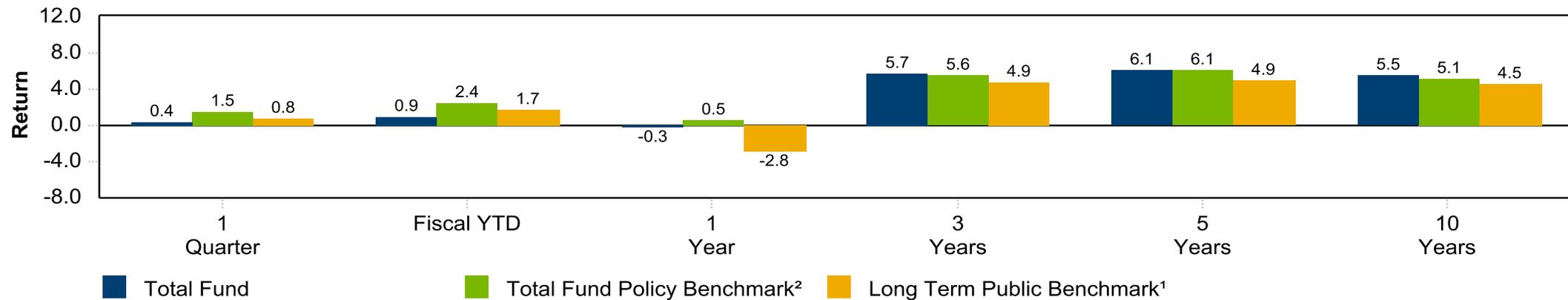


<sup>1</sup> All returns contained in this report are shown net of investment management fees. All returns longer than 1-year are annualized.

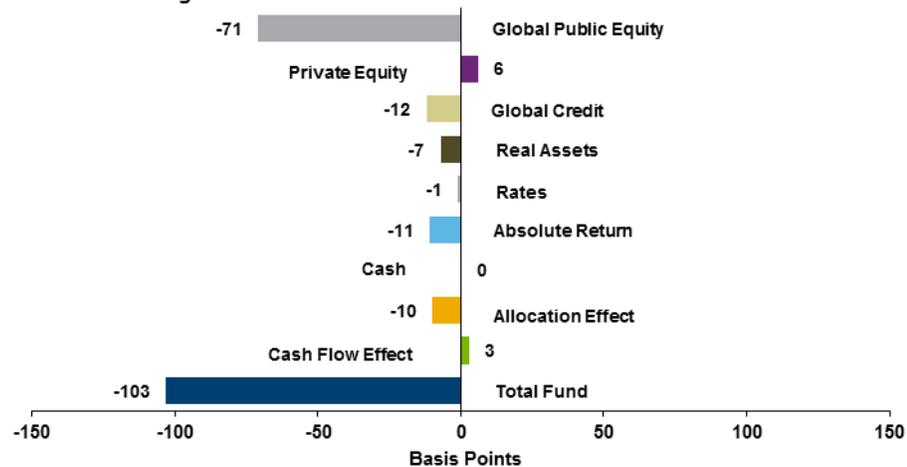
<sup>2</sup> Source data can be found on pages 5 and 14 of full report.

# Total Fund: Performance

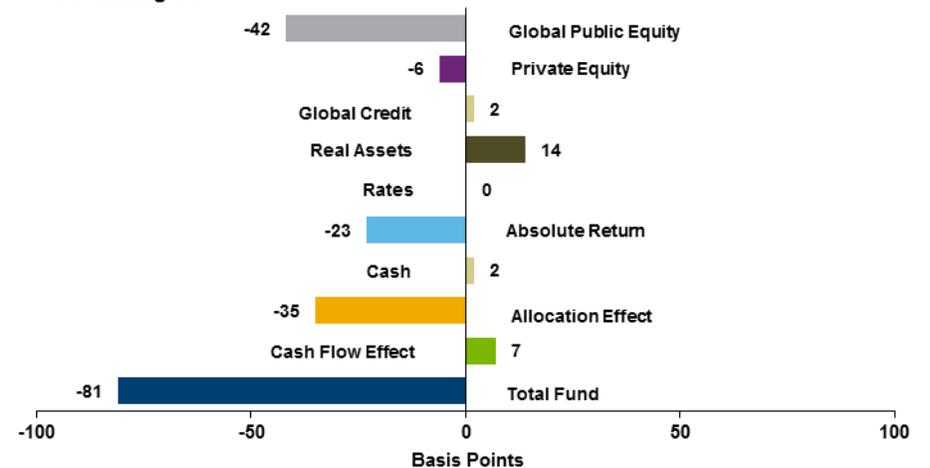
## Return Summary



Total Fund Attribution Analysis  
3 Months Ending 3/31/16



Total Fund Attribution Analysis  
1 Year Ending 3/31/16

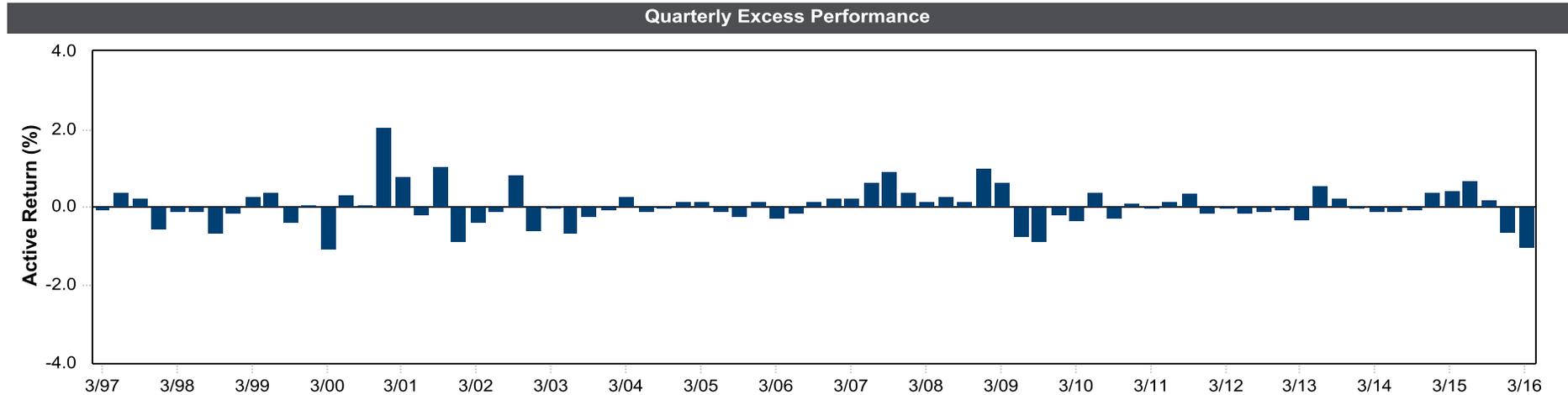
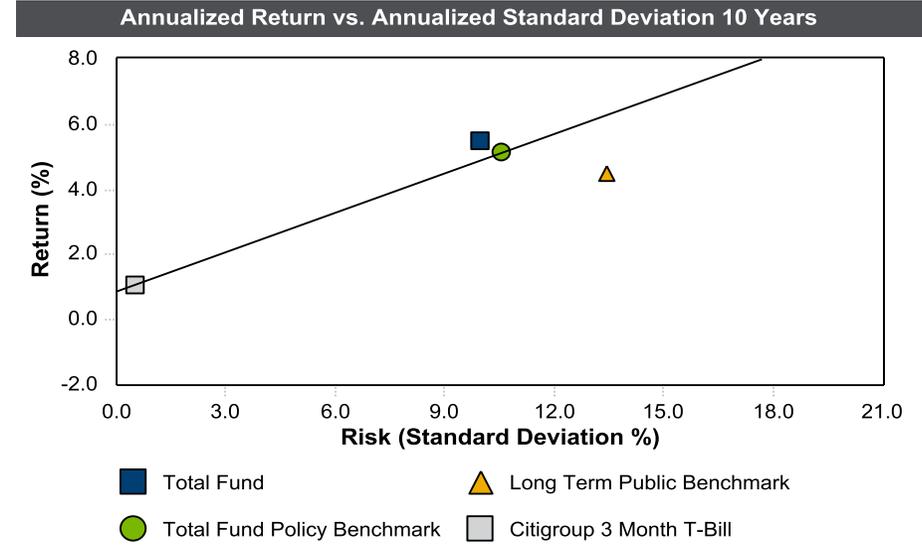
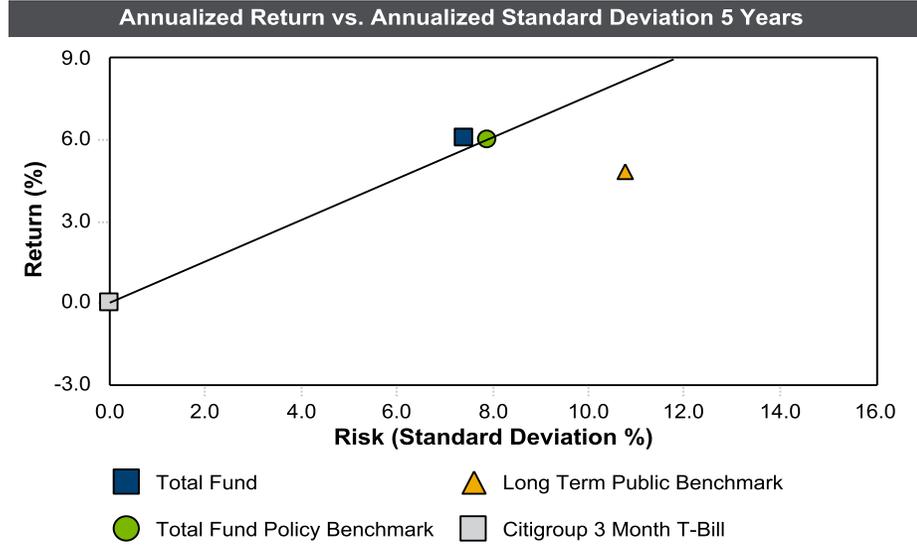


<sup>1</sup>The Long Term Public Benchmark is a combination of 79% MSCI ACW IMI and 21% Barclays Intermediate Treasury Index.

<sup>2</sup>A detailed description of the Policy Index as of 3/31/2016 is provided in the appendix of the full report.

<sup>3</sup>Source data can be found on pages 4 and 6 of full report.

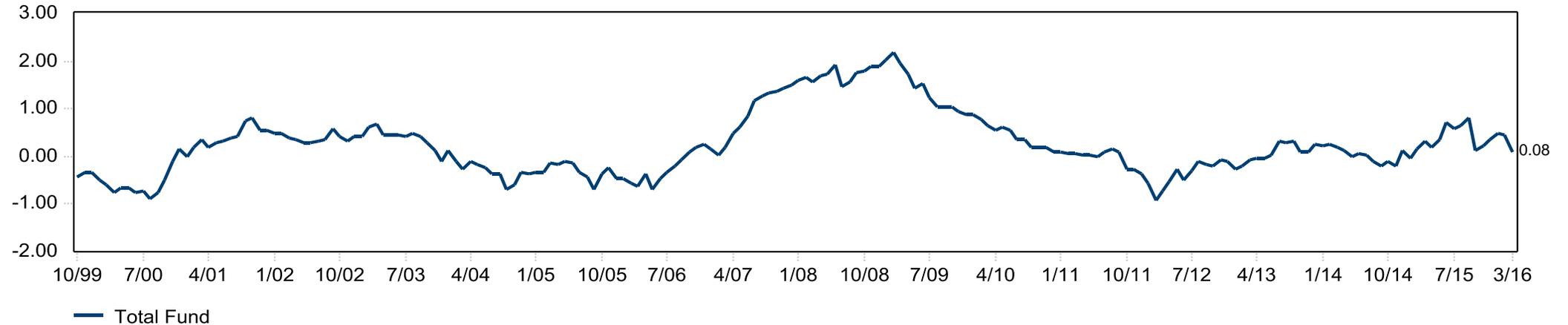
# Total Fund: Risk



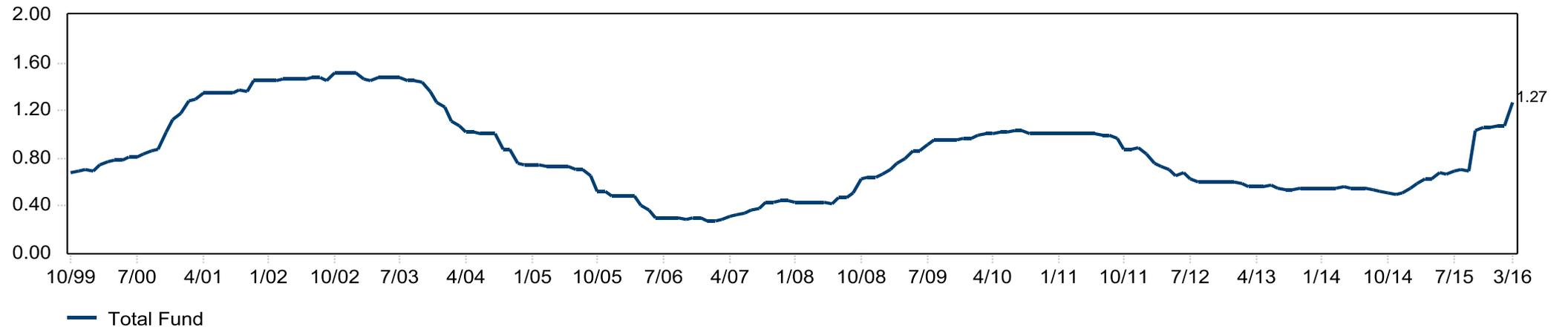
<sup>1</sup> Source data can be found on page 6 and 13 of full report.

# Total Fund: Rolling Information Ratio and Tracking Error (36 months)

Information Ratio (Excess Return Ratio<sup>1</sup>)



Tracking Error<sup>2</sup>

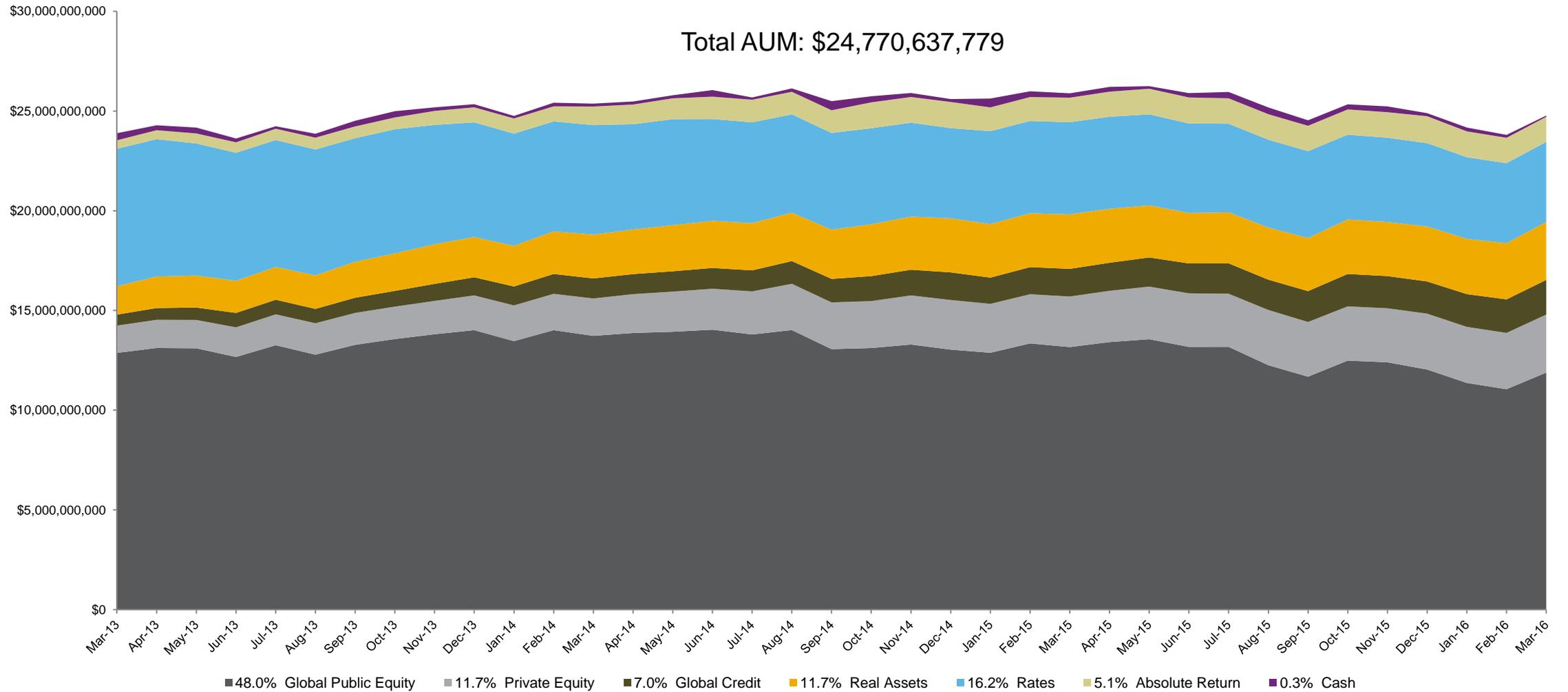


<sup>1</sup> Measured by dividing the active rate of return by the tracking error. The higher the Information Ratio, the more value-added contribution by the manager.

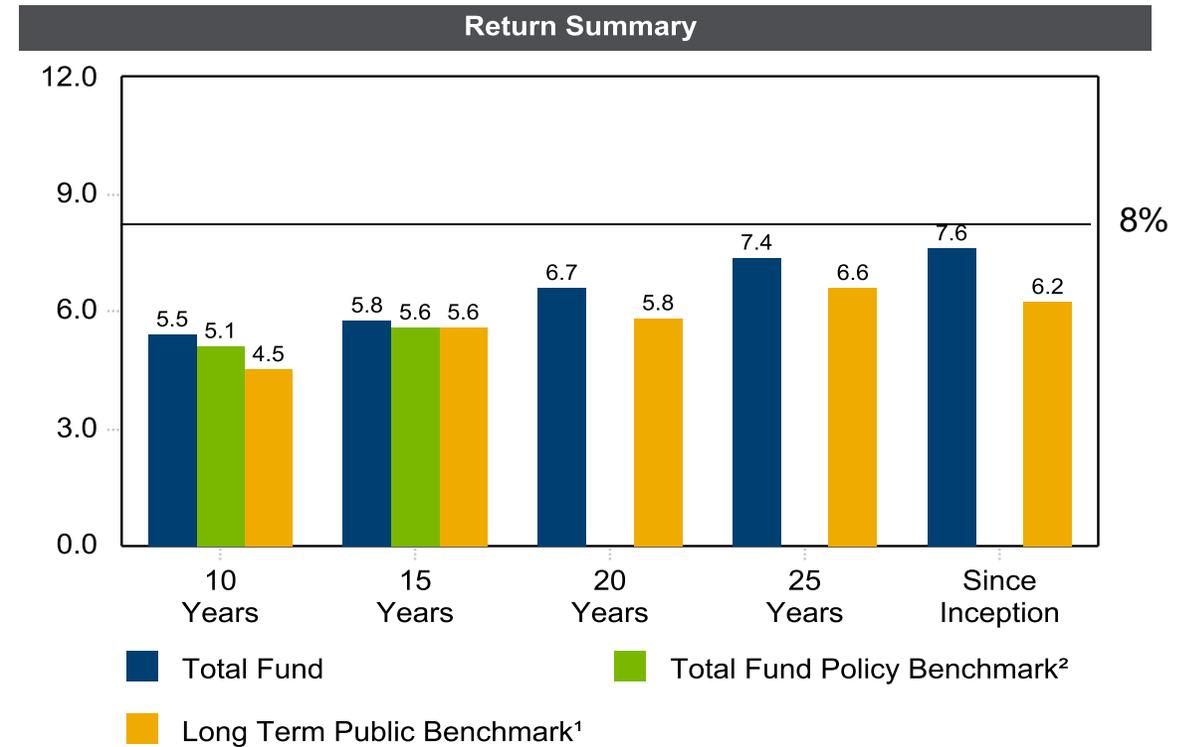
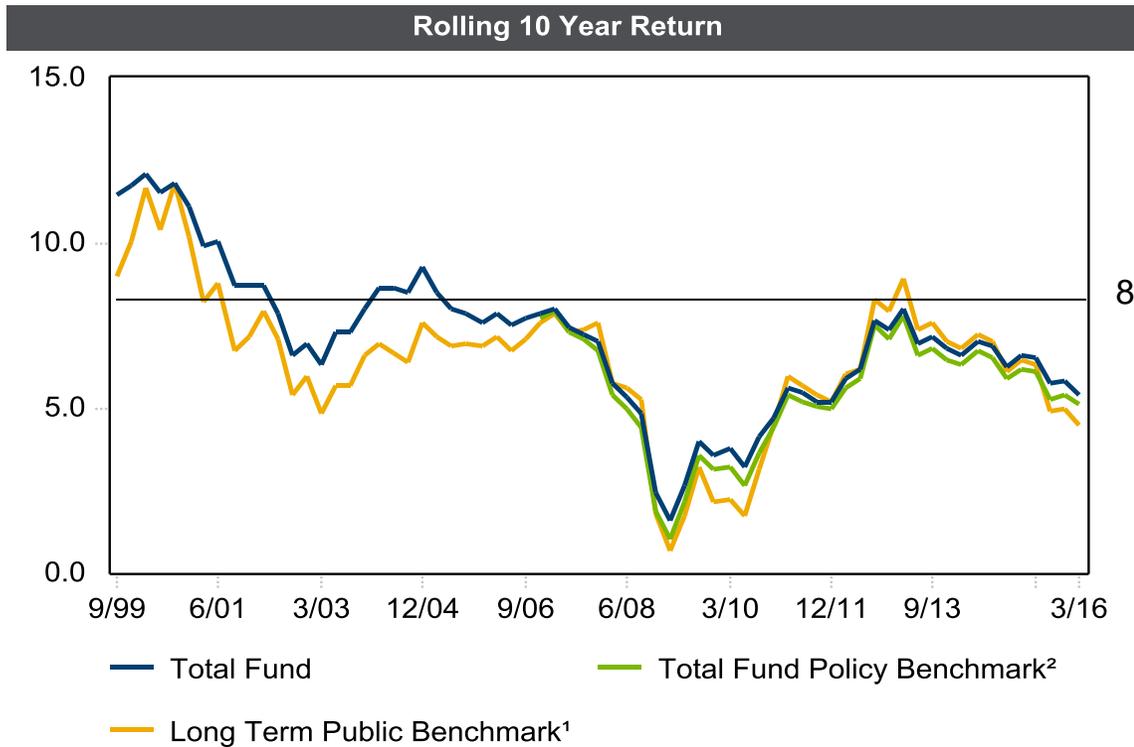
<sup>2</sup> A measure of the standard deviation of a portfolio's performance relative to the performance of an appropriate market benchmark.

# ERS Asset Allocation Evolution

Total AUM: \$24,770,637,779



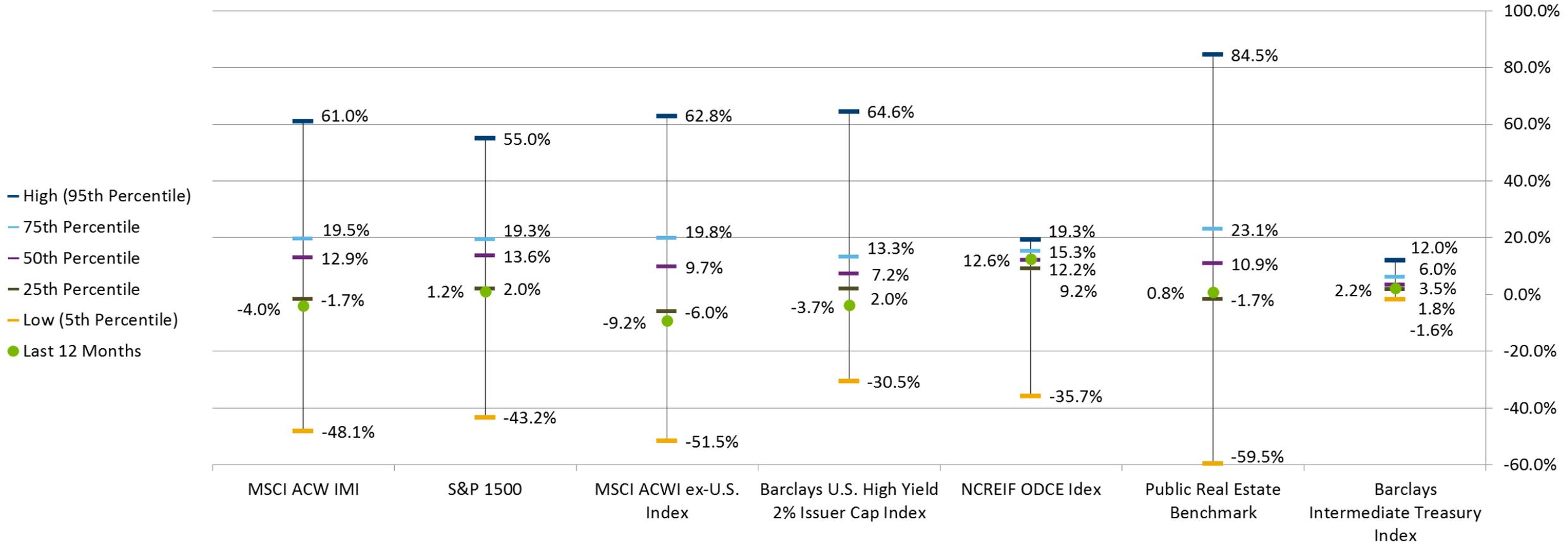
# Long Term Investment Results



<sup>1</sup>The Long Term Public Benchmark is a combination of 79% MSCI ACW IMI and 21% Barclays Intermediate Treasury Index.

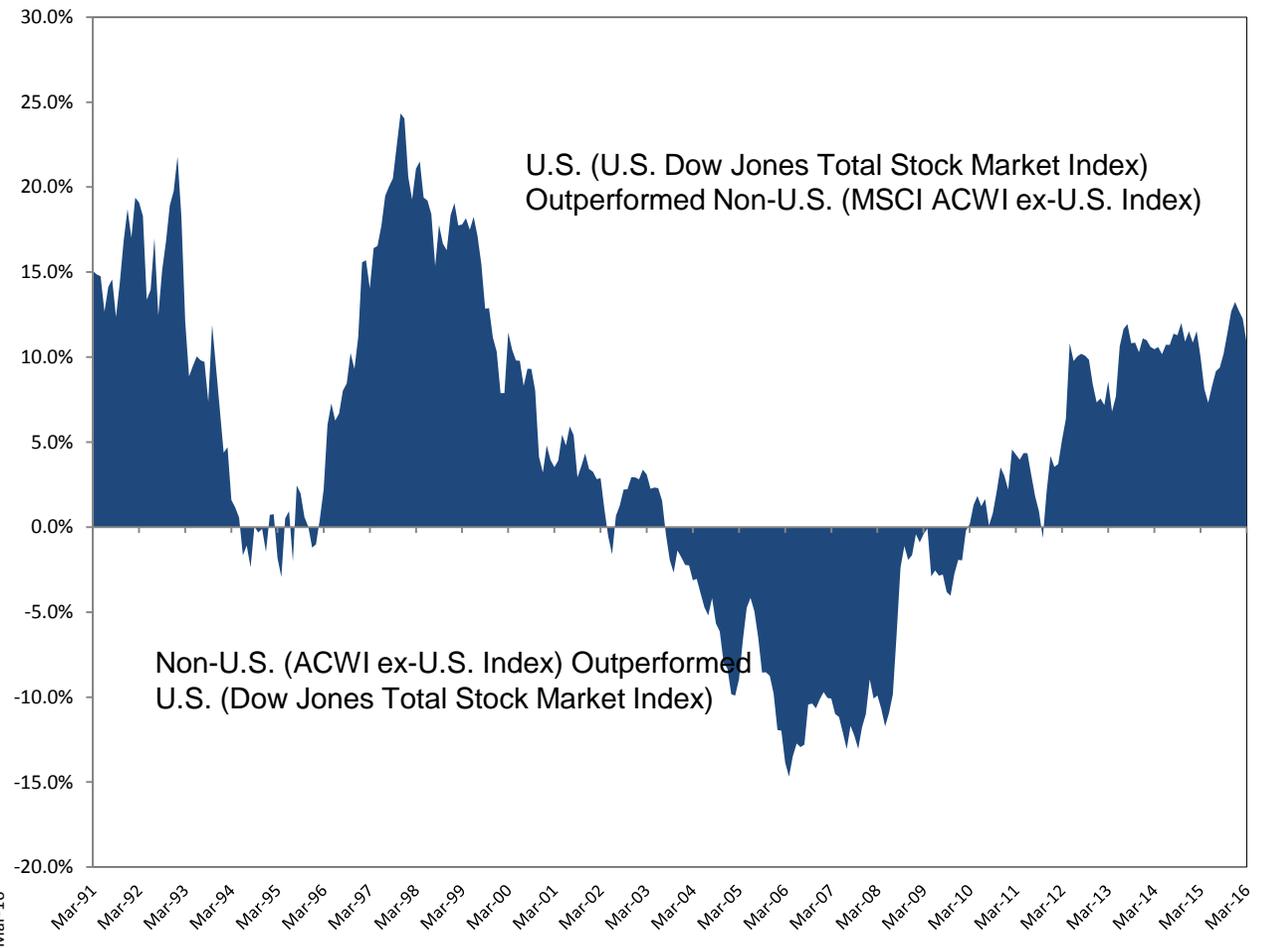
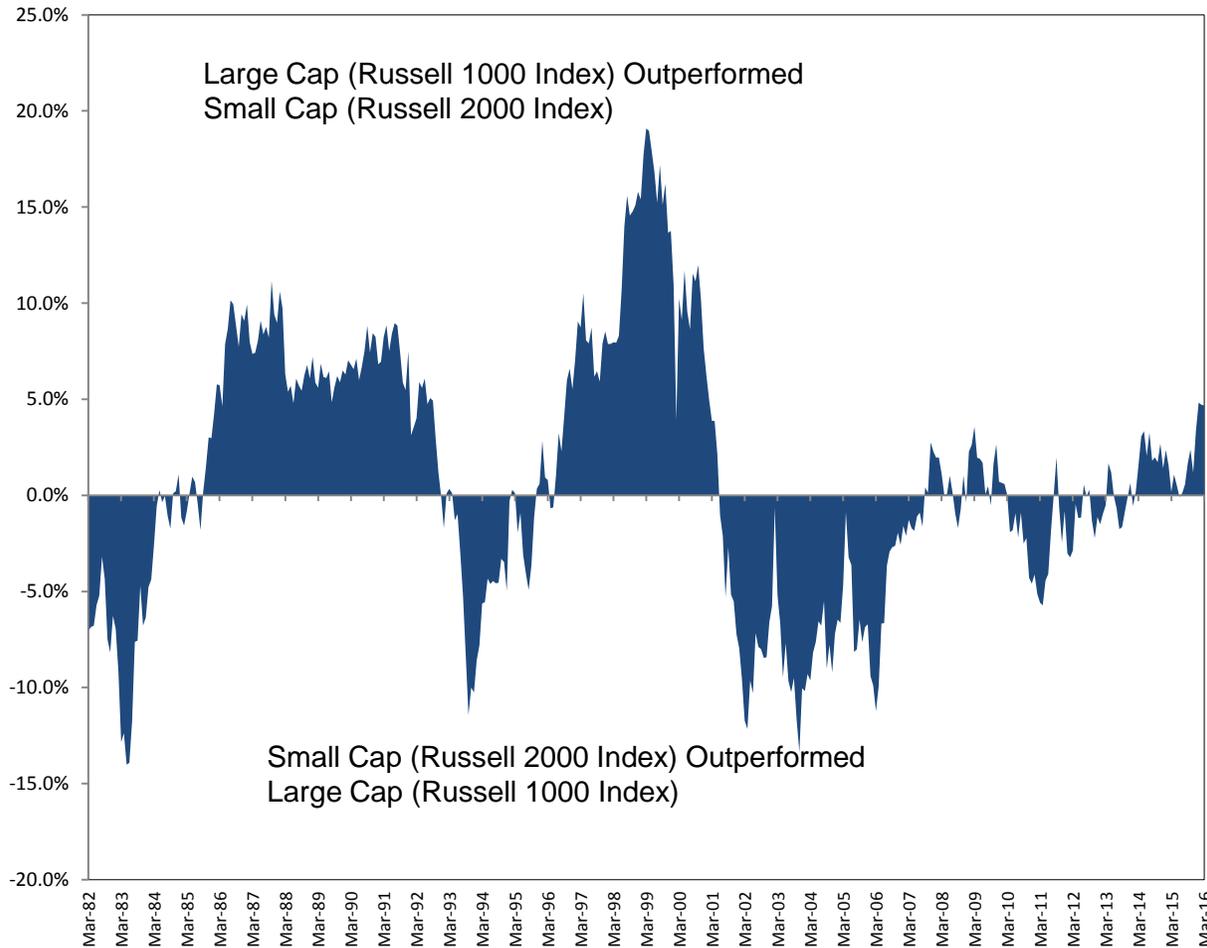
<sup>2</sup>The Total Fund Policy Benchmark has an inception date of 11/30/1996.

# Rolling 12-Month Capital Market Returns (10 Years ending 3/31/16)



- The chart above depicts the dispersion of rolling 12 month returns of various capital markets over the last 10 years.

# Market Diversification and Trends



- The chart above depicts 36 month rolling returns of large cap vs small cap U.S. equity and U.S. vs non-U.S. equity
- As shown, market trends can persist for a meaningful period of time, and are difficult to predict

# Summary Analysis

---

- Short term performance has been difficult, the Total Fund underperformed its primary benchmark by 103 bps during the first quarter, and by 81 bps during the trailing 12 month period.
- Actual allocations continue to be in line with the strategic targets and are substantially on their way to the long-term policy targets set in the 2012 asset liability study.
- Longer term performance has been positive, the Total Fund has produced risk adjusted returns superior to the benchmark and the Long Term Public Benchmark over the five and ten year period.
- The Total Fund has also outperformed the Long Term Public Benchmark over all longer-term trailing periods.
- Diversification has been effective, the Total Fund Policy Benchmark has produced a return superior to the Long Term Public Benchmark at a lower level of risk over the five and ten year period.

Questions?