Joint Meeting of the Investment Advisory Committee and Board of Trustees

ERS

Employees Retirement System of Texas

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

February 23, 2016
ERS Auditorium
200 E. 18th Street
Austin, Texas 78701

COMMITTEE MEMBERS PRESENT
James Hille, Chair
Caroline Cooley, Vice-Chair
Robert Alley, Member
Monty Jones, Member
Ken Mindell, Member
Laura Starks, Member
Lenore Sullivan, Member

COMMITTEE MEMBERS ABSENT
Vernon Torgerson, Member

TRUSTEES PRESENT
I. Craig Hester, Chair
Doug Danzeiser, Vice-Chair
Cydney Donnell, Member
Brian Ragland, Member
Ilesa Daniels, Member

TRUSTEES MEMBERS ABSENT
Frederick E. (Shad) Rowe, Jr., Member

ERS STAFF PRESENT
Porter Wilson, Executive Director
Tom Tull, Chief Investment Officer
Catherine Terrell, Deputy Executive Director
Sharmila Kassam, Deputy Chief Investment Officer
Paula Jones, General Counsel and Chief Compliance Officer
William Nail, Special Projects and Policy Advisor
Tony Chavez, Director of Internal Audit
DeeDee Sterns, Acting Director of Human Resource
Kelley Davenport, Executive Office
Christi Davis, Customer Benefits
Machelle Pharr, Finance
Pablo de la Sierra Perez, Investments
Leah Erard, Governmental Affairs
Elizabeth Geise, Benefits Communications
Robin Hardaway, Customer Benefits
Neil Henze, Investments
Andrew Hodson, Investments
Lauren Honza, Investments
Scott Hodgson, Investments
June Kim, Investments
Robert Lee, Investments
Mark Long, Investments
Mike McCrary, Investment

Jonathan Puckett, Internal Audit
Tim Reynolds, Investments
Tanna Ridgway, Investments
Leighton Shantz, Investments
Ben Schumann, Investments
Robert Sessa, Investments
John Streun, Investments
Chris Tocci, Investments
Mary Jane Wardlow, Governmental Affairs
Karla West, Investments
Keith Yawn, Office of Management Support
Beth Gilbert, Internal Audit

ALSO PRESENT
Brad Young, Altius Associates
Jay Yoder, Altius Associates
Brian Sweeney, Altius Associates
Steve Voss, Aon Hewitt
Suzanna Sanchez, Invesco
David Doctor, AHM
Joel Brous, FTI
Reed Hutchens, FTI
Emily Morganti, Legislative Budget Board
Nora Veloseo, Legislative Budget Board
Joel Pardue, Aetna
Andrew Clark, Office of Speaker Joe Straus

Mr. Jim Hille, Chair of the Investment Advisory Committee for the Employees Retirement System of Texas (ERS), called the meeting to order and read the following statement:

> "A public notice of the Joint Meeting of the 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 9:23 pm on Thursday, February 11, 2016 as required by Chapter 551, Texas Government Code, referred to as 'The Open Meetings Law.'"

IV. REVIEW AND APPROVAL OF THE MINUTES TO THE DECEMBER 3, 2015 JOINT MEETING OF THE BOARD OF TRUSTEES AND INVESTMENT ADVISORY COMMITTEE

The Investment Advisory Committee then took the following action:

> **MOTION** made by Mr. Ken Mindell, seconded by Ms. Caroline Cooley and carried unanimously by the members present that the Investment Advisory Committee approve the minutes of the December 3, 2015 Joint Meeting of the Board of Trustees and Investment Advisory Committee.

The Board of Trustees then took the following action:

> **MOTION** made by Mr. Brian Ragland, seconded by Ms. Cydney Donnell, and carried unanimously by the members present that the Board of Trustees approve the minutes of the December 3, 2015 Joint Meeting of the Board of Trustees and Investment Advisory Committee.

V. REVIEW AND DISCUSSION OF PENSION EXPERIENCE STUDY AND ASSET ALLOCATION STUDY

Ms. Jennifer Jones, Retirement Policy analyst, and Ms. Sharmila Kassam, Deputy Chief Investment Officer presented the review and discussion of the pension experience study and asset allocation study.

This agenda item is presented as a result of the ERS Board of Trustees (Board) asking ERS staff to develop a plan to coordinate development and adoption of the two studies.

Ms. Jones began by explaining the retirement system follows best practices in plan administration for retirement and investment programs. This requires periodic review of the assumptions and experience for retirement, such as assumptions about when members will retire, or if they will withdraw their contributions. On the investment side, the plan makes market and economic assumptions as well as risk assessments. Certain economic assumptions, such as inflation rate and expected market returns are important to both investment and retirement programs. In December 2016, the agency will begin the pension experience and the asset allocation studies, both of which are scheduled for board approval in February 2018.

Ms. Jones explained the pension experience study is a periodic study required at least every five years by statute, of all valuation related assumptions and plan experience in the most recent years. The study will be led by ERS' consulting actuaries at Gabriel Roeder Smith (GRS). An experience study compares actual plan experience to expected plan experience. It will also compare the plan's assumptions to national trends. Any assumptions should reflect past experience and future expectations. In addition, an experience study provides an opportunity to review any current methodologies, such as the actuarial cost method and the asset smoothing method. The pension experience study approved by the board in February 2013 covered fiscal years 2007-2011. This study was completed and presented to the board in February 2012, and the related assumptions were adopted in February 2013 (to coincide with the asset allocation adoption).

It is staff's intent, beginning with the February 2018 adoption of the new experience study, that a new study be completed and new assumptions adopted every four years. Typically every 4-5 years has been the ERS practice. Because the long-term investment return assumption is a key component of the valuation process, ERS' actuaries prefer that the return assumption be reviewed in conjunction with the adoption of the asset allocation study.

Ms. Kassam next explained the asset allocation study is a study to determine the most appropriate asset allocation – or allocation of the ERS trust funds among various asset classes – based on the current investment policy, funding priorities and risk tolerance of the Board. The most important component of an investment strategy is the asset mix. This component sets long-term asset allocation targets or ranges that will prudently meet the needs of the plan beneficiaries. Formal asset allocation studies are conducted by the Board with the assistance of the Investment Advisory Committee (IAC) at least every five years as further detailed in the ERS Investment Policy. The current asset allocation was adopted February 26, 2013.

The process of reviewing the asset allocation will be conducted by the ERS plan consultant, Aon, and ERS staff in coordination with the pension experience study. The timeline is expected to begin at the end of calendar year 2016 to continue through calendar year 2017 and be adopted in February 2018.

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

VI. REVIEW AND DISCUSSION OF THE INVESTMENT PERFORMANCE FOR FOURTH CALENDAR QUARTER OF 2015

Ms. Sharmila Kassam, Deputy Chief Investment Officer, and Mr. Steve Voss, consultants from Aon Hewitt presented the review and discussion of the investment performance for the fourth calendar quarter of 2015.

Mr. Voss began the presentation of the performance of the total Trust. The ERS Fund returned 1.6% and the benchmark return was 1%. The Fund began the year at $25.6 billion. There were net benefit payments of $1.1 billion, investment gains of about $402 million, and the Trust ended the year at $24.9 billion. Global equities added considerable value of 71 basis points. While the returns were negative on an absolute basis, staff along with external managers added value during the quarter.

Mr. Voss discussed the concept of tracking error and its introduction to the quarterly dashboard. Tracking error is the volatility or the standard deviation of the total fund return minus the benchmark. The tracking error is a little over 1% on a rolling 36-month basis. ERS' tracking error has evolved and behaved over time fairly consistent with a public pension fund of ERS' size. He explained that it is difficult to significantly increase the tracking error of a public pension fund.

The Trust fund performance continues to be compared against a static long term public benchmark that was introduced at the February 23, 2016 Joint Meeting of the Board of Trustees (Board) and the Investment Advisory Committee (IAC).

Mr. Voss presented the performance of the asset classes for the quarter, and then concluded his presentation with a look at how ERS is performing compared to the global market. Given the volatility of the marketplace, the total Fund's return of 60 basis points of excess return relative to the benchmark was a good performance. During the 2008 financial crisis and also in other market downturns, ERS internal staff has been able to strategically create alpha. Additionally, ERS is close to the Board-adopted asset allocation targets and has continued to create diversification within asset class portfolios.

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

VII. REVIEW AND DISCUSSION OF THE GLOBAL PUBLIC EQUITY PROGRAM:

a. Market Update and Program Overview - Mr. John Streun, Director of Global Public Equity, Mr. Chris Tocci, Deputy Director of Global Public Equity, Mr. Andrew Hodson, Supervision Portfolio Manager, Mr. Tim Reynolds, Supervision Portfolio Manager, and Mr. Neil Henze, Chief Equity Trader presented the review and discussion of the Global Public Equity program.

Mr. Streun introduced all the speakers and then discussed the overview of the Global Public Equity program. As stated in the Global Public Equity Policy and Procedures in the ERS *Investment Policy*, the investment objective for this asset class is to outperform the Global Public Equity benchmark over rolling five-year periods, while maintaining compliance with the Active Risk Budget. The investment strategy is to combine lower risk internal portfolio strategies and higher risk external portfolio strategies to produce a stable excess return with a target tracking error of 150 basis points (bps) and an excess return ratio of 0.25 or better.

The Global Public Equity asset class outperformed the policy benchmark by 131 bps in calendar year 2015. Returns on a five-year basis were also positive as the Global Public Equity asset class outperformed the policy benchmark by 54 bps per year.

The equities group consists of 24 analysts/portfolio managers and an in-house trading team. The Global Public Equity leadership team is Mr. John Streun, Mr. Chris Tocci, Mr. Andrew Hodson, and Mr.Tim Reynolds. There were some notable staff role changes in 2015. Mr. Keith Lyons was promoted to portfolio manager of the Asia portfolio. In addition, Mr. Kelley Hewell joined Mr. Darrell Jackson as the co-portfolio manager of the large cap active portfolio. Finally, the team added four new analysts over the last year to provide fundamental research in the consumer, technology and energy sectors.

In addition to the analysts and portfolio managers on the Global Public Equity team, the asset class also receives assistance from Ms. Sharmila Kassam, Deputy Chief Investment Officer, Ms. Lauren Honza, External Advisor Portfolio Manager, and Mr. Michael McCrary, External Advisor Investment Analyst, on selection and oversight of external managers.

Mr. Hodson began the presentation about the internal investment process. The Global Public Equity division is responsible for managing $12 billion in assets. Internal public equities manage 71% of these assets at a cost of less than 10 bps. The active portion of these assets is primarily managed within six portfolios: domestic large cap, mid cap and small cap and internationally in the Asia, Europe and Emerging Markets portfolios.

Mr. Hodson explained the “bottom-up” stock picking process. Analysts research, select and then recommend stocks with the best risk/reward under their coverage that they believe will outperform their respective benchmark. Then position size is discussed based on the relative risk/reward characteristics and the level of analyst conviction.

ERS analysts’ also focus on “active share” within the portfolios. Active share is a measure of how a portfolio differs from its benchmark. A portfolio that is identical to the benchmark would have 0% active share, while a portfolio with no holdings in common with the benchmark would have 100% active share. Depending on the portfolio, staff strives for 40% to 60% active share with internally managed portfolios and a much higher active share with externally managed portfolio.

Over the past three years staff has placed an increased emphasis on communication amongst the entire Global Public Equity division, increased regularly scheduled meetings and have encouraged all members of the team to increase the level of communication.

Mr. Tocci discussed the Global Public Equity portfolio structure and positioning. The $12.0 billion Global Public Equity composite as of December 31, 2015, consisted of eight domestic portfolios, two domestic fund-of-funds’ portfolios, nine international portfolios, and a global equity tactical portfolio that serves to manage overall program exposures on a region, country, sector, and style basis. During calendar year 2015, one portfolio was added to the program and two portfolios were defunded in the international portion of program to increase the active risk of the program and improve risk adjusted returns.

The Global Equity composite is currently in line with the 52%/48% split between domestic and international as represented by the MSCI ACWI IMI benchmark. The market value of the domestic equity program was $6.1 billion at the end of calendar 2015. Internally managed portfolios account for 87% of the domestic equity assets. The market value of the international equity program was $5.9 billion at the end of the calendar year 2015.

Mr. Tocci indicated that staff continues to monitor each portfolio’s sector exposures and regional exposures. The portfolios have slightly decreased its largest sector underweight in utilities and slightly increased underweights in financials and staples. Offsetting these underweights, there are overweight positions in healthcare, information technology, industrials, consumer discretionary, and telecommunications.

Regarding the regional exposures, the global equity composite had an increase in the overweight to the UK and a significant decrease to the overweight in the United States. In addition, the composite is now underweight emerging markets and remains underweight Asia and Japan.

Mr. Streun began his presentation about the developed markets global equity economic outlook. Unfortunately, the slow growth and low return environment is likely to persist and the US is continuing to be a low return market. Europe is the preferred region in the developed markets as it has lagged other markets and is more attractive on a valuation basis and a profit margin improvement basis. Japan has also seen outperformance, especially in the last three years, which has benefited from monetary stimulus. Additionally, improved corporate governance and consideration of shareholders has encouraged investors in Japan.

Mr. Streun touched on the growth outlook of the emerging markets compared to developed markets. Emerging markets represent over 30% of global GDP and have recently accounted for a higher percentage of global growth, even though growth is historically slower in 60% of emerging market countries. Finally, Mr. Streun discussed risks to consider in the global equity space. There are still concerns about the Chinese market due to recession and deflation fears. The upcoming US presidential election may cause volatility in the market as election years have historically reported flat returns. Possible interest hikes imposed by the Federal Reserve continue to be a concern in the market.

Mr. Reynolds began his presentation about the outlook of emerging markets for 2016. Emerging markets appeal to investors because they make up 80% of the population and 30% of global market capitalization and global gross domestic product (GDP). However, emerging markets fund flows have been consistently and meaningfully negative during 2015. He discussed issues that heavily impact emerging markets, such as declines in currencies, oil prices and commodities. Emerging markets are also concerned about an interest rate hike imposed by the Federal Reserve. China is also impacting its GDP as it changes from a producing economy to one that is run by consumption and services. Consumption and service in China are not traditionally tracked, but are noticeably on the rise.

Next Mr. Reynolds explained the Best Ideas Program portfolios. The Best Ideas Program currently has two portfolios. The Spinoff portfolio was launched May 1, 2014 and currently stands at $300 million while the Capitol Hill portfolio started on September 1, 2014 and currently has $200 million. Both portfolios outperformed their benchmark by over 100 bps. A previous Best Ideas portfolio, the Focused Value portfolio was closed in 2015.

Regarding the Spinoff portfolio, 2015 was a record year with over 50 corporate spinoffs. This approach can lead to greater short-term volatility as portfolio companies establish a track record with investors, but can also lead to higher long-term returns as management executes their strategy and improves earning power. Since fund inception, seven portfolio companies that were acquired were mergers and acquisitions, usually at significant premiums. The Spinoff portfolio has an extremely high active share of 98% versus the S&P Mid Cap benchmark. The Capitol Hill fund added to its very strong performance versus the S&P 500 since inception (outperforming by 400 bps). The Capitol Hill portfolio also has a very high active share of 83% versus the S&P 500. The Best Ideas Program has been a successful program for global public equity. To continue the program, numerous strategies are being discussed and the committee has heard, but passed on two formal presentations for additional Best Idea strategies in 2015.

Mr. Henze explained the trading update for the global public equity program. For calendar year 2015 total trade commissions were 1% less than 2014. ERS continues to be fiscally responsible by utilizing in-house trading. The average “all-in” blended commission rate paid by US institutions to brokers on domestic shares was 3.0 cents-per-share; however, ERS has a competitive average commission of 2.0 cents-per-share. ERS emerging managers paid 2.7 cents-per-share average commission. Mr. Henze concluded that the total internal portfolios account for 72% of total commissions, while the externally managed portfolios account for 28% of total commissions.

Mr. Streun concluded the Global Public Equity program presentation by discussing goals and objectives for 2016. Staff will continue to strive to outperform the relative benchmark, while maintaining compliance with the ERS *Investment Policy*. Staff plans to continue to build out the options overlay program. The external advisor team will begin a search for an international small cap manager to complement internal staff. In addition, staff will also explore new portfolios and ideas for the Best Ideas Program. To maintain staff satisfaction and ambition, leadership plans to enhance the career path for internal staff by developing sector portfolio manager positions.

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

b. Review and Discussion of Global Public Equity Advisor Program – Ms. Sharmila Kassam, Deputy Chief Investment Officer, Ms. Lauren Honza, Portfolio Manager, and Mr. Michael McCrary, Investment Analyst presented the review and discussion of the Global Public Equity External Advisor Program.

Ms. Kassam began the presentation by explaining the External Advisor Program. The investment process for the Global Public Equity External Advisor Program is managed by this team in coordination with the Global Public Equity Team. Because ERS has a mission to achieve competitive returns at a reasonable cost, they utilize external advisors that complement internal management efforts and provide diversification benefits for risk reduction and increased returns. As of the end of 2015, 75% of the asset class was internally managed and 25% was externally advised.

Mr. McCrary discussed the investment approach used by the External Advisor Team. The multifaceted approach is comprised of five phases: (1) *Research*, (2) *Select*, (3) *Implement*, (4) *Monitor* and (5) *Rebalance*. During the *Research* phase, the External Advisor Team and strategic partners conduct research about strategies and sourcing that may complement internal portfolios. The *Select* Phase is the process of conducting the procurement process with a formal RFP, due diligence completed on managers to make recommendations to the Internal Investment Committee (IIC), then the firm is placed into the Select Pool were it is funded or continued to be monitored for future funding. The IIC includes the Executive Director, the Chief Investment Officer (CIO), and at least one IAC member. By focusing manager selection at the staff level, the ERS Investment Program provides a better alignment of the Board and IAC roles relative to staff.

The Select Pool was first introduced at the November 19, 2009 Joint Meeting of the Board and IAC, and formalized in the ERS *Investment Policy* at the February 26, 2013 Joint Meeting and has since been presented and reviewed annually by the Board and IAC with routine interim reporting.

During the *Implement* phase staff constructs a portfolio consisting of both external and internal strategies and recommends funding decisions. The *Monitoring* phase refers to the monitoring of the Select Pool, both operational and investment performance. This monitoring phase of the select Pool firms includes refreshing when firms no longer meet ERS' needs. Finally, the *Rebalance* phase reviews the internal/external mix and staff adjusts and rebalances the mix based on need.

Ms. Honza provided detailed investment performance and data for the five funded external advisors of the Select Pool. The currently funded external advisors are Barrow, Hanley, Mewhinney & Strauss, BlackRock, Fisher Investments, Lazard Asset Management, and Templeton. All external advisors have outperformed their benchmark during calendar year 2015, except Lazard Asset Management. However, Lazard has outperformed the annualized benchmark since inception.

Ms. Kassam concluded the presentation by discussing initiatives for the External Advisor Program. In April of 2015, Mr. Michael McCrary, Investment Analyst, joined the team to assist with all aspects of the Investment Process. In calendar year 2016, staff will continue to develop expertise in manager selection and due diligence and will focus on seeking out industry best practices. Staff continues to utilize Backstop, a customer relationship management (CRM) system, to more efficiently manage the monitoring of external relationships. Ms. Kassam detailed the three main initiatives for next year. First, staff is going to review and refresh allocation of funded and unfunded managers of the Select Pool. Additionally, the performance fees and fee structures of external advisors will be considered and reviewed. Second, staff will continue research on customized investment strategies. Third, this quarter the External Advisor team is also focused on a pending search for long only international small cap strategies with a RFP in development.

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

c. Proposed Revisions to the ERS Investment Policy - Ms. Sharmila Kassam, Deputy Chief Investment Officer, and John Streun, the Director of Public Equity presented the proposed revisions to the ERS investment Policy. The Employees Retirement System of Texas (ERS) *Investment Policy* is determined by the Board of Trustees (Board). In accordance with Section 2.3 of the ERS *Investment Policy*, staff will recommend changes as needed to the Investment Advisory Committee (IAC) and Board.

The External Advisor Program has expanded and as a result, the proposed revisions further clarify the process that has evolved in the body of the ERS *Investment Policy* and add more details about the process to the Global Public Equity Policies and Procedures.

The first proposed revision is to the main body of the ERS *Investment Policy,* Section 4.5B: Select Pool. The paragraph was edited to clarify that ERS investment staff makes recommendations, but they are not on the Internal Investment Committee (IIC) which is limited to only the Executive Director and Chief Investment Officer from internal staff. The IIC also includes at least one IAC member. The third revision was also proposed to clarify the IIC, but in Addendum XI: Global Public Equity Policies and Procedures, III.C. Global Public Equity Internal Investment Committee.

The second revision is to Addendum XI: Global Public Equity Policies and Procedures, Section 1.B. Asset Allocation of the ERS *Investment Policy*. The allocation limits were adjusted to be consistent with changes in asset class benchmark and new searches will increase the external advisors exposure primarily on the international side.

The final revision is the creation of Addendum XI: Global Public Equity Policies and Procedures, Section III.F Procedures for Investments. This section described the multi-faceted Investment Process used in the Select pool for External Advisors.

The Investment Advisory Committee then took the following action:

> **MOTION** made by Mr. Bob Alley, seconded by Ms. Caroline Cooley and carried unanimously by the members present that the Investment Advisory Committee approve the proposed revisions to the ERS Investment Policy as presented in this agenda item.

The Board of Trustees then took the following action:

> **MOTION** made by Ms. Cydney Donnell, seconded by Mr. Doug Danzeiser, and carried unanimously by the members present that the Board of Trustees approve the proposed revisions to the ERS Investment Policy as presented in this agenda item.

VIII. ANNUAL REVIEW AND DISCUSSION OF PROXY VOTING AND CORPORATE GOVERNANCE

Mr. Scott Hodgson and Ms. Tejal Patel from Institutional Shareholder Services (ISS) presented the annual review and discussion of proxy voting and corporate governance.

As stated in Section 4.18 of ERS' *Investment Policy*, the right to vote proxies for securities held by ERS has economic value, and the fiduciary act of managing ERS' securities includes the management of the voting rights appurtenant to those securities. ERS Investment staff maintains and annually reviews the ERS Proxy Voting guidelines effective February 22, 2011, which are detailed instructions based upon the ERS Proxy Voting Policy.

In voting proxies, ERS only considers factors related to the economic value of ERS' investment and cast votes in accordance with ERS' economic best interest. ERS uses the services of ISS to process proxy votes. The ISS system allows is an automatic rules based program, but ERS retains the ability to override the vote. Votes are referred to staff if the ERS' guidelines do not address the topic of the proposal. During 2015, 2.6% of all proposals were referred to ERS for internal case-by-case analysis.

Mr. Hodgson explained that ERS' voting policy and guidelines are organized by the following subgroups: Board of Directors, Shareholder Rights and Defenses, Capital/Restructuring, and Compensation.

Mr. Hodgson detailed the ERS voting results and trends regarding proxy voting. In 2015, ERS voted in 22,728 proposals out of 22,962 votable proposals and ERS voted in 2,002 meetings worldwide in 2015. Overall, ERS voted with management 90% of the time, which was in line with 2014.

Say-on-Pay was implemented in 2011 as part of Dodd Frank, which gives shareholders the right to vote on management's pay. While the vote is non-binding, it can still influence management compensation packages. Management Say-on-Pay, ("MSoP"), proposals decreased 12.4% versus 2014, driven by the fact that many companies adopted triennial MSoP voting frequency in 2011. ERS focused on compensation plans that pay for performance with independent compensation committees that provided disclosure of the structure of compensation plans. Mr. Hodgson also discussed compensation and how the votes change depending on the market. The energy industry saw a rise from 6.2% to 8.8% on weak shareholder support. Shareholders look at compensation more when an industry's is on the decline.

Activism continues to be successful in proxy voting. Activism investing is where an investor or a group of investors band together to try to effect a change within the company. Recently activist success rates have been 70% and has led to greater Board engagement.

The "Social/Environmental Issues" category held steady with 67% of votes with management versus 69% in 2014. In recent years, we've seen an increased percentage of shareholder proposals calling for disclosure of political contributions and lobbying payments and policies, which ERS supports. These proposals represent about one third of all "Social/Environmental Issues" proposals ERS voted on. Regarding social and environmental issues, about 20% of this category includes political contributions and, lobbying activities, which ERS tends to vote for more disclosure and often results in ERS voting. Regarding shareholder proposals, ERS voted with management 48% of the time.

Environmental and Social Governance **("**ESG") is primarily comprised of the following areas: board diversity, climate change, human rights, lobbying activity, and sustainability reporting. Sustainability (climate change/greenhouse gas emissions) saw the greatest number of proposals at 72, driven by the carbon bubble campaign. A record 474 proposals were filed during the 2015 proxy season versus the previous high of 460 in 2014.

Board nominee support continued to rise this year to 96.3%, largely driven by strong equity markets and greater investor engagement.

Mr. Hodgson concluded his portion of the presentation by discussing governance-related shareholder resolutions. These issues include board declassification, independent chairs, majority voting and director election and proxy access. A moratorium was enacted by the US Securities and Exchange Commission ("SEC") on Rule 14a-8(i)(9) which had disallowed shareholder proposals on a proxy ballot if the proposal conflicted with a board proposal. Due to widespread adoption by S&P 500 companies, board declassification and majority voting proposals have continued to decline.

Ms. Patel discussed topics and trends in proxy voting for 2016. There will continue to be a large number of proxy votes in 2016. The focus in the next years is going to be pay for performance or votes on compensation. Investors may decrease outsized pay packages in relation to the overall performance of the company if it is a negative performance. Participation and responses to votes will be monitored. Council on Institutional Investors (CII) recently published a Recidivist List of companies that have failed to respond or have low MSOP votes, majority shareholder-approved proposals, and/or any majority withholds on directors. So the focus is whether companies are engaging with shareholders on the lowest-filed votes in certain topics. Environmental and Social Governance issues continue to be a focus, given the election year.

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

IX. REVIEW, DISCUSSION AND CONSIDERATION OF THE PRIVATE INFRASTRUCTURE PROGRAM:

a. Market Update and Program Overview – Mr. Pablo de la Sierra Perez, Assistant Director of Private Real Assets, and consultants from Altius Associates, Mr. Jay Yoder, Head of Real Assets and Mr. Bryan Sweeney, Principal Real Assets, presented the review, discussion and consideration of the Private Infrastructure program.

The Private Infrastructure portfolio is comprised of privately held infrastructure and other real assets with similar characteristics. As approved at the May 19, 2015 Joint Meeting, public infrastructure no longer had a separate allocation within the Trust, and publicly traded/listed infrastructure securities are managed within the Global Equities team as part of the overall ERS' Public Equities portfolio. During the May 2015 Joint Meeting of the Board and IAC, the Board approved ERS' fiscal year 2016 private infrastructure commitment target of $300 million with a commitment range of +/- 25% ($225 million – $375 million). Staff will continue to provide a review of ERS' Private Infrastructure program at least annually.

Mr. De la Sierra Perez described the infrastructure portfolio. Since inception through December 31, 2015, ERS has closed on three private infrastructure funds and six co-investments with commitments totaling $528 million. As of December 31, 2015, the private infrastructure portfolio net asset value ("NAV") is $295.9 million, or about 1.2% of the Trust's assets.

ERS' private infrastructure investments have performed as expected and have produced a Total Value to Paid In Capital ("TVPI") of 1.16x, Distributed to Paid in Capital ("DPI") of 0.06x, and an Internal Rate of Return ("IRR") of 7.18% since inception[1]; however, at this early stage of the program, this metric may not be meaningful. The Infrastructure team is expecting two or three new commitments in Fiscal Year 2016.

He discussed fundraising in the private infrastructure market. The first fundraising wave for private equity was around 2006 and the funds are coming to the end of their terms in the next five years. In the ten-year period from 2005 to 2015, infrastructure fundraising activity has tripled to around $44 billion in 2015. The average fund size has also increased and some of the most successful managers have been able to significantly increase the size of their new funds. Staff does not foresee a decrease in fundraising in infrastructure.

Energy, such as power generation, power transmission, utilities, etc, continues to be the largest component in infrastructure. Other areas in the infrastructure space include telecommunication and transportation. ERS infrastructure staff finds that the infrastructure sector continues to be highly competitive and more significantly in core assets, or assets that present a perceived lower risk profile. Also, scale and size provide a competitive advantage to larger investment managers, who are able to enter into larger deals and more efficiently and actively manage added layers of risk. Consequently, ERS continues to explore ways to pool capital with similarly minded investors to increase the universe of suitable and appropriate co-investments and direct investments through limited liability company ("LLC") or limited partner ("LP") vehicles that ERS can prudently manage.

Mr. de la Sierra Perez concluded his portion of the presentation by discussing goal and objectives for 2017. Staff would like to continue to establish key relationships in the sector. Additionally, the team will continue to seek direct investments or co-investments and to look for strategic ways to pool capital with other investors.

Mr. Yoder and Mr. Sweeney begin their portion of the presentation. They discussed the infrastructure portfolio's investments and geographical diversification. Mr. Yoder explained that various additional commitments will create a more diversified portfolio.

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[1] TVPI = (NAV + Distributions) / Paid in Capital
DPI = Distribution / Paid in Capital

The consultants discussed the outlook and performance of the private infrastructure market. They showed that the market has made relatively positive returns and that the need for capital in the infrastructure market will continue for the next couple decades. Ms. Cydney Donnell asked about exit strategy in infrastructure. Mr. Yoder said that assets could be sold to larger consolidators of assets or sell attractive producing assets, like a greenfield. However, exits are not always like private equity and may lend to a longer holding period.

They concluded their presentation by explaining some challenges in the infrastructure market and suggestions for the ERS Infrastructure program. The consultants recommended an increase in diversification by adding core and value-added exposures in global markets. However, due to geopolitical risk, Altius promotes caution if investing in emerging markets.

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

b. Proposed Private Infrastructure Annual Tactical Plan for Fiscal year 2017- Mr. Pablo de la Sierra Perez, Assistant Director of Private Real Assets, and consultants from Altius Associates, Mr. Jay Yoder, Head of Real Assets and Mr. Bryan Sweeney, Principal Real Assets presented the proposed Private Infrastructure Annual Tactical Plan for Fiscal Year 2017.

Staff, along with consultants Altius Associates, is charged with preparing and presenting to the Board for its review and approval an Annual Tactical Plan ("Plan"). The Plan reviews the current status of the private infrastructure portfolio, recent historical and prospective market conditions and proposes steps to be taken over the following 12-18 months to continue implementing the private infrastructure program.

Mr. De la Sierra Perez explained that staff recommends that the Fiscal Year 2017 Private Infrastructure Annual Tactical Plan target a commitment of $250 million with a range of +/- 25% ($187.5-312.5 million) for Fiscal Year 2016. For the full Fiscal Year 2017, ERS will target commitments totaling $300 million with a range of +/- 25% ($225-325 million).

The Investment Advisory Committee then took the following action:

> **MOTION** made by Mr. Ken Mindell, seconded by Ms. Lenore Sullivan and carried unanimously by the members present that the Investment Advisory Committee approve the proposed ERS Private Infrastructure Portfolio Annual Tactical Plan for Fiscal year 2017, as presented in Exhibit A.

The Board of Trustees then took the following action:

> **MOTION** made by Mr. Doug Danzeiser, seconded by Ms. Cydney Donnell, and carried unanimously by the members present that the Board of Trustees approve the proposed ERS Private Infrastructure Portfolio Annual Tactical Plan for Fiscal year 2017, as presented in Exhibit A.

X. REVIEW, DISCUSSION AND CONSIDERATION OF INVESTMENT POLICY CHANGES

Mr. Tom Tull, Chief Investment Officer, presented the review, discussion and consideration of investment policy changes. In accordance with Section 2.3 of the ERS *Investment Policy*, staff will present recommended changes to the ERS *Investment Policy* as needed to the Investment Advisory Committee (IAC) and Board of Trustees (Board). The proposed changes were first addressed at the December 3, 2015 Joint Meeting of the Board and IAC and are now being resubmitted to the Board and IAC for consideration after incorporating input from the discussion at that meeting.

The two proposed revisions are regarding clarifications to ERS' co-investment programs in Private Equity and in Real Estate. The proposed changes target opportunities outside existing ERS general partners (GPs) ERS will vet new relationships with GPs with the same due diligence expected of all private equity and real estate investments and meet the requirements of their Policies and Procedures as outlined in the ERS *Investment Policy*. These changes also formalize staff due diligence standards for new GPs. The proposed revisions make certain other changes to the co-investment programs based on staff recommendations.

The Investment Advisory Committee then took the following action:

> **MOTION** made by Mr. Bob Alley, seconded by Ms. Carolyn Cooley and carried unanimously by the members present that the Investment Advisory Committee approve proposed revisions to the ERS investment policy as presented in the agenda item.

The Board of Trustees then took the following action:

> **MOTION** made by Ms. Cydney Donnell, seconded by Mr. Doug Danzeiser, and carried unanimously by the members present that the Board of Trustees approve proposed revisions to the ERS investment policy as presented in the agenda item.

XI. ADJOURNMENT OF THE JOINT MEETING OF THE BOARD OF TRUSTEES AND INVESTMENT ADVISORY COMMITTEE AND RECESS OF THE BOARD OF TRUSTEES

The February 23, 2016 Joint Meeting of the ERS Board of Trustees and Investment Advisory Committee adjourned at 12:55 pm CT.