

INVESTMENTS MONTHLY SUMMARY

JANUARY 2024



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INVESTMENTS MONTHLY SUMMARY – JANUARY 2024

Recent Results

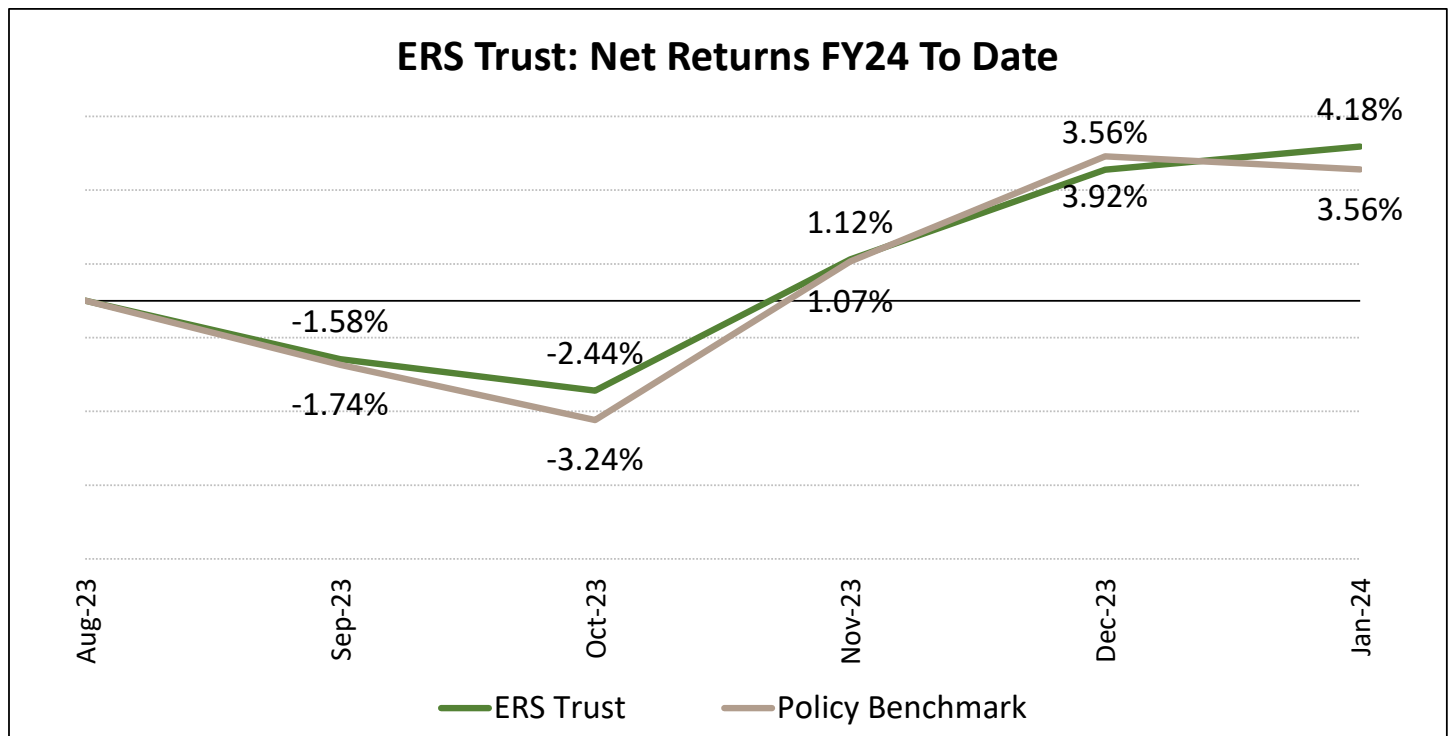
For the month of January 2024, the investments of the ERS Trust delivered a net return of 0.6%. The primary contributors to this performance were increases in the value of its investments in Public Equity and Public Credit, which gained +1.6% and +1.0% respectively. Overall, the ERS Trust has delivered a positive return of +4.2% in Fiscal Year 2024 and +8.3% for the trailing one-year period.

Exhibit 1. Investment Returns of the ERS Trust

Asset Class Returns	January 2024	Fiscal Year 2024	One Year
ERS Trust	0.6%	4.2%	8.3%
Policy Benchmark	-0.3%	3.6%	6.8%
Excess Return	1.0%	0.6%	1.5%

Returns for the month were solid in both absolute terms and relative terms, with an absolute return of 0.6%, 1.0% above the benchmark. Looking at the broader timeframe, the ERS Trust's absolute return exceeds the Policy Benchmark by 0.6% for the fiscal year 2024 to date and by 1.5% over the trailing twelve months.

Exhibit 2. Returns of ERS Trust and Policy Benchmark



Return Seeking assets, which accounted for 80.8% of total Trust assets at month end, returned 0.7% for the month. Within this category, Public Equity and Public Credit delivered the strongest results, with gains of 1.6% and 1.0% respectively.

Exhibit 3. Investment Returns of Return Seeking Assets

Asset Class Returns	% of Trust	January 2024	Fiscal Year 2024
Public Equity	34.4%	1.6%	8.5%
Private Equity	17.4%	0.4%	1.4%
Public Credit	6.9%	0.0%	6.1%
Private Credit	3.8%	1.0%	6.7%
Public Real Estate	1.9%	-3.8%	4.9%
Private Real Estate	10.4%	-0.2%	-1.3%
Private Infrastructure	6.0%	-0.4%	1.6%
RETURN SEEKING ASSETS	80.8%	0.7%	4.6%

At the same time, Risk Reducing assets returned 0.3% during the month, with the Special Situations and Rates portfolios producing returns of 1.7% and 0.5% respectively.

Exhibit 4. Investment Returns of Risk Reducing Assets

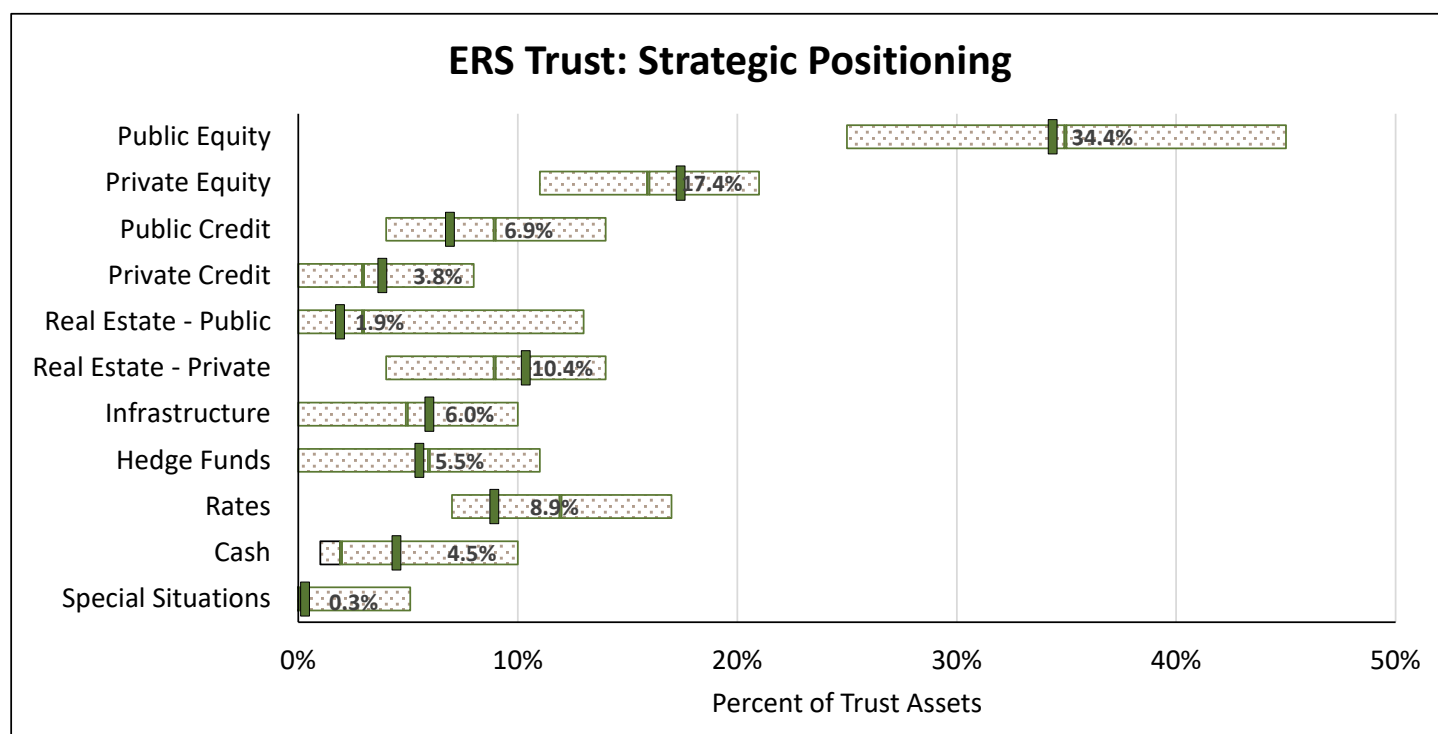
Asset Class Returns	% of Trust	January 2024	Fiscal Year 2024
Rates	8.9%	0.2%	3.4%
Hedge Funds	5.5%	0.4%	1.4%
Special Situations	0.3%	1.7%	7.7%
Cash	4.5%	0.5%	2.2%
RISK REDUCING ASSETS	19.2%	0.3%	2.5%

As 2024 unfolds, mixed signals from inflation readings and economic indicators may raise questions about the timing of the Federal Reserve's interest rate cuts that are expected by the market. However, the increasing excitement surrounding Artificial Intelligence has fueled market optimism, providing a foundation of support for at least the near term.

Trust Positioning

As of the end of the month, Trust investments were positioned within the asset allocation ranges established by the ERS Investment Policy Statement. From a relative positioning standpoint, the Trust maintained an overweight in Cash and private market investments including Private Equity, Private Credit, Private Real Estate, and Infrastructure. Relative underweights came primarily from Public Equity, Public Credit, Public Real Estate, Hedge Funds and Rates.

Exhibit 5. Trust Positioning Relative to Strategic Targets and Tactical Bands



The ERS Investment Policy Statement recognizes that an overweight to private market assets may occur from time to time, and managing this positioning back toward the target allocation over time occurs by adjusting the pacing of commitments. Those efforts remain ongoing and the target range for capital commitments has been adjusted accordingly for Fiscal Year 2024 and beyond.

Trust Liquidity

In December, the Trust had a net cash outflow of \$178 million for the month. Excluding significant one-time legacy payments of \$2,447 million from the State of Texas, the total outflows over the trailing year amounted to \$1.06 billion, representing 3.1% of the Trust's initial value during that period.

Exhibit 6. Cash Flow Sources and Uses for ERS Trust

Asset Class	January 2024 (\$M)	Fiscal Year 2024 (\$M)	One Year (\$M)
Contributions	130	602	1,379
Distributions	49	779	1,725
Benefit Payments	(247)	(1,221)	(2,895)
Capital Calls	(111)	(696)	(1,310)
Legacy Payments	0	1,381	2,447
TOTAL	(178)	893	1,390

Trust liquidity remains healthy with a 13.4% allocation to Rates and Cash, which equates to more than three years of net benefit payments for the Trust based on recent levels of \$1.5 billion annually.

Investment Activity

There were three investment approvals by Asset Class Investment Committees during the month.

Exhibit 7. Asset Class Investment Committee (ACIC) Approvals for January 2024

Asset Class	# of Investments	Commitments (\$M)	Other Actions
Private Equity	2	52	0
Private Credit	1	75	0
Hedge Funds	0	0	0
Private Real Estate	0	0	0
Infrastructure	0	0	0
Special Situations	0	0	0
TOTAL	3	127	0

For the fiscal year to date, there have been sixteen commitments totaling around \$601 million.

Exhibit 8. Asset Class Investment Committee (ACIC) Approvals for Fiscal Year 2024

Asset Class	# of Investments	Commitments (\$M)	FY24 Tactical Plan (\$M)
Private Equity	11	391	450-750
Private Credit	1	75	100-150
Hedge Funds	3	85	N/A
Private Real Estate	1	50	150-450

Infrastructure	0	0	150-250
Special Situations	0	0	N/A
TOTAL	16	601	900-1500

Trading desk activity was also robust during the month, with around 93.4 million shares totaling \$899 million in value routed through the desk.

Exhibit 9. Trading Desk Activity for January 2024

Portfolio Type	Shares Jan '24	Value Jan '24	Shares FYTD	Value FYTD
Internally Managed	92.8 million	\$871 million	159.4 million	\$3,447 million
Externally Advised	0.6 million	\$28 million	4.5 million	\$119 million

Long-Term Performance

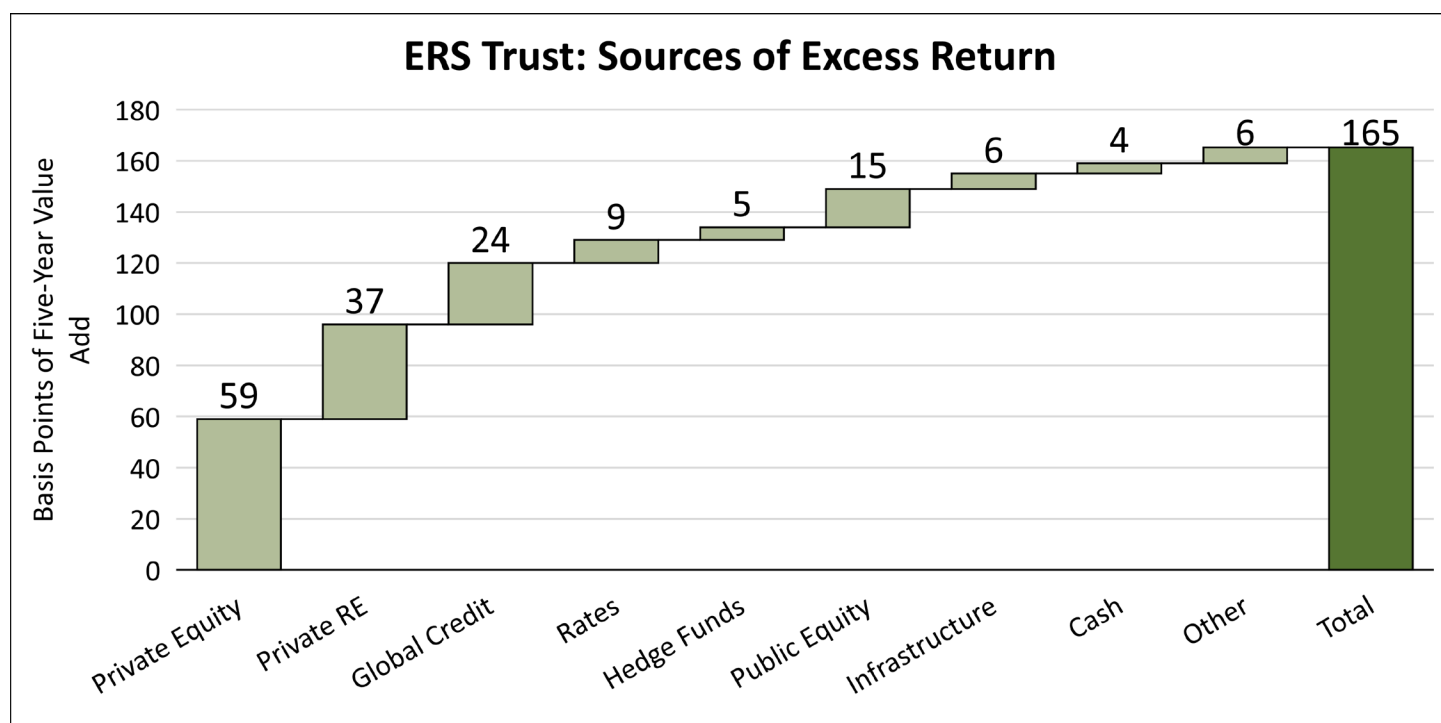
The performance of the Trust remains well above the Policy Benchmark across all time horizons and represents significant value added from investment implementation. Staff believes that such high levels are among the best performance in the history of the ERS Trust.

Exhibit 10. Investment Returns of ERS Trust

	3 years	5 years	10 years
ERS Trust	8.2%	9.1%	7.8%
Policy Benchmark	5.7%	7.4%	6.8%
Passive Index	4.3%	8.3%	7.0%

The ten-year return for Trust investments remains strong and continues to exceed the Policy Benchmark and the Passive Index. Nearly all asset classes have contributed meaningfully to the excess returns of the Trust.

Exhibit 11. Five-Year Excess Return Attribution for ERS Trust



Risk Metrics

Absolute risk for the Trust as measured by realized volatility has risen over the last 36 months and is now at 7.7% on a trailing five-year basis. This level represents an increase from pre-pandemic levels of 5-6% and is in line with the long-term average of 8%. This metric for the Trust is slightly below the realized volatility of the Policy Benchmark and it is well below that of the Passive Index of 14.5% due in large part to the smoothing effects of private market valuations.

Exhibit 12. Realized Volatility of ERS Trust

	3 years	5 years	10 years
ERS Trust	6.8%	7.7%	6.7%
Policy Benchmark	7.5%	8.2%	7.4%
Passive Index	13.6%	14.5%	12.0%

Relative to the amount of absolute risk taken, the performance of the Trust has been good as evidenced by high Sharpe ratios, which measures the amount of return per unit of absolute risk. As measured over the last five years the Sharpe ratio was 0.92, significantly above the typical threshold value of 0.3-0.4.

Exhibit 13. Realized Sharpe Ratio of ERS Trust

	3 years	5 years	10 years
ERS Trust	0.86	0.92	0.97
Policy Benchmark	0.46	0.67	0.75
Passive Index	0.14	0.44	0.47