

# INVESTMENTS MONTHLY SUMMARY

FEBRUARY 2024



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# INVESTMENTS MONTHLY SUMMARY – FEBRUARY 2024

## Recent Results

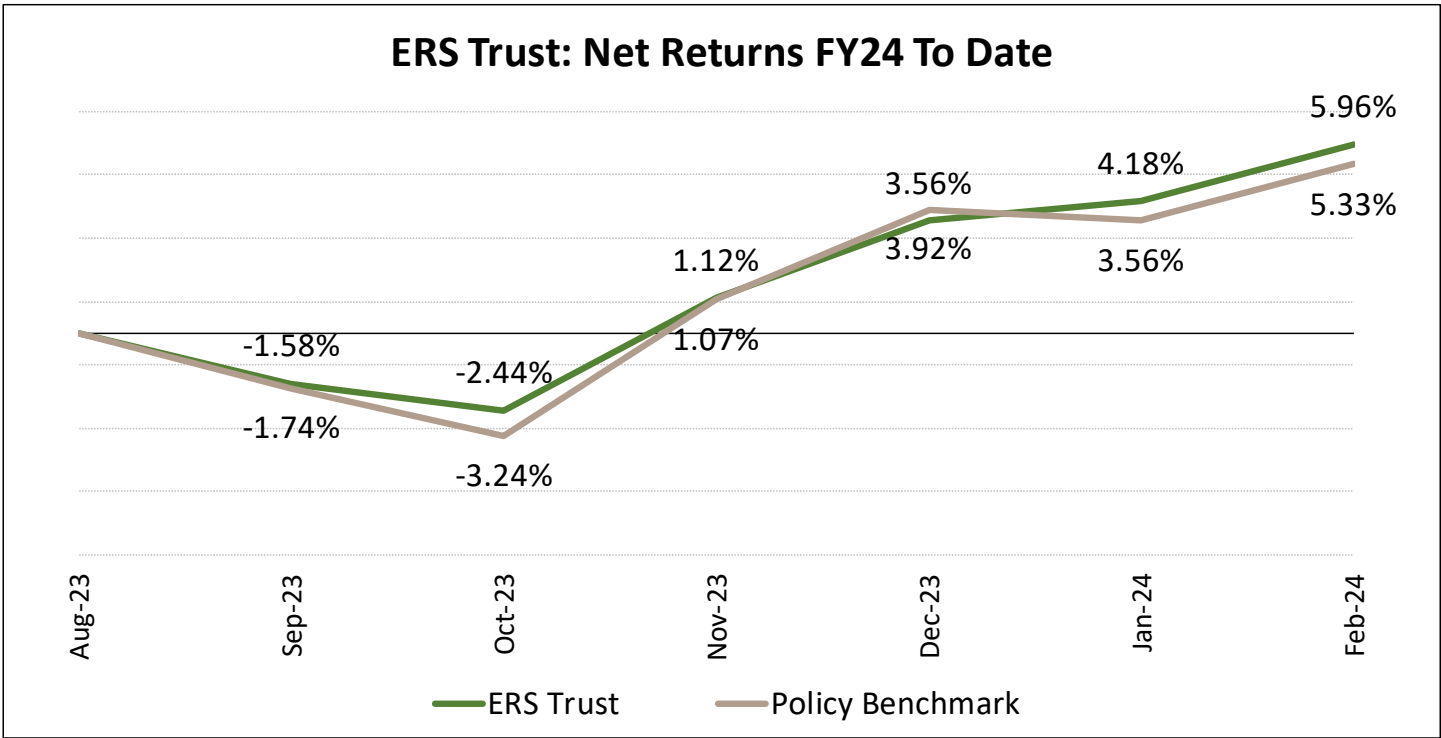
For the month of February 2024, the investments of the ERS Trust delivered a net return of 1.7%. The primary contributors to this performance were increases in the value of its investments in Special Situations, Public Equity and Private Credit, which gained +5.3%, +4.8% and +2.4% respectively. Overall, the ERS Trust has delivered a positive return of +6.0% in Fiscal Year 2024 and +11.3% for the trailing one-year period.

Exhibit 1. Investment Returns of the ERS Trust

Asset Class Returns	February 2024	Fiscal Year 2024	One Year
ERS Trust	1.7%	6.0%	11.3%
Policy Benchmark	1.7%	5.3%	9.9%
Excess Return	0.0%	0.6%	1.4%

In February, the ERS Trust delivered a commendable absolute return of 1.7%, matching the benchmark. For Fiscal year 2024 to date, the Trust has outperformed the Policy Benchmark by 0.6%, and maintained a solid 1.4% lead over the past twelve months.

Exhibit 2. Returns of ERS Trust and Policy Benchmark



Return Seeking assets, which accounted for 81.1% of total Trust assets at month end, returned 2.1% for the month. Within this category, Public Equity and Private Credit delivered the strongest results, with gains of 4.8% and 2.4% respectively.

### Exhibit 3. Investment Returns of Return Seeking Assets

Asset Class Returns	% of Trust	February 2024	Fiscal Year 2024
Public Equity	35.2%	4.8%	13.7%
Private Equity	17.3%	0.1%	1.5%
Public Credit	6.8%	0.3%	6.4%
Private Credit	3.9%	2.4%	9.3%
Public Real Estate	1.9%	-0.4%	4.5%
Private Real Estate	10.2%	-0.9%	-2.2%
Private Infrastructure	5.9%	0.8%	2.3%
<b>RETURN SEEKING ASSETS</b>	<b>81.1%</b>	<b>2.1%</b>	<b>6.9%</b>

At the same time, Risk Reducing assets returned -0.1% during the month, with the Special Situations and Hedge Funds portfolios producing returns of 5.3% and 0.7% respectively.

### Exhibit 4. Investment Returns of Risk Reducing Assets

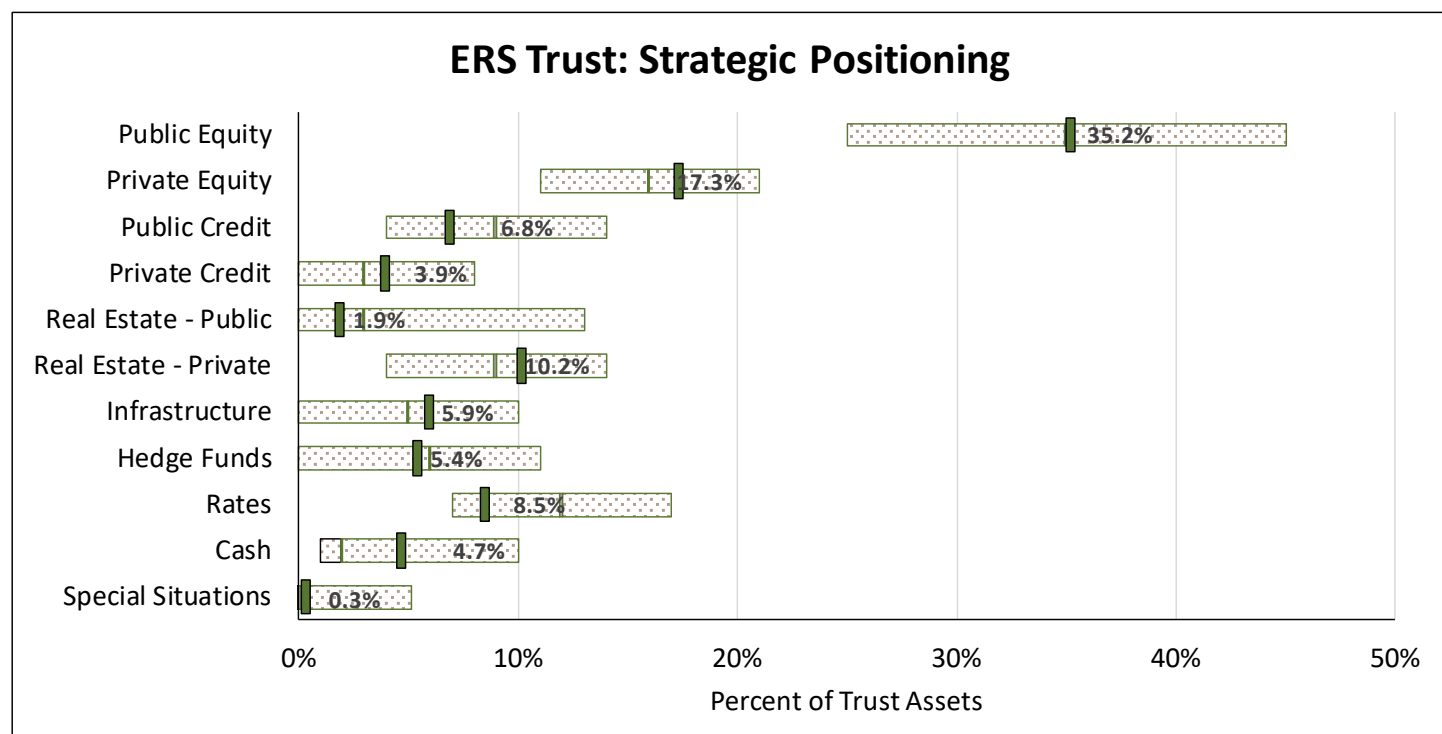
Asset Class Returns	% of Trust	February 2024	Fiscal Year 2024
Rates	8.5%	-1.0%	2.3%
Hedge Funds	5.4%	0.7%	2.1%
Special Situations	0.3%	5.3%	13.4%
Cash	4.7%	0.4%	2.7%
<b>RISK REDUCING ASSETS</b>	<b>18.9%</b>	<b>-0.1%</b>	<b>2.4%</b>

As 2024 unfolds, mixed signals from inflation readings and economic indicators have raised questions about the timing of the Federal Reserve's interest rate cuts that are expected by financial markets. However, 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, Public Equity and private market investments including Private Equity, Private Credit, Private Real Estate, and Infrastructure. Relative underweights came primarily from 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 \$103 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 \$1.03 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	February 2024 (\$M)	Fiscal Year 2024 (\$M)	One Year (\$M)
Contributions	127	729	1,402
Distributions	119	898	1,789
Benefit Payments	(256)	(1,477)	(2,917)
Capital Calls	(92)	(787)	(1,348)
Legacy Payments	0	1,381	2,447
<b>TOTAL</b>	<b>(103)</b>	<b>790</b>	<b>1,412</b>

Trust liquidity remains healthy with a 13.1% 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 February 2024

Asset Class	# of Investments	Commitments (\$M)	Other Actions
Private Equity	3	97	0
Private Credit	0	0	0
Hedge Funds	0	0	0
Private Real Estate	0	0	0
Infrastructure	0	0	0
Special Situations	0	0	0
<b>TOTAL</b>	<b>3</b>	<b>97</b>	<b>0</b>

For the fiscal year to date, there have been nineteen commitments totaling around \$698 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	14	488	450-750
Private Credit	1	75	100-150

<b>Hedge Funds</b>	3	85	N/A
<b>Private Real Estate</b>	1	50	150-450
<b>Infrastructure</b>	0	0	150-250
<b>Special Situations</b>	0	0	N/A
<b>TOTAL</b>	19	698	900-1500

Trading desk activity was also robust during the month, with around 34.3 million shares totaling \$937 million in value routed through the desk.

Exhibit 9. Trading Desk Activity for February 2024

<b>Portfolio Type</b>	<b>Shares Feb '24</b>	<b>Value Feb '24</b>	<b>Shares FYTD</b>	<b>Value FYTD</b>
<b>Internally Managed</b>	34 million	\$932 million	193.4 million	\$4,379 million
<b>Externally Advised</b>	0.3 million	\$5 million	4.8 million	\$125 million

## Long-Term Performance

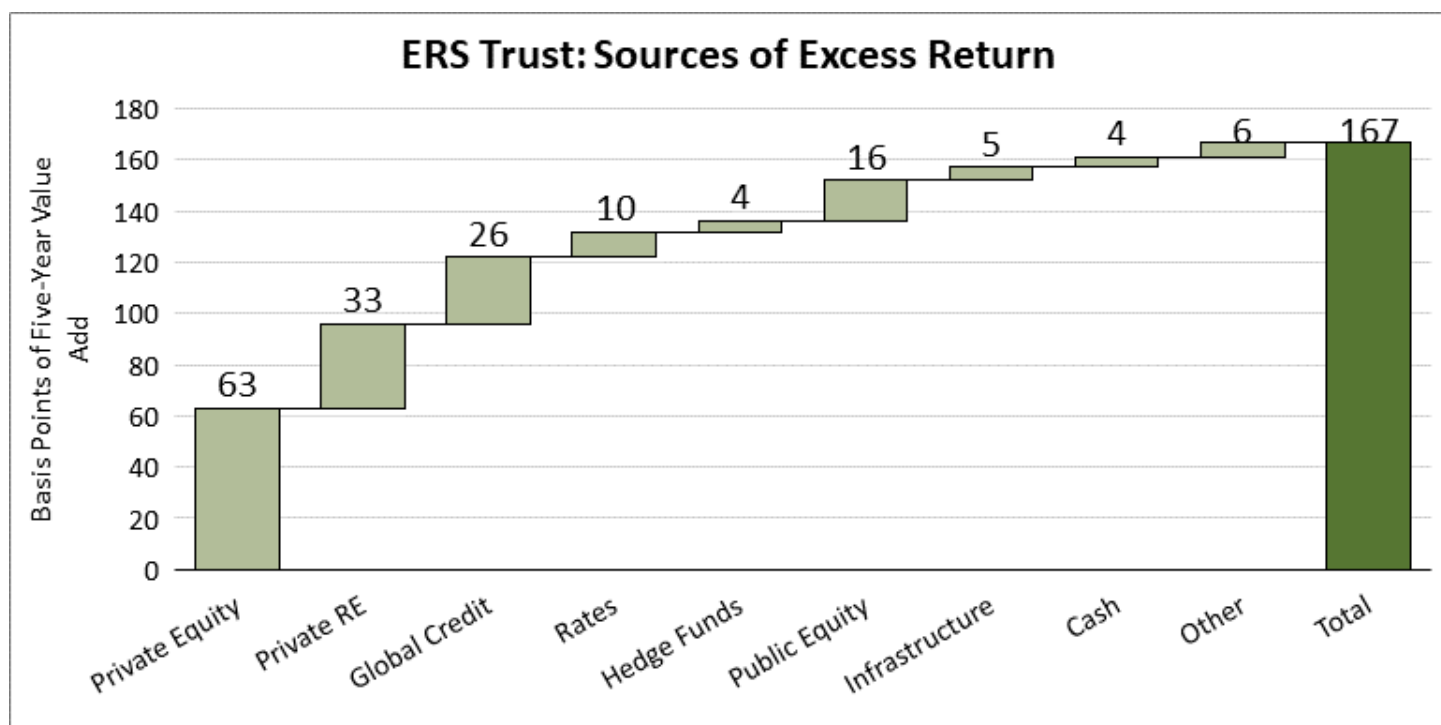
The performance of the Trust remains well above the Policy Benchmark across all time horizons and represents significant value added from investment implementation. Staff believes that such high levels are among the best performance in the history of the ERS Trust.

Exhibit 10. Investment Returns of ERS Trust

	<b>3 years</b>	<b>5 years</b>	<b>10 years</b>
<b>ERS Trust</b>	8.2%	9.1%	7.7%
<b>Policy Benchmark</b>	5.6%	7.4%	6.7%
<b>Passive Index</b>	4.7%	8.5%	6.9%

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
<b>ERS Trust</b>	6.8%	7.7%	6.7%
<b>Policy Benchmark</b>	7.5%	8.2%	7.4%
<b>Passive Index</b>	13.7%	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	0.83	0.92	0.94
Policy Benchmark	0.42	0.66	0.73
Passive Index	0.16	0.45	0.46