

House Committee on Pensions

Update on Investment Program

April 13, 2016

Porter Wilson

Executive Director



ERS' Fiduciary Duty



Texas Constitution

Article XVI, Section 67 of the Texas Constitution

“The assets of a system are held in trust for the benefit of members and may not be diverted.”

ERS Investment Policy

ERS has a fiduciary obligation pursuant to the Texas Constitution, state law and ERS Investment Policy to invest trust assets for the exclusive benefit of the plan beneficiaries.

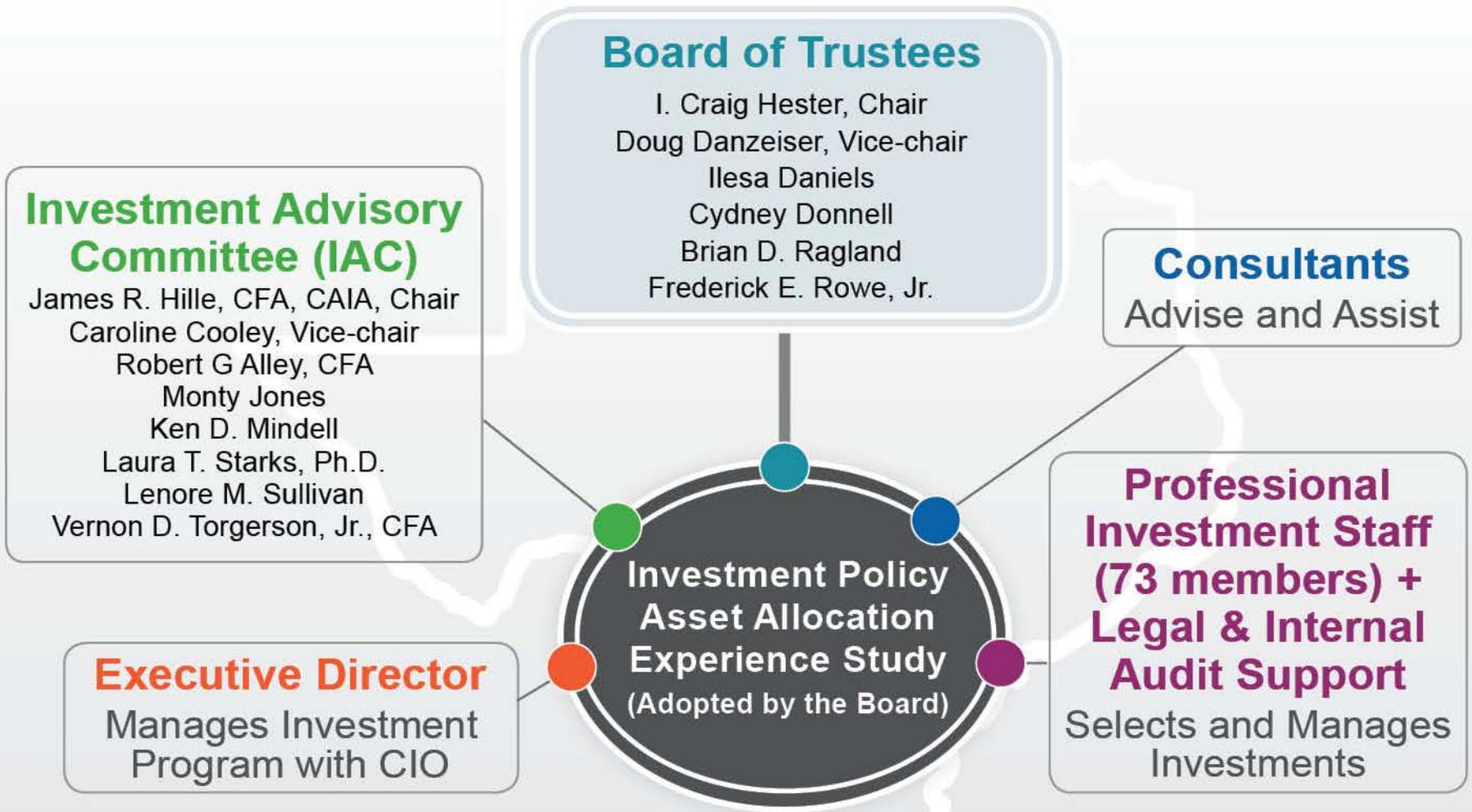
This fiduciary responsibility does not allow investment decisions to be made on non-economic considerations.

State Law

Tex. Gov't Code Section 815.103

“The [ERS] board of trustees shall hold all retirement system assets in trust for the exclusive benefit of the members and annuitants of the system and administer all operations funded by trust assets for the same purpose.

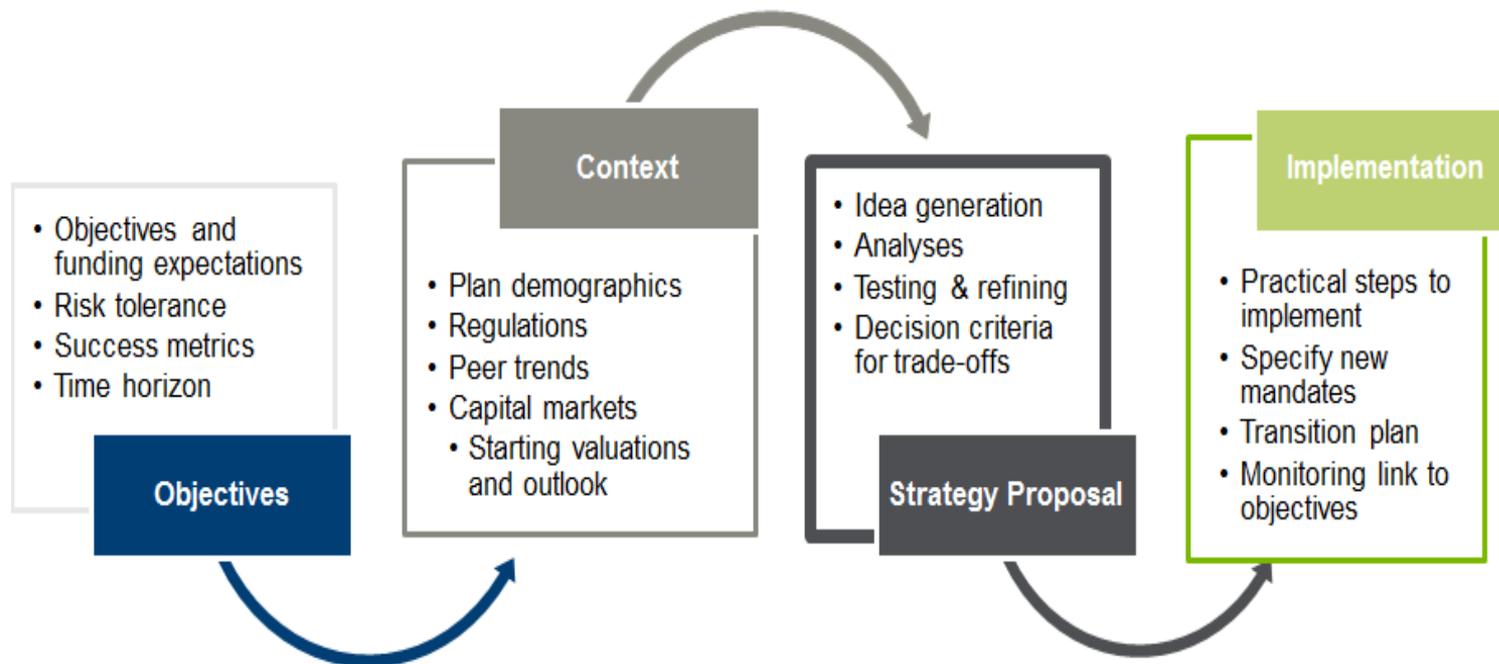
Investment Structure Supports Fiduciary Role



Setting the Asset Allocation

Asset Liability Process

The Asset Liability process is the main driver for setting long-term policy allocations for public pension plans



Strategic Review of Plan Experience

2017-18 Pension Experience Study



The study may affect funding status if assumptions change. Assumptions reviewed include:

Demographic	Economic	Other
Mortality	Inflation	Administrative expenses
Retirement	Real rate of return	Account refund/withdrawal upon termination
Termination	Salary increases	Payment option elections
Disability	Payroll growth	
Service credit		

In addition, an experience study provides an opportunity to review any current methodologies, such as the actuarial cost method and the asset smoothing method.

Asset Allocation / Pension Experience Study Timeline

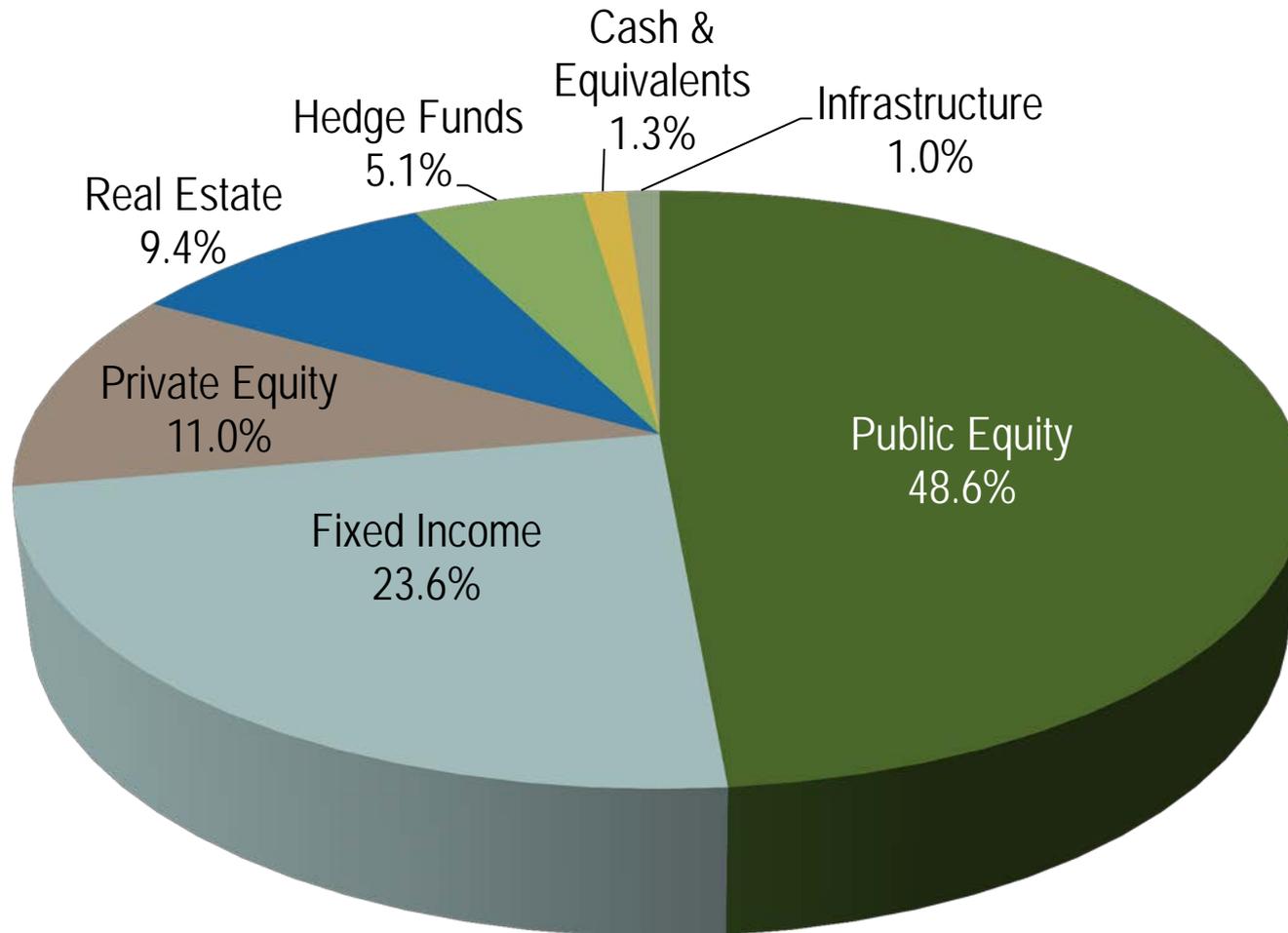


Asset Liability Study	Dates	Pension Experience Study
Board education and review of current market assumptions	February – December 2016	
Orientation and distribution of risk survey to ERS Board of Trustees (Board) and Investment Advisory Committee (IAC)	August - October 2016	
Presentation of risk survey results to Board/IAC	December 2016	Actuary will provide inputs or data to Plan Consultant
Board meeting presentation to cover Asset Allocation Process	February 2017	
Board Working Session #1	May 2017	
	June 2017	Actuary begins primary work on experience study
Board Working Session #2 Board Working Session #3	August-December 2017	Background or preliminary results presentations as needed
Present Asset Allocation and Investment Policy Changes for Board/IAC Adoption	February 2018	Present Pension Experience Study for Board Adoption

Asset Allocation Across Investment Classes



Total Fund Amount: \$25.2 billion*



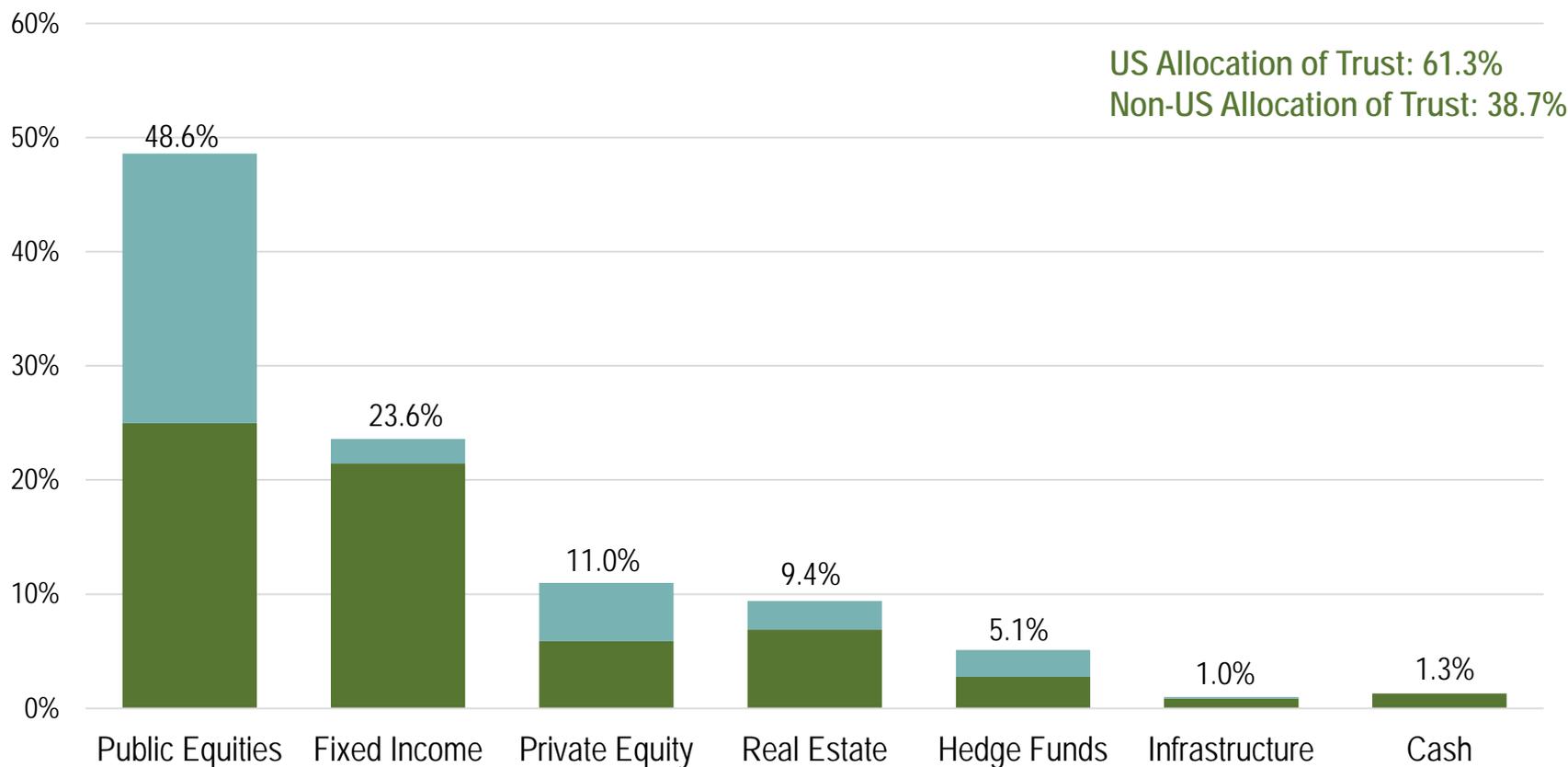
*Fund amount and asset allocation are as of August 31, 2015.

ERS Asset Allocation by US & Non-US



Asset Allocation as of 8/31/15

■ Non-US ■ US

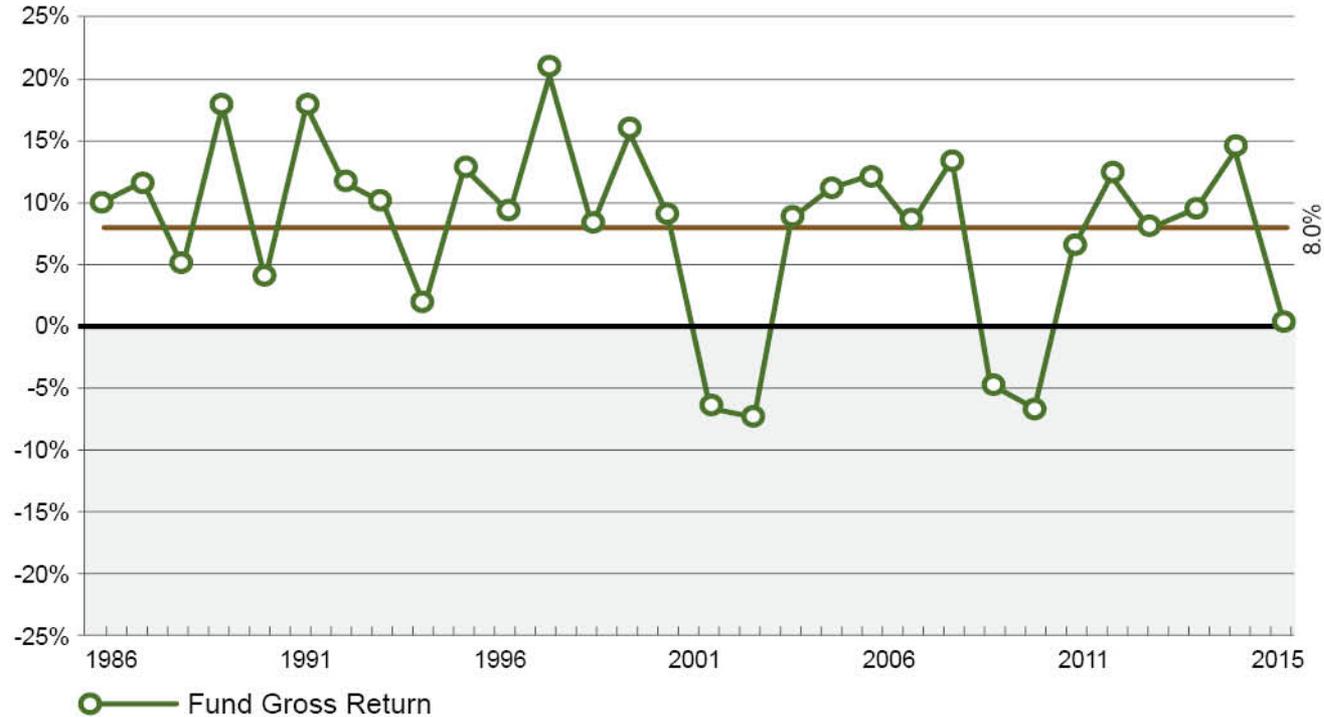


Investment Performance*

Long-term focus and recent returns

Trust Fund Investment Performance (Gross)

30-year	25-year	10-year	5-year	3-year	1-year
8.29%	7.93%	6.18%	9.10%	8.26%	0.49%



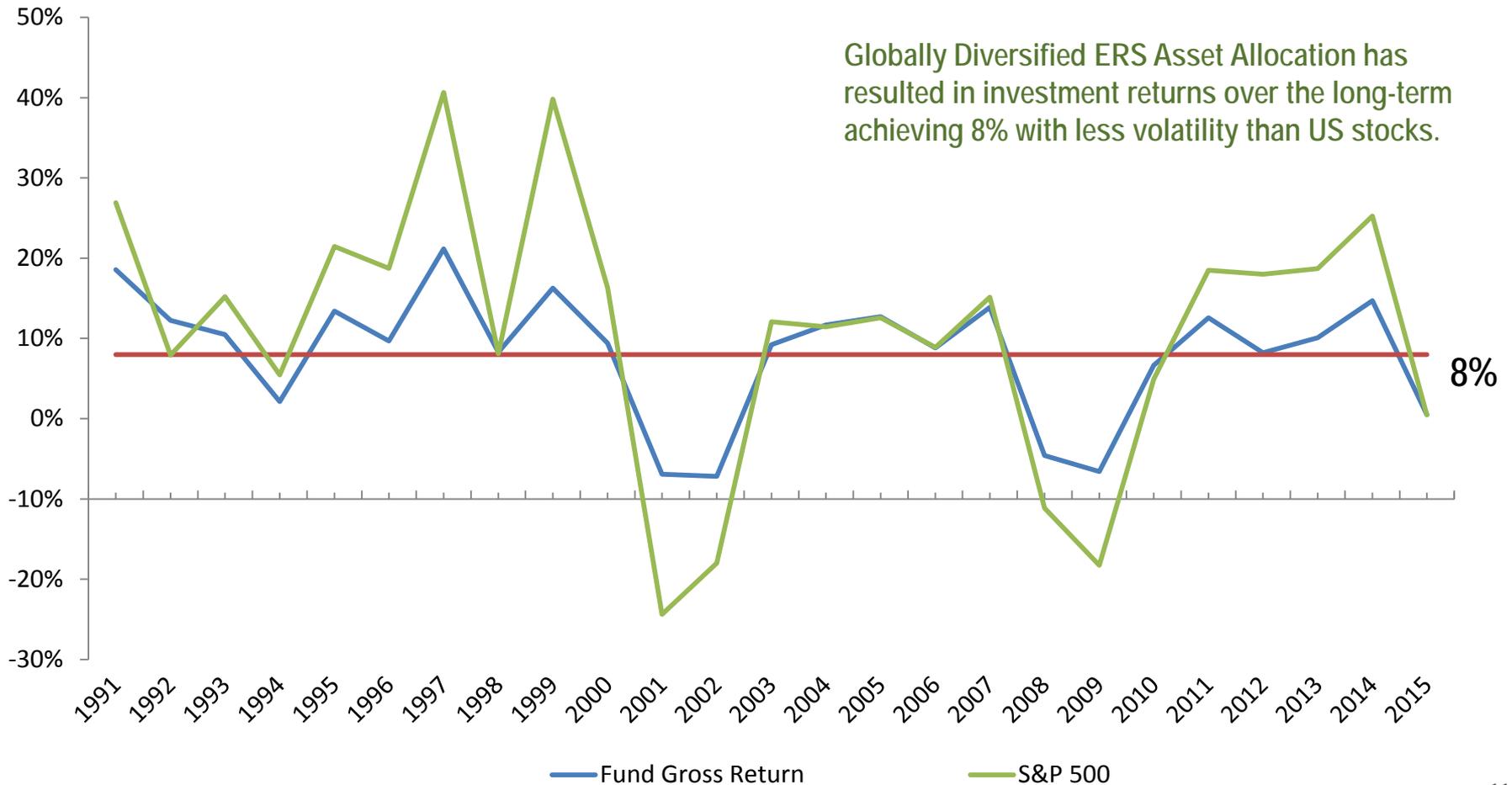
**As of August 31, 2015*

ERS Gross Investment Return

Compared to US Stock Market (S&P 500 Index)



25 Year Gross Investment Return



2016 Global Market Risks / Risk Mitigators



ERS Risk Mitigators

ERS Mitigates Market Risks with Asset Class and Geographic Diversification



Dedicated Team to Analyze Risk & Evaluate Investment Opportunities

Geopolitical Risks



China, Collapse in Commodity Prices,
Global Central Bank Policies



Tightening of Global Markets resulting from US Dollar
Strength, Pending Fed Rate Increase and Inflation
Concerns

2016 Global Market Risks

Investment Prohibitions

Iran / Sudan



Tex. Gov't Code Ch. 806
List Provided by Comptroller
(Sudan List)

Tex. Gov't Code Ch. 807 *List Provided*
by Pension Review Board
(Iran List)

ERS Socially Constrained Investment Program Procedures
(Addendum XIV of the ERS Investment Policy)

1. *ERS has no investments in companies from either the Iran or Sudan Lists*
2. *ERS policy is to not support terrorist activities*
3. *All aspects of these procedures comply with the ERS Investment Policy and Texas Constitution, including ERS fiduciary duty*
4. *ERS reports any holdings to the lieutenant governor, attorney general and the presiding officer of each house of the legislature*