COAERS
CITY OF AUSTIN
EMPLOYEES' RETIREMENT SYSTEM

Board Approved Policy

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Signature of Chairperson: ______________________

Yuejiao Liu

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December 17, 2024

Investment Policy Statement (IPS)

for

City of Austin Employees' Retirement System (COAERS)

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for

City of Austin Employees' Retirement System (COAERS)

I. STATEMENT OF POLICY

Purpose and Scope

This document is the official Investment Policy of the City of Austin Employees' Retirement System (the "System"). The policies in this document (the "Policy") have been adopted by the Board of Trustees of the System (the "Board") to establish the objectives and policies of the System's investment program. This document also articulates the policies and guidelines and procedures that are employed in the day-to-day management of System investments by Staff. No responsible party shall deviate from the terms and requirements of this policy without the prior authorization of the Board.

The purpose of the Investment Policy Statement is to assist the Board in effectively supervising, monitoring, and evaluating the investment of the System's assets by:

- Stating the System's Investment Beliefs
- Establishing the investment goals, objectives, and risk tolerance of the System
- Defining asset class allocations, targets, and ranges
- Creating oversight standards for policy implementation
- Setting performance objectives and measurement criteria

Investment Beliefs

Time Horizon - The Fund is a permanent entity with long-lived liabilities and, as such, it should strive to be a thoughtful, analytical, and patient investor that is focused on achieving successful outcomes.

Governance - Clear governance and decision-making structures that promote decisiveness, simplicity, efficiency, and accountability are effective and add value to the Fund. To the extent possible, investment decision-making should be driven by data and analysis, including the findings of relevant research on financial markets and investment management.

Risk Compensation - The Fund should seek to be well compensated for the investment risks it chooses to bear, risks that should be articulated at the time of investment and revisited regularly.

Risk Management - Risk is multi-faceted, and the appropriate level of the COAERS' portfolio risk is determined within an asset-liability context that focuses on maintaining the viability of the System.

Diversification - Diversification across asset classes and risk factors is central to the System's investment strategy, and investments that may improve the Fund's risk/return profile will be considered. Investments should be considered based on their primary role in the total Fund context, including their impact on total Fund diversification.

Strategic vs. Tactical - Given the long-term nature of the liabilities, the Fund should be a thoughtful and patient investor that focuses on long-term strategic decisions as opposed to the short-term trading of strategies.

Costs - Costs can significantly reduce net returns and therefore must be carefully measured and managed when making decisions regarding investment strategy and implementation.

Implementation - Implementation should occur passively and in public markets unless a high likelihood of success on a risk-adjusted, net-of-fees basis can be expected from other approaches.

Investment Goals & Objectives

The sole purpose of the System's investment fund ("the Fund") is to accumulate the financial reserves necessary to provide benefits to eligible members of the System and their beneficiaries. The long-term primary objective for the Fund is to attain a high level of return within an acceptable level of risk.

The Fund will pursue achievement of this goal via fiduciary best practices that:

- Ensure proper diversification of asset classes and factor exposures; and
- Maintain appropriate long-term risk and return expectations; and
- Adapt the Fund to changing market conditions, when appropriate.

The Board, with consultation, advice and assistance from the System's Investment Consultant(s) and Staff, will use the Fund's strategic asset allocation process and its effective implementation as the primary tools to achieve these goals. A primary emphasis of the management of the Fund is consistency of growth by seeking to balance the risk of inadequate long-term returns against the risk of permanent impairment of capital. Taxes shall not be a consideration except that the System's tax-exempt status should be preserved.

II. INVESTMENT POLICY IMPLEMENTATION

Investment Horizon

The Board will periodically review the portfolio's alignment with the fund's pension liabilities. The investment policy and guidelines are based on an investment horizon of 20 years. The Board will consider both intermediate-term and longer-term investment return horizons in formulating expected returns and assessing portfolio risk parameters. The System's strategic asset allocation is based on this longer-term perspective. Fluctuations of investment results in the interim should be viewed with an appropriate perspective.

Performance Goals

The expected and actual investment returns of the total Fund will depend on the asset allocation targets, the mix of investment styles within asset classes, and individual manager performance. Therefore, performance goals have been set at three levels: total Fund, asset class, and individual portfolios. These performance objectives should generally be monitored over both a full market cycle and rolling 5-year periods on a risk-adjusted, net of fees basis.

Total Fund:

- Meet or exceed the actuarial assumed rate of return. Annualized investment returns should exceed the actuarial assumed rate of return.
- Meet or exceed the Passive benchmark. Annualized investment returns should exceed the passive benchmark. The passive benchmark is intended to reflect a balanced portfolio of stocks and bonds implemented via low-cost passive investable

indices. Outperformance relative to the passive benchmark should indicate that the diversification decisions through the Strategic Asset Allocation process have successfully added value.

- Meet or exceed the Policy benchmark. Annualized investment returns should exceed the Policy benchmark. The Policy benchmark is a composite of the benchmarks of the asset classes in the Strategic Asset Allocation. Returns in excess of the Policy benchmark should indicate that the implementation of the investment program as a whole is successfully adding value.

  Composition of the Passive and Policy benchmarks are detailed in Appendix 2.

Asset Class:

- Meet or exceed the asset class benchmark. Each asset class is to be benchmarked by an associated index that describes, in general terms, the opportunity set and return characteristics associated with the asset class. For certain private or more complex asset classes the index should serve as a proxy for expected returns rather than an approximation of the actual investments that will characterize that component of the portfolio.

  Asset class benchmarks are detailed in Appendix 2.

Individual Portfolios:

- Meet or exceed the mandate benchmark. Performance objectives for manager portfolios are stated in the respective investment manager agreements. Manager benchmarks will be determined by Consultant and Staff based upon the investment mandate.
- Meet or exceed median ranking in relevant peer group. Appropriate peer groups will be determined by Consultant and Staff based upon the investment mandate.

Risk Tolerance and Budgeting

The Board takes several steps throughout the investment process to identify, measure, and report on investment risk at a variety of different levels. Investment opportunities in various asset classes have differing risk and return expectations. In general, investments with higher expected returns involve a higher level of risk. The Board recognizes that some level of risk must be assumed to achieve the System's long-term investment objectives. The Board will attempt to achieve its investment return objective with an appropriate level of risk using an efficient combination of investments.

The Strategic Asset Allocation process uses risk budgeting for the Fund which provides a transparent, measurable methodology for allocating risk to various investment types in pursuit of the System's investment objectives. To ensure that the risk assumed by the Fund continues to be appropriate it will be reviewed at least annually, concurrently with an asset allocation study. A more in-depth review will be done at least every five years and coincide with the formal Asset/Liability Study. These processes should incorporate a variety of risk estimates that go beyond simple volatility measures.

Liquidity Needs

Sufficient liquidity must be maintained to pay benefits and expenses. The 2023 Asset-Liability Study indicated sufficient liquidity to invest a reasonable portion of the portfolio in illiquid investments. The liquidity horizon shall be reviewed periodically, including time(s) when asset allocations and expected return projections are revised.

Strategic Asset Allocation

The Board, with advice from Investment Consultant(s) and Investment Staff, is responsible for establishing the Strategic Asset Allocation ("SAA") process and parameters for the Fund. SAA refers to the establishment of neutral weights and suitable ranges for the appropriate asset types that determine the distribution of investments within the Fund. The SAA process will seek to optimize expected return net of fees for the Fund within the established risk budget over a long-term horizon by maintaining a highly efficient portfolio.

The current Strategic Asset Allocation targets and ranges are detailed in Appendix 1. Since the Fund is designed to benefit both current and future generations of beneficiaries, its time horizon is long. More specifically, the Board should calibrate the SAA process toward the aim of meeting the System's investment objectives and risk budget over a time horizon of twenty years or more. However, since the benefit payment obligations of the System must be met on a timely and regular basis, cash flow considerations (including the potential for a sustained period of net outflows) will generally be balanced with the long-term liability stream when setting the SAA parameters and the associated risk budget.

Asset Liability Study

At least every five years (or more frequently if warranted by a material event in either the liability structure of the Fund, the contribution policy, and/or the capital markets) the Board will conduct a formal Asset/Liability Study to review asset classes, risk-return assumptions, and correlation of returns, and implementation styles in light of the System's expected liability stream. These periodic studies will provide the primary basis for material changes to the Fund's strategic asset allocation parameters and overall risk posturing.

Rebalancing

The Board has chosen to adopt a rebalancing policy that allows rebalancing the Fund between major asset classes due to market drift. Market movements and cash draws for benefit payments may cause current Fund positioning to drift away from neutral positioning and potentially beyond the prescribed ranges in the Strategic Asset Allocation.

When a month end Custodian report shows that an asset class has drifted beyond these prescribed ranges, rebalancing shall be enacted to bring Fund positioning within the prescribed ranges while following the guidelines below. To the extent there is not sufficient liquidity to do so, such as in private market strategies, or it is otherwise not prudent to do so, Staff shall report this and any recommended actions to the Investment Committee at its next scheduled meeting.

Investment Staff is also authorized to rebalance the portfolio within the policy ranges for market drift between asset classes. Such rebalancing is only permissible to the extent that it results in positioning which is nearer to neutral and does not change positioning from an underweight to an overweight, or vice versa.

Investment Staff is responsible for developing and overseeing all portfolio rebalancing activities and is authorized to carry out these activities in accordance with this section. The Executive Director and the General Consultant shall consent in writing to Investment Staff's proposed rebalancing prior to any action taking place. All rebalancing activities permitted by this section must be authorized by the Executive Director in the form of approved instructions to the investment manager(s) and/or custodial bank.

In all cases the potential benefits of rebalancing must be weighed against the costs, including explicit transaction costs such as commissions and market impact as well as opportunity costs such as Staff time and focus. Investment Staff will report the results of rebalancing activity to the Executive Director and Investment Consultant upon completion of the rebalance. The Board shall be notified of any such changes (1) by email within one business day of initiating the rebalancing with the Custodian and/or Manager(s) and (2) in writing at the next meeting of the Investment Committee.

Phased Transitions

During times of phased transition to a new set of Strategic Asset Allocation parameters, interim rebalancing weights and procedures may be chosen until the implementation of the new parameters can be prudently completed. During the transition towards the new parameters, certain asset classes may exceed prescribed limits and will serve as either a funding source for new strategies or portfolios, or as a proxy pending implementation of certain allocations.

Currently approved phased transition guidelines adopted by the Board, if any, can be found in Appendix 4.

Investment Manager Selection

The Board, acting through its Investment Committee and with advice from its Investment Consultant(s) and Investment Staff, hires Managers to carry out its duties to implement the System's investment program. Implementation decisions should be made with particular attention to the Board's stated Investment Beliefs regarding the potential benefits of diversification and the impact of costs.

The Board supports disciplined and rigorous processes for selection, monitoring, and retention of Investment Managers. This process shall include, among other items as appropriate, mandate specification, initial diligence, onsite diligence visits, due diligence questionnaires, finalist evaluation, and approval by the Investment Committee and Board. This disciplined process shall consider both quantitative and qualitative measurements to determine whether an Investment Manager is likely to maintain a consistent philosophy and strategy, perform well on a risk-adjusted basis versus peers pursuing a similar strategy, and add value net of all costs. The Board shall maintain a Watch List for the purpose of ensuring that concerns regarding any Investment Manager with a live mandate are appropriately recognized, addressed, and resolved.

The terms, provisions, and requirements set forth in this Policy, applicable laws (which shall include US sanctions programs), relevant fund documents, and the agreement(s) executed by the Investment Manager with the System establish the requirements governing the investment of System assets.

III. INVESTMENT ROLES & RESPONSIBILITIES

The System's investments are held in trust for the exclusive benefit of its members, beneficiaries, and retirees and may not be diverted under any circumstances. This "exclusive benefit" rule shall be strictly followed when making, implementing and monitoring investment decisions. Specific care should also be taken to structure the System's investment relationships to maximize alignment of interests while mitigating conflicts of interest and agency problems.

Specific duties and responsibilities are set forth below for the parties that are established to act as fiduciaries regarding the investment program for the Fund in achieving its objectives.

Board of Trustees

The Board has the fiduciary responsibility of overseeing the management of the Fund and the associated investment process. In fulfilling this responsibility, the Board will establish, maintain, and require compliance with this policy and its stated objectives. Trustees are tasked primarily with setting the overall risk/return preferences, and weighing total portfolio return against a properly constructed policy benchmark.

Within this framework, the Board will select, retain, monitor, and evaluate the Investment Consultant(s), Investment Managers, Custodian (as defined herein), and other parties to serve the goal that actual results meet the objectives.

At its discretion, the Board may delegate authority for strategic and operational aspects of the Fund to Staff and Consultant(s), though it may not delegate overall responsibility for the program.

Investment Committee

The Investment Committee is chartered to assist the Board of Trustees in fulfilling its fiduciary oversight responsibility for the management of the System's investments. Duties of the Investment Committee may include, but are not limited to:

- formulating and recommending to the Board the overall investment policies of the System,
- establishing and recommending to the Board investment guidelines in furtherance of those policies, all of which shall be subject to approval by the Board,
- monitoring investment performance relative to the strategic objectives and compliance with relevant investment risk guidelines set forth in policy,
- recommending to the Board service providers for professional services for investment management, investment consulting, and custodial banking, and
- monitoring the management of the Fund for compliance with relevant investment policies and guidelines.

Professional Staff

The Executive Director, the Chief Investment Officer, the Chief Financial Officer, and other Investment Staff will constitute the System's Professional Staff ("Staff"). Staff is responsible for rendering to the Board objective, competent, professional investment advice that is free from conflicts of interest. Staff will make recommendations to the Board regarding the Fund and will be responsible for implementing both Board decisions and applicable portions of this policy.

Investment Staff

Investment Staff is hired by the Executive Director and required by the Board to provide professional investment analysis and support, to exercise a standard of care consistent with fiduciary duty, and to maintain the integrity of the investment program. Investment Staff support the investment program at the strategic and operational levels through the establishment of appropriate policies and procedures. Investment Staff is also responsible for implementation and maintenance of analytical tools to measure and monitor risk as further described in this policy and internal procedures.

Investment Staff will advise the Board regarding the development of this policy and its implementation and aid in selection and monitoring of all Managers, Consultants, Custodians and other service providers related to the investment function.

Investment Consultant(s)

The Board may obtain the services of one or more qualified firms or individuals to assist and advise the Board and Staff regarding the structure, strategy, management, and investment of the Fund (a "General Investment Consultant"). The General Investment Consultant is hired by, and reports to, the Board to render objective, competent, professional advice and assistance that is free from conflicts of interest and to work with the Board and Staff regarding the investment process. This responsibility includes meeting regularly with the Board to provide perspective on the Fund's goals, strategy, structure, and risk as well as the progress toward fulfilling the Fund's long-term objectives.

The General Investment Consultant will advise, consult and work with the Board, Investment Committee and Investment Staff to develop and maintain a well-diversified portfolio of investments for the Fund. Fund positioning and performance will be reviewed regularly, and recommendations will be made as appropriate. The General Investment Consultant will assist the Board with all functions related to the investment of Trust assets and will inform the Board promptly of material changes to portfolio investments. Within this process, a General Investment Consultant assumes fiduciary responsibility for advice given regarding the management of the investment process. A General Investment Consultant will perform its duties and obligations in conformance with generally accepted industry standards and its contract with the System.

The Board may also hire one or more qualified firms or individuals to assist and advise the Board regarding specialized mandates such as selection of managers and/or investments (a "Specialized Investment Consultant"). The Specialized Investment Consultants are hired by, and report to, the Board to work closely with Staff in all aspects of managing the specialized investment portfolio including its relationship to the Fund as a whole.

It is imperative that Consultants maintain their independence in advising the Board. Consultants have the responsibility to promptly inform the Board in the event of any concerns related to investment activity. If any Consultant learns of a material issue regarding deviation from prudence, objectivity, policy or parameter adherence or any other matter of concern involving the investment program, the Consultant has a fiduciary duty to express that concern in writing to the Executive Director and CIO, Board Chair, and Investment Committee Chair while also recommending any action to be taken as deemed necessary. The Consultant shall also contact the full Board if it concludes that further immediate action is required and is beyond the authority granted to the Executive Director or

Investment Staff. In any event, all such material matters will be reported to the Board at its next scheduled meeting.

Investment Managers

Except for direct investments, investments for the Fund shall be made and managed by one or more investment managers ("Managers") who meet the requirements of Sections 802.203(d) and 802.204, Texas Government Code. Managers will construct and manage a portfolio of investments (the "Portfolio") consistent with the investment philosophy and strategy they are hired to implement in compliance with this policy and/or any agreement(s) they execute with the System. Investment Managers shall provide quarterly reporting in a format as requested by Investment Staff.

Legal Counsel

The Board may retain one or more attorneys and/or law firms to serve as investment counsel for the purpose of assisting the Executive Director and investment staff with legal matters related to the investment operations of the System. Such matters may include the review and negotiation of contracts and other investment documentation related to external investment service providers or investment managers and handling any litigation related to investment operations.

Custodian(s)

Custodian bank(s) ("Custodian" or "Custodians") will maintain custody of the cash, securities, commingled funds and other investments of the Fund. The Custodian(s) will be responsible for safekeeping, clearing and settling securities as appropriate for the accounts they are assigned. The Custodian(s) will regularly value, list and summarize these holdings for review by the Board, Staff and Consultant(s). In addition, a bank or trust depository arrangement with the Custodian(s) may be utilized to invest cash in liquid, interest-bearing instruments.

A Master Custodian will be designated to accurately record all transactions affecting the Fund. The audited entries from the Master Custodian shall constitute the official book of record for the Fund. All Custodians will be directed to provide timely and accurate information to the Master Custodian.

IV. FIDUCIARY CONDUCT

An investment fiduciary includes, but is not limited to, a person who exercises discretionary authority or control in the investment of the assets of the Fund or who renders, for a fee, advice for the Fund. The term investment fiduciary includes but is not limited to the members of the Board, the Fund Administrator, the investment staff, the investment consultants, and investment managers. An investment fiduciary shall discharge his or her duties exclusively in the interest of the participants in the System and their beneficiaries in accordance with the fiduciary standards set forth in Section 802.203 of the Texas Government Code and other applicable law.

In adopting this Policy, the Board requires all Trustees, Investment Consultants, and Staff involved in the investment of Fund assets to make all investment decisions in the best interest of the System and to abide by the System's Ethics Policy.

V. OPERATIONAL GUIDELINES

Asset Class Guidelines

To ensure that the Strategic Asset Allocation is implemented in a way that broadly represents the risk/return profile and exposures desired by the Board, guidelines for each major asset class have been adopted in Appendix 3. These guidelines lay out the broad-based guidelines that Investment Staff and Investment Consultant(s) shall follow in implementing these strategies and in making recommendations to the Investment Committee and/or Board.

In addition to these guidelines, Investment Consultant(s) and Investment Staff shall adopt internal guidelines and/or policies to oversee the implementation of each asset class. These guidelines should, where appropriate, include considerations for absolute and relative risks, desired exposures, liquidity, leverage, diversification, counterparties, and fees, among other items.

Private Markets Specific Guidelines

Given the unique characteristics of private markets strategies, the Board has adopted a Private Markets Strategic Plan to govern the selection, monitoring, performance reporting and guidelines of these strategies. The Private Markets Strategic Plan, which is incorporated into the Investment Policy Statement here by reference, shall be reviewed annually for appropriateness and shall also include a pacing plan to guide allocation decisions.

Use of Derivatives

The only authorized uses of derivative instruments are to efficiently manage portfolios and risk and to implement investment strategies authorized by this Policy more effectively. The following derivative instruments are allowable: futures, forwards, swaps, structured notes, and options. Managers may only engage in derivatives transactions that are consistent with their investment guidelines as well as applicable laws and regulations.

Cash Management

As a mature pension plan, cash disbursements of the System are expected to exceed cash receipts for the medium term. As such, sufficient funds must be made available for transfer from the System's investments to meet the operating needs of the System. On at least a quarterly basis, Staff will project the cash flow needs of the System based on the amount budgeted for administrative expenses and projected benefit payments, including retiree payroll. Cash draws should generally be made from asset classes and individual portfolios that are overweight relative to their strategic neutral weight, with those funds then transferred to the System's cash account at the Custodian Bank. Each quarter Staff will provide to the Board via the Investment Committee a report detailing all cash movements from the prior quarter that are related to investment program operations.

Securities Lending

The Board may select a Securities Lending Agent(s) to generate incremental income by making term loans of eligible securities. Any such program shall not inhibit the trading activities of Managers and should not run counter to the investment strategy of the Fund overall.

Securities Litigation

As a large institutional investor, the Fund frequently holds securities that are the subject of individual and class action securities litigation. The Custodian and other parties (the "Claims Processor") may be appointed by the Board to monitor such lawsuits, report to the Executive Director and Investment Staff, and file notice of claim or other necessary documentation. The Claims Processor shall notify Managers of any potential or pending legal action.

In its role as a fiduciary, the Board may, with the advice and assistance of the System's General Counsel, determine that the Fund should pursue litigation where it has been harmed due to securities fraud or other bad acts. The Board has set a "Threshold Value" to determine when the estimated financial loss to the System may warrant pursuing lead plaintiff status in a class action or separate prosecution of claims. The Threshold Value is defined as an estimated financial loss that exceeds 0.03% of Fund assets as of the most recent quarter end. In most cases, the Funds' interest in securities litigation claims will be adequately addressed solely through participation as a class member, rather than taking a lead plaintiff role in such litigation.

Proxy Voting

Proxy voting is generally delegated to Investment Managers and will be authorized via the Manager's contract to represent COAERS prudently on issues of corporate governance regarding the portfolio. Records of proxy votes will be maintained by the Managers and submitted to Investment Staff on request or at specified intervals. In representing the System, external managers and proxy voting agents are to consider only those pecuniary factors that relate to the economic value of System investments and are not to subordinate the interests of the System's participants and beneficiaries to unrelated objectives. Investment Staff will provide a proxy voting summary report for separately managed accounts to the Executive Director, on an annual basis as soon as practical after fiscal year-end.

VI. REPORTING, EVALUATION AND REVIEW

Performance

Regular performance evaluation of the Fund by the Board is designed to monitor the effectiveness of the investment process in meeting the long-term objectives of the System. The purpose is to test the continued validity of the associated decisions and to prompt a review of underperformance or excessive risk. All performance measurement should be based on total returns, net of fees, adjusted for risk, as measured over a sufficient time period to reflect the benefits of any active decisions (typically a minimum of three years and preferably over five or more years and/or a full market cycle).

The General Investment Consultant shall provide to the Board via the Investment Committee a written summary of the Fund's performance each quarter. This report shall include a comparison to performance goals as well as the investment performance ranking of other appropriate peer group(s). The Consultant will conduct an in-depth performance attribution analysis, which will quantify the extent to which specific allocations, strategies, and/or managers added or detracted from overall Fund performance.

Risk

At least annually, Investment Consultant(s) and Investment Staff shall collaboratively provide a risk report to the Board via the Investment Committee. This report shall contain a variety of risk reporting items and should describe context for whether the risks taken by the Fund were appropriate in measure and compensation.

Items included in this report shall be both backwards looking (ex-post) and forward looking (ex-ante), where possible. At a minimum, this report should include volatility, tracking error, value at risk, correlations, beta, Sharpe Ratio, Information Ratio, portfolio characteristics and contribution to risk at the Total Fund and asset class levels.

VII. INTERPRETATION, REVIEW AND REVISION OF POLICY

It is intended that this policy and all addenda hereto be construed and administered such that they comply with all applicable federal and state laws and regulations, as such may be amended from time to time to reflect best practices for prudent investors. The Executive Director is authorized to approve variances from the policies set forth herein in furtherance of such compliance. The Executive Director is also authorized to update this policy for strictly administrative items subject to approval by the General Counsel. Any variance approved for compliance with law shall be approved by General Counsel, Investment Counsel, or Tax Counsel as appropriate. The Executive Director shall report any such variances or updates to the Board at its next meeting via the Investment Committee.

All previous System investment policies and objectives are superseded by this document. The Board will formally review this Policy at least annually to determine whether it remains appropriate in light of the Board's investment philosophy and objectives. This document will also be reviewed periodically and updated as necessary to reflect changes in the capital markets and to reflect best industry practices for prudent investors. Any revisions to this document will be promptly supplied to the appropriate parties in written form.

APPENDICES

1. Strategic Asset Allocation

Asset Class	Minimum	Neutral	Maximum
Global Equities	38%	45%	52%
Private Equity	5%	8%	10%
Real Assets	12%	15%	19%
Private Credit	7%	10%	13%
Fixed Income	18%	21%	28%
Cash & Equivalents	0%	1%	10%

2. Benchmarks

Policy Benchmark

The Policy benchmark is a blended benchmark consisting of Asset Class benchmarks held at neutral Strategic Asset Allocation weights.

Passive Benchmark

Asset Class	Benchmark	Weight
Global Equities	MSCI ACWI IMI Net Index	60%
Global Fixed Income	Bloomberg Global Aggregate Bond Index	40%

Asset Class Benchmarks

Asset Class	Benchmark
Global Equities	MSCI ACWI IMI Net Index
Private Equity	Burgiss Global PE Funds Index
Real Assets	Blended weighted average of primary composite benchmarks
Private Credit	LSTA Leveraged Loans Index +200 bps
Fixed Income	Bloomberg US Aggregate Bond Index
Cash & Equivalents	Bloomberg US Treasury Bills 1-3 Month Index

Real Assets Composite*	Benchmark
Real Estate	NCREIF ODCE Net EWA
Infrastructure	Burgiss Global Infrastructure Funds Index
Gold	Bloomberg Gold Subindex Total Return

**Real Assets composite benchmarks are given pro-rata weights based on actual allocation weights on a monthly basis.*

3. Asset Class Guidelines

Global Equities:

Region	Benchmark	Min	Neutral	Max
US Equities	MSCI USA IMI Net	-5%	Weight in ACWI IMI	+5%
DM Equities	MSCI World ex USA IMI Net	-5%	Weight in ACWI IMI	+5%
EM Equities	MSCI Emerging Markets IMI Net	-5%	Weight in ACWI IMI	+5%

Minimum and maximum ranges to be used for Market Drift rebalancing.
Percentages expressed relative to Global Equities exposure.

Fixed Income:

Fixed Income Strategy Type	Min	Max
Core Mandates	60%	100%
Plus Mandates	0%	40%

Percentages expressed relative to Fixed Income exposure.

Core mandates are those which are benchmarked to and represent the general characteristics of the Bloomberg US Aggregate Bond Index.
Plus mandates may include public markets strategies in US High Yield, Bank Loans, Emerging Market Debt, and Multi-Asset Credit.

Cash & Equivalents:

Cash Strategy Type	Min	Max
Foreign Currency Mandates	0%	25%

Percentages expressed relative to Cash & Equivalents exposure.
Minimum and maximum ranges only to be used for Market Drift rebalancing.

4. Phased Transition Guidelines

Recently the Board adopted a Strategic Asset Allocation which includes new private markets exposures in Private Equity, Private Credit, and Real Assets and eliminates exposure to Multi-Asset strategies:

Asset Class	Prior Neutral	Current Neutral	Change
Global Equities	56%	45%	-11%
Private Equity		8%	8%
Real Assets	15%	15%	
Private Credit		10%	10%
Fixed Income	21%	21%	
Cash & Equivalents	1%	1%	
Multi-Asset	7%		-7%

Given the expected time required over several years to build out these exposures, the Board has adopted the below interim guidelines for benchmarking and the Strategic Asset Allocation:

- The Policy Benchmark shall consist of the Asset Class benchmarks held at actual allocation weights, reweighted monthly, instead of the Neutral Strategic Asset Allocation weights.
- The Real Estate and Infrastructure Composites in Real Assets shall be benchmarked by the below, which consists of underlying strategy type benchmarks at actual allocation weights, reweighted monthly:

Real Estate Composite

Strategy Type	Benchmark
Private Markets	NCREIF ODCE (Net) (EWA)
Public Markets	US REITs Completion Index

Infrastructure Composite

Strategy Type	Benchmark
Private Markets	Burgiss Global Infrastructure Funds Index
Public Markets	Dow Jones Brookfield Global Infrastructure Index (Net)

- The below minimum and maximum Strategic Asset Allocation minimums and maximums shall apply:

Asset Class	Minimum	Maximum
Global Equities	38%	63%
Private Equity	0%	10%
Real Assets	12%	19%
Private Credit	0%	13%
Fixed Income	15%	28%
Cash & Equivalents	0%	10%
Multi-Asset	0%	7%

These Phased Transition guidelines shall stay in effect until such time as the Board approves their removal from this Policy.

5. <u>Other Portfolio Guidelines</u>

Except as explicitly approved by the Board the following guidelines shall apply:

- In active strategies no more than 20% of the System's investments shall be managed on a permanent basis by a single investment firm.
- The System's investments shall not permanently constitute more than 20% of any firm's assets under management within the asset class managed for the System.
- Less liquid assets, defined as those with expected liquidity of less frequent than quarterly, shall not constitute more than 40% of Fund assets
- The Fund shall not have more than 3% of its investments at market value in the securities of any one corporation
- The Fund shall not own more than 5% of any class of voting securities of any one public corporation
- The Fund shall not represent more than 20% of a single commingled investment vehicle, based on market values.
- The Custodian(s) shall maintain a credit rating of at least A+ or equivalent

City of Austin Employees' Retirement System (COAERS)

Private Credit Program Strategic Plan

March 2024

Executive Summary

In September 2023, COAERS adopted a Strategic Asset Allocation including an initial allocation to Private Credit based on the results of an Asset/Liability Study and corresponding Asset Allocation Study. These same studies indicate exposure to Private Equity should be included in future Strategic Asset Allocations and is likely to be additive to the portfolio.

This document is specific to Private Credit, and will be incorporated as an Appendix to the Investment Policy Statement. This document will be reviewed at least annually and amended from time to time as Strategic Asset Allocation decisions by the Board dictate, as investment staff refines processes and procedures, or as market dynamics dictate.

Summary of Recommendations for COAERS Long-Term Strategic Plan

- To achieve COAERS 10%[1] long-term target exposure within a range of 7% to 13% Staff and Consultant recommend reviewing and adopting the annual commitment pace, as part of COAERS Private Credit Annual Investment Plan for 2024.
- Continue to develop COAERS exposure to Private Credit.
- COAERS Staff and Consultant will continue to review and evaluate research, surveys and suggestions of best practices for the investment management and execution of the program.

The following Strategic Plan is presented to the Board for its consideration.

[1] COAERS' target allocation of 10% to Private Credit was established by the Board in September, 2023.

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I. Private Credit Program Objectives

A. Investment Objectives

COAERS objectives of the Private Credit Program are to:

1. Provide returns that exceed an appropriate publicly available benchmark
2. Diversify the Fund's sources of risk and return; and
3. Reduce Fund volatility

These objectives are reviewed annually. Specifically, the objectives are as follows:

Primary Objective*:* Provide a total return to the Fund (net of fees and carried interest) that exceeds the annual return of the Morningstar LSTA U.S. Leveraged Loan Index by 200 basis points over rolling ten-year periods and maintain a well-diversified exposure to Private Credit of 10%[2] within a range of 7% to 13%. Through the diligence process, Staff and Consultant expect to identify managers that will perform above median. Unless an investment is expected to meet or exceed this minimum return goal, it should not be considered.

Secondary Objective: To diversify the Fund by investment type and by manager to reduce manager and asset specific risk. Investments will not be undertaken to meet the secondary objective if they do not also expect to meet the primary objective.

Tertiary Objective: To reduce total portfolio volatility by investing in asset types that have a low statistical correlation with other asset classes. Investments will not be undertaken to meet the tertiary objective if they do not also expect to meet the primary and secondary objectives.

COAERS short-term investment objectives are to be outlined in the Annual Investment Plan which is prepared by COAERS Staff and Consultant and approved by the Board annually. The Annual Investment Plan outlines how the portfolio will be managed over the following calendar year in order to best comply with COAERS Private Credit long-term investment objectives.

[2] COAERS' target allocation of 10% to Private Credit was established by the Board in September, 2023.

II. Asset Allocation

A. Current Allocation

COAERS allocation to Private Credit shall remain within the limits authorized by the Board and incorporated in the Fund's Strategic Asset Allocation. The target allocation is 10% with a range of +/- 3% of the total fund (based on the net asset value of the invested portfolio). COAERS recognizes that it is necessary to make capital commitments in excess of the target allocation in order to achieve and maintain its 10% target.

An important implementation goal for the Fund is to spread out the timing of new commitments so as to avoid an undue concentration of commitments in any one calendar year. Vintage year is defined as the year in which a private market fund makes its first capital call. It is considered prudent to spread commitments over several vintage years to eliminate the risk that any single year generates poor returns across the asset class, also known as "vintage year risk". Over the long term, it is expected that the amount of new commitments added to the portfolio each calendar year will increase slightly to garner the benefits of time diversification and match the expected growth of COAERS total plan assets. As a new allocation for the fund, it will likely take several years to achieve the target allocation.

The factors that will impact COAERS exposure to the asset class and fluctuations within the range are:

- Changes in the overall assets of the pension fund
- Unrealized appreciation and depreciation of underlying holdings in the Private Credit Portfolio
- Timing of distributions and contributions in the Private Credit Portfolio
- Annual commitments within the Private Credit Portfolio

III. Portfolio Diversification

A. Diversification

A portfolio of diversified investments reduces the variability of returns that, in turn, reduces risk. Diversification in the alternative investment asset class is achieved by investing in a number of different partnerships or separately managed accounts (SMAs) with varying investment styles, each operating in a variety of industries and geographies. Further, by spreading out the commitments to Private Credit partnerships over a period of time, an investor is able to reduce the exposure to vintage year risk in the asset class.

The Portfolio's diversification will be driven by the following five events:

1) commitment pace,
2) types of investment strategies utilized,
3) pace of capital invested by the fund managers,
4) valuation changes in underlying investments, and
5) timing of exits from underlying investments.

The interaction of these five factors will cause the diversification at any reporting date to differ from the Target Portfolio diversification.

COAERS Private Credit Portfolio may include five Primary Sector allocations within its portfolio: Direct Lending, Distressed Debt, Real Assets Debt, Mezzanine/Bridge Financing, and Credit Special Situations. Unlike public markets, where benchmarks include exposure to non-U.S. regions, international exposure is not viewed as a Sector but rather a geographic allocation that is regarded as a separate consideration within each of these Sectors. These Sectors are defined as follows:

Private Credit Sectors

Direct lending - Provides a source of capital for companies, often in the form of senior financing alternatives, including revolving credit facilities, term loans, delayed draw term loans, second lien loans, and unitranche facilities. These loans often support platform acquisitions, portfolio company add-ons, recapitalization, and refinancings. The objective is to provide the fund's investors with high current income, emphasizing capital preservation and attractive risk-adjusted returns.

Distressed debt - Investment into the debt of a business that is suffering and needs help. The distress could be from operational hardship, industry hardship, or a mix of both. The debt may be in default or nearing a default state when the distressed debt investor steps in. A typical company may have filed for bankruptcy protection or be in the process of a reorganization. The targeted debt instruments are usually senior, junior and equity securities within the capital structure. Some managers seek to gain control of the bankruptcy or reorganization process, so they have more influence on the ultimate outcome. Funds may also seek to arbitrage the value of the debt security with newly issued equity or to liquidate the value of the company through a negotiated workout. Distressed Debt trading strategies tend to be more cyclical than control strategies and therefore are not as attractive under all market conditions.

Asset Backed Debt – Includes loans on real assets, primarily real estate and infrastructure projects. This category may include investments backed by equipment or other assets.

> Real estate debt - Private real estate debt funds have multiple strategies, primarily using real estate as collateral. By issuing senior debt, real estate debt funds have priority over other forms of financing such as mezzanine loans, preferred equity, or equity. The interest payments can lead to a known income stream for the investors, usually monthly.
>
> Infrastructure debt- Provides debt investments related to infrastructure projects (like real estate funds, with an infrastructure focus). Infrastructure debt is an asset class that should provide stable returns and cash flows over long-term horizons due to the fundamental essentiality of these real assets, with low relative levels of default. Senior infrastructure debt is a lower risk profile than junior debt or equity in similar projects.
>
> Equipment/Aircraft Leases –These asset-based finance structures are secured by the cash flows generated by loans or leases against physical assets. The assets include equipment, aircraft, rail, shipping, data centers, solar panels, and other various hard assets owned by corporations and essential to their business and cash flow generation. Some strategies include owning the underlying asset and then leasing it to a business, other strategies entail buying the leases from other entities.
>
> Credit Card and Consumer loan receivables – Generally, this refers to pools of loans or receivables that are backed by an individual's credit, willingness to pay, and, in certain cases, a hard asset. Individuals will look for financing in order to

fund large purchases, including automobiles, college, and home improvements. Consumer loans are generally pooled and can be directly originated or can be purchased in the form of asset-backed securities; these pools are highly diversified with various borrowers and large number of loans within each pool.

Mezzanine/Bridge Financing – These funds typically provide subordinated debt financing for private equity transactions. These debt facilities usually include equity-based warrants. This includes private debt funds that provide short-term loans, also called bridge loans, made in anticipation of intermediate-term or long-term financing. Mezzanine funds are characterized by lower risk, higher capitalization, and cash flow-oriented assets. Investments are characterized by debt instruments with current pay cash coupons and warrants which allow the portfolio to share in the equity appreciation of the company. The securities are typically unsecured junior obligations.

Credit Special Situations - Special Situations include funds that have broad mandates such as a fund that invests in subordinated debt, distressed debt, or funds that purchase diversified secondary interests. These funds may include:

Credit Trading – Typically involves acquiring a credit instrument (e.g., an issuer's bonds) trading at a price that the investor believes presents a compelling value, perhaps because the overall market may be misjudging the ability of the issuer to meet its debt obligations.

Direct Origination or Capital Solutions – Focused on making direct loans to companies that cannot access traditional credit due to financial or operational challenges. Investors can originate a loan with strict covenants and at an interest rate well above typical bank loans to help a company refinance existing debt. Another term often used for this strategy is "Loan-to-Own," as the lenders structure the credit to allow them to gain control of the borrower if it misses any of the covenants.

Distressed-for-Control – Invest in corporate credit to gain control of a company through a debt-for-equity restructuring. To achieve control, the strategy requires acquiring significant positions in the credit to play an active role in any restructuring.

Secondary fund of funds are defined as funds that acquire multiple pre-existing limited partnership interests. Investments are usually made at a discount to the net asset value of the interest (referred to as the Par Value). By investing through the secondary market these funds may establish positions in funds at a lower cost than the primary fund investors and with a shorter duration.

Secondary investments, where COAERS would directly acquire a limited partnership interest in an existing fund, would be categorized into the appropriate Sector based on the strategy of the partnership.

COAERS defines Private Credit investments as partnership investments in Direct Lending, Asset Backed Debt, Real Estate and Infrastructure Debt, Specialty Finance, Distressed Debt, Special Situations, and other Private Credit Sub-Sectors that can take the following forms:

- Partnership investments through primary fund commitments
- Partnership investments through secondary fund investments

- Partnership investments through primary fund of funds vehicles
- Partnership investments through secondary fund of funds vehicles

Sector allocations will be addressed in Section III.B and COAERS Annual Investment Plan will address the execution of proper investment strategies within each Sector and the appropriate form of investments, taking into account macro economic and market factors.

B. Sector Allocation
COAERS primary objective is to generate attractive risk-adjusted returns and reduce volatility. Private Credit is intended to be a well-diversified program that is currently in a ramp-up period to achieve the 10% target allocation to the asset class. The objective is to prudently grow overall exposure to the asset class while opportunistically positioning the portfolio to continue generating attractive returns and reduce volatility.

During the ramp up phase, allocations to individual strategies within the Private Credit market may appear to be somewhat concentrated. The Fund should strive toward the following allocation targets and ranges (all specific to Private Credit):

	Target	Low	High
Direct Lending	35%	30%	40%
Distressed Debt	20%	15%	25%
Asset Backed Debt	20%	15%	25%
Mezzanine/Bridge Financing	15%	10%	20%
Credit Special Situations	10%	5%	15%

C. Geographic Region Diversification

The number of international opportunities for private credit investors has increased substantially over the last few years as private credit markets outside the U.S. have matured. However, due to more developed markets and regulatory regimes, Staff recommends emphasizing the more proven markets of Western Europe (including U.K.) and select Asian markets and putting less emphasis on the opportunities available in emerging markets such as Latin America and Eastern Europe. Large companies continue to rationalize resources and focus on their core competencies to compete. Smaller businesses continue to consolidate across borders to achieve the critical mass necessary to compete. Family-owned businesses started after World War II continue to address succession issues as the next generation seeks broader career opportunities and the original owners seek liquidity. All of these factors are creating opportunities for buyout firms, both large and small, to utilize their expertise in industry sectors, company operations and deal structuring to produce attractive risk-adjusted returns for their investors. This in turn lends itself to opportunities in the private credit sector.

Asia is made up of several growing economies that continue to develop the infrastructure and expertise needed to foster attractive risk-adjusted private market returns. The long-term prospects merit attention from both Staff and Consultant and are likely to become an increasing part of COAERS long term diversification.

Both Staff and Consultant will continue to review opportunities within these markets with the objective of adding select opportunities to Private Credit over time.

D. Industry Sector Diversification

COAERS will seek to diversify across all major sectors in the economy. However, it should be noted that this diversification will be a function of the types of managers and strategies pursued by the program. Unlike Private Equity where managers may specialize in specific sectors, Private Credit managers tend to (in aggregate) diversify across many sectors of the economy.

Staff suggests that specialization in certain industries can enhance a manager's ability to add value to its portfolio investments and reduce risk through the application of seasoned expertise. This can result in attractive risk-adjusted returns for limited partners. In these instances, specialized managers (i.e. managers focused on healthcare, financial services, energy, etc.) that meet COAERS rigorous investment criteria should be considered for the portfolio.

E. Manager Diversification

COAERS is currently invested in a single partnership in Direct Lending. Staff and Consultant will continue to seek additional opportunities to diversify the portfolio across the metrics discussed in this document.

As a nascent program, **COAERS believes that managers should be added selectively to the portfolio only if they achieve the goals set forth in this Plan or provide a strategic dimension.** Selectively adding top quality firms to which COAERS does not currently have exposure will position the program to generate enhanced returns and lower volatility.

IV. Program Management

The selection and management of assets in Private Credit shall be guided to generate a high level of risk-adjusted return, provide a moderate amount of current income, and to maintain prudent diversification of assets and specific investments in accordance with COAERS Objectives.

Roles and Responsibilities

The roles and responsibilities of Board, Staff and Consultant are defined in the Investment Policy Statement adopted by the Board of Trustees.

A. Manager Identification

COAERS Staff and Consultant will utilize a rigorous sourcing, screening and due diligence process to identify and select the highest quality managers that have the greatest likelihood of achieving the objectives of COAERS Private Credit program.

This process is very resource intensive requiring a proactive outreach effort to find and source compelling offerings and increase the market presence of the institution. As capital continues to flow into the private credit markets a program that is only reactive in deal sourcing may miss out on a significant portion of the market's offerings. COAERS Staff and Consultant will on average source and screen over one hundred offerings per year in order to find the highest quality opportunities that fit COAERS Private Credit program requirements.

Secondary Program
COAERS Staff and Consultant will seek to improve long-term returns and add additional exposure through the acquisition of attractively priced secondary investments. In addition, the existing portfolio will be actively monitored and managed to take advantage of attractive market pricing in order to maximize the potential returns for each portfolio partnership. Dispositions may take place after significant evaluation of market pricing in comparison to potential future returns. The impact on manager relationships will also be considered.

Information regarding COAERS secondary program is attached as **Appendix B.**

B. Investment Selection Criteria
COAERS Staff and Consultant will utilize a rigorous due diligence process to screen and select fund managers based upon certain qualifications that are particularly important. These characteristics apply to all prospective investments. These characteristics include:

1) **Experience**. There must be demonstrated long-term experience of the core investment team particularly as it relates to their defined investment focus. COAERS recognizes that with first and second time funds, this experience may have come from several different sources.
2) **Record**. The track record of the manager must be clearly superior through more than one economic cycle. This record must be consistent and include a review of all individual investment records. This record will be compared with those of other managers, as well as a number of benchmarks. Again, with a first or second time fund, different partners may have investment track records from different sources. It is particularly important with first time funds to ascertain that individual partner track records are accurate and that these partners are not taking credit for deals where they were not the principal lead at their prior firms.

3) **Organization**. The organization must be able to provide complete documentation of all aspects of sourcing, investing, monitoring, and investor reporting. There must be oversight and backup capabilities.

4) **Continuity**. The general partners in the firm should have invested together, with little turnover, for a significant period of time. Personal chemistry and career objectives of the partners of the general partner should be aligned to provide confidence in the stability and effectiveness of the investment team throughout the life of the partnership. A first time fund will not be able to meet the first criteria but they must demonstrate a cohesiveness and alignment of interests across the investment team.

5) **Common objectives**. The investment objectives of the manager and COAERS must be parallel; that is as measured by duration, focus of the fund, and return objectives.

6) **Reputation**. The investment professionals must be people of good character and integrity, and have an acknowledged stature in the investment and business communities.

C. Investment Due Diligence Process
COAERS due diligence process will be conducted by COAERS Staff and Consultant to determine that each investment opportunity meets the investment selection criteria. No

investment will be recommended to the Board without the completion of full due diligence. COAERS investment due diligence process is summarized below.

All prospective investments are analyzed in five stages:

Stage 1: Preliminary Screening
Objective: To review current market opportunities and future market opportunities to determine, through preliminary conversations and from the private placement memorandum, whether the proposed investment has the potential to meet COAERS required investment objectives. During the preliminary screening stage the following investment issues are addressed:

(1) What is the quality and background of the general partner?

(2) Is the investment objective desirable and will the stated strategy accomplish the objective?

(3) Can the required returns be achieved given the proposed structure of the investment?

All prospective investment opportunities are reviewed by Staff and Consultant. Investments that clearly do not meet COAERS objectives are rejected.

If it is determined during Stage 1 that a proposed investment has a reasonable probability of addressing these key investment criteria, then the investment advances in the due diligence process to Stage 2.

Stage 2: Preliminary Due Diligence
Objective: To determine through face-to-face meetings whether the general partner's strategy is valid and timely and will meet the required investment objectives of COAERS. During this preliminary due diligence the following investment issues are addressed:

(1) Is the general partner's presentation of the offering consistent with the offering memorandum?

(2) Does the general partner respond productively and honestly to probing questions about its investment history, commitment to the success of the partnership, chemistry of the investment team, and ability to repeat successes of the past in current environments?

(3) Does the general partner make a strong and convincing case that its strategy will meet or exceed COAERS return objectives?

This phase includes completing COAERS Private Credit Investment Questionnaire included as Appendix A of this document. If it is determined during Stage 2 that a proposed investment has a reasonable probability of addressing these key investment criteria, then the investment advances in the due diligence process to Stage 3.

Stage 3: Final/Comprehensive Due Diligence
Objective: To determine through comprehensive due diligence whether the potential investment meets the key investment criteria.

(1) Through interviews with the management team and staff, as well as reference checks with other sponsors, previous and prospective investors and management of portfolio companies, Staff and Consultant make an independent appraisal of the management team's depth and breadth of experience, character, motivations and working dynamic. In addition, COAERS Staff and Consultant assess whether the management team has the experience, deal flow and resources necessary to successfully implement the investment strategy.

(2) Perform a careful review of the manager's due diligence process, record keeping, investor reports and audits. Review the manager's financial condition. Review the partnership organization and management, ownership of the general partner, incentive compensation and employee retention issues.

(3) Determine whether the investment objective can be achieved given the fund's industry and sector focus and type of investment activity. Will current and expected market conditions allow portfolio companies to be nurtured to a sufficient size such that they can achieve and accomplish return objectives?

(4) Evaluate whether the proposed terms of the investment are such that there are fair economic incentives to all partners, general and limited, and whether sufficient controls are in place to guide management's activities such that successful investment performance on the part of the management team will accrue equitably to all partners.

(5) A litigation questionnaire (included as part of COAERS Private Credit Investment Questionnaire) is reviewed to determine whether the general partner or any of its partners are or have been involved in any material litigation which would bring into question their integrity, operating methods, financial viability or would disrupt the investment process.

(6) During this stage, the sponsors will make a presentation to both COAERS Staff and Consultant, if either has not already met or is otherwise unfamiliar with the sponsor.

If it is determined during Stage 3 that a proposed investment has a high probability of addressing these key investment criteria and with the concurrence of COAERS, then the investment advances in the due diligence process to Stage 4.

Stage 4: Commitment and Documentation

Objective: Given COAERS investment and diversification objectives, determine the appropriate size of the investment and begin the negotiation and documentation of acceptable terms.

(1) Determine the appropriate commitment level relative to the size of the fund and any investment stage, industry focus, and portfolio construction considerations.

(2) Begin negotiation of critical document terms, including key man and clawback provisions, management fees, organizational expenses of the partnership, distribution and carried interest policies of the general partners. Terms will be reviewed individually and in the aggregate.

(3) Partnership terms will also be compared to standards of best practices.

(4) In order to facilitate an orderly review of the terms of the agreement a summary of terms will be created.

If it is determined during Stage 4 that a proposed investment's terms, as negotiated, materially address the aforementioned key investment criteria, COAERS Staff and Consultant will make the appropriate investment recommendation to the Board. Each recommendation includes a thorough written and oral presentation. Upon the Board's approval, the investment advances in the due diligence process to Stage 5.

Stage 5: Finalizing Documentation and Closing
Objective: To finalize the terms and conditions of the partnership agreement and close on the commitment.

(1) Review investment documents to ensure that all negotiated terms and conditions are incorporated therein.

(2) Review documentation with outside counsel for their concurrence on compliance with material terms and structural protection of COAERS.

(3) All investments must be underwritten and assets managed by a qualified investment manager acting in a fiduciary capacity to COAERS. Once retained, an investment manager must acknowledge in writing the manager's fiduciary responsibility to the Trust and agree that these objectives and policies will be observed. It is expected that, at all times, the manager(s) will conduct themselves as fiduciaries in conformance with the laws, rules and regulations promulgated by the State of Texas, and the Board of Trustees unless a lesser standard of fiduciary duty is necessary because of generally prevailing industry standards for an investment of that type and nature. Any such generally prevailing industry standard shall be established upon the written advice of the investment consultant and agreed to by legal counsel.

(4) All closing documents, the summary of terms, as well as the review letter from outside counsel will be provided to the Chief Investment Officer to confirm completion of the review processes. COAERS Staff will prepare and present closing documents to the appropriate person or persons for execution.

(5) Upon closing the investment, organize the completed due diligence file.

After closing the investment, active monitoring of the fund's compliance with the partnership agreement and the progress of portfolio investments begins.

D. Review of Industry Best Practices
COAERS Staff and Consultant shall continue to review and evaluate research, surveys and suggestions of best practices for the investment management and execution of the program. To this end, COAERS will take into consideration the suggestions of best practices put forth by the Institutional Limited Partners Association (ILPA) which are intended to serve as a basis for continued discussion among and between the general partner and limited partner communities with the goal of improving the private markets industry for the long-term benefit of all of its participants.

As part of COAERS ongoing efforts to adopt and/or establish best practices, COAERS has established a Code of Ethics. The purpose of this policy is to promote and require transparency in the use of placement agents in connection with COAERS investment decisions. This Policy formalizes COAERS existing practice of making investment decisions solely on the merits of the investment and in a manner consistent with the fiduciary duties of the COAERS Board.

Additionally, the Investment Implementation Policy clearly identifies procedures to be followed by any organization utilizing a third-party marketing firm or placement agent. These policies are incorporated into this document by reference.

E. COAERS Due Diligence Questionnaire (DDQ)
As part of COAERS due diligence process, each manager shall be asked to provide or complete a thorough due diligence questionnaire. To the extent a manager does not have a prepared DDQ, COAERS and Consultant will provide a due diligence questionnaire to be completed. See **Appendix A** for a sample questionnaire.

V. Monitoring of Objectives and Performance

A. General. The deployment of assets within Private Credit will be monitored for consistency of the manager's investment philosophy, returns relative to objectives and investment risk as measured by asset concentration, exposure to extreme economic conditions, market volatility, and target allocations. COAERS Staff and Consultant will monitor partnerships on an on-going basis. The portfolios of each vehicle will be analyzed in depth at least annually to ascertain consistency with the stated investment philosophy, objectives, asset allocation criteria, and the guidelines and restrictions set forth in this Statement. Interim internal rates of return for each investment as well as the total Program will be calculated on an on-going basis and evaluated on a five-year horizon.

B. Program Evaluation. Due to the long-term nature of these asset classes, the progress of the total Program should be evaluated over a minimum of five-year rolling periods, although the progress of the individual investment managers will be monitored at least annually.

C. Reports Provided by Managers. Each investment manager will provide COAERS Staff and Consultant with quarterly reports in sufficient detail in order to assess performance of its investment in each entity. Specifically, each manager will provide performance information concerning investment, financial statements for the partnership, and a capital account statement for COAERS. Each manager shall report on a timely basis, all material developments in the portfolio, including but not limited to personnel changes, contractual problems or amendments, distribution issues and other items required for monitoring the Program.

D. Performance Reporting.

Performance in private markets is typically calculated using an internal rate of return (IRR) methodology, versus the time weighted rate of return (TWR) used for public markets reporting. Because investors are able to quickly move funds in and out of public markets, TWR is generally used to measure performance for public markets, as it does not consider the timing of cash flows in the calculation of returns. In contrast, IRR is the annualized implied discount rate calculated from a series of cash flows. As the manager, not the investor, controls the timing of cash flows, the industry standard is to use the IRR as a means of measuring and comparing performance to funds with similar strategies of a similar vintage.

COAERS will establish a means for reporting performance in Private Credit using both methodologies. For purposes of reporting on the program, the IRR methodology will be used. This typically is reported with a one-quarter lag due to the timing of receiving updated information. The Fund level quarterly performance reports provided by COAERS General Investment Consultant will use a time weighted return calculation to provide consistency in reporting for all fund assets.

On a semi-annual basis, a performance report for the Private Credit Program will be provided to the COAERS Board. Performance measurement will be based upon Internal Rates of Return (IRR). The IRR is based on cash-on-cash returns with consideration for residual value of holdings, calculated net of management fees, expenses, and the general partners' share of carried interest, as contained in the manager's financial statements. The IRR calculation is cumulative, calculated quarterly, and shall serve as the definitive measurement of a vehicle's performance. The performance of each investment vehicle will be compared against the performance of comparable investments.

E. Cash Flow Projections. On an annual basis, the Program and its cash flows will be reviewed for the purposes of evaluating target allocations and the upcoming year's commitment level.

F. Monitoring and Evaluation Responsibility. Due to the time-intensive nature of private markets investing, Staff and Consultant will work closely to ensure there are sufficient resources to oversee the planning, implementation, and monitoring of the Program.

G. Performance. Performance measurement reports will be the responsibility of the consultant in conjunction with the Staff.

H. Review of Investment Objectives and Guidelines. This Statement of Objectives and Guidelines will be reviewed at least annually, in order to determine whether there is continued applicability. Any changes in policy approved by the Board will be incorporated into revisions to this Statement.

VI. Appendixes

Appendix A

COAERS – PRIVATE CREDIT INVESTMENT QUESTIONNAIRE

I. <u>Organization</u>

1. **Please provide the following information for the sponsor's main office as well as all branch offices, if any:**

   Address:
   Phone:
   Fax:
   E-mail:
   Website:

2. **Fill in the following general fund information:**

   Legal name of fund:

   Name of general partner and/or investment sponsor:

   Legal structure of fund:

   Date and jurisdiction of fund formation:

3. **General Partner/Fund Sponsor General Information:**

   Full legal name of the general partner:

   Legal structure of the general partner:

   Date and jurisdiction of the general partner's formation:

4. **Name of all placement agents with their compensation structure. Is there any affiliation between the general partner and a placement agent? If so, describe.**

II. General Partner Structure and Background

5. What is the current structure of the firm? Please include employees at all levels.

6. What is the ownership structure of the general partner entity? (Include percentage ownership.)

7. How are the fees and carried interests allocated among the principals and others? Please be specific. How is this split determined? What provisions are in place to promote the retention of principals, and change allocations over time?

8. What, if any, are the carried interests and ownership interests in the General Partner or Management Company held by individuals or business entities not employed by the firm?

9. What is the firm's compensation structure? What are the vesting provisions? Are there vesting provisions for future general partner additions?

10. What is the general partner's capital commitment to the fund? What is the amount committed by each participant in the general partner? What is the source for each contributor's funds?

11. Please provide a detailed three year budget for the general partner.

12. Please describe the firm's professional turnover for the last five years, citing reasons for each departure and contacts for departed partners.

13. Are any new hires expected in the near term? Please explain at what level these new hires are expected, and their anticipated compensation (salary, bonus, participation in carried interest).

14. What is the decision-making process internally among the principals for (i) internal matters, (ii) new partners, and (iii) partnership operations and management decisions?

15. Does the firm have a succession plan in place? If so, please describe.

16. Who are the principals of the general partner? How long has each of the principals been a participant of the general partner?

17. Please complete the following table which addresses the principals' relationship with each other prior to becoming principals of the general partner.

Principals	Number of Years Worked Together Prior to Forming General Partner	Nature of Relationship

18. Identify all prior funds each principal has been involved with in any capacity. What is the status of those funds, and how much of the principals' time is committed to each fund?

19. Do any of the principals have any conflicts of interest with the current fund?

20. Is the firm or any of its principals involved in, or a partner in, any other businesses outside of the firm's activities? Please describe.

21. Has the firm or any of its principals (including former principals) ever been involved in <u>any</u> litigation? Please describe. Are any cases still open or pending? Please have each principal complete the <u>Litigation Questionnaire</u> attached as Schedule A.

22. Do any of the principals have <u>any</u> health or personal issues that should be of concern? Please explain.

III. General Partner Qualifications

23. Please provide four (4) references for each principal. Include, at a minimum, references from investors, co-investors, management representatives and consultants.

24. Please provide the internal rate of return (IRR) of all prior funds which the firm has managed. Be sure to show gross and net returns for each individual fund and in the aggregate for all funds. Also, provide returns for realized and unrealized investments for each fund and in the aggregate.

25. Please provide cash flows for each previous fund, with each cash event labeled by date and investment.

26. For each principal of the general partner, please provide the following information for every investment considered a part of that individual's investment record.

Name of Investment	$'s Invested and Date of Investment	Individual(s) Responsible for Sourcing Deal	Individual(s) Responsible for Monitoring	Individual(s) Responsible for Exit	Total Value Realized from Investment and Date of Realization	IRR

27. Please identify each principal's area of expertise. Identify the number of years each principal has worked in his/her area of expertise.

28. Please complete the attached table regarding board memberships.

Name of Principal	Current Board Memberships	Prior Board Memberships

29. How many board seats will each principal be expected to hold for this fund? How does this compare to prior funds?

30. Using the table below, identify the amount of time (in percentages) that each principal will dedicate to each role for this fund.

Name of Principal	a	b	c	d	e	f	g	h	Total

a. generating deal flow; b. reviewing opportunities; c. conducting due diligence; d. negotiating and structuring; e. administrative/other internal activities; f. outside activities; g. monitoring portfolio investments in prior funds; h. monitoring portfolio investments in current fund.

31. How does the investment committee for the fund operate? How are decisions made? Is consensus required from each partner, or is a simple majority sufficient?

32. How often do the principals meet as a group? Are meetings typically held in person or telephonically? What forum do the principals use for information and idea sharing?

33. What is the investment capacity for the firm with its current structure and staff?

34. What is the average number of opportunities reviewed by the firm annually?

35. Has the general partner warehoused or otherwise specified or targeted any deals for this fund? If so, please provide information on all such deals.

36. What are the proposed funds' investment strategy(s) and objectives? What is the anticipated investment range in terms of size for the fund's investments? Are these the same as the objectives, strategies, and average size implemented in prior funds? If not, explain the differences.

37. **What is the targeted rate of return for the fund? Please provide both gross and net return targets. Why does the general partner feel such returns are achievable?**

38. **Who are the firm's competitors? Which are currently viewed by the general partner as the leading firm(s), and why?**

39. **How do you differentiate your fund from competitive funds?**

40. **To what extent are outside consultants used for due diligence and monitoring of portfolio investments? Please list consultants used over the last three years and the nature of their engagement with the firm.**

41. **What outside resources and strategic relationships does the general partner rely on?**

42. **Will the partnership participate in hostile investments?**

43. **What restrictions are proposed for starting new partnerships?**

44. **What are the firm's documentation procedures? Please attach a sample of each of the following documents: due diligence checklist, deal log, a typical investment term sheet that you would use, and a summary investment memorandum.**

45. **What is the firm's valuation policy and methodology?**

46. **Is the firm GIPS compliant?**

47. **Is the partnership permitted to re-invest proceeds? What rules govern those re-investments?**

48. **What is the fund's approach to UBTI related investments?**

IV. Limited Partners

49. Please complete the following table for all limited partners, for the current fund and all prior funds.

Limited Partner	ERISA (Y/N)	Contact Name/Phone	Name of funds committed to	Commitment amounts	Commitment to this fund or explanation for opting out of this or future funds

50. Have you entered into any side letter agreements or other arrangements with any limited partners? Do you anticipate doing so prior to or at the final closing? Are there any 'most favored nations' provisions? Are there 'special' limited partners or limited partners who also have investments in, or special rights from, the general partner or manager?

51. Does the fund currently have or expect to receive commitments from any "strategic" limited partners? What are the expectations of these LP(s)' investment(s) in this fund?

52. What co-investment rights are afforded the limited partners of the fund? What about GP co-investment rights?

V. Legal and Accounting

53. Who is the partnership's legal counsel? Who is the general partner's legal counsel? How does counsel address conflicts between the partnership and the general partner?

54. Which firm will audit the partnership at year-end? Provide copies of the last four quarterly reports and the last three years' audited year-end financials for your prior fund. Also include any investor communications distributed during that period.

55. Please provide contact names with addresses and phone numbers for all legal counsel and the accounting firms the sponsor has engaged over the past 5 years. Please provide a brief description of the nature of the engagement.

VI. Principal and Key Personnel Profile

Please complete this page for each principal and all key personnel who will be involved directly or indirectly in the partnership.

1. **Name:**
2. **Home address:**
3. **Home phone:**
4. **Date of birth:**
5. **Do you have any health issues that may impair your ability to perform your responsibilities as they relate to the partnership?**
6. **What professional licenses, if any, do you hold?**
7. **Please attach a detailed biography for each of the principals. Include complete month and year employment information for the last 10 years.**

END OF QUESTIONNAIRE

SCHEDULE A
COAERS LITIGATION QUESTIONNAIRE
(To be completed by each individual General Partner)

RESPONDENT NAME: ______________________________

INVESTMENT PROPOSAL NAME: ______________________________

Note: Please provide details of any "Yes" answers on a separate sheet.

1. Are you now, or have you ever been, a party to any criminal action or civil action involving a claim of more than $250,000?

   Yes____ No____

2. Has any organization of which you have been a member of senior management, or in which you have had a meaningful ownership interest (greater than 5%), ever been a named defendant in any criminal action or civil action involving a claim of greater than $500,000?

   Yes____ No____

3. Have you or any organization in which you have had a meaningful ownership interest (greater than 5%), or of which you are, or were, a member of senior management ever filed voluntarily, or had filed against you involuntarily, a bankruptcy petition?

   Yes____ No____

4. Has any licensor, franchisor, or master distributor ever initiated proceedings to terminate a business relationship with you or any organization of which you have ever been a member of senior management?

   Yes____ No____

5. Has any business partner, joint venture, or subcontractor ever sought injunctive relief or arbitration to terminate any business or contractual relationship?

   Yes____ No____

6. Are you aware of any prospective litigation to be filed in which you, your firm or any principal in your firm will be a party?

   Yes____ No____

Date:__________________________ ______________________________
Signature

Appendix B

COAERS – PRIVATE CREDIT SECONDARY PROGRAM

Summary

The opportunity to selectively acquire a partnership interest in the secondary market may be attractive. While COAERS is just embarking on a private markets program, a secondary program provides a means to more actively manage the Private Credit program to meet its long-term objectives.

COAERS expects a Secondary Program to become an integral part of the Strategic and Annual Investment Plans which are reviewed annually by COAERS Staff and Consultant and approved by the Board.

The Secondary Market - Background

Commitments to private credit funds have grown dramatically during the past decade with close to $2 trillion of capital committed since 2013[3] and more than 60% of that total having been raised between 2018 and 2023. The size and number of commitments to private credit funds have created a large base of investors that may not be willing or able to hold these illiquid positions to maturity. Early liquidity needs and changes in strategy on the part of some of these investors have led to an increasing volume of secondary activity that is expected to approximate $50 billion by 2026[4].

As the private credit industry matures and grows, institutional investors are increasingly aware of the opportunity to more actively manage their existing portfolios of private markets investments. Some institutions are looking to rebalance their private exposure, generate liquidity, adjust the risk profile of a portfolio, eliminate mature, smaller partnership interests, or reduce the number of holdings being administered. The awareness among investors that the secondary market provides a viable solution to these needs is rapidly expanding. An increasing number of institutions are pursuing opportunities to acquire and sell secondary interests in private credit funds.

COAERS Secondary Purchase Program

The purchase of existing limited partnership interests in the secondary market has become an effective tool in the management of institutional alternative investment programs. The main objective of COAERS Secondary Purchase Program is to strategically and tactically increase investment exposure to certain existing fund managers or to gain access to funds with strategies and managers additive to the COAERS portfolio, with the goal of improving the long-term economic returns of the program. Secondary investments would typically consist of acquiring an interest in a private credit limited partnership from an existing investor that is looking to gain liquidity prior to the full term of the partnership. Attractive secondary purchases provide numerous benefits, such as:

- Investing in an existing portfolio, not a blind pool.
- More mature funds have shorter average holding periods due to nearer term realizations.
- Ability to strategically and tactically manage a portfolio's diversification.
- Possibility of purchasing assets at a discount to current carrying value and a further discount to fair market value.

[3] Source: PitchBook
[4] ibid

The increasing supply and broadening access to secondaries has enabled many institutional investors to successfully move beyond the traditional buy and hold mind set and begin to actively manage their portfolios through the acquisition of secondary partnership interests.

Purchase Program – Recommended Investment Guidelines

- All investments must meet COAERS Private Credit Objectives.

- Investments would be considered only in funds managed by existing managers or those managers who meet all the criteria for a primary fund investment.

- All investments must be within COAERS investment sectors.

- The program would consider both mature secondaries, funds with more than 50% of capital funded, as well as hybrid secondaries, funds with less than 50% of capital funded.

- Investments would opportunistically focus on single Limited Partnership interests, rather than broad portfolios of multiple interests.

- Staff would have authority to acquire secondary interests in existing partnerships at or below the capital account value, or, where appropriate, at modest premiums to capital account value. Board approval would be required for investments at a significant premium to the capital account.

- All secondary transactions require the consent of COAERS consultant. The Fund's Consultant would have to provide a written opinion that the transaction is appropriately priced given the circumstances, meets all objectives of the program, and agrees with the purchase prior to execution.

- Any single fund investment would be no more than $20 million in purchase value which includes the purchase price plus any remaining unfunded commitment.

- Limit maximum exposure (existing investment plus secondary purchase) to not greater than 20% in limited partnership interest of a single fund and, no single partnership investment can constitute more than 20% of COAERS total Private Credit adjusted reported value partnership holdings at the time of purchase once the program is considered fully invested. Limit maximum exposure (adjusted reported value plus any remaining unfunded commitment) to any sponsor such that the aggregate investment with any sponsor across multiple funds is not greater than 30% of COAERS total Private Credit adjusted reported value partnership holdings at the time of purchase.

Percentage of Annual Allocation

COAERS Staff and Consultant recommend that secondary investments represent up to 20% of COAERS annual investment allocation for Private Credit. Additionally, any proceeds from the sale of partnership interests through the secondary sale program would be available for reinvestment in secondary interests.

Purchase Program - Investment Process
COAERS Staff in conjunction with its Consultant would implement the Secondary Purchase Program through the following process:

Sourcing: Secondary investment opportunities would be sourced directly from General Partners and Limited Partners of private credit funds where COAERS has existing exposure, or on which COAERS Staff and Consultant have performed due diligence and believe are additive to the program. Opportunities may also be sourced through secondary managers and intermediaries.

Screening: Investments would be considered in existing partnerships that provide strategic and/or tactical benefits to the overall Private Credit program. This includes partnerships that have the potential to enhance returns and/or help manage sector exposure for COAERS Private Credit program.

Evaluating: Secondary opportunities that fall within the Secondary Program's guidelines would be evaluated to determine if a full valuation analysis should be conducted. Those that meet the criteria of enhancing potential returns and/or helping manage sector exposure will be analyzed and valued by the Consultant and COAERS Staff. A deal by deal valuation analysis will be conducted to estimate the Fair Market Value of the partnership and provide negotiation strategies including a bidding range.

Offer and Negotiation: If a secondary opportunity meets all of COAERS Private Credit objectives and the guidelines of the Secondary Program, COAERS Staff supported by Consultant will have discretion to make an offer, negotiate a final price and execute transfer documents on behalf of COAERS. Since the purchase of specific partnership interests are unique to COAERS, to the extent negotiations of terms and contracts require legal counsel, outside legal counsel would need to be retained and paid for by COAERS.

Reporting: Staff's semi-annual update report to the Board will include a summary of completed secondary transactions. The information provided will include: Fund Name, Vintage Year, Fund Type, Commitment Amount, Date of Transfer, and NAV.

Monitoring: Secondary investments would be monitored along with all Private Credit investments. Investments would be placed in the appropriate Sector of the portfolio based on the investment strategy of the fund. Staff and Consultant shall seek to report performance of all secondary investments as a separate grouping to track the specific performance of the Secondary Program.

COAERS Secondary Sale Program

Though the potential disposition of existing limited partnership interests in the secondary market can be a complicated process, it can be an effective tool in strategically and tactically managing COAERS Private Credit program. Selling certain interests in COAERS Private Credit portfolio can serve to:

- Eliminate lower-impact holdings including mature and non-strategic assets.
- Reduce the number of holdings in the portfolio.
- Provide added liquidity to recycle capital into new private credit investments.
- Adjust the risk profile of the portfolio by adjusting the asset mix.

As COAERS is just embarking on development of a Private Credit Program, Staff does not anticipate any sales of interests in the near to intermediate term. As the program expands, Staff will consider adding language regarding sales of existing interests for consideration.