

PUBLIC AGENDA ITEM - #20a

20a. Review and Discussion of Private Equity Program and Market Overview

August 25, 2009

BACKGROUND:

P. Bradford Young, Head of the Americas for Altius Associates, LTD, will review the Employees Retirement System of Texas' (ERS) private equity program and portfolio, Altius' efforts with staff in reviewing ERS Private Equity Policies and Procedures, and the current state of the private equity markets. Altius Associates is the current private equity consultant for ERS.

Some noted changes occurring over the past year include:

- Approval of the ERS Private Equity Asset Allocation of 8 percent by the ERS Board; and
- Board approval of an amended Tactical Plan, which increased targeted commitments for fiscal year 2009 from \$875 million up to \$1.25 billion.

ERS' private equity program, while immature, is developing at an appropriate pace. The ERS private equity investment process has continued to develop and is working very well. ERS is presently gaining access to top tier managers.

Altius worked with staff to review ERS Private Equity Policies and Procedures regarding placement agents. In addition, Altius has implemented appropriate policies regarding their recommended funds and disclosure of potential conflicts. These actions are due in part to the recent New York Common Retirement Fund "pay to play" scandal.

The substance of the amended policy is to reinforce transparency in the investment decision making process. The parts of the investment process modified required Altius Associates issue a letter indicating any conflicts, if they exist, when making an investment recommendation to ERS. General Partner placement agent compensation disclosures are now part of all Altius investment recommendations as well. Prior to this, Altius only indicated if there was a placement agent involved.

Regarding the current state of the private equity market:

- There currently is decreased private equity activity globally because of the lack of leverage in the market place.
- Public market declines have created the denominator effect among many of ERS' peers.
- The longer term consequences of the crisis may be increased regulation and some potential consolidation of private equity managers.
- The attractiveness of the current environment for investments made today with core private equity managers is very appealing.
- Private equity is a long term asset class so investment discipline is important.

In summary, Altius reports that the ERS private equity program is off to a good start and the environment for making private equity investments is presently very attractive.

This agenda item is presented for discussion purposes only.

STAFF RECOMMENDATION:

No action is required on this agenda item.