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TEXPERS

CEM Benchmarking

Trouble Shooting Pension Opportunities and Challenges in Real Time

August 2023

This session is for Plan Sponsors who are....

- Curious whether U.S. and **TEXPERS plans added value** in 2022
  - Evaluating if & where **active management** has added value
    - **Cost-conscious** and looking for levers to focus upon
  - Interested in **your plan's relative position** against peers
    - From a smaller plan and curious how peers **'act big'**

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Topics we're covering today
TEXPERS 2023

1. Performance
2. Asset Mix
3. Implementation Strategies
4. Cost

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At CEM Benchmarking we assess value for money for the world's largest institutional investors

30 years of data – assets, returns, benchmarks, costs and more

1,100+ unique institutional investors, 300+ in any given year

$14 trillion USD in assets under management at the end of 2021

Because our focus is benchmarking cost, there is no bias in returns

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Today's research & insights cover:

	TEXPERS 12 Peers	U.S. Public Universe	Total U.S. Universe
Peer group & Universe	12 TEXPERS plans	40+ U.S. public plans	140+ U.S. plans, including public, corporate & other plans
Median plan size	$1.1B ($165M – $7.6B)	$21B	$7.8B

In addition to the above, CEM research shared in today's session also covers 30 years of data (1992 – 2021) from global institutional investors.

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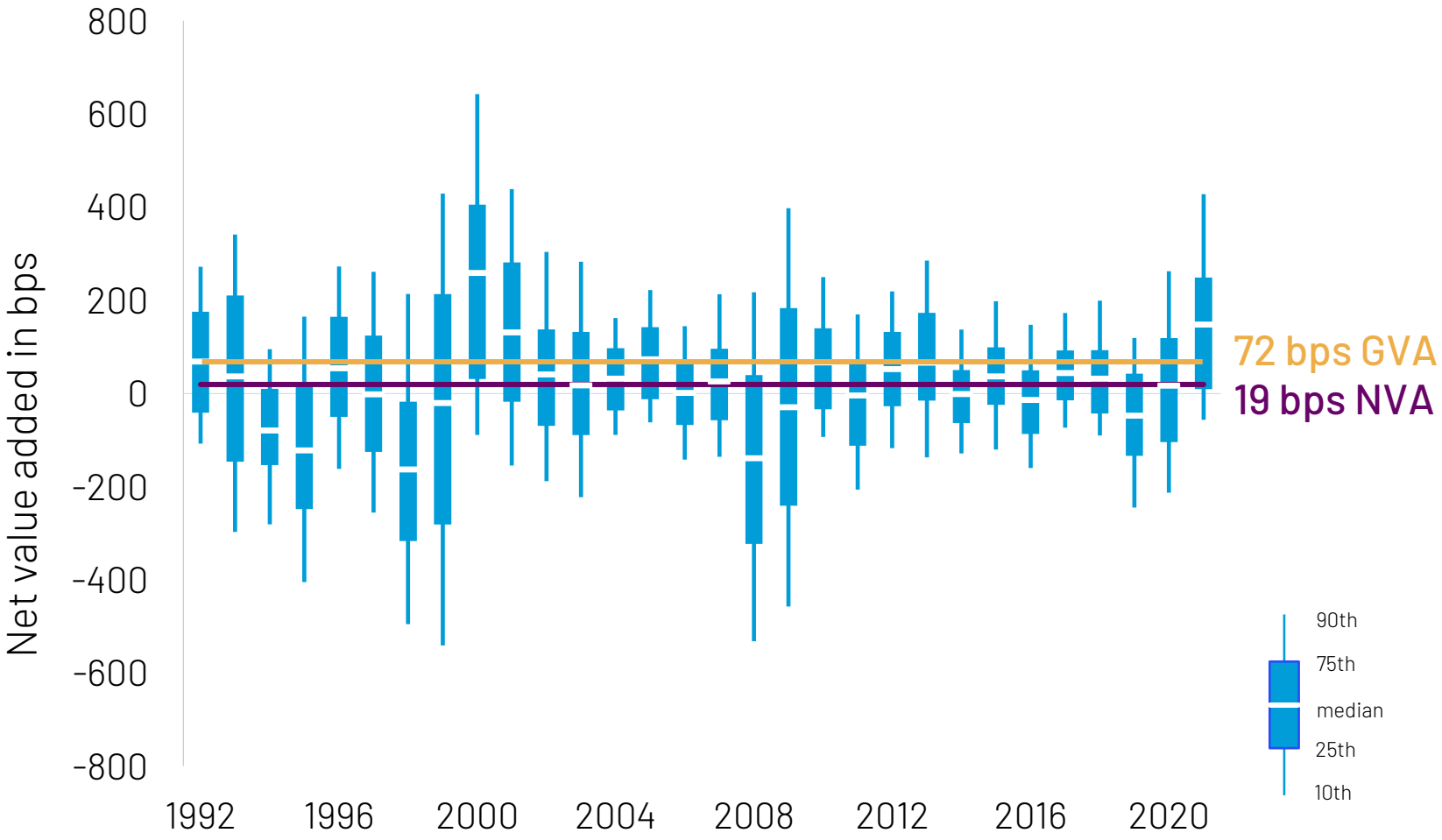
1 From 1992 to 2021, active management added ~19 bps of net value



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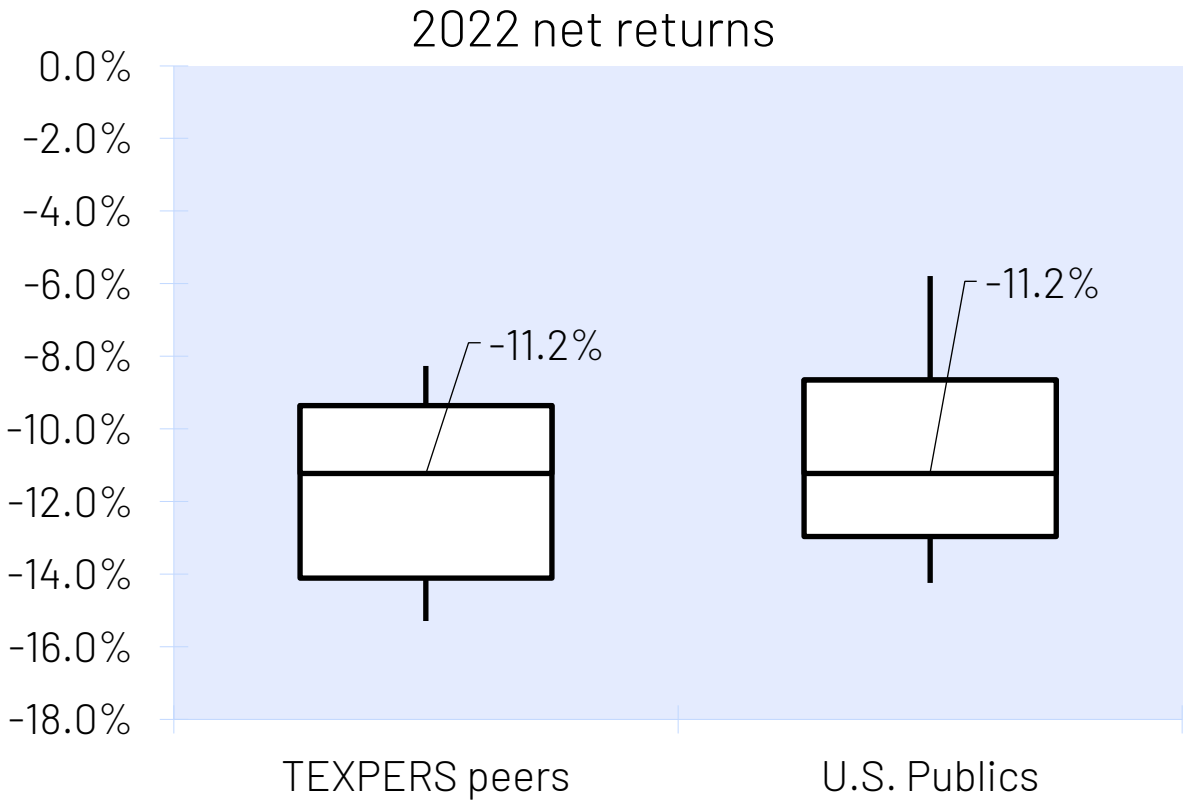
1 Asset mix and implementation strategies impact performance

- Allocation to private assets and lower cost implementation strategies boost net returns but these decisions are driven by plan size.*



* One year returns are not a good measure of performance. We recommend looking at long term returns.

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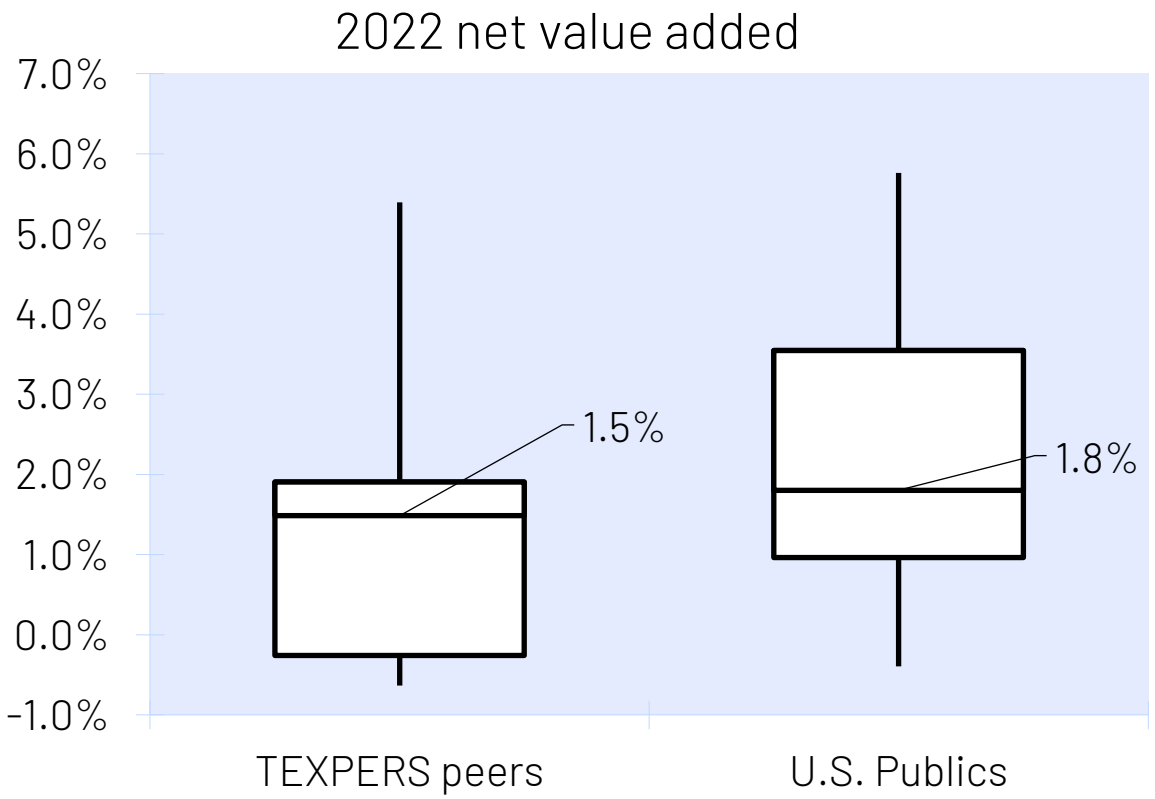
1 Despite a tough year for returns, TEXPERS 12 plans added value net of cost

- Net value added (NVA) reflects the return generated in excess of the benchmark, after costs*.



* One year net value added is not a good measure of performance. We recommend looking at long term NVA.

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1 Asset class returns for illiquid assets vary considerably by fund size

Total AUM	U.S. Large Cap	U.S. Small Cap	Non U.S. Stock	U.S. Broad Fixed	Real Estate	Listed REITs	Hedge Funds/ TAA	PE
Under $2 Billion	7.89	8.55	6.51	5.69	6.16	8.42	4.52	8.22
$2-$10 Billion	8.27	8.94	6.74	5.81	6.59	8.69	4.36	10.10
Over $10 Billion	8.19	8.84	6.69	5.62	7.13	8.16	4.82	11.45

* Selected asset class average net returns for U.S. public funds in the CEM database from 1998 to 2020.

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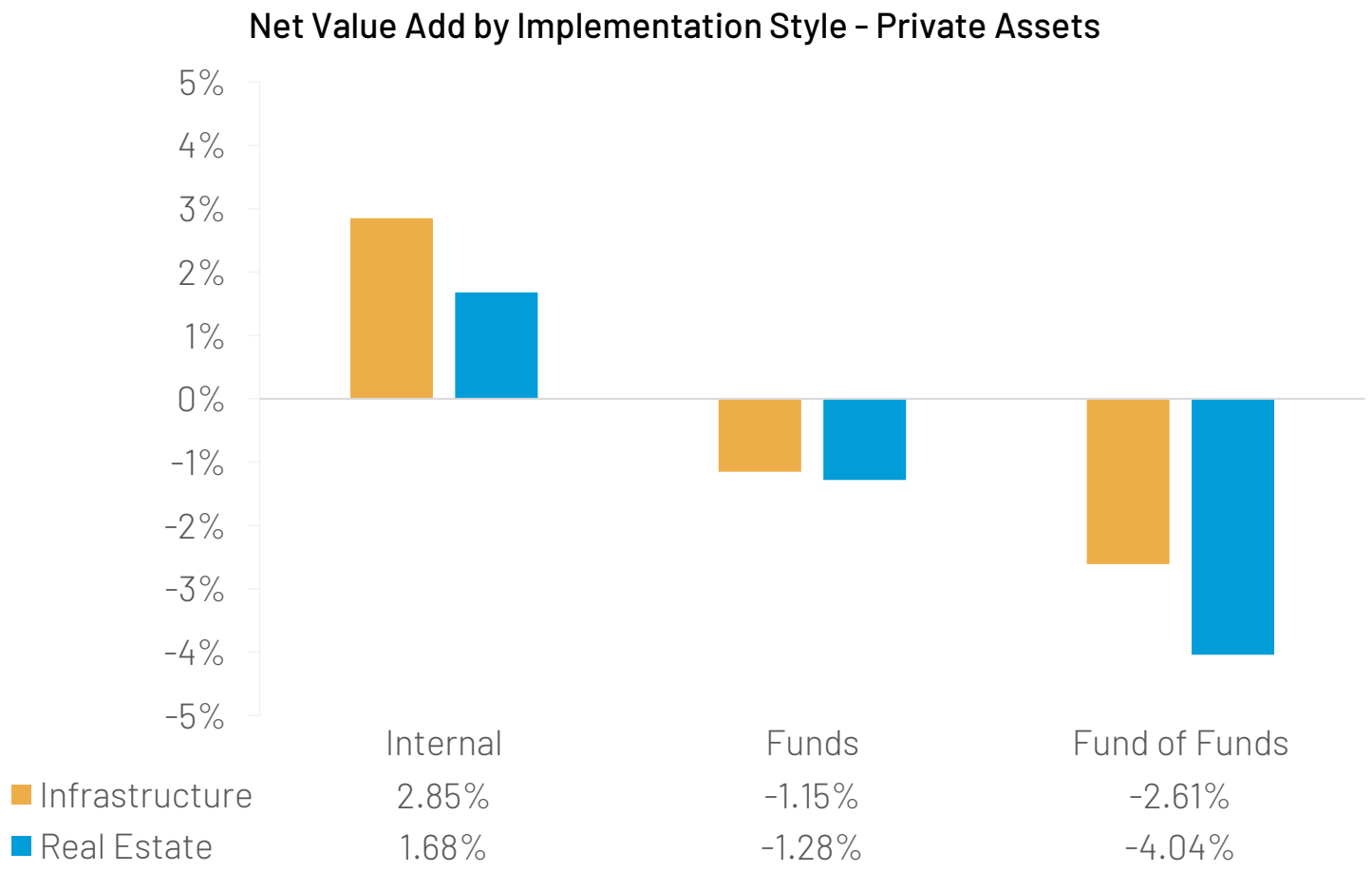
1 Fund of funds have shown to erode value



Long term NVA in the CEM database is shown versus appropriately de-levered, smoothed and lagged listed proxies. Pension funds who lack the scale to implement cost effective private market programs could seek out the risk exposure via listed markets.

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1 Consider the public alternatives to private markets

Consider listed REITs as a good proxy for private real estate and listed small cap for private equity.

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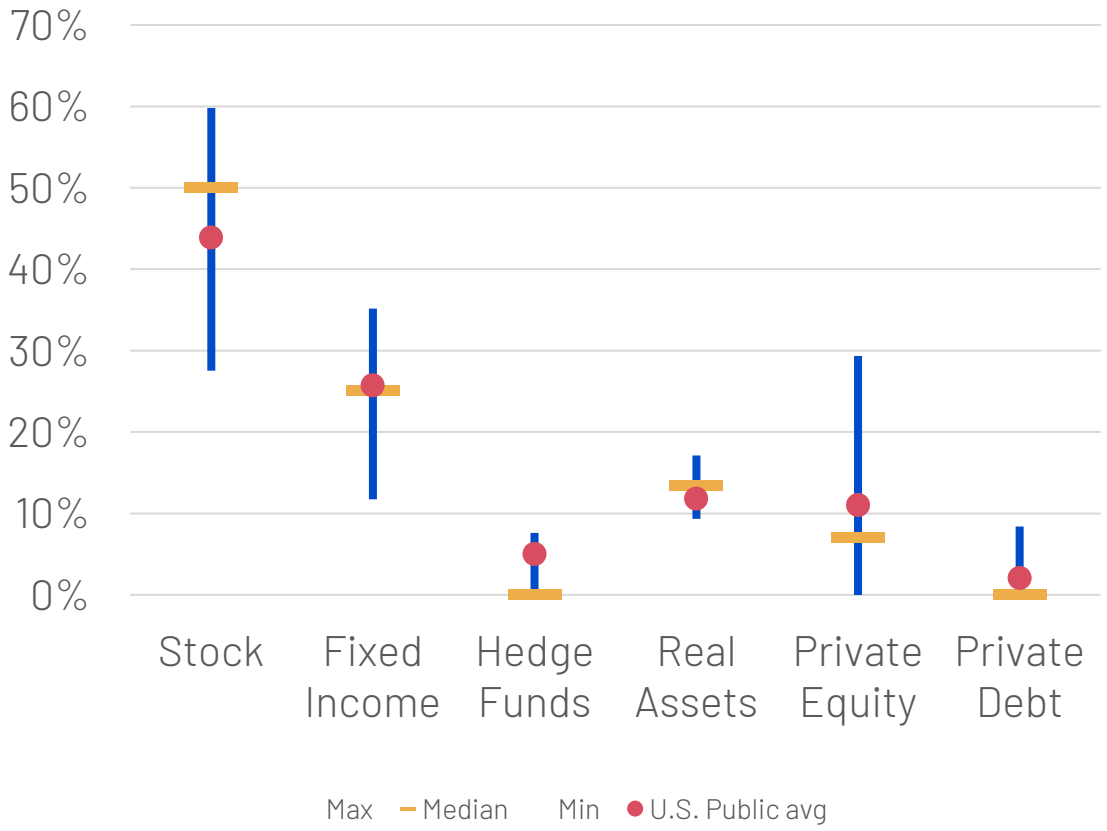
2 TEXPERS 12 allocations vs. U.S. Publics



- The TEXPERS 12 plans have Real Assets. Not all have Private Equity, Private Debt and Hedge Funds.
- Private equity allocations within the group vary widely.
- The mix of stock to fixed income allocation varies widely across plans but real asset allocation is quite similar.

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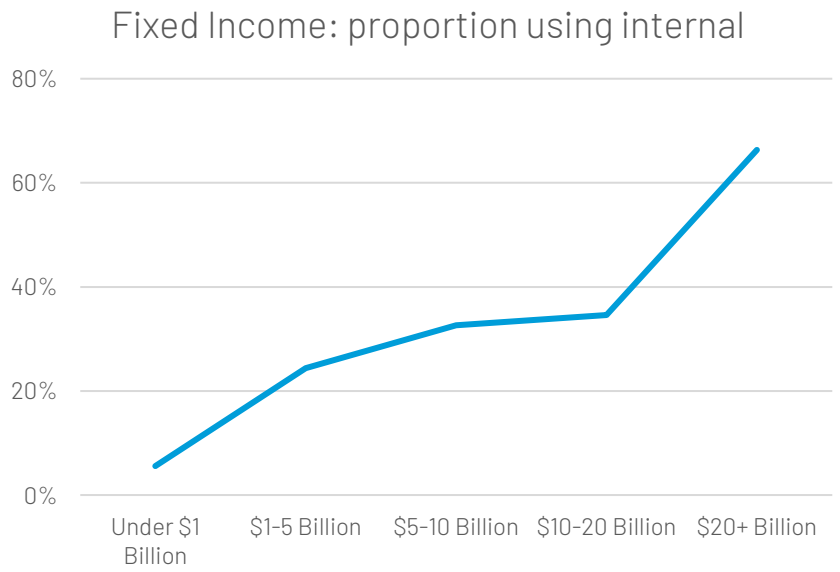
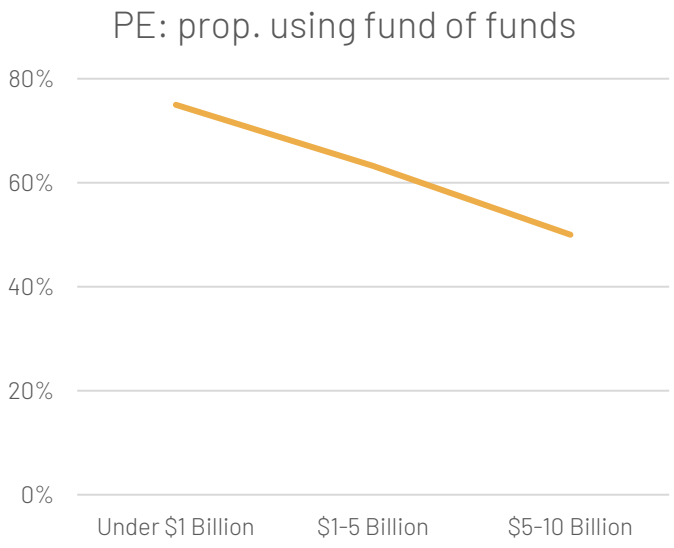
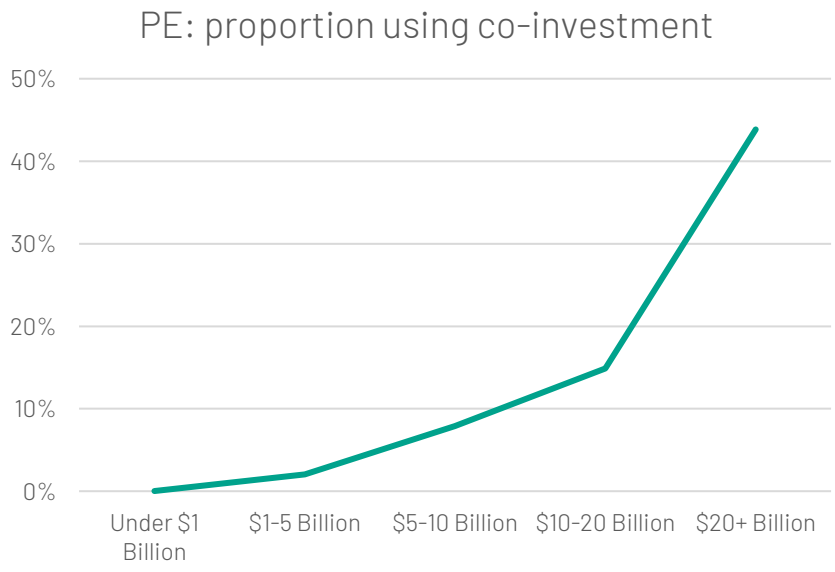
3 Some funds act 'bigger' than others







- *If* internal management is used for fixed income:
  - Funds under $10 billion manage about 1/3 in-house.
  - Larger funds manage about 2/3 in-house.

- *If* funds of funds are used for private equity:
  - Funds under $20 billion use for the majority of PE assets.
  - Larger funds use for more specialized strategies.

- *If* co-investment is used within private equity
  - Funds of all sizes average about 1/5th of PE assets as co-investments.

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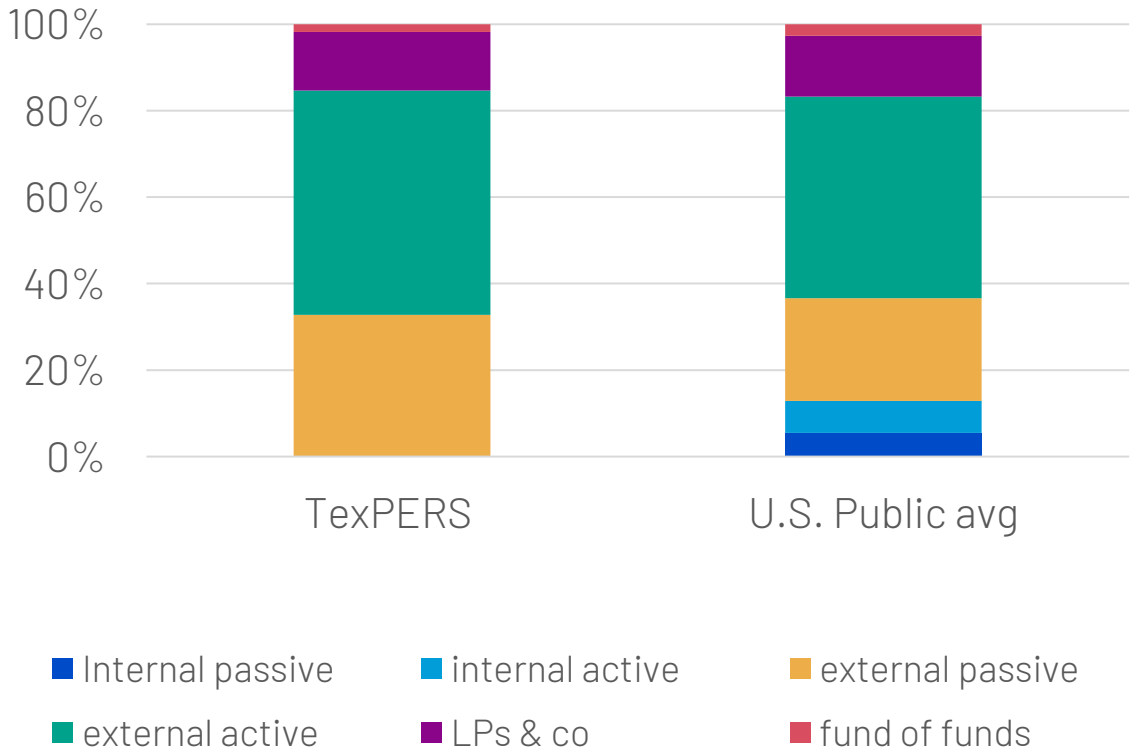
3 How are the TEXPERS 12 plans implementing?

- The TEXPERS 12 peers with higher allocation to private assets, particularly private equity fund of funds, are relatively higher cost than peers tapping into real estate via core open-ended funds.



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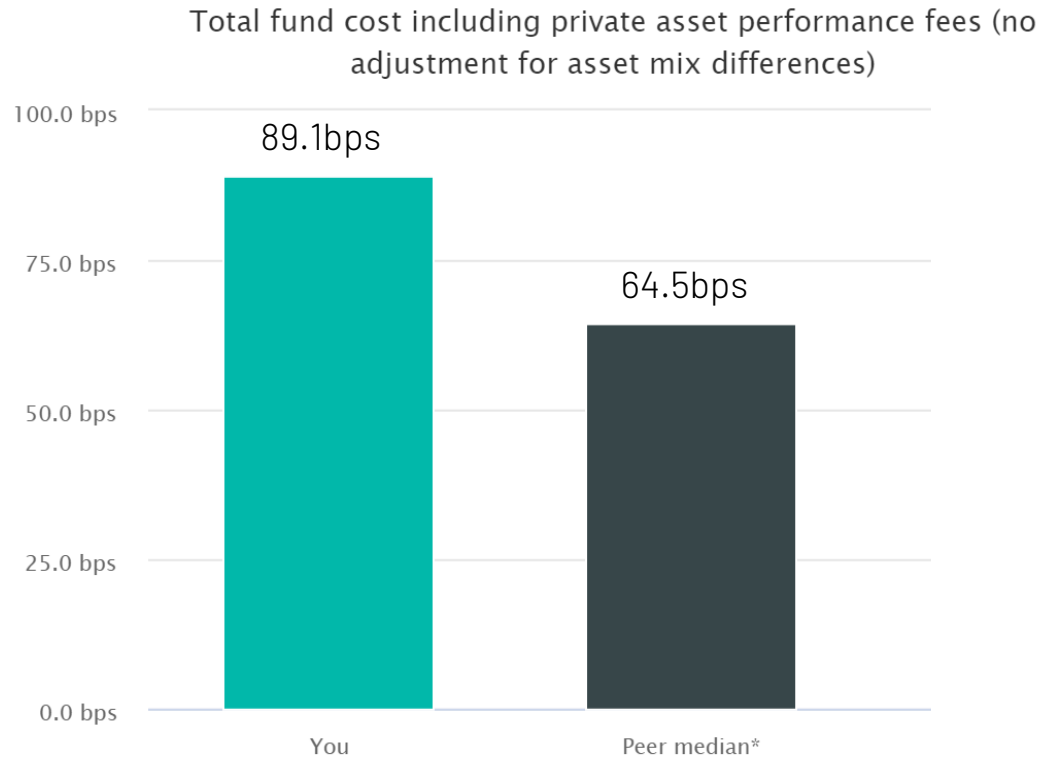
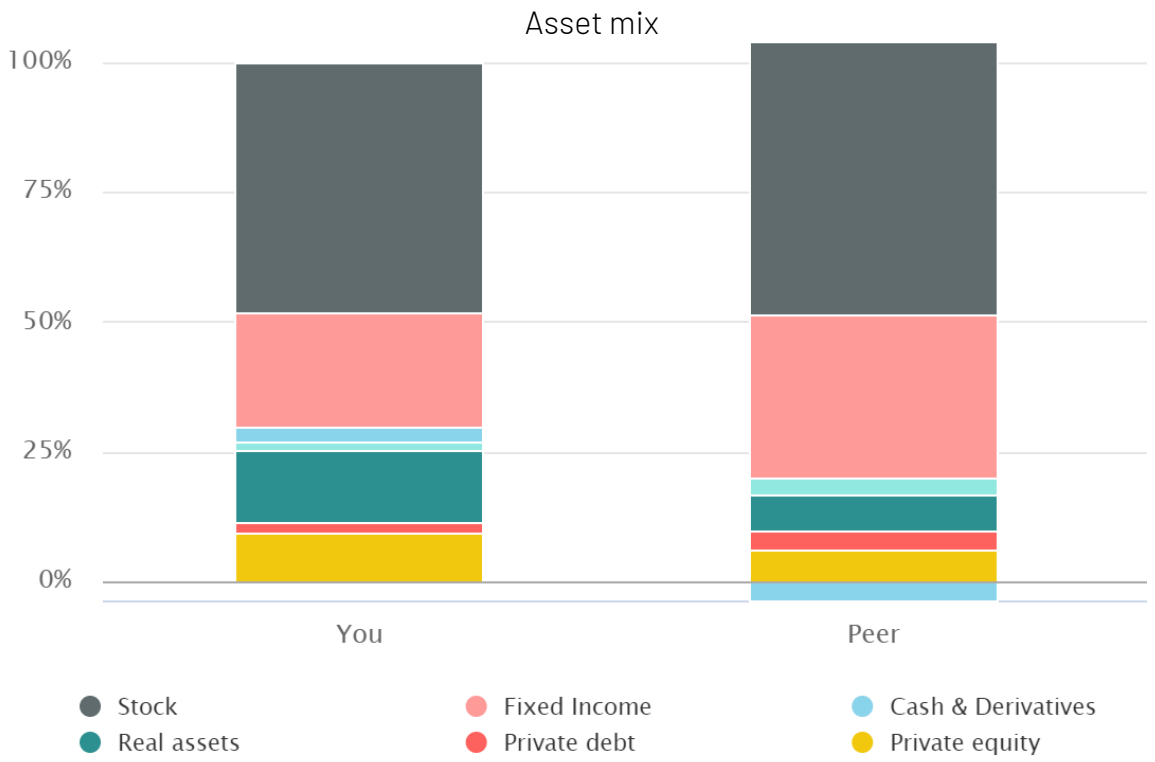
4 The average TEXPERS 12 plan looks very different than peers due to asset mix differences





These exhibits are extracted from CEM Dashboard – an online reporting tool for peer-based benchmarking analysis.

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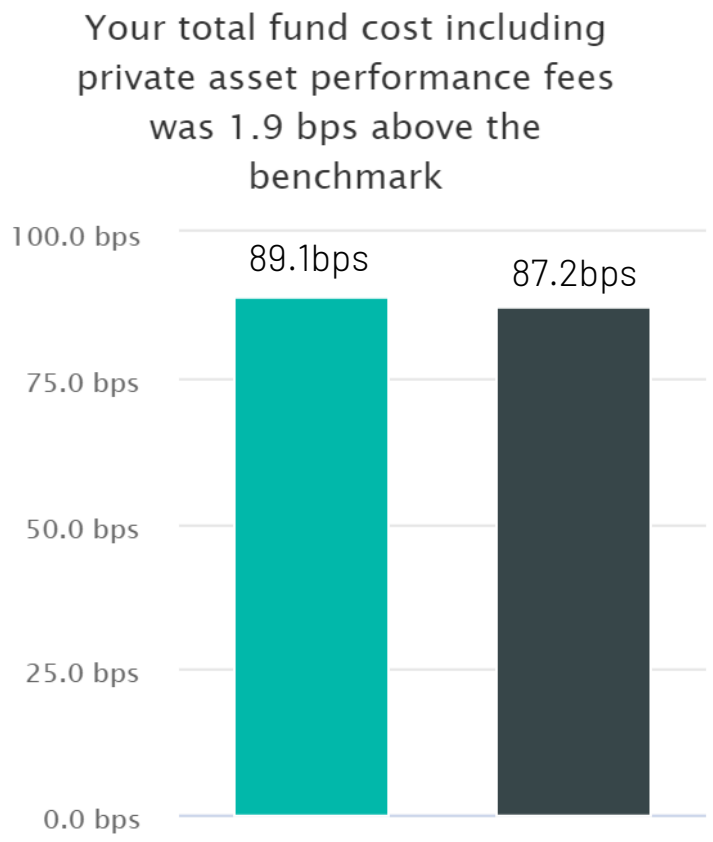
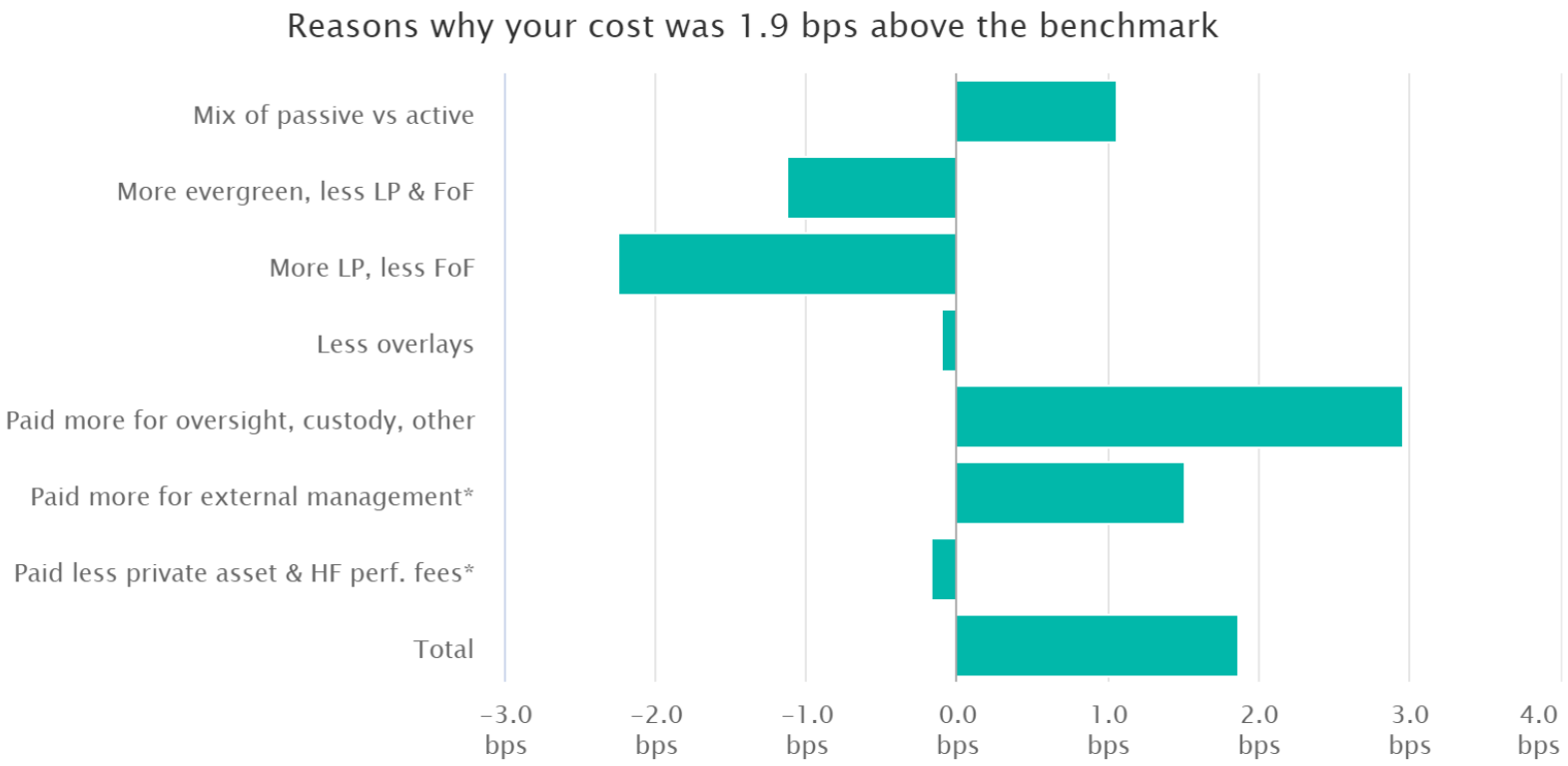
4 After adjusting for asset mix differences, the average TEXPERS 12 plan is more in line with the peer-based benchmark cost





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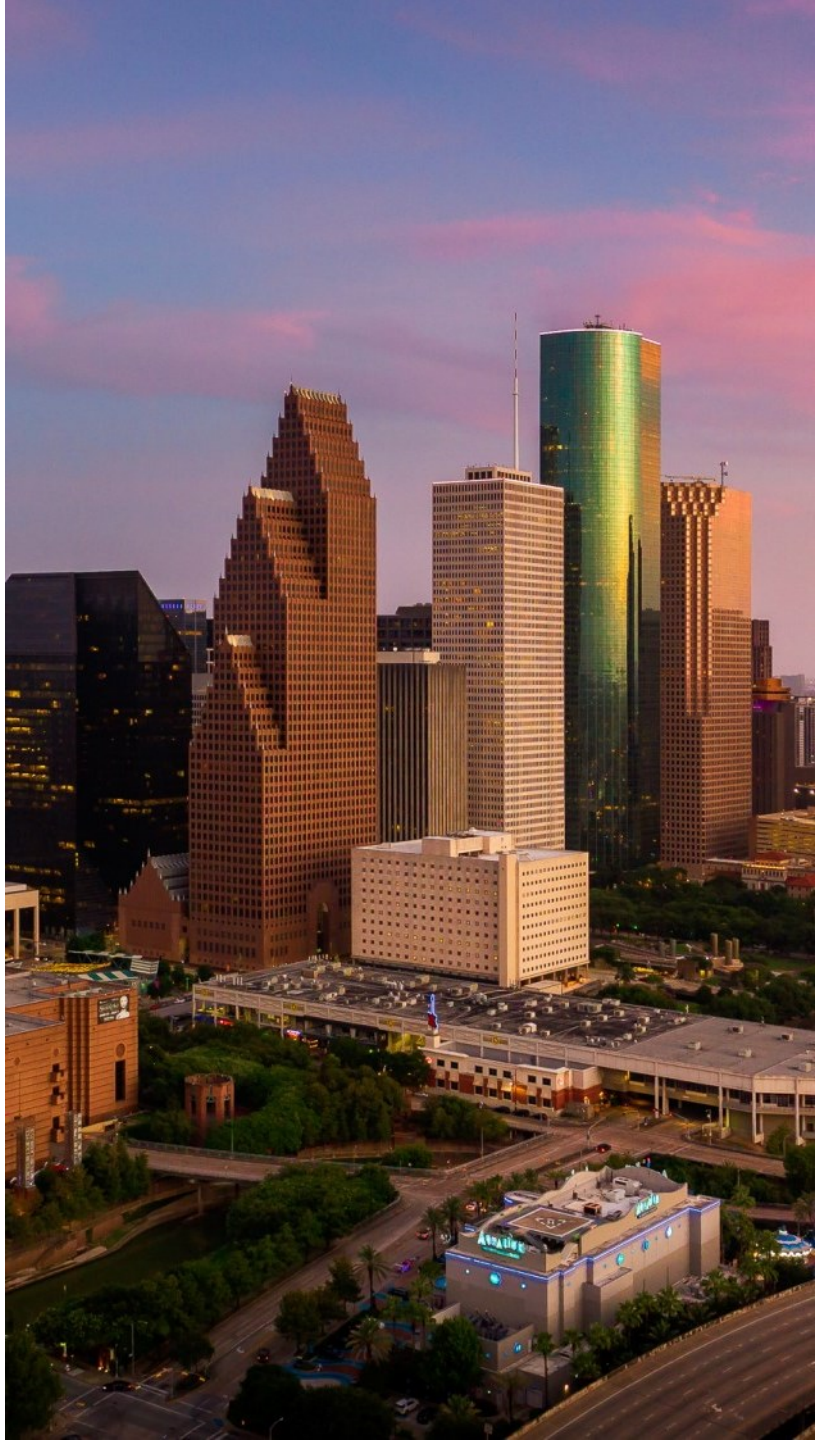
Key takeaways

- Asset mix and implementation choices drive performance.
- Active management adds value but ‘expensive’ active management erodes value.
- Smaller plans can punch above their weight by implementing like larger plans, such as using direct funds over fund of funds in the private equity space.
- Listed real estate and small cap equity make for cost-efficient alternatives to private real estate and private equity, respectively, for plans looking for superior returns at a lower cost.
- Understanding drivers of cost is important to run a cost-efficient pension system.
- The most relevant cost comparison is against a peer group that’s similar to you in size.
- Cost comparisons that do not adjust for differences in asset mix are flawed.

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