Legislative Finance Committee

Wednesday, April 13, 2016

ERB FY16 Q2 Investment Update

Bob Jacksha, Chief Investment Officer

Mary Lou Cameron, Board Chair
H. Russell Goff, Board Vice Chair
Jan Goodwin, Executive Director

Our Mission – Pay Benefits Due

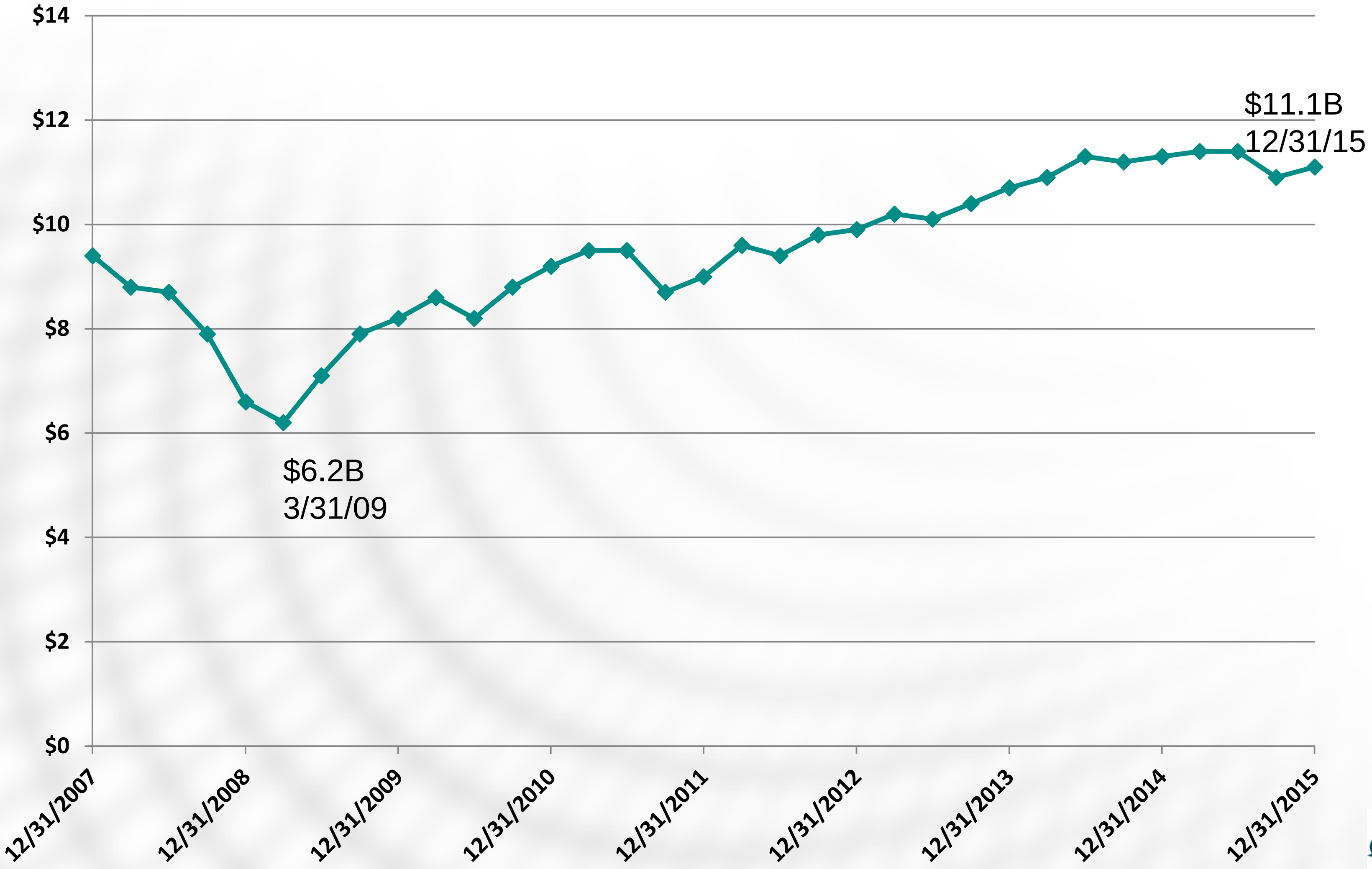
$$C+I=B+E$$

- C=Contributions from employees and employers
- I=Investment Returns
- B=Benefits payments
- E=Expenses of the Fund

Recent Investment Results

- Investment earnings for the calendar year ending December 31st were approximately $167 million, a return of 1.4%, net of investment management fees.
- Portfolio returns fell short of actuarial targets in most time periods measured.
- Actual returns exceeded policy index in all periods measured.
- The value of the fund was $11.1 billion at calendar year end.

Quarterly ERB Assets: Dec. 2007- Dec. 2015



December 31, 2015 Investment Returns

Returns	1 Year	3 Years	5 Years	10 Years	15 Years	20 Years	30 Years
Gross of Fees	1.5%	7.0%	7.0%	6.1%	5.3%	6.9%	9.2%
Net of Fees	1.4%	6.8%	6.8%	5.8%	N/A	N/A	N/A

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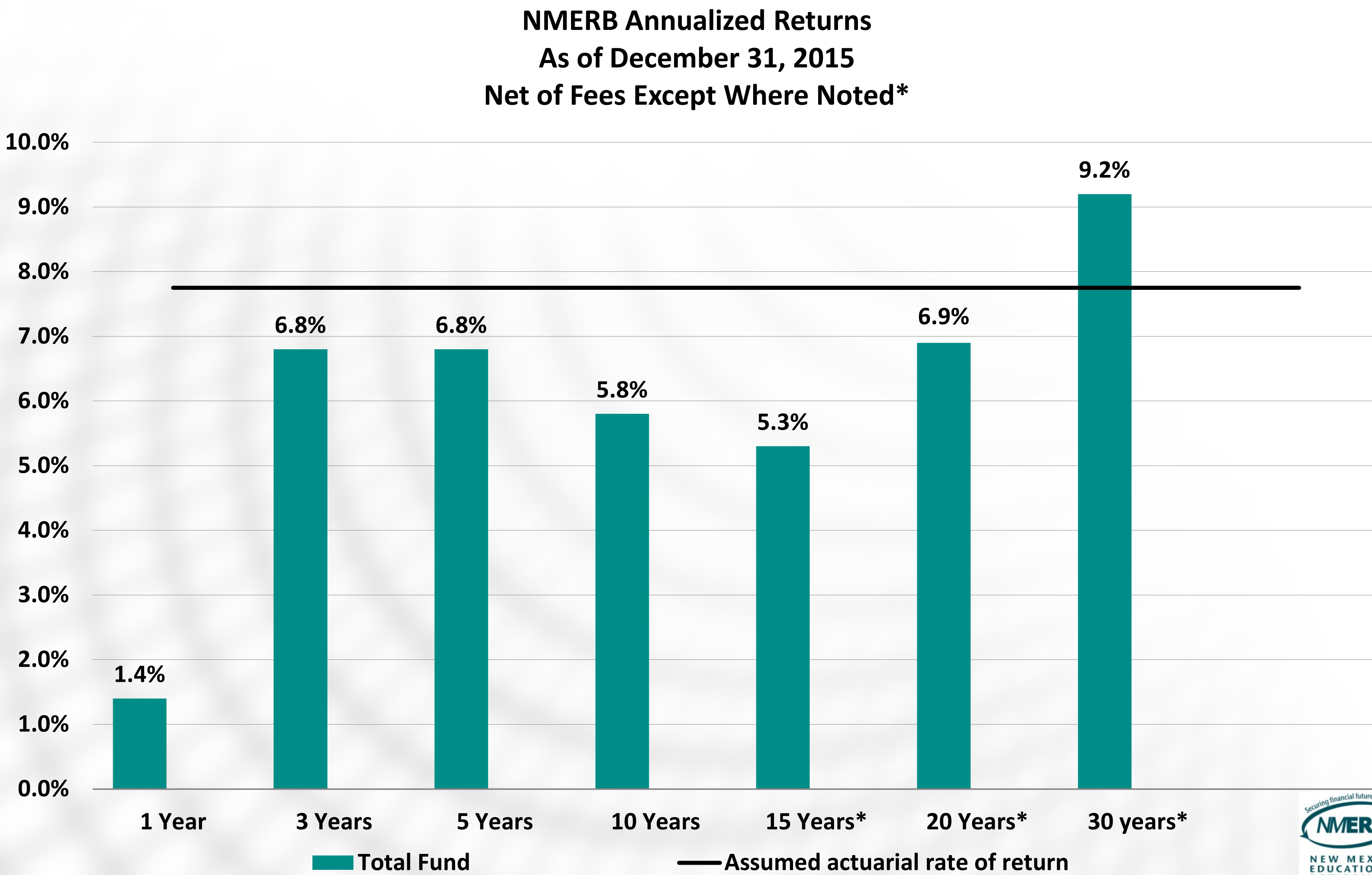
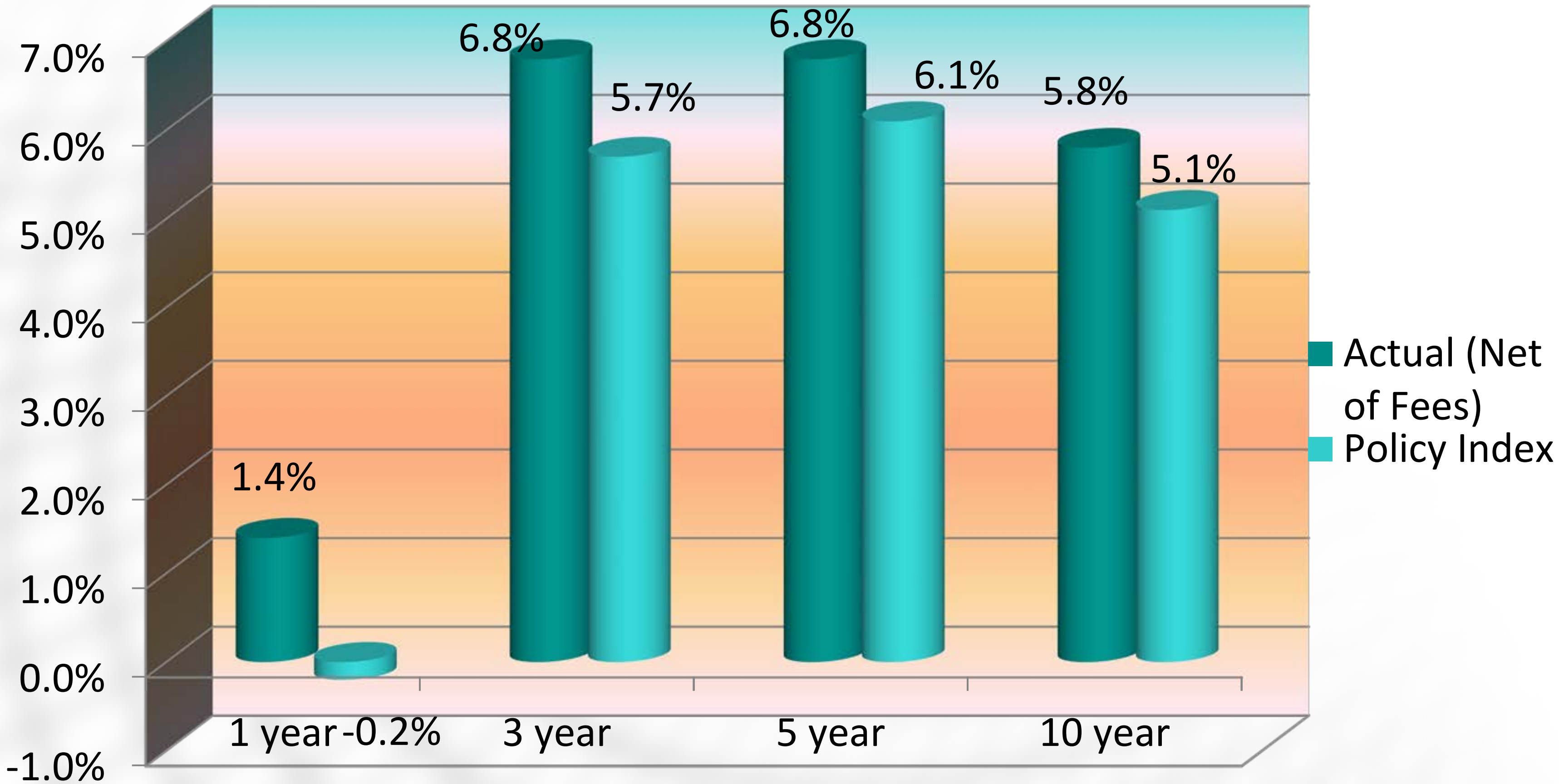
Return vs. 7.75% Target



Actual vs. Policy – Periods Ending December 31, 2015



Volatility – Why Do We Care?

Volatility has a negative effect on portfolio returns

	Year 1	Year 2	Year 3	Year 4	Year 5	Cumulative
Portfolio #1	8%	8%	8%	8%	8%	46.9%
Portfolio #2	12%	-5%	15%	10%	8%	45.4%
Portfolio #3	20%	-10%	5%	30%	-5%	40.0%

-Each of these portfolios has an average (arithmetic) return of 8%.
-However, different results are derived from each portfolio when we link the returns over a time series

Portfolio #1: Cumulative Return = 46.9%; Annualized Return = 8.0%; Standard Deviation = 0.0%

Portfolio #2: Cumulative Return = 45.4%; Annualized Return = 7.8%; Standard Deviation = 8.0%

Portfolio #3: Cumulative Return = 40.0%; Annualized Return = 7.0%; Standard Deviation = 17.0%

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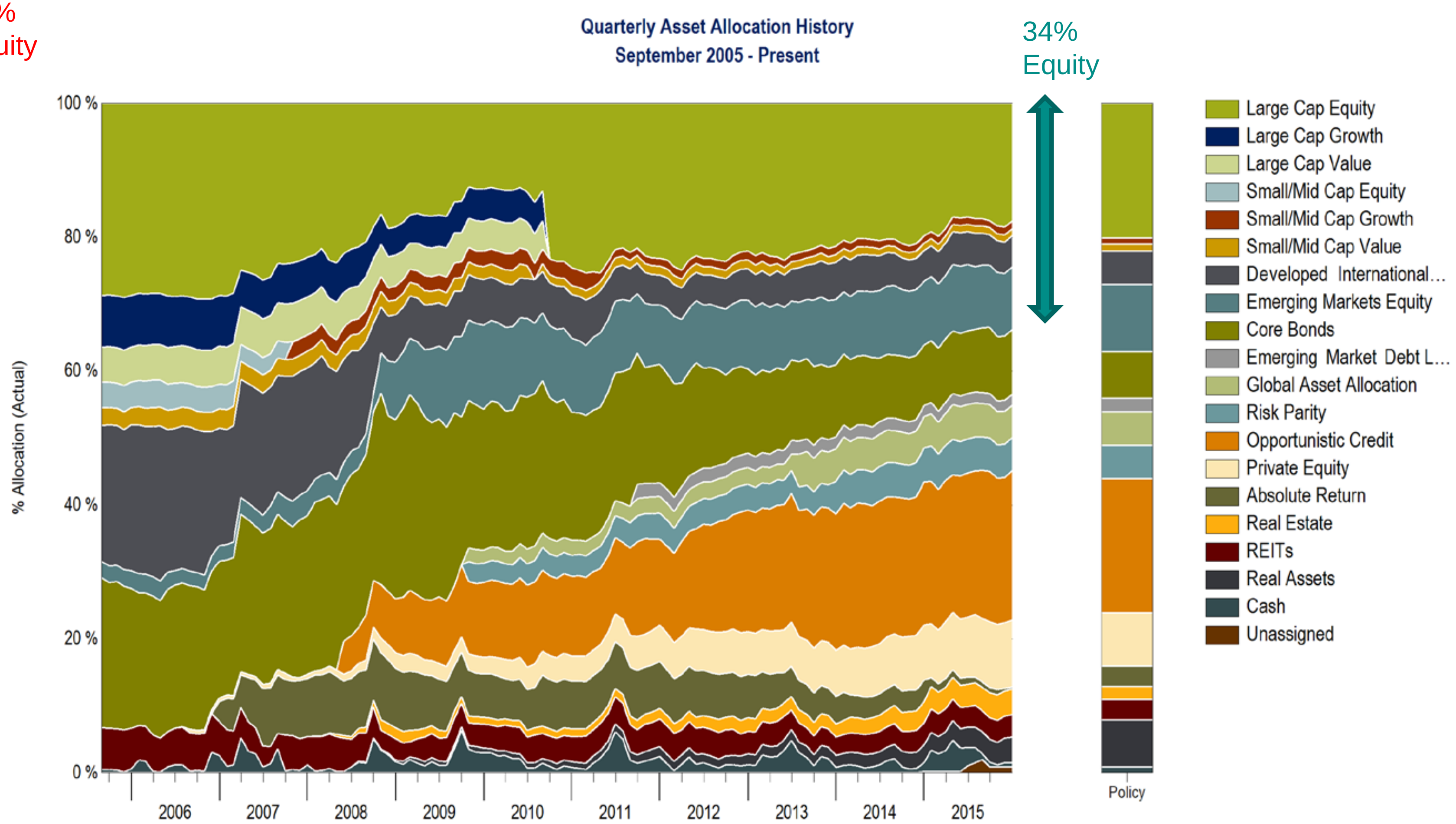
Asset Allocation History

70%
Equity

34%
Equity



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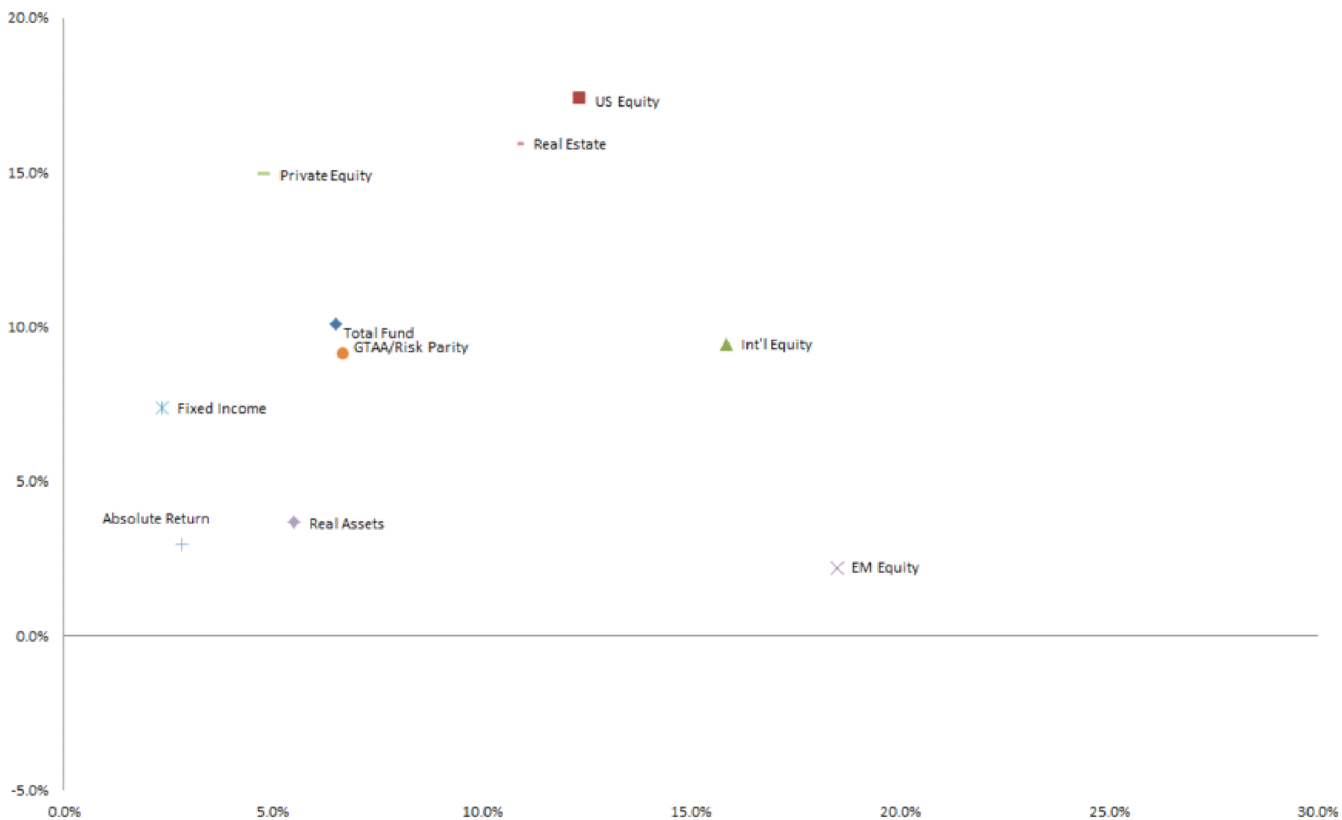
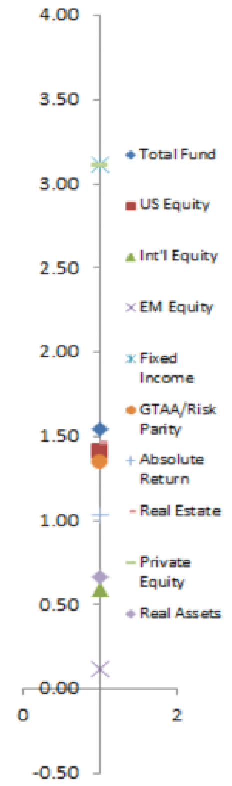
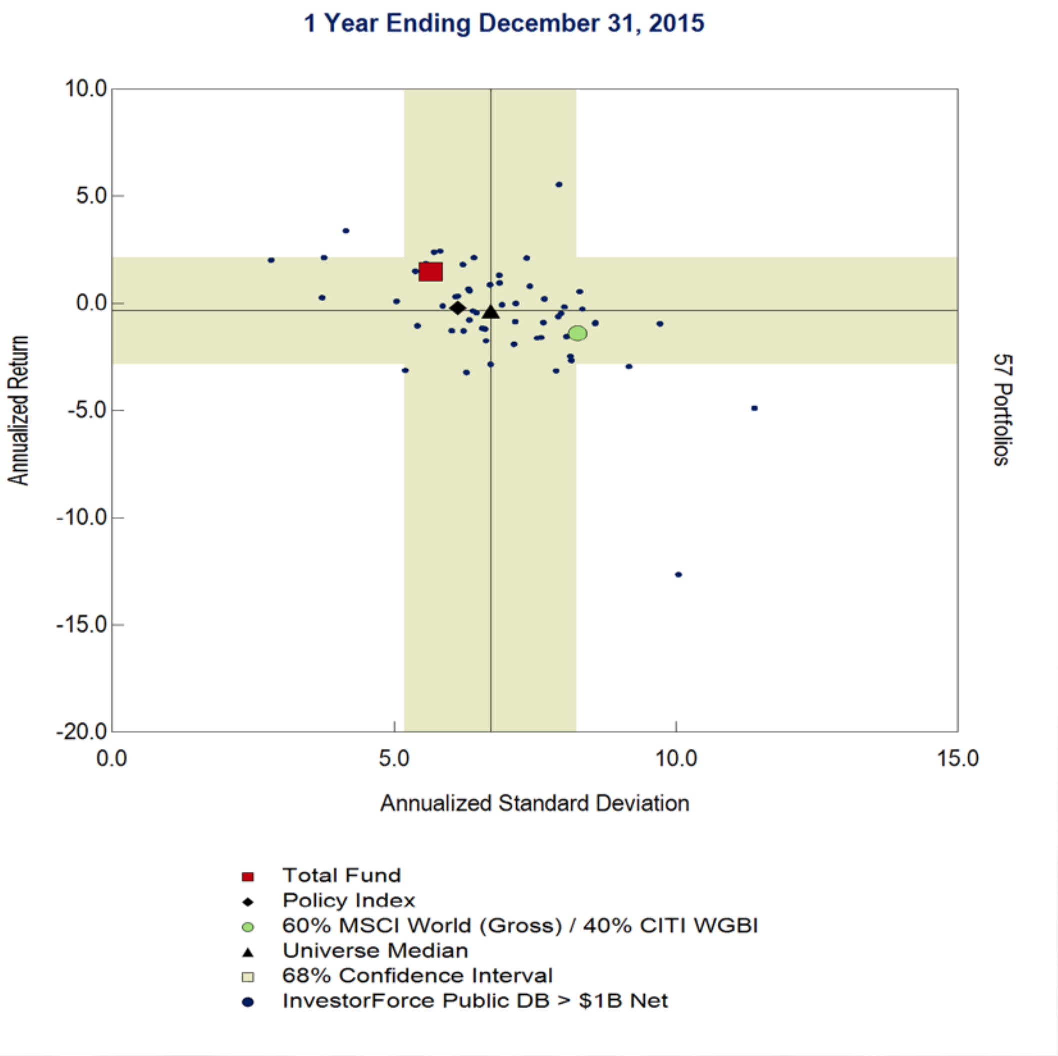
Results- The Asset Allocation "Stew"

5 Year Risk/Return Profile

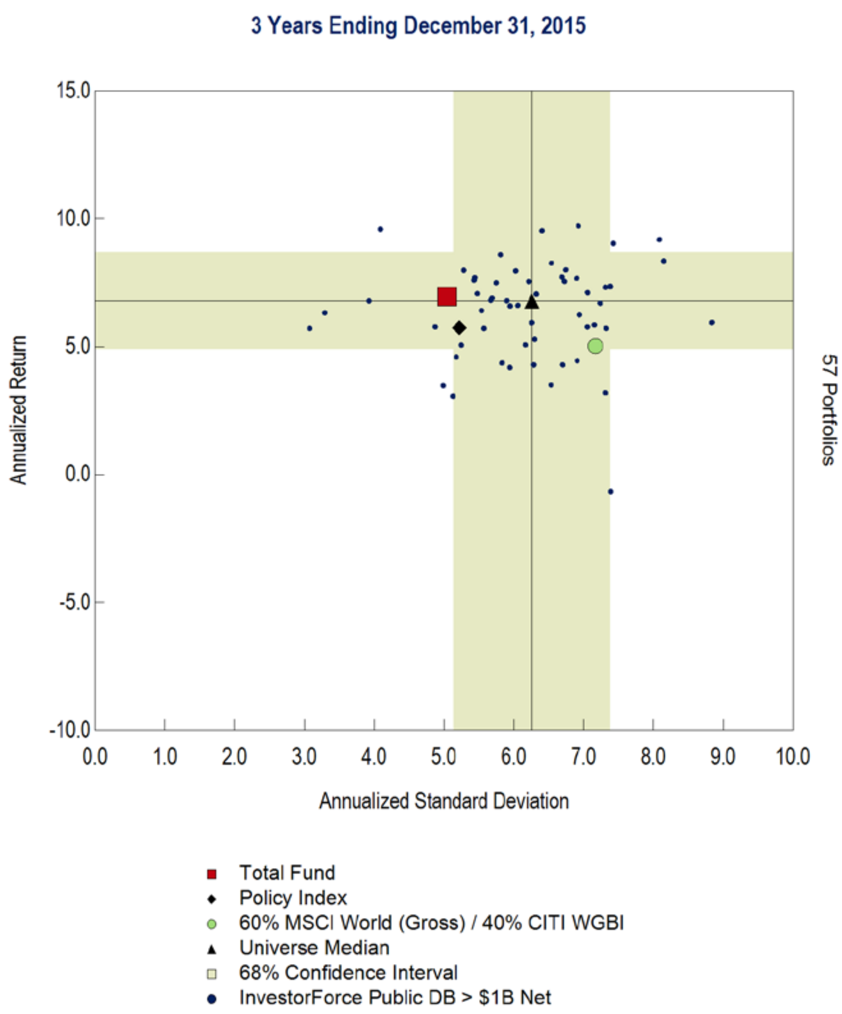




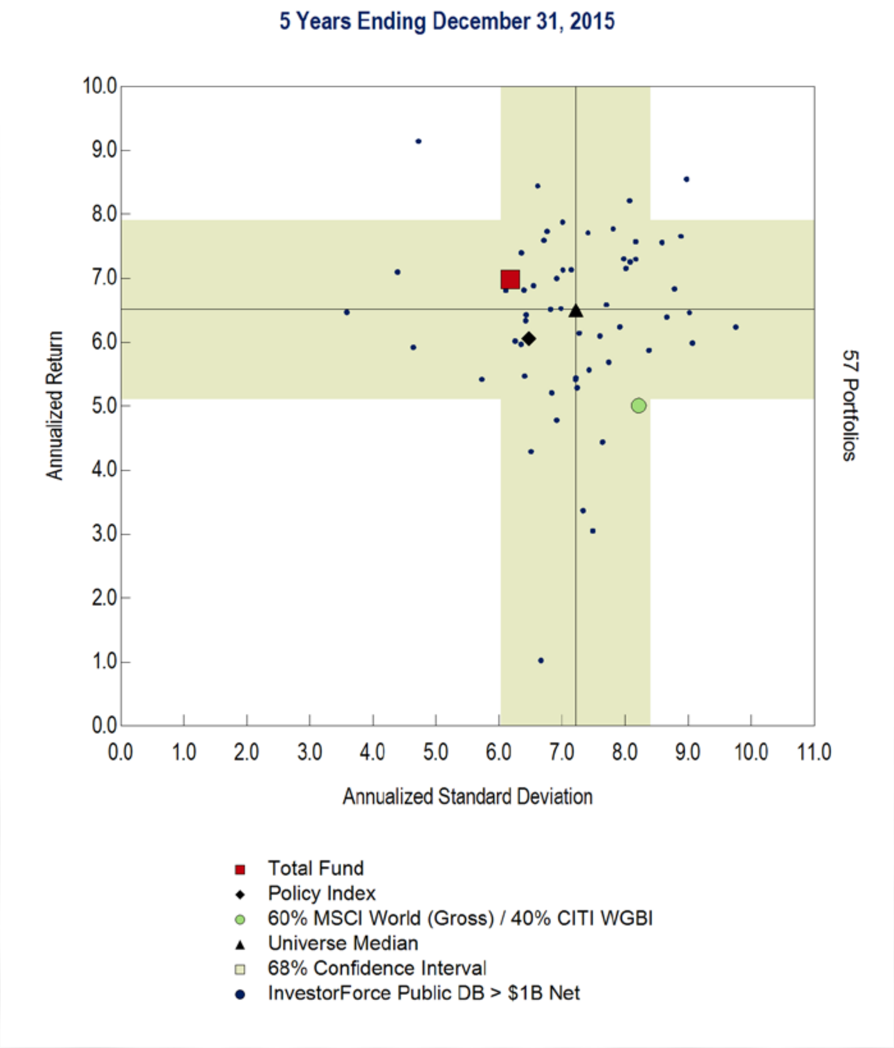
Risk Adjusted Returns – Efficient Use of Risk



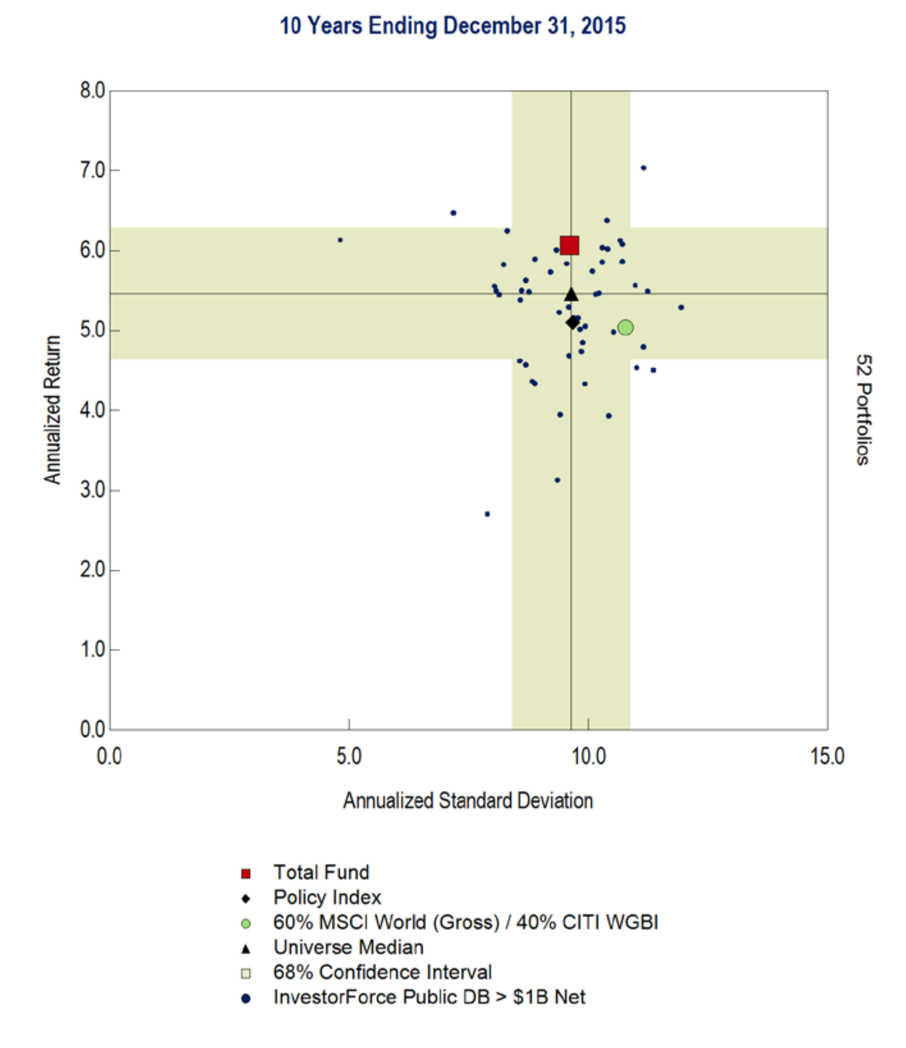
Risk Adjusted Return – Three Years



Risk Adjusted Returns – Five Years



Risk Adjusted Returns – Ten Years



Outlook for FY16 in Total

- We are in a period of historical uncertainty. The current scope of central bank experiments – a protracted period of QE, ZIRP, NIRP, etc. is unprecedented. We know that we don't know all of the implications.

- FYTD returns estimated to be about 0% (with a margin of error of plus or minus 1%) through March 31st, but we don't know what the results of the remaining quarter will be. It is possible but unlikely that we achieve our actuarial target of 7.75%.

- "We cannot direct the wind, but we can adjust the sails." We can't force markets to produce returns. We don't know what future market returns will be but we can position portfolio exposures based on our view of risks for the current and expected conditions.