



September 14, 2021

**To:** Board of Trustees

**From:** David Wescoe, Executive Director 

**Re:** Agenda Item 14: Board Education: Hedge Funds Asset Class

In accordance with the TMRS Investment Policy Statement, comprehensive asset class reviews are conducted at least annually.

The Annual Review Supplement for the Hedge Fund asset class is available in the Diligent Resource Center in the tab titled "September 23, 2021 Board Meeting."

**ATTACHMENTS:**

- 1 - Annual Asset Class Review: Hedge Funds - PowerPoint Presentation
- 2 - Annual Review Supplement – Hedge Funds
- 3 - Albourne Market Overview



# 2021 Hedge Fund Annual Review

Kevin Notaro, Timothy Sweeney & Frank Atkins

September 23, 2021

# Why TMRS Invests in Hedge Funds

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- **The Hedge Fund portfolio serves three main purposes:**
  - Diversify Risk
  - Enhance Returns
  - Protect Trust Fund Capital

# Diversify Risk

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- Hedge funds provide positive returns at a low level of risk
  - The Hedge Fund portfolio is comprised of independent strategies that contribute to Trust Funds returns in changing market environments.
  - Hedge funds provide attractive risk-adjusted returns over the long-term and seek to generate positive performance regardless of the direction of traditional equity and fixed income markets.

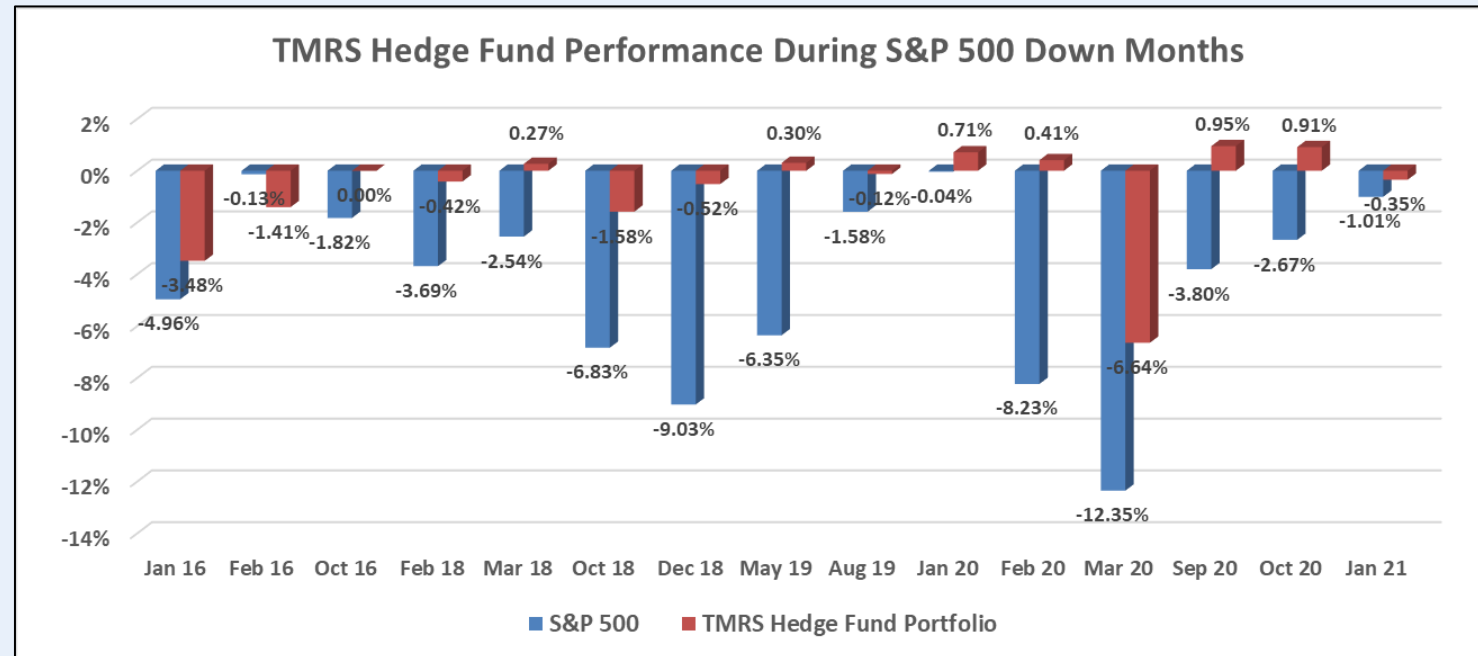
# Enhance Returns

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- The Hedge Fund portfolio provides alpha with lower risk than global equity and fixed income markets.
  - The Hedge Fund portfolio has an annualized return of 5.64% since inception, outperforming the benchmark by 80bps and largely uncorrelated to both equity and fixed income markets.
  - In an era of record low yields hedge funds provide a complementing source of returns at an attractively low level of risk.

# Protect Trust Fund Capital

- Hedge funds provide protection against market downturns due to the low correlations with traditional asset classes.
  - The standard deviation of the Hedge Fund Portfolio is approximately one-third of global equity markets which helps reduce the overall level of risk in the TMRS Trust.

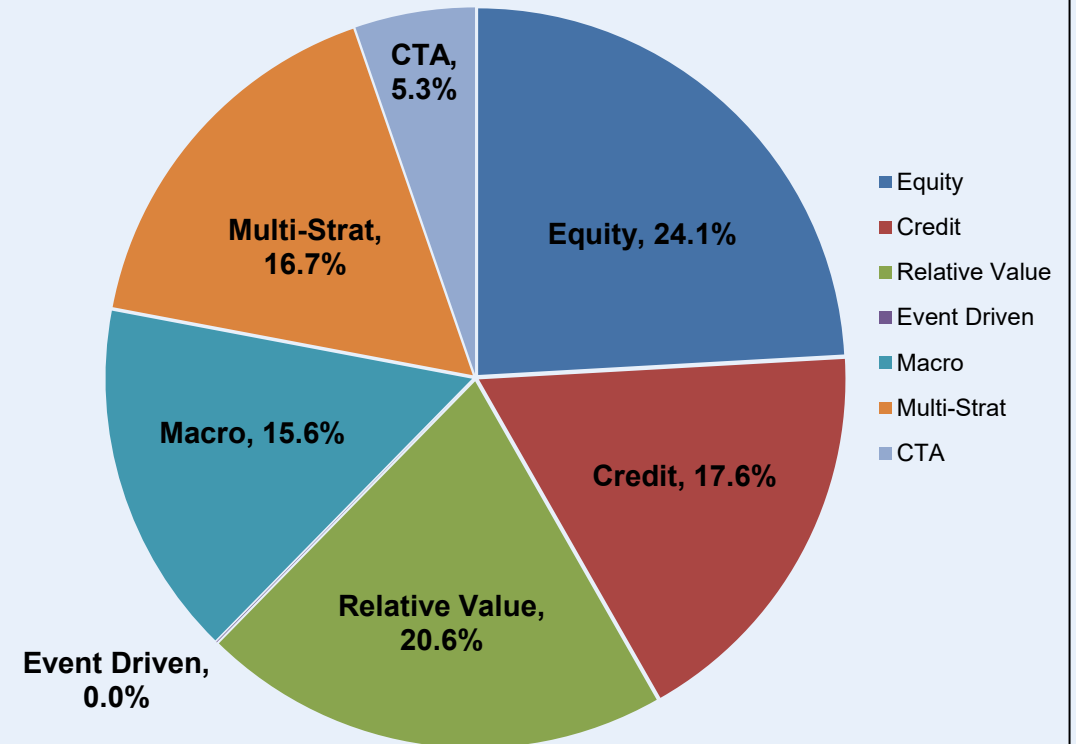


# Hedge Fund Portfolio

## *Hedge Fund Portfolio Summary*

Total Invested:	\$3.4 billion
Trust Fund Allocation:	9.2%
Target Trust Fund Allocation:	5.0%
Current Managers:	24

## Current Portfolio Allocation



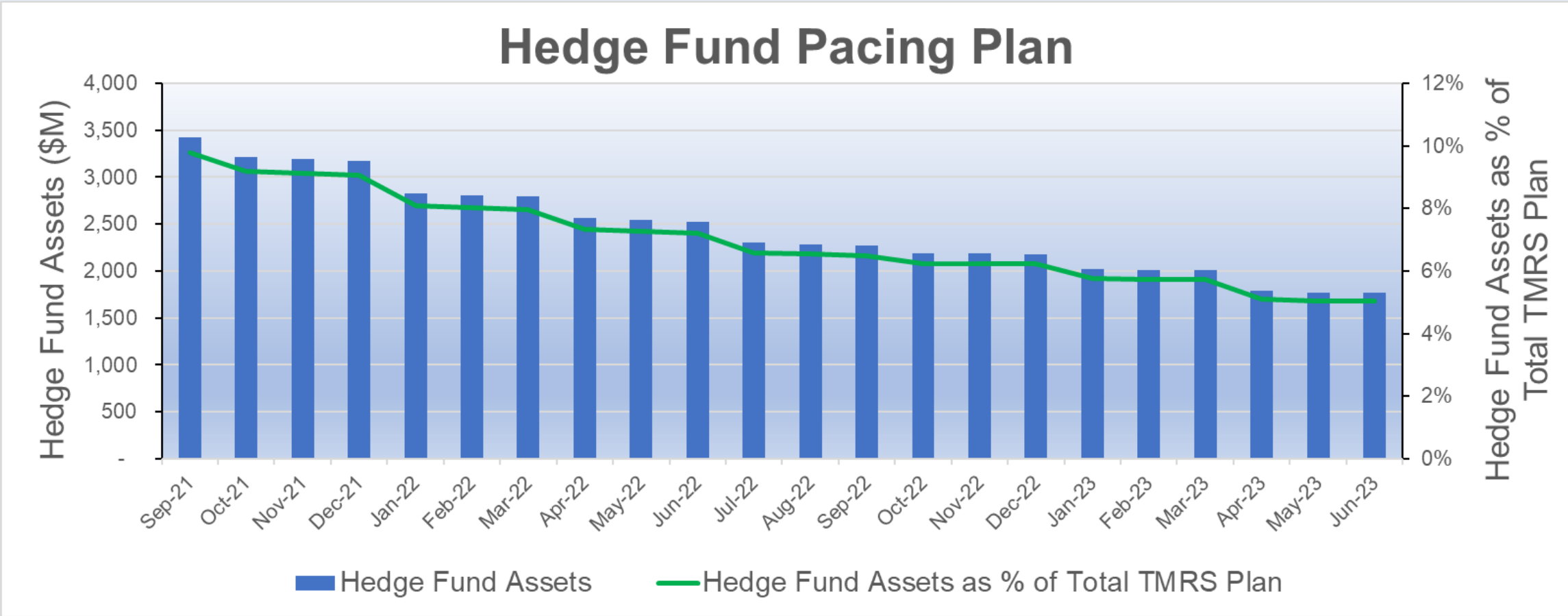
# Seven Trust Fund Hedge Fund Strategies

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- **Relative Value** – Exploiting relationships between securities or assets that are temporarily mispriced and expected to converge back to normal levels.
- **Equity** – Invest long and short in global equity markets with varying net exposures, leverage, holding periods and concentration.
- **Macro** – Invest in global equity, debt, and currency markets based on movements in underlying economic variables.
- **Commodity Trading Advisors (CTA)** – Take long or short positions in futures contracts across commodities, as well as foreign currency and government bond futures, including systematic trading and trend following.
- **Credit** – Primarily investing in debt instruments, with the aim of profiting from inefficiencies in lending and market mispricing's.
- **Event Driven** – Transact in the securities of specific companies, seeking to exploit pricing inefficiencies that may occur before or after a corporate event, while looking to profit when the expected event takes place as predicted.
- **Multi-Strategy** – A manager that employs a diversified mix of strategies.

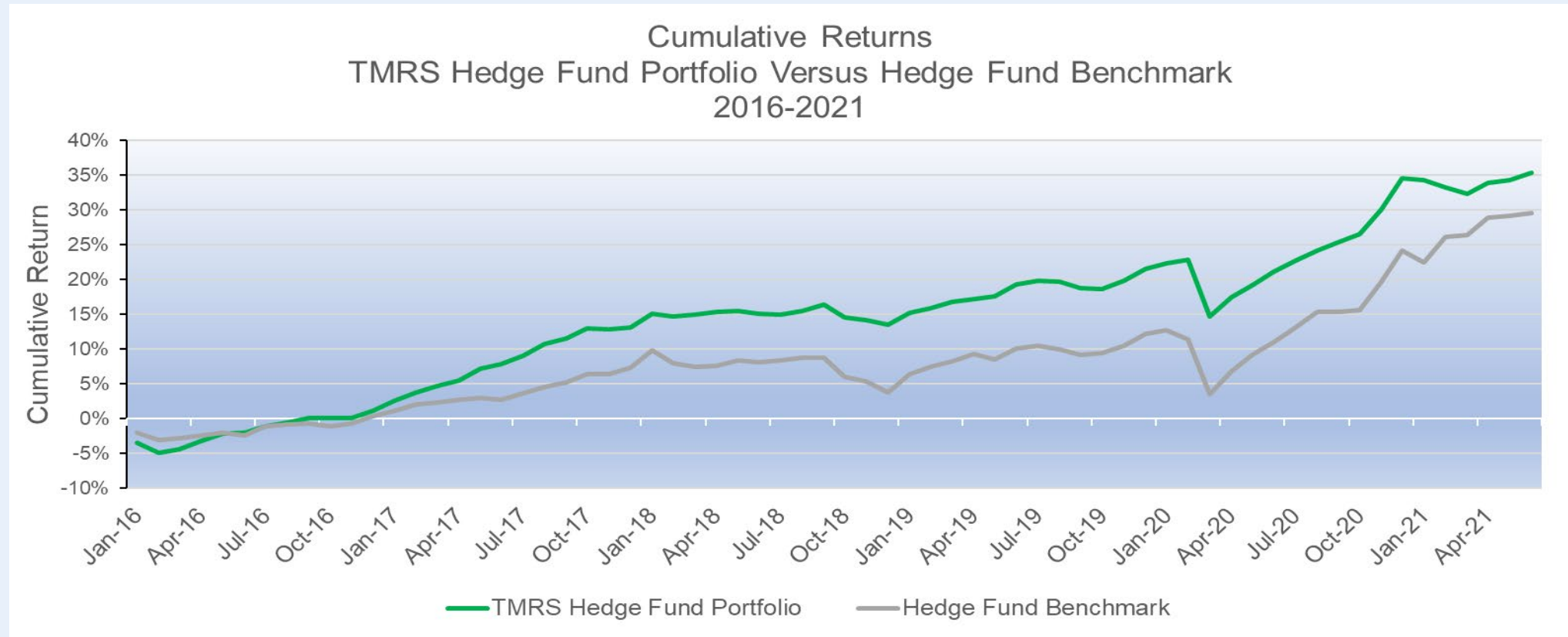


# Pacing Plan



# Portfolio Performance

	1 Yr.	3 Yrs.	5 Yrs.	Since Inception
Hedge Fund Portfolio	11.65	5.52	6.65	5.64
Hedge Fund Benchmark	16.90	6.26	5.87	4.86
<b>Excess</b>	<b>-5.25</b>	<b>-.74</b>	<b>.79</b>	<b>.78</b>



# Strategy Going Forward

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- **Goal: Reduce Hedge Fund assets from 10% to 5%**
  - **Retain Top Managers** – Selectively reduce underperforming fund managers and target a final portfolio with 15 of our best performing Hedge Funds
  - **Portfolio Returns** – Increase returns by retaining top managers and migrating away from a ‘fixed income replacement’ strategy
  - **Portfolio Risk** – Maintaining diversification benefits, while gradually allowing volatility to increase as the Hedge Fund portfolio becomes more concentrated

# Transition Plan & Pacing

## 2021 Checklist

- Redeem from underperforming managers
- Manage redemption schedule
- Adjust portfolio to new Hedge Fund Benchmark for CY 2022
- No areas of concern were identified during the annual review

## 2022 Goals

- Communicate with managers around rebalances
- Reach 5% target allocation
- Maintain diversified portfolio with strong correlation benefits

## **DISCLOSURES**

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