

Garcia Hamilton & Associates Core Aggregate Fixed Income Strategy Recommendation of Public Markets External Manager Group

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Today's Presentation

Garcia Hamilton & Associates, L.P. Core Aggregate Fixed Income Strategy

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1. Asset Class Considerations

Recommendation is consistent with PSERS Strategic Asset Allocation (SAA)

1. PSERS SAA has established a long-term target of 6% to Core Fixed Income
2. As of December 31, 2023, the actual allocation to Core Fixed Income was 2.45% (an underweight of 3.55% or \$2.6 billion)
3. Funding for the Core Fixed Income mandates will be coordinated with allocation changes within the asset class and between the other asset classes of the fund

2. Recommendation

PSERS IO and Verus recommend committing an initial amount of \$500 million, with an additional sum of up to \$1 billion, to Garcia Hamilton & Associates, L.P. for a Core Aggregate Fixed Income Strategy.

Overview	
Firm Name	Garcia Hamilton & Associates, L.P.
Strategy Name	Garcia Hamilton & Associates Core Aggregate Fixed Income Strategy
Capacity / Current NAV	Capacity of up to \$50 billion in the strategy / Current NAV is \$12.6 billion
Recommended Commitment Amount	Initial commitment of \$500 million; total up to \$1.5 billion
Existing Relationship	No
Asset Class / Sub Asset Class	Fixed Income / Core Fixed income
Investment Office Professionals Due Diligence Team (“IOP”)	Carl Lantz, Senior Portfolio Manager Steven Heuer, Senior Manager Emily Detz, Intermediate Investment Professional
Investment Office Oversight	Carl Lantz, Senior Portfolio Manager
External Consultant Oversight	Verus

3. Strategy & Expertise

Firm & Expertise

- Founded in 1988 with sole office in Houston, TX
- Over \$20 billion in AUM as of December 31, 2023
- 13-member, long-tenured investment team
- 100% employee-owned and operated (MWBE Firm) with 18 partners
- P&I Best Places to Work 2016-2020, 2022 and 2023

Strategy

- Top-down, macroeconomic-focused, investment philosophy
- Conservative, high-quality security selection criteria
- Highly liquid, concentrated portfolio construction
- Risk controls embedded in disciplined investment process

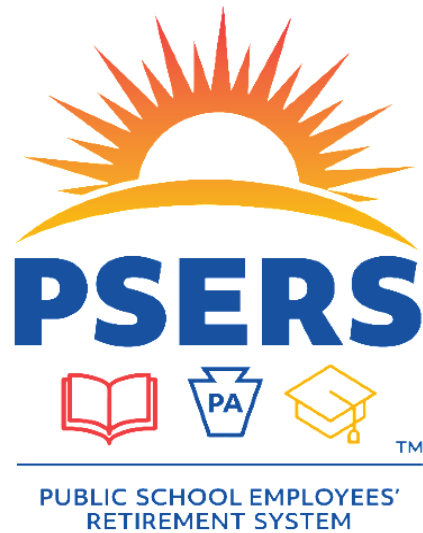
4. Investment Considerations

Investment expected to face risks consistent with core fixed income mandates

Risk	Detail	Mitigating Factors
Market Risk	Market risk is the risk of experiencing adverse price movements due to factors that impact the overall performance of financial markets.	<i>The high-quality, conservative portfolio holdings (exclusive to U.S. Treasuries, Agencies, Agency MBS and Investment Grade Corporate Securities) provide insulation from drawdowns arising from a flight to quality environment.</i>
Interest Rate Risk	Bonds can be bought and sold prior to maturity on the secondary market. Bonds can trade at prices higher or lower than the face value of the bond depending on the economic environment and market conditions—both of which can be affected significantly by a change in interest rates.	<i>The top-down macroeconomic investment process allows GHA to position the portfolio in anticipation of interest rate changes while the highly-liquid, concentrated portfolio enables them to shift exposures quickly with limited friction and minimal cost.</i>
Credit Risk	Credit risk is the risk of loss if an issuer doesn't pay required interest or principal payments.. Most individual bonds are rated by a credit agency such as Moody's or S&P to help describe the creditworthiness of the issuer or issue. Bonds also carry the risk of being downgraded, which can impact price.	<i>The high-quality selection criteria for Investment Grade Corporate Securities limits the universe to those bonds with a minimum of "A-" by 2 out of 3 major ratings agencies and is coupled with a strict sell discipline for any downgraded security.</i>
Liquidity Risk	Liquidity risk is the risk that an entity is unable to execute transactions at prevailing market prices due to lack of market depth or other market disruptions.	<i>The Strategy's high-quality bias makes the overall liquidity of the portfolio higher than peers and generally results in transaction cost savings.</i>

5. Investment Highlights

- Highly experienced, institutional quality boutique investment firm
- Collaborative investment team under strong leadership
- Consistent outperformance over benchmark over multiple cycles
- Conservative portfolio construction centered on principal preservation and maintaining high liquidity
 - Sector rotation exclusive to the highest-quality fixed income instruments and no use of leverage
 - High credit quality selection criteria and disciplined risk controls prevent blow-ups associated with lower quality securities
- Strategy offers a differentiated top-down macroeconomic investment process and provides diversified exposures and alpha sources relative to peers and PSERS' internal fixed-income portfolio



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