



**Investment Committee Meeting Minutes
July 28, 2020**

1. Meeting called to order (0:15)

The Pension Review Board (PRB) Investment Committee Meeting was called to order by Chair Christopher Zook on Tuesday, July 28, 2020, at 9:30 am via teleconference.

2. Roll call of Committee members (0:48)

Committee members present:

Chair Christopher Zook

Keith Brainard

Shari Shivers

A quorum being present, the meeting was called to order by Chair Zook.

3. Roll call of members of the public (1:05)

There were no pre-registered members of the public who would be providing comments.

4. May 7, 2020 Joint Meeting of the Investment and Actuarial Committees minutes (2:10)

Chair Zook entertained a motion to suspend the reading of the minutes of the May 7, 2020 joint meeting of the Investment and Actuarial Committees and approve them as circulated.

The motion was made by Mr. Brainard and seconded by Ms. Shivers.

The motion passed unanimously.

5. Investment Practices and Performance Reports received as required by Government Code Section 802.109 (SB 322) (3:06)

Robert Munter and Kenny Herbold presented information on the Investment Practices and Performance Evaluations (IPPEs) that were due to the PRB on June 1, 2020.

Mr. Munter stated that staff expected to receive 55 evaluations and included 37 of the received evaluations for this presentation. The PRB had been in contact with the nine systems that had not yet submitted their required evaluation. He noted that most systems' acting investment consultants conducted the majority of evaluations and outside independent firms only conducted seven evaluations. Mr. Munter noted that more than half of the evaluations did not provide any recommendations for improvement; however, all independent third-party evaluators provided at least one.

He noted that the main takeaways so far from the recommendations were that systems should review their investment policy statement (IPS) at least annually, review and consider their

governance practices and procedures, review and consider investment fees, increase trustee training, improve transparency and ensure all processes were well-documented and defined in the IPS.

Mr. Brainard asked if the recommendations indicated some systems were not reviewing their IPS or peer performance at least annually. Mr. Munter stated that it varied, as several recommendations were to continue reviewing the IPS and to use requests for proposal (RFPs) as a tool to verify investment consultant fees are in line with industry standards and peers.

Ms. Shivers asked if staff used Texas Treasury, Permanent School Fund and the University of Texas/Texas A&M Investment Company as benchmark resources. Mr. Munter stated that staff only considered the resources identified by the evaluators but noted those additional resources could be considered in the future.

Mr. Munter noted that the main takeaway from the overall recommendations was that plans should routinely review their investment practices and procedures. He stated that the investment-related processes should be well documented and defined in the IPS. He noted that an additional takeaway from the overall recommendations was the need to clarify and document policies and practices. Mr. Brainard asked if some systems lacked an IPS, and if so, how many. Mr. Herbold clarified having an IPS was a statutory requirement for all systems.

Mr. Munter pointed out evaluators identified the standards, benchmarks, and resources for major components of the IPPEs. He stated that staff was working to make a compendium of those resources available to systems in the future.

Mr. Herbold stated that the evaluations contained extremely useful information that would improve understanding of board and consultant actions. He noted that staff planned to present a more thorough analysis of the IPPEs at the September 29th Investment Committee meeting. Mr. Herbold stated that it was his understanding that the intent of the law was to increase transparency and strengthen oversight of investment-related decisions. He noted that the IPPEs contained a common recommendation for additional documentation or clarification of existing policies in the IPPEs.

Mr. Herbold noted the PRB identified five elements for the evaluations in the informal guidance issued to systems, which included: identifying and reviewing existing policies and procedures; comparing existing policies and procedures to best practices; assessing if policies were being followed; identifying strengths and weakness of policies; and providing a description of the methodology.

Mr. Herbold provided the Committee with sample evaluations from four consulting firms that included the five elements from the IPPE informal guidance and provided transparency about the systems' investment practices. He noted that more than half of the evaluations received by the PRB did not include any specific recommendations, which caused concern in some cases, but was understandable when the IPPE provided a thorough explanation about how the board was adhering to industry standards and did not recommend or require improvement.

Chair Zook clarified that IPPEs should evaluate and provide recommendations to systems, but he felt that it was acceptable to not include recommendations when evaluators offered a detailed explanation. Chair Zook also noted that since this was the first time, there may have been some disparity between systems regarding the intended purpose of the evaluations. It appeared that some systems may have considered the evaluation a means of confirming their current practices whereas others received recommendations and compared the system's practices to industry best practices. He stated the PRB could potentially help guide this process and develop a standard methodology. He asked staff to reach out to the systems that did not provide substantive IPPEs and show them examples of what the PRB was looking for to help them shape their reports. Mr. Herbold noted that staff already had some conversations with systems and their consultants and could continue to do so. He stated the systems the PRB had spoken with were willing to make improvements as needed.

Mr. Brainard noted that in addition to the requirement for systems to identify recommendations, the statute could be revised to specify that the system would demonstrate that their policies and procedures were effective in their IPPEs. Chair Zook stated that could potentially be included when preparing the report for the Legislature.

The Committee discussed the extent of a board's involvement in the evaluation process. Mr. Brainard stated he would like a retirement system's board to verify that they read and reviewed the evaluations; Chair Zook clarified the requirement for board verification should be codified in statute.

Mr. Brainard stated that another addition he would like considered in future reports was the identification of the percentage of portfolios that were actively managed versus passively managed.

Ms. Shivers stated that she supported the recommendation for having a system's board acknowledge they have reviewed the IPPE and that she supported informally reaching out to systems that did not provide recommendations or reasons for not having any recommendations.

Chair Zook asked the Committee to consider recommending the Legislature amend the statute to include in the IPPE the acknowledgment of any potential conflicts of interest, which would include the system's investment consultant completing the evaluation. He stated that for all systems who had their acting consultant conduct the IPPE, their boards should have been aware that those consultants may have been unlikely to state anything negative about themselves. He noted he was not surprised that the independent third-party IPPEs contained many recommendations, whereas reports completed by acting consultants had fewer. He recognized that it was expensive for some systems to hire a third-party consultant for the review, so it was important to have stakeholders of those systems hold their active consultants to an extremely high standard. He acknowledged that the use of independent consultants was a contested issue during the legislative session, and he commended the legislature for the requirement as it would strengthen the overall ability for systems to pay their members' benefits. Chair Zook noted that he would like staff to come to the next meeting with the top five priorities staff would recommend to the

legislature to continue to strengthen the IPPE statute and to include suggestions by Committee members.

6. Date and location of next Investment Committee meeting – September 29, 2020 (1:08:26)

Chair Zook stated that the next Investment Committee meeting would be held on September 29, 2020.

7. Invitation for public comment (1:09:20)

There were no public comments.

8. Adjournment (1:10:14)

Chair Zook adjourned the meeting at 9:40 am.

PRB Staff in Attendance:

Anumeha Kumar
Michelle Downie Kranes
Ashley Rendon
Benjamin Warden
Bryan Burnham
James King
Kenny Herbold
Lindsay Seymour
Mariah Miller
Robert Munter
Wesley Allen

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Chair Christopher Zook