



**TO:** David L. Long, Executive Director, Houston Municipal Employees Pension System  
**FROM:** Robert Appling, Jason Samankasy  
**SUBJECT:** Wilshire Associates, Inc. Report on Review of HMEPS Investments under Section 2D(a)(1-8)  
**DATE:** June 19, 2020

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### **Summary**

The Houston Municipal Employees Pension System (HMEPS or System) requested that Wilshire Associates, Inc. (Wilshire) perform a review of HMEPS' investments as set forth in its governing Statute, Article 6243h, Tex. Rev. Civ. Stats., §2D(a)(1-8). Accordingly, Wilshire has conducted a review<sup>1</sup> of HMEPS' investments in accordance with the direction provided by the System, and submits this report to HMEPS.<sup>2</sup> The accompanying chart provides the text of each subsection of §2D(a), the information reviewed by Wilshire, and Wilshire's finding with respect to each subsection.

### **Wilshire Overview and HMEPS Relationship**

Since its founding in 1972, Wilshire has evolved from an investment technology firm into a global advisory company specializing in investment products, consulting services, and technology solutions. Wilshire employs approximately 270 people worldwide in 10 offices and serves 500 clients around the globe, with over \$1 trillion in assets under advisement and over \$65 billion in assets under management (as of March 31, 2020). Headquartered in Santa Monica, Calif., Wilshire is an independent, privately held Subchapter S corporation that is 100% owned by its active key employees. Wilshire has no parent company.

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<sup>1</sup> See Appendix A. In its review, Wilshire has relied on the information and documentation provided by HMEPS and has not verified the information or documentation provided by HMEPS, except for the material prepared by Wilshire through its provision of investment consulting services under the investment consulting agreement with HMEPS.

<sup>2</sup> Wilshire submits this report with the understanding that HMEPS will demonstrate in its Comprehensive Annual Financial Report for the Year Ended June 30, 2020 that this review was conducted as provided in §2D(a).



Wilshire's principal lines of business encompass a diverse range of investment solutions for institutional and financial intermediary clients that include discretionary and non-discretionary implementations spanning the public and private markets, a wide range of multi asset class analytics solutions, and the Wilshire indices, including the Wilshire 5000 Total Market Index<sup>SM</sup>.

Wilshire's consulting practice was established in 1981 to provide customized institutional consulting solutions designed to enhance every stage of the investment decision-making process. We serve many of the world's largest asset owners including a diverse mix of public and corporate pension plans (both defined contribution and defined benefit), endowment and foundation trusts, and other long-term investment trusts. Our intellectual property, combined with an established infrastructure and industry-leading technology platform, have helped effectively deliver both advisory services and discretionary services to institutional investors seeking economies of scale for the ultimate benefit of their constituents.

Wilshire has served as the general Investment Consultant for HMEPS since 1995. In its role, Wilshire provides advisory services to HMEPS regarding, among other items, the System's:

- Asset Allocation policy
- Capital Markets Assumptions
- Investment Policy Statement
- Sourcing, Hiring, Monitoring, and Terminating Investment Managers
- Performance Reporting
- Rebalancing Policy
- Liquidity Management

In addition to the deep and experienced team across Wilshire, HMEPS is served by Rob Appling and Jason Samankysy. Rob Appling is a Managing Director of Wilshire Associates, based in Wilshire's Denver office. He provides investment consulting services to the firm's corporate, public, foundation and endowment clients. He also serves on the Private Equity/Credit and Hedge Fund of Funds Asset Class Committees. Prior to joining Wilshire, he spent seven years at Mercer as Director of Investments for the central US. Prior to Mercer's acquisition of Hammond Associates, he also served as a Senior Investment Consultant for Hammond. Mr. Appling



earned a BS in economics from Texas A&M University and an MBA with concentration in finance from the University of Missouri – St. Louis. He holds the Chartered Financial Analyst and Chartered Alternative Investment Analyst designations.

Jason Samansky is a Senior Vice President with Wilshire Associates. Throughout his tenure at Wilshire, he has worked directly with large institutional investors of all types including public and corporate defined benefit plans, foundations, endowments and insurance companies. Based in Santa Monica, Mr. Samansky is a member of the Public Real Assets and Private Real Assets Asset Class Committees. He also manages the performance measurement team along with third party custodial relationships. Mr. Samansky joined Wilshire in 2005. He has more than 10 years of industry experience, with previous work at a global investment management firm. Mr. Samansky earned his BA from Ithaca College and holds the Chartered Financial Analyst designation.



**Review of HMEPS' investments as set forth in its governing Statute, Article 6243h, Tex. Rev. Civ. Stats., §2D(a)(1-8)**

Subsection 2D(a):	Information Reviewed	Finding
<p>(1) the pension system's compliance with its investment policy statement, ethics policies, including policies concerning the acceptance of gifts, and policies concerning insider trading</p>	<ul style="list-style-type: none"> <li>• HMEPS Investment Policy Statement (Appendix I rev. 10/1/17)</li> <li>• HMEPS Ethics Policy, rev. 10/22/15               <ul style="list-style-type: none"> <li>• Gifts: § 107</li> <li>• Prohibition on Insider Trading: § 105.05</li> </ul> </li> <li>• Ethics Policy Acknowledgements by Trustees and Executive Director (2018-2020) and HMEPS-identified Key Staff (2019-2020)</li> <li>• Chapter 171 and 176, Tex. Local Gov't Code disclosures; CIS and CIQ disclosures available on HMEPS website: <a href="http://www.hmeps.org/cis.html">http://www.hmeps.org/cis.html</a>; <a href="http://www.hmeps.org/ciq.html">http://www.hmeps.org/ciq.html</a></li> </ul>	<p>The System's Investment Policy Statement states that it was adopted by the Board in 2011 with the following purpose:</p> <p style="padding-left: 40px;">"The purpose of this Investment Policy Statement (IPS) is to delineate the investment policies and objectives of the System. These policies and objectives are intended to allow for sufficient flexibility in the management process to capture investment opportunities, yet provide parameters that will ensure prudence and care in the execution of the investment program. Specifically, these policies should assist the fiduciaries of the System in effectively monitoring and evaluating the investments of the fund."</p> <p>Based on Wilshire's review of the Investment Policy Statement, including the items reviewed with respect to §2D(a)(2)-(8), Wilshire has determined that the System maintains documents showing that it is in compliance with the Investment Policy Statement.</p> <p>The HMEPS Ethics Policy states it was adopted by the Board in 2015, and includes provisions regarding receipt of gifts and a prohibition of insider trading.</p>



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Subsection 2D(a):	Information Reviewed	Finding
		Based solely on materials and assertions provided by HMEPS, Wilshire has determined that the System maintains documents demonstrating that Trustees and key people identified by HMEPS are in compliance with the Ethics Policy.
(2) the pension system's asset allocation, including a review and discussion of the various risks, objectives, and expected future cash flows	<ul style="list-style-type: none"> <li>• Investment Policy Statement, rev. 10/1/17, Appendix I, Asset Allocation and Corridors</li> <li>• Wilshire Asset/Liability Analysis and Recommendations, 8/24/17</li> <li>• Board meeting minutes for 8/24/17, Item 21, MAKE DETERMINATIONS REGARDING HMEPS ASSET ALLOCATION REVIEW: "Motion to approve the asset allocation recommendation as set forth in the revised Appendix 1 of the Investment Policy Statement."</li> </ul>	Wilshire reviewed the Investment Policy Statement and the asset allocation review provided by HMEPS. Wilshire has determined that the Board reviewed available asset classes and discussed the objectives, risks, and expected returns and cash flows of these asset classes.
(3) the pension system's portfolio structure, including the pension system's need for liquidity, cash income, real return, and inflation protection and the active, passive, or index approaches for different portions of the portfolio	<ul style="list-style-type: none"> <li>• Investment Policy Statement, rev. 10/1/17</li> <li>• Wilshire Asset/Liability Analysis and Recommendations, 8/24/17</li> <li>• HMEPS 2019 CAFR, 2018 CAFR and 2017 CAFR</li> <li>• HMEPS 2019 Financial Statements, 2018 Financial Statements and 2017 Financial Statements</li> </ul>	HMEPS' portfolio structure is contained in each of the reviewed documents. Additionally, Wilshire has determined that HMEPS considered the pension system's need for liquidity, cash income, and real return in determining the asset allocation. The asset allocation review also considered active, passive and/or index



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Subsection 2D(a):	Information Reviewed	Finding
		approaches for different portions of the portfolio.
(4) investment manager performance reviews and an evaluation of the processes used to retain and evaluate managers	<ul style="list-style-type: none"> <li>• Investment Policy Statement, rev. 10/1/17</li> <li>• Wilshire Quarterly Executive Summary reports, September 30, 2017 to May 31, 2020</li> <li>• Wilshire Quarterly Managers on Probation reviews, September 30, 2017 to May 31, 2020, and Board actions</li> </ul>	Wilshire confirmed that the Board reviews a performance Executive Summary and recommendations on Managers on Probation on a quarterly basis.
(5) benchmarks used for each asset class and individual manager	<ul style="list-style-type: none"> <li>• Investment Policy Statement, rev. 10/1/17, Appendix I, Asset Allocation and Corridors</li> <li>• Manager guidelines</li> </ul>	Wilshire reviewed the Investment Policy Statement and related manager guidelines and has determined the Board has defined benchmarks for individual managers.
(6) an evaluation of fees and trading costs	<ul style="list-style-type: none"> <li>• Investment Policy Statement, rev. 10/1/17</li> <li>• HMEPS 2019 CAFR, 2018 CAFR and 2017 CAFR, Investment Section, Schedule of Fees and Commissions Paid</li> <li>• HMEPS 2019 Financial Statements, 2018 Financial Statements and 2017 Financial Statements</li> </ul>	Wilshire reviewed the Investment Policy Statement and determined that an evaluation of fees is part of HMEPS' manager selection process. Wilshire also reviewed HMEPS' Comprehensive Annual Financial Report and Financial Statements and determined that investment related expenses and trading costs are disclosed.
(7) an evaluation of any leverage, foreign exchange, or other hedging transaction	<ul style="list-style-type: none"> <li>• HMEPS 2019 CAFR, 2018 CAFR and 2017 CAFR</li> <li>• HMEPS 2019 Financial Statements, 2018 Financial Statements and 2017 Financial Statements</li> </ul>	Wilshire reviewed HMEPS' Comprehensive Annual Financial Reports and Financial Statements and determined that HMEPS evaluates the use of leverage, foreign exchange and other hedging transactions.



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<b>Subsection 2D(a):</b>	<b>Information Reviewed</b>	<b>Finding</b>
(8) an evaluation of investment-related disclosures in the pension system's annual reports	<ul style="list-style-type: none"><li>• HMEPS 2019 CAFR(pp. 56-58; 62-68)</li><li>• HMEPS 2018 CAFR (pp. 54-56; 60-67)</li><li>• HMEPS 2017 CAFR (pp. 54-56; 60-67)</li></ul>	Wilshire reviewed HMEPS' Comprehensive Annual Financial Reports and determined that the Comprehensive Annual Financial Reports provide investment-related disclosures. Wilshire has not assessed the adequacy of such disclosures.

## APPENDIX A

### Documents Reviewed by Wilshire

- HMEPS Investment Policy Statement (Appendix I rev. 10/1/17)
- HMEPS Ethics Policy, rev. 10/22/15
- Wilshire Asset/Liability Analysis and Recommendations, approved by the HMEPS Board on 8/24/17 (asset allocation review)
- Wilshire Quarterly Executive Summary reports, September 30, 2017 to May 31, 2020
- Wilshire Quarterly Managers on Probation reviews, September 30, 2017 to May 31, 2020
- HMEPS Comprehensive Annual Financial Report for the Year Ended June 30, 2019 (including June 30, 2019 and 2018 Financial Statements) (“2019 CAFR” and “2019 Financial Statements”), [http://www.hmeps.org/assets/2019-cafr-final-01\\_21\\_2020.pdf](http://www.hmeps.org/assets/2019-cafr-final-01_21_2020.pdf)
- HMEPS Comprehensive Annual Financial Report for the Year Ended June 30, 2018 (including June 30, 2018 and 2017 Financial Statements) (“2018 CAFR” and “2018 Financial Statements”), [http://www.hmeps.org/assets/annual\\_report\\_2018.pdf](http://www.hmeps.org/assets/annual_report_2018.pdf)
- HMEPS Comprehensive Annual Financial Report for the Year Ended June 30, 2017 (including June 30, 2017 and 2016 Financial Statements) (“2017 CAFR” and “2017 Financial Statements”), [http://www.hmeps.org/assets/annual\\_report\\_2017-12-29.pdf](http://www.hmeps.org/assets/annual_report_2017-12-29.pdf)
- Ethics Policy Acknowledgements by Trustees and Executive Director (2018-2020) and HMEPS-identified Key Staff (2019-2020)
- Chapter 171 and 176, Tex. Local Gov’t Code disclosures; CIS and CIQ disclosures available on HMEPS website: <http://www.hmeps.org/cis.html>; <http://www.hmeps.org/ciq.html>