

Investment Practices & Performance Report CPS Energy Pension Plan

Report

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Champion Capital Research, Inc.

510 Bering, Suite 205

Houston, Texas 77075



Investment Practices and Performance Report

CPS Energy Pension Plan

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Independent Fiduciary Advisor Attestation

The Texas Pension Review Board requires the following disclosures by the independent firm performing the review.

A summary outlining the qualifications of the firm.

Champion Capital Research, Inc., (“CCR”) is a consulting firm that provides institutions with fiduciary consulting services. The firm is a bellwether in research pertaining to asset allocation modeling, alternative investment evaluation and due diligence, risk mitigation and fiduciary excellence. For nearly twenty years, the firm has provided institutions’ managers and employees with education regarding institutional investment and portfolio best practices as they relate to investment governance and management. These "best practice" analyses have enhanced efficiencies in portfolios and in committee meetings. Clients understand the value of independence and attribute excess performance and savings to the firms’ services.

A statement indicating the nature of any existing relationship between the firm and the system being evaluated.

The CPS Energy Pension Plan (“the Plan”) selected CCR through a Request for Proposal process to perform the Investment Practices and Performance Evaluation and Report, as required by Senate Bill 322 (86R), adopted October 17, 2019.

A list of the types of remuneration received by the firm from sources other than the retirement system for services provided to the system; and

CCR receives no remuneration from any source other than the Plan for services provided to the Plan.

Statement acknowledging that the firm, or its related entities, is not involved in directly or indirectly managing investments of the system.

CCR and its related entities are not involved in directly or indirectly managing investments of the Plan.

Analysis of investment policies

CCR completed an analysis of the Plan’s investment and governance policies that have been adopted and assessed the Plan’s compliance with these policies.

The Plan’s Statement of Governance (“SoG”) is thoughtful and comprehensive as it relates to the duties and responsibilities of the Board, the Employee Benefits Oversight Committee (“EBOC”), the President & CEO, and the Administrative Committee. The Investment Policy Statement (“IPS”) further defines the roles and responsibilities of the Trustees, Administrative Committee members and investment managers. Neither of these documents outline the roles and responsibilities of the Actuary, Custodian or the Investment Consultant. Given the many investment research, monitoring and other administrative roles performed by the Investment Consultant, as well as the interactions between the Investment Consultant and the Actuary, it is best practice to outline more definitive roles and responsibilities, as well as fiduciary status, of those entities affecting Plan assets.

With respect to conforming to fiduciary best practices, the Plan’s IPS and SoG do not express specific selection, due diligence and monitoring criteria. In practice, the Plan appears to implement monitoring practices that are good practices. However, without explicit criteria documented in the IPS, the portfolio management process is vulnerable to inconsistency and repeatability throughout generations of fiduciaries. During this assessment, CCR, the Plan, and Wilshire, the Plan’s Investment Consultant, discussed these opportunities for improvement (“OFI”).

In summary, all OFIs were discussed in detail, and suggested remedies are being thoughtfully considered for inclusion in subsequent IPS and SoG revisions. The Plan is vigilant in its compliance with both its governance and investment policies and procedures, thus, CCR believes the Plan will have no difficulty improving and implementing “best practice” monitoring processes and IPS criteria.

Review of the Plan’s investment asset allocation

CCR completed a detailed review of the Plan’s investment asset allocation, including:

- a) The process for determining target allocations
- b) The expected risk and assumed rate of return categorized by asset class
- c) The appropriateness of selection and valuation methodologies of alternative and illiquid assets
- d) Future cash flow and liquidity needs

In summary, there are no recommendations.

Review of the appropriateness of investment fees and commissions paid by the Plan

CCR completed an analysis of the Plan’s investment fees, expenses and commissions paid during 2019. The Plan was unwaveringly responsive to each request made by CCR to ensure the analysis was thorough and complete.

The Plan has many types of investment fees and expenses, including investment management fees, brokerage fees, trading expenses, profit share, carried interest, custodial fees, investment consulting fees, securities lending fees, operations, among other fees and expenses. CPS Energy's staff tracks investment related and administrative fees. Wilshire, the Investment Consultant, consistently tracks many of the investment management fees. Able Noser, trade analytics consultant, consistently reviews trading and best execution fees and expenses.

The Plan's SoG provides a good "framework" for ensuring the appropriate policies and procedures in place to account for and control for investment expenses and other asset management fees. CCR found that the Plan's processes are robust with respect to assessing fees and expenses. However, while the framework exists, policies are not explicit with respect to the monitoring of direct fees and expenses, including but not limited to investment management, custodial, consulting, and trading fees and expenses. The Plan's procedures exist with respect to indirect fee assessment, but policies and monitoring of these procedures are incomplete. Wilshire, the Investment Consultant, reports investment management fees periodically, but peer analyses of negotiated investment management fees are absent.

The IPS could delegate to vendors and service providers the responsibility to report periodically fees and expenses and to opine regarding peer group median fees and expenses for like services. CPS Energy staff would then have total fees and expenses readily available for annual reporting and benchmark analyses. The reasonableness of fees can be assessed only by ensuring a comparison of the Plan's total fees and expenses to comparable entities total fees and expenses.

In summary, CCR's recommendation is that the Plan adopt policies and processes by which it periodically, but no less frequently than annually, documents both direct and indirect fees and compensation paid to all managers, brokers, real estate investments, mutual funds, and consultant(s). Any profit share or carried interest from alternatives/real estate should be documented. At the renewal of all manager agreements, it would be prudent to require an annual accounting by each manager of all direct and indirect remuneration received during the calendar year.¹ This would make it easier for Wilshire, the Investment Consultant, and therefore the Plan to aggregate all fees and expenses, benchmark for reasonableness, as well as hold all managers to a fiduciary requirement to report accurately direct and indirect remuneration received.

Review of the Plan's governance processes related to investment activities, including investment decision-making processes, delegation of investment authority, and board investment expertise and education

CCR completed an analysis of the Plan's governance and investment processes, delegation of investment authority and board investment expertise and education. CCR reviewed the Plan's IPS, SoG, EBOC meeting

¹ For example, one could make as part of an Investment Consultant's and/or manager's agreement the requirement to submit annually the Texas PRB Fee and Expense template.

agendas and minutes, Plan Documents, the Plan's Audit Report, Milliman Actuarial Report, training and continuing education records, Wilshire Consulting Agreement, performance reports, and CPS Energy staff's compliance calendar.

It is best practice to evaluate the services and agreements with all service providers at least once every three years. This is to ensure that fiduciaries can avail themselves of cost saving opportunities, technological efficiencies and otherwise potential improvement opportunities over time.

In summary, CCR finds the Plan's decision-making processes, delegation of authority and investment education and expertise among the Board, EBOC, and Administrative Committee to be robust, prudent, and consistent.² To improve an outstanding OFI, the Plan could implement a policy to review all vendor contracts and agreements once every three years, which is best practice.³

Review of the Plan's investment manager selection and monitoring process

CCR completed an analysis of the Plan's investment manager selection and monitoring processes. CCR reviewed the Plan's IPS, SoG, EBOC meeting agendas, Wilshire performance reports, particularly discussions of monitoring, watchlist and potential replacement of investment managers, discussion regarding potential new managers, and investment manager expenses.

While not established formally in the IPS, the Investment Consultant assumes the role of determining the potential candidates for investment manager selection. While the Investment Consultant has its internal selection methodology that appears to be consistently applied, the specific criteria are not transparently displayed in the IPS, which is best practice.

Monitoring gross and net of fee aggregate performance on a quarterly basis for all investments in the Plan's portfolio would improve opportunities for fiduciaries to assess the net value add for each manager, including privately traded strategies. Including benchmarks and peer group analyses will enhance the Plan's monitoring processes. Monitoring net performance relative to peers is best practice.

In summary, the Plan's IPS would be improved if it were to include specific selection and monitoring criteria for selection and termination of investment managers. Fiduciary best practice would be to include both net and gross of fee relative to benchmark and peers in each quarterly report. Both the Plan and the Investment Consultant reviewed proposed monitoring criteria and language and CPS Energy has developed a list of action items to consider implementing at the next IPS review. The language CCR shared is consistent with industry best practices with respect to the monitoring – both selection and termination – of investment managers. The proposed language also included the selection and monitoring criteria and responsibilities for the Investment Consultant.

² Manager selection and asset allocation policy OFIs addressed subsequently.

³ Best practices as defined by the Center for Fiduciary Studies. The Plan's practice to conduct a formal RFP process for the Investment Consultant and Custodial Trustee every five years is an acceptable practice.

TEXAS Performance Review May 2020

This section provides suggested questions and topics for consideration under each of the five areas required to be covered in each evaluation. The questions are intended to help the CPS Energy Pension Plan (“the Plan”) identify the types of information an evaluation may include.

Section 802.109 (a)(1) requires each evaluation to include an analysis of any investment policy or strategic investment plan adopted by the retirement system and the retirement system’s compliance with that policy or plan. Champion Capital Research, Inc., (“CCR”) reviewed the Investment Policy Statement (“IPS”) which was adopted by the Plan’s Employee Benefits Oversight Committee (“EBOC”) on July 15, 2019. CPS Energy staff promptly, professionally and courteously made themselves available to CCR and made sure CCR had access to representatives at Milliman, the Plan’s Actuary, for consultations regarding actuarial issues and at Wilshire, the Plan’s Investment Consultant, regarding asset allocation, risk-and-return assumptions and investment manager search criterion.

The PRB provided ‘Guidance for Investment Practices and Performance Evaluations’ as required by Senate Bill 322. CCR evaluated each of the 75 items contained in the PRB Guidance.

The first task of the five tasks required to be evaluated concerns the appropriateness, adequacy, and effectiveness of the retirement system’s investment practices and performance. CCR found the Plan’s IPS and practices to be thoughtful, thorough and complete. In other words, CCR found no nonconformities (“NC”) with the Plan’s IPS. Several opportunities for improvement (“OFI”) were identified and communicated to CPS Energy staff during weekly status update teleconferences. In particular, CCR evaluated each of the following PRB Guidance questions.

Each evaluation must include:

(1) an analysis of any investment policy or strategic investment plan adopted by the retirement system and the retirement system’s compliance with that policy or plan;

1. Does the system have a written IPS?

Yes

No

2. Are the roles and responsibilities of those involved in governance, investing, consulting, monitoring and custody clearly outlined?

Yes

No

Opportunity for Improvement (OFI)

ANSWER: OFI. The governance, investing, monitoring and custody clearing roles and responsibilities are defined in the Plan’s Statement of Governance (“SoG”). While the roles and responsibilities related to the external Investment Consultant are included in the agreement with the consultant, we suggested they also be included in in the IPS. We also suggested adding objective, measurable criteria for due diligence, selection and monitoring of investments, investment consultant and investment managers.

3. Is the policy carefully designed to meet the real needs and objectives of the retirement plan?

Yes

No

OFI (See box below.)

Is it integrated with any existing funding or benefit policies? (i.e. does the policy take into account the current funded status of the plan, the specific liquidity needs associated with the difference between expected short-term inflows and outflows, the underlying nature of the liabilities being supported [e.g. pay-based vs. flat \$ benefit, automatic COLAs, DROP, etc.]

Yes

No

OFI

ANSWER: OFI. CCR noted the discussions of liquidity and liabilities in the IPS in general terms, but without specifics. Both the Actuary and the Investment Consultant communicate no less than annually regarding short- and long- term liquidity needs. One way to satisfy this OFI might be to add language to IPS suggesting: “Within 30 days after the end of each calendar quarter, a review will be made of: (a) the specific liquidity needs over the next four quarters; (b) the nature of all liabilities; and (c) the current funded status of the Plan.” The results of such review shall then be shared with the appropriate committees.

4. Is the policy written so clearly and explicitly that anyone could manage a portfolio and conform to the desired intentions?

Yes

No

OFI

ANSWER: Generally, the policy is clear and anyone could manage a portfolio and conform to the desired intentions. For example, the IPS refers to equity securities, and suggests the Plan’s investment managers should limit their investments to those securities or companies with the following characteristics:

- a relatively strong competitive position;
- a sound financial position; and
- a favorable reputation.

CCR suggested more explicit and measurable language could be helpful.

5. Does the policy follow industry best practices? If not, what are the differences?

Yes

No

OFI

ANSWER: OFI. We suggest the addition of roles and responsibilities for investment consultant, and objective, measurable criteria for due diligence, selection, monitoring and replacement for Investment Consultant, investment managers, service providers, and asset allocation processes and decisions. CCR recommends the addition of measurable criteria for the evaluation of investment fees and expenses.

6. Does the IPS contain measurable outcomes for managers?

Yes

No

OFI (See box below.)

Does the IPS outline over what time periods performance is to be considered?

Yes

No

ANSWER: OFI. We suggest the addition of objective, measurable criteria for monitoring the performance of investments, investment managers, and Investment Consultant, be included in the IPS.

7. Is there evidence that the system is following its IPS?

Yes

No

OFI

Is there evidence that the system is not following its IPS?

Yes

No

ANSWER: CCR found ample evidence that the Plan follows its IPS.

8. What practices are being followed that are not in, or are counter to, written investment policies and procedures?

ANSWER: OFI. CPS Energy staff provided evidence that it formally evaluates its IPS annually, which is consistent with portfolio management “best practices”. Although not required by the IPS, CPS Energy staff has a practice of evaluating asset allocation weekly. CCR recommends the Plan’s IPS include language to align with actual practices.

9. Are stated investment objectives being met?

Yes

No

OFI

10. Will the retirement fund be able to sustain a commitment to the policies under stress test scenarios, including those based on the capital markets that have actually been experienced over the past ten, twenty, or thirty years?

Yes

No

OFI

11. Will the investment managers be able to maintain fidelity to the policy under the same scenarios?

Yes

No

OFI

12. Will the policy achieve the stated investment objectives under the same scenarios?

Yes

No

OFI

13. How often is the policy reviewed and/or updated? When was the most recent substantial change to the policy and why was this change made?

ANSWER The Plan conducts an annual review of its IPS and makes changes when appropriate. The most recent changes (not salient) were approved in July 2019.

Section 802.109(a)(2)(A) requires each evaluation to include a detailed review of the fund’s investment asset allocation adopted by the Plan, how it was determined, the Plan’s compliance with that asset allocation and if the expected risks and returns of the Plan would be likely to achieve the actuarial rate of return. CCR reviewed the 2019 Milliman Actuarial Valuation and the Plan’s Investment Returns and Assumptions Report filed with the PRB. The Plan promptly, professionally and courteously made themselves available to CCR and made sure CCR had access to representatives at Milliman for consultations regarding actuarial issues and at Wilshire regarding asset allocation, risk-and-return assumptions and investment manager search criterion.

**(2) a detailed review of the retirement system’s investment asset allocation, including:
(A) the process for determining target allocations;**

1. Does the system have a formal and/or written policy for determining and evaluating its asset allocation? Is the system following this policy?

Yes

No

OFI

2. If no formal policy exists, what is occurring in practice? NA
3. Who is responsible for making the decisions regarding strategic asset allocation?

ANSWER: The Administrative Committee with the assistance of the Investment Consultant.

4. How is the system’s overall risk tolerance expressed and measured? What methodology is used to determine and evaluate the strategic asset allocation?

ANSWER: The portfolio’s overall risk tolerance is expressed and measured in standard deviation. The strategic asset allocation is derived partly based on capital market assumptions, constrained mean variance optimization, liquidity requirements and a subjective overlay.

5. How often is the strategic asset allocation reviewed?

Once every year

Less than every three years

Less than every five years

Greater than every five years

6. Do the system’s investment consultants and actuaries communicate regarding their respective future expectations?

ANSWER: Yes. Wilshire, the Investment Consultant, and Milliman, the Actuary, have an open dialogue regarding capital market assumptions, liquidity needs, future funded ratios, and other researched analyses conducted on behalf of the Plan. Both Wilshire and Milliman deliver to the Plan a set of capital market assumptions. The two vendors compare and contrast these data. Milliman indicated that most often, the Plan adopts Wilshire’s data.

7. How does the current assumed rate of return used for discounting plan liabilities factor into the discussion and decision-making associated with setting the asset allocation? Is the actuarial expected return on assets a function of the asset allocation or has the asset allocation been chosen to meet the desired actuarial expected return on assets?

ANSWER: Yes, the current assumed rate of return of 7.25% factors into asset allocation modeling. The asset allocation that is established each year is chosen to meet the desired actuarial expected return on assets.

8. Is the asset allocation approach used by the system based on a specific methodology?

Yes

No

OFI

Is this methodology prudent, recognized as best practice, and consistently applied?

Yes

No

OFI

9. Does the system implement a tactical asset allocation? If so, what methodology is used to determine the tactical asset allocation? Who is responsible for making decisions regarding the tactical asset allocation?

Yes

No

ANSWER: The Plan's IPS allows for movements away from the strategic asset allocation. Movement outside of the strategic asset allocation ranges are allowed if the Plan and its fiduciaries expect that the economic and capital market environment is such that such a move would be in the best interest of the beneficiaries. The IPS allows for the portfolio to be 100% cash, should an extreme environment prevail.

10. How does the asset allocation compare to peer systems?

ANSWER: The Plan's strategic asset allocation allows for a nearly 52.5% equity (vs 52% Texas Public Funds), 25.5% fixed income (vs 20%), and 22% Alts (vs 28%). Within equities, the Plan is overallocated to domestic equities and fixed income relative to Texas peers, and under allocated to alternatives and international equities.

(B) the expected risk and expected rate of return, categorized by asset class;

11. What are the strategic and tactical allocations?

Asset Class	Actual Allocation ⁴	Strategic Allocation	Tactical Allocation
1. Domestic Equity	37.30%	35.00%	Na
2. Global xUS Equity	10.10%	10.00%	Na
3. Global xUS Low Vol.	8.40%	7.50%	Na
4. Real Estate	8.20%	10.00%	Na
5. MLP	6.40%	7.00%	Na
6. Hedge Funds	4.10%	5.00%	Na
7. HY Bonds		7.50%	Na
8. Glob Fxd w EM Bonds	24.80%	4.00%	Na
9. Leveraged Loans		4.00%	
10. Aggregate Bonds		10.00%	
11. US TSYs		0.00%	Na

Note: Brackets in the original image group rows 8-10 under a total of 18.00% for Strategic Allocation and 24.80% for Actual Allocation.

⁴ The actual allocations described represent Q3 2019 asset allocations.

12. What is the expected risk and expected rate of return of each asset class?⁵

Asset Class	Expected Return ⁶	Expected Standard Deviation (Std)
1. Domestic Equity	6.00%	17.00%
2. Global xUS Equity	6.75%	18.80%
3. Global xUS Low Vol.	6.40%	13.45%
4. Real Estate	5.40%	12.00%
5. MLP	7.60%	19.00%
6. Hedge Funds	5.15%	6.60%
7. HY Bonds	4.20%	10.00%
8. EM Bonds	2.80%	8.80%
9. Leveraged Loans	4.60%	6.00%
10. Aggregate Bonds	2.70%	5.15%
11. US TSYs	2.10%	5.00%

13. How is this risk measured and how are the expected rates of return determined? What is the time horizon?

ANSWER: The Plan receives updated capital market assumptions no less than annually. Each quarter the Investment Consultant reviews these estimates in its quarterly report. The expected rates of return are delivered by the Investments Consultant. The time horizon is ten years.

⁵ The expected risk and expected rate of return are not the same data that is in the 3Q19 quarterly report delivered to the Plan. Instead, Wilshire, the Investment Consultant, provided revised data upon request for missing asset class information.

⁶ These data are expected compounded returns, not arithmetic expected returns.

14. What mix of assets is necessary to achieve the plan’s investment return and risk objectives?

Asset Class	Expected Return	Expected Std
1. Domestic Equity	6.00%	17.00%
2. Global xUS Equity	6.50%	18.00%
3. Global xUS Low Vol.	6.15%	16.00%
4. Real Estate	4.80%	16.50%
5. MLP	7.00%	18.00%
6. Hedge Funds	5.39%	3.87%
7. HY Bonds	4.20%	10.00%
8. EM Bonds	7.00%	20.00%
9. Leveraged Loans	7.00%	20.00%
10. Aggregate Bonds	2.70%	5.15%
11. US TSYs	2.70%	5.15%

ANSWER: Given the expected capital market assumptions and current asset allocation, it is unreasonable to expect to achieve the actuarial rate of return of 7.25%. An Experience Study is expected to be completed in 2020 and assumption discussions are planned for mid-year 2020, for inclusion in the next actuarial valuation.

15. What consideration is given to active vs. passive management?

ANSWER:
While there is no explicit discussion in the IPS of active vs. passive management as a strategy, as of December 31, 2019, the Plan followed its Investment Consultant’s recommendation and converted several actively managed strategies to passive investments, primarily in equity funds.

Is the approach used by the system to formulate asset allocation strategies sound, consistent with best practices, and does it result in a well-diversified portfolio?

Yes

No

OFI

16. How often are the strategic and tactical allocations reviewed?

ANSWER: Annually.

(C) the appropriateness of selection and valuation methodologies of alternative and illiquid assets; and

17. How are alternative and illiquid assets selected, measured and evaluated?

ANSWER:

Alternative and illiquid assets, including hedge funds, MLPs and real estate holdings (other than direct property holdings) are selected through a “search” process guided by the Investment Consultant. Each investment manager is required to have an independent accountant, auditor, and servicing vendor as part of Investment Consultant’s due diligence process.

The process includes extensive due diligence of each candidate, evaluation and comparison of several factors (past performance, assets under management, fees, etc.) and interviews of top candidates. The directly held real estate property (only one investment remained at 12/31/2019) was selected based on local development opportunity.

The market value of the alternative and illiquid assets is generally reported by the investment manager quarterly, based on procedures described in the individual investment’s documentation. The direct property real estate is valued annually with a Broker’s Opinion of Value and/or formal independent appraisals in accordance with an Appraisal Policy adopted by the Administrative Committee and supported by the Plan’s external audit firm. Quarterly valuations are provided by the open-end real estate fund investments managed by investment managers. The underlying properties are appraised in accordance with each fund’s policy.

18. Are the system’s alternative investments appropriate given its size and level of investment expertise?

Yes

No

OFI

Does the IPS outline the specific types of alternative and illiquid investments allowed, as well as the maximum allocation allowable?

Yes

No

OFI

COMMENTS: The Plan's policy and actual allocation to alternatives are lower than its Texas peers. With respect to allocations within the alternative asset class, the Plan is overallocated to Real Estate, and under-allocated to private equity, among others.

19. What valuation methodologies are used to measure alternative and illiquid assets? What alternative valuation methodologies exist and what makes the chosen method most appropriate?

ANSWER: Please see answer to question 18. The Plan does not invest in alternative or illiquid investments other than real estate, hedge funds, managed futures, and master limited partnerships. In the case of managed futures, prices are transparent and public. In the case of hedge funds, prices can be verified daily. In the case of MLPs, the Plan uses one separately managed account (Harvest) for its allocation to MLPs (7% AA Policy).

(D) future cash flow and liquidity needs;

20. What are the plan's anticipated future cash flow and liquidity needs? Is this based on an open or closed group projection?

ANSWER: The Plan's expected cash flow and liquidity needs are assessed no less than annually by both Milliman and Wilshire. Expected benefit payments, estimated by Milliman, are delivered to Wilshire no less than annually. Milliman assesses cash flow needs based upon both open and closed group projections. Long-term analyses rely on open group projections.

21. When was the last time an asset-liability study was performed?

ANSWER: January 2019.

22. How are system-specific issues incorporated in the asset allocation process? What is the current funded status of the plan and what impact does it have? What changes should be considered when the plan is severely underfunded, approaching full funding, or in a surplus? How does the difference between expected short-term inflows (contributions, dividends, interest, etc.) and outflows (distributions and expenses) impact the allocation? How does the underlying nature of the liabilities impact the allocation (e.g. pay-based vs. flat \$ benefit, automatic COLAs, DROP, etc.)?

ANSWER: Wilshire, the Investment Consultant, and Milliman, the Actuary, communicate at a minimum annually to address system-specific asset allocation issues. As of 1/1/2019 the Plan was 82% funded. The Plan continues to make progress towards 100% funding. While not applicable to the Plan, a severely underfunded plan should consider increased contribution and plan changes like lowering benefit accruals. A plan approaching full funding should continue with the funding and IPS that got them to that point. A plan with a surplus should take steps to protect and maintain the surplus, including but not limited to de-risking of the assets, continuing to make contributions, and considering benefit improvements if prudent. In general, both Wilshire and the fiduciaries at the Plan understand and regularly meet to discuss the expected cash flows and liquidity risk, such as an increased wave of retirement/expected payouts. Thus, the Plan and its fiduciaries should not be surprised by a sudden need for cash.

Section 802.109(a)(3) Requires a review of the appropriateness of fees and commissions paid by the retirement system. Based on all available direct and indirect expense information, CCR created a PRB Section 802.103 Expense Report. CCR compared the Plan fee and commission data with proprietary and publicly available fee and commission data for public plans of similar size. CPS Energy staff promptly, professionally and courteously made themselves available to CCR and made sure CCR had access to representatives at Wilshire regarding the Plan’s expenses.

(3) a review of the appropriateness of investment fees and commissions paid by the retirement system;

1. What types of stress testing are incorporated in the process?

ANSWER: Both Milliman (Actuary) and Wilshire (Investment Consultant) have stressed the assets and liabilities and informed the client of the risks associated under different interest rate and economic scenarios. Results are analyzed and used for the determination of changes in asset allocation. Importantly, these stress test results are used in serious discussions regarding the impact a different – lower – discount rate might have on the future funding status of the Plan.

2. Do the system's policies describe the management and monitoring of direct and indirect compensation paid to investment managers and other service providers? What direct and indirect investment fees and commissions are paid by the system?

ANSWER: OFI. CCR found that the system’s IPS and SoG does not describe the monitoring of direct and indirect compensation paid to investment managers and other service providers.

CPS Energy staff tracks investment related and administrative fees. The Wilshire Q4 2019 Performance Report, which includes fees reported by the custodian “JPM”, provides investment management fees on a subset of the system’s assets. The 2019 Plan Audit Report provides a sum of all investment fees in the amount of \$12,593,950. The attached SB-322 Investment Expense Report shows the TOTAL DIRECT AND INDIRECT FEES AND COMMISSIONS totaled \$11,093,250. This does not include the operating expense of \$8,708,743 related to private real estate.

3. Who is responsible for monitoring and reporting fees to the board? Is this responsibility clearly defined in the system's investment policies?

Yes

No

OFI

ANSWER: OFI. The Investment Consultant, Wilshire, is responsible for monitoring investment managers and ensuring that investment related fees are appropriate for the style of investment. This includes fees charged for fund investments. Fees are considered by the Administrative Committee when selecting investment managers.

Administrative expenses related to consultants, training, etc., are monitored by the Administrative Committee on a monthly basis.

The IPS does not define responsibility for monitoring and reporting fees to the Administrative Committee or other governing bodies and is silent on governance processes for review of all direct and indirect expenses. The IPS discusses controlling plan costs and defraying reasonable expenses of administering the plan in general terms.

4. Are all forms of manager compensation included in reported fees?

Yes

No

OFI

ANSWER: OFI. No, fees netted from fund investments were not included in the reported investment expense. An analysis of investment management fees netted from returns, profit share/carried interest from alternative investments, expenses related to cash (if any) and expenses related to real estate, is needed and would enhance the Plan's monitoring and oversight of the Plan. The SB-322 Investment Expense Report, with all known fee and expense information, is included with documents package.

5. How do these fees compare to peer group and industry averages for similar services? How are the fee benchmarks determined?

Higher

Lower

Similar

ANSWER: A review of the SB-322 Investment Expense Report, the TOTAL DIRECT AND INDIRECT FEES AND COMMISSIONS totaled \$11,093,250. This does not include the operating expense of \$8,708,743 related to private real estate. Based on the average of the year end reported asset value of \$1,779,033,857 and beginning year asset value of \$1,522,045,827, the TOTAL DIRECT AND INDIRECT FEES AND COMMISSIONS without private real estate equals 67 basis points.

According to PublicPlanData.org, there are 114 public plans that reported fee data in 2019. Of those 114 plans, 27 had asset values between \$1 billion and \$5 billion. The average value was \$2,719,184 and the median value was \$2,618,857. The average reported fee for the 27 plans was 38 basis points and the median fee was 53 basis points.

6. Does the system have appropriate policies and procedures in place to account for and control investment expenses and other asset management fees?

Yes

No

OFI

ANSWER: OFI. The Plan's IPS discusses controlling plan costs and defraying reasonable expenses of administering the plan.

The SoG provides a good framework for the appropriate policies and procedures in place to account for and control investment expenses and other asset management fees. Wilshire assists the Administrative Committee in monitoring investment costs.

CCR recommended the IPS be updated to include specific monitoring procedures of all direct and indirect expenses paid by the Plan, and that a periodic, consistent monitoring process be followed for the accounting of all direct and indirect investment fees and expenses.

7. What other fees are incurred by the system that are not directly related to the management of the portfolio?

ANSWER: Other fees incurred by the Plan that are not directly related to the management of the portfolio included Net Administrative Expenses for 2019 in the amount of \$513,318. These administrative expenses included audit, actuarial, investment consulting, legal, accounting, etc.

8. How often are the fees reviewed for reasonableness?

- Every year
- Once every two years
- Once every five years
- Infrequently/OFI

ANSWER: OFI. It is not detailed in the IPS nor in the SoG. There is evidence of fees reviewed in the Wilshire Quarterly Reports showing the renegotiation of fees. However, there is no evidence of peer analyses, or renegotiated fees becoming effective.

9. Is an attorney reviewing any investment fee arrangements for alternative investments?
YES or NO.

- Yes
- No

ANSWER: In addition to Wilshire's review and market comparison related to the fee arrangements related to any new investment, an attorney reviews all key documents related to new investments, including the fee mechanism. The Investment Consultant is the subject matter expert related to the competitiveness of fees.

Section 802.109(a)(4) Requires a review of the fund’s governance processes, delegation of investment authority and investment expertise and education. CPS Energy staff promptly, professionally and courteously made themselves available to CCR and made sure CCR had access to the appropriate documents.

(4) a review of the retirement system ’s governance processes related to investment activities, including investment decision-making processes, delegation of investment authority, and board investment expertise and education;

Transparency

1. Does the system have a written governance policy statement outlining the governance structure?

Yes

No

OFI

Is the IPS a stand-alone document?

Yes

No

OFI

2. Are all investment-related policy statements easily accessible by the plan members and the public (e.g. posted to system website)?

Yes

No

3. How often are board meetings? What are the primary topics of discussion? How much time, detail, and discussion are devoted to investment issues?

1X per month

Less frequently

More frequently

ANSWER: The Plan’s Board of Trustees retains legal and fiduciary responsibility for the Plans and/or Trusts and has delegated certain Authority and Responsibilities to the EBOC, the Plan’s Energy President and CEO, and the Administrative Committee via a detailed SoG, which the Board approved on 7/29/2019. While the EBOC approves the IPS, which includes the targeted asset allocation/investment strategy, the Administrative Committee is responsible for implementing the asset allocation/investment strategy. The Administrative Committee generally meets two to three times per month, with a majority of discussion devoted to investment issues. The Administrative Committee then reports to the EBOC, who in accordance with The SoG meets at least two times per year. The Administrative Committee also reports out to the Board at least annually.

*In 2019, EBOC met four times: 1/25, 7/15, 10/7 and 12/6.

4. Are meeting agendas and minutes available to the public? How detailed are the minutes?

Yes

No

ANSWER: While the Plan’s Board (as defined by the Plan above) agendas and minutes are on the Plan’s web site, Plan-related issues are infrequently brought to the routine Board meetings. Two of the Board members serve on the EBOC and they provide a summary of EBOC meetings to the full Board. The EBOC meets at least twice a year (in 2019 the EBOC met four times).

The Administrative Committee meets 2-3 times per month. Agendas and minutes for EBOC/Administrative Committee meetings are available to the public by request. Contact information for the Secretary to the Administrative Committee is listed on the Pension section of the web site. Minutes are detailed, containing details of discussions and decisions made. Action items are listed with tasks, assignments, comments and status.

Please note that the PRB reference to “board” most closely aligns with the Plan’s Administrative Committee.

Investment Knowledge/Expertise

5. What are the backgrounds of the board members? Are there any investment-related educational requirements for board members?

Yes

No

OFI

ANSWER: The Administrative Committee includes seven members: five current employees (excluding the President / CEO, and the CFO), one retired employee, and one Labor Representative. The Administrative Committee exercises control over the investment of assets, performs discretionary functions with respect to the administration of Plan benefits, and is responsible for analyzing and making recommendations related to the funding of the Trusts.

Members of the Administrative Committee must (a) be participants in the Plan, and (b) have a minimum of ten (10) years either: (i) in participation of the Plan (ii) recent experience in finance or investments. *A minimum of two (2) Administrative Committee members must have a minimum of ten (10) years of recent experience in finance or investments.*

Administrative Committee members are required to meet the Minimum Educational Requirements noted by statute, which includes investment-related education, and report such training to the PRB.

Please note that the PRB reference to “board members” most closely aligns with the Plan’s Administrative Committee.

6. What training is provided and/or required of new board members? How frequently are board members provided investment-related education?

ANSWER: The SoG requires that members of the Administrative Committee receive all applicable and timely minimum training and continuing education consistent with the Administrative Committee members' role and standard of care, including, but not limited to, Tex. Local Gov't Code section 172.007 risk pool training (for those involved on group benefits) and Texas Pension Review Board fiduciary duty training, or as otherwise required by law or the Plan's policy.

New members receive PRB required CORE training, followed by required Continuing Education.

7. What are the minimum ethics, governance, and investment education requirements? Have all board members satisfied these minimum requirements?

Yes

No

ANSWER: Administrative Committee members (other than the retiree representative) sign the employee Code of Ethics, acknowledged annually. All members follow the SoG and IPS, which require a fiduciary standard of care as they (a) exercise control over the investment of assets, (b) perform discretionary functions with respect to the administration of Plan benefits, and (c) are responsible for analyzing and making recommendations related to the funding of the Plan.

8. Does the system apply adequate policies and/or procedures to help ensure that all board members understand their fiduciary responsibilities?

Yes

No

OFI

9. What is the investment management model (i.e. internal vs. external investment managers)?

External

Internal

Mixed

ANSWER: The day-day investment is done by external investment managers. The decisions regarding hiring, retention and removal of investment managers is done internally with the assistance of external Investment Consultant, Wilshire.

10. Does the board receive impartial investment advice and guidance?

Yes

No

OFI

ANSWER: OFI. Wilshire assists the Administrative Committee with manager searches, asset allocation, performance reporting, and monitoring investment managers. It also assists with monitoring investment costs. However, annual disclosure and monitoring of all forms of indirect compensation would be best practice.

It should be noted that the PRB reference to “the board” is most closely related to the Plan’s Administrative Committee.

11. How frequently is an RFP issued for investment consultant services?

Less Than Every Three Years

More than Every Three Years

Accountability

12. How is the leadership of the board and committee(s), if any, selected?

ANSWER: Members of the Administrative Committee must (a) be participants in the Plans, and (b) have a minimum of ten (10) years either: (i) in participation of the Pension Plan or (ii) recent experience in finance or investments. A minimum of two (2) Administrative Committee members must have a minimum of ten (10) years of recent experience in finance or investments. Administrative Committee Observers are appointed by the CEO and attend EBOC meetings as part of their training. They may be selected to succeed Administration Committee members who are retiring or leaving the committee.

It should be noted that the PRB reference to “the board” is most closely related to the Plan’s Administrative Committee.

13. Who is responsible for making decisions regarding investments, including manager selection and asset allocation? How is authority allocated between the full board, a portion of the board (e.g. an investment committee), and internal staff members and/or outside consultants?

Does the IPS clearly outline this information?

Yes

No

OFI

ANSWER: As detailed in the SoG, approved by the Board (as defined above) on 7/29/2019, the EBOC is responsible for approving the IPS which includes the targeted asset allocation/investment strategy. The Administrative Committee (referred to as “the board” by PRB) is responsible for implementing the approved allocation strategy, which includes making investment decisions and investment manager selections. A majority vote from the Administrative Committee is required to make investments/hire investment managers. Three of the Administrative Committee members serve as members of an Alternative Investments Subcommittee and have limited authority to act on behalf of the full Administrative Committee in relation to more immediate decisions needed related to the alternative investments, primarily related to direct real estate investments.

Is the board consistent in its use of this structure/delegation of authority?

Yes

No

OFI

ANSWER: OFI. The IPS and SoG clearly define responsibilities for the Board, the EBOC and the Administrative Committee with respect to governance, investing, monitoring and custody clearing roles and responsibilities. Although some responsibilities are included in the Investment Consultant Agreement, the IPS and SoG do not explicitly define the role and responsibilities of the Investment Consultant, which assists with asset allocation, manager searches, performance reporting, and monitoring. The Administrative Committee retains responsibility for manager selection and monitoring, but delegates investment management to individual managers.

14. Does the system have policies in place to review the effectiveness of its investment program, including the roles of the board, internal staff and outside consultants?

Yes

No

OFI

15. Is the current governance structure striking a good balance between risk and efficiency?

Yes

No

OFI

16. What controls are in place to ensure policies are being followed?

ANSWER: The Board (as defined by the Plan) has delegated, via the SoG, oversight to the EBOC members (President /CEO, CFO and two Board Audit & Finance Committee members) to oversee the Plan, and a 7-member Administrative Committee with control over the investment of the assets and administering the Plan. Administrative Committee Observers are appointed by the President / CEO for Administrative Committee succession planning.

Administrative Committee members monitor the actual asset allocation to the asset allocation approved by the EBOC, on a weekly basis. The Administrative Committee and EBOC also interact with the Actuary and Investment Consultant on at least an annual basis to review actuarial assumptions and the Plan's funding needs and to ensure the required funding is included in the Plan's budget. The Investment Consultant, Wilshire, also monitors allocation and investment manager performance to ensure compliance with Investment Policies. CPS Energy staff monitors and updates a compliance calendar and reports to the Administrative Committee.

The IPS requires the Administrative Committee to review the IPS at least annually. Recommendations for changes are reported to EBOC for approval or rejection.

17. How is overall portfolio performance monitored by the board?

ANSWER: The Administrative Committee reviews weekly asset allocation reports. In addition, the Investment Consultant, Wilshire, provides quarterly performance monitoring reports to the Administrative Committee.

The SoG requires the EBOC to monitor, review and compare the Plan’s performance and results to benchmark performance measures, and for the Administrative Committee to review performance at least once a year. In 2019, the EBOC met four times. The IPS requires each investment manager to meet with the Administrative Committee at least annually to review investment results. (Index managers are exempt.)

It should be noted that the PRB reference to “the board” is most closely related to the Plan’s Administrative Committee.

18. How often are the investment governance processes reviewed for continued appropriateness?



At Least Annually



Less Than Once Per Year

ANSWER: The IPS and SoG are reviewed at least once a year and updated if/when necessary.

Section 802.109(a)(5) Requires a review of the fund’s investment manager selection and monitoring processes. CPS Energy staff promptly, professionally and courteously made themselves available to CCR and made sure CCR had access to representatives at Wilshire regarding investment manager due diligence criterion, search and selection process, monitoring and replacement criterion.

(5) a review of the retirement system’s investment manager selection and monitoring process.

1. Who is responsible for selecting investment managers?

The Board – The Administrative Committee

The Consultant

Other

2. How are the managers identified as potential candidates?

Consultant Research

Other

OFI

3. What are the selection criteria for including potential candidates?

Established in IPS

Not Established in IPS - OFI

ANSWER: While not established formally in the IPS, the Investment Consultant is responsible for the selection of potential candidates. The Investment Consultant, Wilshire, has its own internal selection methodology that appears to be consistently applied. However, the specific criteria are not transparently displayed in the IPS, which is best practice. However, the Plan and the Investment Consultant intend to improve on this weakness and CCR has delivered IPS language to be considered to improve on this OFI.

4. What are the selection criteria when deciding between multiple candidates?

Board decision

Staff decision

Consultant decision

ANSWER: Wilshire is a non-discretionary Investment Consultant. Wilshire performs searches for managers and vendors and brings its best ideas to the Administrative Committee for review. In the end, the Administrative Committee retains full discretion over the hiring and firing of its investment managers and other vendors.

Please note that the PRB reference to “board” most closely aligns with the Plan’s Administrative Committee.

5. How does the selection process address ethical considerations and potential conflicts of interest for both investment managers and board members?

ANSWER: Wilshire uses criteria that are meant to identify conflicts of interest among investment manager prospects. Such criteria included disclosure of “soft dollar” arrangements. Wilshire stated that it does not hire any manager that allows for “soft dollar” remuneration for the Plan. The Plan’s Ethics Policy for all employees discusses Conflicts of Interest. All employees must sign an annual declaration to abide by this policy, recuse themselves when necessary and report suspected violations under the process outlined in the policy.

6. Who is responsible for developing and/or reviewing investment consultant and/or manager contracts?

Staff

Board

Consultant

Legal/Other

7. What is the process for monitoring individual and overall fund performance?

ANSWER: Wilshire, the Investment Consultant, provides the Administrative Committee with quarterly performance reports which include asset allocation, individual manager net of fee performance vs individual benchmarks over various time periods, aggregate Plan performance, watchlist items with recommended actions and potential replacement investment managers. The IPS states that active investment managers must meet with the Plan annually. This investment manager practice is followed, according to a compliance calendar maintained by CPS Energy staff.

8. Who is responsible for measuring the performance?

Consultant

Staff

Board

Other

9. What benchmarks are used to evaluate performance?

Asset Class	Broad Benchmark	Style/Manager Benchmark
1. Domestic Equity	Russell 3000 Index	Growth/Value/Micro
2. International Equity	MSCI AC World ex USA IMI (Net)	Growth/Value
3. World Equity	MSCI ACWI Minimum Vol Index (Net)	Na
4. Energy	Alerian MLP Index	Na
5. Real Estate	NCREIF Property Index	Wilshire US Real Estate Index
6. Loans	CSFB Leveraged Loan (1M-lag)	Na
7. Hedge Funds	HFRI Fund of Funds Composite Index	HFRI Equity Hedge / HFRI Macro/CS Managed Futures
8. High Yield Bonds	ICE BofAML High Yield Master II	Na
9. Emerging Market Bonds	Blmbg. Barc. EM Local Currency Gov't.	Na
10. Domestic IG Bonds	Blmbg. Barc. US Aggregate	Na
11. US TSY Bonds	Blmbg. Barc. US Treasury	Na

10. What types of performance evaluation reports are provided to the board? Are they provided in a digestible format accessible to trustees with differing levels of investment knowledge/expertise?

Yes

No

OFI

ANSWER: Wilshire provides at a minimum four comprehensive quarterly reports to the Administrative Committee. The Administrative Committee summarizes performance for the EBOC at least twice per year. These reports are well documented and in a digestible format. They are relatively consistent across quarters.

11. How frequently is net-of-fee and gross-of-fee investment manager performance reviewed?

- Monthly
- Quarterly
- Annually
- Other/OFI

Is net-of-fee and gross-of-fee manager performance compared against benchmarks and/or peers?

- Yes
- No
- OFI

ANSWER: OFI. Net of fee performance compared to benchmarks is reported by the Investment Consultant on a quarterly basis. Gross of fee performance is reported from the Investment Consultant annually for required PRB reporting. The majority of active investment managers report both net and gross of fee performance compared to benchmarks during their annual visits. CCR recommended the inclusion of gross of fee and net of fee performance compared to benchmarks for each performance period in quarterly reports, which would allow fiduciaries to assess the net value add for each manager, especially privately traded strategies.

12. What is the process for determining when an investment manager should be replaced?

ANSWER: Wilshire, the Investment Consultant, is responsible for reporting manager performance quarterly to the Administrative Committee. When a manager is no longer providing value relative to a benchmark, that manager is put on “watch” status and if performance does not improve, the manager may be phased out by taking cash periodically to meet operational needs or a search for a replacement may be undertaken. Costs associated with manager replacement is taken into consideration. CCR recommends the Plan’s IPS reflect objective and quantifiable criteria by which a “watch” list manager’s replacement can be implemented.

13. How is individual performance evaluation integrated with other investment decisions such as asset allocation and investment risk decisions?

ANSWER: Individual manager performance remains separate from asset allocation decisions. However, when rebalancing of the asset allocation is needed or when cash is required for operational needs, individual investment manager performance is considered when making decisions for rebalancing or identifying an appropriate cash source.

Team of Analysts

Mary Kathryn Campion

Dr. Campion is the founder and president of Champion Capital Research. The firm is a research oriented institutional investment management company. The firm's clientele includes public defined benefit and corporate defined contribution plans, as well as foundations and non-profits. Champion Capital Research has the distinction of being the first firm to certify for fiduciary excellence (CEFEX) a 2.5B public defined benefit plan. The firm has conducted fiduciary assessments for public and corporate plans whose combined assets exceed thirty billion (30B) in assets. Additionally, the firm donates nearly five percent of its profits to charities annually.

Dr. Campion has held the position of adjunct faculty for the Center for Fiduciary Studies at the University of Pittsburgh since 2007. She also lectures and teaches at local universities. At Rice University's Glasscock School, Campion taught economics, finance, equity and fixed income theory and strategy, portfolio management, risk management, and investments. At the University of Houston, Campion taught undergraduate micro and macroeconomic classes. For public fund trustees, Dr. Campion authored and continues to instruct the Certified Trustee Training curriculum. She continues to be a member of TEXPERS Education Committee. Campion has been engaged as a legal expert in securities disputes and lawsuits. Campion was a retained speaker for the CFA Society and spoke in countries including England, Ireland, Malaysia, Philippines, Singapore, Japan, Canada, and in major cities in the United States.

Dr. Campion's experience with large institutional clientele includes analyses of diversified public assets and private equity and real estate holdings. Analysts at the firm have experience analyzing private equity and real estate cash flows, reporting gross and net of fee performance, and assessing performance relative to benchmarks. Importantly, the firm has developed governance, ethics and policy statements for public pension plans, and has ongoing relationships to monitor those plans as well as update annually the policies and procedures for defined benefit and contribution plans.

Dr. Campion's board and council positions include the Houston Symphony Orchestra's (HSO) Chairperson for the Pension Committee, HSO Leadership and Governance Committee, and Rice University's Initiative for the Study of Economics. She is a member of the National Association for Business Economists, American Economic Association, Association for Investment Management and Research, and of the Houston Society of Financial Analysts. Campion is published in academic and professional journals including Bank Asset/Liability Management, The North America Journal of Economics and Finance, The Texas Pension Observer and The World Economy: The America's. Her hobbies include running, swimming and playing the violin.

Dr. Campion has received her B.A from Rice University and M.A from University of Houston. She completed her PhD course work in Economics at the University of Houston. She is a certified Chartered Financial Analyst (CFA) and Accredited Investment Fiduciary Analyst (AIFA).

Keith Alden Loveland

Keith Alden Loveland is a nationally recognized attorney, author, consultant and teacher within the fields of investments, securities and securities offerings, ethical versus fraudulent practices regarding investments and securities, and fiduciary matters. He has been qualified as an expert regarding the above matters in state and federal courts, and in AAA and NASD/FINRA arbitrations, and also has served as an arbitrator and qualified neutral mediator. Keith currently serves as a subject matter expert to the North American Securities Administrators' Association [NASAA]; he previously served as a subject matter expert to the New York Stock Exchange [NYSE] Qualification Committee.

Mr. Loveland has taken and passed the securities examinations Series 3, 4, 5, 7, 8, 15, 24, 27, 53, 63, 65 and 66. Within the securities industry he has worked inside of broker-dealers and investment advisers, and has served as chief compliance officer, chief legal officer, chief operations officer, chief financial officer, chairman of the investment committee for a mutual fund complex and chairman of the board. He has also served as outside counsel to banks, brokerage firms, insurance companies, investment companies and trust companies.

Mr. Loveland is a member of the American Bar Association, Business Law Section, Committee on Federal Regulation of Securities, and the Committee on State Regulation of Securities. He has been a member of the Financial Planning Association since 1983, serving a three-year term on their Board of Directors from 2011 to 2013. He was a recipient of the FPA Heart of Financial Planning Award in 2010. Keith has been a teacher for many years. Among other engagements, he was Adjunct Professor, William Mitchell College of Law, from 1978 to 1987, and Adjunct Professor, Hamline University, from 1979 to 1981, where he taught Philosophy of Law and Jurisprudence. He is currently Adjunct Faculty for The Center for Fiduciary Studies, teaching the Accredited Investment Fiduciary course in Prudent Practices for Investment Stewards, Investment Advisors, and Investment Managers.

Keith's writings span a wide range of topics, including alternative dispute resolution, arbitration, cybersecurity, ethics, portfolio construction, privacy law and various elements of securities law. He received his Bachelor of Arts in Philosophy & Pre-law from University of Minnesota, Duluth, Juris Doctor from William Mitchell College of Law and Certificate in Securities Regulation from Harvard University Law School. He is an Accredited Investment Fiduciary Analyst (AIFA®), Certified Investments and Derivatives Auditor (CIDA®), Global Financial Steward (GFS™), L5 Plank Holder and CEFEX Fiduciary Analyst.

Kathleen McBride

Kathleen McBride has more than 35 years of experience in the investment industry including senior posts as a bond underwriter, trader and later, investment adviser. In 2009, she was a founder of The Committee for the Fiduciary Standard, later serving as its Chair. Nationally recognized for her fiduciary process expertise, she frequently speaks, writes, comments, and testifies on investment fiduciary regulation and investor advocacy issues, and meets frequently with regulators and lawmakers.

Ms. McBride is an Accredited Investment Fiduciary Analyst® (AIFA®) and a CEFEX Analyst with the Centre for Fiduciary Excellence. McBride’s investment experience and specialized knowledge qualifies her to audit the investment fiduciary processes of retirement plans, RIA firms, service providers and nonprofits across the United States and internationally. Using an ISO-based process, McBride assesses an organization’s conformance to the appropriate fiduciary standard and Prudent Practices established by CEFEX and Fi360, which are based on regulatory, legal and common law prudence, and analyzes the organization’s investments. Once organizations comply the Global Standard of Fiduciary Excellence, they may be certified by CEFEX in a rigorous, peer- reviewed process. McBride was the first CEFEX Analyst to assess a nonprofit organization in Guam for CEFEX certification.

McBride also consults with organizations that desire to improve their investment fiduciary processes. She is qualified to teach the Fiduciary Essentials® courses developed by Fi360 to help investment stewards understand and meet their fiduciary responsibilities.

She holds BA from New York University and completed the Investment Strategies and Portfolio Management program at The Wharton School of The University of Pennsylvania. She has passed the Series 7 and 3 securities examinations.

Ken Mathis

Ken Mathis has over thirty-seven years of experience working with institutional organizations in the capacities of a fiduciary consultant, fiduciary assessments, CEFEX Certification (Centre for Fiduciary Excellence), asset management, and investment consulting. He served as Chairperson of the first CEFEX Foundation Committee.

Mr. Mathis has written numerous whitepapers on fiduciary best practices for institutional organizations. In addition, he has been a speaker at national conferences on fiduciary best

Team of Analysts

practices, fiduciary assessments, and CEFEX Certification. Ken has also contributed to CEFEX's Consultant's Assessment of Fiduciary Excellence for nonprofits and Fi360's fiduciary training program for foundations and endowments.

Ken has completed the Pension and Investment Management Program at Wharton School of Business, University of Pennsylvania. He has earned the Accredited Investment Fiduciary Analyst® (AIFA®) professional designation from fi360 through the Katz School of Business, University of Pittsburgh. He has also received the Professional Plan Consultant® (PPC®) professional designation from fi360 through the Robert Morris University. Ken is also a CEFEX Analyst, having received formal training in investment fiduciary responsibility and met the criteria established by the Centre for Fiduciary Excellence (CEFEX). He received a B.B.A. from the Fogelman College of Business and Economics at the University of Memphis.

CPS Energy Retirement Plan SB 322 Investment Expense Reporting

Direct and Indirect Fees and Commissions

ASSET CLASS	MANAGEMENT FEES PAID FROM TRUST	MANAGEMENT FEES NETTED FROM RETURNS**	TOTAL INVESTMENT MANAGEMENT FEES (Management Fees Netted from Returns + Management Fees Paid From Trust)	BROKERAGE FEES/COMMISSIONS	PROFIT SHARE/CARRIED INTEREST	TOTAL DIRECT AND INDIRECT FEES AND COMMISSIONS (Management Fees + Brokerage Fees/Commissions + Profit Share)
Cash	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public Equity	1,049,621	1,210,213	2,259,834	79,000	-	2,338,834
Fixed Income	1,377,222	-	1,377,222	-	-	1,377,222
Real Estate *	670,517	-	670,517	-	141,022	811,539
Securities Lending	79,708	-	79,708	-	-	79,708
Securities Lending borrower rebates	1,172,245	-	1,172,245	-	-	1,172,245
Alternative/Other	1,755,538	372,687	2,128,225	-	3,185,477	5,313,702
TOTAL	\$ 6,104,851	\$ 1,582,899	\$ 7,687,751	\$ 79,000	\$ 3,326,499	\$ 11,093,250

Alternative/Other	Benchmark	Investment Managers	Benchmark
List of Alternative/Other Investments**	List of Alternative/Other Benchmarks	List of Investment Manager Names**	List of Investment Manager Benchmarks
AEW Core Property Trust	NCREIF Property	Acadian (Global Low Vol)	MSCI ACWI Min Vol
City Base West	Wilshire RESI	American Funds	MSCI Emerging Markets
Credit Suisse - Bank Loan	CSFB Leveraged Loan	AXA High Yield	Merrill Lynch BofA High Yield
FPA Crescent	HFRI Equity Hedge (Total)	BlackRock (Global Low Vol)	MSCI ACWI Min Vol
GMO	HFRI Macro (Total)	BlackRock (R1G)	Russell 1000 Growth
Harvest MLP	Alerian MLP	Brandywine Global	Global Sovereign Credit Blend
JPMCB Strategic Property Fund	NCREIF Property	Frontier	Russell Mid Cap Growth
Letter of Credit		Harbor - Crescent High Yield	Merrill Lynch BofA High Yield
Millennium	HFRI Fund-of-Funds Composite	JP Morgan Core Fixed Income	Bloomberg US Aggregate
Other Individually Owned RE		Munder Core Fixed Income	Bloomberg US Aggregate
Rental Income / Other		NT S&P 500	S&P 500
USAA Eagle Real Estate Fund	NCREIF Property	Oakmark	MSCI EAFE Value
Winton Futures	Credit Suisse Managed Futures	Operating Cash	
Woodside III (Skydex)	CPI	Oppenheimer	MSCI Emerging Markets
Woodside IV	CPI	RhumbLine (R1V)	Russell 1000 Value
Woodside Opportunity	CPI	Silver Creek	S&P 500
Woodside V	CPI	Silvercrest	Russell 2000 Value
		THB	Russell Micro Cap
		William Blair	MSCI EAFE Growth

Total Investment Expenses	
Total Direct and Indirect Fees and Commissions	\$ 11,093,250
Investment Services	
Custodial	65,230.41
Research	-
Investment Consulting	188,879.00
Legal	1,399.35
Other	257,809.27
Total	\$ 513,318.03
Total Investment Expenses (Total Direct and Indirect Fees and Commissions + Investment Services)	\$ 11,606,568

* The 2019 Plan's Audit Report includes \$8,708,743 in real estate operating expenses that are not included in this expense report.

** Management fees are netted from returns for alternative/other investments and investment managers where funds were utilized. This calculation is based on the 2019 quarter ending account values and should be considered an estimate.

This table was prepared by Champion Capital Research as part of its own work on the Plan's 2020 SB 322 Investment Practices and Performance Report. This is not intended to replace the Plan's own SB 322 investment expense template submission to PRB.