

# ***Corpus Christi Firefighters' Retirement System***

## **American Bank Plaza**

711 N. Carancahua , Suite 724  
Corpus Christi, Texas 78401-0544  
Phone (361) 882-1486 • Fax (361) 882-1488

May 21, 2020

VIA EMAIL: [hal.tabb@ubs.com](mailto:hal.tabb@ubs.com)

Hal G. Tabb, CIMA

Senior Institutional Consultant

Senior Retirement Plan Consultant

First Vice President—Investments

UBS Financial Services, Inc.

1100 Poydras Street, 9<sup>th</sup> Floor

New Orleans, LA 70163

Dear Mr. Tabb:

On behalf of the Corpus Christi Fire Fighters' Retirement System Plan (the "Retirement System"), the Board of Trustees of the Retirement System makes the following representations to you and UBS Financial Services, Inc. so that you may provide the evaluation described in Texas Government Code Section 802.109 as requested below. All referenced written policies/procedures are part of the public records of the Retirement System and are available for your reference. Should you need any additional documentation to provide the requested evaluation, please request the same from Mrs. Gracie Flores, the plan administrator of the Retirement System.

### **Introduction**

The Retirement System was established pursuant to Article 6243e, Vernon's Annotated Texas Civil Statutes (known as the Texas Local Fire Fighters' Retirement Act, or the "Act"), for the exclusive benefit of certain employees of the Fire Department of the City of Corpus Christi, Texas and their beneficiaries. The Retirement System Board of Trustees adopted its amended and restated Plan Documents ("Plan") effective as of January 1, 2016 and the provisions of the Act and the Plan govern Retirement System matters among the Retirement System and its beneficiaries.

The Board of Trustees, which is established under the Act and the Plan (the "Board"), administers the Retirement System. At the current time, the seven Board members include three firefighters, Matthew Wood, Michael Gilley, and Javier Jasso, the Mayor's appointee, Penn Thomas, the City Finance Director's appointee, Constance Sanchez, and two civilian trustees, Darron Bergstrom and Laurelyn Pohlmeier.

Effective May 21, 2020, the Board approved this letter in order to enable you to provide the Retirement System with an Investment Practices and Performance Evaluation (IPPE) as required by Texas Government Code Section 802.109. The IPPE should include (1) an analysis of any investment policy or strategic investment plan, (2) a detailed review of the Retirement System's investment allocation, (3) a review of the appropriateness of investment fees and commissions paid, (4) a review of the Retirement System's governance processes related to investment activities, and (5) a review of the Retirement System's investment manager selection and monitoring process.

You and UBS Financial Services, Inc. ("UBS") currently provide investment consulting services to the Retirement System as the "Investment Consultant". The Board requests that you and UBS provide the IPPE for the Retirement System. Please include a statement of your qualifications as the Plan's Investment Consultant. The Board recognizes and affirms that neither UBS, nor Mr. Tabb, directly or indirectly manage the investments of the Retirement System nor have they conducted an independent investigation to confirm the accuracy of information provided by the Board in this letter. Any and all statements contained in this letter are made solely to comply with the requirements of Texas Government Code Section 802.109 and should not be relied upon for any other purpose.

### **Investment Policy**

The current Investment Policy Statement (IPS) is a written investment policy and was adopted on July 18, 2019 by the Board. The IPS' purpose is to ensure adequate cash flow to support the Plan's liquidity needs in funding liabilities. The IPS is reviewed at least annually and updated as necessary to take into account current developments. For example, the current IPS was amended most recently to include international fixed income in the asset allocation. The prior IPS was adopted on April 21, 2016. It was amended to change the minimum emerging markets allocation from 0% to 3%. In 2013, the IPS was amended and restated to better meet industry standards and the Plan's stated goals.

The Investment Consultant attends the Retirement System's monthly board meetings during the first month of each calendar quarter to provide a quarterly performance report and other relevant information concerning the Plan's investments. With the assistance of the Investment Consultant, the Board reviews and evaluates the investment performance of the Retirement System, compares the current asset allocation with the IPS for compliance with all requirements including meeting the asset allocation minimum target guidelines and provides updates as to the performance and status of funds dedicated to the Retirement System. Further, the Board reviews such information to determine future cash flow as compared to liquidity needs. In so doing, the Board is adhering to the Retirement System's stated policies and procedures. The Board has the ultimate responsibility and authority in hiring or firing investment managers as well as determining investment strategies going forward to best implement the stated IPS goals.

The Board has engaged the actuarial firm of Rudd & Wisdom to provide actuarial consulting services to the Retirement System. These actuarial consulting services include providing an actuarial valuation of the Retirement System every other year, providing benefit consulting services in confirming the amounts of benefits paid pursuant to the Plan, assisting the Board to prepare required GASB statements as part of its financial statements, and providing consulting for potential amendments to the Plan as appropriate from time to time. The actuarial information is considered by the Board along with the investment performance information provided by the Investment Consultant in the administration of the Retirement System.

The IPS and the Board's review procedures comply with general industry best practices. When and where applicable, the Investment Consultant and the Board have reviewed the IPS, its policies, and procedures, to determine what areas, if any, need improvement, and have developed and executed plans to implement the same.

The Investment Consultant works with the Board to strive to improve the investment strategies of the IPS in an effort to maximize available funds to ensure adequate cash flow for future Plan needs. To date, the IPS' stated objectives are being met.

## **Investment Asset Allocation**

The strategic asset allocation is reviewed quarterly by the Board. The Board, the Investment Consultant and the Board's actuary communicate regularly regarding their respective professional assumptions and future expectations regarding the investment performance of the Retirement System's investment portfolio. This information is reviewed with the Board on a quarterly basis by the Investment Consultant and bi-annually by the Board's actuary.

As of March 31, 2020, the Retirement System's asset allocations was as follows:

Sector/Asset Class	Percentage of Assets
Equity - Large Cap Value	9.5%
- Large Cap Growth	11.4%
- Small Cap Value	3.4%
- Small Cap Growth	4.8%
- International	11.4%
- Emerging Markets	5.4%
Fixed Income - Domestic	30.2%
- Global	9.6%
Alternatives - Real Estate	14.3%
Total	100.0%

The Board is responsible for making decisions regarding strategic asset allocation. The Investment Consultant provides the Board with quarterly performance evaluation data for the Retirement System's investment managers to enable the Board to determine and evaluate the strategic asset allocation as well as to identify and engage (or terminate) its investment managers.

The methodology used by the Investment Consultant in providing these performance evaluations is based on a specific methodology, is prudent, consistently applied, and is considered to be an industry standard best practice. The asset allocation for the Plan, including any alternative investments, is typical to comparable retirement system plans.

## **Investment Fees and Commissions Paid**

The Board reviews and approves all fees incurred by the Plan including investment managers, consultant, legal, actuary, auditor, other professional providers, and operational expenses on a monthly basis. Investment management and investment consulting fees are established in advance by agreement or by the terms of the investment manager's standard fees for its services. At each monthly Board meeting, the Trustees review and approve expenses incurred for investment management, investment consultant, actuarial, legal, and other professional services incurred for the Retirement System.

Other professional providers include medical consultants for Plan disability benefit questions and residual earning capacity redetermination evaluation and calculation.

The Board reviews a Fee Analysis report on a monthly basis for the accuracy and reasonableness of investment fees charged by the Plan's portfolio investment managers. Legal counsel reviews all investment manager contracts for fee reasonableness and, with the assistance of the Investment Consultant, negotiates on behalf of the Retirement System. The Plan does not hold any alternative asset classes. The fees charged by the Investment Consultant and all investment managers are typical for the industry.

## **Governance Processes Related to Investment Activities**

The Plan's website is easily accessible by and open to the Retirement System active and retired members and the public. The home page makes available the Texas Local Fire Fighters Retirement Act, the Plan Document, the Retirement System's Summary Plan Document, a Sample Qualified Domestic Relations Order and the Biennial Actuarial Valuation. Also posted on the website are the Plan's policies including investment policy, board attendance policy, travel policy and code of ethics policy. The members and public also have access to the monthly agendas and minutes of the Board meetings.

The Board of Trustees meets monthly as required by the Act and the Plan. The meetings include periodic presentations by the Retirement System's investment managers and the quarterly performance review of the Retirement System's investments by the Investment Consultant. Periodically, each investment manager is called upon to attend a Board meeting to discuss its investment performance and to respond to questions. The investment presentations meetings continue until all questions are satisfied and discussions are completed. The investment manager presenting will provide a complete report including the organization and experience of the personnel, the investment philosophy or strategy of the firm including performance information along with comparisons to benchmarks, and historical data. The Investment Consultant provides a written and oral report on the investment manager peer comparisons, risk statistics and investment benchmark performance for each investment manager. The Investment Consultant's written report provides total portfolio investment performance information for the Plan Fund. The Board, Investment Consultant and investment manager discuss any changes in personnel, performance, strategies, issues and concerns. They will also review and discuss the economic outlook as viewed by the investment manager and Investment Consultant. The overall performance of the portfolio is continuously monitored by the Board of Trustees through an annual audit by the independent auditing firm retained by the Retirement System, as well as by presentations, constant communication between investment managers, Investment Consultant, actuary and other essential professionals. The IPS is reviewed periodically by the Board with the assistance of the Investment Consultant and all changes are made to the same with his input and advice.

The agendas and minutes of Board meetings are posted according the Act and Robert's Rules of Order. They are accessible by the membership and public through the website homepage. The Minutes of each Board meeting provide detailed information on the actions taken and matters discussed by the Board in order to educate the membership on the investment performance of the Retirement System's assets. The minutes help provide a comprehensive view of the matters of the Retirement System.

The Trustees are required to meet the Minimum Educational Training program through the Texas Pension Review Board. An attendance worksheet is completed for each Trustee indicating the hours completed or the hours needed to meet the training requirement. The Board annually attends other educational programs such as the TLLFRA Peer Trustee Training, TEXPERS and NCPERS training to continue in their education to better serve the Retirement System. Other educational programs are also available and provided by individual investment and legal firms.


In accordance with the Act and the Plan, the Board elects officers including a chairman, vice chairmen and secretary/treasurer for the in January of each year. The tenure of the Trustee is often considered when electing the officer position. Their attendance recorded is also considered when electing officers. Annually in January, each trustee's attendance record is reviewed for compliance with the Retirement System's attendance policy, and any requested exceptions are either approved or denied by the Board.

The investment governance processes are continuously reviewed for appropriateness.

#### Investment Manager Selection and Monitoring Process

As noted above, the Board has, and exercises, the ultimate responsibility and authority in engaging or terminating the engagement of the investment managers for the Retirement System. With the assistance of the Investment Consultant, individual investment management firms are invited to make periodic presentations to the Board at their regular monthly Board meetings, and when deemed necessary by the Board, or as recommended by the Investment Consultant, managers can be directed to appear before the Board at a regular or a special Board meeting to respond to specific questions or circumstances of concern to the Board. If and when the Investment Consultant recommends that the Board consider the performance of an investment manager, or if and when the Board raises questions regarding the performance of an investment manager, the Investment Consultant can and does provide special analyses of the performance and a comparison with the historical performance of other, similarly-styled investment managers for the consideration of the Board. Although the Investment Consultant may assist the Board by providing useful comparisons and considerations with respect to various alternate investment managers for the Board, all decisions to terminate an existing investment manager, and all decisions to engage a new or replacement investment manager are made solely by the Board at a regular or special Board meeting, based on all relevant facts and circumstances then available to the Board..

Sincerely,

A handwritten signature in black ink, appearing to read "Matt Wood", is written over a horizontal line.

Matt Wood, Chairman  
Board of Trustees  
Corpus Christi Firefighters' Retirement  
System



Harold G. "Hal" Tabb Jr., CIMA®  
First Vice President - Investments  
Senior Institutional Consultant  
1100 Poydras Street, Suite 900  
New Orleans, LA 70163

May 1, 2020

Corpus Christi Fire Fighters' Retirement System  
Attention: Matthew Wood, Chairman  
711 N. Carancahua, Suite 724  
Corpus Christi, TX 78401-0544

**RE: Investment Practices and Performance Summary for the Corpus Christi Fire Fighters' Retirement System Plan**

Dear Mr. Wood and the Board of Trustees,

This letter shall serve as a summary report of the practices UBS Financial Services Inc. ("UBS") has conducted for the Corpus Christi Fire Fighters' Retirement System Plan (the "Retirement System" or "Corpus Christi") as requested by the Board of Trustees for the Retirement System (the "Board") in the attached letter (the "IPPE Statement").

This report includes: (1) a statement of our qualifications for evaluating the investment practices and performance of institutional clients such as the Retirement System; (2) a summary of our process for assisting in the development of the Retirement System's investment policy statement; (2) a summary of our process for reviewing the Retirement System's investment allocation; (3) a summary of our process for reviewing the appropriateness of investment fees paid by the Retirement System; (4) a summary of our process for reviewing of the Retirement System's governance; and (5) a summary of our process for reviewing the Retirement System's investment manager selection and monitoring process.

This report is based on the information and representations made by the Board in the IPPE Statement, the most recent Investment Policy Statement of the Retirement System adopted by the Board on July 18, 2019, and a review of the investment-related performance and fee data made available to UBS as of March 31, 2020. UBS has not reviewed and this report is not based on any other report, policy, or procedure of the Retirement System. The investment and fee data reviewed for this analysis is believed to be reliable, but has not been independently verified by UBS. UBS has not conducted an independent investigation to confirm the accuracy of the information provided by the Board, and, unless stated otherwise, has not conducted an independent investigation to

determine whether the Board and the Retirement System have complied with the investment policy, processes, and procedures referenced in this report.

### **Our Qualification as an Investment Consultant**

I, Mr. Hal Tabb, am a First Vice President of Investments, Senior Retirement Plan Consultant and Senior Institutional Consultant with UBS and currently serve as a non-discretionary Investment Consultant to the Retirement System. Neither UBS nor myself directly or indirectly manage the investments of the Retirement System.

I have been an investment representative for over twenty-eight years and with UBS for over twenty of those years. I have a Master of Business Administration from Tulane University AB Freeman Graduate School of Business and a Bachelor of Science degree from Tulane University. I earned the CIMA designation<sup>1</sup> in 2003 from the Wharton School of Business at the University of Pennsylvania. I have consulted to numerous organizations during my career regarding investment management and plan consulting.

My team and I provide institutional consulting services to clients across the US with total assets exceeding 4 billion dollars.

My team and I receive program support through UBS's Institutional Consulting Group ("UBSIC"), which provides investment advisory services within UBS Financial Services Inc. UBSIC has served the investment consulting needs of institutional investors since 1984. UBSIC has a network of over 170 experienced Institutional Consultants and Endowment & Foundation Consultants nationwide and provide consulting services to approximately 750 institutional clients, including corporations, private and public retirement plans, Taft-Hartley plans, municipalities, foundations and endowments. Together, our Institutional Consulting teams have approximately \$89 billion of client assets under advisement as of December 2019.

We also receive access to the resources, research, and thought leadership from UBS, a leading global wealth manager, and support from more than 200 experienced UBS Financial Services analysts, due diligence officers and investment strategists from several research groups and more than 20 home office Institutional Consulting Program Management team members.

### **1. Investment Policy**

The Retirement System's current Investment Policy Statement (IPS) was adopted on July 18, 2019 by the Board of Trustees. The Board of Trustees and I worked in concert to

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<sup>1</sup> The CIMA designation belongs to an elite group of investment professionals. Awarded by the Investments & Wealth Institute (IWI), it encourages high standards in the investment consulting profession. CIMA designees must succeed in a rigorous academic program that focuses on asset allocation, manager search, identification and recommendation, investment policy and performance measurement and is taught in partnership with the Wharton School of Business. In addition, CIMA designees are required to maintain their credentials through extensive continuing education.

develop the current IPS using an approach that encompassed standards provided by UBS (including strategic and tactical intellectual investment capital provided by UBS's Chief Investment Office) and those based on my long-tenured history providing investment consulting solutions to similar retirement systems.

Developing and the ongoing management of an IPS is an iterative process. I have worked with Corpus Christi to develop and periodically update their IPS. Among other things, the IPS should offer guidance for the selection, monitoring and replacement of investments. UBSIC believes that adhering to an appropriate documented process and reviewing the policy regularly are critical components of fulfilling a trustee's fiduciary responsibility.

I have worked with your committee on an initial and ongoing basis to understand Corpus Christi's investment objectives, including time horizon, liquidity and cash flow needs and risk tolerance. The IPS has been created and updated to address key elements: investment objectives; asset allocation parameters; investment manager selection and evaluation criteria; expected returns; benchmarks for performance evaluation; acceptable risk levels; allowable and prohibited investments.

I have worked with Corpus Christi to understand its return objectives and help analyze those objectives to develop a target investment allocation and investment guidelines using our proprietary UBS capital market assumptions and Corpus Christi's risk tolerance and investment needs. I have leveraged tools and research to assist in understanding the risk/return tradeoff of pursuing active management strategies versus passive strategies. I have also worked to establish guidelines that investment managers must follow and by which they will be assessed. The continued use of a manager will be scrutinized if any of the criteria are not being met.

The IPS and the Board's review procedures are sufficient based on my experience working with similar clients at UBS. When and where applicable, the Board and I have reviewed the IPS, its policies, and procedures, to determine what areas, if any, need improvement, and have developed and executed plans to implement the same.

The Board and I to strive to improve the investment strategies of the IPS. To date, the IPS' stated objectives are being met.

## **2. Investment Asset Allocation**

The Board of Trustees and I review the Retirement System's asset allocation on a quarterly basis using the IPS as a foundational guide and performance results as an affirmation of the decisions made.

I provide the latest intellectual capital from the UBS Chief Investment Office when assisting the board in assessing, monitoring and making recommendations to adjust the strategic and/or tactical asset allocations.

The process used to develop and review Corpus Christi's asset allocation combines the



science of optimization and statistical modeling with the art of capital markets experience and professional judgment. The optimization process uses UBS Capital Market Assumptions (CMAs) for the expected return, risk and correlations among the various asset classes. We also apply a qualitative overlay, or set of constraints, based on investment judgment.

Corpus Christi's recommended Strategic Asset Allocation (SAA) has been tailored to the guidelines outlined in the IPS and reflects UBS' research on the expected future risk and return potential of each asset category and a combination of managers that complement each other within and across asset classes. The Board and I have periodically reviewed the allocation for asset rebalancing to adjust asset allocations to comply with strategic levels indicated in the IPS. Systematic portfolio rebalancing augments asset allocation by keeping the portfolio from drifting too far off the mark. Together, asset allocation and rebalancing help you establish and adhere to a long-term investment strategy and avoid "style drift".

To date, the investment asset allocation is aligned to the guidelines set forth in Corpus Christi's IPS.

### **3. Investment Appropriateness and Fees**

The UBS Institutional Consulting fee for Corpus Christi was negotiated between both parties prior to the execution of the Consulting Services Agreement and agreed to by both parties when the Consulting Services Agreement was executed. Based on our internal UBS Institutional Consulting pricing schedule, this relationship was priced below our average pricing at the inception of the relationship and continues to be below our average pricing of 0.11% for a client with assets in the range of \$100 million - \$250 million. Our pricing schedule was created by analyzing the fee schedules for our entire UBS Institutional Consulting client base. The recommended pricing range for UBS Institutional Consulting clients in the \$100 million - \$250 million threshold is 0.05% - 0.12% although we may charge up to a maximum of 2% in the Institutional Consulting Program.

Additionally, we have been able to leverage our scale and long-standing relationships with investment managers to assist Corpus Christi in the negotiation of their fees and account minimums with their investment managers. Investment manager fees are reviewed on a regular basis by UBS and the Board for appropriateness based on its impact on investment performance.

Investment management and investment consulting fees are established in advance by agreement or by the terms of the investment manager's standard fees for its services. On a regular basis the Board reviews expenses incurred for investment management, investment consultant, and other professional services incurred for the Retirement System. UBS does not review trading commissions incurred as a result of trading by the Retirement System's investment managers and does not review any other fees associated with the Retirement System.

Legal counsel reviews all investment manager contracts and with my assistance, negotiates on behalf of the Retirement System.

#### **4. Governance Process Related to Investment Activities**

The Board and I meet quarterly to discuss all matters relating to the investment portfolio.

Quarterly, I attend the Retirement System's monthly board meetings and provide:

- An overview of the market's prior quarter's performance, with a focus on those asset areas that may impact the Retirement System's investment portfolio
- A review of the quarterly performance report, including how the plan is performing at the asset allocation levels, outlined in the IPS
- Collateral and informational piece(s) with relevant information concerning the investment portfolio strategies.
- An analysis of any new recommendations – including the removal and replacement of managers that may require attention or not meeting the standards of the IPS - based on research provided by UBS.
- An active discussion with any other key stakeholders such as actuary or legal of the Retirement System, to ensure such information is incorporated into the investment portfolio's decision making process.

Documentation and communication are important factors in fulfilling the Board's fiduciary responsibilities. UBS provides advice and materials to help Corpus Christi to address the fiduciary duties and document the processes to include the following:

- Assistance in development and recurring regular update of an IPS that reflects the needs of the organization
- Implement an Asset Allocation using objective advice and regularly review an asset allocation strategy and update as appropriate.
- Hire and or terminate Investment Managers on an objective basis
- Conduct Performance Reviews of both the portfolios and each investment manager
- Replace Investment Managers as necessary
- Evaluate portfolio and manager risk in order to help preserve capital
- Negotiate fees with investment managers and control expenses
- Met regularly to review the global economy, the asset allocation and performance of the investments and make decisions that respond to current conditions and the welfare of the organization

The advice and materials provided to help Corpus Christi address the fiduciary duties and document processes provide a framework for the fiduciaries to effectively govern investment activities.

## **5. Investment Manager Selection and Monitoring**

I provide the Board with quarterly performance evaluation data for the Retirement System's investment managers to enable the Board to determine and evaluate the strategic asset allocation as well as to identify and engage (or terminate) its investment managers.

As your Investment Consultant, I sift through an extensive amount of data, analyze and interpret its importance, augment it with my experiences and observations, and assemble it in a concise and meaningful fashion for your consideration. As part of the search process, I consider Corpus Christi's attitude toward risk and reward, together with how well the various managers selected for consideration blend with the existing managers. The manager recommendations take those approved by the firm and screen them further to create a targeted list that reflects your needs and investment policy.

My team reviews and evaluates Corpus Christi's performance through the lens of the goals as defined in your IPS as well as through the perspective of a Capital Markets Overview that will put manager performance into perspective with the overall markets. The customized performance report is one of our primary tools used for evaluation. Although not an exclusive list, our team will evaluate performance based on criteria set by Corpus Christi, which may include:

- Each manager's performance on an absolute and relative basis;
- Each manager's return relative to risk,
- Each Manager's statistical metrics
- Portfolio characteristic and style attribution analysis; and
- Historical asset evaluation for a variety of investment strategies and vehicles.
- Security selection, sector weighting and style to determine the contribution of each one to investment return

I generally start each meeting with a Capital Markets Overview that can help put the performance of each manager in perspective. This perspective is critical to making informed long-term assessments and decisions.

I present performance in a variety of dimensions, including the return relative to the level of risk. The rate of return is calculated with an industry standard time-weighted, geometrically linked approach. The risk measure is derived from calculating the variance of returns, and is typically depicted as the standard deviation of returns. Additional risk measures may include portfolio beta, R-squared, Sharpe ratio and up-market/down-market analyses.

To derive this information, my team uses published return and risk calculations on the various benchmarks, as well as those available through our performance measurement system. My team will analyze factors such as timing, security selection, sector weighting and style to determine the contribution of each one to investment return.

We look at returns relative to each manager's peer group, appropriate market benchmarks. We also review the performance of your portfolio relative to your organization's long-term goals.

The performance evaluation reports generally include the following elements, which are essential for understanding an investment program and its progress over time:

- Summary of assets at the beginning and end of the period, including any additions or withdrawals;
- Industry standard time-weighted rates of return;
- Risk-adjusted return analysis;
- Detailed investment performance analysis;
- Objective comparisons to appropriate indices, inflation and stated goals;
- Appropriate universes of similarly managed funds;
- Market cycle comparisons; and
- Performance attribution analysis.

## **Conclusion**

I have worked with the Board to review and advise on the Retirement System's investment practices and performance and believe that the Retirement System's investment practices and performance are reasonably aligned with its IPS and are reasonable based on my experience with similarly situated clients at UBS.

Sincerely,

Hal Tabb  
Senior Institutional Consultant

CC:  
Gracie Flores  
Craig Ansel  
UBSIC Program Management  
Nick Randazzo, UBS Branch Manager

# ***Corpus Christi Firefighters' Retirement System***

## **American Bank Plaza**

711 N. Carancahua , Suite 724  
Corpus Christi, Texas 78401-0544  
Phone (361) 882-1486 • Fax (361) 882-1488

October 15, 2020

Mr. Kenneth J. Herbold  
Texas Pension Review Board  
P.O. Box 13498  
Austin, TX 78711-3498

RE: Supplemental Information to Investment Practices and Performance Summary  
(IPPE report originally submitted via email on 5/26/2020)

Dear Mr. Herbold:

Pursuant to your request, the Corpus Christi Firefighters' Retirement System Board of Trustees approved at the October 15, 2020 monthly meeting the Supplemental Information to the IPPE report originally submitted on May 26, 2020.

Respectfully,



Matthew Wood  
Board Chairman  
Corpus Christi Firefighters' Retirement System

/ggf

Enclosures



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October 12, 2020

Attn: Matthew Wood, Chairman  
Corpus Christi Firefighters' Retirement System  
711 N Carancahua  
Suite 724  
Corpus Christi, TX 78401

Matthew,

Pursuant to the request for additional information, enclosed is a supplement to the Investment Practices and Performance Summary for the Corpus Christi Firefighters' Retirement System dated May 1, 2020 and originally submitted via email on May 26, 2020.

*Hal Tabb*

Senior Institutional Consultant  
UBS Institutional Consulting

**SUPPLEMENTAL INFORMATION to Investment Practices and Performance Summary  
for the CORPUS CHRISTI FIREFIGHTERS' RETIREMENT SYSTEM  
(IPPE report originally submitted via email on 5/26/2020)**

**PRB Element**

- (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;

**IPS REVIEW**

The most current Investment Policy (IPS) was adopted in July 2019. The IPS includes a historical list of the dates when prior revisions were adopted. The Policy is reviewed by the consultant and Board of Trustees regularly to offer guidance for numerous areas of Plan's operations. Reviewing the Policy regularly is a critical component of fulfilling a trustee's fiduciary responsibility.

**Current IPS Revision History**

<b>Version</b>	<b>Date</b>	<b>Approved</b>	<b>Reason for Revision</b>
1.0	2013	2013	Revision from IPS dated July 2012. The Board requested a complete review and revision of prior IPS.
1.1	2016	4/21/16	Changed minimum emerging markets allocation from 0% to 3%
1.2	2019	7/2019	Include international fixed income in asset allocation

**Consideration:** Although review and revisions are made to the IPS on a regular and recurring basis, the Board will consider specifically stating that the Investment Policy should be reviewed biennially or more often as necessary to meet investment objectives.

**IPS CONSTRUCTION**

The current IPS is constructed to cover all areas of the Fund's oversight and management of Fund investments. The intent is to highlight how decisions are made such that outsiders or new Trustees will understand the processes in management and decision making. Below is the comprehensive structure of the IPS and the numerous areas of coverage:

**Current IPS Structure**

Investment Policy Statement Version History

Summary

Basic Information

Board and Committee Logistics

Investment Policy Statement Baseline

General Principles

PURPOSE

Statement of Purpose

GOALS AND OBJECTIVES

STANDARDS OF CARE

Prudence

Ethics and Conflicts of Interest

Control

ROLES AND RESPONSIBILITIES

Board of Trustees

Consultant

Investment Manager  
Custodian  
Additional Specialists  
POLICY REVIEW  
Investment Policies & Procedures  
INVESTMENT PHILOSOPHY  
INVESTMENT GUIDELINES  
Professional Management  
OPERATING GUIDELINES  
Risk & Liquidity  
INVESTMENT STRATEGY AND PERFORMANCE  
Asset Allocation  
PARAMETERS  
Portfolio Parameters  
Equity Managers  
Fixed Income Managers  
Real Estate  
Cash and Equivalents  
Restrictions  
Approval

**Considerations:** Clarifications, enhancements, additions and or revisions to the Investment Policy Statement should always be under review and consideration.

#### **FUNDING AND INVESTMENT INTERGRATION**

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The IPS is designed to meet the real needs and objectives of the retirement plan. However, it is not integrated with any existing funding or benefit policies. The Investment Policy does not 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.)

The Plan conducts an asset/liability valuation every two years. As of the Actuarial Valuation for December 31, 2018, the Plan assumes a 7.5% annual investment rate of return, has an amortization period of 29.8 years and has a funded ratio of 60.2%.

**Considerations:** State the approximate current funding status in the IPS and update when reviewed. Consider the cost/benefit of a comprehensive Asset Liability Study provided by a third-party advisor with expertise in this area.

#### **IPS VIOLATION MONITORING**

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There is currently no evidence of any known compliance violations regarding the IPS. Overall, the Investment Policy Statement adheres to industry best practices, appears appropriate, adequate and effective. To date, the IPS stated objectives are being met. The Board of Trustees will be able to stay committed to the guidance detailed in the IPS during a stressed or prolonged market scenario.

**Consideration:** In the most recent review of the IPS, the consultant and Board of Trustees reviewed the minimum and maximum target allocation guidelines. The consultant and Board of Trustees will continue to review and strive to improve the IPS to better develop and execute investment strategies and processes while keeping the document flexible and fluid. The Board of Trustees will update the IPS to reflect the current Actuarial Return Assumption of 7.5% as of the Actuarial Valuation of December 31, 2018 completed November 15, 2019.



## **ASSET ALLOCATION MONITORING**

### **PRB Element**

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

The Board of Trustees and their consultant review the asset allocation on a quarterly basis using the IPS as the foundation guide and the performance results as an affirmation of decisions made.

The following Asset Allocation strategy has been established based on the strategic objectives, anticipated investment returns, spending policy and risk tolerance of the Retirement System and is reflected in the Investment Policy Statement, Quarterly Performance Report and the Asset Allocation Study.

<b>Strategy</b>	<b>Target</b>	<b>Min. Range</b>	<b>Max. Range</b>	<b>Benchmark</b>
<b>Equity (US)</b>	<b>35%</b>	<b>25%</b>	<b>45%</b>	<b>Custom</b>
Large Cap	25%	20 %	30%	S & P 500
Mid/Small Cap	10%	5%	15%	Russell 2000/2500
<b>Equity (International)</b>	<b>18.5%</b>	<b>10%</b>	<b>25%</b>	<b>Custom</b>
Developed	12.5%	10%	15%	MSCI EAFE
Emerging	6.0%	3.0%	10%	MSCI EM
<b>Fixed Income</b>	<b>36.5%</b>	<b>31%</b>	<b>41%</b>	<b>Custom</b>
US	27.5%	23%	32%	LB Aggregate
International	9%	4%	13%	FTSE Global Bond
<b>Real Estate</b>	<b>10%</b>	<b>5%</b>	<b>15%</b>	<b>NCREIF Prop. Index</b>

**Consideration:** To specifically state in the Investment Policy that the asset allocation will be reviewed at least biennially or more often if the Retirement System's strategic objectives, anticipated investment returns, spending policy or risk tolerance changes or if consultant determines that such a review is needed based upon changes in consultant's capital market assumptions.

## **ASSET ALLOCATION & ACTUARIAL REPORTING**

The investment consultant and actuaries make available their respective reports; however, they do not collaborate regarding future return or risk expectations. The current assumed rate of return used for discounting plan liabilities usually does not factor into the decision making associated with setting the asset allocation. In practice, the asset allocation has no bearing on the assumed rate of return used for discounting plan liabilities.

To date, the investment asset allocation is aligned with the guidelines as set forth in the IPS. The Retirement System is also following industry best practices regarding the establishment and evaluation of the asset allocation.

**Consideration:** Continue to foster communication between the actuary and consultant regarding actuarial assumptions and asset allocation decision-making.

## **RISK/RETURN ASSUMPTIONS**

### **PRB Element**

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

The IPS provides the Board of Trustees with an appropriate modeling to outline its goals and parameters for full market cycles of the probability of achieving desired returns, standard deviation for the aggregate portfolio and risk of not meeting return requirements. On a quarterly basis, the Board of Trustees and consultant review the rate of

return for all investment managers, and each manager's rate of return is measured against its benchmark and the expected risk. The Board of Trustees does not assume that normal market environments will always prevail.

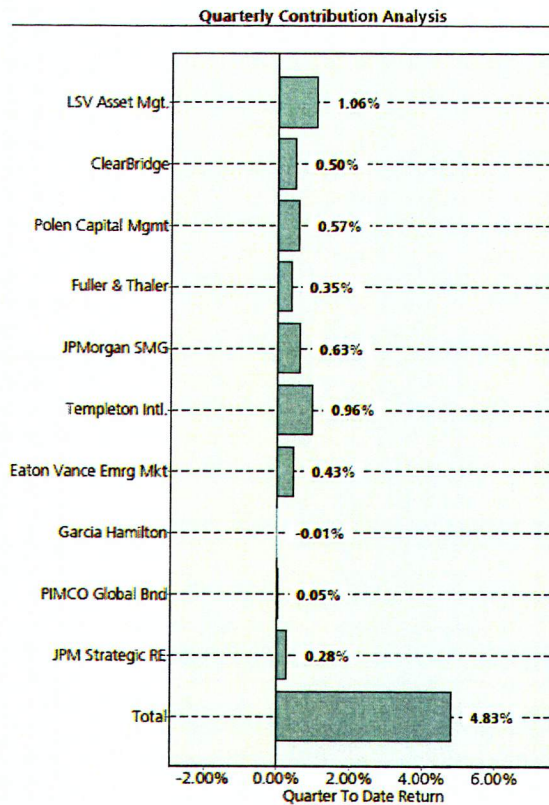
The following depictions are being provided upon request as **sample** performance information provided by consultant and reviewed by the Trustees on a quarterly basis. The below samples are not inclusive of all information provided by consultant or reviewed by the Trustees. All performance reports provided by consultant to Trustees are intended to be reviewed in conjunction with the actual recommendations and advice of the consultant, along with all standard account documents, agreements, and disclosures. Performance information included within the below samples was calculated based on time weighted rate of return as of 12/31/2019. Full quarterly performance reports are available upon request from the retirement system office and include important information not included in this report, including definitions and disclosures.

### **Current Portfolio**

<b>As of: 12/31/2019 Manager / Benchmark</b>	<b>Quarter to Date Beginning Value</b>	<b>Invest. Gain</b>	<b>Net Flows</b>	<b>Ending Value</b>	<b>% Return</b>
<b><u>EQUITY</u></b>					
LSV Asset Mgt.	\$17,580,207	\$1,597,467	\$1,569	\$19,179,244	9.09
<i>Russell 1000 Value</i>					7.41
ClearBridge	\$8,333,485	\$754,146	(\$3,346)	\$9,084,286	9.05
<i>Russell 1000 Growth</i>					10.62
Polen Capital Mgmt	\$8,239,387	\$861,439	(\$2,583)	\$9,098,243	10.46
<i>Russell 1000 Growth</i>					10.62
Fuller & Thaler	\$7,393,565	\$538,126	(\$6,100)	\$7,925,591	7.28
<i>Russell 2000 Value</i>					8.49
JPMorgan SMG	\$7,429,213	\$963,265	\$0	\$8,392,478	12.97
<i>Russell 2000 Growth</i>					11.39
Templeton Intl.	\$17,809,701	\$1,463,899	\$0	\$19,273,600	8.22
<i>MSCI Net EAFE</i>					8.17
Eaton Vance Emrg	\$8,560,104	\$658,020	\$0	\$9,218,124	7.69
<i>MSCI Net EM Mkts</i>					11.84
Total Equity:	\$75,345,663	\$6,836,363	(\$10,460)	\$82,171,566	9.07
<i>Equity Policy Index</i>					9.36
<b><u>FIXED INCOME</u></b>					
Garcia Hamilton	\$42,675,218	(\$33,825)	(\$479,973)	\$42,161,420	-0.08
<i>BB Agg Bond</i>					0.18
PIMCO Global Bond	\$13,579,622	\$72,072	(\$149,550)	\$13,502,144	0.53
<i>BB Gl Hedge</i>					-0.49
Total Fixed Income:	\$56,254,840	\$38,247	(\$629,523)	\$55,663,564	0.07
<b><u>ALTERNATIVE INVESTMENTS</u></b>					
JPM Strategic RE	\$18,998,629	\$387,739	(\$20)	\$19,386,347	2.04
<i>NCREIF Open-End Dive</i>					0.00
Total Alternative	\$18,998,629	\$387,739	(\$20)	\$19,386,347	2.04
<b><u>TOTAL PORTFOLIO</u></b>					
Total Portfolio:	\$150,599,132	\$7,262,348	(\$640,003)	\$157,221,477	4.83
<i>Total Policy Index</i>					4.94

### **Quarterly Contribution Analysis**

The quarterly Performance Report provided by the consultant includes the following Quarterly Contribution Analysis to assist the Trustees with their assessment of the quarterly return contribution of each manager.



### Quarterly Stress and Risk Analysis – Market Cycle Analysis

The quarterly Performance Report provided by the consultant includes the following Market Cycle Analysis to provide the Trustees with information indicating how the total portfolio as well as each individual manager performs in up and down markets. An example depicting the total portfolio level review is set forth below:

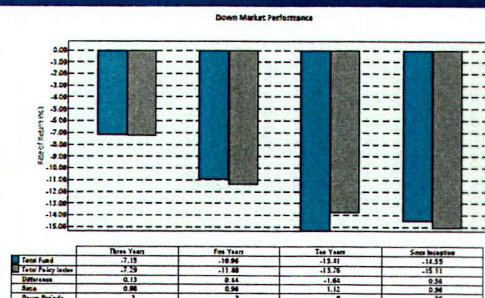
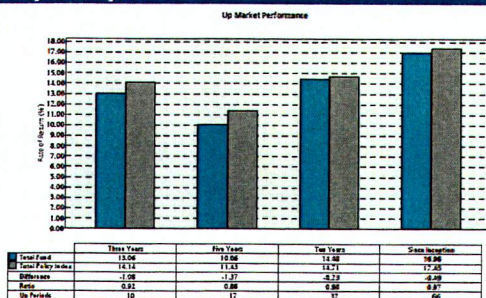
#### Total Portfolio Market Cycle Analysis

Date range: 12/31/1996 through 12/31/2019

Portfolio Inception Date: December 31, 1996

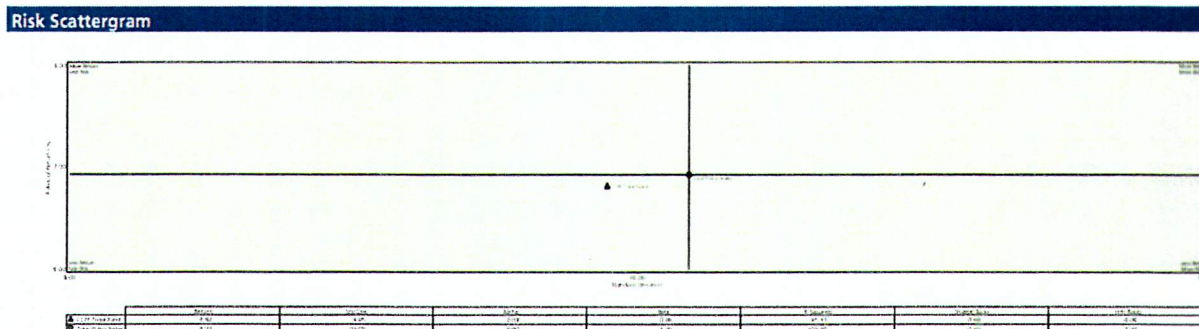
Current Policy Index Construction: 27.50% Bloomberg Barclays Aggregate Bond, 25.00% S&P 500 Index, 12.50% MSCI Net EAFE, 10.00% NCREIF Open-End Diversified Core (ODCE) Index, 10.00% Russell 2000, 9.00% Bloomberg Barclays Global Aggregate Bond Hedged, 6.00% MSCI Net Emerging Markets.

#### Market Cycle Analysis



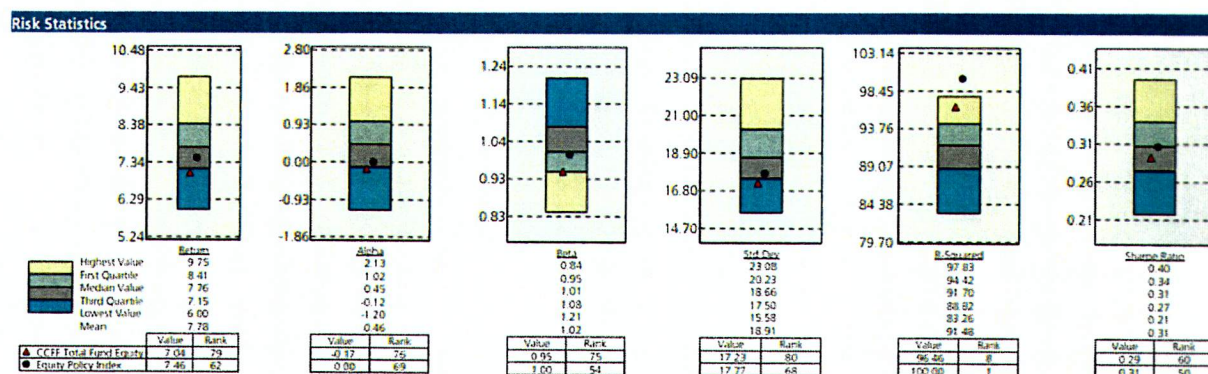


## Total Portfolio Risk Scattergram



All forms of industry standard risk statistics are reviewed on a quarterly basis as exemplified below:

## Total Portfolio Risk Scattergram



The IPS does not specifically define risk for the individual investment managers. The IPS states that assets shall be managed on a risk-adjusted basis to maintain value after inflation with consideration of returns, costs, spending and liquidity.

The consultant along with the Board of Trustees monitor and compare the asset performance relative to: absolute and relative objectives, respective benchmarks for each asset class or strategy invested, per the Asset Allocation table, representative group of peer institutions identified by the Board of Trustees and representative group of peer investment managers. The Board of Trustees with the consultant review the asset performance, portfolio standard deviation and peer group rankings on a quarterly basis.

### Asset Allocation Analysis

The process used to develop and review the Retirement System's asset allocation combines the Board's strategic investment objectives, anticipated investment returns, spending policy, and risk tolerance with UBS' proprietary Capital Market Assumptions (CMAs), which include estimated forward-looking return, risk as measured by standard deviation and correlation assumptions among various asset classes. The strategic returns in the UBS CMAs consider returns over a full business cycle. The CMAs are subject to change at any time at UBS's discretion and without notice. UBS has changed its return, risk and correlation assumptions in the past and may do so in the future. UBS is not required to provide clients with an updated analysis based upon changes to these or other underlying assumptions.

Additional information about UBS's CMAs and sample asset allocation studies are available upon request.



Below are UBS's primary asset class risk and strategic return assumptions as of the date of this submission. They are subject to change at a later date without updating this submission.

<b>Asset Class</b>	<b>Ann'l total return</b>	<b>Ann'l risk</b>
US Cash	1.6%	0.2%
US Government Fixed Income	0.4%	3.8%
US Municipal Fixed Income	0.4%	2.8%
US Corporate Investment Grade Fixed Income	1.3%	5.3%
US Corporate High Yield Fixed Income	3.6%	9.7%
International Developed Markets Fixed Income	0.0%	7.9%
Emerging Markets Fixed Income (Blend)	4.2%	9.8%
US Large-cap Equity	5.7%	15.5%
US Large-cap Growth Equity	5.2%	15.6%
US Large-cap Value Equity	6.2%	15.9%
US Mid-cap Equity	6.2%	17.7%
US Small-cap Equity	6.3%	20.0%
International Developed Markets Equity	8.2%	15.9%
International Developed Markets Value Equity	8.7%	16.3%
Emerging Markets Equity	9.2%	20.7%
Senior Loans	3.6%	9.7%
Preferreds	2.1%	7.6%
MLPs	8.6%	17.8%
US Real Estate	6.6%	22.3%
Hedge Funds	4.9%	6.0%
Private Equity	8.4%	12.5%
Private Real Estate	5.9%	10.3%

**Cautionary statement regarding forward-looking assumptions.**

The above UBS capital market assumptions are estimates of forward-looking average annual returns for a particular asset class. While these forward-looking assumptions represent UBS's judgments and future expectations, a number of risks, uncertainties, changes in the market, and other important factors could cause actual developments and results to differ materially from our expectations. These factors include, but are not limited to (1) the extent and nature of future developments in the US market and in other market segments; (2) other market and macroeconomic developments, including movements in local and international securities markets, credit spreads, currency exchange rates and interest rates, whether or not arising directly or indirectly from the current market crisis; (3) the impact of these developments on other markets and asset classes. UBS is not under any obligation to (and expressly disclaims any such obligation to) update or alter its forward-looking statements whether as a result of new information, future events, or otherwise. The capital market assumptions are not guaranteed and do not represent the return of a particular security or investment. The actual performance of any particular security, investment or strategy can differ, perhaps significantly, from these CMAs.

**Consideration:** To specifically provide in the IPS for a review of the expected return assumptions, expected risk assumptions, portfolio standard deviation and peer group rankings at least annually or more often if consultant determines that such a review is needed based upon changes in consultant's capital market assumptions.

The Retirement System's asset allocation is 60% allocation to equities and 40% allocation to fixed income.

## **ALTERNATIVES AND ILLIQUID ASSETS**

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### **PRB Element**

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

The Retirement System has 12.3% of its portfolio allocated to alternative investments defined as Real Estate. The IPS states the target allocation for real estate is at 10% with the minimum range at 5% and maximum range at 15%. It also states that the real estate allocation is measured against the NCREIF Property Index. The investment is appropriate given its size and level of investment expertise. The real estate investment will be diversified to the extent possible both by geographic location and property type. The Board of Trustees with the assistance and support of the consultant select the alternative investments based on their due diligence including evaluation of the strategy, historical performance, manager interviews, and compliance with Retirement System IPS and policies.

## **LIQUIDITY**

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### **PRB Element**

- (2) (D) future cash flow and liquidity needs;

The Board of Trustees and consultant quarterly review the portfolio allocation for asset rebalancing to adjust asset allocations to comply with strategic levels indicated in the IPS. Systematic portfolio rebalancing augments asset allocation by keeping the portfolio from drifting from target minimums and maximums. Together, asset allocation and rebalancing help establish and adhere to a long-term investment strategy and avoid "style drift." The IPS also states that investments may be made in cash or cash equivalent vehicles to help ensure income, liquidity and preservation of the asset's principal value. The Board of Trustees expects that the anticipated benefit distributions will be offset with the anticipated contributions based on employee payroll as well as with the income from interest and dividends. The anticipated cash flow needs are managed on a monthly basis with the recommendation from the consultant for raising the cash from the fund's investments.

**Consideration:** Incorporate language in the IPS that directs the asset allocation targets to be utilized when liquidity events occur.

## **EXPENSE MONITORING**

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### **PRB Element**

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

The IPS states the Board of Trustees will review and where possible control all plan expenses. It also states that all expenses must be customary and reasonable and will be borne by the portfolio as deemed appropriate and necessary by the Board. The consultant's long-standing relationships with investment managers will assist in the negotiation of their fees and are reviewed on a regular basis for appropriateness and based on its impact on investment performance.

On a quarterly basis, the Board of Trustees reviews a fee analysis report for each of the investment managers in the portfolio. The report is prepared by the Plan Administrator of the Retirement System. The information included within the report is based on periodic billing statements based on agreements with each investment manager. The report includes the fee charged by each manager based on their contract, including foreign tax withholding fees, custodial bank fees, security trade fees and applicable consultant fee. Other fees incurred by the Retirement System that are not directly related to the management of the portfolio include Fiduciary insurance, continuing professional education, administration staff salaries and other operating expenses. The Board of Trustees reviews monthly financial statements stating the realized and unrealized gains and losses of each of the investment managers, the fees associated with the investment managers and other professionals, the benefit distributions made to the fire membership and the operating expenses of the Retirement System. The consultant will assist the Board in reviewing the fee analysis reports when requested. The consultant relies on the information included within the Board's reports.

Below is an example of the summary section of the Quarterly Fee Report. The full report contains a similar section for every manager.

<b>Corpus Christi Firefighters' Pension Plan - FEE REPORT 2019</b>						
<b>MANAGER</b>	<b>% Port 9/30/19</b>	<b>Trades</b>	<b>Trades</b>	<b>Trades</b>	<b>Trades</b>	<b>2019 Trades</b>
<b>Total Plan Fees</b>						
Approx Total Plan Assets		\$140,868,334	\$142,910,653	\$150,628,164	\$157,215,691	\$ -
Investment Mgt Fees		\$ 209,625	\$ 211,804	\$ 219,140	\$ 229,919	\$ 870,498
Foreign Tax WH		\$ 640	\$ 3,352	\$ 640	\$ 1,445	\$ 6,077
Custody @ 5 bps to \$50M then 3		\$ 9,354	\$ 9,537	\$ 9,579	\$ 9,917	\$ 38,386
Trading Costs @ 10.00/TR		\$ 10,700	\$ 6,340	\$ 7,900	\$ 3,380	\$ 28,320
Consultant Fee @ .05%		\$ 18,517	\$ 18,831	\$ 18,824	\$ 19,653	\$ 75,825
<b>Total Fees</b>		<b>\$ 248,836</b>	<b>\$ 249,864</b>	<b>\$ 256,084</b>	<b>\$ 264,313</b>	<b>\$ 1,019,097</b>
Additional Custodial Fees - monthly distribution		\$ 2,857	\$ 2,850	\$ 2,883	\$ 2,736	\$ 11,336
<b>Grand Total</b>		<b>\$ 251,703</b>	<b>\$ 252,714</b>	<b>\$ 258,967</b>	<b>\$ 267,049</b>	<b>\$ 1,030,433</b>

Legal counsel reviews all investment manager contracts and negotiates on behalf of the Retirement System.

## **GOVERNANCE**

### **PRB Element**

- (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**

The IPS is a stand-alone document for the Retirement System. All investment related policy statements including the biennial actuarial valuation and annual financial statement are easily accessible on the Retirement System's website by the members and public. The Board of Trustees meets once a month in public meetings that are scheduled and publicized. In their regular public meetings, the Board of Trustees and consultant on a quarterly basis review and discuss market economic conditions, the investment performance of each investment manager with a focus of how they may impact the assets in the portfolio. The discussion is continued until all questions are adequately answered to the Board's satisfaction. The monthly agendas and minutes of each meeting are posted and are available on the Retirement System's website. The minutes of the Board of Trustees contain discussions, documentation and details of decisions made by the Board of Trustees.

### **Investment Knowledge/Expertise**

The Board of Trustees has reported the following information for inclusion in this report. The consultant has not verified this information.

The Board of Trustees consists of seven members.

Current Board members include board members appropriately appointed or elected, including investment financial advisors and a certified public accountant. All the Trustees satisfy applicable educational requirements. All professionals on the Board also meet their own profession certification requirements. In addition to these requirements, the Trustees also attend other pension educational conferences, forums and seminars. The professional makeup of the Board of Trustees provides impartial guidance and support to assist in investment discussions and decisions.

The Board of Trustees has adopted a Code of Ethics Policy which lists ethical responsibilities consistent with the Trustees' fiduciary responsibility, along with a number of professional responsibilities.

Examples include:

Trustees shall exercise prudence and integrity in the management and investment of the Retirement System assets, seeking reasoned diversification of the Retirement System's assets consistent with applicable legal limitations;

Trustees shall periodically evaluate the progress that is achieved by the Retirement System's staff, investment managers and other fiduciaries commensurate with reasonable and necessary administrative expenses to achieve such progress; Trustees shall develop and maintain their skills and competence as trustees through continuing education and participation in professional associations as they determine appropriate under the circumstances;

The Code of Ethics also includes a number of conflict-of-interest requirements.

Examples include:

Trustees shall avoid both the appearance as well as the fact of a conflict of interest between themselves and the Retirement System; Trustees who learn of a conflict or a potential conflict of interest between themselves and the Retirement System shall promptly identify such a matter to the Board of Trustees at an open meeting.

RFP's for investment consultant services are issued by the Board as it as deems necessary.

### **Accountability**

The Board of Trustees has reported the following information for inclusion in this report. The consultant has not verified this information.

The officers of the Board are selected by the Board of Trustees. All decisions regarding investments, including investment consultant selection and retention, investment manager selection and retention, and asset allocation are made by the Board of Trustees. The Board also allocates authority between the trustees, internal staff and its investment consultant. The Board is consistent in its use of delegation of authority. The review of the IPS ensures policies are being followed. The Policy also gives direction and oversight to the Board of Trustees for the overall management of the portfolio including the establishment of investment policies and procedures to monitor the investment performance of the portfolio.

In addition to the Board of Trustees, the portfolio is also monitored by the actuary, the auditor, the consultant and the plan administrator engaged or employed by the Retirement System.

**Consideration:** To specifically provide in the Investment Policy for a review biennially or more often as necessary to meet investment objectives and review investment governance processes for appropriateness.

## **MANGER SELECTION AND ONGOING MONITORING**

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### **PRB Element**

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

The Board of Trustees with the advice and recommendation of the consultant select investment managers. The Board of Trustees engage the services of the investment consultant to aid in the selection of managers for the Retirement System by performing due diligence, narrowing the broad universe of managers to a more manageable group, and recommending a select set of specific managers for each asset class for the Board's final selection. A number of minimum criteria and parameters are described in the IPS for the selection of the investment manager. Responsibilities of the investment manager are described in the IPS including investment manager reporting and evaluation, asset monitoring, communication and information. The IPS also outlines the ethical considerations and potential conflicts of interest for the investment managers.

Please reference the chart in PRB Element (2) (A) for the asset benchmarks used to evaluate performance of the portfolio.

The consultant provides reports with each manager's performance on an absolute and relative basis; each manager's performance return relative to risk; each manager's performance statistical metrics, portfolio characteristic and style attribution analysis and historical asset evaluation for a variety of investment strategies and vehicles. The consultant also provides information on each manager's security selection, sector weighting and style to determine the



contribution of each to the investment return. The consultant attends the Board meetings on a quarterly basis and reviews all the investment performance reports with the Trustees net of fees and gross of fees.

#### **Example Summary Page of Search Process**

The following is a sample summary page of a larger manager search report provided by consultant and reviewed by the Trustees when consultant is recommending a new or replacement manager. It is not inclusive of all information provided by consultant or reviewed by the Trustees. All manager search reports provided by consultant to Trustees are intended to be reviewed in conjunction with the actual recommendations and advice of the consultant, along with all standard account documents, agreements, and disclosures. Full manager search reports are available upon request and include important information not included in this report, including definitions and disclosures.

## **International Manager Search**

### **Search Objective:**

Screen prospective investment managers from a universe of candidates and present a limited field of 4 qualified finalists. Compare their performance, risk, style, personnel and investment process against a peer group of 456 style similar managers and the Russell 2000 Index. Provide this support information in order to select the most appropriate manager for the assignment.

### **Manager Information**

Description	Ticker	Morningstar Category	5 Year Mstar Rating	Net Assets \$MM	Fund Incept Date	Expense Ratio
Royce Total Return Svc	RYTFX	Small Blend	3.00	1465.00	12/15/1993	1.48
Calvert Small-Cap I	CSVIX	Small Blend	5.00	624.00	10/01/2004	0.92
Fuller & Thaler Behavioral Sm-Cp Eq Inst	FTHSX	Small Blend	5.00	1803.00	09/08/2011	0.86
Ivy Small Cap Core I	IVVIX	Small Blend	5.00	752.00	01/31/1997	0.95

The Board of Trustees and consultant review the investment performance, risk, style and suitability of each of the investment managers in the portfolio before the trustees make the decision to engage or replace an investment manager. The Board also reviews the consultant's quantitative assessment of the manager, the economic market conditions, the investment market cycles and the defined investment manager criteria set forth in the IPS.

**Consideration:** Formalize in the Investment Policy Statement the criteria when a manager is to be under "watch" due to any event, transaction, or other variable in the manager's investment performance or structure.

## **SUMMARY OF FUND OVERSIGHT PRACTICES**

Based on our interaction with the Board of Trustees and to the best of our knowledge, the following items meet best industry practices:

### **PRB Element**

- |     |   |                               |
|-----|---|-------------------------------|
| (1) | Investment policy Statement                 | Meets Industry Best Practices |
| (2) | Investment Asset Allocation                 | Meets Industry Best Practices |
| (3) | Investment Fees                             | Meets Industry Best Practices |
| (4) | Governance Processes                        | Meets Industry Best Practices |
| (5) | Investment Manager Selection and Monitoring | Meets Industry Best Practices |