

City of Galveston
Employees Retirement Plan for City Employees
4415 Avenue S
Galveston, TX 77571

August 4, 2020

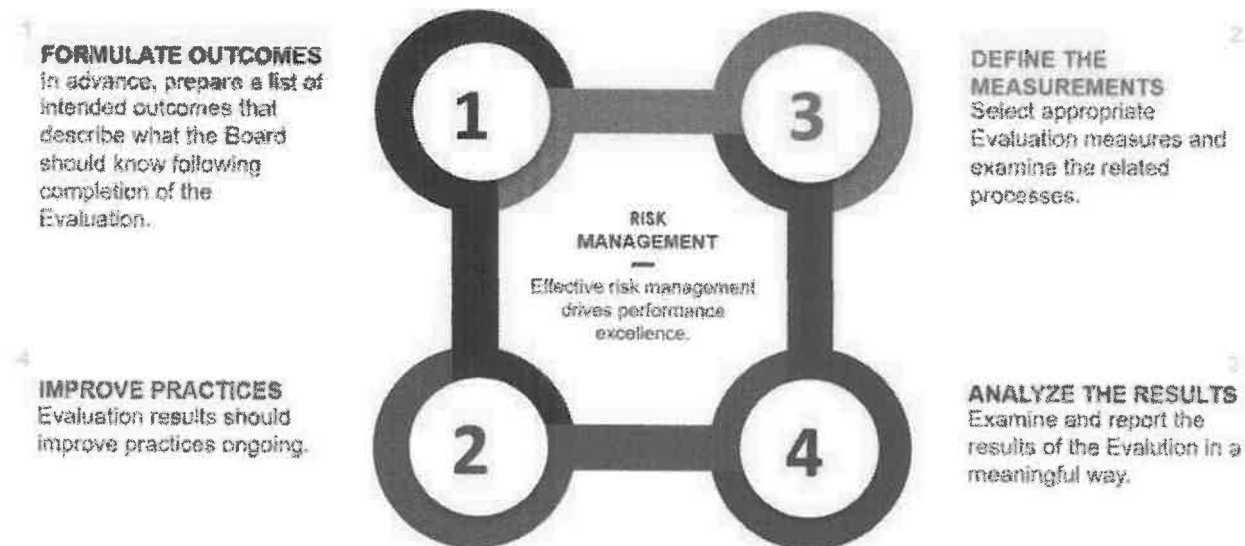


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Overview of the Evaluation

The goal of this evaluation (the "Evaluation"), is to provide the governing body (the "Board") that oversees the City of Galveston Employees Retirement Plan for City Employees (the "Plan"): (1) a clear conceptualization of the outcomes of an investment decision making process that follows guidelines contained in Texas Senate Bill 322, (2) a description of how those outcomes are assessed and measured, (3) a description of the results obtained from the measurements, and (4) a description of how the Evaluation results validate current practices or point to changes needed to improve the management process.



This report is intended solely for the use of the Plan, the Board, and the Texas Pension Review Board. The existence of this report may not be disclosed, nor its contents published in any way without the prior written approval of the Board and Roland|Criss. Roland|Criss does not accept any responsibility to any other party to whom this report would be shown or into whose hands it may be found.

Executive Summary

Background

Texas Senate Bill 322 ("SB 322") was signed into law in June 2019. The law mandates public pension funds to provide comprehensive analysis of the retirement System's investment process that covers all asset classes.

The Uniform Management of Public Employee Retirement Systems Act ("UMPERS") modernizes, clarifies, and standardizes the rules governing the investment and management of public retirement Systems' assets. It provides legal mandates that permit public employee retirement Systems to invest their funds in the most productive and secure manner. Public retirement Systems become trusts operated under rules of prudent investment subject to a fiduciary standard of care.

In this report we present a detailed discussion as to what, in our professional opinion, constitutes generally accepted principles, standards, and best practices of fiduciary conduct as regards managing investment matters in a public setting. It draws upon the following sources for guidance as to what would be considered generally accepted fiduciary standards and principles in regard to investment matters:

- Uniform Management of Public Employee Retirement Systems Act, 1997 ("UMPERS"), drafted by the National Conference of Commissioners of Uniform State Laws to facilitate the incorporation of modern investment practices into State law regulating the management of public retirement Systems.
- Uniform Prudent Investor Act, 1994 ("UPIA"), drafted by the same body as above, and concerned primarily with the investment responsibilities of trustees of private gratuitous trusts, but with some bearing on charitable and pension trusts, among others.
- Uniform Management of Institutional Funds Act, 1972 ("UMIFA"), also drafted by the National Conference of Commissioners of Uniform State Laws to establish guidelines for the management and use of investments held by colleges, universities, hospitals, religious organizations and other institutions of an eleemosynary nature. UMIFA is also intended to apply to a governmental organization that holds funds for eleemosynary purposes, e.g., a public school which has an endowment fund.
- Restatement of Trusts 3d: Prudent Investor Rule, which is the leading authority on U.S. trust law.
- Employee Retirement Income Security Act ("ERISA") which is the federal law regulating the management of private retirement Plans.

SB 322 requires Texas public funds to hire external firms experienced in evaluating institutional investment practices to review the System's investment practices, policies and performance in the previous year and to create a report with recommendations for improvement to be submitted to the Texas Pension Review Board no later than June 1st after the fund's prior fiscal year-end.

Executive Summary

UMPERS establishes a “prudent investment expert standard” for public pension Plans. While in operation since 1997, the steps used in order to conform to that standard have changed somewhat over the years. UMPERS’ current provisions incorporate ten components and include those shown in the table below:

Table 1 – Components of UMPERS’ Prudent Investment Expert Standard

Component Name	Description	Legal Substantiation
Modern Portfolio Theory	Modern Portfolio Theory advocates diversification of securities and asset classes. In other words, it promotes the benefits of not putting all your eggs in one basket.	UMPERS Prefatory Notes
Principles of modern prudent investing	UMPERS facilitates the incorporation of modern investment practices, in large part, by revising and clarifying the standards of prudent retirement fund investing.	Restatement of Trusts 3d UPIA
Standard of prudence	A trustee or other fiduciary shall discharge duties with respect to a retirement System with the care, skill, and caution under the circumstances then prevailing which a prudent person acting in a like capacity and familiar with those matters would use in the conduct of an activity of like character and purpose.”	UMPERS § 7(3)
Sensitivity to the risk/return ratio	The tradeoff in all investing between risk and return is identified as the fiduciary’s central consideration.	UMPERS § 10(2)
Total portfolio	Investment and management decisions [respecting individual assets] must be evaluated not in isolation but in the context of the trust portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the [trust/program or appropriate grouping of programs].	UMPERS § 10(2)
Diversification	A trustee shall diversify the investments of [the trust/each retirement program or appropriate grouping of programs] unless the trustee reasonably determines that, because of special circumstances, [the purposes of the trust are better served without diversifying/it is clearly prudent not to do so].	UMPERS § 8(a)(2)

Executive Summary

Table 1 – Components of UMPERS' Prudent Investment Expert Standard (cont'd)

Component Name	Description	Legal Substantiation
Duty of impartiality	A trustee or other fiduciary shall discharge duties with respect to a retirement System impartially, taking into account any differing interests of participants and beneficiaries.	UMPERS § 7(4)
Appropriate and reasonable costs	A trustee or other fiduciary shall discharge duties with respect to a retirement System incurring only costs that are appropriate and reasonable.	UMPERS § 7(5)
No hindsight permitted	Compliance must be determined in light of the facts and circumstances existing at the time of [a trustee's/the trustee or fiduciary's] decision or action and not by hindsight.	UMPERS § 10(1)
Delegation	There are circumstances that a trustee or administrator may delegate functions that a prudent trustee or administrator acting in a like capacity and familiar with those matters could properly delegate.	UMPERS § 6

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Executive Summary

Scope

A standardized assessment framework was used in the Evaluation to ensure the Plan's alignment with SB 322's guidelines and the prudent investment expert standard of care. The scope of the framework embraces the following key disciplines:

- A review and evaluation of internal policies and guidance material for the selection and monitoring of investments, investment advisors, investment managers, and investment products such as:
 - Processes and procedures, including risk assessment frameworks which are used to guide the fiduciaries' decisions on investment related matters;
 - Evaluation and reporting methodologies, including the depth of testing performed during the Board's' monitoring activities; and
 - Past audit reports and recommendations produced by the Plan's external audit firm.
- An examination of whether the current monitoring model in relation to investment decision making is appropriate to achieve efficient and effective compliance with fiduciary standards, and how it can be improved.

During the Evaluation we measured the following topics in relation to SB 322's and UMPERS' requirements that fiduciaries, and the investment monitoring systems they use, are equivalent in competency and functionality to the skills of a "prudent investment expert:"

1. Investment Policy - Adoption and Implementation
2. Asset Allocation
 - a) Process for determining target allocations;
 - b) Expected risk and rate of return;
 - c) Appropriateness of selection and valuation methodologies of alternative and illiquid assets; and
 - d) Future cash flows and liquidity needs.
3. Fees - Appropriateness of Investment Fees and Commissions

Executive Summary

4. Governance - Investment Oversight

- a) Board authority, bylaws, and chain of command;
- b) Investment decision making process; and
- c) Investment expertise and education of Board members.

5. Investment Manager Selection Process

Exhibit 1 illustrates the scope of the Evaluation as discussed above. Our findings for each focal point in the Evaluation are contained in the **Findings** section of this report.

Exhibit 1 – Scope of the Evaluation

Investment Policy	Asset Allocation	Fees	Governance	Investment Managers
<p>Examine the investment policy for the definition of roles and responsibilities of all parties involved</p> <p>Examine investment policy for definition of current needs and execution tactics</p> <p>Verify that benchmarks for asset classes are identified</p> <p>Verify that the IPS is being followed by the investment professionals in practice</p> <p>Confirm that steps are defined for monitoring fees</p>	<p>Define in writing a procedure for selection and monitoring</p> <p>Document annually the objectives for cash flow, expected rate of return, and target allocation</p> <p>Ensure that money managers are selected using a formal system</p> <p>Confirm that asset classes adhere to the allocation limits set up in the IPS</p> <p>Confirm that the asset allocation is understood by all parties</p> <p>Confirm the investment manager coordinates the expected rate of return with all parties</p>	<p>Develop and maintain written policies describing the management and monitoring of indirect compensation</p> <p>Review investment related fee disclosures on a quarterly schedule</p> <p>Verify that fees are benchmarked against appropriate peers</p> <p>Perform a documented analysis of the reasonableness of the Plan's fees</p>	<p>Maintain a high state of familiarity with the Plan's governance structure</p> <p>Review the protocol used by the fiduciaries for recording their investment decisions</p> <p>Examine the framework against which the fiduciaries manage the investment decision making process and upgrade as needed</p> <p>Require and monitor training for the Plan's fiduciaries</p>	<p>Review investment performance reports published by vendors</p> <p>Verify that recommendations align with investment policy</p> <p>Evaluate investment managers on a periodic basis using defined performance indicators</p> <p>Verify that watch list decisions are documented on a consistent basis</p> <p>Confirm that providers' investment related recommendations are considered by the fiduciaries and are recorded in the Board's proceedings</p>

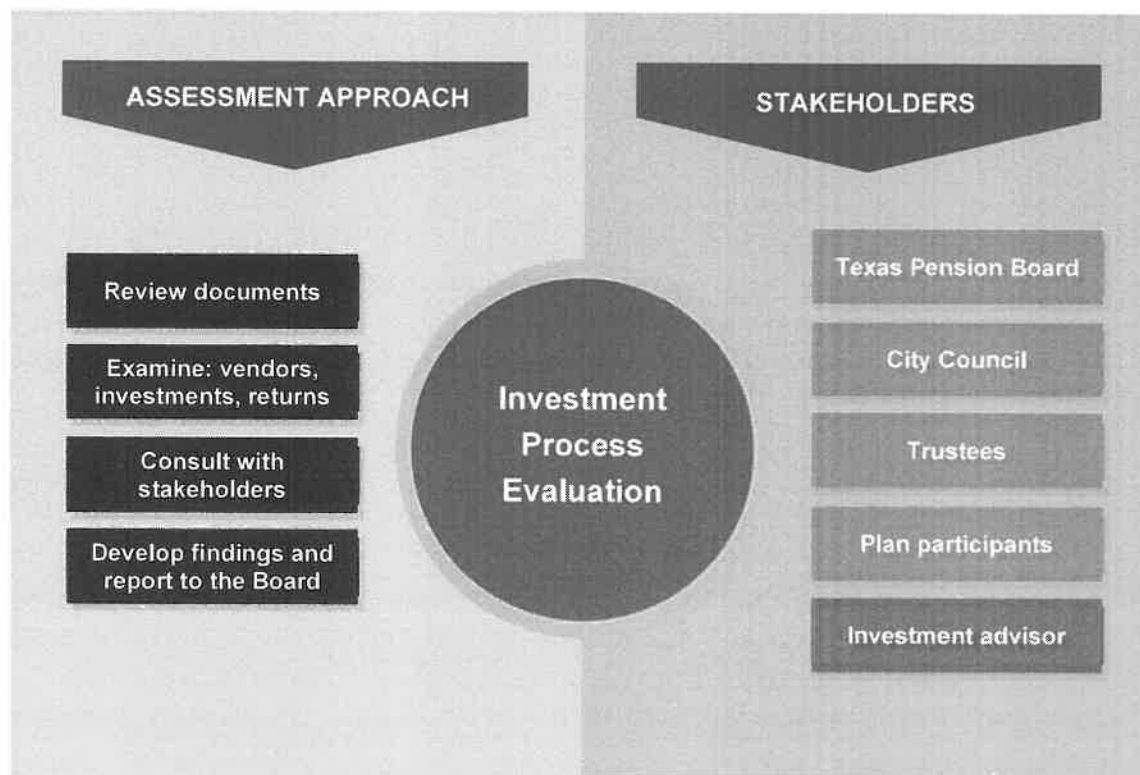
Executive Summary

Approach

In line with the objectives for the Evaluation contained in SB 322, Roland|Criss employed a standardized methodology. Our intent was to uncover any **key risk indicators** – areas of potential risk – on which the Board should focus. The chart below outlines the *Objectives* that underscore the methodology and a summary of the criteria implicit in each objective. (Please refer to Appendix B for a more thorough discussion of the methodology.)

Across each of the practice areas summarized in the illustration shown on the previous page, our approach was divided into four phases. The chart below illustrates the four phases of our approach and identifies the stakeholders who were represented during the Evaluation.

Exhibit 2 – Investment Process Evaluation



Findings

Investment Policy

The prudent investment expert standard requires retirement Plan fiduciaries to make choices from a broad range of investment options in order to effectively diversify their Plan's assets accounts. Such options should:

- Be diversified;
- Have materially different risk and return characteristics; and
- Help to minimize the Plan's overall risk when combined with other investments.

Plan fiduciaries face a challenge, however, when attempting to offer a wide range of investment styles while enabling ease of decision making. There is no single solution that proves optimal for all Plans. Policy guidelines, therefore, are essential and must be adhered to by the fund managers and advisors to whom implementation of policy is delegated.

During our work we examined the Plan's investment policy against fourteen internal control steps presented by the Evaluation methodology. One opportunity for improvement ("OFI") emerged that includes four steps. The OFI is listed in the next section of this report along with a description of action steps that may be pursued.

Asset Allocation

Asset allocation involves dividing an investment portfolio among different asset categories, such as stocks, bonds, and cash. The process of determining which mix of assets to hold in a portfolio is an individualized one. The asset allocation that works best for public pension Plan at any given point depends largely on the time horizon for the portfolio and the Plan fiduciaries' risk tolerance.

In order to provide a clear picture of the Plan's alignment with asset allocation best practices, we tested the Plan's approach against twenty-five activities. Those activities are grouped within five components of the asset allocation discipline and include the following: *Determine Target Allocations; Expected Risk and Expected Rate of Return; Selection & Valuation Methodologies of Alternative and Illiquid Assets; and Future Cash Flow and Liquidity Needs.*

We concluded that no OFI's exist that if addressed would significantly enhance the process used to manage the Plan's investment asset allocation activities. The board should continue to monitor the assets on a quarterly basis.

Findings

Fees

Understanding and evaluating fees and expenses associated with Plan investments, investment options, and services are an important part of a fiduciary's responsibility. This responsibility is ongoing. After careful evaluation during the initial selection, monitoring Plan fees and expenses ongoing is vital in order to determine whether they continue to be reasonable in light of the services provided

In determining the number of investment options and the level and type of services paid for by a Plan, it is important to understand how all fees and expenses affect investment performance. The cumulative effect of fees and expenses on retirement Plans can be substantial.

We concluded that five steps exist in the approach the Plan uses for monitoring and controlling investment related fees.

Governance

Fiduciary standards of care require investment committees demonstrate procedural prudence in the conduct of their duties. This prudence standard, which applies to all fiduciary acts under UMPERS, is both procedural and substantive in nature.

Procedural prudence is generally satisfied if a committee performs an adequate investigation of the merits of any proposed investment action. In addition to being made in accordance with procedural prudence, investment decisions should also be made with the skill of a professional investor.

Investment decisions delegated to third parties do not relieve a Plan's governing body of the risks associated with the failure to satisfy the procedural prudence standard.

Findings developed during the Evaluation revealed that opportunities to improve the effectiveness of two steps embodied in the Evaluation methodology exist..

Findings

Investment Managers

Due diligence is the heart and soul of investment manager selection. A good due diligence process objectively whittles down the universe of available managers to just those who meet high standards for inclusion in a retirement Plan's portfolio.

The objectives of investment manager due diligence are first examined using quantitative data to evaluate funds against set benchmarks and in relation to peers. In addition to quantitative analysis, fiduciaries should consider applying qualitative factors, which can help detect organizational instability. Any organizational instability, over time, usually leads to a manager's underperformance.

We identified one step in the Plan's process for selecting Investment Managers.

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Opportunities for Improvement

Pursuing Excellence

Continuous improvement is an ongoing effort to advance the effectiveness of the Plan's management approach. It helps meet the dual goals of reduced risk and facilitating the best outcomes for the Plan's participants. Identifying ways to improve also enhances the quality of the Plan's investment decision making process resulting in a higher level of confidence among the Plan's managers.

Conditions that can adversely affect the Plan's investment discipline comprise Key Risk Indicators ("KRI"). The Evaluation team used KRIs to uncover misalignments with SB322 and UMPERS. KRIs aid in the examination of each internal control by revealing changes in the levels of risk exposure and help trigger early warnings that recognize specific risks, prevent failures, and avoid negative outcomes in time.

As presented earlier in the Findings section of this report, we identified opportunities for improvement between the internal controls contained in the Evaluation methodology and the Plan's operations. While some of the opportunities require less urgent attention than others, improvement opportunities exist that should be addressed in the near-term.

Our conclusions of how the KRI's impact on the Plan's management System are discussed in the following pages, along with an indication of the urgency associated with each finding.

The results of the Evaluation of each step in the assessment methodology are illustrated using the following graphics:



Nonconforming

The action specified by a step in the Evaluation methodology was deemed to have failed to meet the required action.



Needs Improvement

The evidence presented indicates that a requirement has been effectively implemented but additional effectiveness or robustness might be possible with a modified approach.





Conforming


It was determined during the Evaluation of a specific action step that relevant fiduciary standards of care were fulfilled.

Any step in the Evaluation methodology that was deemed to be **Nonconforming** or **Needs Improvement** is presented in the following pages of this report along with a statement of the reason for its distinction as an opportunity for improvement.

Opportunities for Improvement

OFI-1	Opportunity for Improvement Summary Description	Urgency Level
<p>Reference Step 1.2, 1.3, 1.5, 1.8, 3.1, 3.3, and 5.1</p>	<p>The structure of the IPS adheres to industry best practices.</p> <p>The IPS should be updated to add roles and responsibilities of all parties involved in oversight of Plan investments, investment fee monitoring process, along with fund selection and monitoring criteria.</p> <p>An updated IPS is pending review by the Board and, once adopted and followed, will satisfy the steps necessary to clear this OFI.</p>	
OFI-2	Opportunity for Improvement Summary Description	Urgency Level
<p>Reference Step 3.7, 3.8, 3.10</p>	<p>The System should follow a documented process to account for and control all Plan-related fees. The fees are reviewed for reasonableness on a consistent basis, using adequate benchmarks.</p> <p>While investment fees are reviewed quarterly by the Plan's investment consultant against the Plan's peers, there is no defined method for determining if the Plan's investment related fees are reasonable. The Board also receives financial statements each meeting, which include all other plan-related fees, such as administrative, actuarial, and financial audit.</p> <p>SB 322 includes fee benchmarking language, However, there is currently no available fee benchmark for Texas-based public pension funds. Considering the frequency of the Board's meetings and the substance of its reviews of service agreements and fees, it is our opinion that the Board is fulfilling its duty to monitor and control plan expenses.</p> <p>We recommend that the Board document the results of its provider service and fee review at least annually. Additionally, the results of the review should provide a determination that the fees are reasonable.</p>	

Opportunities for Improvement

OFI-3	Opportunity for Improvement Summary Description	Urgency Level
Reference Step 4.15, 4.17	<p>The System has policies and procedures in place to review the effectiveness of its investment program, internal staff, and outside consultants.</p> <p>Prior to the Evaluation, the Board did not possess an internal controls checklist from which to validate its practices with its policies. Subsequently, the Plan Administrator developed an internal controls checklist based on the Plan's current operations.</p> <p>We recommend that the Board adopt the internal controls checklist and annually assess the Plan's operations.</p>	

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Appendices

Appendix A – The City of Galveston Pension Board

Appendix B – Evaluation Methodology

Appendix C – Supplemental Investment Data

Appendix D – Glossary of Terms

Appendix E – Disclosures

Appendix A – The Retirement Fund Board of Trustees

Name	Position and Title
Don Davison	Board President
Mike Loftin	Board Member
Louis Rosen	Board Member
Rodney Low	Board Member
Robert Simmons	Board Member
James Patterson	Board Member
Jeff Ammerman	Board Member
Ham, Langston & Brezina, LLP Contacts: Ann Masel and Jacque Vasquez	Plan Administrator (Non-voting Member)

*The City Council of Galveston is the Plan Sponsor.

Appendix B – Evaluation Methodology

The scope of this engagement was to assist the Plan’s responsible fiduciaries identify the areas of improvement that when implemented would upgrade the Plan’s alignment with fiduciary best practices.

Roland|Criss used the guidelines set forth in the ISO 19011 standard for auditing management systems. The standard contains guidance on managing a process audit program, the principles of auditing, and the evaluation of individuals responsible for managing process audit programs. ISO 19011 offers guidance on every step of auditing a management system or audit program, including:

Exhibit 3 – ISO 19011 Process Audit Methodology

Define Audit Program Objectives	Conduct the Audit	Review the Results
Ensure that specific objectives are understood	Plan and review internal documents	Assess the audit results
Make audit arrangements with all stakeholders	Collect and verify audit evidence	Develop conclusions
Assign roles and responsibilities	Generate findings	Confirm audit’s conformance to the standard
Define the scope, location, and duration	Validate findings	Update the report with conclusions
Determine specific criteria and checklists	Produce a report	Ensure confidentiality and data security
Establish review procedures		Present the audit report

The measurements used in this Evaluation provided a framework against which the investment management system used by the Board should align. The methodology applied tests to 82 steps developed from an examination of UMPERS, case law, best practices, and SB 322 that impact individuals who oversee an investment decision making process.

Appendix B – Evaluation Methodology













The ideal outcome of the Evaluation is a defensible risk assessment framework that allows for the identification of any gaps between the Plan's investment decision making controls, UMPERS' prudent investment expert standard, and SB 322's examination guidelines. The anticipated benefits of taking a risk-based approach are:

- Better identify areas of greatest concern, targeting likeliness and severity of noncompliance with UMPERS;
- Prioritization of compliance review activity; and
- More effective allocation of the Plan's resources.












The following pages of this appendix list the measurements used in the Evaluation, which are organized into five categories of objectives: *Investment Policy, Asset Allocation, Fees, Governance, and Investment Managers.*

Appendix B – Evaluation Methodology







The Evaluation Measurements

Investment Policy		
Step 1.1	The Plan's management system (the "System") maintains a written investment policy statement (IPS).	
Step 1.2	Roles and responsibilities of those involved in governance, investing, consulting, monitoring and custody are clearly outlined.	
Step 1.3	The IPS is carefully designed to meet the real needs and objectives of the retirement Plan. It is integrated with any existing funding or benefit policies.	
Step 1.4	The IPS is written clearly and explicitly so that anyone could manage a portfolio and conform to the desired intentions.	
Step 1.5	The structure of the IPS adheres to industry best practices.	
Step 1.6	The IPS contains measurable outcomes for managers and includes the time periods in which performance is to be considered.	
Step 1.7	Evidence is present that the System is following its IPS.	
Step 1.8	The Board's practices align with the IPS and related procedures.	
Step 1.9	Stated investment objectives are being met.	
Step 1.10	The retirement fund is 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.	
Step 1.11	The investment managers can maintain fidelity to the IPS under all the scenarios considered by the Board.	
Step 1.12	The IPS is designed to achieve its stated objectives under all the scenarios considered by the Board and City Council.	

Appendix B – Evaluation Methodology

Step 1.13	The IPS is reviewed and updated on a consistent basis.	
Step 1.14	Substantial changes to the IPS are implemented timely and are documented adequately.	
Asset Allocation – Determining Target Allocations		
Step 2.1	The System has a formal written policy for determining and evaluating its asset allocation strategy.	
Step 2.2	The System is following the asset allocation policy.	
Step 2.3	Persons responsible for making the decisions regarding strategic asset allocation are defined.	
Step 2.4	The System's overall risk tolerance is expressed and measured, and the methodology used to determine and evaluate the strategic asset allocation is defined.	
Step 2.5	The strategic asset allocation is reviewed on a regular, recurring basis.	
Step 2.6	The System's investment consultants and actuaries communicate regarding their respective future expectations.	
Step 2.7	The current assumed rate of return is used for discounting Plan liabilities and is a key consideration in the decision-making process for setting the asset allocation.	
Step 2.8	The actuarial expected return on assets is a function of the Plan asset allocation or the asset allocation has been chosen to meet the desired actuarial expected return on assets.	
Step 2.9	The asset allocation approach used by the System is based on a specific methodology that is prudent, recognized as best practice, and consistently applied.	
Step 2.10	The System implements a tactical asset allocation. A defined methodology is used to determine the tactical asset allocation. Parties responsible for making decisions regarding tactical asset allocation are defined.	N/A
Step 2.11	The asset allocation strategy and results are compared against peers.	N/A














Appendix B – Evaluation Methodology

Asset Allocation – Expected Risk and Expected Rate of Return		
Step 2.12	The strategic and tactical allocations are defined.	N/A
Step 2.13	The expected risk and expected rate of return for each asset class is defined.	N/A
Step 2.14	Investment risk tolerance is defined and is used in determining expected rates of return and takes into account the relevant time horizon.	
Step 2.15	A mix of assets is hypothesized in order to achieve the Plan's investment return and risk objectives.	
Step 2.16	Consideration is given to active vs. passive management.	
Step 2.17	The approach used by the System to formulate asset allocation strategies is sound, consistent with best practices, and results in a well-diversified portfolio.	
Step 2.18	The strategic and tactical allocations are reviewed on a consistent basis.	
Asset Allocation – Selection & Valuation Methodologies of Alternative and Illiquid Assets		
Step 2.19	A procedure for evaluating alternative and illiquid assets and their selection is defined and adhere to.	N/A
Step 2.20	Given its size and level of investment expertise, the System's alternative investments are appropriate. The IPS outlines the types of alternative and illiquid investments allowed, as well as the maximum allocation allowable.	N/A
Step 2.21	Valuation methodologies are used and documented that measure alternative and illiquid assets.	N/A
Asset Allocation – Future Cash Flow and Liquidity Needs		
Step 2.22	The Plan's anticipated future cash flow and liquidity needs are calculated on the basis of the relevant group projection.	














Appendix B – Evaluation Methodology

Step 2.23	An asset liability study is conducted annually.	
Step 2.24	System wide specific issues are incorporated in the asset allocation process including: <i>the Plan's current funded status and its impact on asset allocation strategy; a documented list of actions to be taken if the Plan is underfunded, has a surplus or if it is approaching fully funded status; differences between expected short-term inflows and outflows and their impact on asset allocation; and consideration is given to how the nature of the Plan's liabilities impact the allocation.</i>	
Step 2.25	Stress testing of a type that is relevant to the Plan is incorporated in the cash flow and liquidity Planning process.	
Fees		
Step 3.1	The System's policies describe the management and monitoring of direct and indirect compensation paid to investment managers and other service providers.	
Step 3.2	Direct and indirect investment fees (e.g., revenue sharing) and commissions paid by the System are identified.	
Step 3.3	Individuals responsible for monitoring and reporting fees to the Board are identified and documented.	
Step 3.4	Responsibilities are clearly defined in the System's IPS.	
Step 3.5	All forms of manager compensation are included in reported fees.	
Step 3.6	Investment fees and commissions (e.g., revenue sharing) are compared to peer group and industry averages.	
Step 3.7	Adequate benchmarks have been established and are used for evaluating Plan-related fees.	
Step 3.8	The System has appropriate policies and procedures in place to account for and control investment expenses and other asset management fees.	
Step 3.9	Other fees incurred by the System that are not directly related to the management of the portfolio are documented.	








Appendix B – Evaluation Methodology

Step 3.10	All Plan fees are reviewed for reasonableness on a consistent basis.	
Step 3.11	Legal counsel is employed as needed to review agreements for investment consulting arrangements and alternative investment contracts.	
Governance		
Step 4.1	The Board has a charter outlining the governance structure that embraces the IPS.	
Step 4.2	All investment related policy statements are easily accessible by the Board's members and the public.	
Step 4.3	Board meetings are documented and include the primary topics of discussion and the amount of time, detail, and discussion devoted to investment issues.	
Step 4.4	Meeting agendas and detailed minutes are available to the public.	
Step 4.5	The backgrounds of all Board members are documented, and investment related educational requirements exist.	
Step 4.6	Investment-related training is required of new Board members and training is provided ongoing on a consistent basis.	
Step 4.7	The Board has established minimum education requirements for its members on the subjects of ethics, governance, and investments and all members have completed such education.	
Step 4.8	The System applies adequate policies and/or procedures to help ensure that all Board members understand their fiduciary responsibility.	
Step 4.9	The investment management model is documented.	
Step 4.10	The Board receives impartial investment advice and guidance.	
Step 4.11	An industry evaluation of Plan provider services and fees is performed every three to five years.	

Appendix B – Evaluation Methodology

Step 4.12	The selection process for the leadership of the Board and committee(s) is defined.	
Step 4.13	The authority to select investment managers and to establish the asset allocation strategy is defined and documented to include the full Board, a portion of the Board, internal staff members and outside consultants.	
Step 4.14	The IPS clearly outlines responsibilities regarding investment decision-making. The Board is consistent in its delegation of authority.	
Step 4.15	The System has policies in place to review the effectiveness of its investment program, including the roles of the Board, internal staff, and outside consultants.	
Step 4.16	The current governance structure strikes a good balance between risk and efficiency.	
Step 4.17	Adequate controls are in place to ensure policies are being followed.	
Step 4.18	Overall portfolio performance is being adequately monitored by the Board.	
Step 4.19	The investment governance processes are reviewed on a regular basis for continued appropriateness.	
Investment Manager Selection and Monitoring Process		
Step 5.1	Individuals responsible for selecting investment managers are identified in the IPS.	
Step 5.2	The process for identifying managers as potential candidates is documented.	
Step 5.3	The selection criteria for including potential candidates is documented.	
Step 5.4	The selection process for deciding between multiple candidates is documented.	
Step 5.5	Documentation exists that addresses ethical considerations and potential conflicts of interest for both investment managers and Board members.	

Appendix B – Evaluation Methodology

Step 5.6	Individuals responsible for developing and reviewing investment consulting and investment management contracts are documented.	N/A
Step 5.7	The process for monitoring individual investment funds and overall fund performance is documented.	
Step 5.8	The individual(s) responsible for measuring the performance is documented.	
Step 5.9	The benchmarks used to evaluate performance are defined.	
Step 5.10	Performance evaluation reports are provided to the Board in clear format for the Plan's fiduciaries who may possess differing levels of investment expertise.	
Step 5.11	Net-of-fee and gross-of-fee investment manager performance is reviewed on a consistent basis. Net-of-fee and gross-of-fee manager performance is compared against benchmarks and peers.	
Step 5.12	The process for determining when an investment manager should be replaced is defined.	
Step 5.13	The evaluation of individual investment fund performance is integrated with other investment oversight issues such as asset allocation and investment risk compliance.	
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Appendix B – Evaluation Methodology

Documents Reviewed

Certain documents were reviewed in connection with the Evaluation. A list of the documents requested by Roland|Criss is shown below, along with a checkmark that indicates whether a requested document was provided to Roland|Criss.

LIST OF DOCUMENTS					
Document No.	Rcv'd.	Description	Document No.	Rcv'd.	Description
1	✓	Plan document, trust agreement, and adoption agreement	16	✓	Current assumed rate of return
2	✓	Governance documents	17	✓	Documented interactions with actuary consultants
3	✓	Governance policy outlining the governance structure	18		Advisor analysis and detail provided to the Board representatives
4	✓	Investment policy statement	19	✓	Quarterly investment performance monitoring reports for the past
5	✓	Meeting agenda and minutes for the last two years	20	✓	All vendors' executed service agreements
6		Board member biographical information	21		Current investment manager search document when required
7		Board related policy and procedures manual/documents	22	✓	Investment consultant asset allocation methodology
8	✓	Training policy for the investment committee members	23	✓	Detail of benchmarks used in the investment strategy
9		Copies of any internal policies audit	24		Most recent fee analysis/benchmarking report
10	N/A	Copies of any union contracts sections that may impact the Plan	25		Copies of provider fee disclosures/reports
11	✓	Current list of all investments including illiquid and alternative	26		Description of organization's online document storage system
12	✓	Documented cash flow and liquidity needs for the next 3-5 years			
13	N/A	Description of selection and monitoring of illiquid investments			
14		Description of the strategic and tactical allocation strategy			
15		Documents describing future expectations/risk tolerances			

Appendix C – Supplemental Investment Data

Performance Reporting

This appendix includes the Galveston Employees Retirement Quarterly Report published by Graystone Consulting on December 31, 2019.

Reference is made to Graystone throughout this evaluation report in connection with Graystone's role as the Plan's investment consultant. The data contained in this appendix is useful for illustrating the scope of investment related information the Board members receive on a periodic basis from Graystone.

Roland|Criss offers no opinion about the content of Graystone's reporting or on any advice that Graystone may deliver to the Board.

Appendix D – Glossary of Terms

Alignment - The consistency of Plans, processes, information, resource decisions, actions, results, and analysis to support key investment fiduciary standards of care.

Evaluation – Examination of an investment decision making process involving collecting, analyzing, and using data to determine opportunities for improvement, educate the Plan’s fiduciaries, develop priorities, and maintain ongoing improvements in the Plan’s oversight.

Back Testing - The process of validating an investment strategy using relevant historical data to ensure its viability before fiduciaries select or decide to retain a particular investment vehicle. An analyst can simulate the trading of a strategy over an appropriate period of time and analyze the results for specified levels of profitability and risk.

Benchmarks - Points of reference or a standard against which measurements can be compared. In the context of investment performance, a benchmark is an accurate data point, which is used as a reference for future comparisons.

Best Practices - The best procedural or administrative approach at the moment, given the situation, to satisfy the Plan and its participants’ needs and desires, for which there is considerable practice-based evidence or expert consensus that indicates promise in improving outcomes, but for which are not yet proven by strong scientific evidence.

Controls Framework – A process designed to provide reasonable assurance of the achievement of three key objectives; (1) effectiveness and efficiency of operations; (2) reliability of financial reporting; and (3) compliance with applicable laws and regulations

Governance, Risk Management, and Compliance – Refers to a strategy for managing an organization’s overall governance, enterprise risk management and compliance with regulations.

Investment Consultant – An individual or a firm that is in the business of giving advice about investment securities to clients.

Investment Forensics – Examines the relationship between an investment vehicle’s standard deviation versus its rate of return.

Investment Manager - A person or organization that makes investments in portfolios of securities on behalf of clients, in accordance with the investment objectives and parameters defined by such clients. For example, mutual funds are managed by Investment Managers.

Appendix D – Glossary of Terms

Investment Policy – The general rules by which investments contained in a portfolio of securities will be selected and monitored. Documented in an Investment Policy Statement (“IPS”) the strategies that investment managers should employ are defined.

Performance Analysis Tools - Portfolio analysis resources that enable insights into portfolio diversification, reports on portfolio performance, and comparisons with market leading investment managers.

Policy - A definite course or method of action selected from among alternatives and in light of given conditions to guide and determine present and future decisions or a high-level overall Plan embracing the general goals and acceptable procedures for meeting UMPERS’ fiduciary standards.

Provider - A person, commercial business, subcontractor, or other entity that delivers investment-related services for payment. Examples include mutual fund companies, securities broker-dealers, registered investment advisors, financial Planners, and recordkeepers.

Recordkeeper – A retirement Plan service provider that is responsible for maintaining the accounting of Plan contributions and what the contributions have earned.

Risk and Return - Risk and return are highly correlated. Increased potential returns on investment usually go hand-in-hand with increased risk. Different types of risks include project-specific risk, industry-specific risk, competitive risk, international risk, and market risk.

Risk Evaluation - Risk assessment is a process used to formally assess the potential harm due to a hazard taking into account factors such as likelihood, timing, and duration of exposure.

Urgency Level – A color coded indicator used in the Opportunities for Improvement section of this report to indicate the recommended pace at which upgrades should be made. Red indicates the need for near term action while yellow suggests a mid-term response is appropriate.

Appendix E – Disclosures

Roland|Criss Fiduciary Services is a firm that conducts assessments of organizations against relevant laws that govern their fiduciary responsibilities. In order to maintain strict independence, Roland|Criss Fiduciary Services does not offer any investment, recordkeeping related, or custodian services to anyone. The standard used by Roland|Criss Fiduciary Services during the evaluation documented in this report was developed from research into relevant fiduciary standards of care with reliance on guidelines issued by states attorneys general, the Uniform Law Commissioners, the U.S. Department of Labor and legal interpretations published by several law firms that are noted for their expertise on investment fiduciary matters.

Past performance of any investment does not guarantee its future results. The value of an investment will vary so that an investor's shares, when redeemed, may be worth less than their original value.

Hyphens appear in data columns to indicate that data is not available.

Peer groups included for reference purposes in this report are comprised of all funds that match an investment's category as classified by Morningstar, Inc. A Morningstar Category identifies funds based on their actual investment styles as measured by their underlying portfolio holdings over a three-year period.

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