



## **EVALUATION OF INVESTMENT PRACTICES & PERFORMANCE**

**Prepared For:**

**Galveston Firefighters' Pension Fund**



**Prepared By:**

**Graystone Consulting, a Business of Morgan Stanley**

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## Disclosure by Independent Firm

The evaluation should include the following disclosures by the independent firm:

**1) a summary outlining the qualifications of the firm;**

- Our firm has been providing investment consulting services to institutional investors, including public-sector retirement systems since 1973 and consults to over 5,600 institutional investors with \$336.7 billion in combined assets (as of December 31, 2019). Graystone Consulting was distinguished as one of the 2018 Greenwich Quality Leaders in overall U.S. investment consulting in the midsize consultants category by Greenwich Associates. The firm also recently had 18 consulting teams listed on the Barron's Top 50 Institutional Consultants List for 2020, including the consulting team that directly services the City of Galveston plan. The consulting team employs experienced, long-tenured industry professionals who have earned a variety of industry certifications including the: Chartered Financial Analyst (CFA), Certified Investment Management Consultant (CIMA), Certified Financial Planner (CFP), and Chartered Retirement Plans Specialist designations.

**2) a statement indicating the nature of any existing relationship between the firm and the system being evaluated;**

- Graystone Consulting serves as a non-discretionary investment consultant to the City of Galveston Firefighters' Pension Fund. In this capacity, we provide the Board of Trustees with the following consulting services:
  - Assist with Investment Policy Statement revisions.
  - Provide advice in regards to asset allocation for approval by trustees.
  - Provide investment managers searches to the trustees which include multiple third-party investment managers within a particular asset class or investment style for the Board to consider in selecting the manager they deem most appropriate. The managers included in the searches are screened using a variety of quantitative metrics and qualitative factors.
  - Provide quarterly performance evaluation reports comparing the performance of each third-party manager hired by the Board and the overall portfolio to appropriate benchmarks on an absolute and risk-adjusted basis.
  - Provide trustee education.

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

- Graystone Consulting receives an asset-based consulting fee based on a percentage of the retirement system's assets. We receive no other compensation beyond the consulting fee. Investment managers do not provide compensation to our firm for managing money for the system or for being included in a search.

**4) a statement acknowledging that the firm, or its related entities, is not involved in directly or indirectly managing investments of the system.**

- Graystone Consulting is not involved in directly or indirectly managing the investments of the City of Galveston Firefighters' Pension Fund. A benefit of the investment program utilized by the system is the ability of the third-party investment managers hired to be able to execute trades at no commission through our firm's trading desk, subject to best execution being achieved. When trading through our firm, the investment managers provide their portfolio model to our trading area and the trades are executed by our firm according to this model. While our firm executes trades based on the manager's model, we are not making the buy and sell decisions for securities held within the manager's portfolio.

## Components of Evaluation

This section provides suggested questions and topics for consideration under each of the five areas required to be covered in each evaluation. The questions below are intended to help systems identify the types of information an evaluation may include. Additionally, these questions may be helpful to systems that will use a request for proposal (RFP) to select a firm to perform the evaluation.

*Each evaluation must include:*

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

- **Does the system have a written investment policy statement (IPS)?**
  - Yes, the system has an IPS. The most recent adoption is November 19, 2019.
- **Are the roles and responsibilities of those involved in governance, investing, consulting, monitoring and custody clearly outlined?**
  - Yes
- **Is the policy carefully designed to meet the real needs and objectives of the retirement plan? Is it integrated with any existing funding or benefit policies? (i.e. does the policy take into account the current funded status of the plan, the specific liquidity needs associated with the difference between expected short-term inflows and outflows, the underlying nature of the liabilities being supported [e.g. pay-based vs. flat \$ benefit, automatic COLAs, DROP, etc.]?)**
  - Yes, the policy is carefully designed to meet the real needs and objectives of the retirement plan. The IPS is a custom document that takes into consideration 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. The investment portfolio reflected in the IPS includes a variety of asset classes and investment styles with various expected return and risk profiles. The liquidity of the portfolio is sufficient to meet the liquidity needs of the plan.
- **Is the policy written so clearly and explicitly that anyone could manage a portfolio and conform to the desired intentions?**
  - Yes
- **Does the policy follow industry best practices? If not, what are the differences?**
  - Yes

- **Does the IPS contain measurable outcomes for managers? Does the IPS outline over what time periods performance is to be considered?**
  - Yes, the IPS contains measurable outcomes for managers and specifies that long-term evaluation of investment performance shall be over a complete market cycle.
- **Is there evidence that the system is following its IPS? Is there evidence that the system is not following its IPS?**
  - An IPS Compliance Check List is included with quarterly reports to demonstrate whether the system is following or not following the IPS.
- **What practices are being followed that are not in, or are counter to, written investment policies and procedures?**
  - None
- **Are stated investment objectives being met?**
  - Yes
- **Will the retirement fund be able to sustain a commitment to the policies under stress test scenarios, including those based on the capital markets that have actually been experienced over the past ten, twenty, or thirty years?**
  - The retirement fund's investment portfolio is comprised of a well-diversified allocation of equity, fixed income, and alternative investments managers and funds. Within equities, allocations are made to domestic large, mid, and small cap value & growth managers/funds, as well as, international and emerging markets managers/funds. The portfolio is constructed to dampen volatility in the event of stress test scenarios that have experienced over the past ten, twenty, and thirty years. We believe the level of diversification will allow the fund to sustain their commitment to the policies under stress test scenarios.
- **Will the investment managers be able to maintain fidelity to the policy under the same scenarios?**
  - Asset classes are tested in the stress test scenarios. Managers are typically selected for downside protection to help in times of market stress.
- **Will the policy achieve the stated investment objectives under the same scenarios?**
  - The Policy and allocation are selected to help meet the objectives with different market environments in mind.

- **How often is the policy reviewed and/or updated? When was the most recent substantial change to the policy and why was this change made?**
  - The policy is discussed at quarterly meetings with updates made as necessary with changing market conditions and industry standards. The last change was made November 19, 2019 updating language to include industry standards and asset allocation changes.

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

- **Does the system have a formal and/or written policy for determining and evaluating its asset allocation? Is the system following this policy?**
  - Yes, the system has a format written policy for determining and evaluating its asset allocation and is following the policy.
- **If no formal policy exists, what is occurring in practice?**
  - N/A
- **Who is responsible for making the decisions regarding strategic asset allocation?**
  - Strategic asset allocations are presented by the consultant and discussed with the board. The board makes the final asset allocation decisions.
- **How is the system's overall risk tolerance expressed and measured? What methodology is used to determine and evaluate the strategic asset allocation?**
  - The system's overall risk tolerance is expressed through asset allocation discussion and guided by the actuarial rate of return assumption. Our asset allocation methodology is predicated on time-tested relationships between fundamental drivers of financial markets and the return potential of asset classes. In a changing global landscape, this allows us to forecast market returns based on expected economic drivers of such returns, which can result in significant differences from historical performance. The framework allows for consistency of return expectations across traditional and alternative asset classes. Long-term returns for the major asset classes are formulated using a "building block" approach that draws on various theoretical tenets of economics and finance. Forward-looking intermediate (7 year) and long-term (20+ year) return and risk assumptions are developed and incorporated into an asset allocation study to determine the probability of the strategic asset allocation policy in meeting the primary and secondary plan objectives over time.

- **How often is the strategic asset allocation reviewed?**
  - At least annually and more often as market conditions warrant.
- **Do the system’s investment consultants and actuaries communicate regarding their respective future expectations?**
  - Yes, the consultant and actuary work together to discuss capital market assumptions.
- **How does the current assumed rate of return used for discounting plan liabilities factor into the discussion and decision-making associated with setting the asset allocation? Is the actuarial expected return on assets a function of the asset allocation or has the asset allocation been chosen to meet the desired actuarial expected return on assets?**
  - The assumed rate of return drives the asset allocation decisions. When a potential change to the assumed rate of return may be warranted, an asset allocation study is provided to determine the probability of the strategic asset allocation in meeting various assumed rates over time given the Board’s current risk tolerance. In recent years, return expectations have decreased and are not expected to be as high as long-term historic averages. This has prompted many plans to reduce their assumed rates of return in order to have a higher probability of meeting the return without dramatically increasing risk.
- **Is the asset allocation approach used by the system based on a specific methodology? Is this methodology prudent, recognized as best practice, and consistently applied?**
  - Yes, the asset allocation approach used by the system is based on a specific methodology. The strategic asset allocation policy was developed based on asset allocation studies that were conducted to determine an approach suitable for meeting the system’s return objective over time. The methodology is prudent, recognized as best practice, and consistency applied. For example, within the strategic asset allocation policy, minimum and maximum allocations around the targets for each asset class are specified in the IPS and rebalancing is implemented whenever allocations drift outside of those ranges. When monies needed to cover plan liabilities, cash is raised from overweighed managers so allocations can consistently remain in compliance.
- **Does the system implement a tactical asset allocation? If so, what methodology is used to determine the tactical asset allocation? Who is responsible for making decisions regarding the tactical asset allocation?**
  - Strategic asset allocations are based on a secular, 20+ year, expected returns. Tactical decisions can be used in the near term, 7 years, to tilt the portfolio towards asset

classes that are expected to add value. When making rebalancing recommendations for consideration by the Board, the consultant may consider tactical over or underweights in these recommendations based on market conditions. These tactical allocations are permitted to be approved by the Board at their discretion as long as they do not cause an asset class to fall outside of its allowable minimum/maximum range allocation.

- **How does the asset allocation compare to peer systems?**

- The consulting team works with over 50 governmental retirement plans, each with unique asset allocation policies and manager lineups designed to meet their objectives within their appropriate risk profile. The asset allocation policy for the City of Galveston Firefighters’ Pension Fund is similar to these other clients which have a moderate risk tolerance.

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

- **What are the strategic and tactical allocations?**

- Below are the strategic and tactical (current) allocations as of June 30, 2020:

|                               | <b>Strategic</b> | <b>Tactical (Current)</b> |
|-------------------------------|------------------|---------------------------|
| US Large Cap Value Equity     | 16.5%            | 14.8%                     |
| US Large Cap Growth Equity    | 16.5%            | 18.4%                     |
| US Mid Cap Value Equity       | 2.5%             | 1.7%                      |
| US Mid Cap Growth Equity      | 2.5%             | 2.0%                      |
| US Small Cap Value Equity     | 2.5%             | 1.7%                      |
| US Small Cap Growth Equity    | 2.5%             | 1.9%                      |
| International Value Equity    | 5.0%             | 4.6%                      |
| International Growth Equity   | 5.0%             | 5.2%                      |
| International SMID Cap Equity | 3.5%             | 3.5%                      |
| Emerging Markets Equity       | 8.5%             | 6.0%                      |
| US Fixed Income               | 20.0%            | 21.6%                     |
| Hedge Funds                   | 0.0%             | 4.2%                      |
| Real Estate                   | 3.0%             | 3.2%                      |
| Private Equity/Credit         | 9.5%             | 8.0%                      |
| Private Equity/Credit         | 2.5%             | 2.4%                      |



|              |               |               |
|--------------|---------------|---------------|
| Cash Account | 0.0%          | 0.8%          |
| <b>Total</b> | <b>100.0%</b> | <b>100.0%</b> |

- **What is the expected risk and expected rate of return of each asset class?**

- Below are the expected risk and expected rate of return of each asset class using forward-looking 20+ year Arithmetic capital markets assumptions.

|                               | <b>% Expected Risk</b> | <b>% Expected Risk</b> |
|-------------------------------|------------------------|------------------------|
| US Large Cap Value Equity     | 14.95%                 | 8.77%                  |
| US Large Cap Growth Equity    | 16.95%                 | 8.96%                  |
| US Mid Cap Value Equity       | 16.19%                 | 9.35%                  |
| US Mid Cap Growth Equity      | 19.18%                 | 9.65%                  |
| US Small Cap Value Equity     | 18.99%                 | 9.54%                  |
| US Small Cap Growth Equity    | 23.02%                 | 9.02%                  |
| International Value Equity    | 16.74%                 | 8.00%                  |
| International Growth Equity   | 16.74%                 | 8.00%                  |
| International SMID Cap Equity | 17.27%                 | 8.57%                  |
| Emerging Markets Equity       | 22.62%                 | 10.51%                 |
| US Fixed Income               | 5.33%                  | 3.63%                  |
| Hedge Funds                   | 7.77%                  | 4.77%                  |
| Real Estate                   | 8.42%                  | 8.07%                  |
| Private Equity                | 12.20%                 | 11.92%                 |
| Private Credit                | 7.33%                  | 7.16%                  |
| Cash Account                  | 1.00%                  | 2.68%                  |

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

- Asset class risk is measured by Standard Deviation. The expected rates of return are determined by using historic and expected forward-looking returns and risk. Both intermediate-term (7 year) and long-term (20+ year) returns are calculated.

- **What mix of assets is necessary to achieve the plan's investment return and risk objectives?**

- We believe the current mix of assets is appropriate to maximize the probability of

achieving the plan's investment return and risk objectives.

- **What consideration is given to active vs. passive management?**

- Both active and passive management is used in the plan. Passive management is used within the more efficient areas of the portfolio (i.e. large cap equities) where it is more difficult to add much risk-adjusted return above the index.

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

- Yes, the approach used by the system to formulate asset allocation strategies is in-line with best practices and results in a well-diversified portfolio.

- **How often are the strategic and tactical allocations reviewed?**

- At least annually and more often if there is a shift in capital markets.

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

- **How are alternative and illiquid assets selected, measured and evaluated?**

Alternative investments are utilized in the system's portfolio in attempt to provide diversification benefits, low correlation of returns and some downside portfolio protection. The philosophy in using alternatives revolves around managing risk, and then maximizing returns within that risk framework. Investments made in alternatives are not considered in isolation and extensive research and analysis is performed to understand the impact a potential investment has on the risk and return of the overall portfolio. The system has allocations to four alternative investment funds, one of which is in the process of being redeemed. The system's remaining investments in more liquid strategies should be sufficient to meet liquidity needs. The alternative investment funds held are measured against appropriate benchmarks and/or an absolute return objective. The investments are evaluated over time for their ability to outperform their benchmark or exceed the absolute return objective.

- **Are the system's alternative investments appropriate given its size and level of investment expertise? Does the IPS outline the specific types of alternative and illiquid investments allowed, as well as the maximum allocation allowable?**

- Yes, we believe the system's investments are appropriate given its size and level of investment expertise. The IPS outlines the allowable alternatives and the expectations.

- **What valuation methodologies are used to measure alternative and illiquid assets? What alternative valuation methodologies exist and what makes the chosen method most appropriate?**
  - The performance of alternative and illiquid assets is measured using valuations provided by the recordkeeper for the particular fund. Valuations in these funds may be determined by a combination of quoted prices on recognized exchanges of underlying investments, net asset value (“NAV”) of the fund and underlying investments, good faith estimates, and third party asset appraisals. Property values of real estate investments may be determined using the income approach which estimates an income stream for a property (typically 10 years) and discounts this income plus a reversion (presumed sale) into a present value at a risk adjusted rate. The yield rates and growth assumptions used in this approach are derived from market transactions and other financial and industry data. The valuations for the alternative investment funds are audited by a third party accounting firm according to accounting principles generally accepted in the United States.

*(D) future cash flow and liquidity needs;*

- **What are the plan’s anticipated future cash flow and liquidity needs? Is this based on an open or closed group projection?**
  - Open group. Anticipated New Retirees within the next 3 years is 3. However, there are 15 Firefighters that are eligible to retire by age and service requirements. Current payroll is approximately \$4 million per year. In 2019 Benefits paid to members and beneficiaries, refunds of contributions and administrative expenses total deductions were \$4,113,925. The payroll has increased \$431,274 so far for the year 2020.
- **When was the last time an asset-liability study was performed?**
  - An asset allocation study was last performed in 2019; however, an asset-liability study has not been prepared in a least the past 3 years.

- **How are system-specific issues incorporated in the asset allocation process? What is the current funded status of the plan and what impact does it have? What changes should be considered when the plan is severely underfunded, approaching full funding, or in a surplus? How does the difference between expected short-term inflows (contributions, dividends, interest, etc.) and outflows (distributions and expenses) impact the allocation? How does the underlying nature of the liabilities impact the allocation (e.g. pay-based vs. flat \$ benefit, automatic COLAs, DROP, etc.)?**
  - System-specific issues are considered in the asset allocation process. Due to the funding ratio of the system and the assumed actuarial rate of return, it is important to balance the need for growth with maintaining an appropriate level of assets to meet the plan liabilities. The funded status of the plan may have an impact on the overall asset allocation. It is reasonable to expect severely underfunded plan may have a different asset allocation to a plan that is overfunded. The difference between expected short-term inflows (contributions, dividends, interest, etc.) and outflows (distributions and expenses) may also impact the allocation. For example, a plan with high short-term net outflows may need to maintain a higher amount invested in investments that have less price volatility and/or a stable income stream to meet liquidity requirements. Conversely, higher net inflows provide the plan with flexibility to potentially have a higher allocation in more growth-oriented investments. The underlying nature of the liabilities can also have an impact on the allocation. For example, the consultant and Board must consider the increase in liabilities from year-to-year not only from new retirees, but also the impact of automatic COLAs on the amounts needed for existing retirees. The possibility of lump sum DROP distributions also needs to be considered, as it will impact the allocation. The nature of these liabilities may warrant the need for shifting to more stable, income-oriented investments and sacrificing the potential for higher growth.
  
- **What types of stress testing are incorporated in the process?**
  - Stress test scenarios can be included in the asset allocation study on historical and/or conditional scenarios. Historical scenario analysis is an attempt to determine how the portfolio would have performed during the historical event. It is not possible to derive precisely due to differences between asset classes and underlying investments, changes in the structure and nature of capital markets over time, etc. However, it can be estimated given certain assumptions, and those estimates can yield insight into the nature of the portfolio's performance. Historical events occurring over the past 10, 20, and 30 years that can be modeled include:
    - Black Monday US Stock Market Crash (1987)
    - Mexican Peso Crisis (Early 1990s)

- Asian Financial Crisis (1997)
- Russian Default/Long Term Capital Management Collapse (1998)
- Tech Bubble Bursts (2000)
- 911 Terrorist Attack (2001)
- SARS Outbreak (2003)
- Subprime Mortgage Meltdown (2007)
- US Financial Crisis (2008)
- US Fed Tapering (2013)
- Ebola Outbreak (2014)
- Chinese Market Crash (2015)

Conditional scenario analysis postulates a “What if” shock to stress-test a portfolio. The conditional scenarios that can be modeled include:

- Crude Oil Price
- Gold Price
- S&P 500
- Trade Weighted US Dollar
- US 10-Year Treasury Yield
- US 2-Year Treasury Yield
- US Inflation Rate
- US Real GDP Growth
- US Short-Term Interest Rate

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

- **Do the system's policies describe the management and monitoring of direct and indirect compensation paid to investment managers and other service providers? What direct and indirect investment fees and commissions are paid by the system?**
  - A summary breakdown of fees paid for investment consulting and investment management is provided to the Board quarterly for review. There is no other direct or

indirect compensation paid by the system to the consultant or investment managers.

- **Who is responsible for monitoring and reporting fees to the board? Is this responsibility clearly defined in the system's investment policies?**
  - Fees are provided by the consultant to the board in their quarterly report. The responsibility of the consultant to monitor fees is clearly defined in the system's investment policies.
- **Are all forms of manager compensation included in reported fees?**
  - Yes
- **How do these fees compare to peer group and industry averages for similar services? How are the fee benchmarks determined?**
  - The manager fee rates charged by the Plan's managers are very competitive. Due to the size and scope of the consultant's firm (Graystone Consulting, a business of Morgan Stanley), the consultant has been able to negotiate potentially lower fees for their clients than many other firms.
- **Does the system have appropriate policies and procedures in place to account for and control investment expenses and other asset management fees?**
  - Yes, investment expenses and asset management fees are periodically reviewed and some reductions in fees for some providers were implemented in 2019.
- **What other fees are incurred by the system that are not directly related to the management of the portfolio?**
  - None
- **How often are the fees reviewed for reasonableness?**
  - Fees are discussed at every quarterly meeting.
- **Is an attorney reviewing any investment fee arrangements for alternative investments?**
  - Yes, the plan attorney reviews the documents for alternative investments which contain fee arrangements.

(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**

- **Does the system have a written governance policy statement outlining the governance structure? Is it a stand-alone document or part of the IPS?**
  - Yes, it is part of the IPS. The system also has a separate Code of Ethics which outlines responsibilities of the trustees.
- **Are all investment-related policy statements easily accessible by the plan members and the public (e.g. posted to system website)?**
  - Yes, the system has a comprehensive website that includes various information including investment-related policy statements, actuarial valuations, audit reports, and performance evaluations.
- **How often are board meetings? What are the primary topics of discussion? How much time, detail, and discussion are devoted to investment issues?**
  - Board meetings are held at least quarterly and typically monthly. The monthly meetings typically focus on administrative actions of the Board including approval of minutes from the previous meeting, approval of new retirees to begin receiving benefits, approvals of invoice payment, etc. The primary investment discussions take place at a longer quarterly meeting. This is the meeting where the consultants discuss the economy and capital markets and present the quarterly performance reports. Recommendations on potential manager or asset allocation changes and rebalancing are also discussed at these quarterly meetings.
- **Are meeting agendas and minutes available to the public? How detailed are the minutes?**
  - Yes, meeting agendas and minutes are available to the public on the plan's website. The minutes are sufficiently detailed.

### Investment Knowledge/Expertise

- **What are the backgrounds of the board members? Are there any investment-related educational requirements for board members? OK**
  - The Board of Trustees is currently comprised of three elected representatives from the fire department, two City representatives, and two Citizen representatives. All trustees are required to complete investment-related educational requirements.
- **What training is provided and/or required of new board members? How frequently are board members provided investment-related education?**
  - The investment consultant is available at the board's request to help with educating new board members. Other board members are provided education at quarterly investment meetings.
- **What are the minimum ethics, governance, and investment education requirements? Have all board members satisfied these minimum requirements?**
  - The City of Galveston Firefighters' Pension Fund Board of Trustees is subject to a Code of Ethics where they agree to adhere to legal, moral, and professional codes of conduct in fulfilling their fiduciary responsibilities. In accordance with the Code of Ethics, each trustee is required to complete continuing education requirements and participate in professional associations. The Board has satisfied the requirements.
- **Does the system apply adequate policies and/or procedures to help ensure that all board members understand their fiduciary responsibilities?**
  - Yes, the Board's Code of Ethics and Statement of Investment Policy, Guidelines and Investment Objectives clearly states the fiduciary responsibilities of board members and they are required to attest periodically that they understand these responsibilities.
- **What is the investment management model (i.e. internal vs. external investment managers)?**
  - The plan uses only external investment managers.
- **Does the board receive impartial investment advice and guidance?**
  - Yes, the board's consultant provides impartial investment advice and guidance.
- **How frequently is an RFP issued for investment consultant services?**
  - Typically, every 3-5 years with the most recent one issued in 2019.



## **Accountability**

- **How is the leadership of the board and committee(s), if any, selected?**
  - The Board of Trustees is designated by the TLFRA Bylaws, Section 19: In each municipality and other political subdivision to which this Act applies and that has a fire department that does not consist exclusively of volunteers, the fire fighters' retirement system is governed by a board of trustees consisting of: (1) in a municipality, the mayor or the mayor's designated representative; in an emergency services district, the president of the board of emergency services commissioners; or in another political subdivision, the chief operating officer or the chief operating officer's designated representative, as applicable; (2) the chief financial officer of the municipality or other political subdivision or, if there is no officer denominated as chief financial officer, the person who performs the duties of chief financial officer or a person designated by the chief financial officer or by the person performing the duties of chief financial officer; (3) three members of the retirement system elected by participating members as provided by Subsection (b) of this section; and (4) two persons who reside in this state, who are not officers or employees of the municipality or other political subdivision, and who are elected by a majority vote of the members of the board of trustees determined as provided by Subdivisions (1), (2), and (3) of this subsection.
  
- **Who is responsible for making decisions regarding investments, including manager selection and asset allocation? How is authority allocated between the full board, a portion of the board (e.g. an investment committee), and internal staff members and/or outside consultants? Does the IPS clearly outline this information? Is the board consistent in its use of this structure/delegation of authority?**
  - The whole board votes on all decisions. The outside consultant brings information and discusses with the board, but the board has full discretion for approval of any recommendations. The roles are outlined in the IPS.
  
- **Does the system have policies in place to review the effectiveness of its investment program, including the roles of the board, internal staff and outside consultants?**
  - Yes, the Statement of Investment Policy, Guidelines and Investment Objectives clearly outlines the responsibilities and duties of the Board, Fund Administrator, Investment Consultant, Investment Managers, and Custodian. This policy is reviewed periodically to ensure that the various parties are operating appropriately so the investment program can run effectively.
  
- **Is the current governance structure striking a good balance between risk and efficiency?**
  - Yes – we believe it is.

- **What controls are in place to ensure policies are being followed?**
  - At each quarterly meeting, policies relating to the investments and responsibilities of the Board, administrator, consultant, and managers are discussed to be sure all parties are fulfilling their responsibilities. An IPS compliance checklist is provided with each quarterly performance report to document plan compliance with key guidelines of the IPS.
- **How is overall portfolio performance monitored by the board?**
  - Portfolio performance is presented to the board at least quarterly. The absolute and risk-adjusted performance is monitored against the objectives stated in the IPS and appropriate benchmarks.
- **How often are the investment governance processes reviewed for continued appropriateness?**
  - Investment performance is monitored quarterly with discussion around the appropriateness of the governing process.

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

- **Who is responsible for selecting investment managers?**
  - The board is responsible for selecting investment managers. The consultant brings multiple candidates for the board's consideration.
- **How are the managers identified as potential candidates?**
  - A potential candidate has appropriate risk and return characteristics that meet the board's desire. In addition, managers are screen for various qualitative factors, including: personnel, process, research capabilities, business stability, etc.
- **What are the selection criteria for including potential candidates?**
  - Potential candidates must meet the standards set by the consultant's Global Investment Manager Analysis due diligence team.
- **What are the selection criteria when deciding between multiple candidates?**
  - The entire manager universe for a specific asset class is narrowed down to managers that have demonstrated consistency in their process and returns. A short-list of managers with distinct characteristics is shown to the board.

- **How does the selection process address ethical considerations and potential conflicts of interest for both investment managers and board members?**
  - Third-party investment managers that manage money for clients of the consultant (Graystone Consulting) are required to adhere to policies to eliminate a conflict of interest. In addition, the board's Code of Ethics provides guidance to the trustees regarding avoiding potential conflicts of interest.
- **Who is responsible for developing and/or reviewing investment consultant and/or manager contracts?**
  - The investment consultant and manager contracts are developed between the retirement system attorney and the consultant/manager and provided to the Board for their final review and adoption.
- **What is the process for monitoring individual and overall fund performance?**
  - The individual managers and total fund performance (absolute and risk-adjusted) are compared to appropriate benchmarks. Performance is presented both gross and net-of-fees.
- **Who is responsible for measuring the performance?**
  - The Plan's consultant measures performance.
- **What benchmarks are used to evaluate performance?**
  - A policy benchmark is used to evaluate the total fund performance and individual managers are benchmarked against their appropriate benchmark.
- **What types of performance evaluation reports are provided to the board? Are they provided in a digestible format accessible to trustees with differing levels of investment knowledge/expertise?**
  - A comprehensive performance evaluation report is provided quarterly to the trustees. A summary report is also provided which is presented at the quarterly meeting. The summary report is in a digestible format accessible to trustees with differing levels of investment knowledge/expertise.
- **How frequently is net-of-fee and gross-of-fee investment manager performance reviewed? Is net-of-fee and gross-of-fee manager performance compared against benchmarks and/or peers?**
  - Performance is reviewed quarterly both net and gross. The performance is compared against a benchmark and peer group quarterly.

- **What is the process for determining when an investment manager should be replaced?**
  - An investment manager may be recommended for replacement for a variety of reasons including, but not limited to:
    - Announcement of departure of key investment or business professionals. Concern may not be limited only to the most senior professionals.
    - Discovery of a material change in investment or decision-making process that may be detrimental to adding value, may result in style reclassification or otherwise may not be in the best interests of clients.
    - Evidence of activity seemingly in violation of the manager's investment process or otherwise a concern to implementation of process.
    - Occurrence of unusually high dispersion of investment performance among accounts with similar investment objectives. Please note that high dispersion is often a symptom of a problem relating to the firm's investment or decision-making process.
    - Underperformance in excess of what would be expected based on their investment style and process versus the appropriate benchmark.
- **How is individual performance evaluation integrated with other investment decisions such as asset allocation and investment risk decisions?**
  - The portfolio's performance is adjusted for risk taken in the portfolio using both Sharpe and Alpha.