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CAPITAL RESEARCH

Investment Practices & Performance Report

City of Texarkana, Firemen's Relief and Pension Fund

Final Report

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A Wealth of Wisdom

Investment Practices and Performance Report

City of Texarkana, Firemen's Relief and Pension Fund

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Independent Fiduciary Advisor Attestation

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

A summary outlining the qualifications of the firm

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

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

Texarkana Firemen's Relief and Pension Plan selected Champion Capital Research as a result of a long-term ongoing consulting relationship. Champion Capital Research has completed the Investment Practices and Performance Evaluation and Report, as required by Senate Bill 322 (86R), Adopted October 17, 2019.

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

Champion Capital Research receives quarterly remuneration for the ongoing monitoring of investment managers and annual assessment of Texarkana's Investment Policy Statement.

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

Champion Capital Research, Inc. and its related entities are not involved in directly or indirectly managing investments of the Texarkana Firemen's Relief and Pension Fund.

Findings and Recommendations

Analysis of Investment Policies

Champion Capital Research ("CCR") completed an analysis of Texarkana Firemen's Relief and Pension Fund's ("Texarkana") investment and governance policies that have been adopted and assessed the system's compliance with these policies.

OFI: With respect to the analysis of investment policies, Texarkana's current investment policies are broadly consistent with "best practices"[1]. Texarkana added a Fund Administrator whose roles and responsibilities were not defined in current policies. Because the Fund Administrator has money movement and Board meeting roles and responsibilities, the absence of the explicit language left gaps in the Fund's policies. CCR and Texarkana discussed this opportunity for improvement ("OFI") and added language to its IPS to improve their policies. **These policies were approved as of April 28, 2020.**

OFI: With respect to the adherence to existing policies, we found that Texarkana could improve upon its adherence to policies and should remove policies that were above and beyond best practices.[2] CCR met with Texarkana and discussed these in detail. The demands of the former IPS that were in excess of best practices were and thus removed from the April 2020 IPS.

In summary, all OFIs were remedied during the consulting engagement with CCR and thus there are no further recommendations.

Review of TEXARKANA's investment asset allocation

CCR complete a detailed review of TEXARKANA investment asset allocation, including:

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

In summary, there are no recommendations.

Review of the appropriateness of investment fees and commissions paid by Texarkana.

CCR completed an analysis of Texarkana's investment fees, expenses and commissions paid during 2019.

OFI: The CCR Team found that the system's IPS prior to April 2020, did not describe in full enough detail the monitoring of direct and indirect compensation paid to investment managers and other service providers.

TEXARKANA assigned to its Consultant the responsibility to report to the Board annually, and to add a fee disclosure report that includes both direct and indirect fees and expenses paid in the administration of its pension fund. Additionally, the Consultant is responsible to report to the Board annually its assessment of the reasonableness of these fees.

[1] These best practices are defined and practiced by the Center for Fiduciary Studies.
[2] Please see PRB 2020 Investment Practice and Performance Report detailed discussion.

In summary, Texarkana's policies have been updated and approved to remove this OFI. It is recommended for Texarkana to ensure its Investment Consultant monitor all explicit and implicit fees and expenses for all vendors, by requiring an annual report from each manager regarding any and all remuneration received as a result of doing business with Texarkana.[3]

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

CCR completed an analysis of Texarkana's investment processes, delegation of investment authority and board investment expertise and education.

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

In summary, CCR finds Texarkana's decision-making processes, delegation of authority and investment education and expertise among the Board to be robust, prudent, and consistent.[4] Best practices requires Texarkana evaluate all vendor contracts every three years.[5] With respect to monitoring, any outstanding OFIs in this section have been addressed and rectified in the previous section.

Review of TEXARKANA's investment manager selection and monitoring process

CCR completed an analysis of Texarkana's investment manager selection and monitoring processes.

Texarkana uses specific quantifiable criteria in the monthly and quarterly monitoring of its investment managers. Texarkana's Board relies on the monthly net of fee and gross of fee relative to peers and benchmarks. Texarkana's Board relied on the quarterly gross of fee and net of fee performance relative to benchmarks to assess the performance of its investment managers.

[3] Please see PRB 2020 Investment Practice and Performance Report detailed discussion.
[4] Manager selection and asset allocation policy OFIs addressed subsequently.
[5] Best practices as defined by the Center for Fiduciary Studies.

Executive Summary

Section 802.109 requires a public retirement system to select an independent firm with substantial experience in evaluating institutional investment practices and performance to evaluate the appropriateness, adequacy, and effectiveness of the retirement system's investment practices and performance and to make recommendations for improving the retirement system's investment policies, procedures, and practices. Texarkana Firemen's Relief and Pension Plan (the "Plan") selected Champion Capital Research, Inc. (CCR). Our findings and recommendations are contained in this report. We found no nonconformities. We list Opportunities for Improvement (OFIs) in the body of this report.

The way that this report is organized follows the outlines of Section 802.109. There are 5 Sections. Each Section corresponds with Texas Pension Review Board guidance questions. Therefore, each Section will begin with a statement about what the Section requires and goes on to discuss the PRB questions for the Section.

Section 802.109 (a)(1) requires each evaluation to include an analysis of any investment policy or strategic investment plan adopted by the retirement system and the retirement system's compliance with that policy or plan. CCR reviewed the Investment Policy which has an inception of January 2012.

The CCR Team found the Plan's policies to be thorough and complete. In other words, CCR Team found no nonconformities ("NC") with the Plan's IPS. However, CCR determined there existed several opportunities for improvement ("OFI"). These were identified and communicated to Board. Each of these revised-OFIs is notated below.

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

1. Does the system have a written investment policy statement (IPS)?

   ☒ Yes

   ☐ No

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

   ☒ Yes

   ☐ No

   ☐ Opportunity for Improvement (OFI)

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

   ☒ Yes

   ☐ No

   ☐ OFI (See box below.)

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

   ☐ Yes

   ☒ No

   ☐ OFI

ANSWER: The Plan conducts asset / liability analyses every two years. Based upon the most recent evaluation, this Plan is 86.3% funded. Currently the asset allocation is not formally integrated with any funding policy. However, quarterly, the Fund Administrator, Consultant and Custodian ensure that there is enough cash flow to meet expected short-term outflows.

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

☒ Yes

☐ No

☐ OFI

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

☒ Yes

☐ No

☐ OFI

ANSWER: The IPS states that it will be reviewed no less than every two years. This Plan can show evidence of IPS updates at least every two years.

6. Does the IPS contain measurable outcomes for managers?

☒ Yes

☐ No

☐ OFI

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

☒ Yes

☐ No

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

☒ Yes

☐ No

☐ OFI

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

☒ OFI

☐ No

ANSWER: The CCR Team found ample evidence that the Plan follows its Investment Policy Statement. The CCR Team revised Texarkana's IPS (revised 4_2020) to help ensure greater compliance. For example, the former IPS indicated a fixed income monitoring procedure that was periodically being implemented. The IPS was more stringent than "best practice" in this regard. Thus, the IPS was modified to concur with regular procedures.

Additionally, the IPS states that the "Consultant work directly with the Actuary to assist the Board in assessing an asset allocation and asset-liability study no less than once every five years to review asset classes, risk-return assumptions, and correlations of returns." This is not done, nor is it expected to be a regular process for Texarkana. Thus, the language was removed.

The Purpose of the IPS included 1) monitor quarterly in detail the contribution of decisions made by managers, vendors, and all fiduciaries. This "attribution" analysis is above "best practices" and was not being implemented. Given the Board's quantifiable criteria (11) used for monitoring investment manager performance, the "attribution" policy was removed.

8. What practices are being followed that are not in, or are counter to, written investment policies and procedures? None.

9. Are stated investment objectives being met?

☒ Yes

☐ No

☐ OFI

ANSWER: The only IPS objective that is not consistently met is meeting the 7.75% actuarial rate of return. Given expectations for capital market returns, this is to be expected.

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

☒ Yes

☐ No

☐ OFI

ANSWER: Rolling 10 year returns would have exceeded the 7.75% actuarial rate of return over 55% of the time, rolling 5 year returns 45%, and rolling 3 year returns 60%.

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

☒ Yes

☐ No

☐ OFI

ANSWER: During the current COVID 19 scenario, broad equity benchmarks cannot maintain fidelity to the Plan's IPS. In more normal operating capital market environments, the managers would be able to maintain fidelity to the distribution of returns estimated for each

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

☒ Yes

☐ No

☐ OFI

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

ANSWER: The Plan's policy statement indicates the IPS to be reviewed not less than every two years. As a practice, the Plan's policy statement is reviewed annually. While no substantial revisions, the Plan's IPS was modified in April 2020. The modifications are addressed in question 1(7) and are considered modest procedural and fee monitoring modifications.

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Section 802.109(a)(2)(A) requires each evaluation to include a detailed review of the Plan's investment asset allocation adopted, assess how it was determined, the Plan's compliance with that asset allocation and if the expected risks and returns of the Plan would be likely to achieve the actuarial rate of return. CCR reviewed the Plan's historical investment returns filed with the PRB and historical investment returns prepared by Investment Managers, Consultants and assembled by Plan Administrator.

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

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

   ☒ Yes

   ☐ No

   ☐ OFI

2. If no formal policy exists, what is occurring in practice? NA
3. Who is responsible for making the decisions regarding strategic asset allocation?[1]

   ANSWER: The Investment Manager - Westwood - recommends and asset allocation model annually. The Plan's Board reviews and approves.

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

   ANSWER: Individual fund managers risk metrics **are** reviewed monthly and quarterly and measured by Sharpe ratio. However, the Plan's aggregate risk tolerance was not expressed in its policies. In the Plan's May 2020 IPS, portfolio risk is referenced by a standard deviation statistic and the resultant expected range of returns is stated, so that the Board recognizes the "large loss" potential of the portfolio.

5. How often is the strategic asset allocation reviewed?

   ☒ Once every year

   ☐ Less than every three years

   ☐ Less than every five years

[1] In Westwood agreement with Texarkana, Westwood is referred to an Advisor. In Texarkana's policies (IPS) and procedures, Westwood acts as an Investment Manager and maintains some traditional Consultant responsibilities.

6. Do the system's investment consultants and actuaries communicate regarding their respective future expectations? OFI, No.
7. How does the current assumed rate of return used for discounting plan liabilities factor into the discussion and decision-making associated with setting the asset allocation? Is the actuarial expected return on assets a function of the asset allocation or has the asset allocation been chosen to meet the desired actuarial expected return on assets?

ANSWER: OFI, in practice the asset allocation has no bearing on the assumed rate of return used for discounting plan liabilities.

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

☒ Yes

☐ No

☐ OFI

ANSWER: The Plan's asset allocation is not a derivation of a mean variance optimized portfolio nor simulated Monte Carlo portfolio. However, the Plan's asset allocation is sufficiently diverse, and annual adjustments to the Plan's asset allocation is thoughtful of the expected cash flow needs of the Plan.

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

☒ Yes

☐ No

☐ OFI

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

☐ Yes

☒ No

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

ANSWER: Texarkana's strategic asset allocation allows is nearly 60% equity (vs 52% Texas Public Funds), 30% fixed income (vs 20%), and 10% Alts – Real Estate and MLPs (vs 28%). Within fixed income, Texarkana holds US Treasuries and other sovereign debentures. Among its ALTs is a private Real Estate opportunity and Westwood MLP strategy.

11. What are the strategic and tactical allocations?[2]

Asset Class	Actual Allocation[3]	Strategic Allocation	Tactical Allocation
1. Domestic Equity	38.00%	37.00%	Na
2. International Equity	10.00%	11.00%	Na
3. Emerging Markets	10.00%	10.00%	Na
4. Real Estate	4.00%	5.00%	Na
5. MLP	2.00%	4.00%	Na
6.Strategic Global Convertibles	5.00%	5.00%	Na
7. HY Bonds	5.00%	5.00%	Na
8. International Bonds	5.00%	5.00%	Na
9. Income Opportunity	2.00%	2.00%	Na
10. US Investment Grade	15.00%	15.00%	Na
11. Cash	3.00%	0.00%	Na

[2] The Westwood AA – WT 2019 Enhanced Balanced Model w/out Flex Income – was implemented in 7_2020

[3] Actual allocations are as of end of 4Q19.

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

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

Asset Class	Expected Risk	Expected Return
1. Domestic Equity		
Large Cap	6.31%	16.49%
Small Cap	6.87%	20.39%
2. International Equity	7.05%	17.49%
3. Emerging Markets	8.13%	24.06%
4. Real Estate	6.03%	11.50%
5. MLP	7.00%	13.5%
6.Strategic Global Convertibles	Na	Na
7. HY Bonds	5.33%	10.24%
8. International Bonds[4]	2.00%	7.31%
9. Income Opportunity	Na	Na
10. US Investment Grade[5]	2.50%	3.00%
11. Cash	2+ %	0.00%

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

ANSWER: Texarkana receives updated capital market assumptions from their Investment Manager no less than annually. The Investment Manager indicates they are long run expected returns.

What consideration is given to active vs. passive management?

Texarkana's IPS stipulates that both passive and active investment management is expected in the portfolio. The Consultant has encouraged the use of inexpensive more passive investment management vehicles, that are monitored against the eleven (11) IPS criteria.

[4] This statistic is the expected statistics for Global Fixed Developed and excludes Emerging Market bonds.
[5] These statistics are combined expected statistics for Intermediate Government and Intermediate Credit.

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

Asset Class	Exp. Risk	Exp. Return
1. Domestic Equity		
Large Cap	6.31%	16.49%
Small Cap	6.87%	20.39%
2. International Equity	7.05%	17.49%
3. Emerging Markets	8.13%	24.06%
4. Real Estate	6.03%	11.50%
5. MLP	7.00%	13.5%
6.Strategic Global Convertibles	Na	Na
7. HY Bonds	5.33%	10.24%
8. International Bonds[6]	2.00%	7.31%
9. Income Opportunity	Na	Na
10. US Investment Grade[7]	2.50%	3.00%
11. Cash	2+ %	0.00%

ANSWER: Given the expected capital market assumptions it is unreasonable to expect to achieve the actuarial rate of return of 7.75% using a broadly diverse asset allocation and today's capital market assumptions. However, this Plan has the objective to maximize its return while keeping risk at a minimum given each year's expected economic and capital

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

☒ Yes

☐ No

☐ OFI

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

[6] This statistic is the expected statistics for Global Fixed Developed and excludes Emerging Market bonds.

[7] These statistics are combined expected statistics for Intermediate Government and Intermediate Credit.

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

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

ANSWER: Alternative and illiquid assets, including MLPs and real estate holdings are selected based on Investment Manager and Consultant's due diligence. As an example, Texarkana recently purchased a private real estate fund after over nine months of due diligence including evaluation of historical performance, manager interviews, and compliance with TLFFRA and policies. Both ALTs, Real Estate and MLPs are evaluated quarterly. In the case of the Real Estate, holdings are appraised and audited by an independent accounting firm.

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

☒ Yes

☐ No

☐ OFI

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

☒ Yes

☐ No

☐ OFI

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

ANSWER: See answer to question 17 above.

(D) future cash flow and liquidity needs;

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

ANSWER: The Board anticipates the monthly cash flow needs out 12 months and manages its investments accordingly. Cash is raised once a year at the reset of each allocation to account for these needs.

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

ANSWER: January 2019.

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

ANSWER: The current funding status of the Plan is 86%. The Board anticipates the lump sum distributions as well as the regular monthly benefit payments and offsets those anticipated distributions with their anticipated contributions as well as income from interest and dividends. The Board's management of their liquidity needs is focused primarily on the monthly needs for the next year and secondarily on the expected trend over several years.

Section 802.109(a)(3) Requires a review of the appropriateness of fees and commissions paid by the retirement system. Based on all available direct and indirect expense information, CCR created a PRB 802.103 Expense Report.

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

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

ANSWER: The CCR team found that the system's IPS does not describe the monitoring of direct and indirect compensation paid to investment managers and other service providers. The Plan's IPS implemented in May 2020 requires the Board to direct the Consultant to assess and report annually the aggregate direct and indirect investment fees and commissions paid by

2. Who is responsible for monitoring and reporting fees to the board? Is this responsibility clearly defined in the system's investment policies?[8]

☒ Yes

☐ No

☐ OFI

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

☒ Yes

☐ No

☐ OFI

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

☐ Higher

☐ Lower

☒ Similar

[8] Please see Plan's revised IPS.

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

☐ Yes

☐ No

☒ OFI

ANSWER: OFI. As part of the investment monitoring, the Plan ensures that mutual fund and separately managed account investment management fees appear to be near peer group averages. With respect to commingled funds, policies and practices do not ensure the same. However, because of the fee and expense monitoring, attention to commingled fund fees

6. What other fees are incurred by the system that are not directly related to the management of the portfolio? Fiduciary insurance and education, Fund Administrator salary, other normal operating expenses.
7. How often are the fees reviewed for reasonableness?

☒ Every year

☐ Once every two years

☐ Once every five years

☐ Infrequently/OFI

ANSWER: As part of the Plan's monthly monitoring, mutual fund investment fees are assessed and reviewed for reasonableness, in that the MF managers fees will not fall withing the most expensive quartile relative to peers. Quarterly, the MF and SMA management fees are assessed for reasonableness in the same way.

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

☐ Yes

☒ No

ANSWER: The Consultant is responsible for the contract and fee review for alternative investments. This analysis is done annually.

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Section 802.109(a)(4) Requires a review of the fund's governance processes, delegation of investment authority and investment expertise and education. CCR reviewed Texarkana's Investment Policy Statement, Meeting Agendas and Minutes, Plan Documents, Training and Continuing Education procedures.

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

Transparency

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

☐ Yes

☒ No

☐ OFI

Is the IPS a stand-alone document?

☒ Yes

☐ No

☐ OFI

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

☒ Yes

☐ No

3. How often are board meetings? What are the primary topics of discussion? How much time, detail, and discussion are devoted to investment issues? Topics of discussion vary each month. Monthly investment monitoring reports are reviewed. Quarterly more detailed investment monitoring reports are reviewed.

☒ 1X per month

☐ 1X per quarter -

☐ Less frequently

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

☒ Yes

☐ No

ANSWER: Board agendas and minutes are on Texarkana's website. Minutes are sufficiently detailed, containing details of decisions taken, and broad discussion related documentation. Action items are followed up on after each meeting.

Investment Knowledge/Expertise

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

ANSWER: The Board consists of seven members; 3 firefighters, 2 city appointments, and 2 civilians. The Plan's Board composition is in compliance with TLFFRA statute and requirements. Additionally, the Plan's investment related education requirements have historically and are currently in compliance with PRB requirements.

☒ Yes

☐ No

☐ OFI

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

ANSWER: The Plan's investment related education requirements have historically and are currently in compliance with TLFFRA/statue requirements as well as the Texas Pension Review Board recommendations and requirements.

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

☒ Yes

☐ No

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

- [x] Yes
- [ ] No
- [ ] OFI

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

- [x] External
- [ ] Internal
- [ ] Mixed

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

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

- [x] Yes
- [ ] No
- [ ] OFI

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

- [ ] Less Than Every Three Years
- [x] More than Every Three Years

Accountability

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

ANSWER: The Officers of the Board are selected by the Board. The civilian Board members provide oversight as well.

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

ANSWER: The Board.

Does the IPS clearly outline this information?

- [x] Yes
- [ ] No
- [ ] OFI

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

- [x] Yes
- [ ] No
- [ ] OFI

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

- [x] Yes
- [ ] No
- [ ] OFI

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

- [x] Yes
- [ ] No
- [ ] OFI

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

ANSWER: The annual review of the Plan's IPS helps to ensure policies are being followed.

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

The overall performance of the portfolio is monitored by three independent entities. One the Fund Administrator follows a TEXPERs actuary's recommendation regarding the computation of aggregate fund performance. Second, the Consultant monitors aggregate fund performance. Finally, the Investment Manager, Westwood, monitors its aggregate fund performance in addition to Consultant and Fund Administrator.

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

☒ At Least Annually

☐ Less Than Once Per Year

ANSWER: The IPS is to be reviewed at least once a year and updated if/when necessary.

Section 802.109(a)(5) Requires a review of the fund's investment manager selection and monitoring processes. CCR reviewed Texarkana's Investment Policy and interviewed the Board and Fund Administrator regarding practices and procedures.

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

1. Who is responsible for selecting investment managers?

   ☒ The Board

   ☐ The Consultant

   ☐ Other

2. How are the managers identified as potential candidates?

   ☒ Consultant Research and Investment Manager recommendations

   ☐ Other

   ☐ OFI

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

   ☒ Established in IPS

   ☐ Not Established in IPS - OFI

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

   ☒ Board decision

   ☐ Staff decision

   ☐ Consultant decision

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

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

   ☐ Staff

   ☒ Board

   ☒ Consultant

☐ Legal/Other

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

ANSWER: The Fund Administrator and Actuary report performance to the PRB. The Plan's Consultant also generates aggregate performance. The Plan Consultant monitors monthly and quarterly manager performance relative to peers.

8. Who is responsible for measuring the performance?

☒ Consultant

☐ Staff

☐ Board

☐ Other

9. What benchmarks are used to evaluate performance?

Asset Class	Peer Group	Benchmark
Large Cap/All Cap Equity	Large Growth	Russell 3000 Growth TR USD
	Large Value	Russell 1000 Value TR USD
Small Cap Equity	Small Growth	Russell 2000 Growth TR USD
	Small Value	Russell 2000 Value TR USD
	Mid Cap Blend/SMID Value	Russell 2500 TR USD
Developed International Equity	Foreign Large Blend	MSCI EAFE NR USD
	World Stock	MSCI ACWI NR USD
Emerging Market Equity	Diversified Emerging Mkts	MSCI EM NR USD
Real Estate	Real Estate	S&P United States REIT TR USD
Intermediate Fixed Income	US Investment Grade Bonds	Barclays US Agg Bond TR USD
International Fixed Income	World Bond	Citi WGBI NonUSD USD
High Yield Fixed Income	High Yield Bond	BofA ML US HY Master II TR USD
Allocation	Conservative Allocation/ Income Opportunity	Morningstar Moderately Cons Target Risk
Other Specialty	Equity Energy/MLP	Morningstar MLP Composite TR
Stable Value/Money Market	Money Market Taxable	USTREAS T-Bill Auction Ave 3 Mon

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

ANSWER: Performance reports include Fiduciary Monitoring Reports, Manager performance relative to benchmark reports, Portfolio asset allocation reports.

☒ Yes

☐ No

☐ OFI

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

- [x] Monthly
- [ ] Quarterly
- [ ] Annually

ANSWER: MF and SMA net and gross of fee performance is reported, monthly and quarterly. Consultant generates an estimate of net of fee performance for Commingled account investment management. These metrics are compared monthly, quarterly and annually relative to peer group averages and benchmarks.

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

- [x] Yes
- [ ] No
- [ ] OFI

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

ANSWER: When an investment manager fails to perform in the top 50% percentile relative to its peers over a three-year period, the manager is expected to be replaced. The Consultant reports clearly show, by color coding, managers who are failing with respect to the 11 criteria defined in the IPS. The Board reviews and makes the decision to replace after reviewing Consultants quantitative and qualitative assessment of manager.

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

ANSWER: Individual manager performance remains separate from asset allocation decisions.