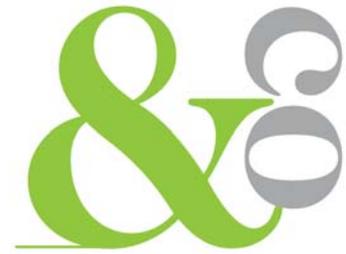


Putting clients first.



To: Board of Directors & Staff, DFW Airport
From: Jack Evatt & Tony Kay, AndCo Consulting, LLC
Date: November 19, 2020
Subject: Section 802.109 Texas Government Code

Introduction

Changes to Texas Government Code Chapter 802 were enacted in the 86th Legislative Session in 2019 to expand and update the reporting requirements for public retirement systems. Senate Bill No. 322 requires a retirement system to engage an independent firm to evaluate the appropriateness, adequacy, and effectiveness of investment practices and performance and to make recommendations for improving the investment policies, procedures, and practices.

AndCo Consulting LLC¹ (“AndCo”) serves as an independent, investment consultant for the DFW Airport Retirement Plan (the “Pension Plan”, “System”, or the “Fund”). After a nationwide competitive search in 2010, DFW hired AndCo, previously Bogdahn Group, to serve as the Fund's investment consultant. In its role as investment consultant, AndCo has an advisory relationship to the Board and Staff and does not have any direct or indirect authority over the management of Pension assets.

¹ AndCo Consulting is an investment adviser registered with the U.S. Securities and Exchange Commission (“SEC”). Registration as an investment adviser does not constitute an endorsement of the firm by securities regulators nor does it indicate that the adviser has attained a particular level of skill or ability.

AndCo Overview

AndCo is an independent, employee owned and managed institutional investment consulting firm that advises over 690 institutional clients with approximately \$96 billion of assets under advisement in over 31 states, the District of Columbia, Canada and Bermuda. Our mission is to represent the sole interest of our clients by redefining independence. Our independent structure benefits our clients as it helps enable our consultants to minimize conflicts of interest and remain objective. We believe this can lead to better overall results.

AndCo has provided independent investment advisory services since our firm's inception in 2000. Investment consulting is our only line of business. We receive 100% of our revenue from our clients for providing investment consulting services. AndCo has no parent company, affiliated business partners or joint ventures. AndCo is a limited liability company and taxed as a partnership. We provide investment consulting services for defined benefit, defined contribution, deferred compensation, non-qualified, other post-employment benefits ("OPEB") and voluntary employee beneficiary association ("VEBA") benefit plans, as well as endowments and foundations.

AndCo seeks to avoid conflicts of interest.

- We accept no form of compensation other than the direct hard dollar fees we collect from our clients.
- We do not pay any referral or solicitation fees.
- We do not recommend any WRAP programs.
- We do not participate in any soft dollar arrangements.

Our team of 92 professionals consists of some of the top talent from a variety of educational and financial industry backgrounds and features 34 dedicated consultants who average over 20 years of experience. AndCo's professional team holds the following credentials:

- 24 Chartered Financial Analyst ("CFA®") Charterholders
- 7 Certified Plan Fiduciary Advisor ("CPFA") Designees
- 6 Chartered Alternative Investment Analyst ("CAIA") Members
- 6 Certified Investment Performance Measurement ("CIPM") Certificants
- 4 Certified Investment management Analyst ("CIMA®") Designees
- 39 advanced degree holders

AndCo's headquarters is located in Orlando, FL. We have satellite offices in Chicago, IL; Cleveland, OH; Detroit, MI; Reno, NV; Pittsburgh, PA and Dallas, TX. We also have consultants located in Atlanta, GA; Buffalo, NY; Charlotte, NC; Los Angeles, CA; Louisville, KY; Milwaukee, WI, and Tulsa, OK.

Significant Outcomes of the Report:

AndCo works proactively as the System's consultant to diligently review the investment portfolio and investment policy and makes recommendations on an ongoing basis. It is our belief that not proactively making recommendations for changes to our clients is an indication that we are not fulfilling our role as a fiduciary to the System. The System is actively engaging outside experts to provide legal advice and guidance in areas of investments and actuarial science. These experts are actively serving similar clients in the state of Texas and when appropriate operate as fiduciaries to the System. The Board and Staff have demonstrated their willingness to listen and follow the guidance of their outside professionals and there is no evidence of this changing in the future.

AndCo recommends that the Fund maintain its robust processes to both review the current investment portfolio while also seeking to identify new investments that can improve the Fund's long term expected risk and return while maintaining liquidity to meet its benefit obligations.

Since our engagement in 2010, the Fund has undergone several reviews of the asset allocation. The results of these activities have been revisions to the Fund's investment policy statement, investment managers changes, and the addition of new asset classes. The changes implemented by the Fund have improved the risk/return profile of the Fund while also increasing portfolio diversification.

We are pleased to present this report to the DFW Airport (the "Plan Sponsor"), which addresses each of the statutory requirements listed in Section 802.109, Texas Government Code:

(1) Provide 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.

The Retirement Plan for Dallas/Fort Worth International Airport (the "Fund") has an investment policy statement ("IPS") in place. The Fund's investments are governed by Texas Government Code Chapter 802. The IPS outlines the objectives and risk tolerance of the Fund as well as the various management and administration responsibilities related to the management of the Fund's investment portfolio. The IPS defines that the Board of Directors ("Board") is responsible for making decisions regarding the Fund's investment portfolio. All recommendations for actions in the investment portfolio are reported to and voted on by the Board after being recommended by the Retirement/Investment Committee. The Board has hired an outside investment consultant to assist staff and the Board in their decisions regarding the Fund's IPS, strategic asset allocation, manager selection, ongoing manager evaluation, and IPS compliance monitoring. An analysis of the IPS's key elements are outlined in the table below:

Scope & purpose	The purpose, asset base and organizational structure of the System's investment portfolio are clearly defined.
Governance structure	Roles and responsibilities for decision making, communication requirements, monitoring oversight, applicable law and future IPS modifications are clearly defined.
Investment, return, and risk objectives	Return objectives, risk tolerance, time horizon, asset allocation targets, investment guidelines, and other relevant portfolio considerations are clearly defined.
Risk management	Performance measurement standards, metrics for portfolio and investment manager evaluation, and compliance requirements are clearly defined.

The Board and Retirement/Investment Committee reviews the Fund's IPS regularly, generally every five years. The last formal review took place in March of 2017. The Retirement/Investment Committee also monitors compliance to the System's current IPS during each quarterly performance review with staff and the investment consultant.

We analyzed the System's IPS and the Board's compliance with the IPS. While different IPS structures exist, AndCo, as an independent, professional investment consulting firm, has determined that the System's IPS, and the Board's compliance with the IPS, is appropriate and comparable with what AndCo considers best practice, industry standards, and comparable to the structure of an effective investment policy statement as laid out by the CFA Institute (*ELEMENTS OF AN INVESTMENT POLICY STATEMENT FOR INSTITUTIONAL INVESTORS*, Copyright 2010 by the CFA Institute).

AndCo recommends the Fund maintain its ongoing review of the IPS. We feel that reviewing the policy statement annually is a strong practice and should be continued. AndCo recommends that the Fund continue to track the changes to the investment policy and report them in a clear and transparent manner.

(2) Provide a review of the retirement system's investment asset allocation, including

(A) Review of the System's process for determining target allocations;

The Fund's process for determining asset allocation targets is executed and implemented through frequent and thorough discussions between the staff and the investment consultant. Each year, the investment consultant uses a combination of 10- to 15-year forward-looking asset class return assumptions, risk and correlation assumptions, historical asset class return and risk data, and a long-term (50+ years) building block return methodology to determine a target allocation that the investment consultant believes will have the highest probability of achieving the Fund's return objectives. Any changes to the Fund's strategic asset allocation targets and ranges are then recommended to the Board for consideration.

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

The investment consultant utilizes the 10- to 15-year forward-looking asset class return and risk assumptions produced by a third-party provider, JP Morgan. These 10- to 15-year assumptions are updated annually and have been consistently published for use by asset allocators for 24-years. The investment consultant also maintains an internally developed, stable, long-term (50+ years) building block return methodology for supplemental, long-term asset return assessments. Current year return and risk expectations for each IPS target asset class are detailed in the table below:

Asset Class	10- to 15-year Expected Arithmetic Return*	10- to 15-year Expected Annualized Risk*	Building Block Return Assumption**
Large Cap Equity	6.55%	14.34%	10.00%
Mid Cap Equity	7.12%	16.30%	10.00%
Small Cap Equity	8.12%	18.95%	10.00%
Broad International Equity	9.17%	17.45%	11.00%
Private Equity	10.59%	20.17%	10.50%
US Core Fixed Income	3.16%	3.42%	5.00%
Non-US Fixed Income	3.54%	6.72%	6.00%
Other Fixed Income	7.88%	13.87%	5.50%
Core Real Estate	6.37%	11.07%	7.00%
Global Infrastructure	6.51%	10.46%	7.00%

*Source: 2020 JPMorgan Long-term capital market assumptions

**Source: AndCo Consulting

It is important to note that expected returns do not reflect the impact of active management or contain an expectation of active manager alpha. Projections do assume the underlying asset class returns can be achieved net of fees. Finally, where direct asset class expectations are not available for named IPS target asset classes, these targets are proxied to a similar asset class or combination of asset classes that do have assumptions.

AndCo recommends that the Board and Staff continue regular asset allocation reviews with its investment consultant. AndCo also recommends that the Board and Staff maintain its policy of educating themselves on new asset classes that could be beneficial to the investment portfolio.

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

The Board and staff rely on the Fund's investment consultant, and the investment consultant's experience, to evaluate the individual valuation methodologies used by third-party investment managers that oversee alternative and illiquid assets for the Fund. Further, an analysis of the appropriateness of each manager's written valuation policy for their underlying strategy holdings is generally part of the investment consultant's standard due diligence process when they evaluate these types of strategies for client portfolios. Only strategies deemed to have reasonable and appropriate valuation methodologies will be recommended for potential inclusion in the Fund's portfolio. Neither the Board, staff nor the investment consultant selects the valuation methodology used by third-party investment managers that oversee alternative or illiquid assets. The performance and valuation of all third-party alternative and illiquid investment strategies that are part of the Fund's investment portfolio are also reviewed with the Board as part of the quarterly performance review prepared and presented by the investment consultant. The Board utilizes the same process for the selection of alternative assets as it does for the selection of traditional asset managers. This selection process is detailed in question 4.

(D) Review the future cash flow and liquidity needs;

The Fund's cash flow and liquidity needs are reviewed each quarter as part of the investment consultant's quarterly performance review. This review includes discussions regarding the current, expected, and known timing variances of future contributions to, and withdrawals from, the Fund. Based on the Fund's expectations of future cashflows, the portfolio has been positioned to include reasonable allocations to private assets. The Fund's pacing models are reviewed regularly by staff and the investment consultant to ensure liquidity needs are appropriately addressed.

AndCo recommends that the Fund continue to work with the Consultant to actively rebalance the portfolio to provide the required liquidity levels and maintain its long-term target allocations.

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

We reviewed the fees paid to administer the Fund's portfolio and the underlying investment manager fees. The management fees for the portfolio as of December 31, 2019 estimated strategy market values reflect a weighted-average cost of 0.83%. The fees for the portfolio, while slightly higher than the average, are reasonable based on the large allocation to private funds. In addition, the underlying manager fees, with only a few of exceptions, are reasonable when compared to peers. The marginally higher weighted average portfolio fees are driven by the portfolio's use of predominantly active managers, and as previously stated, the large allocation to private investments (alternatives). Both

approaches command higher fees with the expectation to generate higher returns. While high or low fees do not guarantee failure or success for an investment portfolio, AndCo, as an independent, professional investment consulting firm, has determined that the Fund's fees are appropriate and comparable with what AndCo considers best practice, industry standards. AndCo recommends ongoing review of the investment fees.

(4) Provide 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

The Fund's IPS contains clear definitions of the Board's responsibilities as well as the role of the Board's professional advisors and investment staff in assisting the Board in fulfilling its fiduciary duties to the Fund with respect to the investment of assets. Direct investment authority for the Fund's assets lies with the Board. As such, all decisions regarding the Fund's portfolio including return objectives, risk tolerance, investment guidelines, asset allocation targets and manager selection and retention reside with the Board.

The Board utilizes an investment consultant to assist with setting the Fund's strategic policy and asset allocation targets, as well as, investment manager strategy evaluation and selection. The investment consultant is a fiduciary to the System, and all third-party separate account investment managers are required to be fiduciaries to the System. In addition, all comingled fund investment managers must be fiduciaries to the fund that they manage in which the Fund has invested. Aside from rebalancing authority, the Fund does not perform any portfolio management functions internally.

Governance for investment activities and related decision-making is a multi-step process. The process includes the following:

- a. Recommendations (policy, strategy, or both) are made to the Retirement/Investment Committee by the investment consultant and staff.
- b. The Retirement/Investment Committee reviews, questions and evaluates the recommendation. This process may include a request for clarification, modification, and/or additional information regarding the recommendation.
- c. Once a consensus approach on a recommendation has been reached, the final investment recommendation is officially considered by the Board for action.
- d. The Board accepts motions for action and votes to accept or reject those motions.
- e. Once an action is accepted by the Board, staff executes the Board's desired investment action or decision.

Board members and staff are active participants in industry educational opportunities such as conferences. Directors and staff of the Fund follow the requirements of Texas Administrative Code 607. They are also encouraged to actively participate in national conferences and educational programs associated with investment oversight. In

addition, the investment consultant provides education on investment topics related to the Fund's portfolio or other relevant topics that are of interest to staff.

We reviewed the Fund's governance processes related to investment activities, investment decision-making, delegation of investment authority, and education. While different governance structures exist around investment decision-making, delegation of investment authority, and education, AndCo, as an independent, professional investment consulting firm, has determined that the Fund's processes are appropriate and comparable with what AndCo considers best practice, industry standards.

AndCo recommends the Fund continue to follow the IPS, engage investment experts as appropriate, and continue to seek ongoing educational opportunities consistent with Texas Administrative Code, Chapter 607.

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

The investment manager selection process for the Fund is conducted in collaboration with the Fund's investment consultant and staff. Whether a specific investment strategy review is directed by the Board, staff, or the strategy idea comes from the investment consultant, all potential investment strategies must go through the investment consulting firm's due diligence process and subsequently be presented and approved by the investment consultant's Investment Policy Committee before being shown as potential strategies for the Board to consider for the Fund's portfolio.

Candidates are vetted by the consultant's research group to identify the best and most appropriate managers for the System in each investable asset class.

AndCo Research Process:

All investment managers that are presented for our clients' consideration must be approved by AndCo's Investment Policy Committee. Our Research Group identifies potential investment managers using our database resources and investment industry network. Our due diligence process for selecting and monitoring investment managers is as follows:

1. Identification: The first step in our due diligence process is identification of investment opportunities. Our firm's process is unique because we maintain an open-door policy. This means that any investment manager that wants to participate in our due diligence process has the opportunity. Identification occurs from many approaches including:
 - a. Database Screening/Research Team – we use several databases to search and review strategies including Investworks, eVestment, Preqin, and Morningstar Direct in conjunction with our research team's investment manager network.

- b. Consultant Sponsored – our consultants can identify and sponsor investment ideas. These ideas are then reviewed by the Research Team and eventually our Investment Policy Committee, if applicable.
 - c. Client sponsored – many times our clients have great ideas and can request that we review them. Similar to our consultant requests, our Research Team will review them.
 - d. Investment Manager Requested – we maintain an open-door policy for any manager wishing to be considered can request to enter our due diligence process.
2. Preliminary Questions: After we have identified a potential manager, we ask the manager to complete our initial due diligence questionnaire (DDQ) to efficiently confirm that the manager meets specific minimum criteria with respect to their firm and the specific strategy, as follows:
- Does the strategy have a three-year institutional track record achieved by the same individual or team?
 - Does the firm report strategy information, including performance and portfolio data, to the following databases: Morningstar Direct, Investworks and eVestment Alliance?
 - What are the total AUM and total number of accounts for the firm and the strategy?
 - Is the firm registered with the SEC? What is the effective date of the registration? If the firm is not registered with the SEC, please provide an explanation?
 - Has the firm, or any of its employees, been involved in any litigation, or been the subject of any investigation or sanction by any state or federal regulatory agency or industry self-regulatory organization? If so, please explain the nature and outcome of the litigation, investigation, and/or sanction.
 - Does the firm claim GIPS compliance? If so, has the claim of GIPS compliance been verified, when, and by whom?
 - Does the firm utilize a third-party trading/portfolio management system? If so, provide the name of the system.
 - Does the firm have a dedicated compliance officer? If so, how long has the individual been in this role at the firm? What is this person's background in compliance?

- Will the firm acknowledge, in writing, its role as a delegated fiduciary to the plan?
 - Will the firm accept legal venue in the client's county and state?
 - Does the firm have errors and omissions insurance? If so, what is the amount of coverage and by whom is it issued?
 - Does the firm have a formal disaster recovery plan? When was the plan last tested and what were the results?
3. **Due Diligence Questionnaire:** If the manager provides satisfactory answers to the above questions, we will send the manager our due diligence questionnaire. The due diligence questionnaire focuses on the investment management team, research process, manager's ownership structure, legal standing and investment strategy. The Research Group reviews the manager questionnaire and initiates a detailed analysis. Our questionnaire underlies our manager evaluation process and enables us to prepare adeptly for a manager meeting.
 4. **Manager Interview:** After receiving the completed due diligence questionnaire, the Research Group and/or a consultant will interview the strategy's key decision makers. This allows the interviewer to crosscheck the information provided in the due diligence questionnaire and understand the firm's qualitative underpinnings. Often, we will interview the key decision makers on multiple occasions and venues. We will go on-site as necessary, and we also invite investment managers into our offices for interviews. Once these interviews are completed, the Research Group compiles an internal research report for our Investment Policy Committee.
 5. **Investment Policy Committee (IPC) Review:** The IPC is responsible for approving and formally providing AndCo's firm-wide and client-specific manager recommendations. The IPC rates strategies and allocates resources based on information and requests generated from both the Research Group and the Consulting Group. The IPC's voting membership is comprised of AndCo's senior leadership team (CEO, COO and Executive Director of Consulting) and supported by the Chief Compliance Officer (CCO). The CCO helps to represent the interests of the firm from a risk perspective but is not a voting member. The centralization of formal investment recommendations with the IPC, as well as its ability to direct the firm's resources, allows AndCo to leverage its deep team of experienced professionals and advance the quality and creativity of our recommendations and decisions.
 6. **Ongoing Review:** If the manager is approved, the research analyst or consultant that sponsored the manager will cover the manager going forward. Each manager is required to provide quarterly compliance updates to AndCo, and the AndCo Investment Policy Committee reviews the approved manager

list on a quarterly basis to identify exceptions that might require further due diligence.

The investment consultant is completely independent from the investment management community and receives no compensation for reviewing or including any managers in the search process, nor does the investment consultant receive any compensation from any investment manager or investment products. Regardless of whether an existing portfolio strategy is being replaced or a new strategy is being considered for the Fund's portfolio, the investment consultant and staff conduct due diligence on all strategies being considered. Due diligence can include manager interviews, site visits, reference checks and written research notes or evaluations. Based on their own expertise and the recommendation of the investment consultant, staff will then recommend the most appropriate candidate or candidates to the Board for approval.

While the investment consultant and staff may make recommendations regarding investment strategies, the ultimate decision to select a specific strategy for inclusion in the Fund's portfolio resides with the Board.

The ongoing monitoring of investment managers and strategies is also done collaboratively with the Board, staff, and the investment consultant on an ongoing basis (as needed between meetings) and through quarterly Retirement/Investment Committee meetings that the investment consultant and staff attends. The investment consultant prepares comprehensive quarterly investment reviews for presentation to, and discussion with, the staff and the Retirement/Investment Committee during these quarterly meetings. All performance calculations supplied by the consultant to the board meet the guidelines of the CFA institute.

The investment consultant's reports highlight portfolio and investment manager performance and risk relative to the various performance measurement standards established in the IPS. The criteria established in the IPS tracks managers on both a qualitative and quantitative basis. Strategies that repeatedly fail to meet these standards will be placed on a watchlist or terminated. The criteria are not designed to remove the decision process from the Board, but rather are intended to add objectivity and enhanced scrutiny on managers who are underperforming the criteria contained in the IPS. While the investment consultant may make recommendations regarding the continued retention or termination of an investment strategy in the Fund's portfolio, the ultimate decision to retain or terminate an investment strategy (within the bindings of the strategy's agreement) resides with the Board.

AndCo feels that the manager selection process in place at the Fund is robust and is in line with industry best practices. AndCo employs a similar search and selection across its national public fund client base. In addition, AndCo feels that the Fund is in line with the best practices laid out by the GFOA for selecting third party investment professionals for pension fund assets.

AndCo recommends that the Fund maintain its investment process for investment manager search and selection which relies on its investment consultant, staff, and Board in selecting new investment managers for use within the Fund's investment portfolio.

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Important Disclosure Information

This report was prepared at the sole request of the Retirement Plan for Dallas/Fort Worth International Airport. Information presented is typically narrow in scope and provides a general overview of circumstances and processes and should therefore not be construed as exhaustive. AndCo Consulting does not provide legal, tax or accounting advice.

This contains forward-looking statements, estimates and projections which are inherently speculative and subject to various uncertainties whereby the actual outcomes or results could differ materially from those indicated.

The material provided herein is valid as of the date of distribution and not as of any future date and will not be updated or otherwise revised to reflect information that subsequently becomes available, or circumstances existing or changes occurring after such date.