

Investment Practices and Performance Evaluation of the Amarillo Firemen's Relief and Retirement Fund

Performed by the Alpha Consulting Group of Wells Fargo Advisors

JULY 2023

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Disclosure by Independent Firm

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Disclosure

This evaluation is being prepared by the Alpha Consulting Group of Wells Fargo Advisors (“Alpha”). Alpha has served as the Investment Consultant for the Amarillo Firemen’s Relief and Retirement Fund (“AFRRF”) for over 30 years. Alpha and its consultants have over 100 years of combined experience providing investment consulting services to institutional clients. Wells Fargo, including any related entities, does not manage any of the investments for AFRRF nor does Alpha have sole responsibility for selecting or terminating investment managers. The only remuneration received by Wells Fargo from AFRRF is the asset-based fee stated in the investment consulting contract.



1) Investment Policy

The Amarillo Firemen's Relief and Retirement Fund has a written Statement of Investment Policy ("Policy"). The Policy is to be reviewed at least annually for its appropriateness. Roles and Responsibilities are covered for the Board of Trustees ("Board"), Investment Managers, Custodian, and Investment Consultant. The Policy does not take into consideration the current funded status but it does include the contribution amounts for the City and the participants. The Policy follows industry best practices except it does not include language about fees. The Policy is written in a manner that a new Board could come in and understand how AFFRF manages their investment portfolio.

In the Policy, AFFRF is to meet three of their four investment goals over time (not less than three years). The four investment goals are: 1) to meet or exceed the inflation rate (as measured by 102% of the Consumer Price Index) on average, 2) to meet or exceed an absolute return of 7.5% per year on average, 3) to meet or exceed the rate of return on a balanced market index comprised of 70.2% Russell 1000 Index, 4.8% MSCI ACWI ex U.S. Small Cap Index, 23.0% Bloomberg U.S. Government/Credit Index and 2.0% 91-day Treasury Bills, and 4) to achieve a rate of return that is in the top third of representative universe of competitive funds with the actual mix of the plan. The Board reviews their progress to these goals every quarter. They have been successful in reaching those goals therefore achieved their investment objectives of preservation of capital and long-term growth of capital.

AFFRF has been able to weather the shocks to the markets over the last 30 years well. While there may be short-term (less than three years) periods where the investment managers will not be able to meet the investment goals, over the longer-term (greater than three years), they should and have met those goals.

The Investment Policy Statement is reviewed annually. The last revision was in September of 2022 to update the contribution amounts and other small changes. The most significant change to the Investment Policy Statement in the last three years was in December of 2020. The Asset Mix was changed at that time from a target of 70% in equities with a maximum of 75% to a target of 75% in equities with a maximum of 80%.

2) Investment Asset Allocation

a. Asset Allocation Process

The Investment Policy Statement covers the strategic asset allocation. At every monthly meeting the Board reviews the asset allocation. The Board last reviewed an asset allocation study from the Investment Consultant in December of 2020. That study was based on Efficient Frontier Modeling. The purpose of Efficient Frontier Modeling is to determine the mix of assets that will produce the optimal return for different levels of risk. For each asset class selected, the following data is included in the model: the

expected return, the volatility risk (as measured by standard deviation of returns), and the correlation coefficient. The model produces the most efficient portfolios utilizing the approved asset classes and any restraints applied. The Board has discussed alternative investments, but they have not been inclined to perform any searches.

The Investment Consultants work with the Actuary to make sure the expected return is reasonable given the current market conditions. The Investment Consultants and the Board have discussed reducing the Actuarial Return Assumption when feasible.

The Plan does use a tactical allocation for the equity allocation. Domestic and international small cap has been a tactical allocation for AFFRF. That allocation is monitored by the Investment Consultant.

AFFRF's asset allocation differs from other Plans of their size because they do not use Alternative Investments.

b. Expected Risk and Return

The Asset Allocation Study reviewed in December 2020 included the expected return and risk (standard deviation) of the following:

| Asset Class | Expected Return | Standard Deviation |
|----------------------------|-----------------|--------------------|
| US Large Cap | 8.3% | 16.0% |
| US Mid Cap | 9.1% | 17.0% |
| US Small Cap | 9.8% | 20.0% |
| Int'l. Developed Small Eq. | 8.7% | 20.0% |
| Int'l. Emerging Market Eq. | 10.0% | 23.0% |
| Intermediate-term Taxable | 3.2% | 3.8% |
| Cash | 1.8% | 1.0% |

The Capital Market Assumptions listed above are for a 10-to-15-year time horizon and are derived by the Wells Fargo Investment Institute. Utilizing the Efficient Frontier Modelling discussed in the previous section, the asset mix necessary to achieve an expected return of 7.5% was 49.2% US Large Cap, 18.0% US Mid Cap, 8.3% US Small Cap, 3.38% International Developed Small Cap, 0.5% International Emerging Market Equity, 17.6% Intermediate-term Taxable Bond, and 3% to Cash.

After reviewing the Asset Allocation Study at the end of 2020, the Board decided to update their strategic asset allocation in the Investment Policy Statement from an equity target of 70% to an equity target of 75% with a maximum equity allocation of

80% rather than 75% previously. The overall asset allocation is reviewed at the monthly Board meetings.

AFRRF had historically only used active managers. In 2018 they incorporated passive management to their portfolio, but a majority of the portfolio is actively managed. This is another area that the AFRRF differs from other retirement systems.

c. Alternative Investments

AFRRF does not use any alternative or illiquid investments at this time nor are they currently considering their addition.

d. Future Cash Flow and Liquidity Needs

The Board has been very thoughtful when considering changes to the investment portfolio or changes to the structure of the Plan such as changes to the underlying investment return assumption or providing increased benefits. The Board understands that small changes now can make a huge positive or negative effect down the road. They work with their actuaries and investment consultants when considering making changes to the Plan and have good conversations about the impacts of those changes.

3) Investment Fees and Commissions

The Policy does not speak to investment fees. The Policy does allow the Board to direct commissions on behalf of the Board and Plan. The Board has engaged Abel Noser to provide an analysis of the commissions paid by their separate account managers.

4) Governance Processes Related to Investment Activities

The Board does not have a stand-alone governance policy but the Investment Policy Statement does cover the Board's responsibilities. The Board does follow the recommendations of the Pension Review Board ("PRB") and the Texas Local Firefighter Retirement Act. The Board is made up of three firefighter representatives, the Mayor (or the Mayor's representative), a city employee (usually an assistant City Manager or Chief Financial Officer) and two civilian members. They recruit members who have an understanding of investing or financial background. The civilian members of the Board include bankers, financial advisors and former City employees with specific pension experience. Board members must meet the minimum educational requirements set forth by the PRB. The Board and system administrators are required to complete the 7-hour Core training requirement within their first year of service, and the 4-hour Continuing Education requirement every 2 years thereafter. The Core training from the PRB includes courses on fiduciary responsibility and ethics.

Board meetings are held monthly on the third Wednesday of the month at 10:00 a.m. Agendas and prior meeting minutes are available to the public on the City's website. The meeting

minutes have a sufficient amount of detail. Each month the Board approves an Investment Resolution which includes all investment transactions from the prior month. They also review a summary of revenues and expenses. All payments are approved by the Board. The Investment Consultants provide quarterly performance reviews of the external investment managers retained by the Plan. The Board meets annually with Abel Noser who reviews the commissions paid by the investment managers. The active investment managers meet with the Board annually.

All of the AFRRF's assets are held at Frost Bank or SEI. The Investment Consultant is paid an asset-based fee and does not receive any soft dollars. The investment managers used by the Plan are independent of the Board or any of the Plan's service providers.

The full Board makes decisions regarding the investments, there is not a separate Investment Committee.

The Policy is not available on the City's or the Firemen's website, but it is available upon request.

5) Investment Manager Selection and Monitoring Process

The Board in consultation with the Investment Consultant is responsible for selecting and retaining investment managers. When an additional asset class is approved or an investment manager is under-performing, the Investment Consultant will present to the Board investment managers that are recommended by their Global Manager Research ("GMR") analysts. GMR analyzes investment managers using qualitative and quantitative data that looks at the firm, investment personnel, investment philosophy & process, and product performance & viability. These four foundational components are broken down into 13 major components and 75 sub-sectors.

When the Board is comparing multiple managers, emphasis is placed on managers with attractive risk-adjusted returns, who protect assets in down-markets and have consistent returns. Conflicts of interest for both investment managers and Board members are considered when evaluating managers. A City Attorney reviews all contracts with investment managers.

The Investment Consultant provides a quarterly performance review. In the review, overall Plan level performance as well as individual investment manager performance is covered. Risk metrics are also included using standard deviation, beta and Sharpe ratio. The Plan and each manager is compared to their own specific benchmark and universe. The policy benchmark for the total Plan performance was updated on January 1, 2021 to 70.2% Russell 3000 Index, 4.8% MSCI ACWI ex US Small Cap, 23% Bloomberg Barclays US Aggregate Index, and 2% 91 Day T-Bill Index. Each manager is evaluated against their respective index.

Luther King: 70% S&P 500, 28% Bloomberg Barclays, and 2% FTSE T-Bill 3 Months (benchmark) and All U.S. Balanced (universe)

Kayne Anderson Rudnick Small Cap Core: Russell 2000 (benchmark) and U.S. Small Cap Core Equity (universe)

Vanguard Small Cap Index: CRSP US Small Cap (benchmark) and U.S. Small Cap Core Equity (universe)

Kayne Anderson Rudnick Small Cap International: MSCI ACWI ex US Small Cap (benchmark) and ACWI ex US Small Cap Equity (universe)

Manager performance is reviewed gross-of-fee since the benchmark indexes do not include an investment cost.

Investment managers will be reviewed for replacement when there is a meaningful change to the primary portfolio management team, sustained under-performance, a change in expenses which the Board deems to be unacceptable, an increase in risk in the portfolio, or for any other reason the Board feels making a change would be in the best interest of the participants and the beneficiaries.

Recommendations

It is recommended that language is added to the Investment Policy Statement regarding the evaluation of Plan expenses at least annually. A fully executed Investment Policy Statement should be available on the internal website for the AFRRF participants.



AMARILLO FIREMEN'S
RELIEF AND RETIREMENT FUND

**Response to the Investment Practices and Performance Evaluation
Performed by the Alpha Consulting Group of Wells Fargo Advisors**

From: Amarillo Firefighters Relief and Retirement Fund Board

The Board met on August 16, 2023, and reviewed and discussed the Investment Practice and Performance Evaluation prepared by Wells Fargo Advisors.

The evaluation recommended that language is added to the Investment Policy Statement regarding the evaluation of Plan expenses at least annually and a fully executed Investment Policy Statement should be available on the internal website for the AFRRF participants.

The Board commented that they will be updating the Investment Policy Statement at the September 20, 2023, meeting to add in the fee review and will be adding the Investment Policy to the internal website once the board approves it. At the November 2023 meeting the Board will be going over an updated Asset Allocation Study that will include private capital. At the meeting in February 2024 the board will do an end of the year review of the investment fees.

The Board unanimously approved the Investment Practice and Performance Evaluation at the August 16th, 2023, meeting.



Chris Shelburne, Chairman

ATTEST:



Laura Storrs, Secretary