



Investment Practices and Performance Evaluation of the Harris County Hospital District Pension Plan

Introduction

This report has been prepared by Aon Investments USA Inc., acting as an independent firm, as defined by Texas Government Code §802.109.

- Aon Investments USA Inc. (“Aon”) is a registered investment adviser with the U.S. Securities and Exchange Commission (“SEC”); a Commodity Pool Operator (“CPO”) and a Commodity Trading Advisor (“CTA”) registered with the Commodity Futures Trade Commission (“CFTC”); and is a member of the National Futures Association (“NFA”) with its principal place of business located in Chicago, Illinois. Aon provides professional investment advisory and consulting services to institutional clients including public pension funds, endowments, foundations, not-for-profit organizations, corporate pension funds, defined contribution plans, insurance companies, and registered investment advisers/wealth managers. The firm is wholly owned by Aon Consulting, Inc., an indirect subsidiary of its ultimate parent, Aon plc. Aon Investments USA Inc. is headquartered in Chicago, IL and has offices across the U.S. Aon provides nondiscretionary investment advice, discretionary investment solutions, and actuarial related services to clients on many matters related to their investment programs and operations, including investment policy planning and asset allocation, manager structure and selection, performance review and manager monitoring, fiduciary governance services, alternative asset advisory services, outsourced Chief Investment Officer (“OCIO”) solutions and pension risk management, and direct investment funds. In addition to the services listed, Aon offers related services including defined contribution services, trustee/custodian evaluation, and asset transition services. Aon Investments USA Inc., and its predecessor firms, have been providing institutional investment consulting services since 1974.
- Aon Investments USA Inc. and Harris Health System (“HHS”) currently have an agreement in place by which Aon provides HHS with investment consulting services to the Harris County Hospital District Pension Plan (“Plan”) for a fixed fee, including, but not limited to, review of investment objectives and guidelines, performance evaluation, and investment manager oversight.
- Aon receives no remuneration from HHS outside of the contractual terms set forth in the agreement for investment consulting services to the Plan.
- Aon acknowledges that it is not involved in directly or indirectly managing the investments of the Plan, as it has no discretion over the assets of the Plan, nor does it have sole responsibility for selecting or terminating investment managers of the Plan.

The following responses reflect what Aon’s believes to be a reasonable and appropriate summary of the investment practices and performance evaluations followed by Harris Health System.



Executive Summary

General Overview

Our report evaluates all the key areas outlined in the Texas Government Code §802.109, following the format and questions included in the PRB guidance. Through our review we have evaluated the five (5) evaluation components (outlined and summarized below), and we have found that the Plan is performing these functions in a manner consistent with commensurate peer institutional investors. During our review we have found;

1. The Investment Policy Statement (“IPS”) is comprehensive and follows best practice, it contains appropriate measurable outcomes, and it is being followed.
2. The Plan is following common practice in its process for establishing and evaluating asset allocation, assets are well diversified, and risk positioning is being measured and managed appropriately.
3. Fees, both for administering and managing the assets, are appropriately monitored through regular reporting processes.
4. The structure and breadth of the investment decision-making governance process is in line with best practices, with clearly delineated roles and responsibilities, monitoring, reporting, and transparency.
5. The manager selection process is well defined and robust. Returns are calculated by the Plan’s consultant, and all performance is reported net of external investment management fees.

Evaluation Component 1: Investment Policy or Strategic Investment Plan and Associated Compliance

The Plan has an IPS document that was last reviewed and updated in November 2023 and is continually reviewed on an annual basis. The document provides a thorough, yet succinct overview of the roles and responsibilities for each applicable group associated with investment decisions and oversight. The Plan’s IPS is quite comprehensive. Overall, we think the level of detail and the readability of the document is appropriate given the context of HHS. Based on our review, we believe the IPS follows best practice.

Based on our review of the meeting minutes and various other documents (performance reports, board reports, etc.), we believe the IPS and other policies are being followed.

The IPS contains measurable outcomes for the Plan as well as the underlying asset classes. The document contains measurable risk/return outcomes for investment managers. As detailed in the report, the Plan has been successful in meeting its stated objectives.

Evaluation Component 2: Investment Asset Allocation

The Harris County Hospital District Pension & Disability Committee (“Committee”) is responsible for making decisions regarding the strategic asset allocation of the Plan. The Plan’s asset allocation guidelines are clearly outlined in the Plan’s IPS and determine the policy for evaluating the investment program. Based on our review of the most recent evaluation they are following this process. The strategic asset allocation development process occurring in practice is robust, and we believe represents a



practice in line with peers. As stated in the IPS, a formal asset allocation study is to be conducted every five to seven years. The most recent asset-liability study was conducted in August 2021.

The approach to setting investment policy begins with the evaluation of the target asset allocation and risk level in the context of a plan's liabilities. Asset-liability studies analyze the impact of various asset allocations and risk levels on required contributions and funded status to identify future trends in the financial health of the plan under a range of different macro-economic scenarios. It is our belief that this approach aligns with industry best practice.

The current assumed rate of return is incorporated as one of the Plan's main total return objectives in establishing an overall asset allocation and is used as a bogey for determining a targeted return. In general terms, the Plan's asset allocation has been chosen to meet the desired actuarial expected return on assets, while also factoring in a reasonable level of risk. We find this practice to be sound and a rational approach to structuring an investment portfolio of this type.

The choice of asset classes and strategies utilized is guided by model portfolios and adjusted based on the objectives and risk tolerances of the Plan and the anticipated time horizon of the investment strategy. The assets of the Plan are well diversified through a mix of actively managed fixed income, equity, real estate, and alternatives (i.e. hedge funds) strategies. The report details the asset allocation of the Plan, the long-term strategic target, and provides the projected risk and return of the Plan and each invested asset class.

The asset allocation guidelines established by the Committee for the Plan are intended to reflect, and be consistent with, the Committee's return objectives and risk tolerance. The asset allocation guidelines, developed by the Committee and the Investment Consultant after examining the historical relationships of risk and return among the Plan's asset classes and the relationship between the expected behavior of the Plan's assets and liabilities, is designed to provide the greatest probability of meeting or exceeding the Plan's objectives at the lowest possible risk. We believe the process to determine the asset allocation of the Plan is robust, and there is nothing in our analysis that would suggest that a different asset allocation would be better positioned to meet the investment return and risk objectives of the Plan at this time.

Evaluation Component 3: Investment Fees and Commissions

One of the outlined investment objectives of the Plan is to ensure the assets of the Plan are invested in a manner that controls the costs incurred in administering and managing the assets. The system pays direct and indirect investment fees to each of the investment firms managing an account/strategy within the Plan.

While HHS does not have a written investment management fee policy, investment management fees are compared to peer universes on a regular basis. The review and competitiveness of investment management fees is a regular part of the ratings process by the investment consultant. Fees are reviewed on an ongoing basis for reasonableness.

HHS, in concert with the Investment Consultant, conducted a Request For Proposal project in 2021 to evaluate the competitiveness and reasonableness of the fees and services provided by the Plan's custodian.

We find these practices to be in line with other institutional investors with which we work.



Evaluation Component 4: Investment Governance Processes

The governance of the investment-decision making process is documented in the IPS. The IPS outlines the roles and responsibilities of all parties involved in the investment program, including, but not limited to, the Board of Trustees (“Board”), the Committee, the Investment Consultant, and investment managers.

The Board is comprised of community members appointed by the Harris County Commissioners Court. All Board members are required to take the on-line training courses provided by the Pension Review Board. The Board, which meets monthly, has delegated direct oversight of the Pension Plan to the Committee, which is comprised of employee members with Human Resource Benefits expertise, Finance expertise, and other employees who are participants in the Plan. The Committee meets quarterly to review investment performance with the Investment Consultant and discuss and evaluate that performance, as well as any recommendations for changes in the portfolio to ensure that long-term objectives are achieved.

The Committee is generally responsible for developing, implementing and managing the investment program, employing service providers, monitoring and evaluating the effectiveness of service providers in carrying out their respective duties under the investment program and evaluating the effectiveness of the investment program. The Committee is responsible for outlining general investment guidelines for the investment program, including the asset allocation guidelines, investment manager structure guidelines, appointing investment managers to fulfill specific roles, monitoring and evaluating each investment manager, approving the termination and, if appropriate, replacement of an investment manager.

The overall investment governance process is evaluated on an annual basis as part of the Plan’s IPS review.

Overall, we believe the governance structure is in line with best practices of a fund the size and complexity of HHS. We found HHS to have extensive and detailed documentation of its governance related to the investment-decision making process. The IPS is detailed and follows best practices by clearly articulating roles and responsibilities and clarity regarding what authority has been retained by the Board and what has been delegated. We determined that the level of delegation from the Board is in line with its peers and best practices.

Evaluation Component 5: Investment Manager Selection and Monitoring Processes

The Committee, with guidance from the investment consultant, is responsible for selecting investment managers. The investment consultant conducts a prudent investment manager search process, as needed, to identify appropriate candidates for investment manager positions for review and selection by the Committee. The IPS details the guidelines that all investment managers presented to the Committee for selection should meet.

The process of monitoring investment manager performance is an on-going process. On a periodic basis, the Committee may meet to review performance of the investment managers. The Committee may review each investment manager against the selection criteria set forth in the IPS to determine whether they continue to meet the selection standards. In evaluating all investment managers, the Committee will consider qualitative factors likely to impact the future performance of the Plan’s assets managed by an investment manager in addition to current and historical rates of return.

The Plan’s investment consultant is responsible for measuring and reporting net of fee investment performance to assist in evaluating investment guidelines and the investment program as a whole. Such reports will evaluate the performance and risk characteristics of the Plan’s investments. We believe that



the performance reports are appropriately formatted and presented to allow Committee Members of all investment acumen and expertise to evaluate the investment success associated with the implementation of the investment policy. Given the complex nature of the topic, the additional opportunity to discuss the reports with the Committee's investment consultant further alleviates any concern that the reports are overly complex.



Evaluation Component 1: Investment Policy or Strategic Investment Plan and Associated Compliance

- **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;**

Evaluation Component	Status/Response
Does the system have a written investment policy statement (IPS)?	Yes
Are the roles and responsibilities of those involved in governance, investing, consulting, monitoring, and custody clearly outlined?	Yes – roles and responsibilities of all involved parties are clearly outlined in IPS
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?	Yes – investment objectives are clearly stated in IPS Yes – the District’s Retirement Plan policy requires that the actuarial Annual Required Contribution be funded by the District each year. Additional contributions are allowed.
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 – both measurable outcomes and time periods defined in the IPS
Is there evidence that the system is following its IPS? Is there evidence that the system is not following its IPS?	Yes – the IPS is reviewed on an annual basis and documented in meeting minutes
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 – quarterly performance reviews ensure investment objectives are being met.
Will the retirement fund be able to sustain a commitment to the policies under stress test scenarios, including those based on the capital	Yes



markets that have actually been experienced over the past ten, twenty, or thirty years?	
Will the investment managers be able to maintain fidelity to the policy under the same scenarios?	Yes
Will the policy achieve the stated investment objectives under the same scenarios?	Yes
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 Plan's IPS is reviewed annually. The most recent substantial change was in November 2023 to reflect modifications to the underlying asset class structure.



Evaluation Component 2: Investment Asset Allocation

- Detailed review of the retirement system’s investment asset allocation, including:

A. Process for determining target allocations;

Evaluation Component	Status/Response
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 Plan’s asset allocation guidelines are clearly outlined in the Plan’s IPS and reviewed on a regular basis
Who is responsible for making the decisions regarding strategic asset allocation?	Harris County Hospital District Pension & Disability Committee
How is the system’s overall risk tolerance expressed and measured? What technology is used to determine and evaluate the strategic asset allocation?	Risk tolerance was established considering the Plan’s ability to withstand short and intermediate-term volatility in various market conditions, as well as long-term characteristics of various asset classes, focusing on balancing risk with expected return.
How often is the strategic asset allocation reviewed?	Per the Plan’s IPS – a formal asset allocation study is to be conducted every five to seven years
Do the system’s investment consultants and actuaries communicate regarding their respective future expectations?	Investment consultant – provides regular market updates, investment outlook, and asset class expectations Actuary – annual actuarial reports and assumptions are provided to the investment consultant by the Plan sponsor. Harris Health coordinates the communication of information to the investment consultants and the actuaries to assure that expectations are consistent.
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 current assumed rate of return is incorporated as one of the Plan’s main total return objectives in establishing an overall asset allocation and is used as a bogey for determining a targeted return. In general terms, the Plan’s asset allocation has been chosen to meet the desired actuarial expected return on assets, while also factoring in a reasonable level of 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?	The approach to setting investment policy begins with the evaluation of the target asset allocation and risk level in the context of a plan’s liabilities. Asset-liability studies analyze the impact of various asset allocations and risk levels on required contributions and funded status to identify future trends in the financial health of the plan under a range of different macro-economic scenarios.



	It is our belief that this approach aligns with industry best practice.
Does the system implement a tactical asset allocation? Is so, what methodology is used to determine the tactical asset allocation? Who is responsible for making decisions regarding the tactical asset allocation?	While there is no policy for tactical asset allocations, from time to time, as market conditions warrant, the Plan will carry over/underweight positions relative to long-term policy targets. The asset allocation positions are a result of consultation between the Committee, the Plan Administrator, and investment consultant.
How does the asset allocation compare to peer systems?	The system will periodically compare its asset allocation to peers through research provided by the investment consultant.



B. Expected risk and expected rate of return, categorized by asset class;

Evaluation Component	Status/Response			
What are the strategic and tactical allocations?	See table below			
		Minimum	Target	Maximum
1. U.S. Large Capitalization Equities – Growth Style		9%	14%	19%
2. U.S. Large Capitalization Equities – Value Style		9%	14%	19%
3. U.S. Small/Mid Cap Equities – Core		2%	5%	8%
4. Non-U.S. – Developed International Equities		11%	16%	21%
5. Non-U.S. – Emerging Markets Equities		4%	6%	8%
6. Real Estate – Core Private Real Estate		3%	5%	7%
7. Hedge Funds		3%	5%	7%
8. U.S. Fixed Income – Core Strategy		10%	15%	20%
9. U.S. Fixed Income – Core Plus Strategy		10%	15%	20%
10. Multi-Asset Credit		3%	5%	7%
What is the expected risk and expected rate of return of each asset class?	Asset Allocation			
		Expected Nominal Return¹	Expected Risk (Volatility)¹	
	Equity			
	Large Cap U.S. Equity	7.0%	18.5%	
	Small Cap U.S. Equity	7.5%	24.8%	
	International (Non-U.S.) Equity (Developed)	7.0%	19.7%	
	Emerging Markets Equity	7.3%	22.5%	
	Fixed Income			
	Core U.S. Fixed Income (Market Duration)	4.3%	5.2%	
	Multi-Asset Credit	6.5%	9.0%	
	Alternative Investments			
	Hedge Fund – Direct (Median Manager)	5.7%	5.6%	
Private Real Estate (Core)	5.5%	15.4%		
U.S. Inflation (CPI)				
	2.3%			
¹ Capital market assumptions were developed by Aon’s Global Asset Allocation Team and represent the long-term capital market outlook (i.e., 30 years) based on data at the end of the fourth quarter of 2023.				

<p>How is this risk measured, and how are the expected rates of return determined? What is the time horizon?</p>	<p>The capital market assumptions were developed by the investment consultant and represent the long-term capital market outlook (i.e., 30 years) based on data at the end of the respective time period utilized. The assumptions were developed using a building block approach, reflecting observable inflation and interest rate information available in the fixed income markets as well as Consensus Economics forecasts. The long-term assumptions for other asset classes are based on historical results, current market characteristics, and professional judgment</p> <p>Assumed volatilities (or expected risks) are formulated with reference to implied volatilities priced into option contracts of various terms, as well as with regard to historical volatility levels. For asset classes which are not marked to market (for example real estate), a “de-smoothing” of historical returns is completed before calculating volatilities. Importantly, expected volatility trends in the future are considered. Correlation assumptions are generally similar to actual historical results; however, adjustments are made to reflect forward-looking views as well as current market fundamentals.</p>
<p>What mix of assets is necessary to achieve the plan’s investment return and risk objectives?</p>	<p>The choice of asset classes and strategies utilized is guided by model portfolios and adjusted based on the objectives and risk tolerances of the Plan and the anticipated time horizon of the investment strategy; e.g., time to reach end state.</p>
<p>What consideration is given to active vs. passive management?</p>	<p>At the guidance of our investment consultant, the system views active vs. passive management in the following way:</p> <p>Given the difficulty of active management in certain markets, clients are encouraged to use an active risk budget and to only take active risk in areas and strategies where we collectively have high conviction and believe that the risk is likely to be appropriately compensated. Where conviction is lacking, and especially in extremely efficient markets, clients should look to use low-cost, passive mandates.</p>
<p>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?</p>	<p>The asset allocation guidelines established by the Committee for the Plan is intended to reflect, and be consistent with, the Committee’s return objectives and risk tolerance. The asset allocation guidelines, developed by the Committee and the Investment Consultant after examining the historical relationships of risk and return among the Plan’s asset classes and the relationship between the expected behavior of the Plan’s assets and liabilities, is designed to provide the greatest probability of meeting or exceeding the Plan’s objectives at the lowest possible risk.</p>
<p>How often are the strategic and tactical allocations reviewed?</p>	<p>The Investment Consultant prepares quarterly reports reviewing the actual asset allocation percentages as compared to the policy targets, while also demonstrating whether the lower or upper limits have been reached.</p> <p>From a policy perspective, a formal asset allocation study is to be conducted every five to seven years to verify or provide a basis for revising the targets.</p>



C. Appropriateness of selection and valuation methodologies of alternative and illiquid assets;

Evaluation Component	Status/Response
How are alternative and illiquid assets selected, measured, and evaluated?	The selection, measurement, and evaluation of alternative and illiquid assets follows the same process as more traditional investment strategies. This process includes numerous factors, including, but is not limited to, meeting a set of qualifying characteristics (team, philosophy, process, risk), performance comparisons to market indexes and peer groups, appropriate diversification, and fees.
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 – at a target allocation of 10% total for alternative and illiquid investments (5% target each to hedge funds and core private real estate – capped at a maximum of 7%), this level is appropriate for the overall objective of the Plan. The Plan's IPS does outline permissible investments.
What valuation methodologies are used to measure alternative and illiquid assets? What alternative valuation methodologies exist and what makes the chosen method most appropriate?	<p>The Plan holds collective investment trusts invested in international equity, multi-asset credit, multi-strategy hedge funds, and real estate that are measured at net asset value (NAV) in accordance with U.S. generally accepted accounting principles as a practical expedient. There are no participant redemption restrictions for these investments; the redemption notice period is applicable only to the Plan.</p> <p>For collective investment trusts that are measured at NAV per share, the valuation provided by the fund manager is used. All partnerships provide audited financial statements, along with unaudited quarterly reports.</p>

D. Future cash flow and liquidity needs;

Evaluation Component	Status/Response
What are the plan's anticipated future cash flow and liquidity needs? Is this based on an open or closed group projection?	Reflected in the annual Actuarial report, with year over year projections; it is based on a closed group, since the Plan was frozen to new participants January 1, 2007.
When was the last time an asset-liability study was performed?	August 2021
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,	Each asset allocation review process begins with an objective setting component that seeks to understand key risks to the plan and how those risks may be managed in the context of the broader organization. These items may include required contributions and funded status, significance of plan performance to the enterprise, correlation of pension risks with business risks, and time horizon.

<p>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.)?</p>	<p>The Plan Fiduciary Net Position as a % of the Total Pension Liability was 79.3% as of December 31, 2023, the last Plan year end. While the Plan is not severely underfunded, the Board of Trustees has approved an incremental employer contribution to the Plan for calendar year 2023, adding \$29 million to the Annual Required Contribution of \$38.6 million.</p>
<p>What types of stress testing are incorporated in the process?</p>	<p>Sensitivity testing by the actuary calculates the range of the liability if investment performance were 1% lower or 1% higher than the expected long-term performance.</p>



Evaluation Component 3: Investment Fees and Commissions

- Review of the appropriateness of investment fees and commissions paid by the retirement system;

Evaluation Component	Status/Response
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?	Yes – one of the outlined investment objectives of the Plan is to ensure the assets of the Plan are invested in a manner that controls the costs incurred in administering and managing the assets. The system pays direct and indirect investment fees to each of the investment firms managing an account/strategy within the Plan.
Who is responsible for monitoring and reporting fees to the board? Is this responsibility clearly defined in the system's investment policies?	The Committee is tasked with monitoring and controlling investment expenses, including investment manager fees, trustee fees, and trading costs.
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 review and competitiveness of investment management fees is a regular part of the ratings process by the investment consultant. If fees are (or become) out of alignment with peers and/or benchmarks, this will be communicated to the system as a component of the overall rating of the specific investment strategy.
Does the system have appropriate policies and procedures in place to account for and control investment expenses and other asset management fees?	Yes – one of the outlined investment objectives of the Plan is to ensure the assets of the Plan are invested in a manner that controls the costs incurred in administering and managing the assets. If it is found that investment expenses have grown to a level not commensurate with results, the Committee, in conjunction with the investment consultant, has the ability to negotiate with the respective investment manager and/or seek alternate strategies to fill the particular mandate.
What other fees are incurred by the system that are not directly related to the management of the portfolio?	The annual audit fee for the Pension Plan, legal fees for any statutorily required amendments to the Plan, actuarial fees, benefit fees (paid to State Street to do benefit calculations for retirees), custodial fees for monthly reporting (State Street), and consulting fees for the investment consultant.
How often are the fees reviewed for reasonableness?	Fees are reviewed on an ongoing basis for reasonableness. This is a component of the ratings process undertaken by the investment consultant and factors into their overall evaluation of each investment strategy.
Is an attorney reviewing any investment fee arrangements for alternative investments?	Yes, Harris Health requires attorney review of all investment manager contracts and terms.

Evaluation Component 4: Investment Governance Processes

- **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;**

Evaluation Component	Status/Response
<u>Transparency</u>	
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 – the system’s governance policies are part of the Plan’s IPS.
Are all investment-related policy statements easily accessible by the plan members and the public (e.g. posted to system website)?	Within the company intranet Employee Benefits page, we have the Pension Plan Document, Summary Plan Description, and Policies posted. We do on occasion receive requests for a copy of the Plan Document or Summary Plan Description from active, term vested, or retired participants and provide them with that requested information.
How often are board meetings? What are the primary topics of discussion? How much time, detail, and discussion are devoted to investment issues?	Board of Trustee Meetings are monthly. The Board has delegated direct oversight of the Pension Plan to the Pension & Disability Committee, which is comprised of employee members with Human Resource Benefits expertise, Finance expertise, and other employees who are participants in the Plan. The Committee meets quarterly to review investment performance with Aon, the Investment Consultant, and discuss and evaluate that performance, as well as any recommendations for changes in the portfolio to assure that long-term objectives are achieved. A quarterly overview of investment performance is provided to the Budget and Finance Committee of the Board of Trustees, as well as annual reports of Committee activities, and performance by fund. The audit results are presented to the Audit and Compliance Committee and the Board of Trustees.
Are meeting agendas and minutes available to the public? How detailed are the minutes?	Board of Trustees agendas and minutes are public information, minutes and attachments reflect the discussion by the Board and decisions made. Pension & Disability Committee agendas and minutes are available to the public upon request, in accordance with the Public Information Act.
<u>Investment Knowledge/Expertise</u>	
What are the backgrounds of the board members? Are there any investment-related educational requirements for board members?	The Board is comprised of community members appointed by the Harris County Commissioners Court; currently one is a physician, four are attorneys, one is dual certified as an attorney and physician, and three are other members of the community. All Board members are required to take the on-line training courses provided by the Pension Review Board; 7 hours for new members and 4 hours for renewing members every two years.

<p>What training is provided and/or required of new board members? How frequently are board members provided investment-related education?</p>	<p>All Board members are required to take the on-line training courses provided by the Pension Review Board; 7 hours for new members and 4 hours for renewing members every two years.</p>
<p>What are the minimum ethics, governance, and investment education requirements? Have all board members satisfied these minimum requirements?</p>	<p>All Board members are required to take the on-line training courses provided by the Pension Review Board; 7 hours for new members and 4 hours for renewing members every two years. All members have satisfied the requirements.</p>
<p>Does the system apply adequate policies and/or procedures to help ensure that all board members understand their fiduciary responsibilities?</p>	<p>In addition to the required PRB training, the Corporate Compliance function of Harris Health System requires annual conflict of interest disclosure and other compliance training.</p>
<p>What is the investment management model (i.e. internal vs. external investment managers)?</p>	<p>The Plan is managed entirely by external investment managers.</p>
<p>Does the board receive impartial investment advice and guidance?</p>	<p>By contract, Aon is not allowed to recommend investments that would directly or indirectly benefit Aon or any of its affiliates.</p>
<p><u>Accountability</u></p>	
<p>How is the leadership of the board and committee(s), if any, selected?</p>	<p>Committee Chairs are designated by the Board Chair and the Board Officers are voted on by the Board of Trustees members.</p>
<p>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?</p>	<p>The Committee is generally responsible for developing, implementing and managing the investment program, employing service providers, monitoring and evaluating the effectiveness of service providers in carrying out their respective duties under the investment program and evaluating the effectiveness of the investment program. The Committee is responsible for delineating general investment guidelines for the investment program, including the asset allocation guidelines, investment manager structure guidelines, appointing investment managers to fulfill specific roles, monitoring and evaluating each investment manager, approving the termination and, if appropriate, replacement of an investment manager.</p> <p>The Board of Trustees of the District is responsible for appointing and removing the members of the Committee.</p> <p>The Committee is responsible for employing an investment consultant to assist with all aspects of the investment program, including developing investment guidelines and evaluating the performance of the Plan's investment managers.</p> <p>The IPS clearly outlines this information.</p> <p>The Board is consistent in its use of this structure/delegation of authority.</p>

<p>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?</p>	<p>The investment policy for the Pension Plan discusses goals, objectives, and benchmarks. Aon communicates at least quarterly, and more often if there are immediate concerns about investment managers or strategies. As noted earlier, the Pension Committee and the consultant review performance quarterly based on the guidelines documented in the investment policy.</p>
<p>Is the current governance structure striking a good balance between risk and efficiency?</p>	<p>Yes – the current governance structure allows for the system to continually be evaluating risk levels while at the same time looking for ways to maximize efficiency through asset allocation and manager selection.</p>
<p>What controls are in place to ensure policies are being followed?</p>	<p>All parties are knowledgeable of the policy, and quarterly reviews evaluate performance based on stated targets. Aon representatives, Committee members, internal and outside legal counsel are all present for the evaluation process and discussion. Concerns not adequately addressed at the Committee level would be escalated to the Board of Trustees for discussion and action.</p>
<p>How is overall portfolio performance monitored by the board?</p>	<p>As established in the IPS, total return objectives have been established for the Plan's portfolio as follows:</p> <ul style="list-style-type: none"> • Overall annualized total return should exceed the U.S. Department of Labor Consumer Price Urban Worker Index (CPI-U) by at least two (2) percentage points per year measured over rolling three (3) year periods. • Investment return should rank in the upper 50th percentile compared to an appropriate universe of similarly managed pension plans or comparable databases identified by the Committee, over a majority of rolling three (3) year periods. • Overall annualized total return should exceed the Plan's actuarial assumed rate of interest over a majority of rolling three (3) year periods. • Overall annualized total return should exceed the Plan's custom "Policy Index" over a majority of rolling three (3) year periods. <p>Investment reports generated by the Investment Consultant are designed to monitor these performance objectives.</p>
<p>How often are the investment governance processes reviewed for continued appropriateness?</p>	<p>The investment governance process is evaluated on an annual basis as part of the Plan's IPS review.</p>



Evaluation Component 5: Investment Manager Selection and Monitoring Processes

- Review of the retirement system’s investment manager selection and monitoring process;

Evaluation Component	Status/Response
Who is responsible for selecting investment managers?	The Committee, with guidance from the investment consultant, is responsible for selecting investment managers.
How are the managers identified as potential candidates?	The investment consultant conducts a prudent investment manager search process, as needed, to identify appropriate candidates for investment manager positions for review and selection by the Committee.
What are the selection criteria for including potential candidates?	<p>When selecting investment managers, the Committee may employ a competitive search process which may include the following steps:</p> <ul style="list-style-type: none"> • Formulation of specific investment manager search criteria that reflect the requirements for the investment manager role under consideration. • Identification of qualified candidates from the manager search database maintained by the Investment Consultant and such other sources as determined by the Committee. • Analysis of qualified candidates in terms of: <ul style="list-style-type: none"> ○ Quantitative characteristics, such as Global Investment Performance Standards (GIPS) – compliant composite return data, risk-adjusted rates of return and relevant portfolio characteristics. ○ Qualitative characteristics, such as key personnel, investment philosophy, investment strategy, research orientation, decision making process, and risk controls. ○ Organizational factors, such as type and size of firm, ownership structure, client servicing capabilities, ability to obtain and retain clients, and fees.
What are the selection criteria when deciding between multiple candidates?	<p>An investment manager being considered for selection by the Committee for the Plan should meet the following standards:</p> <ul style="list-style-type: none"> • Performance should be equal to or greater than the median return for an appropriate, style-specific benchmark and peer group over a specified time period. • The investment manager should demonstrate adherence to the stated investment objective. • Fees charged should be competitive to similar investments, as adjusted for performance.
How does the selection process address ethical considerations and potential conflicts of interest for both investment managers and board members?	Members of the Board of Trustees and the Committee do not provide recommendations to the investment consultant regarding the selection of potential candidates for review. The investment consultant’s discretion to select potential investment managers is based on the criteria set forth above, and only vetted candidates are presented to the Committee for consideration. If a Committee member has disclosed a conflict of interest, or if other meeting participants are aware of such

	a conflict, the conflicted member would be prohibited from participating in the selection process.
Who is responsible for developing and/or reviewing investment consultant and/or manager contracts?	Typically, the investment consultant and investment managers will provide a template contract for the work to be completed, which will then be reviewed by the system and their legal counsel.
What is the process for monitoring individual and overall fund performance?	The process of monitoring investment manager performance is an on-going process. On a periodic basis, the Committee may meet to review performance of the investment managers. The Committee may review each investment manager against the selection criteria set forth above to determine whether they continue to meet the selection standards. In evaluating all investment managers, the Committee will consider qualitative factors likely to impact the future performance of the Plan's assets managed by an investment manager in addition to current and historical rates of return.
Who is responsible for measuring the performance?	The investment consultant will produce quarterly performance evaluation reports to assist the Committee in evaluating the Committee's investment guidelines and the investment program. Such reports will evaluate the performance and risk characteristics of the investments made for the Plan as a whole, each asset class and each investment manager relative to targets established in the investment guidelines.
What benchmarks are used to evaluate performance?	Primary benchmarks (standard market industry indexes) and style peer group universes are used to evaluate each individual investment manager across asset classes.
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 quarterly overview of investment performance is provided to the Budget and Finance Committee of the Board of Trustees, as well as annual reports of Committee activities, and performance by fund. The audit results are presented to the Audit and Compliance Committee and the Board of Trustees. The reports are in summary form, with performance compared to benchmark expectations within the defined market.
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?	Net-of-fees investment manager performance is reviewed within each quarterly performance evaluation report, with these returns compared against both market benchmarks and peers universe data.
What is the process for determining when an investment manager should be replaced?	<p>The Committee may terminate or replace an investment manager when the Committee determines that the investment manager:</p> <ul style="list-style-type: none"> • Is not expected to achieve performance and risk objectives. • Has failed to comply with legal requirements. • Has not maintained a stable organization and retained key relevant investment professionals. • No longer meets the needs of the Plan. <p>There are no fixed criteria for terminating or replacing an investment manager. If, however, the investment manager consistently fails to</p>

	<p>meet one or more of the above conditions, the Committee may consequently lack confidence in the Investment Manager's ability to do so going forward. Failure to remedy the circumstances of unsatisfactory performance by the investment manager, within a time period determined to be reasonable by the Committee, may be grounds for termination. Additionally, the Committee reserves the right to terminate an investment manager based on what the Committee determines to be in the best interest of Plan participants.</p>
<p>How is individual performance evaluation integrated with other investment decisions such as asset allocation and investment risk decisions?</p>	<p>Return objectives have been established for each of the Plan's investment managers and asset classes to evaluate their place within the investment structure. Each asset class is judged on the following criteria:</p> <ul style="list-style-type: none"> • Performance is expected to have been competitive with that of the asset class when measured against appropriate benchmarks (including the primary benchmark), as well as against a peer group of similar investment style, over the previous three to five years. • Volatility, as measured by the standard deviation of quarterly returns, should be comparable to that experienced by appropriate benchmarks (including the primary benchmark), as well as against a peer group of similar investment style over the previous three to five years. Higher volatility generally should be accompanied by higher returns and lower volatility may be accompanied by lower returns. • The investment's performance should be strongly correlated with the asset class (as represented, for example, by the primary benchmark and peer group universe), and the investments holdings should be drawn to a large degree from assets that fall within the asset class. This correlation provides confidence that the investment will support its role with the strategic asset allocation strategy.