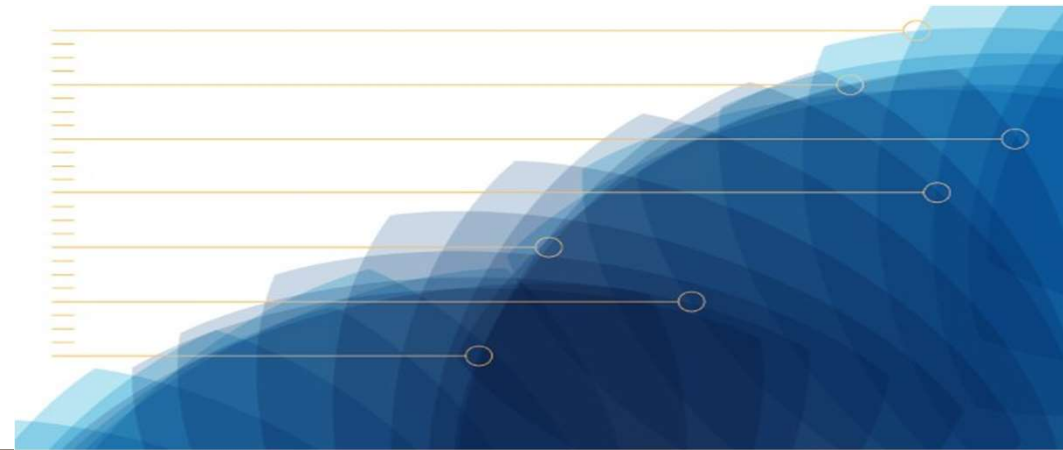


City of Plano Retirement Security Plan Investment Practices and Performance Review

Prepared by Jeff Chalk and Charles Hodge

November 2023

12790 Merit Drive, Suite 800
Dallas, TX 75251-1217 USA
Tel (214) 863-5500
milliman.com



Purpose & Scope

- Purpose: **Independent Review** of the Investment Practices and Performance
- Scope:
 - Identify and review existing investment policies, procedures, and practices.
 - Investment Policy Statement,
 - any informal procedures and practices
 - not necessary to review past policies, procedures, and practices that are no longer applicable.
 - Compare the existing policies and procedures to industry best practices.
 - Generally, assess whether the board, internal staff, and external consultants are adhering to the established policies.
 - Identify the strengths and weaknesses of the current policies, procedures, and practices and make recommendations for improvement.
 - Include a detailed description of the criteria considered and methodology used to perform the evaluation, including an explanation of any metrics used and associated calculations.

Introduction

- The Texas Pension Review Board has provided guidance on the different areas required by statute to be reviewed by independent consulting firms. Evaluations will vary based on specific characteristics of each system's size, governance and investments.
- Milliman's evaluation identified and reviewed the existing policies and procedures of the Plano Retirement Savings Plan (Plano RSP) as it relates to the oversight and management of the Plan's investments. Our examination included a review of the Plano RSP's Investment Policy Statement and other documents related to the investment of plan assets as well as formal and informal procedures adopted by Plano RSP management and staff. We compared the Plano RSP's policies and procedures to industry best practices and assessed the likelihood the board, internal staff and external consultants are adhering to the established policies.
- Our evaluation also identified strengths and potential weaknesses of the current policies and procedures and, where appropriate, we provided recommendations for improvements of any deficiencies we identified.

Milliman – Independent Firm Disclosure

- Milliman is a consulting, actuarial and outsourcing firm with over 3,000 employees and offices in 59 principal cities across the U.S. and worldwide.
- Milliman is privately owned and managed by our employees. Milliman was established in 1947.
- Milliman Advisors, LLC is an Investment Advisor with consulting relationships with over 120 institutional clients, \$46 billion in assets under consultation, 19 Investment professionals, and average experience 20+ years.
- Milliman Advisors, LLC has no hidden broker/dealer, trust, or money management conflicts and is not involved in directly or indirectly managing investments of Plano RSP.
- Milliman Advisors, LLC does not receive any remuneration by any firm used by Plano RSP or from sources other than Plano RSP directly.

Components of Evaluation

Investment Policy Statement (IPS)

The **investment policy statement** is a manifestation of a disciplined process for selecting and monitoring the components in an investment program. It forms a foundation for a Plan's investment strategy, formally establishes the governance structure and asset class representation, as well as defines the processes for investment manager selection and monitoring.

- Plano RSP has a written investment policy statement for the overall plan as well as sub-asset classes. It is clearly customized for Plano RSP. The IPS is reviewed periodically and updated as needed to reflect changes in investment objective, policies and managers.
- The Plan has engaged an independent Investment Consultant to review asset allocations, investment policies and make recommendations to the Board. The files reviewed demonstrate the evolution of targets and expectations in the IPS based on the consultant's and Board's review.
- The investment consultant for the Plano RSP, who is also a fiduciary, is independent of the managers and trading platforms utilized by the Plan.

Components of Evaluation

Investment Policy Statement, cont.

- Plano RSP has a formal Funding Policy incorporated within the IPS. The funding policy integrates the actuarial valuation with plan assets and provides a process for monitoring the Plan's funding progress.
- The IPS is written clearly allowing existing and newly appointed or elected trustees to quickly understand its value as an ongoing tool for evaluating the RSP's investment program using consistent methods and best practices.
- The Plano RSP Investment Policy Statement is consistent with other plans and best practices.

Components of Evaluation

Asset Allocation

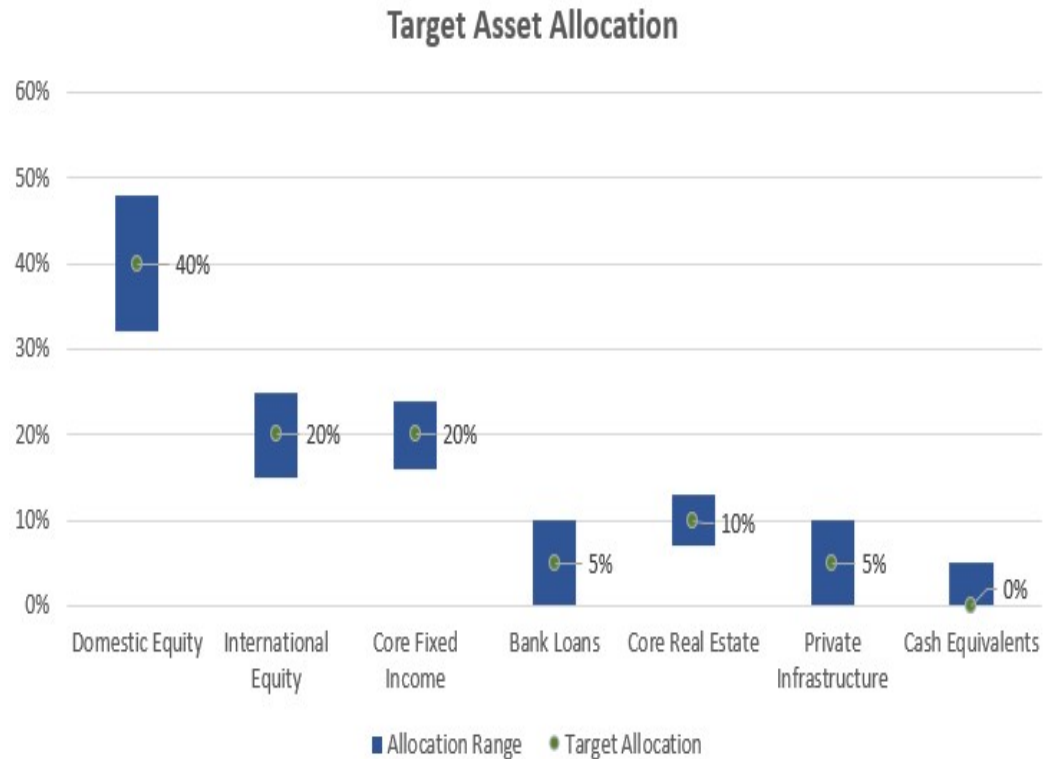
- Plano RSP is well funded and has a formal **asset allocation policy** defined within the IPS. It is specific in terms of asset class, ranges around targets and evaluation criteria.
- Through the utilization of asset allocation studies, the Investment Consultant makes recommendations to the Board for approval.
- In the asset allocation study, Plano RSP will consider new asset classes and their contribution to increasing or stabilizing return and its impact on Plano RSP's overall risk and standard deviation.
- The Board examines the asset allocation quarterly and will rebalance to targets based on IPS defined ranges.



Components of Evaluation

Asset Allocation – Target Allocation

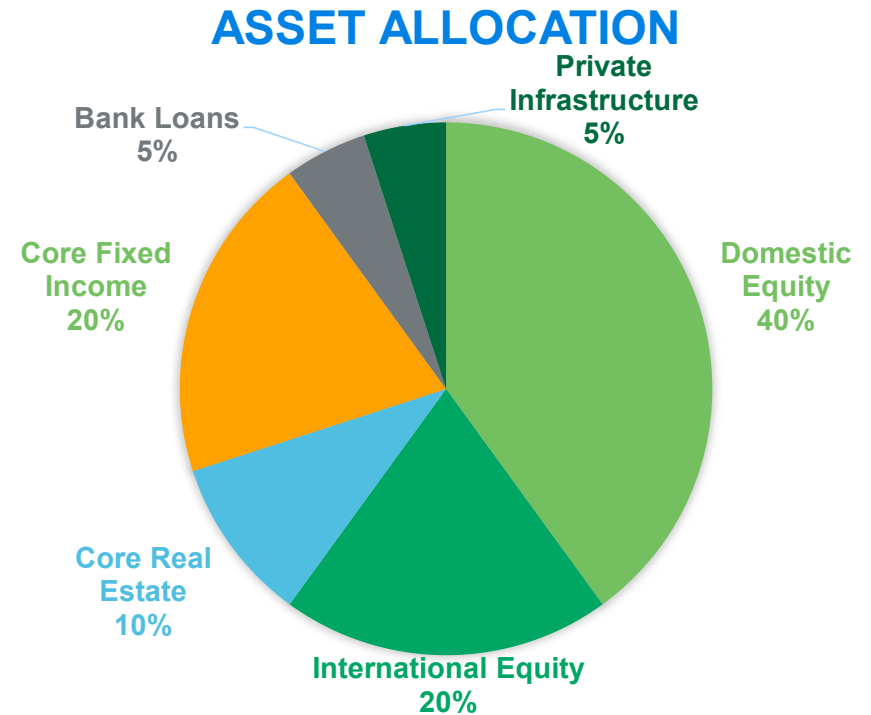
- An asset allocation study is conducted periodically (every 3-5 years), incorporating current capital market assumptions and the consultant's current views on the market. As reported in the most recent asset allocation, the expectations used by the RSP are in line with peers.
- Plano RSP does not implement any tactical asset allocation.
- Plano RSP's asset allocation is appropriate for a plan its size and is consistent with best practices.



Components of Evaluation

Asset Allocation – Target Allocation

- Plano RSP has a target strategic allocation of 40% Domestic Equity, 20% International Equity, 20% Core Fixed Income, 5% Bank Loans, 10% Core Real Estate and 5% Private Infrastructure.
- Plano RSP's expectations for risk examines standard deviation and opportunities for diversification.
- Plano RSP is implementing its strategy using both active and passive management
- Plano RSP's return and risk expectations used in the asset allocation process are stress tested under different scenarios as well as 5th and 95th percentile measurements.



Components of Evaluation

Asset Allocation – Expected Risk and Return

- The consultant develops return expectations, and they are reviewed with the RSP Trustees.
- The inputs for the asset allocation modeling are reasonable, and the approach used by the system to develop the expected returns and asset mix is disciplined and reviewed regularly.
- It is consistent with best practices, and results in a well-diversified portfolio appropriate for the plan's size.



Components of Evaluation

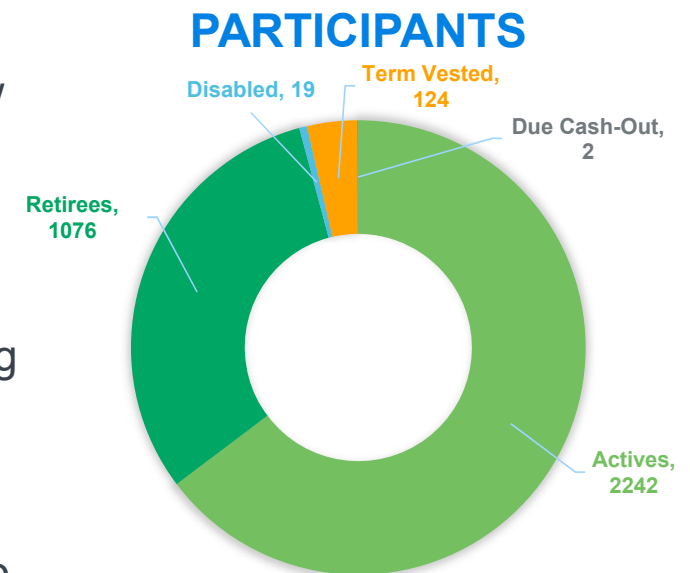
Asset Allocation – Appropriateness of Alternatives and Illiquid Assets

- The IPS outlines the specific types of **alternatives** allowed including ranges and maximum allocations.
- Plano RSP's allocations to alternatives are: 5% to Bank Loans, 10% to Core Real Estate, and 5% to Private Infrastructure. They provide liquidity with the following restrictions:
 - Bank Loans – Investment is in a Cayman LLC. Withdrawals are allowed at month-end and require a minimum of 15 days advance notice.
 - Core Real Estate – Investment is in a collective trust. Redemptions are quarterly, require 45 days advance notice, and are subject to provisions which are outlined in the offering documents.
 - Private Infrastructure – Investment is in a limited partnership. Withdrawals require 90 days advance notice and are typically honored the following quarter. However, the fund does have 36 months to honor redemptions (per the subscription documents).
- Plano RSP's alternative investments are appropriate given its size and level of investment expertise.

Components of Evaluation

Asset Allocation – Future Cash Flow and Liquidity Needs

- The asset allocation study reflects the current plan covered population and expected cash flow needs.
- Though the plan is experiencing slightly negative net cash flow due to larger benefit payments vs. current contributions, the lump-sums it offers are not significant and the population is stable and predictable. The volatility of plan distributions is predictable.
- The Plano RSP asset allocation study examines multiple rolling and calendar year risk and return metrics and does not expect any stresses due to expected cash flows or liquidity needs.
- Plano RSP examines expected cash flows and cash balances each quarter and will rebalance the plan to target allocations to raise cash from investment managers when needed.
- Plano RSP's policy for future cash flow and liquidity needs is adequate for their plan's size and consistent with best practices.



Components of Evaluation

Appropriateness of Investment Fees and Commissions

- Plano RSP has a disciplined quarterly process to **measure and benchmark fees**.
- Most of the managers are mutual funds, and the expense ratios are examined each quarter.
- Plano RSP does not use commission recapture or directed trades.
- Four of the managers are pooled collective trusts with consistent expense ratios similar to mutual funds. The current expense ratios are in-line with their peer universes.
- Plano RSP's fees are appropriate for their plan's size and consistent with best practices.

Components of Evaluation

Governance Related to Investment Activities and Transparency

- Plano RSP and the board are organized under **City Ordinance No. 2021-7-2**.
- Plano RSP has Manager Guidelines related to asset classes (Equity, Fixed Income, etc.)
- Plano RSP is covered under the City of Plano's Ethics/Standards of Conduct policy under the City of Plano Policies and Procedures 200.001
- Meeting agendas, minutes and report materials are easily available to the board and the public online.
- Plano RSP's governance is adequate for a plan its size and is consistent with best practices.

Components of Evaluation

Investment Knowledge/Expertise

- Board members are required to complete the **PRB trustee education** and Plano RSP must file annual disclosure statements.
- Some of the board members have professional investment experience.
- Board members as well as staff attend conferences and other educational opportunities and will frequently report back on what they learn.
- Plano RSP issues RFPs for their investment consultant periodically.

Components of Evaluation

Accountability

- The Board operates under the authority of the Plano City Ordinance No. 2021-7-2 which creates the Plano RSP.
- The board membership is under the authority of Plano City Ordinance No. 2021-7-2 and makes all decisions with detailed and comprehensive input by the investment consultant.
- Plano RSP's current governance structure strikes a good balance between risk and efficiency and is consistent with best practices.

Components of Evaluation

Manager Selection and Monitoring Process

- Investment manager guidelines are defined in the IPS. The guidelines outline investment objectives, benchmarks, and allowable asset types.
- Investment managers are selected for investment by the RSP by reviewing search material developed and presented by the Investment Consultant. Typically, at least three prospective managers are reviewed and discussed for each manager search.
- The board will meet with both current managers and potential managers for educational purposes and to ensure each manager is adhering to their stated objective.
- Plano RSP reviews performance quarterly, examining both gross returns when the portfolio is managed gross (investment vehicles other than mutual funds) and net returns compared to net universes for mutual funds. They also use index benchmarks which have no fees.
- Managers can be placed on watch for different periods of time depending on the market environment for that manager's asset class. Typically the consultant makes recommendations for placing managers on watch and removing them from watch.

SB 322 Evaluation Summary

Investment Practices and Performance Review

- Plano RSP's current governance structure **strikes a good balance between risk and efficiency** and is consistent with best practices is adequate for a plan its size.
- We found the Plano RSP **Investment Policy Statement** is consistent with other plans and best practices and their asset allocation is appropriate for a plan their size and is consistent with best practices.
- The **Capital Market Assumptions** are reasonable and consistent with best practices, and results in a well-diversified portfolio appropriate for the plan's size.
- Plano RSP's **alternative investments** are appropriate given its size and level of investment expertise.
- The **manager selection and monitoring process and fee review** is consistent with the investment policy and in-line with industry standards.
- Plano RSP **issues RFPs** for their investment consultant periodically to ensure competitive pricing and best practices.
- In our review of the Plano RSP processes, procedures and documentation **we found no clear deviances from industry standards or prescribed norms** for similar plans.

SB 322 Evaluation Summary

Investment Practices and Performance Review

Recommendations:

- Maintain current reviews of the RSP's performance, providers and consultants.
- Maintain a focus on transparency.
- Adjust training and education requirements as needed to stay abreast of evolving investment strategies in a very dynamic global environment.



Thank you

Evaluation Footnotes

- The Pension Review Board has provided guidance on the different areas required by statute to be reviewed by independent consulting firms. The PRB recognizes that evaluations should and will vary significantly based on the specific characteristics of each system's size, governance structure, and investment program.
- This evaluation of the Plano Retirement Savings Plan was conducted independently by Milliman Advisors, LLC based on guidelines provided by the Pension Review Board and legislation enacted in the State of Texas under Senate Bill 322 (86R).
- SB 322 requires systems with assets of at least \$100 million must complete an evaluation once every 3 years.
- Information for this review was found in public filings of Board agendas, meeting minutes and other supporting documentation including meetings with staff and transcripts of board meetings.

Caveats and Disclaimers

The analysis in this report was prepared utilizing data from third parties and other sources including but not limited to internal computer software and databases, including among others mpi Stylus Pro®, software designed by Markov Processes International. Reasonable care has been taken to assure the accuracy of the data contained herein, and comments are objectively stated and are based on facts gathered in good faith. These reports do not constitute investment advice with respect to the sale or disposition of individual securities. Milliman disclaims responsibility, financial or otherwise, for the accuracy or completeness of this report.

Milliman's work product was prepared exclusively for the Plano RSP for a specific and limited purpose. It is a complex, technical analysis that assumes a high level of knowledge concerning Plano RSP's operations, and uses Plano RSP's data, which Milliman has not audited. It is not for the use or benefit of any third party for any purpose. Any third party recipient of Milliman's work product who desires professional guidance should not rely upon Milliman's work product, but should engage qualified professionals for advice appropriate to its own specific needs.

Advisory Services are offered through Milliman Advisors, LLC a subsidiary of Milliman, Inc. Also in the Milliman family of companies are Milliman Financial Risk Management LLC, is a registered investment advisor, and Milliman Investment Management Services LLC, a broker-dealer. Milliman Advisors, LLC does not recommend or advise clients on the services offered by these entities, except in limited and unique circumstances. .

Past performance is no guarantee of future results.

Unless explicitly stated in your Service Agreement, there should be no reliance on Milliman services to provide analysis or reporting on a daily basis, the changes to manager rankings, ratings or opinions thereon.

Unless explicitly stated in your Service Agreement, Milliman services are not intended to monitor investment manager compliance with individual security selection criteria, limits on security selection, and/or prohibitions to the holding of certain securities or security types.

Milliman provides a copy of its SEC Form ADV Part II to clients without charge upon request.

Advisory Services are offered through Milliman Advisors, LLC a subsidiary of Milliman, Inc.