

Investment Practices and Performance Evaluation of the Texas Hospital Association

September 13, 2024



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Background



Background

Texas Government Code §802.109 requires that all Texas public retirement systems with at least \$30 million in assets complete an Investment Practices and Performance Evaluation (“Evaluation”). The scope of the Evaluation is defined in Texas Government Code § 802.109. The Texas Pension Review Board (“PRB”), provides informal guidance to assist systems in defining the scope and content of the evaluation, reflecting the legislative changes to Texas Government Code §802.109 effective September 1, 2021.

The focus of the Evaluation includes five areas: (1) the investment policy; (2) the asset allocation; (3) the appropriateness of investment fees and commissions; (4) governance processes for investment activities; and (5) the investment manager selection and monitoring processes.

Retirement systems with at least \$100 million in total assets must conduct the Evaluation once every three years. Retirement systems having at least \$30 million but less than \$100 million in total assets must complete the Evaluation once every six years.

A report of the Evaluation must be filed with the governing body of the public retirement system no later than May 1 of each year following the year in which the system is evaluated. The governing body must submit the report of the Evaluation to PRB no later than 31 days after the date the governing body of the retirement system receives the report.

The Evaluation must be completed by an independent firm with substantial experience in evaluating institutional investment practices and performance. The independent firm is required to evaluate the appropriateness, adequacy, and effectiveness of the retirement system’s investment practices and performance and



to make recommendations for improving the investment policies, procedures, and practices.

Aon Investments USA Inc. (“Aon”) is currently providing investment consulting services to the Texas Hospital Association Retirement Plan for Member Hospitals (“Plan”) pursuant to the April 1, 2007 Master Consulting Agreement. A separate group within Aon, the Fiduciary Services Practice, is providing this Evaluation at the Plan’s request pursuant to Texas Government Code §802.109 and the September 20, 2019, PRB guidance. Aon’s Fiduciary Services Practice also provided the first statutorily required Texas Hospital Association review in 2020.

Aon meets the experience requirements necessary to complete this review. Aon is a full-service global investment consulting firm that provides a wide array of services to various client types. Aon has a dedicated Fiduciary Services Practice that has extensive experience conducting fiduciary audits and investment governance reviews similar in scope to the Evaluation mandated by Texas Government Code §802.109. Aon’s Fiduciary Services Practice has prepared this Evaluation.

Aon is not involved in directly or indirectly managing the investments of the Plan. Texas Government Code §802.109(c)(1) and (2) provides that the public retirement system may select a firm regardless of whether the firm has an existing relationship with the retirement system but may not select a firm that directly or indirectly manages investments of the system. Aon meets the statutory definition as an independent firm. There are no potential conflicts of interest or any appearance of a conflict of interest that would impact the analysis between Aon and Texas Hospital Association and any current/former member of Texas Hospital Association’s governing body. Aon is not receiving any remuneration from sources other than Texas Hospital Association for the services provided to Texas Hospital Association.

Methodology and Evaluation Format

This Evaluation is consistent with the Aon methodology used for comparable reviews it has performed. This methodology included an initial project conference call between Aon and Texas Hospital Association staff to establish overall concurrence and set forth expectancies, deliverables, team assignments, designated relationships from Texas Hospital Association and Aon, and communication procedures. Aon

provided an extensive document request to Texas Hospital Association covering the 5 statutorily required component task areas. Texas Hospital Association provided numerous items in response to the document request. Those items are listed in Appendix A-Documents Reviewed. Aon also conducted interviews with key staff and an advisor for Texas Hospital Association listed in Appendix B. Aon performed research, analysis, and report drafting. Aon submitted draft versions of the report for Texas Hospital Association staff review and feedback and had follow up discussions with Texas Hospital Association staff. The final Evaluation addressed staff comments and added supplemental clarifications and information in response. The final Evaluation, however, reflects the independent work and professional judgement of Aon staff.

This Evaluation question and answer format is generally modelled after the updated 2022 guidance issued by the PRB.

Executive Summary



Executive Summary

General Overview

Texas Hospital Association (THA) offers outsourced administration of defined benefit plans. In doing so, the Board of Trustees (Board) has created four asset mix options that can be utilized by participating defined benefit plans (Plan Sponsors). Plan Sponsors select from the four asset mixes based on annual recommendations provided by THA's actuary and investment consultant (upon completion of each defined Plan Sponsor's annual actuarial valuation). During our review we have found: (1) The IPS generally follows best practice, as it contains appropriate measurable outcomes. (2) THA is following common practice in its process for establishing and evaluating asset allocation. Assets are well diversified (given the restricted use of alternatives for liquidity reasons), and risk positioning is being managed on a Plan Sponsor Basis. (3) Fees are appropriately reported to the Board through its performance reporting materials and financials. The Total fee is low given the heavy use of passive management and no alternative investments. (4) The Plan demonstrates best governance practices of an efficient, effective structure, with appropriate meetings and oversight of the Plan. (5) The investment manager selection process is robust. (6) The investment performance reports provided to the Board provide sufficient information to monitor the plan in accordance with the IPS.

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

The Plan has an IPS document that was last reviewed in May of 2024. The IPS generally followed best practice prior to our review and following the implementation of our modest recommendations we consider the document to be in-line with best practice. The document is written sufficiently clear that anyone could manage the portfolio and generally conform to the desired intentions of the Board. The IPS includes investment objectives for the Plan and individual managers, with manager level benchmarks articulated within the performance reporting materials.

Evaluation Component 2: Investment Asset Allocation

The THA Board selects the strategic asset allocation of the asset mixes that are intended to represent the range of risk that would be desired by Plan Sponsors. THA then works in conjunction with the actuary and the investment consultant to recommend the appropriate asset mix to each Plan Sponsor. The Plan Sponsor then evaluates the recommendation, in conjunction with their own risk preference, and selects an appropriate asset mix. Discount rates are not explicitly reviewed when determining the asset allocation of the offered mixes, but they are considered when recommending an appropriate asset mix to each Plan Sponsor.

It has been determined that illiquid asset classes (alternatives) are not currently part of the investable opportunity set for this Plan, due to liquidity requirements. The asset allocation of the Plan is the result of the underlying Plan Sponsors selecting from the 4 offered asset mixes, and not a direct decision made by the Board.

Evaluation Component 3: Investment Fees and Commissions

THA does not have a written investment management fee policy. However, investment management fees are compared to peer universes and provided to the Board on a quarterly basis. This type of policy is not common across peer institutional investors.

The Plan does not pay indirect compensation. Direct compensation includes fees paid for administration (general plan administration, custodian, actuary, investment consultant, legal, audit, insurance, etc.) as well as investment management fees paid to the underlying investment managers. The detail of all expenses is outlined in the Plan's financial reports and performance reporting, which are provided to the Board on a quarterly basis.

Investment management fees compare favorably at the Plan level as well as by individual investment strategy. This is primarily due to the meaningful use of passive management and no exposure to alternative investments. On a quarterly basis, the

Plan's investment consultant provides analysis which compares the investment expense of each investment mandate against that of a peer group.

Evaluation Component 4: Investment Governance Processes

The governance of the investment-decision making process is documented in the IPS and the Master Trust document. The IPS outlines the roles and responsibilities for the Trustees and investment managers. The Master Trust document outlines plan administration, funding, investment of the trust, powers and fiduciaries responsibilities, and delegation to investment managers. The 2003 Master Trust was temporary, pending the completion of the IRS approval under Rev. Rul. 81-100. Once that approval was obtained, the trust was amended in 2005 to conform to the changes IRS requested during their approval process.

These documents are available to stakeholders upon request. The Successor Trustee Board, currently comprised of nine appointed members, are appropriately vetted for qualifications and upon appointment, receive sound orientation. The orientation includes the important topics of fiduciary duties, prudence, diversification, adherence to plan documents, and conflicts of interest. There are also mandatory continuing education requirements. The Board meets on a quarterly basis and spends sufficient time on investment matters. There are detailed minutes of the meetings and appropriate support, guidance and education provided by the investment consultants and legal counsel. The Board adopted Bylaws to further document the already demonstrated governance best practices by the Plan in 2020.

Evaluation Component 5: Investment Manager Selection and Monitoring Processes

The Board has hired an investment consultant to support the selection of investments made by the Plan. The Board's investment consultant produces recommendations to the Board for selecting investment managers. The Board reviews the investment manager candidates and makes a selection decision, using both the consultant's presentation materials and verbal advice.

The Plan's investment program is continually monitored by the investment consultant, who provides performance reports to the Board. The Board uses these reports, along with quarterly discussions with the investment consultant, to ensure that the program is being managed in accordance with the investment policy statement.

Evaluation Component 1



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

An analysis of any investment policy or strategic investment plan adopted by the retirement system and the retirement system’s compliance with that policy or plan;

The Texas Hospital Association Retirement Plan for Member Hospitals has an Investment Policy Statement titled “Statement of Retirement Plan Investment Objectives and Policies”. This document was last reviewed in May 2024 by the Board.

To facilitate our review of the IPS, we have included a table outlining what we believe to be the key sections of an IPS and how we think about IPS development. The table includes a broad title of each section type, the type of information we expect to be included in each section, and any comments on the THA IPS. The bullets below align with each area where we think the IPS could be improved (yellow shading) or where we feel there is a more material enhancement opportunity (red shading).

1. We believe the IPS could be enhanced by adding a section articulating the duties of the investment consultant and actuary.
2. We believe the IPS could be enhanced by including a more formal schedule of reviewing the IPS with the Board within the document. This would be recommended to be at least annually.

Section	Purpose of Section	Included in THA IPS
Introduction	<ul style="list-style-type: none"> - Reference to the purpose and benefit to be provided by the Plan. - Intended beneficiaries of the Plan. - Overview of fiduciary obligation. 	<ul style="list-style-type: none"> ✓ ✓ ✓
Statement of Purpose	<ul style="list-style-type: none"> - Investments made for the exclusive purpose of providing benefits to participants. - Plan fiduciaries must act in the sole interest of Plan participants and beneficiaries and for the exclusive purpose of providing benefits. 	<ul style="list-style-type: none"> ✓ ✓
Investment Goals or Objectives	<ul style="list-style-type: none"> - To preserve the actuarial soundness of the Plan in order to meet benefit obligations. - To obtain a long-term rate of return, net of fees, equal to or in excess of the policy benchmark. - The policy benchmark and asset allocation targets should be defined. 	<ul style="list-style-type: none"> ✓ ✓ ✓
Asset Allocation	<ul style="list-style-type: none"> - Purpose is to provide an optimal mix of investments to produce desired returns and meet current and future liabilities, with minimal volatility. - Frequency and methodology of asset liability modelling and resetting allocation. - Describe permissible asset classes as well as minimum, maximum, and target ranges. 	<ul style="list-style-type: none"> ✓ ✓ ✓
Identification of Roles and Responsibility	<ul style="list-style-type: none"> - Board of Trustees – general and investment related duties. - External investment consultants/advisors – advise on best practices, trends and support staff and Board/Investment Advisory Committee with fiduciary responsibilities. - Other external providers’ duties, expectations and fiduciary responsibilities. 	<ul style="list-style-type: none"> ✓ Comment 1
Asset Class Guidelines / Benchmarks	<ul style="list-style-type: none"> - Benchmarks – who sets them and how often they are revisited, and their rationale. - Diversification - Provide an overview on the importance of diversification and how it is achieved in the Trust. 	<ul style="list-style-type: none"> ✓ ✓

Section	Purpose of Section	Included in THA IPS
Rebalancing Policy	- Purpose of rebalancing – to ensure that the investment program adheres to its strategic asset allocation.	√
	- Describe how often the portfolio will be reviewed for rebalancing and whether a fixed threshold or proportional threshold will be used.	√
Risk Management	- Acknowledgement and definition of risk to be managed in investment portfolio (active risk, credit risk, counterparty risk, market risk, operational risk, etc.).	√
	- Define parameters for risk management (what does success look like).	√
Monitoring and Reporting	- Describe monthly, quarterly and annual reporting.	√
	- Outline monitoring and reporting process.	√
Shareholder Activity	- Proxy positions – describe the policy and how votes are cast and recorded, or reference appropriate policy.	√
	- Identify core principals of the Board (Board independence, Board management, shareholder rights) and communicate importance of fiduciary duty, integrity, and transparency.	√
Governance	- Identify obligations to the Trust are consistent with the fiduciary standards under applicable law.	√
	- Require ongoing review of investment policy statement.	Comment 2

The IPS generally follows best practice. In our response above we have provided 2 ways in which we believe the document could be enhanced, but overall, we believe the document is reasonably constructed and being followed.

Evaluation Component 2



Evaluation Component 2: Investment Asset Allocation

A detailed review of the retirement system’s investment asset allocation, including:

a. The process for determining target allocations

The asset allocation of the offered mixes is evaluated on an ongoing basis. From our conversations with THA and the investment consultant, it appears that these reviews typically occur due to changes in the capital markets or based on conversations with Plan Sponsors. The most recent review of asset allocation occurred in May of 2024.

THA believes there is a relationship between the level of risk assumed and the level of return that should be expected. Additionally, they believe that the level of risk assumed should reflect the Plan Sponsors’ risk tolerance and risk preference. To facilitate this, THA has created four asset mixes that span the expected risk spectrum. A summary of asset allocation across the four mixes are included in the below table:

Asset Class/Style	Mix 4	Mix 3	Mix 2	Mix 1
Large Cap U.S. Equities	45%	33%	21%	0%
Small Cap U.S. Equities	15%	11%	7%	0%
International Equities	<u>15%</u>	<u>11%</u>	<u>7%</u>	<u>0%</u>
Total Equities	75%	55%	35%	0%
Intermediate Fixed Income	<u>25%</u>	<u>44%</u>	<u>64%</u>	<u>0%</u>
Long Duration Fixed Income	0%	0%	0%	99%
Cash	1%	1%	1%	1%
Total Fixed Income	25%	45%	65%	100%

Additionally, THA allows Plan Sponsors to allocate across multiple mixes to further refine the investment risk within their plan. The most recent review of the asset allocation mixes included:

- Trailing investment results of the portfolio and the evaluated alternative mix
- Investment style analysis to assist THA in understanding the regional and style biases within the portfolio as it exists today
- A comparison of asset allocation relative to peers
- Proposed refinements to the asset allocation of the current mix and the associated impact to:
 - Expected return (including the distribution of potential outcomes)
 - Expected risk
 - Expected real return
 - Sharpe ratio
 - Investment expense
- Review of benchmarks and the properties of a valid benchmark

Once the four asset mixes are determined, through the asset allocation review process outlined above, each Plan Sponsor selects the asset mix which is most appropriate for their circumstances. The appropriateness of the selected mix for each Plan Sponsor is evaluated at the onset, and on an annual basis thereafter. This review is performed by the actuary, the investment consultant, and THA. The recommendation is then provided to the Plan Sponsor for their review and selection of the appropriate investment mix.

b. The expected risk and expected rate of return, categorized by asset class

The table below outlines the expected return and risk of each asset class the Plan invests in, as well as the Plan in aggregate. The table utilizes the 10-year capital market assumptions (as of Q2 2024) of THA's investment consultant.

Asset Class	Current Targets	Expected Nominal Return	Expected Risk
Large Cap U.S. Equity	44.4%	6.7%	18.5%
Small Cap U.S. Equity	14.8%	6.9%	24.5%
International Equity	14.8%	6.8%	18.7%
Aggregate Bonds	24.6%	4.9%	5.0%
Long Bonds	0.4%	5.9%	9.8%
Cash	1.0%	4.3%	1.4%
Texas Hospital Association Retirement Plan	100.0%	--	--
Estimated Return (Nominal)	6.7%		
Estimated Risk	14.1%		
Sharpe Ratio ²	0.171		

c. The appropriateness of selection and valuation methodologies of alternative and illiquid assets

As THA’s role as an outsourced administrator of the underlying plans, and the potential for Plan Sponsors to exit the Association at any time, the decision was made to not include illiquid asset classes (alternatives) as part of the investable opportunity set for the various mixes offered to Plan Sponsors. Therefore, questions regarding the selection and valuation methodologies of illiquid assets class (alternatives) are not applicable.

d. Future cash flow and liquidity needs

Given the nature of THA, the cash flow and liquidity needs of the underlying Plan Sponsors vary. When recommended asset mixes are presented to Plan Sponsors, information around cash flow and liquidity needs are considered. As of the time of this report, the Plan invests solely in public equity and investment grade bonds and therefore would be considered very liquid and we would not anticipate any issues with the Plan producing liquidity if so requested by the underlying Plan Sponsors.

Evaluation Component 3



Evaluation Component 3: Investment Fees and Commissions

A review of the appropriateness of investment fees and commissions paid by the retirement system;

The THA Plan does not have a written investment management fee policy. As of the time of this report, THA only pays direct compensation, which includes fees paid for System administration (general plan administration, custodian, actuary, investment consultant, legal, audit, insurance, etc.) as well as investment management fees paid to the underlying investment managers. The detail of these expenses is outlined in the Plan's financial reports, which are provided to the Board on a quarterly basis.

Investment management fees are reported to the Board on a quarterly basis and this reporting including a comparison of investment management fees charged by underlying investment managers to peer universes. The following table compares the investment management fees charged by each underlying manager to a peer group median of a similar strategy (As of June 30, 2024).

Vehicle Type ¹	Market Value \$	% of Portfolio	Net Expense Ratio (%) ²	Universe Name ³	Peer Group Fee Range (%)				
					25th	50th	75th	Population	
THA Retirement Plan	832,249,103	100.0							
Large Cap Equity	381,962,891	45.9							
State Street S&P 500 Index NL Fund	CIT	320,751,146	38.5	0.013	eA US Passive S&P 500 Equity (CF 250m)	0.02	0.04	0.05	25
State Street Russell 1000 Value Index SL Fund	CIT	61,211,746	7.4	0.030	eA US Passive Large Cap Equity (CF 50m)	0.03	0.04	0.08	58
Small Cap Equity	119,209,339	14.3							
Vanguard Small Cap Index	MF	119,209,339	14.3	0.030	eA US Passive Small Cap Equity (MF)	0.05	0.16	0.25	28
International Equity	123,856,307	14.9							
Dodge & Cox International Stock	MF	62,436,980	7.5	0.620	eA ACWI ex-US All Cap Equity (MF)	0.72	0.85	0.97	55
Morgan Stanley International Equity Trust	CIT	61,419,327	7.4	0.690	eA ACWI ex-US All Cap Equity (CF 50m)	0.65	0.70	0.78	45
Core Fixed Income	200,090,829	24.0							
State Street US Aggregate Bond Index NL Fund	CIT	100,284,781	12.0	0.030	eA US Passive Core Fixed Income (CF 50m)	0.04	0.05	0.06	10
Loomis Sayles Core Plus Bond	CIT	99,806,048	12.0	0.180	eA US Core Plus Fixed Income (CF)	0.28	0.33	0.35	50
Long Credit Fixed Income	3,609,232	0.4							
PIMCO U.S. Long Term Bond – Long Credit	MF	3,609,232	0.4	0.550	eA US Long Duration - Credit Fixed Income (MF)	0.30	0.50	0.67	8

Based on the above analysis of investment management fees, we believe fees are reasonable and in-line with peer medians.

Evaluation Component 4



Evaluation Component 4: Investment Governance Processes

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 governance of the Plan is set forth in the May 10, 2024, IPS and more detailed in the 2005 Texas Hospital Association Master Trust for Member Hospital document as well as the Bylaws of the Successor Trustee adopted in 2020. Evaluation Component 1 herein details how the IPS outlines the roles and responsibilities of the investment decision making processes for the Trustees and investment managers. Through the Master Trust document, THA designated the Trustees (Successor Trustee Board) to act as trustee for the Master Trust and to fulfill the purposes of the Trust. Plan administration, funding, investment of the trust, powers and fiduciary responsibility of the trustee, and delegation to investment managers are outlined in the Master Trust document. Investment-related policy statements are available upon request. The Bylaws of the Successor Trustees outline the authority retained, meeting protocol, and review frequency stating a minimum rather and as needed.

The Successor Trustee Board is currently composed of nine appointed members. The Trustees are senior executive officers from the plan sponsor and THA. The Nominating Committee of the THA Board is responsible for vetting and making recommendations to the THA Board of appointees. The THA Board acts upon the recommendations.

The Successor Board is on a quarterly meeting schedule. The Trustees receive meeting agendas and board materials in advance of the meetings. Meeting agendas are available, complete, and represent items discussed. Typical agenda topics include a mix of investment, actuarial and investment items.

The minutes reflect the agenda items and detail items discussed and outcomes.

Successor Trustees serve a two-year term, with no term limits and the ability to be reappointed. Newly appointed Successor Trustees attend a trustee orientation, which covers fiduciary duties of prudence, loyalty, diversification, and observance of plan documents. The training also details prohibited transactions, conflicts of interest, and the roles of staff, the actuary, plan administrator, record keeper, custodian, and legal counsel.

Successor Trustees must comply with the Texas Pension Review Board's Minimum Education Training requirements. New Board members must complete seven hours of training on assigned core topics within the first year of service. The core topic areas are fiduciary matters, governance, ethics, investments, actuarial matters, benefits administration, and risk management. After the first year, Board members are required to complete at least four credit hours of continuing education every two years. These four hours can be in either the core topics, or in non-core topics of compliance, legal and regulatory matters, pension accounting, custodial issues, plan administration, Texas Open Meetings Act, and Texas Public Information Act.

In addition to ensuring Board members complete and have these hours reported, THA staff and outside advisors also provide education to the Board.

- Board members receive robust training with annual training that includes:
 - Roles of Trustee
 - Disclosure & Code of Conduct
 - THA – Plan Administrator
 - Role of Staff and Vendors
 - Budget
 - Master Trust & PDRP
 - MET Training
 - Legal Requirements – Audit & 5500's
 - Investments and Aon
 - Actuary's Role

Each topic is addressed by an expert in the particular field discussed.

All trustees are in compliance with the Minimum Education Training requirements as set forth by the Texas Pension Review Board.

Further, the assigned investment consultants from Aon provide quarterly investment updates and legal counsel provides legal reports and fiduciary guidance to the Trustees. Aon also regularly provides periodic investment education to the Trustees.

We conclude that the IPS and Master Trust Document generally outline the governance of the investment-decision making process. The Board adopted Bylaws of the Successor Trustees in 2020 which even further defines the governance framework. The Bylaws address, among other items, the: Scope of the Board's Authority, Board Composition, Roles, Responsibilities, and Terms of the Trustees, Trustee Orientation, Training, and On-going Training, Voting, Attendance Requirements, Meeting Agenda Items, Reporting Requirements, and frequency of review of the Bylaws. The Bylaws provide additional assistance to Trustees in performing their fiduciary duties. Should the Board choose to do so in the future, in addition to these Bylaws, a Board Charter could be adopted which formally documents best practices of efficient and effective structure, meetings, and oversight of the Plan.

Board self-assessments have been completed, but not on a definite rotation. We recommend the Board adopt a policy or practice to conduct Board self-assessments annually or at minimum once every three years. Further, we recommend documenting via calendar, business plan or the like the due date for the next Investment Practices and Performance Review in order to observe the legislative directive and PRB guidance.

Evaluation Component 5



Evaluation Component 5: Investment Manager Selection and Monitoring Processes

A review of the retirement system's investment manager selection and monitoring

The Board has hired an investment consultant to support the selection of investments made by the Plan. The Board's investment consultant produces recommendations to the Board for selecting investment managers. The Board reviews the investment manager candidates and makes a selection decision, using both the consultant's presentation materials and verbal advice.

An investment manager will be considered and recommended for inclusion in the Plan if it is Buy rated by the consultant's manager research team and it fits the desired portfolio role identified by the Board and the investment consultant. To achieve a Buy rating, the consultant's due diligence follows a thorough process used to identify managers as potential candidates.

Once an investment manager search is initiated, THA's investment consultant identifies investment managers that should be considered as potential candidates for review. The consultant uses a proprietary quantitative model, InForm, to analyze the broad opportunity set of strategies across each asset class. The InForm model uses the below factors to score the managers and identify managers for additional due diligence.

- Business
- Investment staff
- Investment process
- Investment risk management
- Performance
- Terms and conditions
- ESG

- Operations

This initial scoring process allows the research professionals to identify a shortlist of investment products that they believe have the strongest potential of ultimately obtaining a “Buy” rating after extensive due diligence and the rating process. Products that meet predetermined scores based on the quantitative screens proceed through to comprehensive due diligence.

Upon conclusion of the due diligence by the manager research team, each product is scored and rated through a formal voting process of senior research professionals. Managers are rated a “Buy,” “Sell,” or “Qualified.” If a rating conclusion cannot be agreed upon based on the research conducted, follow-up due diligence is carried out.

As a manager search progresses and the opportunity set of potential managers is reduced to just a few fully diligenced Buy rated strategies, the selection among multiple candidates is ultimately at the discretion of the Board based on its review of the consultants’ reports on the candidates, discussions with the consultant, and the Board’s own familiarity.

The decision to terminate an investment manager is typically the result of a termination recommendation coming from the Board’s investment consultant. The primary considerations for the consultant recommending replacing a manager include:

- The departure of one or more key professionals
- A significant organizational change
- A divergence from the intended investment strategy and/or fund characteristics
- Poor historical investment performance

If historical performance is considered unsatisfactory, the consultant will attempt to identify the factors that caused the poor results. After the necessary analysis is conducted, the consultant may assign a “Sell” rating if deemed appropriate to do so.

The Plan’s investment program is continually monitored by the investment consultant, who provides performance reports to the Board. The Board uses these reports to ensure that the program is being managed in accordance with the investment policy statement. The Plan’s investment consultant is responsible for measuring investment performance.

On a quarterly cadence, the Plan’s investment consultant produces a performance report for the Board. The report includes individual manager and overall fund performance analysis. The investment consultant attends quarterly meetings and presents investment results to the Board. The reports, along with the consultant’s verbal comments provided at meetings, give the Board the ability to appropriately monitor fund performance.

All investment results are reported to the Board by the investment consultant as net of all investment management fees. By reviewing investment results net of all investment management fees, the Board is ensuring that they are fully considering investment management fees when evaluating the success of implementing the investment policy.

Total Fund and manager performance is compared against applicable peer groups and benchmarks. The tables below outline the benchmarks used as of June 30, 2024.

Total Fund Benchmark Components	Weight
S&P 500 Index	37.0%
Russell 1000 Value Index	7.4%
CRSP U.S. Small Cap Index	14.8%
MSCI AC World Ex-US Index	14.8%
Bloomberg U.S. Aggregate Bond Index	24.6%
Bloomberg U.S. Long Credit Index	0.4%
Citigroup 3 Month T-Bill	1.0%

Investment Manager Benchmarks
S&P 500 Index
Russell 1000 Value Index
Vanguard Spliced Small Cap Index (Net)
MSCI AC World Ex-US Index
MSCI EAFE (Net)
Bloomberg U.S. Aggregate Bond Index
Bloomberg U.S. Long Credit Index

Performance reports are provided to the Board through the quarterly Board meeting books. The investment report presented to the Board for the 8/16/2024 meeting included the below topics:

- Historical performance of the capital markets
- Financial reconciliation of the Plan over trailing periods (beginning market value, additions/withdrawals, investment earnings, and ending market value)
- Fund ratings from the consultant’s investment manager research team
- Trailing investment results of the Plan (net of investment management fees) relative to the primary benchmark
- Trailing investment results of the underlying investment managers (net of investment management fees) relative to their respective benchmarks and peer group rankings
- Total fund attribution of the Plan, including value added by asset allocation, managers and other effects
- The asset allocation targets for the four offered asset mixes and the staff mix
- Investment management fees of each investment mandate relative peer groups

The reports provided to the Board are detailed yet digestible for Board members of various levels of investment knowledge and expertise. Given the complex nature of the topic, the additional opportunity to discuss the reports with the Board’s investment consultant further alleviates any concern that the reports are overly complex.

Appendix A



Appendix A – Documents Reviewed

Master Trust Agreements 1990-2005

Bylaws of the Successor Trustees of the Texas Hospital Association Retirement Plans for Member Hospitals - 2020

THA-Master Trust for Member Hospitals

THA August 2024 Board Meeting Book

THA Board Training Booklet August 2024

Vendor RFP Schedule

Biographies of the Successor Trustees

Listing of THA Retirement Plan Successor Trustees

Term dates of THA Retirement Plan Successor Trustees

THARP Board meeting agendas

THARP Board meeting minutes

Statement of Retirement Plan Investment Objectives and Policies – May 10, 2024

Quarterly Investment Review Texas Hospital Association Second Quarter 2024

Discussion Guide – August 2024

Asset/Liability Study Results – July 2022

Appendix B



Appendix B – Interviewees

Branden Eichler, Aon

Michael J. Muth, Rudd and Wisdom

Lea Anne Porter, THA

Jacob Punnoose, Aon