

Investment Performance Report

NOVEMBER 2024

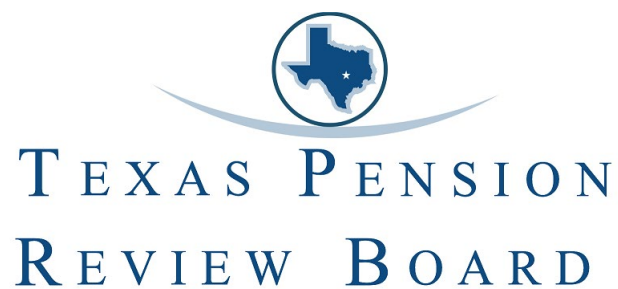


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OVERVIEW

The 86th Legislature enacted Senate Bill (SB) 322, which added Section 802.109, Texas Government Code, concerning Investment Practices and Performance Evaluations (IPPE). The statute requires public retirement systems with assets of at least \$30 million to select an independent firm with substantial experience to evaluate the appropriateness, adequacy, and effectiveness of a system's investment practices and performance and to make recommendations for improving its investment policies, procedures, and practices. Systems with assets of at least \$100 million are required to conduct a subsequent evaluation every three years and those with at least \$30 million, but less than \$100 million must conduct a subsequent evaluation every six years. The law also requires the PRB to compile and summarize the evaluations and submit an *Investment Performance Report* to the legislature and governor in its biennial report.¹ This Investment Performance Report contains aggregate analysis of the evaluations, summaries of each evaluation, compiled recommendations made by evaluators, and recommendations to the legislature from the Pension Review Board (PRB) to improve IPPE statute.

Per Section 802.109(a), Texas Government Code states that each evaluation must include:

- 1) 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;
- 2) a detailed review of the retirement system's investment **asset allocation**;
- 3) a review of the appropriateness of **investment fees and commissions** paid by the retirement system;
- 4) a review of the retirement system's **governance processes** related to investment activities; and
- 5) a review of the retirement system's **investment manager selection and monitoring** process.

The first evaluation must be a comprehensive analysis of the retirement system's investment program that covers all asset classes, while subsequent evaluations may focus on particular asset classes.

Implementation

Upon enactment of SB 322 in 2019, the PRB sent notification to Texas public retirement systems to inform them of the new requirement. The PRB also worked with stakeholders and held several Actuarial Committee and board meetings to provide informal guidance.

The PRB reviewed the statute after the first round of IPPEs were received in 2020 and ultimately made recommendations to the legislature for improvement. The legislature enacted HB 3898 (87R) in 2021 to clarify the requirement, and staff updated the guidance in 2022 to mirror updated statutes effective September 1, 2021. The guidance featured questions that could be used by systems and their evaluators to ensure a thorough review of the five components detailed in statute, expected subsequent evaluation deadlines, and updates made to statute. The PRB distributed the guidance to public retirement systems and made it available on the PRB website.² The example questions provided in the PRB guidance to demonstrate a thorough evaluation were used by several evaluators to complete their reports.

¹ Section 802.109, Texas Government Code

² Pension Review Board, *Investment Practices and Performance Evaluations*,
<https://www.prb.texas.gov/investments/ippe/>

Compliance

Subsequent evaluations for systems with at least \$100 million in assets must be completed every three years and are due to the PRB by June 1st of the year following the evaluation. Of the 100 public retirement systems in Texas, the PRB expected 37 evaluations covering 42 plans that met the \$100 million threshold.³ To date, the PRB has received all 37 evaluations, which are summarized in this report. While most systems submitted evaluations on time, several had questions regarding the due date set by the statute. The PRB guidance does include details regarding the due dates; however, because of how infrequent these evaluations are conducted and with it still being a relatively new requirement, a small number of systems missed the deadline.

IPPE 2020-2024 Results

Approximately 75 percent of evaluations completed in 2020 were conducted by systems' investment consultants rather than an independent third party. While some evaluations conducted by investment consultants were thorough and contained recommendations, almost all evaluations that did not contain any recommendations for improvement were completed by an existing investment consultant. This was a key factor in some of the PRB's 2022 legislative recommendations and changes made during the 87th Legislative Session.

The systems in the 2024 cycle of subsequent IPPEs – those with at least \$100 million in assets – increased the number of third-party evaluations from 10 to 14. The evaluations this cycle provided 170 recommendations of which the largest focus was on reviewing benchmark and performance metrics for appropriateness given market changes. Based on several popular recommendations identified by evaluators in 2020, the PRB found that additional guidance on investment policy statements (IPS) and best practices could further assist systems. Using the findings from the evaluations summarized in the 2020 IPR and other industry resources, PRB staff created guidelines for IPS best practices, adopted by the board in 2024.^{4,5} During the development of these guidelines, the PRB provided multiple opportunities for stakeholders to give feedback and made changes responsive to this feedback, and two evaluators referenced the guidelines as a useful resource. The evaluations continue to provide the PRB with a better understanding of relevant concerns that evaluators are identifying and their recommended solutions. This process allows the PRB to create useful guidance and provide specific resources for systems which can be used to reinforce improvement of systems' investment practices.

Key Recommendations From the Evaluations

Statute requires evaluations to include five specific components of review. The importance of updating policy and performance benchmarks as needed to better align with capital markets was an overarching theme across the evaluations. Some of the most common recommendations in evaluations centered on adjusting benchmarks and policies for performance or asset allocation purposes. Such changes are

³ Several trusts serve multiple plans, in which case only one evaluation of the trust's investment practices is necessary.

⁴ Pension Review Board, *Investment Performance Report*, accessed November 22, 2024, <https://www.prb.texas.gov/wp-content/uploads/2020/11/Investment-Practices-Report.pdf>

⁵ Investment Policies, Pension Review Board, last modified July 27, 2024. <https://www.prb.texas.gov/investments/investment-policies/>

expected, because as capital markets adjust so should policies and strategies. The top seven recommendations from the 2024 IPPEs are as follows:⁶

1. Include the selection criteria for investment managers in the IPS as well as document rationale for all hiring and firing decisions.
2. Consider a new benchmark for performance reports or IPS.
3. Add specific measurable criteria for monitoring performance to the IPS.
4. Document existing practice or recommend potential changes for determining and evaluating the asset allocation.
5. Provides specific language changes to be more specific regarding rebalancing ranges and guidelines.
6. Include a discussion of risk in the IPS.
7. Add language to document various processes regarding the reconciliation and payment of fees or the level of detail recorded for direct and indirect compensation.

PRB ANALYSIS OF EVALUATIONS

The legislature enacted SB 322 to “increase transparency, strengthen oversight, and protect retirement systems from self-inflicted investment catastrophes that jeopardize their members' benefits.”⁷ The IPPE provides an invaluable opportunity for a strategic level review of the practices and policies of Texas public retirement systems, which are managing net assets of approximately \$357 billion and serving over 3.4 million members. After completion of the first evaluation cycle in 2020, each subsequent evaluation should offer an additional checkpoint for stakeholders to ensure assets continue to be well managed.

The comprehensive evaluation required in the initial IPPE, when done well, improves transparency by offering a complete picture of a retirement system’s investment operations in a digestible format accessible to stakeholders that are interested in learning more. The evaluations provide a window into a system’s investment program that can be very difficult to obtain without wading through numerous documents and following a board’s ongoing discussions. The subsequent evaluations can offer another perspective from an outside party or may provide updates to recommendations made during the prior evaluation.

Additionally, the PRB can identify and compile best practices, industry standards, and benchmarks from the evaluations to provide more resources to systems, giving smaller systems an opportunity to access resources they might not have known about.

Both the breadth and depth of information resulting from the evaluations provide all stakeholders an opportunity to learn from the practices of others. Ultimately, having the information raises the bar of existing practice in Texas. The initial comprehensive evaluations and the more focused future

⁶ Staff determined the top recommendations were those made at least five times.

⁷ Bill Analysis, SB 322, 86th Texas Legislature, Regular Session, 2019.

<https://capitol.texas.gov/tlodocs/86R/analysis/pdf/SB00322F.pdf>

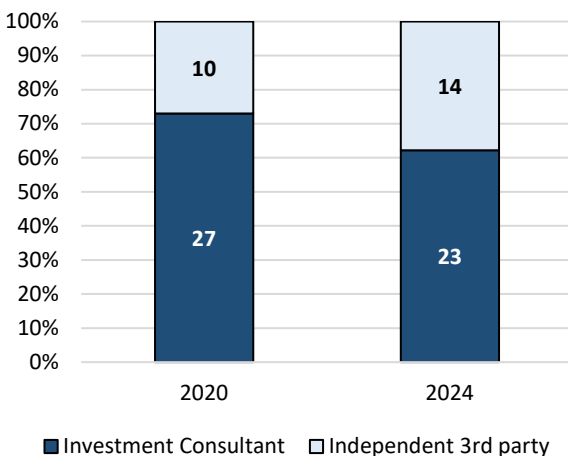
evaluations will help systems continue to refine their practices and provide a new tool for communicating those improvements and educating stakeholders. This can best be accomplished when systems embrace the process and treat it as an important educational resource for the benefit of all stakeholders rather than another box to be checked.

Overview of Evaluations

The PRB examined each of the 37 evaluations received from Texas public retirement systems. While the evaluations varied in the amount of new detail, analysis, and recommendations for improvement, overall, most were informative and provided insight into the practices currently used by Texas systems. The evaluations indicated that these systems follow industry best practices, and no evaluation identified any critical concern for a system's practices that would inhibit their ability to continue operating – even those systems that were identified as facing funding challenges or other ongoing issues that take time for improvements to be seen.

With this being the next round of evaluations after the initial in 2020, many evaluators provided additional analysis on how any previous recommendations were implemented and, in some cases, the observed positive impact. This new analysis of the implementation of past recommendations improved the transparency in the management of pension assets. Further, some systems used the new review-and-comment period provided for in statute with their final report to the PRB. This comment period allowed systems to demonstrate an enhanced understanding of planned actions for recommendations that stakeholders can monitor.

Evaluator Relationship 2020 vs 2024



This 2024 cycle showed a 10 percent increase in the use of a third-party evaluator since the initial 2020 evaluation. Independent third-party evaluators previously tended to make recommendations more often than an existing investment consultant reviewing a system's program. While this could be because the investment consultant constantly works with the system to improve practices, a completely independent third-party evaluation offers a new perspective and often analyzes other investment strategies for the board's consideration. The new perspective, analysis, and recommendations found in many IPPEs are significant to the usefulness of these reports. Additionally, some 2024 evaluations provided highly similar and, in some instances, duplicative findings to the 2020 evaluations.

Evaluators' Recommendations

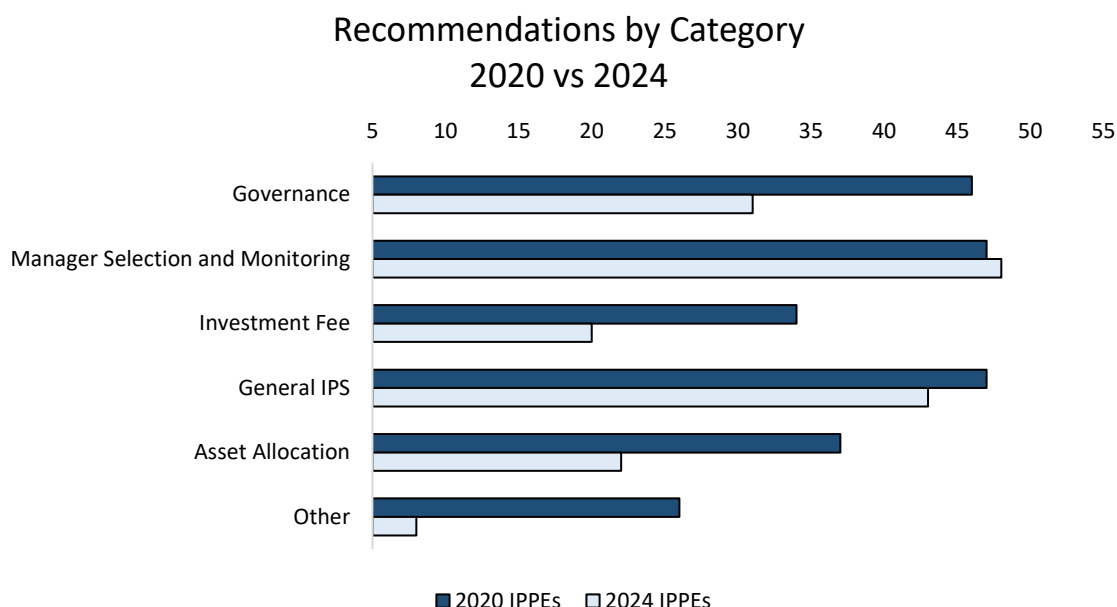
The PRB identified over 172 recommendations in 29 of the 37 evaluations.⁸ The recommendations covered a variety of practices across all sections of the statute. To summarize the information, the PRB examined the recommendations and grouped them into broad categories. While there is no clear

⁸ A summary of the recommendations can be found in Appendix A.

delineation of categories, most evaluations were organized according to the five subsections of Section 802.109(a), Texas Government Code, and therefore the recommendations could generally be grouped on that basis. A small subset of recommendations covered areas that did not fit as well within these five categories and are identified as “other” in the graph *Recommendations by Category*.

Key Practices Identified by Evaluators

The PRB identified several common policy recommendations that were present in the 2020 and 2024 evaluations. The graph *Recommendations by Category* shows how many recommendations were made in each of the five categories.⁹



In each category, the number of summarized recommendation types, which are the unique recommendations made by evaluators turned into a generalized version that summarizes the recommendation for analysis, covering a wide range of improvements decreased in 2024 compared to the 2020 evaluations as many past recommendations were noted as implemented and new recommendations were more targeted on specific areas. Most categories also experienced significant decreases in the number of recommendations except in two categories: Investment Manager Selection and Monitoring and General IPS. Most recommendations in these two categories were from evaluators focused on either updating or adjusting policies and benchmarks to align closer with current capital markets.

Most common recommendations

Of all the recommendations made by evaluators this reporting period, seven of the summarized recommendation types were made at least five times. All these summarized recommendation types were previously issued in 2020. A summarized recommendation table can be found in the appendix with further details about how the 2024 recommendations have changed since 2020.

⁹ Many recommendations were broad or could easily be categorized in multiple ways. For example, recommendations regarding the IPS were included in General IPS unless they were specific to a practice in another category.

Investment Manager Selection and Monitoring

In 2020, recommendations related to investment manager selection and monitoring focused on two main topics: improving performance benchmarking policies and strengthening the manager hiring and firing process. This continued in 2024 but with three summarized recommendation types emphasized, which together accounted for 15 percent of all recommendations in 2024. Evaluators identified the changing capital markets and challenging investment environment as core reasons for updating benchmarks and performance criteria.

There were some new recommendations to this category section; however, these were more specific recommendations based on system needs and not of a larger concern across multiple systems.

Investment Manager Hiring and Firing Policies

The most common recommendation to improve the investment manager hiring and firing process was to update the selection criteria or process in the IPS. The recommendations ranged from specific examples of improvement to general suggestions for the system to consider.

Both the CFA Institute and GFOA provide guidelines, promote industry best practices, and recommend careful consideration of the procedures related to investment managers.¹⁰

“We recommend the System formally documents the rationale for all hiring and firing decisions.”
- Irving Firemen's Relief & Retirement Fund IPPE

“Simplify the process description, providing high-level guidelines for flexibility with specificity on required rigor only where necessary. For example, it may not be necessary to have candidate managers complete an RFP for every search, but it may be necessary to obtain Investment Committee and Board approval every time.”

-Houston Police Officers' Pension System IPPE

Benchmark of Performance Measures

The second and third most common recommendations to improve the investment manager hiring and firing process was to consider new benchmarks for performance reports in the IPS, and to consider the specifics of how performance is measured.

Some of the recommendations stated that benchmarks for investment managers should be reviewed at least once every three years. A generally accepted best practice is to review asset allocations every three years, and every five years conduct an asset-liability study.

Asset Allocation

A system's asset allocation has a significant impact on the system's future return outcomes. The number of recommendations made in this section was significantly less than those made in 2020 and the recommendations were focused on adjustments to policy language or small changes to the investment

“The asset allocation analysis could be expanded to include a forward-looking Monte Carlo simulation and additional risk measurements such as maximum loss and value-at-risk.”

-Lubbock Fire Pension IPPE

¹⁰ Pension Review Board, *Guidance for Developing Investment Policy Statements*, accessed November 22, 2024, <https://www.prb.texas.gov/wp-content/uploads/2024/07/IPS-Guidance.pdf>

strategy.

Update IPS Allocation

Adjustments to the asset allocation or the practices and policies governing the asset allocation were the most common recommendations for 2024. These recommendations and suggestions made by the evaluators covered aspects ranging from asset/liability studies, which influence asset allocation itself when performed, to the policies currently in practice. These fall under the following summarized recommendation types:

1. Document existing practice or recommend potential changes for determining and evaluating the asset allocation.
2. Provides specific language changes to be more specific regarding rebalancing ranges and guidelines.

Investment Policy Statement (IPS)

The second most frequent subcategory recommendation in the evaluations was to adjust policies in the IPS. This included a popular summarized recommendation type to discuss risk but also 11 other summarized recommendation types. The IPS could be considered the most important guiding document of an investment program, and as such, must be kept up to date with current practice. The recommendations made in the 2024 evaluations had some of the largest variance in type of recommendation and changes from the previous evaluation cycle in 2020. The recommendations in this section contained fewer previously seen recommendations and mostly new recommendations to adjust policy language or to add policy to the IPS after comparing against industry best practices. This is expected as the IPS is a living document that should change with the needs of the retirement system and constantly be improved upon.

GFOA Guidelines

“GFOA recommends that defined benefit plans establish and adhere to a formal investment policy to regulate and monitor the system’s investment program. Such a policy should be viewed as a long-term governing document. The formal investment policy should be adopted by the governing board(s) and should be reviewed at least annually and updated as deemed appropriate.”¹¹

General IPS

The most common recommendation for policies in the IPS was to include more details or discussion on risk. As a plan matures or investing markets change so do the risks associated with the pension assets. A good takeaway from the CFA Institute’s *Primer for Investment Trustees* is that “risk management is like any other management process: It involves thinking about what might happen and what to do if bad things happen.”¹²

¹¹ GFOA, *Investment Policies for Defined Benefit Plans*, last modified September 30, 2017, <https://www.gfoa.org/materials/investment-policies-for-defined-benefit-plans>

¹² Jeffery V. Bailey, CFA, and Thomas M. Richards, CFA, *Primer for Investment Trustees* (CFA Institute, 2017).

“Consider adding a risk objective to consider how the volatility of assets may impact the Fund’s liability amortization period. This may provide additional guardrails to better enable the Fund to stay under the 30-year time frame to amortize the unfunded actuarial liability set by the Pension Review Board.”

-Austin Firefighters Retirement Fund IPPE

Investment Fees

Recommendations concerning the investment fees significantly decreased in both the number and variance in type of recommendations. Aside from a fairly consistent recommendation to consider more passive investments, which is usually a consideration for any system that does not strictly use passive investments, evaluators made recommendations to add or adjust investment fee policies.

In addition to creating the evaluation requirement, SB 322 also significantly enhanced fee transparency reporting in Texas. Over the past decade, public retirement systems have increased their allocation to alternative investments while at the same time raising concerns that expenses for alternative investments are opaque and greater fee transparency in this asset class is desired. The fee reporting law requires Texas public retirement systems to list, by asset class, all direct and indirect commissions and fees paid by the retirement system during the system's previous fiscal year for the sale, purchase or management of system assets.¹³

The PRB has fully implemented this requirement through rulemaking and by providing a template for reporting fees. Systems must now report investment fees that previously would typically not be reported. This has led to some adjustments to investment policies and will likely continue to as systems further adapt to the requirement. Additionally, the PRB uses this information for analysis and identifying systems with returns or expenses outside of peer or industry expected ranges that could suggest issues with their investment approach.¹⁴

“Consider adding language to the IPS outlining the frequency and requirements of fee benchmarking. Texas law only requires the reporting of absolute investment management fees, which may not provide stakeholders the appropriate context. An annual fee analysis may be beneficial for monitoring manager fees and assessing reasonableness compared to peers.”

- Austin Firefighters Retirement Fund IPPE

IPPE endorsement of improvements

Several subsequent IPPEs included reviews of the effectiveness of the previous evaluations’ recommendations, or the progress made to improve a system’s investment program based on previous recommendations. These evaluations confirm that an independent third party evaluating a system’s investment practices can provide an objective outside view and suggest changes that might not otherwise have been made.

¹³ Section 802.103(a), Texas Government Code

¹⁴ Pension Review Board, *Investment Reports*, accessed November 20, 2024, <https://www.prb.texas.gov/wp-content/uploads/2024/11/July-Investment-Data-Report-Combined.pdf>

The following provides an example of a significant improvement made by a system from a previous recommendation and confirmation of this improvement in the system's response.

Summary of 2020 governance recommendations by evaluator:

"Since our last evaluation completed in June of 2020, the Retirement Board changed the governance structure of the LCRA Retirement Plan and Trust. The Retirement Board effectuated this change as a result of concerns over the responsiveness of the Board to emergent investment issues, particularly those related to the performance of investment managers, and the ability of the Board and Staff to provide a sufficient level of focused and expert attention to the Plan's investments."

System's noted improvement:

"Following a competitive review process, the Board engaged with a provider of outsourced CIO ("OCIO") services and granted them discretionary decision-making authority over many of the Plan's investment processes. This change has had the intended effect of streamlining the investment decision-making process, placing the authority to make certain decisions in the hands of experienced investment professionals, increasing responsiveness to emergent investment issues, and allowing the Retirement Board to focus on investment policy development and oversight. Throughout our interview process, each of the interviewees described the new governance structure as highly effective and a meaningful improvement over the previous structure, where all decision-making authority resided with the Retirement Board. Our review of the current governance structure supports the legitimacy of this description."

- Lower Colorado River Authority Retirement Plan IPPE

Other evaluators included status updates on the previous recommendations made in 2020 either by themselves or by another evaluator. This served as a useful practice in evaluating the system's governance while increasing transparency.

Subsequent IPPE Review and Comment

The 87th Texas Legislature amended the IPPE statute in several ways including adding a way for systems to review and comment on evaluations. This allows for increased transparency of a system's actions to address any concerns or recommendations. A quarter of the systems required to complete an IPPE in 2024 chose to provide comments on their evaluation. These ranged from commentary on the report finding to tables detailing recommendations and concerns raised by the evaluator and the planned response by the system.

The review-and-comment section also lends to the effectiveness of the IPPE and supports the fiduciary duty of every trustee member. Trustees have a fiduciary duty to the beneficiaries of the fund, which includes a duty of loyalty, prudence, reasonableness, transparency, and accountability.¹⁵

Subsequent IPPE concerns

The PRB identified several 2024 IPPEs that were nearly identical to the system's 2020 submission. While various aspects of the evaluations were updated, a near identical report or identical statements of

¹⁵ Jeffery V. Bailey, CFA, and Thomas M. Richards, CFA, *Primer for Investment Trustees* (CFA Institute, 2017).

practices made by systems makes it difficult to determine what new analysis the evaluator made in the subsequent report. This approach also decreases the value of subsequent reports.

Twenty-five percent of system evaluations for 2024 were nearly identical to their previous evaluation. All of these evaluations were produced by the investment consultant for the system. The PRB will provide further guidance as needed to reduce the number of duplicated reports by working with systems during the next evaluation period, and depending on those results, may provide additional recommendations to the legislature if this practice remains an ongoing concern.

LEGISLATIVE RECOMMENDATIONS

After the second round of evaluations submitted by retirement systems in 2024, the PRB identified opportunities where modifications to the statute may prove beneficial both in terms of the reporting schedule as well as applicability of the requirement based on asset levels. The PRB identified two areas for improvement which are intended to provide clarity to systems on applicability of the IPPE requirement and to the PRB for administering and overseeing compliance with the requirement. The two recommendations would primarily impact systems that become subject to the six-year reporting requirement when their assets reach \$30 million or more, and systems moving from a six-year reporting cycle to a three-year cycle when they reach \$100 million or more in assets. For example, currently two systems reported in calendar year 2023 that their 2022 fiscal year end net total assets were below the \$100 million threshold. In calendar year 2024, they both reported 2023 assets above the \$100 million threshold now requiring them to complete an IPPE every three years. If these two systems were to start the IPPE process immediately or in calendar year 2025, their reporting period will be slightly out of sync with the other \$100 million systems. This could result in the PRB needing to track these systems' unique reporting due dates that will not match with the other \$100 million systems. Also, those two systems will be conducting the evaluations at a time when no other system will be reporting and as such would be the only evaluations to analyze in an investment performance report on some years. This would largely prevent the PRB from analyzing these IPPEs in the context of those submitted by other peer systems, hindering the ability to do quality comparisons and identify overall trends.

At the July 25, 2024, board meeting, PRB staff presented initial drafts of the recommendations and then requested feedback from systems. At the following September 25, 2024, meeting, staff presented a final version of the recommendations for approval. The board adopted the following recommendations for consideration by the legislature that will help enhance clarity and efficiency for the investment practices, benefitting plan members, taxpayers, and local governments:

1. [Modify the reporting timeline requirement to simplify the reporting due date to be the same for all systems based on a respective six- or three-year reporting cycle.](#)

Goal. Clarify how often IPPE reports should be completed by retirement systems, the expected due dates of the reports, and change to reporting cycles for simplification. Current statute specifies that systems trigger the requirement or move from a six-year to a three-year reporting frequency based on the preceding year's assets. However, statute is less clear on when that report will be due—three or six years from hitting the asset threshold, or on the same timelines as other systems already subject to the requirement based on the effective date of SB 322.

Issue. A system that becomes applicable to the IPPE statute or assets increase to above \$100 million in assets can potentially because of timing become required to submit a report in a year when no other system would report. For example, as the 24 systems with assets between \$30 million and \$100 million already reporting continue to grow in size, inevitably many of them will cross the \$100 million threshold

and will potentially be out of sync with reporting compared to the 42 systems with at least \$100 million in assets already.

Recommendation. Adjust language for reporting timeline to a cycle-based approach that has a three-year and six-year reporting cycle based on applicability. Additionally, clarify Section 802.109, Texas Government Code as follows, “If a retirement system’s asset size increases in a fiscal year to above one of the specified thresholds, the system will complete the evaluation by the next cycle’s due date.”

- 1) For systems already reporting, this change would not impact current expectations.
- 2) The update would provide additional clarification on how the PRB should handle reporting expectations as retirement system assets grow over time and their requirements change. It would prevent systems from triggering unique reporting cycles out of sync from all other systems, making evaluation and analysis by the PRB less efficient and less effective. Based on the timeline set up in SB 322 (86R), systems have been grouped together in a three- or six-year cycle based on applicability at the time the bill passed. While no systems have newly triggered the six-year requirement since then or moved above \$100 million to trigger the three-year requirement, several are close and may hit those targets soon.

Benefits:

- Simplify schedule by defining two clear reporting cycles for this requirement with known due dates.
- No single system would have a unique reporting deadline caused by timing of when they became subject to the six-year requirement by crossing the \$30 million threshold or by crossing the \$100 million asset size threshold for three-year reporting. The PRB receiving only one or two IPPEs in a given year prevents meaningful comparisons and analysis with other systems’ evaluations.
- This change would not impact most systems. The 42 systems with assets over \$100 million already reporting would not be impacted and only the systems with less than \$100 million in assets would potentially be affected.

2. [Modify the reporting applicability criteria to include total pension liabilities only when lowering the reporting requirement.](#)

Goal. Clarify the criteria for applicability of the IPPE requirement by adjusting the language that references the total assets of the preceding fiscal year. Assets would continue to determine applicability initially, but only total pension liabilities (TPL) would be used to determine whether a system continues to be subject to a more frequent IPPE requirement.

Issue. Currently a system that is required to complete a subsequent evaluation is required to complete an IPPE every three or six years depending on asset size but does not have to provide the report to the PRB until the following year. Systems with assets that fluctuate around the \$30 or \$100 million threshold have an unclear requirement if assets rise above a threshold and back below before a report is due. This lack of clarity is due to the fact that systems report on their assets annually, while the IPPE requirement operates on a three and six-year timeline.

Recommendation. Adjust applicability language to include additional criteria that prevents normal asset fluctuations between years from obscuring reporting expectations. For example, if a system's assets reach or exceed \$100 million in one year, but dip below that threshold the following year, current statute does not provide clarity on whether the system would still be required to complete an IPPE.

Statute	Assets 2024	TPL 2024	Assets 2025	TPL 2025	Requirement
Current	\$105 mil	\$190 mil	\$120 mil	\$185 mil	3 years
Current	\$105 mil	\$190 mil	\$98 mil	\$185 mil	6 years
Recommended	\$105 mil	\$190 mil	\$98 mil	\$185mil	3 years

Statute could be modified such that the applicability for a three- or six-year reporting requirement will still use the preceding fiscal year's assets to determine the reporting requirement initially; however, once the assets rise above the specified asset threshold, only when both the assets and the total pension liability (TPL) decrease below the asset threshold will the reporting requirement be lowered or no longer applicable. The board chose to use TPL because pension liabilities are the main concern systems and systems that are underfunded would be kept in the more frequent reporting cycle once assets cross the statutory thresholds. In practice this change would keep systems near the asset thresholds in a more frequent reporting schedule unless they are at or above fully funded status.

Benefits:

- Triggering the requirement would still work the same way as current statute because asset thresholds in current law would not change. This recommendation would only potentially impact the reporting frequency of systems that already triggered the requirement and their assets are close to the \$30 million and \$100 million thresholds.
- This change would clarify how to handle systems' assets fluctuations year over year by adding additional criteria. Statutory clarification would provide more certainty for both the PRB and the systems subject to the IPPE requirement.

APPENDICES

Appendix A – Summary of Investment Practices and Performance Evaluation Recommendations

Appendix A

Summary of Investment Practices and Performance Evaluation Recommendations

Number of Recommendations	Governance Recommendations	2020 Total	2024 Total
OPERATIONAL PRACTICE			
4	Annual IPS and/or system review	21	16
1	Review RFP process and its potential impact on delays/missing investment opportunities		
1	Fund counsel reviews all legal contracts		
1	Review compliance requirements		
1	Build staff expertise		
1	Create a key person risk policy		
1	Create an implementation policy from executive director to the Board		
1	Establish formal procedure to review the CIO and Executive Director		
1	Improve in-house investment staff recruiting, compensation, and career development		
1	Improve operational efficiency with industry best practices		
1	Perform periodic or ad hoc vendor reviews		
1	Increase board continuity		
1	Review service providers		
0	Quarterly board meetings should formally review underperforming investment managers		
0	Conduct more frequent AVs		
0	Limit and stagger committee member terms		
0	Review investing core beliefs anytime significant investment changes occur		
0	Create an implementation policy to assist in documentation of policies/procedures		
0	IPS should always be under review		
DOCUMENTATION			
2	Document existing governance practice	9	5
1	Develop and document standard operating procedures		
1	Improve descriptions of existing policies and responsibilities		
1	Document investment consultant recommendations to the investment committee		
0	Develop an ethics policy specifically dedicated to the Plan and those charged with overseeing it.		
0	Include ESG-related and internal management considerations in the IPS		
TRAINING			
4	Ensure training stays up to date	7	4

Appendix A

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0	Develop materials specifically for new board members		
0	Document training requirements or practice in IPS		
TRANSPARENCY			
2	Make additional information available online	7	3
1	Post additional documents to the website		
0	Maintain a focus on transparency		
0	Modernize website		
OTHER			
1	Maintain current reviews of performance, providers and consultants	2	3
1	Review compliance staffing levels		
1	Review personal trading policy		
0	Improve plan adherence by adjusting policies exceeding best practice to align more with best practices		
0	State in IPS the frequency of investment consultant RFP process		
Total Governance Recommendations		46	31

Number of Recommendations	Manager Selection and Monitoring Recommendations	2020 Total	2024 Total
INVESTMENT MANAGER HIRING AND FIRING PROCESS			
10	Include the selection criteria in the IPS as well as document rationale for all hiring and firing decisions	16	15
1	Simplify the process description, providing high-level guidelines for flexibility with specificity where necessary		
1	Add language that the manager must affirm that they act in a fiduciary capacity		
1	Add a conflict-of-interest policy when selecting investment managers		
1	Discuss investment manager selection criteria		
1	Update selection and monitoring process language to match current practice		
0	Refine the manager selection criteria so that it places less emphasis on past performance		
0	Discuss investment manager selection criteria		
BENCHMARKING OR PERFORMANCE MEASURES			
10	Consider new benchmark for performance reports or IPS		
6	Add specific measurable criteria for monitoring performance to the IPS		

Appendix A

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2	Include net- and gross-of-fee returns relative to benchmark and peers in each quarterly report	11	22
1	Add section in IPS that covers Asset/Liability studies		
1	Perform a benchmarking study to review fees, admin costs and staff levels		
1	Perform formal benchmark reviews of each public investment manager one every three years		
1	Periodically review the asset class benchmarks		
0	Create a performance metric and reporting requirement for non-public securities		
0	Additional qualitative information should be included in the manager performance review summary		
0	Add a process for comparing total portfolio and investment managers' risk adjusted returns to peers and benchmark		
ADD POLICIES OR PROCEDURE			
3	Document existing policy on how performance is measured	8	3
0	Add formal investment manager review process, criteria, and procedures		
0	Prepare adequate documentation to ensure/demonstrate process has been followed		
0	Add a watch list policy		
0	Add a policy documenting proxy voting rationale		
OTHER			
2	Update policy language regarding reporting/reviewing for investment managers	12	8
2	Improve documentation of processes being followed		
1	Clarify due diligence required by investment type		
1	Improve watch list policy		
1	Maintain annual report addressing qualitative factors for each investment manager		
1	Review performance objectives for consistency with IPS		
0	IPS should specify that performance reporting include net of investment management fee		
0	Investment performance reports should be quarterly with monthly flash reports		
0	Separate reporting requirement by asset class instead of consultant or investment manager		
0	Add policy language defining a reporting or valuation process for less liquid or illiquid securities		
0	Revisit the watch list for alternative		
0	Review Private Equity performance benchmarking to IPS policy		
0	Standardize investment monitoring processes across all asset classes		
0	Generalize watch list language to avoid being overly prescriptive		
Total Manager Selection and Monitoring Recommendations		47	48

Appendix A

Texas Pension Review Board
Investment Performance Report

Number of Recommendations	Investment Fee Recommendations	2020 Total	2024 Total
IPS GUIDELINES			
7	Add language to document various processes regarding the reconciliation and payment of fees or the level of detail recorded for direct and indirect compensation	12	8
1	Add language to review expenses annually		
0	Adhere to existing policies		
0	Expand investment fee study policy to provide more specifics on who is responsible, the frequency and metrics		
REPORTING			
1	Disaggregating research and securities brokerage costs	7	1
0	Trade cost analysis summarizing explicit and implicit trading expenses		
0	Management fees netted from returns		
0	Profit share/carried interest from alternative investments		
0	Expenses related to cash (if any)		
0	Expenses related to real estate		
0	Reconciling actual payments with negotiated rates		
0	Document the results of its provider service and fee review at least annually		
0	Tracking the difference between negotiated rates and “headline rates” charged to smaller investors as fee savings		
FEE REDUCTIONS			
4	Include (more) passive investment, where appropriate	6	8
2	Utilize a benchmarking firm to compare investment fees and other expenses to peers		
1	Maintain passive investment allocation, where appropriate		
1	Evaluate ways to reduce fees in private markets		
0	Seek no fee or discounted fee arrangements		
OTHER			
1	Benchmark fees against peer group or industry averages	9	3

Appendix A

Texas Pension Review Board
Investment Performance Report

1	Re-evaluate fee benchmarks		
1	Conduct annual review of available fund vehicles		
0	"Remaining diligent" comments		
0	Understand that overall portfolio fees are influenced by size and asset allocation		
0	Consider an evaluation metric for securities brokerage vendors based on execution skill		
0	Review vendor contracts regularly for cost saving improvements		
Total Investment Fee Recommendations		34	20

Number of Recommendations	General IPS Recommendations	2020 Total	2024 Total
ROLES AND RESPONSIBILITIES			
4	Define Investment Committee	24	12
1	Define who conducts fee review and reporting		
1	Define CIO/Executive Director role		
1	Define custodian responsibilities		
1	Define Legal's responsibilities		
1	Define Staffs role		
1	Define Actuary responsibilities		
1	Define Investment Consultant responsibilities		
1	Statement that the Board is ultimately responsible, and the board hires other roles		
0	Define Fiduciary Duty		
0	Define Broker/Dealer		
0	All parties involved in oversight of Plan investments, investment fee monitoring process, along with fund selection and monitoring criteria		
0	Define Specialty Consultants role		
0	Define Fund Administrator responsibilities		
0	Define reporting requirements for Investment Managers		
0	Define who selects Investment Managers		
0	Define who sets benchmarks		
0	Update Investment Committees responsibilities to include assigned tasks		

Appendix A

Texas Pension Review Board
Investment Performance Report

0	Define who is responsible for notifying managers of “unusually large liquidity needs” by the system and explain responsibility		
IPS LANGUAGE			
5	Include a discussion of risk in the IPS	15	20
3	Language discussing funding and liquidity needs in reference to systems liabilities		
2	Add policy similar to GFOA for determining and evaluating asset allocations		
2	Improve proxy voting language or process		
1	Language on IPS and governance review frequency		
1	Language to meet or exceed the Fund’s actuarial assumed rate of return over the long term		
1	Language explaining investment beliefs		
1	Fiduciary language to certain roles to make decisions in the best economic interest of the fund's participants and their beneficiaries		
1	Define total fund benchmark aligned with asset allocation targets in IPS or reference in appendix		
1	Include a discussion of leverage in the IPS		
1	Language specifying if an external service provider is used and have authority to create compliance reporting		
1	Language that general objective is to provide promised benefits to members		
0	Language explaining Emerging Manager program definition and scope		
0	Language discussing funded status		
0	Update IPS target allocation to match current allocation in practice		
0	Define mandatory reporting expectations to the board		
0	Language around plan expenses		
0	Add language to better reflect alternative investments and their unique aspects		
0	Language should also be added to address that investments into mutual funds, exchange-traded funds or comingled investment trusts that may not follow the investment stipulations of the Statement of Investment Policy		
OTHER			
4	Cleanup or remove IPS language	8	11
4	Review IPS to PRB and industry best practices		
1	Continue simplifying the IPS		
1	List IPS revision dates in IPS appendix with past IPS documents retained		

Appendix A

Texas Pension Review Board
Investment Performance Report

1	Consider combining the IPS and operating procedures		
0	Finalize the update to Investment Beliefs and Fee Policy		
0	Improve the IPS with more explicit and measurable details		
0	Generalize policy language to avoid being overly prescriptive		
Total General IPS Recommendations		47	43

Number of Recommendations	Asset Allocation Recommendations	2020 Total	2024 Total
UPDATE IPS ALLOCATION SECTION			
6	Document existing practice or recommend potential changes for determining and evaluating the asset allocation	24	13
5	Provides specific language changes to be more specific regarding rebalancing ranges and guidelines		
1	Add language to review of the expected return assumptions, expected risk assumptions, portfolio standard deviation and peer group rankings at least annually or more frequently if needed		
1	Add section in IPS that covers Asset/Liability studies		
0	Include general language regarding diversification		
0	Add language for informal annual reviews of capital markets to improve flexibility of investments		
0	Add language defining maximum allocation to illiquid investments		
0	Define a more precise definition but more flexible with the timing of asset allocation studies		
0	Add language in IPS to define annual review as an asset allocation (or asset-only) study		
0	Including language specific to commingled funds stating the guidelines in the prospectus or similar governing document will prevail		
0	Clarify policy language regarding “readily marketable securities”		
OTHER TOPICS			
4	Recommending specific changes or to consider investments	13	9
2	Update the asset allocation study		
2	Review specific risk or asset class for current market expectations		
1	Avoid large changes in the strategic asset allocation too frequently		
0	Continue deep dive reviews of all asset classes annually		
0	Review the strategic asset allocation annually		

Appendix A

Texas Pension Review Board
Investment Performance Report

0	Incorporating the target allocation weights and ranges, along with preferred benchmark, into an appendix.	
0	Review the strategic asset allocation biennially or more frequently if needed based on market assumptions	
Total Asset Allocation Recommendations		37 22

Number of Recommendations	Other Topics	2020 Total	2024 Total
LIQUIDITY OR CASHFLOW CONCERNS			
2	Contribution levels and/or negative non-investment cash flow concerns	10	2
0	Make enhancements to liquidity reporting or management		
0	Add language discussing plan liquidity risk and every three years provide a comprehensive report		
OTHER TOPICS			
4	Complete an asset/liability study or study considerations	16	6
1	Add schedule for completing asset/liability studies to the IPS		
1	Improve in-house staff analytical expertise in scenario analysis and third-party reviews		
0	Consider potential plan design changes		
0	Develop/foster capital market assumptions with the investment consultant and actuary working closely		
0	Perform an experience study and make changes to assumptions as needed		
0	Different investment managers should attend board meetings semi-annually to provide updates		
0	Complete an asset allocation study every 3-5 years		
0	Utilize the expertise of investment consultants to ensure alternative assets are properly valued and managed		
0	Allow managers to select most efficient way to obtain their foreign currency hedge		
Total Other Topics		26	8

Appendix B – Individual Plan Summaries of the Investment Practices and Performance Evaluations

The following pages contain summaries of evaluations received by the Pension Review Board (PRB). Links to the individual plan evaluations can be found at the end of each summary or on the PRB website [here](#).

Under Section 802.109(i) of the Texas Government Code, the PRB's report must "compile and summarize" the information received. There is no mandate for the PRB to perform independent analyses of any data presented or to assess whether plan practices align with industry standards. The PRB has therefore focused on identifying and reproducing key excerpts from each report, along with significant recommendations, to provide a quick reference for policymakers. All material included in the excerpt tables is provided verbatim. The PRB Analysis section calls attention to certain highlights of an evaluation, noting unique aspects that may distinguish it from other evaluations received.

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Investment Practices and Performance Evaluations performed by Independent Third Party

Austin Firefighters Retirement Fund

PRB Analysis of Evaluation

The evaluation provides helpful explanations and includes useful comparisons to industry practices to confirm that the system’s policies are consistent with best practices. The evaluation uses color coding that helps identify areas of concern for the reader throughout the evaluation sections. The evaluation was completed by a third-party firm, which allowed for an enhanced independent review of the investment practices.

The evaluator provides detailed peer comparison data including detailed analysis of potentially concerning sections such as the net cash flow and DROP program impacts on the system. The evaluator notes that, “like most mature pensions, cash flow is negative and has increased from 1.5% of assets in 2015 to 3.5% in 2022. [Deferred retirement option plan (DROP)] assets and payments have steadily increased as a percentage of the total fund assets and total distributions, respectively. DROP payments account for approximately 25% of distributions. These pressures may impact the Fund’s tolerance for illiquids if they continue to increase at this pace.”

The evaluation also includes additional cost analysis based on information available to the evaluator from their expertise which provides an additional point of comparison than the generally used National Conference on Public Employee Retirement Systems (NCPERS) survey. This allows the analysis to offer a more unique datapoint and helping confirm the evaluator’s statement that “the investment manager fees for the Fund appear higher than the industry average when compared to both the Callan and NCPERS surveys. However, investment manager fees for the Fund appear lower than industry median on a weighted-average basis, which considers the asset allocation impact of AFRF on total fees.”

AFRF also included detailed comments in response to the recommendations of the evaluator. This increases the transparency for stakeholders and supports good governing practices by openly identifying areas for improvement and any potential actions that the system will take.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Policy Statement
<p>One of the most important actions a Board can take is to develop, follow, and periodically review an investment policy statement (IPS), which should be an active document and provide a “road map” for the ongoing prudent management of the Fund. AFRF has a clearly articulated IPS that outlines the primary goals and objectives of the Fund, investment guidelines and limitations, fiduciary responsibilities, and a rebalancing policy. The policy also clearly delineates the roles and responsibilities of the Board of Trustees, staff, the investment consultant, investment managers, and the custodian. AFRF’s IPS is regularly reviewed and includes a record of all revision dates back to adoption in 2002.</p> <p>The Austin Firefighters Retirement Fund maintains a thoroughly written Investment Policy Statement that includes investment goals and objectives, roles and responsibilities, asset allocation ranges, a rebalancing policy, investment guidelines and restrictions, and statements describing the risk tolerance, time horizon, and liquidity requirements of the Fund. It also maintains Operating Procedures that include asset class assumptions, broad</p>

Plan Assets:¹ \$1,162,694,392
Evaluator: Callan
Evaluator Disclosures:²
Relationship: Independent 3rd Party
Investment Discretion: None
Conflicts of Interest: None
Senate District: 14
House District: 48

¹ As of 12/31/2023

² [Section 802.109, Texas Government Code](#) authorizes the selection of a firm that has an existing relationship with the system, as long as the firm does not directly or indirectly manage investments. The PRB’s [Guidance for Investment Practices and Performance Evaluations](#) covers the statutorily required disclosures in the evaluation.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

and sub-asset class allocation targets, manager selection and termination procedures, fee reconciliation and payment, performance objectives, asset class guidelines and a class action policy.

Strengths:

- The IPS is clear and serves as an effective guide that offers an objective course of action.
- Between the IPS and the Operating Procedures, AFRF's policies incorporate the primary components outlined by the CFA Institute.

Recommendations:

- Consider combining the IPS and Operating Procedures into a single document.
- Consider documenting all fund-level benchmarks used in performance reporting in the policy documents. This will allow stakeholders to understand the rationale of including each benchmark and the construction methodology. Currently, two of the total fund benchmarks used in performance reports are not outlined in the policies.
- Consider adding an investment management fee philosophy that outlines how the Board considers fees when seeking to achieve the most attractive risk-adjusted net return for the Fund.
- Consider including an acknowledgement that AFRF will look to meet the policies as defined by the PRB.
- Consider adding a risk objective to consider how the volatility of assets may impact the Fund's liability amortization period. This may provide additional guardrails to better enable the Fund to stay under the 30-year time frame to amortize the unfunded actuarial liability set by the PRB.
- Consider modelling plan liabilities and conducting integrated asset-liability studies on a periodic basis, typically every 3-5 years, to ensure that the Fund's asset allocation is designed to meet its liabilities and liquidity needs. Asset-liability studies illustrate the potential implications that asset allocation decisions have on future contribution policies. Most of Callan's public defined benefit plan clients, especially those of AFRF's size, conduct regular asset-liability studies.
- Consider adding an appendix or table that defines the benchmarks used for individual managers.
- Consider defining shorter term periods and specifying how relative performance against peers will be evaluated.
- Consider outlining the process for new manager selection and criteria for manager termination.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Asset Allocation
<p>Asset allocation is reviewed annually by the Board and Meketa with the last review in May 2023. Meketa uses 20-year capital market projections and mean variance optimization to model the asset allocation and evaluate the most efficient mix of assets at a given level of return. Assets are allocated in accordance with the Fund's risk and return objectives as outlined in the Investment Policy Statement and the asset allocation documented in the Operating Procedures. The assets are appropriately diversified and maintain sufficient liquidity to meet obligations.</p> <p>A Fund's strategic asset allocation policy serves as the foundation of the investment program and is often the primary determinant of long-term returns and risks. A well-designed asset allocation policy balances the need for asset growth, income, liquidity, and risk mitigation specific to the asset pool's objectives.</p> <p>The primary return objective of the Fund is to achieve a high likelihood of attaining a 7.3% nominal return (the actuarial assumed rate of return) over the long term. The main risk objectives are to take the least amount of risk possible to achieve the return objective, minimize the risk of loss over a full market cycle, and to diversify industry and company specific risks. AFRF has established a strategic asset allocation process designed to meet these objectives. The investment consultant's capital market assumption development is reasonable and consistent with industry standards. Callan also reviewed the assumptions against the Horizon Actuarial Services survey (Meketa does this as well) and the assumptions appear reasonable.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - AFRF's asset allocation policy is aligned with the GFOA's asset allocation best practices for defined benefit plans. <p>Weaknesses:</p> <ul style="list-style-type: none"> - While the Board has requested the investment consultant review the impact of different scenarios on funded ratio and liquidity, it has not conducted a full asset-liability study in the last five years. <p>Recommendations:</p> <ul style="list-style-type: none"> - The Board should consider a full asset-liability study, which integrates different asset allocation mixes and market scenarios with their potential impact on all aspects of the Fund's liabilities (i.e. funded ratio, contribution expectations, amortization period, etc.).

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Fees
<p>AFRF's Board annually reports on direct and indirect management fees, brokerage fees, and profit share, in compliance with PRB requirements. A formalized procedure to document performance-based fees may be useful to guarantee their tracking. Custodial fees, investment consulting fees, and brokerage fees/commissions seem competitive when compared to industry averages. AFRF's investment management fees appear above industry averages when compared to funds of similar sizes. However, when considering the asset allocation of the Fund, fees align closely with peers. An annual fee analysis that includes fee benchmarking may be beneficial in assessing the reasonableness of current fees. The Fund Staff efficiently manages the fee payment process. However, there are recommendations to amend the Operating Procedures for more practical fee reconciliation and reporting. AFRF has successfully reduced investment management costs through strategic allocations to passive management and direct investments, demonstrating a proactive approach to fee optimization.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - AFRF's investment consulting fee is lower than the survey's total for Other External Advisors, which includes other service providers in addition to the investment consultant. <p>Recommendations:</p> <ul style="list-style-type: none"> - Consider a formalized procedure to document performance-based fees may be useful to guarantee their tracking. - Consider adding language to the IPS outlining the frequency and requirements of fee benchmarking. Texas law only requires the reporting of absolute investment management fees, which may not provide stakeholders the appropriate context. An annual fee analysis may be beneficial for monitoring manager fees and assessing reasonableness compared to peers. - Consider amending the fee reconciliation and payment section of the Operating Procedures. Only six of the 49 strategies invoice for fees, which makes the current language of reconciliation and then payment impractical. Consider amending to a review and possible reconciliation of fees. Additionally, consider removing the Trustee oversight requirement in the Operating Procedures. Requiring a pre-identified trustee to verify manager's fee payments may cause governance issues. This could be perceived as a conflict as one of the Trustees responsible for broad oversight would be directly involved in the day-to-day mechanics they are responsible for overseeing. - Consider naming the party responsible for reporting investment management fees to the Board in the IPS.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Governance
<p>Callan conducted a comprehensive review of the Austin Firefighters Retirement Fund governance processes and documentation. The Board of Trustees of the Austin Firefighters Retirement Fund is responsible for administering the Fund pursuant to the terms of Section 2.01 of Article 6243e.1 of Vernon’s Texas Civil Statutes. The Fund is governed by Texas Government Code, the Pension Statute, Fund Rules, Governance Policy, Investment Policy Statement, and Operating Procedures. All Trustees are required to act as a fiduciary and to comply with the Board of Trustees’ Code of Ethics, which includes guidance on Trustee responsibility, professional requirements, conflicts of interest, gifts and benefits, vendor contact during RFP processes, and travel policies. The Code details enforcement policies as well. The Fund appears to have adequate polices in place to address ethics, governance, and investment education. The documents and rules clearly describe responsibilities and expectations. The Fund has a standard process for confirming adherence with the requirements.</p> <p>The Board has ultimate responsibility for investment manager selection and asset allocation as delineated in the IPS. The Board utilizes an investment consultant to assist with asset allocation, investment manager selection and ongoing monitoring of the investment program.</p> <p>Strengths:</p> <ul style="list-style-type: none">- AFRF has established a robust governance framework that is outlined in various policies and statutory regulations, ensuring that all operations are carried out with high standards of accountability and transparency.- The governance process is consistent with industry best practices and many other public funds.- According to the November 2023 Board meeting minutes, Elizabeth Wiley, a representative from the Fund’s Actuary, stated that the “Fund’s benefit policy is much better developed than most public pensions and that the tests are strong without being overly rigorous.”

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Manager Selection and Monitoring
<p>The Board utilizes a multi-step approach, consistent with principles of procedural due diligence for manager selection. As part of this process, the Board has outsourced key pieces to Meketa. As noted, once the Board determines, with assistance from Meketa, a new manager is needed, Meketa typically leads the search process. Meketa has an investment manager research team that regularly monitors and reviews investment managers across public and private asset classes. This multi-phase process includes, among other criteria, analysis of a manager's organization, strategy investment team, investment philosophy and process, performance, and fees. The process includes quantitative and qualitative assessment as well as virtual and in-person meetings. Through this research process, the team develops a high conviction list of strategies in each asset class.</p> <p>The Board reviews and evaluates reports on the investment performance of the Fund quarterly. The reports provide an economic and market update followed by an executive summary that reviews high level relative performance. This is followed by a top-down performance attribution analysis, which analyzes the Fund's performance relative to the performance of its policy targets. The report shows the actual versus target asset allocation and compliance with the IPS. Historical, net-of-fee performance for the total fund and each individual manager is examined in detail against appropriate benchmarks and peer groups. Relative returns are looked at for quarter-to-date, year-to-date, 1, 3, 5, 10-year and since inception as well as 10 calendar years. Private equity, private real estate, and natural resources investments are reviewed using more appropriate metrics such as IRR and TVPI.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - AFRF has a robust process for manager search and selection where the Board is ultimately responsible for selection but generally relies on Meketa, to lead the search process and identify appropriate candidates. - AFRF's investment manager search process is consistent with best practices and follows a similar process to many comparable public pension plans. - The performance platform is used by several large consulting firms, and the calculation methodology for both public and private markets is industry standard and consistent with the CFA Institute's Global Investment Performance Standards (GIPS).

[Full Investment Practices and Performance Evaluation](#)

City of El Paso Employees Retirement Trust

PRB Analysis of Evaluation

The evaluation provides a summary report, with detailed information and simplified “report cards” in several sections, which makes it easy to view the evaluator’s assessments and areas for potential improvement. The evaluation uses infographics to present data in a digestible format, and in many cases, presents the system’s data in comparison to peers or benchmarks. The evaluation was completed by a third party firm, which allowed for an enhanced independent review of the investment practices, including the investment consultant’s role.

Particularly noteworthy is the evaluator’s analysis of the system’s strategic asset allocation, which provides a comparison of the current asset mix to one alternative that could potentially improve risk adjusted returns, reduce risk, or both. This should provide value to the trustees as they review a soon-to-be-completed asset liability study mentioned in the evaluation.

The analysis of investment fees is also particularly useful. It compares the fees associated with the existing portfolio’s funds to a universe of peer funds. This provides transparency to stakeholders regarding the system’s total fees and the selected individual investments managers which most are identified as having fees in line with or less expensive than the median manager peer.

Plan Assets:¹ \$914,311,891
Evaluator: Asset Consulting Group (ACG)
Evaluator Disclosures:²
Relationship: Independent 3rd Party
Investment Discretion: None
Conflicts of Interest: None
Senate District: 29
House District: 76

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Policy Statement
<p>The IPS was reviewed for completeness and to ensure all the key elements were included. The IPS is written thoroughly, and all nine major key elements are included. The portfolio has a 1% strategic allocation to cash and an estimated 71% of the portfolio has daily liquidity based on the actual asset allocation as of December 2022. Annual cash flow needs are estimated to be approximately 4% of the value of the portfolio based on actuarial projections of annual benefit payments (8%) net of contributions (4%). The portfolio appears to be in a reasonable position to provide for future cash flow needs.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - The purpose of the investment program is clearly stated. - The rebalancing process and considerations are thoroughly outlined. - Acceptable volatility ranges are set for each asset class.

¹ As of 12/31/2023

² [Section 802.109, Texas Government Code](#) authorizes the selection of a firm that has an existing relationship with the system, as long as the firm does not directly or indirectly manage investments. The PRB’s [Guidance for Investment Practices and Performance Evaluations](#) covers the statutorily required disclosures in the evaluation.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Recommendations:

- Consider documenting a process within the IPS for the comparison of the total portfolio and the investment managers' risk adjusted returns to both peers and the benchmark index.
- Consider adding a total portfolio performance objective to earn a rate of return after all expenses that equals or exceeds the actuarial rate of return assumption, which is currently 7.25%, net of expenses.
- Consider increasing the min/max asset class ranges. This allows for more flexibility when making rebalancing decisions.
- Review performance objectives for consistency within the IPS so the appropriate evaluation can occur for the Trust.
- List all IPS' revision dates in the Appendix of the IPS. Records of past IPS' should be retained.

Investment Asset Allocation

Using ACG's capital market assumptions, the strategic asset allocation target has an estimated median expected return of 8.1% per year over the next ten years. This compares to Callan's projections for the strategic target asset allocation, a median expected return of 7.3% per year. The portfolio is diversified across equity, fixed income and real assets. The FY22 funded status of 81% on an actuarial value of assets basis compares to a national average of 75%. The median return expectation of the portfolio is expected to meet the actuarial rate of return assumption of 7.25%, net of expenses.

Strengths:

- The current portfolio is well-diversified with allocations to all major asset classes.
- All managers adhere to the guidelines of the fund strategy.

Recommendations:

- Consider expanding the fixed income allocation to provide access to the full fixed income universe (i.e. non US fixed income and/or high yield).

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Fees
<p>The estimated total weighted average investment management fee using ending Dec 2022 market values for the City of El Paso portfolio is 0.50% (50 basis points). This includes all traditional and non-traditional strategies, but does not include performance-based fee structures or underlying Fund of Funds manager fees. The estimated weighted average investment management fee of 50 basis points is in-line with the least expensive quartile when compared to a similarly structured hypothetical portfolio. Most of the underlying investment managers' fees are in-line or less expensive than the median manager in their respective investment universe.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - Fees appear reasonable for investment management, custody and consulting services.

Governance
<p>The Board of Trustees delegates to an Investment Committee that considers issues related to the investment of Fund assets, and which makes recommendations to the Board. The Investment Committee is charged with investigating investment related issues, and reports its findings and recommendations to the Board of Trustees. The investment decision making process and delegation of investment authority are appropriately documented within the IPS. The Board meets monthly, while the Investment Committee meets the day before the regular Board meeting in odd numbered months.</p> <p>The Board voted to adopt the State Pension Review Board's minimum educational training requirements for both Trustees and System Administrators. New Trustees are required to complete seven credit hours of education in core content within the first year of service. Continuing Trustees and Administrators are required to complete at least four hours of continuing education in either core or non-core content areas within each two-year period after the first year of service.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - Governance structure, procedures, and documentation is thorough and in line with industry standards.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Manager Selection and Monitoring
<p>The Board, through its Investment Committee hires investment managers from time-to-time in order to carry out its duties to diversify the Trust's investment portfolio. The Board has granted authority to the Investment Committee to review possible manager candidates and make recommendations to the Board. Managers are meeting their expectations and investing within the constraints outlined in the IPS. Managers with performance concerns are undergoing periodic reviews and the watch list is actively monitored.</p> <p>We reviewed trailing net performance for the total fund per the most recent quarterly investment report, and compared the performance to peers within the Investment Metrics Public DB Funds universe with assets between \$100 million and \$1 billion. We also compared to a broader universe of peers with a similar equity allocation (55%-70%).</p> <p>Over the trailing 1-year, 3-year, 5-year, 7-year and 10-year time periods, the plan ranks in the 28th, 7th, 17th, 26th and 41st percentiles in the universe of DB peers, respectively. Net of fees, the total fund performance is ahead of the policy index and the peer group (Investment Metrics Public Funds with asset between \$100 million and \$1 billion) over the 1-year, 3-year, 5-year, 7-year and 10-year time periods.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - The investment manager search process conducted by Callan is thorough and meets IPS guidelines and industry standards. - Performance goals and benchmarks for the Total Fund and investment managers are documented and adequate. <p>Weaknesses:</p> <ul style="list-style-type: none"> - Manager performance is not compared against the most appropriate peer group and benchmark stated in the IPS. <p>Recommendations:</p> <ul style="list-style-type: none"> - Consider using the Russell 3000 + 3% in the performance reports for Private Equity investments as outlined in the IPS for consistency. - Consider adding universes for the passive Mellon strategies in the Performance Measurement Standards section of the IPS.

[Full Investment Practices and Performance Evaluation](#)

CPS Energy Pension Plan

PRB Analysis of Evaluation

The evaluation provides helpful explanations and includes useful comparisons to industry practices to confirm that the system's policies are consistent with best practices. The evaluation clearly identifies and discusses past recommendations, and the resulting changes made by the system. The evaluation was completed by a third-party firm, which allowed for an enhanced independent review of the investment practices.

The evaluation conducted portfolio analysis on the asset allocation and the level of risk in the portfolio. It noted that the portfolio's standard deviation of 12.46 was among the highest in its peer group. However, further analysis also noted that, "Despite the larger standard deviation found by CCR, and the resulting nearly 3% point increase in the large loss estimate, this relatively small difference between these two measurements is a positive result that reflects prudent risk management."

The evaluator concluded their analysis by stating that "the Plan has demonstrated adherence to policies and procedures that are aligned with prudence, care, loyalty, and fiduciary best practices. The commitment of the Plan's fiduciaries to compliance training and fiduciary education is commendable. Prudent asset allocation, fee and expense monitoring, enhanced selection and monitoring procedures for investment managers showcase the Plan's dedication to fiduciary excellence." The board trustees also took additional steps as fiduciaries by providing a review-and-comment of the evaluation which supports their transparency and accountability.

Plan Assets:¹ \$2,136,985,511

Evaluator: Champion Capital Research, Inc. (CCR)

Evaluator Disclosures:²

Relationship: Independent 3rd Party

Investment Discretion: None

Conflicts of Interest: None

Senate District: 26

House District: 123

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Policy Statement
CCR is pleased that the Plan has an Investment Policy Statement (IPS) that is consistent with fiduciary best practices. The IPS documents clearly roles, responsibilities, fiduciary status, and specific monitoring criteria. The IPS aligns with industry best practices by focusing on achieving measurable outcomes. The Plan consistently demonstrates a strong commitment to adhering to its governance and investment policies and procedures. Furthermore, the Plan's fiduciaries actively engage in compliance and fiduciary training as required by the Pension Review Board (PRB).

¹ As of 12/31/2023

² [Section 802.109, Texas Government Code](#) authorizes the selection of a firm that has an existing relationship with the system, as long as the firm does not directly or indirectly manage investments. The PRB's [Guidance for Investment Practices and Performance Evaluations](#) covers the statutorily required disclosures in the evaluation.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Asset Allocation
<p>Upon review of the Plan's asset allocation methodology, CCR found that the Plan engages in a prudent process for developing asset class weights, sub-asset class target allocations and rebalancing bands. The Plan's process includes the Investment Consultant ("IC") and Actuary having dialogue regarding capital market assumptions, liquidity needs, future funded ratios, and other analyses conducted on behalf of the Plan. The Plan's asset allocation and re-balancing policies are derived using a sound and prudent process consistently applied.</p> <p>The Plan portfolio's overall risk tolerance is represented by the strategic asset allocation and risk monitored in the IC's quarterly monitoring report.⁸ The Plan's portfolio is reported to have a standard deviation of 12.46 (92%), which is among the highest in its peer group. Risk, relative to return, as measured by the Sharpe Ratio is used to express the added value of the excess risk. In the same report, this kind of risk is also high relative to the Plan's peers. With respect to the risk inherent in strategic asset allocation, or policy risk, our findings are similar.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - CPS Energy's staff not only tracks investment-related and administrative fees but annually completes a detailed fee and expense spreadsheet. This type of monitoring is an improvement in monitoring policies since the 2020 CCR Report and is consistent with fiduciary best practices. - CPS Energy has a prudent process for determining target allocations using the capital market statistics approved by the Plan.

Investment Fees
<p>In terms of expenses and fees, the Plan has a robust monitoring process for assessing and monitoring fees and expenses. The Plan's staff tracks both investment and administrative fees and annually prepares a comprehensive accounting of all expenses. The Plan's total fees for 2022 were \$12.7 million.¹⁰ Based on assets of approximately \$1.9 billion, this is an expense ratio of roughly 65 bps. According to the current publicly available data of public pension plans the Plan's investment expense is below the median of 81 bps based on similarly sized plans (19 of 111 plans). ¹¹ Fees in the previous year totaled \$15.8M. Therefore in 2022, the plan saw a year over year reduction in fees of approx. \$3.1M.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - CPS Energy has implemented robust monitoring processes for reviewing fees and expenses.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Governance
<p>CCR completed an analysis of the investment and governance policies that have been adopted by the Plan and assessed the Plan's compliance with these policies. The Plan's Statement of Governance ("SoG") continues to be comprehensive as it relates to the duties and responsibilities of the CPS Energy Board of Trustees ("Board"), the Employee Benefits Oversight Committee ("EBOC"), the President & CEO, and the Plan's Administrative Committee ("AC"). The Investment Policy Statement ("IPS") further defines the roles and responsibilities of the custodial Trustee, the AC, the Investment Managers ("IM's"), and the Investment Consultant ("IC").</p> <p>Strengths:</p> <ul style="list-style-type: none"> - The Plan added "soft dollar" monitoring policies in its most recent IPS. The Plan is vigilant in its compliance with both its governance and investment policies and procedures, thus, CCR believes the Plan will continue implementing "best practice" processes as best practices evolve. - The Plan's decision-making processes and delegation of authority among the Board, EBOC, and Administrative Committee are prudent processes and consistently applied.
Investment Manager Selection and Monitoring
<p>The Plan has investment manager selection and monitoring processes that are consistent with best practices. This includes quarterly monitoring of both gross and net performance, enabling a comprehensive evaluation of managers against benchmarks. This has improved the fiduciaries' ability to assess the net value add for each manager, including privately assets. The best thinking among fiduciary experts is that the monitoring criteria for investment manager performance is best done using the same objective, specific measurable criteria which were used for selecting investment managers.</p> <p>For IMs operating in liquid markets, selection, and monitoring criteria could be more specific with respect to time-period evaluation. Importantly, each quarter can be viewed as a new "stress test" for every IM. Each quarter, IMs "run the race" against their peers, and against the appropriate benchmark, and against the return expectations for the asset class associated with that particular IM.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - The Plan has significantly improved its monitoring processes since the 2020 CCR Report. Specifically, the Plan has implemented a level of that ensures both gross and net of fee performance are compared relative to benchmark, peer groups, and objectives. CCR commends the Plan for monitoring "soft dollar" arrangements, as these arrangements conflict with a fiduciary's duty of loyalty.

[Full Investment Practices and Performance Evaluation](#)

Dallas County Hospital District Retirement Income Plan

PRB Analysis of Evaluation

The evaluation provides a thorough review of the governing policies, procedures, and practices of the system, while offering easy-to-understand explanations of its findings and recommendations. The evaluation was completed by a third-party firm, which allowed for an enhanced independent review of the investment practices.

The evaluation includes an explanation of its methodology, tying sections of the report back to the applicable section of the Texas Government Code; and a summary of recommendations that discusses the recommendation, rationale, and any supporting industry standard in support of the recommendation.

The evaluation also confirmed that “the cumulative investment management related fees and expenses for the Plan were 0.38% of the plan value. This 0.38% is below the peer median of 0.45% for plans of similar size.”

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Plan Assets: ¹ \$1,665,132,000
Evaluator: Anodos
Evaluator Disclosures: ²
<u>Relationship:</u> Independent 3 rd Party
<u>Investment Discretion:</u> None
<u>Conflicts of Interest:</u> None
<u>Senate District:</u> 23
<u>House District:</u> 100

Investment Policy Statement
<p>The IPS is organized consistent with the “best practices” identified by the CFA Institute, GFOA, and TPRB, including sections regarding (1) investment principles, (2) objectives (3) approved allocation, (4) manager selection process, and (5) monitoring functions and key performance indicators. The investment policy clearly defines three performance objectives for the Plan. These objectives are, over a 5-year period to (1) meet or exceed the actuarial assumed return, (2) meet or exceed the return of the Policy Index, and (3) experience comparable volatility of returns – as measured by standard deviation – of the Policy Index.</p> <p>Since the initial IPPE was completed in q1 2020, the Plan has experienced an unusually high level of volatility from both the equity markets and the fixed income markets (Covid Crash q2 2020 and Fed Tightening 2022). This “real world” stress test has demonstrated that the governance instructions within the IPS are clear as evidenced by the B&FC’s faithful adherence to the instructions within the IPS. Also, the Treasury Director has exercised a disciplined application of the rebalance instructions within the IPS. Finally, the B&FC has reaffirmed the long-term risk expectations and return objectives for the Plan in total and for each of the asset classes and managers that make up the total. For these reasons we conclude that the instructions within the IPS are clear and consistently applied.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> - When comparing the plan’s return to the actuarial assumed return, the plan’s return should be reported net-of-fee

¹ As of 12/31/2023

² [Section 802.109, Texas Government Code](#) authorizes the selection of a firm that has an existing relationship with the system, as long as the firm does not directly or indirectly manage investments. The PRB’s [Guidance for Investment Practices and Performance Evaluations](#) covers the statutorily required disclosures in the evaluation.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Asset Allocation
<p>The methodology used to develop the approved allocation is based on long established and prudent process which includes (1) defining the performance objective (return target and risk expectations), (2) establishing capital market expectations of the various recognized asset classes, (3) modeling combinations of these assets classes to develop a series of allocation that are reasonably expected to accomplish the return objectives within acceptable risk expectations, (4) considering the prevailing economic environment, and (5) selecting that allocation of asset classes that is reasonably expected to accomplish the Plan's goals.</p> <p>The System's risk expectation is expressed as the standard deviation of quarterly returns of the Plan over the preceding five years and is compared against the risk of the Policy Index (a blended benchmark index consistent with the approved allocation). As noted above, the Plan's 5-year standard deviation is not noted in the Callan report, but the 10-year standard deviation of 10.26% is reported which is reasonably close to the 10-year standard deviation of the Policy Index of 9.81%²⁰. In February of 2022, the Investment Consultant projected that the Strategic Allocation would have a 10-year standard deviation of 11.8% and a Sharpe Ratio of 0.37.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - An asset liability study was performed in August of 2022 which found 2022 contributions far exceeded benefit payments. <p>Recommendations:</p> <ul style="list-style-type: none"> - The performance standards for active managers should be expected to be achieved over a five-year measuring period rather than both three- and five-year periods.
Investment Fees
<p>The Investment Policy Statement directs that Investment Consultant will conduct an "Annual review of investment management fees and comparisons with fees of other managers with similar strategies." The Callan fee study dated August 2021 found that the cumulative investment management related fees and expenses for the Plan were 0.38% of the plan value. This 0.38% is below the peer median of 0.45% for plans of similar size. Total direct fees paid by the plan were \$3,676,017 or 0.2298% of the year-end plan value of \$1,599,131,000. Total indirect fees represent 0.1496% of the 2021 year-end plan value.</p>

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Governance
<p>The Board has adopted a series of investment policies and procedures which are memorialized in the IPS. This document is the sole repository of governance policies unique to the System. Separate and apart from the System’s governance policies the TPRB has adopted several reporting responsibilities for the System which could also be considered “governance policies” but are appropriately not included in the IPS because they are universally applicable to all public funds in Texas.</p> <p>The IPS is clear that B&FC retains all authority for investment decisions related to the Plan other than (1) the day-to-day investment duties which have been delegated to the various investment managers and (2) the authority to rebalance the portfolio which has been delegated to Staff within clear written guidelines in the IPS. Other than these two exceptions, all investment authority is vested exclusively with the B&FC and has not been delegated.</p> <p>Recommendations:</p> <ul style="list-style-type: none">- This long-standing practice of annually reviewing and reaffirming the IPS is a sufficiently important governance discipline that is should be added as an affirmative policy in the IPS.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Manager Selection and Monitoring
<p>The qualifying criteria for investment manager candidates are, among other factors, (1) a clearly defined investment philosophy, (2) a stable investment team, (3) sufficient assets under management, (4) experience and tenure in managing the strategy, and (4) reasonable fees. Once engaged, the actual performance of each investment manager (risk and return outcomes) is compared to (1) a benchmark index that is consistent with the asset class or strategy the investment manager employees and (2) peer group managers within the same asset class or investment strategy. The Investment Consultant is responsible for calculating and presenting the performance of the overall Fund, the individual investment managers and the key performance indicators used to measure against.</p> <p>If concerns develop regarding some aspect of an investment manager’s performance or activities, that manager will be put on the “Watch List.” That factors that would trigger a manager being included on the Watch List are (1) failure of the manager to meet their performance standards for a sustained period, (2) change in key members of the investment team, (3) change of ownership of the investment management firm, (4) change in focus of the investment manager, (5) judicial or administrative proceedings brought against the manager, (6) violation of an SEC rule has been committed or (7) other factors determined by the Investment Committee. Because these concerns may or may not be of sufficient importance to justify terminating an investment manager, the Watch List is intended to serve as a management tool for the Investment Consultant and the Investment Committee to evaluate the investment managers.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> - We recommend the Plan adopt a policy that requires the Investment Consultant to disclose any relationship or revenue between themselves and any candidate investment manager that they introduce to the Plan. - We recommend the Plan adopt a policy that at the time of engagement with an investment manager, the manager shall affirm that they act in a fiduciary capacity toward the Plan and its participants

[Full Investment Practices and Performance Evaluation](#)

Dallas Employees' Retirement Fund

PRB Analysis of Evaluation

The evaluation offers a brief summary of the Fund's practices and performance, with some details in specific areas. It should be noted that the evaluation was completed by a 3rd-party firm, which allowed for an enhanced independent review of the investment practices, including the investment consultant's role.

The evaluation touches on the System's annual asset liability study that is identified as a best practice. The evaluator also states that "In our review of the ERF's processes, procedures and documentation, we found no clear deviances from industry standards or prescribed norms for similar funds."

The evaluation includes recommendations for the System to continue existing practice and in general identifies the each various practice that ERF follows is consistent with best practices.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Plan Assets:¹ \$3,649,102,000
Evaluator: Cook Street Consulting
Evaluator Disclosures:²
Relationship: Independent 3rd Party
Investment Discretion: None
Conflicts of Interest: None
Senate District: 23
House District: 108

Investment Policy Statement
<p>An 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 fund's investment strategy, formally establishes the governance structure and asset class representation, and defines the processes for investment manager selection and monitoring. The ERF has a written IPS for the overall plan as well as sub-asset classes, clearly customized for the ERF. The IPS is written clearly so existing as well as newly appointed or elected Trustees will find it helpful as an ongoing tool for evaluating the Fund's investment program, consistent with best practices. The Investment Manager Guidelines contain specific, measurable objectives for the managers, net of fees, over "a full market cycle", which is expected to be 3-5 years.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - ERF's IPS is consistent with best practices.

¹ As of 12/31/2023

² [Section 802.109, Texas Government Code](#) authorizes the selection of a firm that has an existing relationship with the system, as long as the firm does not directly or indirectly manage investments. The PRB's [Guidance for Investment Practices and Performance Evaluations](#) covers the statutorily required disclosures in the evaluation.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Asset Allocation
<p>The ERF has a formal asset allocation policy defined within the IPS. It is specific in terms of asset classes used, ranges around target allocations, and evaluation criteria. The Staff, working with the Investment Consultant, makes recommendations to the Board for approval. They examine the asset allocation monthly and will rebalance to targets based on defined ranges. The ERF's Investment Consultant and Actuary communicate regularly on the expected returns for the ERF. The Actuary examines the Investment Consultant's expectations and compares them to a survey of other capital market expectations from other sources. The ERF does not implement any tactical asset allocation component but does recognize and attribute its managers' returns by their invested sectors and geographical positioning.</p> <p>The Investment Consultant develops return expectations using an Income Growth Valuation Model, Dividend Discount Model, and Cyclically Adjusted P/E Model. The IPS outlines the specific types of alternative assets allowed including ranges and maximum allocations. The ERF's long-term time horizon provides the context for properly setting and measuring performance of these assets as well as defining their target allocations. The IPS, along with Staff procedures and manager selection, help mitigate the implied risk of these asset classes. For example, Private Equity investments are managed in a fund-of-fund structure with multiple managers utilizing two layers of audit and valuation (pricing). An Asset Liability Study is conducted annually, reflecting the current population and expected cash flow needs.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - An asset allocation study is conducted annually, incorporating current capital market assumptions and the Investment Consultant's current views on the market. We found these assumptions to be in-line with peers. - The ERF's asset allocation is appropriate for a plan of its size and is consistent with best practices. - 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 that is appropriate for the plan's size. - The ERF's frequent evaluation of expected returns is an example of a Fund procedure that is consistent with best practices. - The ERF's annual Asset Liability Study is an example of a Fund procedure that is consistent with best practices.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Fees
<p>The ERF has a disciplined and detailed evaluation procedure to measure, reconcile, and benchmark fees. Applicable investment fees and commissions have been assessed against appropriate benchmarks. Such fees and commissions within the Plan have been deemed reasonable. The ERF's custodian provides reporting on securities trading, brokerage fees, and other risk measures, such as sector weights, country weights, cash levels, etc. All fees are transparent and reconciled with service agreements. The ERF does not use commission recapture or directed trades.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - The ERF's discipline around fees is very thorough, and we consider these Fund procedures to be consistent with best practices.

Governance
<p>The ERF and the Board are organized under Chapter 40A. The ERF has Investment Policies related to all asset classes (e.g. International Equity, REITs, Private Equity, Real Assets, etc.) as well as a Manager Selection and Monitoring Policy. The ERF's Code of Ethics (this "Code") covers the Board and Staff and addresses topics such as travel, gifts, prohibited transactions, and conflicts of interests. This Code also covers the ERF's consultants, advisors, vendors, employees, and other fiduciaries of the ERF. This Code is read and enforced together with the code of ethics found in Chapter 12A of the Dallas City Code and the travel policy adopted by the Board for itself and its Staff. The Board members are required to complete the PRB Trustee education with the ERF filing annual disclosure statements. Many members come to the Board with prior professional investment experience. The ERF issues RFPs for their Investment Consultant typically every 5 years.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - The ERF's governance policy and transparency of practices is adequate for a plan of its size and is consistent with best practices.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Manager Selection and Monitoring
<p>Managers are selected by issuing an RFP for each asset class. Working with the Investment Consultant, Staff will recommend candidates for due diligence visits for Board approval. After conducting due diligence, Staff then recommends finalist candidates to present to the Board. Once hired, managers are required to meet with the Board as needed, typically once every two years. The ERF reviews performance monthly, examining both gross-of-fee and net-of-fee returns compared to index benchmarks. Quarterly, the ERF examines managers compared to peer groups, net of fees, attributing returns to sector, timing, and manager skill. Managers can be placed on “watch” for different periods of time depending on the market environment for that manager’s asset class. The Board is provided special information related to watch manager evaluation criteria and the expectations on timing and conditions for improvement.</p> <p>Strengths:</p> <ul style="list-style-type: none">- The manager selection and monitoring process is consistent with best practices.

[Full Investment Practices and Performance Evaluation](#)

Houston Firefighters' Relief & Retirement Fund

PRB Analysis of Evaluation

The evaluation was prepared in accordance with the Houston Firefighters' Relief & Retirement Fund's governing statute.

The evaluation provides a general overview of each of the eight subject areas identified for review in the pertinent statute. It should be noted that the evaluation was completed by a third-party firm, which allowed for an enhanced independent review of the investment practices.

The evaluation identifies various best practices the system uses and studies that the system conducts such as asset liability and asset allocation studies that improve their ability to manage assets. The evaluator further states, "Even with the most prudent and effective management, portfolio volatility has increased in recent years due to external economic conditions...We believe the strong team in place at [Houston Firefighters' Relief and Retirement Fund] has managed the last three years with consummate skill and expect their legacy to continue."

Plan Assets:¹ \$5,109,178,130

Evaluator: Global Sovereign Advisors (GSA)

Evaluator Disclosures:²

Relationship: Independent 3rd Party

Investment Discretion: None

Conflicts of Interest: None

Senate District: 6

House District: 141

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Policy Statement
<p>The Fund's Investment Policy Statement (IPS) went through an extensive review and revision by the staff and Investment Committee (IC) in 2021, which was approved by the Board. It incorporated revisions to align with the 2021 Asset Liability Management (ALM) Study and Strategic Asset Allocation (SAA). This IPS embodies current best practices covering governance (including the definition of duties and investment philosophy), objectives and constraints of the Fund (such as time horizon, return objectives, and liquidity requirements), portfolio parameters (such as asset allocation, benchmarks, types of securities), risk management (including performance objectives and control procedures) and reporting (monthly, quarterly, annually and ad hoc when needed). Board oversight responsibilities remain the same, with the exception that prior signoff by the Board Chair is no longer needed to rebalance the public markets asset allocation when it shifts outside of TAA ranges or when an expected cash outflow requires the replenishment of cash through sale of public markets assets. All other safeguards remain. Such changes provide for more timely portfolio management. Following this change, rebalancing activities will be reported to the IC in the monthly investment actions summary.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - The breadth, frequency and detail of the reports [investment compliance] is deemed to be in keeping with industry best practices.

¹ As of 12/31/2023

² [Section 802.109, Texas Government Code](#) authorizes the selection of a firm that has an existing relationship with the system, as long as the firm does not directly or indirectly manage investments. The PRB's [Guidance for Investment Practices and Performance Evaluations](#) covers the statutorily required disclosures in the evaluation.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Asset Allocation
<p>It is best practice to conduct scenario analysis regularly to test how the portfolio is expected to perform under stressed economic conditions. Diversification is important to manage risk, but it is not always effective, especially when a market crisis arises and the correlation across asset classes increases. The CIO and Senior Investment Officer, no less than annually request scenario analyses and stress tests from third party consultants unless market conditions warrant an ad hoc analysis. It is inherent in the private equity asset class for performance and reporting to lag the more actively traded public markets. For this reason, stress tests, pacing and scenario analyses for private assets conducted on an annual basis is often adequate.</p> <p>Higher fee arrangements are limited to classes of investments where more active management approaches can enhance returns. HFRRF practices diligent compliance functions, employs external professionals to conduct regular external audits and engages actuaries to perform periodic ALM studies consistent with industry best practices. Overall, the closely monitored portfolio, with allocations to a prudent blend of active and passive funds, provides adequate diversification for the long term.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> - Building analytical expertise in-house is suggested as a way to provide more timely scenario analyses as well as added insights to reviewing third party analyses when considering purchases and sales of assets.
Investment Fees
<p>The portion of the portfolio invested with publicly-traded stocks is primarily held in low-cost index funds or in commingled funds with respected fund managers. Research regarding public equity markets indicates a lack of persistent excess returns (i.e., above benchmark, net of fees) with active management in the large, developed markets that are considered more efficient due to information flows, favorable regulatory environments, and sound trading infrastructure.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - Management has been successful in negotiating significant cost reductions which benefits the Fund regardless of market conditions and will strengthen HFRRF's negotiating position as a fair, yet cost-conscious investor. <p>Recommendations:</p> <ul style="list-style-type: none"> - It would be beneficial for the Fund to utilize a benchmarking firm to compare investment fees, administrative costs, and staff size, to funds of a similar size and asset allocation.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Governance
<p>Section Not Required Per Governing Statute</p> <p>Given the increased frequency of unexpected events, there is risk that senior management, such as the CIO, or Executive Director becomes unavailable. A clear emergency backup plan should be in place and documented. A back-up plan for key service providers (such as Custodians) should also be considered. Current service providers should also share information regarding disaster recovery strategies relevant to their work with HFRRF. Potential key participants in a back-up plan should be kept up-to-date on mission critical matters and procedures.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> - While there are external advisors hired to perform various analyses, the Fund should build bench depth and strength. Looking ahead, it would be valuable to have additional staff with the potential to develop cross-functional skills such as risk management, or to become future leaders of the Fund.
Investment Manager Selection and Monitoring
<p>The Fund does not use any fund-level leverage. Individual managers and hedge funds may use options or futures for risk management, which can be viewed as leverage. The Fund does not borrow money to make investments. The reporting frequency of investment managers vary from monthly to quarterly. A review of private market investments usually requires more in-depth analysis and contact with the General Partner (i.e., investment management team) and the other limited partners. Managing these relationships for opportunities for further investment is important. Given the large number of meetings, there are increased travel requirements as well as numerous meetings to be monitored virtually by the CIO and Senior Investment Officer. Given the number of private investments for a growing portfolio, staffing considerations are important and require monitoring.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - For 39 years, HFRRF has received a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association. <p>Recommendations:</p> <ul style="list-style-type: none"> - We recommend undertaking an independent benchmarking study that not only reviews fees and administrative costs, but also includes an assessment of staffing levels given the Fund's complex structure.

[Full Investment Practices and Performance Evaluation](#)

Houston Police Officers' Pension System

PRB Analysis of Evaluation

The evaluation was prepared in accordance with the Houston Police Officers' Pension System's governing statute.¹

The evaluation provides useful explanations and comparison to leading practices for important topics that ultimately improve the understanding of the system. The evaluation was completed by a third party firm, which allowed for an enhanced independent review of the investment practices.

The evaluator also states that, "Through our evaluation process, we found HPOPS to be a well-managed plan with a well-defined and disciplined governance structure, a strong and ethical culture, clear decision-making processes, and an institutional quality investment strategy. We found no critical-path practices which we believe would imperil the health and solvency of the Plan."

The evaluator identified several recommendations regarding the Investment Manager Selection and Monitoring section, which were recommended during the evaluator's previous evaluation period in 2020.

Plan Assets:² \$7,208,455,000

Evaluator: Verus

Evaluator Disclosures:³

Relationship: Independent 3rd Party

Investment Discretion: None

Conflicts of Interest: None

Senate District: 6

House District: 147

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Policy Statement
<p>Through our review, we found HPOPS takes compliance very seriously, and we found that HPOPS closely follows both the letter and spirit of its policies in most cases. However, we identified certain areas where Policy has not been updated to match current practice, and our recommendations in these areas are detailed below.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - Upon review, we found HPOPS' Ethics Policy to be thorough and well-structured with sufficient requirements to effectively monitor compliance. <p>Recommendations:</p> <ul style="list-style-type: none"> - Add a section on program-level leverage that includes a description of objective(s), implementation, and performance attribution. - Add detail on tactical asset allocation by including governance parameters in roles and responsibilities (Section 428), defining allowable ranges, and performance attribution. - Define specific Total Fund benchmark aligned with Strategic Asset Allocation targets, possibly in a separate referenceable Appendix on Benchmarks.

¹ Section 802.109(k)(1), Texas Government Code, authorizes HPOPS to use the report required by Section 10A, Article 6243g-4, Texas Revised Statutes, to satisfy the evaluation requirement.

² As of 12/31/2023

³ [Section 802.109, Texas Government Code](#) authorizes the selection of a firm that has an existing relationship with the system, as long as the firm does not directly or indirectly manage investments. The PRB's [Guidance for Investment Practices and Performance Evaluations](#) covers the statutorily required disclosures in the evaluation.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

- Include allowable ranges in Strategic Allocation table contained in Executive Summary section of IPS and move to separate referenceable Appendix.
- Adjust manager selection and manager monitoring process language to match current practice as identified in the Implementation section below (pp.14-16).
- Identify specific risk parameters established by the Board as described in sub-section 404.02, possibly in section 432, Risk Control Policy.

Investment Asset Allocation

HPOPS' risk and return objectives are to achieve its actuarial investment rate, currently set at 7.0% net of fees and expenses, within the risk parameters established by the Board. HPOPS' current allocation is tilted toward heavier equity exposure and lower fixed income exposure than its peers, which has served it well as higher risk exposures have been accretive to performance since the Global Financial Crisis, notwithstanding the meaningful drawdown that occurred in 2022.

Based on these performance metrics [Historical fund performance compared to policy index and peers], HPOPS' actual allocation as implemented has been highly effective in meeting its return objectives over most historical periods and showing strong performance relative to peers.

Recommendations:

- Conduct a Strategic Asset Allocation review in light of generally higher capital market assumptions to determine if a lower risk portfolio is a viable option.
- Assess ongoing ability to derive value from portfolio leverage in higher rate environment.
- Consider utilizing peer universe comparisons for public markets investment strategies, including passive mandates in a more formalized/structured manner.
- Reassess liquid alternatives portfolio to align benchmarks with strategic purpose.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Fees
<p>HPOPS' commitment to passive investing is high relative to that of most other public pension plans. That said, we find the rationale behind their decision sound and their position reasonable. Investment management fees illustrated in HPOPS' 2021 ACFR were lower than those included in the schedule referenced above, at approximately \$6.9 million or less than 10 basis points of total assets. However, the ACFR figures did not include investment management fees for private market investments. After removing private markets investments from the table referenced above, the two data sets are comparable.</p> <p>In 2022, HPOPS commissioned a study by CEM Benchmarking to conduct a review of the Plan's fees paid to both public and private markets investment managers. For private markets, the study included private equity, private credit, and private real estate investments. The study concluded HPOPS pays modestly higher fees on average than other institutional investors in private markets.</p> <p>While we find HPOPS' fee structure to be reasonable in aggregate, given its investment strategy implementation, we believe there may be opportunities to reduce the Plan's fee load further, as a result of the general downward trend in investment management fees over the past several years.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - Because of HPOPS' heavy usage of passively managed investment strategies, overall fees are low relative to public market peers. <p>Recommendations:</p> <ul style="list-style-type: none"> - Undertake a comparative fee review of investment managers across the public markets portfolio, including passive mandates. - Evaluate ways to reduce the fee structure of future private markets commitments
Governance
<p><i>Section Not Required Per Governing Statute</i></p> <p>We found no critical-path practices which we believe would imperil the health and solvency of the Plan. We found HPOPS to be somewhat unique relative to many of its peers in that they do not utilize a general consultant to assist with program implementation. However, this has not hindered their long-term performance, which places them in the top percentile among their public fund peers over the long-term.</p>

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Manager Selection and Monitoring
<p>HPOPS has developed robust processes for assessing manager suitability for hire and for conducting periodic on-site due diligence after a manager has been hired, which are described in detail in the Investment Policy Statement. In addition, HPOPS' Investment Staff monitors each manager on an ongoing basis, utilizing a monthly performance report that is published and reviewed in summary with the Investment Committee.</p> <p>Once a manager is hired, the focus shifts to ensuring they are meeting established performance expectations and can be expected to continue to do so. Typically, this is accomplished by tracking investment performance through time and periodically reviewing qualitative factors such as style drift and organizational stability. HPOPS has established procedures for both.</p> <p>Weaknesses:</p> <ul style="list-style-type: none"> - In our view actively managed traditional investments and alternative investments require different approaches to due diligence, including varying degrees of rigor. HPOPS' established search process does not explicitly address these differences. <p>Recommendations:</p> <ul style="list-style-type: none"> - Specify separate requirements for active and passive traditional investments, as well as for alternative investments. - Simplify the process description, providing high-level guidelines for flexibility with specificity on required rigor only where necessary. For example, it may not be necessary to have candidate managers complete an RFP for every search, but it may be necessary to obtain Investment Committee and Board approval every time. - Prepare and maintain adequate documentation to ensure/demonstrate process has been followed. - Include peer rankings in periodic performance reports, as appropriate. - Clarify the level of due diligence required by type of investment. - Reduce the specificity of the coverage topics in Section 443 to provide Staff with flexibility. - Standardize documentation to ensure/demonstrate process has been followed.

[Full Investment Practices and Performance Evaluation](#)

Lower Colorado River Authority Retirement Plan

PRB Analysis of Evaluation

The evaluation provides useful explanation and comparison to leading practices for topics that ultimately improve the understanding of the system. The evaluation was completed by a third party firm, which allowed for an enhanced independent review of the investment practices.

The evaluation provides detailed analysis of both the asset allocation and liquidity of the system using multiple tables, graphs, and references to best practices to explain their conclusions. Additionally, the evaluator provides a summary statement of their evaluation, “Through our evaluation process, we found the Lower Colorado River Authority Retirement Plan and Trust (“the Plan”) to have a reasonable and well-implemented investment strategy.”

The evaluation also confirmed that based on recommendations made from the 2020 evaluation that, “throughout our interview process, each of the interviewees described the new governance structure as highly effective and a meaningful improvement over the previous structure, where all decision-making authority resided with the Retirement Board.”

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Plan Assets:¹ \$456,574,000
Evaluator: Verus
Evaluator Disclosures:²
Relationship: Independent 3rd Party
Investment Discretion: None
Conflicts of Interest: None
Senate District: 14
House District: 48

Investment Policy Statement
<p>As a result of the governance structure transition, the Plan’s IPS has been simplified to reflect a shift in decision-making authority. With this in mind, we reviewed the IPS to assess sufficiency and effectiveness and also to ensure compliance with key provisions. Upon review, we found the updated policy to provide a sufficient level of guidance for the effective management of the Plan.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> - A language adjustment: The third sentence in Paragraph 1 under Duties and Responsibilities on p. 4 currently reads, “The OCIO’s role is set forth in the IMA and may provide guidance to the Board on matters pertaining to the investment of Plan assets including the creation of the Investment Policy, investment selection, monitoring the Plan’s performance, and compliance with the Investment Policy.” Since it is presumed that it is the OCIO, rather than the OCIO’s role, that is to provide guidance, et cetera, this passage may be more clearly written as, “The OCIO’s role is set forth in the IMA. The OCIO may provide guidance to the Board on matters pertaining to the investment of Plan assets including the creation of the Investment Policy, investment selection, monitoring the Plan’s performance, and compliance with the Investment Policy.” - Documentation concerns: We were unable to find clear evidence that the Board of Trustees reviewed governing documents controlling the investment products used in the investment program. In the future, such evidence could include emails to the Trustees containing the governing documents and meeting minutes indicating that discussions of the governing documents has taken place.

¹ As of 12/31/2023

² [Section 802.109, Texas Government Code](#) authorizes the selection of a firm that has an existing relationship with the system, as long as the firm does not directly or indirectly manage investments. The PRB’s [Guidance for Investment Practices and Performance Evaluations](#) covers the statutorily required disclosures in the evaluation.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Asset Allocation
<p>Asset allocation is broadly recognized as the primary tool institutional investors have at their disposal to meet return objective within a pre-determined risk tolerance. The Plan's risk and return objectives are to achieve its actuarial investment rate, currently set at 7.0% net of fees and expenses within the risk parameters established by the Board.</p> <p>While the Board has delegated decision-making authority in certain areas such as manager selection and portfolio rebalancing, it has retained authority for strategic asset allocation with input from the OCIO Provider. We reviewed the process by which the Provider evaluates and recommends asset allocation adjustments and found it too be adequate and in line with industry best practices.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> - The Plan's current active/passive structure is reasonable, but we nevertheless continue to encourage consideration of an increased share of passive investments in the portfolio.

Investment Fees
<p>To assess the Plans' management fee structure, we compared the Plan's actual fee to the median fee in the eVestment manager database for each representative asset class, using the Plan's assets under management. The Plan compares favorably to the universe median in all categories evaluated.</p> <p>Benchmarking data for the Plan's Real Estate and Other Alternatives managers was not available in the eVestment database. However, based on our experience with these asset classes, we believe the fees the Plan is paying is within a reasonable range.</p>

Governance
<p>Since our last evaluation completed in June of 2020, the Retirement Board changed the governance structure of the LCRA Retirement Plan and Trust. The Retirement Board effectuated this change as a result of concerns over the responsiveness of the Board to emergent investment issues, particularly those related to the performance of investment managers, and the ability of the Board and Staff to provide a sufficient level of focused and expert attention to the Plan's investments.</p> <p>Following a competitive review process, the Board engaged with a provider of outsourced CIO ("OCIO") services and granted them discretionary decision-making authority over many of the Plan's investment processes. This change has had the intended effect of streamlining the investment decision-making process, placing the authority to make certain decisions in the hands of experienced investment professionals, increasing responsiveness to emergent investment issues, and allowing the Retirement Board to focus on investment policy development and oversight.</p>

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Throughout our interview process, each of the interviewees described the new governance structure as highly effective and a meaningful improvement over the previous structure, where all decision-making authority resided with the Retirement Board. Our review of the current governance structure supports the legitimacy of this description.

Investment Manager Selection and Monitoring
<p>Effective benchmarks are ones that assist an investor in determining whether or not an investment strategy is meeting performance expectations over time. Characteristics of an ideal benchmark can be easily recalled by using the SAMURAI mnemonic. Most traditional public markets investment strategies can typically find benchmarks that meet the SAMURAI criteria, but it becomes more difficult with alternative investment strategies. We found that in most cases the Plan utilizes a set of benchmarks that reflects the investment strategies deployed across the portfolio and follows the SAMURAI criteria as closely as possible. We find the benchmarks used to be reasonable and appropriate for measuring performance.</p> <p>Recommendations:</p> <ul style="list-style-type: none">- It was not clear whether performance is measured on a gross-of-fee or net-of-fee basis. We recommend including net-of-fee performance to ensure managers are evaluated on their excess returns over and above the fees paid to achieve them.- Compare manager returns to a universe of similar managers to ensure the managers selected are not only adding value relative to a passive benchmark, but they are also outperforming other managers who also may be considered for their respective mandates.- There are no asset class composite benchmarks included in performance reports. We recommend composite benchmarks made up of the underlying benchmark returns weighted by policy target allocations for each asset class.

[Full Investment Practices and Performance Evaluation](#)

Lubbock Fire Pension Fund

PRB Analysis of Evaluation

The evaluation provides helpful explanations and includes useful references to industry practices and peer groups to confirm that the System’s policies are consistent with best practices. The evaluation clearly identifies peer groups and public pension data studies for comparisons made in the evaluation. It should be noted that the evaluation was completed by a third-party firm, which allowed for an enhanced independent review of the system’s investment practices.

The evaluation found that the investment consultant’s performance monitoring of various assets including alternatives and the fees associated with the investments are being conducted appropriately. Along with confirming proper monitoring the evaluator reviewed noted “Based on the 2022 actuarial study, the Plan cash flows are not expected to change materially. The Fund has exhibited only modest cash outflows of 2 % per year for the long term. Based on the actuarial valuation, this relationship appears stable.”

The evaluator in general found that the system’s “policies, procedures, and practices appropriate and consistent with prevailing industry comparisons.” Additionally, the evaluator did make several recommendations for improvement and provided additional details justifying the recommendations where needed.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Plan Assets: ¹ \$258,961,847
Evaluator: Southeastern Advisory Services, Inc.
Evaluator Disclosures: ²
<u>Relationship:</u> Independent 3 rd Party
<u>Investment Discretion:</u> None
<u>Conflicts of Interest:</u> None
<u>Senate District:</u> 28
<u>House District:</u> 83

Investment Policy Statement
<p>The plan takes a total return approach to achieving its objectives, including a clearly defined liquidity policy (IPS: Asset Allocation Strategy, page 6). The cash reserves required to meet liabilities are specifically quantified with dollar ranges. Although funding and benefit policies are not specifically articulated, this document section is evidence that liabilities and cash needs are considered and regularly measured. Asset manager responsibilities are clearly defined. Specific asset manager benchmarks and comparative universes are correctly identified. Measurement periods for performance are identified as a three-to-five-year period. There is a clear process for reviewing and replacing managers based on performance.</p> <p>The investment policy statement (IPS) document is clearly written and consistent with industry practice. The board has regularly reviewed and updated the document. The consultant uses “Appendix A” to express the Fund objectives, benchmarks, and manager assignments. This format streamlines the document and makes it easily understandable. The document has been updated annually, also consistent with accepted industry practices. We found the concise approach of the policy to be effective.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> - We recommend that a process for vendor review be identified and included to ensure quality services and competitive costs. This could be developed as periodic or on an ad hoc basis.

¹ As of 12/31/2023

² [Section 802.109, Texas Government Code](#) authorizes the selection of a firm that has an existing relationship with the system, as long as the firm does not directly or indirectly manage investments. The PRB’s [Guidance for Investment Practices and Performance Evaluations](#) covers the statutorily required disclosures in the evaluation.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

<ul style="list-style-type: none"> - We recommend a discussion on risk to identify the types of risk to be mitigated, to define a time horizon, and to explain a quantitative framework for measuring risk at the total fund level. - We recommend a discussion on how performance is to be measured. This should specify metrics (time-weighted/internal rate of return), cost management, and gross and net fee return calculations. Also included should be the discussion for expense reporting consistent with the Texas statutory requirements (direct and indirect fee evaluation). - For the benefit of future trustees and overall continuity, Lubbock Fire Pension Fund (LFPF) should memorialize its current practice of reviewing the IPS and asset allocation each year in the IPS document. - The document should acknowledge the unique funding constraints and benefit payment requirements in the IPS and how this may inform the asset allocation strategy.

Investment Asset Allocation
<p>The Board of Trustees has conducted an asset allocation study each year for the past three years. These studies include stress testing and are consistent with industry standards. The board's practice of annual review is consistent with industry standards. The asset allocation studies determine if the current assumed rate of return is achievable and reasonable given risk parameters. The consultant weighs the assumed return against the trustees' risk tolerances to determine the most appropriate recommended assumed rate for the plan's valuation. The asset allocation studies evaluate three different absolute return targets (assumed rates of return) and produce optimized portfolio scenarios based on simulated historical performance. Stress testing shows total drawdowns of hypothetical portfolios during historic market dislocations.</p> <p>Based on the March 2024 asset allocation study, the plan's 7.5 percent absolute return target is not achievable based on the existing asset classes and constraints. The consultant asked the board to consider reducing the goal return and moving to a more conservative allocation: 40 percent public equity (down from 50 percent), 10 percent private equity, 25 percent fixed rate debt (up from 15 percent), 5 percent floating rate debt, 5 percent private credit, 10 percent core real estate, and 5 percent value add real estate.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> - The asset allocation analysis could be expanded to include a forward-looking Monte Carlo simulation and additional risk measurements such as maximum loss and value-at-risk. - These studies could be expanded to include additional risk measures such as value-at-risk and maximum loss.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Fees
<p>The plan's most recent IPS, dated 11/15/23, indicates a detailed fee summary across asset managers. The investment consultant also reflects management fees, which are provided to the board quarterly for review. The current disclosures do not distinguish between direct and indirect fees, investment commissions are not shown, and other fees and expenses for custody and investment consulting are not measured or reported. We observe that there do not appear to be any commissions based on the use of mutual funds. Total fees of 67 basis points are consistent with plans of similar size with alternative investment allocations.</p> <p>Based on the plan size and its asset allocation, including alternative strategies, the total plan expenses are deemed to be consistent with peers. All asset performance is shown net-of-fees. Fees are now evaluated each time a vendor is hired. Asset manager fees are expressed both in the IPS and quarterly performance reports. The asset manager fees are also being disclosed and quantified consistent with industry practice.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> - The reporting of investment advisory fees is now consistent with industry practice. The consultant's fee reporting could be expanded to better match the plan's annual financial report requirement to identify direct versus indirect fees, brokerage fees or commissions, and other investment-related expenses such as investment consulting and custody.
Governance
<p>The plan also demonstrates governance through its policies for funding, travel, ethics, and gifts and gratuities. Monthly board meetings are held. Meeting lengths vary based on the agenda but typically last 1- 3 hours. The discussion topics are typically: Call to order, public comment(s), consent agenda (varies), benefit applications, changes and qualified domestic relations orders, consultant report, discussion and action on consultant presentation, miscellaneous, administrator's report, committee reports, and adjournment. The board has shown a willingness to schedule special meetings for miscellaneous items that arise, such as vendor interviews. Based on the evaluation of historical meeting minutes, there appears to be ample detailed time and discussion devoted to each issue.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - We find the governance processes and practices to be effective and robust. <p>Recommendations:</p> <ul style="list-style-type: none"> - The IPS could be updated to identify the use of an Investment Committee in its decision making.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Manager Selection and Monitoring
<p>The consultant, working with the board, will establish certain consistently applied minimum criteria for a money manager to be considered to participate in the search. Analysis of qualified candidates is based on quantitative characteristics, qualitative characteristics, and organizational factors. The board will strive to hire investment managers who offer the greatest incremental benefit to the fund, net of fees and expenses. The board will focus on firms with products with Global Investment Performance Standards (GIPS) compliant track records of at least five years.</p> <p>Individual managers are monitored and evaluated by the investment consultant. This function involves assigning a benchmark and comparisons to peer groups. The investment consultant is tasked with evaluating qualitative and quantitative factors in determining opinions on the asset managers. It is within the consultant’s responsibility to then make recommendations to the board to put a manager on probation or terminate them. A manager may be removed from probation if they demonstrate satisfactorily to the board that significant improvement or rectification of the problem has been accomplished. Active managers are expected to outperform their designated benchmarks over rolling three-to-five-year periods. The overall fund performance is to exceed the benchmarks specified in Appendix A of the Investment Policy. The investment consultant provides a quarterly report and regularly measures the board’s progress towards meeting these requirements.</p> <p>The plan and consultant have a clearly defined process for evaluating and reviewing asset managers. Once the decision is made to replace a manager, the consultant is tasked with sourcing appropriate candidates based on industry-accepted criteria.</p>

[Full Investment Practices and Performance Evaluation](#)

Plano Retirement Security Plan

PRB Analysis of Evaluation

The evaluation offers a brief summary of the system’s practices and performance, with some details in specific areas. The evaluation was completed by a third party firm, which allowed for an enhanced independent review of the investment practices.

The evaluation provides comparisons of system practices to peers in a few sections, best practices in all sections, but does not reference or clearly identify what constitutes best practice. The evaluation concludes that the system’s “governance structure strikes a good balance between risk and efficiency and is consistent with best practices is adequate for a plan its size,” and generally asserts policies as following best practices with “no clear deviances from industry standards or prescribed norms for similar plans.”

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Plan Assets: ¹ \$211,401,023
Evaluator: Milliman
Evaluator Disclosures: ²
<u>Relationship:</u> Independent 3 rd Party
<u>Investment Discretion:</u> None
<u>Conflicts of Interest:</u> None
<u>Senate District:</u> 8
<u>House District:</u> 70

Investment Policy Statement
<p>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.</p> <p>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.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - 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. - Maintain a focus on transparency.

¹ As of 12/31/2023

² [Section 802.109, Texas Government Code](#) authorizes the selection of a firm that has an existing relationship with the system, as long as the firm does not directly or indirectly manage investments. The PRB’s [Guidance for Investment Practices and Performance Evaluations](#) covers the statutorily required disclosures in the evaluation.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Asset Allocation
<p>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. 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.</p> <p>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. 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.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - The asset allocation is appropriate for a plan its size and is consistent with best practices. - Plano RSP's policy for future cash flow and liquidity needs is adequate for their plan's size and consistent with best practices.

Investment Fees
<p>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.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - Fees are appropriate for their plan's size and consistent with best practices.

Governance
<p>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.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - Adequate for a plan its size and is consistent with best practices.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Recommendations:
<ul style="list-style-type: none">- Adjust training and education requirements as needed to stay abreast of evolving investment strategies in a very dynamic global environment.

Investment Manager Selection and Monitoring
<p>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. 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.</p> <p>Strengths:</p> <ul style="list-style-type: none">- Maintain current reviews of the RSP’s performance, providers and consultants.- We found no clear deviances from industry standards or prescribed norms for similar plans.

[Full Investment Practices and Performance Evaluation](#)

Port of Houston Authority Retirement Plan

PRB Analysis of Evaluation

The evaluation offers a review of the system’s practices and performance, with some details and analysis in various areas. The evaluation was completed by a third party firm, which allowed for an enhanced independent review of the investment practices.

The evaluation provides confirmation of policies that are consistent with fiduciary and industry best practices. The evaluator states that, “In conclusion, the Plan has demonstrated a commitment to adhere to policies and procedures that are aligned with prudence, care, loyalty, and fiduciary best practices. The commitment of the Plan’s fiduciaries to compliance training and fiduciary education is commendable. Prudent asset allocation, fee and expense monitoring, enhanced selection and monitoring procedures for investment managers showcase the Plan’s dedication to fiduciary excellence.”

The investment fees analysis confirmed the system’s investment expenses are in-line with peers of roughly 65 basis points (bps) compared to the median of 66 bps.

Plan Assets:¹ \$201,357,241

Evaluator: Champion Capital Research, Inc (CCR)

Evaluator Disclosures:²

Relationship: Independent 3rd Party

Investment Discretion: None

Conflicts of Interest: None

Senate District: 6

House District: 143

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Policy Statement
<p>The Plan has a robust Statement of Investment Objectives and Policy (“SIOP”). In many areas such as governance structure it is consistent with best practices. The roles and responsibilities of those involved in governance, investing, consulting, monitoring, and custody are defined in the SIOP. The SIOP is written clearly and while sufficiently explicit, modified language regarding governance and monitoring processes will improve adherence to policies. The Plan periodically reviews its investment policies, with the most recent SIOP dated September 27, 2022. PHA Staff review the SIOP annually and track changes.</p> <p>The SIOP clearly describes the appropriate allocation and styles to be determined by the PC. The August 1, 2022, actuarial valuation specifies a 6.00% long term rate of return. The same long-term expected rate of return is specified in the Independent Auditor’s Report and Financial Statements, July 31, 2022, and 2021.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - The document is well-written. It is explicit, clear enough for a competent third party to follow, and allows for effective portfolio management. - The stated goal of the Plan is to deliver performance that exceeds the Pension Actuarial Assumption rate of return. Relative to this goal, during the last seven years the fund’s composite net of fees has outperformed. - The actuarial rates of return are identified as reasonable in the study based on demographics and Capital Asset Models used by the AC.

¹ As of 12/31/2023

² [Section 802.109, Texas Government Code](#) authorizes the selection of a firm that has an existing relationship with the system, as long as the firm does not directly or indirectly manage investments. The PRB’s [Guidance for Investment Practices and Performance Evaluations](#) covers the statutorily required disclosures in the evaluation.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

<p>Recommendations:</p> <ul style="list-style-type: none"> - With respect to monitoring the portfolio, evaluation would be more objective by specifying a horizon over which to assess performance. The use of a “full market cycle” as a time horizon over which to assess performance would be improved by using a measurable and specific time horizon to provide a clearer benchmark for success.
<p style="text-align: center;">Investment Asset Allocation</p> <p>The system has a formal/written policy for determining and evaluating its strategic asset allocation. Those responsible for making the decisions regarding strategic asset allocation include the Commission with assistance from the PC. Actuarial analyses are based on 10-year capital market expectations provided by various investment firms. The actuarial return on assets is an expected return of 6.00% over the next 10 years and is stated as an annual return. Because the asset allocation is reviewed quarterly, there is frequent opportunity for a review of the portfolio relative to strategic asset allocation and the bands assigned for re-balancing.</p> <p>Except for the PHAs process for immunizing short-term liabilities, the system makes no use of tactical asset allocation. The Plan’s funding policy approved by the PC allows staff to fund up to 105% of the actuarially determined contributions. The SIOP includes statements on the benefits of active management and has equity return goals established to outperform indices. The SIOP includes an allocation to the passive S&P 500 Index. The reliance on both active and passive investment management is prudent.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> - Including the capital market inputs (expected risk and return by asset class) as an appendix or attachment to the SIOP would ensure that the expected volatility and risk of the Plan’s asset allocation is easily monitored.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Fees
<p>CCR found investment manager fees clearly reported quarterly in the performance reports delivered by the PC. In the appendix of the annual audit of the fee and expense worksheet, the aggregate fees charged, whether paid directly by the Plan or deducted from returns, are stated. Investment service fees are measured including custodial, actuarial, audit, and advisory fees providing a comprehensive annual fee analysis. Information for management fees paid by the trust is provided using data from the Plan's custodian, PNC. IM fees netted from returns are provided by the PC using an average of each manager's month-end market value and the manager's respective net expense ratio. Our analysis verified contractual fee arrangements are being met.</p> <p>When fees are decomposed, we find that 48 basis points allocated to investments, and 17 basis points to administrative expenses. According to the current publicly available data of public pension plans, the median administrative expense for similar sized plans was also 17 basis points, and the median investment expense was 49 basis points.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - Based on assets of \$194M (July 31, 2022), this represents an expense ratio of roughly 65 basis points. According to the current publicly available data of public pension plans the Plan's investment expense lies right under the median of 66 bps. - The PHA [Fund] continues to evaluate the potential savings and performance enhancements that may result by implementing the strategic asset allocation with additional passive investment strategies.

Governance
<p>The Amended and Restated Bylaws ("Bylaws") of the Port of Houston Authority, Amended October 27, 2022, prescribe and describe the Port Commission Committees and Task Forces, including Pension and Benefits. The Port of Houston Authority Restated Retirement Plan Statement of Investment Objectives and Policy was adopted September 27, 2022. It is a standalone policy statement.</p> <p>The investment management model is internal. The SIOP delegates day-to-day management and administration of the Plan Sponsor Staff; such activity to be "under the supervision and direction of the Commission, and in accordance with applicable state and federal laws, including supervising the PC, Investment Managers, the Trustee, and any other parties engaged by the Commission." The SIOP provides detailed responsibilities for the PC, and the Investment Manager(s), and declares that "[e]ach Investment Manager will have full discretion to make all investment decisions for the Plan assets placed under its investment discretion and control." The SIOP states that "[t]he Commission will review the total Asset Allocation between Investment Managers and the overall Asset Allocation on a quarterly basis to keep the Asset Allocation of the various managers in line with the target Asset Allocation..." "Plan Sponsor staff is authorized to rebalance the portfolio...and may also maintain portfolio assets in money market accounts or other cash equivalents as deemed appropriate or necessary to cover Plan expenses and monthly benefit payment requirements."</p>

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

<p>Strengths:</p> <ul style="list-style-type: none"> - Importantly, the PHA’s website is well constructed and contains up-to-date information.
<p style="text-align: center;">Investment Manager Selection and Monitoring</p> <p>The Commission is responsible for selecting investment managers. At each quarterly meeting, the PC provides the Commission with performance updates on the total fund, and for each investment manager. The performance is broken down by manager for the quarter, one-year, three-year, five-year, seven-year and since inception. At each period, benchmark performance is also displayed alongside manager performance, making it clear which IMs were outperforming and which were underperforming. Manager returns are reported net of fees, and total fund composite is broken down by gross and net of fees at each period.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - Continued procedural prudence of monitoring IMs relative to mandates, both quantitative and qualitative mandates. <p>Recommendations:</p> <ul style="list-style-type: none"> - While each asset class has IM constraints listed in the SIOP, the selection criteria for including potential candidates will be measurable and quantifiable. The PHA will implement enhanced processes to include quantifiable criteria in the IM selection process. - The SIOP should state quantifiable monitoring criteria for the PC to avoid ambiguity. - An annual report addressing qualitative factors, including staff turnover, changes in management team, and the quality of reporting, for each IM should be maintained in the PHA’s fiduciary files.

[Full Investment Practices and Performance Evaluation](#)

Texas Emergency Services Retirement System

PRB Analysis of Evaluation

The evaluation provides a summary of observations and detailed explanations along with analysis where appropriate for all recommendations. The evaluators used useful infographics, graphs, and tables to present complex data and analysis in a digestible format, and in the case of investment fees comparisons to peers. The evaluation was completed by a third-party firm, which allowed for an enhanced independent review of the investment practices, including the investment consultant's role.

Particularly noteworthy is the evaluator's analysis of the system's investment expenses, which provides supporting evidence of fees being in line or lower than peers with data tables comparing the fund to peers. However, the evaluator did state that "for a portfolio with an 85% target allocation to public market mandates, the overall fees are comparatively high due to the use of actively managed funds across all the asset classes."

The analysis also included a review of past asset liability studies regularly conducted by the system which allowed for a more detailed review of the practices that guide the decisions made by the board.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Plan Assets:¹ \$127,384,132

Evaluator: RVK

Evaluator Disclosures:²

Relationship: Independent 3rd Party

Investment Discretion: None

Conflicts of Interest: None

Investment Policy Statement
<p>TESRS' investment program is governed by the Investment Policy Statement (IPS), which details the objectives and guidelines used for the management of the System's assets. It is important to note that the IPS has been updated recently and is also reviewed on a consistent basis and, in fact, is included in Board materials as part of each quarterly Investment Consultant Report on Investment Performance. Section XVI of the IPS includes a history of IPS changes, which is impressive and provides great transparency for the Board, staff, and System members and their beneficiaries.</p> <p>While not mandatory, many pension plan investment policy statements will also make a general objective statement similar to the following: the overall objective of the system is to provide promised benefits to its members and their beneficiaries in a timely, effective, and efficient manner.</p> <p>The Board's investment strategy mandates formal asset allocation studies at least every 5 years. We note that a similar schedule for Asset/Liability studies is often included in investment policies of other pension plans. RVK believes the TESRS IPS is consistent with industry best practices, representing clearly defined language aimed at providing the Board governance standards when instituting their investment program.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> - Section III, consider adding a statement to remind the reader that the overall general objective is to provide promised benefits to its members and their beneficiaries in a timely, effective, and efficient manner. - Section IV, consider adding a schedule for completing asset/liability studies, at least every 7 years or as needed would be appropriate.

¹ As of 12/31/2023

² [Section 802.109, Texas Government Code](#) authorizes the selection of a firm that has an existing relationship with the system, as long as the firm does not directly or indirectly manage investments. The PRB's [Guidance for Investment Practices and Performance Evaluations](#) covers the statutorily required disclosures in the evaluation.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

- Section V, consider adding an introductory statement reminding the reader that the Board is ultimately responsible for the administration of the System and its investment program. Also consider clarifying that the Board hires the Executive Director, investment consultants, and custodian.
- Section VI, add the responsibility of the Investment Committee to provide regular reports to the Board documenting their meetings and the process taken for the recommendations made to the Board.
- Section VII, consider adding that a responsibility of the Executive Director is to provide concise documentation of the actions taken during the quarter to implement the Board's investment decisions that add clarity and provide confirmation of the action taken. In Section XI, add a formalized rebalancing process to the IPS.
- Section X indicates that managers are required to submit proxy voting guidelines. Review Is this creating a compliance issue for TESRS?
- Section XI, add a formalized rebalancing process to the IPS.
- Section XII, consider a Board discussion and IPS clarification regarding measurement period for performance monitoring. Is 3 years long-term? Also consider clarifying whether the performance being monitored is net or gross of fees?
- Section XII.B.1., a minor cleanup is warranted as there are no addenda to the IPS. If appropriate, an edit could be made to reference the benchmarks listed in Section XI.C. for the individual target allocations.
- Add a section to the IPS stating the Evaluation and Due Diligence Process for Traditional, Publicly Traded Mandates.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Asset Allocation
<p>TESRS' target allocation is ultimately driven by the liabilities of the System including expected cash flow and liquidity needs. The primary method for analyzing the projected liabilities in the context of asset allocation is through an Asset/Liability (A/L) Study. The System performs A/L studies periodically, with the most recent study performed in December 2019 based on the August 31, 2018, actuarial valuation. These studies are the primary basis for informing appropriate risk levels and any large shifts in target allocation, though smaller changes can occur in between A/L studies based on changes to market environment, capital markets assumptions, and the needs of the System. Specific cash flow and liquidity information from the most recent A/L Study can be found in Section D.</p> <p>As shown in Figure 2.7 above, the System is expected to have net cash outflow through 2023 with its fixed nature of contributions and its projected benefit stream across various portfolio mixes. This is likely to be the case with unchanged contribution policy going forward. It is important to note that sustained outflows can potentially impose liquidity constraints on the management of the portfolio, therefore further limiting the opportunity to invest in alternative strategies regardless of the return or risk reducing diversification benefits they may offer.</p> <p>Weaknesses:</p> <ul style="list-style-type: none"> - We observe that AndCo primarily relies on J.P. Morgan's capital market assumptions for the annual asset allocation review. We believe that reliance on third-party capital market assumptions can generally run the risk of the asset allocation modelling being constrained to asset classes covered by the data provider. There is also the possibility of discontinuation of asset class coverage. <p>Recommendations:</p> <ul style="list-style-type: none"> - Consider extending the projection period for contribution, benefit payments, and funded ratio in asset/liability studies - Consider including projected annual rate of return to reach full funding in asset/liability studies.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Fees
<p>As shown above in Figure 3.1 above, two-thirds of the Fund's managers have effective annual fees that fall below or are equal to the industry median for the respective mandates. Even though all of System's investments are in actively managed funds, which have higher expense ratios than their passive counterparts, TESRS manager fees fare well against their peer universes consisting of both active and passive managers.</p> <p>In terms of the usage of public market fund vehicles, TESRS invests in a mix of mutual funds and separately managed accounts (SMAs). The choice of vehicle is mainly driven by mandate size, fees, ease of execution, and lower administrative burden. While most of the mutual fund investments are in the lowest fee share classes, fees of the majority of the SMAs are below the peer median for their respective strategies.</p> <p>TESRS' allocation to private market alternatives is relatively low, primarily due to the size of the overall System assets and its liquidity constraints. The size of the mandate determines the fee arrangements for alternatives managers. The fees of both private mandates fall in the middle of the peer universe fee range.</p> <p>TESRS' overall investment manager fees are lower than many of its public peers primarily due to its relatively low allocation to alternatives, which is attributable to the size of the System and its liquidity needs. However, it is worth noting that for a portfolio with an 85% target allocation to public market mandates, the overall fees are comparatively high due to the use of actively managed funds across all the asset classes.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> - Consider conducting an annual review of availability of fund vehicles. - Consider conducting asset class structure studies.
Governance
<p>The TESRS Investment Policy itself, while appropriately not specifying required processes in detail, nonetheless provides an indispensable sound foundation for investment decision-making. At the policy level, it clearly calls out adherence to key principles that are the touchstones of best institutional investment management, including but not limited to:</p> <ol style="list-style-type: none"> a. The absolute primacy of the interests of the System's member and their beneficiaries b. Asset allocation is the most important determinant of investment return c. The investment strategy is long-term d. The critical role of diversification in minimizing investment risk

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

- e. The importance of portfolio rebalancing to maintain the Board-approved asset allocation
- f. Investment managers monitoring will emphasize performance over a market cycle
- g. Cost control is valued
- h. Maintaining reasonable liquidity to meet benefit payments is an investment consideration
- i. Delegation of implementation of Board policies regarding investments to the Investment Committee and Executive Director

Finally, we would note that education opportunities for the Board are not limited to formal educational sessions. As in our broad experience with institutional investors of all types, including public funds, the presentations and discussion of key analyses required by the TESRS IPS offer critically important educational opportunities and can be pre-approved by the PRB by application for an individual course or as a sponsor-accreditation.

Strengths:

- The TESRS investment decision-making process indicates it broadly reflects implementation of best practices.

Weaknesses:

- Not all Board members are in compliance with the MET requirements as reported to the Pension Review Board (PRB).

Recommendations:

- Document investment consultant recommendations to the Investment Committee in the form of a simple memo.
- Consider other avenues to encourage all Board members to become compliant with mandated educational requirements.
- Add responsibility that an investment Implementation Report from Executive Director to Board should occur quarterly.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Manager Selection and Monitoring
<p>TESRS follows what could be considered a “short list” process when evaluating new investment managers or comparing current mandates to potential replacements. This is particularly true in public markets, whereas private markets are more depending on the asset class itself. The IPS also notes that the Investment Consultant has the responsibility to “perform manager search and evaluation and perform ongoing manager due diligence,” and to “recommend replacement managers and perform fund evaluations as necessary....”</p> <p>The IPS is clear about the due diligence expectations for private markets strategies but has indirectly delegated public markets due diligence to the Investment Consultant. While the Board still retains the ultimate authority to hire or fire investment managers, it is an important distinction found in the policy.</p> <p>In our review of the work performed by AndCo, we would note that in recent years it would appear the Board typically only sees two candidates for potential investment, either with a new mandate or to replace an existing manager. This is somewhat common in the industry, particularly when an Investment Committee provides additional vetting of potential managers on a short list. However, what is lacking in the current process is documentation from the Investment Committee on what was reviewed with the Investment Consultant, and what is being recommended to the Board. While the Investment Committee does not have authority to hire or fire managers, it does have the responsibility to “...advise the Board and make recommendations with respect to the following service providers:</p> <ol style="list-style-type: none">1. investment managers;2. transition managers;3. investment consultants; and4. custodian banks.”

[Full Investment Practices and Performance Evaluation](#)

Houston MTA Non-Union Pension Plan

PRB Analysis of Evaluation

The evaluator thoroughly details the evaluation requirements and provides supporting materials for their conclusions of best practices. The evaluation was completed by a third party firm, which allowed for an enhanced independent review of the investment practices.

The report references outside sources for best practices, and the evaluator's explanations outline those best practices and how they compare to the system's current practices. In particular, the evaluator noted that the IPS' inclusion of a funding policy meets the pertinent GFOA best practice.

The evaluation also indicates both the system's board and the committee responsible for managing the union plan meets to share expertise between members of both groups.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Plan Assets:¹ \$192,913,885

Evaluator: Smart Management Services Inc.

Evaluator Disclosures:²

Relationship: Independent 3rd Party

Investment Discretion: None

Conflicts of Interest: None

Senate District: 13

House District: 147

Investment Policy Statement
<p>The Metropolitan Transit Authority Non-Union Pension Plan IPS has most of the elements contained in the GFOA Investment Policies for Defined Benefit (DB) Plans including the elements of a Statement of Purpose; Asset Allocation Strategy; Guidelines for other investment-related service providers; Investment Management Guidelines; Cost Management; and Performance Measurement (benchmarking) and Reporting. The IPS does not discuss Liquidity of Investments. It does discuss risk throughout; but does not have a Statement on Managing Risks of Investments.</p> <p>The roles and responsibilities are clearly outlined and discussed more in Section 4 Governance. They are designed to meet the needs and objectives of the Plan consider the current funded status of the plan, the specific liquidity needs associated with the difference between expected short-term inflows and outflows, the underlying nature of the liabilities being supported [e.g., pay-based vs. flat \$ benefit, automatic COLAs, DROP, etc.].</p> <p>Strengths:</p> <ul style="list-style-type: none"> - There is evidence that the System is in compliance with following its IPS because Marquette advises the Board/Committee by reporting on compliance with the IPS. - The Funding Policy meets the GFOA Best Practice for Core Elements of a Funding Policy.

¹ As of 12/31/2023

² [Section 802.109, Texas Government Code](#) authorizes the selection of a firm that has an existing relationship with the system, as long as the firm does not directly or indirectly manage investments. The PRB's [Guidance for Investment Practices and Performance Evaluations](#) covers the statutorily required disclosures in the evaluation.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Asset Allocation
<p>Currently, the Investment Consultant takes risk into consideration. As mentioned on page 8 of this report the IPS does discuss risk throughout; but does not have a Statement on Managing Risks of Investments. On a quarterly basis, Marquette analyzes and reports on risk as measured by standard deviation for the total fund portfolio relative to its peers. The fund's absolute risk and relative risk ranks can be monitored over time for as long as the fund has historical data. They can also compare the total fund to all total fund portfolios in the universe to see where the fund plots in the following categories: excess return over investment policy, tracking error, and information ratio.</p> <p>Marquette stress tests portfolios based on various market conditions. This is a way to quantify several types of risk (interest rate risk, etc.) and identify portfolio sensitivities that may not show up in an asset allocation study.</p> <p>Weaknesses:</p> <ul style="list-style-type: none"> - The lack of a discussion [in the IPS] on how the System's overall risk tolerance is expressed and measured. The expected risk is not categorized per asset class. <p>Recommendations:</p> <ul style="list-style-type: none"> - Include in its IPS a written policy for determining and evaluating the asset allocation similar to the GFOA recommendation. - Add a discussion of risk to the IPS.

Investment Fees
<p>The Investment Consultant is an active participant in the process of negotiating fees, as well as seeking the lowest-cost account structure. Marquette actively monitors investment manager trading costs, soft dollar trading practices, portfolio rebalancing, and larger multi-asset class transition events to minimize trading costs and control risk. In some cases, a commission recapture is also explored. Marquette reports investment fees in their reports in both expense ratios and hard dollars. They compare actuals versus industry averages to ensure they are continually at the appropriate level. In their performance reports, they include a comparison, by asset class, between the Plan's asset management fees and the industry average. The July 2023 MTA Non-Union Flash includes a Fee Schedule which shows the expense ratios are .28% compared to the 2019 Marquette Associates Investment Management Fee Study-Industry Median of .40%.</p> <p>Fees include investment management fees, participant reporting and portfolio administration. The Plan does invest in core open-end real estate; however, the funds do not invest in alternative investments such as private equity and private credit. As a result, the sometimes-substantial performance-based fees, known as carried interest, to manage those investments have not been experienced by the System.</p>

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Governance
<p>The IPS clearly delineates roles and responsibilities of those involved in governance, investing, consulting, monitoring, and custody. The responsibility for decisions rests with the Board/Committee. The procedures and requirements for Investment Consultants and Investment Managers are included. The System does not have a written governance policy statement outlining the governance structure; however, the IPS outlines some of the governance structure by including the roles and responsibilities of the Board/Committee, staff, and external participants in oversight and control of the System.</p> <p>The members have strong educational backgrounds. Four (4) of the members are employed by METRO, the remaining three (3) work in the private sector. All of the METRO representatives maintain high-level positions. Many of the Board/Committee members have strong financial backgrounds (including portfolio management); some of which hold positions in the financial and/or investment area. The Non-Union Committee's and the Union Board's usual practice is to meet together, so expertise of Non-Union members is available to Union members and vice versa.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - The System has an Ethics and Conflicts of Interest Policy. The Policy includes all of the recommended areas to be covered under Ethical and Fiduciary Conduct in the American Federation of State, County and Municipal Employees, AFL-CIO (AFSCME) Best Practices Policies for Trustees and Pension Systems except for Prohibitions of Campaign Contributions. - The Non-Union Committee's and the Union Board's usual practice is to meet together, so expertise of Non-Union members is available to Union members and vice versa. <p>Recommendations:</p> <ul style="list-style-type: none"> - Make additional information available to the public. At a minimum this information should include the Investment Policy Statement, meeting minutes, and the Non-Union one-page Flash Report from Marquette

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Manager Selection and Monitoring
<p>The System does not have a formal investment professional selection policy; however, the selection would occur under the procurement guidelines of METRO with the use of an RFP. The Investment Consultant has the responsibility for searching for and screening potential Investment Managers. In conjunction with the Plan, Marquette develops the criteria for the selection process based on the circumstances and allocation preferences. Marquette’s research analysts will then identify candidates who best meet these criteria.</p> <p>The Investment Consultant is responsible for monitoring individual and overall fund performance. Besides performance, they monitor changes in an investment manager’s portfolio characteristics, deviation from investment style, change in philosophy, change in ownership, and departure of key investment professionals. Each Investment Manager and asset class composite has an appropriate benchmark that it is measured against. The Board/Committee is provided with monthly performance reports by the Investment Consultant. The monthly performance reports provide net-of-fee and gross fee performance.</p>

[Full Investment Practices and Performance Evaluation](#)

Houston MTA Workers Union Pension Plan

PRB Analysis of Evaluation

The evaluator thoroughly details the evaluation requirements and provides supporting materials for their conclusions of best practices. The evaluation was completed by a third party firm, which allowed for an enhanced independent review of the investment practices.

The report references outside sources for best practices, and the explanations provided outline those best practices and how they compare to the system's current practices. In particular, the evaluator noted that the IPS' inclusion of a funding policy meets the pertinent GFOA best practice.

The evaluation also indicates both the system's board and the committee responsible for managing the non-union plan meets to share expertise between members of both groups.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Plan Assets:¹ \$299,834,850

Evaluator: Smart Management Services Inc.

Evaluator Disclosures:²

Relationship: Independent 3rd Party

Investment Discretion: None

Conflicts of Interest: None

Senate District: 13

House District: 147

Investment Policy Statement
<p>The Metropolitan Transit Authority Workers Union Pension Plan IPS has most of the elements contained in the GFOA Investment Policies for Defined Benefit (DB) Plans including the elements of a Statement of Purpose; Asset Allocation Strategy; Guidelines for other investment-related service providers; Investment Management Guidelines; Cost Management; and Performance Measurement (benchmarking) and Reporting. The IPS does not discuss Liquidity of Investments. It does discuss risk throughout; but does not have a Statement on Managing Risks of Investments.</p> <p>The roles and responsibilities are clearly outlined and discussed more in Section 4 Governance. They are designed to meet the needs and objectives of the Plan consider the current funded status of the plan, the specific liquidity needs associated with the difference between expected short-term inflows and outflows, the underlying nature of the liabilities being supported [e.g., pay-based vs. flat \$ benefit, automatic COLAs, DROP, etc.].</p> <p>Strengths:</p> <ul style="list-style-type: none"> - There is evidence that the System is in compliance with following its IPS because Marquette advises the Board/Committee by reporting on compliance with the IPS. - The Funding Policy meets the GFOA Best Practice for Core Elements of a Funding Policy.

¹ As of 12/31/2023

² [Section 802.109, Texas Government Code](#) authorizes the selection of a firm that has an existing relationship with the system, as long as the firm does not directly or indirectly manage investments. The PRB's [Guidance for Investment Practices and Performance Evaluations](#) covers the statutorily required disclosures in the evaluation.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Asset Allocation
<p>Currently, the Investment Consultant takes risk into consideration. As mentioned on page 8 of this report the IPS does discuss risk throughout; but does not have a Statement on Managing Risks of Investments. On a quarterly basis, Marquette analyzes and reports on risk as measured by standard deviation for the total fund portfolio relative to its peers. The fund's absolute risk and relative risk ranks can be monitored over time for as long as the fund has historical data. They can also compare the total fund to all total fund portfolios in the universe to see where the fund plots in the following categories: excess return over investment policy, tracking error, and information ratio.</p> <p>Marquette stress tests portfolios based on various market conditions. This is a way to quantify several types of risk (interest rate risk, etc.) and identify portfolio sensitivities that may not show up in an asset allocation study.</p> <p>Weaknesses:</p> <ul style="list-style-type: none"> - The lack of a discussion [in the IPS] on how the System's overall risk tolerance is expressed and measured. The expected risk is not categorized per asset class. <p>Recommendations:</p> <ul style="list-style-type: none"> - Include in its IPS a written policy for determining and evaluating the asset allocation similar to the GFOA recommendation. - The Board/Committee add a discussion of risk to the IPS.

Investment Fees
<p>The Investment Consultant is an active participant in the process of negotiating fees, as well as seeking the lowest-cost account structure. Marquette actively monitors investment manager trading costs, soft dollar trading practices, portfolio rebalancing, and larger multi-asset class transition events to minimize trading costs and control risk. In some cases, a commission recapture is also explored. Marquette reports investment fees in their reports in both expense ratios and hard dollars. They compare actuals versus industry averages to ensure they are continually at the appropriate level. In their performance reports, they include a comparison, by asset class, between the Plan's asset management fees and the industry average. The July 2023 MTA Union Flash includes a Fee Schedule which shows the expense ratios are .30% compared to the 2019 Marquette Associates Investment Management Fee Study-Industry Median of .41%.</p> <p>Fees include investment management fees, participant reporting and portfolio administration. The Plan does invest in core open-end real estate; however, the funds do not invest in alternative investments such as private equity and private credit. As a result, the sometimes-substantial performance-based fees, known as carried interest, to manage those investments have not been experienced by the System.</p>

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Governance
<p>The IPS clearly delineates roles and responsibilities of those involved in governance, investing, consulting, monitoring, and custody. The responsibility for decisions rests with the Board/Committee. The procedures and requirements for Investment Consultants and Investment Managers are included. The System does not have a written governance policy statement outlining the governance structure; however, the IPS outlines some of the governance structure by including the roles and responsibilities of the Board/Committee, staff, and external participants in oversight and control of the System.</p> <p>The members have strong educational backgrounds. Four (4) of the members are employed by METRO, the remaining three (3) work in the private sector. All of the METRO representatives maintain high-level positions. Many of the Board/Committee members have strong financial backgrounds (including portfolio management); some of which hold positions in the financial and/or investment area. The Non-Union Committee's and the Union Board's usual practice is to meet together, so expertise of Union members is available to Non-Union members and vice versa.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - The System has an Ethics and Conflicts of Interest Policy. The Policy includes all of the recommended areas to be covered under Ethical and Fiduciary Conduct in the American Federation of State, County and Municipal Employees, AFL-CIO (AFSCME) Best Practices Policies for Trustees and Pension Systems except for Prohibitions of Campaign Contributions. - The Non-Union Committee's and the Union Board's usual practice is to meet together, so expertise of Non-Union members is available to Union members and vice versa. <p>Recommendations:</p> <ul style="list-style-type: none"> - Make additional information available to the public. At a minimum this information should include the Investment Policy Statement, meeting minutes, and the Union one-page Flash Report from Marquette.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Manager Selection and Monitoring
<p>The System does not have a formal investment professional selection policy; however, the selection would occur under the procurement guidelines of METRO with the use of an RFP. The Investment Consultant has the responsibility for searching for and screening potential Investment Managers. In conjunction with the Plan, Marquette develops the criteria for the selection process based on the circumstances and allocation preferences. Marquette’s research analysts will then identify candidates who best meet these criteria.</p> <p>The Investment Consultant is responsible for monitoring individual and overall fund performance. Besides performance, they monitor changes in an investment manager’s portfolio characteristics, deviation from investment style, change in philosophy, change in ownership, and departure of key investment professionals. Each Investment Manager and asset class composite has an appropriate benchmark that it is measured against. The Board/Committee is provided with monthly performance reports by the Investment Consultant. The monthly performance reports provide net-of-fee and gross fee performance.</p>

[Full Investment Practices and Performance Evaluation](#)

Investment Practices and Performance Evaluations performed by Investment Consultant

Amarillo Firemen's Relief & Retirement Fund

PRB Analysis of Evaluation

The evaluation conducted by the investment consultant only describes the policies and practices performed by the system and states, “The Policy follows industry best practices except it does not include language about fees.” However, the evaluation offers little new information compared to the previous evaluation completed in 2020.

In general, the statements describing the system’s policies and practices provide minimal commentary, explanation, or comparison to peers. For example, the evaluation states that the system does not have a policy for investment fees and that the board has engaged Abel Noser to provide an analysis of the commissions paid on a majority active managed portfolio. However, no analysis of investment fees or any details about fees paid by the system are provided in the evaluation.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Plan Assets: ¹ \$234,343,561
Evaluator: Alpha Consulting Group of Wells Fargo Advisors
Evaluator Disclosures: ²
<u>Relationship:</u> Investment Consultant
<u>Investment Discretion:</u> None
<u>Conflicts of Interest:</u> None
<u>Senate District:</u> 31
<u>House District:</u> 87

Investment Policy Statement
<p>The Amarillo Firemen’s Relief and Retirement Fund has a written Statement of Investment Policy (“Policy”). The Policy is to be reviewed at least annually for its appropriateness. Roles and Responsibilities are covered for the Board of Trustees (“Board”), Investment Managers, Custodian, and Investment Consultant. The Policy does not take into consideration the current funded status but is does include the contribution amounts for the City and the participants. The Policy follows industry best practices except it does not include language about fees. The Policy is written in a manner that a new Board could come in and understand how AFFRF manages their investment portfolio.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> - Language should be added to the Investment Policy Statement regarding the evaluation of Plan expenses at least annually. - A fully executed Investment Policy Statement should be available on the internal website for the AFRRF participants.

¹ As of 12/31/2023

² [Section 802.109, Texas Government Code](#) authorizes the selection of a firm that has an existing relationship with the system, as long as the firm does not directly or indirectly manage investments. The PRB’s [Guidance for Investment Practices and Performance Evaluations](#) covers the statutorily required disclosures in the evaluation.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Asset Allocation
<p>The Investment Policy Statement covers the strategic asset allocation. At every monthly meeting the Board reviews the asset allocation. The Board last reviewed an asset allocation study from the Investment Consultant in December of 2020. That study was based on Efficient Frontier Modeling. The purpose of Efficient Frontier Modeling is to determine the mix of assets that will produce the optimal return for different levels of risk. For each asset class selected, the following data is included in the model: the expected return, the volatility risk (as measured by standard deviation of returns), and the correlation coefficient. The model produces the most efficient portfolios utilizing the approved asset classes and any restraints applied. The Board has discussed alternative investments, but they have not been inclined to perform any searches. AFFRF's asset allocation differs from other Plans of their size because they do not use Alternative Investments.</p>
Investment Fees
<p>The Policy does not speak to investment fees. The Policy does allow the Board to direct commissions on behalf of the Board and Plan. The Board has engaged Abel Noser to provide an analysis of the commissions paid by their separate account managers.</p>
Governance
<p>The Board does not have a stand-alone governance policy but the Investment Policy Statement does cover the Board's responsibilities. The Board does follow the recommendations of the Pension Review Board ("PRB") and the Texas Local Firefighter Retirement Act. The Board is made up of three firefighter representatives, the Mayor (or the Mayor's representative), a city employee (usually an assistant City Manager or Chief Financial Officer) and two civilian members. They recruit members who have an understanding of investing or financial background. The civilian members of the Board include bankers, financial advisors and former City employees with specific pension experience. Board members must meet the minimum educational requirements set forth by the PRB. The Board and system administrators are required to complete the 7-hour Core training requirement within their first year of service, and the 4-hour Continuing Education requirement every 2 years thereafter. The Core training from the PRB includes courses on fiduciary responsibility and ethics.</p> <p>The full Board makes decisions regarding the investments, there is not a separate Investment Committee.</p> <p>The Policy is not available on the City's or the Firemen's website, but it is available upon request.</p>

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Manager Selection and Monitoring
<p>The Board in consultation with the Investment Consultant is responsible for selecting and retaining investment managers. When an additional asset class is approved or an investment manager is under-performing, the Investment Consultant will present to the Board investment managers that are recommended by their Global Manager Research (“GMR”) analysts. GMR analyzes investment managers using qualitative and quantitative data that looks at the firm, investment personnel, investment philosophy & process, and product performance & viability. These four foundational components are broken down into 13 major components and 75 sub-sectors.</p> <p>When the Board is comparing multiple managers, emphasis is placed on managers with attractive risk-adjusted returns, who protect assets in down-markets and have consistent returns. Conflicts of interest for both investment managers and Board members are considered when evaluating managers. A City Attorney reviews all contracts with investment managers.</p> <p>Manager performance is reviewed gross-of-fee since the benchmark indexes do not include an investment cost.</p> <p>Investment managers will be reviewed for replacement when there is a meaningful change to the primary portfolio management team, sustained under-performance, a change in expenses which the Board deems to be unacceptable, an increase in risk in the portfolio, or for any other reason the Board feels making a change would be in the best interest of the participants and the beneficiaries.</p>

[Full Investment Practices and Performance Evaluation](#)

Austin Police Retirement System

PRB Analysis of Evaluation

The evaluation provides a review of policy practices, clearly documents the sources used as comparative best practices, and also provides detailed explanations where appropriate. However, aside from listing recent IPS changes the evaluation offers little new information compared to the previous evaluation completed in 2020.

The evaluator notes that the existing investment consultant makes recommendations for improvement proactively on an ongoing basis and the recommendations are already incorporated in the existing practices. Therefore, the evaluator makes only general recommendations for the system to “maintain its robust processes to both review the current investment portfolio while also seeking to identify new investments that can improve the system’s long-term expected risk and return while maintaining liquidity to meet its benefit obligations.”

The evaluation supports the system’s consistent practice of improving by stating “Since our engagement in 2013, the System has undergone several reviews of the asset allocation. The results of these activities have been revisions to the System’s investment policy statement, investment manager changes, and the addition of new asset classes. The changes implemented by the System have improved the risk/return profile of the System while also increasing portfolio diversification.”

Plan Assets:¹ \$1,014,902,702
Evaluator: Mariner²
Evaluator Disclosures:³
Relationship: Investment Consultant
Investment Discretion: None
Conflicts of Interest: None
Senate District: 21
House District: 51

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Policy Statement
<p>We analyzed the system’s investment policy statement (IPS) and the board’s compliance with the IPS. While different IPS structures exist, Mariner Institutional, as an independent, professional investment consulting firm, has determined that the system’s IPS, and the board’s compliance with the IPS, is appropriate and comparable with what Mariner Institutional considers best practice, industry standards, and comparable to the structure of an effective investment policy statement as laid out by the CFA Institute.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - Mariner Institutional recommends the system maintain its ongoing review of the IPS. The system has traditionally used its February board meeting to formally review the IPS, however additional updates/changes are made if and when Mariner Institutional and the board feels a change is warranted and in the best interest of the system. We feel that reviewing the policy statement annually is a strong practice and should be continued. - Mariner Institutional recommends that the system continue to track the changes to the investment policy and report them in a clear and transparent manner. <p>Recommendations:</p>

¹ As of 12/31/2023

² Formerly known as AndCo, the investment consultant group was acquired by Mariner to create Mariner Institutional.

³ [Section 802.109, Texas Government Code](#) authorizes the selection of a firm that has an existing relationship with the system, as long as the firm does not directly or indirectly manage investments. The PRB’s [Guidance for Investment Practices and Performance Evaluations](#) covers the statutorily required disclosures in the evaluation.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

<ul style="list-style-type: none"> - To enhance the use of the IPS and its guidelines for manager oversight, Mariner Institutional has developed a watch list report that is shared with the board each quarter. The summary illustrates each manager’s performance against IPS criteria, its status regarding the watchlist, and how long the manager has been on the watchlist. - APRS maintains a goal of retaining two months worth of benefit payments in cash at all times, and this is reflected in the system’s Internal Control Policy. Mariner Institutional recommends the system also consider adding the same language into the IPS.

Investment Asset Allocation
<p>The system has set the targeted investment rate of return at 7.25 percent. The return is comprised of an inflation estimate of 2.50 percent and a real rate of return of 4.75 percent. The investment consultant utilizes the 10- to 15-year forward-looking asset class return and risk assumptions produced by a third-party provider, JP Morgan. These 10- to 15-year assumptions are updated annually and have been consistently published for use by asset allocators for 24 years. The investment consultant also maintains an internally developed, stable, long-term (50+ years) building block return methodology for supplemental, long-term asset return assessments.</p> <p>The system is moving toward a cash flow negative position and to supply needed cash flow for benefits payments the system actively engages with the consultant to conduct periodic rebalance actions to maintain an overall asset allocation that remains in compliance with long term allocation ranges when necessary. If needed, the system will reduce allocations to investment managers that have demonstrated outperformance to not be overexposed to any individual asset class.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - In addition, Mariner Institutional believes that the system is in accordance with the process best practices laid out by the Government Finance Officers Association (GFOA) for selecting third-party investment professionals for pension fund assets. - Mariner Institutional recommends that the system maintain its investment process for investment manager search and selection which relies on its investment consultant, Investment Committee, and board in selecting new investment managers for use within the pension fund’s investment portfolio. - Mariner Institutional recommends that the system continue to work with the consultant to rebalance the portfolio actively to provide any needed cash flow and maintain its long-term target allocations. - Mariner Institutional recommends that the system maintain its existing asset class diversification and its willingness to explore and implement new asset classes as opportunities arise. - Mariner Institutional also recommends that the system continue to pursue institutional quality, diversified options within its alternative asset allocations with reasonable fee structures.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Recommendations:
<ul style="list-style-type: none">- Mariner Institutional also recommends that the system conduct an asset liability study as soon as practicable for the system.

Investment Fees
<p>The fees for the system’s portfolio contained in the most recent quarterly investment review reflect a cost of 0.48 percent. Based on the 2023 NCPERS Public Retirement Systems Study, the average fee for the survey’s 195 state and local government pension respondents was 0.64 percent. It is important to note the system also considers fees an important part of the decision-making process and evaluates the potential fee impact for each new investment manager and strategy considered for inclusion in the system’s portfolio. The system considers the current fee of 0.48 percent reasonable and appropriate for its portfolio.</p> <p>Mariner Institutional reviewed the fees paid to administer the system’s portfolio and the underlying investment manager fees. While high or low fees do not guarantee failure or success for an investment portfolio, Mariner Institutional, as an independent, professional investment consulting firm, has determined that the system’s fees are appropriate and comparable with what Mariner Institutional considers best practice, industry standards. No changes are recommended at this time.</p>

Governance
<p>The system’s IPS contains clear definitions of the board’s responsibilities as well as the role of the board’s professional advisors in assisting the board in fulfilling its fiduciary duties to the system with respect to the investment of assets. Direct investment authority for the system’s assets lies with the board. As such, all decisions regarding the system’s portfolio including return objectives, risk tolerance, investment guidelines, asset allocation targets and manager selection and retention reside with the board.</p> <p>Mariner Institutional reviewed the system’s governance processes related to investment activities, investment decision-making, delegation of investment authority, and education. While different governance structures exist around investment decision making, delegation of investment authority, and education, Mariner Institutional, as an independent, professional investment consulting firm, has determined that the system’s processes are appropriate. No changes are recommended at this time.</p>

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Manager Selection and Monitoring
<p>The consultant is completely independent from the investment management community and receives no compensation for reviewing or including any managers in the search process, nor does the consultant receive any compensation from any investment manager or investment products. Regardless of whether an existing portfolio strategy is being replaced or a new strategy is being considered for the system’s portfolio, the investment consultant will prepare and present a comprehensive manager evaluation report to the board that includes candidates for consideration, discussion and subsequent interviews with the Board. From this group, finalists are selected by the board with input from the investment consultant for presentation and ultimate selection by the system.</p> <p>While the investment consultant may make recommendations regarding investment strategies, the ultimate decision to select a specific strategy for inclusion in the system’s portfolio resides with the board. Once a decision is made by the board, legal counsel reviews and assists the board in the execution of necessary agreements. In addition, if the selection is a separately managed account, the investment consultant will draft an addendum to the IPS for approval by the board, and signature by the investment manager, that outlines specific objectives, constraints and benchmarks for the portfolio under the discretionary authority of the investment manager.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - Mariner Institutional believes that the manager selection process in place at the Austin Police Retirement System is robust and is in accordance with industry best practices. - All performance calculations supplied by the consultant to the board meet the guidelines of the CFA institute. - Mariner Institutional believes that the system is in accordance with the process best practices laid out by the GFOA for selecting third-party investment professionals for pension fund assets. - Mariner Institutional recommends that the system maintain its investment process for investment manager search and selection which relies on its investment consultant, investment committee, and board in selecting new investment managers for use within the pension fund’s investment portfolio.

[Full Investment Practices and Performance Evaluation](#)

Beaumont Firemen's Relief & Retirement Fund

PRB Analysis of Evaluation

The evaluation provides a review of policy practices, clearly documents the sources used as comparative best practices, and provides detailed explanations where appropriate. However, the evaluation offers little new information compared to the previous evaluation completed in 2020.

The evaluator notes that the existing investment consultant makes recommendations for improvement proactively and the recommendations are already incorporated in the existing practices. Therefore, only general recommendations for the system are made in this evaluation to “maintain its robust processes to both review the current investment portfolio while also seeking to identify new investments that can improve the Fund’s long-term expected risk and return while maintaining liquidity to meet its benefit obligations.”

The evaluation supports the system’s consistent practice of improving by stating “Since our engagement in 2011, the Fund has undergone several reviews of the asset allocation. The results of these activities have been revisions to the Fund’s investment policy statement, investment manager changes, and the addition of new asset classes. The changes implemented by the Fund have improved the risk/return profile of the Fund while also increasing portfolio diversification.”

Plan Assets:¹ \$115,144,028
Evaluator: AndCo
Evaluator Disclosures:²
Relationship: Investment Consultant
Investment Discretion: None
Conflicts of Interest: None
Senate District: 4
House District: 21

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Policy Statement
<p>We analyzed the system’s investment policy statement (IPS) and the board’s compliance with the IPS. While different IPS structures exist, AndCo, as an independent, professional investment consulting firm, has determined that the system’s IPS, and the board’s compliance with the IPS, is appropriate and comparable with what AndCo considers best practice, industry standards, and comparable to the structure of an effective investment policy statement as laid out by the CFA Institute.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - AndCo recommends the fund maintain its ongoing review of the IPS. We feel that reviewing the policy statement annually is a strong practice and should be continued. - AndCo recommends that the fund continue to track the changes to the investment policy and report them in a clear and transparent manner. <p>Recommendations:</p> <ul style="list-style-type: none"> - Furthermore, AndCo recommends the system consider adding polices regarding investment manager selection and ethics.

¹ As of 12/31/2023

² [Section 802.109, Texas Government Code](#) authorizes the selection of a firm that has an existing relationship with the system, as long as the firm does not directly or indirectly manage investments. The PRB’s [Guidance for Investment Practices and Performance Evaluations](#) covers the statutorily required disclosures in the evaluation.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Asset Allocation
<p>The Fund’s process for determining asset allocation targets is executed and implemented through frequent and thorough discussions between the board and the investment consultant. Each year, the board’s investment consultant uses a combination of 10- to 15-year forward-looking asset class return assumptions, risk and correlation assumptions, historical asset class return and risk data, and a long-term (50+ years) building block return methodology to determine a target allocation that the investment consultant believes will have the highest probability of achieving the fund’s return objectives. Any changes to the fund’s strategic asset allocation targets and ranges are then recommended to the board for consideration. This was last done in February 2023.</p> <p>The fund’s cash flow and liquidity needs are reviewed by the board each quarter as part of the investment consultant’s quarterly performance review. This review includes discussions regarding the current, expected, and known timing variances of future contributions to, and withdrawals from, the fund. Based on the fund’s current expectation that cash flow (net contributions less withdrawals) will be negative for the foreseeable future without a change in the contribution rate and the fact that a meaningful portion of the fund’s investable assets are post-retirement option plan (PROP) balances that may leave the fund unexpectedly, the portfolio has been positioned to include higher allocations to public, liquid assets.</p> <p>Strengths:</p> <ul style="list-style-type: none">- AndCo recommends that the board continue regular asset allocation reviews with its investment consultant.- AndCo also recommends that the board maintain its policy of educating themselves on new asset classes that could be beneficial to the investment portfolio.- AndCo recommends that the fund continue to work with the consultant to actively rebalance the portfolio to provide the required liquidity levels and maintain its long-term target allocations.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Fees
<p>The board reviews the fees (stated in both dollars and basis points) paid to administer the fund’s portfolio on a quarterly basis for each of its underlying investment managers and strategies in the quarterly investment review prepared and presented by the investment consultant. The fees for the fund’s portfolio contained in the most recent quarterly investment review reflect a cost of 0.55 percent. Based on the 2023 NCPERS Public Retirement Systems Study, the average fee for the survey’s 195 state and local government pension respondents was 0.64 percent. It is important to note the fund also considers fees an important part of the decision-making process and evaluates the potential fee impact for each new investment manager and strategy considered for inclusion in the fund’s portfolio. The fund considers the current fee of 0.55 percent reasonable and appropriate for its portfolio.</p> <p>We reviewed the fees paid to administer the fund’s portfolio and the underlying investment manager fees. While high or low fees do not guarantee failure or success for an investment portfolio, AndCo, as an independent, professional investment consulting firm, has determined that the fund’s fees are appropriate and comparable with what AndCo considers best practice, industry standards. No changes are recommended at this time.</p>

Governance
<p>The Board utilizes an investment consultant to assist with setting the fund’s strategic policy and asset allocation targets, as well as, investment manager strategy evaluation and selection. The investment consultant is a fiduciary to the system, and all third-party separate account investment managers are required to be fiduciaries to the system. In addition, all comingled fund investment managers must be fiduciaries to the fund that they manage in which the fund has invested. The fund does not perform any portfolio management functions internally apart from overseeing the operations of the buildings that houses the fund’s administrative offices and a similar adjacent property which is leased, as well as administrative activities including legal review and execution of agreements as listed below.</p> <p>We reviewed the fund’s governance processes related to investment activities, investment decision making, delegation of investment authority, and education. While different governance structures exist around investment decision -making, delegation of investment authority, and education, AndCo, as an independent, professional investment consulting firm, has determined that the fund’s processes are appropriate and comparable with what AndCo considers best practice, industry standards. No changes are recommended at this time.</p>

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Manager Selection and Monitoring
<p>While the investment consultant may make recommendations regarding investment strategies, the ultimate decision to select a specific strategy for inclusion in the Fund's portfolio resides with the board. Once a decision is made by the board, legal counsel reviews and assists the board in the execution of necessary agreements. In addition, if the selection is a separately managed account, the investment consultant will draft an addendum to the IPS for approval by the Board, and signature by the investment manager, that outlines specific objectives, constraints and benchmarks for the portfolio under the discretionary authority of the investment manager.</p> <p>The investment consultant's reports highlight portfolio and investment manager performance and risk relative to the various performance measurement standards established in the IPS. The criteria established in the IPS tracks managers on both a qualitative and quantitative basis. Strategies that repeatedly fail to meet these standards will be placed on a watchlist or terminated. The criteria are not designed to remove the decision process from the Board, but rather are intended to add objectivity and enhanced scrutiny on managers who are underperforming the criteria contained in the IPS. While the investment consultant may make recommendations regarding the continued retention or termination of an investment strategy in the fund's portfolio, the ultimate decision to retain or terminate an investment strategy (within the bindings of the strategy's agreement) resides with the Board.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - AndCo recommends that the fund maintain its investment process for investment manager search and selection which relies on its investment consultant and board in selecting new investment managers for use within the fund's investment portfolio. - All performance calculations supplied by the consultant to the board meet the guidelines of the CFA institute.

[Full Investment Practices and Performance Evaluation](#)

City of Austin Employees' Retirement System

PRB Analysis of Evaluation

The evaluation provides a well-balanced summary of information in easily understandable graphics, while also providing detailed explanations where appropriate, specifically, the helpful explanations of the asset allocation and investment manager selection processes. The evaluation models transparency by clearly identifying the internal documentation, third-party analyses and benchmarking sources used in the thorough review.

The evaluation also includes an additional section on the internal proxy voting policies and procedures. The evaluator notes "COAERS' proxy voting policies and procedures as stated in Section XII of the [Investment Implementation Policy] IIP are appropriate for delegating proxy voting to each Investment manager and documented in the individual contracts. Section XII allows flexibility for the Board to revoke its delegation and provides a process for monitoring and reporting by Investment Staff through the Executive Director."

While the evaluation was conducted by the same firm as the investment general consultant, the team evaluating the practices is separate from the team that normally interacts with the system. This separation allows for an enhanced independent review which is supported by the level of detail in the analysis and recommendations made in the report.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Policy Statement
<p>The IPS and especially the IIP are very clear with respect to fiduciary conduct, Investment manager responsibilities, guidelines, permissible investments, reporting, and evaluation. The IIP is also very transparent with COAERS' process for selection, contracting, retention, and monitoring. Process and expectations are clearly defined.</p> <p>By design and best practice, COAERS' Investment Staff and Investment Consultant probe investment scenarios that clearly challenge the achievement of current stated objectives. That is the most important purpose of stress testing. As for the frequency with which key policies are reviewed, the IPS and the IIP are formally reviewed by the Board at least annually to determine whether it remains appropriate considering the Board's investment philosophy and objectives, changes in the capital markets, and/or Fund structure. A review of Investment Committee and Board materials confirms the policy review requirement is being met.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - The IPS is consistent with industry best practices. - The IIP represents a clear and workable extension of the IPS and is consistent with industry best practices. <p>Recommendations:</p>

Plan Assets:¹ \$3,278,692,316

Evaluator: RVK

Evaluator Disclosures:²

Relationship: Investment Consultant³

Investment Discretion: None

Conflicts of Interest: None

Senate District: 14

House District: 48

¹ As of 12/31/2023

² [Section 802.109, Texas Government Code](#) authorizes the selection of a firm that has an existing relationship with the system, as long as the firm does not directly or indirectly manage investments. The PRB's [Guidance for Investment Practices and Performance Evaluations](#) covers the statutorily required disclosures in the evaluation.

³ RVK serves as the general consultant for the system, however, a separate team at RVK with no connection to the system or RVK staff performed the evaluation.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

- The power to designate the institutions and individuals who hold the responsibilities, as described in Section II, is a critical aspect of clarifying the ownership of both governance authority and the fulfillment of fiduciary responsibility. COAERS should consider noting the process by which these responsibilities are assigned and periodically reviewed.
- Asset/Liability merits either its own section in the IPS or to be added to Section V preceding any discussion of Strategic Asset Allocation.
- Consider removing the specificity of sub-asset class structure from the Policy Benchmark in Section VII of the IPS and make it part of a routine asset class structure discussion. For example, the Policy Benchmark specifies the benchmark index for fixed income as the Bloomberg Global Aggregate Bond TR, yet each of the sub-asset classes under fixed income are US (US Page 11 City of Austin Employees' Retirement System IPPE Treasuries, US Mortgages, and US Credit). This appears quite granular and could inhibit broader thinking about the structure of the fixed income asset class as conditions warrant
- The Board should consider reviewing their Policy Benchmarks, targeting alignment with actual mandates. For example, close to 60% of the real estate composite is a private core real estate fund which is a mismatch with the Policy Benchmark for Real Estate which is the FTSE NAREIT Equity REITS TR, a publicly traded index. This will become more evident as the System moves into additional private asset classes.
- Consider adding a subsection in Section II for Investment Counsel since the position is referenced within the IIP.
- Consider including the Investment Committee, its role, responsibilities, and any authority held independent of the Board as a whole as its own subsection of Section II. We understand the Investment Committee is a subset of the Board; however, best practice would give the Investment Committee a strong advisory role to vet and recommend to the Board, so actions requiring Board approval can be addressed as a consent item or a motion based on an Investment Committee written summary of the process taken.
- With the understanding that the Board may delegate authority for strategic and operational aspects of the Fund to Staff, consider adding clarity to the degree of delegation by the Board to its Investment Committee and Staff in Section II – Responsibilities of the IPS. Although clarity for the degree of delegation may be stated later in the IPS or in the IIP, we believe it is important to lay it out upfront when addressing the responsibilities of fiduciaries to the System.
- We do find the treatment of [assets/liabilities] in the IPS merits review. The IPS currently states that an [Asset/Liability] Study determines as one of its objectives the “maximum and minimum ranges (Rebalancing Ranges)” around the SAA targets. Having a rebalancing policy and process is a best practice in our view. And COAERS has adopted both. But while rebalancing policy and process should be informed by the risk target set for the total fund in an A/L Study, its design also reflects a host of other considerations related more to asset class liquidity, transaction costs, and more. We suggest that the implied link between A/L Studies and rebalancing in the IPS be reconsidered. Indeed, if it were eliminated, we do not think it would in any way reduce the robustness of the IPS.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

- Add clarity to the degree of delegation by the Board to its Investment Committee, and to Staff in the Section II – Responsibilities of the IPS. Although clarity for the degree of delegation may be stated later in the IPS or in the IIP, we believe in the importance of laying it out upfront when addressing the responsibilities of fiduciaries to the System. If the work of the Investment Committee is not distinctive from and additive to the Board's final decisions and ongoing monitoring, its contribution is debatable.
- We strongly suggest the Board remove performance relative to peers as a specific objective/benchmark for the System. First, peer comparison offers little, indeed almost no, information about whether the fund is achieving its core mission—funding benefits for COAERS plan participants. Second, COAERS is unique with its own contribution policy, benefit structure, ARoR, cash flow, size, objectives, etc. In our view, these differentiators render the very notion of “peers” questionable, and while a group of public funds can be assembled with somewhat more “peer-like” attributes, it will likely be a small universe that is far from statistically robust. The Board's Investment Consultant can and should continue to provide the COAERS Board with peer comparisons of this data, as it is prudent to at least remain generally aware of the performance other funds deliver.
- COAERS might consider adding investment manager benchmarks to the IPS or reference in the IPS their inclusion in the Premier List, particularly for any investment manager actually implementing a funded “active” mandate (note: investment managers may be selected for inclusion in the Premier List but not necessarily be awarded funds to manage at any given point in time).

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Asset Allocation
<p>The strategic asset allocation is reviewed at least annually. In periods where warranted, asset allocation may be reviewed more often, such as following large shifts in CMAs. An Asset/Liability Study is revisited at least every five years. Major changes to CMAs, contribution policy, liabilities, etc., may result in more frequent reviews. The actuarial ARoR plays a critical role in setting the contribution rate of the System and incorporates a variety of factors and risks that affect the System's long-term ability to fund benefits. Among those factors is the Board's asset allocation and expected long-term returns and associated variability based (as noted above) on the CMA's of the System's independent Investment Consultant (as well as others the actuary chooses to utilize). The Board, in its consideration of asset allocation, is aware of the actuary's recommendation of a prudent level of contributions (based in part on the asset allocation). However, like the actuary's decision, the Board's decision must take into account other factors, most notably prudent levels of risk in the management of the Fund's assets, pragmatic considerations associated with investing, maintaining sufficient near-term liquidity, and more. Thus, the decision on the ARoR (and thus prudent levels of contributions over time) and the decision on asset allocation (reflecting the Board's view of prudent levels of risk to the System's assets in the pursuit of investment returns over time) are two different, albeit related, decisions in the management of the System as a whole.</p> <p>The actuarial ARoR is set independently of an asset allocation and reflects a pursuit of prudent long-term contributions. Asset allocation is driven by the targeted risk level rather than an obligatory fitting to the ARoR. In the end, these must bear a reasonable relationship to one another, and our review of the Asset Allocation studies conducted for and discussed by the COAERS Investment Committee and Board are consistent with that objective.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> - Asset/Liability merits either its own section in the IPS or to be added to Section V preceding any discussion of Strategic Asset Allocation. - Consider adding a separate section for the selection and evaluation of private equity and private credit mandates, if implemented. Reporting and benchmarking of private investments should also be added. - Consider consolidating explanations for how tactical and strategic sub-asset class ranges are set. - Consider removing 10 – 12% risk targets for the portfolio/adding metrics that more directly align with the Asset/Liability Study and the goals of the portfolio. - Consider setting capacity/risk contribution constraints in place of 4% dollar-weight constraints for sub- asset class thresholds. - Consider revisiting tracking error target. - Consider reaffirming Investment Staff's authority to execute rebalancing decisions—without Board approval—should circumstances require such action. - Consider adding a separate section for the selection and evaluation of private equity and private credit mandates, if implemented. Reporting and benchmarking of private investments should also be added.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Fees
<p>The duty to review fees is inherent in the Board's oversight role per the IPS and its monitoring provisions. The Investment Committee and the Board review fees for each of the investment managers and strategies in the reports provided by the independent Investment Consultant and the Investment Staff. Total fund performance in these reports is shown on both a gross-of-fees basis and net-of-fees basis and includes 'Cash Activity – Investment Operations' and 'COAERS Investment Manager Fees' reports, which detail direct and indirect fees paid to the investment managers quarterly.</p> <p>RVK's analysis included review and confirmation of fee schedules of all investment managers, review of investment manager agreements, comparison to similar mandates, as well as a comprehensive peer group fee analysis. These peer groups are routinely used by RVK to benchmark fees and are comprised of both active and passive managers specific to the mandate's vehicle type. Each investment manager was ranked against an appropriate eVestment peer group based on mandate type and overall asset size. The eVestment fee database is considered the broadest and most frequently updated in the industry. Lower fees are represented by lower percentile rank (i.e., the 1st percentile is the lowest fee and conversely the 99th percentile is the highest fee in the relevant investment manager peer group).</p> <p>As shown in the table below, 94% of the System's public fund managers have effective annual fees that fall well below the industry median for each respective mandate. As stated above, COAERS favors passive implementation, as appropriate, which leads to low fees in general, but we observed that even fees paid to passive managers are below the industry average. The System's utilization of mainly separately managed accounts (SA), followed by collective funds (CFs and CITs) and small usage of mutual funds also contribute to its low fees.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> - Continue to utilize passive management in asset classes with higher efficiency. - Consider adding a section on management and control of investment management and service provider cost in the IPS or IIP. - Consider adding a periodic frequency for conducting plan fee reviews similar to the minimum frequency noted in the IPS for Asset/Liability Studies and Asset Allocation Studies.

Governance
<p>Based on our review, the investment decision-making process for the System broadly reflects a comprehensive implementation of best practices. The COAERS IPS, while not specifying required processes in detail, provides a strong foundation for investment decision-making. The IPS clearly addresses key investment principles that are industry standards for best practices in institutional investment decision-making.</p> <p>The outcome of individual investment decisions is always uncertain, but we believe COAERS' policy foundation goes a long way to mitigate that risk. At least quarterly, the Investment Committee and Board review materials provided by the Board's independent Investment Consultant and Investment</p>

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Staff. The reports begin with compliance with the SAA and are followed by performance evaluation beginning with the total fund, then asset class composite performance, and finally performance for investment managers. Fees are also included in the materials. Investment Staff provides a thorough IPS compliance review. Investment Staff and the Investment Consultant provide the Investment Committee and Board with multiple monthly performance summaries and comprehensive quarterly performance reports to aid with the ongoing evaluation and monitoring of investment managers and the total fund.

Strengths:

- The investment decision-making process for the System broadly reflects a comprehensive implementation of best practices.

Recommendations:

- Regarding Delegation of Authority, we suggest the Board carefully review Recommendations 6, 7, and 9, which are addressed in Section I of this Evaluation.
- Consider adopting and documenting a schedule for reviewing service providers, including a potential RFP after five to seven years.

Investment Manager Selection and Monitoring

The Board, with recommendation from the Investment Committee and advice from Investment Staff and Investment Consultant, is ultimately responsible for the selection, retention, monitoring, and evaluation of investment managers. All investment manager contracts, side letters, other agreements, and service provider agreements are evaluated, reviewed, and finalized by the Executive Director, as delegated by the Board, in consultation with the General and/or Investment Counsel.

Individual investment manager performance directly impacts total fund performance. Investment decisions regarding the structuring of the investment program, asset classes, and allocations based on the System's return objectives, risk budgets, liquidity constraints, and other considerations are all related and integrated.

Recommendations:

- Consider adding language for the investment manager selection process for private market asset classes.
- Consider updating investment manager reporting requirements for metrics and data that are relevant to private asset class managers.

[Full Investment Practices and Performance Evaluation](#)

Corpus Christi Fire Fighters' Retirement System

PRB Analysis of Evaluation

The evaluation concludes that the system is following industry best practices and based upon the consultant’s experience in the industry. The evaluation also includes data on the expected risk and return of the system’s current portfolio and detail on the investment expenses incurred. However, the evaluation offers little new information compared to the previous evaluation completed in 2020.

The evaluator notes that two sections in the governance category have been provided by the system’s board for inclusion in the report, but those items were not evaluated or verified by the consultant. This note is the same as what was provided in the previous 2020 evaluation. Additionally, in the previous evaluation the retirement system requested to add the following clarification to this statement: “These sections include Transparency: a description of the regular public monthly meetings of the Board of Trustees, some of which the evaluator does not attend; Investment Knowledge/Expertise: a description of the completion by the Board of Trustees of applicable education requirements, which the evaluator did not audit to confirm; and Accountability: a description of the allocation of authority between the trustees, internal staff and investment consultant, some of which occurs administratively and in meetings which the evaluator does not attend.”

The evaluator also provides additional commentary on the practices of the system based on their first-hand knowledge as the investment consultant and the tasks for which they are responsible. The evaluation also includes statements such as “The Board and I strive to improve the investment strategies of the IPS. Pursuant to client confirmation and to the best of our knowledge, the IPS' stated objectives are being met.”

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Policy Statement
<p>The retirement system's current investment policy statement (IPS) was adopted on May 16, 2024 by the Board of Trustees. The Board of Trustees and I worked in concert to develop the current IPS using an approach that encompassed standards provided by UBS (including strategic and tactical intellectual investment capital provided by UBS's Chief Investment Office) and those based on my long-tenured history providing investment consulting solutions to similar retirement systems.</p> <p>The IPS and the board's review procedures are sufficient based on my experience working with similar clients at UBS. When and where applicable, the board and I have reviewed the IPS, its policies, and procedures, to determine what areas, if any, need improvement, and have developed and executed plans to implement the same.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - Continue to follow the provisions of the investment policy statement that the IPS should be reviewed biennially or more often as necessary to meet investment objectives.

Plan Assets:¹ \$183,259,960

Evaluator: UBS Financial Services, Inc.

Evaluator Disclosures:²

Relationship: Investment Consultant

Investment Discretion: None

Conflicts of Interest: None

Senate District: 20

House District: 34

¹ As of 12/31/2023

² [Section 802.109, Texas Government Code](#) authorizes the selection of a firm that has an existing relationship with the system, as long as the firm does not directly or indirectly manage investments. The PRB’s [Guidance for Investment Practices and Performance Evaluations](#) covers the statutorily required disclosures in the evaluation.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

- In the most recent review of the IPS, the consultant and Board of Trustees reviewed the minimum and maximum target allocation guidelines. The consultant and Board of Trustees will continue to review and strive to improve the IPS to better develop and execute investment strategies and processes while keeping the document flexible and fluid. The Board of Trustees recently updated the JPS to reflect the current actuarial return assumption of 7.15 percent as of the actuarial valuation of December 31, 2022 completed November 10, 2023.

Recommendations:

- Clarifications, enhancements, additions and or revisions to the investment policy statement should always be under review and consideration.
- State the approximate current funding status in the IPS and update when reviewed. Consider the cost/benefit of a comprehensive asset liability study provided by a third-party advisor with expertise in this area.

Investment Asset Allocation

Corpus Christi's recommended strategic asset allocation (SAA) has been tailored to the guidelines outlined in the IPS and reflects UBS' research on the expected future risk and return potential of each asset category and a combination of managers that complement each other within and across asset classes. The board and I have periodically reviewed the allocation for asset rebalancing to adjust asset allocations to comply with strategic levels indicated in the IPS. Systematic portfolio rebalancing augments asset allocation by keeping the portfolio from drifting too far off the mark. Together, asset allocation and rebalancing help you establish and adhere to a long-term investment strategy and avoid "style drift".

The consultant along with the Board of Trustees monitor and compare the asset performance relative to: absolute and relative objectives, respective benchmarks for each asset class or strategy invested, per the asset allocation table, representative group of peer institutions identified by the Board of Trustees and representative group of peer investment managers. The Board of Trustees with the consultant review the asset performance, portfolio standard deviation and peer group rankings on a quarterly basis.

Strengths:

- Continue to follow the provisions of the investment policy statement that the asset allocation will be reviewed at least biennially or more often if the retirement system's strategic objectives, anticipated investment returns, spending policy or risk tolerance changes or if consultant determines that such a review is needed based upon changes in consultant's capital market assumptions.
- Continue to foster communication between the actuary and consultant regarding actuarial assumptions and asset allocation decision-making.
- Continue to follow the provisions of the IPS that direct the asset allocation targets to be utilized when liquidity events occur.

Recommendations:

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

- To specifically provide in the IPS for a review of the expected return assumptions, expected risk assumptions, portfolio standard deviation and peer group rankings at least annually or more often if consultant determines that such a review is needed based upon changes in consultant's capital market assumptions.

Investment Fees

The UBS Institutional Consulting fee for Corpus Christi was negotiated between both parties prior to the execution of the Consulting Services Agreement and agreed to by both parties when the Consulting Services Agreement was executed. Based on our internal UBS Institutional Consulting pricing schedule, this relationship was priced below our average pricing at the inception of the relationship and continues to be below our average pricing of 0.13 percent for a client with assets in the range of \$100 million - \$250 million. Our pricing schedule was created by analyzing the fee schedules for our institutional client base within investment advisory programs at UBS. The recommended pricing range for UBS Institutional Consulting clients in the \$100 million - \$250 million threshold is 0.09 - 0.20 percent although we may charge up to a maximum of 0.90 percent in the Institutional Consulting Program.

On a quarterly basis, the Board of Trustees reviews a fee analysis report for each of the investment managers in the portfolio. The report is prepared by the plan administrator of the retirement system. The information included within the report is based on periodic billing statements based on agreements with each investment manager. The report includes the fee charged by each manager based on their contract, including foreign tax withholding fees, custodial bank fees, security trade fees and applicable consultant fee. Other fees incurred by the retirement system that are not directly related to the management of the portfolio include fiduciary insurance, continuing professional education, administration staff salaries and other operating expenses.

Governance

Documentation and communication are important factors in fulfilling the board's fiduciary responsibilities. UBS provides advice and materials to help Corpus Christi address its fiduciary duties and document its processes. The advice and materials provided to help Corpus Christi address its fiduciary duties and document its processes provide a framework for the fiduciaries to effectively govern investment activities.

The officers of the board are selected by the Board of Trustees. All decisions regarding investments, including investment consultant selection and retention, investment manager selection and retention, and asset allocation are made by the Board of Trustees. The board also allocates authority between the trustees and internal staff. The board is consistent in its use of delegation of authority. The review of the IPS ensures policies are being followed. The policy also gives direction and oversight to the Board of Trustees for the overall management of the portfolio including the establishment of investment policies and procedures to monitor the investment performance of the portfolio.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Strengths:

- Continue to follow the provisions of the Investment policy which provides for a review biennially or more often as necessary to meet investment objectives and review investment governance processes for appropriateness.

Investment Manager Selection and Monitoring

I provide the board with quarterly performance evaluation data for the retirement system's investment managers to enable the board to determine and evaluate the strategic asset allocation as well as to identify and engage (or terminate) its investment managers. As investment consultant, I sift through an extensive amount of data, analyze and interpret its importance, augment it with my experiences and observations, and assemble it in a concise and meaningful fashion for the board's consideration. When a search for a new investment manager is needed, I consider Corpus Christi's risk tolerance, return objectives and liquidity needs, together with how well the various managers selected for consideration blend with the existing managers. The manager recommendations take those approved by UBS and screen them further to create a targeted list that reflects Corpus Christi's needs and investment policy.

The Board of Trustees and consultant review the investment performance, risk, style and suitability of each of the investment managers in the portfolio before the trustees make the decision to engage or replace an investment manager. The board also reviews the consultant's quantitative assessment of the manager, the economic market conditions, the investment market cycles and the defined investment manager criteria set forth in the IPS.

Strengths:

- Continue to follow the provisions of the investment policy statement regarding the criteria when a manager is to be under "watch" due to any event, transaction, or other variable in the manager's investment performance or structure.

[Full Investment Practices and Performance Evaluation](#)

Dallas Area Rapid Transit Retirement Plan

PRB Analysis of Evaluation

The evaluation provides brief explanations outlining the System’s processes and supporting arguments for the conclusions drawn, with explanations of several topics related to managing the System’s assets. The explanation provides insight into the System’s practices as well as outlining the considerations and philosophies that guide the investment consultant. However, the evaluation offers little new information compared to the previous evaluation completed in 2020.

The evaluation provides details around the fund net cash outflows and the overall plan investment liquidity levels. Stating that “Liquidity is maintained with 1 percent to 3 percent in cash in most periods. Additionally, 91 percent of the portfolio has daily liquidity. Approximately 9 percent of the portfolio is invested in long liquidity partnerships. This allows the portfolio to remain close to fully invested and still meet cash flow needs.”

The evaluator also states that “Based upon our review of these materials and our working knowledge of the process employed, it is our opinion that the investment practices, governance, and investment activities are in line with the best practices of public pension plans.”

Plan Assets:¹ \$205,597,000

Evaluator: CBIZ Investment Advisory Services

Evaluator Disclosures:²

Relationship: Investment consultant

Investment Discretion: None

Conflicts of Interest: None

Senate District: 23

House District: 114

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Policy Statement
Within the Statement of Investment Objectives and Guidelines, a plan funding philosophy is delineated, liquidity requirements are discussed, and permissible asset allocation ranges as well as current strategic targets by asset class are defined.

¹ As of 12/31/2023

² [Section 802.109, Texas Government Code](#) authorizes the selection of a firm that has an existing relationship with the system, as long as the firm does not directly or indirectly manage investments. The PRB’s [Guidance for Investment Practices and Performance Evaluations](#) covers the statutorily required disclosures in the evaluation.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Asset Allocation
<p>In the asset allocation study approved in early 2016, a schedule was constructed to have a reasonable probability of achieving a fully funded plan by the year 2036. At the time of the study, a new funding target of \$10 million per year was adopted by the committee and has been agreed to each subsequent year. This \$10 million funding level has been consistently larger than the actuarial required contribution. For example, the current annual required contribution is \$4.1 million. At year-end 2023, the expected market value from the original glide path was \$177.8 million. As a result of both overfunding and strong markets, the actual market value on December 31, 2023, was \$214.3 million.</p> <p>The actuarial expected return assumption was lowered, in 2023, to 6.25 percent. Based on the most recent statistics from the Texas Pension Review Board plan compilation, 56 percent of Texas public plans have an actuarial return assumption at 7 percent or less. Since the last report, the Funded Ratio (AVA/AL) has increased to 87.3 percent. Per the GASB 68 reporting requirements the schedule of changes in net pension liability for the current period is 85.22 percent of total pension liability, with a net projected pension liability of \$35.66 million.</p> <p>The pension plan has net cash outflow. Liquidity is maintained with 1 percent to 3 percent in cash in most periods. Additionally, 91 percent of the portfolio has daily liquidity. Approximately 9 percent of the portfolio is invested in long liquidity partnerships. This allows the portfolio to remain close to fully invested and still meet cash flow needs. Macro outlook is discussed with the investment consultant at all meetings they are in attendance. These discussions can lead to small tactical shifts away from the target allocations but still within policy ranges. These are most often implemented in conjunction with cash flow events such as investment distributions, benefit payments and the annual contribution.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> - We recommend that an updated asset allocation study should be performed. The purpose will be to analyze the asset allocation considering the current actuarial projections and review an updated glidepath.

Investment Fees
<p>No written section was included in the evaluation report nor recommendations concerning investments fees such as those made in 2020.</p>

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Governance
<p>The DART Statement of Investment Objectives and Guidelines were last updated in January of 2020. They are frequently reviewed and have had no significant updates in the past four years. The guidelines include purpose, objectives and guidelines for the plan and all external vendors. It further discusses Committee expectations for all these parties. Formal committee meetings occur 4 to 5 times per year. Minutes are taken at each meeting and the minutes are approved and adopted at each subsequent meeting.</p> <p>Within the corporate structure of DART normal attendance at the Committee meetings include representative from human resources, treasury, and legal. Additionally, the external investment consultant normally attends and on an as needed basis different external investment manager may be asked to provide an update. The external auditor and actuary normally attend one meeting per year. This allows for the direct implementation of approved actions as well as reporting on the normal course of business. This process provides the Committee the support function needed to fulfill their fiduciary responsibilities.</p>

Investment Manager Selection and Monitoring
<p>Within this section we analyze the duties to investigate asset classes and managers, prudently select investment managers, and incur reasonable expenses. The focus of the review for this section is the plan investment guidelines, asset allocation study, current asset allocation, meeting minutes, investment consultant research guidelines, consultant research organizational chart, recent investment manager search documents, manager contracts, and quarterly performance reports.</p> <p>DART retains CBIZ IAS to assist with the manager search and selection process within the plan investment guidelines. CBIZ IAS has a deep research team. Professionals, by designation include 10 CFA, 4 CAIA, 7 CPA. Additionally, the consulting firm has formal research guidelines, research organization structure, and formal research meetings.</p> <p>The investment consultant provides detailed quarterly reports and may request abbreviated monthly reporting that corresponds with client meetings. The reports are designed to tie in all the plan investment guideline metrics. The metrics in the quarterly reporting include compliance to asset allocation ranges, performance to listed benchmarks, total fund performance versus goals, peer group rankings by investment manager and by fund, sector concentration, security concentration, country exposure, and credit quality detail. Performance is presented net of investment manager fees. The investment performance reporting system used by the investment consultant is PARis. A broadly utilized institutional performance reporting software system.</p>

[Full Investment Practices and Performance Evaluation](#)

Dallas Police & Fire Pension System

PRB Analysis of Evaluation

The evaluation offers a balanced approach to both summarizing key aspects of the system while also including detailed analysis from studies conducted by the system. The evaluation provides summary points for each section and recommendations are supported with details and comparison to leading practices.

The evaluation provides and explains a recent 2021 stress test that includes analysis of the risks to the system given different investment return scenarios including a weak five-year return period and how that could delay full funding or lead to insolvency.

The evaluation also confirms the investment expenses blended average fee of 0.54 percent in 2021 were in line with the industry average and have decreased significantly over the past three years. The evaluator noted that increasing passive investment strategies could further reduce overall investment fees.

The evaluation also includes a detailed table from the system’s board addressing the various recommendations made by the evaluator to which the board agreed with the majority.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Policy Statement
<p>A well-developed IPS thoughtfully merges client-specific goals with the realities of the capital markets. The IPS should be long term and stable in nature and should focus on core total fund-level policy issues. DPFP’s IPS meets all these criteria. The IPS is well thought-out and in line (or better) than industry standards. It is consistent with guidance from the CFA Institute.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - Overall: the existing investment policy statement appears appropriate, adequate, and effective. - The “Core Beliefs and Long-Term Acknowledgments” is thoughtful and should be reviewed any time significant investment changes are considered. It offers good guidance without being overly prescriptive or prohibitive. - DPFP Staff, the Board, and the Consultant reviews the IPS annually.

Plan Assets:¹ \$1,806,567,341

Evaluator: Meketa

Evaluator Disclosures:²

Relationship: Investment Consultant

Investment Discretion: None

Conflicts of Interest: None

Senate District: 23

House District: 100

¹ As of 12/31/2022

² [Section 802.109, Texas Government Code](#) authorizes the selection of a firm that has an existing relationship with the system, as long as the firm does not directly or indirectly manage investments. The PRB’s [Guidance for Investment Practices and Performance Evaluations](#) covers the statutorily required disclosures in the evaluation.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Asset Allocation
<p>According to the IPS, “a formal asset allocation study will be conducted as directed by the Board, but at least every three years. Asset allocation targets will be reviewed annually for reasonableness in relation to significant economic and market changes or to changes in the investment objectives”. DPFP uses capital markets assumptions developed by its Consultant. Maketa recommends its client use the 20-year projections. The board has engaged specialists (where appropriate) to work out of many private markets investments at best possible exit price available.</p> <p>To be proactive DPFP has been tracking the computation pay relative to the city’s hiring plan because if hiring and pensionable compensation do not keep pace with projections, lower contributions will go into DPFP starting in 2025 after the contribution floor is lifted. Net expected cash flows are expected to average approximately -\$139 million per year over the next five years (based on the contributions, benefit payments and administrative expenses in the actuarial valuation report). On an average plan size of approximately \$1.8 billion, net expected cash outflows per year are approximately -7.7\$. ($-\\$139 / \\$1,800 \approx -7.7\%$).</p> <p>Strengths:</p> <ul style="list-style-type: none"> - The approach DPFP takes to formulate asset allocation is sound, consistent with best practices, and leads to a well-diversified portfolio. <p>Recommendations:</p> <ul style="list-style-type: none"> - The Board should consider increasing passive exposure in efficient asset classes where the likelihood of risk-adjusted outperformance, net of fees, is lowest. Based on our experience, DPFP has below average passive exposure. - DPFP Staff should continue its process of working with the Board of Trustees and external advisors to prudently exit illiquid investments to the extent possible. - The Board should remain patient with asset allocation as the portfolio is transitioned and not feel obligated to conduct comprehensive asset allocation overhaul every year. (Surveys have shown many large state plans are moving towards once every three - five years). - The Board and Staff should closely monitor contribution levels and maintain constructive and open dialogue with the City. If (based on the actuary’s advice) it becomes likely that DPFP is not on track to meet targets by 2024, the Board should act as soon as reasonably possible to discuss and implement additional plan design changes to avoid delaying and compounding any known shortfalls.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Fees
<p>DPFP publishes summary fee information in its annual financial report in a clear and understandable way. As is expected, private market strategies represent a larger proportion of fees than their pro-rata market value exposure. DPFP paid a blended average fee of 0.54% in calendar year 2021. This is on par with the industry average of 0.54% (according to the latest available NCPERS survey conducted). Fees have come down significantly over the past three years. DPFP paid a blended average fee of 0.74% in calendar year 2018.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - DPFP's tracking and monitoring of fees appears in-line with industry standards. - Staff, the Board, and the Consultant are diligent in monitoring fees. - We recommend continued efforts on seeking no fee or discounted fee arrangements on private market investments that enter extension periods. <p>Recommendations:</p> <ul style="list-style-type: none"> - Passive strategies could reduce overall investment related fees for DPFP.

Governance
<p>DPFP is as transparent, if not more, than most similar sized pension public plans. Any action by the board, except those where the plan specifically requires approval by 2/3 (eight affirmative votes) of all the trustees of the board (e.g. Benefit or contribution changes, new commitments to alternative investments), is required to be approved by a majority of all the trustees of the board, i.e. At least six trustees must approve any board action regardless of the number trustees present.</p> <p>Currently, there is requirement for the board to conduct a competitive selection process for each advisor to the board at least once every five years (on a rotational basis). However, the board has the authority to postpone or waive the five-year requirement.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - DPFP's website and transparency are better than most similar sized public pension plans. <p>Recommendations:</p> <ul style="list-style-type: none"> - To the extent possible, we would like to see increased continuity of Trustees on the Board.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Manager Selection and Monitoring
<p>Investment manager search and selection criteria is detailed in section 7 of the IPS. According to the IPS, “staff and consultant shall define and document the search process, including evaluation criteria, prior to initiating the search process.” DPFP’s total fund performance and individual manager performance is monitored by staff, Consultant, IAC and the board of trustees. The Consultant produces a quarterly performance report that is shared with staff, board of trustees, and IAC.</p> <p>Strengths:</p> <ul style="list-style-type: none">- The evaluation process for new investment manager hires is comprehensive, thorough, transparent and conducted in an inclusive manner.- Staff prepares deep dive reviews into each asset class with the goal of covering the entire portfolio in each calendar year.- Staff documents the rationale for all hiring and firing decisions. <p>Recommendations:</p> <ul style="list-style-type: none">- Staff and consultant should conduct a formal benchmark review for each public investment manager on set frequency (perhaps once every three years).

[Full Investment Practices and Performance Evaluation](#)

Dallas/Fort Worth Airport Board

PRB Analysis of Evaluation

The evaluation provides a review of policy practices, clearly documents the sources used as comparative best practices, and also provides detailed explanations where appropriate. However, the evaluation offers little new information compared to the previous evaluation completed in 2020.

The evaluator notes that the existing investment consultant makes recommendations for improvement proactively and the recommendations are already incorporated in the existing practices, therefore only general recommendations for the system are made in this evaluation to “maintain its robust processes to both review the current investment portfolio while also seeking to identify new investments that can improve the Fund’s long term expected risk and return while maintaining liquidity to meet its benefit obligations.”

The evaluation supports the system’s consistent practice of improving by stating “Since our engagement in 2010, the Fund has undergone several reviews of the asset allocation. The results of these activities have been revisions to the Fund’s investment policy statement, investment managers changes, and the addition of new asset classes.

The changes implemented by the Fund have improved the risk/return profile of the Fund while also increasing portfolio diversification.”

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Policy Statement
<p>We analyzed the System’s IPS and the Board’s compliance with the IPS. While different IPS structures exist, AndCo, as an independent, professional investment consulting firm, has determined that the System’s IPS, and the Board’s compliance with the IPS, is appropriate and comparable with what AndCo considers best practice, industry standards, and comparable to the structure of an effective investment policy statement as laid out by the CFA Institute (ELEMENTS OF AN INVESTMENT POLICY STATEMENT FOR INSTITUTIONAL INVESTORS, Copyright 2010 by the CFA Institute).</p> <p>Strengths:</p> <ul style="list-style-type: none"> – Maintaining its ongoing review of the IPS. – Reviewing the policy statement annually is a strong practice. – Tracking the changes to the investment policy and report them in a clear and transparent manner <p>Recommendations:</p> <ul style="list-style-type: none"> – System considers adding policies regarding Investment Manager Selection and Ethics.

Plan Assets:¹

Retirement Plan: \$627,516,000

DPS Retirement Plan: \$271,051,000

Evaluator: AndCo Consulting LLC

Evaluator Disclosures:²

Relationship: Investment Consultant

Investment Discretion: None

Conflicts of Interest: None

Senate District: 22

House District: 98

¹ As of 12/31/2023

² [Section 802.109, Texas Government Code](#) authorizes the selection of a firm that has an existing relationship with the system, as long as the firm does not directly or indirectly manage investments. The PRB’s [Guidance for Investment Practices and Performance Evaluations](#) covers the statutorily required disclosures in the evaluation.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Asset Allocation
<p>The Fund's process for determining asset allocation targets is executed and implemented through frequent and thorough discussions between the staff and the investment consultant. Each year, the investment consultant uses a combination of 10- to 15-year forward-looking asset class return assumptions, risk and correlation assumptions, historical asset class return and risk data, and a long-term (50+ years) building block return methodology to determine a target allocation that the investment consultant believes will have the highest probability of achieving the Fund's return objectives. Any changes to the Fund's strategic asset allocation targets and ranges are then recommended to the Board for consideration.</p> <p>The Fund's cash flow and liquidity needs are reviewed each quarter as part of the investment consultant's quarterly performance review. This review includes discussions regarding the current, expected, and known timing variances of future contributions to, and withdrawals from, the Fund. Based on the Fund's expectations of future cashflows, the portfolio has been positioned to include reasonable allocations to private assets. The Fund's pacing models are reviewed regularly by staff and the investment consultant to ensure liquidity needs are appropriately addressed.</p> <p>Strengths:</p> <ul style="list-style-type: none"> – Continued regular asset allocation reviews with its investment consultant. – Maintained policy of educating themselves on new asset classes that could be beneficial to the investment portfolio. – Continued work with the Consultant to actively rebalance the portfolio to provide the required liquidity levels and maintain its long-term target allocations.
Investment Fees
<p>We reviewed the fees paid to administer the Fund's portfolio and the underlying investment manager fees. The management fees for the portfolio as of September 30, 2023, estimated strategy market values reflect a weighted-average cost of 0.82%. The fees for the portfolio, while slightly higher than the average, are reasonable based on the amount allocated to private funds. In addition, the underlying manager fees, with only a few exceptions, are reasonable when compared to peers. The marginally higher weighted average portfolio fees are driven by the portfolio's use of predominantly active managers, and as previously stated, the amount allocated to private investments (alternatives). Both approaches command higher fees with the expectation to generate higher returns.</p> <p>While high or low fees do not guarantee failure or success for an investment portfolio, AndCo, as an independent, professional investment consulting firm, has determined that the Fund's fees are appropriate and comparable with what AndCo considers best practice, industry standards.</p> <p>Strengths:</p> <ul style="list-style-type: none"> – Ongoing review of the investment fees.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Recommendations: <ul style="list-style-type: none">– Continue to consider the use of passive strategies to lower investment management fees.		
<table><tr><th>Governance</th></tr><tr><td><p>The Fund’s IPS contains clear definitions of the Board’s responsibilities as well as the role of the Board’s professional advisors and investment staff in assisting the Board in fulfilling its fiduciary duties to the Fund with respect to the investment of assets. Direct investment authority for the Fund’s assets lies with the Board. As such, all decisions regarding the Fund’s portfolio, including return objectives, risk tolerance, investment guidelines, asset allocation targets and manager selection and retention reside with the Board.</p><p>We reviewed the Fund’s governance processes related to investment activities, investment decision-making, delegation of investment authority, and education. While different governance structures exist around investment decision-making, delegation of investment authority, and education, AndCo, as an independent, professional investment consulting firm, has determined that the Fund’s processes are appropriate and comparable with what AndCo considers best practice, industry standards.</p><p>Strengths:</p><ul style="list-style-type: none">– Continuing to follow the IPS.– Engaging investment experts as appropriate.– Continuing to seek ongoing educational opportunities consistent with Texas Administrative Code, Chapter 607.</td></tr></table>	Governance	<p>The Fund’s IPS contains clear definitions of the Board’s responsibilities as well as the role of the Board’s professional advisors and investment staff in assisting the Board in fulfilling its fiduciary duties to the Fund with respect to the investment of assets. Direct investment authority for the Fund’s assets lies with the Board. As such, all decisions regarding the Fund’s portfolio, including return objectives, risk tolerance, investment guidelines, asset allocation targets and manager selection and retention reside with the Board.</p> <p>We reviewed the Fund’s governance processes related to investment activities, investment decision-making, delegation of investment authority, and education. While different governance structures exist around investment decision-making, delegation of investment authority, and education, AndCo, as an independent, professional investment consulting firm, has determined that the Fund’s processes are appropriate and comparable with what AndCo considers best practice, industry standards.</p> <p>Strengths:</p> <ul style="list-style-type: none">– Continuing to follow the IPS.– Engaging investment experts as appropriate.– Continuing to seek ongoing educational opportunities consistent with Texas Administrative Code, Chapter 607.
Governance		
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The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Manager Selection and Monitoring
<p>The investment manager selection process for the Fund is conducted in collaboration with the Fund's investment consultant and staff. Whether a specific investment strategy review is directed by the Board, staff, or the strategy idea comes from the investment consultant, all potential investment strategies must go through the investment consulting firm's due diligence process and subsequently be presented and approved by the investment consultant's Investment Policy Committee before being shown as potential strategies for the Board to consider for the Fund's portfolio.</p> <p>The investment consultant's reports highlight portfolio and investment manager performance and risk relative to the various performance measurement standards established in the IPS. The criteria established in the IPS tracks managers on both a qualitative and quantitative basis. Strategies that repeatedly fail to meet these standards will be placed on a watchlist or terminated. The criteria are not designed to remove the decision process from the Board, but rather are intended to add objectivity and enhanced scrutiny of managers who are underperforming the criteria contained in the IPS. While the investment consultant may make recommendations regarding the continued retention or termination of an investment strategy in the Fund's portfolio, the ultimate decision to retain or terminate an investment strategy (within the bindings of the strategy's agreement) resides with the Board.</p> <p>Strengths:</p> <ul style="list-style-type: none">– The Fund maintains its investment process for investment manager search and selection which relies on its investment consultant, staff, and Board in selecting new investment managers for use within the Fund's investment portfolio.– The Fund is in line with the best practices laid out by the Government Finance Officers Association for selecting third party investment professionals for pension fund assets.

[Full Investment Practices and Performance Evaluation](#)

Denton Firemen's Relief & Retirement Fund

PRB Analysis of Evaluation

The evaluation utilizes a question and answer format describing the system policies and practices in a short and direct manner but includes detail to help support the conclusions. It also includes a helpful summary of its primary conclusions at the end of the document. However, the evaluation offers little new information compared to the previous evaluation completed in 2020 and the concluding summary with recommendations is an exact match.

The evaluation concludes the funds policies and practices are in-line with best practices and its approach can be a model for others, stating “DFRRF’s solid investment choices, lowering of its actuarial rate of return, and no debt practice for real estate investments make it a benchmark for other funds.”

The evaluation indicates the System has elected to use a more conservative assumed rate of return than required, noting “the assumed rate of return was lowered by the Board to 6.75% from 7%, although the rate of return was lowered, the allocation was not changed. The rate was lowered to take a more conservative approach to future plan performance and liability.”

The evaluation was completed by the System’s current third-party plan administrator which is identified as a financial services firm that provides “tax and financial planning services as well as, consulting services for institutional clients.” The evaluation states the “firm’s principal is a CPA, CFP®, and Investment Advisor Representative.”

Plan Assets:¹ \$152,072,995
Evaluator: Gary Calmes, PLLC
Evaluator Disclosures:²
Relationship: Plan Administrator
Investment Discretion: None
Conflicts of Interest: None
Senate District: 30
House District: 64

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Policy Statement
<p>The policy is reviewed on an as needed basis. The Investment Policy was last update February 20, 2020. We found the fund to be very solid with good policies and practices. The DFRRF’s solid investment choices, lowering of its actuarial rate of return, and no debt practice for real estate investments make it a benchmark for other funds.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - The policy is clearly written, and objectives stated in such a way for anyone to manage the portfolio. - The Fund has consistently met its goals over the history of the Plan. The Plan holds 9.94% of its assets in illiquid assets. The fund contains no debt on any of its assets.

¹ As of 12/31/2023

² [Section 802.109, Texas Government Code](#) authorizes the selection of a firm that has an existing relationship with the system, as long as the firm does not directly or indirectly manage investments. The PRB’s [Guidance for Investment Practices and Performance Evaluations](#) covers the statutorily required disclosures in the evaluation.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Asset Allocation
<p>The system does not have a written policy for determining the asset allocation, the investment policy does include an allocation requirement. The Fund uses no formal stress testing model. All decisions are made at the Board level, based on qualitative discussion not quantitative. In 2015 the assumed rate of return was lowered by the Board to 6.75% from 7%, although the rate of return was lowered, the allocation was not changed. The last review would be the 12/31/2023 actuarial study and the 12/31/2023 annual audit. The Fund does not perform a formal separate asset-liability study.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - The rate was lowered to take a more conservative approach to future plan performance and liability. - The long-term performance of the fund has been sufficient to meet the needs of the fund as well as maintain an amortization period of less than 20 years.

Investment Fees
<p>The investment consultant monitors and reports investment fees to the board. The fees are approved by the Board and paid separately and not withdrawn by the advisor. The Board is responsible for the monitoring of all other fees incurred by the plan.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - DFRRF remains one of the lower cost funds in TLFFRA.

Governance
<p>The IPS does not specifically identify Board policies and procedures. As it relates to risk, the roles and responsibilities of each party involved in the management of the plan is clearly defined in the IPS. In short, the Board is responsible for developing the investment objectives of the plan, hiring of all parties, allocating assets, review of investment results and investment policy. This structure is very common throughout the industry and serves as a good system of checks and balances.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - DFRRF's strongest area is its stable environment including long term Board members. The two citizen members have been on the Board for over ten years. The Board has seen little turnover in the past 10 years including the firefighter members/officers. The current investment advisor has been with the plan since 2018, the previous advisor managed the plan for approximately 30 years. The investment advisor is not a

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

large firm but an individual, which means the consistent nature has not changed. The current advisor also worked with the previous advisor for two years before taking over.
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Investment Manager Selection and Monitoring
<p>The Board is ultimately responsible for measuring the performance of the plan with the advisor’s input. The manager reports to the Board on a monthly basis, if performance were to not meet actuarial rates of return over a long period the Board would review the manager for replacement.</p> <p>Strengths:</p> <ul style="list-style-type: none">- Performance is reviewed based on gross-of-fee monthly and net-of-fee during the annual audit. <p>Recommendation:</p> <ul style="list-style-type: none">- One area we would recommend the Board review is the process by which investments are presented to the Board. The investment advisor presents investment opportunities to the Board, but there does not exist a matrix by which these are chosen. We do not recommend a change in policy but at a minimum discussion as to why and how various investments are chosen.

[Full Investment Practices and Performance Evaluation](#)

El Paso Firemen & Policemen's Pension Fund

PRB Analysis of Evaluation

The evaluation provides a review of policy practices, clearly documents the sources used as comparative best practices, and also provides detailed explanations where appropriate. However, the evaluation offers little new information compared to the previous evaluation completed in 2020.

The evaluator notes that the existing investment consultant makes recommendations for improvement proactively and the recommendations are already incorporated in the existing practices. Therefore, the evaluator took the approach of making only general recommendations for the system to “maintain its robust processes to both review the current investment portfolio while also seeking to identify new investments that can improve the Fund’s long term expected risk and return while maintaining liquidity to meet its benefit obligations.”

The evaluation supports the system’s consistent practice of improving by stating “Since our engagement in 2019, the Fund has undergone a comprehensive asset allocation review as part of an Asset Liability Study. The results of this have been revisions to the Fund’s investment policy statement, investment manager changes, and the addition of new asset classes. The changes implemented by the Fund have improved the risk/return profile of the Fund while also increasing portfolio diversification.”

Plan Assets: ¹
<u>Fire:</u> \$740,283,478
<u>Police:</u> \$1,054,931,421
Evaluator: AndCo
Evaluator Disclosures: ²
<u>Relationship:</u> Investment Consultant
<u>Investment Discretion:</u> None
<u>Conflicts of Interest:</u> None
<u>Senate District:</u> 29
<u>House District:</u> 77

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Policy Statement
<p>The IPS defines that the board of trustees (board) is responsible for making decisions regarding the fund’s investment portfolio. All recommendations for actions in the investment portfolio are reported to and voted on by the board after being recommended by the Investment Committee. The board has hired an outside investment consultant to assist the board in their decisions regarding the fund’s IPS, strategic asset allocation, manager selection, ongoing manager evaluation, and IPS compliance monitoring.</p> <p>While different IPS structures exist, AndCo, as an independent, professional investment consulting firm, has determined that the system’s IPS, and the board’s compliance with the IPS, is appropriate and comparable with what AndCo considers best practice, industry standards, and comparable to the structure of an effective investment policy statement as laid out by the CFA Institute.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - The fund maintain its ongoing annual review of the IPS. We believe that a periodic review of the investment policy statement is a strong practice for the Fund and should be continued. AndCo recommends that the Fund continue to track the changes to the investment policy and report them in a clear and transparent manner. - The system maintain its robust processes to both review the current investment portfolio while also seeking to identify new investments that can improve the System’s long term expected risk and return while maintaining liquidity to meet its benefit obligation.

¹ As of 12/31/2023

² [Section 802.109, Texas Government Code](#) authorizes the selection of a firm that has an existing relationship with the system, as long as the firm does not directly or indirectly manage investments. The PRB’s [Guidance for Investment Practices and Performance Evaluations](#) covers the statutorily required disclosures in the evaluation.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Recommendations:

- AndCo recommends the system consider adding language regarding investment manager selection and refer to the system's separate Ethics Policy within the Investment Policy Statement.

Investment Asset Allocation

We believe a robust asset/liability study helps the consultant and board review asset allocation mixes to determine those allocation strategies which could potentially best serve to protect or increase funding levels, while providing adequate liquidity for benefit payments and minimizing associated risks. AndCo believes that through a comprehensive discussion over the asset/liability study results clients can have a clearer understanding of practical plan investment expectations.

Strengths:

- The system maintain its long-term asset allocation structure and tolerance ranges. To this point the system has been responsive when presented with recommendations for expanding the asset classes in use within the portfolio and AndCo recommends the system continue the process of active review.
- The board continue regular asset allocation reviews with its investment consultant.
- The board maintain its policy of continuing education on new asset classes that could be beneficial to the investment portfolio.
- The fund continue to work with the consultant to actively rebalance the portfolio to provide the required liquidity levels and maintain its long-term target allocations.

Investment Fees

The fees for the fund's traditional asset portfolio contained in the most recent quarterly investment review reflect an estimated annual cost of 0.47 percent. Based on the 2023 NCPERS Public Retirement Systems Study, the average fee for the survey's 195 state and local government pension respondents was 0.64 percent. It is important to note the fund also considers fees an important part of the decision-making process and evaluates the potential fee impact for each new investment manager and strategy considered for inclusion in the fund's portfolio. The fund considers the current fee of 0.47 percent reasonable and appropriate for its portfolio.

We reviewed the fees paid to administer the fund's portfolio and the underlying investment manager fees. While high or low fees do not guarantee failure or success for an investment portfolio, AndCo, as an independent, professional investment consulting firm, has determined that the fund's fees are appropriate and comparable with what AndCo considers best practice, industry standards. No changes are recommended at this time.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Governance
<p>We reviewed the fund's governance processes related to investment activities, investment decision-making, delegation of investment authority, and education. While different governance structures exist around investment decision-making, delegation of investment authority, and education, AndCo, as an independent, professional investment consulting firm, has determined that the fund's processes are appropriate and comparable with what AndCo considers best practice, industry standards.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - The fund continue to follow the IPS, engage investment experts as appropriate, and continue to seek ongoing educational opportunities consistent with Texas Administrative Code, Chapter 607.
Investment Manager Selection and Monitoring
<p>The investment consultant is completely independent from the investment management community and receives no compensation for reviewing or including any managers in the search process, nor does the investment consultant receive any compensation from any investment manager or investment products. Regardless of whether an existing portfolio strategy is being replaced or a new strategy is being considered for the fund's portfolio, the investment consultant will prepare and present a comprehensive manager evaluation report to the Investment Committee that includes candidates for consideration, discussion and subsequent interviews with the Investment Committee. From this group, finalists are selected by the Investment Committee with input from the investment consultant for presentation, onsite due diligence, and ultimate selection by the fund.</p> <p>While the investment consultant and Investment Committee make recommendations regarding investment strategies, the ultimate decision to select a specific strategy for inclusion in the fund's portfolio resides with the board. All performance calculations supplied by the consultant to the board meet the guidelines of the CFA institute.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - The manager selection process in place at the fund is robust and is in line with industry best practices. - The fund is in line with the best practices laid out by the GFOA for selecting third party investment professionals for pension fund assets. - The fund should maintain its investment process for investment manager search and selection which relies on its investment consultant, staff, and board in selecting new investment managers for use within the fund's investment portfolio.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

[Full Investment Practices and Performance Evaluation](#)

Employees Retirement System of Texas

PRB Analysis of Evaluation

The evaluation covers the Employee Retirement System of Texas (ERS), the Judicial Retirement System of Texas Plan Two (JRS II) and the Law Enforcement and Custodial Officer Supplemental Retirement Plan (LECOSRF) (collectively referred to as ERS or system.) It includes detailed and useful explanations that help stakeholders understand how ERS operates as well as provide insight into effective best practices. This evaluation provides not only a review of the investment practices but also a progress report on the recommendations made during the previous 2020 evaluation.

The evaluator noted in reviewing the asset allocation and investment assumptions that “the ERS Investment Implementation Plan adopted on January 10, 2023 is an industry prevailing best practice document and is an enhancement over previous versions of related documentation.” Additionally, the evaluator provides a brief analysis on the “positive impact of the state’s commitment to pension funding in the 2023 legislative session.”

The evaluation also included a unique recommendation for staff to review the impact of the statutorily required procurement process. More specifically, the evaluator suggested to the extent permitted under Texas law, ERS should seek procurement flexibility to allow for additional operational flexibility when there is a need to quickly replace a struggling investment manager or take prompt advantage of an opportunistic investment. This was also recommended in 2020, as it was noted that any potential changes to this process would likely require legislative approval.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Policy Statement
<p>ERS has made significant revisions to the Investment Policy Statement since 2020 that have improved clarity of the document. The most recent revision became effective on September 1, 2023. This revision was a collaborative effort between the ERS executive director, chief investment officer, investment staff, Office of the General Counsel, Board of Trustees and Investment Advisory Committee (IAC). NEPC was consulted for review. Notably, ERS also introduced in January 2023 an Investment Implementation Plan that improves consistency in connecting the standard operating procedures of each functional part of the investment organization to the investment policy statement (IPS).</p> <p>In the role of general investment consultant, NEPC has directly observed that ERS is adhering to the governance and compliance guidelines set forth in the IPS. ERS has taken the necessary steps to diversify its portfolio and put in place prudent risk controls. Under normal market conditions, the trust should be able to sustain a commitment to the IPS policies under most likely foreseeable market environments and the investment managers should be able to maintain fidelity to their respective policies. However, it is important to note that ERS may not achieve stated objectives over significant periods of time given persistently abnormal circumstances (including, but not limited to, low or negative interest rates, deflation, liquidity traps, global recession, heightened barriers to trade, breakdown of financial markets, or exogenous geopolitical turmoil).</p> <p>Strengths:</p>

Plan Assets:¹

ERS: \$34,049,730,384

JRS II: \$585,550,741

LECOSRF: \$1,040,702,271

Evaluator: NEPC

Evaluator Disclosures:²

Relationship: Investment Consultant

Investment Discretion: None

Conflicts of Interest: None

¹ As of 8/31/2023

² [Section 802.109, Texas Government Code](#) authorizes the selection of a firm that has an existing relationship with the system, as long as the firm does not directly or indirectly manage investments. The PRB’s [Guidance for Investment Practices and Performance Evaluations](#) covers the statutorily required disclosures in the evaluation.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

<ul style="list-style-type: none"> - The ERS IPS compares favorably with the investment policy statements NEPC examined from the peer group of similar investors. <p>Recommendations:</p> <ul style="list-style-type: none"> - ERS may wish to consider including total public markets portfolio tracking error, including a curing period, in future revisions of the IPS. This would be consistent with the IPS documents of peer institutions that reflect best practices.
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Investment Asset Allocation
<p>ERS has developed a clear process that allows for routine setting, monitoring, and review of both the asset allocation of the portfolio and the assets and liabilities of ERS. This process is consistent with prevailing practice among peer public pension funds. The importance of asset allocation codified in ERS' IPS as central to the investment philosophy of the ERS portfolio.</p> <p>An actuarial experience study shall be conducted every four years pursuant to Sec. 815.206(c) of the Texas Government Code. The general investment consultant shall conduct formal asset/liability studies in connection with each actuarial experience study. Such studies also shall include a detailed review of the asset allocation parameters and a comprehensive assessment of the liquidity needs of the Trust as compared to the potential trajectories of the asset base. These periodic studies shall provide the primary basis upon which significant changes may be made to the SAA parameters for the trust. The executive director may direct that additional actuarial studies take place as needed. Reviews of the adopted SAA parameters using updated capital market assumptions and other market-related inputs shall also be provided to the board by staff at least annually.</p> <p>ERS has adapted the risk matrix set forth in Statements of Key Investment Risk and Common Practices to Address Those Risks, June 2000. This standard is endorsed by the Government Finance Officers Association (GFOA) and Association of Public Pension Fund Auditors (APPPFA).</p>

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Fees
<p>The direct and indirect fees and commissions paid by the system include fees that are paid by the system and fees that are netted against returns. The system pays management fees, performance/carried interest, and brokerage fees. Additionally, the system pays custodian fees, security lending agent fees, investment consultant fees, internal staff salaries and investment banking fees.</p> <p>Fees charged to the system are reported annually in the annual comprehensive financial report (ACFR) and should encompass all forms of manager compensation. According to the policies and procedures provided, fees are checked for reasonableness monthly for external advisors for public equity, and on a quarterly basis for private markets. This is done by reconciling the reported and paid management fees provided by the general partner quarterly in account statements to the fee calculated internally by ERS staff based on the LP Agreement or other similar agreement with the external advisor. The Investment Operations Team requests the Asset Class Team follow up with general partners when there are differences greater than $\pm 10\%$ for an explanation of the differences. This $\pm 10\%$ check is an appropriate reasonableness check.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> - ERS should periodically re-evaluate the most useful fee benchmarks and universes of manager data when reporting on manager fees. - ERS should also periodically re-evaluate the current practice of bundling the cost of research with total trade costs. NEPC acknowledges that ERS considered this same recommendation in the 2020 IPPE report and decided not to make a change because the current practice is best suited for the trust. While permissible in the current regulatory environment, a growing number of public funds no longer use a soft dollar program. Instead, many have unbundled from the payment for research from trade execution. We acknowledge that ERS has an understandably larger appetite for research than most public funds given the trust's larger percentage of assets under internal active management in comparison with peers. Paying for research directly can be a challenge in an unbundled environment.

Governance
<p>As stated in ERS' IPS, the ERS Board is responsible for formulating, adopting, and overseeing the investment policies of the trust. Pursuant to Section 815.3016, Texas Government Code, the board retains responsibility to approve alternative investments over 0.6 percent of the total market value of the retirement system's assets as reported in the most recent ERS ACFR.</p> <p>NEPC finds the structural composition of the ERS Board to be consistent with prevailing practice among U.S. public fund trustee boards. The presence of members appointed by elected representatives of the plan sponsor (State of Texas) as well as elected members (who are two active participants in the plan and one retiree from the plan) demonstrates an alignment of interest in the success of achieving the goal of ERS to prudently administer the trust and pay retirement benefits. The three current appointed board members are financial professionals with many years of experience in the investment industry.</p>

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

The size and composition of the ERS Board is also consistent with prevailing practice among the 17 government-sponsored allocators that ERS names as peers. The boards of the peer group range in size from three to 20 members. In most cases, some board members are elected, and some are appointed by state officials. SBA Florida is an outlier with the state governor, chief financial officer and attorney general serving directly as the ex-officio trustees, with ultimate authority and oversight for the SBA's overall strategy. Texas Treasury and Safekeeping Trust Company is a unique entity, with the Texas Comptroller of Public Accounts serving as the chief steward. At the other end of the spectrum among the peer group Tennessee Consolidated Retirement System and Colorado Public Employees Retirement System have the largest boards with 20 and 16 members, respectively. Among the 17 allocators identified as peers by ERS, only five appear to have similar advisory councils of investment professionals to serve as a resource to their board.

Strengths:

- NEPC finds the structural composition of the ERS Board to be consistent with prevailing practice among U.S. public fund trustee boards.
- The IAC members offer an impressive breadth and depth of practitioner experience.

Recommendations:

- ERS should consider reviewing staffing levels for the investment compliance team as currently there is only one team member.
- The development of standard operating procedures for the investment compliance function would assist with any personnel departure risks on the investment compliance team as well as further codify and enhance existing processes.
- For the September 2022 IPS, ERS added a section regarding standards of conduct and added an additional pre-clearance requirement exception for "less than \$500.00 of any applicable security transacted over a rolling 30-day period." ERS may want to consider whether the new additional pre-clearance requirement exception is necessary, desired, and consistent with the goal of the compliance program.
- Where applicable, NEPC identifies suggestions that can bring ERS closer in line with industry best practice or improve operational efficiency.

Investment Manager Selection and Monitoring

NEPC repeats its observation from the 2020 IPPE report that the trust would benefit from seeking to have flexibility to deviate from current state procurement regulations that are broadly applied to hiring all vendor contracts. Circumstances can change quickly in the economy and investment markets. In that dynamic environment, it is important to have the flexibility to act quickly on opportunistic hires of new strategies and replacement of struggling investments. The issuance of a formal request for proposal (RFP) is mandated by Title 10, Subtitle D of the Texas Government Code.

But the current RFP process can take up to a year to complete, during which time the investment opportunity that was identified may no longer be available. In addition, pursuant to ERS's sunset review and under state procurement guidance (see the Procurement and Contract Management Guide),

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

contracts should be periodically resolicited, regardless of the performance of the investment manager under the current relationship. Ideally, these contracts would be evergreen and only resolicited for poor performance, which would be evaluated regularly by staff.

Regarding the monitoring of managers, it was noted during NEPC interviews with staff that there may be a tendency to let poorly performing managers run. There appears to be a need for a more rigorous manager monitoring process. Performance is monitored on an ongoing basis at the asset class level and at the trust level. It is reviewed through regularly scheduled meetings of investment staff, investment directors and the Risk Committee. It is reported to the board monthly and quarterly through reporting and board meeting presentations.

The issue of recruiting and retaining investment staff was identified as perhaps the single most important constraint, going forward. In the past, ERS has been able to recruit highly qualified professionals from the private sector because they were attracted to the perceived advantages in lifestyle and cost of living in Austin, Texas. These advantages have faded as housing costs have risen dramatically over the last decade and remote work options have proliferated.

Recommendations:

- To the extent permitted under Texas law, ERS should seek procurement flexibility to allow for additional operational flexibility when there is a need to quickly replace a struggling investment manager or take prompt advantage of an opportunistic investment.
- NEPC recommends regular review of asset class benchmarks. This is particularly important for asset classes like private markets and hedge funds that, by their nature, do not have benchmarks that meet the investable and reflective characteristics of CFA Institute's SAMURAI model. For these asset classes, there is no perfect benchmark. Therefore, it is reasonable to periodically assess the appropriateness of other existing benchmark options in wide use by peer institutions and to evaluate new benchmarks that are being developed.
- ERS should consider establishing a more rigorous manager monitoring process. The purpose is to guard against holding on to poorly performing strategies longer than necessary when performance has been a struggle. An example of best practice would be to codify a policy that strategies trailing their benchmarks over a rolling three-year period will be assessed to see if the original thesis for hiring the manager still holds. One tool that is often used in this process is factor analysis to test for whether the strategy has undergone style drift. Another tool is to use a realized alpha analysis. This should not be the only tool used since more than seven years of data is required to show statistical significance, but it can be a useful supplement to the rolling three-year factor analysis.
- ERS should continue to develop innovative policies focused on recruiting, compensation, and career development to secure and retain investment talent. The ability to hire, retain and offer competitive compensation to investment professionals is a key requirement for achieving the trust's investment objectives with optimal efficiency.

[Full Investment Practices and Performance Evaluation](#)

Fort Worth Employees' Retirement Fund

PRB Analysis of Evaluation

The evaluation is well-balanced and summarizes information into easily understandable graphics. It also provides detailed explanations where appropriate, specifically, the sections that evaluate governance and investment policies.

The evaluation provides capital market analysis for the current policy allocation that helps confirm the asset allocation is “well-aligned with FWERF’s policy objectives, particularly to exceed the Fund’s discount rate assumption (7.0%).” This analysis along with the performance comparison to peers helps confirm that the asset allocation can meet the return objectives identified by the system.

The performance analysis also provides a risk-adjusted comparison to peers over a 1-, 3-, 5-, and 10-year period. The analysis reveals that the fund performed just under their policy benchmark. It has performed better than most peers on a 10-yr risk-adjusted basis where the fund’s Sharpe ratio was 0.8 compared to the peer median of 0.65.

Plan Assets:¹ \$2,604,613,403

Evaluator: Verus

Evaluator Disclosures:²

Relationship: Investment Consultant

Investment Discretion: N/A

Conflicts of Interest: N/A

Senate District: 9

House District: 99

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Policy Statement
<p>In our view, FWERF is a well-managed pension fund with a disciplined adherence to their policies and procedures, a strong and ethical culture, clear decision-making processes, and a reasonable investment strategy. We found no critical impairments that would jeopardize the health of the Fund. FWERF recently conducted a review of the Investment Policy Statement and has implemented best in class policies and procedures for the Fund.</p> <p>The Board delegated investment manager selection and due diligence to staff, which is a common theme among large public pension plans. The Board maintains oversight through an outsourced third-party investment compliance monitoring firm. This third party conducts ongoing discussions and reviews with staff; specifically, the CIO and Executive director, and reports to the Board annually unless more time sensitive issues arise. Compliance oversight is critical when the Board delegates investment manager decisions due to possible conflicts of interest; however, FWERF avoids these conflicts through external compliance checks.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> - Add fiduciary language for the Board, Investment Committee, and Executive Director detailing each needs to make decisions in the best economic interests of the Fund’s participants and their beneficiaries. - Add language to review the policy every 5-years to confirm the policy is up to date.

¹ As of 12/31/2023

² [Section 802.109, Texas Government Code](#) authorizes the selection of a firm that has an existing relationship with the system, as long as the firm does not directly or indirectly manage investments. The PRB’s [Guidance for Investment Practices and Performance Evaluations](#) covers the statutorily required disclosures in the evaluation.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

- | |
|---|
| <ul style="list-style-type: none"> - Language should be included if an external service provider is utilized, they have authority to create compliance reporting (Board confirmed reviewing in next IPS revision). |
|---|

Investment Asset Allocation

<p>Strategic asset allocation is widely viewed as the primary driver of institutional investor's returns. As such, FWERF's IPS identifies the Board as having ultimate responsibility for the asset allocation with guidance from investment staff, consultant, and general counsel. The Investment Committee will review asset allocation at least annually. The strategic asset allocation is reviewed every 3-5 years through an in-depth Asset Liability Study to evaluate the risks and return profiles of several asset allocations ranging from conservative to aggressive. The study is conducted to determine if FWERF's current asset allocation is still in line with the risk/return objectives of the Fund, and to make any changes to the strategic allocation for the upcoming 3–5 year time period.</p>

<p>Annually, FWERF reviews the asset allocation through the general consultant's Capital Market Assumptions. The capital market assumptions utilize the general consultant's 10-year forecasted risks, returns, and correlations for all of FWERF's asset classes. The resulting analysis is reviewed by investment staff to determine if the Investment Committee needs to review and decide on interim adjustments to the asset allocation. FWERF has focused their allocation to illiquid asset classes such as Real Estate, Hedge Funds, and Private Equity. The Fund is in or close to the top quartile for those asset class exposures. The result is less Public Equity and Fixed Income than peers.</p>

<p>Strengths:</p>

- | |
|---|
| <ul style="list-style-type: none"> - Based on mean-variance analysis, the Fund's expected average annualized return for the next 10 years is 7.5% with a 13.0% standard deviation and a Sharpe Ratio of 0.37. These metrics indicate a strategic asset allocation that is well-aligned with FWERF's policy objectives, particularly to exceed the Fund's discount rate assumption (7.0%). - The Fund returned 180 bps above the median peer, while taking less risk (i.e., a standard deviation of 10.31% vs 13.35%). |
|---|

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Fees
<p>FWERF believes in the value add of active management but does have meaningful passive exposure within its public equities in recognition of the high degree of market efficiency in this asset class. The Fixed Income, Real Estate, Diversified Opportunities, Private Equity, and Real Assets asset classes are 100% active management. This is due to the nature of private investments, and opportunities for potential alpha within Fixed Income.</p> <p>Verus' believes FWERF's investment management fees are reasonable based upon our review and knowledge of fees incurred by other public funds. Trading costs were not evaluated in our review as trading within separate accounts is delegated to investment managers. FWERF does not conduct any internal portfolio management or trading activities.</p> <p>Strengths:</p> <ul style="list-style-type: none">- Fees are in line with expectations for each asset class.

Governance
<p>Managing key person risk is one concern which arose during our review. During the review process two key executives left the organization. FWERF does not have a policy around key person risk but might benefit from such a policy should the unlikely event of having multiple employees leave in a short period of time occur again. Furthermore, Verus believes having a formalized performance review process for the Executive Director and CIO should be considered to avoid any ambiguity in the process.</p> <p>Weaknesses:</p> <ul style="list-style-type: none">- There has previously been no Investment Implementation Procedures document, but it was recently created and scheduled for review in 2023/2024. <p>Recommendations:</p> <ul style="list-style-type: none">- Create a policy around key person risk.- Establish formal procedure to review the Chief Investment Officer & Executive Director, which can be articulated in a separate policy document related to operational risk management.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Manager Selection and Monitoring
<p>A former Due Diligence Policy which guided the manager selection process was replaced by the detailed Investment Implementation Procedures which directs the CIO to use delegated authority for manager selection, sourcing, monitoring, and oversight functions. Manager selection and sourcing is unique to three asset groupings (traditional assets, liquid alternative assets, and private assets). Each asset grouping has its own criteria outlined in the Investment Implementation Procedures. Verus' assessment of the Investment Implementation Procedures indicate there is sufficient criteria and risk controls to guide the CIO to making decisions for each individual asset class.</p> <p>Furthermore, there is sufficient communication and reporting criteria outlined within the Investment Implementation procedures to allow the Investment Committee to oversee the CIO in their delegated authority. This includes monthly reporting on pipeline, watch lists, quarterly third-party performance reporting, and quarterly reviews of asset allocation, risk, performance, and costs of the Fund.</p> <p>The Total Fund uses a blended benchmark based on the individual strategy benchmarks, weighted by the policy allocation to each. This is a typical approach that we believe is reasonable and appropriate.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - Benchmarking is reviewed periodically with the Investment Committee, with the latest review conducted in 2022. <p>Weaknesses:</p> <ul style="list-style-type: none"> - Policy references investment return section which is only related to total fund and not individual strategies or asset classes <p>Recommendations:</p> <ul style="list-style-type: none"> - Update a manager benchmark in Emerging Markets to better reflect their opportunity set. - Change the William Blair Emerging Markets Small Cap Growth benchmark to the MSCI Emerging Markets Small Cap Growth Index to ensure the manager is evaluated versus an appropriate style benchmark.

[Full Investment Practices and Performance Evaluation](#)

Harris County Hospital District Pension Plan

PRB Analysis of Evaluation

The evaluation provides a helpful summary of the information in each section and identifies the system as following best practices. The evaluation answers the questions provided in the PRB’s *Guidance for Investment Practices and Performance Evaluations*, providing detailed descriptions in several areas.

The evaluation describes the insights provided by the 2021 asset liability study. The evaluation states that the “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,” which is aligned with industry best practices.

The evaluation notes that “while [the system] does not have a written investment management fee policy, investment management fees are compared to peer universes on a regular basis.” The evaluation supports this statement by confirming the system and the investment consultant issued a request for proposal in 2021 to evaluate the competitiveness and reasonableness of fees incurred.

Plan Assets: ¹ \$948,342,881
Evaluator: Aon Investments USA Inc.
Evaluator Disclosures: ²
<u>Relationship:</u> Investment consultant
<u>Investment Discretion:</u> None
<u>Conflicts of Interest:</u> None
<u>Senate District:</u> 13
<u>House District:</u> 146

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Policy Statement
<p>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.</p> <p>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.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - The Investment Policy Statement (“IPS”) is comprehensive and follows best practice, it contains appropriate measurable outcomes, and it is being followed.

¹ As of 12/31/2023

² [Section 802.109, Texas Government Code](#) authorizes the selection of a firm that has an existing relationship with the system, as long as the firm does not directly or indirectly manage investments. The PRB’s [Guidance for Investment Practices and Performance Evaluations](#) covers the statutorily required disclosures in the evaluation.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Asset Allocation
<p>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.</p> <p>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.</p> <p>Strengths:</p> <ul style="list-style-type: none">- 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.

Investment Fees
<p>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.</p> <p>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.</p> <p>Strengths:</p> <ul style="list-style-type: none">- Fees, both for administering and managing the assets, are appropriately monitored through regular reporting processes.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Governance
<p>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.</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 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.</p> <p>Strengths:</p> <ul style="list-style-type: none">- 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.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Manager Selection and Monitoring
<p>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.</p> <p>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.</p> <p>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.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - 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.

[Full Investment Practices and Performance Evaluation](#)

Houston Municipal Employees Pension System

PRB Analysis of Evaluation

As allowed by Sec. 802.109 of the Texas Government Code, the evaluation was prepared in accordance with the Houston Municipal Employees Pension System's governing statute.¹ However, the evaluation offers little new information compared to the previous evaluation completed in 2020.

The following table recreates the review section of the report in its entirety.

Review of HMEPS' investments as set forth in its governing Statute, Article 6243h, Tex. Rev. Civ. Stats., §2D(a)(1-8)

Plan Assets:² \$4,072,345,338

Evaluator: Wilshire Associates, Inc.

Evaluator Disclosures:³

Relationship: Investment consultant

Investment Discretion: None

Conflicts of Interest: None

Senate District: 13

House District: 147

Subsection 2D(a):	Information Reviewed	Finding
(1) the pension system's compliance with its investment policy statement, ethics policies, including policies concerning the acceptance of gifts, and policies concerning insider trading	<ul style="list-style-type: none"> - HMEPS IPS (Appendix I rev. 5/18/2023) - HMEPS Ethics Policy, rev. 10/22/15 - Gifts: § 107 - Prohibition on Insider Trading: § 105.05 - Ethics Policy Acknowledgements by Trustees and Executive Director (2020-2023) and HMEPS-identified Key Staff (2020-2023) - Chapter 171 and 176, Tex. Local Gov't Code disclosures; CIS and CIQ disclosures available on HMEPS website: http://www.hmeps.org/cis.html; http://www.hmeps.org/ciq.html 	<p>HMEPS' IPS states that it was adopted by the HMEPS Board in 2011 with the following purpose: "The purpose of this Investment Policy Statement (IPS) is to delineate the investment policies and objectives of the System. These policies and objectives are intended to allow for sufficient flexibility in the management process to capture investment opportunities, yet provide parameters that will ensure prudence and care in the execution of the investment program. Specifically, these policies should assist the fiduciaries of the System in effectively monitoring and evaluating the investments of the fund."</p> <p>Based on Wilshire's review of the IPS, including the items reviewed with respect to §2D(a)(2)-(8), Wilshire has determined that HMEPS maintains documents showing that it is in compliance with the IPS.</p>

¹ Section 802.109(k)(1), Texas Government Code, authorizes HMEPS to use the report required by Section 2D, Article 6243h, to satisfy the evaluation requirement.

² As of 6/30/2023

³ [Section 802.109, Texas Government Code](#) authorizes the selection of a firm that has an existing relationship with the system, as long as the firm does not directly or indirectly manage investments. The PRB's [Guidance for Investment Practices and Performance Evaluations](#) covers the statutorily required disclosures in the evaluation.

The following table recreates the review section of the report in its entirety below.

Subsection 2D(a):	Information Reviewed	Finding
		The HMEPS Ethics Policy states it was adopted by the HMEPS Board in 2015 and includes provisions regarding receipt of gifts and a prohibition of insider trading. Based solely on materials and assertions provided by HMEPS, Wilshire has determined that HMEPS maintains documents demonstrating that Trustees and key people identified by HMEPS are in compliance with the Ethics Policy.
(2) the pension system's asset allocation, including a review and discussion of the various risks, objectives, and expected future cash flows	<ul style="list-style-type: none"> - IPS, Appendix I rev. 5/18/2023 - Wilshire Asset/Liability Analysis and Recommendations, 5/18/2023 	Wilshire reviewed the IPS and the asset allocation review provided by HMEPS. Wilshire has determined that the HMEPS Board reviewed available asset classes and discussed the objectives, risks, and expected returns and cash flows of these asset classes. The HMEPS Board reviewed several potential policies for consideration, and approved changes to the asset allocation that included a reduction of global equity, high yield bonds, emerging market debt, and hedge funds, and increase to fixed income, private credit, and inflation linked assets. Wilshire finds the process taken to update the target allocation to be prudent and consistent with HMEPS' fiduciary duty.
(3) the pension system's portfolio structure, including the pension system's need for liquidity, cash income, real return, and inflation protection and the active, passive, or index approaches for different portions of the portfolio	<ul style="list-style-type: none"> - IPS, Appendix I rev. 5/18/2023 - Wilshire Asset/Liability Analysis and Recommendations, 5/18/2023 - Wilshire HMEPS 2022 ACFR, 2021 ACFR and 2020 ACFR - HMEPS 2022 Financial Statements, 2021 Financial Statements and 2020 Financial Statements 	HMEPS' portfolio structure is contained in each of the reviewed documents. Additionally, Wilshire has determined that HMEPS considered the pension system's need for liquidity, cash income, and real return in determining the asset allocation. The asset allocation review also considered active, passive and/or index approaches for different portions of the portfolio.

The following table recreates the review section of the report in its entirety below.

Subsection 2D(a):	Information Reviewed	Finding
(4) investment manager performance reviews and an evaluation of the processes used to retain and evaluate managers	<ul style="list-style-type: none"> - IPS, Appendix I rev. 5/18/2023 - Wilshire Quarterly Executive Summary reports, September 30, 2020 to May 31, 2023 - Wilshire Quarterly Managers on Probation reviews, September 30, 2020 to May 31, 2023, and Board actions 	Wilshire confirmed that the HMEPS Board reviews a performance Executive Summary and recommendations on Managers on Probation on a quarterly basis.
(5) benchmarks used for each asset class and individual manager	<ul style="list-style-type: none"> - IPS, Appendix I rev. 5/18/2023 - Manager guidelines 	Wilshire reviewed the IPS and related manager guidelines and has determined HMEPS has defined benchmarks for individual managers.
(6) an evaluation of fees and trading costs	<ul style="list-style-type: none"> - IPS, Appendix I rev. 5/18/2023 - HMEPS 2022 CAFR, 2021 CAFR and 2020 CAFR, Investment Section, Schedule of Fees and Commissions Paid - HMEPS 2022 Financial Statements, 2021 Financial Statements and 2020 Financial Statements 	Wilshire reviewed the IPS and determined that an evaluation of fees is part of HMEPS' manager selection process. Wilshire also reviewed HMEPS' ACFR and Financial Statements and determined that investment related expenses and trading costs are disclosed.
(7) an evaluation of any leverage, foreign exchange, or other hedging transaction	<ul style="list-style-type: none"> - HMEPS 2022 CAFR, 2021 CAFR and 2020 CAFR - HMEPS 2022 Financial Statements, 2021 Financial Statements and 2020 Financial Statements 	Wilshire reviewed HMEPS' Comprehensive Annual Financial Reports and Financial Statements and determined that HMEPS evaluates the use of leverage, foreign exchange and other hedging transactions.
(8) an evaluation of investment-related disclosures in the pension system's annual reports	<ul style="list-style-type: none"> - HMEPS 2022 CAFR(pp. 54-56; 60-68) - HMEPS 2021 CAFR (pp. 60-62; 66-72) - HMEPS 2020 CAFR (pp. 59-61; 64-71) 	Wilshire reviewed HMEPS' ACFRs and determined that the ACFRs provide investment-related disclosures. HMEPS is responsible for the accuracy of these disclosures.

The following table recreates the review section of the report in its entirety below.

[Full Investment Practices and Performance Evaluation](#)

Irving Firemen's Relief and Retirement Fund

PRB Analysis of Evaluation

The evaluation offers a balanced approach, summarizing key aspects of the system while also providing more detailed analysis from studies. Each section contains summarized analysis that describes what the system is doing well and supports recommendations made in the evaluation.

Irving Fire has also faced cash flow issues as a result of its DROP program. The evaluator in the past recommended changes to the program to better align it with the system’s long-term financial needs, and the system has implemented those changes. The evaluator included cash flow analysis that shows the results from additional changes and an influx of cash from an \$80 million pension obligation bond.

The evaluation includes several clear recommendations to improve practices while also identifying numerous practices already happening that are consistent with industry standards.

Plan Assets:¹ \$262,961,207

Evaluator: Meketa

Evaluator Disclosures:²

Relationship: Investment consultant

Investment Discretion: None

Conflicts of Interest: None

Senate District: 16

House District: 105

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Policy Statement
<p>The most recent review occurred in 2023. The Consultant presented a red-lined version to the Board for review and discussion. The IPS is well thought-out and in line with industry standards. It is consistent with guidance from the CFA Institute. Roles and responsibilities of all key parties involved are clearly outlined (Board of Trustees, Staff, Investment Consultant, Investment Managers, Custodian Bank). There is no evidence of any known compliance violations with the IPS at this time.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - Overall: The existing Investment Policy Statement appears appropriate, adequate, and effective. <p>Recommendations:</p> <ul style="list-style-type: none"> - The Investment Policy Statement meets industry best practices. The Texas Pension Review Board is currently working on guidance for Texas pension plans. The Board and Consultant should review and incorporate any applicable relevant guidance from the PRB once published, while keeping in mind the goal of a high-level policy document that is not overly prescriptive.

¹ As of 12/31/2023

² [Section 802.109, Texas Government Code](#) authorizes the selection of a firm that has an existing relationship with the system, as long as the firm does not directly or indirectly manage investments. The PRB’s [Guidance for Investment Practices and Performance Evaluations](#) covers the statutorily required disclosures in the evaluation.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Asset Allocation
<p>Current passive exposure as of December 31, 2023 is ~30%. Passive index funds are used in efficient areas of the market (US Large Cap equities, investment grade bonds) complemented by active strategies. Irving Fire uses capital markets assumptions developed by its Consultant. Irving Fire values its alternative investments based on fair value determinations provided by audited financial statements or appraisals provided to Irving Fire from its alternative investment managers.</p> <p>The Fund adopted a number of new actuarial changes (contribution rates, benefit payments, actuarial assumptions) over the past few years, and issued Pension Obligation Bonds. All have resulted in a more favorable funded status and better funding plan for the Fund. The Board actively reduced the actuarial assumed rate of return in 2019 and 2020. The assumed rate of return is currently 7.0%. This is in line with national averages and the State of Texas.</p> <p>Through a combination of benefit changes, issuance of \$80M Pension Obligation Bond, and a reduction in DROP withdrawals, the net annual cash outflow has reduced to a manageable percentage of assets.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - The Fund adopted a number of new actuarial changes (contribution rates, benefit payments, actuarial assumptions) over the past few years, and issued Pension Obligation Bonds. All have resulted in a more favorable funded status and better funding plan for the Fund. - Actuarial improvements over the past 4+ years have improved the solvency of the Fund. - Continue to monitor the net negative cash flows as a percentage of total Fund market value. - Continue to monitor the appropriate balance of active to passive - Continues to follow its asset allocation policy and evaluate the risk/reward trade-offs for the pension relevant to its liability situation. - Continue to conduct an Actuarial Valuation Report annually. This is industry best practice

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Fees
<p>Most fees are deducted from manager account or NAV. The Consultant monitors investment manager fees and appropriateness relative to similar investment strategies. An investment manager fee summary is included in every quarterly report. It shows each manager's effective annual fee in both basis points and dollars.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - Staff, the Board, and the Consultant are all diligent in monitoring fees. - Irving Fire's use of passive index funds and elimination of high fee hedge funds, along with below median investment management fees, results in a very cost-effective total Fund structure. <p>Recommendations:</p> <ul style="list-style-type: none"> - Irving Fire staff should document its internal process for fee reconciliation and payment in a formal policy document. - Fund counsel should review all legal contracts when the Fund hires a new vendor or investment strategy.

Governance
<p>Meketa Investment Group serves as a non-discretionary investment advisor. Meketa does not custody any assets. Meketa receives a hard dollar fee (specified in advance) from Irving Fire and does not receive any additional fees (unless pre-approved by the Board of Trustees for projects beyond the scope of the investment advisory agreement). Many Board members participate in the TEXPERS conferences as well as some national pension conferences (e.g. NCPERS). Irving Fire adopted a Board of Trustees Code of Ethics in November 2019. It was last updated in March 2021. It is signed by all Trustees on the Board.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - Information on the website is current. This is an improvement from the IPPE report analysis in 2020. - Irving Fire's board members appear to work well together. The size of the board is appropriate relative to other pension plans.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Manager Selection and Monitoring
<p>A number of minimum criteria is listed in the IPS for consideration when the Board is considering hiring an investment manager. The criteria is rules based in nature (e.g., must be registered investment advisor, must be registered to do business in Texas, must provide ADV, etc.) Search criteria looked at both quantitative data (performance, fees, size of team, size of AUM) and qualitative data (philosophy, process, investment strategy, etc.). Two active manager searches occurred in the past four years. In both instances Irving Fire received better discounted investment management fee through negotiation on behalf of the consultant. The Consultant is primarily responsible for monitoring the performance of the investment managers and reporting to the Board.</p> <p>Strengths:</p> <ul style="list-style-type: none">- Performance monitoring and benchmarking is in-line with industry best practices. <p>Recommendations:</p> <ul style="list-style-type: none">- Irving Fire should formally document the rationale for all hiring and firing decisions in concise meeting minutes.

[Full Investment Practices and Performance Evaluation](#)

Laredo Firefighters Retirement System

PRB Analysis of Evaluation

The evaluation provides a thorough background of the System and its current practices. The evaluation provides helpful summary findings for each section and detailed explanations where appropriate that elaborate on practices.

The evaluation did mention that in 2023, the Laredo Firefighters Retirement System (LFRS) hired Dr. Mary Champion of Champion Capital Research to independently review the IPS. From that independent review several changes were identified which helps support the evaluators review of the practices in this report being consistent with best practices.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Plan Assets:¹ \$197,901,632
Evaluator: FEG Investment Advisors (FEG)
Evaluator Disclosures:²
Relationship: Investment Consultant
Investment Discretion: None
Conflicts of Interest: None
Senate District: 21
House District: 42

Investment Policy Statement
<p>FEG undertook a thorough evaluation of the LFRS Investment Policy Statement (IPS) and affirms LFRS is in compliance with the policies defined within the document. The IPS is reviewed annually and was last changed in 2023 and approved at the December 26, 2023 Board Meeting. The IPS was initially written in 2001 and has been amended ten times since that date. The version adopted in December 2023 added a section on illiquid investments, limiting the overall exposure to illiquid investments to 25% of the portfolio value.</p> <p>The IPS establishes formal yet flexible investment guidelines and investment structure for managing LFRS assets; structure includes various asset classes, investment management styles, asset allocation, and acceptable ranges expected to produce an appropriate level of overall diversification and total investment return over the investment time horizon, in order to incorporate prudent risk parameters, appropriate asset guidelines and realistic return goals. The IPS provides rate-of-return and risk characteristics for the total portfolio. Relative performance benchmarks are set forth in a "Monitoring" section.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - The IPS is written clearly, well organized, and in line with industry standards.

¹ As of 12/31/2023

² [Section 802.109, Texas Government Code](#) authorizes the selection of a firm that has an existing relationship with the system, as long as the firm does not directly or indirectly manage investments. The PRB's [Guidance for Investment Practices and Performance Evaluations](#) covers the statutorily required disclosures in the evaluation.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Asset Allocation
<p>The LFRS IPS defines the process for determining and evaluating its asset allocation. While it is the Board that ultimately establishes asset allocation ranges and investment guidelines, the investment consultant is tasked with making recommendations as to the appropriate target portfolio weightings among the various major asset classes (e.g., stocks, bonds, and cash) within the portfolio. These recommendations are to be supported with materials including asset class performance expectations (risk, return and correlations) for broad and various asset classes within the portfolio. The LFRS asset allocation is strategic and reviewed annually, although it does not change every year. LFRS does not approve of short-term, tactical asset allocation changes.</p> <p>Return differences between active and passive strategies are not modelled in asset allocation assumptions. FEG’s philosophy incorporates both active and passive investment strategies but applies them to different aspects of portfolio construction. Although active management has the potential to add value over strictly passive means, FEG believes it should be applied appropriately. FEG also believes incentives should be aligned so that investors are paying for outperformance (alpha), as opposed to beta gained inexpensively through passive strategies. Ultimately, FEG focuses on active management strategies in less efficient asset classes to help drive alpha.</p> <p>LFRS has a 20% target asset allocation to alternative investments, defined as either hedge funds (10%) or private capital investments (10%). As of March 31, 2024, the actual allocation was 15.0% (hedge funds: 8.7%, private equity: 2.3%, private energy: 1.4%, private real estate: 0.2%, and private debt: 2.4%).</p> <p>As of September 30, 2023, the Plan Fiduciary Net Position as a Percentage of the Total Pension Liability was 56.8%. At that funding level, the Trustee’s focus has been on maximizing investment returns for an acceptable level of risk. As the System approaches full funding, a less risky asset allocation would likely be adopted.</p>

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Fees
<p>LFRS places great emphasis on monitoring investment fees. However, LFRS recognizes its mission is to provide benefits to its members and their beneficiaries, requiring a 7.4% required rate-of-return, net of fees. In seeking this return, LFRS has chosen to invest in many actively managed investment portfolios, some of which can have above average investment fees. LFRS's Board has historically chosen investments based on the highest expected net-of-fees return, not the lowest fee.</p> <p>However, LFRS also invests in private partnerships (hedge funds and private capital funds). The managers of these funds are paid a management fee based on the market value, but also are paid an incentive fee based on fund performance. In addition, in some instances, fund-of-funds are utilized. In these funds, fees are also paid to underlying investment managers. These fees are disclosed to LFRS at least annually but can be obtained from the investment managers upon request. For hedge funds, incentive fees are typically 15% to 20% of returns greater than 0%. A high-water mark structure often exists to ensure fees are only paid on new returns, not the recovery of prior losses. For private equity funds, incentive fees are also typically 15% to 20%, but only on returns greater than a hurdle rate. There are many ways to define a hurdle rate, but rates are typically around 6% to 8%.</p>

Governance
<p>The System has a number of governance policies separate from policies embedded within the Investment Policy Statement. These policies cover long term Board goals, elections, funding, gifts, attendance, travel and expense reimbursement. Additional policies cover non-endorsements, non-participation in entities employed the System, and a separate code of ethics. Collectively, these documents, along with adherence to Texas Pension Review Board and Texas Local Fire Fighters Retirement Act requirements and guidance, create a strong governance structure. These documents are all available on the System's website. Additionally, the website contains all meeting agendas and minutes, actuarial valuations, financial reports, investment reports, and other reports required by the Pension Review Board. The System is transparent in all activities. Board meetings are open to public and the public is invited to make comments at each meeting.</p> <p>The System Board meets monthly to discuss Plan financials and expected cash flows over the next month. Estimated investment results are reviewed, but no actions are typically taken. On average, monthly meetings last about an hour. Once a quarter, the investment consultant presents the investment performance evaluation report and makes recommendations on asset allocation or investment managers, using the process defined in the IPS. These quarterly meetings tend to last about two hours.</p> <p>The investment portfolio is externally managed and the Board and Staff do not select individual securities. The Board relies on its investment consultant for advice and recommendation on the investment portfolio. As defined in the IPS, the investment consultant is to be independent and not take</p>

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

discretion over portfolio investments. The investment consultant is paid a percentage of overall investment assets and is not allowed to receive brokerage commissions, soft dollar payments, or any compensation from investment managers or marketing firms representing managers.

Investment Manager Selection and Monitoring
<p>Investment managers are selected by the Board of Trustees, with guidance from the investment consultant. To reduce conflicts of interest between the investment consultant and investment managers, the Investment Policy Statement clearly defines a manager selection criterion. This includes an eleven-step screening process to eliminate from consideration managers who are not “institutional” in quality (i.e. lack of track record, experience of managers, assets under management, and various performance metrics). Using this screening process, the investment consultant typically presents two to four different investment managers to the Board for discussion. The Board can choose to interview each investment manager. Following discussion, the Board chooses one or more investment managers. The System staff works with the investment consultant, custodian, and investment managers to transition to the new investment manager(s). The process is similar for “alternative” investment managers, but depending on the asset class, multiple managers may not be reviewed, particularly with regards to private capital managers.</p> <p>Performance measurement is driven by the investment consultant. Following industry return calculation guidelines, the investment consultant calculates the returns of all investment managers, asset class composites, and the overall investment portfolio on a monthly basis. Working with the Board, and defined in the IPS, each manager, asset class, and the overall portfolio are compared to appropriate benchmark indexes.</p>

[Full Investment Practices and Performance Evaluation](#)

San Antonio Fire & Police Pension Fund

PRB Analysis of Evaluation

The evaluation provides a thorough review of the system’s practices. In each subject area, it describes the review process and standard of comparison (i.e., industry standards or best practices) followed by the findings and enhancement recommendations. This structure allows the reader to follow along with the evaluator’s work as they build to findings and recommendations, providing clear explanations for the conclusions.

The evaluation also provides a useful scenario analysis from the system’s liquidity study conducted in 2023 that examined the impacts of a shifting economic and market regimes on the fund. The inclusion of this analysis from various studies conducted by the system help improve the usefulness of the evaluation to stakeholders.

In addition to reviewing the practices of the system, the evaluator also provided a status update on all previously recommended improvements from the 2020 evaluation. This provides additional detail into the improvements made by the system and its practices that the recommendations were implemented which support no new recommendations for this evaluation.

Plan Assets: ¹ \$3,923,604,000
Evaluator: NEPC, LLC
Evaluator Disclosures: ²
<u>Relationship:</u> Investment Consultant
<u>Investment Discretion:</u> None
<u>Conflicts of Interest:</u> None
<u>Senate District:</u> 25
<u>House District:</u> 121

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Policy Statement
<p>The latest revisions to the IPS took place in March 2023, with input from NEPC, Staff and the Board. NEPC, as General Consultant, reviewed and endorsed the IPS. The IPS is generally consistent with the following elements recommended by GFOA, the CFA Institute and the NEPC IPS template. Going back through SAFPPF Board Meeting minutes, we can see that the Plan is following the IPS in terms of pursuit of objectives, delegation of authority, decision making process, as well as the frequency and detail of monthly, quarterly, annual and other periodic reporting to the Board. As SAFPPF’s General Investment Consultant, NEPC has directly observed, that the Board is adhering to the governance and compliance guidelines set forth in the IPS.</p> <p>Strengths:</p> <ul style="list-style-type: none">- As noted, SAFPPF has a thorough and thoughtful IPS and there were no new recommendations.

¹ As of 12/31/2023
² [Section 802.109, Texas Government Code](#) authorizes the selection of a firm that has an existing relationship with the system, as long as the firm does not directly or indirectly manage investments. The PRB’s [Guidance for Investment Practices and Performance Evaluations](#) covers the statutorily required disclosures in the evaluation.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Asset Allocation
<p>SAFPPF has developed a clear process that allows for routine setting, monitoring, and review of both the asset allocation of the portfolio and the assets and liabilities of the SAFPPF. This process is consistent with prevailing practice among peer public pension funds. The strategic allocations can be found in the Executive Summary and General Investment Policies and Guidelines sections of the IPS.</p> <p>NEPC's capital market assumptions provided to SAFPPF are developed by NEPC's asset allocation team which consists of senior investment professionals as well as licensed actuaries. These assumptions are forward-looking and fundamentally based forecasts developed with proprietary valuation models to generate both an intermediate and long-term outlook.</p> <p>As a percentage of total Plan assets, SAFPPF is expected to experience net cash flow of approximately -2.0%, per annum, over the next 10 years. Over 30 years, net cash flow is expected to maintain a similar range and rate. Net cash flow for calendar year 2023 was approximately -2.0%. Negative cash flow, and the degree of it (i.e., 2%) is not uncommon for mature pension plans.</p>

Investment Fees
<p>The direct and indirect fees and commissions paid by the Fund include fees that are paid by the Fund and fees that are netted against returns. The Fund pays management fees, performance/carried interest, and brokerage fees. Additionally, the System pays custodian fees, security lending agent fees, investment consultant fees, and internal staff salaries.</p> <p>The Board, Staff and Investment Consultants place an emphasis on fee savings in a variety of ways, including negotiations with managers during the selection process, leveraging existing relationships (e.g., fee break for certain asset levels), as well as leveraging their size and standing in the industry (both the Consultants and the Fund). It should be noted that differences between SAFPPF's investment structure and that of the broad universes don't allow for an exact comparison, but in general we find SAFPPF's fees to be appropriate and within industry standards.</p>

Governance
<p>The Board of Trustees of the Fund is obligated to administer its pension fund for the exclusive benefit of fire fighters and police officers of the City of San Antonio, Texas, their qualified survivors and dependents. In performance of this obligation, the Board of Trustees is required to administer the Fund in accordance with Article 6243o, Vernon's Texas Civil Statutes, and other applicable state and federal laws and regulations.</p>

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

To execute the Investment Policy Statement, SAFPPF has established a governance structure that includes a Board of Trustees, which delegates authority to the Committees (investment, legislative, personnel, financial disclosures, etc.), Investment Staff (executive director, chief investment officer, analysts), and to external vendors hired by the Board including Investment Consultants (general and specialty), a Retirement Actuary and a Custodian.

Investment Manager Selection and Monitoring
<p>The IPS describes the Board’s investment philosophy (risk/return objectives, time horizon, etc.) which guides the Board’s asset allocation and investment decisions. These philosophy statements place emphasis on making long-term asset allocation and investment decisions that are geared towards meeting the Fund’s liabilities by achieving its long-term return goals and diversifying across asset classes and investment managers to maintain an appropriate level of risk to meet these objectives, as well as the management of costs.</p> <p>The SAFPPF retains Specialty Consultants for Private Equity, Private Debt, Real Assets and Real Estate. In addition to the above [four-step process for manager selection], analysis in this category will also focus on different aspects and characteristics of the strategies given the nature of Alternative Assets. Review of documents and prior searches reveal that the selection process is consistent with what is described above.</p> <p>Performance is measured on an ongoing basis (monthly and quarterly) at the individual manager, asset class, and Fund level by the General Consultant. The Custodian and Specialty Consultants also calculate performance for their respective asset classes. Quarterly results are reviewed through regularly scheduled meetings with the Investment Committee and Staff.</p> <p>Strengths:</p> <ul style="list-style-type: none">- In general, SAFPPF has thorough policies and processes in place with regards to investment manager selection and monitoring.

[Full Investment Practices and Performance Evaluation](#)

San Antonio Metropolitan Transit Retirement Plan

PRB Analysis of Evaluation

The evaluation describes the plan’s existing policies and procedures, providing detailed descriptions in several areas. While the report does not reference outside sources for best practices, the explanations generally suggest what the evaluator considers best practices and how they compares to the plan’s current practices. Additionally, the evaluation offers minimal new details compared to the 2020 evaluation.

The evaluator notes that because the plan no longer accepts new participants it will continue to mature which will further increase the drain on assets as to be expected with more beneficiaries retiring. The evaluator notes that “Currently, this deficit is modest, accounting for less than 2% of the Plan’s total corpus, but it is anticipated to gradually grow over time.”

The evaluator states that “In conclusion, Dahab Associates’ evaluation finds the VIA Defined Benefit Plan’s investment policies, procedures, and practices to be compliant and appropriate when compared to industry norms.”

Plan Assets: ¹ \$338,073,463
Evaluator: Dahab Associates
Evaluator Disclosures: ²
<u>Relationship:</u> Investment Consultant
<u>Investment Discretion:</u> None
<u>Conflicts of Interest:</u> None
<u>Senate District:</u> 26
<u>House District:</u> 123

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Policy Statement
<p>We reviewed the eight sections of the Investment Policy Statement (IPS) and believe that the document is easy to comprehend and closely aligned with the objectives of the plan. It outlines the necessary objectives to achieve and defines the policy index as an objective performance measure. Additionally, it highlights that the plan aims to meet or exceed the actuarial assumption rate over a trailing three or five-year period, a time frame which generally captures a full market cycle, although recent past has been less emblematic of typical market cycles.</p> <p>Regarding manager expectations, although no specific period serves as a performance standard, the IPS mandates regular performance reviews and reports to VIA and the consultant. Managers are expected to surpass their benchmarks and rank above the median in style-appropriate universes. These measurement techniques offer clear, simple tests for the board to assess manager success and set achievable goals. As the plan’s investment consultant, we consistently monitor managers' compliance through quarterly performance reviews.</p> <p>Recommendations:</p> <ul style="list-style-type: none">- We would consider refreshing the IPS to ensure it remains aligned with current objectives and market conditions.

¹ As of 12/31/2023
² [Section 802.109, Texas Government Code](#) authorizes the selection of a firm that has an existing relationship with the system, as long as the firm does not directly or indirectly manage investments. The PRB’s [Guidance for Investment Practices and Performance Evaluations](#) covers the statutorily required disclosures in the evaluation.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Asset Allocation
<p>The IPS undergoes continuous reevaluation, highlighting its status as a "living document" that requires regular updates. At least quarterly, the plan's asset allocation is reviewed against the strategic asset allocation outlined in the IPS to ensure alignment and adherence to the defined strategy. The asset allocation is reviewed as part of the quarterly evaluation presented to the board. It remains sound; still capable of achieving the target rate of return with a reasonable amount of risk. The plan has generated strong returns over multiple trailing periods, ranking in the 21st percentile for the trailing year (relative to a comparable public funds universe, where the 1st percentile represents the highest rank), 44th percentile for the trailing three years, 10th percentile for the trailing five years and 4th percentile for the trailing ten years.</p> <p>The plan ceased accepting new participants by the end of 2012. Similar to other mature plans, it experiences negative cash flow, with benefit payments surpassing contributions. Currently, this deficit is modest, accounting for less than 2 percent of the plan's total corpus, but it is anticipated to gradually grow over time. As the plan's membership increasingly transitions to receiving benefits and fewer contributions are made, the asset allocation strategy will progressively adopt a more conservative stance. Periodically, we will conduct asset allocation assessments to monitor and adapt to this evolving condition.</p>

Investment Fees
<p>The IPS of the VIA Metropolitan Transit Retirement Plan outlines the oversight of both direct and indirect compensation disbursed to investment managers. While the IPS does not explicitly detail the ongoing monitoring and reporting of these fees, it is understood within the consultant's responsibilities to the board that such oversight is provided. We diligently track all types of compensation distributed to the managers and furnish this information to the board. Broker commissions in fiscal year 2023 averaged \$0.018 per share. The total commission was \$19,725.15 on \$143,089,462.42 of transactions for a percent commission to transaction amount of 0.0138 percent.</p>

Governance
<p>The board strives to maintain transparency regarding the plan's investments, with its governance structure outlined in the IPS. Monthly board meetings are held publicly, with agendas and minutes accessible to all.</p> <p>Comprising of 11 members, the board is appointed to staggered two-year terms by various entities: five by the San Antonio City Council, three by the Bexar County Commissioners Court, and two by the suburban mayors. Board members fulfill their duties in accordance with Texas Pension Review Board requirements, including completing a Minimum Educational Training course within their first year and subsequently retaking it every two years.</p>

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

While the board values the impartial guidance of the investment consultant, selected through a bidding process every five years, ultimate investment decisions rest with the board. The consultant's role includes updating the Board on investment progress, educating them on asset classes and market trends, and assisting with manager changes. Quarterly performance presentations and annual audits further ensure adherence to governance processes.

Investment Manager Selection and Monitoring
<p>In our role as consultants to the plan, Dahab Associates aids the board in the vetting, retention, and recruitment of managers. We rigorously follow a selection process designed to avoid conflicts of interest. The board can be assured that our recommendations are entirely impartial, as we maintain no affiliations with the firms we suggest; our independence is absolute. We refrain from managing funds and engaging in any other lines of business that might pose conflicts of interest. Dahab Associates is wholly owned by its employees, and our sole source of income stems from providing advisory services to our clients.</p> <p>Throughout the manager search process, our focus is on aligning the client's investment objectives with the capabilities of potential investment managers, ensuring a suitable match that meets the client's specific needs. We do not limit our search to a pre-existing list of preferred investment managers. Instead, we initiate each search assignment by screening both our proprietary and purchased databases to identify candidates that align with the client's specified criteria.</p> <p>Our performance evaluation reports feature comprehensive capital markets analysis, absolute and relative performance comparisons, and peer benchmarking. Returns are consistently presented on both a gross and net of fee basis. Leveraging our proprietary software, we meticulously craft quarterly performance reports tailored to highlight critical performance factors.</p>

[Full Investment Practices and Performance Evaluation](#)

Teacher Retirement System of Texas

PRB Analysis of Evaluation

The evaluation provides a detailed review of both policies and practices used in TRS' investment program. The evaluation enhances transparency by identifying key policies, summarizing studies and reports, and providing conclusions that further elaborates context or key points.

The evaluation also provides supporting evidence of best practices and robust analysis from various studies that are performed by the system regularly. As an example, the evaluation noted that, "During the Asset Allocation Study performed in 2019 (with similar analysis expected in 2024), the Board was provided with many types of analysis that were meant to be representative of stress testing or stressed market representation."

The evaluator concluded that "the Teacher Retirement Plan of Texas ("Plan") is performing in a manner consistent with best-in-class peers." The evaluator further supported the claim by identifying sections following best practices and further expanding upon the conclusions.

Plan Assets:¹ \$187,170,535,558

Evaluator: Aon Hewitt Investment Consulting

Evaluator Disclosures:²

Relationship: Investment Consultant

Investment Discretion: None

Conflicts of Interest: None

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Policy Statement
<p>The Plan has an IPS document that was last reviewed September 2023 and is reviewed at a minimum of every 3 years per the IPS, but in practice, this review has been done 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.</p> <p>The IPS itself contains distinct and measurable outcomes for the Plan, as well as the underlying asset classes. Additionally, the IPS contains measurable risk/return outcomes for investment managers. As detailed throughout this report, the Plan has had mixed results in meeting its stated objectives over the trailing 10-year period, given the difficult market environment in 2022. Additionally, the current policy would have provided desirable returns relative to the stated performance objectives if they were implemented 20 years ago, which is a time period the Board evaluates during Asset Allocation Studies.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - The creation and ongoing review of the IPS document for the Plan is comprehensive. - The IPS of the Plan is quite robust. The level of detail and outlined responsibilities of each respective party is appropriate given the context of TRS, which is that of a large and sophisticated institutional investor. - The IPS follows industry best practices.

¹ As of 12/31/2023

² [Section 802.109, Texas Government Code](#) authorizes the selection of a firm that has an existing relationship with the system, as long as the firm does not directly or indirectly manage investments. The PRB's [Guidance for Investment Practices and Performance Evaluations](#) covers the statutorily required disclosures in the evaluation.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Asset Allocation
<p>The Board has established a process for how they will determine and evaluate the asset allocation of the Plan with in the IPS (occurring every 5 years). We have found during our review of the most recent asset allocation study, the processes established by the Board are being followed. Additionally, the asset allocation development process (which includes the asset liability analysis and stress testing) in practice is robust and we believe the process represents a leading-edge practice.</p> <p>The Plan's overall risk tolerance is expressed and measured in multiple ways. The Board's primary expression of risk tolerance is the selection of the long-term strategic asset allocation. The Board has determined that the current allocation represents a palatable level of risk positioning to achieve the objectives established by the Board for the Plan. Risk positioning is managed through the Plan's tracking error targets and asset allocation policy ranges, which have both been adopted within the Plan's IPS.</p> <p>We have found the process to determine the asset allocation of the Plan to be robust, and there was no evidence in our findings that would position us to state that a different asset allocation would be most suitably positioned to meet the investment return and risk objectives of the Plan. We believe the Plan's alternative investments are more than appropriate given the size of the Plan and the level of investment expertise by those that managed said assets.</p> <p>Strengths:</p> <ul style="list-style-type: none">- The process in practice is comprehensive, and we believe the process represents a leading-edge practice in developing a strategic asset allocation.- The process performed to determine the appropriate long-term strategic asset allocation was robust.- The size of TRS, the duration of its liabilities, the depth of the Investment Management Division (IMD), and the support of the Board give TRS a competitive advantage in achieving alpha in the alternative investment space.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Fees
<p>The Plan dedicates the appropriate amount of review and reporting on investment fees and commissions. The Plan does not have a written policy with regards to rules for fee negotiations. Through our conversations with IMD this is due to the unique nature of each investment and how fees are structured and negotiated. IMD stressed during our interactions that they strive for the lowest fees possible with each investment opportunity. A written policy on rules for fee negotiations is uncommon across peer institutional investors.</p> <p>IMD maintains procedures for the payment of management and incentive fees. The procedure document outlines the process for receiving, reconciling, paying, and documenting the payment of management and incentive fees. The investment fees and commissions paid by the Plan include management fees, performance-based fees, carried interest, and broker commissions. These fees are outlined within the Plan's Annual Comprehensive Financial Report ("ACFR") in the Investment Section. The IMD operating expenses are included in the ACFR Statement of Changes in Fiduciary Net Position and also reported annually to the Board as part of the annual budget review and approval process.</p> <p>The Plan participates in the CEM Benchmarking Report. The CEM Benchmarking Report is the industry standard for objective fee benchmarking relative to peer institutions. CEM maintains a database of pertinent fee data on relevant peers of TRS to perform its analysis. The December 31, 2022 report found that investment costs of the Trust were lower (-0.32%) than the CEM benchmark costs.</p> <p>Fees are reported to the Board in multiple ways, including its Annual Budget Exercise, monthly Transparency reports, the annual ACFR as part of the annual Texas State Auditor's Office audit. The CEM Benchmarking Report is the industry standard for objective fee benchmarking relative to peer institutions. The December 31, 2022 report found that the investment costs of the Plan were below the CEM benchmarked costs. The benchmark cost developed by CEM represents the median cost of peers of each underlying invested asset class weighted to reflect the Plan's actual asset allocation.</p>

Governance
<p>Aon found TRS to have extensive and detailed documentation of its governance related to the investment-decision making process. The IPS and Board Bylaws show alignment with best practices by stating what authority has been retained by the Board and what has been delegated, as well as clearly articulating roles and responsibilities of the Board and staff. Aon determined that the level of delegation from the Board is compatible with its peers and best practices, given the size and complexity of the Plan.</p> <p>It was further determined that TRS is progressive in terms of its transparency, surpassing those of many public retirement Plans. In addition to posting the IPS and Board Bylaws on the TRS website, stakeholders also have access to committed webpages outlining IMD teams, Investment Strategy, Beliefs, Diversification Framework, Risk Management, and Making and Managing Investments. The website also has information for stakeholders concerning Board meetings, with detailed board minutes, web broadcasting of open portions of Board and Committee meetings, Board packets back to 2013,</p>

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

<p>Trustee biographies, listing of Board Committees and Officers, Board of Trustee Ethics Policy, Board of Trustees External Communication Policy, and Board Meeting calendar.</p> <p>Aon believes the governance structure is consistent with best practices for a fund the size and complexity of TRS. The Board establishes policy and ensures appropriate monitoring, reporting, accountability, and compliance with its policies. Staff is able to appropriately implement the Board’s directives within the parameters set by the Board. The policies, procedures, practices, and interviewees’ commentaries all support a strong, stable governance framework for TRS to fulfill its mission and purpose.</p>
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Investment Manager Selection and Monitoring
<p>The Investment Management Division (IMD) bears the responsibility of selecting and authorizing proposed investments and external managers, operating within the parameters established in the Plan’s Investment Policy Statement (IPS) and as delegated by the Board of Trustees. In this capacity, IMD will utilize an array of resources to compile a list of candidate managers that warrant further due diligence. Examples of these resources include discussions with existing managers, outreach from managers not currently part of the investment portfolio, opportunities learned through discussion with industry professionals, participation in industry conferences, and outside resources such as eVestment/Preqin/etc. or investment consultants/advisors.</p> <p>The process for further screening the list of potential managers is robust and is outlined in detail within the report as well as the process for ongoing monitoring and the process for coming to a termination decision.</p> <p>The Plan’s custodian, State Street, is responsible for measuring and calculating investment performance. A diverse range of performance reports, as outlined in the report, are provided to the Board. These reports are thoughtfully formatted and presented to enable Board members of varying investment acumen to evaluate the success associated with the implementation of the investment policy. Investment results reported to the Board by the investment consultant and IMD are net of external investment management fees and are compared to benchmarks and peers.</p>

[Full Investment Practices and Performance Evaluation](#)

Texas County & District Retirement System

PRB Analysis of Evaluation

The evaluation includes useful descriptions of the practices implemented by the Texas County and District Retirement System (TCDRS) and how being a cash-balance pension plan differs from many pensions. The investment consultant evaluating the policies provides a detailed explanation across all required subject areas, including the use of data tables where appropriate.

The evaluation also emphasizes the importance of TCDRS’ fee transparency stating “TCDRS reports all investment returns ‘net of fees’. Because of this, the investment results reported on tcdrs.org and in publications and financial reports are the actual values available for TCDRS use.” Additionally, “TCDRS provides full transparency on fees by reporting both management and carried interest fees on tcdrs.org and in their annual financial report.”

Plan Assets: ¹ \$46,170,026,367
Evaluator: Cliffwater LLC
Evaluator Disclosures: ²
<u>Relationship:</u> Investment Consultant
<u>Investment Discretion:</u> None
<u>Conflicts of Interest:</u> None
<u>Senate District:</u> Statewide
<u>House District:</u> Statewide

While no recommendations were made in this evaluation, the evaluator did provide a justification. “There are no recommendations for any of the evaluated areas in the report as TCDRS has a disciplined and systematic process of formally reviewing all aspects of its investment policy each quarter. The process of which has been described in detail in the discussion section of the evaluated areas. Changes to the policy, if required, are subsequently made and reviewed by all relevant parties, including the Board.”

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Policy Statement
<p>The IPS, attached as Exhibit 1, contains the major categories typically included in an institutional quality investment policy. The policy is clearly written and contains measurable objectives for the asset allocation, asset classes and investment managers. The IPS is reviewed by the Board’s fiduciary counsel.</p> <p>The IPS is reviewed quarterly and is modified, as appropriate, at the Board’s discretion. The last revision to the IPS was in September 2022 when the IPS was updated to include updated benchmark names.</p>

¹ As of 12/31/2023

² [Section 802.109, Texas Government Code](#) authorizes the selection of a firm that has an existing relationship with the system, as long as the firm does not directly or indirectly manage investments. The PRB’s [Guidance for Investment Practices and Performance Evaluations](#) covers the statutorily required disclosures in the evaluation.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Asset Allocation
<p>The primary means through which the Board ensures that the System achieves the System Investment Objective is through an asset allocation plan. This is documented in the IPS and is updated on an annual basis. The asset allocation plan is developed based on a set of capital market assumptions adopted by the Board as set forth in the IPS in Table 3 of Exhibit A. These assumptions provide the primary basis from which the Board can determine whether the selected asset allocation plan is designed to attain the System Investment Objective. TCDRS provides the public with full transparency, including a video on its website and description of the allocation process and a listing of the current capital market assumptions on tcdrs.org.</p> <p>On a quarterly basis, the Investment Officer provides the Board with a report on the status of the System’s asset allocation plan, and the Board formally reviews the System’s asset allocation plan not less than annually. In the course of its review, the Board considers current capital market assumptions, the existing allocation percentages and priorities, and possible modification to the asset allocation plan and the list of asset classes. Each year, Cliffwater conducts a study of state pension performance, included as an attachment.</p> <p>Due to its unique construct, the TCDRS asset allocation differs from the typical state pension plan and is more comparable to a large endowment. Unlike the typical public defined benefit pension plan that relies on annual contributions approved by the respective contributing body, TCDRS is a savings plan whereby any shortfall/excess versus the 7.5% annual crediting rate is automatically amortized into the participating system’s annual rate reset. Additionally, unlike most state pensions that are in a net cash outflow situation, TCDRS is in a slightly negative cash flow position such that TCDRS can withstand a higher level of illiquidity than a typical state pension plan.</p>

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Fees
<p>TCDRS is focused on ensuring that their resources (e.g., investment management fees, personnel time, etc.) will be expended in the asset classes where there is a higher probability of consistent manager outperformance or where index funds are not available (e.g., alternative investments). Given this, the entire TCDRS US equity exposure is in index funds, over 60% of the developed non-US equity exposure is in index funds and approximately 10% of emerging markets exposure is in index funds. For the remaining public market asset classes, active management is used in global equity, core fixed income, MLPs, REITs, and credit. The public market managers, along with their fee schedules, are formally reviewed every three years.</p> <p>TCDRS uses active management in alternative investments (e.g., private equity, distressed debt, direct lending, strategic credit, hedge funds, real assets, real estate). Because of the level of diligence and operational flexibility required to make certain alternative investments in a timely and prudent manner, the Board has established a process for the approval of alternative investments that is documented in the IPS.</p> <p>TCDRS collects and reviews all fees and expenses annually. TCDRS provides full transparency on fees by reporting both management and carried interest fees on tcdrs.org and in their annual financial report.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - TCDRS provides full transparency on fees by reporting both management and carried interest fees on tcdrs.org and in their annual financial report.

Governance
<p>The TCDRS Board of Trustees provides leadership for the system and is responsible for overseeing the investment of TCDRS assets. The Board adopts the investment policy, allocates assets, hires legal firms, consultants, custodians, investment managers and monitors performance. They receive assistance from the Investment Officer and staff, along with professional firms they have hired in carrying out that responsibility. TCDRS investments are managed by an experienced team with diverse skills and responsibilities. The internal team is supported by consultants, custodians, legal firms and external managers. Both staff and consultants work together to make informed, responsible decisions about TCDRS investments. Staff and consultants perform extensive due diligence for the Board before recommending the hiring of investment managers and monitor those investment managers as they work toward specific goals, investing funds according to TCDRS investment policy. Oversight of investment managers includes reviews of operations, on-site visits, background checks, reviews of financial information and continuous monitoring after hire. All board-hired contracts, including the investment consultant, are reviewed annually as part of the governance policy process with an in-depth contract review conducted every four years.</p>

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Both passive and active styles of asset management are used. Funds managed in the passive style, seek to match the performance of an established market index (e.g., the Dow Jones U.S. Total stock Market Index) by investing in the same securities as the index. Asset classes that are passively managed include: U.S. equities, International developed equities (partial), and International emerging equities (partial).

Investment Manager Selection and Monitoring
The Board is ultimately responsible for the selection of investment managers to manage the portfolios within the asset classes. However, the Investment Officer and appropriate investment consultants/legal advisors will assist the Board in the selection process. In terms of performance monitoring, the Board retains a performance measurement analyst to report performance of the System’s investments based upon a total return using time-weighted rate of return calculations. Performance is calculated on a monthly basis on a gross and net of fee basis. These reports (a) set forth the overall investment performance of the System’s investments and the performance of individual investment managers within asset classes and (b) compare the overall performance of the System’s investments with the System’s Investment Objective set forth in the IPS and the TCDRS Policy Index. The Board formally reviews these reports on a quarterly basis. These reports are provided on a summary and detailed level with verbal explanation to address differing levels of investment knowledge/expertise.

[Full Investment Practices and Performance Evaluation](#)

Texas Municipal Retirement System

PRB Analysis of Evaluation

The evaluation provides a thorough review of the system’s practices. In each subject area, it describes the review process and standard of comparison (i.e., industry standards or best practices) followed by the findings and enhancement recommendations. This structure allows the reader to follow along with the evaluator’s work as they build to findings and recommendations, providing clear explanations for the conclusions.

The evaluation acknowledged the prudence in cost management as TMRS engaged an outside vendor to analyze trading costs of the equity portfolios. Further, the evaluator states “NEPC recognizes that this is a prudent approach as part of the System’s fiduciary responsibility to monitor costs and understand performance results from its investment managers.”

The evaluation also identified the re-assumed proxy voting responsibility by the system in 2023 and reviewed the policies. While the evaluator recommended finalizing the investment compliance process for proxy voting it also notes that “TMRS may have significantly less risk of misstep in proxy voting because TMRS neither internally trades, nor has developed a custom proxy voting policy which requires higher order monitoring.”

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Plan Assets: ¹ \$39,486,341,713
Evaluator: NEPC
Evaluator Disclosures: ²
<u>Relationship:</u> Investment Consultant
<u>Investment Discretion:</u> None
<u>Conflicts of Interest:</u> None

Investment Policy Statement
<p>The most recent version of the investment policy statement (IPS) was adopted on December 14, 2023, and went into effect as of January 1, 2024. The IPS reflects the new asset allocation policy and benchmarks that were approved by the board in June and September 2023, respectively. The most recent version also reflects modest amendments made to the IPS to clarify the roles and responsibilities of different entities.</p> <p>To ensure TMRS remains in compliance with its investment policy statement and other procedures, on a weekly and quarterly basis, the investment compliance staff is responsible for testing TMRS’ portfolio for all testable parameters that have been identified in the IPS to ensure the system remains in compliance. The results of these tests are reported to the board at quarterly meetings. A review of the board meeting materials confirmed that TMRS was in compliance with the testable parameters in the Investment Policy Statement in each quarter since investment compliance testing began to be reported to the board in Q3 2021. NEPC’s own testing of TMRS’s portfolio also confirmed that the system was in compliance with the IPS as of 9/30/2023.</p> <p>In 2023, TMRS re-assumed proxy voting responsibility and adopted a proxy voting policy that states “Investment staff will vote proxies to maximize the long-term investment returns consistent with the Board’s fiduciary duty and the laws of the State of Texas.” As part of this change, in early 2023, TMRS engaged Institutional Shareholder Services (“ISS”) to act as its proxy advisor for its SMAs and for other investment with external managers, proxy voting has been delegated to those managers. TMRS worked with ISS to set the guidelines for how ISS should vote on corporate actions to ensure that TMRS votes according to the System’s best interest and consistent with fiduciary duties. At the time of NEPC’s review, TMRS did not have a process in place for systematically reviewing or auditing the votes ISS submitted on its behalf but was in the process of establishing a process. It is likely that investment compliance will be responsible for auditing a selection of votes submitted by ISS to ensure compliance with the guidelines set by TMRS. NEPC notes</p>

¹ As of 12/31/2023

² [Section 802.109, Texas Government Code](#) authorizes the selection of a firm that has an existing relationship with the system, as long as the firm does not directly or indirectly manage investments. The PRB’s [Guidance for Investment Practices and Performance Evaluations](#) covers the statutorily required disclosures in the evaluation.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

<p>that TMRS may have significantly less risk of misstep in proxy voting because TMRS neither internally trades, nor has developed a custom proxy voting policy which requires higher order monitoring.</p> <p>Recommendations:</p> <ul style="list-style-type: none">- NEPC encourages TMRS to finalize the investment compliance process for auditing proxy votes that ISS submits on the system’s behalf. In response to NEPC’s preliminary report, staff indicated they will implement a process for reviewing consistency of voting with TMRS’ adopted proxy voting policy.- TMRS may wish to review the personal trading policy and consider whether lowering the \$2000 exemption and increasing the frequency of brokerage account statement review is appropriate. In its response to NEPC’s preliminary report, staff indicated that TMRS does not conduct internal trading and that investment processes in use provide little to no opportunity for insider trading. Staff indicated they will perform a review of the internal trading policy in 2024.

Investment Asset Allocation
<p>NEPC confirmed that TMRS has a formal written policy for determining and evaluating a long-term asset allocation that is expected to be successful in meeting its objectives over long periods of time. TMRS has developed a process that allows for the periodic setting of asset allocation, monitoring and review by the staff, general investment consultant and ultimately the Board of Trustees. Importantly, the asset allocation of the portfolio is considered after a careful assessment and within context of the plan’s liabilities. This process is consistent with prevailing practice among peer public pension funds.</p> <p>Investment managers hired by TMRS are responsible for valuing the assets in the funds they manage according to applicable accounting standards and provide regular portfolio valuation updates, as well as annual audited financial statements. Investment managers may take different approaches to valuing the assets and some may utilize independent valuation firms to value the assets in the funds and mitigate inherent conflicts of interest.</p> <p>We can speak to how the system is handling its future cash flow and liquidity needs versus our clients as we have a more holistic view of what is being done by them. As a result, we asked our asset allocation team who have the perspective of seeing what all our public fund clients are doing to address these issues and have actuarial backgrounds to speak to the processes and methodologies being used. Primarily, NEPC has observed that TMRS remains in a well-funded position and is projected to maintain current funding levels over the next 10 years given the current IPS-established asset allocation. Funded status is 89 percent on an actuarial basis and 82 percent on a market value basis. Relative to the public pension plan universe, TMRS has lower overall plan risk and better funded position; 6.75 percent investment return assumption vs. 7.00 percent public fund median. Improved financial stability due to less reliance on returns and reduced potential of future contribution increases, noting a 1.5 ratio of actives to retirees vs. 1.3 public fund median. A higher ratio means lower cost of amortizing unfunded liability as a percentage of payroll.</p>

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Strengths:

- The TMRS Investment Guidelines and Investment Process Manual outline objectives, permissible investments and risk management principles. NEPC finds these documents to be reasonable and within industry prevailing standards for completeness, depth and compare well to peer public funds.

Investment Fees

The direct and indirect fees and commissions paid by the system include fees that are paid by the system and fees that are netted against returns. The system pays management fees, performance/carried interest, and brokerage fees. Additionally, the system pays custodian fees, investment consultant fees, internal staff salaries, and other administrative and investment-related expenses.

TMRS engaged with an outside vendor to analyze trading costs coming from the system's public equity portfolios. NEPC recognizes that this is a prudent approach as part of the system's fiduciary responsibility to monitor costs and understand performance results from its investment managers. NEPC reviewed the most recently available report, which was prepared by Global Trading Analytics and covers the one-year period ending June 30, 2023. The report provides the overall fee in addition to a detailed breakout by manager, fund, country, broker, sector, and individual trade. NEPC notes that the total cost for the period was found to be low within an acceptable range.

Governance

There are six members of the TMRS Board of Trustees, with one seat currently vacant. TMRS trustees are appointed for six-year terms by the governor with the consent of the Senate. The governor appoints three executive trustees and three employee trustees. To be eligible to serve as an executive trustee a person must be a chief executive officer, chief finance officer, or other officer, executive or department head of a participating municipality. To be eligible to serve as an employee trustee a person must be an employee of a participating municipality. A trustee is immediately disqualified from serving as a trustee if the trustee ceases to satisfy (these) requirements.

Since 2020, TMRS has continued to implement changes to their processes to further delegate the identification, documentation, and implementation of specific processes down to those who perform them on a regular basis. As part of this, the Investment Department – Internal Procedures Manual was revised extensively in 2022 in order to delegate responsibility for oversight of a number of granular investment procedures from the chief investment officer (CIO) to the Investment Operations staff and other Investment Department teams. The result of this revision was to split the original

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

document into the Investment Operational Procedures Manual, consisting of 17 pages, and the Investment Standard Operating Procedures (“SOPs”), consisting of 67 pages.

Since NEPC began its evaluation of the system and before issuance of this final report, NEPC notes that TMRS has made changes that bring the system’s processes in line with NEPC’s recommendation. Since March 2024, the investment operations function reports to the chief financial officer independent of CIO oversight, and the investment data, performance, and risk (“DPR”) function reports to the deputy CIO. The Investment Operational Procedures Manual that NEPC initially reviewed for this evaluation included procedures for both investment operations and DPR functions. Since then, the Manual has been divided into two components: i) an Investment Operational Procedures Manual under the oversight of the chief financial officer (CFO); and ii) an Investment Data Procedures Manual under the oversight of the deputy CIO. Both components are being updated to require formal periodic review consistent with NEPC’s recommendation.

Recommendations:

- Based on NEPC’s initial evaluation, it was noted that TMRS should implement a process for a more formal review of the Investment Operational Procedures Manual and dissemination of all standard operating procedures (SOPs) to investment team members on at least an annual basis.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Manager Selection and Monitoring
<p>TMRS has developed six due diligence principles which are used to inform staff how to objectively identify, analyze, and select investment managers and strategies. The principles emphasize the importance of completing all required due diligence steps and gathering all required consultant support prior to recommending a strategy to best protect the system's assets. Alignment of interests between investment managers and the system is a key consideration during the due diligence process with net returns earned by TMRS being important when reviewing strategy results and fees charged by investment managers is a prominent consideration. TMRS seeks to avoid performance-chasing behavior and focuses instead on attempting to identify an investment manager's edge over their competitors. Post-investment, TMRS actively monitors investment managers ability to maintain their edge. The principles state that TMRS should choose to redeem from or not rehire an investment manager if staff loses conviction in that manager's ability to outperform. Given that recent performance data is a lagging indicator, staff are instructed to be cognizant that a loss of confidence may come from other qualitative assessments of an investment manager.</p> <p>Investment staff is responsible for monitoring the investments and the investment managers. The monitoring program is made up of three components: 1) annual asset class review for the board and the staff Investment Committee, 2) annual administrative review dealing with operational matters; and 3) ongoing monitoring dealing with manager/investment vehicle culminating in the completion of a manager scorecard. The asset class review presentation for the board includes said manager scorecards prepared by investment staff presenting an overview of the manager, recent and long-term performance, terms and guideline changes, and any significant changes at the manager, including any changes in rating by the investment consultant. The annual asset class administrative review is a thorough review which includes a manager/investment checklist to be completed by staff, regulatory reviews (i.e., review of Form ADV and other regulatory filings), audited financial statement reviews, annual compliance certifications, and other items. In addition to the above steps, investment staff has regular check-ins with Albourne, the specialized investment consultant, who communicates any significant findings from reviews of TMRS' investment strategies or any changes at the investment managers of which they become aware.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - NEPC found that TMRS' investment manager selection and monitoring process is well documented in the IPS and the Due Diligence Procedures Manual.

[Full Investment Practices and Performance Evaluation](#)

THA Master Trust for Member Hospitals

PRB Analysis of Evaluation

The evaluation covers the Texas Hospital Association (THA) Master Trust for Member Hospitals, which includes two public retirement systems with assets of at least \$100 million subject to the requirements of Texas Government Code §802.109 - JPS Pension Plan/Tarrant County Hospital District (JPS), and Retirement Plan for Citizens Medical Center (Citizens) - as well as several other, smaller, public retirement systems.

The evaluation provides balance by clearly identifying the policies, summarizing information in an easily digestible format including tables and charts that explain the data for conclusions in detail where appropriate.

THA is unique in its design given the assets are pooled and invested similar to a multi-employer plan, but the participating plans can have significantly disparate benefit structures. The evaluation, therefore, provides a detailed review of existing policies and practices utilized by THA at the trust level, but does not provide a comprehensive analysis at the plan level. The evaluator does note that an asset allocation decision applicable to all plans is to not include illiquid asset classes, such as alternatives, because the cash flow and liquidity needs of the underlying plan sponsors vary.

In multiple sections the evaluation states THA is following or demonstrating best practices. The evaluation mentions that the board adopted additional bylaws to further document demonstrated governance best practices by the plan in 2020 which was when the first IPPE was conducted.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Policy Statement
<p>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.</p> <p>Strengths:</p> <ul style="list-style-type: none">- The IPS generally follows best practice, as it contains appropriate measurable outcomes. <p>Recommendations:</p> <ul style="list-style-type: none">- The IPS could be enhanced by adding a section articulating the duties of the investment consultant and actuary.- 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.

Plan Assets:¹

JPS: \$312,711,970

Citizens: \$114,454,921

Evaluator: Aon Hewitt Investment Consulting (AHIC)

Evaluator Disclosures:²

Relationship: Investment consultant³

Investment Discretion: None

Conflicts of Interest: None

Senate District: JPS: 10 Citizens: 18

House District: JPS: 90 Citizens: 30

¹ As of 9/30/2023 and 2/28/2023, respectively

² [Section 802.109, Texas Government Code](#) authorizes the selection of a firm that has an existing relationship with the system, as long as the firm does not directly or indirectly manage investments. The PRB’s [Guidance for Investment Practices and Performance Evaluations](#) covers the statutorily required disclosures in the evaluation.

³ A separate group within AHIC (“Fiduciary Services Practice”) is providing this evaluation at the plan’s request.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Asset Allocation
<p>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.</p> <p>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.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - 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.

Investment Fees
<p>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.</p> <p>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.</p> <p>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.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - The Total fee is low given the heavy use of passive management and no alternative investments.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Governance
<p>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.</p> <p>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.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - The Plan demonstrates best governance practices of an efficient, effective structure, with appropriate meetings and oversight of the Plan.
Investment Manager Selection and Monitoring
<p>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.</p> <p>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.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - The investment performance reports provided to the Board provide sufficient information to monitor the plan in accordance with the IPS.

[Full Investment Practices and Performance Evaluation](#)

University Health System Pension Plan

PRB Analysis of Evaluation

The evaluation provides extensive explanations outlining the evaluation methodology used and supporting arguments for the conclusions drawn. The evaluation also provides a useful summary matrix that covers both the recommendations and important practices for each section.

The evaluation included in the appendix an investment manager fee study. This analysis helps support the report finding and that investment fees are reviewed regularly and are reasonable compared to peers.

The evaluation provides a summary and concludes with, “the Pension Trust’s investment policy, asset allocation, investment fees and commissions, governance process, and manager search and monitoring procedures appear sufficient with no material issues at this time.”

Plan Assets:¹ \$595,586,123

Evaluator: Callan

Evaluator Disclosures:²

Relationship: Investment Consultant

Investment Discretion: None

Conflicts of Interest: None

Senate District: 26

House District: 116

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Policy Statement
<p>The University Health System Pension Trust (the “Pension Trust”) maintains a written Investment Policy Statement (the “IPS”) that includes the following five components: 1. roles and responsibilities; 2. investment objectives; 3. statement of investment policy; 4. administrative and review procedures; and 5. investment guidelines. Compliance with the IPS appears adequate. The IPS is clearly and thoroughly written, and serves as an effective guide that offers an objective course of action to be followed during periods of market disruption when emotional responses might otherwise motivate less prudent actions.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - The IPS is aligned with industry best practices. <p>Recommendations:</p> <ul style="list-style-type: none"> - Consider adding a description of the roles and responsibilities of the custodian, actuary and legal counsel to the IPS.

¹ As of 12/31/2023

² [Section 802.109, Texas Government Code](#) authorizes the selection of a firm that has an existing relationship with the system, as long as the firm does not directly or indirectly manage investments. The PRB’s [Guidance for Investment Practices and Performance Evaluations](#) covers the statutorily required disclosures in the evaluation.

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

Investment Asset Allocation
<p>Strategic asset allocation is reviewed every three to five years. The last asset-liability study was completed in 2023. The asset-liability study is used to test the current asset allocation target (and its accompanying expected return and risk) against the current rate environment, growth in liabilities, and market risks, and then compares that allocation to alternate asset mixes with higher and lower levels of risk and return. The Pension Trust is a well-diversified portfolio which has withstood challenging market conditions while achieving the target rate of return on assets. The asset-liability evaluation process is aligned with industry best practices.</p> <p>The investment consultant conducts an asset-liability study for the Pension Trust approximately every three to five years. The asset allocation that has been adopted by Board is a balance between risk management, return goals and management of expected contributions. The Pension Trust maintains a target allocation to domestic equity that is below median (less risk seeking), but a domestic fixed income allocation that is also below median (less risk averse). The remainder of the portfolio is highly diversified with allocations to real estate, private equity, alternative beta investments and international (non-U.S. equity).</p>

Investment Fees
<p>The Pension Trust maintains appropriate policies & procedures to account for and control investment expenses. The Board conducts an investment management fee review every three years. The last fee review was completed in 2023. Investment management fees are reasonable in comparison to industry peers. Over the last five years the Board has reduced investment management fees on over 60% of the Trust assets. The Pension Trust employs one separate account investment manager that generates commissions. In 2023, the total commission dollars and cents-per-share reported were \$9,218 and \$0.02, respectively. For the partial year 2022, the total commission dollars and cents-per-share reported were \$26,226 and \$0.018, respectively. This higher dollar amount was associated with the initial funding of the account.</p> <p>Strengths:</p> <ul style="list-style-type: none"> - Total commissions generated appear reasonable and aligned with industry norms.

Governance
<p>The Pension Trust is administered by a Board of Trustees, approved by the System's Board of Managers, and consists of nine professionals. Two Trustees are appointed from System Administrative Staff, two Trustees are appointed from the System Board of Managers, and five Trustees are appointed who either reside or work in Bexar County. The qualifications & career experience of the leadership team and Board continue to be considered high relative to industry peers. The University Health System Pension Bylaws state that Trustees may not serve more than four consecutive four-year terms, or more</p>

The following table presents excerpts from each section of the evaluation including any recommendations for improvement made by the evaluator.

than sixteen years. It is recommended that the term status of each Board member is noted annually at the same meeting that the Board officers are elected in order to maintain compliance with the term limits.

Recommendations:

- Consider adopting the PRB’s educational training requirements and drafting a “Continuing Educational Requirements” policy summarizing the hours of education required and method to report compliance.

Investment Manager Selection and Monitoring

The Board utilizes a process for investment manager selection that embodies the principles of procedural due diligence. Accordingly, when selecting investment managers, the Board employs a competitive search process. Compliance with the selection process is satisfactory. The Board reviews both net-of-fee and gross-of-fee manager performance on a quarterly basis relative to benchmarks and peers. The quarterly monitoring process includes both quantitative and qualitative criteria, and appears adequate. All Trustees are required to disclose any actual or potential conflict of interest and refrain from voting or using his or her influence on the manager selection and monitoring process, if a conflict exists.

The investment consultant’s performance measurement calculation for US equity separate accounts and all mutual funds utilizes a daily, timeweighted rate of return methodology that is consistent with the CFA Institute's Global Investment Performance Standards (GIPS). For all other account types, the consultant calculates returns based on the Modified BAI (Bank Administration Institute) methodology which also is consistent with GIPS standards and recommendations.

Strengths:

- Overall, the conflict of interest policy is reasonable.
- The Board reviews both net- and gross-of-fee manager performance on a quarterly basis relative to benchmarks and peers over multiple annualized and annual periods.

Recommendations:

- Upon any decisions to hire or terminate an investment manager, consultant, auditor, or actuary of the Trust each Board member should disclose any potential conflicts of interest.

[Full Investment Practices and Performance Evaluation](#)