



Austin Firefighters Retirement Fund

Request for Proposals for:
Investment Practices and Performance Evaluation of AFRF

Issued by:

Austin Firefighters Retirement Fund

4101 Parkstone Heights Dr. #270

Austin, TX 78746

512-454-9567

staff@afrs.org

www.afrfund.org

Issue Date: July 21, 2023

Response Date: August 11, 2023

Contents

Section I – Introduction	3
Section II – Scope of Investment Performance Evaluation	4
Section III – Work Product	4
Section IV – Required Content of Proposal	4
Section V – Cost Proposal and Duration of Contract	6
Section VI – Evaluation Factors	6
Section VII – Evaluation Criteria	7
Section VIII – Questions Regarding this RFP	7
Section IX – EXHIBIT A.....	8

I. Introduction

A. Purpose

The Austin Firefighters Retirement Fund (AFRF or the Fund) is requesting proposals from qualified independent investment consulting and similarly situated firms to evaluate the appropriateness, adequacy, and effectiveness of the investment practices and performance of the Fund and to make recommendations for improving AFRF's investment policies, procedures, and practices pursuant to Section [802.109 of the Texas Government Code](#). (Please see **Exhibit A**). All responses to this RFP should be complete and concise.

AFRF staff will be making a recommendation of qualified vendor(s) to the full AFRF Board for a final round of presentation and Board discussion at its August 25, 2023, meeting. The AFRF Board will make the final decision regarding awarding a contract for this work. The Board's selection is subject to final negotiation of acceptable contract terms with the selected vendor.

B. Fund Overview

The Austin Firefighters Retirement Fund is a single employer contributory defined benefit plan governed by [Article 6243e.1, Vernon's Texas Civil Statutes](#) since 1975. AFRF provides retirement, disability, death, and survivor benefits to firefighters employed by the City of Austin and their beneficiaries. The Fund's [Investment Policy Statement](#) can be found on [AFRFund.org](#) and is also available upon written request. Meketa serves as the Fund's investment consultant and State Street serves as the Fund's custodian bank.

C. Submission Instructions

Please submit a digital copy of the response to Anumeha Kumar at staff@afrfund.org, and all responses and inquiries can be referred to:

Austin Firefighters Retirement Fund (AFRF)
4101 Parkstone Heights Dr. #270
Austin, TX 78746
Phone: 512-454-9567
staff@afrfund.org
www.afrfund.org

Responses must be received by 5 PM on Friday, August 11, 2023. You may withdraw your response at any time up to the response deadline noted below simply by notifying AFRF in writing. AFRF reserves the right to request additional information, revise, cancel, or reissue the RFP at any time.

Under the AFRF Code of Ethics, prospective vendors are not permitted to communicate with any individual members of the Board of Trustees after this RFP has been issued. This **no-contact period** extends until the RFP process has concluded, and a contract has been awarded. All communication related to the RFP should be directed to the Executive Director, Anumeha Kumar, or to an appropriate member of the AFRF staff. Please see [Section VI in the Code of Ethics](#) on [AFRFund.org](#) for more information regarding this policy.

II. Scope of Investment Performance Evaluation

The required scope of service shall include those areas of evaluation identified in Section [802.109, subsection \(a\) \(1\) – \(5\) of the Texas Government Code](#). To the extent possible, the scope should be limited to the current investment practices and performance. Provide a detailed written report of the review and evaluations performed for each of the areas required to be reviewed as outlined by requirements of Section 802.109 of the Texas Government Code. The report should include any recommendations or suggestions for improvement and should be addressed to the AFRF's Board of Trustees. Please reference **Exhibit A** for additional details on the scope of the work.

III. Work Product

The investment performance evaluation shall include all information outlined in Section II above. The evaluation must be in language clearly understandable by layman readers and include an executive summary. Any assumptions and methodology used should be clearly explained in the report. The firm shall submit the performance evaluation as a PDF document.

If selected, the firm will be responsible for coordinating and obtaining all needed information. The firm will also be required to attend one or more regularly scheduled board meetings, either in person or virtually, to present the preliminary and final evaluations to the AFRF Board. Prior to issuing the final report, the firm must provide a preliminary report to the AFRF Board for discussion, questions, input, and consideration of any recommendations for possible adoption by the AFRF Board. Any working papers should be made available to the Fund for review.

IV. Required Content of Proposal

Each proposal should include a concise description of the firm's ability to satisfy the requirements of this RFP. The proposal should include sufficient detail regarding the information below. Please note that all responses and materials submitted to the Fund will be subject to disclosure in accordance with the Public Information Act.

A. Proposal Summary

Each proposal shall contain a summary of the proposal being submitted, including a summary of the proposing firms understanding of the project, the key review activities to be undertaken, the work products that are being offered in the proposal, and a certification that resources will be made available to complete the assignment. Each proposal shall provide an implementation strategy and schedule including a start date for the review and the approximate date of completion. The proposal shall also include a Proposal Letter of Engagement outlining the aforementioned items.

In addition to the summary, please provide the following general information:

- The firm's primary contact for the AFRF staff use;
- General ownership structure of the organization, including subsidiary and affiliated companies;

- Information regarding any material change in the firm’s structure or ownership within the last two years, or any material change in the ownership, staff, or structure currently under review or being contemplated by the firm;
- If available, a third-party assessment or report concerning client satisfaction and measures of the firms’ strengths or weaknesses;
- Any material litigation which has been threatened against the firm or to which the firm is currently a party;
- A list and brief description of litigation brought against the firm by existing or former clients over the last five years;
- A list of professional relationships involving AFRF for the past five years along with a statement explaining why such relationships do not constitute a conflict of interest relative to performing the proposed review.
- Identify if your firm has worked with Meketa? If so, in what capacity? Please identify any potential conflicts of interest which may currently exist regarding the review of investment reports and recommendations made by Meketa.
- Identify the investment consulting firms you have worked with in conducting peer reviews. Please provide names and contact information for each of the firms listed. Additionally, please identify the percentage of performance reviews that you’ve conducted for clients in which Meketa served as investment consultant.

B. Expertise and Experience

The Proposal shall describe the firm’s recent experience (at least during the last 5 years) in evaluating investments and investment performance, analyses, or studies of public retirement systems’ investment programs. Provide a list of public pension clients for which past work has been performed including information on the types and sizes of those public pension funds. The firm must also provide one or more examples of this work, which should be incorporated in the proposal as an appendix or attachment. The firm may include other relevant information to demonstrate their capabilities to perform the evaluation.

Minimum Criteria: AFRF may, at its sole discretion, disqualify a firm that does not meet all of these minimum qualifications.

- Have provided an investment performance evaluation comparable to that requested under this RFP in the past three years;
- For at least the five most recent continuous years, the firm must have verifiable operating history with at least three institutional fund clients with similar size, complexity and asset mix to AFRF;
- The primary contact dedicated to the AFRF contract must have at least 10 years of experience in providing investment consulting services to institutional fund clients; and
- The firm must be registered as an investment adviser under the Investment Advisers Act of 1940.

C. Qualifications

Describe the qualifications of all professional personnel who will participate in the investment performance evaluation. Please include a resume, and a summary of experience each has had in performing investment evaluations, analyses, or studies of public pension funds.

D. References

Each firm shall provide a list of at least three current clients that are of a similar size to AFRF that may be used as a reference for the firm's work on investment performance evaluations or studies. Please include the following: date of the investment review or study; retirement system name and contact information (address, email and phone); name and contact information of individual in the client organization who is familiar with the work (email and phone); and description of the work performed.

E. Proposed Methodology

The firm shall describe the proposed methodology, including specific techniques and proposed sources of data and information to review and analyze each element of the evaluation's scope as described in the Scope of Investment Performance Evaluation Section of this RFP. The firm shall also identify the type and level of assistance that it anticipates would be needed from the staff of AFRF, including assistance to understand the operations and records needed for the review. Please identify meetings, calls, time commitments, etc., anticipated from staff of AFRF.

V. Cost Proposal and Duration of Contract

The cost estimate must be a fixed price proposal to include all anticipated out of pocket expenses as well as all other expenses. The contract for review services may be extended by the Fund to include up to two subsequent review periods or for a longer-term if the agreement to extend is in writing before the expiration term of the initial contract. The term of the initial contract shall be for a period of 18 months. While it is anticipated that the report will be issued by May 1, 2024, the reviewing firm should be available to respond to written questions by the Fund for a period of 18 months from the date of signing the contract.

The firm shall provide the total fixed cost for two subsequent review periods to be completed by May 1, 2027 and May 1, 2030.

VI. Evaluation Factors

1. Material exceptions to the terms and conditions of this solicitation, or failure to meet the Fund's minimum specifications, shall render a proposal non-responsive. In addition, proposals which are longer than 20 pages in length, excluding specimen reports, will be deemed non-responsive and will not be considered.
2. Proposal must be limited to not more than 20 pages excluding examples of a specimen report.
3. Only one award will be made under this RFP. The award shall be made for all the requirements to the firm with the best combination of price, qualifications, experience as may be determined in the sole discretion of the AFRF Board of Trustees, and who is able to demonstrate to the satisfaction of the Board of Trustees that is able to provide expertise sufficient to execute the terms of this RFP.
4. The Board of Trustees may consider factors relating to the "responsibility" of the proposing firm, including but not limited to, the reputation and experience of the proposing firm, the availability and capability of staff, the clarity of the proposal, etc. Proposing firms should be prepared to submit materials evidencing these matters.

5. The current investment consultant is Meketa. Any proposing firm is required to disclose any conflicts which may exist which may impact the impartiality of the proposed evaluation and review required by Section 802.109 of the Texas Government Code.
6. The investments are held in multiple accounts managed by a custodian, State Street.
7. The current Investment Policy Statement is available for review upon written request.
8. Proposals will not be finally awarded until the Retirement Trust’s Board of Trustees approves the resulting agreement or contract.

VII. Evaluation Criteria

Each submitted proposal will be reviewed and evaluated on the completeness of the information provided. Failure to provide any of the requested information may result in disqualification of the submitted response. During the evaluation process, the AFRF staff reserves the right to request additional information or clarification about the submitted response.

RFP Evaluation Factors	Points
Fixed Cost Price	50 percent
Expertise, Experience and Qualifications	50 percent
Total	100

VIII. Questions Regarding This RFP

If you have questions or need clarification of any aspect of this RFP, submit your questions to Anumeha Kumar at staff@afrfund.org by 5:00 p.m. on July 28, 2023. All questions received will be responded to in writing and both questions and answers will be posted on the Austin Firefighters Retirement Fund website at www.afrfund.org. Any revisions to the RFP will be posted on the AFRF website as well. Proposals are due by the close of business August 11, 2023.

IX. EXHIBIT A

Government Code

Title 8, Subtitle A

Provisions Generally Applicable to
Public Retirement Systems



TEXAS PENSION
REVIEW BOARD

September 2021

of return and the annualized actual time-weighted rate of return achieved by the system for the most recent 1-year, 5-year, 10-year, and 20-year fiscal periods. The report must include:

(1) for each period, an estimate of what the market value of the invested assets of the fund would have been as of the most recent fiscal year end had the system achieved the applicable assumed rate of return; and

(2) a comparison of each estimate described by Subdivision (1) and the actual market value of the invested assets in the fund as of the most recent fiscal year end.

(c) The report required by this section may be combined with any other report required by law.

§802.109. Investment Practices and Performance Report.

(a) Except as provided by Subsection (e) and subject to Subsections (c) and (k), a public retirement system shall select an independent firm with substantial experience in evaluating institutional investment practices and performance to evaluate the appropriateness, adequacy, and effectiveness of the retirement system's investment practices and performance and to make recommendations for improving the retirement system's investment policies, procedures, and practices. Each evaluation must include:

(1) a summary of the independent firm's experience in evaluating institutional investment practices and performance and a statement that the firm's experience meets the experience required by this subsection;

(2) a statement indicating the nature of any existing relationship between the independent firm and the public retirement system and confirming that the firm and any related entity are not involved in directly or indirectly managing the investments of the system;

(3) a list of the types of remuneration received by the independent firm from sources other than the public retirement system for services provided to the system;

(4) a statement identifying any potential conflict of interest or any appearance of a conflict of interest that could impact the analysis included in the evaluation due to an existing relationship between the independent firm and:

(A) the public retirement system; or

(B) any current or former member of the governing body of the system; and

(5) an explanation of the firm's determination regarding whether to include a recommendation for each of the following evaluated matters:

(A) 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;

(B) a detailed review of the retirement system's investment asset allocation, including:

(i) the process for determining target allocations;

(ii) the expected risk and expected rate of return,

categorized by asset class;

(iii) the appropriateness of selection and valuation methodologies of alternative and illiquid assets; and

(iv) future cash flow and liquidity needs;

(C) a review of the appropriateness of investment fees and commissions paid by the retirement system;

(D) a review of the retirement system's governance processes related to investment activities, including investment decision-making processes, delegation of investment authority, and board investment expertise and education; and

(E) a review of the retirement system's investment manager selection and monitoring process.

(b) The governing body of a public retirement system may determine additional specific areas to be evaluated under Subsection (a) and may select particular asset classes on which to focus, but the first evaluation must be a comprehensive analysis of the retirement system's investment program that covers all asset classes.

(c) In selecting an independent firm to conduct the evaluation described by Subsection (a), a public retirement system:

(1) subject to Subdivision (2), may select a firm regardless of whether the firm has an existing relationship with the retirement system; and

(2) may not select a firm that directly or indirectly manages investments of the retirement system.

(d) A public retirement system shall conduct the evaluation described by Subsection (a):

(1) once every three years, if the total assets of the retirement system as of the last day of the preceding fiscal year were at least \$100 million; or

(2) once every six years, if the total assets of the retirement system as of the last day of the preceding fiscal year were at least \$30 million and less than \$100 million.

(e) A public retirement system is not required to conduct the evaluation described by Subsection (a) if the total assets of the retirement system as of the last day of the preceding fiscal year were less than \$30 million.

(e-1) Not later than the 30th day after the date an independent firm completes an evaluation described by Subsection (a), the independent firm shall:

(1) submit to the public retirement system for purposes of discussion and clarification a substantially completed preliminary draft of the evaluation report; and

(2) request in writing that the system, on or before the 30th day after the date the system receives the preliminary draft, submit to the firm:

(A) a description of any action taken or expected to be taken in response to a recommendation made in the evaluation; and

(B) any written response of the system that the system wants to accompany the final evaluation report.

(f) The independent firm shall file the final evaluation report, including the evaluation results and any response received from the public retirement system, with the governing body of the system:

(1) not earlier than the 31st day after the date on which the preliminary draft is submitted to the system; and

(2) not later than the later of:

(A) the 60th day after the date on which the preliminary

draft is submitted to the system; or

(B) May 1 in the year following the year in which the system is evaluated under Subsection (a).

(g) Not later than the 31st day after the date the governing body of a public retirement system receives a report of an evaluation under this section, the governing body shall submit the report to the board.

(h) A governmental entity that is the employer of active members of a public retirement system evaluated under Subsection (a) may pay all or part of the costs of the evaluation. The public retirement system shall pay any remaining unpaid costs of the evaluation.

(i) The board shall submit an investment performance report to the governor, the lieutenant governor, the speaker of the house of representatives, and the legislative committees having principal jurisdiction over legislation governing public retirement systems in the biennial report required by Section 801.203. The report must compile and summarize the information received under this section by the board during the preceding two fiscal years.

(j) Repealed by Acts 2021, 87th Leg., R.S., Ch. 141, Sec. 20(1), eff. September 1, 2021.

(k) The following reports may be used by the applicable public retirement systems to satisfy the retirement for a report of an evaluation under this section:

(1) an investment report under Section 10A, Article 6243g-4, Revised Statutes;

(2) an investment report under Section 2D, Chapter 88 (H.B. 1573), Acts of the 77th Legislature, Regular Session, 2001 (Article 6243h, Vernon's Texas Civil Statutes); and

(3) a report on a review conducted on the retirement system's investments under Section 2B, Article 6243e.2(1), Revised Statutes.

(l) The board may adopt rules necessary to implement this section.

SUBCHAPTER C. ADMINISTRATION OF ASSETS

§802.201. Assets in Trust.

The governing body of a public retirement system shall hold or cause to be held in trust the assets appropriated or dedicated to the system, for the benefit of the members and retirees of the system and their beneficiaries.

§802.2011. Funding Policy.

(a) In this section:

(1) "Funded ratio" means the ratio of a public retirement system's actuarial value of assets divided by the system's actuarial accrued liability.

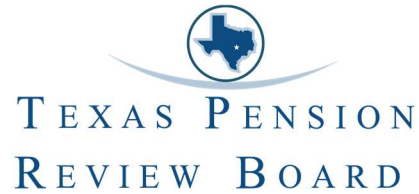
(2) "Governmental entity" has the meaning assigned by Section 802.1012.

(3) "Statewide retirement system" means:

(A) the Employees Retirement System of Texas, including a retirement system administered by that system;

(B) the Teacher Retirement System of Texas;

(C) the Texas County and District Retirement System;



Guidance for Investment Practices and Performance Evaluations (§802.109, Texas Government Code)

[Texas Government Code §802.109](#) requires Texas public retirement systems with at least \$30 million in assets to complete an Investment Practices and Performance Evaluation. The Pension Review Board (PRB) is providing this informal guidance to assist systems in defining the scope and content of the evaluation.

The following provides guidance on the different areas required by statute to be reviewed by the independent firm performing the evaluation. The PRB recognizes that evaluations should and will vary significantly based on the specific characteristics of each system's size, governance structure, and investment program. Therefore, this guidance is intended to inform systems and their stakeholders on the basic aspects of the evaluations and associated reports and is not an exhaustive list of all items that should be reviewed.

A thorough evaluation would include the following elements:

- 1) Identify and review existing investment policies, procedures, and practices. This should include any formally established policies (e.g. Investment Policy Statement) as well any informal procedures and practices used to carry out the investment activities of the system. It is not necessary to review past policies, procedures, and practices that are no longer applicable unless they are deemed helpful to understand current policy or practice.
- 2) Compare the existing policies and procedures to industry best practices.
- 3) Generally, assess whether the board, internal staff, and external consultants are adhering to the established policies.
- 4) Identify the strengths and weaknesses of the current policies, procedures, and practices and make recommendations for improvement.
- 5) Include a detailed description of the criteria considered and methodology used to perform the evaluation, including an explanation of any metrics used and associated calculations.

Applicability

Systems with assets of **at least \$100 million** must complete an evaluation **once every 3 years**.ⁱ Systems with assets of **at least \$30 million but less than \$100 million** must complete an evaluation **once every 6 years**. Systems with assets **less than \$30 million** are **not required**, but are encouraged, to conduct an evaluation. Systems that have not voluntarily completed an evaluation and have assets less than \$30 million will be required to complete an evaluation if, as of the last day of their preceding fiscal year, their assets exceed \$30 million. Systems completing their first evaluations must conduct a comprehensive review of all invested asset classes while systems conducting subsequent evaluations may select specific asset classes to focus on.

Deadlines

Systems that have not completed an evaluation

A report of the first evaluation must be filed with the governing body of the system not later than May 1 the following year in which the system is either required to be or voluntarily evaluated.

Example timeline and deadlines for a system with assets that first exceed \$30 million in 2022 or a system that decides to voluntarily complete an evaluation in 2023.

Fiscal Year Assets Exceed \$30 Million	Preparation Recommended Start Date	Evaluation Process Completion Year	Submission to Governing Body and Request Review-and-Comment Target Date	Governing Body Response to Review-and-Comment Due	Final Report to a System's Governing Body Due	Report Due to the PRB
2022	February 2023	2023	March 2, 2024	April 1, 2024	May 1, 2024	June 1, 2024

Systems that completed an evaluation

Reports of subsequent evaluations must be filed with the governing body of the system not later than May 1 the following year in which the system is evaluated.

Example timeline and deadlines for subsequent evaluations after an evaluation was first completed in 2020

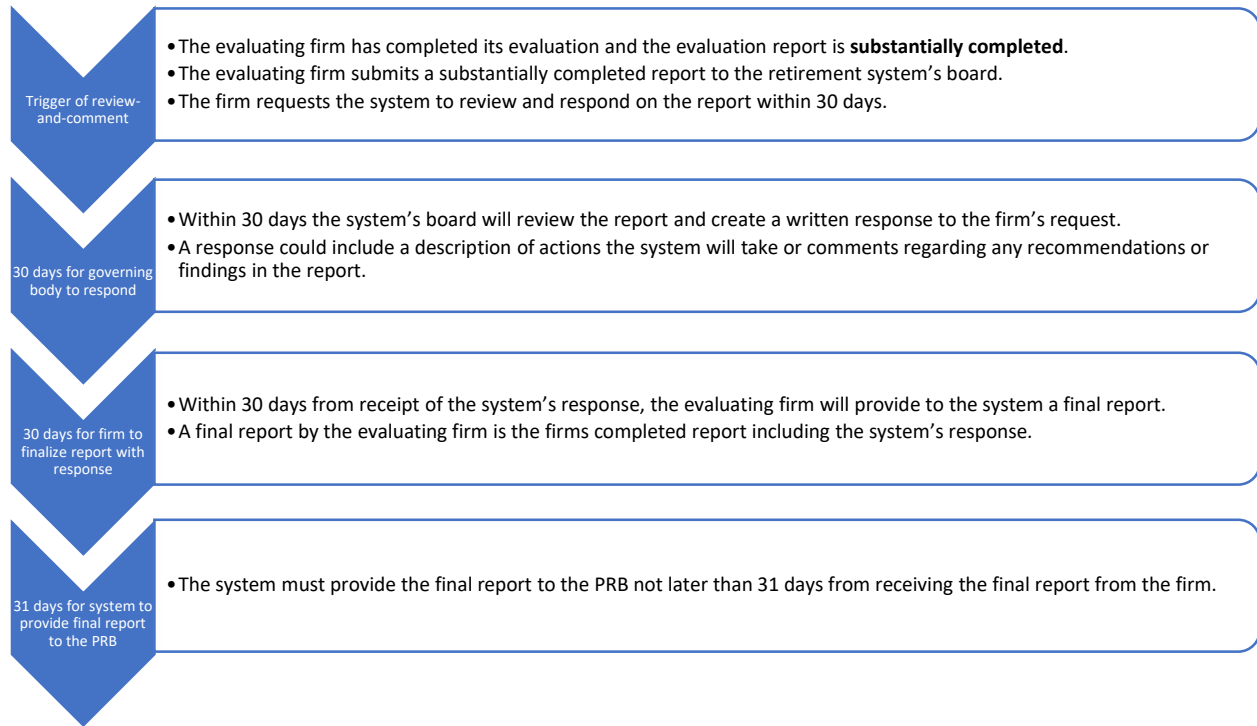
Applicable Systems	Preparation Recommended Start Date	Evaluation Process Completion Year	Submission to Governing Body and Request Review-and-Comment Target Date	Governing Body Response to Review-and-Comment Due	Final Report to a System's Governing Body Due	Report Due to the PRB
At Least \$100 Million	October 2022	2023	March 2, 2024	April 1, 2024	May 1, 2024	June 1, 2024
	October 2025	2026	March 2, 2027	April 1, 2027	May 1, 2027	June 1, 2027
At Least \$30 Million but less than \$100 Million	October 2025	2026	March 2, 2027	April 1, 2027	May 1, 2027	June 1, 2027

Deadline for submission before June 1, 2024

If a substantially completed report is submitted to a retirement system's governing body in accordance with the formal review-and-comment process before March 2, 2024, a final report is **due to the PRB not later than 91 days after the governing body first receives the substantially completed report.**¹

¹ [§802.109 \(e-1\), Texas Government Code](#)

Formal review-and-comment process



Independent firm

(a) ... A public retirement system shall select an **independent firm** with substantial experience in evaluating institutional investment practices and performance...

(c) Provides that a public retirement system, in selecting an **independent firm** to conduct the evaluation described by Subsection (a):

(1) subject to Subdivision (2), is authorized to select a firm regardless of whether the firm has an existing relationship with the retirement system; and

(2) is **prohibited** from selecting a firm that **directly or indirectly manages investments** of the retirement system.

Directly or Indirectly Managing Investments

A firm is considered to be directly or indirectly managing investments if the firm, a subsidiary, or its parent company, has assets of the system under management, or is solely responsible for selecting or terminating investment managers.

Restriction on Performing the Evaluation

If a firm is identified as directly or indirectly managing investments of the system, the firm is not considered an independent firm and is not eligible to perform the evaluation.

Required Disclosure by Independent Firm

The evaluation must include the following disclosures by the independent firm:

- 1) a summary outlining the qualifications of the firm in evaluating institutional investment practices and performance;
- 2) a statement that the firm meets the experience requirements;
- 3) a statement indicating the nature of any existing relationship between the firm and the system being evaluated;
- 4) a statement acknowledging that the firm, or its related entities, is not involved in directly or indirectly managing investments of the system;
- 5) a statement identifying any potential conflict of interest or any appearance of a conflict of interest that could impact the analysis between the independent firm and the system or any current/former member of the system's governing body;
- 6) a list of the types of remuneration received by the firm from sources other than the retirement system for services provided to the system; and
- 7) an explanation of the firm's determination regarding whether to include a recommendation for each of the evaluated matters in the report or a lack thereof.

Governmental Entity's Ability to Cover Evaluation Costs

A public retirement system's associated governmental entity may pay for all of part of the costs resulting from the evaluation. Any remaining cost not covered by the governmental entity shall be paid by the system.

Components of Evaluation

This section provides suggested questions and topics for consideration under each of the five areas required to be covered in each evaluation.ⁱⁱ The questions below are intended to help systems identify the types of information an evaluation may include. Additionally, these questions may be helpful to systems that will use a request for proposal (RFP) to select a firm to perform the evaluation.

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;*

- Does the system have a written investment policy statement (IPS)?
- Are the roles and responsibilities of those involved in governance, investing, consulting, monitoring and custody clearly outlined?
- Is the policy carefully designed to meet the real needs and objectives of the retirement plan? Is it integrated with any existing funding or benefit policies? (i.e. does the policy take into account 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.]?)
- Is the policy written so clearly and explicitly that anyone could manage a portfolio and conform to the desired intentions?
- Does the policy follow industry best practices? If not, what are the differences?
- Does the IPS contain measurable outcomes for managers? Does the IPS outline over what time periods performance is to be considered?
- Is there evidence that the system is following its IPS? Is there evidence that the system is not following its IPS?
- What practices are being followed that are not in, or are counter to, written investment policies and procedures?
- Are stated investment objectives being met?
- Will the retirement fund be able to sustain a commitment to the policies under stress test scenarios, including those based on the capital markets that have actually been experienced over the past ten, twenty, or thirty years?
- Will the investment managers be able to maintain fidelity to the policy under the same scenarios?
- Will the policy achieve the stated investment objectives under the same scenarios?
- How often is the policy reviewed and/or updated? When was the most recent substantial change to the policy and why was this change made?

Resources

[PRB - Developing an Investment Policy](#)

[GFOA - A Guide for Establishing A Pension Investment Policy](#)

[CFA - A Primer for Investment Trustees](#)

(2) a detailed review of the retirement system's **investment asset allocation**, including:

(A) the process for determining target allocations;

- Does the system have a formal and/or written policy for determining and evaluating its asset allocation? Is the system following this policy?
- If no formal policy exists, what is occurring in practice?
- Who is responsible for making the decisions regarding strategic asset allocation?
- How is the system's overall risk tolerance expressed and measured? What methodology is used to determine and evaluate the strategic asset allocation?
- How often is the strategic asset allocation reviewed?
- Do the system's investment consultants and actuaries communicate regarding their respective future expectations?
- How does the current assumed rate of return used for discounting plan liabilities factor into the discussion and decision-making associated with setting the asset allocation? Is the actuarial expected return on assets a function of the asset allocation or has the asset allocation been chosen to meet the desired actuarial expected return on assets?
- Is the asset allocation approach used by the system based on a specific methodology? Is this methodology prudent, recognized as best practice, and consistently applied?
- Does the system implement a tactical asset allocation? If so, what methodology is used to determine the tactical asset allocation? Who is responsible for making decisions regarding the tactical asset allocation?
- How does the asset allocation compare to peer systems?

(B) the expected risk and expected rate of return, categorized by asset class;

- What are the strategic and tactical allocations?
- What is the expected risk and expected rate of return of each asset class?
- How is this risk measured and how are the expected rates of return determined? What is the time horizon?
- What mix of assets is necessary to achieve the plan's investment return and risk objectives?
- What consideration is given to active vs. passive management?
- Is the approach used by the system to formulate asset allocation strategies sound, consistent with best practices, and does it result in a well-diversified portfolio?
- How often are the strategic and tactical allocations reviewed?

(C) the appropriateness of selection and valuation methodologies of alternative and illiquid assets; and

- How are alternative and illiquid assets selected, measured and evaluated?

- Are the system's alternative investments appropriate given its size and level of investment expertise? Does the IPS outline the specific types of alternative and illiquid investments allowed, as well as the maximum allocation allowable?
- What valuation methodologies are used to measure alternative and illiquid assets? What alternative valuation methodologies exist and what makes the chosen method most appropriate?

(D) future cash flow and liquidity needs;

- What are the plan's anticipated future cash flow and liquidity needs? Is this based on an open or closed group projection?
- When was the last time an asset-liability study was performed?
- How are system-specific issues incorporated in the asset allocation process? What is the current funded status of the plan and what impact does it have? What changes should be considered when the plan is severely underfunded, approaching full funding, or in a surplus? How does the difference between expected short-term inflows (contributions, dividends, interest, etc.) and outflows (distributions and expenses) impact the allocation? How does the underlying nature of the liabilities impact the allocation (e.g. pay-based vs. flat \$ benefit, automatic COLAs, DROP, etc.)?
- What types of stress testing are incorporated in the process?

Resources

[GFOA – Asset Allocation for Defined Benefit Plans](#)

[CFA – A Primer for Investment Trustees](#)

*(3) a review of the **appropriateness of investment fees and commissions paid** by the retirement system;*

- Do the system's policies describe the management and monitoring of direct and indirect compensation paid to investment managers and other service providers? What direct and indirect investment fees and commissions are paid by the system?
- Who is responsible for monitoring and reporting fees to the board? Is this responsibility clearly defined in the system's investment policies?
- Are all forms of manager compensation included in reported fees?
- How do these fees compare to peer group and industry averages for similar services? How are the fee benchmarks determined?
- Does the system have appropriate policies and procedures in place to account for and control investment expenses and other asset management fees?
- What other fees are incurred by the system that are not directly related to the management of the portfolio?
- How often are the fees reviewed for reasonableness?
- Is an attorney reviewing any investment fee arrangements for alternative investments?

Resources

[GFOA - Investment Fee Guidelines for External Management of Defined Benefit Plans](#)

[CFA - A Primer for Investment Trustees](#)

(4) *a review of the retirement system 's **governance processes related to investment activities**, including investment decision-making processes, delegation of investment authority, and board investment expertise and education;*

Transparency

- Does the system have a written governance policy statement outlining the governance structure? Is it a stand-alone document or part of the IPS?
- Are all investment-related policy statements easily accessible by the plan members and the public (e.g. posted to system website)?
- How often are board meetings? What are the primary topics of discussion? How much time, detail, and discussion are devoted to investment issues?
- Are meeting agendas and minutes available to the public? How detailed are the minutes?

Investment Knowledge/Expertise

- What are the backgrounds of the board members? Are there any investment-related educational requirements for board members?
- What training is provided and/or required of new board members? How frequently are board members provided investment-related education?
- What are the minimum ethics, governance, and investment education requirements? Have all board members satisfied these minimum requirements?
- Does the system apply adequate policies and/or procedures to help ensure that all board members understand their fiduciary responsibilities?
- What is the investment management model (i.e. internal vs. external investment managers)?
- Does the board receive impartial investment advice and guidance?
- How frequently is an RFP issued for investment consultant services?

Accountability

- How is the leadership of the board and committee(s), if any, selected?
- Who is responsible for making decisions regarding investments, including manager selection and asset allocation? How is authority allocated between the full board, a portion of the board (e.g. an investment committee), and internal staff members and/or outside consultants? Does the IPS clearly outline this information? Is the board consistent in its use of this structure/delegation of authority?
- Does the system have policies in place to review the effectiveness of its investment program, including the roles of the board, internal staff and outside consultants?
- Is the current governance structure striking a good balance between risk and efficiency?
- What controls are in place to ensure policies are being followed?
- How is overall portfolio performance monitored by the board?
- How often are the investment governance processes reviewed for continued appropriateness?

Resources[NASRA - Public Pension Governance](#)[PEW - Making State Pension Investments More Transparent](#)[CFA - Investment Governance for Fiduciaries](#)[CFA - A Primer for Investment Trustees](#)

(5) a review of the retirement system 's **investment manager selection and monitoring process**.

- Who is responsible for selecting investment managers?
- How are the managers identified as potential candidates?
- What are the selection criteria for including potential candidates?
- What are the selection criteria when deciding between multiple candidates?
- How does the selection process address ethical considerations and potential conflicts of interest for both investment managers and board members?
- Who is responsible for developing and/or reviewing investment consultant and/or manager contracts?
- What is the process for monitoring individual and overall fund performance?
- Who is responsible for measuring the performance?
- What benchmarks are used to evaluate performance?
- What types of performance evaluation reports are provided to the board? Are they provided in a digestible format accessible to trustees with differing levels of investment knowledge/expertise?
- How frequently is net-of-fee and gross-of-fee investment manager performance reviewed? Is net-of-fee and gross-of-fee manager performance compared against benchmarks and/or peers?
- What is the process for determining when an investment manager should be replaced?
- How is individual performance evaluation integrated with other investment decisions such as asset allocation and investment risk decisions?

Resources[GFOA - Investment Fee Guidelines for External Management of Defined Benefit Plans](#)[GFOA - Selecting Third-Party Investment Professionals for Pension Fund Assets](#)[CFA - A Primer for Investment Trustees](#)

ⁱ The Houston Firefighters Relief & Retirement Fund, the Houston Municipal Employees Pension System, and the Houston Police Officers' Pension System may submit the investment evaluation reports in Vernon's Civil Statutes to satisfy the requirements of §802.109.

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