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To: Board of Trustees, Austin Police Retirement System

From: Mariner Institutional

Date: April 2024

Subject: **Investment Practices and Performance Report  
Austin Police Retirement System**

## Introduction

Changes to Texas Government Code Chapter 802 were enacted in the 86th Legislative Session in 2019 to expand and update the reporting requirements for public retirement systems with legislative updates that became effective September 1, 2021. Texas Government Code §802.109 requires a retirement system to engage an independent firm to evaluate the appropriateness, adequacy, and effectiveness of investment practices and performance and to make recommendations for improving the investment policies, procedures, and practices. Guidance by the Texas Pension Review Board indicates that a review by the current investment consultant is acceptable in the definition of independent.

Mariner Institutional serves as an independent, investment consultant for the Austin Police Retirement System (the "System"). The Austin Police Retirement System Board of Trustees (the "Board") hired Mariner Institutional in May 2013, to serve as the System's investment consultant after a nation-wide competitive search and retained Mariner Institutional in September 2018 after an RFP Process was completed. In its role as investment consultant, Mariner Institutional has an advisory relationship to the Board and does not have any direct or indirect authority over the management of retirement system assets. Mariner Institutional does not receive remuneration from sources other than the public retirement system for services provided to the system. Mariner Institutional is not aware of any conflicts 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 the public retirement system or any current or former member of the governing body of the system.

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<sup>1</sup> Mariner Institutional is an investment advisor registered with the U.S. Securities and Exchange Commission ("SEC"). Registration as an investment advisor does not constitute an endorsement of the firm by securities regulators nor does it indicate that the adviser has attained a particular level of skill or ability.

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## Mariner Institutional Overview

Mariner Institutional (formerly AndCo Consulting) is an institutional investment and retirement plan consulting firm. Mariner Institutional advised approximately \$100 billion of assets as of December 31, 2023. We have provided independent institutional investment advisory and retirement plan consulting services since our firm's inception in 2000. We have client relationships all over the United States along with Bermuda and Canada. We provide consulting services for many different types of institutional plans sponsored by public and government entities, public and private educational institutions, unions (Taft-Hartley), endowments, foundations, corporations, hospitals, healthcare systems, and self-insurance funds. Our firm is structured to be able to consult and advise any institutional pool of assets.

Our team of 89 professionals consists of some of the top talent from a variety of educational and financial industry backgrounds and features 30 dedicated advisors who average over 25 years of experience. Mariner Institutional's professional team holds the following credentials:

- 24 Chartered Financial Analyst (CFA®) Charterholders
- 9 Chartered Alternative Investment Analyst (CAIA®) Members
- 13 Certified Plan Fiduciary Advisor (NAPA CPFATM) Certificants
- 5 Certified Investment Performance Measurement (CIPM®) Certificants
- 37 Advanced Degrees

Mariner Institutional's headquarters is in Orlando, FL. We have satellite offices in Chicago, IL; Cleveland, OH; Dallas, TX; Detroit, MI; Pittsburgh, PA, and Reno, NV.

\*Employee counts are as of March 31, 2024 and reflect only full-time employees and do not include any who are part time, temporary or independent contractors.

As of December 31, 2023, Mariner Institutional serviced over 500 public plans. We have been working with public funds since the inception of our firm and have public fund clients across the country. We have extensive experience working with local ordinances, state statutes, GASB rules, and actuarial approaches geared to the public sector. We believe that Mariner Institutional is likely to participate in more public fund meetings each quarter than many of our competitors do for an entire year. This gives us intimate knowledge of what plan attorneys, actuaries, auditors, and other service providers are discussing with public fund clients. We leverage this exposure by holding regular consultant calls where we discuss and share best practices, unique approaches, and areas of concern that we feel have impacted public funds based on our meeting experiences. We then bring this knowledge and understanding to our public fund clients to help them solve problems and avoid potential pitfalls.

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## **Asset Allocation Process at Mariner Institutional**

Mariner Institutional conducts comprehensive asset allocation studies, and we work closely with clients through a framework tailored to reflect their portfolio's unique investment objectives, risk tolerance, and cash flow requirements (liquidity). The asset allocation process from raw inputs to client output consists of four broad steps:

1. **Determine Assumptions:** We first define reasonable return, standard deviation (risk), and correlation input assumptions that focus the asset allocation study on asset classes (and proxies) suitable for the client's portfolio. We select these asset classes using our own investment philosophy, the client's investment policy statement, current portfolio allocations, and oral input from the client. While Mariner Institutional will work with clients if they prefer to utilize a different set of capital assumptions, we currently utilize the J.P. Morgan Long-Term Capital Market Assumptions for our asset allocation model inputs. The process of utilizing J.P. Morgan assumptions along with other institutional sources allows Mariner Institutional to effectively propose and build customized asset allocation structures for our unique, institutional clients that are backed by time tested methodologies and compared to alternative methods for reasonableness.
2. **Computer Modeling:** Once asset classes and assumptions are set, we run a variety of range-based, mean-variance optimization scenarios. These scenarios allow us to review a number of potential asset mixes with the client and help determine the target asset class mix that most closely balances the client's investment objectives, risk tolerance, and portfolio liquidity requirements. To further stress-test a potential target asset mix, we also perform Monte Carlo simulations. These simulations generate the probabilities that a given asset allocation's expected return and standard deviation will achieve the client's goals over time. These probability distributions are useful in evaluating potential outcomes and downside loss probabilities. The simulation tool also allows for the application of inflation adjustments, expenses, and future cash flows for a more detailed review of potential outcomes.
3. **Qualitative Overlay:** We believe that asset allocation models and simulations help create a useful framework for observing and understanding the statistical aspects of asset allocation scenarios. However, it is important to realize this framework does not contain the precognition to determine future results. After determining what appears to be an appropriate asset allocation using modeling and simulation, we assist our clients in reviewing and assessing qualitative, real-world factors related to the implementation requirements of potential asset mixes and underlying investment strategies with respect to the client's portfolio objectives and risk tolerance.
4. **Report Formulation & Policy Update:** The final step in the asset allocation process is to present a clear summary of the asset allocation study's recommended findings along with the necessary investment policy statement updates to the client. Since the asset allocation process is about setting long-term portfolio goals and constraints, it is critical for the client to "buy into" the overall decision-making process. This level of client understanding will promote the strategic implementation and modification of asset allocation strategies over time and help to avoid reactive decision-making due to short-term capital market volatility.

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## **Monitoring Investment Managers**

Analyzing and monitoring our client's investment managers, including alternative investments, is an important function that we address through the following multi-pronged approach.

### **Research**

On a quarterly basis, our Research and Performance Reporting Departments send out compliance questionnaires to Research-approved strategies and strategies with client exposure. The questionnaire generally covers quantitative elements such as relative performance, peer group percentile ranks and volatility metrics. Besides quantitative factors, they also request qualitative information pertaining to the sale of the firm, team turnover, SEC investigations, cash flows into and out of the fund, etc. This step is merely the beginning. In addition, each research analyst interacts with managers within their areas of coverage on a regular basis and is typically notified of any changes at the firm in question in a timely manner.

On a scheduled basis, on a cadence that is in accordance with firmwide exposures and each analyst's forward-looking view of the category, research analysts will conduct regular Category Reviews of the areas they are tasked with monitoring. These reviews are holistic in nature and evaluate every strategy that is approved for use with Mariner Institutional clients and compares those strategies to the universe at large. Part of this process involves working with our consultants to gauge the needs and interests of our clients and determining if there are any gaps in our list of recommended strategies in terms of style, capitalization, factor, vehicle type or portfolio construction. This two-pronged approach allows each analyst to determine the health of the category overall as well as the robustness of Mariner Institutional's current list of recommended strategies. While this exercise is mainly utilized as a monitoring tool for the firm's exposures, it is very constructive in developing a pipeline of future ideas for each analyst to pursue in order to meet our client's needs and objectives.

### **Investment Policy Committee (IPC)**

Our Research Department conducts a quarterly strategy review and presents their material findings to the Investment Policy Committee. We have created a strategy scorecard to highlight certain key metrics, including performance, as well as changes at the firm, strategy, or team level. This scorecard applies a rules-based approach to highlight deviations from the norm. Our Investment Policy Committee provides a thoughtful perspective and generally requires each analyst to provide guidance on deviating managers.

### **Performance Reporting**

On a quarterly or monthly basis, our Performance Reporting Department prepares client reports. As part of this process, a client specific investment policy scorecard is typically included in the report. The scorecard clearly outlines if the client's managers are within or out of compliance with their investment policy statement.

### **Consulting**

Our consultants are responsible for providing manager updates to our clients. This could occur through calls, emails, or as part of a regular meeting. However, a formal write-up could be provided for significant issues.

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## **Significant Outcomes of the Report on the Austin Police Retirement System:**

Mariner Institutional works proactively as the System's consultant to constantly review the investment portfolio and investment policy statement, making recommendations on an ongoing basis. It is our belief that not proactively making recommendations for changes to our clients is an indication that we are not fulfilling our role as a fiduciary to the System. The System is actively engaging outside experts to provide legal advice and guidance in areas of investments and actuarial science. These experts serve similar clients in the state of Texas and operate as fiduciaries to the System. The System has demonstrated their willingness to listen and follow the guidance of their outside professionals and there is no evidence of this changing in the future.

Mariner Institutional recommends that 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 obligations.

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.

We are pleased to present this report to the Board, as governing body of the Austin Police Retirement System (the "Plan Sponsor"), which addresses each of the statutory requirements listed in Section 802.109, Texas Government Code:

### **(1) Provide analysis of any investment policy or strategic investment plan adopted by the retirement system and the retirement system's compliance with that policy or plan.**

The mission statement of the retirement system:

***To serve the APRS membership and protect the retirement benefits for the past, present and future members of the System.***

In pursuit of the Mission Statement, the Austin Police Retirement System (the "System") has developed an investment policy statement ("IPS") to guide the investments of the System. The System's investments are governed by Texas Vernon's Civil Statutes Article 6243n-1. The IPS outlines the objectives and risk tolerance of the System as well as the various management and administration responsibilities related to the management of the System's investment portfolio. The IPS defines that the Board of Trustees ("Board") is responsible for making decisions regarding the System's investment portfolio. All recommendations for actions in the investment portfolio are reported to and voted on by the Board. The Board has hired an outside investment consultant to assist the Board in their decisions regarding the System's IPS, strategic asset allocation, manager selection, ongoing manager evaluation, and IPS compliance monitoring. An analysis of the IPS's key elements are outlined in the table below:

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Scope & purpose	The purpose, asset base and organizational structure of the System's investment portfolio are clearly defined.
Governance structure	Roles and responsibilities for decision making, communication requirements, monitoring oversight, applicable law and future IPS modifications are clearly defined.
Investment, return, and risk objectives	Return objectives, risk tolerance, time horizon, asset allocation targets, investment guidelines, and other relevant portfolio considerations are clearly defined.
Risk management	Performance measurement standards, metrics for portfolio and investment manager evaluation, and compliance requirements are clearly defined.

The Board formally reviews the System's IPS at least annually. The last review took place in February of 2024. No changes were made; however, during the review in 2023 several portfolio changes were implemented:

1. Eliminate an allocation to Multi Asset Class Investments
2. Reduce the asset allocation to US mid cap equity
3. Increase the allocation to US core fixed income the portfolio.

The Board also monitors compliance to the System's current IPS during each quarterly performance review with the investment consultant.

We analyzed the System's 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 (ELEMENTS OF AN INVESTMENT POLICY STATEMENT FOR INSTITUTIONAL INVESTORS, Copyright 2010 by the CFA Institute).

## Recommendations:

- 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.
- 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.

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- 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.

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

### **(A) Review of the System's process for determining target allocations;**

The System's process for determining asset allocation targets is executed and implemented through frequent and thorough discussions between the Board and the investment consultant. Allocation studies are conducted by the System's investment consultant and reviewed by the Board. Each strategic asset allocation study 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 System's return objectives. Any changes to the System's strategic asset allocation targets and ranges are then recommended to the Board for consideration, which was last done in February 2023.

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

The System has set the targeted investment rate of return at 7.25%. The return is comprised of an inflation estimate of 2.50% and a real rate of return of 4.75%.

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. Current year return and risk expectations for each IPS target asset class are detailed in the table below:

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Asset Class	Target Asset Allocation 12.31.23	10- to 15-year Expected Arithmetic Return*	10- to 15-year Expected Annualized Risk*	Building Block Return Assumption**
Large Cap Equity	25.0%	8.19%	16.19%	10.00%
Mid Cap Equity	10.0%	9.08%	18.13%	10.00%
Small Cap Equity	5.0%	9.07%	20.44%	10.00%
Private (Other) Equity	12.5%	11.46%	20.06%	10.50%
Developed Market International Equity	12.5%	10.58%	17.64%	11.00%
Emerging Market Equity	2.5%	10.77%	21.20%	11.00%
US Core Fixed Income	12.5%	5.19%	4.28%	5.00%
Non-US Fixed Income	5.0%	5.25%	8.61%	6.00%
Private (Other) Fixed Income	0.0%	6.58%	7.78%	5.50%
Core Real Estate	7.5%	8.02%	10.60%	7.00%
Value Add Real Estate	7.5%	11.08%	17.66%	7.00%

\* Source: 2024 JP Morgan Long-term capital market assumptions

\*\*Source: Mariner Institutional Consulting

It is important to note that expected returns do not reflect the effect of active management or contain an expectation of active manager alpha. Projections assume the underlying asset class returns can be achieved net of fees. Finally, where direct asset class expectations are not available for named IPS target asset classes, these allocations are proxied to a similar asset class or combination of asset classes that have assumptions.

The System's investment allocation combines the use of traditional equity and fixed income investments with the use of alternative asset classes such as real estate and private equity. The System is in the process of exiting its timber investments. 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.

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

The Board relies on the System's investment consultant, and the investment consultant's expertise, to evaluate the individual valuation methodologies used by third-party investment managers that oversee alternative and illiquid assets for the System. Further, an analysis of the appropriateness of each manager's written valuation policy for their underlying strategy holdings is part of the investment consultant's standard due diligence process when they evaluate these types of strategies for client portfolios. Only strategies deemed to have reasonable and appropriate valuation

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methodologies will be considered and/or recommended for potential inclusion in the System's portfolio. Neither the Board nor the investment consultant selects the valuation methodology used by third-party investment managers that oversee alternative or illiquid assets. The performance and valuation of all third-party alternative and illiquid investment strategies that are part of the System's investment portfolio are also reviewed with the Board as part of the quarterly performance review prepared and presented by the investment consultant.

The Board utilizes the same process for the selection of alternative assets as it does for the selection of traditional asset managers. While the Board's process is the same, Mariner Institutional's due diligence does involve some differences in sourcing and researching alternative investments vs traditional equity/fixed income managers. The System's selection process is detailed in question 4. Mariner Institutional believes the manager selection process in place at the Austin Police Retirement System is robust and is in accordance with industry best practices. Mariner Institutional employs a similar search and selection across its national public fund client base. In addition, 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.

The only illiquid asset not managed by a third-party investment manager is the building which houses the System's administrative offices. The valuation of this asset reflects the Travis County tax appraisal of the building. Appraisals are received by the investment consultant from the System.

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.

## **(D) Review the future cash flow and liquidity needs;**

As noted in the System's 2022 year end report: *The funding objective of the System is to meet long-term benefit obligations through contributions and investment income. As of December 31, 2022, the date of the most recent actuarial valuation, the System's funded ratio of actuarial assets as a percentage of actuarial liabilities is 60.1%, as compared to 60.2% at December 31, 2021.*

The System'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 System. Data is derived from discussions with System staff as well as input from the System's actuary, Gabriel, Roeder, Smith & Company. Based on the System's current expectation that cash flow (net contributions less withdrawals) will be negative for the foreseeable future without a change in the contribution rate, the portfolio has been repositioned to include higher allocations to public, liquid assets. This shift resulted in a corresponding reduction and elimination of some of the System's more illiquid holdings (several real estate investments as well as timber). In addition to the portfolio's liquidity shift, the System's underlying strategy emphasis has evolved to focus more on income producing assets within both traditional and alternative asset classes. The net impact on the System's portfolio is that the overall allocation to investment strategies that do not offer at least quarterly liquidity will represent a smaller portion of the portfolio (less than 15%) going forward.

Mariner Institutional reviewed the System's processes for asset allocation including target determination, expected risk and return, selection and valuation methodologies for alternative and

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illiquid assets, as well as cash flow and liquidity needs. While different approaches exist, Mariner Institutional, as an independent, professional investment consulting firm, has determined that the System's processes are appropriate and comparable with what Mariner Institutional considers best practice, industry standards.

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.

Recommendations:

- 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 also recommends that the System conduct an asset liability study as soon as practicable for the System.

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

The Board reviews the fees (stated in both dollars and basis points) paid to administer the System'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 System's portfolio contained in the most recent quarterly investment review reflect a cost of 0.48%. 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%. 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% reasonable and appropriate for its portfolio.

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.

### **Provide 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**

Sec 3.02 of Article 6243n-1 governing the Austin Police Retirement System states the composition of the retirement board shall be composed of 11 members as follows:

- (1) one council member designated by the city council;

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- (2) the city manager or the city manager's designee;
- (3) the director of finance or the director's designee;
- (4) four police officer members elected by the police officer members of the system
- (5) one legally qualified voter of the city appointed by the police retirement board
- (6) one legally qualified voter of the city appointed by the city council
- (7) two retired members to be elected by the retired members

The current board of trustees for the Austin Police Retirement System:

- *Chair / Police Member: Sheldon Askew*
- *Vice Chair / Retired Member: Keith Harrison (Investment Committee Chair)*
- *Police Member: Michael Burgeson (Investment Committee 1<sup>st</sup> Alternate)*
- *Retired Member: Michael Cowden (Investment Committee Vice Chair)*
- *City Council Appointee: Michael Granof (Investment Committee 1<sup>st</sup> Alternate)*
- *Police Member: Shelly Holmstrom*
- *City Council Member: Mackenzie Kelly*
- *City Manager Designee: Kerri Lang*
- *Police Member: Christopher Salacki (Investment Committee)*
- *City Director of Finance Designee: Diana Thomas (Investment Committee)*
- *Board Appointee: Chesley Wood (Investment Committee)*

The System Board is supported by a staff of eight, none of which are dedicated investment staff.

Trustees within the System are required to achieve annual training hours. These hours are tracked by the System staff and Mariner Institutional has reviewed these reports to make sure that trustees are meeting their required annual training. Trustees utilize national conferences (NCPERS), local conferences (TEXPERS), and the online courses offered by the Texas PRB for training hours. In addition, the System was approved as an accredited sponsor by the Texas PRB and provides trustees with education from current service providers (legal, actuarial, and investment).

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.

The Board utilizes an investment consultant to assist with setting the System'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 System has invested. The System does not perform any portfolio management functions internally apart from overseeing the operations of the building that houses the System's administrative offices, including tenant suites within the building that are leased, as well as administrative activities including legal review and execution of agreements as listed below.

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Governance for investment activities and related decision-making is a multi-step process. The process includes the following:

- a. Recommendations (policy, strategy, or both) are made to the investment committee of the Board by the investment consultant.
- b. The committee reviews, questions and evaluates the investment consultant's recommendation. This process may include a request for clarification, modification, and/or additional information regarding the recommendation. This process may also include investment manager interviews if a series of comparable investment strategies are being considered.
- c. Once a consensus approach on a recommendation has been reached, the final investment recommendation is officially considered by the Board for action.
- d. The Board accepts motions for action and votes to accept or reject those motions. Minutes are kept of each individual board meeting and are submitted to the trustees for approval.
- e. Once an action is accepted by the Board, the System Executive Director works with the investment consultant to execute the Board's desired investment action or decision, and when necessary, with the System's legal counsel for the negotiation and execution of any associated investment agreements.
- f. The Board delegates signatory authority to the Executive Director to execute investment agreements and issue direction to the investment consultant and the investment managers that oversee the various components of the System's investment portfolio.

Trustees receive educational training upon appointment to the Board via an established process managed by the System's Executive Director with input and assistance from the investment consultant and legal counsel. An initial Orientation session covers the role of a Trustee, including fiduciary duty, the Ethics policy, and the System Bylaws. System Trustees follow the requirements for Minimum Education Training as prescribed by state law and overseen by the Texas Pension Review Board, pursuant to Texas Administrative Code 607. In addition to Trustee education provided by the System, Board members are active participants in industry educational opportunities such as conferences. The investment consultant has reviewed the System's tracking of Trustee education and affirm it is in line with state requirements. Trustees are also encouraged to actively participate in national conferences and educational programs associated with investment oversight. In working with the System, Mariner Institutional has found the staff and the trustees to be actively engaged in oversight of the investment portfolio. All investment decisions and allocation decisions have been made in the best interest of the System.

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.

## **(4) Review of the retirement system's investment manager selection and monitoring process.**

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The investment manager selection process for the System is conducted in collaboration with the System's investment consultant. Whether a specific investment strategy review is directed by the Board or the strategy idea comes from the investment consultant's research group, all potential investment strategies must go through the 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 System's portfolio.

Candidates are vetted by the consultant's research group to identify the best and most appropriate managers for the System in each investable asset class.

Mariner Institutional Research Process:

All investment managers that are presented for our clients' consideration must be approved by Mariner Institutional's Investment Policy Committee. Our Research Group identifies potential investment managers using our database resources and investment industry network. Our due diligence process for selecting and monitoring investment managers is as follows:

1. Identification: The first step in our due diligence process is the identification of investment opportunities. Our firm's process is unique because we maintain an open-door policy. This means that any investment manager that wants to participate in our due diligence process has the opportunity. Identification occurs from many approaches including:
  - a. Database Screening/Research Team – we use several databases to search and review strategies including Investworks, eVestment, Preqin, and Morningstar Direct in conjunction with our research team's investment manager network.
  - b. Consultant Sponsored – our consultants can identify and sponsor investment ideas. These ideas are then reviewed by the Research Team and eventually our Investment Policy Committee, if applicable.
  - c. Client sponsored – many times our clients have great ideas and can request that we review them. Similar to our consultant requests, our Research Team will review them.
  - d. Investment Manager Requested – we maintain an open-door policy for any manager wishing to be considered can request to enter our due diligence process.
2. Preliminary Questions: After we have identified a potential manager, we ask the manager to complete our initial due diligence questionnaire ("DDQ") to efficiently confirm that the manager meets specific minimum criteria with respect to their firm and the specific strategy, as follows:
  - Does the strategy have a three-year institutional track record achieved by the same individual or team?
  - Does the firm report strategy information, including performance and portfolio data, to the following databases: Morningstar Direct, Investworks and eVestment Alliance?

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- What are the total Assets Under Management and total number of accounts for the firm and the strategy?
  - Is the firm registered with the SEC? What is the effective date of the registration? If the firm is not registered with the SEC, please provide an explanation?
  - Has the firm, or any of its employees, been involved in any litigation, or been the subject of any investigation or sanction by any state or federal regulatory agency or industry self-regulatory organization? If so, please explain the nature and outcome of the litigation, investigation, and/or sanction.
  - Does the firm claim GIPS compliance? If so, has the claim of GIPS compliance been verified, when, and by whom?
  - Does the firm utilize a third-party trading/portfolio management system? If so, provide the name of the system.
  - Does the firm have a dedicated compliance officer? If so, how long has the individual been in this role at the firm? What is this person's background in compliance?
  - Will you acknowledge, in writing, your role as a delegated fiduciary to the plan?
  - Will you accept legal venue in the client's county and state?
  - Do you have errors and omissions insurance? If so, what is the amount of coverage and by whom is it issued?
  - Does the firm have a formal disaster recovery plan? When was the plan last tested and what were the results?
3. Due Diligence Questionnaire: If the manager provides satisfactory answers to the above questions, we will send the manager our due diligence questionnaire. The due diligence questionnaire focuses on the investment management team, research process, manager's ownership structure, legal standing and investment strategy. The Research Group reviews the manager questionnaire and initiates a detailed analysis. Our questionnaire underlies our manager evaluation process and enables us to prepare adeptly for a manager meeting.
4. Manager Interview: After receiving the completed due diligence questionnaire, the Research Group and/or a consultant will interview the strategy's key decision makers. This allows the interviewer to crosscheck the information provided in the due diligence questionnaire and understand the firm's qualitative underpinnings. Often, we will interview the key decision makers on multiple occasions and venues. We will go on-site as necessary, and we also invite investment managers into our offices for interviews. Once these interviews are

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completed, the Research Group compiles an internal research report for our Investment Policy Committee.

5. Investment Policy Committee (IPC) Review: The IPC is responsible for approving and formally providing Mariner Institutional's firm-wide and client-specific manager recommendations. The IPC rates strategies and allocates resources based on information and requests generated from both the Research Group and the Consulting Group. The IPC's voting membership is comprised of Mariner Institutional's senior leadership team (CEO, COO and Executive Director of Consulting) and supported by the Chief Compliance Officer (CCO). The CCO helps to represent the interests of the firm from a risk perspective but is not a voting member. The centralization of formal investment recommendations with the IPC, as well as its ability to direct the firm's resources, allows Mariner Institutional to leverage its deep team of experienced professionals and advance the quality and creativity of our recommendations and decisions.
6. Ongoing Review: If the manager is approved, the research analyst or consultant that sponsored the manager will cover the manager going forward. Each manager is required to provide quarterly compliance updates to Mariner Institutional, and the Mariner Institutional Investment Policy Committee reviews the approved manager list on a quarterly basis to identify exceptions that might require further due diligence.

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.

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.

The ongoing monitoring of investment managers and strategies is also done collaboratively with the Board and the investment consultant on an ongoing basis (as needed between meetings) and through quarterly Board meetings that the investment consultant attends. The investment consultant prepares summary monthly performance reports and more comprehensive quarterly investment reviews for presentation to, and discussion with, the Board during these quarterly meetings. All performance calculations supplied by the consultant to the board meet the guidelines of the CFA institute.

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

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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 System's portfolio, the ultimate decision to retain or terminate an investment strategy (within the bindings of the strategy's agreement) resides with the Board.

Mariner Institutional works with the System to make ongoing quantitative and qualitative assessments of managers to gauge their success and failure. Putting a manager on watch or recommending termination is determined by the severity of the quantitative and/or qualitative issues. The factors considered include but are not limited to the following:

Quantitative factors: Our qualitative analysis focus on the returns and associated risks taken by the investment manager.

- Annualized, calendar year and market cycle return vs. appropriate industry benchmarks and peer groups
- Modern Portfolio Theory statistics: Alpha, Batting Average, Beta, Correlation Coefficient, Downside/Upside Market Capture Ratio, Down/Up Market Return, Downside Risk, Information Ratio, Max Drawdown, Number of Negative/Positive Periods, R-Squared, Sharpe Ratio, Standard Deviation, Tracking Error, etc.

Portfolio Characteristics: Price/Earnings Ratio, Price/Book Ratio, Price/Cash Flow Ratio, Dividend Yield, Earnings Growth Rate, etc.

- Portfolio turnover
- Portfolio concentration/number of holdings
- Sector/country allocations
- Holdings and returns-based style analysis
- Holdings-based attribution

Qualitative factors: Our qualitative analysis focus on the stability of the investment manager's organization and staff, adherence to their stated investment philosophy and process, asset/client turnover, and the quality of client service.

- Professional turnover
- Investment policy statement compliance issues
- Regulatory or legal issues
- Significant loss or gain of clients, including asset outflows/inflows
- Change in firm ownership
- Change in investment process
- Style drift from mandate

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- Fee structure change
- Poor client service
- Loss of client confidence

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. Mariner Institutional employs a similar search and selection across its national public fund client base. In addition, 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.

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### ***Important Disclosure Information***

This report was prepared at the sole request of the Austin Police Retirement System. Information presented is typically narrow in scope and provides a general overview of circumstances and processes and should therefore not be construed as exhaustive. Mariner Institutional does not provide legal, tax or accounting advice.

This contains forward-looking statements, estimates and projections which are inherently speculative and subject to various uncertainties whereby the actual outcomes or results could differ materially from those indicated.

The material provided herein is valid as of the date of distribution and not as of any future date and will not be updated or otherwise revised to reflect information that subsequently becomes available, or circumstances existing or changes occurring after such date.