



# TEXAS PENSION REVIEW BOARD

## Investment Policy Statement Guidelines

State law requires Texas public retirement system governing bodies in management of their investments to develop and adopt a written investment policy. This policy must be maintained for public review and filed with the Pension Review Board (PRB).<sup>1</sup>

The PRB provides these guidelines to assist systems in developing and maintaining a complete, well-developed investment policy statement (IPS) consistent with various industry best practices. They offer a high-level overview and minimum framework but also allow flexibility for systems and their investment consultants, advisors, and/or investment staff to construct an IPS that fits their needs. A complete, well-developed IPS forms the foundation of any well-managed investment program and establishes clear goals and direction. The IPS aids trustees in understanding the expectations of various roles involved in investing a system's assets. Clearly articulated roles and responsibilities in the IPS also ensure continuity between outgoing and newly appointed trustees.

An IPS may contain sections and language that are very similar among Texas retirement systems. However, each system will naturally have some differences based on their unique needs and decisions and need to tailor their IPS to reflect those differences. The following recommended policy categories reflect accepted industry best practices established by the Chartered Financial Analyst Institute and the Government Finance Officers Association as well as investment expert reports analyzing Texas retirement system investment practices and performance summarized in the PRB's [2020 Investment Performance Report](#). References are listed at the end of this document.

### **A thorough investment policy statement should contain the policies listed below.**

1. Fund mission or goals
2. Roles and responsibilities
3. Investment objective
4. Liquidity
5. Risk tolerance
6. Investment assets
7. Proxy voting<sup>2</sup>
8. Performance evaluation
9. Cost management
10. Investment manager selection and monitoring
11. Ethics

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<sup>1</sup> [Sec. 802.202, Texas Government Code](#)

<sup>2</sup> While not all systems pursue investments that have proxy voting rights, every system should have a default policy in place acknowledging that the system expects investment managers to vote proxies in the best fiduciary interest of the respective fund and beneficiaries.

## **Governance procedures based on best practices and state law**

1. The system's board should periodically review the IPS and related governing documents at least every two years if not annually and should re-adopt them at least every five years. By statute, changes to an IPS are required to be filed with the PRB not later than 90 days after the change is adopted.<sup>3</sup>
2. The board should acknowledge and consider both the individual system's pension funding constraints and benefit payment requirements when creating the IPS.
3. The IPS should document existing practices for future trustees' benefit and overall investment program continuity.
4. The system is required by statute to make the IPS available on a publicly available website and make a physical copy available at a system's main office.<sup>4</sup>

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<sup>3</sup> [Sec. 802.202, Texas Government Code](#)

<sup>4</sup> [Sec. 802.202](#)

## Reference Materials

Bailey, J & Richards, T (2017). *A Primer for Investment Trustees: Understanding Investment Committee Responsibilities*

Chambers, D, Black, K & Lacey, N (2018). *Alternative Investments: A Primer for Investment Professionals*

Drew, M & Walk, A (2019). *Investment Governance for Fiduciaries*

Stewart, Scott (2013). *Manager Selection*

Government Finance Officers Association (GFOA), *Adopting Financial Policies*, accessed November 5, 2023, <https://www.gfoa.org/materials/adopting-financial-policies>

GFOA, *Investment Policies for Defined Benefit Plans*, accessed November 5, 2023, <https://www.gfoa.org/materials/investment-policies-for-defined-benefit-plans>

GFOA, *Investment Fee Guidelines*, accessed November 5, 2023, <https://www.gfoa.org/materials/investment-fee-guidelines>

GFOA, *Alternative Investments Checklist*, accessed November 5, 2023, [https://gfoaorg.cdn.prismic.io/gfoaorg/7f4e42b6-8b46-4124-b62d-93d76fd9fe24\\_Alternative\\_Investments\\_Checklist.pdf](https://gfoaorg.cdn.prismic.io/gfoaorg/7f4e42b6-8b46-4124-b62d-93d76fd9fe24_Alternative_Investments_Checklist.pdf)

GFOA, *GFOA Sample Investment Policy*, accessed November 5, 2023, [https://gfoaorg.cdn.prismic.io/gfoaorg/76b137b8-17e3-42bd-ae9f-7f7be8be50bd\\_GFOA\\_sample\\_investment\\_policy.pdf](https://gfoaorg.cdn.prismic.io/gfoaorg/76b137b8-17e3-42bd-ae9f-7f7be8be50bd_GFOA_sample_investment_policy.pdf)