

## Irving Firemen's Relief and Retirement Fund

Investment Practices and  
Performance Evaluation  
Consultant Report - 2024

**Disclosure Statement by Independent Firm**

- Meketa is a corporation organized in the Commonwealth of Massachusetts, which is owned entirely by its senior professionals. Meketa has no parent organization.
- Meketa does not have any affiliations with brokerage firms, nor any broker-dealer relationships. Meketa does not receive soft dollars, finder fees, commissions, or third-party marketing fees. Meketa's line of business is providing investment consulting and advisory services. Meketa works only for its clients.
- Effective June 2019, Meketa entered into an agreement with Irving Fire to serve as its general investment consultant ("Agreement").
- Under the Agreement, Meketa receives its fees for the services it provides to Irving Fire from Irving Fire directly and does not receive any fees other than those set forth in the Agreement.
- Meketa does not (directly or indirectly) manage Irving Fire's investments. Meketa's role is strictly limited to non-discretionary advice.
- As such, Meketa does not believe any conflicts of interest exists between Irving Fire and Meketa that could impact the analysis.
- This report was prepared between March and April 2024.
- Any references to current exposure, policies, or procedures were accurate or applicable at that time and may not be the same or accurate in the future.

### Qualifications

- Meketa meets the experience requirements outlined under Texas Government Code §802.109 and has prior experience completing Investment Practices and Performance Evaluations. In 2020, all eligible clients engaged Meketa's services for completion of such evaluations. Meketa conducted one IPPE in 2023.
- Meketa is a full-service independent investment-consulting firm.
- Meketa has been providing consulting services for over four decades (since 1978) and currently consults on \$1.9 trillion in client assets for over 400 funds throughout the United States.
- Meketa has nearly 250 full-time employees and operates out of seven offices.
- Investment consultants at Meketa average 12 years with the firm and 23 years of investment experience. Meketa currently has 48 CFA Charter holders and 30 CAIA Charter holders.
- Meketa's mission is to provide the highest quality investment advisory services. Meketa aims to utilize, and continuously hone, the best practices that have been developed over its 45-year history. Meketa seeks to be a thought leader by evaluating investment industry information with healthy skepticism and performing value-added original research.

## Scope

→ Sec. 802.109. INVESTMENT PRACTICES AND PERFORMANCE REPORTS.

→ (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:**

- (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;

**Scope (continued)**

- (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.

**Note:** Meketa has evaluated each of the required sub-sections and provided observations and recommendations for all.

**Irving Fire Executive Summary**

Subsection	Overall Status	Adhering to established policies?
A. Investment Policy Statement analysis	Meets Industry Best Practices	Yes
B. Asset allocation (and liability) process review and execution	Meets Industry Best Practices	Yes
C. Fees review and procedures	Meets Industry Best Practices	Yes
D. Governance processes	Meets Industry Best Practices	Yes
E. Investment manager selection and monitoring	Meets Industry Best Practices	Yes

## Summary of Recommendations

### Subsection (5) (A)

→ The Investment Policy Statement meets industry best practices. The Texas Pension Review Board is currently working on guidance for Texas pension plans. We recommend the Board and Consultant review and incorporate any applicable relevant guidance once published, while keeping in mind the goal of a high-level policy document that is not overly prescriptive.

### Subsection (5) (B)

→ Continue to monitor the net negative cash flows as a percentage of total Fund market value.

→ Continue to monitor the appropriate balance of active to passive.

→ We recommend the Board continues to follow its asset allocation policy and evaluate the risk/reward trade-offs for the pension relevant to its liability situation.

→ We recommend the Fund continues to conduct an Actuarial Valuation Report annually. This is industry best practice.

**Summary of Recommendations (continued)****Subsection (5) (C)**

- We recommend that Staff, the Board, and the Consultant all remain diligent in monitoring fees.
- We recommend Irving Fire staff document its internal process for fee reconciliation and payment in a formal policy document.
- We recommend Fund counsel reviews all legal contracts when the Fund hires a new vendor or investment strategy.

**Subsection (5) (D)**

- Continue to keep the website up to date.

**Subsection (5) (E)**

- We recommend Irving Fire formally documents the rationale for all hiring and firing decisions in concise meeting minutes.



## **Section 802.109 – Subsection (5) (A)**

Section 802.109 – Subsection (5) (A)

Law	Requirement
<p>Sec. 802.109, Subsection (5) (A)</p>	<p><i>“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”</i></p>
Criteria or Topic	Irving Fire Status
<p>Most Recent Investment Policy Statement (“IPS”) Review?</p>	<p>→ The most recent review occurred in 2023. The Consultant presented a red-lined version to the Board for review and discussion.</p> <p>→ The Board and the Consultant discussed the recommended changes and rationale.</p>
<p>Historical Review Cycle</p>	<p>→ The IPS includes a historical list of the dates when prior revisions were adopted.</p> <p>→ It appears changes have been made annually (on average) dating back to 2003.</p>

Section 802.109 – Subsection (5) (A) (continued)

Criteria or Topic	Irving Fire Status
Requirement for (at least) annual review?	→ Yes
Compliance with annual review?	→ Yes
Current IPS Structure?	<p><b>Section 1:</b> Introduction</p> <p><b>Section 2:</b> Investment Objectives</p> <p><b>Section 3:</b> Duties of Parties Involved</p> <p><b>Section 4:</b> Asset Allocation and Rebalancing</p> <p><b>Section 5:</b> Investment Guidelines</p> <p><b>Section 6:</b> Performance Measurement</p> <p><b>Section 7:</b> Selection of Investment Managers</p> <p><b>Appendix A:</b> Strategic Asset Allocation Policy</p> <p><b>Appendix B:</b> Asset Class and Strategic Policy Benchmarks</p> <p><b>Appendix C:</b> Twenty Year Asset Class Forecasts</p>

**Section 802.109 – Subsection (5) (A) (continued)****Consultant Analysis**

- The IPS is well thought-out and in line with industry standards.
- It is consistent with guidance from the CFA Institute.
- Roles and responsibilities of all key parties involved are clearly outlined (Board of Trustees, Staff, Investment Consultant, Investment Managers, Custodian Bank).
- The document is written in “plain-English” and easy for a layperson to understand.
- There is no evidence of any known compliance violations with the IPS at this time.
- It is our opinion that the Board of Trustees and Staff will be able to stay committed to the guidance detailed in the IPS during a stressed or prolonged market scenario.
- Overall: The existing Investment Policy Statement appears appropriate, adequate, and effective in our opinion.

**Recommendations**

- The Investment Policy Statement meets industry best practices. The Texas Pension Review Board is currently working on guidance for Texas pension plans. We recommend the Board and Consultant review and incorporate any applicable relevant guidance once published, while keeping in mind the goal of a high-level policy document that is not overly prescriptive.

## **Section 802.109 – Subsection (5) (B)**

**Section 802.109 – Subsection (5) (B)**

Law	Requirement
Sec. 802.109, Subsection (5) (B)	<i>"a detailed review of the retirement system's investment asset allocation, including:</i> <i>(A) the process for determining target allocations;</i> <i>(B) the expected risk and expected rate of return, categorized by asset class;</i> <i>(C) the appropriateness of selection and valuation methodologies of alternative and illiquid assets; and</i> <i>(D) future cash flow and liquidity needs"</i>

Section 802.109 – Subsection (5) (B) (continued)

Criteria or Topic	Irving Fire Status
Written policy for asset allocation development?	→ Yes, outlined in the IPS.
Who has formal approval authority of the strategic policy asset allocation?	→ Board of Trustees.
Tactical vs. Strategic?	→ Strategic. → The Consultant (and the majority of investment research) advocates the importance of a long-term strategic asset allocation approach. → The Consultant and the Board execute rebalancing activities consistent with the long-term strategic asset allocation policy.

Section 802.109 – Subsection (5) (B) (continued)

Criteria or Topic	Irving Fire Status
Active vs. Passive – Policy	<p>→ According to the IPS (Section 2.4 Investment Costs):</p> <p>→ <i>“The Board, with the advice of the Consultant, intends to monitor and control investment costs at every level of the Fund. Accordingly, where appropriate and practical passive portfolios will be considered to minimize management fees and portfolio turnover.”</i></p>
Active vs. Passive -Implementation	<p>→ Current passive exposure as of December 31, 2023 is ~30%.</p> <p>→ This is an appropriate amount of passive exposure.</p> <p>→ Passive index funds are used in efficient areas of the market (US Large Cap equities, investment grade bonds) complemented by active strategies.</p> <p>→ Irving Fire uses passive strategies in the following asset classes:</p> <ul style="list-style-type: none"> <li>• Domestic large cap equity (S&amp;P 500 Index)</li> <li>• International developed equity (MSCI EAFE Index)</li> <li>• Investment grade bonds (Barclays Aggregate Index)</li> <li>• Short term investment grade bonds (Barclays US 1 –5 YR Gov/Credit)</li> <li>• Treasury Inflation Protected Securities (Barclays TIPS Index)</li> <li>• Long Term Treasuries (Barclays US Long Term Treasury Index)</li> </ul>



**Section 802.109 – Subsection (5) (B) (continued)**

Criteria or Topic	Irving Fire Status
Asset Class Return and Standard Deviation Expectations Development	<ul style="list-style-type: none"> <li>→ Irving Fire uses capital markets assumptions developed by its Consultant.</li> <li>→ A summary of Meketa’s process is listed below.</li> <li>→ Meketa recommends its client use the 20-year projections.</li> <li>→ Each year Meketa Investment Group conducts an Asset Study to attempt to forecast future expected returns, future expected risk and correlation measures for over 100 asset classes and sub-asset classes.</li> <li>→ The models are fundamentally based (based on theoretically defined return relationship with current observable factors).</li> <li>→ Some of the models are more predictive than others. For this reason, a qualitative overlay is required, which takes the form of a data-driven deliberation among the research team at Meketa and the Investment Policy Committee at Meketa.</li> </ul>

Exhibit #1 – Target Asset Allocation and Minimum/Maximum Weights

Strategic Target Asset Allocation <sup>1</sup>	Target Weight (%)	Minimum Weight (%)	Maximum Weight (%)
<b>Growth Assets</b>	<b>48</b>		
US Equity	27	22	32
Developed Market Equity (Non-US)	15	10	20
Emerging Market Equity	6	3	9
<b>Risk Mitigating Assets</b>	<b>31</b>		
Short-Term Investment Grade Bonds	10	5	15
Investment Grade Bonds	16	11	21
Treasuries	5	0	10
<b>Diversifiers</b>	<b>21</b>		
Real Estate	11	7	15
Bank Loans	6	3	9
TIPS	4	0	8
<i>Expected Return (20 years)</i>	<i>7.4%</i>		
<i>Expected Standard Deviation (20 years)</i>	<i>10.0%</i>		

<sup>1</sup> Expected return and standard deviation are based upon Meketa Investment Group's 2024 Annual Asset Study. Throughout this document, returns for periods longer than one year are annualized.

Exhibit #2 – Capital Market Assumptions

Asset Classes <sup>1</sup>	20 Year Return Expectations (%)	20 Year Standard Deviation Expectations (%)
US Equity	8.7	18.0
Developed Market Equity (Non-US)	9.8	19.0
Emerging Market Equity	10.0	23.0
Investment Grade Bonds	4.7	4.0
Short-Term Investment Grade Bonds	3.5	1.0
Treasuries (Long term Government Bonds)	5.0	12.0
Real Estate	7.8	16.0
Bank Loans	7.0	10.0
TIPS	4.5	7.0

<sup>1</sup> Expected return and standard deviation are based upon Meketa Investment Group's 2024 Annual Asset Study. Throughout this document, returns for periods longer than one year are annualized.

**Section 802.109 – Subsection (5) (B) (continued)**

Criteria or Topic	Irving Fire Status
Alternative Investment Valuation Approach	→ Irving Fire values its alternative investments based on fair value determinations provided by audited financial statements or appraisals provided to Irving Fire from its alternative investment managers.
Actuarial Highlights	<p>→ Funded status (as of the most recent Actuarial Valuation Report December 31, 2022<sup>1</sup>) was 91% funded based on the actuarial value of assets.</p> <p>→ Actuarial valuation reports are prepared every year.</p> <p>→ The Fund adopted a number of new actuarial changes (contribution rates, benefit payments, actuarial assumptions) over the past few years, and issued Pension Obligation Bonds. All have resulted in a more favorable funded status and better funding plan for the Fund.</p> <p>→ The last experience study was reported to the Board in February 2024.</p>
Actuarial Assumed Rate of Return	<p>→ The Board actively reduced the actuarial assumed rate of return in 2019 and 2020.</p> <p>→ The assumed rate of return is currently 7.0%.</p> <p>→ This is in line with national averages and the State of Texas.</p>

<sup>1</sup> Valuation Report as of December 31, 2022. Foster and Foster.

Section 802.109 – Subsection (5) (B) (continued)

Criteria or Topic	Irving Fire Status			
Annual Historical Contributions <sup>1</sup>	<b>Contributions (\$M)</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>
	Employer (City)	\$6.4	\$7.7	\$7.5
	Employee (Firefighters)	\$4.7	\$5.0	\$5.2
	<b>Total</b>	<b>\$11.1</b>	<b>\$12.7</b>	<b>\$12.7</b>
Annual Historical Benefit Payments <sup>2</sup>		<b>2020</b>	<b>2021</b>	<b>2022</b>
	<b>Total Annual Benefit Payments (\$M)</b>	<b>\$36.5</b>	<b>\$28.1</b>	<b>\$19.6</b>

<sup>1</sup> Source: Annual Financial Reports

<sup>2</sup> Source: Annual Financial Report (benefit payments inclusive of DROP payments)

#### Section 802.109 – Subsection (5) (B) (continued)

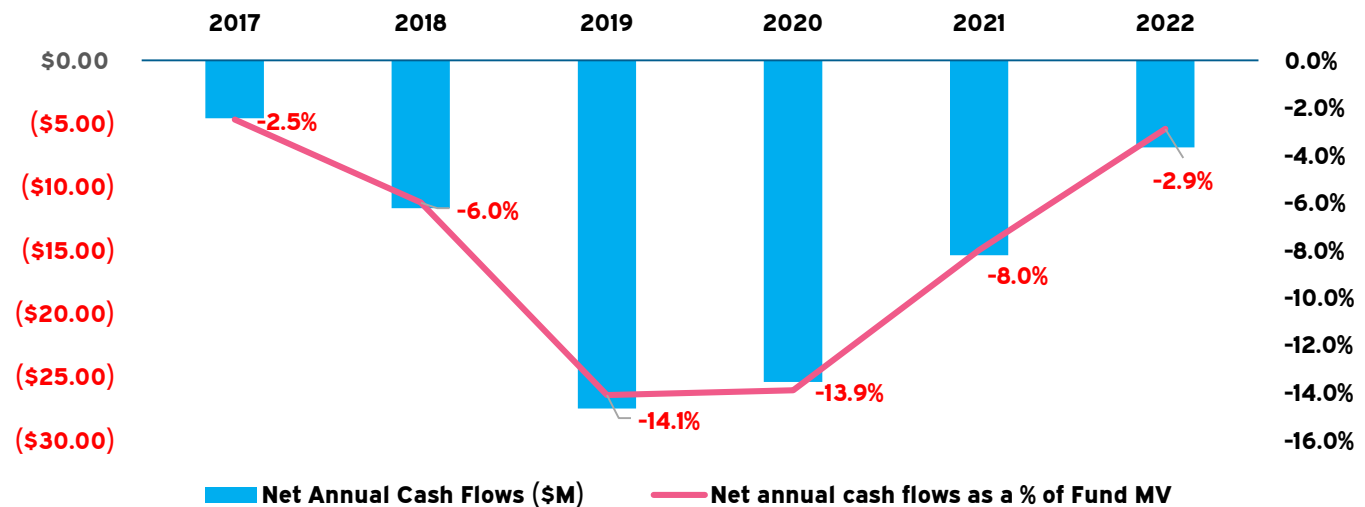
#### Criteria or Topic

#### Irving Fire Status

Annual Historical Net Cash Flows<sup>1</sup>

→ Through a combination of benefit changes, issuance of \$80M Pension Obligation Bond, and a reduction in DROP withdrawals, the net annual cash outflow has reduced to a manageable percentage of assets.

	2017	2018	2019	2020	2021	2022
Net Annual Cash Flows (\$M)	-4.6	-11.7	-27.5	-25.4	-15.4	-6.9
Fund Market Value at year end (\$M)	184.8	194.4	195.7	182.9	192.4	242.5
Net annual cash flows as a % of Fund MV (%)	-2.5%	-6.0%	-14.1%	-13.9%	-8.0%	-2.9%



<sup>1</sup> Meketa calculation based on data from annual Financial Reports

**Section 802.109 – Subsection (5) (B) (continued)****Consultant Analysis**

→ The current investment return assumption is in line with industry medians and the target asset allocation policy should generate a return in excess of the return assumption over the long term, based on the Consultant's capital market projections.

→ The Board is mindful of adopting a return expectation that is realistic given capital market return expectations.

→ Actuarial improvements over the past 4+ years have improved the solvency of the Fund.

→ The significant improvement in the reduction in net annual cash outflow is extremely encouraging for the future health of the Fund.

→ The target asset allocation is well diversified and built with a global perspective in mind given the globally investable universe.

→ Irving Fire's approach to passive management is consistent with industry best practices (e.g. passive is used in efficient asset classes).

**Section 802.109 – Subsection (5) (B) (continued)****Recommendations**

→ Continue to monitor the net negative cash flows as a percentage of total Fund market value.

→ Continue to monitor the appropriate balance of active to passive.

→ We recommend the Board continues to follow its asset allocation policy and evaluate the risk/reward trade-offs for the pension relevant to its liability situation.

→ We recommend the Fund continues to conduct an Actuarial Valuation Report annually. This is industry best practice.



## **Section 802.109 – Subsection (5) (C)**

Section 802.109 – Subsection (5) (C)

Law	Requirement
<p>Sec. 802.109, Subsection (5) (C)</p>	<p><i>“a review of the appropriateness of investment fees and commissions paid by the retirement system”</i></p>

Criteria or Topic	Irving Fire Status
<p>Policy Language</p>	<p>→ According to the IPS, Section 2: Investment Objectives, Subsection 2.4 Investment Costs:</p> <ul style="list-style-type: none"> <li>• <i>“The Board, with the advice of the Consultant, intends to monitor and control investment costs at every level of the Fund. Accordingly, where appropriate and practical:</i></li> <li>• <i>1) Professional fees will be negotiated,</i></li> <li>• <i>2) passive portfolios will be considered to minimize management fees and portfolio turnover; and</i></li> <li>• <i>3) investment managers will be instructed to minimize brokerage and execution costs while seeking best execution”.</i></li> </ul>

**Section 802.109 – Subsection (5) (C) (continued)**

Criteria or Topic	Irving Fire Status
Internal process for paying manager fees	<ul style="list-style-type: none"> <li>→ Most fees are deducted from manager account or NAV.</li> <li>→ When investment management fee invoices are received, the Pension Administrator emails the fee to the Board Chairman and cc’s the Consultant and Custodian.</li> <li>→ Once approved by the Board Chairman, the Pension Administrator authorizes the custodian to pay the fee.</li> <li>→ If requested, the Consultant will perform an independent calculation (quarter ending market value x fee schedule x ¼) as a sanity check.</li> </ul>
Investment Manager Fees	<ul style="list-style-type: none"> <li>→ The Consultant monitors investment manager fees and appropriateness relative to similar investment strategies.</li> <li>→ An investment manager fee summary is included in every quarterly report. It shows each manager’s effective annual fee in both basis points and dollars.</li> <li>→ When hired in June 2019, the Consultant and the Board made a conscious effort to reduce investment management fees going forward.</li> <li>→ Annually the Consultant conducts a total Fund fee summary calculation based on a survey of each investment manager.</li> <li>→ In addition, annually the Consultant conducts a fee benchmarking exercise on the public investment strategies relative to industry averages.</li> </ul>

Exhibit #3 –Investment Management Fees Paid in 2022

Asset Class	Management Fees Paid from Fund (\$)	Management Fees Netted from Returns (\$)	Total Investment Management Fees (Management Fees Netted from Returns + Management Fees Paid from Fund) (\$)	Brokerage Fees/Commissions (\$)	Profit Share/Carried Interest (\$)	Total Direct and Indirect Fees and Commissions (Management Fees + Brokerage Fees/Commissions + Profit Share) (\$)
Cash	-	-	-	-	-	-
Public Equity	317,827	149,800	467,627	21,932	-	489,559
Fixed Income	-	82,913	82,913	-	-	82,913
Real Assets	50,685	195,539	246,224	-	-	246,224
Alternative/Other	-	27,437	27,437	-	23,355	50,792
<b>Total</b>	<b>368,512</b>	<b>455,688</b>	<b>824,200</b>	<b>21,932</b>	<b>46,835</b>	<b>869,487</b>

**Subsection 802.109 – Subsection (5) (C) (continued)**

Criteria or Topic	Irving Fire Status
Communication to the Board	→ The Consultant shares its fee analysis with the Board and Staff.
Brokerage Fees and Commissions	<p>→ The public market managers pay explicit commission costs and implicit opportunity costs inherent in bid-ask spread differentials (equity and fixed income strategies, respectively).</p> <p>→ These costs are shared by all investors in a commingled trust or specific to Irving Fire in the investments that are structured as separately managed accounts.</p> <p>→ Commission costs were provided by each applicable investment manager.</p>

**Subsection 802.109 – Subsection (5) (C) (continued)****Consultant Analysis**

→ Irving Fire's use of passive index funds and elimination of high fee hedge funds, along with below median investment management fees, results in a very cost-effective total Fund structure.

**Recommendations**

→ We recommend that Staff, the Board, and the Consultant all remain diligent in monitoring fees.

→ We recommend Irving Fire staff document its internal process for fee reconciliation and payment in a formal policy document.

→ We recommend Fund counsel reviews all legal contracts when the Fund hires a new vendor or investment strategy.

## **Section 802.109 - Subsection (5) (D)**

**Section 802.109 - Subsection (5) (D)**

Law	Requirement
Sec. 802.109, Subsection (5) (D)	<i>"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"</i>



Section 802.109 - Subsection (5) (D)

Criteria or Topic	Irving Fire Status
Website and Transparency	<ul style="list-style-type: none"> <li>→ The Fund has its own website.</li> <li>→ It is simple and easy to navigate.</li> <li>→ The Fund website includes (non-exhaustive list):               <ul style="list-style-type: none"> <li>• Trustee Names</li> <li>• Monthly meeting agendas and minutes</li> <li>• Plan document</li> <li>• Quarterly investment performance reports</li> <li>• Actuary Valuation Reports</li> <li>• Annual Financial Reports</li> <li>• Code of Ethics Policy.</li> </ul> </li> <li>→ All reports and agendas are current and up to date.</li> </ul>
Delegation of Investment Authority?	<ul style="list-style-type: none"> <li>→ The Board of Trustees has investment authority.</li> <li>→ Any action by the Board requires a majority vote.</li> <li>→ Rebalancing recommendations are approved by the Board upon recommendation from the Consultant. Staff assists with the rebalancing efforts after Board approval. Three Trustees are listed as authorized signers.</li> <li>→ Board composition has been incredibly stable.</li> </ul>

**Section 802.109 - Subsection (5) (D) (continued)**

Criteria or Topic	Irving Fire Status
Investment Decision Making Process	<ul style="list-style-type: none"> <li>→ Most investment decisions are based on the recommendation of the Consultant, with conversation among the Board prior to approval.</li> <li>→ The Board of Trustees frequently debates the pros-and-cons of each investment decision in open public meetings.</li> </ul>
Investment Consultant	<ul style="list-style-type: none"> <li>→ Meketa Investment Group serves as a non-discretionary investment advisor. Meketa does not custody any assets. Meketa receives a hard dollar fee (specified in advance) from Irving Fire and does not receive any additional fees (unless pre-approved by the Board of Trustees for projects beyond the scope of the investment advisory agreement).</li> <li>→ Meketa’s fee is transparent to the Trustees.</li> <li>→ Meketa Investment Group is an independent employee-owned organization with no affiliation to investment managers or brokerage firms.</li> </ul>

**Section 802.109 - Subsection (5) (D) (continued)**

Criteria or Topic	Irving Fire Status
<p>Board Composition and Election Process</p>	<ul style="list-style-type: none"> <li>→ The Board is made up of seven (7) members:               <ul style="list-style-type: none"> <li>• The Mayor or Chief Executive Officer of the City or his delegate</li> <li>• The Chief Financial Officer of the City or his delegate</li> <li>• Two civilians who reside in the state of Texas who are appointed by the Board</li> <li>• Three active fire fighters elected by the fire fighter members of the Fund</li> </ul> </li> <li>→ The Fund has a Trustee Election Policy consistent with TLFFRA Act Section 19.</li> <li>→ The three active firefighter positions are elected to three-year terms, on a staggered basis, with one term ending each year.</li> <li>→ Participants in the Fund vote at the pension office. The Board is expected to notify the membership of the results as soon as practical once the votes have been counted.</li> <li>→ If no nominee receives a majority of the votes cast in the election, a run-off election shall be held between the two (2) nominees who received the highest number of votes in the election.</li> </ul>
<p>Board Leadership</p>	<ul style="list-style-type: none"> <li>→ The Trustees nominate a Chairman.</li> <li>→ The current Chairman is an active firefighter.</li> <li>→ The previous two Chairmen were active firefighters.</li> </ul>

Section 802.109 - Subsection (5) (D) (continued)

Criteria or Topic	Irving Fire Status
Board Investment Expertise	→ Since at least 2019, the Board has had at least one Trustee with investment experience and who works, or has worked, in the investment industry.
Board Education	<p>→ Many Board members participate in the TEXPERS conferences as well as some national pension conferences (e.g. NCPERS).</p> <p>→ Each Trustee and the Fund Administrator must comply with the minimum and continuing education requirements under state law, including ethics and fiduciary training.</p>
Code of Ethics Policy	<p>→ Irving Fire adopted a Board of Trustees Code of Ethics in November 2019. It was last updated in March 2021. It is signed by all Trustees on the Board.</p> <p>→ The <i>“Code of Ethics is adopted in an effort to enhance and promote the professional management of the Retirement Fund and to be better able to provide retirement and related benefits to its qualified participants and beneficiaries.”</i></p> <p>→ The Code lists a number of ethical responsibilities consistent with the Trustees’ fiduciary responsibility, along with a number of professional responsibilities. Examples include:</p> <ul style="list-style-type: none"> <li>• <i>act with honor and integrity in the administration of the Retirement Fund.</i></li> <li>• <i>develop and maintain their skills and competence as trustees through continuing education.</i></li> <li>• <i>respect and protect any privileged or confidential information.</i></li> <li>• <i>not knowingly be a party to or condone any illegal, improper or unethical activity.</i></li> </ul> <p>→ The Code of Ethics also includes a number of conflicts of interest guidelines.</p>

**Section 802.109 - Subsection (5) (D) (continued)**

Criteria or Topic	Irving Fire Status
Frequency of Board meetings	<ul style="list-style-type: none"> <li>→ Monthly meetings.</li> <li>→ The Consultant generally attends quarterly.</li> </ul>
Board meeting dynamics	<ul style="list-style-type: none"> <li>→ Most investment related decisions are accompanied by conversation among the Board members and Consultant.</li> <li>→ The agenda for each investment meeting is set by the Pension Administrator in consultation with the Trustees and Consultant.</li> <li>→ Any Trustee can add a topic to the agenda.</li> <li>→ The Consultant is also asked each month if there are any required investment topics.</li> </ul>
Transparency of Board Activities	<ul style="list-style-type: none"> <li>→ Board meeting agendas are posted to the city website at least 72 hours prior to meetings.</li> <li>→ Board meeting agendas are also posted on the kiosk in City Hall at least 72 hours prior to meetings. Evidence of posting is certified and time stamped by the Deputy Clerk of the City’s Secretary’s Office.</li> <li>→ The meeting minutes are clear and succinct.</li> </ul>

**Section 802.109 - Subsection (5) (D) (continued)****Consultant Analysis**

- Monthly board meetings are common for public pension plans.
- Information on the website is current. This is an improvement from the IPPE report analysis in 2020.
- Board discretion on all investment actions (i.e., not granting investment authority to staff) is common for similar sized pension plans
- Irving Fire's board members appear to work well together. The size of the board is appropriate relative to other pension plans.
- Irving Fire's board meeting frequency is standard for public pension meetings.

**Recommendations**

- Continue to keep the website up to date.

## **Section 802.109 - Subsection (5) (E)**

Section 802.109 - Subsection (5) (E)

Law	Requirement
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Sec. 802.109, Subsection (5) (E)	<i>“A review of the retirement system's investment manager selection and monitoring process”</i>
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Criteria or Topic	Irving Fire Status
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Responsibility for selecting investment managers?	<ul style="list-style-type: none"> <li>→ Board of Trustees, with the advice and recommendation of the Consultant.</li> <li>→ According to the IPS, <i>“Recognizing the vast number and broad spectrum of investment managers available, the Board has engaged the services of a professional investment consultant to aid in the selection of managers for the Fund by performing due diligence, narrowing the broad universe of managers to a more manageable group, and recommending a select set of specific managers for each asset class for the Board’s final selection.”</i> (IPS Section 7: Selection of Money Managers).</li> <li>→ A number of minimum criteria is listed in the IPS for consideration when the Board is considering hiring an investment manager. The criteria is rules based in nature (e.g., must be registered investment advisor, must be registered to do business in Texas, must provide ADV, etc.)</li> </ul>
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**Section 802.109 - Subsection (5) (E) (continued)**

Criteria or Topic	Irving Fire Status
Evaluation process	<ul style="list-style-type: none"> <li>→ Two active manager searches occurred in the past four years.</li> <li>→ The Consultant outlined a multi-step process for each with education on the asset class before presenting possible strategies to hire.</li> <li>→ In each case Meketa outlined a group of vetted highly desirable strategies for consideration.</li> <li>→ In consultation with the Board, the Trustees interviewed two finalist firms in each case for consideration of the mandate.</li> <li>→ Search criteria looked at both quantitative data (performance, fees, size of team, size of AUM) and qualitative data (philosophy, process, investment strategy, etc.).</li> <li>→ In both instances Irving Fire received better discounted investment management fee through negotiation on behalf of the consultant.</li> </ul>
Benchmarking	<ul style="list-style-type: none"> <li>→ Policy benchmarks for each asset class and the total Fund are included in Appendix B of the IPS as well as the standard quarterly report.</li> <li>→ The Consultant makes recommendations on which benchmarks are appropriate.</li> <li>→ Individual manager benchmarks are determined based on each investment strategy’s mandate and will generally, but not always, match the recommended benchmark identified by the investment manager.</li> </ul>

Section 802.109 - Subsection (5) (E) (continued)

Criteria or Topic	Irving Fire Status
Performance measurement	<p>→ Irving Fire’s total fund performance and individual manager performance is monitored by Staff, Consultant, and the Board.</p> <p>→ The Consultant produces a quarterly performance report that is shared with Staff and the Board of Trustees.</p> <p>→ Among other things, the report includes:</p> <ul style="list-style-type: none"> <li>• Net of fees performance.</li> <li>• Quarterly cash flow summary.</li> <li>• Total Fund performance relative to peer pension plans</li> <li>• Total Fund performance vs. strategic benchmark.</li> <li>• Total Fund standard deviation and Sharpe Ratio.</li> <li>• Total exposure vs. target weights.</li> <li>• Trailing time weighted returns for investment managers, and asset classes, over recent trailing time periods (QTD, FYTD, 1 YR, 3 YR, 5 YR, 10 YR and Since Inception) relative to benchmarks and peer groups.</li> <li>• Risk statistics over trailing three-year period including annualized standard deviation, information ratio, Sharpe Ratio, annualized upside and downside market capture.</li> <li>• Estimated annual fee summary.</li> </ul>

Section 802.109 - Subsection (5) (E) (continued)

Criteria or Topic	Irving Fire Status
Performance monitoring	<ul style="list-style-type: none"> <li>→ According to the IPS: <i>“The performance of each manager will be measured by the Fund’s consultant and shall be reviewed each quarter. This analysis should be taken in the context of the capital markets’ conditions prevailing during that period and in relationship to that manager’s style. The primary objectives of performance measurement are enhanced communication and understanding between the Fund and its managers, and the comparison of actual performance against the goals established in this document.”</i> (Section 6: Performance Measurement, Subsection 6.2 Monitoring of Money Managers.)</li> <li>→ The Consultant is primarily responsible for monitoring the performance of the investment managers and reporting to the Board.</li> <li>→ The Consultant conducts periodic meetings, conference calls and constant oversight of the investment managers.</li> <li>→ The Consultant and the Board discuss individual strategies in more depth, as warranted.</li> </ul>

**Section 802.109 - Subsection (5) (E) (continued)****Consultant Analysis**

→ Performance monitoring and benchmarking is in-line with industry best practices.

→ Manager selection is robust

**Recommendations**

→ We recommend Irving Fire formally documents the rationale for all hiring and firing decisions.

Sources Reviewed in Creation of the Report

Files	Files
Investment Policy Statement	Texas PRB Guidance for Inv. Practices and Perf. Evaluations
Irving Fire website	Irving Fire Annual Financial Reports
Meketa performance reports	Conversations with Staff
Meketa attendance at Board meetings	Conversations with Trustees
Statute Article 6243a-1	Foster and Foster Actuarial Reports
Irving Fire Board of Trustees Code of Ethics	Past meeting minutes
Irving Fire Credit Card Policy	Past meeting agendas
Irving Fire Trustee Election Policy	
Irving Fire Travel Policy	
Irving Fire Trustee Attendance Policy	

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