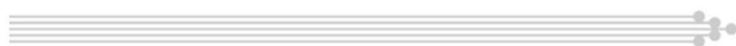


# **Investment Practices & Performance Report Port of Houston Authority of Harris County, Texas**

**February 5, 2024**

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# Investment Practices and Performance Report

## Port of Houston Authority of Harris County, Texas

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## Executive Summary

The Port of Houston Authority (“The Plan”, or “PHA”) chose Champion Capital Research (“CCR”) to evaluate their investment practices and performance for the full year 2022. CCR evaluated investment policies, asset allocation, fees and expenses, governance, and processes for selecting and monitoring investments.

CCR is pleased that the Plan has a Statement of Investment Objectives and Policies (“SIOP”) that is largely consistent with fiduciary best practices. The SIOP clearly documents roles, responsibilities, fiduciary status, and monitoring criteria. The Plan consistently demonstrates a strong commitment of adherence to its governance and investment policies and procedures. Furthermore, the Plan's fiduciaries actively engage in compliance and fiduciary training as required by the Pension Review Board (PRB).

Upon review of the Plan’s asset allocation methodology, CCR found that the Plan engages in a process for evaluating asset class target allocations and re-balancing. The Plan’s process includes the Pension Consultant (“PC”) and Actuary (“AC”) periodically engaged regarding capital market assumptions, liquidity needs, future funded ratios, and other analyses conducted on behalf of the Plan. CCR was able to test the validity of the asset allocation inputs used and concludes that the Plan’s asset allocation and re-balancing protocols and policies are consistent with a sound, prudent process, consistently applied.

In terms of expenses and fees, the Plan has a monitoring process for assessing investment manager fees and expenses. Quarterly, the Plan reviews investment manager fees and expenses on a relative and absolute basis. Annually, the Plan’s staff tracks both investment and administrative fees and prepares a comprehensive accounting of all fees and expenses.

The Plan has improved investment manager (“IM”) selection and monitoring processes, including quarterly monitoring of both gross and net performance, enabling a comprehensive evaluation of IM’s performance relative to benchmarks. After meetings with CCR and the PC, the Plan has implemented an enhanced process that allows the Plan’s fiduciaries to assess IM performance relative to peer group rankings. This enhancement will continue be part of the PC quarterly review.

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

## Independent Fiduciary Advisor Attestation

Champion Capital Research, Inc., (“CCR”) is a consulting firm that provides institutions with fiduciary consulting services. The firm is a recognized expert in research pertaining to:

- Asset Allocation Modeling
- Alternative Investment Evaluation and Due Diligence
- Risk Mitigation
- Fiduciary Governance

For nearly twenty years, the firm has provided institutions’ managers and employees with education regarding institutional investment and portfolio best practices as they relate to investment governance and management. These "best practices" analyses have enhanced efficiencies in portfolios and in committee effectiveness. CCR clients understand the value of independence and objectivity; many attribute their excess portfolio performance and cost savings to CCR’s services.

The Plan selected CCR to perform the Investment Practices and Performance Evaluation and Report, as required by law. The Plan did so through an informal RFP process conducted in 2022. CCR receives no remuneration other than from the Plan for services provided to the Plan. CCR and its related entities are not involved in managing investments for the Plan.

## Summary of Findings and Recommendations

### **Governance and investment policies**

CCR conducted an analysis of The Port of Houston Authority (“the Plan”, or “PHA”) and found that it has a comprehensive Statement of Investment Objectives and Policy (“SIOP”) that aligns with fiduciary best practices, particularly in terms of governance. The SIOP clearly defines the roles and responsibilities of all parties involved. The document is well-written. It is explicit, clear enough for a competent third party to follow, and allows for effective portfolio management.

We find evidence the Plan is committed to follow its SIOP. The Plan has agreed to revise the SIOP to make more likely that an independent, competent third party could implement and execute the investment program. While not referenced in the SIOP, the long-term rate of return is clearly stated in the actuarial valuation report. With respect to monitoring the portfolio, evaluation would be more objective by specifying a horizon over which to assess performance. The use of a “full market cycle” as a time horizon over which to assess performance would be improved by using a measurable and specific time horizon to provide a clearer benchmark for success.

The SIOP is integrated with the Plan's existing funding policies. The periodic review of the SIOP and its revisions are documented to ensure compliance with laws and regulations. CCR confirmed that the Plan's fiduciaries are engaged in compliance training and continuing education required by the Pension Review Board (“PRB”).

### **Asset allocation methodology**

The system has a well-documented policy for determining and evaluating its strategic asset allocation, employing a structured, repeatable, and consistently applied methodology. Decision-making regarding the asset allocation is a collaborative effort, with the Commission working together with support from the PC. The quarterly review of the asset allocation is a testament to the system's commitment to maintaining a close eye on the portfolio, ensuring it consistently aligns with its SIOP. This frequent review process is robust and consistently applied.

The Plan's process includes open communication and collaboration, with the PC and AC engaging in discussions about capital market assumptions, liquidity needs, and other important analyses conducted for the Plan. CCR tested the methodology used for determining the plan's asset allocation. The PC employs a Monte Carlo simulation method, and when recreating the process using capital market assumptions from the C, the results support the Plan's approach to selecting its target asset allocation, and the Plan's expected return and risk are estimable.

Including the capital market inputs (expected risk and return by asset class) as an appendix or attachment to the SIOP would ensure that the expected volatility and risk of the Plan's asset allocation is easily monitored.

**Fees and expenses**

The Plan's investment fees, expenses, and commissions paid during 2022 were assessed. The Plan has many types of investment fees and expenses. Upon review, CCR found investment manager fees reported quarterly in the performance reports delivered by the IC. Investment service fees were also calculated including custodial, actuarial, audit, and advisory fees providing a comprehensive annual fee assessment. Information for management fees paid by The Plan is provided by the Plan's custodian, PNC. Management fees netted from returns are provided by the Plan's IC using an average of each manager's month-end market value and the manager's respective net expense ratio. In summary, the Plan has implemented a sufficient and repeatable monitoring process for reviewing fees and expenses.

**Selection and monitoring process**

CCR completed a review of the Plan's selection and monitoring processes. The process for monitoring overall fund performance is done consistently each quarter. The process includes the monitoring of IM's. Specifically, IMs are expected to provide written reports to the Plan Sponsor and the PC detailing performance for the most recent quarterly period as well as the outcomes of the equity and fixed income markets. The PC meets with the Plan, its staff, the Commission, and the Pension and Benefits Committee to review each IM's performance relative to objectives set forth in the SIOP, benchmarks, and peer group rankings.

While a structure is in place, we found a few opportunities for improvement:

- While each asset class has IM constraints listed in the SIOP, the selection criteria for including potential candidates will be measurable and quantifiable. The PHA will implement enhanced processes to include quantifiable criteria in the IM selection process.
- The SIOP should state quantifiable monitoring criteria for the PC to avoid ambiguity.

## Investment Practices and Performance Evaluation

**Policies** - Analysis of investment policy or strategic investment plan adopted by the retirement system and system's compliance with policies.

The Plan has a robust Statement of Investment Objectives and Policy ("SIOP"). In many areas such as governance structure it is consistent with best practices. The roles and responsibilities of those involved in governance, investing, consulting, monitoring, and custody are defined in the SIOP. The SIOP is written clearly and while sufficiently explicit, modified language regarding governance and monitoring processes will improve adherence to policies. The Plan periodically reviews its investment policies, with the most recent SIOP dated September 27, 2022. PHA Staff review the SIOP annually and track changes.

The SIOP is integrated with the PHA existing funding policies. Specifically, funding policies make clear that the Plan Sponsor has amended and restated the Pension Plan several times to ensure compliance with applicable laws and regulations. The Preamble to the Funding Policy adopts a policy that details that the Plan will achieve a funded ratio that is equal to or greater than 100%.

The SIOP clearly describes the appropriate allocation and styles to be determined by the PC. The August 1, 2022, actuarial valuation specifies a 6.00% long term rate of return. The same long-term expected rate of return is specified in the Independent Auditor's Report and Financial Statements, July 31, 2022, and 2021.

The SIOP states that when measured against other IM's that an IM should consistently rank in the top 33rd percentile relative to peers for trailing three, five, and ten-year periods. By using one specific time horizon (e.g., five-year or ten-year) an IM's performance can be objectively assessed and next steps discussed. The specific time horizon chosen should be consistent among all asset classes.

Current policies state that on a quarterly basis IM's will provide written reports to the Plan and the PC detailing performance for the most recent quarterly period, as well as a recap of the performance of the capital markets. Evidence of each IMs written reports will be included in the Plan's fiduciary files.

The stated goal of the Plan is to deliver performance that exceeds the Pension Actuarial Assumption rate of return. Relative to this goal, during the last seven years the fund's composite net of fees has outperformed.

The actuarial rates of return are identified as reasonable in the study based on demographics and Capital Asset Models used by the AC.

**Asset Allocation** - Review the retirement system 's investment asset allocation, including the process for determining the target allocations.

The system has a formal/written policy for determining and evaluating its strategic asset allocation. Those responsible for making the decisions regarding strategic asset allocation include the Commission with assistance from the PC. Actuarial analyses are based on 10-year capital market expectations provided by various investment firms. The actuarial return on assets is an expected return of 6.00% over the next 10 years and is stated as an annual return. Because the asset allocation is reviewed quarterly, there is frequent opportunity for a review of the portfolio relative to strategic asset allocation and the bands assigned for re-balancing.

Except for the PHAs process for immunizing short-term liabilities, the system makes no use of tactical asset allocation. The Plan's funding policy approved by the PC allows staff to fund up to 105% of the actuarially determined contributions.

The PHA has the following strategic asset allocation with expected returns and risks assigned.<sup>1</sup>

Asset Class	Strategic AA	Exp. Return	Exp.Risk
Domestic Equity	42.5%	7.26	16.53
Global x US Equity	7.50%	9.17	17.45
Real Estate	5.00%	6.37	11.07
HY Bonds	5.00%	5.52	8.22
Leveraged Loans	5.00%	NA	NA
US TSYS	0.00%	6.51	10.46
Aggregate Bonds	30.0%	3.16	3.42
Global AA	5.00%	NA	NA

The SIOP includes statements on the benefits of active management and has equity return goals established to outperform indices. The SIOP includes an allocation to the passive S&P 500 Index. The reliance on both active and passive investment management is prudent.

PHA has determined to exclude alternatives or illiquid assets. If the Plan decides to invest in illiquid investments in the future, they agree to select, implement and monitor using the due diligence criteria defined in its SOIP. Currently, the PHAs manager selection process includes the following five steps: Identification, Preliminary Questions, Due Diligence Questionnaire, Manager Interview, IPC Review. Evidence of this process can be found in the PHA's fiduciary files.

<sup>1</sup> The expected capital market assumptions are presented in the PHA's asset liability analyses and are not found in the SIOP.



**Fees and Expenses** – Review of retirement system’s fees and expenses.

CCR found investment manager fees clearly reported quarterly in the performance reports delivered by the PC. In the appendix of the annual audit of the fee and expense worksheet, the aggregate fees charged, whether paid directly by the Plan or deducted from returns, are stated. Investment service fees are measured including custodial, actuarial, audit, and advisory fees providing a comprehensive annual fee analysis. Information for management fees paid by the trust is provided using data from the Plan's custodian, PNC. IM fees netted from returns are provided by the PC using an average of each manager's month-end market value and the manager's respective net expense ratio. Our analysis verified contractual fee arrangements are being met.

The Annual Audit Report for the Period Ending July 31, 2022, includes a fee summary. The total investment expenses incurred by the plan including direct fees, indirect fees, investment service, and administration fees amounted to \$1.28M. Based on assets of \$194M (July 31, 2022), this represents an expense ratio of roughly 65 basis points. According to the current publicly available data of public pension plans the Plan’s investment expense lies right under the median of 66 bps.

When fees are decomposed, we find that 48 basis points allocated to investments, and 17 basis points to administrative expenses. According to the current publicly available data of public pension plans, the median administrative expense for similar sized plans was also 17 basis points, and the median investment expense was 49 basis points.<sup>2</sup> The PHA continues to evaluate the potential savings and performance enhancements that may result by implementing the strategic asset allocation with additional passive investment strategies.

IM fees are benchmarked using peer group category averages. These peer group average fees are presented quarterly by the PC. The Fee Summary as of December 31, 2022, compares the twelve IMs with a “Category Average” demonstrating the Plan’s “annual savings”. The PHA continues to verify peer group averages with the goal of ensuring reasonable fees for reasonable services.

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<sup>2</sup> This reference is to 2022 data.

**Governance** - Review the system’s governance processes related to investment activities, including investment decision making processes, delegation of investment authority and board investment expertise and education.

The Amended and Restated Bylaws (“Bylaws”) of the Port of Houston Authority, Amended October 27, 2022, prescribe and describe the Port Commission Committees and Task Forces, including Pension and Benefits. The Port of Houston Authority Restated Retirement Plan Statement of Investment Objectives and Policy was adopted September 27, 2022. It is a stand-alone policy statement. Importantly, the PHA’s website is well constructed and contains up-to-date information.<sup>3</sup>

The Port Commission (“Commission”) regularly meets as a Board on the fourth Tuesday of the month. During this 2023 calendar year, the Pension and Benefits Committee met on January 17th and April 18th. Discussion topics during those two meetings included: investment performance for the Pension Plan, OPEB Plan, 457(B) Deferred Compensation Plan, and 401(a) Defined Contribution Plan; presentation of Milliman Actuarial Valuation of the Pension Plan; proposed replacement of a small cap fund; performance of the 2022 self-funded medical plan; and review of Mercer’s updated 2022 Benefits Valuation Analysis Report. Meeting minutes are available to the public on their website; however, the details are minimal as to the discussions during the meeting. Meetings are accessible on their website.<sup>4</sup>

Seven Harris County residents serve as Port Commissioners of the Port of Houston Authority, setting policies and guiding executive staff. They include:

- Ric Campo, Chairman – Mr. Campo is chairman of the Board and Chief Executive Officer of Camden Property Trust. He is a member of the American Institute of Certified Public Accountants.
- Dean E. Corgey, Commissioner – Mr. Corgey has 40 years of maritime experience. He is a trustee for the Seafarers Pension Plan, Seafarers Health and Benefits Plan, Joint Employment Fund, Training/Safety Fund and Transportation Institute. He serves on the Pension & Benefits Committee.
- Clyde Fitzgerald, Commissioner - Mr. Fitzgerald is a 62-year veteran of the Houston waterfront. Mr. Fitzgerald chairs the Pension & Benefits Committee.
- Stephen H. DonCarlos, Commissioner - Mr. DonCarlos graduated from Texas Tech University with a Bachelor of Business Association undergraduate degree and earned a Doctor of Jurisprudence degree from the University of Texas.
- Roy D. Mease, Commissioner - Mr. Mease has a private law practice in Pasadena and received his Doctor of Jurisprudence degree from the South Texas College of Law. He serves on the Pension & Benefits Committee.
- Wendolynn “Wendy” Montoya Cloonan, Commissioner - Mrs. Cloonan is the founder and shareholder of The Law Office of Wendy Montoya Cloonan, PLLC. She earned a

<sup>3</sup> Please see <https://porthouston.com/financial/pension-benefits/>.

<sup>4</sup> Please see <https://porthouston.com/about/public-meetings/agendas-minutes/>.

Bachelor of Arts degree from Yale University, a master's in public policy with a Concentration in Political Advocacy and Leadership from Harvard University's John F. Kennedy School of Government and a Doctor of Jurisprudence with Honors from The University of Texas School of Law.

- Cheryl D. Creuzot, Commissioner - Mrs. Creuzot is a four-time alumna of the University of Houston – the University of Houston Bauer College (M.B.A. with honors, December 2012), LL.M. (Taxation, 1999), the University of Houston Law Center J.D. (1992) and the University of Houston (B.A. with honors, 1981). She is a member of the Texas State Bar, the Registry of Financial Planning Practitioners, the Financial Planning Association, and a Top of the Table member of the Million Dollar Round Table.

The Pension Review Board (“PRB”) has adopted rules outlining the Minimum Educational Training Program for trustees and administrators of Texas public retirement systems (40 Texas Administrative Code, Chapter 607). To enable the PRB to track systems' compliance with minimum training requirements, the rules require systems to provide the PRB with basic information regarding their trustees and system administrator. The website contains the appropriate Minimum Education Training (“MET”) documents for core and continuing education courses taken by board members.<sup>5</sup>

Trustees (the seven Commissioners listed above) and system administrators are required to complete the 7-hour Core training requirement within their first year of service, and the 4-hour Continuing Education (CE) requirement every two years thereafter. Trustees and administrators may receive CE credit hours once they have completed the Core requirement and they have reached their one-year service anniversary. The Core requirement is comprised of seven modules: (F) Fiduciary Matters, (G) Governance, (E) Ethics, (I) Investments, and (A) Actuarial Matters, (B) Benefits Administration, and (R) Risk Management. The Continuing Education (CE) modules are: (CM) Compliance, (CI) Custodial Issues, (L) Legal & Regulatory, (AC) Pension Accounting, (PA) Plan Administration, (O) Open Meetings, and (PI) Public Information Act.

The investment management model is internal. The SIOP delegates day-to-day management and administration of the Plan Sponsor Staff; such activity to be “under the supervision and direction of the Commission, and in accordance with applicable state and federal laws, including supervising the PC, Investment Managers, the Trustee, and any other parties engaged by the Commission.” The SIOP provides detailed responsibilities for the PC, and the Investment Manager(s), and declares that “[e]ach Investment Manager will have full discretion to make all investment decisions for the Plan assets placed under its investment discretion and control.” The SIOP states that “[t]he Commission will review the total Asset Allocation between Investment Managers and the overall Asset Allocation on a quarterly basis to keep the Asset Allocation of the various managers in line with the target Asset Allocation...” “Plan Sponsor staff is authorized to rebalance the portfolio...and may also maintain portfolio assets in money market accounts or other cash equivalents as deemed appropriate or necessary to cover Plan expenses and monthly benefit payment requirements.”

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<sup>5</sup> Please see <https://porthouston.com/financial/pension-benefits/>

**Manager Monitoring** - Review the system’s investment manager selection and monitoring processes.

The Commission is responsible for selecting investment managers. A portion of those roles defined in the SIOP include:

- “Prudently and diligently selecting qualified investment professionals, including Investment Manager(s), PC(s), Actuarial Consultant(s), Custodian(s), and Trustee(s).”
- “Regularly evaluating the performance of the Investment Manager(s) to assure adherence to Policy guidelines and monitor investment objective progress.”
- Furthermore, the Commission may appoint a committee or task force (‘Pension and Benefits Committee’) to assist in its responsibilities.
- The PC may also assist the Commission in selecting Investment Managers.

At each quarterly meeting, the PC provides the Commission with performance updates on the total fund, and for each investment manager. The performance is broken down by manager for the quarter, one-year, three-year, five-year, seven-year and since inception. At each period, benchmark performance is also displayed alongside manager performance, making it clear which IMs were outperforming and which were underperforming. Manager returns are reported net of fees, and total fund composite is broken down by gross and net of fees at each period.

The broad and style benchmarks used for each asset class and manager are as follows:

<b>Asset Class</b>	<b>Broad Benchmark</b>	<b>Benchmark</b>
Large Cap Equity	S&P 500 Index	Index +1.0%
Mid Cap Equity	Russell Mid Cap Index	Index + 2.0%
Small Cap Equity	Russell 2000 Index	Index + 3.0%
International Equity	MSCI EAFE Index	Index + 1.5%
Fixed Income	Bloomberg Barclays Agg	Index
High Yield Fixed Income	Merrill Lynch HY Master II Constrained	Index
Bank Loans	Credit Suisse Leveraged Loan Index	Index
Real Estate	NAREIT All REITS Total Return Index	Index
Global Tactical AA	50% S&P 500, 50% Bloomberg Agg	Blended
Cash & Equivalents	91-day U.S. Treasury Bill	91-day U.S. Treasury Bill

The process for determining when an IM should be replaced is purposely subjective. When an IM is “on alert” the PC is indicating that “concerns exist with the portfolio's performance, a change in investment characteristics, management style, ownership structure, staff or other related events.”

When a manager goes “on notice” it means “a continued and serious problem with any of the issues mentioned above. If the situation is not resolved to the Trustee's satisfaction, a replacement will be replaced and hired.”

The SIOP states that the PC may make recommendations regarding the continued retention but ultimately, the fiduciary decision to retain an IM resides with the Commission. The SIOP also states that the Commission, “regularly evaluating the performance of the IM to assure adherence to Policy guidelines and monitor investment objective progress.” CCR evaluated IM agreements to ensure all allow the Commission immediate liquidity.

**Review of asset class** – Detailed review of a specific asset class.

A detailed analysis of one major asset class has been completed.<sup>6</sup> Our analyses include PHA's domestic equities. The analyses include assessments of fees and performance over time horizons, three-years, five-years, and ten-years. The performance of the domestic equity asset class over the three-year, five-year, and ten-year horizon meets policy objectives defined in the SIOP.

Regarding the PHA's SIOP, individual IMs have the following objective criteria:

- Large cap should achieve a return that exceeds the total return of the S&P 500 Index by 1%
- Mid cap should achieve a return that exceeds the total return of Russell Midcap Index by 2%
- Small cap should achieve a return that exceeds the total return of Russell 2000 Index by 3%

The PHA employs five individual IM's to represent this asset class: Fiduciary Management, Vanguard, Stacey Braun, Stephens, and Barron Hanley. These IMs represent three sub-asset classes including large cap, mid cap, and small cap. The findings are described below.

Over the Three-Year Time Period

CCR compared each IM to its objectives. In the three-year time horizon, we found that two of the five (40%) IMs achieved policy objectives. These include the Barrow Hanley (small cap), and the Vanguard Index fund (large cap). The other 60%, or three IMs did not achieve policy objectives. These include Fiduciary Management (large cap), Stacey Braun (large cap), and Stephens (mid cap).

Specifically, Stacey Braun's performance appears to have been negatively impacted by qualitative changes in the firm. We found that during this three-year horizon, a change occurred in the portfolio management team. The lead portfolio manager and founder of the firm passed away. We were unable to identify a succession plan or business continuity plan but observed organizational changes throughout ensuing quarters following the founder's death. The performance of the Stacey Braun portfolio suffered during the period.

Over the Five-Year Time Period

CCR found three of the five (60%) IMs were able to meet policy directives. These three included Stephens (mid cap), Barrow Hanley (small cap), and Vanguard (large cap). The other two (40%) IMs did not achieve policy directives over this time horizon. These include active IMs Fiduciary Management (large cap) and Stacey Braun (large cap). While the domestic equity asset class has in aggregate delivered reasonable returns, we should expect each of the IMs in the asset class to deliver alpha relative to policy objectives over a specific time horizon.

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<sup>6</sup> The detailed analysis can be found in Appendix A.

Over the Ten-Year Time Period<sup>7</sup>

CCR found two (50%) IMs were able to meet policy directives; these include Stephens (mid cap), and Barrow Hanley (small cap). Two IMs (50%) missed policy directives; these include Fiduciary Management (large cap) and Stacey Braun (large cap), both active IMs. While the ten year returns for the asset class are clearly attractive, the PHA's continued diligence regarding outperformance relative to benchmarks and goals is prudent.

CCR commends the PHA's continued procedural prudence of monitoring IMs relative to mandates, both quantitative and qualitative mandates. Consistent with fiduciary best practices, quarterly quantitative monitoring includes performance relative to benchmarks, peer groups, and defined objectives. With respect to qualitative monitoring, best practices support the assessment of qualitative factors that fiduciaries can expect to impact portfolio performance. An annual report addressing qualitative factors, including staff turnover, changes in management team, and the quality of reporting, for each IM should be maintained in the PHA's fiduciary files.

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<sup>7</sup> The Vanguard IM has not been held for 10 years in the portfolio so for this portion of the analysis, 4 IM's were included.

# APPENDIX A

## Review of Specific Asset Class



**REVIEW OF SPECIFIC ASSET CLASS**

**Domestic Equity**

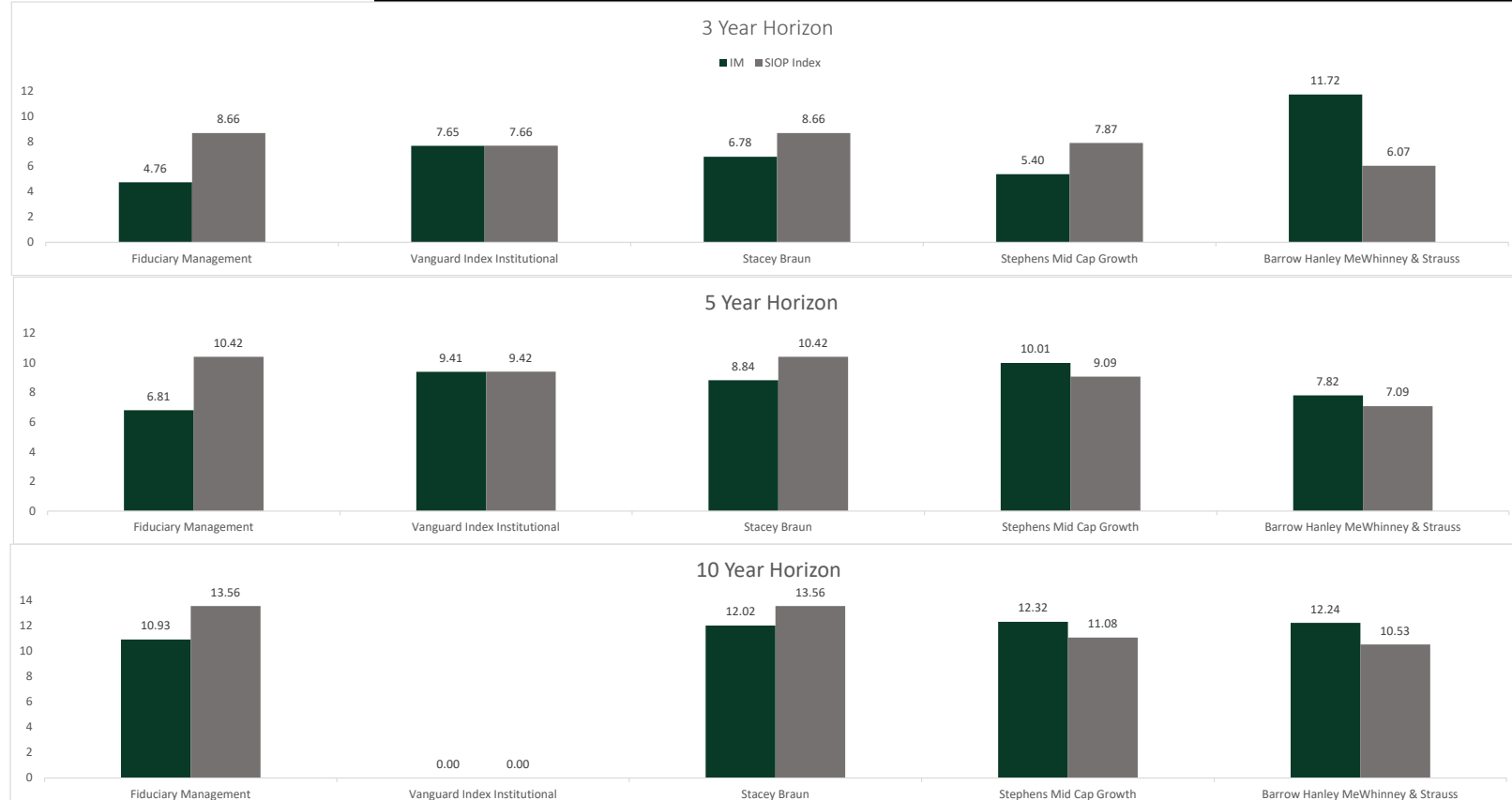
**FEE Analysis**

All data reference end point 12/31/2022.

Investment Manager	Mandate	SIOP Index	PHA Expense (bps)	Peer Group Expense (bps)	Sub Asset Class
Fiduciary Management	Large Cap	S&P 500 Index + 1%	0.55	0.95	Large Cap Value
Vanguard Index Institutional	Large Cap Equity Index	S&P 500 Index	0.04	0.91	Large Cap Core
Stacey Braun	Large Cap	S&P 500 Index + 1%	0.44	1.07	Large Cap Growth
Stephens Mid Cap Growth	Mid Cap	Russell Midcap Index + 2%	0.77	1.16	Mid Cap Growth
Barrow Hanley MeWhinney & Strauss	Small Cap	Russell Smallcap Index + 3%	0.73	1.21	Small Cap Value

**Performance Analysis**

Investment Manager	3 Year Return		5 Year Return		Relative Performance	10 Year Return		Relative Performance
	IM	SIOP Index	IM	SIOP Index		IM	SIOP Index	
Fiduciary Management	4.76	8.66	6.81	10.42	-3.61	10.93	13.56	-2.63
Vanguard Index Institutional	7.65	7.66	9.41	9.42	-0.01	N/A	N/A	N/A
Stacey Braun	6.78	8.66	8.84	10.42	-1.58	12.02	13.56	-1.54
Stephens Mid Cap Growth	5.40	7.87	10.01	9.09	0.92	12.32	11.08	1.24
Barrow Hanley MeWhinney & Strauss	11.72	6.07	7.82	7.09	0.73	12.24	10.53	1.71



**APPENDIX B**  
Investment Expense Report (2022)

Schedule of Direct and Indirect Fees, Commissions, and Investment Managers

Information for management fees paid from the trust is provided using data from the Plan's custodian, PNC. Management fees netted from returns are provided by the Plan's investment consultant, AndCo Consulting 72LLC, using an average of each manager's month-end market value and the manager's respective net expense ratio. Per Texas Government Code, Chapter 802, as amended by Texas Senate Bill 332, the below table outlines investment and administrative expenses for the fiscal year ended July 31, 2022.

Shown below are the investment and administrative expenses for the fiscal year ended July 31, 2022:

Direct and Indirect Fees and Commissions

ASSET CLASS	MANAGEMENT FEES PAID FROM TRUST	MANAGEMENT FEES NETTED FROM RETURNS	TOTAL INVESTMENT MANAGEMENT FEES (Management Fees Netted from Returns + Management Fees Paid From Trust)	BROKERAGE FEES/COMMISSIONS	PROFIT SHARE/CARRIED INTEREST	TOTAL DIRECT AND INDIRECT FEES AND COMMISSIONS (Management Fees + Brokerage Fees/Commissions + Profit Share)
Cash	-	-	-	-	-	-
Public Equity	327,811	287,895	615,706	19,462	-	635,168
Fixed Income	240,222	75,034	315,256	3,340	-	318,596
Real Assets	0	0	0	0	-	0
Alternative/Other	0	0	0	0	-	0
<b>TOTAL</b>	<b>568,033</b>	<b>362,929</b>	<b>930,962</b>	<b>22,802</b>	<b>-</b>	<b>953,764</b>

Alternative/Other Investment Managers

List of Alternative/Other Investments	List of Investment Manager Names
	Stacey Braun Associates, Inc.
	Smith, Graham & Co Asset Mgmt
	Barrow Hanley, Mewhinney & Strauss
	Fiduciary Management, Inc.
	Loomis Sayles High Income Fund
	Cohen & Steers Realty Shares
	Stephens Investment Management Group
	POHA-Causeway International Value Fund
	MacKay Shields LLC
	Vanguard Institutional Index Fd
	BlackRock Multi-Asset Income Fund

Total Investment Expenses

<b>Total Direct and Indirect Fees and Commissions</b>	<b>953,764</b>
<b>Investment Services</b>	
Custodial	119,388
Actuarial/ Actuarial Audit	102,047
Audit	28,840
Advisory	81,167
<b>Total</b>	<b>331,442</b>
<b>Total Investment Expenses (Total Direct and Indirect Fees and Commissions + Investment Services)</b>	<b>1,285,206</b>

## APPENDIX C

### Team of Analysts

# Mary Kathryn Champion

MK Champion, Ph.D., AIFA®, CFA®, BCF, is the founder and president of Champion Capital Research. The firm is a research oriented institutional investment management company. The firm's clientele includes public defined benefit and corporate defined contribution plans, as well as foundations and non-profits. Champion Capital Research has the distinction of being the first firm to certify for fiduciary excellence (CEFEX) a 2.5B public defined benefit plan. The firm has conducted fiduciary assessments for public and corporate plans whose combined assets exceed thirty billion (30B) in assets. Additionally, the firm donates nearly five percent of its profits to charities annually.

Dr. Champion has held the position of adjunct faculty for the Center for Fiduciary Studies at the University of Pittsburgh since 2007. She also lectures and teaches at local universities. At Rice University's Glasscock School, Champion taught economics, finance, equity and fixed income theory and strategy, portfolio management, risk management, and investments. At the University of Houston, Champion taught undergraduate micro and macroeconomic classes. For public fund trustees, Dr. Champion authored and continues to instruct the Certified Trustee Training curriculum. She continues to be a member of TEXPERs Education Committee. Champion has been engaged as a legal expert in securities disputes and lawsuits. Champion was a retained speaker for the CFA Society and spoke in countries including England, Ireland, Malaysia, Philippines, Singapore, Japan, Canada, and in major cities in the United States.

Dr. Champion's experience with institutional clientele includes analyses of diversified public assets and private equity and real estate holdings. Analysts at the firm have experience analyzing private equity and real estate cash flows, reporting gross and net of fee performance, and assessing performance relative to benchmarks. Importantly, the firm has developed governance, ethics and policy statements for public pension plans, and has ongoing relationships to monitor those plans as well as update annually the policies and procedures for defined benefit and contribution plans.

Dr. Champion's board and council positions include the Houston Symphony Orchestra's (HSO) Chairperson for the Pension Committee, HSO Leadership and Governance Committee, and Rice University's Initiative for the Study of Economics. She is a member of the National Association for Business Economists, American Economic Association, Association for Investment Management and Research, and of the Houston Society of Financial Analysts. Champion is published in academic and professional journals including Bank Asset/Liability Management, The North America Journal of Economics and Finance, The Texas Pension Observer and The World Economy: The America's.

Dr. Champion has received her B.A, M.A, and Ph.D., from Rice University and University of Houston. She is a certified Chartered Financial Analyst® (CFA®) and Accredited Investment Fiduciary Analyst® (AIFA®).

## Team of Analysts

### Keith Alden Loveland

Keith Alden Loveland, AIFA®, CIDA®, GFS™, is a nationally recognized attorney, author, consultant, and teacher within the fields of investments, securities, and securities offerings, ethical versus fraudulent practices regarding investments and securities, and fiduciary matters. He has been qualified as an expert regarding the above matters in state and federal courts, and in AAA and NASD/FINRA arbitrations, and served as an arbitrator and qualified neutral mediator. Keith currently serves as a subject matter expert to the North American Securities Administrators' Association [NASAA]; he previously served as a subject matter expert to the New York Stock Exchange [NYSE] Qualification Committee.

Mr. Loveland is a member of the American Bar Association, Business Law Section, Committee on Federal Regulation of Securities, and the Committee on State Regulation of Securities. He has been a member of the Financial Planning Association since 1983, serving a three-year term on their Board of Directors from 2011 to 2013. He was a recipient of the FPA Heart of Financial Planning Award in 2010. Keith has been a teacher for many years. Among other engagements, he was Adjunct Professor, William Mitchell College of Law, from 1978 to 1987, and Adjunct Professor, Hamline University, from 1979 to 1981, where he taught Philosophy of Law and Jurisprudence. He is currently Adjunct Faculty for The Center for Fiduciary Studies, teaching the Accredited Investment Fiduciary course in Prudent Practices for Investment Stewards, Investment Advisors, and IMs.

Keith received his Bachelor of Arts in Philosophy & pre-law from University of Minnesota, Duluth, Juris Doctor from William Mitchell College of Law, and Certificate in Securities Regulation from Harvard University Law School. He is a certified Accredited Investment Fiduciary Analyst (AIFA®), Certified Investments and Derivatives Auditor (CIDA®), Global financial steward (GFS™) and CEFEX Certified Analyst.

### Kathleen McBride

Kathleen McBride, AIFA®, has more than 35 years of experience in the investment industry including senior posts as a bond underwriter, trader and later, investment adviser. In 2009, she was a founder of The Committee for the Fiduciary Standard, later serving as its Chair. Nationally recognized for her fiduciary process expertise, she frequently speaks, writes, comments, and testifies on investment fiduciary regulation and investor advocacy issues, and meets frequently with regulators and lawmakers.

Ms. McBride is an Accredited Investment Fiduciary Analyst® (AIFA®) and a CEFEX Analyst with the Centre for Fiduciary Excellence. McBride's investment experience and specialized knowledge qualifies her to audit the investment fiduciary processes of retirement plans, RIA firms, service providers and nonprofits across the United States and internationally. Using an ISO-based

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process, McBride assesses an organization's conformance to the appropriate fiduciary standard and Prudent Practices established by CEFEX and Fi360, which are based on regulatory, legal and common law prudence, and analyzes the organization's investments. Once organizations comply the Global Standard of Fiduciary Excellence, they may be certified by CEFEX in a rigorous, peer-reviewed process. McBride was the first CEFEX Analyst to assess a nonprofit organization in Guam for CEFEX certification.

McBride also consults with organizations that desire to improve their investment fiduciary processes. She is qualified to teach the Fiduciary Essentials® courses developed by Fi360 to help investment stewards understand and meet their fiduciary responsibilities. She holds B.A. from New York University and completed the Investment Strategies and Portfolio Management program at The Wharton School of The University of Pennsylvania.

## Ken Mathis

Ken Mathis, AIFA®, PPC™, has over thirty-seven years of experience working with institutional organizations in the capacities of a fiduciary consultant, fiduciary assessments, CEFEX Certification (Centre for Fiduciary Excellence), asset management, and investment consulting. He served as Chairperson of the first CEFEX Foundation Committee.

Mr. Mathis has written numerous whitepapers on fiduciary best practices for institutional organizations. In addition, he has been a speaker at national conferences on fiduciary best practices, fiduciary assessments, and CEFEX Certification. Ken has also contributed to CEFEX's Consultant's Assessment of Fiduciary Excellence for nonprofits and Fi360's fiduciary training program for foundations and endowments.

Ken has completed the Pension and Investment Management Program at Wharton School of Business, University of Pennsylvania. He has earned the Accredited Investment Fiduciary Analyst® (AIFA®) professional designation from fi360 through the Katz School of Business, University of Pittsburgh. He has also received the Professional Plan Consultant™ (PPC™) professional designation from fi360 through the Robert Morris University. Ken is also a CEFEX Analyst, having received formal training in investment fiduciary responsibility and met the criteria established by the Centre for Fiduciary Excellence (CEFEX). He received a B.B.A. from the Fogelman College of Business and Economics at the University of Memphis.

## Robert Frusina

Robert Frusina, AIFA®, holds a portfolio management position for Champion Capital Research and is a member of the firm's Investment Committee. Robert leads the implementation and monitoring of institutional investment portfolios. Robert oversees and monitors Champion Capital Research's asset allocation strategies. He is responsible for conducting and maintaining investment manager due diligence utilizing the firm's quality fiduciary management process. This repeatable and consistently

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applied process using specific qualitative and quantitative criteria by which to measure relative and absolute manager performance.

Robert currently holds the Accredited Investment Fiduciary Analyst® (AIFA®) designation. He completed his Bachelor of Science in Quantitative Finance with a concentration in Banking and Financial Institutions and a minor in Economics at The Stevens Institute of Technology in Hoboken, New Jersey.

## W. Scott Simon

W. Scott Simon, J.D., AIFA®, CFP®, areas of expertise include standards of fiduciary conduct, investment management, investor disputes with banks, trust companies and RIAs, intra-family trust disputes, modern portfolio theory, diversification of portfolio risk, reasonableness of portfolio costs, breaches of fiduciary duties, principles of investing, asset allocation, the Investment Advisers Act of 1940 as well as others.

He provides expert witness and consulting services relating to the Uniform Prudent Investor Act and the Restatement (Third) of Trusts. He developed this expertise as a result of having written a well-received book on the Act, "The Prudent Investor Act: A Guide to Understanding," (2002), serving as a principal at a fee-only registered investment advisory firm and authoring a popular and long-running Morningstar column on fiduciary investment issues.

Scott has been a member of the State Bar of California for more than 30 years. He is a Certified Financial Planner® (CFP®) and an Accredited Investment Fiduciary Analyst® (AIFA®), qualified to conduct independent assessments to evaluate the compliance of fiduciaries and investment professionals with the standards of modern prudent fiduciary investing. He is author of another book, "Index Mutual Funds: Profiting from an Investment Revolution," (1998), and numerous published articles. Scott graduated from UCLA with departmental honors in political science and earned his law degree at Southwestern University School of Law.

## Ken Parkinson

Ken Parkinson, AIFA®, CFS®, PPC™, BCF, areas of expertise include working with organizations that sponsor retirement plans providing objective fiduciary guidance. His expertise in advising plan sponsors identify and design policies and governance processes. This includes following a fiduciary process for selecting plan service providers, delivering independent plan education, selecting, and monitoring plan investments, streamlining workflows for plans.

Ken graduated from Berry College with a double major in economics and psychology. He continued his education while working with one of the country's largest plan services organizations in the country. He continues his career as a registered investment advisor and fiduciary consultant.



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Ken is an active Accredited Investment Fiduciary Analyst™ (AIFA®) This AIFA® designation allows Ken to perform independent fiduciary assessments on internal policies, procedures, and workflows to verify an entities conformity to the Global Fiduciary Standard of Excellence.

Ken is an active CEFEX Analyst, having met the criteria established by the Centre for Fiduciary Excellence (CEFEX) to provide comprehensive assessment programs to improve risk management for institutional investors. Ken has been Board Certified Fiduciary (BFC) by peers in the fiduciary consulting space and is a co-author of the fiduciary training program for tax exempt and governmental employers.