Texas Municipal Retirement System

Different Models for Retaining, Managing and Terminating Investment Managers
August 22, 2019

Presented in Connection with TMRS Strategic Plan Goal 1 Objective B and Goal 3





Introduction

- Summary of Governance Workshop Discussion
- Key Outcomes
 - No perceived need for investment committee of the Board
 - Additional discussion desired on alternative authorization processes for specific investment manager related actions
- Today's Focus
 - Recap the results of the investment beliefs survey and current related processes
 - Explore and discuss alternative authorization processes/models
 - Seek Board direction on how to proceed
- Next Steps
 - Align direction with investment beliefs
 - Update governance documentation as needed

Background

Investment Beliefs Survey Existing Role & Responsibilities and Standards of Care





Investment Beliefs

Investment beliefs set the direction for the Board's investment policy, investment practice, organizational structure and culture

A coherent set of investment beliefs provide the basis for a good investment program. By agreeing upon and codifying investment beliefs, TMRS will be able to set a foundation for its decision making as well as encourage cultural alignment

 The Board, Executive Director and investment staff are key to translating investment beliefs into investment practice. It is critical that these stakeholders are closely involved in the process of developing the investment beliefs.

The Board owns the Investment Beliefs

As part of Investment Beliefs Survey, Board members had a high degree of similarity in views regarding manager selection/terminations/updates as it related to the use of Board time.

The Investment Policy Provides for Delegation

Investment Policy Statement, Section VII. Roles and Responsibilities

In adopting this IPS, the Board requires all Trustees and TMRS investment staff involved in the investment of TMRS assets to make all investment decisions in the best interest of the System and abide by the TMRS Ethics Policy.

A. The Board of Trustees is responsible for the administration of the System and its investment program. The Board members are individually fiduciaries with respect to the System and must discharge their duties solely in the interest of the members and annuitants for the exclusive purpose of providing benefits to members, retirees and their beneficiaries. The Board also appoints the investment consultants, investment Managers, Executive Director, General Counsel, Internal Auditor, Custodian Bank/Securities Lending Agent, and consulting actuary; and approves the annual operating budget.

As part of their fiduciary obligations, the Board has the legal responsibility for managing the System's overall investment strategy, including:

- 1. Establishing investment goals and objectives consistent with plan funding needs;
- 2. Approving an asset allocation strategy;
- Establishing an explicit, written investment policy consistent with identified goals and objectives, and applicable laws;
- **4.** Delegating responsibilities for day-to-day management of the investment program through the Executive Director to the Chief Investment Officer and investment staff.
- 5. Hiring investment consultants to advise the Board, and investment Managers for prescribed mandates to implement this IPS, unless Manager hiring and termination responsibilities are delegated to the Executive Director or investment staff in writing through Board Resolution;
- 6. Monitoring the activities of the investment program for compliance with the provisions of this IPS; and
- 7. Avoiding conflicts of interest and prohibited transactions.

The Investment Policy Provides for Delegation

Investment Policy Statement, Section VII. Roles and Responsibilities

B. The **Executive Director** is appointed by the Board to manage and administer the System and its assets under the supervision and direction of the Board, and in accordance with applicable state and federal laws. In carrying out these responsibilities, the Executive Director has fiduciary responsibilities delegated by the Board under applicable law and is authorized to exercise his/her best judgment and discretion in planning, organizing, and administering the operations and investments of the System and ensuring that internal controls are in place to safeguard System assets. The Executive Director is hereby authorized by the Board to exercise his fiduciary responsibilities to take such action(s) as are necessary or appropriate to protect the assets of the System using his best judgment and discretion, based on advice of the investment consultant(s) and the Chief Investment Officer (or CIO), and as practicable and appropriate, reviewed by Fiduciary Counsel, General Counsel and/or Chairman of the TMRS Board. The Executive Director is also responsible for informing the Board of any such action taken or other situation involving the investment program and investment activities that merit its attention.

Delegation of Co-Investment Authority

For purposes of fulfilling the role as described in this section of this IPS, the Executive Director is authorized to approve co-investment opportunities that meet the guidelines described herein. Co-investment recommendations will be submitted by CIO, Director of the appropriate asset class and the appropriate TMRS consultant to the Executive Director for approval. Co-investments will be reported to the Board immediately after being signed by the Executive Director and will be discussed in more detail at the next Board meeting.

Board Held to Prudent Person Standard

Investment Policy Statement, Section VI. Standards of Care

- A. Standard of Prudence Applicable. All participants in the investment process will act responsibly. The standard of prudence to be applied by the Board and investment staff is as follows:
 - 1. In satisfying this standard, Board members and investment staff shall exercise the degree of judgment and care, under the circumstances, that persons of prudence, discretion, and intelligence exercise in the management of their own affairs, considering the probable income from the securities and probable safety of their capital and in consideration of the purposes, terms, distribution requirements and other circumstances of the trust.
 - Investment and management decisions respecting individual assets will be evaluated not in isolation but in the context of the investment portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the trust.

Conflict of Interest Prohibited. Members of the Board, investment staff, investment Managers, and consultants involved in the investment of TMRS assets will refrain from any activity that could conflict with the proper execution and management of the TMRS investment program, or that could impair their ability to make impartial recommendations and decisions. These parties are required to disclose, in writing, all relationships that could create or appear to create a conflict of interest in their unbiased involvement in the investment process and when appropriate to cure the conflict in a manner provided by the TMRS Ethics Policy or their contract with TMRS as applicable.

Outside Experts Held to Higher Standard of Care

Investment Policy Statement, Section IX. Investment Consultants

Investment Consultants must act as fiduciaries in their role as an investment consultant assisting and advising the TMRS Board and investment staff on investment matters, be bound by prudent expert standards, be approved registered investment advisors under the Investment Advisor's Act of 1940 as amended, and be independent. Independence is defined as not having other business relationships that could be construed as posing a conflict of interest. Further, with respect to the scope of services required, Consultants must demonstrate substantial expertise and experience in providing investment consulting and assistance in implementing institutional portfolio management, and possess the resources, capacity, qualifications, staff support, databases, contacts, software, and methods to research, assist, and advise the TMRS staff and Board. It is imperative that any Consultant have the independence and ability to inform the Board in the event of any concerns related to investment activity.

- √ The IPS (Section IX) and investment consultant contracts hold the Board's investment consultants to a higher standard of care bound by prudent expert standards
- ✓ The IPS (Section XIV) and investment manager contracts also hold TMRS' investment managers to a prudent expert standard

Standards of Care





Standards of Care

One Size Does Not Fit All

TMRS Act § 855.303 – The Prudent Person Rule

Texas Trust Code §117.003 – The Prudent Investor Standard

Texas Trust Code § 117.011 and TMRS IPS Sections IX and XIV – The Prudent Expert Standard

What is the Difference Between the Standards?

The Prudent Person – Dealing with One's Own Property

The Prudent Investor – Dealing in a Like Enterprise with Like Aims (ERISA)

The Prudent Expert - Holding One's Self Out to Have Special Skills is Held to a Higher Standard

Does A Prudent Trustee Delegate?

TMRS Act § 855.201(c) – Board may delegate to the Executive Director

Texas Trust Code § 117.011 – Trustee may delegate investment function

In delegating, a Trustee must use reasonable care, caution and skill in:

- Selecting the Agent
- Establishing the Scope and Terms of the Delegation
- Periodically Reviewing the Agent's Actions and Compliance

Why Should a Prudent Trustee Delegate?

The Delegation Raises the Level of Care

A Prudent Person (the Board) Assigns an Agent to Be a Prudent Investor

A Prudent Investor (the Executive Director) Hires a Prudent Expert

The Prudent Expert (Investment Manager and Consultant) Has a Duty to Perform at the Highest Standards.

With each Delegation the Standard of Care Becomes Greater

As a Practical Matter, the Board as a Prudent Person Should Engage the Higher Levels of Expertise

What Can Never Be Delegated?

The Board is the Ultimate Fiduciary

It Cannot Delegate the Final Responsibility for the Consequences of Its Actions

The Board Sets Policy – The Investment Policy Statement

The Board must consider all aspects of potential market issues; the future liquidity needs of the Plan and understand the role that each class of investment plays in the overall trust portfolio

The Board must exercise reasonable care, skill and diligence

Internal Process for Manager Due Diligence, Including the Staff Investment Committee



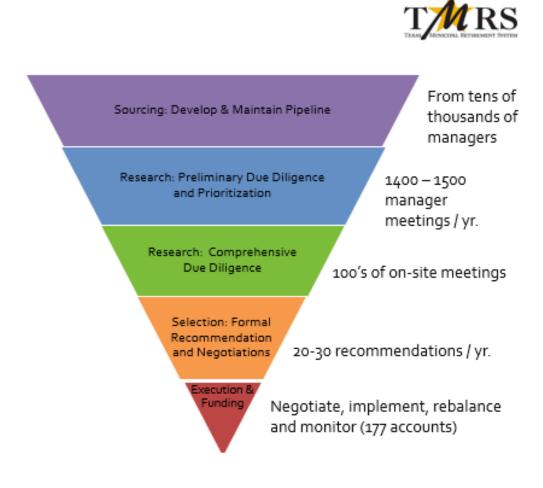


Best in Class

- ✓ Staff adheres to a Best in Class process
- ✓ Internal Investment Procedures
- ✓ Staff Investment Committee
- ✓ Ample documentation to confirm Staff has performed all steps of the approved investment procedures
- ✓ Peers, consultants and investment professionals' sentiment for TMRS' best in class process

Best in Class

It typically takes 150 to 250 hours of TMRS Staff time to underwrite each public market manager and 200 to 300 hours for each private market manager



Due Diligence – Internal Procedure Manual

Internal Procedures Manual

Due Diligeno

TMRS has established a principles based framework for investment be flexible in form but rigid in accountability. This process is designe robust over time, to continuously improve TMRS investment outcom

The due diffence process acknowledges that while different asset of managers, etc., require emphasis on different elements or informat commonalities upon which standardized analysis and documer communicated in a consistent format to decision makers. Process focus of due diffence. It also plays an important role in our internal

The due difigence process is therefore broken into, and discusse Difigence Content delineates TMRS' standardisation efforts on his orientation to completion of objectives and accountability thereto; delineates how TMRS documents that process.

Part 1: Due Diligence Content

TNMS ubilizes a due difigence framework that goes by the acronym "P Performance and Terma". The dategorizations have been identified must be assessed and compared among competitive managers deployment. Accordingly, not all due difigence processes will conta but will have been conducted according to the same framework, understanding what components of analysis were emphasized, there of the process. The descriptions provided for below describe how and synthesizes underwriting of a manager and/or opportunity set:

P1: People - Firm & Team

The analysis of people seeks to explore the adequacy of firm resource and capacity to execute on the strategy it aims to employ, understativismay interact with TMRS' investment, get insight into compensationing other topics, and more generally understand the firm's overs

Key Diligence Inputs: Industry Convessing, Paper Review, Reference C Profiles, Regulatory Review, Media Checks, Meetings with personnels

P2: Philosophy - Attractiveness of Opportunity / Portfolio Fit

45

Internal Procedures Manual

Philosophical review seeks to assess the relative attractiveness of a given opportunity in comparison to competing opportunities to deploy capital (e.g. other managers, other strategies, sectors or asset classes)

and consider the opportunity's additivity to return or risk or implementation of Prudent Investor/Expert standards of car

Key Diligence Inputs: Industry Canvassing, Economic & Perfo

P3: Process - Sourcing, Underwriting & Managing

TMRS employs a process driven approach throughout its of the replicability of each manager's processes and why thos success, and why they may add value in the future. In put having repeatable screening mechanisms and a systematic given security over another within a given sector. In private individuals maintain their networks of potential deal so underwriting is accomplished on predictable timelines.

Key Disigence Inputs: Paper Review, Reference Calls, Person Meetings with a diverse group of Manager Personnel

P4: Performance - Historical / Expected

TMRS' performance analysis process seeks to understand an performance. Individual components of analysis may er performance metrics, the impact leverage has, the effect o net gaps in performance, deal attribution to individ accuracy/replicability of calculation of a manager's reporter consistent with their philipsophy and process, etc.

Key Diligence Inputs: Performance Analysis, Ad-hoc analyse

T: Terms (Fees, Liquidity, etc.)

Terms underwriting focuses on deriving the optimal struct entails consideration of the vehicle structures throughout the partnership vs. dozed-end partnership) and selecting and vehicle structures once an investment decision has been in feeder structure, etc., is best suited for TMRS).

Key Diligence Inputs: Industry Canvassing, Performance And

46

Synthesis of Analysis - scoring

The due diligence process is dynamic and ongoing. TMRS has implemente to evolve and be flexible to the environment. The scoring approach is dis-

Final Duc Diligence Scoring Metrix

Scoring Category People (Firm & Team)

Philosophy (Amractivaness of Opportunity / Portfolio Fit)

Procom (Sourcing, Undorwriting and Managing)
Parformance (Historical / Expected)

Torms (Foos, Liquidity, etc.)

Total

Each distinct strategy being assessed has separately calibrated scoring mascoring elements. The ranges represented in the table above are aggregal of allocated points will fall within for each scoring category regardless of

Selected Managers are standardized to a common score of 100 as selecomparable in many cases due to utilization of different strategies and matrices. The overall scoring process is designed to accommodate to strategies, relative differences in inefficiencies present across different strial in subnario created equal.

Investment Committee Approval Process

The Investment Committee established under Charter dated June 6, 201 "Imminishing an internal oversight committee for certain investment at recommendations within the investment deprement." Formally, Investment Directors and the Director of Risk Management, brought toge investment issues.

The next section sets forth the minimally acceptable standards for doc and ongoing due diligence process. It is expected that this list will evolv and deletions.

Initial Due Diligence – Initial due diligence is designed to provide an u acceptable standard for reviewing key information about any manager re At a minimum, the Initial Due Diligence will include a review of (or a speci

i. An Appropriate Due Diligence Questionnaire

47

Internal Procedures Manual

- i. Contractual Questionnaire,
- iii. Third Party Marketer Questionnaire,
- iv. Background checks,
- v. Media checi

Internal Procedures Manual

- vi. Historical and expected return analysis
- vii. Risks analysis,
- viv. Offering Memorand
- ix. Vehicle Governing Documents (e.g. LPA, LLC Agreements, IMA, etc.).
 x. Subscription Document.
- xi. Side Letter or additional Supplementary Agreements,
- xii. Investment Vehicle Summary, xiii. Valuation Policy review, and
- xiv. ADV Review

Ongoing Monitoring Process — The ongoing monitoring process comprises those items of manager trading and information exchange after an investment has been made. TMRS considers ongoing monitoring part of the due diligence process in that it is critical to frequently and consistently evaluate each manager against the original hiring decision, whether they are meeting TMRS expectations, and that the decision to continue to retain amanager or hire them again for a subsequent fund must be continually reviewed and evaluated. There are quarterly and annual minimum requirements.

- i) Quarterly Review The quarterly review package must include at a minimum:
 - a. A review of the managers quarterly reporting package (including performance),
 - b. Adherence to their stated investment style,
 - c. An IPS compliance summary,
 - d. Internally generated risk reports if any, and
 - a. Consulting reports.
- ii) Annual Review The Annual Review package includes, at a minimum:
 - a. A review of the managers annual reporting packages (including performance),
 - b. An IPS compliance summary
 - c. Annual scorecard,
 - d. Annual review of all fees paid.
 - e. Internally generated risk reports, if any,
 - f. Leverage & Liquidity Reports if applicable,
 - g. Consulting reports, and h. ADV Review.
 - W. Co. Land Co.

Additional Resources

48

Staff Investment Committee (SIC)

An internal Staff Investment Committee was established in June of 2016 to ensure thorough vetting of certain topics by the entire Investment team. All items presented to the TMRS Board of Trustees for approval must first be approved by this Committee. Voting members of the Committee include the CIO, Director of Risk Management and all Asset Class Directors. A quorum is defined as 5 of 7 members (one of the 5 must be the CIO) and 5 "yes" votes are needed to approve an item to be presented to the Board (i.e. a new manager, an IPS change recommendation etc.). The CIO has the ability to stop any item, at any time, no matter the vote count. Formal minutes are kept by the Secretary approved by the Committee and signed by the CIO.

Highlights of the SIC charter include:

- Final recommendation(s) on the selection of new investment managers (to be recommended to the Board) in accordance with the TMRS IPS.
- Decisions related to the termination recommendations for existing investment managers (in most cases)
- Addition or deletion to the manager Watch List
- IMA/Side Letter revision requests including modification, additions and deletions to investment manager guidelines and any changes to fee structures
- Custodian related issues including, but not limited to, cash management, securities lending, manager compliance, FX or other areas of high importance
- Annual Asset Class and investment manager reviews for all asset classes
- Annual Asset Allocation review, including a review of the capital market assumption set and the actuarial required rate of return
- Tactical opportunity discussions
- Certain matters related to the Risk Management Program

Different Models for Retaining, Managing and Terminating Investment Managers

Option 1 - Consent Agenda (Board Approval)

Option 2 - Consent Agenda (Ratification)

Option 3 - Delegated Authority – Annual Board Approved Investments by Asset Class

Option 4 - Delegated Authority - Percentage Limit by Asset Class Set by Board





Different Models for Retaining, Managing and Terminating Investment Managers

(listed in order from direct approval to delegated authority)

Current Model -Board Approval in Advance for Nearly All Investments

Consent Agenda (Board Ratification) Delegated
Authority –
Percentage Limit
by Asset Class
Set by Board











Consent Agenda (Board Approval)

Delegated
Authority –
Annual Board
Approved
Investments by
Asset Class

Consent Agenda Model

How It Would Work

The Board would receive the same materials as they do currently but the materials would be included with other Consent Agenda items

- ✓ Board Communication from the Executive Director.
- ✓ Staff Memorandum Recommendation
- ✓ Consultant Memorandum Recommendation

The Executive Director would recommend Board approval through the ED's Board Communication Memorandum recommending the Board adopt the Consent Agenda

√ The Consent Agenda is adopted as one item

Reporting to the Board by Staff and Consultants would not change

- ✓ Chief Investment Officer Management Updates
- ✓ Quarterly Performance Review and Investment Policy Compliance
- ✓ Staff Annual Asset Class Reviews and Pacing
- ✓ Staff Annual Risk Report
- ✓ Staff Annual Compliance Report
- ✓ Internal Audit

Considerations

The Board still approves, or ratifies, each investment strategy decision, and each investment manager decision to retain or terminate

Implementation

As soon as the September 2019 Board meeting

Investment Decision Making – Consent Agenda

Fiduciary Oversight

Set Governance

Investment Policy

Asset Liability Decisions
Asset Allocation Decisions

Internal Asset Management Active/Passive Philosophy

Total Fund Risk/Return Monitoring Compliance Reporting

Budget, Audit and Internal Controls

Selection of Custodian and Consultants

Public Market Manager Approval and Termination Private Market Manager Approval and Termination

Selection of Security Lenders and Transition Management Bench

Rebalancing Policy
Asset Class Structure
Asset Class Risk/Return Monitoring
Alternative Asset Class Pacing Studies

Asset Class Execution

Implement Portfolio Rebalancing Policy Sub-Asset Class Rebalancing

Manager Level Due Diligence and Risk/Return Monitoring

Cash Management

Operational Execution

Implementation of Board Directives, Performance Reporting and Reconciliation, Custodial Service Reviews, Audit Tracking, Securities Lending Reviews, Investment Manager Transition Management **Board Duties**

Informational Item for the Board

Duties the Board Will Delegate

Consent Agenda Ratification Model

How It Would Work

The Board receives the same materials as it does currently, but they would be included with other Consent Agenda items

- ✓ Board Communication from the Executive Director.
- ✓ Staff Memorandum Recommendation
- ✓ Consultant Memorandum Recommendation

The Board would authorize the Executive Director to enter into TMRS investment transactions prior to presentation to the Board, and then the Executive Director would recommend Board ratification of an investment transaction already entered into by TMRS through the ED's Board Communication Memorandum recommending the Board adopt the Consent Agenda

✓ The Consent Agenda is adopted as one item

Reporting to the Board by Staff and Consultants would not change

- ✓ Chief Investment Officer Management Updates
- ✓ Quarterly Performance Review and Investment Policy Compliance
- ✓ Staff Annual Asset Class Reviews and Pacing
- ✓ Staff Annual Risk Report
- ✓ Staff Annual Compliance Report
- ✓ Internal Audit

Considerations

The Executive Director approves, and the Board ratifies, each investment strategy decision, and each investment manager decision to retain or terminate.

Implementation

As soon as the September 2019 Board meeting

Investment Decision Making – Ratification by Consent Agenda

Fiduciary Oversight

Set Governance

Investment Policy

Asset Liability Decisions
Asset Allocation Decisions

Internal Asset Management Active/Passive Philosophy

Total Fund Risk/Return Monitoring Compliance Reporting

Budget, Audit and Internal Controls

Selection of Custodian and Consultants

Public Market Manager Approval and Termination Private Market Manager Approval and Termination

Selection of Security Lenders and Transition Management Bench

Rebalancing Policy
Asset Class Structure
Asset Class Risk/Return Monitoring
Alternative Asset Class Pacing Studies

Asset Class Execution

Implement Portfolio Rebalancing Policy Sub-Asset Class Rebalancing

Manager Level Due Diligence and Risk/Return Monitoring

Cash Management

Operational Execution

Implementation of Board Directives, Performance Reporting and Reconciliation, Custodial Service Reviews, Audit Tracking, Securities Lending Reviews, Investment Manager Transition Management **Board Duties**

Informational Item for the Board

Duties the Board Will Delegate

Delegated Authority – Approved List of Investment Funds

How It Would Work

The Board would periodically and prospectively approve a list of recommended investment funds in each asset class. The lists would be recommended by each asset class Director based on the same rigorous analysis and due diligence currently completed by investment staff, and the asset class consultant including vetting by the Staff Investment Committee (SIC).

Once the Board has approved the recommended lists, each asset class director will select investment funds from the list to carry out the annual System-wide Investment Pacing Plan, and the Executive Director would enter into the transaction on behalf of TMRS.

✓ Also vetted by the SIC

Reporting to the Board by Staff and Consultants would not change

- ✓ Chief Investment Officer Management Updates including investment fund transactions that have been entered into
- ✓ Quarterly Performance Review and Investment Policy Compliance
- ✓ Staff Annual Asset Class Reviews and Pacing
- ✓ Staff Annual Risk Report
- ✓ Staff Annual Compliance Report
- ✓ Internal Audit

Considerations

Board time required to review investment funds, complicated implementation. Possible issues:

- o Opportunities that arise that have not previously been Board approved.
- Addressing approved investment funds that, over time, fall out of favor with the asset class Director's or consultant's recommendation.

Implementation

January 2020

Delegated Authority – Approved Investments by Asset Class

Fiduciary Oversight

Set Governance

Investment Policy

Asset Liability Decisions
Asset Allocation Decisions
Internal Asset Management
Active/Passive Philosophy

Total Fund Risk/Return Monitoring Compliance Reporting

Budget, Audit and Internal Controls
Selection of Custodian and Consultants

Rebalancing Policy
Asset Class Structure
Asset Class Risk/Return Monitoring
Alternative Asset Class Pacing Studies

Public Market Manager Selection and Termination Private Market Manager Selection and Termination

Selection of Security Lenders and Transition Management Bench

Asset Class Execution

Implement Portfolio Rebalancing Policy Sub-Asset Class Rebalancing

Manager Level Due Diligence and Risk/Return Monitoring

Cash Management

Operational Execution

Implementation of Board Directives, Performance Reporting and Reconciliation,
Custodial Service Reviews, Audit Tracking, Securities Lending Reviews,
Investment Manager Transition Management

Board Duties

Informational Item for the Board

Duties the Board Will Delegate

Delegated Authority – Percentage Limit by Asset Class

How It Would Work

The Board would authorize the ED, based on recommendations from the SIC, to retain, manage and terminate investment managers within the following limitations:

Public Markets

- Actively Managed Mandates: Up to 1.50% of the market value of the System's assets
- Factor-based Mandates: Up to 3.00% of the market value of the System's assets
- > Passive Mandates: At the discretion of staff consistent with the Board's investment beliefs

Private Markets

➤ Up to 0.75% of the market value of the System's assets

Would continue to be vetted and approved by the SIC

Reporting to the Board by Staff and Consultants would not change

- ✓ Chief Investment Officer Management Updates including investment fund transactions that have been entered into
- ✓ Quarterly Performance Review and Investment Policy Compliance
- ✓ Staff Annual Asset Class Reviews and Pacing
- ✓ Staff Annual Risk Report
- ✓ Staff Annual Compliance Report
- ✓ Internal Audit

Considerations

Allow staff to implement fully-vetted average sized deals that the Board had previously approved. Frees up Board time to focus on policy rather than implementation. Atypical deals outside the approved limits will come to the Board for approval.

Implementation

January 2020

Delegated Authority – Percentage Limit by Asset Class

Fiduciary Oversight

Set Governance

Investment Policy

Asset Liability Decisions
Asset Allocation Decisions
Internal Asset Management
Active/Passive Philosophy

Total Fund Risk/Return Monitoring Compliance Reporting

Budget, Audit and Internal Controls
Selection of Custodian and Consultants

Rebalancing Policy
Asset Class Structure
Asset Class Risk/Return Monitoring
Alternative Asset Class Pacing Studies

Public Market Manager Selection and Termination Private Market Manager Selection and Termination

Selection of Security Lenders and Transition Management Bench

Asset Class Execution

Implement Portfolio Rebalancing Policy Sub-Asset Class Rebalancing

Manager Level Due Diligence and Risk/Return Monitoring

Cash Management

Operational Execution

Implementation of Board Directives, Performance Reporting and Reconciliation, Custodial Service Reviews, Audit Tracking, Securities Lending Reviews, Investment Manager Transition Management **Board Duties**

Informational Item for the Board

Duties the Board Will Delegate

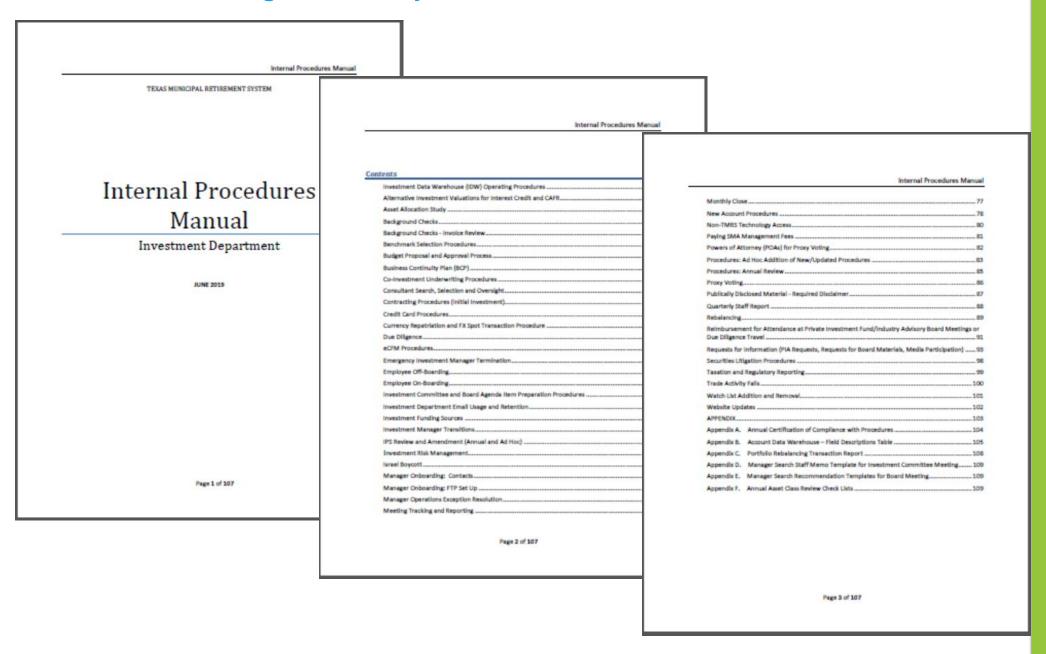




Assurances – Delegate but Verify

- ✓ Investment Policy Statement (reviewed and updated annually)
- ✓ Qualified Professional Staff
 - Investments
 - Risk Management
 - Operations
 - Compliance
- ✓ Overlapping Independent External Consultants
- ✓ Appropriate Separation of Duties
 - Finance \$\$ Movement
 - Reconciliation of Custodian to Financials
- ✓ Internal Legal Investment Expertise
- ✓ External Legal and External Fiduciary Counsel
- ✓ Internal Auditors
- ✓ External Auditors
- ✓ Reports to the Board
 - Quarterly Investment Report and IPS Compliance Review from the Board's Consultant
 - Annual Asset Class Reviews
 - Quarterly and Annual Risk Review
 - Quarterly and Annual Compliance Review
 - Quarterly Fee Report
 - Consultant Reviews

Assurances – Delegate but Verify



Internal Audit as the Third Line of Defense

Internal Audit as the Third Line of Defense





Conclusion





Conclusions

TMRS already has many of the pillars of an effective delegation of authority structure in place.

The Board, which is held to a prudent person standard, would benefit by delegating investment manager selection/approval and termination to those who are held to a higher standard of care.

We collectively, as the Board's consultants, recommend the Board direct us and staff to update any governance documentation and procedures necessary to implement Option #4: Delegated Authority – Percentage Limit by Asset Class, and bring such documentation back to the Board for final review and approval.



