

TO: Police and Fire Department Retirement Plan and
Federated City Employees' Retirement System
Investment Committees

FROM: Daryn Miller, CFA

SUBJECT: Review of City Audit recommendations
delegated to the Investment Committees
from the Boards

DATE: February 27, 2018

Approved /Roberto Pena/

Date 2/8/18

Background

On December 22, 2017, the Boards responded to the City Audit of Retirement Services. The response indicated that several of the recommendations would be reviewed by the Investment Committees, and that the Investment Committees should recommend to the Boards an appropriate response. Those recommendations and the Boards' responses are included below.

Recommendation #16: The Retirement Boards should incorporate in their respective Investment Policy Statements, or establish in a separate document, more comprehensive guidance in line with the Government Finance Officer's Association recommendations on fee policies for public plans, containing at least the following:

- a) Delegation of responsibility to negotiate, monitor, and report on fees;
- b) The respective roles of trustees, staff, consultants, and investment managers in controlling fees;
- c) Strategies that will be employed to seek the lowest reasonable fees in traditional asset classes;
and
- d) Strategies that will be employed to ensure the plans are not paying excessive fees for alternative assets.

Retirement Boards' Response to Recommendation #16:

The Boards generally agree with this recommendation and will direct their respective Investment Committees to consider and make recommendations to their Boards as appropriate. The Plans' respective Investment Policy Statements currently provide that processes and responsibilities for negotiating, monitoring and reporting on fees. Investment Staff has developed an in-depth fee reporting report which it has delivered to the Boards each of the last two years. The Charter for the CIO provides that the CIO shall monitor the cost-effectiveness of the Fund. The Boards acknowledge their core fiduciary responsibility to assure that only reasonable expenses are charged against the assets of the plans, and

diligently monitor staff's negotiation of investment management fees through the normal investment approval process.

Recommendation #17: The Retirement Boards should incorporate in their respective Investment Policy Statements a policy on investment manager evaluation that reflects existing manager due diligence process and procedures, and includes the following:

- a) Defining the "extraordinary review" process;
- b) Establishment of a "watch list" and/or "probationary status" for underperforming managers;
- c) Process by which managers of concern are identified, placed under "extraordinary review," and given a final decision;
- d) Quantitative criteria for underperformance which would trigger placement under "extraordinary review" and/or on a "watch list;"
- e) Potential actions resulting from the "extraordinary review" process;
- f) Delegation of authority for implementing each step in this process; and
- g) As necessary, incorporating into the policy the nuances of different asset classes or fund types.

Retirement Boards' Response to Recommendation #17:

The Boards generally agree with this recommendation and will direct their respective Investment Committees to consider and make recommendations to their Boards as appropriate. The Boards' respective Investment Policy Statements currently provide processes and responsibilities for monitoring

Recommendation #18: The Retirement Boards should clarify the different levels of investment decisions and which bodies have the authority to implement or approve them. The Boards should incorporate these clarifications into updates to the Investment Policy Statements, and if necessary, the Investment Committee Charter and Chief Investment Officer Charter.

Retirement Boards' Response to Recommendation #18:

The Boards generally agree with this recommendation and will direct their respective Investment Committees to consider and make recommendations to their Boards as appropriate. The Boards' respective Investment Policy Statements, and Charters for the Board, CEO, CIO, and Investment Committee all enumerate the approvals, delegations, responsibilities and accountabilities for making investment decisions. Over the past two years, each Investment Committee has been considering additional specifics with regard to tactical decision-making. The Boards anticipate additional provisions will be added in calendar 2018 to the investment governance documentation that will address this recommendation.

/Daryn Miller/

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