




March 2024 Audit and Risk Committee meeting



Schedule Wednesday, March 6, 2024 10:45 AM — 11:15 AM CST
Venue 4700 Mueller Blvd., Suite 100, Austin, TX
Organizer Sarah McCleary



Agenda











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1. Call roll of Committee members

Presented by Michael Benson



COMMITTEE MEETING
Agenda Item Information Sheet

AGENDA ITEM 1:
Call roll of Committee members

AGENDA ITEM OBJECTIVE

The objective of the agenda item is to determine for the record which Trustees are present at the start of the meeting.

2. Review order of business and meeting objectives

Presented by Michael Benson



COMMITTEE MEETING Agenda Item Information Sheet

AGENDA ITEM 2:

Review order of business and establish meeting objectives

AGENDA ITEM OBJECTIVE

This agenda item provides Trustees the opportunity to review the order of business and to express a desire to take an agenda item out of order, and to discuss the key objectives of the meeting.

1. The Committee will review the draft Committee 2024 Work Plan.
2. The Committee will receive a presentation from the financial statement auditor regarding the 12/31/2023 financial statement audit.
3. The Committee will review the Fraud Waste and Abuse Policy.
4. The Committee will receive a report from Staff on the unaudited 12/31/2023 financial statements.
5. The Committee will receive the first quarter Enterprise Risk Management Report.

RELEVANCE TO STRATEGIC PLAN

This agenda item meets **COAERS Strategic Plan Goal 4: Identify and implement leading practices in board governance, pension administration, and investment management.** It is an industry best practice to establish meeting objectives and review them at the outset of each meeting.

3. Receive public comments

Presented by Michael Benson



COMMITTEE MEETING Agenda Item Information Sheet

AGENDA ITEM 3: Receive public comments

AGENDA ITEM OBJECTIVE

This standing agenda item allows System members and members of the public the opportunity to provide comments to the Board.

ITEM SUMMARY

The Chair will recognize any person who wishes to comment for up to three minutes per person.

RELEVANCE TO STRATEGIC PLAN/CORE COMPETENCIES

This agenda item meets the core competency established in the **COAERS Strategic Plan** “*Transparency: Complying with open meeting and public information laws to ensure the decision-making process is clear to members and the public.*”

4. Consider approval of the November 9,
2023 Audit and Risk Committee minutes
Presented by Michael Benson



COMMITTEE MEETING Agenda Item Information Sheet

AGENDA ITEM 4:

Consider approval of the November 9, 2023 Audit and Risk Committee minutes

AGENDA ITEM OBJECTIVE

This standing agenda item seeks approval of the minutes from the prior Audit and Risk Committee meeting.

RECOMMENDATION FOR COMMITTEE ACTION

Staff recommends approval of the minutes of the November 9, 2023 Audit and Risk Committee meeting.

RELEVANCE TO STRATEGIC PLAN

This agenda item meets the core competency established in the **COAERS Strategic Plan** “*Transparency: Complying with open meeting and public information laws to ensure the decision-making process is clear to members and the public.*”

ATTACHMENT

1. Draft minutes of November 9, 2023 Audit and Risk Committee meeting



MINUTES

AUDIT AND RISK COMMITTEE

Public Meeting held in-person and telephonically on November 9, 2023 at 11:45 a.m. CT
Pursuant to Texas Govt. Code 551.127

Committee Members Present/(Absent)

Michael Benson, Committee
Chair
Michael Granof
(Amy Hunter)
Dick Lavine
Anthony Ross

Guests:

Paige Saenz, General
Counsel
Kevin Balaod,
WithIntelligence
Bhakti Patel, CLA

Other Board Trustees Present/(Absent)

Kelly Crook
Yuejiao Liu
Chris Noak†
(Leslie Pool)
Brad Sinclair
Diana Thomas

Staff:

Christopher Hanson
Russell Nash
Sarah McCleary
Teresa Cantu
Jenni Bonds
Yun Quintanilla
Mehrin Rahman
Cathy Edwards*
David Kushner
Amy Kelley*

*present telephonically

† present videoconference

1 Call roll of Committee members

Committee Chair Michael Benson called the meeting to order at 12:29 p.m. The following Committee members were present in person: Benson, Granof, Lavine, and Ross.

2 Review order of business and meeting objectives

Committee Chair Benson reviewed the order of business and meeting objectives with the Committee. Mr. Benson asked if there were any members of the public who wished to speak, either now or during an agenda item. There were no comments.

3 Consider approval of the August 31, 2023 Audit and Risk Committee minutes

Committee Chair Benson asked the Committee to review the Audit and Risk

Committee minutes. Mr. Anthony Ross moved approval of the August 31, 2023 minutes as presented. Mr. Dick Lavine seconded, and the motion passed 4-0.

4 Discuss and consider CliftonLarsonAllen (CLA) statement of work for 12/31/2023 financial statement audit

Ms. Bhakti Patel outlined the statement of work planned for financial statement audit for the year ending December 31, 2023 including the scope of audit services, objectives, and management's responsibilities.

Mr. Ross moved to refer the statement of work with CLA for the 12/31/2023 financial statement audit to the Board for approval as revised on the billing schedule and pending review by General Counsel. Mr. Michael Granof seconded, and the motion passed 4-0.

5 Discuss and consider the COAERS Enterprise Risk Management program

Mr. Christopher Hanson presented the proposed Enterprise Risk Management Program for 2024. He noted that the categories had not changed, though the ranking and action items were updated. He discussed with the Committee key strategic and risk management plans for 2024. The Committee provided feedback on the risk management dashboard.

Ms. Thomas left the meeting from 12:50 p.m. to 12:53 p.m.

The Committee directed Staff to proceed with the Risk Management plan for 2024 with edits to the personnel tab.

6 Receive third quarter 2023 unaudited financial statements

Ms. Yun Quintanilla presented the September 30, 2023 unaudited financial statements.

7 Receive Cybersecurity update

A. Convene into Executive Session pursuant to Section 551.071, Texas Government Code, Section 1.05, Texas Disciplinary Rules of Professional Conduct, and Section 551.089, Texas Government Code, to consult with legal counsel and deliberate security assessments or deployments relating to information resources technology, network security information described in Section 2059.055, Texas Government Code, and deployment and implementation of security personnel, critical infrastructure, and security devices

B. Reconvene into open session to take action as determined appropriate regarding security assessments or deployments relating to information resources technology, network security information described in Section

2059.055, Texas Government Code, and deployment and implementation of security personnel, critical infrastructure, and security devices

The Committee convened into Executive Session at 12:59 p.m. and reconvened into open session at 1:19 p.m.

8 Review 2023 Committee Work Plan and discuss development of 2024 Work Plan

Mr. Hanson noted that the Committee had completed all goals on the 2023 Work Plan. A draft of the 2024 Committee Work Plan was presented.

Ms. Crook left the meeting at 1:21 p.m.

9 Review key meeting takeaways and call for future agenda items

Committee Chair Benson summarized the actions taken and information discussed at the meeting and provided an opportunity to add future agenda items.

As there were no other items to address, the meeting adjourned at 1:22 p.m.

5. Review 2024 Audit and Risk Committee Work Plan

Presented by Christopher Hanson



COMMITTEE MEETING Agenda Item Information Sheet

AGENDA ITEM 5: Review 2024 Audit and Risk Committee Work Plan

AGENDA ITEM OBJECTIVE

This agenda item is for discussion of the 2024 Committee Work Plan.

RECOMMENDATION FOR COMMITTEE ACTION

For informational purposes only; no action required.

RELEVANCE TO STRATEGIC PLAN

This agenda item meets **COAERS Strategic Plan Goal 4: Identify and implement leading practices in board governance, pension administration, and investment management**. It is an industry best practice to establish and review Committee work plans.

ATTACHMENT

1. 2024 Committee Work Plan

2024 Audit and Risk Committee Work Plan

Scheduled Quarterly Meetings

1. March meeting
 - Required Communications for 12/31/2023 Financial Statement Audit
 - Quarterly review of Enterprise Risk Management Program
 - Quarterly Financial Statements
 - Fraud, Waste, and Abuse Policy
2. June meeting
 - 12/31/2023 Financial Statement Audit presentation
 - Quarterly review of Enterprise Risk Management Program
 - Review of Cybersecurity Program
 - Quarterly Financial Statements
 - Travel Reimbursement Policy
3. August meeting
 - Quarterly review of Enterprise Risk Management Program
 - Review of Cybersecurity Program
 - Annual review of financial audit service provider and renewal decision
 - Quarterly Financial Statements
4. November meeting
 - Annual review of Enterprise Risk Management Program
 - Enterprise Risk Management Policy
 - Review of Cybersecurity Program
 - Quarterly Financial Statements
 - Engagement Letter - Auditor
 - 2025 Committee Work Plan

6. Receive presentation of required auditor communications in conjunction with the financial statement audit

Presented by Bhakti Patel, CLA



COMMITTEE MEETING Agenda Item Information Sheet

AGENDA ITEM 6:

Receive presentation of required auditor communications in conjunction with the financial statement audit

AGENDA ITEM OBJECTIVE

Auditors are required to meet with the client prior to a financial statement audit. This agenda item serves this purpose.

RECOMMENDATION FOR COMMITTEE ACTION

For informational purposes only; no action required.

ITEM SUMMARY

Ms. Bhakti Patel, a principal with CliftonLarsonAllen (CLA), will provide the Committee with an overview of the audit approach and brief the Committee on any recent accounting standards pronouncements.

RELEVANCE TO STRATEGIC PLAN

This agenda item meets **COAERS Strategic Plan Goal 2: Responsibly manage the risks of the System.**

ATTACHMENT

1. City of Austin Employees' Retirement System – Financial Statement Audit for the year ended December 31, 2023



We'll get you there.

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City of Austin Employees' Retirement System – Financial Statement Audit for the year-ended December 31, 2023

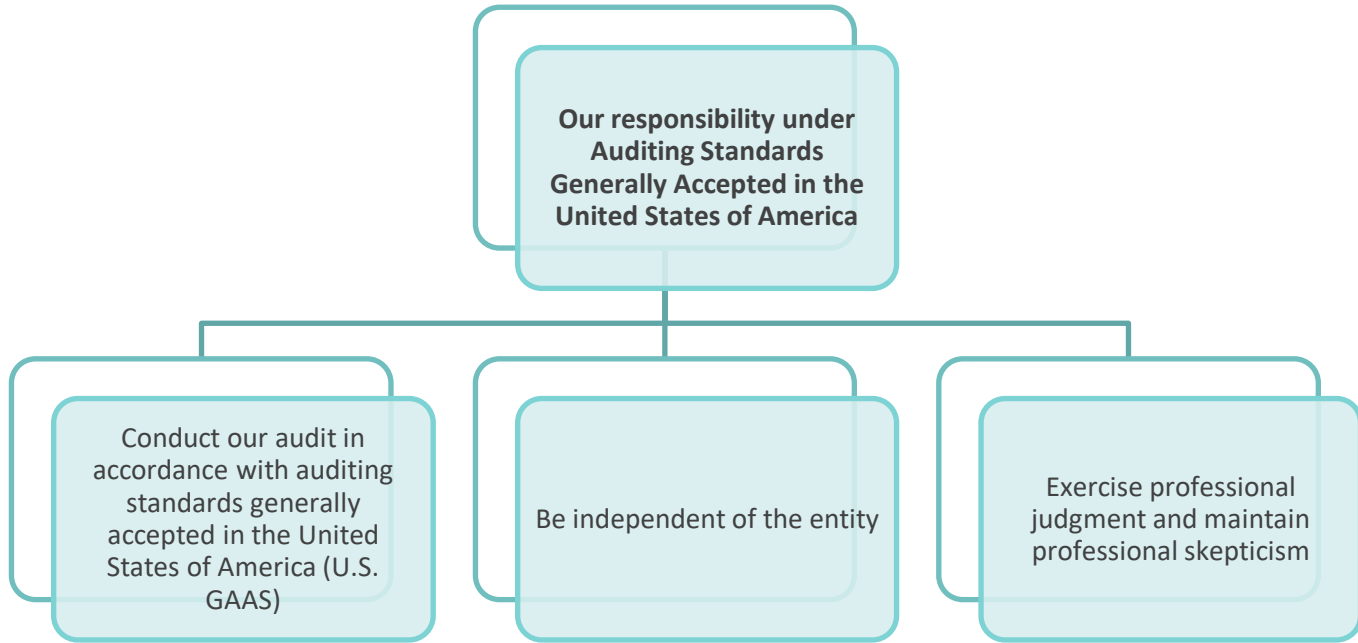
March 6, 2024



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Required Communications



Required Communications, cont'd

As part of our audit, we will:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error
- Obtain an understanding of internal control relevant to the audit (we do not express an opinion on internal control)
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates
- Evaluate the overall presentation of the financial statements, including the amounts and disclosures
- Conclude whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time
- Express an opinion about whether the financial statements are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America
- Plan and perform the audit to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement
- Communicate significant matters related to the financial statement audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process
- Communicate matters required by law, regulation, agreement, or other external requirements
- Communicate circumstances that affect the form and content of the auditors' report

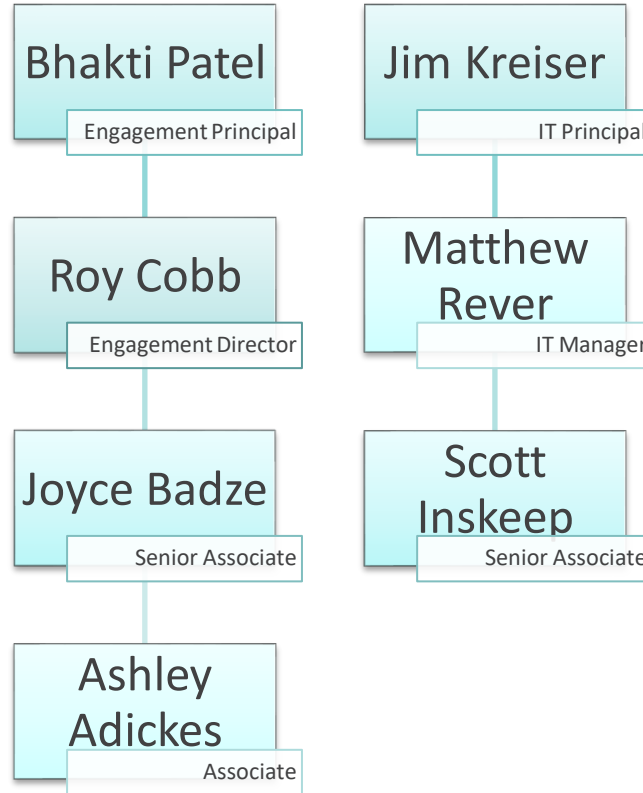


Summary of Services

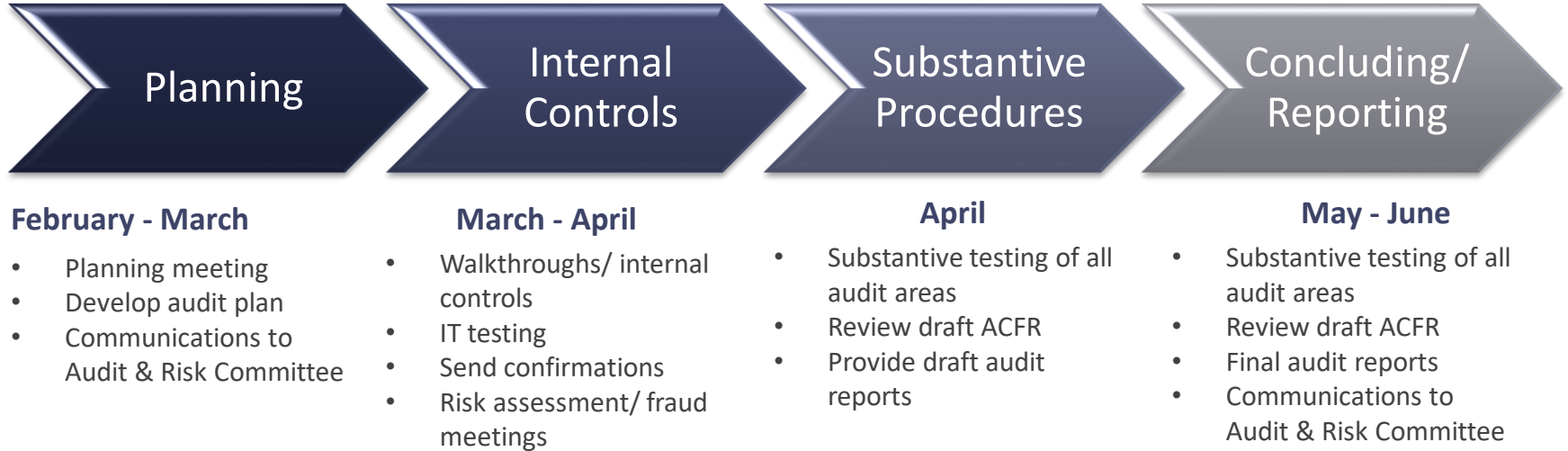
- Independent Auditors' Report on the basic financial statements
- The following Required Supplementary Information will be subjected to certain limited procedures, but will not be audited:
 - Management's Discussion and Analysis
 - Schedule of Changes in Net Pension Liability and Related Ratios
 - Schedule of Employer Contributions
 - Schedule of Investment Returns
- Evaluate and report on the presentation of the following Supplementary Information accompanying the financial statements in relation to the financial statements as a whole:
 - Schedule of Administrative Expenses
 - Schedule of Investment Expenses
 - Schedule of Payments to Consultants
- Independent Auditors' Report on the Schedule of Pension Amounts
- Preparation of the Schedule of Pension Amounts and related notes (nonaudit service)
- Communications with Those Charged with Governance



CLA Audit Team



Planned Scope and Timing of the Audit



Significant Risks of Material Misstatement

Although our audit planning has not been concluded and modifications may be made, we have identified the following significant risks of material misstatements as part of our planning



Management
override of
controls

Investments

Investment
income

Revenue
recognition



Other Matters

- We plan to use an auditor's specialist to review the GASB 67 disclosure information prepared by the actuarial firm engaged by you.
- Two-way communication on information you consider relevant to the audit. Topics may include:
 - Matters you believe are relevant to the audit of the financial statements
 - Your understanding of the risks of fraud and the controls in place to prevent and detect fraud
 - Whether you are aware of any noncompliance with laws and regulations, including measures taken to address the noncompliance
 - Attitudes, awareness, and actions of those charged with governance concerning (a) the entity's internal control (b) the detection or the possibility of fraud



Effective GASB Pronouncements

- For the fiscal year ended December 31, 2023
 - GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*
 - GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*
 - GASB Statement No. 99, *Omnibus 2022**

*Paragraphs related to leases, PPPs, and SBITAs



Effective GASB Pronouncements, cont'd

- For the fiscal year ended December 31, 2024
 - GASB Statement No. 99, *Omnibus 2022**
 - GASB Statement No. 100, *Accounting Changes and Error Corrections – an amendment to GASB Statement No. 62*
 - GASB Statement No. 101, *Compensated Absences*
 - GASB Statement No. 102, *Certain Risk Disclosures*

*Paragraphs related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53



New Auditing Standards

- SAS 145 – Auditing Accounting Estimates and Related Disclosures
- SAS 144 – Use of Specialists and Use of Pricing Information Obtained From External Information Sources
- SAS 145 – Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement



Questions?



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Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC, an SEC-registered investment advisor.

7. Discuss and consider Fraud, Waste, and Abuse Reporting policy

Presented by Michael Benson



BOARD MEETING Agenda Item Information Sheet

AGENDA ITEM 7:

Discuss and consider Fraud, Waste, and Abuse Reporting Policy

AGENDA ITEM OBJECTIVE

This agenda item is for discussion the annual review of the COAERS Fraud, Waste, and Abuse Reporting Policy and its implementation.

RECOMMENDATION FOR COMMITTEE ACTION

Staff recommends referral to Board for approval of the Fraud, Waste, and Abuse Reporting Policy as revised.

ITEM SUMMARY

In 2023, the Board adopted a Fraud, Waste, and Abuse Reporting Policy and activated a reporting mechanism online on the COAERS website and via telephone. Staff has the following recommendation:

Page #	Edit	Explanation
Page 2	Review cycle	Change the review cycle from annually to every three years

Additionally, Staff would like to test the online reporting tool to ensure it is working properly by sending a test message through the online reporting tool to those designated in Section IV on page 3 of the Policy.

RELEVANCE TO STRATEGIC PLAN

This agenda item meets **COAERS Strategic Plan Goal 4: Identify and implement leading practices in board governance, pension administration, and investment management.**

ATTACHMENT

1. Proposed Fraud, Waste, and Abuse Reporting Policy



Board Approved Policy

Subject: Fraud, Waste, and Abuse Reporting Policy

Review Committee: Audit and Risk Committee

Date Implemented: March 30, 2023

Date Updated: March 28, 2024

Signature of Chairperson:

Yuejiao Liu

City Of Austin Employees' Retirement System
Board Approved Policy
Fraud, Waste, and Abuse Reporting

I. PURPOSE AND SCOPE

The City of Austin Employees' Retirement System ("COAERS" or "System") is committed to maintaining the highest ethical standards and compliance with applicable laws and COAERS policies.

The purpose of this Policy is to encourage and enable good faith concerns regarding the subjects covered by this Policy to be made without fear of reprisal or victimization. COAERS will not permit or tolerate harassment, retaliation, or discrimination against individuals who allege impropriety in good faith.

This Policy shall be applied in coordination with the complaint and grievance procedures set forth in the Ethics Policy, Personnel Policy, and Employee Handbook. Key Staff shall have the meaning set forth in the Ethics Policy. The Personnel Policy and Employee Handbook are referred to collectively as the "Personnel Policies".

II. ROLES AND RESPONSIBILITIES

A. Trustees, Key Staff, and Employees

It is the responsibility of Trustees, Key Staff, and COAERS employees to comply with COAERS standards of conduct set forth in applicable law and policy and to report violations thereof in accordance with this Policy. Reporting violations under the procedures in the Ethics Policy or the Personnel Policies also meets the requirements of this Policy.

B. Audit and Risk Committee

The Audit and Risk Committee will review this Policy at least ~~once annually and recommend to the Board any amendments, as necessary every three (3) years.~~

C. Board of Trustees

The Board will ensure that proper resources are available and properly allocated annually towards the ongoing execution of this Policy.

III. COMPLAINT DEFINED

For purposes of this Policy a Complaint is an assertion that there is evidence of an action or inaction that is:

- (a) Illegal,
- (b) Violates COAERS Ethics Policy,
- (c) Fraud or theft of COAERS property,
- (d) Wasteful, or
- (e) An abuse of power or authority.

Individuals who do not have Complaints as defined herein, but have good faith concerns about COAERS business operations or the conduct of any Trustee, Key Staff, or employee, are encouraged to bring those issues to someone who can address them properly. For employees, a supervisor or manager is in the best position to address an area of concern. For Trustees, the Board Chair, the Executive Director, or General Counsel is in the best position to address an area of concern. However, if an individual is not comfortable speaking with aforementioned persons or is not satisfied with the response, the individual is encouraged to follow the Complaint process established herein.

IV. FILING A COMPLAINT

The Executive Director will establish an accessible and secure method of receiving Complaints such as a dedicated email address, online submission form, and/or telephone number. The Complaint should be accompanied by any supporting evidence and a description of the grounds for the Complaint.

Once received, the Complaint will be provided to the following persons, excluding any of the following persons against whom the Complaint is made (the "Complaint Recipients").

- (a) General Counsel (serving as the software Administrator),
- (b) Chair of the Board,
- (c) Chair of the Audit and Risk Committee, and
- (d) Executive Director.

Anyone filing a Complaint under this Policy must be acting in good faith and have reasonable grounds for believing the information disclosed indicates a violation. Any allegations that prove not to be substantiated and which prove to have been made with malicious or vexatious intent, are knowingly false, or otherwise abuse the process set forth in this Policy as determined after a proper investigation, could result in disciplinary action up to and including termination of employment for cause or termination of the contractual relationship with COAERS.

A complainant may choose to remain anonymous. The complainant may wish to consider identifying themselves in order that a better investigation may be carried out. COAERS will make reasonable efforts to ensure that all information provided throughout the investigation process, including the complainant's name, will be kept in utmost confidence

to the extent allowed by law, and only discussed with other parties to the extent necessary to carry out a complete and fair investigation or as may be required under applicable laws.

V. INVESTIGATIONS PROCEDURE

Upon receipt of a Complaint, a Complaint Recipient will share the Complaint with the remaining Complaint Recipients, except for any individual who is the subject of the Complaint. Regarding all received and forwarded allegations, the Complaint Recipients will determine if there are reasonable grounds to pursue the Complaint through a Formal Investigation. The Complaint Recipients may refer the Complaint for disposition through other means, such as the Ethics Policy or the Personnel Policies.

If the Complaint Recipients determine there are reasonable grounds to pursue a Formal Investigation in accordance with this Policy, a Formal Investigation will be opened by the General Counsel. A Formal Investigation is a process of investigation of a Complaint lead by the General Counsel who will report findings of fact to the Board of Trustees.

The General Counsel will conduct the Formal Investigation in a fair, thorough, and complete manner, respecting the need for discretion and individual privacy for all parties involved to the extent permitted by applicable law. The General Counsel may engage a qualified third party to conduct the Formal Investigation. The process of the Formal Investigation, results of a Formal investigation, including recommendations for any disciplinary action up to and including termination of employment and/or legal action, will be provided to the Board with consideration for privacy and anonymity for all parties involved where permissible.

VI. REPORTING

The General Counsel will inform the Board of the existence and status of Complaints received, the number of ongoing Formal Investigations, and the progress of each Formal Investigation.

VI. RETALIATION PROHIBITED

There shall be no retaliation, reprisals, harassment, or adverse employment consequences with respect to any individual for:

- (a) disclosing good faith Complaints under this Policy; or
- (b) having participated or assisted, in good faith, in any process under this Policy.

An employee who retaliates against someone who has reported a violation in good faith is subject to discipline up to and including termination. Retaliation includes disciplinary measures, a demotion, termination of employment, any measure that adversely affects the employment or working conditions or a threat to take any of these actions. An employee may complain about a retaliation in accordance with the Personnel Policies or this Policy.

The Texas Government Code (GOV'T § 554.002 (a)) asserts that “A state or local governmental entity may not suspend or terminate the employment of, or take other adverse personnel action against, a public employee who in good faith reports a violation of law by the employing governmental entity or another public employee to an appropriate law enforcement authority.”

Reprisals constitute employee misconduct, which will not be tolerated by COAERS, and will result in discipline up to and including immediate termination of employment for cause. In addition, the employee could be liable for additional penalties under the Texas Government Code (GOV'T § 554.008) where it asserts that:

- (a) A supervisor who in violation of this chapter suspends or terminates the employment of a public employee or takes an adverse personnel action against the employee is liable for a civil penalty not to exceed \$15,000.
- (b) The attorney general or appropriate prosecuting attorney may sue to collect a civil penalty under this section.
- (c) A civil penalty collected under this section shall be deposited in the state treasury.
- (d) A civil penalty assessed under this section shall be paid by the supervisor and may not be paid by the employing governmental entity.
- (e) The personal liability of a supervisor or other individual under this chapter is limited to the civil penalty that may be assessed under this section.

VII. RETENTION OF RECORDS

COAERS will retain any records relating to allegations of questionable activity and investigations for at least seven (7) years or as otherwise required by law.

VIII. LEGAL CONFLICTS

In the case of any conflict between this Policy and state or federal law, the applicable state or federal law shall prevail.

IX. DISCLOSURE OF POLICY

It will be the Executive Director's responsibility to ensure that this Policy, including contact information, is shared with every Trustee, Key Staff, and employee at COAERS. In addition, the contents of this Policy are to be included into the required Ethics Training curriculum.

8. Receive report on the unaudited 2023 year-end financial statements

Presented by Yun Quintanilla



COMMITTEE MEETING Agenda Item Information Sheet

AGENDA ITEM 8:

Receive report on the unaudited 2023 year-end financial statements

AGENDA ITEM OBJECTIVE

This item presents the unaudited December 31, 2023 financial statements which show the net position of the fund and related financial details.

RECOMMENDATION FOR COMMITTEE ACTION

For informational purposes only; no action required.

ITEM SUMMARY

Staff will review the unaudited 2023 year-end financial statements. These statements will be the subject of the annual financial statement audit currently underway.

The Statement of Fiduciary Net Position shows that COAERS' net position increased by \$319 million as of December 31, 2023, compared to the previous year, primarily driven by investment appreciation.

As reflected on the Statement of Changes in Fiduciary Net Position, contributions to the System increased by \$28 million, or 13%, in 2023 compared to 2022. Income from investment appreciation in 2023 was \$355 million, which was an increase of \$905 million over the results from 2022. Benefit payments increased by \$9.7 million, or 3.7%, in 2023 compared to 2022.

RELEVANCE TO STRATEGIC PLAN

This agenda item meets **COAERS Strategic Plan Goal 2: Responsibly manage the risks of the System.**

ATTACHMENT

1. COAERS unaudited financial statements for the year ending December 31, 2023, including the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM
Statement of Fiduciary Net Position
December 31, 2023

	<u>Unaudited</u>		<u>Variance</u>
	<u>12/31/2023</u>	<u>12/31/2022</u>	Favorable (Unfavorable)
Assets			
Cash - operating account	\$19,557,740	\$10,816,741	\$8,740,999
Receivables:			
Employer contributions receivable	6,737,379	5,911,143	826,236
Employee contributions receivable	2,823,423	2,486,343	337,080
Other receivables	84,733	80,737	3,996
Total receivables	<u>9,645,535</u>	<u>8,478,223</u>	<u>1,167,312</u>
Other current assets	-	343,578	(343,578)
Investments, at fair value:			
US equities	1,116,277,928	991,544,324	124,733,604
Developed Markets Equities	516,343,438	441,380,450	74,962,988
Emerging Markets Equities	213,979,019	190,675,942	23,303,077
Fixed income	529,979,275	562,472,299	(32,493,024)
Real assets	444,758,625	466,812,054	(22,053,429)
Multi-asset	132,974,749	145,157,059	(12,182,310)
Cash and cash equivalents	268,302,785	143,209,031	125,093,754
Total investments	<u>3,222,615,819</u>	<u>2,941,251,159</u>	<u>281,364,660</u>
Capital assets, net	<u>32,527,687</u>	<u>3,403,389</u>	<u>29,124,298</u>
Total assets	<u>3,284,346,781</u>	<u>2,964,293,090</u>	<u>320,053,691</u>
Liabilities			
Payables			
Accrued expenses	945,982	631,875	(314,107)
Payables and deposits - Mueller	278,431	-	(278,431)
Refunds and death benefits payable	4,410,052	3,865,454	(544,598)
Total liabilities	<u>5,634,465</u>	<u>4,497,329</u>	<u>(1,137,136)</u>
Net position restricted for pensions	<u>\$3,278,712,316</u>	<u>\$2,959,795,761</u>	<u>\$318,916,555</u>

CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM
Statement of Changes in Fiduciary Net Position
For the Year ended December 31, 2023

	<u>Unaudited</u>		<u>Variance</u>
	<u>12/31/2023</u>	<u>12/31/2022</u>	Favorable (Unfavorable)
<u>Additions:</u>			
Contributions:			
Employer	\$163,936,590	\$146,799,396	\$17,137,194
Employee	68,595,819	61,463,435	7,132,384
Creditable service purchases	11,977,150	7,725,577	4,251,573
Total contributions	244,509,559	215,988,408	28,521,151
Investment Income:			
Realized gain/(loss) on investments	10,715,907	(76,668,590)	87,384,497
Unrealized gain/(loss) on investments	296,437,635	(515,850,896)	812,288,531
Net appreciation (depreciation) in fair value	307,153,542	(592,519,486)	899,673,028
Dividends	33,208,335	34,401,663	(1,193,328)
Interest	20,056,394	13,503,542	6,552,852
Less: Investment expense	(5,315,186)	(5,599,635)	284,449
Net Investment appreciation (depreciation)	355,103,085	(550,213,916)	905,317,001
DDA interest Income	841,271	126,935	714,336
Rent Income - Mueller	1,169,108	-	1,169,108
Total additions (deductions)	601,623,023	(334,098,573)	935,721,596
<u>Deductions:</u>			
Retirement annuities	262,300,709	248,043,103	(14,257,606)
Contributions refunded to terminating employees	4,033,161	5,075,851	1,042,690
DROP disbursements	2,541,362	4,166,660	1,625,298
Retiree lump-sum annuity	1,464,957	3,253,220	1,788,263
Death benefits	3,816,994	3,963,038	146,044
Total benefit payments, including refunds of member contributions	274,157,183	264,501,872	(9,655,311)
General and administrative expenses	7,410,397	6,763,638	(646,759)
Expenses - Mueller	1,138,888	-	(1,138,888)
Total deductions	282,706,468	271,265,510	(11,440,958)
Net increase (decrease) in net position	318,916,555	(605,364,083)	924,280,638
Net position restricted for pensions:			
Beginning of year	2,959,795,761	3,565,159,844	(605,364,083)
End of year	\$3,278,712,316	\$2,959,795,761	\$318,916,555

9. Receive report on COAERS Enterprise Risk Management program including funding, market, counterparty, and operational

Presented by Christopher Hanson



COMMITTEE MEETING Agenda Item Information Sheet

AGENDA ITEM 9:

Receive report on COAERS Enterprise Risk Management program including funding, market, counterparty, and operations

AGENDA ITEM OBJECTIVE

This agenda item is for discussion of four of the risk categories in the Enterprise Risk Management Report.

RECOMMENDATION FOR COMMITTEE ACTION

For informational purposes; no action required.

ITEM SUMMARY

The 2024 Enterprise Risk Management Report contains 12 risk categories. This meeting's focus will be the categories of funding, market, counterparty, and operational. Staff has provided a summary report of the presentation and the full Risk Management Report with all risk categories is provided in the Supplemental Materials.

RELEVANCE TO STRATEGIC PLAN

This agenda item meets **COAERS Strategic Plan Goal 2: Responsibly manage the risks of the System**. The Committee's regular review of COAERS Enterprise Risk Management System is one of the strategic objectives of Goal 2 and a key performance indicator is the successful implementation of all annual risk management activities.

ATTACHMENTS

1. Staff Report on Market, Funding, Counterparty, and Operational Risks
2. Staff Presentation on Market, Funding, Counterparty, and Operational Risks

SUPPLEMENTAL MATERIAL

1. First Quarter Enterprise Risk Management Report 2024



2024 First Quarter Risk Management Report Market, Funding, Counterparty, and Operational Risks

RISK CATEGORY: Market (Top Quartile)

Review of Recent Risk Management Activities

In 2023, COAERS completed both Actuarial/Liability (A/L) and strategic asset allocations studies after the passage of SB 1444. The A/L Study detailed how the legislation would significantly improve outcomes for the System, including future cash flows, allowing COAERS to consider more illiquid asset classes such as private credit and private equity. The Board adopted a new strategic asset allocation that included private credit with the first investment approved in December 2023.

2024 Risk Management Activities

1. At its February 2024 meeting, the Investment Committee reviewed the Global Equity asset class and referred its recommendations related to benchmarking and the Premier List to the Board.
2. The Investment Committee discussed the annual review of COAERS Investment Policy Statement and directed staff to develop proposed changes for consideration at an upcoming Committee meeting.
3. COAERS General Investment Consultant RFP was issued in January, and seven bids were received by the bid closing deadline. The Investment Committee approved the RFP scoring matrix at its February meeting. Staff is currently reviewing the bids and will report back to the Investment Committee in April.
4. RVK presented the results of the most recent "Investment Practices and Performance Evaluation" report to the Investment Committee. The report included 24 recommendations. The Committee referred the report to the Board and directed Staff to draft a management response to each recommendation.

RISK CATEGORY: Funding (Top Quartile)

Review of Recent Risk Management Activities

The passage of SB 1444 during the 88th Legislative Session will improve the long-term financial health of COAERS through the implementation of new contribution and benefit policies.

2024 Risk Management Activities

1. COAERS consulting actuary will present the preliminary results of the December 31, 2023 actuarial valuation to the Benefits and Services Committee in March. The final report will be issued in April pending approval of the results by the Board at its March 28 meeting.
2. Staff has created an initial draft of a new Funding Policy aligned with the provisions of SB 1444. Pension Review Board statute requires Funding Policies to be a collaborative effort between the retirement system and its plan sponsor. Therefore, Staff has provided a copy of the initial draft to



the City for its input and recommendations. A final draft will be presented to the Board and City Council later in 2024.

3. Every five years, the City is required to conduct an actuarial audit of the most recent actuarial valuations of any of its retirement systems. An initial draft of the COAERS audit did not identify any significant deficiencies in reporting or in how the actuarial assumptions were determined. The final report is set to be presented in April.
4. COAERS Staff regularly projects and monitors the cash needs of the System. Beginning in 2024, due to the passage of SB 1444, cash projections show significant improvement which means less money is expected to be drawn from the Fund to pay the benefits of COAERS members. Staff develops annual projections and reviews them each quarter to ensure appropriate oversight of cash needs.

RISK CATEGORY: Counterparty (Second Quartile)

2024 Risk Management Activities

1. COAERS General Investment Consultant RFP was issued in January and seven bids were received by the bid closing deadline. The Committee approved the RFP scoring matrix at its February meeting. Staff is currently reviewing the bids and will report back to the Committee in April.
2. The Investment Committee reviewed the Global Equity asset class at its February meeting with recommendations for the premier list being referred to the Board.
3. COAERS IT security team is working with a vendor who provides in-depth reviews of the vendor IT security posture. This data is intended to identify third-party vendors who could pose a risk to COAERS via the vendor's own IT security weaknesses. The security team is determining the best procedures to utilize this information to manage COAERS counterparty risk to its vendors. The general investment consultant RFP will provide the first RFP opportunity for COAERS to deploy its third-party risk management program.

RISK CATEGORY: Operational (Second Quartile)

2024 Risk Management Activities

1. COAERS Staff has held several meetings and planning sessions with the financial statement auditor, CLA, in preparation for the December 31, 2023 financial statement audit. CLA is presenting required communications as part of the audit process to the Committee at its March meeting. The final audit report will be presented to the Audit and Risk Committee at its June meeting.
2. In 2023, one of the largest providers of death audit services (PBI) was breached in the "MOVEit" cyber-attack. While COAERS was not impacted, the company COAERS had previously utilized for death audit services, Berwyn Group, was scheduled to be acquired by PBI. Peers impacted by the cyber-attack provided feedback to COAERS Staff that PBI was not responsive nor helpful in dealing with the fallout of the cyber-attack. Staff decided to seek another vendor to provide death audit services. After an extensive search, Staff selected a new vendor and is in the process of deploying that vendor for death audit services.



3. Staff is working with a consultant to determine next steps in utilizing technology to improve the efficiency of COAERS financial operations. Key goals include software integration, data modernization, and automation development.



Risk Management Report: Market, Funding, Counterparty, and Operational Risks

Audit and Risk Committee

March 6, 2024

2024 Enterprise Risk Management Report: Quarterly Review

	Risk Category	Risk Description	2024 Rank	2023 Rank	Risk Level 2024	Risk Level 2023	Expected Risk Level Trend (next 12 months)	Risk Response	Risk Owner	Reporting and Oversight Committee
1st Quartile Risk	MARKET	Too little or too much exposure to market risk could lead to undesirable investment outcomes.	1	2	High	High	↑	Accept	Chief Investment Officer	Investment Committee
	CYBER	Ineffective cyber security controls could lead to breaches or sabotage of COAERS systems. Unauthorized access of confidential information could result in state or federal law violations and harm the best interests of COAERS.	2	3	High	High	↑	Mitigate	Chief Information Officer	Audit and Risk Committee
	FUNDING	A lack of sound funding for the plan could lead to insufficient assets to pay for long-term benefits and financial obligations.	3	1	High	High	↓	Mitigate	Executive Director	Benefits and Services Committee
2nd Quartile Risk	COUNTERPARTY	Business partners or entities are unable to fulfill their obligations or do not complete transactions as agreed upon.	4	6	Medium	Medium	↑	Mitigate	Executive Director, Deputy Executive Director, Chief Investment Officer, Chief Financial Officer, Chief Information Officer	Investment Committee, Audit and Risk Committee, Benefits and Services Committee, and Policy Committee
	OPERATIONAL	Event causes a major business interruption	5	4	Medium	Medium	↔	Mitigate	Deputy Executive Director	Audit and Risk Committee
	PERSONNEL	Ability to attract and retain talented staff; succession planning	6	9	Medium	Medium	↑	Mitigate	Executive Director	Governance and Human Resources Committee, and Board of Trustees
3rd Quartile Risk	PHYSICAL	Inadequate facilities management; ineffective space utilization; staff effort to manage issues	7	10	Medium	Low	↑	Mitigate	Executive Director and Deputy Executive Director	Board of Trustees
	LEGISLATIVE	Legislative events lead to adverse relations, unfavorable legislation, and restricted funding	8	5	Medium	Medium	↓	Mitigate	Executive Director	Legislative Committee
	ADAPTABILITY	Inability to meet the strategic mission and vision of the organization; not achieving best outcomes for the system	9	12	Medium	Low	↑	Mitigate	Executive Director	Board of Trustees
4th Quartile Risk	REPUTATIONAL	Erosion of trust in organization either rapidly or slowly over a period of time	10	11	Low	Low	↔	Mitigate	Executive Director	Board of Trustees
	MISSION	Inability to make monthly retirement benefit payments	11	7	Low	Medium	↓	Mitigate	Executive Director and Deputy Executive Director	Audit and Risk Committee, and Investment Committee
	GOVERNANCE	Not following processes and procedures in decision making	12	8	Low	Medium	↓	Mitigate and Transfer	Board of Trustees	Governance and Human Resources Committee



Market Risks

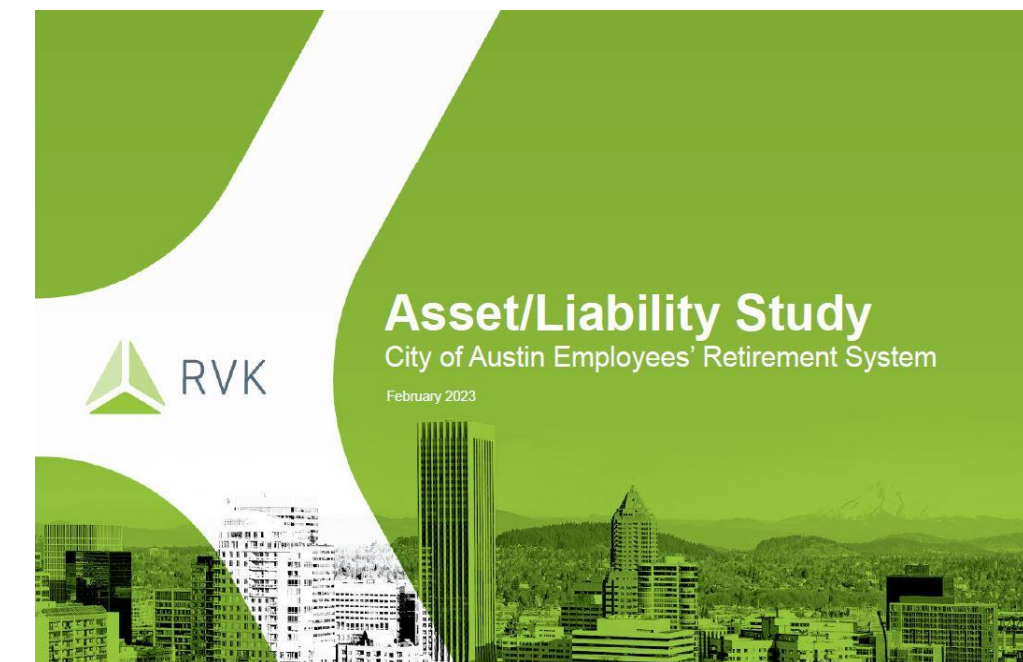
First Quartile Risk

1st Quartile Risk

Risk Category	Risk Description	Rank	Risk Level		Expected Risk Level	Risk Response	Risk Owner	Reporting and Oversight Committee		
			2024	2023	Trend (next 12 months)					
MARKET	Too little or too much exposure to market risk could lead to undesirable investment outcomes.	1	High	High	↑	Accept	Chief Investment Officer	Investment Committee		
Current Status Summary (Trending)	2024 Risk Management Activities								Activity Status	
US Market performance was largely driven by a small number of stocks, with cap-weighted significantly outperforming equal-weighted strategies. Higher interest rates have made cash an attractive source of return, especially compared to longer date US Treasuries. Geopolitics, interest rates, inflation, and long-term economic growth are concerns moving forward. Market and economic risks are significantly elevated.									OPEN	CLOSED
	Implement new Strategic Asset Allocation and review all asset class and sub-asset class allocations, benchmarks								X	
	Update Investment Policy Statement including review of risk management, asset allocation, and benchmarks								X	
	Investment Consultant RFP								X	
	Investment Practices and Performance Evaluation report								X	
Notable Risks (Root Causes)			Probability	Impact	Risk Management Strategies and Action Items					
Large market drawdown			High	High	Strategic Asset Allocation Reviews (annual), Diversification, Investment Risk Framework					
Lower longer-term performance vs. assumed rate			Medium	High	Strategic Asset Allocation Study and Asset/Liability Study					
Failure to adapt diversification strategy			Medium	High	Strategic Asset Allocation studies, regular asset-class and sub-asset class reviews					
Poor investment manager performance			Medium	Medium	Manager monitoring report, compliance dashboard, Premier List					
Poor implementation of policy leads to underperformance vs. the benchmark			Medium	Medium	Annual review of key policies, regular performance rating					
Poor value for investment fees paid			Low	Medium	Premier List and CEM Investment Benchmarking					
Chasing performance			Low	Medium	Strategic Asset Allocation Reviews (annual)					

Key Risk Management Strategies

- In 2023, COAERS conducted Asset/Liability and strategic asset allocation studies



- Staff and consultant monitor the market environment and specific risks to the Fund, reporting the to the IC each quarter



COAERS Investment Strategy Dashboard as of 2021-Q4

INVESTMENT GOALS

- Achieve long-term, annualized nominal rate of return net of fees that:
 - Meets or exceeds the assumed actuarial rate of return for the System

	3Y	5Y	10Y
COAERS Fund - Net Return	14.73%	10.63%	9.39%
COAERS Actuarially Assumed Rate of Return	7.00%	7.00%	7.00%
Difference	7.73%	3.63%	2.39%
Status	ABOVE	ABOVE	ABOVE

 - Ranks in the top quartile of peer comparisons consistently versus all peers and incorporating fee levels equal to the CEM Benchmarking median of 80bps

	3Y	5Y	10Y
COAERS Fund - Net Return	14.73%	10.63%	9.39%
Top Quartile Net Return - All Peers	15.53%	11.08%	9.53%
Difference	-0.80%	-0.45%	-0.14%
Status	BELOW	BELOW	BELOW
- Achieve a long-term, risk-adjusted relative rate of return net of fees that:
 - Meets or exceeds the Passive Index (i.e. the Reference Portfolio)

	3Y	5Y	10Y
COAERS Fund - Net Return	14.73%	10.63%	9.39%
COAERS Passive Index - Gross Return	13.72%	10.11%	7.91%
Difference	1.01%	0.52%	1.28%
Status	ABOVE	ABOVE	ABOVE

 - Incorporating fee levels for the Passive Index that are consistent with best COAERS Premier List fees (11bps)

	3Y	5Y	10Y
COAERS Fund - Net Return	11.61%	10.00%	7.80%
COAERS Passive Index - Net Return	11.2%	9.8%	7.6%
Difference	0.41%	0.20%	0.20%
Status	ABOVE	ABOVE	ABOVE
- Meets or exceeds the Policy Index (i.e. the Strategic Benchmark)

	3Y	5Y	10Y
COAERS Fund - Net Return	14.73%	10.63%	9.39%
COAERS Policy Index - Gross Return	13.54%	10.70%	9.17%
Difference	1.19%	-0.07%	0.22%
Status	ABOVE	BELOW	ABOVE

- Assuming fee levels for the Policy Index that are consistent with best COAERS Premier List fees (11bps)

	3Y	5Y	10Y
COAERS Fund - Net Return	14.73%	10.63%	9.06%
COAERS Policy Index - Net Return	15.43%	10.65%	9.06%
Difference	-0.70%	-0.02%	0.13%
Status	BELOW	BELOW	ABOVE

Investment returns are presented in an annualized net basis unless otherwise noted

COAERS Compliance Dashboard as of 2021-Q4

INVESTMENT STRATEGY

- Pursue a superior investment strategy by conducting:
 - Formal Asset/Liability Study every 5 years or upon major changes to contributions, benefits, or capital markets.

Asset/Liability Study	Completion Date	As of Date	Service Provider
	May 2018	December 2017	RVK

 - Formal Asset Allocation Study every 3 years.

Strategic Asset Allocation Study	Completion Date	As of Date	Service Provider
	February 2021	December 2020	RVK

 - Review of Strategic Asset Allocation parameters at least every 1 year.

Strategic Asset Allocation Review	Completion Date	As of Date
	February 2021	December 2020

 - Review of IPS and IIP at least annually or upon major changes in capital markets or industry practices.

Investment Policy Statement	Last Revision Date	Last Revision Date
Investment Policy Statement	March 30, 2021	March 30, 2021
Investment Implementation Policy	June 29, 2021	June 29, 2021
- Maintain proper diversification of assets by:
 - Revising investment concentration levels in any single public corporation.

Individual Holding Concentration Limits	Current Concentration	Limit	Status
3% of the Fund in the securities of any one company	Equinix INC	0.6%	OK
5% of the Fund of any class of voting security of any one company	Equinix INC	0.6%	OK

 - Revising investment concentration levels in any single investment manager or investment vehicle.

Investment Manager Concentration Limits	Current Concentration	Limit	Status
43% of Fund assets with any active manager	Raymond IM	8.4%	OK
43% of Fund assets with any passive manager	Legal & General	12.7%	OK
42% of firm assets for any manager	Agriculture	5.7%	OK
42% of vehicle assets unless a used investment	LOKMA MSCI USA	9.3%	OK

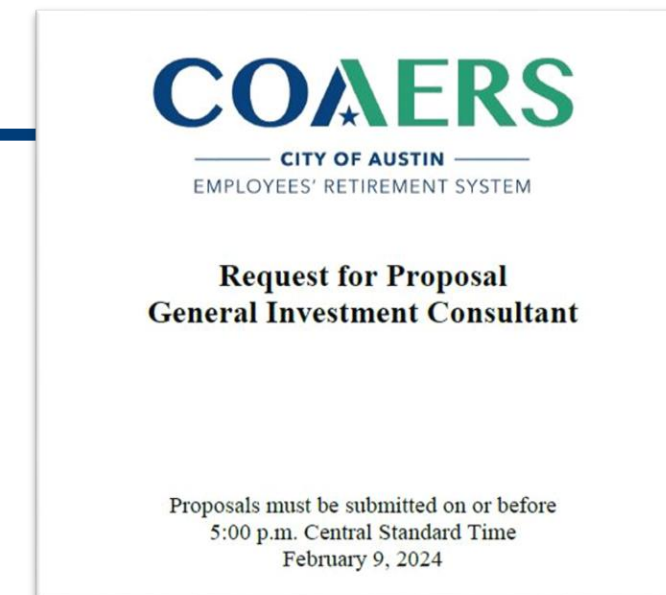
FUND LIQUIDITY

- Ensure sufficient liquidity to meet benefit payment and other obligations by:
 - Review allocation to highly liquid investments quarterly.

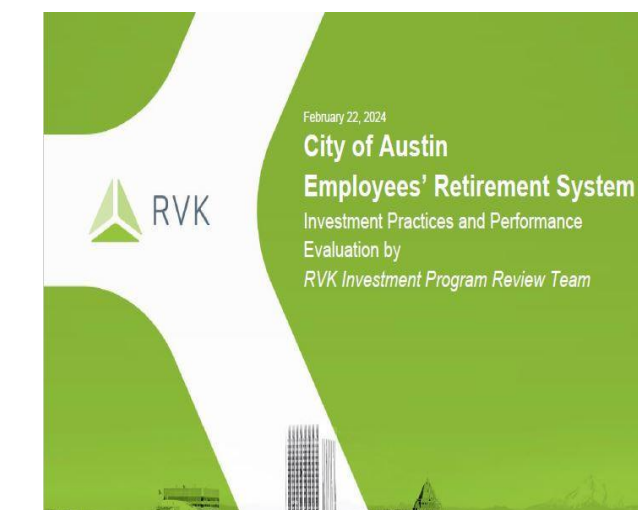
Liquidity	\$ million	% of Fund	Accounts Included
0 - 5 Days	2,663	76%	All except those listed below
5-30 Days	598	17%	1007 PGM, DoubleLine, Fidelity, AgriQuest
30+ Days	235	7%	Principal, IMA

2024 Risk Management Activities

- General Investment Consultant RFP Issued and bids received



- Investment Practices and Performance Evaluation presented to IC and referred to Board



- Global Equity asset class review conducted at February IC with benchmark and premier list recommendations referred to Board





Funding Risks

First Quartile Risk

1st Quartile Risk	Risk Category	Risk Description	Rank	Risk Level 2024	Risk Level 2023	Expected Risk Level Trend (next 12 months)	Risk Response	Risk Owner	Reporting and Oversight Committee		
	FUNDING	A lack of sound funding for the plan could lead to insufficient assets to pay for long-term benefits and financial obligations.	3	High	High	↓	Mitigate	Executive Director	Benefits and Services Committee		
	Current Status Summary (Trending)	2024 Risk Management Activities								Activity Status	
	Passage of SB 1444 moves the System to an actuarial-based contribution model and includes funding for the existing UAAL (legacy liability) and increases the employee contribution rate. Risk still exists due to the cap on contributions from the City and Members which could be triggered due to exceptional market and economic uncertainty.									OPEN	CLOSED
		Begin review of actuarial assumptions in advance of 2025 Experience Study									
		Conduct 12/31/2023 actuarial valuation								X	
		Update Funding Policy with City of Austin and continue reporting to Board								X	
		Receive and review actuarial audit conducted by the City								X	
		Provide report on funded status and risks of the System to key stakeholders									
	Continue regular cash flow and benefit monitoring.								X		
Notable Risks (Root Causes)				Probability	Impact	Risk Management Strategies and Action Items					
Assets insufficient to fund liabilities				Medium	High	Annual Actuarial Valuation and Board Funding Policy					
Contribution rates are not sufficient to fund benefits				Medium	High	Asset/Liability Study					
Unexpected decline in sponsor payroll				Medium	Medium	Cash flow monitoring and monthly benefit reporting					
Rate of Return assumption too aggressive				Medium	Medium	Actuarial Experience Studies					
Unexpected increase in benefits payroll				Medium	Medium	Cash flow monitoring and monthly benefit reporting					
Sponsor closes DB plan in favor of DC plan				Low	Medium	Communication with membership					
Actuarial miscalculation				Low	Medium	Actuarial Audit by sponsor					

COAERS/City of Austin Pension Legislation

- Passage of SB 1444 during the 88th Legislative Session will ensure the long-term financial stability of COAERS

By: Zaffirini, Eckhardt S.B. No. 1444

A BILL TO BE ENTITLED

1 AN ACT

2 relating to the public retirement systems for employees of certain

3 municipalities.

4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

5 SECTION 1. Section 2, Chapter 451, Acts of the 72nd

6 Legislature, Regular Session, 1991 (Article 6243n, Vernon's Texas

7 Civil Statutes), is amended by adding Subdivisions (2A), (3A),

8 (5A), (5B), (10A), (10B), (13A), (13B), (13C), (19A), (19B), (19C),

9 (20A), (26A), (26B), (26C), (26D), (26E), (29A), (31A), (31B),

10 (33A), (33B), (35A), (44A), and (44B) to read as follows:

11 (2A) "Actuarial accrued liability" means the portion

12 of the actuarial present value of projected benefits of the

13 retirement system attributed to past periods of member service

14 based on the cost method used in the risk sharing valuation study

15 under Section 10B or 10C of this Act, as applicable.

16 (3A) "Actuarial value of assets" means the value of

17 the retirement system's assets as calculated using the asset

18 smoothing method used in the risk sharing valuation study under

19 Section 10B or 10C of this Act, as applicable.

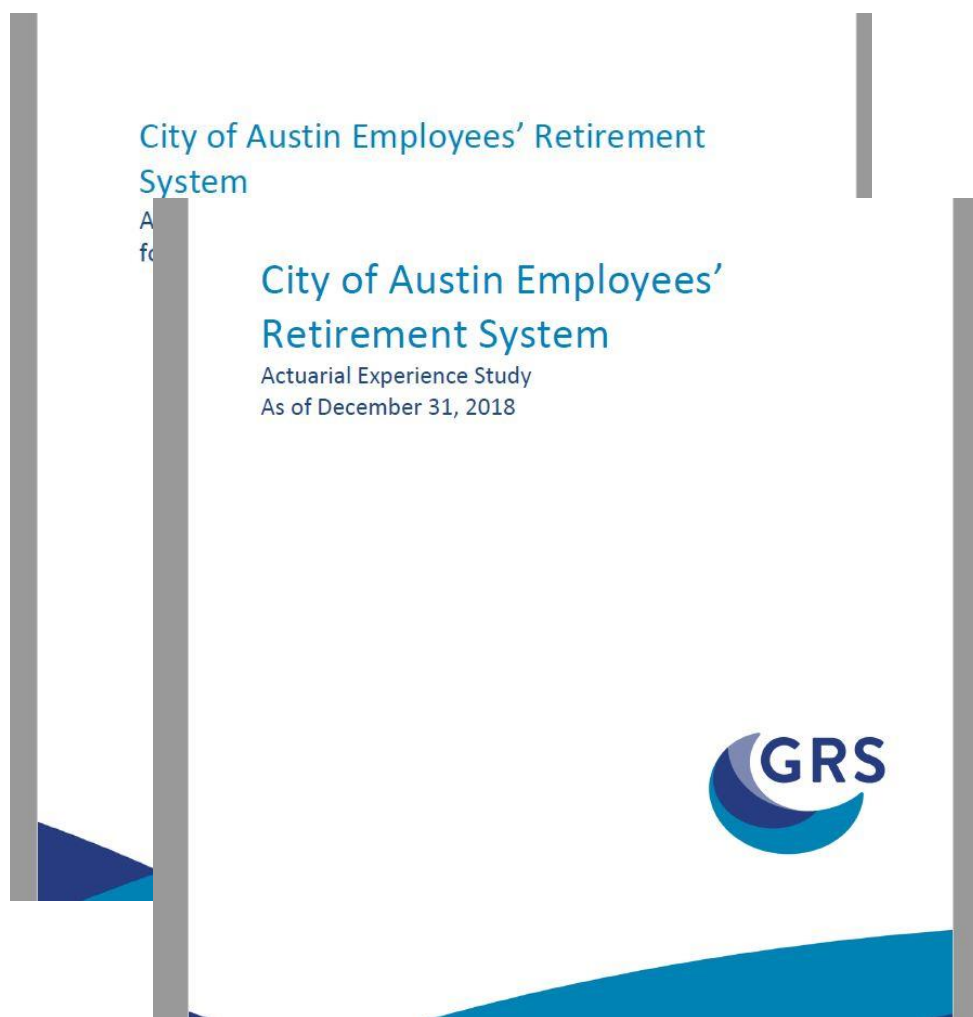
20 (5A) "Amortization period" means:

21 (A) the period necessary to fully pay a liability

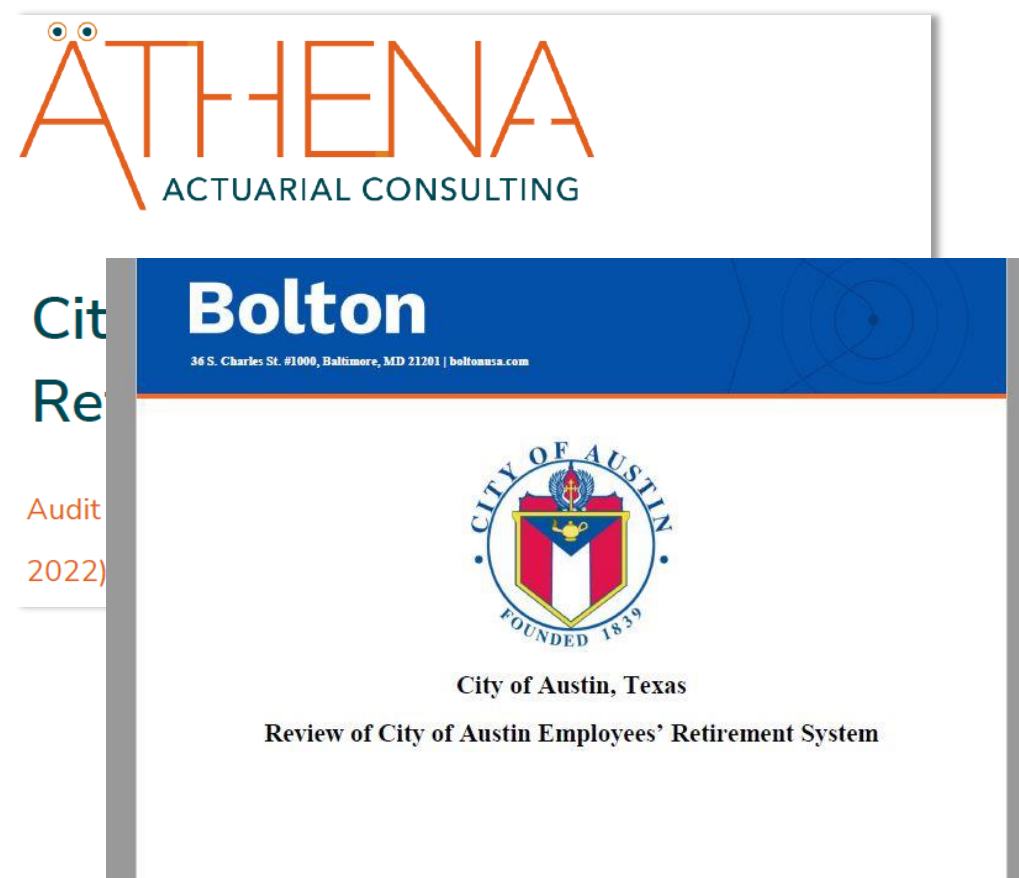
22 layer; or

Key Risk Management Strategies

- The Board receives regular actuarial and system funding reports to monitor the ability of the System to meet its obligations



Reports from GRS Consulting



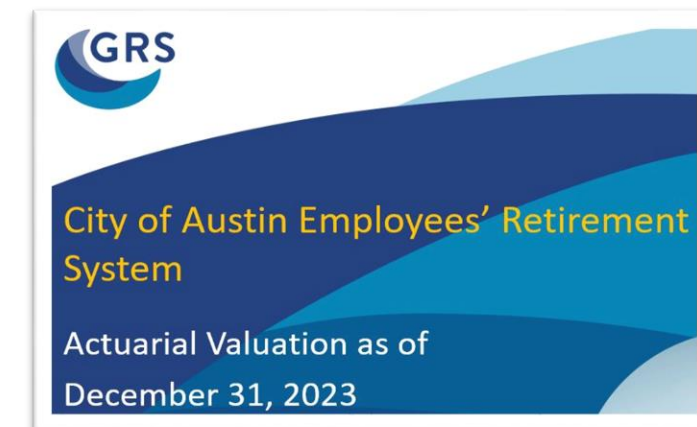
Actuarial Audit of COAERS Actuary

2024 CASH FLOW PROJECTION - RECEIPTS				STRESSED
	CONTRIBUTIONS FOR CITY PAYROLL: EMPLOYEE 9% + CITY	LEGACY LIABILITY PAYMENTS	NOMINAL TOTAL 2024 PROJECTED CITY CONTRIBUTIONS	2024 PROJECTED CITY RECEIPTS
2024	8.68% = 17.68%			
JAN	12,376,000	7,607,398	19,983,398	19,364,598
FEB	12,406,940	7,607,398	20,014,338	19,393,991
MAR (3)	18,656,820	11,411,097	30,067,917	29,135,076
APR	12,468,820	7,607,398	20,076,218	19,452,777
MAY	12,499,760	7,607,398	20,107,158	19,482,170
JUN	12,530,700	7,607,398	20,138,098	19,511,563
JUL	12,561,640	7,607,398	20,169,038	19,540,956
AUG (3)	18,888,870	11,411,097	30,299,967	29,355,524
SEP	12,623,520	7,607,398	20,230,918	19,599,742
OCT	13,128,461	7,607,398	20,735,859	20,079,436
NOV	13,136,240	7,607,398	20,743,638	20,086,826
DEC	13,153,920	7,607,398	20,761,318	20,103,622
	164,431,691	98,896,174	263,327,865	255,106,280

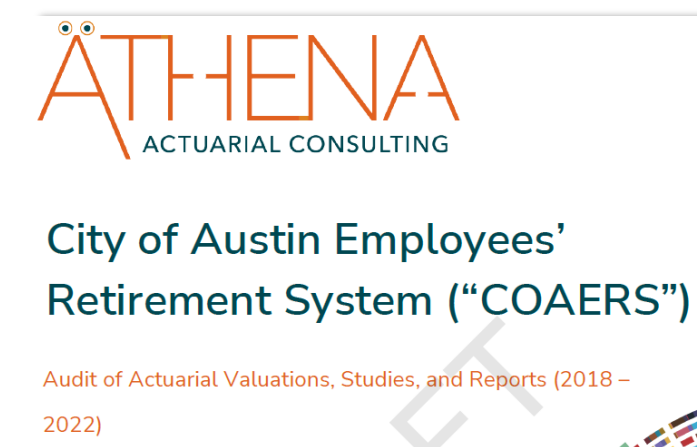
Cash Flow Monitoring

2024 Risk Management Activities

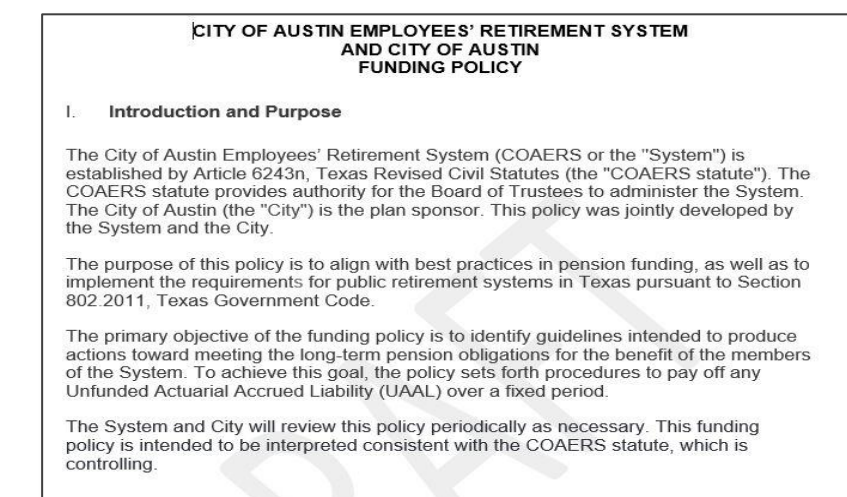
- 12/31/2023 Actuarial Valuation results to be presented to B&S Committee



- Required actuarial audit of COAERS actuary to be completed in Spring



- New Funding Policy draft provided to City with adoption later in 2024






Counterparty Risks

Second Quartile Risk

Risk Category	Risk Description	Rank	Risk Level	Risk Level	Expected Risk Level Trend (next 12 months)	Risk Response	Risk Owner	Reporting and Oversight Committee	
			2024	2023					
COUNTERPARTY	Business partners or entities are unable to fulfill their obligations or do not complete transactions as agreed upon.	4	Medium	Medium	↑	Mitigate	Executive Director, Deputy Executive Director, Chief Investment Officer, Chief Financial Officer, Chief Information Officer	Investment Committee, Audit and Risk Committee, Benefits and Services Committee, and Policy Committee	
Current Status Summary (Trending)	2024 Risk Management Activities							Activity Status	
Key vendor relationships are well-established and vendors are generally meeting expectations. Committees review key service providers such as investment consultant, actuary, and legal counsel. Recent cyberattacks against pension industry third-parties have escalated and remain a significant risk. Additionally, new vendor relationships are being established as the organization grows which increases potential counterparty risk.								OPEN	CLOSED
	Continual underwriting of premier list managers and expanding premier list concept to other lines of business							x	
	Complete RFP for General Investment Consultant.							x	
	Comprehensive review of custodial bank relationship								
	Annual review of consultants and key service providers.								
Develop comprehensive program of third-party IT security audits for key service providers.							x		
Notable Risks (Root Causes)			Probability	Impact	Risk Management Strategies and Action Items				
IT security providers and consultants			Medium	High	Annual 3rd party security reviews; Compliance Manager software; Vendor Risk				
City of Austin contribution issues or data issues			Medium	High	Communication with plan sponsor; cash management program				
Actuary			Medium	Medium	Actuarial audits				
Investment consultant			Medium	Low	Annual review of general investment consultant, issuance of RFP				
Custodial banks			Low	High	IC Dashboard to monitor counterparty ratings				
Legal counsel			Low	Medium	Engagement with specialized counsel				
Investment managers			Low	Medium	Premier List; Due Diligence				
Operating bank			Low	Medium	Monitor operating bank counterparty ratings; conduct security assessment; revisit interest credit rates; research alternative vendors				
Brokers and related vendors			Low	Low	Transaction Cost Analysis				
Medical consultants			Low	Low	Engagement with multiple parties including outsourced medical service provider				

2nd Quartile Risk

Key Risk Management Strategies



Report on COAERS' Financial Statement Audit Firm


Summary rating: Good. CliftonLarsonAllen (CLA) has the depth and expertise to provide valuable financial statement assurance services to COAERS.

Scope of the Relationship: The purpose of the financial statement audit is to provide the Board of Trustees with information on whether the financial statements are prepared within an appropriate framework that intends to provide a true and fair view.

CLA has provided services for the December 2021 financial statement in accordance with the audit plan.

Independence: The firm is independent and current and does not have any relationships that could impair its objectivity and independence in the performance of the audit.

Personnel: The audit was performed by Bhakti Patel, CPA, and local government auditors of Virginia and University of Virginia and Virginia State University. Mr. Cobb has a Master's degree in accounting from Trinity University. He is a member of the AICPA and holds CPA licenses in Texas and New Jersey.



Report on COAERS Medical Consultants

Summary rating: Good. The two primary medical consultants provide fact-based opinions and additional providers can be utilized if needed.


Medical Consultants Information: Dr. Harold Skaggs, Jr. and Dr. Jonathan Dechard provide primary medical consultation to COAERS. Dr. Skaggs earned his medical degree from the University of Texas Medical School and performed his residency in neurology at the Mayo Graduate School of Medicine. He practiced neurology in Austin, Texas for more than 25 years. Dr. Dechard is also a University of Texas Medical School graduate and an American Board Certified in Internal Medicine. He practiced internal medicine for 25 years.

Representation: The services for our primary medical consultants are under a written agreement which establishes the scope and remuneration. The fees are as follows:

Availability application: The fee for a written application with staff prior to Board or Committee meeting, or Board or Committee appearance, for services (e.g. consultation concerning System process) will also be \$18.61 per request.

The fee is based upon the Consumer Price Index (CPI) established by the U.S. Department of Labor for medical care for the Houston-Galveston-Brazoria, Texas area.

Dr. Skaggs and Dechard continue to provide consistent, fact-based medical consultation to COAERS. COAERS also has the benefit of Ms. Tania Glen. Ms. Glen provides a prompt and efficient response and the treatment of post-traumatic stress disorder. COAERS can also use Medical Equation, an Austin-based medical management company that offers a variety of medical utilization management services for several lines of business including peer review and medical review. Medical Equation maintains a relationship with Medical Equation so that COAERS can procure their services if they may be needed.



Staff Report on COAERS' Actuarial Consulting Firm

Excellent. GRS Retirement Consulting has provided thorough and assistance with preparing for legislative changes.

COAERS has retained the services of GRS Retirement Consulting (formerly Coeder, Smith and Company) for actuarial consultation services. GRS is an actuarial and benefits consulting firm. Mr. Lewis Ward and Mr. Ryan Ward are the lead actuaries at GRS. Mr. Ward has served as the COAERS lead consultant for more than 25 years.

GRS staff is known for their responsiveness, communication, and expertise. GRS advises many other local and national public retirement systems. GRS provides the GRS staff with a broad perspective of the industry that they serve. Of note recently is Mr. Ward's analysis and assistance with preparing legislation for the 88th Legislature and his assistance with the implementation of the RVK. Mr. Ward is responsive and works effectively with the COAERS staff and other local partners (e.g. City working group and RVK).

Representation: GRS provides services to COAERS under an engagement letter that defines the scope and fees of the relationship. The current engagement letter expires at the end of 2024.

	Engagement Letter Period		
	2022	2023	2024
Actuarial Services	\$44,000	\$45,000	\$46,000
Actuarial Science Study			\$45,000
Actuarial Meeting	\$2,300	\$2,400	\$2,500
Actuarial Assistance			
368 City Information	\$3,500	\$3,600	\$3,700
368 City Falls	\$440	\$450	\$460
368 City Ward	\$390	\$400	\$410
368 City Analyst	\$270	\$275	\$280
368 City Act	\$220	\$225	\$230
368 City Report	\$180	\$185	\$190

Annual Reviews of Key Consultants and Service Providers

Key Risk Management Strategies

JPM Chase Hybrid DDA (Demand Deposit Account)

August 2022

Background

COAERS' operating bank account at JPM Chase is a non-interest-yielding account. To offset banking fees, Chase applies Earnings Credit Rate (ECR) based on COAERS monthly average investable balance. Starting in May 2022, ECR was increased to 0.50% then 0.95% in July, which led to the large excess Earnings Credit Allowance (ECA). In July, the balance needed to cover service charges drastically decreased to \$4.5M from \$9.5M, the month before.

MONTH	AVERAGE NET LEDGER BALANCE (\$)	AVERAGE NET COLLECTED BALANCE (\$)	INVESTABLE BALANCE (\$)	BALANCE EQUIVALENT TOTAL SERVICE CHARGES (\$)	EXCESS/ (DEFICIT) INVESTABLE BALANCE (\$)	EARNINGS ALLOWANCE RATE (%)	EARNINGS ALLOWANCE (\$)	BALANCE COMPENSABLE SERVICE CHARGES (\$)	EXCESS/ (DEFICIT) EARNINGS ALLOWANCE (\$)	
JAN	28,625,474	28,615,532	28,615,532	22,743,953	5,871,579		5,590	4,443	1,147	
FEB	27,828,507	27,823,046	27,823,046	22,924,890	4,898,156		4,909	4,045	854	
MAR	27,454,905	27,393,578	27,393,578	21,424,783	5,968,795		5,351	4,185	1,166	
APR	26,840,612	26,833,617	26,833,617	18,291,019	8,542,598		6,175	4,209	1,966	
MAY	23,534,294	23,452,604	23,452,604	9,050,139	14,402,464		9,959	3,843	6,116	
JUN	23,935,400	23,923,811	23,923,811	9,467,857	14,455,954		9,832	3,891	5,941	
JUL	22,317,879	22,314,120	22,314,120	4,545,644	17,768,476		18,004	3,668	14,336	
JAN - JUL AVERAGE	25,783,888	25,765,187	25,765,187	15,482,612						
JAN - JUL NET							71,908,024	59,821	28,285	31,536

Hybrid DDA

Hybrid DDA Combines two Liquidity Products: A DDA with Earnings Credit and an Interest-Bearing DDA.

- ECR is applied to a predetermined balance threshold (ECR Peg); funds over the ECR Peg earn hard dollar interest
- Benefit of full liquidity throughout the business day with no restrictions on withdrawals
- Funds are housed in a single account earning both ECR and interest rate
- Interest accrues daily and is paid monthly; in August 2022, interest rate is 1.4%

Operating Bank Earnings Credit Rate Analysis

COAERS Compliance Dashboard as of 2022-Q1

FUND LEVERAGE

4. Monitor level of risk associated with leverage at the Fund level and within portfolios.

COUNTERPARTY MANAGEMENT

5. Monitor risk of loss from counterparty default and/or insolvency.

Bank of New York Mellon

Bank of New York Mellon

Futures Commission Merchant: Must be at least A+ (Moody's Short Term Rating P-1 and Long Term Rating A1)

J.P. Morgan Securities, LLC

J.P. Morgan Securities, LLC

IC Compliance Dashboard with Counterparty Risk Management Data

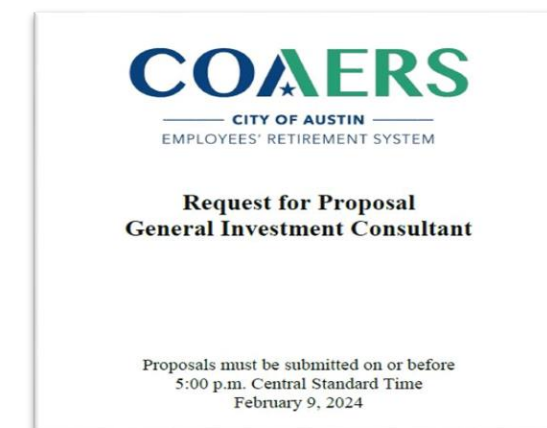
Fixed Income Monitor

City Of Austin
Fourth Quarter 2021

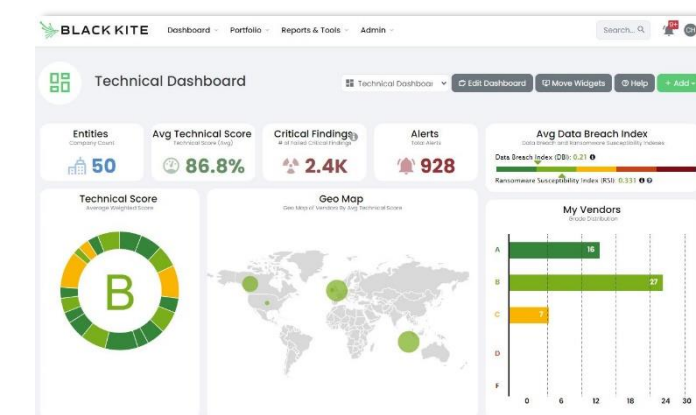
Transaction Cost Analysis

2024 Risk Management Activities

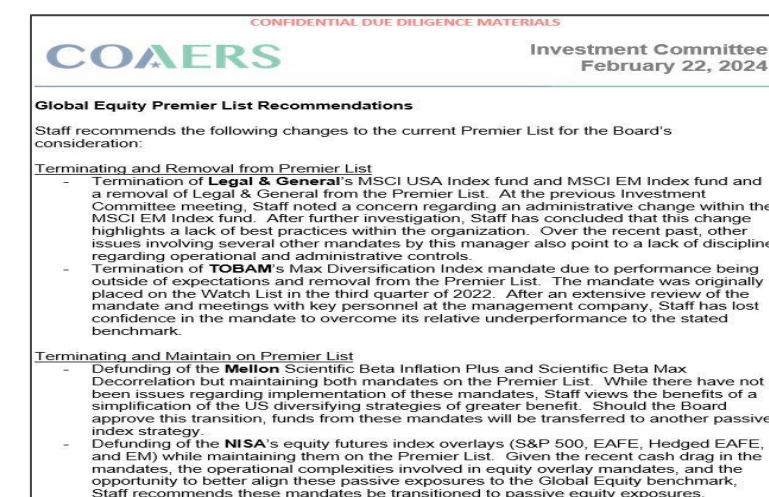
- General Investment Consultant RFP Issued and bids received



- IT Security Team developing procedures to assess security risk of COAERS vendors



- Global Equity asset class review conducted at February IC with premier list recommendations referred to Board





Operational Risks

Second Quartile Risk

2nd Quartile Risk

Risk Category	Risk Description	Rank	Risk Level 2024	Risk Level 2023	Expected Risk Level Trend (next 12 months)	Risk Response	Risk Owner	Reporting and Oversight Committee	
OPERATIONAL	Event causes a major business interruption	5	Medium	Medium	↔	Mitigate	Deputy Executive Director	Audit and Risk Committee	
Current Status Summary (Trending)	2024 Risk Management Activities							Activity Status	
Customer survey results are positive and within strategic plan threshold. New audit firm relationship is strong. Policies and procedures update. Financial controls in place. However, new business location creates possible risks to operations that must be properly managed.								OPEN	CLOSED
	Conduct 12/31/2023 financial statement audit							x	
	Continue efforts to optimize finance division's use of technology to improve efficiency							x	
	Continue the development of COAERS IT Roadmap for operational technology upgrades in the future.								
Complete due diligence and implementation of new death audit services							x		
Notable Risks (Root Causes)			Probability	Impact	Risk Management Strategies and Action Items				
Obsolescence of service delivery methods			Medium	Medium	Communication with membership regarding business operations				
IT disruptions			Medium	Medium	Capital Improvement Plan				
Customer service failures			Medium	Medium	Employee Training/Reviews/Internal Communication				
Pandemic or natural disaster			Low	Medium	COAERS Workplace Strategy and Guidelines				
Accounting and reporting			Low	High	Financial Statement Audit				
Fraud			Low	High	Internal controls, policies, and procedures				
Business Continuity			Low	High	Backup & Disaster Recovery Plan/Testing				
Failure to follow applicable laws, regulations and policies			Low	Medium	Legal reviews by tax and general counsel				
Benefit payment inaccuracies			Low	Medium	Internal controls, policies, and procedures				
Records management			Low	Low	Electronic File & Delivery Systems				

Key Risk Management Strategies

City of Austin Employees' Retirement System Administrative Standard Operating Procedure Internal Controls

COAERS
CITY OF AUSTIN
EMPLOYEES' RETIREMENT SYSTEM

**Authentication,
Fraud Reporting, and ACH Reissuance**

COAERS
CITY OF AUSTIN
EMPLOYEES' RETIREMENT SYSTEM
COAERS Process Memo
Custodial Banking Transaction Oversight and Approval Processes



Benefits Administration Operating
Procedures

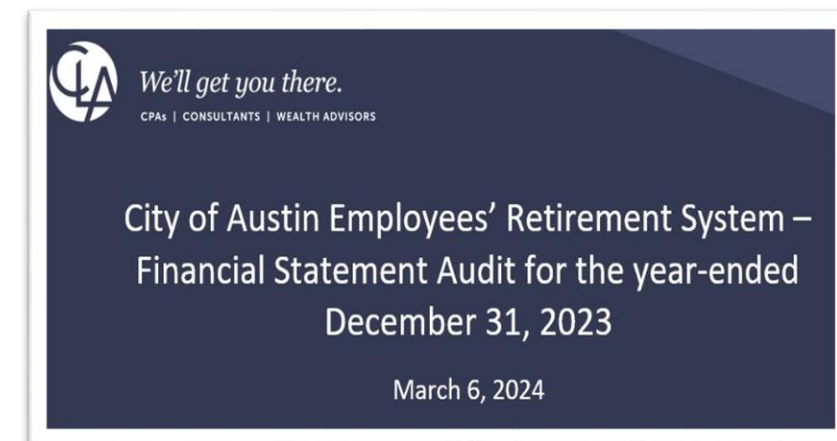


CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM
CREDIT CARD POLICY

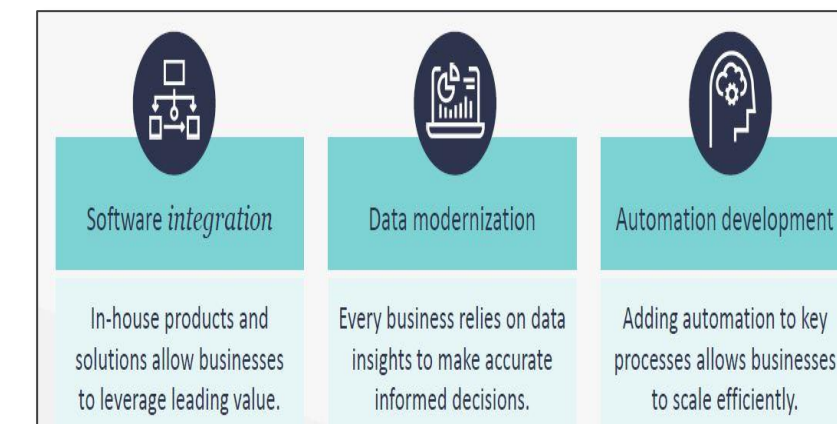
- COAERS Staff maintain financial and operational controls to ensure the system is aligned with the Core Competency in the Strategic Plan.
- The annual financial audit requires the auditors to review and test controls.
- Management regularly reviews existing controls and procedures, as well as creating new ones when needed.

2024 Risk Management Activities

- 12/31/2023 financial statement audit work underway and auditor to present required communication to Committee in March



- Staff reviewing technology recommendations to improve financial operations efficiency



- Due diligence is complete for new death audit service provider and implementation is currently in process

10. Review key meeting takeaways and call for future agenda items

Presented by Michael Benson



COMMITTEE MEETING Agenda Item Information Sheet

AGENDA ITEM 10:

Review key meeting takeaways and call for future agenda items

AGENDA ITEM OBJECTIVE

This standing agenda item provides Trustees the opportunity to review the key takeaways from the meeting.

RECOMMENDATION FOR COMMITTEE ACTION

Trustees will review key meeting takeaways and delineate next steps.

RELEVANCE TO STRATEGIC PLAN

This agenda item meets **COAERS Strategic Plan Goal 4: Identify and implement leading practices in board governance, pension administration, and investment management**. It is an industry best practice to review key meeting takeaways to summarize what was accomplished at the meeting as well as ensure Staff has clear direction on further work and future agenda items.