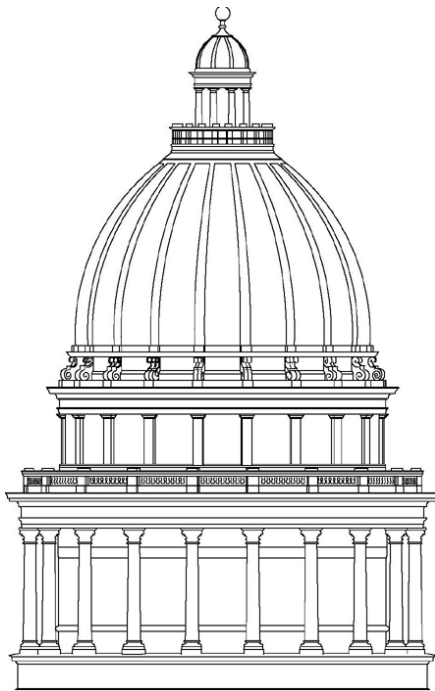


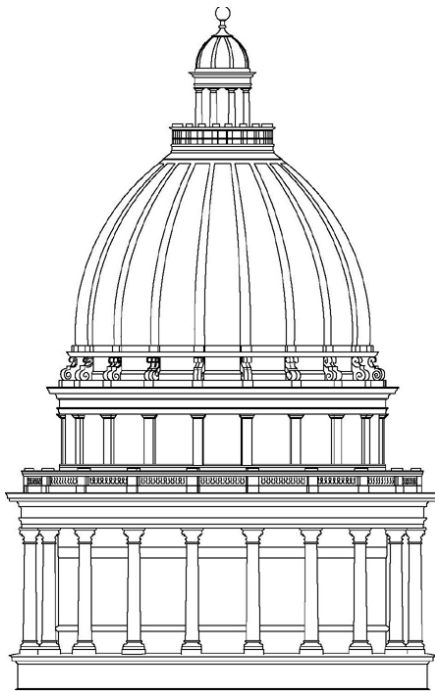
A Performance Audit of URS' Management and Investment Practices



Report to the
Retirement and Independent Entities
Interim Committee

June 2015

Audit Scope and Objectives



Chapter II: Transparency

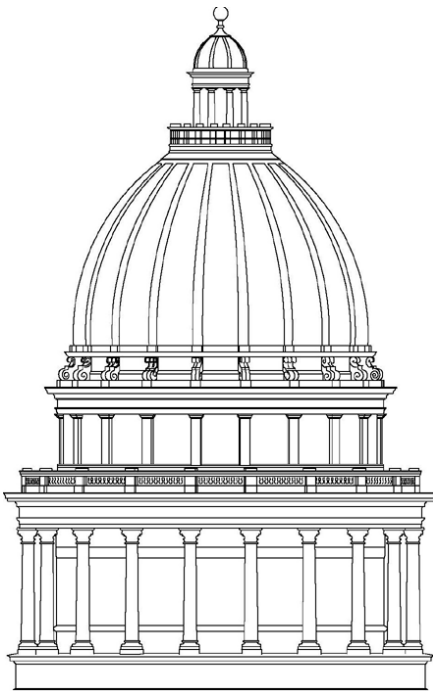
Chapter III: Investment Asset Allocation

Chapter IV: Fiduciary Responsibilities

Chapter V: Investment Manager
Selection

Chapter II

URS Is Transparent, But Can Take Additional Steps



1. Does URS provide adequate information on operation costs?
2. Is URS transparent regarding information and board meetings?

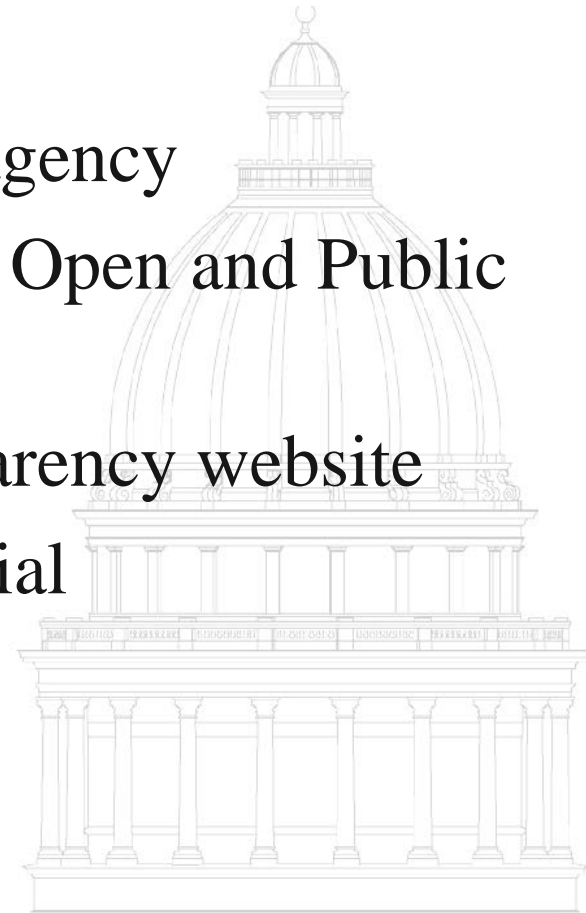
URS Is an Independent State Agency

Utah Code Title 49:

- Formed URS as an independent state agency
- Exempted URS from GRAMA and the Open and Public Meetings Act
- Exempted URS from the state's transparency website
- Approved all URS data to be confidential

FOR MORE INFORMATION

See Chapter II, pages 11-12



URS' Transparency Website Provides Detailed Information on Operating Costs

- **URS' transparency website compliant with S. B. 59**
 - Shows administrative expense transactions
 - Shows aggregated employee compensation
- **URS' transparency website provides a wide range of information:**
 - Comprehensive Annual Financial Reports (CAFRs)
 - Actuarial report
 - Employer contributions

FOR MORE INFORMATION

See Chapter II, pages 13-15



URS Could Be More Transparent Regarding Employee Compensation

Retirement System	Type of Agency	Is Employee Compensation Public Information?
Arizona Public Safety	State	Yes
Arizona SRS	State	Yes
Louisiana Teacher's RS	State	Yes
New Mexico PERA	State	Yes
Idaho PERS	State	Yes
Oregon PERS	State	Yes
Illinois Teacher's RA	Independent	Yes
Minnesota Teacher's RA	Independent	Yes
Nevada PERS	Independent	Yes
Colorado PERA	Independent	No
Ohio School Employee RS	Independent	Yes

FOR MORE INFORMATION

See Chapter II, Figure 2.1 page 17

Further Steps Can Be Taken to Improve URS' Information Practices

Information Requests:

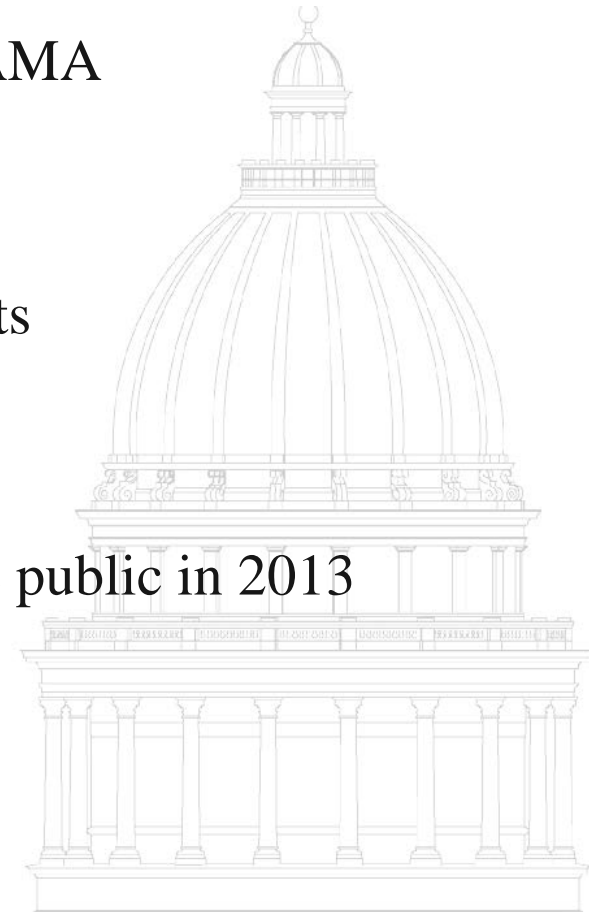
- URS' information request process similar to GRAMA
- URS can improve its information request process:
 - designating a records officer
 - establishing time frames to respond to requests

Meetings:

- URS opened administrative board meetings to the public in 2013
- URS can provide better notice of the meetings

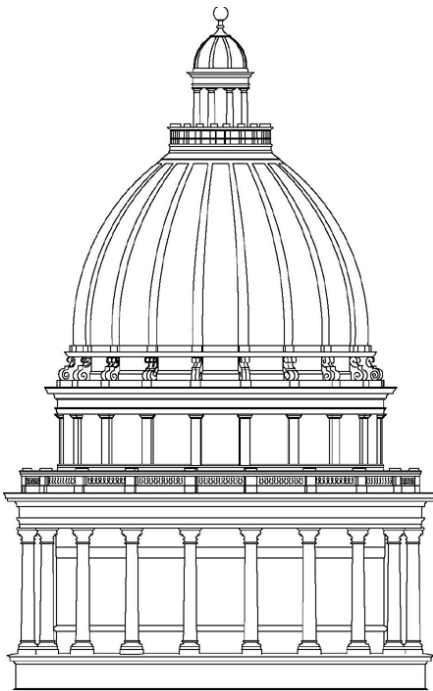
FOR MORE INFORMATION

See Chapter II, pages 19-22



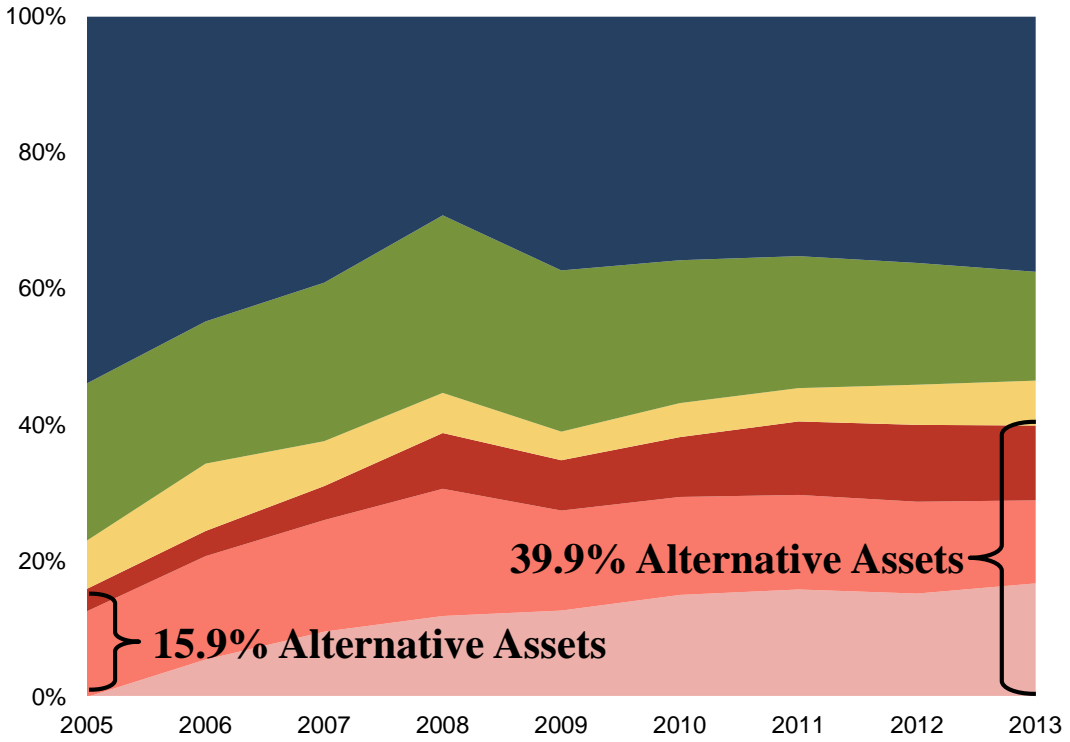
Chapter III

URS Should Consider Reviewing Its High Alternative Asset Allocation



Is URS' Defined Benefit Plan's asset allocation appropriate?

URS' Asset Allocation Has Shifted Substantially to Alternative Investments



- Equities
- Securities
- Debt
- Securities
- Short-term
- Securities
- Private Equity
- Real Assets
- Hedge Funds

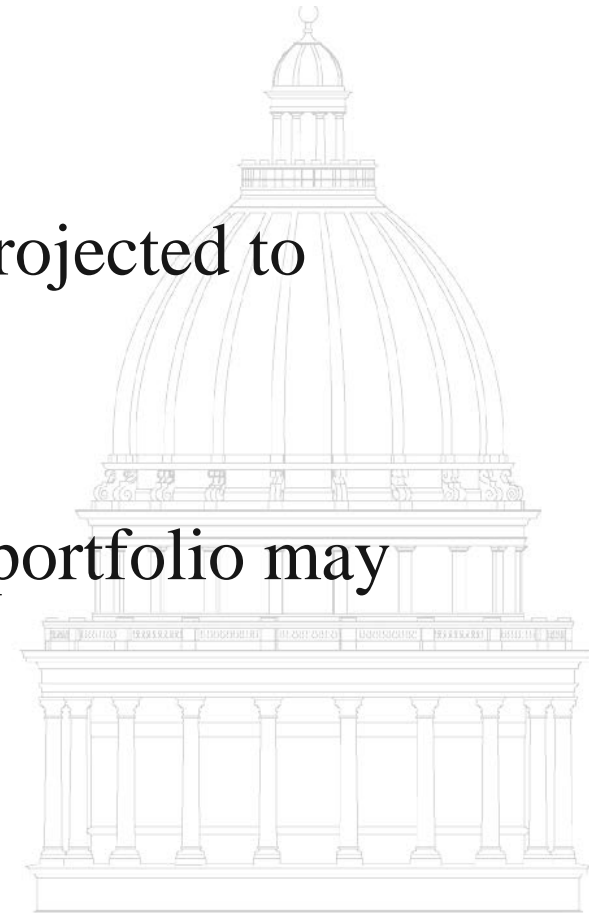
FOR MORE INFORMATION

See Chapter III, Figure 3.1 page 26

URS' Investment Consultant Supports Current Asset Allocation

2013 URS Portfolio Study Results

- **30 Year Horizon:** Investment return projected to meet 7.5 percent
- **10 Year Horizon:** A more aggressive portfolio may be needed to meet 7.5 percent



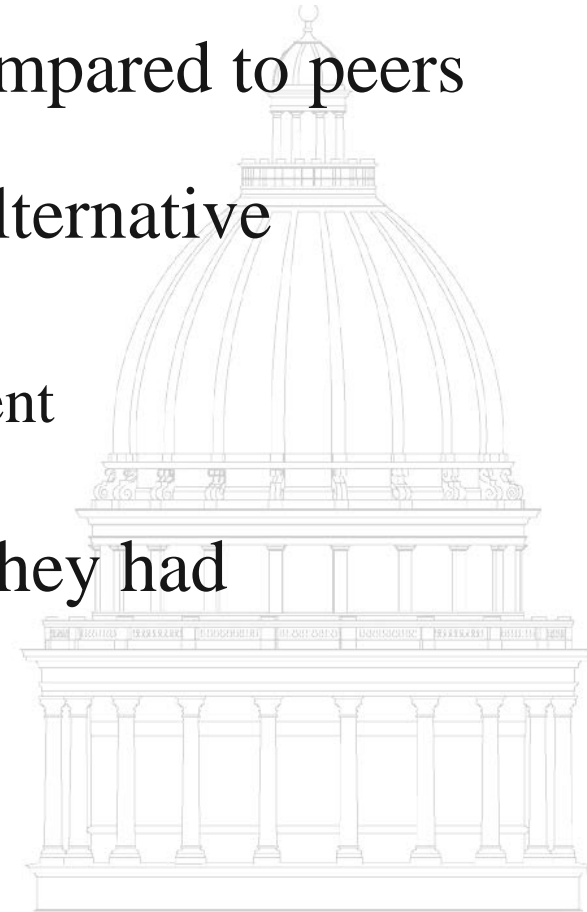
Auditor's Consultant Recommends that URS Consider Reducing Alternative Assets

Consultant Findings:

- URS' performance is about average compared to peers
- URS holds more hedge funds, within alternative investments, than peers
 - **URS:** 42 percent, **Peer Average:** 17 percent
- URS would have more assets today if they had maintained their 2004 asset allocation

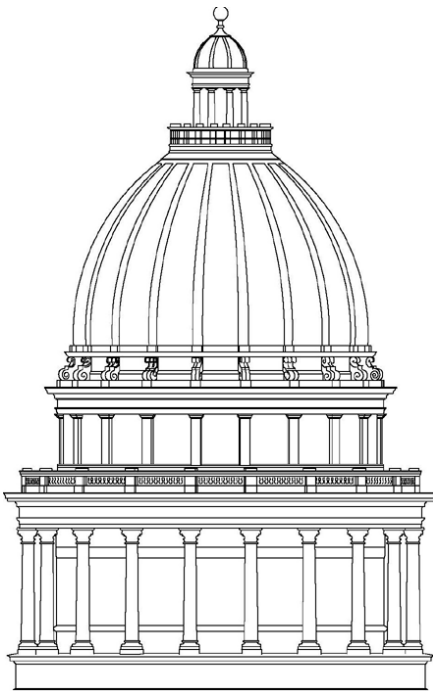
FOR MORE INFORMATION

See Chapter III, pages 29-32



Chapter IV

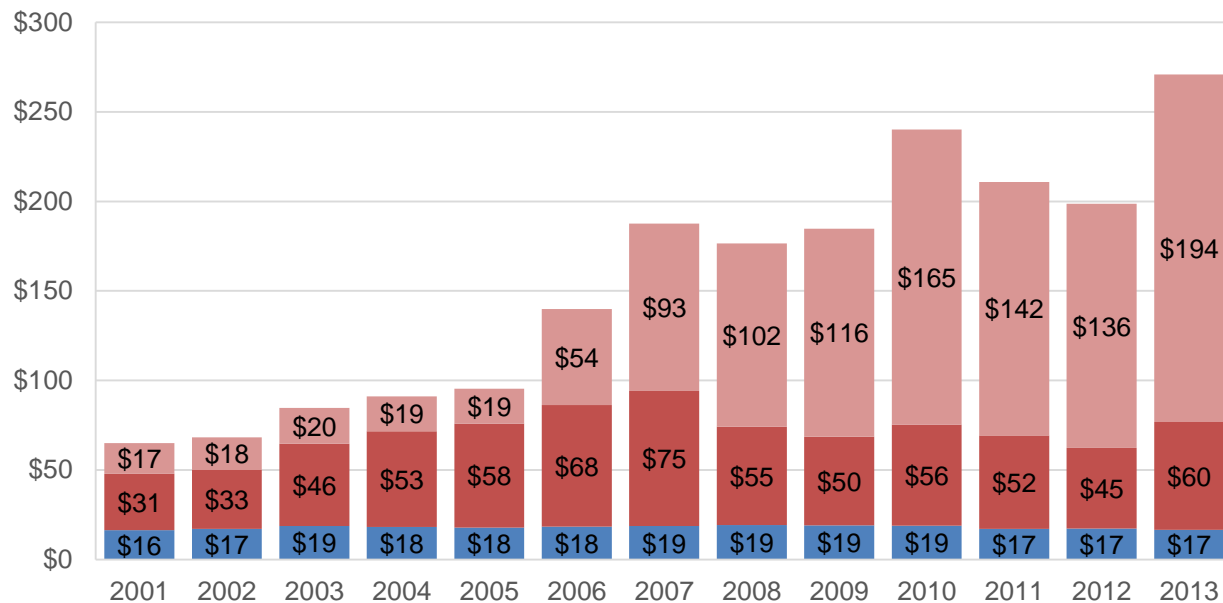
URS Board and Staff Are Qualified to Perform Fiduciary Responsibilities



1. How do URS' operating costs compare to similar systems?
2. Does the URS board have sufficient investment experience?
3. Is URS advisory staff qualified?

Investment Costs Drive the Increase in Operating Costs

Total Operating Costs Over Time, Shown in Millions



- Investment Fees Withheld
- Investment Expenses
- Administrative Expenses

FOR MORE INFORMATION

See Chapter IV, Figure 4.1 page 37

URS Controls Fee Rates Better than a Peer Group

- URS' total investment costs in 2013 were 58 percent higher than the peer average
- Peer adjustment to fit URS' fund size and asset mix showed that URS' fees were 11 percent lower

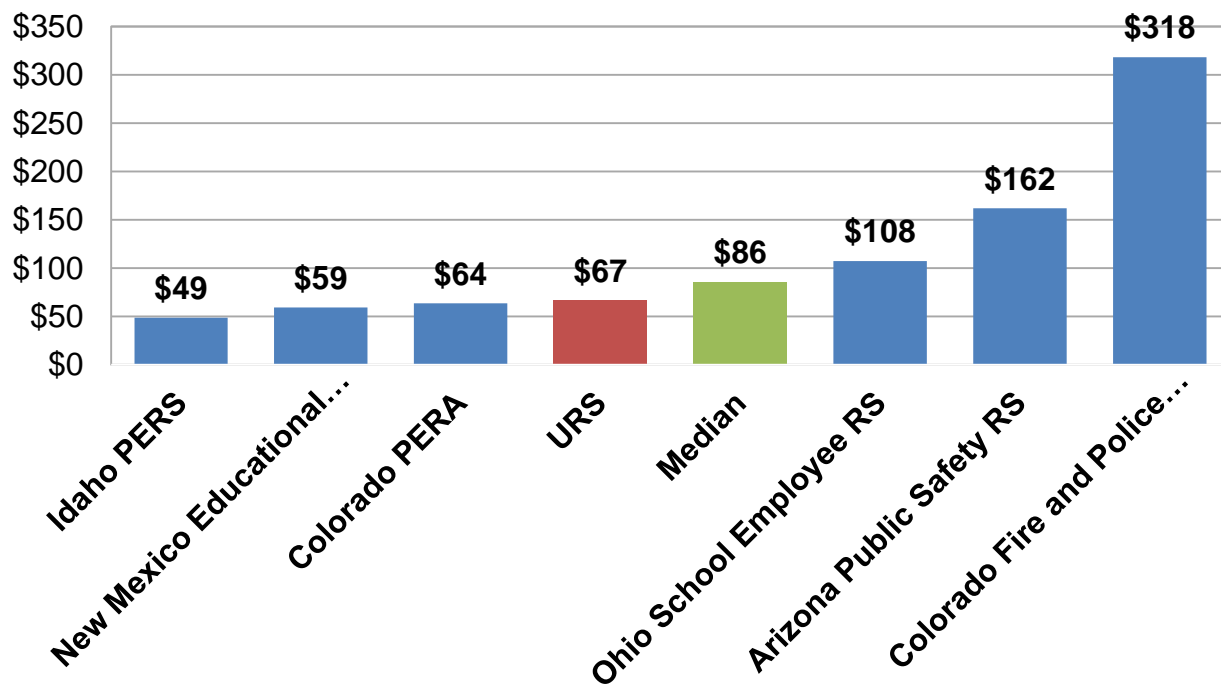
FOR MORE INFORMATION

See Chapter IV, page 39



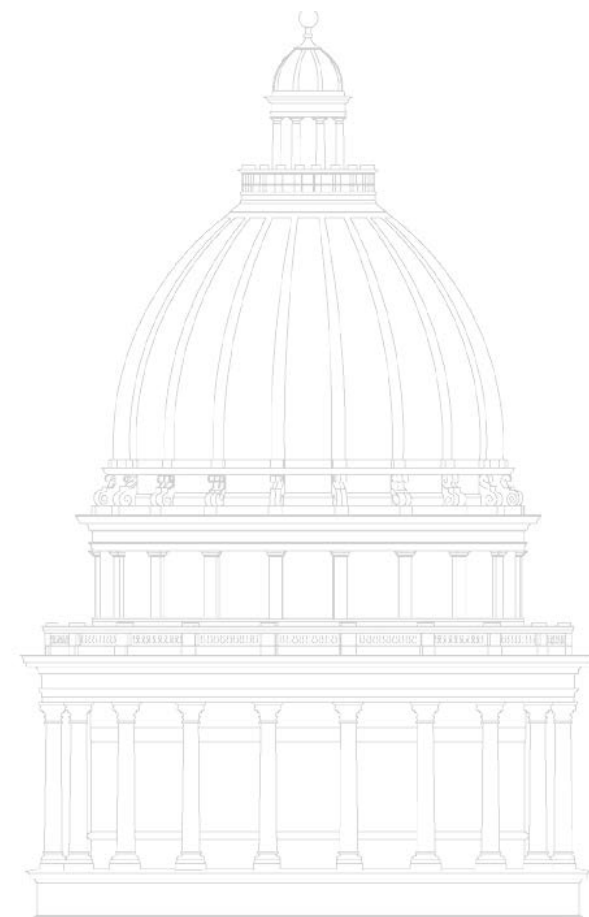
URS' Administrative Costs Are Lower than Peer Systems

Comparison of Administrative Costs Per Member



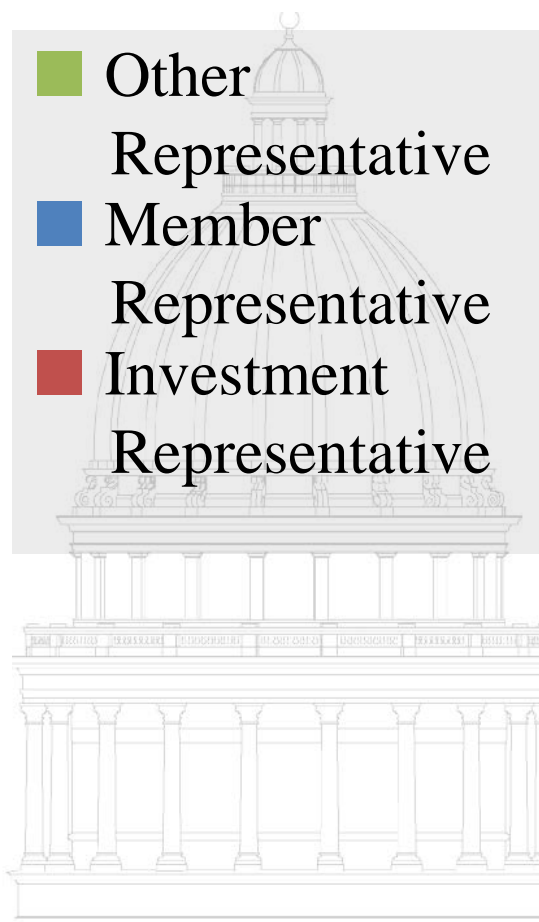
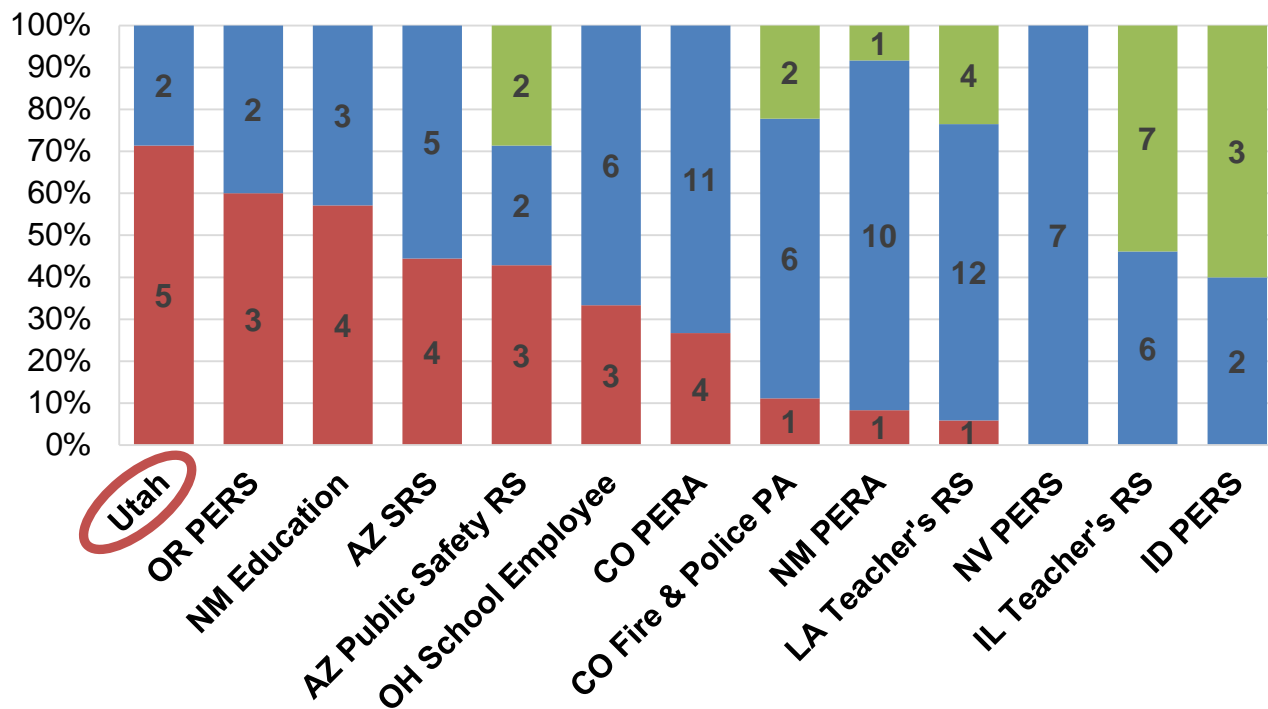
FOR MORE INFORMATION

See Chapter IV, page 39



URS' Board Has Sufficient Investment Experience

URS and Peer Board Composition



- Other Representative
- Member Representative
- Investment Representative

FOR MORE INFORMATION

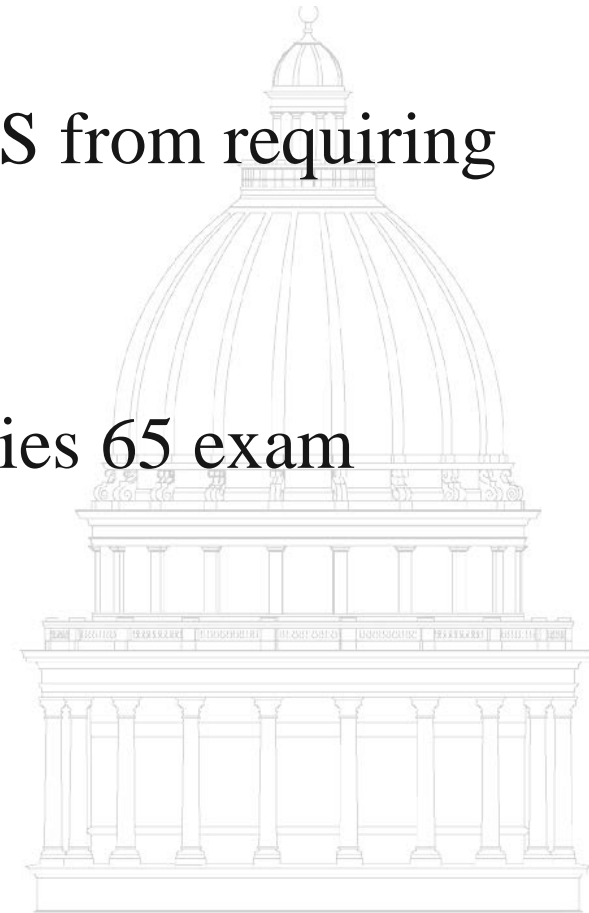
See Chapter IV, Figure 4.4 page 44

URS Advisory Staff Are Qualified to Offer Investment Advice

- Both federal and state laws exempt URS from requiring advisors to be licensed
- However, URS requires to pass the Series 65 exam

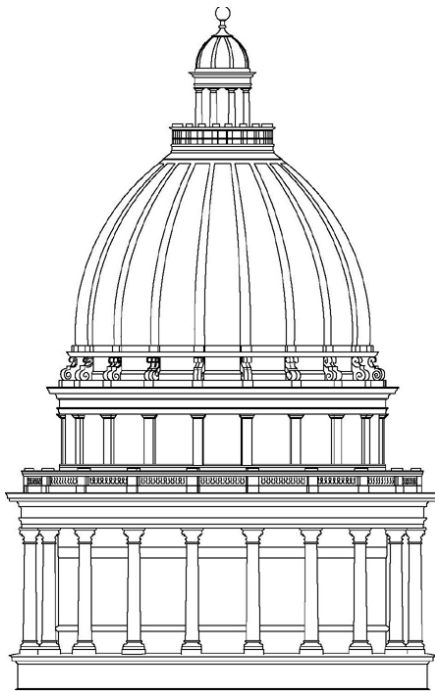
FOR MORE INFORMATION

See Chapter IV, pages 45-48



Chapter V

DC Investment Manager Selection and Retention Process Are Satisfactory



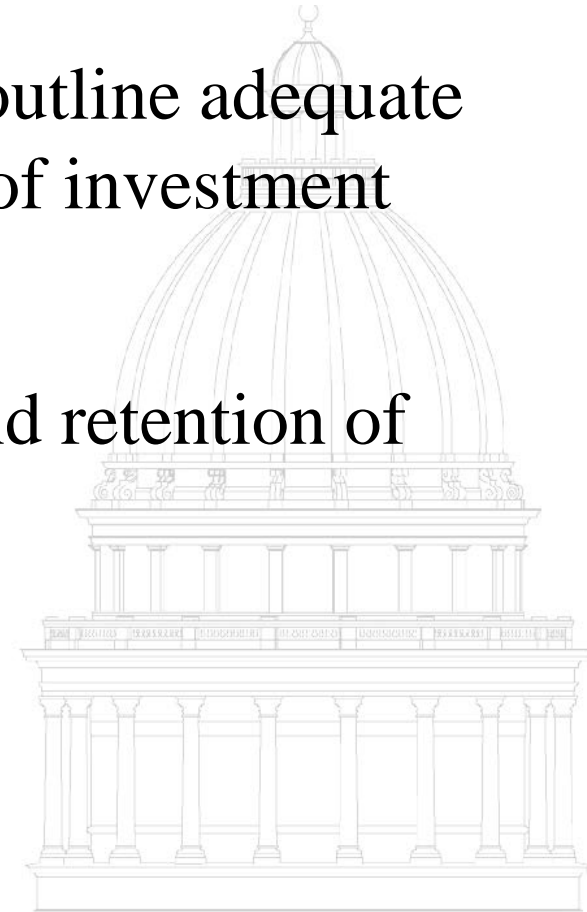
Does the URS' Defined Contribution Plan investment manager selection and retention process have adequate controls?

Defined Contribution Plan Investment Manager Selection and Retention

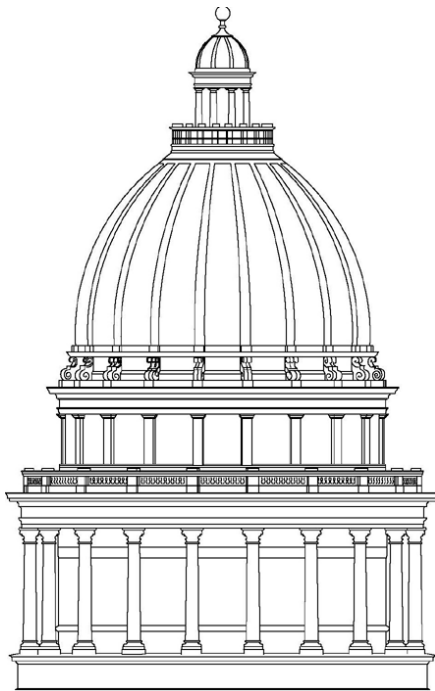
- **Selection:** URS policy and procedure outline adequate controls over the review and selection of investment managers
- **Retention:** The ongoing monitoring and retention of investment managers are acceptable

FOR MORE INFORMATION

See Chapter V, pages 51-55



A Performance Audit of URS' Management and Investment Practices



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