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Investment Practices and Performance Evaluation

CPS Energy Pension Plan

May 19, 2026

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Background

Background

Texas Government Code §802.109 requires that all Texas public retirement systems with at least $30 million in assets complete an Investment Practices and Performance Evaluation ("Evaluation"). The scope of the Evaluation is defined in Texas Government Code § 802.109. The Texas Pension Review Board ("PRB"), provides informal guidance to assist systems in defining the scope and content of the evaluation, reflecting the legislative changes to Texas Government Code §802.109 effective September 1, 2021.

The focus of the Evaluation includes five areas: (1) the investment policy; (2) the asset allocation; (3) the appropriateness of investment fees and commissions; (4) governance processes for investment activities; and (5) the investment manager selection and monitoring processes.

Retirement systems with at least $100 million in total assets must conduct the Evaluation once every three years. Retirement systems having at least $30 million but less than $100 million in total assets must complete the Evaluation once every six years.

A report of the Evaluation must be filed with the governing body of the public retirement system no later than May 1 of each year following the year in which the system is evaluated. The governing body must submit the report of the Evaluation to PRB no later than 31 days after the date the governing body of the retirement system receives the report.

The Evaluation must be completed by an independent firm with substantial experience in evaluating institutional investment practices and performance. The independent firm is required to evaluate the appropriateness, adequacy, and effectiveness of the retirement system's investment practices and performance and to make recommendations for improving the investment policies, procedures, and practices.

Aon does not provide investment consulting services to the CPS Energy Pension Plan ("Plan"). Aon Fiduciary Services Practice is providing this Evaluation at the Plan's request pursuant to Texas Government Code §802.109 and the PRB guidance.

Aon meets the experience requirements necessary to complete this review. Aon is a full-service global investment consulting firm that provides a wide array of services to various client types. Aon has a dedicated Fiduciary Services Practice that has extensive experience conducting fiduciary audits and investment governance reviews similar in scope to the Evaluation mandated by Texas Government Code §802.109.

Aon meets the statutory definition as an independent firm. There are no potential conflicts of interest or any appearance of a conflict of interest that would impact the analysis between Aon and CPS Energy or any current/former member of CPS Energy's governing body. Aon is not receiving any remuneration from sources other than CPS Energy.

Methodology and Evaluation Format

This Evaluation is consistent with the Aon methodology used for comparable reviews it has performed. This methodology included an initial project conference call between Aon and CPS Energy to establish overall concurrence and set forth expectations, deliverables, team assignments, designated relationships from CPS Energy and Aon, and communication procedures. Aon provided an extensive document request to CPS Energy covering the 5 statutorily required component task areas. CPS Energy provided numerous items in response to the document request. Those items are listed in Appendix A-Documents Reviewed. Aon also conducted interviews with key staff and an advisor for CPS Energy listed in Appendix B. Aon performed research, analysis, and report drafting. Aon submitted draft versions of the report for CPS Energy staff review and feedback and had follow-up discussions with CPS Energy staff. The final Evaluation addressed staff comments and added supplemental clarifications and information in response. The final Evaluation, however, reflects the independent work and professional judgement of Aon staff.

This Evaluation question and answer format is generally modelled after the updated 2022 guidance issued by the PRB.

Executive Summary

Executive Summary

General Overview

Evaluation Component 1: Investment Policy or Strategic Investment Plan and Associated Compliance

The Plan has an Investment Policy Statement (IPS) document that was last approved in October of 2025 and is reviewed at least annually. The IPS generally followed best practice prior to our review and following the implementation of our modest recommendation, we consider the document to be in-line with best practice.

The document provides a thorough, yet succinct, overview of the roles and responsibilities of each applicable group associated with investment decisions and oversight. The IPS itself contains distinct and measurable outcomes for the Plan, as well as the measurable risk/return outcomes for the investment managers utilized by the Plan.

Evaluation Component 2: Investment Asset Allocation

The Employee Benefits Oversight Committee (EBOC) approves the strategic asset allocation for the Plan, under advisement of the investment consultant and Plan actuary, with manager selection authority delegated to the Administrative Committee (AC). The review of the strategic asset allocation is conducted through an annual asset allocation review, as well as through a formal asset liability study that is conducted every 3- to 5-years. We have found, during our review of these processes, the Plan's asset allocation, as well as alternative allocations, are reviewed in conjunction with the Plan's liabilities and ability for the Plan to meet its return objective. We find these processes robust, and there is no evidence in our findings that would position us to state a different asset allocation would be more suitably positioned to meet the investment objectives of the Plan.

In our review of the investment strategies and vehicles utilized by the Plan, we have determined that the Plan is highly liquid. In our initial assessment of the Plan's actuarial characteristics, we believe that the Plan will not have issues raising funds to meet cash needs during periods of market stress and could take on more illiquidity if so desired.

Evaluation Component 3: Investment Fees and Commissions

We evaluated CPS Energy's policies and practices for managing, monitoring, and reporting investment-related and non-investment-related fees. Responsibilities for fee oversight are clearly defined in the IPS, with the investment consultant supporting the Administrative Committee through ongoing monitoring, benchmarking, and review of fees. Investment manager fees are reviewed quarterly and annually for reasonableness and are favorable relative to peer universe medians, with fees presented both in basis points and dollar terms. Overall, CPS Energy's fee oversight framework is aligned with best practices, with an opportunity to further enhance transparency by clearly identifying the peer groups and data sources used in fee benchmarking within quarterly reporting.

Evaluation Component 4: Investment Governance Processes

We found CPS Energy to have extensive and detailed documentation of its governance related to the investment decision-making process. The governing documents show alignment with best practices by stating what authority has been retained by the Board and what has been delegated, as well as clearly articulating roles and responsibilities of the Board and staff. We determined that the level of delegation from the Board is compatible with its peers and best practices.

The EBOC's composition includes the President/CEO, the Chief Financial Officer/CFO and the two Board Audit and Finance Committee members, thus assuring the EBOC has financial expertise and investment experience. The EBOC approves or rejects the appointment and/or removal of AC members (excluding the Labor Representative), with collaboration with the President/CEO and AC.

The AC has ongoing training and education provided by a variety of sources, beyond the MET requirements of the PRB. Aon found that Trustees comprehend and embrace their fiduciary responsibilities and are aware of the educational opportunities available.

We believe the governance structure is consistent with best practices for an organization the size and complexity of CPS Energy. The governing documents ensure appropriate monitoring, reporting, accountability, and compliance with its policies. Staff can appropriately implement the Board's directives within the parameters set by the Board. The policies, procedures, practices, and interviewees' commentaries all support a strong, stable governance framework for CPS Energy to fulfil its mission and purpose.

Evaluation Component 5: Investment Manager Selection and Monitoring Processes

We examined CPS Energy's investment manager selection and monitoring framework, including roles, evaluation criteria, performance monitoring, reporting practices, and watch list procedures. Responsibilities are clearly defined, with the Administrative Committee retaining final decision-making authority and the investment consultant providing analytical support consistent with the Investment Policy Statement. Manager performance is monitored using quantitative and qualitative criteria and reported quarterly in an accessible format. The framework is generally aligned with industry best practice, with opportunities to enhance alignment between IPS language and reporting, particularly related to watch list criteria.

Evaluation Component 1

Evaluation Component 1: Investment Policy or Strategic Investment Plan and Associated Compliance

An analysis of any investment policy or strategic investment plan adopted by the retirement system and the retirement system's compliance with that policy or plan;

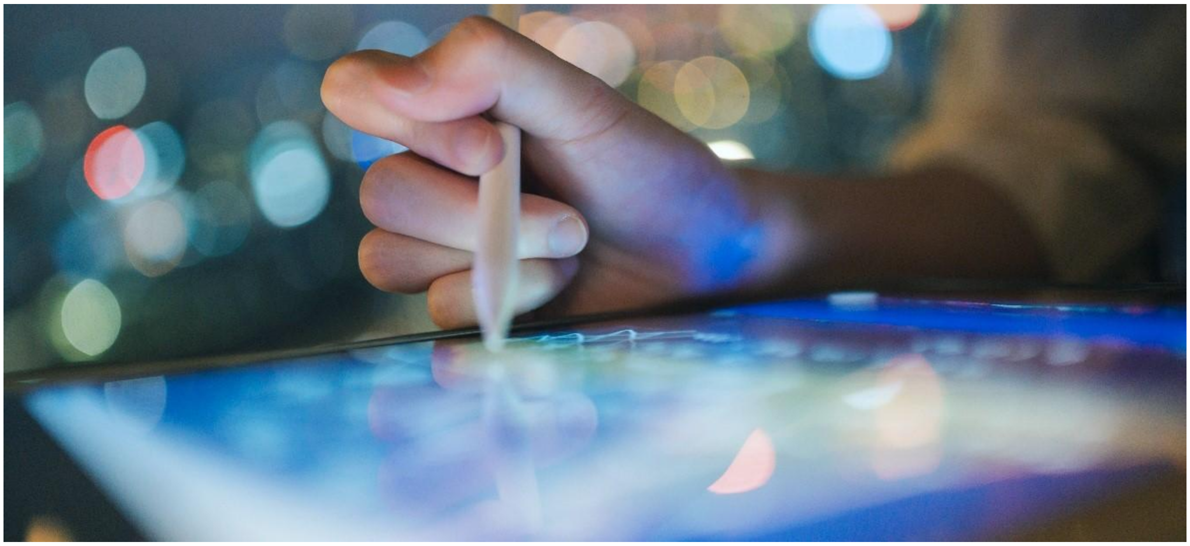
The CPS Energy Pension Plan has an Investment Policy Statement (IPS) which was last reviewed and approved by the CPS Energy Employee Benefits Oversight Committee on October 6, 2025. As part of the on-going review of the document, the IPS is reviewed at least annually.

There is no uniform standard for the content and no absolute model to follow when drafting an IPS. The IPS should ideally be a highly customized document that is uniquely tailored to the preferences, goals, and situation of the Plan. To facilitate our review of the IPS, we have included a table outlining what we believe to be the key sections of an IPS and how we think about IPS development. The table includes a broad title of each section type, the type of information we expect to be included in each section, and a checkmark representing the inclusion of this type of information within the Policy. As shown in the table, the IPS includes all components that we believe a well-structured IPS should have, and we do not have any recommended additions.

Section	Purpose of Section	Included in CPS IPS
Introduction	- Reference to the purpose and benefit to be provided by the Plan. - Intended beneficiaries of the Plan. - Overview of fiduciary obligation.	√ √ √
Statement of Purpose	- Investments made for the exclusive purpose of providing benefits to participants. - Plan fiduciaries must act in the sole interest of Plan participants and beneficiaries and for the exclusive purpose of providing benefits.	√ √
Investment Goals or Objectives	- To preserve the actuarial soundness of the Plan in order to meet benefit obligations. - To obtain a long-term rate of return, net of fees, equal to or in excess of the policy benchmark. - The policy benchmark and asset allocation targets should be defined.	√ √ √
Asset Allocation	- Purpose is to provide an optimal mix of investments to produce desired returns and meet current and future liabilities, with minimal volatility. - Frequency and methodology of asset liability modelling and resetting allocation. - Describe permissible asset classes as well as minimum, maximum, and target ranges.	√ √ √
Identification of Roles and Responsibility	- Board of Directors – general and investment related duties. - External investment consultants/advisors – advise on best practices, trends and support staff and Board/Investment Advisory Committee with fiduciary responsibilities. - Other external providers' duties, expectations and fiduciary responsibilities.	√ √ √
Asset Class Guidelines / Benchmarks	- Benchmarks – who sets them and how often they are revisited, and their rationale. - Diversification - Provide an overview on the importance of diversification and how it is achieved in the Trust.	√ √

Section	Purpose of Section	Included in CPS IPS
Rebalancing Policy	- Purpose of rebalancing – to ensure that the investment program adheres to its strategic asset allocation. - Describe how often the portfolio will be reviewed for rebalancing and whether a fixed threshold or proportional threshold will be used.	√ √
Risk Management	- Acknowledgement and definition of risk to be managed in investment portfolio - Define parameters for risk management (what does success look like).	√ √
Monitoring and Reporting	- Describe monthly, quarterly and annual reporting. - Outline monitoring and reporting process.	√ √
Shareholder Activity	- Proxy positions – describe the policy and how votes are cast and recorded, or reference appropriate policy. - Identify core principals of the Board (Board independence, Board management, shareholder rights) and communicate importance of fiduciary duty, integrity, and transparency.	√ √
Governance	- Identify obligations to the Trust are consistent with the fiduciary standards under applicable law. - Require ongoing review of investment policy statement.	√ √

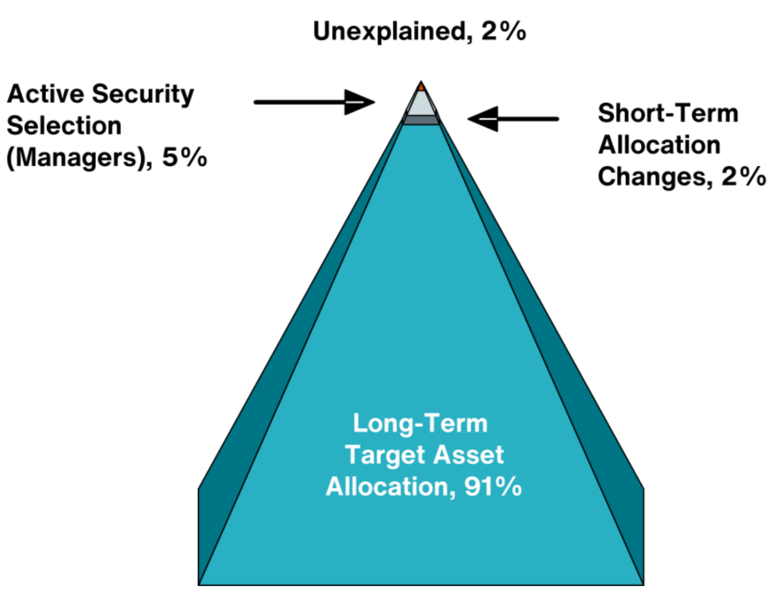
Evaluation Component 2



Evaluation Component 2: Investment Asset Allocation

A detailed review of the retirement system 's investment asset allocation, including: (A) the process for determining target allocations;

Asset allocation is the most important determinant on an investment program's ability to meet its stated return objective. Widely cited research consistently finds that more than 90% of return variation could be explained by the initial strategic asset allocation decision, and that ~5% of performance variation will be explained by manager selection. This analysis is noteworthy as it speaks to the importance of strategic asset allocation, and its potential to drive outcomes. We expect individual asset managers to have a more marginal impact on overall investment results and performance variation.



The chart outlines research done by Brinson, Singer and Beebower in their 1991 research paper "Determinants of Portfolio Performance II: An Update" outlines that 91% of the difference in returns among investors is driven by differences in the long-term target asset allocation.

The investment asset allocation is reviewed by the Administrative Committee, under advisement of the investment consultant and Plan actuary, and approved by the Employee Benefits Oversight Committee. The review of the asset allocation is conducted annually, while a full asset-liability study occurs every 3- to 5-years, or when circumstances warrant sooner. The last asset allocation review was conducted on August 26, 2025. As part of this annual process, the asset allocation is reviewed in conjunction with the IPS annual review. The investment consultant will review the current asset allocation and compare against alternative investment portfolios. If changes are needed, they are brought forward to the AC for review and consideration. If no changes to the asset allocation are warranted, the investment consultant will affirm with the AC that the asset allocation remains prudent.

The last asset-liability study was reviewed on August 13, 2024. As part of this review, the Plan's asset allocation is reviewed in conjunction with the Plan's liabilities. The Plan's asset allocation is also compared to alternative asset allocations to forecast the impact on the Plan's funded status and ability to meet the actuarial return target. Additionally, the current and alternative asset allocations are tested for liquidity constraints to ensure that proper liquidity is maintained during periods of market stress. We find this process, as well as the inputs and considerations that go into the asset liability study, as best practice for pension plans.

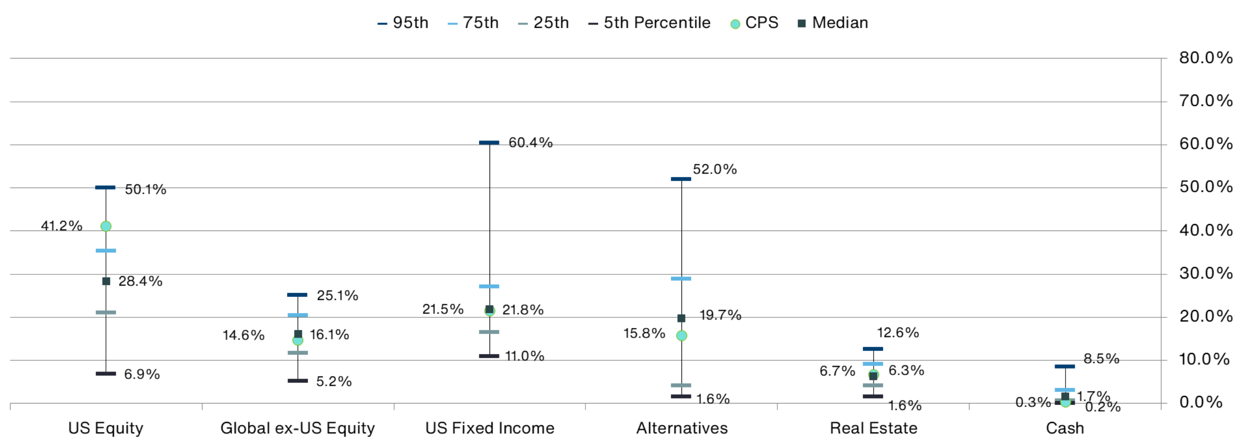
The Plan has a stated return objective of growing the funded ratio and achieving the actuarial rate of return, which is currently set at 7.0% net-of-fees based on the August 2024 asset-liability study.

As of October 6, 2025, the strategic asset allocation policy targets were as follows:

Asset Class	Policy Weight
U.S. Equity	33.0%
Non-U.S. Equity	10.0%
Global Low-Volatility Equity	10.0%
U.S. Core Fixed Income	11.0%
High Yield Fixed Income	5.0%

Bank Loans	5.0%
Real Estate	7.0%
Hedge Funds/Absolute Return	5.0%
Master Limited Partnerships	9.0%
Private Credit	5.0%

While each pension plan is managed according to their respective liabilities, reviewing how peers are allocated can be a useful measure to ensure the allocation of a plan is not an outlier without reason. The chart below illustrates how the Plan's asset allocation[1] compares to other public retirement plans with greater than $1 billion in plan assets.



[1]The Alternative asset class shown in the table presents the Private Credit, Hedge Funds/Absolute Return, and MLP asset classes utilized in the Plan. The Global Low-Volatility Equity asset class is split between the US and Global ex-US Equity asset classes at a 60/40 split.

The Plan has a bias towards U.S. equities within the asset allocation. Historically, this has been a tailwind to performance given the strong return of U.S. equities relative to non-U.S. equities over the last 15-years. We find that the Plan's asset allocation is not materially different from what we would expect for a Plan of this size and stated investment objectives.

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(B) the expected risk and expected rate of return, categorized by asset class;

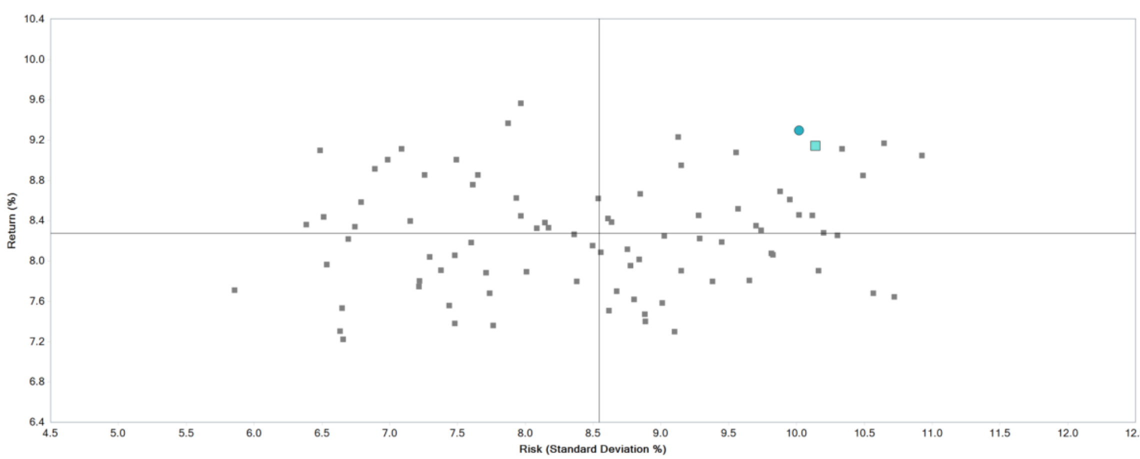
The table below outlines the expected return and risk of each asset class the Plan invests in. The table utilizes Aon's 10-year capital market assumptions (as of Q4 2025).

Asset Class	Current Target	Expected Nominal Return	Expected Risk
U.S. Equity	33.0%	6.8%	18.9%
Non-U.S. Equity	10.0%	6.7%	18.1%
Global Low-Vol Equity	10.0%	6.9%	17.3%
Total Equities	**53.0%**		
US Core Fixed Income	11.0%	4.8%	5.0%
High Yield	5.0%	5.7%	10.5%
Bank Loans	5.0%	5.9%	7.0%
Total Fixed Income	**21.0%**		
Real Estate	7.0%	5.9%	14.4%
Private Credit	5.0%	7.3%	9.6%
Hedge Funds	5.0%	6.9%	5.7%
Master Limited Partnerships	9.0%	6.7%	18.0%
Total Alternatives	**26.0%**		
Estimated Return	**6.82%**		
Estimated Risk	**12.40%**		
Sharpe Ratio	**0.244**		

Expected returns are using Aon 10 Year Capital Market Assumptions as of 12/31/2025. CMAs contain projections about future returns on asset classes. Our CMA projections are designed to reflect the typical cost of implementing an investment program. Expected returns are calculated using weighted allocations of the underlying CMAs. Expected Returns are geometric (long-term compounded; rounded to the nearest decimal) assuming portfolio weights are rebalanced annually. Expected returns presented are models and do not represent the returns of an actual client account.

Based solely on Aon's expected return of 6.82% for the Plan, we anticipate the Plan will fall marginally short in meeting the actuarial rate of return objective of 7.0%. While Aon's expected return falls short of the actuarial rate of return objective, we have reviewed the capital market assumptions provided by the investment consultant, which suggest an expected return greater than 7.0%, and we have found those inputs adequate and reasonable. Additionally, Aon's capital market assumptions assume beta exposure across public equity and public fixed income asset classes and given the Plan utilizes active management within these asset classes, we would anticipate the Plan to meet its 7.0% return objective.

We believe it is important to evaluate the historical performance of a Plan as an additional measure of judging the potential success of a plan's asset allocation. The chart below compares the historical performance of the Plan relative to other public plans with greater than $1 billion in assets over the last 10-years (period ending December 2025).



	Return	Standard Deviation
CPS Energy Pension Plan	9.14	10.14
Policy Index	9.30	10.02
Median	8.27	8.55

While the Plan has incurred higher levels of volatility relative to the peer group, the Plan has been historically successful in achieving the 7.0% actuarial rate of return target.

(C) the appropriateness of selection and valuation methodologies of alternative and illiquid assets; and

We believe alternative investments can play an important role in enhancing returns and reducing risk in a diversified portfolio. We also believe alternative investments allow institutional investors to further diversify into additional components of the investable opportunity set. We support the use of alternative investments in client portfolios. We believe allocating to alternative investments can provide enhanced returns (alpha) at a volatility level that is lower or similar to public markets.

The appropriateness of an alternatives allocation is dependent on a number of factors. Clients who choose to allocate to alternatives require;

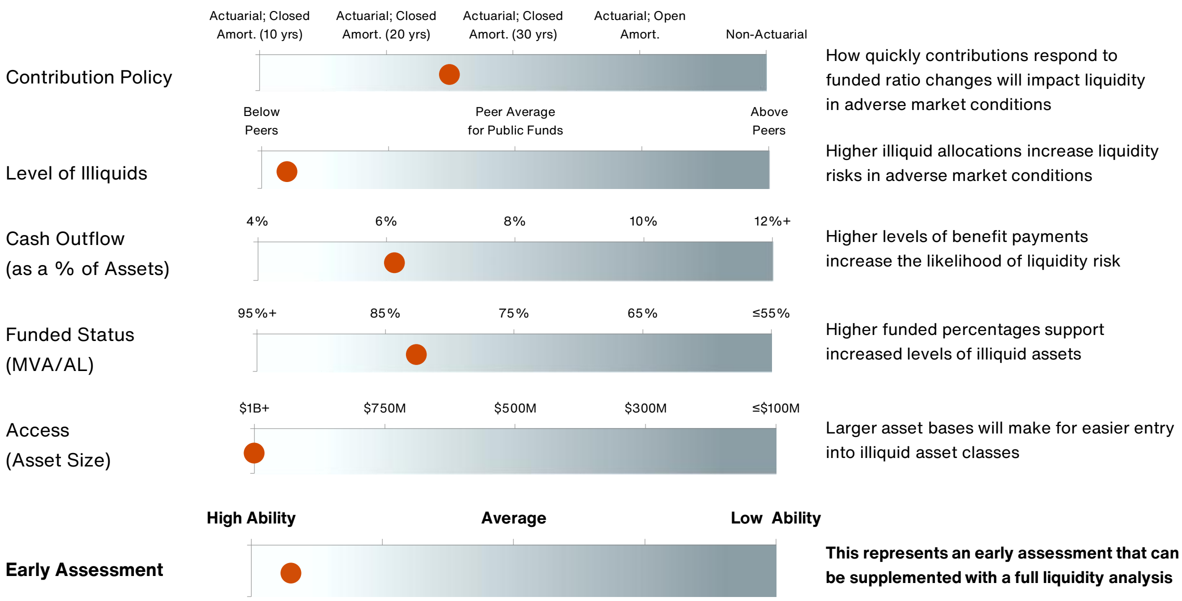
- Sufficient assets to invest in a direct and diversified manner
- An appropriate level of internal resources
- A robust governance structure
- The ability to tolerate illiquidity
- The ability to tolerate increased cost and complexity

The decision to include alternative investment asset classes within the asset allocation is retained by the Employee Benefits Oversight Committee, with manager selection delegated to the Administrative Committee. In our review of the meeting materials, we found that the educational overview of alternative asset classes from the investment consultant was thorough and provided sufficient knowledge to make a decision on whether an allocation to an alternative asset class was prudent. Additionally, we found the materials provided by the investment consultant to select an alternative asset class investment manager provided a detailed analysis of the pros and cons of each respective candidate and how they would fit into the overall Plan's asset allocation. This allowed the Administrative Committee to make a well informed and thoughtful decision on whether a candidate was a prudent fit for the Plan.

Based on our review of performance for the alternative asset classes utilized in the Plan, there is shown success in allocating to alternative asset classes and selecting outperforming strategies. The overall Total Alternatives asset class has outperformed its policy benchmark, as of September 30, 2025, since inception into the Plan (7.7% vs. 5.7%).

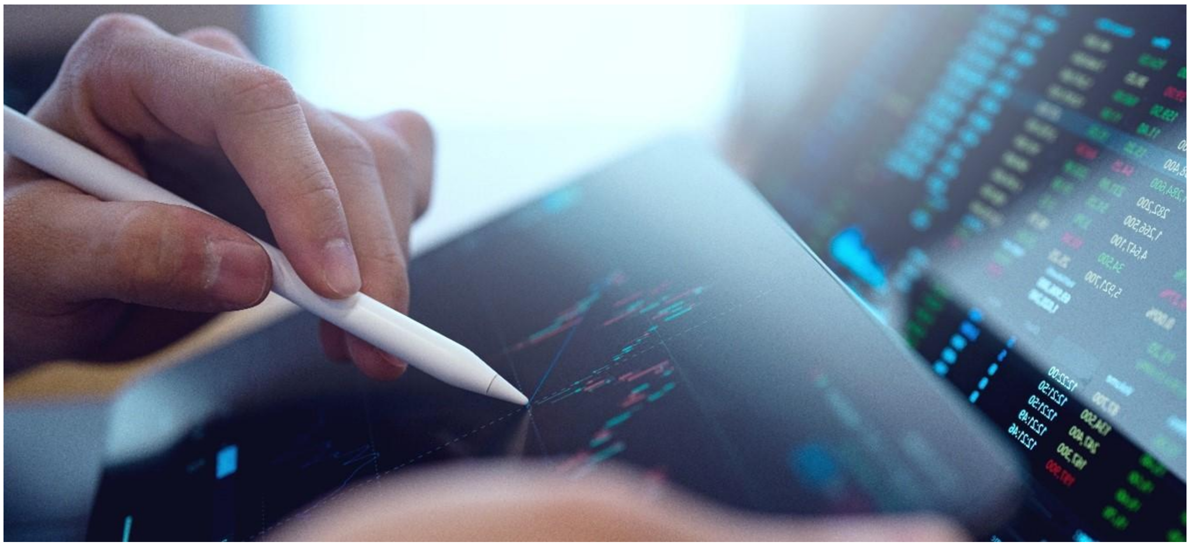
(D) future cash flow and liquidity needs;

As part of our review of the liquidity characteristics of the Plan and the ability to access illiquid investments, we provided the below analysis as an initial assessment of the Plan's ability to take on illiquidity. Based on this analysis, if chosen, the Plan could take on more illiquidity within the Plan's investments.



Given this composition, we find the Plan to be highly liquid, and we would not anticipate any issues with the Plan producing liquidity in times of market stress. In the event that the Plan is considering additional allocations to an illiquid asset class (I.E. private equity, private debt, & other close-end vehicle structures), we would recommend that a liquidity analysis be reviewed by the Administrative Committee to understand the impact on the Plan's ability to raise funds to meet cash needs.

Evaluation Component 3



Evaluation Component 3: Investment Fees and Commissions

A review of the appropriateness of investment fees and commissions paid by the retirement system;

This component of the evaluation focuses on whether CPS Energy has appropriate policies, procedures, and practices in place to manage, monitor, and report both direct and indirect compensation paid to investment managers and other service providers. Our review considered whether the Plan's policies clearly describe responsibilities for overseeing investment fees and commissions, the types of investment and non-investment fees paid by the Plan, how those fees compare to peer groups, and the frequency and rigor of reviews conducted to assess the reasonableness of such fees.

CPS Energy's Investment Policy Statement (IPS) addresses the management and monitoring of investment-related compensation and clearly defines responsibilities for overseeing investment fees. According to the IPS, the investment consultant plays a central role in supporting the Administrative Committee (AC) with respect to fee oversight. Specifically, the IPS assigns the investment consultant responsibility for assisting the AC in negotiating fees with investment managers and for assisting the AC in monitoring investment expenses on an ongoing basis.

The consultant's monitoring responsibilities include presenting estimated investment fees in the quarterly reports provided to the Administrative Committee. In addition, on at least an annual basis, the consultant assists the AC and staff in collecting and reviewing actual investment manager fees and administrative fees. As part of this process, the consultant also helps identify and account for all parties receiving compensation from plan assets, including any arrangements involving soft dollars or commission recapture activities.

Investment-related fees paid by the CPS Energy Plan primarily consist of fees paid to the investment consultant and fees paid to external investment managers. These fees represent direct compensation for investment advisory and investment management services.

CPS Energy does not compensate any investment managers through soft dollar arrangements, such as trading commissions. The absence of soft dollar arrangements simplifies the oversight of indirect compensation and reduces potential conflicts of interest, contributing to greater transparency in the Plan's investment fee structure.

In addition to investment fees, CPS Energy incurs other non-investment-related expenses. These non-investment fees include payments for professional services, investment-related support services, administrative operations, memberships, and other general operating expenses incurred in the normal course of Plan activities. These costs are distinct from investment management and advisory fees and are tracked separately, allowing for clearer oversight of total plan expenses.

CPS Energy has established policies and procedures to account for and control investment expenses. Investment manager fees are reviewed against a universe median peer group fee on a quarterly basis. In addition, a review process is conducted for investment manager invoices prior to payment: invoice fees are reviewed for reasonableness against applicable manager agreements. Actual fees paid are also reviewed annually against manager fee schedules to confirm alignment with agreed-upon terms.

CPS Energy reviews the level of investment manager fees relative to applicable peer groups. This information is included in the quarterly reports to the Administrative Committee. Investment manager fees, expressed in basis points, appear favorable against a peer group universe median fee based on the materials reviewed as part of this evaluation. Fees are presented both in basis points and as estimated annual dollar fee amounts based on current market values, providing the AC with a clear view of fee levels in both relative and absolute dollar terms.

Overall, CPS Energy's practices related to investment fees and commissions are generally in line with best practices. The IPS clearly sets out roles and responsibilities, fees are regularly benchmarked against a peer universe, and there are multiple layers of review, including invoice-level checks and an annual reconciliation to manager fee schedules. The absence of soft dollar arrangements further simplifies oversight and supports transparency.

Within this generally strong framework, there is an opportunity to further enhance the clarity of fee reporting. CPS Energy already compares its fees to a universe median fee and provides this information to the Administrative Committee on a quarterly basis. Building on this, CPS Energy should consider specifying, within the fee analysis reporting, the peer groups used in the fee comparisons and the source of the peer group data. Including this information in quarterly reports would provide additional transparency around how the benchmarking universe is constructed and where the comparative fee data originate, thereby giving the Administrative Committee greater context when evaluating the reasonableness of the Plan's investment fees.

Evaluation Component 4

Evaluation Component 4: Investment Governance Processes

A review of the retirement system's governance processes related to investment activities, including investment decision-making processes, delegation of investment authority, and board investment expertise and education;

Pursuant to the CPS Energy Employee Benefit Plans Statement of Governance, (Statement of Governance), the CPS Energy Employee Benefits Oversight Committee (EBOC) oversees the CPS Energy Employee Benefit Plans and related Trusts:

(1) CPS Energy Pension Plan;

(2) CPS Energy Group Health Plan;

(3) CPS Energy Group Life Insurance Plan; and

(4) CPS Energy Long-Term Disability Income Plan.

Collectively, the Health Plan, Life Insurance Plan and LTD Plan are referred to as "the Other Post-Employment Benefits Plans (the "OPEB Plans")."

The EBOC adopted the Investment Policy to provide formal guidelines, for the investment and management of all Plan assets and related Trust activities.

Governance of the Plan is established by the Board and set out through the Investment Policy Statement, the Employee Benefit Plans Statement of Governance, and the governing Plan documents. These materials clearly define fiduciary roles, investment decision-making authority, and delegation of responsibilities. The Statement of Governance addresses trustee responsibilities, meeting protocols, and benefits administration. Collectively, these documents provide an appropriate structure for the prudent administration, funding, and investment of Plan assets consistent with fiduciary standards.

The Board is authorized to delegate certain activities and responsibilities regarding the Plans pursuant to a set of principles outlined in the Statement of Governance. Specifically, the Board has delegated to the EBOC and President/CEO the responsibility for oversight of the actions of the Administrative Committee of the Plans (AC). The duties of each are set forth in the Statement of Governance.

The AC is composed of up to nine (9) members that include a minimum of one (1) retired employee and a minimum of one (1) Labor representative. The remaining membership consists of current employees, with some executive exclusions. This diversification of members is intentional to represent the diverse workforce, and also the importance of financial investment knowledge.

The Chair and Vice Chair of the AC hold office for one (1) year until their successors have qualified. There is no prohibition against serving consecutive terms.

AC members are appointed for five (5) years. Terms are staggered. Reappointment after one term is allowed, with ten (10) years total service being permitted.

Members of the AC must be participants in the Plans; and have a minimum of ten (10) years of either:
(i) participation in the Pension Plan; or
(ii) recent experience in finance or investments.

In addition, at least two (2) members of the AC must have a minimum of ten (10) years of recent experience in finance or investments.

Trustees who either fail to attend or fail to participate may be subject to removal upon the AC's recommendation to the EBOC.

The AC fiduciary standard of care is clearly set forth in the Statement of Governance. The authority delegated to the AC and the expectations of the AC are also clearly iterated. The Demonstrative Chart of Responsibilities found in the Statement of Governance serves as an effective visual tool for illustrating accountability across roles.

The AC is to meet at least quarterly, with weekly meetings being their usual cadence.

Although the AC is not subject to the CPS Energy procurement process, the AC strives to follow the CPS Energy procurement policy. The policy guidelines provide that the general investment consultant be reviewed once every five years. We find this has provided the AC with a solid review structure.

The governing documents do not provide for a scheduled formal self-assessment or self-evaluation. However, in prior years, the Committee conducted a comprehensive self-evaluation focused on strengthening processes, people, and performance. Progress was reported regularly to the EBOC, and many of the processes were implemented or improved as a direct outcome of that review.

AC's self-review process is strong. Aon does see value in the AC considering a regularly scheduled self-evaluation. We find that the adoption of a formal self-review process—conducted annually or at least once every three years—is consistent with leading governance practices.

The AC provides meeting agendas and materials in advance of the meetings. Meeting agendas are available, complete, and represent items discussed. Typical agenda topics include a mix of operational, actuarial and investment items.

The minutes reflect the agenda items and detail items discussed and outcomes.

The Statement of Governance and the IPS are reviewed annually, whether or not changes are anticipated. This review has been thorough and in keeping with industry best practice.

Trustees must comply with the Texas Pension Review Board's Minimum Education Training (MET) requirements. The core topic areas are fiduciary matters, governance, ethics, investments, actuarial matters, benefits administration, and risk management. In addition, trustees engage in supplemental training through CPS staff and outside advisors who deliver educational briefings, along with participation in conferences such as TexPERS and NCPERS.

We find the training requirements and options exceptional. All trustees are in compliance with the Minimum Education Training requirements as set forth by the Texas Pension Review Board, as well as internal training goals.

We conclude that the governing documents generally outline the governance of the investment decision-making process. The Board adopted Statement of Governance specifically details the governance framework; including, the scope of authority, EBOC and AC composition, requirements for membership, roles, responsibilities, terms of the EBOC and AC members, training, voting and reporting requirements.

Evaluation Component 5

Evaluation Component 5: Investment Manager Selection and Monitoring Processes

A review of the retirement system's investment manager selection and monitoring

This component of the evaluation examines the policies and practices governing CPS Energy's investment manager selection and monitoring processes. Our evaluation focused on whether responsibilities for selecting and evaluating investment managers are clearly defined, the criteria used to identify and evaluate potential managers, the methods used to monitor individual managers and overall fund performance, the nature and frequency of performance reporting provided to the Administrative Committee (AC), and the procedures in place for placing managers on watch or terminating investment manager relationships.

Responsibility for selecting investment managers resides with the Administrative Committee, with support from the investment consultant, as outlined in the Investment Policy Statement (IPS). The investment consultant assists the AC in sourcing, monitoring, and terminating investment managers and plays a central role in conducting investment manager evaluations and presenting recommendations to the AC. While the investment consultant provides analysis and recommendations, final authority regarding the hiring or termination of investment managers rests with the Administrative Committee.

The investment consultant maintains a universe of qualified investment managers using databases and other industry sources and conducts screening to identify prospective candidates with appropriate portfolio and organizational characteristics. While exceptions may exist, the screening process generally favors investment managers that demonstrate the following characteristics:

- A minimum three-year performance track record;
- At least $500 million in assets under management across all account structures for the same strategy;

- A strategy that demonstrates consistent performance expectations for its respective asset class based on historical risk and return characteristics, such as beta, correlation, and other risk metrics;
- Competitive terms and fees relative to peers and similar strategies; and
- Demonstrated ability to generate alpha through a full market cycle (typically three to five years), within prudent risk levels, relative to the applicable benchmark (e.g., net-of-fee outperformance, Sharpe Ratio, Information Ratio) and relative to peers, where a relevant peer universe is available.

Based on this screening process, the investment consultant develops a list of high-conviction investment manager candidates for additional qualitative review with the Administrative Committee and staff. The AC typically interviews finalist managers either in person or electronically, with the investment consultant assisting with interview logistics and analysis. The investment consultant ultimately makes a recommendation; however, the Administrative Committee retains discretion to determine whether any manager will be hired.

The investment consultant is responsible for measuring investment manager performance and reporting results to the Administrative Committee. Performance is evaluated relative to appropriate benchmarks specified at the total fund and investment manager level. In addition to individual manager benchmarks, total fund performance is evaluated relative to the strategic asset allocation policy benchmark and associated asset-class benchmarks.

The Administrative Committee receives quarterly performance reports prepared by the investment consultant. These reports include information on:

- Economic and market activity;
- Actual asset allocation relative to target allocations;
- Total fund performance compared to the policy benchmark index; and
- Total fund performance compared to an All Public Plans peer universe.

Based on interviews conducted with members of the Administrative Committee as part of this evaluation, the materials provided are presented in a format that is accessible and digestible for members with differing levels of investment knowledge and expertise. Performance is reviewed net of fees on a quarterly basis.

Investment manager performance is monitored on an ongoing basis using both quantitative and qualitative criteria. All actively managed investment managers are brought in person to CPS Energy to present updates to the Administrative Committee. These meetings include discussion of:

- Organizational structure and resources;
- Portfolio management team composition;
- Investment philosophy and strategy;
- Past and prospective changes in portfolio structure;
- Past and prospective changes in investment philosophy or investment strategy; and
- Historical performance relative to benchmarks, relevant market sector returns, and plan objectives set forth in the Investment Policy Statement.

Manager performance is also monitored using a formal watch list framework. The investment consultant recommends managers for watch list placement, as appropriate, subject to review and approval by the Administrative Committee.

The watch list process is a central component of CPS Energy's manager monitoring and replacement framework. As outlined in the Investment Policy Statement, managers may be placed on watch based on one or more of the following criteria:

- Underperformance relative to the manager's benchmark over a three- or five-year period;
- Underperformance relative to a relevant peer universe over a three- or five-year period, typically defined as performance below the median;
- Significant declines in assets within the strategy or fund relative to historical averages; and
- Qualitative concerns, including organizational changes, changes to the portfolio management team, significant declines in assets under management, or other material changes to the manager's philosophy or investment process.

Once placed on the watch list, the investment consultant provides additional analysis to the Administrative Committee. If the manager does not demonstrate improvement within a reasonable period, typically within one calendar year, the Administrative Committee may elect to terminate the manager, reduce exposure, or use the investment as a source of liquidity until the position is fully exited. The watch list process does not limit the Administrative Committee's contractual authority to terminate an investment manager at any time, as provided under the investment management agreement.

While CPS Energy's investment manager selection and monitoring framework is generally well-structured and consistent with industry best practices, there is an opportunity to further enhance alignment between policy language and reporting practices, as well as to strengthen transparency for the Administrative Committee.

The Investment Policy Statement outlines several quantitative and qualitative criteria under which an investment manager may be placed on the watch list, including sustained underperformance relative to benchmarks or peers, significant changes in assets under management, and material organizational or personnel changes. However, the watch list information presented in quarterly performance reports appears to focus primarily on benchmark underperformance. CPS Energy may consider expanding the watch list presentation in quarterly reporting to reflect the full set of criteria described in the IPS. More explicit alignment between policy language and reporting would enhance consistency, provide clearer documentation of monitoring considerations, and offer the Administrative Committee greater context when reviewing watch list recommendations.

Appendix A

Appendix A — Summary of Key Documents Reviewed

CPS Energy Employee Benefit Trusts Investment Policy

2024 and 2025 Minutes

CPSE - Asset Liability Study

Asset Allocation

2023 CPS Energy Experience Study by Milliman

EBOC Benefit Plans Administrative and Financial Update

CPS Pension - Monthly Investment Summaries

Strategic Allocations

Audit Fees

Fees & Commissions Monitoring and Oversight

Wilshire Manager Overviews

Statement of Governance and Associated Updates/Notes

CPSE Health, LTD, Life and Insurance Plan Documents

List of Admin Investment Committee membership

Member Biographies

Codification of Policies or Procedures

Performance Reports

Pension SPD

CPS Energy Quarterly Reviews

Core Property Fund Investor Updates

Agenda Notes

Income Fund Reviews

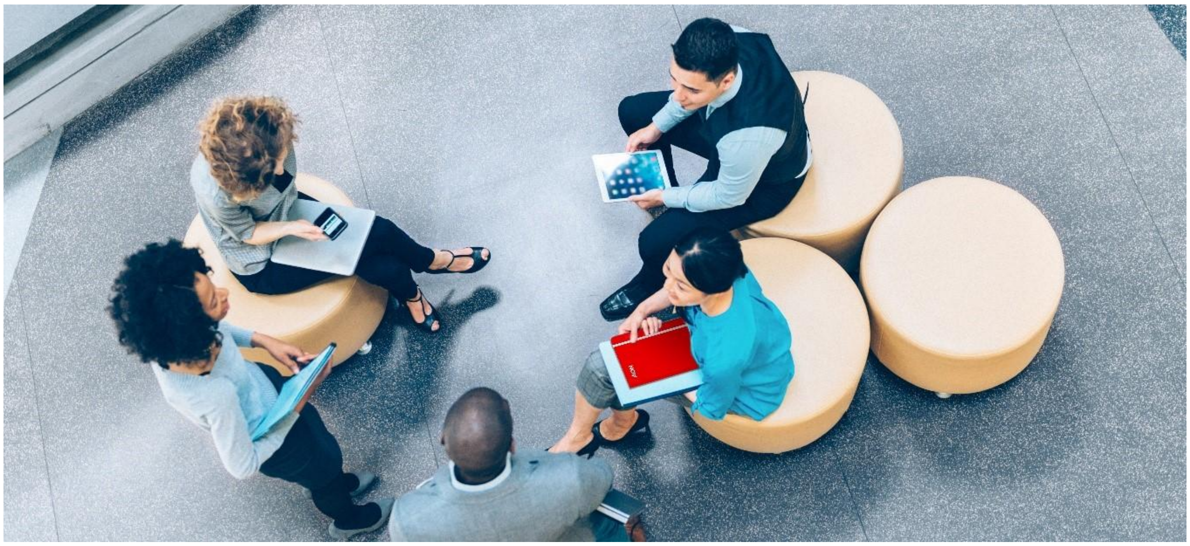
Direct Lending Presentations

Multiple Manager Presentations

Meeting Agendas

CPS Energy Portfolio Reviews

Appendix B



Appendix B — Interviewees

Debra Wainscott, AC Chair

Gautam Shringarpure, AC Vice Chair

BTA Team:

Kristen Alonso, Financial Analyst 3

Justin Jevric, Project Manager

Jessica Macias, Financial Specialist

Lizeth Oliver, Administrative Committee Secretary

Pamela Rohana, Manager, Benefit Trust Administration

Abraham Trevino, Financial Analyst 2

Wilshire Investment Consultants:

Ned McGuire

Lauren Gellhaus