

**Texas Emergency Services Retirement System
Meeting Minutes of August 2, 2016**

Thomas Jefferson Rusk Building, 208 E. 10th Street, Room 320, Austin, TX 78701

Members Present:

Frank Torres, Chairman
Gracie Flores, Vice-Chair
Jenny Moore, Secretary
Taylor Allen, Trustee
Dan Key, Trustee
Ron Larson, Trustee
Dennis Rice, Trustee
Don Shipman, Trustee
Steve Williams, Trustee

Members Absent: N/A

Others present:

Kevin Deiters, Judy Johnson, Susannah Jones, Patrick McReynolds, Shirley Hays, William Langford
Andrew Lutostanski and David Goran, Assistant Attorney General, OAG
Mark Fenlaw, Consultant, Rudd & Wisdom
Charles Hodge and Jeff Chalk, Consultants, Milliman

Chairman Torres called the meeting to order at 9:06 a.m. and made welcoming remarks.

1. Roll call of Board Members and Excusal of Absences

Secretary Moore called the roll and announced that all members were present and that a quorum of the Board was present.

2. Invitation for Public Comment

Chairman Torres called for public comment. No public comments were made.

3. Approval of Minutes for June 26, 2016

Chairman Torres called for a motion to adopt the minutes of meeting of June 26, 2016.

A motion was made by Trustee Williams, seconded by Vice-Chair Flores and passed unanimously.

4. Approval of Minutes for June 27, 2016

Chairman Torres called for a motion to adopt the minutes of meeting of June 27, 2016.

A motion was made by Trustee Rice, seconded by Trustee Key and passed unanimously.

5. Large Cap Equity Manager Search – Discussion and Possible Action (Milliman)

Chairman Torres called upon Board's investment consultants, Charles Hodge and Jeff Chalk to present their recommendations to the Board for firms to interview for the large cap equity growth manager allocation.

Mr. Chalk began his presentation with a brief overview of fund's investment performance as of June 30, 2016, and he responded to questions from the Board about the under-performance of Boston Partners. Vice-Chair Flores asked Milliman to invite Boston Partners to attend an up-coming Board meeting.

Mr. Chalk discussed Milliman's recommendation to replace Atlanta Capital as the Large Cap Growth Manager because of poor performance and manager turnover and he directed the Board's attention to the report entitled *TESRS Large Cap Growth Search* that provided an overview of the following six large cap growth managers that Milliman was recommending for further study.

- State Street Global Advisors Russell 1000 Growth Index (Commingled Trust))
- Fidelity Large Cap Growth Index Institutional Class (Mutual Fund)
- MFS Growth (Mutual Fund)
- ClearBridge Large Cap Growth (Separate Account)
- Sawgrass Diversified Large Growth Equity (Separate Account)
- Voya Large Cap Growth (Commingled Trust)

Mr. Hodge stated that Milliman is an independent consulting firm that follows thousands of investment managers and that it does not charge those managers a fee to be included in Milliman's database. He also cited how some consulting firms require managers to execute trades through related trade brokerage firms.

Mr. Chalk described how Milliman narrowed the choices down to a short list from the 500-600 managers in the large cap growth manager universe by using a two-step process that consists of a quantitative analysis of a manager's performance and a qualitative analysis of manager's people, process and performance. Using a scoring system that combines these quantitative and qualitative factors, Milliman ranks each manager and then focuses on the top one-third of the managers to identify those that demonstrate average or below-average risk.

He stated that the initial recommendation to the Investment Committee contained eight managers that reflected the full spectrum of styles within the large cap growth manager universe. The Committee reviewed that initial listing and trimmed it down to six managers for further consideration by the Board.

Mr. Chalk provided an overview of the remaining six firms and he responded to questions from the Board about the differences between the funds and their investment styles.

ViceChair Flores recommended to the Board that it invite three active managers (ClearBridge Large Cap Growth; Sawgrass Diversified Large Growth Equity; and Voya Large Cap Growth) and one passive manager (State Street Global Advisors Russell 1000 Growth Index) to present to the Board at its next meeting.

Chairman Torres called for a motion pursuant to Government Code Section 2155.148 to initiate a search for a Large Cap Equity Growth Manager and to accept the Investment Consultant's recommendation to invite the following managers to make presentations to the Board on September 20, 2016.

- ClearBridge Large Cap Growth;
- Sawgrass Diversified Large Cap Equity;
- Voya Large Cap Growth; and
- State Street Global Advisors Russell 1000 Growth Index

A motion was made by Vice-Chair Flores and seconded by Secretary Moore and passed unanimously.

Note: The Board went into recess at 10:25 a.m. for break. The Board reconvened at 10:40 a.m.

6. Cash Management Procedures-Discussion and Possible Action (Kevin Deiters/Judy Johnson)

Chairman Torres called upon Judy Johnson to discuss cash management procedures.

Ms. Johnson provided an overview of her *Cash Projection* memorandum dated August 1, 2016, that covers the cash-flow needs of the System and she requested the Board's approval to dedicate the \$1.583M in state contributions to meet the cash-flow needs of the system during FY2017.

In response to a question from Trustee Shipman, Ms. Johnson stated that in previous years the statutory funds were immediately invested with the money managers and then quickly draw down to meet cash-flow needs.

Chairman Torres called for a motion in recognition of the financial obligations of the System during FY 2017, to maintain in the State Treasury the state contributions received pursuant to Gov. Code Section 865.014, and to authorize the CFO to work with the investment consultant to drawdown additional funds as needed up to \$300,000.

A motion was made by Secretary Moore, seconded by Trustee Larson and passed unanimously.

At the conclusion of Agenda Item 6, Chairman Torres announced that he would move out of agenda order to Item 9 to discuss the Legislative Appropriation Request.

9. Legislative Appropriation Request - Discussion and Possible Action (Judy Johnson)

Chairman Torres directed the Board's attention to the letter of June 30, 2016, from the Leadership that directed agencies to reduce their base appropriations request by four percent and to identify an additional 10 percent reduction to their budget request should the Legislature need to make additional cuts. He also announced that first budget hearing before the Legislative Budget Board (LBB) and the Office of the Governor will take place on July 30th and encouraged Board members to participate.

Chairman Torres called upon Judy Johnson to present the Legislative Appropriations Request (LAR) to the Board.

Mr. Deiters and Ms. Johnson provided an overview of the *Legislative Appropriations Request for Fiscal Year 2018 and 2019*. Ms. Johnson explained that the Agency exceeded the budget reduction requested by the Leadership and she provided a high-level overview of budget request by strategy. In her explanation of the proposed ten percent reductions, Ms. Johnson identified the reductions in funding for each strategy and the need to eliminate two full-time employees.

Trustee Key described the Rural VFD Assistance Program (HB2604) which is the source fund for the statutory funding and is funded by insurance premiums and he expressed concern that the Program may not be able to support the demands on Fund in the future.

Chairman Torres called for a motion to adopt the Legislative Appropriation Request as presented today and to authorize the staff to make non-substantive changes to the LAR as needed.

A motion was made by Trustee Shipman, seconded by Trustee Rice and passed unanimously.

At the conclusion of Agenda Item 9, Chairman Torres announced that he was moving to Agenda Item 7.

7. Request for Qualifications of Outside Counsel for Contracts (Kevin Deiters)

Chairman Torres called upon Kevin Deiters and Patrick McReynolds to present regarding the Request for Qualification for Outside Counsel.

Mr. Deiters provided an overview of his July 29, 2016, memorandum entitled *Request to Hire Outside Counsel for Contracts*. He recommended to the Board that it hire outside counsel to assist the staff in drafting and negotiating contracts with investment advisors and professional consultants.

Mr. McReynolds provided an overview of the Request for Qualifications process and the need to obtain the approval of the Attorney General's Office before hiring an outside counsel. He explained that this was a similar process to that used to hire Jackson Walker, the Board's current outside counsel.

After discussion, Chairman Torres called for a motion to authorize the Staff to issue Request for Qualifications for Outside Counsel for Contracts in order to obtain proposals from qualified firms and attorneys for consideration by the Board.

The motion was made by Trustee Rice, seconded by Trustee Williams and passed unanimously.

Note: The Board went into recess at 12:00 p.m. and reconvened at 12:23 p.m.

8. Board Non-Appropriated Fund Budget - Discussion and Possible Action (Judy Johnson)

Chairman Torres called upon Judy Johnson to present the Board's Non-Appropriated Budget for 2017.

Ms. Johnson provided an overview of report entitled *Proposed Non-Appropriated Fund Budget for FY 2017 – Draft*. She reported that the total proposed budget for the Board's Non-Appropriated Budget for FY 2017 was \$296,784 and that the majority of the funds were for professional contracts.

Chairman Torres called for a motion to adopt the Board's Non-Appropriated Fund Budget for FY 2017 as presented by Ms. Johnson.

A motion was made by Secretary Moore, seconded by Vice-Chair Flores and passed unanimously.

9. Overview of System Membership - Discussion and Possible Action (Kevin Deiters)

Chairman Torres called upon Trustee Larson and the staff to provide an overview of the laws and rules governing System membership. Trustee Larson was joined by Shirley Hays, TESRS Contract Manager, who provided information to the Board about membership issues.

Ms. Hays stated that her focus during the upcoming fiscal year will be to target membership issues at the local level. She will provide training and technical assistance to departments and the Local Boards to help them clean up their pension system rosters and to implement processes that ensure each volunteer is enrolled in the System.

Ms. Hays also described the need to review the physical fitness requirement for membership in the System because the requirement has become a barrier for some departments when considering joining the System. The elements of physical fitness assessed by a qualified physician are left to interpretation by local departments. Some departments pay for each prospective volunteer to obtain a specific physical exam which assesses the individual's fitness to perform the duties of a firefighter while other departments will accept a physical fitness form that is accepted by public schools for an individual to participate in high school sports.

There are departments that are interested in joining the System but do not require their volunteers to have a physical exam. These departments and volunteers do not have funding to pay for physical exams which is a barrier to their joining the System. After much discussion about local options to meet this requirement, Ms. Hays reported that staff offer prospective departments various options for consideration, such as asking a local physician to provide physical exams for potential volunteers at no cost or at a low cost which may be affordable for the department, city or volunteer. The department may adopt a policy to accept physicals obtained for employment or other purposes and may specify by policy how recent the exam must have occurred. There was discussion and agreement about the need to promote the requirement for a prospective member to obtain a certification of physical fitness regardless of this requirement having been the reason for some departments to not join the System.

Trustee Larson and Ms. Hays also provided information about issues that have been identified regarding the application of the definition of auxiliary employee and the reimbursement provided to volunteers for reasonable expenses. Ms. Hays explained that this issue was brought to the agency's attention by a department seeking clarification and explaining how their volunteers are compensated. She stated that the rule language [302.7] may be confusing to departments. Trustee Larson stated that there are numerous state and federal definitions and guidelines regarding reimbursement for reasonable expenses and that each vary, making it difficult to find a reimbursement practice that satisfies all state and federal guidelines. Trustee Larson concluded the presentation and stated that this issue warrants further discussion and consultation with legal counsel.

No action was taken on this agenda item.

10. Executive Director's Report on System Administration (Kevin Deiters)

Chairman Torres called upon Kevin Deiters to report on the System Administration.

Mr. Deiters provided the Board with a high-level overview about the operations of the agency and the implementation of the new pension management system.

11. Request for future agenda items and meeting dates

Chairman Torres noted that the Board will meet on September 20, 2016 in Austin.

12. Adjourn

Chairman Torres called for a motion to adjourn.

A motion was made by Secretary Moore, which was seconded by Trustee Williams to adjourn the meeting at 1:32 p.m. and passed unanimously.

Minutes Approved By:



Signature: Secretary Moore

9/20/2016

Date: