

Texas Emergency Services Retirement System

Board Meeting Minutes

March 10, 2020 8:30 a.m.

Hyatt Place Austin Airport, 9532 Spirit of Austin Ln., Austin, TX 78719

Members Present:

Jenny Moore, Chairman
Pilar Rodriguez, Vice-Chairman
Courtney Gibson Bechtol, Secretary
Frank Torres, Trustee
Ed Keenan, Trustee
Dan Key, Trustee
Rod Ryalls, Trustee
Taylor Allen, Trustee
Stephanie Wagner, Trustee

Staff and Others Present:

Kevin Deiters, Executive Director, TESRS
Shirley Hays, Contract Manager, CTCM, TESRS
Scott Miller, Business Development, TESRS
Jessica O'Brien, Data and Technology Officer, TESRS
Wayne Oberhoff, CPA, TESRS
Chana Kramer, Staff Services Officer, CTCD, CTCM, TESRS
Chanhyeong Park, Intern, TESRS
David Gordon, Assistant Attorney General
Chuck Campbell, Jackson Walker, L.L.P.
Alyca Garrison, Jackson Walker, L.L.P.
Jonathan D. Breth, CFP, AndCo Consulting, L.L.C.
Mark Fenlaw, F.S.A., Rudd and Wisdom, Inc.
Robert Munter, Texas Pension Review Board
Rebecca Goldstein, CPA, Weaver and Tidwell L.L.P.
Dan Kim, IFM (US) Securities, L.L.C.
Patricia Hall, Princeton Fire Dept.
Dennis Herrera, Princeton Fire Dept.
Wayne Millsap, City of Lucas
Larry Bowman, City of Lucas

Staff and Others Present Via Teleconference:

Kate Hurley, Executive Director, J.P. Morgan Asset Fund
Dan Delinko, Investments Specialist, J.P. Morgan Asset Fund

Chairman Moore called the meeting to order at 8:30 a.m.

1. Roll Call

Secretary Bechtol called the roll. Nine trustees were present. No trustees were absent.

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Chairman Moore announced that a quorum of the Board was present.

2. Invitation for Public Comment

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

3. Approval of Minutes from December 10, 2019

Trustee Torres made a motion to adopt the minutes of the meeting of December 10, 2019, the motion was seconded by Trustee Keenan and unanimously passed by the Board.

4. FY 2019 Audited Financial Report – Discussion and Possible Action

Rebecca Goldstein, CPA, Weaver and Tidwell, L.L.P presented her firm's handout entitled *Texas Emergency Services Retirement System for Board Meeting March 10, 2020*.

Ms. Goldstein described the audit process and reported that Weaver and Tidwell had reviewed TESRS' financial statements and issued a clean opinion letter because they believe the financial statements are accurate, complete, and in accordance with Generally Accepted Accounting Principles.

No action was taken regarding this agenda item.

5. FY 2019 GASB 68 Audit Report – Discussion and Possible Action

Ms. Goldstein provided the Board with an overview of her report entitled *Texas Emergency Services Retirement System Report on Pension Information August 31, 2019*. This report was issued to provide TESRS participating departments with their allocation of the system's net pension liability pursuant to Government Accounting Standards Board Statement No. 68.

No action was taken regarding this agenda item.

6. Discussion and Possible Action Regarding the Publication of Proposed Rules in the Texas Register for Public Comment

Chuck Campbell, Jackson Walker LLP, and Alyca Riley Garrison, Jackson Walker LLC, presented their handout entitled *Texas Emergency Services Retirement System Review of Proposed Rules*. Mr. Campbell advised that the Board would not be approving the rules today, but would be approving the posting of the proposed rules to the Texas Register for public comment. Mr. Campbell then provided the Board with an overview of each proposed rule publication.

Mark Fenlaw, F.S.A, Rudd and Wisdom, Inc., presented his memorandum entitled *Example of Board Rule on Revocation Charge*. Mr. Fenlaw explained the methodology used for determining a participating department's share of net pension liability in the event that it elects to revoke its election to participate in the System under the proposed rule change.

A. Chapter 302 General Provisions Relating to the Texas Emergency Services Retirement System

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1) Proposed Amendment of Rule §302.2 Benefit Distributions

Trustee Key moved to authorize the Executive Director, with the advice and consent of the Rules Committee and Outside Counsel, to publish the proposed amendment of Rule §302.2 in the Texas Register for public comment for a period of at least thirty days. The motion was seconded by Trustee Keenan and passed unanimously by the Board.

B. Chapter 304 - Membership in the Texas Emergency Services Retirement System

1) Proposed New Rule §304.2 Revocation of Participation in the Pension System

2) Proposed New Rule §304.3 Determination of Accrued Benefit

3) Proposed New Rule §304.4 Employees of Participating Departments

Trustee Key moved to authorize the Executive Director, with the advice and consent of the Rules Committee and Outside Counsel, to publish the new Rules §304.2, §304.3, and §304.4 in the Texas Register for public comment for a period of at least thirty days. The motion was seconded by Trustee Ryalls and passed unanimously by the Board.

C. Chapter 310 - Administration of the Texas Emergency Services Retirement System

1) Proposed Amendment of Rule §310.5 Local Board of Trustees

Trustee Key moved to authorize the Executive Director, with the advice and consent of the Rules Committee and Outside Counsel, to publish the proposed amendment of Rule §310.5 in the Texas Register for public comment for a period of at least thirty days. The motion was seconded by Trustee Ryalls and passed unanimously by the Board.

2) Proposed New Rule §310.13 Delegation of Local Board Duties to Executive Director

3) Proposed New Rule §310.14 Delegation of Duties Upon Discontinuance of Participation in the Pension System

Trustee Key moved to authorize the Executive Director, with the advice and consent of the Rules Committee and Outside Counsel, to publish the new Rules §310.13 and §310.14 in the Texas Register for public comment for a period of at least thirty days. The motion was seconded by Trustee Ryalls and passed unanimously by the Board.

The Board reconvened at 10:10 p.m. after a brief break.

7. Infrastructure Fund Manager Presentations and Contract Award - Discussion and Possible Action

Jonathan D. Breth, CFP, AndCo Consulting, LLC, advised the Board that due to their stated intent at the December 10, 2019 Board meeting to potentially replace Master Limited Partnerships with Global Infrastructure as an asset class, he had identified two investment managers as suitable options, IFM Global Infrastructure Fund and J.P Morgan Asset Fund. Mr. Breth explained that both Investment Managers had been invited to make presentations.

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A. IFM Global Infrastructure Fund

Dan Kim, Director, Global Relationship Group Registered Representative, IFM (US) Securities, LLC, presented his report entitled *IFM Investors IFM Global Infrastructure Fund* on behalf of IFM Investors. His presentation covered IFM Investors Firm Overview, IFM Global Infrastructure Fund and Asset Management and Responsible Investment.

B. J.P. Morgan Asset Fund

Kate Hurley, Executive Director, J.P. Morgan Asset Fund and Dan Delinko, Investments Specialist, J.P. Morgan Asset Fund, presented their report entitled *J.P. Morgan: Infrastructure Investments Fund* on behalf of J.P. Asset Management. Their presentation covered Infrastructure Investment Philosophy, J.P. Morgan Infrastructure Investments Fund firm overview, an overview of their current portfolio and acquisition activity, and a summary of Infrastructure Investments historical return and yield.

Mr. Breth made a recommendation to the Board to select IFM Global Infrastructure Fund based on the reasonableness of their fee structure and their proven track record.

Secretary Bechtol moved that pursuant to Board's investment authority Government Code Section 865.008 to select IFM Global Infrastructure Fund as the Infrastructure Manager and to authorize the staff to any and all action necessary to execute an agreement on behalf of the Board, the motion was seconded by Trustee Wagner and passed unanimously by the Board.

Chairman Moore reconvened the meeting at 12:45 p.m. after a break for lunch and moved to agenda item 8.

8. Investment Consultant Report on Investment Performance, Asset Allocation, and Investment Policy - Discussion and Possible Action

- A. Investment Performance Report for the Quarter Ending December 31, 2019**
- B. Investment Manager Watch List Report - Discussion and Possible Action**
- C. Written Investment Policy and Asset Allocation - Discussion and Possible Action**
- D. Evaluation of Investment Practices and Performance Reports as Required by Government Code §802.109 - Discussion and Possible Action**

Mr. Breth presented his report entitled *Texas Emergency Services Retirement System Investment Performance Review – Period Ending December 31, 2019*. He provided an overview of the capital markets, the economy, and TESRS investment performance during the quarter ending December 31, 2019.

Asset Class	Amount	Percent
Domestic Equities	\$54,844,562	45.9%

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International Equities	\$23,719,143	19.9%
Fixed Income	\$25,360,848	21.2%
US Core Real Estate	\$5,180,081	4.3%
Master Limited Partnership	\$4,105,892	3.4%
Multi-Asset Investments	\$6,000,233	5.0%
Money Market	\$299,859	0.3%
Total	\$119,510,619	100.0%

See page 14-15 of Texas Emergency Services Retirement System Investment Performance – Period Ending December 31, 2019.

Comparative Performance	Qtr	FYTD	YTD	1 Yr	3 Yr	5 Yr	7 Yr	Inception
Total Retirement System	6.28%	7.46%	20.50%	20.50%	10.20%	6.60%	7.72%	6.65%
Total Fund Policy	5.96%	7.34%	21.14%	21.14%	9.78%	6.87%	8.16%	7.70%
Difference	0.32%	0.12%	-0.64%	-0.64%	0.42%	-0.27%	-0.44%	-1.05%

See page 16 of Texas Emergency Services Retirement System Investment Performance – Period Ending December 31, 2019.

Mr. Breth recommended that the Board maintain Invesco on the watch list; however, he recommended that Richmond Capital be removed from the watch list.

Secretary Bechtol moved to accept the investment consultant's recommendation to keep Invesco on the Watch List and to remove Richmond Capital from the Watch list. The motion was seconded by Trustee Allen and passed unanimously by the Board.

Mr. Breth provided an overview of his proposed updates to *TESRS Investment Policy*. Mr. Breth recommended the addition of both the performance of manager search and evaluation and the recommendation of replacement managers to the responsibilities of the Investment Consultant. Mr. Breth also recommended changes to the asset allocation based on the Asset Liability Study findings that were presented at the December 10, 2019 Board meeting.

Secretary Bechtol moved pursuant to Board's investment authority under Government Code Section 865.008 to accept the investment consultant's recommended changes to the written investment policy and asset allocation by the elimination of the 5% target allocation to Master Limited Partnerships, addition of a 5% target allocation to Infrastructure, addition of a 10% target allocation to Non-Core fixed income, increase to Core Real Estate target from 5% to 10%, reduction in US Large Cap target from 30% to 20%, reduction in small/mid equity target from 15% to 10%; and the removal of real estate from the listing of prohibited investments, expanded the responsibilities of the investment consultant to include manager searches and to authorize the staff to take any and all action necessary to reallocate the appropriate funds. The motion was seconded by trustee Wagner and passed unanimously by the Board.

9. Chief Financial Officer's Budget Report – Discussion and Possible Action

A. FY2020 Non-Appropriated Fund Budget

Wayne Oberhoff, Chief Financial Officer, provided an overview of the report *FY2020 Non-*

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Appropriated Fund Budget. Mr. Oberhoff presented the Board with his memorandum entitled *Legal Fees*, requesting an increase to the FY2020 non-appropriated fund budget of \$25,000.00 for legal fees associated with the review of investment related documents.

Secretary Bechtol moved in recognition of the financial obligations of the system during fiscal year 2020, to increase Board's non-appropriated budget by \$25,000 as needed to obtain investment legal services from Jackson Walker. The motion was seconded by Trustee Key and was passed unanimously by the Board.

B. FY 2020 Appropriated Fund Budget

Mr. Oberhoff provided an overview of the report *FY2020 Appropriated Fund Budget*.

No action was taken regarding this agenda item.

10. External Audit Contract Request for Qualifications – Discussion and Possible Action

Wayne Oberhoff presented his report entitled *Professional Audit Service Response Evaluations*. He advised that a Request for Qualifications (RFQ) had been issued on January 30, 2020, in order to solicit competitive bids for professional audit services. Mr. Oberhoff recommended that the Board authorize staff to negotiate a contract with Weaver and Tidwell L.L.P. based on their thorough and timely response, demonstrated competence, knowledge, and qualifications as well as the quality of the service they have provided to the Board since 2014.

Vice Chairman Rodriguez moved to authorize the staff to negotiate an agreement with Weaver and Tidwell, L.L.P. for external audit services and to report back with a recommendation to the Board by the June meeting, the motion was seconded by Trustee Keenan and was passed unanimously by the Board.

11. Executive Director's Report on Administrative Activities for the System for the Period Ending February 29, 2020

Kevin Deiters, Executive Director, presented his report entitled *Executive Director's Report on System Administration*. Mr. Deiters provided the Board with a summary of benefit payments and contribution revenue through February 29, 2020, as well as statistical information about participating departments, system members, and benefit applications received through February 29, 2020. Scott, Miller, Business Development, supplied the Board with an overview of onsite visits as well as recruitment activity.

No action was taken regarding this agenda item.

12 Department Annual Report Compliance Update

Shirley Hays, Contracts Specialist, presented her memorandum entitled *Annual Local Board Reporting Compliance* to the Board. She described the required reports that must be submitted on or before February 29, 2020 by local boards and provided the Board with a list of departments that are not currently compliant.

No action was taken regarding this agenda item.

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13. Agency Strategic Plan- Discussion and Possible Action

Shirley Hays provided the Board with a draft of the Agency Strategic Plan for Fiscal Years 2021 to 2025.

Ms. Hays also presented her memorandum entitled *TESRS-Agency Strategic Plan-Draft*. She advised that agency staff were seeking the Board's authority for the TESRS Executive Director to provide the final TESRS Agency Strategic Plan to the Board Chairman for final review and approval.

Vice-Chairman Rodriguez moved to authorize the Executive Director, under the authority of Chairman, to submit the Agency strategic plan as required by state law. The motion was seconded by Trustee Torres and passed unanimously by the Board.

14. Board Strategic Planning Retreat – Discussion and Possible Action

Scott Miller described to the Board the options that he had researched for a Board strategic planning retreat. The Board members discussed their objectives and requested additional options for dates and locations.

No action was taken regarding this agenda item.

15. Report on the Impact of TESRS Upon Rural Communities

Chanhyeong Park, Intern, TESRS presented his report entitled *Impact of TESRS Upon Rural Communities*. Mr. Park explained that TESRS was asked to provide data for a study to determine the impact of public pensions on rural communities for 2018 and he provided the Board with a summary of the demographic data provided.

No action taken regarding this agenda item.

16. Board Educational Opportunities-Discussion and Possible Action

Chana Kramer, Staff Services Officer, provided an overview of her handout entitled *Summary of Minimum Educational Training (MET) Requirements*. Ms. Kramer described the minimum training requirements needed to satisfy the Pension Review Board's requirements as described in Texas Administrative Code §607.110.

No action taken regarding this agenda item.

17. Report on Executive Director Employment, Including Employment Posting for Available Executive Director Position and Establishment of Hiring Committee to Evaluate and Recommend Potential Candidates – Discussion and Possible Action

Chairman Moore announced that Kevin Deiters, Executive Director, had provided notice of his intention to retire from the agency. Chairman Moore advised that a hiring committee composed of Vice-chairman Rodriguez, Trustee Ryalls, Trustee Allen, and Trustee Torres would be responsible for evaluating and recommending candidates to fill the position.

No action taken regarding this agenda item.

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18. Request for Future Agenda Items and Meeting Dates

No requests for future agenda items were made.

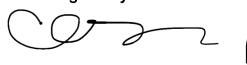
No action taken regarding this agenda item.

19. Adjourn

Chairman Moore requested a motion to adjourn at 2:34 p.m.

The motion was made by Trustee Torres, was seconded by Trustee Key and unanimously passed by the Board.

Minutes Approved by:

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Courtney Bechtol, Secretary

6/12/2020 | 13:44:05 EDT

Date: