

**Texas Emergency Services Retirement System**

**Meeting Minutes of February 16, 2017**

**Location:** Wyndham Garden Austin 3401 S. IH 35 Frontage Rd., Austin, Texas 78741

**Members Present:**

Frank Torres, Chairman  
Jenny Moore, Vice-Chair  
Ron Larson, Secretary  
Dan Key, Trustee  
Steve Williams, Trustee  
Don Shipman, Trustee  
Taylor Allen, Trustee  
Courtney Gibson Bechtol, Trustee  
Pilar Rodriguez, Trustee

**Members Absent:** N/A

**Staff:**

Kevin Deiters, Executive Director  
Judy Johnson, Chief Financial Officer, CPA  
Susannah Jones, Staff Services Officer  
Shirley Hays, Contract Manager, CTCM  
William Langford, Marketing Specialist  
Charles Bray, Intern

**Others present:**

David Gordon, Assistant Attorney General  
Adam McCane, Weaver and Tidwell, LLC  
Mark Fenlaw, F.S.A., Rudd & Wisdom  
Rebecca Morris, A.S.A. Rudd & Wisdom  
Jonathan D. Breth, CFP, AndCo Consulting, LLC  
Al DiCristofaro, Retirement Plan Consultant, AndCo Consulting, LLC

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Chairman Torres called the meeting to order at 8:35 a.m.

**1) Roll Call**

Secretary Larson called the roll and announced that a quorum of the Board was present. All nine trustees were present.

**2) Invitation for Public Comment**

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

### 3) Approval of Minutes for February 16, 2017

Kevin Deiters requested the Board consider the following changes to the draft minutes:

- change “annual average benefit” to “average age” in the discussion the actuarial report found on page 4;
- include Trustee Shipman on the Administrative Committee; and
- include information technologies in the purview of the Administrative Committee.

Secretary Larson made the motion to adopt the minutes as amended. The motion was seconded by Trustee Key and unanimously adopted by the Board.

### 4) Investment Performance Report of December 31, 2016 - Discussion and Possible Action

Jon Breth presented Milliman’s *Texas Emergency Services Retirement System Investment Review 4<sup>th</sup> Quarter 2016* report and he discussed the capital markets, the economy, and TESRS investment performance during the final quarter of 2016.

As of December 31, 2016, total assets were \$92.8 million. For the quarter, the Total Fund was down by 0.4%, which trailed the Policy Index of 0.8%. Over the past twelve months, the Fund was up 6.6%.

The asset allocation as of December 31, 2016 was:

• International Equities	\$23.7 million	25.6%
• Domestic Equities	\$40.9 million	44.2%
• Fixed Income	\$23.6 million	25.5%
• Alternatives	\$4.3 million	4.7%

Mr. Breth reported that the current asset allocation was within the acceptable range of the target and he did not recommend regarding rebalancing the portfolio.

No action taken.

### 5) Investment Manager Watch List - Discussion and Possible Action

Mr. Breth presented Milliman’s *Manager Watch Status* report covering investment managers under watch status as of December 31, 2016. He explained that Pier Capital was the only investment manager on the Watch List during the 4<sup>th</sup> quarter and he recommended that Pier remain on the Watch List. He concluded his Watch List presentation by stating that he would make a recommendation to the Board during the next agenda item that it commence a search to replace Pier Capital (Pier).

After discussion, Chairman Torres called for a motion to accept the investment consultant’s recommendation to maintain Pier on the Watch List due to under-performance.

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

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## 6) Investment Consultant Report

Mr. Breth presented his report entitled *Transition Update and Asset Class Recap* that included recommendations to the Board that it conduct searches to:

- replace Russell 2000 Value iShares with an active small/mid cap value manager;
- replace Pier Capital with an active small/mid cap growth manager; and
- add U.S. core real estate to the portfolio.

Mr. Breth explained that his recommendation to add active small/mid cap managers to the portfolio is based upon his belief that this is an area of the market that will produce higher returns over the long-term and because the small/mid cap allocation will complement the Board's large cap equity allocation in the portfolio. The amount of the allocations would be determined by the Board at the time it hires the manager(s).

Regarding his recommendation to add core real estate to portfolio, Mr. Breth explained that many of his clients have allocated 5% to 10% percent of their portfolio to core real estate to diversify the risk of their fixed income portfolios.

He described how the addition of core real estate is a primary step to the addition of alternative investments to a portfolio and that it would entail investments in high-quality Class-A properties where the lion's share of the returns come from rental income. A potential core real estate allocation would offer quarterly liquidity. Mr. Breth stated that he would recommend to the Board that it fund any allocation to core real estate by reducing its fixed-income exposure.

At the request of Trustee Allen, Mr. Deiters explained two procurement processes available to the Board. The Board could follow the State Procurement Act and authorize the staff to issue a Request for Proposal (RFP), seeking proposals from qualified investment firms; or the Board could utilize its exemption to State Procurement Act, and acquire goods or services using funds other than general revenues by a procurement method approved by the Board that provides the best value to the TESRS Pension System.

After discussion, Chairman Torres suggested to the Board that it delay the search for a real estate manager and that it concentrate on completing the small/mid cap equity manager searches by the May meeting. He also recommended that the Board authorize the investment committee to select the finalists from the firms recommended by the Investment Consultant.

Chairman Torres called for a motion pursuant to Government Code Section 2155.148 to authorize the Investment Consultant, under the supervision of the Investment Committee to initiate searches for a small-mid cap value equity manager and small-mid cap growth equity manager, and to authorize the investment committee to select up two or three finalists to present to the Board at the May meeting for each allocation.

The motion was made by Trustee Allen, seconded by Trustee Shipman, and passed unanimously.

*Note: At the conclusion of Agenda Item 6, Chairman Torres announced that he would move out of agenda order to Item 11 to discuss the Legislative Session.*

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## **11. Legislative Session Update**

Mr. William Langford presented his report entitled *Legislative Session Update* describing pension issues before the Texas Legislature. Agency Intern Charles Bray provided an overview of SB 134 (by Creighton) relating to state contracts with and investments in companies that boycott Israel.

No action was taken.

*Note: At the conclusion of Agenda Item 11, Chairman Torres announced that he would move out of agenda order to Item 7 to discuss the Legislative Session.*

## **7. FY 2016 Audited Financial Report 2016 - Discussion and Possible Action**

Mr. Adam McCane of Weaver and Tidwell, LLC. presented his firm's audit of the 2016 Annual Financial Report. He reported a clean unmodified opinion that provides the Board with the highest level of assurance that his firm is able to provide and he credited CFO Judy Johnson and her staff for the quality of their work.

The motion to accept the 2016 Audited Financial Report was made by – Secretary Larson, seconded by Vice-Chair Moore, and passed unanimously.

## **8. FY 2016 GASB 68 Report – Discussion and Possible Action**

Mr. McCane of Weaver and Tidwell, LLC. presented his firm's 2016 GASB 68 report entitled *Texas Emergency Services Retirement System Report on Pension Information August 31, 2016*. He explained that the purpose of the report is to provide participating departments and their governmental entities with their allocation of the System's net pension liability for their annual financial reports. He reported a clean unmodified opinion.

The motion to accept the 2016 Audited Financial Report was made by – Secretary Larson, seconded by Vice-Chair Moore, and passed unanimously.

## **9. Board Contract Policy – Discussion and Possible Action**

Ms. Shirley Hays, CTCM, presented a draft Contract Administration and Management Policy that is required by the System's enabling statute. The draft policy includes provisions for establishing the need for contracts, the procurement process, the best value criteria and contract management.

After discussion, Trustee Williams requested the Board delay further consideration of the draft policy until the May 2017 Board meeting to enable the Attorney General's office to review and comment on the proposed draft.

No action taken.

## **10. Compliance Update on the Enrollment of New Member Departments – Discussion and Possible Action**

Mr. Deiters and Ms. Hays presented a report entitled *Texas Emergency Services Retirement System Enrollment of All Volunteers* that provided a comparison of contribution revenue and member enrollment by departments between 2012 and 2016 and the results of a November 2016 survey of

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participating departments regarding the reason for not enrolling members into the pension system.

After discussion, Chairman Torres directed the staff to develop a plan to address the problem of departments not enrolling their members in the pension system.

No action was taken.

**12. Executive Director's Report on System Administration and Annual Reporting**

Mr. Deiters reported to the Board regarding the operations of the agency during the second quarter of FY 2017. His report included an overview of the Agency's Legislative Appropriation Request, the State hiring freeze, agency database project update, and the recruitment of new departments.

No action was taken.

**13. Board Educational Opportunities – Discussion and Possible Action**

Ms. Johnson reported to the Board about upcoming educational opportunities during the TEXpers conference; International Foundation of Employee Benefit Plans, and the 2017 Oppenheimer Funds Research Symposium.

Chairman Torres called for a motion authorizing Board members to attend educational events at TEXpers Legislative Conference, 2017 Oppenheimer Funds Research Symposium, and International Foundation of Employee Benefit Plans.

The motion was made by Secretary Larson, seconded by Trustee Shipman, and passed unanimously.

**14. Request for Future Agenda Items and Meeting Dates**

The Board will meet on May 18 - 19 in Austin, Texas.

**15. Adjourn**

Chairman Torres requested a motion to adjourn.

The motion was made by Trustee Williams, seconded by Vice-Chair Moore and passed unanimously.

Minutes Approved By:



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Signature Vice Chair Moore

5-18-2017

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Date:

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