

**Texas Emergency Services Retirement System  
Meeting Minutes of September 20, 2016**

Courtyard Marriott 7809 E. Ben White Blvd, Austin Texas 78741

**Members Present:**

Frank Torres, Chairman  
Gracie Flores, Vice-Chair  
Jenny Moore, Secretary  
Dan Key, Trustee  
Dennis Rice, Trustee

**Members Absent:**

Don Shipman, Trustee  
Ron Larson, Trustee  
Steve Williams, Trustee  
Taylor Allen, Trustee

**Staff:**

Kevin Deiters, Judy Johnson, Susannah Jones, Patrick McReynolds, Shirley Hays, William Langford

**Others present:**

David Goran, Assistant Attorney General  
Charles Hodge and Jeff Chalk, Milliman  
Adam McCane, Weaver and Tidwell, L.L.P.  
David E. Settles, State Street Global Advisors  
Martin E. LaPrade and Christopher J. Greco, Sawgrass Asset Management, L.L.C.  
Terence Fennessy and Margaret Vitrano, ClearBridge Investments  
Erin Doyle Orekhov and Sandy Sinor, Voya

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Chairman Torres called the meeting to order at 8:00 a.m. and made welcoming remarks.

**1. Roll call of Board Members and Excusal of Absences**

Secretary Moore called the roll and announced that a quorum of the Board was present. Five Trustees were present and Trustee(s) Shipman, Larson, Williams and Allen were absent.

A motion was made by Trustee Rice to excuse the absences of Trustee(s) Shipman, Larson, Williams and Allen, which was seconded by Vice-Chair Flores and passed unanimously.

**2. Invitation for Public Comment**

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

### **3. Approval of Minutes for August 2, 2016**

Chairman Torres requested a motion to adopt the minutes of meeting of August 2, 2016.

A motion was made by Vice-Chair Flores for the adoption of the minutes, which was seconded by Trustee Key and passed unanimously.

### **4. Large Cap Growth Allocation Overview (Judy Johnson)**

Ms. Judy Johnson, Chief Financial Officer, provided an overview of a report entitled *TESRS Cash Flow Activity for Atlanta Capital* that detailed the cash-flows for the Atlanta Capital account between January 2003 and August 2016. No action was taken on this agenda item.

### **5. Large Cap Growth Equity Manager Finalist Presentations**

#### **A. State Street Global Advisors Russell 1000 Growth Index**

Mr. David Settles made the presentation on behalf of State Street Global Advisors and its Russell 1000 Growth Index fund. His presentation covered the structure of the firm; fund management; the investment process; and the historical performance for the fund.

#### **B. Sawgrass Diversified Large Cap Equity**

Mr. Chris Greco and Mr. Marty LaPrade made the presentation on behalf of Sawgrass Asset Management, L.L.C. and its Diversified Large Cap Growth Equity Portfolio. Their presentation covered the structure of the firm; portfolio management; the investment process; and the historical performance for the portfolio.

*Note: The Board went into recess at 9:47 a.m. for break. The Board reconvened at 10:06 a.m.*

#### **C. ClearBridge Large Cap Growth**

Ms. Margaret Vitrano and Mr. Terence Fennessy made the presentation on behalf of ClearBridge investments and its Large Cap Growth Strategy. Their presentation covered the structure of the firm, fund management; the investment process; and the historical performance of the fund.

#### **D. Voya Large Cap Growth**

Ms. Erin Doyle and Ms. Sandy Sinor made the presentation on behalf of Voya Investment Management and its Large Cap Growth Strategy. Their presentation covered the handout provided to the Board that described the structure of the firm, fund management; the investment process; and the historical performance of the fund.

*Note: The Board went into lunch recess at 11:44 a.m. for break. The Board reconvened at 12:50 p.m.*

### **6. Large Cap Growth Equity Manager Search Overview (Milliman)**

The Board's investment consultants, Charles Hodge and Jeff Chalk, provided the Board with an overview of the large cap growth equity manager search process as described in the handout entitled *TESRS Large Cap Growth Manager Search Report*.

## **7. Selection of Large Cap Growth Manager - Discussion and Possible Action**

Mr. Hodge recommended to the Board that it equally divide its large cap equity growth allocation between the State Street Global Advisors Russell 1000 Growth Index fund and the ClearBridge Large Cap Growth Fund.

After discussion, Vice-Chair Flores called for a motion to select the ClearBridge Large Cap Growth fund for the Board's large cap equity growth allocation. A motion was made by Trustee Rice, seconded by Trustee Key and passed unanimously.

## **8. Investment Manager Watch List - Discussion and Possible Action (Milliman)**

Mr. Chalk provided the Board with an overview of the investment policy watch list process and he summarized his report entitled *Manager Watch Status* covering those investment managers under watch status (Atlanta Capital; Luther King; and Wells Fargo).

Mr. Chalk concluded his presentation on the Watch List by making the following recommendations to the Board:

- remove Wells Fargo from the Watch List because their three-year performance was above the median of its peer groups;
- maintain Luther King on the Watch List because of continued underperformance; and
- add Pier Capital to Watch List due to underperformance over the three and five year periods.

Chairman Torres called for a motion to accept the investment consultant's Watch List recommendation. The motion was made by Secretary Moore, seconded by Trustee Key and passed unanimously.

## **9. Investment Performance Report of June 30, 2016 - Discussion and Possible Action (Milliman)**

Mr. Chalk provided the Board with an overview of the report from Milliman entitled *Texas Emergency Services Retirement System Investment Review 2<sup>nd</sup> Quarter 2016*.

The report's executive summary reported that at the end of the second quarter of 2016, the assets in TESRS were \$90.6 million. At \$24.6 million, international equity assets are 27.2% of the fund. Domestic equities hold \$37.7 million in assets and represent 41.6% of the portfolio while Fixed Income at \$24.2 million represents 26.7%. For the quarter, the Total Fund was up by 2.2%, which trailed the Policy Index at 2.5%. Over the past twelve months, the fund is down 1.4%.

The Total Fund has exceeded the Benchmark Policy Index over a three-year annualized period by 0.3%. Over five years, the fund has exceeded the Benchmark Policy Index by 0.6% and six of its managers are above the 50th percentile. As a result, we conclude the Total Fund is in line with expectations.

**10. Small Cap Value Manager Search - Discussion and Possible Action (Kevin Deiters)**

Mr. Deiters updated the Board with a status update on the small cap equity manager search to replace Luther King that was authorized by the Board on June 27, 2017, by reporting that no action would be taken until the completion of the search for a manager to replace Atlanta Capital.

Mr. Deiters concluded his presentation by recommending to the Board that it direct its investment consultant to conduct a search for a small cap equity manager pursuant to the authority provided to the Board by Section 2155.148 of the Procurement Code.

Chairman Torres called for a motion to authorize the investment consultant to initiate a search for a small cap value index fund for consideration at the November Board meeting. The motion was made by Secretary Moore, seconded by Trustee Key and passed unanimously.

*Note: The Board went into recess at 2:39 p.m. for break. The Board reconvened at 2:55 p.m.*

**11. Selection of Finalists for the Investment Consultant Contract- Discussion and Possible Action (Kevin Deiters)**

The Board received a presentation from Mr. Deiters and Mr. McReynolds regarding the Request for Proposals for Investment Consultant Services (RFP) that was issued on July 19, 2016. They reported that the Agency received 12 proposals from qualified firms by the submission deadline of August 19, 2016.

Mr. Deiters reported that the evaluation committee, composed of Ms. Flores, Mr. McReynolds and Mr. Deiters, reviewed and scored each of the proposals following the scoring criteria in the RFP. He reported that it was the recommendation of the evaluation committee that the Board interview the following investment consultant firms:

- Bogdahn Consulting, LLC.
- Pension Consulting Alliance, Inc.; and
- R.V. Kuhns & Associates, Inc.

After discussion, Vice Chair Flores called for a motion to accept the recommendation of the evaluation committee and to include Milliman in the interviews.

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

**12. Written Investment Policy and Asset Allocation - Discussion and Possible Action (Milliman)**

No action taken

**13. FY 2016 Financial Audit Update (Weaver and Tidwell, L.L.P.)**

Mr. Adam McCane provided the Board with an update regarding the FY 2016 financial audit. He explained that professional standards require that he communicate with clients regarding his responsibilities with regard to the financial audit and the planned scope and the timing of out audit.

Mr. McCane also identified certain audit areas, such as actuarial-related disclosures, pension benefit payments, and contribution revenue, as being subject to expanded audit procedures and that he will report any significant deficiencies or material weaknesses to the Board. He concluded his presentation with an overview of the audit schedule that will result in the delivery of the audited financial statement in December 2016.

No action was taken.

**14. System Administration Report (Kevin Deiters)**

Mr. Deiters provided the Board with an overview about agency operations; the legislative appropriations hearing; and pension database migration.

No action was taken on this agenda item.

**15. Request for future agenda items and meeting dates**

Chairman Torres announced the next meeting dates of November 16<sup>th</sup> and December 13<sup>th</sup>, 2016.

**16. Adjourn**

Chairman Torres called for a motion to adjourn.

A motion was made by Trustee Key, which was seconded by Secretary Moore to adjourn the meeting at 3:58 p.m. and passed unanimously.

Minutes Approved By:

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Signature: Secretary Moore

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Date: