

Texas Emergency Services Retirement System
Board Meeting Minutes
November 29, 2018 8:30 a.m.
Hyatt Place Austin Airport
9532 Spirit of Austin Ln., Austin, TX 78719

Members Present:

Frank Torres, Chairman
Ron Larson, Secretary
Taylor Allen, Trustee
Courtney Gibson Bechtol, Trustee
Pilar Rodriguez, Trustee
Don Shipman, Trustee
Steve Williams, Trustee

Members Absent:

Jenny Moore, Vice-Chair
Dan Key, Trustee

Staff and Other Present

Kevin Deiters, Executive Director, TESRS
Judy Johnson, Chief Financial Officer, CPA, TESRS
Susannah Jones, Staff Services Officer, CTPM, TESRS
Shirley Hays, Contract Manager, CTCM, TESRS
Jessica O'Brien, Data and Technology Officer, TESRS
Charles, Bray, Marketing Specialist, TESRS
David Gordon, Assistant Attorney General
Katy Fallon-Brown, Legislative Budget Board
Jonathan D. Breth, CFP, AndCo Consulting, LLC
Mark Fenlaw, F.S.A., Rudd and Wisdom, Inc.
Rebecca Morris, Rudd and Wisdom, Inc.
Chuck Campbell, Jackson Walker, LLP
Aylca Riley, Jackson Walker, LLP
Jake Lagrone, Denim Group
Matt Snider, Denim Group
Vany Zamoranos, Denim Group
Matthew R. Bigda, Vice President, Institutional Distribution, Pear Tree Funds
Jeffrey Vilker, Director, Institutional Marketing

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

1. Roll Call

Secretary Larson called the roll and announced that a quorum of the Board was present. Seven Trustees were present. Vice-Chair Moore and Trustee Key were absent.

2. Invitation for Public Comment

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

3. Approval of Minutes for August 16, 2018

Trustee Shipman made a motion to adopt the minutes of the meeting of August 16, 2018. The motion was seconded by Trustee Williams and unanimously passed by the Board.

4. International Equity Manager Interviews – Discussion and Possible Action

A. Pear Tree Polaris (QFVOX)

Matthew Bigda, Vice President, Institutional Distribution made the presentation on behalf of Pear Tree Funds from his report entitled *Pear Tree Polaris Foreign Value Fund & Pear Tree Polaris Foreign Value Small Cap Fund*. His presentation provided an overview about the firm; investment process; portfolio construction; and investment performance for the Polaris Value Fund.

B. Oakmark International Value (OAKIX)

Jeffrey Vilker, Director, Institutional Marketing made the presentation on behalf of Harris Associates Oakmark Funds from his report entitled *Texas Emergency Services Retirement System, dated November 29th, 2018*. His presentation provided an overview about the firm; investment philosophy and process; currency hedging; portfolio construction; and investment performance for the Oakmark International Institutional Fund.

Trustee Allen made a motion pursuant to Board's investment authority under Government Code Section 865.008 to select Harris Associates Oakmark International Fund as the international equity value investment manager and to authorize the staff to take any and all action necessary to execute an agreement on behalf of the Board.

The motion was seconded by Trustee Bechtol and unanimously passed by the Board.

Trustee Bechtol made a motion to fund the allocation to the international equity value manager by reducing the allocation to the OFI International Growth Fund by 50 percent.

The motion was seconded by Trustee Allen and unanimously passed by the Board.

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

- A. Investment Performance Report for the Quarter Ending September 30, 2018**
- B. Investment Manager Watch List Report - Discussion and Possible Action**
- C. Written Investment Policy and Asset Allocation - Discussion and Possible Action**

Jonathan D. Breth, CFP, AndCo Consulting, LLC, presented his report entitled *Texas Emergency Services Retirement System Investment Performance – Period Ending September 30, 2018*. He provided an overview of the capital markets, the economy, and TESRS investment performance during the third quarter of 2018.

As of September 30, 2018, the total assets were \$112.63 million. The net return for the quarter was 2.91%, which underperformed the Policy Index by 0.79%. Over the past twelve months, the Fund's net return was 8.75%.

The asset allocation as of September 30, 2018 was:

• International Equities	\$21.81 million	19.4 %
• Domestic Equities	\$52.61 million	46.7 %
• Fixed Equities	\$23.09 million	20.5 %
• Alternatives Equities	\$15.12 million	13.4 %

Trustee Bechtol made a motion, based upon the recommendation of the investment consultant, to place OFI International Growth Fund on the watch list due to a change in ownership.

The motion was seconded by Trustee Allen and unanimously passed by the Board.

Mr. Breth reported that the current asset allocation was within the acceptable range of the target and he did not recommend rebalancing the portfolio or making changes to the Written Investment Policy and Asset Allocation.

6. Actuarial Valuation Report for the Period Ending August 31, 2018 - Discussion and Possible Action

Chairman Torres called upon System actuaries Mark Fenlaw and Rebecca Morris of Rudd and Wisdom, Inc. to report on the 2018 Actuarial Valuation Report.

Mr. Fenlaw explained that among financially strong public retirement systems, contributions are made which will both pay the current normal cost and amortize the existing unfunded actuarial accrued liability (UAAL) in 30 years or less; however, his firm determined that without appropriations from the state, the System has an inadequate

contribution arrangement because the UAAL will never be amortized, but instead will increase every year.

To achieve an adequate contribution arrangement, the System would need:

- 1) the maximum annual contribution from the state in accordance with the state law governing the System (one-third of all contributions to the System);
- 2) approximately \$725,000 in state appropriations each year to pay for part of the System's administrative expenses.

Mr. Fenlaw advised the Board that with these expected appropriations from the state for 24 years and Part One contributions from the participating departments, the System has an adequate contribution arrangement to pay the normal cost ^{ADD TO} of amortize ^{THE} of UAAL in 30 years. As a result, Part Two contributions would not be needed during FY 2020 and FY 2021.

Ms. Morris stated there were no changes in the assumptions used for the 2018 actuarial valuation. She summarized the findings of the report and provided the Board with a comparison of the 2018 valuation with the previous actuarial valuation that was performed in 2016.

Ms. Morris reported she discovered that the 2016 actuarial valuation overstated the UAAL for vested terminated members by \$698,335, due to the processing of a preliminary census data file, and that a corresponding adjusting entry was made to the 2018 actuarial valuation.

Trustee Williams made a motion to accept the 2018 Actuarial Valuation as presented by Rudd and Wisdom Inc.

The motion was seconded by Trustee Shipman and unanimously passed by the Board.

7. FY 2020 and FY 2021 Part 2 Contribution Rate for Participating Departments – Discussion and Possible Action

Trustee Williams made a motion, based upon the recommendation of the system actuary, for the Board to set the Part Two contribution rate at zero percent for the period between September 1, 2019 and August 31, 2021.

The motion was seconded by Trustee Shipman and unanimously passed by the Board.

Note: Chairman Torres moved to Agenda Item 14.

14. Executive Director's Report on Administrative and Financial Activities for the System for the Period Ending October 31, 2018

Kevin Deiters, Executive Director, provided the Board with an update on the administrative activities of the agency as of November 29, 2018.

No action was taken regarding this agenda item.

Note: Chairman Torres moved to Agenda Item 12.

12. Cybersecurity Consultant Security Briefing - Discussion and Possible Action (Closed Action)

The Board moved into closed session at 12:52 p.m. pursuant to Title 5, Subtitle A, Chapter 551.089, Subchapter D of the Texas Government Code.

The Board returned to open session at 1:36 p.m. and Chairman Torres announced that no action was taken during the closed session.

Note: Chairman Torres moved to Agenda Item 11.

11. Board Member Cybersecurity Training

The Board received training about cybersecurity from the Denim Croup.

Matt Snider, Manager of Information Security provided an overview on cybersecurity to the Board from his presentation entitled *TESRS Security Program Board of Trustees Briefing, November 29, 2018.*

No action was taken regarding this agenda item.

Note: Chairman Torres moved to Agenda Item 13.

13. Strategic Planning Committee Report on Proposed Amendments to Title 8, Government Code Subtitle H. Texas Emergency Services Retirement System - Discussion and Possible Action

Shirley Hays, Contract Manager, provided the Board with an overview on a survey the TESRS office conducted on the active members, age 30 and younger. The purpose of this survey was to focus on recruitment and retention of volunteer fire fighters.

Ms. Hays reported that survey results showed that more than two-thirds of the respondents had recruited a volunteer for their department, confirming that TESRS members are an excellent resource for recruiting volunteers. TESRS will continue to inform pension system members in an effort to support local recruitment.

Chuck Campbell and Alyca Riley, Outside Counsel, Jackson Walker, provided the Board with an overview of the findings of the Planning Committee in its report entitled *Texas Emergency Services Retirement System Summary of Desired Improvements to TESRS Statute.*

Their presentation was a summary of the desired improvements to the TESRS statute to address various administrative issues. These desired improvements do no impact benefit levels and are not expected to have a fiscal impact. The planning committee's

recommendation reflected changes in the volunteer fire service in the state and was intended to eliminate gaps in retirement system coverage and to reduce the administrative burden in local boards and participating departments.

No action was taken regarding this agenda item.

8. Chief Financial Officer's Report on the FY 2018 Annual Financial Report

Judy Johnson, Chief Financial Officer, provided an overview of the Unaudited Annual Financial Report (AFR) for the fiscal year ending August 31, 2018 that the agency submitted to the Comptroller of Public Accounts (CPA) on November 20, 2018.

Ms. Johnson explained that the AFR contains the agency's FY 2018 financial statements and that it was submitted by the agency to the CPA for inclusion in the State of Texas Comprehensive Annual Financial Report. She concluded her presentation with a progress report on the audit of the AFR that was being conducted by Weaver and Tidwell, LLC.

No action was taken regarding this agenda item.

9. Chief Financial Officer's Report on the FY 2018 Non-Appropriated Fund Budget - Discussion and Possible Action

Ms. Johnson provided an overview of the report entitled *Texas Emergency Services Retirement System Non-Appropriated Fund Budget for FY 2018 and Expenditures as of August 31, 2018*.

No action was taken regarding this agenda item.

10. Chief Financial Officer's Report on the FY 2019 Non-Appropriated Fund Budget - Discussion and Possible Action

Ms. Johnson provided an overview of the report entitled *Texas Emergency Services Retirement System Non-Appropriated Fund Budget for FY 2019 and Cash Basis Expenditures as of October 31, 2018*.

No action was taken regarding this agenda item.

Note: Chairman Torres moved to Agenda Item 15.

15. Board Educational Opportunities – Discussion and Possible Action

Kevin Deiters, Executive Director informed the Board of the annual renewal of the International Foundation of Employee Benefit Plans (IFEB) membership and the opportunities for trustee training during 2019.

Trustee Bechtol made a motion to authorize Board members to attend IFEB Plans educational conferences during 2019.

The motion was seconded by Trustee Larson and unanimously passed by the Board.

16. Executive Director Evaluation and Compensation – Discussion and Possible Action (Closed Session)

The Board moved into closed session at 2:53 p.m. pursuant to section Title 5, Subtitle A, Chapter 551.074, Subchapter D of the Texas Government Code to evaluate the job performance of the executive director and the level of compensation for the position.

The Board returned to open session at 3:04 p.m. and Chairman Torres announced that no action was taken during the closed session.

Trustee Shipman made a motion in recognition of the market value of Mr. Deiters position and his outstanding service to increase the executive director's salary by ten (10) percent effective January 1, 2019.

The motion was seconded by Trustee Larson and unanimously passed by the Board.

17. Request for Future Agenda Items and Meeting Dates

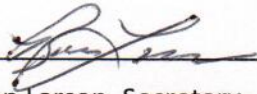
Mr. Deiters stated that he did not have a recommendation regarding 2019 board meeting dates because he was waiting for an announcement from the Governor's office regarding the appointment of new board members.

Mr. Deiters requested the following items be included on the agenda items for the next meeting.

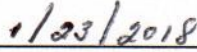
- 1) Report on 2018 Financial Report Audit;
- 2) CFO recruitment plan;
- 3) Discussion about an actuarial experience study;
- 4) Discussion about vesting requirements;
- 5) Motion to issue a RFP for custodial bank;
- 6) Motion to issue RFP for outside legal counsel.

The Board lost its quorum at 3:10 pm and the meeting ended.

Minutes Approved By:



Ron Larson, Secretary



Date: