

**Texas Emergency Services Retirement System  
Meeting Minutes of December 13, 2016**

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

**Members Present:**

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

**Members Absent:** N/A

**Staff:**

Kevin Deiters, Judy Johnson, Susannah Jones, Shirley Hays, Patrick McReynolds, Kate Johnson

**Others present:**

David Gordon, Assistant Attorney General  
Mark Fenlaw and Rebecca Morris, Consultants, Rudd & Wisdom  
Jeff Chalk and Charles Hodge, Consultants, Milliman

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Chairman Torres called the meeting to order at 8:05 a.m. and he welcomed Courtney Gibson Bechtol and Pilar Rodriguez to the Board.

**1. Roll call of Board Members**

Secretary Moore called the roll and announced that a quorum of the Board was present. 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 November 15 – 16, 2016**

Chairman Torres requested a motion to adopt the minutes of the meeting of November 15 – 16, 2016. The motion was made by Secretary Moore, seconded by Trustee Williams and passed unanimously.

#### **4. Investment Performance Report of September 30, 2016 – Discussion and Possible Action**

Jeff Chalk and Charles Hodge provided the Board with an overview of the report from Milliman entitled *Texas Emergency Services Retirement System Investment Review 3<sup>rd</sup> Quarter 2016*.

As of September 30, 2016, total assets were \$93.1 million, representing an increase of approximately \$3 million from the previous quarter. For the quarter, the Total Fund was up by 4.1%, which trailed the Policy Index of 4.3%. Over the past twelve months, the Fund was up 9.5%.

The asset allocation as of September 30, 2016 was:

• International Equities	\$25.2 million	27.1%
• Domestic Equities	\$39.3 million	42.2%
• Fixed Income	\$24.3 million	26.1%
• Alternatives	\$4.3 million	4.6%

Mr. Chalk reported that the current asset allocation is within range of the target allocation and that no action was needed to rebalance the portfolio.

No action taken.

#### **5. Investment Manager Watch List – Discussion and Possible Action**

Mr. Chalk provided the Board with an overview of the Watch List process and he summarized the *Manager Watch Status* report covering those investment managers under watch status as of September 30, 2016.

After discussion, Chairman Torres called for a motion to accept the investment consultant's recommendation to remove Atlanta Capital and Luther King from the Watch List because the managers were terminated during the current quarter. The motion was made by Trustee Shipman, seconded by Trustee Allen and passed unanimously.

After discussion, Chairman Torres called for a motion to accept the investment consultant's recommendation to maintain Pier Capital on the Watch List due to under-performance. The motion was made by Trustee Larson, seconded by Trustee Shipman and passed unanimously.

Mr. Chalk concluded his presentation by providing the Board with a report evaluating the fees paid to investment managers. No action was taken on this report.

*At the conclusion of Agenda Item 5, Chairman Torres announced that he would move out of agenda order to Item 8 to discuss the Chief Financial Officer's report on FY 2016 Financial Report.*

*Note: The Board went into recess at 8:46 a.m. and reconvened at 9:05 a.m.*

**8. Chief Financial Officer's report on the FY 2016 Financial Report**

Judy Johnson, Chief Financial Officer, provided an overview of the *TESRS Unaudited Annual Financial Report for the Year Ended August 31, 2016* which was submitted on November 20, 2016 to the State Comptroller for inclusion into the Statewide Comprehensive Annual Financial Report. She provided a high-level overview of the report and discussed the impact of GASB 66-67 on the audit process.

No action was taken on this agenda item.

**9. Chief Financial Officer's report on the Non-Appropriated Budget for the period ending November 30, 2016 – Discussion and Possible Action**

Ms. Johnson provided an overview of the report entitled *TESRS Non-Appropriated Fund Budget for FY 2017*. She reported total expenditures of \$6,700 (out of an annual budget of \$296,784) through the first quarter.

Trustee Shipman asked why the Agency Appropriated Budget was no longer included in the CFO's report on the Non-Appropriated Budget report. Mr. Deiters responded that the Agency Appropriated Budget was included in the Executive Director's report and that the appropriated budget is based upon Legislative appropriations and subject to oversight by the Comptroller's office.

No action was taken on this agenda item.

**10. Executive Director's report on administrative and financial activities for the System for the period ending November 30, 2016**

Mr. Deiters reported to the Board regarding the operations of the agency during the first quarter of FY 2017 as covered in the report entitled *Executive Director's Report*. After discussion, Mr. Deiters agreed to a request by Mr. Rodriguez to include additional demographic information in the report detailing the numbers of active members, retired members, and participating departments.

No action was taken.

*Note: At the conclusion of Agenda Item 10, Chairman Torres announced that he would move out of agenda order to Item 13 to discuss the Board Educational Opportunities.*

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

Mr. Deiters reported to the Board regarding state-mandated training requirements for trustees and he provided an overview of his report entitled *Board Member Education Opportunities*.

Chairman Torres asked Mr. Deiters to include the International Foundation of Employee Benefits educational conference on the February Board meeting agenda and he called for a motion to authorize Board members to attend the TexPers Conference in April 2017 in Austin. The motion was made by Trustee Williams, seconded by Secretary Moore and passed unanimously.

*Note: The Board went into recess at 10:45 a.m. for break. The Board reconvened at 10:56 a.m. Chairman Torres moved to Item 6 to discuss the Actuarial Valuation Report for the period ending August 31, 2016.*

**6. Actuarial Valuation Report for the period ending August 31, 2016 – Discussion and Possible Action**

Chairman Torres called upon System actuaries Mark Fenlaw and Rebecca Morris of Rudd and Wisdom, Inc. to report on the 2016 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;
- 2) approximately \$725,000 in state appropriations each year to pay for part of the System's administrative expenses; and
- 3) Part Two contributions equal to 2% of the Part One contributions will be established by the Board beginning September 2017.

Mr. Fenlaw advised the Board that with these expected appropriations from the state and both Part One and Part Two contributions from the participating departments, the System has an adequate contribution arrangement to pay the normal cost and amortize the UAAL in 30 years.

In response to a question from Trustee Key, Mr. Fenlaw explained that the valuation assumes that the Part Two contributions will be made for 29 years and subject to Board review and revision after each future actuarial valuation of the System.

Mr. Fenlaw discussed the difference between the actuarial value of assets (AVA) and the market value of assets (MVA) and its impact on the actuarial valuation of the System. He reported that the AVA used in this valuation was \$98.65 million, while the MVA was \$93.96 million, resulting in a \$4.69 million loss that will be recognized in the next two biennial valuations.

Ms. Morris provided an overview of the Summary of Participant Data found in Section 6 of the report and directed the Board's attention to page 6.2 which details the decline of active members and the increase of the average annual benefit. She pointed out that one of the reasons for the increase in the average annual benefit is the decline in the number of new active members in the system.

Ms. Morris concluded her presentation with an overview of the Section 2 covering the Summary of Actuarial Valuation and the Summary of the Contributions Development. She noted that the funded ratio of the System improved from 76.2 % in 2014 to 80.1% in 2016, whereas the amortization period increased from 30 years to 33 years due to declining contributions.

After discussion, Chairman Torres called for a motion to accept the 2016 Actuarial Valuation as presented by Rudd & Wisdom. The motion was made by Trustee Shipman, seconded by Secretary Moore and passed unanimously.

**7. FY 2018 Part Two Contribution Rate for Participating Departments – Discussion and Possible Action**

After discussion, Chairman Torres called for a motion to accept the recommendation of the System Actuary to assess Part Two Contributions to contribution departments at a rate of 2% effective September 1, 2017 and to authorize the staff to take any and all action necessary to implement the recommendation. The motion was made by Trustee Shipman, seconded by Trustee Williams and passed unanimously.

**11. Election of Officers – Discussion and Possible Action**

Chairman Torres called for the election of a new Vice-Chair because Ms. Flores was no longer on the Board. Trustee Larson made a motion to elect Secretary Moore as Vice-Chairman. The motion was seconded by Trustee Shipman and passed unanimously.

Chairman Torres called for the election of a Secretary following the election of Secretary Moore as Vice-Chair. Vice-Chair Moore made a motion to elect Trustee Larson as Secretary. The motion was seconded by Trustee Shipman and passed unanimously.

**12. Appointment of Committees and discussion of Committee responsibilities – Discussion and Possible Action**

Chairman Torres announced the establishment of three Board Committees (Administrative, Strategic Planning, and Investment).

\* INFORMATION SYSTEMS, *ff*

The Administrative Committee will be responsible for monitoring the financial and actuarial position of the System, and for promoting fiduciary training of Trustees. Chairman Torres asked Trustess Williams, Larson, and Rodriquez to serve on the Committee. Trustee Williams agreed to serve as Committee Chair. SHIPMAN *ff*

The Investment Committee will be responsible for developing an effective investment policy; monitoring investment performance; and for promoting fiduciary training for Trustees related to investments. Chairman Torres asked Trustees Allen, Bechtol and Key to serve on the Committee. Trustee Allen agreed to serve as Committee Chair.

The Strategic Planning Committee will be responsible for strategic planning, board governance, plan design and fiduciary training. Chairman Torres asked Vice-Chair Moore and Trustees Key and Williams serve on the Committee. Vice-Chair Moore agreed to serve as Committee Chair.

No action was taken on this agenda item.

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

Chairman Torres called for future Board meeting dates. Mr. Deiters stated the following dates were being considered for the 2017 calendar year.


- February 16,
- May 18,
- August 17, and
- November 17, 2017.

**15. Adjourn**

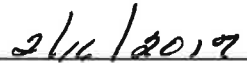
Chairman Torres called for a motion to adjourn.

A motion was made by Trustee Williams, seconded by Trustee Allen to adjourn the meeting at 12:23 p.m. and passed unanimously.

Minutes Approved By:

  
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Signature: Secretary Larson

  
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Date: