

Texas Emergency Services Retirement System
Board Meeting Minutes
August 17-18, 2017 1:00 p.m.
El Paso County Emergency Services District No. 1
14151 Nunda Dr., Horizon City, TX 79928

Members Present:

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

Members Absent:

Jenny Moore, Vice-Chair
Pilar Rodriguez, Trustee

Staff and Other Present

Kevin Deiters, Executive Director, TESRS
Judy Johnson, Chief Financial Officer, CPA, TESRS
Shirley Hays, Contract Manager, CTCM, TESRS
William Langford, Marketing Specialist, TESRS
Jessica O'Brien, Data and Technology Officer, TESRS
David Gordon, Assistant Attorney General
Jonathan D. Breth, CFP, AndCo Consulting, LLC
Megan Golder, Executive Director, Morgan Stanley Real Estate Investing Group
William A. Grayson, Director-Institutional Advisory Services, Principal Global Investors, LLC

Chairman Torres called the meeting to order at 1:04 pm.

1. Roll Call of Board Members

Secretary Larson called the roll and announced that a quorum of the Board was present. Seven Trustees were present.

2. Invitation for Public Comment – Discussion and Possible Action

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

3. Approval of Minutes for May 16, 2017

Trustee Allen requested that the clause “pursuant to the new asset allocation” be deleted from the first sentence of the final paragraph of Section 11 regarding the Board’s motion to conduct a search for a core real estate manager.

Trustee Key made the motion to accept the minutes as amended. The motion was seconded by Trustee Allen and unanimously passed by the Board.

4. Real Estate Investment Management Contract: Presentations and Contract Award

Board Consultant Jon Breth reminded the Board that it had targeted 5 percent of its asset allocation to core real estate and that it would be looking at two core real estate funds that invest in high quality apartments, retail centers, and other investment properties in a select number of major metropolitan areas.

He cautioned the Board that the real estate fund investments will require additional legal review because of the complexity of the participation subscriptions. He also described how the low-return environment for fixed income has created a high demand by investors for core real estate funds and that the Board should expect delays before it can actually invest its money.

Trustee Shipman expressed concern that the high demand for core real estate funds would result in the Board paying high prices. He also asked if the real estate asset class would be more volatile than fixed income.

Mr. Breth acknowledged Mr. Shipman’s concerns and stated that core real estate is a higher risk asset than investment grade bonds. While recognizing the high cost for real estate, he also pointed to the high cost of equity and other investments in the current environment. He concluded this was not an attempt to time the market and that his firm expects real estate returns, even if they decline, to exceed the expected returns from fixed income over the long-term.

Megan Golder, Executive Director for Morgan Stanley Real Estate Investing Group, made a presentation on behalf of the Prime Property Fund, LLC and its proposal to provide real estate investment services to the Board. The presentation provided an overview and structure of the firm, the firm’s mission statement, core values, philosophy and process, and industry trends.

- Diversified high-quality portfolio that is difficult to replicate and constructed to be resilient through market cycles;
 - Consistent, research supported investment strategies employed;
 - Focus on high-quality office buildings, top tier super-regional malls, Class A apartment communities and distribution warehouses in major metropolitan markets;
 - Proven track record over the near, intermediate and long term, meaningfully outperforming the NFI-ODCE index; and
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- Long-tenured and experienced portfolio management team dedicated to providing superior results and client service.

William A. Grayson, Director-Institutional Advisory Services for Principal Global Investors, LLC, made a presentation on behalf of its Principal US Property Fund and its proposal to provide real estate investment services to the Board. Their presentation provided an overview and structure of the firm, philosophy and process, and industry trends.

- \$74.7 billion in real estate assets under management;
- six decades of real estate investment experience;
- in-depth coverage of approximately 50 U.S. metropolitan real estate markets;
- Over 350 institutional clients; and
- Top 10 manager of real estate.

After discussion, Trustee Bechtol made a motion pursuant to Board's investment authority under Government Code Section 865.008 to select Prime Property Fund, LLC as the U.S. Core Real Estate 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 Allen and passed unanimously.

Trustee Larson made a subsequent motion to authorize the Executive Director to contract with the Principal US Property Fund in the event the Staff is unable to execute a contract with the Prime Property Fund. The motion was seconded by Trustee Shipman and passed unanimously.

5. Investment Performance Report for the Quarter Ending June 30, 2017

Mr. Breth presented the AndCo Consulting's Texas Emergency Services Retirement System Investment Performance - Period Ending June 30, 2017 report and he discussed the capital markets, the economy, and TESRS investment performance during the second quarter of 2017.

As of June, 2017, total assets were \$100.6 million. The net return for the quarter was 3.26%, which exceeded the Policy Index of 3.04%. Over the past twelve months, the Fund's net return was up 12.71%.

The asset allocation as of June 30, 2017 was:

- International Equities \$22.6 million 22%
- Domestic Equities \$49.5 million 49%
- Fixed Income \$24.2 million 24%
- Alternatives \$4.2 million 4%

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.

Mr. Breth recommended to the Board that it place Harvest Fund Advisors on the Watch List

because it had just been purchased by Blackstone. He explained that a management change was one of the criteria that Board uses to place an investment manager on the Watch List.

Trustee Bechtol made a motion to place Harvest Fund Advisors on the Watch List. The Motion was seconded by Trustee Larson and passed unanimously.

6. Written Investment Policy and Asset Allocation – Discussion and Possible Action

After discussion, Trustee Allen made a motion pursuant to the recommendation of the Board's investment consultant to amend the written investment policy of May 18, 2017 by changing the Benchmark for the Core Fixed income from the Bloomberg Barclays Intermediate Aggregate Index to the Bloomberg Barclays Aggregate Index. The motion was seconded by Trustee Key and passed unanimously.

Trustee Allen made a motion pursuant to Board's investment authority under Government Code Section 865.008 to reduce the target asset allocation for Core Fixed Income from 28 percent to 23 percent and to increase the target allocation to U.S. Core Real Estate from 0 percent to 5 percent subject to the successful execution of an agreement with Prime Property Fund, LLC and to authorize the staff to take any and all action necessary to reallocate the appropriate funds. The motion was seconded by Key and passed unanimously.

Note: Chairman Torres moved to Agenda Item 17 to discuss the FY 2018 Cash Management Procedures.

17. FY 2018 Cash Management Procedures – Discussion and Possible Action

Ms. Johnson presented a report, *Cash Flow Projections – 13 months*, and advised the Board that the Agency would need \$ 1.5 million in cash to meet its obligations during FY 2018.

Trustee Bechtol made a motion, in recognition of the financial obligations of the system during fiscal year 2018, to maintain in the state treasury the state contributions of \$1,329,224 received pursuant to Government Code section 865.014, and to authorize the CFO to work with the investment consultant to drawdown additional funds as needed up to \$1,500,000. The motion was seconded by Trustee Williams and passed unanimously.

Note: Chairman Torres moved to Agenda Item 7 to discuss the Ethics and Conflicts of Interest Policy.

7. Ethics and Conflicts of Interest Policy – Discussion and Possible Action

Mr. Deiters provided an overview of the April 2, 2014 Ethics and Conflicts of Interest Policy.

No action was taken regarding this agenda item.

8. Administrative Penalty Overview – Discussion and Possible Action

Assistant Attorney General Gordon provided an overview of the administrative penalty process and he explained that the agency does not have the authority to assess and collect an administrative penalty without giving Local Boards the right to request an administrative penalty hearing at the State Office of Administrative Hearings (SOAH).

This will require the agency to modify its demand letters to provide Local Boards to include the opportunity to either pay the administrative penalty or to request an administrative hearing before SOAH and explain the reasons behind their non-compliance with required reporting.

No action was taken on this agenda item.

9. Discussion and Possible Action Regarding the Adoption of Board Rules as Published in the Texas Register on June 30, 2017

- a. Adoption of new Rule §306.3 Qualified Service Credit for Eligible Active Military Duty under the Uniformed Services Employment and Re-Employment Rights Act.**
- b. Adoption of an amendment to Rule §310.6 Local Contributions.**
- c. Adoption of an amendment to Rule §310.8 Billings.**

William Langford provided the Board with a summary of the proposed orders of adoption for new Rule §306.3 and amendments to Rules §310.6 and §310.8. He advised the Board that public notice of the proposed rules was published in the June 30th, 2017 edition of the Texas Register and that one public comment questioned the need for a Local Board to meet to complete a System roster report.

Secretary Larson made the motion to approve Rule 34 Texas Administrative Code §306.3 Qualified Service Credit for Eligible Active Military Duty under the Uniformed Services Employment and Re-Employment Rights Act as published in the June 30th, 2017 edition of the Texas Register. The motion was seconded by Trustee Williams and passed unanimously.

Secretary Larson made the motion to approve Rule 34 Texas Administrative Code Rule §310.6 Local Contributions as published in the June 30th, 2017 edition of the Texas Register. The motion was seconded by Trustee Shipman and passed unanimously.

In response to questions from Trustee Key, Mr. Langford explained that the proposed amendment to Rule §310.8 Billings would require the Local Board to meet and adopt the membership report on semi-annual basis. The proposal would not change the number of required meetings since the number of required meetings is established by law at four per year.

Chairman Torres asked if the current rule required the Local Board to approve the pension roster. Mr. Langford explained that under the current rule the Local Board Chair and the administrative head of the department were responsible for verifying the accuracy of the pension roster and the proposed amendment would shift that responsibility to the Local Board.

Mr. Deiters stated the intent of this amendment was to place the responsibility for enrolling members into the pension system on the Local Board. The amendment would require the Local Board to publically meet to adopt the pension roster and to ensure that all of the eligible members of the department are enrolled in the pension system.

Trustee Williams made the motion to approve Rule 34 Texas Administrative Code Rule §310.8 Billings as published in the June 30th, 2017 edition of the Texas Register. The motion was seconded by Trustee Shipman and passed unanimously.

10. Discussion and Possible Action Regarding the Publication of Proposed Rules in the Texas Register

- a. **Proposed amendment to Rule §302.5 Correction of Errors and Contributions Past Due.**
- b. **Proposed repeal of Rule §302.6 Charge for Certain Contributions Past Due.**
- c. **Proposed amendment to Rule §302.8 Qualified Service.**
- d. **Proposed amendment to Rule §308.2 Service Retirement Annuity.**
- e. **Proposed new rule regarding Access to Information about Members, Annuitants, and Beneficiaries.**

William Langford provided the Board with an overview of proposed amendments to rules §302.5, §302.6; §302.8, and §308.2 and proposed new rule §310.12.

Mr. Langford explained that the proposed amendment to Rule §302.5 would result require Local Boards to correct errors and would remove the 5-year limitation on the correction of errors.

In response to questions from Trustee Key about the actuarial impact of the proposed rule, Mr. Langford explained that the governing entity would be required to pay any required contributions and interest due.

Trustee Williams made a motion to publish for public comment, the proposed amendment to Rule 34 Texas Administrative Code Rule §302.5 Correction of Errors and Contributions Past Due as presented. The motion was seconded by Trustee Bechtol and passed unanimously.

Secretary Larson made a motion to publish for public comment the proposed repeal of Rule §302.6 Charge for Certain Contributions Past Due as presented. The motion was seconded by Trustee Shipman and passed unanimously.

Trustee Williams made a motion to publish for public comment, the proposed amendment to Rule 34 Texas Administrative Code Rule §302.8 Qualified Service as presented. The motion was seconded by Trustee Allen and passed unanimously.

Trustee Williams made a motion to publish for public comment, the proposed amendment to Rule 34 Texas Administrative Code Rule §308.2 Service Retirement Annuity as presented. The motion was seconded by Trustee Shipman and passed unanimously.

During the presentation regarding the Access to Information about Members, Annuitants, and Beneficiaries, Chairman Torres asked Mr. Deiters to explain the differences between the proposed new rule and the processes used in the past to provide on-line access to the pension system database.

Mr. Deiters responded that the pension database would not be brought on-line to department users until the completion of a security assessment of the system. In the past, the department or Local Board Chair would submit an application form to the agency seeking on-line access for an authorized user. Formal approval by the Local Board was not required and the users on-line access did not expire.

Under the proposed new rule, the Local Board will need to meet and discuss their responsibilities to protect the confidentiality of member information. They will also be required to formally appoint a primary and secondary user each year and each user will be required to sign and submit a confidentiality agreement.

Trustee Williams made a motion to publish for public comment, the proposed new rule regarding Access to Information about Members, Annuitants, and Beneficiaries as presented. The motion was seconded by Trustee Shipman and passed unanimously.

11. Update on Legislative Appropriations to the Agency for FY 2018-2019 (Agency Appropriated Budget)

Mr. Deiters provided the Board with an overview of the Agency Appropriated Budget for FY 2018-2019 that was enacted by Legislature.

This was an informational item and no action was taken.

12. Executive Director's Report on Pension System Information Systems

Mr. Deiters provided the Board with an update on Board expenditures for information system security systems.

Trustee Shipman asked Mr. Deiters for an update on the status of the new pension database and the status of critical functions such as actuarial queries, benefit statements, and the user interface.

Mr. Deiters responded that the system was not on-line and that it would not be brought on-line until a security assessment is complete; however, he hopes to enrolling departments by the end of September. He explained that the benefit statement reports are working but that the actuarial queries will require additional testing before the 2018 actuarial valuation. He concluded his presentation by stating he expects to identify and resolve problems once the system is brought on-line.

13. Executive Director's Report on Administrative and Financial Activities of the System

Mr. Deiters reported to the Board regarding the operations of the agency during the fourth 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.

This was an informational presentation and no action was taken.

14. Chief Financial Officer Report on the FY 2017 Non-Appropriated Fund Budget – Discussion and Possible Action

CFO Johnson provided an overview of Board's Non-Appropriated Budget as of July 31, 2017.

This was an informational presentation and no action was taken.

15. Amendment to Outside Counsel Contract – Discussion and Possible Action

Mr. Deiters provided a written recommendation to the Board to extend the outside counsel contract with Jackson Walker, LLC for two years.

Secretary Larson made a motion to amend the term of the Outside Counsel Contract with Jackson Walker, LLC by extending the term of the contract until August 31, 2019 at the hourly rates presented and to authorize the staff to take any and all action necessary to obtain the approval of the Attorney General's Office to execute the contract amendment. The motion was seconded by Trustee Shipman and passed unanimously.

16. Amendment to Professional Auditing Services Contract – Discussion and Possible Action

Mr. Deiters provided a written recommendation to the Board that it amend the contract with Weaver and Tidwell, LLP by expand the scope of the contract to include GASB reporting during 2017-2019.

Trustee Williams made a motion to amend the Professional Auditing Services Contract with Weaver and Tidwell, LLP by expanding the scope of services to include GASB reporting during 2017-2019 at the fixed rates presented and to authorize the staff to take any and all action necessary to execute the contract amendment. The motion was seconded by Trustee Bechtol and passed unanimously.

18. FY 2018 Board Non-Appropriated Budget – Discussion and Possible Action

CFO Johnson provided the Board with an overview of the proposed Board Non-Appropriated Budget for FY 2018.

Chairman Torrez asked if the budget amount for the medical board was sufficient. Mr. Deiters described some of the options to the Board for establishing a medical board and he agreed to bring a proposal to the Board before the spring meeting.

Mr. Deiters asked for authority to carry forward the unspent balance for information system security from FY 2017 into 2018.

Trustee Williams made the motion to approve the Fiscal Year 2018 Board Non-Appropriated Budget as amended to carry forward unspent information security budget from FY 2017. The

motion was seconded by Trustee Shipman and passed unanimously.

19. Vendor Evaluations – Discussion and Possible Action

Mr. Deiters and CFO provided an overview of the results of the survey of board members regarding their satisfaction with Board vendors.

After discussion, the Board requested Mr. Deiters to visit the vendors about the Board's evaluation.

20. Board Educational Opportunities – Discussion and Possible Action

Chairman Torres encouraged Board members to attend any of the educational conferences listed in the related section of the Board book.

Trustee Shipman made a motion to authorize Board members to attend any of the conferences identified. Trustee Taylor seconded the motion and passed unanimously.

21. Request for Future Agenda Items and Meeting Dates

Chairman Torres requested that the next meeting be scheduled during the first week of December and that it include a discussion of the medical board.

22. Election of Board Officers

Trustee Williams made a motion to elect the current slate of officers (Torres-Chair, Moore –Vice Chair, and Larson – Secretary by acclamation. The motion was seconded by Trustee Shipman and passed unanimously.

23. Executive Director Evaluation (Closed Session)

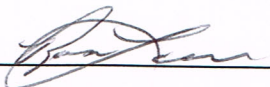
No Action Taken.

24. Adjourn


Chairman Torres requested a motion to adjourn at 12:30 pm.

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

Minutes Approved By:



Ron Larson, Secretary



Date:
