

Texas Emergency Services Retirement System
Board Meeting Minutes
February 16, 2022 8:00 A.M.
Hyatt Place Austin Airport
9532 Spirit of Austin Ln., Austin, TX 78719

Members Present:

Jenny Moore, Chairman
Pilar Rodriguez, Vice Chairman
Nathan Douglas, Trustee
Matt Graves, Trustee
Jerry Romero, Secretary
Rod Ryalls, Trustee
Edward Keenan, Trustee

Members Present via Teleconference:

Courtney Bechtol, Trustee
Stephanie Wagner, Trustee

Staff and Others Present:

Shirley Hays, Executive Director, TESRS
Jessica O'Brien, Data & Technology Officer, TESRS
Chana Kramer, Contract Specialist, CTCD, CTCM, TESRS
Rosalind Hunt, Assistant Attorney General
Scott Miller, Business Development, TESRS
Cassandra Davis, CTCM, Staff Services Officer, TESRS
Jonathan D. Breth, CFP, AndCo Consulting, L.L.C.
Chuck Campbell, Jackson Walker, LLP
Alyca Garrison, Jackson Walker, LLP
Rebecca Goldstein, CPA, Weaver & Tidwell, LLP
Tiffany Garcia, CISA, CICA CBIZ Risk and Advisory Services
Mark Fenlaw, F.S.A., Rudd and Wisdom, Inc.
Rebecca Morris, A.S.A, Rudd & Wisdom, Inc.
Brandon Fuller, F.S.A, Rudd and Wisdom, Inc.

Chairman Moore called the meeting to order at 8:02 A.M.

1. Roll Call and Excuse of Board Member Absences

Cassandra Davis, Staff Services Officer, called the roll. Seven board members were present. Trustee Wagner was absent. Chairman Moore announced that a quorum of the board was present and that due to board members attending via video conference, all motions will be voted on using roll call voting.

Chairman Moore called for a motion to excuse Trustee Wagner. The motion to excuse Trustee Wagner was made by Secretary Romero, seconded by Trustee Graves and unanimously passed by the board.

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Board Members	Vote
Pilar Rodriguez	Yay
Nathan Douglas	Yay
Courtney Bechtol	Yay
Jerry Romero	Yay
Edward Keenan	Yay
Matt Graves	Yay
Rod Ryalls	Yay

Trustee Wagner arrived at 8:10 A.M

2. Invitation for Public Comment

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

No action was taken on this agenda item.

3. Minutes for November 18, 2021

Trustee Graves moved to adopt the minutes for November 18, 2021 as presented. The motion was seconded by Trustee Romero and unanimously passed by the board.

Board Members	Vote
Pilar Rodriguez	Yay
Nathan Douglas	Yay
Courtney Bechtol	Yay
Jerry Romero	Yay
Edward Keenan	Yay
Matt Graves	Yay
Rod Ryalls	Yay
Stephanie Wagner	Yay

4. Investment Consultant Report on Investment Performance

- A. **Investment Performance Report for the Quarter Ending December 31, 2021**
- B. **Investment Manager Watch List Report**
- C. **Written Investment Policy and Asset Allocation**

Jonathan D. Breth, CFP, AndCo Consulting, L.L.C., presented his report entitled *Investment Performance Review Period Ending December 31, 2021*. His report covered the state of the economy, fixed income, domestic and international equity, and market themes. Mr. Breth began his presentation by summarizing the yearly Firm update written by AndCo CEO Mike Welker. Mr. Breth then moved on to describe the market conditions during the 4th quarter.

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Mr. Breth summarized the market environment and overall performance of each of the fund's asset classes during the third quarter. He noted that the Federal Reserve has indicated that they would be raising interest rates, which has spooked investors. He further noted that there was a shift back to the perceived safety of US large cap stocks, which were up 9.8% while small caps only gained around 2%. Mr. Breth then explained to the board that the rising dollar has continued to impact non-US equities. He further explained that the market is in year 14 of non-US stocks underperforming US stocks. Mr. Breth noted that he felt that the market was probably nearing the end of that pronounced US outperformance. Moving on to fixed income, Mr. Breth pointed out that it was a flat period over the 4th quarter. He then summarized bond performance, mentioning that shorter yield bonds rising in yield while longer dated bonds saw yields fall. He noted that TIPS delivered a strong performance over the quarter and over the year was one of the best performing areas in the investment grade bond market.

Mr. Breth summarized sector performance and then went on to describe the system's portfolio. He advised that the system ended the quarter pretty much in line with long term asset allocation targets, moderately overweight in US equities and moderately underweight in fixed income and real estate. He noted that the board had made an additional commitment to real estate, which he expected to be called sometime during the 1st quarter. He then noted that no active rebalancing was needed but did point out that the system will need to receive cash from the investment portfolio soon in order to pay benefits. He will target a reduction in the large cap value allocation with Boston Partners in order to meet that need.

Mr. Breth moved on to briefly summarize money manager performance. He explained that Clearbridge has continued to underperform for seven consecutive quarters and because of that, the investment committee met in order to complete a peer review. He briefly described the scope of the review and summarized the committee's findings. He explained to the board that the committee compared the long term results of Clearbridge to four other managers. Mr. Breth noted that the large cap environment has been a difficult environment for managers to outperform. From the review, the committee concluded that the board needed to bring in two potential alternatives to Clearbridge. They identified two managers, Fred Alger Capital Appreciation Strategy and MFS Growth Fund, to present to the board at the May 2022 board meeting.

He noted that Clearbridge is currently on the watch list, and he recommended that they remain on the watch list. He further noted that Allspring (previously Wells Capital) is heavily weighted in Chinese stocks and were impacted by recent Chinese regulation and as a result, underperformed over the quarter. Mr. Breth recommended that Allspring also be placed on the watch list because of underperformance and stock misses. He concluded his presentation by stating that he has no recommended changes or adjustments to asset allocation or policy statement at this time.

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Asset Class	Amount	Percent
Domestic Equities	\$47,414,811	33.20%
International Equities	\$27,653,245	19.36%
Fixed Income	\$43,156,836	30.21%
US Core Real Estate	\$11,747,361	8.22%
Master Limited Partnership	\$0	0%
Multi-Asset Investments	\$7,131,908	5.0%
Global Infrastructure	5,169,931	3.62%
Money Market	\$542,474	0.38%
Total	\$142,816,567	100.0%

See page 17 of Texas Emergency Services Retirement System Investment Performance-Period ending December 31, 2021

Comparative Performance	Qtr	FYTD	YTD	1 Yr	3 Yr	5 Yr	7 Yr	Inception
Total Retirement System	2.81%	0.22%	7.98%	7.98%	14.17%	10.57%	7.88%	7.05%
Total Fund Policy	3.79%	1.63%	10.32%	10.32%	13.68%	9.92%	7.79%	7.92%
Difference	-0.98%	-1.41%	-2.34%	-2.34%	0.49%	0.65%	0.09%	-0.87%

See page 19 of Texas Emergency Services Retirement System Investment Performance-Period ending December 31, 2021.

Secretary Romero made a motion to maintain Clearbridge on the watch list and to place Allspring on the watch list. The motion was seconded by trustee Keenan and unanimously passed by the board.

Board Members	Vote
Pilar Rodriguez	Yay
Nathan Douglas	Yay
Courtney Bechtol	Yay
Jerry Romero	Yay
Edward Keenan	Yay
Matt Glaves	Yay
Rod Ryalls	Yay
Stephanie Wagner	Yay

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Secretary Romero then made a motion that the investment consultant invite at least two qualified investment firms to present at the May 2022 board meeting regarding the domestic equity funds. The motion was seconded by Trustee Bechtol and unanimously passed by the board.

Board Members	Vote
Pilar Rodriguez	Yay
Nathan Douglas	Yay
Courtney Bechtol	Yay
Jerry Romero	Yay
Edward Keenan	Yay
Matt Glaves	Yay
Rod Ryalls	Yay
Stephanie Wagner	Yay

The board reconvened at 9:10 a.m. after a brief break. Chana Kramer, Contracts Specialist, called the roll. Nine board members were present with zero absent. Chairman Moore announced that a quorum of the board was still present.

5. TESRS 2021 Audited Financial Report

Rebecca Goldstein, Weaver and Tidwell LLP, introduced herself and presented her report entitled *GAGAS Pension Report*. She explained that she represents the system's independent audit firm and would be presenting the required communications for the audit of the August 31, 2021 financial statement and audit report. Ms. Goldstein further explained that her firm's objective is to form and express an opinion as to whether the financial statements prepared by management is correct in all material aspects.

Ms. Goldstein described the audit process and reported that Weaver and Tidwell had reviewed TESRS financial statement and issued a clean opinion letter because they believe that the financial statements are accurate, complete, and in accordance with Generally Accepted Accounting Principles.

No action was taken on this agenda item.

6. Chief Financial Officer's Budget Report

A. FY2022 Non-Appropriated Budget and Expenditures

B. FY2022 Appropriated Budget and Expenditures

David Tropea, Chief Financial Officer, presented his handout entitled *Non-Appropriated Fund Budget for FY2022 (Managed) Cash Basis Expenditures as of January 2022*. He summarized the budget line items and the current expenditures. He further explained that invoices that had not yet been received would be encumbered and accrued to ensure that they were properly presented in fiscal year 2022.

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Mr. Tropea then presented his handout entitled *Appropriated Fund Budget for FY2022-001 Cash Basis Expenditures as of January 31, 2022*. He summarized the budget line items and current expenditures as of January 31, 2022. In response to a question from Secretary Romero, Mr. Tropea agreed to provide the list of expenses under the 'Other Operating Expenses' line item.

No action was taken on this agenda item.

7. Contracts and Procurement

A. Investment Accounting Contract Renewal

B. Custodian Contract Renewal

Chana Kramer, Contracts Specialist summarized her memorandum entitled *Request to Renew Investment Accounting & Financial Reporting Services Contract with Lauterbach & Amen for one year*. Ms. Kramer explained that she was seeking the board's authority to extend the investment accounting and financial accounting services contract for one year pursuant to Section 1 of the contract. She explained that if the board moved to extend the contract, the new additional term would be September 1, 2022 through August 31, 2023. In response to a question from Secretary Romero, she noted that the agency would likely issue a solicitation for the services in 2023.

Secretary Romero moved to authorize staff to take any and all necessary action to execute an amendment to the contract with Lauterbach & Amen for one year from September 1, 2022 to August 31, 2023 with total fees for the period not to exceed \$36,430.00. The motion was seconded by Trustee Keenan and unanimously passed by the board.

Board Members	Vote
Pilar Rodriguez	Yay
Nathan Douglas	Yay
Courtney Bechtol	Yay
Jerry Romero	Yay
Edward Keenan	Yay
Matt Graves	Yay
Rod Ryalls	Yay
Stephanie Wagner	Yay

Ms. Kramer then summarized her handout entitled *Request to Renew Custodian Contract with BOK for two years*. She explained that the Custodian Services agreement with BOK Financial will expire on August 31, 2022. She requested the board's authority to extend the contract for an additional two-year term pursuant to Article 9.1 of the original agreement. She explained that there is no update to the fee schedule, and if the board moved to extend the agreement, the term would be September 1, 2022 through August 31, 2024.

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Trustee Glaves moved to authorize staff to extend the agreement with BOK for two additional years. The motion was seconded by Trustee ~~Glaves~~ and unanimously passed by the board.
Keenan

Board Members	Vote
Pilar Rodriguez	Yay
Nathan Douglas	Yay
Courtney Bechtol	Yay
Jerry Romero	Yay
Edward Keenan	Yay
Matt Glaves	Yay
Rod Ryalls	Yay
Stephanie Wagner	Yay

The board reconvened at 10:11 a.m. after a brief break. Cassandra Davis called roll. Nine board members were present with zero absent. Chairman Moore advised that the presenter for Agenda Item 8 had not yet arrived and moved out of order to Agenda Item 10.

10. Executive Director's Report on System Activity

Shirley Hays, Executive Director, presented her report entitled *TESRS Executive Director's Report February 16, 2022*. Her report covered system administration and system activity, accomplishments of certain staff members, pension system activity-benefits, and recruiting and technical assistance efforts.

Ms. Hays began by providing the board with an overview of the annual reporting, Membership Reconciliation Report submission, member benefit statement distribution process, and current status.

Ms. Hays moved on to describe the accomplishments of certain agency staff members over the previous quarter. While discussing the upcoming RFP for Investment Performance and Practices, Chana Kramer requested that the board chairman appoint a member of the board to serve on the evaluation committee. Chairman Moore appointed Secretary Romero to serve on the committee with evaluations to be completed in April 2022.

Ms. Hays encouraged board members to attend the TEXPERS conference scheduled in April and introduced Scott Miller, Business Development, to summarize recent agency recruitment and technical assistance activities. Mr. Miller's summary included interested departments, a possible governing entity transfer, and his work providing technical assistance to participating departments to facilitate the submission of annual reports.

Chairman Moore moved out of order to Agenda Item 8

8. Cybersecurity Services

Jessica O'Brien introduced Tiffany Garcia, CBIZ Risk & Advisory Services. Ms. Garcia advised that she would be making an informational presentation to the board. She provided the board with an overview of her experience, her firm, and summarized a list of services her firm offers. Ms. Garcia then explained why she felt her firm was a good fit for TESRS to provide cybersecurity consulting services.

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In response to a question from Chairman Moore, Shirley Hays advised that CBIZ would have a proposal for the board at the next board meeting.

No action was taken on this agenda item.

The board reconvened after a brief break at 11:38 a.m. Cassandra Davis called roll. Seven board members were present with two absent. Chairman Moore announced that a quorum of the board was present.

Chairman Moore called on David Tropea who provided additional expenditure details regarding the 'Other Operating Expenses' line item that the board had requested during Agenda Item 6.

The board took no action on this item.

Chairman Moore then moved out of order to Agenda Item 9.

Trustee Bechtol joined the meeting at 11:40 a.m.

9. Report Regarding Locations and Facilitators for Board Meeting for Strategic Planning

Cassandra Davis, Staff Services Officer, presented her report entitled *Locations and Facilitation Options*. Ms. Davis explained that per the board's request at the November 2021 board meeting, she had researched options for both locations and facilitators. She briefly described each of the options along with their cost, accessibility, and other considerations.

Chairman Moore announced that the strategic planning meeting would be an in-person meeting only.

After discussion, the board instructed staff to move forward with the San Antonio option for the location and April 14th for the date.

Chairman Moore moved to authorize staff to take any and all necessary action to execute an agreement or other instrument with Jean Poteet to facilitate a strategic planning session for the board. The motion was seconded by Trustee Ryalls and unanimously passed by the board.

Board Members	Vote
Pilar Rodriguez	Yay
Nathan Douglas	Yay
Courtney Bechtol	Yay
Jerry Romero	Yay
Edward Keenan	Yay
Matt Glaves	Yay
Rod Ryalls	Yay

The board reconvened at 1:08 p.m. after a break for lunch. Cassandra Davis called roll. Eight board members were present with one absent. Chairman Moore moved to Agenda Item 11.

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11. System Participation by the Texas State Guard

Shirley Hays explained that she had met with a representative for the Texas State Guard and that they had expressed an interest in joining the system. Ms. Hays then explained that the system's outside counsel and actuary had researched the considerations of the Texas State Guard joining and would present them to the board.

Chuck Campbell and Alyca Garrison, Jackson Walker, LLP, presented their handout entitled *Texas Emergency Services Retirement System: Overview of Key Considerations Related to the Participation of the State Guard of Texas in TESRS*. The report included background information, a review of current plan terms related to State Guard participation, and a summary of key considerations related to State Guard participation including:

- Purpose of TESRS
- Qualified Plan Status
- Qualified Plan Compliance
- Fiduciary Considerations
- Current Plan Terms
 - Performance of Emergency Services
 - Qualified Service
 - Physical Fitness Requirements
 - Service Eligibility Requirements
 - Source of State Contributions
 - Departmental Governance Considerations
 - State Board Composition
- Increased Administrative Burden
- State Support and Legislative Engagement
- Funding Considerations
- Actuarial Impact

Mark Fenlaw, Rudd and Wisdom, then presented his handout entitled *TESRS Guard Comparison*. Mr. Fenlaw summarized the demographic and service year differences between current TESRS members and members of the Texas State Guard.

Mr. Fenlaw noted that due to the demographic differences between the two groups, the increase in normal cost after including Texas State Guard members would offset the additional influx of contributions, and it would likely be a wash. He further noted that there were additional considerations, including potential issues if the system were to lower investment return assumptions. Mr. Fenlaw explained that lowering the return assumption combined with a higher normal rate could make the system more fragile and could result in an inadequate contribution arrangement.

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Mr. Fenlaw went on to explain that his team looked at the possibility of a change in the vesting schedule to better meet the needs of the Texas State Guard members in the form of lowering the minimum vesting from 10 years to 5 years. He determined that lowering the minimum vesting from 10 years to 5 years would create an even more inadequate contribution arrangement with or without the Texas State Guard joining the system.

Chairman Moore expressed a concern that the current system structure was created for first responders, and the Texas State Guard services might not be a good fit.

In response to a question from Trustee Keenan, Mr. Campbell stated that from a fiduciary perspective, the board has the duty of loyalty and would need to decide if they want the expense of additional research after the preliminary findings.

Trustee Douglas said he felt that if further research is needed in order to determine if allowing State Guard members into the system is possible, the Texas State Guard should be responsible for doing it and bringing it to the TESRS board.

Ms. Hays noted that she believed that the system had done the research in order to respond to the Texas State Guard's request to find out if their members would be a good fit to join the system. She then asked the board to clarify if they were interested in spending additional resources to further pursue the request.

Trustee Ryalls stated that he felt it was important for TESRS to focus on recruiting volunteer fire departments across Texas to increase membership.

No action was taken on this agenda item.

12. Board Training Opportunities

Cassandra Davis presented her handout entitled *Summary of Minimum Educational Training (MET) Requirements*. Ms. Davis provided the board with an overview of trustee training requirements needed to satisfy the Pension Review Board requirements. She advised that new trustees and administrators need seven hours of training in the first year of service, and continuing trustees and administrators need a minimum of four hours of training every two years after the first year of service. She then provided the board with a summary of training opportunities.

No action was taken on this agenda item.

13. Proposed Board Meeting Dates and Agenda Items

Ms. Hays noted that the strategic planning session would take place in April. The May meeting would include an investment performance report, presentations for Investment Practices and Performance Evaluation Services and the Executive Director Evaluation, which would take place in a closed session. She explained that staff had selected dates of May 19, 2022 and August 18, 2022 for future meetings.


Ms. Hays further noted that board elections would take place at the August meeting, and Jon Breth would be back for another investment performance report.

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14. Adjourn

Secretary Romero made a motion to adjourn the meeting at 2:43 p.m. The motion was seconded by Trustee Bechtol and unanimously passed by the board.

Minutes Approved by:

DocuSigned by:

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Jerry Romero, Secretary

4/25/2022 | 07:32:20 MDT

Date