

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

Members Present:

Frank Torres, Chairman
Jenny Moore, Vice-Chair
Ron Larson, Secretary
Don Shipman, Trustee
Taylor Allen, Trustee
Courtney Gibson Bechtol, Trustee
Pilar Rodriguez, Trustee

Members Absent:

Dan Key, Trustee
Steve Williams, 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
Terence Fennessy, Director, Institutional Sales Manager, Clearbridge LCG
Beth L. Baron, CFA, CFP, Managing Director, Portfolio Manager, Richmond Capital Management
Howard K. Bos, CFA, President, Portfolio Manager, Richmond Capital Management
Mark Fenlaw, F.S.A., Rudd & Wisdom
Adam McCane, Weaver and Tidwell, LLC
Alyca Riley, Jackson Walker, LLP

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

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 and Trustee Key and Trustee Williams were absent.

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 December 7, 2017

Vice-Chair Moore made the motion to adopt the minutes of the meeting of December 7, 2017. The motion was seconded by Trustee Shipman and unanimously passed by the Board.

4. Investment Manager Presentations

A. Clearbridge LCG

Mr. Terence Fennessy, Director, Institutional Sales Manager, Clearbridge LCG, made the presentation on behalf of Clearbridge Investments from his report entitled *Texas Emergency Services Retirement System dated March 8, 2018*. His presentation covered the Firm Overview; Large Cap Growth; and the historical performance for the portfolio.

No action was taken regarding this agenda item.

B. Richmond Capital

Ms. Beth Baron, CFA, CFP, Managing Director Portfolio Manager and Howard K. Bos, CFA, President, Portfolio Manager, Richmond Capital Management made the presentation on behalf of Richmond Capital Management from their report entitled *Texas Emergency Services Retirement System dated March 8, 2018*. Their presentation covered an overview about the firm; portfolio management; the investment process; and the historical performance for the portfolio.

No action was taken regarding this agenda item.

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

A. Investment Performance Report for the Quarter Ending December 31, 2017

B. Investment Manager Watch List

C. Investment Policy and Asset Allocation

Jonathan D. Breth, CFP, AndCo Consulting, LLC, presented his report entitled *Texas Emergency Services Retirement System Investment Performance – Period Ending December 31, 2017*. He provided an overview of the capital markets, the economy, and TESRS investment performance during the fourth quarter of 2017.

As of December 31, 2017, the total assets were \$109.07 million. The net return for the quarter was 4.15%, which exceeded the Policy Index of 3.97%. Over the past twelve months, the Fund's net return was 17.22%. The asset allocation as of December 31, 2017 was:

• International Equities	\$24.73 million	22.7 %
• Domestic Equities	\$54.87 million	50.3 %
• Fixed Equities	\$25.30 million	23.2 %
• Alternatives Equities	\$4.15 million	3.8 %

Secretary Larson made a motion to accept the investment consultant's recommendation to keep Harvest on the Watch List. The motion was seconded by Trustee Allen and unanimously passed by the Board.

Mr. Breth reported that the asset allocation was within range of the target allocation and did not need to be rebalanced. No action was taken regarding asset allocation.

8. Pension System Strategic Planning, including local board governance, enrollment, and qualified service processes to benefit administration of the pension system – Discussion and Possible Action

Chairman Torres briefed the Board with an update on the February 15, 2018 meeting of the Strategic Planning Committee to review the staff's recommendations regarding local governance, membership eligibility, qualified service, and system benefits.

Mr. Deiters made the presentation from his report entitled *Pension System Strategic Planning dated March 1, 2018*. His presentation covered the Strategic Planning Overview, Local Governance, Membership, Probationary Period, Payment of Contributions, Qualified Service, Annual Reporting, Retirement Approval, Line of Duty Death Benefits, Off-Duty Death Benefits, and Disability Benefits.

Vice-Chair Moore made a motion to authorize outside counsel under the supervision of the planning committee to initiate a review of TESRS enabling statutes to identify provisions that would impede the efficient provisions of the benefits to members to report back to the Board with findings and recommendations no later than the next Board meeting.

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

6. 2018 Actuarial Valuation Process Overview – Discussion and Possible Action

Mr. Fenlaw provided the Board with an overview of the 2018 actuarial valuation process and his recommendations for the adoption of assumptions as outlined in his letter of March 1, 2018, to Mr. Deiters.

No action was taken regarding this agenda item.

7. Prior Service Credit Purchase and Merger Options for Department – Discussion and Possible Action

Mr. Langford presented his report entitled *Prior Service Credit Purchase and Merger Options for Departments* to the Board and provided an overview of the options available to new departments joining the pension system and the cost of financing.

After discussion, Chairman Torres directed the administrative committee to review prior service credit purchase and merger options and to report back to the Board with recommendations no later than the August meeting.

No action was taken regarding this agenda item.

9. FY 2017 Audited Financial Report – Discussion and Possible Action

Mr. Adam McCane of Weaver and Tidwell, LLC presented his firm's audit report of the *TESRS Annual Financial Report for the Year Ended August 31, 2017*. He reported a clean unmodified opinion that provides the Board with the highest level of assurance that his firm is able to provide and he credited CFO Judy Johnson and her staff for the quality of their work.

No action was taken regarding this agenda item.

10. FY 2017 GASB 68 Audit Report – Discussion and Possible Action

Mr. McCane presented his report entitled *Texas Emergency Services Retirement System Report on Pension Information August 31, 2017*. He explained that the purpose of the report is to comply with Governmental Accounting Standards Board Statement 68 by providing participating departments and their governmental entities with their allocation of the System's net pension liability.

No action was taken regarding this agenda item.

11. Presentation By Legal Counsel On New Rulemaking Requirements From 85th Legislative Session – Discussion and Possible Action

Mr. Gordon of the Office of the Attorney General presented a report entitled *Government Code Chapter 2006 Small Business and Rural Communities Impact Guidelines, Updated December 2017* that summarized the adoption of HB 3433 and its requirement that, as part of the rulemaking process, state agencies prepare an Economic Impact Statement that assesses the potential impact of a proposed rule on rural communities.

No action was taken regarding this agenda item.

12. Adoption of Board Rules as Published in the Texas Register on December 29, 2017 – Discussion and Possible Action

- A. Amendment to Rule §308.4 Death Benefits;**
- B. Amendment to Rule §310.9 Periodic Reports; Administrative Penalties**

Rule §308.4

Mr. Langford provided the Board with an overview of the amendment to Rule §308.4 relating to Death Benefits as published in the December 29, 2017 edition of the Texas Register.

He explained that the amendment was necessary to clarify the award of non-service death benefits to the surviving spouses of vested members, both active and inactive.

The amended section expands the off-duty death benefit to provide a benefit to the surviving spouses of deceased vested terminated members who met or exceeded the minimum age requirements to retire. In addition, the amended §308.4 clarifies that beneficiary designations are null and void once a member terminates from the department, which creates a uniform system for awarding benefits to the surviving spouses of deceased vested terminated members.

The Board received no public comment regarding the proposed amendments to §308.4.

Trustee Shipman moved to approve the amendment to Rule 34 Texas Administrative Code §308.4 Death Benefits as published in the December 29, 2017 edition of the Texas Register. The motion was seconded by Trustee Bechtol and passed unanimously.

Rule §310.9

Mr. Langford provided the Board with an overview of the amendment to Rule §310.9 regarding Periodic Reports and Administrative Penalties as published in the December 29, 2017 edition of the Texas Register.

He explained that the amendment was necessary to correct an error in the existing rule which may be construed to limit the due process rights provided by the Administrative Procedures

Act, Texas Government Code Chapter. The Board takes the position that it does not have the authority to limit the appeal rights and access to judicial review for persons subject to Rule §310.9.

The Board received no comments regarding the amendments to the proposed amendments.

Trustee Shipman moved to approve the amendment of Rule 34 Texas Administrative Code Rule §310.9 Period Reports, Administrative Penalties as published in the December 29, 2017 edition of the Texas Register. The motion was seconded by Trustee Allen and passed unanimously.

13. Cybersecurity Policy Development – Discussion and Possible Action

Mr. Deiters asked the Board for authority to develop a Cybersecurity policy and to hire a Cybersecurity firm to implement a systematic approach to managing risk.

Secretary Larson made the motion to develop a formal Cybersecurity policy to protect the confidentiality of member information. The motion was seconded by Trustee Bechtol and unanimously passed by the Board.

Secretary Larson made the motion to authorize the executive director to initiate a search for cyber security firms capable of assisting the Board in implementing a programmatic approach to mitigating security risk and to select two to three firms for presentation before the Board no later than the next Board meeting. The motion was seconded by Vice-Chair Moore and unanimously passed by the Board.

14. Non-Appropriated Budget for the Period Ending February 28, 2018 – Discussion and Possible Action

Ms. Johnson provided an overview of her report entitled *Texas Emergency Services Retirement System Non-Appropriated Fund Budget for FY2018 Cash Basis Expenditures as of February 28, 2018*.

Trustee Shipman made the motion to increase the Non-Appropriated Budget for the outside contract counsel line item by \$25,000.00 to a total of \$50,000.00.

The motion was seconded by Vice-Chair Moore and unanimously passed by the Board.

15. Executive Director's Report on System Administrative and Financial Activities for the Period Ending February 28, 2018

Mr. Deiters report to the Board regarding the operations of the agency during the second quarter of FY 2018. His report included an overview of the FY 2018 Appropriated Fund Budget, Benefit Payments and Contribution Revenue, System Stats, 2017 Annual Reports, Training/Technical Assistance Visits and Recruitment Update.

No action was taken regarding this agenda item.

16. Board Educational Opportunities – Discussion and Possible Action

Chairman Torres called for a motion authorizing Board members to attend educational events and investment training seminars. The motion was made by Secretary Larson, seconded by Trustee Shipman and unanimously passed by the Board.

17. Request for Future Agenda Items and Meeting Dates

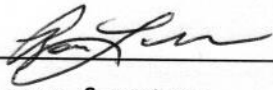
Chairman Torres confirmed the next Board meeting date of May 24, 2018 would work with the Board in Austin, Texas.

18. Adjourn

Chairman Torres requested a motion to adjourn at 2:46 p.m.

The motion was made by Trustee Shipman, seconded by Vice-Chair Moore and passed unanimously.

Minutes Approved By:



Ron Larson, Secretary

May 24 2018
Date: /