

Texas Emergency Services Retirement System
Board Meeting Minutes
December 7, 2017 8:30 a.m.
Wyndham Garden Austin
3401 S. IH 35 Frontage Rd., Austin, TX 78741

Members Present:

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

Members Absent:

Taylor Allen, 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
William Langford, Marketing Specialist, TESRS
Jessica O'Brien, Data and Technology Officer, TESRS
Eliana Martinez, Accountant, TESRS
Cassandra Davis, Benefits Specialist, TESRS
Chana Kramer, Benefits Specialist, TESRS
David Gordon, Assistant Attorney General
Jonathan D. Breth, CFP, AndCo Consulting, LLC
Al DiCristofaro, Retirement Plan Consultant, AndCo Consulting, LLC
Nicholas Gaspari, Managing Director, Investments, Harvest Fund Advisors, LLC
Richard Walsh, VP, Senior Relationship Manager, Oppenheimer Funds
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. Eight Trustees were present and Trustee Allen was 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 August 17 – 18, 2017

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

Note: Chairman Torres moved to Agenda Item 11 to discuss the Executive Director's Report on System Administrative and Financial Activities for the Period Ending November 30, 2017.

11. Executive Director's Report on System Administrative and Financial Activities for the Period Ending November 30, 2017

Mr. Deiters reported to the Board from his report entitled *Executive Director's Report on System Administration dated December 7, 2017*. The report covered:

- TESRS Online Database Rollout;
- Information System Security Audit and Remediation Project;
- Retirement Application Process;
- Benefit Statement Distribution;
- Department Site Visits;
- FY 2018 Agency Appropriated Fund Budget; and
- Department Statistics.

No action was taken regarding this agenda item.

12. Board Education Opportunities

Mr. Deiters provided an overview about the Texas Association of Public Employee Retirement Systems (TexPERS) Conference in April 2018

No action was taken regarding this agenda item.

Note: Chairman Torres moved to Agenda Item 4 to discuss the Investment Manager Presentations.

4. Investment Manager Presentations

A. Harvest Fund Advisors, LLC

Mr. Nicholas Gaspari, Managing Director, Investments, Harvest Fund Advisors, LLC, made the presentation on behalf of Harvest Fund Advisors, LLC. from his report entitled *TESRS Performance Review Meeting dated December 7, 2017*. His presentation covered the August 2017 merger with Blackstone Group; portfolio management; the investment process; and the historical performance for the portfolio.

No action was taken regarding this agenda item.

B. Oppenheimer Funds

Mr. Richard Walsh, Senior Relationship Manager, Oppenheimer Funds made the presentation on behalf of Oppenheimer Funds from his report entitled OFIGTC International Growth dated December 7, 2017. His 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 Management Contract with Prime Property, LLC

Mr. Deiters provided the Board with an update regarding the investment management contract with the Morgan Stanley Real Estate Investing Group Private Property, LLC. for its Prime Property Fund.

He advised the Board that he engaged outside counsel (Jackson Walker) to review the LLC Company Agreement and the Subscription documentation for the Morgan Stanley Prime Property Fund (the Fund) and to represent the Board during negotiations.

Mr. Deiters reported that Jackson Walker completed its review of the offering documents and that they plan to discuss diligence and technical issues with Morgan Stanley during the next few weeks; however, they do not anticipate that these discussions will prevent the signing of an agreement by December 31, 2017.

Trustee Shipman requested that that expenses for the legal review be added to the non-appropriated budget for 2018.

No action was taken regarding this agenda item.

6. Investment Consultant Report on Investment Performance, Asset Allocation and Investment Policy

A. Investment Performance Report for the Quarter Ending September 30, 2017

B. Investment Manager Watch List

C. Investment Policy

Jonathan D. Breth, CFP, AndCo Consulting, LLC, presented AndCo Consulting's *Texas Emergency Services Retirement System Investment Performance – Period Ending September 30, 2017* report. He provided an overview of the capital markets, the economy, and TESRS investment performance during the third quarter of 2017.

As of September 30, 2017, the total assets were \$104.77 million. The net return for the quarter was 3.98%, which exceeded the Policy Index of 3.46%. Over the past twelve months, the Fund's net return was 11.93%. The asset allocation as of September 30, 2017 was:

• International Equities	\$24.12 million	23.0 %
• Domestic Equities	\$52.09 million	49.7 %
• Fixed Equities	\$24.39 million	23.3 %
• Alternatives Equities	\$4.17 million	4.0 %

Trustee Key made a motion to accept the investment consultant's recommendation to keep Harvest on the Watch List. The motion was second by Trustee Bechtol and passed unanimously.

Mr. Breth reported that the current asset allocation was out of range and he recommended the Board rebalance the portfolio as follows:

• Emerging Markets (Wells Fargo)	-2.0 %
• Large Cap Value (Boston Partners)	-2.0 %
• Large Cap Growth (Clearbridge)	-1.0 %
• International Equity (OFI)	-1.0 %
• Core Fixed Income (Garcia Hamilton)	+2.5 %
• Core Fixed Income (Richmond Capital)	+2.5 %
• Cash (Benefit Payments)	+1.0 %

Chairman called for a motion to accept the Investment Consultant's recommendation to rebalance the portfolio. The motion was made by Trustee Bechtol, seconded by Vice-Chair Moore and passed unanimously.

7. Chief Financial Officer's Report

A. FY 2017 Financial Report and Audit

B. Non-Appropriated Budget for the period ending November 30, 2017

Ms. Johnson, Chief Financial Officer, provided an overview of the Unaudited Annual Financial Report for the year ending August 31, 2017. She reported on the Changes in the Fund Balances/Statement of Activities – Government Funds, Combined Statement of Fiduciary Net Position and Combined Statement of Changes in Fiduciary Net Position.

Adam McCane, Weaver and Tidwell, LLC, advised the Board that his firm has completed its field work and that it expected to complete its audit of the annual financial report and the GASB 67 audit report by the end of the week of December 11th.

Chairman Torres directed the Administrative Committee to review the audit report with Mr. McCane and the Chief Financial Officer prior to its submission to the State Comptroller on December 20, 2017.

Ms. Johnson concluded her Chief Financial Officer Report by providing an overview of the Non-Appropriated Fund Budget for FY2018 Cash Basis Expenditures as of November 30, 2017.

No action was taken regarding this agenda item.

8. Adoption of Board Rules as published in the Texas Register on September 29, 2017

A. Adoption of an amendment to Rule §302.5 Correction of Errors and Contribution Past Due;

B. Adoption of the repeal of Rule §302.6 Charge for Certain Contribution Past Due;

C. Adoption of an amendment Rule §302.8 Qualified Service;

D. Adoption of an amendment to Rule §308.2 Service Retirement Annuity;

E. Adoption of new Rule §310.12 regarding Access to Information about Members, Annuitants, and Beneficiaries.

Rule§302.5

Mr. Langford provided the Board with an overview of the proposed amendment to rule §302.5 regarding the process for correcting errors and for paying for contributions past due.

He explained that the proposed rule simplifies the process for correcting errors and removes the five-year limitation which prevents departments from correcting errors that occurred in the past. The proposed amendment also incorporates the provisions of Rule §302.6 regarding the payment of charges for contributions past due that are related to a correction of error.

The proposed rule was published in the Texas Register on September 29, 2017. The Board received one public comment supporting the proposed amendment.

Trustee Shipman moved to approve the amendment to Rule 34 Texas Administrative Code §302.5 Correction of Errors and Contributions Past Due as published in the September 29, 2017 edition of the Texas Register. The motion was seconded by Trustee Williams and passed unanimously.

Rule §302.6

Mr. Langford provided the Board with an overview regarding the proposed repeal of rule §302.6 regarding the Charge for Certain Contributions Past Due. He explained that rule §302.6 was obsolete because its provisions were included in rule §302 that was just amended by the Board.

The proposed rule was published in the Texas Register on September 29, 2017. No public comments were submitted regarding the proposed repeal.

In response to a question from Trustee Shipmen, Mr. Gordon explained the State Board by rule may impose an interest charge on contributions due because of a correction of an error by the Local Board related to enrollment of qualified service. The charge must be based on the pension systems current rate of return and deposited into the fund.

Vice-Chair Moore moved to approve the repeal of Rule 34 Texas Administrative Code §302.6 Correction of Errors and Contributions Past Due as published in the September 29, 2017 edition of the Texas Register. The motion was seconded by Secretary Larson and passed unanimously.

Rule §302.8

Mr. Langford provided the Board with an overview of the proposed amendment to rule §302.8 Qualified Service. He explained that the purpose of the amendment was to correct an incorrect reference to the statute.

The proposed rule was published in the Texas Register on September 29, 2017. No public comments were submitted regarding the proposed amendment.

Trustee Bechtol moved to approve the amendment of Rule 34 Texas Administrative Code §302.8 Qualified Service as published in the September 29, 2017 edition of the Texas Register. The motion was seconded by Trustee Williams and passed unanimously.

Rule §308.2

Mr. Langford provided the Board with an overview of the proposed amendment to rule §308.2 relating to Claim and Appeal Procedures. He explained that the purpose of the proposed amendment was to reduce delays in the payment of benefits to retirees that occur when Local Boards fail to meet and approve retirement applications.

Under the proposed amendment, the Executive Director would be able to decide the merits of the claim for benefits after sixteen (16) days of notice if the Local Board fails to meet.

The proposed rule was published in the Texas Register on September 29, 2017. No public comments were submitted regarding the proposed amendment.

Vice-Chair Moore moved to approve the amendment of Rule 34 Texas Administrative Code §308.2 Service Retirement Annuity as published in the September 29, 2017 edition of the Texas Register. The motion was seconded by Trustee Key and passed unanimously.

Rule §310.12

Mr. Langford provided the Board with an overview of new rule §310.12 that is intended to protect the confidentiality of member information. He explained that the new rule establishes specific requirements that the System and Local Boards must meet before individuals are granted access to confidential information. The new rule also mandates that Local Boards review the System's security policy annually and implement processes to protect confidential information.

The proposed new rule was published in the Texas Register on September 29, 2017. No public comments were submitted regarding the proposed rule.

In response to a question from Secretary Larson, Mr. Langford explained that the Local Board would need to meet at least annually to review the System's security policy and to reappoint authorized users.

In response to a question from Trustee Shipman, Mr. Deiters explained that he would not authorize on-line access to those departments that fail to submit a confidentiality agreement.

Secretary Larson moved to approve new Rule 34 Texas Administrative Code §310.12 Access to Information about Members, Annuitants, and Beneficiaries as published in the September 29, 2017 edition of the Texas Register. The motion was seconded by Trustee Key and passed unanimously.

9. Publication of Proposed Rules in the Texas Register

A. Amendment to Rule §308.4 Death Benefits

B. Amendment to Rule §310.9 Periodic Reports; Administrative Penalties

Rule §308.4

Mr. Deiters explained to the Board that he did not have the authority under Rule §308.4 to approve applications for survivor benefits that are filed by the surviving spouses of vested terminated members who died after their 55th birthdate.

Outside Counsel Alyca Riley, Jackson Walker, LLP, explained that the objective of the proposed amendments to Rule §308.4 is to permit the surviving spouse of an inactive, vested member who was eligible to retire but died before submitting an application for retirement to apply for a benefit. Currently, a surviving spouse of an inactive, vested member who, at the time of

death, was older than the minimum service retirement age of 55 years is not eligible to apply for a benefit. The proposed amendment also makes all beneficiary designations null and void upon the member's termination from service.

Trustee Williams moved to publish for public comment the proposed amendment to Rule 34 Texas Administrative Code §308.4 Death Benefits as presented today. The motion was seconded by Trustee Rodriguez 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. He explained that it was the staff's recommendation to the Board that it delete Subsection F because it may be construed to limit the due process rights provided by the Administrative Procedure Act.

Trustee Shipman moved to publish for public comment the proposed amendment to Rule 34 Texas Administrative Code §310.9 Period Reports, Administrative Penalties as presented today. The motion was seconded by Trustee Bechtol and passed unanimously.

10. Strategic Planning

Chairman Torres announced that he would convene the Strategic Planning Committee to meet before the next Board meeting.

No action was taken regarding this agenda item.

Note: Chairman Torres moved to Agenda Item 13 to discuss the Information Management Systems Security Briefing

13. Information Management Systems Security Briefing

At 1:40 p.m. on December 7, 2017, Chairman Torres announced that the Board of Trustees will now meet in executive session in accordance with section 551.089, Texas Government Code, to receive a briefing on information management systems security. Thereafter, the Board may consider appropriate action in open session.

Upon returning from executive session, Chairman Torres announced that it is 2:51 p.m. on December 7, 2017. No action, decision, or vote was taken by the Board while in executive session.

14. Executive Director Evaluation

At 2:52 p.m. on December 7, 2017, Chairman Torres announced that the Board of Trustees will now meet in executive session in accordance with section 551.074, Texas Government Code, to evaluate the performance of the Executive Director. Thereafter, the Board may consider appropriate action in open session.

Upon returning from executive session, Chairman Torres announced that it is 3:04 p.m. on December 7, 2017. No action, decision, or vote was taken by the Board while in executive session.

15. Request for Future Agenda Items and Meeting Dates

Chairman Torres requested that Ms. Jones to contact the Board regarding meeting dates and agenda items.

16. Adjourn

Chairman Torres requested a motion to adjourn. The motion was made by Vice-Chair Moore, seconded by Trustee Williams and passed unanimously.

The Board adjourned at 3:09

Minutes Approved By:

Ron Larson, Secretary

Date: