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S.B. No. 509

A BILL TO BE ENTITLED

AN ACT

relating to the evaluation and reporting of investment practices  
and performance of certain public retirement systems.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. Section 801.209(a), Government Code, is amended  
to read as follows:

(a) For each public retirement system, the board shall post  
on the board's Internet website, or on a publicly available website  
that is linked to the board's website, the most recent data from  
reports received under Sections 802.101, 802.103, 802.104,  
802.105, 802.108, 802.109, 802.2015, and 802.2016.

SECTION 2. Section 802.103(a), Government Code, is amended  
to read as follows:

(a) The [~~Except as provided by Subsection (c), the~~]  
governing body of a public retirement system shall publish an  
annual financial report showing the financial condition of the  
system as of the last day of the fiscal year covered in the report.  
The report must include:

(1) the financial statements and schedules examined in  
the most recent audit performed as required by Section 802.102;

(2) [~~and must include~~] a statement of opinion by the  
certified public accountant as to whether or not the financial  
statements and schedules are presented fairly and in accordance  
with generally accepted accounting principles;

1           (3) a listing, by asset class, of all direct and  
2 indirect commissions and fees paid by the retirement system during  
3 the system's previous fiscal year for the sale, purchase, or  
4 management of system assets; and

5           (4) the names of investment managers engaged by the  
6 retirement system.

7           SECTION 3. Subchapter B, Chapter 802, Government Code, is  
8 amended by adding Section 802.109 to read as follows:

9           Sec. 802.109. INVESTMENT PRACTICES AND PERFORMANCE  
10 REPORTS. (a) Except as provided by Subsection (d), a public  
11 retirement system shall select an independent firm with substantial  
12 experience in evaluating institutional investment practices and  
13 performance to evaluate the appropriateness, adequacy, and  
14 effectiveness of the retirement system's investment practices and  
15 performance and to make recommendations for improving the  
16 retirement system's investment policies, procedures, and  
17 practices. Each evaluation must include:

18           (1) an analysis of any investment policy or strategic  
19 investment plan adopted by the retirement system and the retirement  
20 system's compliance with that policy or plan;

21           (2) a detailed review of the retirement system's  
22 investment asset allocation, including:

23                   (A) the process for determining target  
24 allocations;

25                   (B) the expected risk and assumed rate of return,  
26 categorized by asset class;

27                   (C) the appropriateness of selection and

1 valuation methodologies of alternative and illiquid assets; and  
2 (D) future cash flow and liquidity needs;  
3 (3) a review of the appropriateness of investment fees  
4 and commissions paid by the retirement system;  
5 (4) a review of the retirement system's governance  
6 processes related to investment activities, including investment  
7 decision-making processes, delegation of investment authority, and  
8 board investment expertise and education; and  
9 (5) a review of the retirement system's investment  
10 manager selection and monitoring process.  
11 (b) The governing body of a public retirement system may  
12 determine additional specific areas to be evaluated under  
13 Subsection (a) and may select particular asset classes on which to  
14 focus, but the first evaluation must be a comprehensive analysis of  
15 the retirement system's investment program that covers all asset  
16 classes.  
17 (c) A public retirement system shall conduct the evaluation  
18 described by Subsection (a):  
19 (1) once every three years, if the retirement system  
20 has total assets the book value of which, as of the last day of the  
21 last fiscal year considered in an evaluation under this section,  
22 was at least \$100 million; or  
23 (2) once every six years, if the retirement system has  
24 total assets the book value of which, as of the last day of the last  
25 fiscal year considered in an evaluation under this section, was at  
26 least \$30 million and less than \$100 million.  
27 (d) A public retirement system is not required to conduct

1 the evaluation described by Subsection (a) if the retirement system  
2 has total assets the book value of which, as of the last day of the  
3 preceding fiscal year, was less than \$30 million.

4 (e) A report of an evaluation under this section must be  
5 filed with the governing body of the public retirement system not  
6 later than December 1 of each year in which the system is evaluated  
7 under Subsection (c).

8 (f) Not later than the 31st day after the date the governing  
9 body of a public retirement system receives a report of an  
10 evaluation under this section, the governing body shall submit the  
11 report to the board.

12 (g) A public retirement system shall pay the costs of each  
13 evaluation of the system under this section.

14 (h) Not later than February 1 of each year, the board shall  
15 submit an investment performance report to the governor, the  
16 lieutenant governor, the speaker of the house of representatives,  
17 and the legislative committees having principal jurisdiction over  
18 legislation governing public retirement systems. The report must  
19 compile and summarize the information received under this section  
20 by the board during the preceding calendar year.

21 (i) A report of an evaluation by the Teacher Retirement  
22 System of Texas and an investment report that includes the Teacher  
23 Retirement System of Texas under this section satisfies the  
24 requirements of Section [825.512](#).

25 SECTION 4. Notwithstanding Section 802.109(c), Government  
26 Code, as added by this Act, a report of the first evaluation of a  
27 public retirement system, as required by Section 802.109,

1 Government Code, as added by this Act, must be filed with the  
2 governing body of the system not later than January 1, 2018.

3 SECTION 5. This Act takes effect immediately if it receives  
4 a vote of two-thirds of all the members elected to each house, as  
5 provided by Section 39, Article III, Texas Constitution. If this  
6 Act does not receive the vote necessary for immediate effect, this  
7 Act takes effect September 1, 2017.