

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, Government Code, is amended by amending Subsection (a) and adding Subsection (e) 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

1 with generally accepted accounting principles;

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

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

8 (e) The board may adopt rules necessary to implement this
9 section.

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

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

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

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

26 (A) the process for determining target
27 allocations;

1 (B) the expected risk and expected rate of
2 return, categorized by asset class;

3 (C) the appropriateness of selection and
4 valuation methodologies of alternative and illiquid assets; and

5 (D) future cash flow and liquidity needs;

6 (3) a review of the appropriateness of investment fees
7 and commissions paid by the retirement system;

8 (4) a review of the retirement system's governance
9 processes related to investment activities, including investment
10 decision-making processes, delegation of investment authority, and
11 board investment expertise and education; and

12 (5) a review of the retirement system's investment
13 manager selection and monitoring process.

14 (b) The governing body of a public retirement system may
15 determine additional specific areas to be evaluated under
16 Subsection (a) and may select particular asset classes on which to
17 focus, but the first evaluation must be a comprehensive analysis of
18 the retirement system's investment program that covers all asset
19 classes.

20 (c) In selecting an independent firm to conduct the
21 evaluation described by Subsection (a), a public retirement system:

22 (1) subject to Subdivision (2), may select a firm
23 regardless of whether the firm has an existing relationship with
24 the retirement system; and

25 (2) may not select a firm that directly or indirectly
26 manages investments of the retirement system.

27 (d) A public retirement system shall conduct the evaluation

1 described by Subsection (a):

2 (1) once every three years, if the retirement system
3 has total assets the book value of which, as of the last day of the
4 last fiscal year considered in an evaluation under this section,
5 was at least \$100 million; or

6 (2) once every six years, if the retirement system has
7 total assets the book value of which, as of the last day of the last
8 fiscal year considered in an evaluation under this section, was at
9 least \$30 million and less than \$100 million.

10 (e) A public retirement system is not required to conduct
11 the evaluation described by Subsection (a) if the retirement system
12 has total assets the book value of which, as of the last day of the
13 preceding fiscal year, was less than \$30 million.

14 (f) A report of an evaluation under this section must be
15 filed with the governing body of the public retirement system not
16 later than May 1 of each year following the year in which the system
17 is evaluated under Subsection (d).

18 (g) Not later than the 31st day after the date the governing
19 body of a public retirement system receives a report of an
20 evaluation under this section, the governing body shall submit the
21 report to the board.

22 (h) A public retirement system shall pay the costs of each
23 evaluation of the system under this section.

24 (i) The board shall submit an investment performance report
25 to the governor, the lieutenant governor, the speaker of the house
26 of representatives, and the legislative committees having
27 principal jurisdiction over legislation governing public

1 retirement systems in the biennial report required by Section
2 801.203. The report must compile and summarize the information
3 received under this section by the board during the preceding two
4 fiscal years.

5 (j) A report of an evaluation by the Teacher Retirement
6 System of Texas and an investment report that includes the Teacher
7 Retirement System of Texas under this section satisfies the
8 requirements of Section 825.512.

9 (k) The following reports may be used by the applicable
10 public retirement systems to satisfy the requirement for a report
11 of an evaluation under this section:

12 (1) an investment report under Section 10A, Article
13 6243g-4, Revised Statutes;

14 (2) an investment report under Section 2D, Chapter 88
15 (H.B. 1573), Acts of the 77th Legislature, Regular Session, 2001
16 (Article 6243h, Vernon's Texas Civil Statutes); and

17 (3) a report on a review conducted on the retirement
18 system's investments under Section 2B, Article 6243e.2(1), Revised
19 Statutes.

20 (1) The board may adopt rules necessary to implement this
21 section.

22 SECTION 4. Notwithstanding Section 802.109(d), Government
23 Code, as added by this Act, a report of the first evaluation of a
24 public retirement system, as required by Section 802.109,
25 Government Code, as added by this Act, must be filed with the
26 governing body of the system not later than May 1, 2020.

27 SECTION 5. The State Pension Review Board is required to

1 implement a provision of this Act only if the legislature
2 appropriates money specifically for that purpose. If the
3 legislature does not appropriate money specifically for that
4 purpose, the State Pension Review Board may, but is not required to,
5 implement a provision of this Act using other appropriations
6 available for that purpose.

7 SECTION 6. This Act takes effect immediately if it receives
8 a vote of two-thirds of all the members elected to each house, as
9 provided by Section 39, Article III, Texas Constitution. If this
10 Act does not receive the vote necessary for immediate effect, this
11 Act takes effect September 1, 2019.

President of the Senate

Speaker of the House

I hereby certify that S.B. No. 322 passed the Senate on April 17, 2019, by the following vote: Yeas 31, Nays 0; and that the Senate concurred in House amendment on May 24, 2019, by the following vote: Yeas 31, Nays 0.

Secretary of the Senate

I hereby certify that S.B. No. 322 passed the House, with amendment, on May 22, 2019, by the following vote: Yeas 144, Nays 0, two present not voting.

Chief Clerk of the House

Approved:

Date

Governor