

1-1 By: Huffman S.B. No. 322
 1-2 (In the Senate - Filed January 10, 2019; February 7, 2019,
 1-3 read first time and referred to Committee on State Affairs;
 1-4 April 8, 2019, reported adversely, with favorable Committee
 1-5 Substitute by the following vote: Yeas 9, Nays 0; April 8, 2019,
 1-6 sent to printer.)

1-7 COMMITTEE VOTE

	Yea	Nay	Absent	PNV
1-8				
1-9	X			
1-10	X			
1-11	X			
1-12	X			
1-13	X			
1-14	X			
1-15	X			
1-16	X			
1-17	X			

1-18 COMMITTEE SUBSTITUTE FOR S.B. No. 322 By: Huffman

1-19 A BILL TO BE ENTITLED
 1-20 AN ACT

1-21 relating to the evaluation and reporting of investment practices
 1-22 and performance of certain public retirement systems.

1-23 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

1-24 SECTION 1. Section 801.209(a), Government Code, is amended
 1-25 to read as follows:

1-26 (a) For each public retirement system, the board shall post
 1-27 on the board's Internet website, or on a publicly available website
 1-28 that is linked to the board's website, the most recent data from
 1-29 reports received under Sections 802.101, 802.103, 802.104,
 1-30 802.105, 802.108, 802.109, 802.2015, and 802.2016.

1-31 SECTION 2. Section 802.103, Government Code, is amended by
 1-32 amending Subsection (a) and adding Subsection (e) to read as
 1-33 follows:

1-34 (a) ~~The [Except as provided by Subsection (c), the]~~
 1-35 governing body of a public retirement system shall publish an
 1-36 annual financial report showing the financial condition of the
 1-37 system as of the last day of the fiscal year covered in the report.
 1-38 The report must include:

1-39 (1) the financial statements and schedules examined in
 1-40 the most recent audit performed as required by Section 802.102;

1-41 (2) ~~[and must include]~~ a statement of opinion by the
 1-42 certified public accountant as to whether or not the financial
 1-43 statements and schedules are presented fairly and in accordance
 1-44 with generally accepted accounting principles;

1-45 (3) a listing, by asset class, of all direct and
 1-46 indirect commissions and fees paid by the retirement system during
 1-47 the system's previous fiscal year for the sale, purchase, or
 1-48 management of system assets; and

1-49 (4) the names of investment managers engaged by the
 1-50 retirement system.

1-51 (e) The board may adopt rules necessary to implement this
 1-52 section.

1-53 SECTION 3. Subchapter B, Chapter 802, Government Code, is
 1-54 amended by adding Section 802.109 to read as follows:

1-55 Sec. 802.109. INVESTMENT PRACTICES AND PERFORMANCE
 1-56 REPORTS. (a) Except as provided by Subsection (d) and subject to
 1-57 Subsection (j), a public retirement system shall select an
 1-58 independent firm with substantial experience in evaluating
 1-59 institutional investment practices and performance to evaluate the
 1-60 appropriateness, adequacy, and effectiveness of the retirement

2-1 system's investment practices and performance and to make
2-2 recommendations for improving the retirement system's investment
2-3 policies, procedures, and practices. Each evaluation must include:
2-4 (1) an analysis of any investment policy or strategic
2-5 investment plan adopted by the retirement system and the retirement
2-6 system's compliance with that policy or plan;
2-7 (2) a detailed review of the retirement system's
2-8 investment asset allocation, including:
2-9 (A) the process for determining target
2-10 allocations;
2-11 (B) the expected risk and expected rate of
2-12 return, categorized by asset class;
2-13 (C) the appropriateness of selection and
2-14 valuation methodologies of alternative and illiquid assets; and
2-15 (D) future cash flow and liquidity needs;
2-16 (3) a review of the appropriateness of investment fees
2-17 and commissions paid by the retirement system;
2-18 (4) a review of the retirement system's governance
2-19 processes related to investment activities, including investment
2-20 decision-making processes, delegation of investment authority, and
2-21 board investment expertise and education; and
2-22 (5) a review of the retirement system's investment
2-23 manager selection and monitoring process.
2-24 (b) The governing body of a public retirement system may
2-25 determine additional specific areas to be evaluated under
2-26 Subsection (a) and may select particular asset classes on which to
2-27 focus, but the first evaluation must be a comprehensive analysis of
2-28 the retirement system's investment program that covers all asset
2-29 classes.
2-30 (c) A public retirement system shall conduct the evaluation
2-31 described by Subsection (a):
2-32 (1) once every three years, if the retirement system
2-33 has total assets the book value of which, as of the last day of the
2-34 last fiscal year considered in an evaluation under this section,
2-35 was at least \$100 million; or
2-36 (2) once every six years, if the retirement system has
2-37 total assets the book value of which, as of the last day of the last
2-38 fiscal year considered in an evaluation under this section, was at
2-39 least \$30 million and less than \$100 million.
2-40 (d) A public retirement system is not required to conduct
2-41 the evaluation described by Subsection (a) if the retirement system
2-42 has total assets the book value of which, as of the last day of the
2-43 preceding fiscal year, was less than \$30 million.
2-44 (e) A report of an evaluation under this section must be
2-45 filed with the governing body of the public retirement system not
2-46 later than May 1 of each year following the year in which the system
2-47 is evaluated under Subsection (c).
2-48 (f) Not later than the 31st day after the date the governing
2-49 body of a public retirement system receives a report of an
2-50 evaluation under this section, the governing body shall submit the
2-51 report to the board.
2-52 (g) A public retirement system shall pay the costs of each
2-53 evaluation of the system under this section.
2-54 (h) The board shall submit an investment performance report
2-55 to the governor, the lieutenant governor, the speaker of the house
2-56 of representatives, and the legislative committees having
2-57 principal jurisdiction over legislation governing public
2-58 retirement systems in the biennial report required by Section
2-59 801.203. The report must compile and summarize the information
2-60 received under this section by the board during the preceding two
2-61 fiscal years.
2-62 (i) A report of an evaluation by the Teacher Retirement
2-63 System of Texas and an investment report that includes the Teacher
2-64 Retirement System of Texas under this section satisfies the
2-65 requirements of Section 825.512.
2-66 (j) The following reports may be used by the applicable
2-67 public retirement systems to satisfy the requirement for a report
2-68 of an evaluation under this section:
2-69 (1) an investment report under Section 10A, Article

3-1 6243g-4, Revised Statutes;
3-2 (2) an investment report under Section 2D, Chapter 88
3-3 (H.B. 1573), Acts of the 77th Legislature, Regular Session, 2001
3-4 (Article 6243h, Vernon's Texas Civil Statutes); and

3-5 (3) a report on a review conducted on the retirement
3-6 system's investments under Section 2B, Article 6243e.2(1), Revised
3-7 Statutes.

3-8 (k) The board may adopt rules necessary to implement this
3-9 section.

3-10 SECTION 4. Notwithstanding Section 802.109(c), Government
3-11 Code, as added by this Act, a report of the first evaluation of a
3-12 public retirement system, as required by Section 802.109,
3-13 Government Code, as added by this Act, must be filed with the
3-14 governing body of the system not later than May 1, 2020.

3-15 SECTION 5. A state agency is required to implement a
3-16 provision of this Act only if the legislature appropriates money
3-17 specifically for that purpose. If the legislature does not
3-18 appropriate money specifically for that purpose, the agency may,
3-19 but is not required to, implement a provision of this Act using
3-20 other appropriations available for that purpose.

3-21 SECTION 6. This Act takes effect immediately if it receives
3-22 a vote of two-thirds of all the members elected to each house, as
3-23 provided by Section 39, Article III, Texas Constitution. If this
3-24 Act does not receive the vote necessary for immediate effect, this
3-25 Act takes effect September 1, 2019.

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