

Amend CSHB 3898 (senate committee report) by adding the following appropriately numbered SECTIONS to the bill and renumbering subsequent SECTIONS of the bill accordingly:

SECTION \_\_\_\_\_. Section 802.109, Government Code, is amended by amending Subsections (a), (d), (e), (f), and (h) and adding Subsection (e-1) to read as follows:

(a) Except as provided by Subsection (e) and subject to Subsections (c) and (k), a public retirement system shall select an independent firm with substantial experience in evaluating institutional investment practices and performance to evaluate the appropriateness, adequacy, and effectiveness of the retirement system's investment practices and performance and to make recommendations for improving the retirement system's investment policies, procedures, and practices. Each evaluation must include:

(1) a summary of the independent firm's experience in evaluating institutional investment practices and performance and a statement that the firm's experience meets the experience required by this subsection;

(2) a statement indicating the nature of any existing relationship between the independent firm and the public retirement system and confirming that the firm and any related entity are not involved in directly or indirectly managing the investments of the system;

(3) a list of the types of remuneration received by the independent firm from sources other than the public retirement system for services provided to the system;

(4) a statement identifying any potential conflict of interest or any appearance of a conflict of interest that could impact the analysis included in the evaluation due to an existing relationship between the independent firm and:

(A) the public retirement system; or

(B) any current or former member of the governing body of the system; and

(5) an explanation of the firm's determination regarding whether to include a recommendation for each of the following evaluated matters:

(A) an analysis of any investment policy or

strategic investment plan adopted by the retirement system and the retirement system's compliance with that policy or plan;

(B) [~~(2)~~] a detailed review of the retirement system's investment asset allocation, including:

(i) [~~(A)~~] the process for determining target allocations;

(ii) [~~(B)~~] the expected risk and expected rate of return, categorized by asset class;

(iii) [~~(C)~~] the appropriateness of selection and valuation methodologies of alternative and illiquid assets; and

(iv) [~~(D)~~] future cash flow and liquidity needs;

(C) [~~(3)~~] a review of the appropriateness of investment fees and commissions paid by the retirement system;

(D) [~~(4)~~] a review of the retirement system's governance processes related to investment activities, including investment decision-making processes, delegation of investment authority, and board investment expertise and education; and

(E) [~~(5)~~] a review of the retirement system's investment manager selection and monitoring process.

(d) A public retirement system shall conduct the evaluation described by Subsection (a):

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

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

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

(e-1) Not later than the 30th day after the date an independent firm completes an evaluation described by Subsection (a), the independent firm shall:

(1) submit to the public retirement system for purposes of discussion and clarification a substantially completed preliminary draft of the evaluation report; and

(2) request in writing that the system, on or before the 30th day after the date the system receives the preliminary draft, submit to the firm:

(A) a description of any action taken or expected to be taken in response to a recommendation made in the evaluation; and

(B) any written response of the system that the system wants to accompany the final evaluation report.

(f) The independent firm shall file the final evaluation report, including the evaluation results and any response received from the public retirement system, [A report of an evaluation under this section must be filed] with the governing body of the [public retirement] system:

(1) not earlier than the 31st day after the date on which the preliminary draft is submitted to the system; and

(2) not later than the later of:

(A) the 60th day after the date on which the preliminary draft is submitted to the system; or

(B) May 1 in the [of each] year following the year in which the system is evaluated under Subsection (a) [~~(a)~~].

(h) A governmental entity that is the employer of active members of a public retirement system evaluated under Subsection (a) may pay all or part of the costs of the evaluation. The [A] public retirement system shall pay any remaining unpaid [the] costs of the [each] evaluation [of the system under this section].

SECTION \_\_\_\_\_. Section 802.109, Government Code, as amended by this Act, applies only to an evaluation commenced on or after the effective date of this Act. An evaluation commenced before the effective date of this Act is governed by the law in effect on the date the evaluation was commenced, and the former law is continued in effect for that purpose.