

1-1 By: Huffman S.B. No. 509  
1-2 (In the Senate - Filed January 17, 2017; February 6, 2017,  
1-3 read first time and referred to Committee on State Affairs;  
1-4 March 22, 2017, reported adversely, with favorable Committee  
1-5 Substitute by the following vote: Yeas 9, Nays 0; March 22, 2017,  
1-6 sent to printer.)

1-7 COMMITTEE VOTE

	Yea	Nay	Absent	PNV
1-8				
1-9	Huffman	X		
1-10	Hughes	X		
1-11	Birdwell	X		
1-12	Creighton	X		
1-13	Estes	X		
1-14	Lucio	X		
1-15	Nelson	X		
1-16	Schwertner	X		
1-17	Zaffirini	X		

1-18 COMMITTEE SUBSTITUTE FOR S.B. No. 509 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(a), Government Code, is amended  
1-32 to read as follows:

1-33 (a) ~~The [Except as provided by Subsection (c), the]~~  
1-34 governing body of a public retirement system shall publish an  
1-35 annual financial report showing the financial condition of the  
1-36 system as of the last day of the fiscal year covered in the report.  
1-37 The report must include:

1-38 (1) the financial statements and schedules examined in  
1-39 the most recent audit performed as required by Section 802.102;

1-40 (2) ~~[and must include]~~ a statement of opinion by the  
1-41 certified public accountant as to whether or not the financial  
1-42 statements and schedules are presented fairly and in accordance  
1-43 with generally accepted accounting principles;

1-44 (3) a listing, by asset class, of all direct and  
1-45 indirect commissions and fees paid by the retirement system during  
1-46 the system's previous fiscal year for the sale, purchase, or  
1-47 management of system assets; and

1-48 (4) the names of investment managers engaged by the  
1-49 retirement system.

1-50 SECTION 3. Subchapter B, Chapter 802, Government Code, is  
1-51 amended by adding Section 802.109 to read as follows:

1-52 Sec. 802.109. INVESTMENT PRACTICES AND PERFORMANCE  
1-53 REPORTS. (a) Except as provided by Subsection (d), a public  
1-54 retirement system shall select an independent firm with substantial  
1-55 experience in evaluating institutional investment practices and  
1-56 performance to evaluate the appropriateness, adequacy, and  
1-57 effectiveness of the retirement system's investment practices and  
1-58 performance and to make recommendations for improving the  
1-59 retirement system's investment policies, procedures, and  
1-60 practices. Each evaluation must include:

2-1           (1) an analysis of any investment policy or strategic  
2-2 investment plan adopted by the retirement system and the retirement  
2-3 system's compliance with that policy or plan;  
2-4           (2) a detailed review of the retirement system's  
2-5 investment asset allocation, including:  
2-6           (A) the process for determining target  
2-7 allocations;  
2-8           (B) the expected risk and assumed rate of return,  
2-9 categorized by asset class;  
2-10           (C) the appropriateness of selection and  
2-11 valuation methodologies of alternative and illiquid assets; and  
2-12           (D) future cash flow and liquidity needs;  
2-13           (3) a review of the appropriateness of investment fees  
2-14 and commissions paid by the retirement system;  
2-15           (4) a review of the retirement system's governance  
2-16 processes related to investment activities, including investment  
2-17 decision-making processes, delegation of investment authority, and  
2-18 board investment expertise and education; and  
2-19           (5) a review of the retirement system's investment  
2-20 manager selection and monitoring process.  
2-21           (b) The governing body of a public retirement system may  
2-22 determine additional specific areas to be evaluated under  
2-23 Subsection (a) and may select particular asset classes on which to  
2-24 focus, but the first evaluation must be a comprehensive analysis of  
2-25 the retirement system's investment program that covers all asset  
2-26 classes.  
2-27           (c) A public retirement system shall conduct the evaluation  
2-28 described by Subsection (a):  
2-29           (1) once every three years, if the retirement system  
2-30 has total assets the book value of which, as of the last day of the  
2-31 last fiscal year considered in an evaluation under this section,  
2-32 was at least \$100 million; or  
2-33           (2) once every six years, if the retirement system has  
2-34 total assets the book value of which, as of the last day of the last  
2-35 fiscal year considered in an evaluation under this section, was at  
2-36 least \$30 million and less than \$100 million.  
2-37           (d) A public retirement system is not required to conduct  
2-38 the evaluation described by Subsection (a) if the retirement system  
2-39 has total assets the book value of which, as of the last day of the  
2-40 preceding fiscal year, was less than \$30 million.  
2-41           (e) A report of an evaluation under this section must be  
2-42 filed with the governing body of the public retirement system not  
2-43 later than December 1 of each year in which the system is evaluated  
2-44 under Subsection (c).  
2-45           (f) Not later than the 31st day after the date the governing  
2-46 body of a public retirement system receives a report of an  
2-47 evaluation under this section, the governing body shall submit the  
2-48 report to the board.  
2-49           (g) A public retirement system shall pay the costs of each  
2-50 evaluation of the system under this section.  
2-51           (h) Not later than February 1 of each year, the board shall  
2-52 submit an investment performance report to the governor, the  
2-53 lieutenant governor, the speaker of the house of representatives,  
2-54 and the legislative committees having principal jurisdiction over  
2-55 legislation governing public retirement systems. The report must  
2-56 compile and summarize the information received under this section  
2-57 by the board during the preceding calendar year.  
2-58           (i) A report of an evaluation by the Teacher Retirement  
2-59 System of Texas and an investment report that includes the Teacher  
2-60 Retirement System of Texas under this section satisfies the  
2-61 requirements of Section 825.512.  
2-62           SECTION 4. Notwithstanding Section 802.109(c), Government  
2-63 Code, as added by this Act, a report of the first evaluation of a  
2-64 public retirement system, as required by Section 802.109,  
2-65 Government Code, as added by this Act, must be filed with the  
2-66 governing body of the system not later than January 1, 2018.  
2-67           SECTION 5. This Act takes effect immediately if it receives  
2-68 a vote of two-thirds of all the members elected to each house, as  
2-69 provided by Section 39, Article III, Texas Constitution. If this

3-1 Act does not receive the vote necessary for immediate effect, this  
3-2 Act takes effect September 1, 2017.

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