



Board Meeting Minutes

August 30, 2021

1. Meeting called to order (0:04)

The second meeting of the Pension Review Board (PRB) was called to order Monday, August 30, 2021, at 10:00 a.m. via teleconference.

Vice Chair Keith Brainard announced that Rossy Fariña-Strauss had resigned her position on the board.

2. Roll call of Board members (0:53)

Board members present:

Vice Chair Keith Brainard
Marcia Dush
Christopher "Chris" Gonzalez
Robert "Rob" Ries
Christopher Zook

A quorum being present, the meeting was called to order by Vice Chair Brainard.

3. Roll call of members of the public (1:21)

Pre-registered members of the public:

David Stacy, Midland Firemen's Relief & Retirement Fund

4. Board administrative matters (2:32)

a. July 1, 2021, meeting minutes (2:34)

Vice Chair Brainard entertained a motion to suspend the reading of minutes of the July 1, 2021, meeting and approve them as circulated.

The motion was made by Ms. Dush and seconded by Mr. Zook.

The motion passed unanimously.

5. Midland Firemen's Relief & Retirement Fund: related to the Board's intensive review of the retirement system, requests for information, and issuance/enforcement of subpoenas (3:18)

Vice Chair Brainard presented background information about the Midland Firemen's Relief and Retirement Fund (Midland Fire) before the discussion of the intensive review, including the decline in the system's funding ratio from nearly full funding to around 50 percent with a projected depletion date of 2043. He explained that the system's revised Funding Soundness Restoration Plan (FSRP) was due in August 2019, the funding policy was due in February 2020, and at the last meeting, the board discussed the possibility of issuing a subpoena if the system did not provide the basic information staff requested for the intensive review.

Anumeha Kumar stated that one of the greatest contributing factors for Midland Fire's funding decline has been repeated shortfalls of investment performance compared to the system's return assumptions. She stated that to begin the intensive review process, staff requested basic investment information used by the Midland Fire board to make investment decisions, such as the system's quarterly or annual performance reports.

Ms. Kumar explained that, during the week of August 23, 2021, staff members were able to meet with representatives from Midland Fire over conference call, including David Stacy, the vice chair of the system's board and member of its investment committee; the system administrator; and the consulting analyst. Mr. Christopher Gonzalez was also able to attend the call on behalf of the PRB Investment Committee.

Ms. Kumar explained that she felt it would not be necessary to issue a subpoena for the information because some of the information staff was requesting did not exist, particularly portfolio-wide performance reports. She explained staff requested monthly statements for individual investments that the system would provide to its auditor in lieu of portfolio-wide reports. She said, since the call, the system has been providing the information staff requested; however, staff may have difficulty completing the full review before the November board meeting since reviewing all the documents will take significant amounts of staff time.

Robert Munter highlighted some of the information staff is concerned about after reviewing materials in the areas of investment programs and monitoring, governance, and resources. He explained that the primary investment concerns included high fees compared to peers. Mr. Munter also mentioned that the system used short-term projections to predict liquidity and cash-flow needs to determine how illiquid investments can be. He explained this informal method raised liquidity concerns that were exacerbated by a relatively high allocation to complex alternative investments that require more monitoring effort given the size of the fund and available staff, and trustees making investment decisions with very limited information.

Ms. Dush asked if the system was performing periodic analysis of individual assets since they do not prepare portfolio-wide analysis. Mr. Munter explained that the system does have information about individual investments, but staff has not observed discussion of these decisions at system board meetings. He said that his understanding was that the system's investment committee usually receives that information. Ms. Dush asked about the composition of the system's real estate investments, and Mr. Munter explained that the majority were in real estate funds with two properties that the fund owned directly.

Mr. Munter explained that the Midland Fire investment committee performs research and manager selection and then makes recommendations to the system's full board. From staff's observations, the system board meetings are typically short and include little discussion of investment decisions. He added that Midland Fire does not have an investment consultant to assist the board in making investment decisions, but the system does contract with an analyst who researches specific investments.

Mr. Zook noted that the set up was very unusual and asked if the system was compliant with state statute and fiduciary duty requirements.

Ms. Kumar noted that a question could be raised if the system board is adequately monitoring investments since Midland Fire has not had annual or quarterly reports typically used to monitor and evaluate investments. She explained there is a state statute requiring retirement systems to periodically monitor investments and investment manager performance, with the option to contract with independent professional services to perform this evaluation. Ms. Kumar stated

staff had not observed the Midland Fire board or investment committee have those discussions, and she said that concern would likely be included in the intensive review.

Mr. Zook noted his concern about the potential liability for Midland Fire if procedures are not consistent with the standards of fiduciary duty and the importance of proper documentation and reporting even in the best conditions.

Ms. Dush expressed her concern that some members of the system's board may not have received training on fiduciary responsibility given the information from the last board meeting that some of the system's trustees were not compliant with PRB Minimum Educational Training (MET) requirements.

Ms. Kumar noted that staff has received complaints in the past that the MET requirements are burdensome for volunteer trustees. Ms. Dush stated that the responsibility of managing a trust fund of \$80 or \$90 million means people must have the appropriate training. Mr. Zook stated if people did not have the time to complete training, they did not have the time to serve on a board.

Mr. Ries outlined his personal expectations for the retirement system he is a member of and asked if there was a sense of what information Midland Fire plan members received from the system. Ms. Kumar explained that staff was not aware of outreach to members, but officials from the city of Midland who served on the system's board have asked for materials like the performance reports in the past. She said it seemed like most discussion and decisions were made at the committee level, but the information was not as transparent as many other public retirement systems. She said that in the past Midland Fire has mentioned the small staff of two, which may contribute to this issue.

Ms. Dush highlighted that this pension was likely most members' sole source of retirement income and that if the system did not have the staff to manage a fund of that size it is more important to find other people to manage it.

During the resources portion of his presentation, Mr. Munter mentioned that Midland Fire has frequently pointed out that they have a small staff and have recently been preparing an annual financial report, both of which have made it difficult for the system to provide materials for the intensive review. He pointed out that the system contracts with an actuary and CPA for its audit, but otherwise the system does not often contract for outside expertise. He also explained that this process has revealed that Midland Fire has been submitting incomplete and inaccurate Investment Returns and Assumptions Reports, which are statutorily required. He said the system has noted that the information has not been calculated correctly, but the problem has persisted for years.

Mr. Gonzalez shared his perspective after participating in the conference call the previous week. He noted particular concerns about the systems policies, procedures, and reporting accuracy. He explained his concerns about the accuracy of the system's historical reporting and best practices. Mr. Gonzalez expressed his concern about a comment during the call that the system's custody bank had weak data points, which made it difficult for the system to reconstruct historic returns. He explained that establishing a method for creating reports can be difficult to set up initially, but, after it is established, producing reports should be easier.

Vice Chair Brainard asked how it came to light the investment reporting was inaccurate, and Ms. Kumar stated Mr. Stacy said the investment returns reports had been inaccurate since 2015

when the requirement was put in place. Vice Chair Brainard asked if the investment committee was solely comprised of the system's board, and Ms. Kumar confirmed they are.

Ms. Dush asked if staff had enough information to complete the intensive review. Ms. Kumar stated that the system has been providing reports on individual investments in lieu of investment performance reports, and that should be sufficient to complete the review; however, she said that reviewing the materials could take longer than expected due to the unusual format.

Ms. Dush stated she would usually prefer to see an asset-liability study in a situation like this, but, given the severely underfunded status, she did not feel that recommendation was appropriate until there was a better picture of assets and actual returns.

Mr. Ries asked how peer systems such as other Texas Local Firefighters Relief and Retirement Act (TLFFRA) systems used consultants. Mr. Munter explained that most TLFFRA peers have some type of consultant that helped with decisions such as selection of managers or investment allocations; however, he said most peer systems also have less complicated asset allocations that do not require as much research.

The board discussed considerations about why systems typically hire consultants and the roles of those consultants.

Ms. Dush asked if the board could offer to help Midland Fire find a consultant. Ms. Kumar stated that staff could prepare a list of consultants used by other retirement systems in Texas, but the PRB could not recommend consultants as a state agency. She also stated that the sponsor could help pay for some or all of the cost of hiring consultants. Mr. Zook and Mr. Gonzalez offered their help answering questions in that process as investment professionals.

Mr. Gonzalez requested staff research options for the PRB to ensure Midland Fire is reporting accurately and has policies and procedures in place for reporting.

Ms. Kumar said staff can ask the PRB assistant attorney general counsel for recourse available to the PRB, and she added that the city of Midland offered to pay any associated costs of ways to correct reporting both historically and going forward in case improving reporting practices would increase administration costs for the system.

Vice Chair Brainard entertained a motion to direct staff to work with the Investment Committee members to finalize the intensive review for the Midland Fire fund for the consideration of the full board at the November 2, 2021, meeting.

The motion was made by Mr. Zook and seconded by Mr. Gonzalez.

Ms. Dush suggested the Actuarial Committee members also review the materials since it would likely include actuarial matters.

The motion passed as amended.

6. Call for future PRB agenda items (54:22)

Mr. Gonzalez requested staff research the possibility of adding a liquidity report to the annual reporting requirements for systems, specifically liquidity information about a system's individual portfolios and how quickly that portfolio could be liquidated.

7. Date and time of next board meeting – November 2, 2021 (55:56)

Vice Chair Brainard stated that the next board meeting would be held Tuesday, November 2, 2021, at a location to be determined.

8. Invitation for public comments (56:06)

Vice Chair Brainard opened the floor to public comments.

David Stacy (Midland Firemen's Relief & Retirement Fund) stated he is looking forward to discussing the findings in a face-to-face meeting after the intensive review is complete.

9. Adjournment (57:47)

Vice Chair Brainard entertained a motion to adjourn.

The motion was made by Mr. Zook and seconded by Mr. Gonzalez.

The meeting was adjourned at 10:58.

PRB Staff in Attendance:

Anumeha Kumar
Michelle Downie Kranes
Bryan Burnham
Robert Munter
Ashley Rendon
Mariah Miller
Madilyn Jarman
Lindsay Seymour
Wes Allen



Chair Stephanie Leibe