

**MINUTES OF THE
TEXAS MUNICIPAL RETIREMENT SYSTEM**

**Board of Trustees
Finance & Audit Committee Meeting**

September 25, 2008

On September 25, 2008, the Finance & Audit Committee of the Board of Trustees of the Texas Municipal Retirement System (TMRS) convened for a meeting at 12:30 p.m. at the TMRS Headquarters, located at 1200 North IH 35, Austin, Texas, with the following members present:

Board of Trustees

Carolyn Linér, Vice Chair

Ben Gorzell, Jr. (non-Committee member)

April Nixon

Pat Hernandez (non-Committee member)

Absent: Roel (“Roy”) Rodriguez

Present also were:

Eric Henry, Executive Director and CIO

Ian Allan, Director of Internal Audit

Rhonda Covarrubias, Director of Finance

Eric Davis, Deputy Executive Director

Bernie Eldridge, Director of Human Resources

David Gavia, General Counsel

Nancy Goerdel, Director of Public Investments and Asset Allocation

Leslee Hardy, Staff Actuary

Holly Macki, Director of Fixed Income

Michelle Mellon-Werch, Associate General Counsel

Debbie Munoz, Director of Member Services

Eddie Solis, Director of Government Relations

Bill Wallace, Director of Communications

Cindy Morse, Executive Assistant

Sean Thompson, Membership Analyst

Scott Willrich, Director of Information Systems

Bob Klausner, Klausner & Kaufman, PA

Russ Kuhns, R. V. Kuhns & Associates, Inc.

Peter Madsen, R. V. Kuhns & Associates, Inc.

Joe Newton, Gabriel, Roeder, Smith and Company

Guests:

Jim Moore, Assistant Fire Chief, City of Mesquite

Jim Parrish, Director of Human Resources, City of Amarillo

Bob Scott, Director of Finance, City of Carrollton/GFOAT

Mike Higgins, TSAFF

Larnell Camus, JP Morgan Chase

Diana Gutierrez, JP Morgan Chase

Kathy Palmer, JP Morgan Chase

The meeting was called to order at 12:30 p.m. and the invocation was given by Ben Gorzell.

Consider and Act on Minutes from the June 26, 2008 Board of Trustees Finance & Audit Committee Meeting

Mr. Henry presented the Minutes from the June 26, 2008 Finance & Audit Committee for the Committee's approval. Ms. Nixon moved that the Minutes be adopted as presented and without any changes. Ms. Hernandez seconded the motion, which carried unanimously.

Member Services Risk Assessment

Mr. Allen gave an overview of the risk assessment memo presented in the Board materials. Ms. Nixon asked for an explanation of the support services department's roles and interactions with other departments. Mr. Henry pointed out that the risk assessment is not an audit in and of itself. It is part of the organization's assessments of the risks we operate under. Each section is owned by the individual departments.

Risk-Based Audit Plan for 2009

Mr. Allan introduced the Risk-Based Audit Plan that is based on the annual risk assessment previously presented. He indicated that the proposed audit engagements are ranked in order of priority, but can be re-ranked by the Board.

Mr. Allan then explained the risk-assessment. He stated that this list has been aggregated based on the enterprise risk management process. He explained the six rating factors that make up the "total risk and audit priority rating." He also explained the "high, medium and low" ratings.

Mr. Henry pointed out that every year, management will go through and sign off on the COSO based risk management process. He stated that we have ranked these items, but asked the Board to consider how they would rank these items.

Mr. Gorzell asked if TMRS has considered items that may have been noted by the KPMG audit partner, but that were not included in the Management Letter. Mr. Henry and Mr. Allan stated that we are working with KPMG to address anything that is noted in the financial audit exit conference.

Mr. Gorzell asked about the note in Exhibit 1 regarding consideration of employing an independent third party investment consultant. Mr. Henry stated that given the size of the portfolio and the recent changes in our fixed income allocation, it would be prudent to have a separate firm come in and conduct a one-time review of our fixed income allocation.

Interview Finalist for Depository Banking Services

Ms. Covarrubias gave an overview of the RFP and review process. She stated that RFPs were sent out to fourteen (14) banks and we received proposals from five (5) banks. She highlighted the factors that were used in considering the proposals and explained how the finalists were ranked. She stated that staff is pleased with the services and the support they are receiving from the current vendor, JP Morgan Chase and her recommendation is to remain with JP Morgan Chase. JP Morgan Chase's fees were competitive with the other firms.

A brief presentation was then given by Larnell Camus, Kathy Palmer and Diana Gutierrez of JP Morgan Chase. Ms. Camus gave a brief statement about JP Morgan Chase, its strengths, its activities, the experience of the team, its financial strength and its commitment to TMRS.

Consider and Act on Recommendation of Selection of Firm for Depository Banking Services

Ms. Covarrubias stated that the proposal is to contract with JP Morgan Chase for three (3) years, which could be increased to five (5) years to correspond with the Strategic Plan, or extended in one-year increments. Mr. Henry stated that staff did go back to JP Morgan Chase and ask them to

reduce fees, which they did. Mr. Gorzell asked about the termination provision in the contract. Mr. Gavia stated that a 30-day termination provision would be included in the contract. Mr. Gorzell stated that, given Ms. Covarrubias' and Mr. Henry's recommendation, he would support staff's recommendation.

Ms. Nixon moved that the Board accept the Finance & Audit Committee's recommendation and select JP Morgan Chase for depository banking services, and directed the General Counsel to begin working on a contract. Ms. Linér seconded the motion, which carried unanimously.

Quarterly Review of Financial Information/Operating Budget Status

Ms. Covarrubias gave a brief overview of the year-to-date budget. She stated that at this point in time, we expect to be under budget by about \$500,000, but a better estimate will be available at the October meeting.

Mr. Gorzell asked, given the potential change to a more diversified portfolio, what the roles are of current staff and the anticipated staffing needs in the future. Mr. Henry outlined the expected timelines for the legislative process and stated that he feels we are adequately staffed through 2009. Mr. Henry added that staff will bring additional information to the Board as we continue through the legislative process.

Status Report on Legal Compliance Issues

Mr. Gavia updated the Board on issues surrounding age discrimination and cash balance plans and the clarifying language in the PPA technical correction bill regarding the "market rate of return." Mr. Klausner gave an update on activities in Washington relating to this issue. Concerning "Normal Retirement Age" issues, Mr. Gavia stated that there likely will be a statement from the IRS and the U. S. Treasury relieving public plans from having to comply with these regulations. Mr. Gavia closed with an update on open record requests received by the System.

As there was no further business of the Committee, the meeting adjourned at 1:35 p.m.