

**MINUTES OF THE  
TEXAS MUNICIPAL RETIREMENT SYSTEM  
Investment Committee of the Board of Trustees**

**December 7, 2007**

On December 7, 2007, the Investment Committee (Committee) of the Board of Trustees of the Texas Municipal Retirement System (TMRS) convened for a meeting at 10:10 a.m. at TMRS Headquarters, located at 1200 North IH 35, Austin, Texas, with the following members present:

**Investment Committee**

H. Frank Simpson, Chair  
Rick Menchaca

Absent: Pat Hernandez, Chair of the Board

The following members of the Board of Trustees were present but did not participate in discussions or deliberations:

Roel 'Roy' Rodriguez, PE, Vice Chair of the Board  
Carolyn Linér

Present also were:

Eric Henry, Executive Director  
Eric Davis, Deputy Executive Director  
Gary Craig, Director of Investments  
David Gavia, General Counsel  
Nancy Goerdel, Investment Officer  
Michelle Mellon-Werch, Associate General Counsel  
Kristin Qualls, Assistant Investment Officer  
Kate Reed, Investment Analyst  
Patricia Brown, Executive Assistant  
Terrence Kendall, Legal Counsel  
Steve Harding, Independent Fiduciary Services  
Russ Kuhns, R.V. Kuhns & Associates, Inc.  
Pete Madsen, R.V. Kuhns & Associates, Inc.

Guests:

Alain Cubeles, Northern Trust  
Max S. Duplant, City of Irving  
Natalie Foerster, Governor's Office  
Dean Frigo, City of Amarillo  
Darlene Lanham, TMPA  
Jim Moore, City of Mesquite  
Mac Nickey, Northern Trust  
Jim Parrish, City of Amarillo

The meeting was called to order at 10:10 a.m. and Mr. Menchaca gave the invocation.

### **Consider and Act on Adoption of Minutes of November 16, 2007 Joint Board of Trustees and Board Investment Committee Meeting**

Mr. Simpson announced that he had no corrections to the minutes of the November 16, 2007 meeting, and asked Mr. Menchaca for comment. He also had no questions or comments, accepting the minutes presented at the meeting.

Mr. Menchaca moved to adopt the minutes of the November 16, 2007 Joint Board of Trustees and Board Investment Committee meeting; Mr. Simpson seconded the motion, which carried unanimously.

### **Passive Equity Manager Presentation**

Mr. Madsen of R.V. Kuhns & Associates, Inc. was asked to summarize the passive equity manager search process to this point. There were four firms making the short list; those firms were interviewed; and Northern Trust was invited to make a presentation to the Investment Committee of the Board of Trustees based on its commitment to customer service, aggressive pricing and expertise at tracking the indexes under consideration.

Mr. Nickey of Northern Trust Global Investments<sup>®</sup> (NTGI or Northern Trust) began the presentation with an overview of the firm from a corporate perspective. Mr. Nickey discussed NTGI's corporate philosophy. He also explained the firm's index management capabilities and the individuals that make up the portfolio management team. He next gave an overview of index methodology and how NTGI manages a portfolio to replicate returns of an index. Mr. Cubeles then explained full replication (buying the exact stocks in a benchmark) versus buying securities that replicate the sectors/industries/characteristics of the benchmark (an optimization process). Mr. Cubeles discussed risk management, and how it is reviewed at different levels within the portfolio. Fees were discussed next. The fee is three-quarters of a basis point for the domestic index, and one basis point for the international index. The domestic index provides a 60/40 securities lending income split, and the international index provides a 65/35 securities lending income split. When TMRS' assets in both indexes reach a combined \$1.5 billion, the fees will be waived, the firm's money being made through the securities lending income split.

Mr. Menchaca asked what other Texas pension systems were invested in index funds, to which staff answered the Texas Permanent School Fund, the Employees Retirement System of Texas, and the Texas County and District Retirement System. Mr. Menchaca then asked for a description of index funds versus mutual funds. The answer in short was a different legal and fee structure. When Mr. Menchaca asked Mr. Kuhns the reason for no more than one asset manager at this time, he replied that the process runs more smoothly this way, and that there is a likelihood that there will be more asset managers within the next five years. Mr. Kendall added that as TMRS eases into this new investment policy, it needs to make sure the program performs the way it is expected and is supposed to. Mr. Kuhns then stated his confidence in NTGI's performance record, particularly in fees, tracking, and customer service.

### **Consider and Act on Passive Equity Manager Recommendation**

After hearing the presentation, Mr. Menchaca moved that, as recommended by staff and by R.V. Kuhns & Associates, Inc., the Committee recommend to the full Board that Northern Trust Global Investments<sup>®</sup> be selected for a passive domestic mandate tracking the Russell 3000 Index

and a passive international equity mandate tracking the MSCI-EAFE Index, and that the Investment Policy be amended to include these funds as eligible investments. Mr. Simpson seconded the motion, which carried unanimously.

There being no further business to come before the Committee, the meeting was adjourned at 10:55 a.m.

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Eric Henry  
Executive Director  
& Chief Investment Officer

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H. Frank Simpson  
Committee Chair