

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

**November 16, 2007**

On November 16, 2007, the Board of Trustees of the Texas Municipal Retirement System (TMRS) and the Board Investment Committee convened for a joint meeting at 9:00 a.m. at TMRS Headquarters, located at 1200 North IH 35, Austin, Texas, with the following members present:

**Board of Trustees**

Roel 'Roy' Rodriguez, Vice Chair  
Carolyn Linér  
Rick Menchaca (Investment Committee Member)  
April Nixon  
H. Frank Simpson (Investment Committee Member)

Absent: Pat Hernandez, Chair (Investment Committee Member)

Present also were:

Eric Henry, Executive Director  
Eric Davis, Deputy Executive Director  
Rhonda Covarrubias, Director of Finance  
Gary Craig, Director of Investments  
Bernie Eldridge, Director of Human Resources  
David Gavia, General Counsel  
Nancy Goerdel, Investment Officer  
Debbie Muñoz, Director of Member Services  
Kristin Qualls, Assistant Investment Officer  
Kate Reed, Investment Analyst  
Eddie Solis, Director of Government Relations  
Bill Wallace, Director of Communications  
Scott Willrich, Director of Information Resources  
Patricia Brown, Executive Assistant  
Rocky Joyner, The Segal Company  
Terrence Kendall, Legal Counsel  
Bob Klausner, Klausner & Kaufman, PA  
Russ Kuhns, R.V. Kuhns & Associates, Inc.  
Pete Madsen, R.V. Kuhns & Associates, Inc.  
Jeremy Miller, R.V. Kuhns & Associates, Inc.

Guests:

Jim Moore, City of Mesquite  
Blake Rocap, House Committee on Pensions  
Mike W. Self, APFFAA

The meeting was called to order at 9:00 a.m. and Mr. Rodriguez gave the invocation.

## PART ONE: ACTIONS TAKEN BY THE INVESTMENT COMMITTEE

### **Consider and Act on Adoption of Minutes of September 7, 2007 Board of Trustees Investment Committee Meeting**

Mr. Simpson announced that he had no corrections to the minutes of the September 7, 2007 Committee meeting, and asked Mr. Menchaca for comment. He also had no questions or comments, accepting the minutes presented at the meeting.

Mr. Menchaca moved that the Committee adopt the minutes of the September 7, 2007 Investment Committee meeting; Mr. Simpson seconded the motion, which carried unanimously.

## PART TWO: ACTIONS TAKEN JOINTLY BY THE INVESTMENT COMMITTEE AND THE BOARD OF TRUSTEES

### **Consider and Act on Recommendation to Hire Fixed Income Advisor**

Mr. Henry began by discussing TMRS' need for additional oversight from a fixed income advisor, and the fact that Hillswick Asset Management, LLC, which is one of TMRS' economic advisors, is a fixed income management firm and is well suited for TMRS' needs. Mr. Kuhns endorsed the selection of Hillswick after reviewing R.V. Kuhns & Associates, Inc.'s comprehensive database of investment managers. Mr. Menchaca questioned whether TMRS would need to obtain an additional economic advisor. Mr. Henry explained there would be no conflict and that the role as fixed income advisor would be in addition to the role as economic advisor.

Mr. Simpson moved that the Committee and the Board of Trustees approve the expansion of services by Hillswick Asset Management Co. to include fixed income portfolio advisory services and economic advisory services at a combined annual fee of \$150,000 effective December 1, 2007. Mr. Menchaca seconded the motion, which carried unanimously by both the Committee and the Board of Trustees.

### **Investment Education Session**

Mr. Kuhns began by summarizing the firm's background and history, outlining the types of work the company does, and explained that there is no conflict of interest.

Mr. Madsen of R.V. Kuhns & Associates, Inc. (RVK) stated that RVK will attend quarterly Board meetings; Mr. Henry added that the company will work with staff to bring recommendations to the Board, although ultimately, the decisions made will be the Board's decisions.

The team of Mr. Kuhns, Mr. Madsen, and Mr. Miller then summarized the 'Benefits of Diversification' and 'Asset Allocation Study' presentations that were earlier provided to the Board and staff, finishing with the recommended next steps, which are:

- Establish an investment policy and asset allocation changes to allow passive equity exposure, mindful of current statutes and obligations;
- Review and select passive equity investment providers; and
- Make slow, methodical, incremental asset allocation changes until the target allocation is reached.

**Consider and Act on Proposed Changes to Investment Policy**

After the Investment Education Session conclusion, the Investment Committee conducted a brief discussion of the proposed Investment Policy with the rest of the Board and the staff. Recommendations suggested by RVK were incorporated in the proposed Policy that was discussed.

Mr. Menchaca moved that the Committee and the Board of Trustees approve the proposed revisions to the TMRS Investment Policy as presented. Mr. Simpson seconded the motion, which carried unanimously by both the Committee and the Board of Trustees.

**Consider and Act on Selection of and Allocation to Index Fund Manager(s)**

R.V. Kuhns & Associates, Inc. moved then to the discussion with the Board and staff of index fund managers, and gave an overview of six quality firms for the domestic as well as international passive equity mandates:

- Barclays Global Investors, N.A.;
- Fidelity Corp.;
- Northern Trust Global Investments;
- Quantitative Management Associates LLC;
- State Street Global Advisors; and
- Vanguard.

It was concluded that Fidelity and Vanguard would not be chosen for interviews because they deal primarily in mutual funds. Interviews will be conducted with the other four firms with regard to fees, client services, and ability to service TMRS.

Mr. Menchaca moved that the Committee authorize R.V. Kuhns & Associates, Inc. and TMRS staff to continue the passive equity manager search process through interviews with a list of managers as determined by the Committee, for the purpose of selecting finalists for personal interviews by the Investment Committee and/or the Board of Trustees at its December 2007 meeting. Mr. Simpson seconded the motion, which carried unanimously by the Committee.

PART THREE: ACTIONS TAKEN BY THE BOARD OF TRUSTEES

**Consider and Act on Appointment of Director of Internal Auditing (If Necessary)**

At this time, Mr. Rodriguez summarized the process that the Finance & Audit Committee underwent the day before in interviewing and selecting a candidate for the position of Director of

Internal Auditing. The candidate chosen was Ian J. Allan. Mr. Eldridge announced that Mr. Allan was offered and has accepted the position; he will begin employment with TMRS December 17, 2007.

**Update on Actuarial Issues**

Mr. Joyner outlined the information presented previously to the Board and staff and discussed the information shown on the graphs. Mr. Simpson asked what decisions will need to be made in December. Mr. Joyner answered that the decisions regarding actuarial assumptions need to be made at that time in order to be included in the December 31, 2007 valuation. Similarly, the decision to change from traditional unit credit to projected unit credit should be made, as well as a move toward equity exposure in TMRS' investment policy. Also under consideration in December are a 30-year amortization period and a five-year phase-in period for implementation.

Mr. Menchaca expressed a concern that, even if TMRS had its proposed internal actuary in place, TMRS will still need to contract for more services from The Segal Company and maybe Cavanaugh Macdonald Consulting, LLC to help with what might be an overwhelming need for assistance by TMRS cities as they deal with funding changes. Mr. Davis explained that, once the GRID is updated, it will be of tremendous help to the actuary and cities alike. Mr. Joyner stated that Segal has hired a new FSA so that Mr. Joyner will have more time to assist TMRS and its cities with this endeavor. At this time, Mr. Joyner explained the funding scenarios from which TMRS cities will choose.

Mr. Simpson asked about waiting until January or the first half of February 2008 to make the decisions that will affect funding changes; Mr. Menchaca stated that he is hearing from city managers across the state that they want more information and want to see more scenarios that will help them make better informed decisions with regard to the retirement plans of their own cities, and maybe offer input toward TMRS' final decisions.

Mr. Henry reminded the Board that TMRS is offering a funding education program to its cities that involves two elements: 1) regional funding workshops; and 2) city visits by the TMRS travel team and other TMRS staff.

Discussion of this item concluded with Mr. Klausner stating and Mr. Rodriguez agreeing that the Board needs to make and adopt the funding change decisions sooner rather than later, i.e., at the December Board meeting.

There being no further business to come before the Board, the meeting was adjourned at 12:15 p.m.

---

Eric Henry  
Executive Director  
& Chief Investment Officer

---

Roel 'Roy' Rodriguez  
Vice Chair

---

H. Frank Simpson  
Committee Member

---

Rick Menchaca  
Committee Member