



BOARD COMMUNICATION

AGENDA ITEM NO. 2
October 29, 2008

Consider and Act on Adoption of Minutes from the Investment Committee and the Finance & Audit Committee meetings on September 25, 2008, and the regular Board of Trustees meeting on September 26, 2008

BACKGROUND:

This agenda item consists of the review and approval of the minutes that were taken at the September 25, 2008 Investment Committee and Finance & Audit Committee meetings, as well as the regular meeting of the Board of Trustees on September 26, 2008.

RECOMMENDATION:

Staff recommends adoption of the meeting minutes.

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Executive Director Approval:

Eric Henry

October 21, 2008

Date

**MINUTES OF THE
TEXAS MUNICIPAL RETIREMENT SYSTEM
Regular Meeting of the Board of Trustees**

September 26, 2008

On September 26, 2008, the Board of Trustees of the Texas Municipal Retirement System (TMRS) convened for a meeting at 9:05 a.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.
April Nixon
H. Frank Simpson
Pat Hernandez

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
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
Nancy Williams, EnnisKnupp

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
Randle Meadows, Arlington Police Association
Darlene Lanham, TMPA

The meeting was called to order at 9:05 a.m. and the invocation was given by Frank Simpson.

Consider and Act on the Consent Agenda

Mr. Frank Simpson asked that the Partial Lump Sum Distribution (PLSD) information for retirees be added to the individual retiree report (confidential information) for future reference. It was pointed out that summary information is included in the Board materials. Staff indicated that the individual report will be changed to include this information. Mr. Simpson moved that the Consent Agenda be adopted as presented. Mr. Gorzell seconded the motion, which passed unanimously.

Executive Session

At 9:10 a.m., the Board entered into Executive Session, pursuant to Texas Government Code, § 551.071 and §551.074 to consult with Legal Counsel to receive legal advice, and to discuss personnel matters. No action was taken during the Executive Session and the meeting was opened to the public again at 11:17 a.m. All members of the Board who had been present when the Board went into Executive Session were again present.

Consider and Act on Legislative Stakeholder Group’s Recommended Legislative Package

Mr. Henry introduced the draft language that has been vetted by the Legislative Stakeholder Group. He indicated that this draft received unanimous approval with the members of the Legislative Stakeholder Group. Ms. Nixon moved that the recommended legislative package be adopted as presented. Ms. Hernandez seconded the motion, which passed unanimously.

Consider and Act on Revision of Charter of Advisory Committee on Retirement Matters

Mr. Henry introduced this item and briefly explained that the revised Charter will allow the Advisory Committee to be made up of “Individual Class Members” and “Group Class Members.” The Individual Class members, representing the broad diversity of member cities, made up the Committee originally. The Group Class is made up of representatives from the associations that made up the Legislative Stakeholders Group. Mr. Henry pointed out that representatives nominated by the group must be TMRS members. Mr. Simpson questioned naming groups from specific cities in the charter. After some discussion, Ms. Nixon moved that the revised charter be adopted as presented. Mr. Simpson seconded the motion, which carried unanimously.

Consider and Act on Resolution Regarding Distributive Benefit (Extra Payments) to Annuitants and Supplemental Interest to Certain Funds and Accounts

Mr. Henry stated that returns do not support payment of supplemental interest or distributive benefit payments at this time. Mr. Simpson pointed out that this is consistent with the System’s long-standing policies. Mr. Gorzell moved that no supplemental interest be credited to the Employees Savings Fund or to the Municipality Accumulation Fund and that no additional annuity payments be provided to TMRS retirees. Mr. Simpson seconded the motion, which passed unanimously.

Consider and Act on Finance & Audit Committee’s Recommendation on Selection of Firm for Depository Banking Services

Mr. Henry presented this item and briefly recapped the discussion from the Finance & Audit Committee meeting. He reported that RFPs were sent out to fourteen (14) banks and staff received proposals from five (5) banks. He reported that staff is pleased with the services and support they are currently receiving from JP Morgan Chase and that they have competitive fees. Mr. Henry noted that this recommendation to select JP Morgan Chase for depository banking services was unanimously approved by the Finance & Audit Committee. Ms. Nixon moved to ratify the Finance & Audit committee’s recommendation of JP Morgan Chase for depository banking services. Ms. Hernandez seconded the motion, which passed unanimously.

Consider and Act on Investment Committee’s Recommendation to Revise Hillswick Asset Management’s Contract for Investment Advisory Services

Mr. Henry presented this item and briefly recapped the discussion from the Investment Committee meeting. He reported that there will likely not be a need to continue Hillswick’s services beyond the end of the year since we are no longer managing fixed income internally. He noted that this recommendation to not renew Hillswick Asset Management’s contract for investment advisory services was unanimously approved by the Investment Committee. Mr. Gorzell moved to ratify the Investment Committee’s recommendation that Hillswick Asset Management’s Contract for investment advisory services not be renewed. Mr. Simpson seconded the motion, which passed unanimously.

Consider and Act on Investment Committee’s Recommendation to Change Investment Policy Fixed Income Investment Guidelines

Mr. Henry presented this item and Ms. Goerdel distributed a revised agenda item for this presentation. She indicated that the recommended changes to the Investment Policy are exactly the same recommendations that were presented to and approved by the Investment Committee for approval; however, the description was expanded to accommodate the suggestions that Mr. Simpson made during the Investment Committee meeting. Mr. Gorzell moved to ratify the Investment Committee’s recommendation to adopt the recommended changes to the Investment Policy Fixed Income Investment Guidelines. Ms. Nixon seconded the motion, which passed unanimously.

Board Governance and Strategic Planning Session; Consider and Act on (a) position description for Board members; and (b) Board education policy

Ms. Nancy Williams began discussion on the Board position description, self-evaluation and strategic planning policy. The position description draft separated responsibilities of the Board as a whole, as individual members, and was discussed point-by-point with a few revisions noted. Ms. Williams suggested adding introductory language further clarifying the purpose of this position description. This item will be brought back to the Board for final discussion at the December meeting.

Ms. Williams then moved on to the Board self-evaluation policy. The first portion of the policy is intended more for self-reflection; the second part is more for the group as a whole. Ms. Williams stated that annual review is considered a best practice. She suggested using this

criteria in conjunction with and in preparation for the Executive Director's performance evaluation in December.

Ms. Williams next discussed the Board Orientation and Education Policy. She said that the draft policy was intended as a draft for discussion. The Board briefly discussed the policy and suggested revisions were noted.

Ms. Williams then moved to the Strategic Plan. She discussed the Board's role in creating the Mission Statement, Vision Statement and the high level goals. She also asked if there were any items to be added. Mr. Simpson asked if there could be research done on investing/insuring (buy down the rate) bonds of Texas cities, which would be of benefit to Texas cities. Ms. Nixon suggested keeping the focus on the long-term projects as opposed to adding new items to the list. Mr. Simpson asked if the Board needed to add things that the Stakeholder Group could begin working on and discussing. He suggested reviewing the Advisory Committee charter for appropriateness given the expanded membership of the Committee. Ms. Nixon suggested crafting an objective to expand communication on financial matters for targeted markets.

Ms. Williams brought up the issue of pension spiking. Discussion centered on how this will be addressed. Objectives should be added with regard to additional communications surrounding USC, and secondly dealing with rules to make the calculations more accurately reflect career based earnings as opposed to temporary compensation increases. Mr. Henry commented that the Board has made significant progress with regard to these issues.

Report from Actuary

Mr. Joe Newton began by presenting recommended assumption changes. He stated that GRS' goal, as a new consulting actuary, is to not make big abrupt changes. GRS feels the assumption package as a whole is fine, but does need a couple of changes. The two issues are salary scale timing and transparency of an assumption and how it is applied. GRS feels that the salary scale should be applied immediately. This will result in rate and liability increases for many cities. The second change would be to turn an implicit assumption into an explicit assumption. GRS' philosophy is to explicitly value every aspect of the plan that you can. This is a more transparent approach and takes abstraction out of the equation. The current assumption affects two areas that are expected to cancel each other out. The current implicit assumption is reasonable, but GRS feels this should be explicitly valued. He said that GRS' recommendation is to value the full cost of the COLA explicitly. As a piece of this, the discount rate should be reviewed with regard to the Municipality Accumulation Fund (MAF) crediting rate. Mr. Newton stated that more analysis will be brought to the Board at the October meeting.

Mr. Simpson asked why there is a need to change assumptions so soon after the last experience study, especially since legislative changes to the TMRS Act have not yet been made. Mr. Newton explained GRS' philosophy with regard to these assumptions.

The Board began to discuss the reserving policy. Mr. Simpson mentioned that he thought the Legislative Stakeholder Group (LSG) was going to work on the reserving policy. Mr. Henry, with concurrence from Jim Parrish, Bob Scott and Jim Moore (LSG members), stated that his understanding was that the policy would be drafted by the Board, with assistance from the actuary, and then the policy would be taken to the Advisory Committee.

As Ms. Hernandez left the meeting at 12:15 p.m. and Ms. Nixon left the meeting at 12:45 p.m., the Board tabled the discussion on the reserving policy as there was no longer a quorum of the Board.

Reports by Executive Director and Staff

There was no discussion on this item.

Consider Any Other Business of the Board

The meeting was adjourned at 12:46 a.m.