

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

August 17, 2017 – 1:30 p.m.

On August 17, 2017, the Board of Trustees of the Texas Municipal Retirement System (TMRS) convened for a meeting at 1:30 p.m. at TMRS Headquarters, located at 1200 North IH 35 in Austin, Texas, with the following members present:

Board of Trustees

Jim Parrish, Chair
Bill Philibert, Vice Chair
Julie Oakley
Jim Jeffers
David Landis
Roel “Roy” Rodriguez

Present also were:

David Gavia, Executive Director
Eric Davis, Deputy Executive Director
TJ Carlson, Chief Investment Officer
Christine Sweeney, General Counsel
Bill Wallace, Director of Communications
Dan Wattles, Director of Governmental Relations
Leslee Hardy, Director of Actuarial Services
Rhonda Covarrubias, Director of Finance
Scott Willrich, Director of Information Resources
Leslie Ritter, Director of Human Resources
Jesse Pittman, Senior Project Manager
Robert Klausner, Klausner, Kaufman, Jensen & Levinson
Kristin Qualls, Director of Public Equity
Dimitry Shishkoff, Director of Risk Management
Marc Leavitt, Director of Absolute Return
Chris Schelling, Director of Private Equity
Tom Masthay, Director of Real Assets
Sandra Vice, Director of Internal Audit
Karen Jackson, Executive Assistant
Marcia Beard, RVK
Amy McDuffee, Mosaic Governance Advisors
Brian Borton, StepStone Group LP
Mike Elio, StepStone Group LP

Also in attendance:

Nick O’Keefe, Assistant General Counsel
Madison Jechow, Assistant General Counsel
Michael Schaff, Assistant General Counsel

David Rodriguez, Regional Manager – City Services
Sally Case, Investment Operations Manager
Eddie Schultz, Assistant Director of Real Assets
Carol Leung, Equities Investment Analyst
Chris Tindell, Private Equity Analyst
Ryan Conner, Risk Management Analyst
Melissa Jerkins, Quantitative Analyst
Geldon Vllahu, Operations Analyst
Cindy Morse, Investment Support Analyst
Debbie Farahmandi, Investment Operations Specialist
Kurt Cressotti, Compliance Officer
Rachel Cleak, Alternative Analyst
German Gaymer, Fixed Income Analyst
Andi Focht-Williams, Senior Auditor
Peter Jeske, Project Specialist
Paula Nguyen, Investments Accountant
Arielle Chou, Actuarial Analyst
Sherry Chapman, Investment Accountant
Greg Shipley, Combined Law Enforcement Associations of Texas
George Kaufman, City of Garland
Bob Scott, City of Carrollton
David Riggs, Texas State Association of Fire Fighters

Mr. Parrish called the meeting to order at 1:30 p.m. and Mr. Jeffers gave the invocation.

1. Consider and Act on Adoption of the Minutes from the June 21-22, 2017 Meeting of the Board of Trustees

Mr. Gavia stated that Staff had nothing to add to the minutes as presented.

Landis moved that the Board adopt the minutes from the June 21-22, 2017 meeting of the Board of Trustees. Mr. Jeffers seconded the motion, which passed 6-0.

2. Consider and Act on Appointment(s) to TMRS Medical Board

Mr. Davis announced that Dr. Genung has retired from the TMRS Medical Board for medical reasons. Dr. Alsup and Dr. Taylor have recommended Dr. William Deaton as replacement for Dr. Genung.

The medical specialties of all the doctors were reviewed and Mr. Davis noted that they cover the broad spectrum of medical issues seen on the disability applications.

Mr. Davis was asked about the number of disability cases reviewed annually, how often the Medical meets and where they meet.

Mr. Landis moved that the Board (i) appoint Dr. William J. Deaton to the TMRS Medical Board, and (ii) authorize the Executive Director to negotiate, execute and deliver a personal services contract with Dr. Deaton for his services on such terms and conditions as are satisfactory to the System, such satisfactory terms and conditions to be conclusively

evidenced by the execution thereof by the Executive Director. Mr. Philibert seconded the motion, which passed 6-0.

3. Consider and Act on Extension of the External Auditor Contract

In its 2001 Strategic Planning session, the TMRS Board determined that TMRS should issue a formal request for proposal (RFP) for external audit services at least every five years. Ms. Covarrubias indicated that the agreement with KPMG will expire on October 1, 2017. Beginning in 2014, TMRS also began engaging KPMG to perform SOC-1 (Service Organization Controls) audits of TMRS. These SOC-1 audits are governed by separate annual engagement letters executed between TMRS and KPMG. Ordinarily TMRS would issue a RFP for external audit services and the SOC-1 audit at this time.

Member cities will be required to implement new GASB standards for Other Postemployment Benefits (OPEB) in 2018. Since TMRS has already begun work with KPMG and GRS to determine the appropriate accounting treatment and disclosures for the upcoming OPEB disclosure, staff is recommending extending the agreement by one year to ease the implementation of this standard.

If the Agreement with KPMG is extended, KPMG will assign a new engagement partner because of its internal requirement to rotate partners every ten years. Susan Warren has been KPMG's engagement partner for TMRS for the past ten years; KPMG intends to assign Suzette Longfellow as the new engagement partner.

Ms. Covarrubias discussed the reasons for the extension for both the financial and SOC-1 audits. She also reviewed the resumes for Jeff Merkert and the new audit partner, Suzette Longfellow. It was noted that Ms. Warren would still be available as a resource on the audit, but not as the audit partner.

Mr. Philibert moved that the Board (i) approve a one-year extension of the KPMG Agreement and an additional SOC-1 audit engagement, at fees no greater than presented in the TMRS Staff memo, to enable TMRS to continue to engage KPMG for the December 31, 2017 fiscal year-end financial statement audit and the SOC-1 (controls) audit (covering the period through April 30, 2018); (ii) postpone having Staff issue an RFP for audit services until 2018; and (iii) authorize the Executive Director to negotiate, execute and deliver the Agreement and SOC-1 extensions on such terms and conditions as are satisfactory to the System, such satisfactory terms and conditions to be conclusively evidenced by the execution thereof by the Executive Director. Mr. Rodriguez seconded the motion, which passed 6-0.

4. Consider and Act on Private Equity Manager Search Recommendation(s)

Mr. Schelling and Mr. Tindell presented the Private Equity manager search recommendation with Mr. Elio from StepStone Group. The search process timeline was reviewed from 2016 through the present as well as the search process objectives and the manager search process.

The Private Equity portfolio construction, strategy diversification, manager implementation and geographic diversification were discussed. GTCR Fund XII, L.P. (GTCR) was recommended as a buy-out strategy manager.

GTCR has focused on North American-based Middle Market companies in technology, media and telecommunications, financial services and technology, healthcare and pharmaceuticals. There will be fifteen to twenty portfolio companies and once the platform is built, they will also add synergistic and accretive businesses to the platform. The reasons to invest and the risks and mitigants regarding the investment were discussed.

GTCR is a growth oriented manager and, if approved, will give TMRS twenty-one relationships and twenty-three funds. There will be more “re-ups” with existing managers. Staff expects GTCR will be a good partner from a relationship perspective because it will be good for maintaining that long term investment stream.

Ms. Oakley moved that the Board:

- (i) Authorize the following allocation(s), each as proposed and in accordance with the TMRS Investment Policy Statement, with an initial investment allocation up to the amount set out below and at fees no greater than presented in the TMRS Staff memo, each individually contingent on favorable background checks, if required below, and successful negotiation of the investment agreements:

Name of Investment Manager, Investment Fund, or Fund Strategy	Asset Class Strategy	Initial Investment Allocation	Background Check Required (Yes or No)
GTCR Fund XII, L.P.	Buy-Out	\$75.0 million	Yes

- (ii) Approve and incorporate by reference for all purposes the Board Standard Investment Authorizations for each such investment allocation.

Mr. Landis seconded the motion, which passed 6-0.

5. Real Estate Annual Asset Class Review

Mr. Carlson introduced Mr. Masthay, Mr. Schultz and Ms. Cleak to present the Real Estate annual asset class review. It was noted that Mr. Schultz had been promoted to Assistant Director for Real Assets.

Mr. Masthay discussed the reasons why these internal reviews are performed and also reviewed the six Real Estate and Real Return initiatives that were presented at the 2016 annual review, along with the timeline of actions from 2015 through 2017. Strong planning and execution has put TMRS on the path to achieving our strategic investment objectives.

Mr. Masthay gave an overview of the expansion of the Investment team and the TMRS Investment Committee. The Investment Committee was designed in conjunction with best

practices drawn from both the public fund universe and private industry, creating a forum for the sharing of experience and knowledge. All items brought to the Board requesting approval have already been vetted through the Investment Committee.

The Comprehensive Annual Review process was reviewed, including the Executive Summary, Manager Scorecards, Compliance Summary, Fees Paid Summary, Review of Consultants, Procedural Review and the Existing Manager Meetings Summary. The quarterly monitoring process was re-designed to encourage clearer lines of communication. Mr. Masthay discussed the quarterly monitoring process and highlighted investment performance and LPAC activities.

Ms. Cleak discussed the Real Estate asset class objectives and reviewed both Core and Non-Core portfolios. The diversification of the portfolio was highlighted and how that meets with compliance standards. Geographic and property type compliance was reviewed and it was noted that both are within standards.

Mr. Schultz gave an update on the Real Estate market and noted that the market is softening relative to the rebound in performance post 2008-2009 financial crisis. Recent shifts in the real estate market have appreciation coming closer to the long term trend where income comprises most of the return. Performance, valuation and fundamentals as well as supply and demand were discussed.

In conclusion, Mr. Masthay reported that: 1) TMRS is fully allocated on a committed basis and nearly at target on an invested basis; 2) performance has fairly compensated TMRS for the risk exposures taken on; and 3) expectations for real estate returns for the next five years are likely lower than that experienced over the prior five years.

6. Real Return Annual Asset Class Review

Mr. Masthay, Mr. Schultz and Ms. Cleak also presented the Real Return Annual Asset Class Review. The timeline was reviewed for the Real Return asset class and it was noted that a lot of activity is expected throughout the remainder of the year. TMRS has diversified its public Real Return portfolio and ramped up its private investing pace over the course of the last fifteen months. The portfolio is 100% allocated and it has outperformed the benchmark. The goal for performance is CPI +4%, net of investment management fees.

Ms. Cleak reviewed how the portfolio has been built-out comparing risk and return. The portfolio status and the portfolio exposure by both asset type and sector were discussed as well as the exposure by geographic and capital structure. The portfolio is in compliance with all of the IPS standards.

Mr. Schultz provided a market update for Real Return and noted the inflation rates have remained low due to various anomalous effects, but core inflation has remained stable. The forecast for inflation is for basically more of the same.

Mr. Masthay concluded that TMRS will move toward private investments which may add some return drag to the portfolio in the short-term during the implementation phase. The

markets within which Real Return strategies exist tend to be highly cyclical in nature. This poses both opportunities and risks for the overall portfolio.

7. Executive Session

At 3:35 p.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. The meeting was opened to the public again at 6:20 p.m. No action was taken during the Executive Session and all members of the Board that were present before the Executive Session were still present.

In the Open Meeting, Ms. Oakley made a motion to adjust the Internal Auditor's salary by 4.5% and change the format of the Internal Audit Director's evaluation form. Mr. Rodriguez seconded the motion, which passed 6-0. Ms. Oakley amended the motion to state the adjustment would be retroactive to the June 26, 2017 pay period. Mr. Landis seconded the motion, which passed 6-0.

Mr. Rodriguez made a motion to adjust the General Counsel's salary by 3.0% to be retroactive to the June 26, 2017 pay period. Ms. Oakley seconded the motion, which passed 6-0.

Mr. Rodriguez made a motion to adjust the Executive Director's salary by 2% to be retroactive to the June 26, 2017 pay period and use the new Executive Director's evaluation form for 2017/2018. Mr. Jeffers seconded the motion, which passed 6-0.

At 6:23 p.m. the meeting was recessed until 9:00 a.m. on Friday, August 18, 2017.



David Gavia
Executive Director



Jim Parrish
Chair, Board of Trustees

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

August 18, 2017 - 9:00 a.m.

On August 18, 2017, the Board of Trustees of the Texas Municipal Retirement System (TMRS) convened for a meeting at 9:00 a.m. at TMRS Headquarters, located at 1200 North IH 35 in Austin, Texas, with the following members present:

Board of Trustees

Jim Parrish, Chair
Bill Philibert, Vice Chair
Julie Oakley
Jim Jeffers
David Landis
Roel "Roy" Rodriguez

Present also were:

David Gavia, Executive Director
Eric Davis, Deputy Executive Director
TJ Carlson, Chief Investment Officer
Rhonda Covarrubias, Director of Finance
Leslee Hardy, Director of Actuarial Services
Debbie Munoz, Director of Member Services
Bill Wallace, Director of Communications
Dan Wattles, Director of Governmental Relations
Jesse Pittman, Senior Project Manager
Scott Willrich, Director of Information Resources
Sandra Vice, Director of Internal Audit
Leslie Ritter, Director of Human Resources
Kristin Qualls, Director of Public Equity
Tom Masthay, Director of Real Assets
Marc Leavitt, Director of Absolute Return
Chris Schelling, Director of Private Equity
Dimitry Shishkoff, Director of Risk Management
Robert Klausner, Klausner, Kaufman, Jensen & Levinson
Karen Jackson, Executive Assistant
Marcia Beard, RVK
Amy McDuffee, Mosaic Governance Advisors

Also in attendance:

Michelle Mellon-Werch, Assistant General Counsel
Nick O'Keefe, Assistant General Counsel
Madison Jechow, Assistant General Counsel
Michael Schaff, Assistant General Counsel

David Rodriguez, Regional Manager – City Services
Anthony Mills, Regional Manager – City Services
Melanie Thomas, Editor
Eddie Schultz, Assistant Director of Real Assets
Sally Case, Investment Operations Manager
Cindy Morse, Investment Support Analyst
Debbie Farahmandi, Investment Operations Specialist
Peter Jeske, Project Specialist
Melissa Jerkins, Quantitative Analyst
Chris Tindell, Private Equity Analyst
Geldon Vllahu, Operations Analyst
Kurt Cressotti, Compliance Officer
Rachel Cleak, Alternative Analyst
German Gaymer, Fixed Income Analyst
Andi Focht-Williams, Senior Auditor
Ryan Conner, Risk Management Analyst
Arielle Chou, Actuarial Analyst
Vikki Vasquez, Member Services Manager
Chad Nichols, Member Services Manager
Jennifer Andrews, Member Services Manager
Trisha Solis, Support Services Analyst
Pete Krnavek, Information Systems Manager
Bob Scott, City of Carrollton
George Kaufman, City of Garland
Greg Shipley, Combined Law Enforcement Associations of Texas
David Riggs, Texas State Association of Fire Fighters

Mr. Parrish called the meeting to order and the meeting was reconvened at 9:00 a.m.

8. Education Session: Benchmarking (formerly # 9 on the Friday, August 18, 2017 agenda)

Mr. Shishkoff and Ms. Jerkins presented this educational session on policy benchmarks and performance reporting. This is one of the most important tools the Board has for communicating return and risk objectives to Investment Staff and for monitoring investment performance. The purpose benchmarks must serve includes: representing the return and risk expectations of the strategic target allocation; communicating return goals and associated risk appetites; and providing a standard against which the Board can evaluate the work of Investment Staff. The purpose of performance reporting is to monitor and communicate performance relative to stated objectives over various time horizons and to evaluate Investment Staff and manager skill.

Mr. Shishkoff discussed the benchmarking criteria that will achieve the stated purpose. He reviewed the flow chart for selecting a benchmark for a specific asset class. TMRS' performance reporting objectives were explained, both at the individual asset class level and collectively for the fund. Benchmarks for traditional asset classes meet all of the criteria for selection. For alternative asset classes, this is not the case. Therefore, selecting a benchmark

is more difficult and the benchmark selected will not entirely fulfill the stated purpose of Policy Benchmarks.

When the “ideal” benchmark does not exist, other tools must be used to fulfill the entire stated purpose of Benchmarks. Examples of these “other tools” are: recognizing the assumptions in the strategic target allocation, recognizing permissible investments and the risks allowed in IPS Asset Class Guidelines, and evaluating manager performance versus peers and expectations as presented in the annual asset class reviews.

Ms. Jerkins discussed how the benchmark process works in various asset classes. She showed how in Real Estate a benchmark exists, but it is not a good fit because the benchmark only includes core real estate while TMRS also invests in value-add and opportunistic real estate. In all cases, TMRS adds an asset class goal to address the “strategic” criteria (which may or may not be the same as the benchmark). The same process was reviewed for Private Equity. If a benchmark does not exist, separate information must be delivered so that evaluations can be made.

Real Return is the most challenging asset class to benchmark. A combination of manager benchmark roll-up and actual performance would supply the best fit for this asset class which consists of both public and private assets. Ms. Jerkins explained how potential benchmark revisions align with TMRS’ Statement of Purpose for Policy Benchmarks.

Mr. Shishkoff concluded by pointing out that benchmarking is becoming more challenging. By refining our benchmarks when necessary and using a combination of tools and benchmarks, TMRS can achieve our stated purpose for Policy Benchmarks. Staff is reviewing all Investment Policy Benchmarks in advance of the Fall 2017 Annual IPS Review and will propose changes where we believe we can improve current benchmarks and performance reporting.

Mr. Parrish asked if any other public pension funds are doing this. Mr. Carlson explained what other funds in the U.S. are doing in areas such as Absolute Return and Private Equity. Ms. Beard, from RVK, stated they do see blended benchmarks being used by other clients.

Mr. Philibert requested an explanation of the difference between TMRS’ and RVK’s benchmarks. Mr. Carlson stated that many are the same. However, there are some differences and those are typically based on the risk and return assumption and how the asset class is implemented.

Ms. Oakley wanted to know how often the benchmark is adjusted based on how the assets are deployed, and are they rebalanced based on this information. Mr. Shishkoff indicated that staff monitors the information daily.

9. Review and Discussion of Proposed Amendments to the Strategic Plan (formerly #8 on the Friday, August 18, 2017 agenda)

Ms. McDuffee began by thanking the Board, Staff and Advisory Committee for their input in Strategic Planning process. The first goal is to get feedback regarding the Mission and

Vision Statements. The second is to have a first review of the goals, objectives, timing, and performance measures.

Ms. McDuffee reviewed the process timelines and the activities leading up to where the Board is currently in the process and noted how the feedback has been used.

The Mission Statement was discussed and examples of great Mission Statements were highlighted. Ms. McDuffee reviewed the current Mission Statement and noted Staff's input into the options presented. Four options were presented. Mr. Landis and Mr. Philibert indicated a preference for option 2. Mr. Parrish and Ms. Oakley preferred option 4. Discussion included various wording options of the Mission Statement and suggestions included to add the word "obtainable" and "stakeholders" to various options. Agreement was centered on options 2 and 4. One suggestion was noted for the Mission Statement, "We are the model for secure, sustainable retirement benefits."

Regarding the Vision Statement, Ms. McDuffee discussed the accomplishments of the last ten years. She reviewed the current Vision Statement and provided samples of great Vision Statements. Three options were presented. Option 2 and 3 were the preferred alternatives with the removal of the word "practices". The words "model" and "leader" were also debated.

Ms. McDuffee reviewed the four main goals and discussed Staff's feedback on the objectives and measures. Mr. Parrish thanked the Staff for their input in the process.

10. Investment Staff Quarterly Report/Asset Class Updates

(Mr. Landis and Mr. Rodriguez left the meeting at 10:50 a.m.)

Mr. Carlson began by reviewing the Investment portfolio asset allocation and net performance by asset class for the period ending June 30, 2017. Mr. Philibert asked about the Private Equity performance and Mr. Carlson indicated the "J" curve effect has caused the slight under performance in the early stages of portfolio.

For Public Equities, Ms. Qualls noted that we are about to hit the five-year mark for several of the Rules-Based strategies. This asset class is still over weight, but that is because it is funding new initiatives across the rest of the portfolio. The allocations and performance for both the U.S. and International Equities were reviewed.

The Fixed Income portfolio was reviewed and performance for the Core portfolio has been as expected. Mr. Gaymer indicated that funding for Non-Core is progressing. Performance has been as expected. With the shift from Core to Non-Core, there has been an increase in the return.

Absolute Return is fully funded and the exposure to Blackstone has been drawn down. There currently is no overlap between the direct funds and the BAAM portfolio. Mr. Leavitt indicated the direct portfolio is producing alpha compared to BAAM, however both are substantially out performing on both qualitative and quantitative bases.

Mr. Schelling reviewed the current Private Equity portfolio structure as well as the strategy of the portfolio. Regarding performance, he reported that the Asset Class is getting good returns as it moves through the "J-curve." Managers continue to deploy cash as commitments are made.

Mr. Cressotti gave an overview of the Compliance Program and discussed both automated and manual testing. TMRS is moving to an enhanced and more robust monitoring process. He reported that he is current with all the IPS guideline compliance tests and there are no compliance issues to note.

Mr. Shishkoff reviewed the Risk Management program. The Total Fund's risk is 7.4% while RVK estimates the long-term risk level of the benchmark is 11.5%. The total plan range of risk is fairly conservative. Total fund forward looking tracking error has continued to decline and it is currently at 0.8%.

11. Discuss TMRS Board Informal or Social Gatherings

Item tabled by a vote of 4-0.

12. Chief Investment Officer Management Update, Including Governance, Personnel, Manager Updates, Fee Structures, and Other Investment Related News or Matters

Mr. Carlson updated the Board on the manager selections based on the current pacing plan and noted various changes to the current expectations.

It was announced that Mr. Tindell will be leaving TMRS in September and Staff is currently recruiting for his position. The new Operations Analyst, Geldon Vilahu, was introduced and Mr. Carlson indicated that Susan Jacques will also be joining the Operations Department as a Performance Analyst on August 23rd. Kevin Notaro has accepted the offer for the Absolute Return Analyst and he will start in mid-September.

13. Executive Director Update: Member Service Department

Ms. Munoz updated the Board on TMRS Direct and discussed the current online functionality. She noted the following updates that members can do through TMRS Direct: address changes, withholding changes, account statements, retirement estimates and beneficiary updates. Online activity has definitely increased which translates to more service and current data. The number of address changes made via paper forms versus online was discussed and Ms. Munoz stated that there was a 29% decrease in paper forms. She also discussed account balance, annuity verification request and retirement estimates. The retirement estimates that are being run online is indicative of the members actually being willing to go online for self-service options. The newly deployed beneficiary designations were discussed, but it is still too early to provide comparative information. However, the beneficiary updates have provided a number of new designations where none had existed in the past.

The new features that will be deployed in the future were highlighted and include: direct deposit changes, refund applications and service retirement applications. Ms. Munoz indicated that also under development are document upload functionality and payroll reporting functionality.

14. Call for Future Agenda Items

No items were discussed.

The meeting was adjourned at 12:02 p.m.



David Gavia
Executive Director



Jim Parrish
Chair, Board of Trustees