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

May 19, 2016 – 1:30 p.m.

On May 19, 2016, 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
Roel “Roy” Rodriguez
Julie Oakley
Jim Jeffers
David Landis

Present also were:

David Gavia, Executive Director
Eric Davis, Deputy Executive Director
TJ Carlson, Chief Investment Officer
Christine Sweeney, General Counsel
Kristie O’Hara, Director of Human Resources
Dan Wattles, Director of Governmental Relations
Leslee Hardy, Director of Actuarial Services
Debbie Munoz, Director Member Services
Scott Willrich, Director of Information Resources
Rhonda Covarrubias, Director of Finance
Robert Klausner, Klausner, Kaufman, Jensen & Levinson
Jesse Pittman, Project Manager
Kristin Qualls, Director of Public Equity
Marc Leavitt, Director of Absolute Return
Chris Schelling, Director of Private Equity
Tom Masthay, Director of Real Assets
Jason Weiner, Director of Fixed Income
Dimitry Shishkoff, Director of Risk Management
Sandra Vice, Director of Internal Audit
Karen Jackson, Executive Assistant
Marcia Beard, RVK
Amy McDuffee, Aon Hewitt Investments
Joe Newton, Gabriel, Roeder, Smith & Company
Mark Randle, Gabriel, Roeder, Smith & Company
Brad Steward, Gabriel, Roeder, Smith & Company
Steve Novick, Courtland Partners
Jarrod Rapalje, Courtland Partners
Mark White, Albourne
Mike Elio, StepStone
Brian Borton, StepStone

Also in attendance:

Michelle Mellon-Werch, Assistant General Counsel
Nick O'Keefe, Senior Staff Attorney
David Rodriguez, Regional Manager – City Services
Pete Krnavek, Information Systems Manager
Melanie Thomas, Editor
Adrianne Strong, Human Resources Generalist
Carol Leung, Equities Investment Analyst
Chris Tindell, Private Equity Analyst
Cindy Morse, Investment Support Analyst
Debbie Farahmandi, Investment Operations Specialist
Peter Jeske, Project Specialist
Michael Schaff, Assistant General Counsel
Kate Reed, Compliance Officer
Eddie Schultz, Real Estate Analyst
Martha deLivron, Absolute Return Analyst
Rachel Cleak, Alternative Analyst
German Gaymer, Fixed Income Analyst
Melissa Jerkins, Quantitative Analyst
Sherry Chapman, Investment Accountant
Candace Nolte, Assistant Finance Director
Paula Nguyen, Investments Accountant
Ariel Chou, Actuarial Analyst
Steve Thompson, Regional Representative – City Services
Bob Scott, City of Carrollton
Greg Shipley, Combined Law Enforcement Associations of Texas
Alex Cramer, Arlington Professional Fire Fighters
Cody Hill, Arlington Professional Fire Fighters
George Kaufman, City of Garland
David Russell, Texas Municipal Police Association
Keith Dagen, Government Finance Officers Association of Texas
David Riggs, Texas State Association of Fire Fighters
Spencer Slider, City of Arlington

Mr. Parrish called the meeting to order at 1:33 p.m. Ms. Oakley gave the invocation and the Pledge of Allegiance was recited.

1. Consider and Act on Adoption of the Minutes from the March 23-24, 2016 Meeting of the Board of Trustees

Mr. Gavia stated that Staff had nothing to add to the minutes as presented. There were no changes suggested by the Board.

Mr. Jeffers made a motion that the Board adopt the minutes from the March 23-24, 2016 Meeting of the Board of Trustees. Mr. Phillibert seconded the motion, which passed 6-0.
2. **Consider and Act on Governmental Relations Consulting Services (formerly #5 on the Thursday, May 23, 2016 agenda)**

Mr. Gavia reviewed Mr. Ron Lewis’s history with TMRS and noted that he was instrumental in assisting with the passage of HB360 and SB350. The contract period will be for two years at the same fee as stated in the previous contract.

Mr. Philibert moved that the Board renew the agreement with Ron Lewis of Ron Lewis and Associates for governmental relations consulting services in the amount of $82,500 per year for a term to expire on May 31, 2018. Mr. Landis seconded the motion, which passed 6-0.

3. **Consider and Act on Advisory Committee Restructuring (formerly #6 on the Thursday, May 19, 2016 agenda)**

Ms. McDuffee gave an overview of the makeup of the Advisory Committee in recent years. She reviewed the major themes the Board discussed in February: 1) refine the Advisory Committee purpose/scope and responsibilities, 2) enhance and formalize the process by which the Board provides direction to the Advisory Committee, and 3) adjust the size and composition of the Advisory Committee to achieve a better fit for purpose. Two versions of the draft Charter were presented.

Board discussion focused on giving specific direction to the Advisory Committee and allowing the Chair to conduct the meetings. Mr. Rodriguez noted that there needs to be more focus in the Advisory Committee meetings. Mr. Gavia suggested the Charter does allow for this focus, but allows the Board full discretion to change directions if it chooses.

Ms. McDuffee discussed the size and composition of the Advisory Committee. The changes recommended was to reduce the size from 19 seats to 10 with the distribution being as follows: 1) three individual class seats, 2) seven group class seats for statewide associations, and 3) three at-large seats as determined by the Board, if needed. Mr. Philibert asked several questions regarding the at-large seats and these questions were discussed. Mr. Rodriguez wanted the names to the seven statewide associations. These are as follows: Combined Law Enforcement Associations of Texas, Texas Municipal Police Association, Texas State Association of Fire Fighters, Texas Municipal League, Texas Municipal Human Resources Association, Texas City Management Association and Government Finance Officers of Texas. There was further discussion regarding composition.

Additional miscellaneous charter adjustments were discussed. First, the Board Chair should not serve as the Advisory Committee Chair due to time constraints. Second, eliminate specific Advisory Committee meeting dates to allow for more flexibility. Third, current practices for reimbursement of Advisory Committee travel expenses should be documented.

Ms. McDuffee briefly reviewed the differences of the Charter Version 1 and Charter Version 2. She noted Staff’s recommendation is to adopt Charter Version 1 to be effective immediately and adopt Charter Version 2 to be effective on January 1, 2018. Mr. Parrish noted that these changes are not any indication of past performance on the Advisory Committee. All of the past participation has been appreciated and valued. It is more an evolution of the Advisory Committee.
Mr. Landis moved that the Board approve adopting two versions of the Advisory Committee on Retirement Matters Charter: Charter Version 1 and Charter Version 2. Upon adoption, Charter Version 1 would go into effect immediately. Upon adoption, Charter Version 2 would go into effect on January 1, 2018. Mr. Rodriguez seconded the motion, which passed 6-0.

4. **Consider and Act on Study Topics for Advisory Committee and Meeting Schedule** *(formerly #7 on the Thursday, May 19, 2016 agenda)*

Mr. Gavia gave an overview of the background for this topic and noted that four topics had been of interest and was the basis for initial discussion. Mr. Wattles discussed the Strategic Plan Goal 5, provide more direction to the Advisory Committee. The four main topics consisted of: 1) return-to-work, 2) gainsharing, 3) COLAs and 4) the member eligibility provision.

Mr. Wattles reviewed COLA options that had previously been reviewed by the Advisory Committee. Mr. Parrish inquired how long should a topic be studied before action is taken.

Mr. Wattles discussed return-to-work provisions and the perception of “double-dipping”. TMRS has the strictest return-to-work requirements of any major statewide retirement system in Texas and the details of the issues are complex. However, it does merit review by the Advisory Committee.

The third topic, the member eligibility provision, refers to the 1,000 hour per year threshold for membership. This item was not of interest last session. It is presented as a simple issue, but actually it is quite complicated. Mr. Wattles gave a brief overview of the fourth topic, gainsharing.

Mr. Philibert stated that the Chair and Vice Chair of the Advisory Committee would like to study COLAs and return-to-work issues. Gainsharing is still of interest and merits further study, probably at the Board level, but not at the Committee level at this time.

Mr. Philibert moved that the Board select COLAs and return-to-work as study topics for the Advisory Committee, grant the Committee Chair the authority to add to the topics as warranted and to allow the Committee Chair to convene at least two Committee meetings to study the topics.

Upon conclusion of the meetings, the Committee Chair and Vice Chair shall report back to the Board regarding the advantages and disadvantages of the benefit design changes and other pertinent information along with the Chair’s and Vice Chair’ recommendations, if any, regarding the study period topics. Mr. Landis seconded the motion, which passed 6-0.
5. **Discussion on Board Committee Structure and Consider and Act on Possible Committee Appointments (formerly #8 on the Thursday, May 19, 2016 agenda)**

Mr. Gavia introduced Ms. McDuffee to present the discussion on the Board’s use of committees. The objective is to enhance the Board’s productivity and efficiency as well as evaluate the role of the Advisory Committee. Ms. McDuffee reviewed the Board’s historical use of committees.

Ms. McDuffee discussed the concept of the Board and committee work plan and reviewed the flow of work and recommendations throughout the year under various broad categories. She discussed the possible Investment Committee work plan. One of the key considerations is what impact would the use of an Investment Committee have on the Board’s required actions, i.e. how much time can be gained. Ms. McDuffee asked the Board for feedback on the use of an Investment Committee. Mr. Philibert stated he was hesitant to utilize an investment committee and appreciates the education he receives during the meetings. Mr. Klausner suggested a committee could work if the education at the Board level continued. Mr. Landis concurred with Mr. Philibert’s thoughts. Mr. Jeffers asked where is the right balance between fiduciary duty and the nimbleness to act regarding investments. Mr. Klausner noted that the education must continue at the Board level so that the Board understands the specific strategy in which an investment is made. Mr. Carlson discussed the “nimbleness” factor and how compressed time lines can cause staff to not pursue certain opportunities. Mr. Carlson discussed how other systems address their issues. Ms. Oakley stated how she makes investment decisions and the learning process she utilizes. Mr. Parrish inquired on how we can make the process more efficient. Should the Committee actually focus on investments or governance at first as opposed to manager selection? Mr. Gavia suggested a workshop to discuss these topics as we did with the strategic planning session. Mr. Parrish asked staff to look at a couple of possible dates to have this workshop.

Ms. McDuffee next turned to the Legislative Committee.

Mr. Rodriguez moved that the Board approve Jim Parrish as the Chair of the Legislative Committee with another member to be appointed at a later time. Mr. Philibert seconded the motion, which passed 6-0.

6. **Consider and Act on Results of 2015 Actuarial Valuation and Approval of 2017 Retirement Contribution Rates and Supplemental Death Benefit Contribution Rates (formerly #3 on the Friday, May 20, 2016 agenda)**

Mr. Randall, Mr. Newton and Mr. Stewart from GRS were introduced to present the valuation results. Mr. Randall reviewed the presentation agenda and gave an overview of the system-wide results. Mr. Randall stated even though we have implemented a more conservative assumption set during challenging investment times, contribution rates have remained relatively stable. The majority of the rate increases are attributable to the assumption changes for the system as a whole.

Mr. Randall reviewed the aggregate systemwide valuation and the impact on the Unfunded Actuarial Accrued Liability of various funding factors from the beginning of the year to year end. He highlighted the impact of non-investment experience factors on the results.

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Mr. Stewart reviewed the summary of the benefit changes, including changes in USC and COLA adoptions.

Mr. Newton discussed the yields based on Market Value of Assets and the comparison of Market Value and Actuarial Value. He discussed cash flow and noted that we do have a slight negative cash flow, but it is very manageable. Mr. Newton reviewed the Actuarial Value of Assets (smoothed) to the Actuarial Accrued Liability and noted that the funded ratio remain unchanged from last year based on the new assumption set. The System as a whole is projected to reach 100% funding in 2039. He reviewed the distribution of changes in funded ratio, amortization periods and contribution rates.

Mr. Stewart reviewed the phase-in results. A new phase-in base was established in conjunction with the 2015 valuation if the change in actuarial assumptions and methods caused a City’s rate to increase by more than 0.50% net of any experience gain. The average new phase-in base is 0.40% and within two years, 97% of cities will be fully phased in and on a full rate basis.

Mr. Newton discussed the sustainability of TMRS as a System. Retirees as a group are growing quicker than active members. The volatility in contribution rates and the ability to absorb that volatility is the focus of sustainability. He highlighted the sustainability checklist and TMRS graded well based on this checklist. There are two items to pay attention to: longer term liability (or assets) to payroll ratios will increase contribution rate volatility and potential pressure for benefit enhancements not currently anticipated in the funding policy as higher funded ratios are reached.

In summary, funded levels continue to improve and rates remain relatively stable even with the lower discount rate. With no changes in assumptions, the expectation is for increased funded ratios and continued relative stability in the contribution rates system-wide.

Mr. Jeffers made a motion that the Board adopt the December 31, 2015 actuarial valuation prepared by its consulting actuary and certify contribution rates for municipalities for 2017. Mr. Rodriguez seconded the motion, which passed 6-0.

7. Executive Session
At 5:25 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. No action was taken during the Executive Session and all members of the Board that were present before the executive session were still present. The meeting was opened to the public again at 6:53 p.m.

Mr. Phillibert made a motion to adjust the Executive Director’s salary by 5% effective the last pay period in June. Ms. Oakley seconded the motion, which passed 6-0.

At 6:54 p.m. the meeting was recessed until 9:00 a.m. on Friday, May 20, 2016.
David Gavia  
Executive Director

Jim Parrish  
Chair, Board of Trustees