

**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 Rodriquez, Regional Manager – City Services  
Pete Krnavek, Information Systems Manager  
Melanie Thomas, Editor  
Adrienne 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. Philibert 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.

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.

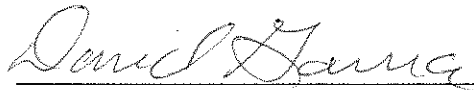
Mr. Jeffers made a motion that the Board adopt the December 31, 2015 actuarial valuation prepared by its consulting actuary and certify contribution rates for municipalities for 2017. Mr. Rodriguez seconded the motion, which passed 6-0.

#### **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. Philibert 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.



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David Gavia  
Executive Director



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Jim Parrish  
Chair, Board of Trustees