

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

October 20, 2016 – 1:30 p.m.

On October 20, 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
Bill Wallace, Director of Communications
Dan Wattles, Director of Governmental Relations
Leslee Hardy, Director of Actuarial Services
Debbie Munoz, Director Member Services
Rhonda Covarrubias, Director of Finance
Scott Willrich, Director of Information Resources
Jesse Pittman, Project Manager
Robert Klausner, Klausner, Kaufman, Jensen & Levinson
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
Sandra Vice, Director of Internal Audit
Karen Jackson, Executive Assistant
Marcia Beard, RVK
Jeanna Cullins, Aon Hewitt Investments
Joe Newton, Gabriel, Roeder, Smith & Company

Also in attendance:

Michelle Mellon-Werch, Assistant General Counsel
Nick O’Keefe, Senior Staff Attorney
David Rodriguez, Regional Manager – City Services
Melanie Thomas, Editor

Carol Leung, Equities Investment Analyst
Chris Tindell, Private Equity Analyst
Debbie Farahmandi, Investment Operations Specialist
Peter Jeske, Project Specialist
Madison Jechow, Assistant General Counsel
Michael Schaff, Assistant General Counsel
Kate Reed, Compliance Officer
Eddie Schultz, Real Estate Analyst
Rachel Cleak, Alternative Analyst
German Gaymer, Fixed Income Analyst
Melissa Jerkins, Quantitative Analyst
Paula Nguyen, Investments Accountant
Arielle Chou, Actuarial Analyst
Tish Root, Legal Assistant
Candace Nolte, Assistant Finance Director
Ron Lewis, Ron Lewis & Associates
Greg Shipley, Combined Law Enforcement Associations of Texas
Tadd Phillips, Texas Municipal Human Resources Association
George Kaufman, City of Garland
Keith Dagen, Government Finance Officers Association of Texas
Mitch Landry, Texas Municipal Police Association
Scott Kerr, Retiree
Paula Kutchka, City of Sugarland

Mr. Parrish called the meeting to order at 1:36 p.m. and Mr. Parrish gave the invocation.

1. Consider and Act on Adoption of the Minutes from the September 22-23, 2016 Meeting of the Board of Trustees

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

Mr. Philibert made a motion that the Board adopt the minutes from the September 22-23, 2016 Meeting of the Board of Trustees. Mr. Landis seconded the motion, which passed 6-0.

2. Legislative Committee Update (formerly item #3 on Thursday, October 20, 2016 agenda)

Mr. Gavia introduced Mr. Ron Lewis to update the Board on the legislative landscape. Mr. Lewis began by discussing the potential impact of the Presidential election. If the race is as close as the polls indicate, there could be marginal seats in the Texas Legislature that flip. Representative Darby is the likely front runner for the House Budget Committee. Mr. Lewis discussed changes in the House and Committee Chairs as well as seats that may be on the bubble that could change from Republican to Democrat. The Republican majority in the House could weaken slightly, but the Senate majority should remain the same. Mr. Dan Wattles added that 89 out of 150 representatives and 17 out of 31 senators will have two sessions of experience or less. That means there will continue to be a need for education about our system. Mr. Lewis indicated that there will likely be second term representatives that will receive Committee Chairmanships. Regardless of who is elected President, that person will go into office with a negative approval rating.

Mr. Wattles noted that the Monday after the general election is the beginning of the bill pre-filing period. He updated the Board on the House Pensions Committee meeting held in Arlington, Texas. The Committee Chair noted that he wants the local plans to craft their own fixes to their particular issues as opposed to having the legislature fix the issue. The Pensions Committee's interim report should be coming out soon.

Mr. Wattles discussed the meeting with Senator Huffman, Chair of Senate State Affairs. Senator Huffman was very complimentary of TMRS and asked if TMRS could be used as a resource for educational purposes. She did caution against getting caught up in the issues surrounding the Dallas and Houston pension plans.

Mr. Wattles updated the Board on the Pension Review Board's (PRB) Actuarial Committee meeting and work to modify the Actuarial Standards Guidelines. The Committee is proposing more prescriptive guidelines which in some cases conflict with the Actuarial Standards of Practice. The concern is that the changes could put pressure on retirement systems to make actuarial changes solely for the sake of complying with the guidelines and not because the changes make sense for the retirement system. Mr. Gavia added TMRS will submit written as well as verbal testimony to the PRB in relation to these guidelines.

Mr. Wattles also updated the Board on the City of Colleyville's resolution at the Texas Municipal League's (TML) Conference. The resolution proposed that TMRS statutes be changed to allow a fixed rate Cost of Living Adjustment (COLA) without the catch up provision. The Resolution Committee did pass the resolution, but at the lowest level of TML support. This means that TML would "take no position" on any bill filed during the session proposing this change.

3. Consider and Act on 2017 Legislative Agenda (formerly item #2 on Thursday, October 20, 2016 agenda)

Mr. Wattles, Ms. Hardy, Mr. Newton from GRS and Ms. Cullen from Aon Hewitt Investment Consulting presented this item. Mr. Newton gave an overview of the Return to Work issues discussed by the Advisory Committee during the interim and noted the two options. They also reviewed the COLA topic and the issues that center around the "catch-up" provision and discussed the potential benefit impacts and costs.

Mr. Wattles discussed retirement eligibility statistics regarding TMRS because this could have a direct impact on Return to Work issues. There are approximately 250 individuals that have returned to work and have benefits suspended.

Mr. Parrish noted that the Board should decide what direction it would like to take regarding Return to Work. Mr. Gavia stated that Option 2 does not have the appearance of "double dipping" and this option also has the ability to re-annuitize versus paying a lump sum. Mr. Rodriguez noted that it is almost too late not to take action.

Mr. Parrish summarized that the comments on Return to Work, Option 2 with the ability to re-annuitize is the preference of the Board.

The discussion shifted to how to proceed regarding legislation. Mr. Rodriguez suggested that TMRS file the bill and possibly reach out to Representative Lozano as a sponsor or co-sponsor. Ms. Oakley suggested we begin with drafting a bill. Mr. Wattles explained that even an internal draft would have to go to the Legislative Counsel once a sponsor is secured. Ms. Hardy noted that the “interest factor” could be an issue that does change behavior so this should be carefully considered whether or not it should be included. The Board acknowledged that this was a good point.

Ms. Cullen noted that it appeared that the consensus was on Return to Work, Option 2 with the ability to re-annuitize the suspended payments, with no additional interest; but, the issue of prospective versus retroactive remained an item to consider.

The Board then began their discussion about proposing any changes to the cost of living adjustment structure.

Mr. Wattles discussed a phone survey conducted of a sample of cities that had dropped their repeating COLAs since 2008. He summarized the results of the survey. All cities dropped the COLA due to cost. Mr. Wattles also reviewed the responses on what it would take for the cities to re-adopt the repeating COLA. It appears that the “catch-up” provision is not what is holding cities back from re-adopting a repeating COLA.

Mr. Jeffers commented that having both Return to Work and a change to the COLA would be problematic in one session of the legislature. He felt the Return to Work provision should be the priority.

Mr. Rodriguez made a motion to file legislation regarding Return to Work with the ability to re-annuitize without interest and only be applied to payments suspended after the effective date of the legislative. Mr. Jeffers seconded the motion. The motion passed 4-2, with Mr. Parrish and Mr. Philibert voting no.

4. Consider and Act on Meeting Dates and Locations for 2017 Board of Trustee Meetings

Mr. Gavia noted that he requested and received feedback from the Trustees regarding conflicts with the dates proposed at the September Board meeting. The following were selected as dates for 2017 meetings:

February 23-24
March 30-31
May 17 & 18-19¹
June 21-22
August 17-18
September 21-22
October 25²
December 7-8

¹The Board Planning meeting will take place on the afternoon of May 17th and the morning of May 18th. The Board meeting will follow on the afternoon of May 18th.

²The October Board meeting will take place in conjunction with the TMRS Annual Seminar in Grapevine, Texas.

5. Consider and Act on Real Return Rebalancing and Allocation Recommendations

Mr. Carlson began by stating that this is a little different type of rebalance and that is the reason this item is being brought to the Board. Mr. Carlson introduced Mr. Masthay. Mr. Masthay stated that Staff is proposing a rebalancing trade within its portfolio. The decision to pursue a rebalancing trade among existing managers in lieu of new mandates comes at the conclusion of a manager search process. The search process made it clear that roughly doubling up on existing commitments to two managers was the appropriate path to recommend.

The process began with reviewing the Real Return objectives. The findings indicated the more inflation protection in the portfolio, the lower the expected return. Therefore, given asset allocation model inputs on which the inclusion of a real return portfolio was premised, return enhancement and diversification must be prioritized as the primary objectives rather than inflation protection. Mr. Masthay reviewed the manager search process and the net conclusion was that significant added value could not be underwritten by adding to new mandates as opposed to the alternative of increasing allocations to Nuveen and Cohen & Steers.

Mr. Masthay discussed the specifics of Nuveen and Cohen and Steers highlighting the strengths of each firm, noting neither fund would need to be customized. He reviewed the trade model/sizing and noted that the return expectations and probabilities of meeting investment objectives were both significantly enhanced by the proposed rebalancing trade. Mr. Masthay discussed the reasons for reducing the Colchester managed global inflation linked bond portfolio as well as Core Fixed Income. This will bring the portfolio within policy guidelines regarding manager exposure. Mr. Masthay requested that the Board approve 1) an additional allocation to Nuveen of \$375 million, 2) an additional allocation to Cohen and Steers of \$400 million, and 3) fund these mandates by a) rebalancing the remaining \$450 million of the 2016 pacing plan from the Core Fixed Income portfolio and b) rebalancing \$325 million from Colchester Global managed GILBs.

Mr. Landis and Mr. Philibert asked for clarification on why the scoring for performance was such a low percentage of the total. Ms. Oakley asked for clarification on the comparison between the different rebalancing solutions. By adding to the existing mandates, TMRS will be able to improve potential returns, reduce fees and improve diversification.

Ms. Oakley moved that the Board approve:

- 1) The following allocation(s), each as proposed and in accordance with the TMRS Investment Policy Statement, with an additional investment allocation up to the amount set out below and at fees no greater than presented in the TMRS Staff memo:
 - a. Approve additional allocation to the Nuveen Real Asset Income Strategy of \$375 million and take exposures to approximately 300bps of the total plan.

- b. Approve additional allocation to the Cohen & Steers Real Asset Multi-Strat of \$400 million and take exposures to approximately 300bps of the total plan.
 - c. Fund proposed mandates by: 1) rebalance the remaining \$450 million of the 2016 real return pacing plan from core fixed income, and 2) rebalance the remaining \$325 million from the Colchester Global managed GILBs.
- 2) Approve and incorporate by reference for all purposes the Board Standard Investment Authorization for each such investment allocation.

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

5. Review and Discussion of Annual Proposed Investment Policy Statement Revisions

Mr. Carlson presented the review of the proposed revisions to the Investment Policy Statement. The revisions are as follows:

Page 9 – Moved Delegation of Co-Investment Authority to Executive Director section.

Page 10 – Moved oversight responsibility of custodian bank from Finance Department staff to the CIO.

Page 12 – Added that Investment Department staff (in addition to Finance Department Staff) is responsible for the supervision of custodian bank.

Page 17 – Updated the Policy Benchmarks and Policy Index chart for consistency

Page 30 – Moved co-investment guidelines that appeared throughout the IPS to a central location so they apply to all asset classes.

This will reduce redundancy and insure integrity.

Page 34 – Changed “residential” to “residual”

Page 36 – Removed repetitive language

Page 37 – Removed interest rate risk language that does not apply in all situations

Page 38 – Reordered goals of Real Return portfolio and deleted redundant items

Page 44-45 – Removed redundant descriptive narrative concerning diversification and risk management guidelines. Revised sector diversification narrative and property type diversification ranges.

Page 47 – Moved Delegation of Authority language to Executive Director Section of Roles and Responsibilities

Page 48 – Added clarifying language to Private Equity geographic structure

Page 49 – Moved “co-investment” language to other areas of the IPS

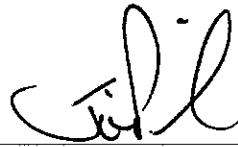
6. Executive Session

At 4:47 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 5:24 p.m.

At 5:26 p.m. the meeting was recessed until 8:00 a.m. on Friday, October 21, 2016.



David Gavia
Executive Director



Jim Parrish
Chair, Board of Trustees

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

October 21, 2016 – 8:00 a.m.

On October 21, 2016, the Board of Trustees of the Texas Municipal Retirement System (TMRS) convened for a meeting at 8:00 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

Absent:
Roel “Roy” Rodriguez

Present also were:

David Gavia, Executive Director
Eric Davis, Deputy Executive Director
Christine Sweeney, General Counsel
TJ Carlson, Chief Investment Officer
Rhonda Covarrubias, Director of Finance
Leslee Hardy, Director of Actuarial Services
Robert Klausner, Klausner, Kaufman, Jensen & Levinson
Debbie Munoz, Director of Member Services
Bill Wallace, Director of Communications
Dan Wattles, Director of Governmental Relations
Scott Willrich, Director of Information Resources
Jesse Pittman, Project Manager
Sandra Vice, Director of Internal Audit
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
Karen Jackson, Executive Assistant
Marcia Beard, RVK
Jonathan Kowolik, RVK
Jeanna Cullins, Aon Hewitt Investments

Also in attendance:

Michelle Mellon-Werch, Assistant General Counsel
David Rodriguez, Regional Manager – City Services
Michael Schaff, Assistant General Counsel
Madison Jechow, Assistant General Counsel
Tish Root, Legal Assistant
Pete Krnavek, Information Systems Manager
Melanie Thomas, Editor
Carol Leung, Equities Investment Analyst
Chris Tindell, Private Equity Analyst
Debbie Farahmandi, Investment Operations Specialist
Peter Jeske, Project Specialist
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
Candace Nolte, Assistant Finance Director
Arielle Chou, Actuarial Analyst
Peter Jeske, Project Specialist
Vikki Vasquez, Member Services Manager
Nadia Ali, Accounting Specialist
Danielle Whitaker, Staff Accountant
Josette Madry, Accounting Operations Supervisor
Bob Scott, City of Carrollton
George Kaufman, City of Garland
Greg Shipley, Combined Law Enforcement Associations of Texas
Scott Kerr, Retiree
Paula Kutchka, City of Sugarland
Leslie Ritter

Mr. Parrish called the meeting to order and the meeting was reconvened at 8:00 a.m.

7. Review and Discussion of the Proposed 2017 Operating Budget

Ms. Covarrubias began the review of the proposed 2017 Operating Budget. She gave an overview of the System's accomplishments for 2016 and noted the improvements made by TMRS Direct, implementation of a new imaging system, introduction of the Executive Workshops and continued portfolio diversification.

Ms. Covarrubias reviewed how the budget aligns with the Board's Strategic Plan and highlighted alignment under each of the strategic goals.

Section II of the budget document compares the 2016 budget to the 2017 proposed budget. Ms. Covarrubias reviewed the main categories under the budget. Personnel Services

continues to be the largest category. New positions were highlighted in Personnel Services along with the amount for merit increases; benefit package and retiree medical coverage.

Professional Services include continuation with City Contribution Re-engineering; additional items include an entity-wide Compensation Study, Electronic Records Management Project, Imaging system upgrades and cloud strategy.

The majority of the proposed budget for Rentals and Equipment maintenance is for data processing needs. A business case is included for Network Micro-Segmentation with VM Ware NSX. Mr. Parrish requested further discussion at the next Board meeting regarding Information Technology's vision for technology.

The Miscellaneous category captures items requested by all departments that support employees' professional growth and those items include association/membership dues, subscriptions, publications and training.

Capital Expenditures include SAN and physical server replacement and firewall replacement.

Ms. Covarrubias reviewed new personnel requested. The budget includes information regarding each new position and the cost associated with the new position as well as projected personnel needs. The Board asked for full year payroll information on each position and justification for positions that are being requested for the first time in the proposed budget.

Future "new" major items are also included in the 2017 Proposed Budget as well as projected dates.

8. Review Transition Management Program

Mr. Carlson gave a brief overview of the transition management program and introduced Mr. Kowolik from RVK and Ms. Qualls.

Ms. Qualls highlighted the transition management process and explained the benefit of transition management. It involves the coordinated and managed movement and restructuring of assets from a legacy portfolio to a new target portfolio. A transition manager is used to reduce overall risks and costs in a transition. Originally, three transition managers were approved by the Board, but currently only two have executed contracts in place. Further negotiation on contract terms with Russell has, to date, proven unsuccessful. Ms. Qualls reviewed the Investment Policy Statement (IPS) guidelines for the use of transition managers and discussed transition management history from 2013-2015. She presented the details of the transition management events and the expected performance range of outcomes as well as actual post-trade total costs. Four out of the six events fell within the expected performance ranges. Discussion focused on costs and efficiency. In the future, staff will develop a report to breakdown the cost into "actual cost" and "total impact cost."

Ms. Oakley requested that the Board be notified closer to the event and updated whenever a transition manager is used. Currently, TMRS staff does provide an update following a transition event as well as a memo from RVK detailing the event during the quarterly staff updates.

Mr. Kowolik gave an overview of the transition management history and reviewed the pros and cons of the competitive bidding process. He discussed the optimal transition management bench sizes, stating that three to five firms with differentiated strengths is considered typical. The industry is diverse and crowded so focus of the firm is the key. Mr. Kowolik reviewed current providers, staffing levels, asset class specializations, asset class volumes, range of transition size and suggested potential additions to TMRS' bench that would be complementary to the existing transition management bench.

Mr. Kowolik reviewed several alternative approaches including interim asset management, specialized asset class transition management, overlay manager (synthetic rebalances) and internal transition management services.

Ms. Qualls discussed the next steps and noted that additional discussions will take place with Russell. Staff will also consider establishing new transition management relationships and adding approved transition managers to the annual equity comprehensive review process.

9. RVK Quarterly Investment Report

Marcia Beard from RVK presented the preliminary performance report as the final quarterly numbers were delayed. She updated the Board on economic conditions in July and August noting flat performance. In September, non-U.S. markets were more productive than U.S. markets.

Through the month of September, risk markets were generally positive, commodities were mixed and fixed income remained flat. There is a 50% chance that interest rates will go up in December.

Ms. Beard reviewed the preliminary performance results for the quarter, noting a preliminary return of 6.09% year-to-date. She briefly reviewed the total fund composite return and discussed highlights of the asset class composites.

From a political perspective, a "split" government works out best for the markets. Regarding the Federal Reserve, rates almost have to go up in December for the Federal Reserve to maintain credibility.

10. Review and Discussion of Proposed Audit Charter

Ms. Vice discussed the Internal Audit Charter with the Board. This is the mutual agreement among the Board, senior management and the chief audit executive on how the internal audit department will operate. She reviewed how the charter was developed. Ms. Vice highlighted the International Professional Practices Framework and noted the addition of a Mission and 10 Core Principles to the mandatory and recommended guidance.

Ms. Vice reviewed the internal audit's position within TMRS. She discussed the relationship with the Board, the Internal Audit Committee, and the Executive Director. Ms. Vice highlighted the activities of her department as well as access and limits on responsibilities. She discussed the responsibilities of the Board, Audit Committee, management and Internal Audit. The next steps are to review the draft Charter, provide any additional feedback and adopt the Charter at a future Board meeting.

Mr. Jeffers noted that while we have "calm seas" at the moment, now is the time to consider if this Charter will allow the Internal Audit department to act when things may not be as calm.

11. Strategic Plan Update

Mr. Gavia began this review by briefly reviewing the current strategic plan and updated the Board on progress made under each of the goals and strategic objectives.

Goal 1 – Noted the contribution rate stabilization techniques presentation and discussed portfolio diversification

Goal 2 – Noted the continued work on GASB changes, TMRS Direct advancements and MyTMRS changes.

Goal 3 – Discussed the advancements of the Audit Committee and work with governance consultant.

Goal 4 – Discussed the preliminary work on succession planning, data gathered and work to be completed in this area when the new Human Resource Director comes on-board.

Goal 5 – Discussed the interim work on legislation issues through the Advisory Committee. Mr. Gavia discussed the staff working group and the work that was completed in preparation of an omnibus TMRS bill.

Mr. Gavia concluded by noting the work yet to be done in 2017 and beyond.

12. Chief Investment Office Management Update, Including Governance, Personnel, Manager Updates, Negative Interest Rates and Other Investment Related News or Matters

Mr. Carlson noted the Investment Staff took 314 meetings during the quarter. He discussed the results of the CEM Investment Benchmarking report. In 2015, TMRS outperformed the peer group by 70 bps. Net value added by TMRS was greater than the peer group and this was achieved on a less risk/lower cost basis.

Mr. Philibert asked if this was reported to the membership. He noted that it would be good information to share.

13. Executive Director Update

Ms. Covarrubias gave a department overview of TMRS' Finance Department (also known as "the Accounting department"). She began by reviewing accounting operations and highlighted accounts receivable, accounts payable, employee payroll, general ledger, taxes, Board reporting and budget. She reviewed the area of specialized accounting or Investment accounting. This area is responsible for monitoring daily cash flows, processing of capital calls, reconciling manager accounts, recording journal entries, the annual interest credit recommendation, Board reporting and Comprehensive Annual Financial Report/Popular Annual Financial Report (CAFR/PAFR) preparation.

After a question from Mr. Parrish regarding work load, Ms. Covarrubias explained the additional work load brought on by investment diversification. Ms. Covarrubias also noted the work that had been completed between the Investments and Finance departments to determine investment operations processes; she noted that workloads would be monitored and that the current open position for an investment accountant would likely be filled as additional managers are added.

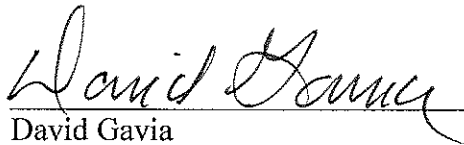
Ms. Covarrubias discussed future initiatives: Expense Management Module under PayCom, the Wdesk product for CAFR and budget preparation, the city payroll re-engineering project, the Financial audit RFP, participation in the electronic records project and the GASB pronouncements that must be implemented. She also noted the work being done on the 457(b) program and the bi-weekly pay conversion process.

Ms. Covarrubias introduced the Finance team and highlighted their tenure and credentials. Mr. Parrish recognized the team and expressed the Board's appreciation for the work they do.

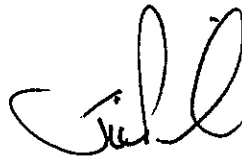
14. Call for Future Agenda Items

Ms. Oakley made a request for more discussion/information on potential legislation as well as future Board action on potential legislation. Mr. Parrish asked for volunteers for the Legislative Committee.

Mr. Philibert made a motion to adjourn the meeting. Ms. Oakley seconded, which passed 5-0. The meeting was adjourned at 10:54 a.m.



David Gavia
Executive Director



Jim Parrish
Chair, Board of Trustees