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

March 22, 2018 – 1:30 p.m.

On March 22, 2018, 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
Jesus Garza

Absent: David Landis

Present also were:
David Gavia, Executive Director
Eric Davis, Deputy Executive Director
TJ Carlson, Chief Investment Officer
Christine Sweeney, General Counsel
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
Jesse Pittman, Senior Project Manager
Sandra Vice, Director of Internal Audit
Leslie Ritter, Director of Human Resources
Kristin Qualls, Director of Public Equity
Chris Schelling, Director of Private Equity
Jason Weiner, Director of Fixed Income
Dimitry Shishkoff, Director of Risk Management
Karen Jackson, Executive Assistant
Robert Klausner, Klausner, Kaufman, Jensen & Levinson
Marcia Beard, RVK
Amy McDuffee, Mosaic Governance Advisors
Brian Borton, StepStone Group, LP
Mark Randall, Gabriel, Roeder, Smith & Company
Joe Newton, Gabriel, Roeder, Smith & Company

Also in attendance:
Eric Obermier, Assistant Director Information Resources
Michelle Mellon-Werch, Assistant General Counsel

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

1. **Consent Agenda**
   Mr. Gavia pointed out that the minutes have been corrected to reflect that Mr. Jeffers did not attend the February 15-16, 2018 Board meeting. The vote count was also corrected to reflect Mr. Jeffers absences.

In response to Mr. Klausner’s comments in the Board meeting minutes at the February 15-16, 2018 Board meeting, Mr. Jeffers pointed out that the Internal Auditor and other consultants report to the Board. Mr. Klausner noted that it was not intended as an oversight and he is aware that the Internal Auditor and the General Counsel report to the Board. His comments were merely based in the context to plan benefits, which is the reason why the Executive Director was the only one named.
Mr. Philibert moved that the Board adopt the consent agenda as presented. Ms. Oakley seconded the motion, which passed 5-0.

2. **Consider and Act on 2017 Interest Credit Allocation to the TMRS Benefit Accumulation Fund and Interest Reserve Account**

Mr. Gavia briefly explained the Interest Reserve Account and introduced Leslee Hardy as well as Mark Randall and Joe Newton with Gabriel, Roeder, Smith & Company (GRS). Mr. Newton explained that a decision must be made for determining the 2017 Interest Credit to the Benefit Accumulation Fund (BAF) as well as the size of the Interest Reserve Account. He recommended that approximately 13.05% be credited to the BAF balance of each city. Mr. Newton also discussed the rationale behind recommending that the targeted initial Interest Reserve Account balance be set equal to approximately 1% of the lagged valuation of the investment portfolio as of December 31st of each calendar year instead of a fixed dollar amount. This increased reserve will allow for an approximate 10% negative variance in the actual versus estimated Q4 valuation adjustments of the private investment funds.

The historical BAF interest credits were reviewed as well as contributions versus benefit payments and refunds. It was noted that the negative cash flow is well within a manageable range at approximately 1%. Mr. Newton discussed the current smoothing and amortization policy. GRS recommends crediting the BAF with an interest credit of approximately 13.05%. This will result in an estimated 7.11% smoothed or actuarial return for 2017 which will decrease employer contribution rates on average by approximately 0.09% due to investment performance. The excess allocation above the assumed 6.75% first offsets the $611 million in deferred shortfalls remaining as of December 31, 2016. Of the remaining excess, $93 million will be recognized in the 2017 valuation and $836 million will be deferred for future valuation to protect against future adverse experience.

Market and actuarial values of assets and the impact of this strong performance on projected contribution rates were discussed and Mr. Newton illustrated what could happen in the years where TMRS does not meet its target return. He also discussed the short term and longer term impact of adverse experience on contribution rates. Having a strong funding policy and having an assumed annual rate of investment return of 6.75% will help keep long term adverse experience in a reasonable range.

In conclusion, Mr. Newton restated GRS’ recommendation of crediting the BAF with an interest credit of approximately 13.05% and increasing the initial Interest Reserve Account balance as of December 31, 2017 from $100 million to approximately 1% of the total trust value or $290 million.

Ms. Oakley asked if there are other steps that could be taken to manage the potential longer term rate volatility.

Ms. Oakley moved that the Board allocate, effective as of December 31, 2017, (i) a credit of 5% interest to each of the Supplemental Disability Benefits Fund and the Supplemental Death Benefits Fund, and (ii) a credit of approximately 13.05% interest to the Benefit Accumulation Fund, which represents the estimated net investment income remaining after
all administrative and investment expenses have been paid and the statutory interest credit requirements have been fulfilled, includes any estimated fourth quarter private investment fund valuation adjustments provided to TMRS by March 12, 2018 and increases the initial Interest Reserve Account balance from $100 million to $290 million which is approximately equal to 1% of the lagged valuation of the December 31, 2017 investment portfolio. It was further moved that the Board approve that any differences in the final versus estimated fourth quarter private investment fund valuation adjustments as well as any adjustments that may be necessary to finalize net investment income for the year, be reflected in the final Interest Reserve Account balance as of December 31, 2017 and considered in the 2018 BAF interest credit determination. Mr. Jeffers seconded the motion, which passed 5-0.

3. Consider and Act on Private Equity Manager Search Recommendation(s) (formerly agenda item #6 on the Thursday, March 22, 2018 agenda)

Mr. Schelling introduced Brian Borton from StepStone and TMRS’ new Private Equity Analyst, Peter Teneriello. The Private Equity 2017 Staff Pacing Model was reviewed along with the progress that has been made so far. Annual pacing plans are developed in the context of multiple year investment horizons. The portfolio construction was highlighted and it was noted that the focus will be on “buy out” for the remainder of the year.

The first recommendation is Providence Strategic Growth III L.P. (PSG III). PSG III is an affiliate of Providence Equity Partners, which targets growth equity investments in lower middle market technology-enabled companies in North America. The investment case was reviewed as well as the issues to consider.

Providence Equity Partners VIII (PEP VIII) is the second recommendation. PEP is being formed to pursue growth-oriented and traditional buyout investments in media, communications, education and information services companies. They have a large and experienced team with deep resources. The investment case was reviewed as well as the issues to consider.

The third recommendation is TPG Sixth Street Partners (TAO Contingent). TAO Contingent will invest in opportunities sourced across the TSSP platform. This is an opportunistic strategy that will not be used unless the circumstances exist to turn on this contingency. There are no fees until this is triggered. The investment case was reviewed as well as the issues to consider.

TPG Sixth Street Partner (TPG Top IV) is the next recommendation which is TPG’s primary investment platform for pursuing special situations and distressed investments across the credit cycle. Mr. Teneriello indicated that TPG Top IV has an experienced team and a strong historical performance with low loss ratio. The investment case was reviewed as well as the issues to consider.

The last recommendation is Foundry. To date, Foundry has raised four early stage funds and two growth funds to invest in both outperforming later stage opportunities and micro VC funds. They have strong performance across strategies with a low loss ratio. The investment
case was reviewed as well as the issues to consider. Mr. Borton discussed StepStone’s due diligence with regard to Foundry.

Ms. Oakley asked about PSG’s involvement with the tech industry versus PEP’s. Mr. Schelling discussed the differences in these strategies. Ms. Oakley pointed out the high concentration in tech-related investments with Providence. Mr. Schelling explained that it is not purely technology based and listed several companies that were not involved in the technology field.

Mr. Garza inquired about Dyal’s minority ownership in several of these funds. Mr. Schelling noted that Dyal has no decision making authority in these funds. They do provide back office support.

Mr. Garza also asked how Private Equity is being funded. It was explained that it is currently being funding from Public Equity, but in the future it will be self-funded.

Mr. Jeffers moved that the Board approve the following:

(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 Summary of Recommendations chart in the TMRS Staff memo, each individually contingent on favorable background checks, if required below, and successful negotiation of the investment agreements:

<table>
<thead>
<tr>
<th>Name of Investment Manager, Investment Fund, or Fund Strategy</th>
<th>Asset Class Strategy</th>
<th>Initial Investment Allocation</th>
<th>Background Check Required (Yes or No)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Providence Strategic Growth III L.P. (PSG III)</td>
<td>Growth Equity</td>
<td>$10 million additional ($70 million total)</td>
<td>Yes</td>
</tr>
<tr>
<td>Providence Equity Partners VIII L.P. (PEP VII)</td>
<td>Buyout</td>
<td>$55 million</td>
<td>Yes</td>
</tr>
<tr>
<td>TSSP Adjacent Opportunities Partners (D), L.P. (TAO Contingent)</td>
<td>Special Situations</td>
<td>$50 million</td>
<td>Yes</td>
</tr>
<tr>
<td>TPG Opportunities Partners IV L.P. (TPG TOP IV)</td>
<td>Special Situations</td>
<td>$50 million</td>
<td>Yes</td>
</tr>
<tr>
<td>Foundry Group Next 2018, L.P. (Foundry)</td>
<td>Venture Capital</td>
<td>$45 million</td>
<td>Yes</td>
</tr>
</tbody>
</table>
(ii) Approve and incorporate by reference for all purposes the Board Standard Investment Authorizations for each such investment allocation.

Mr. Philibert seconded the motion, which passed 5-0.

4. **Consider and Act on Non Core Fixed Income Manager Search Recommendation(s) (formerly agenda item #7 on the Thursday, March 22, 2018 agenda)**

Jason Weiner, German Gaymer and Amy Hsiang from RVK presented the manager recommendations for the Non-Core Fixed Income portfolio. Mr. Weiner indicated that the portfolio is fully invested on a commitment basis.

The two managers selected, GSO Capital Partners, LP (GSO) and Octagon Credit Investors LLC (Octagon), will manage Bank Loan (BL) and Collateral Loan Obligation (CLO) strategies. Staff conducted a full re-evaluation of the BL/CLO mandates to: 1) confirm market opportunity and Non Core Fixed Income portfolio fit; 2) identify and evaluate top BL/CLO managers, 3) assess and compare managers' investment process, philosophy and team; and 4) optimize the BL/CLO allocation within the Non Core Fixed Income portfolio. Mr. Weiner stated that BLs and CLOs continue to represent compelling investment opportunities. He reviewed the search process resulting in the selection of the two finalists.

The first recommendation is GSO. GSO is a top rated CLO manager with a deep and experienced team. Mr. Gaymer stated that GSO has focused singularly on investing in below investment grade securities since the inception of the firm. Fundamental credit research is the cornerstone of GSO's investment process. The investment case was reviewed as well as the issues to watch.

Octagon is the second recommendation. Mr. Gaymer discussed the firm and the team characteristics. Octagon is a specialist firm that has focused solely on the BL and CLO markets since inception. Octagon has a dedicated research team of 28 investment members, including six portfolio managers who average over 21 years of experience. The investment case was reviewed as well as the issues to watch.

Ms. Hsiang added that this was a fair, thorough process and discussed how the team sourced the candidates.

Mr. Philibert moved that the Board approve the following:

(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 Summary of Recommendations chart in the TMRS Staff memo, each individually contingent on favorable background checks, if required below, and successful negotiation of the investment agreements. And, additionally, authorize the Executive Director to determine the most prudent method to terminate the existing Guggenheim and Highland investment managers and their affiliates (e.g., by replacing the General Partners of the Funds of One, or by terminating the current Funds of One and creating
new Funds), and to take all other actions the Executive Director deems necessary or appropriate to end such investment manager relationships:

<table>
<thead>
<tr>
<th>Name of Investment Manager, Investment Fund, or Fund Strategy</th>
<th>Asset Class Strategy</th>
<th>Initial Investment Allocation</th>
<th>Background Check Required (Yes or No)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GSO Capital Partners LP</td>
<td>Non-Core Fixed Income</td>
<td>100%¹ (Approximately $440m)</td>
<td>No</td>
</tr>
<tr>
<td>Octagon Credit Investors, LLC</td>
<td>Non-Core Fixed Income</td>
<td>100%² (Approximately $425m)</td>
<td>No</td>
</tr>
</tbody>
</table>

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

Mr. Jeffers seconded the motion, which passed 5-0.

(Ms. Oakley left the meeting at 3:35 p.m.)

5. **Consider and Act on Board Committee(s) Creation, Appointment(s) and Reappointment(s) for 2018 (formerly agenda item #3 on the Thursday, March 22, 2018 agenda)**

Mr. Gavia noted at the December 8, 2017 Board meeting, Board Committee assignments were made. Roy Rodriguez was the Vice Chair of both the Advisory Committee on Benefit Design and the Budget Committee. Since Mr. Rodriguez’s term expired and a new Board member was appointed, there are two vacancies that need to be filled.

Mr. Philibert made a motion for the Board to approve the appointments to fill the vacancies for the following Committees for 2018:

- Advisory Committee on Benefit Design
  - Vice Chair: Jesus Garza

- Budget Committee
  - Vice Chair: Jim Jeffers

Mr. Jeffers seconded the motion, which passed 4-0.

¹ The exact amount will equal the market value of the portfolio managed by Highland
² The exact amount will equal the market value of the portfolio managed by Guggenheim
6. **RVK Quarterly Report (formerly agenda item #12 on the Friday, March 23, 2018 agenda)**

Ms. Beard reviewed the market conditions for the fourth quarter of 2017. There was a positive return every month in the last quarter. Strong technology returns led the way for strong U.S. equity markets, but the rest of the world was even stronger led by emerging markets. Inflation was expected to rise, but it did not. The best place to be in 2017 was emerging markets and the worst place to be was cash.

TMRS Investment portfolio asset allocation and performance was discussed. Composite performance indicated an over $3 billion gain with strong returns. In regard to the Investment Policy Statement, the 5-year rolling return outperformed the 6.75% target and the portfolio outperformed the actual allocation benchmark net of fees. Ms. Beard highlighted individual performances of each asset class. She reviewed both the total fund composite versus all public funds greater than $10 billion and total fund performance versus peers.

Ms. Beard reviewed each asset class composite performance and allocation. Domestic equity composite performance and allocation was highlighted and the differentiating active versus passive strategies were also discussed. TMRS outperformed the 5-year benchmark with below median returns and below median risk. Core Fixed Income outperformed the market with below median volatility and returns. Ms. Beard noted that the benchmark is mismatched in Non-Core Fixed Income, and stated that this will be fixed in early 2018. Since 2011, Real Return has been a 100% global linkers portfolio, but TMRS has been diversifying out of these since 2016. Real Estate has performed well compared to the benchmark. The portfolio is still being built out for Real Return, however it has performed well. The Private Equity portfolio is still in the early stages, but it is doing quite well.

7. **Executive Session (formerly agenda item #8 on the Thursday, March 22, 2018 agenda)**

At 4:25 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 5:14 p.m.

At 5:14 p.m. the meeting was recessed until 9:00 a.m. on Friday, March 23, 2018.

[Signatures]

David Gavia  
Executive Director

Jim Parrish  
Chair, Board of Trustees

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

March 23, 2018 - 9:00 a.m.

On March 23, 2018, the Board of Trustees of the Texas Municipal Retirement System (TMRS) reconvened 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
Jesus Garza

Absent: David Landis

**Present also were:**
David Gavia, Executive Director
Eric Davis, Deputy Executive Director
TJ Carlson, Chief Investment Officer
Christine Sweeney, General Counsel
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
Jesse Pittman, Senior Project Manager
Sandra Vice, Director of Internal Audit
Leslie Ritter, Director of Human Resources
Kristin Qualls, Director of Public Equity
Chris Schelling, Director of Private Equity
Dimitry Shishkoff, Director of Risk Management
Karen Jackson, Executive Assistant
Robert Klausner, Klausner, Kaufman, Jensen & Levinson
Marcia Beard, RVK
Amy McDuffee, Mosaic Governance Advisors
Susan Warren, KPMG
Suzette Longfellow, KPMG
Diana May-Gonzales, Lead Audit Manager, KPMG

**Also in attendance:**
Eric Obermier, Assistant Director Information Resources
Michelle Mellon-Werch, Assistant General Counsel
Nick O’Keefe, Lead Investment Attorney
Madison Jechow, Assistant General Counsel
Michael Schaff, Assistant General Counsel
David Rodriguez, Senior Regional Manager– City Services
Anthony Mills, Senior Regional Manager– City Services
Sean Thompson, Regional Manager – City Services
Jennifer Andrews, Member Services Manager
Melanie Thomas, Process and Content Management Specialist
Cindy Morse, Investment Support Analyst
Debbie Farahmandi, Investment Operations Specialist
Geldon Villahu, Operations Analyst
Susan Jaques, Performance Analyst
Candace Nolte, Assistant Finance Director
Carol Leung, Equities Investment Analyst II
Ryan Conner, Risk Management Analyst
Melissa Jerkins, Quantitative Analyst
Kurt Cressotti, Compliance Officer
German Gaymer, Fixed Income Analyst
Kevin Notaro, Absolute Return Analyst
Kenneth Oliver, Actuarial Analyst
Andi Focht-Williams, Senior Auditor
Natalie Garza, Communications Analyst
Nadia Ali, Accounting Specialist
Danielle Whitaker, Accountant
Trisha Solis, Support Services Analyst
Tish Root, Legal Assistant
LaShelle Ruiz, Administrative Assistant
Stacy White, Executive Assistant
Bob Scott, City of Carrollton
Greg Shipley, Combined Law Enforcement Associations of Texas
George Kauffman, City of Garland Retiree
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. **Review and Discussion of External Audit Plan for the Year Ended 2017 (SAS-114) and Service Organizational Control**(former agenda item #9 on the Friday, March 23, 2018 agenda)

Susan Warren, Suzette Longfellow and Diana Mayes-Gonzales from KPMG were introduced. Ms. Longfellow will be the Lead Audit Partner and Ms. Gonzales will be the Lead Audit Manager; Susan Warren will be serving as the Transition Partner. KPMG’s internal audit rotation policy requires that Ms. Warren rotate off as the engagement partner, after a ten-year period. Ms. Longfellow then mentioned the remainder of the client service team members.

Ms. Longfellow then noted that on every audit, a risk assessment is performed; significant risks that are susceptible to fraud were noted. In addition, significant audit areas that are susceptible to error(s) were noted; efforts will focus on valuation and existence of
investments; completeness, existence and accuracy of contributions and benefit payments; and the GASB 67 schedule. Ms. Longfellow discussed the use of KPMG’s tax specialist and reviewed the audit timeline noting key stages.

Ms. Longfellow then discussed the Supplemental Communications required in an audit. Materiality in the context of an audit was highlighted. Responsibilities of the various parties were then reviewed, including those of management, the Board of Trustee’s and KPMG.

Ms. Longfellow asked the Board a series of standard questions gaining the Board’s direction and input or if the Board had any areas of concern; none were noted.

9. Consider and Act on Appointments to the Advisory Committee on Benefit Design Meetings and Study Topics (formerly agenda item #4 on the Thursday, March 22, 2018 agenda)

Mr. Wattles began the discussion with an update on the status of the TMRS Act Review project (Goal 1, Objective C, TMRS Strategic Plan), and a projected timeframe for completion. When completed, this review will provide the Board with an inventory of suggested statutory changes categorized into benefit design proposals, operational changes, and operational clarifications. He also mentioned that the Board did not want to assign study topics prior to the completion of the review.

Mr. Wattles noted that since Trustee Landis was not able to attend this Board meeting, a prepared statement has been included in the Board packet expressing Mr. Landis’s concerns about the political climate for the next session. Mr. Landis’ statement also indicated that an Advisory Committee meeting prior to the Board of Trustees meeting in May would be beneficial to gather more information from the Advisory Committee members. During this meeting, the Advisory Committee could be updated on what has happened since the last Legislative session and the implementation of the University Park bill. Mr. Parrish agreed that an Advisory Committee meeting prior to the Board of Trustees meeting in May would be beneficial.

The Board discussed a specific bill versus an omnibus bill. Ms. Oakley stated that TMRS should not hesitate to take care of something if it is needed, but the scope of the bill should be kept narrow. Mr. Jeffers felt our legislative approach may not be as robust as it should be. He suggested that our discussions with the Advisory Committee should include whether the Legislature needs more education about the importance of TMRS. Mr. Jeffers expressed his belief that there should be more education to the public about how TMRS works and spreading the message regarding what TMRS is doing. Mr. Garza noted that we need to reevaluate whether to have a more offensive versus defensive approach and if we need additional assistance, we need to do so.

The Board discussed having an Advisory Committee meeting in April and/or May and the need to assess TMRS’ outreach program.
Mr. Garza moved to grant the Committee Chair the authority to convene an organizational meeting of the Advisory Committee on Benefit Design in either April or May, depending upon the availability of members to discuss any or all of the following topics:

- an educational session on TMRS
- an overview of the University Park’s initiative to close its local fire plan and bring new hires into TMRS
- collect information and viewpoints from Committee representatives regarding any concerns about proposing TMRS-related legislation in 2019
- how Committee representatives communicate with their constituencies and how to improve lines of communication

Ms. Oakley seconded the motion, which passed 5-0.

10. Consider and Act on Revisions to the TMRS Employee Manual (formerly agenda item #5 on the Thursday, March 22, 2018 agenda)

Ms. Ritter, Ms. Covarrubias and Mr. Jechow presented the revisions to the TMRS Employee Policies and Benefits Manual (EPM). Since the major overhaul of the EPM in 2015, when a number of new policies were introduced, TMRS’ experience with the policies, along with the incorporation of new systems and technology, has resulted in recommendations for rewriting several policies that currently are written too broadly or too narrowly to be the most effective. In addition, the Engagement Taskforce (ETF) has made recommendations to either revise or add new policies that were needed to maintain or improve engagement among employees.

Internal counsel, and in a number of revisions, external counsel have reviewed the proposed policy modifications. All of their recommendations have been incorporated into the proposed policies.

Ms. Ritter reviewed the recommended changes to each section of the EPM.

Section 3.2: Added a reference to TMRS’ hotline as an avenue to report employment concerns. The confidentiality of the information was discussed.

Section 3.4: Added language to include nepotism for Board of Trustees to conform to the ethics policy.

Section 3.5: Added additional departments to the list of those subject to a credit check process when bringing on new hires.

Section 3.6: Clarifies release of non-confidential information pursuant to an open records request.

Section 4.2: Clarifies access to TMRS retiree data and employee accounts.

Section 4.7: Instructs TMRS employees to update personal information in the current HRIS/Payroll system directly versus merely notifying TMRS in general.
Section 5.4: Changes to the leave policy. Proposed changes were suggested to vacation accruals, administrative and maternity leave and sick leave. Discussion also included proposed changes to the sick leave pool.

Section 5.7: Redefines excessive absenteeism so that only non-FMLA unscheduled sick leave is chargeable.

Section 5.8: Designate approval authority based on length of leave and halts leave accruals while on unpaid leave.

Section 7.1: Added that the Harassment Policy applies to off-site events and added information on the TMRS Hotline.

Section 8.1: Changes to the Travel Policy. Ms. Covarrubias discussed the proposed changes which clarifies the approval process, provides guidance on reimbursement for out-of-state travel reimbursement and clarifies reimbursement for due diligence travel.

Section 10: Request that the Computer Usage policy be pulled out of the Employee Manual and added as an attachment to ensure maximum efficiency and security. This would give the Executive Director authority to approve updates and amendments.

Section 12.1: Adding the TMRS hotline as a reporting option.

Section 20.6: Approval of Education Assistance delegated to the Human Resources Director.

Section 20.09: Removes specific parking reimbursement amounts.

Section 22.7: Added language regarding retiree health insurance benefits, if any, are at the discretion of the Board and subject to annual approval.

Mr. Jeffers requested a matrix be prepared to compare the various benefits and leave policies with the State of Texas and TCDRS as well as the cost associated with the proposed benefits.

No action was taken at this time. The agenda item may be placed on the agenda for the next scheduled Board meeting.


Ms. Vice and Ms. Covarrubias requested guidance from the Board regarding the selection process of the external financial auditor. The TMRS Act requires that the Board retain an auditor to perform an annual audit of the System’s financial records and practices. At the Aug. 11, 2017 TMRS Board meeting, the Board approved a TMRS staff recommendation for a one-year extension of the KPMG Agreement for a financial audit and a Service Organization Controls Report (SOC-1). A request for proposal (RFP) will be issued to solicit
proposals for external audit services, including a SOC-1 report and the total contract over the 5-year period is estimated at more than $1 million.

Ms. Vice indicated that the Internal Audit Committee has discussed this proposal and Mr. Jeffers, Chair of the Internal Audit Committee, wanted the full Board’s input on the Board’s role in selecting the external audit firm. Ms. Vice said staff could (1) recommend the top Firm directly to the Board or (2) the top Firms could make presentations to the Internal Audit Committee and the Committee could make a recommendation to the Board.

Mr. Garza stated his preference was for the top candidates to present to the Board and then make a decision. The Board further discussed the vetting process. The Board agreed to the following process: (1) TMRS evaluation team evaluates proposals and identifies top Firms, (2) the top Firms will make a presentation to the Audit Committee to identify the top 2 Firms, (3) the top 2 Firms will make a presentation to the Board and the Board will select the external audit Firm.

Ms. Vice indicated that TMRS, unlike public entities, is not required to rotate audit firms or partners. TMRS’s current auditor—KPMG—has a policy for partner rotation and in 2018 assigned a new partner to the engagement. Ms. Vice asked whether the incumbent Firm is permitted to submit a proposal, and the Board elected to allow the Firm to compete for this contract.

12. Internal Audit Department Overview and Update (formerly agenda item #11, March 22, 2018 agenda)

Ms. Vice and Ms. Focht-Williams gave an overview of Internal Audit Department activities. Ms. Focht-Williams reviewed the required communication with the Board, such as the reporting structure and the requirement for organizational independence. She reviewed how the Internal Audit Committee and the Internal Audit Department (the Department) work together for TMRS’ benefit. Ms. Focht-Williams also described the International Professional Practices Framework, which includes the Internal Audit Mission, definition of Internal Auditing, core principles, code of ethics, and the International Standards for the Professional Practice of Internal Auditing.

Ms. Vice reviewed reports that have been issued from January 2017 to March 2018. She discussed the advisory role to protect against fraudulent checks, following up on the status of prior audit recommendations, and the Risk Assessment/Audit Plan for 2018.

The Department’s accomplishments were highlighted, which included recruitment and selection of the Senior Auditor and the Readiness Review of the Internal Audit Department. Also discussed was the Department’s advisory role in various TMRS projects and the Department’s participation on various TMRS teams. The 2018 Audit Plan is an on-going process and there are still engagements left to schedule. Ms. Vice concluded with a discussion on the location of Internal Audit documents.

Mr. Philibert asked if there was a fraud hotline. The TMRS hotline is available and any issues are forwarded to Ms. Ritter in Human Resources. Any issues better addressed by
internal audit, could be referred to Ms. Vice. Mr. Carlson added that KPMG asks senior staff about fraud during the annual financial audit.

Ms. Oakley initiated a discussion regarding how much and what type of Internal Audit information should be brought to the full Board. Mr. Jeffers stated that the Internal Audit Committee will work on a policy regarding this issue.

13. Chief Investment Officer Management Update, Including Governance, Personnel, Manager Updates and Other Investment Related News or Matters
Mr. Carlson announced that Rachel Cleak, Alternatives Analyst, has taken a new job and he thanked Ms. Cleak for the great work she accomplished at TMRS. She was a great addition to the team. Recruiting efforts are currently underway for her position.

14. Review and Discussion of Electronic Access to Board Meetings
Mr. Gavia began with an overview of the public access to their board meetings, including the recording or broadcasting of meetings. For TMRS and other Texas public retirement systems, the Texas Open Meetings Act (TOMA) requires that a governmental body “keep minutes or make a recording” of each open meeting. TOMA allows, but generally does not require, a governmental body to hold an open meeting by videoconference call, telephone conference call (but only in limited emergency situations), and to broadcast an open meeting over the Internet. Ms. Sweeney added personal insights regarding the impact on meetings when audio and video recordings are utilized.

Mr. Parrish stated that his interest in recording or broadcasting TMRS Board meetings was to increase transparency. Mr. Gavia agreed to the increased transparency and suggested a “State of the TMRS” presentation that could be broadcast for members and interested parties to view.

Mr. Jeffers stated that he wanted more information to assist in the decision making process. Ms. Oakley urged caution because of the changes it will bring to the environment. However, there are improvements in the process, i.e. a mobile application could be researched.

The consensus was to take small incremental steps to move forward in the process. Ms. Sweeney stated that TMRS’ minutes do provide more information than those of other similar organizations.

15. Executive Director and Staff Reports, Including Reports from Administration, Actuarial Services, Communications, Finance Governmental Relations, Human Resources including Compensation Update, Information Resources, Internal Audit, Legal, Member Services and Project Management
Mr. Gavia noted that we continue to make progress with regard to the Compensation Study. The Compensation Committee is requesting additional information. A recommendation to the Board should take place at a meeting in the near future.
16. **Call for Future Agenda Items**

Ms. Oakley stated the Budget Committee will be working on a charter to be brought to the Board hopefully by the June Board meeting.

There being no further business, the meeting was adjourned at 11:42 a.m.

David Gavia  
Executive Director

Jim Parrish  
Chair, Board of Trustees