

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

**March 23, 2016 – 1:30 p.m.**

On March 23, 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

Absent: 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  
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  
Joe Newton, Gabriel, Roeder, Smith & Company  
Mike Humphrey, Courtland Partners  
Jarrod Rapalje, Courtland Partners  
Mark White, Albourne  
Lisa Needle, Albourne

**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  
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  
Anthony Mills, Regional Representative – City Services  
David Rodriquez, Regional Manager – City Services  
Greg Shipley, Combined Law Enforcement Associations of Texas  
Alex Cramer, Arlington Professional Fire Fighters  
George Kaufman, City of Garland  
David Russell, Texas Municipal Police Association  
Keith Dagan, Government Finance Officers Association of Texas  
David Riggs, Texas State Association of Fire Fighters  
Sandra Vice  
Neil Patel, Fin-News.com

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 Ratification of Private Equity Manager Recommendation**

At the February Board meeting, the Board approved the Private Equity manager selection recommendation of GSO Capital Opportunities Fund III L.P. (GSO COF III) contingent upon final investment committee approval from StepStone, favorable background checks and successful negotiation of the investment documents. Mr. Carlson indicated that StepStone's investment committee met and approved GSO Capital III Fund.

Ms. Oakley moved that the Board ratify the selection of GSO Capital Opportunities Fund III L.P. based on final investment committee approval from StepStone Group, still subject to favorable background checks and successful negotiation of the investment documents. Mr. Jeffers seconded the motion, which passed 5-0.

**2. Consider and Act on Absolute Return Manager Search Recommendation(s) (formerly #3 on the Wednesday, March 23, 2016 agenda)**

Mr. Carlson addressed the issue regarding Albourne's compliance ratings not being shown in TMRS' summaries. This information is still available, but cannot be shown in the TMRS documents.

Mr. Leavitt reviewed the Absolute Return Strategies (ARS) search process timeline. Ms. deLivron reviewed the managers search process and discussed the field of potential managers. Fourteen managers were selected as finalists and after final due diligence and scoring matrices compiled, seven funds were selected for recommendation to the Board for approval.

Mr. Leavitt provided an executive summary of the seven recommended managers. He reviewed the portfolio considerations, including strategy diversification and position sizing. Sizing of the manager was based on both qualitative and quantitative factors. He discussed the final selected manager scoring matrix and compared the scores to the closest comparable manager.

Mr. Leavitt and Ms. deLivron reviewed the top candidate characteristics. Ms. deLivron began with Hydrogen. Hydrogen is a custom fund-of-one strategy created for TMRS combining four diversified AHL strategies. Mr. Leavitt reviewed PDT Mosaic stating that it is a quantitative equity market neutral fund. Ms. deLivron reviewed DSAM L/S, which is a long/short European equity fund that efficiently utilizes options while combining long term fundamental investing with short term tactical trading. Mr. Leavitt reviewed East Lodge, a long/short structured credit strategy focused on opportunities in Europe and also globally. Ms. deLivron reviewed River Birch, a global long/short corporate credit manager with a focus on high yield and distressed credits. Mr. Leavitt reviewed Field Street, which combines a fixed income relative value strategy with directional macro and volatility trading with a focus on liquid G10 rates and currency markets. Ms. deLivron concluded with Pharo Gaia. This fund is an emerging market focused discretionary macro portfolio. The portfolio managers take long term views with the intention to buy and hold positions for a minimum of six months.

Mr. Leavitt highlighted hypothetical portfolio performance, which is based on all fourteen previously approved and recommended funds, and showed both the pro forma returns and up/down capture.

Ms. Needle stated that a lot of effort went into the development of the portfolio. She also noted the work done in reviewing and investigating issues of concern.

Mr. Philibert asked for clarification regarding distribution reinvestment. Mr. Carlson and Mr. Leavitt further explained noting that this is addressed in the documents. Mr. Carlson differentiated between rebalancing of the total TMRS portfolio and the reinvestment of dividend.

Mr. Rodriguez moved that the Board approve the following recommended managers and allocations, each as proposed and contingent upon fees being no greater than listed in the

staff memo, favorable background checks and successful negotiation of the investment documents:

| Fund   | Allocation   |
|--|--------------|
| Man AHL Hydrogen LLC (Hydrogen)                              | \$90 Million |
| PDT Mosaic Offshore Fund Ltd. (Mosaic)                       | \$90 Million |
| DSAM Long/Short Equity Fund LP (DSAM L/S)                    | \$75 Million |
| East Lodge Capital Credit Opportunities Fund LP (East Lodge) | \$75 Million |
| River Birch Partners LP (River Birch)                        | \$75 Million |
| Field Street Partners LP (Field Street)                      | \$60 Million |
| Pharo Gaia Fund Ltd. (Gaia)                                  | \$60 Million |

Mr.

Rodriguez also moved that the Board (i) approve that each allocation may include the option to participate in the fund's distribution reinvestment program, if any, and may exceed the authorized commitment to the fund by the value of the distribution reinvestments, when TMRS Staff and its ARS consultant determine that it is economically advantageous to do so and in accordance with the TMRS IPS ARS guidelines, (ii) authorize the Executive Director to negotiate, execute, acknowledge, and deliver any and all contracts, agreements, and other documents or instruments on such terms and conditions as are satisfactory to the System, such satisfactory terms and conditions to be conclusively evidenced by the execution thereof by the Executive Director, and to do any and all other acts deemed by the Executive Director in his judgment to be necessary or appropriate in the best interests of TMRS to give effect to such investments, and (iii) approve that the management and incentive fees in each fund are exclusive of the capital allocation and may be paid through cash flow of the investment, capital calls, or via invoice. Mr. Philibert seconded the motion, which passed 5-0.

**3. Consider and Act on Real Return Manager Search Recommendation(s) (formerly #4 on the Wednesday, March 23, 2016 agenda)**

Mr. Masthay and Mark White from Albourne presented this item. Mr. Masthay reviewed the Real Return search process timeline and execution plan. Two funds have been selected for presentation.

Mr. Masthay began a brief educational session on the topic, "What is inflation investing?" There are many factors that influence inflation, but for the consumer and the investor alike, the end result is higher prices. The key to inflation investing is to invest in holdings that increase in value at a rate in excess of the inflation rate. The TMRS Investment Policy Statement (IPS) stipulates a full market cycle performance goal of CPI + 400 basis points. It also states that Real Return will include strategies that have favorable risk-adjusted returns and the benefit of hedging inflation for the System. The IPS emphasizes inflation protection, return enhancement and diversification as key goals for the Real Return portfolio. Portfolio considerations of diversification and risk management were also discussed.

Mr. Masthay introduced two manager recommendations, AMERRA Agri Fund III, LP and Orion Mine Finance Fund II, LP. AMERRA fund seeks to address working capital and capital expenditure financing need of international agribusiness participants offering

investors exposure to agricultural commodity finance solutions for production, transportation, storage, refinement, distribution and marketing. Mr. White reviewed the case for the investment and issues to consider. Mr. Masthay discussed candidate characteristics for Orion. This manager is a leading global metals fund manager engaged in purchasing, financing, transporting and selling mine output to end customers. The firm has positioned itself to be a one-stop capital provider. Mr. White stated that there are very few managers that have expertise in all levels of the mining cycle.

Mr. Philibert moved that the Board approve the following recommended managers and allocations, each as proposed and contingent upon fees being no greater than listed in the staff memo, favorable background checks and successful negotiation of the investment documents:

| Fund                                   | Recommended Amount |
|--|--------------------|
| AMERRA Agri Fund III, LP<br>(AMERRA)   | \$100 Million      |
| Orion Mine Finance Fund II, LP (Orion) | \$100 Million      |
|  | \$200 Million      |

Mr. Philibert also moved that the Board (i) approve that each allocation may include the option to participate in the fund's distribution reinvestment program, if any, and may exceed the authorized commitment to the fund by the value of the distribution reinvestments, when TMRS Staff and its Real Return consultant determine that it is economically advantageous to do so and in accordance with the TMRS IPS Real Return guidelines, (ii) authorize the Executive Director to negotiate, execute, acknowledge, and deliver any and all contracts, agreements, and other documents or instruments on such terms and conditions as are satisfactory to the System, such satisfactory terms and conditions to be conclusively evidenced by the execution thereof by the Executive Director, and to do any and all other acts deemed by the Executive Director in his judgment to be necessary or appropriate in the best interests of TMRS to give effect to such investments, and (iii) approve that the management and incentive fees in each fund are exclusive of the capital allocation and may be paid through cash flow of the investment, capital calls, or via invoice. Mr. Jeffers seconded the motion, which passed 5-0.

**4. Consider and Act on Real Estate Manager Search Recommendation(s) (formerly #5 on the Wednesday, March 23, 2016 agenda)**

Mr. Schultz and Mr. Rapalje, Courtland Partners, presented the Real Estate manager search recommendations. Mr. Schultz reviewed the manager selection process and the portfolio considerations. He discussed the portfolio exposure levels and said that, looking forward, the current recommendations and future pacing plans are expected to stabilize the portfolio

around 60% core and 40% non-core allocations. He reminded the Board that the IPS dictates greater than 50% of the portfolio must be in core.

Upon completion of final due diligence, Blackstone Property Partners (BPP) and DivcoWest Fund V LP (Divco) were selected as finalists. Mr. Rapalje said that BPP is Blackstone's first core/core+ fund offering to date and is primarily focused on gateway markets across the U.S. with a focus on investing in substantially stabilized office, multifamily, retail and industrial assets in primary markets in the U.S. and Canada. Mr. Rapalje noted this is the last strategic piece of TMRS' core allocation. Since this is a core plus fund, it gives a bit of an edge for the core space and performance has been high.

Mr. Schultz introduced Divco West. Divco West is a vertically integrated institutional real estate investment manager and will invest in office and research and development properties across the U.S. with expected overweight to the western U.S. The strategy of the Fund will be to invest in value-add properties in high growth markets. Mr. Rapalje noted a strong track record and high returns even in down markets.

Mr. Rodriguez moved that the Board approve the following recommended managers and allocations, each as proposed and contingent upon fees being no greater than listed in the staff memo, favorable background checks and successful negotiation of the investment documents:

| Fund                                  | Allocation    |
|---------------------------------------|---------------|
| Blackstone Property Partners LP (BPP) | \$300 Million |
| DivcoWest Fund V LP (Divco)           | \$75 Million  |
| Total Allocation                      | \$375 Million |

Mr. Rodriguez also moved that the Board (i) approve that each allocation may include the option to participate in the fund's distribution reinvestment program, if any, and may exceed the authorized commitment to the fund by the value of the distribution reinvestments, when TMRS Staff and its Real Estate consultant determine that it is economically advantageous to do so and in accordance with the TMRS IPS Real Estate guidelines, (ii) authorize the Executive Director to negotiate, execute, acknowledge, and deliver any and all contracts, agreements, and other documents or instruments on such terms and conditions as are satisfactory to the System, such satisfactory terms and conditions to be conclusively evidenced by the execution thereof by the Executive Director, and to do any and all other acts deemed by the Executive Director in his judgment to be necessary or appropriate in the best interests of TMRS to give effect to such investments, and (iii) approve that the management and incentive fees in each fund are exclusive of the capital allocation and may

be paid through cash flow of the investment, capital calls, or via invoice. Mr. Jeffers seconded the motion, which passed 5-0.

**5. Consider and Act on 2015 Interest Credit Allocation to the Benefit Accumulation Fund and Interest Reserve Account (formerly #6 on the Wednesday, March 23, 2016 agenda)**

Ms. Hardy and Mr. Newton were introduced to present this topic. Mr. Gavia noted this will be the first time TMRS has had a deferred loss and he asked Mr. Newton to explain how this will be worked off. He also asked Mr. Newton to discuss how the smoothing technique used in determining the Actuarial Value of Assets has added to rate stability.

Mr. Newton explained the fund did underperform the 7% investment return assumption in 2015. GRS is recommending crediting the Benefit Accumulation Fund (BAF) an approximate 2015 market value rate of return of 0.06%. This will maintain the \$100 million in the Interest Reserve Account. Based on the smoothing method, the Actuarial Rate of Return will be approximately 6.69% for 2015 on the BAF. This creates \$640 million in deferred losses as of December 31, 2015 (roughly 2.7% of the Fund). This should produce about an 8 basis point increase in 2017 contribution rates from investment performance alone.

There was a discussion regarding how asset gains or losses are recognized in the smoothing policy. Mr. Newton discussed yields based on Market Value of Assets, Actuarial Value of Assets and contributions versus benefits payments and refunds.

Mr. Philibert moved that the Board credit the BAF with 0.06% interest which represents the estimated net investment income remaining after adjustments for the statutory interest credit requirements and budget transfers, includes the estimated fourth quarter real estate and private equity valuation adjustments and maintains an initial \$100 Million Interest Reserve Account balance. Mr. Philibert also moved that any differences in the final versus estimated fourth quarter real estate and private equity 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, 2015 and considered in the 2016 BAF interest credit determination. Mr. Rodriguez seconded the motion, which passed 5-0.

**6. Consider and Act on Consent Agenda (formerly #7 on the Wednesday, March 23, 2016 agenda)**

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

Mr. Philibert made a motion that the Board adopt the consent agenda as presented. Mr. Jeffers seconded the motion, which passed 5-0.

**7. Consider and Act on Advisory Committee Restructuring (formerly #10 on the Thursday, March 24, 2016 agenda)**

Since the presenter was unable to attend the meeting, this agenda item was tabled until the May Board meeting. Ms. Oakley made a motion to table this agenda item until the May Board meeting. Mr. Philibert seconded the motion, which passed 5-0.

**8. Discussion on Board Committee Structure and Consider and Act on Possible Committee Appointments (formerly #11 on the Thursday, March 24, 2016 agenda)**

Mr. Gavia gave a brief history of the use of committees by the Board. Mr. Parrish stated the need to select a Chair and Vice Chair for the Advisory Committee. Mr. Philibert was asked if he would be the Chair and he agreed. Mr. Rodriguez volunteered to be the Vice Chair.

Mr. Parrish asked Mr. Jeffers to chair the Audit Committee and Ms. Oakley volunteered as Vice Chair.

Ms. Oakley volunteered to Chair the Compensation Committee and Mr. Landis was nominated as the Vice Chair.

Mr. Jeffers made a motion to ratify the following nominations to the committees used by the Board:

Advisory Committee on Retirement Matters

Mr. Philibert – Chair

Mr. Rodriguez – Vice Chair

Internal Audit Committee:

Mr. Jeffers – Chair

Ms. Oakley – Vice Chair

Compensation Committee

Ms. Oakley – Chair

Mr. Landis – Vice Chair

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

**9. Executive Session**

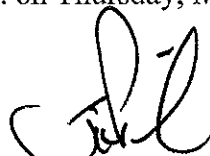
At 4:18 p.m., the Board entered into Executive Session, pursuant to Texas Government Code §§551.071 and 551.074 to consult with Legal Counsel to receive legal advice, and to discuss personnel matters. No action was taken during the Executive Session and all members of the Board that were present before the executive session were still present. The meeting was opened to the public again at 5:15 p.m.

Ms. Oakley moved that the Board appoint Sandra Vice as Director of Internal Audit, on the terms and condition of employment negotiated by the Chair of the Board. Mr. Philibert seconded the motion, which passed 5-0.

At 5:16 p.m. the meeting was recessed until 9:00 a.m. on Thursday, March 24, 2016.



David Gavia  
Executive Director



Jim Parrish  
Chair, Board of Trustees



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

**March 24, 2016**

On March 24, 2016, the Board of Trustees of the Texas Municipal Retirement System (TMRS) convened for a meeting at 9:00 a.m. at TMRS Headquarters, located at 1200 North IH 35 in Austin, Texas, with the following members present:

**Board of Trustees**

Jim Parrish, Chair  
Bill Philibert, Vice Chair  
Julie Oakley  
Jim Jeffers

Absent: Roel "Roy" Rodriguez  
David Landis

**Present also were:**

David Gavia, Executive Director  
Eric Davis, Deputy Executive Director  
Christine Sweeney, General Counsel  
Kristie O'Hara, Director of Human Resources  
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  
Marc Leavitt, Director of Absolute Return  
Tom Masthay, Director of Real Assets  
Chris Schelling, Director of Private Equity  
Jason Weiner, Director of Fixed Income  
Dimitry Shishkoff, Director of Risk Management  
Karen Jackson, Executive Assistant  
Marcia Beard, RVK  
Susan Warren, KPMG  
Rebecca Goldstein, KPMG

**Also in attendance:**

Michelle Mellon-Werch, Assistant General Counsel  
David Rodriquez, Regional Manager – City Services  
Michael Schaff, Assistant General Counsel

Madison Jechow, Assistant General Counsel  
Pete Krnavek, Information Systems Manager  
Melanie Thomas, Editor  
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  
Arielle Chou, Actuarial Analyst  
Peter Jeske, Project Specialist  
Greg Shipley, Combined Law Enforcement Associations of Texas  
Alex Cramer, Arlington Professional Fire Fighters  
George Kaufman, City of Garland  
Melinda Smith, Combined law Enforcement Associations of Texas  
David Russell, Texas Municipal Police Association  
Keith Dagan, Government Finance Officers Association of Texas  
Tadd Phillips, Texas Municipal Human Resources Association  
David Riggs, Texas State Association of Fire Fighters  
Sandra Vice  
Neil Patel, Fin-News.com

Mr. Parrish called the meeting to order and the meeting was reconvened at 9:11 a.m.  
Mr. Gavia introduced Sandra Vice, the new Director of Internal Audit, giving a brief overview of her career to date. The Board and meeting attendees welcomed Ms. Vice.

**10. Review and Discussion of 2015 External Audit (SAS-114) and Service Control Audit (formerly #9 on the Friday, March 24, 2016 agenda)**

Ms. Warren and Ms. Goldstein from KMPG presented the introduction to the audit for the year ended December 31, 2015. Ms. Warren highlighted the members of the team that will be working on the audit. She reviewed the objective of an audit noting that the objective is to express an opinion about whether the financial statements that have been prepared by management with the oversight of the Board of Trustees are presented fairly, in all material respects, in conformity with generally accepted accounting principles (GAAP). The audit is planned and performed to obtain reasonable assurance that the financial statements, taken as a whole, are free from material misstatement whether from error or fraud. The audit will

perform tests of the accounting records and procedures as well as evaluating the appropriateness of accounting policies and reasonableness of significant estimates made by management.

Ms. Warren reviewed management's responsibilities regarding accounting procedures and the role of the Board. She discussed KPMG's responsibilities for other information in documents containing audited financial statements, KPMG's audit approach and methodology and risk assessment. Ms. Warren highlighted the audit plan scope noting the SOC 1 audit is also performed. She reviewed materiality and what that means in the context of the audit and the judgments made regarding materiality and discussed the deliverables and timeline of the audit plan.

Ms. Warren had several questions for the Board regarding notification. Mr. Gavia and Ms. Warren would communicate directly with the Chair regarding audit matters and this was confirmed. The answers to the remaining seven questions were all negative. She reviewed the involvement of others, including service providers and the review of their SOC 1 audits.

**11. Chief Investment Office Management Update, Including Governance, Personnel, Manager Updates, Negative Interest Rates and Other Investment Related News or Matters (formerly #12 on the Friday, March 24, 2016 agenda)**

Mr. Carlson discussed the updated fee schedule relating to investments as well as the changes made to upcoming presentations and to the Board reference sheet. He reviewed the unwinding of the securities lending program and noted that it should be finished by the end of April.

Mr. Jason Weiner, Fixed Income Director, was introduced to discuss the negative interest rate policy. He explained that in Europe and now in Japan, banks are taxed on excess capital reserves. He reviewed the goals of Negative Interest Rate Policy (NIRP), which are to boost economic growth and avoid deflation, force banks to lend, change behavior by discouraging saving and promoting risk taking, devalue currency and make exports more attractive and encourage spending.

Mr. Weiner explained that currently 67% of the negative debt comes from Japan and about \$7 trillion assets globally have negative yields (about 30% of global bond market). There is a lot of uncertainty that feeds into this and that has financial implications. The U.S. stands out in contrast by offering significantly higher yields.

Mr. Weiner explained how U.S. interest rates tell a different story. The Japanese experience does not appear to be working. He concluded with the investment implications of NIRP on major asset classes.

Mr. Gavia asked if this does not work, will it have negative implications for other investors. The answer was affirmative and it will force investors to take more risk to obtain the same return. Mr. Klausner asked how the Chinese economy plays into this scenario. Mr. Weiner responded that since we really don't know what is going on in China, the impact on currencies may be a continued race to the bottom, but likely we will have to wait and see.

The impact on the TMRS portfolio is that when we hire a manager and for existing managers, we want to make sure our allocations and strategies are viable in multiple market scenarios.

**12. Quarterly Investment Staff Report/Asset Class (formerly #13 on the Friday, March 24, 2016 agenda)**

Mr. Carlson reviewed the asset allocation compared to the target allocation adopted in July 2015 and remarked that 2016 should be a good year regarding our diversification efforts. TMRS did outperform the benchmark in 2015 although we did not meet the actuarial assumed rate of return.

Ms. Qualls reviewed Public Equities. The portfolio has twelve different managers managing eighteen different strategies. The portfolio is in positive territory domestically, but still slightly negative internationally.

Mr. Weiner reviewed Core Fixed Income. Performance for the year has been positive in regards to Core and performance for Non-Core has been solid across all strategies.

Mr. Masthay discussed the Real Estate portfolio. The portfolio performed at the benchmark. Progress is being made for funding new managers in the Real Return portfolio.

Mr. Schelling and Mr. Tindell reviewed the Private Equity portfolio and the activities toward committing and allocation of the funds. Four more managers will be brought forward in May.

Ms. Reed reviewed compliance and noted that of the 273 tests run, there were no action violations and all funds were in compliance with TMRS guidelines. She also reviewed progress made regarding automated testing.

Mr. Shishkoff reviewed Risk Management and focused on the four sources of Active Risk. Currently there is a 1.6% total fund tracking error. If Active Risk gets close to the Active Risk Budget currently set at 2%, we must evaluate the reason and decide if the allocation of the risk budget should be adjusted across the asset classes or managers.

**13. Executive Director and Staff Reports (formerly #14 on the Friday, March 24, 2016 agenda)**

Mr. Gavia introduced Scott Willrich to review the Information Resources Department. Mr. Willrich discussed the three divisions: Network Operations, Records Management and Software Development. He introduced the managers and primary responsibilities for each division. Mr. Willrich next reviewed the major projects underway highlighting TMRS Direct, business continuity and disaster recovery, ongoing security improvements, software and infrastructure upgrades and a records retention schedule review.

**14. Absolute Return Asset Class Annual Review (formerly #2 on the Thursday, March 23, 2016 agenda)**

Mr. Leavitt and Ms. deLivron presented this review of the Absolute Return Strategy (ARS) asset class. Mr. Leavitt reviewed the historical timeline as well as the return objectives. The ARS are typically utilized to provide performance with low correlation to traditional asset classes and to generate positive returns, regardless of traditional market benchmark returns. He highlighted general strategies and the myriad of sub-strategies. Mr. Leavitt reviewed the trends in hedge fund strategy returns, median performance and return dispersion. He discussed Albourne's 2016 outlook and opportunities.

Ms. deLivron discussed Blackstone Alternative Asset Management (BAAM). The grades for BAAM's annual manager report card were either excellent or in good standing across all assessment areas. She reviewed the BAAM portfolio noting the objectives, manager count by strategy, strategy exposures and performance relative to the benchmarks.

Mr. Leavitt highlighted ARS direct portfolio discussing the current development and projected exposure by strategy. The ARS asset class is reviewed annually on a comprehensive basis. Since all of the managers are new, the report cards are really not telling at this point in time. Mr. Leavitt did discuss Southpoint's notation regarding personnel change. During the review process of ARS strategies in 2015, he noted that the team had over 330 meetings with 137 distinct managers. Mr. Leavitt discussed the ARS pacing plan with the goal for the rest of the year of adding five to seven new managers.

Mr. Leavitt concluded that ARS strategies provide diversification across traditional asset class benchmarks and attractive risk-adjusted returns over time. BAAM allocation provides an initial diversified portfolio with the expected return profile over the long run. Staff will continue to expand the ARS Direct program with the intent to fulfill the target allocation by building a diversified, direct portfolio over the intermediate and long-term horizons. We expect to see cost savings over time.

**15. Call for Future Agenda Item**

Agenda item #7, Consider and Act on Advisory Committee Restructuring was tabled and will be placed on the May agenda.

Mr. Philibert made a motion to adjourn the meeting. Ms. Oakley seconded, which passed 4-0. The meeting was adjourned at 11:57 a.m.



David Gavia  
Executive Director



Jim Parrish  
Chair, Board of Trustees