

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

March 24, 2020 – 8:00 a.m.

On March 24, 2020, 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

Julie Oakley, Acting as Chair
Johnny Huizar

Board of Trustees participating via telephone conference call

Bill Philibert, Chair
David Landis, Vice Chair
Jesus Garza
Anali Alanis

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
Karen Jackson, Executive Assistant

Present via telephone conferencing:

Bill Wallace, Director of Communications
Leslee Hardy, Director of Actuarial Services
Debbie Munoz, Director of 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
Stacy White, Executive Assistant
Robert Klausner, Klausner, Kaufman, Jensen & Levinson
Marcia Beard, RVK
Ron Lewis, Ron Lewis & Associates
Amy McDuffee, Mosaic Governance Advisors
Joe Newton, GRS

Ms. Oakley called the meeting to order at 8:14 a.m. and Ms. Oakley gave the invocation.

A roll call was taken of the Board, Senior Staff and Consultants and all were present.

1. Executive Session

Ms. Oakley stated that this item was postponed.

2. Consider and Act on Consent Agenda and Receive Report on Private Market Investments

The Consent Agenda includes minutes from the February 13-14, 2020 and March 6-7, 2020 meetings of the Board of Trustees, along with quarterly reports on service retirements, disability retirements, death benefits and financial statements. Mr. Gavia noted a new report included in the Agenda item. The Report on Private Market Investments is included as an informational only report required as part of the new investment approval process contained in the amended Investment Policy Statement (IPS), dated effective February 15, 2020.

Mr. Carlson indicated that the draft minutes from the March 4, 2020 TMRS Investment Committee (IC) were also included in the Board materials for informational purposes and he reviewed the six manager recommendations that were approved by the IC and the Executive Director under the IPS' new delegation of authority. He gave a brief overview of BlackChamber Real Estate Opportunity Fund, Stockbridge Value Fund IV, Stone Peak Infrastructure Fund IV, Oberland Capital Health Care Solutions, Oberland Capital Health Care Solutions Co-Invest, Flagship Pioneering Origination Fund VII, and Stellex Capital Partners II. Mr. Carlson indicated that the related due diligence information is provided as an additional resource in Diligent Board Books.

Ms. Landis moved that the Board adopt the Consent Agenda with one minor correction to the Board Minutes for February 13, 2020. Mr. Huizar seconded the motion. A roll call vote was taken of the Board members, and the motion passed 6-0.

3. Consider and Act on 2020 Interest Credit Allocation to the Benefit Accumulation Fund and Interest Reserve Account

Ms. Hardy and Mr. Newton from Gabriel, Roeder, Smith & Company (GRS) discussed the 2020 Interest Credit Allocation to the Benefit Accumulation Fund (BAF) and Interest Reserve Account. Ms. Hardy reviewed the background and the process relating to crediting interest, statutory interest, and the Interest Reserve Account and discussed how the Interest Reserve Account is used as protection against downside risk in final investment valuations. She recommended increasing the Interest Reserve Account to \$310 million, which will bring the reserve account to approximately 1% of the TMRS portfolio. This will leave approximately \$4.2 billion to be credited as interest. Mr. Gavia asked what next year might look like given the current investment markets.

Mr. Newton reviewed how the individual city BAF accounts receive the interest credit. After fulfilling all statutory requirements and operating expenses, GRS recommends crediting the BAF with interest of approximately 15.42%. This will be credited based on the beginning of year BAF balance for each city. A 10-year history of the BAF interest credit, and the market versus actuarial (smoothed) value of assets over this 10-year period was highlighted. This smoothing mechanism keeps market fluctuations from greatly impacting contribution rates. For 2019, the excess earnings above 6.75% first offset the \$1.7 billion in deferred shortfalls (losses) as of December 31, 2018. Of the remaining excess, approximately \$55.5 million will be recognized in the 2019 valuation and \$500 million be deferred for future valuations.

GRS' recommendation is to credit the BAF with an interest credit of approximately 15.42% and increase the Interest Reserve Account from \$290 million to \$310 million.

Mr. Newton discussed how negative returns in 2020 could impact contribution rates and funded ratios as determined in the 2020 valuation.

(Mr. Garza left the meeting at 8:47 a.m.)

Mr. Philibert asked if there was a scenario where gain sharing could occur. Mr. Newton answered not at this time.

Mr. Philibert moved that the Board allocate, effective as of December 31, 2019, (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 15.42% interest to the Benefit Accumulation Fund, which represents the estimated net investment income/(loss) 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 10, 2020; and increases the initial Interest Reserve Account balance from \$290 million to \$310 million which is approximately equal to 1% of the lagged valuation of the December 31, 2019 investment portfolio. Mr. Philibert also moved to 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, 2019 and considered in the 2020 BAF interest credit determination. Mr. Huizar seconded the motion. A roll call vote was taken of the Board members, and the motion passed 5-0.

4. Receive an Internal Audit Committee Update and Consider and Act on TMRS Risk Assessment and Audit Plan for 2020 (formerly #11 on the Wednesday, March 25, 2020 agenda)

Ms. Vice gave an overview of the Internal Audit Committee (Committee) meeting held March 19th. The confidential *2019 IT Security Assessment Report* by Securance Consulting was highlighted and Ms. Vice indicated that the full report is available to the Board in Diligent Board Books.

The Committee reviewed the *TMRS Risk Assessment and Audit Plan for 2020* and Ms. Vice noted two recommended changes and explained the reasons for the suggested audits. The status of the current Audit Plan was discussed.

Mr. Landis thanked staff for their work in these areas.

Mr. Landis moved that the Board approve the *TMRS Risk Assessment and Audit Plan for 2020*. Mr. Philibert seconded the motion. A roll call vote was taken of the Board members, and the motion passed 5-0.

5. Consider and Act on Board Committee(s) Creation or Modification, Dissolution, Appointment(s), and Reappointment(s) for 2020 including Possible Amendments to the TMRS Bylaws and Committee Charters (formerly #4 on the Tuesday, March 24, 2020 agenda)

Mr. Gavia introduced Ms. McDuffee and Ms. Sweeney to discuss Board Committees for 2020 and possible amendments to the TMRS Bylaws and Committee charters. Mr. Gavia noted this is a continuation of a discussion at the last Board meeting. In particular, the structure, purposes, interplay of and appointments to the Legislative Committee and the Advisory Committee on Benefit Design (Advisory Committee) were discussed.

Ms. McDuffee reviewed the current membership of the Committees. The Advisory Committee and the Legislative Committee charters are included in the materials for reference. She reviewed the historical context for Committees at TMRS and explained how the Committees' operations have evolved. The Legislative Committee was created in 2016. Even though the Advisory Committee predates the Legislative Committee, the Advisory Committee's role, including the charter, was altered in 2016 to be more Board-directed and analysis focused. The Board was relying on the Advisory Committee to vet study topics that were assigned and get the stakeholder perspective behind the study topics.

The roles and responsibilities of the Board regarding the Advisory Committee and the Legislative Committee were reviewed and how they interlink. Ms. McDuffee discussed the Board's make up on these two committees. Currently, the Bylaws provide that the Chair of the Board must be on the Legislative Committee and the Vice Chair of the Board must be on the Advisory Committee.

Ms. McDuffee asked what the desired involvement of the Board will be in legislative related issues for the System in the next 12 to 24 months, especially given the three items to consider: 1) the anticipated Executive Director transition, 2) the upcoming Legislative session, and 3) the prior level of involvement/activity of the Committees. Mr. Philibert stated that the Executive Director transition will be of interest immediately, but should taper off with time. Mr. Landis felt local control will likely improve next session, but he has no desire to change the structure at this time. Ms. Oakley noted that she did not see a need for a Legislative Committee and that the duties should be incorporated in the duties of the Chair and Vice Chair. Mr. Landis concurred.

Mr. Wattles noted that the Legislative Committee was created to be the “face of the Board”. The two Committees have distinct purposes, but it may be more efficient to designate the Board Chair and Vice Chair to absorb the duties of the Legislative Committee. Mr. Huizar asked if consideration had been given to expanding the size of the Legislative Committee to three members. Mr. Gavia explained why Committee membership has historically been kept to two members. Mr. Wattles noted that during a Legislative Session involvement by any one of the Board members is welcome and that support at the Capitol is beneficial. Ms. Oakley and Mr. Philibert noted that the Board Chair is the appropriate officer to be testifying before a legislative committee on behalf of the Board. Ms. Alanis agreed with the consensus.

Mr. Klausner suggested that the Legislative Committee be dissolved, the responsibilities be given to the Chair and Vice Chair, and allow for an ad-hoc committee if necessary.

Mr. Landis moved that the Board (1) dissolve the Legislative Committee; (2) add legislative matters to the Chair and Vice Chair responsibilities; and (3) authorize the Chair to appoint additional Board members as necessary to assist with legislative matters. Mr. Huizar seconded the motion. A roll call vote was taken of the Board members, and the motion passed 5-0.

Ms. Sweeney noted at the February Board meeting, the concept of the Technology Committee was tabled and asked if the Board would like to discuss the Technology Committee and approve any necessary changes to the appropriate governance documents.

The consensus of the Board was to not make any decisions regarding the Technology Committee and for staff to draft changes to the necessary governance documents regarding the preceding motion.

6. Review and Discussion of 2021 TMRS Legislative Agenda and Consider and Assign Topics to the Advisory Committee on Benefit Design (formerly #5 on the Tuesday, March 24, 2020 agenda)

Mr. Wattles and Mr. Lewis of Lewis and Associates presented the initial proposals for the 2021 Legislative Session. The goal of the TMRS Act and Administrative Rules review was to identify the need for possible statutory or rule changes that would improve TMRS’ plan design and operations. TMRS staff initiated the “TMRS Act Review Project” (Project) to develop an inventory of possible changes and clarifications to the TMRS Act and Rules to be used in the process for developing a legislative agenda.

Mr. Wattles reviewed the Project history and noted that there were 170 suggested changes related to the TMRS Act. Nine items were ultimately selected by the Board and drafted into legislation and filed as Senate Bill 1337 in the 86th Legislative Session. The bill was passed into law, signed by the Governor, and became effective January 1, 2020.

For this interim’s proposal, eleven priority suggestions are organized into four descriptive categories: benefit design and three administrative categories. Five of the suggestions are

carryover suggestions from last interim and that were not included in SB 1337, while three are new suggestions and three clarify previous changes.

Ms. Oakley initiated a roll call of the Board members: Mr. Philibert, Mr. Landis, Ms. Oakley, Mr. Huizar and Ms. Alanis were all present.

Mr. Wattles next reviewed the eleven items suggested for consideration: Benefit design options include: (1) Cost of Living Adjustment (COLA) – changes to this feature of the TMRS plan design have been reviewed by Advisory Committee numerous times; and (2) Return to Work – Mr. Philibert indicated that he was supportive of moving forward with this item. Administrative items include: (3) Mandatory electronic submission of city payroll contributions and reports; (4) Payments to formerly participating municipalities – Ms. Hardy gave an example; there was no discussion; (5) Repeal Statutory Maximum – it is unknown how the Legislature would accept this; (6) Clarify Trustees' eligibility to serve on the Board; (7) Clarify Oath of Office requirement for new trustees; (8) further refine definition of security for investment of assets. Mr. Gavia explained how this refinement could reduce investment expenses, but may be problematic at the Legislature. Various topic items included: (9) interest on late contributions; (10) responsibility for certain ministerial/administrative duties; and (11) repeal obsolete provisions.

Mr. Philibert asked if Environmental, Social, and Governance (ESG) investing principles should be considered as a proposal. Mr. Gavia noted the Board currently has the authority to invest with regard to ESG, which is in the Investment Policy Statement.

Mr. Wattles reviewed the timeline for creating a bill and noted getting bill sponsors early is critical.

Mr. Wattles discussed the Advisory Committee on Benefit Design (Advisory Committee) and that in recent past, the Board has delegated the authority for the Committee Chair and Vice Chair to select the topics and meeting dates.

Mr. Wattles next discussed the uncertainties and potential headwinds regarding the 87th Legislative session. Next session is a redistricting session and the budget will also be a challenge in light of the pandemic. The political environment right now is also one of uncertainty and Mr. Lewis noted that the Governor's Office is currently solely focused on the Coronavirus and the impact it will have on revenue. Even though the budget will be a challenge, Texas does have the Rainy Day Fund. Adding to the uncertainty, there will be a new Speaker and there are new committee chairmanships already in the Senate.

Mr. Wattles added that a new TMRS Executive Director will add additional challenges and opportunities.

Ms. Oakley asked what action should be, or is needed to be taken. Mr. Lewis advised to proceed as if there were no issues to avoid time constraints.

Mr. Landis suggested proceeding toward an Advisory Committee meeting in May, in conjunction with the May Board meeting.

Ms. Oakley suggested leaving all eleven items on the list to potentially discuss at the May Board meeting and the Board concurred. Mr. Klausner suggested if ESG is to be included in the mix, additional education sessions should be scheduled. This concluded this agenda topic.

Mr. Landis moved that the Board table agenda items 6-10, on the original March 24, 2020 agenda. Mr. Philibert seconded the motion. A roll call vote was taken of the Board members, and the motion passed 5-0.

7. **Consider and Act on 2020 Board Calendar/Work Plan (formerly #6 on the Tuesday, March 24, 2020 agenda)**

This item was tabled.

8. **Discussion of Investment Beliefs (formerly #7 on the Tuesday, March 24, 2020 agenda)**

This item was tabled.

9. **Executive Session (formerly #8 on the Tuesday, March 24, 2020 agenda)**

This item was tabled.

10. **Governance Manual Update and Consider and Act on Possible Amendments to the Board's Bylaws and Other Governance Documents (formerly #9 on the Wednesday, March 25, 2020 agenda)**

This item was tabled.

11. **Review and Discussion of 2019 Plan for External Financial Statement and System and Organizational Control (formerly #10 on the Wednesday, March 25, 2020 agenda)**

This item was tabled.

12. **Pension Administration System Modernization Update**

Ms. Munoz presented an update to the Pension Administration System Modernization Program or PASM od. She reviewed the timeline for PASM od and the steps already taken in the transformation of TMRS' paper-based processes to a web-based platform that was more responsive to TMRS' and member's needs.

The Program Status Summary of 2020 Initiatives was discussed and all of the projects/tasks were in the "green" category meaning they were on target. Ms. Munoz explained each of the individual steps achieved and also gave an update on the key program activities.

The Project Risks were discussed as well as the PASMod Program's future activities. In conclusion, PASMod is on target.

Ms. McDuffee asked if the Independent Validation and Verification (IV&V) Consultant will report to staff. The answer is the consultant will report to the project owner and Executive Director. There was a question if this consultant should report directly to the Board and this will be discussed more after additional research.

13. Global Equity Annual Asset Class Review

Ms. Qualls presented the annual Global Equity Asset Class review. The comprehensive annual review process was outlined. Ms. Qualls discussed monitoring the existing portfolio through due diligence, research and oversight. The annual manager due diligence visits take place at the manager's office or the managers travel to the TMRS office. She explained how funds were redeployed to other asset classes within the total fund.

Ms. Qualls reviewed the global equity strategies and noted given current market conditions, where Global Equities had been overweight at the end of the previous year, but are now slightly under their target allocation weight. She reviewed geographic and market capitalization diversification.

Ms. Qualls discussed the equity strategies reviewed in 2019 as well as the asset class objectives within the asset class. Performance monitoring objectives, active strategies return/risk objectives, the IPS guidelines for individual portfolio accounts, and active strategies return/risk objectives were all highlighted. She reviewed U.S. active strategies, and noted both managers outperformed their benchmarks and the appropriate median manager. The Non-U.S. active equity portfolio was also reviewed.

Ms. Qualls turned the discussion to the supplemental report for an update on the markets and the Public Equity performance year-to-date. While public equities posted one of the strongest returns in 2019, most of this return was given back year-to-date in 2020. This was due to two key factors: 1) global response and economic weakness due to Covid-19; and 2) severe downturn in oil prices and the outlook in the energy sector. The markets are reacting with fear and panic, but the U.S./China trade war has also had an impact, as well as the shake-up in oil markets. Unemployment is expected to jump and other factors will continue to impact the markets. Ms. Qualls highlighted sector/country exposure and performance for both U.S. and international markets. The U.S. markets continue to outperform international public equities in both 2019 and year-to-date 2020.

Transaction cost analysis is conducted as an additional due diligence tool. Reporting shows the cost/benefit results quarterly, and for previous rolling four quarters, for all active managers. Staff reviews results with managers, as needed. The portfolio is within its risk ranges included in the IPS Asset Class Guidelines.

The 2020 initiatives were discussed and Ms. Qualls noted re-structuring decisions should be completed soon for the global equity portfolio. Some of these decisions could include changes to the passive versus active structure. There will be continued expansion of the manager search process to better evaluate new investment opportunities.

In conclusion, most current global equity portfolios are performing in accordance with expectations and Staff and RVK will continue to monitor the portfolio for other potential portfolio improvements over time.

14. Chief Investment Officer Management Update

Mr. Carlson noted the entire Investment team is working remotely, and it is working very well.

The global market gyrations over the last couple of weeks is the reason for diversification of the TMRS portfolio. Risk is monitored constantly so that TMRS can handle this type of market event over the long term. Mr. Carlson reviewed the current market impacts on the portfolio noting how volatile the markets are at present. The cash reserves TMRS had built are allowing investment opportunities to be funded without having to liquidate existing investments. The Investment Team and Legal are currently working on 14 opportunities and the Investment Team is operating as normal.

The Private Markets Analyst position has been filled and that person should start April 6th and will report to Mr. Masthay in Real Assets. Final interviews are taking place for the second analyst position. Chris Schelling, Private Equity Director, has resigned and plans for his replacement are in process.

Mr. Landis asked how on-boarding with the Private Markets Analyst was happening in the current environment and Mr. Carlson provided an explanation of the process which includes both in-person and remote (on line) on-boarding.

On behalf of the Board, Ms. Oakley thanked Mr. Schelling for his service to the System.

15. Executive Director and Staff Reports, Including Reports from Administration, Actuarial Services, Communications, Finance, Governmental Relations, Human Resources, Information Resources, Internal Audit, Legal, Member Services, and Project Management

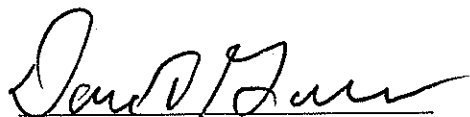
Mr. Gavia discussed the activities of the Crisis Management Team (CMT) and the pandemic table top exercise performed in January. He also reviewed the current procedures staff have taken in response to the COVID-19 crisis.

16. Call for Future Agenda Items

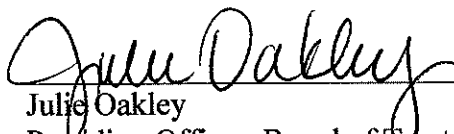
Mr. Philibert wanted to make sure that Environmental, Social and Governance (ESG) is still a topic on a future agenda.

Mr. Philibert made a motion to adjourn the meeting. Mr. Landis seconded the motion. A roll call vote was taken of the Board members, and the motion passed 5-0.

At 11:36 a.m., the meeting was adjourned.



David Gavia
Executive Director



Julie Oakley
Presiding Officer, Board of Trustees