

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

December 6, 2018 – 1:00 p.m.

On December 6, 2018, the Board of Trustees of the Texas Municipal Retirement System (TMRS) convened for a meeting at 1:00 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
David Landis
Jim Jeffers
Jesus Garza

Absent: Julie Oakley

Present also were:

David Gavia, Executive Director
Eric Davis, Deputy Executive Director
TJ Carlson, Chief Investment Officer
Christine Sweeney, General Counsel
Bill Wallace, Director of Communications
Dan Wattles, Director of Governmental Relations
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
Chris Schelling, Director of Private Equity
Tom Masthay, Director of Real Assets
Marc Leavitt, Director of Absolute Return Strategies
Jason Weiner, Director of Fixed Income
Dimitry Shishkoff, Director of Risk Management
Karen Jackson, Executive Assistant
Stacy White, Executive Assistant
Robert Klausner, Klausner, Kaufman, Jensen & Levinson
Marcia Beard, RVK
Amy McDuffee, Mosaic Governance Advisors
Mark Randall, Gabriel, Roeder, Smith & Company
Brian Borton, StepStone Group LP
Ron Lewis, Ron Lewis and Associates

Also in attendance:

Eric Obermier, Assistant Director of Information Resources
Madison Jechow, Assistant General Counsel
Michelle Mellon-Werch, Assistant General Counsel
David Rodriguez, Senior Regional Manager – City Services
Sean Thompson, Regional Manager – City Services
Melanie Thomas, Process and Content Management Specialist
Donna Neal, Senior Technology Design Specialist
Eddie Schultz, Investment Manager
Cindy Morse, Investment Support Analyst
Debbie Farahmandi, Investment Operations Specialist
Nick O’Keefe, Lead Investment Attorney
Tish Root, Legal Assistant
Trisha Solis, Support Services Analyst
Shelly Ransom, Member Service Analyst
Susan Jacques, Investment Performance Analyst
Geldon Vllahu, Investment Operations Analyst
Carol Leung, Equities Investment Analyst III
Melissa Jerkins, Quantitative Analyst II
Ryan Conner, Risk Management Analyst
Kurt Cressotti, Compliance Officer
German Gaymer, Fixed Income Analyst
Jacob Bowland, Fixed Income Analyst
Kevin Notaro, Absolute Return Analyst
Peter Teneriello, Private Equity Analyst
Yvonne Huang, Real Assets Analyst
Jennifer Andrews, Member Services Manager
Peter Jeske, Business Process Analyst
Paula Nguyen, Investment Accountant
Natalie Garza, Communications Analyst
Kenneth Oliver, Actuarial Analyst
Pete Krnavek, Information Systems Manager
George Kauffman, City of Garland Retiree
David Riggs, Texas State Association of Fire Fighters
Greg Shipley, Combined Law Enforcement Associations of Texas
Casey Srader, Government Finance Officers Association of Texas
Kevin Lawrence, Texas Municipal Police Association
Mike Finley, City of Arlington

Mr. Parrish called the meeting to order at 1:00 p.m. and Mr. Jeffers gave the invocation.

1. Consider and Act on Consent Agenda

Mr. Gavia stated that Staff had nothing to add to the consent agenda as presented. A handout was provided of the Updated Service Credit and/or Annuity Increases ordinance adoptions

received and posted as of December 5, 2018, for the Board's approval as part of this agenda item. Staff had nothing else to add to the consent agenda as presented. There were no other changes suggested by the Board.

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

2. Legislative Update

Mr. Wattles, as well as Mr. Lewis with Ron Lewis and Associates, began this discussion with an update for upcoming 86th Legislative Session. The Legislature has continued to support public sector plans and this will likely continue since the mid-term elections did not markedly change the statewide leadership or the makeup of the Texas Senate and House. This is especially important given that TMRS is likely to propose changes to the TMRS Act.

Republicans maintained the majority in both houses. Representative Bonnen has announced that he has enough commitments to be elected Speaker of the House and he is moving quickly to select his staff and make key appointments. Mr. Lewis feels that the chairmanships in the House will likely change. The Senate will likely not see a lot of change, including with the Senate State Affairs Committee that oversees pension legislation. Bills are typically not considered in committee meetings until after the first thirty days after the Legislative Session begins. Bills can only be considered on the floor of each chamber beginning on March 8, 2019.

There will be other systems making budget requests. Both the Employees Retirement System (ERS) and the Teachers Retirement System (TRS) have lowered their investment return assumptions and will be asking for additional funding. Fort Worth is working on changes and may be at the Legislature.

The Pension Review Board (PRB) last met on October 4, 2018. The PRB is currently working on their biennial report to the Legislature. Approximately one-fifth of the plans in Texas have been under, currently are under, or may be required to develop a restoration plan. There is also discussion of a small plan pooling program.

Of the bills currently filed early, none affect TMRS.

Mr. Wattles discussed the results of the mid-term elections in the U.S. The Legislative Committee met and discussed attending the annual NCPERS Conference in Washington D.C. and associated Capitol Hill visits. Meetings are also scheduled with both the Texas House and Senate Committees.

3. Consider and Act on TMRS Legislative Agenda

Ms. Sweeney and Mr. Wattles presented the proposed legislative agenda for the 86th Legislative Session. Mr. Wattles discussed the history of the TMRS Act Review project and noted the Board's recent preference not to move forward with the three benefit provisions, but to move forward with the nine administrative items.

Mr. Landis gave the Board an update on the November meeting of the Advisory Committee on Benefit Design (the Committee). The Committee generally felt that the Cost of Living Adjustment (COLA) and Return to Work items should be amended, but not at this time. The nine administrative items were reviewed and the Committee was in favor of the Board moving forward with those provisions.

Ms. Sweeney noted that, since the October Board meeting, there were no changes to seven of the proposed administrative items. With regard to Prior Service Credit, this item was amended to include departments of participating municipalities that do not yet participate and also include cities that elected to discontinue enrolling new employees. These groups could only receive Excluded Prior Service Credit. The proposed Occupational Disability amendment was revised to remove a proposal to suspend payment of an occupational disability annuity to a retiree that returned to work for any city. The proposal was also modified regarding suspension of benefits due to failure to comply with the System's request to submit to a medical examination, and a provision was added specifying that the suspension of an occupational disability benefit does not suspend payment of a benefit to an alternate payee under a qualified domestic relations order.

Mr. Parrish summarized what he had heard and noted that the Board was in favor of the nine administrative items. Ms. Sweeney noted that, due to bill drafting rules which will require the Legislative Council to present the proposed amendments to the TMRS Act provisions in the numerical order as the provisions occur in the TMRS Act, the format of the actual legislative bill that gets filed will differ from the format of the Attachments presented to the Board, but the substance of the amendments should be the same.

Mr. Philibert moved the Board adopt a legislative agenda for the 86th Legislative Session that will include the nine administrative and operational proposals, as presented in the Attachments and discussed at the October meeting, with the modifications to the Prior Service Credit and Occupational Disability proposals as presented at this meeting of the Board. Mr. Landis seconded the motion, which passed 5-0.

4. Consider and Act on a Board Resolution for Legislative and Regulatory Matters

Mr. Wattles introduced the draft Legislative Resolution (Resolution) for the 86th Legislative Session. The Resolution will express the Board's collective support for elements of the TMRS plan design and its focus on local control. The resolution will also establish the framework for the Board to take a position on legislation. Mr. Wattles noted that each Resolution adopted for previous Legislative Sessions has differed slightly, but established a framework for the Board to address specific legislation or known or anticipated action by the Texas Legislature.

Staff prepared a draft Resolution for the Board's consideration. The Board's Communication Policy was discussed and Mr. Philibert also discussed the proposed edits to the Resolution.

Mr. Landis moved that the Board consider adopting the proposed Resolution prior to the 86th Legislative Session. The Resolution is similar to the Resolutions that were adopted for the last four sessions, but has been modified to change the reference of "local control" to "local

decision-making” and to also encourage support for TMRS-sponsored legislation that will propose administrative and operational changes. Mr. Philibert seconded the motion, which passed 5-0.

5. Consider and Act on New Appointments and/or Reappointments to the Advisory Committee on Benefit Design

Mr. Wattles and Mr. Landis thanked out-going Advisory Committee on Benefit Design (Committee) members, Kevin Lawrence, representative for the Texas Municipal Police Association (TMPA), and Greg Shipley, representative for the Combined Law Enforcement Associations of Texas (CLEAT) for their service on the Committee. They were both presented a plaque commemorating and recognizing their participation on the Committee.

Scott Leeton, President, Corpus Christi Police Officers Association has been nominated to succeed Greg Shipley to represent CLEAT, which also asked that Mr. Shipley be appointed as an alternate to Mr. Leeton. Mitch Landry, a TMRS member, most recently with the San Angelo Police Department, has been nominated to represent TMPA. Mitch Slaymaker, TMPA’s current alternate, would continue to serve in that role. Both Committee Chair Landis and Vice Chair Garza approved the nominations and recommended forwarding for consideration by the Board.

Mr. Landis moved that the Board approve the following appointments to the Committee:

- Scott Leeton as the representative for the Combined Law Enforcement Associations of Texas in the Group Class for a period of three years.
- Greg Shipley as the alternate for the Combined Law Enforcement Associations of Texas in the Group Class.
- Mitch Landry as the representative for the Texas Municipal Police Association in the Group Class for a period of three years.

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

6. Consider and Act on Proposed 2019 Operating Budget

Ms. Covarrubias, Ms. Ritter and Mr. Willrich presented the proposed 2019 Operating Budget which contains adjustments from the October Board meeting. Ms. Covarrubias noted that the preliminary budget document from October had been expanded with additional descriptive information in the appendices.

The System’s accomplishments during 2018 were highlighted. Request for Proposals (RFPs) were completed for both an external auditor and a System consulting actuary. New compensation structures for TMRS staff were implemented as well as several benefit related initiatives from the Employee Engagement survey. The System moved closer to its investment target allocations with continued portfolio diversification.

Ms. Covarrubias discussed the alignment of the proposed 2019 Operating Budget with the Strategic Plan and she reviewed the activities in each of the four stated goals and sub-objectives in the Strategic Plan. Under each of the four stated goals, the budgeted activities were highlighted.

The 2018 budget was compared to the proposed 2019 budget and Ms. Covarrubias noted the funds that were included for “new items”.

The Executive Summary is in Section II of the budget document. The budget continues to be broken down into five general categories; the general categories as a percent of the total budget remain consistent with the prior year.

The Personnel Services category continues to be the largest category at approximately 55% of the budget. The 2019 proposed budget includes five new positions (one of which is part-time), funds for merit increases, and retains the same benefit package for employees as well as the same coverage scale for TMRS retiree medical coverage.

Ms. Covarrubias noted that consulting/other professional services is approximately 37% of the Professional Services category. She noted that three-fourths of the consulting funds are for recurring consulting costs; investment consultants make up 62% of these recurring costs. Other recurring consulting costs include business continuity, Legislative, Governance/strategic planning, annual security audit, executive team coaching and insurance/risk consultant. New consulting items for 2019 include Pension Administration System Assessment (PASA), Expert Quality Assurance/testing resource (as opposed to requesting a new position), benchmarking study (through CEM), implementation costs for digital identity verification services to enhance the security of TMRS Direct and a cloud strategy consultant. Additional smaller-dollar new items were included in the budget document and appendix.

The Online Services line-item is 21% of the Professional Services category and Ms. Covarrubias explained which departments use these services. 80% of the online services budget is utilized by the Investments department, with Risk management and reporting tools making up over one half of the investment department subtotal.

The Rentals and Equipment Maintenance category is 4% of the total budget. This category includes recurring hardware and software maintenance costs, as well as new funds for database licensing and data security protection.

The Miscellaneous category includes items requested by all departments that support employees’ professional growth. It also includes utilities, building/ground maintenance, supplies and board expenses. This 2019 budget category is 6% higher than 2018 due to increased building security costs and an increase in the bonds/insurance line-item for an increase in Fiduciary liability coverage. The Capital Expenditures Section was discussed.

New Personnel requests were reviewed, noting the five new requested positions. Future projected personnel and projections for 2020 and 2021 were also discussed.

Appendix G provides a comparison of the 2018 budget to estimated expenses for each line item. Approximately 91% of the 2018 budget is expected to be utilized. Ms. Covarrubias

briefly mentioned the five categories, noting that approximately 70% of the total excess budget funds remain in the Personnel and Professional Services categories.

Mr. Garza noted that a five-year historical comparison would be helpful.

Mr. Jeffers noted that there were no additional items or explanations requested from the Budget Committee. Mr. Gavia noted, based on Ms. Oakley's request, training and travel requests were reduced.

Mr. Jeffers moved that the Board adopt the 2019 Proposed Operating and Capital Expenditures Budget. Mr. Garza seconded the motion, which passed 5-0.

7. Consider and Act on Resolution Transferring Monies from Interest Reserve Account to Expense Fund

Ms. Covarrubias began by explaining that the Board attempts to maintain its Fund Balance/Reserves in the Expense Fund at 15% of the following budget year expenses. It was noted that the funds remaining from the 2018 budget would off-set the needed transfer. The transfer required by the TMRS Act is book entry only; funds remain invested in the Trust Fund until the actual operating expenditures are made.

Mr. Jeffers moved that the Board adopt a resolution to transfer \$30,082,000 from the Interest Reserve Account in the Trust Fund to the Expense Fund to cover budgeted expenses for 2019. Mr. Landis seconded the motion, which passed 4-0. (Mr. Philibert was not present for the vote.)

8. Consider and Act on Private Equity Manager Search Recommendation(s)

Mr. Schelling, Mr. Teneriello and Mr. Borton with StepStone presented the manager recommendation for Private Equity.

The Private Equity portfolio construction was reviewed and the strategy considerations were discussed. The overall goal remains identifying top quartile managers as long-term performers to partners. Areas of focus include enhancing manager diversification, and building strategic relationships where possible.

Updata VI (Updata) is a manager re-up and is a manager that has consistently met expectations. Updata is a growth equity firm that targets investments in the business to business software and software-enabled services sectors in undercapitalized geographies outside of the San Francisco Bay area. Mr. Teneriello noted this is a \$50 million commitment and the firm will continue to execute the same strategy employed since Fund III when they refocused from venture capital to business software growth equity.

Mr. Borton indicated that Updata has performed as expected and they have not stretched their funds, staying roughly in the same fund size. They have an eager team that performs well.

Mr. Landis 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:

Name of Investment Manager, Investment Fund, or Fund Strategy	Asset Class Strategy	Initial Investment Allocation	Background Check Required (Yes or No)
Updata Partners VI, L.P.	Growth	\$50 million	Yes

- (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 4-0. (Mr. Garza was not present for the vote.)

9. Consider and Act on Budget Committee Charter

Ms. Sweeney reviewed the current Budget Committee Charter and the edits suggested from the October Board meeting. The Budget Committee has also reviewed the draft of the Committee Charter. The proposed Charter includes a revised provision which provides that, to the extent any budget items impact the compensation of TMRS employees, the Compensation Committee may, but is not required to, provide input to the Budget Committee on such matters, but the Budget Committee will be responsible for making recommendations, when appropriate, to the Board on drafts of any compensation related line items in the annual operation budget. A similar concept has also been included in the proposed Compensation Committee Charter.

Mr. Jeffers moved that the Board adopt the proposed Budget Committee Charter as presented. Mr. Landis seconded the motion, which passed 5-0.

10. Consider and Act on Compensation Committee Charter

The proposed Compensation Committee Charter was reviewed and Ms. Sweeney noted that the draft charter includes a revised provision which provides that, to the extent any budget items impact the compensation of TMRS employees, the Compensation Committee may, but is not required to, provide input to the Budget Committee on such matters, but the Budget Committee will be responsible for making recommendations, when appropriate, to the Board on drafts of any compensation related line items in the annual operation budget. A similar concept has also been included in the proposed Budget Committee Charter.

The proposed Charter also removed the term “optional” from the beginning of Sections IV.G and H and retained those provisions.

Mr. Philibert moved the Board adopt the proposed Compensation Committee Charter as presented. Mr. Jeffers seconded the motion, which passed 5-0.

11. Discuss Status of Strategic Plan and Strategic Plan Communication Tool

Mr. Pittman, Mr. Wallace and Ms. McDuffee with Mosaic Governance Advisors presented this proposed reporting tool to enable the Board to see the status of each goal's objective in the Strategic Plan. The team utilized samples from other retirement systems to create a draft tool structure.

Mr. Pittman gave an overview of the items included in this tool and defined the icons used for status indicators. The goal was to create an Executive-level, concise tool for the Board to use. A separate table will be created to show exceptions to the listed goals and objectives. This is planned to be reported quarterly with a full review of the Plan in May of each year. Mr. Gavia suggested that it could be displayed in the Diligent Resource Center on an on-going basis.

Mr. Philibert suggested to have more of a connection to the Mission/Vision/Values where it is best appropriate.

12. Consider and Act on 2019 System-wide Investment Pacing Plan (formerly #17 on the Friday, December 7, 2018 agenda)

Mr. Carlson reviewed the current asset allocation, the allocation as "committed and the target allocation" including the "minimum and maximum" ranges for each asset class. The equity and core fixed income allocations will continue to serve as the funding sources for new asset classes and further diversification so they will decline towards their target allocations over time as further diversification is achieved.

The draft 2019 System-wide Investment Pacing Plan was reviewed and Mr. Carlson noted that the hiring of managers will likely plateau next year based on the pacing schedules. Mr. Gavia noted the awards won by the Investment Team. Institutional Investor's 2018 Allocators' Choice Awards were awarded to Mr. Carlson for Chief Investment Officer of the Year and TMRS received the Technology User of the Year for its use of data due diligence and in risk management, having "built an internal data warehouse from scratch."

Mr. Jeffers moved that the Board adopt the 2019 System-wide Investment Pacing Plan as presented, and authorize manager searches and other activities related to these pacing plans. Mr. Philibert seconded the motion, which passed 5-0.

13. Consider and Act on Investment Manager Redemption and Allocation Recommendations (formerly #15 on the Friday, December 7, 2018 agenda)

Ms. Qualls, Ms. Leung and Ms. Beard from RVK presented the Investment Manager redemption and allocation recommendations.

Ms. Qualls reviewed the background of U.S. Public Equity portfolio. She stated there are currently three investment managers, handling four different strategies, in the portfolio that were placed on the TMRS Watch List on July 26, 2018. Organization/structural changes and

material performance concerns, in addition to other criteria stated in the IPS, were reviewed, including the reasons why these particular managers were placed on watch list status. The reasons for this recommendation, including both qualitative and quantitative issues, were reviewed.

The recommendation is to fully redeem from four strategies, at the three managers, and allocate 50% of the assets to the Northern Trust Collective Russell 3000 Index Fund – Non-Lending and 50% to the UBS U.S. Equity Minimum Volatility Index Collective Fund. The Risk Team and the Investment Committee were all involved in this decision.

Mr. Parrish inquired about the time frame of the underperformance. The IPS requirements were reviewed using a five year period. Ms. Qualls discussed how performance with less than five years are reviewed. Ms. Leung also stressed that it was not just under performance that caused the team to lose confidence in managers.

Ms. Qualls discussed next steps, including: completing the transition of assets by mid-December using a transition manager; negotiating a lower fee structure for the U.S. Equity Minimum Volatility strategy; presenting the annual Public Equities asset class review in March 2019; and continuing to research additional managers/strategies for inclusion into the total equity portfolio.

Ms. Qualls responded to Mr. Garza’s questions and provided additional clarification on the process and the timeline.

Mr. Garza moved that the Board approve the following:

- (i) Authorize the Executive Director to determine the most prudent method to redeem investments and terminate the existing Managers 1, 2, and 3 investment managers, as identified in the Board materials, and to take all other actions the Executive Director deems necessary or appropriate to end such investment manager relationships and to reallocate the proceeds of such redemptions to the funds as indicated above:

Name of Investment Manager, Investment Fund, or Fund Strategy	Asset Class Strategy	Amount
Manager 1	U.S. Public Equity	100% ¹ (Approximately \$286 mm)
Manager 2	U.S. Public Equity	100% ² (Approximately \$239 mm)
Manager 3	U.S. Public Equity	100% ³ (Approximately \$535 mm)

¹ The exact amount will equal the market value of the portfolio managed by Manager 1

² The exact amount will equal the market value of the portfolio managed by Manager 2

³ The exact amount will equal the market value of the portfolio managed by Manager 3

- (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.

14. Executive Session (formerly #12 on the Thursday, December 6, 2018 agenda)

At 4:02 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. The meeting was opened to the public again at 4:50 p.m. and all members of the Board that were present before the Executive Session were still present.

15. Consider and Act on Draft Minutes from August 23, 2018 Joint Meeting of the Board of Trustees and Internal Audit Committee and Receive an Internal Audit Committee Update (formerly #20 on the Friday, December 7, 2018 agenda)

There was no discussion on the draft minutes from the August 23, 2018 Joint Meeting of the Board of Trustees and Internal Audit Committee (Committee).

Mr. Jeffers moved to approve the minutes from the August 23, 2018 Joint Meeting. Mr. Landis seconded the motion, which passed 5-0.

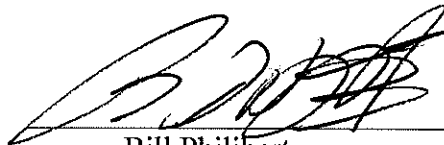
Ms. Vice gave an update on Internal Audit activities and also on the meeting held by the Committee. The Committee received a report on the results of the TMRS Control Environment Assessment. Control Environment is the foundation for an internal control system and it is composed of five principals. The conclusion of the report indicated that the Board and Staff have designed and implemented the five principals of Control Environment to provide the discipline and structure necessary for the System to achieve its objectives.

The Internal Audit provided research on implementing an Enterprise Risk Assessment program which is a deliverable under the Strategic Plan to adopt a framework to monitor and report on organization-wide risk. Separately, Ms. Vice discussed the risk exercise the Audit Committee had participated in to provide input into the 2019 Risk Assessment.

At 4:55 p.m. the meeting was recessed until 8:30 a.m. on Friday, December 7, 2018.



David Gavia
Executive Director



Bill Philibert
Chair, Board of Trustees

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

December 7, 2018 - 8:30 a.m.

On December 7, 2018, the Board of Trustees of the Texas Municipal Retirement System (TMRS) reconvened for a meeting at 8:30 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
Jim Jeffers
Jesus Garza
Julie Oakley

Absent: David Landis

Present also were:

David Gavia, Executive Director
Eric Davis, Deputy Executive Director
TJ Carlson, Chief Investment Officer
Christine Sweeney, General Counsel
Bill Wallace, Director of Communications
Dan Wattles, Director of Governmental Relations
Debbie Munoz, Director of Member Services
Scott Willrich, Director of Information Resources
Rhonda Covarrubias, Director of Finance
Jesse Pittman, Senior Project Manager
Leslie Ritter, Director of Human Resources
Kristin Qualls, Director of Public Equity
Dimitry Shishkoff, Director of Risk Management
Karen Jackson, Executive Assistant
Stacy White, Executive Assistant
Robert Klausner, Klausner, Kaufman, Jensen & Levinson
Marcia Beard, RVK
Amy McDuffee, Mosaic Governance Advisors

Also in attendance:

Eric Obermier, Assistant Director of Information Resources
Michelle Mellon-Werch, Assistant General Counsel
Nick O'Keefe, Lead Investment Attorney
Andi Focht-Williams, Senior Internal Auditor
Peter Jeske, Business Process Analyst
Cindy Morse, Investment Support Analyst

Debbie Farahmandi, Investment Operations Specialist
Natalie Garza, Communications Analyst
Vikki Vasquez, Member Services Manager
Chad Nichols, Member Services Manager
Jennifer Andrew, Member Services Manager
Rhonda Green, Membership Analyst
Maryann Malave-Jaini, Membership Analyst
Ida Gomez, Member Services Analyst
Richard Ramos, Member Service Analyst
Pam Morgan, Support Service Analyst
Geldon Vllahu, Investment Operations Analyst
Kurt Cressotti, Compliance Officer
German Gaymer, Fixed Income Analyst
Jacob Bowland, Fixed Income Analyst
Kevin Notaro, Absolute Return Analyst
Yvonne Huang, Real Assets Analyst
Pete Krnavek, Information Systems Manager
Kenneth Oliver, Actuarial Analyst
Bob Scott, City of Carrollton
Casey Srader, Government Finance Officers Association of Texas
Greg Shipley, Combined Law Enforcement Associations of Texas
David Riggs, Texas State Association of Fire Fighters

Mr. Parrish called the meeting to order and the meeting was reconvened at 8:30 a.m. (Ms. Oakley joined the meeting at 8:35 a.m.)

16. Fixed Income Annual Asset Class Review (formerly #18 on the Friday, December 7, 2018 agenda)

Mr. Weiner, Mr. Gaymer and Mr. Bowland presented the Fixed Income annual asset class review. Mr. Weiner noted that the additional team member, Mr. Bowland on the Fixed Income team, has helped in the areas of due diligence and expanding the non-core portfolio construction and development.

Planning, execution and portfolio management were discussed. All twenty-six Fixed Income managers were assessed and are in satisfactory standing, with one manager in excellent standing and twenty-five managers in good standing.

TMRS' investment managers have been slow to deploy capital over the last twelve months because the opportunity set has been unattractive. Mr. Weiner reviewed the risk profile continuum from capital preservation to capital appreciation. Investment Staff's objective in constructing the Non-Core Fixed Income Portfolio is to maximize total return across this continuum while minimizing overall risk. Mr. Weiner provided a chart that displayed the ten year historical return and risk figures as provided by RVK to illustrate that TMRS' overall fixed income portfolio fell below the median risk level over this time frame. The five year chart illustrated an improved return and level of risk due to the addition of the Non-Core Fixed Income portfolio.

Mr. Bowland reviewed the goals of the Core Fixed Income portfolio which are to diversify the risk of the overall investment portfolio and to preserve capital. Performance goals include exceeding the Bloomberg Barclays U.S. Aggregate Bond Index net of fees over rolling five-year periods. Core sectors as well as "Plus" Sectors were discussed. The Non-Core Fixed Income portfolio construction was reviewed both by sector and manager. The Non-Core Fixed Income portfolio has exceeded its benchmark performance net of fees since inception.

Mr. Gaymer reviewed the Fixed Income markets and noted that US Treasury interest rates are moving toward an inversion of the yield curve due to low inflation expectations resulting from investor's concerns regarding a potential slowing of the US economy. The markets are experiencing heightened volatility as interest rates continue to move higher. Future expectations of inflation remain muted, contributing to a flat yield curve. Overall, the economy is expected to grow at a slower rate. TMRS is allocating across different sectors to find investments to diversify sources of return with appropriate levels of risk.

The Non-Core Fixed Income portfolio is fully allocated on a commitment basis. Plans for 2019 include conducting manager searches to reinvest return of capital from previous private credit investments, if needed; refining our manager due diligence process to improve the total return and risk profile of the Core and Non-Core portfolios; and continuing to assess and potentially implement more Strategic and Direct Investor mandates to drive down costs and improve net returns.

17. Consider and Act on Election of Board Officers (formerly #13 on the Friday, December 7, 2018 agenda)

Mr. Gavia reviewed the history of the Board leadership. This process has often been conducted on an informal rotating basis. Although no formal policy is in place, the Board has typically selected an Employee and an Executive Trustee as Board officers with the Employee and Executive Trustees alternating offices each year. However, depending on when a Trustees is appointed, it may not always be feasible to have an Employee and Executive Trustee sit as Chair and Vice Chair each year. If the Board wants to utilize the informal rotation process, Mr. Philibert would move up to be Board Chair and Mr. Landis would be the Vice Chair for 2019.

Ms. Oakley moved that the Board approve Mr. Philibert to be the Chair of the TMRS Board of Trustees for 2019 and Mr. Landis serve as the Vice Chair. Mr. Parrish seconded the motion, which passed 5-0.

18. Consider and Act on Board Committee(s), Creation, Appointment(s), and Reappointment(s) for 2019 (formerly #14 on the Friday, December 7, 2018 agenda)

Mr. Gavia reviewed the existing Committees of the Board and their focus. The Board's Bylaws provide that all Committee members' terms expire in December unless otherwise stated. The Board members discussed their willingness to serve on various Committees.

The Board discussed extending the Technology Committee to continue to provide oversight of the Pension Administration System Assessment project.

Mr. Philibert moved that the Board approve to extend the Technology Committee through 2019 and create a charter. Mr. Garza seconded the motion, which passed 5-0.

Mr. Philibert moved that the Board approve the appointments for Chair and Vice Chair to the following Committees for 2019:

Budget Committee:

Chair Julie Oakley
Vice Chair Jim Jeffers

Compensation Committee:

Chair Julie Oakley
Vice Chair Bill Philibert

Internal Audit Committee:

Chair Jim Jeffers
Vice Chair David Landis

Advisory Committee on Benefit Design:

Chair Jesus Garza
Vice Chair David Landis

Legislative Committee:

Chair Bill Philibert
Vice Chair Jim Parrish

Technology Committee

Chair Jim Parrish
Vice Chair Jesus Garza

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

19. Consider and Act on Proposed Investment Policy Statement Revisions (formerly #16 on the Friday, December 7, 2018 meeting)

(Mr. Garza left the meeting at 9:25 a.m. and returned at 9:43 a.m.)

Mr. Carlson presented the proposed changes to the Investment Policy Statement (IPS). The proposed revisions were discussed with the Board at the October meeting and those revisions are now being proposed for adoption.

The recommended changes for 2019, as discussed at the October 2018 meeting of the Board, are outlined below:

Page 1: Add an effective date for the IPS for consistent application of changes over time and aligns changes with the beginning of the next annual reporting period.

Page 7, 21, and 54: Add the short version of Chief Investment Officer (CIO) for document clarity. It also adds a section on the Delegation of Successor Fund Authority (previously called Follow-on-Fund Authority). This section was built on the same concept as the co-investment authority giving the Executive Director the authority to enter into Successor Funds for managers the Board of Trustees have already approved, within certain limitations as specified in the IPS. A definition of Successor Fund was also added to the Glossary.

Pages 10 and 19: Add specific language to the authorized activities of transition managers to conform with Board approvals given at the September 2018 Board meeting to allow transition managers to manage assets, on an interim basis, in certain circumstances.

Pages 12-13: Update the public equity benchmark and target allocation and ranges to one that reflects a Global Equity target allocation as was presented in the 2018 Asset Allocation study by Staff and RVK.

Pages 21-23: Make conforming changes in line with the adoption of a Global public equity benchmark instead of the current US/non-US benchmarks structure as described above. It also adds a 15% limitation on Emerging Market Equity Separately Managed Accounts.

Page 29: Add the conforming change needed in the ARS asset class goal as described above.

Page 30: Reduce the minimum required exposure to each sub-asset class within the ARS portfolio to 0% in order to not force TMRS into a portfolio holding that we do not think is in TMRS' best interest. Also make the maximum targets consistent for all sub-asset classes within ARS at 35% (except CTA's).

Page 41: Add the new global equity benchmark definition to the glossary.

Ms. Oakley asked several questions regarding the Delegation of Successor Fund Authority (previously called Follow-on-Fun Authority). The development of a governance structure was discussed by the Board, Mr. Carlson and Ms. McDuffee. Mr. Carlson stated that given where the market cycles are currently, the Board should be as deliberate as they feel prudent, while keeping in mind, the volatility of the markets. It was noted that the Board can amend the IPS at any time, not only during the year-end annual review period. As a result, Ms. Oakley requested that Investment Staff present a Board education piece on this issue prior to this change being approved and included in the IPS. Mr. Parrish stated that the intention is not to slow things down, but rather to clarify and educate the Board concerning what direction things are moving now that the original diversification plan has been completed.

Ms. Oakley moved to approve the revisions to the IPS except for the changes made to the section on the Delegation of Successor Fund Authority, as discussed. Mr. Jeffers seconded the motion, which passed 5-0.

20. RVK Quarterly Report (formerly #19 on the Friday, December 7, 2018 agenda)

Ms. Beard presented the RVK Quarterly report as of the period ending September 30, 2018. During the third quarter, the markets were extremely volatile and the Year-to-Date returns have all gone lower since that time.

Current allocation versus target allocation across all asset classes was discussed. Ms. Beard reviewed the IPS policy objectives and noted that the 6.75% target was not met on a 5-year basis, but the actual allocation benchmark was exceeded.

Both Total Fund Performance versus Peers and Risk/Return was highlighted. TMRS has less risk than its peers and does not react as negatively in down markets.

Ms. Beard discussed the individual asset classes and reviewed the 5-year performance. She stated that total return for the year has been very difficult.

(Mr. Garza left the meeting at 10 a.m. and Mr. Philibert left at 10:02. A quorum was lost briefly. Both Mr. Garza and Mr. Philibert returned at 10:03 and a quorum was restored.)

21. Chief Investment Officer Management Update, Including Governance, Personnel, Manager Updates and Other Investment Related News or Matters

Mr. Carlson thanked the Board for their support throughout the year.

22. Executive Director Update: Member Services Department

Ms. Munoz began with a brief overview of the Member Services Department which continues to be the largest Department at TMRS. The structure of the Department and the four teams were discussed, the Membership Team, the Retirement Team, Support Services and the Call Center.

The Membership Team processes nearly 900 payrolls each month. This group has worked hard to decrease the number of paper payrolls and switch to electronic. Ms. Munoz reviewed the year-end member account maintenance activities as well as the preparation involved with year-end. Recent accomplishments include the conversion from a paper-driven payroll workflow to an electronic workflow, work-from-home pilot expanded to include two analysts, and converted 33 cities to electronic payroll.

The Retirement Team processes all benefit payments. The number of retirement applications continue to grow each year. Ms. Munoz discussed the work involved in the year-end process and the Proof-of-Life project. Recent accomplishments include the expanded direct deposit functionality to include lump-sum payments, back payments, replacement payments and supplemental refunds to retirees. Ms. Munoz explained about the new project converting the paper retirement application workflow to an electronic workflow.

The Support Services team handles special cases which involves Domestic Relation Orders, garnishments/assignments and special death processing. Year-end processing includes HELPS insurance premium changes, manual Cost of Living Adjustments (COLAs), IRC 415 adjustments and the increased number of deaths and divorces around the holidays. Recent accomplishments for Support Service are they solicited direct deposit for cities receiving HELPs payments from TMRS, as well as completed research and followed-up on over 400 legacy retirement deaths.

The Call Center is responsible for all incoming calls. In 2018, they received over 86,000 calls. They handle annuity/account balance verification, address/name changes, retirement estimates, email correspondence and MyTMRS/City Portal tech support.

There is an increased call volume December through March in preparing for year end. Calls regarding COLAs are in January and statement calls are in March. Recent accomplishments include implementation of the work-from-home program.

The management team is made up of Managers over the four teams, an Administrative Aide and a Business Process Analyst. Ms. Munoz discussed responsibilities as well as year-end preparations and ongoing/future initiatives.

Mr. Parrish praised the team for the outstanding customer service they provide.

23. Executive Director and Staff Reports

Mr. Gavia reported that plans were being developed for the governance workshop with Ms. McDuffee facilitating and more information will follow in early 2019.

Ms. Sweeney updated the Board on the development of a policy inventory and library. Future steps would include reviewing existing policies to determine if they require updating and evaluating if a policy does not exist, if one should be developed.

Mr. Gavia thanked the Board and staff for all the hard work for another successful year.

24. Call for Future Agenda Items

There being no further business, the meeting was adjourned at 10:46 a.m.



David Gavia
Executive Director



Bill Philibert
Chair, Board of Trustees