

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

**December 7, 2017**

On December 7, 2017, 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  
Julie Oakley  
Roel "Roy" Rodriguez  
David Landis  
Jim Jeffers

**Present also were:**

David Gavia, Executive Director  
Eric Davis, Deputy Executive Director  
TJ Carlson, Chief Investment Officer  
Christine Sweeney, General Counsel  
Dan Wattles, Director of Governmental Relations  
Leslee Hardy, Director of Actuarial Services  
Debbie Munoz, Director Member Services  
Scott Willrich, Director of Information Resources  
Bill Wallace, Director of Communications  
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  
Jason Weiner, Director of Fixed Income  
Dimitry Shishkoff, Director of Risk Management  
Karen Jackson, Executive Assistant  
Robert Klausner, Klausner, Kaufman, Jensen & Levinson  
Marcia Beard, RVK  
Amy McDuffee, Mosaic Governance Advisors  
Mike Elio, StepStone Group, LP

**Also in attendance:**

Michelle Mellon-Werch, Assistant General Counsel  
Nick O'Keefe, Lead Investment Attorney

Madison Jechow, Assistant General Counsel  
Michael Schaff, Assistant General Counsel  
David Rodriquez, Regional Manager – City Services  
Melanie Thomas, Editor  
Cindy Morse, Investment Support Analyst  
Debbie Farahmandi, Investment Operations Specialist  
Geldon Vllahu, Operations Analyst  
Susan Jaques, Performance Analyst  
Eddie Schultz, Assistant Director of Real Assets  
Candace Nolte, Assistant Finance Director  
Carol Leung, Equities Investment Analyst  
Ryan Conner, Risk Management Analyst  
Melissa Jerkins, Quantitative Analyst  
Kurt Cressotti, Compliance Officer  
Rachel Cleak, Alternative Analyst  
German Gaymer, Fixed Income Analyst  
Andi Focht-Williams, Senior Auditor  
Paula Nguyen, Investments Accountant  
Natalie Garza, Communications Analyst  
Trish Solis, Support Services Analyst  
Brian Farrar, Network Operations Manager  
Pete Krnavek, Information Systems Manager  
Ricardo Zavala, Records and Information Manager  
Jennifer Andrews, Member Services Manager  
Melissa Jerkins, Quantitative Analyst  
Carol Leung, Investment Analyst II  
Paula Nguyen, Investments Accountant  
Stacy White, Executive Assistant  
Greg Shipley, Combined Law Enforcement Associations of Texas  
George Kaufman, City of Garland  
Devon Waters, City of Arlington  
Casey Srader, Government Finance Officers Association of Texas  
Casey Jones, White Oak Global Advisors, LLC

Mr. Parrish called the meeting to order at 1:00 p.m. Mr. Parrish gave the invocation and the Pledge of Allegiance was recited.

**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 also provided of the Updated Service Credit and/or Annuity Increases ordinance adoptions received and posted as of December 5, 2017, 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. Philibert made a motion that the Board adopt the consent agenda as presented. Ms. Oakley seconded the motion, which passed 5-0.

**2. Executive Director Update -- Governmental Relations**

Mr. Gavia introduced Mr. Wattles to present an update of the Governmental Relations Department. Mr. Wattles commended everyone on TMRS' Legislative team for their work during the 85<sup>th</sup> Legislative Session.

The primary responsibilities of the Department were reviewed and liaison activities were also discussed. The Trustee Education Training Program was highlighted and how the requirements are tracked and submitted to the Pension Review Board (PRB) was discussed. It was noted that TMRS has been reauthorized as a training Sponsor for the next four year period.

Mr. Wattles discussed the Legislative Committee's Congressional visit to Washington, DC in 2017 and the meetings that were attended. Activities during the 85<sup>th</sup> Legislative Session were highlighted.

The Tax Cuts and Jobs Act, H.R.1, was discussed and how it proposes to make public pensions subject to "unrelated business income tax". The Senate version does not include this provision. Mr. Wattles highlighted the efforts that have been taken to ensure the Texas Congressional delegation understands the impact of the provision on TMRS. Mr. Carlson discussed more specifically how this would impact TMRS. Ms. Sweeney noted that additional tax counsel would need to be used if this item passed, and she briefly discussed how this would impact TMRS. Mr. Klausner stated that the big question is can Congress tax a state or an entity of a state.

Mr. Wattles discussed the Senate and House interim charges as well as reviewed the activities of the PRB. The PRB continues to develop its "Principles of Plan Design" and the reactivation of its actuarial reviews. He also discussed the PRB's study of consolidation of small plans.

Mr. Wattles concluded with a proposed schedule for 2018 and the activities related to potential legislation in the 86<sup>th</sup> Legislative session in 2019.

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

Mr. Wattles noted this action is to appoint representatives to the Advisory Committee on Benefit Design (Committee). The Committee Charter that will take effect on January 1, 2018 is identical to the Charter adopted on May 19, 2016, except that the Committee's membership will be reduced in size from a total of 19 members to a total of 10, or up to 13 members. Specifically, the Group Class will be reduced from 10 members to seven representatives, to include only those organizations that have a statewide affiliation. The number of Individual Class members will be reduced from nine members to three members. The Board will also be able to appoint up to three additional at-large members if desired.

Currently there are two open positions for the Individual Class; one slot for an elected official, and one slot for a retiree.

Mr. Rodriguez moved that the Board approve the following:

- Appoint Mayor Julie Masters to a second three-year term to expire on December 31, 2020 on the TMRS Advisory Committee on Benefit Design in the Individual Class.
- Appoint George Kauffman to a three-year term to expire on December 31, 2020 on the TMRS Advisory Committee on Benefit Design in the Individual Class.

Mr. Landis seconded the motion, which passed 5-0. (At this point, Mr. Jeffers joined the meeting at 1:30 p.m.)

**4. Executive Session (formerly #10 on the Thursday, December 7, 2017 agenda)**

At 1:33 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. The meeting was opened to the public again at 2:49 p.m. No action was taken during the Executive Session and all members of the Board that were present before the Executive Session were still present.

**5. Consider and Act on Proposed Amendments to Strategic Plan**

Mr. Gavia introduced Ms. McDuffee to present the third reading of the Strategic Plan. Ms. McDuffee reviewed the planning process. The Board approved the Mission and Vision Statements at the October meeting.

Ms. McDuffee discussed the Core Values also known as the ACTIVE Principles. She reviewed the discussion at the October Board meeting regarding the revised Core Values presented by the Engagement Taskforce. The Board requested the Core Value be further refined based on Board and Senior Staff input into the process.

Based on the feedback by the Board as well as meetings with Senior Staff and Engagement Committee members, the proposed refined Core Values were presented along with what they mean to the System.

Performance measures were discussed, noting that there are both quantitative and process based measures. Ms. McDuffee highlighted the areas where the measures have been revised since the October meeting.

Mr. Parrish stated that he would like to see some state or national benchmarks developed so the Board can get an indication how TMRS rates overall.

Mr. Landis moved that the Board adopt the proposed Core Values and the Strategic Plan as amended. Mr. Philibert seconded the motion, which passed 6-0.

**6. Consider and Act on Proposed 2018 Operating Budget**

Mr. Gavia introduced this item and noted the changes from the proposed budget presented at the October Board meeting. Ms. Covarrubias discussed the structural change from the abbreviated preliminary budget to the expanded final version.

Ms. Covarrubias moved into Section 1 of the budget document and highlighted accomplishments in 2017. This section also provides alignment of the 2018 Budget with the draft Strategic Plan.

Goal 1 was reviewed. It deals with financial stability and long-term viability of the plan which includes funding for actuarial services, legislative studies and the GRS Dashboard.

Goal 2 relates to customer service and effective communication. A brief history of features completed to date that offer Straight-Through Processing (TMRSDirect) was discussed, and it was noted that future enhancements are being completed by internal staff.

The October budget had included funds for consulting and software related to the Employer/City Payroll Contributions project; this item was excluded from the December budget pending further direction from the Board.

Goal 3 includes funds for Board specific initiatives regarding governance and management structure.

Goal 4 relates to creating a culture of innovation, collaboration and open communication. Funds are included for succession planning, leadership development and employee engagement.

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.

Section III of the budget provides a detailed breakdown of the five major sections. Personnel Services is the largest category and it includes four new positions, conversion of two part-time call center positions into one full-time position, a reduction in TMRS retirement contribution rate, funds for merit increases, funds for the same benefit package for employees, and funds for TMRS retiree medical coverage.

The Professional Services category is the second largest category of the budget. Approximately 35% of this category is for consulting and other professional services. Ms. Covarrubias reviewed recurring consulting costs and discussed the new consulting requests. Mr. Willrich discussed the Electronic Records project planned for 2018 as well as the VMware Technical Account Manager. He also discussed the Oracle licensing review and described the Organizational Governance project.

Ms. Covarrubias reviewed the new GRS Dashboard and the new requests for on-line services. She highlighted the ORTEC product that the Investment Department would use to

simulate risk to the portfolio in various scenarios. It would improve evaluation for both intermediate and strategic capital market risks.

The Rentals and Equipment Maintenance category is 4% of the proposed budget and 80% of that total is related to data processing. New software and hardware purchases are described in Appendix D.

The Miscellaneous category includes items requested by all departments that support employees' professional growth, and includes items such as building/grounds maintenance, utilities and Board expenses. The Capital Expenditures Section was discussed.

Ms. Covarrubias reviewed the new positions requested in the final budget. They include Senior Investment Analyst, Communications, Technology and Design Specialist, and two positions in the Information Resources Department, including a Records Analyst and Senior Computer Support Specialist.

Ms. Covarrubias highlighted the Appendices and provided supplemental information relating to the various aspects and areas of the final proposed budget.

A brief high level review of the 2017 Budget was presented and Ms. Covarrubias discussed the new items approved in the 2017 Budget and where we are year-to-date. We are expected to spend approximately 86% of the adopted budget; Appendix H provides a comparison of budget to estimated expenses for each line-item. Excess/unused funds from the 2017 budget will be used to off-set the 2018 budget transfer.

Mr. Jeffers challenged the team to review Investment consultant fees and areas where non-Investment consultants are no longer required.

Mr. Landis moved that the Board adopt the 2018 Proposed Operating and Capital Expenditures Budget. Mr. Jeffers seconded the motion, which passed 6-0.

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

There was no discussion.

Mr. Rodriguez moved that the Board adopt a resolution to transfer \$26,588,000 from the Interest Reserve Account in the Trust Fund to the Expense Fund to cover budgeted expenses for 2018. Mr. Philibert seconded the motion, which passed 6-0.

**8. Consider and Act on Final Adoption of Proposed TMRS Rule Change(s) (formerly #4 on the Thursday, December 7, 2017 agenda)**

Ms. Sweeney presented the amendments to the TMRS rules for consideration of final adoption. The proposed rule amendment and new rule do not propose changes to the benefit structure or design of TMRS, but instead are designed to include specific language in the

TMRS plan documents that the IRS requires for TMRS's reliance on the recent Determination Letter received from the IRS.

Ms. Sweeney reviewed the steps taken in issuing and publishing the proposed rule changes in the Texas Register. Today's action is the final adoption of the rule amendment and new rule. She noted that one typographical error has been corrected from the previous published version and that no comments were received to the published version.

Mr. Jeffers moved that the Board approve the Order and adopt the amended Rule §127.7 and new Rule §127.10, to be effective 20 days after they are filed with the *Texas Register*, without changes to the proposed language as shown in the Board materials. Mr. Rodriguez seconded the motion, which passed 6-0.

**9. Consider and Act on Private Equity Manager Search Recommendation(s) (formerly #8 on the Thursday, December 7, 2017 agenda)**

Chris Schelling presented the Private Equity manager search recommendation with Mike Elio from StepStone Group, LP. The Private Equity search process timeline and the manager search process were reviewed. Mr. Schelling discussed the due diligence process and the fact that progress is being made toward the target of \$450 million in the pacing plan. Portfolio construction was highlighted and Mr. Schelling discussed strategy diversification, manager implementation and geographic diversification.

Mr. Schelling introduced two manager recommendations: LightBay Investment Partners, L.P. (LightBay) and Providence Strategic Growth III L.P. (Providence).

LightBay is raising its first fund, targeting \$450 million of aggregate capital commitments. The fund will pursue buyout investments in the consumer, healthcare, and business service sectors. They will invest in primarily traditional Leveraged Buyouts, but will also have the capability to pursue more distressed opportunities. This is a new team, but well tenured with a good track record.

Providence is TMRS' first Private Equity "re-up." Providence targets growth equity investments in Lower Middle Market technology-enabled companies in North America. This is Fund III with good track records in both Fund I and II.

Mr. Philibert moved that the Board approve the following:

- (i) Authorize the following allocation(s), each as proposed and in accordance with the TMRS Investment Policy Statement, with an initial investment allocation up to the amount set out below and at fees no greater than presented in the Summary of Recommendations chart in the TMRS Staff memo, each individually contingent on favorable background checks, if required below, and successful negotiation of the investment agreements:

Name of Investment Manager, Investment Fund, or Fund Strategy	Asset Class Strategy	Initial Investment Allocation	Background Check Required (Yes or No)
LightBay Investment Partners, L.P. (LightBay)	Special Situations	\$50 million	Yes
Providence Strategic Growth III L.P. (Providence or PSG)	Growth Equity	\$60 million	Yes

- (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 6-0.

**10. Consider and Act on Non-Core Fixed Income Manager Search Recommendation(s) (formerly #9 on the Thursday, December 7, 2017 agenda)**

Mr. Weiner and Mr. Gaymer presented the Non-Core Fixed Income manager search recommendations. The two key criteria used in the selection of the manager, Global Credit Opportunities Fund (GCO) were: 1) the depth and experience of the team; and 2) their ability to source deals. With the selection of GCO, the Non-Core Fixed Income portfolio will be fully allocated on a commitment basis.

(At this point, Ms. Oakley left the meeting at 4:25 p.m.)

The portfolio construction was reviewed and Mr. Weiner noted that this opportunistic credit strategy will seek to produce higher returns, and may exhibit increased volatility. Total Non-Core Fixed Income portfolio allocation will reach approximately \$5.7 billion on a committed basis upon funding. The primary return focus is to produce high levels of income with some capital appreciation.

GCO is a fund created by BlackRock, the largest asset manager in the world. GCO will seek to invest mainly in private credit and credit-related assets in special situations or in capital structures that are currently experiencing, or may experience, stress or liquidity constraints. Mr. Gaymer noted this is a new team, but the members are individually very experienced.

Mr. Weiner discussed the recent rebalance of the portfolio and noted that more information was provided in the Board materials.

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)
Global Credit Opportunities Fund, LP	Non-Core Fixed Income	\$300 Million	Yes

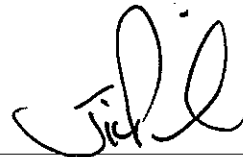
- (ii) Approve and incorporate by reference for all purposes the Board Standard Investment Authorizations for each such investment allocation.

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

At 4:40 p.m. the meeting was recessed until 8:30 a.m. on Friday, December 8, 2017.



David Gavia  
Executive Director



Jim Parrish  
Chair, Board of Trustees

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

**December 8, 2017 – 9:30 a.m.**

On December 8, 2017, the Board of Trustees of the Texas Municipal Retirement System (TMRS) reconvened for a meeting at 9:30 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  
Roel “Roy” Rodriguez  
David Landis  
Julie Oakley  
Jim Jeffers

**Present also were:**

David Gavia, Executive Director  
Eric Davis, Deputy Executive Director  
Christine Sweeney, General Counsel  
TJ Carlson, Chief Investment Officer  
Rhonda Covarrubias, Director of Finance  
Leslee Hardy, Director of Actuarial Services  
Debbie Munoz, Director of Member Services  
Bill Wallace, Director of Communications  
Dan Wattles, Director of Governmental Relations  
Scott Willrich, Director of Information Resources  
Jesse Pittman, 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  
Jason Weiner, Director of Fixed Income  
Dimitry Shishkoff, Director of Risk Management  
Karen Jackson, Executive Assistant  
Marcia Beard, RVK  
Amy McDuffee, Mosaic Governance Advisors

**Also in attendance:**

David Rodriguez, Regional Manager – City Services  
Nick O’Keefe, Lead Investment Attorney  
Madison Jechow, Assistant General Counsel  
Melanie Thomas, Editor  
Cindy Morse, Investment Support Analyst

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Eddie Schultz, Assistant Director of Real Assets  
Sally Case, Operations Manager  
Carol Leung, Equities Investment Analyst  
Ryan Conner, Risk Management Analyst  
Melissa Jerkins, Quantitative Analyst  
Kurt Cressotti, Compliance Officer  
Rachel Cleak, Alternative Analyst  
German Gaymer, Fixed Income Analyst  
Andi Focht-Williams, Senior Auditor  
Bob Scott, City of Carrollton  
George Kaufman, City of Garland  
David Riggs, Texas State Association of Fire Fighters  
Greg Shipley, Combined Law Enforcement Associations of Texas  
Devon Waters, City of Arlington  
Casey Srader, Government Finance Officers Association of Texas  
Casey Jones, White Oak Global Advisors, LLC

Mr. Parrish called the meeting to order and the meeting was reconvened at 9:30 a.m.

**11. Consider and Act on Election of Board Officers**

Mr. Gavia reviewed the historical background for the election of Board officers and noted that a formal rotation policy is not in place. Mr. Parrish began by stating that it has been a pleasure serving as Chair and noted the initiatives that have been put in place by the Board for 2017. In the name of continuity, Mr. Parrish stated that he would be willing to serve again as Chair.

Mr. Jeffers nominated the current Chair, Jim Parrish, and Vice Chair, Bill Philibert, to again be the respective Chair and Vice Chair for 2018. Mr. Rodriguez nominated Mr. Philibert to be the Chair and Mr. Landis to be the Vice Chair for 2018. He explained that past Boards have tried to have each Board member serve as Chair and Vice-Chair during their term.

With two nominations on the floor, Mr. Jeffers asked for General Counsel to clarify the procedures since a nomination was already on the table when a second nomination was made. Ms. Sweeney responded that under applicable rules of order, candidates are voted on in the order in which they were nominated. If a vote on the first nomination fails, then the second nomination is voted upon. However if a vote on the first nomination passes, then the second nomination would not require a vote. Mr. Jeffers clarified that the vote on the nominations is taken in the order they were received.

Mr. Jeffers made a motion to keep the current Chair and Vice Chair for 2018, Chair Jim Parrish and Vice Chair Bill Philibert. Mr. Landis seconded the motion, which passed 4-2. Mr. Rodriguez and Ms. Oakley voted against.

There was a question as to how Mr. Philibert voted. Mr. Philibert indicated he voted for the motion for Mr. Parrish to continue as Chair and Mr. Philibert as vice Chair. He also withdrew his name from consideration as Chair.

**12. Consider and Act on Board Committee(s) Creation, Appointment(s), and Reappointment(s) for 2018**

Mr. Gavia presented current Committee assignments. The need for a Budget Committee was discussed and Ms. Oakley stated that the timing of the budget makes decisions difficult. However, by having this Committee, it would allow the Board more time to vet the items included in the Budget.

Mr. Landis made a recommendation to create the Budget Committee and he recommended that Ms. Oakley serve as Chair and he would be willing to serve as Vice Chair.

The Board requested staff to prepare charters for both the Budget and Compensation Committees.

Mr. Rodriguez moved to create the Budget Committee with Ms. Oakley serving as Chair. Mr. Philibert seconded the motion, which passed 6-0.

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

- Budget Committee:
  - Chair: Julie Oakley
- Compensation Committee:
  - Chair: Julie Oakley
- Internal Audit Committee:
  - Chair: Jim Jeffers
- Advisory Committee on Benefit Design:
  - Chair: David Landis
- Legislative Committee:
  - Chair: Bill Philibert

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

Mr. Landis made a motion for the Board approve the appointments to the Vice Chairs for the following Committees for 2018:

- Budget Committee:
  - Vice Chair: Roy Rodriguez
- Compensation Committee:
  - Vice Chair: Bill Philibert
- Internal Audit Committee:
  - Vice Chair: David Landis
- Advisory Committee on Benefit Design:
  - Vice Chair: Roy Rodriguez
- Legislative Committee:
  - Vice Chair: Jim Parrish

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

**13. Consider and Act on System-wide Investment Pacing Plan**

Mr. Carlson reviewed the proposed System-wide Pacing Plan for the Investment Department. Each line item was highlighted and he noted the suggested changes in the timing of the annual asset class reviews and discussed the potential manager searches. Mr. Carlson also discussed consultant reviews and searches, the reevaluation of the Securities Lending Program, quarterly reports by staff and RVK, the annual review of the Investment Policy Statement and the three-year deep dive for the Asset Allocation Study.

Ms. Oakley noted that the number of managers noted for the searches, as well as the timing, are for planning purposes so if staff needs to make adjustments, they can do so.

Mr. Rodriguez moved that the Board adopt the 2018 System-wide Investment Pacing Plan (“Pacing Plan”) as presented and authorize Staff to update or amend the implementation of the Pacing Plan as necessary or desirable, provided that the Board shall be promptly notified of any updates or amendments to the Pacing Plan. Ms. Oakley seconded the motion, which passed 6-0.

**14. Consider and Act on Proposed Revisions to the Investment Policy Statement**

Mr. Carlson reviewed the changes that were made after the discussion with the Board at the October meeting. Highlights of the 2017 recommended changes include but are not limited to: making certain benchmark modifications; clarifying co-investment requirements; formally adopting the new risk reporting structure that has been used throughout 2017; adding a definition for “Asset Class Goal” to the glossary; and making minor policy range changes.

Ms. Oakley moved that the Board approve the Investment Policy Statement as presented with the addition of the updated Mission and Vision Statements as stated in the Strategic Plan. Mr. Jeffers seconded the motion, which passed 6-0.

**15. RVK Quarterly Report (formerly #17 on the Friday, December 8, 2017 agenda)**

Ms. Beard presented the quarterly report for the period ending September 30, 2017 and she began by reviewing the capital markets. A strong equity market continued in the third quarter due to improved fundamentals. A loosening of regulations is expected to be supported by the new Chair of the Federal Reserve. Strong returns should continue through December. In the third quarter, non-U.S. markets out-performed U.S. markets.

Asset Allocation and Performance was discussed and Ms. Beard pointed out that positive progress has been made to the committed and current allocations. Asset Class Composite Performance shows strong performance. The returns for the current portfolio is above 11.7% and the portfolios is approaching \$28 billion.

Total fund performance versus peers was reviewed and Ms. Beard indicated TMRS has less volatility than its peers. Both return and risk/reward profiles were discussed in the Asset Class Composites.

(At this point, Mr. Rodriguez left the meeting at 10:38 a.m.)

**16. Private Equity Annual Asset Class Review (formerly #15 on the Friday, December 8, 2017 agenda)**

Mr. Schelling presented the Private Equity Annual Asset Class Review and discussed the reasons for conducting the annual asset class review as well as the review process. The annual review process holds staff accountable for its portfolio management process in order to preempt manager specific, strategic, or other potential problems.

The Private Equity initiatives were reviewed and the progress that has been made toward reaching the pacing objective was discussed. Strong planning, execution and portfolio management has put TMRS on the path to achieving its strategic investment objectives.

Mr. Schelling noted that the Private Equity Analyst position has been filled and thanked the Investment team for their assistance during the interim.

The team has taken 579 meetings with 522 managers. In addition, there were 95 data rooms researched, 146 formal reference calls, 67 background checks and 41 personality inventories conducted. This gives a context for all the work that goes into the decision process before a manager is selected.

Mr. Schelling reviewed the manager scorecards and reported that all current Private Equity managers have scores of "good standing" to "excellent," and all managers are trending comparable to prior funds. Mr. Schelling reviewed the Private Equity performance, portfolio and compliance. The benchmark and performance considerations were discussed, including the pros and cons of the Public Equity Plus Premium benchmark, the Fund Index Benchmark and the Absolute Return target or peer comparison. We currently use Public Equity Plus Premium benchmark which is used by 75% of our peers.

The Private Equity J-curve was discussed and Mr. Schelling noted that a portfolio of Private Equity investments tends to have a flatter J-Curve. Performance numbers for the period ending July 2017 were reviewed and the numbers for both State Street and StepStone were also discussed.

Risk relative to performance was reviewed and it is expected that TMRS will have a lower risk profile relative to other portfolios because of the design.

Deployment Pace, Net Asset Growth, Strategy Diversification, Manager Diversification, Geographic Diversification and Vintage Year Diversification were discussed. The portfolio is in compliance with IPS requirements.

Mr. Schelling reviewed the Private Equity Market and Fundraising. He noted that fundraising times have been compressed. Private Equity Deal Flow, Private Equity Valuations, Exit Environment and Performance were discussed. In the long term, Private Equity is still performing, but expectations should be modified going forward. The portfolio is constructed to have a slightly higher return than average, with slightly less risk than average.

Looking forward, target annual commitments will increase in future years based on actual capital calls. Staff will also pursue modestly more international diversification and potentially the first dedicated European exposure.

Mr. Schelling concluded by discussing an initiative to define a fund structure in Private Equity that benefits the L.P. with lower fees, expenses and transactions costs as well as a better alignment of interests. He stated that Private Equity continues to become increasingly competitive and transactional in nature and that Governance and policies should evolve accordingly.

**17. Public Equity Annual Asset Class review (formerly #16 on the Friday, December 8, 2017 agenda)**

Ms. Qualls and Ms. Leung presented the Public Equity Annual Asset Class Review. The annual review process is performed to hold staff accountable for its portfolio management process. Ms. Qualls reviewed the manager scorecard summary and noted that two managers have a "fair" rating due to performance issues. Equity staff is addressing these issues and will continue to monitor them. The rest of the manager relationships are in "excellent" or "good" standing. All managers' compliance with account guidelines and contracts are in satisfactory standing.

Ms. Qualls reviewed the Public Equity program and listed the initiatives during the year. She discussed the rebalancing that has occurred with the program and the portfolio's allocation and performance. Various aspects of the allocation were reviewed including passive and active structures and geographic and market capitalization diversification. Ms. Qualls also updated the performance numbers for U.S. and non-U.S. equities.

Ms. Leung reviewed the Investment Policy Statement (IPS) monitoring review. She discussed the different equity strategies that were reviewed in 2017 and the amounts allocated to each strategy. The Monitoring Summary Report for both U.S. and non-U.S. equities were reviewed and it was noted that no managers have been placed on a watch list, as all managers are “within acceptance” based on a qualitative evaluation.

A Public Equity market update was provided and it was noted that U.S. equities are very expensive given the long market cycle. Interest rate increases are expected in the future from the Federal Reserve, but the U.S. market could continue to maintain this level. It was noted that the non-U.S. Public Equity continues to be attractive.

In conclusion, Investment Staff and RVK concur that all equity portfolios are performing in accordance with expectations and that no changes are immediately needed. All managers and strategies are in compliance. Ms. Qualls stated that staff will continue to evaluate the passive/active structure. Staff and RVK will review and determine the next steps for the Transition Management Program.

**18. Chief Investment Officer Management Update, Including Governance, Personnel, Manager Update and Other Investment Related News or Matters (formerly agenda item #19 on the Friday, December 9, 2016 agenda)**

Mr. Carlson congratulated Melissa Jerkins on her appointment to the Institutional Society of Risk Professionals (ISRP). The purpose of the ISRP is to facilitate research and sharing of best practices in the risk industry.

**19. Executive Director and Staff Reports**

Mr. Gavia updated the Board on the delay of the online direct deposit feature due to the fraud other systems have encountered. We are reviewing our security measures currently in place.

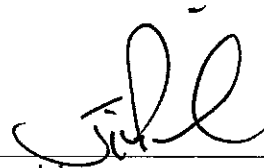
**20. Call for Future Agenda Items**

There was no discussion at this time.

The meeting was adjourned at 11:55 a.m.



David Gavia  
Executive Director



Jim Parrish  
Chair, Board of Trustees