

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

June 21, 2017 – 1:30 p.m.

On June 21, 2017, the Board of Trustees of the Texas Municipal Retirement System (TMRS) convened for a meeting at 1:30 p.m. at TMRS Headquarters, located at 1200 North IH 35 in Austin, Texas, with the following members present:

Board of Trustees

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

Absent: Roel “Roy” Rodriguez

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
Leslee Hardy, Director of Actuarial Services
Debbie Munoz, Director Member Services
Rhonda Covarrubias, Director of Finance
Scott Willrich, Director of Information Resources
Jesse Pittman, Senior Project Manager
Leslie Ritter, Director of Human Resources
Robert Klausner, Klausner, Kaufman, Jensen & Levinson
Dimitry Shishkoff, Director of Risk Management
Marc Leavitt, Director of Absolute Return
Chris Schelling, Director of Private Equity
Tom Masthay, Director of Real Assets
Jason Weiner, Director of Fixed Income
Sandra Vice, Director of Internal Audit
Karen Jackson, Executive Assistant
Marcia Beard, RVK
Joe Newton, Gabriel, Roeder, Smith & Company
Amy McDuffee, Mosaic Governance Advisors
Mark White, Albourne Partners LTD
Susan Warren, KPMG
Rebecca Goldstein, KPMG
Chris Stone, KPMG

Also in attendance:

Michelle Mellon-Werch, Assistant General Counsel
Nick O'Keefe, Assistant General Counsel
Michael Schaff, Assistant General Counsel
Anthony Mills, Regional Manager – City Services
David Rodriquez, Regional Manager – City Services
Adrienne Strong, Human Resources Generalist
Melanie Thomas, Editor
Sally Case, Investment Operations Manager
Carol Leung, Public Equities Investment Analyst
Chris Tindell, Private Equity Analyst
Ryan Conner, Risk Management Analyst
Cindy Morse, Investment Support Analyst
Debbie Farahmandi, Investment Operations Specialist
Melissa Jerkins, Quantitative Analyst
Jennifer Andrews, Member Services Manager
Peter Jeske, Project Specialist
Madison Jechow, Assistant General Counsel
Eddie Schultz, Real Estate Analyst
Martha deLivron, Absolute Return Analyst
Rachel Cleak, Alternative Analyst
German Gaymer, Fixed Income Analyst
Candace Nolte, Assistant Finance Director
Paula Nguyen, Investment Accountant
Sherry Chapman, Investment Accountant
Greg Shipley, Combined Law Enforcement Associations of Texas
Keith Dagen, Government Finance Officers Association of Texas
George Kaufman, City of Garland

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

1. Consider and Act on Consent Agenda

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

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

2. Consider and Act on TMRS Employee Manual Updates

Mr. Gavia introduced Ms. Ritter to discuss the changes to the five sections of the Employee Policy and Benefits Manual (Employee Manual). TMRS will transition from semi-monthly to bi-weekly payroll cycles effective with the pay period beginning June 25, 2017 to be first reflected in the Friday, July 14, 2017 paycheck. Language in several sections of the Employee Manual needed to be updated in order to be accurate post-transition. The changes reflect only the change from semi-monthly to bi-weekly payroll.

Mr. Jeffers moved that the Board adopt effective as of June 25, 2017, the proposed changes to the TMRS Employee Policies and Benefits, in order to accurately reflect TMRS' transition from semi-monthly to bi-weekly payroll cycles. Mr. Philibert seconded the motion, which passed 5-0.

3. Receive SOC-1 Audit Report

Mr. Gavia introduced Mr. Chris Stone from KPMG to present the SOC-1 Audit Report. This report is completed in accordance with SSAE No. 18, and is considered an auditor-to-auditor communication regarding the System's controls. Mr. Stone reviewed the timeline under which the audit was conducted as well as the content of the SOC-1 report. The results of the Process Objectives were discussed and Mr. Stone noted the four minor exceptions. The overall opinion of the audit is unqualified or "clean". All ten control objectives were presented fairly, designed appropriately, and operating effectively.

4. Receive Report on 2016 External Audit Results (SAS 114) and Auditor Report to the Board of Trustees

Ms. Susan Warren from KPMG presented the results of the 2016 External Financial Audit (SAS 114). She reviewed the responsibilities of management and the auditor regarding the audit. The results were an unmodified or a "clean" opinion. There were no material weaknesses or significant deficiencies as well as no significant corrected or uncorrected adjustments.

Ms. Warren discussed significant accounting policies and focused on Governmental Accounting Standards Board (GASB) Statement No. 72 - *Fair Value Measurement and Application*. She discussed that this Statement provides guidance for determining fair value of certain investments and disclosures related to all fair value measurements. Ms. Warren noted the discussion held with the Finance team regarding appropriate staffing levels, given the increase in investments.

There were no significant estimates in the financial statements and no other matters were noted.

5. Receive and Approve Distribution of 2016 Comprehensive Annual Financial Report (CAFR) and Schedule of Changes in Fiduciary Net Position (by Employer)

Ms. Covarrubias presented the 2016 Comprehensive Annual Financial Report (CAFR) and thanked all those that were involved in producing the report, especially Candace Nolte, Donna Neal and Melanie Thomas.

Ms. Covarrubias began with the Introductory Section which includes a presentation of activity in 2016, a brief overview of Investments, and an overview of funding and actuarial services as well as information regarding management of the System. The Financial Section begins with the Independent Auditors' Report (unmodified or clean opinion). This is followed by Management's Discussion and Analysis (MD&A) and the Financial Statements. Items included in the financial statement are the Statement of Fiduciary Net Position (Balance Sheet) and Statement of Changes in Fiduciary Net Position (Income Statement). Ms. Covarrubias highlighted the Notes to Financial Statements, Required Supplementary

Information and Supplemental Schedules. She discussed the Plan Description and GASB Statement No. 72.

The Investment Section was reviewed and RVK's Report on Investment Activity was discussed. Ms. Covarrubias noted the Outline of Investment Policies and Investment Results.

The Actuarial Section was discussed and it includes separate sections for the Pension Trust Fund and the Supplemental Death Benefits Fund. Both sections include the Actuary's Certification letter.

The Statistical Section provides historical perspective in compliance with GASB Statement No. 44. Ms. Covarrubias reviewed various graphs and schedules including the Schedules of Average Benefit Payments and Retired Members by Type of Benefit. Also highlighted were the Schedule of Principal Participating Employers and Plan Provisions for Participating Municipalities. Ms. Covarrubias concluded with formats and venues in which the CAFR will be distributed.

Mr. Philibert moved that the Board approve the distribution of the 2016 Comprehensive Annual Financial Report and the 2016 Schedule of Changes in Fiduciary Net Position (by employer) to TMRS member cities and interested parties, as described above. Mr. Landis and Ms. Oakley both seconded the motion, which passed 5-0.

6. Consider and Act on Real Return Manager Search Recommendation(s)

Mr. Masthay, Mr. Schultz and Mr. White from Albourne presented the Real Return manager search recommendations. Mr. Masthay reviewed the search process and final selected managers scoring matrix. The Real Return portfolio statistics were discussed as well as portfolio exposure by manager asset type and geography. The Real Return Portfolio Capital Structure was also reviewed.

Mr. Masthay introduced the two final manager selections: ISQ Global Infrastructure Fund II, LP (I Squared), an infrastructure manager; and, Blue Sky Strategic Australian Agriculture Fund, LP (Blue Sky), a water and agriculture manager in Australia.

Mr. Masthay reviewed the characteristics of I Squared. I Squared is a global, upper mid-market infrastructure manager that focuses on building and creating platform companies in the power, energy and utilities space. The Investment case and the issues to consider regarding the investment were discussed.

Mr. Schultz introduced Blue Sky. Blue Sky is a wholly owned subsidiary of Blue Sky Alternative Investments Limited. This fund has three pillars for investing; agriculture infrastructure (primarily sale leaseback structures with strong cash flow and equity participation when available/appropriate); Australian agriculture (a private equity oriented approach offering expansion or change of use capital); and, a water rights program (managing water rights for agricultural holdings to maximize return). The Blue Sky Water GP was founded in 2007 with the specific purpose of managing water and agriculture investments as the government of Australia restructured the water market to create a traded

exchange. The Investment case and issues to consider were reviewed and Mr. Schultz highlighted that this investment indirectly gives us access to Southeast Asian agriculture demand.

Mr. Parrish asked for the breakdown between the three pillars. Mr. Schultz indicated that each element is related to the specific project being invested in. Mr. White discussed the specifics of water rights in Australia.

Mr. Landis moved that the Board:

- 1) 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 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)
ISQ Global Infrastructure Fund II, LP (I Squared)	Private Real Return	\$150 Million	Yes
Blue Sky Strategic Australian Agriculture Fund, LP (Blue Sky)	Private Real Return	A\$75 Million	Yes

- 2) 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.

7. Asset Allocation Annual Review (formerly #8 on the Thursday, June 22, 2017 agenda)

Mr. Carlson and Ms. Beard from RVK presented the annual review of the existing Asset Allocation. Mr. Carlson indicated that the Asset Allocation is reviewed yearly with a deep dive every three years.

The three key fundamentals on which portfolio expectations are based were reviewed (Risk, return and correlations). Mr. Carlson noted that RVK's Capital Market Assumptions have tightened since last year. He reviewed the assumptions by asset class as well as arithmetic return assumption and standard deviation assumption. The volatility of return was also discussed. On a one-year basis, it is assumed that TMRS can hit its 6.75% target fifty percent of the time. The discussion included the arithmetic and geometric return differences.

Mr. Newton (GRS) noted that the numbers still support the 6.75% actuarial assumption, but less than when the allocation was set two years ago. He also noted that the results are still in the reasonable range. Mr. Carlson indicated there are no recommended changes at this point.

8. Chief Investment Office Management Update, Including Governance, Personnel, Manager Updates, Negative Interest Rates and Other Investment Related News or Matters (formerly #11 on the Thursday, June 22, 2017 agenda)

Mr. Carlson discussed the rumors that RVK was buying Courtland Partners, LTD (Courtland) and Ms. Beard indicated the rumors are false. It is expected that there will be a corporate event with Courtland in the future, but the outcome is not known.

Mr. Carlson indicated a lawsuit was unsealed in San Diego, California that named Albourne and Lisa Needle of Albourne as defendants. TMRS has requested that Ms. Needle be removed as our relationship manager. At this time, TMRS does not feel that Albourne has done anything to warrant action against the firm but will continue to monitor the situation.

Kurt Cressotti was introduced as the Investment Department's new Compliance Officer. Ms. Farahmandi and Ms. Morse took over the duties until Mr. Cressotti was hired. The first quarter report was reviewed and recalculated with no compliance issues. We are currently running two compliance systems at State Street during the transition to the new compliance system.

During the first quarter, 217 meetings were taken by the Investment team. Mr. Carlson indicated our offer was accepted by the new Performance Analyst who has a long history of working with State Street.

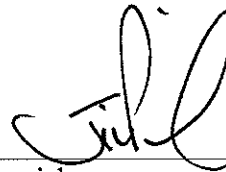
9. Executive Session

At 3:30 p.m., the Board entered into Executive Session, pursuant to Texas Government Code §§551.071 and 551.074 to consult with Legal Counsel to receive legal advice, and to discuss personnel matters. No action was taken during the Executive Session and all members of the Board that were present before the executive session were still present. The meeting was opened to the public again at 5:03 p.m.

At 5:03 p.m. the meeting was recessed until 9:00 a.m. on Thursday, June 22, 2017.



David Gavia
Executive Director



Jim Parrish
Chair, Board of Trustees

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

June 22, 2017 - 9:00 a.m.

On June 22, 2017, the Board of Trustees of the Texas Municipal Retirement System (TMRS) convened for a meeting at 9:00 a.m. at TMRS Headquarters, located at 1200 North IH 35 in Austin, Texas, with the following members present:

Board of Trustees

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

Absent: Roel "Roy" Rodriguez

Present also were:

David Gavia, Executive Director
Eric Davis, Deputy Executive Director
Christine Sweeney, General Counsel
TJ Carlson, Chief Investment Officer
Robert Klausner, Klausner, Kaufman, Jensen & Levinson
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
Sandra Vice, Director of Internal Audit
Leslie Ritter, Director of Human Resources
Marc Leavitt, Director of Absolute Return
Jesse Pittman, Senior Project Manager
Karen Jackson, Executive Assistant
Stacy White, Executive Assistant
Marcia Beard, RVK
Amy McDuffee, Mosaic Governance Advisors

Also in attendance:

Michelle Mellon-Werch, Assistant General Counsel
Melanie Thomas, Editor
Debbie Farahmandi, Investment Operations Specialist
Peter Jeske, Project Specialist

Sally Case, Investment Operations Manager
Carol Leung, Public Equity Analyst
Kurt Cressotti, Compliance Officer
Andi Focht-Williams, Senior Auditor
Ariel Chou, Actuarial Analyst
Greg Shipley, Combined Law Enforcement Associations of Texas

Mr. Parrish called the meeting to order and the meeting was reconvened at 9:00 a.m.

10. RVK Quarterly Report (formerly #9 on the Thursday, June 22, 2017 agenda)

Ms. Beard presented the quarterly report for the period ending March 31, 2017. There were strong equity returns and signs of improvement in global economic growth. For the month of June, there was continued improvement and globally there has been an improvement in economic growth.

Total fund allocation was reviewed and the over weighting in domestic equity and Core Fixed Income was noted as they are funding sources for other asset classes during the diversification process. Net of fees, the portfolio is outperforming the allocation benchmark proving that active strategies are adding value. Net Composite Performance was reviewed and again the overall outperformance was noted compared to the benchmark. Total fund performance versus peers was discussed.

Ms. Beard reviewed each asset class. Domestic equity had a median performance with lower risk. Core Fixed Income outperformed the benchmark across all periods; Non-Core Fixed Income should be fully funded by the end of the year. The benchmark mismatches for both Non-Core Fixed Income and Real Return were discussed. The Real Estate portfolio diversification was noted. Private Equity is showing strong performance even as it is funding up.

Ms. Beard discussed the additional detailed information that is provided in the Supplemental Report, including schedules for the Absolute Return and Private Equity portfolios which show the allocations versus draws.

11. Overview of the 85th Legislative Session, Presentation of Legislative Committee Report and Discussion of Filed and Passed Legislation and Upcoming Legislative Session, Including Solicitation of Board Direction to the Legislative Committee and Staff on Selected Matters, if desired (formerly #10 on the Friday, March 31, 2017 agenda)

Mr. Wattles presented this wrap-up report for the 85th Regular Legislative Session which concluded on May 29, 2017. This session was expected to be difficult due to the increased scrutiny of pension systems. TMRS did not propose legislation to modify the plan design. However, one positive note was the stability in the Chairs of the Senate and House oversight Committees.

The Texas Legislature adopted a FY2018-2019 biennial budget of \$217 billion, a 3.6% increase over the prior \$209.4 billion biennial budget. The budget will leave a biennial

shortfall of \$1 billion for expected cost growth in certain programs such as Medicaid, which will have to be addressed when the Legislature returns in 2019.

There were 6,600 bills filed with only 1,200 passing. Fifty-five bills were filed potentially affecting the statewide and local public retirement systems. By the conclusion of the session, only a limited number of pension bills were finally passed and sent to the Governor for his signature. Among these were bills to address the issues affecting the Dallas and Houston retirement plans. Also, \$484 million was appropriated for TRS Care, the health insurance program for retired teachers, leaving a \$516 million shortfall.

The bills affecting TMRS include HB 3056 (Meyer) which establishes a process for the City of University Park, which currently participates in TMRS, to effectively close their Texas Local Fire Fighters Retirement Act (TLFFRA) plan and enroll "newly" hired fire fighters into TMRS. The actions necessary to make this happen must occur before October 1, 2018. This bill will become effective September 1, 2017. The second bill that passed was HB 89 which will require all governmental entities to obtain written verification from companies with whom they contract that they do not boycott Israel and that they will not boycott Israel during the term of the contract. It also requires all the statewide retirement systems and the Permanent School Fund to divest of any direct holdings in companies that boycott Israel. The third bill is SB 500 (Taylor, V.) and will require retirement systems to suspend the annuity payments of an elected official who is convicted of a qualifying felony committed while in office and directly arising from the official duties of that elected office. The bill only applies to officials who commit a qualifying felony after the effective date of the bill which is June 6. TMRS has relatively few elected officials.

SB 301 (Watson) is the sunset reauthorization bill for the Employees Retirement System of Texas. Elements of this bill may be a bellweather for the other systems. Besides requiring the agency to engage in practices that other Texas agencies are required to use such as alternative dispute resolution procedures, negotiated rulemaking and model guidelines issued by the State Office of Administrative Hearings, to the extent possible, it contains a requirement that the ERS Board approve any alternative asset class investment that exceeds 0.6 percent of the total market value of the trust fund. It also requires developing a method to collect or calculate and report profit share data in all alternative investments.

The Texas Senate approved the nominations of Trustees Jim Jeffers and David Landis to the TMRS Board of Trustees on May 16, 2017. Their terms will expire on February 1, 2021.

JR 34 (Birdwell) would clarify how long officials who are appointed by the Governor and who do not receive a salary can serve in their appointed position. The official would be able to continue to perform the duties of the office until the last day of the first regular session of the Legislature that begins after the expiration of the official's appointed term. Discussion included its applicability to TMRS.

Mr. Wattles gave the Board a preview of the upcoming Special Session. There is one item on the call with nineteen additional items subject to call during the thirty days of the Session. Even so, bills can be filed on any subject matter during a special session.

Mr. Parrish thanked everyone on the TMRS team for their efforts during the Session.

12. Executive Director and Staff Reports

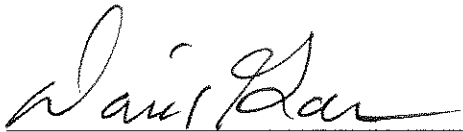
Mr. Gavia noted that rate letters have been prepared, the GRID has been delivered and the GASB package is prepared for delivery in July.

Mr. Gavia discussed the Executive Workshop and Retiree Luncheon in San Antonio in July as well as the upcoming presentation at the TML Conference which will be held in Houston in October.

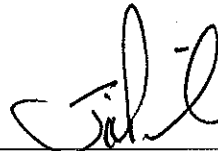
13. Call for Future Agenda Items

For the August agenda, Mr. Parrish requested a discussion regarding the Board dinners.

Mr. Philibert moved that the Board adjourn the meeting. Ms. Oakley seconded the motion, which passed 5-0. At 10:03 a.m. the meeting was adjourned.



David Gavia
Executive Director



Jim Parrish
Chair, Board of Trustees