

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

March 30, 2017 – 1:30 p.m.

On March 30, 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
Roel “Roy” Rodriguez
Julie Oakley
Jim Jeffers
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
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
Kristin Qualls, Director of Public Equity
Dimitry Shishkoff, Director of Risk Management
Marc Leavitt, Director of Absolute Return
Chris Schelling, Director of Private Equity
Tom Masthay, Director of Real Assets
Sandra Vice, Director of Internal Audit
Karen Jackson, Executive Assistant
Marcia Beard, RVK
Joe Newton, Gabriel, Roeder, Smith & Company
Amy McDuffee, Mosaic Governance Advisors
Michael Murphy, Courtland Partners, LTD
Tathata Lohachitkul, Albourne America, LLC

Also in attendance:

Michelle Mellon-Werch, Assistant General Counsel

Nick O'Keefe, Senior Staff Attorney
 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
 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
 Andi Focht-Williams, Senior Auditor
 Ariel Chou, Actuarial Analyst
 Greg Shipley, Combined Law Enforcement Associations of Texas
 Keith Dagen, Government Finance Officers Association of Texas
 George Kaufman, City of Garland
 Bob Scott, City of Carrollton
 David Riggs, Texas State Association of Fire Fighters
 Mike Finley, City of Arlington
 Richard Badger, Houston Retirement System
 Casey Jones, City of White Oak

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

1. Consider and Act on Consent Agenda

Mr. Gavia highlighted the items included in the consent agenda and noted the volume of retirements processed during this quarter. Staff had nothing to add to the consent agenda as presented. There were no changes suggested by the Board.

Mr. Jeffers made a motion that the Board adopt the consent agenda as presented. Mr. Rodriguez seconded the motion, which passed 6-0.

2. Executive Director Update – Administrative Services

Mr. Gavia introduced Deputy Executive Director Eric Davis to give an overview of the Administrative Services Department. Mr. Davis has been with TMRS for 30 years and represents the Executive Director in his absence. Administrative Services is an “umbrella”

department which covers many areas including, Actuarial Services, Finance, Information Resources, Member Services and Project Management.

Areas of responsibility include being the point of contact/liason with cities regarding changes in plan benefits, processing ordinances regarding plan changes; approving all City Portal Agreements, Executive Sponsor on various projects and a Legislative team member. In addition, Mr. Davis prepares the Plan Provision table for the Comprehensive Annual Financial Report and prepares data set and plan change listings for the annual actuarial valuation. He conducts an executive review of retirement files with annuities equal to or greater than \$5,000 and all Correction of Error files. Mr. Parrish asked how many retirees received \$5,000 or more a month. Mr. Davis responded that approximately 68 of the approximate 500 retirees for the months of January and February are at that threshold. Mr. Rodriguez asked how often are errors found and Mr. Davis responded.

Mr. Davis discussed his previous roles with TMRS as well as current projects. Significant accomplishments included serving as interim Executive Director, implementing the SOC-1 Type II audit process, and completing the building finish-out/remodeling project. Mr. Davis was a Co-founder of the National Association of State Retirement Administrators Deputy Directors Group and served on GFOA's Committee on Retirement and Benefit Administration for seven years.

3. Consider and Act on 2016 Interest Credit Allocation to the TMRS Trust Fund Accounts

Ms. Hardy began by outlining the process for allocating net investment income determined in accordance with Generally Accepted Accounting Principles (GAAP) from the interest fund to the TMRS Trust Fund accounts. When determining the amount of interest to be credited/charged, the guaranteed amounts are first credited to the Supplemental Disability Benefits Fund and to the Supplemental Death Benefits Fund (i.e. statutory requirements), then the Board allocates the remaining net investment income or loss between the city trust accounts in the Benefit Accumulation Fund (BAF) and the Interest Reserve Account in rates or amounts determined by the Board in its sole discretion. The numbers used to calculate this amount were available in the materials provided to the Board.

Mr. Newton stated that GRS and Staff are recommending crediting the beginning BAF balances with an interest credit of 6.73% based on beginning of the year balance. This represents the estimated net investment income remaining after all administrative and investment expenses have been paid, the statutory credit requirements have been fulfilled, include estimated 4th quarter private investment fund valuation adjustments and maintain the \$100 million Interest Reserve Account as of December 31, 2016. Mr. Parrish asked if the \$100 million is the appropriate amount to maintain. Mr. Newton suggested this amount could be a fixed amount or a percentage of assets or a more dynamic amount. The Board requested Staff take a look at this amount and Ms. Hardy noted that the appropriateness of the \$100 million was reviewed with the investment and finance departments this year and will continue to be analyzed annually.

Mr. Newton discussed the 2016 “smoothed” or actuarial rate of return. The contribution rates are determined based on a ten year asset smoothing process. The 2016 actuarial return of 6.44% will produce an average (will vary by city) increase in 2018 contribution rates of 0.08% from investment performance. Mr. Gavia asked what the “break even” interest crediting rate will be for 2017. Mr. Newton stated that an estimated 6.91% in 2017 will keep the deferred losses from increasing. Mr. Newton then highlighted the 10 year historical values for Market versus Actuarial Value of Assets and Contribution versus Benefits and Refunds.

Mr. Rodriguez moved that the Board allocate, effective as of December 31, 2016, (i) a credit of 5% interest to each of the Supplemental Disability Benefits Fund and the Supplemental Death Benefits Fund, and (ii) a credit of 6.73% interest to the Benefit Accumulation Fund, which represents the estimated net investment income remaining after all administrative and investment expenses have been paid and the statutory interest credit requirements have been fulfilled, includes the estimated fourth quarter private investment fund valuation adjustments and maintains an initial \$100 Million Interest Reserve Account balance. Mr. Rodriguez further moved that any differences in the final versus estimated fourth quarter private investment fund valuation adjustments as well as any adjustments that may be necessary to finalize net investment income for the year, be reflected in the final Interest Reserve Account balance as of December 31, 2016 and considered in the 2017 BAF interest credit determination.

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

4. Consider and Act on Matters Relating to the Texas Municipal Retirement System 457 Deferred Compensation Plan and Trust

Ms. Ritter, Ms. Vice and Mr. Schelling presented the discussion of the 457 deferred compensation plan and trust. The current vendor has been the only third party administrator for the Plan that has been in place for over 30 years. An internal Committee was organized with participation from various departments. The Committee decided to develop and issue a request for proposals (RFP) for the Plan’s third party administrator. Ms. Ritter noted that the TMRS ACTIVE Principles in the Strategic Plan were the framework for the review in that the benefit provided is one part of being the employer of choice. She reviewed the timeline for the process as well as the vendor search and the Request for Proposal (RFP) process. With the assistance of the System’s Investment Consultant, RVK, for content, the Committee drafted and distributed the RFP to seventeen firms and five proposals were received. The ranking factors in the evaluation process were discussed as well as to the “Transition and Implementation” scoring.

The top three vendors were invited on-site and were re-scored by the team after on-site presentations. This process resulted in a recommendation to select Empower Retirement as the 457 third party administrator.

Mr. Ritter reviewed Empower Retirement’s qualifications and the dedicated Retirement Counselor’s experience and qualifications.

Mr. Rodriguez asked if the TMRS members participating in the plan were surveyed to assess their satisfaction with the current vendor. The answer was negative for various reasons. Mr. Klausner discussed, from his legal prospective, the fiduciary concerns and what work still needs to be done with regard to fees and performance of the selected vendor. Mr. Parrish asked if the Committee will continue to monitor and administer the fund. Mr. Klausner noted that the Executive Director will need to be included in the discussions. Mr. Parrish also noted the possible need for an outside expert to help the Committee with the review process. Mr. Klausner explained that the Board does have a duty of care to ensure the fund is monitored and the fees and performance are appropriate.

Ms. Oakley moved that the Board:

- (i) Reaffirm the designation of the Executive Director and his or her designee(s) as the plan administrator for the TMRS 457(b) deferred compensation plan and trust (the "Plan"), in accordance with Chapter 609 of the Texas Government Code;
- (ii) Approve Great-West Life & Annuity Insurance Company, its affiliates, and companies associated with Empower Retirement for providing 457 plan services, including without limitation Wells Fargo Bank, N.A. who might serve as custodian or trustee to the Plan (all such entities hereafter collectively referred to as "Empower") as the new third party administrative services provider, trustee and/or custodian for the Plan, whose services may include, but are not limited to, services as record-keeper, third party administrator, investment adviser, and trustee or custodian for the Plan, contingent on successful negotiation of the Plan related agreements;
- (iii) Delegate the authority to the Executive Director, and his or her designee(s), to:
 - a. negotiate, execute, acknowledge, and deliver any and all contracts, agreements, and other documents or instruments to give effect to engaging Empower to provide such third party plan administrative services, trustee and/or custodian services for the Plan as desired by TMRS on such terms and conditions as are satisfactory to TMRS, such satisfactory terms and conditions to be conclusively evidenced by the execution thereof by the Executive Director, or his or her designee(s);
 - b. amend and restate the terms of the Plan onto 457(b) plan and trust documents utilized by Empower, and amend the terms of the Plan, now and in the future, to provide for such plan features as the Executive Director determines to be in the best interests of TMRS or its employees, including, but not limited to, amending the Plan to add a Roth after-tax employee contribution feature and/or other plan design features available to the Plan, if desired;
 - c. create and implement an internal committee, to be comprised of TMRS staff members, to oversee and assist in the administration of the Plan (hereafter, the "Plan Committee"), and delegate such authority, powers, duties and responsibilities to the Plan Committee as the Executive Director deems necessary, appropriate, or desirable for operations of the Plan or the Plan Committee, including, but not limited to, authorizing the Plan Committee to make recommendations on or to take action on the evaluation, selection, monitoring, and modification from time to time of the investment options offered by the Plan to participants in the Plan; and

- d. do any and all other acts deemed by the Executive Director in his judgment to be necessary, appropriate, or desirable, in the best interests of TMRS or its employees, to administer the Plan; and
- (iv) Hereby amend Section 20.02 of the TMRS Employee Policies and Benefits Manual to delete the phrase “(administered by ICMA-RC)”.

Mr. Jeffers seconded the motion, which passed 5-1 with Mr. Rodriguez voting no.

5. Consider and Act on Real Estate Manager Search Recommendation(s)

Mr. Masthay, Mr. Schultz, and Mr. Murphy from Courtland Partners, LTD presented the Real Estate manager search recommendation. The Real Estate pacing plan for 2017 approved two search processes and a targeted deployment level of up to \$400 million in aggregate. Today’s recommendation is to add two additional funds to the Real Estate portfolio totaling \$100 million.

The search process timeline, search process objectives, the manager search process and the manager scoring matrix were reviewed. Mr. Masthay discussed the Real Estate portfolio construction including portfolio statistics.

The first recommendation is Stockbridge Value Fund III. This is Stockbridge’s third institutional value fund. The fund is seeking to achieve target returns of 12% -15% gross of fees. Mr. Masthay stated they are a top-quartile performer and their strategy has been transparent and predictable with the ability to execute. Issues to consider include manager concentration (Stockbridge is our largest Real Estate manager), increasing industry costs and late cycle Real Estate fundamentals.

The second recommendation is IC Berkeley Partners IV, L.P. Berkeley will invest in small bay light industrial real estate across the United States. Berkeley is an experienced investor with heavily built out infrastructure to systemize a highly inefficient investing space. Mr. Schultz added they are highly diversified and have access small to mid-sized business tenants. Issues to consider include increase in fund size, expanding geographical footprint and developing institutional capital base.

Mr. Murphy stated that both recommendations have strong asset growth and Courtland is very much in favor of the two manager recommendations.

Ms. Oakley asked for a review of the manager review process which Mr. Masthay provided, noting that the manager review process is continual, never really stopping.

Mr. Philibert 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)
Stockbridge Value Fund III, LP (Stockbridge)	Value Add Real Estate	\$50 Million	Yes
IC Berkeley Partners IV, LP (Berkeley)	Value Add Real Estate	\$50 Million	Yes

- 2) 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 6-0.

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

Mr. Leavitt, Ms. deLivron and Ms. Lohachitkul from Albourne America, LLC presented the manager recommendations for Absolute Return Strategies (ARS). The ARS pacing plan for 2017 called for two search processes and a targeted deployment of up to \$300 million in aggregate. Today's recommendation is to add three managers to the ARS portfolio totaling \$280 million.

The search process timeline, strategy objectives, manager search process and the scoring matrix were reviewed.

Ms. deLivron reviewed the portfolio considerations and position sizing. She noted that correlation is the biggest challenge. Managers that have low correlation with the other managers are desirable. Sizing of managers is based on both qualitative and quantitative factors, including risk reducers, return enhancers and balanced uncorrelated managers. She discussed how the focus affects the size of the investment.

The first recommendation is BG Umbrella Fund. BG is a European-focused multi-strategy portfolio that invests predominantly in relative value opportunities. They have a unique skill set, a risk management discipline and CIO experience. Issues to watch include key man and investor concentration.

The second recommendation is H2O Alpha 10 Feeder Fund. H2O employs a global macro approach to investing long and short currencies, credit and equities with both directional and relative value positions. They focus on investments with horizons of up to two years, which are supplemented with short term trading. H2O has a unique, process-oriented approach, experienced cohesive team and a strong performance. Issues to watch include their value bias and high number of products.

Mr. Leavitt reviewed the third manager, Red Cliff Asia Fund. This is a relative value fund which invests in arbitrage opportunities across foreign exchange currencies, fixed income, and equity markets with a primary focus on Asian markets. Red Cliff is attractive given the

manager's niche approach to investing, which results in a return stream with virtually no correlation to either the Absolute Return Strategies Direct Portfolio nor to broad market indices. Issues to watch include key man, scalability and mark-to-market losses.

Ms. Lohachitkul supported Staff's recommendations for the Absolute Return Strategies portfolio.

Mr. Parrish asked about the move by other pension plans to move away from "Hedge Funds." Mr. Carlson explained that many of the governance structures have set a test that prevents investing due to fee structures and other social goals. There are varied, mostly non-investment related reasons and are unique to each situation.

Mr. Landis moved that the Board:

- (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 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)
BG Umbrella Fund Plc BG Fund (BG)	Multi-Strategy Opportunistic	\$100 million	Yes
H2O Alpha 10 Feeder Fund (U.S.) L.P. (H2O)	Global Macro	\$90 million	Yes
Red Cliff Asia Fund (Red Cliff)	Relative Value	\$90 million	Yes

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

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

7. Executive Session (formerly #8 on the Thursday, May 30, 2017 agenda)

At 4:33 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. 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 6:30 p.m.

At 6:30 p.m. the meeting was recessed until 9:00 a.m. on Friday, March 31, 2017.

David Gavia

David Gavia
Executive Director

Jim Parrish

Jim Parrish
Chair, Board of Trustees

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

March 31, 2017 - 9:00 a.m.

On March 31, 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
Roel "Roy" Rodriguez
Julie Oakley
Jim Jeffers
David Landis

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
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Sandra Vice, Director of Internal Audit
Leslie Ritter, Director of Human Resources
Marc Leavitt, Director of Absolute Return
Dimitry Shishkoff, Director of Risk Management
Jesse Pittman, Senior Project Manager
Karen Jackson, Executive Assistant
Marcia Beard, RVK
Ron Lewis, Ron Lewis & Associates
Amy McDuffee, Mosaic Governance Advisors
Susan Warren, KPMG
Rebecca Goldstein, KPMG

Also in attendance:

Michelle Mellon-Werch, Assistant General Counsel
David Rodriguez, Regional Manager – City Services
Anthony Mills, Regional Manager – City Services
Madison Jechow, Assistant General Counsel

Melanie Thomas, Editor
Debbie Farahmandi, Investment Operations Specialist
Peter Jeske, Project Specialist
Stacy White, Executive Assistant
Sally Case, Investment Operations Manager
Eddie Schultz, Real Estate Analyst
Rachel Cleak, Alternative Analyst
German Gaymer, Fixed Income Analyst
Ryan Conner, Risk Management Analyst
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Greg Shipley, Combined Law Enforcement Associations of Texas
Keith Dagen, Government Finance Officers Association of Texas
George Kaufman, City of Garland
Bob Scott, City of Carrollton
David Riggs, Texas State Association of Fire Fighters
Mike Finley, City of Arlington
Casey Jones, City of White Oak

Mr. Parrish called the meeting to order and the meeting was reconvened at 9:01 a.m.

8. Review and Discussion of External Audit Plan for the Year Ended 2016 (SAS-114) and Service Organization Control (formerly #9 on the Friday, March 31, 2017 agenda)

Ms. Warren and Ms. Goldstein from KPMG began by reviewing the client service team that will be involved with the audit. The objective of an audit is to enable the auditor to express an opinion about whether the financial statements are presented fairly, in all materials respects, in conformity with generally accepted accounting principles (GAAP). Ms. Warren reviewed management's responsibilities including, but not limited to, accounting policies, fair presentation of the financial statements and the representation letter. She also discussed the Board's responsibilities as well as KPMG's responsibilities regarding the audit and communications with management and the Board.

The audit approach and methodology were discussed. Ms. Warren then reviewed the risk assessment, highlighting the significant audit areas of investments, contributions and benefit payments. She discussed the scope of the audit and updated the Board on the progress of the SOC 1 audit, which is leveraged in the financial audit.

Materiality was explained, and is based on the auditor's professional judgment. Judgments about materiality are based on a consideration of the common users' needs. Ms. Warren discussed deliverables and the audit timeline. She queried the Board members on various audit matters, which gives guidance to the audit team; there were no exceptions or issues noted. The involvement of other service providers used by TMRS was also discussed.

Ms. Warren concluded by discussing the new GASB Statement No. 72, “Fair Value Measurement and Application” which will be implemented in the December 31, 2016 Comprehensive Annual Financial Report; this pronouncement has no effect on the valuation of the investments themselves, but requires significant footnote disclosures.

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

Mr. Lewis began by stating there are more pension bills filed than in past sessions due to the Houston and Dallas issues. The bills concerning Houston and Dallas are going to be difficult to pass, but likely something will pass.

The budgets in both chambers are pretty similar in spending, but differ on how the items are funded. The use of the “rainy day” fund is the critical difference in funding the shortfall.

Mr. Wattles reviewed where the legislative process is currently. He noted there have been approximately 6,800 bills filed and TMRS is tracking 380 bills. This is more than in past sessions. This part of the session will be very busy with the budget being the key driver. There are 55 pension bills being tracked and the breakdown of those bills is provided to the Board in the meeting materials.

HB 3056 was discussed, the University Park bill, which should be substituted to reflect TMRS’ noted changes. HB 3670 (Lozano) is another version of last session’s return-to-work bill. Mr. Wattles discussed the bills calling for a study in the interim relating to pension issues, especially with defined benefit to defined contribution conversions.

Bills relating to other pension systems, primarily local systems, were also reviewed. Mr. Wattles noted the bills that are moving including SB 500 and SB 14. Senate Bill 500 (Van Taylor) is identical to the annuity suspension portion of SB 14. Both bills have passed the Senate. House Bill 500, which is the companion to SB 500, has been heard by the House General Investigating and Ethics Committee. SB 509 relating to investment performance passed the Senate, however there is not a companion bill in the House. Additional bills discussed: HB 89 and SB 29 relating to restricting investments; SB 936 which requires a pension study during the interim; and HB 632 which caps the maximum amount of annuity for new hires.

10. Annual Fixed Income Asset Class Review (formerly #7 on March 30, 2017 agenda)

Mr. Carlson introduced Mr. Gaymer to present the annual Fixed Income asset class review. The objective of Core Fixed Income is capital preservation and the objective for Non-Core Fixed Income is income and capital appreciation. Mr. Gaymer reviewed the pacing plan summary for the past two years and discussed the current Fixed Income portfolio allocation, including the six strategies of the Non-Core allocation.

Mr. Gaymer reviewed the performance of both portfolios compared to the benchmarks and he highlighted the progress made in portfolio construction and the diversification of the Fixed Income portfolios.

Mr. Gaymer gave the Board an update on the Fixed Income market and noted the post-election bounce. The duration of the Fixed Income portfolio is approximately 5.5. Mr. Carlson explained how duration affects returns in a raising rates environment. A 1% increase in rates based on the current duration would result in an approximate 3% net decline in returns once capital depreciation was offset with income. Mr. Gaymer briefly discussed the negative interest rate issues.

In conclusion, Mr. Gaymer stated that we are in a rising rate environment and investors continue to diversify into other asset classes to mitigate rising interest rate risk and capture attractive yields. He noted there were no material changes in the manager reviews.

Ms. Oakley asked for clarification of the mismatch in the benchmark related to the RMBS/CMBS portfolio. Mr. Carlson provided an explanation.

Mr. Philibert asked for confirmation that TMRS has no negative interest rate investments which was confirmed by Investment Staff.

11. Discuss Strategic Planning (formerly #10 on the Friday, March 31, 2017 agenda)

Ms. McDuffee began with an overview of the existing strategic planning process. The System has taken proactive steps to strengthen its position but there is still work to be done. The current plan will be the focus of the upcoming planning meeting. She asked what key principles should be the focus of the upcoming meeting as well as possible off-site locations. Lakeway Resort was an off-site option. Ms. McDuffee explained how this planning session should be approached beginning with the current plan. To keep the System moving forward, the staff needs appropriate skills and support as well as access to state of the art technology.

Ms. Oakley asked for clarification if this will be a review or creation of a new strategic plan. It was discussed that we will be utilizing the existing plan, but don't want to limit the Board when planning for the future.

The timeline was reviewed for this process with the meeting taking place May 17th in the Austin area. Mr. Parrish noted that Staff's input will be incorporated into the Board's process.

Mr. Philibert asked if more retiree input is needed. Mr. Carlson suggested a survey of consultants may also be valuable.

12. RVK Quarterly Report

Ms. Beard presented the Q4 2016 RVK quarterly report and noted that the Q3 2016 report is also included in the Board materials. She reviewed the economic conditions at the end of 2016 and gave an update of the conditions for the current year to date. Ms. Beard discussed

the best performing asset classes for the year stating that all asset classes were positive for the calendar year which is unique.

She reviewed performance and highlighted the current, committed and target allocations. On a net fee basis, TMRS outperformed the benchmarks across all periods. For one year, the total fund return was 7.44% gross and 7.04% net of investment fees. Ms. Beard reviewed returns for the quarter and the year for all asset classes. Mr. Carlson noted that as of March 29, 2017 the total portfolio was up about 3.6%.

Total fund performance versus peers with assets greater than \$1 billion was discussed as well as how TMRS compared to other larger funds (greater than \$10 billion). TMRS has less volatility than our peers due to less exposure to public equities.

Ms. Beard reviewed each asset class and noted that the information is broken down by each manager in the supplemental report.

13. Chief Investment Office Management Update, Including Governance, Personnel, Manager Updates, Negative Interest Rates and Other Investment Related News or Matters

Mr. Carlson introduced the new Investment Operations Manager, Sally Case, and noted there are two more Operations positions to fill.

During the first quarter, Staff took 367 manager meetings.

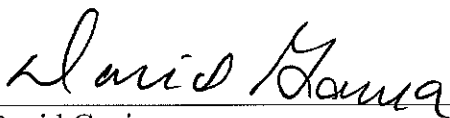
14. Executive Director and Staff Reports

Mr. Gavia stated that during the first quarter, Staff completed interest credit and updated service credit calculations, sent Retiree and Member statements and issued 1099-Rs to all retirees.

15. Call for Future Agenda Items

No items were discussed.

The meeting was adjourned at 11:31 a.m.



David Gavia
Executive Director



Jim Parrish
Chair, Board of Trustees