

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

August 20, 2015 – 1:30 p.m.

On August 20, 2015 the Board of Trustees of the Texas Municipal Retirement System (TMRS) convened for a meeting at 1:30 p.m. at The Westin Riverwalk, located at 420 W. Market Street in San Antonio, Texas, with the following members present:

Board of Trustees

Julie Oakley, Chair
Jim Parrish, Vice Chair
Roel “Roy” Rodriguez
Bill Philibert
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
Robert Klausner, Klausner, Kaufman, Jensen & Levinson
Karen Jackson, Executive Assistant
Marcia Beard, RVK
Mark Randall, Gabriel, Roeder, Smith and Company
Joe Newton, Gabriel, Roeder, Smith and Company
Amy McDuffee, Aon Hewitt Investment Consulting, Inc.
Janet Callion, Aon Hewitt Investment Consulting, Inc.

Also in attendance:

Greg Shipley, Combined Law Enforcement Associations of Texas
Alex Cramer, Arlington Professional Fire Fighters
Bob Scott, City of Carrollton
Keith Dagen, Government Finance Officers Association of Texas
David Riggs, Texas State Association of Fire Fighters
Tadd Phillips, Texas Municipal Resource Management Association

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

1. Consider and Act on Adoption of Minutes from the July 30-31, 2015 Meeting of the Board of Trustees

Mr. Gavia stated that Staff had nothing to add to the minutes as presented. There were no changes suggested by the Board.

Mr. Philibert made a motion that the Board adopt the minutes from the July 30-31, 2015 Meeting of the Board of Trustees. Mr. Landis seconded the motion, which passed 6-0.

2. RVK Quarterly Investment Report (including final June performance numbers)

Marcia Beard discussed the reversal of trends in capital markets prior to June 30, 2015. The Federal Reserve has maintained interest rates at 0% and it appears there may not be a change in September. Equities are stagnant with sell-off due to news out of China and Puerto Rico. The Lehman Aggregate has dropped 1.7% in one quarter and the markets are changing very quickly.

Ms. Beard reviewed asset allocation and the various managers as well as asset allocation vs. peers. There was a discussion regarding whether the asset allocation should be presented based on risk factors rather than asset type. Total fund performance vs. benchmarks was reviewed. The goal to exceed the actuarial investment return assumption has been met for the three, five and fifteen year periods. As of June 30, 2015, the total fund composite has outperformed the assumed long-term rate over a rolling five-year period. Relative to peers, volatility is lower and the TMRS portfolio remains below median risk.

The asset class composites were discussed. The domestic and international equity asset classes are below median risk. Core and non-core fixed income as well as absolute return have outperformed the benchmark. Real return has underperformed. Mr. Carlson added that this has been a really tough year on a year-to-date basis, but the portfolio has been outperforming most benchmarks year-to-date.

3. Strategic Planning Session

Amy McDuffee facilitated this session and introduced her colleague, Janet Callion. The focus is for the Board and Staff to identify and agree upon emerging issues that will require the organization's focus in the next 5-year period. She reviewed the steps of the strategic plan process and where we are currently. Ms. McDuffee discussed the terminology, expectations and ground rules for this session. The mission, vision, and "ACTIVE" principles have already been ratified by the Board.

Ms. McDuffee reviewed the current strategic plan goals and objectives. The staff made recommendations as to which objectives are not yet complete and need to be carried over to the next strategic plan. The staff also made recommendations that certain objectives should be deleted from the strategic plan because they are complete, have been integrated into routine business practices, or that for some reason, have been identified as no longer relevant. The Board will decide if it agrees with the recommendations and confirm suggested deletions.

The following is a list of the goals and recommendations:

Goal 1: a) and c) were carried over and b) was removed.

Goal 2: a) The discussion focused on memorializing an education plan and moving this item to governance. Additional information was requested for to enhance trustee

training. Mr. Klausner suggested access to NASRA resources and creating a library of past training presentations and resources. A glossary should be included of acronyms for pension, administration, investment and actuarial terms. Remove item a) and b) from this section and move it to governance. Item b) should be broadened to reflect communication to the Board on all subject matters, not just investments. Items c), d), e), and f) can be removed. Item g) should be removed, but the concept it reflects, issuing an RFP for general investment consultant, should be broadened to include all of the Board's consultants and placed under governance. The Board discussed if there should be a Board policy regarding the hiring and review of Board level consultants, whether there should be a term of contract for all Board consultants, and if a process for the Board to routinely evaluate its consultants should be developed. Contract terms also should be added to the consultant's evaluation. Goal 3: a) The Board directed staff to carryover this item to the new plan. More information will need to be provided on this issue before the Board determines whether compliance ought to be mandated. Items b) and c) can be removed. Item d) should carry over to the new plan. Items e), f), g) and h) can be removed. Item i) should carry over to the new plan, but it was discussed that the language used to describe this item is not entirely clear. It will be reworded under the new plan. Item j) can be removed.

Goal 4: The entire goal should be carried forward into governance.

Goal 5: Items a) and b) can be removed.

Ms. McDuffee asked for suggested changes to the strengths, weaknesses/challenges, opportunities, and threats (S.W.O.T) analysis. None were noted and discussion moved to the list of possible objectives.

Long Term Sustainability of the Plan

1. Amortization period given new PRB guidelines. Mr. Gavia noted that the PRB has guidelines pointing to shorter amortization periods. Staff should work with GRS to review amortization periods generally. Mr. Newton discussed the two issues in the current experience investigation and there could be other areas where changes could be made. This study should begin after the experience study is completed.
2. Asset smoothing. Mr. Newton suggested that tactics 1 – 3 be merged into a single item that discusses TMRS' funding policy. The Board agreed to a suggestion for a first quarter presentation in 2016.
4. Achieve more rapid portfolio diversification. Mr. Parrish discussed the need to get diversified. Ms. Oakley expressed her concerns after the pacing plan was recently adopted. Mr. Rodriguez did not want either a fast pace or slow pace, but an appropriate plan given the constantly evolving investment circumstances. Mr. Carlson discussed the desire to deliver the right information to the Board to support its decision-making process. Further discussion is needed regarding the Board adopting and approving investment managers.

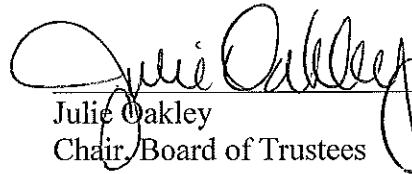
- 5 Appropriately manage risk across the organization. The Enterprise Risk Management process was discussed and the consensus was not to include this item. The organization already measures risk across the organization, and these current efforts as described by staff were viewed as sufficient to the Board.

- 6 Establish some type of Texas-based investment focus (secondary to fiduciary duties). Mr. Philibert noted that it would be beneficial to understand what portion of the portfolio is Texas-based. Mr. Carlson suggested: 1) develop a definition for “Texas-based” and 2) once there is a definition, identify what needs to be done with the information. The need to improve reporting methods was discussed and consensus was not to include this item in the plan. The investment staff’s full resources should be focused on supporting the continued diversification of the investment portfolio.

The meeting was recessed until 8:30 a.m. Friday, August 21, 2015.



David Gavia
Executive Director



Julie Oakley
Chair, Board of Trustees

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

August 21, 2015 – 8:30 a.m.

On August 21, 2015 the Board of Trustees of the Texas Municipal Retirement System (TMRS) convened for a meeting at 8:30 a.m. at The Westin Riverwalk, located at 420 W. Market Street in San Antonio, Texas, with the following members present:

Board of Trustees

Julie Oakley, Chair
Jim Parrish, Vice Chair
Roel “Roy” Rodriguez
Bill Philibert
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Tadd Phillips, Texas Municipal Resource Management Association

Ms. Oakley called the meeting to order at 8:30 a.m.

3. Strategic Planning Session (continued from Thursday, August 20, 2015)

Governance

1. Transparency of the organization including Board agenda, materials, policies, minutes. Mr. Parrish stated he did not feel that he got the required information soon enough to review. Mr. Gavia explained what information is available, the rules we must comply

with and where the information is available. Mr. Jeffers suggested getting all Board materials out to the public in advance of the meeting. Ms. Oakley discussed “sensitive” information. Within the next year, a draft policy or further discussion was requested, subject to other priorities.

2. Accountability over Board consultants and ongoing monitoring. Staff explained how it reviews consultants annually. Ms. Oakley suggested a form of laddering and to review consultants mid-contract and she also suggested a more formalized process. Mr. Jeffers requested clarification of how a consultant “reports to the Board”. Defining what a consultant does for the Board versus for staff would be helpful. Mr. Randall recommended performance validation on a regular basis for each consultant. Mr. Rodriguez suggested that the expectation that staff and consultant be independent. If not, the Board is receiving limited information. The Board requested a follow up conversation for each consultant’s role, as well as the development of a consultant evaluation process as discussed during the meeting on Thursday, August 20, 2015.

3, 4 and 5a. Board materials package, Meeting productivity and efficiency, and the appropriate amount of investment delegation. The memo Mr. Gavia puts together for the Board is helpful and several Trustees want all the detailed information. Ms. Oakley noted that these three items (3, 4 and 5a) are intertwined and all under the same theme. Ms. McDuffee suggested that an annual “work plan” that visually outlines a schedule of routine and expected Board matters could be developed to aid the Board in its decision-making regarding meeting efficiency and time management. This, in turn would have a resulting impact to the Board’s meeting materials packages. There was consensus that the development of a Board work plan should be undertaken.

- 5 Achieving the most effective governance structure.
 - b. Committee structure, including the role of the Audit Committee and the vision for the internal audit function. Mr. Parrish discussed the role of internal audit and how its functions are staffed, i.e. all internal, all external, or co-sourced. More information was requested on how other systems address this. The Board would like to move forward with the hiring process of an internal auditor and continue to define the functions of that position.
 - c. Advisory Committee on Retirement Matters. Ms. Oakley discussed the Committee’s confusion on their current role. A broader discussion is required regarding what the Committee’s role will be in future. Some questions to consider: Is the Committee too large? Are the term limits appropriate? Mr. Philibert suggested the charter should be reviewed. Ms. McDuffee recommended researching other systems and how their Advisory Committees are set up. Mr. Rodriguez requested feedback on what the Advisory Committee does in regard to disseminating information and he would also like to evaluate the size of the Committee. The Board also agreed that it would be beneficial to survey the current Advisory Committee members to understand whether Committee meetings are viewed as a productive and valuable use of time.

- 6 Performance evaluation process for General Counsel and Internal Auditor. Ms. Oakley noted that there needs to be a more formal process for evaluations. A form with criteria has been discussed for the General Counsel, but nothing has been formally adopted. A similar process should be added for the Internal Auditor as well. A written process should be developed that clarifies the roles and responsibilities of the Executive Director and the Board, along with the criteria used for the evaluations.
- 7 Succession planning for Executive Director and key staff. Mr. Parrish recommended that the Board needs an assessment of the current situation. What are the immediate, intermediate and long-term plans? Are there internal candidates that are ready or could be ready with additional training? TMRS may want to consider adding additional staff and start training potential internal candidates. Leadership development training needs to be included as a part of the succession plan.
- 8 New Trustee orientation/continuing education. A redevelopment of the new trustee orientation materials is currently taking place. Mr. Parrish asked if there was trustee-focused training available. Ms. McDuffee suggested training through national and statewide industry associations such as the National Association of State Retirement Administrators, International Foundation of Employee Benefit Plans, Texas Association of Public Employee Retirement Systems, and National Conference on Public Employee Retirement Systems. Each entity provides basic trustee training regarding law, ethics, open meeting, etc. Ms. Oakley suggested that Mr. Gavia routinely produce and distribute to the Board a listing of upcoming conferences and other training opportunities, such as online webinars) that are available to Board members.

There were no other items suggested.

Legislative

1. "Clean-up" bill, including the statutory definition of "security". Mr. Gavia explained the definition of the term, "clean-up bill," noting its focus on seeking legislative clarification for specific administration-related items. Consensus was to add this item to the plan.
2. Reevaluation of return to work and potential alternatives. Ms. Oakley suggested going forward with this item and options need to be developed along these lines. Mr. Phillips asked the Board to consider giving better direction to the Committee as opposed to just asking, "Should this item be discussed?"
3. Other prior issues of legislative interest (i.e., COLAs, eligibility threshold, gain sharing, pop-up features, etc.). Mr. Rodriguez suggested that the discussion of gain sharing should be continued. The Board needs to make a decision if it wants to proceed, and if so, how it should be implemented. This is not for immediate legislative action, but rather to have a plan in place when the decision is made to move forward. Mr. Rodriguez also asked Mr. Newton and Mr. Randall to review the possibility of a pop-up feature that makes retroactive payments up to the amount of the retiree-life only option, back to the

initial date of retirement, if the beneficiary dies first. This item is not for the strategic plan, but a more near term actuarial agenda item.

4. Ability for the Board to consider possible private market investment transactions in closed session (like TRS statutory exemption). Mr. Gavia stated he has not seen the need for this in the past, but we have not had the need for it either. Ms. Beard stated the need for this used to be more common, but has reached the point where it is not perceived to be as necessary.

Ms. McDuffee reviewed the discussion items remaining. The Board had no desired items, other than prior carryover items, to be added to the Communications goal. The Workforce/Internal Efficiency items were discussed and identified as management level issues to be handled by Mr. Gavia rather than governance level issues to be addressed by the Board. There will not be any items placed in the strategic plan under this topic. Ms. McDuffee discussed the next steps in development of amendments to a draft strategic plan. There will be ample opportunity for review and discussion.

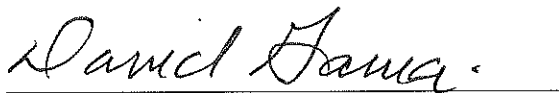
Mr. Gavia reviewed a tentative schedule for the September Board meeting.

4. Call for Future Agenda Items


No items were mentioned.

5. Executive Session

Executive Session was not required and Mr. Philibert made a motion to adjourn the meeting. Mr. Parrish seconded, which passed 6-0. The meeting was adjourned at 11:05 a.m.



David Gavia
Executive Director



Julie Oakley
Chair, Board of Trustees