

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

**June 18, 2015 – 1:30 p.m.**

On June 18, 2015 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**

Julie Oakley, Chair  
Jim Parrish, Vice Chair  
Roel “Roy” Rodriguez  
David Landis

Absent: Bill Philibert  
Jim Jeffers

**Present also were:**

David Gavia, Executive Director  
Rhonda Covarrubias, Director of Finance  
Eric Davis, Deputy Executive Director  
Kristie O’Hara, Director of Human Resources  
TJ Carlson, Chief Investment Officer  
Leslee Hardy, Director of Actuarial Services  
Debbie Munoz, Director of Member Services  
Christine Sweeney, General Counsel  
Bill Wallace, Director of Communications  
Dan Wattles, Director of Governmental Relations  
Scott Willrich, Director of Information Resources  
Holly Macki, Director of Fixed Income  
Kristin Qualls, Director of Equities  
Jesse Pittman, Project Manager  
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 Estate  
Karen Jackson, Executive Assistant  
Marcia Beard, RVK  
Sean Ealy, RVK  
Mark Randall, Gabriel, Roeder, Smith and Company  
Joe Newton, Gabriel, Roeder, Smith and Company  
Michael Humphrey, Courtland Partners, Ltd.  
Tom Keck, StepStone Group LP  
Natalie Walker, StepStone Group LP

**Also in attendance:**

Sherry Chapman, Investment Accountant  
Candace Nolte, Assistant Finance Director  
Adrienne Strong, Human Resources Generalist  
Debbie Farahmandi, Investment Operations Specialist  
Melissa Jerkins, Quantitative Analyst  
Peter Jeske, Project Specialist  
Michelle Mellon-Werch, Assistant General Counsel  
Madison Jechow, Assistant General Counsel  
Di Fu, Investment Data Analyst  
Nick O'Keefe, Assistant General Counsel  
Cindy Morse, Investment Support Analyst  
Kate Reed, Investment Risk Analyst  
Paula Nguyen, Investments Accountant  
David Rodriguez, Regional Manager – City Services  
Eddie Schultz, Real Estate Analyst  
Carol Leung, Investment Analyst  
Ariel Chou, Actuarial Analyst  
Martha deLivron, Investment Analyst  
Mel Thomas, Editor  
Meredyth Fowler, Speaker's Office  
Greg Shipley, Combined Law Enforcement Associations of Texas  
Alex Cramer, Arlington Professional Fire Fighters  
George Kauffman, City of Garland  
Keith Dagen, Government Finance Officers Association of Texas

Ms. Oakley called the meeting to order at 1:55 p.m. The pledge of allegiance was recited and Ms. Oakley gave the invocation.

**1. Consider and Act on Asset Allocation Study (formerly #2 on the Thursday, June 18, 2015 agenda)**

Joe Newton and Mark Randall began with an overview of the actuarial investment return assumption. Reviewing the assumption in conjunction with the asset allocation allows the Board to make a decision with more complete information. Mr. Newton discussed the issue of reasonableness as it relates to ASOP 27. GRS begins by reviewing the inflation assumption. It is likely that GRS will recommend lowering the inflation assumption to 2.50% from the current 3%. Mr. Newton reviewed the current investment return assumption of 7.00% discussing sources of capital market information. Using the arithmetic mean is the more aggressive approach, while using the geometric mean is the more conservative approach. By using a rate that is between the arithmetic and geometric means, to balance between these analyses, a more stable and defensible approach is reached in GRS's opinion. Based on the current investment return assumptions with the current target allocation, GRS's investment return recommendation would likely be 6.25%.

Mr. Newton reviewed several potential portfolios of various asset allocations. The standard deviation and 25<sup>th</sup> percentile are indicative of risk and the illustration shows GRS' recommended investment return assumption under the various portfolios. Mr. Newton discussed risk from an actuarial perspective and GRS' attempt to balance risk to maintain benefit stability and intergenerational equity. Mr. Parrish stated that the Board could set a lower investment return assumption and direct investment staff to target 7.00% to build in a buffer even though taking on additional risk. Mr. Newton presented a summary of the impact of different investment return assumptions on contribution rates for all cities, cities without repeating COLAs and cities with repeating COLAs.

Mr. Carlson discussed the investment constraint impact and the specific target allocation constraints by asset class highlighting changes that were made since the last Board meeting. He showed a summary of results of the modeled potential portfolios. Mr. Carlson discussed the impact of standard deviation and what it suggests in relation to upside and downside risk and return potentials. The Board discussed the potential portfolios. Mr. Parrish and Mr. Landis expressed an interest in potential portfolio 2, Ms. Oakley expressed an interest in potential portfolio 3, and Mr. Rodriguez was narrowing down his preferences between portfolio 2 and 3. Mr. Gavia stated that the Board did not have to decide now, but narrowing down the option for GRS would be beneficial. The Board further discussed their concerns regarding portfolio selection.

Mr. Parrish made a motion to defer action on making an asset allocation decision. The Board requested more information on potential portfolio 2 and 3 with a 6.75% investment return assumption. Mr. Landis seconded the motion, which passed 4-0.

## **2. Consider and Act on Private Equity Consultant Recommendation**

Mr. Schelling gave an overview of the Request for Proposal (RFP) process, issuance and review leading up to the recommendation of StepStone Group LP as a finalist for the Private Equity specialty consultant. Thirteen respondents replied to the RFP and he explained how the group of potential consultants was reduced to select the finalist. Mr. Schelling reviewed the on-site due diligence visits and ranking factors.

The four benefits of retaining StepStone Group LP are: 1) heavily research driven, 2) familiarity with TMRS peer clients, 3) advisory services with an investor mentality, and 4) customer service and performance. The potential risk to retaining StepStone is that they may grow to be too big over time. StepStone has experienced strong growth and could become too large to service TMRS' specific needs effectively. However, StepStone has demonstrated measured and well-resourced growth making this a low risk threat. It is a risk that can be monitored and addressed if it materializes, as it will occur slowly and result in gradual performance degradation over time.

Mr. Tom Keck and Ms. Natalie Walker from StepStone gave an overview of the company. They reviewed corporate structure, specialization advantages, research process and investment process and philosophy highlighting portfolio construction by avoiding over-diversification and focus on risk-adjusted returns. Mr. Keck reviewed the next steps in developing a relationship with the investment staff.

Mr. Landis made a motion that the Board select StepStone Group LP as the Private Equity specialty consultant for a term of up to 5 years, contingent on successful negotiation of the contract and at consultant fees no higher than proposed in the attached, and that the Executive Director be authorized to negotiate, execute, and deliver the consulting services contract and any other agreements or documents the Executive Director deems necessary or appropriate to accomplish such transaction. Mr. Rodriguez seconded the motion, which passed 4-0.

**3. Consider and Act on Equity U.S. Small Cap Manager Recommendation**

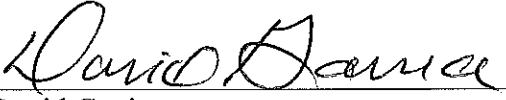
Ms. Qualls reviewed the U.S. Small Cap Equity Manager search process. This is the same process that has been used in past searches. Julie Oakley asked how staff arrived at the initial group of managers. Ms. Qualls responded that the starting universe was the eVestment Alliance US Small Cap Equity peer group, which consisted of over 663 strategies. The list was reduced by applying minimum qualifications ("MQs"). Managers with outsized levels of relative or absolute risk were also eliminated, along with those who had firm, team or strategy level concerns. This reduced the number to twelve candidates who were invited to respond to the Request for Information (RFI). The timeline and manager scoring was discussed. Seven managers were selected for semi-finalist telephone interviews. Based on the finalist scoring criteria, two managers were selected for onsite due diligence visits and Board recommendation. The two finalists are The Boston Company Asset Management, LLC and Wellington Management Company LLP. The characteristics of the two firms were discussed along with the risk budgeting impact. The recommendation is to hire both firms to manage an initial allocation of 1% or approximately \$245 million each and the NTAM Russell 3000 core/passive fund will be the funding source for both strategies.

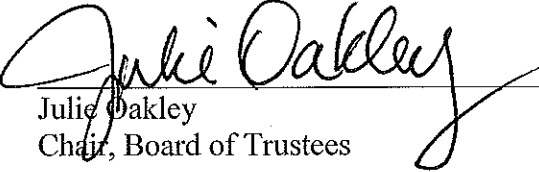
Mr. Parrish moved that the Board of Trustees approve the selection of the following managers or their affiliates for investment in the specified equity strategies in accordance with the fee structures presented and that the Executive Director be authorized to negotiate, execute, acknowledge and deliver any and all contracts, agreements, and other documents or instruments necessary or appropriate to give effect to such investments, in each case on such terms and conditions as are satisfactory to the System for such investments.

1. The Boston Company Asset Management, LLC - US Small Cap Opportunistic Value Equity strategy representing 1% of the total portfolio or \$245 million.
2. Wellington Management Company LLP - Small Cap Opportunities strategy representing 1% of the total portfolio or \$245 million.

Mr. Landis seconded the motion, which passed 4-0.

Mr. Rodriguez left after this portion of the meeting at 4:20 p.m. Since there was no longer a quorum, the meeting was officially adjourned at 4:20 p.m.

  
\_\_\_\_\_  
David Gavia  
Executive Director

  
\_\_\_\_\_  
Julie Oakley  
Chair, Board of Trustees