

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

August 21, 2014 – 2:00 p.m.

On August 21, 2014, the Board of Trustees of the Texas Municipal Retirement System (TMRS) convened for a meeting at 2:00 p.m. at TMRS Headquarters, located at 1200 North IH 35 in Austin, Texas, with the following members present:

Board of Trustees

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

Present also were:

David Gavia, Executive Director
Ian Allan, Director of Internal Audit
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 Real Estate
Kristin Qualls, Director of Equities
Dimitry Shishkoff, Director of Risk Management
Jesse Pittman, Project Manager
Karen Jackson, Executive Assistant
Marcia Beard, R. V. Kuhns & Associates
Will Kinlaw, State Street Global Exchange

Also in attendance:

Sherry Chapman, Investment Accountant
Debbie Farahmandi, Investment Operations Specialist
Peter Jeske, Project Specialist
Eddie Schultz, Real Estate Analyst
Michelle Mellon-Werch, Associate General Counsel
Candace Nolte, Controller

Nick O'Keefe, Senior Staff Attorney
Cindy Morse, Investment Support Analyst
Kate Reed, Investment Risk Analyst
Carol Leung, Investment Analyst
Melissa Jerkins, Quantitative Analyst
Di Fu, Investment Data Analyst
Pete Krnavek, Information Systems Manager
David Rodriquez, Regional Manager – City Services
David Crow, Arlington Professional Fire Fighters
Alex Kramer, Arlington Professional Fire Fighters
Bob Scott, Government Finance Officers Association of Texas
Chris Jones, Combined Law Enforcement Associations of Texas
George Kauffman, City of Garland
Scott Kerr, Texas State Association of Firefighters
Greg Shipley, Combined Law Enforcement Associations of Texas
David Russell, Texas Municipal Police Association
Jerry Gonzales, Service Employees International Union
Greg Vick, Texas City Management Association
Bryan Langley, City of Denton
Keith Hopkins, Mesquite Fire Department
Scott Leeton, Corpus Christi Police Officers' Association
Meredyth Fowler, Speaker's Office
Casey Srader, City of Plano
Myra Conklin, City of Plano
Sean Sullivan, City of Plano

Mr. Rodriguez called the meeting to order at 2:00 p.m. and gave the invocation.

1. Asset Allocation Review

Mr. Carlson introduced this annual review of the asset allocation. He began by reviewing the summary of the year-over-year changes in the return and standard deviation (risk) factor for each of the asset classes. This helps TMRS adjust its long-term earnings expectation. He reviewed RVK's suggested change for each asset class and subasset class. Mr. Carlson then discussed the efficient frontier derived from these changes in the capital market return expectations, the expected return and standard deviation of the current actual allocation versus the target allocation. Based on the efficient frontier, TMRS needs to continue on it's diversification path as prudently as possible. Even at the target allocation, the return expectation is below the actuarially assumed rate of return. Staff is looking at ways to bring the expected return closer to the 7% assumption in a reasonable manner.

In 2015, Staff and RVK will take a deep dive into the formal asset allocation study and consider the following best practices: 1) broader, more inclusive, asset classes and 2) multiple constraint scenarios. The Board asked questions on how various changes would impact potential performance.

2. **Portfolio Risk Review**

Mr. Carlson began the discussion by introducing Dimitry Shishkoff and Will Kinlaw, State Street Associates. State Street Associates conducted the first outside review of TMRS' risk management program. Mr. Kinlaw reviewed his division within State Street stating that is a bridge between the academic world and practitioners.

Mr. Kinlaw discussed the objectives of State Street's findings. The first objective of the review was how a sound risk management program adds value including communication, strategic input, contingency planning, risk awareness, risk compensation and reporting. Objective two is to assess TMRS' risk management program as it exists today. The objective of the program is reviewed and the investment risk philosophy that guides TMRS in its investment decision is also reviewed. Finally, as the risks are identified, the governance structure, policies and systems that are in place to manage these risks are assessed. The third objective was to make recommendations to improve the program. The overall assessment is that the existing risk management framework is sound and well documented. There are a few areas where changes could be made to bring TMRS up to the best practices standard. Some of those areas include: within-horizon versus end of horizon risk, use of dual regime model of the markets, align development of correlation (diversification) assumptions with investment horizon and perform factor analysis on external managers. A few others were highlighted for long term consideration and those include: liquidity, currency risk, rebalancing, and ability to analyze complex distributions of possible returns.

Mr. Shishkoff next discussed the current projects underway. First is the purchase and implementation of a different Performance Attribution solution. It has been determined that the current solution does not meet our needs. Second is to review the investment data management function resources. Third is a customized representation of hedge funds and non-core fixed income strategies in the BarraOne risk system. Mr. Shishkoff presented the proposed timeline for future enhancement to the risk management system.

The Board discussed whether asset allocation is driving risk tolerance or vice versa. Also discussed was the decision process in adding risk. Mr. Carlson added that a thorough review of the Investment Policy Statement (IPS) will add to this discussion in coming months.

3. **Consider and Act on Clarification and Ratification of Absolute Return General Partner and Investment**

A technical issue was discovered in the actual Board approved authorization language while constructing the legal relationship between TMRS and the service provider. Mr. Carlson discussed the legal relationship between TMRS and Blackstone Alternative Asset Management Associates, LLC that will serve as the general partner and Blackstone Alternative Asset Management LP that will serve as the Investment Manager.

Mr. Landis made a motion that the Board ratify and approve the final fund structure, the document execution and implementation of the investment, and hereby amend the February 20, 2014 Board Authorization language to read as follows, all effective as of August 1, 2014:

“Approve Blackstone Alternative Asset Management, L.P. and its affiliates to be TMRS’ customized fund of one adviser in accordance with the fee structure presented; and authorize the Executive Director and staff to proceed with the creation of a GP/LP type partnership with Blackstone Alternative Asset Management Associates LLC as the GP, and TMRS as the LP, and Blackstone Alternative Asset Management L.P. as the Investment Manager to the partnership, to invest in a portfolio of hedge funds through a customized fund of one vehicle.” Mr. Parrish seconded the motion, which passed 6-0.

4. Consider and Act on Ratification and Continuation of Core Fixed Income and Real Return Board Authorization

Mr. Carlson reviewed the fact that specific time-frame approvals were given for investment management contracts. TMRS Staff no longer includes a specific time-frame in any recommendations for Board authorizations and instead relies on our ability to terminate an Investment Management Agreement within a very short specified period of time. Both the Colchester Global Investors Limited and Blackrock Financial Management Inc. have prior Board approvals using time-frame language.

Ms. Oakley made a motion that the Board ratify and approve the continuation of the Board authorizations for investment management services from both Colchester Global Investors Limited and Blackrock Financial Management Inc. with no specific term of expiration for their respective mandates under the terms of the current Colchester Investment Management Agreement, as amended, and the current Blackrock Investment Manager Agreement, as amended, between the service providers and TMRS. Mr. Philibert seconded the motion, which passed 6-0.

5. Consider and Act on Final Adoption of Amendments to TMRS Rule 34 TAC §123.1 to Clarify Actuarial Tables Used to Calculate Service and Disability Retirement Benefits

Ms. Sweeney reviewed the clarification to Board Rule §123.1. The amendment clarifies the intent to use a 70/30 male/female blend of mortality tables for member retirements and a 30/70 male/female blend of mortality tables for beneficiary retirements. No comments were received regarding this change during the comment period.

Mr. Parrish made a motion that the Board approve the attached Order and adopt the amended Rule §123.1, to be effective 20 days after it is filed with the *Texas Register*, without changes to the proposed language Ms. Oakley seconded the motion, which passed 6-0.

6. Consider and Act on Final Selection of a Firm to Conduct an Internal Audit and Related Budget Amendment

Mr. Gavia presented this item stating the Internal Audit Committee discussed conducting a pilot audit of the Real Estate program using a co-source partner. Staff conducted due diligence to find a firm that conducts this type of co-source audit. This firm has been prequalified to perform services at both the Employee Retirement System and the Teacher Retirement System and is approved under the Texas Multiple Award Schedules (TXMAS). TMRS has funds in the current budget that can be used for this engagement, but Staff requests flexibility in negotiating the final budget for the engagement.

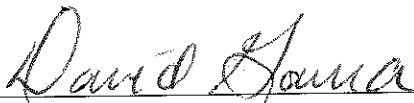
Mr. Landis made a motion that the Weaver Tidwell Firm be retained to conduct a pilot audit engagement of the Real Estate Program of the Investment Department with appropriate oversight by the Internal Audit Director and that the TMRS 2014 Budget be amended to accommodate an estimated audit fee of at least \$50,000 with the Internal Audit Committee and the Executive Director having the flexibility to negotiate a final budget for the engagement not to exceed \$70,000. Ms. Oakley seconded the motion, which passed 6-0.

7. **Executive Session**

At 4:29 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 Board returned from Executive Session at 5:15 p.m. All members of the Board who had been present when the Board went into Executive Session were again present. No action was taken in the Executive Session. All members of the Board who had been present when the Board went into Executive Session were again present.

At 5:16 p.m. the meeting was adjourned.



David Gavia
Executive Director



Roel "Roy" Rodriguez
Chair, Board of Trustees