

**MINUTES OF THE
TEXAS MUNICIPAL RETIREMENT SYSTEM
Joint Meeting of the Board of Trustees and the
Advisory Committee on Retirement Matters**

August 22, 2014 – 8:30 a.m.

On August 22, 2014 the Board of Trustees of the Texas Municipal Retirement System (TMRS) and the Advisory Committee on Retirement Matters convened for a joint meeting at 8:30 a.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
Jule Oakley, Vice Chair
Jim Parrish
Bill Philibert
David Landis
Jim Jeffers

Advisory Committee Members

David Crow, Arlington Professional Fire Fighters Association
Scott Kerr, Texas State Association of Fire Fighters
Greg Shipley, Combined Law Enforcement Associations of Texas
Wanda Heard, City of San Antonio
Victor Hernandez, City Councilmember, City of Lubbock
Jerry Gonzales, Service Employees International Union
Tadd Phillips, Texas Municipal Human Resources Association
Kevin Lawrence, Texas Municipal Police Association
Greg Vick, Texas City Management Association
Bob Scott, Government Finance Officers Association of Texas
Michael Dane, City of San Angelo
Monty Wynn, Texas Municipal League
Allen Bogard, City of Sugar Land
Bryan Langley, City of Denton
Julie Masters, Mayor, City of Dickinson

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
Diane Oakley, Executive Director National Institute of Retirement Security

Also in attendance:

Sherry Chapman, Investment Accountant
Debbie Farahmandi, Investment Operations Specialist
Peter Jeske, Project Specialist
Michelle Mellon-Werch, Associate General Counsel
Nick O'Keefe, Senior Staff Attorney
Cindy Morse, Investment Support Analyst
Kate Reed, Investment Risk Analyst
Melissa Jerkins, Quantitative Analyst
Di Fu, Investment Data Analyst
Pete Krnavek, Information Systems Manager
David Rodriquez, Regional Manager – City Services
Eddie Schultz, Real Estate Analyst
Chris Jones, Combined Law Enforcement Associations of Texas
George Kauffman, City of Garland
Keith Hopkins, Mesquite Fire Department
Mel Thomas, Editor
Alex Cramer, Arlington Professional Fire Fighters Association
David Russell, Texas Municipal Police Association
Meredyth Fowler, Speaker's Office
Casey Srader, City of Plano
Myra Conklin, City of Plano
Sean Sullivan, City of Plano

Ms. Oakley called the meeting to order at 8:30 a.m. and Mr. Landis gave the invocation. Since there were a few new members present, self-introductions were made by the Advisory Committee.

1. Consider and Act on Adoption of Minutes from the June 19-20, 2014 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. Parrish made a motion to adopt the minutes from the June 19-20, 2014 Meeting of the Board of Trustees. Ms. Oakley seconded the motion, which passed 6-0.

2. Consider and Act on Adoption of Minutes from the June 19, 2014 Meeting of the Advisory Committee on Retirement Matters

Mr. Gavia asked if there were any requested changes to the minutes as presented. There were no changes suggested by the Advisory Committee.

Mr. Kerr made a motion to adopt the minutes from the June 19, 2014 Meeting of the Advisory Committee. Mr. Langley seconded the motion, which passed 15-0.

3. Retirement Security Trends

Diane Oakley from the National Institute on Retirement Security (NIRS) gave an overview of what the NIRS does, its charge and mission and how the NIRS was created. Ms. Oakley elaborated on the NIRS publication, "A Better Band for the Buck", highlighted the three keys to a defined benefit plan being more economically efficient due to 1) longevity risk pooling, 2) maintenance of portfolio diversification, and 3) superior returns at lower fees. She next discussed the publication, "Lessons from Well-Funded Pensions", and the key features such as paying the full amount of the Annual Required Contribution, reasonable actuarial assumptions, granting COLAs responsibly and anti-spiking measures that ensure actuarial integrity. In the publication "Decisions, Decisions: Retirement Plan Choices for Public Employees and Employers", Ms. Oakley stated when given the choice, most public employees choose a defined benefit plan over a defined contribution option. NIRS has begun working on investment publications focusing on what needs to be known about public plan investing. They have reviewed the investment process in light of other articles that indicate public plan investing has become riskier and to some degree refuting these articles.

Ms. Oakley discussed pension reforms in light of the recent financial crisis. Most states have maintained their defined benefit plans but made modifications. She highlighted the few instances where plan types were changed, but focused on the instances where plan type remained the same, but COLAs and retirement eligibility requirements were changed. According to the paper done by the Center for Retirement Research, these changes are offsetting the impact of the financial crisis and have resulted often in lower costs for employers. Ms. Oakley noted the "NIRS/NRTA Pension Education Tool Kit" as a good resource to help understand pension reform.

NIRS is currently conducting pension research and their survey findings indicate that individuals are anxious about their ability to retire. Ms. Oakley reviewed median retirement account balances as well as the fact that four out of five households have less than one times their income in retirement savings. She discussed NIRS Financial Security scorecard and how Texas ranked. Ms. Oakley next discussed how pension spending fuels state and local economics showing economic impact both at the national level and here in Texas. After questions from David Crow, she pointed out that over 4.7 million households are kept out of poverty due to defined benefit pension benefits and fewer households are receiving means-tested public assistance.

4. Review Results of Advisory Committee Meetings and Discuss Possible Legislative Agenda for 2015 Legislative Session (originally agenda item #7)

Advisory Committee members that arrived late gave brief self-introductions before discussion began on the agenda item.

Mr. Wattles outlined the work done and the discussions by the Advisory Committee (AC) during this interim. He reviewed the meetings held by the AC. Mr. Wattles discussed the specific items reviewed by the AC and explained each proposal's advantages and disadvantages as well as the level of interest. The level of interest in each proposal was as follows:

- Fixed-Rate COLA – only 3 out of 17 AC members supported a new fixed-rate COLA.
- Modification to the COLA Catch-Up Provision – Five members supported a one-time opportunity to adopt a repeating CPI based COLA without the “catch-up” provision.
- 1,000 hour eligibility requirement – 12 of 17 AC members thought no changes should be made
- Two-Tiered Benefit Structure – 14 of 17 AC members were not in favor of a tier structure

A statement of philosophy conveying the AC's collective view to the Board was discussed. Four comments were discussed: 1) current options are more than adequate for controlling costs, 2) the AC is not in favor of pursuing changes, 3) play defense and changes are not needed, and 4) a general statement with support for TMRS and its many participants and retirees is needed. Mr. Wattles discussed previous resolutions adopted by the Board outlining the Board's position on the impact of legislation. Mr. Wynn and Mr. Langley discussed that no issues have been brought to TML for its support. Mr. Crow and Mr. Lawrence stated that a resolution by the Board, as early as possible, would be helpful for groups visiting with legislators to help support TMRS.

Mr. Rodriguez asked that a draft resolution stating TMRS' position be presented to the Board in September for action in October. Mr. Rodriguez thanked the AC for their work during the interim. Mr. Crow asked the Board to consider removing term limits for group class members stating that the groups invest a significant amount in the representatives they nominate.

5. Chief Investment Officer Management Update

Mr. Carlson began by highlighting the education achievements of Cindy Morse and Eddie Schultz. Regarding Staffing updates, he highlighted progress made in filling current vacant positions. One of the challenges in filling positions is compensation related. Mr. Carlson also discussed that everyone should be aware of the headlines regarding pension plan investing and to take the time to find out what the story and facts are behind the headline.

6. R.V. Kuhns Quarterly Investment Report

Ms. Beard began with an update of the second quarter. Capital Markets showed positive returns across the board, however she did point out that the markets react on a moment's

notice. Ms. Beard reviewed the Total Fund Composite broken down by sub-asset class. TMRS historical allocation overtime and TMRS' Asset Allocation versus peers was also reviewed. The portfolio continues to move towards a well-diversified structure as the fixed income asset class is reduced. (During this agenda item, Mr. Rodriguez left the meeting and Ms. Oakley took the Chair.) Regarding portfolio rebalancing, the Board requested that this item be brought to them as a separate item apart from the Investment Policy Statement (IPS) revisions and the rebalancing concept should be brought to the Board in September. Ms. Beard reviewed total fund performance versus benchmarks. For all periods, the actuarial assumption of 7% has been exceeded and in other measures we have met our objectives. On a risk/return basis versus peers, we have a lower return, but also less volatility on a five year basis. Looking at the Asset Class Composite Performance, we have outperformed the benchmark and look very strong.

7. Private Equity Education Session

Mr. Carlson discussed several of the steps that are being taken now to prepare for the private equity allocation. The program will likely take six to eight years to fully implement.

Ms. Beard began with an introduction into private equity. Public funds generally enter private equity primarily for returns and also for diversification. Expected returns can be 300 basis points over global public-equity, but tradeoffs include: lower liquidity and transparency, and increased portfolio complexity. There is sector specialization where the general area is known, just not the specific purchase. Private equity is investing in privately held businesses that do not trade on an exchange, are illiquid and have a long investment horizon. Investments are long term, typically ten years or more, with limited ability to liquidate before the termination of a partnership. Private equity strategies include: buyouts, distressed debt, special situations and venture capital. These are key characteristics of each of the highlighted sample firms and sample investments. Other private equity strategies are secondary investments and co-investments.

The private equity asset class provides some limited additional diversification benefits to a broadly diversified portfolio. The primary benefits to the asset class is generating alpha above public market returns. Private equity investments provide a way to access industries, sectors and products not easily available to public markets. Private equity investing allows skilled managers to effect meaningful change to businesses, thus improving value. Ms. Beard discussed the unique considerations which include illiquidity, long investment horizon, cash flow uncertainty, lower transparency and higher fees. She reviewed private equity returns and discussed vintage year diversification. The importance of manager selection was discussed because the range between the top and bottom quartiles is large making manager selection critically important.

It was agreed that future education session will be included at future Board meetings to further discuss issues related to private equity investing. A question arose regarding additional returns and can they be obtained by increasing allocation on other areas where there is greater transparency. Future education session will answer these type of questions and this will continue to be discussed during the asset allocation deep dive.

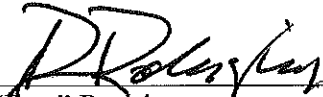
8. **Call for Future Agenda Items**

No items were mentioned.

The meeting was adjourned at 13:35 a.m.



David Gavia
Executive Director



Roel "Roy" Rodriguez
Chair, Board of Trustees