

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

October 23, 2014 – 1:30 p.m.

On October 23, 2014 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

Roel “Roy” Rodriguez, Chair
Jule 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
Jesse Pittman, Project Manager
Karen Jackson, Executive Assistant
Robert Klausner, Klausner, Kaufman, Jensen & Levinson
Marcia Beard, RVK
Lori Messer, Fox Lawson & Associates

Also in attendance:

Sherry Chapman, Investment Accountant
Debbie Farahmandi, Investment Operations Specialist
Melissa Jerkins, Quantitative Analyst
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
David Rodriguez, Regional Manager – City Services
Eddie Schultz, Real Estate Analyst
Carol Leung, Investment Analyst
Mel Thomas, Editor
Pete Krnavek, Information Systems Manager
Candace Nolte, Controller
David Crow, 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
Keith Hopkins, Mesquite Fire Department
Melinda Griffith, Combined Law Enforcement Associations of Texas
Greg Shipley, Combined Law Enforcement Associations of Texas
Bob Behbauer, City of Plano
Myra Conklin, City of Plano

Mr. Rodriguez called the meeting to order at 1:32 p.m. and Ms. Oakley gave the invocation.

1. Chief Investment Officer Management Update, Including Governance, Personnel, Manager Update and Other Investment Related News or Matters

Mr. Carlson discussed the current situation with PIMCO and that they have been placed on the “watch list”. TMRS assets are not managed by the individual that left PIMCO and the TMRS team is still trusted and highly capable. However, Mr. Carlson will make a due diligence visit to PIMCO to express concerns regarding the firm’s personnel changes.

Mr. Carlson discussed recruiting activities and noted that two employment offers are likely eminent. Mr. Carlson reviewed the pacing plan and the reference sheet and asked the Board for their input regarding any additional information or changes they would like implemented.

2. RVK Performance Report

Ms. Beard presented the performance report for the period ending August 31, 2014. It was noted that significant changes have occurred since that date. August was a good month, but the markets have been negative since that time. She reviewed asset allocation by manager, versus target allocation. Comparative performance was 6.54% year-to-date, however, as of the Board meeting date, the portfolio was down about 2% from the August number. Growth in the U.S. is fair, but globally the fear is stagnation. The concerns regarding Ebola, Isis, and Scottish Independence, etc. has made the global markets more volatile and reactive. Even with the recent downturns, our targets are being met longer term. This is further evidence that diversification matters.

3. Consider and Act on Absolute Return and Real Return Consultant Recommendations

Mr. Carlson reviewed the timeline and the search process for the Absolute and Real Return consultants. Staff developed a questionnaire focusing on five ranking factors with appropriate weights for scoring. An RFI was issued to eight consultants and posted to the TMRS website. Seven responses were received with five of the eight consultants responding. Of the seven responses received, three were Absolute Return candidates and four were Real Return candidates. Mr. Carlson discussed the due diligence ranking factors of organization, investment process, portfolio, analysis, clients and fees. The final rankings presented Albourne America as a finalist for both the Absolute and Real Return consultant. Mr. Klausner added that he has direct experience with the firm and is impressed with their service.

Ms. Macki gave an overview of the firm and highlighted that they do not manage money or provide discretionary services. She reviewed the investment process, portfolio analysis and clients for Absolute Return and Real Return consultant. In regards to fees, Ms. Macki mentioned TMRS would receive a discount for using Albourne America for both mandates. The team managing our portfolio will be located at its office in San Francisco. Albourne America's investment and operational due diligence processes were discussed. It was noted that the operational team can veto an investment recommendation which is very important. Ms. Macki reviewed the portfolio construction process discussing the plan, design, implementation and maintenance.

Mr. Parrish made a motion that the Board approve the selection of Albourne America and its affiliates as the Absolute Return and Real Return specialty consultant contingent on successful negotiation of the contract and at fees no higher than proposed in the attached Board Communication. Mr. Philibert seconded the motion, which passed 6-0.

4. Consider and Act on Amendment of Rebalancing Policy Section of Investment Policy Statement

Mr. Carlson discussed two changes to the Rebalancing Policy since the September Board meeting. The target allocation chart was added along with the two amendments. The first amendment is to allow the Investment Staff the flexibility to rebalance the portfolio in a more timely and efficient manner. Rebalancing activities may include moving assets between managers within an asset class as well as between asset classes. The second amendment, which was per the Board's request, was to include the Executive Director in the Rebalancing approval process. The rebalancing transaction report was discussed, highlighting the process for rebalancing and the post transaction commentary.

Mr. Landis made a motion that the Board adopt the amendment to the Rebalancing Policy section of the Investment Policy Statement as presented. Mr. Philibert seconded the motion, which passed 6-0.

5. Consider and Act on Meeting Dates and Locations for 2015 Board of Trustees Meetings (originally appeared as item #8 on the Friday, October 24, 2014 agenda)

Mr. Gavia presented the proposed 2015 Board meeting dates and alternatives.

The following dates for 2015 were approved:

- Mr. Landis made a motion for the Board to approve February 26-27. Mr. Parrish seconded the motion, which passed 6-0.
- Ms. Oakley made a motion for the Board to approve March 26-27. Mr. Philibert seconded the motion, Mr. Parrish opposed, which passed 5-1.
- Mr. Landis made a motion for the Board to approve May 21-22. Ms. Oakley seconded the motion, which passed 6-0.
- Mr. Landis made a motion for the Board to approve June 18-19. Mr. Parrish seconded the motion, which passed 6-0.
- Mr. Parrish made a motion for the Board to approve August 20-21. Ms. Oakley seconded the motion, which passed 6-0.
- Mr. Philibert made a motion for the Board to approve September 23, 2015 in San Antonio. Mr. Landis seconded the motion, which passed 6-0.
- Mr. Parrish made a motion for the Board to approve October 22-23. Ms. Oakley seconded the motion, which passed 6-0.
- Mr. Parrish made a motion for the Board to approve December 3-4. Mr. Philibert seconded the motion, which passed 6-0.

In regards to the Strategic Planning meeting, Mr. Parrish made a motion for the Board to approve July 31 as the date for the meeting with a location to be determined at a later time. Ms. Oakley seconded the motion, which passed 6-0.

6. Consider and Act on Actuarial Funding Policy (originally appeared as item #9 on the Friday, October 24, 2014 agenda)

Ms. Hardy reviewed the Actuarial Funding Policy. This document is a consolidation of all the System's actuarial funding policies from statutes, Board Administrative Rules and Board Resolutions into a single document. There are no new policies being adopted.

The document includes: 1) goals and objectives, 2) components of the Actuarially Determined Employer Contribution including actuarial cost method, asset smoothing method and amortization policy, 3) phase-in policy, and 4) actuarial assumptions for actual valuation and funding purposes.

Ms. Oakley made a motion that the Board adopt the Actuarial Funding Policy. Mr. Landis seconded the motion, which passed 6-0.

7. Consider and Act on Adoption of Amendment to Strategic Plan Delaying Actuarial Peer Review until 2015 (originally appeared as item #10 on the Friday, October 24, 2014 agenda)

Mr. Gavia advised the Board funds were already budgeted for an actuarial peer review and a Request for Proposal has been drafted. However, an in-depth actuarial experience study will be completed by our consulting actuary during 2015 and Staff recommends that the peer review be delayed one year to coincide with or occur shortly after the experience study is complete to allow the peer review to include review of any new assumptions resulting from the experience study.

Mr. Philibert made a motion that the Board adopt an amendment to Goal 1, Objective (c) to provide for the actuarial peer review to be conducted by December 31, 2015. Ms. Oakley seconded the motion, which passed 6-0.

8. Consider and Act on Board Resolution Regarding 2015 Legislative Session (originally appeared as item #11 on the Friday, October 24, 2014 agenda)

Mr. Wattles discussed the amendments to a proposed resolution suggested during the September Board meeting. The resolution would provide structure for the Board to express its position on TMRS-related legislation that may be filed during the 84th Session of the Texas Legislature. The differences between Exhibits B and C were highlighted with the changes suggested by the Board of Trustees.

Mr. Landis requested clarification on the change requested by Mr. Parrish. Ms. Oakley stated she had a preference for Exhibit B. In the sixth "Whereas" statement, Mr. Rodriguez requested that the eight words following that statement be removed.

Ms. Oakley made a motion to remove "...the TMRS Advisory Committee on Retirement Matters and ..." and adopt Exhibit B. Mr. Philibert seconded the motion, which passed 6-0.

9. Review and Discussion of Annual Proposed Investment Policy Statement Revisions (originally appeared as item #5 on the Thursday, October 24, 2014 agenda)

Mr. Carlson noted that this is the first review of this years proposed amendments to the Investment Policy Statement (IPS). Mr. Carlson invited the Board's comments and questions regarding the policy revisions. The three main goals are: 1) refocus the IPS on appropriate Board level policy, 2) remove procedural language from the IPS and relocate it to the Investment Staff's Internal Procedures Handbook, and 3) remove individual manager guideline information from the System wide IPS. Ms. Oakley requested another version of the IPS be created reflecting the location where the "deleted" language would be moved or if it is being deleted from the document. Mr. Carlson stated that he would update the IPS with a comment section of the proposed changes and send it out to the Board.

Mr. Carlson gave a brief history of the IPS. Since the IPS was written in June 2009, it has been brought back to the Board at least fourteen times with proposed amendments. The problematic issues include the level of detail, detailed processes and procedural language and compliance issues with non-testable policies or procedures.

A flowchart of the IPS re-write was discussed and RVK was instrumental in helping distinguish between policies and procedures and other types of language. Mr. Carlson reviewed several definitions to help the Board understand what the IPS should accomplish. A formatting key for the revisions was also reviewed.

Key components of the IPS were reviewed. TMRS' Mission Statement and TMRS Vision Statements were added to the statement of purpose. Investment goals will be clarified along with identification of roles and responsibilities. Asset allocation, asset class guidelines and benchmarks are not being changed. The revised rebalancing policy will also be included.

Monitoring and reporting changes and risk management and risk budgeting were discussed. No changes will be made regarding governance.

Staff will work to review and finalize the document between now and the December Board meeting. The Board's preference was to be able to review the next IPS document with updated commentary if sections are being moved, revised, or deleted before delving into any focused questions.

10. Consider and Act on Approval of Fixed Income Audit Report (originally appeared as item #15 on the Friday, October 24, 2014 agenda)

Mr. Gavia introduced this item stating that the audit found the Fixed Income Investment program activities were conducted in accordance with applicable laws, with no exceptions, and substantially in accordance with investment policies and industry and fiduciary best practices. Sixteen recommendations were noted and agreed to by the Investment Department and in a few instances, the Finance Department. Mr. Jeffers and Mr. Parrish expressed their appreciation for the work performed on this audit.

Mr. Allan discussed the next steps: development of an action plan and completion of the action plan.

Mr. Parrish made a motion that the Board accept the Fixed Income Audit Report. Mr. Jeffers seconded the motion, which passed 6-0.

Following the vote, Mr. Allan gave the Board a brief update on the two ongoing internal audits.

11. Executive Session (originally appeared as item #6 on the Thursday, October 23, 2014 agenda)

At 4:00, 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 the meeting was opened to the public again at 4:32 p.m. All members of the Board who had been present when the Board went into Executive Session were again present. Mr. Rodriguez turned the Chair over to Ms. Oakley for the remainder of the meeting.

Mr. Parrish made a motion to recess the meeting. Mr. Jeffers seconded the motion, which passed 6-0. At 4:34 p.m. the meeting was recessed until 8:30 a.m. on Friday, October 24, 2014.



David Gavia
Executive Director



Roel "Roy" Rodriguez
Chair, Board of Trustees

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

October 24, 2014 – 8:30 a.m.

On October 24, 2014, the Board of Trustees of the Texas Municipal Retirement System (TMRS) reconvened for a 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

Jule Oakley, Vice Chair

Jim Parrish

Bill Philibert

David Landis

Jim Jeffers

Absent: Roel “Roy” Rodriguez, Chair

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

Kristin Qualls, Director of Equities

Scott Willrich, Director of Information Resources

Holly Macki, Director of Real Estate

Jesse Pittman, Project Manager

Karen Jackson, Executive Assistant

Robert Klausner, Klausner, Kaufman, Jensen & Levinson

Marcia Beard, R. V. Kuhns & Associates

Lori Messer, Fox Lawson & Associates

Also in attendance:

Debbie Farahmandi, Investment Operations Specialist

Melissa Jerkins, Quantitative Analyst

Di Fu, Investment Data Analyst

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
David Rodriquez, Regional Manager – City Services
Eddie Schultz, Real Estate Analyst
Mel Thomas, Editor
Pete Krnavek, Information Systems Manager
Candace Nolte, Controller
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
Melinda Griffith, Combined Law Enforcement Associations of Texas
Greg Shipley, Combined Law Enforcement Associations of Texas
Meredyth Fowler, Speaker's Office
Bob Behbauer, City of Plano
Myra Conklin, City of Plano

Ms. Oakley called the meeting to order at 8:34 a.m. and Mr. Parrish gave the invocation.

12. Consider and Act on Adoption of Minutes from the September 18-19, 2014 Meeting of the Board of Trustees (originally appeared as #7 on the Friday, October 24, 2014 agenda)

Mr. Gavia stated 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 September 18-19, 2014 Meeting of the Board of Trustees. Mr. Parrish seconded the motion, which passed 5-0.

13. Review and Discussion of 2014 Compensation Study and Compensation Guidelines Proposed Amendments (originally appeared as #12 on the Friday, October 24, 2014 agenda)

Ms. O'Hara and Ms. Lori Messer, Fox, Lawson and Associates, were introduced to discuss the 2014 Compensation Study. TMRS compensation guidelines, approved by the Board of Trustees, recommend Human Recourses to conduct a full market review every three to five years. Ms. O'Hara gave a brief overview of the TMRS Compensation Study structure indicating the previous Study was in 2011 and the current structure has not been adjusted since 2005. She next reviewed the timeline for this study.

Ms. Messer began by discussing the background for the Study. The major goal of TMRS is to establish market comparisons to the current level of compensation paid to all TMRS job classifications. She noted that the structure has not been adjusted in nine years.

Two objectives were identified and included a structure where the pay grade mid-point is reflective of the 50th percentile of the relevant market and properly define the "market". The philosophy was to use broad job classifications and review market parity at the 50th

percentile. Ms. Messer reviewed the job classification process, survey methodology criteria to determine comparator organizations and survey methodology. The survey was sent to twenty-one organizations and received responses from fourteen. Data was collected and reviewed to follow U.S. Department of Justice and Federal Trade Commission guidelines. Significant analysis was performed on the data. From an aggregate perspective TMRS was “highly competitive”, leading the 50th percentile by 1.6%. However individual benchmarks do vary. Discussion centered on what data was included in the survey and what the appropriate target point should be.

The proposed pay structure was then presented. Grades 1 – 6 show a range of spread of 40% while ranges 7 – 22 use an increasing spread. This increasing spread is to account for longevity in higher classified positions where the ability to progress up the pay scale is limited, but this allows for continued growth for high performers. Once the structures were developed, the next step was to determine options on how to implement this structure. Three options were reviewed: 1) adjustment to minimum, 2) adjustment toward the midpoint with a 10% cap, and 3) adjustment toward the midpoint. The cost to implement each of these options was discussed. In summary, all of the working documents have been provided to TMRS and the Board will be asked to take action in December.

Ms. O’Hara reviewed the Compensation Administrative Guidelines. These have not significantly changed since 2006. While the framework of the Guidelines remains intact, proposed modifications are grounded in providing the Executive Director with more oversight and responsibility for TMRS employee compensation. The original and revised Guidelines were rigidly composed and did not provide the Executive Director with the appropriate flexibility and accountability.

14. Review and Discussion of Employee Policy Manual Proposed Amendments (originally appeared as #13 on the Friday, October 24, 2014 agenda)

Ms. O’Hara discussed the recommended changed and new policies to the Employee Policy Manual (EPM). The EPM has not been presented to the Board for review since 2007; however, many federal and state employment laws have changed. An external law firm was selected to conduct a thorough legal review of the employee handbook.

The following is a summary of the proposed substantive changes to the EPM:

- Policy 3.05 Pre-Employment Checks: includes criminal history checks, education verification, professional references and, in certain cases, credit checks.
- Policy 3.09 Social Networking Policy: provides guidelines for the rise of social media and prohibits posting of confidential information.
- Policy 5.04 Leave Policies: discusses the changes in use of vacation and guidelines for declaring inclement weather events.
- Policy 5.07 Attendance Policy: suggests extending the total number of days allowed from 10 to 12 to match the sick leave accrual.
- Policy 5.09 Bilingual Pay: creates a new policy and requirements for bilingual pay.
- Policy 6.04 Children in the Workplace: is a new policy establishing guidelines.
- Policy 6.05 Animals in the Workplace: is a new policy establishing guidelines.

- Policy 6.06 Tobacco Free Workplace: is a new policy and prohibits the use of e-cigarettes in the workplace.

These policies will be presented to the Board for action in December. If approved, the policies would be effective January 1, 2015.

15. Review and Discussion of 2015 Preliminary Operating Budget (originally appeared as item #14 on the Thursday, September 18, 2014 agenda)

Ms. Covarrubias presented the first review of the 2015 proposed budget and reminded the Board that this item was for discussion purposes only and no action would be taken today by the Board. Section I describes the alignment of the budget with the Strategic Plan. Ms. Covarrubias discussed how the budget items aligned with the Strategic Plan's goals. Section II is a comparison of the 2014 budget to the 2015 proposed budget. The 2015 proposed budget is \$27.3 million including "new" items. The baseline budget is increasing by approximately 5.5%.

Personnel Services continues to be the largest portion of the budget at 53%. The 2015 budget for Personnel Services includes: eight new positions, an amount allocated for merit increases (mid-year) and the same employee benefit package. This does not include an amount for implementation of the proposed compensation pay structure. Professional Services makes up 26% of the total proposed budget and includes funding for \$1.6 million in new services/projects. Miscellaneous is 11% of the total budget and 45% of this amount is for the electronic investment data services utilized by the Investment Department.

Capital Expenditures were discussed and included building improvements and furnishings and Staff augmentation for software development. Ms. Covarrubias discussed new personnel requests and discussed each of the positions being requested.

16. Call for Future Agenda Items (originally appeared as item #13 on the Friday, September 19, 2014 agenda)

No items were mentioned.

The meeting was adjourned at 10:37 a.m.



David Gavia
Executive Director



Roel "Roy" Rodriguez
Chair, Board of Trustees