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

December 4, 2014 – 1:30 p.m.

On December 4, 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
Bill Philibert
David Landis
Jim Jeffers

Absent: Jim Parrish

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
Dimitry Shishkoff, Director of Risk Management
Karen Jackson, Executive Assistant
Marcia Beard, RVK
Ed Schwartz, ORG
Lori Messer, Fox Lawson & Associates
Mark White, Albourne America
Lisa Needle, Albourne America

Also in attendance:
Sherry Chapman, Investment Accountant
Debbie Farahmandi, Investment Operations Specialist
Melissa Jerkins, Quantitative Analyst
Mr. Rodriguez called the meeting to order at 1:34 p.m. and Ms. Oakley gave the invocation.

1. **Real Return Education Session (originally appeared as item #7 on the Thursday, December 4, 2014 agenda)**

Ms. Macki introduced Mark White, Albourne America, to present the Real Return education session. Mr. White began by defining Real Assets and stated that they are a natural addition to portfolios. They have been widely utilized for matching long duration institutional liabilities. Mr. White compared the characteristics of liquid Real Assets versus illiquid Real Assets and the benefits to the portfolio and risk/return characteristics. He reviewed the correlations between Real Assets and broader traditional asset classes. Real Assets are an important way to diversify and protect a portfolio which has holdings with substantial inflation risk, such as U.S. Bonds or liabilities that are indexed to inflation-driven spending obligations/needs. It is the unique characteristics of the asset itself that are the basic material of inflation (energy, minerals, agriculture) and economically essential (transportation, power, utilities). Real Asset portfolios may often be structured to replicate certain yield characteristics and meet the objectives of institutions that have a current income requirement as part of their mandate. When added to a traditional stock and bond portfolio, Real Assets can provide attractive risk-adjusted returns and high absolute returns. Mr. White discussed the location of different subsets of Real Assets on the risk/return spectrum and the considerations that must be taken into account when developing a portfolio.

Real Assets can be defined in the investment industry as liquid and illiquid. Liquid Real Assets include commodities, resource related securities, treasury inflation-protected...
securities and master limited partnerships. Illiquid Real Assets include agriculture, timber, energy and mining. Real Assets also include natural resources, hard assets and tangible assets. The due diligence process across this asset class is heightened compared to other asset classes. Portfolio fit was discussed and how Real Assets are primarily about beta (general exposure) not alpha. Mr. White discussed the various vehicles used for entering this asset class.

Ms. Oakley asked Mr. White to expand on his comments regarding “providing beta”. Mr. White explained that the manager has no control over improving the return of a specific asset, so the return from the Real Asset is primarily beta, or market exposure.

2. **Chief Investment Officer Management Update, Including Governance, Personnel, Manager Updates and Other Investment Related News or Matters (originally appeared as item #1 on the Thursday, December 4, 2014 agenda)**

Mr. Carlson announced that Marc Leavitt from the Texas Permanent School Fund and Chris Schelling from the Kentucky Retirement System have accepted Director positions within the Investments Department. Mr. Leavitt’s expertise is in Absolute Return area and Mr. Schelling’s expertise is in alternative investments. Holly Macki has been asked to take over as Fixed Income Director and recruitment has begun for a Fixed Income Analyst. Included in this update is RVK’s quarterly report that was not ready for the last Board meeting.

3. **Consider and Act on Real Estate Consultant Search Approval Request (originally appeared as item #2 on the Thursday, December 4, 2014 agenda)**

On May 7, 2010, the Board of Trustees approved the recommendation to select ORG Portfolio Management LLC as the TMRS Real Estate Consultant for a term of three years with the option to extend up to two years. The term of the contract will expire April 30, 2015. The request is to issue a Request for Proposal for a Real Estate investment consultant.

Ms. Oakley made a motion that the Board authorize the Investment Staff to conduct a search for a Real Estate investment consultant. Mr. Landis seconded the motion, which passed 5-0.

4. **Consider and Act on 2015 Asset Class Implementation Plans a) System-wide, Investment Pacing Plan, b) Equity Satellite, c) Real Estate, d) Real Return, e) Core-Fixed Income, f) Non-Core Fixed Income, g) Absolute Return and h) Private Equity (originally appeared as item #3 on the Thursday, December 4, 2014 agenda)**

Mr. Carlson discussed the creation of the portfolio-wide pacing plan, which if adopted as a whole, will allow the Board and Staff to more efficiently manage the process. The plan presented spreads out the work load over the next year.

In 2015, the goals for Equities are: 1) fulfill the target allocation for the core/satellite structure in public equity, 2) conduct two manager searches, 3) allocate the remainder of the satellite allocations to existing managers and 4) evaluate the need for a tax advisor/consultant. For Fixed Income: 1) evaluate the appropriate allocation between Core and Non-Core and 2) consider if there is sufficient manager diversification. For Real Estate: commit up to $600 million in core/value-added and/or Opportunistic. For Real Return: 1) work with Albourne America and begin the diversification process out of global linkers and
2) commit up to $500 million in Real Return strategies. For Private Equity: 1) hire a
director, 2) discuss specialty consultant and 3) design Investment Policy Statement Section
outlining objectives and benchmarks.

Other investment related activities for the year were also discussed. Ms. Oakley stated she
liked the organization of this plan and that it will benefit the Board.

Ms. Oakley made a motion that the Board approve adopt the 2015 System-wide Investment
Pacing Plan as presented and authorize manager searches related to these pacing plans. Mr.
Landis seconded the motion, which passed 5-0.

5. **Consider and Act on Proposed Revisions to the Investment Policy Statement (originally
appeared as item #4 on the Thursday, December 4, 2014 agenda)**

There was a very detailed and inclusive review process between Staff and RVK. The entire
Investment Policy Statement (IPS) was reviewed and the draft presented to the Board at the
October 2014 meeting. One-on-one meetings were held with each Board member and
suggestions are included in this draft.

The goal of the proposed IPS revisions is to refocus the IPS on appropriate Board level
policies, remove redundant language, clarify language where necessary and clarify language
for testability. Another goal is to remove the procedural language and risk language from the
IPS and move that language into the internal procedures manual maintained by Staff. The
third goal is to remove individual manager guidelines from the IPS, as it is already included
in some manager contracts. The Mission and Vision statements were added to this IPS. Two
non-investment policies, one Finance related and one Human Resource related, will be
removed and transferred to the appropriate department. Some Risk language was removed
and moved to the glossary. The Absolute Return Policy and Fund-of-Fund Guidelines and
Real Return Policy were replaced and a section on Real Estate co-investments was added.

Mr. Landis made a motion that the Board adopt the revisions to the Investment Policy
Statement (IPS) as proposed and allow staff to make non-substantive administrative
corrections to capitalization, numbering, etc. to the IPS following such adoption; provided,
however, that:

a. The Executive Director or Chief Investment Officer must promptly provide the Board
   with a copy of any administrative corrections made to the IPS;

b. With regard to any procedural language that has been proposed to be removed from the
   IPS and relocated to the Investment Department’s Internal Procedures Manual,
   notwithstanding the Board’s approval of the revisions to the IPS, all procedures reflected
   by such removed procedural language shall remain in place and continue to be applicable
   to the operations of the Investment Department and its investment program at all times
   pending the completion of all amendments to the Internal Procedures Manual that are
   necessary to incorporate such procedural provisions into the Internal Procedures Manual;

c. With regard to the policy and procedural language relating to the Finance Department
   Staff and/or the Investment Personnel Resignation Policy that has been proposed to be
   removed from the Roles and Responsibilities section of the IPS and relocated to the
Finance Department’s and the Human Resources Department’s policies or procedures documents, as applicable, notwithstanding the Board’s approval of the revisions to the IPS, all policies and procedures reflected by such removed language shall remain in place and continue to be applicable to the operations of the Investment, Finance and Human Resources Departments, as applicable, at all times pending the completion of all amendments to the Finance and Human Resources Departments’ policies and procedures, as applicable, that are necessary to incorporate such policy or procedural provisions therein; and

d. With regard to any existing manager contracts that incorporate their applicable investment guidelines by reference to the IPS rather than by specific guidelines set out in the contract, notwithstanding the Board’s approval of the revisions to the IPS, the existing investment guidelines contained in the October 2014 Investment Policy Statement that are applicable to that manager shall continue to be the investment guidelines applicable to the manager until such time as the manager’s contract has been amended to specifically include the investment guidelines applicable to the manager.

Mr. Philibert seconded the motion, which passed 5-0.

6. **Consider and Act on Proposed Amendments to the Board Bylaws Regarding Investments (originally appeared as item #5 on the Thursday, December 4, 2014 agenda)**

Ms. Sweeney discussed the interaction between the Investment Policy Statement (IPS) and the Board Bylaws. Based on the changes adopted to the IPS and based on current Bylaws, the Board would still have to approve the procedures. The amendment would delegate to the Executive Director, or his designee, from time to time, the authority to approve and adopt internal investment procedures for implementing the Board’s investment goals, objectives and policies without the need for Board action on such procedures while still allowing the Board to take back the authority to approve procedures if it so chooses in Section 5.2 of the Bylaws.

Mr. Philibert made a motion for the Board to approve and adopt the proposed amendments to Section 5.2 of the Board Bylaws to be effective immediately. Mr. Jeffers seconded the motion, which passed 6-0.

7. **Public Equity Asset Class Annual Review (originally appeared as item #6 on the Thursday, December 4, 2014 agenda)**

Ms. Qualls began the annual review and discussed the agenda for the Equity Asset Class. Ms. Leung reviewed the Public Equity performance, highlighting that the overall strength within the total equity portfolio continues to be derived from U.S. equities. Emerging markets performed well in the first several months of the year but has struggled recently due to economic weakness. Ms. Qualls reviewed the changes in the Satellite (active) structure over the past year. Ms. Qualls referenced past Board action and implementation within the equity portfolio.

Ms. Qualls gave an overall review of the Public Equity portfolio and discussed the objectives of both the U.S. and International equity portfolios as well as differences between the core
and satellite portfolios’ objectives. She discussed the Manager Monitoring Summary Report noting that all managers were within acceptable limits. Ms. Qualls and Ms. Leung reviewed each manager based on the various assessment areas. Ms. Qualls noted that SSGA Global ex-US fund has shown some underperformance relative to the benchmark, but the overall performance has been positive. Ms. Qualls reviewed the non-U.S. Transition Event for Lazard and Wellington. Citigroup’s management of the transition to Lazard and Wellington went very well and RVK and TMRS recommend continued consideration of Citigroup for future transition events. All portfolios are performing in accordance with expectations and were recommended to be retained, RVK concurred with this conclusion. Expansion of the satellite structure will continue in 2015 with intent to fulfill target allocation of satellite structure.

8. Investment Staff Quarterly Report/Asset Class Updates
Mr. Carlson reviewed performance by asset class. As of December 3, 2014, performance has rebounded from the slump that occurred in September and October and five year performance is outperforming the benchmark. He discussed progress in moving toward the target allocation adopted in August 2012 and the total portfolio is at approximately $24 billion.

Mr. Carlson reviewed Fixed Income. BlackRock’s Core portfolio average credit quality is Aa2/AA- matching the benchmark and has a yield equal to the benchmark with a shorter duration. PIMCO’s Core Plus is yielding more than the Core with the same credit quality and slightly longer duration. The manager line-up was reviewed and Mr. Carlson discussed the status of the new managers.

Ms. Mackie discussed the Real Estate performance and indicated that overall we are outperforming the benchmark. She reviewed the portfolio diversification by manager and geographic location. Ms. Macki then discussed Real Return and Colchester. They are currently outperforming the benchmark. Mr. Carlson reviewed Absolute Return. It was just funded; therefore, it is too early to report on returns. Regarding Private Equity, the upcoming activities were discussed since it has not yet been funded. Ms. Reed reported that all Investment compliance tests were within guidelines.

Mr. Shishkoff discussed Risk Management and reviewed the portfolio, benchmark and long-term risk assumptions. Current portfolio and benchmark risk measures are 6.9% and 6.5% respectively while long term assumptions are 10.2%. Forward looking tracking error of 1.13% is almost unchanged from last quarter.

9. Executive Session
At 4:28 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. No action was taken during the Executive Session and the meeting was opened to the public again at 5:12 p.m. Ms. Oakley was not present after the Board returned from Executive Session.
At 5:14 p.m. the meeting was recessed until 8:30 a.m. on Friday, December 5, 2014.

David Gavia
Executive Director

Julie Oakley
Chair, Board of Trustees
MINUTES OF THE
TEXAS MUNICIPAL RETIREMENT SYSTEM
Meeting of the Board of Trustees

December 5, 2014 – 8:30 a.m.

On December 5, 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**
Roel “Roy” Rodriguez, Chair
Jule Oakley, Vice Chair
Bill Philibert
David Landis
Jim Jeffers

Absent: Jim Parrish

**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:**
Sherry Chapman, Investment Accountant
Debbie Farahmandi, Investment Operations Specialist
Melissa Jerkins, Quantitative Analyst
Di Fu, Investment Data Analyst
Peter Jeske, Project Specialist
Michelle Mellon-Werch, Associate General Counsel

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Mr. Rodriguez called the meeting to order at 8:34 a.m.

10. **Consider and Act on Consent Agenda**

Mr. Gavia discussed the items in the Consent agenda. He highlighted the amended minutes from the September 18-19, 2014 Board meeting, the Seven Year Inactive Member Listing and the Listing of Updated Service Credit/Annuity Increase Ordinances adopted for approval by the Board. There were no changes suggested by the Board.

Mr. Philibert made a motion that the Board adopt the Consent agenda as presented. Mr. Landis seconded the motion, which passed 5-0.

11. **Consider and Act on 2014 Compensation Study and Amendment of Compensation Guidelines**

Ms. O’Hara discussed the results of the compensation plan. A full market review is conducted 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. The philosophy, process and methodology used to complete the 2014 Compensation Study were presented to the Board of Trustees in October 2014. Ms. Lori Messer, Fox, Lawson, and Associates was in attendance and available to answer any questions the Board of Trustees may have.

Implementation is a three-step process: 1) years in position, 2) an 8% cap is applied to managers and directors, and 3) $10,000 adjustment cap for all employees. Adjustments to employees’ base salaries will occur over a two year timeframe on a 50/50 basis. 50% will be applied in 2015 and the other 50% will be applied in 2016.

Ms. Oakley suggested that the three to five year requirement for a full market review be included in the Compensation Guidelines. Funds for merit compensation are separate and are included in the 2015 budget. Staff recommends that the pay structure and implementation plan be adopted.
Ms. O’Hara discussed the Compensation Administration Guidelines. The framework of the guidelines remains intact. Proposed changes provide the Executive Director with more flexibility within the framework along with additional responsibility and oversight. Since the October 2014 Board meeting, the guidelines have been modified slightly to require review and approval by a Board Committee appointed by the Board Chair for pay adjustments greater than $20,000. A complete “red-line” version of changes is available in the Board materials. There was discussion on the potential need for additional language relating to the $20,000 cap. For example, should this cap just be related to promotions or expanded to include internal equity and/or market equity.

Ms. Oakley asked for clarification of recommended changes on pages six and seven of the “red-line” version of the Guidelines. On page six, the changes in the “Other Policy Considerations” were discussed. On page seven, the fifth bullet point under the “Competitive Labor Markets” section was also discussed. Mr. Rodriguez suggested the following changes, 1) on page seven, the last bulleted item should be reworded, 2) on page six under “Other Policy Considerations” should be reworded and 3) on page 10, the $20,000 should apply only to promotions and there should not be an increase this large within the same pay grade.

Ms. Oakley made a motion that the Board adopt the 2015 Pay Structure and implementation method. Mr. Jeffers seconded the motion, which passed 5-0. Mr. Philibert made a motion to the amendments to the Compensation Administration Guidelines. Mr. Landis seconded the motion, which passed 5-0.

The proposed amendments were presented to the Board of Trustees at the October meeting. There have been no substantial updates since the current policy was adopted, but employment law has changed. The proposed policy updates have been proposed for clarity and compliance. Changes since the October 2014 meeting include an Infection Disease Policy and updated policies with external council’s recommendations. Mr. Landis recommended pre-employment drug testing program be implemented and random drug testing be considered.

Mr. Jeffers made a motion that the Board approve the proposed changes to the Employee Policy Manual, Exhibits A-N in Diligent, to ensure TMRS policies are in compliance with local, state, and federal laws and so the policies affecting employees support the organization’s mission and strategic direction. If the Board of Trustees would like to modify the definition of family to include ‘domestic partner’ and same sex spouses for the sick leave, sick leave pool, and bereavement policies, a motion to do so may be introduced. Ms. Oakley seconded the motion, which passed 5-0.

13. Consider and Act on Proposed 2015 Operating Budget
Ms. Covarrubias began the presentation by briefly discussing updates to the 2015 budget since the October Board meeting, which included items to Personnel Services and Professional Services and are also documented in the board communication page of the December meeting materials. She then did a brief review of the 2014 budget and discussed
the year-to-date estimated expenses. She indicated that we will have unused funds relating to Personnel Services due to hiring dates and other personnel transitions; it was also noted that all current, open positions, except for one, have been filled. In Professional Services, we will also be under budget due to budgeted services not being used during the year. In the Miscellaneous category, we anticipate budget savings primarily related to investment data online services. Overall for 2014, we anticipate utilization of 84% of the budget. The unused budget funds from 2014 will impact the amount needing to be transferred for 2015 operations.

Ms. Covarrubias then discussed the 2015 Budget. In Section 1 of the budget document, we align the budget with the TMRS Strategic Plan. Regarding Goal 1 of the Strategic Plan, we will complete an Actuarial Experience Study and Actuarial Audit during 2015. For Goal 2, funds are included for a new Absolute Return/Real Return consultant. Goal 3 includes funds for “TMRS Direct” projects. Ms. Covarrubias completed the discussion of Section 1 by reviewing accomplishments for 2014. As part of the Executive Summary, she noted that the 2015 budget exceeds 2014 by 38.7%, but excluding “new” items, is increasing approximately 5.5%. The “new” column totals $7.4 million for new personnel, actuarial audit/review, new investment consultants, new software and build out of the 4th floor of the TMRS headquarters building. Ms. Covarrubias discussed the Professional Services category requests and noted that the communications, rentals/equipment maintenance and miscellaneous sections are consistent with the prior year’s budget. She reviewed the Capital Expenses request which includes building improvements as well as software development/staff augmentation and equipment. Personnel requests were then discussed. Ms. Covarrubias reminded the Board that although a budget transfer is required, it is only for accounting purposes; the actual funds are not transferred into our bank account until needed.

Ms. Oakley requested in the future that TMRS management provide a three-to-five year budget projection to help the Board better understand trends and anticipate requests. Mr. Philibert requested a performance-type metric related to budget percentages for comparative purposes against similar organizations.

Mr. Philibert made a motion that the Board adopt the 2015 Proposed Operating and Capital Expenditures Budget. Ms. Oakley seconded the motion, which passed 5-0.

14. Consider and Act on Resolution Transferring Monies from Interest Reserve Account to Expense Fund

Ms. Covarrubias stated the Board would not need to transfer the full amount of the 2015 budget, due to savings in 2014. In accordance with the Board’s prior practice, the Expense Fund should retain approximately $4.2 million in excess fund balance/reserves, based on a proposed budget of $27,905,700. With the reserve estimated to be $7.1 million at year-end, this would allow approximately $2.9 million in excess reserves to be used to offset the necessary budget transfer for 2015 operations.

Ms. Oakley made a motion that the Board adopt a resolution to transfer $25,023,000 from the Interest Reserve Account in the Trust Fund to the Expense Fund to cover budgeted expenses.
for 2015 of $27,905,700. Mr. Landis seconded the motion, which was approved 4-0. Mr. Philibert was away at the time of the vote.

15. **Consider and Act on New Appointments and/or Reappointments to the Advisory Committee on Retirement Matters**

Mr. Wattles reviewed the history of the Advisory Committee Charter and explained the differences between individual and group class members and their respective terms. He discussed the group class vacancy, individual class member status and other potential changes in the members.

Ms. Oakley, Chair of the Advisory Committee, expressed her appreciation for the work of the Advisory Committee and for the continued support of Staff. Ms. Oakley stated that chairing the Advisory Committee was a learning experience, and it was helpful to hear different perspectives from each member. In 2015, Ms. Oakley would like to review the Advisory Committee Charter, develop a vision for the Committee and communicate it to the Advisory Committee.

Ms. Oakley made a motion that the Board:

- Appoint Lori Seward to a six-year term to expire on December 31, 2020 to represent the City of San Antonio
- Appoint David Russell to a year-year term to expire on December 31, 2020 to represent the Texas Municipal Police Association and Kevin Lawrence will be the alternate
- Reappoint Individual Class members Michael Dane, Victor Hernandez and Charles Windwehen to a second three year term.

Mr. Jeffers seconded the motion, which was approved 5-0.

16. **Consider and Act on Election of Board Officers**

Mr. Gavia stated the Board has no formal policy on election of Board Officers. Past Boards have tried to have each Board member serve as Chair and Vice-Chair during their term. Mr. Landis moved that Ms. Oakley be appointed as Chair and Mr. Parrish be appointed Vice-Chair for 2015. Mr. Philibert seconded the motion, which was approved 5-0.

17. **Executive Director and Staff Reports, including Reports from Administration, Communications, Actuarial Services, Finance, Governmental Relations, Human Resources, Information Resources, Internal Audit, Legal, Member Services and Project Management**

There was nothing to add to the reports presented.
18. **Call for Future Agenda Items**

No items were mentioned. Ms. Oakley thanked Mr. Rodriguez for his leadership as Board Chair.

The meeting was adjourned at 10:30 a.m.

David Gavia  
Executive Director

Julie Oakley  
Chair, Board of Trustees