

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

July 30, 2015 – 1:30 p.m.

On July 30, 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
Bill Philibert
Jim Jeffers
David Landis

Absent: Roel "Roy" Rodriguez

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
Debbie Munoz, Director of Member Services
Christine Sweeney, General Counsel
Bill Wallace, Director of Communications
Dan Wattles, Director of Governmental Relations
Holly Macki, Director of Fixed Income
Kristin Qualls, Director of Equities
Robert Klausner, Klausner, Kaufman, Jensen & Levinson
Dimitry Shishkoff, Director of Risk Management
Chris Schelling, Director of Private Equity
Tom Masthay, Director of Real Estate
Karen Jackson, Executive Assistant
Marcia Beard, RVK
Joe Newton, Gabriel, Roeder, Smith and Company
Michael Humphrey, Courtland Partners, Ltd.
Steven Novick, Courtland Partners, Ltd.
Jarrod Rapalje, Courtland Partners, Ltd.

Also in attendance:

Sherry Chapman, Investment Accountant
Debbie Farahmandi, Investment Operations Specialist
Peter Jeske, Project Specialist

Michelle Mellon-Werch, Assistant General Counsel
Di Fu, Investment Data Analyst
Cindy Morse, Investment Support Analyst
Kate Reed, Investment Risk Analyst
Paula Nguyen, Investments Accountant
Eddie Schultz, Real Estate Analyst
Carol Leung, Investment Analyst
Ariel Chou, Actuarial Analyst
Martha deLivron, Investment Analyst
German Gaymer, Investment Analyst
Mel Thomas, Editor

Greg Shipley, Combined Law Enforcement Associations of Texas
Alex Cramer, Arlington Professional Fire Fighters
Cody Hill, Arlington Professional Fire Fighters
George Kauffman, City of Garland
David Russell, Texas Municipal Police Association
Dan Moore, Pension Review Board
Reese Freeman, Pension Review Board
Drew Graham, House Pensions Committee
Jon Scolnik, Unite Here
Brittany Swiger, Steel City Casino Workers Council
Fred Lapka, Steel City Casino Workers Council

Ms. Oakley called the meeting to order at 1:32 p.m. The pledge of allegiance was recited and Ms. Oakley gave the invocation.

1. Fiduciary Responsibility Overview

Mr. Klausner explained the golden rule approach to fiduciary responsibility, “if it is not in the best interest of the system, don’t do it.” The Board has tremendous discretion in how it makes decisions. In general, the case law provides that when a Board exercises discretion that it is not liable. However, how the Board gets to the point of exercising its discretion is very important and the Board should not hesitate to ask questions.

One of the responsibilities of the Board is to set policy. Decision making cannot be delegated, but fact finding can be delegated to assist in implementing policies appropriately. The outside advisors work for the Board, and they are available to complete the circle of due diligence. When making a decision, it is the Board’s responsibility to consider the possible adverse consequences and whether the reward will be worth it. A prudent trustee must read and understand the TMRS Act and review the materials presented.

The Board’s obligation to soundly manage the system is grounded in the Texas Constitution. The Prudent Investor Rule is implemented by the Texas Trust Code. However, the TMRS Act retains the Prudent Person rule. The trustee’s investment and management decisions respecting investments must be evaluated not in isolation but in the context of the trust portfolio as a whole and as a part of an overall investment strategy. If due diligence is

completed, risk in a portfolio is not a bad thing per se. A trustee is not liable to a beneficiary to the extent that the trustee acted in reasonable reliance on the provisions of the trust.

Regarding sovereign immunity, the exercise of discretion is not subject to review and the TMRS Act provides certain decisions which are the sole purview of the Board. There is the discretionary component which is virtually immune from judicial review and the operational component which is subject to review. The question is asked, "Can the Board get sued over investment losses?" If the trustee follows the exercise of due diligence and meets standard of care requirements, individual liability would not arise.

2. Consider and Act on Asset Allocation Study (formerly #3 on the Thursday, July 30, 2015 agenda)

Mr. Carlson reviewed RVK's capital market assumptions which included, the year-over-year changes in the risk and return expectations of the asset classes and the correlations between the asset classes. Mr. Klausner asked what would happen to the portfolio if the Federal Reserve raised the interest rates. Mr. Carlson referred to past presentations to the Board where staff explained how the portfolio may react and some of the ways the portfolio is partially protected against rising interest rates. Ms. Beard stated that the possibility of interest rate increase is also factored into RVK's base assumptions. There was further discussion regarding interest rate risk. Mr. Carlson reviewed the Asset Allocation methodology, highlighting that (a) the asset allocation study is designed to set the Board's strategic target allocation; (b) acceptable ranges are determined by the Board to facilitate portfolio management activities, allowing some rebalancing flexibility thus helping to achieve the strategic target allocation return objectives within acceptable risk parameters; and (c) minimum and maximum ranges will be addressed in the annual IPS review this fall after setting the strategic target allocation.

Mr. Carlson reviewed the purpose of the Asset Allocation Study, which is to set the Board's Strategic Target Allocation by evaluating the expected return, risk and correlation of asset classes over the long-term. The Strategic Target Allocation should reflect the Board's long-term objective and risk tolerance and serve as a benchmark against which to measure performance. He then reviewed the assumptions and the constraints used to develop the Study. Manager fees were discussed and Mr. Carlson indicated that fees are always an important consideration in investing and are a matter of constant review. He said that seeking above-benchmark returns always requires more expenses than indexing (if available). Adding more alternative investments does increase fees for the investment program when viewed in isolation; however, for asset allocation purposes, all asset class assumptions in the current capital market expectations are net of fees, so the higher expense is already built in to the portfolio optimization models.

Mr. Carlson reviewed the similarity and differences in the risk of the four potential portfolios. He discussed the standard deviation as a measure of risk with regard to the current portfolio and the four potential portfolios. He indicated that there are other risks to also consider which are underperformance risk, liquidity risk, headline risk, complexity risk and implementation risks.

The summary results from the asset allocation study were reviewed. Mr. Carlson showed the current and target allocations as well as four potential portfolios. The Board discussed their individual thoughts and concerns regarding the various portfolios. Mr. Newton discussed the actuarial implications in making this decision.

Mr. Parrish made a motion to adopt Portfolio 3 as the new target allocation as it best balances the needs of TMRS and facilitates the achievement of TMRS' long-term investment objectives within acceptable risk parameters. Mr. Philibert seconded the motion, which passed 5-0.

3. Consider and Act on Investment Return Assumption for Future Actuarial Purposes (formerly #4 on the Thursday, July 30, 2015 agenda)

Mr. Newton continued his discussion on the investment return assumption as it relates to the current actuarial experience investigation. Guidelines for the assumption setting process are set by Actuarial Standards of Practice (ASOP). He reviewed ASOP 27 requirements and the inflation component indicating GRS will likely recommend 2.50%. Mr. Newton highlighted the return expectations and how their recommendation is based on a middle of the road approach between the arithmetic mean and geometric mean. GRS has already reviewed portfolio 3 and will make the recommendation of 6.75% based on that portfolio. Mr. Newton discussed the risk management issue related to plan funding.

Mr. Newton reviewed the impact on the system using various investment return assumptions on contribution rates. He reviewed all cities as well as those with and without cost of living adjustments and showed the distribution of projected contribution rate changes.

Mr. Parrish moved that the Board adopt the investment return assumption rate of 6.75% reflected in the asset allocation study presentations for the respective target asset allocation portfolio selected by the Board. Mr. Jeffers seconded the motion, which passed 5-0.

4. Chief Investment Officer Management Update, Including Governance, Personnel, Manager Updates and Other Investment Related News or Matters (formerly #2 on the Thursday, July 30, 2015 agenda)

Mr. Carlson introduced two new members of the Investment team, German Gaymer, Investment Analyst for Real Estate, and Martha DeLivron, Investment Analyst for Absolute Return.

5. Consider and Act on Real Estate Manager Recommendation(s)

Mr. Masthay reviewed the timeline for the real estate search process. He also highlighted the search process objectives of portfolio diversification, return potential, controlled risk and the targeted commitment level for 2015 of \$600 million. Mr. Masthay discussed the manager search process and the proposed new allocations to real estate managers totaling \$800 million. TMRS Investment Staff and Courtland Partners, Ltd., TMRS' real estate consultant, believe that the proposed allocations provide good investment opportunities for TMRS. Mr. Masthay also recommended that the pacing plan be revised to allow for all of the proposed allocations, which total \$800 million.

Mr. Masthay reported that after a manager universe analysis and screening, 181 potential real estate managers were assessed. Mr. Masthay explained how the number of qualified managers was reduced and Mr. Novick explained Courtland's role in the reduction. The scoring matrix was reviewed and based on the scoring, 116 managers advanced passed the initial screening process. This group was reduced to 14 and after final due diligence, eight potential finalists were chosen. Mr. Masthay discussed the executive summary of the recommendation and explained the strategy and manager diversification of each manager. He also pointed out the small increase in international real estate. Mr. Novick briefly discussed Courtland's views on non-U.S. real estate and the difference in market cycles as well as differing economic and political risks. Each of the eight managers was reviewed individually. The reasons to invest in each of the finalists were discussed as well as the risks and mitigating factors.

Mr. Masthay discussed the manager termination recommendation. Due to investment process changes, changes in the organizational structure and historical underperformance, staff is recommending termination of Harrison Street Securities. It was discussed that the balance of the Harrison Street Securities account as of July 29, 2015 was approximately \$180 million.

Mr. Philibert made a motion that (i) the Board approve the 8 new real estate investment allocations to the 7 different managers (also known as fund sponsors) discussed for investment in the real estate structures of the managers or their affiliates as discussed, each as proposed and in accordance with the TMRS IPS real estate guidelines, and each individually contingent on favorable background checks and successful negotiation of the investment agreements, (ii) for each such allocation, authorization for the allocation includes the option to participate in the fund's distribution reinvestment programs and exceed the authorized commitments by the value of the distribution reinvestments, when TMRS Staff and its real estate consultant determine that it is economically advantageous to do so and in accordance with the TMRS IPS real estate guidelines, (iii) in conjunction with such allocations, the Board revise its real estate pacing plan to reflect a targeted deployment level of \$800 million for 2015, and (iv) authorize the Executive Director to negotiate, execute, acknowledge, and deliver any and all contracts, agreements, and other documents or instruments satisfactory to the System and necessary or appropriate to give effect to such investments.

6. Annual Real Estate/Real Return Asset Class Review

Mr. Masthay began with a review of the Real Asset portfolio, which is currently comprised of 100% global linkers. He reported that Colchester has performed well compared to the benchmark. Regarding the Real Estate portfolio, he discussed the diversification and allocation progress. TMRS has outperformed the ODCE benchmark on a one-year basis and the portfolio is in compliance with policy standards. He mentioned that the Manager Report Cards were included in the Board materials and noted no concerns, with the exception of for Harrison Street Securities.

Mr. Humphrey from Courtland introduced members of their team. He discussed Courtland's approach to the advisory relationship with TMRS and other public fund clients. He highlighted both the U.S. and non-U.S. investment activities. Mr. Humphrey discussed

Courtland's manager database and their "open-door" policy with managers. The database houses current and historical offering memoranda and investment information. Investment opportunities are maintained across core, value, and opportunistic strategies within real assets (real estate, and infrastructure, agriculture, and timber).

7. Executive Session

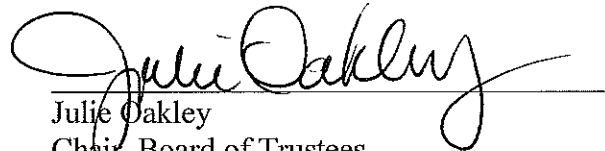
At 5:40 p.m., the Board entered into Executive Session, pursuant to Texas Government Code §§551.071 and 551.074 to consult with Legal Counsel to receive legal advice, and to discuss personnel matters. No action was taken during the Executive Session and all members of the Board that were present before the executive session are still present. The Chair stated that the Board will continue the Executive Session agenda item on Friday, July 31st. The meeting was opened to the public again at 6:05 p.m.

Public comments were taken by Jon Scolnik, Unite Here, Brittany Swiger and Fred Lapka, both representatives of the Steel City Casino Workers Council. Mr. Scolnik discussed labor harmony and how it is an integral part of investment performance regarding Walton Street Fund VII. Ms. Swiger and Mr. Lapka presented their experience working in property owned by Walton Street and their principal concerns of working conditions and benefits.

The meeting was recessed for the day at 6:20 p.m.



David Gavia
Executive Director



Julie Oakley
Chair, Board of Trustees

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

July 31, 2015 – 9:00 a.m.

On July 31, 2015 the Board of Trustees of the Texas Municipal Retirement System (TMRS) convened for a meeting at 9:00 a.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
Bill Philibert
David Landis
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
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
Holly Macki, Director of Real Estate
Dimitry Shishkoff, Director of Risk Management
Chris Schelling, Director of Private Equity
Tom Masthay, Director of Real Estate
Karen Jackson, Executive Assistant
Marcia Beard, RVK
Joe Newton, Gabriel, Roeder, Smith and Company
Susan Warren, KPMG
Rebecca Goldstein, KPMG
Amy McDuffee, Aon Hewitt Investment

Also in attendance:

Sherry Chapman, Investment Accountant
Debbie Farahmandi, Investment Operations Specialist
Peter Jeske, Project Specialist
Michelle Mellon-Werch, Assistant General Counsel
Kate Reed, Investment Risk Analyst

Cindy Morse, Investment Support Analyst
Candace Nolte, Assistant Finance Director
Eddie Schultz, Real Estate Analyst
Carol Leung, Investment Analyst
Ariel Chou, Actuarial Analyst
Paula Nguyen, Investment Accountant
Martha deLivron, Investment Analyst
German Gaymer, Investment Analyst
Bob Scott, City of Carrollton
Alex Cramer, Arlington Professional Fire Fighters
Cody Hill, Arlington Professional Fire Fighters
George Kauffman, City of Garland
David Russell, Texas Municipal Police Association
Jon Scolnik, Unite Here
Brittany Swiger, Steel City Casino Workers Council
Fred Lapka, Steel City Casino Workers Council

Ms. Oakley called the meeting to order and the meeting was reconvened at 9:00 a.m. The pledge of allegiance was recited.

8. Quarterly Investment Staff Report/Asset Class Updates

Mr. Carlson reviewed the overall plan allocations explaining where the new investments are being funded. He reported that the portfolio is outperforming the benchmark in both one-year and five-year periods. He updated the board on year-to-date returns.

Ms. Qualls updated the Board on the Public Equities asset class and reviewed the progress in funding the “satellite” mandates approved by the Board. Performance has been a bit sluggish on domestic as well as international. She then reviewed the pacing plan and noted progress in the completion of funding.

Ms. Macki gave an overview of Fixed Income and reviewed the current allocation. She reported that performance has been ahead of the benchmark. She reviewed the pacing plan and noted that the Core Fixed Income portfolio continues to fund diversification of the plan. She discussed allocation and performance of the Non-Core portfolio and briefly reviewed the securities lending program.

Ms. DeLivron reviewed the absolute return allocation and performance.

Mr. Schelling updated the Board on activities and actions taken in preparation for private equity investments.

Ms. Reed reviewed the status of compliance testing. She reported that 124 tests are run by State Street and approximately 100 are run by internal staff. She then gave an overview of the compliance pacing plan and upcoming improvements.

Mr. Shishkoff discussed the Risk Report and highlighted the overall portfolio risk numbers, policy benchmark risk and long-term benchmark numbers. The active total risk as of March 2015 was 1.11% which is slightly greater than the previous quarter, but still below the risk budget of 2.00%. Allocation differences from the Strategic Target Allocation continue to account for most of the tracking error. Mr. Shishkoff briefly reviewed the upcoming risk management improvements.

9. Consider and Act on Consent Agenda

Mr. Gavia stated that Staff had nothing to add to the consent agenda as presented. There were no changes suggested by the Board.

Mr. Parrish made a motion that the Board adopt the consent agenda as presented. Mr. Landis seconded the motion, which passed 6-0.

10. Receive Report on 2014 External Audit (SAS-114) and Auditor Report to the Board of Trustees

Ms. Warren presented the results of the external financial audit. She reviewed the responsibilities for all parties in the audit, including management, the Board, and KPMG. She noted that during the audit, there were no material weaknesses or deficiencies identified, nor any adjustments identified and also noted that TMRS received an unmodified (clean) opinion.

Ms. Warren discussed the significant accounting policies which are noted in the financial statements. Also included in the financial statements are management judgments and accounting estimates, all of which were found to be reasonable in relation to the financial statements taken as a whole. KPMG is required to note any difficulties encountered or disagreements with management during the audit process; none were noted.

Ms. Warren concluded by thanking staff for their assistance and congratulated TMRS on an unmodified (clean) opinion.

11. Receive and Ratify Distribution of Comprehensive Annual Financial Report (CAFR) and Schedule of changes in Fiduciary Net Position (by Employer)

Ms. Covarrubias presented the Comprehensive Annual Financial Report (CAFR) for the year ended December 31, 2014. She acknowledged the efforts of Candace Nolte and Donna Neal in developing the CAFR.

Ms. Covarrubias noted the five sections of the CAFR. She briefly outlined the items included in the Introductory section. The Independent Auditors Report and the Management's Discussion and Analysis are located in the Financial section. She also reviewed the financial statements in this section as well as the Notes to Financial Statements. Ms. Covarrubias highlighted the modifications to the CAFR resulting from implementation of GASB Statement No. 67 (GASB 67). She also pointed out the new Schedule of Changes in Fiduciary Net Position, which is a separate document with a separate audit opinion. Ms. Covarrubias reviewed the Investment section noting RVK's letter and the investment return data.

The Actuarial section includes the separate certification letters for the pension trust and supplemental death benefit trust. Ms. Covarrubias pointed out the changes due to GASB 67 and the Government Finance Officers Association's checklist on what to include in the CAFR of pension plans. The Statistical section provides historical data that can be used for trend analysis.

Ms. Covarrubias discussed that both the CAFR and the Schedule of Changes in Fiduciary Net Position are available on the TMRS website and have been announced to the cities. She reviewed the updates that have been made to the Eye on GASB section of the web site and all the resources that are available. Ms. Covarrubias noted Bob Scott's participation and assistance in preparing the reporting packages for employers. Mr. Scott commented that everything TMRS has done is highly transparent and is above what many other public sector plans are doing.

Mr. Rodriguez requested that the actuary review the implications of changing the joint-survivor options to include, in addition to the pop-up feature, back payments for the difference between the joint survivor and retiree-life only option once the pop-up feature is activated.

Mr. Rodriguez made a motion for the Board to ratify Staff's distribution of the 2014 Comprehensive Annual Financial Report and the 2014 Schedule of Changes in Fiduciary Net Position (by employer) to TMRS member cities and interested parties, as described above. Mr. Parrish seconded, which passed 6-0.

12. Executive Director and Staff Reports, Including Reports from Administration, Actuarial Services, Communications, Finance, governmental Relations, Human Resources, Information Resources, Legal, Member Services and Project Management (formerly #13 on the Friday, July 31, 2015 agenda)

Mr. Davis gave a brief update on the construction project. Mr. Gavia discussed progress of the TMRS Direct project as well as legislation that impacted TMRS.

13. Strategic Planning (formerly #12 on the Friday, July 31, 2015, agenda)

Ms. McDuffee began this discussion by listing the reasons why strategic planning is a governance best practice. She reviewed TMRS' history of strategic planning and the work leading up to today's session. She has already met with Staff to perform an initial strengths and weakness of the internal organization, external opportunities and threats (SWOT) analysis. Ms. McDuffee reviewed the structure of the strategic planning process to maximize Board/Staff meeting time and involvement. She discussed the strategic plan architecture and terminology.

Ms. McDuffee reviewed the existing Mission and Vision statements and the ACTIVE principals. She discussed the initial SWOT analysis and assessed the environment by highlighting the social, economic, technological and legal/political environments at the global, national and state/local levels as well as the pressures.

Ms. McDuffee listed the strengths and Mr. Gavia highlighted the key items. Ms. McDuffee asked the Board if they agreed with the items listed and if they had any comments. Ms. Oakley stated that she would like to see some items expanded and noted the benefits of a cash-balance plan type and that we should share this information. Mr. Philibert added modifying the technological capabilities to include internal technologies.

Regarding weakness of the internal organization, Mr. Gavia highlighted the key items from the list. Ms. Oakley noted the challenge of legislator changes and creating and maintaining legislative advocates. The Board discussed staffing comments on the list as well as reviews of the procedures and the organization not being viewed as innovative. Mr. Gavia highlighted the key items on the opportunities list and the list of threats to the system. The sensitivity to cyber security was discussed.

The next steps in preparation for the August meeting were discussed. Ms. McDuffee invited Board members to have one-on-one phone conversations with her prior to the meeting in August. She reviewed items to potentially address in the next five-year plan and recent themes of other public retirement system strategic plans.

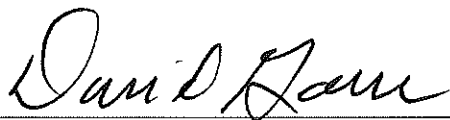
Executive Session (continuation of agenda item #7 on the Thursday, July 30, 2015 agenda)

At 11:21 a.m. the Board went into Executive Session and the meeting reconvened at 12:54 p.m. No action was taken in the Executive Session and all members of the Board that were present before the executive session are still present. Mr. Landis made a motion to adjust the Executive Director's and the General Counsel's salary by 4% effective the last pay period in June. Mr. Jeffers seconded the motion, which passed 6-0.

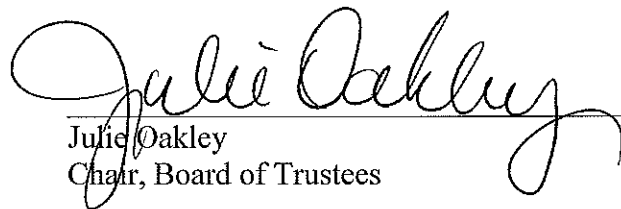
14. Call for Future Agenda Item

No items were mentioned.

Mr. Rodriguez made a motion to adjourn the meeting. Mr. Philibert seconded, which passed 6-0. The meeting was adjourned at 12:55 p.m.



David Gavia
Executive Director



Julie Oakley
Chair, Board of Trustees