

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

**August 18-19, 2011**

On August 18-19, 2011, the Board of Trustees of the Texas Municipal Retirement System (TMRS) convened for a special meeting of the Board of Trustees at 3:30 p.m. at Homewood Suites – Hilton, 3801 Expressway 83 in McAllen, Texas, with the following members present:

**Board of Trustees**

April Nixon, Chair

Ben Gorzell, Jr. (*absent on August 18, 2011*)

Roel (“Roy”) Rodriguez

Julie Oakley

Jim Parrish

Absent: Frank Simpson

Also present were:

David Gavia, Executive Director

Nancy Goerdel, Chief Investment Officer

Cindy Morse, Executive Assistant

Leslee Hardy, Decision Support Actuary

Eric Davis, Deputy Executive Director

Christine Sweeney, General Counsel

Marcia Beard, R. V. Kuhns & Associates, Inc.

Nancy Williams, Hewitt EnnisKnupp

Bob Scott, Government Finance Officers of Texas (*attended on August 19, 2011 only*)

**August 18, 2011**

The meeting was called to order at 3:31 p.m. and Roy Rodriguez gave the invocation.

**1. Executive Session**

At 3:32 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. At 5:20 p.m., the quorum was lost due to the departure of Mr. Rodriguez and the meeting ended at that time. At 5:23 p.m., in the public meeting room, Ms. Nixon announced that the meeting was adjourned until 8:30 a.m. the following morning.

**August 19, 2011**

The meeting was called to order at 8:33 a.m. April Nixon gave the invocation. Ms. Nixon announced that this meeting will continue from where the Board lost its quorum yesterday.

**2. Consideration and Act on Performance and Compensation of Internal Auditor and General Counsel**

Mr. Gavia reminded the Board that it sets the salary and pay increases for the General Counsel and the Internal Auditor. Mr. Gavia informed the Board that a 2% merit increase for other TMRS staff had already been made and that these merits were made from the merit pool. He reminded the Board that they are not bound by staff guidelines for the General Council and Internal Auditor positions; however, if the Board does want to follow the staff guidelines, both the General Council and Internal Auditor have met the requirements to receive a merit and they have exceeded expectations overall. He reminded the Board that this agenda item has been postponed from the July Board meeting, so if the Board decides to grant these merits, they will be retroactive to the effective date of the other staff members' merit increases, which was at the end of June. Discussion continued around the General Counsel's salary compared to other similar positions. Mr. Rodriguez asked a few follow up questions on each position for clarification.

Mr. Rodriguez moved that the Board grant a 3% merit increase for the General Counsel. Mr. Parrish seconded the motion, which passed unanimously.

Mr. Rodriguez moved that the Board grant a 2% merit increase for the Internal Auditor. Mr. Parrish seconded the motion, which passed unanimously.

**3. Strategic Planning Session**

Ms. Williams led the Strategic Planning discussion and asked that both Board and staff participate in the discussion. She said that this is meant to be a brain-storming/idea meeting, so no action will be taken at this time. Ms. Williams reminded the Board and staff that they should think about big items that: (1) impact the budget; (2) require multiple years to complete; (3) concern cross-divisional issues; and (4) concern issues where staff might have to reach outside the organization. Mr. Parrish asked if the referenced "action plans" actually exist in writing. Mr. Gavia responded that depending upon the size of the project, staff does have written plans that include timelines, milestones, responsibilities, etc.

Mr. Gavia then walked the Board through the accomplishments of the existing plan, highlighting the major achievements under Goal 1 (Actuarial Objectives). Ms. Goerdel highlighted the accomplishments under Goal 2 (Investment Objectives). In this area, Ms. Nixon asked for a multi-year staffing plan for the Investments Department and for the Legal Department as it relates to Investments. Ms. Williams added that the changes to GASB may impact staffing as well. Mr. Gorzell added his desire that we show the investment organizational structure to include asset class director responsibilities and areas that TMRS intends to move into and intended resources such as consultants.

Mr. Gavia then reviewed the accomplishments under Goal 3 (Customer Service Objectives). In this area, Mr. Gorzell asked that we continue to look at improving the online estimate program to allow more complex estimates, which might include changing salary, changing the match, etc. Mr. Parrish asked that we survey member and city participants and use the results as a basis for our planning. Mr. Rodriguez asked that a version of the "Grid" be added for cities to use. Mr. Gorzell suggested that where we find efficiency gains with

technology, we also look for corresponding gains from a staff perspective (i.e., not increasing staffing).

Ms. Williams stated that in order to proceed with the discussion, the group would not review the accomplishments listed under Goals 4 (Human Resources Objectives) and 5 (Board Governance Objectives). Mr. Parrish commented that on Goal 5, that emphasis should continue to be given to succession planning and/or back-ups for key staff so that we are covered for any eventuality.

Ms. Williams then began an “Environmental Scan” discussion. The group discussed state and national issues that are of interest/concern to TMRS. Mr. Scott added, from an employer perspective, that the changing makeup of Council members necessitates the need for tools to explain and educate new Council members regarding why the plan is the way it is and to support the level of benefits adopted at the local level. Mr. Gorzell stated that cities need flexibility in their benefit options. Ms. Nixon added that this past legislative session saw more bills aimed at TMRS than ever before and commented that it is not as much about the System directing its own destiny as it is about reacting to issues. As a result, she said it is important to increase communication with the legislature. Mr. Rodriguez asked if we should have a strategy that will allow the System to react to these situations. Ms. Oakley thought this was a good idea, especially with regard to those groups that are focused on the Defined Contribution options. She stated that staff should meet with these groups and to explain why TMRS is different and to educate them on TMRS. Mr. Parrish added that the Board’s role should be reviewed—should the Board be taking a position on these issues or should the Board remain neutral?

The group then reviewed the objective ideas that had been developed. Ms. Goerdel added that we also need to think about, from the legislative perspective, whether the definition of “security” needs to be expanded under TMRS’ statutory authority as other statewide systems have already done to allow the development of more options for implementing the investment policy.

The group then discussed economic issues that may be of concern, as there are distinct challenges facing the System. Ms. Goerdel mentioned that our investment strategic allocation is still relatively conservative in order to limit volatility. Staff will be looking to add absolute return and private equity. Education regarding active management will also be forthcoming. With regard to legal challenges, Ms. Goerdel mentioned that the work load from the Investments Department will be a continuing concern, so resource needs are a real consideration.

The group then discussed GASB. Several issues were discussed including actuarial funding method, timing of implementation, and communication of the reporting and funding differences. It was suggested that it might be a good idea to have KPMG review Service Organization Control (SOC) 1, 2 or 3 in order to assist city auditors in completing their work.

Ms. Williams then reviewed the key issues and challenges facing TMRS. This discussion began with the issue of mortality tables. Mr. Gavia stated that this is an issue on staff's recommendations list and explained the tactics toward meeting this potential goal.

The group also discussed the role of the Advisory Committee. Mr. Rodriguez asked for an outline of the Advisory Committee member vetting and selection process, which Ms. Oakley explained. Most of the issues here were at the tactical level. The discussion then moved to a general legislative policy of the Board regarding the position of the Board.

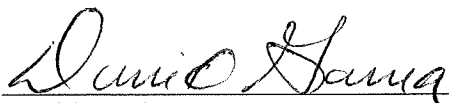
Ms. Williams briefly reviewed the remaining objectives for each goal. She indicated that there will be at least one -- if not two -- additional discussions before the plan is finalized.

Mr. Gavia discussed staff's suggestions for new objectives. The items discussed under Goal 1 were briefly explained. Ms. Goerdel explained the new Investment objectives. Mr. Gorzell asked if there was sufficient language in the Investment Policy Statement (IPS) to allow staff to react to issues that may occur very rapidly. Ms. Goerdel responded that in the case of terminating a manager, that had been addressed, but that this matter would be considered in the next annual review of the IPS. Ms. Williams asked the Board if any of the new objectives should be struck. The Board decided not to strike any new objectives at this time. Ms. Williams asked if the Board would like to see a clean draft brought back to the Board in September. The Board answered affirmatively, and requested that proposed start dates be included, so that the Board will have time to review and consider the information prior to adoption in December. The Board reached consensus that a separate meeting like this is beneficial and should be continued.

#### 4. Other Business

Mr. Rodriguez asked for information regarding the September board meeting. Mr. Gavia explained that the Board meeting is on Wednesday and Thursday (September 21-22) because a Board member had a conflict with Friday, September 23. Mr. Gavia said that the meeting on Wednesday will begin at 1:30 p.m. because several real estate managers will be making presentations. The meeting on Thursday will begin at 9:00 a.m.

As there was no further business, the meeting adjourned at 12:31 p.m.



David Gavia  
Executive Director



April Nixon  
Chair, Board of Trustees