

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

**September 24, 2010**

On September 24, 2010, the Board of Trustees of the Texas Municipal Retirement System (TMRS) convened for a regular meeting at 8:30 a.m. at the TMRS Headquarters, located at 1200 North IH 35 in Austin, Texas, with the following members present:

**Board of Trustees**

Ben Gorzell, Jr., Chair  
April Nixon, Vice Chair  
Pat Hernandez  
Julie Oakley  
Frank Simpson  
Roel ("Roy") Rodriguez

**Present also were:**

David Gavia, Executive Director  
Ian Allan, Director of Internal Audit  
Rhonda Covarrubias, Director of Finance  
Eric Davis, Deputy Executive Director  
Bernie Eldridge, Director of Human Resources  
Nancy Goerdel, Chief Investment Officer  
Leslee Hardy, Staff Actuary  
Holly Macki, Director of Real Estate  
Michelle Mellon-Werch, Associate General Counsel  
Cindy Morse, Executive Assistant  
Debbie Munoz, Director of Member Services  
Eddie Solis, Director of Government Relations  
Christine Sweeney, General Counsel  
Bill Wallace, Director of Communications  
Scott Willrich, Director of Information Resources  
Ron Lewis, Ron Lewis & Associates  
Nancy Williams, Hewitt EnnisKnupp  
Robert Klausner, Klausner & Kaufman  
Pete Madsen, R. V. Kuhns & Associates, Inc.  
Mark Randall, Gabriel, Roeder, Smith and Company

**Guests:**

Chelsea Buchholtz, Office of the Governor  
David Crow, Arlington Firefighters  
Colin Davidson, Regional Representative – City Services  
Debbie Farahmandi, Investment Operations Specialist  
Melinda Griffith, Combined Law Enforcement Association of Texas (CLEAT)  
John Ide, JPMorgan

Scott Kerr, Texas State Association of Fire Fighters  
Holly Macki, Director of Fixed Income  
Randle Meadows, Arlington Police Association  
Anthony Mills, Regional Manager, City Services  
Jim Moore, City of Mesquite Firefighters  
Jim Parrish, City of McKinney  
Kristin Qualls, Assistant Director of Equities  
Katie Reissman, Investment Analyst – Fixed Income  
David Rodriguez, Regional Manager, City Services  
Bob Scott, City of Carrollton  
Sean Thompson, Regional Representative, City Services  
Greg Vick, Texas City Management Association  
Ian Sims, Colchester Global Investors  
Claudia Gollmeier, Colchester Global Investors

The meeting was called to order by Mr. Gorzell at 8:35 a.m., and Mr. Rodriguez gave the invocation.

1. **Executive Session**

At 8:36 a.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 10:15 a.m. All members of the Board who had been present when the Board went into Executive Session were again present.

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

Mr. Gavia outlined the items that make up the Consent Agenda, including the Minutes from the August 27, 2010 joint meeting of the Board and the Advisory Committee on Retirement Matters, along with quarterly reports in service retirements, disability retirements, death benefits and financial statements. Mr. Gavia mentioned that Ms. Goerdel's title should be revised in the Minutes, but other than that one correction, the Minutes are ready to be adopted as presented. Ms. Nixon moved that the Board adopt the Consent Agenda, with the Minutes revised as discussed. Mr. Rodriguez seconded the motion, which passed unanimously.

3. **Consider and Act on Amendments to Strategic Plan and Discussion on Ennis Knupp's Strategic Plan Progress Report**

Mr. Gavia gave a high level review of the creation of the current Strategic Plan, its revisions and activities regarding the document to date, and he mentioned items that could potentially be taken off of the Plan. Ms. Williams discussed her memo documenting the items on the Plan that could be taken off. She stated that more work is needed regarding formalizing legislative philosophy and policy.

Mr. Gavia mentioned that after prioritizing IT resources, staff's recommendation concerning Goal 3, item (d), regarding a portal for the proportionate retirement program, is to shift this item's target completion date out to 12/31/12.

Ms. Nixon moved that the Board adopt the recommended changes to the Strategic Plan. Mr. Rodriguez seconded the motion, which passed unanimously.

**4. Consider and Act on Real Return Manager Selection**

Ms. Goerdel introduced this item and stated that the allocation to real return currently equates to about \$850 million. Mr. Madsen gave the Board an overview of the manager search process. He started by pointing out that this strategy, an actively managed global-linked bond mandate is a conservative approach to entering the real return asset class. The manager will look for bonds with the highest yield after inflation. Mr. Madsen walked through the manager search process and he reviewed the quantitative and qualitative factors in the review process, including phone interviews, in-person interviews, and site visits. He mentioned and discussed the four key factors in the scoring process. He discussed the summary comparison between Colchester and PIMCO, and pointed out the significant points in the review process. He also pointed out past performance over five years for the two firms, as well as risk metrics for the two managers. In closing his part of the presentation, Mr. Madsen reviewed the fee structures of both managers. Mr. Simpson asked that the total cost of the mandate, including both fees and the cost of oversight, be monitored. Mr. Madsen concluded by stating that it was a difficult decision, but ultimately the scoring favors Colchester overall. The selection of Colchester diversifies the manager base within the overall portfolio; the absolute return approach as opposed to a relative return approach offers higher than expected returns; Colchester's focus on government and quasi-government bonds reduces credit risk and provides liquidity and transparency; and the higher benchmark relative risk is offset by their lower risk implementation strategy and better downside protection.

Mr. Sims and Ms. Gollmeier from Colchester introduced themselves and their firm. Mr. Sims stated that he founded the firm over 10 years ago, and that the firm has had no staff turnover. He said that they are focused solely on sovereign bond and currency markets. He highlighted the backgrounds of several of the key staff members and summarized Colchester's client distribution by type and geography.

Mr. Sims discussed Colchester's philosophy and discussed the difference between a real return process and just owning fixed income securities. The benefit of Colchester's real return strategy is that they focus on generating attractive real returns, they construct high quality sovereign-oriented portfolios, and they capitalize on smaller market and sector opportunities in both nominal and inflation protected bonds. He discussed the global markets used and a simulation of how their philosophy results in higher returns.

Mr. Sims then discussed the implementation of their philosophy in constructing their portfolios. He indicated that risk management was in the forefront of their processes. He showed an example of a model portfolio and described how the portfolio is created, highlighting the characteristics of the model portfolio, including credit quality and yield.

After some discussion regarding portfolio turnover, Mr. Sims stated that Colchester takes advantage of opportunities in the market but that the rate of portfolio turnover remains relatively low.

Mr. Simpson moved that the Board accept the recommendation of staff and R. V. Kuhns to hire Colchester Global Investors for investment management services for a Global Inflation Linked Bond mandate, and authorized the Executive Director to negotiate a three year contract at fees no more than the fees stated in R. V. Kuhns' documentation, with TMRS having the right to terminate the contract with no more than thirty (30) days notice.

**5. Consider and Act on Real Return Investment Policy Amendment**

Ms. Goerdel mentioned that these policy guidelines were presented at the August 27, 2010 joint meeting of the Board and the Advisory Committee. Ms. Goerdel's presentation addressed different areas of risk, how that risk is managed, and how the policy responds to the risk. Ms. Goerdel then addressed a couple of non-substantive changes to the policy and briefly reviewed the terms that have been added to the Glossary. Ms. Goerdel mentioned that item 2(a) under "Permissible Investment and Activities," should be revised to read "benchmark constituents" rather than "index constituents."

Mr. Simpson moved that the Board adopt the Global Inflation-Linked Bonds Investment Guidelines, as amended in Section 2(a). Ms. Nixon seconded the motion, which passed unanimously.

**6. Investment Report**

Mr. Madsen presented the investment performance report. He began by stating that August was a "risk off" month where weaker than expected GDP and housing figures led investors to seek safety in US Treasuries. He mentioned that most sectors of the market were flat to declining. He reported that portfolio diversification is progressing. The August return year-to-date is approximately 4.2%, which is a strong performance in a relatively flat market. He stated that the return at 1, 3, 7 and 10 years are very close to the actuarial assumption of 7%.

**7. Discussion on TMRS Legislative Consulting Needs**

Mr. Gavia updated the Board on the search for Mr. Solis' replacement. He indicated that a large number of resumes have been received, and they have been narrowed down to several highly qualified candidates. Ideally, the new person would start in November or early December. Mr. Simpson reiterated how important this legislation is, but also said it is important to have the right fit with the new person, so that expanding Mr. Lewis' role might be necessary during the session.

**8. Consider and Act on 2011 Legislative Agenda**

Mr. Solis and Mr. Lewis gave an overview of how the session is shaping up. Mr. Lewis categorized the coming session as the perfect storm with budget deficits, sunset review issues, and redistricting. Hot issues will include voter ID, immigration and redistricting. Mr. Lewis predicted that the Legislature may come to a halt by May, with tensions very tight, and special sessions very likely. His recommendation for TMRS was to stay on message and remain focused. The Board held firm on message during the last Legislative Session and

were very successful in the last session. He encouraged staff to file the bill early and get out quickly. Mr. Lewis noted that the one disadvantage to TMRS is that Mr. Solis will not be running interference during this Session. Mr. Gavia mentioned, for those who didn't know, that Mr. Solis is going to a private consulting firm. Mr. Gavia thanked Mr. Solis for his service to TMRS.

Mr. Solis reiterated that although many of the issues that Mr. Lewis mentioned which are facing the Legislature do not affect TMRS; however, they do affect the environment of the Session. Mr. Solis mentioned that the Advisory Committee has done a lot of good work, and mentioned that the Advisory Committee did vote to recommend that fund restructuring be the sole focus for the session. He mentioned that the length of the bill is due in part to all the conforming changes that are needed in the Act. Mr. Simpson asked if the draft was done in-house. Mr. Gavia stated that Mr. Craig Hudgins was the primary drafter, and mentioned the advantages of having Mr. Hudgins do this work for TMRS. Mr. Simpson asked about sponsors for the bill. Mr. Solis responded that Representative Kuempel's and Senator Williams' offices had been contacted for sponsorship again. Mr. Lewis mentioned that by "early," he was referring to March, because the hearings cannot happen until then. He would like the bill to be out of the House as soon as possible.

Mr. Rodriguez moved that the Board adopt as its 2011 legislative package the draft legislation presented to the Board which contains the fund structuring recommendations from the TMRS Advisory Committee on Retirement Matters. Ms. Nixon seconded the motion, which passed unanimously.

**9. Consider and Act on Resolution Honoring Carolyn Linér**

Mr. Gavia introduced this resolution honoring Carolyn Linér. He mentioned Carolyn's strong passion for TMRS and the benefits provided by TMRS. Mr. Rodriguez said that he will miss Carolyn. Mr. Gorzell publicly thanked Carolyn for her service to TMRS and her leadership on the Board.

Mr. Rodriguez moved that the Board adopt the Resolution for Carolyn Linér. Ms. Hernandez seconded the motion, which passed unanimously.

**10. Consider and Act on Board of Trustee Meeting Dates and Locations for 2011**

Mr. Gavia discussed the fact that the Board has months in which they are required to meet, and he summarized the other meetings the Board has historically had throughout each year. After much discussion, it was suggested that the Board choose the meeting dates for the February 2011 meeting and the March 2011 Board meetings, while the remaining meeting dates and locations for 2011 will be decided at the October 27, 2010 special meeting of the Board. Ms. Hernandez moved that the Board meet on February 24-25, 2011 and March 24-25, 2011, and that staff bring recommended meeting dates for the remainder of 2011 to the October 27, 2010 Board meeting for consideration and action.

**11. Executive Director and Staff Reports**

Mr. Gavia introduced this item and asked if there were any questions about the staff reports. He mentioned that the City Portal project has now gone live on a limited basis, and a demo will be given at the Annual Training Seminar.


**12. Call for Future Agenda Items**

As there was no further business, Ms. Hernandez moved that the meeting be adjourned. Ms. Oakley seconded the motion, which passed unanimously and the meeting was adjourned at 12:26 p.m.



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David Gavia  
Executive Director



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April Nixon  
Vice Chair, Board of Trustees