

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

October 25, 2012 – 2:30 p.m.

October 26, 2012 – 8:30 a.m.

On October 25, 2012, the Board of Trustees of the Texas Municipal Retirement System (TMRS) convened for a meeting at 2:30 p.m. at TMRS Headquarters, located at 1200 North IH 35 in Austin, Texas, with the following members present:

Board of Trustees

Julie Oakley, Vice Chair

Ben Gorzell

April Nixon

Roel (“Roy”) Rodriguez

Absent: Frank Simpson

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

Bernie Eldridge, Director of Human Resources

Nancy Goerdel, Chief Investment Officer

Leslee Hardy, Director of Actuarial Services

Bonnie Mitra, Director of Fixed Income

Christine Sweeney, General Counsel

Holly Macki, Director of Real Estate

Debbie Munoz, Director of Member Services

Kristin Qualls, Director of Equities

Dimitry Shishkoff, Director of Risk Management

Dan Wattles, Director of Governmental Relations

Bill Wallace, Director of Communications

Stacy White, Executive Assistant

Robert Klausner, Klausner Kaufman Jensen & Levinson

Todd Shupp, R. V. Kuhns & Associates

Also in attendance:

Debbie Farahmandi, Investment Operations Specialist

Randall Meadows, Arlington Police Association

Michelle Mellon-Werch, Associate General Counsel

Cindy Morse, Investment Support Analyst

Candace Nolte, Controller

Nick O’Keefe, Senior Staff Attorney

Kate Reed, Investment Risk Analyst

Rob Lauer, Barclays

Ms. Oakley called the meeting to order at 2:40 p.m. and Roy Rodriguez gave the invocation.

1. Educational Session: Absolute Return Implementation Options

Mr. Gavia introduced Todd Shupp, R.V. Kuhns, to discuss implementation options with the Board regarding the Absolute Return Strategy (ARS). Mr. Shupp reminded the Board that this is the fourth in a series of educational sessions on ARS and stated that he will begin with a review of the highlights from the previous three sessions. He then reviewed TMRS' final target allocation which includes 5% to ARS and pointed out that ARS falls within the alpha thematic bucket. It is used to increase portfolio returns, and decrease portfolio risk by providing performance with a low correlation to traditional asset classes. This strategy can have a positive impact on the expected risk/return profile of a portfolio, even with a relatively small allocation. He reviewed the basics of ARS stating that they are typically less transparent, less liquid and more expensive than traditional asset classes, although costs are decreasing and the objective is to generate an attractive return on a net of fees basis. Mr. Shupp reviewed with the Board the three broad categories of hedge funds: directional, non-directional and event driven, describing their risk/return profiles and emphasized the importance of diversifying across hedge fund strategies.

Mr. Shupp then reviewed the Fund of Funds multi-strategy index, the TMRS benchmark for this allocation, and stated that a Fund of Funds structure is a common implementation approach. He also reviewed hedge fund risks and risk mitigation, discussing the unique operational investment and other risks associated with this strategy. He stated that a thorough due diligence process will help mitigate most of these risks.

Addressing a question from the Board during the last educational presentation on ARS, he stated that approximately 7 to 10% of funds cease operations each year, with the most common reason being investment-related. He noted that fraudulent activities are typically well-publicized and therefore cases of hedge fund fraud appear to be over-represented in media reports. Nonetheless, the existence of hedge fund failures does not offset the diversification benefit.

With regard to implementation, he began by discussing the investment structure options: Off-the-Shelf Fund of Hedge Funds Approach; Fund-of-One Hedge Fund of Funds Approach; Specialist Advisor Approach; and Direct Investment Approach. He also discussed the primary factors to be weighed when choosing between these approaches. Ms. Goerdel added that the last two options may not be feasible for TMRS under the current governance structure because of the structural need to delegate decisions on manager/fund selection.

Mr. Shupp then highlighted the resources and controls needed to manage an absolute return program which includes search, evaluation and selection of funds; ongoing operational and investment due diligence; fee negotiation; portfolio construction and reconfiguration; risk monitoring and termination/exit decisions.

Mr. Shupp next discussed the pros and cons of each approach shown in the presentation, relative to the other approaches.

In closing, R.V. Kuhns suggests that TMRS consider a fund-of-one Fund of Hedge Funds approach for implementing the ARS allocation and staff concurred. Although explicit fees are higher compared to other options, a decision should not be based solely on management fees. TMRS' allocation (5%) would equate to approximately \$1 billion as of August 1, 2012. This approach provides exposure to 25-50 hedge funds and complementary managers will ensure that single manager risk is mitigated.

The Board requested that staff develop an implementation plan utilizing the fund-of-one Fund of Hedge Funds approach for Board consideration at a future meeting.

2. Review and Discuss 2013 Preliminary Operating Budget

Mr. Gavia introduced Ms. Covarrubias to provide an overview of the proposed 2013 operating budget. He stated that her objectives are to review the proposed budget document with the Board and gather requests for additional information for the December meeting. Ms. Covarrubias began by discussing the alignment of the 2013 Budget with the Strategic Plan and Accomplishments in 2012. Regarding Goal 1, she discussed the actuarial retainer and contingency fees for legislative studies and IRC 415 testing. On Goal 2, she reported that funds are included for Banking Services that were previously bundled with Securities Lending. Goal 3 includes funds for two additional positions in the Member Services Department. She then provided a review of staff's accomplishments achieved in 2012.

Ms. Covarrubias then laid out a comparison of the 2012 budget and the proposed 2013 budget. She reported that, excluding "new" items, the basic budget is decreasing by approximately 2.6%. Regarding the Personnel Services category (58% of the budget), Ms. Covarrubias reported that this includes three new personnel. Regarding the Professional Services category (17% of the budget), she reported that there will be an increase in legal services and banking services. Regarding the Communications category (7% of the budget), she reported there will be an increase of 5% over 2012 due to increase in postage rates and a possible change in TMRS' 1099-R vendor. The Rentals & Equipment Maintenance category (6% of the budget) is increasing due to new software requests. The Miscellaneous category (12% of the budget) includes a sub-category for electronic investment data services. Mr. Rodriguez asked for a projection of TMRS' employer contribution rate for participation in TMRS.

Ms. Covarrubias then discussed the new personnel requests outlined in Exhibit A. Ms. Nixon asked for additional information supporting the need for the Project Manager and Member Services Business Process Analyst.

Ms. Oakley asked if there is anything in the budget relating to the implementation of GASB 67 and 68. Ms. Covarrubias responded that audit implications are still unknown but that the AICPA has created a task force to address the new pension standards. TMRS will likely have to expand the audit and perform a gap review, but the additional expense for expanded services will likely occur in 2014.

In response to Mr. Rodriguez's question relating to a board room on the fourth floor, Mr. Gavia responded that the expectation is to bring a budget amendment before mid-year 2013 to the Board that includes fourth floor finish out and addresses board room options.

3. Executive Session

At 4:05 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. Roy Rodriguez left the meeting at 4:08 p.m. at which time a quorum was lost. No action was taken during the Executive Session. No public action was taken.

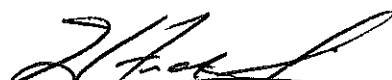
At 4:08 p.m., the meeting recessed until 8:30 a.m. on Friday, October 26, 2012.

Signed by David Gavia



David Gavia
Executive Director

Signed by Frank Simpson



Frank Simpson
Chair, Board of Trustees