

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

**February 13, 2020 – 1:00 p.m.**

On February 13, 2020, the Board of Trustees of the Texas Municipal Retirement System (TMRS) convened for a meeting at 1:00 p.m. at TMRS Headquarters, located at 1200 North IH 35 in Austin, Texas, with the following members present:

**Board of Trustees**

Bill Philibert, Chair  
David Landis, Vice Chair  
Julie Oakley  
Jesus Garza  
Anali Alanis  
Johnny Huizar

**Present also were:**

David Gavia, Executive Director  
Eric Davis, Deputy Executive Director  
TJ Carlson, Chief Investment Officer  
Christine Sweeney, General Counsel  
Bill Wallace, Director of Communications  
Dan Wattles, Director of Governmental Relations  
Leslee Hardy, Director of Actuarial Services  
Debbie Munoz, Director of Member Services  
Scott Willrich, Director of Information Resources  
Rhonda Covarrubias, Director of Finance  
Jesse Pittman, Senior Project Manager  
Sandra Vice, Director of Internal Audit  
Leslie Ritter, Director of Human Resources  
Kristin Qualls, Director of Public Equity  
Chris Schelling, Director of Private Equity  
Tom Masthay, Director of Real Assets  
Marc Leavitt, Director of Absolute Return Strategies  
Jason Weiner, Director of Fixed Income  
Dimitry Shishkoff, Director of Risk Management  
Karen Jackson, Executive Assistant  
Stacy White, Executive Assistant  
Robert Klausner, Klausner, Kaufman, Jensen & Levinson  
Marcia Beard, RVK  
Ron Lewis, Ron Lewis & Associates  
Amy McDuffee, Mosaic Governance Advisors  
Gary Hudepohl, Hudepohl & Associates  
Brian Borton, StepStone Real Estate

James Maina, StepStone Real Estate  
Mike Elio, StepStone Real Estate  
Chris Reel, Albourne America LLC

**Also in attendance:**

Michelle Mellon-Werch, Assistant General Counsel  
Tish Root, Legal Assistant  
David Rodriguez, Senior Regional Manager – City Services  
Sean Thompson, Regional Manager – City Services  
Lorraine Moreno, Regional Manager – City Services  
Melanie Thomas, Process and Content Management Specialist  
Tricia Solis, Member Services Business Analyst  
Eddie Schultz, Investment Manager Real Assets  
Cindy Morse, Investment Support Analyst  
Debbie West, Investment Operations Specialist  
Nick O’Keefe, Lead Investment Attorney  
Kelsey Baldwin, Investment Attorney  
Melissa Jerkins, Quantitative Analyst II  
Ryan Conner, Risk Management Analyst  
Kurt Cressotti, Compliance Officer  
Frank Atkins, Public Equity Analyst  
German Gaymer, Fixed Income Analyst  
Jacob Bowland, Fixed Income Analyst  
Yvonne Huang, Real Assets Analyst  
Peter Jeske, Business Process Analyst  
Janine Prukop, Data Analyst  
Kenneth Oliver, Actuarial Analyst  
Adrienne Cabrera, Policy Advisor, Office of Governor Greg Abbott  
Bob Scott, City of Carrollton  
David Riggs, Texas State Association of Fire Fighters  
Scott Leeton, Combined Law Enforcement Associations of Texas  
Greg Shipley, Combined Law Enforcement Associations of Texas  
Casey Srader, Government Finance Officers Association of Texas  
David Crow, Arlington Professional Fire Fighters  
Fernando Gonzales, Arlington Professional Fire Fighters  
Alex Meade Texas Regional Bank

Mr. Philibert called the meeting to order at 1:00 p.m. and Mr. Landis gave the invocation.

Mr. Philibert introduced Mr. Johnny Huizar, City Manager of the City of Pleasanton, and Ms. Anali Alanis, Assistant City Manager of the City of Pharr, as the new members of the TMRS Board of Trustees. Both Mr. Huizar and Ms. Alanis briefly discussed their backgrounds and work history.

**1. Consider and Act on Adoption of Minutes from the December 5-6, 2019 and January 24, 2020 Meetings of the Board of Trustees**

Mr. Gavia stated that Staff had nothing to add to the minutes as presented.



Ms. Oakley moved that the Board adopt the minutes from the December 5-6, 2019 and January 24, 2020 Meetings of the Board of Trustees. Mr. Garza seconded the motion, which passed 6-0.

**2. Consider and Act on Ratification of Ordinances Adopting Updated Service Credit and/or Annuity Increases Effective January 1, 2020 (Received after December 2019 Board Meeting)**

Mr. Gavia noted that the Board is required by statute to approve Updated Service Credit and Annuity Increase Ordinances that are received in a timely manner. The Board approved ordinances received prior to the December 2019 Board meeting and this action ratifies ordinances received after that meeting that meet all the requirements of the TMRS Act.

Ms. Oakley moved that the Board ratify those ordinances adopting Updated Service Credit and/or Annuity Increases that were received in December after the listing presented at the December 5, 2019 Board meeting. Mr. Landis seconded the motion, which passed 6-0.

**3. Consider and Act on New Appointments to the Advisory Committee on Benefit Design**

Mr. Wattles provided a brief history and overview of the Advisory Committee on Benefit Design (Advisory Committee). He discussed the current group and individual class memberships as well as the current Committee charter which took effect on January 1, 2018. The group class is fully represented by board-appointed members and alternates. Currently, the individual class has two vacancies. Mr. Wattles reviewed the standard process for recruiting new members to fill individual class vacancies.

Mr. Garza discussed his involvement with the Advisory Committee and the importance of the Advisory Committee.

The proposed recommendations to fill the two vacancies are as follows: 1) Mr. Barry Sullivan, City Manager in Gainesville; and 2) Mr. Paul Parker, retired City Manager of Lufkin.

Mr. Garza moved that the Board approve the following appointments to the Advisory Committee:

- Barry Sullivan, as an active employee representative to the Individual Class of the Advisory Committee for a period of three years; and
- Paul Parker, as a retiree representative to the Individual Class of the Advisory Committee for a period of three years.

Mr. Landis seconded the motion, which passed 6-0.

**4. Consider and Act on Board Committee(s) Creation or Modification, Appointment(s), and Reappointment(s) for 2020**

Mr. Gavia reviewed the Board action from the December 2019 Board meeting to re-appoint Committee membership until the next Board meeting. Since that time, Mr. Jeffers' retirement in January has created vacancies on the Budget Committee and the Internal Audit Committee. At a previous Board meeting, the Board had discussed the possibility of combining the Budget and Compensation Committees.

Ms. Oakley moved that the Board approve combining the Budget and Compensation Committees, authorizing staff to draft a combined Charter, and having Ms. Oakley serve as Chair and Mr. Philibert serve as Vice-Chair of the combined Committee. Mr. Landis seconded the motion, which passed 6-0.

Ms. Oakley moved that the Technology Committee continue for a year. After discussion, she withdrew her motion and the continuation of the Technology Committee and any appointments to it were tabled to a later meeting.

Mr. Huizar expressed an interest to serve on the Internal Audit Committee. Mr. Landis moved that Mr. Landis serve as Chair and Mr. Huizar serve as Vice-Chair of the Internal Audit Committee. Ms. Oakley seconded the motion, which passed 6-0.

Mr. Landis moved that Mr. Philibert serve as Chair of the Legislative Committee and Mr. Garza serve as Vice-Chair. Ms. Oakley seconded the motion, which passed 6-0.

Ms. Oakley moved that Mr. Landis serve as Chair of the Advisory Committee on Benefit Design and that Ms. Alanis serve as Vice-Chair. Mr. Garza seconded the motion, which passed 6-0.

**5. Consider and Act on Non-Core Fixed Income Manager Recommendation(s)**

Mr. Weiner, Mr. Gaymer and Mr. Bowland presented the Non-Core Fixed Income manager recommendation. The proposed recommendation is for one Non-Core Fixed Income manager, PIMCO Corporate Opportunities Fund III Onshore Feeder, LP (PIMCO COF III), for an allocation of up to \$300 million. This is a re-up with this manager and full due diligence was performed.

Mr. Weiner reviewed the Non-Core Fixed Income portfolio construction. PIMCO COF III is an opportunistic strategy primarily focused on investing in corporate debt across both public and private markets in the U.S. and Europe. PIMCO COF III will seek to identify opportunities across sub-strategies and the flexible mandate will allow the latitude to identify opportunities in both public and private markets.

Mr. Bowland reviewed the candidate characteristics. This strategy is a continuation of that used in PIMCO COF II. PIMCO COF II has a very strong team, compelling market opportunity and strong PIMCO track record. Mr. Bowland also reviewed the issues to watch.



Mr. Gaymer discussed the flexibility of the strategy and highlighted the ability of the COF III team to access the breadth of the large PIMCO platform.

Ms. Oakley moved that the Board approve the following:

- (i) Authorize the following allocations, each as proposed and in accordance with the TMRS Investment Policy Statement, with an initial investment allocation up to the amount set out below and at fees no greater than presented in the TMRS Staff Memo to Board, contingent on favorable background checks, if required below, and successful negotiation of the investment agreements:

Name of Investment Manager, Investment Fund, or Fund Strategy	Asset Class Strategy	Initial Investment Allocation	Background Check Required (Yes or No)
PIMCO Corporate Opportunities Fund III Onshore Feeder, L.P. (PIMCO COF III or COF III)	Opportunistic Credit	Up to \$300 Million	Yes

- (ii) Approve and incorporate by reference for all purposes the Board Standard Investment Authorizations for each such investment allocation.

Mr. Landis seconded the motion, which passed 6-0.

**6. Consider and Act on Private Equity Manager Recommendation(s)**

Mr. Schelling and Mike Elio from StepStone presented the three proposed Private Equity manager recommendations. The proposed allocations of Altaris Health Partners V., L.P. (Altaris V), One Rock Capital Partners III, L.P. (One Rock III), and Insights XI, L.P. (Insights XI) total \$250 million.

Mr. Schelling reviewed the due diligence process and discussed the increased pacing due to the increase in the private equity portfolio commitment.

The three strategies within the private equity portfolio were highlighted: buy-out, growth/venture, and special situations. The focus is on domestic managers, but taking a measured approach to global diversification. In 2020, strategy considerations include selectively up-sizing commitments, adding new relationship and venture/growth exposure.

Mr. Schelling next reviewed the characteristics of each of the proposed managers. The first manager recommendation is Altaris V. Altaris V is a New York based investment firm that focuses exclusively on healthcare industry, specifically, pharmaceutical, medical device and diagnostics, provider services, and payors/insurance business across North America and Western Europe.

The second manager recommendation is One Rock III. One Rock III is a New York based buy-out firm that focuses on value-oriented, control stakes in complex, middle-market businesses within subsectors of the ‘old economy.’

The final manager recommendation is Insight XI. Insight XI is a New York based private equity firm that focuses on small-to-mid cap growth-stage software, software enabled services, and internet businesses with the potential for recurring revenue growth.

Mr. Garza asked about the turnover in the mid-level staff of the private equity firms, but also the specific comments on Insight. Mr. Elio responded that it was note-worthy, but based on Insight’s process and staff size, this issue has been mitigated.

Mr. Landis moved that the Board approve the following:

- (i) Authorize the following allocation(s), each as proposed and in accordance with the TMRS Investment Policy Statement, with an initial investment allocation up to the amount set out below and at fees no greater than presented in the TMRS Staff Memo to Board, each individually contingent on favorable background checks, if required below, and successful negotiation of the investment agreements:

Name of Investment Manager, Investment Fund, or Fund Strategy	Asset Class Strategy	Initial Investment Allocation	Background Check Required (Yes or No)
Altaris Health Partners Fund V, L.P. (“Altaris V”)	Buy-out	\$75 million	Yes
One Rock Capital Partners III, L.P. (“One Rock III”)	Buy-out	\$75 million	Yes
Insight Partners XI, L.P. (“Insight XI”)	Growth Equity	\$100 million	Yes

- (ii) Approve and incorporate by reference for all purposes the Board Standard Investment Authorizations for each such investment allocation.

Mr. Garza seconded the motion, which passed 6-0.

**7. Consider and Act on Private Real Estate Manager Recommendation(s)**

Mr. Masthay and Mr. Schultz presented three proposed Real Estate manager recommendations. The proposed new allocations to Berkeley Partners Value Industrial Fund

V, L.P. (Berkeley) was presented with Mr. Reel from Albourne. The proposed new allocations to Virtus Real Estate Enhanced Core, L.P. (Virtus) and Abacus Core Income Fund I, L.P. (Abacus) were presented with Mr. Maina of StepStone. Recommended real estate allocations total \$325 million.

Mr. Masthay reviewed the portfolio construction and the themes TMRS is using, which include finding firms that enhance value creation, moving closer to the assets and finding better capital structures.

Mr. Schultz discussed candidate characteristics of the three proposed manager recommendations. The first manager recommendation is Berkeley. Berkeley is focused entirely on light industrial properties in the U.S. across the risk spectrum. The firm's flagship strategy is to invest in local infill, multi-tenanted, light industrial urban core properties in growing U.S. markets. Berkeley is vertically integrated, providing property management and other asset level services directly.

The second manager recommendation is Virtus. Virtus' focus is to invest in property sectors that exhibit historically consistent returns less correlated with the broader market. These sectors typically include: healthcare, self-storage, senior living, workforce housing, and student housing and other education related assets.

The final manager recommendation is Abacus. Abacus invests exclusively in multi-family residential housing. TMRS has invested in each Abacus flagship value fund series Funds II through V, as well as its core vehicle, Abacus Core Income Fund I. Abacus has historically been one of TMRS' strongest performing Real Estate managers, at least in part, due to its hybrid operator/allocator model. This is a secondary transaction whereby TMRS would be purchasing out the interest of two other investors giving TMRS ownership of all limited partner interests in the fund. The reasons for this investment were discussed.

Mr. Landis moved that the Board approve the following:

- (i) Authorize the following allocations, each as proposed and in accordance with the TMRS Investment Policy Statement, with an initial investment allocation up to the amount set out below and at fees no greater than presented in the TMRS Staff Memo to Board, each individually contingent on favorable background checks, if required below, and successful negotiation of the investment agreements, and the Virtus allocation also being contingent on the Virtus Fund being approved by the TMRS Real Estate consultant, and the Abacus allocation also being contingent on the approval by the TMRS Real Estate consultant of the pricing mechanism and ultimate pricing calculations:



Name of Investment Manager, Investment Fund, or Fund Strategy	Asset Class Strategy	Initial Investment Allocation	Background Check Required (Yes or No)
Berkeley Partners Value Industrial Fund V, LP (Berkeley)*	Value Add Real Estate	Up to \$75 Million	Yes
Virtus Real Estate Enhanced Core, LP (Virtus)	Core Real Estate	Up to \$200 million	Yes
Abacus Core Income Fund I, LP (Abacus)	Core Real Estate	Up to \$50 Million (Secondary Purchase)	No

- (ii) Approve and incorporate by reference for all purposes the Board Standard Investment Authorizations for each such investment allocation.

Mr. Garza seconded the motion, which passed 6-0.

**8. Consider and Act on Investment Manager Redemption Recommendation(s)**

Mr. Masthay and Mr. Reel from Albourne discussed the proposed Investment manager redemption recommendation. TMRS has been invested with Chickasaw Capital Management, LLC (Chickasaw) in a strategy focused on publically traded midstream energy sector securities since November 2017. Challenges to the sector and manager performance led to the creation of a presentation given to the TMRS Investment Committee outlining research on the market, manager, current context for the investment in TMRS' portfolio and a decision making framework for how to address the investment going forward. The TMRS Investment Committee unanimously approved to recommend full redemption from the mandate with Chickasaw.

Mr. Masthay reviewed the documents in the presentation and how to manage this transition. The decision to terminate the manager relationship is also supported by Albourne.

Mr. Landis moved that the Board approve the following:

- (i) Authorize the Executive Director to determine the most prudent method to redeem investments and terminate the Chickasaw Investment Manager Agreement and to take all other actions the Executive Director deems necessary or appropriate to end such investment manager relationship:

Name of Investment Manager, Investment Fund, or Fund Strategy	Asset Class Strategy	Amount
Chickasaw Capital Management, LLC	Public Real Return	100% (~\$240 million)



- (ii) Approve and incorporate by reference for all purposes the Board Standard Investment Authorizations for each such investment termination.

Ms. Oakley seconded the motion, which passed 6-0.

**9. Consider and Act on Alternative Board Processes for Approval and/or Delegation of Investment Manager Selections and Terminations, including Possible Amendments to the Investment Policy Statement**

Ms. Beard, Ms. McDuffee and Mr. Klausner continued discussion regarding the processes for TMRS' selection, management, and termination of investment managers. The Strategic Plan points to a future vision for the investment program and finding the best governance model going forward.

Ms. Beard outlined that Board direction through the Strategic Plan, and that the Board-owned Investment Beliefs set the direction for the program. She reviewed the timeline and steps that have been taken thus far in the development of the Investment Beliefs. Investment Beliefs set the direction for the Board's investment policy, investment practice, organization structure and culture. Mr. Philibert asked about surveying the new trustees. Mr. Klausner responded that when the Executive Director changes, among other things, the Investment Policy Statement (IPS) must be reviewed; that should be when the new trustees are surveyed.

The prior Investment Beliefs survey and the responses were reviewed. The responses ranking the Board's focus was informative and the Board ranked setting and monitoring long-term investment objectives, and strategic asset allocation as a primary focus.

Mr. Klausner reviewed the Trustees' fiduciary duty set forth in the Texas Constitution and in the TMRS Act. The Constitution and TMRS Act use the "prudent person standard" and Mr. Klausner defined the "prudent person standard" and provided examples. TMRS is also subject to certain provisions of the Texas Uniform Prudent Investor Act. The consultants are held to the "prudent expert standard". The Board's job as prudent trustees is to adopt a comprehensive policy statement and demand accountability for its application. The Board cannot give away its fiduciary duty. However, the Board can decide what is prudent to focus on, the policy, and then delegate execution of that policy. Delegation of a certain function is a prudent and lawful exercise of the Board's authority. In deciding to delegate and to whom it delegates, the Board must use reasonable care, skill and caution. The Trustees always retain authority for the program via the Investment Policy Statement.

Ms. Beard reviewed a diagram showing the hierarchy of Institutional Investment Decision Making. The diagram shows decisions that should not be delegated, can be delegated, and should be delegated.

Ms. Beard recapped prior discussions regarding the models for retaining, managing and terminating investment managers were reviewed. After discussing the current pillars in place, legal standards of care, and the four different models and their features, the Board had requested further discussion on two models, a combination of approval by consent agenda and percentage limit by asset class, and then just the percentage limit model. Ms. Beard then



reviewed the two preferred models: Model A, the Hybrid Delegated Authority and Model B, Delegated Authority. She reviewed flow diagrams for each model and reviewed the work related to the IPS. At the September Board meeting, the Board agreed on Model A, with minor modifications, and directed staff and consultants to proceed drafting revisions to the Board's IPS.

Ms. McDuffee summarized and concluded with important principles in regard to delegation responsibilities. Ms. Sweeney corrected that in accordance with the IPS revisions requested by the Board the reports on the private market investment are to be presented to the Board as a "receive and file" agenda item and not as a "confirm" item.

Ms. Oakley asked how many manager selections previously approved by the Board would have come to the Board under the new approach. Mr. Carlson answered by explaining how the IPS would use the CAFR portfolio value as the target for the collar, and then discussed which manager selections would have come to the Board. Ms. Oakley then asked how the collars were established. Ms. Beard answered that it was based on TMRS historical transactions and peer comparisons. Mr. Garza brought up the Investment Beliefs responses and how the Board can be more efficient and strategic.

Mr. Garza moved that the Board approve the Hybrid model and the proposed amendments to the IPS to be effective February 15, 2020. Mr. Landis seconded the motion, which passed 6-0.

#### **10. Consider and Act on Proposed TMRS Rule Amendment(s)**

Ms. Sweeney and Ms. Mellon-Werch discussed the proposed TMRS Rule amendments to the TMRS Act. The purpose of this item is to continue the discussion on the TMRS Strategic Plan relating to Goal 1, Objective C, to "Develop and Promote Legislation and Rule Amendments to Clarify Certain Aspects of the TMRS Act". In 2019 Senate Bill 1337 (SB 1337) was enacted, which made a number of desired changes to the TMRS Act. TMRS Staff has drafted proposed revisions to Chapter 121 of the TMRS Board Rules. These rules were reviewed for compliance with the Administrative Procedures Act and with State Office of Administrative Hearings (SOAH) requirements. Ms. Sweeney reviewed the steps of repealing and adopting a new chapter of the TMRS Board Rules.

Ms. Mellon-Werch reviewed the proposed changes to Chapter 121. Most of the changes are clarifications and/or updates of the current rules and are similar to rules in place at other Texas statewide systems. There are some changes which are intended to provide for more efficient administration of the System through clarification of certain aspects of the TMRS Act. Other changes are designed to implement certain provisions of Senate Bill 1337.

Ms. Oakley moved that the Board authorize the Executive Director (i) to submit the proposed repeal of Chapter 121 and new Chapter 121 of the TMRS Rules, in substantially the form presented to the Governor's Officer for review; (ii) to make non-substantive changes to the proposed Chapter 121 rules that might be suggested by the Governor's staff; (iii) once the Governor's review is complete, to file the proposed repeal of Chapter 121 and proposed new Chapter 121 of the TMRS Rules with the *Texas Register* for publication (with any final



adoption of the amended rules to take place at a later Board meeting), and (iv) to make non-substantive changes to the proposed rule amendments as necessary or desirable to renumber the rules as described to the Board and/or conform the rule amendments to *Texas Register* requirements.

Mr. Landis seconded the motion, which passed 6-0.

**11. Executive Director Search Update**

Mr. Hudepohl gave an update on the Executive Director Search. He indicated that the search is progressing well. Results of the search to date are as follows:

- Over 40 applications were received
- 26 phone interviews
- 8 out of 13 "high interest" candidates have been interviewed by Mr. Hudepohl and the remaining 5 are currently scheduled

After in person interviews are completed, Mr. Hudepohl stated that recommended candidates should be brought to the Board after February 24<sup>th</sup>.

**12. Executive Session**

At 5:00 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. The meeting was opened to the public again at 6:25 p.m. and all members of the Board that were present before the Executive Session were still present.

At 6:25 p.m. the meeting was recessed until 8:00 a.m. on Friday, February 14, 2020.



David Gavia  
Executive Director



Bill Philibert  
Chair, Board of Trustees

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

**February 14, 2020 - 8:00 a.m.**

On February 14, 2020, the Board of Trustees of the Texas Municipal Retirement System (TMRS) reconvened for a meeting at 8:00 a.m. at TMRS Headquarters, located at 1200 North IH 35 in Austin, Texas, with the following members present:

**Board of Trustees**

Bill Philibert, Chair  
David Landis, Vice Chair  
Julie Oakley  
Jesus Garza  
Anali Alanis  
Johnny Huizar

**Present also were:**

David Gavia, Executive Director  
Eric Davis, Deputy Executive Director  
TJ Carlson, Chief Investment Officer  
Christine Sweeney, General Counsel  
Bill Wallace, Director of Communications  
Dan Wattles, Director of Governmental Relations  
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Leslie Ritter, Director of Human Resources  
Kristin Qualls, Director of Public Equity  
Marc Leavitt, Director of Absolute Return Strategies  
Dimitry Shishkoff, Director of Risk Management  
Karen Jackson, Executive Assistant  
Robert Klausner, Klausner, Kaufman, Jensen & Levinson  
Marcia Beard, RVK  
Amy McDuffee, Mosaic Governance Advisors  
David Dupont, CEM

**Also in attendance:**

Michelle Mellon-Werch, Assistant General Counsel  
Madison Jechow, Assistant General Counsel  
Nick O'Keefe, Lead Investment Attorney  
Kelsey Baldwin, Investment Attorney  
Anthony Mills, Senior Regional Manager – City Services



David Rodriquez, Senior Regional Manager – City Services  
Melanie Thomas, Process and Content Management Specialist  
Andi Focht-Williams, Senior Internal Auditor  
Peter Jeske, Business Process Analyst  
Kenneth Oliver, Actuarial Analyst  
Cindy Morse, Investment Support Analyst  
Debbie West, Investment Operations Specialist  
Kurt Cressotti, Compliance Officer  
Frank Atkins, Public Equity Analyst  
Melissa Jerkins, Quantitative Analyst II  
Ryan Conner, Risk Management Analyst  
Jacob Bowland, Fixed Income Analyst  
Casey Srader, Government Finance Officers Association of Texas  
David Riggs, Texas State Association of Fire Fighters  
David Crow, Arlington Professional Fire Fighters  
Fernando Gonzales, Arlington Professional Fire Fighters

Mr. Philibert called the meeting to order and the meeting was reconvened at 8:00 a.m.

### **13. Review and Discussion of CEM Report**

Mr. Gavia introduced David Dupont from CEM Benchmarking (CEM). CEM performs benchmarking studies for public retirement systems around the world. Mr. Dupont reviewed his history with CEM and the work CEM does on the Pension Administration Study and Investment Study.

Mr. Dupont began by reviewing the Pension Administration Study. In the report, TMRS is compared to 11 U.S. participating systems nearest our size out of the global universe of 62 systems. It was noted that TMRS' costs were slightly above the peer median and service was right at the peer median. He reviewed the TMRS peer group. Again, administration cost was slightly above peer median, but below the larger group average; partially due to economies of scale. TMRS is a smaller plan in the peer group and Mr. Dupont reviewed the reasons why this cost was above the peer median.

Service score was right at the peer median. Mr. Dupont reviewed examples of key services measured. Between 2012 and 2018, IT and major project costs are the biggest and fastest growing part of total cost. However, it was noted that members are benefitting from the IT investment and it is highly valued.

In summary, the administration costs are about average for the peer group and service levels are close to the peer average. Ms. Oakley requested the full report be sent via email.

Mr. Dupont discussed the Investment Cost Effectiveness Analysis. The Investment Study is based on data from a three-year period ending December 31, 2018. The data is compared to CEM's database of 287 international systems, including 164 U.S. pension funds. TMRS' "custom peer group" consists of 17 U.S. plan sponsors with a median size of \$27.6 billion.

Mr. Dupont discussed the peer group and after adjusting for asset size and mix, TMRS costs were below the benchmark. The fund was low cost because we paid less than peers for similar services and we had a lower cost implementation style. Ms. Oakley asked why our costs were above the peer median. Mr. Carlson answered that both asset allocation and implementation style does answer most of this difference.

The Total Return was less than the peer median and the policy return was also below the peer median. Total returns, by themselves, provide little insight into the reason behind relative performance. Therefore, total return is separated into more meaningful components, policy return and value added. One of the reasons why TMRS is below our peers is due to the lower target return for TMRS in comparison to our peer as well as the asset allocation chosen by the Board. The System is also taking a lot less risk than its peers and the System has been successful in the value add component of total return. Three-year return performance placed TMRS in the positive value added, low cost quadrant on the cost effectiveness chart.

Mr. Dupont highlighted a summary of key takeaways, including TMRS' fund was low cost because of paying less than our peers for similar services and lower cost implementation style, had positive value add above the peer median, and had lower risk than our peers.

#### **14. Annual Portfolio Risk Review**

Mr. Shishkoff and Ms. Jerkins presented the annual review of the Investment Risk Management Program. Mr. Shishkoff began by pointing out that investment risk for TMRS is the uncertainty of achieving TMRS's investment objectives.

Mr. Shishkoff reviewed key TMRS Investment Policy Statement (IPS) provisions regarding a risk management program and related roles and responsibilities.

The Three Lines of Defense Risk Governance Model was highlighted, including the roles of each line of defense. The primary responsibility for managing investment risk falls on the asset class directors who are the First Line of Defense. As the Second Line of Defense, the Risk Management function ensures that appropriate policies and procedures exist and are followed; the Chief Investment Officer (CIO) evaluates the effectiveness of First Line risk management; the Risk Management team independently monitors and reports on the level of risk against established risk appetite as expressed in the IPS. The Third Line of Defense is independent assurance by the internal auditor, external auditors and investment consultants to the Board.

The key Investment Risks were discussed. Strategic Risk is the risk of pursuing the wrong strategy due to lack of clarity in investment beliefs, objectives and risk tolerance. It is managed by asset allocation studies, pension financial studies, and well informed Board decisions. Implementation Risk is defined as unmet expectations due to poorly defined policies and procedures, policies and procedures not being followed, and absence of skill where skill is required. Implementation risk is managed by appropriate, documented and clearly communicated policies and procedures, retention of skilled staff, and monitoring and reporting. Mr. Shishkoff reviewed management of Strategic Risks through Funding Methodology, Asset Allocation Target, and Actuarial Expected Return policy decisions.



Procedures for managing Implementation Risk are contained in the TMRS Investment Department Internal Procedures Manual with over fifty procedures and one hundred pages of formal guidelines and responsibilities. The manual provides guidelines for how investment decisions must incorporate risk management considerations. Mr. Shishkoff also emphasized that effective risk management requires that necessary skills exist at the level where decision-making responsibility is retained. Mr. Shishkoff discussed the various reports to assist in managing implementation risk and the due diligence procedure was reviewed.

Mr. Shishkoff reviewed the primary asset class “building blocks” as a means to help understand the various components of capital markets, including access, asset classes, information, liquidity, pricing, portfolio construction, return sources and primary risk source.

Ms. Jerkins reviewed risk reporting and explained the reason for having two types of risk measurements in the Board Risk Report. One type of measurement is more granular for short term security level holdings, and the second type is less granular for long term Asset Class Strategy level exposures. She also reviewed standard deviation and what it means and how it is calculated as well as what that means in reference to our portfolio. Long term risk assessment was reviewed by asset class. Active risk was defined as the uncertainty of portfolio returns relative to the Policy Benchmark return. Active risk is due to active allocation and selection decisions. A cash flow model was reviewed to show the analysis of liquidity risk. This model projects expected future private market funds cash flows for pacing of capital commitments and total fund liquidity management; it also provides input to liquidity risk simulations.

Mr. Shishkoff summarized the TMRS Risk Management Program by again defining risk, stating that risk management must be evaluated not based on the absence of bad outcomes but based on quality of procedures, adequacy of skill at the level where decisions are made and transparency through good reporting. He closed with saying that TMRS has a well-defined risk process that is well positioned to evolve with the growth in size and complexity of the portfolio and continuously strives to improve the probability of meeting objectives.

#### **15. RVK Quarterly Report/Asset Class Updates**

Ms. Beard presented the fourth quarter report for 2019. For the fourth quarter of 2019, global equity markets were strong, but there was also a very strong bond market return as well. Annual asset class performance was discussed and Core Real Estate and Hedge Funds were very strong. Global central banks remain accommodative, though the market expects little additional help from the Federal Reserve in 2020. RVK is expecting a reversion to the mean in the future.

Asset Allocation and Performance was reviewed along with the Target versus Actual Allocations. The one year total fund return exceeded both the Allocation Benchmark and the Policy Index.



Composite performance both on a quarterly basis and on five-year basis was discussed. Ms. Beard concluded by reviewing performance and allocation on each individual asset class.

**16. Review and Discussion of Governance Manual, Including Possible Amendments to the Board's Bylaws and Other Governance Documents**

Ms. Sweeney and Ms. McDuffee presented the discussion of the Governance Manual. Ms. McDuffee provided an overview of the progress on this initiative and highlighted the approach undertaken to create the TMRS Governance Policy Manual. The goal of creating a TMRS Governance Policy Manual is to develop a principles based approach as opposed to being very prescriptive. The discussion focused on the revised Bylaws and related documents. The steps taken to update, streamline and harmonize the Bylaws were listed as well as the types of revisions made to the Bylaws. Ms. McDuffee requested feedback on the revised Bylaws, elimination of the stand-alone roles policy, and elimination of the stand-alone administrative policy.

Mr. Garza discussed the relationship and roles between the Advisory Committee and the Legislative Committee. Ms. Oakley suggested as a possibility to dissolve the Legislative Committee, but keeping either the Chair or the Vice-Chair on the Advisory Committee. Ms. Oakley stated her preference was to add the legislative duties to the Chair and Vice-Chair of the Board versus having a separate Legislative Committee. The Board discussed several possibilities relating to the Legislative Committee and Advisory Committee. If the Legislative Committee was dissolved, one suggestion was that the Advisory Committee could possibly have three members since the meetings are posted as an open meeting and more Board members could participate. Mr. Philibert agreed with Ms. Oakley's suggestions and agreed with the training opportunity created, especially for new Board members, by serving on the Advisory Committee. Further discussion included the roles and activities of the Advisory Committee. Ms. McDuffee asked if the Board would like to act on this item at this meeting or have a broader discussion at the next meeting. The consensus of the Board was for a broader discussion at the next meeting.

The Board approved elimination of the stand-alone Board Roles Policy, but requested more time to review the Bylaws. Since a new Executive Director will be hired, the consensus of the Board was to keep the Administrative Policy, but directed staff to review and reduce the amount of provisions that do not rise to a policy level.

**17. Review and Discussion of Development of Board Telephone Conferencing and Videoconferencing Policy**

Ms. Sweeney and Ms. McDuffee presented the discussion of a possible Board telephone conferencing and videoconferencing policy due to the adoption of SB 1337. After discussion, the Board's preference is that meetings are attended in person, but if needed, then the Board's preference is the use of telephone conferencing for a meeting.

Ms. McDuffee asked the Board to consider some general questions and concepts to include in developing a policy. The Board prefers that Board members participate at the same level of focus remotely as they do in person. The Board consensus was that if the Chair participates remotely, the Vice Chair would lead the Board meeting. The Board's preference



was to have a roll call on agenda items that require a vote when any Board member participates remotely. The Board confirmed that participating remotely to a Board meeting should be a last resort. The Board also did not want to limit the number of Board meetings per year that each Trustee could attend remotely nor did they want to limit the number of Trustees attending meetings remotely. The Board's responses will be implemented into a draft policy or other governance documents that will be brought back to the Board at a later date.

**18. Chief Investment Officer Management Update, Including Governance, Personnel, Manager Updates and Other Investment Related News or Matters**

Mr. Carlson noted that TMRS is close to \$32 billion in total assets. Currently, there are two new Investment Department positions that are posted -- a Private Market Analyst and a Hedge Fund Analyst.

**19. Executive Director Update: Actuarial Services Department**

Ms. Hardy and Mr. Oliver presented an overview of the Actuarial Services Department. Ms. Hardy reviewed the 2018 valuation results which indicated a slight decrease in the funded ratio as compared to the 2017 valuation results, primarily due to plan changes adopted during 2018.

Mr. Oliver discussed the Actuarial 2019 Contribution Rates and the number of cities eligible to phase-in prior contribution rate increases. Only 4 of the 17 cities eligible to phase-in actually exercised that option, while the remaining 13 cities paid at or above the full rate. Of the 860 cities with only a full rate option (i.e. no phase-in), 113 paid more than the required rate. Ms. Hardy reviewed the reasons for a phase-in rate. Mr. Oliver highlighted the different studies and financial analyses performed in 2019.

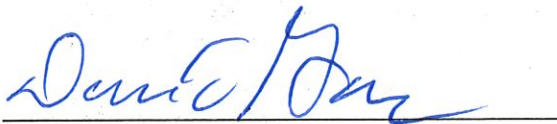
Ms. Hardy discussed the Asset/Liability and Asset Allocation Study, as well as the Actuarial Experience Study that resulted in new set of actuarial assumptions effective with the December 31, 2019 actuarial valuation. The City Dashboard was tested and implemented in December 2019.

**20. Call for Future Agenda Items**

Mr. Philibert would like a more detailed explanation on the CEM results.

Mr. Garza would like a plan for updating the Board on the Strategic Plan. Mr. Gavia discussed the re-introduction of the Board work plan.

There being no further business, the meeting was adjourned at 11:58 a.m.



David Gavia  
Executive Director



Bill Philibert  
Chair, Board of Trustees