

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

**February 14, 2019 – 1:30 p.m.**

On February 14, 2019, 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**

Bill Philibert, Chair

David Landis, Vice Chair

Jim Parrish

Jim Jeffers

Jesus Garza

Absent: Julie Oakley

**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

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

Amy McDuffee, Mosaic Governance Advisors

Tracy Harris, StepStone Group

Ron Lewis, Ron Lewis and Associates

**Also in attendance:**

Jason McElvaney, McElvaney Public Affairs  
Eric Obermier, Assistant Director of Information Resources  
Madison Jechow, Assistant General Counsel  
Michelle Mellon-Werch, Assistant General Counsel  
David Rodriquez, Senior Regional Manager – City Services  
Sean Thompson, Regional Manager – City Services  
Melanie Thomas, Process and Content Management Specialist  
Donna Neal, Senior Technology Design Specialist  
Eddie Schultz, Assistant Director of Real Assets  
Cindy Morse, Investment Support Analyst  
Debbie Farahmandi, Investment Operations Specialist  
Nick O’Keefe, Lead Investment Attorney  
Susan Jacques, Investment Performance Analyst  
Geldon Vllahu, Investment Operations Analyst  
Carol Leung, Equities Investment Analyst III  
Melissa Jerkins, Quantitative Analyst II  
Ryan Conner, Risk Management Analyst  
Kurt Cressotti, Compliance Officer  
German Gaymer, Fixed Income Analyst  
Jacob Bowland, Fixed Income Analyst  
Kevin Notaro, Absolute Return Analyst  
Peter Teneriello, Private Equity Analyst  
Yvonne Huang, Real Assets Analyst  
Peter Jeske, Business Process Analyst  
Paula Nguyen, Investment Accountant  
Natalie Garza, Communications Analyst  
Kenneth Oliver, Actuarial Analyst  
Pete Krnavek, Information Systems Manager  
George Kauffman, City of Garland Retiree  
David Riggs, Texas State Association of Fire Fighters  
Greg Shipley, Combined Law Enforcement Associations of Texas  
Casey Srader, Government Finance Officers Association of Texas  
Scott Leeton, Combined Law Enforcement Associations of Texas  
Devon Waters, City of Arlington  
Keegan Shepherd, The American Federation of Labor and Congress of Industrial Organizations

Mr. Philibert called the meeting to order at 1:30 p.m. and Mr. Landis gave the invocation.

**1. Consider and Act on Adoption of Minutes from the December 6-7, 2018 Meeting of the Board of Trustees**

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

Mr. Jeffers moved that the Board adopt the minutes from the December 6-7, 2018 Meeting of the Board of Trustees. Mr. Parrish seconded the motion, which passed 5-0.

**2. Consider and Act on Ratification of Ordinances Adopting Updated Service Credit and/or Annuity Increases Effective January 1, 2019 (Received after December 2018 Board Meeting)**

There was no discussion.

Mr. Parrish moved that the Board ratify those ordinances adopting Updated Service Credit and/or Annuity Increases that were not included on the listing presented at the December 6, 2018 Board meeting. Mr. Landis seconded the motion, which passed 5-0.

**3. Legislative Update and Overview of the 86<sup>th</sup> Legislative Session, Including Discussion on Status of TMRS Legislation and Other Filed and Proposed Legislation, Pension-Related Seminars and Briefings, and Filed Federal Legislation**

Mr. Wattles, Mr. Ron Lewis and Mr. Jason McElvaney presented the legislative overview for the 86<sup>th</sup> Legislative Session. Mr. McElvaney discussed his background working in Washington D.C., the Texas Legislature, and with the Texas County and District Retirement System. Mr. McElvaney indicated his specific focus is on public pension systems.

The 86<sup>th</sup> Legislative Session gavelled in on January 8<sup>th</sup>. The Texas Senate and House, collectively, have 19 new members (6 Senators and 13 Representatives). Mr. Wattles discussed the current make-up of the Legislature and the activities to date. Bill filing continues through the 60<sup>th</sup> day of the session. He reviewed the “emergency” legislative items designated by the Governor.

The make-up of the Senate and House Committees was discussed. In the House of Representatives, the Pensions, Investments and Financial Services (PIFS) Committee is responsible for oversight over TMRS and all statewide and local pension systems. The PIFS Committee has been expanded in both size and scope to include investments and financial services. The first hearing, which was an organizational meeting, was held on February 13<sup>th</sup>.

In the Senate, the Senate State Affairs Committee remains largely intact, with only two new members. The State Affairs Committee has primary oversight over TMRS and other pension systems.

To date, 2,600 bills have been filed and TMRS is tracking 36 pension-related bills. Staff continues to review and evaluate bills as they are filed. Mr. Wattles discussed the status of the issues regarding Galveston’s pension plans.

The proposed TMRS bill was delivered by both Senator Huffman and Representative Flynn to the Texas Legislative Council for drafting. In addition, Chairman Murphy has indicated that he may sign on as a House co-sponsor.

The activities of the TMRS Legislative Committee were discussed, which included meetings with the Pension Review Board and Congressional office visits in Washington, D.C. during the annual National Conference on Public Employee Retirement Systems. Mr. Wattles also discussed meetings that were held with Texas Legislative members.

Mr. Lewis stressed that education of House and Senate members will be important this Legislative session and he noted TMRS is well respected. The TMRS bill has been assigned to Legislative Council staff and the bill should be introduced soon. Once it is introduced, meetings will start with committee members of both the PIFS Committee and Senate State Affairs.

Based on discussions at the Capitol, Mr. Parrish noted that not having the benefit provisions in the bill was a positive move.

Mr. Landis discussed the impact the property tax cap bill would have on TMRS cities. Mr. Philibert concluded by thanking everyone on the Legislative team for all of their hard work.

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

Mr. Schelling, Mr. Teneriello and Tracy Harris from StepStone presented the Private Equity manager recommendations. Mr. Schelling began by reviewing the process for this manager selection. The due diligence processes and considerations for portfolio construction were reviewed. Buy-out exposure still dominates the portfolio, but we will also opportunistically add to growth and credit. In 2018, the portfolio had a steady state on pacing as we selectively added new relationships and European exposure. The overall goal of manager selection remains identifying top quartile performers to partner with. Areas of focus include enhancing manager diversification and building strategic relationships where possible and appropriate. The proposed new allocation is for four private equity managers totaling \$250 million.

Reverence II (Reverence) is an investment firm that focuses on the middle market in financial services, specifically within the asset/wealth management, bank and non-bank finance, capital markets, financial technology, payments and services, and insurance verticals. They have a strong team and are a top quartile performer. Reverence has a broad financial services strategy and therefore is not as cyclical.

Arcline I (Arcline) focuses on acquiring middle market industrial companies and transforming their business models. Mr. Schelling provided some examples of how the business models are transformed.

Providence Strategic Growth IV (PSG) targets lower-middle market software and technology-enabled businesses in North America, making both majority and significant minority investments with an emphasis on companies that have not taken prior institutional capital. This is a re-up investment and total exposure to this one manager was taken under consideration when determining the recommendation. There was discussion regarding how re-up investments work.

Mr. Garza had some questions regarding concentration within the Private Equity portfolio. Mr. Carlson explained best practices and Investment Policy Statement policy limits of 25% concentration. Mr. Schelling also explained how capital is deployed.

Mr. Teneriello discussed the last manager recommendation, Foundry Group (Foundry). Foundry invests in three strategies out of a single fund line: early stage businesses, growth

stage businesses, and early stage venture funds. Though Foundry makes both direct and fund investments, this Fund will focus solely on the latter strategy, co-investing alongside Foundry Group Next 2018, L.P. (Next 2018) into high potential and access-constrained early stage venture fund investments. Ms. Harris commented that this is a very elegant structure as well as unique. This vehicle would enable TMRS to efficiently access a diversified portfolio of small, high potential venture funds. The Fund will invest alongside Next 2018 and is expected to be deployed across 10-20 fund commitments over a two to three year period.

Mr. Jeffers 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 Summary of Recommendations chart in the TMRS Staff memo, 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)
Reverence Capital Partners Opportunities Fund II, L.P.	Buy-Out	\$50 million	Yes
Arcline Capital Partners LP	Buy-Out	\$50 million	Yes
Providence Strategic Growth IV, L.P.	Growth	\$50 million	Yes
Foundry Group Next 2018 Partner Fund, L.P.	Venture Capital	\$100 million	Yes

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

Mr. Parrish seconded the motion, which passed 5-0.

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

Mr. Masthay presented the proposed recommendation to restructure the existing relationship between TMRS and H/2 Capital Partners (H/2) through reallocation of TMRS' existing capital accounts consisting of \$200 million of capital commitments and subsequently earned capital gains into a new share class of H/2 CP L.P.

TMRS has been invested with H/2 across two product lines since initial approval in 2015. The proposed recommendation does not represent a recommendation to deploy new capital with H/2, rather only to reallocate existing holdings differently within the H/2 platform. H/2 provides access to liquid private commercial real estate debt markets by participating in the origination and structuring process of securities and loans, utilizing their market reputation as a conservative and strong underwriter of credit and proven ability to execute in timeline sensitive and complex situations. The restructuring is for the current positions in H/2 Capital Partners L.P. Class 2 interests and H/2 Core Real Estate Debt Fund L.P.

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, 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)
H/2 CP L.P. (Class 1-A Interests)	Value-Add Real Estate	\$200 million* *Reallocate existing TMRS subscriptions to H/2 CP L.P. (Class 2 interests) and H/2 Core Real Estate Debt Fund LP, including respective recallable capital, and future returned capital and capital gains.	No. Prior completed with 2015 Board Approvals.

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

Mr. Parrish seconded the motion, which passed 5-0.

#### 6. **Consider and Act on Real Return Manager Search Recommendation(s)**

Mr. Masthay presented the Real Return manager recommendation. This recommendation is a continuation of a relationship with Harrison Street. The strategy of Harrison Street Social Infrastructure Fund (HSSI) is to assemble, through development and acquisition, a portfolio of high quality social infrastructure investments, which serve the education, healthcare, government and utility sectors. The Fund is one of very few open-ended infrastructure funds in the market and even more unique in its market positioning by focusing exclusively on their target sectors.

The allocation, as proposed, is an expansion of a relationship with a manager already in TMRS' Real Estate portfolio. The fund is an extension of expertise developed by Harrison Street through years of real estate management and interactions with partners who also need access to capital for infrastructure beyond real estate.

Mr. Parrish 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, 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)
Harrison Street Social Infrastructure Fund, L.P. (Harrison St.)	Private Real Return	\$200 Million	Yes

- (ii) Approve and incorporate by reference for all purposes the Board Standard Investment Authorizations for each such investment allocation; and
- (iii) Authorize a temporary waiver of the Investment Policy Statement Real Return Portfolio Guideline limitation which provides that no investment in a commingled open-end investment vehicle may account for more than 20% of the net assets in that investment vehicle.

Mr. Landis seconded the motion, which passed 5-0.

**7. Review and Discuss Cash Flow and Cash Levels**

Mr. Carlson introduced this informational item and described the background. TMRS cash needs continue to evolve as the portfolio has been invested and diversified over the last five years. The Investment Policy Statement (IPS) has a 0% - 10% cash range with a current 0% target. The recommendation is not to change the Cash Target Allocation at this time, but instead continue to let the Cash level drift up, within current IPS guidelines, towards 2% given all the current portfolio factors.

Cash needs are changing as the portfolio matures and the global economy progresses. It could be very beneficial to have enough cash on hand to be able to take advantage of opportunities in the next downturn.

Cash flow is decreasing as we decrease the public portion of the portfolio. Cash flow negativity is slowly increasing due to increasing aggregate benefit payouts. There is uncertainty around the current state of the business cycle and the need to be prepared for the next downturn, before it hits.

A new cash flow tool was developed by the TMRS Risk Team to monitor and model evolving private market fund cash flows. Cash flow analysis has been completed on each sub asset class by vintage year. The goal is to be sure there is enough cash on hand before the next market downturn. Currently there are eighty-five call down funds with Capital Call exposure over the next twelve months of about \$1.2 billion. TMRS is not close to a "mature" private investment portfolio where distributions will be either equal to or great than Capital Calls.

Investment Staff's plan of action includes letting cash levels increase in a segregated account using a custodial STIF vehicle or mutual fund as currently allowed by IPS. During this year's Asset Liability/Asset Allocation study, the need to adjust the Target Cash level will be evaluated.

**8. Technology Committee Update on Pension Administration (formerly #10 on the Friday, February 15, 2019 agenda)**

Mr. Willrich, Mr. Pittman and Ms. Munoz presented an update on the Pension Administration System Assessment (PASA). Mr. Willrich reviewed the steps taken in the process to date and noted that a vendor has been recommended. The next steps were discussed, including contracting and the assessment.

The Technology Committee will create a Charter for the Committee. Mr. Parrish wanted to set Board expectations that this total PASA process, depending on the findings from the assessment, could possibly take two to seven years and the cost could range from \$3 million to \$40 million. Mr. Parrish indicated that this item is to update the Board on the approximate length of the project and what the costs could be.

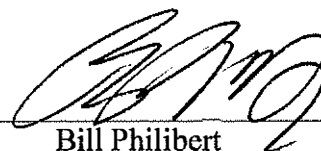
**9. Executive Session (formerly #8 on the Thursday, February 14, 2019 agenda)**

At 4:07 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 5:05 p.m. and all members of the Board that were present before the Executive Session were still present.

At 5:05 p.m. the meeting was recessed until 9:00 a.m. on Friday, February 15, 2019.



David Gavia  
Executive Director



Bill Philibert  
Chair, Board of Trustees



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

**February 15, 2019 - 9:00 a.m.**

On February 15, 2019, the Board of Trustees of the Texas Municipal Retirement System (TMRS) reconvened 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**

Bill Philibert, Chair  
David Landis, Vice Chair  
Jim Parrish  
Jim Jeffers  
Jesus Garza  
Julie Oakley

**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  
Debbie Munoz, Director of Member Services  
Scott Willrich, Director of Information Resources  
Rhonda Covarrubias, Director of Finance  
Jesse Pittman, Senior Project Manager  
Leslie Ritter, Director of Human Resources  
Kristin Qualls, Director of Public Equity  
Dimitry Shishkoff, Director of Risk Management  
Karen Jackson, Executive Assistant  
Stacy White, Executive Assistant  
Robert Klausner, Klausner, Kaufman, Jensen & Levinson  
Marcia Beard, RVK  
Amy McDuffee, Mosaic Governance Advisors

**Also in attendance:**

Eric Obermier, Assistant Director of Information Resources  
Michelle Mellon-Werch, Assistant General Counsel  
Nick O'Keefe, Lead Investment Attorney  
Andi Focht-Williams, Senior Internal Auditor  
Peter Jeske, Business Process Analyst  
Cindy Morse, Investment Support Analyst  
Debbie Farahmandi, Investment Operations Specialist  
Kurt Cressotti, Compliance Officer

Melissa Jerkins, Quantitative Analyst II  
Ryan Conner, Risk Management Analyst  
Kevin Notaro, Absolute Return Analyst  
Jacob Bowland, Fixed Income Analyst  
Bob Scott, City of Carrollton  
Casey Srader, Government Finance Officers Association of Texas  
Greg Shipley, Combined Law Enforcement Associations of Texas  
David Riggs, Texas State Association of Fire Fighters  
Devon Waters, City of Arlington

Mr. Philibert called the meeting to order and the meeting was reconvened at 9:00 a.m.

**10. TMRS Trustee Training: Fiduciary and Ethics Update (formerly #9 on the Friday, February 15, 2019 agenda)**

Bob Klausner, the Board's Fiduciary Counsel, was introduced. He presented the annual update to Fiduciary and Ethics, which meets the Board's educational requirements set by the Pension Review Board (PRB).

TMRS is a trust established by statute. Mr. Klausner stated that trust law is biblical in origin and modern trust law traces back to the mid-19<sup>th</sup> century with the introduction of the Prudent Person Rule. The Prudent Person Standard is the decision making standard that governs the Board. The TMRS Act uses the Prudent Person Standard. This standard applies to all decision making for the System, not just investment decisions. Mr. Klausner discussed the Prudent Investor Act and prudent expert standards. The standard of prudence is evolving.

The Board has does not have many direct reports. While the Board may delegate responsibilities to staff and professionals, it retains the ultimate responsibility. The Board's job is to be curious and ask questions as well as set policies to be followed.

Private sector pension trusts are governed by the Employee Retirement Income Security Act (ERISA). ERISA does not apply to TMRS because governmental plans are exempt from ERISA Title I. Federal regulations applicable to TMRS include those related to tax and equal protection laws. While the Board may adopt rules and policies, it may not conflict with the legislation governing the plan. TMRS is governed by the Texas Constitution, the TMRS Act, the Texas Trust codes, and other statutes. The Board should ask questions and demand accountability. The Board has sovereign immunity for the exercise of their discretion.

The Board is subject to applicable State ethics laws and the TMRS Ethics Policy. The Board member must use common sense when acting and must avoid the appearance of conflict. The Ethics Policy addresses a means of reporting conflicts or possible violations of state ethics laws or Board policy. Trustees should remain vigilant in their conduct and in ensuring adherence to ethical standards by staff and consultants. When in doubt, seek advice.

Mr. Gavia requested Mr. Klausner to explain decision making with regard to the duty of loyalty. This is a legal standard requiring the trustees to act in the exclusive interest of the members and beneficiaries of the System. The Board may also keep in mind what cities are

able afford to fund, when making decisions such as phasing in contribution rate increases, but must comply with the duty of loyalty. Mr. Klausner reviewed the Board's past actions as text book examples regarding how decisions should be made. The Board asked the right questions of the experts and stake-holders, as well as ensured that there continued to be adequate funding of the System. It is important for the Board to appreciate its role as a policy maker and a policy enforcer through accountability.

#### **11. 2019 Annual Investment Risk Management Review**

Mr. Shishkoff and Ms. Jerkins presented the annual Risk Management Review which included a plan for addressing key risk related needs and a high level overview of risk reporting. Mr. Shishkoff began by reviewing modern portfolio theory (MPT) and pointed out that it was not designed to reflect the risks associated with alternative asset classes such as illiquidity risks and costs. Additional risks MPT does not incorporate include uncertainty in the true volatility of assets with appraisal based pricing and correlations not being static but actually increasing in turbulent markets. Investor behaviors in response to MPT not being able to reflect risk introduced by alternative asset classes were also discussed. In 2019, the Risk Management team will conduct portfolio analysis that explicitly measures the illiquidity risks that come with investment in the alternative asset classes. This analysis will simulate market cycle behavior, historically observed term structure of volatility for all asset classes, including alternatives, and time-varying conditional correlations.

Total Fund Strategies were introduced and the question was asked, "Can more be done after the strategic target allocation is set to manage Total Fund Risk and Return?" The answer is, "yes." There is no common aspect to Total Fund Strategies whose performance is measured against total fund risk and return objectives. Mr. Shishkoff explained and gave examples of "tail risk hedging," "passive tail hedging," and "active tail risk hedging." Tail risk hedging does not reduce risk by simply lowering the volatility; it dramatically changes the shape of the risk outcomes. Dynamic Asset Allocation was discussed and the use of sophisticated quantitative models to form views of how expected economic growth and inflation dynamics are likely to be reflected in asset classes. Currency Hedging, which can mitigate the impact of currency risk on non-dollar international investment returns, was also discussed. Currency risk is generally considered an unrewarded risk (no expected return).

TMRS has reached the size, maturity and institutional capacity necessary to consider these opportunities. These types of strategies have been adopted by other public funds at similar points in development. They are often implemented as a new asset class with 0% target allocation.

Ms. Jerkins discussed the quarterly Board Risk Report and the Board level Risk Governance. The purpose of the quarterly Board Risk Report is to allow the Board to confirm that material risks taken in the investment portfolio are in line with Board intent as expressed in the IPS and related Asset Allocation and Asset/Liability Studies. Ms. Jerkins 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. The strengths and weaknesses of each type of risk measurement were discussed.

Ms. Jerkins reviewed The Three Lines of Defense Risk Governance Model, including the roles provided by each line of defense and the way this model allows risk to be managed in a timely and efficient manner. As part of its role in the Three Lines of Defense Model, Risk Management provides a wide variety of internal analytics to the CIO and Asset Class Teams. Ms. Jerkins highlighted a few examples of internal analytics, including a recently developed cash flow model that tracks all private market fund capital calls and distributions, as well as projects expected future fund cash flows, which is useful in both pacing planning and liquidity risk management.

## **12. RVK Quarterly Report**

Ms. Beard presented the fourth quarter report for 2018. The fourth quarter of 2018 was characterized by heightened level of volatility and negative returns for the majority of asset classes. Most major asset classes posted negative results in 2018. Global growth and inflation were weak. During the quarter, the Federal Reserve, European Central Bank, and International Monetary Fund lowered 2019 GDP growth forecasts across the region. While the odds of recession occurring in 2019 remain low, leading indicators such as falling oil prices, flattening yield curve, declining consumer confidence and a subdued housing market contributed to negative investor sentiment at year-end.

Market cycles were discussed and it was agreed that even though recession risk remains low, late-cycle conditions may have taken hold. Ms. Beard indicated that the recommendation to increase cash flow and cash levels is appropriate with the late-cycle conditions.

Ms. Beard discussed the annual asset class performance and the best performer was Core Real Estate and international equity markets were the worst. Asset Allocation and Performance was reviewed and Ms. Beard highlighted three performance measures; total fund, actual allocation, and policy index. None of the three performance measures met the target. Total Fund Performance versus Peers indicated that we did well because we lost less than our peers due to intended protection against down side risk. Performance by asset class was discussed as well as performance compared to the benchmark. Ms. Beard also reviewed the risk and return dynamics compared to the peer universe.

Ms. Beard concluded by stating that so far 2019 has rebounded well from the dismal fourth quarter of 2018.

(Mr. Garza left the meeting at 11:30 a.m.)

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

Mr. Carlson noted the Investment team took over 1,425 investment manager meetings in 2018. Currently, there are two open positions in the Investment Department that are being recruited for but that are not yet filled.

## **14. Executive Director Update: Actuarial Services Department**

Ms. Hardy began with a look back at the 2018 Valuation results, which indicated good results. The number of cities that are paying above the Actuarially Determined Employer

Contribution is 12% and Ms. Hardy discussed the number of cities adopting plan changes. It was noted that the volume of change was very high. Additional highlights of 2018 include, twelve cities that were provided rate stabilization studies and the Actuarial Department responded to over one hundred auditor requests for additional information, as well as educating several cities considering ad hoc Updated Service Credit/Cost of Living adoptions.

Next, Ms. Hardy reviewed activities that were planned for 2019. She discussed the upcoming Executive Workshops, potential Legislative Actuarial Studies, the 2018 Actuarial Valuation, and GASB 68 and GASB 75 preparations. An Experience Study is also planned during 2019 as well as an Asset/Liability and Asset Allocation Study. The GRS Dashboard is also scheduled to launch this year.

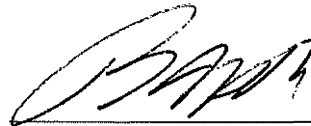
**15. Call for Future Agenda Items**

Mr. Jeffers requested that Mosaic Governance Advisors provide governance education sessions leading up to the Governance Workshop. Mr. Parrish asked for updates on the following items: Engagement Study, Strategic Plan, the search for Deputy Executive Director, Cost Effective Measurement (CEM) Benchmarking, Investment fees, and administrative costs. Ms. Oakley requested an update on the policy review.

There being no further business, the meeting was adjourned at 11:48 a.m.



David Gavia  
Executive Director



Bill Philibert  
Chair, Board of Trustees