

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

August 20, 2020 - 1:00 p.m.

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 Trustees present: Bill Philibert, Chair, David Landis, Vice Chair, Jesus Garza, Anali Alanis, Bob Scott, and Johnny Huizar (via Zoom).

Staff present included: David Wescoe, Executive Director, Eric Davis, Deputy Executive Director, TJ Carlson, Chief Investment Officer, Christine Sweeney, General Counsel, Dan Wattles, Director of Governmental Relations, Eddie Schultz, Director of Real Assets, Debbie Munoz, Director of Member Services, Karen Jackson, Executive Assistant, and Chris Gillis, Network/Systems Administrator.

Mr. Philibert called the meeting to order at 1:03 p.m., and Mr. Landis gave the invocation.

Consent Agenda

1. Consider and Act on Resolutions for Former Board Trustees Jim Parrish, Jim Jeffers, and Julie Oakley (formerly #3 on the Agenda).

Mr. Philibert introduced former Trustees Julie Oakley, Jim Parrish, and Jim Jeffers and highlighted each of their tenures on the TMRS Board of Trustees. Ms. Oakley noted how much she enjoyed her time on the Board and thanked the staff for their hard work. Mr. Parrish noted it was an honor to serve and work with the Board, staff and consultants, and appreciated the professionalism exhibited during his tenure. Mr. Jeffers expressed his pleasure with serving on the Board and thanked the staff and consultants.

Trustees thanked Mr. Parrish, Mr. Jeffers and Ms. Oakley for their mentorship, friendship, leadership, insight and contributions. Mr. Philibert concluded by wishing rich and fulfilling futures to all three.

Mr. Landis moved that the Board adopt and execute the prepared Resolutions for Ms. Oakley, Mr. Parrish and Mr. Jeffers. Ms. Alanis seconded the motion, which passed 6-0.

2.. Consider and Act on Resolution for Former Executive Director David Gavia (formerly #4 on the Agenda).

Mr. Philibert introduced former TMRS Executive Director David Gavia and provided highlights of his twenty-year career with TMRS, noting significant initiatives, legislation and actions taken during his career. Mr. Philibert read a Resolution from the Board and announced the renaming of the Legal Conference Room in Mr. Gavia's honor. Board members thanked Mr. Gavia for his loyalty and dedication.

Mr. Gavia thanked everyone and commented that he felt blessed to work with a dedicated Board and a talented TMRS staff to accomplish the many achievements. He also thanked his wife Pat Gavia for all of her support.

Mr. Landis moved that the Board adopt and execute the resolution honoring David Gavia for his service to TMRS. Ms. Alanis seconded the motion, which passed 6-0.

3. Consider and Act on Consent Agenda (formerly #1 on the Agenda).

Mr. Scott requested an amendment to the draft minutes for the June 25, 2020 Board meeting to remove an inaccurate sentence in the first paragraph for Agenda Item 5, Receive Report on 2019 Financial Statement Audit Result; System and Organization Controls (SOC) Audit Results; and Auditor report to the Board of Trustees (SAS 144).

Mr. Garza moved that the Board adopt the minutes from the June 25, 2020 meeting, as amended. Mr. Landis seconded the motion, which passed 6-0.

Executive Director Reports

4. Executive Director Report (formerly #2 on the Agenda).

Mr. Wescoe thanked Mr. Gavia for his help during Mr. Wescoe's transition to TMRS, and discussed his report.

Mr. Wescoe emphasized that the health and safety of TMRS staff is his first priority, and explained his vision to be the best pension system in the state and in the nation. Mr. Wescoe also discussed his management principals and presented the Senior Staff 2020 Action Plan for the remainder of the year.

Mr. Wescoe also highlighted the staffs farewell function for Mr. Gavia and introduced Karin Hicks in recognition of her retirement after 28 years of service to TMRS.

5. Consider and Act on Board Committee Appointments and Reappointments for 2020;

On July 16, 2020, Governor Abbott appointed Trustee Bob Scott to replace Trustee Julie Oakley. Ms. Oakley's departure created a vacancy on the Budget and Compensation Committee.

Mr. Wescoe reviewed the current appointments to all Board committees. After discussion, Board members indicated they would like more flexibility in appointing Committee members. Ms. Sweeney noted the Bylaws could be amended to remove certain existing requirements regarding Committee appointments and that she could present proposed amendments at a future Board meeting.

Mr. Landis moved that the following Committee appointments be approved:

Budget & Compensation Committee:	Chair - Anali Alanis Vice Chair - Bob Scott
Internal Audit Committee:	Chair - David Landis Vice Chair - Johnny Huizar
Advisory Committee on Benefit Design:	Chair - David Landis Vice Chair - Jesus Garza

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

Legal Reports

6. Consider and Act on Matters Regarding City of Arlington Pension Obligation Bonds.

Ms. Sweeney reviewed the City of Arlington's discussions with TMRS regarding the City's intent to issue Pension Obligation Bonds (POBs). This is the first time a TMRS city has asked TMRS to take action with regard to a proposed issuance of POBs. Ms. Sweeney reviewed certain statutory requirements relating to the action required by a public pension plan for a city to issue POBs. Ms. Sweeney also reviewed the TMRS Act and Rules which would allow TMRS to accommodate the City's request to make additional payments to TMRS from the proceeds of the POBs.

Ms. Sweeney noted that staff has worked with the City of Arlington, the City's Bond Counsel and the Attorney General's Office on the documents being presented to the Board for approval in connection with the City's issuance of the POBs, and that staff recommended the Board approve the agreements.

After discussion, Mr. Scott moved that the Board approve the Agreement Regarding City Pension Obligation Bonds ("Agreement") and the Certificate of Authority and Resolution ("the Certificate"); authorize the Board Chair to negotiate, execute, acknowledge and deliver the Agreement by and on behalf of the Board; and authorize the Executive Director to negotiate, execute, acknowledge and deliver the Certificate by and on behalf of the System; with such modifications or amendments to the Agreement or Certificate as are satisfactory to the Board Chair or Executive Director, respectively, such satisfactory terms and conditions to be conclusively evidenced by the execution thereof by the Board Chair and the Executive Director, respectively. Mr. Landis seconded the motion; which passed 5-0. Mr. Garza was not present for the vote.

7. Consider and Act on State Office of Administrative Hearing Administrative Law Judge's Proposal for Decision in the Deceased Member Charlie James Mishaw Beneficiary Dispute.

Ms. Sweeney presented the Proposal for Decision (PFD) issued by an Administrative Law Judge (ALJ) at the State Office of Administrative Hearings (SOAH) with regard to a

beneficiary dispute relating to Deceased Member, Charlie James Mishaw. The PFD confirmed that TMRS rightly determined that the Decedent's benefits should be paid to the beneficiaries named in the Decedent's most recent TMRS beneficiary designation form. Ms. Sweeney also presented a proposed Final Order for the Board to adopt the PFD's findings of fact and conclusions of law, and recommended the Board approve the proposed Final Order.

Mr. Garza made a motion to adopt the Final Order which incorporates the Proposal for Decision's corrected findings of fact and conclusions of law, and authorize the Board Chair and the Executive Director to execute and deliver the Final Order. Mr. Landis seconded the motion, which passed 6-0.

8. Consider and Act on Final Adoption of Proposed TMRS Rules Changes - Chapter 121.

Ms. Sweeney presented a proposed Final Order to repeal the current Chapter 121 Board rules and to adopt new Chapter 121 rules. The proposed repeal and proposed adoption of new Chapter 121 rules were published in the Texas Register on June 5, 2020, and no comments were received during the 30 day comment period. If finally adopted, the final repeal and adoption must be filed for publication again in the *Texas Register* and will become effective 20 days after filing.

Mr. Landis moved that the Board approve and authorize the Board Chair to execute the Final Order, adopt the repeal of the current Chapter 121 rules, and adopt the new Chapter 121 rules to be effective 20 days after they are filed with the Secretary of State's *Texas Register* division, without changes to the proposed language. Ms. Alanis seconded the motion, which passed 6-0.

Governmental Relations Report

9. Legislative Update and Overview of the 87th Legislative Session.

Mr. Wattles discussed developments that could impact passage of legislation in 2021, including the COVID-19 pandemic and its impact on the Legislature's ability to conduct business, the projected state budget deficit, and redistricting.

In light of these developments, staff recommended not to seek legislation during the 87th Legislative Session. No Board action was taken.

Mr. Wattles noted that a meeting of the Advisory Committee on Benefit Design is scheduled in September.

Board Executive Session

10. Executive Session. - None.

Investment Reports

11. Chief Investment Officer Management Update

Mr. Carlson noted the Investment team took over 585 meetings during the second quarter of 2020.

An offer has been extended for the Absolute Return Analyst position and if accepted, this should bring the Investment Department to a fully staffed level.

The TMRS Investment Staff report is included in Diligent and all compliance indicators are within limits.

Through the middle of August, almost all of the losses have been gained back and barring unforeseen circumstances, investment returns should be in positive territory for the year in September.

12. Receive Private Market Investment Reports.

Mr. Carlson updated the Board on the add-on investment for Adam Street, which is the only Private Market investment to report.

With respect to Public Markets, Mr. Carlson noted two active non-US manager changes, and these assets are being transitioned to the non-US equity index fund.

13. Discussion of Investment Beliefs.

Ms. Beard and Ms. McDuffee continued the discussion about Investment Beliefs.

Ms. Beard presented revised language for the fifth sub-category, Investment Authority. The Board approved the revisions.

The final sub-category, Environmental, Social, and Governance Factors (ESG), will be discussed in September.

14. Consider and Act on Annual Asset Allocation Study.

Mr. Carlson and Ms. Beard presented the asset allocation study. Staff and RVK did not recommend any changes at this time.

The three primary focuses are estimated return, estimated risk and correlation. Ms. Beard stated that RVK reviews return assumptions annually. Except for Global Equity and Core Bond, all asset classes in TMRS use a custom benchmark based on RVK's assumptions.

Mr. Carlson reviewed the Asset Allocation Inputs. The more volatile the portfolio is overtime, the less assets you have to pay benefits for a given arithmetic return. This process includes choosing a measure of expected returns: geometric versus arithmetic which was discussed.

Staff believes geometric return is the proper return measure even though it is harder to achieve. Non-correlated asset classes also help to lower volatility.

Mr. Carlson discussed the efficient frontier modeling and noted when combined with RVK's assumptions, the current portfolio meets the needs for the System.

Ms. Alanis moved that the Board adopt the Annual Asset Allocation Study as presented. Mr. Landis seconded the motion, which passed 6-0.

15. RVK Quarterly Report/Asset Class Updates

Ms. Beard provided an Investment Performance update for the second quarter of 2020. In the first quarter TMRS did well versus peers. Reviewing the performance in the second quarter, the total fund has outperformed the actual allocation benchmark across all reported time periods. Regarding total fund objectives over the 5-year trailing period, TMRS did not meet the objectives to exceed the assumed long-term rate of return and the target. Ms. Beard pointed out on a net of fees basis, the total fund's outperformance compared to its actual allocation benchmark.

Ms. Beard reviewed the performance and allocation of each individual asset class and performance compared to their respective benchmarks.

16. Real Estate and Real Return Annual Asset Class Review

Mr. Schultz presented the Annual Asset Class Review for Real Estate and Real Return. TMRS is a "Direct Fund" investor, however TMRS is moving toward being a "Strategic Capital" investor to lower fees and thus increase returns. The annual compliance review for Real Estate and Real Return indicated that both portfolios comply with the guidelines. Manager diversification, property type and geographic diversification are within policy limits.

The Real Estate portfolio has performed well compared to peers despite our increasing push into lower risk strategies.

Real Return is a hybrid portfolio of public and private assets. Mr. Schultz reviewed the mix of public and private managers, as well as portfolio exposure by asset type and exposure by sector. He also highlighted the portfolio's performance.

Future Board Agenda

17. Call for Future Agenda Items

Mr. Garza stated he wants to revisit the possibility of pursuing legislation.

There being no further business, Ms. Alanis moved that the meeting adjourn at 4:16 p.m. Mr. Huizar seconded the motion; which passed 6-0.



Davi. Wescoe
Executive Director



Bill Philibert
Chair, Board of Trustees