

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

**September 21, 2017 – 1:30 p.m.**

On September 21, 2017, 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**

Jim Parrish, Chair  
Bill Philibert, Vice Chair  
Julie Oakley  
Roel "Roy" Rodriguez

Absent: Jim Jeffers  
David Landis

**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  
Rhonda Covarrubias, Director of Finance  
Scott Willrich, Director of Information Resources  
Leslie Ritter, Director of Human Resources  
Jesse Pittman, Senior Project Manager  
Kristin Qualls, Director of Public Equity  
Dimitry Shishkoff, Director of Risk Management  
Marc Leavitt, Director of Absolute Return  
Chris Schelling, Director of Private Equity  
Tom Masthay, Director of Real Assets  
Sandra Vice, Director of Internal Audit  
Karen Jackson, Executive Assistant  
Marcia Beard, RVK  
Amy McDuffee, Mosaic Governance Advisors  
Tracy Harris, StepStone Group LP  
John Claisse, Albourne America

**Also in attendance:**

Madison Jechow, Assistant General Counsel  
Michael Schaff, Assistant General Counsel  
Nick O'Keefe, Lead Investment Attorney

David Rodriguez, Regional Manager – City Services  
Sally Case, Investment Operations Manager  
Geldon Vllahu, Operations Analyst  
Susan Jaques, Performance Analyst  
Eddie Schultz, Assistant Director of Real Assets  
Carol Leung, Equities Investment Analyst  
Ryan Conner, Risk Management Analyst  
Melissa Jerkins, Quantitative Analyst  
Cindy Morse, Investment Support Analyst  
Debbie Farahmandi, Investment Operations Specialist  
Kurt Cressotti, Compliance Officer  
Rachel Cleak, Alternative Analyst  
German Gaymer, Fixed Income Analyst  
Andi Focht-Williams, Senior Auditor  
Peter Jeske, Project Specialist  
Paula Nguyen, Investments Accountant  
Brian Farrar, Network Operations Manager  
Pete Krnavek, Information Systems Manager  
Ricardo Zavala, Records and Information Manager  
Jennifer Andrews, Member Services Manager  
Vikki Vasquez, Member Services Manager  
Shelly Ransom, Lead Member Services Analyst  
Maryann Malave-Jaini, Lead Member Services Analyst  
Trish Solis, Support Services Analyst  
Natalie Garza, Communications Analyst  
Greg Shipley, Combined Law Enforcement Associations of Texas  
Casey Srader, Government Finance Officers Association of Texas  
George Kaufman, City of Garland  
Bob Scott, City of Carrollton  
David Riggs, Texas State Association of Fire Fighters  
Kathleen Depweg, City of Arlington  
Barbara Burks, Member Beneficiary

Mr. Parrish called the meeting to order at 1:30 p.m. and Ms. Oakley gave the invocation.

Mr. Parrish stated that a request for public comment would be taken at this time. He introduced Barbara Burks, a TMRS beneficiary, to address the Board. Ms. Burks stated that her son, a TMRS member, passed away in February 2017 and she is his beneficiary. Since that time, she has tried to figure out how the annuity is calculated and what option she should take. Ms. Burks does not agree with the way TMRS has calculated the annuity. She stated several reasons why she disagreed as well as quoted her understanding of several sections of the TMRS Act.

Mr. Parrish shared her concern and expressed condolences of the Board for her loss. He stated that since it is not an agenda item that the Board cannot take any action or discuss this item, but the Board will look further into her situation.

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

Staff had nothing to add to the consent agenda as presented. There were no changes suggested by the Board.

Ms. Oakley moved that the Board adopt the consent agenda as presented. Mr. Philibert seconded the motion, which passed 4-0.

**2. Consider and Act on Meeting Dates and Locations for 2018 Board of Trustees Meetings**

Mr. Gavia stated that under the TMRS Act, the TMRS Board is required to hold Board meetings in March, June, September and December. In addition, the Board has also held meetings in May and August, with the May meeting being a joint meeting between the Board and the Advisory Committee. For the last several years, the Board has also met in February and October to accommodate increased Board workload.

It was noted the proposed 2018 October meeting date does not correspond with the TMRS Annual Conference proposed 2018 meeting dates.

Mr. Philibert, Ms. Oakley and Mr. Jeffers did not have any conflicts with the proposed 2018 Board meeting dates. Mr. Landis only had a conflict with the proposed meeting date in September. Due to City obligations, Mr. Rodriguez stated he had conflicts with several of the dates proposed.

The Board requested that the proposed dates and locations for 2018 Board of Trustee meetings be placed on the October agenda for action.

**3. Consider and Act on Proposed TMRS Rule Change(s)**

Mr. Gavia introduced Ms. Sweeney to discuss the rule changes being proposed to comply with the recent favorable determination letter issued by the Internal Revenue Service (IRS) to TMRS regarding plan qualification matters. Ms. Sweeney reviewed the Board's rule making authority and the necessary steps to adopt a rule. She discussed the IRS determination letter process that began with TMRS' application in January 2016. The proposed rule amendments were presented to the IRS in the application so that the IRS could comment. It was noted that the proposed amendments did not change the benefit structure of TMRS and the proposed amendments are designed to conform to applicable qualified plan document requirements under the Internal Revenue Code. The proposed rule amendments break down into three general areas. Ms. Sweeney reviewed the breakdown of the proposed rule changes for the Board, and explained that the next steps include filing the proposed rule amendments with the *Texas Register*.

Mr. Philibert moved that the Board authorize the Executive Director (i) to file the proposed amendments to Chapter 127 of the TMRS Rules, in substantially the form attached hereto as **Exhibit A**, with the *Texas Register* with any permanent adoption of the amended rules to take place at a later Board meeting, and (ii) to make non-substantive changes to the attached proposed rule amendments as necessary or desirable to conform the rule amendments to *Texas Register* requirements. Mr. Rodriguez seconded the motion, which passed 4-0.

**4. Consider and Act on New Appointments and/or Reappointments to the Advisory Committee on Benefit Design**

Mr. Wattles reviewed the current amended Charter for the Advisory Committee on Benefit Design (Committee) as well as the charter that will become effective January 1, 2018. The member requirements under the new Charter were discussed.

The Government Finance Office Association of Texas requested approval of Casey Srader as their group representative and Keith Dagen as the alternate. A recommendation for an Individual Class-Retiree nomination will be brought to the Board later in the year.

The Board discussed equalizing the length of terms for both the Group and Individual Class members.

Ms. Oakley moved that the Board approve the following:

- The Committee recommends that the Board consider appointing Casey Srader to a three-year term to expire on December 31, 2020 to represent the Government Finance Officers Association of Texas on the TMRS Advisory Committee on Benefit Design in the Group Class.
- The Committee also recommends that the Board appoint Keith Dagen, the Government Finance Officers Association of Texas' current representative, as the organization's alternate representative on the TMRS Advisory Committee on Benefit Design in the Group Class.

Mr. Rodriguez seconded the motion, which passed 4-0.

**5. Consider and Act on Fixed Income Guideline Change Recommendation**

Mr. Carlson introduced Mr. Weiner and Mr. Gaymer to discuss the recommended guideline changes. Mr. Weiner began by reviewing the original mandates of allocating \$750 million to legacy Residential Mortgage Backed Securities (RMBS) and Commercial Backed Securities (CMBS). The mandates currently face acute limitations due to the tactical focus of the original guidelines. Voya Investment Management Co. LLC (formerly ING) and Ellington Management Group, L.L.C. (Ellington) were contracted with to manage these portfolios with specific characteristics. These mandates were established to tactically target a very specific subset of the overall securitized market to capture total return opportunities within a limited investment period. We are at a point in the timeline where these markets face significant investment limitations, especially in the pre-2009 CMBS market. The Securitized Market dynamics were discussed.

Mr. Gaymer re-emphasized that the opportunity set in which the managers can invest is diminishing daily. The diversification opportunity continues to decrease as this portion of the market matures. Without broadening the guidelines, the probability of achieving the expected return required in the TMRS Strategic Asset Allocation will be reduced. However, by broadening the mandate, managers will be able to take into account pre-2009 and post-2009 CMBS and RMBS along with broader Asset Backed Securities. The impact of this

recommendation will be to change these allocations from a tactical allocation to strategic commitments which can remain investible for the long term, providing better return profiles and increasing diversification.

Marcia Beard (RVK Inc.) added further comments on why the tactical decisions were made to take advantage of the mismatches that were occurring in the market at the time.

Ms. Oakley moved that the Board approve authorizing Staff to amend the account guidelines of Ellington Management Group, L.L.C. and Voya Investment Management Co. LLC in order to revise the scope of permissible investments to include pre and post 2009 CMBS and RMBS along with Asset Backed Securities. Mr. Philibert seconded the motion, which passed 4-0.

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

Mr. Schelling presented the Private Equity manager search recommendation with Ms. Harris from StepStone Group. The Private Equity search process timeline and the manager search process were reviewed. Mr. Schelling discussed specifically how a manager gets into the search process and the due diligence involved. The process is designed to accommodate getting the best managers and this was the case with the finalist, Dunes Point Capital Fund II, L.P. (Dunes Point).

The manager selection considerations were highlighted and Mr. Schelling discussed strategy diversification, manager implementation and geographic diversification.

Dunes Point is a buyout strategy focused on North American small and middle markets within the industrial sector. The reasons to invest and the risks and mitigants regarding the investment were discussed.

Ms. Oakley moved that the Board:

- (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)
Dunes Point Capital Fund II L.P. (Dunes Point)	Buy-Out	\$50.0 million	Yes

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

Mr. Rodriguez seconded the motion, which passed 4-0.

**7. Absolute Return Annual Asset Class Review**

Mr. Leavitt presented the annual Absolute Return Asset Class Review with Mr. John Claisse of Albourne America (Albourne). The annual review process holds TMRS Staff accountable for its portfolio management process in order to preempt manager specific, strategic, or other potential problems. Mr. Leavitt reviewed what the Absolute Return team has accomplished in the last year and a half as well as the timeline of action taken over this period. It was noted that strong planning, execution and portfolio management has driven performance and put TMRS on the path to achieving our strategic investment objectives. The members of the Absolute Return team were highlighted and Mr. Kevin Notaro, the new Absolute Return analyst, was introduced at this time.

The scorecards for all nineteen relationships and one consultant relationship were assessed and are in satisfactory standing. All managers, as appropriate, have certified compliance with relationship governing documents. Mr. Leavitt discussed monitoring and review activities and highlighted the relationships with Albourne and Blackstone as well as the number of meetings taken with managers.

Mr. Leavitt reviewed the IPS objective for the Absolute Return portfolio and the benchmark performance goals. Due to lack of data, alpha overlay and separate mandates, it is difficult to make peer comparisons, but Mr. Leavitt did discuss the means used to measure performance of the Absolute Return portfolio. The primary goals of Absolute Return are to decrease total portfolio risk, potentially increase portfolio returns, provide performance with low correlation to traditional asset classes, provide attractive risk-adjusted returns over the long-term, generate positive returns, and seek to capture alpha. Performance has met or exceeded the performance goals.

Mr. Claisse highlighted Albourne's measurement of the portfolio's performance.

The risk ranges, risk sizing and the up/down capture of the portfolio were discussed. The portfolio exposures of both the direct portfolio and the Blackstone portfolio were reviewed to highlight diversification. Recent recommendations have enhanced Absolute Return Strategies' diversification within the relative value, macro and multi-strategy buckets. IPS Compliance was discussed and it was stated that TMRS is within all guidelines.

Discussion shifted to a review of the Absolute Return markets. Mr. Leavitt reviewed 2017 median performance by strategy as well as by geographic performance by strategy. Mr. Claisse reviewed the matrix of return factors including primary premia and intra-strategy dispersion. Global gross and net equity exposure has remained stable over the last twelve months. Mr. Leavitt discussed historical returns and noted that average returns (three year rolling) have compressed post crisis when considering Libor rates. Under the Sharpe Ratio, returns are in line with pre-crisis profiles. Mr. Claisse discussed the Albourne Hedge Fund Strategy Forecast and he stated that TMRS is well positioned for the next twelve months.

Mr. Leavitt stated that the Absolute Return portfolio is constructed to seek attractive risk-adjusted returns over the long-term while providing performance that has low correlation to traditional asset classes. He concluded by noting that staff is pleased with the construction of the portfolio and by its performance.

8. **RVK Quarterly Staff Reports (formerly #9 on the Friday, September 22, 2017 agenda)**

Ms. Beard presented the quarterly report for the period ending June 30, 2017 and noted since June 30, 2017, equity markets have seen extremely strong returns. Most recently, these strong returns have been driven by market fundamentals with the second largest bull market since World War II and the strongest economy since the late 1800's. Commodities were the only area that showed negative returns for both the quarter and year-to-date.

Annual asset class performance and asset allocation were reviewed and Ms. Beard stated that the portfolio is close to full allocation. Total fund performance versus peers was discussed.

Volatility, compared to TMRS' peer universe, is well below median, but also lower than median returns due to lower exposure to equities. Domestic equities experienced median returns with below median risk. International equity was below median for both risk and return due to the large passive management component. Core Fixed Income showed median risk and return. Non-Core Fixed Income has a benchmark mismatch, but it has still outperformed the benchmark. Real Return has underperformed the benchmark due to lack of historical diversification, but this will be changing. Real Estate has shown strong returns compared to the benchmark. Absolute Return has had strong performance, outperforming the benchmark in both the Blackstone and Direct Portfolio manager exposures. Private Equity has shown strong returns in the short time since funding began.

Ms. Beard concluded by reviewing the TMRS Total Fund Objectives and Performance located in the supplemental information.

9. **Chief Investment Officer Management Update, Including Governance, Personnel, Manager Updates, Fee Structures, and Other Investment Related News or Matters (formerly #10 on the Friday, September 22, 2017 agenda)**

Mr. Carlson noted the estimated year -to-date investment performance of 9.73%, net of fees, as of September 20, 2017.

Susan Jacques was introduced as the Investment Department's new Performance Analyst on the Operations team. Mr. Carlson updated the Board on recruitment activities.

Mr. Gavia noted that TMRS Investment Staff have been nominated for awards by two separate investment trade magazines, Institutional Investor and CIO Magazine. TMRS was nominated in the "Turnaround of the Year" category by Institutional Investor. In addition, TMRS was nominated for an award as an innovative asset owner by CIO magazine in the public fund category for medium sized funds.

Ms. Oakley stated that TMRS was recognized as a national leader in several areas at the GFOA Annual Conference.

**10. Executive Director Update — Information Resources (formerly #11 on the Friday, September 22, 2017 agenda)**

Mr. Willrich updated the Board on the IT Department and projects that are underway. He began with an overview of the Department's structure.

Software development projects were discussed. He reviewed the numerous releases that have been made to NextGen MBS. He next reviewed the updates that have been made since May 2016. Finally he reviewed updates to both MyTMRS and City Portal.

Mr. Willrich next discussed the current build versus buy analysis that is being conducted with regard to the TMRSPRO project.

Mr. Willrich reviewed organizational projects including electronic records management, audits, business continuity/disaster recovery planning, and employee training. He gave a brief overview of the activities that have taken place in each of these areas.

Mr. Willrich next discussed the IT infrastructure projects that have taken place over the past year, highlighting physical server and SAN replacement.

Mr. Willrich concluded by discussing the microfiche scanning project that was underway and the update to TMRS' record retention schedule with the Texas State Library.

**11. Executive Director and Staff Reports (formerly #12 on the Friday, September 22, 2017 agenda)**

There was no discussion.

**12. Call for Future Agenda Items (formerly #13 on the Friday, September 22, 2017 agenda)**

No items were discussed.

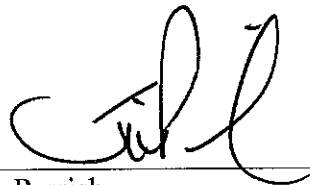
**13. Executive Session (formerly #8 on the Thursday, September 21, 2017 agenda)**

At 4:27 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. The meeting was opened to the public again at 5:07 p.m. No action was taken during the Executive Session and all members of the Board that were present before the Executive Session were still present.

Ms. Oakley moved that the Board adjourn the meeting. Mr. Rodriguez seconded the motion, which passed 4-0. At 5:07 p.m. the meeting was adjourned.



David Gavia  
Executive Director



Jim Parrish  
Chair, Board of Trustees