

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

**August 23, 2018 – 1:30 p.m.**

On August 23, 2018, 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  
Jim Jeffers  
David Landis  
Jesus Garza

**Present also were:**

David Gavia, Executive Director  
Eric Davis, Deputy Executive Director  
TJ Carlson, Chief Investment Officer  
Bill Wallace, Director of Communications  
Dan Wattles, Director of Governmental Relations  
Leslee Hardy, Director of Actuarial Services  
Debbie Munoz, Director 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  
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  
Spencer Hunter, RVK  
Amy McDuffee, Mosaic Governance Advisors  
Tom Hester, StepStone Group, LP

**Also in attendance:**

Eric Obermier, Assistant Director Information Resources  
Madison Jechow, Assistant General Counsel

Michelle Mellon-Werch, Assistant General Counsel  
David Rodriguez, Senior Regional Manager – City Services  
Anthony Mills, Senior Regional Manager – City Services  
Sean Thompson, Regional Manager – City Services  
Melanie Thomas, Process and Content Management Specialist  
Eddie Schultz, Assistant Director Real Assets  
Cindy Morse, Investment Support Analyst  
Debbie Farahmandi, Investment Operations Specialist  
Nick O’Keefe, Lead Investment Attorney  
Tish Root, Legal Assistant  
Susan Jacques, Investment Performance Analyst  
Geldon Vllahu, Investment Operations Analyst  
Carol Leung, Equities Investment Analyst III  
Ryan Conner, Risk Management Analyst  
Melissa Jerkins, Quantitative Analyst II  
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  
Andi Focht-Williams, Senior Auditor  
Adrienne Strong, Human Resources Generalist  
Jennifer Andrews, Member Services Manager  
Peter Jeske, Project Specialist  
Candace Nolte, Assistant Finance Director  
Paula Nguyen, Investment Accountant  
Natalie Garza, Communications Analyst  
Kenneth Oliver, Actuarial Analyst  
Pete Krnavek, Information Systems Manager  
David Riggs, Texas State Association of Fire Fighters  
Greg Shipley, Combined Law Enforcement Associations of Texas  
George Kauffman, City of Garland Retiree  
Casey Srader, Government Finance Officers Association of Texas  
David Crow, Texas State Association of Fire Fighters

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

**1. Consider and Act on Adoption of the Minutes from the June 28-29, 2018 Meeting of the Board of Trustees.**

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

Mr. Philibert moved that the Board adopt the minutes as presented. Mr. Landis seconded the motion, which passed 6-0.

**2. Consider and Act on Selection of Firm to Provide Professional Auditing Services to TMRS**

Mr. Gavia introduced Andi Focht-Williams and Michelle Mellon-Werch to present the findings for the Request for Proposal (RFP) for Professional Auditing Services. Ms. Focht-Williams reviewed the development of the RFP, as well as the different phases and timeline of the procurement process. The RFP was sent to the nine Firms that expressed an interest in the RFP. Proposals were received from six Firms.

Ms. Focht-Williams confirmed that the Firms were licensed to practice in Texas and in good standing and confirmed the proposals satisfied the minimum RFP requirements. The RFP Evaluation Team developed an evaluation tool and a scoring methodology consistent with information provided to the Firms about the evaluation process. Evaluators individually scored the proposals, subsequently reviewed individual scores, and finalized score assessments. Two Firms moved to the second phase of the procurement process and were invited to present to the Internal Audit Committee meeting, which was open to the public.

Mr. Jeffers thanked the team for its due diligence in the process. The Internal Audit Committee recommended that CliftonLarsonAllen LLP (CLA) be hired as the System's Professional Auditing Services provider. Mr. Jeffers highlighted their qualifications.

Mr. Landis added that TMRS would be well served by either Firm and thanked the team for their efforts.

Mr. Parrish asked if there was discussions about moving away from a "Big Four" firm. Mr. Jeffers indicated that there was considerable discussion on this topic. CLA's data analytics approach was impressive, and a new external audit firm provides a fresh perspective, as well as a new approach. Mr. Landis added that CLA has a focus on public pension plans.

Mr. Parrish also asked if there would be a termination clause in the contract. This was answered in the affirmative, that there would be a termination clause with 30-days written notice.

Mr. Jeffers moved that the Board approve CliftonLarsonAllen LLP to be hired to provide professional auditing services to TMRS. These services include audits of TMRS' financial statements for fiscal years 2018 through 2022; and, *Service Organization Controls 1 Type 2 (SOC-1 Type 2)* audit for the period of May 1, 2018 to April 30, 2019, and continuing for four subsequent 12-month periods ending 2023.

Mr. Jeffers further moved that the Board authorize the Executive Director to negotiate, execute, acknowledge, and deliver any and all contracts and other documents or instruments necessary or desirable to give effect to such hiring of CliftonLarsonAllen LLP for professional auditing services on such terms and conditions as are satisfactory to TMRS, such satisfactory terms and conditions to be conclusively evidenced by the execution thereof

by the Executive Director; and to do any and all other acts deemed by the Executive Director in his judgment to be necessary or appropriate, in the best interests of TMRS, to give effect to such hiring.

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

**3. Receive Report from Internal Audit Committee**

Ms. Vice and Mr. Jeffers, Chair of the Internal Audit Committee, presented the highlights from the Internal Audit Committee meeting on August 23, 2018. Ms. Vice discussed the findings of the 2017-2018 Internal Audit Review of Fund Manager Fees conducted by EY. The results were positive and there were no material findings. There were two areas for potential improvement.

The Internal Audit budget for FY19 was presented to the Audit Committee and it was approved. It will be incorporated into the FY19 TMRS Budget. Ms. Vice requested guidance for the next audit plan.

**4. Review and Discussion of the TMRS Act Review Project and Next Steps**

Mr. Wattles and Ms. Sweeney presented the discussion of the TMRS Act Review Project. Mr. Wattles gave an overview of the project and its objectives. The 2018-2022 TMRS Strategic Plan includes an objective to “Develop and Promote Legislation and Rule Amendments to Clarify Certain Aspects of the TMRS Act” (Goal 1, Objective C). The purpose of the objective is to review the TMRS Act and Rules to identify the need for possible statutory or rule changes that could improve TMRS’ plan design and operations.

Staff initially identified 170 suggestions to amend various sections and subsections of the TMRS Act; 142 Sections were researched and prioritized. Of the 142 researched suggestions, staff identified 19 priority statutory suggestions which were presented at the June 2018 Board meeting.

Mr. Landis, Chair of the Advisory Committee, stated the Board will need to decide if there should be one bill or two bills, administrative or benefit design, or no bill.

Ms. Sweeney reviewed for the Board the priority items to possibly include in a bill. Discussion focused on possible amendments.

Item 1. Board Meetings – allow meetings by telephone or video conference; omit required dates for meetings, and clarify a provision related to the Texas Open Meetings Act (TOMA). Ms. Oakley was not comfortable with the telephone and video conference portion of this item. Staff should move forward with this item and have options to keep or exclude the portion of the bill with telephone or video conference abilities.

Item 7. Amortization Period - Clarify Board’s rulemaking authority with regard to amortization periods and provide the Board with the discretion to set different amortization periods, up to a maximum of thirty years. Ms. Oakley indicated that she felt 30 years is too long. Discussion revolved around the Pension Review Board’s (PRB) funding guidelines

and that the statute sets an outer limit but the Board still has the authority to determine the appropriate amortization period, not to exceed the limit. Guidance was to proceed with language making thirty years as the maximum outer limit.

Staff was directed to proceed with drafting potential bill language for the first nine priority items and discussion moved to the Benefit Design proposals. Regarding Cost of Living Adjustments (COLAs), staff's suggestion was, if the Board wants to pursue a COLA amendment, then staff's recommendation would be to keep the CPI based COLA, make the catch-up provision optional, and to add 40% and 60% as additional percentage options. David Riggs, the Texas State Association of Fire Fighters representative to the Advisory Committee requested that the Board allow the Advisory Committee to meet and to further study the COLA suggestion.

Ms. Oakley stated that she was not comfortable with going forward at this time with the Benefit Design proposals since they could be perceived as benefit enhancements, even though they might be designed to help cities control cost.

Mr. Parrish asked if a two bill process could be utilized. Mr. Garza stated the Board needs to decide upon whether to proceed with the benefit design suggestions before assigning them to the Advisory Committee for their feedback.

Return-to-Work was discussed as a possible benefit design item. If the Board wants to pursue a Return-to-Work amendment, then Staff's recommendation would be to remove the "eight-year gap" provision and provide that if a person retires based on a bona fide termination of service and returns to work for the same city from which they retired after at least one year from their most recent retirement date, then their annuity would not be suspended during re-employment. The majority of the Board wanted Staff to proceed with drafting potential bill language for this item.

Mr. Landis and Mr. Garza suggested adding the increase in Retiree Supplemental Death Benefits. Staff was directed to move forward with drafting language for this item as well.

Ms. Oakley was not in favor of amending the Maximum Contribution Rate Limit (Stat. Max.). The Board directed that this item be removed from further consideration going forward.

The Board directed Staff to move forward with drafting potential legislative bill language for all the priority items listed and as discussed, excluding Stat Max.

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

Mr. Masthay, Mr. Schultz, and Mr. Hester from Courtland Partners, a StepStone Company, (Courtland) presented the Real Estate manager recommendations. The proposed recommendation is to add two additional funds to the Real Estate portfolio totaling approximately \$150 million in commitments. The two manager recommendations are European Property Investors Special Opportunities 5 SCSP (Tristan) and Torchlight Debt Opportunity Fund VI, LP (Torchlight), both of which are re-ups.

Mr. Schultz reviewed how these two manager recommendations fit in the overall Real Estate portfolio strategy.

Tristan is a value-add Real Estate fund that specializes in Europe. They are a pan-European manager with a large team to cover the multiple jurisdictions. Tristan is very asset focused and is currently targeting their investments in office, logistics retail and residential properties. They seek to acquire assets that have clear, correctable deficiencies impacting value that they believe can be quickly fixed and reposition the asset via re-leasing, recapitalization, restructuring and/or refurbishment. The firm has seen a lot of growth which has been monitored by TMRS Staff.

Torchlight is a Real Estate debt manager focused on non-core debt in both the private and traded spaces. Torchlight's diverse skill set has been demonstrated by acquiring a variety of debt assets, toggling to sectors and securities that present the most value at any given time. Torchlight's funds emphasize the income component of returns and lower leverage properties. Mr. Schultz discussed issues to watch.

Mr. Hester provided that both firms are very strong and reviewed the strengths of both managers.

Mr. Landis moved that the Board approve the following:

- 1) 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)
European Property Investors Special Opportunities 5 SCSP (Tristan)	Opportunistic Real Estate	Up to €60 Million	Yes
Torchlight Debt Opportunity Fund VI, LP (Torchlight)	Value Add Real Estate	Up to \$75 Million	Yes

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

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

**6. Consider and Act on Asset Allocation Study**

Mr. Carlson and Ms. Beard, RVK, Inc., presented the Asset Allocation Study. As required by the TMRS Investment Policy Statement (IPS), the Strategic Target Allocation is reviewed at least annually for reasonableness relative to significant economic and market changes or due to changes in the Board's long-term goals and objectives. This review is conducted jointly by TMRS staff and the Board's General Investment Consultant, RVK. Mr. Carlson stated that there will not be a specific recommendation today, but there possibly could be a recommendation next year when the review is done in conjunction with the asset-liability study.

Two facets comprise the asset allocation decision: (1) identification of the asset classes to be considered; and (2) selection of the amount of alternatives for the allocation that best meets the investment objectives. The investment beliefs were discussed as well as asset allocation decisions. Mr. Carlson reviewed Capital Market Assumptions and how the expected returns have come down across the board from 2017 to 2018. How these changes impact TMRS was discussed, as well as what numbers went into the mean variance optimizer.

Ms. Beard discussed the one change that was made to the Asset Allocation inputs this year and it pertains to the Public Equities asset class. Rather than separating out US and Non-US Equities, as has been the practice for the last several years, RVK and Staff recommend using the broader Global Equity proxy for this asset class, which is calculated based on a roll up of underlying public equity asset classes. The Global Equity proxy is currently a combination of 51.7% Broad US Equity and 48.3% Broad International. This is becoming standard practice among public pension plans broadly. This will allow Staff the opportunity to hire global managers in the future. It will also entail some changes to the IPS which will be presented in October and December for discussion/approval.

Primary sources of risk and returns were discussed and the differences between arithmetic and geometric returns which are important considerations in portfolio construction. Mr. Carlson explained the correlation matrix and how each of the asset classes react to one another. Based on the results of the Asset Allocation Study, there are no changes being recommended at this time. Mr. Carlson noted there have been enough changes in asset class assumptions and liabilities to support moving the Asset Liability Study from 2021 to 2019. This will coincide with the full Asset Allocation Review, as well as the Actuarial Experience Study.

The Efficient Frontier for public stocks and bonds was highlighted. Various levels of alternative assets and their impact on portfolio outcomes were discussed. It was suggested that the Board spend time thinking about what portion of the portfolio should be discussed in regard to alternative assets.

Mr. Parrish noted that it may help the Board to know what other entities are doing in this regard. Ms. Oakley requested that we frame the discussion around risk prior to being asked to choose a portfolio mix. Mr. Joe Newton, GRS, indicated that the measure of risk is only a small piece and the Asset Liability Study will make the process better. Ms. Beard noted that the Asset Liability Study will also allow all the effects to be seen.

Mr. Newton stated that reviewing the Investment Return Assumption every two years would be a good idea. It may take some time to make a decision and changes may be made incrementally.

7. **Review and Discussion of TMRS Pension Administration System and Consider and Act on Authorizing an RFP Process for Hiring a Consultant**

Debbie Munoz, Jesse Pittman and Scott Willrich presented this update regarding the TMRS Pension Administrative System (PAS). The recommendation is to conduct a comprehensive PAS assessment while managing the risks and operational inefficiencies associated with the current City Contribution System. Staff has both short term and long term mitigation strategies in place for the City Contribution System. Operational inefficiencies can be managed by staff. The assessment details and timeline were reviewed as well as the budget request for the assessment. The assessment should take twelve to eighteen months.

Mr. Landis moved that staff develop a Request for Proposal for selecting a Pension Administration System Assessment Consultant and to begin the assessment in 2019. Ms. Oakley seconded the motion, which passed 6-0.

8. **Executive Session**

At 4:50 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 and all members of the Board that were present before the Executive Session were still present. The meeting was opened to the public again at 6:42 p.m.

In the Open Meeting, Mr. Landis made a motion to adjust the Executive Director's salary by 3.0% effective July 1, 2018. Mr. Philibert seconded the motion, which passed 6-0.

At 6:45 p.m. the meeting was recessed until 9:00 a.m. on Friday, August 24, 2018



David Gavia  
Executive Director



Jim Parrish  
Chair, Board of Trustees



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

**August 24, 2018 - 9:00 a.m.**

On August 24, 2018, 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**

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

**Present also were:**

David Gavia, Executive Director  
Eric Davis, Deputy Executive Director  
TJ Carlson, Chief Investment Officer  
Bill Wallace, Director of Communications  
Dan Wattles, Director of Governmental Relations  
Leslee Hardy, Director of Actuarial Services  
Debbie Munoz, Director 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  
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 Information Resources  
Michelle Mellon-Werch, Assistant General Counsel  
Madison Jechow, Assistant General Counsel  
Nick O'Keefe, Lead Investment Attorney  
David Rodriguez, Senior Regional Manager– City Services  
Anthony Mills, Senior Regional Manager– City Services

Sean Thompson, Regional Manager – City Services  
Jennifer Andrews, Member Services Manager  
Melanie Thomas, Process and Content Management Specialist  
Peter Jeske, Project Specialist  
Eddie Schultz, Assistant Director Real Assets  
Cindy Morse, Investment Support Analyst  
Debbie Farahmandi, Investment Operations Specialist  
Geldon Vllahu, Operations Analyst  
Susan Jaques, Performance Analyst  
Candace Nolte, Assistant Finance Director  
Ryan Conner, Risk Management Analyst  
Melissa Jerkins, Quantitative Analyst II  
Kurt Cressotti, Compliance Officer  
German Gaymer, Fixed Income Analyst  
Jacob Bowland, Fixed Income Analyst  
Kevin Notaro, Absolute Return Analyst  
Yvonne Huang, Real Assets Analyst  
Kenneth Oliver, Actuarial Analyst  
Andi Focht-Williams, Senior Auditor  
Bob Scott, City of Carrollton  
Greg Shipley, Combined Law Enforcement Associations of Texas  
George Kauffman, City of Garland Retiree  
David Riggs, Texas State Association of Fire Fighters

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

**9. Board Education: Governance Discussion**

Ms. McDuffee began the discussion with the TMRS Strategic Plan objectives which are as follows: best governance and management structure, enhance Board meeting productivity, address Board training requirements and discuss some topics that would typically be part of an annual Board self-evaluation. The Pension Review Board's (PRB) training requirements were reviewed.

There are many different types of Governance, therefore it is important to define exactly what is meant or what is intended to be governed. Governance is about a process that leads to a decision. Ms. McDuffee reviewed several definitions of "good governance". Good pension fund governance has been found to translate into a 1% to 5% investment performance premium. The essential principals of governance includes compliance with the law (fiduciary standards), accountability, transparent, responsive, efficient, consensus-oriented, inclusive, fair, knowledgeable and experience, balance of retained and delegated authority. The Board added to the list: ethical, engaged, and focus on the mission (not self-serving). The members of the TMRS Board all have "Boards" they report to so they have the staff perspective as well.

Ms. McDuffee provided a list of resources for "best practices", but the practices are only best if they fit the purpose of the institution.

Governance of public retirement systems rests with not only the Board, but also the governor, the legislature and staff to whom responsibility has been delegated. The structure of how a system is be governed is found in two areas of documentation: the law and the Board's areas of control (by-laws, policies, and rules). Board size and composition were discussed as well as what some board areas of authority includes. Ms. McDuffee highlighted the level of authority a Board has including authority over: budget, personnel, compensation and procurement. Larger asset size or membership base does not equal increased authority. The TMRS Board does have final approval over all four areas of authority.

Governance decisions can be grouped into three areas, board governance, organizational governance and plan governance (Benefits and Investments). Ms. McDuffee reviewed examples of board responsibilities that fall under plan governance.

The evolving role of public retirement system boards was discussed. The evolution of boards extends beyond corporate boardrooms and the role continues to evolve. Public retirement system boards have taken an increased interest in strategy, compliance, succession planning/leadership development, organization culture, stakeholder relations and branding, oversight of technology, including cybersecurity and systems modernization projects. Some of the common challenges many boards face are finding time on the board agenda and drawing clear boundaries between the Board's role and that of management. Another common challenge is inertia. Mr. Parrish explained that it is the mentality of, "if it is not broken, why change it".

Ms. McDuffee discussed the roles of committees and how they be a driver to get tasks completed. TMRS does use committees and there was discussion regarding their functions. All TMRS committees are non-delegated and the full Board makes all the decisions. Ms. McDuffee took a closer look at the Advisory Committee and its interaction with the Board.

Mr. Garza asked about retirement systems that have investment committees and what is the investment committee's function; and also, would an Investment Committee make the process more efficient at TMRS. Efficiency would depend on how the committee is created and Mr. Klausner described how other systems handle investment committees. Mr. Parrish asked if the Board wants to be more engaged in a topic or pass off part of the work to smaller groups. Mr. Jeffers stated that a discussion of the use of committees is a good idea. Ms. Oakley would like a broader discussion on including "experts" on committees to add additional insight and knowledge regarding where does the Board need additional expertise in making decisions. Ms. McDuffee suggested taking a "zero base" approach and ask, "What decisions do we want to make?" and "What do we want on the Board's agenda?"

This topic will be continued at the next Board meeting with additional time allotted.

#### **10. Real Estate Annual Asset Class Review**

Mr. Masthay presented the annual Real Estate asset class review.. The goal for the annual reviews is to formally review managers' performance, current investment strategy or style relative to that which was communicated, and other issues related to the managers' organization, personnel, or investment philosophy. The annual review holds staff accountable for its portfolio management process in order to preempt manager specific, strategic, or other potential problems.

Mr. Masthay reviewed the Real Estate strategies and sectors in which TMRS is invested. TMRS is invested in a broadly diversified Real Estate portfolio and it is within IPS compliance limitations for manager and vehicle level concentration limits. Mr. Masthay discussed the thought process behind the philosophies used in selecting investments in the various core and non-core strategies.

Mr. Masthay discussed the three pillars of performance measurement: absolute return, relative to benchmark and relative to peers. Performance has met or exceeded measurements in all three areas even while expanding the portfolio. Portfolio management focuses on: 1) manager research, 2) execution, 3) economic research and 4) monitoring/decision revision. Each manager is monitored every quarter and there is cross accountability in the manager review process. Formal monitoring ensures all matters of the Policy and Procedure are followed, documented and Staff is held accountable to evolve as necessary. All manager relationships and the consultant relationships assessed are in satisfactory standing.

Moving forward, building strategic relationships across the Real Estate and Real Return portfolio will be a key focus. Further standardization of the due diligence process will continue as well as improving communication with the Board.

#### **11. Real Return Annual Asset Class Review**

Mr. Masthay continued his review with the Real Return annual asset class review. The Real Return portfolio is currently more broadly diversified than one year ago. The portfolio continues to become more diversified across public markets and private allocations are growing as commitments are drawn. Mr. Masthay discussed the portfolio exposure by geography and capital structure.

The three pillars of performance measurement were reviewed relative to Real Return. It was noted that the benchmark was changed effective at the beginning of 2018. An Absolute Return objective of CPI + 400 bps is established as the long term objective of the Real Return portfolio. Over the last three years, TMRS has made allocations to increase the probability of meeting its long term absolute return goal. Mr. Masthay also reviewed portfolio management, as well as the quarterly and annual review process.

#### **12. Investment Staff Quarterly Report/Asset Class Updates**

Mr. Carlson gave an update on the progress made on the current asset allocation and indicated that the portfolio is within ranges on all asset classes. Performance is approximately 40 bps above the benchmark for last year and about 30 bps for the five year.

Public Equities is still overweight by 3% because funding is still occurring in Private Equity. Performance has shown improvement domestically while there has been less positive returns from international markets. Ms. Qualls noted three Public Equity managers (four accounts) are on the watch list due to performance and other issues. The managers to be placed on the watch list are Epoch Investment Partners, Inc. (Epoch), Sasco Capital, Inc. (Sasco), and the Boston Company Asset Management, LLC (Boston Company). Staff will continue to monitor the watch list managers and update the Board accordingly.

Mr. Weiner discussed the impact of the interest rate increase by the Federal Reserve on the Core Fixed Income. Core Fixed Income is still overweight due to funding Non-Core Fixed Income. Tremendous progress has been made regarding the Non-Core Fixed Income portfolio and it is closer to being fully invested in the next year.

Mr. Schelling reported on Private Equity asset class objectives and investment philosophy. Currently there are 24 managers with approximately 29 investment funds. The long term policy objective is to exceed the Russell 3000 + 3% for periods of five years or greater, net of all investment management fees. The portfolio is fully committed and the returns have been excellent, partially due to being slightly overweight to growth. Last year was a strong year in growth.

Mr. Cressotti reported that compliance tests show there were no material violations of TMRS investment management guidelines. State Street Bank's weekly and monthly automated GX Compliance tests are working appropriately.

Mr. Shishkoff reported that Risk management has seen no significant changes on the Implementation Risk chart. Market volatility is currently lower than expected and forward looking Tracking Error remains very low. On a total fund basis, the portfolio is not running a lot of risk, even though individual managers can vary. On the whole, risk is well controlled.

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

The Investment team took 374 meetings during the quarter which is right on pace with their estimate of approximately 1,200 meetings per year.

Mr. Carlson introduced Jacob Bowland, Analyst for Fixed Income. He noted the Board Reference Sheet and Pacing Plan have been updated and have been placed in Diligent Board Books.

**14. Executive Director Update: Project Management Update**

Mr. Pittman discussed the goal of the Project Management Department, "We do not make the product; we make the product better." The primary responsibilities were highlighted and they include, process institutionalization, accountability and visibility. Regarding visibility, Mr. Pittman discussed the accomplishments during 2017 and 2018. Looking forward, he discussed projects on Operational Governance, the Pension Administration System assessment, TMRS Direct Programs, eRecords, Privacy and Security, and the Strategic Plan facilitation.

Mr. Parrish asked for clarification on the Online Security Project and if that will include penetration testing. Mr. Pittman responded that penetration testing is part of a separate network security audit.

**15. Call for Future Agenda Items**

Ms. Oakley asked for an update on the Strategic Plan. Mr. Gavia stated that a Strategic Plan update is planned for the September or October agenda. Mr. Parrish asked that this include an update on the engagement survey.

Mr. Landis requested that the Board and Governance Consultant conduct a Board evaluation and discuss basic governance. Staff will determine if this could be completed during Executive Session.

Mr. Gavia asked for guidance related to the RFP process for the Staff Actuary. Since there was a clear separation based on Staff's review, the Board was comfortable bringing in the top finalist.

There being no further business, the meeting was adjourned at 12:18 p.m.



David Gavia  
Executive Director



Jim Parrish  
Chair, Board of Trustees