

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

May 24, 2018 – 1:30 p.m.

On May 24, 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
David Landis
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
Leslee Hardy, Director of Actuarial Services
Debbie Munoz, Director Member Services
Scott Willrich, Director of Information Resources
Rhonda Covarrubias, Director of Finance
Sandra Vice, Director of Internal Audit
Leslie Ritter, Director of Human Resources
Kristin Qualls, Director of Public Equity
Chris Schelling, Director of Private Equity
Jason Weiner, Director of Fixed Income
Marc Leavitt, Director of Absolute Return
Tom Masthay, Director of Real Estate and Real Return
Dimitry Shishkoff, Director of Risk Management
Karen Jackson, Executive Assistant
Robert Klausner, Klausner, Kaufman, Jensen & Levinson
Marcia Beard, RVK
Amy McDuffee, Mosaic Governance Advisors
Mark White, Albourne America LLC
Lori Messer, Fox Lawson Group

Also in attendance:

Eric Obermier, Assistant Director Information Resources

Eddie Schultz, Assistant Director Investments
Michelle Mellon-Werch, Assistant General Counsel
Nick O'Keefe, Lead Investment Attorney
Madison Jechow, Assistant General Counsel
Michael Schaff, Assistant General Counsel
David Rodriguez, Senior Regional Manager – City Services
Anthony Mills, Senior Regional Manager – City Services
Melanie Thomas, Process and Content Management Specialist
Sally Case, Investment Operations Manager
Cindy Morse, Investment Support Analyst
Debbie Farahmandi, Investment Operations Specialist
Susan Jacques, Investment Performance Analyst
Geldon Vllahu, Investment Operations Analyst
Carol Leung, Equities Investment Analyst II
Ryan Conner, Risk Management Analyst
Melissa Jerkins, Quantitative Analyst
Kurt Cressotti, Compliance Officer
German Gaymer, Fixed Income Analyst
Kevin Notaro, Absolute Return Analyst
Peter Teneriello, Private Equity Analyst
Andi Focht-Williams, Senior Auditor
Jennifer Andrews, Member Services Manager
Vikki Vasquez, Member Services Manager
Peter Jeske, Project Specialist
Paula Nguyen, Investment Accountant
Natalie Garza, Communications Analyst
Kenneth Oliver, Actuarial Analyst
Pete Krnavek, Information Systems Manager
Danielle Whitaker, Accountant
Trisha Solis, Support Services Analyst
Tish Root, Legal Assistant
Stacy White, Executive Assistant
Diedre Hayden, Investments Accountant
David Riggs, Texas State Association of Fire Fighters
Greg Shipley, Combined Law Enforcement Associations of Texas
George Kauffman, City of Garland Retiree

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 Minutes from the March 22-23, 2018 Meeting of the Board of Trustees

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

Mr. Philibert moved that the Board adopt the minutes from the March 22-23, 2018 Meeting of the Board of Trustees. Mr. Jeffers seconded the motion, which passed 5-0.

2. Consider and Act on Revisions to the TMRS Employee Manual

Mr. Gavia introduced Ms. Ritter to present the changes to the Employee Policies and Benefits Manual (EPM). Since the major overhaul of the EPM in 2015, when a number of new policies were introduced, TMRS' experience with the policies, along with the incorporation of new systems and technology, has resulted in recommendations for rewriting several policies that currently are written too broadly or too narrowly to be the most effective. In addition, staff are proposing changes to other parts of the EPM, especially in the fringe benefits area, that improve the competitiveness of our benefits package. Some of these changes were suggested by our Employee Engagement Taskforce, and we believe the changes will enhance employee engagement.

While several policies were modified to provide additional clarity, a few policies were modified substantially and rewritten. Detailed information on the proposed EPM changes was presented to the Board at its meeting on March 23, 2018. At that meeting, the Board asked Staff to compile some additional information regarding benefits offered by some of our peers and the cost of the proposed benefit changes. A Benefit Matrix was provided that compared the benefits between TMRS, TCDRS and ERS. As communicated to the Board in April, the proposed benefit changes have no impact on the budget, and the proposed benefit changes are in line with our peer's benefit packages. However based on feedback, a few additional changes to the EPM are now being proposed.

Ms. Ritter reviewed the modification to the Administration Leave Policy. An employee on vacation would still be charged vacation hours in the event of inclement weather or if Administrative Leave is designated by the Executive Director.

Although the EPM revisions, if approved, would be effective June 1, 2018, language has been added to clarify that, for administrative purposes, the new accrual schedule would be reflected beginning with the July 13, 2018 paycheck and would not apply retroactively.

The Computer Usage Policy has been removed from the EPM. However, in its place will be a notice regarding the policy and notifying the employee of the policy. It also grants the Executive Director authority to approve updates and amendments to the Computer Usage Policy going forward.

Ms. Ritter briefly explained the changes that had remained the same from the May Board meeting.

Mr. Philibert moved that the Board of Trustees approve the proposed changes to the Employee Policies and Benefits Manual (EPM) and recommends that authority be granted to the Executive Director to approve any future amendments to the Computer Usage Policy attached to the EPM that the Executive Director deems necessary or desirable and to substitute such amendments for the then existing attachment to the EPM. Mr. Garza seconded the motion, which passed 5-0.

3. Consider and Act on the Compensation Study

Mr. Gavia briefed the Board on the activities of the Compensation Committee. The Committee Chair and Committee Vice Chair spent a considerable amount of time reviewing data, providing feedback and guidance to Fox Lawson Group and staff, and carefully vetting proposals throughout the process. Mr. Philibert stated that it was an arduous process and thanked everyone for their active participation.

Mr. Gavia introduced Ms. Messer from Fox Lawson Group to discuss the previous study performed leading up to the current study. The market study objectives of the past study were identified in 2014 and reconfirmed in 2017. Four main criteria were identified for comparator organizations as well as published data. Ms. Messer discussed the survey participants and the 49 positions that were benchmarked. She highlighted input from the Compensation Committee which caused the group to reflect on the comparator organizations used in the study. The McLagan Survey was picked for investment positions.

The Non-Investment positions needed minor market adjustments for pay grades 1, 2, and 3. Fox Lawson also identified three Information Resources positions that were misaligned and lagging the market as well as two Accounting positions. Several job families were also created or expanded in the Non-Investment Salary Schedule to keep up with our growth and to provide career progression.

Ms. Messer reviewed the Investment positions. TMRS and Fox Lawson matched up like-for-like positions with McLagan data, including using the Manager-of-Managers job series and pulled data from primarily externally managed firms. Base salary data (no incentive) was collected from the McLagan survey and used as a starting point for developing the proposed structure. In consultation with Fox Lawson and the Compensation Committee, a ten percent (10%) premium was added to our median market mid-points for all investment positions below the Investment Director level. A twenty percent premium was added to the CIO, Deputy CIO (position does not currently have an incumbent, but added for future planning purposes) and Investment Director mid-points. Several job families were also recommended and five titles had a new level added. Ms. Messer discussed the number of organizations which offer incentive compensation or a premium add-on.

The next steps include: 1) review and approval of proposed pay structures, 2) develop implementation costs following Board approval of the pay structures, and 3) continue to perform annual and long term updates.

Mr. Philibert moved that the Board approve both the Non-Investment and Investment Salary Schedules. Mr. Jeffers seconded the motion, which passed 5-0.

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

Mr. Wattles presented a recommendation for approving an alternate representative in the Group Class classification for the Advisory Committee on Benefit Design. Seven associations make up the Group Glass and all have Board-appointed representatives. At the February 2018 Board meeting, the Board approved the nomination of Paulette Hartman,

Assistant City Manager of City of North Richland Hills, to be the representative of the Texas City Management Association (TMCA). Ms. Hartman was the alternate at that time and her appointment as the representative left the alternate position vacant. The TCMA nominated Mr. Robert Hanna, City Manager with the City of Abilene, as the new TCMA alternate.

Mr. Landis moved that the Board appoint Robert Hanna as the alternate representative for the Texas City Management Association on the TMRS Advisory Committee on Benefit Design in the Group Class. Mr. Garza seconded the motion, which passed 5-0.

5. Consider and Act on Agreement for Governmental Relations Consulting Services

Mr. Gavia reviewed the history of hiring the Legislative Consultant, Mr. Ron Lewis of Ron Lewis and Associates, and he stated Mr. Lewis has been the Legislative Consultant since 2004. Since 2006, Mr. Lewis has been employed on a two-year contractual basis. Each contract covered both a legislative session and interim period.

The areas in which Mr. Lewis has been of assistance to TMRS during Legislative years were discussed. Mr. Lewis has been instrumental in helping TMRS achieve its legislative goals as well as advising TMRS on matters and bills that are of interest to TMRS. Mr. Lewis helped ensure the passage of legislation critical to the success of TMRS, such as HB 360 (81st Legislative Session) and SB 350 (82nd Legislative Session). He also monitors pension activities and assists TMRS in the interim period. Mr. Gavia explained the plan for utilizing Mr. Lewis with the Legislative Committee and potential legislative activity going forward.

Mr. Garza asked several questions regarding Mr. Lewis's contract and requested that the Board obtain the input of the Legislative Committee members before approving a two-year contract. Until the Legislative Committee has a chance to review Mr. Lewis's contract and its scope of services, Mr. Parrish and Mr. Philibert felt the contract should be extended on a month-to-month basis.

Mr. Garza moved that the Board enter into an agreement with Ron Lewis of Ron Lewis and Associates for governmental consulting services on a month-to-month basis until the Legislative Committee reviews the scope of services. Mr. Parrish seconded the motion, which passed 5-0.

6. Board Committee Report(s): Legislative Committee

The Chair of the Legislative Committee (Committee), Mr. Philibert, briefly reviewed the purpose of the Committee and highlighted the activities regarding the attendance on various legislative trips and meetings.

Mr. Wattles expressed his appreciation of the Committee's support of the Governmental Relations team. Mr. Parrish briefly discussed future meetings that the Committee would like to attend prior to the Legislative Session in 2019.

7. Board Committee Report(s): Internal Audit Committee

Mr. Jeffers, the Chair of the Internal Audit Committee (Committee), and Ms. Vice gave an update regarding the Committee's activities. Mr. Jeffers provided highlights from the

Committee Meeting. Two Internal Audit reports were received, Private Equity Due Diligence Processes and the transition of TMRS' 457(b) plan. The Committee discussed dissemination of Internal Audit reports. It was noted materials will be reported to the Board via the Committee report as well as the reports will also be available in Diligent. If further discussion is required, Board members may request further discussion of any item. The Board determined quarterly reporting would be adequate at this time.

Ms. Vice discussed next steps for the External Financial Auditor Request for Proposal (RFP). Since the next Committee meeting will be posted to the Texas Register as an open meeting, any Board member interested in attending will be able to do so. The top candidates will provide a presentation during the Committee meeting. The Committee will bring a recommendation to the Board for final action. The Board discussed having the top candidates attend the August Board meeting to answer questions.

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

Mr. Masthay and Mr. Schultz presented the Real Estate manager search recommendation. Mr. Masthay discussed that StepStone Group, LP has agreed to acquire Courtland Partners, LTD and the company will be listed as "Courtland, a StepStone Company." There are currently no operational concerns at this point with the services we are receiving from the consultant.

The Real Estate pacing plan for 2018 approved two search processes and a targeted deployment level of up to \$400 million in aggregate. The proposed recommendation is to add one additional fund, Abacus Multi-Family Partners IV, LP (Abacus), to the Real Estate portfolio with a commitment of up to \$75 million.

The Real Estate portfolio statistics were reviewed as well as the characteristics of this value-add Real Estate manager. Abacus is targeting value-add multi-family transactions focused on relative affordability in markets and sub-markets showing favorable multi-family housing demand trends. There was further discussion regarding the risks of investing in a sector specific fund and the nature of the negotiations as it pertains to economic terms. The investment case and issues to consider were discussed.

Mr. Landis moved that the Board:

- (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)
Abacus Multi-family Partners IV, LP (Abacus)	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 5-0.

9. Consider and Act on Real Return Manager Search Recommendation(s)

Mr. Masthay, Mr. Schultz and Mr. White from Albourne presented the manager search recommendations for Real Return. The proposed recommendation was to add one additional fund, Orion Mineral Royalty Fund, LP (Orion), to the Real Return portfolio with an allocation of up to \$75 million.

Mr. Schultz reviewed the Real Return portfolio statistics including portfolio exposure by manager, and both current and projected private versus public assets allocations. Private investment strategy commitments will begin to draw down real return public markets exposure going forward.

Orion Resource Partners seeks to provide long lived royalty, stream and offtake financing on projects not reserved for the flagship mine financial fund. Orion provides a complex package of financing options and the structure matches very well with TMRS' portfolio. Royalties in the mining sector are typically structured based on a percentage of revenues of mine production and those rights are associated with the total life of the mine. The investment case and issues to consider were discussed.

Mr. White concurred with the proposed recommendation of Orion. He stated that Orion has been able to capitalize on items others have not. By looking beyond the precious metals as an opportunity set, Orion is taking advantage of an opportunity to deploy capital where it is greatly needed.

Mr. Philibert moved that the Board:

- 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)
Orion Mineral Royalty Fund, LP (Orion)	Private Real Return	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 5-0.

10. Executive Session

At 3:36 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 5:18 p.m.

In the Open Meeting, Mr. Landis made a motion to adjust the Internal Auditor's salary by 4.5% effective with the staff's merit increases. Mr. Jeffers seconded the motion, which passed 5-0.

Mr. Landis made a motion to adjust the General Counsel's salary by 4.25% effective with the staff's merit increases. Mr. Philibert seconded the motion, which passed 5-0.

Mr. Landis moved that the Board adjourn the meeting. Mr. Philibert seconded the motion, which passed 5-0. At 5:20 p.m. the meeting was adjourned.



David Gavia
Executive Director



Jim Parrish
Chair, Board of Trustees