

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

October 25, 2018 – 1:30 p.m.

On October 25, 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
David Landis
Jim Jeffers

Absent: Jesus Garza

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 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
Mark Randall, Gabriel, Roeder, Smith & Company
Lincoln Smith, Albourne America

Tom Hester, StepStone Group LP
James Maina, StepStone Group LP
Mark White, Albourne America
Ron Lewis, Ron Lewis and Associates

Also in attendance:

Eric Obermier, Assistant Director of Information Resources
Madison Jechow, Assistant General Counsel
Michelle Mellon-Werch, Assistant General Counsel
David Rodriguez, Senior Regional Manager – City Services
Sean Thompson, Regional Manager – City Services
Melanie Thomas, Process and Content Management Specialist
Eddie Schultz, Investment Manager
Cindy Morse, Investment Support Analyst
Debbie Farahmandi, Investment Operations Specialist
Nick O’Keefe, Lead Investment Attorney
Tish Root, Legal Assistant
Trisha Solis, Support Services Analyst
Susan Jacques, Investment Performance Analyst
Geldon Vllahu, Investment Operations Analyst
Carol Leung, Equities Investment Analyst III
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
Jennifer Andrews, Member Services Manager
Peter Jeske, Project Specialist
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

Mr. Parrish called the meeting to order at 1:34 p.m. and Mr. Landis gave the invocation.

1. Consider and Act on Adoption of the Minutes from the September 27-28, 2018 Meeting of the Board of Trustees

The minutes presented needed a correction to the May 2019 Board Meeting Dates. The correct dates for the May 2019 Board meeting are May 30-31.

Mr. Landis moved that the Board adopt the minutes with the correction as stated above. Mr. Philibert seconded the motion, which passed 4-0. (Ms. Oakley was not present during the vote.)

2. Review and Discussion of the Supplemental Death Benefit and Cost of Living Adjustment

Mr. Gavia introduced Ms. Hardy and Mr. Randall from GRS to discuss the topics of Supplemental Death Benefit (SDB) and Cost of Living Adjustment (COLA). These two topics were discussed at the September Board meeting as part of a possible “benefits” bill. As part of that discussion, the Board requested a review of the funding policy for these two topics at the October Board meeting.

Ms. Hardy began the discussion with SDB. SDB is funded by contribution rates determined on a one-year term cost basis and is a cost-sharing plan in which risks are pooled. The funding policy is “pay-as-you-go” and is not pre-funded over the employee’s active working career. She discussed the benefits payable to active members and retirees and outlined the number of cities participating in the SDB Fund. The death benefit for retirees is considered an “Other Post Employment Benefit” or “OPEB” and is subject to GASB 75 financial reporting requirements.

The SDB Fund began to grow due to favorable mortality experience and interest earnings. The current \$7,500 retiree death benefit is funded on a \$2,500 basis as a means to slow the growth of the SDB Fund. During the next actuarial experience study in 2019, the mortality rates, timeframe for valuing the full \$7,500 retiree benefit, and the appropriate reserve level of the SDB Fund would be reviewed. Recognition of the full \$7,500 retiree benefit in determining contribution rates will also eliminate some anomalies created for financial statement reporting purposes under GASB 75.

Ms. Hardy discussed the cost of increasing the retiree benefit to \$10,000. If the benefit amount was increased to \$10,000 with no change in the funding policy (i.e. contributions determined at \$2,500 basis), the SDB Fund balance would deteriorate even more rapidly. If the funding policy was changed to reflect the full \$10,000 benefit, the retiree SDB rate would quadruple. The Board may want to consider postponing any retiree SDB increase to a future legislative session to allow time for the SDB funding policy analysis as part of the 2019 Experience Study.

The historical and current funding approach for ad hoc adoptions of Updated Service Credit (USC) and COLAs was discussed next. Mr. Randall reviewed the circumstances leading up to GRS’ recommendation of shortening the amortization period for ad hoc benefit increases to 15 years, using a level dollar approach. This keeps funding of these benefits sustainable over time as a “stand alone” financial arrangement. Contributions are received before benefit payments are made and funding will never be “under water”. This approach is reviewed each year and is still an appropriate approach, but it will be reviewed in the 2019 Experience Study along with all other actuarial assumptions.

Mr. Randall next discussed the substantively automatic benefit criteria used under GASB 68 and how regular adoption of ad hoc COLAs must be reported on the financial statements. The impact on both contribution rates and funded ratios for ad hoc adoptions was reviewed. Discussion centered on the difference between the numbers for financial reporting versus different numbers for funding. Mr. Randall highlighted the projected contribution pattern and total cumulative contributions for ad hoc versus annually repeating COLA funding.

Ms. Hardy discussed staff procedures for ad hoc benefit adoptions and pointed out that there has not been a big shift in the number of cities adopting ad hoc benefits.

Mr. Philibert suggested that with revenue caps on the horizon for cities, TMRS may need to increase education on ad hoc benefit adoptions.

The last item for discussion was the COLA coverage, both with and without the “catch-up” provision. Ms. Hardy showed the comparative analysis of the cost increases of the different provisions.

Mr. Parrish asked if there were any other benefit items that are being watched by staff. Currently, there are no other items. Mr. Randall added that the one item GRS is watching are the changes to the Actuarial Standards of Practice (ASOP).

Mr. Philibert asked if there are any legal issues regarding ad hoc funding. There were no legal issues to discuss.

3. Review and Discussion of the TMRS Act Review and Next Steps

Mr. Gavia introduced Mr. Wattles and Ms. Sweeney to discuss the status of the TMRS Act Project since the last Board meeting. Mr. Wattles noted that a meeting of the Advisory Committee on Benefit Design (“Advisory Committee”) is scheduled for November 15, 2018. The Legislative Committee met in October and Mr. Philibert updated the Board on several items.

The three proposed benefit provisions were discussed. Mr. Lewis, with Ron Lewis and Associates, provided additional feedback on the political climate of the upcoming Legislative Session. He indicated from his perspective, there appears to be limited support for benefit bills at this time. With regard to administrative items, which are generally not anticipated to be controversial, some legislators may be supportive of sponsoring a bill for the System.

Mr. Landis indicated the Advisory Committee is scheduled to meet and they will discuss the three benefit items. However, he also indicated the Committee does not have to meet if the benefit items are not moving forward.

Ms. Sweeney reviewed the administrative items, including some that could potentially be considered “high profile”. She noted that any proposed amendments to the definition of “security” could be a high profile item simply because it relates to investments. The mitigating factor is that the proposed changes would be consistent with what other statewide systems already have in place. Another potentially high profile item was the amortization

period provisions, not because of the nature of any changes being proposed but rather simply because the topic of amortization periods in public pensions has been a “hot topic” in recent years.

The remaining administrative items were discussed and Ms. Sweeney described any portions of those items that might be considered high profile.

The Board directed Staff to go forward with the administrative items, but the amortization provisions should be reviewed with appropriate legislators to find out if it might be considered controversial. After such discussions, this will be at the discretion of Mr. Wattles and Mr. Lewis if staff should move forward or delete the amortization provisions.

With regard to the benefit proposals, the Board made a preliminary decision not to pursue legislative changes but would like to have these items discussed at the November 15th Advisory Committee meeting before making a final decision with regard to any possible bills for the upcoming legislative session.

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

Mr. Masthay, Mr. Schultz and Mark White from Albourne America presented Real Return manager recommendations. The proposed recommendation is for four managers and seven investment vehicles (five primary funds and two co-invest vehicles) to the Real Return portfolio representing an additional \$575 million in commitments. Total Real Return allocation activity for 2018 is \$650 million, on pace to be within the approved range of targeted pacing of \$400 - \$800 million.

The first manager recommendation is a manager re-up. Sprott Investment Corporation (Sprott) is a Toronto, Ontario based publically traded company focused on public and private markets resource investing. Sprott Resource Lending Fund II focuses on making debt and related investments to lower to middle market portfolio companies and their projects principally in minable natural resources.

The next manager recommendation is InstarAGF (Instar). InstarAGF Essential Infrastructure II & Co-Invest is a North American focused infrastructure fund investing in middle market assets that have \$100 million to \$1 billion in enterprise value. The portfolio will consist of three primary categories of infrastructure: Energy, Utilities, and Civil. Mr. Schultz discussed the team growth since the prior fund.

The next recommendation is Natural Gas Partners (NGP), which has an investment strategy that targets companies that operate in lower risk segments of the energy industry, focusing on acquiring and operating assets in the core areas of key US oil and gas basins. NGP has a quality track record and has performed at a meaningful spread to public markets.

The next recommendation is Global Infrastructure Management, Inc. (GIP), which is an infrastructure specialist asset manager focused on energy, transport, water and waste industries. The \$200 million recommendation will be split into three pieces: GIP Spectrum Fund, GIP Capital Solutions and GIP Capital Solutions Co-Invest. GIP Spectrum Fund

pursues slightly lower cost opportunities with BB rated firms looking for more senior level debt to finance acquisitions or refinance other debt. The Capital Solutions fund pursues higher returning opportunities with B rated firms looking for highly structured capital to fund growth and/or greenfield expansion.

Mr. White discussed why investing in these vehicles make sense. He reviewed market conditions and the mitigation of vintage year risks. He reviewed the co-investment and other physical assets of these co-investments. The stability of the oil market in Texas and how these factors play into these investments was discussed.

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 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)
Sprott Private Resource Lending II (US), LP (Sprott)	Private Real Return	\$100 Million	Yes
Instar AGF Essential Infrastructure II & Co-Invest (Instar)	Private Real Return	\$100 Million (Fund) \$50 Million (Co-Invest)	Yes
NGP Natural Resources XII, L.P. (NGP)	Private Real Return	\$125 Million	Yes
GIP Spectrum Fund, L.P. (Spectrum)	Private Real Return	\$75 Million	Yes
GIP Capital Solutions Fund II (Parallel), SCSp & Co-Invest (CAPS)	Private Real Return	\$75 Million (Fund) \$50 Million (Co-Invest)	Yes

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

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

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

Mr. Masthay and Tom Hester from StepStone presented the Real Estate manager search recommendation. The proposed recommendation is to add one manager relationship (Transwestern) to the portfolio, otherwise identified as a Strategic Relationship, constituting a fund investment, associated co-investments, and a separately managed account in a combined total amount of \$250 million, bringing the total real estate allocation activity for 2018 to \$475 million, in excess of the Board-approved pacing plan for 2018 of up to \$400 million. As a result, it was also recommended that the Board revise its real estate pacing plan to reflect a targeted deployment level of up to \$500 million for 2018. Mr. Masthay discussed portfolio management initiatives and how this manager recommendation would add alpha to the portfolio.

Transwestern is a vertically integrated real estate company comprised of three different business units: (i) Transwestern Investment Group (TIG); (ii) Transwestern Commercial Services; and (iii) Transwestern Development Company, the real estate development operation. The recommended commitment is for up to \$250 million, which would be about 10% of the total real estate portfolio. This structure enables TMRS to invest with a vertically integrated firm across multiple costs of capital structures.

Mr. Hester stated that StepStone was behind this manager recommendation.

Mr. Masthay explained the recommendation would be \$75 million for the fund investment and \$175 million into the separately managed account where the SMA is most likely to be structured as a Fund-of-One structure, similar to structures which have been used in the Non-Core Fixed Income portfolio.

Ms. Oakley asked if there is appropriate staffing to handle this relationship. Mr. Masthay indicated there is and discussion followed about key-man risk. Mr. Carlson discussed how the fee structure would benefit TMRS.

Mr. Philibert 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)
Transwestern Investment Group (“TIG”) Strategic Relationship	Core, Value-Add Real Estate, Opportunistic Real Estate	Up to \$250 Million in Invested Capital*	Yes

- (ii) In conjunction with such allocations, the Board revise its real estate pacing plan to reflect a targeted deployment level of up to \$500 million for 2018;
- (iii) Approve and incorporate by reference for all purposes the Board Standard Investment Authorizations for each such investment allocation, and authorize that the Acquisition and Operating Expenses (as defined below) in a separately managed account or “fund of one” vehicle with the investment manager are exclusive of the Invested Capital allocation and may be paid through cash flow of the investment, capital calls, or via invoice.

* Invested Capital is defined as TMRS capital used to acquire assets, and not any expenses, fees or other costs that may be associated with acquisition, operation, management, or disposition of such assets, or the operational expenses typically associated with formation and management of an investment fund (collectively “Acquisition and Operating Expenses”).

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

6. Consider and Act on Absolute Return Manager Search Recommendation(s)

Mr. Leavitt, Mr. Notaro and Mr. Smith from Albourne presented the manager recommendation for Absolute Return. Symmetry International Fund Limited is a feeder fund in a master-feeder structure managed by Symmetry Investments LP. The team marries relative value investments with diversified global macro trading into a single strategy. The scope of the strategy includes yield curve, asset swaps, cash futures basis, duration, money market basis, rates/FX/equity index volatility and other relative value and macro strategies in credit, FX and equities. This is a very complex portfolio with a high Sharpe Ratio. The majority of the managers in our portfolio are not correlated with Symmetry. It is a unique return stream, which will potentially increase alpha and preserve capital in the direct portfolio.

Mr. Notaro reviewed the investment case and issues to watch. Mr. Carlson noted that we are well within the IPS lock up limits.

Mr. Smith discussed Albourne’s views on this fund and Mr. Leavitt discussed key-man risk. Ms. Oakley moved that the Board approve the following:

- (i) Authorize the following allocations, 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)
Symmetry International Fund Limited	Relative Value	\$150 million	Yes

- (ii) 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.

7. Executive Session

At 5:00 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 5:36 p.m. and all members of the Board that were present before the Executive Session were still present.

At 5:36 p.m. the meeting was recessed until 9:00 a.m. on Friday, October 26, 2018.



David Gavia
Executive Director



Jim Parrish
Chair, Board of Trustees

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

October 26, 2018 - 9:00 a.m.

On October 26, 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
David Landis
Julie Oakley
Jim Jeffers

Absent: Jesus Garza

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 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
Mike Elio, StepStone Group

Also in attendance:

Eric Obermier, Assistant Director of 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

Sean Thompson, Regional Manager – City Services
Melanie Thomas, Process and Content Management Specialist
Andi Focht-Williams, Senior Internal Auditor
Peter Jeske, Project Specialist
Eddie Schultz, Investment Manager
Cindy Morse, Investment Support Analyst
Debbie Farahmandi, Investment Operations Specialist
Sally Case, Investment Operations Manager
Geldon Vllahu, Investment Operations Analyst
Susan Jaques, Investment Performance Analyst
Kurt Cressotti, Compliance Officer
German Gaymer, Fixed Income Analyst
Jacob Bowland, Fixed Income Analyst
Kevin Notaro, Absolute Return Analyst
Yvonne Huang, Real Assets Analyst
Pete Krnavek, Information Systems Manager
Brian Farrar, Network Operations Manager
Kenneth Oliver, Actuarial Analyst
Greg Shipley, Combined Law Enforcement Associations of Texas
David Riggs, Texas State Association of Fire Fighters
Mike Gilchrist, City of Arlington

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

8. Review and Discussion of the Preliminary 2019 Operating Budget

Mr. Gavia introduced Ms. Covarrubias, Mr. Willrich and Ms. Ritter to present the 2019 preliminary operating budget. Ms. Covarrubias explained the internal process of obtaining requests from each functional department, which resulted in the proposed budget. She stated that this year the document was prepared using a new web based product, W-Desk. W-Desk was used for the 2018 Comprehensive Annual Financial Report (CAFR) and this was the first year implementing the new system for the 2019 Budget.

Ms. Covarrubias began by reviewing the 2018 accomplishments to-date:

Two significant Request for Proposals (RFPs) were completed in 2018 and selections were made. New compensation structures for TMRS staff and other benefit-related initiatives from the Employee Engagement survey were implemented. GASB Statement 75 (OPEB) was also implemented. TMRS is moving closer to investment target allocation with continued portfolio diversification.

Ms. Covarrubias then discussed the goals in the Strategic Plan and indicated that she would point out initiatives that align the 2019 budget with the Strategic Plan. Goal 1 refers to the financial stability of the Plan and includes the proposed actuarial expenditures, including funds in 2019 for the Experience Study (conducted every four years). The TMRS Act Review Project was also highlighted and it was then noted that the Board will determine its legislative agenda late in 2018. Goal 2 relates to customer service and communication. The

efforts regarding Straight-Through-Processing were reviewed as well as funding for the Pension Administration System (PAS) review. Goal 3 identifies and implements the best governance and management structures; this goal includes funds in the professional services category for co-source audit engagements to be managed by the TMRS internal auditor. Goal 4 refers to the culture within TMRS and includes objectives to address employee development. The 2019 proposed budget includes funds for succession planning, leadership development/training, and employee engagement.

Ms. Covarrubias then compared the 2018 budget with the proposed 2019 budget; the budget percentages for the five major categories remain stable. Proposed 2019 administrative and capital expenditures are \$32.5 million, of which \$2.3 million is for “new” items/projects.

Personnel Services continues to be the largest category at approximately 55% of the total budget. The 2019 budget includes funding for five new positions, one of which is part-time (receptionist). A merit increase averaging 4% is also included, as well as the same benefits package for employees.

Professional services is the second largest category at 31% of the total proposed budget. This category includes \$1 million in “new” funds for consulting and online services. Descriptions of the new items are included in the budget document, and include funds for the Pension Administration System assessment, an expert quality assurance/testing resource, the CEM benchmarking study and digital identity verification services (listing here is not all inclusive).

Rentals and Equipment Maintenance is 4% of the proposed budget with “new” data processing line items relating to additional Oracle database licensing and CrowdStrike Endpoint Protection & Endpoint Detection/Response.

The Miscellaneous category is 5% of the total proposed budget. It captures items requested by all departments that support employees’ professional growth (association/membership dues, subscriptions, publications, and training).

Capital Expenditures includes funds for furniture, replacement of the TMRS vehicle and an additional host/physical VMware server.

New personnel requests were then discussed. Originally, ten positions were requested and five were approved by Mr. Gavia for inclusion in the budget, one of which is part-time. The rationale for these positions was reviewed.

The final proposed budget for 2019 will be presented at the December Board meeting to include an overall review/estimate of the 2018 expenses, possible adjustments to the requested funds and five-year projections for personnel and line-item expenses.

9. Review and Discussion of Proposed Budget Committee Charter

Ms. Sweeney reviewed the history and timeline of the proposed Budget Committee Charter. There are five committees of the Board to assist them with fulfilling their fiduciary duties:

the Advisory Committee on Benefit Design, the Internal Audit Committee, the Legislative Committee, the Budget Committee, and the Compensation Committee.

The proposed Budget Committee Charter provides that the purpose of the Committee is to assist the Board in fulfilling its oversight responsibilities with respect to the annual budget process and any special assignments relating to TMRS budget matters.

The draft Budget Committee Charter also includes an optional provision relating to the Compensation Committee.

The Board generally agreed with the draft Budget Committee Charter and indicated it should be brought back for final approval at the next Board meeting.

10. Review and Discussion of Proposed Compensation Committee Charter

Ms. Sweeney reviewed the proposed Compensation Committee Charter. The Compensation Committee ("Committee") would assist the Board in fulfilling oversight responsibilities with respect to the System's compensation policies.

The proposed Charter also includes two *optional* purposes for the Board's consideration, which are (i) compensation policies for succession planning goals and objectives, and (ii) the annual budget line-item for staff compensation. The Committee members have individually reviewed and provided comments on prior drafts of the Charter, but did not hold a meeting to discuss the Charter.

Ms. Oakley asked for clarification on the Committee's role with regard to employees that report to the Board. She also requested clarification regarding how the Compensation Committee will deal with time sensitive compensation issues.

The Board discussed succession planning concepts and if they should be at the Board or Committee level.

11. Review and Discussion of Annual Proposed Investment Policy Statement Revisions

Mr. Carlson presented the proposed changes to the Investment Policy Statement (IPS). Investment Staff evaluates the IPS on an ad hoc basis throughout the year and then comprehensively every fall, in order to propose revisions that clarify existing policies or enhance and improve staff's ability to manage the investment program.

The only major change is granting/delegating "follow-on fund" authority to the Executive Director. This section was built on the same concept as the co-investment authority, giving the Executive Director the authority to enter into follow-on funds, for managers the Board of Trustees have already approved, within certain limitations as specified in the IPS.

On page 10 of the draft IPS, specific language was added to the authorized activities of transition managers to conform with Board approvals given at the September 2018 Board meeting to allow transition managers to manage assets, on an interim basis, in certain circumstances.

The public equity benchmark was updated to one that reflects a Global Equity target allocation as was presented in the 2018 Asset Allocation study. The US/non-US benchmark was changed to MSCI-ACWI-IMI (Net).

It is recommended that the long term goal for the Absolute Return Strategies be revised to change the alpha target from 500 basis points to 400 basis points, consistent with structural market changes and expectations.

Mr. Gavia requested clarification regarding the amendment concerning follow-on funds. All documentation and activities would remain the same. This process will simply be more efficient use of the Board's time. It was requested that more clarity be added regarding changes in authorized commitment amounts, as well as clarity on the term "positive" as it relates to manager review. It was suggested to use the terms "in good standing or better".

Staff and RVK recommended reducing the minimum required exposure to each sub-asset class within the ARS portfolio to 0% in order to not force TMRS into a portfolio holding that Staff and RVK do not think is in TMRS best interest. They also recommend making the maximum targets consistent for all sub-asset classes within ARS at 35% (except CTA's). This will be reviewed for the December Board meeting.

A definition for Global Equity benchmark will also be added.

12. Private Equity Annual Asset Class Review

Mr. Schelling, Mr. Teneriello and Mr. Elio from StepStone presented the annual Private Equity asset class review. The annual review process holds staff accountable for its portfolio management process in order to preempt potential problems. Mr. Schelling reviewed the Private Equity initiatives that have been accomplished as well as the Private Equity commitment timeline.

Members of the Private Equity team were highlighted. Mr. Schelling discussed the number of meetings taken since 2015. All managers' relationships and one consultant relationship were assessed and are in compliance with relationship governing documents. He noted that 23 of the 24 managers are in good standing and Staff is working with the one manager that had a fair rating.

The primary goal of the annual review presentation is to discuss the Private Equity portfolio and its construction relative to IPS stated performance goals and implementation objectives. The asset class objectives were discussed. With only three years in, the portfolio is at or near the objectives. The managers are in compliance with IPS valuation policy requirements.

The role and characteristics of the benchmark was discussed and Mr. Schelling noted the differences between Public Equity Plus Premium and Fund Index Benchmark and Absolute Return or Peer comparison.

Mr. Teneriello reviewed the Private Equity performance across the various strategies. TMRS is not only out performing its peers, but also various benchmarks over one and three year periods. Mr. Teneriello discussed the J-Curve expected in Private Equity as well as the realized J-Curve performance.

Mr. Elio discussed vintage year diversification, performance of the fund, sub strategies within the portfolio, and deployment pace. The current state of the Private Equity market was highlighted and Mr. Elio noted fund raising is getting back to pre-Great Recession volumes. Valuations are remaining stable and the performance in Private Equity has done what it is supposed to do across all regions and benchmarks. The historical and expected risk/return performance was discussed as well as the pacing plan.

The Private Equity agenda for 2019 was reviewed and the agenda includes: 1) up to \$525 million in commitments, 2) continuing to map European private equity market and the search for new GP relationships, 3) continuing to investigate co-investments, and 4) continuing FIRCAP initiative.

Mr. Schelling discussed the Permanent Capital Partnership and the FIRCAP initiative.

(Mr. Landis left the meeting at 12:00 p.m.)

In conclusion, substantial progress has been made towards its strategic Private Equity objectives. Interim measures of performance are very strong, but it remains too early to be certain. The market has become increasingly competitive and the Private Equity team will try to continue to be a thought leader. Governance and policies should evolve accordingly.

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 300 meetings in the third quarter. Mr. Carlson mentioned that since the quarterly investment staff report includes some of the same information included in RVK's quarterly investment report, a decision was made to revise the Staff Report to only include non-duplicative information, including but not limited to proposed agenda schedule updates as well as pacing, compliance and risk updates, and will be presented as part of the CIO Management Update. Compliance review shows all areas in in good standing. Year-to-Date returns were also reviewed. RVK will continue to present their full quarterly investment performance report as scheduled.

14. Executive Director Update

Mr. Gavia indicated that the second annual Employee Engagement Survey has been completed. The results should be available in the near future.

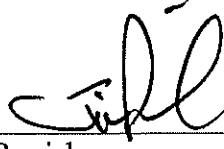
15. Call for Future Agenda Items

Ms. Oakley asked when the major policy review will begin. A plan is being developed for review. Ms. Oakley also asked for general investment education sessions on broader topics, and in small, more manageable pieces. Mr. Landis will provide feedback to the Board at the December meeting regarding the upcoming meeting of the Advisory Committee on Benefit Design.

There being no further business, the meeting was adjourned at 12:13 p.m.



David Gavia
Executive Director



Jim Parrish
Chair, Board of Trustees