

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

June 25, 2020 – 1:00 p.m.

On June 25, 2020, the Board of Trustees (Board) of the Texas Municipal Retirement System (TMRS) convened for a meeting at 1:00 p.m. at TMRS Headquarters, located at 1200 North IH 35 in Austin, Texas, with the following members present:

Board of Trustees

Bill Philibert, Chair
David Landis, Vice Chair
Julie Oakley
Jesús Garza
Anali Alanis
Johnny Huizar

Present also were:

David Gavia, Executive Director
Eric Davis, Deputy Executive Director
TJ Carlson, Chief Investment Officer
Christine Sweeney, General Counsel
Rhonda Covarrubias, Director of Finance
Dan Wattles, Director of Governmental Relations
Karen Jackson, Executive Assistant
Chris Gillis, Network/Systems Administrator
Joe Roberts Network/Systems Administrator
Marcia Beard, RVK
Jason Ostroski, CLA
Ron Lewis, Ron Lewis & Associates
Patricia Shipton, Ron Lewis & Associates
Lisa Kaufman, Davis & Kaufman
Denise Davis, Davis & Kaufman

Present via video conferencing:

Bill Wallace, Director of Communications
Leslee Hardy, Director of Actuarial Services
Debbie Munoz, Director of Member Services
Scott Willrich, Director of Information Resources
Jesse Pittman, Senior Project Manager
Sandra Vice, Director of Internal Audit
Leslie Ritter, Director of Human Resources
Michelle Mellon-Werch, Assistant General Counsel
Candace Nolte, Assistant Finance Director

Mr. Philibert called the meeting to order at 1:00 p.m. and Mr. Landis gave the invocation.

1. Consider and Act on Consent Agenda and Receive Report on Private Market

Investments

The Consent Agenda included minutes from the May 28, 2020 meeting. There were no questions on the minutes. The Report on Private Market Investments is included as an informational only report required as part of the new investment approval process contained in the amended Investment Policy Statement (IPS), dated effective February 15, 2020.

Mr. Landis moved that the Board adopt the Consent Agenda. Ms. Alanis seconded the motion, which passed 5-0. (Ms. Oakley was not present.)

2. Consider and Act on 2020 Work Plan

Ms. McDuffee presented the proposed 2020 Board Work Plan and the purpose of this discussion which was to respond to any additional questions the Board had and seek approval, with flexibility, of the Board and Committees' work for the remainder of the 2020 calendar year. The Work Plan is a forward-looking, general scheduling tool that links a full year of the Board's work to the broader Strategic Plan and Board priorities. This will be an on-going process and approved with flexibility prior to the start of each year. The Work Plan may be viewed as a centering point and a general direction since agendas can and do change.

(Mr. Garza left the room at 1:18 p.m.)

Ms. McDuffee reviewed the proposed partial year 2020 Work Plan and presented questions for the Board's consideration. She requested feedback from the Board. Mr. Philibert asked that the TMRS Mission, Vision and Values also be included. Mr. Gavia noted that the Work Plan would be kept in the Diligent Resource Center and would be a living document.

Mr. Landis requested the Board meeting dates be added to the Work Plan, along with the Mission, Vision and Values.

Ms. Alanis moved that the Board adopt the 2020 Partial Year Board/Committee Work Plan, with flexibility for it to be updated or changed without further Board vote. Mr. Huizar seconded the motion; which passed 4-0. (Ms. Oakley and Mr. Garza were not present.)

3. Discussion of Investment Beliefs

Ms. McDuffee and Ms. Beard continued the discussion about reviewing and updating the existing Investment Beliefs found in the Board's IPS. Ms. McDuffee reviewed that the overall goal for the Investment Beliefs Project is to arrive at Board consensus on eight to twelve investment belief statements encompassing four categories. Once the Investment Belief Statements are finalized, they will be incorporated into the IPS. This discussion is seeking consensus, but it is not an action item.

In the Investment Policy and Governance category, there are five subtopics: 1) Mission, Vision and Strategic Objective, 2) most effective use of the Board's time, 3) Governance; 4) Investment Authority, and 5) Roles and Responsibilities. Most of these statements were reviewed at the last Board meeting and Ms. McDuffee and Ms. Beard were looking for the Board to provide consensus to move forward.

At the beginning of the project, Board members and certain TMRS Staff had completed a Survey on various investment related topics. Ms. Beard discussed Survey Question 1 and the Board's responses indicated a high degree of similarity while Survey Question 2 showed some similar views. She presented the recommended Investment Belief Statement for this category. Mr. Philibert suggested foregoing this statement since it is already reflected in the IPS.

Survey Question 3, regarding the best and most effective use of the Board members' time, indicated a high degree of similarity with regard to prioritizing the activities. Survey questions regarding responsibilities and delegation showed some similarity. Ms. Beard presented the recommended Investment Belief Statement for this category, and Mr. Huizar and Mr. Philibert agreed with the statement. Mr. Klausner noted that the proposed statement meets the Board's fiduciary role. A suggestion was made that the new Board members should also be provided, and asked to complete, the Survey.

(Ms. Oakley joined the Board meeting at 1:45 p.m.)

Ms. Beard reviewed two options for the Governance related Investment Belief Statement, Option A and Option B. After discussion, the Board arrived at a consensus for Option B.

The Survey questions for Investment Authority indicated some and limited similarity of views. The recommended Investment Belief Statement was discussed and it was suggested that the statement should be more about the process.

Regarding the Survey questions on Roles and Responsibilities, there were limited similarity of views. Ms. Beard felt that the recommended Investment Belief Statement addressed the process issues from the previous category. After discussion, the Board indicated the Investment Belief Statement should be brought back at the next Board meeting.

(Mr. Garza rejoined the meeting at 1:58 p.m.)

Ms. Beard concluded with a brief discussion of Sustainability – Environmental, Social and Governance (ESG) factors. To prepare for an in-depth ESG discussion, the Board will receive more information and education on this topic at a future Board meeting. A few questions to consider were also highlighted. Ms. Sweeney noted that the Department of Labor recently issued new guidance on ESG investing in ERISA plans.

4. Consider and Act on Proposed TMRS Rule Amendments

Ms. Sweeney continued the discussion on the TMRS Strategic Plan objective to "Develop and Promote Legislation and Rule Amendments to Clarify Certain Aspects of the TMRS Act"

(Goal 1, Objective C). This initiative is designed to identify possible statutory or rule changes that would improve TMRS' plan design and operations and to determine whether to initiate legislation.

Ms. Sweeney summarized the presentation at the May 28, 2020 Board meeting, which covered the first part of the proposed revisions to Chapter 123 – Actuarial Tables and Benefit Requirements of the TMRS Board Rules. The Board approved the first part of the proposed changes to the Chapter 123 rules at the May meeting.

Ms. Sweeney next introduced the second part of the proposed changes to the Chapter 123 rules. Section 855.102 of the TMRS Act allows the Board of Trustees to adopt rules it finds necessary or desirable for the efficient administration of the System. Other provisions of the TMRS Act also allow the Board to adopt rules for a variety of purposes. All of the rules proposed today are new rules. However, most of the proposed new rules are not creating new processes but instead are establishing formal administrative rules to reflect and clarify existing TMRS statutory interpretations and administrative practices.

Ms. Mellon-Werch discussed the proposed new rules in more detail. First is a rule reflecting TMRS definitions of compensation, department, and spouse for purposes of the TMRS Act. The next rule clarifies the requirements of a bona fide termination of employment for the payment of benefits by the System, including the requirement that there be no pre-arrangement to return to work or otherwise continue providing services to the employing municipality. The third proposed rule sets forth TMRS' longstanding interpretation of the return to work provisions in the TMRS Act. The next rule relates to the granting of restricted prior service credit and its impact the vested status of a member.

Ms. Mellon-Werch continued summarizing five more rules regarding: the payment of amounts due on the death of retiree or annuitant; provisions regarding when a beneficiary causes the death of a member or annuitant; the calculation of member supplemental death benefits in certain circumstances; certain proposed limitations on changes to a retiree's partial lump sum distribution selection; and the use of affidavits of heirship.

Ms. Alanis requested clarification on the proposed rule impacting changes to PLSD selections. Ms. Sweeney explained the statutory requirements related to making changes to selected annuity and PLSD options before the first annuity payment is made and the impact on administrative processes regarding PLSDs, specifically with respect to changes where there has been a rollover of a PLSD payment. Ms. Munoz explained the frequency of change requests and the situations subject to the proposed rule. Ms. Alanis requested additional information to better understand the limitations on choices for members prior to approving the rule.

Ms. Alanis made a motion that the Board authorize the Executive Director, or his designee, (i) to submit the proposed repeal of Chapter 123 and adoption of new Chapter 123 of the TMRS Rules presented to the Board to the Governor's Office for review; except for proposed rule that included the PLSD limitations and subject to any changes recommended by outside tax counsel, (ii) to make non-substantive changes to the proposed Chapter 123 rules that might be

suggested by the Governor's staff; (iii) once the Governor's Office review is complete, to file the proposed repeal of Chapter 123 and proposed new Chapter 123, except for proposed rule that includes the PLSD limitations, with the *Texas Register* for publication (with any final adoption of the amended rules to take place at a later Board meeting), and (iv) to make non-substantive changes to the proposed rule amendments as necessary or desirable to renumber the rules as described to the Board and/or conform the rule amendments to *Texas Register* requirements.

Mr. Landis seconded the motion; which passed 5-0. (Mr. Garza was not present.)

5. Receive Report on 2019 Financial Statement Audit Results; System and Organization Controls (SOC) Audit Results; and Auditor Report to the Board of Trustees (SAS 144)

Mr. Ostroski from CliftonLarsonAllen LLP (CLA) presented the results of the financial statement audit for the year ended December 31, 2019. In addition, CLA completed and reported on the System and Organizational Controls (SOC) audit for the period covering May 1, 2019 through April 30, 2020.

Mr. Ostroski provided a brief overview of the teams working on the financial and SOC audits and reviewed the changes to the process with regard to the needs demanded by the COVID-19 pandemic. While some things have been done differently, the quality of the audits have remained the same.

The financial statement audit received an unmodified "clean" opinion. Mr. Ostroski noted limited procedures were performed, and no opinion rendered on Management's Discussion and Analysis, Required Supplementary Information and the Introductory, Investment Actuarial and Statistical sections of the CAFR. Limited procedures were performed and an "in relation to" opinion ("clean" unmodified) was rendered on the supplementary schedules.

Mr. Ostroski noted the Schedule of Changes in Fiduciary Net Position by Participating Municipality is presented fairly, in all material respects, in conformity with U.S. Generally Accepted Accounting Principles (GAAP). An unmodified "in relation to" opinion was received on the individual employer information in the Schedule.

The SOC-I Type 2 Audit resulted in an unmodified "clean" opinion that controls implemented by TMRS were fairly presented, adequately designed, and operating effectively to meet stated control objectives for the period May 1, 2019 through April 30, 2020. There were no exceptions noted on any of the control objectives.

Mr. Ostroski reviewed the required governing body communications (SAS 114) with no significant items to note. Mr. Landis asked if there was any reluctance in making these statements due to the remote work done. Mr. Ostroski answered there was none and discussed the processes that were used to conduct the walk-throughs and interviews with staff.

(Mr. Garza returned to the meeting at 3:00 p.m.)

Mr. Ostroski then gave an overview of the data analytics performed, which look for anomalies in the data. He reviewed the data analysis methodology and highlighted the analytics and test ideas that were developed. He noted that no identified anomalies were unresolved. He also noted that Staff displayed a strong understanding of the underlying data.

Mr. Ostroski concluded with a few highlights from the 2019 Comprehensive Annual Financial Report.

6. Receive and Approve Distribution of 2019 Comprehensive Annual Financial Report (CAFR)

Ms. Covarrubias and Ms. Nolte presented this overview of the 2019 Comprehensive Annual Financial Report (CAFR). Ms. Covarrubias thanked everyone involved in the development of the CAFR. The CAFR has been prepared in accordance with Generally Accepted Accounting Principles (GAAP), the Government Finance Officer Association (GFOA) Certificate of Achievement program guidelines, and all applicable Governmental Accounting Standards Board (GASB) requirements. TMRS has received the GFOA Certificate of Achievement for Excellence in Financial Reporting for thirty-two consecutive years and also received an award from the Public Pension Coordinating Council.

Ms. Covarrubias first noted that there are five sections required by GFOA to be in the CAFR. She noted that the CAFR is dedicated to Mr. Gavia in honor of his retirement. She began by reviewing the items included in the Introductory Section, noting highlights in the transmittal letter which includes activities and accomplishments in 2019, as well as brief funding and actuarial overviews. Other items within the Introductory Section include TMRS' Board of Trustees, and a Summary of the TMRS Plan Provisions.

The Financial Section includes the Independent Auditor's Report and Management's Discussion and Analysis. This section also includes the Statement of Fiduciary Net Position (Balance Sheet) and Statement of Changes in Fiduciary Net Position (Income Statement); these statements have columns for both the Pension Trust Fund and the Supplemental Death Benefits Fund. Ms. Nolte reviewed several items on the Statement of Changes in Fiduciary Net Position. A significant portion of this section are the notes to these financial statements. She highlighted critical notes of interest to the readers regarding Fair Value of Investment and Investment Risks. The section concludes with Required Supplementary Information and several supplemental schedules. There were no GASB statements requiring new notes, but a statement on COVID-19 was added since it was considered a subsequent event.

The third section is the Investment Section. This section provides a report on investment activity (from RVK), Outline of Investment Policies, Asset Allocation as of year-end, Summary of Investments, 2019 Investment Results and a Schedule of Investment Expenses. Ms. Covarrubias mentioned the modification of how fees are reported, which was changed to meet the Pension Review Board's reporting standards for consistency of data across Texas public pension systems.

Ms. Covarrubias then noted that there were no changes in the Actuarial Section from the preceding year, other than updated actuarial assumptions, which were adopted by the Board

and first implemented with the December 31, 2019 valuation. This section includes certifications from GRS for both the Pension Trust and Supplemental Death Benefits Fund.

The final section is the Statistical Section which is presented consistent with the provisions of GASB Statement 44 (Economic Condition Reporting). Ms. Covarrubias reviewed several of the tables and graphs included in this section. She highlighted Additions and Deductions over the past ten fiscal years for the Schedule of Changes in Fiduciary Net Position (graphically), and also highlighted the Schedule of Average Benefit Payments, Retired Members by Type of Benefit, and the Schedule of Principal Participating Employers. This section concludes with the Plan Provisions for Participating Municipalities.

The CAFR will be added to the TMRS website as soon as the Board approves distribution, along with the Schedule of Changes in Fiduciary Net Position (by Participating Municipality), and will be submitted to the Government Finance Officers Association certificate program.

Ms. Oakley moved that the Board approve distribution of the 2019 Comprehensive Annual Financial Report and the 2019 Schedule of Changes in Fiduciary Net Position (by employer) to TMRS member cities and interested parties. Mr. Huizar seconded the motion; which passed 6-0.

7. Consider and Act on Governmental Relations Consultant Recommendation

The 2018-2022 TMRS Strategic Plan includes an objective to “Create and Implement a Process for the TMRS Board of Trustees (Board) to Review the Role of its Current Consultants” (Goal 3, Objective B). The purpose of the objective is to follow best governance practices and review the relationship the Board has with its consultants on a regular basis. Mr. Wattles provided an overview of the search process for a Governmental Relations consultant, including issuing a Request for Information (RFI), evaluating the responses to the proposal, and scoring. The two finalists selected were Davis Kaufman PLLC and Ron Lewis & Associates.

Ron Lewis and Patricia Shipton presented on behalf of Ron Lewis & Associates. Mr. Lewis discussed his experience and that of Ms. Shipton. He highlighted her experience working both in and around the Legislature. He reviewed his service in the Legislature and his long-standing history with TMRS. Mr. Lewis has been the Board’s Governmental Relations Consultant since 2002 and has assisted with passage of four TMRS bills. He noted that TMRS has one of the best reputations of any of the statewide systems. Mr. Lewis does not represent any other pension system or any municipal clients to prevent conflicts of interest.

Ms. Oakley asked if there is anything during any of the past Legislative sessions that we should have done differently. Based on our success rate of passing four bills and the positive addition of the Advisory Committee on Benefit Matters, Mr. Lewis felt that nothing should have been done differently.

Mr. Philibert asked what we should do going forward and Mr. Garza asked about other pension funds’ philosophy and approach. Mr. Lewis indicated that building relationships with the Legislators is critical and that it takes time to get to know the Legislators during the interim.

Ms. Shipton noted relationships are important, but having a strategy and drilling down into the policy is also important.

Denise Davis and Lisa Kaufman presented on behalf of Davis Kaufman PLLC. Ms. Davis reviewed her professional background. Ms. Kaufman discussed her history, as well as introducing their other team members, Jack Drews and Wendy Wilson, who were not present. Ms. Davis reviewed the firm's substantive practice areas: bill drafting; legislative monitoring and reporting; legislative strategic advice and consulting; and, parliamentary expertise. Ms. Kaufman discussed their pension experience, their philosophy, building relationships and creating "friends" of TMRS. COVID-19 is going to create a dramatic change in how things are done inside the Capitol, so it will be important to have a strategic plan. It is possible there will be substantial changes in the House. The State Budget is going to be a driving factor and have overarching impact on the session, with Redistricting being the other big factor. There also is a new Chair of Senate State Affairs Committee.

Mr. Philibert asked about TMRS' reputation in the Legislature. Ms. Kaufman answered that TMRS has a positive reputation. Kaufman Davis does not represent any cities. Mr. Philibert asked if relationship or strategy is more important. Ms. Kaufman answered that both are equally important.

8. Executive Session (formerly #10 on the Thursday, June 25, 2020 agenda)

At 4:34 p.m., the Board entered into Executive Session, pursuant to Texas Government Code §§551.071, 551.074, and 855.007 to consult with Legal Counsel to receive legal advice, and to discuss personnel matters, and to evaluate Board consultants and discuss other matters under §855.007. The meeting was opened to the public again at 5:55 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.

In the Open Meeting, Ms. Oakley moved that the Board approve the merit increases to the General Counsel and the Director of Internal Audit that were in conjunction with this item and for the amount budgeted, with an effective date of June 21, 2020. Mr. Huizar seconded the motion, which passed 6-0.

Resumption of Agenda Item #7, Consider and Act on Governmental Relations Consultant Recommendation.

In the Open Meeting, Mr. Landis made a motion for the Board (i) to retain Ron Lewis & Associates as the Governmental Relations Consultant to the Board, and (ii) authorize the Executive Director to negotiate, execute, acknowledge and deliver a two-year agreement (including the ability for TMRS to terminate the agreement on 30 days' notice and the option for TMRS to renew the agreement for up to 2 additional 2-year terms), 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.

Ms. Alanis seconded the motion, which passed 6-0. Ms. Oakley noted that the contract with Mr. Lewis should contain more specificity regarding the terms and conditions of the contract.

9. Chief Investment Officer Management Update, Including Governance, Personnel, Manager Updates and Other Related Matters (formerly #8 on the Thursday, June 25, 2020 agenda)

Mr. Carlson noted the entire Investment team continues to work remotely, and it is working very well. He noted the System-wide Investment Pacing Plan will carry investments through the next nine months and work has begun on alternative due diligence processes.

Mr. Carlson provided a staffing update and welcomed Melody Bickersteth as the new Real Estate Analyst. Currently, there is an open position for the Absolute Return team.

Performance continues to improve as YTD returns were -4.5% net of fees. Returns at the bottom of March were -13%; performance continues to claw back as YTD returns were -4.5% net of fees.

10. Executive Director and Staff Reports, including Reports from Administration, Actuarial Services, Communications, Finance, Governmental Relations, Human Resources, Information Resources, Internal Audit, Legal, Member Services, PASMod Update and Project Management (formerly #9 on the Thursday, June 25, 2020 agenda)

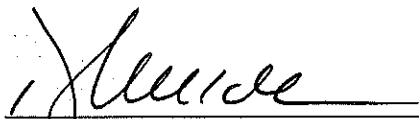
Mr. Gavia noted we continue to work well remotely and we continue to plan for staff to return to the office when it is safe to do so. We are following similar procedures as our retirement system peers and we are on similar schedules with regard to returning to the office.

The Communications group has been doing regional retirement conferences virtually, and it is possible that the TMRS Annual Conference will be held virtually.

11. Call for Future Agenda Items

No agenda items were requested.

At 6:04 p.m. the meeting was adjourned.



David Wescoe
Executive Director



Bill Philibert
Chair, Board of Trustees

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

June 26, 2020 – 8:00 a.m.

On June 26, 2020, the Board of Trustees (Board) of the Texas Municipal Retirement System (TMRS) convened for a meeting at 8:00 a.m. at the Downtown Hilton Austin, located at 500 E. 4th Street in Austin, Texas, with the following members present:

Board of Trustees
Bill Philibert, Chair
David Landis, Vice Chair
Julie Oakley
Jesús Garza
Anali Alanis
Johnny Huizar

Also in attendance:

Karen Jackson, Executive Assistant
Gary Hudepohl, Hudepohl & Associates

Mr. Philibert called the meeting to order at 8:05 a.m.

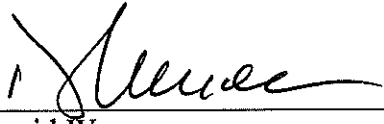
1. Executive Session

At 8:06 a.m., the Board entered into Executive Session, pursuant to Texas Government Code §§551.071, 551.074, and 855.007 to consult with Legal Counsel to receive legal advice, to discuss personnel matters, and to discuss matters allowed under §855.007. Mr. Garza left the Board meeting at 11:00 a.m. and joined via telephone conference. Ms. Oakley left the Board Meeting at 12:50 p.m. The meeting was opened to the public again at 1:35 p.m. No action was taken during the Executive Session and a quorum of the Board that were present before the Executive Session were still present.

Open Meeting

In the Open Meeting, Mr. Landis moved that the Board authorize the Board Chair, Mr. Philibert, and the Board's Executive Search Consultant to negotiate terms and conditions of an offer of employment to an Executive Director candidate on such terms and conditions satisfactory to the TMRS Board. Ms. Alanis seconded the motion, which passed 5-0. (Ms. Oakley was not present.)

Ms. Alanis moved that the Board adjourn the Board meeting for the day. Mr. Huizar seconded, which passed unanimously. At 1:37 p.m., the meeting was adjourned.



David Wescoe
Executive Director



Bill Philibert
Chair, Board of Trustees