

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

June 28, 2018 – 1:30 p.m.

On June 28, 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
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
Amy Hsiang, RVK
Amy McDuffee, Mosaic Governance Advisors
Brian Borton, StepStone Group, LP
Lincoln Smith, Albourne America
Lori Messer, Fox Lawson
Ron Lewis, Ron Lewis & Associates

Also in attendance:

Eric Obermier, Assistant Director Information Resources
Madison Jechow, Assistant General Counsel
Michael Schaff, 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
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
Peter Teneriello, Private Equity Analyst
Andi Focht-Williams, Senior Auditor
Adrienne Strong, Human Resources Generalist
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
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
Devon Waters, City of Arlington

Mr. Parrish called the meeting to order at 1:33 p.m. and Mr. Landis gave the invocation.

1. Consent Agenda

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

Mr. Jeffers moved that the Board adopt the consent agenda as presented. Mr. Philibert seconded the motion, which passed 5-0 with Ms. Oakley abstaining.

2. Consider and Act on Implementation of Compensation Study

Ms. Ritter and Lori Messer from Fox Lawson were introduced to present the implementation strategy relating to the Compensation Study which was approved during the May Board meeting.

The Board of Trustees approved two new TMRS Salary Schedules effective June 1, 2018. Small modifications were approved to transition the former TMRS Salary Schedule into the Non-Investment Salary Schedule. On average the non-investment position mid-points were 10% over market mid-points, thus salary adjustments were not needed or required for the incumbents covered by the Non-Investment Salary Schedule.

Ms. Ritter reviewed the qualitative and quantitative criteria used in determining adjustment for select positions and personnel. None of the recommended increases are over 15% per year for any individual. The total 2018 increase will not require a budget amendment and can be funded through merit increase savings and unfilled positions. For the remainder of 2018, base salary will be increased by ½ of the proposed increase, to be reflected in the July 13, 2018 paycheck. In January 2019, base salary will be increased by the remaining ½ of proposed increase, to be reflected in the January 11, 2019 paycheck. The recommended increases would allow TMRS to be in a position to retain valuable staff, as well as recruit for the future.

Mr. Landis moved that the Board approve all salary adjustments recommended to implement the Investment Salary Schedule and maintain closer alignment to market rates, and that these adjustments become effective on the July 13, 2018, and January 11, 2019 paychecks respectively.

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

3. Review and Discussion of the TMRS Act Review Project and Consider and Act on Study Topics, if any, to be Assigned to the Advisory Committee on Benefit Design

Mr. Gavia, Mr. Wattles and Mr. Davis presented the discussion regarding the TMRS Act Review project. 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). This objective was a holdover objective from the 2015-2019 Strategic Plan. The purpose of the objective is to review the TMRS Act and Rules to identify the need for possible statutory or rule changes that would improve TMRS’ plan design and operations. Mr. Gavia explained that staff has compiled a lot of information for future projects if needed.

Mr. Wattles stated that Staff has provided a list of priority suggestions to the Board with nineteen items being identified as high priority for initial presentation. None of these items include suggestions that can be addressed by administrative rule.

In order to assist the Board with assessing the suggestions, staff organized them into five descriptive categories. These categories are city-related, benefit design, board governance, administration, and legal. The suggestions were also organized in the order of staff’s assessment of relative priority.

Mr. Davis and Mr. Wattles reviewed with the Board the first twelve priority items:

1. Board meetings – Reviewed four topics: 1) allow telephone or video conference meetings, 2) allow the Board to meet in Executive Session to discuss self-evaluations and certain Investments matters, 3) clarify that Executive Sessions are permitted under TOMA (not an open meeting), and 4) omit language requiring meetings in specific months and simply change to a minimum of four per year.
2. Immunity and Liability Protections – Clarify immunity for the Board, executive director and employees when performing their duties in good faith.
3. Legal Advisor – Clarify the ability to also use outside counsel, and eliminate requirement that the attorney appointed by the Board represent TMRS in all litigation.
4. Confidential Information – Clarify that information related to members and retirees is not subject to disclosure under Texas Public Information Act (TIPA). Also, provide an exception from disclosure for audit working papers. Currently, would have to request a ruling by the Attorney General.
5. Definition of “Security” – Update definition of “securities” to better reflect the various types of securities allowed for investment. In 2003, the TMRS Act was amended to diversify the portfolio. Mr. Gavia stated that a change in the definition does not automatically change investment strategies; a change to the Investment Policy Statement would still be required.
6. Providing Information Electronically to Members and Retirees – Would specifically allow TMRS to provide required notices and other information to members, retirees, etc. by email, website or other electronic means.
7. Amortization Period – Clarify Board’s rulemaking authority with regard to amortization matters and provide the Board with the discretion to set different amortization periods, up to a maximum of thirty years. Also it is recommended to remove provisions allowing cities to individually request amortization period up to forty years.
8. Statutory Maximum Rate of Contribution – Repeal the maximum contribution rate limitation provision. Since 1999, 150 cities have joined TMRS and are not subject to this provision and 336 other TMRS cities have repealed the provision. Ms. Oakley stated that in some circles, the statutory maximum is considered a good thing.
9. Prior Service Credit (PSC) and Updated Service Credit (USC) – Allow cities an option to grant 0% prior service credit when joining TMRS provided, however, that if a city joining TMRS has an existing retirement plan, then the city could be required to elect a 0% option in order to comply with the Texas Constitutional provision. For those that adopt 0% prior service, the USC would not count the prior service to avoid the double credit issue. Mr. Gavia stated when University Park asked about

transitioning, it was structured so only new hires were permitted to join TMRS thereby avoiding the PSC and USC potential issues. However, this approach cannot be used in every situation.

10. Cost of Living Adjustment (COLA) – Consider what amendments, if any, might be desired to the current COLA provisions. Mr. Wattles reviewed the various COLA provisions. David Riggs, Advisory Committee member representing Texas State Association of Fire Fighters, requested that the Board consider studying this topic further.

The Board members discussed various concerns regarding COLAs and requested staff to provide a specific direction. Ms. Oakley stated COLA provisions are very broad so there may be a need to narrow down the options. Mr. Wattles indicated since the item has been studied extensively, staff would not have to start from scratch.

11. Return to Work (RTW) – Consider what, if any, amendments might be desired. The various RTW provisions were reviewed. It is a complex issue and legislation was passed that created additional complexities and potential inequities. Issues include bona fide separation, current workforce trends and specific needs of TMRS cities.

12. Retiree Supplemental Death Benefit – Add city option to increase the benefit from \$7,500 to \$10,000. The last time the amount was changed was in 2004. This would be provided as an optional amount for cities to consider.

Items 13 through 19 were considered lower in priority. The Board discussed the priority of the twelve suggestions and the various challenges that each presented. Mr. Lewis, TMRS' Legislative Consultant, highlighted some of the challenges. Discussion continued among the Board members, Mr. Gavia, Mr. Wattles and Mr. Lewis on various questions that were raised if legislation was proposed. The Chair of the Advisory Committee, Mr. Landis, stated that the Board can authorize the Advisory Committee to meet to discuss the COLA/RTW issues. Mr. Parrish indicated to Mr. Landis to proceed and work with Staff on next steps.

4. **Consider and Act on Appointment(s) 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. The three Individual Class positions and the seven Group Class positions that make up the revised Advisory Committee, all have Board-appointed representatives. No at-large appointments have been made.

The most recent appointment was made at the May 24-25, 2018 Board meeting when the Board approved the nomination of Robert Hanna, City Manager of the City of Abilene as the new alternate representative for the Texas City Management Association.

The Texas State Association of Fire Fighters (TSAFF) informed TMRS that the current alternate, Billy Whitson, is no longer able to fulfill his responsibilities to the Committee. As

such, the TSAFF has nominated Jaime Reyes, a fire fighter from the City of Plano, to succeed Mr. Whitson as the TSAFF alternate representative.

Mr. Philibert moved to appoint Jaime Reyes as the alternate representative for the Texas State Association of Fire Fighters on the TMRS Advisory Committee on Benefit Design in the Group Class. Mr. Landis seconded the motion, which passed 6-0.

5. Consider and Act on Non-Core Fixed Income Manager Search Recommendation(s)

Mr. Weiner, Mr. Gaymer and Ms. Hsiang, with RVK, presented the manager search recommendations for Non-Core Fixed Income. At the December 2017 Board of Trustees meeting, the Board approved the pacing plan for the Fixed Income asset class for the 2018 calendar year. The approved plan, as amended, calls for two search processes and a targeted deployment of \$700 million. The proposed allocation includes three Non-Core Fixed Income (NCFI) manager recommendations for a total commitment of \$600 million. Mr. Carlson noted TMRS will be fully committed in this asset class if this recommendation is approved. The following managers are being recommended for approval: AG Direct Lending Fund III, L.P (AG), H.I.G. Whitehorse Trinity, L.P. (HIG) and Värde Private Debt Opportunities Fund, L.P. (Värde).

Mr. Weiner reviewed the Non-Core Fixed Income portfolio construction as well as the Direct Lending program. The recommendations target the lower middle market direct lending space and other fixed income sub-sectors. The recommendations continue to balance the risk/reward characteristics within this portfolio. The proposed recommendations should also complement the existing manager allocation given their unique investment approach.

AG is a privately owned firm specializing in global alternative investments. The firm was founded in 1988 and manages approximately \$28 billion as of March 31, 2018 across a broad range of investment strategies that focus on corporate credit, real estate and private equity. Mr. Gaymer stated that AG focuses on sourcing and underwriting senior secured loans to lower middle market sponsor-backed companies with EBITDA of \$25 million and below. This will be the third Fund raised by AG's Direct Lending team since the strategy was established in 2014. The investment case and the issues to watch were reviewed.

HIG is a leading global alternatives asset manager. The firm was founded in 1993 and manages approximately \$25 billion. HIG provides senior secured loans to non-sponsor performing lower middle market companies with \$8-50 million EBITDA. Mr. Weiner discussed the experience of the team as well as the investment strategy. The firm specializes in lower to middle market companies and invests across direct lending, special situations, leveraged buyouts, growth equity and real estate. The investment case and the issues to watch were reviewed.

Värde was founded in 1993 and is headquartered in Minneapolis with additional primary offices in London and Singapore. Värde manages over \$13 billion in assets through several products across the credit spectrum that range from liquid hedge funds to private equity vehicles. The Fund will focus on the private debt space with a high income component. This is an opportunistic/special situations fund. Mr. Weiner stated that Värde has been a

strong performing manager in the Absolute Return portfolio and there are tremendous sourcing opportunities due to the expertise across the broader platform. Ms. Hsiang noted that this is a small fund being raised and it will focus primarily on a private debt space with high income component. The investment case and the issues to watch were reviewed.

Mr. Philibert moved 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 Summary of Recommendations chart 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)
AG Direct Lending Fund III (Unlevered), L.P. (AG)	Non-Core Fixed Income	\$250 Million	Yes
H.I.G. Whitehorse Trinity, L.P. (HIG or Whitehorse)	Non-Core Fixed Income	\$150 Million (Add-on to original \$150 mm allocation)	Yes
Värde Private Debt Opportunities Fund, L.P. (Värde)	Non-Core Fixed Income	\$200 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 6-0.

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

Mr. Schelling, Mr. Teneriello and Mr. Borton from StepStone presented the Private Equity manager search recommendations. At the December 7-8, 2017 Board of Trustees meeting, the Board approved the pacing plan for the Private Equity asset class for the 2018 calendar year. The approved plan calls for four search processes and a targeted deployment level of up to \$650 million in aggregate. The proposed new allocations to two private equity managers/two private equity vehicles totals approximately \$353 million. The following managers are being recommended for approval: CapVest Equity Partners IV SCSp (Capvest) and H.I.G. Strategic Partners Fund, L.P. (HIG).

Mr. Schelling reviewed the due diligence process and discussed the multi-year pacing aspects of HIG (multi-vintage year). Construction of the Private Equity portfolio was discussed and Mr. Schelling highlighted the portfolio considerations and diversification by strategy and geography. The target portfolio keeps a conservative stance on international exposure

The first manager recommendation, CapVest, is a London based middle market, buy-out firm that was founded in 1999. The firm’s approach is to buy a platform company and roll up smaller firms to produce a pan-European company to sell. To date, CapVest has a zero loss ratio.

HIG is a global alternative investment firm, founded in 1993, that invests in leveraged buyouts, growth equity, special situations, credit, direct lending, and real estate. HIG is targeting to invest in the firm’s underlying funds as they return to market over the next four years, in addition to making co-investments on an opportunistic basis alongside the underlying funds. HIG is currently raising SPF to provide a select group of their limited partners the opportunity to lock in allocations to their oversubscribed fund lines, while building in diversification across their strategies to create an attractive risk-adjusted return profile. Mr. Schelling discussed the manager concentration and how HIG is included in several of our asset classes.

Mr. Jeffers moved to 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 Summary of Recommendations chart 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)
CapVest Equity Partners IV SCSp	Buyout	€45 million (approx. \$53 million)	Yes
H.I.G. Strategic Partners Fund, L.P.	Buyout	\$200 million to the fund and \$100 million co-investment approval	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 6-0.

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

Mr. Leavitt and Lincoln Smith, with Albourne America, presented the manager recommendations for Absolute Return. At the December 2017 Board of Trustees meeting, the Board approved the Absolute Return pacing plan. This plan indicated there were no known searches for the Absolute Return Strategy asset class for the 2018 calendar at that time. The plan updated in May 2018 and included one search process for Absolute Return Strategy for June 2018 with two expected manager recommendations. Staff is recommending re-allocating a portion of one existing account to two new accounts for a total of \$400 million.

Mr. Leavitt reviewed the Absolute Return Strategy timeline since inception. The Blackstone Treaty Oak Fund currently makes up about 20% of the portfolio. Staff recommended the continuation of winding down Treaty Oak and transitioning to a full Direct ARS Portfolio, as communicated in prior Board meetings. The ARS portfolio will be fully direct when the proposed recommendations are fully executed. Strategy diversification was discussed. The purpose of strategy diversification is to diversify equity and credit market risk by targeting hedge fund return streams that are independent of the directionality of the broad stock and bond markets. The portfolio will be invested in a wide variety of hedge fund strategies, with specific constraints on overall portfolio risk and individual manager exposure. The following funds are being recommended for approval: Värde Asia Credit Fund, L.P. (Värde) and BAAM Stone Oak Fund, L.P. (which includes the Stone Oak Select co-investment).

Värde will be targeting corporate credit and special situation opportunities, but will also participate in stressed/distressed real estate. The geographic target of this opportunity set is the Asia Pacific region. Mr. Leavitt reviewed the investment case as well as issues to watch.

The Stone Oak Fund is a transition from the initial Treaty Oak Fund. It is a custom version of the Blackstone Special Opportunity Fund which targets idiosyncratic opportunities across geographies and asset classes. The individual investments in the Stone Oak Select sidecar are single security allocations where excess capacity exists after commingled and customized offerings have been allocated. The investment case and issues to watch were reviewed.

Ms. Oakley moved to 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 Summary of Recommendations chart 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)
Värde Asia Credit Fund, L.P.	Credit	\$50 million	Yes
BAAM Stone Oak Fund, L.P. and Stone Oak Select	Multi-Strategy Opportunistic	\$250 million (Stone Oak Fund) \$100 million (Stone Oak Select)	Yes

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

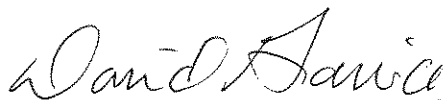
Mr. Philibert seconded the motion, which passed 6-0.

Mr. Carlson announced that TMRS' Hedge Fund team was nominated for the Institutional Investor Annual Hedge Fund Industry Awards. Mr. Kevin Notaro, TMRS Absolute Return Analyst, is currently in New York attending the award ceremony on behalf of TMRS.

8. **Executive Session**

At 5:03 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, except Mr. Jeffers, that were present before the Executive Session were still present. The meeting was opened to the public again at 7:04 p.m.

At 7:04 p.m. the meeting was recessed until 9:00 a.m. on Friday, June 29, 2018.



David Gavia
Executive Director



Jim Parrish
Chair, Board of Trustees

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

June 29, 2018 - 9:00 a.m.

On June 29, 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
Jesus Garza

Absent: Julie Oakley

Present also were:

David Gavia, Executive Director
Eric Davis, Deputy Executive Director
TJ Carlson, Chief Investment Officer
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
Robert Klausner, Klausner, Kaufman, Jensen & Levinson
Marcia Beard, RVK
Amy McDuffee, Mosaic Governance Advisors
Suzette Longfellow, Lead Audit Partner, KPMG
Diana May-Gonzales, Lead Audit Manager, KPMG
Chris Stone, IT Director, KPMG

Also in attendance:

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

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
Eddie Schultz, Assistant Director Real Assets
Cindy Morse, Investment Support Analyst
Debbie Farahmandi, Investment Operations Specialist
Jennifer Andrews, Member Services Manager
Geldon Vllahu, Operations Analyst
Susan Jaques, Performance Analyst
Candace Nolte, Assistant Finance Director
Ryan Conner, Risk Management Analyst
Melissa Jerkins, Quantitative Analyst
Kurt Cressotti, Compliance Officer
German Gaymer, Fixed Income Analyst
Kevin Notaro, Absolute Return 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
Devon Waters, City of Arlington

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

9. **Receive SOC-1 Audit Report**

Chris Stone with KPMG presented the results of the SOC-1 Audit. This is an “auditor-to-auditor” communication document, to prevent the need for external auditors for each TMRS participating municipality to audit the TMRS controls. Mr. Stone reviewed the timeline which included dates for testing and reports; in addition, he noted the different sections of the report and which parties were responsible for each. The Control Objectives for both “Process” and “IT” were discussed and it was noted that there were only three exceptions in all of the control objectives.

The SOC-1 opinion was unqualified, noting all 10 control objectives were presented fairly, designed appropriately, and operating effectively.

10. **Receive Report on 2017 External Audit Results (SAS-114) and Audit Report to the Board of Trustees**

Suzette Longfellow and Diana Mayes-Gonzales from KPMG were introduced. The audit resulted in an unmodified or clean opinion. There were no uncorrected or corrected audit misstatements and there were no control deficiencies, meaning no material weaknesses were identified. Ms. Gonzales discussed that there were no changes to the existing accounting policies or newly implemented policies. There were no significant estimates included in the

financial statements. For Deposits and Investments, Note 3 discloses fair value of investments in accordance with GASB No. 72 – *Fair Value Measurements and Application*. KPMG’s responsibilities in an audit were reviewed. Ms. Longfellow stated that the audit did not identify any deficiencies in internal controls that were considered to be a material weakness; nor were any significant deficiencies noted. KPMG’s audit included consideration of internal control over financial reporting in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion of the effectiveness of internal control. The audit did not identify any deficiencies in internal control that KPMG would consider to be a material weakness, nor were any significant deficiencies noted.

Ms. Longfellow reviewed the required communications between the auditor and the Board. There were no significant findings, actual or suspected fraud, or other issues to report to the Board.

Ms. Longfellow thanked Staff for their participation and the Board for the opportunity to perform the audit.

11. Receive and Approve Distribution of 2018 Comprehensive Annual Financial Report (CAFR) and Schedule of Changes in Fiduciary Net Position (by Employer)

Ms. Covarrubias presented the 2017 Comprehensive Annual Financial Report (CAFR) and thanked all those that were involved in producing the report, especially Candace Nolte, Donna Neal and Melanie Thomas.

Ms. Covarrubias noted that there were no changes in the format of the CAFR based on GASB pronouncements or GFOA reporting requirements. Ms. Covarrubias began with the Introductory Section. She highlighted some of the awards TMRS has received including the Certificate of Achievement for Excellence in Financial Reporting for the 2016 CAFR from the Government Finance Officers Association. The Letter of Transmittal was discussed which highlights activities and accomplishments throughout the year, a brief overview of Investments, and an overview of funding and actuarial services as well as information regarding management of the System

The Financial Section begins with the Independent Auditors’ Report (unmodified or clean opinion). This is followed by Management’s Discussion and Analysis (MD&A) and the Required Supplementary Information, the Statement of Fiduciary Net Position (Balance Sheet) and Statement of Changes in Fiduciary Net Position (Income Statement), and the Net Position – Supplemental Death Benefit Fund. Ms. Covarrubias highlighted the Notes to Financial Statements, Required Supplementary Information and Supplemental Schedules. Ms. Nolte discussed the development of the Fair Value of Investments – Note 3-B. Note 3-C addresses various investment risks including credit risk, interest rate risk and foreign currency risk. Required Supplementary Information includes investment returns for the Pension Trust Fund and it was noted that agent plans like TMRS no longer show an overall Schedule of Funding Progress.

The Investment Section was reviewed and RVK's Report on Investment Activity was discussed. Ms. Covarrubias noted the Outline of Investment Policies, Actual Asset Allocation and Investment (returns) Results.

The Actuarial Section was discussed and it includes separate sections for the Pension Trust Fund and the Supplemental Death Benefits Fund. Both sections include the Actuary's Certification Letter. There were no changes in the actuarial assumptions and it was noted that the valuation results are no longer presented in the CAFR. Ms. Covarrubias mentioned that TMRS will provide GASB Statement 75 information to cities that provide retiree Supplemental Death Benefits.

The Statistical Section provides historical perspective in compliance with GASB Statement No. 44. This section provides users with additional historical perspective including 10-year trend information. Ms. Covarrubias reviewed various graphs and schedules including the Schedules of Average Benefit Payments and Retired Members by Type of Benefit. Also highlighted were the Schedule of Principal Participating Employers and Plan Provisions for Participating Municipalities.

Ms. Covarrubias concluded with formats and venues in which the CAFR will be distributed. She noted that a separate opinion is issued regarding the Schedule of Changes in Fiduciary Net Position, by employer. It was an unmodified opinion and the Schedule will be uploaded to the TMRS website for use by cities with their GASB disclosures.

Mr. Philibert moved that the Board approve distribution of the 2017 Comprehensive Annual Financial Report and the 2017 Schedule of Changes in Fiduciary Net Position (by employer) to TMRS member cities and interested parties, as described above. Mr. Landis seconded the motion, which passed 5-0.

12. Discussion of Board Preferences for Future Board Governance Education Session

Ms. McDuffee discussed that she is getting feedback from the Board for their preferences regarding an education presentation on governance at a future Board meeting. She reviewed the Pension Review Board's (PRB) minimum education curriculum. Many of the items included on the list are foundational, but they will be customized to meet the Board's needs as outlined in the Strategic plan. Eight items were listed on the PRB's course outline.

Ms. McDuffee suggested an outline for the TMRS Governance Education Session. This includes, 1) What is governance, 2) Governance Best Practice Principles, 3) Role of the Board and its Evolution, 4) Common Challenges and Trends in today's Governance Environment, and 5) Wrap Up and Open Discussion. Ms. McDuffee asked for the Board's input on the proposed outline.

Mr. Parrish discussed his thoughts on the topic with the goal of trying to make the best even better. Mr. Garza suggested incorporating the role of the committees and how they relate to the Board and its consultants. He also noted discussing the relationship of the Board to its consultants and how to monitor and maintain those relationships.

13. Review and Discussion of TMRS Pension Administration System

Mr. Pittman, Mr. Willrich and Ms. Munoz presented this follow-up to the February Board meeting. In February, an overview of TMRS' Pension Administration System (PAS) was presented, highlighting its components, the technical platform, and challenges related to its long-term functionality. Mr. Pittman reviewed the challenges regarding the PAS as well as the components of our system that make up NextGen. This discussion focuses on the activities to address the aforementioned risks, provide options under consideration to address those risks, and seek the Board's guidance regarding those options.

The initiatives to consider are: 1) replace the city contribution system, or 2) conduct a Pension Administration System assessment. In weighing these options, issues to consider include budgetary impact and the impact on other projects/resources.

The benefits of replacing the City Contribution System were discussed including operational and potential security risks. Ms. Munoz reviewed the benefits to employers as well as improving the operational efficiencies for cities and TMRS. The activities that occurred in 2016 and 2017 include: hired a consultant to develop high level business requirements, conducted a "Build versus Buy" analysis, and developed an RFP with two potential vendors identified.

Ms. Munoz discussed the PAS assessment which is included in the Strategic Plan Goal 2a. There are three potential outcomes: 1) enhance current PAS, 2) build a new PAS, or 3) buy and customize a commercial-off-the shelf PAS.

Mr. Willrich reviewed the options for consideration: 1) start the PAS assessment or 2) delay the PAS assessment and move forward with the City Contribution module replacement. The Board discussed how to proceed and the timeline for the various options.

The Board and Staff discussed various challenges, options and possible solutions. To make a decision, the Board requested a more detailed timeline and recommendation.

14. RVK Quarterly Report

Mr. Carlson announced that TMRS' Hedge Fund team was the winner of the Institutional Investor Annual Hedge Fund Industry Awards. TMRS won for Large Public Plan of the Year. He said that Mr. Kevin Notaro, Absolute Return Analyst, accepted the award on behalf of TMRS.

Ms. Beard presented the quarterly report for the period ending March 31, 2018. She reported that markets have been very volatile; January started strong, but in February and March, the market rally reversed sharply. On the equity side, there have been mostly negative returns and the rising rates have caused negative returns on Fixed Income as well.

Asset allocation, commitments, actual allocations and target allocations were discussed. Ms. Beard stated target allocation are getting closer. Net of fees, TMRS is out-performing the actual allocation benchmark. Asset Class Composite performance was discussed as well as Global, Domestic and International Equity Composite actual versus the benchmark. The

alternative asset classes provided positive returns for the portfolio. The policy benchmark was exceeded on the 5-year return, but the 6.75% assumption was not met. The major drag on the 5-year performance is due to the fact that for the bulk of this period, 40% - 50% of the portfolio was in fixed income securities that was earning 2%-3%. Discussions are currently underway regarding capital market assumptions and our asset allocation which will be presented at the August meeting.

Total Fund Performance versus Peers, Risk and Return and Asset Class Composites were reviewed. Ms. Beard discussed active versus passive management in the domestic and international equities asset classes. She noted that Fixed Income out-performed the benchmark; Non-Core Fixed is performing well, even though it has only been in the portfolio a short time.

Real Return's objective is to enhance performance and is being diversified away from global linkers. Absolute Return's objective is to provide alpha and it has performed well. Private Equity is experiencing strong performance for a young portfolio.

In conclusion, Ms. Beard stated that the outlook is for continued volatility, especially given the political turmoil.

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

Mr. Carlson gave an update regarding staff recruitment efforts and noted that a new Investment Analyst for Real Assets has been hired and another analyst is close to being hired for Fixed Income.

16. Executive Director and Staff Reports, Including Reports from Administration, Actuarial Services, Communications, Finance Governmental Relations, Human Resources including Compensation Update, Information Resources, Internal Audit, Legal, Member Services and Project Management

Mr. Gavia gave an update regarding the telecommuting pilot program that was initiated with the Member Services Call Center. Telecommuting has provided flexibility as well as supported our disaster recovery planning. Mr. Philibert asked about alternative work schedules. Such alternative schedules are utilized where it makes sense.

17. Call for Future Agenda Items

No items were discussed.

There being no further business, the meeting was adjourned at 11:46 a.m.



David Gavia
Executive Director



Jim Parrish
Chair, Board of Trustees