

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

October 31, 2019 – 1:30 p.m.

On October 31, 2019, 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

Bill Philibert, Chair
David Landis, Vice Chair
Jim Jeffers
Jesús Garza

Absent:

Julie Oakley
Jim Parrish

Present also were:

David Gavia, Executive Director
Eric Davis, Deputy Executive Director
TJ Carlson, Chief Investment Officer
Christine Sweeney, General Counsel
Dan Wattles, Director of Governmental Relations
Leslee Hardy, Director of Actuarial Services
Debbie Munoz, Director of Member Services
Scott Willrich, Director of Information Resources
Leslie Ritter, Director of Human Resources
Rhonda Covarrubias, Director of Finance
Bill Wallace, Director of Communications
Sandra Vice, Director of Internal Audit
Kristin Qualls, Director of Public Equity
Marc Leavitt, Director of Absolute Return Strategies
Tom Masthay, Director of Real Assets
Jesse Pittman, Senior Project Manager
Dimitry Shishkoff, Director of Risk Management
Chris Schelling, Director of Private Equity
Karen Jackson, Executive Assistant
Robert Klausner, Klausner, Kaufman, Jensen & Levinson
Marcia Beard, RVK
Mark Randall, GRS Retirement Consulting
Joe Newton, GRS Retirement Consulting
Gary Hudepohl, Hudepohl & Associates
James Maina, StepStone Group

Tom Hester, StepStone Group
Ron Lewis, Ron Lewis and Associates

Also in attendance:

Michelle Mellon-Werch, Assistant General Counsel
Madison Jechow, Assistant General Counsel
Nick O'Keefe, Lead Investment Attorney
Kelsey Baldwin, Investment Attorney
Eric Obermier, Assistant Director of Information Resources
Trisha Solis, Business Process Analyst
David Rodriquez, Senior Regional Manager – City Services
Natalie Garza, Communications Analyst
Eddie Schultz, Investment Manager
Yvonne Huang, Real Assets Analyst
Cindy Morse, Investment Support Analyst
Debbie West, Investment Operations Specialist
Geldon Villahu, Investment Operations Analyst
Ryan Conner, Risk Management Analyst
Melissa Jerkins, Quantitative Analyst
Kurt Cressotti, Compliance Officer
Jacob Bowland, Fixed Income Analyst
Kevin Notaro, Absolute Return Analyst
Celisse Cobos, Real Assets Analyst
Frank Atkins, Public Equity Analyst
Peter Jeske, Operations Analyst
Kenneth Oliver, Actuarial Analyst
David Riggs, Texas State Association of Fire Fighters
Mitch Landry, Texas Municipal Police Association
Scott Leeton, Combined Law Enforcement Association of Texas
Devon Waters, City of Arlington

Mr. Landis called the meeting to order at 1:30 p.m. Due to Mr. Philibert not feeling well, it was announced that Mr. Landis would act as the Chair for the October 31, 2019 Board meeting.

Mr. Landis congratulated Mr. Carlson for his nomination as one of the “2019 Power 100 Pension Professionals” by Chief Investment Officer Magazine.

1. Consider and Act on Adoption of Minutes from the September 26-27, 2019 Meeting of the Board of Trustees

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

Mr. Jeffers moved that the Board adopt the minutes from the September 26-27, 2019 meeting of the Board of Trustees. Mr. Philibert and Mr. Garza seconded the motion, which passed 4-0.

2. Executive Director Search Update

Mr. Gavia introduced Gary Hudepohl from Hudepohl & Associates to provide an update to the Board on the status of the Executive Director search.

Interviews of the Senior Staff and the Board members have been completed and work will begin on the position specifications and advertising plan. Mr. Hudepohl suggested the creation of a Board subcommittee to deal with ministerial duties. The process was discussed regarding the approval of the position specifications and advertising plan under a subcommittee. Mr. Hudepohl reviewed the dialogue and proposed timeline that will be ongoing with the Board or subcommittee. He concluded with statistics regarding their recent Executive Director searches with other public pension plans.

3. Consider and Act on Creation of Executive Director Board Search Committee

Mr. Landis discussed if the Board would like to create an ad hoc Board Search Committee to work with Hudepohl and Associates (the "Consultant") to accomplish certain ministerial tasks related to the Executive Director search process. Ministerial tasks include working with the Consultant to refine the drafts of the position description and an advertising and posting plan for the Executive Director position. The ad hoc committee would save the Board time and enable the candidate search process to begin before the next Board meeting.

Mr. Jeffers moved that the Board (i) approve the creation of a two member ad hoc Executive Director Search Committee (the "Committee") and appoint the Chairman and Vice Chairman of the Board as the Committee members; (ii) authorize each of the Chairman and Vice Chairman to work with the Consultant to develop, and approve the final versions of, a position description and an advertising and posting plan for the TMRS Executive Director position; and (iii) authorize each of the Chairman and Vice Chairman to do any other ministerial acts deemed by them in their best judgment to be necessary or appropriate, in the best interests of TMRS, to enable the Consultant to begin posting and advertising the Executive Director position before the December Board meeting. Mr. Philibert seconded the motion, which passed 4-0.

4. Consider and Act on a Proposed Process to Develop and Issue a Request for Proposal for the Board's Governmental Relations Consultant and to Involve the Board's Legislative Committee, including Proposed Amendments to the Legislative Committee Charter (formerly item #6 on the Thursday, October 31, 2019 agenda)

Mr. Wattles reviewed the background and history of the Board's relationship with the current Governmental Relations Consultant. The Governmental Relations Consultant has provided legislative support to the Board during legislative sessions and interim periods. The 2018-2022 TMRS Strategic Plan includes an objective to "Create and Implement a Process for the 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 ensure that a majority of the Board perceives the process to be meaningful and effective.

A Request for Proposal (RFP) will be issued to a limited number of potential consultants and Mr. Wattles discussed the potential use of the Legislative Committee (Committee) and how they could be involved in the process. The proposal is for the Committee to be updated

throughout the process, interview the finalists, and make a recommendation to the full Board. The Board would make the final decision.

Mr. Garza asked about language in the Legislative Committee Charter regarding the process for choosing the consultant and whether the RFP needed to be approved by the Board before distribution. No changes to the Legislative Committee Charter were proposed at this meeting.

Mr. Jeffers moved that the Board:

- 1) Authorize staff to issue a request for proposal to selected governmental relations consultants, and evaluate those consultants following the process outlined in the Board Communication for this item, and
- 2) Authorize the Legislative Committee to receive updates on the progress of this project from staff, interview the highest valued consultants, and, with staff support, make a recommendation to the Board.

Mr. Philibert seconded the motion, which passed 4-0.

5. Consider and Act on Real Estate Manager Search Recommendation(s) (formerly number #7 on the Thursday, October 31, 2019 agenda)

Mr. Masthay, Tom Hester and James Maina from StepStone Real Estate presented the manager recommendations for Real Estate. Madison Realty Capital Debt Fund V, LP (Madison) and Abacus Multi-Family Partners V, LP (Abacus) are re-ups totaling \$200 million.

Madison is a real estate debt investment-focused asset management company founded in 2005. It is raising its next fund to originate and acquire commercial real estate loans, real estate mezzanine loans, preferred equity investments and to acquire liens, most of which are expected to be backed by real estate located in the New York tristate area, Los Angeles and urban Florida.

Abacus is a real estate investment management company founded to invest exclusively in multi-family residential housing. Abacus is currently raising its next fund to continue its value-add strategy, which focuses on properties that have specific characteristics including properties that have relative affordability in markets and sub-markets showing favorable multi-family housing demand trends.

Mr. Philibert 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 to Board, 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)
Madison Realty Capital Debt Fund V, LP (Madison)	Value Add Real Estate	Up to \$100 Million	Yes
Abacus Multi-Family Partners V, LP (Abacus)	Value Add Real Estate	Up to \$100 Million	Yes

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

Mr. Garza seconded the motion, which passed 4-0.

6. Consider and Act on Proposed Actuarial Assumption Set and Possible Contribution Rate (formerly #5 on the Thursday, October 31, 2019 agenda)

Ms. Hardy, as well as Mr. Randall and Mr. Newton from GRS, reported the results of the actuarial experience investigation study. The recommended new actuarial assumption set was presented to the Board at the September Board meeting in a preliminary draft report. The rate impact resulting from the 2019 Experience Study recommendations is much less significant than the impact resulting from prior actuarial changes. This is true both in terms of the number of cities impacted and in terms of the magnitude of such impact. Specifically, based on the December 31, 2018 valuation, there are only 18 cities (2%) with potential rate increases in excess of 1% of payroll and 16 of those are overfunded. The Board was asked whether or not they would like to consider allowing a phase-in of contribution rate increases resulting from the actuarial changes.

Mr. Newton noted that the changes were moderate due to TMRS currently doing a lot of the right things actuarially. The biggest changes are the load added to Updated Service Credit cost calculations and the change from a 25-year to a 20-year amortization period for future liability loss bases.

Statistics were reviewed on the number of cities with an estimated rate increase greater than 1% due to the assumption changes.

Mr. Jeffers moved that the Board accept GRS' recommended actuarial assumption set as reflected in the *Summary of Recommendations* included in the *Actuarial Experience Investigation Study as of December 31, 2018 Executive Summary*. The recommended changes in assumptions will be effective with the December 31, 2019 actuarial valuation, except for the change in amortization period which will be effective for new losses occurring after January 1, 2020 and benefit increases occurring on or after January 1, 2021. In addition, the Board desires to provide cities with an option to manage any potential rate

increases due to the new assumptions. Specifically, net contribution rate increases in excess of 0.5% will be phased in at a maximum of 0.5% per year until the ADEC is attained. For this purpose, the net contribution rate increase is the contribution rate increases resulting solely from the change in assumptions adjusted by the contribution rate decrease attributable to experience gains, if any. Mr. Philibert seconded the motion, which passed 4-0.

7. Review and Discussion of 2020 Preliminary Operating Budget (formerly #4 on the Thursday, October 31, 2019 agenda)

Mr. Gavia introduced Ms. Covarrubias and Ms. Ritter to present the 2019 preliminary operating budget. The Budget Committee has reviewed the preliminary operating budget and a proposed 2020 final budget will be presented at the December Board meeting. Ms. Covarrubias explained the internal process of obtaining requests from each functional department, which resulted in the proposed budget. She worked through how the budget relates to the Board's Strategic Plan and reviewed the items highlighted in Goals 1-4.

Ms. Covarrubias compared the 2019 budget to the 2020 proposed budget, excluding the Pension Administration System Modernization (PASMod). The increase from 2019 to 2020 is about \$2.6 million or 8%; it is approximately \$5 million or 15% with PASMod.

Personnel Services continues to be the largest category at 56% of the total budget. The 2020 budget includes six new positions, PASMod staffing, maintaining the 2019 TMRS contribution rate, and keeping the same employee benefits package.

Professional Services is the next largest category, at 24% of the total budget. Ms. Covarrubias reviewed the specific new budget requests regarding consulting.

Rentals/Equipment Maintenance is 10% of the total proposed budget with "new" funds requested for hardware and software for equipment for new employees and PASMod, license upgrades, additional online services and ransomware/insider protection in the offsite record storage line item.

The Miscellaneous category captures items requested by all departments that support employees' professional growth and it includes increases for both staff and Board training as well as physical technology replacement. There was discussion of student loan debt reduction as a possible recruiting tool in the future.

Capital Expenditures includes funds for furniture, replacement of firewalls, and the first part of the City Contribution System replacement.

New personnel requests, and the rationale for these positions, were reviewed.

A final proposed budget for 2020 will be presented at the December Board meeting to include an overall review/estimate of 2019 expenses, adjustments to PASMod and five-year projections for personnel and line-item expenses.

Discussion from Mr. Garza focused on how expenditures compare to revenue. Ms. Covarrubias noted that funds from the Trust Fund are transferred to cover operating expenses, as approved by the Board.

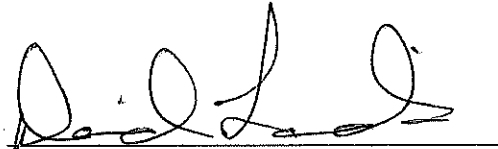
8. Executive Session

There was no Executive Session.

Mr. Jeffers moved that the meeting adjourn at 2:34 p.m. Mr. Philibert seconded the motion, which passed 4-0.



David Gavia
Executive Director



David Landis, Vice Chair
Board of Trustees, Acting as Chair for the Meeting