

**MINUTES OF THE
TEXAS MUNICIPAL RETIREMENT SYSTEM**

Meeting of the Board of Trustees

December 5, 2019 – 1:30 p.m.

On December 5, 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
Jesús Garza
Julie Oakley

Absent:
Jim Jeffers
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
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
Amy McDuffee, Mosaic Governance Advisors
Mark Randall, GRS Retirement Consulting
Brian Borton, StepStone Group, LP

Also in attendance:

Madison Jechow, Assistant General Counsel
Nick O'Keefe, Lead Investment Attorney
Kelsey Baldwin, Investment Attorney
Tish Root, Legal Assistant
Tricia Solis, Business Process Analyst
Anthony Mills, Senior Regional Manager – City Services
David Rodriguez, Senior Regional Manager – City Services
Melanie Thomas, Process and Content Management Specialist
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
Amanda Lopez, Speaker's Office
Daniel Warden, Pension Review Board
David Riggs, Texas State Association of Fire Fighters
Bob Scott, City of Carrollton
Keith Dagen, Government Finance Officers Association of Texas
Scott Leeton, Combined Law Enforcement Association of Texas
Greg Shipley, Combined Law Enforcement Association of Texas
Kathleen Depweg, City of Arlington
Ron Lewis, Ron Lewis and Associates

Mr. Philibert called the meeting to order at 1:35 p.m. and Mr. Landis gave the invocation.

1. Consider and Act on Consent Agenda

A handout of the Updated Service Credit and/or Annuity Increases ordinance adoptions received and posted as of December 4, 2019, was provided for the Board's approval as part of this agenda item. Staff had nothing else to add to the consent agenda as presented. There were no other changes suggested by the Board.

Mr. Landis moved that the Board adopt the consent agenda as presented. Ms. Oakley seconded the motion, which passed 4-0.

2. Consider and Act on Alternatives Investment Consultant Request for Proposal Recommendation

Mr. Masthay presented the results of the Request for Proposal (RFP) for the Alternatives Asset Class Investment Consultant. TMRS' Strategic Asset Allocation includes allocations to a number of Alternative Asset Classes including Absolute Return, Real Return, Real Estate, Private Equity and Private Credit. TMRS initially contracted with its current alternative asset class consultants during calendar year 2015. The expiration of the initial 5-year terms of these contracts is coming up during the first and second quarters of 2020. Based on outlined timelines to issue RFP in the 2019 System-wide Investment Pacing Plan as approved by the Board of Trustees in December of 2018, TMRS issued an RFP for Alternative Asset Non-Discretionary Consulting Services on August 19, 2019.

The process for approval and the evaluation team was discussed and Mr. Masthay gave an overview of the RFP questionnaire design and the scoring methodology, as well as key process dates and the respondent summary. The finalist summary was highlighted.

The recommendation is that Albourne America LLC (Albourne) be selected as the sole alternative asset class consultant covering all of Absolute Return, Real Return, Real Estate, Private Equity, and Private Credit asset classes. Albourne is a multi-asset class non-discretionary consultant serving a diverse client base and boasts a deep bench of individuals focusing on Investment and Operational Due Diligence.

Ms. Oakley asked if the RFP was open to non-invited responses. The answer was affirmative and that it had been posted publicly to the TMRS web site.

Mr. Landis moved that the Board select Albourne America LLC as its Absolute Return, Real Return, Real Estate, Private Equity and Private Credit consultant for a term of up to 5 years, contingent upon successful negotiation of the contract and at consultant fees no higher than proposed, and that the Executive Director be authorized to negotiate, execute and deliver the consulting services contract and any other agreements or documents, including extension of existing Albourne contracts, on the terms and conditions as the Executive Director deems necessary or appropriate to accomplish such transaction, such terms and conditions to be conclusively evidenced by the execution thereof by the Executive Director. Ms. Oakley seconded the motion, which passed 4-0.

3. Consider and Act on Proposed 2020 Operating and Capital Expenditures Budget

Ms. Covarrubias presented the proposed 2020 Operating Budget which contained adjustments from the October Board meeting. Ms. Covarrubias noted that the proposed budget was presented to the Budget Committee and their suggestions were incorporated in this final document.

The System's accomplishments and goals during 2019 were highlighted in Section I. Ms. Covarrubias discussed the alignment of the proposed 2020 Operating Budget with the Strategic Plan and noted changes made to the proposed draft Budget presented at the October Board meeting.

The Executive Summary is in Section II of the budget document. The budget continues to be broken down into five general categories; the general categories as a percent of the total budget remain consistent with the prior year. Ms. Covarrubias then reviewed the executive summary, noting the five categories and noting the additional information that was provided in the document regarding TMRS' funding sources.

This proposed budget, including capital, totals \$35.8 million, representing an increase of \$3.1 million or 10% from the 2019 budget. Ms. Covarrubias noted the overall budget increase, without Pension Administration System Modernization (PASMod) was 5%. She highlighted the comparison of 2019 budget to the proposed 2020 budget, including new funds requested for personnel, new budget items and PASMod. Ms. Covarrubias briefly mentioned the new funds requested in the five budget categories, noting the changes from the October draft and pointed out specific items of interest such as consulting and other professional services and capital expenditures.

New personnel requests were reviewed as outlined in Appendix A.

Appendix G was then reviewed, providing the program objectives and program resources that will be needed in the PASMod Program. After the October preliminary draft budget was presented to the Board, the timeline for PASMod was updated. The appendix includes the refined timeline that better explains and includes a full year of estimated expenses. The updated proposed 2020 budget has shifted costs, lowering estimates for 2020 and expanding out to 2024.

Appendix J provides estimated expenses for the 2019 Budget year. Ms. Covarrubias stated that it is anticipated that we will spend approximately 92% of the 2019 budgeted funds for the year.

Ms. Oakley noted that it was helpful to separate PASMod costs so that the baseline budget increase could be seen. She also noted she would prefer to not make any type of organizational personnel changes until after the new Executive Director is hired.

Ms. Oakley moved that the Board adopt the 2020 Proposed Operating and Capital Expenditures Budget. Mr. Landis seconded the motion, which passed 4-0.

4. Consider and Act on Resolution Transferring Monies from Interest Reserve Account to Expense Fund

Ms. Covarrubias began by explaining that the Board attempts to maintain its Fund Balance/Reserves in the Expense Fund at 15% of the following year's budget expenses. It was noted that the funds remaining from the 2019 budget would off-set the needed transfer. The transfer required by the TMRS Act is book entry only; funds remain invested in the Trust Fund until the actual operating expenditures are made.

Ms. Oakley moved that the Board adopt a resolution to transfer \$34,176,000 from the Interest Reserve Account in the Trust Fund to the Expense Fund to cover budgeted expenses for

2020. Mr. Landis seconded the motion; which passed 4-0.

5. Consider and Act on Proposed Amendments to Board of Trustee Bylaws and Other Governance Documents Regarding Board Officer Terms, Roles and Other Matters (formerly item #6 on the Thursday, December 5, 2019 agenda)

Ms. Sweeney presented the proposed amendments to the Board Bylaws and other governance documents regarding Board Officer Terms and Roles. Ms. Sweeney highlighted previous discussions and suggestions for further revisions to the proposed Bylaws changes, as well as conforming amendments to the Legislative Committee and Advisory Committee on Benefit Design Charters.

The current TMRS Charter for the Legislative Committee and the TMRS Charter for the Advisory Committee on Benefit Design include proposed conforming changes to reflect the proposed Bylaws changes which specify that the Board Chair will be one of the two Trustee members of the Legislative Committee and that the Board Vice Chair will be one of the two Trustee members of the Advisory Committee on Benefit Design.

Mr. Landis moved that the Board approve the proposed revisions to the Bylaws and the proposed conforming changes to the respective Charters for the Legislative Committee and Advisory Committee on Benefit Design. Ms. Oakley seconded the motion; which passed 4-0.

6. Consider and Act on Private Equity Manager Search Recommendation(s) (formerly #7 on the Thursday, December 5, 2019 agenda)

Mr. Schelling, Mr. Teneriello and Mr. Borton from StepStone Group, LLC presented the Private Equity manager recommendation. The proposed new allocation for Parthenon Investors VI (Parthenon) totals \$50 million.

Mr. Teneriello reviewed the due diligence process, and outlined the Private Equity annual pacing plan, the portfolio construction and portfolio statistics.

Parthenon Capital Partners makes growth-oriented buy-out investments primarily in the financial services and health care sectors across the United States. Parthenon is targeting \$1.5 billion to make up to 15 investments. Post-investment, the Parthenon team will typically recruit new executives to their portfolio companies, while conducting several add-on acquisitions and improving their technology infrastructure. Parthenon will continue to execute the same strategy employed since Fund III.

Mr. Borton agreed with the manager recommendation and discussed how Parthenon represents a compelling investment opportunity.

Mr. Garza asked if there are things within the Board's purview that will assist in not missing investment opportunities. Mr. Carlson noted that the changes the Board is contemplating will assist in that process. Further discussion focused on how the team is getting closer to meeting the Private Equity pacing targets during the year.

Mr. Garza 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 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)
Parthenon Investors VI, L.P.	Buy-out	\$50 million	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 4-0.

7. Consider and Act on 2020 System-wide Investment Pacing Plan (formerly #8 on the Thursday, December 5, 2019 Agenda)

Mr. Carlson presented the 2020 System-wide Investment Pacing Plan (SIPP). The Strategic Asset Allocation was adopted for the investment program in September 2019 and it will be effective January 1, 2020. Implementation of this allocation, and previous allocations, has been deliberate and paced. The public equity and core fixed income asset classes will continue to serve as the funding sources for the other asset classes so they will continue to decline towards their target allocations over time.

For purposes of planning and efficiency in conducting searches related to investment activities, the Board approves an annual pacing plan for all asset classes and ancillary needs (the SIPP). The Board reviews and adopts this pacing plan annually to authorize searches to effect these plans.

While every effort is made to allocate to these opportunities as presented, some investment options are time sensitive and may need to be moved. The Board is notified of items not addressed in the annually approved SIPP, or expected timing changes when known, through the normal process of receiving an updated SIPP in the Board materials.

Private Equity will be expanded due to an increase to the asset allocation and Mr. Carlson also noted several of the General Investment activities that will be on-going during 2020.

Ms. Landis moved that the Board adopt the 2020 System-wide Investment Pacing Plan as presented, and authorize manager searches and other activities related to this pacing plan, and authorize TMRS staff to review and update the SIPP as necessary or appropriate during the year to meet the needs and best interests of TMRS, provided the Board is notified of such revisions and updates. Ms. Oakley seconded the motion; which passed 4-0.

8. Consider and Act on Election of Board Officers for 2020 (formerly #9 on the Thursday, December 5, 2019 Agenda)

Mr. Landis moved that the Board re-appoint the current Board officers until the next Board meeting and place the election on that agenda. Ms. Oakley seconded the motion; the motion passed 4-0.

9. Consider and Act on Board Committee(s) Creation or Modification, Appointment(s), and Reappointment(s) for 2020 (formerly #10 on the Thursday, December 5, 2019 Agenda)

Mr. Landis moved that the Board re-appoint current Committee Members until the next Board meeting. Ms. Oakley seconded the motion; which passed 4-0.

10. Consider and Act on 2020 Board Calendar/Work Plan, including Board Meeting Dates and Locations (formerly #11 on the Thursday, December 5, 2019 Agenda)

Mr. Gavia noted that he requested and received feedback from the Board of Trustees regarding the proposed 2020 Board meeting dates and it was noted that all Board meetings will be in Austin.

The following dates were selected for the 2020 TMRS Board meetings:

February 13-14
March 24-25
May 28-29
June 25-26
August 20-21
September 17-18
October 22-23
December 3-4

Ms. Oakley moved that the Board set the meeting dates and locations for 2020 as suggested. Mr. Landis seconded the motion, which passed 4-0.

11. Consider and Act on Amendments to Funding Policy (formerly #12 on the Thursday, December 5, 2019 Agenda)

Ms. Hardy reviewed the proposed amendments to the Actuarial Funding Policy. The key elements of a funding policy include a description of the actuarial cost method, asset smoothing method, amortization methods and actuarial assumption processes. From time to time, the actuarial funding policy will need to be updated as changes occur. Accordingly, the 2015 Funding Policy needs to be updated to reflect the changes in actuarial assumptions and methods adopted by the Board at the October 31, 2019 meeting as part of the 2019

Experience Study. While most of the 2019 changes in actuarial assumptions are not related to the current funding policy, an update to the asset smoothing method, amortization policy and phase-in methodology language is required.

In addition, the 86th Legislature added Texas Government Code §802.2011, through Senate Bill 2224 (SB 2224), which requires the governing body of a public retirement system to adopt a written funding policy that details their plan for achieving a funded ratio that is equal to or greater than 100%. This funding policy must be adopted by January 1, 2020 and submitted to the Pension Review Board (PRB) by February 1, 2020. Ms. Hardy reviewed the proposed changes to the Funding Policy to be updated based on changes made to the actuarial assumptions and minor edits to clarify provisions required by Texas Government Code §802.2011. The Funding Policy was also revised to reference the relevant changes in the TMRS Act, through the passage of SB1337 effective January 1, 2020, regarding amortization periods and the phase-in of contribution rate increases resulting from actuarial changes. Finally, the Funding Policy was updated to incorporate all provisions of the Closed Plan Amortization Policy along with the Ad Hoc Updated Service Credit and Annuity Increase Amortization Policy. These two separate funding policies will be superseded by the adoption of this proposed Actuarial Funding Policy.

Ms. Oakley moved that the Board adopt the Actuarial Funding Policy effective January 1, 2020. Mr. Garza seconded the motion; which passed 4-0.

12. Consider and Act on Alternative Board Processes for Approval and/or Delegation of Investment Manager Selections and Terminations, including Possible Amendments to the Investment Policy Statement (formerly #5 on the Thursday, December 5, 2019 Agenda)

Ms. Beard, Ms. McDuffee and Mr. Klausner continued discussions regarding the processes for TMRS' selection, management, and termination of investment managers. After discussion of four possible alternative models for Board approval at the September Board meeting, the Board expressed a preference for Model A. The suggested Investment Policy Statement (IPS) changes are based on the hybrid model, Model A concepts, delegating authority with collars, to the Executive Director. For public markets, the collar is 3% of the market value of the System's assets. For Private Markets, the collar is 0.75% of market value of System's assets. For these purposes, market value is the market value of the System's assets as reported in the most recent TMRS Comprehensive Annual Financial Report (CAFR).

Ms. Beard highlighted some of the additional revisions. The roles and responsibilities were revised to clarify the Executive Director's responsibilities, the Investment Committee was added to this section and the Investment Committee Charter was included as an Appendix to the IPS, and the glossary was edited based on relevance.

Mr. Klausner noted that the Board wanted clear lines of authority and accountability. He indicated that he is satisfied that the IPS meets the Board's statutory requirements, fiduciary duty, and meets current best practice standards for funds of this size.

Mr. Philibert asked if there were any downsides to the policy and none were noted.

Due to the Executive Director search, there was discussion regarding the timing of making this type of change to the delegation authority and to the revisions to the IPS.

No action was taken. This item will be taken up at a future Board meeting.

13. Fixed Income Annual Class Review (formerly #16 on the Thursday, December 5, 2019

Agenda)

Mr. Weiner, Mr. Gaymer and Mr. Bowland presented the Fixed Income annual review. Mr. Gaymer reviewed the initiatives accomplished and the progress that has been made over the past five years focusing on internal processes. The Fixed Income team continues to meet with managers looking for additional opportunities in the markets. He concluded by stating that twenty-four Fixed Income managers are in good or excellent standing, with one manager rated fair and one rated unsatisfactory.

Mr. Bowland reviewed the Core versus Non-Core Fixed Income strategies and portfolio construction. Implementation Risk Ranges defined in the Investment Policy Statement were reviewed and were in compliance. Risk and Return were important considerations in how the Non-Core portfolio was built. Realized return volatility has been lower than the benchmark for the last three years. The universe of investment options was highlighted and both Core and Non-Core have out-performed their benchmarks on a rolling five-year basis. Core Fixed Income continues to fund Non-Core Fixed Income and other asset classes.

Mr. Weiner discussed the Private Credit allocation. The broader opportunity set within the private credit universe was reviewed as well as the specific private credit managers held within the Non-Core portfolio. Mr. Weiner discussed the reasons to invest in Private Credit. Over the last five years, TMRS' Fixed Income portfolio has outperformed 92% of plans included within the RVK public pension universe.

At 4:00 p.m., Mr. Garza and Ms. Oakley departed the meeting. A quorum was lost and the meeting officially ended. A meeting did not take place on Friday, December 6, 2019, due to the lack of a quorum.



David Gavia
Executive Director



Bill Philibert
Chair, Board of Trustees