

I attended the TMRS Board Meeting on June 28-29 in Austin.

Takeaways from the meeting:

Agenda Item #2 – Consider and Act on the Compensation Study

- From the previous meeting in May: Gallagher Benefit Services' Fox Lawson Group (FLG) was engaged to perform a review of base compensation for the TMRS staff and make recommendations regarding: 1.) Current state of compensation, 2.) Market competitiveness of specific employee benchmarks, 3.) Salary structure adjustments based on market data and internal hierarchy; and 4.) Costs associated with recommendations.
- This presentation represented the 2nd step of the Compensation Study – the Implementation Strategy for the "Investment" TMRS positions.
- Recommend a 2-step implementation for compensation adjustments for the Investment TMRS positions: ½ of any compensation increases become effective July, 2018, and the remaining ½ increase becomes effective in January, 2019.
- No additional budget amendment or additional funds needed for 2018 as all compensation increases and related benefits are covered by merit increases, savings and unfilled positions.
- A motion was made for approval and passed.

Agenda Item #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

- Purpose is to review the TMRS Act and Rules to identify the need for possible statutory or rule changes to improve TMRS' plan design and operations.
- The 12 topics discussed included: 1.) TMRS Board Meetings, 2.) Immunity and Liability Protections, 3.) Legal Advisor, 4.) Confidential Information, 5.) Investment of Assets – Definition of Security, 6.) Providing Information Electronically to Members and Retirees, 7.) Amortization Period, 8.) Statutory Maximum Rate of Contribution, 9.) Prior Service Credit and Updated Service Credit (USC), 10.) Cost of Living Adjustments (COLA's), 11.) Return to Work, and 12.) Retiree Supplemental Death.
- To no surprise, the topics of both COLA's and Return to Work seemed to have garnered the most attention and discussion.
- GFOAT Board, it's highly likely that the TMRS Advisory Committee – of which I'm part of and represent GFOAT – will be tasked with researching and making recommendations to the TMRS Board of any potential changes, additions, deletions, etc. to the existing policies as they relate to COLA's and Return to Work. TMRS Board Members David Landis and Jesus Garza chair and co-chair the Advisory Committee on Benefit Design and they would be the ones to lead and guide this effort. **Once something is finalized regarding this, I will be reaching out to all of you to gather any input and opinions on these topics as I want to be sure and be the voice of GFOAT on these important topics!**

Agenda Item #4 – Consider and Act on Appointment(s) to the Advisory Committee on Benefit Design

- Jaime Reyes, Fire Fighter with the City of Plano, was nominated to replace Billy Whitson, Fire Fighter with the City of Richardson, as the Texas State Association of Fire Fighters (TSAFF) alternate representative to the TMRS Advisory Committee on Benefit Design (Group Class).
- A motion was made and passed naming Jaime Reyes as the TSAFF alternate representative to the TMRS Advisory Committee on Benefit Design (Group Class).

Agenda Item #5 – Consider and Act on Non-Core Fixed Income Manager Search Recommendation(s)

- Angelo Gordon & Company, L.P. was recommended for investing in non-core fixed income. Approval was recommended up to \$250 million.
- H.I.G. Capital L.P. (Whitehorse) was recommended for investing in non-core fixed income. Approval was recommended up to \$150 million.
- Verde Management, L.P. was recommended for investing in non-core fixed income. Approval was recommended up to \$200 million.
- Motion made to accept the Non-Core recommendations for a total up to \$600 million. Motion passed.

Agenda Item #6 – Consider and Act on Private Equity Manager Search Recommendation(s)

- CapVest Partners was recommended for investing in private equity. CapVest targets companies in consumer staples, healthcare and essential services businesses across Northern and Western Europe. Approval was recommended up to \$53 million.
- H.I.G. Capital L.P. (Whitehorse) was recommended for investing in private equity. H.I.G. Capital invests in leveraged buyouts, growth equity, special situations, credit, direct lending, and real estate. Approval was recommended up to \$200 million and a \$100 million co-investment.
- Motion made to accept the Private Equity recommendations for a total up to \$353 million. Motion passed.

Agenda Item #7 – Consider and Act on Absolute Return Manager Search Recommendation(s)

- Varde Asia Credit Fund, L.P. was recommended for investing in absolute return. Varde targets corporate credit and special situations opportunities, but will also participate in stress/distressed real estate. Approval was recommended up to \$50 million.
- BAAM Stone Oak Fund, L.P. and Stone Oak Select were recommended for investing in absolute return. Both target idiosyncratic opportunities across geographic and asset classes. Approval was recommended up to \$250 million and \$100 million respectively.
- Motion made to accept the Absolute Return recommendations for a total up to \$400 million. Motion passed.

Agenda Item #9 – Receive SOC-1 Audit Report

- TMRS received a clean audit report and opinion was unqualified. Audit report was presented by KPMG.

Agenda Item #10 – Receive Report on 2017 External Audit Results (SAS 114) and Auditor Report to the Board of Trustees

- TMRS received an unmodified (clean) opinion. Audit report was presented by KPMG.

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

- Motion made to accept Schedule of Changes in Fiduciary Net Position. Motion passed.

Agenda Item #12 – Discussion of Board Preference for Future Board Governance Education Session

- TMRS Board Member Jesus Garza requested education in the following topics:
 1. Incorporating the role of Committees both advisory and legislative.
 2. Comparative analysis to other Boards – how many committees, relationships, structure, etc.
 3. Relationship between Board and consultants. What are the best practices?
 4. Succession planning.

- TMRS Board Member Bill Philibert requested education in the following topic:
 1. Best practice principals.

Agenda Item #13 – Review and Discussion of TMRS Pension Administration System

- This presentation was the second one on this topic. The previous presentation occurred at the February TMRS Board Meeting.
- The current city contribution system runs on unsupported software, includes security risks, and is antiquated and non-intuitive.
- TMRS staff presented various options to the Board which included replacing the city contribution system as well as conducting a pension administration system assessment for long-term.
- The TMRS Board instructed staff to come back at a future meeting with additional information and recommendations. Chair Jim Parrish suggested the possibility of creating a sub-committee to lead this initiative.

Agenda Item #15 – Chief Investment Officer Management Update including Governance, Personnel, Manager Updates and Other Related Matters

- A new Analyst for Real Return will be starting employment with TMRS next week.
- TMRS is down to 2 candidates for a Fixed Income Analyst position.

Agenda Item #18 – Executive Director and Staff Reports

- More TMRS staff will start telecommuting in the future. TMRS did a pilot program with some of the call center staff and everything seemed to go well. They hope to expand this to additional TMRS staff.

Hand-outs and Agenda for the TMRS Board Meeting are available on the following site: <https://www.tmr.com/governance.php>

Please let me know if you have any questions or need clarification on any of the items on the agenda.

Next TMRS Board Meeting: August 23-24, 2018. There is no meeting in July.

Casey Srader