

Title: TMRS Board Meeting – Austin, TX – December 6-7, 2018

Takeaways from the meeting:

Agenda Item #2 – Legislative Update

1. TMRS staff member Dan Wattles and TMRS legislative consultant Ron Lewis gave an update on the upcoming 86<sup>th</sup> Texas Legislative Session.
2. At the time, more than 700 Bills had been filed so far for review. Of that amount, 12-15 are pension-related. However, none seem to be directly related to TMRS or seem to have any direct impact on TMRS.

Agenda Item #3 – Consider and Act on TMRS Legislative Agenda

- This item is a continuation of the review of the on-going TMRS Act Project. However, this is the final agenda item for this topic.
- 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.
- Just to review, there were 9 Legislative Proposals (5 Board Governance & Legal Proposals and 4 City-Related and Administration Proposals) that the TMRS Board has identified as "priority items".

Topics of the 5 Board Governance & Legal Proposals:

1. Board Meetings
2. Immunity and Liability Protection
3. Legal Advisor
4. Confidential Information/Audit Working Papers
5. Investment of Assets – Definition of Security

Topics of the 4 City-Related and Administrative Proposals:

1. Amortization Periods
  2. Prior Service Credit and Updated Service Credit
  3. Providing Information Electronically
  4. Occupational Disability
- Motion was made to move forward with the 9 Legislative Proposals for Bill legislation. Motion passed.
  - Finally, keep in mind that the 3 Benefit Design Legislative Proposals (COLA's, Return to Work, and Retiree Supplemental Death) will not be moving forward at this time for Bill consideration.

Agenda Item #5 – Consider and Act on new Appointments and/or Reappointments to the Advisory Committee on Benefit Design

- TMRS staff member Dan Wattles presented the Board with 2 new nominations for consideration to the Advisory Committee on Benefit Design:
  1. Kevin Lawrence, representing the Texas Municipal Police Association (TMPA), will be rolling off and Mitch Landry has been nominated to replace him.
  2. Greg Shipley, representing the Combined Law Enforcement Associations of Texas (CLEAT), will be rolling off and Scott Wheaton of the Corpus Christi Police Officers Association has been nominated to replace him.
  
- Motion made to accept these 2 nominations. Motion passed.

Agenda Item #6 – Consider and Act on Proposed 2019 Operating Budget

- TMRS staff member Rhonda Covarrubias, Director of Finance, presented goals and accomplishments of 2018, on-going projects of 2018, and highlights of the 2019 Proposed Budget.
- It is anticipated that the 2018 Budget will come in at approximately \$2.6 million under due primarily to unfilled or partially filled positions. Excess/unused funds from the 2018 Budget will be used to off-set the 2019 Budget transfer.
- Highlights of the 2019 Proposed Budget include:
  1. Total Proposed 2019 Budget is \$32.6 million, which includes administrative and capital expenditures. This represents a \$2.3 million increase over the 2018 Budget.
  2. New items include 5 new positions (4 FT and 1 PT with no benefits), a 4% salary merit increase, and various consulting/contractual/capital/miscellaneous increases and additions.
  3. The new position additions include: 1 Private Equity Analyst, 1 Operations Analyst, 1 Retirement Specialist, 1 Administrative Assistant, and 1 part-time Receptionist.
  
- A TMRS Board Member asked if in the future, could a 5-year history of the total Budget be included?
- Another TMRS Board Member in addition asked if this 5-year history could be broken out by areas (i.e. personnel, O&M, capital, etc.).
- Motion made to approve the 2019 Budget as presented. Motion passed.

Agenda Item #8 – Consider and Act on Private Equity Manager Search Recommendation(s)

- Udata Partners VI, L.P. was recommended for investing in private equity. Approval was recommended up to \$50 million. Udata Partners is a growth equity firm that targets investment in the business-to-business software and software-enabled service sectors in undercapitalized geographies outside of the San Francisco Bay area.
- Motion made to accept the Private Equity recommendation for up to \$50 million. Motion passed.

Agenda Item #9 – Consider and Act on Budget Committee Charter and Agenda Item #10 – Consider and Act on Compensation Committee Charter

- TMRS staff member Christine Sweeney outlined very minor changes/revisions to both of these Charters.
- Motions were made to approve the minor changes/revisions to both Charters. Motions passed.

#### Agenda Item #11 – Discuss Status of Strategic Plan Communication Tool

- TMRS staff member Jesse Pittman gave an overview of the draft Strategic Plan Communication template which includes chronicles the Plan’s goals, objectives, desired outcomes, due dates of any initiatives, and the status of each of these.
- The TMRS Board overall liked what they saw and the look of the template.
- A TMRS Board Member mentioned that the Mission Vision Values (MVV) needs to be stressed and included in the template.

#### Agenda Item #13 – Consider and Act on Election of Board Officers

- Current TMRS Vice Chair Bill Philibert was nominated to become Chair beginning 2019.
- Current TMRS Board Member David Landis was nominated to become Vice Chair beginning 2019.
- Motion was made to accept both nominations. Motion passed.

#### Agenda Item #14 – Consider and Act on Board Committee(s) Creation, Appointment(s), and Reappointment(s)

- Motion was made to create a new Technology Committee. Motion passed.
- 2019 Board Committees are comprised of:
  1. Advisory Committee on Benefit Design – Jesus Garza (Chair) and David Landis (Vice Chair)
  2. Compensation Committee – Julie Oakley (Chair) and Bill Philibert (Vice Chair)
  3. Legislative Committee – Bill Philibert (Chair) and Jim Parrish (Vice Chair)
  4. Budget Committee – Julie Oakley (Chair) and Jim Jeffers (Vice Chair)
  5. Internal Audit Committee – Jim Jeffers (Chair) and David Landis (Vice Chair)
  6. Technology Committee – Jim Parrish (Chair) and Jesus Garza (Vice Chair)
- Motion made to approve all assignments. Motion passed.

#### Agenda Item #15 – Consider and Act on Investment Manager Redemption and Allocation Recommendations

- TMRS staff recommended to the Board changes to the U.S. Equity Portfolio as set forth by the current core/satellite approach from the passive only structure.
- Based on many reasons, TMRS staff recommended a change in the U.S. Equity Portfolio – primarily due to under-performing investment managers and risk factors.
- TMRS staff recommended the redemption of the current investment managers to allocate the assets to the following existing strategies: 1.) Northern Trust Collective Russell 3000 Index Fund

- Non-Lending (50% or approximately \$500 million), and 2.) UBS U.S. Equity Minimum Volatility Index Collective Fund (50% or approximately \$500 million).
- One of the next steps involves the transition of assets by mid-December using a transition manager and then present the asset class review in March 2019 and discuss the recommended path forward with the TMRS Board.
- Motion made to move forward with recommended strategy. Motion passed.

#### Agenda Item #16 – Consider and Act on Proposed Revisions to Investment Policy Statement

- TMRS staff member TJ Carlson gave an overview of the proposed minor changes/revisions to the existing Investment Policy Statement.
- A TMRS Board Member stated that the Board overall needs to do a better job of discussing and telling staff what type of investments (asset classes) to invest in and give more overall guidance to TMRS staff. Board needs to set a clear vision and steps how to obtain.
- Another TMRS Board Member agreed and also reiterated that this needs to be a big part of the future TMRS Board Governance Retreat planned in April, 2019.
- Another TMRS Board Member suggested doing some type of governance primer before that actual Governance Retreat in 2019.
- Motion was made to accept the minor changes/revisions to the Investment Policy Statement as presented by TMRS staff – excluding the portion delegating fund successor language.

#### Agenda Item #17 – Consider and Act on 2019 System-wide Investment Pacing Plan

- TMRS staff member TJ Carlson recommended moving the planned Asset Liability Study previously planned in 2020 to 2019 to coincide with the Coordination Study with Gabriel, Roder, Smith & Company (GRS).
- Motion made to approved this recommendation. Motion passed.

#### Agenda Item #18 – Fixed Income Annual Asset Class Review

- TMRS staff gave an overview of 2018 fixed income accomplishments.
- TMRS staff also gave initiatives for 2019 including assessing and potentially implementing more strategic and direct investor mandates to drive down costs and improve net returns.

#### Agenda Item #19 – RVK Quarterly Report

- The total fund composite market value for TMRS is \$29.1 billion which includes a 1.89% return for the quarter.

#### Agenda Item #22 – Executive Director Update: Member Services Department

- TMRS staff member Debbie Munoz gave an overview of all the functions and responsibilities of the Member Services Department – the largest department in TMRS. The Member Services

Department consists of: Membership Team, Retirement Team, Support Services Team, Call Center, and Management Team.

Agenda Item #23 – Executive Director and Staff Reports

- TMRS Executive Director David Gavia discussed possible dates in April for the 2019 TMRS Board Governance Retreat. Location is still TBD.
- Mr. Gavia also discussed policy review and perhaps developing some type of inventory of all TMRS policies, charters, by-laws, etc. Ideally, develop some type of user-friendly combined repository. During this process, review and determine which are still relevant, which need updates, items which might be good to have that currently don't exist, etc.

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: February 14-15, 2019.

Casey Srader