

Texas County & District Retirement System
Minutes of the Board of Trustees' Meeting
June 21, 2018

Agenda Number	Description
1	Call meeting to order
2	Receive report of fiduciary counsel
3	Executive session in accordance with Texas Government Code Section 551.071 for the purpose of seeking advice of legal counsel on a matter subject to attorney-client confidentiality and relating to a current agenda item
4	Consider consent agenda items
a	April 2018 regular meeting minutes
b	Quarterly financial statements
c	Participation of new districts
5	Consider executive director's monitoring report
6	Consider chief investment officer's monitoring report
7	Receive investment performance measurement and investment consultant reports
8	Consider hedge funds, distressed debt, private real estate, strategic credit, direct lending and private equity investments
9	Consider amendment(s) and update(s) to investment policy
10	Consider amendments to TCDRS Ethics Policy
11	Consider report of consulting actuary and approve 2019 contribution rates
12	Consider report of independent financial auditor
13	Consider report on operations
14	Consider amendment(s) to board's governance policies
15	Consider publishing of proposed amendments to TX Administrative Code
16	Receive report of legal counsel
17	Receive report of deputy director
18	Receive report of director
19	Receive report of chair
20	Consider compliance at this meeting with board's governance policies
21	Adjournment

The Board of Trustees of the Texas County & District Retirement System met on June 21, 2018 in Austin, TX.

Attendees:

Trustees:

1. Robert A. Eckels, Chair
2. Bob Willis, Vice-Chair
3. H.C. "Chuck" Cazalas
4. Mary Louise Garcia
5. Deborah M. Hunt
6. Bill Metzger

Trustees not attending:

7. Chris Davis
8. Bridget McDowell
9. Kristeen Roe

Staff:

Amy Bishop, Executive Director
Casey Wolf, Chief Investment Officer
Tom Harrison, Deputy Director
Sandra Bragg, Deputy Investment Officer
Ann McGeehan, General Counsel
John Hawes, Director, Finance
Chris Bucknall, Director, Actuarial Services
Kathy Thrift, Chief Customer Officer
Karen Correa, Chief Administrative Officer
Kris Valenta, Chief Strategy Officer
Julie Dwiggin, Executive Assistant
Tina Silguero, Legal Assistant
Chad Estes, Business Analyst

Consultants:

Mark Olleman, Milliman, Inc.
Nick Collier, Milliman, Inc.
Kathy Barchick, Cliffwater, LLC
Susan Warren, KPMG, Inc.
Chris Stone, KPMG, Inc.
Roy A. Cobb, KPMG, Inc.
Chuck Campbell, Jackson Walker

Others:

Shain Carrizal, Harris County

Bill Jackson, Harris County

Jason McElvaney, McElvaney Public Affairs

Note: The following minutes are referenced by permanent item and agenda numbers.

4537 (agenda no. 1) Call meeting to order

Chair Eckels called the meeting to order at 8:40 a.m.

4538 (agenda no. 2) Receive report of fiduciary counsel

Chuck Campbell, with Jackson Walker, presented the report of the fiduciary counsel which included discussion of agenda item 10 (amendments to Code of Ethics) and agenda item 15 (publishing proposed amendments to Texas Administrative Code).

4539 (agenda no. 3) Executive session in accordance with Texas Government Code Section 551.071 for the purpose of seeking advice of legal counsel on a matter subject to attorney-client confidentiality and relating to a current agenda item

No executive session was conducted.

4540 (agenda no. 4) Consider consent agenda items

Amy Bishop presented three consent agenda items.

5a. Approval of April 2018 regular meeting minutes.

5b. Approval of quarterly financial statements as of March 31, 2018

5c. Approval of participation of seven new districts to join the system (Armstrong County Appraisal District, Brown County Appraisal District, Denton County Fresh Water Supply District #10, El Paso County Emergency Services District #1, Gregg County Appraisal District, Housing Authority of Travis County and Real County Appraisal District).

Motion: Trustee Cazalas made a motion to approve the consent agenda items. Trustee Hunt seconded. Motion carried.

4541 (agenda no. 5) Consider executive director's monitoring report

Amy Bishop presented the executive director's monitoring report, which included the annual *EL2 – Services to Members and Employers* and the quarterly *EL5 – Financial Activities*. Ms. Bishop discussed each monitoring report and reported on compliance with one exception to EL5 related to benefit payment timeliness. Ms. Bishop explained that 195,348 out of 195,397 monthly benefit payments were paid timely. There were several special cases that required additional processing, but each delayed payment was reviewed by executive staff and management and process changes will be implemented in the third quarter which will eliminate the need for additional processing.

Motion: After discussion, Trustee Hunt made a motion to approve the executive director's monitoring report. Trustee Metzger seconded. Motion carried.

4542 (agenda no. 6) Consider chief investment officer’s monitoring report

Casey Wolf, Chief Investment Officer, presented the chief investment officer’s monitoring report which included the quarterly *EL5 – Financial Activities* and *EL11 – Investment Policies*. Mr. Wolf discussed each monitoring report and reported compliance with the executive limitations as required by the Board of Trustees’ Policy Manual.

Motion: After discussion, Trustee Garcia made a motion to approve the investment officer’s monitoring report. Trustee Hunt seconded. Motion carried.

4543 (agenda no. 7) Receive investment performance measurement and investment consultant reports

Casey Wolf and Kathy Barchick, with Cliffwater, presented the investment performance measurement and investment consultant reports for the period which ended March 31, 2018.

4544 (agenda no. 8) Consider hedge funds, distressed debt, private real estate, strategic credit, direct lending and private equity investments

The report on hedge funds, distressed debt, private real estate, strategic credit, direct lending and private equity investments was combined with agenda item 4543 above.

Motion: After discussion, Trustee Hunt made a motion to accept the *Board Resolution for Approval of Investments*, proposed by Cliffwater and the chief investment officer, regarding acquiring equity interests in hedge funds, distressed debt, direct lending, private equity investments, strategic credit and real estate. Trustee Metzger seconded. Motion carried.

Note: *The Resolution for Approval of Investments is essentially a forward calendar of possible investments that may be made by the Chief Investment Officer following successful due diligence. There is no assurance that any of the authorized investments will ultimately result in commitments by TCDRS. Actual commitments are reported as they close on the [Investments](#) page on the TCDRS website.*

Board Resolution for Approval of Investments

WHEREAS, the Board has reviewed the Investment Officer’s Investment Recommendations to use TCDRS assets to acquire equity interests (collectively, the “**Investments**”) in those certain private equity, distressed debt, direct lending, strategic credit, real estate, and hedge funds (each, a “**Fund**” and collectively, the “**Funds**”) named on Schedule I attached hereto; and

NOW, THEREFORE, BE IT RESOLVED, that the terms and provisions of the proposed Investments as described in those certain Investment Recommendations dated June 21, 2018, for the Funds be approved; and be it further

RESOLVED, that the Investment Officer be, and he hereby is, authorized to make such further revisions to the terms and provisions of each of the proposed Investments as may be necessary or in the best interests of TCDRS; and be it further

RESOLVED, that for private equity, distressed debt, and real estate funds approved in this and prior Board resolutions, the Investment Officer is authorized to invest an amount in each such approved fund equal to the maximum amount listed below that corresponds to such fund’s category of investment:

Buyout	\$150 million	Real Assets	\$150 million
Venture Capital	\$75 million	Distressed Debt	\$100 million or equivalent in € or £
Non-U.S.	\$150 million or equivalent in € or £	Real Estate	\$125 million or equivalent in € or £

RESOLVED, that for hedge funds approved in this and prior Board resolutions, the Investment Officer is authorized to invest amounts in such approved funds consistent with the investment objectives, guidelines, and style targets described in Section 13 of the TCDRS Investment Policy and the allocation bands in Table I of the TCDRS Investment Policy.

RESOLVED, that for strategic credit and direct lending funds approved in this and prior Board resolutions, the Investment Officer is authorized to invest amounts in such approved funds consistent with the investment objectives and guidelines described in Section 11 of the TCDRS Investment Policy and the allocation bands in Table I of the TCDRS Investment Policy.

RESOLVED, that, from the date the Board adopts this resolution until the date of the next regularly scheduled Board meeting (the "Interim Period"), the Investment Officer be, and he hereby is, authorized to use TCDRS assets to acquire (or commit to acquire) an equity interest in a Fund that is not named on Schedule I attached hereto or in a prior Board resolution (a "Non-Scheduled Fund"), provided that (A) no more than \$500 million may be used during the Interim Period to acquire (or commit to acquire) Non-Scheduled Funds, (B) such acquisition or commitment is otherwise in compliance with the TCDRS Investment Policy and applicable law, and (C) the Investment Officer promptly notifies the Board of any acquisition of (or commitment to acquire) a Non-Scheduled Fund that occurs during the Interim Period, and be it further

RESOLVED, that during the Interim Period, the Investment Officer be, and he hereby is, authorized to use TCDRS assets to acquire (or commit to acquire) a direct interest in companies or other entities through co-investments with an existing general partner of an existing TCDRS investment in a private markets fund, even though such investments are not named on Schedule I attached hereto or in a prior Board resolution, provided that (A) no more than \$100 million may be used during the Interim Period for co-investments (or commitments for co-investments), (B) such co-investments are otherwise in compliance with the TCDRS Investment Policy and applicable law, and (C) the Investment Officer notifies the Board of co-investments that occur during the Interim Period prior to or at the next regularly scheduled meeting of the Board, and be it further

RESOLVED, that the Investment Officer be, and he hereby is, authorized and empowered to do or cause to be done all such acts or things and to sign and deliver, or cause to be signed and delivered, all such documents, instruments and certificates (including, without limitation, all notices and certificates required or permitted to be given or made under the terms of the Investments), in the name and on behalf of TCDRS, or otherwise, as the Investment Officer may deem necessary, advisable, or appropriate to effectuate or carry out the purposes and intent of the foregoing resolutions and to perform the obligations of TCDRS under the Investments and the instruments referred to therein.

SCHEDULE I

Distressed Debt

Cheyne European Strategic Value Fund

Private Equity & Co-Investments

Abry Partners IX – Buyout

Accel-KKR Small Cap – Buyout

Blackstone VIII – Buyout

CITIC PE – Non-US

(Draper, Fisher, Jurvetson) DFJ XIII – Venture

Invision VI – Non-US
PAG Asia III – Non-US
Principia Fund I – Non-US
Summit Ventures V– Venture
Thoma Bravo XIII – Buyout
Thrive Capital VI – Venture

Real Estate Investment Funds

Baring Real Estate Overage Fund – Opportunistic
Carmel VII – Opportunistic
Harrison Street VII – Opportunistic
Prime Storage Co-Invest Fund – Opportunistic
Rockpoint VI – Opportunistic

4545 (agenda no. 9) Consider amendment(s) and update(s) to investment policy

Casey Wolf presented amendments to the [TCDRS Investment Policy](#) and updates to Table I to incorporate the hedge fund and strategic credit benchmarks into the TCDRS Policy Index at portfolio weights and invest unfunded commitments equally in U.S. Equity and Investment-Grade Bonds.

Motion: After discussion, Trustee Cazalas made a motion to amend the [TCDRS Investment Policy](#) and update Table I to incorporate selected alternative investment benchmarks into the TCDRS Policy Index at portfolio weights and invest unfunded commitments equally in U.S. Equity and Investment-Grade Bonds. Trustee Hunt seconded. Motion carried.

4546 (agenda no. 10) Consider amendments to TCDRS Ethics Policy

Ann McGeehan, General Counsel, presented draft amendments to the [TCDRS Ethics Policy](#) which consisted of adding four newly created staff positions (Chief Administrative Officer, Chief Customer Officer, Chief Strategy Officer and Credit Manager) within the definition of Key Employee and also included non-substantive clean-up language.

Motion: After discussion, Trustee Cazalas made a motion to approve the proposed amendments to the [TCDRS Ethics Policy](#) as recommended by staff. Trustee Hunt seconded. Motion carried.

4547 (agenda no. 11) Consider report of consulting actuary and approve 2019 contribution rates

Mark Olleman and Nick Collier, both with Milliman, presented the report of the consulting actuary.

Mr. Olleman and Mr. Collier presented the key findings from the Dec. 31, 2017 actuarial valuation. Their presentation included an overview of valuation basics, 2019 employer contribution rates, plan funded ratios, Group Term Life Fund and general reserves.

Mr. Olleman recommended that the board adopt the required pension plan contribution rates for plans with no changes for 2019 as shown in Appendix A of Milliman's [System-Wide Actuarial Valuation as of December 31, 2017](#), and authorized Milliman to calculate 2019 required rates for employers that adopt changes to plan provisions and as necessary to reflect special situations that require rate revisions. They also recommended the board adopt premium rates for employers electing coverage under the Group Term Life Fund for 2019 as shown in Appendix-C of Milliman's [valuation report](#).

Motion: After discussion, Vice-chair Willis made a motion to approve the 2019 retirement plan employer contribution rates for plans with no changes and the 2019 premium rates for the Group Term Life Fund as recommended by Milliman in the [System-Wide Actuarial Valuation as of Dec. 31, 2017](#) and authorize Milliman to calculate the 2019 employer contribution rates for employer plans that adopt plan changes. Trustee Hunt seconded. Motion carried.

4548 (agenda no. 12) Consider report of independent financial auditor

Susan Warren, Chris Stone and Roy Cobb, all with KPMG, presented the results from KPMG's independent financial audit of TCDRS' Dec. 31, 2017 financial statements. The report included a discussion of the responsibilities of management, trustees and KPMG regarding the audit. Ms. Warren stated that TCDRS received an unmodified ("clean") opinion.

She also reviewed the results of the SOC-I audit which gives employers' auditors assurance that the data provided for their financial reports are reliable. TCDRS received an unqualified ("clean") SOC-I audit.

Motion: After discussion, Trustee Metzger made a motion to accept the audit report by KPMG. Trustee Hunt seconded. Motion carried.

4549 (agenda no. 13) Receive report on operations

Karen Correa, Chief Administrative Officer, and Kris Valenta, Chief Strategy Officer, presented the report on operations.

Ms. Correa presented the [2017 TCDRS Comprehensive Annual Financial Report \(CAFR\)](#). The creative concept of the CAFR this year focused on the amazing members that have contributed to Texas this year, particularly during Hurricane Harvey. In addition, Ms. Correa highlighted the various sections of the CAFR and several key stats including that our assets have grown to \$30 billion.

Mr. Valenta began with an overview of the TCDRS Strategic Plan and how it is connected to the Board's Ends Policy. Mr. Valenta then gave a presentation on the new member portal enhancements, which include more online self-service options, including applying for benefits, optimized mobile experience, improved website security and better web analytics. These enhancements are targeted for rollout later this year.

4550 (agenda no. 14) Consider amendments to board's governance policies

There were no amendments presented at this meeting.

4551 (agenda no. 15) Consider publishing of proposed amendments to TX Administrative Code

Ann McGeehan presented the following four proposed amendments to the administrative rules concerning qualified domestic relation orders for approval to be submitted to the Texas Register for public comment.

Proposed amendment to rule 109.2(1) Definition of accumulated contributions. The proposed amendment makes it clear that accumulated contributions do not include employer matching or any employer-provided credits.

Proposed amendment to rule 109.2(4) Definition of alternate payee. The proposed amendment makes it clear that the confidentiality protections provided in the TCDRS Act apply to alternate payee.

Proposed amendment to rule 109.4 Requirements for QDROs. The first proposed amendment affects subsection (a) and repeals language referring to a rule that was repealed effective January 2018. The second proposed amendment affects subsection (b) and requires that a QDRO be signed by both parties or, in the alternative, requires the person submitting the QDRO to provide proof that the other party received notice of the QDRO.

Proposed amendment to rule 109.12 Payments to Alternate Payees. Under the proposed amendment, if an alternate payee dies before commencing a benefit, the remaining benefit would be payable to the alternate payee's spouse, or if no surviving spouse, to the alternate payee's estate.

Motion: After discussion, Trustee Garcia made a motion to approve the publishing of proposed amendments to Chapter 109 of the TX Administrative Code. Trustee Hunt seconded. Motion carried.

4552 (agenda no. 16) Receive report of legal counsel

Ms. McGeehan reported that the legal division was busy with routine matters, and that no unusual matters were pending.

4553 (agenda no. 17) Receive report of deputy director

Tom Harrison, Deputy Director, presented the deputy director's report that included a leasing activity report for the rentable space not occupied by TCDRS in the building that it owns and a report on building improvements to the TCDRS building.

Mr. Harrison also presented updates on the Pension Review Board and House Pension Interim committee meeting schedule.

4554 (agenda no. 18) Receive report of director

Amy Bishop presented the director's report which included a report on information security and a caution on phishing email scams. Ms. Bishop reminded the board about the upcoming TCDRS annual conference, and also reported on the board's linkage survey, strategic plan, testing of web enhancements and new staff training program, WIRED, which will all begin in the next monitoring period.

4555 (agenda no. 19) Consider report of chair

Chair Eckels presented the report of the Chair in which he discussed the success of the recent investment educational training conducted by investment managers in Boston. He suggested that a glossary of key investment acronyms and terms would be useful and requested that staff consider adjusting future schedules to shorten individual manager meetings to have time to conduct necessary business with regard to their non-TCDRS related responsibilities.

4556 (agenda no. 20) Consider compliance at this meeting with the board's governance policies

The board discussed and determined its compliance during this meeting as required by governance policy *GP5 – Agenda Planning*.

4557 (agenda no. 21) Adjournment

There being no further business to come before the board, Chair Eckels adjourned the meeting at 12:08 p.m.

APPROVED BY THE TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM BOARD OF TRUSTEES ON THE 13TH DAY OF SEPTEMBER, 2018.

ATTESTED BY:



Amy Bishop
Executive Director & Secretary to the
TCDRS Board of Trustees

9-13-18

Date