Mr. Jim Williams, Chair, called the meeting to order at 1:41 p.m.

1. **System member and citizen comments/correspondence**
   
   There were no citizen comments nor any correspondence to share.

2. **Review order of business**
   
   There were no changes to the order of business, though the Board discussed the possibility of taking item #10 early.

3. **Receive reports on the following Board administrative matters:**
   A. **2015 annual financial disclosure statements**
   
   The Board noted that all financial disclosure statements were completed and shared.

   B. **Ethics policy disclosure statement**
   
   Chair Williams reminded Trustees to complete their ethics disclosure statements.
Mr. Chris Noak declared attendance at the Markets Group Texas Institutional Real Estate Investor Forum in Austin on February 23, 2016.

Mr. Chris Hanson declared meetings with Anna Cotten of ASPN Solutions; Warren DeKinder and Nancy Holden from INTECH; Mike Kinney from Westfield Capital; Jeff Porta from Northern Trust; and Brad Haughey and Craig Merrigan from Sprucegrove. He also declared attendance at Texas Private Equity Conference on February 26, 2016.

Mr. Russell Nash declared contact with MMRo and P-IRO in conjunction with the Disability RFP.

C. 2016 Board and Committee meeting schedule

Mr. Hanson noted the addition of special called Investment Committee meeting on April 19 to the schedule. It will follow the Disability Committee meeting.

D. List of Committee assignments

No changes were made to the list of committee assignments.

4. Consent items:
All of the following items may be acted upon by one motion. No separate discussion or action on any of the items is necessary unless desired by a Board Member.

A. January 26, 2016 Board Meeting Minutes
B. Ratification of December 2015 and January 2016 Retirement and Death Benefits

Mr. Anthony Ross moved to approve the consent items. Mr. Sam Jones seconded and the motion passed unanimously.

5. Disability Retirement Applications

A. Convene into executive session pursuant to Sec. 13, Art. 6243n, Tex. Rev. Civ. Stat. and Sec. 551.0785 Texas Government Code to consider and act on:
   1. Disability retirement application ref. # 4192
   2. Disability retirement application ref. # 3573

B. Reconvene into public session and take action as determined appropriate by the Board regarding:
   1. Disability retirement application ref. # 4192
   2. Disability retirement application ref. # 3573

The Board convened into executive session at 1:46 p.m. and reconvened into public session at 2:01 p.m.

Mr. Jones moved to deny the Disability retirement application ref. #4192. Mr. Ross seconded and the motion passed unanimously.
Mr. Jones moved to approve the Disability retirement application ref. # 3573. Mr. Ross seconded and the motion passed unanimously.

6. **Executive Session**
   A. Convene into executive session pursuant to Section 551.071, Texas Gov't Code, Section 1.05, Texas Disciplinary Rules of Professional Conduct, and Section 13, Article 6242n, Texas Revised Civil Statutes, to consult with legal counsel regarding laws governing the calculation of contributions and a request for refund of contributions
   B. Reconvene into open session to take action as deemed appropriate in the Board's discretion regarding the calculation of contributions and a request for refund of contributions

The Board convened into executive session at 2:04 p.m. and reconvened into public session at 3:11 p.m.

No action was taken; however the Board did refer the policy regarding Internal Revenue Code 401(a)(17) limits to the Benefits and Services Committee.

*Ms. Francine Gertz arrived at 2:09 p.m.*

7. **Discuss and consider revisions to Board Approved Policy Q-1 “Qualified Domestic Relations Orders”**

Mr. Nash addressed a recent situation which created the need for this issue to be raised to the Board without first going through the Policy Committee. Mr. Nash explained that Qualified Domestic Relations Orders, or QDROs, are routine court orders which tell COAERS exactly how to divide and pay retirement benefits to an alternate payee in case of divorce. He stated that an unusual case presented itself to the staff recently where a properly executed QDRO for a COAERS active member had been accepted by COAERS and filed in our records. Mr. Nash stated that the QDRO provided that the alternate payee would get a portion of the active member’s retirement benefit when the member began receiving retirement benefits from COAERS in the future; however before retiring, the member terminated employment and asked to terminate his COAERS membership and receive a refund of his accumulated deposits. Mr. Nash explained that if COAERS honored the member’s request to terminate membership and refund deposits, the alternate payee would not be entitled to any portion of the refunded deposits because the QDRO did not address this situation. Mr. Nash noted that the parties to this case have no objection to the division of refunded deposits and that state law allows COAERS to address this situation by authorizing the conversion of an award of a portion of a members’ annuity to a lump sum payment. Since state statutes allow for this situation, language was drafted to be added to the current Board Approved Policy Q-1 addressing withdrawal of deposits prior to payment of future monthly annuity payments and after a QDRO has been accepted. Mr. Nash reported to the Board that legal counsel drafted and approved the proposed language change.

Ms. Gertz moved to approve the proposed changes to Policy Q-1 “Qualified Domestic Relations Orders”. Mr. Ed Van Eenoo seconded and the motion passed unanimously.
8. **Investment Committee**  
   **A. Receive report from the February 12, 2016 meeting**

   Mr. Noak reported on the February 12, 2016 meeting. The committee discussed the total portfolio performance for the fourth quarter of 2015 and requested future performance numbers be presented as net instead of gross. The committee heard a presentation by Northern Trust which included a discussion about the equitization of cash within the Scientific Beta MBMS fund. The committee also discussed the emerging markets portfolio strategy and investment manager performance, particularly Sprucegrove, DFA, and Westfield.

   **B. Discuss and consider transitioning from non-lending to lending Russell 2000 Index Fund**

   Mr. Noak outlined the reasoning behind and the recommendation to transition from a non-lending Russell 2000 Index fund to a lending Russell 2000 Index fund. He reported that there would be no change to the fund’s liquidity yet would result in approximately $22,000 savings in fees and earnings of $314,000 annually.

   **C. Consider authorizing the negotiation and execution of the seventh amendment to the Investment Manager and Custodian Agreement with Northern Trust Investments, Inc. and the Notice and Consent Concerning Participation of Common of Collective Funds in Equilend in Accordance with the Equilend Prohibited Transaction Exemption**

   Mr. Noak moved to authorize the seventh amendment of the Investment Manager and Custodian Agreement with Northern Trust Investments Inc. and the Notice and Consent Concerning Participation of Common Collective Funds in Equilend in Accordance with the Equilend Prohibited Transaction Exemption. Mr. Michael Benson seconded and the motion passed unanimously.

9. **Receive report from the March 8, 2016 Policy Committee meeting**

   Mr. Nash reported on the March 8, 2016 Policy Committee meeting. The committee reviewed the status report of the service delivery and technology project timeline and budget, both of which are on target. The committee was also briefed on the need to update a contract with LRWL in 2017, possible fiber optic cable installation at the COAERS office, and the 2016 employee salary market study. Mr. Nash stated that since the original report on the salary market study, additional bids have been received including one national firm whose proposal fits COAERS expectations.

10. **Benefits & Services Committee**  
    **A. Receive report from the March 8, 2016 meeting**

    Mr. Nash reported on the Benefits and Services Committee meeting, noting that the majority of that meeting covered the actuarial experience study, which will be provided in a condensed fashion as the next agenda item in this meeting.
B. Receive report on actuarial experience study from Gabriel, Roeder, Smith and Company

Mr. Lewis Ward of Gabriel, Roeder, Smith and Company presented the highlights from the Actuarial Experience Investigation Study for the Period Ending December 31, 2015. Mr. Ward explained that for each assumption, GRS studied what the plan’s actual experience was, and how that compared with the current assumption. He discussed how assumptions can change based on new information, mortality improvement, changing patterns of retirements and terminations, and changing knowledge. Mr. Ward then talked about the economic assumptions and how economic conditions can influence assumptions. Mr. Ward covered the areas studied for both the economic assumptions (price inflation, investment return, salary increases for individuals, and new entrant pay growth rate) and the demographic assumptions (mortality for active and post-employment, disability incidence, retirement rate, and withdrawals/terminations). He explained that for assumptions where change seemed to be warranted, GRS also measured the impact on recommended changes on the actual liabilities and contributions.

Mr. Ward also presented the Board with a comparison of the amortization period and funded ratio with an Investment Return Assumption of 7.25% as requested by the Benefits and Services Committee.

C. Discuss and consider recommended actuarial assumption changes for the December 31, 2015 actuarial valuation and future valuations

The Board discussed the expected inflation rate, the assumed rate of return, and the probabilities of meeting the rate of return. The Board discussed the long term consequences of setting the rate of return too high and agreed to monitor investment returns in the future. It was noted that if the investment experience is different than the assumption, the Board can review the return assumption without waiting for a full experience study to be done again in five years.

Specific recommendations from Gabriel, Roeder, Smith & Company include:

1. Inflation. Decrease the inflation assumption from 3.25% to 2.75%.
2. Investment Rate of Return. Reduce the current 7.75% investment rate of return assumption to 7.50%.
3. Salary Increase. Decrease the salary increase assumption from 4.50% to 4.00%.
4. New Entrant Pay. Increase new entrant pay from 3.75% to 4.00%.
5. Mortality. Use the RP-2014 blue collar mortality table for males and females projected from 2014 to 2026 using mortality improvement scale BB with a 62% weighting of males and a 38% weighting of females.
6. Retirement Rates. Reduce the assumed retirement rates at most ages to better reflect the emerging trend of members retiring at later ages.

7. Withdrawal and Termination Rates. Use a select table based only on service (3 year select period) for withdrawal rates and a lower termination rate determined by Gabriel, Roeder, Smith & Company in the ultimate schedule based on years from retirement for members within 10 years of retirement.

The Board discussed the effect of the proposed assumption changes, coupled with the 2015 asset losses, which led to an increase in the funding period from 24 years to 33 years, and an increase in the funding policy contribution rate to 19.84%.

Mr. Jones moved to accept the actuarial assumptions as proposed by Gabriel, Roeder, Smith & Company in the current Actuarial Experience Investigation Study for the December 31, 2015 and subsequent actuarial valuations. Mr. Benson seconded. The motion passed 6-1 with Mr. Ross dissenting.

D. Discuss and consider the implementation and timing of administrative changes as a result of new actuarial assumptions

Mr. Nash discussed changes associated with the new assumptions necessitate programming changes in Pension Gold for service purchase calculations, partial lump sum calculations, early retirement reduction factors, joint and survivor annuity factors, IRC Section 415 limitations, and recalculations of retirement benefits for retirees who return to work. He stated that in order to test, implement, and inform members of the changes, the Benefits and Services committee recommended delaying implementation of administrative changes until January 1, 2017.

Mr. Noak moved to delay implementation of administrative changes due to the assumption changes until January 1, 2017. Ms. Gertz seconded and the motion passed unanimously.

Mr. Benson departed at 5:02 p.m.
Mr. Van Eenoo departed at 5:06 p.m.

11. Review and discuss Board educational activities, including the following:
   A. State minimum educational training requirements
   B. Upcoming educational programs and conferences
      COAERS educational workshop

   The Board received a report on the projected hours of each Trustee for the Minimum Education Training (MET) requirements set forth by the Pension Review Board and discussed topics for the upcoming Board workshop, as well as the possibility of addressing some of the members' required training requirements at that workshop.

12. Executive Director Report
   A. Update on Chief Investment Officer recruitment
   B. Public pensions in the news
C. 2015 year-end unaudited financial statements
D. Comparative calculation and retirement activity levels

This item was taken out of order, before Item 11.

Mr. Hanson reported that Mr. David Veal has accepted the position of Chief Investment Officer with a start date of April 18, 2016.

13. Call for future agenda items

As there were no further items to address, the meeting adjourned at 5:09 p.m.

Jim Williams, Board Chair

Christopher Hanson, Executive Director

28 June 2016
Date

6/29/2016
Date