



**MINUTES OF THE
TEXAS MUNICIPAL RETIREMENT SYSTEM
Meeting of the Board of Trustees**

May 26, 2022 – 9:00 a.m.

The Board of Trustees of the Texas Municipal Retirement System (TMRS) held a meeting beginning at 9:00 a.m. at the TMRS office, located at 2717 Perseverance, Suite 300 in Austin, Texas, with the following Trustees present: Vice Chair Bob Scott, Anali Alanis, Johnny Huizar, David Landis, and Bill Philibert. Chair Jesús Garza attended by Zoom.

Staff and consultants present included: David Wescoe (Executive Director), Michelle Kranes (Chief Service Officer), Christine Sweeney (Chief Legal Officer), Michelle Mellon-Werch (Director of Communications), Leslee Hardy (Director of Actuarial Services,) David Hunter (Chief Investment Officer), Joe Newton (GRS), Janie Shaw (GRS), Marcia Beard (RVK), Spencer Hunter (RVK), and Robert Klausner (Klausner, Kaufman, Jensen & Levinson).

Mr. Scott presided and called the meeting to order at 9:00 a.m., with Mr. Garza attending by Zoom.

Consent Agenda

1. Consider and Act on Consent Agenda.

Ms. Sweeney presented the Minutes from the March 24, 2022, meeting with revisions requested by Mr. Scott. Ms. Alanis moved that the Board adopt Consent Agenda, with the March Minutes as revised. Mr. Philibert seconded the motion, which passed 6-0.

Executive Director Reports

2. Executive Director's Report.

Mr. Wescoe reported that Gov. Greg Abbott reappointed Mr. Landis as Trustee for another term. TMRS participated at the Texas Municipal League Region 12 meeting and spoke with almost 300 city officials and staff. Mr. Wescoe discussed changes in Member Services with respect to Benefits Administration, a department now led by Ms. Focht-Williams. With that new department, Ms. Muñoz and Mr. Mills are now focused on outbound Member Services activities. Member Services also added eight new staff members, and TMRS reconfigured existing office space to create a new TMRS training center for Member Services and other departments.

3. Consider and Act on Matters Concerning the Sale of the TMRS 1200 North Interstate 35 Building.

Mr. Scott said no action was needed on Agenda Item 3 and tabled the item.

Mr. Scott next said he was going to take an item out of order and called for Agenda Item 6.

Actuarial Services Report

6. Consider and Act on 2021 Actuarial Valuation and Approval of 2023 Retirement Contribution Rates and Supplemental Death Benefit Contribution Rates.

Ms. Shaw said that for the December 31, 2021 Actuarial Valuation, which determines city rates for 2023, good news regarding investment performance was offset by inflation. The Unfunded Actuarial Accrued Liability (UAAL) is \$3.8 billion and trending down while the funding ratio is trending up, now at 90.5%. Mr. Newton said not many of TMRS' peer plans have a funding ratio above 90%.

Ms. Shaw said that TMRS assets are growing and keeping pace with liabilities, which are shrinking in proportion to TMRS assets. The amortization period for TMRS' liabilities was reduced by one year again. Ms. Shaw said that each city in TMRS has its own liabilities and payment schedule, but all are moving toward 0% liabilities. TMRS' funding policy reduced the number of cities (77) below 80% funded.

Mr. Newton said that asset experience showed a \$272 million gain but the liability experience, largely due to Cost of Living Adjustments (COLAs), added \$259 million of liabilities. Data on benefit modifications from recent years showed net benefit improvements, so cities appear to be satisfied with contribution levels overall. Liabilities were reduced by higher than normal employee resignations and retiree deaths in 2021.

Mr. Newton said that whether contribution rates for TMRS cities go up or down for 2023 depends primarily on whether the city has a repeating COLA. Cities without a COLA will see a rate decrease of 46 basis points on average, while those with a COLA will see an average increase of 15 basis points. TMRS' funding policy has TMRS well positioned, because TMRS is projected to be 93% funded, and city contribution rates are projected to average 13.5%, even if investment returns are 1% below the assumed return of 6.75% over the next 20 years.

Mr. Landis moved that the Board accept GRS' December 31, 2021 valuation results and certify the 2023 contribution rates for participating cities. Mr. Huizar seconded the motion, which passed 6-0.

Mr. Scott called for Agenda Item 4.

Advisory Committee on Benefit Design

4. Report on Advisory Committee's April 21, 2022, Meeting.

Ms. Kranes said the Advisory Committee on Benefit Design met on April 21, 2022 and discussed three potential benefit design changes. First, the Committee revisited previous discussion of adding a 90% COLA option. The Committee discussed the proposed benefit's impact but also had questions regarding the timing of the proposal in a year of record inflation. It is not known how many cities would adopt this option as the cities are just now seeing the impact of inflation on rates. Ms. Kranes said the Committee also looked at two proposals to delink benefits. One proposal would delink Updated Service Credits (USC) from COLAs and the next would delink member and retiree Supplemental Death Benefits (SDBs). The Committee discussed that cities would benefit from flexibility added by delinking the benefits but also discussed whether cities are asking for these changes or might drop benefits, such as USC, because of delinking. Since the Committee meeting, she said, staff learned that the Texas Municipal Police Association does not support these delinking proposals, and the Combined Law Enforcement Associations of Texas also leans against the delinking proposals.

Mr. Garza said that after a lot of discussion on these topics this year, one consistent comment has been that it only makes sense to take proposed changes to the legislature if there are a cluster of items. Since there is some opposition to several of the proposals, Mr. Garza recommended that the Board hold off taking legislation in this next session. Mr. Landis said he agreed with Mr. Garza's comments.

David Riggs of the Texas State Association of Fire Fighters addressed the Board on this item. Mr. Riggs said that TSAFF supports the proposal to delink USC from COLAs, which is one of the few areas where a city cannot pick one benefit without another.

Legislative Agenda

5. Discuss Potential Legislation Topics.

Ms. Sweeney said that at the March Board meeting she provided a summary of possible legislative topics for 2023, which was included again in this meeting's Board materials.

The Board did not ask staff to prepare any draft bill language.

Ms. Alanis said delinking benefits might help a small city that currently does not provide any benefits add some benefits, and it gives cities the choice. Ms. Alanis said that she agreed with not pursuing legislation for a single topic, but she wants TMRS to offer options to cities.

Investment Reports

7. Chief Investment Officer's Report.

David Hunter reported that for the quarter ending March 31, 2022, the TMRS trust fund declined 1.73% and trailed its benchmarks by 28 basis points. Performance for the one-year and five-year periods were 7.84% and 7.73%, respectively, and the Trust Fund beat its benchmarks in both. Mr. Hunter said the one-year performance was attributed to Private Equity and Real Estate performing well. The largest TMRS asset class, Public Equity, trailed its benchmark by 70 basis points because it is underweight to U.S. large cap equities, and this underweight position will be addressed at the next Staff Investment Committee (SIC) meeting. All returns were positive except Core Fixed Income due to rising interest rates, and Mr. Hunter said the Board made a great decision to allocate more capital to Non-Core Fixed Income given the current rate environment.

Mr. Scott asked about TMRS' performance in Hedge Funds. Mr. Hunter said that reduction in the target allocation from 10% to 5% had an impact on TMRS trailing the Hedge Funds' benchmark by 2.85%. It takes time for reallocation in private market asset classes, Mr. Hunter said, and TMRS is successfully transitioning investments away from lower performing managers. Also, he said, the asset class changed to a more concentrated asset-class weighted benchmark. Against the prior more diversified and less volatile benchmark, TMRS would be ahead.

Mr. Hunter said the SIC approved six investments totaling \$510 million and reaffirmed its list of five transition managers. Investments is working toward Global Investments Performance Standards (GIPS®) Certification for the 2021 numbers reported in the Annual Consolidated Financial Report, and TMRS' custodian State Street knows of only two other peer plans, none in Texas, that receive this certification. The Board's IPS Committee held its first meeting to review the Investment Policy Statement, and Mr. Hunter thanked Mr. Scott and Ms. Alanis for their work with the Committee. Mr. Hunter reported on promotions within Investments as part of department reorganization.

8. RVK Quarterly Report.

Spencer Hunter said that for the first quarter, large cap U.S. stocks were down 5%, small cap stocks were down 7.5%, non-U.S. stocks were down 6 to 10%, and Fixed Income was down 6%. Measured against the IPS benchmarks, the TMRS total fund outperformed over last five years, and it outperformed the benchmarks during 97% of the time in last 10 years. TMRS exceeded its target return of 6.75% during the last five years.

Mr. Scott called for Agenda Item 10.

Audit Committee Report

10. Report on Audit Committee Meeting and Consider and Act on Appointment of an Internal Auditor.

Ms. Focht-Williams said the Audit Committee met on May 13, 2022. At the Committee meeting, Ms. Vice presented the confidential audit report on Investments due diligence. Testing confirmed that Investments performed its due diligence activities in compliance with documented procedures without exception, she said. The Report was provided to the Board through Diligent. The Audit Committee also interviewed the finalist for Director of Internal Audit and voted unanimously to recommend that candidate to the Board.

Legal Report

11. Review, Consider and Act on the Board's Fiduciary Counsel.

Ms. Sweeney introduced Mr. Klausner, who reviewed his fiduciary counsel experience. He described his role as the Board's fiduciary counsel and partner to the Chief Legal Officer. He said that his litigation experience allows him to recognize and analyze risk and his experience across the country allows him to provide well-founded but independent advice. In his 23rd year of working with TMRS, he said, he also provides institutional knowledge.

Mr. Scott called for Agenda Item 9.

9. Consider and Act on Selection of a General Investment Consultant.

David Hunter reviewed the general investment consultant RFP process. In March, the six largest firms that represent larger U.S. public pension plans responded. After reviewing the responses, staff held video interviews with four firms, hosted in person interviews with the top three firms and recommended three finalists for the Board's consideration.

Mr. Hunter introduced Aon, represented by Steve Voss, Mike McCormick and Phil Kivarkis.

Mr. Hunter next introduced NEPC, represented by Samuel M. Austin, III, Michael Manning and Timothy R. Bruce.

Mr. Hunter next introduced RVK, represented by Marcia Beard, Spencer Hunter and Ian Bray.

Each firm made a presentation and answered Trustee questions.

Executive Session.

10. Executive Session.

The Board went into Executive Session at 12:11 p.m. The meeting reconvened in Open Meeting at 2:07 p.m. No action was taken during the Executive Session. All members of the Board who were present before the Executive Session were present.

After reconvening in Open Meeting, Mr. Scott called back Agenda Item 9. Mr. Scott moved that the Board approve retaining NEPC as its general investment consultant for a five-year term and authorize the Executive Director to negotiate and execute all necessary agreements and documents. Ms. Alanis seconded the motion, which passed 6-0.

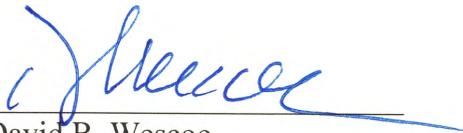
Mr. Scott called back Agenda Item 10. Mr. Philibert moved that the Board approve hiring the Director of Internal Audit candidate and salary recommended by staff. Mr. Huizar seconded the motion, which passed 6-0.

Mr. Scott called back Agenda Item 11. Ms. Alanis moved that the Board renew Robert Klausner's contract for a three-year term and authorize the Executive Director to negotiate and execute the necessary agreements. Mr. Philibert seconded the motion, which passed 6-0.

Future Board Agenda Items

11. Call for Future Agenda Items.

There were no future agenda items. Mr. Scott adjourned the meeting at 2:11 p.m.



David B. Wescoe
Executive Director



Bob Scott
Vice Chair, Board of Trustees