

# Recommendations for Updating the Board's Investment Beliefs Statements

## Texas Municipal Retirement System

December 3, 2020

*Presented in Connection with TMRS Strategic Plan  
Goal 1 Objective B and Goal 3*

# Investment Beliefs - Project Update

## Goal

To update the Investment Beliefs statements contained in the Investment Policy Statement (IPS).

## Current Status

The Board has already reached consensus on five Investment Beliefs covering the Investment Policy and Governance.

### 1. Most Effective Use of Board Time

The most effective use of the Board's expertise and time is to set overall investment objectives and clearly articulate investment direction through the System's Investment Policy Statement while continually monitoring its compliance.

### 2. Governance

Good governance drives long-term value for the System and its membership.

### 3. Roles and Responsibilities

Clearly defined roles and responsibilities are essential to good governance.

### 4. Investment Authority

The best investment results come from the right people following prudent processes to make the right decisions and taking ownership of long-term performance outcomes.

### 5. Sustainability – Environment, Social and Governance (ESG) Factors

As prudent stewards of the System's assets, we integrate environmental, social, and governance research into our rigorous investment process, where consistent with our fiduciary duty.

# Today's Discussion and Action

## Discussion

Arrive at Board consensus on up to six additional Investment Beliefs statements for Risk, Portfolio Construction and Implementation and Monitoring categories.

## Action

Incorporate the updated Investment Beliefs into the IPS. If approved, this change will be incorporated into the IPS that is effective January 1, 2021.

# Investment Belief Statements

Category: Risk



## Current Investment Belief Statement (recommend keeping)

*Increasing risk is rewarded with compensating returns over time and, therefore, prudent risk-taking is justifiable for long-term investors.*

## Additional Investment Belief Statement for the Board's Consideration

*Trust Fund risk must be managed. Downside risk, volatility and liquidity are among the factors to be considered.*

# Investment Belief Statements

## Category: Portfolio Construction



### Current Investment Belief Statement

*The primary determinant of long-term investment performance is the strategic, or long-term, allocation of assets among various asset classes.*

### Recommended Revision to the Current Investment Belief Statement

*The primary determinant of long-term investment performance portfolio risk and return is the System's strategic, or long-term asset allocation of assets among various asset classes.*

### Additional Investment Belief Statement for the Board's Consideration

*The System's asset allocation and funding strategies are based on our asset/liability framework and are designed to optimize the funding of our liabilities over time.*

# Investment Belief Statements

**Category: Implementation & Monitoring**



## Additional Investment Belief Statements

*Capital markets have inefficiencies and opportunities that can be exploited.*

*Costs impact investment returns and should be monitored and managed.*

## Action

**Incorporate the Following 11 Updated Investment Beliefs into the IPS Effective January 1, 2021**

# Recommended Updated Investment Belief Statements

1. The most effective use of the Board's expertise and time is to set overall investment objectives and clearly articulate investment direction through the System's Investment Policy Statement while continually monitoring its compliance.
2. Good governance drives long-term value for the System and its membership.
3. Clearly defined roles and responsibilities are essential to good governance.
4. The best investment results come from the right people following prudent processes to make the right decisions and taking ownership of long-term performance outcomes.
5. As prudent stewards of the System's assets, we integrate environmental, social, and governance research into our rigorous investment process, where consistent with our fiduciary duty.
6. Increasing risk is rewarded with compensating returns over time and, therefore, prudent risk-taking is justifiable for long-term investors.
7. Trust fund risk must be managed. Downside risk, volatility and liquidity are among the factors to be considered.
8. The primary determinant of portfolio risk and return is the System's strategic, long-term asset allocation.
9. The System's asset allocation and funding strategies are based on our asset/liability framework and are designed to optimize the funding of our liabilities over time.
10. Capital markets have inefficiencies and opportunities that can be exploited.
11. Costs impact investment returns and should be monitored and managed.

## Appendix

# Investment Belief Survey Results:

Bill Philibert, Chair  
David Landis, Vice Chair  
Anali Alanis  
Jesús Garza  
Johnny Huizar  
Bob Scott

# Updated Investment Belief Survey Results

## Category: Risk

**Survey Question 14\*:** Risk to TMRS' investments is multi-faceted and not fully quantifiable through measures such as tracking error and volatility, but must be managed.

**Board Response:** 40% strongly agree, 60% agree

*High Degree of Similarity*

**Survey Question 15:** The Board and staff seek to minimize the risk of loss and to maximize the rate of return of TMRS' assets.

**Board Response:** 50% strongly agree, 33% agree, 17% disagree

*Some Similar Views*

**Survey Question 16:** Taking risk is necessary to earn the return required to provide secure, reliable retirement benefits.

**Board Response:** 33% strongly agree, 67% agree

*High Degree of Similarity*

**Survey Question 17:** Rank the following four investment risk measures for the Board to monitor from most important (#1) to least important (#4).

**Board Response:** #1 total fund volatility, #2 total fund downside risk  
#3 investment manager underperformance, #4 total fund liquidity

*Some Similar Views*

**Survey Question 18:** Rank the following risk mitigation actions for TMRS from most important (#1) to least important (#7).

**Board Response:** #1 strategic asset allocation, #2 Regular, detailed risk reporting  
#5/6 equity/fixed income manager due diligence, #7 allocation to cash

*High Degree of Similarity*

\*One respondent did not provide an answer to this question.  
Percentages shown may not sum to 100% exactly due to rounding.

# Updated Investment Belief Survey Results

## Category: Portfolio Construction

Survey Question 19: The key to investing, and the most important driver of performance, is asset allocation.

Board Response: 17% strongly agree, 67% agree, 17% unsure

*High Degree of Similarity*

Survey Question 20: Investment strategy should be based on TMRS' asset/liability framework and its ability to pay promised benefits.

Board Response: 17% strongly agree, 67% agree, 17% unsure

*High Degree of Similarity*

Survey Question 21: TMRS' long-term horizon means that less attention should be focused on short-term performance.

Board Response: 33% agree, 67% unsure

*Limited Similarity of Views*

Survey Question 22: The Board should only focus on long-term performance, five years or greater.

Board Response: 33% agree, 50% unsure, 17% disagree

*Limited Similarity of Views*

Survey Question 23: The System's long-term horizon is an advantage.

Board Response: 33% strongly agree, 67% agree

*High Degree of Similarity*

# Updated Investment Belief Survey Results

## Category: Portfolio Construction

**Survey Question 24:** Diversification improves the efficiency of investment returns and provides protection against large market corrections.

**Board Response:** 33% strongly agree, 67% agree  
*High Degree of Similarity*

**Survey Question 25:** Opportunities arise when certain segments of the market go out of favor and these can be identified ahead of time.

**Board Response:** 17% strongly agree, 50% agree, 33% unsure  
*High Degree of Similarity*

**Survey Question 26\*:** Asset class structure decision have a greater impact of investment performance than decisions regarding individual investment managers.

**Board Response:** 40% agree, 40% unsure, 20% disagree  
*Some Similar Views*

**Survey Question 27\*:** Skilled investment managers can outperform benchmarks on a net-of-fees basis over the long-term.

**Board Response:** 40% strongly agree, 40% agree, 20% unsure  
*High Degree of Similarity*

**Survey Question 28\*:** The decision to employ passive management depends on the efficiency of the asset class.

**Board Response:** 20% agree, 60% unsure, 20% disagree  
*Limited Similarity of Views*

\*One respondent did not provide an answer to this question.  
Percentages shown may not sum to 100% exactly due to rounding.

# Updated Investment Belief Survey Results

## Category: Portfolio Construction

**Survey Question 29\*:** All assets should be externally managed.

**Board Response:** 40% unsure, 40% disagree, 20% strongly disagree

*High Degree of Similarity*

**Survey Question 30:** TMRS should manage public assets in-house.

**Board Response:** 33% agree, 50% unsure, 17% disagree

*Limited Similarity of Views*

**Survey Question 31:** Private market investments have an illiquidity premium that the System can capture.

**Board Response:** 33% agree, 67% unsure

*Limited Similarity of Views*

**Survey Question 32:** The System's long-term time horizon enables it to capture the risk premia associated with investing a portion of the portfolio in illiquid assets.

**Board Response:** 67% agree, 33% unsure

*Some Similar Views*

\*One respondent did not provide an answer to this question.  
Percentages shown may not sum to 100% exactly due to rounding.

# Updated Investment Belief Survey Results

## Category: Implementation and Monitoring

**Survey Question 33: Costs can significantly reduce returns and therefore must be accounted for in all investment decisions..**

**Board Response:** 17% strongly agree, 83% agree

*High Degree of Similarity*

**Survey Question 34: Costs matter and they can be managed.**

**Board Response:** 17% strongly agree, 67% agree, 17% unsure

*High Degree of Similarity*

**Survey Question 35: Internal asset management is a major contributor to pension cost reductions and should be implemented wherever possible.**

**Board Response:** 17% strongly agree, 33% agree, 50% unsure

*Some Similar Views*

**Survey Question 36: Rank the following metrics based on your assessment of their importance to measuring the investment performance of TMRS for most important (#1) to least important (#5).**

**Board Response:** #1 Investment Policy strategic objective

#2 Policy Index

#3/4 Fund liabilities

#3/4 manager benchmarks

#5 peers

*High Degree of Similarity*

# Updated Investment Belief Survey Results

## Category: Implementation and Monitoring

**Survey Question 37:** Rank the following six investment periods (horizons) in terms of their important to the Board for monitoring TMRS' investment performance from most important (#1) to least important (#6).

**Board Response:** #1 trailing 5 years  
#2 trailing 10 years  
#3 trailing 12 months  
#4/5 calendar year-to-date  
#4/5 fiscal year-to-date  
#6 most recent quarter  
*High Degree of Similarity*

**Survey Question 38:** The Board receives sufficient investment reporting from staff and consultants to monitor the System's compliance with the Board's Investment Policy Statement.

**Board Response:** 67% agree, 17% unsure, 17% strongly disagree  
*Some Similar Views*