



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

**March 25, 2021 – 9:00 a.m.**

The Board of Trustees of the Texas Municipal Retirement System (TMRS) convened for a meeting at 9:00 a.m. at TMRS Headquarters, located at 1200 North IH 35 in Austin, Texas, with the following Trustees present: David Landis, Chair; Jesús Garza, Vice Chair (via Zoom); Anali Alanis (via Zoom); Johnny Huizar (via Zoom); Bill Philibert (via Zoom); and Bob Scott (via Zoom).

Staff present included: David Wescoe, Executive Director; Eric Davis, Chief Service Officer; TJ Carlson, Chief Investment Officer; Christine Sweeney, Chief Legal Officer; Dan Wattles, Director of Governmental Relations; Rhonda Covarrubias, Director of Finance; Andi Focht-Williams, Internal Audit Manager; Karen Jackson, Executive Assistant; Chris Gillis, Network/Systems Administrator; and Kris Lofton, Senior HelpDesk Specialist. Consultants present included: Marcia Beard of RVK (via Zoom); Mark Randall and Joe Newton of Gabriel, Roeder, Smith & Company (GRS) (via Zoom); and Jason Ostroski, CLA (via Zoom).

Mr. Landis called the meeting to order and did a roll call; all Trustees were present.

**Consent Agenda**

**1. Consider and Act on Consent Agenda.**

Mr. Landis introduced the Consent Agenda and asked if there were any questions or comments.

Mr. Philibert moved that the Board adopt the Consent Agenda, including but not limited to the Minutes from the December 3, 2020, meeting. Mr. Scott seconded the motion, which passed 6-0.

**Executive Director Reports**

**2. Executive Director's Report.**

Mr. Wescoe recognized TMRS employees for reaching out to their colleagues and offering support and food during the historic winter storm that caused the cancellation of the February Board meeting and left employees without power and water. TMRS lost a week of work because of the winter storm, but due to Member Services' efforts every retiree, including those who newly retired at the end of January, received a February benefit payment.

Mr. Wescoe reported on the submission of TMRS' return to work legislation and thanked Dan Wattles, Christine Sweeney, Leslee Hardy and Eric Davis for their efforts on the bill and explanatory materials to support the bill.

Mr. Wescoe reported that staff made presentations at the meeting of the Region 9 Texas City Managers Association, which is chaired by Mr. Garza, and at the Government Finance Officers Association of Texas spring conference.

Mr. Wescoe said that the TMRS website has been updated with TMRS' new logo, noted improvements to the website's navigation, the retirement benefits statements, and the Member annual statements, and thanked Michelle Mellon-Werch and the Communications team for the improvements. He also recognized David Rodriguez for his upcoming retirement after 24 years of service to TMRS Members and participating cities.

Mr. Wescoe also reported that TMRS' 2019 Comprehensive Annual Financial Report received the Certificate of Achievement for Excellence for Financial Reporting from the Government Finance Officers Association, making it 33 years in a row that TMRS has received this award for its annual financial reports. Winning this award is a tribute to the Finance and Communication teams and our stakeholders rely on this information.

Mr. Wescoe said senior staff have been presenting horseshoes to recognize good work by TMRS staff.

Mr. Wescoe confirmed that TMRS will be moving its headquarters to Austin's The Grove development in the fourth quarter. Mr. Wescoe recognized Eddie Schultz, who helped lead the lease process while also handling his Investment responsibilities.

Mr. Landis said he appreciated the important contributions of staff to customer service and 33 years of recognized financial reporting.

**3. Receive Senior Staff Quarterly Reports.**

Mr. Wescoe commended the Senior Staff Quarterly Reports in the Board materials.

**4. Consider and Act on Resolution to Recognize Bill Philibert's Board Chair Tenure.**

Mr. Landis read a resolution to honor Mr. Philibert for serving his two years as Board Chair.

Mr. Wescoe said that Mr. Philibert had a remarkable record as Chair completing ten major achievements in two years. He added that Mr. Philibert's tenure was one of most successful in TMRS history, and he thanked Mr. Philibert for all his efforts as Board Chair.

Mr. Scott moved that the Board adopt the resolution to recognize Mr. Philibert. Ms. Alanis seconded the motion, which passed 6-0.



**5. Report on 2020 Senior Staff Action Plan Results and Present 2021 Senior Staff Action Plan.**

Mr. Wescoe reported on the 2020 Senior Staff Action Plan results. Mr. Wescoe also presented the 2021 Senior Staff Action Plan.

**Legal Reports**

**6. Governance Manual Update: Consider and Act on Possible Changes to Board Education Policy, Board Consultant Evaluation Policy, Board Communications Policy and Other Governance Documents.**

Ms. Sweeney presented proposed changes to three Board policies originally proposed in December. The proposed policies are in furtherance of the Board's Strategic Plan Goal 3, to "identify and implement the best governance and management structure." Ms. Sweeney said she worked with the Board's governance consultant, Amy McDuffee, and with Mr. Garza, to address their comments on the proposed policies.

Mr. Garza thanked Ms. Sweeney for addressing his comments in the proposed policies, and he moved to approve the three updated policies as presented. Ms. Alanis seconded the motion, which passed 6-0.

**7. Consider and Act on Final Adoption of Proposed TMRS Rules – Chapter 125.**

Ms. Sweeney presented a proposed Final Order to repeal the current Chapter 125 Board rules and to adopt new Chapter 125 rules. The proposed repeal and proposed adoption of new Chapter 125 rules were published in the Texas Register on December 25, 2020, and no comments were received during the 30-day comment period. Ms. Sweeney noted that, if finally adopted, the final repeal and adoption of the Chapter 125 rules must be filed for publication again in the Texas Register and will become effective 20 days after filing.

Mr. Philibert moved that the Board approve and authorize the Board Chair to execute the Final Order, adopt the repeal of the current Chapter 125 rules, and adopt the new Chapter 125 rules, to be effective 20 days after they are filed with the Secretary of State's *Texas Register* division, without changes to the proposed rules. Mr. Huizar seconded the motion, which passed 6-0.

**Actuarial Services Report**

**8. Consider and Act on 2020 Interest Credit Allocation to the Benefit Accumulation Fund and Interest Reserve Account.**

Ms. Hardy presented this item that recommended interest allocations to TMRS funds. The proposed interest allocations are based on a joint recommendation by staff and actuarial consultant GRS. The first two allocations are to the Supplemental Disability Benefits Fund and Supplemental Death Benefits Fund; each receives a 5% interest credit as required by the TMRS Act. The third allocation is to the TMRS Interest Reserve Account, which cannot have

a balance as of December 31, 2020, that is less than the required budget transfer for the following year. Ms. Hardy said that staff and GRS recommend setting the target amount for the Interest Reserve Account at \$310 million as of December 31, 2020. Based on investment returns for 2020, that leaves \$2,343,163,412 to be credited to the Benefit Accumulation Fund (BAF), which is approximately equal to 7.45%.

Mr. Newton stated that GRS concurred with the recommended credit to the BAF of interest approximately equal to 7.45%.

Mr. Scott asked how TMRS could earn 7.05% and yet credit cities an additional 40 basis points more? Mr. Newton said that the TMRS Act says that the allocation to the BAF is to be measured on the beginning of year balance, so that affects the percentage. Mr. Landis asked if some of the numbers behind the recommendations were yet to be trued up. Ms. Hardy stated that any differences will be applied to next year's interest credit determination and that the Board action requested today is based on the numbers presented and recommendations.

Mr. Scott moved that the Board allocate, effective December 31, 2020:

- (i) a credit of 5% interest to each of the Supplemental Disability Benefits Fund and the Supplemental Death Benefits Fund, and
- (ii) a credit of approximately 7.45% interest to the Benefit Accumulation Fund, as well as maintain the initial Interest Reserve Account balance at \$310 million; and,

that any differences in the final versus estimated fourth quarter private investment fund valuation adjustments, as well as any adjustments that may be necessary to finalize net investment income for the year, be reflected in the final Interest Reserve Account balance as of December 31, 2020, and be considered in the 2021 BAF interest credit determination. Mr. Garza seconded the motion, which passed 6-0.

### **Plan Benefit Design**

#### **9. Consider and Act on Ratification of Ordinances Adopting Updated Service Credit and/or Annuity Increases Effective January 1, 2021 (Received after the December 2020 Board Meeting).**

Mr. Davis presented this item and said that the Board at its December meeting approved ordinances regarding Updated Service Credits and Annuity Increases received from cities at that time, but additional ordinances were received by TMRS between the December Board meeting and the end of the calendar year. Mr. Davis said the Board materials include these additional ordinances, and he asked the Board to ratify approval of these ordinances.

Mr. Philibert moved that the Board ratify approval of Updated Service Credit and/or Annuity Increase ordinances received by TMRS after the December 2020 Board meeting but before the January 1, 2021, effective date. Ms. Alanis seconded the motion, which passed 6-0.



## **Governmental Relations Report**

### **10. Legislative Update and Overview of the 87<sup>th</sup> Legislative Session, Including Discussion on Status of TMRS Legislation and Other Filed and Proposed Legislation.**

Mr. Wattles presented a legislative update. Mr. Wattles said TMRS' return to work bill was filed by Sen. Bryan Hughes (SB 1105) and Rep. Rafael Anchia (HB 3902).

## **Internal Audit Reports**

### **11. Consider and Act on Audit Committee Charter Amendments.**

Ms. Focht-Williams presented proposed amendments to the charter for the Board's Audit Committee. Ms. Focht-Williams said that then Committee members Mr. Landis and Mr. Huizar considered the proposed changes in 2020 that follow amendments to the TMRS Act which became effective in 2020.

Mr. Huizar moved that the Board adopt the proposed amendments to the Audit Committee Charter. Mr. Landis seconded the motion, which passed 6-0.

### **12. Report on Audit Committee's March Meeting.**

Ms. Focht-Williams presented this item. She stated that the March Audit Committee meeting included a presentation from Eric Obermier, Director of Information Services, on how TMRS addresses security; a presentation by Ms. Focht-Williams on the results from Securance Consulting's assessment of TMRS' information technology security; Ms. Focht-Williams' status report on the 2019-2020 Audit Plan and update on the CLA financial audit entrance conference. Ms. Focht-Williams confirmed that internal audit is organizationally independent with direct access to the Board of Trustees and guidance from the Audit Committee.

### **13. Receive Internal Audit's Confidential 2021 Risk Assessment and Consider and Act on 2021-2022 Audit Plan.**

Ms. Focht-Williams presented and said Internal Audit performs an in-depth risk assessment of TMRS every two years with a reassessment after the first year to ensure highest risks are being addressed. Risk topics are identified by benchmarking with other pension plan auditors and interviews with TMRS Trustees and staff. The confidential risk assessment report was provided to the Board. Ms. Focht-Williams also said that the allocation of audit resources is prioritized in the Audit Plan based on the risks identified in the risk assessment and presented a proposed 2021-2022 Audit Plan. Ms. Focht-Williams said the Audit Committee recommends the proposed 2021-2022 Audit Plan to the Board for approval.

Mr. Scott said that he was impressed with the thoroughness of the risk assessment report. Mr. Scott moved for approval of the 2021-2022 Audit Plan as proposed. Mr. Huizar seconded the motion, which passed 6-0.

## **Finance Report**

### **14. Discuss 2021 Plans for External Financial Statement and System and Organization Controls Audits.**

Ms. Covarrubias introduced this item, noting that CLA was retained to perform financial statement and system and organization controls (SOC) audit services. She introduced Jason Ostroski, engagement principal for TMRS, to present for CLA. Mr. Ostroski listed the engagement team from CLA for the audits and said that the team members have been consistent for all three TMRS audits previously conducted by CLA. He then described the engagement's review scope for the 2020 financial statements audit and SOC audit.

Mr. Ostroski presented required governance communications specific to the financial statement audit, the work plan and the applicable standards for completing the audit. He also presented the work plan and applicable standards for the SOC 1 Type 2 audit and report to be conducted.

Mr. Scott thanked Mr. Ostroski for the understandable summary of the categories of work, which will provide cities and their auditors additional evidence that cities cannot easily access themselves. He said that TMRS has been the poster child on how to do this and has been proactive in providing cities the information they need to financially manage their plans. TMRS has led multiemployer agent plans in this regard, Mr. Scott said.

At 10:34 a.m., Mr. Landis called for a break in the meeting and reconvened the meeting at 10:47 a.m., did a roll call, and all Trustees were in attendance.

## **Investment Reports**

### **15. Chief Investment Officer's Report.**

Mr. Carlson noted that Sandra Ortiz replaced recent retiree Debbie West, and that he expects a new real asset analyst to start in May. Mr. Carlson recognized Yvonne Huang and German Gaymer for passing the Level 3 exam to become Chartered Financial Analysts (CFA), and Frank Atkins for passing the final exam needed to become a Chartered Alternative Investment Analyst (CAIA). Mr. Wescoe said the fact that TMRS has so many chartered analysts on staff is impressive, and he noted that Kelsey Baldwin, an investment attorney in Legal, also passed the first CAIA exam.

Mr. Carlson said the Staff Investment Committee held three meetings since the last Board meeting and that reports on the meetings were available to Board members for review.

Mr. Carlson discussed the current Request for Proposal (RFP) process for custodial services. He said that recommendations on the finalists would be brought to the Board for selection at a future Board meeting.



## **16. Receive Private Market Investment Report.**

Mr. Carlson presented the Private Market Investment Report and noted the following investments based on approvals by the Staff Investment Committee:

- In Real Estate, \$100M to Platform Ventures Real Estate Strategies V, a new manager to TMRS that was founded 2008 and pursues defensive hybrid strategies in real estate;
- \$100M to Transwestern Strategic Partners Fund III; this is TMRS' third investment with the firm, which focuses on middle market real estate;
- In Real Return, \$150M to Grain Spectrum Holdings III, a sector specialist in telecommunications;
- In Private Equity, \$25M to FG Next Flatirons I, a venture capital firm; the investment size is small because it is more risky as the firm pursues early stage capital funding;
- \$120M to Arcline Capital Partners II, which is a San Francisco-based buy-out manager that focuses on aerospace, defense and personal care businesses;
- \$200M to HarbourVest TMRS Polaris SMA, a secondaries fund, which becomes available when an investor who does the primary investment leaves a fund, and then we can acquire existing ownership interests; Mr. Carlson said this is a way to build our portfolio more quickly, and this is TMRS' second investment with HarbourVest; and,
- \$40M to Tech Stars Accelerator, another venture capital investment from Boulder founded in 2006 that is focused on early stage technology businesses.

## **17. Annual Review: Risk Management.**

Agenda Item 17 was pulled.

## **18. Annual Asset Class Review: Global Equities.**

Mr. Carlson presented the asset class review for Global Equities. Mr. Carlson said the TMRS target allocation for this class is 30%, and TMRS is slightly over that now.

Mr. Carlson said that performance in 2020 in this class was under the benchmark by 1.8%. Prior to 2020, the class was performing in line with the benchmark. TMRS terminated underperforming managers at the end of 2019, and in 2020, five of six remaining managers performed well. Mr. Carlson said the underperformance in 2020 could be attributed to low volatility strategies that led in earlier years. In the divergence coming out of the COVID crisis, the Russell 3000 was driven by momentum plays while value stocks (in a low volatility portfolio) did not recover as well in 2020. The low volatility strategy, originally installed in 2013, worked well until 2020 but was a drag in 2020. Mr. Carlson said TMRS no longer needs the low volatility portfolio to diversify its holdings, as other diversifying investments were funded, so TMRS eliminated the low volatility portfolio strategy at the end of 2020.

The action plan for 2021, Mr. Carlson said, is to separate non-U.S. passive investments into a developed market index and to an emerging market index. This will allow more flexibility to

adjust overweight/underweight assets without using an active manager. Early indications show that the changes to the portfolio are working well.

#### **19. RVK Quarterly Investment Report.**

Mr. Carlson introduced Marcia Beard and Spencer Hunter with RVK. Ms. Beard noted that, for the RVK supplement in the Board's materials, changes had been made to the report based on Trustee and staff comments. RVK added a narrative portion to the report that answers three questions:

- 1) How did TMRS do against the market benchmark?
- 2) How did asset classes do?
- 3) How did we do compared to the Investment Policy Statement (IPS) benchmark?

The market in 2020 ended at highs, Ms. Beard said, as there was a big rebound from COVID impacts to lives and jobs. The market continues to recover with government intervention and central bank stimulus. With rate cutting, bond markets also did well, she said.

With regard to market benchmarks, Ms. Beard said TMRS outperformed by 5 basis points for the quarter but trailed for the calendar year by 36 basis points. Ms. Beard said TMRS was trailing because of structural mismatches and underperformance from global public equity and real estate. In real estate, the downturn in market opportunities dragged down managers. Regarding structural mismatches, she said that Mr. Carlson already addressed how minimum volatility strategies dragged down performance elsewhere; also U.S. v. non-U.S. allocations altered performance. Transitions during this period might have contributed slightly to underperformance.

Ms. Beard said looking at the total fund, over a rolling five-year period, TMRS exceeded its actual allocation benchmark by 12 basis points. Although TMRS is not yet fully implemented to its target allocation, she said, TMRS exceeded its IPS target of 6.75% for the five-year period. This is a gauge for TMRS as to whether its strategic asset allocation is effective.

Ms. Beard said that the majority of TMRS investment asset classes outperformed in the 4<sup>th</sup> quarter and calendar year 2020 but two underperformed in the quarter: Global Equity and Real Return. Those were not surprising, she said. Like with the total fund, the IPS wants you to look longer term, and over the five-year rolling period, only Global Equity underperformed.

Regarding asset allocation relative to IPS targets, Ms. Beard said that TMRS is close to its targets other than for Private Equity, which will take a while to implement up to the 10% target and TMRS is not expected to reach that until 2026.

Ms. Beard said that Mr. Garza had previously asked RVK to include information as to whether TMRS is meeting its investment beliefs stated in the IPS, so:



- for the belief that cost impacts returns and should be monitored – last year TMRS made moves to reduce fees, consolidating index advisors and moving more from active to passive;
- regarding risk and impacts on portfolio and intelligent risk being rewarded and trust fund risk being managed – those will be addressed in RVK reporting soon; and,
- regarding capital market assumptions and the belief that asset allocation is biggest driver of returns, this is monitored in RVK reporting, so TMRS addresses its investment beliefs.

Mr. Landis thanked Ms. Beard for the addition of the executive summary to the RVK report.

## **Executive Session**

### **20. Executive Session.**

The Board went into Executive Session at 11:39 a.m. The meeting reconvened in Open Meeting at 12:05 p.m. No action was taken during the Executive Session. Mr. Landis did a roll call, and all members of the Board who were present before the Executive Session were present.

Ms. Alanis moved to adjust the executive director's salary by 16.67%; Mr. Philibert seconded the motion, which passed by a vote of 6-0.

## **Future Board Agenda Items**

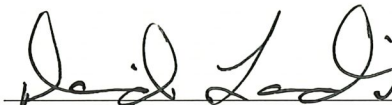
### **21. Call for Future Agenda Items.**

Mr. Scott requested a discussion about transitioning to in-person meetings. Mr. Wescoe noted that there is a Board retreat scheduled for April 29, and staff are looking for a venue that could handle an in-person, socially distanced meeting; so, if currently improving COVID-19 statistics continue, it is likely that the Board can have an in-person retreat.

Mr. Landis adjourned the meeting at 12:13 p.m.



David B. Wescoe  
Executive Director



David Landis  
Chair, Board of Trustees