



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

May 27, 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; Bill Philibert (via Zoom); and Bob Scott.

Staff present included: David Wescoe, Executive Director; Eric Davis, Chief Service Officer; TJ Carlson, Chief Investment Officer; Christine Sweeney, Chief Legal Officer; Leslee Hardy, Director of Actuarial Services; Dan Wattles, Director of Governmental Relations; Kristin Qualls, Investment Administration Manager; Madison Jechow, Assistant General Counsel; Karen Jackson, Executive Assistant; Chris Gillis, Network/Systems Administrator. Consultants present included: Marcia Beard of RVK, Mark Randall of GRS, Joe Newton of GRS, and Bob Klausner, Fiduciary Counsel.

Mr. Landis called the meeting to order at 9 a.m. and called roll. All trustees were present except Mr. Philibert. Mr. Landis recognized members of the Advisory Committee on Benefit Design who were present – Scott Leeton and Greg Shipley for the Combined Law Enforcement Associations of Texas, and Casey Srader for the Government Finance Officers Association of Texas.

Consent Agenda

1. Consider and Act on Consent Agenda.

Mr. Landis noted that the draft Minutes for April had been updated to reflect comments received from Mr. Scott. Mr. Scott moved that the Board adopt the Consent Agenda, including but not limited to the Minutes from the March 25, 2021 and April 29, 2021 Board meetings. Mr. Huizar seconded the motion, which passed 6-0.

Executive Director Report

2. Executive Director's Report.

Mr. Wescoe reported that both chambers of the Texas Legislature unanimously passed Senate Bill 1105, the TMRS return to work legislation, and the bill was sent to the Governor for signing. Mr. Wescoe thanked the Trustees, and Sen. Bryan Hughes, Rep. Rafael Anchia, Rep. Tan Parker, Rep. Jim Murphy and their staff members, for their support of this bill.

Mr. Wescoe also reported that Mr. Philibert, Mr. Huizar, Ms. Alanis and Mr. Scott all were confirmed as Trustees by the Senate in May.

Mr. Wescoe discussed the rebranding of TMRS' newsletters and improvements to the TMRS website.

Mr. Wescoe recognized the following staff members and departments for achievements:

- Kenneth Oliver, for recertification as an Enrolled Actuary and becoming a member of the American Academy of Actuaries;
- City Services, as one member wrote that it provided "better service than Chick-Fil-A"; and
- Nicole Garrod, April Hernandez, Jay Adams, Rachel Mota, Cris Rodriguez-Horn, and Michelle Trevino, all from Member Services, based on written compliments from members.

Actuarial Services Report

3. Consider and Act on 2020 Actuarial Valuation and Approval of 2022 Retirement Contribution Rates and Supplemental Death Benefit Contribution Rates.

Ms. Hardy introduced this item and said that each year staff and GRS present the actuarial valuation and ask the Board to review and, based on the valuation, approve city contribution rates for 2022.

Before discussion on the item, Mr. Wescoe stated that this was Mr. Randall's last presentation as senior partner for GRS and congratulated Mr. Randall on his upcoming retirement. Mr. Landis read a statement honoring Mr. Randall for his involvement in many important changes to TMRS' actuarial assumptions and methods that resulted in TMRS' funded ratio increasing during Mr. Randall's tenure from 74% to almost 90% in 2020. Mr. Randall thanked the Trustees and Mr. Wescoe and expressed appreciation for TMRS staff.

Ms. Sweeney announced that Mr. Philibert joined the meeting via Zoom.

Mr. Newton presented the valuation, including information which showed, as of December 31, 2020, TMRS as a system had: Actuarial Accrued Liability (AAL) of \$37.5 billion; Actuarial Value of Assets of \$33.6 billion; Unfunded Actuarial Accrued Liability (UAAL) of \$3.9 billion; and, Funded Ratio of 89.5%. He noted that, out of the largest 100 public pension systems, TMRS was the only system in Texas and one of only a small number nationally that had their UAAL go down in the last decade.

Mr. Scott asked Mr. Newton to explain the difference between the TMRS Prior Service Rate and other pension systems' prior service rates, and Mr. Newton did so. Mr. Newton stated that the average funding period for cities participating in TMRS is now down to 16.2 years.

Mr. Newton noted additional positive trends: that more cities are putting in more contributions to TMRS than the minimum required and that about 200 cities are over 100% funded.

Mr. Newton reported that the system-wide average city contribution rate is 13.32%. He presented a chart comparing that to the 100 largest public pension plans in country, showing their average rate is approximately 21%. Mr. Newton also showed a bell-curve chart of city contribution rate changes by city

Mr. Newton stated that TMRS' funded ratio has been steadily improving since 2009. Mr. Newton noted about 200 TMRS cities have a funding ratio over 100%; 76 cities have a funded ratio below 80%; and the remaining 600+ cities have a funded ratio above 80%. Mr. Newton explained that the number of cities with a funded ratio below 80% continues to decrease but will never reach "0" because new cities joining TMRS all start with a 0% funded ratio since there are liabilities for existing employees and no assets when the city joins.

Mr. Garza noted that TMRS sends rate letters every year and asked if other systems send rate letters for more than one year and if TMRS could do so. Ms. Hardy stated that her department helps individual cities with projections all the time and offered to do so for Mr. Garza if desired. Mr. Klausner added that to set the rate more than one year at a time would not be consistent with TMRS Act.

Mr. Philibert moved that the Board accept GRS' December 31, 2020, valuation results and certify the 2022 contribution rates for participating cities. Mr. Huizar seconded the motion, which passed 6-0.

Governmental Relations Report

4. Legislative Update and Overview of the 87th Legislative Session, including Discussion on Status of TMRS Legislation and Other Filed and Proposed Legislation.

Mr. Wattles congratulated the recently appointed and reappointed Trustees on receiving Senate confirmation in May.

Mr. Wattles stated that Senate Bill 1105 (SB 1105), the TMRS return to work bill, was passed by the Legislature on May 14 and was sent to Governor Abbott on May 19. If signed by the Governor, the bill will take effect September 1, 2021.

Mr. Wattles thanked Mr. Wescoe, Mr. Garza and the other Trustees, and the members of the Advisory Committee on Benefit Design for their support for the bill. Mr. Wattles also thanked Sen. Bryan Hughes, Rep. Rafael Anchia, Rep. Tan Parker, and Rep. Jim Murphy and recognized Ben Williams, Chief of Staff to Rep. Murphy; staff members Zion Mengesha and Jeff Madden for Rep. Anchia; and staff members Drew Tedford and Caitriana Corkill for Sen. Hughes. Mr. Wattles expressed appreciation for support from the Senate Finance Committee and House Pensions Committee members and their staffs. Mr. Wattles thanked Adrienne Cabrera in the Governor's office for her assistance with the bill.

Investment Reports

5. Chief Investment Officer's Report.

Mr. Carlson stated that the Investments team is taking meetings with investment managers and the portfolio is performing well. The Investment department is now fully staffed with the latest addition, TJ Moen, a Real Assets analyst.

6. Receive Private Market Investment Report.

Mr. Carlson reported the following investments approved by the Staff Investment Committee (SIC) in amounts up to:

- \$150M to Virtus Real Estate Capital III, LP;
- \$75M to Public Pension Capital, LLC;
- \$75M to Ara Fund II, LP;
- \$100M to PSG V, LP;
- \$150M to MTP Climate Infrastructure Fund, LLC;
- \$200M to Marshall Wace LLP, MW TOPS World Equities (US) Fund, Class G;
- \$125M to Insight Partners XII, LP;
- \$40M to Insight Partners XII Buyout Annex, LP; and
- \$75M to Redco II, LP.

Mr. Landis called for a break at 10:25 a.m.; he called the meeting back to order at 10:35 a.m. and all Trustees were present.

7. Consider and Act on Selection of a Custodian Bank.

Ms. Beard introduced the item, stating the Board selects TMRS' custodian bank and it is important to have a very capable one with whom you have a good working relationship. The custodian bank is the holder of TMRS' assets, it processes and settles trades, makes payments from the assets, calculates investment performance, and is TMRS' official book of record.

Ms. Qualls then discussed the recent RFP search process for a custodian bank. The evaluation team included nine TMRS staff members, representing finance, investment operations, and risk, as well as RVK staff. The RFP was posted on the TMRS website and sent to four potential candidates with extensive experience providing custodial services on TMRS' scale: State Street, JP Morgan, Northern Trust, and BNY Mellon. Responses were received only from those four providers. The responses were reviewed by each evaluation team member and scored based on certain categories: ability, experience and financial stability to provide scope of services; technology infrastructure; quality of responses; and, pricing. The evaluation team members had the opportunity to individually score the respective candidates after each stage of the process. The individual members' scores were aggregated to develop a final score for each candidate, as well as, the finalist candidates. Due diligence interviews were conducted with two finalists, State Street and BNY Mellon. After the interviews, the evaluation team's decision was to recommend to the Board that TMRS retain State Street as its custodian bank. The team thought State Street provided the most potential benefits: lowest cost; increasing

service levels; eliminates the need for a transition and its related costs; and, existing experience directly with TMRS.

Mr. Scott moved that the Board (i) select State Street as TMRS' custodian bank, and (ii) authorize the Executive Director to negotiate, execute, acknowledge and deliver up to a five-year agreement on such terms and conditions as are satisfactory to TMRS, such satisfactory terms and conditions to be conclusively evidenced by the execution thereof by the Executive Director. Mr. Philibert seconded the motion, which passed 6-0.

8. RVK Quarterly Investment Report.

Mr. Wescoe recognized RVK for receiving a Greenwich Quality Leader award and added that RVK was first, or tied for first, in 11 key criteria considered in its category.

Ms. Beard presented the TMRS quarterly investment report and reviewed three questions: How did TMRS perform relative to its Investment Policy Statement (IPS) benchmarks? How did TMRS Asset Classes perform relative to their respective benchmarks? How is TMRS positioned relative to the Board's strategic target allocation?

Mr. Beard said that the first quarter return was strong, and the one-year return was very strong. She stated the three-year return beat TMRS' 6.75% return assumption, but TMRS underperformed its IPS benchmarks in the first quarter, one-year and three-year periods. Reasons included that Absolute Return trailed because this hedge fund portfolio was designed to be more conservative. Since inception, Absolute Return outpaced its benchmark, so underperformance likely is short term, but it is something to consider in asset allocation. Also contributing to underperformance was Global Equity which was driven primarily by the portfolio's exposure to "low-volatility" stocks which did not perform well during the pandemic recovery. Real Estate trailed slightly for the one-year period because the benchmark is core real estate while TMRS holds more growth properties, which did not do as well last year. Looking at five- and ten-year periods, TMRS' total fund outperformed its benchmarks. For the five-year performance, on which the IPS gauges performance, TMRS outperformed its benchmarks by 50 basis points.

With regard to strategic target allocation, Ms. Beard said, TMRS is not implemented to that yet but beat 6.75% despite delays in implementation. If fully implemented, in last 5 years TMRS would have returned 9.17%; actual return was 8.11%. How did asset classes do? All asset classes outperformed their policy benchmarks in last 5 years other than Global Equity, which has now been restructured as discussed at the April Board retreat. All asset classes are in range of their target allocations except for Private Equity, which currently is below its target and is balanced by overcommitment to Global Equity. Full implementation in Private Equity should occur by 2026.

Executive Session

9. Executive Session.

The Board went into Executive Session at 11:01 a.m. The meeting reconvened in Open Meeting at 11:50 a.m. No action was taken during the Executive Session. Mr. Landis took roll and all Trustees were present.

Future Board Agenda Items

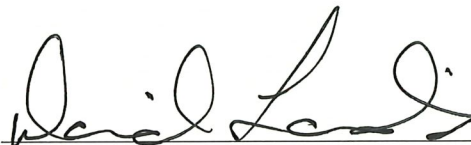
10. Call for Future Agenda Items

Mr. Landis asked if there were any requests for future agenda items. There were none.

There being no further business, Mr. Garza moved that the meeting adjourn at 11:52 a.m. Ms. Alanis seconded the motion, which passed 6-0.



David B. Wescoe
Executive Director



David Landis
Chair, Board of Trustees