



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

September 19, 2024 – 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 the TMRS office, located at 2717 Perseverance, Suite 300 in Austin, Texas, with the following Trustees present: Chair Bill Philibert, Vice Chair David Landis, Tommy Gonzalez, Tricia Mirabelle, and Bob Scott.

Staff present included: David Wescoe, Debbie Muñoz, Christine Sweeney, Anali Alanis, Jac Greene, Yup Kim, Nick O’Keefe, Kristyn Scoggins, Tom Masthay, and Madison Jechow. Consultants present included: Sam Austin, Christian McCormick, and Bob Klausner. Janie Shaw attended via Zoom.

1. Consider and Act on Consent Agenda.

Mr. Scott moved that the Board adopt the Consent Agenda. Mr. Landis seconded the motion, which passed 5-0.

2. Executive Director’s Report.

Mr. Wescoe said Ms. Alanis was accepted into the Governor’s 2024 Executive Development Program. TMRS staff attended the Texas City Managers Association annual meeting and developed an online city plan change tool for city administrators. TMRS’ call center had an unprecedented week where 100% of calls were answered within 10 seconds. Mr. Wescoe recognized Investments staff members for receiving awards from the Markets Group, *Private Equity International*, *Institutional Investor*, *Pension and Investments*, *Chief Investment Officer* and the Governor’s Commission on Women. Cindy Demers joined TMRS as Director of Accounting. TMRS Director of City and Member Services Colin Davidson received his green belt in Lean Six Sigma training, and other staff in Benefit Administration are pursuing the same training.

3. Receive Senior Staff Quarterly Reports.

Ms. Sweeney presented the Senior Staff Quarterly Reports to the Board.

4. Consider and Act on Appointment to Audit Committee.

Ms. Scoggins reported with Mr. Rodriguez's retirement, there is a vacancy on the Audit Committee. Mr. Philibert nominated Mr. Scott to serve as Vice Chair of the Audit Committee. Mr. Landis seconded, and the Board approved 5-0.

5. Consider and Act on Appointment to Stakeholder Advisory Committee.

Ms. Muñoz said that Chereé Bontrager, representing the Texas Municipal Human Resources Association (TMHRA), and Roberto Reyna, an active member on the Committee, can no longer serve on the Committee. TMHRA has designated Christi Klyn to replace Ms. Bontrager effective October 1, 2024. Board approval for this change is not required.

Mr. Reyna no longer is employed by a TMRS city and cannot serve on the Committee as an active member. Staff recommends the appointment of David Garza, the City of McAllen's Director of Wastewater Systems. Mr. Garza has 26 years in this industry and was recommended by Roy Rodriguez.

Mr. Scott moved the Board appoint Mr. Garza to serve as an active Committee member. Mr. Landis seconded the motion, which passed 5-0.

6. Receive Update on External Quality Assessment and Internal Audit Activities.

Ms. Scoggins said that internal auditing standards require an external independent assessment every five years to evaluate compliance with the Institute of Internal Auditors Standards and Code of Ethics. This summer, independent reviewers Larry Jensen and Marci Sundbeck performed this assessment and concluded that "It is our overall opinion that TMRS Internal Audit conforms with the highest rating of the Institute of Internal Auditors *International Standards for the Professional Practice of Internal Auditing and Code of Ethics*." The independent reviewers also provided recommendations based on updates to these Standards that will take effect in January 2025.

7. Report on September 13, 2024 Budget and Compensation Committee Meeting.

Mr. O'Keefe reported that the Budget and Compensation Committee met on September 13. The Committee discussed changes to its Charter proposed by Mr. O'Keefe and approved the changes for consideration by the full Board at a later meeting. The Committee then discussed the proposed 2025 budget, which it supports.

8. Discuss 2025 Proposed Operating and Capital Budgets.

Mr. O'Keefe provided an overview of the proposed 2025 operating budget which is approximately \$3.85 million higher than the 2024 operating budget. The budget does not include a request for any capital items.

The largest component of the budget is for personnel which is proposed to increase 16.7%. The increase relates to the addition of four senior Investment professionals and establishing a discretionary investment team bonus pool to attract and retain investment professionals. Trustees expressed support of the budget, and Mr. O’Keefe said it will be presented to the Board in December for approval.

9. Discuss Potential Legislation Topics.

Ms. Muñoz discussed four legislation topics reviewed by the Stakeholder Advisory Committee. She said that the Committee quickly reached consensus on making city plan changes effective January 1 and removing the statutory maximum contribution limit.

The Committee also considered whether to decouple cost of living adjustments (COLAs) from Updated Service Credits (USC). Requiring a city to provide USC in order to provide a COLA increases costs, for both USC and the COLA, while decoupling these benefits would allow cities more flexibility in benefit options. The Committee supported this change.

The fourth topic considered by the Committee was COLA options. Non-retroactive COLA options passed by the Texas Legislature in 2023 as House Bill 2464 have limits and, if a city wants one, it must be adopted before January 1, 2026. The Committee supported keeping TMRS’ current retroactive COLA but also making the non-retroactive COLA option permanent and without restrictions. The Committee also supported adding 40% and 60% as additional options to the COLA percentage options available to cities. Mr. Scott said these changes were about flexibility for cities, and Ms. Mirabelle said that the Committee’s support for these changes were noteworthy. Mr. Landis said he supports the COLA options but not an 80% non-retroactive COLA because he does not think it is worth the effort.

Ms. Sweeney discussed three potential changes to the TMRS Act. The first would be to update the Act’s requirements for using a small estates affidavit to make the small estate size limit match the Texas Estates Code’s small estate limit and to remove the existing limit of three heirs. The second proposed change would add provisions to establish venue in Travis County for legal actions in state courts and administrative hearings, similar to provisions in the TCDRS Act. The third potential change would add qualified domestic relations order (QDRO) payment flexibility for former spouses of TMRS members and retirees and allow a former spouse to name a beneficiary for their portion of the benefits. Currently, even if a QDRO awards a former spouse a portion of the TMRS benefits, the former spouse can only receive TMRS benefits when the member or retiree refunds or retires. The Board supported these changes, and Ms. Sweeney said staff would draft proposed bill language to present to the Board in October.

10. Investment Reports.

Mr. Kim introduced four senior investment professionals recently hired by TMRS: Philip O’Brien, Managing Director and Head of Private Equity, Amol Deshpande, Managing Director and Head of Direct Investments, Hester Cai, Portfolio Manager in Private Credit, and Isidora Stankovic, Director of Private Equity, who will join in November.

Mr. Kim recognized existing staff for receiving industry awards, including Darren Schlissel (award from *Chief Investment Officer*), Joel Palmer (award from *Pensions and Investments*), Ngoc Can (award from *Private Equity International*), and Monica Huffer (award from the Governor's Commission for Women).

Mr. Kim reported that TMRS was on track to meet its annual private markets commitments target and that the current asset allocation is closely aligned with the Trust Fund target allocation. Private market co-investments which achieve cost savings while improving returns, have increased. Net returns exceeded benchmarks for both one- and five-year periods. Trust Fund returns have improved against the peer median in the one-year period, however returns remain in the fourth quartile in the five-year period due to a past conservative asset allocation. Trust Fund risk is below peers in both the one- and five-year periods, and Trust Fund net returns exceeded TMRS' return assumption of 6.75% in both periods. Net returns exceeded their benchmarks in all of the one-, three- and five-year periods. Staff has completed \$582 million in capital commitments this year.

After Mr. Kim's report, the Board received a public comment from Justin Flores with the Private Equity Stakeholder Project.

General Investment Consultant Quarterly Report.

Mr. Austin said for the one-year period ending June 30, the Trust Fund returned 10.46%, exceeding its benchmark by 1.94%, and for the five-year period, the return was 7.02% and exceeded its benchmark by 1.65%. All asset classes other than private markets added value in the past year. Compared to peers, TMRS was in the 2nd quartile in the one-year period and beat the median by 21 basis points. Against the assumed rate of return, TMRS outperformed across a rolling five-year period by 27 basis points. All asset classes are in their target ranges.

11. Review Annual Review and Consider and Act on Asset Allocation Amendments.

Mr. Kim proposed changes to the Board's asset classes and allocations as follows:

- Return-seeking asset classes with target allocations: Public Equity 35%, Private Equity 20%, and Tactical Opportunities 6%, and
- Diversifying classes with target allocations: Credit 21% and Real Assets 18%.

The proposed changes seek to simplify asset classes, to leverage TMRS' competitive advantages of a healthy liquidity profile and funded status, and to increase TMRS' share of Private Equity co-investments. The changes bring higher expected 10- and 30-year returns with modest risk increases. Mr. Kim said both staff and NEPC recommend them.

Mr. Philibert asked if there were any concerns about increasing Private Equity's allocation. Mr. Kim said there is opportunity in Private Equity with staff's strong direct investment capabilities to reduce fees while generating outperformance. Mr. Scott asked about the classes that will be reduced. Mr. Yup said that only about half of Hedge Fund managers outperform the benchmark, so TMRS will keep best in class managers when it reduces exposure to that class.

Mr. Landis moved that the Board approve the new asset classes and asset allocations presented, all to be effective January 1, 2025. Mr. Scott seconded the motion, which passed 5-0.

12. Board Education: Private Equity Asset Class.

Mr. Masthay presented a Board education session on Private Equity.

13. Executive Session.

The Board went into Executive Session at 10:49 a.m. The Board reconvened in open session at 12:45 p.m. All Trustees were present.

Mr. Scott moved to adjust the Executive Director's salary up 11.1%, rounded to the nearest \$1,000, and to provide a 20% bonus for performance. Mr. Landis seconded the motion, which passed 5-0.

14. Call for Future Agenda Items.

None.

Mr. Philibert adjourned the meeting at 12:47 p.m.



David Wescoe
Executive Director



Bill Philibert
Chair, Board of Trustees