



AGENDA

Meeting of the Board of Trustees

Thursday, December 14, 2023 – 9:00 a.m.

**TMRS Office
2717 Perseverance Drive, Suite 300
Austin, Texas**

Zoom Link for Public:

<https://tmrs.zoom.us/j/84867206889?pwd=JQKN8tPySiBr3lvY4noidqyUINwgg.1>

The Board may discuss any item on the Agenda at any time during the meeting.

Call to Order

Invocation

Pledge of Allegiance

Consent Agenda

1. Consider and Act on Consent Agenda. Bob Scott

- a. Approve Minutes from the September 28, 2023, Board of Trustees meeting
- b. Quarterly Confirmation of Member Retirements
- c. Quarterly Confirmation of Supplemental Death Benefit Payments and Extended Supplemental Death Benefits Coverage
- d. Receive Quarterly Financial Statements as of September 30, 2023
 - i. Statements of Fiduciary Net Position
 - ii. Statements of Changes in Fiduciary Net Position
 - iii. Expense Fund Balance Sheet
 - iv. Expense Fund Schedule of Operating and Capital Expenditures

- e. Receive Seven-Year Inactive Members Report
 - i. Information on Transfer of Inactive Member Accounts to Endowment Fund
 - ii. Information on Transfer of Unclaimed Member Refunds to Endowment Fund
- f. Approve City Ordinances Adopted for Updated Service Credit and/or Annuity Increase

Staff Reports

- 2. **Receive Executive Director and Senior Staff Reports.** Executive Director (*David Wescoe*), Chief Legal Officer (*Christine Sweeney*), Chief Service Officer (*Debbie Muñoz*), Chief Information Officer (*Jac Greene*), and Chief Quality Officer (*Anali Alanis*)

Stakeholder Advisory Committee

- 3. **Report on Stakeholders Advisory Committee Meeting.** *Bob Scott, Jesús Garza, and Debbie Muñoz*
- 4. **Consider and Act on Topics for Stakeholder Advisory Committee.** *Bob Scott*

Board Organization

- 5. **Consider and Act on 2024 Board Meeting Dates.** *Bob Scott*
- 6. **Consider and Act on Election of 2024 Board Officers.** *Bob Scott*
- 7. **Consider and Act on 2024 Board Committee Appointments.** *Bob Scott*

Audit Committee Report

- 8. **Report on Audit Committee Meeting.** *David Landis*

Finance and Human Resource Reports

- 9. **Consider and Act on Proposed 2024 Operating and Capital Budgets.** *Candace Nolte*
- 10. **Consider and Act on Resolution Transferring Monies from Interest Reserve Account to Expense Fund.** *Candace Nolte*

Investments

11. **Investment Reports.** *David Hunter*
 - a. Chief Investment Officer Report
 - b. Trust Fund Report: Third Quarter 2023
 - c. Receive 2023 Completed Investments Report
 - d. Receive Third Quarter 2023 Investment Compliance Report
 - e. Confirmation of Asset Allocation and Benchmark Effective Dates
12. **Consider and Act on Amendments to the Investment Policy Statement.** *David Hunter*
13. **Receive 2024 Investment Pacing Plan.** *Tom Masthay*
14. **General Investment Consultant Quarterly Report.** *Sam Austin, NEPC*
15. **Board Education: Fixed Income Asset Class.** *Darren Schlissel*
16. **Board Education: Private Equity Asset Class.** *Josh Garcia*

Future Board Agenda Items

17. **Call for Future Agenda Items.** *Bob Scott*

Adjournment

The Board may meet in Executive Session on any item listed above if authorized by the Texas Open Meetings Act or by the Texas Municipal Retirement System Act.

In accordance with Texas Government Code Section 855.007, the Board may conduct the open and/or closed portions of the meeting by telephone conference call and/or by videoconference. The location of the meeting at which at least one Trustee of the Board will be physically present is the Texas Municipal Retirement System office, 2717 Perseverance Drive, Suite 300, Austin, TX, which will be open and audible to the public during the open portions of the meeting.



December 5, 2023

To: Board of Trustees

From: Christine M. Sweeney, Chief Legal Officer *CS*

Re: Agenda Item 1: Consider and Act on Consent Agenda

The Consent Agenda includes:

- Minutes from the September 28 Board meeting;
- quarterly reports on service retirements, disability retirements, death benefits and financial statements;
- an annual report on Members whose accounts have been inactive for seven years; and
- the annual approval of Updated Service Credits (USC) and/or Annuity Increase (COLAs) ordinances that have been adopted by participating cities during the 2023 calendar year.

The Seven Year Inactive Report is presented to the Board each December to transfer certain Member's accounts to the Endowment Fund under the terms of the TMRS Act. The Members on the Report terminated city employment by reason other than death or retirement, are not vested, ceased earning annual interest after 60 months and have not requested a refund. In accordance with the TMRS Act, these persons are no longer considered TMRS Members, and the accounts are transferred to the perpetual endowment account of the Endowment Fund. The Report also provides a listing of former Members with "Unclaimed" refund payments that have not been cashed. If any of the persons subsequently contacts TMRS, they can request a refund at that time. TMRS has tried to contact these Members multiple times in multiple ways.

The TMRS Act requires the Board to approve ordinances adopted by participating cities that relate to Updated Service Credits and/or Annuity Increases (i.e., COLAs) and meet certain criteria of the Act. These two types of ordinances have a specified statutory effective date of January 1, so each December staff presents to the Board the Updated Service Credit and Annuity Increase ordinances that have been adopted during the calendar year. The ordinances that will be presented at the December meeting were adopted to be effective January 1, 2024. Additional ordinances may be received in a timely manner after the December Board meeting. The Board's action with regard to Consent Agenda Item 1(f) approves those ordinances presented and such other qualified ordinances as may be received by the System prior to January 1, 2024. An updated listing of ordinances received will be presented to the Board at the meeting. Ordinances received after that

listing is created will be presented for ratification by the Board at the first regular Board meeting in 2024.

The Consent Agenda is adopted as one item.

RECOMMENDATION

Staff recommends that the Board adopt the Consent Agenda as presented.

ATTACHMENTS

- 1 - Minutes from the September 28, 2023 Board meeting
- 2 - Retirement and Supplemental Death Benefit Reports
(summary report attached; detailed report in Diligent Resource Center due to confidential information)
- 3 - Financial Statements (in Diligent Board Books)
- 4 - Seven Year Inactives Report (in Diligent Resource Center)
- 5 - List of Ordinances Adopted for Updated Service Credit and/or Annuity Increase



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

September 28, 2023 – 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 all Trustees present: Chair Bob Scott, Vice Chair Anali Alanis, David Landis, Bill Philibert, Jesus Garza, and Johnny Huizar.

Staff present included: David Wescoe, Christine Sweeney, Mike Apperley, Jac Greene, David Hunter, Leslee Hardy, Kristyn Scoggins, Candace Nolte, Leslie Ritter, and Tim Sweeney. Consultants present included: Robert Klausner, Sam Austin, Tim McCusker, Joe Newton, and Janie Shaw. Michelle Mellon-Werch served as Secretary of the meeting.

Mr. Scott called the meeting to order at 9:01 a.m. He asked Mr. Wescoe to make an announcement regarding Board and personnel changes at TMRS. Mr. Wescoe announced that Ms. Alanis had resigned her position at the City of Pharr and will join TMRS as Chief Quality Officer. Mr. Scott stated that because of Mrs. Alanis' role change, she would be abstaining from all votes at the meeting.

Consent Agenda

1. Consider and Act on Consent Agenda.

Mr. Landis moved that the Board adopt the Consent Agenda, including but not limited to the Minutes from the June 22, 2023 meeting. Mr. Philibert seconded the motion, which passed 5-0.

Executive Director Reports

2. Executive Director's Report.

Mr. Wescoe reported that to date five participating cities have adopted the new non-retroactive repeating COLA pursuant to House Bill 2464. More cities have requested plan change studies on this COLA and are considering this new option. Four new cities have joined TMRS, these include Coldspring, Wolfe City, Lowry Crossing and Petrolia. With these cities, TMRS has 933 participating cities. The TMRS 2022 Annual Comprehensive Financial Report and the 2023 GASB 68 reporting packages are now available on the website. Mr. Wescoe reported that TMRS is providing online webinars for Members and city contacts. Mr. Wescoe announced

that Debbie Muñoz, Chief Service Officer, has been accepted into the Governor's Executive Development Program. She is at the first session this week. The Member Service Center's median wait time has been seven seconds.

3. Receive Senior Staff Quarterly Reports.

Mr. Wescoe presented the Senior Staff Quarterly Reports.

Plan Design and Funding

4. Consider and Act on Actuarial Experience Study Results.

Ms. Hardy said this Item was to consider and act on the actuarial assumptions summarized in the *2023 Experience Study Summary of Recommendations* based on the *Actuarial Experience Investigation Study as of December 31, 2022* (2023 Experience Study). Mr. Newton from GRS discussed the purpose of the 2023 Experience Study. Mr. Newton stated that the current assumption set is reasonable. GRS recommends only a few changes, such as higher projected salary increases and increased rates of turnover for longer service members, but these mainly offset each other. He reviewed a summary of the system-wide actuarial impact of the recommendations, stating that there is less than an eleven basis point difference in the average contribution rate for 2024, with small improvements to the aggregate funded ratio and unfunded actuarial accrued liability (0.6% and -3.4%, respectively). Mr. Newton also reviewed the changes in interest rates and investment return assumptions. GRS estimated very similar expected returns as NEPC using the new target asset allocations.

For the Supplemental Death Benefit Fund, Mr. Newton reminded the Board that GRS recommended they increase rates during the pandemic. Now GRS is recommending that TMRS premiums return closer to actual expected cost, decreasing active premiums from 200% to 150% of expected costs, and keeping retiree premiums at 110% of expected costs. A margin is still needed because a large portion of the reserve was used during the pandemic. TMRS needs to build the fund back up in case mortality does not return to normal and to protect against a future adverse event.

The Board discussed the assumptions with Mr. Newton. Mr. Garza asked if doing the experience study every four years is still best practice. Mr. Newton said yes.

Mr. Garza moved that the Board accept GRS' recommended assumptions in the Actuarial Experience Investigation Study as of December 31, 2022. Mr. Landis seconded the motion, which passed 5-0.

Board Officers and Stakeholder Advisory Committee

5. Consider and Act on Stakeholder Advisory Committee Chair and Vice Chair.

Ms. Sweeney summarized the last Board meeting where the Board established the Stakeholder Advisory Committee. The Committee's Charter states that the Board Chair appoints the Chair and Vice Chair of the Committee, subject to Board approval. The 2023 Chair of the prior Advisory Committee on Benefit Design was Ms. Alanis and Mr. Scott was Vice Chair.

Mr. Landis moved that the Board approve Mr. Scott as the Chair and Mr. Garza as Vice Chair of the Stakeholder Advisory Committee for the remainder of 2023. Mr. Garza seconded the motion, which passed 5-0.

6. Consider and Act on Appointments to the Stakeholder Advisory Committee.

Ms. Sweeney explained that the Committee Charter provides that the Committee members include one representative from seven identified municipal organizations, two TMRS active members (preferably who participate in other TML affiliated organizations) and one TMRS retiree. Each identified organization has designated their Committee representatives. They are listed in the Board materials. TMRS staff recommends the following individuals, who have already agreed to serve as Committee members: Jay Warren, the City of Arlington's Director of Communications and Legislative Affairs and Board President of the Texas Association of Municipal Information Officers (TAMIO); Roberto Reyna, the City of San Antonio's Assistant Director of Public Works and President of the American Public Works Association – South Central Branch, and Brenda Martin, TMRS retiree, formerly Director of Finance with the City of Lewisville.

Mr. Garza moved that the Board approve Messrs. Warren and Reyna as the active member representatives and Ms. Martin as the retiree representative on the Stakeholder Advisory Committee. Mr. Huizar seconded the motion, which passed 5-0.

7. Consider and Act on Topics for Stakeholder Advisory Committee.

Ms. Sweeney stated the Committee Charter provides that the Board will assign topics to the Committee and the Chair will schedule meetings, as appropriate. The Trustees discussed the timing of meetings and topics.

Mr. Garza moved that the Board approve presenting the topics discussed to the Committee for their input on topic ideas and prioritization of topics. Mr. Landis seconded the motion, which passed 5-0.

Internal Audit

8. Report on Audit Committee's September 6, 2023 Meeting.

Ms. Scoggins reviewed the September 6, 2023 Audit Committee meeting presentations and discussion. She also reported that Mr. Apperley had finalized the contract with CLA to extend audit services to 2028.

9. Consider and Act on Amendments to Internal Audit Charter.

Ms. Scoggins stated that the Audit Committee also discussed amendments to the Internal Audit Charter, which was last reviewed in 2019. She reviewed the recommended amendments.

Mr. Huizar moved that the Board approve the updated Internal Audit Charter. Mr. Landis seconded the motion, which passed 5-0.

Finance and Human Resource Reports

10. Report on Budget and Compensation Committee Meeting.

Mr. Apperley reported that the Compensation Committee reviewed and discussed the draft 2024 Operating and Capital budgets and discussed and recommended proposed changes to TMRS salary schedules be presented to the Board for approval.

11. Consider and Act on TMRS Salary Schedules.

Mr. Apperley stated that the TMRS salary schedules were last reviewed and approved by the Board in 2018. He reviewed the new proposed salary schedules. The Board discussed the effective date and the effect of the schedules. The Board asked staff what analysis was done to assist with the analysis. Mr. Apperley responded that the staff reviewed peer systems and information from recruiters.

Mr. Huizar moved that the Board approve the proposed salary schedules to be effective October 1, 2023. Mr. Philibert seconded the motion, which passed 5-0.

12. Discuss 2024 Draft Operating and Capital Budgets.

Mr. Apperley presented the proposed 2024 operating and capital budgets, explaining that they had also been presented to the Budget and Compensation Committee.

Ms. Nolte reviewed the overall 2024 operating and capital budgets. The 2024 proposed operating budget is 3% higher than the 2023 operating budget. The largest categories are Personnel Services, Professional Services and Information Technology. There are no new full time positions requested for 2024. She then reviewed the changes from 2023 and the needs underlying the slight increases.

Mr. Apperley reviewed the proposed 2024 capital budget, which is a request for three capital projects. The largest amount is for a rebuild of NextGen, TMRS' pension administration system. Mr. Apperley explained why this is necessary and the plans to rebuild. The second and third capital projects are for updates to MyTMRS and to build online capabilities for online retirement processing via MyTMRS.

No funds were requested for PASMod because it is complete, and a final update will be provided in December. Staff will provide the final budgets at the December Board meeting for approval.

Investment Reports

13. Chief Investment Officer's Reports.

Mr. Hunter stated that net returns exceeded strategic financial objectives with below median risk. For the five years ended June 30, 2023, net returns exceeded actual allocation benchmark by 1.3% and net returns and risk ranked in the first quartile for the one-year ended June 30, 2023. The Trust Fund's net return for the one-year ended June 30, 2023, was 8.17%, exceeding the actual allocation benchmark by 4.3% and strategic target allocation benchmark by 3.6%. Trust Fund returns ranked in the fourth quartile for the five-years ended June 30, 2023. This

was due to a low risk profile compared to our peers and the Board-approved target allocation not being fully implemented during this period. They have closed \$3.5 billion in new investments in the first half of 2023. The Staff Investment Committee has approved \$835 million in new investments with five existing firms and \$75 million with a new private equity firm.

Net returns for the Trust fund exceeded the benchmarks for the one-year, three-year and five-year periods by 4.3%, 2.1% and 1.3%, respectively. He reported that the asset allocations are all within the policy range. Mr. Hunter reviewed the risk allocation as of June 30, 2023, which is 13.1% based on NEPC's Capital Market Assumptions. The actual allocation risk is slightly higher at 13.6%, and the target allocation benchmark is 11.9%. He then reviewed the closed completed investments so far in 2023.

14. General Investment Consultant Quarterly Report.

Mr. Austin with NEPC presented the second-quarter investment consultant report. He presented the total fund performance summary compared to the current asset allocation benchmark and strategic asset allocation, where TMRS performed in the first quartile of its peers. In the five-year period ended June 30, 2023, TMRS outperformed the actual allocation benchmark by 1.28% net of fees. The one-year risk-adjusted returns show that TMRS was in the first quartile of risk and the first quartile of returns. Mr. Austin stated that this is where the Fund wants to be, with lowest risk and higher return. Over the five-year period, TMRS was in the third quartile of risk but the fourth quartile of returns.

Mr. Scott asked how well positioned is the Trust Fund in the current market conditions. Mr. Austin and Mr. Hunter both stated that the Trust Fund is positioned to do well in difficult conditions.

15. Consider and Act on Benchmarks.

Mr. Austin reviewed the work done by the Board and staff to analyze the investment portfolio. He reviewed the changes made by the Board to asset allocation. Based on those changes, NEPC recommends redefining certain benchmarks to more closely align with the updated asset allocations and asset classes. Mr. Austin reviewed the recommended benchmarks. The Trustees asked for additional explanations of the new benchmarks, alternative options and how the recommendations relate to the asset classes. Mr. Austin responded.

Mr. Landis moved that the Board approve the new benchmarks and authorize staff to amend the IPS to take these into account. Mr. Garza seconded the motion, which passed 5-0.

16. Board Education: Artificial Intelligence and its Potential Impact on Investments.

Mr. McCusker, Chief Investment Officer at NEPC, discussed artificial intelligence (AI). He gave a history of the development of AI and explained that technology platforms have shifted every ten years, and each has built on the prior technology, allowing the next step. AI is not new; it has been used in mobile applications, businesses and services that are household names. Mr. McCusker explained that the implications for investments include, but are not limited to, investment strategy, analysis, processing, management and support.

17. Board Education: Hedge Funds Asset Class.

Mr. Masthay explained that the hedge fund asset class is intended to protect capital, diversify risk and enhance returns. Through hedge funds, TMRS can invest in different funds that it cannot invest in through other asset classes. The Board approved a 5% allocation target earlier in 2023. As of June 30, 2023, TMRS has decreased assets managed in this class and are currently on target at 5.3%. Staff has also decreased the number of managers to the top 14 funds. He discussed performance last year, how the portfolio protected capital during the down market, and how it exceeded the benchmark for the one-year period ending June 30, 2023 by more than 6.5%. Mr. Masthay explained how staff expects the portfolio to perform and how staff has rebalanced the portfolio over the past year. He then reviewed the goals for the portfolio for the year and discussed how they have been achieved and what the goals are for 2024.

18. Executive Session.

The Board went into Executive Session at 11:35 a.m. Ms. Alanis did not attend the Executive Session. The Board meeting reconvened in Open Meeting at 1:16 p.m. Members of the Board who were present before the Executive Session were present.

Mr. Landis moved to increase the executive compensation to the Executive Director by 12.5%, and to provide a one-time lump sum payment of equal amount. Mr. Garza seconded the motion, which passed 5-0.

Mr. Garza moved to appoint Mr. Huizar to serve as Vice Chair of the Board for the remainder of 2023. Mr. Philibert seconded the motion, which passed 5-0.

Future Board Agenda Items

19. Call for Future Agenda Items.

There being no further business, Mr. Scott adjourned the meeting at 1:20 p.m.

David B. Wescoe
Executive Director

Bob Scott
Chair, Board of Trustees



December 5, 2023

To: Board of Trustees

From: Andi Focht-Williams, Director of Benefit Administration *Andi Focht-Williams*

Re: Agenda Item 1 - Consent Agenda – Retirements and Supplemental Death Benefit Payments

The attached Retirement Report and Supplemental Death Benefits Payments Report reflect processing activity by the Benefit Administration Department in accordance with the TMRS Act. Both have been reviewed and approved by Chief Service Officer Debbie Muñoz.

Board Retirement Report

Summary of Individual Member Retirements Processed from 07-2023 to 09-2023

| Total Number of Retirements by Option | Service | Disability | Total |
|---------------------------------------|---------|------------|-------|
| Retiree Life Only | 321 | 5 | 326 |
| Retiree Life -- 100% to Survivor | 296 | 7 | 303 |
| Retiree Life -- 75% to Survivor | 56 | 0 | 56 |
| Retiree Life -- 50% to Survivor | 132 | 2 | 134 |
| Retiree Life -- 5 Years Guaranteed | 13 | 0 | 13 |
| Retiree Life -- 10 Years Guaranteed | 15 | 0 | 15 |
| Retiree Life -- 15 Years Guaranteed | 52 | 0 | 52 |
| Cashout of Reserves | 16 | 0 | 16 |
| Total Number -- All Options | 901 | 14 | 915 |

| | | | |
|--|-------------|----------|-------------|
| Total Monthly Benefits (Nearest Dollar) | \$1,760,554 | \$10,745 | \$1,771,299 |
| Average Monthly Benefit (Nearest Dollar) | \$1,954 | \$768 | \$1,936 |
| Average Age at Retirement | 59 | 49 | 59 |
| Average Years of Service at Retirement | 20 | 13 | 19 |

| | |
|----------------------------------|--------------|
| Partial Lump Sum Distributions | |
| No. of Retirements Taking a PLSD | 691 |
| Total Amount Paid | \$40,659,756 |
| % of PLSD Funds Rolled Over | 58% |
| % of PLSD Funds Not Rolled Over | 42% |

**Texas Municipal Retirement System
Supplemental Death Benefits Report**

**Summary of Supplemental Death Benefit Payments and Applications for Supplemental
Death Benefits Extended Coverage from July 1, 2023 to September 30, 2023**

| Supplemental Death Benefit Payments | |
|---|--------------------------------------|
| By Beneficiaries of Active Members | 27 payments totaling \$1,364,754.14 |
| By Beneficiaries of Retired Members | 239 payments totaling \$1,640,075.00 |
| | |
| Applications for Supplemental Death Benefits Extended Coverage | |
| None | |

TEXAS MUNICIPAL RETIREMENT SYSTEM
STATEMENTS OF FIDUCIARY NET POSITION
As of September 30, 2023 and 2022

| | <u>9/30/2023</u> | <u>9/30/2022</u> |
|--|--------------------------------|--------------------------------|
| ASSETS | | |
| Cash | \$ 25,887,933 | \$ 21,265,557 |
| Receivables: | | |
| Contributions | 162,679,283 | 135,870,410 |
| Interest and dividends | 41,764,004 | 21,308,268 |
| Investment trades | 65,805,065 | 252,420,126 |
| Total receivables | <u>270,248,352</u> | <u>409,598,804</u> |
| Investments, at fair value: | | |
| Short-term investments | 393,055,782 | 246,260,430 |
| Derivative contracts | 1,497,195 | 3,404,510 |
| Fixed income securities | 3,730,175,333 | 2,671,622,289 |
| Inflation-linked bonds | - | 17,023,422 |
| Global public equities | 12,544,470,574 | 10,587,612,199 |
| REITs | 37,396,068 | 33,919,857 |
| Non-core fixed income funds | 5,343,829,957 | 5,954,746,477 |
| Other public & private markets funds | 3,778,391,389 | 3,782,974,605 |
| Hedge funds | 2,027,808,438 | 2,533,751,402 |
| Private equity funds | 4,266,889,751 | 3,644,979,519 |
| Real estate funds | 5,102,853,329 | 4,582,706,330 |
| Total investments | <u>37,226,367,816</u> | <u>34,059,001,040</u> |
| Total assets | 37,522,504,101 | 34,489,865,401 |
| LIABILITIES | | |
| Investment trades payable | 138,147,821 | 304,876,687 |
| Accrued investment management fees | 5,977,232 | 4,227,869 |
| Accounts payable and other accrued liabilities | <u>27,791,480</u> | <u>33,117,190</u> |
| Total liabilities | 171,916,533 | 342,221,746 |
| FIDUCIARY NET POSITION | | |
| Restricted for pensions | 37,345,491,054 | 34,144,680,894 |
| Held in trust for other benefits | <u>5,096,514</u> | <u>2,962,761</u> |
| Total fiduciary net position | <u><u>\$37,350,587,568</u></u> | <u><u>\$34,147,643,655</u></u> |

TEXAS MUNICIPAL RETIREMENT SYSTEM
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
For the Nine Months Ending September 30, 2023 and 2022

| | <u>2023</u> | <u>2022</u> |
|--|-------------------------|-------------------------|
| ADDITIONS | | |
| Contributions: | | |
| Pension plan - cities | \$ 869,184,232 | \$ 852,459,073 |
| Pension plan - Member | 428,295,286 | 388,633,321 |
| Supplemental death benefits plan - cities | 14,082,528 | 8,194,273 |
| Total contributions | <u>1,311,562,046</u> | <u>1,249,286,667</u> |
| Net investment income/(loss): | | |
| Net appreciation/(depreciation) in fair value of investments | 1,618,436,610 | (4,610,618,598) |
| Interest and dividends | 382,008,950 | 351,415,888 |
| Total investment income/(loss) | <u>2,000,445,560</u> | <u>(4,259,202,710)</u> |
| Less: investment manager fees/transaction costs | (14,372,509) | (14,583,217) |
| Net investment income/(loss) | <u>1,986,073,051</u> | <u>(4,273,785,927)</u> |
| Other miscellaneous | 21,765 | 36,045,090 |
| Total additions | <u>3,297,656,862</u> | <u>(2,988,454,170)</u> |
| DEDUCTIONS | | |
| Benefit payments: | | |
| Service retirement | 1,250,576,646 | 1,142,446,425 |
| Disability retirement | 13,297,313 | 12,927,132 |
| Supplemental death benefits | 12,140,003 | 11,046,995 |
| Partial lump-sum distributions | 178,152,158 | 191,437,739 |
| Total benefit payments | <u>1,454,166,120</u> | <u>1,357,858,291</u> |
| Member account refunds | 54,972,168 | 56,899,748 |
| Budget transfer and other | 34,799,890 | 33,091,932 |
| Total deductions | <u>1,543,938,178</u> | <u>1,447,849,971</u> |
| CHANGE IN FIDUCIARY NET POSITION | 1,753,718,684 | (4,436,304,141) |
| FIDUCIARY NET POSITION | | |
| Restricted for pensions: | | |
| Beginning of year | 35,593,714,895 | 38,578,132,313 |
| End of year | <u>\$37,345,491,054</u> | <u>\$34,144,680,894</u> |
| Held in trust for other benefits: | | |
| Beginning of year | 3,153,989 | 5,815,483 |
| End of year | <u>\$ 5,096,514</u> | <u>\$ 2,962,761</u> |

TEXAS MUNICIPAL RETIREMENT SYSTEM
EXPENSE FUND
Balance Sheet
As of September 30, 2023

ASSETS

| | |
|--------------------------------------|------------------|
| Due from Pension Trust Fund | \$ 20,257,079 |
| Accounts receivable and other assets | 22,281 |
| Leasehold improvements, net | 1,291,145 |
| Furniture and equipment, net | <u>1,657,187</u> |
| Total assets | 23,227,692 |

LIABILITIES

| | |
|--------------------------------------|------------------|
| Accounts payable & accrued expenses | 456,341 |
| GASB pension liability and deferrals | 3,406,915 |
| Accrued leave liability | <u>3,950,991</u> |
| Total liabilities | 7,814,247 |

NET POSITION

| | |
|------------------------------------|-----------------------------|
| Net position, beginning of year | 6,775,892 |
| Net receipts over disbursements: | |
| Revenue and net fund transfers | 34,800,000 |
| Operating expenses | (25,588,409) |
| PASMod expenses | <u>(574,038)</u> |
| Net position, end of period | <u>15,413,445</u> |
| Total liabilities and net position | <u><u>\$ 23,227,692</u></u> |

TEXAS MUNICIPAL RETIREMENT SYSTEM
EXPENSE FUND
Schedule of 2023 Operating Expenses
For the Nine Months Ending September 30, 2023

| | Budget | Actual | Budget (\$) Remaining | Budget (%) Remaining |
|--------------------------------------|----------------------|----------------------|--------------------------|-------------------------|
| Personnel services: | | | | |
| Salaries and payroll taxes | \$ 17,693,469 | \$ 12,042,476 | \$ 5,650,993 | 31.9 |
| Employee benefits | 4,274,795 | 2,924,702 | 1,350,093 | 31.6 |
| Contract labor/temporary staffing | 100,000 | - | 100,000 | 100.0 |
| Total personnel services | 22,068,264 | 14,967,178 | 7,101,086 | 32.2 |
| Professional services: | | | | |
| Actuarial | 823,700 | 594,775 | 228,925 | 27.8 |
| Audit | 189,225 | 165,245 | 23,980 | 12.7 |
| Custodial and banking | 1,573,000 | 781,415 | 791,585 | 50.3 |
| Information services consultants | 492,900 | 280,862 | 212,038 | 43.0 |
| Investment consultants | 1,806,000 | 1,338,925 | 467,075 | 25.9 |
| Legal | 1,161,500 | 408,993 | 752,507 | 64.8 |
| Other services | 452,700 | 559,875 | (107,175) | (23.7) |
| Total professional services | 6,499,025 | 4,130,090 | 2,368,935 | 36.5 |
| Facilities | 2,854,889 | 2,052,977 | 801,912 | 28.1 |
| Information technology: | | | | |
| Cloud-hosted services | 2,483,761 | 1,886,406 | 597,355 | 24.1 |
| Hardware/software and support | 999,780 | 1,108,623 | (108,843) | (10.9) |
| Total information technology | 3,483,541 | 2,995,029 | 488,512 | 14.0 |
| Other administrative: | | | | |
| Board of Trustees/Advisory Committee | 132,540 | 59,927 | 72,613 | 54.8 |
| City and member outreach | 786,090 | 532,018 | 254,072 | 32.3 |
| Professional development | 503,871 | 235,480 | 268,391 | 53.3 |
| Supplies/document storage/misc. | 656,513 | 398,839 | 257,674 | 39.2 |
| Travel | 635,293 | 216,871 | 418,422 | 65.9 |
| Total other administrative | 2,714,307 | 1,443,135 | 1,271,172 | 46.8 |
| Total operating expenses | \$ 37,620,026 | \$ 25,588,409 | \$ 12,031,617 | 32.0 |

Agenda Item 1(f)- 12/14/2023

**CITIES THAT HAVE ADOPTED OR READOPTED UPDATED SERVICE CREDIT AND/OR ANNUITY INCREASES
EFFECTIVE JANUARY 1, 2024
(Ordinances received as of **December 5, 2023**)**

| | | Updated Service Credit | | Cost of Living Adjustment Increase to Annuitants | |
|-------------|----------------------------|-------------------------------|----------------|---|----------------|
| City Number | Participating Municipality | Rate (%) | Year Effective | Rate (%) | Year Effective |
| 00007 | Addison | 100 T | 2024R | 30 NR | 2024R |
| 00024 | Alvarado | 100 | 2024R | 30 NR | 2024R |
| 00030 | Amarillo | 100 | 2024R | 30 NR | 2024R |
| 00036 | Andrews | 100 T | 2024R | 70 NR | 2024R |
| 00054 | Arp | 100 | 2024R | 30 | 2024R |
| 00075 | Azle | 100 T | 2024R | 70 NR | 2024R |
| 00090 | Bartlett | 100 T | 2024R | 70 | 2024R |
| 00109 | Bellmead | 100 T | 2024R | 70 | 2024R |
| 00174 | Bremond | 50 | 2024R | 30 NR | 2024R |
| 00182 | Brookshire | 100 | 2024R | 50 NR | 2024R |
| 00198 | Bullard | 100 | 2024R | 30 NR | 2024R |
| 00199 | Bunker Hill Village | 100 T | 2024R | 50 NR | 2024R |
| 00231 | Castle Hills | 75 T | 2024R | 70 | 2024R |
| 00250 | Childress | 100 T | 2024R | 70 NR | 2024R |
| 00263 | Clear Lake Shores | 100 T | 2024R | 70 | 2024R |
| 00302 | Corpus Christi | 100 | 2024R | 30 NR | 2024R |
| 00312 | Crane | 100 T | 2024R | 50 NR | 2024R |
| 00339 | Dalworthington Gardens | 100 T | 2024R | 70 NR | 2024R |
| 00354 | Del Rio | 50 | 2024R | 30 NR | 2024R |
| 00388 | Duncanville | 100 | 2024 | 30 | 2024 |
| 00396 | Eagle Pass | 100 T | 2024R | 70 NR | 2024R |
| 00397 | Early | 100 T | 2024R | | |
| 00445 | Fairview | 100 T | 2024R | 50 NR | 2024R |
| 00492 | Gainesville | 100 | 2024R | 70 | 2024R |
| 00524 | Gonzales | 100 | 2024R | 70 NR | 2024R |
| 00548 | Grapeland | 100 T | 2024R | 70 | 2024R |
| 00595 | Hedwig Village | 50 | 2024R | | |
| 00615 | Holland | 100 T | 2024R | | |
| 00637 | Hurst | 100 | 2024R | 30 | 2024 |

| | | Updated Service Credit | | Cost of Living Adjustment Increase to Annuitants | |
|-------------|----------------------------|------------------------|----------------|--|----------------|
| City Number | Participating Municipality | Rate (%) | Year Effective | Rate (%) | Year Effective |
| 00672 | Jourdanton | 100 | 2024R | 70 | 2024R |
| 00800 | Marble Falls | 100 T | 2024R | 50 | 2024R |
| 00814 | Mason | 100 T | 2024R | 70 | 2024R |
| 00835 | Meadows Place | 100 | 2024 | 70 | 2024 |
| 01501 | Memorial Villages P.D. | 100 | 2024R | 50 NR | 2024R |
| 00858 | Miami | 50 | 2024R | 30 | 2024R |
| 00863 | Milano | 50 | 2024R | 50 | 2024R |
| 00875 | Missouri City | 100 T | 2024 | 70 | 2024 |
| 00912 | Needville | 100 T | 2024R | | |
| 00936 | Oak Point | 100 T | 2024R | 70 NR | 2024R |
| 00954 | Onalaska | 100 T | 2024R | | |
| 00977 | Parker | 100 T | 2024 R | | |
| 00978 | Pasadena | 100 T | 2024R | 70 NR | 2024R |
| 01000 | Pflugerville | 100 T | 2024 R | 70 NR | 2024R |
| 01002 | Pharr | 100 T | 2024R | | |
| 01022 | Port Neches | 100 T | 2024R | 30 | 2024 |
| 01051 | Rancho Viejo | 100 | 2024R | | |
| 21136 | San Antonio | 100 T | 2024R | 70 | 2024 |
| 01198 | South Houston | 100 T | 2024R | 70 NR | 2024R |
| 01224 | Sudan | 100 T | 2024R | 70 | 2024 |
| 01226 | Sulphur Springs | 100 T | 2024 | | |
| 31263 | TX Health Benefits Pool | 100 | 2024R | 30 | 2024R |
| 01297 | Troy | 100 | 2024R | 30 | 2024R |
| 01327 | Village of the Hills | 100 | 2024R | | |
| 01358 | West Columbia | 100 T | 2024R | 30 NR | 2024R |
| 01386 | Willis | 100 T | 2024R | 50 | 2024 |
| 01387 | Willow Park | 100 T | 2024R | 70 NR | 2024R |
| 01393 | Windcrest | 100 T | 2024R | 70 | 2024R |


T- Transfer Credits Included

R - Annually Repeating. Ordinance automatically renews effective January 1 of each successive year

NR - Non-retroactive



December 5, 2023

To: Board of Trustees
From: David Wescoe, Executive Director 
Re: Agenda Item 2: Executive Director's Report

The following are some of the staff's accomplishments and other information since your September meeting.

Stakeholder Advisory Committee (SAC). Bob Scott and Jesús Garza led the first meeting of the SAC. The Committee was engaged, the discussion was robust, and Debbie Muñoz presented great material.

HB 2464 Retroactive COLA Option is Popular. To date, 24 cities have adopted the new non-retroactive COLA option: Addison, Alvarado, Amarillo, Andrews, Azle, Bremond, Brookshire, Bullard, Bunker Hill Village, Childress, Corpus Christi, Crane, Dalworthington, Del Rio, Eagle Pass, Fairview, Gonzales, Memorial Villages Police Department, Oak Point, Pasadena, Pflugerville, South Houston, West Columbia, and Willow Park.

Texas Municipal League Conference. Staff from the Education, City Services, and Communications teams attended TML's Annual Conference at the Dallas Convention Center the first week of October. More than 3,300 city officials attended the event, and TMRS' booth had constant activity. Staff interacted with hundreds of attendees and consulted with 125 Members who had questions about their TMRS accounts and/or their cities' plans. Staff also hosted a well-attended Member reception.

City Training Conference. Our City Training Conference was held on October 24, and 858 city staff registered to attend. The presentations and training materials are available on our website. The feedback was great: The overall conference and each presentation was rated by more than 80% of the respondents as Excellent or Very Good.

Member Newsletters. Our Member and retiree newsletters, *TMRS Times* and *RetirementWise*, are in the mail.

Member Benefit Guide (MBG). Staff just finished the final draft of a new, 21-page, MBG. It is a significant improvement over the current 60-page edition.

Online Account Refunds. An important 2023 Action Plan item, a first-ever MyTMRS online account refund tool for Members, is complete and will be rolled out in January.

New Retirement Application. Andi Focht-Williams and colleagues have completed a project to update the Member retirement application that reduces a 14-page "packet" to four pages by removing unnecessary attachments and legalese. The new application will be much easier for members to complete.

City Portal Enhancements. Colin Davidson and team have completed a project to add online city certification capability to the City Portal. This is a significant enhancement that will make a city staffer's job even easier than it is now.

PPCC Award. In early November, TMRS was notified that we had (again) received the Public Pension Coordinating Council's (PPCC) 2023 Public Pension Standards Award. This is the 18th consecutive year TMRS has received the Award. Retirement systems can apply for two PPCC awards, one for administration and one for funding. TMRS applies for - and receives - both. We should all be proud of this achievement. TMRS is a very special organization administering a very special pension plan. Kudos to Candace Nolte and the Finance team for pulling it all together.

And last, but certainly not least...

Anali is in the Building. To help me celebrate my birthday on October 16, Anali Alanis, the now former TMRS Trustee and City Manager of the City of Pharr, joined TMRS as its first-ever Chief Quality Officer. The organization got better that very day.

Dave Hunter Retires. Last month, Dave Hunter reluctantly reported to me,

"After much reflection on the past two years here and looking forward, I am ready to step back a bit and enjoy more quality time with Laura. As such, I will retire as TMRS' Chief Investment Officer after the December Board meeting.

I am very proud of what our exceptional investment team has accomplished during my tenure. We have produced two consecutive years of first-quartile investment returns (a first for TMRS), retained a new Board investment consultant, adopted a model Investment Policy Statement, enhanced the portfolio's asset allocation, and quickly achieved the new targets, reduced management fees, strengthened our internal investment operations, and improved our investment-related technology.

I have truly enjoyed my time at TMRS and the many great relationships I've established. I will always remember my time here at TMRS and our outstanding team of hard-working, professionals that I've had the good fortune to work with every day.

I sincerely appreciate the opportunity you gave me to serve as TMRS' CIO and have a meaningful, positive difference in the lives of our more than 220,000 members, retirees, and their beneficiaries."

In my email to staff informing them of Dave's decision, I said, "Dave is a good friend and colleague, and, while I will miss his good humor and support, I know he will be enjoying life with Laura. Dave has worked hard to make the TMRS investment team one of the best in the country, and I think he has succeeded."

A Good Ending. Many good things happen here every day, but the following Member email really sums it up.

"Good morning! I just received The TMRS 75th Anniversary Mug. THANK You! I appreciate You taking time out of your busy schedule to send me this Special Mug. [After the Member's visit, staff sent them a TMRS Anniversary mug.]

This speaks volumes on how TMRS feels towards each of its members. Since moving to the Austin area three months ago, I wanted to take advantage of stopping by the TMRS office and have my questions answered. By the way, what a beautiful office! Every person I met while at the TMRS office greeted me and asked if they could assist me. I felt welcome and comfortable. Rose was very helpful in answering all my questions. Lord Willing, I have 5 years to retire, or more.

GOD BLESS You and every worker at TMRS."



December 5, 2023

To: Board of Trustees

From: Christine M. Sweeney, Chief Legal Officer *CS*

Re: Agenda Item 2: Fourth Quarter Legal Report

Investment Compliance. Board meeting materials include the quarterly Investment Compliance Report with the materials for Item 11.

TMRS Legal Work on Investment Matters, Public Information Requests, and Other Matters.

- **Investment Matters.** Below is a summary of the investment allocations and other investment related agreements that staff attorneys have reviewed and approved during the period noted.
 - From September 16, 2023 to December 1, 2023
 - 5 investment allocation transactions
 - 3 other investment related items
- **General Contracting and Benefits Matters.** Since September, Legal has handled and submitted the following items for signature or approval. Many non-investment matters handled by Legal staff do not require a signature or approval by the Executive Director and those are not included in the numbers below:
 - From September 16, 2023 to December 1, 2023
 - 15 contracts (non-investment related) submitted for signature
 - 0 other benefits administration and non-investment related items submitted for signature or approval
 - 59 city ordinances reviewed or generated for City Services
- **Public Information Requests.** Since September 16, Legal staff have worked on 4 information requests under the Texas Public Information Act.

TMRS Administrative Cases. None pending.

Legal Supplement. The Legal Supplement in the Diligent Resource Center includes confidential legal updates and background information.



December 5, 2023

To: Board of Trustees

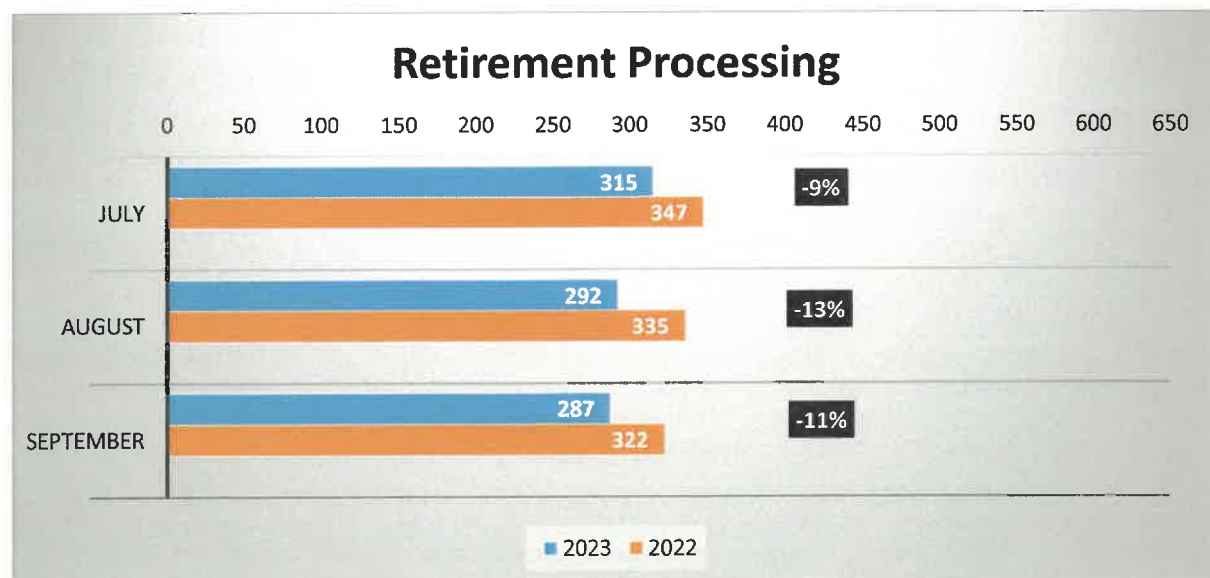
From: Debbie Muñoz, Chief Service Officer *DM by KLG*

Re: Agenda Item 2: Fourth Quarter Services Report

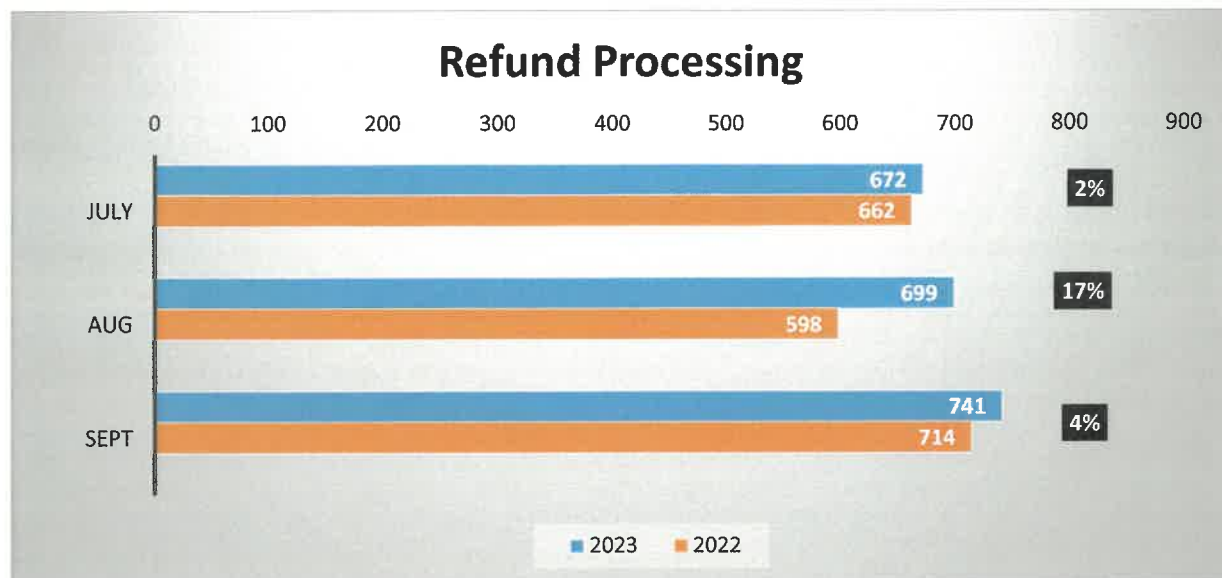
I'm pleased to report on the fourth quarter activities of the Benefit Administration, City Services, Communications, Education Services, Member Service Center, Plan Design and Funding, and Project Management departments.

Benefit Administration

Retirements. In the third quarter of 2023, TMRS processed 894 retirements, an 11% decrease from the same quarter in 2022 and a 12% decrease from the 1,017 retirements processed in the previous quarter of 2023.



Refunds. TMRS issued 2,112 refunds in the third quarter of 2023, which was a 7% increase from the same quarter in 2022, and a 1% decrease from the 2,131 refunds processed in the previous quarter.



City Services

Plan Changes. Year-to-date, more than 360 plan change studies have been prepared, 85 cities have made changes to their TMRS plan, and 142 cities have requested model ordinances.

City Consultations. City Services, Education Services, and the Plan Design and Funding teams have attended 32 city council meetings and provided consultations with 115 cities.

New COLA Legislation. More than 140 cities have requested a cost analysis for the new non-retroactive COLA. 41 cities have requested model ordinances to adopt the new COLA, and 23 cities have adopted the new COLA. Cities have until December 31 to finalize the adoption of the new COLA option for 2024.

City Training Conference. On October 24, City Services and Education Services provided city staff with training on administering TMRS in their cities. The virtual conference had more than 550 attendees that learned about the available tools to help administer their city's TMRS plan. Sessions explained TMRS basics, how to answer employee questions about retiring, the new COLA option available to cities, and how to use your TMRS plan to recruit employees.

Communications

Organizational Support. Communications continues to collaborate with other departments to complete various projects. This quarter, Communications has assisted with the following:

- Migrated the backend of the website to a Content Management System for ease and efficiency of website updates

- Created and distributed *TMRS Times* and *RetirementWise* news publications for Members and retirees
- Revised the retirement application, address change form, refund application, direct deposit form and beneficiary designation forms for Benefit Administration
- Assisted benefit Administration with the setup of DocuSign
- Worked with Information Services to change the Member and retiree communication default to electronic instead of hard copy
- Assisted with the coordination and advertisement of a Regional Retirement Overview in Pasadena for Member Education
- Hosted receptions for the Texas Municipal League and Government Finance Officer Association of Texas
- Produced the Q4 MainStreet for City Services
- Increased the TMRS Google ranking to 4.1 stars and 26 reviews from 2.8 stars and 8 reviews
- Created and distributed new city welcome packets
- Provided more than 100 website changes across departments
- Produced a new video highlighting TMRS staff and the TMRS mission, vision, and values
- Assisted in the production of the City Training Conference with video production, webpage creation, advertising and chat set up
- Produced six new training videos for cities
- Created an online virtual photo booth for use in the City Training Conference and field visits

Communication Numbers. Since January 1, Communications has sent 54 mass emails to 609,527 recipients, hosted 800,000 website page views, and increased mobile app downloads to a total of 34,000.

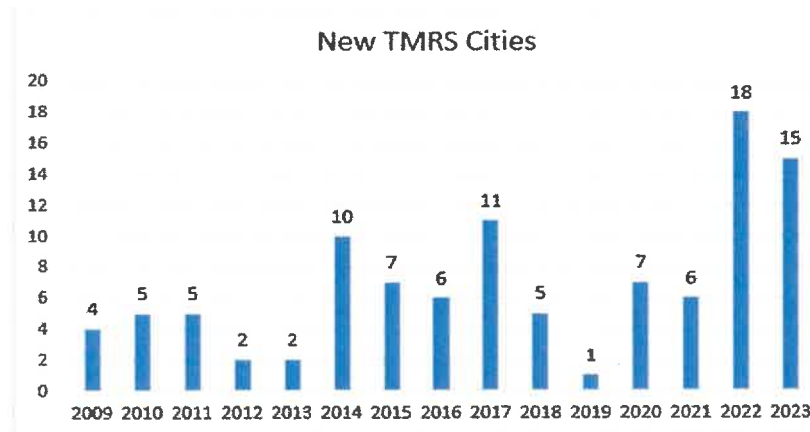
Education Services

Webinars. The Education team has hosted 25 webinars this year for more than 2,800 attendees. Members and cities can register to attend these educational webinars on tmrs.com.

Member Counseling/Education. Education Representatives have counseled/educated more than 16,000 Members in 2023. The Education team has represented TMRS at 325 city events this year and has conducted 1,287 counseling sessions.

New City Outreach. New city recruitment efforts include written correspondence and/or in-person visits to 331 potential new cities this year. Since January, 15 cities have joined TMRS including the most recent addition of the City of Highland Haven which will begin participation on December 1. This brings the number of participating cities to 934. Cities continue to be receptive to TMRS' recruiting efforts and have led to more cities joining TMRS.

The chart below shows the number of new cities that have joined each year since 2009.



Member Service Center

Call Volume. Since January 1, the Member Service Center has answered 80,778 incoming calls with a median wait time of 11 seconds.

Call Topics. The Member Service Center continues weekly training to enhance their skills and the team has received excellent reviews and positive feedback from our members. The team continues to receive member calls with a focus on refunds and retirement inquiries.

Plan Design and Funding (PDF)

City Plan Change Studies and Meetings. Leslee and Kenneth continue working with cities who are considering plan changes or have already adopted changes. Since January 1, they have prepared 161 plan studies comparing the cost of the current plan to alternative plans. In addition, they have attended 92 meetings either in person or virtually, including eight Council meetings.

GASB 68 and GASB 75 Financial Reporting Packages. Kenneth assists individual cities and/or their city auditors with any necessary reconciliations of the census data, contribution information or other related requests. Year to date, he has assisted 39 cities with various audit requests and has validated 102 single discount rate tests generated by GRS.

Project Management

Pension Administration Modernization Update. The online refund application project will be completed by the end of the year. A communication plan is being finalized, with plans to release the feature on MyTMRS and request corresponding certifications through the City Portal in January 2024.

SECURE 2.0 Act. Programming related to the new definition of a Qualified Public Safety Employee and the eligibility requirements to receive distributions from TMRS without being subject to the 10% early withdrawal penalty was completed in November 2023.



December 5, 2023

To: Board of Trustees

From: Jac Greene, Chief Information Officer

A handwritten signature in black ink, appearing to be 'JG', is placed to the right of the 'From:' line.

Re: Agenda Item 2: Fourth Quarter Information Services Report

The Information Services department continued project successes by completing technical components of the web content management system and online refund application projects. We assisted Investments in implementing Backstop and iLevel portfolio management solutions and assisted HR in launching LinkedIn Learning for staff development; hired a Data Architect; initiated the online retirement application project and continued preparing for MyTMRS and NextGen rebuilds; and we embraced multiple new business-enabling opportunities such as improved Investments annual reporting, City Service Plan Design integration, and DocuSign.

IS activities this quarter included:

1. Security Enhancement and Risk Mitigation. The IS team continued to improve the security program by implementing password protection technologies, increasing network blocking and completing the annual security assessment. Staff initiated quarterly security awareness training; continued efforts in Business Impact Analysis and risk tracking; and continued improving fraud prevention processes across TMRS.
2. IS Software and Data Development. The team focused on completing the online refund application project for a December rollout. Staff assisted with integration of the new TMRS website content management system; software, data, and database administration teams reorganized development environments to improve development efficiencies; and maintained data integrity through support tickets. Finally, the team continues to prepare for the NextGen, MyTMRS and online retirement application projects to be delivered in 2024.
3. Web Content Management System. The WebCMS project has a scheduled launch date of December 13.
4. IS NetOps & Customer Support. The NetOps and Customer Support teams processed more than 1,500 helpdesk tickets; migrated all users to a new secure remote access VPN solution; supported the new investments portfolio management deployment; migrated email folders to the Microsoft cloud; completed the initial deployment of DocuSign; and mitigated major security vulnerabilities through the timely application of patches to servers, computers and network devices.


Records activities included:

1. Staff Development. Chyrlynn Crockett and Lynette Ragbeer were accepted as candidates for CRM Certification as participants in the Institute for Certified Records Managers (ICRM) certification program.
2. Operations. Since our last report, staff indexed, verified and loaded 10,362 documents into our content management system (4,433 city portal uploads, 3,276 faxes, 1,956 pieces of incoming mail and 697 other documents). Staff also processed 7,517 outgoing pieces of mail.
3. Annual City Payroll Record Review. Staff completed the annual project to review all city payroll records that have met their retention period.
4. Data Cleaning. Staff continued to clean up old data records in Perceptive.
5. Records Retention Certification. Staff continued to review TMRS' records retention schedule as part of the Texas State Library Archives Commission recertification process. The process is 95% complete with member record review ongoing. The schedule is on track.



December 5, 2023

To: Board of Trustees

From: Anali Alanis, Chief Quality Officer 

Re: Agenda Item 2: Chief Quality Officer Fourth Quarter Report

I'm pleased to report on the fourth quarter activities for the Quality, Human Resources, and Internal Audit departments.

Chief Projects

Quality Texas Foundation. A timeline of the QTF journey has been established and is enclosed. I plan to submit the Organizational Profile (Pioneer Level) by the end of December and the Engagement Level by February 1.

Performance Metrics. Utilizing the Strategic Plan, Strategic Goals and Objectives as a foundation, key performance indicators will be established to support annual staff action plans and ensure actions are completed. In addition to KPIs, performance metrics will be established for all departments to help improve efficiencies.

Human Resources

Personnel. HR has facilitated recruiting, hiring and onboarding of 13 new employees in 2023. This is down from 31 new hires in 2022. TMRS turnover for 2023 is down to 14%, a 4% decrease from 2022. HR staffing metrics are included in the Board Dashboard located in Diligent's Resource Center.

Leadership Academy. The Inaugural Leadership Academy is at the half-way mark with two completed classes and the third scheduled for January. Currently 12 TMRS employees are participating in the leadership academy.

Staff Salary Schedule Changes. Staff completed migrating all staff to the new salary schedules which were approved in October. The new schedule concept flattens the organizational structure and allows for greater salary growth across job classifications. Salary structures were developed for each functional area at TMRS, which allowed salary bands to be structured for distinct job disciplines in the different areas.

LinkedIn Learning. Staff implemented LinkedIn Learning, an online training provider. This training is available to all staff and will be used for just-in-time as well as scheduled training. Managers received training on assigning training to staff and expectations for the program were established. In just three months, 313 courses have been completed.

Service Anniversary Awards. To promote employee engagement, TMRS celebrated staff by holding monthly service anniversary ceremonies for all TMRS staff with milestone anniversaries for every 5 years of service. This year we presented 66 milestone awards.

TMRS Holiday Party. TMRS has scheduled the annual holiday party for Friday, December 15th at High Five. Fun and games include bowling, karaoke, virtual reality, axe throwing, golf simulation, and pool.

TMRS Heroes. To memorialize TMRS' 75th Anniversary and as a form to give back to the community, TMRS held a blood drive campaign from April – December 2023 in which our commitment of “75 Donations for 75 Years” has been completed. The donations by TMRS heroes will help save 225 lives.

Internal Audit

2023 Quality Assurance and Improvement Program. Internal Audit completed the 2023 Quality Assurance and Improvement Program report, an internal assessment required by internal auditing standards. In addition to the annual internal assessment, an external assessment is required to be completed every five years. The next external assessment is due in 2024. Internal Audit will search for a reviewer to perform that engagement.

2024 Risk Assessment and Update on 2023-2024 Audit Plan. Internal Audit provided the 2024 Risk Assessment and an update on the 2023-2024 Audit Plan to the Audit Committee on November 14, 2023. Higher risk areas are covered by proposed internal audits in the 2023-2024 audit plan.

Audit of Investment Compliance Activities. This audit is substantially complete and will be released by early 2024.

Audit of Outstanding Recommendations. This audit is in progress and will be released in 2024.

QTF – Suggested Timeline 10.18.23

Pioneer Level Criteria – 2024

(5 pages)

February 1st - Deadline to submit to be recognized at the Annual June Conference.

Engagement Level – 2024

(10 pages)

February 1st - Deadline to submit to be recognized at the Annual June Conference.

Commitment Level – 2025

(20 pages)

Eligibility Cert Cut-off Date – September 2024

Deadline – October 2024

Progress Level – 2026

(35 pages)

Eligibility Cert Cut-off Date – July 2025

Deadline – August 2025

Regional Award/Governor's Texas Award for Performance Excellence (TAPE) – 2027

Eligibility Cert Cut-off Date – July 2026

Deadline – August 2026

Malcolm Baldrige National Quality Award



December 5, 2023

To: Board of Trustees

From: Debbie Muñoz, Chief Service Officer *DM by KJ*

Re: Agenda Item 3: Report on Stakeholders Advisory Committee Meeting

The Stakeholder Advisory Committee met on November 16, 2023.

After introductory remarks by Chair Scott and Vice Chair Garza, and an overview of the Committee Charter by Christine Sweeney, Chair Scott led the Committee discussion on various topics, including:

- A review of the Cost-of-living Adjustment (COLA)
- Making all city plan changes effective January 1
- Decoupling the updated service credit (USC) and COLA benefits
- Removing the statutory maximum contribution rate limit
- Adding a 2.5:1 matching ratio

Chair Bob Scott will provide a more detailed report at the Board meeting.



December 5, 2023

To: Board of Trustees

From: Debbie Muñoz, Chief Service Officer

DM by KG

Re: Agenda Item 4: Consider and Act on Topics for Stakeholder Advisory Committee

The Stakeholder Advisory Committee discussed various topics at their meeting on November 16, 2023.

The Committee's Charter states that the Board will assign issues and topics to the Committee and that the Committee Chair shall schedule meetings as appropriate.

Staff recommends that the Board prioritize and assign topics to the Stakeholder Advisory Committee for further consideration.



December 5, 2023

To: Board of Trustees

From: Christine M. Sweeney, Chief Legal Officer *CS*

Re: Agenda Item 5: Consider and Act on 2024 Board Meeting Dates

The TMRS Act requires that the Board hold four meetings annually. In calendar year 2023, the Board scheduled five meetings and a Workshop. TMRS Board meetings are generally held on the fourth Thursday of the month starting at 9:00 a.m.

If the Board would like to meet five times in 2024, the meetings could be held on:

| |
|-------------------------------------|
| March 28 |
| June 27 |
| September 26 (or 19 th) |
| October 24 (Retreat) |
| December 12 |

If the Board would like to meet six times in 2024, the meetings could be held on:

| |
|----------------------|
| February 22 |
| April 4 |
| June 27 |
| August 22 |
| October 24 (Retreat) |
| December 12 |

RECOMMENDATION

Staff recommends that the Board adopt a schedule of meeting dates for calendar year 2024.



December 5, 2023

To: Board of Trustees

From: Christine M. Sweeney, Chief Legal Officer *CS*

Re: Agenda Item 6: Consider and Act on Election of 2024 Board Officers

Section 1.5 of the Board's Bylaws, which governs the election of Board officers, provides that:

- Trustees shall annually elect a Chair and Vice Chair of the Board to serve for a term of one (1) year; and
- nominations for Chair and Vice Chair are to be made by Trustees during a Board meeting, and a Trustee may self-nominate for either position.

RECOMMENDATION:

Staff recommends that the Board elect a Chair and Vice Chair for 2024.



December 5, 2023

To: Board of Trustees

From: Christine M. Sweeney, Chief Legal Officer CS

Re: Agenda Item 7: Consider and Act on 2024 Board Committee Appointments

The Board's Bylaws and Committee Charters provide for (i) one-year Committee terms that expire as of the end of December each year unless otherwise provided by Board action, and (ii) the Board Chair appoints the Committee members, subject to Board approval, and designates the Chair of each Committee. As a result, Committee members are appointed in December for the following year.

At its June 22 meeting, the Board dissolved the Advisory Committee on Benefit Design and created the Stakeholder Advisory Committee. At its September 28 meeting, the Board appointed Bob Scott as Chair, and Jesús Garza as Vice Chair, of the Stakeholder Advisory Committee for the remainder of 2023.

Below are the current 2023 Board Committee appointments:

Audit Committee

- Chair: David Landis
- Vice-Chair: Jesús Garza

Budget and Compensation Committee:

- Chair: Johnny Huizar
- Vice Chair: Bill Philibert

Stakeholder Advisory Committee

- Chair: Bob Scott
- Vice-Chair: Jesús Garza

RECOMMENDATION: Staff recommends that the Chair recommend, and the Board approve, appointments to the Board Committees for 2024.



December 5, 2023

To: Board of Trustees

From: Kristyn Scoggins, Director of Internal Audit *Kristyn Scoggins*

Re: Agenda Item No. 8: Report on Audit Committee Meeting

The Audit Committee met on November 14, 2023 with both Trustees present via Zoom: Committee Chair David Landis and Committee Vice Chair Jesús Garza. Staff present included David Wescoe, Christine Sweeney, Mike Apperley, Kristyn Scoggins and Madison Jechow.

An Update on Quality Assurance and Improvement Program. The Audit Committee reviewed Internal Audit's 2023 Quality Assurance and Improvement Program report that is an internal assessment required by internal auditing standards. The Committee unanimously approved distribution of the Report to the Board. An external assessment of Internal Audit is due in 2024. Internal Audit staff will retain a reviewer to perform that engagement.

An Update on the 2024 Risk Assessment and 2023-2024 Audit Plan. Internal Audit provided the 2024 Risk Assessment and an update on the 2023-2024 Audit Plan. Higher risk areas are covered by proposed internal audits in the 2023-2024 Audit Plan.

An Update on 2024 Internal Audit Budget. The Committee unanimously approved the 2024 Internal Audit budget to be presented to the Board for approval with the 2024 Operating Budget.

Auditing standards require that the chief audit executive confirm to the Board annually the organizational independence of the internal audit activity.

As the chief audit executive, I confirm that I have no operational responsibilities beyond Internal Audit and that I am independent.



December 5, 2023

To: Board of Trustees
From: Candace Nolte, Director of Finance *Candace Nolte*
Re: Agenda Item 9: Consider and Act on Proposed 2024 Operating and Capital Budgets

The proposed 2024 Operating and Capital Budgets are attached.

2024 Operating Budget

The proposed 2024 Operating Budget of \$38,365,468 reflects a decrease of \$294,319 from the preliminary budget presented in September.

- An increase of \$266,200 due to:
 - Enhancing system support for Member-related document management (\$107,000);
 - Completing NEPC's tri-annual Investment Practices and Performance Evaluation (the PRB's SB 322 Report) (\$100,000); and
 - Developing workflows and procedures to support our quality initiatives (\$59,200).
- A decrease of \$624,129 due to the elimination of unnecessary current investment technology after the implementation of the new and more robust Backstop and iLevel software solutions.

2024 Capital Budget

The preliminary 2024 Capital Budget of \$1,750,000 remains unchanged.

RECOMMENDATION:

Staff recommends that the Board adopt the 2024 Operating and Capital Budgets.

ATTACHMENTS:

1. 2024 Operating and Capital Budgets
2. Budget Presentation

2024 Operating and Capital Budgets

Candace Nolte, Director of Finance

December 14, 2023

2024 Operating and Capital Budgets

| Operating and Capital Budgets For the Years Ending December 31 | | | | |
|---|----------------------|----------------------|-------------------------|------------|
| | 2024 | 2023 | Increase/ (Decrease) | % Change |
| Personnel Services | \$ 22,603,654 | \$ 22,068,264 | \$ 535,390 | 2 % |
| Professional Services | 6,735,803 | 6,499,025 | 236,778 | 4 % |
| Facilities | 2,965,773 | 2,854,889 | 110,884 | 4 % |
| City and member outreach | 820,750 | 786,090 | 34,660 | 4 % |
| Information Technology | 3,510,915 | 3,593,591 | (82,676) | (2) % |
| Other Administrative | 1,728,573 | 1,818,167 | (89,594) | (5) % |
| Total Operating Budget | \$ 38,365,468 | \$ 37,620,026 | \$ 745,442 | 2 % |
| Capital Budget | \$ 1,750,000 | \$ 10,000 | \$ 1,740,000 | |

2024 Operating Budget

The 2024 Operating Budget is \$38.4 million, an increase of 2% from the 2023 budget, and is \$294,000 less than the preliminary budget presented in September due to:

- **Professional Services** increased \$266,000 to include:
 - Enhanced support for Member-related document management system
 - NEPC's tri-annual Investment Practices and Performance Evaluation required by Texas statute
 - Entity-wide workflows and procedures development in support of our quality initiatives
- **Information Technology** decreased \$624,000 due to:
 - Elimination of unnecessary current investment technology after the implementation of the new and more robust Backstop and iLevel software solutions

2024 Capital Budget

The \$1.75 million capital budget request, which includes the following three capital projects, remains unchanged from the preliminary budget presented in September:

- NextGen rebuild \$1 million
- MyTMRS updates \$500,000
- Online Retirement functionality \$250,000

Action Item

Staff recommends the Board adopt the 2024 Operating and Capital Budgets.



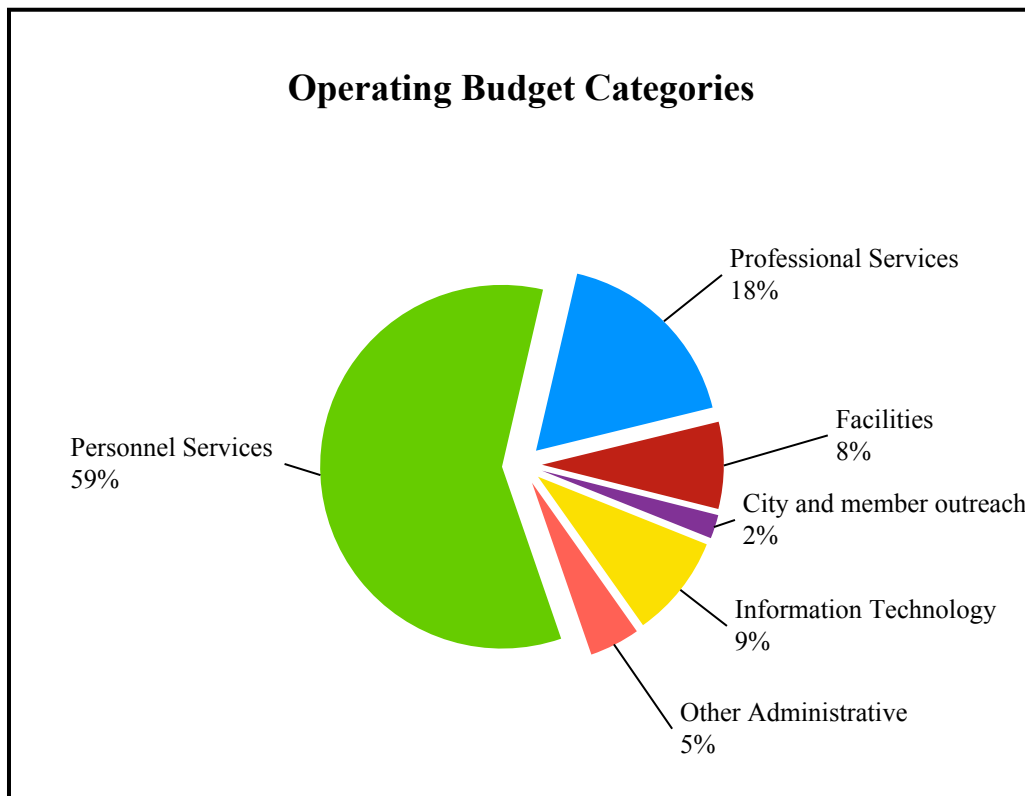
Operating and Capital Budgets

Fiscal Year 2024

Summary

This Summary presents the 2024 TMRS Operating and Capital budgets. For comparison purposes, the 2023 budgets are also shown.

| Operating and Capital Budgets For the Years Ending December 31 | | | | | |
|---|----------------------|----------------------|-------------------------|------------|--|
| | 2024 | 2023 | Increase/ (Decrease) | % Change | |
| Personnel Services | \$ 22,603,654 | \$ 22,068,264 | \$ 535,390 | 2 % | |
| Professional Services | 6,735,803 | 6,499,025 | 236,778 | 4 % | |
| Facilities | 2,965,773 | 2,854,889 | 110,884 | 4 % | |
| City and member outreach | 820,750 | 786,090 | 34,660 | 4 % | |
| Information Technology | 3,510,915 | 3,593,591 | (82,676) | (2) % | |
| Other Administrative | 1,728,573 | 1,818,167 | (89,594) | (5) % | |
| Total Operating Budget | \$ 38,365,468 | \$ 37,620,026 | \$ 745,442 | 2 % | |
| Capital Budget | \$ 1,750,000 | \$ 10,000 | \$ 1,740,000 | | |



Summary (continued)

Operating Budget

The 2024 Operating Budget reflects an increase of \$745,000, or 2%, from the 2023 operating budget. Two budget items account for the increase:

- **Personnel services** increased \$535,000, reflecting 4% anticipated mid-year pay adjustments that are necessary to keep staff compensation competitive in the Austin metro area.
- **Professional services** increased \$237,000, including:
 - \$100,000 for NEPC to complete the Investment Practices and Performance Evaluation (IPPE) required by Texas Government Code §802.109. The IPPE is required every three years.
 - \$100,000 for professional assistance in developing workflows and procedures that support our quality initiatives.

Capital Budget

The 2024 Capital Budget of \$1,750,000 includes three projects:

- Rebuild NextGen, our pension administration system
- Update MyTMRS, our member portal
- Add new Online Retirement functionality

These projects are expected to be completed by year-end 2024 utilizing a combination of internal staff and third-party resources.

Detailed discussion of budget items and changes from year-to-year are presented on the pages that follow.

Operating and Capital Budgets

For the Years Ending December 31

| | 2024 | 2023 | Increase/ (Decrease) | % Change |
|--|----------------------|-------------------------|-------------------------|------------|
| Personnel services: | | | | |
| Salaries and payroll taxes | \$ 18,229,779 | \$ 17,693,469 | \$ 536,310 | 3 % |
| Benefits | 4,373,875 | 4,274,795 | 99,080 | 2 % |
| Contract labor/temporary staffing | — | 100,000 | (100,000) | (100) % |
| Total personnel services | 22,603,654 | 22,068,264 ¹ | 535,390 | 2 % |
| Professional services: | | | | |
| Actuarial | 774,900 | 823,700 | (48,800) | (6) % |
| Audit | 217,300 | 189,225 | 28,075 | 15 % |
| Custodial and banking | 1,577,000 | 1,573,000 | 4,000 | — % |
| Information services | 563,500 | 492,900 | 70,600 | 14 % |
| Investment | 2,159,283 | 1,914,000 | 245,283 | 13 % |
| Legal | 868,500 | 1,053,500 | (185,000) | (18) % |
| Other services | 575,320 | 452,700 | 122,620 | 27 % |
| Total professional services | 6,735,803 | 6,499,025 | 236,778 | 4 % |
| Facilities | 2,965,773 | 2,854,889 | 110,884 | 4 % |
| City and member outreach | 820,750 | 786,090 | 34,660 | 4 % |
| Information technology: | | | | |
| Investment department technology | 1,027,353 | 1,437,712 | (410,359) | (29) % |
| Software and support | 2,189,290 | 1,891,107 | 298,183 | 16 % |
| Hardware/data center/other | 294,272 | 264,772 | 29,500 | 11 % |
| Total information technology | 3,510,915 | 3,593,591 | (82,676) | (2) % |
| Other administrative: | | | | |
| Board of Trustees/Advisory Committee | 143,640 | 132,540 | 11,100 | 8 % |
| Professional development | 479,291 | 503,871 | (24,580) | (5) % |
| Insurance/equipment/records management | 520,482 | 546,463 | (25,981) | (5) % |
| Travel | 585,160 | 635,293 | (50,133) | (8) % |
| Total other administrative | 1,728,573 | 1,818,167 | (89,594) | (5) % |
| Total operating budget | \$ 38,365,468 | \$ 37,620,026 | \$ 745,442 | 2 % |
| Capital budget | \$ 1,750,000 | \$ 10,000 | \$ 1,740,000 | |

Certain prior year line items have been reclassified to conform with the current year presentation.

Operating Budget - Personnel Services

| Personnel Services For the Years Ending December 31 | | | | |
|--|----------------------|----------------------|-------------------------|------------|
| | 2024 | 2023 | Increase/ (Decrease) | % Change |
| Salaries and payroll taxes: | | | | |
| Staff salaries | \$ 17,062,105 | \$ 16,553,068 | \$ 509,037 | 3 % |
| Payroll taxes | 1,167,674 | 1,140,401 | 27,273 | 2 % |
| Total | 18,229,779 | 17,693,469 | 536,310 | 3 % |
| Benefits: | | | | |
| TMRS contributions | 2,767,218 | 2,678,796 | 88,422 | 3 % |
| Insurance | 1,589,875 | 1,578,790 | 11,085 | 1 % |
| Other | 16,782 | 17,209 | (427) | (2) % |
| Total | 4,373,875 | 4,274,795 | 99,080 | 2 % |
| Contract Labor/Temporary Staffing | — | 100,000 | (100,000) | (100) % |
| Total Personnel Services | \$ 22,603,654 | \$ 22,068,264 | \$ 535,390 | 2 % |

Personnel Services is the largest budget category at 59% of the 2024 operating budget and reflects an increase of \$535,390, or 2%, from the prior year. No new FTEs are included in the 2024 budget.

Staff salaries are estimated based on current employee payroll and include 4% estimated annual pay adjustments applied mid-year.

Payroll taxes are calculated from estimated staff salaries at the 6.2% rate for Social Security and 1.45% rate for Medicare, and with the 2024 social security wage base cap of \$168,600 applied.

TMRS contributions. TMRS employees participate in the TMRS retirement system. Employees contribute 7% of their salary and TMRS matches their account balances 2:1 upon retirement. The actuarially determined employer contribution rate for 2024 is 16.05% (15.73% retirement rate and 0.32% supplemental death benefit rate). Consistent with prior years' budgets since 2020, the 2024 operating budget maintains the higher 2019 retirement contribution rate of 15.95%, which is estimated to save \$1.9 million in future contributions by paying off the Unfunded Actuarial Accrued Liability nine years earlier.

Insurance. TMRS offers employees insurance through the Employees Retirement System of Texas Group Benefits Program (ERS-GBP). Health, vision, dental, long-term disability, accidental death and life insurance are provided at no cost to the individual employee. In addition, TMRS subsidizes 50% of the premium for dependent health coverage. The ERS-GBP plan year runs from September 1 through August 31, therefore the 2024 budget includes estimated rate increases for the last four months of 2024.

TMRS subsidizes retirees' individual health insurance premiums based on a tenure schedule. The 2024 budget includes the subsidy for retirees currently covered, as well as an estimate for potential new retirements in 2024.

Operating Budget - Professional Services

| Professional Services For the Years Ending December 31 | | | | |
|---|---------------------|---------------------|-------------------------|------------|
| | 2024 | 2023 | Increase/ (Decrease) | % Change |
| Actuarial: | | | | |
| Retainer | \$ 624,900 | \$ 623,700 | \$ 1,200 | — % |
| Other | 150,000 | 200,000 | (50,000) | (25) % |
| Total Actuarial | 774,900 | 823,700 | (48,800) | (6) % |
| Audit: | | | | |
| External financial and SOC-1 audits | 197,300 | 189,225 | 8,075 | 4 % |
| Internal audit peer review | 20,000 | — | 20,000 | 100 % |
| Total Audit | 217,300 | 189,225 | 28,075 | 15 % |
| Custodial and Banking: | | | | |
| Custodial services | 1,515,000 | 1,515,000 | — | — % |
| Depository services | 62,000 | 58,000 | 4,000 | 7 % |
| Total Custodial and Banking | 1,577,000 | 1,573,000 | 4,000 | — % |
| Information Services: | | | | |
| IT research and consulting services | 129,000 | 127,000 | 2,000 | 2 % |
| Information services support | 334,500 | 255,900 | 78,600 | 31 % |
| Cybersecurity audit | 100,000 | 110,000 | (10,000) | (9) % |
| Total Information Services | 563,500 | 492,900 | 70,600 | 14 % |
| Investment: | | | | |
| Alternatives | 1,250,000 | 1,200,000 | 50,000 | 4 % |
| General investment | 561,000 | 550,000 | 11,000 | 2 % |
| Other | 348,283 | 214,000 | 134,283 | 63 % |
| Total Investment Consultants | 2,159,283 | 1,964,000 | 195,283 | 10 % |
| Legal: | | | | |
| Fiduciary | 120,000 | 120,000 | — | — % |
| Investment | 555,000 | 700,000 | (145,000) | (21) % |
| Other | 193,500 | 183,500 | 10,000 | 5 % |
| Total Legal | 868,500 | 1,003,500 | (135,000) | (13) % |
| Other Services: | | | | |
| Disability Board | 45,000 | 45,000 | — | — % |
| Governance/strategic planning | 125,000 | 150,000 | (25,000) | (17) % |
| Human resources | 107,500 | 81,800 | 25,700 | 31 % |
| Legislative | 100,000 | 84,000 | 16,000 | 19 % |
| Mortality data/verification | 31,700 | 28,900 | 2,800 | 10 % |
| Process improvement | 100,000 | — | 100,000 | 100 % |
| Other | 66,120 | 63,000 | 3,120 | 5 % |
| Total Other Services | 575,320 | 452,700 | 122,620 | 27 % |
| Total Professional Services | \$ 6,735,803 | \$ 6,499,025 | \$ 236,778 | 4 % |

Certain prior year line items have been reclassified to conform with the current year presentation.

Operating Budget - Professional Services (continued)

Professional Services represent 18% of the 2024 operating budget and reflect an increase of 4% from the 2023 operating budget.

Actuarial services are provided by Gabriel, Roeder, Smith and Company (GRS) and represent 12% of the professional services budget category. The budget includes GRS' annual retainer, funds for legislative actuarial studies and the estimated cost of making the grid accessible to participating cities when evaluating plan changes.

Audit services make up 3% of the professional services budget category. External financial and SOC-1 audits are performed by CLA. The 2024 budget also includes \$20,000 for an external peer review of Internal Audit, which is required once every five years per auditing standards.

Custodial and banking services make up 23% of the professional services budget category. State Street Bank serves as custodian and JPMorgan Chase provides depository banking services.

Information services consultants make up 8% of the professional service category and include third-party support for information services projects.

Investment consultants make up 32% of total professional services. NEPC provides general investment consulting services to the Board (\$550,000) and Albourne America provides alternatives investment consulting services (\$1.2 million). Other investment consulting services include: transaction cost analysis, Investment Practices and Performance Evaluation that is required every three years, proxy voting, background checks for investment manager principals, Global Investment Performance Standards (GIPS) certification and global tax services.

Legal services make up 13% of the professional services budget category and include fiduciary legal counsel, investment-related and other legal matters.

Other services make up 9% of the professional services budget category and include process improvement consulting services to be provided in 2024.

Operating Budget - Facilities

| Facilities | | | | |
|----------------------------------|---------------------|---------------------|-------------------------|------------|
| For the Years Ending December 31 | | | | |
| | 2024 | 2023 | Increase/ (Decrease) | % Change |
| Office rent | \$ 2,929,927 | \$ 2,814,900 | \$ 115,027 | 4 % |
| Building maintenance / utilities | 29,133 | 24,989 | 4,144 | 17 % |
| Property/liability insurance | 6,713 | 15,000 | (8,287) | (55) % |
| Total Facilities | \$ 2,965,773 | \$ 2,854,889 | \$ 110,884 | 4 % |

Facilities is 8% of the 2024 operating budget and reflects an increase of 4% from the 2023 budget.

Office rent. The Grove lease agreement includes scheduled monthly base rental payments through April 2034 and pass-through of facilities expenses for utilities, property maintenance, janitorial services, insurance and property taxes. Annual investment earnings on the \$36 million proceeds from the sale of the IH-35 building approximate \$2.4 million at TMRS' 6.75% assumed rate of return.

Building maintenance / utilities. TMRS is responsible for certain repairs and maintenance costs and streaming cable services.

Property / liability insurance. TMRS maintains property / liability insurance as required under The Grove lease agreement.

Operating Budget - City and Member Outreach

| City and Member Outreach For the Years Ending December 31 | | | | |
|--|-------------------|-------------------|-------------------------|------------|
| | 2024 | 2023 | Increase/ (Decrease) | % Change |
| Printing and mailing | \$ 555,500 | \$ 520,840 | \$ 34,660 | 7 % |
| Member education | 265,250 | 265,250 | — | — % |
| Total City and Member Outreach | \$ 820,750 | \$ 786,090 | \$ 34,660 | 4 % |

City and Member Outreach represents 2% of the operating budget and includes costs of outreach efforts to our participating cities and members.

Printing and mailing. TMRS incurs printing and mailing costs for publications such as *RetirementWise* and *TMRS Times* newsletters, Member Annual Statements, Retirement Benefit Statements, annual financial reports and other single issue brochures/publications. The 2024 budget includes a new service - Mailstream on Demand - that will provide efficiencies for member communication.

Member education includes costs for the TMRS Annual Training Seminar, educational video recordings, booth exhibits and receptions at other events.

Operating Budget - Information Technology

| Information Technology For the Years Ending December 31 | | | | |
|--|---------------------|---------------------|-------------------------|--------------|
| | 2024 | 2023 | Increase/ (Decrease) | % Change |
| Investment department technology: | | | | |
| Investment data/research subscriptions | \$ 329,790 | \$ 1,437,712 | \$ (1,107,922) | (77) % |
| Investment software solutions | 697,563 | — | 697,563 | 100 % |
| Total investment-related technology | 1,027,353 | 1,437,712 | (410,359) | (29) % |
| Software and support: | | | | |
| Subscription-based technology | 1,356,444 | 1,046,049 | 310,395 | 30 % |
| Software licenses/maintenance | 832,846 | 845,058 | (12,212) | (1) % |
| Total software and support | 2,189,290 | 1,891,107 | 298,183 | 16 % |
| Hardware/data center/other | | | | |
| Hardware/information technology supplies | 209,900 | 174,600 | 35,300 | 20 % |
| Data center | 61,200 | 65,000 | (3,800) | (6) % |
| Internet service and other | 23,172 | 25,172 | (2,000) | (8) % |
| Total hardware and other | 294,272 | 264,772 | 29,500 | 11 % |
| Total Information Technology | \$ 3,510,915 | \$ 3,593,591 | \$ (82,676) | (2) % |

Information Technology is 9% of the 2024 proposed operating budget and reflects a decrease of (2)% from the 2023 budget.

Investment department technology is 29% of this budget category, providing support for the Investment team's analysis and reporting. The 2024 budget includes the following new services:

- \$290,000 for Backstop Solutions, which is software that incorporates tools for portfolio and research management, manager relationships and opportunity tracking in a centralized location. It serves as an information repository, user interface and customer relationship management system for the investment team.
- \$383,000 for iLevel, which is a system for the collection, analysis and reporting of asset level data. Asset level data informs portfolio construction, manager selection, and fee-reducing co-investment transactions.

Due to the robust nature of the new investment technology solutions, certain other services that totaled \$1.1 million in 2023 are no longer necessary and were eliminated from the 2024 budget, resulting in a net decrease of \$(410,000) in investment-related technology.

Information Services (continued)

Software and support is 62% of this budget category, and includes the following new technology:

- Replacement system for existing Oracle Report Builder, a product no longer supported by Oracle.
- DocuSign to facilitate secure document upload and online signatures for benefit administration.
- Planet Press to automate printing and mailing of Member and city letters, reducing costs and increasing quality, capabilities and reporting.
- Identity and access management solution to ensure secure and efficient control over user identities, access permissions, and authentication processes, thereby minimizing risks, enhancing compliance, and safeguarding sensitive data and resources.
- JIRA Service Management to provide a single platform to centrally manage and automate the day-to-day operations and work tracking within the Information Services team.

Operating Budget - Other Administrative

| Other Administrative For the Years Ending December 31 | | | | |
|--|---------------------|---------------------|-------------------------|--------------|
| | 2024 | 2023 | Increase/ (Decrease) | % Change |
| Board of Trustees/Advisory Committee: | | | | |
| Meetings | \$ 117,480 | \$ 106,380 | \$ 11,100 | 10 % |
| Professional development and other | 26,160 | 26,160 | — | — % |
| Total Board of Trustees/Advisory Committee | 143,640 | 132,540 | 11,100 | 8 % |
| Professional development: | | | | |
| Member dues | 53,638 | 48,407 | 5,231 | 11 % |
| Subscriptions/publications | 75,576 | 112,699 | (37,123) | (33) % |
| Training/tuition | 350,077 | 342,765 | 7,312 | 2 % |
| Total professional development | 479,291 | 503,871 | (24,580) | (5) % |
| Insurance/equipment/records management.: | | | | |
| Business insurance | 180,142 | 208,773 | (28,631) | (14) % |
| Office equipment and supplies | 157,600 | 144,750 | 12,850 | 9 % |
| Records management | 39,000 | 39,000 | — | — % |
| Miscellaneous | 143,740 | 153,940 | (10,200) | (7) % |
| Total insurance/equipment/records management | 520,482 | 546,463 | (25,981) | (5) % |
| Travel: | | | | |
| Business travel | 467,466 | 476,180 | (8,714) | (2) % |
| Professional development travel | 117,694 | 159,113 | (41,419) | (26) % |
| Total travel | 585,160 | 635,293 | (50,133) | (8) % |
| Total Other Administrative | \$ 1,728,573 | \$ 1,818,167 | \$ (89,594) | (5) % |

Other Administrative represents 5% of the 2024 proposed operating budget and reflects a decrease of (5)% from the 2023 budget.

Board of Trustees/Advisory Committee expenses include estimates for six Board meetings, a Board Retreat and three Advisory Committee meetings. This category also includes travel for Board members and Board education/training expense.

Professional Development is approximately 28% of the Other Administrative budget category. Each department itemizes expected training costs by employee. Most departments include requests for annual user conferences, as well as other technical training relevant to their respective duties and to meet continuing professional education requirements.

Operating Budget - Other Administrative (continued)

Insurance/equipment/records management include items that are not specifically categorized elsewhere:

- Business insurance costs include estimates of fiduciary and errors and omissions liability, automobile, crime, foreign liability and workers compensation coverage based on quotes received from the respective carriers.
- Office equipment and supplies include general office supplies, furniture and equipment purchases at amounts below capitalization thresholds, and equipment rentals.
- Records management includes document storage and shredding services provided by Iron Mountain.
- Miscellaneous includes business meals, staff office functions, wellness initiatives, and human resources recruiting costs to cover expenses for job postings and background checks.

Travel expenses include staff travel for city visits, Member events, investment due diligence and professional development.

Capital Budget

| Capital Budget For the Years Ending December 31 | | | | |
|--|---------------------|------------------|-------------------------|----------|
| | 2024 | 2023 | Increase/ (Decrease) | % Change |
| NextGen and MyTMRS modification | \$ 1,750,000 | \$ — | \$ 1,750,000 | 100 % |
| Relay 2500 folder/insertter | — | 10,000 | (10,000) | (100)% |
| Total Capital Expenditures | \$ 1,750,000 | \$ 10,000 | \$ 1,740,000 | |

The 2024 Capital Budget of \$1.75 million includes three projects:

- \$1 million for the rebuild of NextGen
- \$500,000 to update MyTMRS
- \$250,000 to expand functionality for Online Retirement

NextGen, TMRS' pension administration system that was deployed in 2005, is nearing the end of useful life and is difficult to update or modify with new functionality. In addition, MyTMRS, our member portal, relies on NextGen and is therefore constrained by NextGen's limitations.

Staff reviewed two potential solutions for the NextGen rebuild:

- A complete replacement of NextGen with a new Pension Administration System, at an estimated cost ranging from \$20 million to \$40 million, over a five to six-year period.
- A significant rebuild and expansion of NextGen's current functionality, utilizing a combination of existing staff and third-party resources. The estimated cost of this solution is \$1 million, and would be completed over a period of 12 to 15 months.

Staff recommends rebuilding NextGen with internal and external resources. This approach is the most cost-efficient and timely solution, and allows TMRS to leverage institutional knowledge and third-party expertise to achieve the best result.



December 5, 2023

To: Board of Trustees

From: Candace Nolte, Director of Finance *Candace Nolte*

Re: Agenda Item 10: Consider and Act on Resolution Transferring Monies from Interest Reserve Account to Expense Fund

Staff recommends that the Board transfer from the Trust Fund's Interest Reserve Account to the Expense Fund the amount necessary to cover TMRS' budgeted expenses for the following year. In addition, Board policy has been to maintain a reserve in the Expense Fund equal to 15% of the next year's budget.

The 2024 Operating and Capital Budgets total \$40.1 million, and the reserve is \$6 million, which will be offset by an estimated \$7.8 million remaining in the Expense Fund. Therefore, the transfer to the Expense Fund to cover all 2024 budgeted expenses is \$38.3 million.

The transfer is a book-entry. All funds remain invested in the Trust Fund until actual expenditures are made.


RECOMMENDATION:

Staff recommends that the Board transfer \$38.3 million from the Interest Reserve Account to the Expense Fund to cover 2024 budgeted expenses.



December 5, 2023

To: Board of Trustees

From: David Hunter, Chief Investment Officer 

Re: Agenda Item 11a: Chief Investment Officer Report

Delivering Above Median Returns with Below Median Risk. For the one-year ended September 30, 2023, TMRS achieved our strategic financial objective of generating above median returns using below median risk compared to other public plans > \$10 billion. The Trust Fund's net return for the one-year ended September 30, 2023, was 10.15%, exceeding the Actual Allocation Benchmark (AAB) by 1.1% and in line with the Strategic Target Allocation (STA) benchmark. Global Equity, Other Public & Private Markets (OPPM), Non-Core Fixed Income (NCFI), and Hedge Funds earned one-year net returns of 20%, 18%, 7.4% and 6.3%, respectively. Private Equity, Core Fixed Income (CFI) and Real Estate net returns were 2%, 1.1% and -1.5% for the same period, respectively. Net return for the five-years ended September 30, 2023, was 5.51% exceeding the AAB by 1.16% and STA benchmark by 0.37%. Private Equity, Real Estate, OPPM and Global Equity were the top performers with net returns of 18%, 8.3%, 6.0% and 5.4%, respectively, over the last 5 years. Hedge Funds and NCFI each returned 5.4% and CFI earned 0.37% for the same period. Net returns for all asset classes exceeded performance benchmarks for the 5 years ended September 30, 2023, excluding Global Equity. Actual asset allocation levels were within approved ranges.

Trust Fund preliminary net returns ranked in the second quartile for one-year and fourth quartile for the five-years ended September 30, 2023, respectively, among other public defined benefit plans with more than \$10 billion in assets.

Staff Investment Committee (SIC). Since September, the SIC approved \$560 million of new Non-Core Fixed Income investments with four current firms.

Investment Strategy Update. Staff is focused on streamlining our manager roster by expanding commitments with our top performing managers, while reducing commitments with below median firms or strategies that are no longer aligned with our STA. As of September 30, TMRS completed \$4 billion of new investments in 2023, including \$2.8 billion with twelve current managers and \$1.2 billion with six new managers.

Investment Policy Statement (IPS). Staff will recommend the Board approve modest changes to the IPS to be effective January 1, 2024.

Board Education. Darren Schlissel, Portfolio Director of Fixed Income, and Josh Garcia, Portfolio Director of Private Equity, will present their respective annual reviews on December 14. NEPC will host its Annual Public Funds Workshop on January 30-31.

Q3 2023 Trust Fund Report

Dave Hunter, CIO

Board of Trustees Meeting

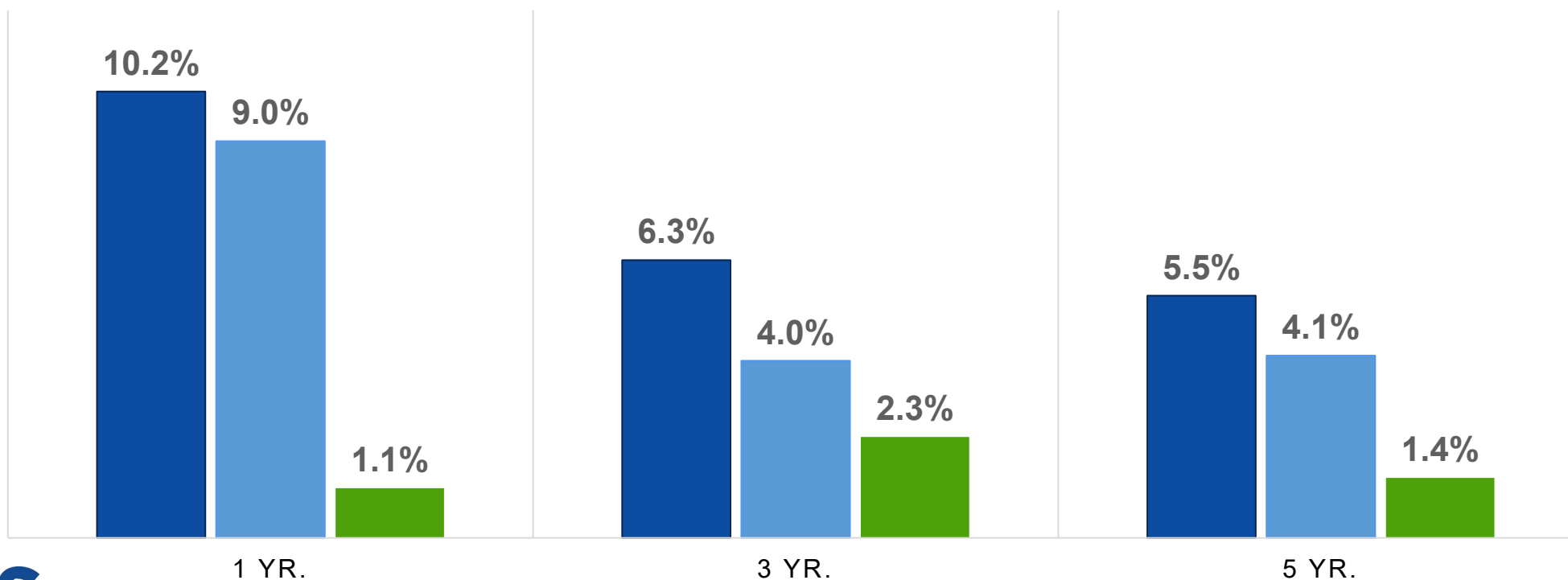
December 14, 2023

Trust Fund Net Returns Exceed Benchmarks

Net Returns exceed Actual Allocation Benchmarks (AAB) by 1.4% over the last 5 years.

Net Performance as of September 30, 2023

■ Trust Fund ■ Benchmark ■ Excess Return

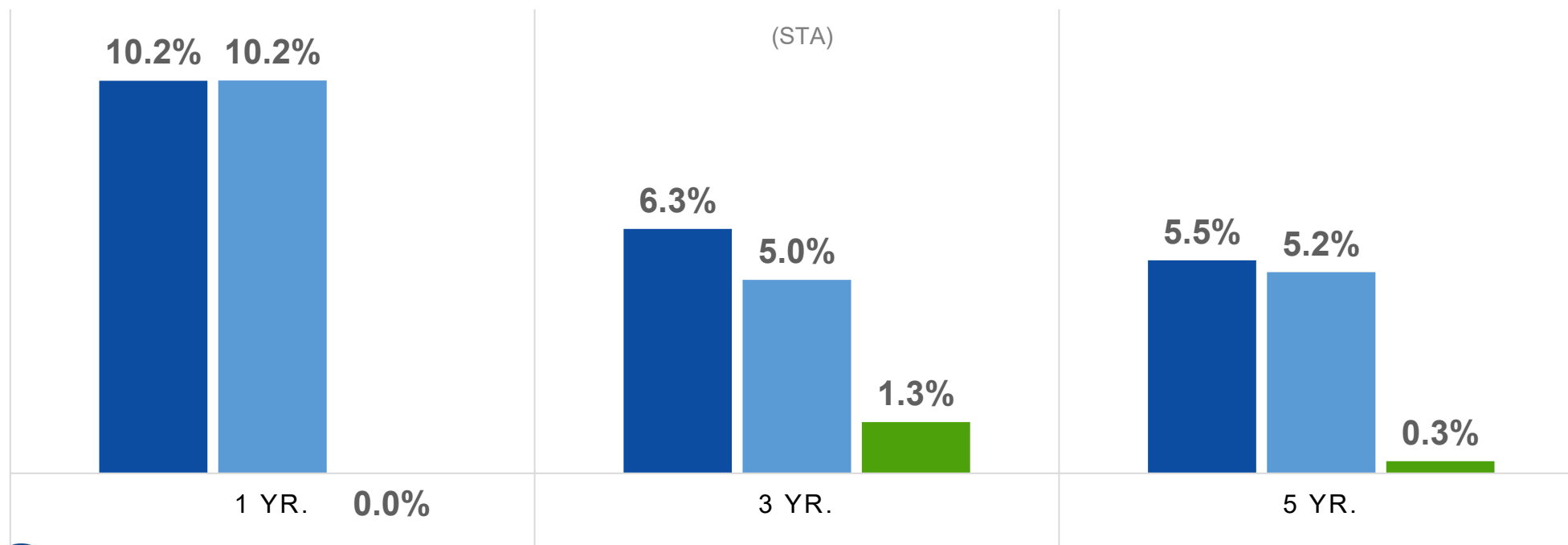


Trust Fund Net Returns Exceed Benchmarks

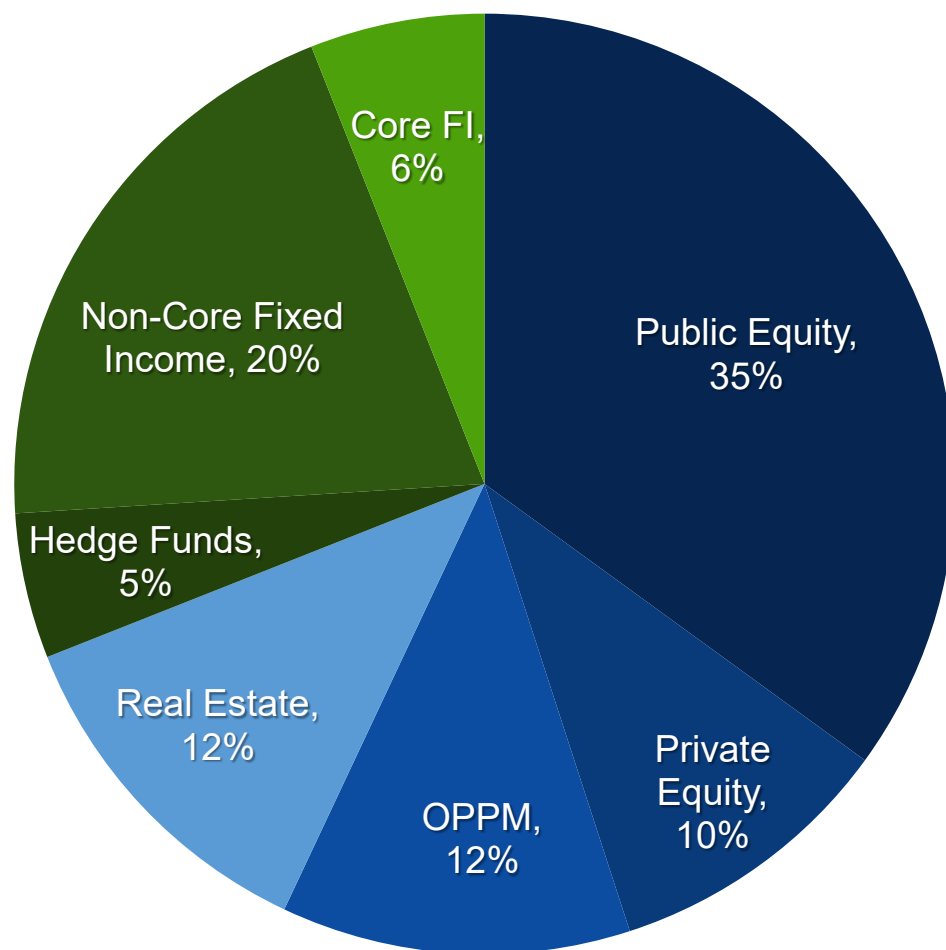
Net Returns exceed the Strategic Target Allocation (STA) Benchmark by 0.3% over the last 5 years.

Net Performance as of September 30, 2023

■ Trust Fund ■ Benchmark ■ Excess Return



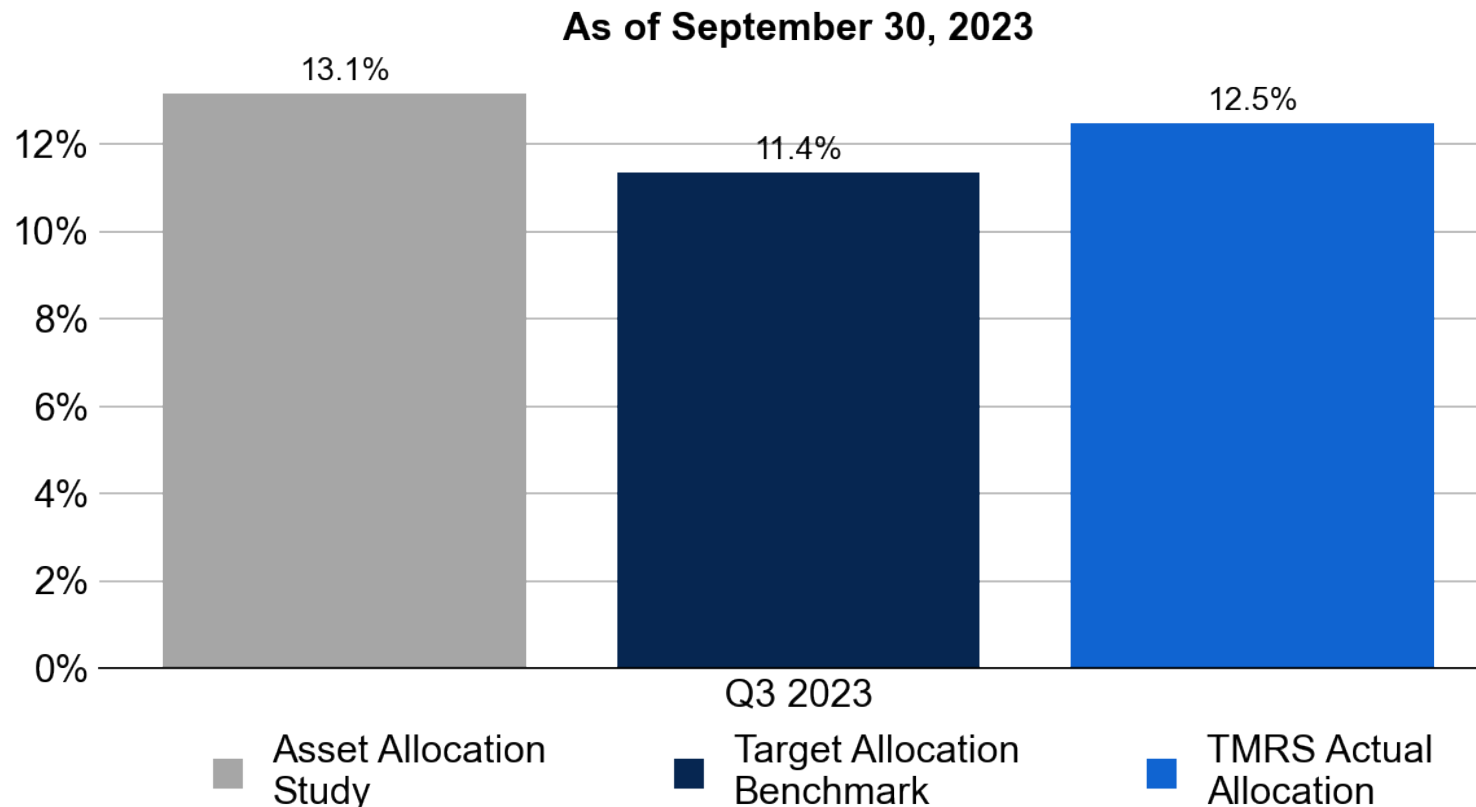
Trust Fund Asset Allocation Aligns with Targets



| | Strategic Target | Actual as of Sep. 30, 2023 | Policy Range |
|------------------|------------------|----------------------------|--------------|
| ■ Public Equity | 35% | 35.4% | 25 – 45% |
| ■ Private Equity | 10% | 11.6% | 5 – 15% |
| ■ OPPM | 12% | 8.3% | 7 – 17% |
| ■ Real Estate | 12% | 13.0% | 7 – 17% |
| ■ Hedge Funds | 5% | 5.5% | 0 – 10% |
| ■ NCFI | 20% | 19.7% | 15 – 25% |
| ■ Core FI | 6% | 5.9% | 1 – 11% |
| ■ Cash | 0% | 0.6% | 0 – 3% |

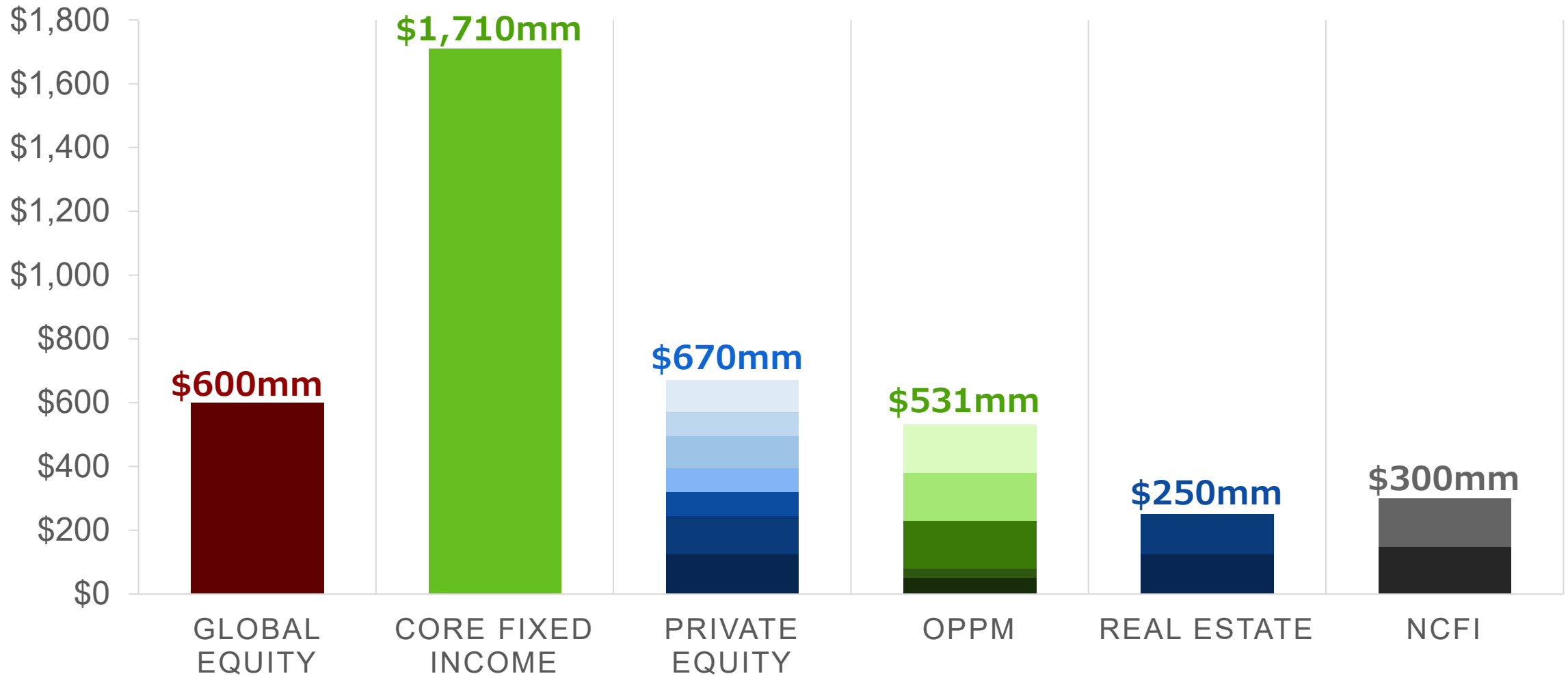
Trust Fund Actual Allocation Risk

TMRS Actual Allocation risk of 12.5% is aligned with our current Asset Allocation Study risk of 13.1% based on NEPC's Capital Market Assumptions as of September 30, 2023.



2023 Completed Investments Exceed \$4 Billion

As of September 30, 2023



2023 Completed Investments Report

As of 9/30/2023

| ASSET CLASS / STRATEGY | COMPLETED DATE | MANAGER OR FUND NAME | NEW / EXISTING MANAGER | AMOUNT COMMITTED | PUBLIC / PRIVATE MARKET |
|---|----------------|--|---------------------------|-------------------------------|-------------------------|
| Global Equity | | | | | |
| Active ACWI EX-US | June 26 | Arrowstreet Capital, Limited Partnership | New | \$600,000,000 | Public |
| Core Fixed Income | | | | | |
| Core | April 25 | Northern Trust Investments, Inc. | Existing | \$1,710,000,000 | Public |
| Non-Core Fixed Income | | | | | |
| Opportunistic Credit | August 29 | Bregal Sagemount Credit Solutions L.P. | Existing | \$150,000,000 | Private |
| Opportunistic Credit | March 16 | Arrow Credit Opportunities II USD Feeder SCSp | New | \$150,000,000 | Private |
| Real Estate | | | | | |
| Value Added | June 30 | Virtus Real Estate Capital IV, LP | Existing | \$125,000,000 | Private |
| Value Added | April 21 | Stockbridge Value Fund V, LP | Existing | \$125,000,000 | Private |
| Other Public and Private Markets | | | | | |
| Mining | July 25 | Appian Zilker PV1 LP | Existing | \$50,000,000 | Private |
| Infrastructure | March 17 | MTP Zilker AV1 LLC | Existing | \$31,000,000 | Private |
| Infrastructure | March 16 | Excelsior Renewable Energy Feeder Fund II-B LP | New | \$150,000,000 | Private |
| Energy | March 1 | Pearl Energy Investments III, LP | New | \$150,000,000 | Private |
| Other | January 4 | Bain Capital Insurance Fund, L.P. | Existing | \$150,000,000 | Private |
| Hedge Funds | | | | | |
| N/A | | | | | |
| Private Equity | | | | | |
| Buyout | August 11 | PSG VI L.P. | Existing | \$125,000,000 | Private |
| Buyout | July 28 | Altaris Health Partners VI, L.P. | Existing | \$120,000,000 | Private |
| Buyout | July 27 | SkyKnight Capital Fund IV, L.P. | New | \$75,000,000 | Private |
| Buyout | March 31 | Public Pension Capital, LLC | Existing | \$75,000,000 | Private |
| Buyout | March 14 | Parthenon Investors VII, LP | Existing | \$100,000,000 | Private |
| Buyout | January 27 | Gemspring Capital Fund III, LP | New | \$75,000,000 | Private |
| Buyout | January 12 | Arcline Capital Partners III LP | Existing | \$100,000,000 | Private |
| TOTAL: | | | | <u>\$4,061,000,000</u> | |



December 5, 2023

To: Board of Trustees

From: Michele Fullon, Investment Compliance Officer

Re: Agenda Item 11(d): Third Quarter 2023 Investment Compliance Report

Investment Manager Compliance: In the third quarter, State Street automated tests confirmed that TMRS investment managers had adhered to their investment guidelines and were in compliance with TMRS' guidelines.

Investment Policy Statement (IPS) Compliance: I tested all testable parameters within the IPS and testing confirmed that TMRS was in compliance with all testable parameters.

Investment Guidelines: TMRS was in compliance with the testable parameters within Staff's Investment Guidelines. Testing includes (i) strategic diversification requirements, (ii) geographic and economic diversification requirements, (iii) investment manager concentration limits, and (iv) investment vehicle concentration limits.

Divestment Lists: TMRS received the annual updated Financial Companies that Boycott Energy Companies and Companies that Boycott Israel divestment lists from the Texas Treasury Safekeeping Trust Company on behalf of the Comptroller of Public Accounts. TMRS investment managers were notified, and TMRS complied with all statutory response requirements.



December 5, 2023

To: Board of Trustees

From: David J. Hunter, Chief Investment Officer

A handwritten signature in blue ink, appearing to read 'D. Hunter', is written over the 'From:' line of the email header.

Re: Agenda Item 11e: Confirmation of Asset Allocation and Benchmark Effective Dates

The Board approved a new asset allocation in June and revised benchmarks in September.

Implementation of these changes requires time and effort on the part of State Street, NEPC, and staff to acquire appropriate licensing rights, re-classify TMRS' investment funds to their newly assigned asset class, and create updated performance reporting.

Given this effort, I wanted to confirm that NEPC's and staff's (unstated) intention was that the new asset allocation and benchmarks will become effective as of January 1, 2024, the start of our fiscal and calendar year.

December 5, 2023

To: Board of Trustees

From: David J. Hunter, Chief Investment Officer

Re: Agenda Item 12: Consider and Act on Amendments to the Investment Policy Statement

An overview of the modest amendments to the IPS follows.

Section I: Introduction

- Clarifies the Investment Guidelines are the responsibility of Staff.

Section II: Standard of Care

- Clarifies that the Board (and not Staff) are fiduciaries.

Section III: Investment Management

- Clarifies the General Investment Consultant will include risk when advising on investment goals, objectives, and performance. *(See C. Staff and Advisor Responsibilities/Investment Consultants/General Investment Consultant)*
- Clarifies investment compliance staff will monitor compliance with investment contracts under the supervision of the Chief Legal Officer. *(See C. Staff and Advisor Responsibilities/Compliance Staff)*

Section IV: Delegated Authority and Reporting Requirements

- Clarifies proxy voting is the Board's fiduciary duty and staff will work with an advisory firm to monitor compliance with TMRS' instructions to vote proxies consistent with such fiduciary duties. *(See A. Delegated Authority/Proxy Voting)*
- Clarifies staff will provide performance and risk reports to the Board quarterly including a comparison of historical risk in current asset class implementations to historical total Trust Fund risk relative to the General Investment Consultants risk expectations used in the last Asset Allocation Study. *(See B. Reporting Requirements/Investment Risk Reports)*

Exhibit A: Asset Allocation

- Clarifies the Board is adopting the new Asset Allocation and benchmarks effective as of January 1, 2024.

ATTACHMENT:

1 - Investment Policy Statement (Red-lined version)



INVESTMENT POLICY STATEMENT

Effective~~Adopted~~ January 1, 2024~~December 8, 2022~~

TABLE OF CONTENTS

PAGE

| | | |
|-------------|---|-----|
| Section I | INTRODUCTION | 1 |
| Section II | STANDARDS OF CARE | 1 |
| Section III | INVESTMENT MANAGEMENT | 2 |
| Section IV | DELEGATED AUTHORITY AND REPORTING REQUIREMENTS .. | 6 |
| Exhibit A | ASSET ALLOCATION | A-1 |
| Exhibit B | INVESTMENT FEE POLICY | B-1 |
| Exhibit C | INVESTMENT MANAGER PRINCIPLES | C-1 |
| Exhibit D | GLOSSARY | D-1 |

SECTION I: INTRODUCTION

The Board of Trustees (Board) of the Texas Municipal Retirement System (TMRS or the System) has adopted this Investment Policy Statement (IPS) to govern the System's Trust Fund investments. The IPS, along with its Exhibits and Staff Investment Guidelines, outlines TMRS' investment objectives and beliefs, Board and staff responsibilities and limitations, and asset allocation. The IPS also establishes accountability for the Board, staff, investment consultants, and investment managers. Board approval is required for any action that deviates from the IPS.

The objective of TMRS' investment program is to ensure that members, retirees and beneficiaries receive the benefits they have been promised by participating cities at a reasonable and predictable cost to those cities. To achieve this objective, the Board, in consultation with its Consulting Actuary, is responsible for adopting an actuarial return assumption (ARA). Trust Fund assets will be invested to achieve a total return that meets or exceeds the current ARA of 6.75%.

The Board will review the IPS annually.

SECTION II: STANDARDS OF CARE

Standard of Care. As System fiduciaries, the Board ~~and staff~~ must:

1. Exercise the degree of judgment and care, under the circumstances, that persons of prudence, discretion, and intelligence exercise in the management of their own affairs, considering the probable income from the securities and probable safety of their capital.
2. Evaluate investment decisions in the context of the entire Trust Fund portfolio and with appropriate risk and return objectives.

Conflict of Interest Prohibited. Board members, staff, investment consultants, and investment managers will refrain from any activity that could conflict with the proper execution and management of the TMRS investment program, or that could impair their ability to make impartial recommendations and decisions. These parties are required to disclose, in writing, any known relationships that could create or appear to create a conflict of interest.

Decisions in the Best Interest of the System. Board members and staff are required to make all investment decisions in the best interest of the System and shall comply with applicable TMRS policies on personal investment activities. To protect against unethical behavior between TMRS and investment managers during a manager search, any communication by a prospective manager with a Board member regarding an ongoing search should be referred to the Chief Investment Officer.

SECTION III: INVESTMENT MANAGEMENT

A. BOARD RESPONSIBILITIES

Board of Trustees. The Board is responsible for the administration of the System and its investment program. The Board and each Trustee must discharge their duties solely in the interest of providing benefits to members, retirees and beneficiaries. While the Board maintains oversight responsibility for the investment of the Trust Fund, to improve the efficient use of its resources, the Board has delegated general day-to-day investment program administration to staff.

The Board's investment role includes, but is not limited to, the following:

1. Establishing investment goals, objectives and beliefs of the System consistent with plan funding needs;
2. Adopting a written IPS;
3. Monitoring and evaluating investment performance, investment risk, and compliance with the IPS and applicable state and federal laws;
4. Selecting, in consultation with staff, the General Investment Consultant, any Specialized Investment Consultants, Custodian Bank, and Securities Lending Agent;
5. Periodically reviewing investment consultant performance; and
6. Reviewing and, as appropriate, approving investment activities not delegated to staff.

B. INVESTMENT BELIEFS

The Board shall adopt investment beliefs based on capital market theories and other investment and management principles generally accepted by long-term focused institutional investors. The Board's investment beliefs are:

1. The System's asset allocation and funding strategies are based on an asset/liability framework and are designed to optimize the funding of TMRS liabilities over time.
2. The most effective use of the Board's expertise and time is to set overall investment objectives and clearly articulate investment direction through the IPS, while continually monitoring its compliance.
3. Good governance promotes long-term value for the System and its members, retirees, and beneficiaries.

4. Clearly defined roles and responsibilities are essential to good governance.
5. 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.
6. Intelligent risk-taking is rewarded with compensating returns over time and is justifiable for long-term investors.
7. Trust Fund risk must be managed.
8. The primary determinant of portfolio risk and return is the System's long-term asset allocation.
9. Capital markets have inefficiencies and opportunities that can be exploited.
10. Costs impact investment returns and should be monitored and managed.
11. As prudent stewards of the Trust Fund, we integrate environmental, social, and governance research into the rigorous investment process, where consistent with fiduciary duties.

C. STAFF AND ADVISOR RESPONSIBILITIES

Executive Director. The Board has determined that implementation of investment decisions within the limits set forth in the IPS shall be delegated to the Executive Director (ED) or their designees. The ED's responsibilities and duties include, but are not limited to:

1. Supervising the investment program by ensuring that investment staff act in accordance with the IPS and that internal controls and a compliance structure are in place to safeguard Trust Fund assets;
2. Negotiating, where necessary, and executing all contracts, agreements, and memorandums of understanding in accordance with the IPS;
3. Taking prudent action deemed necessary to protect Trust Fund assets;
4. Ensuring regular investment reporting is provided to the Board; and
5. Performing or delegating additional duties as determined by the Board.

Chief Investment Officer. The Chief Investment Officer (CIO) is the senior member of the investment staff and directs the day-to-day activities of the investment program. The CIO's responsibilities and duties or its designees include, but are not limited to:

1. Providing information, support, and advice to the Board to ensure its directives are fulfilled;
2. Ensuring implementation of the investment program is consistent with the Board's intentions as set forth in the IPS;
3. Ensuring adequate controls are in place to safeguard Trust Fund assets by maintaining internal procedures, analytical and risk management tools, and recommending updates to the IPS;
4. Recruiting, retaining and supervising a qualified investment staff capable of implementing the IPS; and
5. Performing or delegating other duties pertinent to the day-to-day management of the Trust Fund.

Investment Consultants. Investment consultants are retained by the Board to provide independent advice on investment-related matters. All investment consultants must act as fiduciaries in advising the Board and staff, be bound by prudent expert standards, and be Registered Investment Advisers under the Investment Advisers Act of 1940. The Board will retain a General Investment Consultant and may retain Specialized Investment Consultants. Responsibilities and duties of investment consultants include, but are not limited to the following:

1. General Investment Consultant.

- a. Advising on the development of investment goals and objectives, investment policies and strategies, asset allocation, investment manager and service provider selection, monitoring, terminations, guidelines and restrictions, analysis of investment performance and risk, advice on internal staffing issues, and independently researched support for delegated investment decisions in areas of firm expertise.
- b. Ensuring the Board is provided educational opportunities on institutional investment practices and other topics pertinent to the discharging their fiduciary obligations.
- c. Working closely with staff to ensure that TMRS' investment objectives are achieved in accordance with the IPS and applicable state and federal laws and regulations.
- d. Collaborating with the Consulting Actuary, Specialized Investment Consultants, and other investment service providers to provide coordinated advice to the Board.

2. **Specialized Investment Consultant.** The Board may retain one or more Specialized Investment Consultants to provide advice on specific asset class implementations or other topics. Specialized Investment Consultants collaborate with the General Investment Consultant and staff to provide independent support for delegated investment decisions.

Chief Legal Officer. The Chief Legal Officer (CLO) is the System's chief legal advisor ~~to the System~~. With respect to the investment program, the CLO or their designees coordinate all legal services relevant to the administration of the investment program.

Fiduciary Counsel. The Board retains Fiduciary Counsel to provide advice on matters related to the exercise of the fiduciary standards required by law and regulation. Fiduciary Counsel also works with the ED and CLO on investment-related legal matters.

Compliance Staff. Under the supervision of the CLO, investment compliance staff are responsible for designing and implementing a compliance program independent of investment department oversight to ensure that testable parameters of the IPS are adhered to and actions pertinent to security of the Trust Fund are carried out. Investment compliance staff will monitor compliance with investment contracts under the supervision of the CLO.

Director of Internal Audit. The Director of Internal Audit ensures that adequate and effective internal controls are in place and objective audits of investment functions are periodically performed.

Staff Investment Committee. The Staff Investment Committee (SIC), operating pursuant to the SIC Charter, approves decisions delegated to it under the IPS.

Investment Staff. Investment staff are responsible for the daily operation and implementation of the investment program and work with investment consultants to advise the Board, ED and CIO on investment-related matters.

Investment Managers. TMRS retains investment managers to implement specific strategies consistent with the IPS and according to the terms of the contract governing their mandate. All investment managers must act as fiduciaries, be Registered Investment Advisers under the Investment Advisers Act of 1940 or be registered comparably in another jurisdiction or otherwise be exempted from regulatory registration; and must agree to contractual terms consistent with TMRS' Investment Principles.

D. INVESTMENT RISK MANAGEMENT

Consistent with the Board's Investment Beliefs, TMRS' risk management program monitors what investments TMRS owns, how risks from those investments aggregate within the Trust Fund, and how actual portfolio risk compares to benchmark risk.

The CIO will implement a risk management program to ensure investment risk is managed consistent with the IPS. The CIO will establish and oversee the risk management program to ensure policies and procedures are adopted, documented, and followed. The CIO will ensure that investment risk, operational risk and portfolio impacts are assessed during the investment manager selection processes and ongoing portfolio management.

The Director of Internal Audit and compliance staff will provide an independent review and make recommendations regarding investment department governance and internal controls.

SECTION IV: DELEGATED AUTHORITY AND REPORTING REQUIREMENTS

A. DELEGATED AUTHORITY

The Board, pursuant to limitations set forth below, delegates the following authority to staff.

Investment Managers. The Board authorizes staff to hire, retain and terminate investment managers to achieve the System's investment objectives.

Investment Decisions. The Board delegates to staff the authority to invest Trust Fund assets subject to the following limitations:

1. *Passive Public Markets Strategies.* ~~An i~~Investments in Passive Public Markets Strategies up to limits stated in the Asset Allocation.
2. *Active Public Markets Strategies.* ~~An i~~Investments in Active Public Markets Strategies up to 3% of total Trust Fund assets.
3. *Private Markets Strategies.* ~~An i~~Investments in Private Markets Strategies up to 0.75% of total Trust Fund assets. Three years after an initial investment in an Open-ended Private Markets Strategy, additional investments may be made up to 1.25% of total Trust Fund assets.
4. *Asset-Specific Private Markets Strategies (ASPMS).* An investment in an ASPMS strategy with a current investment manager cannot exceed 0.375% of total Trust Fund assets. No individual investment with the manager can exceed 0.10% of total Trust Fund assets.
5. *Rebalancing.* The authority to rebalance Trust Fund assets so long as no additional net investment is required and is within the above limitations.
6. *Cash Management.* The Board delegates to the CIO the ability to raise cash from Passive Public Markets Strategies and Active Public Markets Strategies to meet the operational needs of the System and to invest cash consistent with the Board's Asset Allocation.

7. *Emergencies.* Emergency measures to ensure Trust Fund assets remain under fiduciary management are delegated to staff.

Proxy Voting. Proxy voting is an important part of TMRS' investment program. Investment staff will vote proxies consistent with ~~TMRS' and~~ the Board's fiduciary duty. Working with a proxy advisory firm, investment staff will direct the proxy advisor how to vote proxies consistent with such fiduciary duties and monitor their compliance with TMRS' instructions.

Delegation Standards. The following standards apply to investment delegation:

1. *Delegated Limits.* Delegated limits are calculated using the market value of total Trust Fund assets as reported in the latest Annual Comprehensive Financial Report (ACFR).
2. *Investment Consultant Support.* Written General and/or Specialized Investment Consultant support must be received prior to the implementation of any delegated Investment Decisions with respect to Passive Public Markets Strategies, Active Public Markets Strategies, and Private Markets Strategies. Written Consultant support for an existing investment strategy may be relied upon for a delegated decision involving an ASPMS. Written Investment Consultant support for approved Transition Managers must be provided every four years.
3. *Executive Director Designee.* When the ED designates responsibility for executing investment contracts and agreements, the designee must be independent of and in addition to the CIO.

B. REPORTING REQUIREMENTS

The Board has adopted the following four investment reporting principles to ensure the Board has appropriate information to carry out its fiduciary responsibilities and to confirm the standards it expects in investment reports.

1. **Clear.** Written communications should be in plain English and avoid unnecessary technical jargon. Important messages or results should be easy to find and recognize.
2. **Concise.** Key information should be summarized. Extraneous information that does not directly improve the Board's ability, knowledge, and understanding in fulfilling its fiduciary responsibilities should be avoided.
3. **Balanced.** The pros and cons of any investment should be identified. Positive and negative information should be communicated to the Board.
4. **Timely.** Information should be provided to the Board in a timely manner.

Investment staff shall provide performance reporting and material investment program updates to the Board at regular intervals. In addition, the following reporting will be provided to the Board regularly:

1. **General Investment Consultant Reports.** The General Investment Consultant will provide regular reports on subjects pertinent to the Board's execution of its fiduciary responsibilities. These reports should provide the Board the ability to assess: i) asset allocation; ii) capital markets conditions; iii) absolute performance and risk; iv) performance and risk relative to benchmarks; and v) performance and risk relative to peer institutions.
2. **Delegated Decision Reports.** Reports documenting delegated decisions will be provided by staff to the Board at its next regularly scheduled meeting. These reports should include: i) Executive Summaries and/or schedules of completed actions; ii) Investment Consultant Support, where required; and iii) relevant SIC meeting minutes.
3. **Investment Risk Reports.** Staff will provide a performance and risk report Data, Performance and Risk Report to the Board quarterly. This Report will include discuss the range of risk implied by Investment Guidelines, the actual-historical risk in the current asset class implementations, and a comparison of actual-historical total Trust Fund estimated current asset class total market risk relative to the General Investment Consultant's risk expectations used in the last Asset Allocation Study.
4. **Investment Compliance Reports.** Compliance staff will provide ~~to~~ the Board each quarter with the results of any policy compliance testing performed during the quarter.
5. **Annual Asset Class and Investment Manager Reviews.** Staff shall conduct comprehensive asset class and investment manager reviews at least annually. The results of these reviews, including any related recommended actions and the costs of asset class implementation, will be reported to the Board.
6. **Proxy Voting.** Staff will provide the Board a proxy voting summary report for each public markets separately managed account, and other accounts which TMRS has contractual authority to direct proxy voting as appropriate, as soon as practical after fiscal year-end. The Report will include the number of ballots cast, the number of issues voted upon, and percent of issues voted with management, against management, and designated as abstaining.
7. **Material Deviations from the IPS.** If an investment consultant learns of any material deviation from prudence, objectivity, IPS provisions, or learns of any other matter of concern involving TMRS' investment program, the consultant must promptly express their concern in writing to the Board.

EXHIBIT A

ASSET ALLOCATION

Effective ~~as of January 1, 2024~~ July 1, 2021

One of the Board's investment beliefs is that the primary determinant of portfolio risk and return is the System's strategic, long-term asset allocation. The Board's Asset Allocation includes asset classes, strategic target allocations with minimum and maximum allocation ranges, and a benchmark to measure investment performance. Asset Allocation is based on an Asset Allocation Study that includes expectations for long-term return and risk.

The Board's Asset Allocation is intended to produce investment returns equal to or greater than the Actuarial Return Assumption (ARA) at a level of risk acceptable to the Board. In adopting an asset allocation, the Board should consider the System's assets and liabilities, risk and return trade-offs, the ability to deliver on promised benefit payments at a reasonable and predictable cost to participating cities, the risk of permanent loss of capital, Trust Fund liquidity and the ability to maintain a long-term strategy during sustained periods of market volatility.

The Board has adopted the following Asset Allocation:

| Asset Class | Min. % | Strategic Target Allocation % | Max. % | Benchmark |
|-----------------------------|--------|-------------------------------|--------|---|
| Global Equity | 25% | 35% | 45% | MSCI ACWI Investable Market Index (Net) |
| Core Fixed Income | 1% | 6% | 11% | Bloomberg U.S. Aggregate Bond Index |
| Non-Core Fixed Income | 1% | 6% | 11% | CS Leveraged Loan Index (50%) + ICE BofA US HY Constrained Index (50%) |
| Hedge Funds | 0% | 5% | 10% | HFRI Asset Weighted Composite Index |
| Cash Equivalents | 0% | 0% | 3% | FTSE 1-month U.S. T-Bill Index |
| Total Public Assets | | 52% | | |
| Private Equity | 8% | 13% | 18% | Cambridge US All Private Equity Index |
| Private Debt | 8% | 13% | 18% | CS Leveraged Loan Index + 100 bps |
| Real Estate | 7% | 12% | 17% | NCREIF-ODCE Index (Net) |
| Infrastructure | 1% | 6% | 11% | Cambridge Infrastructure Fund Index |
| Other Private | 0% | 4% | 9% | MSCI ACWI Investable Market Index (Net) |
| Total Private Assets | | 48% | | |

| Asset Class | Min. % | Strategic Target Allocation % | Max. % | Benchmark |
|--------------------------------|--------------|-------------------------------|---------------|---|
| Global Equity | 25 | 35 | 45 | MSCI ACWI Investable Market Index (Net) |
| Private Equity | 5 | 10 | 15 | MSCI ACWI Investable Market Index (Net) |
| Other Public & Private Markets | 7 | 12 | 17 | MSCI ACWI Investable Market Index (Net) |
| Real Estate | 7 | 12 | 17 | NCREIF-ODCE Index (Net) |
| Hedge Funds | 0 | 5 | 10 | HFRI Asset Weighted Composite Index |
| Non-Core Fixed Income | 15 | 20 | 25 | Bloomberg US Aggregate Bond Index + 1.50% |
| Core Fixed Income | 1 | 6 | 11 | Bloomberg US Aggregate Bond Index |
| Cash Equivalents | 0 | 0 | 3 | FTSE 1-month US T-Bill Index |

|

The Asset Allocation will be reviewed at least annually for reasonableness, taking into consideration current capital markets and economic conditions and the Board's views regarding long-term investment goals and objectives.

An Asset Allocation Study to comprehensively review the Asset Allocation will be completed at least every four years. The Board will verify or amend its Asset Allocation upon review of an Asset Allocation Study.

An Asset-Liability Modeling Study will be conducted at least every four years.

The Board will assess the Asset Allocation's performance over five-year rolling periods compared to the ARA, Trust Fund benchmark, and asset class benchmarks.

EXHIBIT B

INVESTMENT FEE POLICY

Effective ~~as of~~ December 3, 2020

Summary. The Investment Fee Policy (Policy) is a Board approved policy that ensures the following three objectives are balanced and reported as part of TMRS' investment management processes.

1. Securing the best available combination of skill, net of fee performance expectations, and risk management for a given investment discipline;
2. Aligning the interest of TMRS with selected investment management firms; and
3. Reducing the overall costs of the investment program.

Approach and Alignment Principles. TMRS has adopted the following principles to negotiate investment management services fees across all strategies:

1. TMRS will consider manager compensation levels and alignment of economic interests in its manager selection decisions.
2. TMRS will utilize its negotiation strength to improve its contractually negotiated economic share of investment return.

The Approach and Alignment Principles recognize that:

1. Considerations will differ depending on asset class, strategy, vehicle structure and management style
2. TMRS has varying levels of negotiation strength
3. Passive alternatives are typically the least costly option but are not available for all strategies
4. Active management strategies typically charge more than passive strategies
5. Internal management of certain strategies may be a viable cost reduction alternative
6. Different strategies and managers have different demand levels for their products and thus may charge different fees
7. Alignment with and access to differentiated managers often come with higher levels of compensation
8. Compensation considerations include balancing management fees and incentive compensation

Oversight and Reporting Principles. Oversight and reporting of investment manager fees and expenses is a critical component of TMRS' investment management. By statute, industry requirement and/or best practice, TMRS must report certain fee and expense information concerning its investment portfolio to the Texas Pension Review Board or the public pursuant to open records requests and in the Annual Comprehensive Financial Report.

TMRS utilizes the following oversight and reporting principles:

1. TMRS will document its consideration of the rates of compensation for a manager during the investment decision-making process.
2. TMRS will ensure that payments are made in accordance with each investment manager agreement.
3. TMRS will design its manager fee and expense reporting practices to be consistent, timely, and in accordance with statutory and other reporting requirements.

EXHIBIT C

INVESTMENT PRINCIPLES

~~October 3, 2023~~

~~The~~ TMRS' Investment Principles ~~state spell out~~ the minimum contractual standards by which investment managers must abide.

1. Investment managers must be registered as an investment adviser with the SEC, exempt from registration with the SEC, or registered with a foreign regulatory agency.
2. Investment managers must agree to act as fiduciaries and to a standard of care that prohibits placing their or their affiliates' interests ahead of those of the investment vehicle in which TMRS invests.
3. TMRS will not agree to indemnify or exculpate for breach of fiduciary duty.
4. Texas law must govern issues related to Texas law and regulation, including sovereign immunity and litigation involving only TMRS, and venue must be in Texas for any litigation involving only TMRS.
5. Investment managers must permit communications among investors, subject to reasonable limitations.
6. Investment managers and their affiliates cannot vote on non-ministerial matters, such as self-interested transactions or an increase in fees payable to the manager.
7. Investment managers must agree to TMRS' language regarding compliance with Texas statutes that require public disclosure of certain information pertaining to TMRS investments and access to TMRS' board meetings.

Revised October 2023

EXHIBIT D

GLOSSARY

Active Public Markets Strategies. Strategies that involve an investment in public securities that seek to outperform an index but are not strictly required to be managed relative to an index.

Asset Allocation Study. A study to determine the asset allocation most appropriate for the System based on the results of the Asset Liability Study.

Asset-Liability Study. A comprehensive actuarial review process that seeks to align Trust Fund investment policy with System-designated contribution policy, expected future benefit payments to beneficiaries, and plan expenses.

Asset Specific Private Markets Strategies (ASPMS). Strategies that involve the underwriting of specific and known assets, rather than diversified or unspecified, blind-pool fund vehicles. ASPMS include, but are not limited to, single-asset co-investments and continuation vehicles.

Custodian Bank. The financial institution that holds and/or accounts for Trust Fund assets.

Investment Managers. Third parties that provide investment management services on a long-term basis. Investment managers include, but are not limited to, the managers of Passive Public Markets Strategies, Active Public Markets Strategies, Private Markets Strategies, and Asset Specific Private Markets Strategies.

Open-ended Private Markets Strategy. A Private Market Strategy invested in a structure with no fixed term, allowing for investments and redemptions to occur over an indefinite time period. Specifically, as related to Delegated Authority: i) three-years is measured from the date capital is first drawn from TMRS to be invested; ii) the numerator in the delegated limit test is measured by adding the most recently available net asset value plus the new committed amount at time of legal closing. The Hedge Fund asset class is not considered an Open-ended Private Markets Strategy for purposes of Delegated Authorities.

Passive Public Markets Strategies. Strategies invested in public securities that seek to closely replicate a TMRS asset class benchmark in the Asset Allocation, or closely replicate an index which plays a role in more closely aligning a TMRS asset class portfolio with its asset class benchmark. Enhanced core fixed income strategies are considered Passive Public Markets Strategies.

Private Markets Strategies. Strategies that are not invested in public markets securities, or cannot be redeemed from or have formal redemption windows exceeding one month. Hedge Funds are considered Private Market Strategies for purposes of Delegated Authority.

Registered Investment Adviser. An investment adviser is defined by the Securities and Exchange Commission (SEC) as an individual or a firm that is in the business of giving advice about securities and is registered as such with the SEC or a state's securities agency.

Trust Fund. Total TMRS investment assets held in trust for the benefit of members, retirees and beneficiaries and service of expenses of administering the System.



December 5, 2023

To: Board of Trustees

From: Tom Masthay, Deputy Chief Investment Officer 

Re: Agenda Item 13: Receive 2024 Investment Pacing Plan

Each December, Investment staff provides the Board with a Private Market Pacing Plan that shows projected private market asset allocations as a percentage of the total Trust Fund.

The 2024 Plan is attached and is available in the Diligent Resource Center, in the subfolder “Investment Pacing Plans” under “Investments.”

ATTACHMENT:

1 – 2024 Private Market Pacing Plan

2024 Private Markets Pacing Plan

Board of Trustees Meeting
Tom Masthay, Deputy CIO
December 14, 2023

Pacing Model Summary

Private market portfolios utilize pacing models because:

Timing of investment is uncertain. TMRS controls the timing of when capital is committed. Managers control when commitments are invested and investments sold.

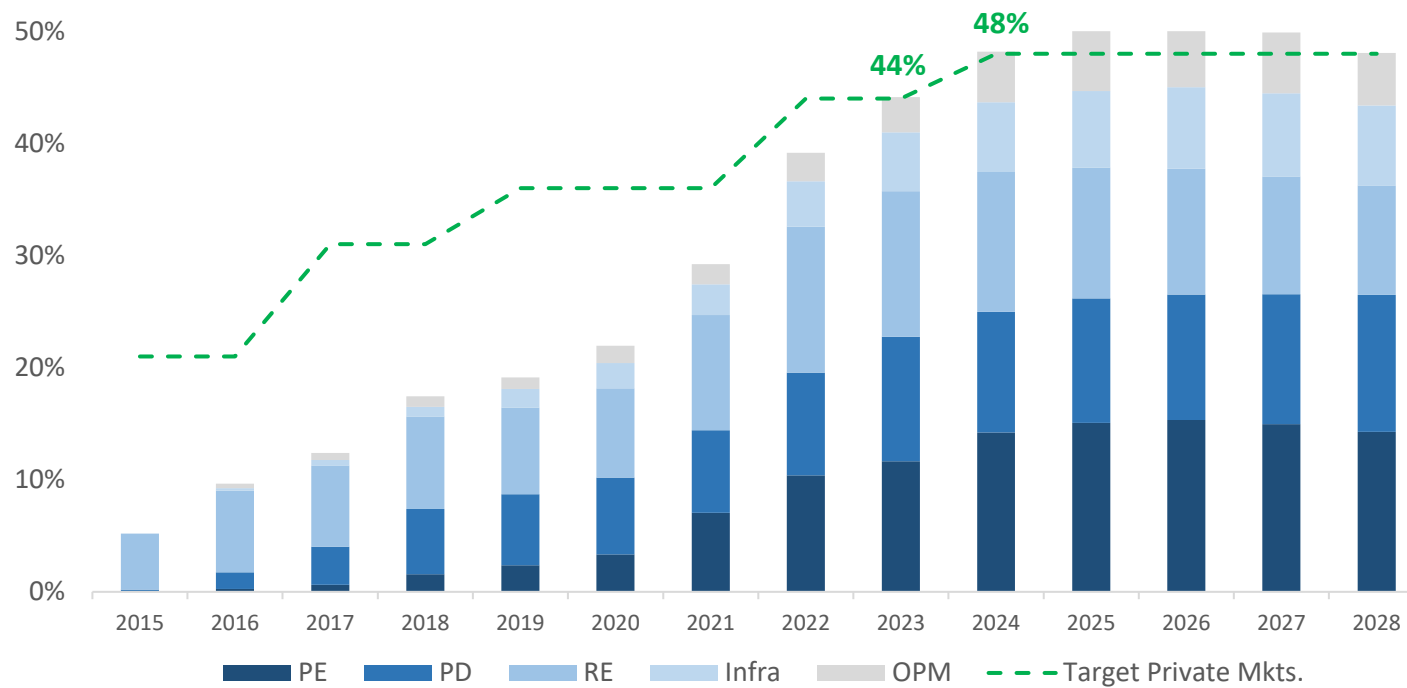
Diversification across vintage years is ideal. Market prices and investment activity fluctuate year to year. Relatively even pacing across vintage years tends to improve portfolio returns by reducing vintage year concentration risk.

Pacing models ensure capital deployment discipline. Pacing models optimize magnitude of new capital deployment. Alternatively, redemptions and secondary sales reduce exposure.

Private Market History & Projections

Private Markets Allocations

Actual 2015-23, Projected 2024-28



In recent years, staff have accelerated efforts to reach private market asset allocation targets.

Private market portfolios are now consistent with current target allocations and well positioned to quickly align with the new **2024 Private Markets Allocations target of 48%.**

2023 Pacing Budget Recap

| Asset Class (2023 Target → 2024 Target) | 2023 Budget \$ <i>millions</i> (min, max) | 2023 Total Exp. Commitments | In Planned Range |
|--|---|--------------------------------|------------------|
| Private Equity (10%→13%) | \$900 (\$600, \$1,200) | \$984 | Yes |
| Private Debt (10%→13%) | \$1,250 (\$500, \$2,000) | \$992 | Yes |
| Real Estate (12%→12%) | \$500 (\$250, \$500) | \$250 | Yes |
| OPPM (12%→10%) | \$1,250 (\$750, \$1,750) | \$673 | No |

Investment activity for Private Equity, Private Debt and Real Estate all met expectations for the year.

As part of asset allocation changes effective in 2024, OPPM was reduced and divided into infrastructure (6% target) and Other Private Markets (4%). Allocation levels were pared accordingly.

2024 Pacing Budget Summary

| Asset Class (Current, 2024 Target) | 2024 Budget \$ <i>millions</i> (min, max) |
|---------------------------------------|---|
| Private Equity (11.6%, 13%) | \$900 (\$600, \$1,000) |
| Private Debt (11.1%, 13%) | \$1,250 (\$1,000, \$1,750) |
| Real Estate (13.0%, 12%) | \$200 (\$0, \$600) |
| Infrastructure (5.3%, 6%) | \$500 (\$300, \$600) |
| Other Private Mkts. (3.1%, 4%) | \$200 (\$0, \$300) |

2024 pacing budgets are consistent with 2023 budgets. Adjustments have been made to account for 2024 asset allocation changes.

Ranges for asset classes have been calibrated to account for expected 2024 fundraising efforts of TMRS' best performing managers.



December 5, 2023

To: Board of Trustees

A handwritten signature in blue ink, appearing to read "D. J. Hunter", is positioned to the right of the "To:" line.

From: David J. Hunter, Chief Investment Officer

Re: Agenda Item 14: General Investment Consultant Quarterly Report

Sam Austin will discuss NEPC's Quarterly Investment Performance Report.

ATTACHMENT:

1 - NEPC 3Q 2023 Executive Summary



3Q 2023 QUARTERLY PERFORMANCE REPORT EXECUTIVE SUMMARY

DECEMBER 14, 2023

Samuel Austin, Partner



PROPRIETARY & CONFIDENTIAL

TOTAL FUND PERFORMANCE SUMMARY – NET RETURNS AS OF SEPTEMBER 30, 2023

COMPARED TO ASSET ALLOCATION BENCHMARK

| | Market Value (\$) | 1 Yr (%) | 5 Yrs (%) |
|-----------------------------|----------------------|-------------|--------------|
| Total Fund, Net of Fees | 37,215,699,769 | 10.15 | 5.51 |
| Actual Allocation Benchmark | | 9.03 | 4.15 |
| Over/Under | | 1.12 | 1.36 |

- **For the one-year period ended September 30, 2023, the Trust Fund returned 10.15%, exceeding the Asset Allocation Benchmark by 1.12%.**
 - Core and Non-Core Fixed Income, Real Estate, and Hedge Funds exceeded their respective benchmarks, while Global Equity, Other Public and Private Markets, and Private Equity trailed.
- **For the five-year ended September 30, 2023, the Trust Fund returned 5.51%, exceeding the Asset Allocation Benchmark by 1.36%.**
 - Core and Non-Core Fixed Income, Other Public and Private Markets, Real Estate, Hedge Funds, and Private Equity exceeded their respective benchmarks, while Global Equity trailed.

TOTAL FUND PERFORMANCE SUMMARY – NET RETURNS AS OF SEPTEMBER 30, 2023

COMPARED TO OTHER PUBLIC PENSION PLANS GREATER THAN \$10
BILLION IN ASSETS

| | 1 Yr (%) | Quartile Rank | 5 Yrs (%) | Quartile Rank |
|--|--------------|-----------------------|--------------|-----------------------|
| Total Fund, Net of Fees | 10.15 | 2nd | 5.51 | 4th |
| Actual Allocation Benchmark | 9.03 | 4 th | 4.15 | 4 th |
| Strategic Target Allocation Index | 10.16 | 2 nd | 5.14 | 4 th |
| <i>InvMetrics Public DB > \$10 Billion Median</i> | <i>9.75</i> | | <i>6.36</i> | |

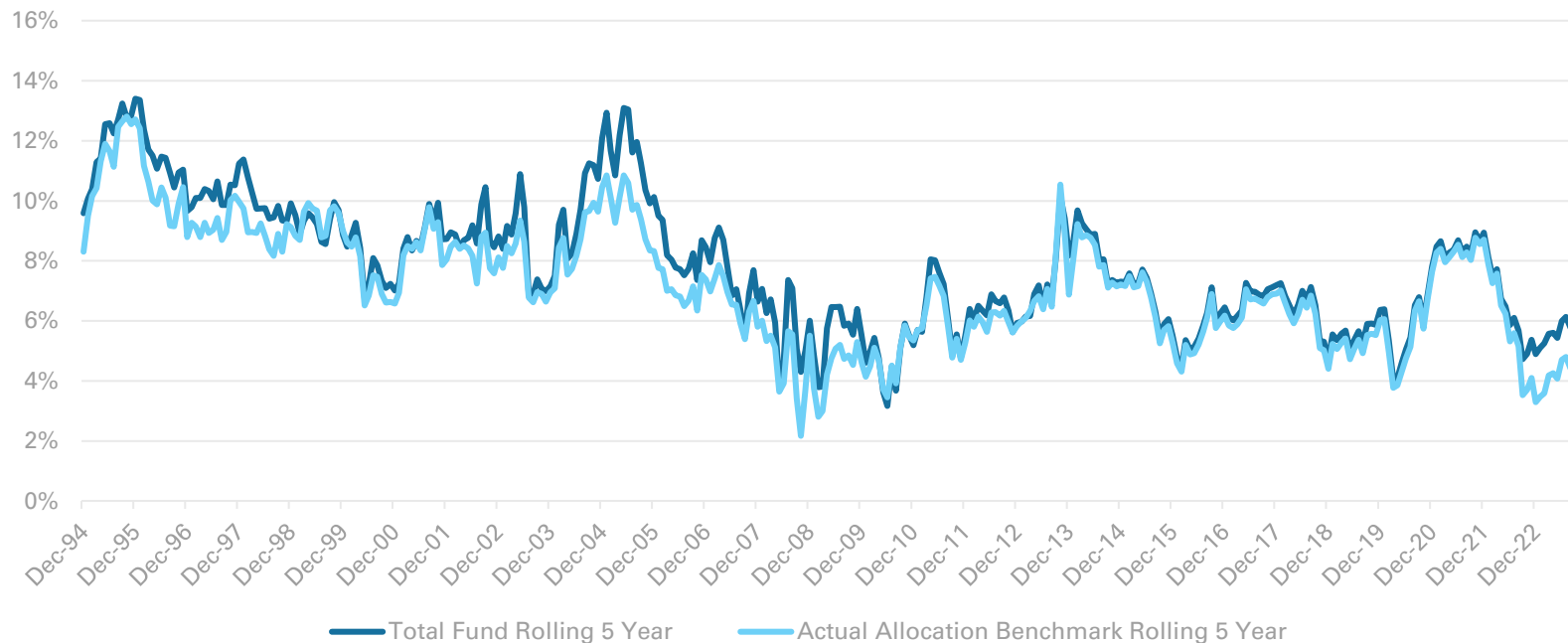
- For the one-year ended September 30, 2023, the Trust Fund returned 10.15% and ranked in the second quartile among other Public Defined Benefit Plans greater than \$10 billion in assets.
- For the five-years ended September 30, 2023, the Trust Fund returned 5.51% and ranked in the fourth quartile among other Public Defined Benefit Plans greater than \$10 billion in assets.

TOTAL FUND PERFORMANCE AS OF SEPTEMBER 30, 2023

VERSUS ACTUAL ALLOCATION BENCHMARK

- The Trust Fund performance expectation is to exceed the Actual Allocation Benchmark over rolling five-year periods.
- In the five-year period ended September 30, 2023, TMRS outperformed the Actual Allocation Benchmark by 1.36%, net of fees.

Rolling 5 Year Total Fund Performance vs. Actual Allocation Benchmark



TOTAL FUND PERFORMANCE AS OF SEPTEMBER 30, 2023

VERSUS STRATEGIC TARGET ALLOCATION INDEX AND ASSUMED RATE OF RETURN

- For the five-year period ended September 30, 2023, the Trust Fund's net return of 5.51% trailed the Board's Assumed Long-Term Rate of Return of 6.75%.
- The five-year return for the Strategic Target Allocation Index was 5.14%, as of September 30, 2023.

Rolling 5 Year Total Fund Performance vs. Strategic Target Allocation Index vs. Historical Actuarial Rate of Return



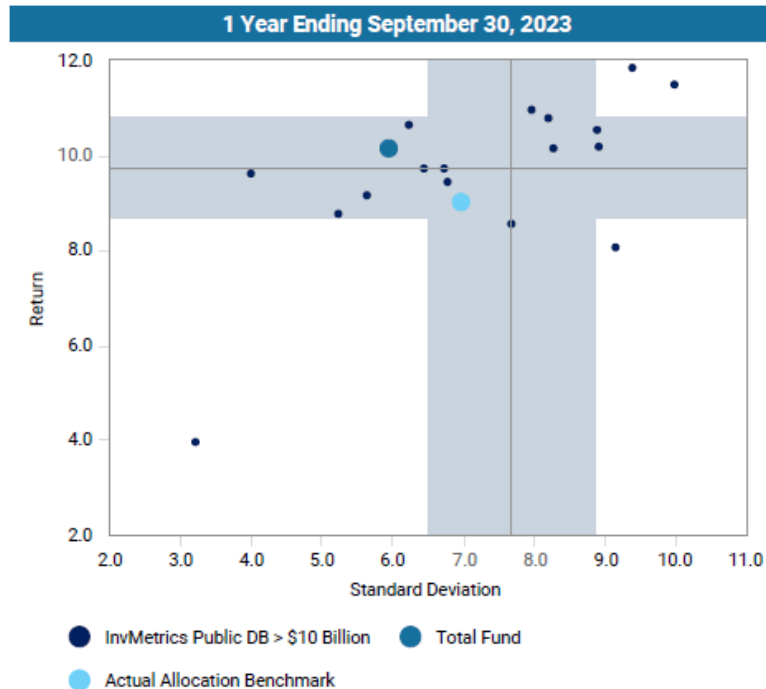
ASSET ALLOCATION COMPLIANCE AS OF SEPTEMBER 30, 2023

ACTUAL ASSET ALLOCATION VS. INVESTMENT POLICY ALLOCATION

| | Current (\$) | Current (%) | Policy (%) | Differences* (%) | Policy Range (%) | Within Range |
|------------------------------------|-----------------------|--------------|--------------|------------------|------------------|--------------|
| ■ Global Equity | 13,177,688,668 | 35.4 | 35.0 | 0.4 | 25.0 - 45.0 | Yes |
| ■ Non-Core Fixed Income | 7,349,165,327 | 19.7 | 20.0 | -0.3 | 15.0 - 25.0 | Yes |
| ■ Real Estate | 4,830,679,528 | 13.0 | 12.0 | 1.0 | 7.0 - 17.0 | Yes |
| ■ Private Equity | 4,333,931,529 | 11.6 | 10.0 | 1.6 | 5.0 - 15.0 | Yes |
| ■ Core Fixed Income | 2,182,034,593 | 5.9 | 6.0 | -0.1 | 1.0 - 11.0 | Yes |
| ■ Other Public and Private Markets | 3,075,922,608 | 8.3 | 12.0 | -3.7 | 7.0 - 17.0 | Yes |
| ■ Hedge Funds | 2,036,224,928 | 5.5 | 5.0 | 0.5 | 0.0 - 10.0 | Yes |
| ■ Cash Composite | 230,052,587 | 0.6 | 0.0 | 0.6 | 0.0 - 3.0 | Yes |
| Total Fund | 37,215,699,769 | 100.0 | 100.0 | 0.0 | | |

- Actual asset class allocations are in compliance with Investment Policy ranges as of September 30, 2023.

TOTAL FUND RISK VS. NET RETURN: ONE YEAR AS OF SEPTEMBER 30, 2023

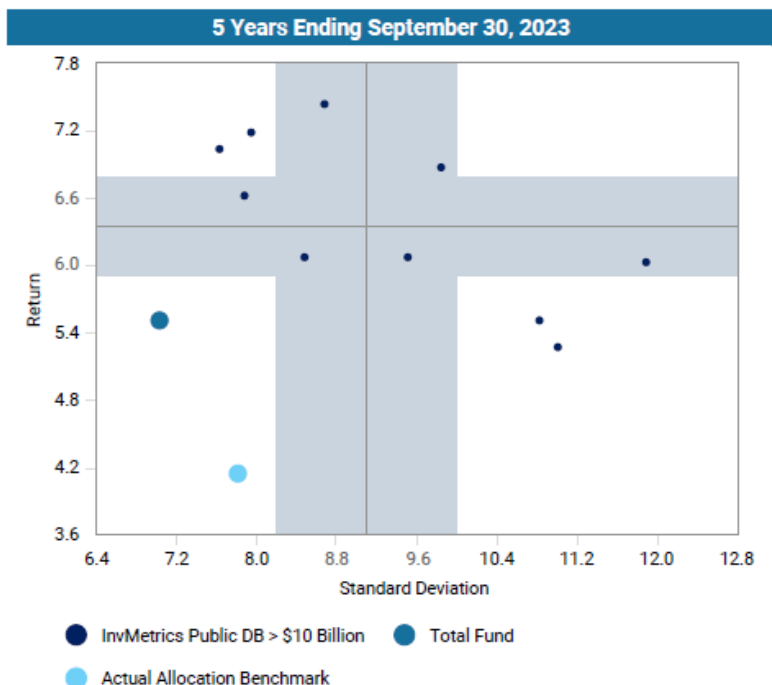


The Trust Fund generated a second quartile net investment return with lower risk, as measured by standard deviation, among other Public Defined Benefit Plans with more than \$10 billion in assets for the 1-year period ended September 30, 2023.

| 1 Year Ending September 30, 2023 | | | | | | |
|--|-------------|-----------------------|--------------|-----------------------|--------------|-----------------------|
| | Risk | Quartile Rank | Return | Quartile Rank | Sharpe Ratio | Quartile Rank |
| Total Fund | 5.94 | 1st | 10.15 | 2nd | 0.91 | 1st |
| <i>Actual Allocation Benchmark</i> | <i>6.97</i> | <i>2nd</i> | <i>9.03</i> | <i>4th</i> | <i>0.64</i> | <i>4th</i> |
| <i>InvMetrics Public DB > \$10 Billion Median</i> | <i>7.68</i> | | <i>9.75</i> | | <i>0.75</i> | |

- The Standard Deviation interquartile range is defined as the lowest Standard Deviation measuring in the first quartile.
- InvMetrics Public DB > \$10B Median includes 17 observations.

TOTAL FUND RISK VS. NET RETURN: FIVE YEARS AS OF SEPTEMBER 30, 2023



The Trust Fund underperformed in its peer universe due to having the least amount of risk as measured by standard deviation in the 5-year period, among other Public Defined Benefit Plans with more than \$10 billion in assets.

| 5 Year Ending September 30, 2023 | | | | | | |
|--|-------------|-----------------------|-------------|-----------------------|--------------|-----------------------|
| | Risk | Quartile Rank | Return | Quartile Rank | Sharpe Ratio | Quartile Rank |
| Total Fund | 7.03 | 1st | 5.51 | 4th | 0.55 | 2nd |
| <i>Actual Allocation Benchmark</i> | <i>7.81</i> | <i>1st</i> | <i>4.15</i> | <i>4th</i> | <i>0.34</i> | <i>4th</i> |
| <i>InvMetrics Public DB > \$10 Billion Median</i> | <i>9.09</i> | | <i>6.36</i> | | <i>0.54</i> | |

- The Standard Deviation interquartile range is defined as the lowest Standard Deviation measuring in the first quartile.
- InvMetrics Public DB > \$10B Median includes 10 observations.

PERFORMANCE DETAIL AS OF SEPTEMBER 30, 2023

| | Allocation | | Performance (%) | | | | | | | | |
|--|-----------------------|----------------|-----------------|---------------|---------------|--------------|--------------|--------------|--------------|---------------|----------------|
| | Market Value (\$) | % of Portfolio | 3 Mo (%) | YTD (%) | 1 Yr (%) | 3 Yrs (%) | 5 Yrs (%) | 7 Yrs (%) | 10 Yrs (%) | Inception (%) | Inception Date |
| Total Fund | 37,215,699,769 | 100.0 | -0.44 | 5.86 | 10.15 | 6.32 | 5.51 | 6.31 | 6.01 | 8.08 | Jan-89 |
| Actual Allocation Benchmark | | | <u>-0.72</u> | <u>6.98</u> | <u>9.03</u> | <u>4.03</u> | <u>4.15</u> | <u>5.19</u> | <u>5.19</u> | <u>7.41</u> | |
| Over/Under | | | 0.28 | -1.12 | 1.12 | 2.29 | 1.36 | 1.12 | 0.82 | 0.67 | |
| Strategic Target Allocation Index | | | <u>-0.52</u> | <u>7.57</u> | <u>10.16</u> | <u>5.03</u> | <u>5.14</u> | <u>6.18</u> | <u>6.03</u> | <u>7.68</u> | |
| Over/Under | | | 0.08 | -1.71 | -0.01 | 1.29 | 0.37 | 0.13 | -0.02 | 0.40 | |
| Global Equity | 13,177,688,668 | 35.4 | -3.32 | 9.43 | 20.13 | 6.31 | 5.40 | 7.90 | 7.43 | 5.58 | Jan-08 |
| Total Equity Index | | | <u>-3.40</u> | <u>9.39</u> | <u>20.16</u> | <u>6.88</u> | <u>6.11</u> | <u>8.48</u> | <u>7.77</u> | <u>5.76</u> | |
| Over/Under | | | 0.08 | 0.04 | -0.03 | -0.57 | -0.71 | -0.58 | -0.34 | -0.18 | |
| Core Fixed Income | 2,182,034,593 | 5.9 | -3.08 | -1.09 | 1.15 | -5.06 | 0.37 | 0.19 | 1.31 | 6.38 | Jan-89 |
| Fixed Income Benchmark | | | <u>-3.23</u> | <u>-1.21</u> | <u>0.64</u> | <u>-5.21</u> | <u>0.10</u> | <u>-0.09</u> | <u>1.13</u> | <u>5.89</u> | |
| Over/Under | | | 0.15 | 0.12 | 0.51 | 0.15 | 0.27 | 0.28 | 0.18 | 0.49 | |
| Non-Core Fixed Income | 7,349,165,327 | 19.7 | 2.62 | 6.92 | 7.44 | 4.69 | 4.51 | 4.83 | | 4.32 | Oct-14 |
| Total Non-Core Fixed Income Weighted Index | | | <u>-1.09</u> | <u>2.81</u> | <u>0.74</u> | <u>-0.33</u> | <u>1.28</u> | <u>2.27</u> | | <u>2.15</u> | |
| Over/Under | | | 3.71 | 4.11 | 6.70 | 5.02 | 3.23 | 2.56 | | 2.17 | |
| Other Public and Private Markets | 3,075,922,608 | 8.3 | 2.22 | 11.76 | 17.74 | 7.94 | 6.00 | 5.02 | 4.26 | 4.41 | Feb-11 |
| Total Real Return Index | | | <u>5.87</u> | <u>22.85</u> | <u>22.90</u> | <u>4.84</u> | <u>3.87</u> | <u>3.61</u> | <u>3.40</u> | <u>3.65</u> | |
| Over/Under | | | -3.65 | -11.09 | -5.16 | 3.10 | 2.13 | 1.41 | 0.86 | 0.76 | |
| Real Estate | 4,830,679,528 | 13.0 | -0.91 | -3.49 | -1.51 | 11.18 | 8.28 | 8.92 | 10.49 | 9.92 | Nov-11 |
| Real Estate Benchmark | | | <u>-2.88</u> | <u>-11.01</u> | <u>-10.73</u> | <u>7.27</u> | <u>6.07</u> | <u>6.66</u> | <u>8.52</u> | <u>9.21</u> | |
| Over/Under | | | 1.97 | 7.52 | 9.22 | 3.91 | 2.21 | 2.26 | 1.97 | 0.71 | |
| Hedge Funds | 2,036,224,928 | 5.5 | 2.32 | 5.29 | 6.33 | 4.97 | 4.54 | 5.45 | | 4.47 | Aug-14 |
| Hedge Funds Benchmark | | | <u>2.06</u> | <u>2.57</u> | <u>0.35</u> | <u>5.38</u> | <u>4.41</u> | <u>4.50</u> | | <u>3.47</u> | |
| Over/Under | | | 0.26 | 2.72 | 5.98 | -0.41 | 0.13 | 0.95 | | 1.00 | |
| Private Equity | 4,333,931,529 | 11.6 | 2.05 | 3.31 | 1.98 | 23.37 | 18.29 | 18.30 | | 15.88 | Dec-15 |
| Private Equity Index | | | <u>5.89</u> | <u>24.39</u> | <u>16.14</u> | <u>13.39</u> | <u>12.45</u> | <u>14.10</u> | | <u>12.20</u> | |
| Over/Under | | | -3.84 | -21.08 | -14.16 | 9.98 | 5.84 | 4.20 | | 3.68 | |
| Cash Composite | 230,052,587 | 0.6 | 1.36 | 4.10 | 4.98 | 1.95 | 1.80 | 1.56 | 1.25 | 0.91 | Jun-08 |
| FTSE 1 Month US T-Bill index | | | <u>1.36</u> | <u>3.70</u> | <u>4.61</u> | <u>1.74</u> | <u>1.68</u> | <u>1.50</u> | <u>1.07</u> | <u>0.76</u> | |
| Over/Under | | | 0.00 | 0.40 | 0.37 | 0.21 | 0.12 | 0.06 | 0.18 | 0.15 | |

COMPOSITE BENCHMARK DEFINITIONS AS OF SEPTEMBER 30, 2023

Composite Benchmark Comments

The Actual Allocation Benchmark is calculated monthly using beginning of month asset class weights applied to each corresponding benchmark return and currently consists of the following:

- Total Equity Benchmark
- Fixed Income Benchmark
- Non-Core Fixed Income Benchmark
- OPFM Benchmark
- Real Estate Benchmark
- Hedge Funds Benchmark
- Private Equity Benchmark
- FTSE 30 Day T-Bill Index

The Strategic Target Allocation Index represents asset allocation targets adopted historically and currently consists of the following:

- 35.0% Total Equity Benchmark
- 6.0% Fixed Income Benchmark
- 20.0% Non-Core Fixed Income Benchmark
- 12.0% OPFM Benchmark
- 12.0% Real Estate Benchmark
- 5.0% Hedge Funds Benchmark
- 10.0% Private Equity Benchmark

Asset Class Composite Benchmarks:

The Total Equity Benchmark is calculated monthly and consists of 50% Russell 3000 Index and 50% MSCI EAFE Index (USD) (Net) through 07/31/2010; a blend of the Russell 3000 Index, MSCI ACW Ex US IM Index (USD) (Net) and MSCI EAFE Index (USD) (Net) at beginning of month investment weights through 11/30/2012; and a blend of the Russell 3000 Index and MSCI ACW Ex US IM Index (USD) (Net) at beginning of the month weights through 12/31/2018; and MSCI ACW IM Index (USD) (Net) thereafter.

The Fixed Income Benchmark is calculated monthly and consists of the Bloomberg US Gov't Crdt Lng Trm Bond Index through 06/30/2009; Bloomberg US Agg Bond Index thereafter.

The Non-Core Fixed Income Benchmark is calculated monthly using beginning of the month sub-asset class weights within the Non-Core Fixed Income Composite applied to each sub-asset class primary benchmark return through 6/30/2021, and the Bloomberg US Agg Bond Index + 1.5% on an unlagged, month lagged, or quarter lagged basis in proportion of the managers in the composite on an unlagged, month lagged, or quarter lagged basis.

The OPFM Benchmark is calculated monthly using beginning of the month sub-asset class weights within the OPFM Composite applied to each sub-asset class primary benchmark return through 6/30/2021, and the MSCI ACW IM Index (USD) (Net) on an unlagged, month lagged, or quarter lagged basis in proportion of the managers in the composite on an unlagged, month lagged, or quarter lagged basis.

The Real Estate Benchmark is the NCREIF ODCE Index (Gross), one quarter lag through 06/30/2021, and NCREIF ODCE Index (Net), one quarter lag thereafter.

The Hedge Funds Benchmark is calculated monthly and consists of the HFRI FOF: Dv'd Index (1 Mo Lag) through 6/30/2021, and HFRI Asset Weighted Composite Index (1 Mo Lag) thereafter.

The Private Equity Benchmark is set equal to the Composite return through 6/30/2021, and MSCI ACW IM Index (USD) (Net), one quarter lag thereafter.



December 5, 2023

To: Board of Trustees

From: David J. Hunter, Chief Investment Officer

Re: Agenda Item 15: Board Education: Fixed Income Asset Class

A handwritten signature in blue ink, appearing to read "D. Hunter", is written over the "From:" line of the memo.

In accordance with the Investment Policy Statement, comprehensive asset class reviews are conducted annually. At the December Board meeting, Portfolio Director Darren Schlissel will present the Fixed Income asset class review.

The presentation material is available in the Diligent Resource Center in the tab titled "December 14, 2023, Board Meeting."

Annual Review: Fixed Income

Board of Trustees Meeting
Darren Schlissel, Portfolio Director
December 14, 2023

Fixed Portfolio Expectations

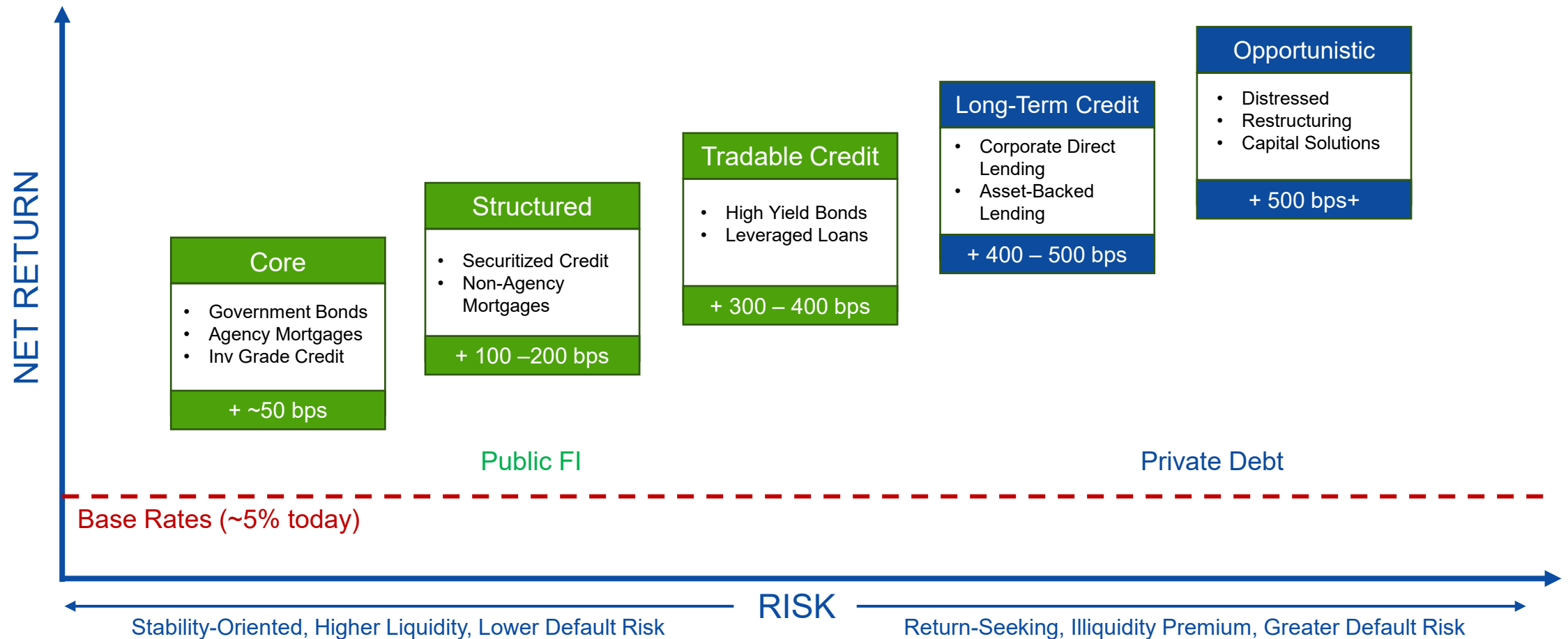
Allocations to fixed income asset classes are intended to diversify Trust Fund risk through **capital preservation, income, and capital appreciation**. TMRS' asset allocation divides fixed income asset classes as follows:

Core Fixed Income (6% target allocation) – TMRS utilizes a passive strategy to replicate the core fixed income index.

Non-Core Fixed Income (20% “NCFI” target allocation) – NCFI seeks to deliver higher returns than core fixed income by pursuing higher yielding strategies.

Effective January 1, 2024, NCFI will be divided into: NCFI (6%) and Private Debt (13%) target allocations.

Fixed Income Investment Strategies



Core Fixed Income Performance Review

As of September 30, 2023

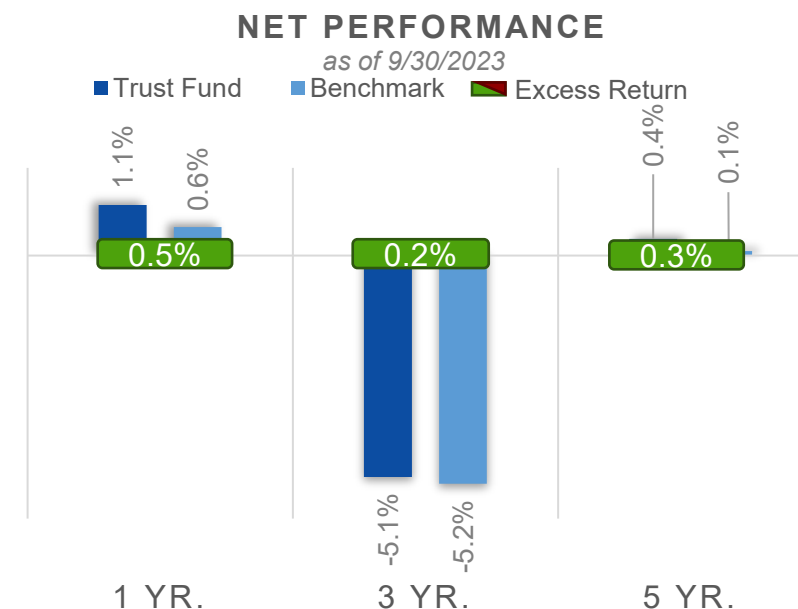
Core Fixed Income investments transitioned to a passive mandate in 2Q 2023.

\$2.2 Billion

Portfolio Value

1

Manager



The Core Fixed Income portfolio value is now earning substantial income in this higher interest rate environment.

NCFI Performance Review

As of September 30, 2023

NCFI has historically included private debt within its allocation.

\$2.8 Billion

Public NCFI Portfolio Value

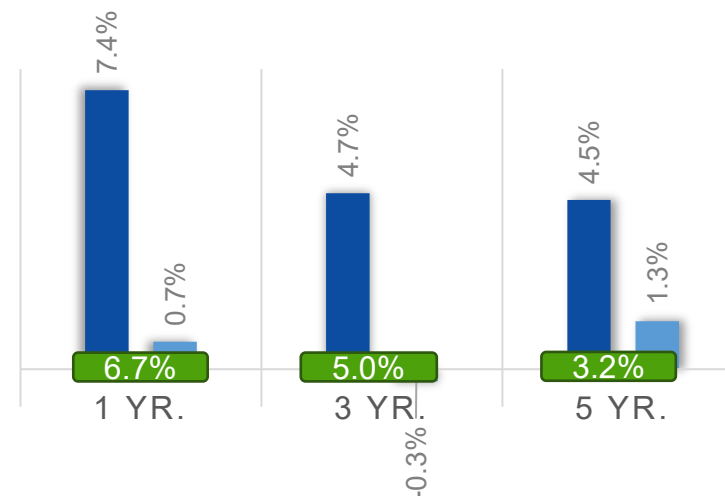
\$4.5B

Private Debt Portfolio Value

NET PERFORMANCE

as of 9/30/2023

■ Trust Fund ■ Benchmark ■ Excess Return

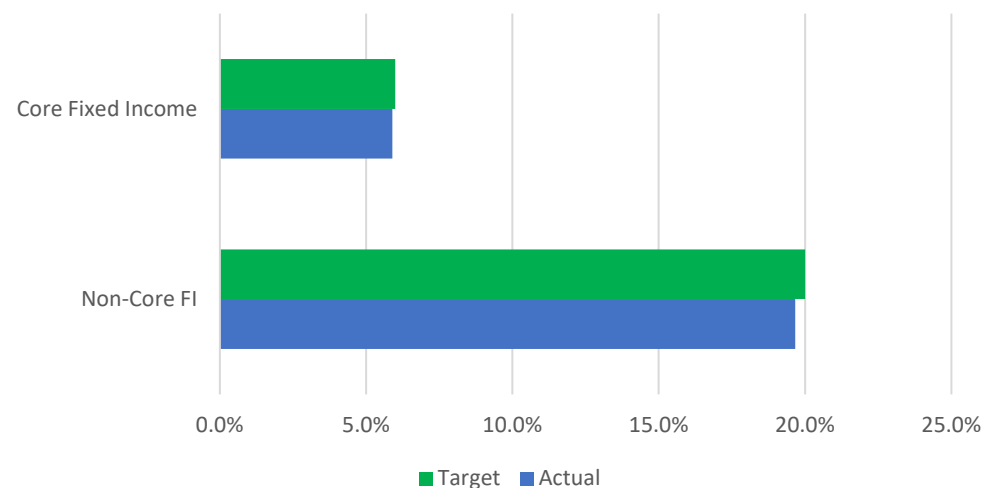


The Non-Core Fixed Income portfolio construction will be adjusted according to asset allocation and benchmark changes taking effect January 1, 2024.

Fixed Income Asset Allocation

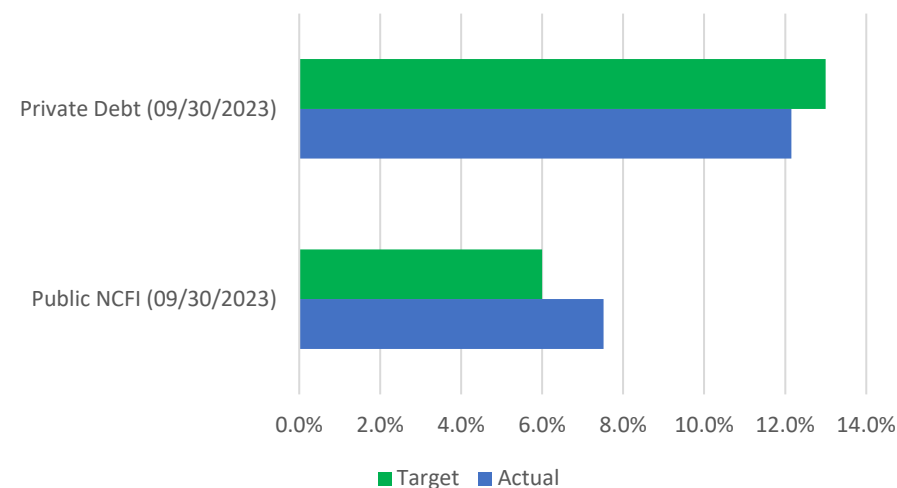
Actual Allocation vs. Targets

As of 9/30/23 vs. Current Asset Allocation



NCFI Actual Allocation vs. Targets

As of 9/30/23 vs. 2024 Asset Allocation

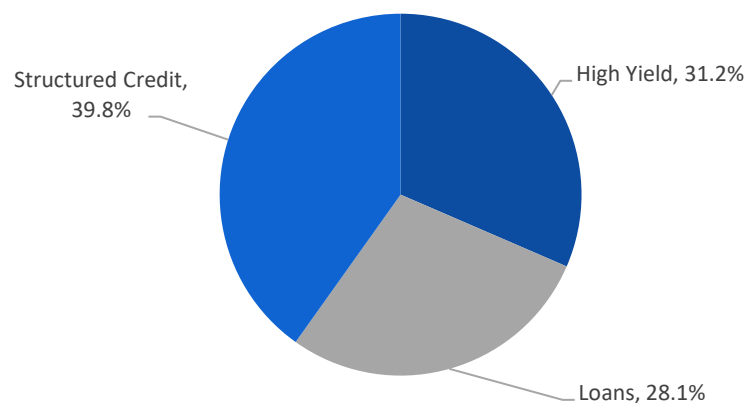


The portfolio is well positioned relative to current and updated asset allocation targets.

NCFI Portfolio Construction

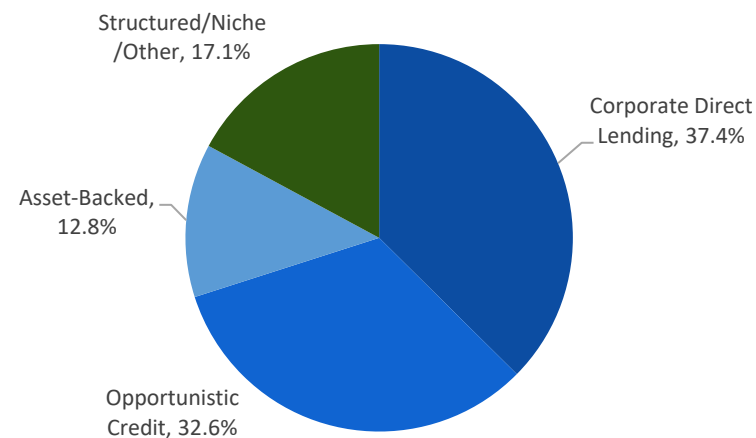
Non-Core Fixed Income (Public)

As of 9/30/2023



Non-Core Fixed Income (Private)

As of 9/30/2023



The Non-Core Fixed Income portfolios offer significant diversity of underlying asset type and investment strategy

Portfolio Statistics

Core Fixed Income

5.4%

Estimated Gross Yield

Public NCFI

9.2%

Estimated Gross Yield

Private Debt

11.0%

Estimated Gross Yield

Both Core and Non-Core Fixed Income yields remain near the highest sustained levels in the last 20 years. New investment activity is focusing on private debt due to high yields.

Accomplishments & Planning

2023 Goals

Goals presented at December 2022 Board meeting



Opportunistically target complementary strategies.

~\$1.0B of new commitments were made, consistent with budgeted deployment levels.



Identify ways to rationalize and optimize TMRS' current fixed income manager structure.

Reassignment of incumbent credit strategies in other asset classes implemented to help align with asset allocation effective 1/1/2024.



Intelligently source quality investment opportunities

New technology resources being utilized to focus and improve sourcing efforts.

2024 Goals



Align Public NCFI portfolio with new benchmark. Ensure that underlying interest rate and credit risks are matched to the new portfolio benchmark weightings.



Diversify and optimize private debt strategies
Expand portfolio breadth and existing manager flexibility in light of the increasing sophistication and differentiation of private debt strategies.



Identify and execute complementary strategies.
The FI team's goal is to commit approx. \$1.25 billion of capital in 2024.



December 5, 2023

To: Board of Trustees

From: David J. Hunter, Chief Investment Officer

A handwritten signature in blue ink, appearing to read 'D. Hunter', is written over the 'From:' line and extends slightly into the 'Re:' line.

Re: Agenda Item 16: Board Education: Private Equity Asset Class

In accordance with the Investment Policy Statement, comprehensive asset class reviews are conducted annually. At the December Board meeting, Portfolio Director Josh Garcia will present the Private Equity asset class review.

The presentation material is available in the Diligent Resource Center in the tab titled "December 14, 2023, Board Meeting."

Board Education: Private Equity

Board of Trustees Meeting
Josh Garcia, Portfolio Director
December 14, 2023

Private Equity Portfolio Expectations

The purpose of the Private Equity asset class is to **enhance the total return** and **diversification** of TMRS' Trust Fund. As the TMRS Private Equity portfolio is implemented through private markets strategies which are expected to be **illiquid and long-term** in nature.

Within the institutional market, private equity is expected to provide the following additional portfolio benefits:

- Excess annual return above public equities
- Highest multiple of invested capital
- Access to business profiles not available in public markets

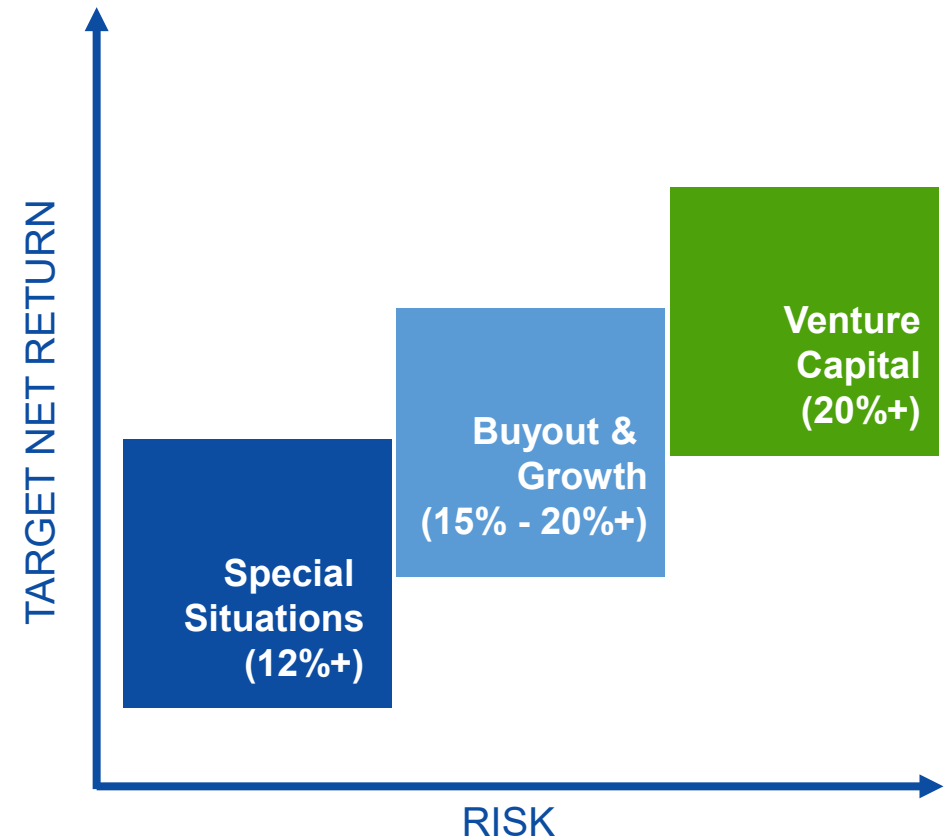
Private Equity Strategies

Private Equity pursues the following strategies:

Buyout/Growth – Control or influence positions in profitable or near-profitable businesses with the goal of growth and operational improvements.

Venture Capital – Typically minority positions in companies pursuing new technologies, products and markets.

Special Situations – Special situations are opportunities that do not fit neatly into pre-defined boxes but are expected to earn private equity like returns.

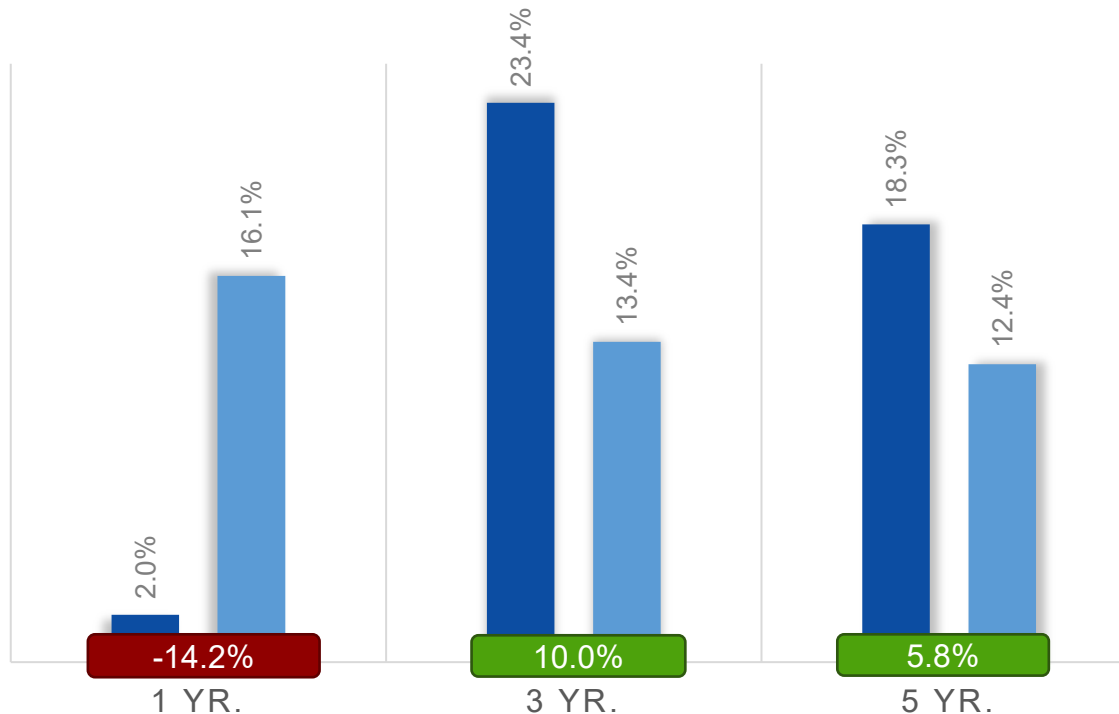


Performance

As of September 30, 2023

NET ANNUALIZED PERFORMANCE

■ Trust Fund ■ Benchmark ■ Excess Return



Private equity market valuations respond slowly to public market valuation changes. As such, private equity will lag public markets when public equity is rising sharply. Effective January 1, 2024, PE performance will be measured against a benchmark tracking private equity fund investments. The benchmark is currently a public markets index.

19.1%

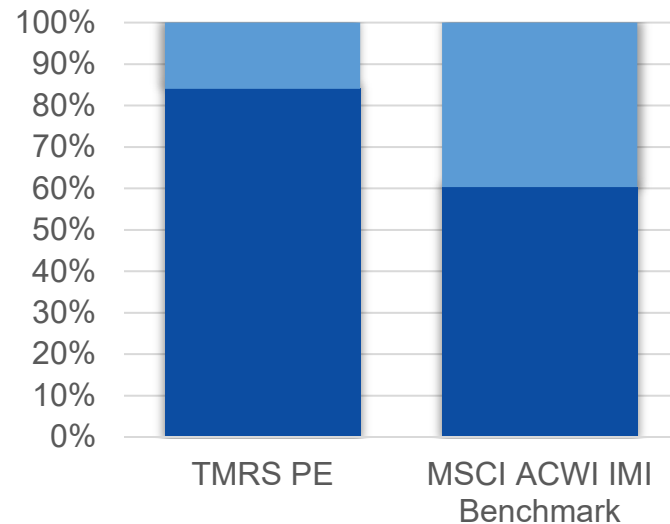
Inception to Date IRR. MSCI ACWI returned 9.3% over the same time.

Portfolio Construction

As of September 30, 2023

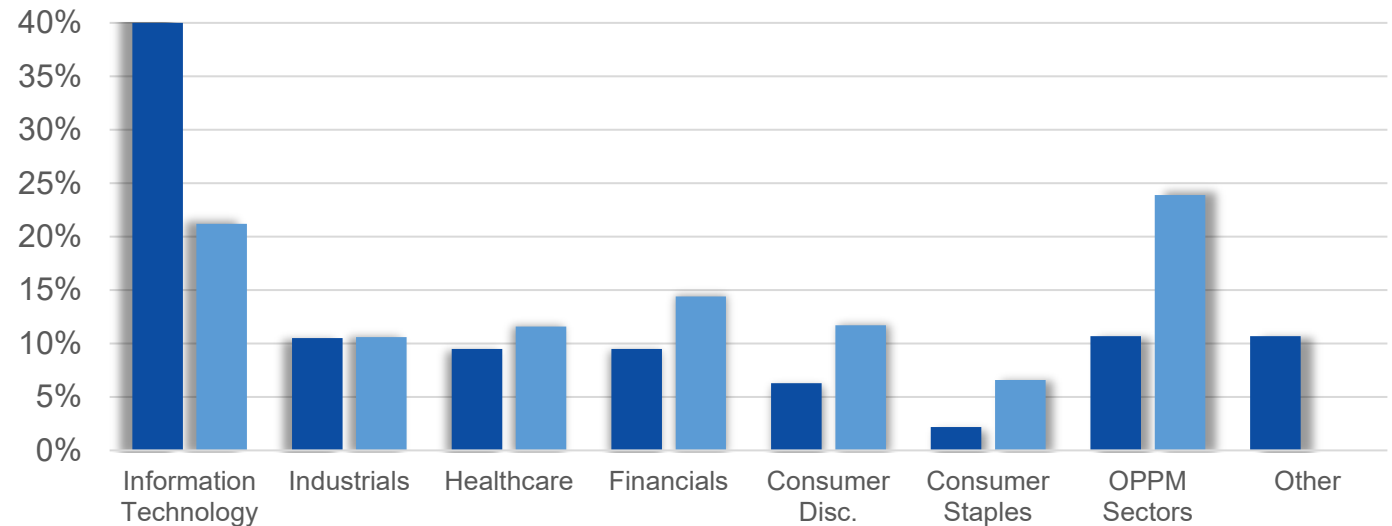
Geographic Diversification

■ US ■ International



Global Industry Classification Standard (GICS) Diversification

■ TMRS ■ MSCI ACWI



\$6.1bn
COMMITMENTS

\$4.3bn
NET ASSET VALUE

56%
FUNDED

Co-Investment Program

\$595M

Net Asset Value

+171M year-over-year

0.2%

Management Fee

vs. 2% for industry standard fund

11%

Carried Interest

vs. 20% for industry standard fund

Staff's co-investment program reduces costs by investing more directly with GPs.

Accomplishments & Planning

2023 Goals

Goals presented at September 2022 Board meeting



Commit \$900mm +/- \$300mm of capital.
\$984 million of capital commitments made in 2023.

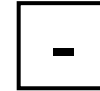


Continue to scale co-investments
\$171 million increase in NAV year-over-year. More direct structures accessed.

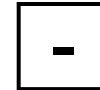


Maintain performance edge
While PE retraced gains relative to public markets, long-term performance edge has been maintained.

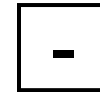
2024 Goals



Commit \$600M to \$1.0B of capital.
Maintain vintage diversification while advancing efforts to reach 13% PE target.



Reduce costs/scale co-investment program.
Continue to increase co-invest as % of overall PE portfolio. Increase percentage of more direct structures as % of co-invest.



Focus on high performance relationships.
Concentrate with goal of improving performance and enhancing co-invest flow.