



## **AGENDA**

### **Meeting of the Board of Trustees**

**Thursday, December 8, 2022 – 8:30 a.m.**

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

#### **Zoom Link for Public:**

<https://tmrs.zoom.us/j/86293450742?pwd=RnhtVnRidk5JNnE3N2pWeG14T3NJUT09>

*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.** *Jesús Garza*
  - a. Approve Minutes from the September 21 and 22, 2022, and October 27 and 28, 2022 Board of Trustees meetings
  - 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, 2022
    - 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

### **Advisory Committee on Benefit Design**

- 2. [Consider and Act on Appointments to the Advisory Committee on Benefit Design.](#) *Debbie Muñoz*

### **Audit Committee Report**

- 3. [Report on Audit Committee's November 16, 2022 Meeting and Consider and Act on 2023 – 2024 Audit Plan.](#) *Bill Philibert, David Landis, and Mike Apperley*

### **Board Organization**

- 4. [Consider and Act on 2023 Board Meeting Dates.](#) *Jesús Garza*
- 5. [Consider and Act on Election of 2023 Board Officers.](#) *Jesús Garza*
- 6. [Consider and Act on 2023 Board Committee Appointments.](#) *Jesús Garza*

### **Executive Director Reports**

- 7. [Executive Director's Report.](#) *David Wescoe*
- 8. [Receive Senior Staff Quarterly Reports.](#) Chief Administrative Officer (*Sandra Vice*), Chief Legal Officer (*Christine Sweeney*), Chief Service Officer (*Debbie Muñoz*), and Director of Governmental Relations (*Dan Wattles*).

### **Strategic Planning**

- 9. [Consider and Act on TMRS Strategic Plan and Mission, Vision and Values.](#) *Jesús Garza and David Wescoe*

### **Actuarial Services**

- 10. [Consider and Act on Supplemental Death Benefit Fund Assumptions and 2024 Rates.](#) *Leslee Hardy*

## **Finance Reports**

11. [Consider and Act on Proposed 2023 Operating, Capital and PASMod Program Budgets.](#) *Candace Nolte*
12. [Consider and Act on Resolution Transferring Monies from Interest Reserve Account to Expense Fund.](#) *Candace Nolte*

## **Investment Reports**

13. [Chief Investment Officer's Reports.](#) *David Hunter*
  - a. CIO Report
  - b. Trust Fund Report: Third Quarter 2022
  - c. Receive 2022 Annual Completed Investments Report
14. [Consider and Act on Amendments to the Investment Policy Statement.](#) *David Hunter*
15. [Receive Third Quarter 2022 Investment Compliance Report.](#) *Michele Fullon*
16. [Receive 2023 Investment Pacing Plan.](#) *David Hunter*
17. [Discuss Risk Appetite Survey Results.](#) *Sam Austin, NEPC*
18. [Discuss Annual Asset Allocation Review.](#) *David Hunter and Sam Austin, NEPC*
19. [General Investment Consultant Quarterly Report.](#) *Sam Austin, NEPC*

## **Board Education**

20. [Board Education: Fixed Income Asset Class.](#) *Darren Schulz*
21. [Board Education: Hedge Funds Asset Class.](#) *Timothy Sweeney*

*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.*

## **Future Board Agenda Items**

22. **Call for Future Agenda Items.** *Jesús Garza*

*Adjournment*

***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.***



November 29, 2022

**To: Board of Trustees**

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

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

The Consent Agenda includes:

- Minutes from the September 21 and 22, 2022 Board meetings and the October 27 and 28, 2022 Board Retreat;
- 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 2022 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, 2023. 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, 2023. 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 Board meeting in 2023.

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 21 and 22, 2022 Board meetings and the October 27 and 28, 2022 Board Retreat 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 21, 2022 – 3:00 p.m.**

The Board of Trustees of the Texas Municipal Retirement System (TMRS) convened for a meeting at 3:00 p.m. at the TMRS office, located at 2717 Perseverance, Suite 300 in Austin, Texas, with the following Trustees present: Chair Jesús Garza, Vice Chair Bob Scott, Anali Alanis, Johnny Huizar, David Landis, and Bill Philibert.

Staff and consultants present included: David Wescoe (Executive Director), Christine Sweeney (Chief Legal Officer), Madison Jechow (Assistant General Counsel) and consultant Dr. Anthony Picchioni.

Mr. Garza called the meeting to order at 3:00 p.m.

**Executive Session**

**1. Executive Session.**

The Board went into Executive Session at 3:00 p.m. The meeting reconvened in Open Meeting at 4:56 p.m. No action was taken during the Executive Session. All members of the Board who were present before the Executive Session were present.

After returning to open session, Mr. Garza moved that the compensation for the Executive Director be increased by 14.28% and that the Executive Director also receive a one-time lump sum of equal amount. Mr. Landis seconded the motion, which passed 6-0.

There being no further business, Mr. Garza adjourned the meeting at 4:57 p.m.

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David B. Wescoe  
Executive Director

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Jesús A. Garza  
Chair, Board of Trustees



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

**September 22, 2022 – 8:30 a.m.**

The Board of Trustees of the Texas Municipal Retirement System (TMRS) convened for a meeting at 8:30 a.m. at the TMRS office, located at 2717 Perseverance, Suite 300 in Austin, Texas, with all Trustees present: Chair Jesús Garza, Vice Chair Bob Scott, Anali Alanis, Johnny Huizar, David Landis, and Bill Philibert.

Staff and consultants present included: David Wescoe (Executive Director), Christine Sweeney (Chief Legal Officer), David Hunter (Chief Investment Officer), Sandra Vice (Chief Administrative Officer), Rhonda Covarrubias (Director of Finance), Candace Nolte (Assistant Finance Director), Michele Fullon (Investment Compliance Officer), Tom Masthay (Deputy Chief Investment Officer), Josh Garcia (Senior Investment Analyst), Darren Schulz (Portfolio Director), Marcia Beard (RVK), Sam Austin (NEPC) and Greg Carpenter (Strategic Planning Consultant).

Mr. Garza called the meeting to order at 8:30 a.m.

**Consent Agenda**

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

Mr. Scott moved that the Board adopt the Consent Agenda, including the Minutes from the June 23, 2022, meeting. Mr. Garza and Mr. Huizar seconded the motion, which passed 6-0.

**Executive Director Reports**

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

Mr. Wescoe said that the Pension Administration System Modernization project (PASMod) would be completed on schedule for \$4.3 million, or \$6.2 million less than the original project estimates. PASMod's new City Contribution System will allow participating cities to report their monthly compensation and make contributions electronically. TMRS now has an online scheduling tool that allows Members to request a counseling session. The TMRS mobile app has been upgraded with this tool and additional information. Mr. Wescoe testified at a hearing of the Texas House Pensions, Investments and Financial Services Committee and reported that TMRS was fully divested from Russian assets. Mr. Wescoe and other staff members spoke at recent conferences in Texas hosting municipal information officers, city managers, local firefighters, law enforcement officers and at national conferences for institutional investors. TMRS hosted its annual training seminar, and it was the best attended ever with more than 1,000 city contacts participating. Mr.



Wescoe said that Debbie Muñoz was promoted to Chief Service Officer and Jennifer Andrews, who has led the City Contribution System project, was promoted to Director of Member and City Service. He recognized Ms. Alanis for being named Interim City Manager for the City of Pharr.

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

Mr. Wescoe presented the Senior Staff Quarterly Reports to the Board.

**4. Receive Update Concerning Sale of the TMRS 1200 North Interstate 35 Building.**

Mr. Wescoe said the sale of the previous TMRS office building closed on September 7, and TMRS deposited sales proceeds of \$36 million in the Trust Fund. Mr. Wescoe thanked Mr. Philibert for encouraging the process in 2020.

**Budget and Compensation Committee Reports**

**5. Report on Budget and Compensation Committee's Meeting.**

Ms. Vice said that the Committee met with staff two weeks ago. First, the Committee approved certain staff salary adjustments that needed Committee review under TMRS compensation guidelines. Second, the Committee reviewed and discussed with staff the proposed 2023 TMRS budgets. Mr. Huizar said the proposed budget was well presented, adjustments from the prior year's budget were justified, and the Committee supported the budget proposals. Mr. Scott agreed and said that a proposed increase in Information Services staffing showed how integrated information technology was in TMRS and how important cybersecurity practices were.

**6. Discuss 2023 Draft Operating, Capital and PASMod Program Budgets.**

Ms. Vice announced that Ms. Covarrubias is retiring after 28 years with TMRS. Mr. Scott discussed the important role Ms. Covarrubias played over the years and thanked her for her service. Ms. Vice said that Ms. Nolte, who has been with TMRS for more than 20 years, will become the Director of Finance.

Ms. Vice said the proposed operating budget is only slightly higher than the 2022 budget. Ms. Covarrubias said the draft operating budget totals \$37.5 million. The personnel budget includes six new positions in Information Services and reduction of four positions in Investments. The personnel budget includes a four percent merit adjustment. The budget maintains a contribution rate of 15.95% to TMRS, which is higher than actuarially calculated so that TMRS models for its participating cities the advantages of holding at higher rates to pay off unfunded liabilities sooner. Professional services are budgeted to be 11% higher due to increased investment consulting fees and fees for an actuarial experience study that occurs once every four years. The capital budget is significantly lower and includes costs for only a mail folding machine. The amounts in the PASMod budget are holdback amounts for completion of the City Contribution System later this year. The proposed budget will be presented for approval in December.

## **Investment Reports**

### **7. Chief Investment Officer's Reports.**

Mr. Hunter said that the asset allocation was in line with the strategic target asset allocation. Trust Fund returns as of June 30 were -2.9% and 5.9% for the one-year and five-year periods. The five-year return exceeded the asset allocation benchmark by 54 basis points, which translates to about \$800 million in excess returns and ranks TMRS in the 70<sup>th</sup> percentile among public pensions with more than \$1 billion in assets. The one-year return beat the benchmark by 235 basis points and ranks TMRS in the 15<sup>th</sup> percentile among the same public pensions. The primary drivers of excess returns were Private Equity, Real Estate and Non-Core Fixed Income. TMRS closed more than \$475 million of new private market commitments in the second quarter and Private Equity and Real Estate are both at target allocations, with other private asset classes expected to meet targets within two years. The Investments team completed \$4.2 billion in investments between January 1 and September 13.

### **8. Report on IPS Committee Meetings.**

Mr. Hunter said the Investment Policy Statement (IPS) Review Committee met on September 21 and will present the revised IPS for approval in December.

Mr. Scott said the draft IPS puts in place certain controls and performance reporting and adds a proxy voting policy that includes hiring a proxy manager. Ms. Alanis thanked Investments staff and in-house counsel for completing the draft in language an average person can understand.

### **9. Receive Second Quarter 2022 Investment Compliance Report.**

Ms. Fullon said that more than 2000 automated tests were run by State Street and confirmed that investment managers were in compliance with their investment guidelines. Other testing also confirmed that TMRS was in compliance with all testable IPS guidelines.

### **10. Consider and Act on Non-Core Fixed Income Manager Recommendation.**

Mr. Schulz recommended a commitment to a fund-of-one with an existing investment manager. Mr. Schulz said the recommendation was to add \$200 million to the existing \$300 million already committed to TCW Brazos Fund. Mr. Schulz discussed TCW and staff's reasons for recommending the additional investment. Mr. Schulz stated the recommendation is supported by Albourne, TMRS' specialized investment consultant.

Mr. Scott asked if there has been any change in the TCW principals who set its track record. Mr. Schulz said no.

Mr. Landis moved that (i) the Board authorize the following investment, as proposed and in accordance with the IPS, with an investment allocation up to the amount set out below and at fees no greater than presented in the TMRS Staff Memo to the Board and successful negotiation of the investment agreements:

| Name of Investment Manager, Investment Fund, or Fund Strategy | Asset Class Strategy  | Investment Allocation | Background Check Required (Yes or No) |
|---|-----------------------|-----------------------|---------------------------------------|
| TCW Brazos Fund LLC   | NCFI / Direct Lending | \$200M                | Yes                                   |

and (ii) approve and incorporate by reference for all purposes the Board Standard Investment Authorizations for each such investment allocation.

Mr. Huizar seconded the motion, which passed 6-0.

#### **11. Board Education: Private Equity Asset Class.**

Mr. Masthay and Mr. Garcia co-presented an overview of the Private Equity asset class. TMRS hit its target allocation in August. Three goals drive TMRS construction of its Private Equity portfolio: (i) outperforming public equities, (ii) achieving 10% target allocation, and (iii) reducing program costs.

Mr. Wescoe said that the Chief Investment Officer of CalPERS, the largest pension plan in the country, recently told his board that its underperformance in the last decade was due to missing the Private Equity boat. Mr. Garcia said the PE team has taken TMRS from 2.5% in Private Equity a year-and-a-half ago to fully allocated. Mr. Scott said he was impressed with the Investments team kicking into turbo on private investments to go from 5% to 10% allocation. It is a big reason, he said, that TMRS has performed well compared to peers despite recent market volatility.

#### **12. General Investment Consultant Quarterly Report.**

Ms. Beard presented RVK's quarterly investment report.

Mr. Scott asked what type of Hedge Fund investments were causing underperformance in that class. Ms. Beard said there is no great benchmark for that class because there is not a specific Hedge Fund market. The fee impact is more significant in Hedge Funds, she said, and the Hedge Fund class is intended to be more defensive, but performance on an absolute basis has been better.

With respect to the total fund, on a five-year basis, TMRS' risk-return ratio shows that TMRS captured 91% of the return at only 65% of the volatility, and the target allocation did even better. Ms. Beard said TMRS was 100% allocated to fixed income in 2007 but now has reached its diversified strategic target allocation.

Mr. Garza said TMRS was grateful to Ms. Beard and RVK for the firm's years of service through that transition period from a fixed income to a diversified portfolio. Mr. Wescoe presented to Ms. Beard a plaque recognizing RVK's service and said that she served TMRS with class, dignity and integrity.

### **13. General Investment Consultant Report.**

Mr. Austin and Trustees discussed the risk appetite survey that each Trustee will complete. Mr. Garza said the Board, in setting the current asset allocation, intended it to be in place for five years to monitor its performance. Mr. Scott said the Board also thought it would take five years to reach the target allocation, now achieved, but the survey may confirm decisions about taking more risk in the target allocation.

### **14. Discuss Strategic Plan Process and Possible Goals.**

Mr. Carpenter reviewed the proposed agenda and process for the upcoming Board Retreat.

### **Executive Session**

### **15. Executive Session.**

The Board went into Executive Session at 10:28 a.m. The meeting reconvened in Open Meeting at 11:15 a.m. No action was taken during the Executive Session. All members of the Board who were present before the Executive Session were present.

### **Future Board Agenda Items**

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

There were no future agenda items requested, and Mr. Garza adjourned the meeting at 11:15 a.m.

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David B. Wescoe  
Executive Director

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Jesús A. Garza  
Chair, Board of Trustees



**MINUTES OF THE  
TEXAS MUNICIPAL RETIREMENT SYSTEM  
Board of Trustees Retreat**

**October 27, 2022 – 8:30 a.m.**

The Board of Trustees of the Texas Municipal Retirement System (TMRS) convened for a Retreat meeting at 8:30 a.m. at the Hyatt Regency San Antonio Riverwalk, located at 123 Losoya Street, San Antonio, Texas, with all Trustees present: Chair Jesús Garza, Vice Chair Bob Scott, Anali Alanis, Johnny Huizar, David Landis, and Bill Philibert.

Staff and consultants present included: David Wescoe (Executive Director), Christine Sweeney (Chief Legal Officer), David Hunter (Chief Investment Officer), Debbie Muñoz (Chief Services Officer), Tom Masthay (Deputy Chief Investment Officer), Nick O’Keefe (Deputy Chief Legal Officer, Investments), Andi Focht-Williams (Director of Benefit Administration), Leslee Hardy (Director of Plan Funding & Design), Madison Jechow (Assistant General Counsel), Greg Carpenter (Strategic Planning Consultant), Sam Austin (NEPC), and Dr. Anthony Picchioni (Board Consultant).

Mr. Garza called the meeting to order at 8:30 a.m.

**1. Board Retreat, including Discuss, Consider and Act on Strategic Planning, Mission, Vision and Core Values, Investments, Service to Members and Cities, Organizational Development, Technology and TMRS Operations Topics. Greg Carpenter.**

Mr. Carpenter presented an overview of the Retreat schedule.

Mr. Carpenter and Trustees discussed TMRS’ Mission, and Trustees discussed the Mission statement with Mr. Carpenter. The Trustees reached a consensus on rewording the Mission statement to read “To provide secure lifetime income to Members, through partnership with participating cities.”

Next, Mr. Carpenter led Trustees in a discussion of the Vision statement for TMRS, and Trustees provided comments to Mr. Carpenter on their vision for TMRS. The Trustees reached a consensus on rewording the Vision statement to read “To be the model public pension plan.”

Mr. Carpenter then led a Trustee discussion of TMRS’ Core Values for TMRS. The Trustees then discussed potential core Values, and reached a consensus that the Values should include accountability, excellence, integrity, innovation and collaboration.

Mr. Carpenter next introduced the topic of the Board’s strategic goals for the next three years. He then led a Trustee discussion of the Board’s strategic goal for Investments. The Trustees provided comments on a strategic goal for Investments. The Trustees reached a consensus to keep the existing goal which reads “Ensure the financial stability and long-term viability of the Plan.”

Mr. Carpenter next led a discussion of the Board’s strategic goal for Service to Members and Cities. The Trustees provided comments on a strategic goal for Service to Members and Cities. The Trustees reached consensus for the Service goal to read “Deliver superior customer service.”

Mr. Carpenter next provided a brief summary of the day’s discussions and the topics to be discussed on Friday.

At 2:55 p.m., the meeting was recessed until 8:30 a.m. on Friday, October 28, 2022.

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David B. Wescoe  
Executive Director

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Jesús A. Garza  
Chair, Board of Trustees



**MINUTES OF THE  
TEXAS MUNICIPAL RETIREMENT SYSTEM  
Board of Trustees Retreat**

**October 28, 2022 – 8:30 a.m.**

The Board of Trustees of the Texas Municipal Retirement System (TMRS) re-convened its retreat meeting at 8:30 a.m. at the Hyatt Regency San Antonio Riverwalk, located at 123 Losoya Street, San Antonio, Texas, with all Trustees present: Chair Jesús Garza, Vice Chair Bob Scott, Anali Alanis, Johnny Huizar, David Landis, and Bill Philibert.

Staff and consultants present included: David Wescoe (Executive Director), Christine Sweeney (Chief Legal Officer), David Hunter (Chief Investment Officer), Debbie Muñoz (Chief Services Officer), Tom Masthay (Deputy Chief Investment Officer), Andi Focht-Williams (Director of Benefit Administration), Anthony Mills (Director of City Services), Leslee Hardy (Director of Plan Funding & Design), Leslie Ritter (Director of Human Resources), Pete Krnavek (Interim Chief Information Officer), Dan Wattles (Director of Governmental Relations), Mike Apperley (Director of Internal Audit), Madison Jechow (Assistant General Counsel), Greg Carpenter (Strategic Planning Consultant), Sam Austin (NEPC), and Dr. Anthony Picchioni (Board Consultant).

Mr. Garza called the meeting to order at 8:30 a.m.

**1. Board Retreat, including Discuss, Consider and Act on Strategic Planning, Mission, Vision and Core Values, Investments, Service to Members and Cities, Organizational Development, Technology and TMRS Operations Topics. Greg Carpenter.**

Mr. Carpenter summarized Thursday's discussions with Trustees regarding:

- Mission
- Vision
- Core Values
- Strategic Goal for Investments, and
- Strategic Goal for Service to Members and Cities.

Trustees decided to change the "Investments" strategic goal to the "Financial" strategic goal to reflect that it addresses asset, liability and funding matters as well as investment matters.

Mr. Carpenter and Trustees discussed the Board's strategic goal for Technology. The Trustees reached a consensus for the Technology goal to read "Increase the intelligent use of technology."

Mr. Carpenter next led a Trustee discussion of the Board's strategic goal for Organizational Development. The Trustees potential strategic goals for Organizational Development and reached a consensus for the goal to read "Foster a diverse, high-performing and engaged culture."

Mr. Carpenter said that he will present a final draft Strategic Plan for approval at the December Board meeting. Mr. Carpenter said that staff will come up with objectives for each strategic goal.

**2. Call for Future Agenda Items.**

There were no future agenda items, and Mr. Garza adjourned the meeting at 11:05 a.m.

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David B. Wescoe  
Executive Director

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Jesús A. Garza  
Chair, Board of Trustees





November 29, 2022

**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**

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

**Texas Municipal Retirement System****Board Retirement Report****Summary of Individual Member Retirements Processed from 07-2022 to 09-2022**

| <b>Total Number of Retirements by Option</b> | <b>Service</b> | <b>Disability</b> | <b>Total</b> |
|--|----------------|-------------------|--------------|
| <b>Retiree Life Only</b>                     | 332            | 2                 | 334          |
| <b>Retiree Life -- 100% to Survivor</b>      | 367            | 10                | 377          |
| <b>Retiree Life -- 75% to Survivor</b>       | 73             | 0                 | 73           |
| <b>Retiree Life -- 50% to Survivor</b>       | 140            | 1                 | 141          |
| <b>Retiree Life -- 5 Years Guaranteed</b>    | 11             | 0                 | 11           |
| <b>Retiree Life -- 10 Years Guaranteed</b>   | 22             | 0                 | 22           |
| <b>Retiree Life -- 15 Years Guaranteed</b>   | 62             | 1                 | 63           |
| <b>Cashout of Reserves</b>                   | 17             | 0                 | 17           |
| <b>Total Number -- All Options</b>           | 1,024          | 14                | 1,038        |

|   |             |          |             |
|---|-------------|----------|-------------|
| <b>Total Monthly Benefits (Nearest Dollar)</b>  | \$2,008,676 | \$12,896 | \$2,021,572 |
| <b>Average Monthly Benefit (Nearest Dollar)</b> | \$1,962     | \$921    | \$1,948     |
| <b>Average Age at Retirement</b>                | 59          | 52       | 59          |
| <b>Average Years of Service at Retirement</b>   | 20          | 14       | 20          |

|   |              |
|---|--------------|
| <b>Partial Lump Sum Distributions</b>   |              |
| <b>No. of Retirements Taking a PLSD</b> | 771          |
| <b>Total Amount Paid</b>                | \$46,999,215 |
| <b>% of PLSD Funds Rolled Over</b>      | 63%          |
| <b>% of PLSD Funds Not Rolled Over</b>  | 37%          |

**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, 2022 to September 30, 2022**

| <b>Supplemental Death Benefit Payments</b>                            |                                      |
|---|--------------------------------------|
| By Beneficiaries of Active Members                                    | 31 payments totaling \$1,459,122.32  |
| By Beneficiaries of Retired Members                                   | 251 payments totaling \$1,770,000.00 |
|   |                                      |
| <b>Applications for Supplemental Death Benefits Extended Coverage</b> |                                      |
| None  |                                      |

**TEXAS MUNICIPAL RETIREMENT SYSTEM**  
**STATEMENTS OF FIDUCIARY NET POSITION**  
**As of September 30, 2022 and 2021**

|  | <u>9/30/2022</u>               | <u>9/30/2021</u>               |
|--|--------------------------------|--------------------------------|
| <b>ASSETS</b>                                  |                                |                                |
| Cash   | \$21,265,557                   | \$5,864,512                    |
| Receivables:                                   |                                |                                |
| Contributions                                  | 135,857,824                    | 108,260,581                    |
| Interest and dividends                         | 21,308,268                     | 22,793,243                     |
| Investment trades                              | 252,420,126                    | 487,317,229                    |
| Total receivables                              | <u>409,586,218</u>             | <u>618,371,053</u>             |
| Investments, at fair value:                    |                                |                                |
| Short-term investments                         | 246,260,430                    | 765,587,662                    |
| Derivative contracts                           | 3,404,510                      | 385,566                        |
| Fixed income securities                        | 2,671,622,289                  | 3,531,462,648                  |
| Inflation-linked bonds                         | 17,023,422                     | -                              |
| Global public equities                         | 10,587,612,199                 | 13,400,849,870                 |
| REITs  | 33,919,857                     | 45,763,035                     |
| Non-core fixed income funds                    | 5,954,746,477                  | 5,585,465,354                  |
| Other public & private markets funds           | 3,782,974,605                  | 3,985,428,429                  |
| Hedge funds                                    | 2,533,751,402                  | 3,381,084,971                  |
| Private equity funds                           | 3,644,979,519                  | 2,454,699,758                  |
| Real estate funds                              | 4,582,706,330                  | 3,688,353,761                  |
| Total investments                              | <u>34,059,001,040</u>          | <u>36,839,081,054</u>          |
| Total assets                                   | 34,489,852,815                 | 37,463,316,619                 |
| <b>LIABILITIES</b>                             |                                |                                |
| Investment trades payable                      | 304,876,687                    | 924,102,211                    |
| Accrued investment management fees             | 4,227,869                      | 7,546,778                      |
| Accounts payable and other accrued liabilities | <u>32,338,941</u>              | <u>36,312,508</u>              |
| Total liabilities                              | 341,443,497                    | 967,961,497                    |
| <b>FIDUCIARY NET POSITION</b>                  |                                |                                |
| Restricted for pensions                        | 34,145,446,557                 | 36,489,492,801                 |
| Held in trust for other benefits               | <u>2,962,761</u>               | <u>5,862,321</u>               |
| Total fiduciary net position                   | <u><u>\$34,148,409,318</u></u> | <u><u>\$36,495,355,122</u></u> |

**TEXAS MUNICIPAL RETIREMENT SYSTEM**  
**STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION**  
**For the Nine Months Ending September 30, 2022 and 2021**

|  | <u>2022</u>             | <u>2021</u>             |
|--|-------------------------|-------------------------|
| <b>ADDITIONS</b>   |                         |                         |
| Contributions:   |                         |                         |
| Pension plan - cities  | \$853,224,737           | \$733,034,087           |
| Pension plan - Member  | 388,633,321             | 355,553,699             |
| Supplemental death benefits plan - cities                    | 8,194,273               | 7,699,428               |
| Total contributions  | <u>1,250,052,331</u>    | <u>1,096,287,214</u>    |
| Net investment income/(loss):                                |                         |                         |
| Net appreciation/(depreciation) in fair value of investments | (4,610,618,598)         | 2,091,142,350           |
| Interest and dividends                                       | 351,415,888             | 386,175,561             |
| Total investment income/(loss)                               | <u>(4,259,202,710)</u>  | <u>2,477,317,911</u>    |
| Less: investment manager fees/transaction costs              | (14,583,217)            | (24,449,385)            |
| Net investment income/(loss)                                 | <u>(4,273,785,927)</u>  | <u>2,452,868,526</u>    |
| Other miscellaneous  | 36,045,090              | 26,042                  |
| Total additions  | <u>(2,987,688,506)</u>  | <u>3,549,181,782</u>    |
| <b>DEDUCTIONS</b>  |                         |                         |
| Benefit payments:  |                         |                         |
| Service retirement   | 1,142,446,425           | 1,068,021,236           |
| Disability retirement  | 12,927,132              | 12,959,379              |
| Supplemental death benefits                                  | 11,046,995              | 14,428,484              |
| Partial lump-sum distributions                               | 191,437,739             | 159,795,143             |
| Total benefit payments                                       | <u>1,357,858,291</u>    | <u>1,255,204,242</u>    |
| Member account refunds                                       | 56,899,748              | 46,924,094              |
| Budget transfer and other                                    | 33,091,933              | 34,495,460              |
| Total deductions   | <u>1,447,849,972</u>    | <u>1,336,623,796</u>    |
| <b>CHANGE IN FIDUCIARY NET POSITION</b>                      | (4,435,538,478)         | 2,212,557,986           |
| <b>FIDUCIARY NET POSITION</b>                                |                         |                         |
| Restricted for pensions:                                     |                         |                         |
| Beginning of year  | 38,578,132,313          | 34,270,205,759          |
| End of year  | <u>\$34,145,446,557</u> | <u>\$36,489,492,801</u> |
| Held in trust for other benefits:                            |                         |                         |
| Beginning of year  | 5,815,483               | 12,591,377              |
| End of year  | <u>\$2,962,761</u>      | <u>\$5,862,321</u>      |

**TEXAS MUNICIPAL RETIREMENT SYSTEM**  
**EXPENSE FUND**  
**Balance Sheet**  
**As of September 30, 2022**

**ASSETS**

|                                      |                  |
|--------------------------------------|------------------|
| Cash                                 | \$ 55,962        |
| Accounts receivable and other assets | 4,382,269        |
| Due from trust fund                  | 22,975,930       |
| Leasehold improvements               | 1,403,409        |
| Furniture and equipment, net         | <u>1,307,053</u> |
| <br>Total assets                     | <br>30,124,623   |

**LIABILITIES**

|                                     |                  |
|-------------------------------------|------------------|
| Accounts payable & accrued expenses | 10,575,389       |
| Accrued leave liability             | <u>4,499,670</u> |
| <br>Total liabilities               | <br>15,075,059   |

**RESERVES AND FUND BALANCES**

|   |                                 |
|---|---------------------------------|
| Reserve for administrative expenses               | 14,882,071                      |
| Net receipts over disbursements:                  |                                 |
| Revenue   | 26,127,382                      |
| Operating expenses                                | (24,574,563)                    |
| PASMod expenses                                   | <u>(1,385,326)</u>              |
| <br>Total reserves and fund balances              | <br><u>15,049,564</u>           |
| <br>Total liabilities, reserves and fund balances | <br><u><u>\$ 30,124,623</u></u> |

**TEXAS MUNICIPAL RETIREMENT SYSTEM**  
**EXPENSE FUND**  
**Schedule of 2022 Operating Expenses**  
**For the Nine Months Ending September 30, 2022**

|                                     | Budget               | Actual               | Over / (Under)         | % used      |
|-------------------------------------|----------------------|----------------------|------------------------|-------------|
| <b>Personnel services:</b>          |                      |                      |                        |             |
| Staff salaries and payroll taxes    | \$ 16,689,769        | \$ 12,087,391        | \$ (4,602,378)         | 72.4        |
| Employee benefits                   | 4,074,752            | 2,769,334            | (1,305,418)            | 68.0        |
| Contract labor / temporary staffing | 100,000              | 43,789               | (56,211)               | 43.8        |
| <b>Total personnel services</b>     | <b>20,864,521</b>    | <b>14,900,514</b>    | <b>(5,964,007)</b>     | <b>71.4</b> |
| <b>Professional services:</b>       |                      |                      |                        |             |
| Banking & custodial                 | 1,553,000            | 1,041,202            | (511,798)              | 67.0        |
| Investment consultants              | 1,520,347            | 1,218,280            | (302,067)              | 80.1        |
| Legal                               | 1,166,500            | 558,601              | (607,899)              | 47.9        |
| Actuarial                           | 689,300              | 454,275              | (235,025)              | 65.9        |
| Information services consultants    | 313,100              | 209,725              | (103,375)              | 67.0        |
| Audit                               | 185,125              | 152,525              | (32,600)               | 82.4        |
| Other services                      | 375,200              | 323,295              | (51,905)               | 86.2        |
| <b>Total professional services</b>  | <b>5,802,572</b>     | <b>3,957,903</b>     | <b>(1,844,669)</b>     | <b>68.2</b> |
| <b>Facilities</b>                   | <b>2,878,905</b>     | <b>2,107,279</b>     | <b>(771,626)</b>       | <b>73.2</b> |
| <b>Information technology:</b>      |                      |                      |                        |             |
| Cloud-hosted services               | 2,403,853            | 1,698,352            | (705,501)              | 70.7        |
| Hardware/software & support         | 1,090,475            | 626,362              | (464,113)              | 57.4        |
| <b>Total information technology</b> | <b>3,494,328</b>     | <b>2,324,714</b>     | <b>(1,169,614)</b>     | <b>66.5</b> |
| <b>Other administrative:</b>        |                      |                      |                        |             |
| City and member outreach            | 760,735              | 507,867              | (252,868)              | 66.8        |
| Supplies/document storage/misc.     | 573,498              | 388,403              | (185,095)              | 67.7        |
| Travel                              | 541,465              | 122,320              | (419,145)              | 22.6        |
| Professional development            | 508,813              | 206,078              | (302,735)              | 40.5        |
| Committee                           | 130,500              | 59,485               | (71,015)               | 45.6        |
| <b>Total other administrative</b>   | <b>2,515,011</b>     | <b>1,284,153</b>     | <b>(1,230,858)</b>     | <b>51.1</b> |
| <b>Total operating expenses</b>     | <b>\$ 35,555,337</b> | <b>\$ 24,574,563</b> | <b>\$ (10,980,774)</b> | <b>69.1</b> |

Agenda Item 1(f)- 11/29/2022

CITIES THAT HAVE ADOPTED OR READOPTED UPDATED SERVICE CREDIT AND/OR ANNUITY INCREASES  
EFFECTIVE JANUARY 1, 2023  
(Ordinances received as of November 8, 2022)

|  |                             | Updated Service Credit |                | Increased Benefits to Retirees (COLAs) |                |
|--|-----------------------------|------------------------|----------------|--|----------------|
| City Number  | Participating Municipality  | Rate (%)               | Year Effective | Rate (%)                               | Year Effective |
| 00007  | Addison                     | 100 T                  | 1994R          | 30                                     | 2023R          |
| 00045  | Anthony                     | 75                     | 2023           |  |                |
| 00054  | Arp                         | 100                    | 2023R          |  |                |
| 00075  | Azle                        | 100 T                  | 2023R          | 70                                     | 2023R          |
| 00214  | Cameron                     | 100 T                  | 2023R          | 70                                     | 2023R          |
| 00350  | Dayton                      | 100 T                  | 2023R          | 70                                     | 2023R          |
| 00503  | Gary                        | 100 T                  | 2023R          | 70                                     | 2023R          |
| 00517  | Glenn Heights               | 100 T                  | 2023           | 70                                     | 2023           |
| 00552  | Greenville                  | 100 T                  | 1995R          | 30                                     | 2023R          |
| 00445  | Fairview                    | 100 T                  | 2011R          | 30                                     | 2023R          |
| 00456  | Ferris                      | 100 T                  | 2023R          | 70                                     | 2023R          |
| 00617  | Hollywood Park              | 100 T                  | 2023R          | 70                                     | 2023R          |
| 00618  | Hondo                       | 100 T                  | 2023R          | 70                                     | 2023R          |
| 00654  | Jacinto City                | 100 T                  | 2023R          | 70                                     | 2023R          |
| 00824  | McAllen                     | 100 T                  | 2023           |  |                |
| 00835  | Meadows Place               | 100                    | 2023           | 70                                     | 2023           |
| 00874  | Mission                     | 50 T                   | 2023R          |  |                |
| 00914  | New Boston                  | 100 T                  | 2023R          | 70                                     | 2023R          |
| 00954  | Onalaska                    | 100 T                  | 2023R          |  |                |
| 01014  | Port Aransas                | 100 T                  | 2023R          | 70                                     | 2023R          |
| 01022  | Port Neches                 | 100 T                  | 2001R          | 30                                     | 2023           |
| 01045  | Queen City                  | 100 T                  | 2023R          |  |                |
| 01055  | Ransom Canyon               | 100 T                  | 2023R          |  |                |
| 01153  | Sansom Park                 | 100 T                  | 2023R          | 70                                     | 2023R          |
| 01229  | Sunnyvale                   | 100 T                  | 2023R          | 50                                     | 2023R          |
| 31263  | Texas Municipal League IEBP | 100                    | 2021R          | 30                                     | 2023           |
| 01350  | Wellington                  | 100 T                  | 2015R          | 30                                     | 2023           |
| 01354  | Weslaco                     | 50 T                   | 2023           | 30                                     | 2023           |
| 01393  | Windcrest                   | 100 T                  | 2023R          | 70                                     | 2023R          |
| 01404  | Woodsboro                   | 100                    | 2023R          | 70                                     | 2023R          |
| T- Includes Transfers Credits.   |                             |                        |                |  |                |
| R- Annually Repeating. Ordinance automatically renews effective January 1 of each successive year. |                             |                        |                |  |                |
| * Red Indicates the new USC/COLA adoption.   |                             |                        |                |  |                |





November 29, 2022

**To: Board of Trustees**  
**From: Debbie Munoz, Chief Service Officer** *Debbie Munoz*  
**Re: Agenda Item 2: Consider and Act on Appointments to the Advisory Committee on Benefit Design**

The Advisory Committee on Benefit Design (Committee) is comprised of seven Group Class members and three Individual Class members whom the Board appoints. The Committee Charter specifies that Individual Class representatives serve 3-year terms, and Group Class representatives are limited to serving no more than six years.

Group Class: TSAFF Representative

David Riggs, representing the Texas State Association of Fire Fighters (TSAFF), has completed a six-year term and is not eligible for reappointment. To replace him, the TSAFF has nominated Jaime Reyes, with the City of Plano. Mr. Reyes is the current TSAFF Committee alternate.

The TSAFF has nominated Mike Jones with the City of Burleson to succeed Mr. Reyes as their Committee alternate.

Individual Class: Employee Member

Barry Sullivan, the City Manager at Gainesville represents active members. He has completed his first, three-year term and would like to serve a second term.

Individual Class: Retiree Member

The retiree position is vacant due to the recent passing of Paul Parker. Staff will begin the process to identify an Individual Class successor and will make a recommendation to the Board at a future meeting.

**RECOMMENDATION**

Staff recommends the Board approve Messrs. Reyes, Jones and Sullivan nominations to the Advisory Committee on Benefit Design for three-year terms.

## **ATTACHMENTS**

- Attachment 1 - TSAFF Nomination
- Attachment 2 - Jaime Reyes Application and Bio
- Attachment 3 - Mike Jones Application
- Attachment 4 - Barry Sullivan Application and Bio



November 29, 2022

**To:** Board of Trustees

**From:** Mike Apperley, Director of Internal Audit *Michael Apperley*

**Re:** Agenda Item 3: Report on Audit Committee's November 16, 2022 Meeting and Consider and Act on *2023-2024 Audit Plan*

**Recently Completed Reports.** I presented the following reports to the Audit Committee at its November 16, 2022 meeting. The reports are available in Diligent.

- *An Audit of Cybersecurity Detection and Monitoring* (**confidential**)
- *2023 Risk Assessment* (**confidential**)
- *2023-2024 Audit Plan*

**Status of 2021-2022 Audit Plan.** The 2021-2023 Audit Plan has been completed.

**Consider and Act on the 2023-2024 Audit Plan.** The Audit Committee approved forwarding the 2023-2024 Audit Plan to the Board for approval. Proposed auditing and consulting projects will provide coverage of all identified high and elevated potential risk topics. Proposed projects will cover core functions of TMRS including investment activities, cybersecurity, and contributions and payments to members and beneficiaries. Projects will also cover agency operations such as employee onboarding, training and records management.

**RECOMMENDATION:**

The Audit Committee recommends the Board approve the *2023-2024 Audit Plan*.

**ATTACHMENT:**

1 – *2023–2024 Audit Plan*, TMRS 22-6



November 29, 2022

**To: Board of Trustees**

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

**Re: Agenda Item 4: Consider and Act on 2023 Board Meeting Dates**

The TMRS Act requires that the Board hold four meetings annually. In calendar year 2022, the Board will have met seven times, including the Retreat.

Board meetings need to be held in March, May, and June due to the required timing of interest credits interest to the Benefit Accumulation Fund, the annual valuation and city contribution rates, and the financial audits and ACFR.

Other statewide retirement systems have fewer meetings. Their scheduled 2023 Board meetings are as follows:

- TCDRS: 4 meetings
- ERS: 4 meetings, plus a 1-day workshop held with their December meeting
- TRS: 5 meetings

Staff is confident we can manage operations with fewer meetings.

In 2022, the TMRS Board meetings were generally held on the fourth Thursday of the month starting at 9:00 a.m. Holding meetings during the fourth week of the month avoided conflicts with Trustees' city council meeting schedules, all of which hold council meetings during the 1<sup>st</sup> and 3<sup>rd</sup> weeks of each month.

Possible 2023 meeting dates (based on a 4<sup>th</sup> Thursday meeting) include:

|              |                             |
|--------------|-----------------------------|
| February 23  | (can be omitted if desired) |
| March 23     |                             |
| May 25       |                             |
| June 22      |                             |
| September 28 |                             |
| October 26   | (can be omitted if desired) |
| December 14  |                             |

To help you consider 2023 meetings and potential conflicts with your individual calendars, I have included the following information in Attachments 1 and 2:

- General schedule of city council meeting days for each Trustee;
- “no sooner than” or “earliest possible” Board meeting dates in March, May and June, based on timing needed by GRS and CLA to complete work required for the interest credits, annual valuation, city contribution rates, financial audits and CAFR presented in those months;
- 2023 dates of events in Austin that can make it difficult to book hotels and/or find flights; and
- 2023 monthly calendar pages with the above proposed meeting dates highlighted in yellow.

### **RECOMMENDATION**

Staff recommends that the Board adopt a schedule of meeting dates for calendar year 2023.

### **ATTACHMENTS**

- 1 - Information to Assist with 2023 Meeting Date Selection
- 2 - 2023 Monthly Calendar Pages

## **ATTACHMENT 1**

### **INFORMATION TO ASSIST WITH 2023 MEETING DATE SELECTION**

#### **Trustees' Regular City Council Meeting Days**

|           |  |
|-----------|--|
| Landis    | 1 <sup>st</sup> and 3 <sup>rd</sup> Tuesday  |
| Philibert | 1 <sup>st</sup> and 3 <sup>rd</sup> Tuesday  |
| Garza     | 1 <sup>st</sup> and 3 <sup>rd</sup> Tuesday  |
| Scott     | 1 <sup>st</sup> and 3 <sup>rd</sup> Tuesday  |
| Alanis    | 1 <sup>st</sup> and 3 <sup>rd</sup> Monday   |
| Huizar    | 1 <sup>st</sup> and 3 <sup>rd</sup> Thursday |

#### **March, May and June Dates Limitations (based on comments from Actuaries and Finance)**

March: preferably 4<sup>th</sup> week; 3<sup>rd</sup> week is earliest possible  
May: 3<sup>rd</sup> week is earliest possible  
June: no earlier than 4<sup>th</sup> week

#### **2023 Big Events in Austin (concern can be hotel and flight arrangements):**

|                   |  |
|-------------------|--|
| March 10-19       | SXSW                                     |
| March 13-17       | Spring Break                             |
| March 22-26       | PGA Golf Tournament                      |
| March 24-26       | COTA Nascar                              |
| April 7           | Good Friday                              |
| April 14-16       | COTA MotoGP                              |
| June __ (TBD)     | Republic of Texas Motorcycle (ROT) Rally |
| Oct 6-8 and 13-15 | ACL Music Festival (2 weekends)          |
| Oct 20-22         | F1 Races                                 |

# January 2023

| Sun | Mon                        | Tue                        | Wed | Thu                        | Fri | Sat |
|-----|----------------------------|----------------------------|-----|----------------------------|-----|-----|
| 1   | 2<br>City Council Meeting  | 3<br>City Council Meeting  | 4   | 5<br>City Council Meeting  | 6   | 7   |
| 8   | 9                          | 10                         | 11  | 12                         | 13  | 14  |
| 15  | 16<br>City Council Meeting | 17<br>City Council Meeting | 18  | 19<br>City Council Meeting | 20  | 21  |
| 22  | 23                         | 24                         | 25  | 26                         | 27  | 28  |
| 29  | 30                         | 31                         |     |                            |     |     |

Note – Yellow Highlight shows proposed Board meeting date

# February 2023

| Sun | Mon                        | Tue                        | Wed | Thu                               | Fri | Sat |
|-----|----------------------------|----------------------------|-----|-----------------------------------|-----|-----|
|     |                            |                            | 1   | 2<br>City Council Meeting         | 3   | 4   |
| 5   | 6<br>City Council Meeting  | 7<br>City Council Meeting  | 8   | 9                                 | 10  | 11  |
| 12  | 13                         | 14                         | 15  | 16<br>City Council Meeting        | 17  | 18  |
| 19  | 20<br>City Council Meeting | 21<br>City Council Meeting | 22  | 23<br>(Can be omitted if desired) | 24  | 25  |
| 26  | 27                         | 28                         |     |                                   |     |     |

Note – Yellow Highlight shows proposed Board meeting date



# March 2023

| Sun   | Mon                        | Tue                        | Wed                          | Thu  | Fri   | Sat   |
|---|----------------------------|----------------------------|------------------------------|--|---|---|
|   |                            |                            | 1                            | 2<br>City Council Meeting                          | 3   | 4   |
| 5   | 6<br>City Council Meeting  | 7<br>City Council Meeting  | 8                            | 9  | 10<br>SXSW                                  | 11<br>SXSW                                  |
| 12<br>SXSW                                  | 13<br>SXSW<br>Spring Break | 14<br>SXSW<br>Spring Break | 15<br>SXSW<br>Spring Break   | 16<br>City Council Meeting<br>SXSW<br>Spring Break | 17<br>SXSW<br>Spring Break                  | 18<br>SXSW                                  |
| 19<br>SXSW                                  | 20<br>City Council Meeting | 21<br>City Council Meeting | 22<br>PGA Golf<br>Tournament | 23<br>PGA Golf<br>Tournament                       | 24<br>PGA Golf<br>Tournament<br>COTA Nascar | 25<br>PGA Golf<br>Tournament<br>COTA Nascar |
| 26<br>PGA Golf<br>Tournament<br>COTA Nascar | 27                         | 28                         | 29                           | 30   | 31  |   |

Note – Yellow Highlight shows proposed Board meeting date

# April 2023

| Sun               | Mon                        | Tue                        | Wed | Thu                        | Fri               | Sat               |
|-------------------|----------------------------|----------------------------|-----|----------------------------|-------------------|-------------------|
|                   |                            |                            |     |                            |                   | 1                 |
| 2                 | 3<br>City Council Meeting  | 4<br>City Council Meeting  | 5   | 6<br>City Council Meeting  | 7<br>Good Friday  | 8                 |
| 9                 | 10                         | 11                         | 12  | 13                         | 14<br>COTA MotoGP | 15<br>COTA MotoGP |
| 16<br>COTA MotoGP | 17<br>City Council Meeting | 18<br>City Council Meeting | 19  | 20<br>City Council Meeting | 21                | 22                |
| 23                | 24                         | 25                         | 26  | 27                         | 28                | 29                |
| 30                |                            |                            |     |                            |                   |                   |

Note – Yellow Highlight shows proposed Board meeting date

# May 2023

| Sun | Mon                        | Tue                        | Wed | Thu                        | Fri | Sat |
|-----|----------------------------|----------------------------|-----|----------------------------|-----|-----|
|     | 1<br>City Council Meeting  | 2<br>City Council Meeting  | 3   | 4<br>City Council Meeting  | 5   | 6   |
| 7   | 8                          | 9                          | 10  | 11                         | 12  | 13  |
| 14  | 15<br>City Council Meeting | 16<br>City Council Meeting | 17  | 18<br>City Council Meeting | 19  | 20  |
| 21  | 22                         | 23                         | 24  | 25                         | 26  | 27  |
| 28  | 29                         | 30                         | 31  |                            |     |     |

Note – Yellow Highlight shows proposed Board meeting date

# June 2023

| Sun | Mon                        | Tue                        | Wed | Thu                        | Fri | Sat |
|-----|----------------------------|----------------------------|-----|----------------------------|-----|-----|
|     |                            |                            |     | 1<br>City Council Meeting  | 2   | 3   |
| 4   | 5<br>City Council Meeting  | 6<br>City Council Meeting  | 7   | 8                          | 9   | 10  |
| 11  | 12                         | 13                         | 14  | 15<br>City Council Meeting | 16  | 17  |
| 18  | 19<br>City Council Meeting | 20<br>City Council Meeting | 21  | 22                         | 23  | 24  |
| 25  | 26                         | 27                         | 28  | 29                         | 30  |     |

Note – Yellow Highlight shows proposed Board meeting date

# July 2023

| Sun | Mon                        | Tue                        | Wed | Thu                        | Fri | Sat |
|-----|----------------------------|----------------------------|-----|----------------------------|-----|-----|
|     |                            |                            |     |                            |     | 1   |
| 2   | 3<br>City Council Meeting  | 4<br>City Council Meeting  | 5   | 6<br>City Council Meeting  | 7   | 8   |
| 9   | 10                         | 11                         | 12  | 13                         | 14  | 15  |
| 16  | 17<br>City Council Meeting | 18<br>City Council Meeting | 19  | 20<br>City Council Meeting | 21  | 22  |
| 23  | 24                         | 25                         | 26  | 27                         | 28  | 29  |
| 30  | 31                         |                            |     |                            |     |     |

Note – Yellow Highlight shows proposed Board meeting date

# August 2023

| Sun | Mon                        | Tue                        | Wed | Thu                        | Fri | Sat |
|-----|----------------------------|----------------------------|-----|----------------------------|-----|-----|
|     |                            | 1<br>City Council Meeting  | 2   | 3<br>City Council Meeting  | 4   | 5   |
| 6   | 7<br>City Council Meeting  | 8                          | 9   | 10                         | 11  | 12  |
| 13  | 14                         | 15<br>City Council Meeting | 16  | 17<br>City Council Meeting | 18  | 19  |
| 20  | 21<br>City Council Meeting | 22                         | 23  | 24                         | 25  | 26  |
| 27  | 28                         | 29                         | 30  | 31                         |     |     |

Note – Yellow Highlight shows proposed Board meeting date

# September 2023

| Sun | Mon                        | Tue                        | Wed | Thu                        | Fri | Sat |
|-----|----------------------------|----------------------------|-----|----------------------------|-----|-----|
|     |                            |                            |     |                            | 1   | 2   |
| 3   | 4<br>City Council Meeting  | 5<br>City Council Meeting  | 6   | 7<br>City Council Meeting  | 8   | 9   |
| 10  | 11                         | 12                         | 13  | 14                         | 15  | 16  |
| 17  | 18<br>City Council Meeting | 19<br>City Council Meeting | 20  | 21<br>City Council Meeting | 22  | 23  |
| 24  | 25                         | 26                         | 27  | 28                         | 29  | 30  |

Note – Yellow Highlight shows proposed Board meeting date

# October 2023

| Sun                            | Mon                        | Tue                        | Wed | Thu                               | Fri                            | Sat                            |
|--------------------------------|----------------------------|----------------------------|-----|-----------------------------------|--------------------------------|--------------------------------|
| 1                              | 2<br>City Council Meeting  | 3<br>City Council Meeting  | 4   | 5<br>City Council Meeting         | 6<br>ACL Festival – Weekend 1  | 7<br>ACL Festival – Weekend 1  |
| 8<br>ACL Festival – Weekend 1  | 9                          | 10                         | 11  | 12                                | 13<br>ACL Festival – Weekend 2 | 14<br>ACL Festival – Weekend 2 |
| 15<br>ACL Festival – Weekend 2 | 16<br>City Council Meeting | 17<br>City Council Meeting | 18  | 19<br>City Council Meeting        | 20<br>F1 Races                 | 21<br>F1 Races                 |
| 22<br>F1 Races                 | 23                         | 24                         | 25  | 26<br>(Can be omitted if desired) | 27                             | 28                             |
| 29                             | 30                         | 31                         |     |                                   |                                |                                |

Note – Yellow Highlight shows proposed Board meeting date



# November 2023

|    | Mon                        | Tue                        | Wed | Thu                        | Fri | Sat |
|----|----------------------------|----------------------------|-----|----------------------------|-----|-----|
|    |                            |                            | 1   | 2<br>City Council Meeting  | 3   | 4   |
| 5  | 6<br>City Council Meeting  | 7<br>City Council Meeting  | 8   | 9                          | 10  | 11  |
| 12 | 13                         | 14                         | 15  | 16<br>City Council Meeting | 17  | 18  |
| 19 | 20<br>City Council Meeting | 21<br>City Council Meeting | 22  | 23                         | 24  | 25  |
| 26 | 27                         | 28                         | 29  | 30                         |     |     |

Note – Yellow Highlight shows proposed Board meeting date

# December 2023

|    | Mon                        | Tue                        | Wed | Thu                        | Fri | Sat |
|----|----------------------------|----------------------------|-----|----------------------------|-----|-----|
|    |                            |                            |     |                            | 1   | 2   |
| 3  | 4<br>City Council Meeting  | 5<br>City Council Meeting  | 6   | 7<br>City Council Meeting  | 8   | 9   |
| 10 | 11                         | 12                         | 13  | 14                         | 15  | 16  |
| 17 | 18<br>City Council Meeting | 19<br>City Council Meeting | 20  | 21<br>City Council Meeting | 22  | 23  |
| 24 | 25                         | 26                         | 27  | 28                         | 29  | 30  |
| 31 |                            |                            |     |                            |     |     |

Note – Yellow Highlight shows proposed Board meeting date



November 29, 2022

**To: Board of Trustees**

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

**Re: Agenda Item 5: Consider and Act on Election of 2023 Board Officers**

Section 1.5 of the Board's Bylaws governs the election of Board officers, and 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 the year 2023.



November 29, 2022

**To:** Board of Trustees

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

**Re:** Agenda Item 6: Consider and Act on 2023 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.

Below are the 2022 Board Committee appointments:

Advisory Committee on Benefit Design

- Chair: Jesús Garza
- Vice-Chair: Anali Alanis

Audit Committee

- Chair: Bill Philibert
- Vice-Chair: David Landis

Budget and Compensation Committee:


- Chair: Bob Scott
- Vice Chair: Johnny Huizar

The current Committee positions have been held by the members for only one year, with the exception of Mr. Huizar, who was also on the Budget and Compensation Committee in 2021, and Mr. Garza, who was on the Advisory Committee in 2021.

**RECOMMENDATION:** Staff recommends that the Chair propose, and the Board approve, appointments to the Board Committees for calendar year 2023.



November 29, 2022

**To:** Board of Trustees  
**From:** David Wescoe, Executive Director   
**Re:** Agenda Item 7: Executive Director's Report

Staff has accomplished a lot since September.

**Retreat.** The Board's October Retreat was very productive, with our most tenured Trustee remarking that it was "the best ever." Adoption of the updated Mission, Vision, Core Values, and 2023 – 2025 Strategic Goals is on the agenda.

**PASMod: City Portal Contribution Reporting Project - Historic Staff Achievement.** The most expensive and complicated PASMod project was completed on-time and under budget (\$2.3 million cost v. \$2.5 million budget). On November 7, staff emailed the following announcement to all city contacts:

### **"City Portal Successfully Upgraded"**

In the new Portal's first week, 713 cities (77%) had logged in, and the feedback was positive:

- "This was much easier than uploading my reports and having to go through the bank to initiate the payments. Thank you for that!"
- "I had no idea how much work you did for us in the past. We never realized how much work TMRS put into payroll processing"
- "Thank you for taking care of us!"
- "This process is the easiest thing ever!"
- "I don't know who needs to hear this but.....the new contribution/payment access on the portal is AMAZING."
- "I Loveeeee the system, it is very easy to use"
- "So much more convenient for to us, in office, that have so much more to worry about."
- "GREAT JOB!!!!"
- "Awesome, awesome, awesome!!!"

The project's lead consultant said, "This is the most successful conversion I've seen in my 20-plus years consulting. The time you spent working with the cities prior to the conversion made all the difference."

Mike Dominkowitz, who sits next to the city contributions team, commented that, "I've been a customer service guy my whole life, and I want you to know what a great job the contributions team is doing in talking to cities. They're knowledgeable, passionate, and professional. As a baseball guy, I can only say they are 'knocking it out of the park.'"

Director of Internal Audit Mike Apperley wrote to Jennifer:

I walked by your conference room and saw a sight that I have never seen before in my 26+ years working in state government. Everyone was calm and relaxed. In my experiences rolling out a major (or even minor) IT system, there was always tension, bugs, and other indicators of something not quite right. I am proud of you and your team for bringing this transformational change to TMRS. Both our cities and our employees will benefit from it. I hope that you get some time to reflect on the impact you and your team have made and can feel some of that pride for yourself. You've earned it.

Words cannot express my admiration and respect for the TMRS team, which included staff from city contributions, information services, Member and city services, communications, and legal that spent thousands of hours over many months to successfully complete this critical and historic project.

**Chief Information Officer Hired.** Jac Greene started as TMRS' first Chief Information Officer on November 15. As CIO, Jac is responsible for all TMRS information services, including software development, infrastructure, IS customer service and cybersecurity.

Jac has extensive experience in all phases of IS management. He began his career at Electronic Data Systems and has served in progressively more responsible IT management roles in architecture, infrastructure, software development, customer service, and cybersecurity at Austin-based manufacturing and financial services firms. Prior to joining TMRS, he served as the CIO of a national membership-based healthcare association.

Pete Krnavek, who asked not to be a candidate for the CIO position, provided great leadership and guidance of the IS team as Interim CIO during the search process. Pete is a 'one-in-a million' colleague who has been serving TMRS' Members, participating cities, and staff with distinction for almost three decades.

**Audit Committee Meeting.** On November 16, the Audit Committee (Messrs. Philibert and Landis) met virtually with Director of Internal Audit Mike Apperley who presented items for discussion and action. The Committee was very complimentary of Mike's work product and presentation. The meeting's materials are in Diligent.

**Ad-Hoc IPS Review Committee.** In March, the Board created an Ad-Hoc IPS Review Committee to work with staff to revise the Investment Policy Statement. Bob Scott chaired the Committee with Anali Alanis as Vice Chair. Since then, the Committee met four times with staff to review the IPS and related documents. The result of their great work is behind Tab 14. When you approve it, TMRS will have a clear and concise articulation of our investment philosophy and practices.

**Texas Senate Committee on Natural Resources and Economic Development.** On November 17, Dave Hunter, along with the chief investment officers of the three other statewide pension systems, presented invited testimony to the Senate Committee on Natural Resources and Economic Development on the implementation of SB 13, which relates to investments in companies that boycott energy companies. Dave was well prepared by Dan Wattles, and his short testimony went well.

**Member Service Center (MSC) Makes History.** MSC manager April Hernandez was proud to announce that the MSC had an average wait time of only 12 seconds with 99% calls answered. As April said, "It's historic!"

**More History: Supplemental Death Benefit Payments Paid via Direct Deposit.** On September 29, Benefit Administration manager Tricia Solis reported that, "I'm excited to confirm that we made history this week: TMRS issued its very first Supplemental Death Benefit payment by direct deposit."

**Texas Municipal League Annual Conference and Exhibition.** In October, staff participated in the Texas Municipal League's 110<sup>th</sup> Annual Conference and Exhibition in San Antonio. Almost 3,500 city elected officials and staff attended, the most in TML's conference history.

Hundreds of hours of staff preparation and planning went into this conference, and it paid off. The TMRS booth looked good, and hundreds of Members, retirees, and city officials stopped by to say hello, run a retirement estimate, or learn more about TMRS. Staff hosted a reception for conference attendees, and Debbie Muñoz, Anthony Mills, Dave Hunter, and I spoke at a concurrent session about "TMRS: The Most Innovative Retirement Plan for Cities" that was well attended and well received. TML Executive Director Bennett Sandlin attended the session and introduced our presentation.

**Record Year for New Cities.** Anthony Mills reports that, "During the past 12 months, 15 cities have joined TMRS, the most in any 12-month period since 2003."

**PPCC Recognition – Again.** The Public Pension Coordinating Council (PPCC) presented TMRS with its 2022 Public Pension Standards Award for Funding and Administration. This is the 17th consecutive year that TMRS has received this award.

**And let's not forget why all this matters...** I often tell staff they are in the life touching business. The email below from a participating city staffer underscores that point.

I just want to give your company some praise about the new [City Portal contribution] system.

The ease of the new system was absolutely amazing. I love how you can drop the file and all of the contribution amounts instantaneously appear. The error feature is also assisting us well. It highlighted errors we were not aware of, and we can now tackle.

Your customer service is outstanding. There are never any long wait times. Everyone has been great at helping us when we need it. The staff at TMRS is always so kind. I personally love working with TMRS from our City's payroll department. Thank you all so very much. A special Thank You to Amanda for working with us previously to help get some of our new system kinks worked out and to Terraye for navigating us through this new process.

It is always a pleasure working with you.

\*\*\*

Your staff is performing at a high level, and I am very proud of them.





**November 29, 2022**

**To: Board of Trustees**

**From: Sandra Vice, Chief Administrative Officer** *Sandra Vice*

**Re: Agenda Item 8: Fourth Quarter Administrative Teams Report**

This is the last Administrative Team report that includes Information Services. We are happy to announce that TMRS' first ever Chief Information Officer Jac Greene has been hired and joins us on November 15. Jac will report directly to David Wescoe, demonstrating the importance of technology as TMRS engages in a digital transformation.

**1. Information Services.** IS activities this period included:

- Replacement Servers & Storage. The data storage system for our servers was replaced and all data transferred in July ahead of schedule and without any interruption to operations. Replacement servers are will be on-line before year-end. Once all new equipment arrives, it will be connected to the data storage system, and all TMRS server functions will be migrated to them without any expected downtime.
- City Contribution System. Updates to NextGen were deployed to support all integration activities with the new City Contribution System. This included member enrollments, contribution crediting to member accounts, USERRA applications and contributions, city plan and rate data, member account updates, direct deposit file delivery, and electronic journal entries.
- Pension Administration System Modernization (PASMod). Updates to NextGen were deployed as part of the PASMod program for the direct deposit of Supplemental Death Benefit payments.
- Security Enhancement and Risk Mitigation. The Security team completed several projects, including providing supplemental role-based security awareness training for Senior Staff, who are considered high-value targets; deploying a new scanning tool to verify system integrity; upgrading an internal vulnerability scanning system; and upgrading network security architecture for enhanced security and cost savings.

2. **Finance.** The Consent Agenda includes unaudited financial information as of September 30, 2022. Finance has also worked on the following:

- Public Pension Standards Award. TMRS received the 2022 Public Pension Standards Award for Funding and Administration from the Public Pension Coordinating Council (PPCC). This is the 17<sup>th</sup> consecutive year that TMRS has received the award for meeting these standards.
- 2023 Operating Budget. A preliminary operating and capital expenditures budget was presented to the Board's Budget and Compensation Committee in September, followed by a presentation to the full Board at their September 22 meeting. Candace Nolte prepared the final budget with less than 1% changes for the Board to review and adopt at the December meeting.
- Investment Accounting. Investments cash flows activity in the 3rd quarter included 120 distributions/redemptions totaling \$823.6 million and 113 funding/capital calls totaling \$855.7 million.
- City Contribution System. Josette Madry and Shannon Boyd were part of the implementation team for the new city contribution system, which successfully went live on November 7.

3. **Human Resources.** HR activities this period included:

- New HR Manager. Debi Akeroyd started as TMRS' new HR Manager on November 9. Debi has extensive experience in recruiting, onboarding, staff development, and compensation and benefits, and helped her prior company achieve the Great Place to Work certification.
- Safety. In November, we held our first fire drill with our landlord Endeavor and the Austin Fire Department.
- Personnel. HR has overseen recruiting, interviewing, hiring, and onboarding of 29 employees year-to-date with 21 posted positions. Turnover remains steady and is trending lower than for the same period in 2021. Complete HR staffing metrics are included on the Board Dashboard located in the Resource Center of Diligent.
- Organization Enhancements. HR partners with Senior Staff to provide support and counsel for appropriate staffing levels, to better align functions and to build a high-performing and exceptional organizational culture.

4. **Internal Audit.** A new responsibility that Mike Apperley has taken on is coordinating with the external auditor, CLA. CLA is conducting their initial fieldwork on the annual SOC engagement and will return in the spring to finish and issue their opinion.

The Audit Committee will meet on November 16 to receive the following reports that Mike Apperley completed. All of these are in Diligent.

- Confidential Cybersecurity Audit. The audit evaluated controls for detecting cyber security events at TMRS. With completion of this audit, all projects in the *2021-2022 Audit Plan* are completed.
- Confidential Risk Assessment. Through the annual risk assessment process, the auditor examines the internal and external threats that could potentially prevent TMRS from achieving its objectives, goals and strategies. The risk assessment is the basis for identifying potential risks and guides Internal Audit in developing a biennial audit plan.
- 2023-2024 Audit Plan. The plan proposes audit and consulting projects, as well as routine internal audit activities for the next two years. Internal Audit will update the risk assessment at the end of 2023 and propose any adjustments to the audit plan to address changing risks that could impact TMRS operations.

5. **Records.** The Records team is happy to welcome Records Specialist, Suzanna Carter, to TMRS. She is a Certified Records Manager who has worked in various records management positions, most recently at the Texas Health and Human Services Commission.

From September 2 to November 9, the Records Team has processed 8,137 faxes; scanned 43,762 pages; indexed, verified and loaded 12,894 records to our electronic document management system; and processed 12,734 pieces of incoming and outgoing mail.

Records also properly identified 21,770 old electronic records to allow for easy document searches and reviewed and confirmed that more than 120 boxes of Member and accounting records have satisfied their retention period.



November 29, 2022

**To: Board of Trustees**

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

**Re: Agenda Item 8: Fourth Quarter Legal Report**

**Personnel.** Happy news! On October 26, my colleague Kelsey Baldwin gave birth to a healthy baby girl. Mom, Dad, big brother and baby are all doing well, and we look forward to meeting the newest member of our “Legal team.”

**Investment Compliance.** Board meeting materials include the quarterly Investment Compliance Report, which Michele Fullon will present.

**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 Legal staff have reviewed and approved during the time period noted.
  - From September 10, 2022 to November 23, 2022
    - 6 investment allocation transactions
    - 34 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 10, 2022 to November 23, 2022
    - 13 contracts (non-investment related) submitted for signature
    - 1 other benefits administration and non-investment related items submitted for signature or approval
    - 14 draft city ordinances reviewed
- **Public Information Requests.** Since September 10, Legal staff have worked on 16 information requests under the Texas Public Information Act.

**TMRS Administrative Cases.** None pending.

**Legal Report Appendix.** Please see the Legal Report Appendix in the Diligent Resource Center for confidential legal updates and background information.



November 29, 2022

**To: Board of Trustees**

**From: Debbie Munoz, Chief Service Officer**

A handwritten signature in blue ink that reads "Debbie Munoz".

**Re: Agenda Item 8: Fourth Quarter Services Report**

This Report includes accomplishments of the Benefit Administration, Member and City Services and Pension Design and Funding departments, as well as an update on the Pension Administration Modernization (PASMod) Program that involves multiple departments.

**Pension Administration Modernization Update**

**City Portal Contributions Reporting and Payment.** The new City Portal city contribution reporting and payment tool successfully rolled out to cities November 7. The response from the cities has been overwhelmingly positive. Within the first 48 hours, 25% of TMRS' participating cities submitted and paid their October contribution reports utilizing the new functionality. Many city employees shared their excitement and enthusiasm about the new City Portal functionality, including Katie Mason from the City of Abilene who stated:

"I just want to give your company some praise about the new system. The ease of the new system was absolutely amazing. I love how you can drop the file and all of the contribution amounts instantaneously appear. The error feature is also assisting us well. It highlighted errors we were not aware of, and we can now tackle.

Your customer service is outstanding. There are never any long wait times. Everyone has been great at helping us when we need it. The staff at TMRS is always so kind. I personally love working with TMRS from our City's payroll department. Thank you all so very much. A special Thank You to Amanda Martinez for working with us previously to help get some of our new system kinks worked out and to Ms. Whitehead for navigating us through this new process.

It is always a pleasure working with you."

This project was the most expensive and complicated PASMod Program project, and it was completed on-time and under budget.

Thanks to the City Contributions team and business partners throughout TMRS who spent thousands of hours over many months to get this critical project successfully completed.

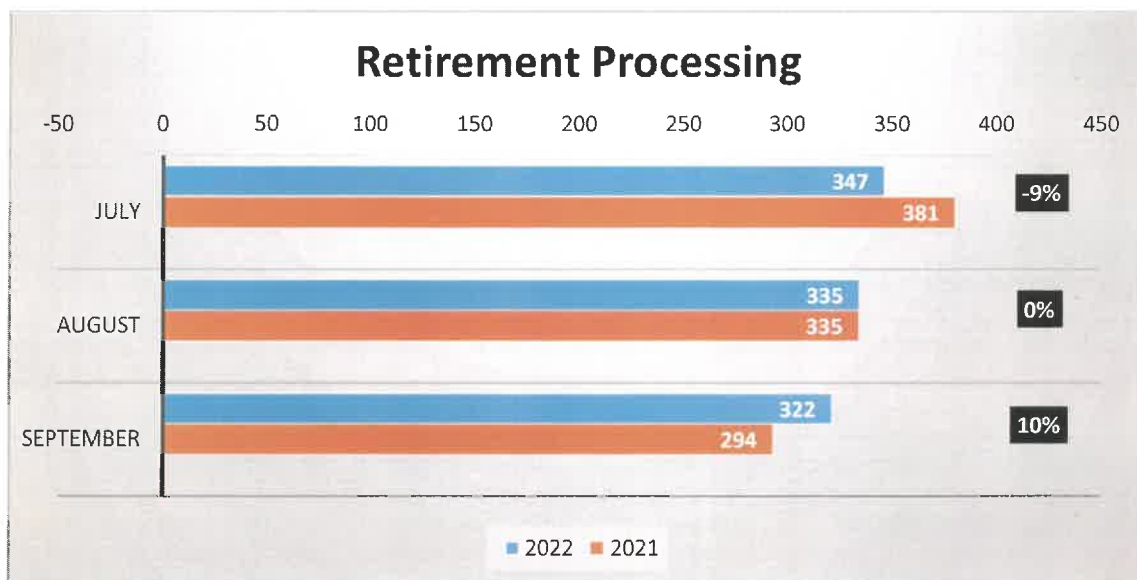
**Direct Deposit of One-time Payments.** For the first time, TMRS began paying supplemental death benefits by direct deposit on October 1. By the end of the year, most one-time payments to members, retirees and beneficiaries will be paid by direct deposit.

### **Benefit Administration**

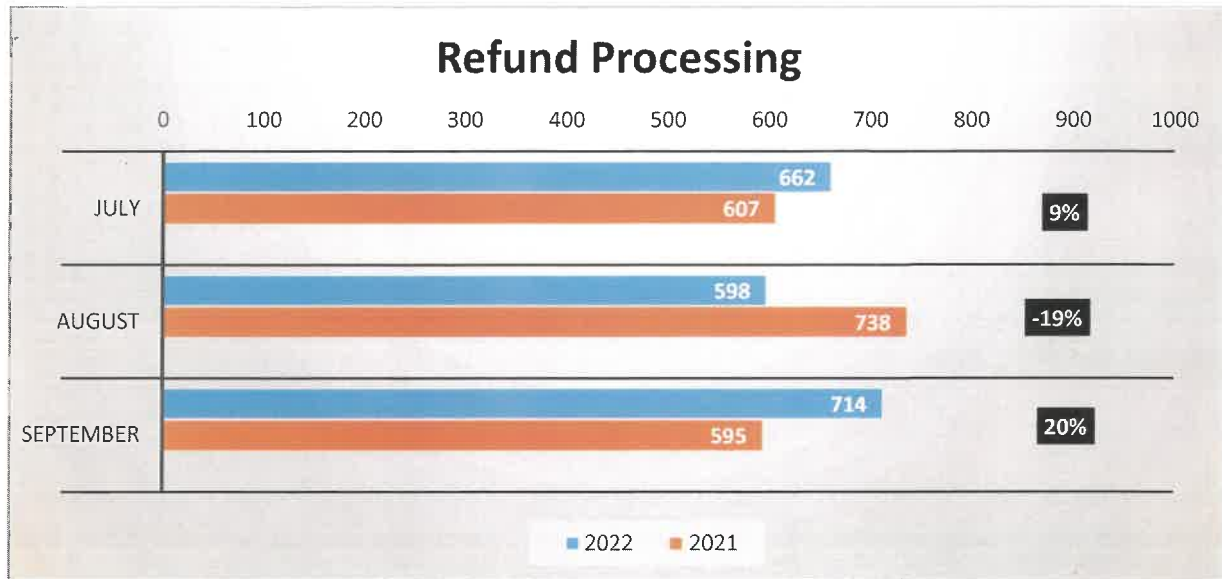
**Personnel Updates.** TMRS welcomed Brittany Zenge, Rosemary Gonzales and John Diaz to the Benefit Administration department. Brittany joined TMRS in 2021 as the office receptionist and provided exceptional support to all departments. Rosemary joined the TMRS Member Service Center in 2021 and previously worked at TRS. John is new to TMRS and has a background in medical document processing.

### **Department Statistics:**

**Retirements.** In the third quarter of 2022, TMRS processed 1,004 retirements, which was a 0.6% decrease from the same quarter in 2021 and a 3% decrease from the 1,039 retirements processed in the second quarter of 2022.



**Refunds.** TMRS issued 1,974 refunds in the third quarter of 2022, which was a 2% increase from the same quarter in 2021, and a 16% decrease from the 2,360 refunds processed in the second quarter of 2022.



## **Member and City Services**

### **Member Service Center:**

- The Member Service Center welcomed JoAnna Espinoza to the team in November. JoAnna replaced Rosemary Gonzales who joined the Benefits Administration team.
- The Member Service Center continues to educate Members on self-service options available 24/7 using MyTMRS. In addition to highlighting MyTMRS, the team started using secure email vs mailing letters to fulfill common Member requests.
- Since January 1, the Member Service Center has received more than 87,700 calls with a median call wait time of 5 seconds.

### **Member Education Center:**

- The Member Education Center continues to meet with Members through the online scheduling tool. To date, more than 435 Members have been counseled.
- Since January 1, the Member Education team has represented TMRS at 173 events (55 virtual; 118 in-person) and counseled more than 8,700 Members.

### **City Services:**

- Anthony Mills continues to educate cities on plan design and plan improvement inquiries. He also visits incorporated cities that are considering joining TMRS. Year to date, he has addressed 20 city councils and welcomed 15 new cities to TMRS.



- City Services joined other TMRS staff in taking a prominent role at this year's Government Finance Officers Association of Texas Fall Conference on November 2-4. While hosting a hospitality reception, addressing attendees in a concurrent session, and staffing the TMRS exhibit display, we directly engaged more than 175 attendees at the conference.
- The Member Education and City Services teams joined forces for the Texas Municipal League's 110<sup>th</sup> Annual Conference and Exhibition at the Henry B. Gonzalez Convention Center held October 5-7 in San Antonio. Almost 3,500 city elected officials and staff attended, the most in TML's conference history. During the three-day conference, hundreds of Members, retirees, and city officials stopped by the booth to say hello, run a retirement estimate, or learn more about TMRS. During the conference, TMRS hosted a reception for conference attendees. It was a classy event, and the feedback from attendees was extremely positive.

### **Plan Design and Funding**

**City Plan Change Studies and Model Ordinances.** The Plan Design and Funding team has been busy working with cities who are considering adopting plan changes or have already adopted changes. Since January 1, the team has prepared 180 plan improvement studies comparing the cost of the current plan to alternative plans. In addition, they have prepared 98 model ordinances for cities considering plan changes of which 66 have been received and processed.

**Rate Stabilization Studies.** During 2022, Leslee and Kenneth have prepared 15 studies for cities who are considering paying a higher contribution rate than required. These studies show the cost and time savings associated with paying off their Unfunded Actuarial Accrued Liability sooner by making additional contributions.

**GASB 68 & 75 Reporting Packages.** Kenneth assists cities with any necessary reconciliation of the census data, contribution information or other requests related to these reports. Year to date, he has assisted 51 cities with various audit requests and processed 96 single discount rate tests.



November 29, 2022

**To: Board of Trustees**

**From: Dan Wattles, Director Governmental Relations** *Dan Wattles*

**Re: Agenda Item 8: Fourth Quarter Governmental Relations Report**

**87<sup>th</sup> Legislative Interim.** The Lt. Governor released Senate interim committee charges on April 4. The Senate Natural Resources and Economic Development Committee received one charge related to TMRS:

Monitor the implementation of legislation addressed by the Senate Committee on Natural Resources and Economic Development passed by the 87th Legislature, as well as relevant agencies and programs under the committee's jurisdiction. Specifically, make recommendations for any legislation needed to improve, enhance, or complete implementation of Senate Bill 13, Relating to state contracts with and investments in certain companies that boycott energy companies.

A hearing was held on this charge on November 17. Dave Hunter, TMRS' Chief Investment Officer, testified at the hearing along with representatives of the other statewide retirement systems.

**88<sup>th</sup> Legislative Session.** The next legislative session begins on January 10. Early bill filing started on November 14.

**75<sup>th</sup> Anniversary Celebration.** I am coordinating TMRS 75<sup>th</sup> Anniversary activities that will be held in 2023.

**Pension Review Board.** TMRS is currently in compliance with all PRB reporting requirements.



November 29, 2022

**To: Board of Trustees**

**From: David Wescoe, Executive Director**

A handwritten signature in blue ink, appearing to read "David", is written over the printed name "David Wescoe".

**Re: Agenda Item 9: Consider and Act on TMRS Strategic Plan and Mission, Vision and Values**

On October 27 and 28, the Board participated in a Retreat facilitated by Greg Carpenter to discuss TMRS' mission, vision, core values and strategic goals for 2023 – 2025. The results of the Board's discussion are reflected in the attached 2023 - 2025 Strategic Plan, which includes Senior Staff's objectives for each strategic goal.

**RECOMMENDATION**

Staff recommends that the Board approve the mission, vision, core values, and 2023 - 2025 Strategic Plan.



**DRAFT**

# **2023 - 2025 Strategic Plan**

# **Mission**

**To provide secure lifetime income to Members,  
through partnership with participating cities**

# **Vision**

**To be the model public pension plan**

# VALUES



## ACCOUNTABILITY

We honor our commitments and show consistency between our words and actions  
We act with a clear sense of ownership and focus on adding value through our work  
We take personal responsibility for our decisions, actions, successes, and failures



## EXCELLENCE

We provide clear information and superior service to our Members and cities  
We achieve consistency and reliability through continuous improvement  
We pursue everything with energy, drive, and the desire to deliver outstanding results



## INTEGRITY

We demonstrate the courage to do the right thing, even when it is difficult to do so  
We build trust by being respectful, honest, and transparent in all that we do  
We exhibit the highest standards of honesty and reliability



## INNOVATION

We champion creative ideas and actively work to implement them  
We continually assess the potential of innovative ideas and solutions  
We drive innovation by exploring different options and through intelligent risk-taking



## COLLABORATION

We work in partnership throughout the organization to achieve our common objectives  
We communicate clearly with all colleagues and stakeholders to ensure solutions to common goals  
We demonstrate respect for others by crediting them for their ideas and contributions

# **STRATEGIC GOALS**

## **Financial**

**Ensure the financial stability and long-term viability of the Plan**

## **Service**

**Deliver superior customer service**

## **Technology**

**Increase the intelligent use of technology**

## **Organizational**

**Foster a diverse, high-performing and engaged culture**

## Financial

### Ensure the financial stability and long-term viability of the Plan

| Objectives  |
|---|
| A. Generate net returns exceeding the Trust Fund benchmark by at least 50 basis points on a rolling five-year basis |
| B. Deliver above median returns with below median risk  |
| C. Continue to maintain the actuarial soundness of the Plan through a prudent funding policy                        |
| D. Incorporate prudent actuarial practices into the annual asset allocation review                                  |



## Service

### Deliver superior customer service

| Objectives   |
|--|
| A. Create quality and service level benchmarks to measure service to Members and cities        |
| B. Continuously improve service quality and efficiency   |
| C. Proactively partner with cities on ways to maximize the value of their TMRS retirement plan |
| D. Deliver superior Member and city education  |
| E. Use innovative tools to provide Members and cities with a superior user experience          |
| F. Communicate effectively   |

## Technology

### Increase the intelligent use of technology

| Objectives   |
|--|
| A. Provide secure and reliable technology that enables staff to be great from anywhere |
| B. Improve digital service capabilities for Members and cities                         |
| C. Maintain a robust cyber-security program  |
| D. Evaluate pension platforms to identify optimal solutions to meet TMRS' future needs |

## Organization

### Foster a diverse, high-performing and engaged culture

| Objectives  |
|---|
| A. Be an employer of choice   |
| B. Attract and retain an outstanding and diverse team                                   |
| C. Foster an inclusive environment  |
| D. Implement a leadership development program to train staff and prepare future leaders |
| E. Maintain a succession plan for key employees   |
| F. Ensure the transfer of institutional knowledge                                       |



November 29, 2022

**To: Board of Trustees**

**From: Leslee S. Hardy, Director of Plan Design & Funding** *Leslee S Hardy*

**Re: Agenda Item 10: Consider and Act on Supplemental Death Benefits Fund Assumptions and 2024 Rates**

To mitigate the risk of the Supplemental Death Benefits (SDB) Fund becoming depleted due to the higher mortality rates associated with the global pandemic, the Board approved an increase in the 2023 SDB contribution rates at their December 2021 meeting. This change in assumptions was effective for 2023 SDB rates only and increased the average contribution by 0.11%, from 0.21% to 0.32%.

Since the pandemic began, the SDB Fund has decreased from \$14.1M as of December 31, 2019 to \$2.8M as of August 31, 2022. Even though SDB claims during the first eight months of 2022 have decreased by 23% as compared to the same period in 2021, the SDB Fund has decreased from \$5.8M to \$2.8M. If this trend continues during the last four months of 2022, the year-end balance will be an estimated \$1.3M.

If 2023 SDB claims continue at the 2022 level, benefit payments are estimated to be \$15M. Contributions for 2023 are estimated to be \$17M which will increase the SDB Fund by approximately \$2M, from \$1.3M to \$3.3M.

To provide a cushion for future adverse experience and in an effort to increase SDB Fund assets, GRS and I recommend that the changes adopted for calculating the 2023 rates be continued for 2024. GRS will be performing an Experience Study in 2023 that determines 2025 contribution rates which will include a review of the current mortality assumptions.

**RECOMMENDATION:**

GRS and I recommend that the Board increase the 2024 SDB contribution rates as determined in the December 31, 2022 actuarial valuation by (i) removing the assumption that grants a small credit to active rates, (ii) adding a load of 100% to the active rates, and (iii) adding a load of 10% to the retiree rates.



November 29, 2022

**To: Board of Trustees**

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

**Re: Agenda Item 11: Consider and Act on Proposed 2023 Operating, Capital and PASMod Program Budgets**

The final 2023 Operating Budget is almost exactly as you saw it in September. It has increased only \$123,847, which includes an updated estimate for facilities (\$54,700), a recruiting firm to assist staff with hiring six new Information Services positions (\$45,000), and additional funding for leadership training (\$15,200).

No changes were made to the Capital or PASMod Program budgets.

**RECOMMENDATION:**

Staff recommends the Board adopt the 2023 Operating, Capital and PASMod Program budgets.

**ATTACHMENTS:**

- 1 - 2023 Preliminary to Final Budget Reconciliation
- 2 – 2023 Operating and Capital Budgets
- 3 – 2023 PASMod Program Budget
- 4 – Budget Presentation

## ATTACHMENT 1:

### 2023 Preliminary to Final Operating Budget Reconciliation

| Category                      | September<br>Version | December<br>Version | \$ Change        | % Change    |
|-------------------------------|----------------------|---------------------|------------------|-------------|
| Personnel Services            | \$22,070,877         | \$22,068,264        | \$(2,613)        | 0.0%        |
| Professional Services         | 6,454,025            | 6,499,025           | 45,000           | 0.7%        |
| Facilities                    | 2,800,189            | 2,854,889           | 54,700           | 2.0%        |
| Information Technology        | 3,473,641            | 3,483,541           | 9,900            | 0.3%        |
| Other Administrative          | 2,697,447            | 2,714,307           | 16,860           | 0.6%        |
| <b>Total Operating Budget</b> | <b>\$37,496,179</b>  | <b>\$37,620,026</b> | <b>\$123,847</b> | <b>0.3%</b> |

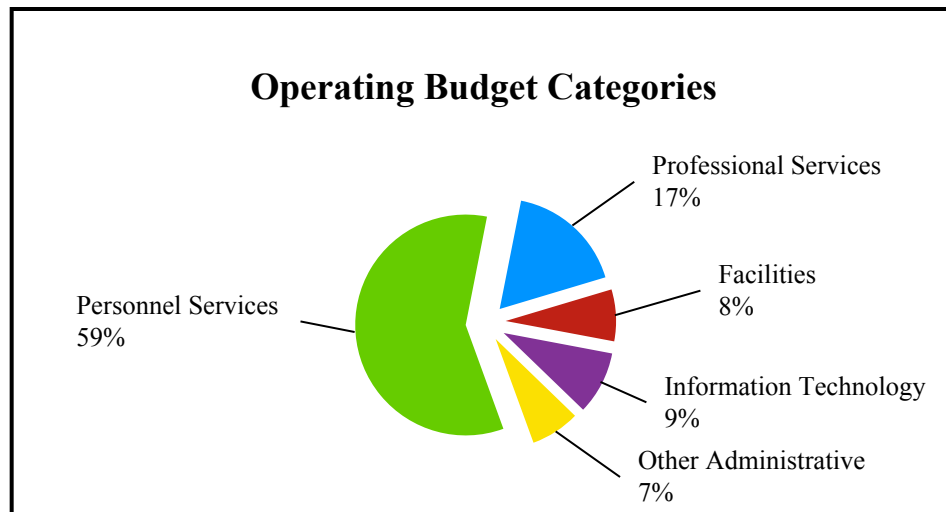


**Operating and Capital  
Expenditures Budgets  
Fiscal Year 2023**

# Summary

This Summary compares the 2023 TMRS Operating and Capital Expenditures budgets to the 2022 budgets.

| Operating and Capital Expenditures Budgets<br>For the Years Ending December 31 |                      |                      |                         |              |  |
|--|----------------------|----------------------|-------------------------|--------------|--|
|  | 2023                 | 2022                 | Increase/<br>(Decrease) | % Change     |  |
| Personnel Services   | \$ 22,068,264        | \$ 20,864,521        | \$ 1,203,743            | 6 %          |  |
| Professional Services  | 6,499,025            | 5,802,572            | 696,453                 | 12 %         |  |
| Facilities   | 2,854,889            | 2,878,905            | (24,016)                | (1) %        |  |
| Information Technology   | 3,483,541            | 3,494,328            | (10,787)                | — %          |  |
| Other Administrative   | 2,714,307            | 2,515,011            | 199,296                 | 8 %          |  |
| <b>Total Operating Budget</b>  | <b>\$ 37,620,026</b> | <b>\$ 35,555,337</b> | <b>\$ 2,064,689</b>     | <b>6 %</b>   |  |
| <b>Capital Expenditures</b>  | <b>\$ 10,000</b>     | <b>\$ 1,375,392</b>  | <b>\$ (1,365,392)</b>   | <b>100 %</b> |  |
| <b>TOTAL BUDGET</b>  | <b>\$ 37,630,026</b> | <b>\$ 36,930,729</b> | <b>\$ 699,297</b>       | <b>2 %</b>   |  |





## Summary (continued)

The 2023 Operating Budget reflects an increase of \$2,064,689, or 6%, from the 2022 operating budget. Budget items contributing to this increase are:

- **Personnel Services.** In 2022, to stay competitive in a tight labor market, we made market adjustments and paid for them with salaries from eliminated positions. In 2023, we will increase personnel services by 6% due to the following:
  - Addition of six Information Services positions at a total cost of \$1 million, with a 2023 budget impact of \$887,093 due to expected March 1 hire dates. The new staff are needed to meet increased demand for Pension Administration System enhancements, augment cybersecurity and to reduce the impact of anticipated staff retirements over the next three years.
  - 4% merit, up from 3.5% in 2022, at a cost of \$314,484.
- **Professional Services.** About half of the increase in professional services is due to a \$335,600 increase for investment consultants (NEPC and Albourne) and the other half is due to periodic or one-time expenditures as follows:
  - \$125,000 for an Actuarial Experience Study, which occurs every four years.
  - \$125,000 to engage a consultant to make software enhancements necessary for robust business analytic reports.
  - \$50,000 for a consultant to migrate the current Oracle reporting platform before it reaches end-of-life in 2024.

## Operating and Capital Expenditures Budgets

### For the Years Ending December 31

|  | 2023                 | 2022                 | Increase/<br>(Decrease) | % Change      |
|--|----------------------|----------------------|-------------------------|---------------|
| <b>Personnel services:</b>             |                      |                      |                         |               |
| Salaries and payroll taxes             | \$ 17,693,469        | \$ 16,689,769        | \$ 1,003,700            | 6 %           |
| Benefits                               | 4,274,795            | 4,074,752            | 200,043                 | 5 %           |
| Contract labor / temporary staffing    | 100,000              | 100,000              | —                       | — %           |
| Total personnel services               | 22,068,264           | 20,864,521           | 1,203,743               | 6 %           |
| <b>Professional services:</b>          |                      |                      |                         |               |
| Actuarial                              | 823,700              | 689,300              | 134,400                 | 19 %          |
| Audit                                  | 189,225              | 185,125              | 4,100                   | 2 %           |
| Custodial and banking                  | 1,573,000            | 1,553,000            | 20,000                  | 1 %           |
| Information services                   | 492,900              | 313,100              | 179,800                 | 57 %          |
| Investment                             | 1,806,000            | 1,520,347            | 285,653                 | 19 %          |
| Legal                                  | 1,161,500            | 1,166,500            | (5,000)                 | — %           |
| Other services                         | 452,700              | 375,200              | 77,500                  | 21 %          |
| Total professional services            | 6,499,025            | 5,802,572            | 696,453                 | 12 %          |
| <b>Facilities</b>                      | 2,854,889            | 2,878,905            | (24,016)                | (1) %         |
| <b>Information technology:</b>         |                      |                      |                         |               |
| Cloud-hosted services                  | 2,483,761            | 2,403,853            | 79,908                  | 3 %           |
| Hardware, software and support         | 999,780              | 1,090,475            | (90,695)                | (8) %         |
| Total information technology           | 3,483,541            | 3,494,328            | (10,787)                | — %           |
| <b>Other administrative:</b>           |                      |                      |                         |               |
| Board of Trustees / Advisory Committee | 132,540              | 130,500              | 2,040                   | 2 %           |
| City and member outreach               | 786,090              | 760,735              | 25,355                  | 3 %           |
| Professional development               | 503,871              | 508,813              | (4,942)                 | (1) %         |
| Supplies / document storage / misc.    | 656,513              | 573,498              | 83,015                  | 14 %          |
| Travel                                 | 635,293              | 541,465              | 93,828                  | 17 %          |
| Total other administrative             | 2,714,307            | 2,515,011            | 199,296                 | 8 %           |
| <b>Total operating budget</b>          | <b>\$ 37,620,026</b> | <b>\$ 35,555,337</b> | <b>\$ 2,064,689</b>     | <b>6 %</b>    |
| <b>Total capital expenditures</b>      | <b>\$ 10,000</b>     | <b>\$ 1,375,392</b>  | <b>\$ (1,365,392)</b>   | <b>(99) %</b> |
| <b>TOTAL BUDGET</b>                    | <b>\$ 37,630,026</b> | <b>\$ 36,930,729</b> | <b>\$ 699,297</b>       | <b>2 %</b>    |

## Operating Budget - Personnel Services

| Personnel Services<br>For the Years Ending December 31 |                      |                      |                         |            |
|--|----------------------|----------------------|-------------------------|------------|
|  | 2023                 | 2022                 | Increase/<br>(Decrease) | % Change   |
| <b>Salaries and payroll taxes:</b>                     |                      |                      |                         |            |
| Staff salaries   | \$ 16,553,068        | \$ 15,624,101        | \$ 928,967              | 6 %        |
| Payroll taxes  | 1,140,401            | 1,065,668            | 74,733                  | 7 %        |
| Total  | 17,693,469           | 16,689,769           | 1,003,700               | 6 %        |
| <b>Benefits:</b>                                       |                      |                      |                         |            |
| TMRS contributions                                     | 2,678,796            | 2,518,605            | 160,191                 | 6 %        |
| Insurance  | 1,578,790            | 1,538,969            | 39,821                  | 3 %        |
| Other  | 17,209               | 17,178               | 31                      | — %        |
| Total  | 4,274,795            | 4,074,752            | 200,043                 | 5 %        |
| <b>Contract Labor/Temporary Staffing</b>               | 100,000              | 100,000              | —                       | 100 %      |
| <b>Total Personnel Services</b>                        | <b>\$ 22,068,264</b> | <b>\$ 20,864,521</b> | <b>\$ 1,203,743</b>     | <b>6 %</b> |

**Personnel Services** represent the largest budget category at 59% of the 2023 operating budget and reflect an increase of \$1,203,743, or 6%, from the prior year.

**Staff salaries** include six new FTEs in Information Services at total estimated salaries of \$648,533. Open positions are budgeted at the mid-point of the associated pay group. Estimated mid-year merit adjustments of 4.0% are included. The budget also includes estimates for paying out accrued vacation/sick leave when employees retire and lump sum merits.

**Payroll taxes** are based upon estimated staff salaries at the 6.2% rate for Social Security and 1.45% rate for Medicare.

**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 2023 is 15.39% (15.06% retirement rate and .33% supplemental death benefit rate). Consistent with prior years, the 2023 operating budget maintains the 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.

## **Operating Budget - Personnel Services (continued)**

**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 2023 budget includes estimated rate increases for the last four months of 2023.

TMRS retirees may also participate in the group health plan, and TMRS subsidizes retirees' rates based on a tenure schedule. TMRS currently has 16 retirees participating in the group health plan. The budget also includes estimates for retiree insurance for potential new retirements in 2023.

**Other.** The Employee Assistance Program provides employees with certain other benefits including counseling, guidance, training, resources and referrals to increase health and well-being.

# Operating Budget - Professional Services

| Professional Services<br>For the Years Ending December 31 |                     |                     |                         |             |
|---|---------------------|---------------------|-------------------------|-------------|
|   | 2023                | 2022                | Increase/<br>(Decrease) | % Change    |
| <b>Actuarial:</b>   |                     |                     |                         |             |
| Retainer  | \$ 623,700          | \$ 605,700          | \$ 18,000               | 3 %         |
| Other   | 200,000             | 83,600              | 116,400                 | 139 %       |
| Total Actuarial   | 823,700             | 689,300             | 134,400                 | 19 %        |
| <b>Audit:</b>   |                     |                     |                         |             |
| External financial and SOC-1 audits                       | 189,225             | 185,125             | 4,100                   | 2 %         |
| Total Audit   | 189,225             | 185,125             | 4,100                   | 2 %         |
| <b>Custodial and Banking:</b>                             |                     |                     |                         |             |
| Custodial services  | 1,515,000           | 1,500,000           | 15,000                  | 1 %         |
| Depository services                                       | 58,000              | 53,000              | 5,000                   | 9 %         |
| Total Custodial and Banking                               | 1,573,000           | 1,553,000           | 20,000                  | 1 %         |
| <b>Information Services:</b>                              |                     |                     |                         |             |
| Quality assurance   | 20,000              | 10,000              | 10,000                  | 100 %       |
| IT research and consulting services                       | 127,000             | 125,000             | 2,000                   | 2 %         |
| Information services support                              | 255,900             | 93,100              | 162,800                 | 175 %       |
| Cybersecurity audit                                       | 90,000              | 85,000              | 5,000                   | 6 %         |
| Total Information Services                                | 492,900             | 313,100             | 179,800                 | 57 %        |
| <b>Investment:</b>  |                     |                     |                         |             |
| Alternatives  | 1,200,000           | 1,000,000           | 200,000                 | 20 %        |
| General investment  | 550,000             | 414,347             | 135,653                 | 33 %        |
| Other   | 56,000              | 106,000             | (50,000)                | (47) %      |
| Total Investment Consultants                              | 1,806,000           | 1,520,347           | 285,653                 | 19 %        |
| <b>Legal:</b>   |                     |                     |                         |             |
| Fiduciary   | 120,000             | 100,000             | 20,000                  | 20 %        |
| Investment  | 858,000             | 848,000             | 10,000                  | 1 %         |
| Other   | 183,500             | 218,500             | (35,000)                | (16) %      |
| Total Legal   | 1,161,500           | 1,166,500           | (5,000)                 | — %         |
| <b>Other Services:</b>                                    |                     |                     |                         |             |
| Disability Board  | 45,000              | 50,000              | (5,000)                 | (10) %      |
| Governance/strategic planning                             | 125,000             | 50,000              | 75,000                  | 150 %       |
| Human resources   | 61,800              | 136,000             | (74,200)                | (55) %      |
| Legislative   | 129,000             | 84,000              | 45,000                  | 54 %        |
| Other   | 91,900              | 55,200              | 36,700                  | 66 %        |
| Total Other Services                                      | 452,700             | 375,200             | 77,500                  | 21 %        |
| <b>Total Professional Services</b>                        | <b>\$ 6,499,025</b> | <b>\$ 5,802,572</b> | <b>\$ 696,453</b>       | <b>12 %</b> |

## Operating Budget - Professional Services (continued)

**Professional Services** represent 17% of the 2023 operating budget and reflect an increase of \$696,453, or 12%, from the prior year.

**Actuarial services** are provided by Gabriel, Roeder, Smith and Company (GRS) and represent 13% of the professional services budget category. The budget includes a contractual increase of \$18,000 in GRS' annual retainer and \$125,000 for an Actuarial Experience Study, which occurs every four years.

**Audit services** make up 3% of the professional services budget category. External financial and SOC-1 audits are performed by CLA at an estimated total of \$184,000; the budget includes a 2% contractual increase from the 2022 fees.

**Custodial and banking services** make up 24% of the professional services budget category. TMRS retained State Street Bank as custodian and JPMorgan Chase as depository bank.

**Information services consultants** make up 8% of the professional service category and include:

- \$127,000 for Gartner Consulting, which provides access to research and an online peer community for the Information Services team.
- \$125,000 for software enhancements to our electronic document management system. These enhancements are needed to provide more robust business analytics on key benefit administration processes to better support data driven management decisions.
- \$90,000 for an Annual network security audit.
- \$50,000 for assistance migrating the Oracle reporting platform used by NextGen that will reach end-of-life in 2024.

**Investment consultants** make up 28% of total professional services. In 2022, TMRS selected NEPC as the Board's general investment consultant at \$550,000 and Albourne America LLC remains the Board's consultant for alternatives at \$1.2 million.

**Legal services** make up 18% of the professional services budget category and include fiduciary legal counsel, investment-related legal fees and other legal matters.

**Other services** make up 7% of the professional services budget category and include funds for the disability review/certification, Board governance, compensation analysis and legislative services.

## Operating Budget - Facilities

| Facilities                              |                     |                     |                         |              |
|---|---------------------|---------------------|-------------------------|--------------|
| For the Years Ending December 31        |                     |                     |                         |              |
|   | 2023                | 2022                | Increase/<br>(Decrease) | % Change     |
| Office rent                             | \$ 2,814,900        | \$ 2,657,346        | \$ 157,554              | 6 %          |
| Building maintenance/utilities/security | 24,989              | 186,320             | (161,331)               | (87) %       |
| Property/liability insurance            | 15,000              | 35,239              | (20,239)                | (57) %       |
| <b>Total Facilities</b>                 | <b>\$ 2,854,889</b> | <b>\$ 2,878,905</b> | <b>\$ (24,016)</b>      | <b>(1) %</b> |

**Facilities** is 8% of the 2023 operating 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.

**Building maintenance/utilities/security.** TMRS is responsible for certain repairs and maintenance costs and streaming cable services. Costs in 2023 will decrease because expenses for the 1200 N. IH-35 building were discontinued after its sale in 2022.

**Property/liability insurance.** TMRS maintains property/liability insurance as required under The Grove lease agreement, as well as insurance on TMRS' owned contents. Costs in 2023 will decrease because insurance for the 1200 N. IH-35 building were discontinued after its sale in 2022.

## Operating Budget - Information Technology

| Information Technology<br>For the Years Ending December 31 |                     |                     |                         |            |
|--|---------------------|---------------------|-------------------------|------------|
|  | 2023                | 2022                | Increase/<br>(Decrease) | % Change   |
| <b>Cloud-hosted services:</b>                              |                     |                     |                         |            |
| Risk management and reporting                              | 1,063,827           | 1,030,653           | 33,174                  | 3 %        |
| Investment analysis  | 408,784             | 403,339             | 5,445                   | 1 %        |
| Information services                                       | 868,450             | 786,000             | 82,450                  | 10 %       |
| Other  | 142,700             | 183,861             | (41,161)                | (22) %     |
| Total cloud-hosted services                                | 2,483,761           | 2,403,853           | 79,908                  | 3 %        |
| <b>Hardware/software &amp; support:</b>                    |                     |                     |                         |            |
| Hardware maintenance                                       | \$ 78,550           | \$ 173,133          | \$ (94,583)             | (55) %     |
| Software maintenance                                       | 845,058             | 819,892             | 25,166                  | 3 %        |
| Internet service and other                                 | 76,172              | 97,450              | (21,278)                | (22) %     |
| Total hardware/software & support                          | 999,780             | 1,090,475           | (90,695)                | (8) %      |
| <b>Total Information Technology</b>                        | <b>\$ 3,483,541</b> | <b>\$ 3,494,328</b> | <b>\$ (10,787)</b>      | <b>— %</b> |

**Information Technology** is 9% of the 2023 proposed operating budget.

**Cloud-hosted services** make up 71% of this budget category, including web-based services, a majority of which are for the Investment department. The 2023 budget increase includes \$75,000 for Information Services to accommodate hosting fees for a website content management system for the Communications team, and call center licenses for the City Contributions team.

**Hardware/software & support** make up the remainder of this category at \$999,780 for hardware and software licensing/maintenance and internet service. Budgeted funds for hardware maintenance costs were higher in 2022 because \$109,783 for five years of ongoing maintenance/support was paid upfront for the Storage Area Network (SAN), which provides storage for all TMRS servers and virtual desktops.



## Operating Budget - Other Administrative

| Other Administrative<br>For the Years Ending December 31 |                     |                     |                         |            |
|--|---------------------|---------------------|-------------------------|------------|
|  | 2023                | 2022                | Increase/<br>(Decrease) | % Change   |
| <b>Board of Trustees/Advisory Committee:</b>             |                     |                     |                         |            |
| Meetings   | 106,380             | 93,240              | 13,140                  | 14 %       |
| Professional development                                 | 26,160              | 37,260              | (11,100)                | (30) %     |
| Total Board of Trustees/Advisory Committee               | 132,540             | 130,500             | 2,040                   | 2 %        |
| <b>City and member outreach:</b>                         |                     |                     |                         |            |
| Printing   | 176,300             | 243,260             | (66,960)                | (28) %     |
| Postage/mailing  | 344,540             | 320,375             | 24,165                  | 8 %        |
| Member education   | 265,250             | 197,100             | 68,150                  | 35 %       |
| Total city and member outreach                           | 786,090             | 760,735             | 25,355                  | 3 %        |
| <b>Professional development:</b>                         |                     |                     |                         |            |
| Member dues  | 48,407              | 52,296              | (3,889)                 | (7) %      |
| Subscriptions/publications                               | 112,699             | 113,632             | (933)                   | (1) %      |
| Training/tuition   | 342,765             | 342,885             | (120)                   | — %        |
| Total professional development                           | 503,871             | 508,813             | (4,942)                 | (1) %      |
| <b>Supplies, document storage, miscellaneous:</b>        |                     |                     |                         |            |
| Business insurance                                       | 208,773             | 167,560             | 41,213                  | 25 %       |
| Equipment, supplies and document storage                 | 293,800             | 315,850             | (22,050)                | (7) %      |
| Miscellaneous  | 153,940             | 90,088              | 63,852                  | 71 %       |
| Total Supplies, Document Storage, Misc.                  | 656,513             | 573,498             | 83,015                  | 14 %       |
| <b>Travel</b>  |                     |                     |                         |            |
| Business travel  | 476,180             | 364,357             | 111,823                 | 31 %       |
| Professional development travel                          | 159,113             | 177,108             | (17,995)                | (10) %     |
| Total travel   | 635,293             | 541,465             | 93,828                  | 17 %       |
| <b>Total Other Administrative</b>                        | <b>\$ 2,714,307</b> | <b>\$ 2,515,011</b> | <b>\$ 199,296</b>       | <b>8 %</b> |

**Other Administrative** represents 7% of the 2023 proposed operating budget and reflects an increase of \$199,296, or 8%, from 2022.

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

**City and Member Outreach** represents 29% of this budget category and includes costs of outreach efforts to our participating cities and members. 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. Also included are costs for issuing 1099-R forms, the TMRS Annual Training Seminar, educational video recordings, booth exhibits and receptions at other events.

## **Operating Budget - Other Administrative (continued)**

**Professional Development** is approximately 19% 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.

**Supplies, Document Storage and Misc.** include items that are not specifically categorized elsewhere:

- Business insurance costs include estimates of fiduciary liability, cyber liability and workers compensation coverage based on quotes received from the respective carriers.
- Equipment and supplies include general office supplies, equipment purchases at amounts below capitalization thresholds and equipment rentals.
- Document storage and shredding services are provided by Iron Mountain.
- Miscellaneous includes business meals, staff office functions, logo shirts for Board and staff 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 Expenditures Budget

| Capital Expenditures<br>For the Years Ending December 31 |                  |                     |                         |               |
|--|------------------|---------------------|-------------------------|---------------|
|  | 2023             | 2022                | Increase/<br>(Decrease) | % Change      |
| Relay 2500 folder/insertter                              | \$ 10,000        | \$ —                | \$ 10,000               | 100 %         |
| SAN replacement  | —                | 503,492             | (503,492)               | (100) %       |
| Physical servers replacement                             | —                | 871,900             | (871,900)               | (100) %       |
| <b>Total Capital Expenditures</b>                        | <b>\$ 10,000</b> | <b>\$ 1,375,392</b> | <b>\$ (1,365,392)</b>   | <b>(99) %</b> |

Capital expenditures include furniture, software and equipment and are depreciated (expensed) over the items' useful lives (ranging from three to ten years.) TMRS' capitalization policy threshold is \$10,000.

**Relay 2500 folder/insertter.** This machine enables folding and stuffing capabilities for city and Member mailouts.

### ATTACHMENT 3: PASMod Program Budget

| Pension Administration System Modernization (PASMod) Program |             |              |              |             |             |              |  |
|--|-------------|--------------|--------------|-------------|-------------|--------------|--|
|  | 2020 Actual | 2021 Actual  | 2022 Budget  | 2023 Budget | 2024 Budget | Total        |  |
| Program Objectives:  |             |              |              |             |             |              |  |
| City Contribution System (CCS)                               | \$ -        | \$ 843,840   | \$ 2,418,942 | \$ 574,038  | \$ -        | \$ 3,836,820 |  |
| Customer Relationship Mgmt System                            | -           | -            | -            | -           | -           | -            |  |
| NextGen Refactoring  | -           | -            | -            | -           | -           | -            |  |
| Mobile App Needs Assessment                                  | -           | -            | -            | -           | -           | -            |  |
| Program Resources:   |             |              |              |             |             |              |  |
| Organizational Change Mgmt (OCM)                             | 12,200      | -            | -            | -           | -           | 12,200       |  |
| Agile Training   | 33,000      | -            | -            | -           | -           | 33,000       |  |
| Project Manager  | 102,088     | -            | -            | -           | -           | 102,088      |  |
| Temporary Staffing   | -           | 141,162      | 376,000      | -           | -           | 517,162      |  |
| Program Supplies   | -           | -            | 5,000        | -           | -           | 5,000        |  |
| Online Services  | 22,763      | 69,000       | -            | -           | -           | 91,763       |  |
| Data Processing  | -           | 5,542        | -            | -           | -           | 5,542        |  |
| Other Services (video/technical writer)                      | -           | -            | 10,000       | -           | -           | 10,000       |  |
| Total  | \$ 170,051  | \$ 1,059,544 | \$ 2,809,942 | \$ 574,038  | \$ -        | \$ 4,613,575 |  |

TMRS staff continually review the PASMod program objectives and refine the budget accordingly.

TMRS is now estimating to complete the PASMod program earlier than initially anticipated, with an overall reduction in estimated expenses of \$6 million.

| Pension Administration System Modernization (PASMod) Program - Overall Budget Savings |              |              |              |              |            |                     |  |
|---|--------------|--------------|--------------|--------------|------------|---------------------|--|
|   | 2020         | 2021         | 2022         | 2023         | 2024       | Total               |  |
| Original budget (approved for 2020)   | \$ 1,468,097 | \$ 3,421,798 | \$ 2,170,440 | \$ 2,705,440 | \$ 763,870 | \$ 10,529,645       |  |
| Revised budget - 2021<br>(actual)   | \$ 170,051   | \$ 1,932,628 | \$ 3,673,391 | \$ 1,545,000 | \$ 350,000 | \$ 7,671,070        |  |
| Revised budget - 2022<br>(actual)   | \$ 170,051   | \$ 1,059,544 | \$ 2,809,942 | \$ 574,038   | \$ -       | \$ 4,613,575        |  |
| Revised budget - as of July, 2022<br>(estimate)                                       | \$ 170,051   | \$ 1,059,544 | \$ 2,472,916 | \$ 574,038   | \$ -       | \$ 4,276,549        |  |
| Total savings   |              |              |              |              |            | <u>\$ 6,253,096</u> |  |

**A**

**B**

**A - B**



# **Agenda Item 11: Consider and Act on Proposed 2023 Operating, Capital and PASMod Program Budgets**

Presented by  
Candace Nolte, Director of Finance  
December 8, 2022

# 2023 Operating Budget

The final 2023 Operating Budget is almost exactly what you saw in September.

| Category                      | September Version   | December Version    | \$ Change        | % Change    |
|-------------------------------|---------------------|---------------------|------------------|-------------|
| Personnel Services            | \$22,070,877        | \$22,068,264        | \$(2,613)        | 0.0%        |
| Professional Services         | 6,454,025           | 6,499,025           | 45,000           | 0.7%        |
| Facilities                    | 2,800,189           | 2,854,889           | 54,700           | 2.0%        |
| Information Technology        | 3,473,641           | 3,483,541           | 9,900            | 0.3%        |
| Other Administrative          | 2,697,447           | 2,714,307           | 16,860           | 0.6%        |
| <b>Total Operating Budget</b> | <b>\$37,496,179</b> | <b>\$37,620,026</b> | <b>\$123,847</b> | <b>0.3%</b> |

## 2023 Capital and PASMod Budgets

No changes were made to the Capital or PASMod Program budgets.

# Recommendation

Staff recommends the Board adopt the 2023 Operating, Capital and PASMod Program budgets.





November 29, 2022

**To:** Board of Trustees

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

**Re:** Agenda Item 12: Consider and Act on Resolution Transferring Monies from Interest Reserve Account to Expense Fund

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

The 2023 combined budgets of \$38.2 million plus the 15% holdback of \$5.7 million totals \$43.9 million. We offset the budget transfer by the estimated \$9.1 million remaining in the Expense Fund.

The required transfer to the Expense Fund to cover 2023 budgeted expenses is \$34.8 million. The transfer is book-entry only; all funds remain invested in the Trust Fund until the actual expenditures are made.

**RECOMMENDATION:**

Staff recommends that the Board transfer \$34.8 million from the Interest Reserve Account to the Expense Fund to cover 2023 budgeted expenses.



November 29, 2022

**To: Board of Trustees**

**From: Dave Hunter, Chief Investment Officer**

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

**Re: Agenda Item 13: Chief Investment Officer's Report**

**Trust Fund Performance.** Trust Fund net investment returns were -6.17% and 4.72% for the one- and five-years ended September 30, 2022, respectively. These returns are a direct reflection of difficult capital market conditions in the last 12 months, including a 21% decline in Global Equity and 15% decline in Fixed Income benchmarks for the one-year ended September 30, 2022.

TMRS returns exceeded our Actual Allocation Benchmark by 5% and 1.2% for the one and five-years ended September 30, 2022, respectively. NEPC ranks TMRS' one-year returns in the top quartile for all public pension plans with assets greater than \$1 billion and \$10 billion. My CIO presentation will review asset class returns for the one- and five-years ended September 30, 2022, including Real Estate and Private Equity that generated the strongest absolute returns of 25% and 19% in the last 12 months, respectively. In contrast, Global Equity and Core Fixed Income posted negative returns of 22% and 15%, respectively, in the last 12 months. Returns are preliminary as private market returns are lagged by one month for monthly-valued assets and one quarter for quarterly-valued assets as of September 30, 2022.

**Staff Investment Committee (SIC).** The SIC met on October 4 and November 8 to approve a new \$150 million Other Public & Private Markets (OPPM) investment and continue portfolio rebalancing efforts to enhance long-term returns. Public market portfolio rebalancing included establishing a new \$570 million U.S. Large Cap Equity strategy with an existing passive manager to improve returns by reducing tracking error in global equity. Private market portfolio rebalancing included reducing future commitments to existing managers with declining return expectations. Redemption implementation schedules for these rebalancing activities will extend into 2024 and be subject to further SIC evaluation. Redemption proceeds will be reinvested with better performing, existing managers. The next SIC meeting is scheduled for December 15, and you are welcome to attend it.

**Annual Completed Investments Report.** In 2022, TMRS has closed more than \$4.2 billion of investments including \$570 million in global equity, \$300 million in Non-Core Fixed Income (NCFI), \$1.3 billion in real estate, \$1.25 billion in OPPM and more than \$840 million in private equity. The SIC also reduced hedge funds by \$585 million in accordance with Board-approved asset allocation directives.

**Asset Class Reassignments.** In November, the SIC approved reassignment of \$425 million of private equity commitments to OPPM (\$250 million) and NCFI (\$175 million). The Net Asset Value of these private equity investments totaled \$164 million including \$73 million for OPPM and \$91 million for NCFI. These reassignments align underlying investments with our current strategic asset allocation definitions. These actions will be effective as of January 1, 2023. NEPC supported these reassignments.

**General Investment Consultant Update.** The transition to NEPC is complete. NEPC will present Q3 2022 performance at the December Board meeting.

**Other Material Non-Action SIC Items.** The SIC completed annual reviews for fixed income, hedge funds and private markets pacing in addition to NEPC's asset allocation review and risk appetite survey.

**Investment Team Update.** Doug Rand joined our investment team in October to fill a department vacancy in Operations. He has hit the ground running, and we are happy to have him on the team. Doug graduated with a BA from the University of Massachusetts at Dartmouth and received his MBA from Boston University. He is currently working on his Master of Science in Data Science online through Texas Tech University. Doug formerly worked at State Street as an investment operations analyst and as an account controller and as a trust administrator at BNY Mellon. Doug is a great addition to our investment team.



# Trust Fund Report: Q3 2022

Board of Trustees Meeting

Dave Hunter, CIO

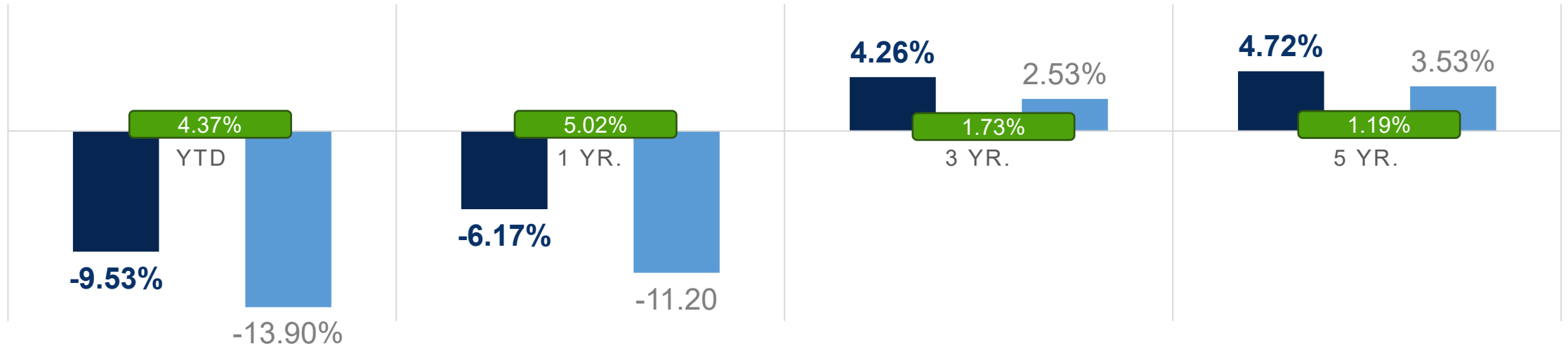
December 8, 2022

# Trust Fund Net Excess Returns Exceed Benchmarks

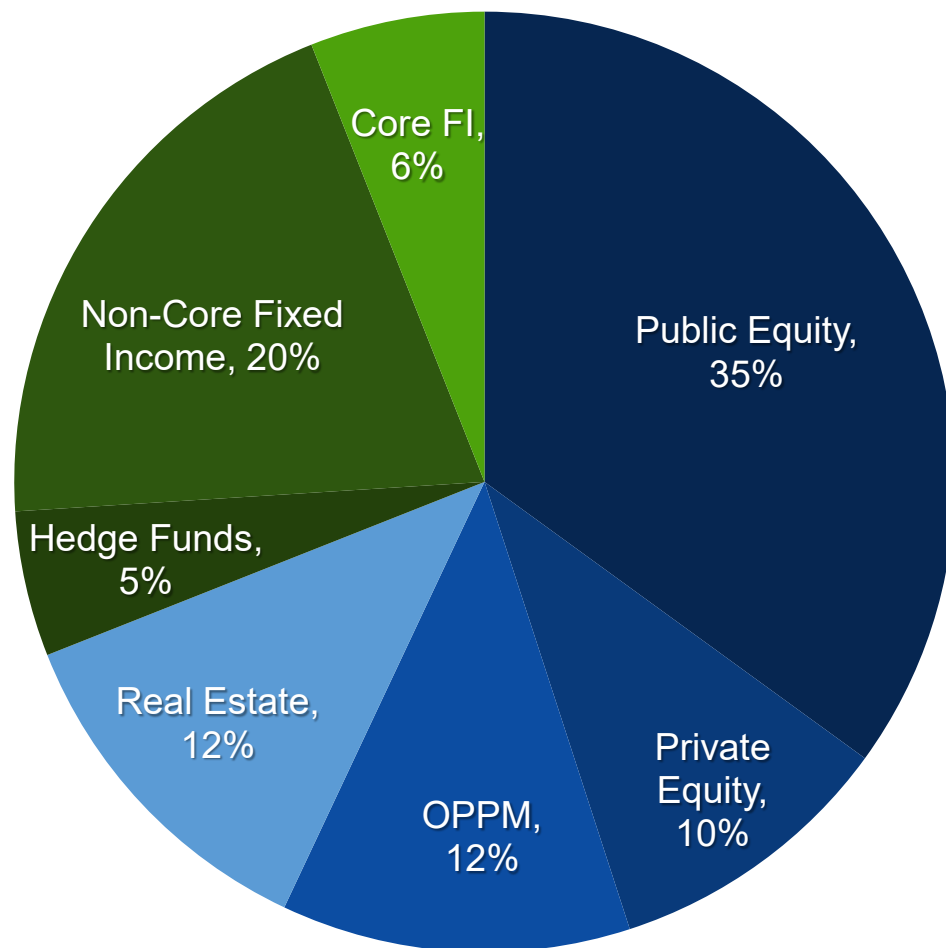
**Net Returns exceed Asset Allocation Benchmark by 1.19% in Last 5-Years.**  
Private Equity, OPPM, Non-Core Fixed Income, and Real Estate drove excess return performance.

## Net Performance as of September 30, 2022

■ Trust Fund ■ Benchmark ■ Excess Return



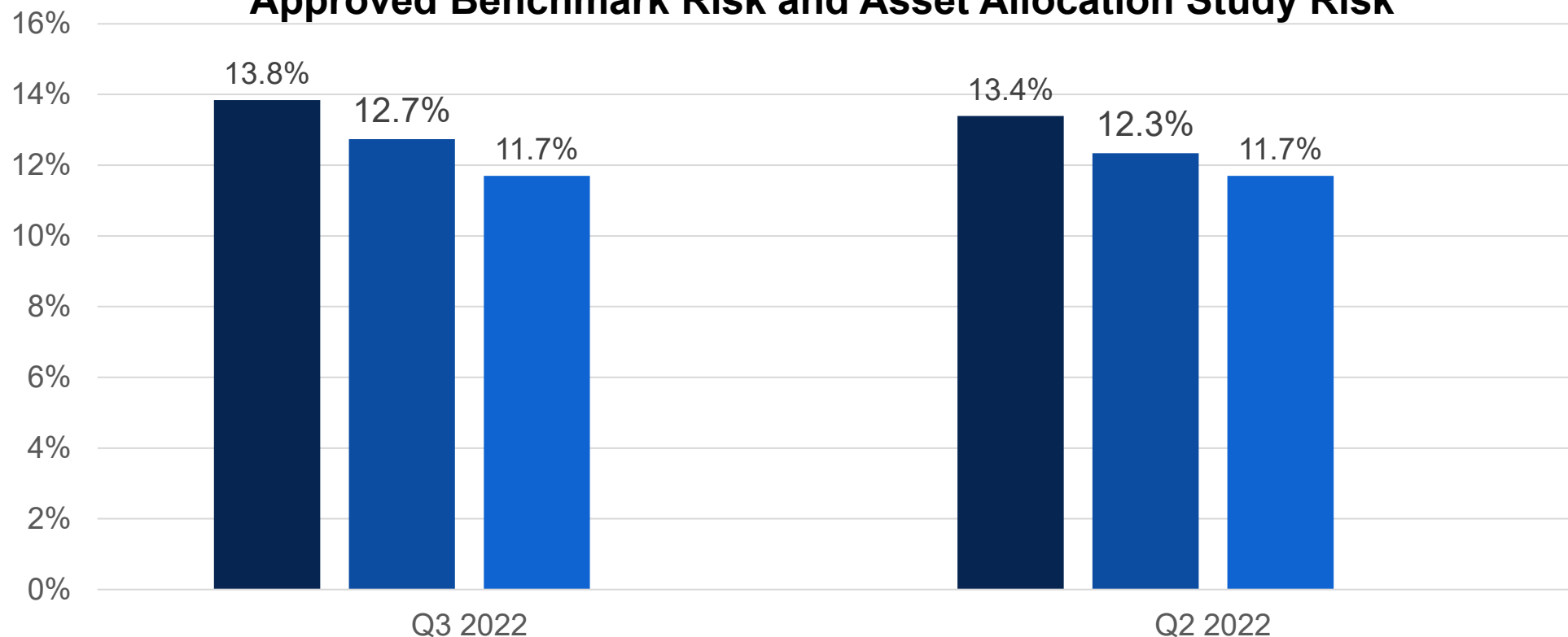
# Trust Fund Asset Allocation Aligns with Strategic Targets



|                  | Strategic Target | Actual as of Sept. 30, 2022 | Delta  |
|------------------|------------------|-----------------------------|--------|
| ■ Public Equity  | 35%              | 31.3%                       | (3.7%) |
| ■ Private Equity | 10%              | 10.7%                       | 0.7%   |
| ■ OPPM           | 12%              | 11.1%                       | (0.9%) |
| ■ Real Estate    | 12%              | 13.5%                       | 1.5%   |
| ■ Hedge Funds    | 5%               | 7.4%                        | 2.4%   |
| ■ NCFI           | 20%              | 21.1%                       | 1.1%   |
| ■ Core FI        | 6%               | 4.5%                        | (1.5%) |
| ■ Cash           | 0%               | 0.4%                        | 0.4%   |

# Trust Fund Risk Aligns with Benchmark Risk

**Trust Fund Risk, as measured by Standard Deviation, aligns with Board Approved Benchmark Risk and Asset Allocation Study Risk**

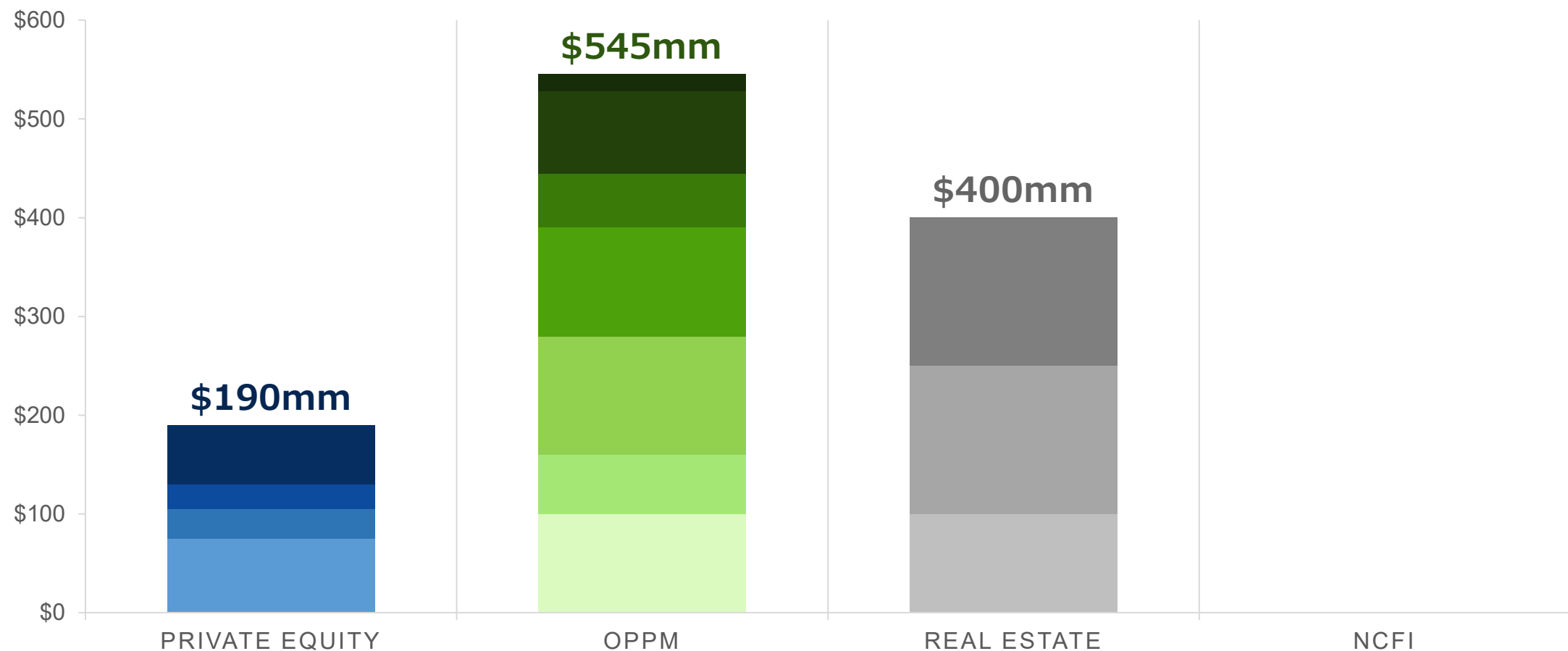


**Trust Fund Risk**

**Benchmark Risk**

**Asset Allocation Study Risk**

# Private Market Commitments of \$1.14 billion Closed in Q3 2022



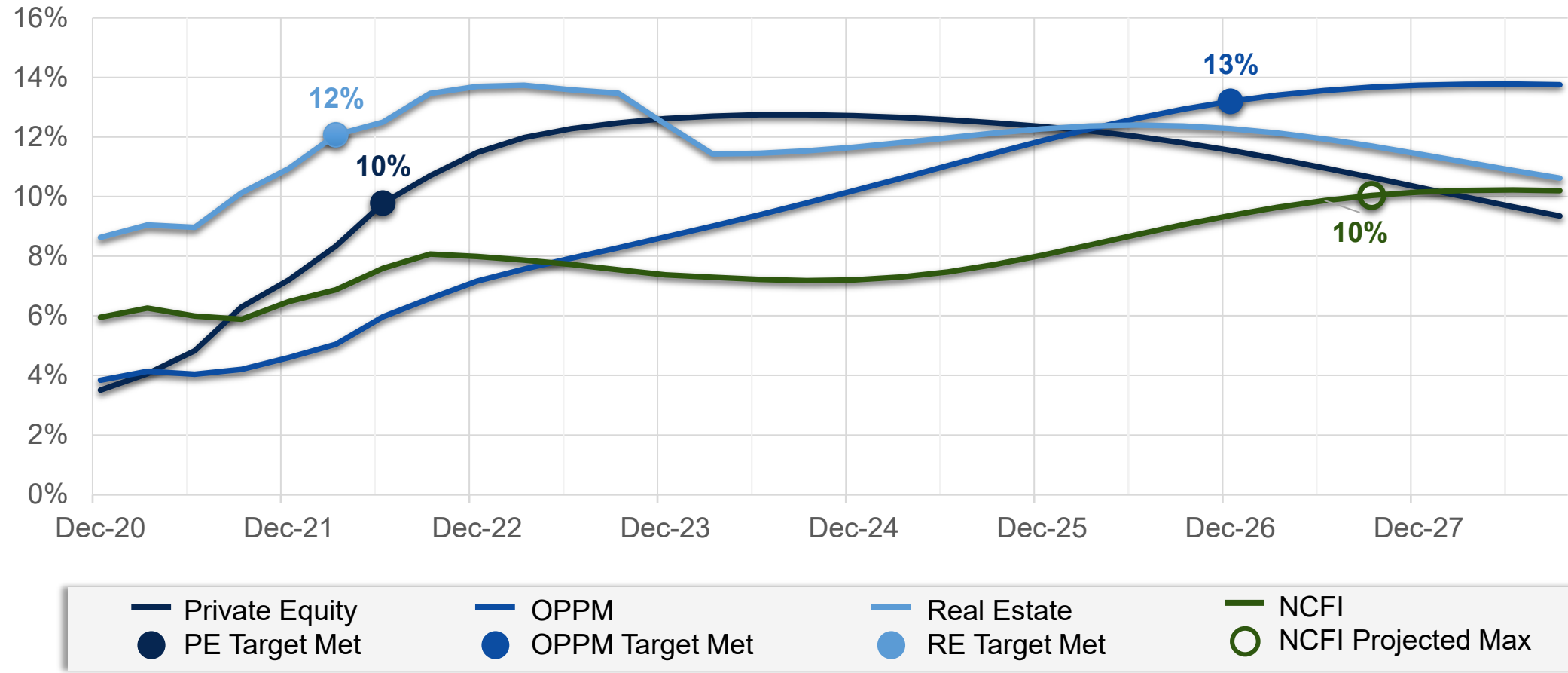


# Total Completed Investments, as of Oct. 31, 2022

| Asset Class                 | Market  | Commitment      |
|-----------------------------|---------|-----------------|
| Global Equity               | Public  | \$570 million   |
| Private Equity              | Private | \$842 million   |
| OPPM                        | Private | \$1,250 million |
| Real Estate                 | Private | \$1,300 million |
| NCFI                        | Private | \$300 million   |
| Total Completed Investments |         | \$4,262 million |

# Private Markets Pacing Plans are on Track

Projected Allocation as of September 30, 2022



## 2022 Completed Investments Report

(unaudited)  
As of 10/31/2022

### COMPLETED INVESTMENTS

| ASSET CLASS / STRATEGY                    | COMPLETED DATE | PUBLIC MARKETS - MANAGER NAME  | NEW / EXISTING MANAGER | AMOUNT COMMITTED | PUBLIC / PRIVATE MARKET |
|---|----------------|--|------------------------|------------------|-------------------------|
| <b>Global Equity</b>                      |                |  |                        |                  |                         |
| MSCI Large Cap USA Fund                   | July 8         | Northern Trust Investments, Inc.   | Existing               | \$570,000,000    | Public                  |
| <b>Core Fixed Income</b>                  |                |  |                        |                  |                         |
| N/A                                       |                |  |                        |                  |                         |
| ASSET CLASS / STRATEGY                    | COMPLETED DATE | PRIVATE MARKETS - FUND NAME  | NEW / EXISTING MANAGER | AMOUNT COMMITTED | PUBLIC / PRIVATE MARKET |
| <b>Non-Core Fixed Income</b>              |                |  |                        |                  |                         |
| Direct Lending                            | October 24     | Pemberton Mid-Market Debt Fund III SCSp SICAV RAIF - Pemberton<br>Mid-Market Debt Fund III USD Co-Investment | Existing               | \$50,000,000     | Private                 |
| Direct Lending                            | June 30        | Pemberton Strategic Credit Fund III SCSp SICAV-RAIF - Pemberton<br>Strategic Credit Fund III (B)             | Existing               | \$250,000,000    | Private                 |
| <b>Real Estate</b>                        |                |  |                        |                  |                         |
| Value Add                                 | October 19     | Stonepeak Real Estate Partners - Master Co-Investment Partners LP  | Existing               | \$100,000,000    | Private                 |
| Opportunistic                             | August 10      | Platform Texas Fund I, LLC   | Existing               | \$150,000,000    | Private                 |
| Core                                      | July 26        | Abacus Core Income Fund I, LP  | Existing               | \$100,000,000    | Private                 |
| Value Add                                 | July 12        | Stonepeak Real Estate Partners, LP   | Existing               | \$150,000,000    | Private                 |
| Value Add                                 | June 2         | Pennybacker VI, LP   | Existing               | \$150,000,000    | Private                 |
| Value Add                                 | April 6        | Abacus Multi-Family Partners VI, LP  | Existing               | \$100,000,000    | Private                 |
| Opportunistic                             | January 28     | TPG Real Estate Partners IV, L.P.  | Existing               | \$250,000,000    | Private                 |
| Core                                      | January 7      | BentallGreenOak US Core Plus Fund LP   | Existing               | \$100,000,000    | Private                 |
| Core                                      | January 1      | Virtus Real Estate Enhanced Core, LP   | Existing               | \$200,000,000    | Private                 |
| <b>Other Public &amp; Private Markets</b> |                |  |                        |                  |                         |
| Other                                     | October 7      | Ara Fund III, LP   | Existing               | \$75,000,000     | Private                 |
| Other                                     | October 7      | Ara Co-Investment T, LP  | Existing               | \$75,000,000     | Private                 |
| Infrastructure                            | September 12   | Warren Equity Partners Fund IV, L.P.   | New                    | \$100,000,000    | Private                 |
| Other                                     | September 2    | Gamut Investment Fund II Bluebonnet Co-Invest, L.P.  | New                    | \$60,000,000     | Private                 |
| Other                                     | August 30      | Gamut Investment Fund II, L.P.   | New                    | \$120,000,000    | Private                 |
| Other                                     | August 31      | Oberland Capital Healthcare III, LP  | Existing               | \$110,000,000    | Private                 |
| Other                                     | August 31      | Oberland Capital Healthcare III Brazos Co-Invest, LP   | Existing               | \$55,000,000     | Private                 |
| Other                                     | July 20        | Flexpoint Fund V-A, L.P.   | New                    | \$83,333,333     | Private                 |
| Other                                     | July 20        | Flexpoint Overage Fund V-A, L.P.   | New                    | \$16,666,667     | Private                 |
| Natural Resources                         | March 31       | Sprott Private Resource Lending (US) III, LP   | Existing               | \$150,000,000    | Private                 |
| Infrastructure                            | March 23       | Oaktree Power Opportunities Fund VI, L.P.  | New                    | \$150,000,000    | Private                 |
| Infrastructure                            | March 4        | SDC Digital Infrastructure Opportunity Fund III, L.P.  | Existing               | \$175,000,000    | Private                 |
| Infrastructure                            | February 24    | Hull Street Energy Partners II, L.P.   | Existing               | \$50,000,000     | Private                 |
| Infrastructure                            | February 16    | Pioneer Infrastructure Partners SCSp   | Existing               | € 28,859,700     | Private                 |

## 2022 Completed Investments Report

(unaudited)  
As of 10/31/2022

### COMPLETED INVESTMENTS

| ASSET CLASS / STRATEGY  | COMPLETED DATE | PRIVATE MARKETS - FUND NAME                   | NEW / EXISTING<br>MANAGER | AMOUNT COMMITTED              | PUBLIC / PRIVATE MARKET |
|-------------------------|----------------|---|---------------------------|-------------------------------|-------------------------|
| <b>Hedge Fund</b>       |                |   |                           |                               |                         |
|                         |                | N/A   |                           |                               |                         |
| <b>Private Equity</b>   |                |   |                           |                               |                         |
| Venture (multi-stage)   | August 8       | Greenoaks Capital Opportunities Fund V LP     | Existing                  | \$60,000,000                  | Private                 |
| Buyout                  | July 15        | Dunes Point Capital Fund III, LP              | Existing                  | \$25,000,000                  | Private                 |
| Buyout / Growth         | July 15        | Insight Partners Fund XI Follow-On Fund, L.P. | Existing                  | \$30,000,000                  | Private                 |
| Buyout                  | July 15        | Riverglade Capital II, L.P.                   | New                       | \$75,000,000                  | Private                 |
| Venture/Growth/Minority | May 20         | PSG Europe II L.P.                            | Existing                  | € 100,000,000                 | Private                 |
| Buyout                  | May 17         | Bregal Sagemount IV-A L.P.                    | New                       | \$100,000,000                 | Private                 |
| Buyout                  | April 29       | Tritium III, LP                               | Existing                  | \$25,000,000                  | Private                 |
| Venture Capital         | March 15       | Foundry 2022, L.P.                            | Existing                  | \$75,000,000                  | Private                 |
| Venture/Growth/Minority | February 4     | Updata Partners VII, L.P.                     | Existing                  | \$100,000,000                 | Private                 |
| Buyout                  | January 28     | Dunes Point Capital Fund III, LP              | Existing                  | \$75,000,000                  | Private                 |
| Buyout                  | January 28     | Tritium III, LP                               | Existing                  | \$75,000,000                  | Private                 |
| Growth Equity           | January 13     | FTV VII, L.P.                                 | Existing                  | \$100,000,000                 | Private                 |
| <b>TOTAL:</b>           |                |   |                           | <b><u>\$4,261,436,894</u></b> |                         |



November 29, 2022

**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.

**Re: Agenda Item 14: Consider and Act on Amendments to the Investment Policy Statement**

Investment Policy Statement Committee members Scott and Alanis met with me, Nick O'Keefe, and Tom Masthay on May 12, June 3, and June 22, and included Sam Austin on September 21, to review and revise the IPS, which now provides greater focus, clarity, and consistency. The Committee formally approved a draft IPS at its September 21 meeting and will recommend Board approval at the December Board meeting.

**ATTACHMENT:**

1 – Investment Policy Statement



# **INVESTMENT POLICY STATEMENT**

Effective: December 8, 2022

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## 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 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:

**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, 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 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.

**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.* Investments in Passive Public Markets Strategies up to limits stated in the Asset Allocation.
2. *Active Public Markets Strategies.* Investments in Active Public Markets Strategies up to 3% of total Trust Fund assets.
3. *Private Markets Strategies.* 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 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 Data, Performance and Risk Report to the Board quarterly. This Report will discuss the range of risk implied by Investment Guidelines, the risk in the current asset class implementations, and a comparison of estimated current asset class total market risk relative to risk expectations used in the last Asset Allocation Study.
4. **Investment Compliance Reports.** Compliance staff will provide to the Board each quarter the results of any 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 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)   |
| 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**

### **TMRS Investment Principles**

November 18, 2021

The TMRS Investment Principles spell out the minimum contractual standards by which investment managers must abide. The Executive Director is responsible for the maintenance and updating of the Investment Principles consistent with the IPS Framework. Any amendments to the TMRS Investment Principles will be provided to the Board at the next regularly scheduled Board meeting. TMRS' Investment Principles are as follows:

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 TMRS' investment vehicle. Investment manager contracts may not include indemnification or exculpation for breach of fiduciary duty.
3. 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.
4. Investment managers must maintain liability and fiduciary insurance coverage.
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.
8. Investment managers must agree to provisions permitting TMRS to comply with legislative and regulatory oversight.

## 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.



November 29, 2022

**To: Board of Trustees**

**From: Nick O'Keefe, Deputy Chief Legal Officer**  
**Michele Fullon, Investment Compliance Officer**

A handwritten signature in blue ink, appearing to be "Nick O'Keefe", is written over the "From:" line.

**Re: Agenda Item 15: Third Quarter 2022 Investment Compliance Report**

**Investment Manager Compliance:** In the third quarter, State Street completed 2,400 automated tests that confirmed that TMRS investment managers had adhered to their investment guidelines and were in compliance with TMRS guidelines.

**Investment Policy Statement (IPS) Compliance:** Investment Compliance tested all testable parameters within the IPS, including, (i) strategic diversification requirements, (ii) geographic and economic diversification requirements, (iii) investment manager concentration limits, (iv) investment vehicle concentration limits, and (v) vintage year diversification. Testing confirmed that TMRS was in compliance with all testable parameters.

**Divestment Lists:** We received the new list of Financial Companies that Boycott Energy and notified all TMRS investment managers in accordance with statutory requirements.

**Implementation of New Compliance Procedure:** In collaboration with Investment Staff, Investment Compliance began implementing a process to validate fees and expenses charged by private investment funds and investment managers. This process requires reviewing all contractual terms related to fees and expenses, calculating expected fees, and then comparing the re-calculated fees and expenses against the fees and expenses charged by the investment funds and managers.



November 29, 2022

**To: Board of Trustees**

**From: David J. Hunter, Chief Investment Officer**

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

**Re: Agenda Item 16: Receive 2023 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 Plan is attached and is available in the Diligent Resource Center, in the subfolder "Investment Pacing Plans" under "Investments".

**ATTACHMENT:**

1 – 2023 Private Market Pacing Plan



# **2023 Private Markets Pacing Plan**

Dave Hunter, CIO

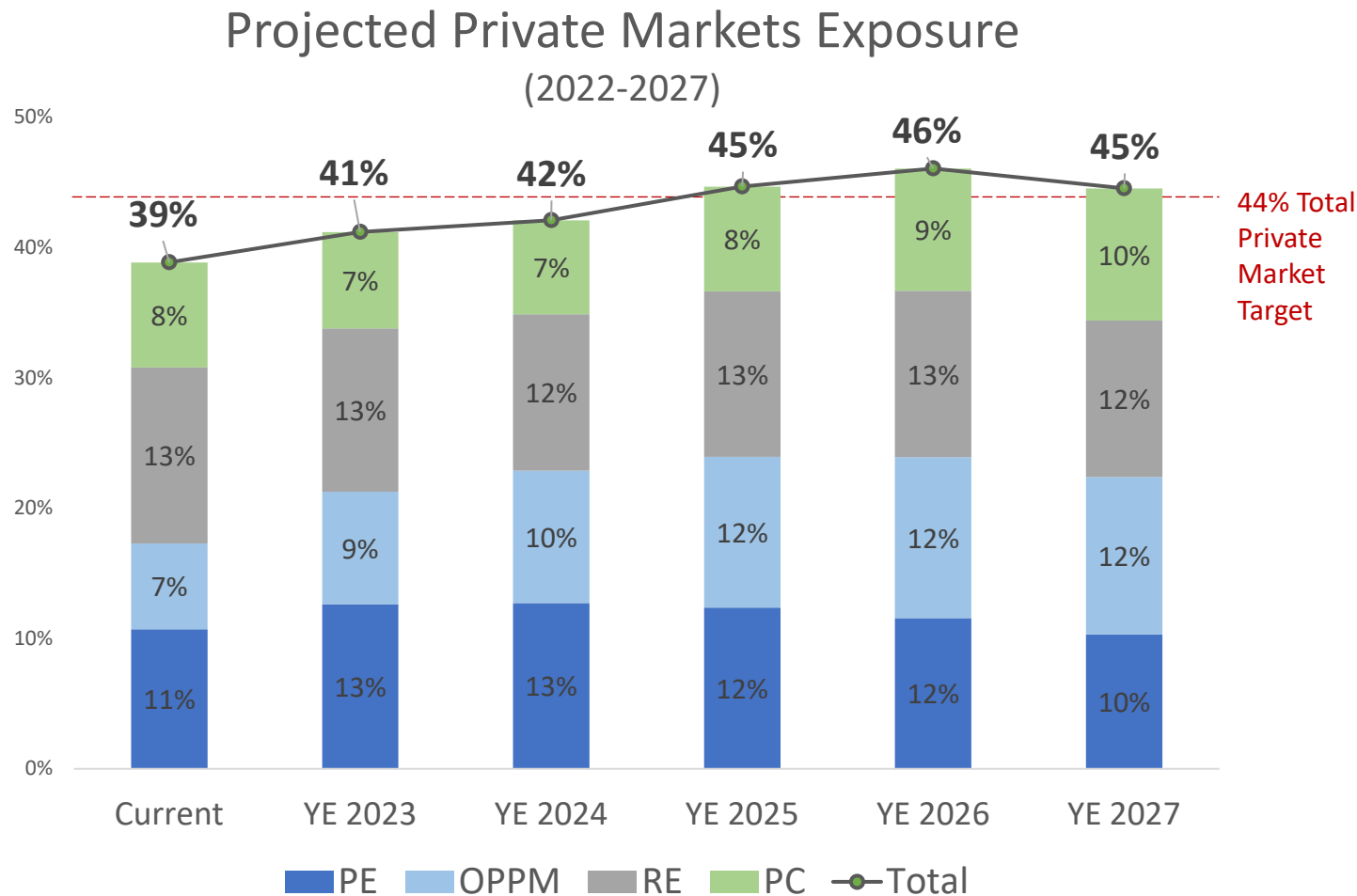
November 29, 2022

# Proposed 2023 Pacing Plan

| Asset Class<br>(Current, Target)            | 2023 Modeled<br>Commitments<br>(\$ millions, 2022) | Anticipated<br>Range<br>(\$ millions) | Asset Class Pacing Notes  |
|---|--|---------------------------------------|---|
| Private Equity (10.7%, 10%)                 | \$900 (\$900)                                      | +/- \$300                             | <ul style="list-style-type: none"> <li>- Expected to run ~12.5% for a couple of years before falling back to 10% target</li> <li>- Commitment pacing taking into account deal by deal co-invest for first time in 2023</li> <li>- PE reduced its models beginning in 2022 a similar magnitude to OPPM/RE 2023 reduction</li> </ul>                          |
| Other Public & Private Mkts.<br>(6.6%, 12%) | \$1,250 (\$1,500)                                  | +/- \$500                             | <ul style="list-style-type: none"> <li>- Pacing model reduced slightly in 2024 due to overall decline in Trust Fund market value</li> </ul>   |
| Real Estate<br>(13.5%, 12%)                 | \$500 (\$750)                                      | +/- \$250                             | <ul style="list-style-type: none"> <li>- Real estate on pace to go over target prior to factoring in expected redemption processing, pacing falls similarly as it did in OPPM</li> <li>- Reduction of requirement for core from 50% to 40% provides the opportunity to make greater allocations to non-core RE as core redemptions are processed</li> </ul> |
| Private Credit (NCFI)<br>(8.1%, 10%)        | \$1,250 (\$1,250)                                  | +/- \$750                             | <ul style="list-style-type: none"> <li>- Pacing model for Private Credit same as last year with wide band maintained given liquid markets are another option for implementation</li> <li>- Model assumes perpetual investment with two core direct lending accounts (HIG and TCW) at \$500mm, and closed-end implementation otherwise.</li> </ul>           |



# Projected Private Markets Exposure



Total Private Markets exposure is expected to come in line with targets circa 2025 as OPPM and private credit come up the curve in implementation.

The portfolio is largely in line with and moving towards the current 44% Private Markets target.



November 29, 2022

**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 text "David J. Hunter, Chief Investment Officer".

**Re: Agenda Item 17: Discuss Risk Appetite Survey Results**

Sam Austin will discuss NEPC Risk Appetite Survey results.



November 29, 2022

**To: Board of Trustees**

**From: David J. Hunter, Chief Investment Officer**

A handwritten signature in blue ink, appearing to read "DJH", is placed to the right of the "From:" line.

**Re: Agenda Item 18: Discuss Annual Asset Allocation Review**

As set out in Exhibit A, Asset Allocation, to the Investment Policy Statement, TMRS' 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 financial goals and objectives."

While the Asset Allocation is reviewed annually, a comprehensive Asset Allocation study is completed every four years, which is scheduled for 2023.

Sam Austin of NEPC, the Board's independent investment consultant, will provide the annual Asset Allocation review.

**ATTACHMENT:**

1 – NEPC Annual Asset Allocation Review Presentation



# ANNUAL ASSET ALLOCATION REVIEW

NOVEMBER 29, 2022



PROPRIETARY & CONFIDENTIAL

# Why does the Board Review the Trust Fund's Asset Allocation?

Exhibit A of the Board's Investment Policy Statement states:

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 approved ranges, and a benchmark to measure investment performance.

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

Annual Review Goal: The Board's Asset Allocation is intended to produce investment returns equal to or greater than the Actuarial Return Assumption at a level of risk acceptable to the Board.

# CURRENT ASSET ALLOCATION POLICY

## TARGETS, BENCHMARKS AND RANGES

| Asset Class                    | Minimum | Strategic Target Allocation | Maximum | Benchmark                     | Objective   |
|--------------------------------|---------|-----------------------------|---------|-------------------------------|---|
| Global Equity                  | 25%     | <b>35%</b>                  | 45%     | MSCI ACWI IMI (ND)            | Capital Appreciation                                  |
| Private Equity                 | 5%      | <b>10%</b>                  | 15%     | MSCI ACWI IMI (ND)            | Capital Appreciation above Public Markets             |
| Core Fixed Income              | 1%      | <b>6%</b>                   | 11%     | Bbg US Agg. Bond Index        | Diversification/Capital Preservation/Income/Liquidity |
| Non-Core Fixed Income          | 15%     | <b>20%</b>                  | 25%     | Bbg US Agg. Bond Index +1.5%  | Diversification/Income/Capital Appreciation           |
| Real Estate                    | 7%      | <b>12%</b>                  | 17%     | NCREIF ODCE (Net of Fees)     | Real Income & Return                                  |
| Other Public & Private Markets | 7%      | <b>12%</b>                  | 17%     | MSCI ACWI IMI (ND)            | Diversification/Capital Appreciation                  |
| Hedge Funds                    | 0%      | <b>5%</b>                   | 10%     | HFRI Asset Weighted Composite | Diversification                                       |
| Cash Equivalents               | 0%      | <b>0%</b>                   | 3%      | 30 Day US T-Bills             | Liquidity   |

# ASSET ALLOCATION

## THE CHALLENGE

- **Capital market assumptions are an early input to the asset allocation process**
- **Assumptions published for over 70 asset classes**
  - NEPC publishes return forecasts for 10-year and 30-year periods
  - We calculate asset class returns, volatility and correlation assumptions
- **Expected returns for risk assets had been falling for several years, however, with increasing interest rates and inflation, there have been meaningful shifts in expected returns**

|              | Asset Class                          | 09/30/22<br>10-Year Return | 09/30/21<br>10-Year Return | Change |
|--------------|--------------------------------------|----------------------------|----------------------------|--------|
|              | Cash                                 | 3.9%                       | 1.2%                       | +2.7%  |
|              | U.S. Inflation                       | 2.4%                       | 2.3%                       | +0.1%  |
| Equity       | U.S. Large-Cap Equity                | 6.1%                       | 5.0%                       | +1.1%  |
|              | Non-U.S. Developed Equity            | 6.6%                       | 5.4%                       | +1.2%  |
|              | Emerging Market Equity               | 10.3%                      | 8.1%                       | +2.2%  |
|              | Global Equity*                       | 7.1%                       | 5.8%                       | +1.3%  |
|              | Private Equity*                      | 9.9%                       | 9.0%                       | +0.9%  |
| Fixed Income | U.S. Treasury Bond                   | 4.2%                       | 1.5%                       | +2.7%  |
|              | U.S. Aggregate Bond*                 | 4.9%                       | 2.0%                       | +2.9%  |
|              | U.S. TIPS                            | 4.4%                       | 1.5%                       | +2.9%  |
|              | U.S. High Yield Corporate Bond       | 7.5%                       | 3.2%                       | +4.3%  |
|              | Private Debt*                        | 8.8%                       | 6.5%                       | +2.3%  |
| Real Assets  | Commodity Futures                    | 4.1%                       | 0.3%                       | +3.8%  |
|              | REIT                                 | 7.0%                       | 4.9%                       | +2.1%  |
|              | Gold                                 | 5.2%                       | 3.2%                       | +2.0%  |
|              | Real Estate - Core                   | 4.5%                       | 4.9%                       | -0.4%  |
|              | Private Real Assets - Infrastructure | 7.2%                       | 5.3%                       | +1.9%  |
| Multi-Asset  | 60% S&P 500 & 40% U.S. Aggregate     | 5.9%                       | 4.1%                       | +1.8%  |
|              | 60% MSCI ACWI & 40% U.S. Agg.        | 6.5%                       | 4.6%                       | +1.9%  |
|              | Hedge Fund*                          | 6.7%                       | 4.2%                       | +2.5%  |

\*Calculated as a blend of other asset classes



# TMRS' Current Target Allocation Exceeds 6.75% and Compares Favorably to Other Public Funds

## PEER GROUP COMPARISON

**TMRS Current Strategic Target Asset Allocation has a 7.7% 10-Year Expected Return with Comparable or Lower Volatility to other Public Funds**

| Asset Class                    | TMRS Strategic Target | Public Funds >\$1B | Public Funds >\$10B | 70/30 | 10 Yr Return | 30 Yr Return | Volatility |
|--------------------------------|-----------------------|--------------------|---------------------|-------|--------------|--------------|------------|
| Global Equity                  | 35%                   | 49%                | 51%                 | 70%   | 7.10%        | 7.80%        | 17.80%     |
| Private Equity                 | 10%                   | 13%                | 13%                 |       | 9.90%        | 10.40%       | 25.20%     |
| Core Fixed Income              | 6%                    | 17%                | 14%                 | 30%   | 4.90%        | 4.70%        | 5.60%      |
| Non-Core Fixed Income          | 20%                   | 4%                 | 10%                 |       | 8.30%        | 8.10%        | 10.60%     |
| Real Estate                    | 12%                   | 6%                 | 7%                  |       | 5.30%        | 6.10%        | 15.60%     |
| Other Public & Private Markets | 12%                   |                    |                     |       | 7.90%        | 7.80%        | 19.80%     |
| Hedge Funds                    | 5%                    | 5%                 | 1%                  |       | 6.70%        | 6.60%        | 8.60%      |
| Cash Equivalents               | 0%                    | 2%                 |                     |       | 3.90%        | 3.30%        | 0.60%      |
| Global Asset Allocation        |                       | 2%                 | 4%                  |       | 6.20%        | 6.40%        | 8.90%      |
| Commodities                    |                       | 2%                 |                     |       | 4.10%        | 3.10%        | 18.50%     |

| Output                                    | TMRS Strategic Target | Public Funds >\$1B | Public Funds >\$10B | 70/30  |
|---|-----------------------|--------------------|---------------------|--------|
| 10 Year Geometric Return                  | 7.7%                  | 7.2%               | 7.4%                | 6.70%  |
| 30 Year Geometric Return                  | 8.1%                  | 7.6%               | 7.8%                | 7.20%  |
| Volatility                                | 13.4%                 | 13.4%              | 14.1%               | 12.60% |
| 10 Year Sharpe Ratio                      | 0.29                  | 0.24               | 0.25                | 0.23   |
| 30 Year Sharpe Ratio                      | 0.36                  | 0.32               | 0.32                | 0.30   |
| Probability of 1-Year Return Under 0%     | 28.2%                 | 29.7%              | 30.1%               | 29.7%  |
| Probability of 10-Year Return Under 0%    | 3.4%                  | 4.6%               | 5.0%                | 4.6%   |
| Probability of 10-Year Return Under 6.75% | 40.9%                 | 46.2%              | 44.7%               | 50.3%  |
| Probability of 30-Year Return Under 6.75% | 29.1%                 | 37.0%              | 33.9%               | 42.8%  |

Note: See appendix for underlying modeling assumptions. Universe data used InvestmentMetrics database.



# CONCLUSION & CONSIDERATIONS

## Conclusion:

**Based on NEPC's latest capital markets assumptions, TMRS asset allocation is expected to return greater than 6.75% over the next 10-to-30 years.**

## Considerations:

**In accordance with our Board approved Investment Policy Statement, TMRS will complete a comprehensive asset-liability study in 2023.**

# APPENDIX TO 2022 ANNUAL ASSET ALLOCATION REVIEW



# STAYING FOCUSED ON KEY ISSUES

## THE VITAL ROLE PLAYED BY A PENSION BOARD

- **Ensure fulfillment of obligation to meet benefit payments**
- **Oversight of policy, including approval of benchmarks, asset allocation targets and ranges**
  - Asset Allocation is responsible for 92% of performance variability\*
- **Review asset allocation in context of 2022 Capital Market Assumptions**



# ASSET ALLOCATION DEFINED

- **The process of allocating assets across a spectrum of investments to achieve an expected return at an expected level of risk**
  - “Expected” is a statistics term, which is different from the common use of the word.
  - Expected return is the weighted average of all possible returns, where the weights are the probabilities that each return will occur.
- **Asset allocation decisions include, but are not limited to a choice between:**
  - Higher risk versus higher return
    - Equity/Bonds/Cash/RE/PE/HF/Commodities
    - Domestic/International/Global and Liquid vs. illiquid or public vs. private assets
  - Ease of implementation (Simplicity vs. Complexity)
  - Maximizing rate of return for a given level of risk tolerance
  - Maximize probability of an outcome through effective asset allocation

# ASSET ALLOCATION CONSIDERATIONS

An Appropriate Asset Mix Will Consider a Plan's



# KEY THEMES FOR INVESTORS

**Stagflation dynamics** pose a challenge to portfolio diversification and represent a headwind for equity valuations and profit margins

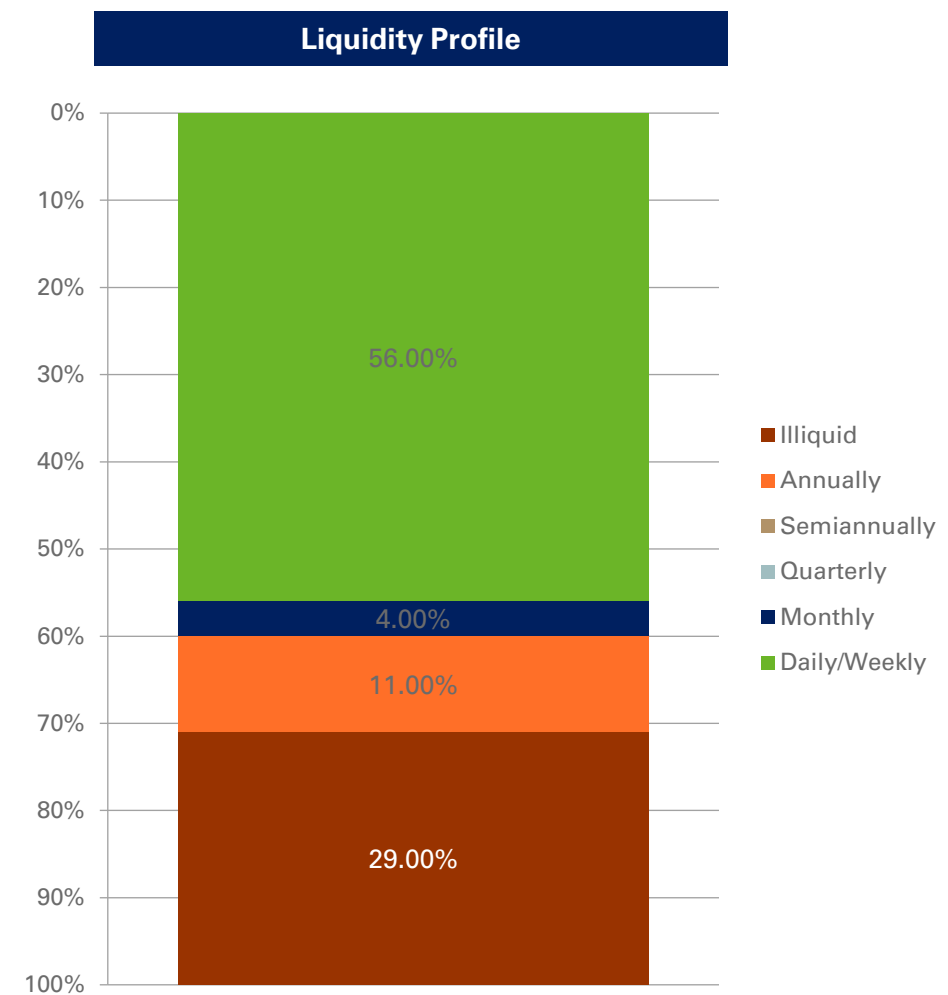
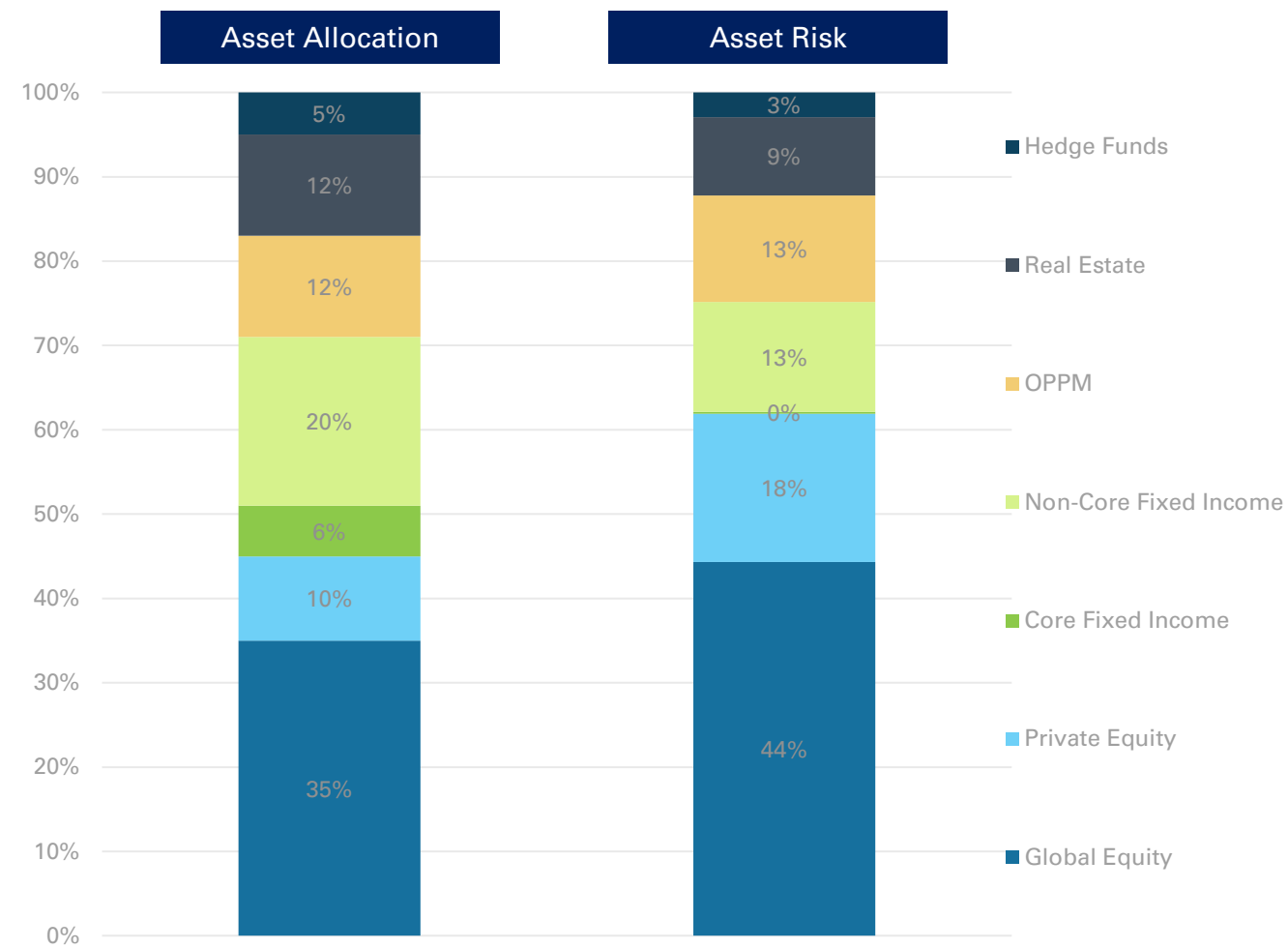
**The path of U.S. corporate earnings** do not reflect material weakness for 2023 despite the tightening monetary policy environment

**Europe's economy is exposed to an energy shock** as its infrastructure undergoes an emergency transplant to pivot from Russian energy

**China's zero-COVID policy** has global supply chain implications and continues to dampen consumer spending and industrial activity

**U.S. Dollar strength reveals risks in the global financial system** and will continue to pressure weaker markets, companies and nations

# ASSET ALLOCATION VS ASSET RISK & LIQUIDITY PROFILE

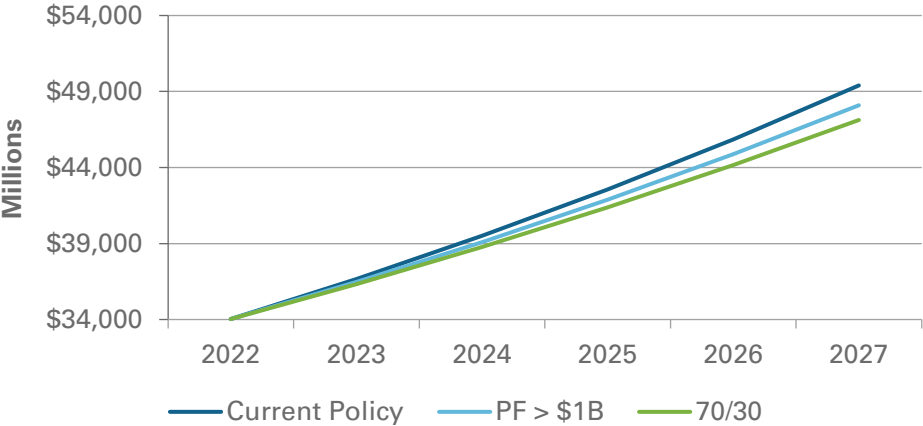


54% allocated to Equity (Public + Private + OPPM) represents 71% of the risk budget

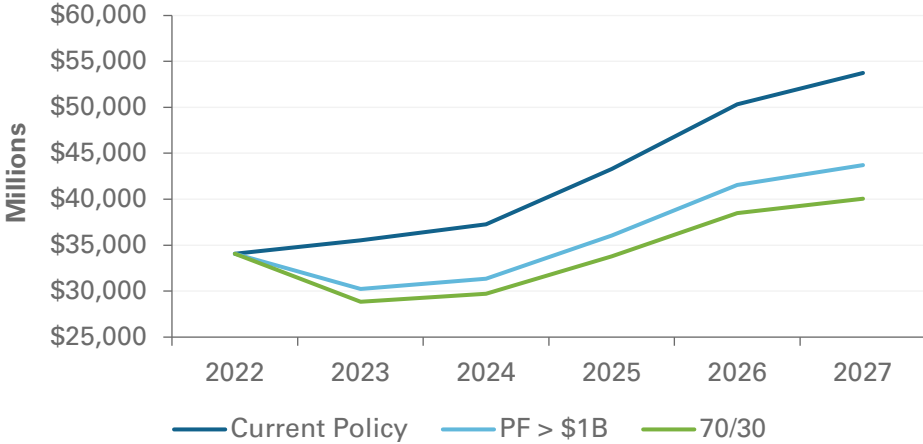
Note: See appendix for underlying modeling assumptions

# SCENARIO ANALYSIS

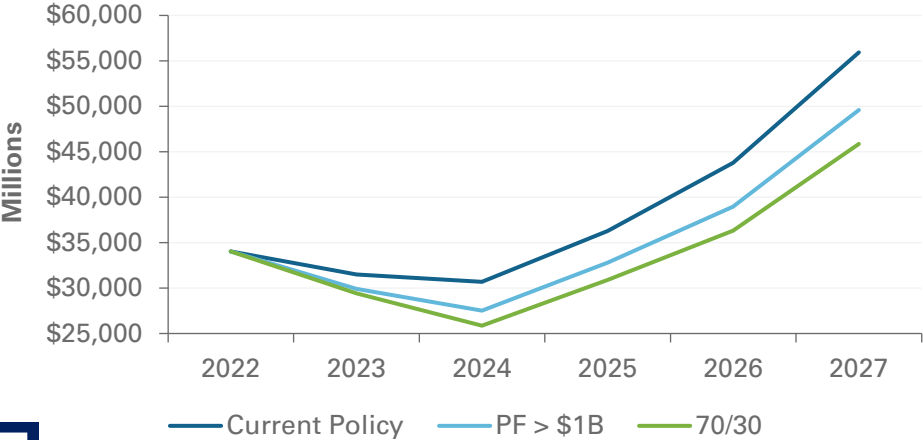
Base Case



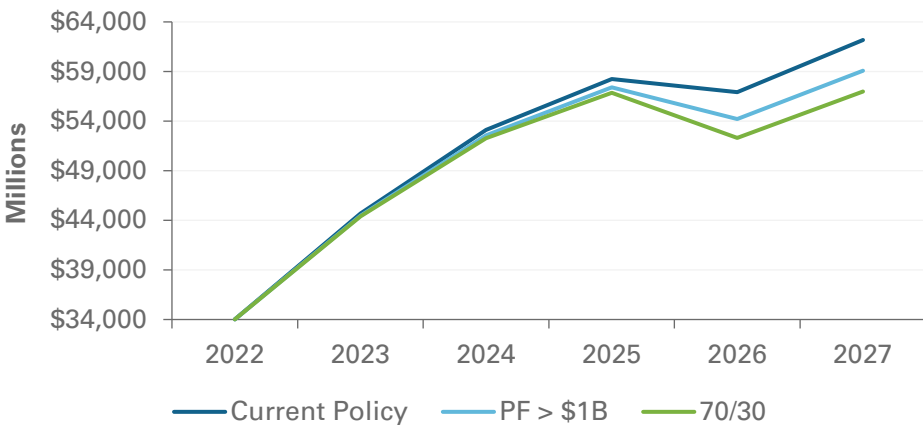
Stagflation



Recession



Expansion





# NEPC ASSET CLASS MODELING ASSUMPTIONS

| Asset Class                                  | Asset Allocation |
|--|------------------|
| Global Equity                                | 35.0%            |
| Private Equity                               | 10.0%            |
| Core Fixed Income                            | 6.0%             |
| US High Yield                                | 4.0%             |
| US Leveraged Loan                            | 4.0%             |
| Emerging Market External Debt                | 1.0%             |
| Emerging Market Local Currency Debt          | 1.0%             |
| Private Debt                                 | 10.0%            |
| OPPM Global Infrastructure Equity            | 4.5%             |
| OPPM Global Natural Resources Equity         | 4.5%             |
| Real Estate - Core                           | 6.0%             |
| Real Estate - Non-Core                       | 6.0%             |
| OPPM Private Real Assets - Natural Resources | 1.5%             |
| OPPM Private Real Assets - Infrastructure    | 1.5%             |
| Hedge Fund                                   | 5.0%             |

- **Global Equity** uses MSCI ACWI Weights
- **Private Equity** comprised of NEPC Beta: 34% Buyout, 34% Growth, 15 % Non-U.S., 8.5% Secondary, 8.5% Early Venture
- **Core Fixed Income** comprised of US Treasury Bonds, US Corporate Bonds, US MBS and US Securitized Bonds
- **Non-Core Fixed Income** Comprised of 50% Private Debt + 50% Tradeable Credit (US Leveraged Loans, EMD, US High Yield)
- **OPPM** comprised of Infrastructure Equity, Natural Resources Equity, Private Natural Resources and Private Infrastructure
- **Hedge Funds** comprised of NEPC Beta: 40% Hedged Equity, 40% Hedged Credit, 20% Macro
- **Private Debt** comprised of NEPC Beta: 50% Direct Lending, 25% Credit Opportunities, 25% Distressed

# NEPC ASSET CLASS CORRELATION ASSUMPTIONS

|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|--|



November 29, 2022

**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.

**Re: Agenda Item 19: General Investment Consultant Quarterly Report**

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

**ATTACHMENT:**

1 – NEPC 3Q 2022 Executive Summary



# 3Q 2022 QUARTERLY PERFORMANCE REPORT EXECUTIVE SUMMARY

DECEMBER 8, 2022

Samuel Austin, Partner  
Timothy Bruce, Partner  
Michael Malchenko, Consultant



PROPRIETARY & CONFIDENTIAL

# TOTAL FUND PERFORMANCE SUMMARY

## COMPARED TO ASSET ALLOCATION BENCHMARK & STRATEGIC TARGET ALLOCATION

|                                   | Market Value<br>(\$)  | YTD<br>(%)   | 1 Yr<br>(%)  | 5 Yrs<br>(%) | 10 Yrs<br>(%) |
|-----------------------------------|-----------------------|--------------|--------------|--------------|---------------|
| <b>Total Fund</b>                 | <b>34,044,890,438</b> | <b>-9.53</b> | <b>-6.17</b> | <b>4.72</b>  | <b>5.76</b>   |
| Actual Allocation Benchmark       |                       | -13.90       | -11.20       | 3.53         | 5.04          |
| Over/Under                        |                       | 4.37         | 5.03         | 1.19         | 0.72          |
| Strategic Target Allocation Index |                       | -14.09       | -11.35       | 4.44         | 5.94          |
| Over/Under                        |                       | 4.56         | 5.18         | 0.28         | -0.18         |

- **For the one-year ended September 30, 2022, the Trust Fund returned -6.17%, exceeding the Asset Allocation Benchmark by 5%.**
  - Private Equity, Other Public & Private Markets, and Fixed Income exceeded the Benchmark, while Hedge Funds, Real Estate, and Global Equity trailed.
- **For the five-year ended September 30, 2022, the Trust Fund returned 4.72%, exceeding the Asset Allocation Benchmark by 1.19%.**
  - Private Equity, Other Public and Private Markets, Fixed Income, and Real Estate exceeded the Benchmark, while Hedge Funds and Global Equity trailed.

Performance returns are net of fees.



# TOTAL FUND PERFORMANCE SUMMARY

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

|  | YTD (%)       | Quartile Rank         | 1 Yr (%)     | Quartile Rank         | 5 Yrs (%)   | Quartile Rank         | 10 Yrs (%)  | Quartile Rank         |
|--|---------------|-----------------------|--------------|-----------------------|-------------|-----------------------|-------------|-----------------------|
| <b>Total Fund</b>                                    | <b>-9.53</b>  | <b>1<sup>st</sup></b> | <b>-6.17</b> | <b>1<sup>st</sup></b> | <b>4.72</b> | <b>4<sup>th</sup></b> | <b>5.76</b> | <b>4<sup>th</sup></b> |
| Actual Allocation Benchmark                          | -13.90        | 4 <sup>th</sup>       | -11.20       | 4 <sup>th</sup>       | 3.53        | 4 <sup>th</sup>       | 5.04        | 4 <sup>th</sup>       |
| Strategic Target Allocation Index                    | -14.09        | 4 <sup>th</sup>       | -11.35       | 4 <sup>th</sup>       | 4.44        | 4 <sup>th</sup>       | 5.94        | 4 <sup>th</sup>       |
| <i>InvMetrics Public DB &gt; \$10 Billion Median</i> | <i>-12.14</i> |                       | <i>-8.68</i> |                       | <i>6.10</i> |                       | <i>7.30</i> |                       |

- For the one-year ended September 30, 2022, the Trust Fund returned -6.17% and ranked in the first quartile among other Public Defined Benefit plans greater than \$10 billion in assets.
- For the five-years ended September 30, 2022, the Trust Fund returned 4.72% and ranked in the fourth quartile among other Public Defined Benefit plans greater than \$10 billion in assets.



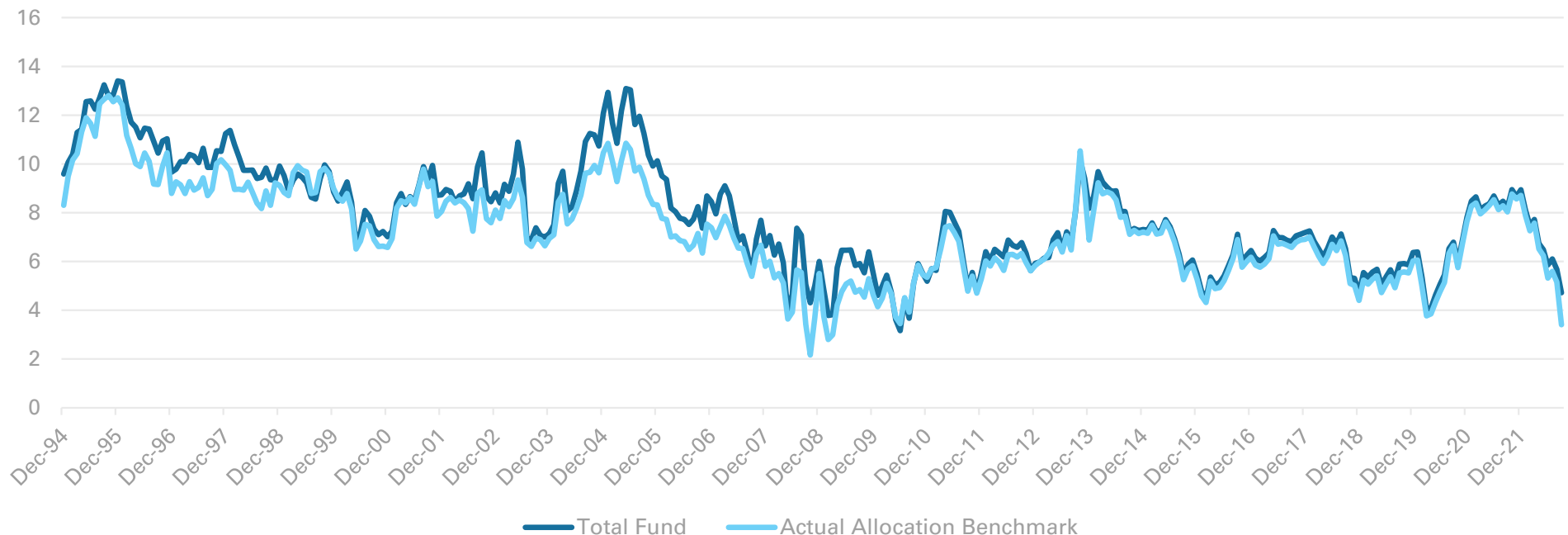
Performance returns are net of fees.

# TOTAL FUND PERFORMANCE

## VERSUS ACTUAL ALLOCATION BENCHMARK

- The Trust Fund performance expectation, as stated in the Investment Policy Statement, is to exceed the Actual Allocation Benchmark over rolling five-year periods.
- In the five-year period ended September 30, 2022, TMRS outperformed the Actual Allocation Benchmark by 1.19%, net of fees.

Rolling 5 Year Total Fund Performance vs. Actual Allocation Benchmark

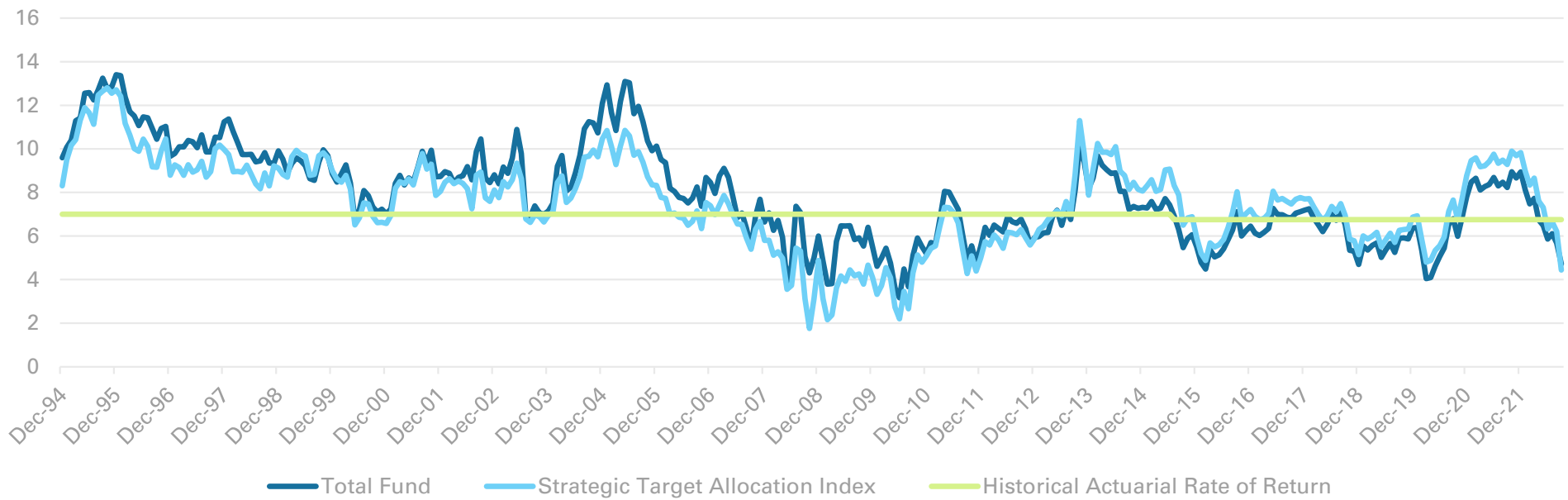


# TOTAL FUND PERFORMANCE

## VERSUS STRATEGIC TARGET ALLOCATION INDEX AND ASSUMED RATE OF RETURN

- For the five-year period ended September 30, 2022, the Trust Fund's return of 4.72% trailed the Board's Assumed Long-Term Rate of Return of 6.75%.
- The five-year return for the Strategic Target Allocation Index was 4.44% as of September 30, 2022.

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





# TOTAL FUND PERFORMANCE SUMMARY

## RISK, RETURN AND RISK-ADJUSTED RETURNS

1 Year Ending September 30, 2022

|  | Risk        | Quartile Rank   | Return       | Quartile Rank         | Risk-Adjusted Return | Quartile Rank         |
|--|-------------|-----------------|--------------|-----------------------|----------------------|-----------------------|
| <b>Total Fund</b>                                    | <b>7.61</b> | <b>3rd</b>      | <b>-6.17</b> | <b>1<sup>st</sup></b> | <b>-0.87</b>         | <b>2<sup>nd</sup></b> |
| Actual Allocation Benchmark                          | 9.63        | 4 <sup>th</sup> | -11.20       | 4 <sup>th</sup>       | -1.23                | 4 <sup>th</sup>       |
| Strategic Target Allocation Index                    | 10.03       | 4 <sup>th</sup> | -11.35       | 4 <sup>th</sup>       | -1.19                | 4 <sup>th</sup>       |
| <i>InvMetrics Public DB &gt; \$10 Billion Median</i> | <i>8.90</i> |                 | <i>-8.68</i> |                       | <i>-0.90</i>         |                       |

- **The Trust Fund's risk profile, as measured by standard deviation, ranks in the third quartile among other Public Defined Benefit plans with greater than \$10 billion in assets for the one-year period ending September 30, 2022.**
- **The risk-adjusted return ranked in the second quartile.**

Note: Risk-Adjusted Return is measured by the Sharpe Ratio.

Risk is measured by the Standard Deviation.

The Standard Deviation interquartile range, here, is defined as the lowest Standard Deviation measuring in the lowest quartile.

Performance returns are reported net of fees.



# TOTAL FUND PERFORMANCE SUMMARY

## RISK, RETURN AND RISK-ADJUSTED RETURNS

| 5 Years Ending September 30, 2022                    |             |                       |             |                       |                      |                       |
|--|-------------|-----------------------|-------------|-----------------------|----------------------|-----------------------|
|  | Risk        | Quartile Rank         | Return      | Quartile Rank         | Risk-Adjusted Return | Quartile Rank         |
| <b>Total Fund</b>                                    | <b>6.61</b> | <b>4<sup>th</sup></b> | <b>4.72</b> | <b>4<sup>th</sup></b> | <b>0.55</b>          | <b>3<sup>rd</sup></b> |
| Actual Allocation Benchmark                          | 7.37        | 4 <sup>th</sup>       | 3.53        | 4 <sup>th</sup>       | 0.35                 | 4 <sup>th</sup>       |
| Strategic Target Allocation Index                    | 7.24        | 4 <sup>th</sup>       | 4.44        | 4 <sup>th</sup>       | 0.47                 | 4 <sup>th</sup>       |
| <i>InvMetrics Public DB &gt; \$10 Billion Median</i> | <i>8.06</i> |                       | <i>6.10</i> |                       | <i>0.59</i>          |                       |

- The Trust Fund's risk profile, as measured by standard deviation, ranks in the fourth quartile among other Public Defined Benefit plans with greater than \$10 billion in assets for the five-year period ending September 30, 2022.
- The risk-adjusted return ranked in the third quartile.

Note: Risk-Adjusted Return is measured by the Sharpe Ratio.

Risk is measured by the Standard Deviation.

The Standard Deviation interquartile range, here, is defined as the lowest Standard Deviation measuring in the lowest quartile.

Performance returns are reported net of fees.



# TOTAL FUND PERFORMANCE SUMMARY

## RISK, RETURN AND RISK-ADJUSTED RETURNS

| 10 Years Ending September 30, 2022                   |             |                       |             |                       |                      |                       |
|--|-------------|-----------------------|-------------|-----------------------|----------------------|-----------------------|
|  | Risk        | Quartile Rank         | Return      | Quartile Rank         | Risk-Adjusted Return | Quartile Rank         |
| <b>Total Fund</b>                                    | <b>5.81</b> | <b>4<sup>th</sup></b> | <b>5.76</b> | <b>4<sup>th</sup></b> | <b>0.87</b>          | <b>3<sup>rd</sup></b> |
| Actual Allocation Benchmark                          | 6.23        | 4 <sup>th</sup>       | 5.04        | 4 <sup>th</sup>       | 0.71                 | 4 <sup>th</sup>       |
| Strategic Target Allocation Index                    | 6.19        | 4 <sup>th</sup>       | 5.94        | 4 <sup>th</sup>       | 0.85                 | 4 <sup>th</sup>       |
| <i>InvMetrics Public DB &gt; \$10 Billion Median</i> | <i>6.84</i> |                       | <i>7.30</i> |                       | <i>0.95</i>          |                       |

- **The Trust Fund's risk profile, as measured by standard deviation, ranked in the fourth quartile among other Public Defined Benefit plans with greater than \$10 billion in assets for the ten-year period ending September 30, 2022.**
- **The risk-adjusted return ranked in the third quartile.**

Note: Risk-Adjusted Return is measured by the Sharpe Ratio.

Risk is measured by the Standard Deviation.

The Standard Deviation interquartile range, here, is defined as the lowest Standard Deviation measuring in the lowest quartile.

Performance returns are reported net of fees.



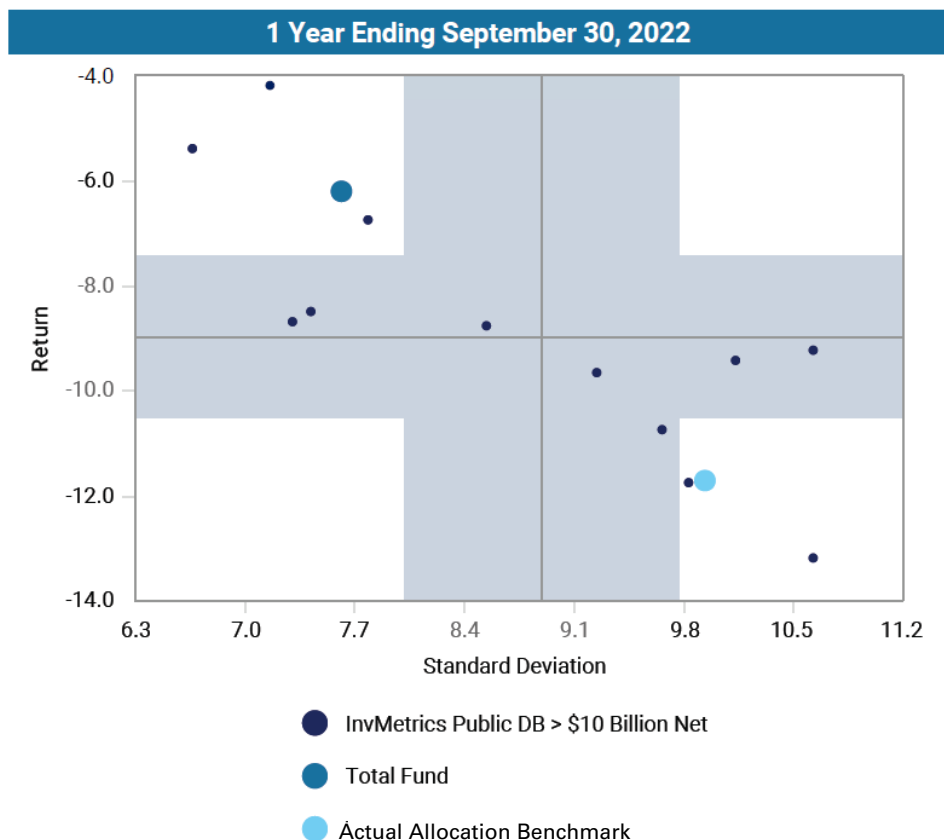
# ASSET ALLOCATION COMPLIANCE

## ACTUAL ASSET ALLOCATION VS. INVESTMENT POLICY ALLOCATION

|                                  | Current<br>(\$)       | Current<br>(%) | Policy<br>(%) | Differences*<br>(%) | Policy Range<br>(%) | Within<br>Range |
|----------------------------------|-----------------------|----------------|---------------|---------------------|---------------------|-----------------|
| Core Fixed Income                | 1,520,659,794         | 4.5            | 6.0           | -1.5                | 1.0 - 11.0          | Yes             |
| Non-Core Fixed Income            | 7,196,640,442         | 21.1           | 20.0          | 1.1                 | 15.0 - 25.0         | Yes             |
| Global Equity                    | 10,656,037,690        | 31.3           | 35.0          | -3.7                | 25.0 - 45.0         | Yes             |
| Real Estate                      | 4,582,706,380         | 13.5           | 12.0          | 1.5                 | 7.0 - 17.0          | Yes             |
| Other Public and Private Markets | 3,784,143,996         | 11.1           | 12.0          | -0.9                | 7.0 - 17.0          | Yes             |
| Hedge Funds                      | 2,533,751,404         | 7.4            | 5.0           | 2.4                 | 0.0 - 10.0          | Yes             |
| Private Equity                   | 3,644,979,063         | 10.7           | 10.0          | 0.7                 | 5.0 - 15.0          | Yes             |
| Cash Composite                   | 125,971,670           | 0.4            | 0.0           | 0.4                 | 0.0 - 3.0           | Yes             |
| <b>Total Fund</b>                | <b>34,044,890,438</b> | <b>100.0</b>   | <b>100.0</b>  | <b>0.0</b>          |                     |                 |

- **Actual asset class allocations are in compliance with Board approved Investment Policy ranges as of September 30, 2022.**

# TOTAL FUND RISK VS. RETURN



| 1 Year Ending September 30, 2022                     |             |                 |              |                       |
|--|-------------|-----------------|--------------|-----------------------|
|  | Risk        | Quartile Rank   | Return       | Quartile Rank         |
| <b>Total Fund</b>                                    | <b>7.61</b> | <b>3rd</b>      | <b>-6.17</b> | <b>1<sup>st</sup></b> |
| Actual Allocation Benchmark                          | 9.63        | 4 <sup>th</sup> | -11.20       | 4 <sup>th</sup>       |
| <i>InvMetrics Public DB &gt; \$10 Billion Median</i> | <i>8.90</i> |                 | <i>-8.68</i> |                       |

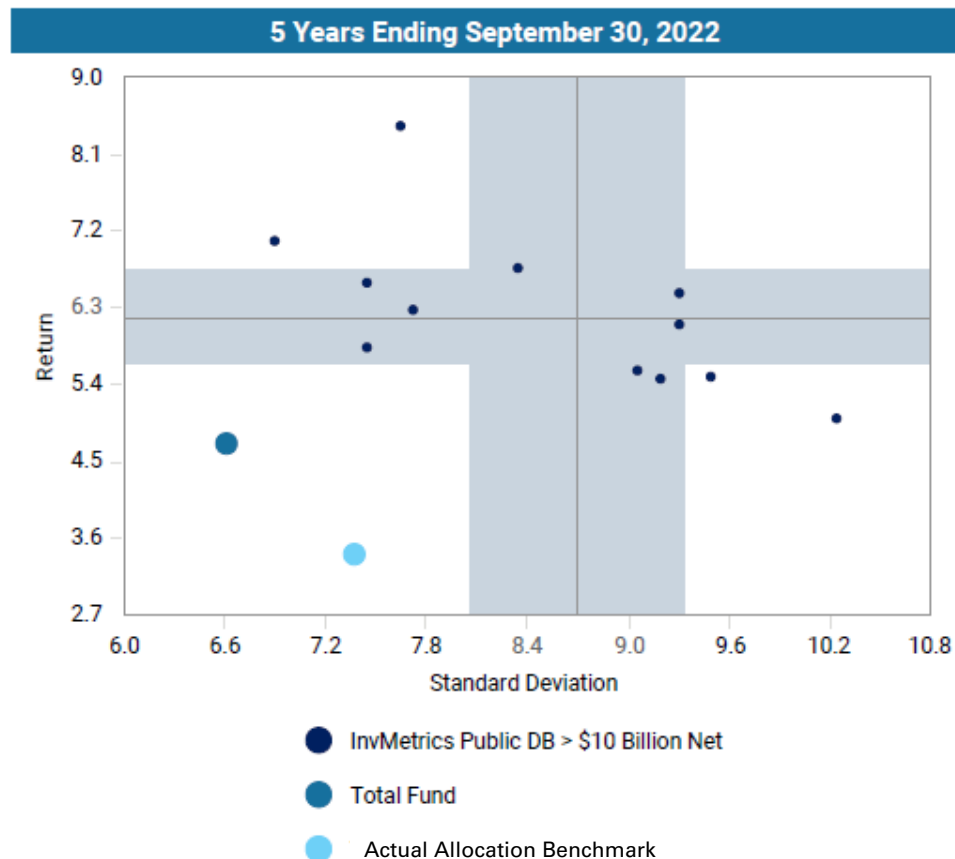
Risk is measured by the Standard Deviation.

The Standard Deviation interquartile range, here, is defined as the lowest Standard Deviation measuring in the lowest quartile.

Performance returns are reported net of fees.

InvMetrics Public DB>\$10B Median includes 13 observations

# TOTAL FUND RISK VS. RETURN



| 5 Years Ending September 30, 2022                    |             |                       |             |                       |
|--|-------------|-----------------------|-------------|-----------------------|
|  | Risk        | Quartile Rank         | Return      | Quartile Rank         |
| <b>Total Fund</b>                                    | <b>6.61</b> | <b>4<sup>th</sup></b> | <b>4.72</b> | <b>4<sup>th</sup></b> |
| Actual Allocation Benchmark                          | 7.37        | 4 <sup>th</sup>       | 3.53        | 4 <sup>th</sup>       |
| <i>InvMetrics Public DB &gt; \$10 Billion Median</i> | <i>8.06</i> |                       | <i>6.10</i> |                       |

Risk is measured by the Standard Deviation.

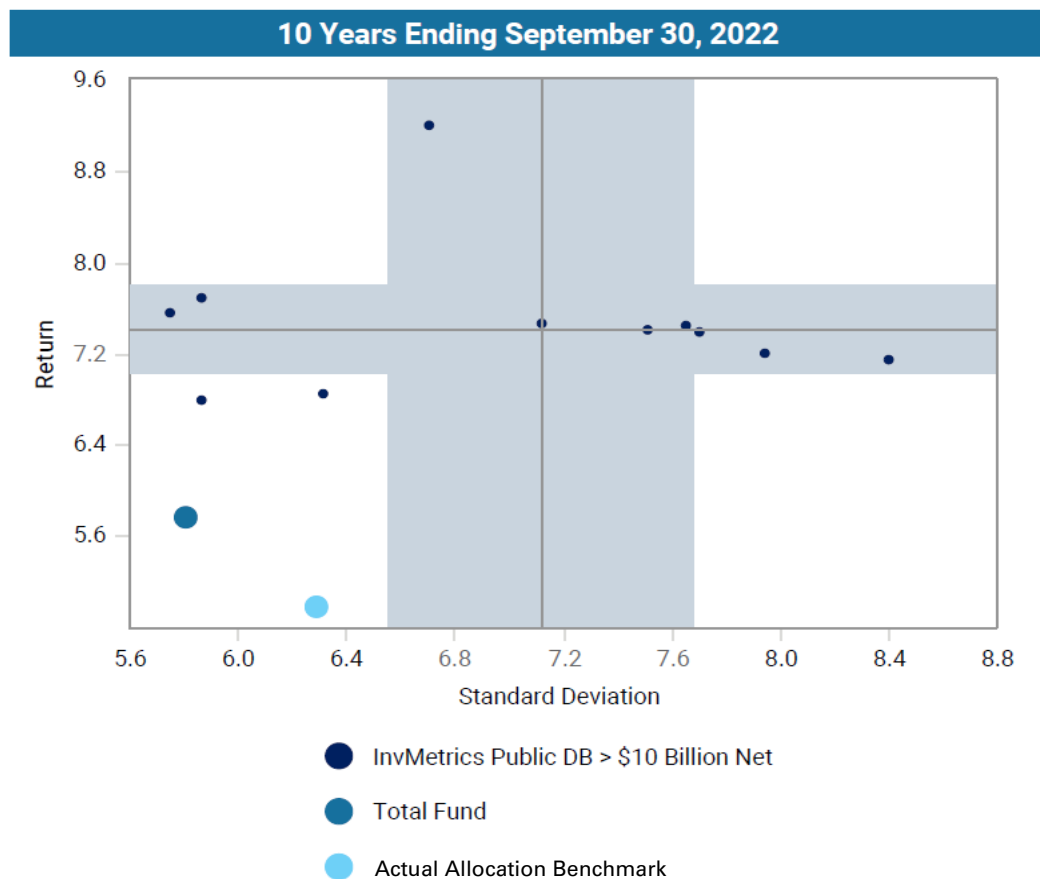
The Standard Deviation interquartile range, here, is defined as the lowest Standard Deviation measuring in the lowest quartile.

Performance returns are reported net of fees.

InvMetrics Public DB>\$10B Median includes 13 observations



# TOTAL FUND RISK VS. RETURN



| 10 Years Ending September 30, 2022                   |             |                       |             |                       |
|--|-------------|-----------------------|-------------|-----------------------|
|  | Risk        | Quartile Rank         | Return      | Quartile Rank         |
| <b>Total Fund</b>                                    | <b>5.81</b> | <b>4<sup>th</sup></b> | <b>5.76</b> | <b>4<sup>th</sup></b> |
| Actual Allocation Benchmark                          | 6.23        | 4 <sup>th</sup>       | 5.04        | 4 <sup>th</sup>       |
| <i>InvMetrics Public DB &gt; \$10 Billion Median</i> | <i>6.84</i> |                       | <i>7.30</i> |                       |

Risk is measured by the Standard Deviation.

The Standard Deviation interquartile range, here, is defined as the lowest Standard Deviation measuring in the lowest quartile.

Performance returns are reported net of fees.

InvMetrics Public DB>\$10B Median includes 13 observations

# PERFORMANCE DETAIL

|  | Allocation            |                | Performance (%) |               |               |              |              |              |              |               |                |
|--|-----------------------|----------------|-----------------|---------------|---------------|--------------|--------------|--------------|--------------|---------------|----------------|
|  | Market Value (\$)     | % of Portfolio | 3 Mo (%)        | YTD (%)       | 1 Yr (%)      | 3 Yrs (%)    | 5 Yrs (%)    | 7 Yrs (%)    | 10 Yrs (%)   | Inception (%) | Inception Date |
| <b>Total Fund</b>                          | <b>34,044,890,438</b> | <b>100.0</b>   | <b>-2.24</b>    | <b>-9.53</b>  | <b>-6.17</b>  | <b>4.26</b>  | <b>4.72</b>  | <b>6.12</b>  | <b>5.76</b>  | <b>8.02</b>   | <b>Jan-89</b>  |
| Actual Allocation Benchmark                |                       |                | <u>-5.38</u>    | <u>-13.90</u> | <u>-11.20</u> | <u>2.53</u>  | <u>3.53</u>  | <u>5.19</u>  | <u>5.04</u>  | <u>7.36</u>   |                |
| Over/Under                                 |                       |                | 3.14            | 4.37          | 5.03          | 1.73         | 1.19         | 0.93         | 0.72         | 0.66          |                |
| Strategic Target Allocation Index          |                       |                | <u>-5.55</u>    | <u>-14.09</u> | <u>-11.35</u> | <u>3.59</u>  | <u>4.44</u>  | <u>6.17</u>  | <u>5.94</u>  | <u>7.61</u>   |                |
| Over/Under                                 |                       |                | 3.31            | 4.56          | 5.18          | 0.67         | 0.28         | -0.05        | -0.18        | 0.41          |                |
| <b>Global Equity</b>                       | <b>10,656,037,690</b> | <b>31.3</b>    | <b>-6.63</b>    | <b>-26.23</b> | <b>-21.92</b> | <b>2.52</b>  | <b>3.58</b>  | <b>7.00</b>  | <b>7.37</b>  | <b>4.66</b>   | <b>Jan-08</b>  |
| Total Equity Index                         |                       |                | <u>-6.64</u>    | <u>-25.72</u> | <u>-21.18</u> | <u>3.64</u>  | <u>4.27</u>  | <u>7.53</u>  | <u>7.70</u>  | <u>4.85</u>   |                |
| Over/Under                                 |                       |                | 0.01            | -0.51         | -0.74         | -1.12        | -0.69        | -0.53        | -0.33        | -0.19         |                |
| <b>Core Fixed Income</b>                   | <b>1,520,659,794</b>  | <b>4.5</b>     | <b>-4.96</b>    | <b>-14.87</b> | <b>-14.82</b> | <b>-2.99</b> | <b>-0.04</b> | <b>0.79</b>  | <b>1.05</b>  | <b>6.54</b>   | <b>Jan-89</b>  |
| Fixed Income Benchmark                     |                       |                | <u>-4.75</u>    | <u>-14.61</u> | <u>-14.60</u> | <u>-3.26</u> | <u>-0.27</u> | <u>0.54</u>  | <u>0.89</u>  | <u>6.05</u>   |                |
| Over/Under                                 |                       |                | -0.21           | -0.26         | -0.22         | 0.27         | 0.23         | 0.25         | 0.16         | 0.49          |                |
| <b>Non-Core Fixed Income</b>               | <b>7,196,640,442</b>  | <b>21.1</b>    | <b>-0.69</b>    | <b>-2.72</b>  | <b>-2.91</b>  | <b>2.89</b>  | <b>3.71</b>  | <b>4.09</b>  |              | <b>3.94</b>   | <b>Oct-14</b>  |
| Total Non-Core Fixed Income Weighted Index |                       |                | <u>-3.05</u>    | <u>-10.49</u> | <u>-10.42</u> | <u>-0.14</u> | <u>1.81</u>  | <u>2.59</u>  |              | <u>2.33</u>   |                |
| Over/Under                                 |                       |                | 2.36            | 7.77          | 7.51          | 3.03         | 1.90         | 1.50         |              | 1.61          |                |
| <b>Other Public and Private Markets</b>    | <b>3,784,143,996</b>  | <b>11.1</b>    | <b>-1.92</b>    | <b>-10.32</b> | <b>-6.43</b>  | <b>1.97</b>  | <b>3.04</b>  | <b>3.72</b>  | <b>2.45</b>  | <b>3.34</b>   | <b>Feb-11</b>  |
| Total Real Return Index                    |                       |                | <u>-11.69</u>   | <u>-21.56</u> | <u>-19.11</u> | <u>-2.63</u> | <u>0.13</u>  | <u>1.73</u>  | <u>1.07</u>  | <u>2.15</u>   |                |
| Over/Under                                 |                       |                | 9.77            | 11.24         | 12.68         | 4.60         | 2.91         | 1.99         | 1.38         | 1.19          |                |
| <b>Real Estate</b>                         | <b>4,582,706,380</b>  | <b>13.5</b>    | <b>3.62</b>     | <b>18.64</b>  | <b>25.07</b>  | <b>11.81</b> | <b>10.89</b> | <b>11.02</b> | <b>11.59</b> | <b>11.03</b>  | <b>Nov-11</b>  |
| Real Estate Benchmark                      |                       |                | <u>4.54</u>     | <u>20.58</u>  | <u>28.31</u>  | <u>12.23</u> | <u>10.28</u> | <u>10.15</u> | <u>11.03</u> | <u>11.25</u>  |                |
| Over/Under                                 |                       |                | -0.92           | -1.94         | -3.24         | -0.42        | 0.61         | 0.87         | 0.56         | -0.22         |                |
| <b>Hedge Funds</b>                         | <b>2,533,751,404</b>  | <b>7.4</b>     | <b>1.39</b>     | <b>-0.62</b>  | <b>0.10</b>   | <b>4.16</b>  | <b>4.21</b>  | <b>4.28</b>  |              | <b>4.24</b>   | <b>Aug-14</b>  |
| Hedge Fund Blended Index                   |                       |                | <u>0.31</u>     | <u>4.54</u>   | <u>3.82</u>   | <u>6.91</u>  | <u>5.12</u>  | <u>4.11</u>  |              | <u>3.84</u>   |                |
| Over/Under                                 |                       |                | 1.08            | -5.16         | -3.72         | -2.75        | -0.91        | 0.17         |              | 0.40          |                |
| <b>Private Equity</b>                      | <b>3,644,979,063</b>  | <b>10.7</b>    | <b>-0.38</b>    | <b>11.63</b>  | <b>19.10</b>  | <b>25.86</b> | <b>23.45</b> |              |              | <b>18.07</b>  | <b>Dec-15</b>  |
| Private Equity Index                       |                       |                | <u>-15.83</u>   | <u>-15.58</u> | <u>-16.52</u> | <u>10.77</u> | <u>14.34</u> |              |              | <u>11.63</u>  |                |
| Over/Under                                 |                       |                | 15.45           | 27.21         | 35.62         | 15.09        | 9.11         |              |              | 6.44          |                |
| <b>Cash Composite</b>                      | <b>125,971,670</b>    | <b>0.4</b>     | <b>0.56</b>     | <b>0.85</b>   | <b>0.85</b>   | <b>0.73</b>  | <b>1.10</b>  | <b>0.99</b>  | <b>0.77</b>  | <b>0.63</b>   | <b>Jun-08</b>  |
| FTSE 1 Month US T-Bill index               |                       |                | <u>0.48</u>     | <u>0.59</u>   | <u>0.61</u>   | <u>0.51</u>  | <u>1.07</u>  | <u>0.87</u>  | <u>0.62</u>  | <u>0.50</u>   |                |
| Over/Under                                 |                       |                | 0.08            | 0.26          | 0.24          | 0.22         | 0.03         | 0.12         | 0.15         | 0.13          |                |



# Texas Municipal Retirement System

## PERFORMANCE DETAIL

September 30, 2022

### Composite Benchmark Comments

The Actual Allocation Benchmark is calculated daily using beginning of day asset class weights applied to each corresponding benchmark return and currently consists of the following, as sourced from State Street:

- Total Equity Benchmark
- Fixed Income Benchmark
- Non-Core Fixed Income Benchmark
- OPPM 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% OPPM 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 OPPM Benchmark is calculated monthly using beginning of the month sub-asset class weights within the OPPM 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.

# DISCLAIMERS & DISCLOSURES

Past performance is no guarantee of future results.

Returns for pooled funds, e.g. mutual funds and collective investment trusts, are collected from third parties; they are not generally calculated by NEPC. Returns for separate accounts, with some exceptions, are calculated by NEPC. Returns are reported net of manager fees unless otherwise noted.

A “since inception” return, if reported, begins with the first full month after funding, although actual inception dates (e.g. the middle of a month) and the timing of cash flows are taken into account in Composite return calculations.

NEPC’s preferred data source is the plan’s custodian bank or record-keeper. If data cannot be obtained from one of the preferred data sources, data provided by investment managers may be used. Information on market indices and security characteristics is received from additional providers. While NEPC has exercised reasonable professional care in preparing this report, we cannot guarantee the accuracy of all source information contained within. In addition, some index returns displayed in this report or used in calculation of a policy index, allocation index or other custom benchmark may be preliminary and subject to change.

All investments carry some level of risk. Diversification and other asset allocation techniques are not guaranteed to ensure profit or protect against losses.

The opinions presented herein represent the good faith views of NEPC as of the date of this presentation and are subject to change at any time. Neither fund performance nor universe rankings contained in this report should be considered a recommendation by NEPC.

This report may contain confidential or proprietary information and may not be copied or redistributed to any party not legally entitled to receive it.

Source of private fund performance benchmark data: Cambridge Associates, via Refinitiv



November 29, 2022

**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 name "David J. Hunter" in the "From:" line.

**Re: Agenda Item 20: Board Education: Fixed Income Asset Class**

In accordance with the Investment Policy Statement, comprehensive asset class reviews are conducted at least annually. At the December Board meeting, Darren Schulz, Portfolio Director, will present the Fixed Income review. The presentation material is available in the Diligent Resource Center in the tab titled "December 8, 2022, Board Meeting."



# **Annual Review: Fixed Income**

**As of September 30, 2022**

Darren Schulz

December 8, 2022

# Why TMRS Invests in Fixed Income

## IPS Objective for the CORE Fixed Income Portfolio:

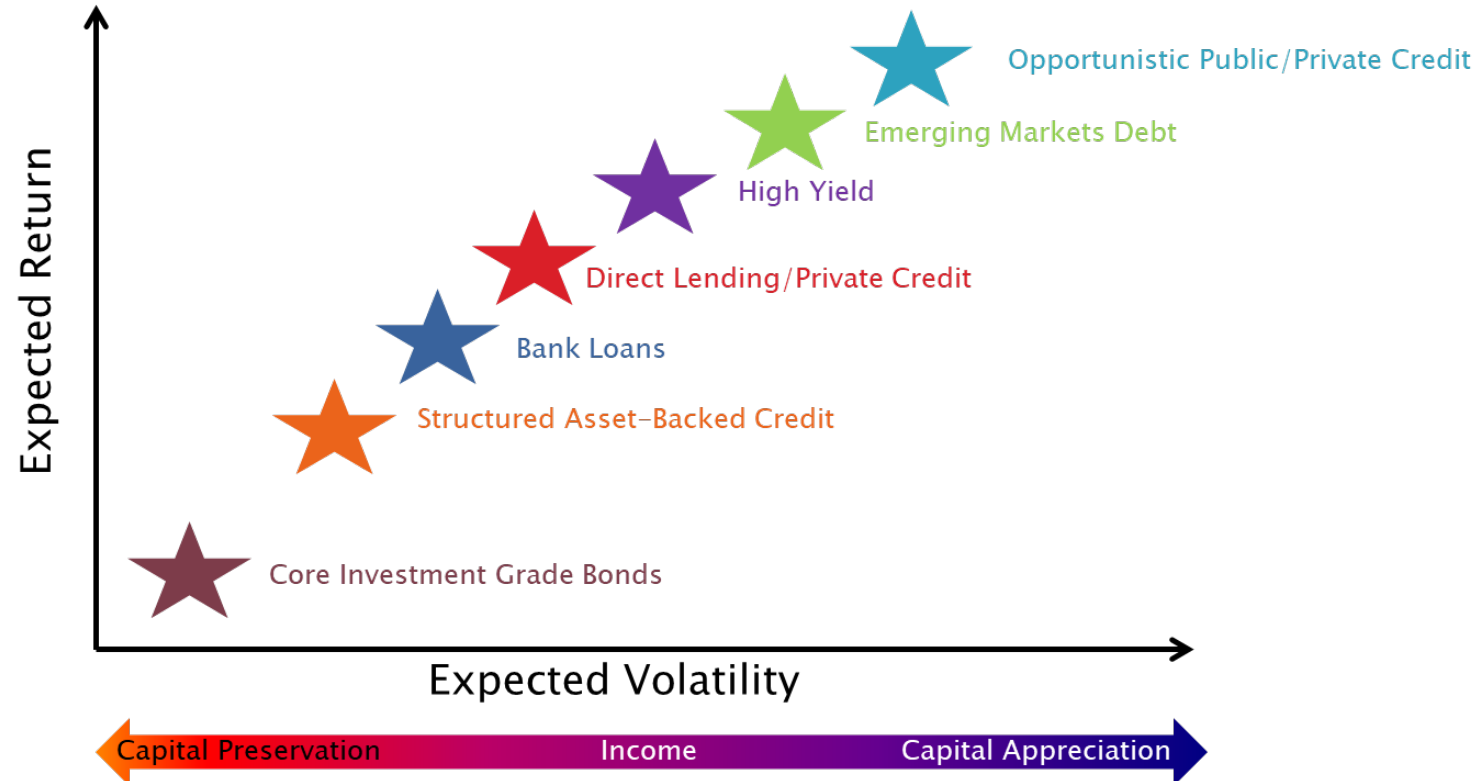
“The core fixed income asset class **diversifies** the risk of the overall investment portfolio with a secondary goal of **capital preservation**. The overall objective is to exceed its benchmark performance net of fees over rolling five-year periods.”

## IPS Objective for the NON-CORE Fixed Income (NCFI) Portfolio:

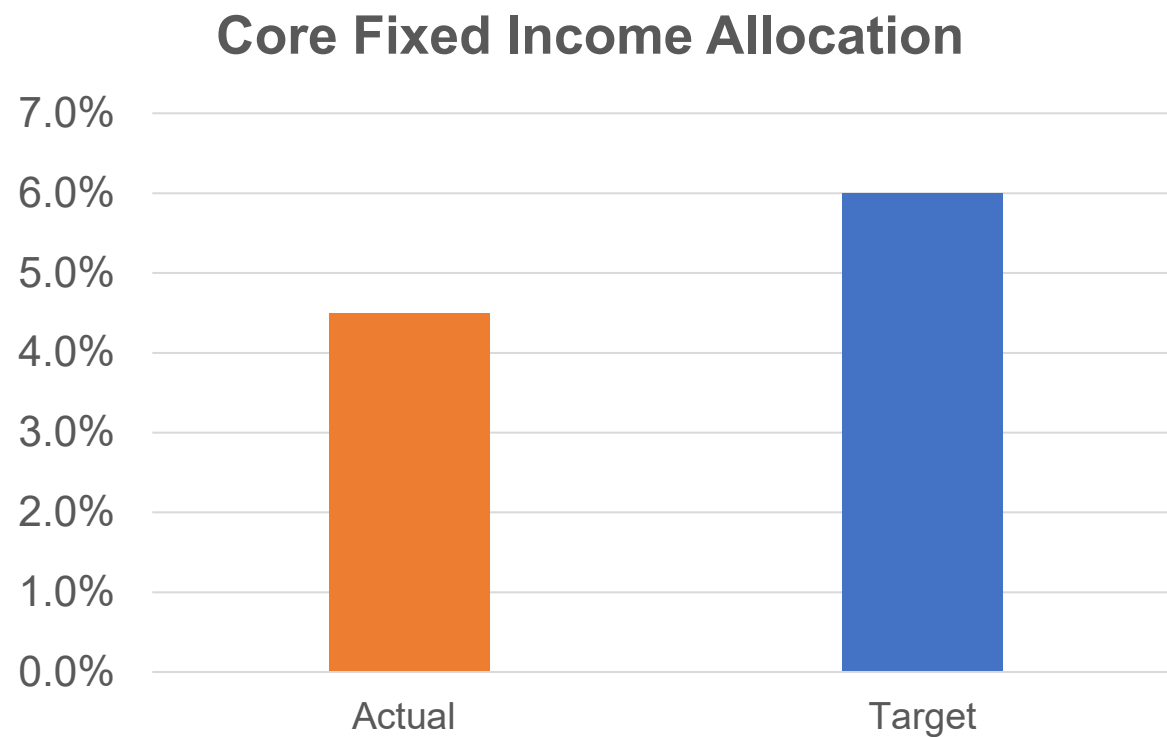
“The NCFI asset class **diversifies** the risk of the overall investment program and is designed to provide both **income** and **capital appreciation**. The overall objective is to exceed its benchmark performance net of fees over rolling five-year periods.”

# Fixed Income Opportunity Set

Fixed income is a \$127 trillion global market.



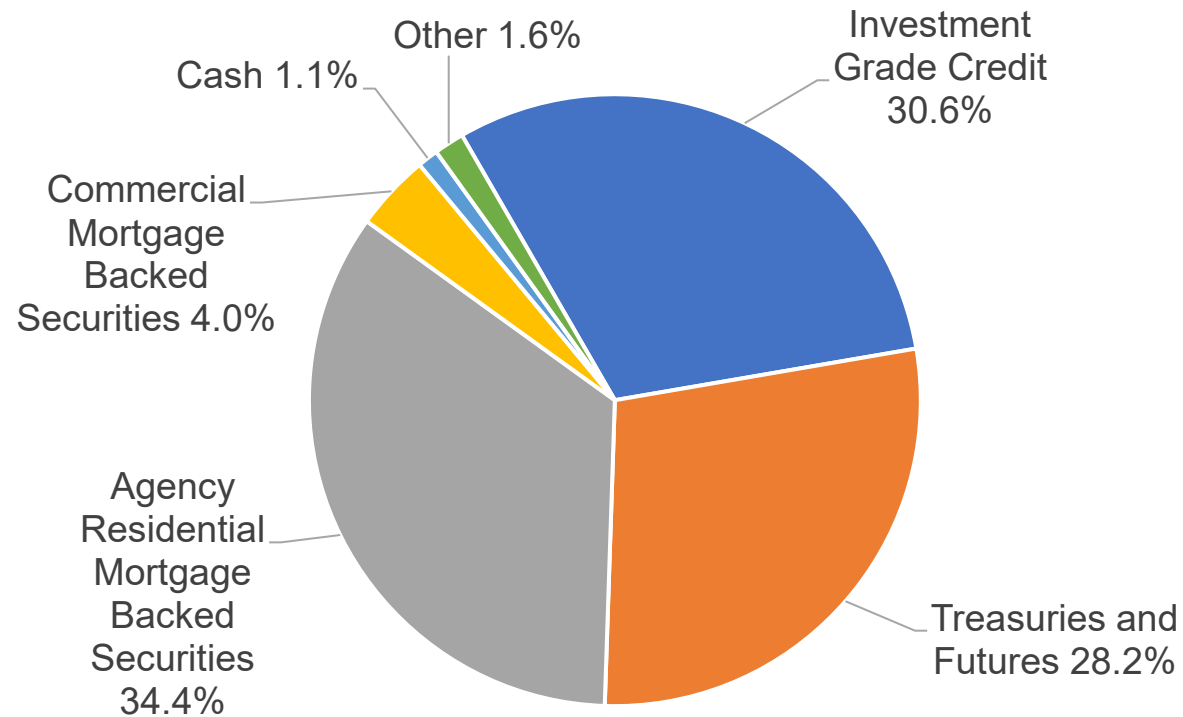
## Core Fixed Income Within Approved Ranges of 1% and 11% As of 9/30/22



# Core Fixed Income is Well Diversified

As of 9/30/22

## Core Fixed Income Sector Allocation





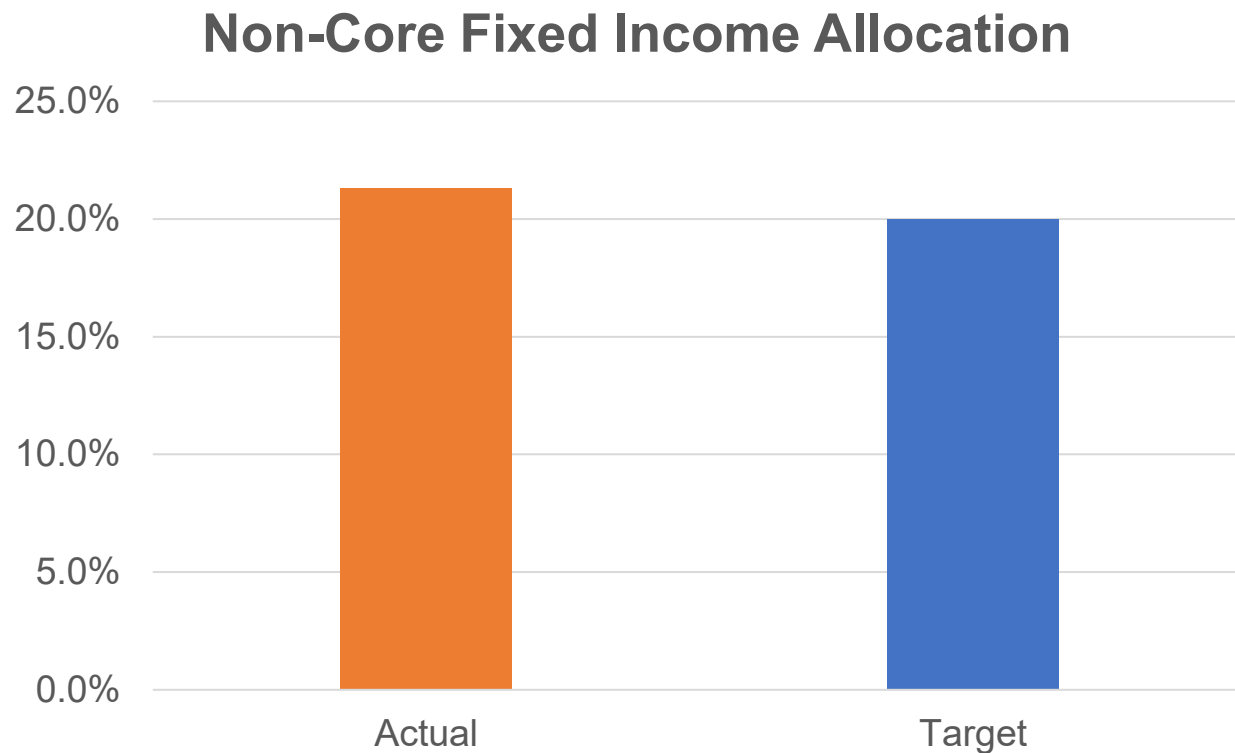
# Core Fixed Income Performance

As of 9/30/22

Core Fixed Income is exceeding its benchmark net of fees over five- and ten-years.

|  | <u>YTD</u>    | <u>1 Yr.</u>  | <u>5 Yrs.</u> | <u>10 Yrs.</u> |
|--|---------------|---------------|---------------|----------------|
| <b>TMRS CORE FIXED INCOME</b>              | <b>-14.87</b> | <b>-14.82</b> | <b>-0.04</b>  | <b>1.05</b>    |
| <i>BLOOMBERG U.S. AGGREGATE BOND INDEX</i> | <i>-14.61</i> | <i>-14.60</i> | <i>-0.27</i>  | <i>0.89</i>    |
| <i>Excess</i>                              | <i>-0.26</i>  | <i>-0.22</i>  | <i>0.23</i>   | <i>0.16</i>    |

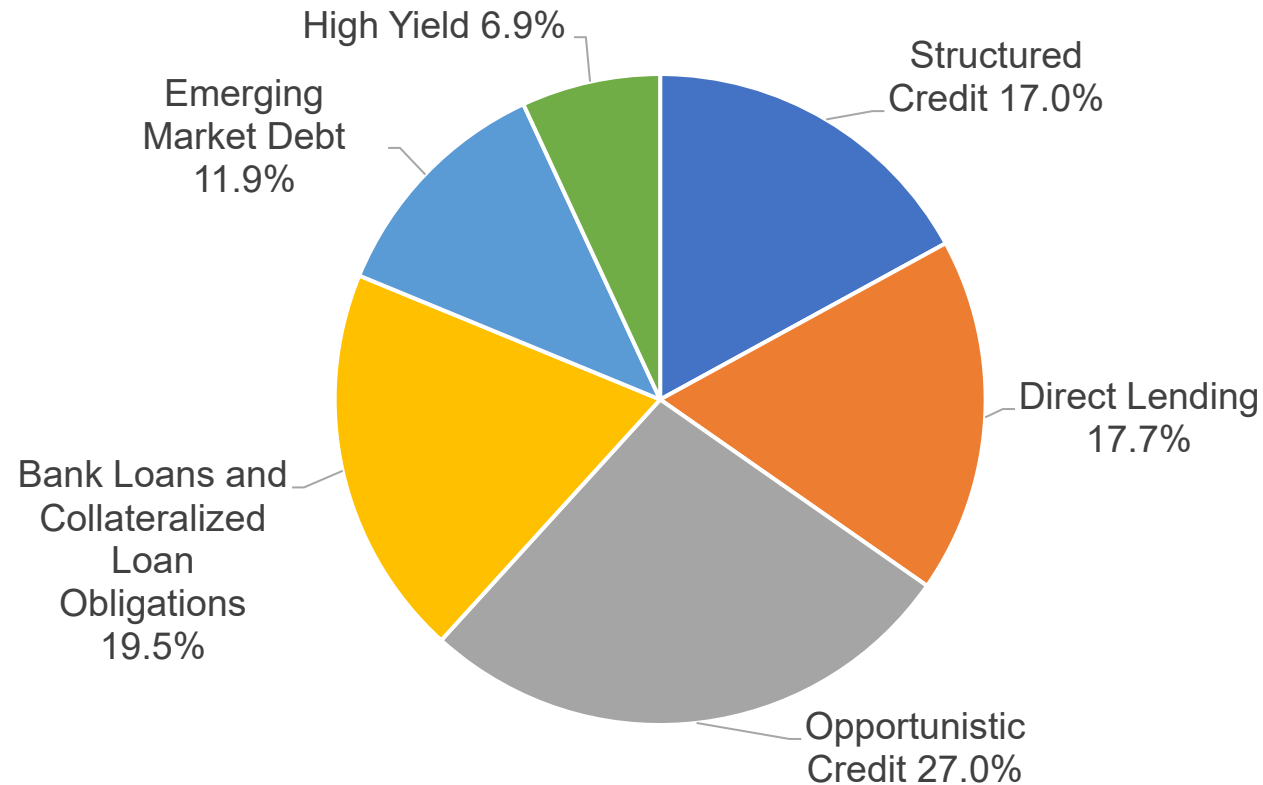
## Non-Core Fixed Income Within Approved Ranges of 15% and 25% As of 9/30/22



# Non-Core Fixed Income is Well Diversified

As of 9/30/22

## Non-Core Fixed Income Strategy Allocation



# TMRS' NCFI Fixed Income Strategies

- **Public Credit** – Debt issued or traded in public markets. Public debt strategies include High Yield bonds, Bank Loans, Emerging Markets Debt (EMD), Structured Credit, CLOs, Opportunistic Credit, Stressed and Distressed Credit.
- **Private Credit** – Privately originated and negotiated debt. Private credit typically involves a few counterparties and returns are expected to be higher due to illiquidity. Private Credit strategies include Direct Lending, Special Situations, Stressed and Distressed Credit and Specialty Finance.

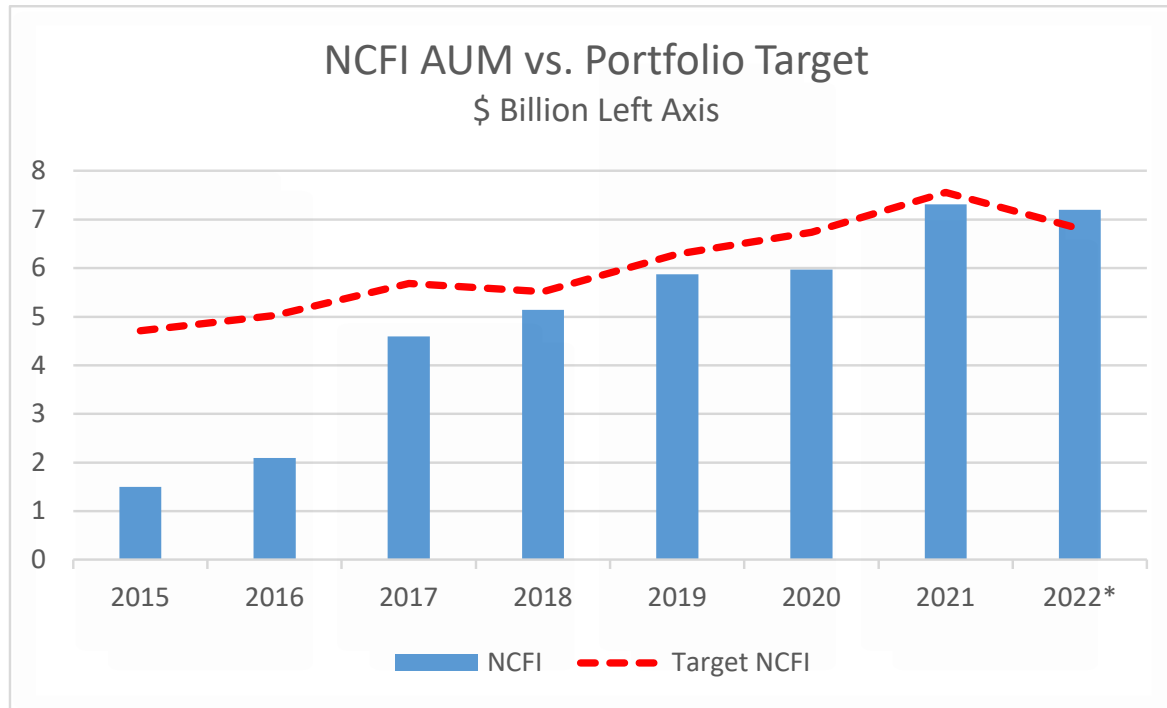
# Non-Core Fixed Income Performance

As of 9/30/22

NCFI is exceeding its benchmark net of fees over the life of TMRS' non-core policy allocation.

|   | <u>YTD</u>    | <u>1 Yr.</u>  | <u>5 Yrs.</u> | <u>ITD</u>  | <u>Inception<br/>Date</u> |
|---|---------------|---------------|---------------|-------------|---------------------------|
| <b>TMRS NON-CORE FIXED INCOME</b>                 | <b>-2.72</b>  | <b>-2.91</b>  | <b>3.71</b>   | <b>3.94</b> | <b>10/1/2014</b>          |
| <i>BLOOMBERG U.S. AGGREGATE BOND INDEX + 1.5%</i> | <i>-10.49</i> | <i>-10.42</i> | <i>1.81</i>   | <i>2.33</i> |                           |
| <i>Excess</i>                                     | <i>7.78</i>   | <i>7.51</i>   | <i>1.90</i>   | <i>1.61</i> |                           |

# NCFI Investment Pacing



\* As of 9/30/22

- The NCFI portfolio has achieved its 20% target allocation.
- Future activity will focus on optimizing public NCFI exposures and further deploying capital in private credit.

# Accomplishments & Planning

## 2022 Goals

*Goals presented at December 2021 Board meeting*



Opportunistically target complementary strategies.

2022 commitments and re-classified investments totaled approximately \$891 million.



Reinvest returns of capital from previous credit investments

Continue to look for attractive opportunities that achieve TMRS' return objectives and keep the portfolio at target.



Maintain relative performance edge.

Continue to look for best in class managers and attractive partnerships to enhance returns and increase total fund efficiencies and savings.

## 2023 Goals



Opportunistically target complementary strategies.

The FI team's goal is to commit approx. \$1.2 billion of capital in 2023.



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

Staff work will consist of further optimizing public non-core and recycling capital and deployment within private credit.



Intelligently source quality investment opportunities

Identify differentiated managers in creative, value-enhancing strategies across the credit universe.



November 29, 2022

**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 name "David J. Hunter" in the "From:" line.

**Re: Agenda Item 21: Board Education: Hedge Funds Asset Class**

In accordance with the Investment Policy Statement, comprehensive asset class reviews are conducted at least annually. At the December Board meeting, Tim Sweeney, Portfolio Director, will present the Hedge Fund review. The presentation material is available in the Diligent Resource Center in the tab titled "December 8, 2022, Board Meeting."





# Annual Review: Hedge Funds

Timothy Sweeney

December 8, 2022

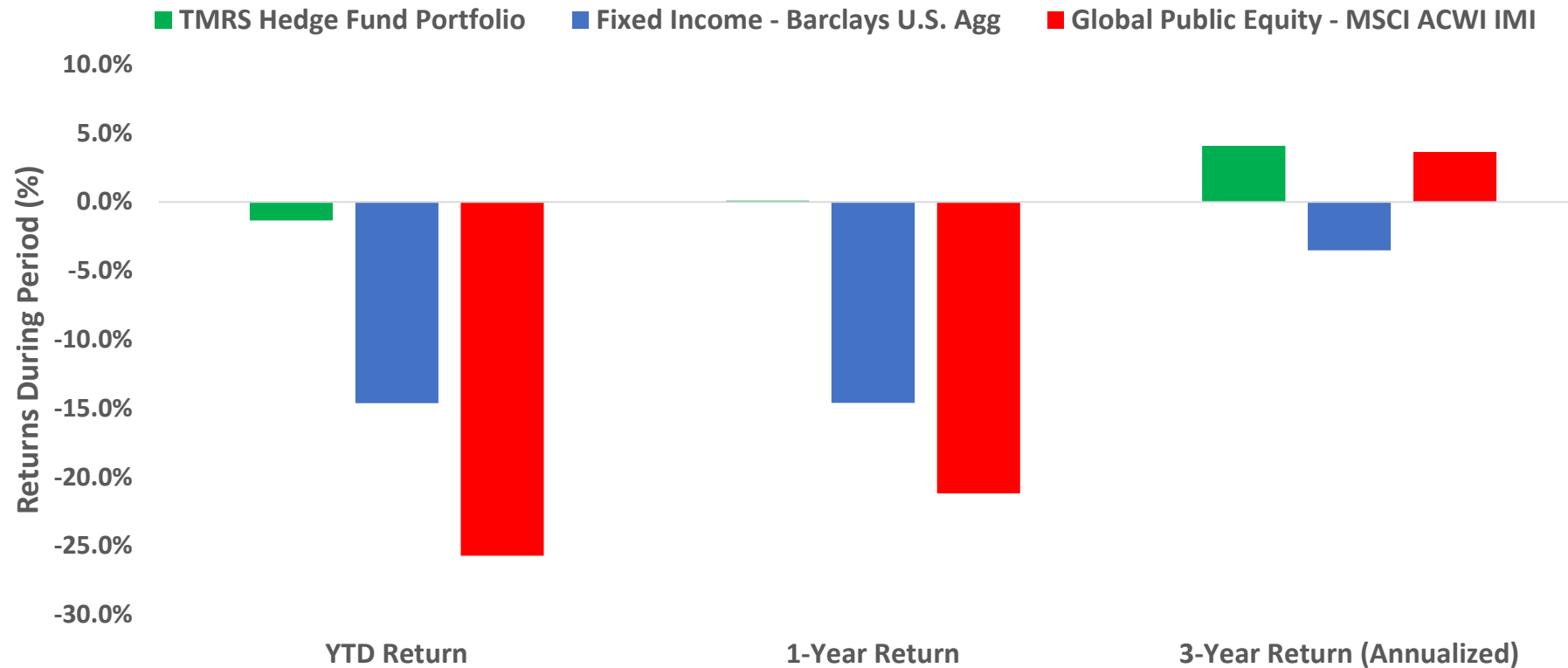
# Portfolio Updates – As of September 30, 2022

- Since September 30, 2021, the hedge fund portfolio has been reduced from \$3.4b to \$2.6b or from 9.4% to 7.4% of the Trust Fund.
- Staff targets a final portfolio of 15 funds and submitted seven full redemptions and 12 partial redemptions since September 30, 2021.
- In the fourth quarter of 2022, the hedge fund portfolio is expected to decrease to approximately 6.50% of the total Trust Fund.

# What is the Hedge Fund Asset Class

- The Hedge Fund portfolio's objective is to protect trust fund capital, diversify risk, and enhance returns.
- The Hedge Fund Benchmark contains four strategies:
  - **Equity Hedge** – Long and Short Equity Securities
  - **Global Macro** – Interest Rates, Futures, Currencies, and Commodities
  - **Relative Value** – Returns that are not sensitive to market direction
  - **Event Driven** – Distressed Debt, Mergers, and Acquisitions

# Protect Trust Capital



# Enhancing Return

- To increase portfolio concentration, staff targets a final portfolio of 15 funds from a peak of approximately 27 funds in 2020.
- A more concentrated portfolio will enhance returns from managers that have the highest probability of beating the new hedge fund benchmark while reducing dilution from underperforming managers.
- Staff preserved managers with higher risk and return expectations and increased equity strategies to align with the new hedge fund benchmark.

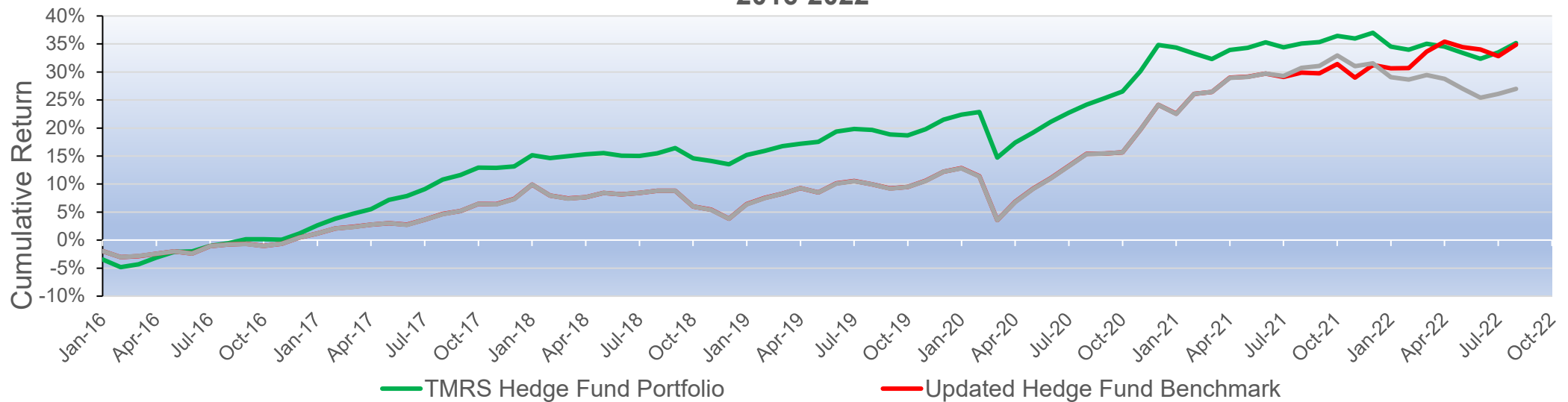
# Portfolio Attributes

- The final portfolio is comprised of established hedge fund managers that Albourne maintains an 'above average' rating for operational and investment risk.
- TMRS hedge fund managers have an average of 22 years investing experience and a minimum of a 5-year track record.
- The median AUM for TMRS hedge fund managers is approximately \$12b with the majority managing over \$10 billion in institutional assets.

# TMRS Hedge Fund Performance

| All Strategies                      | YTD Return | 1 Yr  | 3 Yr (Annualized) | 5 Yr (Annualized) | Inception (Annualized) |
|-------------------------------------|------------|-------|-------------------|-------------------|------------------------|
| <b>TMRS Hedge Fund Portfolio</b>    | -0.62%     | 0.10% | 4.16%             | 4.21%             | 4.24%                  |
| <b>Hedge Fund Blended Benchmark</b> | 4.54%      | 3.82% | 6.91%             | 5.12%             | 3.84%                  |

**Cumulative Returns**  
**TMRS Hedge Fund Portfolio Versus Hedge Fund Benchmark**  
**2016-2022**



# Transition Plan & Pacing

## 2022 Checklist



Redeem from underperforming managers



Manage redemption schedule



Areas of concern were addressed during the annual review

## 2023 Goals



Reach 5% target allocation



Increase Portfolio Return Profile



Address Benchmark mismatch