



AGENDA

Meeting of the Board of Trustees

Thursday, March 23, 2023 – 9:00 a.m.

**AT&T CONFERENCE CENTER
1900 University Avenue
Austin, Texas 78705**

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

Call to Order

Invocation

Pledge of Allegiance

Consent Agenda

- 1. Consider and Act on Consent Agenda.** *Bob Scott*
 - a. Approve Minutes from the December 8, 2022 and February 16, 2023 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 Financial Statements as of December 31, 2022
 - i. Statements of Fiduciary Net Position
 - ii. Statements of Changes in Fiduciary Net Positions
 - iii. Expense Fund Balance Sheet
 - iv. Expense Fund Schedule of Operating and Capital Expenditures

Board Organization

- 2. Discuss, Consider and Act on Board Committees.** *Bob Scott*

3. **Consider and Act on 2023 Board Committee Appointments.** *Bob Scott*

Executive Director Reports

4. **Executive Director's Report.** *David Wescoe*
5. **Receive Senior Staff Quarterly Reports.** Chief Financial Officer (*Mike Apperley*), Chief Legal Officer (*Christine Sweeney*), Chief Service Officer (*Debbie Muñoz*), Chief Information Officer (*Jac Greene*), and Director of Governmental Relations (*Dan Wattles*)
6. **Report on 2022 Senior Staff Action Plan Results and Present 2023 Senior Staff Action Plan.** *David Wescoe*
7. **Receive Update on TMRS 75th Anniversary Activities.** *David Wescoe*

Plan Design and Funding

8. **Consider and Act on Ratification of Ordinances Adopting Updated Service Credit and/or Annuity Increases Effective January 1, 2023 (Received after the December 2022 Board Meeting).** *Debbie Muñoz*
9. **Consider and Act on 2022 Interest Credit Allocation to the Benefit Accumulation Fund and Interest Reserve Account.** *Leslee Hardy*

Legislative

10. **Receive Legislative Update and Consider and Act on Legislative Items Affecting TMRS.** *Dan Wattles*

Legal

11. **Consider and Act on Proposed TMRS Rules Amendments – Chapter 127.** *Christine Sweeney*

Investment Reports

12. **Chief Investment Officer Reports.** *David Hunter*
 - a. CIO Report
 - b. Trust Fund Report: Fourth Quarter 2022
 - c. Receive 2022 Annual Completed Investments Report
13. **Receive Fourth Quarter 2022 Investment Compliance Report.** *Michele Fullon*
14. **General Investment Consultant Quarterly Report.** *Sam Austin, NEPC*

15. **Review and Discuss Importance of Asset Allocation.** *Sam Austin, NEPC*

Board Education

16. **Board Education: A Trustee's Fiduciary Responsibilities.** *Robert Klausner, Klausner, Kaufman, Jensen & Levinson*
17. **Board Education: Global Equities Asset Class.** *David Hunter, Tim Sweeney, and Frank Atkins*

Executive Session

18. **Executive Session.** *Bob Scott*

- a. In accordance with Section 551.071, Texas Government Code, the Board of Trustees may meet in executive session to seek and receive the advice of its attorney about pending of contemplated litigation, a settlement offer, or a matter in which the duty of the attorney to TMRS under the Texas Disciplinary Rules of Professional Conduct clearly conflicts with the Open Meeting law.

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

Future Board Agenda Items

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

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 AT&T Conference Center, 1900 University Avenue, Austin, Texas, which will be open and audible to the public during the open portions of the meeting.



March 14, 2023

To: Board of Trustees

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

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

The Consent Agenda includes Minutes from the December 8, 2022 and February 16, 2023 Board meetings, quarterly reports on service retirements, disability retirements, death benefits, and financial statements as of December 31, 2022. The Consent Agenda is adopted as one item.

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 December 8, 2022 and February 16, 2023 Board meetings
- 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)



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

December 8, 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 Drive, 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 present included David Wescoe (Executive Director), Jac Greene (Chief Information Officer), David Hunter (Chief Investment Officer), Debbie Muñoz (Chief Service Officer), Christine Sweeney (Chief Legal Officer), Sandra Vice (Chief Administration Officer). Sam Austin (NEPC), Robert Klausner (Klausner, Kaufman, Jensen & Levinson), and Dr. Anthony Picchioni were also present.

Mr. Garza called the meeting to order at 8:31 a.m.

Consent Agenda

1. Consider and Act on Consent Agenda.

Mr. Philibert moved that the Board adopt the Consent Agenda, including the Minutes from the September 21 and 22, and October 27 and 28, 2022 meetings. Ms. Alanis seconded the motion, which passed 6-0.

Advisory Committee on Benefit Design

2. Consider and Act on Appointments to the Advisory Committee on Benefit Design.

Debbie Muñoz reported that David Riggs, representing the Texas State Association of Fire Fighters (TSAFF), has completed a six-year term and, in accordance with the Committee charter, is not eligible for reappointment. TSAFF has nominated Jaime Reyes, the current alternate from the City of Plano, to be his replacement representative on the Advisory Committee, and Mike Jones, City of Burleson, as his alternate.

Ms. Muñoz said that Barry Sullivan, representing the individual class of active employee members, has completed his first three-year term and would like to serve a second term. She then said that the individual class representative for retirees position is vacant due to the recent death of Paul Parker. Staff will consider new applications for this position and make a recommendation at a future Board meeting. The Board discussed the process for finding a new retiree class representative with staff.

Mr. Huizar moved that the Board approve the nominations of Messrs. Reyes and Sullivan as representatives and Mr. Jones as an alternate to the Advisory Committee on Benefit Design for three-year terms. Mr. Landis seconded the motion, which passed 6-0.

Audit Committee Report

3. Report on Audit Committee's November 16, 2022 Meeting and Consider and Act on 2023-2024 Audit Plan.

Mike Apperley reported on the November 16 Audit Committee meeting. The 2021-2022 Audit Plan is complete, and Mr. Apperley said that the Committee recommends the Board approve the 2023-2024 Audit Plan. Mr. Philibert and Mr. Landis stated that they were impressed with the 2023-2024 Audit Plan. Mr. Scott expressed his appreciation of the balance and breadth of the Audit Plan.

Mr. Philibert moved that the Board approve the 2023-2024 Audit Plan. Mr. Landis seconded the motion, which passed 6-0.

Executive Session

4. Executive Session.

The Board went into Executive Session at 8:45 a.m. The meeting reconvened in Open Session at 9:50 a.m. No action was taken during the Executive Session. All members of the Board who were present before the Executive Session were present.

In Appreciation of David Riggs

Mr. Riggs arrived at the meeting, and Ms. Muñoz presented him with a plaque recognizing his service on the Advisory Committee and thanked him for his service on behalf of the Board and staff. Board members expressed their appreciation of Mr. Riggs. Mr. Riggs said TMRS is a shining example of a public retirement system that serves its members and cities with excellence.

Board Organization

5. Consider and Act on Election of 2023 Board Officers.

Mr. Landis moved that the Board elect Bob Scott as Chair and Anali Alanis as Vice Chair for 2023. Mr. Huizar seconded the motion, which passed 6-0. On behalf of the Board and staff, Mr. Wescoe thanked Mr. Garza for his service as Chair and presented him with a commemorative plaque.

6. Consider and Act on 2023 Board Meeting Dates.

Ms. Sweeney said that the Board must have four meetings a year, and that last year the Board had seven meetings, including a retreat. Mr. Garza suggested the Board could accomplish its duties in six meetings, with one being a retreat/workshop. Ms. Alanis, Mr. Philibert and Mr. Huizar agreed with his recommendation. Mr. Landis and Mr. Scott discussed scheduling the Board retreat/workshop in February. Ms. Alanis moved to approve the schedule of meetings dates for calendar year 2023 on February 16 as a workshop, March 23, May 25, June 22, September 28, and December 14. Mr. Landis seconded the motion, which passed 6-0.

7. Consider and Act on 2023 Board Committee Appointments.

Mr. Garza recommended the Board table this issue for a future meeting. Mr. Landis moved that the current Board Committee chairs and vice chairs continue to serve until new appointments are made by the Board. Mr. Philibert seconded the motion, which passed 6-0.

Executive Director Reports

8. Executive Director's Report.

Mr. Wescoe reported on fourth quarter activities: the “best ever” Board retreat; Staff completed a successful upgrade of the City Portal Contribution System; the website is now available in Spanish; the new Investment Policy Statement is complete, concise, and understandable; Trust Fund investment returns are in the first quartile; and preparations for the 75th Anniversary celebrations are under way. Mr. Wescoe presented the new 75th Anniversary logo that will be used throughout 2023 and thanked Dan Wattles, Jack Austin and Natalie Garza, for their hard work on this project.

Mr. Wescoe introduced Jennifer Andrews, who led the City Contributions project that was completed successfully, on time and under budget. Mr. Wescoe asked Ms. Andrews to introduce her team to the Board. Ms. Andrews introduced the core project team: from Information Services: Pete Krnavek, Gretchen Meyers and Lilian Williams; from Accounting and Finance: Josette Madry and Shannon Boyd; and from City Contributions: Terraye Whitehead, Fernanda Garcia, Amanda Martinez, Kitty Tom, Rachel Mota and Anna Silva.

9. Receive Senior Staff Quarterly Reports.

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

Strategic Planning

10. Consider and Act on TMRS Strategic Plan and Mission, Vision and Values.

Mr. Wescoe presented the Strategic Plan and Mission, Vision and Values that the Board discussed at its retreat in October. Mr. Garza agreed that the Board retreat was a great success. Mr. Landis moved that the Board approve the Mission, Vision and Values, and 2023-2025 Strategic Plan presented. Mr. Scott seconded the motion, which passed 6-0.

Actuarial Services

11. Consider and Act on Supplemental Death Benefit Fund Assumptions and 2024 Rates.

Ms. Hardy said SDB claims for the first eight months of 2022 were down 23% compared to the same period in 2021 but are higher than before the pandemic. Ms. Hardy and GRS recommended that the higher rates adopted for 2023 be continued for 2024. Mr. Landis asked how this would affect city contribution rates, and Ms. Hardy replied that the rates would remain like 2023.

Ms. Alanis moved 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. Mr. Philibert seconded the motion, which passed 6-0.

Finance Reports

12. Consider and Act on Proposed 2023 Operating, Capital and PASMod Program Budgets.

Candace Nolte presented the proposed 2023 Operating, Capital and PASMod Program Budgets. Mr. Huizar moved that the Board adopt the 2023 Operating, Capital and PASMod Program budgets. Mr. Philibert seconded the motion, which passed 6-0.

13. Consider and Act on Resolution Transferring Monies from Interest Reserve Account to Expense Fund.

Ms. Nolte said the Board annually transfers funds from the Trust Fund's Interest Reserve Account to the Expense Fund to cover TMRS' budgeted operating costs for the following year. She said Board policy has been to allocate a 15% reserve of the budget to the Expense Fund, and requested \$34.8 million be transferred to the Expense Fund.

Mr. Landis moved that the Board transfer \$34.8 million from the Interest Reserve Account to the Expense Fund to cover 2023 budgeted expenses. Mr. Huizar seconded the motion, which passed 6-0.

Investment Reports

14. Chief Investment Officer's Reports.

a. CIO Report

Dave Hunter reported on recent Investment department activities.

b. Trust Fund Report: Third Quarter 2022

Dave Hunter reported that the Trust Fund generated net investment returns that exceeded its asset allocation benchmark for all time periods presented and that the Trust Fund asset allocation aligns with the strategic targets set by the Board. He also noted that the Trust Fund risk, as measured by standard deviation, aligns with the Board approved benchmark and asset allocation risk. Mr. Hunter reviewed third quarter private market commitments, which included \$190 million in Private Equity, \$545 million in Other Public and Private Markets, and \$400 million in Real Estate. He also reviewed the pacing plans for private markets including projections for the next five years.

c. Receive 2022 Annual Completed Investments Report

This Report contains the details of the completed investments.

15. Consider and Act on Amendments to the Investment Policy Statement.

Mr. Hunter thanked Ms. Alanis and Mr. Scott for their work to help revise the Investment Policy Statement (IPS). Mr. Scott also thanked the team for their hard work, and Ms. Alanis agreed that it was very educational and interesting to think through the issues and hear staff's perspectives.

The Board discussed the IPS and expressed their appreciation for its simplicity and clarity. Ms. Alanis moved that the Board approve the IPS and Investment Guidelines. Mr. Scott seconded the motion, which passed 6-0.

16. Receive Third Quarter 2022 Investment Compliance Report.

Michelle Fullon said State Street completed 2,400 automated tests that confirmed that TMRS investment managers are in compliance with TMRS investment guidelines. Other testing confirmed that TMRS is in compliance with all IPS testable guidelines.

17. Receive 2023 Investment Pacing Plan.

Mr. Hunter discussed the proposed 2023 pacing plan. He reviewed the asset classes, including the difference between the current allocation and target allocation and the projected private markets exposure of the Trust Fund currently and what is projected for the next five years.

18. Discuss Risk Appetite Survey Results.

Sam Austin with NEPC said the risk survey was a precursor to review the asset allocation later this year. The results showed great alignment of the Trustees on risk tolerance, and Mr. Austin said he would send the results to all Trustees. There was discussion regarding the Board's general risk tolerance.

19. Discuss Annual Asset Allocation Review.

Mr. Hunter said this review focuses on the reasonableness of the Board's asset allocation and is not the comprehensive asset allocation study that is done every four years. Mr. Austin said asset allocation is the largest component of the variability of returns in a portfolio and one of the most important Board responsibilities. He reviewed the current target allocation, including the ranges of acceptable allocations, the benchmarks, and objectives. He said TMRS' projected current target return over 10 years is 7.7%. Mr. Austin concluded that based on NEPC's latest capital markets assumptions, TMRS asset allocation is expected to return greater than the assumed rate of 6.75% over the next 10-30 years.

20. General Investment Consultant Quarterly Report.

Mr. Austin presented NEPC's quarterly investment report. He said the total performance of the Trust Fund was up 4.72% for the past five-year period exceeding the allocation benchmark by 1.19% and negative 6.17% for the past one-year period, exceeding the allocation benchmark by 5%. TMRS was in the first quartile for the one-year period, but in the fourth quartile for the five-year period. Mr. Austin reviewed risk, return and risk-adjusted returns, stating that while the Trust Fund was in the first quartile for returns for the one-year period, it was third quartile for risk and second quartile for risk-adjusted returns. He presented a chart indicating that TMRS was in compliance with the IPS guidelines for the quarter and concluded his comments with a performance detail of each asset class against several time periods.

Board Education

21. Board Education: Fixed Income Asset Class.

Darren Schulz reviewed the two categories of fixed income: core and non-core fixed income. Core fixed income represents intermediate bonds of the highest quality. The two key goals are diversification and capital preservation. Non-core fixed income seeks to provide income generation and growth of capital.

Mr. Schulz reviewed the target allocation for the core fixed income asset class, which is 6%, with a 1-11% allowable range. The core fixed income asset class was within the approved

range at 4.5% of the total Trust Fund as of September 30, 2022. Performance of core fixed income has exceeded its benchmark net of fees over five- and ten-year periods, although returns have been negative. He also reviewed the target allocation for the non-core fixed income asset class that was established last summer at 20% with a 15-25% allowable range. TMRS ended September 30, 2022 slightly above the target allocation and within the allowable range. He reviewed the diversification and performance of the asset class.

22. Board Education: Hedge Fund Asset Class.

Timothy Sweeney confirmed that since the Board decreased the hedge fund asset class allocation from 10% to 5%, staff has worked reducing the allocation from 9.4% to 7.4%. In the fourth quarter of 2022, the asset class is expected to decrease to 6.5% of the Trust Fund. Mr. Sweeney stated that the objective of the asset class is to protect trust fund capital, diversify risk and enhance returns. He then reviewed the four subcategories within the asset class: equity hedge, global macro, relative value, and event driven, giving examples of each subcategory.

Mr. Sweeney reviewed hedge fund returns to fixed income and global public equity returns, explaining that hedge funds act differently than other asset classes providing diversification and protecting capital. TMRS has been increasing the concentration of higher performing managers, decreasing the number of managers from 27 in 2020 to a target of 15 managers and reviewing the quality of managers, including review of performance, operational and investment risk, and experience. Mr. Sweeney concluded stating that for 2022, the asset class achieved the goals presented to the Board at the December 2021 Board meeting.

Future Board Agenda Items

23. Call for Future Agenda Items.

Ms. Alanis requested that the Board discuss the election of officers in September 2023, prior to the final vote in December.

There being no further business, Mr. Scott adjourned the meeting at 11:58 a.m.

David B. Wescoe
Executive Director

Jesús A. Garza
Chair, Board of Trustees



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

February 16, 2023 – 9:00 a.m.

The Board of Trustees of the Texas Municipal Retirement System (TMRS) convened for a workshop at 9:00 a.m. at the AT&T Conference Center, located at 1900 University Avenue, Austin, Texas, in Grand Salon D&E with all Trustees present: Chair Bob Scott, Vice Chair Anali Alanis, Jesús Garza, Johnny Huizar, David Landis, and Bill Philibert.

Staff present included: David Wescoe (Executive Director), Christine Sweeney (Chief Legal Officer), Debbie Muñoz (Chief Service Officer), David Hunter (Chief Investment Officer), Jac Greene (Chief Information Officer), Tom Masthay (Deputy Chief Investment Officer), Nick O’Keefe (Deputy Chief Investment Officer – Operations), Leslee Hardy (Director of Plan Design and Funding), Anthony Mills (Director of City Services), Dan Wattles (Director of Governmental Relations), Candace Nolte (Director of Finance), Andi Focht-Williams (Director of Benefit Administration), Madison Jechow (Assistant General Counsel). Sam Austin of NEPC, UT Professor Robert A. Prentice, and Dr. Anthony Picchioni also attended.

1. Discuss Board’s Investment Risk Appetite Survey Results.

Sam Austin reviewed Board responses to an NEPC survey regarding investment risk appetite. He said the survey responses will lead into an asset allocation process and asset allocation study to be discussed at the March, May, and June Board meetings.

2. Receive Presentation on Communication Styles.

Dr. Picchioni presented an overview of communication styles.

3. Executive Session.

The Board went into Executive Session at 10:24 a.m. The meeting reconvened in Open Session at 12:30 p.m. No action was taken during the Executive Session. All members of the Board who were present before the Executive Session were present.

4. **Board Education: The Psychology of Moral Decision Making.**

Dr. Robert A. Prentice addressed the Board regarding the psychology of moral decision making.

5. **Discuss, Consider and Act on Board Committees.**

Mr. Scott left the meeting, and Ms. Alanis tabled agenda item number 5 until the March Board meeting.

6. **Consider and Act on 2023 Board Committee Appointments.**

Ms. Alanis tabled agenda item number 6 until the March Board meeting.

7. **Receive Update on TMRS 75th Anniversary Activities.**

Ms. Alanis tabled agenda item number 7 until the March Board meeting.

8. **Call for Future Agenda Items.**

Ms. Alanis tabled agenda item number 8 until the March Board meeting, and the meeting was adjourned at 2:13 p.m.

David B. Wescoe
Executive Director

Bob Scott
Chair, Board of Trustees



March 14, 2023

To: Board of Trustees

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

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

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

Board Retirement Report

Summary of Individual Member Retirements Processed from 10-2022 to 12-2022

Total Number of Retirements by Option	Service	Disability	Total
Retiree Life Only	342	4	346
Retiree Life -- 100% to Survivor	284	4	288
Retiree Life -- 75% to Survivor	54	0	54
Retiree Life -- 50% to Survivor	123	0	123
Retiree Life -- 5 Years Guaranteed	12	0	12
Retiree Life -- 10 Years Guaranteed	16	0	16
Retiree Life -- 15 Years Guaranteed	54	0	54
Cashout of Reserves	16	1	17
Total Number -- All Options	901	9	910

Total Monthly Benefits (Nearest Dollar)	\$1,739,604	\$7,122	\$1,746,726
Average Monthly Benefit (Nearest Dollar)	\$1,931	\$791	\$1,919
Average Age at Retirement	60	53	60
Average Years of Service at Retirement	20	15	20

Partial Lump Sum Distributions	
No. of Retirements Taking a PLSD	637
Total Amount Paid	\$37,752,772
% of PLSD Funds Rolled Over	55%
% of PLSD Funds Not Rolled Over	45%

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

**Summary of Supplemental Death Benefit Payments and Applications for Supplemental
Death Benefits Extended Coverage from October 1, 2022 to December 31, 2022**

Supplemental Death Benefit Payments	
By Beneficiaries of Active Members	34 payments totaling \$1,544,916.18
By Beneficiaries of Retired Members	216 payments totaling \$1,466,262.37
Applications for Supplemental Death Benefits Extended Coverage	
Members Granted Extended Coverage	1

PRELIMINARY - UNAUDITED
TEXAS MUNICIPAL RETIREMENT SYSTEM
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
For the Twelve Months Ending December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ADDITIONS		
Contributions:		
Pension plan - cities	\$1,142,766,661	\$1,074,590,007
Pension plan - Member	529,914,380	492,319,722
Supplemental death benefits plan - cities	11,218,958	10,655,161
Total contributions	<u>1,683,899,999</u>	<u>1,577,564,890</u>
Net investment income/(loss):		
Net appreciation/(depreciation) in fair value of investments	(3,340,193,373)	4,012,087,723
Interest and dividends	468,883,610	499,024,961
Total investment income/(loss)	<u>(2,871,309,763)</u>	<u>4,511,112,684</u>
Less: investment manager fees/transaction costs	(18,618,490)	(30,656,845)
Net investment income/(loss)	<u>(2,889,928,253)</u>	<u>4,480,455,839</u>
Other miscellaneous	36,056,244	40,532
Total additions	<u>(1,169,972,010)</u>	<u>6,058,061,261</u>
DEDUCTIONS		
Benefit payments:		
Service retirement	1,531,800,814	1,431,099,721
Disability retirement	17,206,656	17,238,392
Supplemental death benefits	14,064,423	17,849,592
Partial lump-sum distributions	230,427,012	194,678,511
Total benefit payments	<u>1,793,498,905</u>	<u>1,660,866,216</u>
Member account refunds	73,856,361	62,336,087
Budget transfer and other	33,092,011	33,708,298
Total deductions	<u>1,900,447,277</u>	<u>1,756,910,601</u>
CHANGE IN FIDUCIARY NET POSITION	(3,070,419,287)	4,301,150,660
FIDUCIARY NET POSITION		
Restricted for pensions:		
Beginning of year	38,578,132,313	34,270,205,759
End of year	<u>\$35,510,558,491</u>	<u>\$38,578,132,313</u>
Held in trust for other benefits:		
Beginning of year	5,815,483	12,591,377
End of year	<u>\$2,970,018</u>	<u>\$5,815,483</u>

PRELIMINARY - UNAUDITED
TEXAS MUNICIPAL RETIREMENT SYSTEM
STATEMENTS OF FIDUCIARY NET POSITION
As of December 31, 2022 and 2021

	<u>12/31/2022</u>	<u>12/31/2021</u>
ASSETS		
Cash:	\$3,836,139	\$9,960,043
Receivables:		
Contributions	153,786,685	141,968,819
Interest and dividends	29,374,524	22,314,890
Investment trades	157,101,737	360,236,698
Total receivables	<u>340,262,946</u>	<u>524,520,407</u>
Investments, at fair value:		
Short-term investments	442,247,883	727,050,696
Derivative contracts	551,442	(19,794)
Fixed income securities	3,216,585,509	3,336,959,069
Global public equities	11,630,339,362	13,974,436,068
REITs	37,123,086	53,921,725
Non-core fixed income funds	5,188,024,407	5,908,218,775
Other public & private markets funds	4,096,368,637	4,118,768,274
Hedge funds	2,222,425,279	3,150,685,294
Private equity funds	3,721,742,505	3,142,152,511
Real estate funds	4,859,213,775	4,378,033,443
Total investments	<u>35,414,621,885</u>	<u>38,790,206,061</u>
Total assets	35,758,720,970	39,324,686,511
LIABILITIES		
Investment trades payable	225,669,987	719,338,532
Accrued investment management fees	4,430,396	6,612,194
Accounts payable and other accrued liabilities	<u>15,092,080</u>	<u>14,787,989</u>
Total liabilities	245,192,463	740,738,715
FIDUCIARY NET POSITION		
Restricted for pensions	35,510,558,491	38,578,132,313
Held in trust for other benefits	<u>2,970,018</u>	<u>5,815,483</u>
Total fiduciary net position	<u><u>\$35,513,528,509</u></u>	<u><u>\$38,583,947,796</u></u>

PRELIMINARY - UNAUDITED
TEXAS MUNICIPAL RETIREMENT SYSTEM
EXPENSE FUND
Balance Sheet
As of December 31, 2022

ASSETS

Accounts receivable and other assets	\$4,790,794
Due from trust fund	12,632,430
Leasehold improvements	1,403,409
Furniture and equipment, net	<u>1,839,135</u>
Total assets	20,665,768

LIABILITIES

Accounts payable & accrued expenses	10,217,161
Accrued leave liability	<u>4,573,308</u>
Total liabilities	14,790,469

RESERVES AND FUND BALANCES

Reserve for administrative expenses	14,882,071
Net receipts over disbursements:	
Revenue and net fund transfers	26,138,248
Operating expenses	(32,689,778)
PASMod expenses	<u>(2,455,242)</u>
Total reserves and fund balances	<u>5,875,299</u>
Total liabilities, reserves and fund balances	<u><u>\$ 20,665,768</u></u>

PRELIMINARY
TEXAS MUNICIPAL RETIREMENT SYSTEM
EXPENSE FUND
Schedule of 2022 Operating Expenses
For the Twelve Months Ending December 31, 2022

	Budget	Actual	Over / (Under)	% used
Personnel services:				
Staff salaries and payroll taxes	\$ 16,689,769	\$ 15,968,897	\$ (720,872)	95.7
Employee benefits	4,074,752	3,670,805	(403,947)	90.1
Contract labor/temporary staffing	100,000	80,089	(19,911)	80.1
Total personnel services	20,864,521	19,719,791	(1,144,730)	94.5
Professional services:				
Banking & custodial	1,553,000	1,574,386	21,386	101.4
Investment consultants	1,520,347	1,673,280	152,933	110.1
Legal	1,166,500	764,193	(402,307)	65.5
Actuarial	689,300	605,700	(83,600)	87.9
Information services consultants	313,100	225,879	(87,221)	72.1
Audit	185,125	176,045	(9,080)	95.1
Other services	375,200	427,311	52,111	113.9
Total professional services	5,802,572	5,446,794	(355,778)	93.9
Facilities	2,878,905	2,777,320	(101,585)	96.5
Information technology:				
Cloud-hosted services	2,403,853	2,249,306	(154,547)	93.6
Hardware/software & support	1,090,475	759,719	(330,756)	69.7
Total information technology	3,494,328	3,009,025	(485,303)	86.1
Other administrative:				
City and member outreach	760,735	644,587	(116,148)	84.7
Supplies/document storage/misc.	573,498	563,846	(9,652)	98.3
Travel	541,465	201,606	(339,859)	37.2
Professional development	508,813	229,058	(279,755)	45.0
Board of Trustees/Advisory Committee	130,500	97,751	(32,749)	74.9
Total other administrative	2,515,011	1,736,848	(778,163)	69.1
Total operating expenses	\$ 35,555,337	\$ 32,689,778	\$ (2,865,559)	91.9



March 14, 2023

To: Board of Trustees

From: Christine M. Sweeney, Chief Legal Officer
Debbie Munoz, Chief Service Officer

CS
DM

Re: Agenda Item 2 - Discuss, Consider and Act on Board Committees

The Board of Trustees has three standing committees: Audit, Budget and Compensation, and the Advisory Committee on Benefit Design.

Audit Committee. The Audit Committee was established in 2014 and meets quarterly with TMRS' internal auditor and others to address audit projects and related matters.

Budget and Compensation Committee. The Compensation Committee was established in 2016 and the Budget Committee in 2017. In 2020, the Board combined the two Committees.

The Committee meets annually to review draft TMRS operating and capital budgets prior to their presentation to the full Board and meets on an *ad hoc* basis when staff requires Committee approval of a compensation recommendation.

Advisory Committee on Benefit Design. The Board established an "Advisory Committee on Retirement Matters" in 1994, and it is the only Committee that includes both Board and non-Board members. The primary Committee objectives were to provide input to the Board on various issues related to TMRS and to serve as an additional conduit for communication between TMRS and its members, participating cities, and retirees. Between 1996 and 2007, the Board adopted various changes to the Committee size and term lengths.

In 2008, the Board also established a "Legislative Stakeholders Group" to examine issues surrounding TMRS' legislative proposal for the 2009 Regular Session of the Texas Legislature. The Group included the TMRS Advisory Committee on Retirement Matters (nine members) *plus* representatives from ten different city government and industry organizations: Arlington Professional Fire Fighters, Combined Law Enforcement Associations of Texas (CLEAT), Government Finance Officers Association of Texas (GFOAT), Service Employees International Union (SEIU), Texas City Management Association (TCMA), Texas Municipal Human Resource Association (TMHRA), City of San Antonio, Texas Municipal League (TML), Texas Municipal Police Association (TMPA), and the Texas State Association of Fire Fighters (TSAFF).

In 2008, the Board revised the Charter for the Advisory Committee on Retirement Matters to expand the Committee's membership to include the ten members of the Legislative Stakeholders Group. The Charter's stated:

The Advisory Committee on Retirement Matters ("Advisory Committee") is created to provide input to the Board of Trustees on various matters relating to TMRS and to provide an additional conduit for communication between TMRS and its members, member cities and retirees. This body is intended to allow stakeholders (members and retirees), city officials and policy makers (elected officials) to share their input and perspective on issues being reviewed by the Board of Trustees.

The revised Charter also specified that the Advisory Committee be made up of "Individual Class Members" and "Group Class Members" and that persons nominated to represent a Group Class Member must be a member of the organization and a TMRS member or retiree. The Committee's stated duties were to:

- Participate in the annual joint meeting with Board to receive the presentation of the Actuarial Valuation.
- Review and provide input to the Board regarding potential legislative changes to be made by and affecting the System.
- Provide input to the Board regarding issues affecting cities, employees and retirees.
- Maintain communication with statewide professional organizations, including employer and employee groups.

In 2011, the Board further amended the Charter to limit the Individual Class members to only employees/members of the System, TMRS retirees, elected officials of participating cities, or former Trustees. The Committee purpose remained the same.

In 2016, the Board adopted two revised Charters for the Advisory Committee, one effective in 2016 and the other effective in 2018.

The 2016 Charter revised the Committee's Purpose to limit its scope to only "benefit design issues and other matters determined by the Board" and revised the Committee's duties to providing input but not recommendations on "benefit design issues affecting TMRS cities, members, and retirees as assigned to the Advisory Committee by the Board." The Charter also changed the name to the "Advisory Committee on Benefit Design" and added specified duties for the Board and the Committee chair and vice-chair.

The 2018 Charter reduced the Committee size from 19 to 10 members, with 3 Individual Class positions and 7 Group Class positions. The Committee's duties did not change.

The last amendment to the Advisory Committee's Charter was in 2020 to conform it to changes in the Board's Bylaws that removed a requirement that the Board Vice Chair needed to be one of the two Trustees appointed to the Committee.



March 14, 2023

To: Board of Trustees

From: Christine Sweeney, Chief Legal Officer CS

Re: Agenda Item 3: 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.

At its December 8, 2022 meeting, the Board postponed voting on Committee appointments and retained the existing appointments until a future meeting.

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.



March 14, 2023

To: Board of Trustees
From: David Wescoe, Executive Director 
Re: Agenda Item 4: Executive Director's Report

TMRS Turns 75! 2023 is TMRS' 75th year of operations. Beginning with eight participating cities in 1948, TMRS is now the retirement system of choice for 925 - and counting - Texas cities. Throughout 2023, we will highlight participating cities and share Members' stories online and in our newsletters.

When we sent an announcement of the anniversary to cities and Members, the replies were immediate, heartfelt, and powerful, including:

"A check faithfully and on time for the rest of my life. not too shabby."

"TMRS has been a part of my life for about 45 years. I started with the City of Beaumont contributing to TMRS when I was about 29 years old. I made contributions until I retired in 2010. Since then, I have received payments every month. Thanks to TMRS I have had no financial difficulties with both TMRS and SS. At times, it was difficult to see my payments going into TMRS each paycheck, but since retirement, I have been thankful for TMRS retirement checks. By the way, I turned 75 two weeks ago. TMRS and I are the same age!"

"I think it is one of the best managed and strongest retirement systems in the country. From day one of my retirement, I have not had a problem. My money is always in the bank on the last working day of the month. I had one question about the system shortly after I retired. I called your office, and they quickly answered my question. Thanks for doing a great job."

Governor Abbott recognized the anniversary with an anniversary resolution, and on February 28, the Senior Staff was in the House gallery to watch the reading of House Concurrent Resolution 66 recognizing TMRS' 75th anniversary. Representative Anchia, the former Chair of the House PIFS Committee, introduced the Resolution, which will now go on to the Senate for consideration.

Visit tmrs.com to keep up to date on our 75th anniversary activities.

Senior Staff Offsite. Every year, the Senior Staff meets offsite to review the results of the prior year's Action Plan and agree on the current year's Action Plan. The 2022 Action Plan is complete, and the 2023 Action Plan, which supports TMRS' new Strategic Plan, is ambitious. By the way, there is a ton of talent on your Senior Staff.

Staffing Update. Speaking of staff talent, recently we have added more talent.

Information Services Department. Jac Greene has been busy on the recruiting front and has hired three experienced professionals to the department. Kevin Cummings will be our new Software Manager, following Pete Krnavek who is becoming our IS Enterprise Architect. Kevin brings has more than 20 years of software engineering experience, and his references confirm Jac's confidence in him.

Jac also hired Kyle Dearing to be our Information Security manager, who will replace Gordon James. (Lucky for us, Gordon, who preparing to relocate outside of Austin will stay on the cybersecurity team working remotely.) Kyle is a Certified Information Security Manager (CISM) with excellent experience. And Kyle wasted no time in hiring Afton Bell to fill a newly created Information Security Analyst position. Afton is a Big Ten addition to the team with degrees from Purdue and Penn State.

With Kyle, Gordon, and Afton, TMRS has three experienced professionals on the cybersecurity team, which takes us a long way down the road to achieving a key objective ("Maintain a robust cybersecurity program") of our Technology strategic goal ("Increase the intelligent use of technology").

Investment Department. Dave Hunter, Christine Sweeney, and I agreed that Nick O'Keefe, our Deputy Chief Legal Officer - Investments could make an even bigger contribution to TMRS' success if he joined the Investment team. So, in February, Nick assumed the new role of Deputy Chief Investment Officer - Operations. In addition to his legal experience, Nick has significant non-legal investment experience prior to joining TMRS. Nick's combination of skills will be a big asset in his new assignment. With this move, the investment team has never been stronger, particularly in the critical operations function.

Chief Financial Officer. Internal Audit Director Mike Apperley was promoted to the new position of Chief Financial Officer. The CFO group will include the Finance, Human Resources, Records, and Facilities functions. Mike is well respected and will bring fresh eyes to his new assignment.

Retirement Benefit Statement (RBS). The RBS was distributed in early February, and the feedback has been positive. One retiree called the Member Service Center to report that, "the RBS is very easy to read. Another retiree from Arlington called me regarding the COLA for 2023, and I directed her to RBS, and we both celebrated the ease of access to information!"

Member Annual Statement (MAS). The MAS is mailed to active members in four batches this month. Debbie Muñoz and the Communications Team have done a nice job improving these statements, and the feedback is well deserved.

Main Street. The 2023 First Quarter edition of *Main Street* was emailed to cities in mid-January.

New City Recruiting Efforts are Paying Off. Director of City Services Anthony Mills has been working hard on the recruiting trail. This year, TMRS has welcomed six new cities: Alma, Beasley, Dawson, Jarrell (as of April 1), Nevada, and San Diego (!). We now have 925 participating cities, with more to come.

Member Education. In 2022, TMRS' Education Team attended 140 city events and interacted with more than 8,000 Members (i.e., the number of Members that attended a presentation or spoke to a rep at a benefit fair or conference). Through February, the Team has attended 22 events, interacting with more than 800 Members.

Communications Update. Our crack Communications Team, led by Natalie Garza, just produced an impressive "Welcome to TMRS" video, and the feedback has been positive: "[The city's] HR staff let me know how much they liked the *Welcome to TMRS* video and how they were incorporating it into their onboarding process."



March 14, 2023

To: Board of Trustees

From: Michael Apperley, Chief Financial Officer *Whitney*

Re: Agenda Item 5: First Quarter Administration Report

- **Finance.** Finance has worked on the following:
 - Annual Comprehensive Financial Report. Finance staff have begun drafting the 2022 Annual Comprehensive Financial Report that will be presented to the Board in June. CliftonLarsonAllen (CLA), TMRS' external auditor, has begun their financial audit for the year ended December 31, 2022. Staff met with CLA to discuss key audit milestones and deliverables, and CLA will be onsite conducting fieldwork.
 - System and Organization Controls (SOC) Audit. CLA is finishing their Phase II test work. CLA completed Phase I test work in December and found no exceptions for the 10 control objectives tested. CLA will issue a final opinion in May.
 - Investment Accounting. Investment accounting staff serviced and reconciled 2,880 State Street investment accounts in 2022. They also processed 444 capital calls and 455 distributions and redemptions.
 - City Contributions. City contribution staff moved to Finance with the implementation of the City Contribution Portal. For December 2022, \$167 million in contributions were processed in the new portal including 124 checks, 167 ACH payments, and 612 payments made through the Portal.
 - Interest Credit Allocation. Finance staff worked with staff from Plan Design and Funding and Investments to develop a recommendation to allocation interest credit.
- **Records.** The Records Department's activities included:
 - Operations. To date, Records processed 49,366 faxes and processed 76,610 pieces of outgoing mail. In addition, they scanned 230,500 pages and indexed, verified, and loaded 72,848 documents into our content management system.
 - Records Retention Certification. Staff is reviewing TMRS' records retention schedule as part of the Texas State Library and Archives recertification process that occurs every five years.

- **Human Resources.** HR activities included:

- Personnel. HR facilitated the recruiting, interviewing, hiring and onboarding of 31 new employees in 2022. These new hires were selected from 21 job postings and 2,473 applicants. HR staffing Metrics are included in the Board Dashboard located in Diligent's Resource Center.
- Leadership Academy. Staff is finalizing the dates for the inaugural TMRS Leadership Academy. The two-year Academy will enhance leadership and management skills in our manager and supervisor ranks. Participants will take one class a quarter and have monthly leadership discussions through 2024. The initial class will include 15 employees.
- HR/Facilities. Endeavour conducted a building project which impacted the Board Room. The Board Room was emptied of furniture, the ceiling grid was removed, work was performed and the room was rebuilt. TMRS will receive a rent abatement for the restricted use of the building during the construction period.
- Onboarding/Staff Development. Staff continue to work on a project formalizing a consistent onboarding process across TMRS. This project is scheduled to be finalized and implemented by October 2023.

- **Internal Audit.** Internal audit activities included:

- Internal Auditor search. The search for the Internal Auditor is underway. David Wescoe and Mike Apperley will screen candidates for the Audit Committee to interview, with a goal of recommending finalists to the Board in May.
- Follow up on Prior Issued Recommendations. I am finalizing the audit on the status of recommendations issued in prior audits. The audit is scheduled to be completed in May.
- Performance Metrics. I am working with TMRS staff across divisions to develop performance metrics. Initial meetings with each division and department were completed in the first quarter. Metrics will be finalized and reporting will commence in third quarter 2023.



March 14, 2023

To: Board of Trustees

From: Christine M. Sweeney, Chief Legal Officer

CS

Re: Agenda Item 5: First Quarter Legal Report

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 November 24, 2022 to March 10, 2023
 - 3 investment allocation transactions
 - 22 other investment related items
- **General Contracting and Benefits Matters.** Since November, 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 November 24, 2022 to March 10, 2023
 - 20 contracts (non-investment related) submitted for signature
 - 3 other benefits administration and non-investment related items submitted for signature or approval
 - 6 draft city ordinances reviewed
 - Completion of proposed rule amendments to Chapter 127
- **Public Information Requests.** Since November 24, Legal staff have worked on 13 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.



March 14, 2023

To: Board of Trustees

From: Debbie Muñoz, Chief Service Officer *Debbie J. Muñoz*

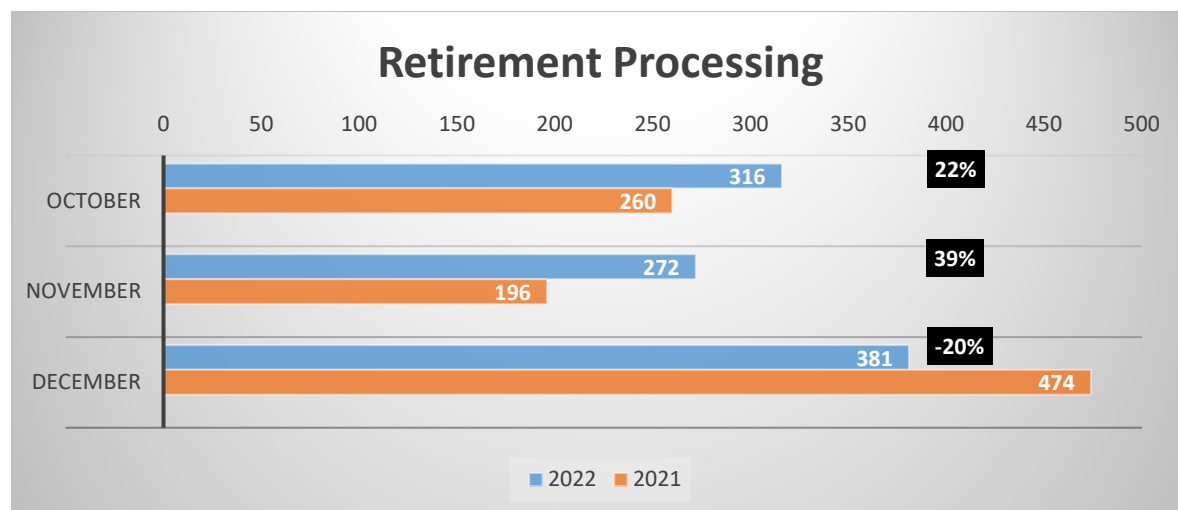
Re: Agenda Item 5: First Quarter Services Report

This Report includes an update of the Benefit Administration, City Services, Communications, Education Services, Member Service Center, and Plan Design and Funding departments' activities in the first quarter.

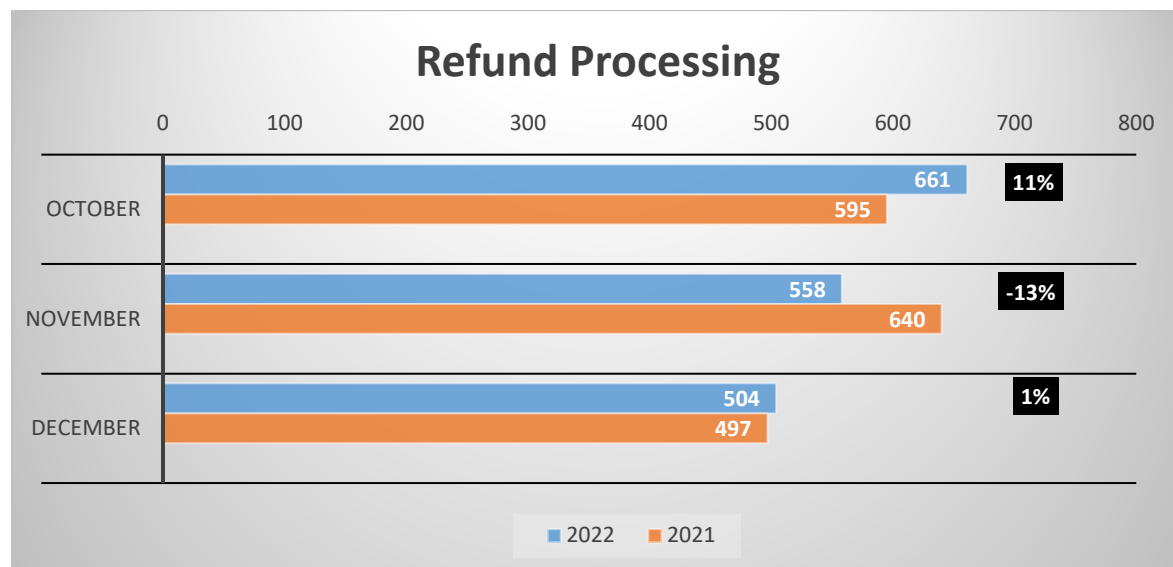
Benefit Administration

Pension Administration Modernization Update. Benefit Administration provided Information Systems business requirements to enable Members with the ability to request refunds on MyTMRS. A mock-up of the online experience is in the final stages of completion.

Retirements. In the fourth quarter of 2022, TMRS processed 969 retirements, which was a 4% increase from the same quarter in 2021 and a 3% decrease from the 1,004 retirements processed in the third quarter of 2022.



Refunds. TMRS issued 1,723 refunds in the fourth quarter of 2022, which was a 1% decrease from the same quarter in 2021, and a 13% decrease from the 1,974 refunds processed in the third quarter of 2022.



2022 Totals. TMRS processed 4,380 retirement applications and issued 8,247 refunds in 2022. This is a 5% increase over the 4,152 retirement applications processed in 2021, and an 11% increase over the 7,427 refunds issued in 2021.

City Services

New City Outreach. City Services has initiated its new city outreach plan for 2023. The efforts through March 10 include written correspondence and/or in-person visits to 38 potential new cities. Since January, six new cities have joined TMRS – Dawson, San Diego, Nevada, Beasley, Alma and Jarrell. These additions bring the number of participating cities to 925.

City Consultations. Since January, City Services has attended four city council meetings and made in-person consultations with four additional cities.

Communications

TMRS' 75th Anniversary. The Communications Department, partnering with Dan Wattles, has rolled out a campaign to honor TMRS' 75th Anniversary throughout 2023. This included designing the new 75th logo, collecting member stories, coordinating events, and updating branding across all print and digital communications for 2023.

Annual Statements. Communications managed the production and distribution of 68,000 Retirement Benefit Statements and 157,000 Member Account Statements.

New Education Tools. The team partnered with the Member Education Center to create a

new webpage that allows Members and cities to register for TMRS' new monthly webinars. The team also produced and distributed a new Welcome to TMRS Video.

Main Street Newsletter. Communications partnered with City Services to produce the first quarter Main Street newsletter for cities.

Communication Numbers. Since January 1, Communications has sent mass emails to 208,000 recipients, hosted 185,000 website page views, and 947 mobile app downloads.

Education Services

New Webinars. We are excited that the Education team is now hosting monthly webinars to educate members and cities about their TMRS benefits. Members and cities can register to attend these webinars on tmrs.com. TMRS' first webinar, *How to Retire With TMRS*, was conducted on March 1 and had 60 attendees. There are 29 more webinars scheduled for 2023 and more than 500 attendees have already registered!

Member Counseling. Our Education Representatives have counseled just over 1,100 Members since January 1. 300 of those counseling sessions were scheduled by Members using the online scheduling tool available on tmrs.com. In addition, the Education team represented TMRS at 26 city events this quarter and counseled approximately 800 Members.

Member Service Center

Call Volume. Historically, the Member Service Center receives the largest volume of phone calls during the first quarter. This year is no different. Since January 1, the team received more than 22,000 calls with a median call wait time of 34 seconds.

Call Topics. Topics this quarter include questions about tax forms, withholding and annual benefit statements. The team continues to promote MyTMRS and educate Members about their self-service options available 24/7.

Plan Design and Funding (PDF)

City Rate Reminder. The PDF team emailed all participating cities a reminder that contribution rates change each calendar year and advised them to contact the team with questions related to the city rate. That email generated 45 city inquiries, which allowed the team an opportunity to educate cities about their plan and the information available on TMRS' website.

Actuarial Valuation. Work on the 2022 actuarial valuation has begun. The active and retired lives data, city data and valuation payroll files have been submitted to GRS. The team will continue working with GRS to complete the valuation, which will be presented by GRS at the May Board meeting.

Benefit Accumulation Fund (BAF) Interest Credit. PDF worked with the Finance and Investment departments to recommend the BAF interest credit for 2022. Leslee Hardy and GRS will present this recommendation to the Board at the March meeting.

Legislative Activities. PDF is working with other TMRS staff to analyze bills that could impact TMRS.



March 14, 2023

To: Board of Trustees

From: Jac Greene, Chief Information Officer

A handwritten signature in black ink, appearing to read 'Jac Greene', is positioned to the right of the 'From:' line.

Re: Agenda Item 5: First Quarter Information Services Report

TMRS is making good progress on IS Department improvements and 2023 Action Plan technology-related projects. For IS Department leadership, we have hired a new Software Manager, Kevin Cummings; a new Security Manager, Kyle Dearing; and we are currently working to fill a Data Analytics and Reporting Manager position. These managers will lead our continuing digital transformation efforts and provide new skills, tools, and deliverables. We further increased our information security team by hiring a new security administrator and security analyst. To improve software development strategy, speed, and succession planning, we retained a third-party development firm, and we are making progress on hiring the remaining Board approved software development positions.

Information Services. IS activities this quarter included:

1. Security Enhancement and Risk Mitigation. The security team completed several projects, including annual 3rd-party security assessment; annual review of critical vendor SOC reports; expanded the number of systems monitored by our centralized Security Event Management solution. We are also on track to complete a new enhanced third-party security assessment to confirm existing protection and detection capabilities.
2. IS Software Development. The team was busy: they deployed a new Form W-4P; prepared data for the retiree benefit and member account statements and Forms-1099; produced valuation data for the actuaries; deployed updates to MyTMRS and NextGen to support the City Contribution System, security remediations, and Perceptive document management improvements.
3. Pension Administration System Modernization (PASMod). Online refunds, one of the final PASMod projects, was initiated and will be completed in 2023.
4. Web Content Management System. We have initiated vendor selection to implement a web content management system to improve the management and hosting of the website.

5. IS NetOps & Customer Support. The NetOps and Customer Support teams processed more than 700 helpdesk tickets; deployed improved analytics software to Investment staff; deployed new privileged account management solution to improve management of local administrator and service accounts; restricted prohibited software on TMRS networks; upgraded firewalls and remote support applications; continued patching servers, computers, and network devices; and supported our SOC, security, and development server/network environments.
6. Replacement Servers & Storage. The data storage system for our servers was replaced, and all data transferred in July 2022 ahead of schedule and without any interruption to operations. Replacement servers were expected to be received and on-line before year-end 2022, however shipping delays prevented final delivery and implementation. The remaining new equipment arrived in February 2023, the equipment has been connected to the data storage system, and all TMRS server functions will be migrated with no expected user impact by the end of April.



March 14, 2023

To: Board of Trustees

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

Re: Agenda Item 5: First Quarter Governmental Relations Report

2023 Senior Staff Action Plan. Item No. 10 in the 2023 Senior Staff Action Plan, “Celebrate TMRS’ 75th Anniversary in Style,” is in progress.

The Governor signed a 75th Anniversary Recognition to commemorate the milestone.

Staff coordinated the preparation of a 75th Anniversary Concurrent House and Senate resolution congratulatory resolution with Representative Rafael Anchia and Senator Bryan Hughes. Representative Anchia filed House Concurrent Resolution 66 on February 24, and the House passed it on March 8. TMRS staff were recognized in the House Gallery during the reading of HCR 66 on February 28. The resolution will now be sent to the Senate for consideration.

88th Legislative Session. The 88th Legislative Session began on January 10 and will continue until adjournment on May 28.

Staff mailed all Senators and Representatives a letter recognizing TMRS’ 75th Anniversary and a Legislative District Profile.


Staff met with the Chair and Vice Chair of the House PIFS Committee and other Committee members or staff.

Pension Review Board. Coordinated TMRS’s comments to the PRB’s 2023 Guide to Public Retirement Systems in Texas and the Texas Public Pension Data Center. TMRS is in compliance with all PRB reporting requirements.



March 14, 2023

To: Board of Trustees

From: David Wescoe, Executive Director 

Re: Agenda Item 6: Report on 2022 Senior Staff Action Plan Results and 2023 Senior Staff Action Plan

I will discuss the results of the 2022 Senior Staff Action Plan Results and the 2023 Senior Staff Action Plan at the meeting.

I am very proud of staff's 2022 accomplishments, and I am excited about what they will accomplish in 2023.

ATTACHMENTS

- 1 – 2022 Senior Staff Action Plan Results
- 2 – 2023 Senior Staff Action Plan



2022 Senior Staff Action Plan Results



2022 Senior Staff Action Plan Results

1. Implement New City Portal Contribution Reporting Functionality. (Jennifer Andrews) COMPLETED

New City Portal online city contribution reporting functionality rolled out successfully on November 7. Budgeted at \$2.5 million, this was the most expensive and complicated PASMod Program project, and it was completed on time and \$200,000 under budget. The new functionality allows cities to enroll new employees in TMRS, submit contribution reports, and pay their contributions all online. The online functionality replaces paper enrollment forms, paper reports and paper checks. City feedback was extremely positive.

2. Confirm and Prepare for TMRS' 2023 Legislative Agenda. (Dan Wattles) COMPLETED

The Advisory Committee on Benefit Design considered several potential benefit options: adding a 90% cost of living adjustment (COLA), delinking the current COLA from the updated service credit benefit, and delinking the active and retiree supplemental death benefit options. The Committee agreed that while these options would provide cities with increased flexibility, they might prompt some cities to reduce current benefits. After careful deliberation, the Board decided not to pursue any benefit-related legislation in 2023.

3. Issue a General Investment Consultant RFP and Select Finalists for Board Consideration. (David Hunter) COMPLETED

After a comprehensive RFP process, the Board selected NEPC to be TMRS' General Investment Consultant. NEPC began its consulting duties in July.

4. Improve Records Management and Retention. (Christine Sweeney)

COMPLETED

All 2022 records projects were completed. An electronic storage drive was created to maintain final records in a centralized and uniform structure to facilitate document retrieval. Document naming conventions were implemented to improve consistency and make it easier to retrieve and identify documents. The Records Retention Schedule was updated to reflect Texas State Library and Archive Commission updates, and a process for updating the Schedule will be implemented in 2023.

5. Conduct an Employee Engagement Survey and Analyze Results. (Leslie Ritter)

COMPLETED

An employee engagement survey was conducted in February, and 96% of staff participated. The results were analyzed and reviewed with Trustees, Senior Staff, and all employees.

6. Enhance Recruiting, Onboarding and Staff Training. (Sandra Vice)

COMPLETED

Employee recruiting and onboarding practices were formalized to ensure consistency among departments. Job postings were revised to better market TMRS and attract superior candidates. An employee Total Compensation Summary was developed that illustrates the value of all TMRS compensation and benefits.

In addition to providing time and funds for external staff training courses and conferences, staff created the TMRS Leadership Academy, a customized two-year training program in partnership with the University of Texas' Center for Professional Education. Participants will complete a competency pre- and post-knowledge assessment, take four core curriculum classes and two supplemental classes to address skills gaps and interests. Staff also will participate in continuous learning through monthly group study sessions.

7. Improve Website Structure and Content. (Debbie Munoz)

COMPLETED

TMRS' website was redesigned to improve its visual appeal and navigation. Website content was edited to make it clearer and easier to understand, and additional information was added, including the Annual City Training Conference's presentation videos and an online scheduling tool for Member counseling sessions. City and Member Fact Sheets were published. Completed Investment and Public Information Act reports were developed and posted to improve transparency, and investment graphics were improved.

8. Create a City HR Information Program. (Jennifer Andrews)

COMPLETED

A City HR information program was designed to help city HR staff educate their employees about TMRS benefits. Fact Sheets for cities and Members covering common TMRS topics were published and included on the website. Benefit Administration staff include relevant Fact Sheets with TMRS forms.

A customizable city recruiting Fact Sheet was developed to help cities explain the value of the TMRS benefit to job applicants and illustrates the value of an estimated TMRS lifetime retirement benefit based on an employee's age, salary, and years of service. The Fact Sheet template is posted on the website under "For Cities."

9. Enhance City and Member Training. (Debbie Muñoz)

COMPLETED

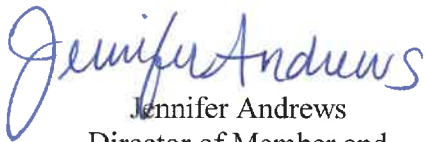
The virtual 2022 Annual City Training Conference was TMRS' best-attended ever, with more than 1,000 registered city contacts. The Conference included comprehensive staff educational presentations, a robust Exhibit Hall, and live chat room. There were also two entertaining guest cameos. City and Member Fact Sheets and an online scheduling tool for Member counseling sessions were created.

10. Sell the TMRS 1200 North IH-35 Building. (David Wescoe)

COMPLETED

The sale of the 1200 North IH-35 building closed on September 7, and TMRS received \$36,019,096 in proceeds.

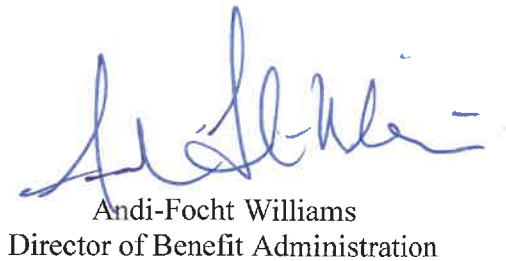
We are proud of these Action Plan accomplishments. Each one strengthened the organization and improved service to our Members and participating cities.



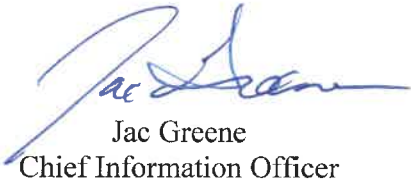
Jennifer Andrews
Director of Member and
City Services



Mike Apperley
Director of Internal Audit



Andi-Focht Williams
Director of Benefit Administration



Jac Greene
Chief Information Officer



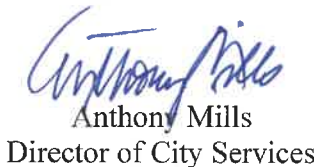
Leslee Hardy
Director of Plan Design
and Funding



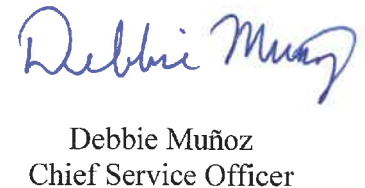
Dave Hunter
Chief Investment Officer



Tom Masthay
Deputy Chief Investment Officer



Anthony Mills
Director of City Services




Debbie Muñoz
Chief Service Officer



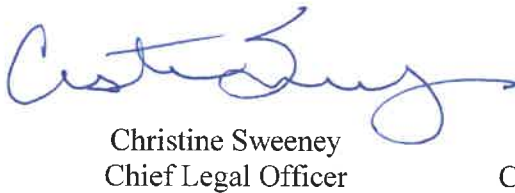
Candace Nolte
Director of Finance



Nick O'Keefe
Deputy Chief Legal Officer,
Investments



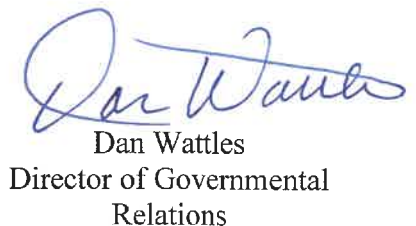
Leslie Ritter
Director of Human Resources



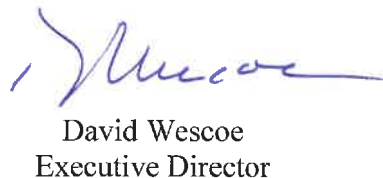
Christine Sweeney
Chief Legal Officer



Sandra Vice
Chief Administrative Officer



Dan Wattles
Director of Governmental
Relations



David Wescoe
Executive Director



2023 Senior Staff Action Plan

- 1. Complete the PASMod Online Refund Project. (Andi Focht-Williams)**
[Supports the Strategic Plan's Service and Technology Goals]
- 2. Enhance the User Experience for Members and Cities. (Debbie Muñoz)**
[Supports the Strategic Plan's Service and Technology Goals]
- 3. Prepare to Apply for a Quality Texas Foundation "Quality Texas Performance Excellence and Recognition Award." (Mike Apperley)**
[Supports the Strategic Plan's Service, Technology and Organizational Goals]
- 4. Enhance Benefit Administration's Operational Effectiveness. (Andi Focht-Williams)**
[Supports the Strategic Plan's Service and Technology Goals]
- 5. Improve Organizational Knowledge Transfer. (Leslie Ritter)**
[Supports the Strategic Plan's Organizational Goal]
- 6. Enhance the Cybersecurity Program. (Jac Greene)**
[Supports the Strategic Plan's Technology Goal]
- 7. Establish Staff Development Programs. (Leslie Ritter)**
[Supports the Strategic Plan's Organizational Goal]
- 8. Enhance Investment Operations and Manager Fee Validation. (Dave Hunter)**
[Supports the Strategic Plan's Financial Goal]
- 9. Develop Departmental Performance Metrics. (Mike Apperley)**
[Supports the Strategic Plan's Service Goal]
- 10. Celebrate TMRS' 75th Anniversary in Style. (Dan Wattles)**
[Supports the Strategic Plan's Organizational Goal]



March 14, 2023

TO: Board of Trustees

FROM: Debbie Munoz, Chief Service Officer

A handwritten signature in blue ink that reads 'Debbie J. Munoz'.

RE: Agenda Item 8: Consider and Act on Ratification of Ordinances Adopting Updated Service Credit and/or Annuity Increases Effective January 1, 2023 (Received after the December 2022 Board Meeting)

The TMRS Act requires the Board to approve ordinances adopted by participating cities that relate to Updated Service Credit and/or Annuity Increases 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 were presented at the December 2022 meeting were adopted to be effective January 1, 2023.

Additional ordinances were received after the December 2022 meeting, but on or before December 31, 2022 and meet the qualifications for Board approval. The Board's action at the December 2022 Meeting was to approve those ordinances presented and such other qualified ordinances as may be received by the System prior to January 1, 2023. Highlighted on the attached list are those ordinances received after the December 2022 Board meeting, but before January 1, 2023.

RECOMMENDATIONS:

Staff requests that the Board ratify the approval of Updated Service Credit and/or Annuity Increase ordinances highlighted on the attached list, which were received by TMRS after the December 2022 Board meeting, but before the January 1, 2023 effective date.

ATTACHMENTS

- Attachment 1 – List of Cities Adopting Updated Service Credits and/or Annuity Increases Effective January 1, 2023, to be Ratified

Agenda Item 8 - 03/14/2023

CITIES THAT HAVE ADOPTED OR READOPTED UPDATED SERVICE CREDIT AND/OR ANNUITY INCREASES

EFFECTIVE JANUARY 1, 2023

(Ordinances received as of December 31, 2022)

		Updated Service Credit		Increased Benefits to Retirees	
City Number	Participating Municipality	Rate (%)	Year Effect.	Rate (%)	Year Effect.
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
00239	Cedar Park	100 T	2002R	70	2023R
00242	Celina	100 T	2023R	70	2023
00268	Clifton	100 T	2023R		
00288	Comanche	100 T	2023R	70	2023R
00344	Dayton	100 T	2023R	70	2023R
00350	Dekalb	100	2023R		
00445	Fairview	100 T	2011R	30	2023R
00456	Ferris	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
00568	Hale Center	100 T	2020R	70	2023R
00610	Highland Park	50	2023	50	2023
00617	Hollywood Park	100 T	2023R	70	2023R
00618	Hondo	100 T	2023R	70	2023R
00637	Hurst	100	2009R	30	2023
00647	Iowa Colony	100 T	2023R	70	2023
00654	Jacinto City	100 T	2023R	70	2023R
00824	McAllen	100 T	2023		
00835	Meadows Place	100	2023	70	2023
00854	Mesquite	100 T	2019R	50	2023
00874	Mission	50 T	2023R		
00875	Missouri City	100 T	2023	70	2023
00886	Moulton	100 T	2023R	70	2023R
00914	New Boston	100 T	2023R	70	2023R
00936	Oak Point	100 T	2023		
00954	Onalaska	100 T	2023R		
00966	Palacios	50 T	2023R	30	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		

Agenda Item 8 - 03/14/2023

CITIES THAT HAVE ADOPTED OR READOPTED UPDATED SERVICE CREDIT AND/OR ANNUITY INCREASES

EFFECTIVE JANUARY 1, 2023

(Ordinances received as of December 31, 2022)

21136	San Antonio	100 T	2000R	70	2023
01146	Sanger	100	2023R	70	2023
01153	Sansom Park	100 T	2023R	70	2023R
01188	Smithville	100 T	2023R	70	2023R
01192	Somerville	100 T	2023R	70	2023R
01224	Sudan	100 T	2023	70	2023
01226	Sulphur Springs	100 T	2023		
01229	Sunnyvale	100 T	2023R	50	2023R
31263	Texas Municipal League IEBP	100	2021R	30	2023
01296	Troup	100 T	2023R	70	2023R
01350	Wellington	100 T	2015R	30	2023
01354	Weslaco	50 T	2023	30	2023
01375	Whitehouse	50	2023R	70	2023R
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.

Highlighted cities indicate ordinances received after December Board Meeting.



March 14, 2023

To: Board of Trustees

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

Re: Agenda Item 9: Consider and Act on 2022 Interest Credit Allocation to the Benefit Accumulation Fund and Interest Reserve Account

Each year effective December 31, the TMRS Act requires the Board to make annual interest allocations to four TMRS funds. Two of the allocations are set in the TMRS Act, and two must be determined by the Board annually. Each allocation is recorded in TMRS' financial statements, but all allocated funds remain invested in the Trust Fund.

The first two allocations are made to the **Supplemental Disability Benefits Fund** and the **Supplemental Death Benefits Fund**. The TMRS Act guarantees a 5% interest credit to each fund based on the average amount in the funds during the year. For 2022, the statutory interest credits to these two funds totaled \$196,917.

The third allocation is to the **Interest Reserve Account**, which is the source for TMRS' administrative expenses and reflects the net investment income for the year available for interest credits. Under the TMRS Act, the Interest Reserve Account cannot have a final December 31 balance less than the required budget transfer for the following calendar year, or not less than \$34.8 million (the 2023 budget transfer). In addition to providing for the budget transfer, the purpose of the reserve is to protect against decreases in private investment values between the estimates used for the interest credit to final valuation as presented in the annual financial statements.

The Board set the target interest reserve amount at \$310 million for December 31, 2019 and has continued to maintain that target for 2020 and 2021. Maintaining the initial reserve balance at \$310 million for December 31, 2022 will allow for the \$34.8 million budget transfer. TMRS investment staff has confirmed that, based on the information currently available, maintaining the Interest Reserve Account balance at \$310 million is an appropriate level of target reserves as of December 31, 2022.

The fourth allocation is to the **Benefit Accumulation Fund (BAF)**, which is used to allocate the amount of interest to credit (or debit) to TMRS participating cities. The BAF interest credit (debit) is allocated to the individual cities based on their beginning of year BAF balance. TMRS staff calculates the amount of income (loss) remaining to credit (debit) to the BAF after all other obligations have been fulfilled as described above.

For the year ending December 31, 2022, estimated net investment loss was \$3,176,321,589. After adjusting for the statutory interest credits, the 2022 budget transfer and the 2022 building sale proceeds, as well as targeting an initial \$310 million balance in the Interest Reserve Account, the estimated investment loss available for distribution to the BAF is \$2,809,124,785. This represents an interest credit to the January 1, 2022 BAF balance for each city of approximately -7.42%, which will result in an estimated 5.93% smoothed (or actuarial) investment return for 2022. As a result of the investment performance, employer contribution rates will increase on average 0.27%.

RECOMMENDATION:

Staff and GRS recommend that the Board allocate, effective as of December 31, 2022:

- (i) a credit of 5% interest to each of the Supplemental Disability Benefits Fund and the Supplemental Death Benefits Fund, and
- (ii) a credit of approximately -7.42% interest to the Benefit Accumulation Fund, as well as maintain the initial Interest Reserve Account balance at \$310 million.

We also recommend that the Board approve that any differences in the final versus estimated fourth quarter private investment fund valuation adjustments, as well as any adjustments that may be necessary to finalize net investment income for the year, be reflected in the final Interest Reserve Account balance as of December 31, 2022 and considered in the 2023 BAF interest credit determination.



March 14, 2023

To: Board of Trustees

From: Dan Wattles, Director of Governmental Relations

Dan Wattles

Re: Agenda Item 10: Receive Legislative Update and Consider and Act on Legislative Items Affecting TMRS

The 88th Legislative Session began on January 10, 2023, and will continue until adjournment on May 31. The 60-day bill filing period ended on March 10. Only local or emergency bills can now be filed. Over 8,200 bills have been filed, compared to 6,900 bills in the 87th Session.

Texas House and Senate Membership. The Texas House has 150 members, 26 of whom are new members this session. The House membership re-elected Representative Dade Phelan as Speaker. Republicans have an 86 to 64 majority. The Texas Senate has 31 members, five of whom are new this session. Republicans have a 19 to 12 majority. Lt. Governor Patrick presides over the Senate.

Committees Important to TMRS. The Pensions, Investments & Financial Services Committee (PIFS) has oversight of TMRS in the House. In the Senate, the State Affairs Committee has traditionally had this responsibility.

The PIFS Committee has nine members this session. The Speaker appointed Giovanni Capriglione (R-Southlake) as Committee Chair.

The Senate State Affairs Committee is chaired by Senator Bryan Hughes (R-Mineola) and the Senate Finance Committee is chaired by Senator Joan Huffman (R-Houston).

The Senate Nominations Committee is responsible for vetting Gubernatorial Board appointees prior to confirmation by the full Senate. Senator Donna Campbell (R-New Braunfels) is the new Committee chair.

TMRS Legislation. The TMRS 75th Anniversary Resolution was filed in the House by Representative Rafael Anchia (HCR 66). HCR 66 passed on March 8 and now will go to the Senate for consideration.

Other bills filed that directly affect TMRS include:

- House Bill 2464 (Price–Amarillo) proposes a new COLA option for all TMRS cities. The bill opens a window for cities to adopt a COLA that is (1) repeating, (2) fixed rate, (3) of any percentage, and (4) calculated without the current retroactive “catch up” feature. Any year’s COLA increase to a retiree could not exceed the amount determined under the TMRS Act’s current 70%, CPI-based COLA for that year. The provision expires December 31, 2025, but, under the TMRS Act, to have a COLA effective January 1, 2025, a city would have to adopt an ordinance and provide it to TMRS by December 31, 2024.
- House Bill 3441 (Hunter-Corpus Christi) would provide TMRS cities with the option to adopt an 8% employee contribution rate, in addition to the current 5%, 6%, or 7% options.
- House Bill 2068 (Paul-Houston) would require retirement system trustees and staff and vendors who offer qualified investment products to act only in the pecuniary interest of the participants and beneficiaries of the retirement systems, and take only pecuniary factors into consideration when investing, not other factors such as environmental, social, or political factors. The bill would remove the current exemption statewide retirement plans have from Section 802.203, Gov’t Code and require any proxy voting authority to commit to vote only in the pecuniary interests of a system’s participants and beneficiaries. Proxy voting records would be required to be submitted to the Pension Review Board and could be investigated by the Attorney General for compliance. The bill also amends Section 855.303 of the TMRS Act to remove language regarding determining prudence in making investment decisions.
- Senate Bill 1446 (Hughes) would require investment agents, including certain staff, investment managers and proxy advisors, and the governing body of a public retirement system to discharge their duties solely in the financial interest of the system’s participants and beneficiaries and take only financial factors into consideration when investing, not other factors such as social, political or ideological interests. The bill would remove the current exemption statewide retirement plans have from Section 802.203, Gov’t Code and require any investment agent to commit to take into account only financial factors when voting or discharging their duties. Systems would have to disclose and post how proxy votes will be cast in advance of voting, post proxy voting records, tabulate all proxy votes and report to the Pension Review Board. The Attorney General would be authorized to investigate compliance and take a variety of actions against persons alleged to be in violation, including bring action in state court. If the Attorney General takes any action against a trustee of a governing body of a retirement system, the trustee is suspended, their seat is considered vacated, and an interim trustee may be seated. The bill also amends Section 855.303 of the TMRS Act to remove language regarding determining prudence in making investment decisions.



March 17, 2023

To: Board of Trustees

From: Christine Sweeney, Chief Legal Officer *CS*

Re: Agenda Item 11: Consider and Act on Proposed TMRS Rule Amendments – Chapter 127

Chapter 127 of the TMRS Board Rules (“Chapter 127”) contains rules related to compliance with the Texas Public Information Act and with applicable provisions of the Internal Revenue Code and regulations promulgated thereunder, and clarification of certain internal procedures.

Staff proposes the repeal of the current Chapter 127 and the adoption of a new replacement Chapter 127 to provide more clarity about processes, to modify certain procedures and adopt new procedures, and to make conforming changes to the rules to reflect recent amendments to the Internal Revenue Code and the TMRS Act and other TMRS rules.

The proposed new Chapter 127 rules would:

- Readopt six of the nine current rules without changes.
- Repeal Rule 127.2, which currently limits the number of beneficiaries TMRS will pay.
- Amend two of the current rules:
 - Updating Rule 127.1 regarding procedures for the release of Board records to comply with the Texas Public Information Act and the Texas Attorney General’s rules regarding charges for copies of public records; and
 - Removing subparagraph (g) from Rule 127.10, which subparagraph was moved to new Rule 127.11.
- Add four new rules for the following purposes:
 - *§127.5 Prorating of Contributions Based on Compensation Limited by Internal Revenue Code §401(a)(17)* - clarify current practice for the proration of contributions subject to the compensation limit in Internal Revenue Code §401(a)(17);
 - *§127.11 Required Minimum Distributions: General Rule, Forfeiture and Reinstatement* – set forth procedures to comply with Internal Revenue Code §401(a)(9) and related regulations regarding required minimum distributions;

- *§127.12 Refund of Unrecovered Contributions* – clarify how refunds of unrecovered contributions are calculated; and
- *§127.13 Late Contributions Sent Electronically* – clarify the time frame for timely receipt of electronic contributions.

A clean copy of proposed Chapter 127 and one marked to show changes are attached.

RECOMMENDATION:

Staff recommends that the Board authorize the Executive Director and his designee(s) (i) to submit the proposed repeal and replacement amendments to Chapter 127 to the Governor's Office for review; (ii) to make any non-substantive changes recommended by the Governor's staff or *Texas Register* staff; and (iii) file the proposed amendments to Chapter 127 with the Secretary of State for publication in the *Texas Register*.

ATTACHMENT:

- 1 - Proposed new Chapter 127, clean and marked to show changes



March 14, 2023

To: Board of Trustees

From: David Hunter, Chief Investment Officer

Re: Agenda Item 12(a): Chief Investment Officer Report

Trust Fund Performance. The preliminary net of fees return for the Trust Fund was -5.86% for the year ended December 31, 2022, exceeding the Actual Allocation Benchmark (AAB) by 6.39%. Preliminary net returns for the five- and 10-years ended December 31, 2022, were 4.89% and 6.03%, respectively, and exceeded their respective AAB's by 1.60% and 0.95%. Private Equity, Other Private Markets, Fixed Income and Real Estate were the primary drivers of excess return. Actual asset allocation levels were within approved ranges. All preliminary data is unaudited.

Trust Fund preliminary returns ranked in the first and fourth quartile for the 1- and 5-years ended December 31, 2022, respectively, among other Public Defined Benefit plans with more than \$10 billion in assets. The 2022 year-end returns are preliminary because where there are daily market values for public securities, private market returns are lagged by one or three months, depending on the asset class. Calendar year 2022 returns will be available upon completion of the fiscal year end audit in June 2023.

CIO Strategy Update. Investment staff is focused on streamlining our manager roster by expanding commitments with our top performing managers, while reducing commitments with below median firms or strategies which are no longer aligned with our strategic target allocation.

In 2022, TMRS closed more than \$4.5 billion of new investments and terminated or redeemed more than \$2.7 billion of commitments to enhance Trust Fund return expectations in a prudent and cost-efficient manner. As example, the Global Equity portfolio was aligned with Board approved benchmarks by adding a new passive U.S Large Cap mandate (\$570 million) and trimming three existing strategies, which were overweight. Two emerging market debt managers were also reduced (\$835 million) and eight hedge fund strategies were redeemed (\$588 million) in 2022 to further improve portfolio returns and in accordance with Board strategic directives. Our real estate and fixed income portfolios are being optimized to prioritize top performing strategies largely within our existing manager roster. These actions will result in more than \$1 billion of real estate and fixed income redemptions in 2023 and 2024. The goal of these actions is to improve returns and reduce

portfolio complexity and fees, while remaining keenly focused on the Board approved strategic target allocation. NEPC and/or Albourne support these investment actions.

Staff Investment Committee (SIC). The SIC met on December 20, 2022 and January 19, February 24 and March 7, 2023. Twelve investments totaling \$1.8 billion were approved with five new firms in the public and private markets and six existing managers. The SIC also approved amendments to the Investment Guidelines, SIC Charter and investment operations procedures manuals to ensure proper alignment with the Board approved Investment Policy Statement. Investment Guidelines were amended to clearly state “Investment staff will vote proxies to maximize long-term investment returns consistent with the Board’s fiduciary duty and the laws of the State of Texas. Proxies will not be voted to establish or endorse social policy.”

Board Education. A menu of investment training topics is available to Trustees in advance of each Board meeting.

Investment Team Reorganization. I am pleased to welcome Nick O’Keefe to our investment team as Deputy Chief Investment Officer – Operations and happy to congratulate Josh Garcia on being promoted to Portfolio Manager in Private Equity. We are fortunate to have them both on our investment team. I also want to thank our investment staff for doing a great job in delivering more than 0.50% of excess returns above Board approved actual and strategic target allocation benchmarks for the 1- and 5-years ended December 31, 2022.

Trust Fund Report: Q4 2022

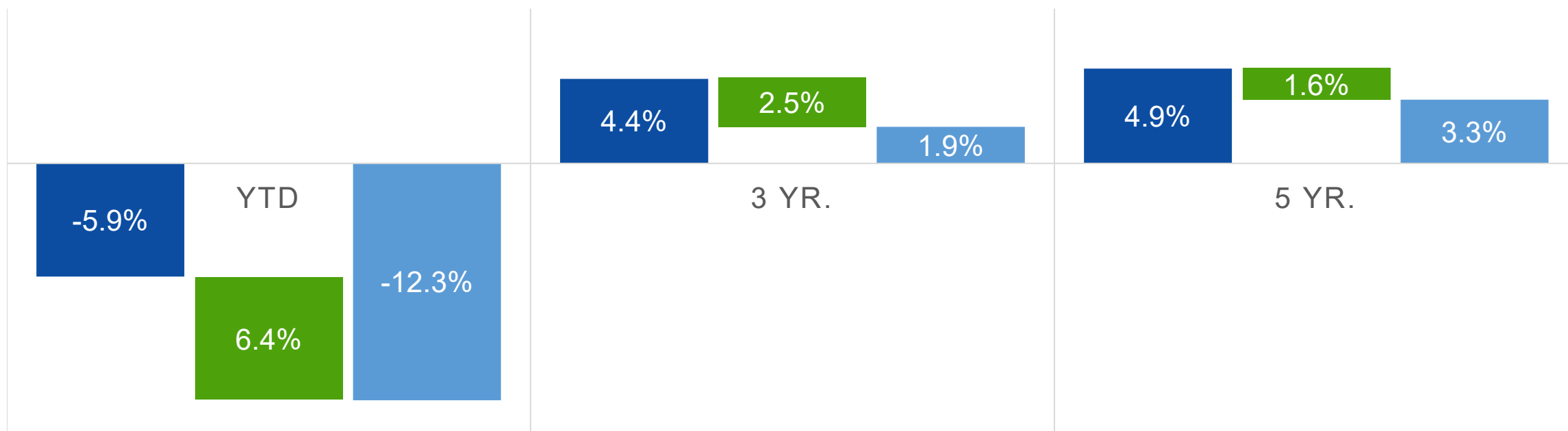
Board of Trustees Meeting
Dave Hunter, CIO
March 23, 2023

Trust Fund Net Returns Exceed Benchmarks

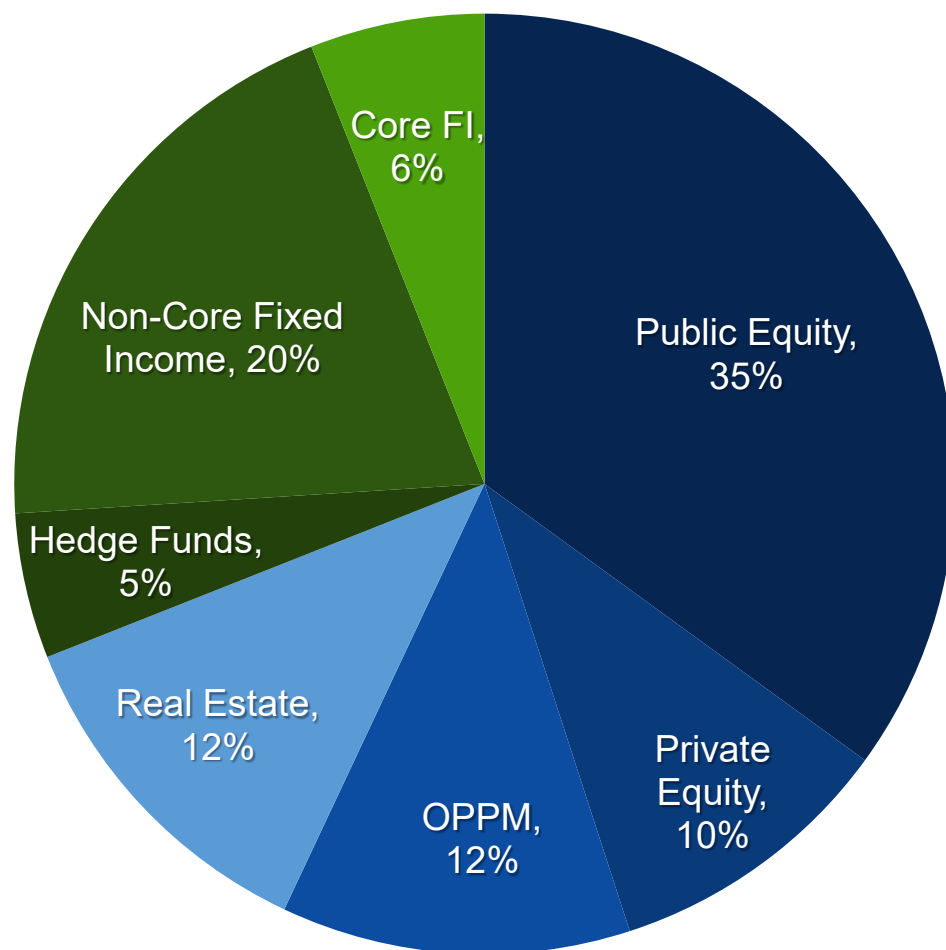
Net Returns exceed Asset Allocation Benchmarks by 1.6% in the last 5 years.
Private Equity, Other Public & Private Markets, Real Estate and Fixed Income drove excess returns.

Net Performance as of December 31, 2022

■ Trust Fund ■ Excess Return ■ Benchmark



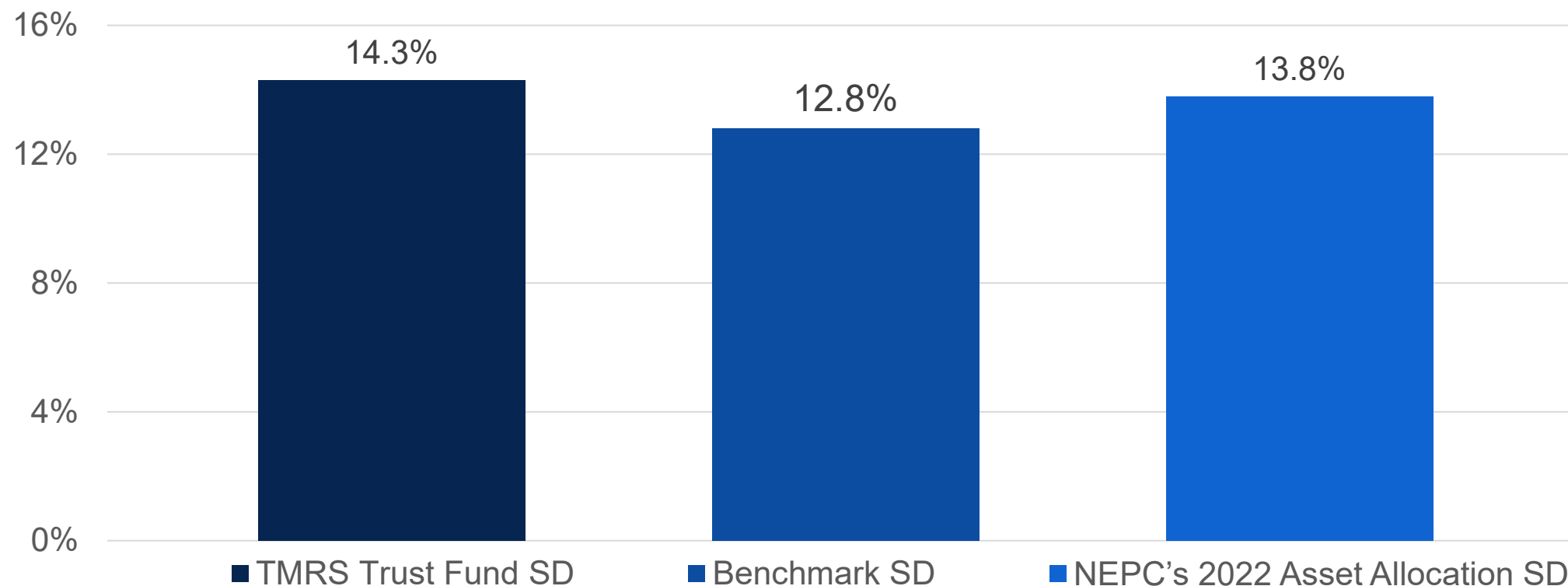
Trust Fund Asset Allocations Align with Targets



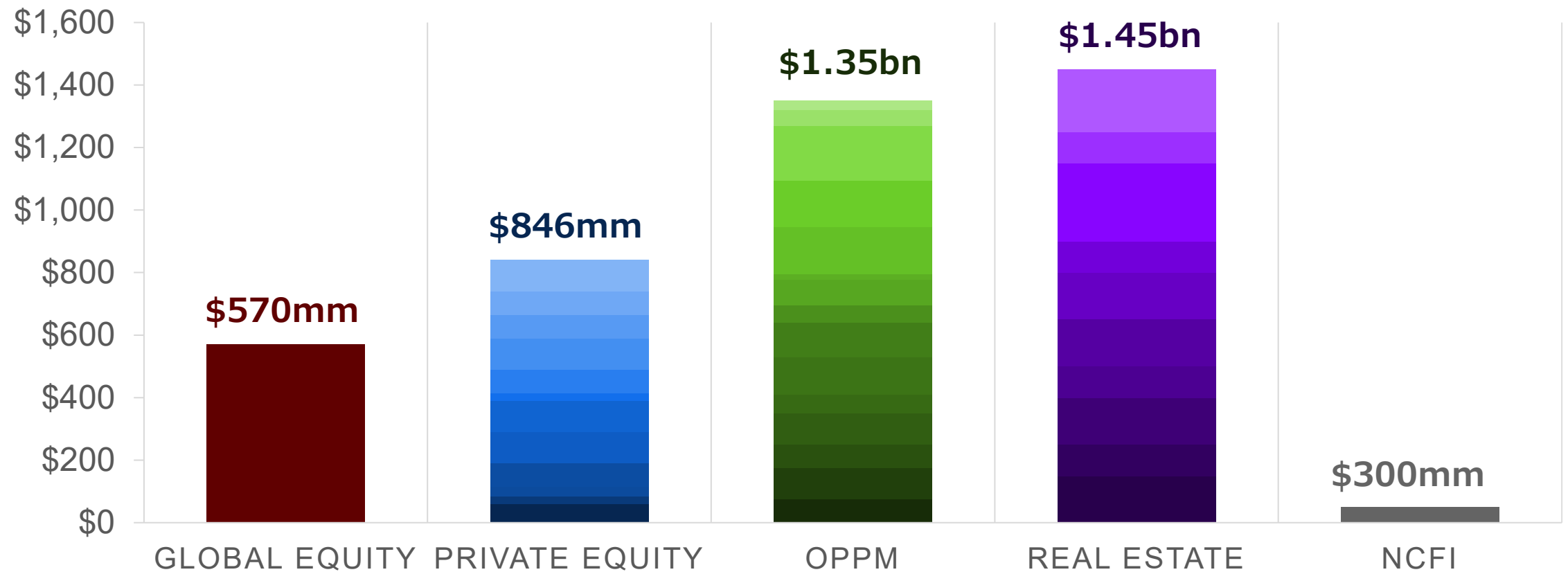
	Strategic Target	Actual as of Dec. 31, 2022	Policy Range
■ Public Equity	35%	33.1%	25 - 45%
■ Private Equity	10%	10.5%	5 – 15%
■ OPPM	12%	11.6%	7 – 17%
■ Real Estate	12%	13.7%	7 – 17%
■ Hedge Funds	5%	6.3%	0 – 10%
■ NCFI	20%	19.1%	15 - 25%
■ Core FI	6%	5.1%	1 – 11%
■ Cash	0%	0.6%	0 – 3%

Trust Fund Risk as of December 31, 2022

2022 Trust Fund Risk aligns with Board-approved Benchmarks and 2022 Asset Allocation Study.
Strategic Target Allocation Risk is 13.8% using NEPC's Capital Market Assumptions at 12/31/2022

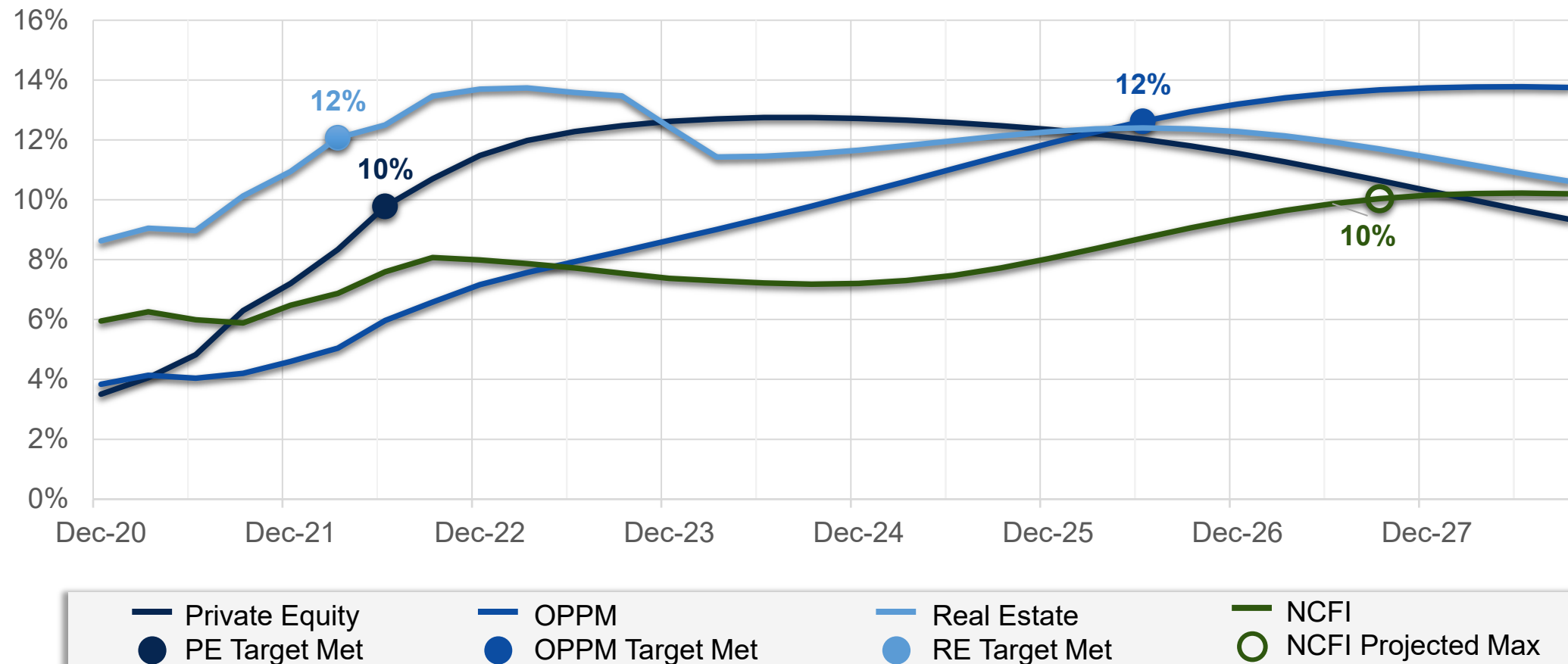


2022 Completed Investments Totaled \$4.5 Billion



Private Markets Pacing Plan is on Track

Projected Allocation as of December 31, 2022



2022 Completed Investments Report <i>(unaudited)</i> <i>As of 12/31/2022</i>					
COMPLETED INVESTMENTS					
ASSET CLASS / STRATEGY	COMPLETED DATE	PUBLIC MARKETS - MANAGER NAME	NEW / EXISTING MANAGER	AMOUNT COMMITTED	PUBLIC / PRIVATE MARKET
Global Equity					
MSCI Large Cap USA Fund	July 8	Northern Trust Investments, Inc.	Existing	\$570,000,000	Public
Core Fixed Income					
N/A					
ASSET CLASS / STRATEGY	COMPLETED DATE	PRIVATE MARKETS - FUND NAME	NEW / EXISTING MANAGER	AMOUNT COMMITTED	PUBLIC / PRIVATE MARKET
Non-Core Fixed Income					
Direct Lending	October 24	Pemberton Mid-Market Debt Fund III SCSp SICAV RAIF - Pemberton 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 Strategic Credit Fund III (B)	Existing	\$250,000,000	Private
Real Estate					
Value Add	December 2	Oak Street Real Estate Capital Fund VI, LP	Existing	\$150,000,000	Private
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
Other Public & Private Markets					
Mining	December 23	Appian Natural Resource (UST) Fund III LP	Existing	\$100,000,000	Private
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

2022 Completed Investments Report

As of 12/31/2022

COMPLETED INVESTMENTS

ASSET CLASS / STRATEGY	COMPLETED DATE	PRIVATE MARKETS - FUND NAME	NEW / EXISTING MANAGER	AMOUNT COMMITTED	PUBLIC / PRIVATE MARKET
Other Public & Private Markets					
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
Hedge Fund					
		N/A			
Private Equity					
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
TOTAL:				<u>\$4,518,615,023</u>	



March 14, 2023

To: Board of Trustees

From: Michele Fullon, Investment Compliance Officer
Christine Sweeney, Chief Legal Officer

A handwritten signature in black ink, appearing to read 'M. Fullon', is placed to the right of the 'From:' line.

Re: Agenda Item 13: Fourth Quarter 2022 Investment Compliance Report

Investment Manager Compliance: In the fourth quarter, State Street completed 2,300 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 and Investment Guidelines, including, (i) strategic diversification requirements, (ii) geographic and economic diversification requirements, (iii) investment manager concentration limits, and (iv) investment vehicle concentration limits. Testing confirmed that TMRS was in compliance with all testable parameters.



March 14, 2023

To: Board of Trustees

From: David J. Hunter, Chief Investment Officer

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

Re: Agenda Item 14: General Investment Consultant Quarterly Report

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

ATTACHMENT:

1 – NEPC 4Q 2022 Executive Summary



4Q 2022 QUARTERLY PERFORMANCE REPORT EXECUTIVE SUMMARY

MARCH 23, 2023

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



TOTAL FUND PERFORMANCE SUMMARY

COMPARED TO ASSET ALLOCATION BENCHMARK & STRATEGIC TARGET ALLOCATION

	Market Value (\$)	1 Yr (%)	5 Yrs (%)	10 Yrs (%)
Total Fund	35,376,783,112	-5.86	4.89	6.03
Actual Allocation Benchmark		-12.25	3.29	5.08
Over/Under		6.39	1.60	0.95
Strategic Target Allocation Index		-12.03	4.32	6.00
Over/Under		6.17	0.57	0.03

- **For the one-year ended December 31, 2022, the Trust Fund returned -5.86%, exceeding the Asset Allocation Benchmark by 6.39%.**
 - Private Equity, Other Public & Private Markets, Fixed Income, and Real Estate exceeded the Benchmark, while Hedge Funds and Global Equity trailed.
- **For the five-year ended December 31, 2022, the Trust Fund returned 4.89%, exceeding the Asset Allocation Benchmark by 1.60%.**
 - 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

	1 Yr (%)	Quartile Rank	5 Yrs (%)	Quartile Rank	10 Yrs (%)	Quartile Rank
Total Fund	-5.86	1st	4.89	4th	6.03	4th
Actual Allocation Benchmark	-12.25	4 th	3.29	4 th	5.08	4 th
Strategic Target Allocation Index	-12.03	4 th	4.32	4 th	6.00	4 th
<i>InvMetrics Public DB > \$10 Billion Median</i>	<i>8.93</i>		<i>6.07</i>		<i>7.52</i>	

- For the one-year ended December 31, 2022, the Trust Fund returned -5.86% and ranked in the first quartile among other Public Defined Benefit plans greater than \$10 billion in assets.
- For the five-years ended December 31, 2022, the Trust Fund returned 4.89% and ranked in the fourth quartile among other Public Defined Benefit plans greater than \$10 billion in assets.



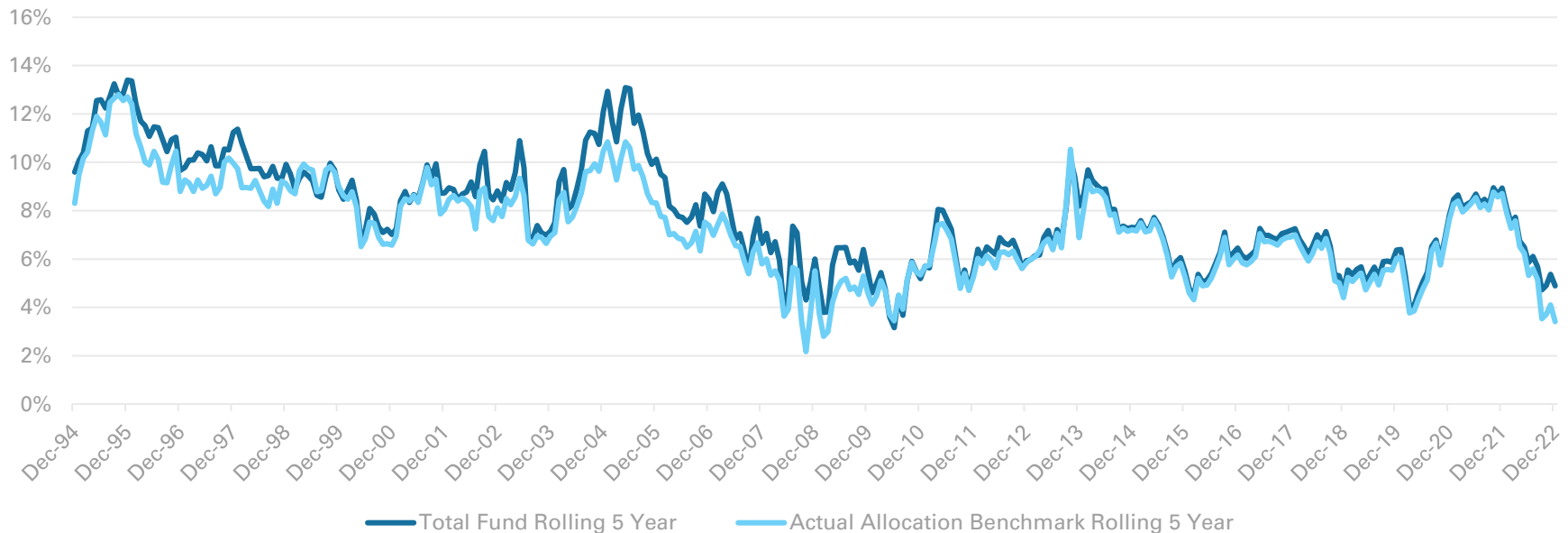
Performance returns are net of fees.

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 December 31, 2022, TMRS outperformed the Actual Allocation Benchmark by 1.60%, net of fees.**

Rolling 5 Year Total Fund Performance vs. Actual Allocation Benchmark

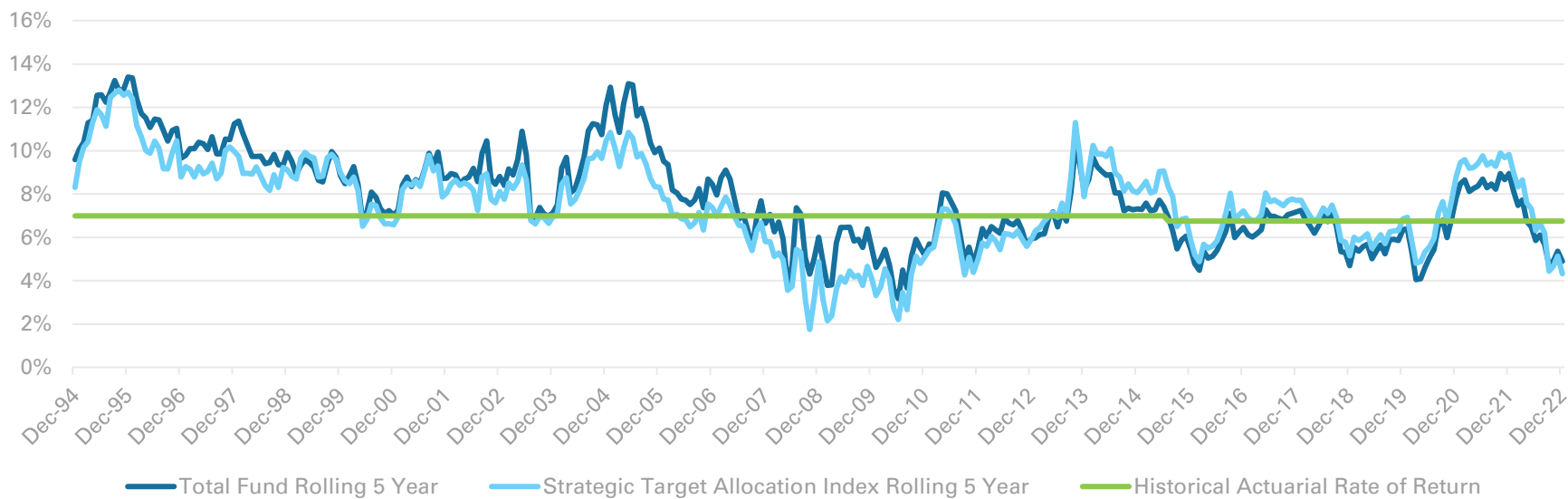


TOTAL FUND PERFORMANCE

VERSUS STRATEGIC TARGET ALLOCATION INDEX AND ASSUMED RATE OF RETURN

- For the five-year period ended December 31, 2022, the Trust Fund's return of 4.89% trailed the Board's Assumed Long-Term Rate of Return of 6.75%.
- The five-year return for the Strategic Target Allocation Index was 4.32% as of December 31, 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 December 31, 2022						
	Risk	Quartile Rank	Return	Quartile Rank	Risk-Adjusted Return	Quartile Rank
Total Fund	8.06	4th	-5.86	1st	-0.90	1st
Actual Allocation Benchmark	10.50	2 nd	-12.25	4 th	-1.30	4 th
Strategic Target Allocation Index	11.05	2 nd	-12.03	4 th	-1.23	4 th
<i>InvMetrics Public DB > \$10 Billion Median</i>	<i>9.79</i>		<i>-8.93</i>		<i>-1.04</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 one-year period ending December 31, 2022.**
- **The risk-adjusted return ranked in the first 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 December 31, 2022						
	Risk	Quartile Rank	Return	Quartile Rank	Risk-Adjusted Return	Quartile Rank
Total Fund	6.83	4th	4.89	4th	0.54	3rd
Actual Allocation Benchmark	7.60	4 th	3.29	4 th	0.32	4 th
Strategic Target Allocation Index	7.58	4 th	4.32	4 th	0.43	4 th
<i>InvMetrics Public DB > \$10 Billion Median</i>	<i>8.76</i>		<i>6.07</i>		<i>0.56</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 December 31, 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.

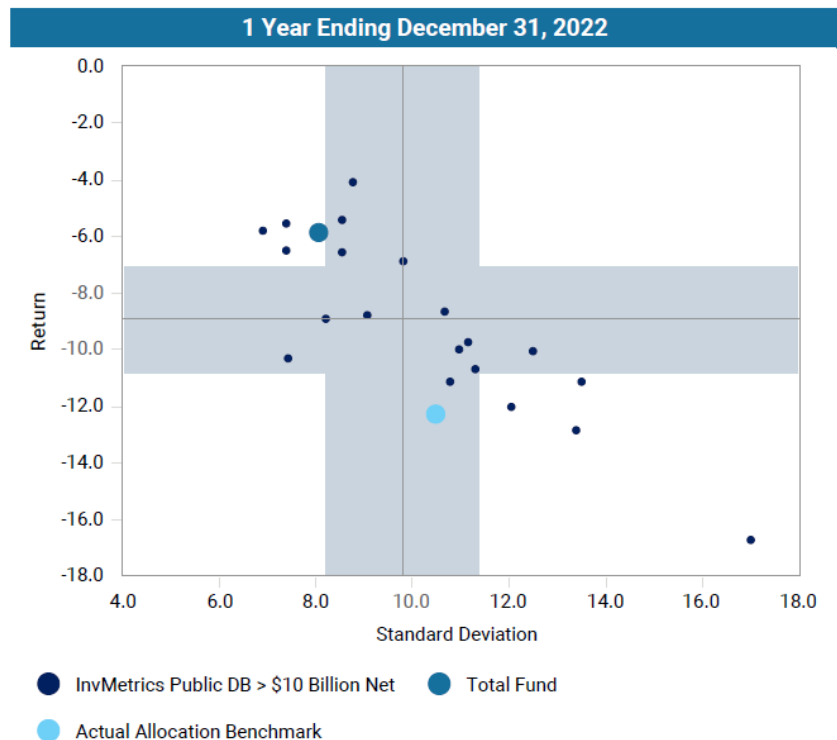
ASSET ALLOCATION COMPLIANCE

ACTUAL ASSET ALLOCATION VS. INVESTMENT POLICY ALLOCATION

	Current (\$)	Current (%)	Policy (%)	Differences* (%)	Policy Range (%)	Within Range
Core Fixed Income	1,815,570,254	5.1	6.0	-0.9	1.0 - 11.0	Yes
Non-Core Fixed Income	6,752,039,419	19.1	20.0	-0.9	15.0 - 25.0	Yes
Global Equity	11,698,166,966	33.1	35.0	-1.9	25.0 - 45.0	Yes
Real Estate	4,859,213,829	13.7	12.0	1.7	7.0 - 17.0	Yes
Other Public and Private Markets	4,097,219,220	11.6	12.0	-0.4	7.0 - 17.0	Yes
Hedge Funds	2,222,425,281	6.3	5.0	1.3	0.0 - 10.0	Yes
Private Equity	3,721,742,006	10.5	10.0	0.5	5.0 - 15.0	Yes
Cash Composite	210,406,137	0.6	0.0	0.6	0.0 - 3.0	Yes
Total Fund	35,376,783,112	100.0	100.0	0.0		

- **Actual asset class allocations are in compliance with Board approved Investment Policy ranges as of December 31, 2022.**

TOTAL FUND RISK VS. RETURN



1 Year Ending December 31, 2022				
	Risk	Quartile Rank	Return	Quartile Rank
Total Fund	8.06	4th	-5.86	1st
Actual Allocation Benchmark	10.50	2 nd	-12.25	4 th
<i>InvMetrics Public DB > \$10 Billion Median</i>	<i>9.79</i>		<i>-8.93</i>	

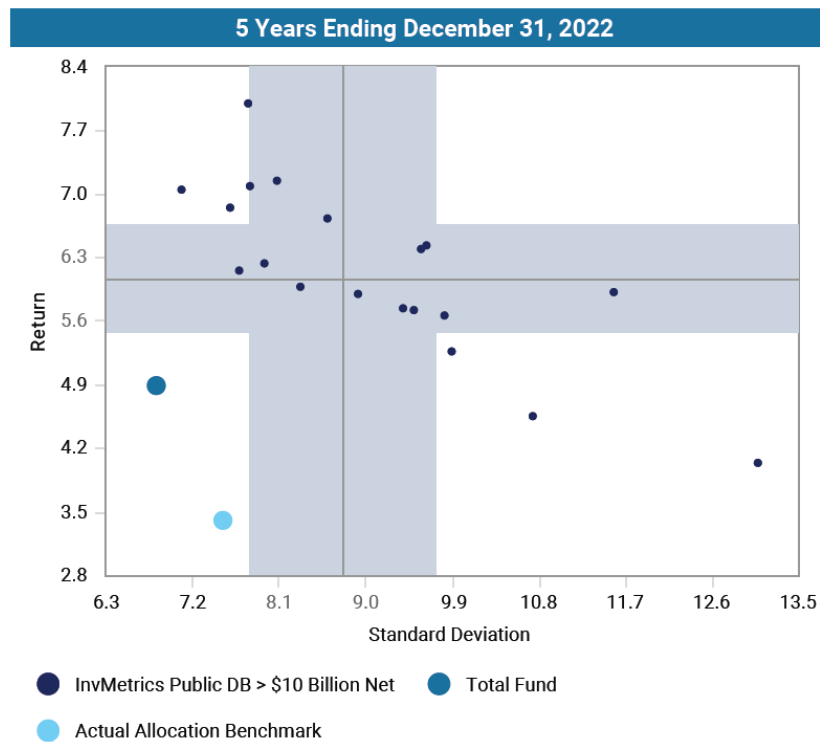
Risk is measured by the Standard Deviation.

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 21 observations.

TOTAL FUND RISK VS. RETURN



5 Years Ending December 31, 2022				
	Risk	Quartile Rank	Return	Quartile Rank
Total Fund	6.83	4th	4.89	4th
Actual Allocation Benchmark	7.60	4th	3.29	4th
<i>InvMetrics Public DB > \$10 Billion Median</i>	<i>8.76</i>		<i>6.07</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 20 observations.

PERFORMANCE DETAIL

	Allocation		Performance (%)							
	Market Value (\$)	% of Portfolio	3 Mo (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	7 Yrs (%)	10 Yrs (%)	Inception (%)	Inception Date
Total Fund	35,376,783,112	100.0	4.06	-5.86	4.37	4.89	6.42	6.03	8.08	Jan-89
Actual Allocation Benchmark			<u>1.91</u>	<u>-12.25</u>	<u>1.88</u>	<u>3.29</u>	<u>5.16</u>	<u>5.08</u>	<u>7.37</u>	
Over/Under			2.15	6.39	2.49	1.60	1.26	0.95	0.71	
Strategic Target Allocation Index			<u>2.40</u>	<u>-12.03</u>	<u>3.06</u>	<u>4.32</u>	<u>6.22</u>	<u>6.00</u>	<u>7.63</u>	
Over/Under			1.66	6.17	1.31	0.57	0.20	0.03	0.45	
Global Equity	11,698,166,966	33.1	9.78	-19.01	2.94	4.35	7.67	8.07	5.24	Jan-08
Total Equity Index			<u>9.84</u>	<u>-18.40</u>	<u>3.89</u>	<u>5.06</u>	<u>8.20</u>	<u>8.41</u>	<u>5.42</u>	
Over/Under			-0.06	-0.61	-0.95	-0.71	-0.53	-0.34	-0.18	
Core Fixed Income	1,815,570,254	5.1	2.27	-12.94	-2.35	0.32	1.18	1.25	6.56	Jan-89
Fixed Income Benchmark			<u>1.87</u>	<u>-13.01</u>	<u>-2.71</u>	<u>0.02</u>	<u>0.89</u>	<u>1.06</u>	<u>6.06</u>	
Over/Under			0.40	0.07	0.36	0.30	0.29	0.19	0.50	
Non-Core Fixed Income	6,752,039,419	19.1	0.49	-2.24	2.61	3.59	4.42		3.88	Oct-14
Total Non-Core Fixed Income Weighted Index			<u>-2.02</u>	<u>-12.30</u>	<u>-1.22</u>	<u>1.20</u>	<u>2.60</u>		<u>2.00</u>	
Over/Under			2.51	10.06	3.83	2.39	1.82		1.88	
Other Public and Private Markets	4,097,219,220	11.6	5.35	-5.52	3.17	3.62	4.79	2.71	3.72	Feb-11
Total Real Return Index			<u>0.04</u>	<u>-21.53</u>	<u>-3.07</u>	<u>-0.36</u>	<u>2.08</u>	<u>0.86</u>	<u>2.11</u>	
Over/Under			5.31	16.01	6.24	3.98	2.71	1.85	1.61	
Real Estate	4,859,213,829	13.7	2.05	21.07	11.87	10.69	10.90	11.77	10.97	Nov-11
Real Estate Benchmark			<u>0.31</u>	<u>20.96</u>	<u>11.86</u>	<u>9.94</u>	<u>9.63</u>	<u>10.76</u>	<u>11.01</u>	
Over/Under			1.74	0.11	0.01	0.75	1.27	1.01	-0.04	
Hedge Funds	2,222,425,281	6.3	0.99	0.36	4.46	4.00	4.51		4.23	Aug-14
Hedge Fund Blended Index			<u>-2.16</u>	<u>2.28</u>	<u>5.93</u>	<u>4.32</u>	<u>3.88</u>		<u>3.45</u>	
Over/Under			3.15	-1.92	-1.47	-0.32	0.63		0.78	
Private Equity	3,721,742,006	10.5	-1.28	10.19	23.29	22.10	17.39		17.17	Dec-15
Private Equity Index			<u>-6.64</u>	<u>-21.18</u>	<u>6.51</u>	<u>11.84</u>	<u>10.25</u>		<u>10.13</u>	
Over/Under			5.36	31.37	16.78	10.26	7.14		7.04	
Cash Composite	210,406,137	0.6	0.85	1.70	0.72	1.22	1.05	0.85	0.68	Jun-08
FTSE 1 Month US T-Bill index			<u>0.88</u>	<u>1.48</u>	<u>0.66</u>	<u>1.20</u>	<u>1.00</u>	<u>0.71</u>	<u>0.55</u>	
Over/Under			-0.03	0.22	0.06	0.02	0.05	0.14	0.13	

Texas Municipal Retirement System

PERFORMANCE DETAIL

December 31, 2022

Composite Benchmark Comments

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

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

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

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

Asset Class Composite Benchmarks:

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

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

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

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

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

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

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

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



March 14, 2023

To: Board of Trustees

From: David J. Hunter, Chief Investment Officer

Re: Agenda Item 15: The Importance of Asset Allocation

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

Sam Austin's presentation on the importance of Asset Allocation is attached.

ATTACHMENT:

1 – The Importance of Asset Allocation Presentation



THE IMPORTANCE OF ASSET ALLOCATION

BOARD OF TRUSTEES MEETING

MARCH 23, 2023

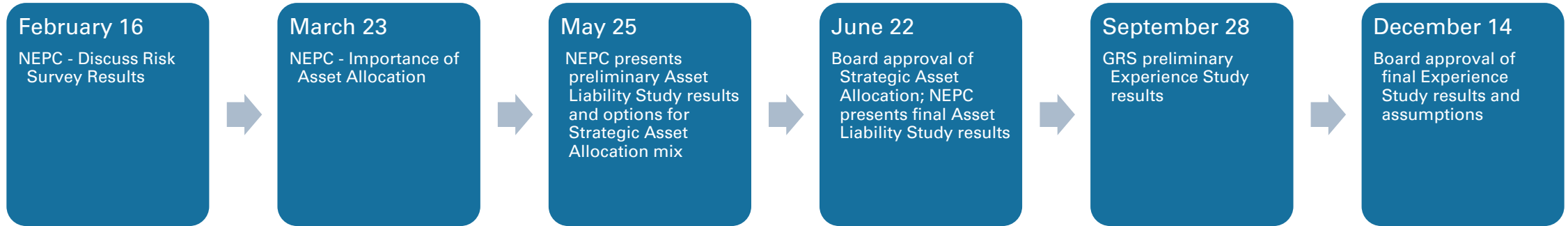
Sam Austin, Partner

Tim Bruce, Partner

Michael Malchenko, Consultant



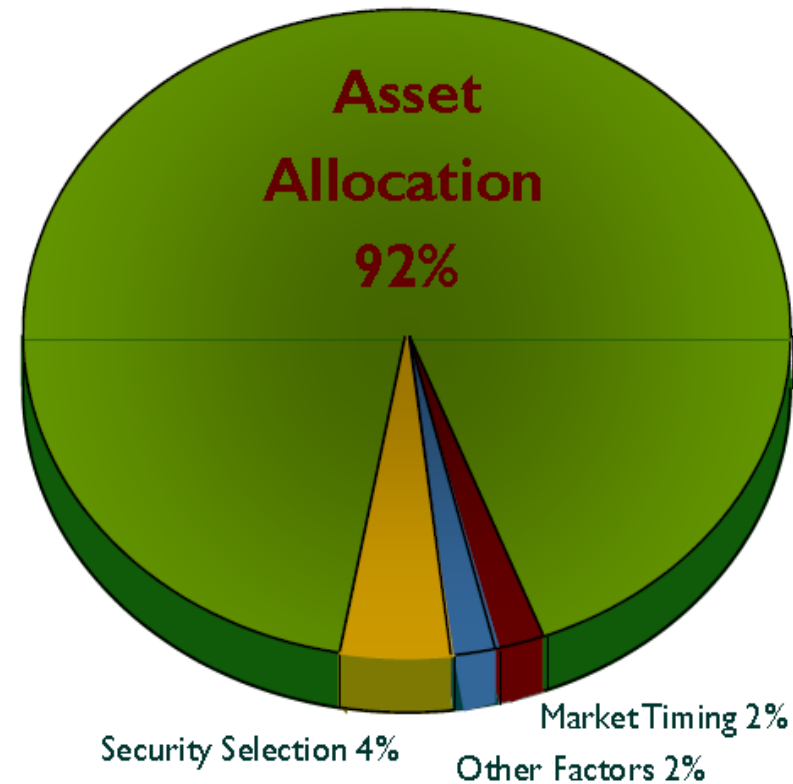
ASSET LIABILITY MODEL & ASSET ALLOCATION STUDY TIMELINE



- **February – NEPC discusses Risk Survey Results with Trustees**
- **March - NEPC Board presentation on “Importance of Asset Allocation”**
- **May – NEPC presents initial Asset Liability Study & Asset Allocation results; GRS presents valuation results**
- **June – NEPC presents final Asset Allocation mix recommendation and Asset Liability Study to Board**
- **September – GRS presents preliminary Experience Study results to Board;**
- **December – GRS presents final Experience Study results and assumption recommendations to Board**

ASSET ALLOCATION: THE KEY INVESTMENT DECISION

Determinants of Portfolio Performance



Source: *Determinants of Portfolio Performance II: An Update*, Brinson, et al, *Financial Analysts Journal*, May/June 1991, pp 40-48.

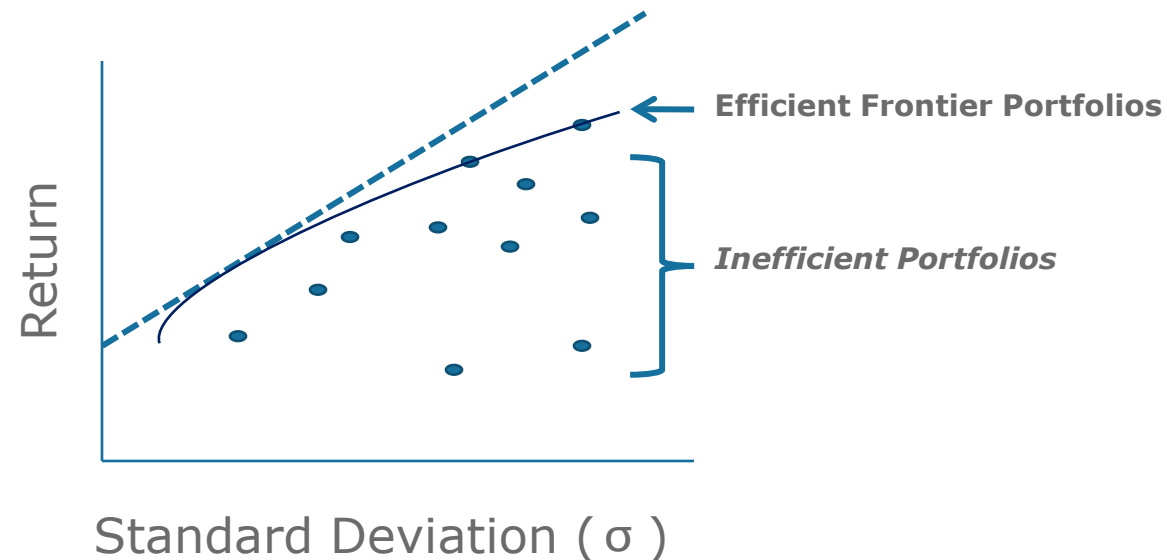
ASSET ALLOCATION DEFINED

- **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/Real Estate/Private Equity/Hedge Funds/Real Assets etc...
 - 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

CLASSICAL ASSET ALLOCATION MODEL: MEAN-VARIANCE OPTIMIZATION (“MVO”)

- **Mean-Variance Optimization:** Asset allocation model based on Nobel-Prize winning theory
- **Mathematical solution to determine the “best” mix of assets that will create an efficient frontier**
 - Highest return for expected risk (volatility), or
 - Lowest expected risk (volatility) for expected return
 - Stated another way, it builds portfolios with the highest expected risk-adjusted returns – Efficient Frontier:



MVO MODEL INPUTS

- **Constraints Learned from Risk Assessment**

- Helps determine permissible asset classes and weighting constraints
- Constraints reflect liquidity, time horizon and marginal benefit analyses
 - Example: Real Estate is constrained to 5-15%
- Not all asset classes may be permissible by some plans
 - (e.g. China A-Shares, Peruvian Llama Futures)

- **Capital Market Assumptions: Return and Volatility**

- Expected returns and volatility for each asset class
- Based on historic data, academic theory, and NEPC's assessment of current and future market conditions

- **Capital Market Assumptions: Correlations**

- Measure of similarity/dissimilarity between asset class returns
- Based on historic data

BEYOND MVO: OTHER MODELS ARE NEEDED

- Risk Budgeting
- Scenario Analysis
- Liquidity Analysis
- Compare allocation to other programs
- Project cash flow needs (Contributions – Expenses & Benefits)
- Integrate assets and liabilities/spending

UPDATE TO CAPITAL MARKET ASSUMPTIONS ("CMAs")



ASSET CLASS ASSUMPTIONS

DEVELOPMENT

- **Assumptions are published for over 70 asset classes**
 - NEPC publishes return forecasts for 10-year and 30-year periods
- **Market data as of 12/31/2022**
 - Assumptions are developed with NEPC valuations models and rely on a building block approach
- **The 10-year return outlook is intended to support strategic asset allocation analysis**
- **30-year return assumptions are used for actuarial inputs and long-term planning**

Asset Allocation Process

1. Finalize list of new asset classes, if any
2. Calculate asset class volatility and correlation assumptions
3. Set model terminal values, growth, and inflation inputs
4. Model data updated at quarter-end
5. Review model outputs and produce asset class return assumptions
6. Assumptions released on the 15th calendar day after quarter-end

ASSET CLASS BUILDING BLOCKS

METHODOLOGY

- Asset models reflect current and forecasted market data to inform expected returns
- Systematic inputs are paired with a long-term trend to terminal values
- Model inputs are aggregated to capture key return drivers for each asset class
- Building block inputs will differ across asset class categories

Illiquidity Premium

Valuation

Inflation

Real Growth

Yield

TMRS ASSET CLASS RETURN AND RISK EXPECTATIONS

AS OF DECEMBER 31, 2022

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%	6.3%	7.5%	18.1%
Private Equity	10%	13%	13%		9.2%	10.1%	25.7%
Core Fixed Income	6%	17%	14%	30%	4.8%	4.7%	5.8%
Non-Core Fixed Income	20%	4%	10%		8.2%	8.1%	10.6%
Real Estate	12%	6%	7%		4.7%	5.9%	16.3%
Other Public & Private Markets	12%				6.5%	7.4%	20.0%
Hedge Funds	5%	5%	1%		6.6%	6.6%	8.7%
Cash Equivalents	0%	2%			4.0%	3.4%	0.6%
Global Asset Allocation		2%	4%		5.8%	6.3%	9.1%
Commodities		2%			4.2%	3.2%	18.5%

TMRS TOTAL FUND EXPECTED RETURN AND RISK EXPECTATIONS

AS OF DECEMBER 31, 2022

Output	TMRS Strategic Target	Public Funds >\$1B	Public Funds >\$10B	70/30
10 Year Geometric Return	7.1%	6.6%	6.8%	6.2%
30 Year Geometric Return	7.9%	7.4%	7.6%	7.0%
Volatility	13.8%	13.7%	14.4%	12.9%
10 Year Sharpe Ratio	0.23	0.19	0.19	0.17
30 Year Sharpe Ratio	0.32	0.29	0.29	0.27
Probability of 1-Year Return Under 0%	30.3%	31.5%	31.8%	31.7%
Probability of 10-Year Return Under 0%	5.1%	6.4%	6.7%	6.6%
Probability of 10-Year Return Under 6.75%	46.6%	51.3%	49.6%	55.8%
Probability of 30-Year Return Under 6.75%	32.7%	40.3%	36.6%	46.2%

10 YEAR ASSET CLASS RETURN ASSUMPTIONS

	Asset Class	12/31/22 10-Year Return	Change 2023-2022	Volatility	Change 2023-2022
Equity	Cash	4.00%	+2.53%	0.60%	0.00%
	U.S. Large-Cap Equity	5.39%	+1.09%	16.90%	+0.29%
	Non-U.S. Developed Equity	5.62%	+0.44%	19.59%	+0.02%
	Emerging Market Equity	9.64%	+1.30%	28.62%	+0.29%
	Global Equity*	6.35%	+0.89%	18.09%	+0.24%
	Private Equity*	9.20%	+0.21%	25.72%	+0.52%
Fixed Income	US Treasury Bond	4.21%	+2.70%	5.38%	+0.08%
	US Corporate Bond	5.86%	+3.03%	7.64%	+0.33%
	US Aggregate Bond*	4.76%	+2.77%	5.76%	+0.11%
	Private Debt*	8.83%	+2.21%	11.81%	+0.19%
Real Assets	Real Estate - Core	4.00%	-0.72%	15.00%	-0.05%
	Real Estate – Non-Core	5.30%	-0.62%	18.47%	+0.97%
	Private Real Assets – Natural Resources	8.09%	+0.95%	32.50%	0.00%
	Private Real Assets - Infrastructure	6.59%	+1.27%	12.42%	-0.21%
Multi-Asset	Hedge Funds	6.55%	+2.34%	8.65%	+0.01%

*Calculated as a blend of other asset classes

30 YEAR ASSET CLASS RETURN ASSUMPTIONS

	Asset Class	12/31/22 30-Year Return	Change 2023-2022	Volatility	Change 2023-2022
Equity	Cash	3.42%	+1.12%	0.60%	0.00%
	U.S. Large-Cap Equity	6.92%	+0.83%	16.90%	+0.29%
	Non-U.S. Developed Equity	6.70%	+0.49%	19.59%	+0.02%
	Emerging Market Equity	9.60%	+0.90%	28.62%	+0.29%
	Global Equity*	7.53%	+0.73%	18.09%	+0.24%
	Private Equity*	10.13%	+0.10%	25.72%	+0.52%
Fixed Income	US Treasury Bond	4.11%	+1.57%	5.38%	+0.08%
	US Corporate Bond	5.88%	+1.70%	7.64%	+0.33%
	US Aggregate Bond*	4.69%	+1.57%	5.76%	+0.11%
	Private Debt*	9.13%	+1.24%	11.81%	+0.19%
Real Assets	Real Estate - Core	5.07%	-0.49%	15.00%	-0.05%
	Real Estate – Non-Core	6.49%	-0.43%	18.47%	+0.97%
	Private Real Assets – Natural Resources	8.44%	+0.26%	32.50%	0.00%
	Private Real Assets - Infrastructure	6.96%	+0.38%	12.42%	-0.21%
Multi-Asset	Hedge Funds	6.57%	+1.08%	8.65%	+0.01%

*Calculated as a blend of other asset classes

FIDUCIARY DUTY A QUICK STUDY OF THE ESSENTIALS

Presented by

Robert D. Klausner, TMRS Fiduciary Counsel

WHAT IS A FIDUCIARY?

- A fiduciary is a person or corporation in a position of trust on behalf of another
- In the case of the TMRS Board of Trustees, you are fiduciaries to the members and beneficiaries of the System
- Your actions must be in the best interest of the System and its participants as a whole
- A fiduciary cannot claim to have divided loyalties and serve each one equally well

PRUDENT FIDUCIARIES CREATE POLICY AND DEMAND ACCOUNTABILITY

- It is important to know who has what job
- Delegation is expressly provided for in Texas law
- What is the difference between delegation and abdication of a fiduciary duty?

WHAT CAN AND CANNOT BE DELEGATED?

- The Board can delegate investment functions
- The Board cannot delegate ultimate responsibility
- The Board can delegate day to day management of the System to the ED, staff and outside advisors
- The Board cannot delegate ultimate accountability for the actions of its agents
- In the end, “The Buck Stops Here”

WHAT MAKES A PRUDENT FIDUCIARY?

- Be curious – if you don't know something, ask questions
- There are no dumb questions
- Don't micromanage – you have a chain of command
- Don't undermine your leadership by encouraging complaints to be made directly to you and you should not bypass leadership by going directly to staff with your complaints. Leadership is responsible to you
- Above all, remember we serve our members

- All Trustees are created equal – one person, one vote
- TMRS Bylaws address the duties of Board Officers
- Board Chair and Vice-Chair have coordinating and point of contact duties expressed in the TMRS Bylaws
- No Trustee speaks for the System except as authorized by the Board as a whole
- The design of TMRS is collegial – vigorous debate is encouraged but the decision of the majority IS the decision of the Board

- The Board's singular goal is the efficient administration of TMRS as outlined in the Constitution, TMRS Act, Texas Trust Code, its Administrative Rules and its By-Laws for the exclusive benefit of TMRS participants
- The Board is apolitical
- Under the TMRS statute and Bylaws, the Board and staff have a duty to educate and inform the Legislature on TMRS' duties and the impact legislation may have on the sustainability of the System

THANK YOU !



March 14, 2023

To: Board of Trustees

From: David J. Hunter, Chief Investment Officer

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

Re: Agenda Item 17: Board Education: Global Equities Asset Class

In accordance with the Investment Policy Statement, comprehensive asset class reviews are conducted at least annually. At the March Board meeting, Tim Sweeney, Portfolio Director, and Frank Atkins, Portfolio Manager, will present the Global Equities review. The presentation material is available in the Diligent Resource Center in the tab titled "March 23, 2023, Board Meeting."

Board Education: Global Equities Asset Class

Tim Sweeney and Frank Atkins

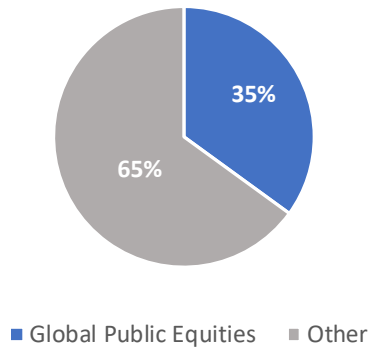
March 23, 2023

Why TMRS Invests in Global Public Equity

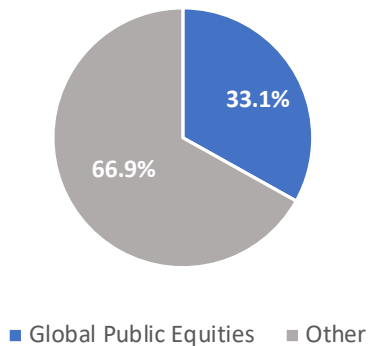
- Global Equity offers the highest expected long-term returns of any public market asset class at 7.5% with broad geographic, industry, sector and company specific diversification benefits.
 - **Returns** – TMRS' Global Equity portfolio achieved a net 8.1% annual return over the last 10 years, second only to Real Estate at 11.8%.
 - **Liquidity** – Global Equities can be transacted daily which allows for portfolio rebalancing and accessible liquidity.
 - **Fees** – Investment management fees approximated 0.10% in 2022.

Global Equity: Portfolio Updates

Target Allocation



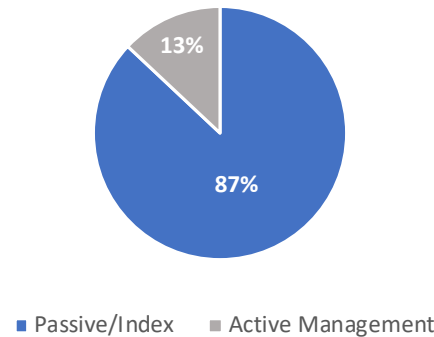
Actual Allocation 12/31/22



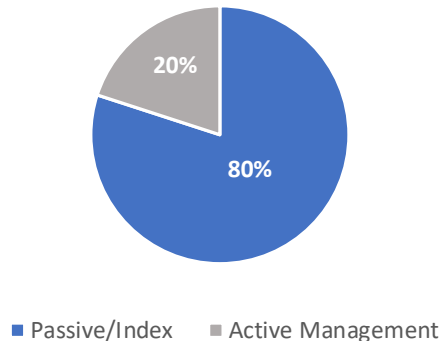
- Global Equity was valued at \$11.7 billion as of December 31, 2022, and represents TMRS' single largest asset class with a 35% target allocation.
- Due to market movement relative to other asset classes, the allocation was 33.1% as of December 31, 2022, well within the Board approved range.
- As of December 31, 2022, U.S. equities account for more than 60% of TMRS' total investment in public equities versus a 59.4% U.S. weight in the Board approved benchmark.

Global Equity: Portfolio Updates

Current (2022) Passive / Active Split



2021 Passive / Active Split

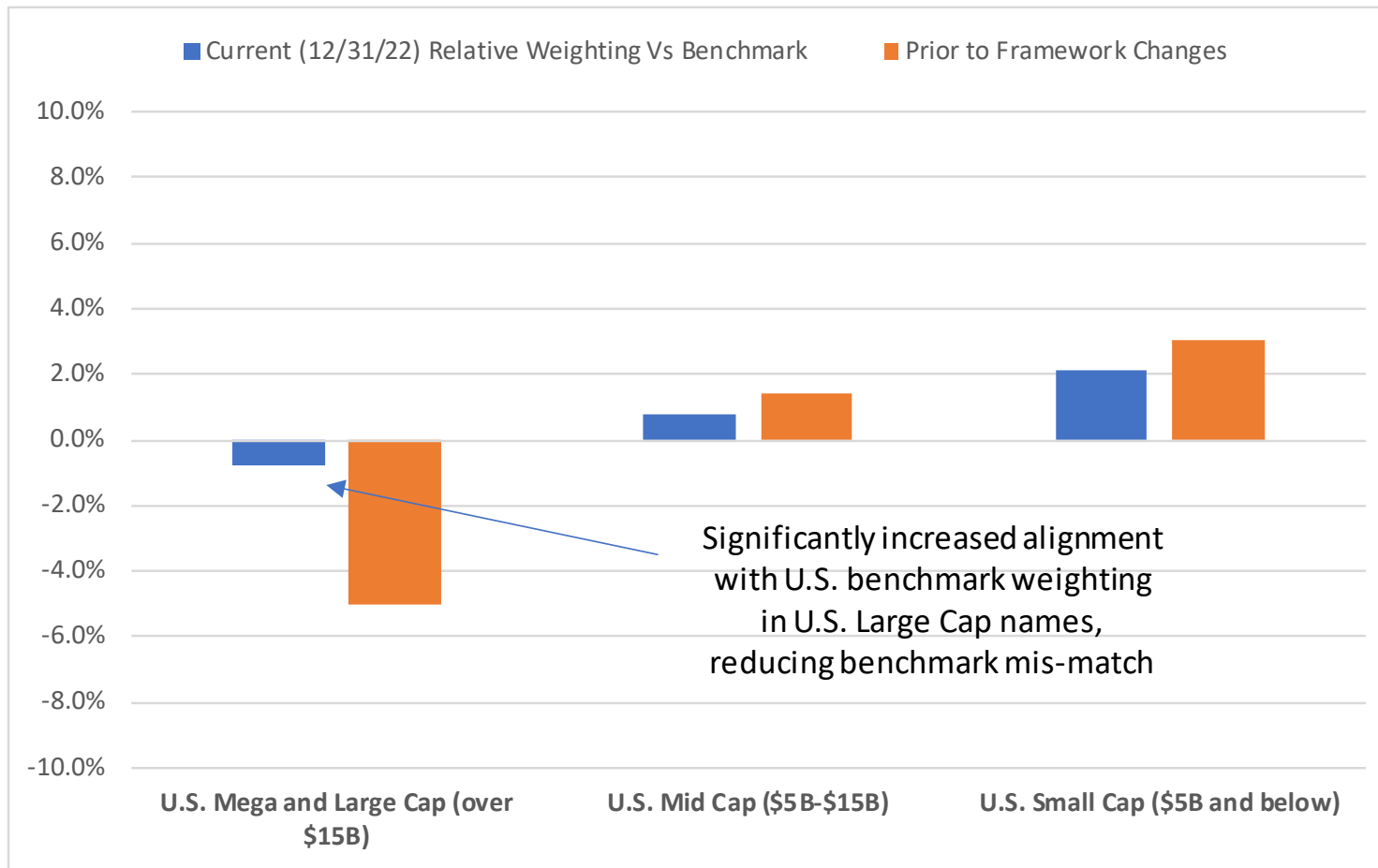


- TMRS uses passive and active management when investing in Global Equity:
 - **Passive Equity** – The passive equity portfolio serves as a diversified core component (87%)
 - **Active Equity** – The active equity portfolio allows for excess return opportunities (13%)
- The combination of both reduces fees and provides the opportunity to generate positive excess returns above approved benchmarks.

Global Equity Portfolio Changes in 2022

- **Historical Global Equity Portfolio Composition** - The Global Equity portfolio was historically underweight U.S. Large Cap stocks, which have shown strong performance in market downturns and viewed to be the most liquid and high quality.
- **Successful Benchmark Alignment Actions** - In July of 2022, Staff added a MSCI USA Mega Cap/Large Cap passive account, terminated one underperforming international small cap manager, and resized two other existing managers to enhance portfolio alignment.
- **Going Forward** - These structure changes create a solid foundation for active management and improved returns. Timing was favorable and the transaction added approximately 9 basis points of excess return after transaction costs in 3Q.

Quick Look at Pre-and Post Transaction



- Funding for the U.S. Large Cap account came from prior overweights in International and U.S. Small Cap.
- This portfolio approach aligns with staff's belief that passive makes sense in U.S. Mega and Large Cap where fees are low and active management is challenging.

Manager Performance and Fees

- All current active managers have generated net investment returns that exceed their benchmarks for the 5-years ended December 31, 2022.
- All passive index managers are executing well, with low fees and low tracking error.
- Global equity management fees approximated 10 basis points in 2022.

Performance Summary

Strategies (as of 12/31/22)	1 Yr	3 Yr (Annualized)	5 Yr (Annualized)	10 Yr (Annualized)	Inception (Annualized)
TMRs Global Public Equity Portfolio	-19.01%	2.94%	4.35%	8.07%	5.24%
Total Global Equity Blended Benchmark	-18.40%	3.89%	5.06%	8.41%	5.42%

- In the two quarters since reweighting the portfolio performance has improved.
 - In 1st half 2022, performance was 55 basis points below benchmark
 - In 2nd half 2022, performance was 6 points below (including transaction costs)
- Staff is engaging with NEPC and investment team to build on our new framework for driving consistent excess returns.
- Aligning with the benchmark and carefully budgeting risk is a focus going forward.

Proxy Voting Policy in 2023

- In 2023 TMRS re-assumed proxy voting responsibility with the expert assistance of a leading proxy advisory firm. Prior to 2023, proxy voting was delegated to our equity investment managers.
- TMRS' proxy voting policy is as follows:
 - ***Investment staff will vote proxies to maximize long-term investment returns consistent with the Board's fiduciary duty and the laws of the State of Texas. Proxies will not be voted to establish or endorse any social policy. A proxy advisory firm will assist investment staff in maintaining TMRS' custom proxy voting policy and monitoring compliance with it.***
- Implementation of proxy advisor ISS' services and the custom policy has gone smoothly, with the transition taking place in early-2023.
- All equity managers and the custodian bank have been very responsive and cooperative with TMRS during this setup and early process.
- Once the appropriate custom policy is set, it is largely automated, allowing TMRS operations and investment personnel to maintain efficient use of resources and time to focus on key investment and relevant proxy voting decisions for the Global Equity portfolio.

Transition Plan & Pacing

2022 Checklist

- ☒ Improved the Global Public Equity portfolio structure and increased alignment with the benchmark
- ☒ Re-weighted active managers, retaining those that generate alpha, and funded up U.S. Large Cap passive account.
- ☒ Maintained high liquidity, transparency and low fees

2023 Goals

- ☐ Improve portfolio returns through active management that aligns with the benchmark.
- ☐ Increase active management back to 20% in a risk-aware manner.
- ☐ Maintain portfolio liquidity and transparency with low fees across active and passive strategies.