



AGENDA

Meeting of the Board of Trustees

Thursday, May 26, 2022 – 9:00 a.m.

TMRS Office
2717 Perseverance Drive, Suite 300
Austin, Texas

Zoom Link for Public:

<https://tmrs.zoom.us/j/85190089238?pwd=WjNBUVZDSkQzbkZGaHpOMGFZOTduQT09>

Members of the public may provide public comment on agenda items presented to the Board. If you attend the meeting in person, you must complete a public comment form and give it to the Board Secretary. If you attend the meeting via Zoom, you must submit an email to KJackson@tmrs.com identifying the name of the speaker and agenda item no later than 5:00 pm Central Time on Wednesday, May 25, 2022. Any public comment on an Agenda item will be limited to 3 minutes.

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 March 24, 2022 Board of Trustees meeting

Executive Director Reports

2. [Executive Director's Report.](#) David Wescoe
3. **Consider and Act on Matters Concerning the Sale of the TMRS 1200 North Interstate 35 Building.** David Wescoe and Eddie Schultz

Advisory Committee on Benefit Design

4. [Report on Advisory Committee's April 21, 2022 Meeting.](#) *Anali Alanis and Michelle Kranes*

Legislative Agenda

5. [Discuss Potential Legislation Topics.](#) *Bob Scott*

Actuarial Services Report

6. [Consider and Act on 2021 Actuarial Valuation and Approval of 2023 Retirement Contribution Rates and Supplemental Death Benefit Contribution Rates.](#) *Leslee Hardy, and Joe Newton and Janie Shaw, GRS*

Investment Reports

7. [Chief Investment Officer's Report.](#) *David Hunter*
 - a. CIO Report
 - b. 2022 Annual Completed Investments Report
8. [RVK Quarterly Report.](#) *Marcia Beard and Spencer Hunter, RVK*
9. **Consider and Act on Selection of a General Investment Consultant.** *David Hunter*

Audit Committee Report

10. [Report on Audit Committee Meeting and Consider and Act on Appointment of an Internal Auditor.](#) *Bill Philibert, David Landis, Andi-Focht-Williams, and Sandra Vice*

Legal Report

11. [Review, Consider and Act on the Board's Fiduciary Counsel.](#) *Christine Sweeney and Robert Klausner*

Executive Session

12. **Executive Session.** *Bob Scott*
 - a. In accordance with Section 855.007, Texas Government Code, the Board of Trustees may meet in executive session to (i) receive information from or question the employees, consultants, or legal counsel of the System or a third party relating to an investment or a potential investment; (ii) meet with the System's internal or external auditors to discuss any one or more of the matters set forth in Section 855.007(h); and /or (iii) consider and discuss evaluations or duties of Trustees or Board consultants, and self-evaluations of the Board as a

whole, and thereafter may consider appropriate action in open session; and

- b. In accordance with Section 551.074, Texas Government Code, the Board of Trustees may meet in executive session to deliberate personnel matters, including the appointment, interview, employment, evaluation, compensation, performance, reassignment, duties, discipline, selection or dismissal of one or more public officers or employees, including without limitation, the Executive Director, Chief Legal Officer, and one or more candidates for Internal Auditor (as a public employee position), and thereafter may consider appropriate action in open session; and
- c. In accordance with Section 551.072, Texas Government Code, the Board of Trustees may meet in executive session to deliberate the purchase, exchange, lease, or value of real property if deliberation in an open meeting would have a detrimental effect on the position of the governmental body in negotiations with a third person.

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

13. 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 Texas Municipal Retirement System office, 2717 Perseverance Drive, Suite 300, Austin, TX, which will be open and audible to the public during the open portions of the meeting.



May 17, 2022

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 March 24, 2022 Board meeting.

RECOMMENDATION

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

ATTACHMENTS

- 1 - Minutes from the March 24, 2022 Board meeting



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

March 24, 2022 – 9:00 a.m.

The Board of Trustees of the Texas Municipal Retirement System (TMRS) convened for a meeting at 9:00 a.m. at the TMRS office, located at 2717 Perseverance, Suite 300, in Austin, Texas, with all Trustees present: Chair Jesús Garza, Vice Chair Bob Scott, Anali Alanis, Johnny Huizar, David Landis, and Bill Philibert.

Staff and consultants present included: David Wescoe (Executive Director), Michelle Kranes (Chief Service Officer), Christine Sweeney (Chief Legal Officer), Sandra Vice (Chief Administrative Officer), David Hunter (Chief Investment Officer), Michelle Mellon-Werch (Director of Communications), Anthony Mills (Director of City Services), Debbie Muñoz (Director of Member Services), Andi Focht-Williams (Deputy Director of Member Services), Leslee Hardy (Director of Actuarial Services), Kenneth Oliver (Actuarial Analyst), Dan Wattles (Director of Governmental Relations), Rhonda Covarrubias (Director of Finance), Nick O’Keefe (Deputy Chief Legal Officer), Michele Fullon (Investment Compliance Officer), Kelsey Baldwin (Senior Investment Attorney), Madison Jechow (Assistant General Counsel), Tom Masthay (Deputy Chief Investment Officer), Eddie Schultz (Senior Managing Director), Frank Atkins (Senior Investment Analyst), Eric Obermier (Director of Information Services), Chris Gillis (Network/Systems Administrator), Joe Newton (GRS), Ron Lewis (Ron Lewis & Associates), Alec Lewis (Ron Lewis & Associates), Marcia Beard (RVK), Spencer Hunter (RVK), Robert Klausner (Klausner, Kaufman, Jensen & Levinson), and Dr. Anthony Picchioni.

Mr. Garza called the meeting to order at 9:00 a.m.

Consent Agenda

1. Consider and Act on Consent Agenda.

Mr. Philibert moved that the Board adopt the Consent Agenda. Mr. Landis seconded the motion, which passed 6-0.

Board Organization

2. Consider and Act on Formation of Ad Hoc Board Committee.

Mr. Wescoe discussed establishing an Ad Hoc Board Committee to revise and update the TMRS Investment Policy Statement (IPS). The Board’s Bylaws allow the Board to create such a committee. Mr. Scott said Mr. Hunter had commented that the current IPS contained many

procedures in addition to policy and that the procedures need to be separated out. Mr. Scott also stated now is a good time to review the IPS because TMRS is reaching maturity in its asset allocations after having been invested only in fixed income assets before 2008.

Mr. Philibert moved that: (i) the Board create an ad hoc “IPS Review Committee” to work with staff on revising the IPS and then presenting the Committee’s recommended IPS changes to the Board for approval, (ii) a Committee charter is not needed, (iii) Bob Scott, as Chair, and Anali Alanis, as Vice Chair, be appointed as the two Committee members, and (iv) the Committee’s term continues until the Committee presents and the Board approves a revised IPS.

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

Executive Director Reports

3. Executive Director’s Report.

Mr. Wescoe presented his Executive Director’s Report. He discussed the Texas City Management Association clinic on February 24 in Granbury and meeting with representatives from the Combined Law Enforcement Associations of Texas. Mr. Wescoe discussed putting the prior TMRS office at 1200 North IH 35 on the market for sale and innovations at the new TMRS office that promote collaboration. He stated that TMRS now has 907 participating cities and discussed improvements in proactively marketing TMRS to eligible cities. He discussed promotions for employees in Member Services, Legal and Investments. Mr. Wescoe said that City Portal improvements, the most significant remaining part of the Pension Administration System Modernization project, are on schedule to be completed in 2022 and on budget.

4. Receive Senior Staff Quarterly Reports.

Ms. Vice presented staff reports for the first quarter of 2022. She highlighted recent cities that joined TMRS. She said that TMRS posted or mailed during the quarter more than 230,000 statements to Members and retirees, and that the statements have been updated to present information more clearly. Mr. Garza asked staff to consider if statements could be provided in Spanish upon request. Ms. Vice discussed work by Member Services and Information Services to make available new Internal Revenue Service W-4P forms ahead of the schedule requested by the IRS. Ms. Alanis asked if the W-4P form could be included as part of TMRS’ retirement packet. Mr. Garza asked about marketing by TMRS to unincorporated areas that are growing and may soon incorporate. Mr. Wescoe said City Services will focus first on existing cities that have not yet joined, and Mr. Wattles said there are 316 such cities. Ms. Sweeney said a city must be incorporated to join TMRS absent special legislation, such the Dallas Police & Fire Pension System’s recent legislation to allow their staff to join TMRS.

5. Consider and Act on Matters Concerning the Sale of the TMRS 1200 North Interstate 35 Building.

Mr. Wescoe said TMRS retained Cushman & Wakefield to represent TMRS in the sale of the prior office building, and through that firm TMRS received a number of offers, which will be discussed in executive session.

Legal Reports

6. Consider and Act on Final Adoption of TMRS Rule Amendments – Chapter 129.

Ms. Sweeney asked the Board for final action on proposed rule amendments for Chapter 129 of TMRS' rules. This chapter relates to qualified domestic relations orders (QDROs), which are needed to pay TMRS benefits to a person other than a TMRS Member or retiree. In October, the Board approved publication of the proposed rule amendments. The proposed amendments were then submitted to the Governor's Office for review. After incorporating non-substantive changes requested by the Governor's staff and staff in the office of the Texas Register, the proposed rule changes were published in the Texas Register on Feb. 11, 2022. The public comment period expired on March 13, and no comments were received. If the Board approves a proposed Final Order for the rules, they will be published again in the Texas Register before they take effect. The proposed effective date for the rules, she said, is July 1, 2022, to allow time for education regarding the new rules.

Mr. Landis moved that the Board approve and authorize the Board Chair to execute the Final Order, adopt the repeal of the current Chapter 129 rules, and adopt the new Chapter 129 rules, to be effective July 1, 2022, after filing with the Secretary of State's *Texas Register* division, without changes to the proposed language as published. Mr. Scott seconded the motion, which passed 6-0.

7. Consider and Act on the State Office of Administrative Hearings Administrative Law Judge's Proposal for Decision in a Member Dispute Matter.

Ms. Sweeney requested that the Board make a final decision on a Proposal for Decision (PFD) from an Administrative Law Judge (ALJ) with the State Office of Administrative Hearings (SOAH) in a benefits matter where a Member appealed TMRS' determination. The ALJ's PFD supported TMRS' position found that the Member's non-vested account was cancelled by law after more than 5 years away from city service, and that the Member could not receive restricted prior service credit on that account after the account was cancelled. The Member was notified about the PFD and filed no objections to it. Ms. Sweeney presented a Final Order based on the PFD to the Board for consideration and stated staff recommended that the Board adopt the ALJ's PFD in whole.

Mr. Landis moved that the Board approve the proposed Final Order, and the Proposal for Decision from SOAH attached to the proposed Final Order as Exhibit A, which is incorporated into the Final Order by reference. Ms. Alanis seconded the motion, which passed 6-0.

Legislative Agenda

8. Review and Discuss TMRS Act Review Project and Potential Legislation Topics.

Ms. Sweeney told the Board that TMRS sought legislative changes to the TMRS Act three times since 2010. In 2011, Senate Bill (SB) 350 restructured three of TMRS's internal trust fund accounts into a single trust fund account. In 2019, SB 1337 made TMRS Act amendments to multiple administrative areas, and Ms. Sweeney discussed some highlights of those changes. In 2021, SB 1105 revised TMRS' statutes regarding retirees returning to work. Ms. Sweeney noted that three potential benefit topics have recently been considered by the Advisory Committee on Benefit Design regarding possible amendments to Cost of Living Adjustments options (COLAs), Updated Service Credit (USC) and COLA coverage links, and Supplemental Death Benefits (SDB) coverage links for Members and retirees. These topics remain under consideration. She then discussed seven prior administrative topics that were considered for legislation by staff and the Board in 2019 in preparation for SB 1337, but the Board decided not to pursue them in 2019 or in 2021. She said these seven administrative topics were not critical to TMRS operations.

Mr. Garza stated that a planned February Advisory Committee Meeting had to be cancelled due to weather. He said another Advisory Committee meeting will be scheduled before the Board considers action on the legislative proposals in May. Mr. Scott said that none of the seven administrative topics would justify legislation on their own, but they might be included in other legislation that might be pursued. Mr. Scott said that legislation should not be needed to address any statutory maximum affecting a city's rates given the current positive funding status for most cities.

Actuarial Services Reports

9. Consider and Act on 2021 Interest Credit Allocation to the Benefit Accumulation Fund and Interest Reserve Account.

Ms. Hardy asked the Board to approve the 2021 Interest Credit Allocation to the Benefit Accumulation Fund (BAF) and Interest Reserve Account. Mr. Newton presented GRS' recommendation to credit approximately 12.26% to the cities' accounts in the BAF.

Mr. Garza asked about the \$310 million reserve account, and Mr. Newton said that the reserve serves as a buffer as earnings on private market investment earnings until they are finally determined. Ms. Hardy said the reserve is based on prior practice, originally set at 1% of the TMRS fund, and experience with investments in private markets. Mr. Scott asked whether the positive investment returns would lower city rates. Mr. Newton said investment returns alone would reduce rates, but inflation at 7% also is a factor for rates, and the investment returns and inflation may offset each other, especially for cities with COLAs.

Mr. Scott moved that the Board allocate, effective December 31, 2021:

- (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 12.26% interest to the Benefit Accumulation Fund, as well as maintain the initial Interest Reserve Account balance at \$310 million; and,

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, 2021 and considered in the 2022 BAF interest credit determination. Mr. Huizar seconded the motion, which passed 6-0.

10. Consider and Act on Transfer from the Interest Reserve Account to the General Reserves Account.

Ms. Hardy recommended that the Board transfer \$7.5 million from the Interest Reserve Account to the General Reserves Account as a contingency plan in the event assets in the Supplemental Death Benefits Fund (SDB) become depleted due to the higher mortality rates associated with the global pandemic. Ms. Alanis asked if the recommended transfer was expected to be a short-term response or if this might be needed in future years. Ms. Hardy said death rates have fallen since December, so this is only for a contingency. She added that the money remains invested, the transfer is accounting only.

Mr. Landis moved that the Board transfer \$7.5 million from the Interest Reserve Account to the General Reserves Account, effective as of December 31, 2021. Ms. Alanis seconded the motion, which passed 6-0.

Internal Audit Reports

11. Report on Audit Committee's March 9, 2022 Meeting.

Ms. Focht-Williams reported on the Audit Committee's meeting on March 9, 2022. At the Committee meeting, she presented results of a consultant's annual review of information systems security and reviewed completed Internal Audit reports on Quality Assurance Review for Internal Audit and the 2022 Risk Assessment and Audit Plan. Ms. Vice congratulated Ms. Focht-Williams on her promotion to Deputy Director of Member Services and described the process for recruiting a new Director of Internal Audit. Ms. Vice said she expects to bring selected candidates to the Audit Committee for interviews at a special meeting in late April or early May so that a final recommendation can be presented at the May Board meeting.

12. Consider and Act on the 2022 Audit Plan.

Ms. Focht-Williams presented the 2022 Risk Assessment and Audit Plan for approval. She said she interviewed the Audit Committee members and TMRS senior staff regarding the plan topics, and most topics are unchanged, but an audit of Investments due diligence procedures was

recommended by the prior Committee Chair and will replace an audit of third-party vendors' data security. The Audit Committee reviewed and recommends the Plan to the Board.

Mr. Huizar and Ms. Focht-Williams discussed an audit regarding TMRS detecting and monitoring cybersecurity events, which Ms. Focht-Williams said remains in the Plan while an audit of third-party data security under TMRS contracts is being delayed. Mr. Scott asked if the cybersecurity audit will be done internally, and Ms. Focht-Williams said it depends on the new Director of Internal Audit's experience and strengths. Ms. Scott said he also would like an audit of third-party data security to remain on the list for future audit topics. Ms. Focht-Williams said that she will conduct the audit of Investments' due diligence procedures.

Mr. Landis moved that the Board approve the 2022 Audit Plan. Mr. Philibert seconded the motion, which passed 6-0.

Governmental Relations

13. Review, Consider and Act on the Board's Legislative Consultant.

Mr. Wattles introduced Ron Lewis, the Board's legislative consultant. Mr. Lewis discussed work that his firm has done for TMRS during changes in the legislature. Lewis said much of his work involved educating new legislative members about TMRS. Mr. Lewis presented a chart on five major bills that passed with support from the TMRS Board, and he said the TMRS Board had made good decisions on when to pursue proposed legislation.

Investment Reports

14. Chief Investment Officer Reports.

Mr. David Hunter reported that the TMRS Trust Fund returned 12.8% for 2021 and beat its asset allocation benchmark by 61 basis points. Mr. Hunter said the 61 basis points translates into about \$200 million additional assets. On a five-year basis the fund generated 8.94%, and on a ten-year basis, 7.69%, both of which beat benchmarks by 23 basis points. Mr. Hunter discussed reorganization of, and promotions within, the Investments team to put staff to their highest and best use. This structure, as well as the new offices, promotes collaboration. Mr. Hunter said that TMRS exposure to Russian investments was about \$65 million, which is less than 20 cents per \$100 of TMRS assets. Today, it is less than \$10 million. TMRS managers were working to reduce TMRS exposure to Russian assets in the fourth quarter of 2021. Asset allocation is close to target and progress toward the target was made during 2021. Global Equity, Private Equity and Real Estate classes helped to drive fund performance in the last five years. The asset allocation approved by the Board in July 2021 increased allocations to equity benchmarked assets, he said, yet risk remains in line with the most recent asset allocation study. New private market commitments of \$1.1 billion were approved in the fourth quarter split between Private Equity and Other Public and Private Markets (OPPM).

15. Receive Fourth Quarter 2021 Investment Compliance Report.

Mr. O’Keefe introduced Ms. Fullon, TMRS’ Investment Compliance Officer. She reported that during the fourth quarter, TMRS and its investment managers were in compliance with all testable parameters in the Investment Policy Statement after review of more than 2,000 compliance tests.

16. General Investment Consultant Quarterly Report.

Ms. Beard said RVK’s report focuses on the fourth quarter 2021. This report focuses on the positive performance in 2021, she said, and is preliminary until statements are audited to update private assets. In the quarter, TMRS outperformed its actual allocation benchmark by 53 basis points, and for the trailing year outperformance was 61 basis points. In each period through 10 years, TMRS outperformed its return assumption of 6.75%. Under TMRS investment policy focused on the five-year return, TMRS outperformed its actual allocation benchmark by 23 basis points. TMRS is close to its strategic target allocation, and Ms. Beard said the strategic target allocation would have returned 9.83% in the past five years, so the allocation is moving in the right direction. Within asset classes, TMRS beat class benchmarks in five of seven classes, and OPPM is very close to its benchmark. Total Equity trails the benchmark, she said, but during positive market returns following the pandemic active managers have struggled to beat index benchmarks. Mr. Spencer Hunter said markets have changed in 2022, and volatility resulting from the Russian war and commodity prices have caused the global equity benchmark to move down about 6.5% so far this year. Both equity and fixed income assets are moving down at the same time, which is not common, he said.

Board Education

17. Board Education: Global Equities Asset Class.

Mr. Atkins provided an overview of Global Public Equities, which is intended to provide capital appreciation over time, which historically has been achieved by owning stocks for the long-term. TMRS has held this class for about 14 years, and its average annual return is about eight percent, which has added about \$7.5 billion to the Trust Fund. This asset class has done this while being the primary source of funds for investments into other asset classes. The class includes both actively and passively managed holdings and is diversified by geography, company size and industry. The class is highly regulated and generally has low fees compared to other classes. Mr. Garza asked how fees can remain low in such a complex asset class, and Mr. Hunter said that TMRS uses passive management for most equity holdings and limits active management to certain sectors where it is more likely that active managers can bring higher returns.

Mr. Atkins discussed the breakdown in this class between large companies and mid-size to small companies. Mr. Hunter said this class has the largest allocation, 35%, in the TMRS portfolio with a return assumption higher than all but Private Equity. The objective is to beat the Investment Policy Statement benchmark, but the class has not done so for the 1-, 5- and 10-year periods. Current passive strategies have outperformed the benchmarks, and six managers currently beat their strategy-specify benchmarks (such as the Russell 2000 for U.S. small companies) but not the overall benchmark. That means, he said, there are tilts in TMRS’ portfolio in its active strategies

causing it to be underweight to U.S. and International large companies and overweight to emerging markets and mid-sized to small companies. Mr. Hunter said staff are discussing with RVK and Northern Trust how to adjust those tilts to improve net returns and reduce tracking errors and fees.

Mr. Scott said that asset allocation is the primary drive of return, there is a lot of opportunity within asset allocation to further enhance returns. The Board asked for 35% in global equities, he said, but it did not specify where to allocate the 35% within that category. Mr. Hunter said the biggest area for improvement was in public equities, and the next biggest was in non-core fixed income, although TMRS has done fairly well in that category.

Executive Session.

18. Executive Session.

The Board went into Executive Session at 11:24 a.m. The meeting reconvened in Open Meeting at 2:26 p.m. No action was taken during the Executive Session. All members of the Board who were present before the Executive Session were present.

After returning from Executive Session, Mr. Garza called back Agenda Item No. 5, Consider and Act on Matters Concerning the Sale of the TMRS 1200 North Interstate 35 Building.

Mr. Landis moved that the Board authorize the Executive Director to negotiate and enter into all agreements necessary for the sale of the TMRS 1200 North Interstate 35 Building (its legal street address being 708 E. 12th Street) to the buyer recommended by TMRS' agent, Cushman & Wakefield. Mr. Philibert seconded the motion, which passed 6-0.

Future Board Agenda Items

19. Call for Future Agenda Items.

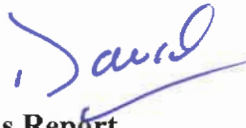
There were no future agenda items. Mr. Garza adjourned the meeting at 2:28 p.m.

Jesús A. Garza
Chair, Board of Trustees

David B. Wescoe
Executive Director



May 17, 2022

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

With a nod to Joe Walsh, the year's been good to TMRS, so far.

Director of Internal Audit. The Audit Committee met on May 13 and interviewed a candidate that they voted to unanimously recommend to you to be TMRS' Director of Internal Audit. Sandra Vice and I committed that the search process would be successful, and it has. The decision to post the position at the Director-level was a good one, and we had an extremely talented and experienced applicant pool. When you approve the Audit Committee's unanimous recommendation to hire the new Director of Internal Audit, he will be a significant addition to TMRS' Senior Staff.

Advisory Committee on Benefit Design. The Committee had a productive meeting on April 21, and Michelle Kranes will provide an overview of their discussions at the Board meeting.

PASMod. The city contribution project, which will significantly improve city/TMRS contribution processing, is on track.

TML Region 12 Training Workshop. Former TMRS Board Chair Roy Rodriguez invited TMRS to speak at the 11th Annual TML Region 12 Training Workshop. As result, on May 12, Chief Service Officer Michelle Kranes and Director of City Services Anthony Mills presented "TMRS: Strong by Design" at the Workshop, which was attended by more than 240 elected city officials and city staff.

1200 N. IH-35 Building Sale Update. We have entered into a Purchase and Sale Agreement with a potential buyer of our 1200 N. IH-35 building. The zoning variance process is underway, and the bidder is performing their due diligence on the property.

The Investment Department is on a Roll. In addition to previously discussed improvements in the Investment department, Dave Hunter is leading important department activities. For example,

- The Ad-Hoc Board committee to review the Investment Policy Statement met on May 12 to improve and clarify the current IPS. Next up are the IPS' Exhibits and Investment Guidelines;
- Staff has finished its preparatory work on the General Investment Consultant RFP and will present you with three outstanding General Investment Consultant firms to interview;
- For the first time, TMRS' annual investment returns will be prepared in compliance with the CFA Institute's Global Investment Performance Standards (GIPS). Only three of State Street's top 20 North American clients claim GIPS compliance, and TMRS will be the only Texas statewide system to be able to do so;
- The Investment team is interviewing their top Fixed Income Director candidate later this month; and
- Investment Portfolio Director Tim Sweeney and Senior Investment Attorney Kelsey Baldwin both recently passed the Level II exam of the Chartered Alternative Investment Analyst Association's CAIA Charterholder program. The Level II pass rate was only 58%. Becoming a CAIA Charterholder is a great professional achievement, and Dave, Christine and I couldn't be prouder of Tim and Kelsey. Our legal and investment groups are staffed with very talented professionals.

The Member Service Center Is on a Roll. Member Service Center Manager April Hernandez has reinstituted regular weekly staff training, a critical component in providing Members with great service. As a colleague said, "Better training immediately results in better Member service." Last week, the median call wait time was 8 seconds.

Vested Member Refund Requests. Member Services has begun calling any vested Member who requests an account refund. Given the implications to a Member of forfeiting a lifetime benefit for cash today, we want to make sure Members are aware of the consequences. Already Members have changed their minds and left their contributions on deposit because of the staff calls.

City Contributions. City Contributions manager Jennifer Andrews and team have implemented new processes to communicate with cities that have past due contributions. As a result, there were no outstanding contributions due from cities for the March deadline, a first!

Better Service Organization Alignment. Chief Service Officer Michelle Kranes recently revised the Service organization structure to align like functions in focused and more manageably sized groups with the goal of improving the Service group's effectiveness.

- Andi Focht-Williams became TMRS' first-ever Director of Benefit Administration. The new department includes managers Vikki Vasquez and Tricia Solis and their teams and will continue to be responsible for processing Member, retiree, and beneficiary benefits.
- Debbie Munoz was named Director of Member and City Services with responsibility for all Member and participating city communications and outreach: City Services, the Member Service Center, and the Member Education Center. This puts all Member and City outreach in one group, which includes Director of City Services Anthony Mills, Member Service Center manager April Hernandez, and Member Education Center manager Colin Davidson and their teams.

New Benefits Administration and Member Service Analysts Have Arrived. On May 2, eight new analysts joined the Benefits Administration and Member Service groups. This talent infusion will improve service immediately and prepare us for the inevitable departures of retirement-eligible staff.

Andi Focht-Williams. Andi is doing a great job as our Benefits Administration Director - and in very short order. In less than four weeks, she has developed and implemented TMRS' first comprehensive analyst training course and produced an essential functions list that clearly explains the key Benefit Administration functions.

New Training Center. We have repurposed a large corner space in the Investment area into the TMRS Staff Training Center. Because of the technology and flexibility in our new office space, all our departments can now use the Training Center for individualized and team training.

Cybersecurity Efforts Continue. As part of TMRS' robust cybersecurity program, the IS department rolled out a staff security awareness training module that was completed on time by every employee. Our ongoing anti-phishing campaign continues to enhance employee awareness of fishy emails.



May 17, 2022

To: Board of Trustees

From: Michelle D. Kranes, Chief Service Officer *MD Kranes*

Re: Agenda Item 4: Report on Advisory Committee's April 21, 2022 Meeting

The Chair and Vice-Chair of the Board's Advisory Committee on Benefit Design will report on the Committee meeting held via video conferencing on April 21, 2022.



Report on Advisory Committee's April 21, 2022 Meeting

Presentation to the Board of Trustees

**Michelle D. Kranes
Chief Service Officer**

May 26, 2022

Benefit Design Changes Discussed

- Add a 90% Cost-of-Living Adjustment (COLA) option
- Allow cities to provide retirees with a COLA without having to provide Updated Service Credit to active employees
- Allow cities to provide retirees with a Supplemental Death Benefit without also providing it to active employees



May 17, 2022

To: Board of Trustees
From: Christine M. Sweeney, Chief Legal Officer CS
Re: Agenda Item 5: Discuss Potential Legislation Topics

At its March 24, 2022 meeting, the Board was provided with the attached summary of possible TMRS Act amendment topics (Summary) for the upcoming 88th Legislative Session in 2023. The Summary sets out three benefit design topics and seven administrative topics.

I discussed the seven administrative topics at the March Board meeting and noted that, from a legal and operational perspective, these topics are not critical to TMRS, and we can operate efficiently under the existing TMRS Act provisions.

The Advisory Committee on Benefit Design discussed the three benefit design topics at its April 21, 2022 meeting, and Michelle. Kranes will report on the Advisory Committee meeting during Agenda Item 4.

This Agenda item is for the Board to discuss the potential legislation topics and provide guidance on whether the Board wants staff to prepare draft bill language on any of the topics for consideration by the Board at a future meeting.

ATTACHMENT

- 1 - Summary of Possible TMRS Act Amendment Topics

**Summary of Possible TMRS Act Amendment Topics
88th Legislative Session (2023)**

Benefit Design		
1.	As discussed by the Advisory Committee	Cost of Living Adjustments (COLA): Add 90% as an additional choice to the existing 30%, 50%, and 70% options cities have when adopting an ad-hoc or repeating CPI-based COLA
2.	As discussed by the Advisory Committee	Updated Service Credit (USC) and COLA Coverage: Amend the Act to allow cities to choose to provide retirees with a COLA without being required to provide USC for active employees
3.	As discussed by the Advisory Committee	Supplemental Death Benefits (SDB): Amend the Act to allow cities to provide an SDB for retirees without providing an SDB for active employees
Administrative		
		City-Related
4.	Discussed by the Board in prior years	Payments to formerly participating cities: For participating cities that have no employees who are members of TMRS (i.e., because the city previously elected to discontinue participating in TMRS for individuals hired or rehired after the city's election to discontinue) and have few remaining liabilities for former employees, retirees, and their beneficiaries, allow for System actuaries to estimate remaining liabilities and a reasonable reserve and allow the System to distribute any excess plan assets to the city before the last beneficiary has died and the remaining liabilities are fully paid out, if warranted.
5.	Discussed by the Board in prior years	Repeal Statutory Maximum Rate of Contribution: <ul style="list-style-type: none">• Repeal applicable Act provisions relating to the statutory maximum rate of contribution (commonly called the "Stat Max")• Stat Max is not a limit on the actual cost of a city plan. It is a limit on the maximum rate a city could be required by law to contribute.• As a result, the Act provides that, if a city has adopted either a repeating USC or COLA ordinance and the city's required employer contribution for the year exceeds its Stat Max rate, then the repeating benefit features are automatically suspended, unless the city passes an ordinance to remove its Stat Max limit.• Since January 1, 2000, the Act provides that new cities joining TMRS are not subject to the Stat Max and cities that are subject to it are allowed to repeal it.

		<ul style="list-style-type: none"> As of March 10, 2022, 561 of the 907 cities participating in TMRS are not subject to the Stat Max: <ul style="list-style-type: none"> 373 cities have elected to remove Stat Max 188 new cities are not subject to the provision 346 cities continue to be subject to the provision
6.	Discussed by the Board in prior years	<p>Interest on late contributions:</p> <ul style="list-style-type: none"> Modify the date used to determine whether a city contribution is late to the date TMRS receives the city contribution, rather than the date the contribution is transmitted by the city or post-marked Specify a fixed rate of interest for late payments, rather than one that fluctuates with the System's investment return assumption, and Include an administrative fee for late payments
		Governance
7.	Discussed by the Board in prior years	<p>Clarify Trustee eligibility provisions:</p> <p>Amend TMRS Act to clarify that a Trustee who no longer meets the Act's eligibility requirements shall vacate the office but can holdover and continue to serve on the Board until a new appointee is sworn in</p>
8.	Discussed by the Board in prior years	<p>Clarify Oath of Office requirement for new Trustees:</p> <p>Make the oath of office requirement consistent with other statutes by removing language requiring certification of the oath of office to be subscribed before the clerk of the city that the Trustee serves</p>
		Other
9.	Discussed by the Board in prior years	<p>Clarify responsibility for certain administrative duties</p> <p>Update the wording in certain provisions of Act to clarify that the System, rather than the Board, is responsible for handling various ministerial and administrative duties. <i>Examples include, but are not limited to, the following:</i></p> <ul style="list-style-type: none"> Provide that notices under the Act be sent to the System, rather than to the Board Provide that the System (instead of the Board) notify cities of the contribution rates that have been approved by the Board Provide that cities certify to the System (instead of the Board) the amounts deducted from their employees' paychecks and submitted with the monthly payroll reports
10.	Discussed by the Board in prior years	<p>Repeal obsolete provisions and make other clarifying or "clean-up" changes <i>Examples include, but are not limited to, the following:</i></p> <ul style="list-style-type: none"> Remove obsolete vesting and retirement eligibility provisions Update outdated "voucher" based disbursement terminology Clarify the administration of certain benefit provisions Clarify the effective date, for TMRS' purposes, of ordinances transmitted to TMRS

		<ul style="list-style-type: none"> • Clarify that Board records may be excepted from disclosure under provisions of the Texas Public Information Act • Clarify that if a retiree selects a partial lump sum distribution (PLSD) in addition to an annuity, but dies before the PLSD payment is issued, then the PLSD payment is made to the designated annuity beneficiary • Clarify that annuity re-selection regarding a joint and survivor annuity is allowed in certain limited divorce situations
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May 17, 2022

TO: Board of Trustees

FROM: Leslee S. Hardy, Director of Actuarial Services *Leslee S Hardy*

RE: Agenda Item 6: Consider and Act on 2021 Actuarial Valuation and Approval of 2023 Retirement Contribution Rates and Supplemental Death Benefit Contribution Rates

The TMRS Act provides that each year, effective December 31, the consulting actuary (GRS) prepare an actuarial valuation of the System's and its participating cities' assets and liabilities. The valuation includes a computation of each city's normal cost contribution rate, prior service contribution rate and Supplemental Death Benefit Fund rate, if applicable.

GRS also prepares a reconciliation of the required contribution rates from the prior valuation to enable participating cities to recognize individual factors which impacted their rate.

The TMRS Act also requires the Board to certify the actuarial valuation results and contribution rates for the individual participating cities.

RECOMMENDATION:

Staff recommends that the Board accept GRS' December 31, 2021 valuation results and certify the 2023 contribution rates for participating cities.

ATTACHMENTS:

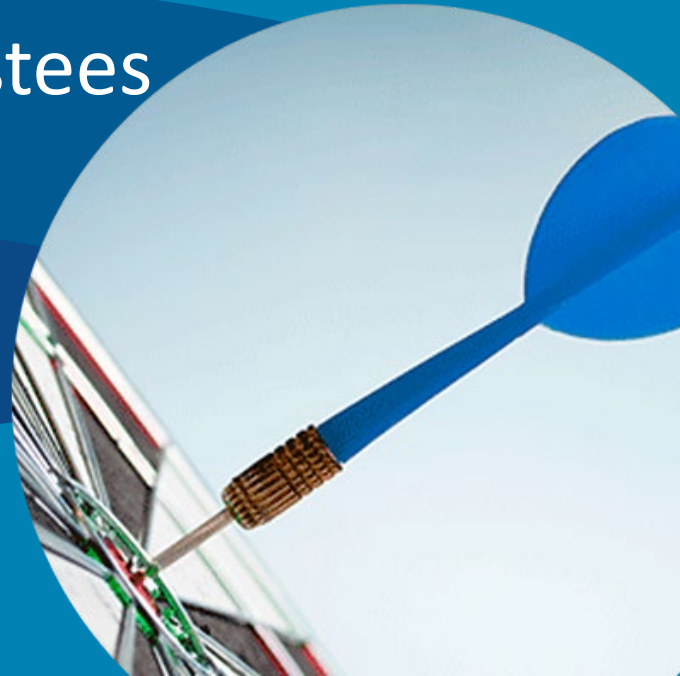
- 1 GRS Presentation
- 2 Actuarial Valuation Report as of December 31, 2021



Texas Municipal Retirement System Actuarial Valuation Report as of December 31, 2021 Report to the TMRS Board of Trustees

May 26, 2022

Janie Shaw
Joe Newton



Actuarial Valuation as of December 31, 2021

- Annual snapshot of the System's funding status
- Determines the City Contribution Rates for 2023
- Provides information for the financial statements for TMRS and participating Cities

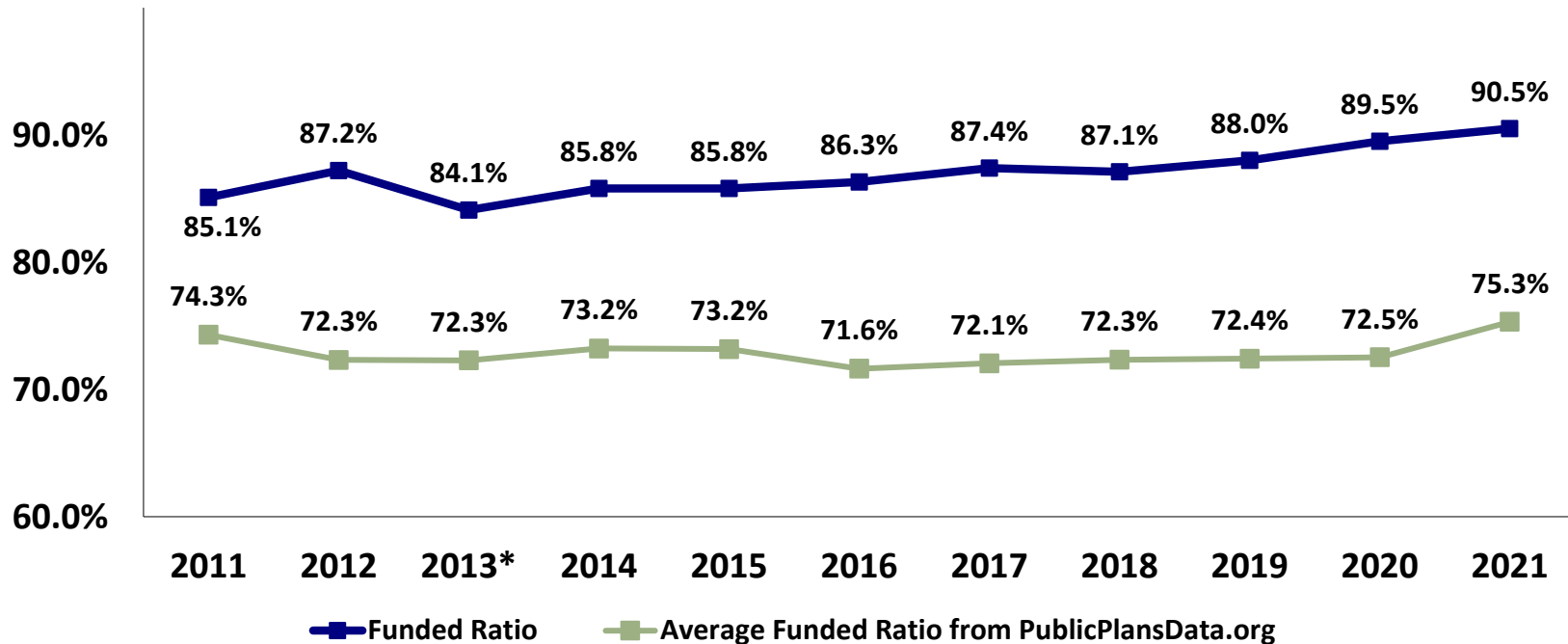
Valuation Results and Definitions

TMRS System-wide

- Actuarial Accrued Liability (AAL): \$40.1b
 - Represents value of benefits accrued in the past
- Actuarial Value of Assets: -36.3b
 - Smoothed Value of Assets on the Valuation Date
- Unfunded Actuarial Accrued Liability (UAAL): \$3.8b
 - Difference between AAL and Actuarial Value of Assets
- Funded Ratio: 90.5%
 - Assets as a % of the AAL

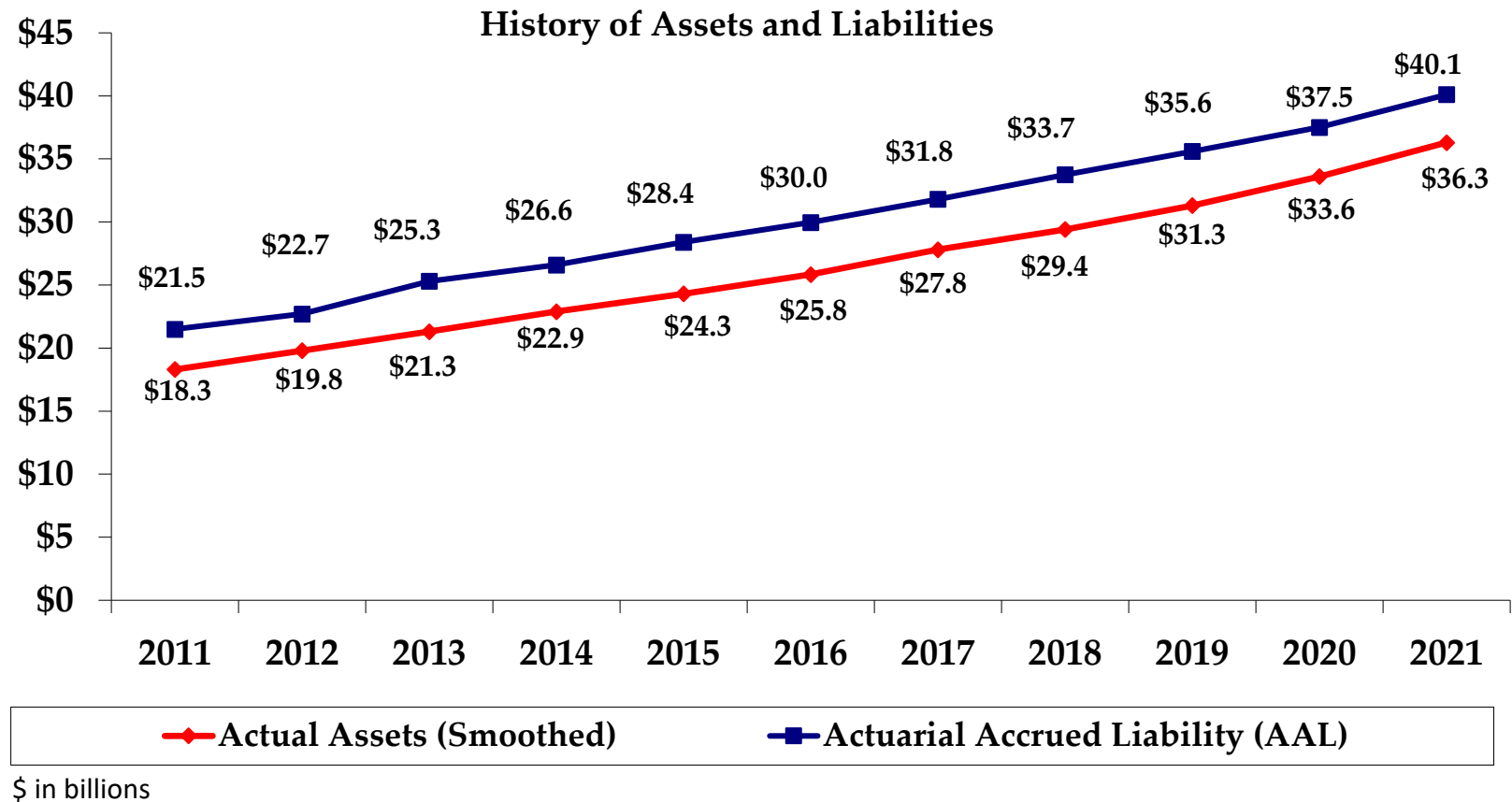
The System-wide funded ratio continues to improve, now above 90%!

Historical System-wide Funded Ratio for TMRS
Peer Result Provided For Comparison

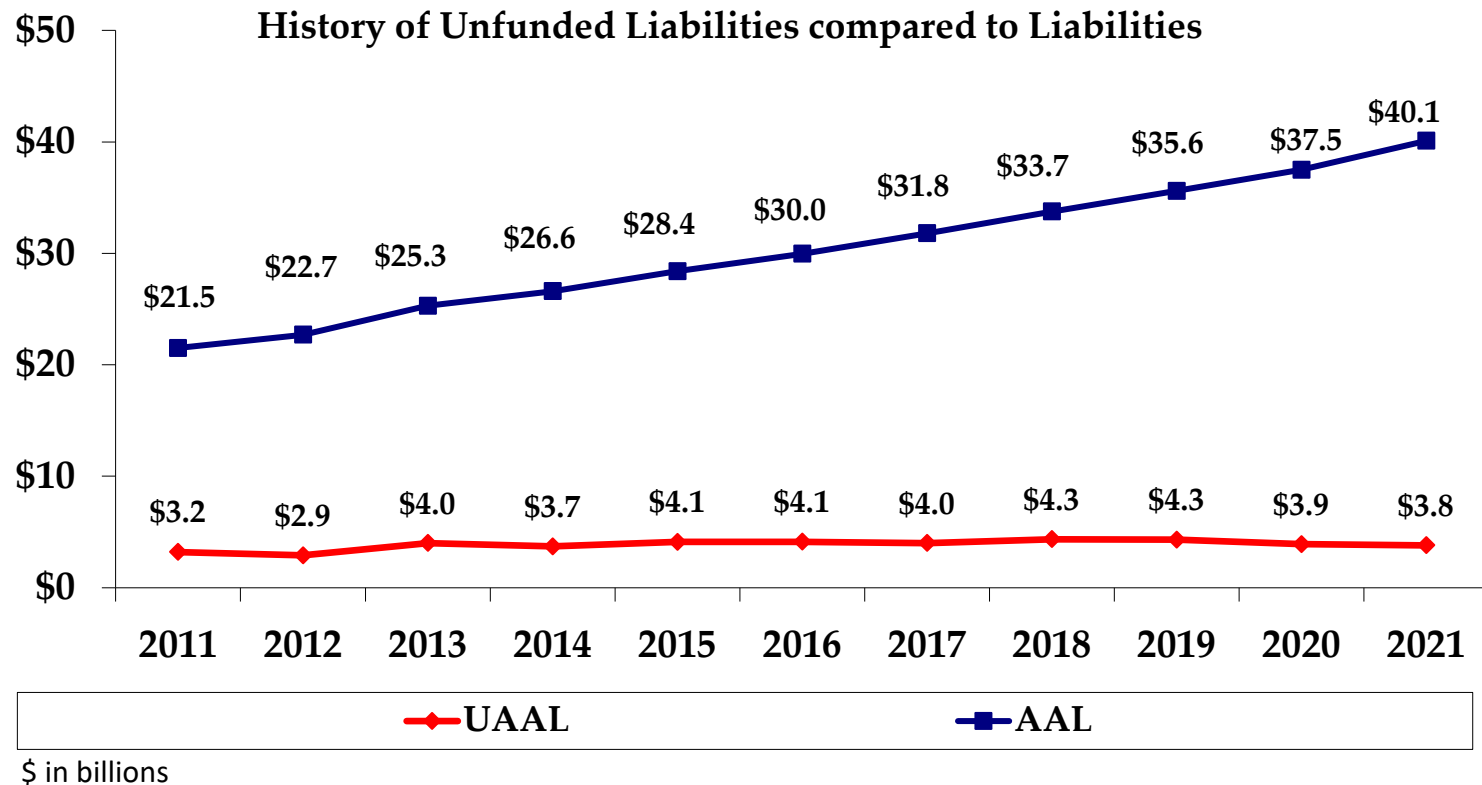


* Change to EAN and generational mortality

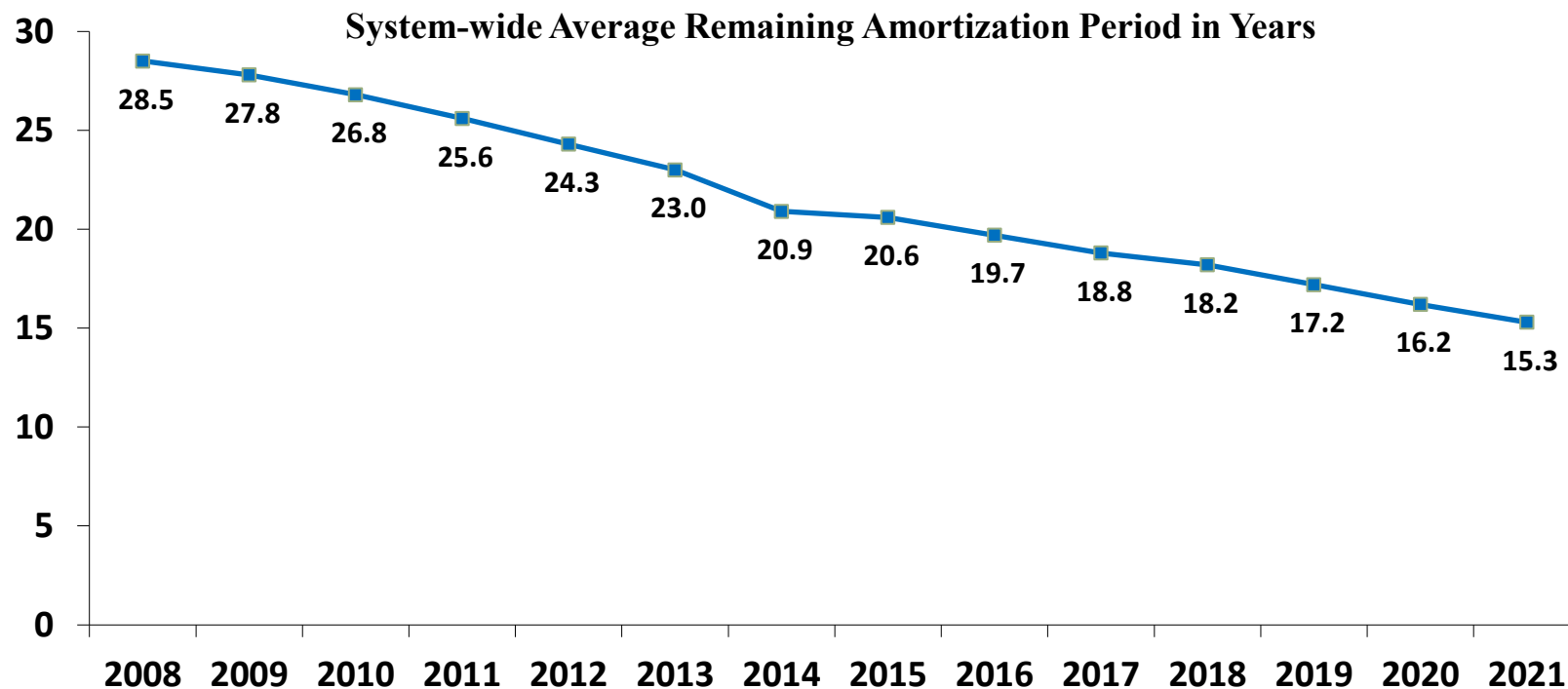
Assets and Liabilities continue to grow, the difference between the two is the UAAL



While the UAAL has only modestly declined the last decade, it has become much smaller in relation to the liability it represents (AAL)

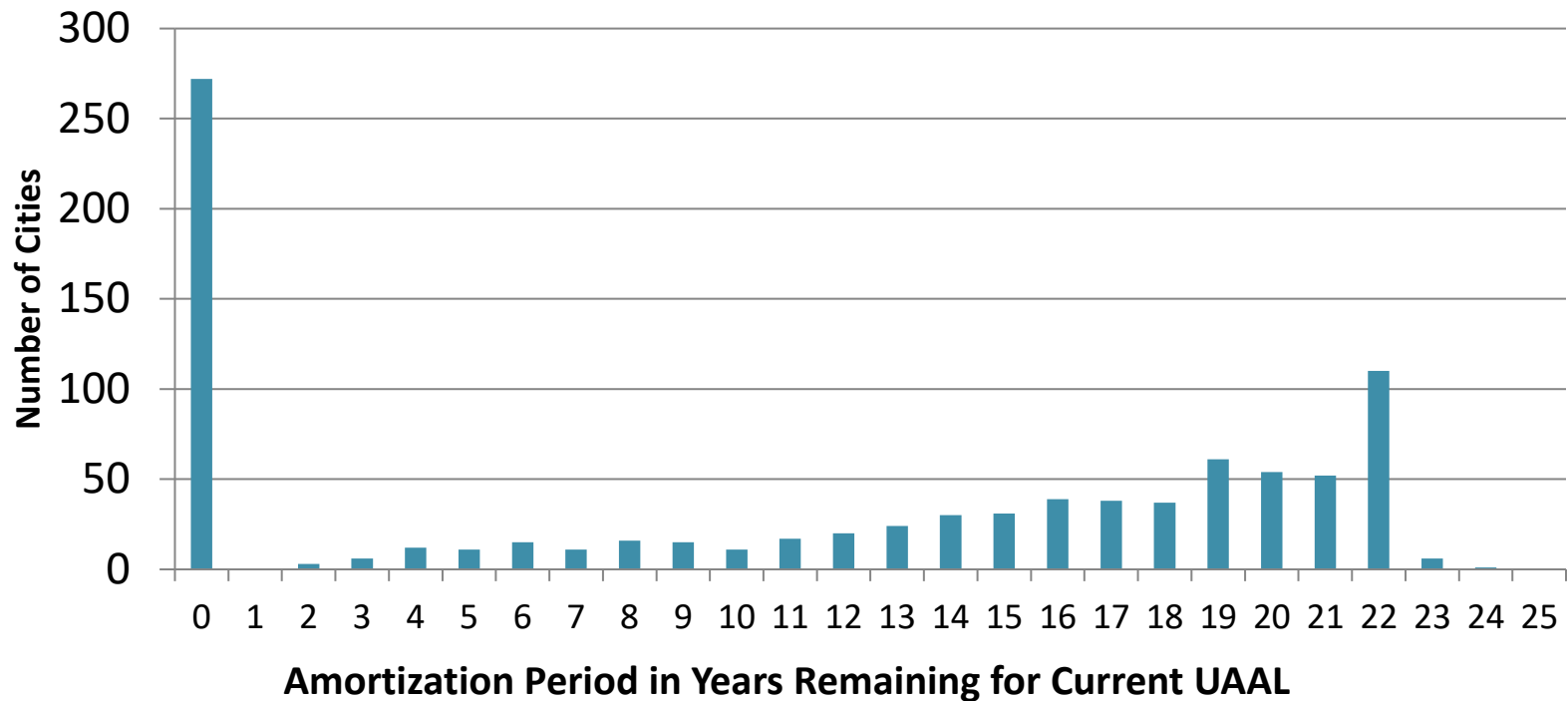


The funding policy utilizes closed amortization periods that force any UAAL to be fully financed over a set number of years



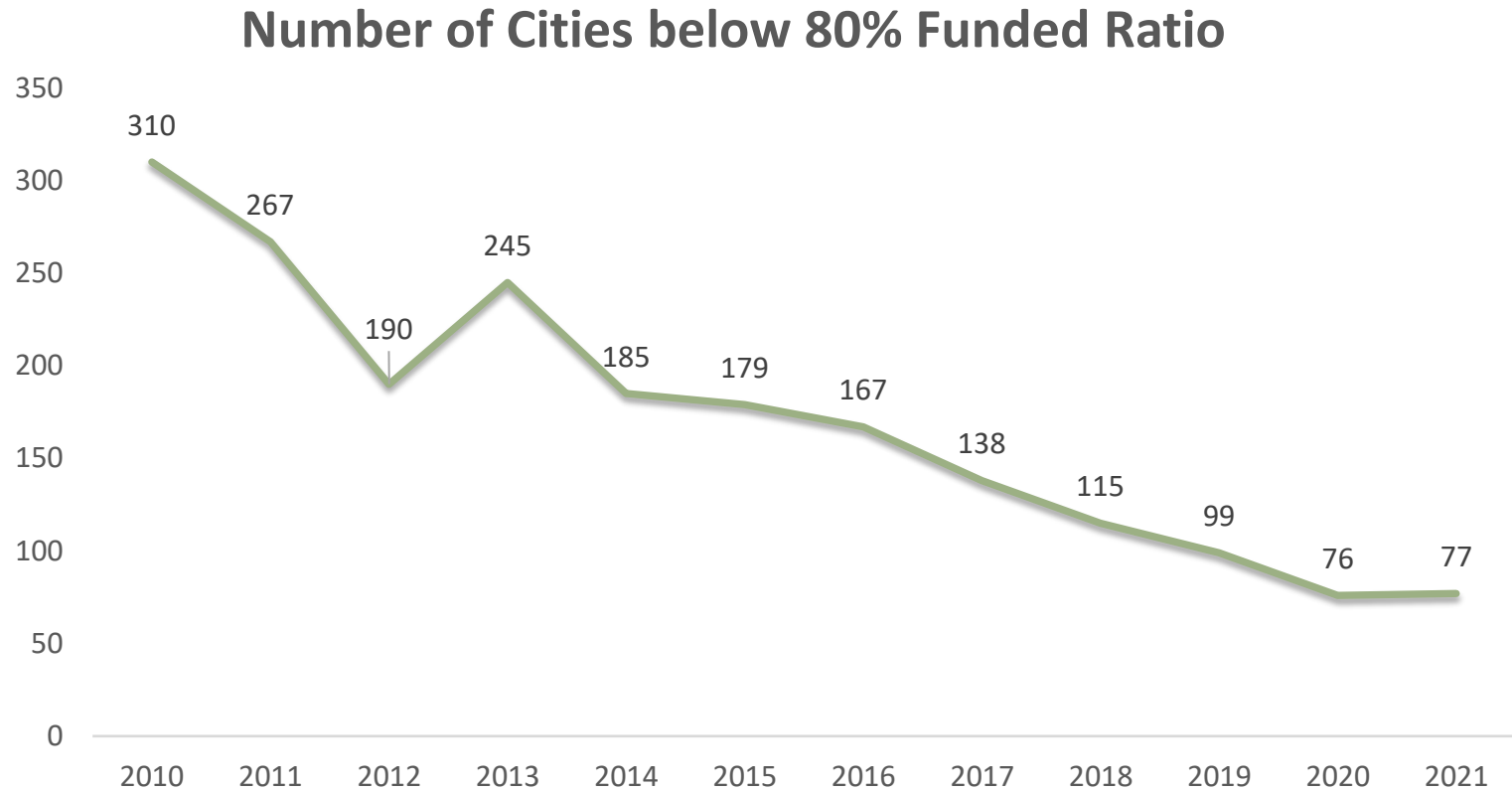
Every City has its own UAAL payment schedule and all are moving towards \$0

Distribution of Single Equivalent Amortization Periods



“0” reflects overfunded cities

The funding policy is bringing any cities below 80% funded above that line very quickly, most below 80% joined TMRS in the last decade



For 2021, the investment performance and additional contributions were quite beneficial, but were partially offset by the liability experience

Trends in the Annual Changes in the UAAL

\$ in millions	Year					Average Impact	
	2021	2020	2019	2018	2017	Average	on Funded Ratio
Interest	\$265	\$288	\$293	\$270	\$280	\$ 279	-0.79%
Amortization payments	(337)	(352)	(340)	(304)	(306)	(328)	0.92%
Payments towards Principal	(72)	(64)	(47)	(34)	(25)	(48)	0.14%
Asset experience	(272)	(81)	(56)	189	(93)	(62)	0.18%
Liability experience	259	(16)	(3)	(49)	(13)	36	-0.10%
Net Experience (Gains) and Losses	(13)	(97)	(59)	140	(106)	(27)	0.08%
Assumption/Methods changes	-	-	85	-	-	17	-0.05%
Benefit modifications/New Cities	64	57	(35)	281	32	80	-0.22%
Contributions different than actuarially calculate	(105)	(241)	(20)	(40)	(22)	(85)	0.24%
Net Discretionary Changes	(41)	(184)	31	242	10	11	-0.03%
Total Change in UAAL	(126)	(345)	(75)	348	(121)	(64)	0.18%

The pandemic, and resulting demographic and economic outcomes, clearly impacted the 2021 valuation: Note turnover, mortality, and inflation

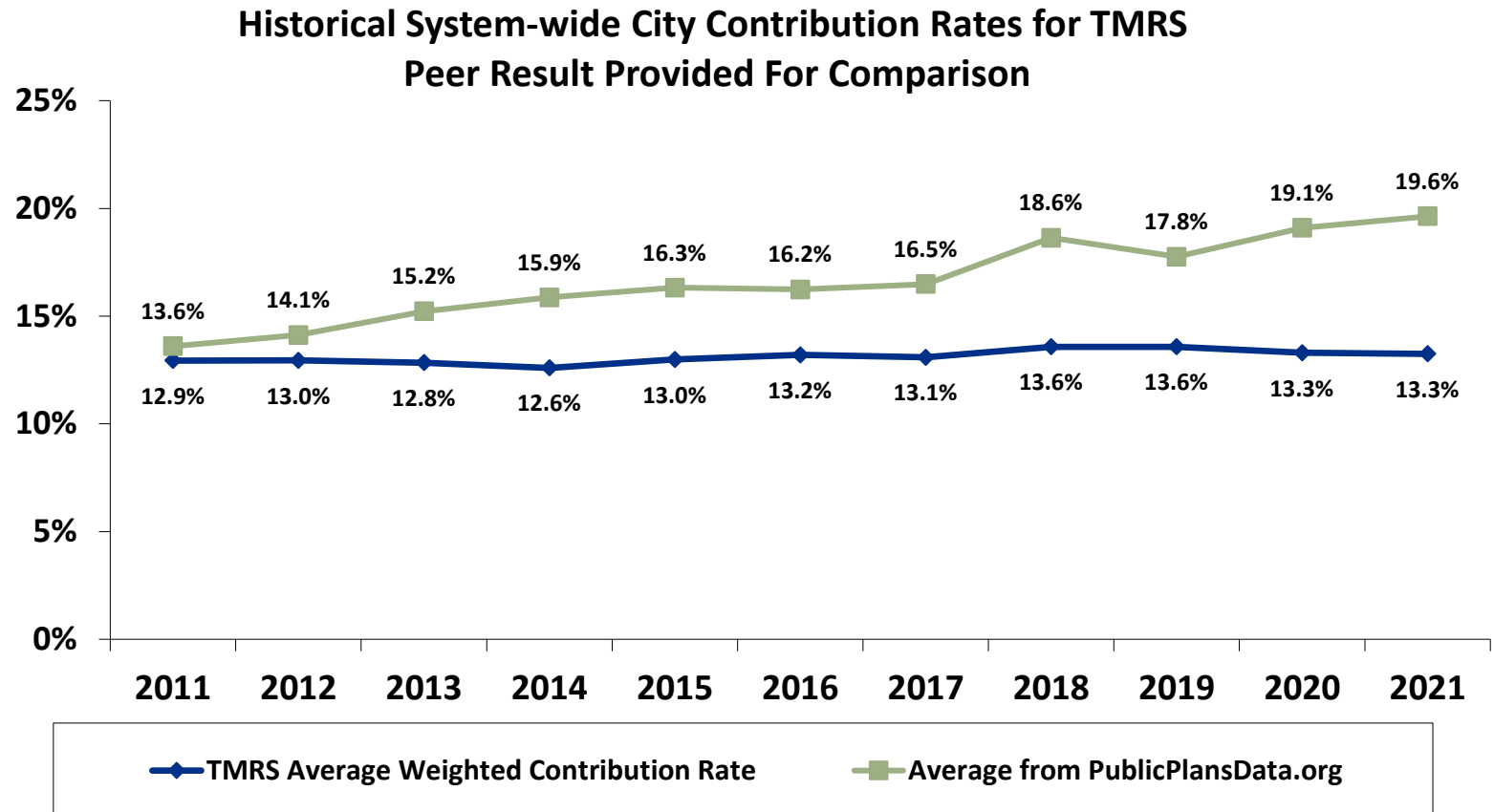
Detail of Liability Experience

\$ in millions	Actuarial (Gain)/Loss	Expected	Actual
Experience from Active Members			
Salary Increases	\$ 2	5.2%	4.8%
Retirement Behavior	16	4,153	3,884
Turnover	(42)	10,445	13,478
Active Mortality	2	79	142
Disabliy Incidence	0	41	38
	\$ (21)		
Experience from Retired Members			
7% CPI on COLA	312	2.5%	7.0%
Retiree Mortality	(33)	973	1,266
	280		
Total Change in UAAL	\$ 259		

Determination of Employer Contribution Requirements (Average for TMRS as a whole)

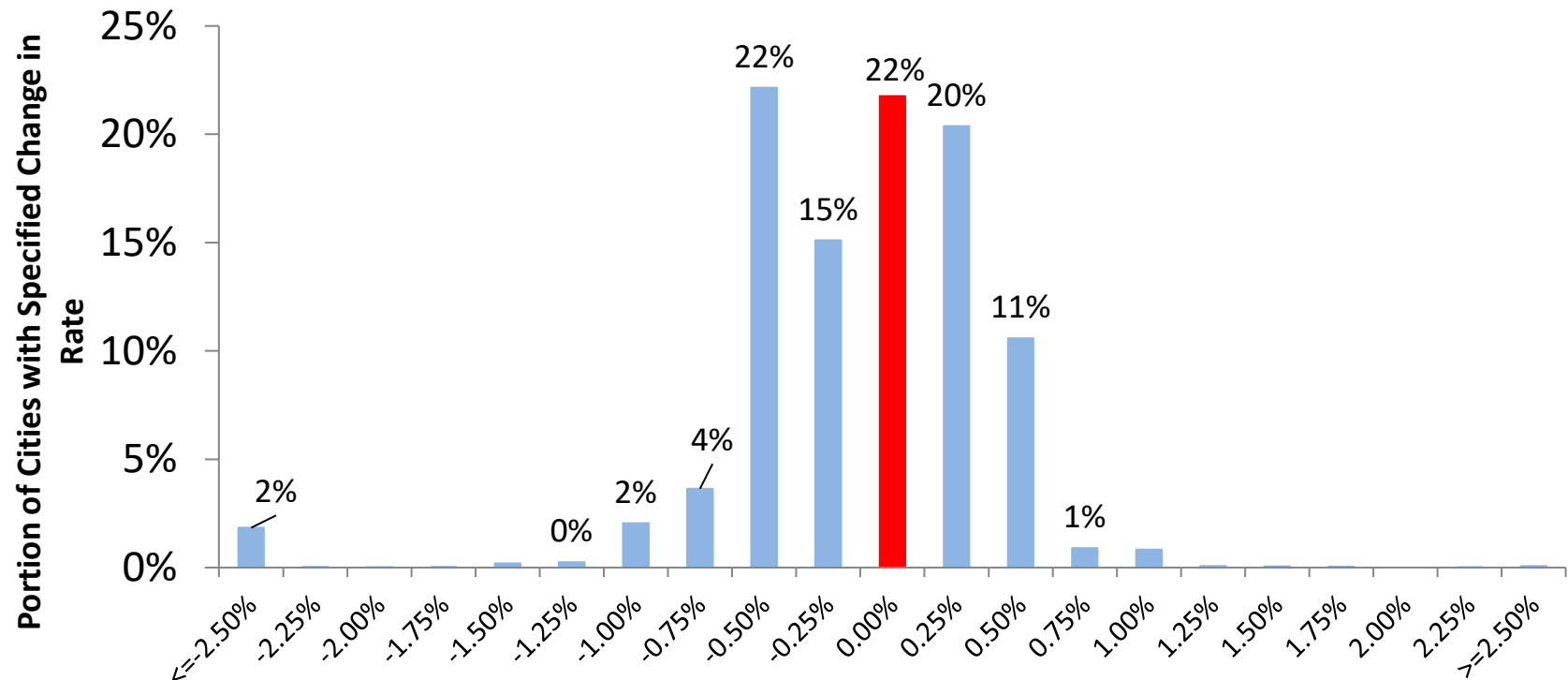
- Normal Cost Rate: 8.83%
 - Contribution Rate needed to fund for new benefits being earned
 - For example, for a member with 10 years of service, this is the cost to earn the 11th year
 - Needed even if UAAL has been eliminated (100% funded ratio)
- Prior Service Rate: 4.42%
 - Contribution Rate needed to pay off the UAAL
 - Once a City reaches 100% funded ratio, no longer necessary
 - Will be a credit if assets are more than liabilities
- Total Employer Contribution Rate: 13.25%
 - Sum of the two pieces above

System-wide, the average city contribution rate remained approximately level from the 2020 to 2021 valuation and rates have been very stable the last decade



There is a broader distribution of change in the contribution rates from 2022 to 2023 than previous years because of the outlier investment, demographic, and inflation experience

Distribution of Changes in Full Retirement Contribution Rate



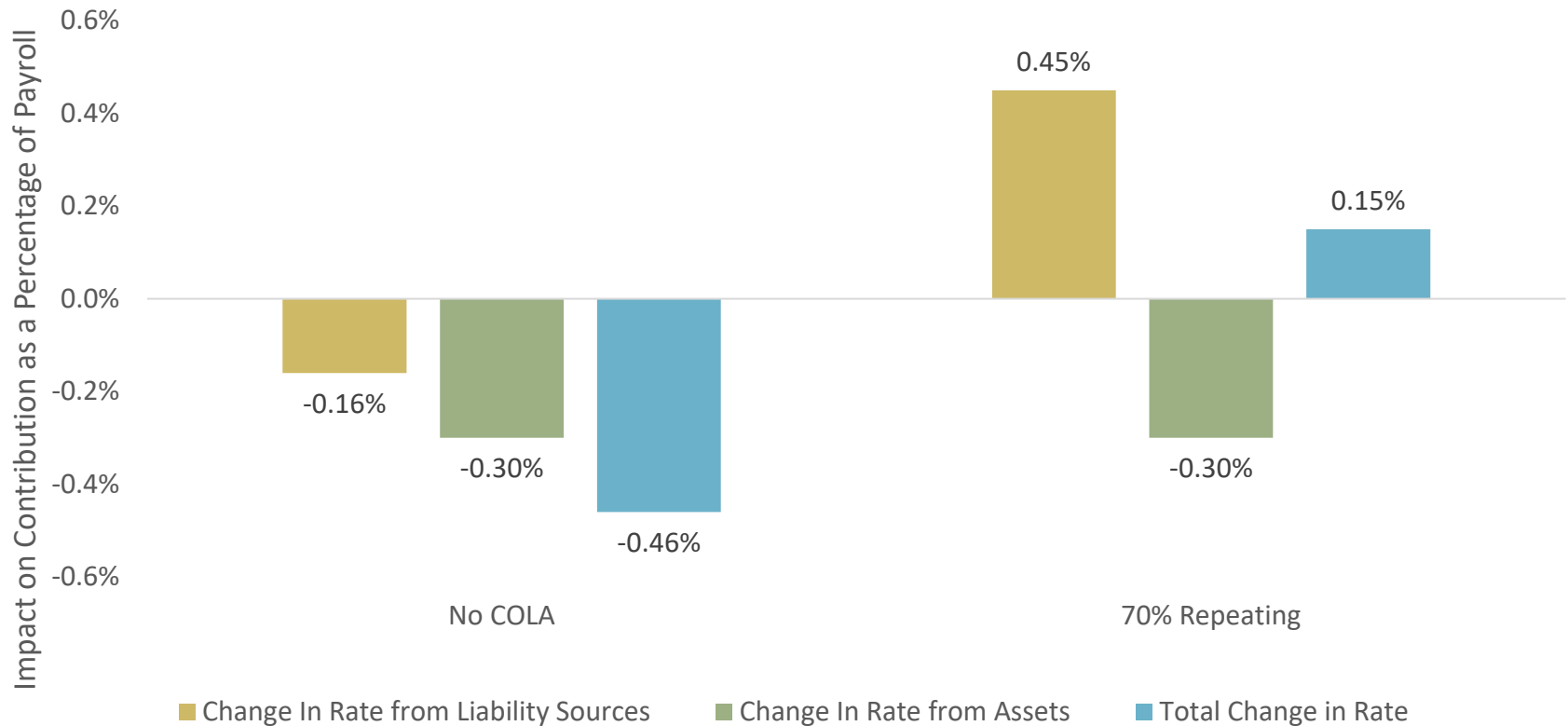
Does not include impact from changes to benefits

Rounded to nearest 0.25% change in rate

Data weighted by payroll

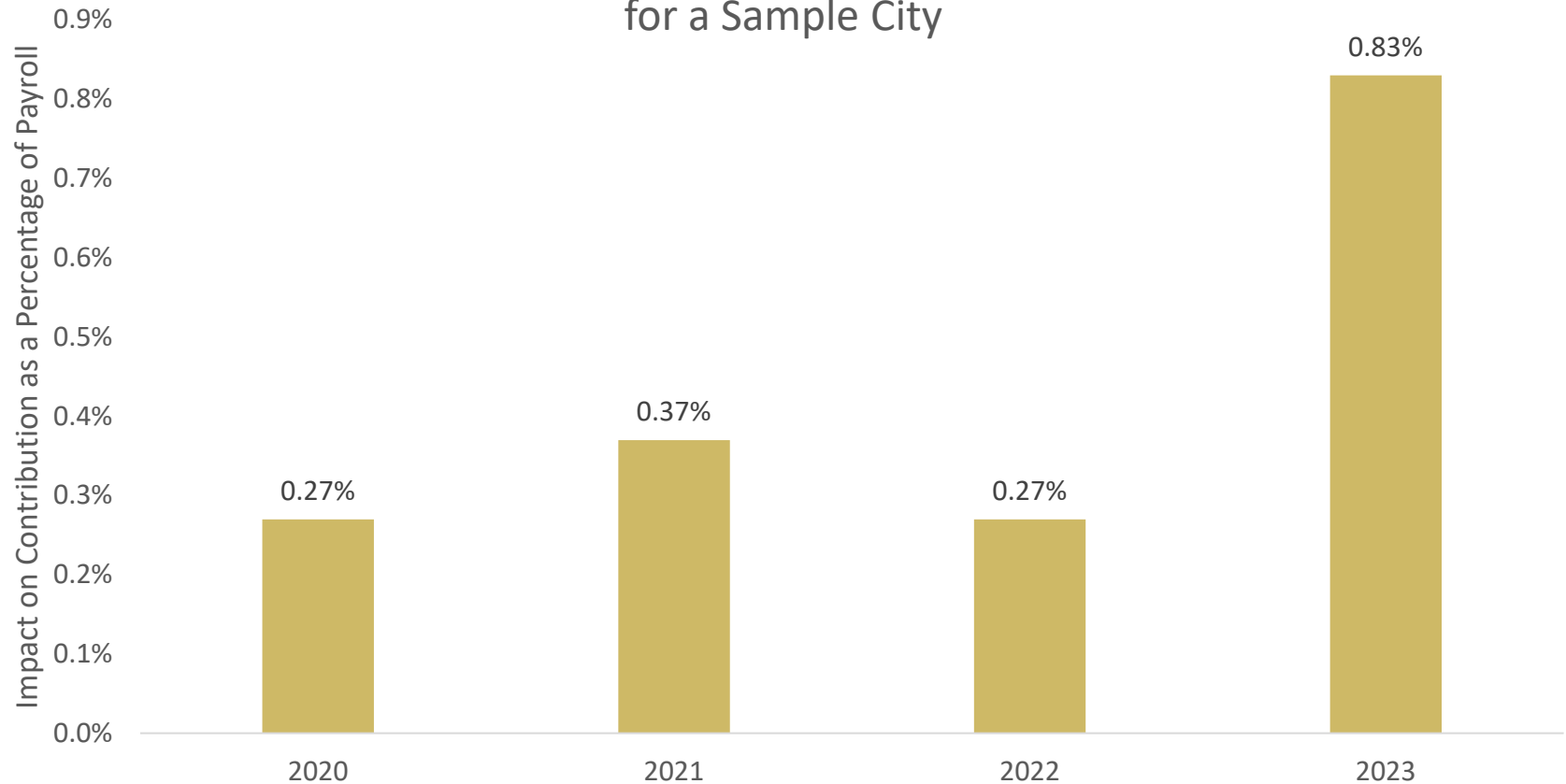
The change in contribution rate depends heavily on whether the city had a repeating COLA provision

Change in Contribution Rate: No COLA compared to 70% Repeating COLA Provision

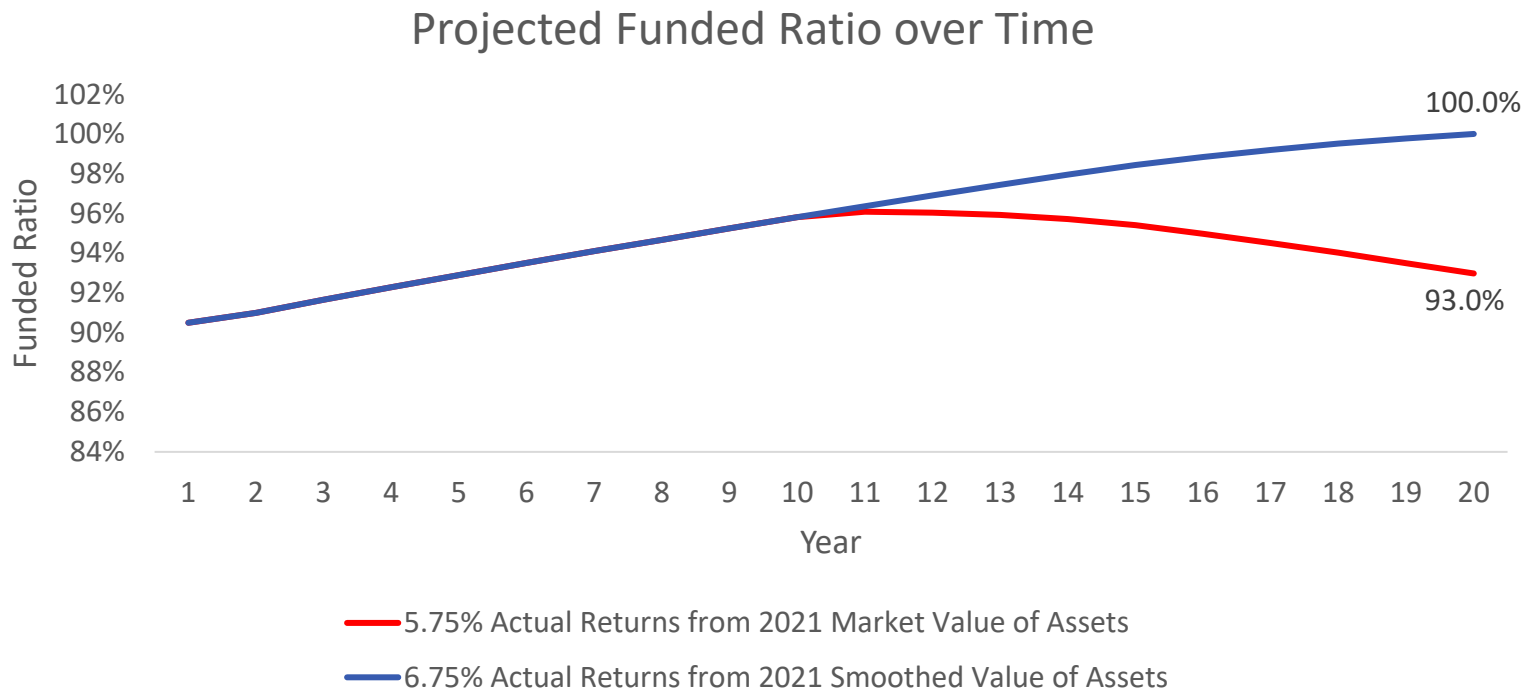


Cost to provide next COLA for a city that has been providing annual 70% ad hoc COLAs will be much greater for 2023

Cost to Provide Next Ad hoc COLA for each of the Last Four Years for a Sample City

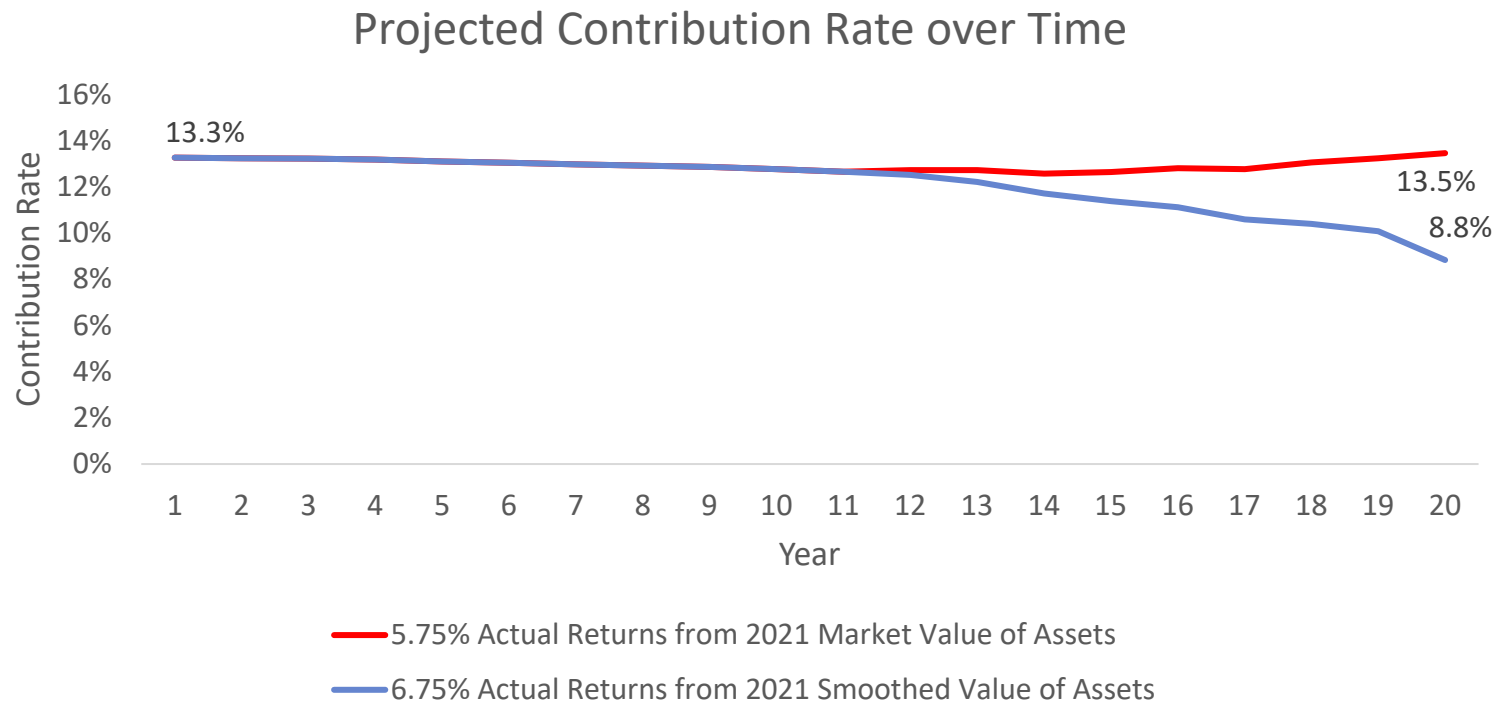


TMRS will be in a strong financial position even if actual investment performance falls below current expectations



The data is TMRS System-wide
Both projections based on current assumptions and benefits
Only actual investment returns are different

If actual investment performance falls below expectations, city contribution rates will increase which will hold the funded ratio in the 90% range



The data is for TMRS System-wide
Both projections based on current assumptions and benefits
Only actual investment returns are different

In Summary

- System-wide actuarial health is strong
 - Funded ratios continue to improve
 - Contribution rates have remained relatively stable
- The expectation is for a slowly increasing funded ratio and continued stability in the contribution rates System-wide



May 17, 2022

To: Board of Trustees

From: David Hunter, Chief Investment Officer

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

Re: Agenda Item 7 (a): CIO Report

Trust Fund Performance. Preliminary returns for the Trust Fund were -1.73, net of fees, for the quarter ended March 31, 2022, trailing the RVK Actual Allocation Benchmark (AAB) by 27 bps. Private equity, real estate and non-core fixed income posted positive returns, while other asset classes declined, including public equity at -6.11% and core fixed income at -5.91%. Preliminary returns, net of fees, for the 1-, 5- and 10-years ended March 31, 2022, were 7.84%, 7.73% and 6.94%, respectively, exceeding the AAB by 67 bps, 15 bps and 18 bps. For the one-year ended March 31, 2022, private equity and real estate generated the highest net returns of 40.8% and 20.8%, respectively, with private equity surpassing its benchmark by 1553 bps while real estate trailed by 45 bps. Other Public and Private Markets (OPPM) and public equity were the next highest returning sectors posting net returns of 7.52% and 5.60%, respectively, but both trailed their benchmarks by 257 bps and 70 bps. Non-core and core fixed income earned net returns of 3.56% and -3.92%, respectively, beating their benchmarks by 242 bps and 23 bps. Hedge funds earned 0.41%, net of fees, but trailed its benchmark by 299 bps.

March 31, 2022 returns are preliminary because private market returns (e.g., real estate and private equity) are lagged by one month for monthly-valued assets and one quarter for quarterly-valued assets.

Asset Allocation Update. Since the Board adopted a new target asset allocation effective July 1, 2021, staff has made progress reallocating Trust Fund assets towards the new allocations. As of March 31, 2022, actual allocations were within approximately 1% of target, with hedge funds (overweight 2.6%) and OPPM (underweight 1.3%).

Staff Investment Committee (SIC). The SIC met on March 10 and 29, April 26 and May 11. SIC-approved minutes are included in Diligent. The March 10 meeting focused on public equity, including ways to better align the portfolio with the performance benchmark to improve returns and reduce fees. In addition, the SIC reviewed investment due diligence principles, procedures, and proxy voting. The March 29 meeting included two private market investments totaling \$210 million. The April 26 meeting included two separate \$25 million private equity upsizes, a new \$150 million closed-end fund commitment and approval of further enhancements to investment due diligence procedures and an SIC Charter amendment. The May 11 meeting included a new \$100 million private equity commitment and an approximate \$650 million rebalancing recommendation to reduce market capitalization variances in the public equity portfolio versus the Board-approved public equity benchmark. The public equity rebalancing recommendation is subject to further internal, consultant and legal review, and will not be implemented until after the next SIC meeting on June 2. Trustees can attend any SIC meeting.

Transition Manager Annual Review. On April 26, the SIC and RVK completed the annual review of our approved list of transition managers.

Global Investment Performance Standards (GIPS) Certification Update. GIPS are industry standards promulgated by the CFA Institute to promote ethical and transparent performance reporting. Specifically, GIPS requires: 1) policies and procedures documenting the methodologies used to calculate performance; ii) performance be time-weighted; and iii) registering a claim of compliance with the CFA Institute. Independent third-party verification is scheduled to begin the week of May 23 with a target certification date no later than June 10 to allow for integration into the 2021 ACFR. This is a major accomplishment for our investment reporting.

IPS Review Committee Update. On May 12, the IPS Review Ad Hoc Committee discussed the core components of Investment Policy Statement. I appreciate the excellent work completed by committee members and investment staff in being well prepared and engaged, including Bob Scott, Anali Alanis, Tom Masthay, Nick O'Keefe, and Cindy Morse. The next meeting is scheduled for June 3.

Investment Consultant RFP. After completing a comprehensive RFP process, investment staff will recommend to the Board three of the largest and most highly qualified investment consulting firms which specialize in serving larger U.S. public pension plans.

Annual Activity and Completed Investments Reports. In 2022, TMRS reclassified \$341 million of private market commitments into non-core fixed income while reducing \$220 million of hedge funds in accordance with Board approved asset allocation directives. The Annual Investment Activity and Completed Investments Reports are as of May 17, 2022.

Investment Team Reorganization. I am pleased to announce the promotions of Jacob Bowland to Senior Portfolio Manager and Frank Atkins to Portfolio Manager. The investment team is doing a great job handling their responsibilities. These promotions will continue to promote a collaborative and holistic approach to Trust Fund asset management by focusing on team strengths, optimizing professional resources to their highest and best use, and encouraging more open, less siloed, communication, while supporting our prime directive to generate risk adjusted net investment return which meet, if not exceed, policy benchmarks.



2022 Annual Completed Investments Report

As of 5/17/2022

COMPLETED INVESTMENTS

ASSET CLASS / STRATEGY	COMPLETED DATE	MANAGER NAME / FUND NAME	NEW / EXISTING MANAGER	AMOUNT COMMITTED	PUBLIC / PRIVATE MARKET
Global Equity					
		N/A			
Core Fixed Income					
		N/A			
Non-Core Fixed Income					
		N/A			
Real Estate					
Real Estate	April 6	Abacus Multi-Family Partners VI	Existing	\$100,000,000	Private
Opportunistic/N. America & Europe	January 28	TPG Real Estate Partners IV, LP	Existing	\$250,000,000	Private
Core Plus	January 7	BentallGreenOak US Core Plus Fund, LP	Existing	\$100,000,000	Private
Enhanced Core	January 1	Virtus Real Estate Enhanced Core, LP	Existing	\$200,000,000	Private
Other Public & Private Markets					
Minerals & Mining	March 31	Sprott Private Resource Lending (US) III, LP	Existing	\$150,000,000	Private
Energy/Infra Buyouts	March 23	Oaktree Power Opportunities Fund VI	New	\$200,000,000	Private
Digital Infrastructure	March 4	SDC Digital Infrastructure Opportunity Fund III	Existing	\$200,000,000	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 Capital	March 15	Foundry 2022, L.P.	Existing	\$75,000,000	Private
Venture/Growth/Minority	February 4	Updata Partners VII	Existing	\$100,000,000	Private
Buy-out	January 28	Dunes Point Capital Fund III, LP	Existing	\$75,000,000	Private
Buyout	January 28	Tritium III, L.P.	Existing	\$75,000,000	Private
Growth Equity	January 13	FTV VII, L.P.	Existing	\$100,000,000	Private
TOTAL:				<u>\$1,705,392,150</u>	

NOTE : Currency exchange rate as of 5/10/2022



May 17, 2022

To: Board of Trustees

From: David J. Hunter, Chief Investment Officer

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

Re: Agenda Item 8: RVK Quarterly Report

RVK's 2022 First Quarter Executive Summary Presentation and Quarterly Board Report are attached.

Their Quarterly Investment Performance Analysis is available in the Diligent Resource Center in the tab titled "May 26, 2022 Board Meeting."

ATTACHMENTS:

- 1 – RVK Executive Summary Presentation
- 2 – RVK Quarterly Board Presentation



Quarterly Board Executive Summary Presentation

Texas Municipal Retirement System

Period Ended: March 31, 2022



Total Fund Performance

How Did TMRS Perform Relative to Investment Policy Benchmarks?

	Performance (%)						
	QTD	CYTD	1 Year	3 Years	5 Years	7 Years	10 Years
Total Fund	-1.73	-1.73	7.84	8.57	7.73	6.79	6.94
Actual Allocation Benchmark	-1.46	-1.46	7.17	8.53	7.58	6.60	6.76
Difference	-0.27	-0.27	0.67	0.04	0.15	0.19	0.18

The Total Fund returned -1.73% net of fees in the first quarter and 7.84% over the trailing 12 months.

- First Quarter – TMRS underperformed the Actual Allocation Benchmark (-1.46%) by 27 basis points.
 - Underperformance for the quarter was driven primarily by Hedge Funds and Real Estate, which trailed their custom benchmarks by 288 and 220 basis points, respectively.
- Trailing year – TMRS outperformed the Actual Allocation Benchmark (7.17%) by 67 basis points.
 - Private Equity and Non-Core Fixed Income drove relative performance over the trailing 12-months as the asset classes outpaced their custom benchmarks by 1553 and 242 basis points, respectively.
 - Hedge Funds and OPPM detracted from relative performance as they trailed their custom benchmarks by 299 and 257 basis points, respectively.

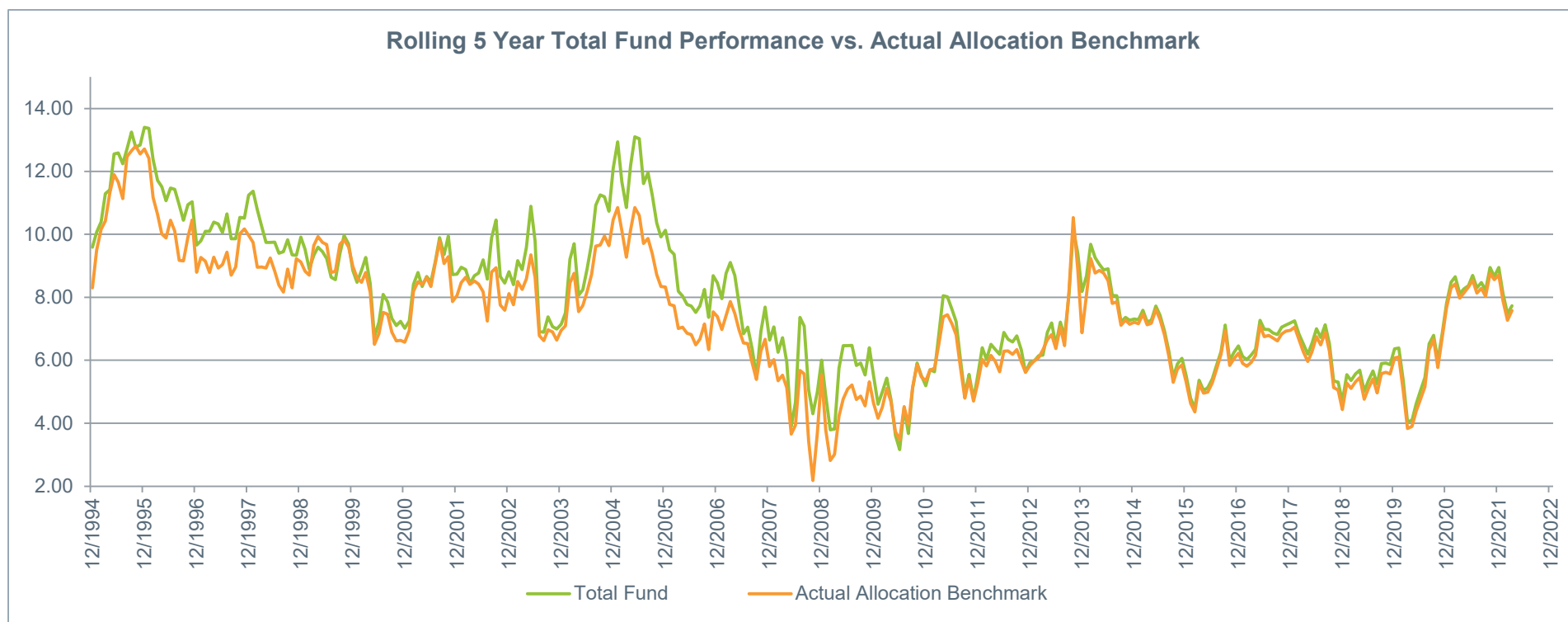
The Total Fund outperformed the Actual Allocation Benchmark net of fees for all periods longer than the trailing three-months as of March 31, 2022.

Total Fund Performance

How Did TMRS Perform Relative to Investment Policy Benchmarks?

The Total Fund performance expectation, as stated in the Investment Policy Statement, is to exceed the Actual Allocation Benchmark over rolling five-year periods.

- Five-year – TMRS outperformed the Actual Allocation Benchmark by 15 basis points, net of fees.
- The chart below shows that TMRS has beaten the five-year rolling performance expectation 93% of time since 1994, and 97% over the last ten years.



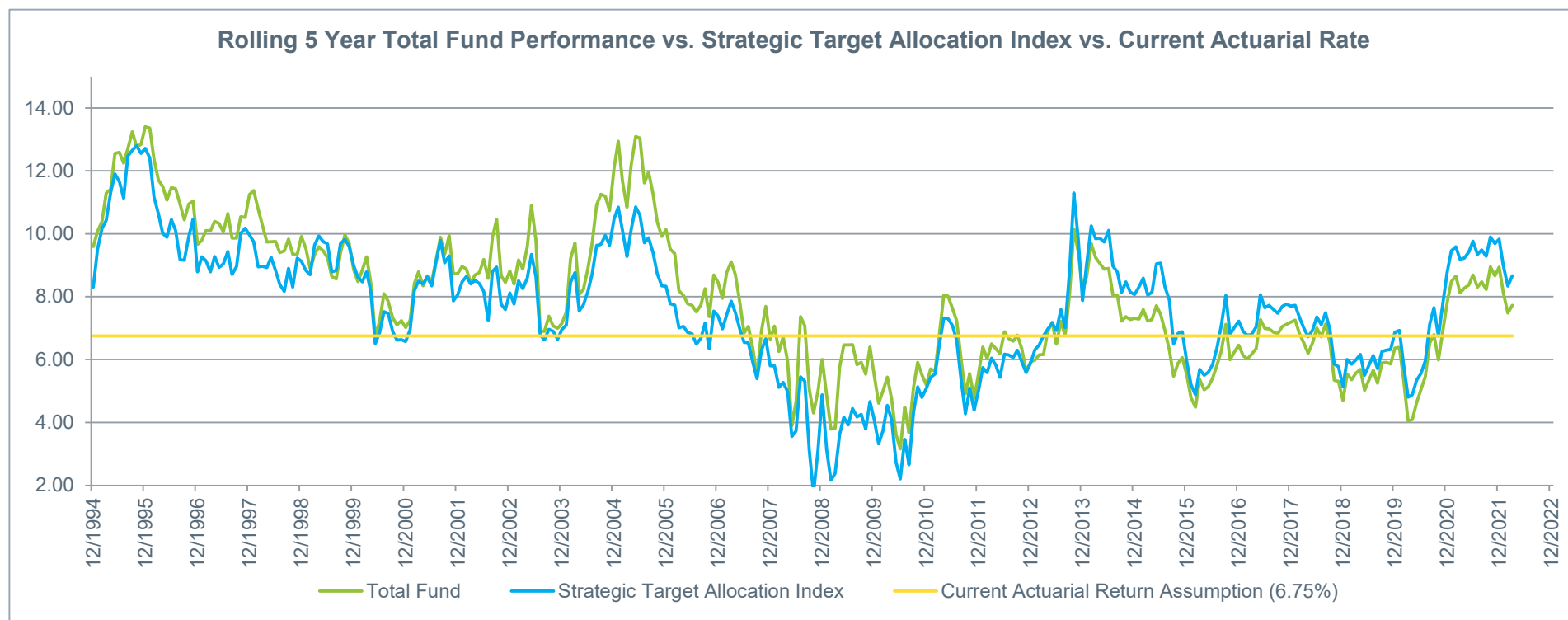
Performance shown is net of fees. Please see the Addendum for custom benchmark definitions.

Total Fund Performance

How Did TMRS Perform Relative to Investment Policy Benchmarks?

TMRS exceeded the Board's Assumed Long-Term Rate of Return of 6.75% for the five-year period.

- Although not fully implemented to the Strategic Target Allocation, the chart below illustrates TMRS' rolling five-year returns relative to the Strategic Target Allocation Index as a gauge for the effectiveness of the Board-approved Strategic Target Allocation, which was designed to meet or exceed the actuarial return assumption of 6.75%. The five-year return for the Strategic Target Allocation Index was 8.66%.



Asset Class Performance

How Did TMRS' Asset Classes Perform Relative to Their Respective Benchmarks?

TMRS' Asset Class relative performance was mixed for the first quarter of 2022.

- Relative Outperformers – Three of the seven Asset Classes matched or exceeded their benchmarks, net of fees, in the quarter. Non-Core Fixed Income and Private Equity were the top relative performers, beating their custom benchmarks by 262 and 139 basis points, respectively.
- Relative Underperformers – Hedge Funds and Real Estate were the primary detractors in the first quarter, trailing their custom indices by 288 and 220 basis points, respectively. OPFM and Total Equity also trailed their primary benchmarks by 154 and 64 basis points, respectively.

The Investment Policy Statement performance expectations for each Asset Class performance is to meet or exceed their respective benchmarks over rolling five-year periods. As shown below, five of the seven asset classes outperformed their respective benchmarks for the 5-year period. Total Equity trailed its custom benchmark by 73 basis points and Other Public & Private Markets trailed its custom benchmark by 29 basis points.

TMRS Composite Objectives - Policy Benchmarks				
Objective: Meet or exceed its policy benchmark performance net of fees over rolling five year periods.				
TMRS Composites	Benchmark	5 Year Composite Return	5 Year Benchmark Return	Meets Objective
Total Equity	Total Equity Benchmark	10.76	11.49	No
Core Fixed Income	Bloomberg US Agg Bond Index	2.48	2.14	Yes
Non-Core Fixed Income	Non-Core Fixed Income Benchmark	5.17	4.16	Yes
Other Public & Private Markets	OPFM Benchmark	5.73	6.02	No
Real Estate	NCREIF ODCE Index	9.30	8.55	Yes
Hedge Funds	Hedge Funds Benchmark	5.20	5.02	Yes
Private Equity	Private Equity Benchmark	23.48	20.62	Yes

Performance shown is net of fees. Please see the Addendum for custom benchmark definitions.

Asset Class Performance

	Allocation		Performance (%)									
	Market Value (\$)	%	Quarter	CYTD	1 Year	3 Years	5 Years	7 Years	10 Years	15 Years	Since Incep.	Inception Date
Total Fund	37,042,143,181	100.00	-1.73	-1.73	7.84	8.57	7.73	6.79	6.94	6.80	8.41	01/01/1989
Actual Allocation Benchmark			-1.46	-1.46	7.17	8.53	7.58	6.60	6.76	6.55	7.90	
Difference			-0.27	-0.27	0.67	0.04	0.15	0.19	0.18	0.25	0.51	
Total Equity	13,194,842,770	35.62	-6.11	-6.11	5.60	12.47	10.76	9.36	10.11	N/A	7.02	02/01/2008
Total Equity Benchmark			-5.47	-5.47	6.30	13.49	11.49	9.88	10.44	N/A	7.22	
Difference			-0.64	-0.64	-0.70	-1.02	-0.73	-0.52	-0.33	N/A	-0.20	
Core Fixed Income	1,840,615,592	4.97	-5.91	-5.91	-3.92	2.05	2.48	2.16	2.47	3.67	6.97	01/01/1989
Fixed Income Benchmark			-5.93	-5.93	-4.15	1.69	2.14	1.87	2.24	3.40	6.45	
Difference			0.02	0.02	0.23	0.36	0.34	0.29	0.23	0.27	0.52	
Non-Core Fixed Income	7,477,820,761	20.19	0.09	0.09	3.56	5.13	5.17	4.65	N/A	N/A	4.60	10/01/2014
Non-Core Fixed Income Benchmark			-2.53	-2.53	1.14	4.05	4.16	3.57	N/A	N/A	3.66	
Difference			2.62	2.62	2.42	1.08	1.01	1.08	N/A	N/A	0.94	
OPPM	3,947,427,669	10.66	-2.06	-2.06	7.52	6.54	5.73	4.49	3.84	N/A	4.31	02/01/2011
OPPM Benchmark			-0.52	-0.52	10.09	6.75	6.02	5.07	3.74	4.66	4.46	
Difference			-1.54	-1.54	-2.57	-0.21	-0.29	-0.58	0.10	N/A	-0.15	
Real Estate	4,470,584,978	12.07	5.46	5.46	20.83	8.68	9.30	10.11	10.79	N/A	10.51	01/01/2012
Real Estate Benchmark			7.66	7.66	21.28	8.94	8.55	9.47	10.36	6.72	10.41	
Difference			-2.20	-2.20	-0.45	-0.26	0.75	0.64	0.43	N/A	0.10	
Hedge Funds	2,830,743,780	7.64	-1.57	-1.57	0.41	4.94	5.20	4.71	N/A	N/A	4.39	08/01/2014
Hedge Funds Benchmark			1.31	1.31	3.40	6.65	5.02	3.54	4.10	2.56	3.69	
Difference			-2.88	-2.88	-2.99	-1.71	0.18	1.17	N/A	N/A	0.70	
Private Equity	3,088,596,809	8.34	7.49	7.49	40.85	27.02	23.48	N/A	N/A	N/A	19.19	01/01/2016
Private Equity Benchmark			6.10	6.10	25.32	22.17	20.62	N/A	N/A	N/A	16.99	
Difference			1.39	1.39	15.53	4.85	2.86	N/A	N/A	N/A	2.20	
TMRS Unallocated Cash	191,510,821	0.52	0.03	0.03	0.05	0.73	1.01	0.91	0.69	N/A	0.59	06/01/2008
FTSE 30 Day T-Bill Index			0.01	0.01	0.04	0.70	1.04	0.79	0.56	0.70	0.47	
Difference			0.02	0.02	0.01	0.03	-0.03	0.12	0.13	N/A	0.12	

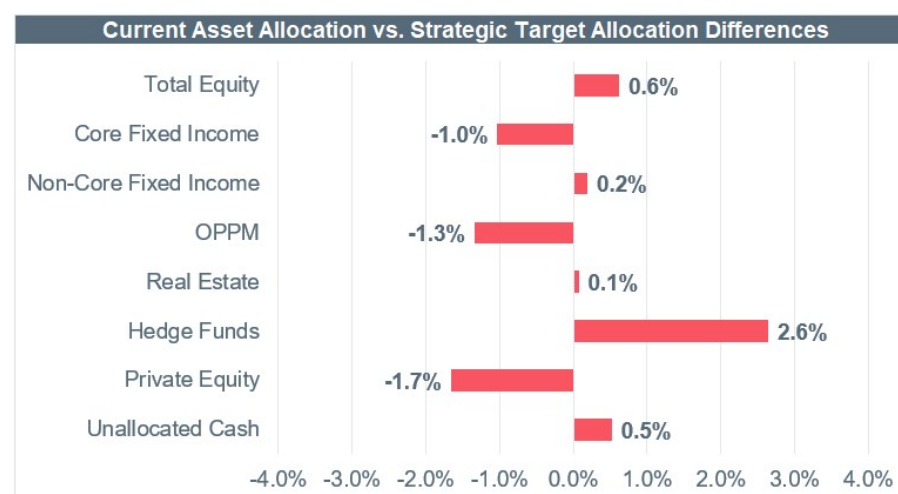
Performance shown is net of fees. Please see the Addendum for custom benchmark definitions.

Asset Allocation Relative to Target

How Is TMRS Positioned Relative to the Board's Strategic Target Allocation?

The Total Fund market value was \$37.0 billion as of March 31, 2022, a decrease of approximately \$737 million for the calendar year to date. All asset classes were within their respective Strategic Target Asset Allocation ranges as of quarter-end.

	Market Value (\$)	Current (%)	Target (%)	Minimum Allocation (%)	Maximum Allocation (%)
Total Fund	37,042,143,181	100.0	100.0	-	-
Total Equity	13,194,842,770	35.6	35.0	25.0	45.0
Core Fixed Income	1,840,615,592	5.0	6.0	1.0	11.0
Non-Core Fixed Income	7,477,820,761	20.2	20.0	15.0	25.0
OPPM	3,947,427,669	10.7	12.0	7.0	17.0
Real Estate	4,470,584,978	12.1	12.0	7.0	17.0
Hedge Funds	2,830,743,780	7.6	5.0	0.0	10.0
Private Equity	3,088,596,809	8.3	10.0	5.0	15.0
Unallocated Cash	191,510,821	0.5	0.0	0.0	3.0



Addendum

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
- OPPM Benchmark
- Real Estate Benchmark
- Hedge Funds Benchmark
- Private Equity Benchmark
- FTSE 30 Day T-Bill Index

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

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

Asset Class Composite Benchmarks:

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

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

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

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

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

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

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

PORTLAND

BOISE

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May 17, 2022

To: Board of Trustees

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

Re: Item 10 – Report on Audit Committee Meeting and Consider and Act on Appointment of an Internal Auditor

Committee members Bill Philibert (Chair) and David Landis (Vice Chair) held a virtual Committee meeting on May 13.

Recently Completed Internal Audit Report. The Committee received the *Confidential Audit of Investment Due Diligence* report, which was included in the 2022 *Audit Plan* based on Trustee Scott's recommendation. The objective was to determine if investment staff's due diligence efforts prior to recommending investments complied with the Investment department's due diligence process. The audit found the Investment department has a documented process for performing due diligence for new investment, and Internal Audit's testing confirmed compliance with the process with no exceptions. The report is available in Diligent.

Appointment of Internal Auditor. I provided the Committee with information on the selection process as shown below.

Applicant Pool for Director of Internal Audit			
Applicants	Screening (% of Applicants that Met Minimum Qualifications)	First Interview (% of Qualified Applicants Interviewed)	Second Interview with Executive Director (% of Qualified Applicants Interviewed)
19	12 or 63%	5 or 42%	3 or 25%

The Committee interviewed the top candidate and voted unanimously to recommend them to the Board.

RECOMMENDATION

The Audit Committee recommends that the applicant be appointed Director of Internal Audit at the salary recommended by staff.



May 17, 2022

To: Board of Trustees

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

Re: Agenda Item 11: Review, Consider and Act on Board's Fiduciary Counsel

Bob Klausner has been the Board's fiduciary counsel since 1999. TMRS' current contract with Mr. Klausner expires on December 31, 2022. Considering the contract's upcoming expiration, now is an appropriate time for the Board to evaluate Mr. Klausner's services.

Texas Municipal Retirement System

The Role of Fiduciary Counsel

Robert D. Klausner, Esq.
TMRS Fiduciary Counsel since 1999

- Practicing Public Employee Retirement Law for 45 Years
- Licensed in Texas, Florida, Wisconsin and multiple federal courts
- Successfully argued only public pension case in the last 40 years in U.S. Supreme Court – Ky. Retirement vs. EEOC
- Author of two books on state and local government employment and pension law.
- Advisor to more than 200 state and local plans, governments and legislatures

What is the Role of Fiduciary Counsel?

- Advisor to the Board on Ethics and Fiduciary Duty
- Provide education to Trustees and staff
- Analyze potential liability matters and recommend risk avoidance strategy
- Provide a national perspective on strategic pension management
- Be an independent advisor on statutory and constitutional duties

How Do I View My Role for TMRS?

- Counselor on System issues with potential legal consequences
- Advisor to the Trustees and Executive Director on their respective roles
- Consultant to TMRS Chief Legal Officer and her team on matters with potential consequences under Texas Constitution and Texas Trust Law
- Source of TMRS institutional knowledge

What Do I See as the Road Ahead?

- Public pensions will continue to be a source of discussion and controversy
- TMRS has demonstrated its ability to be a leader in benefit management
- Continued collaboration among Trustees, advisors, and staff is critical to the TMRS mission
- Having the continued opportunity to serve this important mission for so many dedicated Texas public servants is a singular professional honor

Thank you for your trust and confidence

I look forward to continuing our work together