



AGENDA

Meeting of the Board of Trustees

Thursday, September 22, 2022 – 8:30 a.m.

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

Zoom Link for Public:

<https://tmrs.zoom.us/j/85705735572?pwd=OGdQZ2l3ak00akVTMERDUGluZ1FNZz09>

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

Call to Order

Invocation

Pledge of Allegiance

Consent Agenda

- 1. [Consider and Act on Consent Agenda.](#) Jesús Garza**
 - a. Approve Minutes from the June 23, 2022 Board of Trustees meeting
 - b. Quarterly Confirmation of Member Retirements
 - c. Quarterly Confirmation of Supplemental Death Benefit Payments and Grants of Extended Supplemental Death Benefits Coverage
 - d. Receive Quarterly Financial Statements as of June 30, 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

Executive Director Reports

2. [Executive Director's Report.](#) *David Wescoe*
3. [Receive Senior Staff Quarterly Reports.](#) Chief Administrative Officer (*Sandra Vice*), Chief Legal Officer (*Christine Sweeney*), Chief Service Officer (*Michelle Krane*), and Director of Governmental Relations (*Dan Wattles*)
4. **Receive Update Concerning Sale of the TMRS 1200 North Interstate 35 Building.** *David Wescoe and Eddie Schultz*

Budget and Compensation Committee Reports

5. [Report on Budget and Compensation Committee Meeting.](#) *Sandra Vice and Rhonda Covarrubias*
6. [Discuss 2023 Draft Operating, Capital and PASMod Program Budgets.](#) *Rhonda Covarrubias and Candace Nolte*

Investment Reports

7. [Chief Investment Officer's Reports.](#) *David Hunter*
 - a. CIO Report
 - b. Trust Fund Report: Second Quarter 2022
 - c. Receive 2022 Annual Completed Investments Report
8. [Report on IPS Committee Meetings.](#) *Bob Scott, Anali Alanis, and David Hunter*
9. [Receive Second Quarter 2022 Investment Compliance Report.](#) *Michele Fullon*
10. [Consider and Act on Non-Core Fixed Income Manager Recommendation.](#) *Darren Schulz*
11. [Board Education: Private Equity Asset Class.](#) *Tom Masthay and Josh Garcia*
12. [General Investment Consultant Quarterly Report.](#) *Marcia Beard, RVK*
13. [General Investment Consultant Report.](#) *Sam Austin, NEPC*

Strategic Planning

14. **Discuss Strategic Plan Process and Possible Goals.** *David Wescoe and Greg Carpenter*

Executive Session

15. **Executive Session.** *Jesús Garza*

- a. 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, employment, evaluation, compensation, performance, reassignment, duties, discipline, selection or dismissal of one or more public officers or employees, including without limitation, the Executive Director, the Internal Auditor and Chief Legal Officer, and thereafter may consider appropriate action in open session;
- b. 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 or 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;
- c. 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

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

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


Adjournment

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



September 13, 2022

To: Board of Trustees

From: Christine M. Sweeney, Chief Legal Officer 

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

The Consent Agenda includes Minutes from the June 23, 2022 Board meeting, quarterly reports on service retirements, disability retirements, death benefits, and financial statements as of June 30, 2022. 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 June 23, 2022 Board meeting
- 2 - Retirement and Supplemental Death Benefit Reports
(summary report attached; detailed report in Diligent Resource Center due to confidential information)
- 3 - Financial Statements (in Diligent Board Books)



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

June 23, 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 the following Trustees present: Chair Jesús Garza, Vice Chair Bob Scott, Anali Alanis, Johnny Huizar, David Landis, and Bill Philibert.

Staff and consultants present included: David Wescoe (Executive Director), Michelle Kranes (Chief Service Officer), Christine Sweeney (Chief Legal Officer), David Hunter (Chief Investment Officer), Rhonda Covarrubias (Director of Finance), Tom Masthay (Deputy Chief Investment Officer), Michele Fullon (Investment Compliance Officer), Eddie Schultz (Senior Managing Director), Jacob Bowland (Senior Portfolio Manager), Brittany Smith (CLA - Via Zoom), Bill Early (CLA – Via Zoom) and Marcia Beard (RVK – Via Zoom).

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

Consent Agenda

1. Consider and Act on Consent Agenda.

Mr. Scott moved that the Board adopt the Consent Agenda, including but not limited to the Minutes from the May 26, 2022, meeting. Mr. Landis seconded the motion, which passed 6-0.

Executive Director Reports

2. Executive Director's Report.

Mr. Wescoe introduced Mike Apperley as TMRS' new Director of Internal Audit and discussed Mr. Apperley's experience with the Comptroller of Texas and other state agencies. Mr. Wescoe reported that the TMRS call center, managed by April Hernandez, recorded its best service statistics ever with an average call wait time of five seconds. He also recognized Jennifer Andrews and the city contributions team, which reported, for the first time in TMRS history, no late contributions from all TMRS cities in April and May. Mr. Wescoe played a recording of a phone call from John Rudd, HR Director with the City of Converse, recognizing Kitty Tom, City Contributions Analyst, for her customer service. Mr. Wescoe quoted Mr. Scott as saying customer service starts with the first phone call, and feedback on customer service from these teams is very positive. Mr. Wescoe said staff made presentations at conferences held by various organizations, including the Texas Association of Municipal Information Officers and the Texas City

Management Association, and he had addressed a global investors annual meeting in New York City. For the first time, TMRS investment returns, for 2021, will be certified as compliant with the CFA Institute Global Investment Performance Standards (GIPS). TMRS is the first retirement system in Texas to comply with this standard, and only three of State Street's top 20 clients meet this gold standard for reporting investment performance.

3. Receive Senior Staff Quarterly Reports.

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

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

There was nothing to report on this item now.

Legal Report

5. Consider and Act on Matters Regarding City of Grand Prairie Pension Obligation Bonds.

Ms. Sweeney said that the City of Grand Prairie approached TMRS about issuing pension obligation bonds to pay down the City's unfunded actuarial accrued liability (UAAL). Texas law allows for cities to issue these bonds and requires that the City and the TMRS Board enter into an agreement containing certain information. The Office of the Attorney General reviews the bond documents and authorizes the bond issuance. On June 7, Grand Prairie's City Council approved a resolution authorizing the agreement with TMRS. On June 21, the City Council adopted an ordinance authorizing issuance of the pension bonds. Ms. Sweeney said that TMRS rules allow a city to make additional contributions if the Executive Director determines that the additional contributions will result in no administrative or investment burden on TMRS, and that Mr. Wescoe and Mr. Hunter had confirmed the additional contributions proposed by the City would not result in such burdens for TMRS. The City intends to use the bond proceeds to make a lump sum payment to TMRS of approximately \$67 million before mid-October, and the remaining bond proceeds will be placed in escrow to pay a portion of their city contributions for the rest of 2022 and for 2023. Bond counsel for the City expects Attorney General approval and pricing of the bonds in August.

Ms. Alanis moved that the Board approve the Agreement Regarding City Pension Obligation Bonds ("Agreement") and the Certificate of Authority and Resolution (the "Certificate") in substantially the form presented; authorize the Board Chair to negotiate, execute, acknowledge and deliver the Agreement by and on behalf of the Board; and authorize the Executive Director to negotiate, execute, acknowledge and deliver the Certificate by and on behalf of the System; with such modifications or amendments to the Agreement or Certificate as are satisfactory to the Board Chair or Executive Director, respectively, such satisfactory terms and conditions to be conclusively evidenced by the execution thereof by the Board Chair and the Executive Director, respectively. Mr. Landis seconded the motion, which passed 6-0.

Finance Reports

6. Receive 2021 Financial Statement and the Schedule of Changes in Fiduciary Net Position by Participating City Audit Results.

Ms. Covarrubias introduced Bill Early and Brittany Smith from auditing firm CLA (CliftonLarsonAllen LLP) for presentation of Agenda Items 6, 7 and 8. Mr. Early commended TMRS staff for its responsiveness to CLA in support of the audits. Ms. Smith said that CLA provided TMRS with the highest level of opinion – an unmodified “clean” opinion – that the TMRS financial statements are presented fairly in conformity with U.S. Generally Accepted Accounting Principles (GAAP). The same level of opinion was provided, she said, for the Schedule of Changes in Fiduciary Net Position, including an “in relation to” opinion on the Schedule’s information for each participating city.

7. Receive System and Organization Controls (SOC) Audit Results.

Ms. Smith said that CLA provided the highest level of opinion – an unmodified “clean” opinion – on the System Organization and Controls (SOC) Report. She said that TMRS should take pride in that no exceptions were noted for the 10 control objectives that were tested by CLA.

8. Receive Required Auditor Communications to the Board of Trustees.

Ms. Smith presented required auditor communications to the Board that:

- CLA’s responsibility is to review TMRS financial statements under Generally Accepted Auditing Standards (GAAS) but not to prepare the ACFR,
- no new accounting standards were implemented for this ACFR,
- no new or passed audit adjustments were noted,
- key management estimates were for the valuation of alternative investments,
- management was cooperative during the audit,
- no significant unusual transactions were noted, and
- areas of significant risk were considered, which areas included management override, valuation of alternative investments and existence of alternative investments.

Ms. Smith said that CLA had no disagreements with management, no difficulties were encountered during the audit, management did not consult other accounting firms on application of GAAP or GAAS, no major issues were discussed with management prior to retention of CLA, and management gave CLA representation letters that all documents were provided.

Mr. Landis asked Ms. Covarrubias if TMRS typically gets through audits without any adjustments, and she said typically yes. Mr. Scott asked if the Statement of Changes in Fiduciary Net Position by City is complete, and Ms. Smith confirmed that. Mr. Scott asked if TMRS is following the American Institute of Certified Public Accountants guidelines, and Mr. Early confirmed that.

9. Receive and Approve Distribution of 2021 Annual Comprehensive Financial Report.

Ms. Covarrubias said that the 2020 Annual Comprehensive Financial Report (ACFR) received the Government Finance Officers Association's certificate of achievement for excellence in financial reporting, and that was the 34th consecutive year that TMRS received the award. The 2021 ACFR will be proposed for the same award. She provided highlights from the 2021 ACFR, including that TMRS:

- has a 90.5% composite funded ratio,
- paid \$1.6 billion in retirement benefits, an increase of 6.5% from the prior year,
- collected \$1.1 billion in city and \$492 million in active member contributions,
- reached 212,727 total Members, of which half are contributing members, about 14% are non-contributing members, and the remainder are retirees, and
- reached 901 participating cities.

Mr. Garza asked if the 6.5% increase in benefits paid was normal. Mr. Covarrubias said it was normal for a maturing system like TMRS. She added that the prior year had a similar percentage increase in benefits paid. Ms. Covarrubias described the sections of the ACFR: financial, investment, actuarial, and statistical. She said that staff recommends that the Board approve the distribution of the ACFR for the year ended December 31, 2021.

Mr. Huizar moved that the Board approve distribution of the 2021 Annual Comprehensive Financial Report. Mr. Philibert seconded the motion, which passed 6-0.

Investment Reports

10. Chief Investment Officer's Report.

Mr. Hunter said the 2021 net return for TMRS was 12.86%, exceeding both the asset allocation benchmark of 12.23% and the actuarial return assumption of 6.75%. The return resulted from the Investments team hitting and exceeding its benchmarks. The returns were reported for the first time in compliance with the GIPS standards after an independent review. TMRS signed a contract with new General Investment Consultant NEPC effective July 1. RVK will continue to work through a transition period until September 30. Mr. Hunter said vacancies have been filled for Investment Director, Senior Portfolio Manager and Portfolio Manager, resulting in a fully staffed department.

Mr. Hunter provided the Trust Fund Report for the first quarter of 2022 and said investments were increasingly in line with targets for asset classes. One- and five-year returns that exceeded benchmarks were led by private equity and global equity leading returns. The one-year return exceeded its benchmark by 0.65%. He discussed how moving investments from Core Fixed Income to Non-Core Fixed Income had a positive effect with interest rates rising in the last year. In regard to asset class strategic initiatives, Investments is working to address benchmark mismatches by reducing underweight to U.S. large cap stocks and reducing overweight to small cap stocks. Mr. Garza asked what contributes to the misalignment. Mr. Hunter said that when TMRS changed managers in the past, it would affect the allocations not only by geography but by value versus growth strategies and capitalization size. He said another strategic initiative for

Investments was expanding existing partnerships, and two new investments with existing managers will be presented today to the Board. Mr. Hunter presented a summary of the Trust Fund standard deviation risk analysis, which he said is in line with the benchmark's risk levels and the assumption from the most recent asset allocation study. Regarding Investments activity, he said private market pacing is on schedule for Real Estate and Public Equity but will take more time for Other Public & Private Markets and Private Non-Core Fixed Income. In five-and-a-half months of this year, Investments was able to close \$2 billion in new private market commitments.

Mr. Philibert complimented Investments staff based on the work he saw while attending at a recent Staff Investment Committee meeting. Mr. Scott said that other trustees are welcome to those meetings. Mr. Hunter said that virtual access to those meetings can be provided for trustees.

11. Report on IPS Committee Meetings.

Ms. Alanis reported on her work with Mr. Scott and staff in reviewing the Investment Policy Statement. The goal, she said, is to provide clarity and simplify the framework for the IPS. The Committee hopes to present a final draft for Board review by the September meeting. Mr. Scott said working with the Committee has been a great education process, and he hoped it provided staff with a better feel for Trustees' perspectives on policy without being too technical or providing staff a long list of things they can or cannot do. Mr. Hunter thanked Ms. Alanis and Mr. Scott for their work on the Committee.

12. Receive First Quarter Investment Compliance Report.

Ms. Fullon reported that more than 2000 tests were run for TMRS investment managers, and all testing confirmed compliance with all IPS guidelines during the first quarter. Staff also worked with State Street Bank to review existing tests for IPS compliance thresholds, and 11 new automated tests were added to State Street compliance procedures.

13. Consider and Act on Real Estate Manager Recommendation.

Mr. Schultz said that staff and TMRS' investment consultant Albourne recommend a new commitment of \$200 million to Abacus, one of the longest standing and highest performing managers for TMRS. While a commitment under \$250 million normally would not need Board approval, this commitment is in addition to TMRS' existing investment of \$214 million in the fund. Mr. Garza asked if bringing this item to the Board would be clear under the new draft of the IPS, and Mr. Masthay said it would. Mr. Schultz reviewed the due diligence process for this investment. Abacus has been a manager for TMRS for more than 10 years, he said, with investments across multiple fund lines. Its focus is on multi-family properties like apartments that are garden-type apartments but not high rises. Abacus is not a developer itself but buys existing properties and manages them. TMRS has been invested since 2013 in this fund as a fund of one. Mr. Garza asked how many fund-of-one structures TMRS has. Mr. Schultz said that, within Real Estate, TMRS has three out of more than 30 fund investments. Mr. Garza and Mr. Schultz discussed management, liquidation and veto issues within a fund-of-one.

Mr. Philibert moved that the Board:

- (i) authorize the following allocations, each as proposed and in accordance with the IPS, with an initial investment allocation up to the amount set out below and at fees no greater than presented in the TMRS Staff Memo to Board, each individually contingent on favorable background checks, if required below, and successful negotiation of the investment agreements: and

Name of Investment Manager, Investment Fund, or Fund Strategy	Asset Class Strategy	Initial Investment Allocation	Background Check Required (Yes or No)
Abacus Core Income Fund I LP	Real Estate / Core+	\$200M	Yes

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

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

14. Consider and Act on Non-Core Fixed Income Manager Recommendation.

Mr. Bowland said that staff and Albourne recommend new commitments to Pemberton Strategic Credit Fund III of \$250 million and a \$50 million co-investment. Pemberton is a European credit manager recognized for its strong and independent sourcing and underwriting capabilities. It provides capital solutions with certainty of execution and quick turnaround in a market sector that is less competitive, so investment with this manager offer higher rates of return without additional risk. TMRS previously invested \$250 million with Pemberton in its Strategic Credit Fund II in 2021. Founded in 2013, Pemberton is among the top 3 private lenders in Europe.

Mr. Garza asked if this investment will be in a commingled fund rather than a fund-of-one, and Mr. Bowland said it would be a commingled fund with an estimated number of limited partners in the range of 20 to 30. Mr. Bowland said that this would be TMRS' first private credit commitment in 2022, if approved, but would keep TMRS on target for its private credit pacing plan for the year.

Mr. Landis moved that the Board:

- (i) authorize the following allocations, each as proposed and in accordance with the IPS, with an initial investment allocation up to the amount set out below and at fees no greater than presented in the TMRS Staff Memo to Board, each individually contingent on favorable background checks, if required below, and successful negotiation of the investment agreements: and

Name of Investment Manager, Investment Fund, or Fund Strategy	Asset Class Strategy	Initial Investment Allocation	Background Check Required (Yes or No)
Pemberton Strategic Credit Fund III	NCFI / Direct Lending	\$250M	Yes
Pemberton SCF II Co-Invest Vehicle	NCFI / Direct Lending	\$50M	Yes

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

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

15. General Investment Consultant Report.

Ms. Beard said that as of March 31, 2022, the TMRS Trust Fund was down by 1.73%. Relative to the marketplace, TMRS' performance was strong, as the median for other plans was down 3.6%. Since the end of the first quarter, all equity indices were down dramatically, and the current quarter has been hard on equities as well as on fixed income in the rising interest rate environment while only sparing commodities. She said that the Treasury Yield Curve has inverted slightly for short periods of time causing talk about a recession. She said TMRS Investments reports for the second quarter will be negative but not as negative as for peers as TMRS' risk allocation is helping.

Board Education

16. Board Education: Private Markets – Real Estate and Other Public and Private Markets.

Mr. Schultz presented an education session for the Board with an annual review of Real Estate and Other Public & Private Market (OPPM) asset classes. He said Real Estate is one of the best diversification strategies and provides strong income so it is a big part of TMRS' allocations. Core Real Estate involves buying and holding properties, while Non-Core looks at other strategies like buying, fixing and selling. The TMRS portfolio is at least 50% Core with a current goal of about 65% Core. Because of the sell-off in equities markets, Real Estate is now about 12% of the TMRS fund. Real Estate investments are primarily in the U.S. and tilted toward high growth cities. Returns have been record-breaking in the last three quarters. After committing \$800 million to this class in 2021, TMRS is looking to commit \$750 million to this sector in 2022.

Mr. Landis asked about the benchmark for Real Estate. Mr. Schultz said TMRS uses NCREIF-ODCE, a third-party service provider that aggregates Core, big open-ended real estate funds of institutional investors and that has been publishing its benchmark since 1978.

Mr. Schultz said OPPM's primary purpose is to enhance return and provide diversification. The class benchmark was shifted to the same benchmark as for global Public Equity because this class is intended to build on the return from Global Public Equity. Mr. Schultz said that investment returns are driven by the stock market or economic activity, and while equities follow the stock market, OPPM invests in things correlated to economic activity like planes taking off, homes being built or burgers being flipped. He said that RVK broke down this class into categories of infrastructure, natural resources and other, with the last category including royalties and strategic finance. This class provides TMRS investments unrelated to the stock market that provide defensive strategies from cash-flow structures like infrastructure investments. The portfolio currently is about 50% in infrastructure with about 60% in private assets and a goal of reaching 100% private assets. About 70% of this class's investments are in the United States or Canada.

Mr. Garza asked how long it will take TMRS to reach 100% private assets in this class. Mr. Schultz said two to three years depending on how quickly TMRS can get its managers to put capital commitments to work. Mr. Philibert asked whether a recession would affect the transition to private assets, and Mr. Schultz said it would not because public markets are more affected by a recession because they have shorter return perspectives. Mr. Schultz said TMRS put \$1.2 billion to work in this asset class in 2021, and for this year TMRS expects to put \$1.5 billion to work.

Mr. Scott left the meeting.

Strategic Planning

17. Discuss Strategic Plan Update and Future Planning Process.

Mr. Wescoe reviewed six prior topics included in each TMRS strategic plan since 2011:

- customer service and communications,
- organizational culture,
- governance,
- financial,
- investment, and
- legislative.

Mr. Wescoe said these topics are fundamental to what TMRS does and made sense to review again. Some of these topics have been the subject of significant accomplishments. Mr. Wescoe suggested possible new topics of technology and cybersecurity, and operations, including recruiting more participating cities. He discussed logistics for a two-day retreat for strategic planning.

Executive Session

18. Executive Session.

The Board went into Executive Session at 11:20 a.m. The meeting reconvened in Open Meeting at 1:22 p.m. No action was taken during the Executive Session. Mr. Landis noted that Mr. Garza and Mr. Scott were no longer in the meeting.

Future Board Agenda Items

19. Call for Future Agenda Items.

There were no future agenda items. There being no further business, Mr. Philibert moved at 1:23 p.m. that the meeting adjourn. Ms. Alanis seconded the motion, which passed 4-0.

David B. Wescoe
Executive Director

Jesús A. Garza
Chair, Board of Trustees



September 13, 2022

To: Board of Trustees

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

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

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

Board Retirement Report

Summary of Individual Member Retirements Processed from 05-2022 to 06-2022

Total Number of Retirements by Option	Service	Disability	Total
Retiree Life Only	234	2	236
Retiree Life -- 100% to Survivor	239	2	241
Retiree Life -- 75% to Survivor	46	0	46
Retiree Life -- 50% to Survivor	113	1	114
Retiree Life -- 5 Years Guaranteed	13	0	13
Retiree Life -- 10 Years Guaranteed	14	0	14
Retiree Life -- 15 Years Guaranteed	41	1	42
Cashout of Reserves	13	1	14
Total Number -- All Options	713	7	720

Total Monthly Benefits (Nearest Dollar)	\$1,544,642	\$4,421	\$1,549,064
Average Monthly Benefit (Nearest Dollar)	\$2,166	\$632	\$2,151
Average Age at Retirement	59	52	59
Average Years of Service at Retirement	21	12	21

Partial Lump Sum Distributions	
No. of Retirements Taking a PLSD	521
Total Amount Paid	\$36,846,464
% of PLSD Funds Rolled Over	61%
% of PLSD Funds Not Rolled Over	39%

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

**Summary of Supplemental Death Benefit Payments and Applications for Supplemental
Death Benefits Extended Coverage from June 1, 2022 to June 30, 2022**

Supplemental Death Benefit Payments	
By Beneficiaries of Active Members	12 payments totaling \$633,692.22
By Beneficiaries of Retired Members	81 payments totaling \$549,375.00
Applications for Supplemental Death Benefits Extended Coverage	
None	

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

	<u>6/30/2022</u>	<u>6/30/2021</u>
ASSETS		
Cash	\$ 24,505,311	\$ 103,246,436
Receivables:		
Contributions	115,308,522	104,218,563
Interest and dividends	24,788,696	40,658,693
Investment trades	187,547,067	642,053,478
Total receivables	<u>327,644,285</u>	<u>786,930,734</u>
Investments, at fair value:		
Short-term investments	340,456,152	1,114,238,197
Derivative contracts	1,036,896	449,425
Fixed income securities	2,866,872,259	5,484,560,320
Inflation-linked bonds	36,532,625	491,177,451
Global public equities	11,305,131,067	12,784,149,247
REITs	46,503,088	351,045,925
Non-core fixed income funds	5,928,398,614	5,186,614,101
Other public & private markets funds	3,836,641,481	2,483,228,566
Hedge funds	2,720,124,623	3,499,625,148
Private equity funds	3,404,212,709	1,905,372,730
Real estate funds	4,348,704,429	3,237,158,647
Total investments	<u>34,834,613,943</u>	<u>36,537,619,757</u>
Total assets	35,186,763,539	37,427,796,927
LIABILITIES		
Investment trades payable	282,696,672	1,238,730,749
Accrued investment management fees	5,777,359	8,477,641
Accounts payable and other accrued liabilities	<u>32,905,696</u>	<u>34,204,126</u>
Total liabilities	321,379,727	1,281,412,516
FIDUCIARY NET POSITION		
Restricted for pensions	34,862,166,322	36,138,674,478
Held in trust for other benefits	<u>3,217,490</u>	<u>7,709,933</u>
Total fiduciary net position	<u>\$ 34,865,383,812</u>	<u>\$ 36,146,384,411</u>

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

	<u>2022</u>	<u>2021</u>
ADDITIONS		
Contributions:		
Pension plan - cities	\$ 502,909,202	\$ 478,852,142
Pension plan - Member	249,740,852	232,786,627
Supplemental death benefits plan - cities	5,265,813	5,023,004
Total contributions	<u>757,915,867</u>	<u>716,661,773</u>
Net investment income/(loss):		
Net appreciation/(depreciation) in fair value of investments	(3,722,425,002)	1,802,966,407
Interest and dividends	242,810,855	260,796,268
Total investment income/(loss)	<u>(3,479,614,147)</u>	<u>2,063,762,675</u>
Less: investment manager fees/transaction costs	(10,667,687)	(15,440,044)
Net investment income/(loss)	<u>(3,490,281,834)</u>	<u>2,048,322,631</u>
Other miscellaneous	20,441	13,379
Total additions	<u>(2,732,345,526)</u>	<u>2,764,997,783</u>
DEDUCTIONS		
Benefit payments:		
Service retirement	755,901,650	706,579,566
Disability retirement	8,617,162	8,612,661
Partial lump-sum distributions	142,581,738	111,951,427
Supplemental death benefits	7,863,806	9,904,448
Total benefit payments	<u>914,964,356</u>	<u>837,048,102</u>
Member account refunds	38,162,251	29,867,233
Budget transfer and other	33,091,851	34,495,173
Total deductions	<u>986,218,458</u>	<u>901,410,508</u>
CHANGE IN FIDUCIARY NET POSITION	(3,718,563,984)	1,863,587,275
FIDUCIARY NET POSITION		
Restricted for pensions:		
Beginning of year	38,578,132,313	34,270,205,759
End of year	<u>\$ 34,862,166,322</u>	<u>\$ 36,138,674,478</u>
Held in trust for other benefits:		
Beginning of year	5,815,483	12,591,377
End of year	<u>\$ 3,217,490</u>	<u>\$ 7,709,933</u>

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

ASSETS

Cash	\$ 6,784
Accounts receivable and other assets	4,550,422
Due from trust fund	32,705,255
Land	254,388
Building and improvements, net	8,133,499
Furniture and equipment, net	<u>1,267,400</u>
 Total assets	 <u><u>\$ 46,917,748</u></u>

LIABILITIES

Accounts payable & accrued expenses	\$ 11,055,380
Accrued leave liability	<u>4,499,670</u>
 Total liabilities	 15,555,050

RESERVES AND FUND BALANCES

Reserve for administrative expenses	14,124,814
Net receipts over disbursements:	
Revenue	33,101,262
Expenses	<u>(15,863,378)</u>
 Total reserves and fund balances	 <u><u>31,362,698</u></u>
 Total liabilities, reserves and fund balances	 <u><u>\$ 46,917,748</u></u>

TEXAS MUNICIPAL RETIREMENT SYSTEM
EXPENSE FUND
Schedule of 2022 Operating Expenses
For the Six Months Ending June 30, 2022

	Budget	Actual	Over / (Under)	% used
Personnel services:				
Staff Salaries and payroll taxes	\$16,689,769	7,514,167	\$ (9,175,602)	45.0
Employee benefits	4,074,752	1,775,551	(2,299,201)	43.6
Contract labor / temporary staffing	100,000	41,598	(58,402)	41.6
Total personnel services	20,864,521	9,331,316	(11,533,205)	44.7
Professional services:				
Banking & Custodial	1,553,000	779,095	(773,905)	50.2
Investment Consultants	1,520,347	724,353	(795,994)	47.6
Legal	1,166,500	325,150	(841,350)	27.9
Actuarial	689,300	302,850	(386,450)	43.9
Information Services Consultants	313,100	158,789	(154,311)	50.7
Audit	185,125	55,075	(130,050)	29.8
Other Services	375,200	275,480	(99,720)	73.4
Total Professional Services	5,802,572	2,620,792	(3,181,780)	45.2
Facilities	2,878,905	1,438,123	(1,440,782)	50.0
Information Technology:				
Cloud Hosted Services	2,403,853	1,203,322	(1,200,531)	50.1
Hardware/Software & Support	1,090,475	378,036	(712,439)	34.7
Total Information Technology	3,494,328	1,581,358	(1,912,970)	45.3
Other Administrative:				
City and member outreach	760,735	399,360	(361,375)	52.5
Supplies/document storage/misc.	573,498	252,037	(321,461)	43.9
Travel	541,465	59,452	(482,013)	11.0
Professional development	508,813	137,124	(371,689)	26.9
Board of Trustees / Advisory Committee	130,500	43,816	(86,684)	33.6
Total Other Administrative	2,515,011	891,789	(1,623,222)	35.5
Total Operating Expenses	\$ 35,555,337	15,863,378	(19,691,959)	44.6



September 13, 2022

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

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

Staff has accomplished a lot since we were last together in June.

IH-35 Building Sale. The sale of the 1200 North IH-35 building closed on September 7, and TMRS received \$36,019,096.44 in sale proceeds.

New QDRO Publications Published. In early July, staff completed the revision of TMRS' Qualified Domestic Relations Order (QDRO) publication. All agreed the former edition was not as helpful to Members as it should be, so Christine Sweeney led a team to revise it. The new version is now two documents, one for divorce before retirement and one for divorce after retirement. In addition, four new forms were prepared to assist Members and their legal counsel. As Christine noted, "Countless hours and lots of hard 'thinking' work was put into all of these documents." Assistant General Counsel Madison Jechow was instrumental in getting this project to the finish line.

PASMod: City Contribution Reporting Project. The city contribution reporting project is the costliest (\$2.4 million) and most complicated PASMod project. When it's completed later this Fall, it will allow participating cities to report their monthly compensation and contributions directly through a web-based payroll submission program and make electronic payments to TMRS. Director of Member and City Services Jennifer Andrews is leading the project team, and they are doing a great job keeping things on schedule and under budget.

New Online Scheduling Tool Rolled Out. The Member Education Center (MEC) team, with an assist from Information Services staff, recently rolled out an important new Member service tool. For the first time, TMRS has an on-line scheduling tool that allows Members to schedule individual counseling sessions without involving the Call Center. MEC manager Colin Davidson said the new tool "will really provide another level of service to our Members." In addition to counseling Members who book appointments on-line, MEC staff hasn't turned down a Member or city event request this year. They have attended 124 Member and city events (78 in person and 46 virtual) and had more than 5,600 Member interactions.

Member and Retiree Publications Out the Door. *TMRS Times* was mailed to Members, and *RetirementWise* was mailed to retirees. Both publications are on the website.

The TMRS Mobile App is Even Better. Next time you are on the app, you will notice two new icons, increasing functionality significantly.

Staff Public Presentations. TMRS has a talented staff, and many of them recently spoke at important conferences. Eddie Schultz spoke about investing in infrastructure, real assets and technology at the Annual Global Real Assets Investment Forum sponsored by Institutional Investor and the Texas Alternative Investment Association, Michelle Mellon-Werch spoke at the Texas Association of Municipal Information Officers' annual conference, Michelle Kranes updated the Texas City Management Association's Board on TMRS initiatives at TCMA's annual conference, and Christine Sweeney and I both spoke at the 2022 Public Funds Forum. Christine was on a General Counsel's Roundtable discussing Women in Finance, and I spoke on Best Practices in Fund Governance. I will be the Keynote Speaker at the Southwest Investors Annual Meeting later this month in Dallas and at the Texas Local Firefighters Firefighter Act (TLFFA) Education Foundation Annual Educational Conference on October 4.

Texas House Committee on Pensions, Investments, and Financial Services Presentation. On August 25, Dan Wattles and I, along with the other statewide pension executive directors, were at the Texas Capitol where I testified about TMRS' Russian investments. My testimony lasted about five minutes.

Combined Law Enforcement Association of Texas (CLEAT) Event. Earlier this month, Member Service staff attended the 2022 CLEAT Convention and Leadership Academy in Houston. More than 300 CLEAT members, the majority of whom are TMRS Members, attended the event. TMRS Member Education Center staff provided one-on-one counseling on retirement estimates, beneficiary designations, USC projections, COLA inquiries and other time credits. Anthony Mills spoke and thanked the Association for its partnership. TMRS also hosted a reception where staff interacted with more than 200 Members, including TMRS Advisory Committee members Greg Shipley and Scott Leeton. Natalie Garza did a superb job organizing the event.

2022 Annual City Training Conference. With more than 1,000 registrants, this year's City Training Conference smashed all previous TMRS attendance records. More individuals attended this event than any other in TMRS' history. Attendee feedback was immediate and positive:

"We all loved it!! You did such an amazing job!!!!!!"

"I just had to zoom off an email to tell you what an amazing job you did!! I loved every single minute!! I could gush on and on, but I will save it 'till the end. Well done to ALL of you!!"

"I love the new portal and the way the monthly report can be done and the payment. Exciting!!!!"

"Fantastic Annual Conference. Very informational, clear and the platform is the best I've experienced."

I couldn't be prouder of the team that put the Conference together and the quality of each staff presentation.

TMRS Staff News. *Michelle Kranes.* Chief Service Officer Michelle Kranes has been recruited by the Texas County & District Retirement System (TCDRS) to become their Chief Operating Officer, a new position reporting to TCDRS Executive Director Amy Bishop. This is a tremendous opportunity for Michelle, and I am thrilled for her. She has done an excellent job with the Service organization and leaves TMRS in better shape than when she arrived.

Debbie Munoz. With Michelle Kranes' departure, it was an easy decision to promote Debbie Munoz to be TMRS' Chief Service Officer. Debbie has a long and distinguished career with TMRS, and she will be a great CSO.

Jennifer Andrews. Jennifer Andrews, our current Deputy Director of Member and City Services, will become the group's Director, replacing Debbie. Jennifer is an outstanding manager and leader, and TMRS Members and cities will be well served by her.

Rhonda Covarrubias. Just when I learned how to pronounce her last name, Rhonda Covarrubias is retiring. Rhonda has made many contributions to TMRS' successes. She began her career at TMRS in 1994 as an investment accountant, when TMRS had fewer than 30 employees. During the next 28 years, Rhonda has served in many roles, including Controller, Director of Finance and HR, and now Director of Finance. Under Rhonda's leadership, the Finance department earned many accolades and always produced high-quality work. We all will miss her.



September 13, 2022

To: Board of Trustees

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

Re: Agenda Item 3: Third Quarter Administrative Teams Report

The Administrative Team's accomplishments for this quarter provide some examples of how these teams support the mission.

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

- 2023 Operating Budget. Finance worked with department heads to compile 2023 operating budget requests one month earlier than usual to accommodate the October Board Retreat. The draft operating and capital expenditures budgets and the PASMod Program budget were presented to the Board's Budget and Compensation Committee on September 9.
- Annual Comprehensive Financial Report (ACFR) and the Popular Annual Financial Report (PAFR). The Governor, Lt. Governor, Comptroller, Attorney General, the Texas House and Senate, and the Texas Congressional Delegation all received a letter with a link to the ACFR and copy of the PAFR. We submitted the ACFR and PAFR for the year-ended December 31, 2021, to GFOA for their respective award programs.
- City Contribution System. Finance has been working with the internal project team and the hosting vendor to review and test accounting processes and general ledger entries from the soon-to-be completed City Contribution System.
- Employee Payroll. Finance staff calculated employee deductions for ERS benefits for the new plan year and reflected these changes in the September 2 payroll.
- Investment Accounting. We had 227 investment accounts as of June 30. Cash flows activity in the 2nd quarter included 100 distributions totaling \$467.8 million, 110 capital calls totaling \$743.3 million and 8 liquidations totaling \$350.3 million.

- Rhonda to Retire. Rhonda Covarrubias has announced she will retire from TMRS effective September 30: *“It has been my honor and privilege to have worked for such a great organization, with lots of tremendous people. I’m especially grateful for my co-workers on the Finance team!”*

At almost 28-years with TMRS, Rhonda has seen a lot of changes during her tenure. Rhonda participated in implementing the GASB 68 pension reporting standard and oversaw the inaugural System and Organization Controls audit. Under her leadership, the Finance department earned the following distinctions:

- the GFOA Certificate of Achievement for Excellence in Financial Reporting year-after-year (34 consecutive years now)
- the GFOA Award for Outstanding Achievement in Popular Annual Financial Reporting for 16 consecutive years since TMRS started participating
- clean opinions on its annual financial statements

We all thank Rhonda for her service and extend our best wishes.

2. Human Resources. HR activities this period included:

- Employee Engagement. We shared Employee Engagement Survey results with all staff in department meetings held July through August. From these, we are compiling staffs’ suggestions for improving engagement and their ideas for where TMRS as an organization should be in 2025.
- Personnel. From January to September, HR posted 18 positions and has overseen recruitment, interviews, selection, and onboarding of 25 employees. Complete HR Staffing Metrics can be found on the Board Dashboard in the Diligent Resource Center.
- Organization Enhancements. HR partnered with Senior Staff to provide support and counsel for appropriate staffing levels, to better align functions and to build a high-performing and exceptional organizational culture.

3. Information Services. IS activities this period included:

- Replacement of Servers and Storage. The data storage system for TMRS servers was replaced in July without any service interruptions and ahead of schedule. Due to supply chain issues, the replacement servers are delayed and are now expected to ship by the end of September.
- Document Management System Upgrade. We upgraded the document management system for all city, Member and retiree electronic document records (e.g., forms, statements, applications, correspondence and ordinances) to the latest release in July. This upgrade provided software enhancements, and it eliminated dependencies on Microsoft Internet Explorer, which Microsoft no longer supports.

- Remediation of Security Vulnerabilities. Final remediations from the annual security audit were completed in June, ahead of the scheduled completion dates. Routine network and server patching and scans continue on a frequent basis to ensure our systems are up-to-date and secure.
 - Cybersecurity Awareness Training. Software Developers and Information Services employees with the highest level of access to TMRS systems completed supplemental, role-based security awareness training.
- 4. Internal Audit.** The Board appointed Mike Apperley Director of Internal Audit at its May 26 meeting. On June 13, Mike began onboarding and has been busy with audits and assisting management:
- Cybersecurity Audit. Mike is working with Information Services to evaluate the controls around detecting cyber security events at TMRS. This audit is in the planning phase and is scheduled to be completed by year-end.
 - Risk Assessment. Mike kicked off the annual risk assessment process in August that will guide Internal Audit as it develops an audit plan for fiscal years 2023 and 2024. This risk assessment examines the internal and external threats that could prevent TMRS from achieving its objectives, goals and strategies and is a collaborative effort among Internal Audit, staff and the Trustees.
 - Review of Service Provider SOC Reports. Mike is reviewing the service organization control reports for various third-party vendors. These reviews generally show that our vendors have implemented effective controls over the systems that we use.
 - Review of the office lease calculations. Mike determined that the reconciliation between estimated and actual billings related to the office lease were supported and reasonable.
- 5. Records.** From June 7 to September 1, the Records Team has processed 12,312 faxes: scanned 59,114 pages; indexed, verified and loaded 18,333 records to our electronic document management system; and processed 18,181 pieces of incoming and outgoing mail.

The Records team also worked with the Member Services team to set up a new workflow process for the updated refund applications.



September 13, 2022

To: Board of Trustees

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

Re: Agenda Item 3: Third 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 June 11, 2022 to September 9, 2022
 - 13 investment allocation transactions
 - 57 other investment related items
- **Contracts for TMRS' Office and Sale of TMRS Building.** Nick O'Keefe has been handling the contracting process for TMRS' offices at The Grove and the sale of the TMRS IH-35 building. On September 7, TMRS successfully closed on the sale of the IH-35 building. David Wescoe will provide an update on the sale at the Board meeting.
- **General Contracting and Benefits Matters.** Since June, 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 June 11, 2022 to September 9, 2022
 - 13 contracts (non-investment related) submitted for signature
 - 3 other benefits administration and non-investment related items submitted for signature or approval
- **Public Information Requests.** Since June 11, Legal staff have worked on 15 information requests under the Texas Public Information Act.

- **Media Inquiries.** When Michelle Mellon-Werch transferred back to the Legal Department, from being Director of Communications, she will continue to be TMRS' contact person for media inquiries.


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.



September 13, 2022

To: Board of Trustees

From: Michelle D. Kranes, Chief Service Officer 

Re: Agenda Item 3: Third Quarter Services Report

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

Pension Administration Modernization Update

Online Contributions Reporting and Payment. During the Annual City Training Conference, Jennifer Andrews demonstrated the contributions reporting functionality coming to the City Portal in November. The project is under budget and ahead of schedule, and staff is working with cities to get ready to submit and pay their October contribution reports online.

Online Enrollment. Staff's efforts to help cities begin enrolling new employees in TMRS online is paying off. In August, a record 78% of enrollments were completed through the City Portal. In response to the needs of the larger TMRS participating cities, functionality allowing cities to enroll multiple employees in bulk form was finalized and will be available to cities in November.

Direct Deposit of One-time Payments. TMRS began issuing refund payments by direct deposit on August 1, and the response has been positive. Starting October 1, supplemental death benefits will also be issued by direct deposit.

Plan Design and Funding

Grand Prairie General Obligation Pension Bonds (POBs). At the June 23 meeting, the Board approved an agreement between TMRS and the City of Grand Prairie to issue General Obligation Pension Bonds (POBs) to pay off their Unfunded Actuarial Accrued Liability (UAAL) of \$76,831,209. Funds from the POBs were received by TMRS on August 31. Grand Prairie is the fourth TMRS participating city to issue POBs to pay off their UAAL.

Paris Fire Department Employees to join TMRS. On August 22, the Paris City Council voted to allow current and future employees of the Fire department to join the city's TMRS plan effective October 1, 2022. The participation date is contingent on several steps including freezing the

existing Fire Plan and the proceeds from POBs issued to pay off the Fire Plan's unfunded liability being deposited in the Fire Plan Fund by October 1.

Calls to Cities with 2023 Rate Decreases. Leslee Hardy and Kenneth Oliver proactively contacted 94 cities whose 2023 rate decreased by at least 0.50% from their 2022 rate. The purpose of these calls was to explain the potential advantages of holding the rate at the higher 2022 level to pay off the unfunded liability sooner. In addition to strengthening their relationships with these cities, these calls yielded the following results: 28 cities are going to continue paying the higher rate, and 32 others are considering doing so.

City Plan Change Studies. Leslee, Kenneth and Veronica Escobedo have been busy working with cities considering plan changes. Since rate letters were published in June, staff has prepared 150 plan studies comparing the cost of the current plan to alternative plans.

2022 GASB 68 and 75 Packages. Financial reporting packages for TMRS participating cities were uploaded to the TMRS website in July.

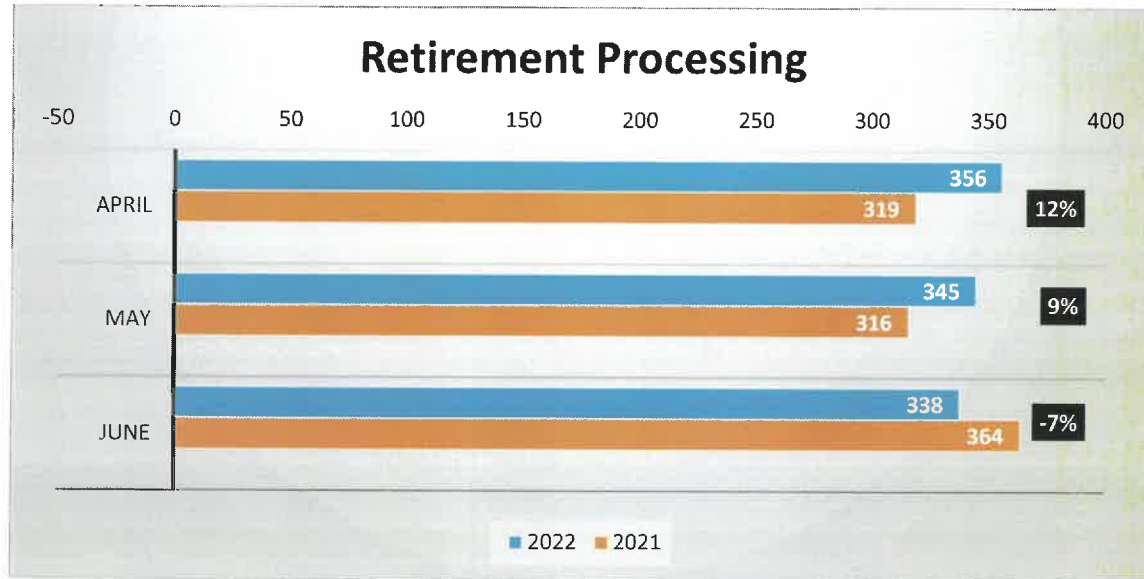
Benefit Administration

Personnel Updates. The Benefit Administration department welcomed new analysts Irasema Hernandez-Argueta and Lisa Jones in June. Irasema brings a customer service and processing background, and Lisa comes from ERS where she worked as a benefits counselor.

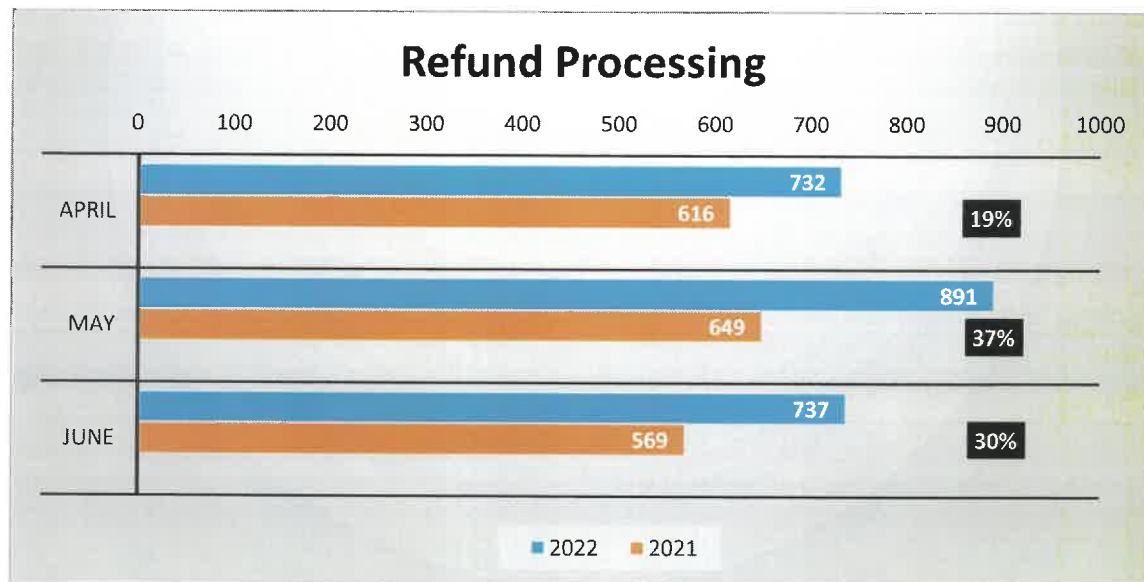
Department Statistics

New Look. Starting with this report, department statistics results will be reported by calendar quarters to provide consistency with other quarterly department results and uniformity for performance measurement.

Retirements. In the second quarter of 2022, TMRS processed 1,039 retirements, which was a 4% increase from the same quarter in 2021 and a 24% decrease from the 1,368 retirements processed in the first quarter of 2022.



Refunds. TMRS issued 2,360 refunds in the second quarter of 2022, which was a 29% increase from the same quarter in 2021, and an 8% increase over the 2,190 refunds processed in the first quarter of 2022.



Member and City Services

Effective September 19, Debbie Muñoz will be promoted to the position of Chief Service Officer, and Jennifer Andrews will move into Debbie's former role as the Director of Member and City Services.

Member Service Center. Year to date, the Member Service Center has received more than 68,000 calls with a median call wait time of 5 seconds.

Member Education Center

- On July 22, the Member Education Center successfully launched an online scheduling tool for Member counseling sessions on tmrs.com. The new feature allows Members to schedule individual appointments that can be virtual, via phone, or in person. The online scheduler was an immediate hit as evidenced by the 325 Members counseled during the first six weeks of the tool's release.
- Since January 1, the Member Education team has represented TMRS at 124 events (46 virtual; 78 in-person) and counseled more than 5,600 Members.
- TMRS now has 13 Fact Sheets on the website that explain common benefits. Staff plans to create a total of at least 20 by the end of 2022.

City Services

- Anthony Mills is educating city councils on plan improvements and visiting with cities considering participating in TMRS. Year to date, he has presented to 14 city councils and welcomed nine new cities to TMRS.
- Staff has fulfilled 50 requests from cities for customizable recruiting fact sheets.
- This quarter, the City Contributions team reached out to 245 cities to help them transition to online enrollment for new employees and ensuring city staff have the appropriate City Portal User Roles for submitting contributions reports online in November.



September 15, 2022

To: Board of Trustees

From: Dan Wattles, Director Governmental Relations

A handwritten signature in blue ink that reads "Dan Wattles".

Re: Agenda Item 3: Third Quarter Governmental Relations Report

2022 Senior Staff Action Plan. Item No. 2 in the 2022 Senior Staff Action Plan is to “Finalize and Prepare for TMRS’ 2023 Legislative Agenda.”

The Advisory Committee on Benefit Design met three times this interim and studied delinking the Updated Service Credit and Cost-of-Living Adjustment (COLA), delinking the Supplemental Death Benefit for active members and retirees and providing a 90% COLA option. Because of certain stakeholder opposition, the Board has decided not to pursue any benefit changes in the 2023 Legislative Session. On September 2, TMRS’ Chief Service Officer emailed the Committee confirming the Board’s current position.

87th Legislative Interim. The Speaker of the House of Representatives released House interim committee charges on March 10. The House Pensions, Investments and Financial Services Committee received one charge related to TMRS:

“Review the impact of investments by public retirement systems of their endowment and other trust funds in businesses and funds owned or controlled by the Russian government or Russian nationals, and determine the need for investment restrictions. Consider the impact of any proposed investment restrictions on fund performance.”

A hearing was held on this charge on August 25. David Wescoe and representatives of the other four statewide retirement systems testified at the hearing.

The Lt. Governor released Senate interim committee charges on April 4. The Senate Finance Committee and Senate State Affairs Committee also received charges involving investments in Russia. Neither committee invited TMRS to testify.

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



September 13, 2022

To: Board of Trustees

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

Re: Item 5: Report on Budget and Compensation Committee's Meeting

On September 9, the Budget and Compensation Committee met via Zoom.

In accordance with TMRS policy, the Committee approved salary adjustments where (1) employees' salary adjustments for the year were greater than 15% and (2) the employees would be above mid-point of their salary ranges after adjustments.

The Committee also reviewed and discussed the draft 2023 Operating, Capital Expenditures and PASMod budgets. Staff will present these draft budgets to the Board at its September 22 meeting, and then bring the final budgets to the Board at its December 8 meeting. Chair Scott and Vice-Chair Huizar will recommend the Board approve these budgets.



September 13, 2022

To: Board of Trustees

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

Re: Agenda Item 6: Discuss 2023 Draft Operating, Capital and PASMod Program Budgets

TMRS' 2023 budgets demonstrate staff's continued efforts to be cost-conscious, while addressing important staffing needs. For example, the 2022 operating budget was \$34,301,863. The 2023 operating budget, less the Grove lease expenses, is only slightly higher.

While Rhonda Covarrubias and Candace Nolte will review each budget category with you, I want to highlight the following:

Information Services. Eric Obermier's memo provides compelling reasons for adding six staff to his department at a total annual cost of \$1 million. The budget impact for 2023 is \$885,750, as we anticipate onboarding staff in March. The new staff are needed to meet increased demand for Pension Administration System enhancements, augment cybersecurity, and reduce the impact of anticipated retirements of existing staff over the next three years. TMRS' IS department size is currently the smallest of other Texas statewide systems at 22 staff, compared with 25 at TCDRS, 72 at ERS and 180 at TRS. Also, should future demand not warrant backfilling the retiring positions, the department would decrease in size over time. With respect to the addition of IS staff, keep in mind we eliminated four positions in the Investment department this year.

PASMod Program. In 2019, the Board approved a five-year, \$10.5 million PASMod Program budget. The PASMod budget has only decreased since then, and the Program is currently set to be completed on schedule in 2023 at an estimated cost of \$4.3 million, or \$6.3 million under budget.

The Office. On September 7, the sale of the 1200 IH-35 building closed, and TMRS received just over \$36 million in proceeds.

Thank you for your support.

RECOMMENDATION:

For informational purposes only at this time.

ATTACHMENTS:

- 1 – Memo Requesting New Staff for Information Services
- 2 – 2023 Operating and Capital Expenditures Budgets
- 3 – 2023 Pension Administration System Modernization (PASMod) Program Budget



Operating and Capital Expenditures Budgets

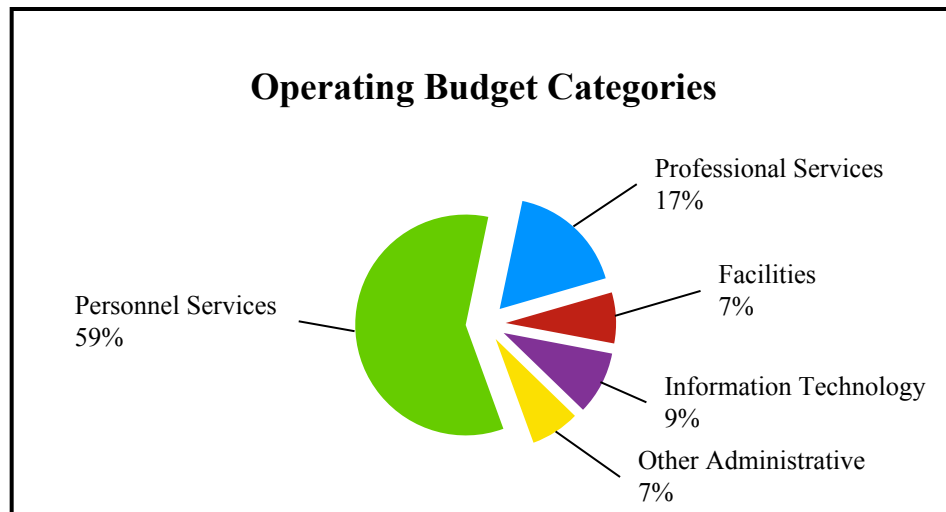
Fiscal Year 2023

DRAFT SEPTEMBER 9, 2022

Summary

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

Operating and Capital Expenditures Budgets For the Years Ending December 31					
	2023	2022	Increase/ (Decrease)	% Change	
Personnel Services	\$ 22,070,877	\$ 20,864,521	\$ 1,206,356	6 %	
Professional Services	6,454,025	5,802,572	651,453	11 %	
Facilities	2,800,189	2,878,905	(78,716)	(3) %	
Information Technology	3,473,641	3,494,328	(20,687)	(1) %	
Other Administrative	2,697,447	2,515,011	182,436	7 %	
Total Operating Budget	\$ 37,496,179	\$ 35,555,337	\$ 1,940,842	5 %	
Capital Expenditures	\$ 10,000	\$ 1,375,392	\$ (1,365,392)	100 %	
TOTAL BUDGET	\$ 37,506,179	\$ 36,930,729	\$ 575,450	2 %	



Summary (continued)

The 2023 Operating Budget reflects an increase of \$1,940,842, or 5%, from the 2022 operating budget. Budget items contributing to this increase are:

- **Personnel Services.** In 2022, to stay competitive in a tight labor market, we made market adjustments and paid for them with salaries from eliminated positions. In 2023, we will increase personnel services by 6% due to the following:
 - Addition of six Information Services positions at a total cost of \$1 million, with a 2023 budget impact of \$885,750 due to expected March 1 hire dates. The new staff are needed to meet increased demand for Pension Administration System enhancements, augment cybersecurity and to reduce the impact of anticipated staff retirements over the next three years.
 - 4% merit, up from 3.5% in 2022, at a cost of \$316,000.
- **Professional Services.** About half of the increase in professional services is due to a \$335,600 increase for investment consultants (NEPC and Albourne) and the other half is due to periodic or one-time expenditures as follows:
 - \$125,000 for an Actuarial Experience Study, which occurs every four years.
 - \$125,000 to engage a consultant to make software enhancements necessary for robust business analytic reports.
 - \$50,000 for a consultant to migrate the current Oracle reporting platform before it reaches end-of-life in 2024.

Operating and Capital Expenditures Budgets

For the Years Ending December 31

	2023	2022	Increase/ (Decrease)	% Change
Personnel services:				
Salaries and payroll taxes	\$ 17,751,742	\$ 16,689,769	\$ 1,061,973	6 %
Benefits	4,219,135	4,074,752	144,383	4 %
Contract labor / temporary staffing	100,000	100,000	—	— %
Total personnel services	22,070,877	20,864,521	1,206,356	6 %
Professional services:				
Actuarial	823,700	689,300	134,400	19 %
Audit	189,225	185,125	4,100	2 %
Custodial and banking	1,573,000	1,553,000	20,000	1 %
Information services	492,900	313,100	179,800	57 %
Investment	1,806,000	1,520,347	285,653	19 %
Legal	1,161,500	1,166,500	(5,000)	— %
Other services	407,700	375,200	32,500	9 %
Total professional services	6,454,025	5,802,572	651,453	11 %
Facilities	2,800,189	2,878,905	(78,716)	(3) %
Information technology:				
Cloud-hosted services	2,473,861	2,403,853	70,008	3 %
Hardware, software and support	999,780	1,090,475	(90,695)	(8) %
Total information technology	3,473,641	3,494,328	(20,687)	(1) %
Other administrative:				
Board of Trustees / Advisory Committee	132,540	130,500	2,040	2 %
City and member outreach	784,590	760,735	23,855	3 %
Professional development	488,511	508,813	(20,302)	(4) %
Supplies / document storage / misc.	656,513	573,498	83,015	14 %
Travel	635,293	541,465	93,828	17 %
Total other administrative	2,697,447	2,515,011	182,436	7 %
Total operating budget	\$ 37,496,179	\$ 35,555,337	\$ 1,940,842	5 %
Total capital expenditures	\$ 10,000	\$ 1,375,392	\$ (1,365,392)	(99) %
TOTAL BUDGET	\$ 37,506,179	\$ 36,930,729	\$ 575,450	2 %

Operating Budget - Personnel Services

Personnel Services For the Years Ending December 31				
	2023	2022	Increase/ (Decrease)	% Change
Salaries and payroll taxes:				
Staff salaries	\$ 16,612,984	\$ 15,624,101	\$ 988,883	6 %
Payroll taxes	1,138,758	1,065,668	73,090	7 %
Total	17,751,742	16,689,769	1,061,973	6 %
Benefits:				
TMRS contributions	2,688,550	2,518,605	169,945	7 %
Insurance	1,513,349	1,538,969	(25,620)	(2) %
Other	17,236	17,178	58	— %
Total	4,219,135	4,074,752	144,383	4 %
Contract Labor/Temporary Staffing	100,000	100,000	—	100 %
Total Personnel Services	\$ 22,070,877	\$ 20,864,521	\$ 1,206,356	6 %

Personnel Services represent the largest budget category at 59% of the 2023 operating budget and reflect an increase of \$1,206,356, or 6%, from the prior year.

Staff salaries include six new FTEs in Information Services at total estimated salaries of \$649,000. Open positions are budgeted at the mid-point of the associated pay group. Estimated mid-year merit adjustments of 4% (\$316,000) are included. The budget also includes estimates for paying out accrued vacation/sick leave when employees retire and one-time merits.

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

TMRS contributions. TMRS employees participate in the TMRS retirement system. Employees contribute 7% of their salary and TMRS matches their account balances 2:1 upon retirement. The actuarially determined employer contribution rate for 2023 is 15.39% (15.06% retirement rate and .33% supplemental death benefit rate). Consistent with prior years, the 2023 operating budget maintains the retirement contribution rate of 15.95%, which is estimated to save \$1.9 million in future contributions by paying off the Unfunded Actuarial Accrued Liability nine years earlier.

Operating Budget - Personnel Services (continued)

Insurance. TMRS offers employees insurance through the Employees Retirement System of Texas Group Benefits Program (ERS-GBP). Health, vision, dental, long-term disability, accidental death and life insurance are provided at no cost to the individual employee. In addition, TMRS subsidizes 50% of the premium for dependent health coverage. The ERS-GBP plan year runs from September 1 through August 31, therefore the 2023 budget includes estimated rate increases for the last four months of 2023.

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

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

Operating Budget - Professional Services

Professional Services For the Years Ending December 31				
	2023	2022	Increase/ (Decrease)	% Change
Actuarial:				
Retainer	\$ 623,700	\$ 605,700	\$ 18,000	3 %
Other	200,000	83,600	116,400	139 %
Total Actuarial	823,700	689,300	134,400	19 %
Audit:				
External financial and SOC-1 audits	189,225	185,125	4,100	2 %
Total Audit	189,225	185,125	4,100	2 %
Custodial and Banking:				
Custodial services	1,515,000	1,500,000	15,000	1 %
Depository services	58,000	53,000	5,000	9 %
Total Custodial and Banking	1,573,000	1,553,000	20,000	1 %
Information Services:				
Quality assurance	20,000	10,000	10,000	100 %
IT research and consulting services	127,000	125,000	2,000	2 %
Information services support	255,900	93,100	162,800	175 %
Cybersecurity audit	90,000	85,000	5,000	6 %
Total Information Services	492,900	313,100	179,800	57 %
Investment:				
Alternatives	1,200,000	1,000,000	200,000	20 %
General investment	550,000	414,347	135,653	33 %
Other	56,000	106,000	(50,000)	(47) %
Total Investment Consultants	1,806,000	1,520,347	285,653	19 %
Legal:				
Fiduciary	120,000	100,000	20,000	20 %
Investment	858,000	848,000	10,000	1 %
Other	183,500	218,500	(35,000)	(16) %
Total Legal	1,161,500	1,166,500	(5,000)	— %
Other Services:				
Disability Board	45,000	50,000	(5,000)	(10) %
Governance/strategic planning	125,000	50,000	75,000	150 %
Human resources	61,800	136,000	(74,200)	(55) %
Legislative	84,000	84,000	—	— %
Other	91,900	55,200	36,700	66 %
Total Other Services	407,700	375,200	32,500	9 %
Total Professional Services	\$ 6,454,025	\$ 5,802,572	\$ 651,453	11 %

Operating Budget - Professional Services (continued)

Professional Services represent 17% of the 2023 operating budget and reflect an increase of \$651,453, or 11%, from the prior year.

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

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

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

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

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

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

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

Other services make up 6% of the professional services budget category and include funds for the disability review/certification, Board governance, compensation analysis and legislative services.

Operating Budget - Facilities

Facilities					
For the Years Ending December 31					
	2023	2022	Increase/ (Decrease)	% Change	
Office rent	\$ 2,760,200	\$ 2,657,346	\$ 102,854	4 %	
Building maintenance/utilities/security	24,989	186,320	(161,331)	(87) %	
Property/liability insurance	15,000	35,239	(20,239)	(57) %	
Total Facilities	\$ 2,800,189	\$ 2,878,905	\$ (78,716)	(3) %	

Facilities is 7% of the 2022 operating budget.

Office rent. The Grove lease agreement includes scheduled monthly base rental payments through April 2034 and pass-through of facilities expenses for utilities, property maintenance, janitorial services, insurance and property taxes.

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

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

Operating Budget - Information Technology

Information Technology For the Years Ending December 31				
	2023	2022	Increase/ (Decrease)	% Change
Cloud-hosted services:				
Risk management and reporting	1,063,827	1,030,653	33,174	3 %
Investment analysis	408,784	403,339	5,445	1 %
Information services	861,450	786,000	75,450	10 %
Other	139,800	183,861	(44,061)	(24) %
Total cloud-hosted services	2,473,861	2,403,853	70,008	3 %
Hardware/software & support:				
Hardware maintenance	\$ 78,550	\$ 173,133	\$ (94,583)	(55) %
Software maintenance	845,058	819,892	25,166	3 %
Internet service and other	76,172	97,450	(21,278)	(22) %
Total hardware/software & support	999,780	1,090,475	(90,695)	(8) %
Total Information Technology	\$ 3,473,641	\$ 3,494,328	\$ (20,687)	(1) %

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

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

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

Operating Budget - Other Administrative

Other Administrative For the Years Ending December 31				
	2023	2022	Increase/ (Decrease)	% Change
Board of Trustees/Advisory Committee:				
Meetings	106,380	93,240	13,140	14 %
Professional development	26,160	37,260	(11,100)	(30) %
Total Board of Trustees/Advisory Committee	132,540	130,500	2,040	2 %
City and member outreach:				
Printing	176,300	243,260	(66,960)	(28) %
Postage/mailing	344,540	320,375	24,165	8 %
Member education	263,750	197,100	66,650	34 %
Total city and member outreach	784,590	760,735	23,855	3 %
Professional development:				
Member dues	48,327	52,296	(3,969)	(8) %
Subscriptions/publications	112,619	113,632	(1,013)	(1) %
Training/tuition	327,565	342,885	(15,320)	(4) %
Total professional development	488,511	508,813	(20,302)	(4) %
Supplies, document storage, miscellaneous:				
Business insurance	208,773	167,560	41,213	25 %
Equipment, supplies and document storage	293,800	315,850	(22,050)	(7) %
Miscellaneous	153,940	90,088	63,852	71 %
Total Supplies, Document Storage, Misc.	656,513	573,498	83,015	14 %
Travel				
Business travel	476,180	364,357	111,823	31 %
Professional development travel	159,113	177,108	(17,995)	(10) %
Total travel	635,293	541,465	93,828	17 %
Total Other Administrative	\$ 2,697,447	\$ 2,515,011	\$ 182,436	7 %

Other Administrative represents 7% of the 2023 proposed operating budget and reflects an increase of \$182,436, or 7%, from 2022.

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

City and Member Outreach represents 29% of this budget category and includes costs of outreach efforts to our participating cities and members. TMRS incurs printing and mailing costs for publications such as *RetirementWise* and *TMRS Times* newsletters, Member Annual Statements, Retirement Benefit Statements, annual financial reports and other single issue brochures/publications. Also included are costs for issuing 1099-R forms, the TMRS Annual Training Seminar, educational video recordings, booth exhibits and receptions at other events.

Operating Budget - Other Administrative (continued)

Professional Development is approximately 18% of the Other Administrative budget category. Each department itemizes expected training costs by employee. Most departments include requests for annual user conferences, as well as other technical training relevant to their respective duties and to meet continuing professional education requirements.

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

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

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

Capital Expenditures Budget

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

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

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



**Pension Administration System Modernization
(PASMod) Program Budget**

Fiscal Year 2023

DRAFT - September 7, 2022

Pension Administration System Modernization (PASMod) Program

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

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

The PASMod Program is currently set to be completed on schedule at an estimated cost of \$4.3 million, or \$6.3 million under budget.

Pension Administration System Modernization (PASMod) Program - Overall Budget Savings

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



September 13, 2022

To: Board of Trustees

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

From: Dave Hunter, Chief Investment Officer

Re: Agenda Item 7 (a): CIO Report

Trust Fund Performance. Net investment returns for the Trust Fund were -2.95% and 5.86% for the one- and five-years ended June 30, 2022, respectively. These returns exceeded the RVK Actual Allocation Benchmark by 235 bps and 53 bps, respectively. For the five-years ended June 30, 2022, private equity and real estate generated the highest net returns of 23.96% and 10.65%, with private equity surpassing its benchmark by 521 bps and real estate generating 97 bps of excess return. Public equity, hedge funds and Non-Core Fixed Income (NCFI) were the next highest returning asset classes the last five years posting net returns of 6.12%, 4.55% and 4.25%, with public equity and hedge funds trailing its benchmark by 70 bps and 87 bps, respectively, and NCFI surpassing its benchmark by 154 bps. Other Public and Private Markets (OPPM) and core fixed income earned net returns of 3.91% and 1.17%, for the 5-years ended June 30, 2022, beating their benchmarks by 78 bps and 29 bps, respectively. Returns are preliminary because private market returns are lagged by one month for monthly-valued assets and one quarter for quarterly-valued assets as of June 30, 2022.

“Peer” Performance Rankings. TMRS ranks in the 15th and 70th percentile for the one- and five-years ended June 30, 2022, versus “All Public Plans > \$1 billion” due to strong returns in private equity, fixed income and real estate. The Trust Fund’s Sharpe Ratio Percentile Ranking is in the top quartile for five consecutive years ended June 30, 2018, to June 30, 2022. (See RVK Quarterly Board Report, page 16.) The Sharpe Ratio is a common measure of risk adjusted relative returns.

Staff Investment Committee (SIC). The SIC met on June 30, July 21, August 11 and August 30 to approve \$1.135 billion of private market investments, including \$290 million in private equity, \$545 million in OPPM and \$300 million in Real Estate. Subject to delegated authority, the SIC also approved a \$200 million upsizing of an existing \$300 million investment with a top performing NCFI manager on September 8. SIC-approved minutes are included in Diligent. The next SIC meeting is scheduled for October 4, and you are welcome to attend any meeting.

Public Equity Transition Completed. To improve returns, the public equity portfolio was rebalanced in the 3rd quarter to reduce an underweight position in U.S. large cap equity and overweight tilt into global small cap equities.

Annual Completed Investment Report. In 2022, TMRS reclassified \$341 million of private market commitments into non-core fixed income and reduced hedge funds by \$585 million in accordance with Board-approved asset allocation directives. Completed investments exceed \$4 billion in 2022, including approximately \$570 million in public equity, \$300 million in non-core fixed income, \$1.3 billion in real estate, \$840 million in private equity, and \$1.2 billion in OPPM. The Annual Completed Investments Report is as of September 13, 2022.

General Investment Consultant Update. NEPC became our new General Investment Consultant on July 1. RVK is being retained through the third quarter to ensure a smooth transition to NEPC.

Investment Team Update. Monica Huffer, Ngoc Can and Darren Schulz joined our investment team in July, to fill department vacancies in Real Estate/OPPM, Private Equity and Fixed Income, respectively. Each of them has hit the ground running. I look forward to introducing these investment professionals to you. I want to thank our investment team for doing a great job handling all of their responsibilities including these most recent interview processes. These new additions will continue to strengthen our already impressive investment team.

Proxy Voting Policies. Proxy voting policies are under review by the IPS Review Committee, and TMRS is conducting due diligence on proxy advisors including those serving other large public Texas pension plans.



Trust Fund Report: Q2 2022

Board of Trustees Meeting

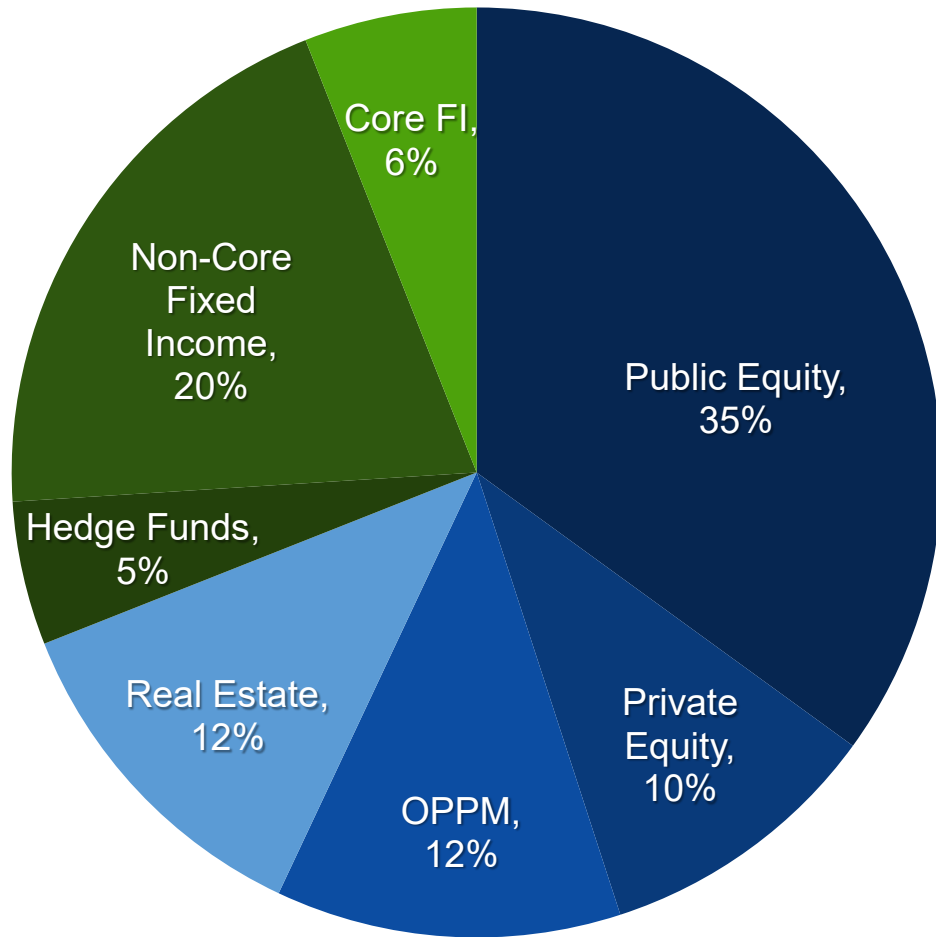
Presented by: Dave Hunter, CIO

September 22, 2022



Executive Summary

Trust Fund Close to Strategic Targets

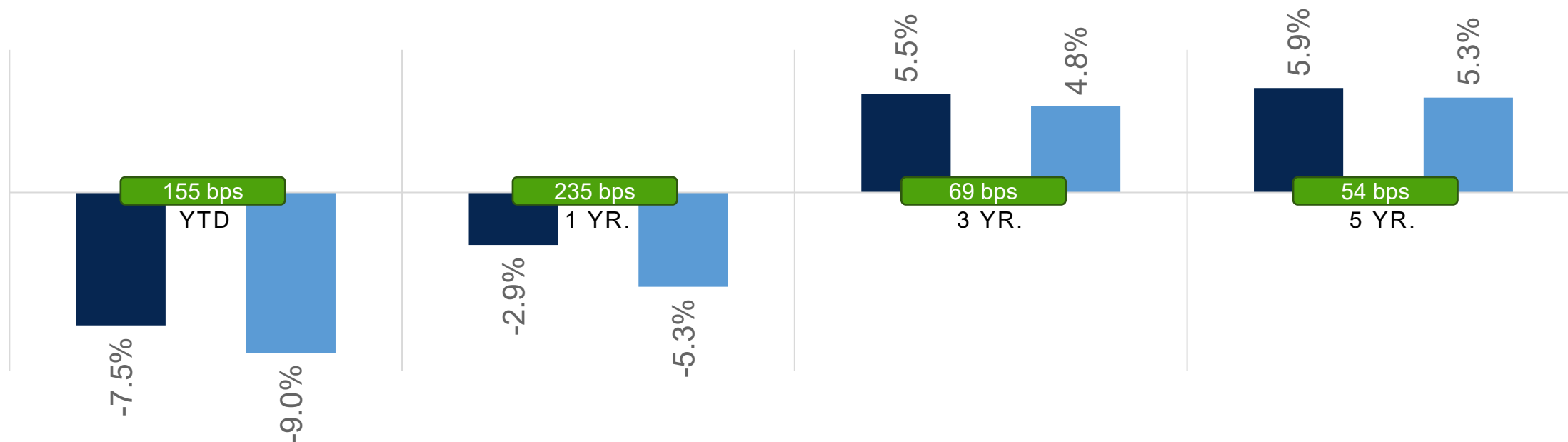


	Strategic Target	Actual as of June 30, 2022	Delta
■ Public Equity	35%	32.8%	(2.2%)
■ Private Equity	10%	9.8%	(0.2%)
■ OPPM	12%	11.0%	(1.0%)
■ Real Estate	12%	12.5%	0.5%
■ Hedge Funds	5%	7.8%	2.8%
■ NCFI	20%	20.6%	0.6%
■ Core FI	6.0%	5.0%	(1.0%)
■ Cash	0%	0.5%	0.5%

Trust Fund Net Return Exceeds Benchmark

Net Performance As Of June 30, 2022

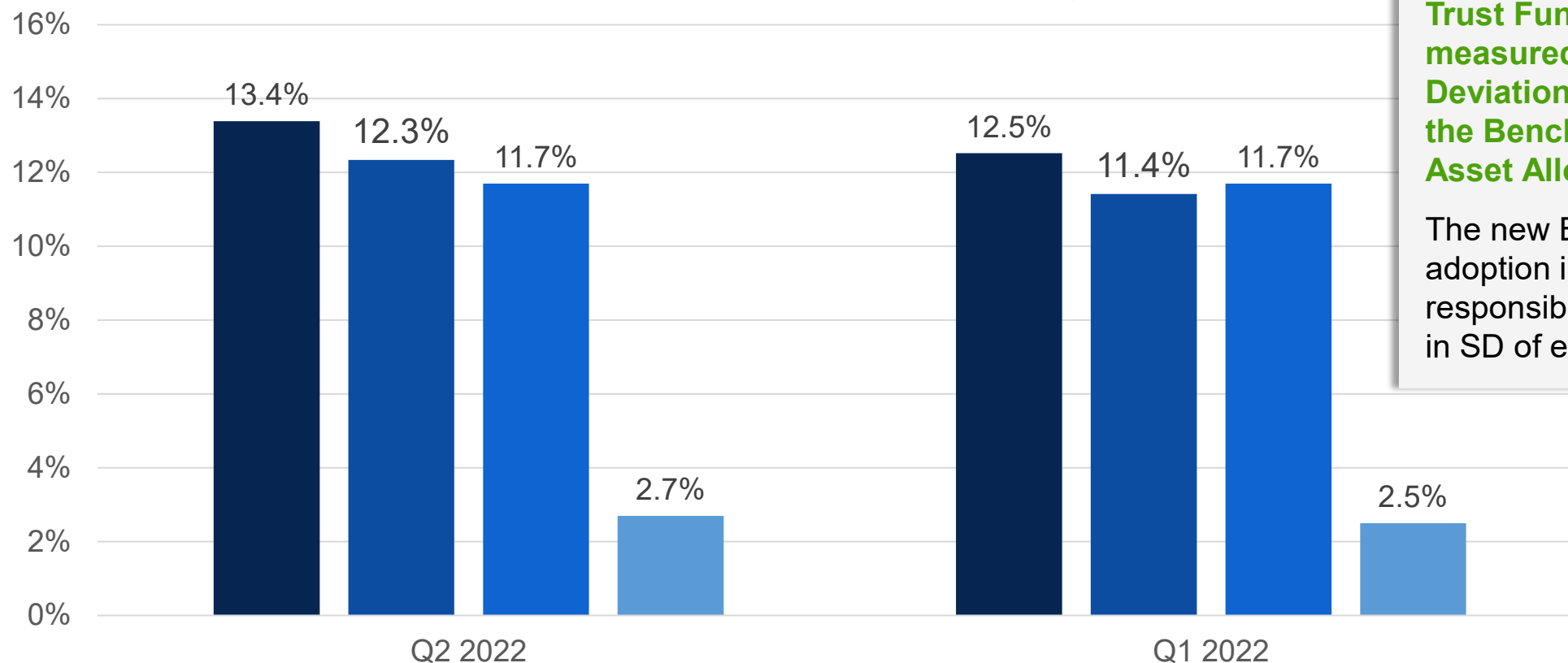
■ Trust Fund ■ Benchmark ■ Excess Return



Trust Fund Net Returns exceed Asset Allocation Benchmark by 54 bps over last 5-years.
Private Equity, Real Estate, and Non-Core Fixed Income drove excess return performance.

Trust Fund Risk Aligns with Benchmark

Risk Measures as of June 30, 2022



Trust Fund risk, as measured by Standard Deviation (SD), aligns with the Benchmark and 2021 Asset Allocation Study.

The new Benchmark adoption in July 2021 is responsible for the increase in SD of excess return.

■ TMRS Trust Fund SD

■ Benchmark SD

■ Asset Allocation Study SD

■ SD of Excess Return

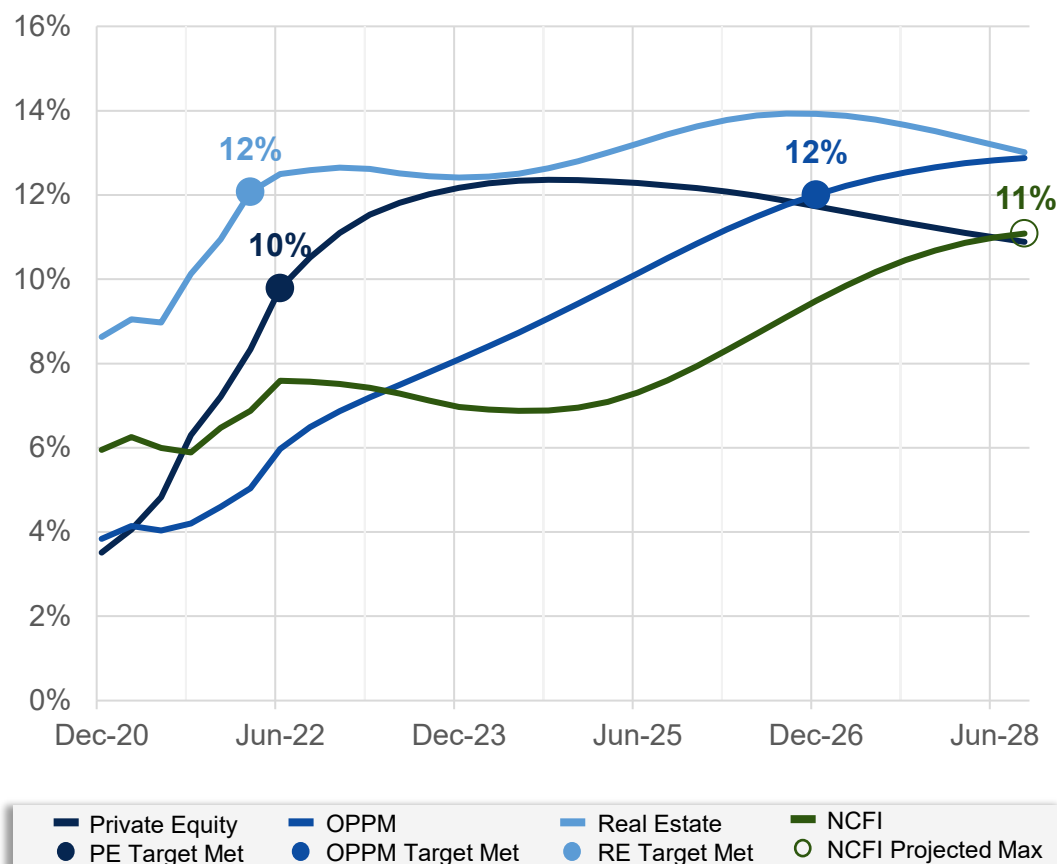
Q2 2022 Closed Private Market Commitments

Commitment Closed between April 1st and June 30th, 2022

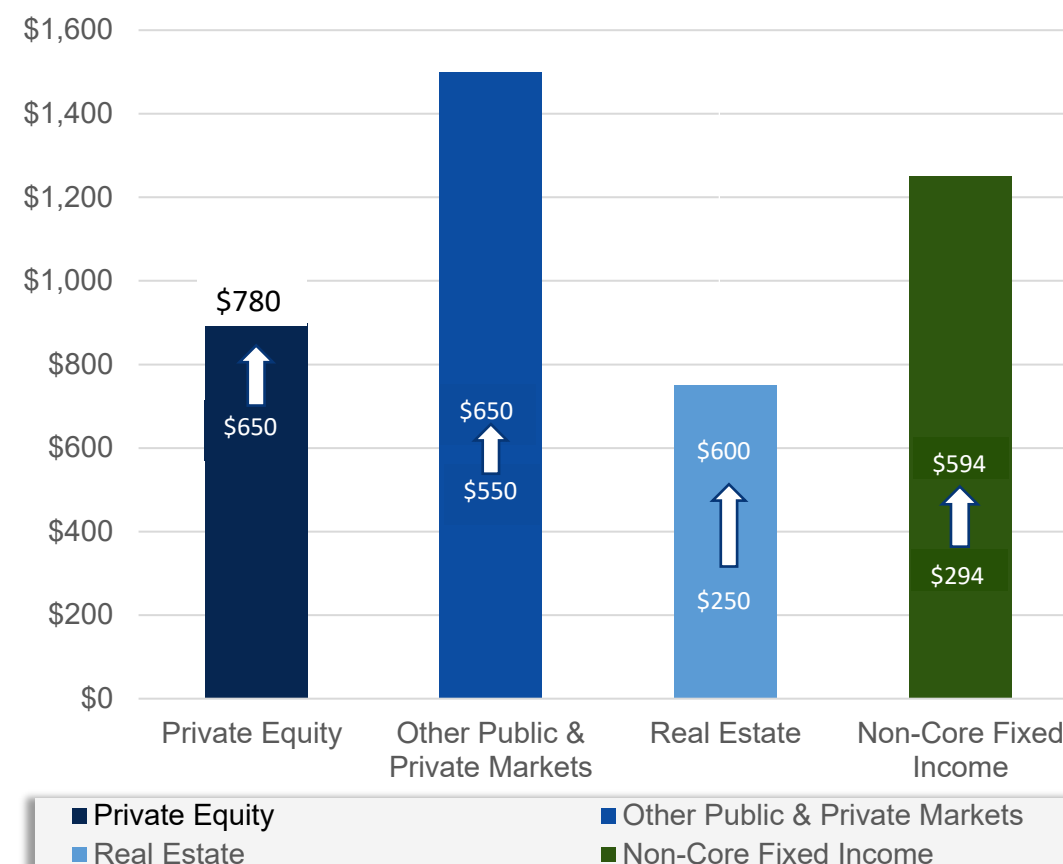


Private Markets Pacing Plan

Projected Allocations As Of June 30, 2022



Commitments v. Target As of June 30, 2022



Appendix: Asset Class Reports

Global Public Equity – As of June 30, 2022

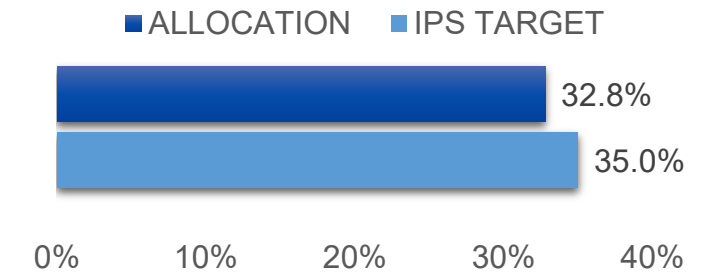
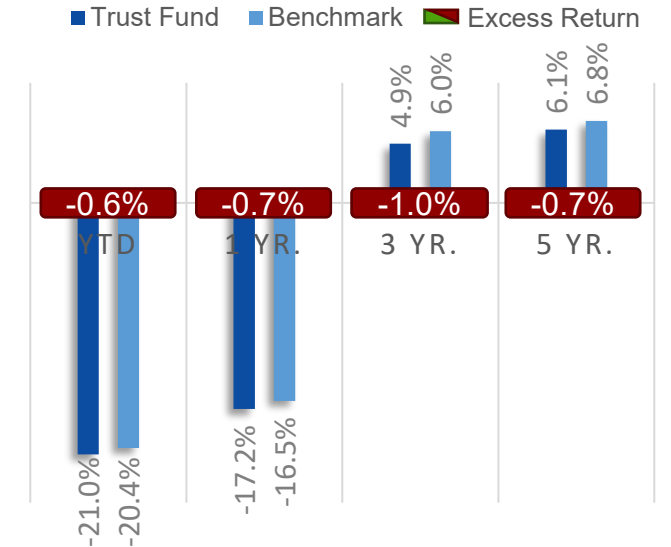
Performance Commentary:

- -21% YTD and +6.1% on a trailing 5-year basis
- The Global Public Equity portfolio trailed its benchmark by 0.6% on a YTD basis due to negative sector impact from technology, consumer, and healthcare stocks and slightly lower exposure to energy and financials. Longer term underperformance is primarily due to rebalancing activity and the wind down of rules-based strategies that occurred when the portfolio shifted toward passively managed vehicles.

Summary of Activity:

- In July, a reweighting transaction of approximately \$600mm increased benchmark alignment, adjusted active manager weights and addressed the prior underweighting of U.S. Large Cap exposure to the portfolio.
- Global Public Equity absorbed standard cash flows from other parts of the portfolio, reducing cash balances.
- The Global Public Equity portfolio is slightly below its 35% target allocation, owing to market movements, but is still well within the range.

NET PERFORMANCE



Private Equity - As of June 30, 2022

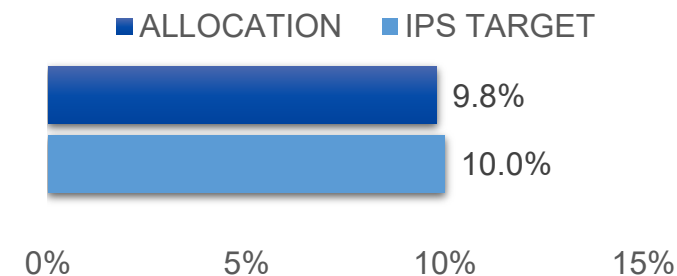
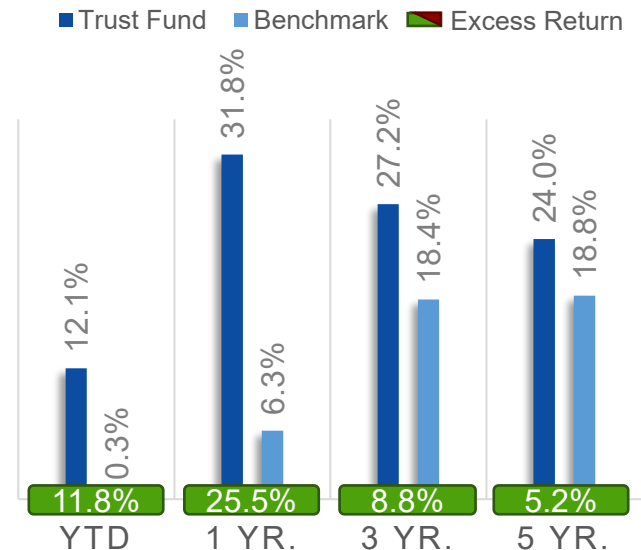
Performance Commentary:

- 12.1% YTD and 24.0% on a trailing 5-year basis
- The Private Equity portfolio outperformed its benchmark by 11.8% on a YTD basis and 5.2% on a trailing 5-year basis. Private Equity market activity started the year off at a cautious pace due to rising interest rates, geopolitical crises, and broad market volatility. It remains to be seen what the full impact of public market volatility and valuation adjustments means for private markets, yet the portfolio continues to perform well on both a relative and absolute basis.

Summary of Activity:

- Closed three (3) commitments totaling \$225mm in Q2. Approved twelve (12) commitments totaling \$840mm on a year-to-date basis.
- Q2 investments represent expansions of existing partnerships in smaller, earlier stage sector specialists. The Private Markets team continues to focus on scaling key relationships through co-invest opportunities.

NET PERFORMANCE



Other Public & Private Markets - As of June 30, 2022

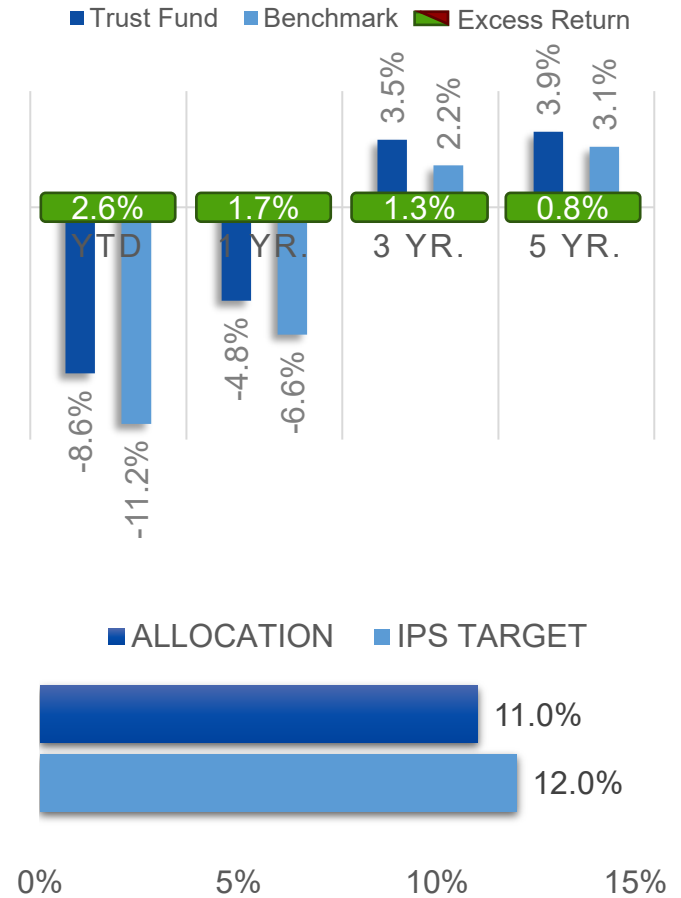
Performance Commentary:

- -8.6% YTD and +3.9% on a trailing 5-year basis
- The Other Public & Private Markets (OPPM) portfolio outperformed its benchmark by 2.6% on a YTD basis and 0.8% on a trailing 5-year basis. Relative performance will vary from quarter-to-quarter, but Staff expects the portfolio to outperform over five-year periods and longer.

Summary of Activity:

- Closed no new commitments in Q2. Approved twelve (12) commitments totaling \$1.3bn on a year-to-date basis.
- The Other Public and Private Markets portfolio continues to grow in a fee efficient manner while generating returns in excess of its recently implemented MSCI ACWI benchmark.
- Q2 investments and approvals represent new partnerships with disciplined managers who have achieved attractive risk-adjusted returns through value-conscious, downside protected strategies.

NET PERFORMANCE



Real Estate - As of June 30, 2022

Performance Commentary:

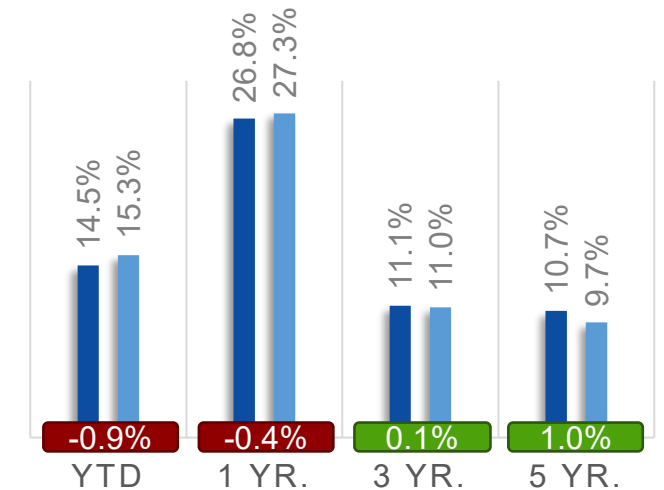
- 14.5% YTD and 10.7% on a trailing 5-year basis
- The Real Estate portfolio trailed its benchmark by 0.9% on a YTD basis due to negative sector impact from rising interest rates and valuation volatility. The portfolio is outperforming by 1.0% on a five-year basis. TMRS real estate managers have been active sellers in the market since the new year began, producing strong returns and returning capital.

Summary of Activity:

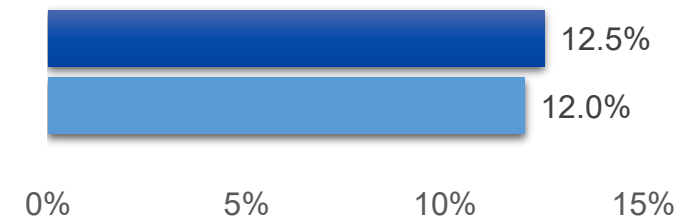
- Closed two (2) commitments totaling \$250mm in Q2. Approved nine (9) commitments totaling \$1.45bn on a year-to-date basis.
- Real estate is a mature portfolio; moving forward, the focus will be to lower costs through expanding successful partnerships and becoming a strategic partner for those groups. All approved investment in Q2 were with existing partners that have sustained exceptional performance.

NET PERFORMANCE

■ Trust Fund ■ Benchmark ■ Excess Return



■ ALLOCATION ■ IPS TARGET



Hedge Funds - As of June 30, 2022

Performance Commentary:

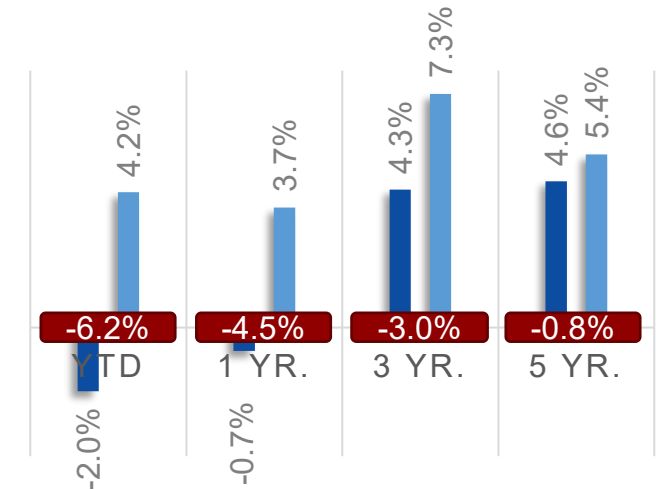
- -2.0% YTD and +4.6% on a trailing 5-year basis
- Hedge funds trail their benchmark by 6.2% on a YTD basis and 0.8% on a five-year basis. The underperformance is driven in large part by the portfolio's underweight to higher volatility global macro and commodity managers when compared to the new hedge fund benchmark.

Summary of Activity:

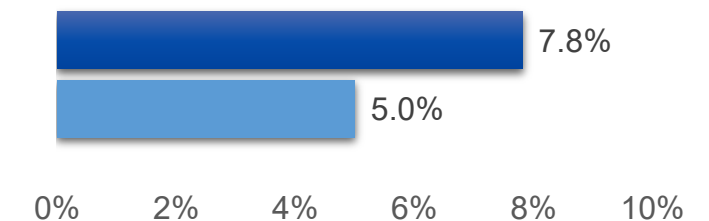
- Over the past year, the hedge fund portfolio has been reduced from \$3.5bn to \$2.7bn, or from 9.5% to 7.8%, of the Trust Fund.
- Staff submitted 7 full redemptions and 12 partial redemptions over the last year. In Q4 2022, the hedge fund portfolio is expected to decrease to 6.50% of the total Trust and fall under 6.00% as we enter 2023.

NET PERFORMANCE

■ Trust Fund ■ Benchmark ■ Excess Return



■ ALLOCATION ■ IPS TARGET



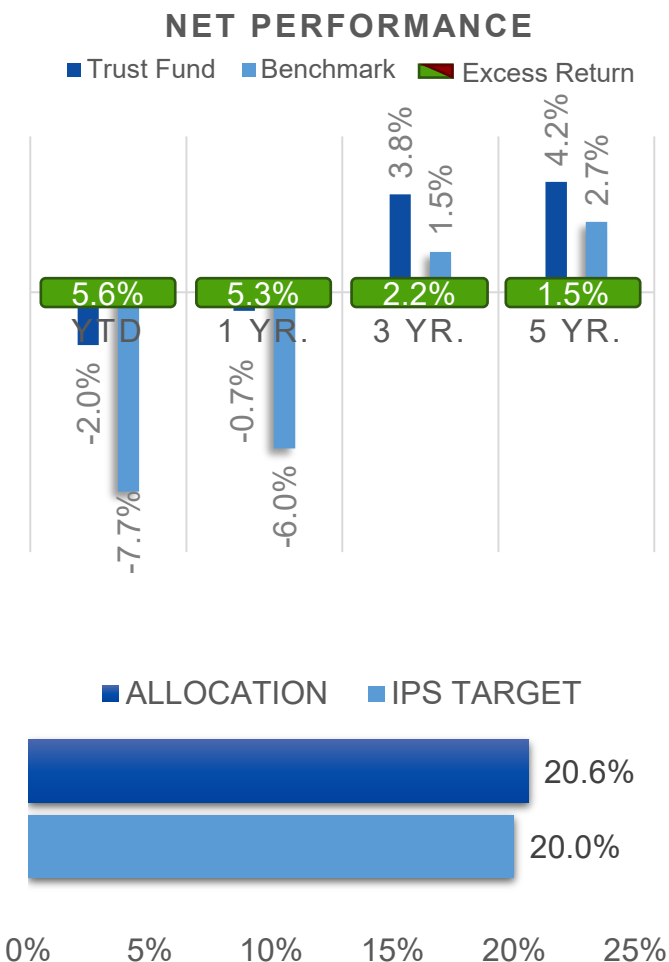
Non-Core Fixed Income - As of June 30, 2022

Performance Commentary:

- -2.0% YTD and +4.2% on a trailing 5-year basis
- The NCFI portfolio outperformed its benchmark by 5.6% on a YTD basis and 1.5% on a trailing 5-year basis. Opportunistic Credit, Direct Lending, and Structured Credit sub-strategies generally contributed positively to performance, while Emerging Markets Debt underperformed relative to the benchmark.

Summary of Activity:

- Closed no new commitments in Q2. Approved three (3) commitments totaling \$550mm on a year-to-date basis
- Staff is working to strategically increase the private credit allocation within Non-Core Fixed Income.



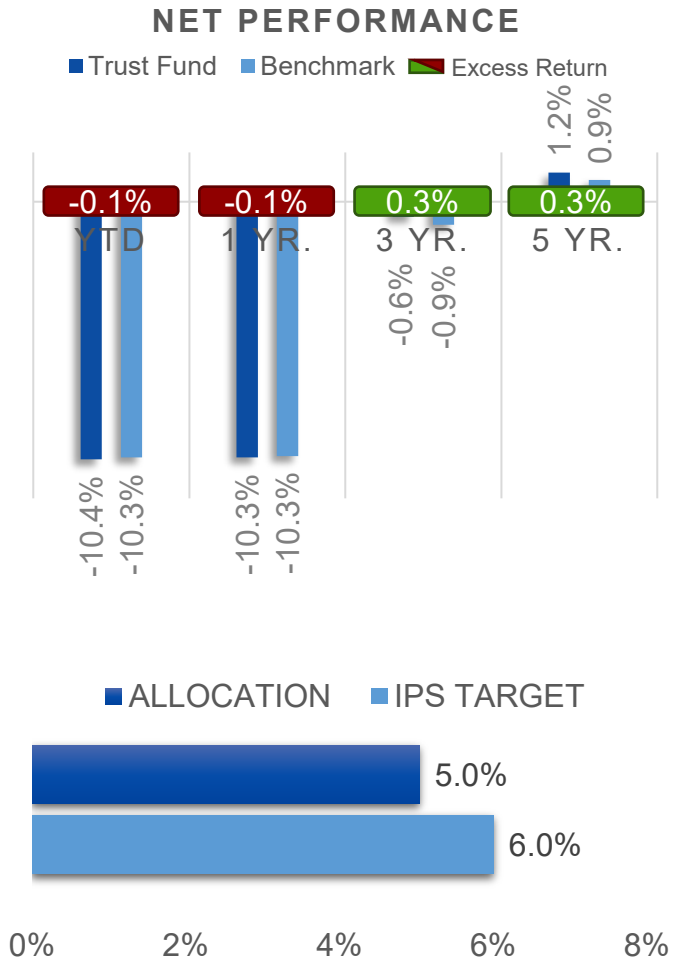
Core Fixed Income - As of June 30, 2022

Performance Commentary:

- -10.4% YTD and +0.3% on a trailing 5-year basis
- The Core Fixed Income portfolio trailed its benchmark by 0.1% on a YTD basis but has outperformed by 0.3% on a trailing 5-year basis.

Summary of Activity:

- No new investment activity in Q2.
- The Core Fixed Income Portfolio reached its target allocation and remains a source of liquidity for funding private asset investment, as necessary.



Disclosure

TMRS periodically discloses public information that is not excepted from disclosure under Section 552.0225(b) of the Texas Public Information Act. Information provided by a manager, a Managing General Partner (GP), any of its Associates or other data provider to TMRS or a TMRS service provider, and contained in these materials (i) may have been independently produced or modified by TMRS or the TMRS service provider; (ii) has not been reviewed or approved by the manager, Managing GP or any of its Associates; and (iii) may not reflect the historical performance or asset value reflected in the manager's, Managing GP's or any of its Associates' records and, therefore, should not be used for comparative purposes.

2022 Annual Completed Investments Report

(unaudited and subject to change)

As of 9/13/2022

COMPLETED INVESTMENTS

ASSET CLASS / STRATEGY	COMPLETED DATE	MANAGER NAME / FUND 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					
Non-Core Fixed Income					
Direct Lending	July 1	Pemberton Strategic Credit Fund III	Existing	\$250,000,000	Private
Co-Invest	July 1	Pemberton Strategic Credit Fund III	Existing	\$50,000,000	Private
Real Estate					
Opportunistic	August 10	Platform Texas Fund I, LLC	Existing	\$150,000,000	Private
Core-Plus	July 26	Abacus Core Income Fund I	Existing	\$200,000,000	Private
Value Add/N. America	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	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					
Other	September 12	Warren Equity Partners Fund IV	New	\$100,000,000	Private
Other	September 2	Gamut Co-Invest	New	\$60,000,000	Private
Other	August 30	Gamut Investment Fund II	New	\$120,000,000	Private
Other	August 30	Oberland Capital Healthcare III	Existing	\$110,000,000	Private
Other	August 30	Oberland Capital Healthcare III Co-Invest	Existing	\$55,000,000	Private
Other	July 20	Flexpoint Fund V-A, L.P. & Flexpoint Overage Fund V-A, L.P.	New	\$100,000,000	Private
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 (multi-stage)	August 8	Greenoaks V	Existing	\$60,000,000	Private
Buyout	July 15	Dunes Point III (upsized)	Existing	\$25,000,000	Private
Buyout / Growth	July 15	Insight XI Follow-On Fund	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	Existing	€ 100,000,000	Private
Buyout	May 17	Bregal Sagemount IV	New	\$100,000,000	Private
Buyout	April 29	Tritium III, L.P. (upsized)	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	Existing	\$100,000,000	Private
Buyout	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>\$4,183,846,814</u>	



September 13, 2022

To: Board of Trustees

From: Bob Scott, Board Vice Chair
Anali Alanis, Trustee
Dave Hunter, Chief Investment Officer

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

Re: Agenda Item 8: Report on IPS Committee Meetings

The Committee will provide an update of its activities to the Board.

Investment Policy Statement Committee members Scott and Alanis met with Dave Hunter, Nick O'Keefe, and Tom Masthay on June 22 to continue its review of the IPS. The next Committee meeting is September 21.



September 13, 2022

To: Board of Trustees

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

Re: Agenda Item 9: Second Quarter 2022 Investment Compliance Report

Investment Manager Compliance. In the second quarter of 2022, State Street completed 2,369 automated tests to determine whether TMRS investment managers adhered to their investment guidelines. The tests confirmed that the managers were in compliance with the guidelines during the quarter.

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



September 13, 2022

To: Board of Trustees

From: Dave Hunter, Chief Investment Officer
Darren Schulz, Portfolio Director

Re: Agenda Item 10: Consider and Act on Non-Core Fixed Income Manager Recommendation

The Investment Policy Statement (IPS) states that, "...an investment made by staff in Private Markets may not exceed 0.75% of the market value of the [Trust Fund]..." The current delegated limit is \$288 million. As a result, this investment is being brought forward for Board approval because the additional commitment of \$200 million to the existing \$300 million mandate will exceed staff delegated limits.

RECOMMENDATION:

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

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

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

ATTACHMENTS:

- 1- Board Presentation
- 2 - Consultant Memo – Albourne
- 3 - Staff Executive Summary



Non-Core Fixed Income Manager Recommendation

Darren Schulz

September 22, 2022

Executive Summary

- TCW is a high conviction manager that fulfills a strategic role as an anchor allocation alongside H.I.G. WhiteHorse Trinity, a \$500 million mandate within TMRS' Non-Core Fixed Income Direct Lending program
- An increased commitment to TCW provides additional yield enhancement and diversification benefits with a manager that has a differentiated approach to sourcing loans at a yield premium to conventional loans underwritten by peers
- Recommendation: TMRS should increase its commitment to the TCW Brazos Direct Lending Fund by \$200 million to \$500 million.

Process Steps Completed

Due Diligence

1

Research: meetings with peer firms, analysis of performance, strategy, terms, team, etc.

2

Separate meetings with investors at all levels of the firm, emphasizing key persons.

3

Data room analysis pursuing quantitative and qualitative insights.

4

Reference calls with portfolio company CEOs, past coworkers, other LPs, etc.

5

Independent Consultant IDD/ODD analysis commissioned & legal review initiated

Documentation & Approval

TCW Brazos Fund

<i>SIC Approval:</i>	September 8, 2022
<i>Advance Team Review:</i>	August 29, 2022
<i>Prelim. Team Review:</i>	February 2, 2022
<i>Consultant Memo:</i>	September 9, 2022
<i>Background Checks:</i>	Complete
<i>Regulatory Review:</i>	Complete

TCW Brazos Fund



Strategy Summary: TCW is a global asset manager that invests exclusively in private loans to upper middle market companies in the U.S. The Brazos Fund targets transactions that have some degree of complexity attached to them in less competitive parts of the direct lending marketplace.

Investment Merits:

- + Established track record
- + Differentiated strategy
- + Strong credit culture

Investment Considerations:

- Increased competition in direct lending
- Higher exposure to cyclical businesses

TCW Brazos Fund – Strong Outperformance since Inception

SIC Approval Date: September 8, 2022

Structure: TCW Brazos Fund, Fund-of-One

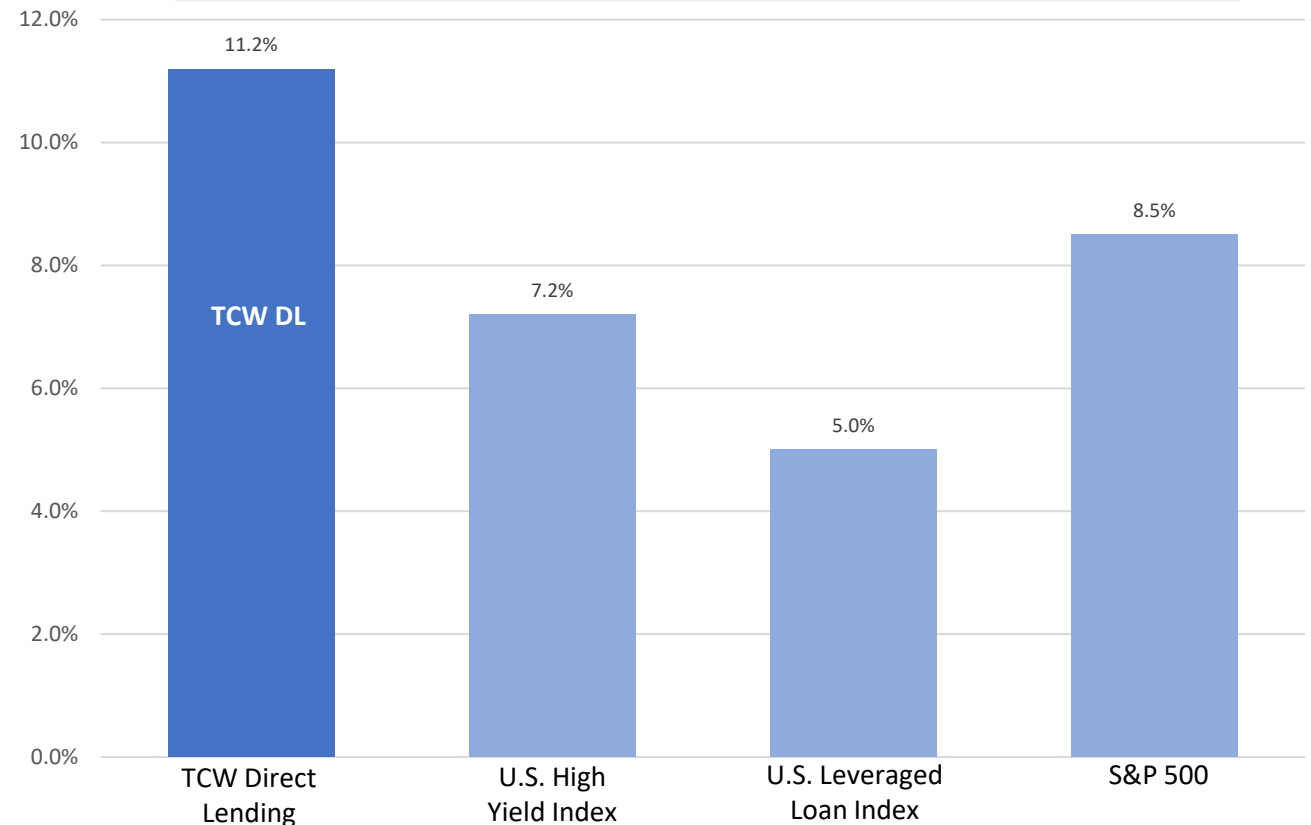
Additional Amount Approved: \$200M

Asset Class: Non-Core Fixed Income

Prior Investments with Manager (year, \$):

- TCW Brazos Fund (2015, \$300M)

Since inception in 2001, the TCW Direct Lending Strategy has outperformed the U.S. High Yield Total Return Index, U.S. Leveraged Loan Index and S&P 500.



Requested Board Action

- TMRS Staff recommends with Albourne support that the Board approve the following additional commitment:
 - TCW Brazos Fund \$200 million



September 13, 2022

To: Board of Trustees

From: David J. Hunter, Chief Investment Officer

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

Re: Agenda Item 11: Board Education: Private Equity

In accordance with the Investment Policy Statement, comprehensive asset class reviews are conducted at least annually. At the September Board meeting, Tom Masthay, Deputy CIO, will present the Private Equity Asset Class review. The presentation material is available in the Diligent Resource Center in the tab titled "September 22, 2022, Board Meeting."



Board Education: Private Equity Asset Class

Tom Masthay, Jacob Bowland, Ngoc Can, and Josh Garcia

September 22, 2022

Refresher: What is Private Equity?

Private Equity (PE) is included in the TMRS Trust Fund to be a return enhancer.

PE pursues the following strategies:

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

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

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

Presentation Goals

Team, Process, and Strategic Goals Review

- Team and process updates.
- Strategic goals: i) outperformance; ii) target allocation; iii) fee reduction.

Portfolio Construction

- Strategy allocation and other key portfolio construction metrics.
- Target allocation progress and IPS compliance.

Performance

- PE performance metrics primer.
- TMRS performance review – PE portfolio is outperforming goals.

Looking Forward: Pacing and Goals

- Projections for go-forward PE allocations.
- 2022 goals review / 2023 goals.

Team & Process



Tom Masthay
Deputy CIO



Jacob Bowland
Sr. Portfolio Mgr.



Ngoc Can
Sr. Portfolio Mgr.



Josh Garcia
Sr. Inv. Analyst

In 2022, TMRS adopted a “one-team” initiative, moving to a more inclusive investment team framework.

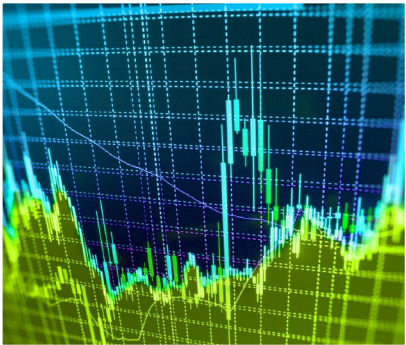
The PE team is made up of 4 PE specialists, supplemented by other TMRS investment professionals lending their experiences and perspectives to all PE deal flow.

Each investment moves through independent consultant vetting and three formal steps of internal review.

Strategic Goals

Three strategic PE goals drive portfolio construction.

Outperform Public Equities



Performance

Portfolio is outperforming on all relevant metrics.

Achieve 10% Target Allocation



Scale

10% target achieved for first time on 8/31/2022.

Reduce Program Costs



Cost Reduction

Scaling of co-investments is reducing program costs.

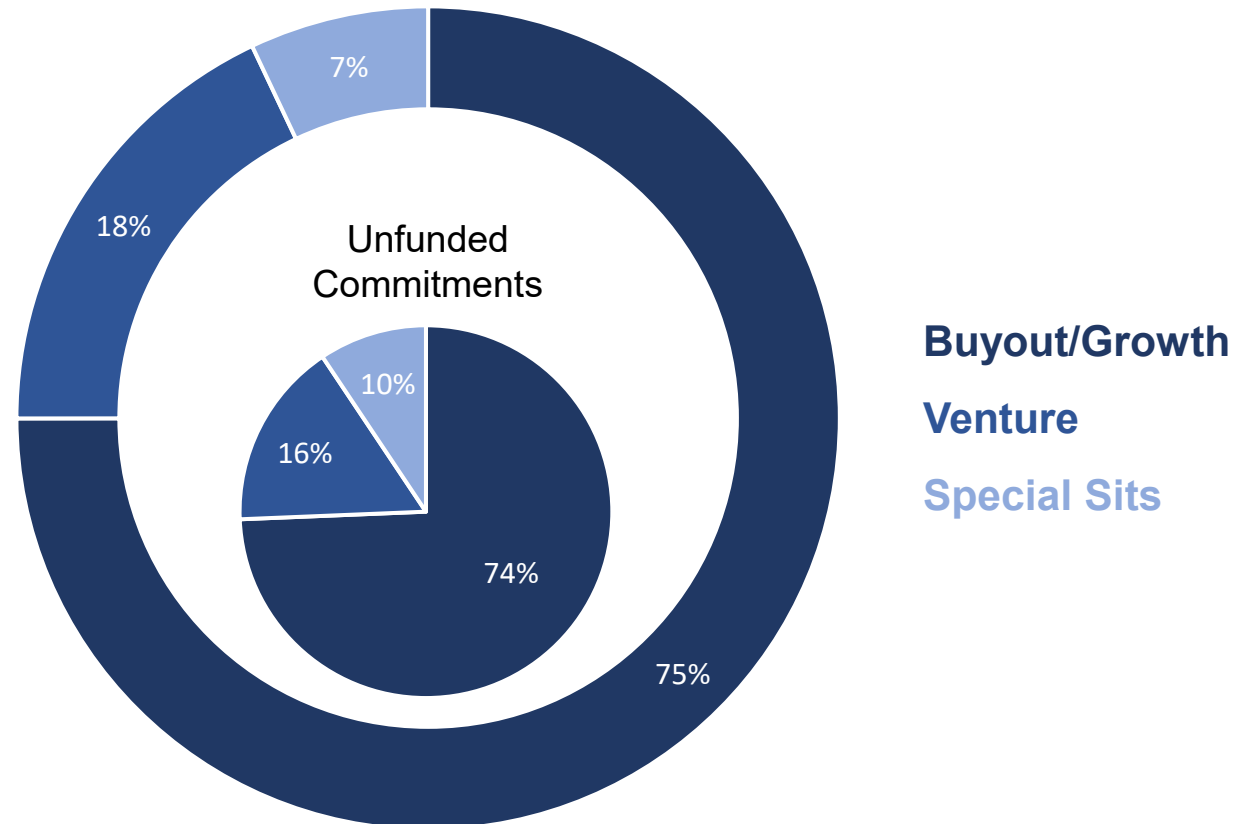
Portfolio Construction

PE Portfolio Summary as of 8/31/2022:

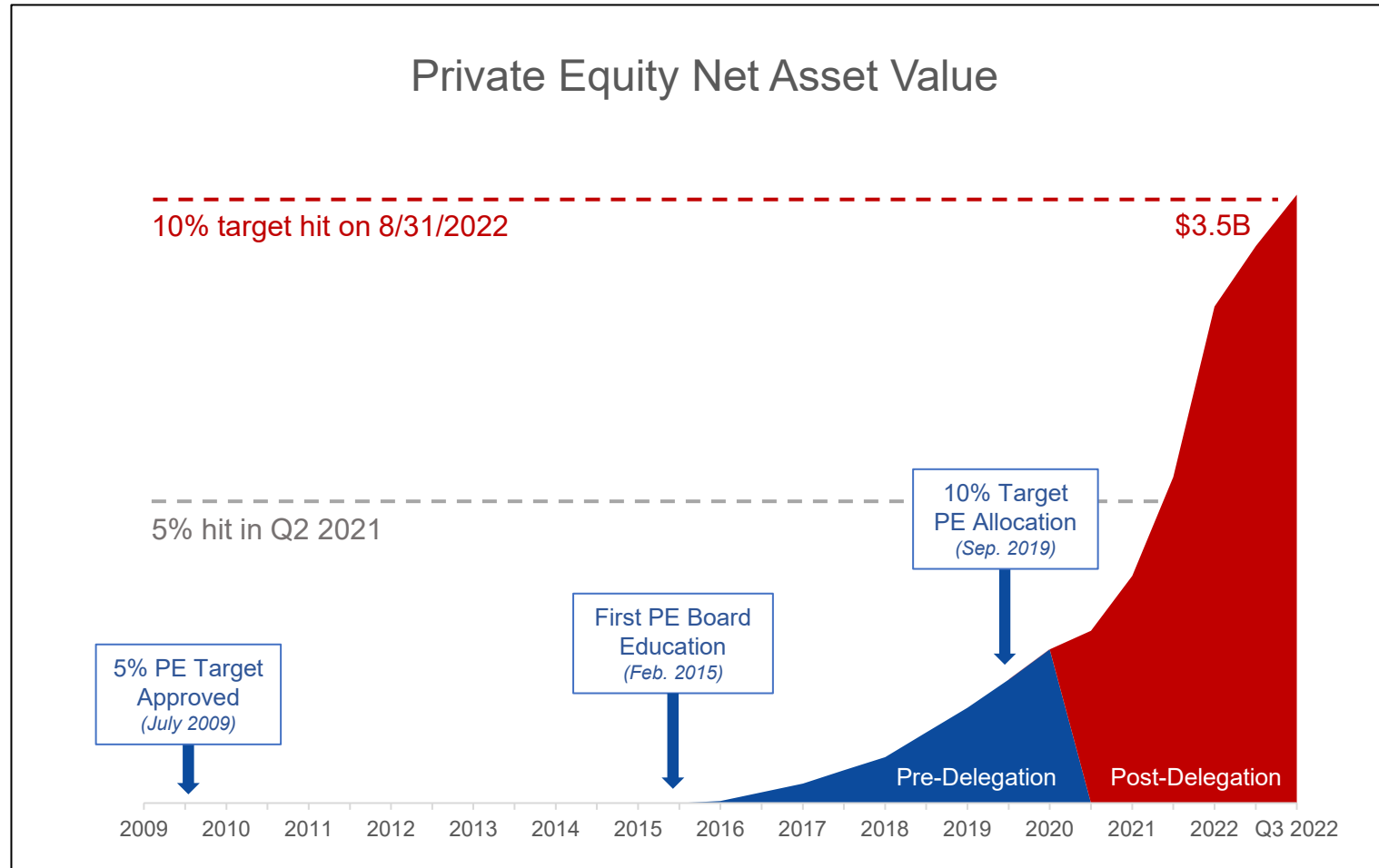
Total Commitments:	\$6.5 billion (\$5.4B)
Net Asset Value:	\$3.5 billion (\$2.1B)
Portfolio Weight:	10.11% (5.75%)
Core Managers:	32 (32)
Investment Funds:	82 (69)
Co-Investment:	\$457M, 13% (\$208M, 10%)
Mgt. Fee % of NAV:	1.92% (2.14%)

2021 data shown in parenthesis.

Market Value Exposure by Strategy



Strategic Target Allocation



IPS Compliance

The PE portfolio is compliant with all IPS provisions.

- **Strategy Concentration** – TMRS in compliance with all sub-category limits.
- **Geographic Concentration** – Max 25% international.
- **Manager Concentration** – No more than 35% of PE invested with one manager.
- **Vehicle Concentration** – No more than 25% of PE invested in one vehicle.
- **Percentage of Manager AUM** – TMRS is not more than 25% of manager's AUM.
- **Vintage Year Concentration** – No more than 35% committed in any one calendar year.

PE Performance Metrics Primer

PE performance is measured across multiple relevant metrics:



Vs. Asset Allocation Expectation *(Time-Weighted Performance as of June 30, 2022 is lagged)*

5 yr. TMRS PE Performance of 24.0% > 2021 RVK Asset Allocation Expectation of 8.4%.



Vs. Public Equity Benchmark

TMRS PE significantly outperformed its public equity benchmark over all time periods since inception.



Vs. Median Manager Selection

TMRS manager selection significantly outperformed median manager in all time periods when measured by Net Internal Rate of Return (IRR) or Multiplies Of Invested Capital (MOIC).



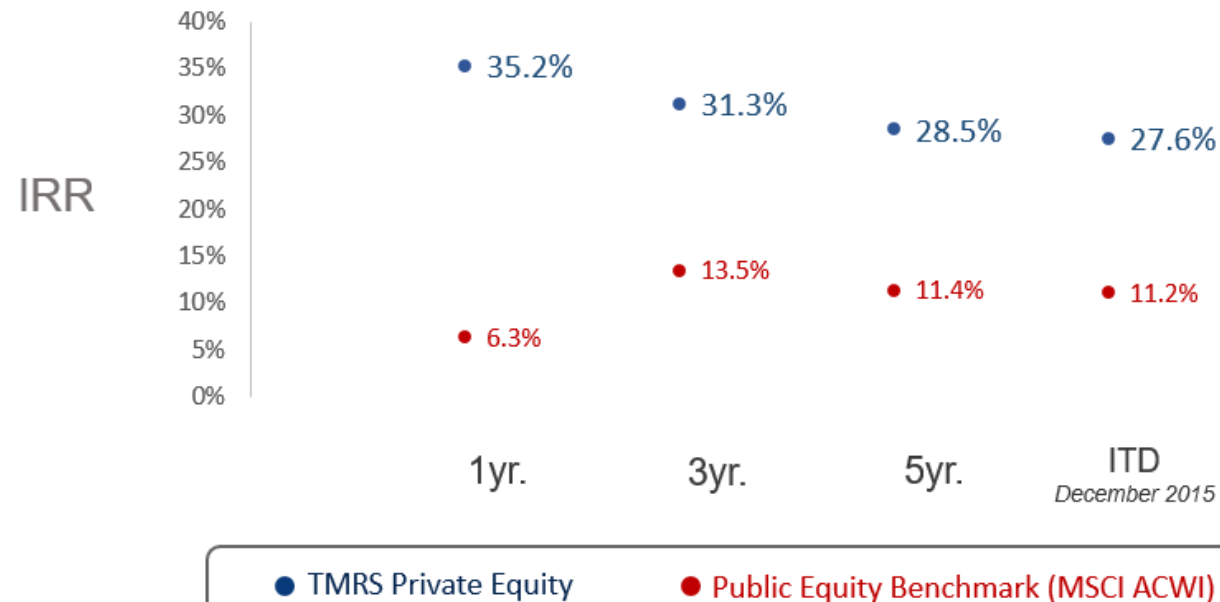
Vs. Peer Institutions *(Multiple Metrics)*

Data available suggests TMRS PE has outperformed most peer institutions.

TMRS PE vs. Public Equity

TMRS PE Performance vs. Public Equity

as of 3/31/22



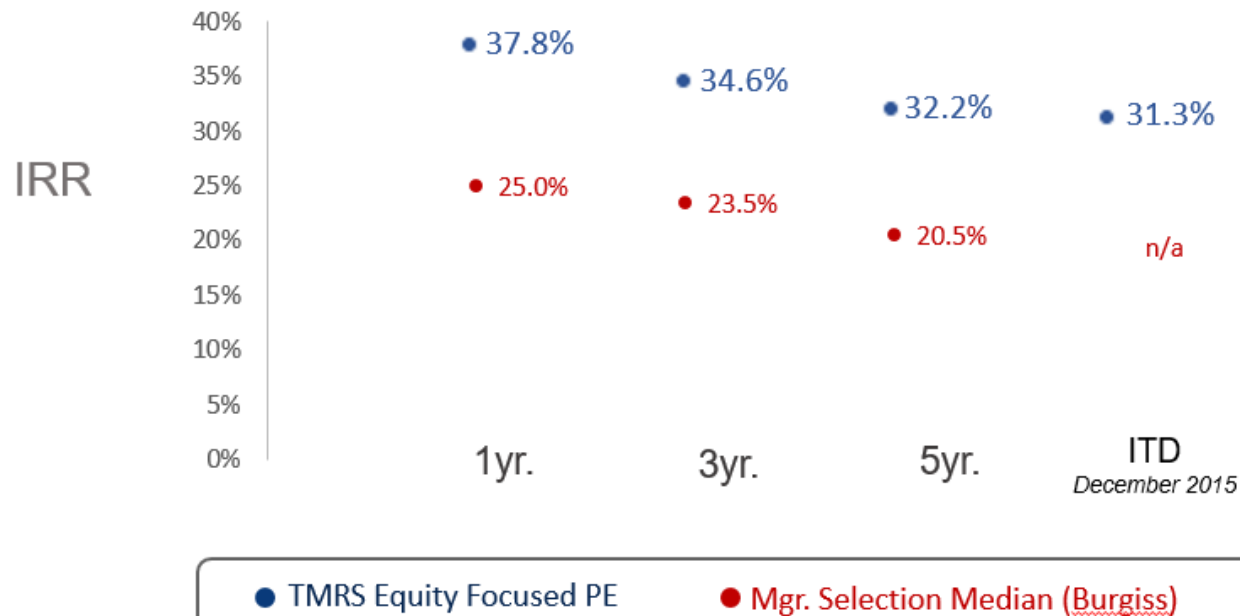
IRR = Net Internal Rate of Return

TMRS' PE portfolio has achieved meaningful long-term return premiums relative to its public equity benchmark.

TMRS vs. Median Manager Selection

TMRS Net PE Performance vs. Manager Selection Median

as of 3/31/22



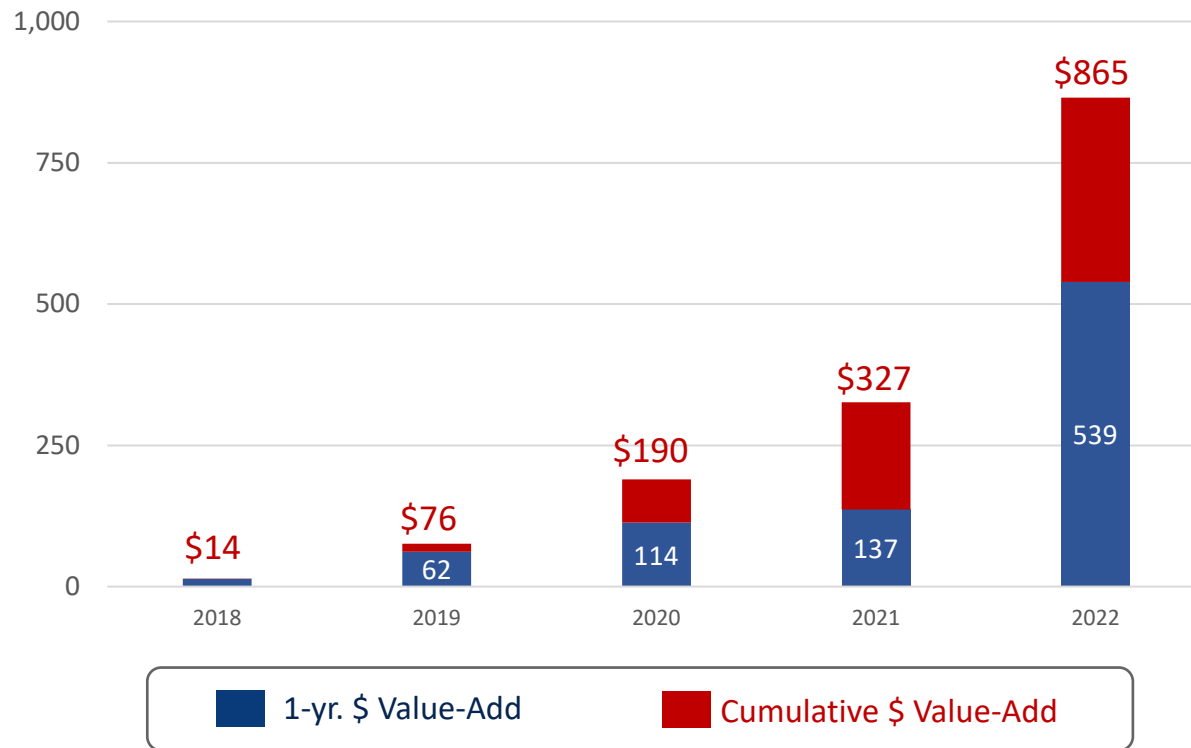
IRR = Net Internal Rate of Return

TMRS' PE portfolio has achieved meaningful long-term return premiums relative to median manager selection metrics.

What PE Outperformance Means for TMRS

TMRS PE Dollar Outperformance of Public Equity

as of 3/31/22

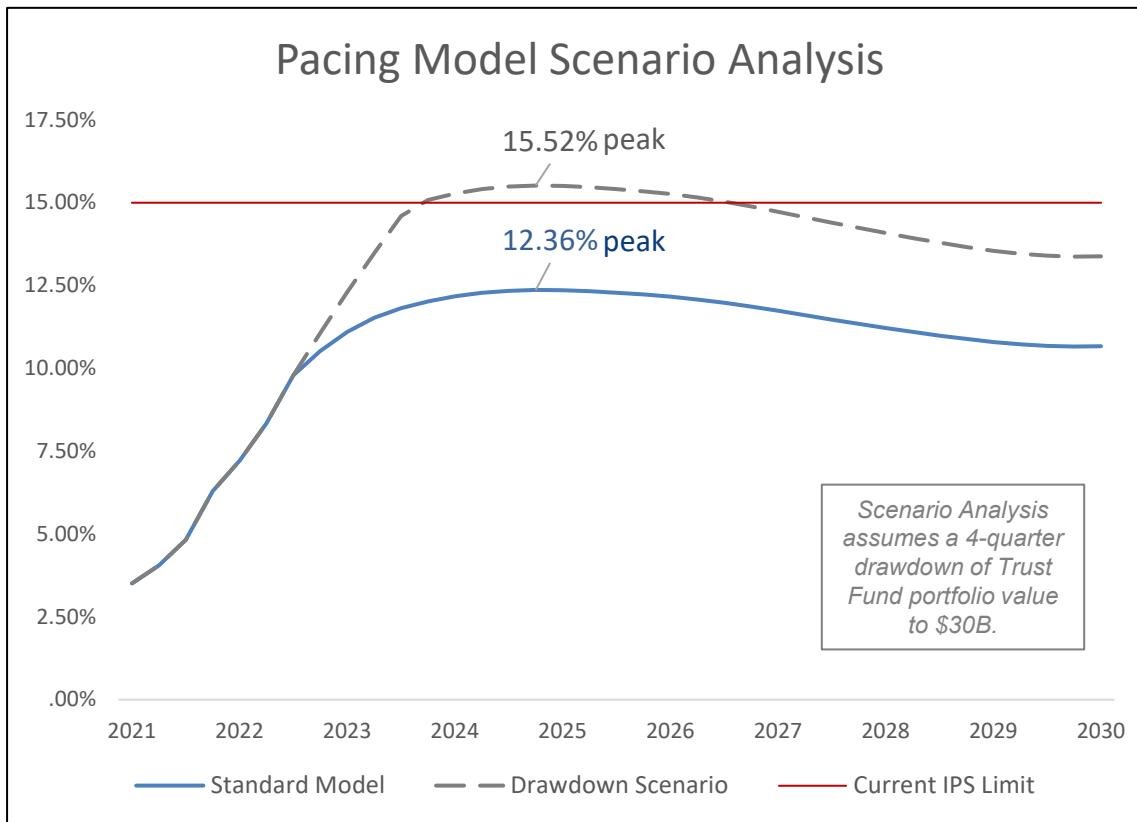


\$ millions; dates as of 3/31 of each year

The TMRS Trust Fund has earned ~\$865 million more in reported value than if invested in public equity.

Dollar outperformance has increased as the PE portfolio has increased in scale.

PE Pacing / Expected Allocation Level



Factors affecting PE Allocation

1) Public Equity Market Values

↓ in public equity markets causes an
↑ in PE allocation.

2) New Commitment Activity

Discipline to pacing models keeps
allocation in line with target in long-run.

3) Pace of Capital Deployment

Economic slowdown initially causes pace
to slow. Deployment can rebound quickly.

4) Pace of Return of Capital

Economic slowdown initially causes pace
to slow. Distributions return slowly.

Accomplishments & Planning

2022 Goals

Goals presented at October 2021 Board meeting



Commit \$900M+ of capital.

\$852M committed YTD. Anticipate \$900M+ of commitments will be reached in Q4.



Scale co-investments / fee-efficiency.

Co-investments increased from \$208M last year to \$457M today. Mgt. fee has fallen from 2.14% of NAV last year to 1.37% today.



Maintain Relative Performance Edge.

Performance vs. public equity, manager selection benchmarks, peers, and asset allocation assumptions remain strong.

2023 Goals



Commit \$900mm +/- \$300M of capital.

~\$900M of commitments models to keep TMRS at or around target PE allocation.



Continue to scale co-investments.

Using existing co-investment vehicles and introducing deal-by-deal co-invest benefits the Trust Fund by lowering fees.



Maintain relative performance edge.

PE is a return enhancer for the portfolio and is expected to be the highest returning asset class in the long-run.



September 13, 2022

To: Board of Trustees

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

From: David J. Hunter, Chief Investment Officer

Re: Agenda Item 12: General Investment Consultant Quarterly Report

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

RVK's Quarterly Investment Performance Analysis is available in the Diligent Resource Center in the tab titled "September 22, 2022 Board Meeting."

ATTACHMENTS:

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



Quarterly Board Executive Summary Presentation

Texas Municipal Retirement System

Period Ended: June 30, 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	-5.83	-7.46	-2.95	5.51	5.86	5.90	6.42
Actual Allocation Benchmark	-7.68	-9.03	-5.30	4.82	5.33	5.41	6.04
Difference	1.85	1.57	2.35	0.69	0.53	0.49	0.38

The Total Fund returned -5.83% net of fees in the second quarter and -2.95% over the trailing 12 months.

- Second Quarter – TMRS outperformed the Actual Allocation Benchmark (-7.68%) by 185 basis points.
 - Outperformance for the quarter was driven primarily by Private Equity and OPPM, which outperformed their custom benchmarks by 971 and 425 basis points, respectively.
- Trailing year – TMRS outperformed the Actual Allocation Benchmark (-5.30%) by 235 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 2545 and 531 basis points, respectively.
 - Hedge Funds and Total Equity detracted from relative performance as they trailed their custom benchmarks by 459 and 66 basis points, respectively.

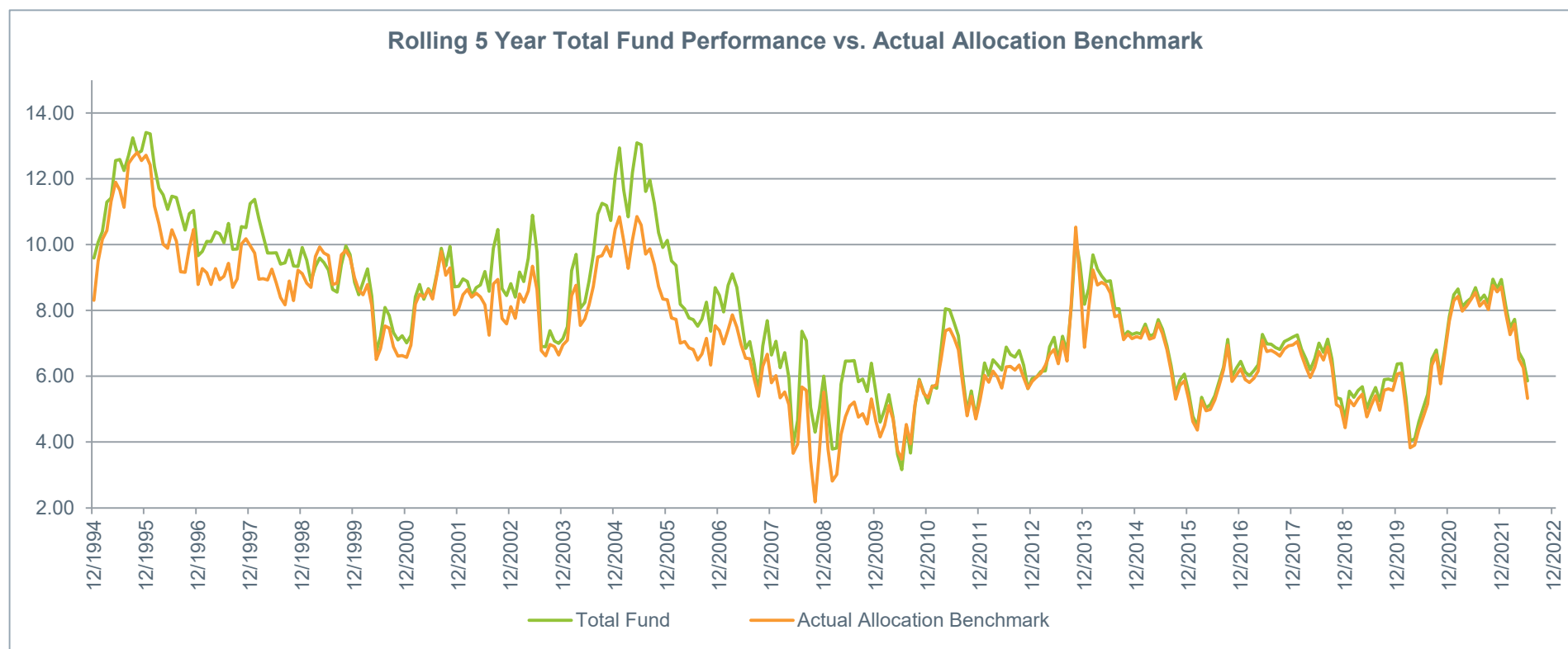
The Total Fund outperformed the Actual Allocation Benchmark net of fees for all periods as of June 30, 2022.

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 53 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.



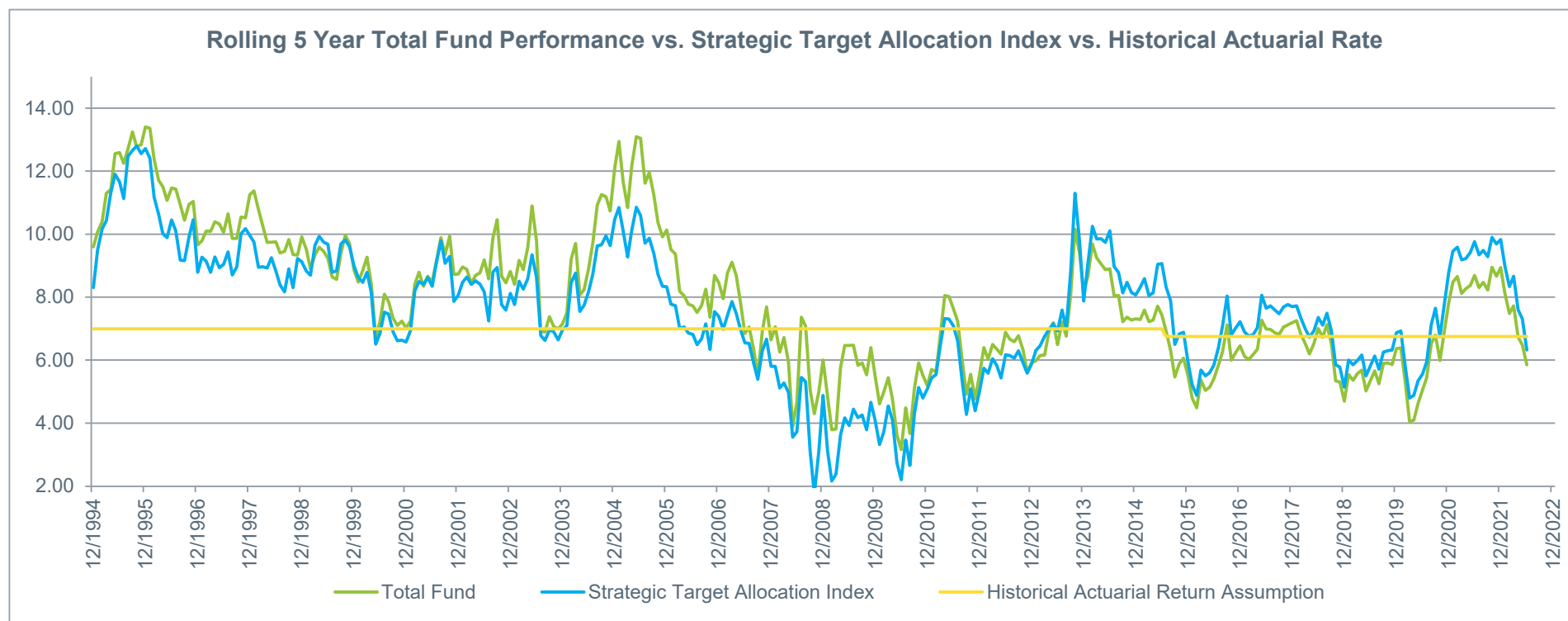
Performance shown is net of fees. Please see the Addendum for custom benchmark definitions.

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 6.32%.



Asset Class Performance

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

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

- Relative Outperformers – Four of the seven Asset Classes matched or exceeded their benchmarks, net of fees, in the quarter. Private Equity and OPPM were the top relative performers, beating their custom benchmarks by 971 and 425 basis points, respectively.
- Relative Underperformers – Hedge Funds and Core Fixed Income were the primary detractors in the second quarter, trailing their custom indices by 329 and 10 basis points, respectively. Total Equity also trailed its primary benchmark by 2 basis points.

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 70 basis points and Hedge Funds trailed its custom benchmark by 87 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	6.12	6.82	No
Core Fixed Income	Bloomberg US Agg Bond Index	1.17	0.88	Yes
Non-Core Fixed Income	Non-Core Fixed Income Benchmark	4.25	2.71	Yes
Other Public & Private Markets	OPPM Benchmark	3.91	3.13	Yes
Real Estate	NCREIF ODCE Index	10.65	9.68	Yes
Hedge Funds	Hedge Funds Benchmark	4.55	5.42	No
Private Equity	Private Equity Benchmark	23.96	18.75	Yes

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	34,796,385,530	100.00	-5.83	-7.46	-2.95	5.51	5.86	5.90	6.42	6.57	8.15	01/01/1989
Actual Allocation Benchmark			-7.68	-9.03	-5.30	4.82	5.33	5.41	6.04	6.12	7.59	
Difference			1.85	1.57	2.35	0.69	0.53	0.49	0.38	0.45	0.56	
Total Equity	11,411,970,075	32.80	-15.85	-20.99	-17.18	4.93	6.12	6.62	8.83	N/A	5.63	02/01/2008
Total Equity Benchmark			-15.83	-20.44	-16.52	5.98	6.82	7.13	9.16	N/A	5.82	
Difference			-0.02	-0.55	-0.66	-1.05	-0.70	-0.51	-0.33	N/A	-0.19	
Core Fixed Income	1,752,376,776	5.04	-4.79	-10.42	-10.35	-0.62	1.17	1.66	1.74	3.52	6.76	01/01/1989
Fixed Income Benchmark			-4.69	-10.35	-10.29	-0.94	0.88	1.42	1.54	3.20	6.25	
Difference			-0.10	-0.07	-0.06	0.32	0.29	0.24	0.20	0.32	0.51	
Non-Core Fixed Income	7,162,836,322	20.59	-2.12	-2.04	-0.71	3.77	4.25	4.20	N/A	N/A	4.16	10/01/2014
Non-Core Fixed Income Benchmark			-5.29	-7.69	-6.02	1.56	2.71	2.76	N/A	N/A	2.82	
Difference			3.17	5.65	5.31	2.21	1.54	1.44	N/A	N/A	1.34	
OPPM	3,837,928,213	11.03	-6.65	-8.57	-4.82	3.49	3.91	3.66	3.10	N/A	3.59	02/01/2011
OPPM Benchmark			-10.90	-11.36	-6.58	2.16	3.13	3.36	2.55	3.87	3.32	
Difference			4.25	2.79	1.76	1.33	0.78	0.30	0.55	N/A	0.27	
Real Estate	4,348,913,851	12.50	8.57	14.49	26.83	11.09	10.65	11.37	11.38	N/A	11.11	01/01/2012
Real Estate Benchmark			7.14	15.34	27.26	10.96	9.68	10.02	10.82	6.93	10.88	
Difference			1.43	-0.85	-0.43	0.13	0.97	1.35	0.56	N/A	0.23	
Hedge Funds	2,720,124,623	7.82	-0.42	-1.98	-0.72	4.30	4.55	4.29	N/A	N/A	4.20	08/01/2014
Hedge Funds Benchmark			2.87	4.22	3.87	7.32	5.42	3.74	4.54	2.42	3.94	
Difference			-3.29	-6.20	-4.59	-3.02	-0.87	0.55	N/A	N/A	0.26	
Private Equity	3,404,212,222	9.78	4.24	12.05	31.75	27.19	23.96	N/A	N/A	N/A	19.15	01/01/2016
Private Equity Benchmark			-5.47	0.30	6.30	18.41	18.75	N/A	N/A	N/A	15.28	
Difference			9.71	11.75	25.45	8.78	5.21	N/A	N/A	N/A	3.87	
TMRS Unallocated Cash	158,023,448	0.45	0.26	0.29	0.29	0.60	1.04	0.95	0.72	N/A	0.60	06/01/2008
FTSE 30 Day T-Bill Index			0.10	0.12	0.15	0.53	1.02	0.81	0.57	0.62	0.46	
Difference			0.16	0.17	0.14	0.07	0.02	0.14	0.15	N/A	0.14	

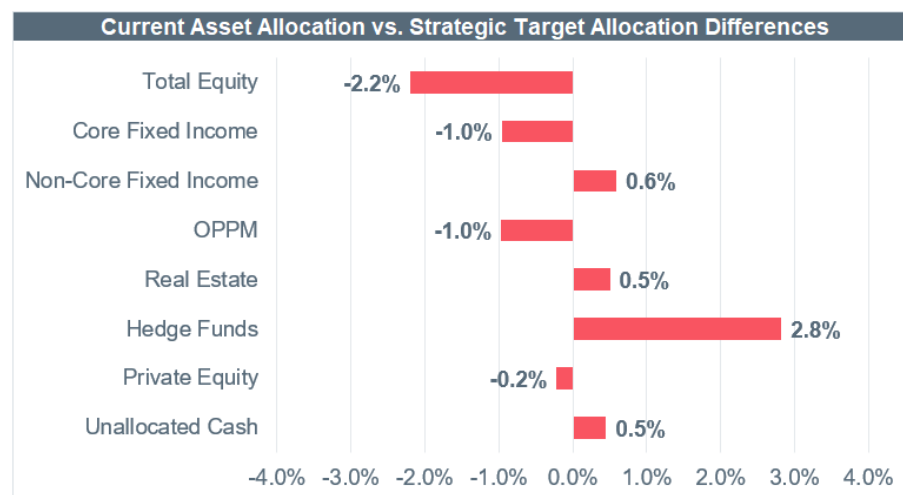
Performance shown is net of fees. Please see the Addendum for custom benchmark definitions.

Asset Allocation Relative to Target

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

The Total Fund market value was \$34.8 billion as of June 30, 2022, a decrease of approximately \$220 million for the quarter. 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	34,796,385,530	100.0	100.0	-	-
Total Equity	11,411,970,075	32.8	35.0	25.0	45.0
Core Fixed Income	1,752,376,776	5.0	6.0	1.0	11.0
Non-Core Fixed Income	7,162,836,322	20.6	20.0	15.0	25.0
OPPM	3,837,928,213	11.0	12.0	7.0	17.0
Real Estate	4,348,913,851	12.5	12.0	7.0	17.0
Hedge Funds	2,720,124,623	7.8	5.0	0.0	10.0
Private Equity	3,404,212,222	9.8	10.0	5.0	15.0
Unallocated Cash	158,023,448	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.

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September 13, 2022

To: Board of Trustees 
From: David J. Hunter, Chief Investment Officer
Re: Agenda Item 13: General Investment Consultant Report

NEPC's Risk Appetite Survey is attached. The purpose of the Survey is to assess Trustees' view on risk. Sam Austin will discuss the Survey at the September meeting.


ATTACHMENT:

1 – NEPC Risk Appetite Survey



September 13, 2022

To: Board of Trustees

From: David Wescoe, Executive Director A handwritten signature in blue ink, appearing to read "David", is written over the name "David Wescoe".

Re: Agenda Item 14: Strategic Plan Process and Possible Goals

Preparations for the October Board Retreat are well underway. Each of you has visited with Greg Carpenter, our Retreat facilitator, and Sandra Vice and Leslie Ritter have facilitated sessions with each TMRS department to gather staff's ideas on Vision 2025 and TMRS' mission, vision, and core values. Similar discussions also were held with the Senior Staff and TMRS advisors.

Greg will attend Thursday's Board meeting and discuss the Retreat.

A Retreat Schedule and Supplemental Material, including staff suggestions for TMRS' mission, vision, core values, and potential strategic goals, are attached.