



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

December 14, 2023 – 9:00 a.m.

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

Staff present included: Debbie Muñoz, Christine Sweeney, Anali Alanis, Jac Greene, David Hunter, Kristyn Scoggins, Tom Masthay, Candace Nolte, Leslie Ritter, Darren Schlissel and Josh Garcia. Consultants present included: Robert Klausner and Sam Austin. Michelle Mellon-Werch served as Secretary of the meeting.

Mr. Scott called the meeting to order at 9:02 a.m.

Consent Agenda

1. Consider and Act on Consent Agenda.

Mr. Landis moved that the Board adopt the Consent Agenda. Mr. Philibert seconded the motion, which passed 5-0.

Staff Reports

2. Receive Executive Director and Senior Staff Reports.

Ms. Sweeney stated that the reports are in the Board's materials.

Stakeholder Advisory Committee

3. Report on Stakeholder Advisory Committee Meeting.

Mr. Scott reported that the Stakeholder Advisory Committee held its first meeting on November 16, 2023. Ms. Muñoz stated that the Committee reviewed the potential topics provided by the Board. Mr. Scott discussed House Bill 2464 that added a new non-retroactive repeating cost of living (COLA) option to the TMRS Act. Ms. Muñoz stated that 28 cities have adopted the new COLA option. Mr. Scott then reviewed the topics the Committee discussed, including COLAs, the effective date of plan changes, "Stat Max," city match options, and USC

and COLA provisions. Mr. Garza stated that he was pleased that the Committee discussed many of the variables related to the topics presented.

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

Mr. Garza asked why the System moved from 5% increments for COLAs to the current three options (i.e., 30%, 50% or 70% of CPI). The Board discussed the potential topics with staff. Mr. Landis expressed an interest in balancing the availability of options with the ability of staff, internal systems, and consultants to manage the variables. Mr. Garza recommended the Board have the Committee focus on the benefit options that currently exist and improving flexibility, but not expand benefits.

Mr. Landis moved that the Board approve and assign the following topics to the Committee: making plan changes effective January 1 and removal of Stat Max provisions. Mr. Huizar seconded the motion.

Mr. Garza moved to amend the motion on the table to include the topics of reviewing the COLA benefits and decoupling COLA and USC benefits. Mr. Landis seconded Mr. Garza's motion.

The motion, as amended, passed 5-0.

Board Organization

5. Consider and Act on 2024 Board Meeting Dates.

Ms. Sweeney stated that the TMRS Act only requires that the Board hold four meetings a year. In 2023, the Board held five meetings and a retreat. For 2024, staff proposed two different sets of meeting dates for the Board's consideration – one with five meeting dates and one with six.

Mr. Scott asked how TMRS would manage the actuarial valuation, ACFR and annual audit without a meeting in May. Ms. Sweeney stated that staff discussed this with GRS. The annual valuation and proposed city contribution rates would be included on the June agenda, along with the ACFR. Ms. Hardy stated that both she and GRS were comfortable with the proposed meeting dates and that city rate letters would not be delayed, they would just state they were contingent on the Board's approval of the valuation at the June meeting. Ms. Hardy said she could not recall a time since being at TMRS that the Board had not voted to approve the annual valuation and contribution rates presented by GRS. Mr. Scott stated he was uncomfortable with the idea of sending rate letters before the Board had approved the rates. The Board further discussed dates and timing of the meetings and the retreat.

Mr. Landis moved to approve the following schedule of Board meeting dates for calendar year 2024:

- March 28
- May 23
- June 27
- September 19
- October 24 – Retreat
- December 12

Mr. Huizar seconded the motion, which passed 5-0.

6. Consider and Act on Election of 2024 Board Officers.

Ms. Sweeney stated the Board’s Bylaws provide that the Board will annually elect a Chair and Vice Chair, to serve for a one-year term.

Mr. Philibert nominated Mr. Huizar for Board Chair. Mr. Landis seconded the nomination, which passed 5-0.

Mr. Landis nominated Mr. Philibert for Board Vice Chair. Mr. Garza seconded the nomination, which passed 5-0.

Ms. Alanis thanked Mr. Scott for his service as Board Chair and noted his accomplishments and leadership. She then presented Mr. Scott with an appreciation plaque.

7. Consider and Act on 2024 Board Committee Appointments.

After discussion, Mr. Landis moved that the Board keep the same assignments for the Committees as in 2023 but flip the Chair and Vice Chair of each Committee for 2024. Mr. Huizar seconded the motion, which passed 5-0.

Internal Audit

8. Report on Audit Committee Meeting.

Ms. Scoggins reported that the Audit Committee met on November 14. Mr. Landis reported that the Committee heard updates on the Quality Assurance and Improvement Program and the 2023-2024 Audit Plan, received the 2024 Risk Assessment, and approved forwarding the 2024 Internal Audit Budget to the Board for approval as part of the Operating Budget.

7. Consider and Act on 2024 Board Committee Appointments.

Mr. Garza asked that the Board return to Agenda Item 7. Mr. Scott agreed. Mr. Garza then stated that with the motion, as approved, he wanted to make sure the Board was aware he

would be Chairing both the Audit Committee and the Stakeholder Advisory Committee. The Board discussed the matter.

After discussion, Mr. Garza moved that the Board keep the same assignments for the Committees as in 2023 but flip Chair and Vice Chair of each Committee for 2024, except for the Audit Committee which will remain with the current Chair (Mr. Landis) and Vice Chair (Mr. Garza). Mr. Landis seconded the motion, which passed 5-0.

Finance and Human Resource Reports

9. Consider and Act on Proposed 2024 Operating and Capital Budgets.

Ms. Nolte presented the proposed 2024 Operating and Capital Budgets. She stated the 2024 Operating Budget is only 2% over 2023. Staff presented a preliminary Operating Budget in September, and the final budget is \$294,000 less due primarily to a decrease in investment-related information technology spending.

The Board asked about various added expenses and staff provided explanations. Ms. Nolte then stated that there were no changes in the Capital Budget from the preliminary budget presented in October.

Mr. Landis moved that the Board adopt the 2024 Operating and Capital Budgets. Mr. Garza seconded the motion, which passed 5-0.

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

Ms. Nolte presented the amount necessary to transfer from the Trust Fund to the Expense Fund to cover TMRS' budgeted expenses for 2024. She explained Board policy has been to maintain a reserve in the Expense Fund equal to 15% of the next year's budget. This reserve amount, combined with the amount required for the 2024 Operating and Capital Budgets, offset by the amount currently remaining in the Expense Fund, totals \$38.3 million.

Mr. Huizar moved that the Board transfer \$38.3 million from the Interest Reserve Account to the Expense Fund to cover 2024 budgeted expenses. Mr. Philibert seconded the motion, which passed 5-0.

Investments

11. Investment Reports.

Mr. Hunter reported that the TMRS Trust Fund's net returns exceeded its benchmark by at least 50 basis points on a rolling five-year basis and that the Trust Fund's risk and returns ranked in the first and second quartile for the one-year ending September 30, 2023. These met

the financial objectives set by the Board. He also reported that Trust Fund net returns exceeded the actuarial return assumption for the one-year ended September 30, 2023, at 10.2%. Staff remains focused on streamlining managers by expanding commitments with top performing managers and reducing commitments with below median firms or strategies that are no longer strategically aligned. Staff closed on more than \$4 billion new investments and the Staff Investment Committee has approved \$560 million new investments with four existing firms in Non-Core Fixed Income. Mr. Hunter next reviewed returns as compared to the benchmarks, noting that as of September 30, 2023, the actual returns exceeded the benchmarks for the one-year, three-year and five-year timeframes. He reviewed current asset allocation, which is within the Investment Policy Statement guidelines, and actual allocation risk, which is within expected assumptions.

In light of Mr. Hunter's upcoming retirement from TMRS, Mr. Scott stated how much he appreciated Mr. Hunter's contributions to TMRS and, on behalf of the Board, presented Mr. Hunter with a plaque to thank him for his service and wish him well.

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

Mr. Hunter presented an overview of the staff's recommendations for amendments to the Investment Policy Statement.

Mr. Philibert moved that the Board approve the amendments to the Investment Policy Statement. Mr. Landis seconded the motion, which passed 5-0.

13. Receive 2024 Investment Pacing Plan.

Mr. Masthay presented the 2024 Private Market Pacing Plan. He explained the mechanics behind the pacing model with respect to timing of investments, diversification of vintage years and discipline in deployment. The allocations are well positioned to be quickly aligned with the new 2024 private market allocations target of 48%. He reviewed the 2023 pacing budget for Private Equity, Private Debt, Real Estate and Other Public and Private Markets. In presenting the 2024 pacing budget, Mr. Masthay explained that staff had subdivided some asset classes into additional new categories, which include Private Equity, Private Debt, Real Estate, Infrastructure and Other Private Markets and reviewed the expected 2024 budget for each class.

Mr. Scott stated that he was impressed with the accomplishments of the Investment staff in 2023.

14. General Investment Consultant Quarterly Report.

Mr. Austin presented his 2023 Third Quarter Performance report. He reviewed the policy ranges for all the asset classes and confirmed that the portfolio is within all ranges. Mr. Austin

stated that TMRS' risk to return ratio is in the top 8% of its peer group public pension funds in the one-year period, which is much improved from the past five-year period.

The Board discussed the year-end expectations for the Fund with Mr. Austin and staff.

15. Board Education: Fixed Income Asset Class.

Darren Schlissel discussed the goal of the fixed income portfolio to diversify risk through capital preservation, income and capital appreciation. Fixed Income is currently divided into Core Fixed income, with a 6% target allocation, and Non-Core Fixed Income, with a 20% target allocation. Per the updated Strategic Asset Allocation effective beginning in 2024, the Non-Core Fixed Income asset class will be further subdivided into public Non-Core Fixed Income and Private Debt, with new reduced targets of 6% and 13% respectively. Mr. Schlissel reviewed the different strategies that extend from lower return and lower risk to higher return with higher risk. Mr. Schlissel reported that the asset class has met its 2023 goals and reviewed the goals for 2024. The Board asked several questions and staff responded.

16. Board Education: Private Equity Asset Class.

Josh Garcia reviewed the purpose of the Private Equity asset class to enhance total return and diversify the Trust Fund. He reminded the Board that Private Equity is generally expected to be an illiquid and long-term investment. He then reviewed the strategies used in Private Equity, including special situations, buyout/growth and venture capital. Mr. Garcia reviewed the asset class's performance in 2023 and the construction of the asset class. Mr. Garcia described TMRS' co-investment program, which reduces costs by investing more directly with managers TMRS has previously invested with. Mr. Garcia reported that the Private Equity asset class has met its 2023 goals and reviewed the goals for 2024.

Future Board Agenda Items

17. Call for Future Agenda Items.

Mr. Scott called for future agenda items. There being none, Mr. Scott adjourned the meeting at 11:27 a.m.


Christine Sweeney
Chief Legal Officer


Bob Scott
Chair, Board of Trustees