



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

**May 25, 2023 – 8:30 a.m.**

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

Staff present included: David Wescoe, Debbie Muñoz, Christine Sweeney, Mike Apperley, Jac Greene, David Hunter, Leslee Hardy, Dan Wattles, Madison Jechow, Nick O’Keefe, Tom Masthay, and Monica Huffer. Consultants present included: Robert Klausner, Samuel Austin, Joe Newton, and Janie Shaw.

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

**Non-Agenda Public Comment: TMRS’ Investment in Instar’s Fund II**

Roman Pinal, Organizing Director for the United Farmworkers of America Union, addressed the Board via Zoom regarding Instar Fund II.

**Consent Agenda**

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

Mr. Landis moved that the Board adopt the Consent Agenda, including the Minutes from the March 23, 2023 Board meeting. Ms. Alanis seconded the motion, which passed 5-0.

**Executive Director’s Reports**

**2. Executive Director’s Report.**

Mr. Wescoe congratulated Mr. Landis on the Texas Senate confirming his appointment by Governor Greg Abbott to the Board for another six-year term. The Texas Legislature passed House Bill 2464, which provides a new COLA option to cities for a limited time. In March, TMRS launched its inaugural Leadership Academy with 15 staff members. The TMRS Education Team started monthly webinars, and the survey results are exceptional. Debbie Muñoz and Anthony Mills have established a City Focus Group with five city staff to solicit feedback on TMRS

policies, processes, training, and communication. Activities underway to celebrate TMRS' 75<sup>th</sup> Anniversary include a reception that TMRS will host on June 21.

### **3. Discuss, Consider and Act on Advisory Committee on Benefit Design.**

Mr. Wescoe said that after discussion by the Board in March, consensus appears to be to retain an Advisory Committee but change its name and expand its charter. Scott Leeton, Committee representative from and Vice President of the Combined Law Enforcement Associations of Texas, spoke and said that the Committee has been successful and asked the Board to keep it as is so that stakeholders remain involved. Trustee Philibert said he feels strongly about continuing the Committee and expanding its charter. Ms. Alanis said it is important to have this group of stakeholders, that the Committee's scope should be expanded to items requested by the Board. Mr. Landis said the Committee is vital to keeping the Board in the loop of what stakeholders are discussing, and he supports providing the Committee a broader scope and keeping the current membership. Mr. Huizar agreed. Mr. Scott requested that the Committee charter be amended so that Committee representatives be members of, or appointed by, the governing boards of the represented stakeholders. He also recommended that the current Committee position for elected officials – a group whose members are busy serving constituents and who are unlikely to participate in TMRS benefits – be transferred to an active member and suggested developing a process to seek possible candidates from employee groups representing public works, parks, or other city employees. Mr. Wescoe said that staff will recommend changes to the Committee charter consistent with the Board's comments for action at the next Board meeting.

### **Audit Committee Report**

#### **4. Report on Audit Committee Meeting and Consider and Act on Appointment of an Internal Auditor.**

Mr. Apperley said the Audit Committee unanimously recommended Kristyn Scoggins for Director of Internal Audit. Staff reviewed 52 applications, from which 14 applicants were interviewed and 4 received second interviews. He said that Ms. Scoggins has worked for the State of Texas for more than 20 years in both auditing and accounting roles, and her experience includes complex compliance audits. Mr. Landis, Audit Committee Chair, said the process to review applicants was great, and he was excited to bring forward this recommendation. Mr. Scott postponed action on the item until after Executive Session.

### **Plan Design and Funding**

#### **5. Consider and Act on 2022 Actuarial Valuation and Approval of 2024 Retirement Contribution Rates and Supplemental Death Benefit Contribution Rates.**

Ms. Hardy said the TMRS Act requires TMRS' consulting actuary to prepare an actuarial valuation of the System's and its participating cities' assets and liabilities as of December 31 annually. Mr. Newton said the valuation sets the basis for the contribution rates for participating cities in 2024. TMRS will undergo an experience study later this year, he said.

Ms. Shaw said that GRS smooths asset value over a 10-year period to dampen year-to-year fluctuations. The last two years provide a great example with smoothing working to dampen asset gains through 2021 and one-year losses from 2022. While both assets and liabilities continue to grow, the percentage of the UAAL to total liabilities has decreased in the past 10 years. Mr. Scott asked if it was common for public pension plans to make positive amortization payments toward the principal of the UAAL. Mr. Newton said 10 years ago it would not have been common, but more public pension plans are doing it now, and he expects significant paying down of unfunded liabilities in the next decade. Ms. Shaw said that, breaking down the liability loss for 2022, inflation of cost-of-living adjustments (COLAs) and higher salaries increased liabilities but were offset somewhat by cities' high turnover. The number of cities below 80% funded has decreased significantly since 2010, and most cities below that funding level joined TMRS in the last decade. TMRS' average contribution rate will increase to 13.8%, but it has remained steady since 2012, an indication of a healthy pension system. Mr. Scott asked how the TMRS prior service rate of 4.92% compared to other public pension plans. Mr. Newton said some city plans have a prior service rate of 15%. Mr. Scott said GRS and Ms. Hardy are due credit for the stable contribution rates. Ms. Shaw said that most TMRS cities will see an increase to their rates, with the average increase being 0.25%, but increases depend heavily on the level of COLAs offered.

Mr. Landis moved that the Board accept GRS' December 31, 2022 valuation results and certify the 2024 contribution rates for participating cities. Ms. Alanis seconded the motion, which passed 5-0.

#### **6. Consider and Act on Renewal of Actuarial Consulting Services Agreement.**

Ms. Hardy said TMRS first retained GRS in 2008. In 2018, TMRS issued a Request for Proposals for Actuarial Services that resulted in the Board awarding a new five-year contract to GRS that allowed for a five-year extension. Given the exceptional actuarial services provided by GRS, she said, staff recommends that the Board extend GRS' contract for five years.

Mr. Landis moved that the Board extend GRS' contract for an additional five years and authorize the Executive Director to negotiate and execute the contract extension. Mr. Philibert seconded the motion, which passed 5-0.

### **Legislative**

#### **7. Receive Update on Legislative Items Affecting TMRS.**

Mr. Wattles said TMRS had a successful legislative session. In March, the Senate confirmed Mr. Landis' appointment as Trustee until Feb. 1, 2027. House Concurrent Resolution 66 recognized TMRS' 75<sup>th</sup> anniversary, and Mr. Wattles thanked Representative Rafael Anchia and Senator Bryan Hughes for sponsoring the Resolution. House Bill 2464 also passed, and it provides a new repeating COLA option for cities. Mr. Wattles thanked Representative Four Price from Amarillo for considering TMRS' recommendations for changes to HB 2464 to enable TMRS to better administer the bill provisions. Mr. Philibert and Mr. Landis thanked Mr. Wattles for his work regarding the session.

## **Investment Reports**

### **8. Chief Investment Officer Reports.**

Mr. Hunter said the TMRS Trust Fund's return for the five-year period ending March 31, 2023, was 5.6%, which exceeded the Actual Allocation Benchmark (AAB) by 1.4%. For the one-year period, the Trust Fund generated -0.91%, exceeding the AAB by 6.3%. Real Estate, Hedge Funds, Private Equity and Other Public & Private Markets (OPPM) generated net positive returns.

For the first time ever, the TMRS Trust Fund's preliminary one-year returns ranked in the first quartile among public pension plans with more than \$10 billion in assets, at the end of three consecutive quarters. Investment department staff completed investments totaling \$981 million, most of which went to OPPM and Private Equity, in the first quarter. Mr. Hunter said Private Equity and Real Estate are both over their targeted allocations currently because of positive returns, and Mr. Scott said he will never criticize being off target because TMRS earned too much.

### **9. General Consultant Report.**

Mr. Austin said that TMRS, by returning -0.91% for the one-year period ending March 31, took "silver on an Olympic medal stand" among all U.S. public pension plans with more than \$10 billion in assets. He said the one-year return, which exceeded the AAB by 6.3%, stands out from the five- and ten-year returns because it reflects the new asset allocation adopted in 2021. Mr. Scott said TMRS historically has done well in bear markets, and he asked if TMRS is in position to take advantage if the market returns to a bull market. Mr. Austin said TMRS has more ability to take advantage of the upside now, and TMRS staff has done a great job of implementing through a down market the Board's asset allocation, as adopted in 2021, with a design to do better in up markets.

### **10. Discuss Asset Liability Study and Asset Allocation Results.**

Mr. Austin presented NEPC's preliminary Asset Liability Study (ALS) and Asset Allocation results, which were developed in coordination with GRS. In preparing its experience study, GRS will use NEPC's capital market assumptions and compare them to other firms' assumptions. The purpose of the ALS is to determine the appropriateness of the asset allocation based on the capital market assumptions.

Mr. Austin reviewed the current Asset Allocation, which is working well, and presented four additional options for Board review. Option 1 would add 2% to Private Equity (PE), Option 2 would add 3% to PE and 3% to Private Debt (PD), Option 3 would add 5% to each of PE and PD, and Option 4 would add 6% to PE and 5% to PD. The amounts added to PE and PD would be taken from Other Public & Private Markets, Non-Core Fixed Income, Real Estate and Global Equity. The additional options increase expected returns from 0.1% to 0.3%.

Mr. Scott asked whether allocating more than 44% of the Trust Fund to private market investments comes with guardrails to address reduced transparency, reporting lags and less liquidity. Mr. Austin replied that it does. Mr. Newton said TMRS is in a strong contributions position with its

1.5 employee to 1 retiree ratio and because its contributions are highly predictable, as cities pay on time and the TMRS plan does not include large lump-sum benefit payment options. Mr. Scott thanked NEPC for including 30-year projections in its report.

## **Board Education**

### **11. Board Education: Real Estate Asset Class.**

Ms. Huffer reviewed the Real Estate Asset Class. The purpose of this asset class is to enhance the total return and diversification of the Trust Fund. The portfolio is implemented primarily in private markets, so it is expected to be illiquid and long-term in nature. The portfolio includes five property types: multifamily, industrial, office, retail and other. TMRS is strategically overweight to multifamily and industrial and underweight to the lower-performing sectors of office and retail. The portfolio also is managed relative to three risk-return strategies: core (income-oriented), value-add and opportunistic (appreciation-oriented). Currently, 65% of the TMRS portfolio is in core, with the balance split between the other two strategies. The portfolio also is managed to diversify exposure across geography and investment management firms. The portfolio is currently valued at \$6.7 billion and is 71% funded. Active management of the portfolio has generated \$467 million in excess value for the five-year period ending March 31. The portfolio is compliant with all Investment Policy Statement provisions. Investments staff met all goals for the portfolio in 2022, and in 2023 seeks to increase strategic investments with its highest performing managers to further reduce fees and expenses.

### **12. Executive Session.**

The Board went into Executive Session at 10:35 a.m. The meeting reconvened in Open Meeting at 11:02 a.m. All Board members except Mr. Garza were present.

Mr. Scott returned to Agenda Item 4. Mr. Landis moved that the Board appoint Kristyn Scoggins as Director of Internal Audit at the salary recommended by staff. Mr. Philibert seconded the motion, which passed 5-0.

## **Future Board Agenda Items**

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

Mr. Philibert requested that staff offer an education session on the use of Artificial Intelligence in investments. Mr. Scott asked that the next meeting of the Advisory Committee on Benefit Design be scheduled in the fall to allow time for groundwork before the next legislative session.

There being no further business, Mr. Philibert moved that the meeting adjourn at 11:06 a.m. Ms. Alanis seconded the motion, which passed 5-0.

  
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David B. Wescoe  
Executive Director

  
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Bob Scott  
Chair, Board of Trustees