



**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 III 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

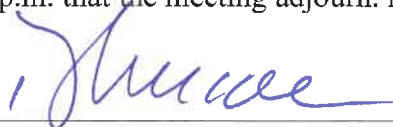
18. Executive Session.

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