



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

June 22, 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 the TMRS office, located at 2717 Perseverance Drive, Suite 300 in Austin, Texas, with the following Trustees present: Chair Bob Scott, Vice Chair Anali Alanis (via Zoom), Bill Philibert, Jesus Garza, and Johnny Huizar (via Zoom). Trustee David Landis was absent.

Staff present included: David Wescoe, Debbie Muñoz, Christine Sweeney, Mike Apperley, David Hunter, Candace Nolte, T.J. Moen, and Michele Fullon. Consultants present included: Robert Klausner, Sam Austin, Brittany Smith, and Joe Newton. Michelle Mellon-Werch served as Secretary of the meeting.

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

Consent Agenda

1. Consider and Act on Consent Agenda.

Mr. Philibert moved that the Board adopt the Consent Agenda, including but not limited to the Minutes from the May 25, 2023, meeting. Mr. Garza seconded the motion, which passed 5-0.

Executive Director Reports

2. Executive Director's Report.

Mr. Wescoe reported that House Bill 2464 has been signed by the Governor. Mr. Wescoe explained that TMRS staff has prepared communications to participating cities that is available on the website and is programming for plan studies for cities. The 2022 ACFR has been published, which includes celebration of TMRS' 75th anniversary. City contribution rate letters have been published and sent to all cities for calendar year 2024. TMRS celebrated its 75th Anniversary with an Open House the day before the Board Meeting. Texas Municipal League published an article about the milestone and Mr. Wescoe presented a video created to celebrate.

3. Receive Senior Staff Quarterly Reports.

Mr. Wescoe presented the Senior Staff Quarterly reports.

Mr. Garza asked for additional information on the Texas Quality Foundation work. Mr. Wescoe responded that activities have started through the Texas Quality Foundation to work towards a national Baldrige Award, which will be a multi-year process. Ms. Alanis explained the process and the levels that entities must go through to achieve a Texas Quality Foundation award.

Board Committees

4. Consider and Act on New Advisory Committee and Charter.

Mr. Scott reviewed the draft charter for the new Stakeholder Advisory Committee. Mr. Scott said he would like a timeline from staff to begin convening the Committee to start planning for the next legislative session. Mr. Garza asked about some of the differences between the structure of the current Advisory Committee on Benefit Design and the new Stakeholder Advisory Committee. He and Mr. Scott discussed the changes to the composition of the Committee. Mr. Garza asked how staff will implement the changes. Ms. Sweeney explained that staff will reach out to member organizations and potential active member and retiree candidates to explain the Committee's purpose and determine interest in participation. Member organizations will designate their representatives. Candidates for the active member and retiree positions will be vetted by staff and brought to the Board. Mr. Garza also asked what the scope of the new Committee will be and how that will be determined. Mr. Wescoe and Mr. Scott discussed the purpose of the Stakeholder Committee and how the charter speaks to the issue. Trustees discussed waiting to appoint a Chair and Vice Chair of the Stakeholder Committee until the September Board meeting.

Mr. Garza moved that the Board dissolve the current Advisory Committee on Benefit Design, create a Stakeholder Advisory Committee, and adopt the Stakeholder Advisory Committee Charter as presented, all effective immediately. Mr. Philibert seconded the motion, which passed 5-0.

Legal Reports

5. Consider and Act on Final Adoption of Proposed TMRS Rules – Chapter 127.

Ms. Sweeney asked the Board for final action on the proposed repeal and replacement of Chapter 127 of TMRS's rules that address compliance with the Texas Public Information Act, the Internal Revenue Code and certain internal TMRS procedures. In March, the Board approved publication of the proposed rule changes. The proposed rule amendments were then provided to the Governor's Office for review and had no comments. After incorporating non-substantive changes requested by the *Texas Register* staff, the proposed rule changes were published in the *Texas Register* on May 19, 2023. The public comment period expired on June 18, and no comments were received. If the Board approves the proposed Final Order, they will be published again in the *Texas Register* before they take effect.

Mr. Philibert moved that the Board approve and authorize the Board Chair to execute the Final Order, adopt the repeal of the current Chapter 127 rules, and adopt the new Chapter 127 rules, to

be effective 20 days after they are filed with the Secretary of State's Texas Register division, without changes to the proposed language as published. Mr. Huizar seconded the motion, which passed 5-0.

Finance

6. Receive 2022 Financial Statement and the Schedule of Changes in Fiduciary Net Position by Participating City Audit Results.

Candace Nolte introduced Brittany Smith, CliftonLarsonAllen LLP (CLA) Engagement Manager, to present the results of the 2022 Financial Statements and Schedule of Changes in Fiduciary Net Position. Ms. Smith informed the Board that CLA has provided a clean, unmodified opinion. They also completed their audit of the Schedule of Changes in Fiduciary Net Position (by Participating City) and gave a clean, unmodified opinion.

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

Ms. Smith reported that CLA also provided a clean, unmodified opinion on the System Organization and Controls (SOC) Audit Report around the controls presented by TMRS, that they were fairly presented, adequately designed and operating effectively during the period for May 1, 2022, through April 30, 2023.

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

Ms. Smith provided information to the Board required under AICPA auditing standards. She reminded the Board of CLA's responsibilities under U.S. Generally Accepted Auditing Standards. She stated that TMRS management was cooperative during the audit process. There were no disagreements with management, no difficulties, management did not consult with other accountants, no major issues were discussed with management prior to retention and management representation was provided in a Management Representation Letter.

Mr. Scott commented on how important and helpful CLA's opinion and SOC 1 Audit are to give cities assurances that the information provided by TMRS is fairly stated and accurate.

9. Receive and Approve Distribution of 2022 Annual Comprehensive Financial Report.

Mike Apperley presented the 2022 Annual Comprehensive Financial Report (ACFR) to the Board and thanked Ms. Nolte and her team for their work on the report. Ms. Nolte then reviewed the various sections of the ACFR.

Mr. Scott asked Joe Newton from GRS to explain the difference between investment losses and decrease in total assets with respect to external cash flow and his expectations for our cash flow given TMRS' demographics. Mr. Newton stated that there is nothing wrong with negative cash flow. The net negative cashflows are predictable and small, which is very positive. GRS expects TMRS to have a small negative cash flow for the next fifteen to twenty years.

Mr. Garza moved that the Board accept and approve the distribution of the 2022 Annual Comprehensive Financial Report. Mr. Philibert seconded the motion, which passed 5-0.

10. Consider and Act on Renewal of External Audit Services Contract.

Mr. Apperley explained that TMRS has worked with CLA for the past five years, and just presented the financial and SOC 1 audits. Staff expressed its opinion that CLA provided exceptional auditing services. Due to the efficiency and effectiveness of the CLA audit team, staff recommends that the Board consider a five-year extension with CLA. After that TMRS would plan to go out for an RFP. CLA rotated its partner on the audit last year and the team has been stable and very knowledgeable about pension system issues.

The Board discussed the logistics of renewal. This would extend the contract through 2028 for FY 2027.

Ms. Analis moved that the Board authorize the Executive Director to negotiate and execute a five-year contract extension with CliftonLarsonAllen LLP. Mr. Philibert seconded the motion, which passed 5-0.

Investment Reports

11. Chief Investment Officer's Report.

Mr. Hunter reviewed the highlights of his report. The Trust Fund is achieving two Board-approved strategic objectives: returns exceeded the asset allocation benchmark by 6.3% and generated above median fund returns using below median risk compared to its peer group of public plans for the one-year ended June 30, 2023. He reported that TMRS can claim compliance with the Global Investment Performance Standards (GIPS) for 2021 and 2022. He has hired Darren Schlissel as Senior Portfolio Manager in Fixed Income.

12. Receive First Quarter 2023 Investment Compliance Report.

Michelle Fullon reported that during the first quarter, TMRS and its investment managers complied with applicable investment guidelines and all testable parameters in the Investment Policy Statement.

13. Receive Final Asset Liability Study Results and Consider and Act on Asset Allocation.

Sam Austin reviewed the process beginning with the Board Retreat in February and including subsequent presentations on the importance of asset allocation, the Asset Liability Study and Asset Allocation results and GRS presenting their Actuarial Valuation results. He presented the options for allocations discussed at last Board meeting and how those options would affect probability of achieving assumed rate of return, risk and volatility. Mr. Austin said staff and NEPC are recommending Option 2, which allocates 3% more to private equity and 3% more to private debt, while reducing non-core fixed income by 4% and other private markets by 2%, but all options presented are prudent.

Mr. Garza commented that this is a good exercise but when the Board made allocation changes about two years ago, they wanted to let it sit for several years for implementation. He would like to continue with that strategy for now. Mr. Scott asked about the pros and cons of private equity

and private debt as an investment. Mr. Austin stated that NEPC forecasts these two asset classes will be among the highest earning classes. Mr. Hunter confirmed that TMRS has seen strong excess returns in the amount of 7.9% for Private Equity and 6.9% in Private Debt. Mr. Scott asked why staff and NEPC was recommending Option 2 ahead of the other options. Mr. Hunter explained that Option 2 has an 18-month expected implementation period where the other higher return seeking options will take 24 to 36 months to implement. The Board and staff discussed the importance of implementation and pacing. Mr. Scott stated that because of various factors, including the System's demographics, cash flow, ability to implement and others, he feels comfortable going with a bit higher private equity and private debt. He also stated that all the options are expected to return higher than the Board's assumed investment return, which he feels is very conservative.

Mr. Garza asked how the Trust Fund would have performed over the past year, had we been allocated to Option 2. Mr. Hunter expressed his opinion that we would have done better because private debt and equity had better returns. The difficulties in the past year were due to global public equity returns at -18% and fixed income at -13%. Mr. Huizar stated that he feels comfortable with the recommendations by staff and NEPC because they fit the Board's goals. Mr. Philibert also stated that he is comfortable with Option 2. Ms. Alanis feels that NEPC and staff have given their expert recommendations and she feels comfortable with what they have explained.

Ms. Alanis moved to adopt Option 2 as recommended by NEPC and staff as TMRS' new Asset Allocation. Mr. Huizar seconded the motion, which passed 4-1, with Mr. Garza voting no.

Board Education

14. Board Education: Other Public and Private Markets Asset Class.

Mr. Hunter introduced T.J. Moen, Portfolio Director for Other Public and Private Markets (OPPM) to provide board education on the OPPM portfolio. Mr. Moen reviewed the purpose of the OPPM asset class and the investment strategies that can be considered in this class. He then reviewed the Trust Fund's exposure by sector in this asset class as of March 31, 2023. There are \$6.1 billion in commitments with a total current value of \$2.5 billion net asset value. The asset class is 39% funded across 30 managers, of which some are generalists and others are specialists in one specific aspect of the class. OPPM has outperformed the TMRS real return benchmark by 3.4% per year for the last five years. OPPM private investments have outperformed the MSCI ACWI over the five-year period by 7.5%, which translates to \$317 million in excess value to the Trust Fund. Mr. Moen highlighted the 2022 goals for the asset class that were achieved and the 2023 goals for the portfolio.

Future Board Agenda Items

15. Call for Future Agenda Items.

Mr. Scott called for future agenda items. Mr. Wescoe stated that Mr. Philibert asked for a presentation on artificial intelligence, which is slated for the September meeting. Mr. Garza noted that the Board had discussed the election of the Chair and Vice Chair of the Stakeholder Advisory Committee for the next meeting.

Mr. Scott adjourned the meeting at 10:43 a.m.



David B. Wescoe
Executive Director



Bob Scott
Chair, Board of Trustees