



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

September 28, 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, Suite 300 in Austin, Texas, with all Trustees present: Chair Bob Scott, Vice Chair Anali Alanis, David Landis, Bill Philibert, Jesus Garza, and Johnny Huizar.

Staff present included: David Wescoe, Christine Sweeney, Mike Apperley, Jac Greene, David Hunter, Leslee Hardy, Kristyn Scoggins, Candace Nolte, Leslie Ritter, and Tim Sweeney. Consultants present included: Robert Klausner, Sam Austin, Tim McCusker, Joe Newton, and Janie Shaw. Michelle Mellon-Werch served as Secretary of the meeting.

Mr. Scott called the meeting to order at 9:01 a.m. He asked Mr. Wescoe to make an announcement regarding Board and personnel changes at TMRS. Mr. Wescoe announced that Ms. Alanis had resigned her position at the City of Pharr and will join TMRS as Chief Quality Officer. Mr. Scott stated that because of Mrs. Alanis' role change, she would be abstaining from all votes at the meeting.

Consent Agenda

1. Consider and Act on Consent Agenda.

Mr. Landis moved that the Board adopt the Consent Agenda, including but not limited to the Minutes from the June 22, 2023 meeting. Mr. Philibert seconded the motion, which passed 5-0.

Executive Director Reports

2. Executive Director's Report.

Mr. Wescoe reported that to date five participating cities have adopted the new non-retroactive repeating COLA pursuant to House Bill 2464. More cities have requested plan change studies on this COLA and are considering this new option. Four new cities have joined TMRS, these include Coldspring, Wolfe City, Lowry Crossing and Petrolia. With these cities, TMRS has 933 participating cities. The TMRS 2022 Annual Comprehensive Financial Report and the 2023 GASB 68 reporting packages are now available on the website. Mr. Wescoe reported that TMRS is providing online webinars for Members and city contacts. Mr. Wescoe announced

that Debbie Muñoz, Chief Service Officer, has been accepted into the Governor's Executive Development Program. She is at the first session this week. The Member Service Center's median wait time has been seven seconds.

3. Receive Senior Staff Quarterly Reports.

Mr. Wescoe presented the Senior Staff Quarterly Reports.

Plan Design and Funding

4. Consider and Act on Actuarial Experience Study Results.

Ms. Hardy said this Item was to consider and act on the actuarial assumptions summarized in the *2023 Experience Study Summary of Recommendations* based on the *Actuarial Experience Investigation Study as of December 31, 2022* (2023 Experience Study). Mr. Newton from GRS discussed the purpose of the 2023 Experience Study. Mr. Newton stated that the current assumption set is reasonable. GRS recommends only a few changes, such as higher projected salary increases and increased rates of turnover for longer service members, but these mainly offset each other. He reviewed a summary of the system-wide actuarial impact of the recommendations, stating that there is less than an eleven basis point difference in the average contribution rate for 2024, with small improvements to the aggregate funded ratio and unfunded actuarial accrued liability (0.6% and -3.4%, respectively). Mr. Newton also reviewed the changes in interest rates and investment return assumptions. GRS estimated very similar expected returns as NEPC using the new target asset allocations.

For the Supplemental Death Benefit Fund, Mr. Newton reminded the Board that GRS recommended they increase rates during the pandemic. Now GRS is recommending that TMRS premiums return closer to actual expected cost, decreasing active premiums from 200% to 150% of expected costs, and keeping retiree premiums at 110% of expected costs. A margin is still needed because a large portion of the reserve was used during the pandemic. TMRS needs to build the fund back up in case mortality does not return to normal and to protect against a future adverse event.

The Board discussed the assumptions with Mr. Newton. Mr. Garza asked if doing the experience study every four years is still best practice. Mr. Newton said yes.

Mr. Garza moved that the Board accept GRS' recommended assumptions in the Actuarial Experience Investigation Study as of December 31, 2022. Mr. Landis seconded the motion, which passed 5-0.

Board Officers and Stakeholder Advisory Committee

5. Consider and Act on Stakeholder Advisory Committee Chair and Vice Chair.

Ms. Sweeney summarized the last Board meeting where the Board established the Stakeholder Advisory Committee. The Committee's Charter states that the Board Chair appoints the Chair and Vice Chair of the Committee, subject to Board approval. The 2023 Chair of the prior Advisory Committee on Benefit Design was Ms. Alanis and Mr. Scott was Vice Chair.

Mr. Landis moved that the Board approve Mr. Scott as the Chair and Mr. Garza as Vice Chair of the Stakeholder Advisory Committee for the remainder of 2023. Mr. Garza seconded the motion, which passed 5-0.

6. Consider and Act on Appointments to the Stakeholder Advisory Committee.

Ms. Sweeney explained that the Committee Charter provides that the Committee members include one representative from seven identified municipal organizations, two TMRS active members (preferably who participate in other TML affiliated organizations) and one TMRS retiree. Each identified organization has designated their Committee representatives. They are listed in the Board materials. TMRS staff recommends the following individuals, who have already agreed to serve as Committee members: Jay Warren, the City of Arlington's Director of Communications and Legislative Affairs and Board President of the Texas Association of Municipal Information Officers (TAMIO); Roberto Reyna, the City of San Antonio's Assistant Director of Public Works and President of the American Public Works Association – South Central Branch, and Brenda Martin, TMRS retiree, formerly Director of Finance with the City of Lewisville.

Mr. Garza moved that the Board approve Messrs. Warren and Reyna as the active member representatives and Ms. Martin as the retiree representative on the Stakeholder Advisory Committee. Mr. Huizar seconded the motion, which passed 5-0.

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

Ms. Sweeney stated the Committee Charter provides that the Board will assign topics to the Committee and the Chair will schedule meetings, as appropriate. The Trustees discussed the timing of meetings and topics.

Mr. Garza moved that the Board approve presenting the topics discussed to the Committee for their input on topic ideas and prioritization of topics. Mr. Landis seconded the motion, which passed 5-0.

Internal Audit

8. Report on Audit Committee's September 6, 2023 Meeting.

Ms. Scoggins reviewed the September 6, 2023 Audit Committee meeting presentations and discussion. She also reported that Mr. Apperley had finalized the contract with CLA to extend audit services to 2028.

9. Consider and Act on Amendments to Internal Audit Charter.

Ms. Scoggins stated that the Audit Committee also discussed amendments to the Internal Audit Charter, which was last reviewed in 2019. She reviewed the recommended amendments.

Mr. Huizar moved that the Board approve the updated Internal Audit Charter. Mr. Landis seconded the motion, which passed 5-0.

Finance and Human Resource Reports

10. Report on Budget and Compensation Committee Meeting.

Mr. Apperley reported that the Compensation Committee reviewed and discussed the draft 2024 Operating and Capital budgets and discussed and recommended proposed changes to TMRS salary schedules be presented to the Board for approval.

11. Consider and Act on TMRS Salary Schedules.

Mr. Apperley stated that the TMRS salary schedules were last reviewed and approved by the Board in 2018. He reviewed the new proposed salary schedules. The Board discussed the effective date and the effect of the schedules. The Board asked staff what analysis was done to assist with the analysis. Mr. Apperley responded that the staff reviewed peer systems and information from recruiters.

Mr. Huizar moved that the Board approve the proposed salary schedules to be effective October 1, 2023. Mr. Philibert seconded the motion, which passed 5-0.

12. Discuss 2024 Draft Operating and Capital Budgets.

Mr. Apperley presented the proposed 2024 operating and capital budgets, explaining that they had also been presented to the Budget and Compensation Committee.

Ms. Nolte reviewed the overall 2024 operating and capital budgets. The 2024 proposed operating budget is 3% higher than the 2023 operating budget. The largest categories are Personnel Services, Professional Services and Information Technology. There are no new full time positions requested for 2024. She then reviewed the changes from 2023 and the needs underlying the slight increases.

Mr. Apperley reviewed the proposed 2024 capital budget, which is a request for three capital projects. The largest amount is for a rebuild of NextGen, TMRS' pension administration system. Mr. Apperley explained why this is necessary and the plans to rebuild. The second and third capital projects are for updates to MyTMRS and to build online capabilities for online retirement processing via MyTMRS.

No funds were requested for PASMd because it is complete, and a final update will be provided in December. Staff will provide the final budgets at the December Board meeting for approval.

Investment Reports

13. Chief Investment Officer's Reports.

Mr. Hunter stated that net returns exceeded strategic financial objectives with below median risk. For the five years ended June 30, 2023, net returns exceeded actual allocation benchmark by 1.3% and net returns and risk ranked in the first quartile for the one-year ended June 30, 2023. The Trust Fund's net return for the one-year ended June 30, 2023, was 8.17%, exceeding the actual allocation benchmark by 4.3% and strategic target allocation benchmark by 3.6%. Trust Fund returns ranked in the fourth quartile for the five-years ended June 30, 2023. This

was due to a low risk profile compared to our peers and the Board-approved target allocation not being fully implemented during this period. They have closed \$3.5 billion in new investments in the first half of 2023. The Staff Investment Committee has approved \$835 million in new investments with five existing firms and \$75 million with a new private equity firm.

Net returns for the Trust fund exceeded the benchmarks for the one-year, three-year and five-year periods by 4.3%, 2.1% and 1.3%, respectively. He reported that the asset allocations are all within the policy range. Mr. Hunter reviewed the risk allocation as of June 30, 2023, which is 13.1% based on NEPC's Capital Market Assumptions. The actual allocation risk is slightly higher at 13.6%, and the target allocation benchmark is 11.9%. He then reviewed the closed completed investments so far in 2023.

14. General Investment Consultant Quarterly Report.

Mr. Austin with NEPC presented the second-quarter investment consultant report. He presented the total fund performance summary compared to the current asset allocation benchmark and strategic asset allocation, where TMRS performed in the first quartile of its peers. In the five-year period ended June 30, 2023, TMRS outperformed the actual allocation benchmark by 1.28% net of fees. The one-year risk-adjusted returns show that TMRS was in the first quartile of risk and the first quartile of returns. Mr. Austin stated that this is where the Fund wants to be, with lowest risk and higher return. Over the five-year period, TMRS was in the third quartile of risk but the fourth quartile of returns.

Mr. Scott asked how well positioned is the Trust Fund in the current market conditions. Mr. Austin and Mr. Hunter both stated that the Trust Fund is positioned to do well in difficult conditions.

15. Consider and Act on Benchmarks.

Mr. Austin reviewed the work done by the Board and staff to analyze the investment portfolio. He reviewed the changes made by the Board to asset allocation. Based on those changes, NEPC recommends redefining certain benchmarks to more closely align with the updated asset allocations and asset classes. Mr. Austin reviewed the recommended benchmarks. The Trustees asked for additional explanations of the new benchmarks, alternative options and how the recommendations relate to the asset classes. Mr. Austin responded.

Mr. Landis moved that the Board approve the new benchmarks and authorize staff to amend the IPS to take these into account. Mr. Garza seconded the motion, which passed 5-0.

16. Board Education: Artificial Intelligence and its Potential Impact on Investments.

Mr. McCusker, Chief Investment Officer at NEPC, discussed artificial intelligence (AI). He gave a history of the development of AI and explained that technology platforms have shifted every ten years, and each has built on the prior technology, allowing the next step. AI is not new; it has been used in mobile applications, businesses and services that are household names. Mr. McCusker explained that the implications for investments include, but are not limited to, investment strategy, analysis, processing, management and support.

17. Board Education: Hedge Funds Asset Class.

Mr. Masthay explained that the hedge fund asset class is intended to protect capital, diversify risk and enhance returns. Through hedge funds, TMRS can invest in different funds that it cannot invest in through other asset classes. The Board approved a 5% allocation target earlier in 2023. As of June 30, 2023, TMRS has decreased assets managed in this class and are currently on target at 5.3%. Staff has also decreased the number of managers to the top 14 funds. He discussed performance last year, how the portfolio protected capital during the down market, and how it exceeded the benchmark for the one-year period ending June 30, 2023 by more than 6.5%. Mr. Masthay explained how staff expects the portfolio to perform and how staff has rebalanced the portfolio over the past year. He then reviewed the goals for the portfolio for the year and discussed how they have been achieved and what the goals are for 2024.

18. Executive Session.

The Board went into Executive Session at 11:35 a.m. Ms. Alanis did not attend the Executive Session. The Board meeting reconvened in Open Meeting at 1:16 p.m. Members of the Board who were present before the Executive Session were present.

Mr. Landis moved to increase the executive compensation to the Executive Director by 12.5%, and to provide a one-time lump sum payment of equal amount. Mr. Garza seconded the motion, which passed 5-0.

Mr. Garza moved to appoint Mr. Huizar to serve as Vice Chair of the Board for the remainder of 2023. Mr. Philibert seconded the motion, which passed 5-0.

Future Board Agenda Items

19. Call for Future Agenda Items.

There being no further business, Mr. Scott adjourned the meeting at 1:20 p.m.



David B. Wescoe
Executive Director



Bob Scott
Chair, Board of Trustees