

March 25, 2021

# Executive Summary

Texas Municipal Retirement System

Period Ended: December 31, 2020



# Total Fund Performance

## How Did TMRS Perform Relative to Investment Policy Benchmarks?

	Performance (%)					
	QTD	1 Year	3 Years	5 Years	7 Years	10 Years
<b>Total Fund</b>	<b>6.91</b>	<b>7.05</b>	<b>6.14</b>	<b>7.80</b>	<b>6.39</b>	<b>6.65</b>
Actual Allocation Benchmark	6.86	7.41	6.12	7.68	6.22	6.49
Difference	0.05	-0.36	0.02	0.12	0.17	0.16

The Total Fund returned 6.91% net of fees in the fourth quarter and 7.05% in calendar year 2020.

- Fourth Quarter – TMRS outperformed the Actual Allocation Benchmark (6.86%) by 5 basis points.
- Calendar year – TMRS trailed the Actual Allocation Benchmark (7.41%) by 36 basis points.
  - Contributing to the underperformance were structural mismatches between the Total Equity portfolio and its Global Equity benchmark as well as manager underperformance among Real Estate managers relative to their core benchmark.

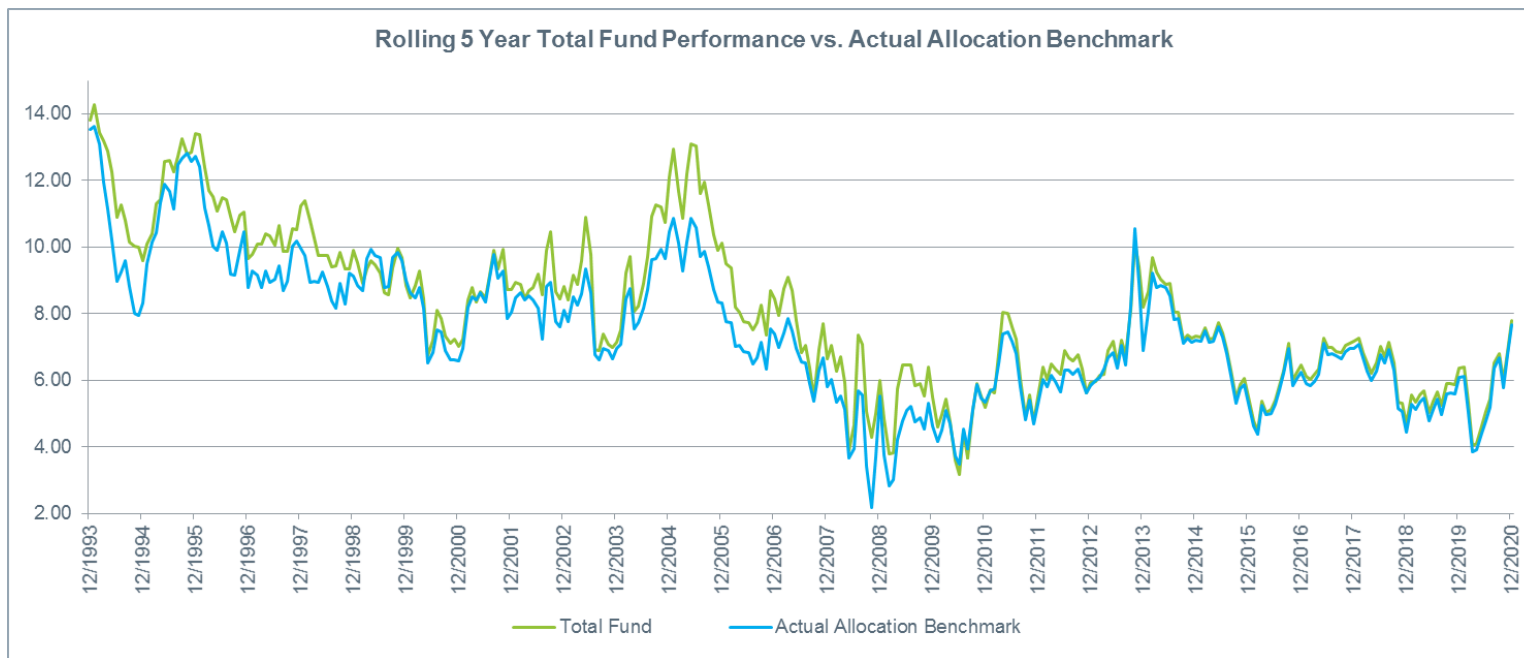
The Total Fund outperformed the Actual Allocation Benchmark net of fees in the 3, 5, 7 and 10 - year time periods ended December 31, 2020.

# Total Fund Performance

## How Did TMRS Perform Relative to Investment Policy Benchmarks?

The Total Fund performance expectation as stated in the Investment Policy Statement is to exceed the Actual Allocation Benchmark over rolling five-year periods.

- Five-year – TMRS outperformed the Actual Allocation Benchmark by 12 basis points, net of fees.
- The chart below (page 10 of the Quarterly Board Presentation) shows that TMRS has beaten the five-year rolling performance expectation 93% of time since 1993, and 95% over the last ten years.

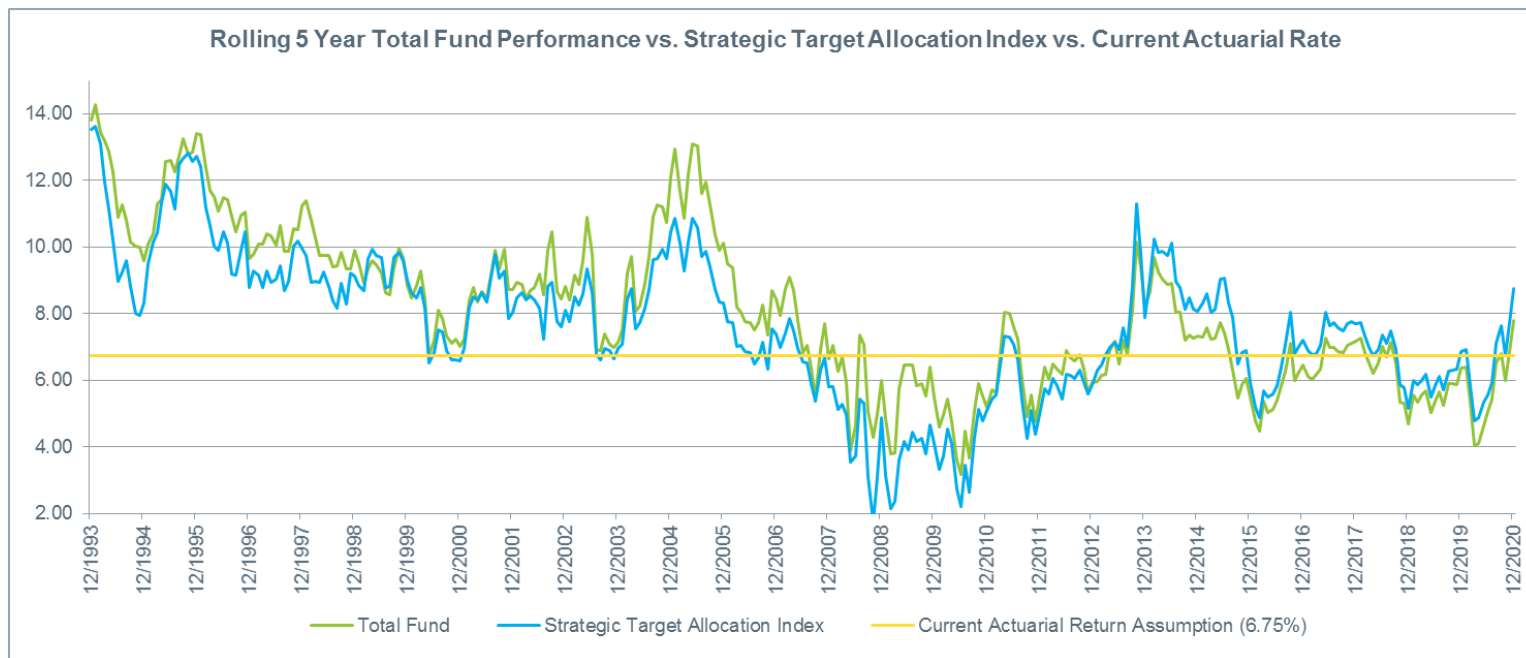


# Total Fund Performance

## How Did TMRS Perform Relative to Investment Policy Benchmarks?

Although not yet implemented to the Strategic Target Allocation, TMRS exceeded the Board's Assumed Long-Term Rate of Return of 6.75% for the five-year period.

- The chart below (page 11 of the Quarterly Board Presentation) illustrates TMRS' rolling five-year returns relative to the Strategic Target Allocation Index as a gauge for the effectiveness of the Board-approved Strategic Target Allocation, which was designed to meet or exceed the actuarial return assumption of 6.75%, once implemented. The five-year return for the Strategic Target Allocation Index was 8.76%.



# Asset Class Performance

## How Did TMRS' Asset Classes Perform Relative to Their Respective Benchmarks?

As shown on page 13 of the Quarterly Board Presentation, the majority of TMRS Asset Classes outperformed their respective benchmarks, net of fees, in the fourth quarter and in calendar year 2020.

- Fourth Quarter – Two of the seven Asset Classes trailed in the quarter. Total Equity trailed its benchmark by 0.51% with most of the underperformance due to portfolio structure relative to its Global Equity benchmark with some active manager underperformance in the International portfolio. Real Return trailed its custom benchmark by 18 basis points.
- Calendar year – Two of the seven Asset Classes trailed in the calendar year. Similar to the quarter, Total Equity trailed its benchmark with underperformance coming from portfolio positioning relative to the Global Equity benchmark. Real Estate trailed for the year due to manager underperformance relative to their core benchmark.

**The Investment Policy Statement performance expectations for each Asset Class performance is to meet or exceed their respective benchmarks over rolling five-year periods. As shown below, all Asset Classes outperformed their respective benchmarks for the 5-year period with the exception of Total Equity, which underperformed its benchmark by 49 basis points.**

TMRS Composite Objectives - Policy Benchmarks				
<b>Objective:</b>	Meet or exceed its policy benchmark performance net of fees over rolling five year periods.			
TMRS Composites	Benchmark	5 Year Composite Return	5 Year Benchmark Return	Meets Objective
Total Equity	Total Equity Benchmark	11.98	12.47	No
Core Fixed Income	Bloomberg US Agg Bond Index	4.80	4.44	Yes
Non-Core Fixed Income	Non-Core Fixed Income Benchmark	5.44	5.06	Yes
Real Return	Real Return Benchmark	5.33	5.33	Yes
Real Estate	NCREIF ODCE Index	7.99	6.61	Yes
Absolute Return	HFRI FoF Diversified Index Month Lag	5.38	3.52	Yes
Private Equity	Private Equity Benchmark	13.76	13.76	N/A

Performance shown is net of fees. Please see the Addendum of the Quarterly Board Presentation for custom benchmark definitions.



# Asset Allocation Relative to Target

## How Is TMRS Positioned Relative to the Board's Strategic Target Allocation?

The Total Fund market value was \$33.7 billion as of December 31, 2020, an increase of over \$2.2 billion from the end of 2019. All asset classes, with the exception of Private Equity, were within their respective Strategic Target Asset Allocation ranges as of December 31, 2020. TMRS' 2019 Pacing Model estimates reaching the targeted 10% allocation to Private Equity by 2026.

Asset Allocation vs. Strategic Target Allocation					
	Market Value (\$)	Current (%)	Target (%)	Minimum Allocation (%)	Maximum Allocation (%)
<b>Total Fund</b>	<b>33,685,251,962</b>	<b>100.00</b>	<b>100.00</b>	-	-
Total Equity	11,077,192,877	32.88	30.00	20.00	40.00
Core Fixed Income	4,064,639,428	12.07	10.00	5.00	15.00
Non-Core Fixed Income	5,970,185,127	17.72	20.00	15.00	25.00
Real Return	3,700,737,385	10.99	10.00	5.00	15.00
Real Estate	2,973,918,972	8.83	10.00	5.00	15.00
Absolute Return	3,233,038,033	9.60	10.00	5.00	15.00
Private Equity	1,328,806,426	3.94	10.00	5.00	15.00
Unallocated Cash	1,336,733,714	3.97	0.00	0.00	10.00

