



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

December 8, 2022 – 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 Drive, Suite 300 in Austin, Texas, with all Trustees present: Chair Jesús Garza, Vice Chair Bob Scott, Anali Alanis, Johnny Huizar, David Landis, and Bill Philibert.

Staff present included David Wescoe (Executive Director), Jac Greene (Chief Information Officer), David Hunter (Chief Investment Officer), Debbie Muñoz (Chief Service Officer), Christine Sweeney (Chief Legal Officer), Sandra Vice (Chief Administration Officer). Sam Austin (NEPC), Robert Klausner (Klausner, Kaufman, Jensen & Levinson), and Dr. Anthony Picchioni were also present.

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

Consent Agenda

1. Consider and Act on Consent Agenda.

Mr. Philibert moved that the Board adopt the Consent Agenda, including the Minutes from the September 21 and 22, and October 27 and 28, 2022 meetings. Ms. Alanis seconded the motion, which passed 6-0.

Advisory Committee on Benefit Design

2. Consider and Act on Appointments to the Advisory Committee on Benefit Design.

Debbie Muñoz reported that David Riggs, representing the Texas State Association of Fire Fighters (TSAFF), has completed a six-year term and, in accordance with the Committee charter, is not eligible for reappointment. TSAFF has nominated Jaime Reyes, the current alternate from the City of Plano, to be his replacement representative on the Advisory Committee, and Mike Jones, City of Burleson, as his alternate.

Ms. Muñoz said that Barry Sullivan, representing the individual class of active employee members, has completed his first three-year term and would like to serve a second term. She then said that the individual class representative for retirees position is vacant due to the recent death of Paul Parker. Staff will consider new applications for this position and make a recommendation at a future Board meeting. The Board discussed the process for finding a new retiree class representative with staff.

Mr. Huizar moved that the Board approve the nominations of Messrs. Reyes and Sullivan as representatives and Mr. Jones as an alternate to the Advisory Committee on Benefit Design for three-year terms. Mr. Landis seconded the motion, which passed 6-0.

Audit Committee Report

3. Report on Audit Committee's November 16, 2022 Meeting and Consider and Act on 2023-2024 Audit Plan.

Mike Apperley reported on the November 16 Audit Committee meeting. The 2021-2022 Audit Plan is complete, and Mr. Apperley said that the Committee recommends the Board approve the 2023-2024 Audit Plan. Mr. Philibert and Mr. Landis stated that they were impressed with the 2023-2024 Audit Plan. Mr. Scott expressed his appreciation of the balance and breadth of the Audit Plan.

Mr. Philibert moved that the Board approve the 2023-2024 Audit Plan. Mr. Landis seconded the motion, which passed 6-0.

Executive Session

4. Executive Session.

The Board went into Executive Session at 8:45 a.m. The meeting reconvened in Open Session at 9:50 a.m. No action was taken during the Executive Session. All members of the Board who were present before the Executive Session were present.

In Appreciation of David Riggs

Mr. Riggs arrived at the meeting, and Ms. Muñoz presented him with a plaque recognizing his service on the Advisory Committee and thanked him for his service on behalf of the Board and staff. Board members expressed their appreciation of Mr. Riggs. Mr. Riggs said TMRS is a shining example of a public retirement system that serves its members and cities with excellence.

Board Organization

5. Consider and Act on Election of 2023 Board Officers.

Mr. Landis moved that the Board elect Bob Scott as Chair and Anali Alanis as Vice Chair for 2023. Mr. Huizar seconded the motion, which passed 6-0. On behalf of the Board and staff, Mr. Wescoe thanked Mr. Garza for his service as Chair and presented him with a commemorative plaque.

6. Consider and Act on 2023 Board Meeting Dates.

Ms. Sweeney said that the Board must have four meetings a year, and that last year the Board had seven meetings, including a retreat. Mr. Garza suggested the Board could accomplish its duties in six meetings, with one being a retreat/workshop. Ms. Alanis, Mr. Philibert and Mr. Huizar agreed with his recommendation. Mr. Landis and Mr. Scott discussed scheduling the Board retreat/workshop in February. Ms. Alanis moved to approve the schedule of meetings dates for calendar year 2023 on February 16 as a workshop, March 23, May 25, June 22, September 28, and December 14. Mr. Landis seconded the motion, which passed 6-0.

7. Consider and Act on 2023 Board Committee Appointments.

Mr. Garza recommended the Board table this issue for a future meeting. Mr. Landis moved that the current Board Committee chairs and vice chairs continue to serve until new appointments are made by the Board. Mr. Philibert seconded the motion, which passed 6-0.

Executive Director Reports

8. Executive Director's Report.

Mr. Wescoe reported on fourth quarter activities: the "best ever" Board retreat; Staff completed a successful upgrade of the City Portal Contribution System; the website is now available in Spanish; the new Investment Policy Statement is complete, concise, and understandable; Trust Fund investment returns are in the first quartile; and preparations for the 75th Anniversary celebrations are under way. Mr. Wescoe presented the new 75th Anniversary logo that will be used throughout 2023 and thanked Dan Wattles, Jack Austin and Natalie Garza, for their hard work on this project.

Mr. Wescoe introduced Jennifer Andrews, who led the City Contributions project that was completed successfully, on time and under budget. Mr. Wescoe asked Ms. Andrews to introduce her team to the Board. Ms. Andrews introduced the core project team: from Information Services: Pete Krnavek, Gretchen Meyers and Lilian Williams; from Accounting and Finance: Josette Madry and Shannon Boyd; and from City Contributions: Terraye Whitehead, Fernanda Garcia, Amanda Martinez, Kitty Tom, Rachel Mota and Anna Silva.

9. Receive Senior Staff Quarterly Reports.

Mr. Wescoe presented the Senior Staff Quarterly Reports to the Board.

Strategic Planning

10. Consider and Act on TMRS Strategic Plan and Mission, Vision and Values.

Mr. Wescoe presented the Strategic Plan and Mission, Vision and Values that the Board discussed at its retreat in October. Mr. Garza agreed that the Board retreat was a great success. Mr. Landis moved that the Board approve the Mission, Vision and Values, and 2023-2025 Strategic Plan presented. Mr. Scott seconded the motion, which passed 6-0.

Actuarial Services

11. Consider and Act on Supplemental Death Benefit Fund Assumptions and 2024 Rates.

Ms. Hardy said SDB claims for the first eight months of 2022 were down 23% compared to the same period in 2021 but are higher than before the pandemic. Ms. Hardy and GRS recommended that the higher rates adopted for 2023 be continued for 2024. Mr. Landis asked how this would affect city contribution rates, and Ms. Hardy replied that the rates would remain like 2023.

Ms. Alanis moved that the Board increase the 2024 SDB contribution rates as determined in the December 31, 2022 actuarial valuation by (i) removing the assumption that grants a small credit to active rates, (ii) adding a load of 100% to the active rates, and (iii) adding a load of 10% to the retiree rates. Mr. Philibert seconded the motion, which passed 6-0.

Finance Reports

12. Consider and Act on Proposed 2023 Operating, Capital and PASMod Program Budgets.

Candace Nolte presented the proposed 2023 Operating, Capital and PASMod Program Budgets. Mr. Huizar moved that the Board adopt the 2023 Operating, Capital and PASMod Program budgets. Mr. Philibert seconded the motion, which passed 6-0.

13. Consider and Act on Resolution Transferring Monies from Interest Reserve Account to Expense Fund.

Ms. Nolte said the Board annually transfers funds from the Trust Fund's Interest Reserve Account to the Expense Fund to cover TMRS' budgeted operating costs for the following year. She said Board policy has been to allocate a 15% reserve of the budget to the Expense Fund, and requested \$34.8 million be transferred to the Expense Fund.

Mr. Landis moved that the Board transfer \$34.8 million from the Interest Reserve Account to the Expense Fund to cover 2023 budgeted expenses. Mr. Huizar seconded the motion, which passed 6-0.

Investment Reports

14. Chief Investment Officer's Reports.

a. CIO Report

Dave Hunter reported on recent Investment department activities.

b. Trust Fund Report: Third Quarter 2022

Dave Hunter reported that the Trust Fund generated net investment returns that exceeded its asset allocation benchmark for all time periods presented and that the Trust Fund asset allocation aligns with the strategic targets set by the Board. He also noted that the Trust Fund risk, as measured by standard deviation, aligns with the Board approved benchmark and asset allocation risk. Mr. Hunter reviewed third quarter private market commitments, which included \$190 million in Private Equity, \$545 million in Other Public and Private Markets, and \$400 million in Real Estate. He also reviewed the pacing plans for private markets including projections for the next five years.

c. Receive 2022 Annual Completed Investments Report

This Report contains the details of the completed investments.

15. Consider and Act on Amendments to the Investment Policy Statement.

Mr. Hunter thanked Ms. Alanis and Mr. Scott for their work to help revise the Investment Policy Statement (IPS). Mr. Scott also thanked the team for their hard work, and Ms. Alanis agreed that it was very educational and interesting to think through the issues and hear staff's perspectives.

The Board discussed the IPS and expressed their appreciation for its simplicity and clarity. Ms. Alanis moved that the Board approve the IPS and Investment Guidelines. Mr. Scott seconded the motion, which passed 6-0.

16. Receive Third Quarter 2022 Investment Compliance Report.

Michelle Fullon said State Street completed 2,400 automated tests that confirmed that TMRS investment managers are in compliance with TMRS investment guidelines. Other testing confirmed that TMRS is in compliance with all IPS testable guidelines.

17. Receive 2023 Investment Pacing Plan.

Mr. Hunter discussed the proposed 2023 pacing plan. He reviewed the asset classes, including the difference between the current allocation and target allocation and the projected private markets exposure of the Trust Fund currently and what is projected for the next five years.

18. Discuss Risk Appetite Survey Results.

Sam Austin with NEPC said the risk survey was a precursor to review the asset allocation later this year. The results showed great alignment of the Trustees on risk tolerance, and Mr. Austin said he would send the results to all Trustees. There was discussion regarding the Board's general risk tolerance.

19. Discuss Annual Asset Allocation Review.

Mr. Hunter said this review focuses on the reasonableness of the Board's asset allocation and is not the comprehensive asset allocation study that is done every four years. Mr. Austin said asset allocation is the largest component of the variability of returns in a portfolio and one of the most important Board responsibilities. He reviewed the current target allocation, including the ranges of acceptable allocations, the benchmarks, and objectives. He said TMRS' projected current target return over 10 years is 7.7%. Mr. Austin concluded that based on NEPC's latest capital markets assumptions, TMRS asset allocation is expected to return greater than the assumed rate of 6.75% over the next 10-30 years.

20. General Investment Consultant Quarterly Report.

Mr. Austin presented NEPC's quarterly investment report. He said the total performance of the Trust Fund was up 4.72% for the past five-year period exceeding the allocation benchmark by 1.19% and negative 6.17% for the past one-year period, exceeding the allocation benchmark by 5%. TMRS was in the first quartile for the one-year period, but in the fourth quartile for the five-year period. Mr. Austin reviewed risk, return and risk-adjusted returns, stating that while the Trust Fund was in the first quartile for returns for the one-year period, it was third quartile for risk and second quartile for risk-adjusted returns. He presented a chart indicating that TMRS was in compliance with the IPS guidelines for the quarter and concluded his comments with a performance detail of each asset class against several time periods.

Board Education

21. Board Education: Fixed Income Asset Class.

Darren Schulz reviewed the two categories of fixed income: core and non-core fixed income. Core fixed income represents intermediate bonds of the highest quality. The two key goals are diversification and capital preservation. Non-core fixed income seeks to provide income generation and growth of capital.

Mr. Schulz reviewed the target allocation for the core fixed income asset class, which is 6%, with a 1-11% allowable range. The core fixed income asset class was within the approved

range at 4.5% of the total Trust Fund as of September 30, 2022. Performance of core fixed income has exceeded its benchmark net of fees over five- and ten-year periods, although returns have been negative. He also reviewed the target allocation for the non-core fixed income asset class that was established last summer at 20% with a 15-25% allowable range. TMRS ended September 30, 2022 slightly above the target allocation and within the allowable range. He reviewed the diversification and performance of the asset class.

22. Board Education: Hedge Fund Asset Class.

Timothy Sweeney confirmed that since the Board decreased the hedge fund asset class allocation from 10% to 5%, staff has worked reducing the allocation from 9.4% to 7.4%. In the fourth quarter of 2022, the asset class is expected to decrease to 6.5% of the Trust Fund. Mr. Sweeney stated that the objective of the asset class is to protect trust fund capital, diversify risk and enhance returns. He then reviewed the four subcategories within the asset class: equity hedge, global macro, relative value, and event driven, giving examples of each subcategory.

Mr. Sweeney reviewed hedge fund returns to fixed income and global public equity returns, explaining that hedge funds act differently than other asset classes providing diversification and protecting capital. TMRS has been increasing the concentration of higher performing managers, decreasing the number of managers from 27 in 2020 to a target of 15 managers and reviewing the quality of managers, including review of performance, operational and investment risk, and experience. Mr. Sweeney concluded stating that for 2022, the asset class achieved the goals presented to the Board at the December 2021 Board meeting.

Future Board Agenda Items

23. Call for Future Agenda Items.

Ms. Alanis requested that the Board discuss the election of officers in September 2023, prior to the final vote in December.

There being no further business, Mr. Scott adjourned the meeting at 11:58 a.m.



David B. Wescoe
Executive Director



Jesús A. Garza
Chair, Board of Trustees